INTRODUCTION

Trade liberalization efforts have a long history both at the multilateral level through GATT and at the regional level through organizations ranging from the EU and ASEAN to MERCOSUR and SAARC. Since the establishment of WTO, those efforts have gathered momentum. Many developing countries have become WTO members and vigorous participants in its deliberations on freeing multilateral trade while simultaneously pursuing regional agreements. Most recently, the world has also witnessed a proliferation of bilateral preferential trade agreements.

WTO recognizes that regional cooperation among countries can liberalize trade between the participating countries without raising barriers for others. Many experts consider regional trade liberalization as a step towards further multilateral liberalization. Multilateral agreements, which sometimes aim to achieve many targets at the same time, often put pressure on participants which are at different levels of development and may not be sufficiently prepared to achieve all of the targets. Countries find bilateral and regional trade agreements more focused and easier to comply with. However, bilateral and regional trade agreements should be complementary and consistent with multilateral arrangements, not an attempt to replace them.

Despite the rapid growth of PTAs, the extent of their contribution to high economic growth is still unclear. To assess the extent of trade liberalization under PTAs, these need to be evaluated with respect to the treatment of non-members, the extent of harmonization of policies linked to trade and the nature of dispute settlement mechanisms (table III.1). However, to be consistent with the multilateral process, PTAs should be outward-looking (box III.1).

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1 The WTO rules concerning regional trade agreements are specified in article XXIV of GATT and article V of GATS. The vast majority of WTO members are parties to one or more regional trade agreements. The surge in such agreements has continued unabated since the early 1990s. Some 250 RTAs had been notified to GATT/WTO by December 2002, of which 130 were notified after January 1995. Over 170 RTAs are currently in force; an additional 70 are estimated to be operational although not yet notified. By the end of 2005, if RTAs reportedly planned or already under negotiation are concluded, the total number of RTAs in force might well approach 300. WTO website, <http://www.wto.org>, 19 November 2003.
Table III.1. Main features of preferential trade agreements

<table>
<thead>
<tr>
<th>Features</th>
<th>Importance of outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Membership</strong></td>
<td></td>
</tr>
<tr>
<td>Diversity in members’ level of development</td>
<td>More diverse PTAs increase the potential for technology transfer and for increasing efficiency by specialization.</td>
</tr>
<tr>
<td>Combined size of members’ economies</td>
<td>A larger combined economy is more attractive for investment and creates more potential for trade.</td>
</tr>
<tr>
<td>Members’ resources and economic structures</td>
<td>Differences in the structure of the members’ economies and resources determine the extent of trade within the PTA and individual countries’ incentives to specialize.</td>
</tr>
<tr>
<td><strong>Policies</strong></td>
<td></td>
</tr>
<tr>
<td>Extent of tariff preference</td>
<td>Less tariff preference for members versus non-members reduces the potential for distortion of trade flows. A common external tariff reduces the possibility of distorting trade flows among members.</td>
</tr>
<tr>
<td>Sectors covered in agreement</td>
<td>Closer approximation of free trade creates more incentives for specialization and creates more competition for domestic industries. Greater sector coverage increases the potential welfare gains.</td>
</tr>
<tr>
<td>Non-trade and trade-facilitating policies covered</td>
<td>Agreements regarding policies other than trade allow countries to commit to domestic reforms and further lower the transaction costs of trade.</td>
</tr>
<tr>
<td>Rules of origin</td>
<td>Simple and transparent rules of origin minimize the potential for unproductive rent-seeking and corruption.</td>
</tr>
<tr>
<td><strong>Institutions</strong></td>
<td></td>
</tr>
<tr>
<td>Mechanism for dispute resolution</td>
<td>A mechanism for dispute resolution affects the PTA’s ability to reduce conflict between members. The ability to impose stronger sanctions increases the commitment value of the PTA.</td>
</tr>
<tr>
<td>Frequency of meetings</td>
<td>Meetings are an opportunity for exchanging information and coordinating negotiation strategies in other settings such as WTO. The interaction of higher-level policy makers is likely to have the greatest benefits for policy coordination.</td>
</tr>
</tbody>
</table>


A. WORLD TRADE ORGANIZATION AND REGIONAL TRADING ARRANGEMENTS

Article XXIV of GATT and article V of GATS provide the legal foundation for RTAs covering trade in goods and services. The “enabling clause” adopted in 1979 provides for the mutual reduction of tariffs on trade in goods among developing countries. At the Doha Ministerial Conference members recognized the importance of RTAs in promoting trade liberalization but stressed the need to harmonize regional and multilateral initiatives.

WTO, however, has proved not fully equipped to deal with the realities of RTAs. Interpretations of its rules on RTAs vary and at Doha members agreed to negotiations aimed at improving existing provisions,

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Article XXIV of GATT contains provisions that make RTAs acceptable within the WTO framework. However, in practice it has proven difficult for members to agree on the precise interpretation or application of those provisions. For most RTAs there is inevitably a degree of uncertainty about whether they can be assumed to be in conformity with article XXIV.

In February 1996, the WTO General Council established the Committee on Regional Trade Agreements to examine RTAs and assess whether they are consistent with WTO rules. The Committee was also to examine how RTAs might affect the multilateral trading system and what the relationship between regional and multilateral arrangements might be.

The overall assessment of the costs and benefits of RTAs is often summarized by asserting that outward-looking arrangements are better than inward-looking ones, and they are more likely to facilitate liberal multilateral trade. However, there are several definitions of outwardness:

- An agreement consistent with article XXIV of GATT;
- A rule which stresses the reduction of external barriers;
- A rule which stresses membership conditions and access;
- “Open regionalism”.

The first definition is based on article XXIV of GATT, which permits exceptions to the general rule of non-discrimination under certain conditions. The conditions refer to wide coverage of products and no action that would raise trade barriers against non-members. In practice, these conditions are seldom met. Even if they were, the network of preferential arrangements that would develop could still harm the multilateral system. If article XXIV seems to be extremely weak, its implementation has been even weaker. Now that regionalism is prevalent, WTO is searching for stronger provisions and procedures to ensure that RTAs evolve in a transparent manner.

The second definition, a stronger version of article XXIV, stipulates that at the time of the creation of an agreement, the members commit to a programme of tariff reductions. For this reason, the ASEAN Free Trade Area (AFTA) is sometimes presented as outward-oriented. It is argued that even if the agreement involves discrimination between members and non-members, the impact of that discrimination will diminish as barriers to trade decline.

The third definition includes the introduction of a particular accession clause, that is, openness to new members on the same conditions as current members and attention to administrative arrangements, such as a common set of rules of origin and rules on dispute settlement.

The fourth definition rules out the creation of discriminatory arrangements and is sometimes called open regionalism. Some see it as a prototype for a new version of article XXIV. Open regionalism can be defined by drawing on the work of trade policy.

With reference to trade in goods (and services), the Forum of the Pacific Economic Cooperation Council set the following conditions which illustrates the idea of open regionalism:

- Movement towards free trade, that is, a reduction in barriers to trade compared with what might otherwise have been the case (binding existing tariffs would qualify);
- Consensus among a group of countries located in the same region (for example, East Asia or the Pacific);
- Reduction in trade barriers applied country by country in a non-discriminatory manner, but possibly not equally by every country in the group;
- Reductions in trade barriers in a number of sectors simultaneously.

“Open regionalism” is consistent with narrower product coverage than provided for in the rules of article XXIV. Its virtue is that it does not challenge article I of GATT, yet it still involves a concerted attempt to move towards freer trade. While the product coverage is not as extensive, it involves wider incorporation of other issues. The concept of open regionalism changes the interpretation of MFN from exclusive MFN required for members only, which is the GATT norm, to inclusive MFN (also for non-members). It also changes the norm of reciprocity from specific direct balancing of benefits to more diffuse and general give and take.


a Similarly, article V of GATS provides for economic integration agreements in services.
b Article XXIV of GATT, which permits customs unions under certain conditions, was not expected to be invoked on a large scale. San Marino and Italy or Monaco and France were the types of customs unions that the drafters of GATT had in mind.
taking due account of the developmental aspects of the agreements. The rules are now under review. WTO’s Committee on RTAs, however, has had little success so far in assessing consistency among the notified RTAs as a result of political and legal difficulties. These include problems over preferential rules of origin and dispute settlement processes. The Committee has also been unable to carry out effectively its functions of review and oversight of RTA implementation.3

The current negotiations on RTAs have been conducted with an emphasis on transparency and systemic issues. Discussions have been fruitful on transparency issues and RTA surveillance mechanisms leading to more precision in notification procedures. However, the “Cancún failure” means that no “early harvest” on transparency was achieved. Informal discussions on systemic issues began in 2003 but the scope of the issues is wide and complex. This includes clarification and improvement of the existing rule on RTAs and other related rules.

B. STRUCTURE AND TRENDS OF ASIA-PACIFIC RTAs

RTAs generally develop in four stages. In the first stage, agreements generally contain a “positive list”, identifying goods that are to enjoy tariff reductions. This approach to liberalization is slow and experimental and negotiations proceed on a product-by-product or sectoral basis. In the second stage, agreements switch to a “negative list” approach, detailing only the goods that are excluded from tariff reductions, confirming the commitments of members to faster liberalization. In the third stage, steps are taken towards creating a single market with measures facilitating trade, liberalizing the trade in services and easing restrictions on the movement of labour and capital. The fourth stage involves policy coordination on macroeconomic and other economic matters.

All of the Asia-Pacific region’s major trading countries now belong to one or more regional integration arrangements, the majority following a negative list approach. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) is a good example and ECO also adopted this approach recently. AFTA has succeeded in moving beyond tentative efforts, developing an “inclusion list” that covers more than 85 per cent of traded products. However, a number of other RTAs (such as SAPTA and the Bangkok Agreement) are based on positive lists and negotiations have moved relatively slowly as products have been offered for tariff reductions in stages.

It is noteworthy that AFTA included unprocessed agricultural products with minimum exclusions in its Common Effective Preferential Tariff (CEPT) arrangement. It also established a framework for trade
facilitation initiatives, liberalization of the trade in services and investment promotion. Australia and New Zealand also had successful RTAs through ANZCERTA which is now progressing towards deeper integration.

APEC\(^4\) provides an example of open regionalism based on non-discriminatory liberalization. The best tariff preferences that one APEC member accords to other members are also accorded to non-APEC trading partners. This is a form of “concerted unilateralism” as each member voluntarily determines its liberalization path but with the common goal of reaching free trade by 2010 (2020 for developing countries). APEC was intended to offer the strongest possible support to the multilateral trading system and, in addition to its tariff and non-tariff measures, it also pursues trade facilitation and customs harmonization. APEC focuses its work on three key areas known as its “three pillars”: trade and investment liberalization, business facilitation and economic and technical cooperation.\(^5\) However, it has been realized that as APEC’s founding principles emphasize voluntary, non-binding, unilateral action, the driving forces to trade liberalization depend very much on WTO and successful implementation of the Doha Agenda is important to achieve the 2010/2020 Bogor Goals.

Japan and the Republic of Korea, setting aside their earlier reticence over RTAs, propose economic partnership agreements (EPAs) (box III.2), a much wider concept encompassing a series of issues, including FTAs. These encompass much deeper integration to increase the overall efficiency of economic production in both countries. The agreement between Japan and Singapore is also a good example of this form of cooperation.

To bridge the gap between subregions, efforts are being made by some regional groupings to integrate with non-member countries through FTAs or comprehensive economic cooperation. ASEAN’s separate collaborations with China and India are noteworthy examples.\(^6\) New initiatives have been taken to promote interregional cooperation with calls for stronger links between AFTA and NAFTA, AFTA and the Andean Community and many others.\(^7\)

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\(^4\) Established in 1989 as an informal dialogue group, APEC today is a cooperative, multilateral economic and trade forum and has 21 member economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, China, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Republic of Korea, Russian Federation, Singapore, Taiwan Province of China, Thailand, United States and Viet Nam. APEC web site, <http://www.apecsec.org.sg/apec/about_apec.html>, 13 January 2004.

\(^5\) As the regional economy has become increasingly complex, APEC has broadened its cooperation areas to include new economic challenges such as electronic commerce, the digital divide, terrorism and infectious diseases.


\(^7\) Ibid.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

Box III.2. Economic partnership agreements

Bilateral free trade agreements play an increasingly important role in promoting trade liberalization and economic growth in Asia and the Pacific. Several countries of the region are now pursuing EPAs designed to facilitate the trade in goods and services and investment flows. An EPA aims to create new opportunities for business, expand economies of scale and promote stability and predictability for business transactions, adding to the attractions and vibrancy of both markets.

Japan and Singapore pioneered EPAs with the Japan-Singapore Economic Partnership Agreement (JSEPA) concluded in 2002. JSEPA marked the start of a new era in economic ties between the two countries, moving beyond trade and investment liberalization to include cooperation in financial services, ICT, human resources development, SMEs and tourism. JSEPA provides a good point of reference for other Asian countries interested in pursuing economic partnership and regulatory reform. Japan and the Republic of Korea expect to complete negotiations on a free trade agreement with comprehensive coverage by the end of 2005. Japan has recently agreed to establish EPAs with three South-East Asian countries, Malaysia, the Philippines and Thailand.

The specific benefits of an EPA are expected to include export growth, more jobs and technology transfer. More generally, they offer an alternative approach to trade and investment liberalization that complements and gives added momentum to regional and multilateral free trade initiatives.

Some recently established/proposed EPAs and similar agreements in the Asian and Pacific region

<table>
<thead>
<tr>
<th>Agreements</th>
<th>Member countries</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan-Singapore Economic Partnership Agreement (JSEPA)</td>
<td>Japan-Singapore</td>
<td>Entered into force in 2002</td>
</tr>
<tr>
<td>Japan-Republic of Korea Free Trade Agreement (JKFTA)</td>
<td>Japan-Republic of Korea</td>
<td>Negotiation process expected to be completed by 2005</td>
</tr>
<tr>
<td>Japan-Thailand Economic Partnership Agreement (JTEPA)</td>
<td>Japan-Thailand</td>
<td>Negotiations to begin in early 2004</td>
</tr>
<tr>
<td>Japan-Malaysia Economic Partnership Agreement (JMEPA)</td>
<td>Japan-Malaysia</td>
<td>Negotiations to begin in early 2004</td>
</tr>
<tr>
<td>Japan-Philippines Economic Partnership Agreement (JPEPA)</td>
<td>Japan-Philippines</td>
<td>To enter into negotiations in early 2004</td>
</tr>
<tr>
<td>India-Singapore Comprehensive Economic Cooperation Agreement (CECA)</td>
<td>India-Singapore</td>
<td>Negotiations ongoing</td>
</tr>
</tbody>
</table>


Cross-subregional cooperation agreements are also becoming popular

Countries are also interested in combining members of different regional groupings into a separate entity. A very good example is BIMST-EC (box III.3), a group formed by some members of SAARC and ASEAN, which may help further integration between those two groups. The Shanghai Cooperation Organization (SCO), uniting China, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan and Uzbekistan, is another example of a cross-subregional grouping.8

III. Regional Cooperation in Trade

Box III.3. Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation

BIMST-EC was established with the adoption of the Bangkok Declaration at a ministerial meeting held in Bangkok in June 1997. This is a unique joint-action framework in which two ASEAN members have come together with three countries of South Asia for economic cooperation.

The main objective of this arrangement is to enhance regional development by promoting cooperation and optimizing complementarities between member countries in six priority sectors: trade and investment, technology, transport and communication, energy, tourism and fisheries. In each sector, a lead country is given the responsibility of coordinating and implementing regional cooperation initiatives.

On the basis of a feasibility study prepared by ESCAP, priority areas targeted by the BIMST-EC cooperative work programme include:

1. **Trade and investment:**
   Guidelines for the promotion of trade and investment set the ultimate objective of developing an FTA in the subregion. In the meantime, they call for:
   - Identification of key sectoral areas for intensive interregional cooperation, namely: textiles and clothing, drugs and pharmaceuticals, gems and jewellery, horticulture and floriculture, processed food, automotives and parts, rubber, tea and coffee, coconut and spices;
   - Implementation of trade facilitation measures (harmonization of customs procedures, standards and conformity, mobility of business people);
   - Promotion of interregional banking and financial arrangements to facilitate joint-investment and business opportunities;
   - Provision of technical cooperation and assistance (exchange of information, training and seminars), with the support of ESCAP.

2. **Technology.** Subregional cooperation in the area of technology seeks to provide opportunities to expand technology transfer and the exchange of information.

3. **Transport and communication.** This key sector has attracted much interest, focused particularly on the BIMST-EC component of the Southern Corridor of the Trans-Asian Railway and Asian Highway projects (under the coordinating umbrella of ESCAP). Sectoral areas of cooperation in transport and communication include:
   - Identification and promotion of new intermodal linkages within BIMST-EC countries;
   - Improving the efficiency of international land transport.

4. **Energy.** Expected results of functional collaboration in the energy sector are reduced costs and a better use of energy resources that will benefit both producing countries (Bangladesh, Myanmar) and consuming countries (India, Sri Lanka, Thailand). The objectives of subregional cooperation in the field of energy are twofold:
   - To identify the possibilities for joint development of natural gas fields and/or pipeline networks and/or liquified natural gas infrastructure in member countries;
   - To promote the development and utilization of non-conventional sources of energy (wind, solar and water/tidal/wave).

Projects have been identified and initial work has begun in these areas.

5. **Tourism.** To strengthen cooperation in the tourism sector, a BIMST-EC Expert Group on Tourism has been set up and an Action Plan on Tourism Cooperation implemented.

6. **Fisheries.** Increased cooperation in fisheries is sought through a comprehensive study on marine resources, processing and marketing.

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a The initial members were Bangladesh, India, Sri Lanka and Thailand. Myanmar joined in December 1997. Nepal and Bhutan became members at the Sixth BIMST-EC Ministerial Meeting (February 2004).

(Continued overleaf)
Efforts have been pursued actively to accelerate cooperation in these various sectors. A BIMST-EC Economic Forum was established in 1998 to enhance public-private sector collaboration in identifying and implementing cooperation projects in trade and investment. At the Fourth BIMST-EC Ministerial Meeting in 2001, an intergovernmental group of experts was established to study possible approaches towards an FTA in the subregion. Various expert-level meetings were also held to discuss sectoral cooperation in fishery, tourism, intellectual property, e-commerce, etc.

Despite the success of the BIMST-EC initiative in bringing together two important economic groupings of South Asia and South-East Asia, this intergovernmental framework did not take off during the first five years. At the 6th BIMSTEC Ministerial Meeting, held in Phuket, Thailand, on 8 February 2004, Bhutan, Burma, India, Nepal, Sri Lanka and Thailand signed the Framework Agreement for the BIMST-EC Free Trade Area as part of an economic cooperation agreement to boost trade and investment in South and South-East Asia. The Agreement covers the six above-mentioned sectors and includes trade in goods and services, investment liberalization and improvement of competitiveness. The negotiations should be completed in December 2005, with implementation in July 2006. The full implementation of the FTA between India, Sri Lanka and Thailand, classified as “developing countries”, is expected in June 2012 while implementation for “less developed” countries is expected in 2017.

Under the Agreement, tariff reductions will be carried out through “fast track” and “normal track” approach. India, Sri Lanka and Thailand would cut import tariffs of the “fast track” list to zero no later than 30 June 2009, while Myanmar, Nepal and Bhutan were given two more years to realize zero tariffs on products from the same category in the year 2011. For the remaining “normal track” products, the three developing countries are scheduled to realize zero tariffs no later than the year 2012 and the other three members are expected to achieve that goal in 2017.

The BIMST-EC growth zone has a combined population of 1.3 billion people and a combined GDP of $550 billion. It can derive great benefits from the geographical proximity of South and South-East Asian countries and their complementarities in trade, investment and production. All five countries possess substantial resources and economic growth potential. It is generally agreed that cross-sector subregional cooperation will optimize the benefits that can be derived from harnessing their individual resources and potential.

III. Regional Cooperation in Trade

Figure III.1. Kaleidoscope of selected Asia-Pacific trade agreements

Source: T. Bonapace, “Experiences emerging from the UNESCAP region: Accession to WTO and Regionalism”, in Progress Towards the Doha Development Agenda (Bangkok, TID, ADB and UNCTAD, 2003).

Note: Bhutan and Nepal joined BIMST-EC in February 2004, which is not shown in the diagram.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

C. ANALYSIS OF SELECTED REGIONAL TRADE AND INVESTMENT AGREEMENTS

A brief analysis of trade and investment agreements initiated by ASEAN, ECO, the Pacific Islands Forum and SAARC shows how such arrangements can contribute to enhancing the trade of member countries\(^{10}\) and shows the region’s general approach to cooperation in trade and investment.

1. SALIENT FEATURES OF SELECTED AGREEMENTS

Australia and New Zealand initiated regional trade cooperation in 1967 and in 1983 adopted a comprehensive approach through ANZCERTA, one of the region’s earliest efforts to adopt trade agreements. ANZCERTA took a negative list approach starting with an extensive list that accounted for almost 44 per cent of trade in manufactured goods between the two countries.\(^{11}\) However, that list was quickly shortened and the timetable for removing trade barriers was also accelerated, culminating in the removal of trade barriers in 1992. The focus has shifted to establishing a “single market” moving on to the liberalization of the trade in services (again adopting a negative list approach), trade facilitation and harmonizing customs rules, food standards and quality accreditation.

ANZCERTA is basically a bilateral agreement between two relatively advanced countries in the region. Trade agreements in other subregions are more complex. ASEAN’s PTA, concluded in 1977, provided for tariff rate reductions on a product-by-product basis according to members’ priorities. Several follow-up protocols in the 1980s further reduced trade barriers. These early initiatives helped member countries to increase capacity and specialize in some products, but the accords were relatively loose and ad hoc in nature. There was little compulsion on the part of participants to liberalize trade and implementation was slow.

Increased momentum came from the Framework Agreement on Enhancing ASEAN Economic Cooperation, adopted at the Fourth ASEAN Summit in Singapore in 1992. This launched the AFTA initiative with the strategic objective of making ASEAN a single production unit, increasing member countries’ efficiency, productivity and competitiveness.

AFTA provides initially for a phased elimination of tariff and non-tariff barriers but also envisages standardization and harmonization of customs procedures, industrial cooperation schemes and liberalizing the

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\(^{10}\) Details of the agreements are available in the annex.

III. Regional Cooperation in Trade

The revitalization of cooperation in South Asia through SAFTA is noteworthy.

trade in services. The ASEAN Framework Agreement on the Facilitation of Goods in Transit (1998) aims at facilitating the transport of goods in transit; a separate protocol was adopted in 1996 for solving disputes. An agreement on creating an investment area followed in 1998, calling for the gradual opening of all sectors to direct investment by ASEAN investors and ultimately to giving them national treatment. The range of agreements equips ASEAN for deeper economic integration but also makes allowances for members’ different levels of development. Advanced countries in the subregion are positioned to take the lead towards integration while the weaker countries are allowed more time to implement agreements.

The Agreement on the SAARC Preferential Trading Arrangement (SAPTA) was signed in 1993 and takes a positive list approach with safeguards for least developed countries. Trade liberalization in the subregion occurred in phases: the first round of SAPTA came in 1995 and the fourth round was concluded in 2002. Various studies indicate that SAPTA was not very effective. Member countries have also participated in multilateral trade liberalization and find that SAPTA’s concessions are becoming less attractive. However, a recent wave of bilateral trade agreements among SAARC countries has prompted new efforts to revitalize SAARC and accelerate trade liberalization. SAFTA (box III.4) has been signed in January 2004 and will be operational as of 2006. The Agreement takes a negative list approach for tariff reduction and provides a dispute settlement mechanism. It also makes provision for special and differential treatment for least developed countries and safeguard measures. Once implemented, SAFTA is expected to promote deeper integration among the countries of South Asia.

SAARC is still at the first level of regional integration but, in addition to trade liberalization efforts, there have been some discussions on a regional investment treaty, a SAARC arbitration council and double taxation avoidance. At their Ninth Summit in Male (1997), SAARC heads of State endorsed efforts to enhance trade and economic cooperation in the region by initiating specific steps to promote and protect investments and joint ventures. The need for a dispute settlement process figured prominently in discussions on how to promote investment and follow-ups initiatives are expected in the near future.

Two key trade agreements for the Pacific island countries are PICTA and SPARTECA. PICTA, signed in 2001 and brought into effect in 2003, follows a negative list approach and aims ultimately to lead to the creation of a free trade area. With the exception of goods identified in the list, the Agreement seeks to reduce tariffs on all goods, which

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qualify under PICTA “rules of origin” as originating in the member countries. Small island States and least developed countries enjoy a preferential timetable for liberalizing their trade. There is no formal dispute settlement mechanism in the Agreement. Under SPARTECA, which was signed in 1980 and became effective in 1981, Australia and New Zealand offer non-reciprocal preferential treatment to goods imported from developing Pacific island countries, subject to strict rules
III. Regional Cooperation in Trade

Pacific Islands Forum countries are also seeking to promote investment through a Pacific investment programme, which focuses on preparation of business plans, investment plans and training.

The ECO Trade Agreement, signed in 2003, aims to increase trade among member countries and region-wide and to lead to a substantial increase in trade-related investment. To that end, it introduces a negative list and includes provisions for dispute settlement. As many ECO member countries are landlocked, trade within the subregion depends significantly on cross-border and transit facilities. An agreement on transit trade was signed in 1995 and one on transit transport in 1998. However, the ratification process is slow and this has had a direct impact on intra-ECO trade.

2. INTRA-BLOC TRADE IN THE REGION

The intraregional trade share in the Asian and Pacific region has not changed much in the last 20 years (table III.2). The highest intra-bloc export share accrues to APEC because of its large number of member countries both inside and outside the region. Intra-bloc exports within the AFTA region show some improvement, helped by ASEAN’s expansion between 1995 and 1998, when Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam joined. However, most of the Asia-Pacific preferential trade areas have a relatively low share of intra-bloc exports because their trade is mostly with non-members, such as the United States, Japan and the EU. SPARTECA’s intra-bloc export share is more compared to ECO and SAARC as members enjoy a free trade allowance provided by Australia and New Zealand.

Table III.2. Intra-bloc export shares of selected preferential trade agreements, five-year average, 1980-2000

(Percentage)

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<tbody>
<tr>
<td>Asia and Pacific region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFTA</td>
<td>20.8</td>
<td>18.9</td>
<td>22.5</td>
<td>24.8</td>
<td>24.5</td>
</tr>
<tr>
<td>APEC</td>
<td>66.3</td>
<td>72.2</td>
<td>73.1</td>
<td>74.3</td>
<td>75.2</td>
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<td>ANZCERTA</td>
<td>8.0</td>
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<td>9.1</td>
<td>10.7</td>
<td>9.3</td>
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<td>7.3</td>
<td>6.4</td>
<td>8.4</td>
<td>6.6</td>
</tr>
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<td>SAPTA</td>
<td>6.3</td>
<td>4.9</td>
<td>4.4</td>
<td>5.1</td>
<td>4.8</td>
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<td>SPARTECA</td>
<td>11.9</td>
<td>11.4</td>
<td>12.8</td>
<td>14.2</td>
<td>12.3</td>
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<tr>
<td>Other regions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>Andean Pact</td>
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<td>4.8</td>
<td>9.1</td>
<td>13.2</td>
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<td>EFTA</td>
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<td>16.4</td>
<td>13.7</td>
<td>12.6</td>
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<td>65.1</td>
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<td>15.9</td>
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<td>48.2</td>
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</tr>
</tbody>
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Trade in the ECO subregion is growing but at a very slow pace. Factors that influence the pattern and volume of intra-ECO trade include tariff and non-tariff barriers and numerous other duties imposed by the member States. Intra-SAARC trade has not grown because of the limited concessions offered. Tariffs have been reduced on more than 5,000 products and SAARC rules of origin have been relaxed but the depth of tariff cuts and product coverage were insufficient. Recent moves to create SAFTA may prove more effective.

Despite low intra-bloc export share, trade among ASEAN countries grew by almost 11.6 per cent annually in the 1990s after the implementation of the CEPT scheme but it remains unclear whether this was a result of CEPT or rapid GDP growth causing a rise in consumption. Intraregion trade fell slightly after the 1997 economic crisis. The extent of AFTA's success in expanding trade is still under debate.

An analysis of trade flows within the selected RTAs suggests that they cannot be regarded as natural trade blocs, but indicates that there is a greater economic logic behind the groupings that have already developed than among possible alternative groupings. Trade flows within subregions are generally low for larger countries, such as the Islamic Republic of Iran, Pakistan and Turkey within ECO or Bangladesh, India and Pakistan within SAARC. The share of intra-group trade was higher for the smaller members in each grouping, for example, Nepal and Maldives in SAARC and Central Asian countries in ECO.

A similar difference between larger and smaller countries is visible within AFTA, where the shares of Indonesia, Malaysia, the Philippines, Singapore and Thailand were less than those of Brunei Darussalam, Myanmar and Viet Nam. The trade share of the Lao People’s Democratic Republic with its partners in the subregion was as high as 66 per cent in 1997. This highlights the fact that RTAs provide small countries with good opportunities to access the markets of other member countries.

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14 ASEAN, South East Asia: A Free Trade Area (Jakarta, ASEAN, 2002).
15 AFTA brings only small increases in trade using a simulated model for the five original ASEAN members that compares the effect of MFN tariff reduction and AFTA tariff reduction because most of the important partners of ASEAN countries are non-member industrialized countries. The simulation also shows that the expansion of production and exports in various economic sectors is about the same under AFTA and MFN. See D.A. DeRosa, “Regional trading arrangements among developing countries: the ASEAN example”, IFPRI Research Report 103, September 1995. Other studies argue that an MFN reduction would have delivered greater benefits to ASEAN members. See E. Fukase and W. Martin, “Free Trade Area membership as a stepping stone to development: The Case of ASEAN”, (Washington, World Bank, 2001).
17 Ibid.
III. Regional Cooperation in Trade

3. INTERACTION AMONG COUNTRIES AND SUBREGIONS IN TRADE AND INVESTMENT AREAS

Asia Pacific developing countries as a group are growing faster than either the global economy or other groups of developing countries. Although exports to the rest of the world continue to play a significant part in sustaining the overall momentum of growth, dynamic intraregional trade and strong domestic demand has been central in sustaining the growth momentum. China’s remarkable performance and high trade intensity\textsuperscript{18} helps to stimulate the regional economy. Similar trends are visible in several other economies of the region where robust growth has resulted from a combination of higher net exports and domestic demand. The dynamism of the region in the area of trade is reflected in numerous cross subregional efforts like, ASEAN+3, the Bangkok Agreement, BIMST-EC in addition to growing trade among different subregional groups.

Pacific island countries have significant trade with AFTA and CER countries. India, Maldives, Pakistan and Sri Lanka trade intensively with countries in AFTA. The Russian Federation and China, both APEC members, trade actively with the Central Asian members of ECO.

The linkage between RTAs that has been most explored is that between AFTA and CER. The linkage was guided by a series of informal and low-key consultations leading to an agreement on trade and investment facilitation. However, the case for pursuing a separate AFTA-CER free trade arrangement depends on the success of the APEC liberalization process. ASEAN has also attempted to link individual countries such as ASEAN-China, ASEAN-India arrangements to further augment the benefits of regional cooperation.

The 1998 proposal for a free trade agreement between Japan and the Republic of Korea marked a historic attempt by these two countries to promote PTAs. Since then, both countries have actively pursued BTAs with many other countries in the region. The CER economies have also started to follow the same strategy, leading notably to BTAs between Singapore and Japan, Thailand and Australia, and China and New Zealand.

Proposals have also emerged within the region for an ASEAN+3 FTA between ASEAN members, Japan, China and the Republic of Korea. This arrangement may result in creating an East Asian trade

\textsuperscript{18} China’s GDP expanded by 24.9 per cent during 2001-2003 due to its strong investment and consumption demand. During this period, China increased total imports by more than $160 billion, two-thirds of which came from the region. It is now the world’s fourth largest trading nation.
bloc\textsuperscript{19} which can guide the direction of Asia-Pacific trade liberalization. The leaders of ASEAN+3 adopted the Joint Statement on East Asia Cooperation in 1999. The ASEAN+3 framework has currently been making steady headway towards future undertakings of regional cooperation, including building up a durable institutional framework for region-wide dialogue and cooperation. ASEAN members held discussions in Bali in 2003 with their dialogue partners, Japan, the Republic of Korea, China and India, for further cooperation in various fields.

ASEAN+3 arrangements, which mainly connect the region’s more open economies, together with a revitalized Bangkok Agreement, possibly joined by more ESCAP members, would bring new dynamism to the region. In the previous chapter, it was noted that, to achieve economic integration, the larger countries and stronger economies must take the lead. This requires the involvement of China and India, as the main gravitational forces in the ESCAP region, and rich countries like Japan, the Republic of Korea and Singapore. Future trade dynamics between SAARC and East Asia will give major impetus to the growth of the entire region, leading possibly to ECO and Pacific Islands Forum countries through their growing interlinkages with China, India and ASEAN countries.

Meanwhile, China’s recent entry into the Bangkok Agreement has created a market among member countries of more than 2.5 billion people. China’s attempt to drive down manufacturing costs, coupled with India’s efforts to reduce service costs, will have a global impact on trade and investment. Already there is evidence that trade between member countries and their trading partners is rising (figure III.2). However, the future of the Agreement as an ESCAP-centric trade agreement depends on how Japan and ASEAN react to it and how members can use advances in transport and ICT to optimize costs and efficiency.

\textsuperscript{19} R. Scollay, “Economic impact of RTAs in Asia and the Pacific”, paper prepared for the ESCAP Expert Group Meeting on Regional Trade Agreements in Asia and the Pacific, Bangkok, 30-31 January 2003.
The Bangkok Agreement is a PTA which aims to enhance socio-economic development in the Asian and Pacific region through the promotion of economic cooperation and trade expansion between ESCAP members.

Signed in 1975 by five initial members (Bangladesh, India, Lao People’s Democratic Republic, Republic of Korea and Sri Lanka), the Agreement was the first trading arrangement among developing member countries of ESCAP based on the grant of mutually beneficial trade liberalization measures (GATT’s enabling clause). Since the inception of the Agreement, ESCAP has served as the interim secretariat.

The aim of the Agreement is:

- To liberalize and expand trade through:
  - Relaxation of tariff barriers;
  - Relaxation of non-tariff barriers (customs administration, standardization of procedures and formalities relating to mutual trade, adoption of a common tariff nomenclature and harmonization of rules of origin and rules related to dumping);
  - Trade-related economic cooperation;
- To provide tariff and non-tariff concessions between member countries;
- To give special and differential treatment to the least developed countries;
- To serve as a platform to link subregional PTAs.

Up to the present the Bangkok Agreement has served as a forum for the exchange of tariff concessions on goods. It has followed a positive list, product-by-product approach. To date, two rounds of negotiations have been completed in 1975 and 1990 and a gradual broadening of the number of items being given preferential treatment has been achieved through great efforts since the mid-1970s. China’s accession to the Agreement in 2001 provided a substantial increase in the list of concessions, bringing the total number of items benefiting from general concessions and special concessions to the least developed countries to 1,558 and 112, respectively. A number of countries have also recently expressed their interest in the Agreement and Pakistan is in the process of accession.

Despite the progress it has registered since the mid-1970s, the Bangkok Agreement has failed to realize its true potential. Its progress has been hampered for various reasons, including:

- A lack of high-level commitment;
- The reliance on ESCAP to serve as the interim secretariat;
- Limited trade among members (significant imports from India by Bangladesh and Sri Lanka only, very low share of the Republic of Korea’s trade with the member countries);
- Limited concessions offered up to now.

However, since the accession of China a huge potential has emerged. China has made an offer of 739 items for general concessions, which is a major step. The combined population of China and India is 2.5 billion and the potential trade increase will be significant. If the Republic of Korea’s contribution is included, the Agreement could become a dynamic regional trade agreement provided that the right initiatives are taken. Total intraregional trade could increase almost fivefold.

The secretariat has embarked on a revitalization strategy to enable the Bangkok Agreement to evolve into a unique region-wide Asia-Pacific Trade Agreement (APTA). A ministerial council has been established; its first session will be held after the third round of negotiations is completed. Efforts have also been directed at expanding its membership, with Bhutan, Cambodia, Mongolia, Nepal and Pakistan among the countries currently studying the possibility of joining the Agreement. An in-depth study is planned to estimate the extra value addition from a revitalized agreement, particularly when many of the member countries are involved or are going to be involved in BTAs among themselves (for example, India-Sri Lanka and India-China).

(Continued overleaf)
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation

D. REGIONAL TRADE AND CONCERNS OF DEVELOPING COUNTRIES

The analysis of RTAs shows that a number of issues of special relevance to developing countries need further attention and that future cooperation may be required to address them more effectively.

Developed countries are slow in providing market access for goods from developing countries, especially in agriculture. As a group, countries of the region may decide on a common position for multilateral negotiations in WTO. With regard to textiles, the future status of the sector (after the phasing out of the Multi-Fibre Arrangement (MFA)) needs to be discussed. As of 2005, textile-exporting countries in the region may unite to generate the appropriate capacity to exploit the quota-free developed country market.

Intraregional trade in the Asian and Pacific region is low, which implies that member countries are trading more with countries outside the region. Trade liberalization in the region alone may not suffice to boost trading volumes. Regional discussion is required on ways to promote more trade and regional investment in order to diversify products and create a regional market. Many countries are trying to strengthen their SME sector to meet the challenges of globalization in the post-WTO era. A regional market for SME products can help them to become more competitive.

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20 Some textile-exporting developing countries are concerned about the uncertainty of the developed country market in the post-MFA phase as from 2005 with the possibility of new trade barriers. Moreover, developing countries also look for assistance and cooperation for increasing the textile manufacturing capacity in their countries.

21 The post-WTO era creates many opportunities for the SME sector. A brief discussion can be found in B. Nag, “Keep them in place”, The Telegraph, 14 February 2001.

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Many developing countries of the region are exporting primary and agricultural products for which the market is inelastic and easily saturated. Price volatility in primary products has also caused serious problems for many poor countries. A regional effort is required to diversify the product basket by adding value to exportable primary products.

In many cases, access to developed country markets is denied on the grounds of technical barriers to trade and sanitary and phytosanitary provisions. Regional cooperation could be effective in mobilizing finance or investment to improve product quality, especially in poor developing countries to overcome these non-tariff barriers. Also emphasis should be given to harmonize product standards regionally.

As many developing countries do not like to pursue multilateral agreements in investment, regional efforts to create a regional investment area may be more acceptable. If that is not possible, bilateral efforts within the region may help to move in the right direction. More use can also be made of regional cooperation arrangements or institutions in taking up the accession issues of non-WTO members.22

E. ISSUES IN STRENGTHENING COOPERATION IN TRADE AND INVESTMENT

The analysis suggests a number of areas in which regional cooperation can more effectively assist member countries in coping with globalization and increasing intraregional trade.

1. IMPROVING THE EFFECTIVENESS OF TRADE AGREEMENTS

The negative list approach to trade liberalization is more effective than the positive list approach, which slows integration and in some cases makes it ineffective. Countries may prepare a negative list and a list of sensitive goods allowing more flexibility to weaker countries. Special emphasis may be given to regional market access for SMEs and agricultural products.

Effective dispute settlement and enforcement mechanisms are also required to ensure serious commitment. Many countries lack expertise regarding international arbitration and countries of a region can jointly

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22 In the ESCAP region, 11 countries are in the process of WTO accession and 11 countries do not have WTO status.
develop a system. The same is true for developing a strong patent system and harmonizing the quality of products. Providing safeguard mechanisms, for example, to deal with a balance-of-payments crisis, can also act as an incentive to countries to participate in regional trading arrangements more actively and equitably.

2. COOPERATION BEYOND TRADE

Regional cooperation should not be confined to reduction of trade barriers. Trade facilitation issues may be addressed with equal seriousness. Transport and ICT agreements are also important to derive the benefits of trade liberalization. Countries may prefer not to take up the issue of investment at the initial stage of cooperation but to achieve deeper integration the issue should not be neglected for long. Regional initiatives to develop human resources can support the wider promotion of trade and investment.

3. ROLES FOR LARGE AND SMALL COUNTRIES

The experience of successful RTAs highlights the importance of large countries in providing direction to the economic integration process. In the Asia-Pacific region, the accumulated wealth of Japan and the Republic of Korea and the huge markets of China and India create new opportunities for trade-driven growth in the region. The strategic role of these countries can benefit the ESCAP region as a whole by promoting regional cooperation. Meanwhile, the increased access of smaller countries to other markets in the region will definitely enhance their growth. Smaller countries, therefore, should actively work to increase the horizon and scope of regional cooperation, giving due importance to their national priorities.

4. SYNTHESIZING RTAs WITH A MULTILATERAL PROCESS: IMPORTANT ISSUES

Present trends indicate that bilateral trade agreements will continue to multiply and there is a possibility that they may distort the flow of raw materials and other inputs. A regional effort is required to harmonize bilateral agreements so that they lead ultimately to multilateral integration. To facilitate this, it would be useful to develop a unified framework for FTAs and BTAs consistent with multilateral trade liberalization, to prepare manuals on WTO issues and to prepare a framework for impact analysis.

The following principles applied to RTAs may help to promote multilateral trade:23

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• Countries may be advised to engage only in regional commitments, which they would ultimately be willing to extend to the multilateral setting (by lowering MFN tariff rates);

• Countries can promote the principle of transparency by ensuring that comprehensive information on tariffs, regulations and rules of origin under their RTAs is publicly and easily available. WTO should be informed of all such RTAs in a timely and systematic manner;

• Countries may agree to a consultative system to map and monitor RTAs so that a more effective link between regionalism and multilateralism may be established.

F. ESCAP’S FUTURE ROLE

ESCAP is uniquely positioned to develop a linkage among all major regional groups in the absence of a supranational organization in the region. To provide such a linkage in the area of trade and investment, ESCAP has developed a Comprehensive Trade and Investment Cooperation Framework (CTICF) for Asia and the Pacific. It consists of three tracks and presents a strategy for the next 10 to 20 years to help countries in the region to effectively negotiate, conclude and implement commitments incurred under the multilateral system and through a host of BTAs, bilateral investment treaties and RTAs of which they are members.

CTICF has two long-term objectives:

(a) To enhance national capacities to negotiate, conclude and implement multilateral and regional trade and investment agreements;

(b) To forge consolidation and consistency among emerging BTAs and RTAs and other forms of economic partnerships in the region within a common WTO-consistent framework towards a free and fair multilateral trading and investment regime.

CTICF is based on the idea that only the multilateral trading system as administered and supervised by WTO can guarantee free and fair global and regional trade and investment flows. While WTO may have to undergo some restructuring and reforms in order to ensure that it can perform its role credibly and effectively, in the long run the multilateral trading system is in the best interest of all countries, particularly the least developed countries and other less developed countries. However, realistically speaking, in the short to medium term, bilateral and regional agreements in those areas will prevail. Therefore, CTICF adopts a three-track approach:
1. MULTILATERAL TRADE AND INVESTMENT COOPERATION TRACK

Under track one, ESCAP will organize regional dialogues on WTO issues to enable countries to share experiences in implementing WTO agreements and identify and promote common positions in WTO negotiation forums. It will work closely with WTO, UNCTAD and, at the regional level, ADB, the Colombo Plan and subregional organizations. This track will continue to pursue activities related to assistance to countries in their accession to WTO as well as trade policy courses.

2. REGIONAL TRADE AND INVESTMENT COOPERATION TRACK

Track two seeks to promote regional cooperation in achieving WTO-consistent regional free trade areas. Owing to its region-wide membership, APTA,\textsuperscript{24} could be used as a prototype RTA in this regard and developed into a framework for full regional integration. Such a framework would include, in addition to trade, such issues as investment, intellectual property rights, competition and wider forms of economic cooperation (i.e., financial and monetary policy cooperation, development of common standards and accreditation, free flow of natural persons, etc.). ESCAP would also seek to develop communication and cooperation among various regional groupings, in particular ASEAN+3 and BIMST-EC.

As a second step (intermediate to long term), track two envisages consolidating emerging RTAs and other regional economic arrangements in line with the common format(s) developed. APTA will be especially promoted for this purpose as indicated in figure III.3; bilateral FTAs may eventually lead to a consolidation or integration between APTA and BIMST-EC. The consolidation aims to bring South, South-East and North-East Asia closer to each other. Such consolidation would take place on a geographical basis as well as on an area basis (integrating trade and investment agreements into one). Thirdly, in the long run, consolidated RTAs would be integrated into the multilateral trading system.

\textsuperscript{24} ESCAP has embarked on the revitalization of the Bangkok Agreement into APTA. For details, see box III.5.
3. **BILATERAL TRADE AND INVESTMENT COOPERATION TRACK**

Track three aims in the short to medium term to assist countries, particularly the less developed at their request, in negotiating and implementing WTO-consistent bilateral trade and investment agreements. The focus will be clearly on trade, at least in the short to medium term, but attempts will be made to forge some form of bilateral cooperation in finance as well as to facilitate bilateral trade and investment flows. Secondly, in the medium to long term, it aims to help to consolidate various BTAs and bilateral investment treaties into existing and emerging RTAs, promoting a common format for such agreements and assisting in the harmonization of standards, procedures and rules of origin among various BTAs.

The overall objective underlying the three tracks is to broaden the economic space for cooperation as well as deepening integration as a building block of multilateralism.
Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation