South-South RTAs in the WTO context

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Major Themes of WTR 2011

- Preferential trade agreements (PTAs) continue to proliferate

- Trade preferences are less and less important, so other factors are driving PTAs

- “Deeper integration” trends are rising

- These developments have an impact on the relationship between PTAs and the WTO
Number of PTAs in force (1950-2010)

Number of PTAs

Year

developing-developing
developed-developing
developed-developed
Intra- and cross-regional PTAs in force (1950-2010)
PTAs by type (1950-2010)
### PTAs by region, regional type and country group

<table>
<thead>
<tr>
<th>Region</th>
<th>Africa (58)</th>
<th>CIS (12)</th>
<th>Europe (40)</th>
<th>South America (12)</th>
<th>Central America (7)</th>
<th>Caribbean (24)</th>
<th>West Asia (8)</th>
<th>Middle East (13)</th>
<th>Oceania (30)</th>
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<th>North America (5)</th>
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<tr>
<th>Region</th>
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<th>Plurilateral; at least one party is a PTA</th>
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<td>Developing-Developing</td>
<td>135</td>
<td>36</td>
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</table>
Tariff preferences matter less and less

- Only 16% of total trade subject to preferences; 51% MFN duty-free; 33% positive MFN

- Average tariff only 4%, with 2% of trade eligible for preferences above 10%

- "Competition-adjusted" preferences: Some 87% of trade benefiting from preferences have margins of no more than 2%

BUT

- Certain tariff peaks persist on "sensitive" products, sometimes in both MFN and PTA trade

- About 66% of MFN trade with tariffs of 15% or more attract the same tariff levels under PTAs
Other motives for PTAs

- Considerations applying to both MFN agreements and PTAs:
  - Neutralizing the “beggar-thy-neighbour” effects of unilateral trade policies
  - Gaining credibility and reducing uncertainty through lock-in effects
  - Signalling openness to investors

- Some other factors particular to PTAs:
  - Increasing domestic market size
  - Achieving deeper commitments, perhaps more quickly
  - “Political” motives
Going beyond the standard analysis

- PTAs have evolved over time and have gone beyond border measures.

- Trade openness along with the development of new forms of trade (that technological development makes possible) is increasingly creating pressures to reconcile divergent national practices.

- We need to go beyond the standard or traditional theories involving trade creation and trade diversion to explain the emerging patterns of PTAs.
The concept of deep integration

- Trade agreements that mostly deal with border measures are often defined as "shallow" agreements.

- The concept of deep agreement is widely used to refer to any arrangement that goes beyond a simple free trade area.

- There are two distinct dimensions of deep integration: extensive and intensive

- The two dimensions are often related: the extension of the coverage of an agreement may require the creation of common institutions for its proper functioning
Why is deep integration gaining momentum?

- Deep integration and trade are intimately related
  - Deep agreements necessary to promote trade and economic integration more broadly
  - Trade openness is a determinants of deep agreements.

- Shallow and deep integration are complementary institutions, as the first generates a demand for governance that the second can provide.

- International production networks are useful to illustrate the complementarity between trade and governance which is at the root of the flourishing of deep agreements.
Deep integration: a cost-benefit analysis

- What are the costs and benefits of deep integration?
  - Harmonization vs internalization of policy spillovers.

- What countries should form a deep agreement?
  - Countries with similar policy preferences
  - Countries whose policies have a greater impact on others

- Which policy areas should be the object of a deep agreement?
  - Common decisions should be taken on policy prerogatives characterized by large cross-border effects
“Deep” integration characterizes an increasing number of PTAs

- Arrangements that go beyond a simple free trade area.

- “Intensive” and “extensive” integration: WTO+ and WTO-X

- International production networks foster deep integration, a reflection of the complementarity between trade and governance

- A proxy measure for production networks: trade in intermediate goods
Number of PTAs covering WTO+ provisions

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<th>Sector covered</th>
<th>Legally enforceable</th>
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<td>Agricultural tariffs</td>
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<td>Customs</td>
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<tr>
<td>AD</td>
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<tr>
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</tr>
<tr>
<td>Export tax</td>
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<td>TRIPS</td>
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<td>STEs</td>
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### Number of PTAs covering WTO-X provisions

<table>
<thead>
<tr>
<th>Provisions</th>
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<th>Of which legally enforceable</th>
<th>Provisions</th>
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</table>
Number of PTAs covering WTO-X provisions

Most frequently encountered provisions

- Covered
- Enforceable

Least frequently encountered provisions

- Covered
- Enforceable
Evolution of WTO+ and WTO-X provisions

WTO+ provisions

WTO-X provisions

covered  enforceable

covered  enforceable
WTO+ and WTO-X provisions by income group

WTO+ provisions

WTO-X provisions
WTR2011 examines some policy areas in greater detail

- Areas examined:
  - Services, investment, TBT and competition policy (all “behind-the-border”)

- Questions addressed:
  - How much harmonization occurs?
  - How far beyond the WTO?
  - Are there family resemblances within or among PTAs?
Case Study (1): ASEAN

- Created for political-security reasons in 1967
- Chronology of economic integration
  - Partial scope preferential arrangement in 1977
  - Free trade area established in 1992
  - Services, IP, Investment provisions agreed to in 1995-96
  - Deepened financial and monetary cooperation with Northeast Asia
  - Has negotiated PTAs with China, Korea, Japan, Australia-NZ, etc.

- Parts and components trade (a measure of production sharing) grew dramatically during the 1967-92 period

- Was major destination of FDI (particularly Japanese FDI)
  - Between a fifth to a sixth of all FDI flows to developing countries
Increased regionalisation of production networks would not have been possible without the increasing levels of trade liberalization and openness to FDI achieved through ASEAN.

Deep integration aiming at higher levels of predictability in economic policy is a prerequisite for production networks to prosper.
Case Study (2): Costa Rica

- Costa-Rica has PTAs with other Latin American countries (Mexico, Chile, the Dominican Republic, CARICOM, Panama), US, Canada, EU, and also with China & Singapore

- Over the last decade, Costa Rica has become more integrated with global production networks - not only with firms in US, but also with firms located in East Asian countries (China)

- It is estimated that more than 25% of its total goods exports in 2009 were directly related to production networks in electronics with China being the main trading partner.

- The link between production networks and PTAs seems apparent in Costa Rica's agreements with the United States and with China.
Case Study (3): Africa

- African integration does not fit into this production-network story
- A struggle to correct fragmentation bequeathed by European colonialism
  - Consequences of fragmentation - small markets, land-locked economies, limited development options
  - In the 1980s, the Lagos Plan of Action proposed the division of the continent into regional integration areas that would constitute eventually a united African economy
- For the most part “shallow” integration
  - Linear process of integration beginning with preferential trade liberalization, customs union, etc.
- Assessment:
  - Ambitious targets yet poor record (small share of intra-regional trade)
  - One explanation is that some key constraints are behind the border
Deep integration and production networks: some empirics

- The report tests the two-way link between deep integration PTAs and production networks using trade in parts and components as a proxy for global production sharing.

- Results show that:
  - Greater trade in parts and components increases the level of depth of newly signed agreements between PTA members.
  - PTAs increase trade in parts and components by 35% among country members.
  - The greater the level of depth of an agreement, the bigger the increase in trade between member countries.
Deep integration and production networks: some empirics

![Chart showing trade in intermediates and deep agreements over time.](chart.png)
Multilateralism and PTAs

Potential synergies

- Deep integration provisions may be non-discriminatory: the MFN dividend
- Mechanisms in some PTAs may support further integration
  - “Non-party" MFN clauses
  - Docking provisions

Potential systemic risks

- Trade remedies provisions in PTAs (e.g. anti-dumping and safeguards) may reinforce discrimination
- The effect of preference erosion on multilateral action
- “Lock-in” and risks of regulatory divergence
Future WTO Agenda on PTAs

- Press on with MFN opening
- Strengthen GATT/WTO rules
- A possible “softer” sequential approach
  - Transparency mechanism as a first stage
  - Best practice in PTAs
  - Define rules
- A process aimed at “multilateralizing” regionalism
  - Reducing transactions costs and minimizing risks of regulatory divergence
  - Seeking increased commonality in rules of origin
  - Banking (binding) preferential tariffs
  - Turning WTO+ and WTO-X into WTO
- Rethinking WTO decision-making as an aid to the multilateralization process
PTAs content database available at:
http://www.wto.org/english/res_e/publications_e/wtr11_dataset_e.htm

Discussion Forum
http://www.wto.org/english/res_e/publications_e/wtr11_forum_e.htm