XII. GLOBALIZATION, TRADE AGREEMENTS AND TRANSPORT

A. Background

 Efficient transport plays a vital role in fostering international trade. The removal of barriers to trade in the transport sector is, therefore, doubly important. First, the transport sector is in itself an important area of economic activity, and liberalization in transport will, therefore, make an important contribution to the broader thrust of liberalization of trade in services. Secondly, by enhancing efficiency and reducing the costs of trade in goods, removal of barriers in the transport sector will in turn lead to freer and more open markets in the trading of physical goods and movement of natural persons.

International trade, along with foreign direct investment and capital market flows are the three main elements associated with the concept of economic globalization. Economic globalization proliferates as more and more economic activity occurs between agents in different countries. The World Bank has observed\textsuperscript{132} that there is significant divergence in the spread of globalization across the world. The risk with this divergence is that some nations may be excluded from the globalization process and, therefore, not reap the advantages that foreign investment and international trade can bring.

Trade liberalization has been a major contributor to increasing economic globalization. This section outlines the global trading framework and its impact on the ESCAP region. It examines the growth of the international trading system under the GATT and the WTO as well as the influence of regional trading agreements.

B. WTO, GATS and Asian Trade Agreements

Prior to World War II international trade was limited to a system of two-sided trade negotiations between nations. This system was abandoned, and a more open liberal system of international economic relations began to develop, with the GATT signed in Geneva in 1947. GATT provided the signatory nations with a set of rules for international trade negotiations. Ever since the establishment of GATT member nations have participated in trade rounds to develop agreements regarding the terms of trade such as the progress of tariff reductions. The phenomenal post-1945 increase in international trade has been linked to the adoption of this open, liberal system of international economic relations under the auspices of the GATT.

In 1995, the World Trade Organization (WTO) replaced the GATT as a result of the Uruguay Round of Trade Negotiations beginning in 1986. Where trade negotiations were limited to tariff reductions, anti-dumping and a series of non-tariff barriers to trade under the GATT, the WTO has a much wider mandate. The WTO covers both merchandise trade and trade in services as well as trading issues involved with intellectual property rights (for further information on trade in services refer to the section below). The agreements that are negotiated in the trade rounds are in essence multilateral in nature. That is, they are signed by all members of the WTO. Multilateral agreements are the converse of bilateral agreements (bilaterals). Bilaterals are trading agreements between two nations. There are also two plurilateral agreements in the WTO, which are signed by a limited group of members, these are related to trade in civil aircraft and government procurement.

Since World War II the impact of more liberal trading arenas has led to a strong upsurge in global trade such that total trade in 2000 was 50 times what it was in 1950.\textsuperscript{133} The WTO now has 148 member countries\textsuperscript{134} with Cambodia and Nepal the latest two to join; and others more in the process of joining.


\textsuperscript{133} WTO (2003), The WTO in Brief.

\textsuperscript{134} As at February 2005.
1. The GATS Framework

The General Agreement on Trade in Services (GATS) is the first ever set of multilateral, legally enforceable rules covering international trade in services. It was negotiated in the Uruguay Round and is overseen by the WTO Council for Trade in Services. Under GATS, the trade in services is subdivided into sectors, one of which is transport. Each sector is characterized by four modes of supply:

- Mode 1 – cross-border supply;
- Mode 2 – consumption abroad;
- Mode 3 – commercial presence; and
- Mode 4 – presence of natural persons.135

Like the agreements on goods, GATS operates on three levels: the main text containing general principles and obligations; annexes dealing with rules for specific sectors; and finally individual countries’ specific commitments to provide access to their markets.

Unlike the agreement on trade in goods, GATS has a fourth special element: lists showing where countries are temporarily not applying the ‘most-favoured-nation’136 principle of non-discrimination. These schedules – like tariff schedules under GATT – are an integral part of the agreement. So are the temporary withdrawals of most-favoured-nation treatment.

The GATS commits member governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to progressively liberalize trade in services. The first round had to start no later than five years from 1995. Accordingly, the services negotiations started officially in early 2000 under the Council for Trade in Services. In March 2001, the Services Council established the negotiating guidelines and procedures. The Doha Ministerial Declaration of 14 November 2001 endorses the work already done, reaffirms the negotiating guidelines and procedures, and establishes some key elements of the timetable including, most importantly, the deadline for the conclusion of the negotiations as part of a single undertaking.

The Declaration formally relates the earlier negotiations to the principles of the General Agreement of Trade in Services, as follows: “15. The negotiations on trade in services shall be conducted with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries. We recognize the work already undertaken in the negotiations, initiated in January 2000 under Article XIX of the General Agreement on Trade in Services, and the large number of proposals submitted by members on a wide range of sectors and several horizontal issues, as well as on movement of natural persons. We reaffirm the Guidelines and Procedures for the Negotiations adopted by the Council for Trade in Services on 28 March 2001 as the basis for continuing the negotiations, with a view to achieving the objectives of the General Agreement on Trade in Services, as stipulated in the Preamble, Article IV and Article XIX of that Agreement. Participants shall submit initial requests for specific commitments by 30 June 2002 and initial offers by 31 March 2003.”137

The Fifth Ministerial Conference was held in Cancún, Mexico, in September 2003. The meeting ended in discord among member countries on agricultural issues, including cotton, including a deadlock on Singapore issues.138 Significant progress on the Singapore and agricultural issues was not evident until...
1 August 2004 when a set of decisions by the General Council was handed down (now referred to as the July 2004 package). A deadline of January 2005 was set to resolve these issues. However, that deadline was missed. Following that, members are unofficially aiming to finish the negotiations by the end of 2006. The next meeting is scheduled to take place in Hong Kong, China in December 2005.

2. Specific Annexes to GATS

There are two specific annexes to GATS that relate directly to trade in transport services. These annexes outlines special conditions in the trade in air transport services and maritimes services.

(a) Air transport services

Under the air transport services annex, traffic rights and directly related activities are excluded from GATS coverage. They are handled by other bilateral agreements. However, the annex establishes that the GATS will apply to aircraft repair and maintenance services, marketing of air transport services and computer-reservation services.

(b) Maritime services

Maritime services are an area where further negotiations were scheduled to improve on the commitments included in the initial Uruguay Round schedules. Negotiations were originally scheduled to end in June 1996, but participants failed to agree on a package of commitments. The talks have resumed with the new services round which started in 2000. Some commitments already exist in some countries’ schedules covering the three main areas in this sector: access to and use of port facilities, auxiliary services and ocean transport.

3. Regional Agreements

Aside from the multilateral agreements determined in the WTO process or the plurilateral agreements and bilaterals discussed above, Regional Trade Agreements (RTAs) are another tool used to liberalize trade. RTAs are agreements between two or more countries on the terms of trade, the most well-known being in the form of Free Trade Agreements (FTAs). The proliferation of RTAs has been large and complex. They have moved from formal, geographically related groupings such as the European Union with coverage over almost all trading sectors in the economy to more general agreements between nations as geographically separate as Australia and Chile.

Although RTAs are for the most part outside the trade negotiations under the WTO arrangements, the WTO has recognized that they can contribute to international trade liberalization in Article XXIV of GATT and Article V of GATS. The WTO provides some guidance on RTAs and requires that they cover substantially all sectors of the trading economy and that they do not result in barriers being raised on third parties who are not members of the RTA in question.

Most ESCAP member economies, whether they are members of the WTO or not, are also signatories to one or more RTA. The most well-known RTAs in the ESCAP region include the Asia-Pacific Economic Cooperation (APEC) grouping, the Association of South East Asian Nations (ASEAN) and the Economic Cooperation Organization (ECO). RTAs have proliferated in the last decade, particularly after the Asian financial crisis. It has been argued that RTAs developed post 1997-1998 constitute a significant shift in the Asia-Pacific international trade negotiations.139

Nations join RTAs for a number of reasons. The usual rationale for an RTA is that it can go further than multilateral and free trade agreements. RTAs often involve trade liberalization tools such as common markets and customs unions that would be difficult to impossible to develop under the current WTO

multilateral arrangements. One of the criticisms of the WTO arrangements is that the pace of progress is impeded by the slowest member nation to reform. RTAs circumvent this problem as it can bring together nations of similar levels of trade liberalization. Thus, RTAs allow nations to proceed faster in trade liberalization than the current WTO arrangements allow. Governments may also endeavour to foster an RTA so that they can trade in goods or services that they would not be competitive in an international market. In this case a regional trade agreement may provide incentives for one country to purchase goods and services from another although a country outside the RTA may be able to provide items more efficiently.\footnote{140}

There is still much debate about the long-term impact of RTAs both on trade between member nations and on the liberalization of trade more widely. It has been already noted that some RTAs will have a trade diversion affect that will be to the detriment of third parties. It has also been argued that RTAs also have a number of other significant problems. As table XII.1 indicates, a number of nations are party to many RTAs and are also often involved in multilateral trade negotiations. Keeping track of the entry requirements and tariff levels and implementing different rules of origin (ROOs) will ultimately lead to a more complex and less transparent trading system. This also leads to significant transaction and administration costs. Although the WTO requires that RTAs include most of the major trading sectors, a number of RTAs do not seem to be following this guidance. For example, a number of Free Trade Agreements do not cover the agricultural sector. The WTO has argued that this flexibility is detrimental and that multilateral negotiations would be a more appropriate arena for agreements so that trade offs can be found.\footnote{141}

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|}
\hline
RTA & Member countries & Date of entry into force/status \\
\hline
ACFTA & Brunei Darussalam, Cambodia, China, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam & 2005 \\
\hline
APEC & Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russian Federation, Singapore, Taiwan Province of China, Thailand, United States and Viet Nam & 1989 \\
\hline
AUSCHINFTA & Australia and China & Under negotiation since 2005 \\
\hline
ARMUKRFTA & Armenia, Ukraine and Viet Nam & 1996 \\
\hline
ASEAN & Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam & 1992 \\
\hline
ASEANCERFTA & Australia, Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, New Zealand, the Philippines, Singapore, Thailand and Viet Nam & Under negotiation since 2004 \\
\hline
AFTA-CER & Australia, Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand and Viet Nam & Proposed \\
\hline
BHUNDFTA & Bhutan and India & 1995 \\
\hline
BIMSTEC & Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand & Under negotiation since 2004 \\
\hline
\end{tabular}
\caption{Principal RTAs involving ESCAP countries}
\end{table}

\footnote{141} Ibid.
<table>
<thead>
<tr>
<th>RTA</th>
<th>Member countries</th>
<th>Date of entry into force/status</th>
</tr>
</thead>
<tbody>
<tr>
<td>BKKAGR</td>
<td>Bangladesh, China, India, Lao People’s Democratic Republic, Republic of Korea and Sri Lanka</td>
<td>1975</td>
</tr>
<tr>
<td>CACO</td>
<td>Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan and Uzbekistan</td>
<td>2002</td>
</tr>
<tr>
<td>CER</td>
<td>Australia and New Zealand</td>
<td>1983</td>
</tr>
<tr>
<td>CHNMAKCEPA</td>
<td>China and Macao SAR</td>
<td>2004</td>
</tr>
<tr>
<td>CISFTA</td>
<td>Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan</td>
<td>1994</td>
</tr>
<tr>
<td>ECOTA</td>
<td>Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan and Uzbekistan</td>
<td>2002</td>
</tr>
<tr>
<td>GEOARMFTA</td>
<td>Armenia and Georgia</td>
<td>1998</td>
</tr>
<tr>
<td>GEORUSFTA</td>
<td>Georgia and Russian Federation</td>
<td>1994</td>
</tr>
<tr>
<td>INDLKABTA</td>
<td>India and Sri Lanka</td>
<td>2001</td>
</tr>
<tr>
<td>INDPILTOT</td>
<td>India and Nepal</td>
<td>1991</td>
</tr>
<tr>
<td>INDSGPCECA</td>
<td>India and Singapore</td>
<td>2005</td>
</tr>
<tr>
<td>ASEAN – India</td>
<td>Cambodia, India, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam</td>
<td>2004</td>
</tr>
<tr>
<td>JPNTHAEP</td>
<td>Japan and Thailand</td>
<td>Under negotiation since 2004</td>
</tr>
<tr>
<td>JSEPA</td>
<td>Japan and Singapore</td>
<td>2002</td>
</tr>
<tr>
<td>AJCEP</td>
<td>Brunei Darussalam, Cambodia, Indonesia, Japan, Lao People’s Democratic Republic, Malaysia, the Philippines, Singapore, Thailand and Viet Nam</td>
<td>2004</td>
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<tr>
<td>KAZARMFTA</td>
<td>Armenia and Kazakhstan</td>
<td>2001</td>
</tr>
<tr>
<td>KIRARMFTA</td>
<td>Armenia and Kyrgyzstan</td>
<td>1995</td>
</tr>
<tr>
<td>KORCHLFTA</td>
<td>Republic of Korea and Chile</td>
<td>2004</td>
</tr>
<tr>
<td>ASEAN – Korea Free Trade Agreement</td>
<td>Brunei Darussalam, Cambodia, Indonesia, Republic of Korea, Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam</td>
<td>2005</td>
</tr>
<tr>
<td>LAOTHAPA</td>
<td>Lao People’s Democratic Republic and Thailand</td>
<td>1991</td>
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<td>MYSNLFTA</td>
<td>Malaysia and New Zealand</td>
<td>Under negotiation since 2005</td>
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<tr>
<td>MYSUSATIF</td>
<td>Malaysia and Pakistan</td>
<td>Under Negotiation since 2005</td>
</tr>
<tr>
<td>NZLTHACEP</td>
<td>New Zealand and Thailand</td>
<td>2005</td>
</tr>
<tr>
<td>RUSARMFTA</td>
<td>Russian Federation and Armenia</td>
<td>1993</td>
</tr>
<tr>
<td>SAARCFTA</td>
<td>Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka</td>
<td>Effective from 2006</td>
</tr>
<tr>
<td>SAFTA</td>
<td>Australia and Singapore</td>
<td>2003</td>
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</table>
Table XII.1. (continued)

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<thead>
<tr>
<th>RTA</th>
<th>Member countries</th>
<th>Date of entry into force/status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPARTECA</td>
<td>Australia, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa</td>
<td>1981</td>
</tr>
<tr>
<td>USSFTA</td>
<td>Singapore and United States of America</td>
<td>2004</td>
</tr>
<tr>
<td>Singapore – EFTA</td>
<td>Iceland, Liechtenstein, Norway, Singapore and Switzerland</td>
<td>In force in 2003</td>
</tr>
<tr>
<td>SGPCANFTA</td>
<td>Singapore and Canada</td>
<td>2001</td>
</tr>
<tr>
<td>SGPMEXFTA</td>
<td>Singapore and Mexico</td>
<td>2000</td>
</tr>
<tr>
<td>TAFTA</td>
<td>Australia and Thailand</td>
<td>2005</td>
</tr>
<tr>
<td>THABHRFA</td>
<td>Bahrain and Thailand</td>
<td>2003</td>
</tr>
<tr>
<td>TUREUCU</td>
<td>Turkey and European Union</td>
<td>1996</td>
</tr>
</tbody>
</table>


4. Existing Trade Agreements: Case Study – Focuses and Priorities of ASEAN

During the leaders’ summit of the Association of South-East Asia in Bali in October 2003, it was agreed to accelerate liberalization in 11 priority sectors. Eight of these sectors involve trade in physical goods, while three relate to trade in services. In 2003, these sectors accounted for more than 50 per cent of intra-ASEAN trade, while in value terms, they contributed US$ 48.4 billion and US$ 43.4 billion of intra-ASEAN exports and imports. The priority sectors are:

(a) agro-based products;
(b) air travel;
(c) automotives;
(d) e-ASEAN;
(e) electronics;
(f) fisheries;
(g) healthcare;
(h) rubber-based products;
(i) textiles and apparels;
(j) tourism; and
(k) wood-based products.

Figure XII.1 shows intra-ASEAN exports of goods in the priority sectors as a proportion of total intra-ASEAN trade in goods in 2001. Collectively, goods in these sectors account for approximately 44 per cent by value of total intra-ASEAN exports. By far the largest share of this comes from ICT exports, which alone accounts for nearly 28 per cent by value of total intra-ASEAN exports. Agro-based exports account for a little over 5 per cent, while electronic goods (other than IT components and equipment) account for nearly 4 per cent.

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143 The commitment to the accelerated liberalization of these priority sectors is more fully articulated in the ASEAN Framework Agreement for the Integration of Priority Sectors. See: <http://www.aseansec.org/16656.htm>. Visited 1 December 2005.
5. Emerging Trade Agreements: Case Study, East Asian Summit (EAS)

Trade agreements among countries and regions change over time with the emergence of external economic and political scenarios; one such scenario was the formation of the European Union. As a result, new agreements are negotiated (and existing ones re-negotiated) in order to strengthen (and create new) economic and political relations.

An example of an emerging trade agreement within the ESCAP region is the East Asian Summit (EAS). Whilst still in its planning stages, the EAS aims to provide a framework that can ‘hold its own’ in future negotiations with the United States, European Union and other emerging economic entities. Malaysia, the main advocate of the EAS, sees in it the birth of a ‘new’ Asia and is a lasting legacy from former Malaysian prime-minister Mahathir Mohamed, who first promoted the idea of an East Asian Economic Caucus back in 1990.144

Other key advocates of the EAS are Malaysian Prime Minister Abdullah Ahmad Badawi and Philippine President Gloria Arroyo, who called for ASEAN to embrace China, Japan, Republic of Korea and India into a larger grouping. Some ASEAN countries have suggested inviting India, Australia and New Zealand into the new forum.

Differences of opinion and strategy among ASEAN members still remain about its future membership and the modalities of organization. The inaugural EAS meeting has not yet been held – it is planned for Kuala Lumpur in December 2005.

C. Spreading the benefits of globalization through transport infrastructure development

Benefits of globalization tend to be attributed to countries as a whole; benefits are expressed as overall gains to an economy – such as a percentage increase in aggregate economic growth or in trade throughput. Sometimes, however, particular geographic regions or sectors within an economy do not receive the immediate or flow-on effects of globalization. For example, 83 per cent of China’s foreign trade

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occurs within coastal provinces, however, only 37 per cent of the population lives within these provinces. China has also witnessed a large increase in trade over the past two decades but the vast majority of this trade increase has been within these coastal provinces; the maritime industry has benefited greatly from this increased foreign trade. However, regions such as Western China have not historically seen the same rapid growth rates as a result of the increase of foreign trade level in the coastal provinces of China. The Government of China has recognized this disparity, and in recent years sought consultation with the World Bank. One outcome of these consultations was a report titled “Container Transport Services and Trade.” It seeks to develop intermodal links along selected corridors between gateway ports and inland destinations. Ultimately, the aim will be to reduce the disparity in foreign trade between coastal and inland provinces by improving the transport infrastructure of the connecting areas. The first two corridors nominated for improvement in this report were: (1) Tianjin Port – Hebei Provinces and Inner Mongolia Province; and (2) Shanghai Port – Zhejiang Province.

Foreign trade has also increased rapidly within the Philippines as a result of globalization in the past two decades. However, much like China, these benefits were initially seen within coastal regions and particular islands rather than being broadly dispersed among geographic areas. The Medium-Term Philippine Development Plan (MTPDP) for 2005-2010 is an attempt to provide for the prioritization and development of Roll-on Roll-off (RORO) shipping through the establishment of the Nautical Highway System composed of the Western, Eastern and Central Nautical Highway System.¹⁴⁵

The project aims to enhance investment opportunities for agro-industrial, commerce, trade and tourism, and also provide efficient and convenient travel movement of local and international tourists and investors through shorter travel time and cheaper transportation costs.¹⁴⁶ In particular, the nautical highway aims to accelerate the development of the country’s southern islands by opening an alternative and low-cost trade, travel, and tourism route in the country’s looming western growth corridor by making Oriental Mindoro as its gateway.¹⁴⁷

The nautical highway system, which was introduced in 2003 to maximize the use of the RORO system, has reduced travel time by 10 hours and reduced cost by 40 per cent for passengers and 30 per cent for cargo.¹⁴⁸

¹⁴⁷ Ibid.
