

August 2016

An update on the preferential trade agreements of Asia-Pacific economies¹

APTIAD
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Asia-Pacific Trade and Investment Agreements Database (APTIAD) was established by ESCAP secretariat in order to provide a useful tool for observers and stakeholders (governments, researchers and policy analysts) to monitor and analyze the development of trade agreements in this new environment. APTIAD provides detailed descriptive information on the provisions of preferential trade agreements involving one or more economies from the Asia-Pacific region that are either signed, in force or under negotiation.

ESCAP uses APTIAD to monitor developments in the area of economic integration in Asia and the Pacific and to assess (a) trends in the creation of new preferential trade agreements (PTAs) as well as changes in the patterns and nature of the PTA landscape involving members and associate members of ESCAP, and (b) the relevance of PTAs for, and interaction with, regional and global trade. This note brings the latest status in the preferential trade agreements monitored by APTIAD:²

As of July 2016, there were 260 PTAs with membership from economies from the Asia-Pacific region which are either in force, signed or being negotiated. This number includes those agreements that have not been notified to the World Trade Organization (WTO) but for which official information is readily available as they have been ratified and are under implementation.

Review of the agreements results in the following findings:

1. The Asia-Pacific region continues to be the major contributor to the worldwide build-up of PTAs. Globally, there are 267 "physical" PTAs in force, of which 169 (63%) involve Asia-Pacific economies. In addition, there are 12 agreements that have been signed but not implemented as their ratification is pending and 78 PTAs which are under

¹ This note was prepared by Diego Llosa, intern, Rajan Sudesh Ratna, Economic Affairs Officer, and Mia Mikic, Chief Trade, Investment and Innovation Division of ESCAP. The views expressed in this note are of authors and may not necessarily reflect the views of the United Nations and its members. The authors would like to express special acknowledgement to Christelle Renard, Regional Trade Agreements Section, World Trade Organization, for her valuable comments about the status of some agreements under the WTO Regional Trade Agreements Information System (RTA-IS).

² APTIAD is freely accessible at <http://artnet.unescap.org/databases.html#second>. In addition to the commentaries and short notes such as this one, the platform also offers a comprehensive Glossary of related terms. All figures in this note, unless otherwise specified, are based on data and information in APTIAD.

different stages of negotiations. There is one agreement that was in force but was suspended due to political reasons since December 2011 (Association Agreement establishing a Free Trade Area between Turkey and the Syrian Arab Republic).³

2. Meanwhile, seven PTAs have been terminated (Table 1), signaling that the rationalization in terms of number of agreements might happen with a more serious effort as suggested many years ago in ESCAP (2009)(Table 1). This number includes six bilateral free trade agreements (FTAs) between the Russian Federation and its partners which were terminated as a consequence of formation of the Treaty on a Free Trade Area between members of the Commonwealth of Independent States (CIS) (entered into force in 2012) and the Eurasian Economic Community (EAEC). EAEC was subsequently replaced by the Eurasian Economic Union (EAEU), which entered into force in 2015 and its members included Armenia and all former EAEC members, except Tajikistan.

Table 1: PTAs removed from APTIAD

Agreement	Members	Year of entry into force	Year of termination	Source of information on termination
FTA Russian Federation - Armenia	Russian Federation, Armenia	1993	2012	WTO Document WT/REG/GEN/N/8 (date: April 1, 2016)
FTA Russian Federation - Belarus	Russian Federation, Belarus	1993	2012	
FTA Russian Federation - Kazakhstan	Russian Federation, Kazakhstan	1993	2012	
FTA Russian Federation - Kyrgyzstan	Russian Federation, Kyrgyzstan	1993	2013	
FTA Russian Federation - Moldova	Russian Federation, Moldova	1993	2012	
FTA Russian Federation - Ukraine	Russian Federation, Ukraine	1994	2012	
Eurasian Economic Community (EAEC)	Belarus, Kazakhstan, Kyrgyzstan, Russian Federation,	2000	2014	Decision of Interstate Council of EAEC No. 652 "On termination of the functioning of the

³ This count includes trade agreements put into force by the ESCAP member States and associate members excluding non-regional member States (France, the Netherlands, United Kingdom, and the United States).

	Tajikistan			EAEC" (date: October 10, 2014) ⁴
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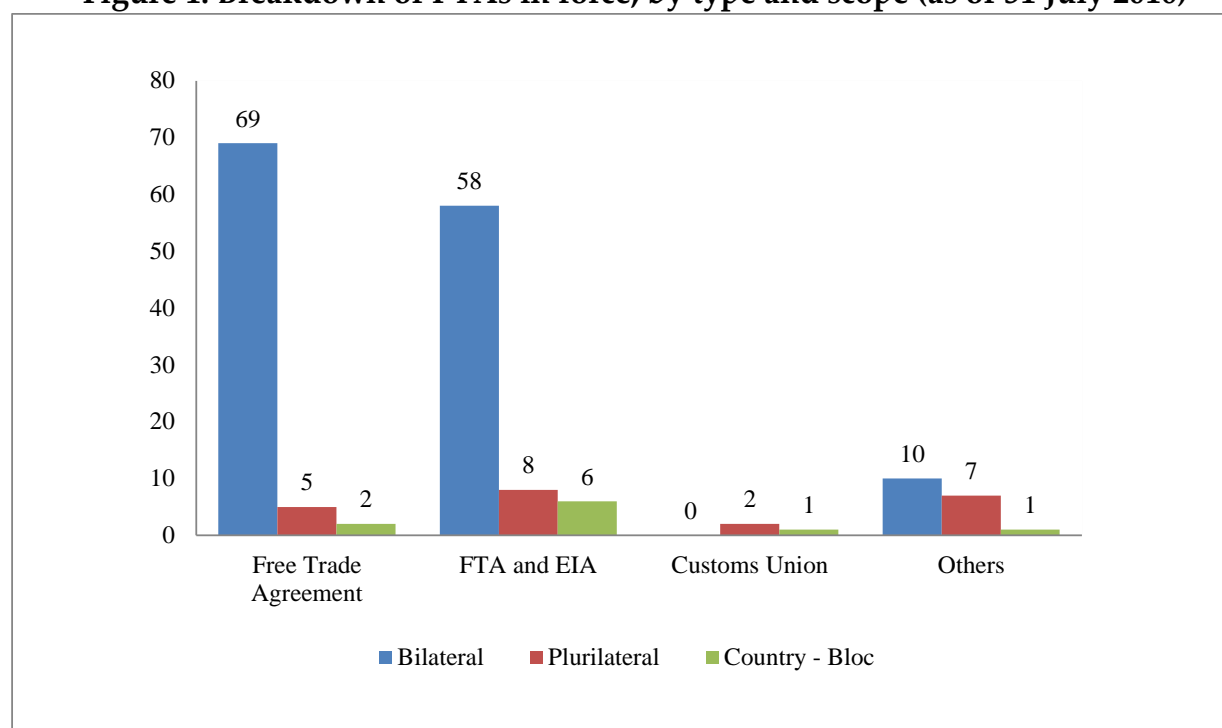
3. PTAs are categorized into different types based on the level of depth of liberalization and integration as well as sectoral coverage. Partial scope agreements (PSAs), allowed by the WTO rules only between developing countries, have the lowest level of ambition as members offer tariff concessions on a selected number of products or sectors. PSAs contrast free trade agreements (FTAs) in which tariffs and other trade barriers are eliminated on substantially all trade in merchandise goods in a reasonable length of time which usually should not be longer than 10 years. Similarly, economic integration agreements (EIAs) describe agreements through which parties offer preferential (ultimately free) market access in trade in services through a substantial coverage in terms of number of sectors and mode of supply. Customs unions (CUs) imply a higher level of integration because parties not only eliminate trade barriers on most or all trade in merchandise goods but adopt a common commercial policy towards third economies (including a common external tariff).⁵ According to this classification, 87.57% of the all PTAs in force in the region cover FTAs, and FTAs and EIAs. 10.65% of the PTAs in force are PSAs and only 1.78% of agreements are classified as customs unions (one of these customs unions - the EAEU - is also an EIA). Figure 1 shows a breakdown of these agreements (PSAs appear as "Others").
4. Most of the PTAs of Asia-Pacific economies are bilateral in nature (81%). Plurilateral agreements represent 13% of PTAs in force in the Asia-Pacific. The number of the parties in plurilateral agreements varies, with a maximum of 15 and minimum of 3 parties involved, with an average of 8.3 members.⁶ The rest of agreements are between an economy and an already existing trade bloc outside the region (like the European Union, MERCOSUR or GCC).

⁴ Available at <http://www.evrizes.com/news/>

⁵ WTO (2011) World Trade Report 2011: The WTO and preferential trade agreements: from co-existence to coherence, Geneva. While this classification is used when countries notify their agreements to the WTO, there are few PTAs that go beyond these categories in terms of depth of integration, such as common markets. Common markets provide full movement of all factors within the PTA, including labor and capital. The ASEAN Economic Community and the EAEU are two examples of economic integration processes in the Asia-Pacific region under which members are working towards the common markets.

⁶ This calculation does not include the Agreement on the Global System of Trade Preferences among developing countries (GSTP), which is a PSA with 43 members. It is in force since April 1989. It covers developing countries from Africa; Latin America and the Caribbean; and Asia.

Figure 1: Breakdown of PTAs in force, by type and scope (as of 31 July 2016)



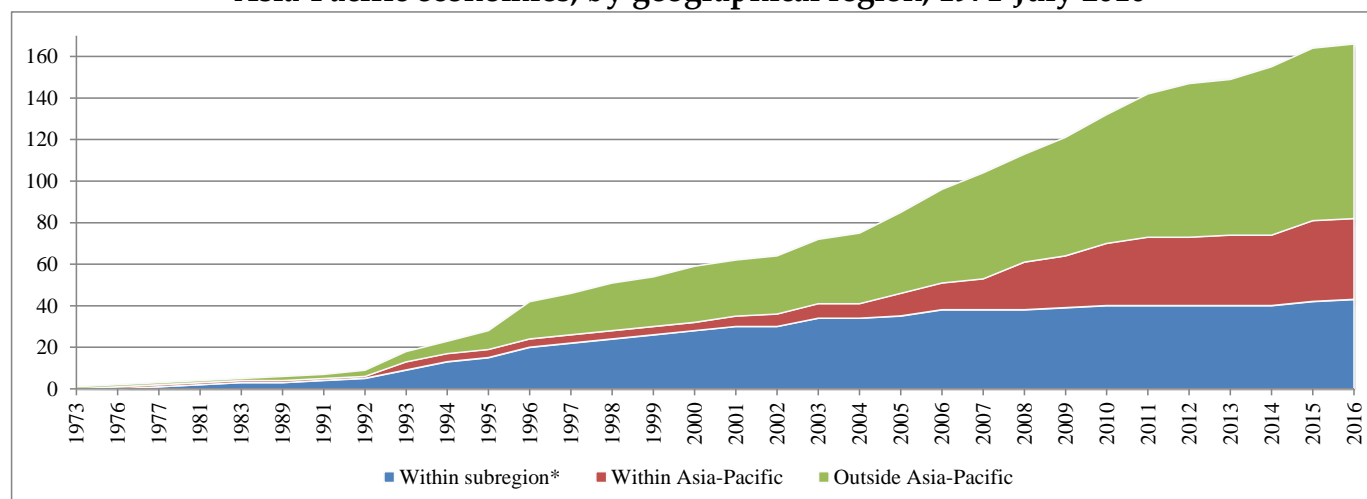
Source: ESCAP calculation based on APTIAD data

5. Until early 1990s most of PTAs were signed among the economies within the sub-region they belonged to⁷ and then the focus shifted to the other economies of the region as well as outside the Asia-Pacific region. At present there are 87 (51%) PTAs which Asia-Pacific economies have with economies outside the region. The trend to negotiate PTAs with economies outside the region (figure 2) shows the efforts by policymakers to seek additional access in non-traditional export markets, especially in a context of low global trade growth.
6. Noteworthy, as shown in figure 3, more and more PTAs in force are between developing economies, providing a dynamic force for South-South trade and cooperation. 72% of PTAs enacted by Asia-Pacific developing economies have membership including only other developing economies.⁸

⁷ The detailed list of subregional composition of economies is available at <http://www.unescap.org/sites/default/files/Economic%20and%20Social%20Survey%20of%20Asia%20and%20the%20Pacific%202014.pdf>

⁸ This is also due to the fact that in the Asia-Pacific only Australia, Japan and New Zealand are developed countries.

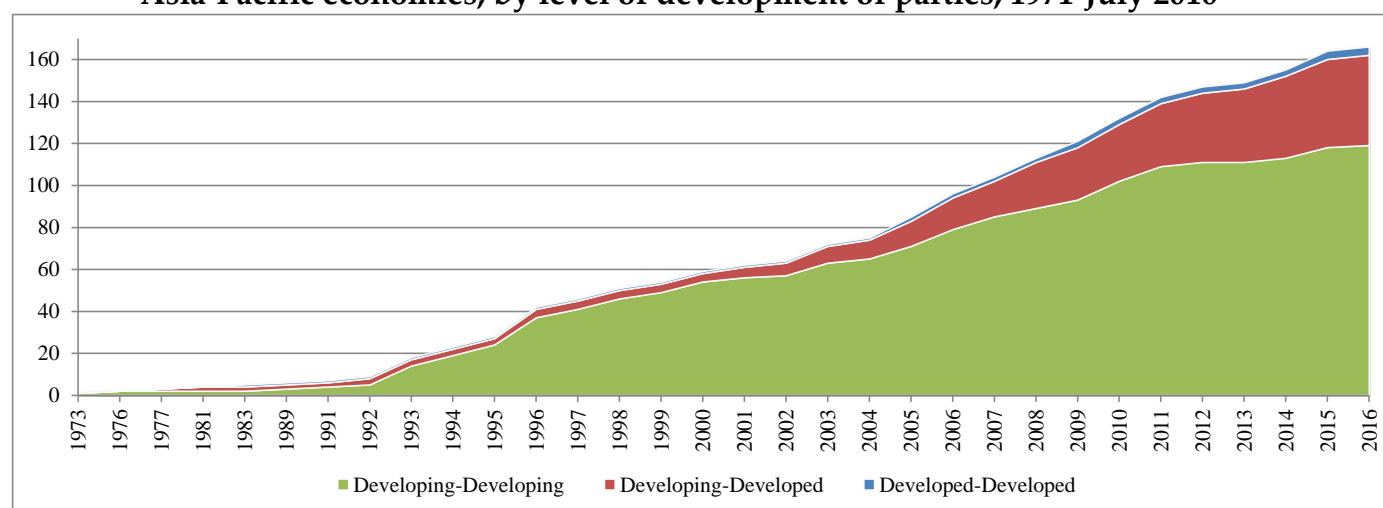
Figure 2: Cumulative number of PTAs (notified and non-notified to WTO) put into force by Asia-Pacific economies, by geographical region, 1971-July 2016



* Asia-Pacific members of ESCAP are grouped into five sub-regions: East and North-East Asia (ENEA); North and Central Asia (NCA); South-East Asia (SEA); South and South-West Asia (SSWA); and the Pacific.

Source: ESCAP calculation based on APTIAD data

Figure 3: Cumulative number of PTAs (notified and non-notified to WTO) put into force by Asia-Pacific economies, by level of development of parties, 1971-July 2016



Source: ESCAP calculation based on APTIAD data

Extent of trade with PTA partners

- The trade data with PTA partners is based on the overall trade between the PTA partners as most of the economies in the region do not record or publish the preferential trade data. This thus indicates a higher value and share than the actual PTA trade. The extent to which economies in the Asia-Pacific region trade with their PTA partners varies considerably (figure 4). However despite a high number of PTAs, on average, the Asia-Pacific economies

as a whole, export only 33% of their global exports and import only 44% of global imports with their PTA partners during 2012-2014.⁹

8. From the export side, Brunei Darussalam leads the ranking of Asia-Pacific economies that exported the most to its PTA partners (97% of its exports directed to the PTA-partner economies). Brunei Darussalam is followed mainly by least developed countries (LDCs). LDCs in the region with a very high share of their exports to the markets of their PTAs partners are Myanmar (94%), the Lao People's Democratic Republic (88%) and Bhutan (87%). The Republic of Korea and Australia also record a high share of exports directed to their PTA partners (79% and 77% respectively). Some Pacific islands such as the Cook Islands, Kiribati (LDC), Marshall Islands, the Federated States of Micronesia, Tuvalu (LDC) and Vanuatu (LDC) have a very low share of exports with their PTA partners. These Pacific Islands have agreements only with other economies of the Pacific sub-region, including Australia and New Zealand. Mongolia also had a low share (0.4%), as it only has one PTA (FTA Japan-Mongolia, since 2016).
9. On the import side, the Lao People's Democratic Republic is ranked on the top with sourcing 95% of its global imports from PTA partners. The pattern of which economies are in the top or bottom of the import-share ranking is similar to the pattern presented in the export-shares. Indeed, following the Lao People's Democratic Republic, mainly LDCs exhibit a higher share of imports from PTA partners. Non-LDC ASEAN Member States also showed a high share of imports sourced from their PTA. Marshall Islands, the Federated States of Micronesia, Mongolia and Tuvalu are in the bottom of the ranking.
10. Comparing the shares of trade done with the PTA partners, one also observes that in case of certain economies the shares on import and export side are not symmetric. For example, 90% and 75% of imports of Nauru and Niue, respectively, come from PTAs partners (other economies from the Pacific sub-region), while their share of exports to PTA partners accounts only 34% and 19%, respectively. Similarly, 90% and 79% of Cambodia's and Viet Nam's imports come from PTA partners but only 24% and 41% of their exports goes to such economies. Other economies with a high difference between their import and export share with PTA partners are Bangladesh, Turkmenistan, Azerbaijan and Sri Lanka.

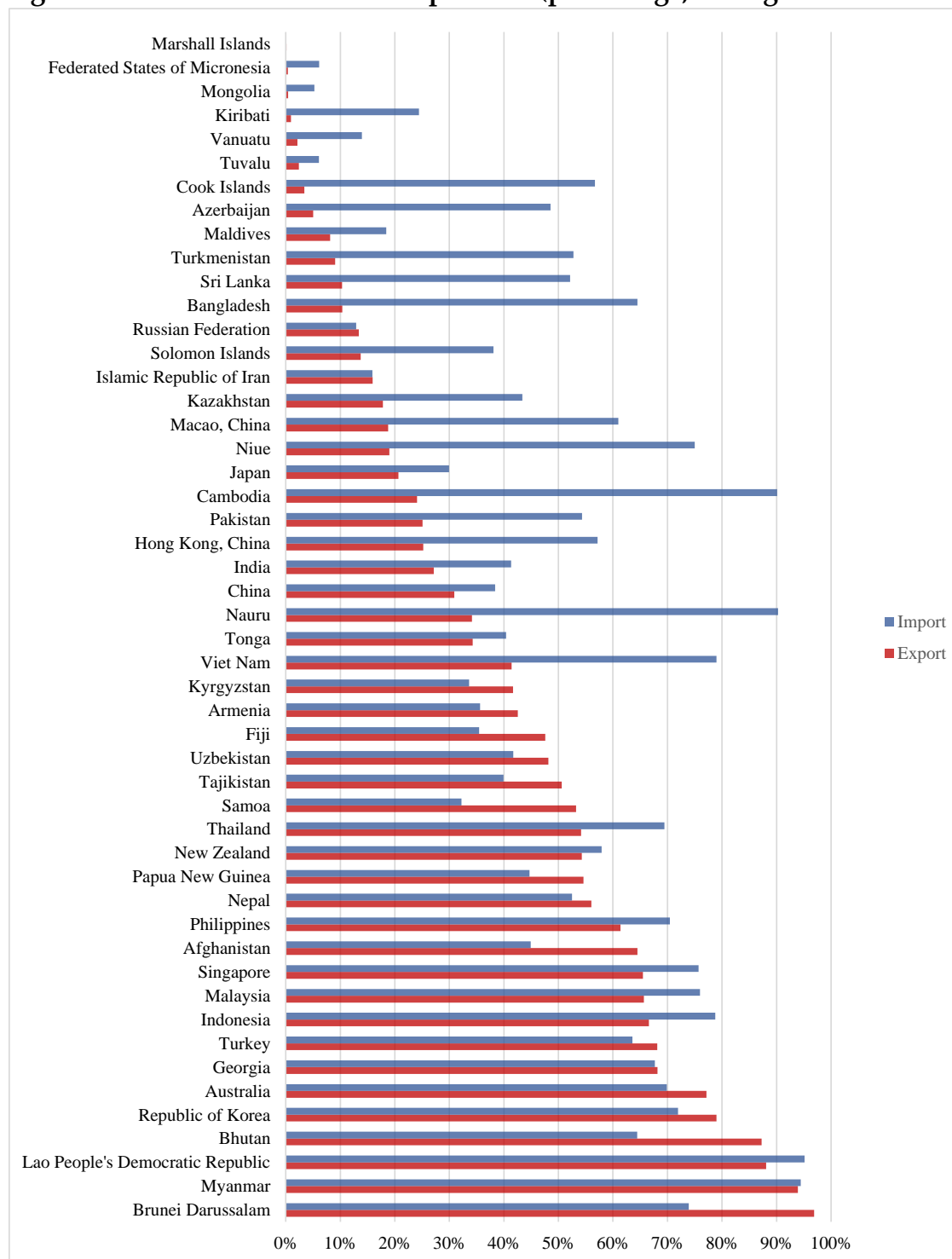
Comparing trade with PTA partners and the preferential trade data

11. ESCAP (2015 and previous issues) has argued on the usefulness of having preferential trade data in order to carry out a complete analysis of impacts from having PTAs. Unfortunately, most economies in the region do not have the preferential data, neither within the

⁹ This average includes American Samoa, French Polynesia, Guam, New Caledonia, Northern Mariana Islands, Palau and Timor-Leste which have no PTA in force and, therefore, no share of trade with PTA partners.

government domain nor in the public domain. Some developed economies provide publicly-available and updated statistics on preferential trade, which allows analyzing the level of utilization of PTAs. For example, based on statistics from the Interactive Tariff and Trade and Data Web of the United States International Trade Commission (USITC), it is possible to

Figure 4: Share of trade with PTA partners (percentage, average for 2012-2014)



Source: ESCAP calculation based on United Nations Comtrade data from WITS and APTIAD databases accessed in August 2016

calculate the rate of utilization of the PTAs of the United States with Australia, Republic of Korea and Singapore (PTA partners of USA). In 2015, 46% of total USA's imports from Australia was covered under their bilateral deal, 23% under the Republic of Korea-USA FTA and only 8% under the Singapore-USA FTA. It is important to note that since the entry into force of these agreements, the utilization rates, despite being low, have been moving upward. Likewise, the statistical office of the European Union (Eurostat) also provides statistics at a disaggregated level. Based on these statistics, in 2015, 78% of total EU imports from Turkey was covered under preferences within the Association Agreement (custom union) between Turkey and the trade bloc (of which 98% was duty-free). EU's imports from other PTA-partners Papua New Guinea and Fiji also showed high utilization of preferences. 72% and 77% of total EU imports from Papua New Guinea and Fiji, respectively, was imported using negotiated preferences. In contrast, only 42% and 39% of total EU imports from Republic of Korea and Georgia, respectively, relied on using preferential access (of which 89% and almost 100% were duty free). Eurostat data also allows calculating how much imports eligible for preferences was carried out using the MFN regime and not the preferential one. For instance, while only 1% of EU's eligible imports from Papua New Guinea finished being imported at MFN duty rate, 17% of EU's eligible imports from Georgia were conducted under MFN terms (of which 5% was MFN duty-free and the rest paid MFN tariff). Further studies will be needed to understand the reasons for this result; possible explanations might include near zero MFN duties, too complex rules of origin, traders not being properly informed of the preferential trade opportunities, costs associated with complying with PTA provisions etc.

12. Some developing economies of the Asia-Pacific region do provide information relating to their PTA trade coverage. For example, during the sixth WTO Trade Policy Review of Turkey, Turkish authorities provided information about the percentage of imports in 2014 entering through EU-Turkey customs union and its FTAs in force by 2014. In the case of the EU, 98.7% of imports from the European bloc were preferential (of which 98% were industrial imports). With respect to Turkish FTA-partners, this percentage varied widely from 2.8% (Montenegro) to 99.5% (Jordan), as depicted in figure 5. Similarly, the Ministry of

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