

WORLD TRADE REPORT 2011

The WTO and PTAs: From Co-existence to Coherence

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KEY FINDINGS OF THE REPORT

- **Continuing proliferation and deepening of PTAs**
- **The amount of preferential trade and preferential margins are small**
- **New forms of organizing global production (e.g. international production networks) can explain deepening of PTAs**
- **Asia is at the leading edge of many of these changes**
- **New paradigms beyond trade-creation and trade diversion to analyse PTAs are needed**
- **Going beyond “building bloc-stumbling bloc”: the relationship between the WTO and PTAs**

OUTLINE OF THE PRESENTATION

A. PTAs: current trends

B. Causes and effects of PTAs: it is all about preferences?

C. Anatomy of PTAs

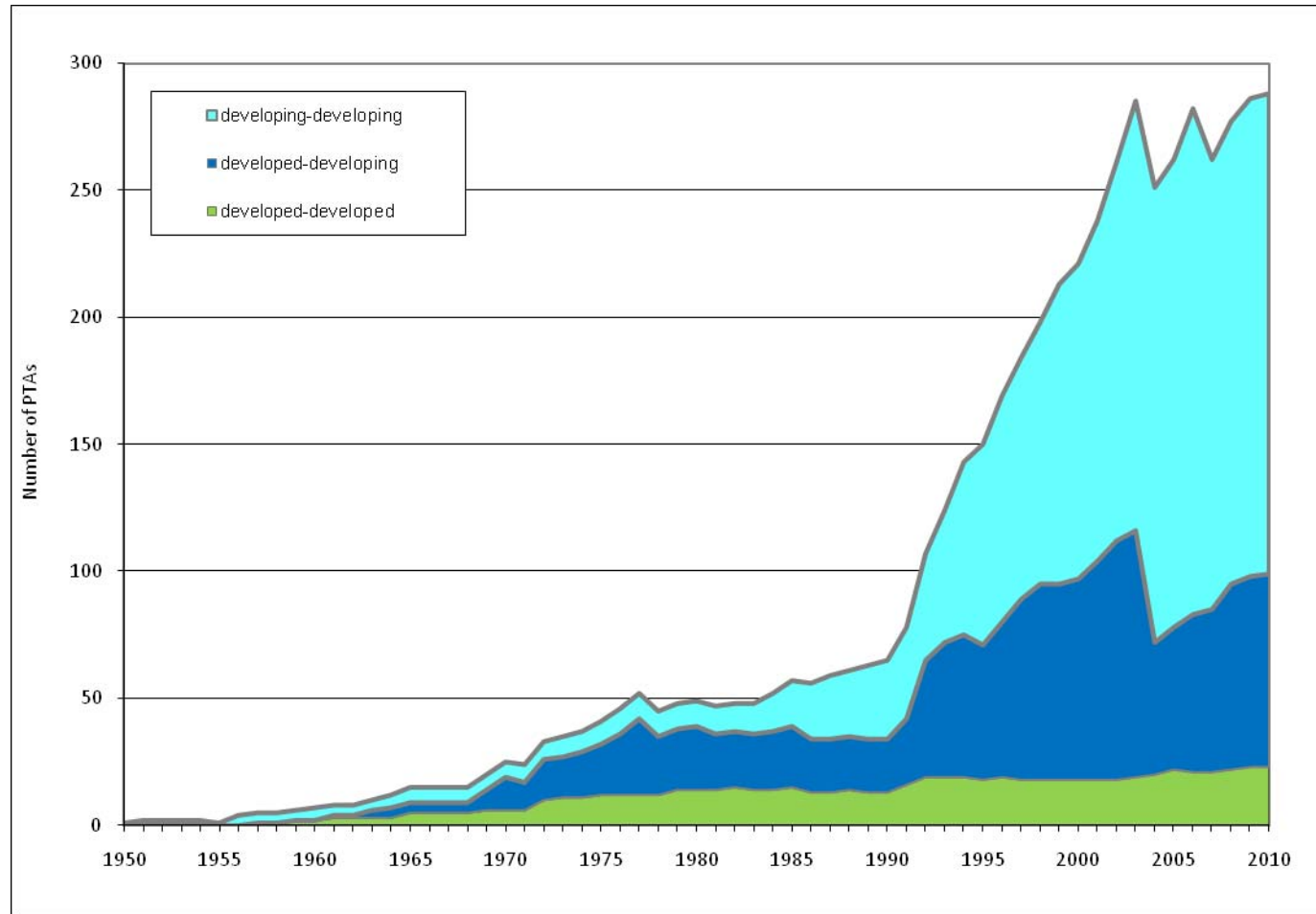
D. Increasing coherence between the WTO and PTAs

PTAs: current trends

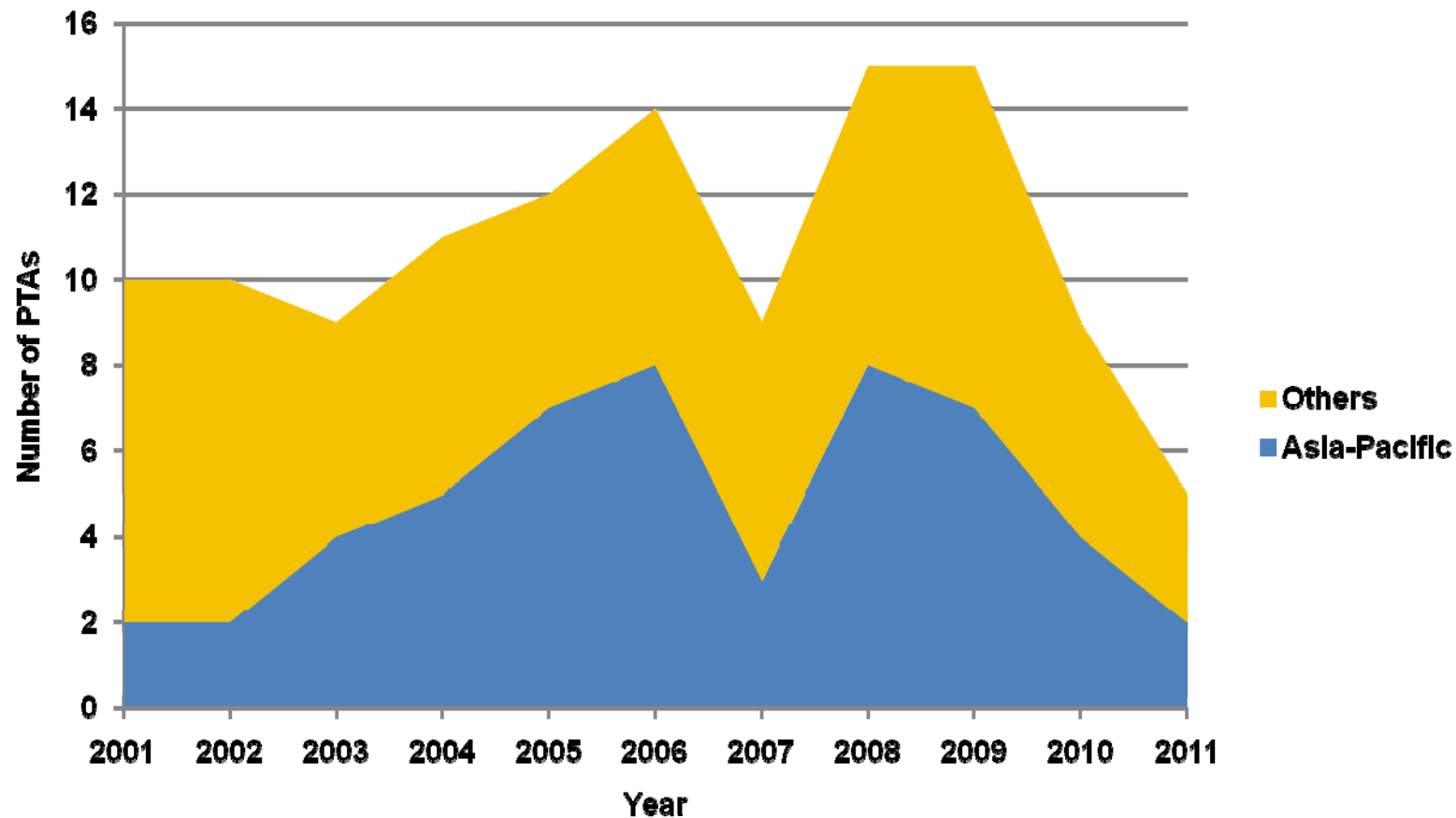
STYLIZED FACTS ABOUT PTAS

- **There has been a huge increase in PTA activity in recent years (Figure 1)**
- **Nearly half of all PTAs concluded in the last decade involved Asian countries (Figure 2)**
- **PTAs activity has become more widespread**
- **In 2010, there were about 300 PTAs in force; on average a WTO member is party to 13 PTAs**
- **The coverage of policy areas in PTAs has widened and deepened over time**

CUMULATIVE NUMBER OF PTAS IN FORCE, 1950-2010



NOTIFIED PTAS INVOLVING ASIA-PACIFIC MEMBERS



HOW PREFERENTIAL IS TRADE?

- **PTAs explosion has not been matched by an expansion of preferential trade flows.**
- **At the maximum, only 16% (30% including intra-EU trade) of global merchandise trade receives preferential treatment (Table 1)**
- **Low values of preferential trade can be explained by**
 - The huge reduction in tariff barriers since the end of WWII; average MFN rate is 4% with half of global trade at zero MFN duties
 - Exclusion of "sensitive" products from significant tariff reduction: about 66% of products with tariffs of 15% or more have the same tariffs in PTAs
 - Need to account for other preferential exporters
 - More than 87% of all trade (79% of all tariff lines) involved "competition-adjusted" preferences that were no greater than 2% in absolute value

GLOBAL TRADE IN 2008, SHARES BY PREFERENCE MARGIN AND MFN RATE

	Preferential			MFN			
Importer	Above 10.0%	5.1% to 10.0%	0.1% to 5.0%	MFN above 5.0%	0.1% to 5.0%	0%	n/a
World (w/out intra-EU trade)	1.9%	3.9%	10.5%	11.3%	18.9%	52.3%	1.2%
World (w/ intra-EU trade)	4.0%	7.5%	18.2%	8.1%	13.6%	47.3%	1.4%

At a maximum, 16% of global merchandise trade is entitled to preferences

Causes and effects of
PTAs: is it all about
preferences?

THE STANDARD ANALYSIS AND DEEP INTEGRATION

- **The standard analysis of PTAs focuses on the trade creation and trade diversion effects of preferential tariffs**
- **We may need to rethink this paradigm**
- **“Deep integration” characterizes an increasing number of PTAs**
- **It refers to any PTA that goes beyond tariffs and includes regulatory policy areas**
- **There are two distinct dimensions of deep integration: extensive and intensive dimensions**

WHY IS DEEP INTEGRATION GAINING MOMENTUM?

- **Greater trade links among nations increase policy spillovers**
- **The rise of global production networks which unbundle stages of production across borders**
- **Asia has seen a large increase in global production networks**
 - Trade in parts and components is “proxy” for production networks
 - Parts and components trade in Asia is regionalized: about 63% of it goes to countries within the region (rising from 44% in 1990)
- **Global production networks require good governance on a number of regulatory areas such as infrastructural services, investor protection, intellectual property protection, competition, technical barriers to trade,**
- **This governance structure is being supplied by deep PTAs**

HOW TO GO BEYOND STANDARD ANALYSIS

- **Unlike preferential tariffs, regulations may not cause trade diversion**
- **Tradeoffs involved in deep integration**
 - Differences in policy preferences vs. magnitude of policy spillovers (Oates' Decentralization Theorem)
 - Risk of regulatory segmentation
- **What countries should form a deep agreement?**
 - Countries with similar policy preferences
 - Countries whose policies have a greater impact on others
- **Which policy areas should be the object of a deep agreement?**
 - Common decisions should be taken on policy prerogatives characterized by large cross-border effects

Anatomy of PTAs



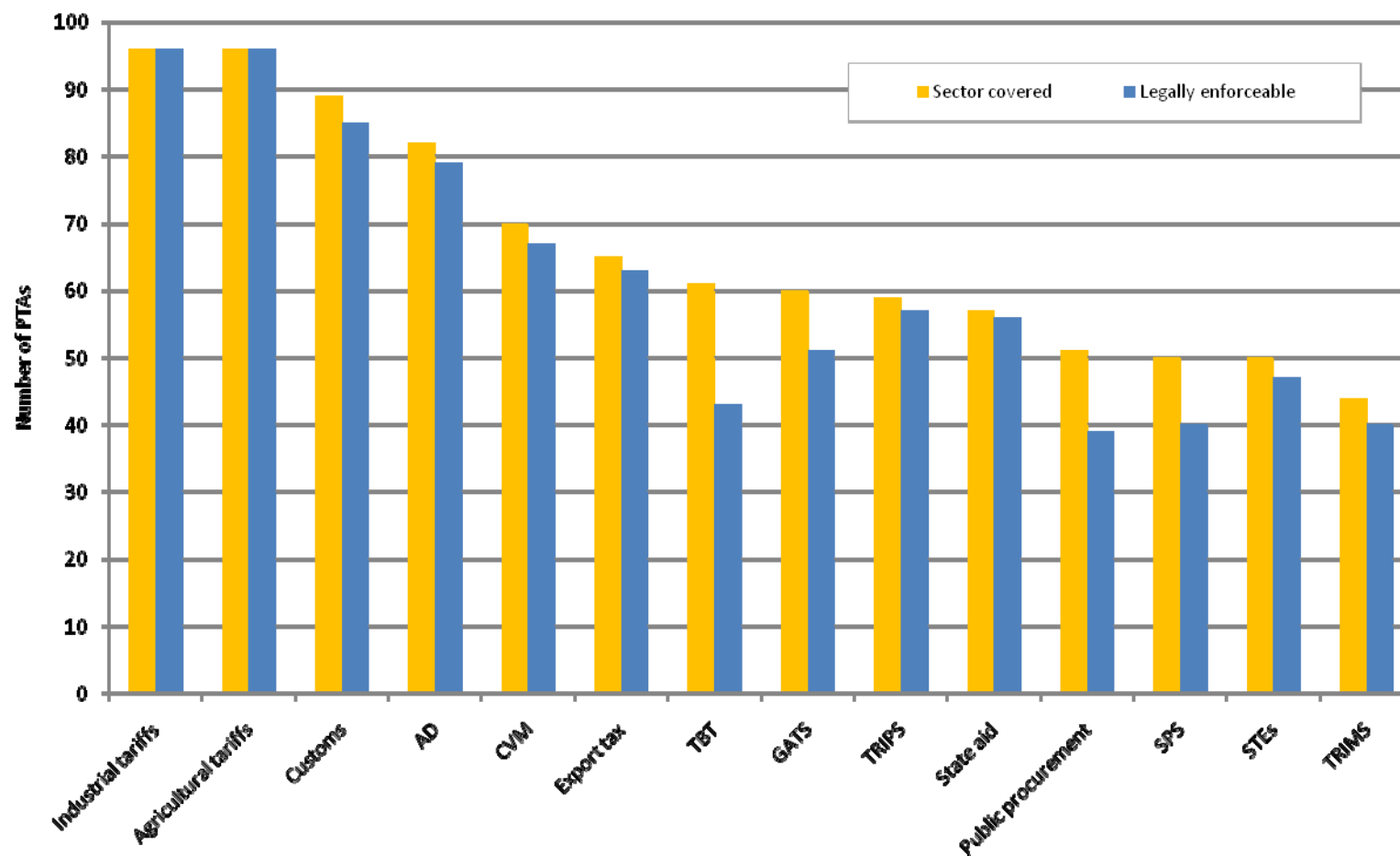
WHAT EVIDENCE IS THERE FOR DEEP INTEGRATION?

- **What evidence do we have that preferential tariffs are not that important anymore? What evidence do we have of “deep integration” and the motives for it?**
- **Evidence on “competition-adjusted” preference margins**
- **Evidence of broadening sectoral coverage of PTAs and their enforceability**
- **Evidence based on analysis of specific areas (services, investments, TBT, competition policy)**
- **Econometric evidence**
- **Case studies: ASEAN, Costa Rica, Africa**

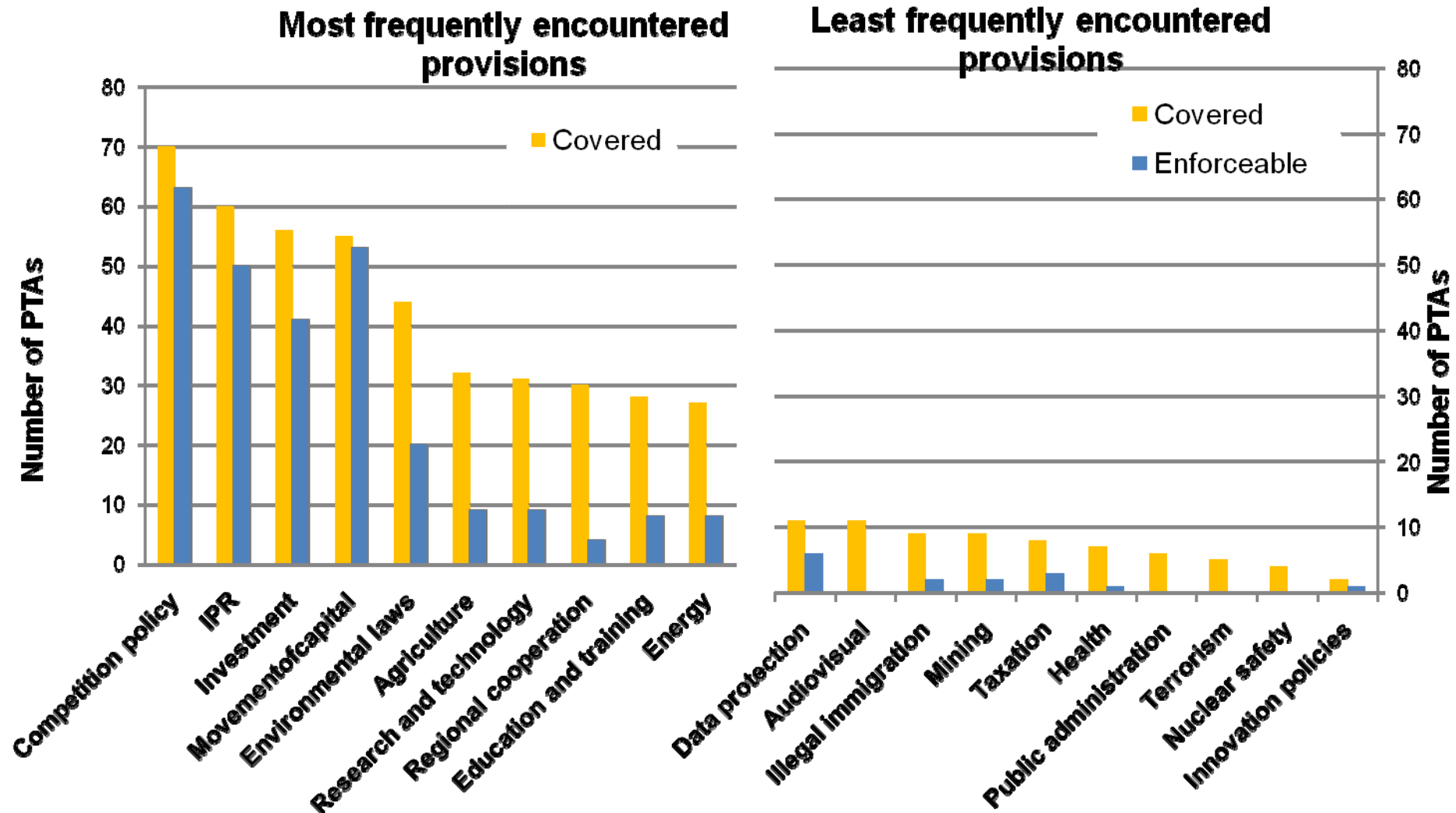
SECTORAL COVERAGE OF PTAS

- **PTAs go beyond tariffs, and provisions are legally enforceable**
- **Use list of policy areas identified by Horn, Mavroidis and Sapir (2009):**
 - WTO+ (14 areas covered by WTO agreements)
 - WTO-X (38 areas not covered by WTO agreements)
 - Used concept of “legal enforceability”
- **Examine 96 PTAs (notified and not notified) with highest volume of trade among members**
- **Results (enforceable areas)**
 - WTO+: Tariffs, trade remedies, TBTs, services, TRIMS, TRIPS (Figure 3)
 - WTO-X: Competition, investment, movement of capital (Figure 4)
 - Analyse pattern over time and by level of development

NUMBER OF AGREEMENTS WITH WTO+ PROVISIONS



NUMBER OF AGREEMENTS WITH WTO-X PROVISIONS



DETAILED ANALYSIS OF PROVISIONS

- **Policy areas examined: services, investments, TBT and competition policy**
 - Do they involve changes in behind the border regulations? (All areas)
 - Do they involve some harmonization of policy areas? (e.g. TBTs)
 - Do they involve commitments that go beyond multilateral agreements? (e.g. services)
 - Other questions: Are there families or family resemblance in PTA provisions in these policy areas? (e.g. TBT and competition policy)

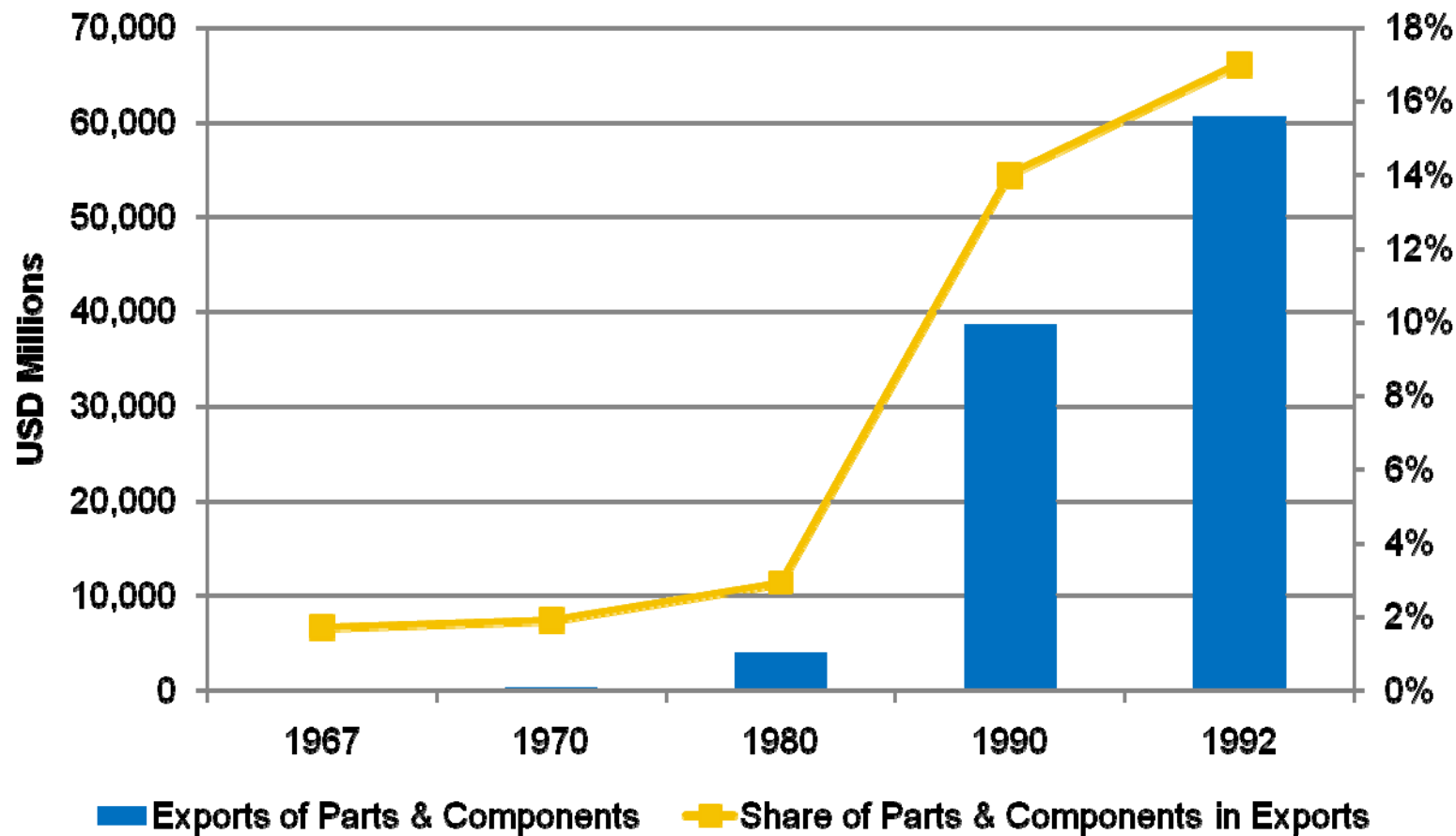
DEEP INTEGRATION AND PRODUCTION NETWORKS: SOME EMPIRICS

- The reports tests empirically the **two-way link** between deep integration PTAs and production networks using trade in parts and components as a proxy for global production sharing
- **Results show that:**
 - Greater trade in parts and components increases the level of depth of newly signed agreements between PTA members
 - Signing deep integration PTAs increases trade in production networks by almost 8 per cent on average

CASE STUDY: ASEAN

- **Created for political-security reasons in 1967**
- **Chronology of economic integration**
 - Partial scope preferential arrangement in 1977
 - Free trade area established in 1992
 - Services, IP, Investment provisions agreed to in 1995-96
 - Has negotiated PTAs with China, Korea, Japan, Australia-NZ, etc.
- **Parts and components trade (a measure of production sharing) grew dramatically during the 1967-92 period (Figure 5)**
- **Was major destination of FDI (particularly Japanese FDI)**
 - Between a fifth to a sixth of all FDI flows to developing countries
- **“Concerted” trade facilitation (Pomfret & Sourdin, 2009; 2010)**

ASEAN PARTS & COMPONENTS EXPORTS



Increasing coherence
between the WTO and
PTAs



DEEP INTEGRATION AND THE WTO

- **Building-bloc vs. stumbling bloc framework is less relevant**
- **Deep integration provisions are often non-discriminatory**
 - Changes in regulations are difficult to make partner-specific (e.g. investments, services, competition policy)
- **Mechanisms supporting further liberalization are found in PTAs**
 - “Non-party” MFN clauses
 - Spread or replication of liberalizing provisions (NAFTA telecomm competition rule)
- **Caveat: mechanisms generating negative systemic effects**
 - Regulatory “lock-in” and segmentation
 - Trade remedies (PTA provisions on anti-dumping and global safeguards)

CONFLICTING DISPUTE SETTLEMENT SYSTEMS?

- **How PTAs deal with the forum issue**
 - Fork in the road (complaining member chooses forum)
 - If the subject matter is regulated by PTA, PTA will be exclusive forum
 - If PTA obligation breached is equivalent in substance to a WTO obligation, go to WTO
- **Forum issue has arisen in a small number of WTO disputes**
- **WTO members in PTAs have continued to use the WTO DSM in resolving disputes**
 - About 30% of WTO disputes are between members who are parties to the same PTA
- **At the moment, conflicts appear not to be a significant problem but need to consider possible fixes**

PTAS IN THE GATT/WTO

- **Evolution of PTAs in GATT/WTO: tolerant and non-litigious attitude**
- **Establishment of GATT**
 - Exemption was desired by many founding contracting parties: Great Britain, the US, Syria and several Latin American countries
- **Early years**
 - No standing body examining PTAs
 - A policy of “tolerance” (Jackson, 1969)
- **Toughening after Uruguay Round: Establishment of CRTA and Understanding on Art XXIV**
- **Expansion of MFN exemption (Enabling Clause and GATS V)**
- **Litigation of PTAs: issues relating to PTAs have not figured prominently in WTO dispute settlement**

FUTURE WTO AGENDA ON PTAS

- **Change GATT/WTO rules (“hard law”)**
 - Removing ambiguities (“substantially all trade”)
 - Making rules consistent with economic theory (Kemp-Wan)
- **The “soft” law approach as transitional mechanism to hard law**
 - Transparency mechanism as first stage
 - Agree on a code of best practice in PTAs
 - Negotiate hard law
- **Multilateralizing regionalism**
 - Reducing transactions costs and minimizing risks of regulatory divergence
 - Seeking increased commonality in rules of origin
 - Banking (binding) preferential tariffs
 - Turning WTO+ and WTO-X into WTO
- **MFN liberalization**
 - Conclude Doha Round
- **Revisit WTO approaches to decision-making (critical mass instead of consensus)**

Thank you!

Download the report from:

http://www.wto.org/english/res_e/publications_e/wtr11_e.htm