

ASIA-PACIFIC TRADE AND INVESTMENT TRENDS

2020/2021

Preferential Trade Agreements in Asia and the Pacific: Trends and Developments





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ACKNOWLEDGEMENTS:

This Brief was prepared by Witada Anukoonwattaka and Natnicha Sutthivana, Trade Policy and Facilitation Section (TPFS), Trade, Investment and Innovation Division (TIID) with substantive inputs and under the guidance and supervision of Mia Mikic, Director, TIID; and Yann Duval, Chief, TPFS, TIID. The report was edited by Tony Oliver. Richard Sean Lobo provided research assistance. Cover design and editorial layout were carried out by Yaoling Liu. We are grateful to Deborah Elms for a permission to use her text for Box on Services and Investment provisions in RCEP.

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Highlights

- The Asia-Pacific region continues to be the largest contributor to the worldwide build-up of preferential trade agreements (PTAs). Looking at the stock of PTAs with at least one party from Asia-Pacific region, 184 trade agreements are in force, 19 are signed and pending ratification, and 95 are still under negotiation (as of December 2020).
- The majority of PTAs go beyond the liberalization of trade in goods, with 54% of all enforced PTAs in the region covering both goods and services.
- Bilateral PTAs account for approximately 78% of all PTAs in force. In terms of geographical coverage, 49% of all Asia-Pacific region PTAs are with economies outside the region, which reinforces the claim about the Asia-Pacific economies' actively participating as dialogue partners within as well as outside the region.
- Between January 2018 and December 2020, 27 new PTAs were signed that had at least one Asia-Pacific region's economy. Of these, 10 were signed in 2018, 11 in 2019, and six in 2020 (as of December 2020).
- The number of newly-signed PTAs by the Asia-Pacific economies has more than halved from the previous year. This was mostly due to the COVID-19 pandemic, which not only disrupted international trade flows, but also caused some trade negotiations to stall. From the 10 outstanding PTA initiatives started since January 2019 (six intraregional and four extra regional), only three have commenced negotiations during 2020. As of December 2020, none of the new initiatives have been signed.
- On the other hand, the pandemic has emphasized the needs to ensure trade openness and supply chain connectivity on essential goods, especially medical supplies. Many economies in the region have reaffirmed their commitment to refraining from the imposition of export controls or tariffs and non-tariff barriers and of removing any existing trade restrictive measures on essential goods, especially medical supplies during the COVID-19 crisis.
- It is also encouraging that new trade agreements signed during the reporting period tend, in general, to include provisions in areas such as investment, labour standards, intellectual property rights, and environmental standards. In fact, all 17 agreements signed during 2019 to 2020 – except Indonesia-Mozambique and the EAEU-Serbia PTAs – go beyond the liberalization of trade in goods.
- The United Kingdom's efforts to ensure trade continuity after 1 January 2021 under preferential terms included in the existing European Union-third country trade agreements has resulted in a rise in the number (if not the coverage) of Comprehensive Economic Partnership Agreements (CEPA) with the economies in the Asia-Pacific region, and may continue in that direction over the next few years. As of December 2020, the United Kingdom has signed agreements (and so called Mutual

Recognition Agreements, MRA) replicating elements of European Union-third party agreements with selected Asia-Pacific economies, including the Pacific States (Fiji and Papua New Guinea), Georgia, Japan, the Republic of Korea, Singapore, and Viet Nam. The Government of the United Kingdom is also holding discussions on rolling over the European Union preferential trade agreements with Turkey and negotiating new agreements with Australia and New Zealand and has already signed MRA with Australia and New Zealand already.

- Trade negotiators are increasingly turning to including digital trade issues into the PTAs: eight of the 17 trade agreements signed between 2019-2020 already include specific e-commerce provisions. Moreover, regional economies, especially Singapore, have signed Digital Trade Agreements (DTAs). As of December 2020, the region has successfully signed three DTAs: the Japan-United States DTA signed in 2019, while Australia-Singapore Digital Economy Agreement (DEA) and Chile-New Zealand-Singapore Digital Economy Partnership Agreement (DEPA) were both signed in 2020. More agreements, driven by Singapore, are coming their way because Singapore has ongoing negotiations with the Republic of Korea and will start negotiation with the United Kingdom in 2021.
- The Regional Comprehensive Economic Partnership (RCEP) signed on 15 November 2020 is a major milestone towards trade integration in Asia and the Pacific. Even without India's participation, this agreement accounts for about 30% of global GDP, the world population and world trade. It updates the coverage of existing "ASEAN+1" PTAs and includes chapters that go beyond traditional trade issues, such as chapters dedicated to e-commerce, investment or small-and-medium sized enterprises (SMEs). However, the most important feature of the RCEP (apart for boosting confidence in regional cooperation) is a conversion of multiple rules of origin into a simplified and a single set of rules, which potentially can lead to a higher utilization of this deal especially for the SMEs and GVCs.

1. Introduction

This brief provides an update on the recent trends and developments with regard to the initiatives and approaches of the Asia-Pacific economies towards PTAs. More specifically, it reviews the involvement of Asia-Pacific economies in trade agreements with countries within and outside the region from January 2019 to December 2020. It tracks the creation of new PTAs during this period of increasing uncertainties in global and regional trade and investment. Finally, it assesses the relevance of PTAs for Asia-Pacific economies' trade by considering how much trade has been covered by such deals among PTA partners.

As of December 2020, there were 305 'physical' PTAs in force worldwide that had been notified to the World Trade Organization (WTO), which is almost a six-fold increase since 2000 (when there were just 55 such agreements). The Asia-Pacific region continues to be a major contributor to the worldwide build-up of PTAs, with more than half of them currently in force PTAs involve at least one Asia-Pacific economy. Nevertheless, in 2020 there were only six new PTAs signed, which is significantly less than in the previous years and could be attributed to the preoccupation of Governments with the COVID-19 pandemic and a wide-spread economic recession.

2. New PTAs in Asia and the Pacific in 2019 and 2020

While many initiatives emerged in 2019 because countries might have felt trade agreements could be a way to mitigate growing protectionist pressures as well as a weakening effectiveness of the multilateral trading system, the emergence of COVID-19 has significantly hindered the progress of trade negotiations around the world since early 2020. Indeed, as countries shifted their attention towards the health emergency and economic contractions, talks on many ongoing PTAs were suspended or delayed. One example of this was the suspension in trade negotiation between Singapore and the Southern Common Market of South America (MERCOSUR), as a result of Argentina's withdrawal from the agreement due to different handling of the pandemic between the parties (Dezan Shira & Associates, Brazil Liaison Office, 2020). Accordingly, the number of new agreements signed during the past two years has more than halved. From January 2019 to December 2020, Asia and the Pacific

economies signed 17 new PTAs. However, while 11 were signed in 2019, just six were completed during 2020 (and the accession of Solomon Islands to European Union-Pacific States Interim EPA).¹

Of the 17 PTAs signed during 2019-2020 several were between economic blocs and individual economies (figure 1). These include the comprehensive and ambitious North-South trade agreement between the European Union and Viet Nam,² the Eurasian Economic Union (EAEU)-Serbia trade agreement, the EAEU-Singapore trade agreement,³ and the Regional Comprehensive Economic Partnership (RCEP). Several bilateral trade agreements were signed during the same period including the Australia-Hong Kong, China; Cambodia-China; Australia-Indonesia; China-Mauritius; China-United States; Indonesia-Mozambique; Japan-United Kingdom; Japan-United States PTAs⁴; the Republic of Korea-United Kingdom; Georgia-United Kingdom; Singapore-United Kingdom; and Viet Nam-United Kingdom.⁵ Among these, two are partial scope agreements including the interim agreement between China and the United States (Phase-I agreement); and Japan-United States. It has to be noted that a number of these agreements, while being put into force or signed, have not been notified to the WTO (and therefore are not observing the Transparency Mechanism agreed by the WTO members).

One of the most significant deals signed and pending ratification is the Regional Comprehensive Economic Partnership (RCEP), which was signed on 15 November 2020, after eight years of negotiations.⁶ Even without India's participation, this agreement accounts for about 30% of global GDP, the world population and world trade. It updates the coverage of existing "ASEAN+1" PTAs and includes chapters that go beyond traditional trade issues, such as chapters dedicated to e-commerce,

1 The accession of the Solomon Islands was notified to the WTO on 26 Oct 2020, while it came into force in May of that year. Similarly, the accession of Samoa enforced from 31 Dec 2018 was also notified on 26 Oct 2020.

2 The European Union-Viet Nam PTA negotiations began in 2012 and were concluded in 2015. However, the formal signing of the agreement was delayed until 2019 due to a pending opinion of the European Court of Justice on the division of competencies between the European Union and its

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