# A way out of preferential deals

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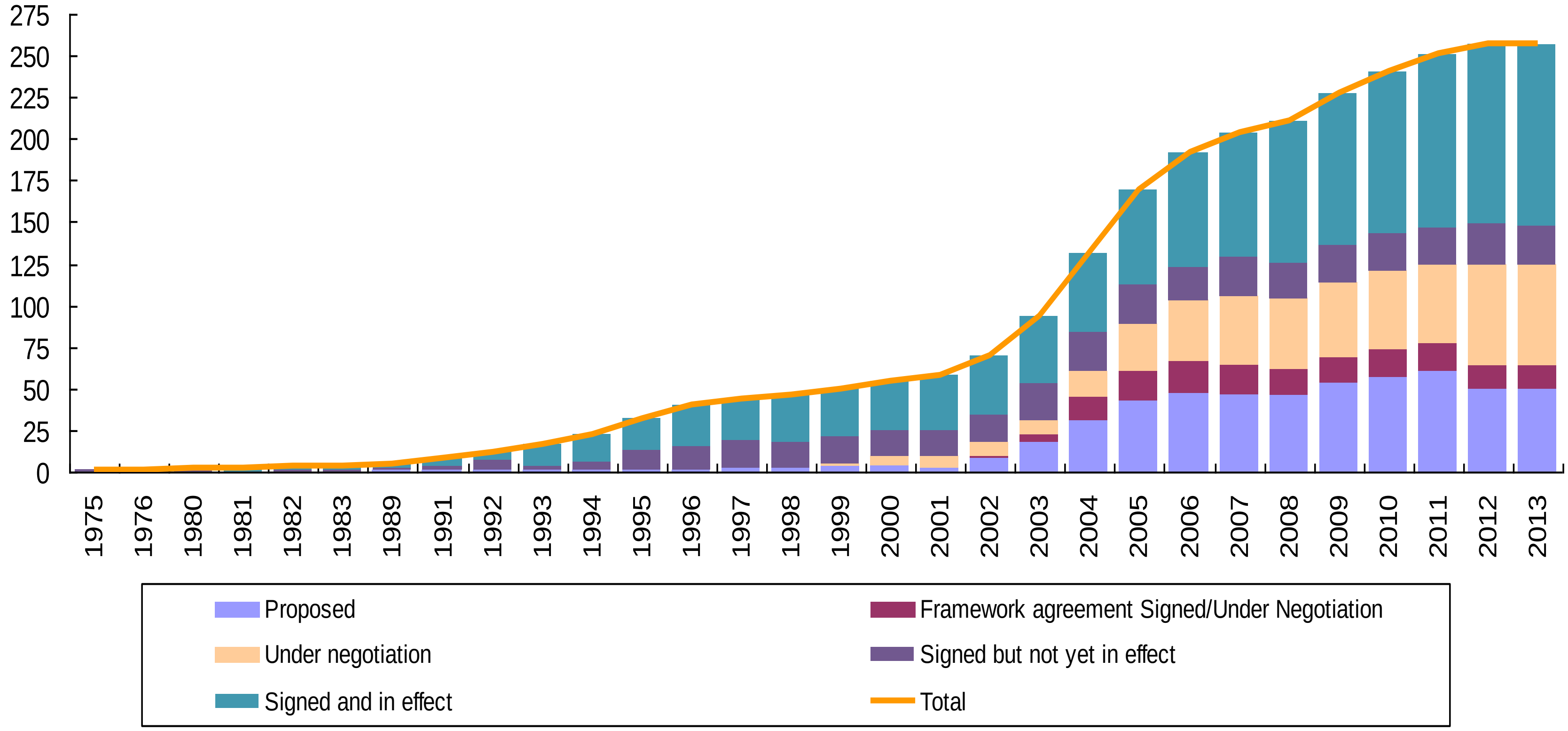
# Outline

- State of Play- FTAs proliferation
- How much trade is, or will, be covered?
- How much trade travels preferentially?
- FTAs and NTBs- the right instrument?
- The Way Forward

# State of Play- FTAs proliferation

- Asia-Pacific party to 109 ratified FTAs, with more being negotiated
- How many FTAs do we need?
- Most bilateral, with 2 mega proposals
- Most involve ASEAN+6 countries

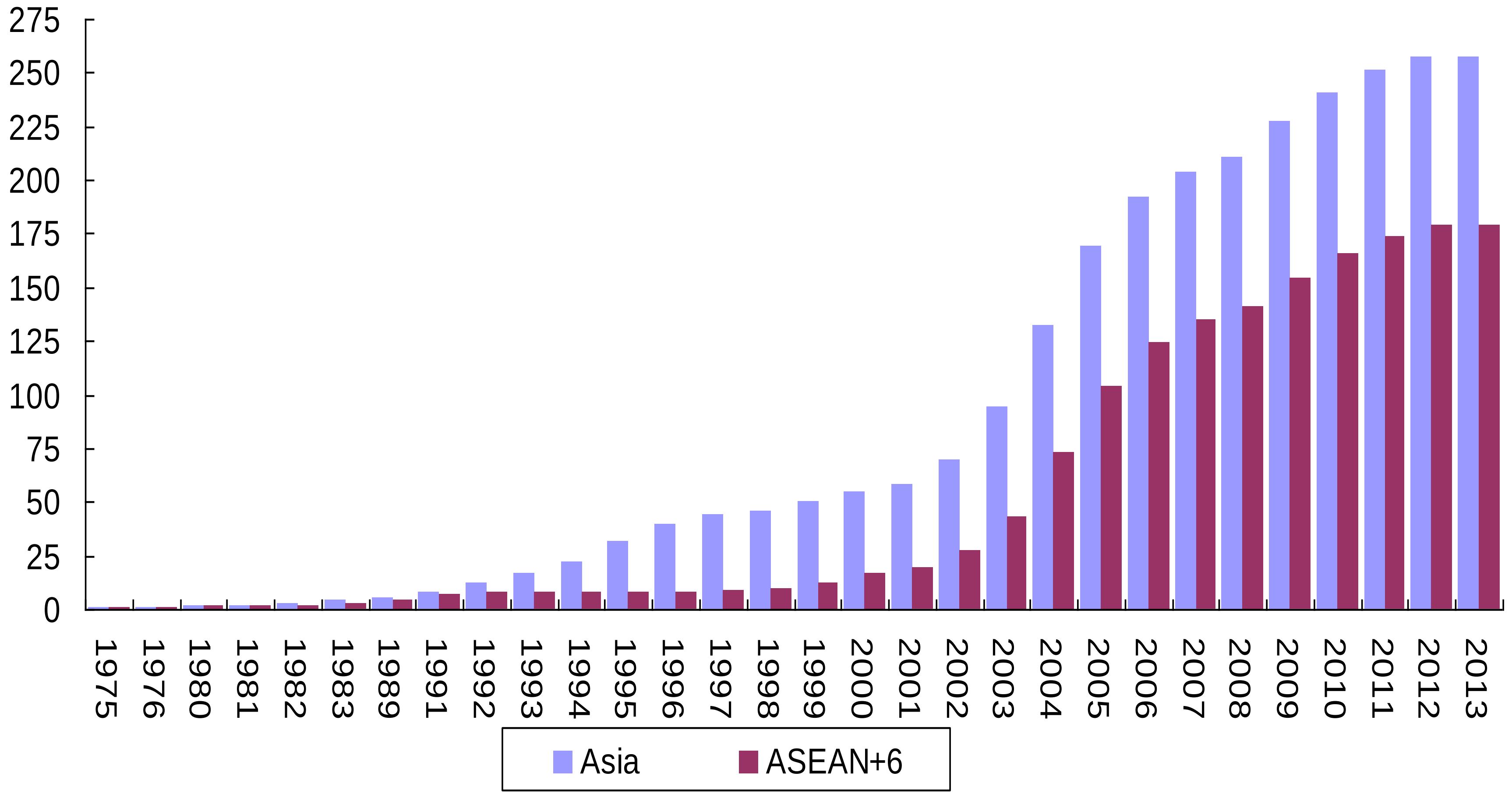
# FTAs by Status—Total Asia (cumulative), selected years




Notes: **Proposed** = the parties consider an FTA; governments or relevant ministries issue a joint statement on its desirability or establish a joint study group/joint task force to conduct feasibility studies. **Framework agreement signed/under negotiation** = the parties, through relevant ministries, negotiate the contents of a framework agreement (FA) that serves as a framework for future negotiations. **Under negotiation** = the parties, through relevant ministries, declare the official launch of negotiations, or start the first round of negotiations. **Signed but not yet in effect** = the parties sign the agreement after negotiations have been completed, but the agreement has yet to become effective. **Signed and in effect** = FTA provisions

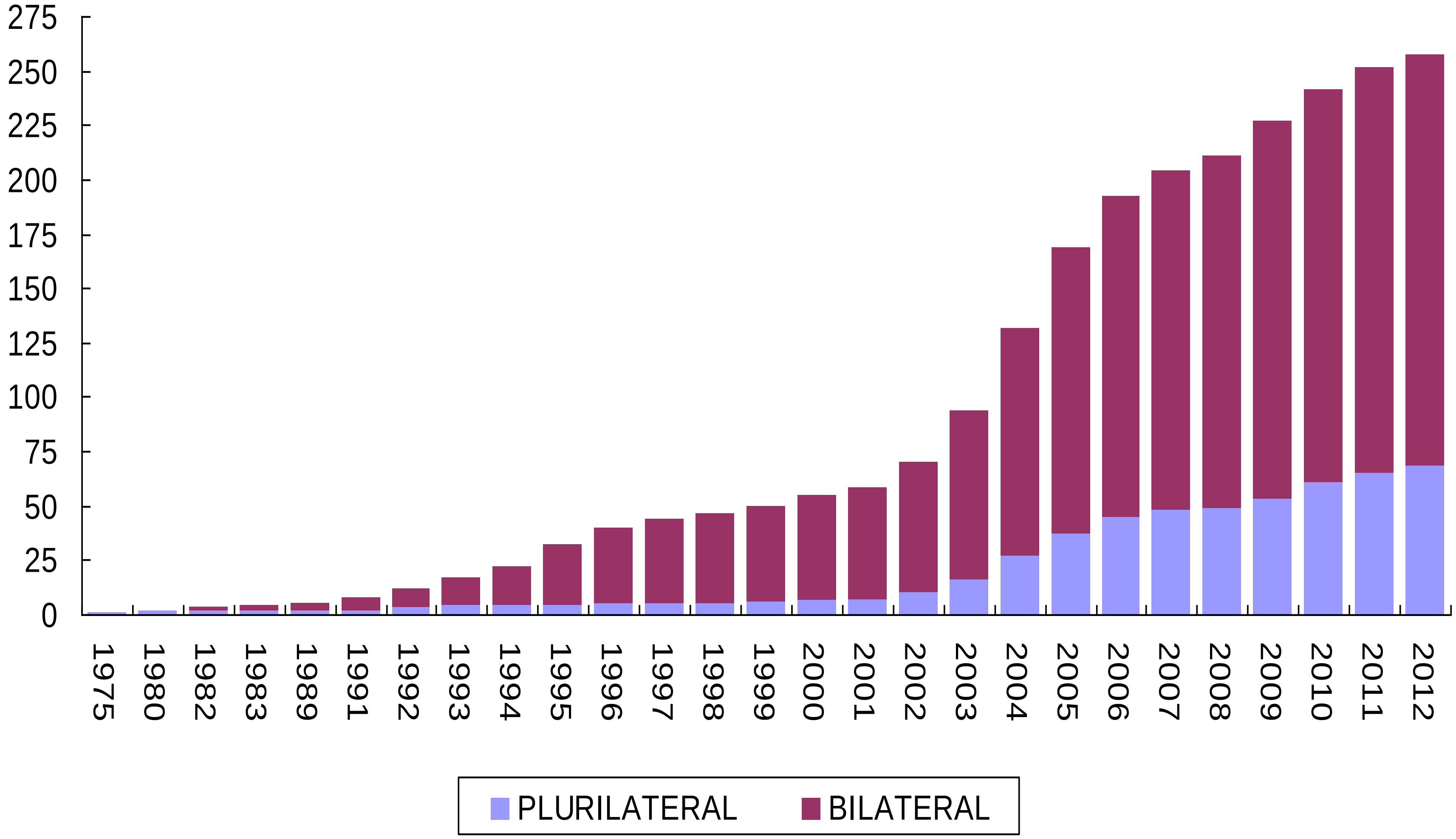
**Source**: ARIC FTA database (as of January 2013), Asian Development Bank.

# FTAs—Total Asia and ASEAN+6 (cumulative), selected years




**Source:** ARIC FTA database (as of January 2013), Asian Development Bank.

# FTAs by Scope—Total Asia (cumulative), selected years




**Source**: ARIC FTA database (as of January 2013), Asian Development Bank.

# Bilateral FTAs within ASEAN+6

| Country | Proposed | Under Negotiation or Signed but not yet in effect | Signed and in effect | Total Number of FTAs |
|---|---|---|---|---|
| **Australia (AUS)** | | JPN; IND; INO; KOR; PRC | NZ; MAL; SIN; THA | **9** |
| **Brunei Darussalam (BRU)** | | | JPN | **1** |
| **China, P.R. (PRC)** | IND | AUS, KOR | NZ; SIN; THA | **6** |
| **India (IND)** | PRC | AUS; INO; NZ; THA | JPN; KOR; MAL; SIN | **9** |
| **Indonesia (INO)** | | AUS; IND; KOR | JPN | **4** |
| **Japan (JPN)** | KOR; NZ | AUS | BRU; IND; INO; MAL; PHI; SIN; THA; VIE | **11** |
| **Korea, Rep. (KOR)** | JPN; MAL; THA | AUS; INO; NZ; PRC; VIE | IND; SIN | **10** |
| **Lao PDR (LAO)** | | | THA | **1** |
| **Malaysia (MAL)** | KOR | | AUS; IND; JPN; NZ | **5** |
| **New Zealand (NZ)** | JPN | IND; KOR | AUS; MAL; PRC; SIN; THA | **8** |
| **Philippines (PHI)** | | | JPN | **1** |
| **Singapore (SIN)** | | | AUS; IND; JPN; KOR; PRC; NZ | **6** |
| **Thailand (THA)** | KOR | IND | AUS; JPN; LAO; PRC; NZ | **7** |
| **Viet Nam (VIE)** | | KOR | JPN | **2** |
| **Total # of FTAs** | **5*** | **12*** | **23*** | **40*** |

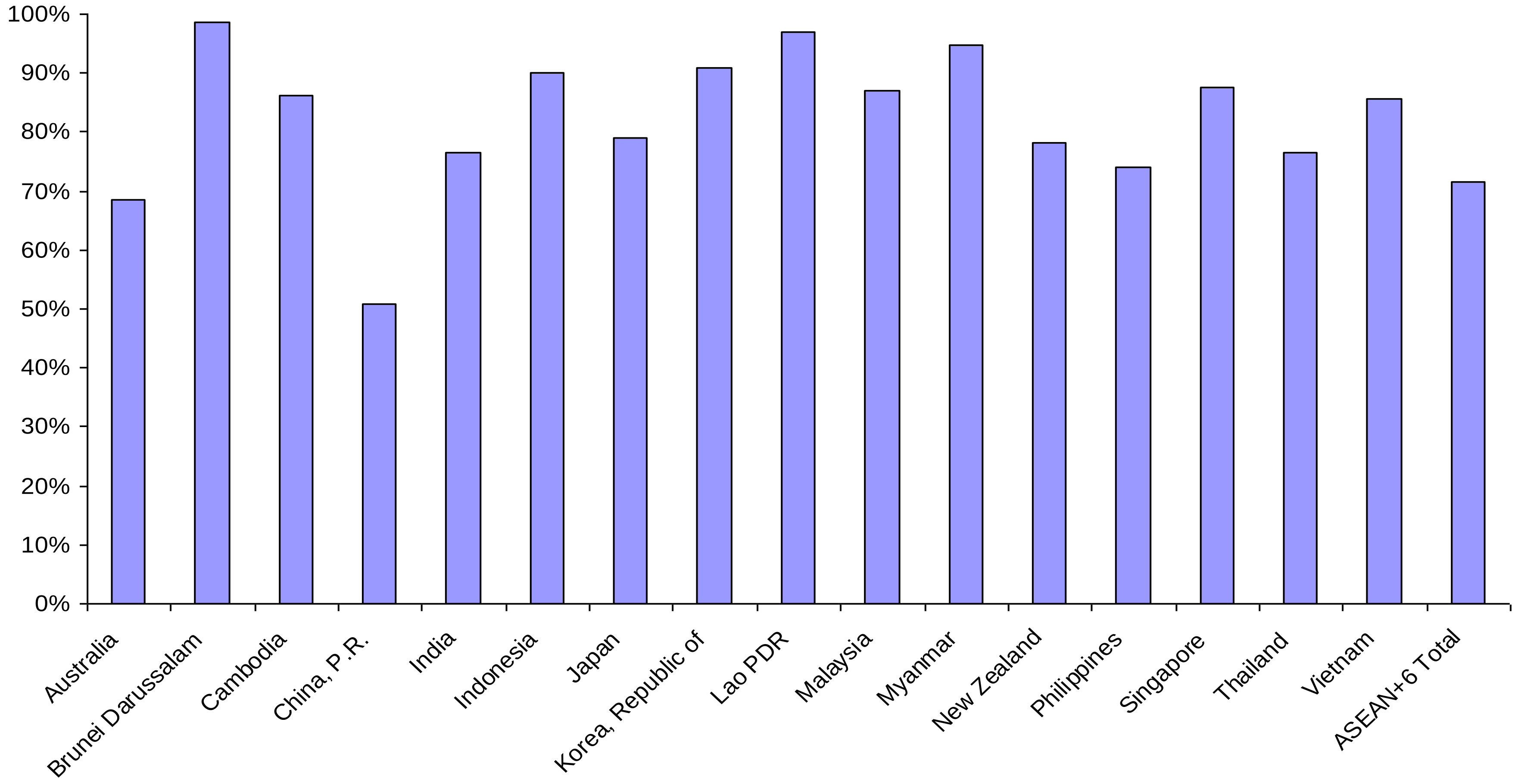
* Unique FTAs (to avoid double counting). Cambodia and Myanmar have no bilateral FTAs.

**Source:** ADB ARIC FTA database

# How much trade is or will be covered

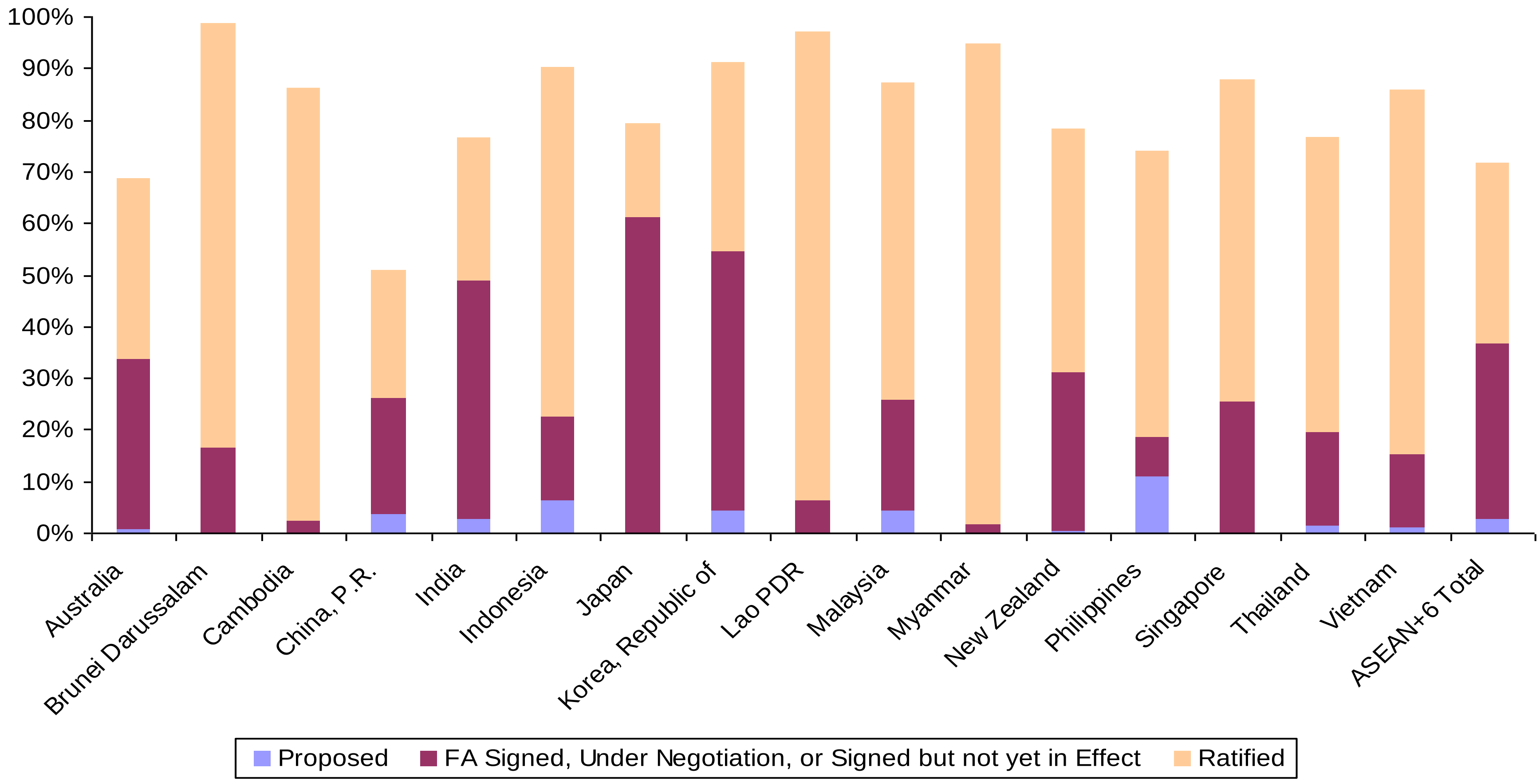
- Matching trade flows with existing or FTAs under negotiation, we find that, apart from China and Australia, ¾ of imports covered or about to be covered
- For ASEAN+6 as a group, more than 1/3 of imports already covered by FTAs, with another 1/3 about to be
- Similar patterns for exports

# ASEAN+6 Imports from FTA partners as % of Total Imports, 2011




**Source:** Author's computations based on data from IMF Direction of Trade Statistics, data downloaded May 2013

# ASEAN+6 Imports from FTA Partners as % of Total Imports—by FTA Status, 2011




**Source:** Author's computations based on data from IMF Direction of Trade Statistics, data downloaded May 2013

| Goods, Value of Imports from FTA Partners ($ million) and Share in Total Imports, 2011 | | | | |
|---|---|---|---|---|
| **Country** | **Proposed** | **Under Negotiation or Signed but not yet in effect** | **Ratified** | **Total Imports from FTA partners** |
| Australia | 2,073.5 | 85,313.3 | 91,051.7 | 178,438.5 |
| | 0.8% | 32.8% | 35.0% | 68.6% |
| Brunei Darussalam | | 1,051.8 | 5,267.9 | 6,319.7 |
| | 0.0% | 16.4% | 82.3% | 98.7% |
| Cambodia | 19.4 | 285.9 | 10,568.0 | 10,873.3 |
| | 0.2% | 2.3% | 83.7% | 86.1% |
| China, P.R. | 61,403.0 | 393,988.8 | 428,091.6 | 883,483.4 |
| | 3.5% | 22.6% | 24.6% | 50.7% |
| India | 11,643.6 | 215,069.2 | 128,698.3 | 355,411.1 |
| | 2.5% | 46.2% | 27.7% | 76.4% |
| Indonesia | 11,206.3 | 28,483.0 | 119,985.7 | 159,675.0 |
| | 6.3% | 16.1% | 67.6% | 90.0% |
| Japan | 516.3 | 520,084.7 | 155,639.9 | 676,240.9 |
| | 0.1% | 60.8% | 18.2% | 79.1% |
| Korea, Republic of | 23,301.3 | 261,776.9 | 191,875.3 | 476,953.5 |
| | 4.4% | 49.9% | 36.6% | 90.9% |
| Lao PDR | 0.3 | 292.5 | 4,198.5 | 4,491.2 |
| | 0.0% | 6.3% | 90.6% | 96.9% |
| Malaysia | 8,199.9 | 40,083.8 | 114,938.2 | 163,222.0 |
| | 4.4% | 21.4% | 61.3% | 87.0% |
| Myanmar | 8.8 | 206.7 | 12,756.1 | 12,971.6 |
| | 0.1% | 1.5% | 93.2% | 94.8% |
| New Zealand | 176.3 | 11,247.1 | 17,244.7 | 28,668.0 |
| | 0.5% | 30.6% | 47.0% | 78.1% |
| Philippines | 6,586.1 | 4,447.1 | 33,452.5 | 44,485.7 |
| | 10.9% | 7.4% | 55.6% | 74.0% |
| Singapore | 141.6 | 92,555.1 | 228,260.1 | 320,956.8 |
| | 0.0% | 25.3% | 62.4% | 87.7% |
| Thailand | 3,061.9 | 41,233.9 | 131,155.0 | 175,450.9 |
| | 1.3% | 18.0% | 57.2% | 76.6% |
| Vietnam | 1,061.7 | 14,638.9 | 73,933.8 | 89,634.4 |
| | 1.0% | 14.0% | 70.7% | 85.8% |
| **ASEAN+6 Total** | **129,400.1** | **1,710,758.8** | **1,747,117.4** | **3,587,276.3** |
| | **2.6%** | **34.2%** | **34.9%** | **71.6%** |

**Source:** IMF Direction of Trade Statistics, data downloaded May 2013

## Goods, Value of Exports to FTA Partners ($ million) and Share in Total Exports, 2011

| Country | Proposed | Under Negotiation or Signed but not yet in effect | Ratified | Total Exports to FTA partners |
|---|---|---|---|---|
| Australia | 1,221.8 | 171,807.1 | 49,213.9 | 222,242.8 |
| | 0.5% | 63.4% | 18.2% | 82.0% |
| Brunei Darussalam | | 45.1 | 11,332.0 | 11,377.1 |
| | 0.0% | 0.4% | 98.7% | 99.1% |
| Cambodia | 0.2 | 1,683.6 | 1,371.6 | 3,055.4 |
| | 0.0% | 25.8% | 21.1% | 46.9% |
| China, P.R. | 65,252.7 | 250,016.5 | 612,477.6 | 927,746.8 |
| | 3.4% | 13.1% | 32.2% | 48.8% |
| India | 6,470.5 | 121,151.0 | 85,943.5 | 213,565.0 |
| | 2.1% | 39.4% | 28.0% | 69.5% |
| Indonesia | 16,711.6 | 31,688.3 | 134,433.4 | 182,833.3 |
| | 8.2% | 15.6% | 66.1% | 89.8% |
| Japan | 3,073.6 | 373,812.0 | 156,778.2 | 533,663.8 |
| | 0.4% | 45.3% | 19.0% | 64.7% |
| Korea, Republic of | 32,854.3 | 213,653.9 | 213,020.0 | 459,528.1 |
| | 5.8% | 38.0% | 37.9% | 81.7% |
| Lao PDR | 0.05 | 282.1 | 2,342.4 | 2,624.6 |
| | 0.0% | 9.0% | 75.1% | 84.1% |
| Malaysia | 6,451.9 | 48,901.1 | 143,227.3 | 198,580.4 |
| | 2.8% | 21.4% | 62.7% | 87.0% |
| Myanmar | 55.4 | 361.5 | 7,115.7 | 7,532.6 |
| | 0.7% | 4.3% | 85.6% | 90.6% |
| New Zealand | 350.6 | 9,409.4 | 17,925.1 | 27,685.1 |
| | 0.9% | 25.0% | 47.6% | 73.5% |
| Philippines | 7,154.2 | 5,950.6 | 26,617.5 | 39,722.2 |
| | 14.8% | 12.3% | 55.2% | 82.4% |
| Singapore | 1,332.9 | 52,044.1 | 272,857.4 | 326,234.4 |
| | 0.3% | 12.6% | 66.2% | 79.1% |
| Thailand | 3,976.0 | 52,744.6 | 121,767.4 | 178,488.1 |
| | 1.8% | 24.0% | 55.3% | 81.0% |
| Vietnam | 1,455.7 | 34,888.9 | 44,429.3 | 80,773.9 |
| | 1.6% | 37.6% | 47.8% | 87.0% |
| **ASEAN+6 Total** | **146,361.5** | **1,368,439.8** | **1,900,852.3** | **3,415,653.5** |
| | **2.9%** | **26.8%** | **37.3%** | **67.0%** |

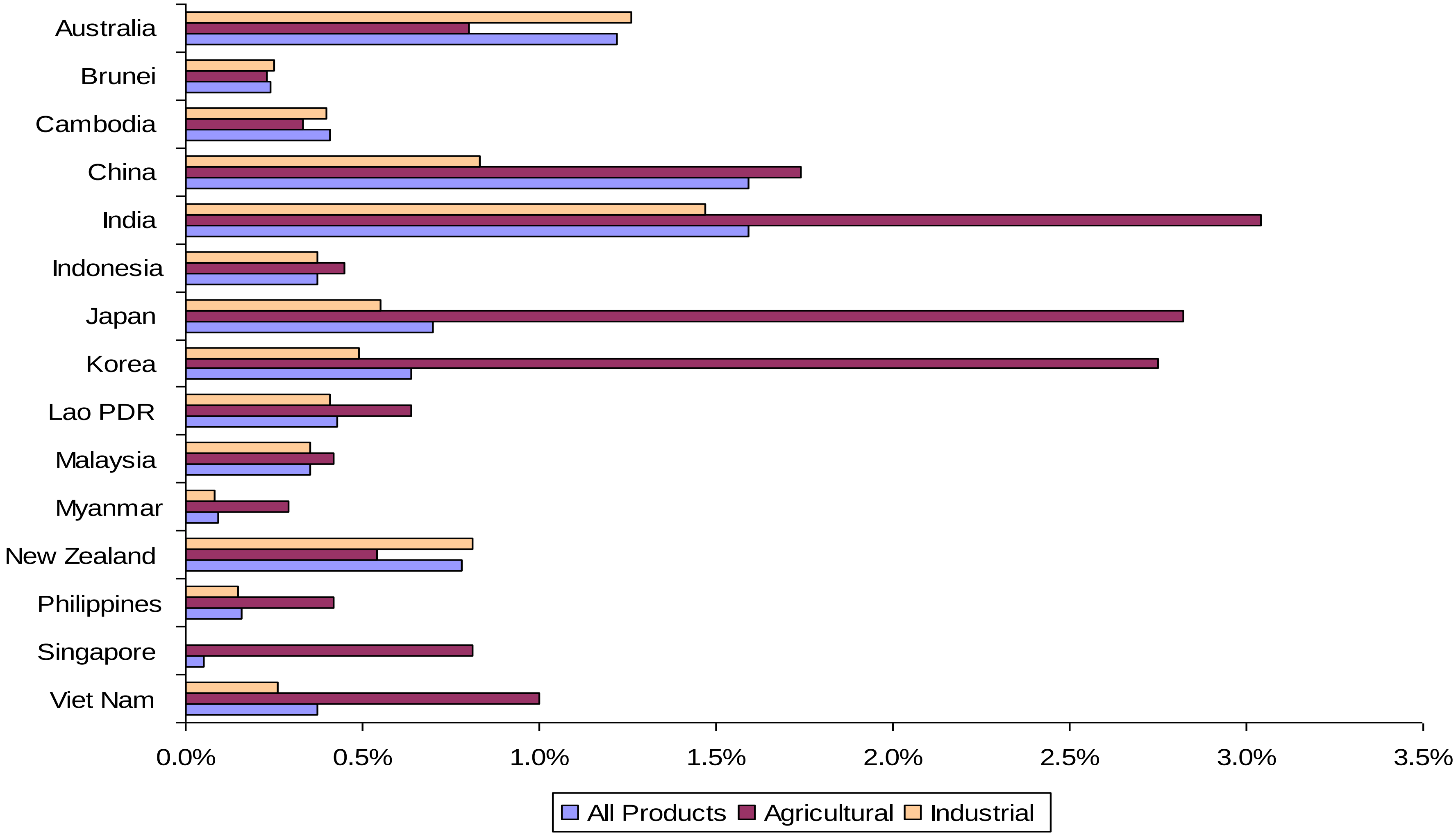
**Source:** IMF Direction of Trade Statistics, data downloaded May 2013

| Volume of Trade with FTA Partners ($ million), and Shares in Total Trade, 2011 | | | | |
|---|---|---|---|---|
| **Country** | **Proposed** | **Under Negotiation or Signed but not yet in effect** | **Ratified** | **Total Trade with FTA Partners** |
| Australia | 3,295.3 | 257,120.5 | 140,265.5 | 400,681.3 |
| | 0.6% | 48.4% | 26.4% | 75.4% |
| Brunei Darussalam | | 1,096.9 | 16,599.9 | 17,696.8 |
| | 0.0% | 6.1% | 92.8% | 99.0% |
| Cambodia | 19.5 | 1,969.5 | 11,939.6 | 13,928.7 |
| | 0.1% | 10.3% | 62.4% | 72.8% |
| China, P.R. | 126,655.8 | 644,005.3 | 1,040,569.2 | 1,811,230.3 |
| | 3.5% | 17.7% | 28.6% | 49.7% |
| India | 18,114.1 | 336,220.3 | 214,641.8 | 568,976.1 |
| | 2.3% | 43.5% | 27.8% | 73.7% |
| Indonesia | 27,917.9 | 60,171.3 | 254,419.1 | 342,508.3 |
| | 7.3% | 15.8% | 66.8% | 89.9% |
| Japan | 3,589.9 | 893,896.6 | 312,418.2 | 1,209,904.7 |
| | 0.2% | 53.2% | 18.6% | 72.1% |
| Korea, Republic of | 56,155.6 | 475,430.8 | 404,895.2 | 936,481.6 |
| | 5.2% | 43.7% | 37.3% | 86.2% |
| Lao PDR | 0.3 | 574.6 | 6,540.9 | 7,115.8 |
| | 0.0% | 7.4% | 84.3% | 91.8% |
| Malaysia | 14,651.8 | 88,984.9 | 258,165.6 | 361,802.3 |
| | 3.5% | 21.4% | 62.1% | 87.0% |
| Myanmar | 64.3 | 568.2 | 19,871.8 | 20,504.2 |
| | 0.3% | 2.6% | 90.3% | 93.2% |
| New Zealand | 526.9 | 20,656.5 | 35,169.7 | 56,353.1 |
| | 0.7% | 27.8% | 47.3% | 75.7% |
| Philippines | 13,740.2 | 10,397.7 | 60,070.0 | 84,208.0 |
| | 12.7% | 9.6% | 55.4% | 77.7% |
| Singapore | 1,474.5 | 144,599.2 | 501,117.6 | 647,191.3 |
| | 0.2% | 18.6% | 64.4% | 83.2% |
| Thailand | 7,038.0 | 93,978.5 | 252,922.4 | 353,939.0 |
| | 1.6% | 20.9% | 56.3% | 78.8% |
| Vietnam | 2,517.5 | 49,527.8 | 118,363.1 | 170,408.3 |
| | 1.3% | 25.1% | 60.0% | 86.3% |
| **ASEAN+6 Total** | **275,761.6** | **3,079,198.6** | **3,647,969.7** | **7,002,929.8** |
| | 2.7% | 30.5% | 36.1% | 69.3% |

# How much travels preferentially?

- Margins of preference (MoPs) are small
- Highest for agri, in Japan, Korea and India, but still small overall
- 20% of intra-ASEAN trade preferential
- 73% of intra-ASEAN trade at MFN zero, with more than 90% for some bilaterals
- High share of product fragmentation trade

# Margins of Preference (ITC May 2013 data)




**Note**: Data unavailable for Thailand. In the calculation of MFN tariff averages, general tariffs (for non-WTO members) and non-MFN tariffs are included.

**Source:** ITC Market Access Map Country Tariff Averages, downloaded May 2013

# Preferential trade by agreement/type of regime, 2008, selected regimes

| Regime | Share of trade by preferential margin (PM) and MFN rate (in per cent of total trade) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Preferential Trade | | | | | | Total Non-Preferential, >0 | Total MFN Zero | Trade weighted pref. margin (percentage points) |
| | Total Preferential | PM>20% | PM 10.1% to 20% | PM 5.1% to 10% | PM 2.6% to 5% | PM 0.1% to 2.5% | | | |
| Intra-ASEAN | 20.1 | 2.0 | 2.0 | 2.6 | 4.7 | 8.7 | 3.6 | 72.9 | 1.7 |
| Singapore-USA | 7.2 | 0.2 | 0.2 | 0.6 | 4.8 | 1.4 | 0.0 | 92.7 | 0.3 |
| Japan-Singapore | 3.1 | 0.0 | 0.0 | 0.1 | 2.4 | 0.6 | 1.9 | 94.0 | 0.1 |
| Australia-Singapore | 6.4 | 0.0 | 0.0 | 0.2 | 6.1 | 0.0 | 0.0 | 93.6 | 0.4 |
| India-Singapore | 20.0 | 0.0 | 0.0 | 8.7 | 6.6 | 4.6 | 16.2 | 59.6 | 1.0 |

**Source:** WTO World Trade Report, 2011

# FTAs and NTBs-the right instrument?

- Many studies (eg WTO, 2011) confirm the failure of most Asian FTAs to deepen coverage to deal with trade facilitation and behind the border issues
- Even if they deepen, the need to be discriminatory in the exchange of concessions suggests problems
- Unlike tariffs, costly or impractical to remove NTBs or NTMs preferentially

# The Way Forward

- Bali has shown that multilateral deals are still possible, sector-wise at least
- Single undertaking unlikely, and maybe even less so now, but still may not be enough
- It would dilute preferences but not remove them
- Regionalism has remained, indeed thrived, despite many successful GATT Rounds

# The Way Forward

- Time is ripe to seriously consider multilateralization of preferences as a way out of current mess of preferential deals- with or without more multilateralism
- History supports viability of unilateralism
- Very small share of trade travels preferentially at a high cost of implementing FTAs
- For NTBs, incumbency issue requires national reforms

# Impacts of Liberalization Scenarios
(% deviation from baseline, 2020; from Menon (2013))

| | Preferential liberalization, complete utilization | Preferential liberalization, incomplete utilization | Multilateralization of preferences | Multilateralization of preferences, with reciprocity, complete utilization | Multilateralization of preferences, with reciprocity, incomplete utilization | Global liberalization |
|---|---|---|---|---|---|---|
| World real GDP | 0.022 | 0.010 | 0.068 | 0.228 | 0.106 | 0.346 |
| ASEAN+3 real GDP | 0.252 | 0.076 | 0.658 | 1.011 | 0.307 | 0.727 |
| ROW (-A+3) real GDP | -0.045 | -0.009 | -0.101 | 0.003 | 0.001 | 0.237 |
| World real GNP | 0.012 | 0.008 | 0.077 | 0.191 | 0.123 | 0.312 |
| ASEAN+3 real GNP | 0.328 | 0.099 | 0.432 | 1.296 | 0.390 | 0.819 |
| ROW (-A+3) real GNP | -0.078 | -0.018 | -0.024 | -0.125 | -0.029 | 0.168 |
| World real exports | 0.790 | 0.178 | 1.431 | 2.651 | 0.597 | 3.726 |
| ASEAN+3 real exports | 2.830 | 0.648 | 4.827 | 6.428 | 1.473 | 5.738 |
| ROW (-A+3) real exports | -0.084 | -0.024 | -0.025 | 1.032 | 0.293 | 2.863 |

# The Way Forward

- Impacts generally small, like other CGE analyses – also, only goods, only tariffs, no productivity spillovers, and fiscal stimulus removed
- 25% utilization reduces benefits by less than 25% - lower trade diversion, and smaller TOT gain
- Multilateralization of preferences raises gains to members and world GNP
- Highest gains to members comes from multilateralization with reciprocity, and something similar could happen, in stages, if the next wave involves cross-regional plurilateral FTA link-ups.

# The Way Forward

But this hinges on utilization rates- incomplete utilization reduces member benefits to below multilateralization.

And if the expansion or cross-regional tie-ups of the mega-regionals is prolonged and\or incomplete, then estimated benefits may not be realized- trade and investment deflection could be a risk; trade diversion too.

Largest negative impact on non-members, so retaliatory actions possible.

Multilateralization is the practical route to securing the highest gains for all.

# Thank you!

For inquiry or comments, please contact:

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Menon (2013) downloadable from:
http://www7.gsb.columbia.edu/apec/sites/default/files/files/discussion/73Menon.pdf