



ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Subcommittee on International Trade and Investment

First session
27-29 October 2004
Bangkok

MULTILATERALISM AND NEW-AGE REGIONALISM: AN ONGOING INTERPLAY

(Item 4 of the provisional agenda)

**MULTILATERALISM FREE TRADE AREAS IN ASIA AND THE PACIFIC:
PROGRESS, CHALLENGES AND PROSPECTS**

Note by the secretariat

SUMMARY

The purpose of this note is to consider the evolving regional trading panorama, and what it could imply in future for outward-oriented regional trade and investment relations. Central to the note is the view that regionalism in Asia and the Pacific has been outward-oriented, flexible and, by and large, supportive of the multilateral process of liberalization. Regionalism has sought to integrate Asia-Pacific economies into the world (rather than create discriminatory blocs) beneficial to long-term development. The frenzy of bilateral trade agreements has raised concerns as to how stable this mutually supportive accommodation between multilateralism and regionalism really is.

This note first undertakes a brief synopsis of the evolution of regional trade and investment cooperation policies. This serves to place the second and third tasks of this note, namely, assessments of the current regional trading panorama and of the future scenario, in their proper historical context. Fourth, the paper considers the potential role that ESCAP could play. The Subcommittee is invited to consider these issues and provide guidance to the secretariat on its future work in trade and investments.

CONTENTS

	<i>Page</i>
Introduction	1
I. WHERE DO WE COME FROM?.....	2
II. WHERE DO WE STAND NOW?	4
III. NEW AGE REGIONALISM: WHERE ARE WE GOING?	10
IV. RE-ESTABLISHING THE PRIMACY OF THE MULTILATERAL TRADING SYSTEM.....	15
V. ROLE OF ESCAP	17
VI. CONCLUSION.....	21

Introduction

1. As developed and developing countries seek to more effectively manage their increasingly interdependent economic relationships, the ESCAP region provides outstanding evidence of the benefits of open trade and investment policies. The region continues to generate the highest rates of economic growth in the world, which have brought the people of this region out of poverty more quickly than ever before. Yet rapid growth has also generated deep socio-economic and political changes which, if not addressed by the right domestic and international policies, could engender widespread instability and self-perpetuating marginalization of weaker economies. Furthermore, despite the progress made after 50 years of trade and investment liberalization, much of it under the General Agreement on Trade and Tariffs (GATT), world markets are still far from being free, thus preventing developing countries from gaining more from globalization.
2. The birth of the World Trade Organization (WTO) in 1995 brought about policy changes that were far-reaching and have been viewed as nothing less than a revolution in trade policy reform. However, as countries accelerated their liberalization processes and integration into the world economy, imbalances and instabilities increased both among countries and within countries: it was unrealistic to assume that these revolutionary changes would continue to bring about enhanced cooperation among countries, greater stability and prosperity.
3. Against this complex multilateral background, regionalism has become a key component of the new international order. It offers Governments – of developed and developing countries alike – an attractive complementary strategy. Currently, almost without exception, trading countries of the world belong to one, or more typically, two or three regional trading arrangements (RTAs) or regional integration arrangements of some kind, covering about two thirds of the trade conducted. The ESCAP region is no exception.
4. If multilateralism is complex, regionalism is even more so. It is a process that is inextricably linked to political objectives, cultural affinities and historical perspectives. Regionalism should therefore be studied from different angles. This note, in accordance with the ESCAP mandate and the terms of reference of the Committee on Managing Globalization, does not discuss geopolitical issues or regional security issues, notwithstanding their importance, whether as motivators or as consequences of enhanced trade relations.¹ The focus is on trade and development. The paper also does not discuss movement of labour, financial cooperation or monetary union at any length.

¹ Political scientists suggest that negotiations between political leaders on trade issues gradually build trust among countries. Some would even suggest that regions that are highly integrated may have less conflict because interlocking the supply of raw materials and creating interdependence among strategic industries makes it materially impossible to sustain conflicts. The Association of South-East Asian Nations (ASEAN) is a case in point: intraregional conflicts were experienced among the founding members before ASEAN was established in 1967, but not afterwards. However, the opposite may occur where integration brings adjustment costs, transfers of benefits and new tensions among countries, thereby worsening regional security.

5. RTAs have wide-ranging definitions. At the outset, it is important to establish what is meant by RTAs. For the purposes of this note, RTAs cover free trade areas (FTAs), which are defined in article XXIV of the General Agreement on Tariffs and Trade (GATT) as consisting a “a group of two or more customs territories in which the duties and other restrictive regulations of commerce....are eliminated on substantially all the trade...”. RTAs also cover preferential trading arrangements (PTAs) among developing countries referred to in the GATT Decision of 28 November 1979² as those arrangements “entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs...on products imported from one another”. RTAs could also encompass customs unions, but these are much less common in the ESCAP region than in other parts of the world.

6. Regional integration arrangements, however, refer to wider forms of regional liberalization and economic cooperation schemes such as that under economic partnership agreements (EPAs), the Asia-Pacific Economic Cooperation (APEC) framework, growth triangles and other constellations of economic cooperation.

7. The purpose of this note is to consider the evolving regional trading panorama, and what it could imply in the future for outward-oriented regional trade and investment relations. Central to the note is the view that regionalism in Asia and the Pacific has been outward-oriented, flexible and, by and large, supportive of the multilateral process of liberalization. Regionalism has sought to integrate Asia-Pacific economies into the world (rather than create discriminatory blocs) to the benefit of long-term development. More recently, however, events may be taking a turn that raises concerns at to how stable this mutually supportive accommodation between multilateralism and regionalism really is.

8. First, a brief synopsis of the evolution of regional trade and investment cooperation policies is undertaken. This serves to place the second and third tasks of this note, namely, assessments of the current regional trading panorama and of the future scenario, in their proper historical context. Fourth, the paper considers the potential role that ESCAP could play. The Subcommittee is invited to consider these issues and provide guidance to the secretariat on its future work in trade and investments.

I. WHERE DO WE COME FROM?

9. The ESCAP region is the least regionalized in terms of RTAs notified to WTO. The highest concentration is to be found in the European Union’s various RTAs with Central and Eastern Europe, as well as northern and southern African countries and further afield. Asia-Pacific regionalism or aspirations to create a pan-continental integration scheme have never really taken

² Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (L/4903).

root. A few starts have surfaced from time to time, notably, the Bandung Conference in 1950, which was to become the precursor of the non-aligned movement.

10. Notwithstanding the above, broadly speaking three waves of regional integration can be distinguished in post-War history. The first wave occurred in the 1960s, following the establishment of the European Economic Community in 1957. South-South cooperation, particularly in Africa and Latin America, intensified, driven by the desire of developing countries to consolidate import substitution industries within larger economic spaces. These agreements sought through high external tariffs and administrative policy to determine which industries should be developed, how and where. This came to be known later as closed regionalism.

11. By the late 1970s, the ineffectiveness of these agreements was evident. They had at best only contributed marginally to industrial development, and the accumulated external debt of many countries had led to disarray. A change in strategy took root, as globalization accelerated, spurred on by rapidly advancing technological changes, while the demise of central planning gave North-South relationships a new interdependent market-driven, profit-oriented *raison d'être*. A second wave of regionalism appeared as countries realigned development strategies towards exports. The emphasis shifted to open regionalism so that trade and investments from the outside would be boosted rather than deflected, thus enhancing export competitiveness. Adherence to the principles of non-discriminatory treatment gained ground with membership in the GATT/WTO system increasing quickly, while at the same time developing countries pursued a second even-faster track to trade liberalization via the regional route. Multilateralism and regionalism thus entered a golden age of mutually reinforcing liberalization.

12. This golden age peaked in the early 1990s with the formation of APEC and its embodiment of open regionalism and non-discriminatory (instead of preferential) liberalization, in the strictest sense of the word. In other words, the best tariff preferences that one APEC member accorded to other APEC members were also extended to non-APEC trading partners. Therefore, non-members did not need to fear that APEC would advocate closed or preferential markets to the exclusion of some. The design of APEC was intended to offer the strongest possible support to the multilateral trading system. What was without precedent or parallel is that liberalization commitments were not made on the basis of a reciprocal exchange of tariff preferences. Instead, within a common goal of reaching free trade (by 2010 for developed countries and 2020 for developing countries), each member voluntarily determined its own liberalization path as recorded in individual action plans. And indeed it is this “concerted unilateralism” or “self-determined liberalization in unison”, without a treaty to give it legal backing, that is believed to have led to the lack of convincing evidence that APEC’s unique approach is indeed viable as a means of liberalizing trade.³

³ See, for example, R. Scollay and J.P. Gilbert, *New Regional Trading Arrangements in the Asia Pacific?* (Institute for International Economics, Washington, 2001).

13. As the end of the century approached, regionalism took a new turn, which in effect ushered in a third wave of regionalism. The trigger was the 1997 financial crisis. The APEC process of liberalization stumbled as some of APEC's larger members decided that for sensitive products such as forestry and fisheries they would be willing to make liberalization commitments only within the context of the legally binding and negotiated reciprocity of WTO and preferential RTAs.⁴ At the same time, stalwarts of multilateral liberalization such as Japan and the Republic of Korea abandoned their earlier reticence with regard to RTAs, and a new age of bilateral EPAs took root.

II. WHERE DO WE STAND NOW?

A. Regional level

1. PTAs/FTAs

14. Traditionally, the ESCAP region has been the least regionalized in terms of RTAs notified to WTO. This may be changing, however. At last count, there were more than 50 RTAs involving ESCAP members and associate members, of which 48 had been notified to WTO (table 1).

**Table 1. RTAs notified to GATT/WTO and in force in the ESCAP region,
by date of entry into force
(As at 1 May 2004)**

Agreement	Date of entry into force	GATT/WTO notification			Document series	Examination process	
		Date	Related provisions	Type of agreement		Status	Ref.
Bangkok Agreement	17/6/76	2/11/76	Enabling clause	Preferential arrangement	L/4418 L/4418/Corr.1	Report adopted	25S/109 14.03.78
PATCRA	1/2/77	20/12/76	GATT, art. XXIV	Free trade agreement	L/4451 L/4451/Add.1	Report adopted	24S/63 11.11.77
SPARTECA	1/1/81	20/2/81	Enabling clause	Preferential arrangement	L/5100	Examination not requested	...
CER	1/1/83	14/4/83	GATT, art. XXIV	Free trade agreement	WT/REG111	Report adopted	31S/170 02.10.84
CER	1/1/89	22/11/95	GATS, art. V	Services agreement	WT/REG40 S/C/N/7	Consultations on draft report	...
GSTP	19/4/89	25/9/89	Enabling clause	Preferential arrangement	L/6564/Add.1	Examination not requested	...
Lao People's Dem. Rep. — Thailand	20/6/91	29/11/91	Enabling clause	Preferential arrangement	L/6947	Examination not requested	
AFTA	28/1/92	30/10/92	Enabling clause	Preferential arrangement	L/4581	Examination not requested	...
EFTA — Turkey	1/4/92	6/3/92	GATT, art. XXIV	Free trade agreement	WT/REG86	Report adopted	40S/48 17.12.93

⁴ Ibid.

Kyrgyzstan — Russian Federation	24/4/93	15/6/99	GATT, art. XXIV	Free trade agreement	WT/REG73	Under factual examination	...
MSG	22/7/93	7/10/99	Enabling clause	Preferential arrangement	WT/COMTD/N/9 WT/COMTD/21	Examination not requested	...
Georgia — Russian Federation	10/5/94	21/2/01	GATT, art. XXIV	Free trade agreement	WT/REG118	Under factual examination	...
CIS	30/12/94	1/10/99	GATT, art. XXIV	Free trade agreement	WT/REG82	Under factual examination	...
Kyrgyzstan — Armenia	27/10/95	4/1/01	GATT, art. XXIV	Free trade agreement	WT/REG114	Under factual examination	...
Kyrgyzstan — Kazakhstan	11/11/95	29/9/99	GATT, art. XXIV	Free trade agreement	WT/REG81	Under factual examination	...
SAPTA	7/12/95	22/9/93	Enabling clause	Preferential arrangement	WT/COMTD/10	Examination not requested	...
EC — Turkey	1/1/96	22/12/95	GATT, art. XXIV	Customs union	WT/REG22	Under factual examination	...
Georgia — Ukraine	4/6/96	21/2/01	GATT, art. XXIV	Free trade agreement	WT/REG121	Under factual examination	...
Georgia — Azerbaijan	10/7/96	21/2/01	GATT, art. XXIV	Free trade agreement	WT/REG120	Under factual examination	...
Kyrgyzstan — Republic of Moldova	21/11/96	15/6/99	GATT, art. XXIV	Free trade agreement	WT/REG76	Factual examination concluded	...
Israel — Turkey	1/5/97	18/5/98	GATT, art. XXIV	Free trade agreement	WT/REG60	Factual examination concluded	...
Kyrgyzstan — Ukraine	19/1/98	15/6/99	GATT, art. XXIV	Free trade agreement	WT/REG74	Under factual examination	...
Romania — Turkey	1/2/98	18/5/98	GATT, art. XXIV	Free trade agreement	WT/REG59	Factual examination concluded	...
Lithuania — Turkey	1/3/98	8/6/98	GATT, art. XXIV	Free trade agreement	WT/REG61	Factual examination concluded	...
Kyrgyzstan — Uzbekistan	20/3/98	15/6/99	GATT, art. XXIV	Free trade agreement	WT/REG75	Under factual examination	...
Hungary — Turkey	1/4/98	12/5/98	GATT, art. XXIV	Free trade agreement	WT/REG58	Factual examination concluded	...
Estonia — Turkey	1/6/98	23/3/99	GATT, art. XXIV	Free trade agreement	WT/REG70	Factual examination concluded	...
Czech Republic — Turkey	1/9/98	24/4/99	GATT, art. XXIV	Free trade agreement	WT/REG67	Factual examination concluded	...
Slovakia — Turkey	1/9/98	24/3/99	GATT, art. XXIV	Free trade agreement	WT/REG68	Factual examination concluded	...
Georgia — Armenia	11/11/98	21/2/01	GATT, art. XXIV	Free trade agreement	WT/REG119	Under factual examination	...
Bulgaria — Turkey	1/1/99	4/5/99	GATT, art. XXIV	Free trade agreement	WT/REG72	Factual examination concluded	...
Georgia — Kazakhstan	16/7/99	21/2/01	GATT, art. XXIV	Free trade agreement	WT/REG123	Under factual examination	...
Turkey — Slovenia	1/6/00	6/3/02	GATT, art. XXIV	Free trade agreement	WT/REG135	Factual examination concluded	...
Latvia — Turkey	1/7/00	22/1/01	GATT, art. XXIV	Free trade agreement	WT/REG116	Factual examination concluded	...

Turkey — Former Yugoslav Republic of Macedonia	1/9/00	22/1/01	GATT, art. XXIV	Free trade agreement	WT/REG115	Factual examination concluded	...
New Zealand — Singapore	1/1/01	4/9/01	GATT, art. XXIV	Free trade agreement	WT/REG127	Factual examination concluded	...
New Zealand — Singapore	1/1/01	4/9/01	GATS, art. V	Services agreement	WT/REG127 S/C/N/169	Under factual examination	...
India — Sri Lanka	15/12/01	26/6/02	Enabling clause	Free trade agreement	WT/COMTD/N/16	Examination not requested	...
Japan — Singapore	30/11/02	14/11/02	GATS, art. V	Services agreement	WT/REG140 S/C/N/206	Under factual examination	...
Japan — Singapore	30/11/02	14/11/02	GATT, art. XXIV	Free trade agreement	WT/REG140	Under factual examination	...
EFTA — Singapore	1/1/03	24/1/03	GATS, art. V	Services agreement	WT/REG148 S/C/N/226	Factual examination not started	...
EFTA — Singapore	1/1/03	24/1/03	GATT, art. XXIV	Free trade agreement	WT/REG148	Factual examination not started	...
Turkey — Bosnia and Herzegovina	1/7/03	8/9/03	GATT, art. XXIV	Free trade agreement	WT/REG157	Factual examination not started	...
Turkey — Croatia	1/7/03	8/9/03	GATT, art. XXIV	Free trade agreement	WT/REG156	Factual examination not started	...
Singapore — Australia	28/7/03	1/10/03	GATS, art. V	Services agreement	WT/REG158 S/C/N/233	Factual examination not started	...
Singapore — Australia	28/7/03	1/10/03	GATT, art. XXIV	Free trade agreement	WT/REG158	Factual examination not started	...
China — Macao, China	1/1/04	12/1/04	GATT, art. XXIV	Free trade agreement	WT/REG163	Factual examination not started	...
China — Macao, China	1/1/04	12/1/04	GATS, art. V	Services agreement	WT/REG163 S/C/N/265	Factual examination not started	...
China — Hong Kong, China	1/1/04	12/1/04	GATT, art. XXIV	Free trade agreement	WT/REG162	Factual examination not started	...
China — Hong Kong, China	1/1/04	12/1/04	GATS, art. V	Services agreement	WT/REG162 S/C/N/264	Factual examination not started	...
United States — Singapore	1/1/04	19/12/03	GATT, art. XXIV	Free trade agreement	WT/REG161	Factual examination not started	...
United States — Singapore	1/1/04	19/12/03	GATS, art. V	Services agreement	WT/REG161 S/C/N/263	Factual examination not started	...
United States — Chile	1/1/04	19/12/03	GATT, art. XXIV	Free trade agreement	WT/REG160	Factual examination not started	...
United States — Chile	1/1/04	19/12/03	GATS, art. V	Services agreement	WT/REG160 S/C/N/262	Factual examination not started	...
Republic of Korea — Chile	1/4/04	19/4/04	GATT, art. XXIV	Free trade agreement	WT/REG169	Examination not requested	...
Republic of Korea — Chile	1/4/04	19/4/04	GATS, art. V	Services agreement	WT/REG169 S/C/N/302	Examination not requested	...
ECO	not available	22/7/92	Enabling clause	Preferential arrangement	L/7047	Examination not requested	...

Source: WTO web site.

15. They vary considerably in membership, style, design and effectiveness, in line with the diverse and heterogeneous nature of the political and economic landscape of the ESCAP region. Many are grounded in clear regional political alliances or common cultural affinities, but some are not. Some have well-developed institutionalized rules of interaction, while others have a more informal structure based on voluntary cooperation. Some are open to new members, others have placed a moratorium on new members. The breadth of coverage varies as well, with services covered in a few agreements while most do not cover services in any meaningful way. Agriculture may be wholly or partially excluded, while movement of factors of production, depth of tariff cuts, coverage of non-tariff measures and decision-making processes also vary widely. Likewise, the results achieved vary tremendously.

16. The most highly integrated arrangements are those based on negative list approaches to liberalization, where all products and services are automatically covered, unless they have been listed specifically as subject to exemptions. Examples of such advanced RTAs are the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) and the ASEAN Free Trade Area (AFTA). The adoption of framework agreements for Bangladesh-India-Myanmar-Sri Lanka Economic Cooperation (BIMST-EC) and South Asian FTAs are two important (albeit early) steps towards greater regional integration.

17. A number of other RTAs, also called PTAs, are based on a product-by-product, positive list approach to liberalization. It is a much less advanced form of integration. This may be due to limited potential for mutually beneficial trade among members arising from similarities in economic structure, the small size of the economies or a lack of political commitment among members to move the liberalization process forward. The Melanesian Spearhead Group in the Pacific and the Bangkok Agreement are examples of such RTAs.

18. As will be noted from table 1, the trade agreements notified over the past few years are based almost exclusively on bilateralism. These modern bilateral trade agreements encompass the formation of a free trade area through the reduction of tariffs and other trade barriers imposed at the "border". However, they go beyond border measures, extending into wide-ranging areas of domestic policy-making. They thus encompass a deeper integration of trade through the harmonization of a wide range of trade practices, procedures and standards. They also encompass the creation of integrated investment areas that allow industries to achieve regional economies of scale and become more competitive internationally. In this way, they cover a much wider range of institutional, administrative and regulatory issues that seek to deepen economic integration: an elusive goal that up to today has proven to be painstakingly slow to achieve through the multilateral process. They are thus commonly referred to as EPAs.

2. Other forms of regional economic cooperation arrangements

19. Another characteristic of the ESCAP region, especially in South-East Asia and more recently the Greater Mekong Subregion (GMS), is a substantial movement towards freer trade on a local or subregional basis among developing countries, outside or within FTAs. This movement has taken a number of different configurations, permutations and forms, both conceptually and spatially. Such initiatives typically consist of intergovernmental agreements to provide permits and other forms of infrastructure to assist enterprises in setting up special zones. However, the region also has other configurations that are less formal and more market- and private sector-driven. The pioneering and most successful⁵ configuration was the private sector-driven Singapore-Johor-Riau triangular complementation of land, labour and capital. Other growth triangles have had less success.

B. Multilateral level

20. It is also important to note that the ESCAP region has traditionally been the least regionalized in terms of RTAs notified to WTO, but also the region which accounts for the largest share of economies that are not members of WTO (55 per cent). Only 27 of ESCAP's 46 developing members are WTO members (table 2). Furthermore, only 6 of the 14 least developed countries (LDCs) in the region are WTO members, reflecting the fact that most of the WTO accessions over the past decade have been by economies in transition from Central and Eastern Europe. In September 2003, Cambodia and Nepal became the first LDCs to join WTO since its establishment. Nepal completed its domestic ratification and became the 147th member on 23 April 2004, while Cambodia's ratification is expected within the next few months. Vanuatu completed its accession process in 2002, coincidentally at the same time as China and Taiwan Province of China, and was slated to become the first LDC to join WTO. Since then, however, ratification of the Protocol of Accession has stalled.

21. As a group, these economies continue to remain outside mainstream trade and investment dynamism. Furthermore, the current surge in bilateralism is exacerbating their isolation. Large trading countries are striking bilateral deals with partners that are carefully chosen according to the market access opportunities they offer. Small countries with their limited market access offers are in danger of being left on the sidelines. Under this scenario, their inclusion in a multilateral rules-based system assumes even greater importance.

⁵ Linda Low, "International production networks and the political economy of regionalism", paper presented at the ESCAP/Asian Strategy Forum/Japan Bank for International Cooperation Meeting on the Emerging Economic Map of Asia: Regional Production Restructuring, Asian Integration and Sustainable Development, Bangkok, August 2001.

Table 2. ESCAP members and associate members and status of their membership in WTO

Members ^{a)}

Regional members				Non-regional members		
<u>WTO members</u>	<u>WTO observers ^{b)} in the process of accession</u>	<u>No WTO status</u>	<u>GATT signatories-1994</u>	<u>WTO members</u>	<u>WTO observers</u>	<u>GATT signatories-1994</u>
Australia Armenia Bangladesh Brunei Darussalam Cambodia China Fiji <i>Georgia</i> India Indonesia Japan <i>Kyrgyzstan</i> Malaysia Maldives <i>Mongolia</i> Myanmar Nepal New Zealand Pakistan Papua New Guinea Philippines Republic of Korea Singapore Solomon Islands Sri Lanka Thailand Turkey	<i>Azerbaijan</i> Bhutan <i>Kazakhstan</i> Lao People's Democratic Republic <i>Russian Federation</i> Samoa <i>Tajikistan</i> Tonga <i>Uzbekistan</i> Vanuatu <i>Viet Nam</i>	Afghanistan Democratic People's Republic of Korea Iran (Islamic Republic of) Kiribati Marshall Islands Micronesia Nauru Palau Timor-Leste <i>Turkmenistan</i> Tuvalu	Australia Bangladesh Brunei Darussalam Fiji India Indonesia Japan Malaysia Maldives Myanmar New Zealand Pakistan Papua New Guinea Philippines Republic of Korea Singapore Solomon Islands Sri Lanka Thailand Turkey	France Netherlands United Kingdom of Great Britain and Northern Ireland United States of America	-	France Netherlands United Kingdom United States
Subtotal 27	11	11	20	4	-	4
Total 49				Total 4		

Associate members

<u>WTO members</u>	<u>WTO observers in the process of accession</u>	<u>No WTO status</u>	<u>GATT signatories-1994</u>
Hong Kong, China Macao, China	-	American Samoa Cook Islands French Polynesia Guam New Caledonia Niue Northern Mariana Islands	Hong Kong, China Macao, China
Total 9			

^{a)} Countries designated in bold are LDCs, while those in italics are economies in transition.

^{b)} Countries that have been granted observer status must start accession negotiations within five years of becoming observers.

III. NEW AGE REGIONALISM: WHERE ARE WE GOING?

22. Based on current events, it is not clear in which direction regionalism is moving. The sheer number of agreements under negotiation, their disparate membership and varying coverage make it difficult to draw conclusive answers.⁶ It is not clear whether this surge in bilateralism is a short-term phenomenon or not, and to what extent this trend will continue. What is certain is that all these initiatives have lofty aspirations. They are thus proving to be useful vehicles for quick and concrete gains from free trade. They are also bigger and wider agreements than previously seen and thus hold the potential for deeper integration and greater efficiency gains than is possible from the elimination of border tariffs only, the traditional focus of RTAs and multilateralism. At the same time, scepticism prevails, particularly among economists, civil society groups and business interest groups on the extent to which these bilateral trade agreements will achieve net benefits over the medium term. Broadly, two major trends can be distinguished: globalizing regionalism and fragmenting regionalism.

A. Linking subregions and continents: globalizing regionalism

23. One is a trend directed at coalescing existing regional groupings into outward-oriented FTAs that bridge subregions and continents. It holds the potential to lay the foundation for the eventual integration of all countries of the region into a forward-looking ESCAP-wide zone of efficient production with enhanced opportunities for world trade. It is the more promising of the two trends.

24. The locus of this integration is centred around East and South-East Asia. Progress in bringing about the China-ASEAN FTA has been faster than initially expected, notwithstanding a recently missed deadline of 30 June 2004. With a market of nearly 1.8 billion people, a regional gross domestic product of about US\$ 2 trillion, international trade worth US\$ 1.2 trillion and average annual economic growth of 8 per cent, by current trends, this will become the production base and trade and investment centre of the region. The addition of Japan, which has long worked at strengthening its economic ties with the members of ASEAN, is further boosting the integration process. Although Japan has proposed a somewhat different approach, focusing on a deeper and slower approach that goes beyond traditional tariff liberalization to encompass wider economic and technical cooperation, the size and advanced nature of Japan's economy make its role central to the integration process of this region. The Republic of Korea is also pursuing its own initiative and studying the implications of an FTA with ASEAN, thus bringing the vision of an ASEAN+3 free trade area one step closer. Likewise, India has signed an agreement with ASEAN for freer trade, with early harvest on selected products. This could have a significant impact on the westward expansion of the ASEAN+3 process of integration.

25. Another initiative with potential for strengthening intersubregional trading ties within Asia and the Pacific is the Bangkok Agreement. As the oldest RTA in the region, it is a well-established

⁶ R. Scollay and J.P. Gilbert, op. cit.

agreement. It has a region-wide membership and is open to all developing countries irrespective of geographic location. It is the only agreement that currently includes countries from South Asia (Bangladesh, India and Sri Lanka), South-East Asia (Lao People's Democratic Republic) and East Asia (China and Republic of Korea). With two of the fastest-growing economies of the region, and a consumer base of nearly 2.5 billion persons, the Agreement has the potential to become the world's largest RTA. Although to date, the Agreement has been beset by problems of limited product coverage and shallow tariff concessions, the third round of negotiations completed in July 2004 is expected to bring much wider and deeper benefits to members. The information contained in table 3, although of a preliminary nature, shows the number of items that will come under Bangkok Agreement concessions after the third round.

Table 3. Number of items under Bangkok Agreement concessions

Country	Current	After third round
Bangladesh	129	210
China	902 (18)	1 671 (156)
India	188 (33)	577 (57)
Republic of Korea	214 (29)	1 298 (316)
Sri Lanka	288 (32)	523 (80)
Total	1 721 (112)	4 279 (609)

Source: Calculations by the ESCAP secretariat.

Note: () = special concessions to LDCs.

26. Furthermore, the modalities and guidelines for these negotiations stipulate that they take place in conformity with WTO provisions governing RTAs, which discourage raising trade barriers against non-members. In the long run, much will depend on the extent to which members of the Agreement are able to move away from the positive list approach to a more comprehensive negative list of liberalization and expand coverage to include services and investment liberalization.

27. Recent developments in BIMST-EC (renamed as the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation) could also play a linking role between AFTA and the South Asian Free Trade Area (SAFTA), particularly following the adoption of a framework agreement in January 2004 to form an FTA by 2017, the addition of Bhutan and Nepal as new members and the clear political will that emerged at the first summit for broader economic cooperation, held in July 2004. Of particular note is the plan to launch a BIMST-EC business card/visa scheme that could go a long way in promoting cross-border trade and investments.

28. Bridging initiatives are taking place not only between subregions of the ESCAP region. They also stretch across continents. Calls have been made for stronger links between AFTA and the North American Free Trade Agreement to promote and strengthen trade and investment links between the two regions, while at the same time the United States, in November 2002, announced an “Enterprise for ASEAN” initiative, which envisages an overall framework agreement with ASEAN. Talks are also under way to create stronger links between AFTA and the Andean Community, and AFTA and Mercosur. Another initiative that reaches across continents is the linkage between AFTA and ANZCERTA, although no consensus has emerged on forming an FTA and activities have mostly focused on information-sharing. The Asia-Europe Meeting is yet another initiative that seeks to bridge trade, investment and a social development agenda between the EU and Asia, although once again the results emerging from this process are modest, confined mostly to exchanges of information and personnel in education, information and communication technology and environmental projects. Another example of the EU’s region-to-region approach are the recently launched negotiations for an EPA between the EU and seven southern African countries. Of particular interest, although not strictly a region-to-region configuration, is the India-Mercosur initiative, as the large and more inclusive linkage it proposes with the Latin American common market indicates the huge potential for cross-continental South-South trade. Current levels of trade are low (US\$ 1.3-1.8 billion) but this figure could rise 16-fold both ways if current inhibiting factors are addressed.⁷ It could also be designed to be a building bloc of the ongoing ASEAN+3 initiatives and of the multilateral trading system.

29. Finally, important pan-continental bridging initiatives such as the negotiations under the Free Trade Area of the Americas and the addition of 10 new members to EU are further developments pointing to the consolidation of RTAs into wider continental agreements within geographically congruent spaces.

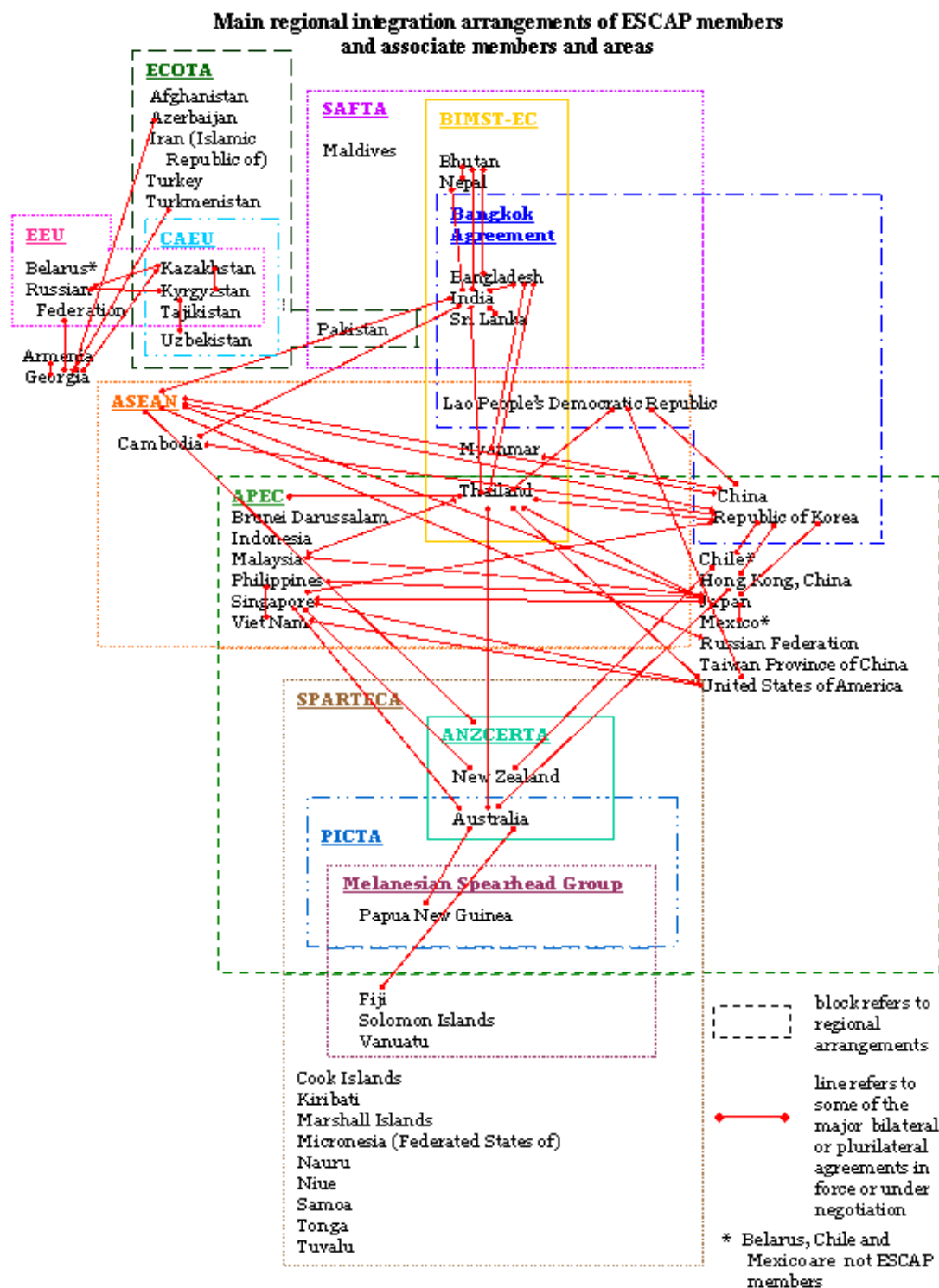
B. Fragmenting regionalism: bilateral FTAs

30. A second, and potentially more sinister, trend can be distinguished. An increasing number of trading nations are showing, through the number of new initiatives, that bilateralism is the more effective route for the promotion of trade and economic cooperation. This is a movement in the opposite direction: instead of amalgamating RTAs into wider bridging initiatives, there is a splintering of RTAs into bilateral FTAs. Figure I is an attempt – by no means comprehensive – to show these two opposing trends.

31. For example, the United States Framework Agreement under the “Enterprise for ASEAN” initiative in effect consists of a series of bilateral PTAs with individual ASEAN countries, the United States-Singapore FTA being the first one concluded, followed by similar agreements with Australia, the Philippines and Thailand, among others, in the pipeline. Similarly, Japan has indicated that it has

⁷ UNCTAD, “Forum on Regionalism and South-South Cooperation: the Case of India and Mercosur” (TD/L.370).

Figure I. The regional kaleidoscope of trade agreements



concerns about the varying levels of industrial development between the founding and newer members of ASEAN and prefers to enter into a series of bilateral trade agreements with individual member countries of ASEAN, also having started with Singapore, followed by the Philippines, Thailand and others in the pipeline. China is also negotiating separate bilateral agreements with a number of ASEAN countries, India, Pakistan, etc.

32. Likewise, the three-way linkage between China, Japan and the Republic of Korea, and the prospects for it to link up with the 10 economies forming AFTA in an ASEAN+3 configuration appears to have lost momentum. Instead, attention has been diverted to FTAs between individual North-East Asian economies and ASEAN, starting with ASEAN+China, followed by ASEAN+Japan, ASEAN+India and ASEAN+Republic of Korea. ASEAN+1+1+1ⁿ therefore appears at least for the time being to have gained traction over the ASEAN+3 configuration.

33. Bilateral agreements based on economic partnerships have clear advantages. First, they can be concluded more quickly because, on average, the smaller the number of countries involved the easier it is to reach agreement. Bilateralism can therefore speed up liberalization (if multilateralism has been slow, regionalism has been even slower). Second, they are useful vehicles for deepening integration through regulatory reform and wider areas of economic and technical cooperation. Third, they appear to be good conduits for linking trade and development goals, as they often encompass provisions for investments, technology transfer and other forms of economic cooperation and can be tailored to specific development goals. Those that are based on North-South partnerships also have an added pillar, namely, aid, thus potentially linking trade, aid and development goals in an integrated win-win-win manner.

34. The question that arises is whether the ESCAP region has found a new approach in these bilateral initiatives that promises greater economic benefits than a region-wide or a WTO approach to liberalization? And will these initiatives reinvigorate or eventually detract from the ongoing WTO negotiations?

35. Notwithstanding the above, bilateralism also raises some disturbing questions: To what extent will it continue? Where will this fragmentation come to rest? What happens to developing economies, particularly those with small market potential that are left on the sidelines?

36. For the time being, the answers to these questions are unclear. Nevertheless, it would appear that the current criss-crossing of bilateral FTAs portrayed in figure I could evolve into, and come to rest in, a more rational hub-and-spoke configuration. Both proactive and defensive trade strategies seem to be driving this process. On the one hand, major trading powers appear to be competing to establish trade hegemony in the region. At the same time, there are a number of smaller trading countries that are equally active in forging bilateral trade deals and also appear to be competing to establish dominance as a hub. This, however, may be more symptomatic of a defensive trade strategy, designed to avoid

finding themselves at the spoke end of another major hub. A multilayered constellation is thus emerging, made up of a dominant hub-and-spoke arrangement with substrata of other hub-and-spoke arrangements in which smaller economies may be trying to establish alternative hubs. The option of developing countries collectively establishing themselves through ASEAN, as the alternative hub, stands out in particular.⁸

37. At this point it is pertinent to recall that FTAs and hub-and-spoke systems differ in fundamental ways. FTAs imply non-discrimination among the members of the FTA. The best treatment given to one country in the FTA will be extended to others in the FTA as well, in other words a “pale imitation of MFN”.⁹ Under a hub-and-spoke arrangement, each country negotiates a separate agreement with the hub country, each tailored to the particular and separate interests involved between the hub and its respective spoke country. Preferential treatment between the hub and spoke is not necessarily extended to other spokes in a most-favoured-nation manner. Bilateralism based on exclusivity is the most discriminatory form of trading relationship and is therefore a major departure from the inclusiveness embodied in the MFN principle. It is also driven much more by the political relationship between the hub and the spoke, rather than a multilaterally agreed body of norms, rules and principles that apply equally to all. It is the least liberalizing of the configurations, as each spoke is likely to have comparative advantages in a different set of sectors, with the result that liberalization is tailored to fit the particular needs of each individual spoke. In a regional FTA the scope for exceptions is generally less because members will have different preferences concerning the extent to which sectors can be excluded from liberalization and will thus need to agree on a common denominator. Furthermore, import-competing industries in the hub country will insist on including wide-ranging safeguard clauses and stringent rules of origin. Vested interests may become firmly entrenched and more difficult to dislodge in future liberalization attempts.¹⁰ The more spokes are added to the hub, the more diluted the benefits for each of the spokes. Finally, if a hub country conducts freer trade with spokes that in turn are not involved in reducing trade barriers among each other, outer-rim trade, which typically consists of South-South trade, is displaced and spokes turn into “spikes” as the hub continues to suck trade and investments towards itself.

IV. RE-ESTABLISHING THE PRIMACY OF THE MULTILATERAL TRADING SYSTEM

38. Will a dominant hub emerge and will its gravitational force prove to be too strong, or will all these bilateral, regional and cross-continental initiatives coalesce and provide a fast track to global free trade under the multilateral trading system?

⁸ R. Scollay, “Economic impact of RTAs in Asia and the Pacific”, paper presented at the Expert Group Meeting on Regional Trade Agreements in Asia and the Pacific, Bangkok, 30-31 January 2003.

⁹ M. Schiff and A. Winters, *Regional Integration and Development* (New York, Oxford University Press, 2003).

¹⁰ M. Kostecki and B. Hoekman, *The Political Economy of the World Trading System* (New York, Oxford University Press, 2001).

39. Ultimately, from a trade perspective, the future configuration at which bilateral trade agreements will come to rest will be influenced by the pace, depth and scope of WTO negotiations. At the end of the day, the more WTO negotiations achieve significant reductions in trade barriers on an MFN basis, the weaker the rationale for pursuing alternative discriminatory, more preferential FTAs, be they regional or bilateral, and the less problematic they will be to non-members.

40. So where do we stand with WTO negotiations as mandated at the Doha Ministerial Conference? At the end of July, convergence among 147 WTO members was achieved in the form of a framework package for agriculture and industrial products, services and development concerns. Furthermore, it was agreed to unbundle Singapore issues, with negotiations to start only on trade facilitation.

41. In trade facilitation, the scope of negotiations is limited to the movement, release and clearance of goods, including goods in transit. The text also foresees (albeit in non-binding language) enhanced technical assistance and capacity-building for developing countries. In agriculture, agreement was reached to end export subsidies (the date remains to be determined) and to reduce domestic support substantially. In this regard, it may not be overoptimistic at present to say that history may be made as the most fundamental agricultural reform to date gets pushed through the Doha Round. Development issues were also given clear recognition, particularly by giving a more effective content to special and differential provisions, thus making it much more likely that levels of liberalization for developing countries, particularly LDCs and other smaller and more vulnerable economies, will be adjusted accordingly, as the round proceeds.

42. On closer examination of the text, a more sobering reality emerges as the language contains for the most part substantial flexibility and “wriggle space”. This means that much arduous work will be needed to turn the framework into an agreement with binding commitments of benefit to developing countries. More progress will need to be achieved in other sectors where trade-distorting policies hurt the poor disproportionately. Enhanced market access for labour-intensive manufactures in which developing countries of this region have a comparative advantage features prominently. Another important area in which the ESCAP region could benefit significantly is increased mobility for its labour (GATS Mode 4), but the weak language of the current text indicates that this is the area that might be sidelined.

43. In assessing what could reasonably be expected to be a development-friendly outcome, a number of long-term systemic issues also arise. They are related to how the international trade architecture should evolve over the next decades in a manner that best serves trade and development objectives. No ready answers are available, and the issues go well beyond the current round of negotiations. Nevertheless, they are fundamental because the ultimate objective of all nations must be how to ensure that the trading system is strengthened, operates more efficiently and works for the benefit of all countries and their people. This note raises but one or two such questions.

44. Are the development aspirations of developing countries best served by assigning so central a role to development in the conduct and operation of WTO? To what extent is or should WTO be a development agency? Or are the institutional settings and policy instruments available under other programmes of the United Nations and regional development banks (i.e., non-binding rules, policy space to pursue national development objectives, project-lending, development assistance) the preferred way? To what extent does the development mandate replace or augment the existing institutional objective of WTO, which is to facilitate the negotiation and implementation of reciprocal trade-related agreements between sovereign States? In what ways (if at all) will (or should) the adjudication of disputes between WTO members change as a result of greater sensitivity to developmental concerns? In what ways (if at all) will (or should) existing WTO accession provisions be amended to take a development mandate into account?

45. Systematic study, policy analysis and intensive dialogue will be needed. ESCAP, as a United Nations regional commission, with both a regional and a multilateral outlook, stands ready to assist its members and associate members in promoting this dialogue. A well-functioning multilateral system is in the interests of developed countries and developing countries alike: there is only one multilateral trading system. When negotiations collapse, it is the developing countries that are the most vulnerable. If issues become intractable, commitment to multilateralism will waiver and a general political drift is likely to set in as policy makers lose their sense of urgency in furthering trade liberalization through the rules-based system. Under this worst-case scenario, the gravitational force exerted by the dominant hubs may well prove to be too strong to resist.

46. What could eventually emerge is degeneration into three megablocs each featuring a major hub, an inner EU core with spokes to Eastern Europe and the Mediterranean basin countries; a United States core linked through a network of spokes to the Americas; and an East Asian economic grouping with its own hub. Continued multilateral stalemate could see these blocs degenerate into hostilities, each pursuing its own interests at the expense of the other blocs, thus leading away from an open economy to trade wars, fortress blocs and inwardness, reminiscent of the pre-1980s or, worse, the pre-GATT 1930s.

V. ROLE OF ESCAP

47. One of the astounding features of the ESCAP region is that it is becoming its own major source of trade growth. Intraregional trade is growing on average three times faster than global trade. Consequently, 50 per cent of exports from the ESCAP region are now directed to the ESCAP region, compared with about 42 per cent a decade ago. In 2003, Japan, for the first time ever, imported more goods and services from developing countries than from developed countries.¹¹ The two subcontinental economies of Asia have also provided a key stimulus as the region's growth engines. China's GDP expanded by 24.9 per cent during 2001-2003 and total imports increased by more than

¹¹ UNCTAD, *op. cit.*

160 billion, two thirds of which were from the ESCAP region. India, as well, has consistently achieved growth rates of around 6 per cent. At the same time, LDCs (Cambodia, Lao People's Democratic Republic and Myanmar), although still at very low levels of trade per capita, also count among the seven most dynamic exporting countries of the region.¹² What emerges, therefore, is that countries at varying levels of development are showing trade dynamism. This enhances the opportunities for complementary industrial production chains and trade links across developing countries. In this "new global trade geography" as UNCTAD stressed at its eleventh session, the time is ripe for higher-quality and closer economic partnerships that will further strengthen the region's integration into the global economy. As the Secretary-General of UNCTAD aptly put it, a new international economic configuration is emerging in which developing countries - particularly those with high rates of economic growth - are becoming dynamos of economic activity. The world as a whole stands to gain from this major structural evolution.¹³

48. In the absence of a supranational structure of governance in the region, or of region-wide institutions, intergovernmental organizations with region-wide outreach like ESCAP are well positioned to forge linkages and promote the coalescing of these groupings, while ensuring that they evolve in a manner supportive of WTO principles. To this end, ESCAP has initiated work on developing a comprehensive framework for trade and investment cooperation for full regional integration in a WTO-consistent manner (figure II).

49. The framework¹⁴ is built on the central premise that the long-term trade competitiveness of the ESCAP region is dependent on the primacy of the multilateral trading system. As discussed above, while WTO has its own weaknesses and will need to undergo certain reforms to ensure that it can perform its role more effectively, it is the system that serves best the interests of all countries. Conducting trade according to a multilaterally negotiated body of international norms and rules is of crucial importance in particular to developing countries and least developed countries, which otherwise, in a global economy of unbalanced trading powers, would risk continued marginalization.

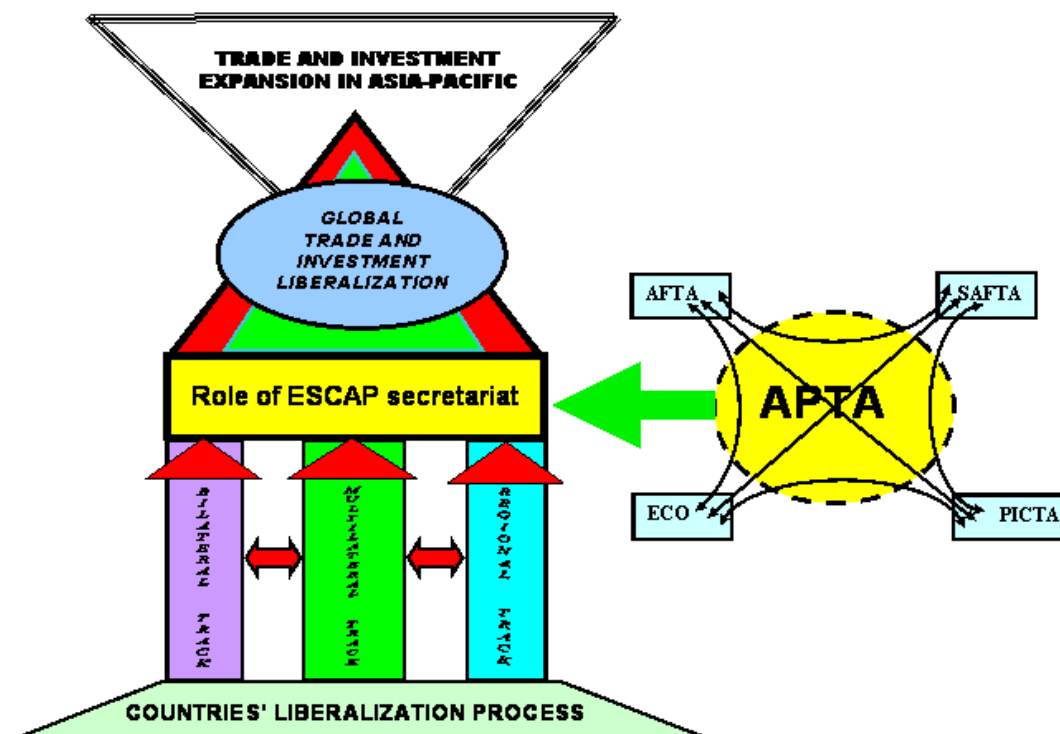
50. At the same time, RTAs are a reality and are growing. The framework therefore incorporates a second and parallel track, at the regional level. Here, consolidation could take place on a geographical basis. An example of the type of geographic consolidation envisaged is given in figure III. In this case, the Bangkok Agreement, as the only trade agreement that currently links South and East Asia, with three of its members sharing common membership with BIMST-EC (figure I), might eventually coalesce into an initiative that promotes a wider East, South-East and South Asian FTA. A third circle encompassing SAFTA could also be added, particularly since Bangladesh, India and Sri Lanka belong to all three RTAs (figure II).

¹² WTO, *Annual Report 2002*.

¹³ Rubens Ricupero, UNCTAD Secretary-General, *Financial Times*, 15 June 2004.

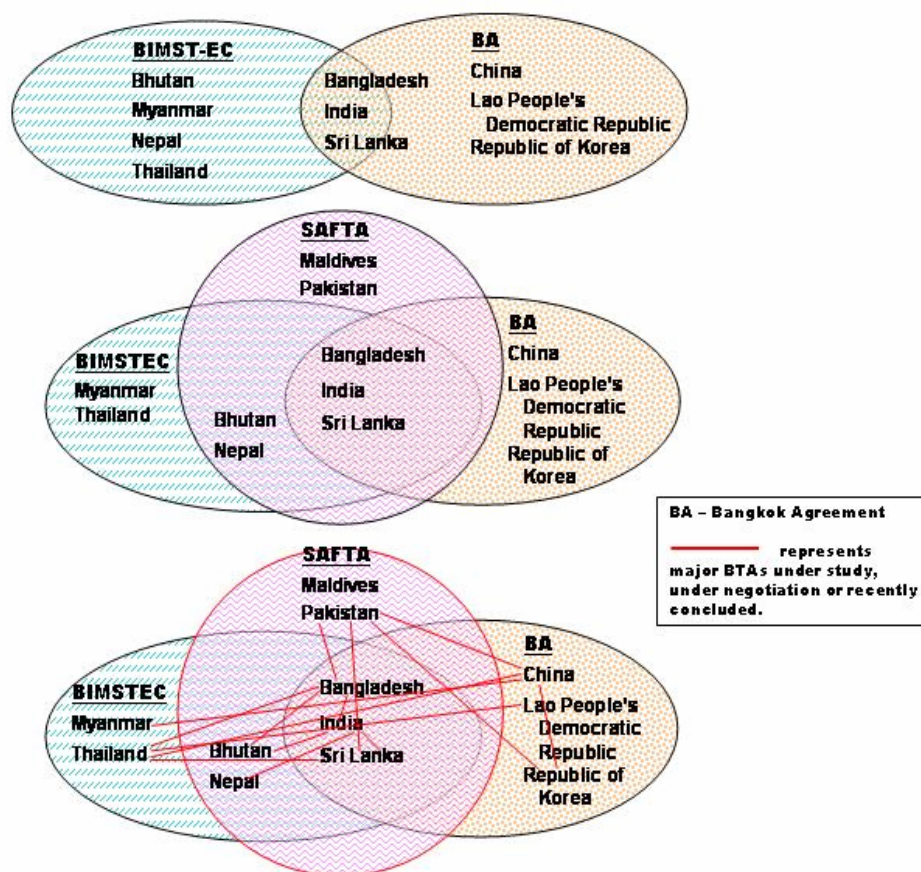
¹⁴ ESCAP, *Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation* (United Nations publication, Sales No.E.04.II.F.24).

Figure II. Comprehensive Trade and Investment Cooperation Framework for Asia-Pacific



51. The bilateral trading arrangements (BTAs) criss-crossing the RTAs and cutting through established boundaries of the circles (figure III) could provide the fast track towards consolidation, in the sense that they are bigger, wider and deeper agreements. However, the opposite might also happen. BTAs might fragment RTAs as they continue to evolve into highly stylized agreements that further entrench vested interests, proliferate conflicting and irreconcilable rules and hamper the rationalization process. This further increases the need for an overarching region-wide common framework of principles, guidelines and procedures to which BTAs and RTAs would be anchored. The idea here is to build on and consolidate current initiatives on a region-wide basis, without creating a new grouping of countries to lead the process. A new grouping would add to the current proliferation, including proliferation of secretariats and costs that accompany such initiatives, with no guarantee that this new subset of countries would not run into the well-known problems that other RTA groupings have encountered.

Figure III. Consolidating RTAs: an example of a geography-based consolidation



52. Consolidation could also take place on an issue basis. There are currently about 1,800 bilateral investment treaties in place¹⁵ and, as evidenced by new-generation EPAs, trade and investment issues are increasingly being treated in an integrated manner. Trade and financial links are also pervasive in the global economy, and while the ugly memories of the 1997 Asian financial crisis may be receding, more needs to be done at the regional cooperation level. Consolidation could go further to encompass closely related issues such as trade in services, competition policy and wider forms of economic cooperation like financial and monetary cooperation. Eventually these initiatives could serve as the building blocks for a common understanding on the international architecture that is needed to support and anchor these regional efforts.

53. Track 3 of the framework aims in the short to medium term to assist countries, particularly the less developed, in negotiating and implementing BTAs. The focus will be clearly on trade at least in the short to medium term but attempts will be made to forge some form of bilateral cooperation in

¹⁵ <www.unctad.org>.

finance as well as to facilitate bilateral trade and investment flows. In the medium to long term, it seeks to consolidate various BTAs and bilateral investment treaties into existing and emerging RTAs, promoting a common format for such agreements and assisting in the harmonization of standards, procedures and rules of origin among various BTAs, in line with WTO principles.

54. The overall objective underlying the three tracks is to broaden the economic space for cooperation and deepen integration as a building block of multilateralism. ESCAP would seek to develop cooperation among various regional groupings, in particular ASEAN+3, SAFTA and BIMST-EC. An agreement open to all countries of Asia-Pacific, for example, the Asia-Pacific Trade Agreement (APTA), as the Bangkok Agreement will come to be known, might be a useful vehicle for laying the groundwork for this framework.

55. Consolidating regionalism and blending the benefits of regionalism into a multilateral framework will require political leadership at the highest level, as has been repeatedly stressed by eminent scholars and development practitioners of the region.¹⁶ Without this, the risks are high that proliferation will continue and that suboptimal choices will be made.

VI. CONCLUSION

56. The confluence of economics and politics will bring to the fore new challenges that are difficult to predict. Economic performance in a region as diverse as Asia and the Pacific will vary significantly among countries, as will the political difficulties. Threats, be they related to financial crisis, terrorism, nuclear weapons, health or of yet-unknown origin, will continue to test the stability and resilience of the region and threaten world peace. Nevertheless, it is reasonable to expect that the region, with its vast resources of human capital, will increasingly benefit from its own sources of economic growth and that WTO-consistent outward-oriented trade and investment policies will lead this process.

57. Against this emerging scenario, in its future role ESCAP will assist the region in devising coherent regional policy approaches to complex cross-sectoral issues and multilayered interlinkages spanning trade, investments and financial markets, while promoting an effective multilateral trading system. LDCs in particular face significant constraints to proactively engaging in multilateral and regional trade forums, which prevent them from gaining full ownership of the policy process and developing coherent strategies. Access to information and knowledge in particular are ongoing constraints.

¹⁶ For example, see ESCAP, *op. cit.* See also Seiji Naya, "Harnessing regionalism for economic growth and development in Asia and the Pacific", ADB Fourth Asia Development Forum, Seoul, 3-5 November 2002, and R. Scollay and J.P. Gilbert, *op. cit.*

58. The continued formation of trade and investment agreements, with overlapping membership and what will result in mutually inconsistent provisions, puts a premium on convergence and consolidation. ESCAP, as the regional arm of the United Nations, together with its regional partners, can lay the foundations for an expansion, coalescing and consolidation of all these groupings into a region-wide initiative that bridges the subregions. ESCAP could develop and adopt a set of common and cohesive principles, practices and operational procedures for trade, investment and financial liberalization initiatives. The common framework would promote the coalescing of existing fragmented initiatives into a more cohesive arrangement that would at the same time promote and be consistent with WTO rules and principles. It would also establish common principles for a regional economic partnership that would go beyond the traditional confines of trade liberalization to include broader areas of economic cooperation, such as standard setting, coordination and possible harmonization in investment and financial rules. By facilitating the development of a seamless region-wide zone of trade, investment and financial flows and promoting the effective integration of the Asian and Pacific region into the global economy, ESCAP and its regional partners could enable the region to enhance its prospects for becoming the world's centre of economic growth and prosperity by 2020.

.