

ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2019/2020

Preferential Trade Agreements in Asia and the Pacific





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Acknowledgements

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PREFERENTIAL TRADE AGREEMENTS IN ASIA AND THE PACIFIC¹

Highlights:

- The Asia-Pacific region continues to be the major contributor to the worldwide build-up of Preferential Trade Agreements (PTAs). Looking at the stock of PTAs with at least one party being from this region, we count 172 trade agreements in force, 16 signed and pending ratification, and 95 under negotiation (as of November 2019).
- PTAs tend to go beyond the liberalization of trade in goods. Agreements covering both goods and services account for 49% of all enforced PTAs in the region.
- Bilateral PTAs account for approximately 79% of all PTAs in force. In terms of geographical coverage, 49% of all Asia-Pacific region PTAs in force are with economies outside the region, reinforcing the open regionalism of Asia-Pacific economies.
- Between January 2017 and November 2019, 21 new PTAs were signed that had at least one member from the Asia-Pacific region. Of these, 7 were signed in 2017, 10 were signed in 2018 and 4 were signed by the end of November 2019.
- The number of newly-signed PTAs in the region doubled between 2015-2016 and 2017-2018. The continuing rise of protectionism globally may provide further impetus to new PTAs in the region. In fact, negotiations of 14 new intraregional PTA initiatives and 17 extraregional PTA initiatives have commenced since January 2017.
- Several PTAs signed since 2017 are comprehensive agreements. These include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Japan-European Union (EU) Economic Partnership Agreement.
- The negotiations of the Regional Comprehensive Economic Partnership (RCEP) achieved notable progress in 2019. All RCEP Members, except India, has concluded text-based negotiations for all chapters and essential market access issues. The agreement was expected to be signed by the fifteen members in 2020. However, uncertainties emerged because of the exit of India from RCEP may cause Japan's hesitation to sign on RCEP.
- The United States and China announced on 13 December 2019 the conclusion of "Phase-I" agreement. Details of this partial scope agreement are yet available. However, the announcement has, at least, cancelled the implementation of new bilateral tariffs and rolled back some of tariffs on imports from China.

¹ The earlier version of this paper is published as Anukoonwattaka and Lobo (2019a).

Introduction

Preferential Trade Agreements (PTAs)² are seen as having trade-creating potential through reduced or eliminated barriers to trade with selected trade partners. On the other hand, PTAs might divert trade away from countries outside the blocs, leading to potential efficiency losses for members and reduced trade flows for parties outside these blocs.

The lack of progress in multilateral trade negotiations under WTO has caused countries to increasingly rely on PTAs for seeking and deepening their market access. As of November 2019, there were 302 'physical' PTAs in force notified to the WTO.³ This is almost a five-fold increase in the number of notified agreements, from 55 in 2000.

The Asia-Pacific region has been a major contributor to this worldwide build-up of PTAs. More than half of the PTAs in force globally involve at least one Asia-Pacific economy. With growing protectionism from the world's two largest trading partners, it is likely that economies in the region will increasingly rely on PTAs to secure and diversify export markets.

This note provides an update on the recent trends and developments of PTA policies in Asia and the Pacific. It reviews the involvement of Asia-Pacific economies in trade agreements with countries within and outside the region from January 2017 to November 2019. It tracks the creation of new PTAs during the period of increased uncertainties in global trade. Finally, it assesses the relevance of PTAs for Asia-Pacific economies' trade by considering the coverage of trade among PTA partners.

Trends in PTAs in Asia and the Pacific following trade tensions

Since 2017, the skepticism towards free trade has been increasingly reflected in the policy agenda of developed economies. More notable examples include 'Brexit' in the United Kingdom, political campaigns of other major European countries such as Germany and France, and, more importantly, in trade policy of the new administration of the United States (ESCAP, 2018).⁴

The pressure to secure market access under growing unilateral protectionism increases the need for more PTAs. This is evidenced by the number of new agreements signed or under negotiation since 2017 (figures 1 and 2).⁵ From January 2017 to November 2019, Asia and the Pacific economies signed 21 new PTAs. Of these, 7 were signed in 2017, 10 were signed in 2018 and 4 were signed by the end of November 2019. These new PTAs reflect a two-fold increase in signed PTAs relative to 2015-2016. While negotiations for most of these agreements began prior to 2017, these findings indicate that the urgency to conclude agreements increased considerably during this period.

² In this note, PTAs are classified based on the depth of liberalization and integration as well as sectoral coverage. Partial scope agreements (PSAs), allowed by 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 with Free Trade Agreements (FTAs) in which tariffs and other trade barriers are to be eliminated on almost all trade in merchandise goods within a reasonable length of time, typically under 10 years. Similarly, economic integration agreements (EIAs) are agreements through which parties offer preferential (ultimately free) market access for trade in services through substantial coverage, in terms of number of sectors and mode of supply, progressively. Customs unions, which are also included in the analyses, imply a higher level of integration because parties not only eliminate trade barriers on most or all trade in merchandise goods, but also adopt a common commercial policy towards third economies (including a common external tariff).

³ Data obtained from the WTO RTA-IS database (accessed November 2019).

⁴ An important indication is the United States Trade Representative (USTR) 2017 trade policy agenda that set out the principles that will drive policy actions of the United States administration. The agenda explicitly focuses on reducing trade deficits, renegotiating existing agreements and tackling perceived unfair practices (USTR, 2017).

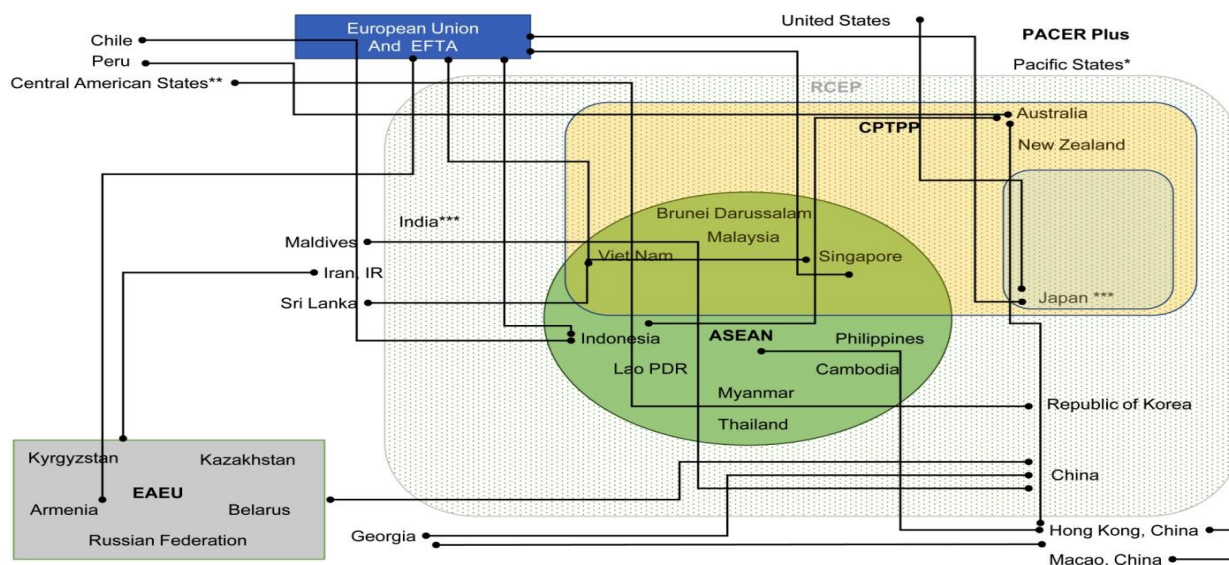
⁵ For more details see ESCAP (2018).

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These agreements include the large plurilateral agreement – the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)⁶ – which was the successor to the Trans-Pacific Partnership from which the United States withdrew in January 2017. Additionally, another plurilateral agreement signed during the same period was the Pacific Agreement on Closer Economic Relations (PACER) Plus.

In addition, several bilateral agreements have been signed between economic blocs and individual economies during this period (figure 1). Armenia signed a PTA with the European Union in 2017, Japan and Singapore signed trade and investment agreements with the European Union in 2018, and Viet Nam signed the same in 2019.⁷ ASEAN signed a bilateral trade agreement with Hong Kong, China, while the Republic of Korea signed a trade agreement with five Central American countries.⁸ The 13 other bilateral trade agreements signed during the same period include Australia-Hong Kong, China; Australia-Peru; Australia-Indonesia; China-Georgia; China-Maldives; China-Eurasian Economic Union (EAEU); Islamic Republic of Iran-EAEU; Hong Kong, China-Macao China; Indonesia-Chile; Hong Kong, China-Georgia; Singapore-Sri Lanka; Indonesia-European Free Trade Association (EFTA); and Japan-United States PTAs.⁹ Of the 21 new agreements signed during this period, nine have been ratified and put into force.¹⁰

Figure 1. PTAs signed after January 2017



Source: Authors, based on PTA information from the Asia-Pacific Trade and Investment Agreement Database (APTAD) (accessed November 2019).

Notes: *Pacific States that have signed PACER Plus include Cook Islands, Kiribati, Nauru, Niue, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. ** Central American States include Costa Rica, El Salvador, Honduras, Panama and Nicaragua. The RCEP has been under negotiation since November 2012 but is not yet signed. *** At the time of writing this note, India had decided to exit RCEP, which has resulted in a possible withdrawal by Japan.

⁶ CPTPP members include Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam.

⁷ The EU-Viet Nam PTA negotiations began in 2012 and were concluded in 2015. However, the formal signing of the agreement was delayed till 2019 due to a pending opinion of the European Court of Justice on the division of competencies between the European Union and its member States, related to the conclusion of the EU-Singapore PTA (European Council, 2019).

⁸ These five Central American countries include Costa Rica, El Salvador, Honduras, Panama and Nicaragua.

⁹ Japan-United States PTAs is a limited-scope trade agreement. Both countries stated their intent to begin negotiations on a more comprehensive deal after this initial agreement enters into force (Congressional Research Service, 2019)

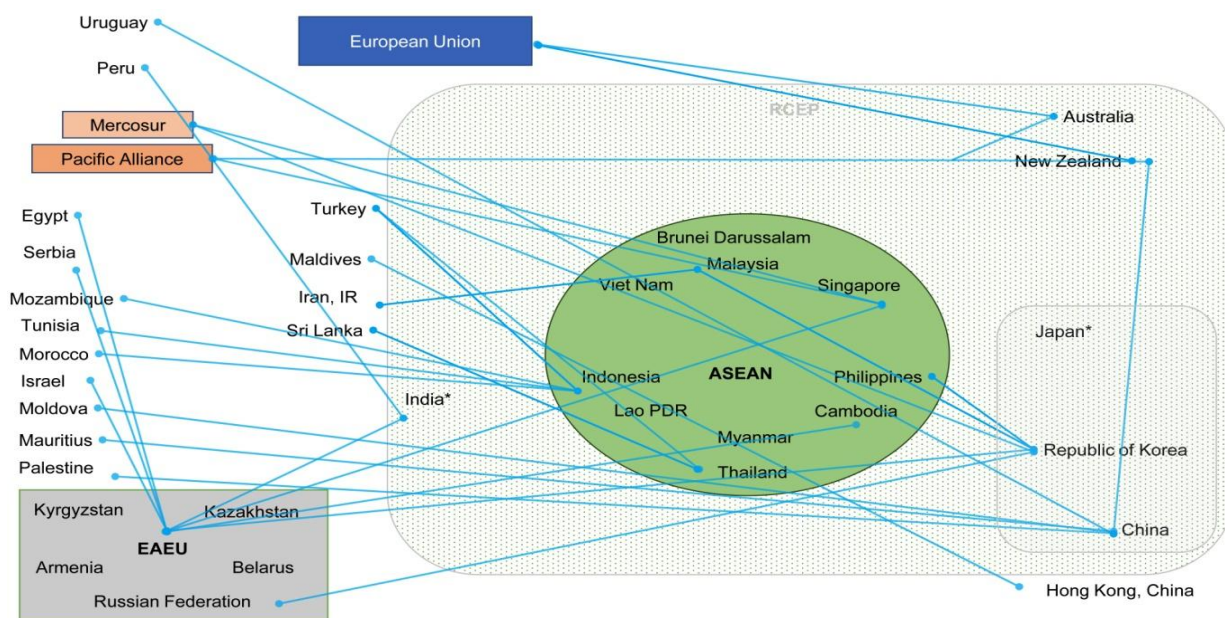
¹⁰ These nine agreements include: Armenia-European Union; ASEAN-Hong Kong, China; China-Georgia; CPTPP; Hong Kong, China-Georgia; Hong Kong, China-Macao, China; Japan-European Union; Singapore-Sri Lanka; Singapore-EU.

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Several PTAs under negotiation have made notable progress during the same period. As of November 2019, there were 95 PTAs under negotiation in Asia and the Pacific. The most notable one is the Regional Comprehensive Economic Partnership (RCEP), a mega-plurilateral agreement that included 10 ASEAN members, Australia, China, India, Japan, New Zealand and the Republic of Korea. All RCEP member States except India have concluded text-based negotiations for all chapters and essential market access issues. The agreement was expected to be signed by the fifteen members in 2020. However, uncertainties emerged after India decided to exit RCEP due to concerns over its trade deficit as well as disagreements regarding investment protection.¹¹ The exit of India has also caused uncertainties on the position of Japan with regards to signing RCEP.¹²

In addition, other more recently initiated PTA negotiations include intraregional agreements as well as agreements with trade partners outside the region (figure 2). Fourteen new intraregional initiatives started their negotiations between January 2017 and November 2019. These 14 intraregional PTAs under negotiation include: Thailand-Turkey; Indonesia-Turkey; Sri Lanka-Thailand; India-EAEU; Republic of Korea-EAEU; China-Japan-Republic of Korea; Hong Kong, China-Maldives; Cambodia-EAEU; an upgrade of the China-New Zealand PTA; Islamic Republic of Iran-Malaysia; Malaysia-Republic of Korea; Philippines-Republic of Korea; Republic of Korea-Russian Federation; and Singapore-EAEU. The trend of initiating PTAs with non-traditional trade partners reflects the strategy to diversify trade risks and seek new market opportunities.

Figure 2. PTAs for which negotiations commenced after January 2017



Source: The authors, based on PTA information from APTIAD (accessed November, 2019).

Notes: Japan, the Republic of Korea and China are shown in a separate bloc as they are currently negotiating a trilateral agreement. At the time of writing this Brief, India had decided to exit RCEP, which has resulted in a possible withdrawal by Japan.

¹¹ "(...)The present form of the RCEP Agreement does not fully reflect the basic spirit and the agreed guiding principles of the RCEP. It also does not address satisfactorily India's outstanding issues and concerns. In such a situation, it is not possible for India to join RCEP Agreement (...)" (speech made by India's Prime Minister at the third RCEP summit in Bangkok, 2019).

¹² On 29 November 2019, Japanese Deputy Minister for Economy, Trade and Industry, Hideki Makihara, said in an interview with Bloomberg that his country would not sign the RCEP without India, stating "all we are thinking of is negotiations including India" (Xingchuan, 2019).

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During the same period, 17 new cross-regional PTAs also began negotiations. These include Australia-EU, China-Mauritius; China-Palestine; China-Moldova; Indonesia-Morocco; Indonesia-Mozambique; Indonesia-Tunisia; EAEU-Egypt; EAEU-Israel; EAEU-Serbia; and New Zealand-EU. The other six cross-regional agreements under negotiation are all with economies in Latin America and include China-Uruguay; India-Peru; Australia-New Zealand-Pacific Alliance; Republic of Korea-Mercosur; Singapore-Pacific Alliance; and Singapore-Mercosur.

In addition, there have also been attempts to revive the negotiations for a comprehensive agreement between the European Union and ASEAN as a whole. The negotiations were resumed in 2017, likely as a strategy to mitigate the impact of rising trade tensions among major trading partners. Since the European Union is ASEAN's second-largest trade partner after China, completion of this agreement would enable considerable improvement in market access conditions for ASEAN economies (Valero, 2018; European Commission, 2019a). However, the negotiations progressed slowly over the course of 2017-2018. It is likely that the European Union will proceed with negotiating separate agreements with individual ASEAN members, following successful negotiations with Viet Nam and Singapore. The negotiations for the EU-Thailand PTA are scheduled to resume soon, following Thailand's election in 2019 (Arunmas, 2019; European Commission 2019b). Additionally, the European Union has been negotiating a comprehensive agreement with Indonesia since 2016, with the ninth round of negotiations scheduled for December 2019 (bilaterals.org, 2019).

Lastly, the United States and China seems to reach their agreement on the limited-scope trade deal which may reduce trade tensions and policy uncertainties. On 13 December 2019, the two countries announced the conclusion of the Phase-I agreement. Despite not being signed, the agreement has caused a cancelation of the 15th December-round tariffs in the two countries.¹³

Types of PTAs in Asia and the Pacific

As of November 2019, there were 172 'physical' trade agreements in force, 16 signed and pending ratification, and 95 under negotiations, which had at least one member from the Asia-Pacific region.¹⁴ The WTO's Transparency Mechanism for Regional Trade Agreements (RTA) provides for early announcement of any trade agreements and notification to the WTO.¹⁵ However, not all of these agreements have been notified to the WTO.¹⁶ In particular, there are 26 agreements in force and 14 signed and pending ratification that have not been notified to WTO. Additionally, most of those initiated have not been reported through Early Announcement process. Moreover, some of the agreements in force have not been notified to the WTO despite having entered into force more than 10 years ago.¹⁷

¹³ According to USTR (2019), the Phase-I agreement will cause a reduction of the September-round tariffs of the United States from 15% to 7.5%. The deal requires China to make substantial additional purchases of U.S. goods and services. It also requires structural reforms and other changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. However, uncertainties remain high, because China has not announced its commitments.

¹⁴ Data from APTIAD, accessed November 2019, available at <https://www.unescap.org/content/aptiad/>.

¹⁵ This is not limited to signed agreements but also to those where countries have intention to negotiate. Text of the 2006 General Council Decision on the Transparency Mechanism (WT/L/671) clearly lays down that, for early announcement, members participating in new negotiations aimed at the conclusion of an RTA shall endeavour to so inform the WTO. The notification of an RTA by Members should take place as early as possible, in general no later than the parties' ratification of the RTA or any party's decision on the application of the relevant parts of an agreement and before the application of preferential treatment between the parties (WTO, 2006). Please note that for the purpose of this brief, RTAs are the same as PTAs.

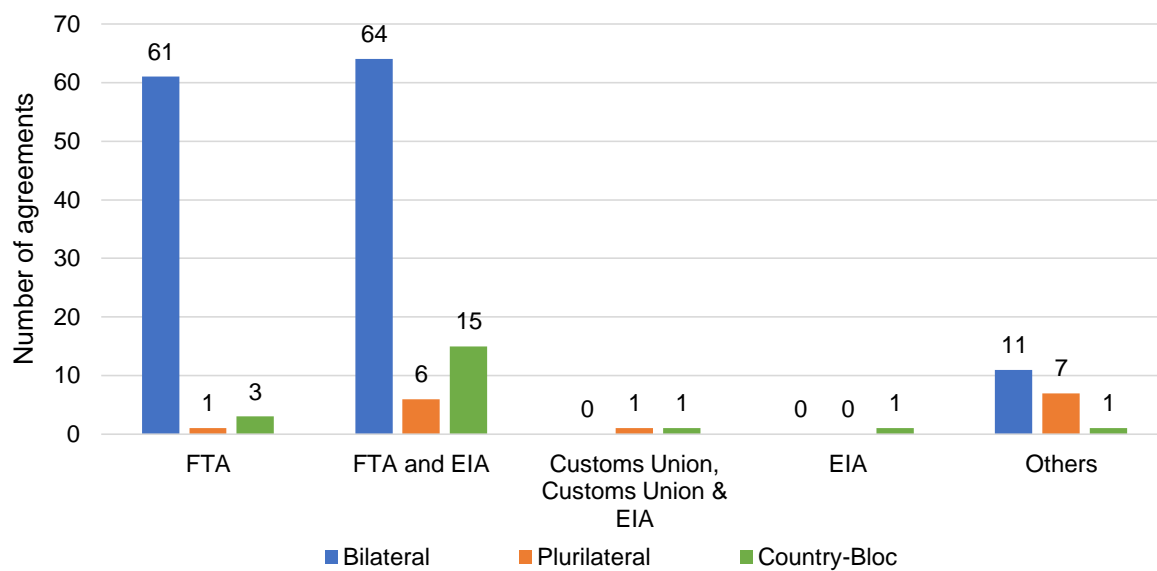
¹⁶ For PTAs not notified to WTO official information available online was used to register them in APTIAD.

¹⁷ These include bilateral agreements between Armenia-Tajikistan, Azerbaijan-Belarus, Azerbaijan-Kazakhstan, Azerbaijan-Moldova, Azerbaijan-Turkmenistan, Azerbaijan-Uzbekistan, Kazakhstan-Moldova, Kazakhstan-Uzbekistan, Kyrgyzstan-Tajikistan, Pakistan-Iran, Sri Lanka-Iran, Tajikistan-Belarus, Tajikistan-Kazakhstan, Tajikistan-Uzbekistan, Turkmenistan-Belarus, Turkmenistan-Moldova, Uzbekistan-Belarus, Uzbekistan-Moldova. Additionally, it also includes one plurilateral agreement, namely, ECOTA.

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Figure 3 presents a breakdown of Asia-Pacific PTAs in force. FTAs covering goods, as well as FTAs and EIAs covering both goods and services, account for 87% of all PTAs in force in the region. The former, i.e. FTAs, account for 38% of this and the latter, i.e. FTAs and EIAs, account for the remaining 49%. Partial Scope Agreements (PSAs) are referred to as 'Others' in figure 3 and account for 11% of regional PTAs in force, while the share of customs unions amounts to only 1.2%. EIAs account for only 0.5% of regional PTAs in force and are comprised of a single PTA between Armenia and the EU. It is clear that agreements covering both goods and services now account for the majority of PTAs in the region.

Figure 3. Breakdown of PTAs in force as of 2019, by type



Source: ESCAP calculation, based on data obtained from APTIAD (accessed November 2019).

As noted above, the majority of PTAs of Asia-Pacific economies are bilateral in scope. In this regard, bilateral PTAs account for approximately 79% of all Asia-Pacific PTAs. On the other hand, plurilateral agreements account for 9% of PTAs in force in the region, while country-bloc agreements account for the remaining 12%. However, many of these bilateral and plurilateral agreements co-exist between the same countries. For example, members in CPTPP and RCEP overlap and many of them have bilateral agreements among each other. The situation increases the potential cost of 'noodle bowl effect' which

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