

## PECC TRADE FORUM

### BACKGROUND NOTE ON RTA TASK FORCE WORK PROGRAMME

#### OUTLINE OF RELEVANT ISSUES (Annotated Version)

##### **I. Inventory of Current and Proposed RTA Developments in the Asia-Pacific Region**

A complete inventory of current developments is needed to ensure that all relevant issues are taken into account, and to ensure that PECC's analysis is informed by an adequate understanding of the pressures, processes incentives and motivations that lie behind the spread of RTAs in the region.

*A large amount of relevant material has been presented at Forum meetings in Bangkok, Lima and Vancouver. It is now necessary to systematise this information and to fill outstanding gaps, and to make the information available in accessible form as a resource for Task Force members.*

*A first step will be to consolidate the many contributions produced by Trade Forum members for Bangkok, Lima and Vancouver, together with other relevant material available to the Task Force.*

*It is proposed to build up an inventory of all current and proposed RTA developments in the region. For each separate RTA the inventory would include:*

- *full information on design and content of the agreement, according to the categories listed in II below (including highlighting of innovative and/or potentially precedent-setting approaches to important issues)*
- *extent of trade flows covered, relative both to overall trade of the participants and to relative to region-wide trade flows*
- *information on contentious and/or unresolved issues*
- *notification status at WTO (GATT Article XXIV, GATS Article V, Enabling Clause)*
- *available information and commentary on the strategies of the participants (trade policy strategies, wider economic strategies, political strategies)*
- *role of domestic political economy as both driver and constraint on RTA participation*

*NZPECC is willing to take the lead in compiling this inventory. Assistance will be very welcome, and cooperation from all member economies in supplying additional information will be essential*

*Further contributions of information and analysis on current and proposed RTA developments will continue to be very useful and will be most welcome.*

*It will be particularly important to document the current and proposed RTAs involving the US (including NAFTA), China and Japan, and also ASEAN, given the key role that these economies are likely to play in future developments. Further material on the RTA strategies and policy concerns of these economies in particular will be very helpful.*

*The US is a late and increasingly influential entrant into the field of Asia-Pacific RTA developments. More work is needed by the Task Force to develop an understanding of the US approach and its implications. A major conference on US involvement in RTAs is scheduled to be held at the IIE on 7-8 May. The Task Force will be able to draw in material presented at this conference.*

## **II. Issues in the Design and Content of RTAs**

### **II.1. Trade in Goods: Traditional FTAs or CUs**

*Much of the relevant material is already contained in existing surveys (e.g. Panagariya 1999, Krueger 1999, Findlay 2001), and also in material presented to PECC meetings at Bangkok (Panagariya, Findlay and Pangestu, Gilbert Scollay and Bora) and Vancouver (Findlay, Soogil Young). This material needs to be synthesised in a form suitable for the Task Force's objectives.*

*Issues of product coverage, especially treatment of agriculture and other sensitive sectors are likely to be highly contentious areas on which the Task Force will have to develop a view in the process of formulating "RTA Principles". An analytical survey of the relevant issues is urgently required.*

*Rules of origin is a major issue needing more attention. The IDB has just launched a large research project on this issue, with draft papers due to be presented at a conference in Paris just before the Trade Forum's planned Phuket meeting. The output of the IDB project is likely to be "state of the art" on this topic and it may be sensible for the Task Force to rely on this initially. Earlier Trade Policy Forum contributions e.g. by Stephenson, Scollay and Lloyd) will also be surveyed.*

*Approaches to subsidies, trade remedies and dispute settlement are also under-researched areas.*

Design issues in "traditional" RTAs include

- product coverage
  - percentage of trade covered
  - sector coverage

- treatment of agriculture and other sensitive sectors
- treatment of exclusions
  - positive or negative list
  - permanent or temporary
- phasing of implementation of commitments
- margins of preference (reflecting height of trade barriers against non-members)
- rules of origin: towards trade facilitating rules of origin
- approach to subsidies
- approach to trade remedies (anti-dumping, countervailing duties, safeguards)
- dispute settlement provisions

## **II.2 Trade in Goods: Trade Facilitation (“FTA-Plus” or “CU-Plus” Provisions)**

*Useful material has been presented by Andrew Elek and Yuen Pau Woo (at Bangkok). Need for a comprehensive literature search and analysis of policy issues*

- harmonisation or mutual recognition of product standards
- improvement of SPS and quarantine procedures
- streamlining and harmonisation of customs procedures
- liberalisation of government procurement

## **II.3. Trade in Services**

*Sound basis already provided in papers by Stephenson and Nikomborirak (presented at Bangkok) and by Stephenson (presented at Vancouver). Need to draw out possible implications for “RTA Principles”.*

*The Finance Forum will be working on financial services liberalisation within RTAs and there may be an opportunity to link with this work through a joint session with the Finance Forum.*

Design issues include

- basic approach e.g. GATS-type or NAFTA-type
- coverage in terms of
  - sectors
  - MFN and national treatment
  - modes of supply
- phasing of implementation of commitments
- approach to subsidies and government procurement

## **II.4 Non-Traditional Issues**

*Discussion on investment and competition policy in RTAs by Lloyd at Bangkok meeting and by Rosell at Lima meeting. Also earlier work on competition policy in RTAs by Lloyd and Vautier. Potential to draw on western Hemisphere work on these two areas at Trade Forum's Washington meeting. Finance Forum will also be working on the impact of RTAs on FDI, and this promises to be an important contribution to the overall assessment of RTAs*

*Seminal paper on regional public goods by Antoni Esteveordal at Vancouver meeting. Scope to develop this idea in Trade Forum work programme (perhaps with special reference to ASEAN, and addressing the issue of whether the existence of a preferential trading agreement plays any role in facilitating the supply of regional public goods?)*

*Transport highlighted as key issue in RTAs in practice at IDB's Regional Integration network meeting in December. Potential to link Trade Forum expertise with western hemisphere expertise at Trade Forum's Washington meeting*

*Detailed presentation on TIFAs by Andrew Elek at Bangkok, commentary by Yuen Pau Woo, and subsequent discussion, including papers supplied by Andrew for Lima and Vancouver meetings. Need for detailed analysis with a view to reaching consensus within the Task Force if possible.*

*Labour standards, environmental standards and IT in RTAs are likely to be important and potentially contentious but currently constitute a gap in the Trade Forum work-in-progress*

- investment
- competition policy
- labour standards
- environmental standards
- provision of regional public goods
- information technology and RTAs
- transportation issues
- TIFAs (Trade and Investment Facilitation Agreements) as an alternative to RTAs

## **II.5 “Common Market” Issues**

*Maybe beyond the feasible scope of current Task Force work programme? Potential to consider monetary issues in joint meeting with Finance Forum.*

- liberalisation of labour flows
- liberalisation of capital flows
- monetary coordination or integration

### **III. Policy Implications of the Spread of RTAs**

To inform work on formulation of RTA Principles, an understanding will be needed of the analytical issues underlying the following policy concerns:

#### **III.1. Effects of RTAs and Dynamics of their Evolution**

*For the first six bullet points below, existing literature is summarised in surveys such as Panagariya 1999, and analysis of the relevant issues has been further developed in papers supplied by Peter Lloyd to Trade Forum meetings in Lima and Vancouver, also a paper supplied by Antoni Estevadeordal. These are crucial issues for the concerns of the Task Force. Further work on these issues from an Asia-Pacific perspective, especially the third, fourth and sixth bullet points, should be a priority, with the aim of producing a definitive analysis.*

*Work on trade, production and welfare effects should be informed by the survey of empirical results outlined in IV below.*

*The view is developing in some quarters that for some issues, such as agriculture, services and trade remedies, negotiations at the multilateral and regional levels may turn out to be mutually interdependent, and even that this interdependence, particularly in the case of agriculture, may be crucial to overall success of negotiations at both levels. The Trade Forum will need to consider these possibilities, and their implications for the evaluation of RTA developments in the Asia-Pacific region.*

*The wider question of the adequacy of WTO rules on RTAs, and possible changes to those rules, must also be taken into account in considering possible "RTA Principles". "Systemic issues" relating to GATT Article XXIV have been the subject of papers prepared by the WTO Secretariat, and there are parallel issues relating to GATS Article V.*

*The developing country perspective on RTAs was covered at Bangkok by Bijit Bora, and the concept of 'developmental affinities' put forward at Lima and Vancouver by Neantro Saavedra-Rivano. The developing country perspective is an under-emphasised aspect of the Task Force's work programme, and more work is needed. The World Bank has done extensive work in this area. The special problems posed by RTA developments for the small Pacific island states were highlighted at Lima by Falemaka and Scollay, and should not be allowed to disappear from view.*

*The relation between RTAs and domestic reform processes has received considerable attention in the literature, but so far not within the work of the Task Force.*

*As noted above, the role of RTAs in the provision of regional public goods is new territory for the Task Force. It is an issue which obviously invites application to APEC as well as to RTAs, perhaps on a comparative basis.*

*There may be scope to address macroeconomic dimensions in a joint meeting with the Finance Forum.*

- effect on trade, production and economic welfare of participating countries
- effect on trade, production and economic welfare of excluded countries
  - assessing the damage from discriminatory effects of preferential trade agreements and strategies for its minimisation
- potential extent and significance of “spaghetti bowl” of RTAs with inconsistent provisions: impact on business costs
- dynamics and economic implications of “competitive liberalisation”
  - domino effects
  - tendencies toward “hub-and-spoke” configurations
    - implications of different types of economies as “hubs” (large, medium- and small-sized economies, ASEAN)
  - factors favouring convergence and/or amalgamation of RTAs
- open accession – is it realistic?
- effect on incentives for multilateral liberalisation: do RTAs facilitate or impede non-discriminatory liberalisation?
- relation to WTO disciplines and negotiations on agriculture, services and trade remedies
- relation of Asia-Pacific RTA development to WTO rules on RTAs and proposals for reform of GATT Article XXIV and GATS Article V
- implications of RTA developments for developing countries
- “developmental affinities” and the evolution of RTAs
- special problems posed for small Pacific island states by RTA developments
- RTAs and the process of domestic economic reform
- effectiveness of RTAs in the provision of regional public goods
- macroeconomic dimensions of RTAs
  - requirements for coordination of macroeconomic policies in RTAs

### **III.2. Implications for Regional and Global Relationships**

*These issues, especially the first four bullet points below, have received considerable attention at the APEC meetings in Bangkok and Vancouver. The situation and future outlook continues to change rapidly. The Trade Forum will need to continue to keep abreast of developments, and relate them to the analytical issues raised in sections III.1 and III.3*

*At Phuket meeting there will be an opportunity to link with work on trans-Pacific relationships being undertaken by the APIAN group of APEC Study Centres*

- prospects for integrating NE and SE Asia via RTAs
  - ASEAN+3
  - ASEAN + China
  - ASEAN + Japan
- Asia-Pacific RTAs in the global context
- update on progress in RTA developments in the Americas
- implications of formal emergence of “bipolar Pacific” and “tripolar” world trading system
- RTAs and the future of trans-Pacific economic relationships
- potential trade conflicts arising from proliferation of RTAs
- wider strategic and geo-political implications

### **III.3. RTAs and APEC**

*Specific issues regarding the relation between RTAs and APEC have so far received little attention in Task Force work, but clearly must be fully taken into account in any “RTA Principles” to be presented to APEC officials and ministers. It may be logical to consider these issues in detail after further progress has been made with other components of the Task Force work programme. Time however is not on the Task Force’s side, and it will be essential to address these issues during 2003. Ideally these issues should be addressed before the Trade Forum participates in the APEC CTI’s Trade Policy Dialogue at the end of May.*

- relation to APEC principles
- potential contribution of RTAs to achieving the Bogor goals
- prospects for convergence towards the Bogor goals
- can RTAs be considered “pathfinder initiatives”?
- role of the APEC process
- alternatives to subregional PTAs: an APEC PTA?

### **IV. Empirical Analysis of Effects of RTAs in the Asia-Pacific Region**

*Some results of empirical studies of the effects of RTAs have been presented at Trade Forum meetings and other results have been published elsewhere. It is proposed to survey the results of all studies that can be located, and to produce a summary of the results of the survey as a resource for Task Force members. NZPECC is willing to take the lead in preparing this survey but would welcome assistance and will be relying on cooperation from Task Force members in locating relevant studies.*

Survey of results of existing empirical studies of economic effects of current and proposed RTAs in the Asia-Pacific region.

