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Panel: 5

Proliferating PTAs; What's The Problem?

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Conference

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***Proliferating PTAs;
What's the Problem?***

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Outline

- The Anti PTA or FTA arguments and a response to them.
- A solution: “The Compensatory Plurilateral Liberalization” as a concurrent obligation for every PTA signing country.

The Anti-PTA arguments

1. Second best vis a vis multilateral
2. Will reduce commitment to multilateralism
3. Will generate “Spaghetti Bowl Eject”
4. Reduce welfare as result of Trade Diversion exceeding Trade Creation

The Shortcomings of Anti-PTA Arguments

1. PTAs bad for whom
2. The world's optimum is no one's concern

PTAs increase the welfare of Small Countries

1. Produce “unilateral” liberalization
2. Open export markets by reducing tariffs in the latter
3. Allow overcoming multilateral stalemates generated by big powers in WTO

Anti PTAs arguments are false

1. Multilateral forums for liberalization are seldom open
2. Countries signing PTAs have not reduced their commitment to multilateralism
3. The Spaghetti Bowl idea is a witty and clever image but a poor economic argument
4. PTAs can be designed so that T-Creation will exceed T-Diversion

A solution:

A compensatory unilateral and plurilateral liberalization with every Preferential Trade Agreement (PTA) signed

The “Compensatory Liberalization Formula”

- If PTA is with country with which:
 - Trade is over 20%: MFN tariffs fall 20%
 - Trade between 20 and 5%: Fall of 10%
 - Trade is below 5%: No MFN tariff fall.

The Compensatory Concept

- “Every country that signs a PTA or FTA agrees to compensate the excluded countries with a unilateral reduction of its tariffs on their imports”.
- “The reduction in tariffs to third countries will be larger the largest is the proportion of trade covered by the PTA”.

The benefits of Compensatory Liberalization

1. Each PTA signed contributes to APEC wide liberalization
2. Faster march toward reaching the Bogor goals
3. Less reluctance to PTAs
4. Excluded countries are less negatively affected
5. Less Trade Diversion and more gains to signatories of PTAs

***Conclusion:
Proliferation of PTAs
is not a problem if properly designed***

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