

## **I. MULTILATERALISM AND REGIONALISM: ENHANCING INTEGRATION OF DEVELOPING COUNTRIES INTO THE MULTILATERAL TRADING SYSTEM THROUGH REGIONALISM<sup>1</sup>**

### **Introduction**

Fifty years ago, when the Bretton Woods institutions were set up, a central policy challenge facing post-war countries was how to prevent a return to protectionism – a policy choice that had led countries into the Great Depression in the 1930s and a decade later into the Second World War. Since those dark days, world trade has increased by more than fifteenfold – a key indicator of the extent to which countries have become integrated and interdependent. This aspect, together with currently improved living standards, in many ways is a testament to the many successes achieved by the international trading system.

The birth of the World Trade Organization (WTO), and the achievements that followed in the early years, brought about further changes. Policy changes took place which were so far-reaching that they proved to be nothing less than a revolution in trade policy reform;<sup>2</sup> they led to the further integration of markets and brought forth even greater international investments, trade and application of technology. However, it was unrealistic to assume that these revolutionary changes would continue to bring about enhanced cooperation among countries, greater stability and prosperity. The early enthusiasm evaporated quickly as deep divisions among countries became apparent. As implementation of Uruguay Round agreements proceeded and as the 1997 financial crisis swept through Asia and further afield, systemic imbalances and inequities among developed and developing countries widened. This culminated in the worst trade-induced violence ever seen, and the collapse of the Millennium Round and the Seattle Ministerial Conference in 1999.

In a multipolar world of multiple and complex interests, uneven development, unequal trading power and divergent views on the scope of the future negotiating agenda are realities of the multilateral trading system. It is somewhat paradoxical that, as countries deepen their integration, imbalances, instability and

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<sup>2</sup> For a detailed discussion, see World Trade Organization (WTO), *Trading into the Future: Introduction to the WTO*, 2<sup>nd</sup> edition, revised July 2000 (WTO, Geneva).

the need for protecting domestic markets increases. Against this complex background, regionalism has come to offer Governments – of developed and developing countries alike – an attractive strategy to resolve issues that would be more difficult to resolve in the wider multilateral context. Consequently, of the 200 or so regional trading arrangements (RTAs) that have been notified to the WTO over the past 50 years, almost half were concluded after 1990, especially in the latter stages of the Uruguay Round, following recurring delays in bringing the Round to a successful conclusion.

Currently, all major trading countries belong to one, or more typically, two or three, RTAs or regional integration arrangements<sup>3</sup> of some kind. Therefore, it would appear that trade on a most-favoured-nation (MFN) basis is more likely to be the exception than the norm.

Regional integration arrangements can be studied from different angles. In this paper, the focus is on the ESCAP region and the purpose is to undertake a brief overview of the different types of RTAs in order to assess the relationship between regional and multilateral liberalization and to consider the future of regionalism. Central to the paper is the view that regional and multilateral liberalization has generally been a positive story.

The focus of the paper is on trade. Although it is true that the challenges facing the multilateral and regional trading systems go well beyond the traditional definitions of trade, the paper does not discuss investment issues, nor does it discuss the movement of labour or monetary union at any length. Also, it does not discuss political and regional security issues, two important consequences of enhanced trade relations.<sup>4</sup>

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<sup>3</sup> For purposes of this paper, RTAs refer to free trade areas (FTAs), preferential trading arrangements (PTAs), and customs unions, whereas regional integration arrangements encompass RTAs as well as other regional liberalization schemes such as the Asia-Pacific Economic Cooperation (APEC).

<sup>4</sup> Political scientists suggest that negotiations between political leaders on trade issues gradually build trust among countries. Some would go even further and suggest that regions that are highly integrated may have less conflict because interlocking the supply of raw materials and creating interdependence among strategic industries make it materially impossible to sustain conflicts. The example of the Association of South East Asian Nations (ASEAN) is cited where intraregional conflicts were experienced among the founding members before ASEAN was created in 1967, but not afterwards. However, the opposite may also occur where integration produces adjustment costs, transfers of benefits and new tensions among countries, thereby worsening regional security.

## **A. Situation in the ESCAP region**

### **1. Multilateral level**

The membership of ESCAP comprises 52 members and nine associate members. A distinguishing feature of the ESCAP region is the low proportion of countries/areas that are WTO members: less than half are WTO members, 14 are in the process of accession, while 11 regional members have no WTO status, as shown in table I.1. Furthermore, only four of the 13 LDCs in the region are WTO members, and no LDC has acceded to WTO since the body was established.

### **2. Regional level**

As in other parts of the world, integration through regional trading arrangements has been a significant feature of trade and investment policies of the ESCAP region. There are currently more than 10 RTAs in operation in the ESCAP region, which is richly diverse and heterogenous both politically and economically. Consequently, RTAs vary considerably in style and design: they vary in membership, coverage of goods, services, movement of factors of production, depth of tariff cuts, coverage of non-tariff measures and other trade policy instruments, relationship to non-members and decision-making processes. Likewise, the results achieved vary tremendously. Figure I.1 gives a schematic overview of membership in various RTAs and other forms of regional integration arrangements.

Most of these RTAs are clearly grounded in regional political alliances or common cultural affinities. For example, the impetus for setting up ASEAN in 1967 was the threat imposed by the spread of communism across Asia and the intensifying war in Viet Nam, but as these threats diminished, ASEAN increasingly turned its attention to business, investment and trade issues.

The most highly integrated arrangements are those based on negative list (as opposed to positive 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 ANZCERTA (Closer Economic Relations Trade Agreement between Australia and New Zealand) and AFTA (ASEAN Free Trade Area).

A number of other RTAs in the ESCAP region are based on a product-by-product, positive list approach to liberalization. This is a much less advanced form of integration, of which the South Asia Preferential Trading Arrangement (SAPTA), the Melanesian Spearhead Group (MSG) in the Pacific, and the Bangkok Agreement are examples. In the first two cases, the potential for mutually

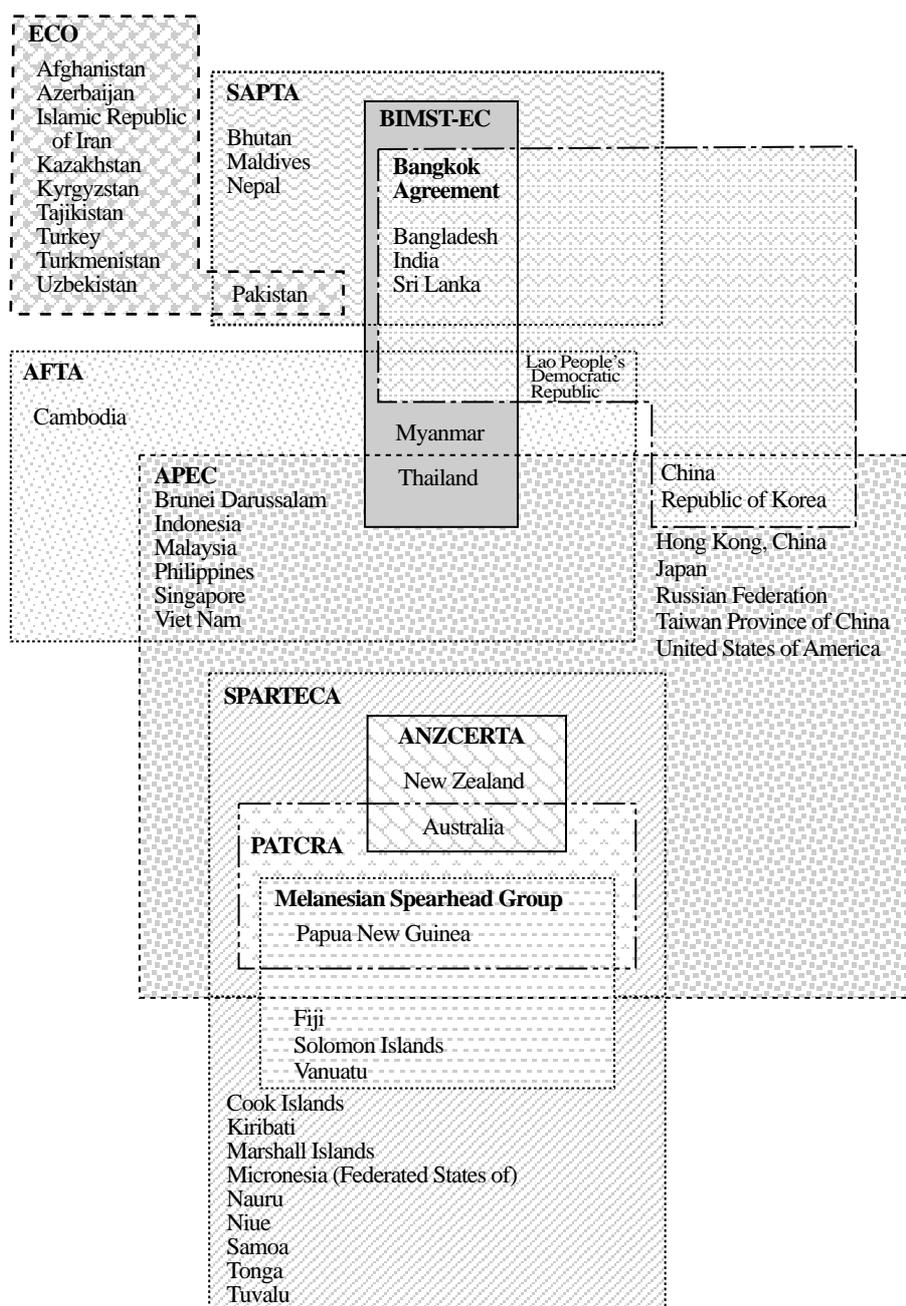
**Table I.1. ESCAP members and associate members and the status of their membership in WTO**

Regional members			Non-regional members	
WTO members	WTO observers <sup>a</sup> in the process of accession	No WTO status	WTO members	WTO observers
Australia	<i>Armenia</i>	<b>Afghanistan</b>	France	–
<b>Bangladesh</b>	<i>Azerbaijan</i>	Democratic	Netherlands	
Brunei Darussalam	<b>Bhutan</b>	People's Republic	United Kingdom	
Fiji	<b>Cambodia</b>	of Korea	of Great Britain and	
<i>Georgia</i>	China	Islamic Republic	Northern Ireland	
India	<i>Kazakhstan</i>	of Iran	United States	
Indonesia	<b>Lao People's Democratic Republic</b>	<b>Kiribati</b>	of America	
Japan	<b>Nepal</b>	Marshall Islands		
<i>Kyrgyzstan</i>	Russian Federation	Micronesia (Federated States of)		
Malaysia	<b>Samoa</b>	Nauru		
<b>Maldives</b>	Tonga	Palau		
<i>Mongolia</i>	<i>Uzbekistan</i>	<i>Tajikistan</i>		
<b>Myanmar</b>	<b>Vanuatu</b>	<i>Turkmenistan</i>		
New Zealand	<i>Viet Nam</i>	<b>Tuvalu</b>		
Pakistan				
Papua New Guinea				
Philippines				
Republic of Korea				
Singapore				
<b>Solomon Islands</b>				
Sri Lanka				
Thailand				
Turkey				
Subtotal	23	14	11	4
<b>Total</b>	<b>52</b>			
ESCAP associate members				
WTO members	WTO observers in the process of accession	No WTO status		
Hong Kong, China		American Samoa		
Macao, China		Cook Islands		
		French Polynesia		
		Guam		
		New Caledonia		
		Niue		
		Northern Mariana Islands		
<b>Total</b>	<b>9</b>			

*Note:* Countries in boldface type are LDCs, whereas those in italics are economies in transition.

<sup>a</sup> Countries that have been granted observer status must start accession negotiations within five years of becoming observers.

**Figure I.1. Regional integration arrangements of ESCAP members and associate members and other areas**



beneficial trade among developing countries has been limited by similarities in their economic structure and the products they offer as well as by the relatively small size of the economies and the intercountry trade involved. In the case of the Bangkok Agreement, its potential has been underutilized by limited product coverage and membership as well as shallow preferential tariff margins.

Yet another type of RTA is that of a “hub-and-spokes” type of RTA, with the hub country – typically a developed country – linked to a group of developing countries by separate PTAs (the spokes). The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is an example of this type of RTA. Such an RTA is likely to be the less liberalizing and more protectionist type, because, unlike in other FTAs where all members negotiate as equals, under a hub-and-spokes arrangement, the larger country generally sets the terms and conditions for membership. The risk is that the hub country will tailor the separate spokes to deal with issues in a bilateral and discriminatory way. The likely result is that goods and services, including possibly labour and capital, flow more freely between the hub and each spoke than they do between the spokes,<sup>5</sup> thus turning the “spokes” into “spikes”. While the spoke countries no doubt gain from guaranteed preferential access to the lucrative hub markets, a number of other difficulties arise with such arrangements, especially with regard to rules of origin. There is also a risk that the preferences granted under these non-reciprocal preferential arrangements may reinforce inappropriate patterns of industrial development among the spoke countries.

On the other hand, APEC has a unique approach to liberalization. Contrary to most preferential RTAs, it is based on open regionalism and non-discrimination in a strict sense. In other words, the best tariff preferences that one APEC member accords to other APEC members are also accorded to other non-APEC trading partners. Therefore, non-members need not fear that the group will advocate closed or preferential markets to the exclusion of some. Furthermore, the comprehensive coverage of APEC requires reductions not only in tariff and non-tariff measures, but also encompasses trade facilitation measures such as elimination of regulations in investments and services, rationalization of customs procedures and harmonization of standards. However, what is without precedent or parallel is that each member is free to determine its liberalization path, and commitments remain voluntary. Therefore, APEC does not have a treaty to give it legal backing. This self-determined liberalization has led some to describe APEC as a process of “concerted unilateralism”. However, APEC recently seems to have lost its initial focus. As “APEC-fatigue” sets in, and its agreed objective of achieving free trade among all

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<sup>5</sup> For a fuller discussion of this concept, see World Trade Organization, *WTO, Regionalism and the World Trading System* (Geneva, 1995).

members by 2020 remains a non-formal arrangement, backsliding on commitments may become a reality.

### **3. Bilateral level**

If RTAs have proven to be popular, bilateral FTAs have proven to be even more popular in more recent times. Table I.2 gives a list of the bilateral FTAs currently in effect or under discussion in the ESCAP region. The reason for this surge in such arrangements is being attributed to the slow progress achieved in regionalism in much the same way that increased regionalism is often attributed to slowness in multilateralism. These FTAs (the so-called “new age” FTAs) are somewhat different from the traditional tariff liberalization approach of their predecessors in that they encompass economic and technical cooperation ranging from human resources development to technical assistance and information and communications technology high growth areas such as telecommunications and e-commerce. While these features may seem to be a positive development, the sheer number of such agreements under negotiation is a cause for concern (this point will be taken up again below). Furthermore, it is important to emphasize that as a matter of principle bilateralism is an undesirable departure from the success story of multilateralism: whatever form it takes, bilateralism based on reciprocity rather than the MFN principle is discriminatory and based on power relations rather than multilaterally negotiated rules.

### **4. Other forms of regional economic cooperative arrangements**

Overall, however, the ESCAP region interestingly is less regionalized than other regions of the world in terms of regional and bilateral free trading arrangements notified to WTO. What really distinguishes Asia, especially 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 to set up the special zones. However, the region also has other configurations that are less formal and more market sector and private sector driven. The pioneering and most successful configuration was the private sector driven Singapore-Johor-Riau triangular complementation of land, labour and capital.<sup>6</sup> Other growth triangles have had less

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<sup>6</sup> 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 I.2. Free trade agreements in the ESCAP region**

Stage	FTA	Year
<b>Under study/ proposed</b>	TAFTA (Transatlantic FTA, EU-United States of America)	1995
	Japan-Republic of Korea	1998
	Japan-Mexico	1998
	Japan-Chile	1998
	Japan-Canada	1999
	P-5 (Australia, Chile, New Zealand, Singapore and United States of America)	1998
	Northeast Asia Research Initiative (China, Japan and Republic of Korea)	1998
	ASEAN+Three (APT)	1998
	New Zealand-Hong Kong, China	1999
	New Zealand-Chile	1999
	AFTA-ANZCERTA	2000
	ASEAN-China	2000
	Singapore-Canada	2000
	Singapore-European Free Trade Agreement	2000
	Singapore-EU	2000
	Singapore-India	2000
	Republic of Korea-Chile	2000
	EU-Chile	2000
	United States of America-Chile	2001
	<b>Negotiation</b>	FTAA
Singapore-Japan		1999
Singapore-United States of America		2000
Singapore-Australia		2000
Singapore-Mexico		2000
<b>Signed</b>	Singapore-New Zealand	1999
	Mexico-EU	1999
<b>Implemented</b>	NAFTA	1994
	AFTA	1993
	Canada-Chile	1996

*Source:* Linda, Low “International production networks and the political economy of regionalism”, paper presented at the ASF/ESCAP/JBIC Meeting on “The Emerging Economic Map of Asia: International Production Networks, Asian Integration and Sustainable Development”, Bangkok, August 2001.

success, for example, the Indonesia, Malaysia and Thailand Growth Triangle, and the East ASEAN Growth Area covering Brunei Darussalam, parts of Indonesia, and the southern provinces of Malaysia and the Philippines.

GMS is conceptually somewhat different from the other growth area configurations in that it represents cooperation among riparian states. It is public sector driven with a focus on infrastructure and energy development projects funded by the international community, notably Japan and the Asian Development Bank. Yet another configuration, namely a GMS corridor across five countries, was launched recently to enhance multisectoral transport linkages and promote GMS investments and public-private sector partnerships. Another recent geographically based configuration of cooperation is the Special Programme for the Economies of Central Asia (SPECA), launched by the Economic Commission for Europe in collaboration with ESCAP and other United Nations partners. It is focused, among other things, on donor-funded projects for infrastructure development, energy, water resources development and trade and investment. It seeks to strengthen subregional cooperation among these countries so as to facilitate their integration into Asia and Europe. The Indian Ocean Rim Association for Regional Cooperation is another geographically based constellation. Yet another form of inter-subregional cooperation is the Thailand-led BIMST-EC (Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation) initiative that resulted from the opportunities for cooperation presented by high economic growth rates. On one hand, there was the enormous potential that a rapidly liberalizing Indian economy presented to South-East Asia, while on the other there was the attractiveness that a fast-growing South-East Asian market presented to South Asian countries. BIMST-EC therefore sought to expand trade and investment between ASEAN and SAARC (South Asian Association for Regional Cooperation) economies. However, BIMST-EC was launched before anyone imagined that the 1997 Asian financial crisis would occur, and since that crisis, some enthusiasm has waned. In this case, as with other regional groupings, ESCAP continues to provide a regionwide cooperative mechanism through substantive support and technical assistance aimed at institutional and human capacity-building.

## **B. Assessing the regional approach to liberalization: benefits and costs**

### **1. Benefits**

An argument in favour of the regional approach to liberalization is that negotiations among a small group of neighbouring countries closely associated with each other can make it easier to reach the necessary understanding and

compromise; therefore, such an approach provides a building block for wider liberalization under the multilateral framework. The example of AFTA is often cited as one of the relatively advanced RTAs in the region. AFTA has included, with minimal exceptions, unprocessed agricultural products under its liberalization programmes. This arrangement is significant because similar issues that historically have made agriculture the subject of difficult multilateral negotiating positions are being discussed in RTAs as well, and could therefore provide building blocks for multilateral negotiations. Furthermore, ASEAN has included seven priority sectors in its future trade in services liberalization programme. Considerable efforts will need to be exerted to make progress beyond the General Agreement on Trade in Services (GATS). Nevertheless, some would argue that the cultural and socio-political affinities of an RTA can provide a more effective route to liberalization in several sensitive service sectors, notably labour movements involving temporary or permanent residence, mutual recognition agreements, or harmonization of standards in a range of professional services.

It should be noted that there is no agreement on what has been the contribution of regional integration arrangements to the multilateral process. Some contend that their role has been less than is sometimes supposed,<sup>7</sup> and that it is by no means obvious that disputes are any easier to resolve in regional forums than in WTO. For example, resolving problems related to implementation of AFTA commitments is not easier than under the WTO framework; in APEC, difficult negotiations on sensitive sectors have been sent for further negotiation under the WTO framework.

Because trade is technical in nature, but highly political in its consequences, some argue that a real benefit of RTAs is that they could serve as a vehicle to band countries together so that they would be able to increase their bargaining power in WTO negotiations. While it is true that RTAs have become more and more important in terms of the political weight they represent in WTO negotiations, as far as developing countries are concerned, there is not much evidence that they have succeeded in negotiating as regional groupings with a common identity.<sup>8</sup> This does not imply that there is no scope for regional action; it merely implies that this may be a role that has been underutilized. One of the problems facing ESCAP countries is that shared geographical location does not necessarily imply common economic interests. Experience from the Uruguay Round suggests that the most successful negotiating blocs have comprised those

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<sup>7</sup> An example of one such argument may be found in *Regional Integration Arrangements* (Washington, DC, World Bank, 2000).

<sup>8</sup> The exceptions are customs unions which, by virtue of having a common external tariff, are required to have a single negotiating position.

countries with a common export (or common interest), whether or not they formed part of a regional grouping. During the Uruguay Round (and the Tokyo Round), perhaps the best example of such an influential product-based alliance was the Cairns Group of agricultural exporting countries.

However, for small countries there may be a distinct advantage in combining with other countries. Acting individually, their limited market access invariably places them in a weak position for gaining significant concessions from other more powerful countries. However, by combining with other countries, they are in a position to get noticed, and extract more useful concessions from more powerful players. In this regard, ASEAN, among other RTAs, could play a useful role.

## **2. Costs**

Complex problems of multiple membership in regional integration agreements exist even in the ESCAP region, which to date has relatively fewer RTAs than other regions of the world. Figure I.1 shows the intricate web of RTAs that span the region. Vast amounts of human, financial and political resources have gone into negotiating and concluding these agreements. Reserves of such resources are scarce in all countries, but even more so in developing countries. Therefore, the opportunity cost of negotiating and administering multiple RTAs needs to be questioned. Could the resources spent on RTAs not be put to better use on other issues? Sometimes countries sign multiple agreements that create obligations that contradict each other, creating uncertainty and confusion among investors, traders and customs officials. In practice, which tariff level applies? In a number of countries and areas of the ESCAP region, it is not unusual for customs officials to have to deal with several tariff regimes: for example, the MFN and GSTP (Global System of Trade Preferences among Developing Countries) schemes, SAPTA, AFTA, Bangkok Agreement, Commonwealth and bilateral FTAs. Which rules of origin apply? If special conditions and exclusions are formulated, which RTA's conditions take precedence, and when do these conditions apply? These complexities not only delay private sector decision-making, but they also increase the opaqueness of policies and thereby increase the cost of doing business.

Resources are scarce; the more resources are devoted to the negotiation of multiple RTAs, the less they are available for the multilateral trade process. Herein, perhaps, lies one of the most insidious dangers of having a proliferation of RTAs – they could slowly but surely undermine the political willingness and administrative capital that developing countries and the developed countries, erstwhile GATT (General Agreement on Tariffs and Trade) leaders, would be willing to dedicate to the WTO processes, thereby reducing the overall effectiveness and primacy of the

multilateral trade process. Despite the difficulties developing countries experience with multilateralism, they have much to gain from the multilateral process, as embodied in the MFN principle. The MFN principle strengthens the weaker countries by limiting the ability of stronger countries to make deals with each other that exclude the weaker ones. Perhaps more than any force, non-discrimination, as embodied in the rules-based multilateral trading system, has reduced power politics and guaranteed all countries equal rights, irrespective of their size and power.<sup>9</sup> The long-term trade competitiveness of the ESCAP region is, therefore, fundamentally dependent on the primacy of the multilateral trading system. Furthermore, because membership in multiple RTAs requires considerable resources, in the same way that it can distract from the multilateral process, it can also distract from and slow the regional process itself.

### **C. Moving regionalism forward**

Whether there are net benefits or net costs in the regional approach to multilateral trade liberalization remains unclear. What is clear, however, is that if progress in multilateralism has been slow, it has been equally slow in regionalism. It is crucial to keep both processes moving forward, and to keep them moving forward in parallel. The coalescing of regional groupings into outward-oriented FTAs that bridge subregions and continents is a logical, long-term goal that would keep both the multilateral and regional liberalization processes moving forward.

Although there is no agreement on the extent to which regionalism will move forward in the future, recent events make the prospects for globalizing regionalism look more promising, as described below.

Within the ESCAP region, the six countries that founded ASEAN (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) later expanded the membership to include four new members (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam), each at a much lower level of development (three of the four are LDCs) than any of the original members. Further, ASEAN accelerated rather than reversed the process of tariff reductions during the 1997 Asian financial crisis, by agreeing to bring forward its FTA by one year to 2002 instead of 2003. Rules permitting 100 per cent non-ASEAN ownership of regional companies were also brought forward to give a clear message that foreign direct investment (FDI) from any region was welcome in ASEAN. Discussions are also under way on possible enlargement in the future of

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<sup>9</sup> Renato Ruggiero, "Regional initiatives, global impact: cooperation and the multilateral system", speech delivered by the former Director-General of the World Trade Organization on 7 November 1997 in Rome at the Third Conference of the Transatlantic Business Dialogue.

membership in ASEAN to include China, Japan and the Republic of Korea. Early in 2001, China proposed an FTA between itself and ASEAN. Similarly, Japan and the Republic of Korea are each pursuing such initiatives with ASEAN, and an earlier idea on an East Asian free trade zone or an East Asian community has been once again put forward for further study. Discussions on forging closer cooperation between AFTA and ANZCERTA are also under way. Similarly, the BIMST-EC initiative could also be perceived as a bridge between AFTA and SAPTA.

One initiative with enormous potential for strengthening inter-subregional trading ties within Asia and the Pacific is the Bangkok Agreement. Since its inception in 1975, ESCAP has served as its secretariat. As the only RTA in Asia and the Pacific where membership is open to all developing countries irrespective of their geographical location, the Bangkok Agreement currently includes countries from South Asia (Bangladesh, India and Sri Lanka), South-East Asia (the Lao People's Democratic Republic) and East Asia (China and the Republic of Korea). China's recent accession to the Agreement has greatly enhanced its profile and potential. With India as a founding member, the Bangkok Agreement has a consumer base of nearly 2.5 billion people. Thus, it has the potential to become one of the world's largest RTAs. The Third Round of tariff negotiations under the Agreement is scheduled to be launched towards the end of 2001. The modalities and guidelines for these negotiations stipulate that they take place in conformity with WTO provisions governing regional trading arrangements, which discourage raising trade barriers against non-members. Therefore, tariff concessions that will eventually emerge from these negotiations could have important trade-enhancing effects within the Asian and Pacific region.

Furthermore, the Bangkok Agreement might eventually serve as a useful vehicle for turning BIMST-EC into an FTA. There is currently no agreement among countries on this proposal, but the situation could change in the future. ESCAP, within its mandate for strengthening regional and subregional economic cooperation, will continue to facilitate the expansion of these regional integration agreements into an increasingly integrated, regionwide zone of efficient production, with enhanced opportunities for world trade.

At the interregional level, there are numerous other bridging initiatives on which to build. Calls have been made for stronger links between AFTA and NAFTA (North American Free Trade Agreement) to promote and strengthen trade and investment links between the two regions. Similar moves are taking place to create stronger links between AFTA and the Andean Community.<sup>10</sup> The Andean Community established an FTA in 1992, and is planning to achieve a full common

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<sup>10</sup> Bolivia, Colombia, Ecuador, Peru and Venezuela.

market by 2005. The Free Trade Area of the Americas (FTAA) and recent FTAs between the European Union (EU) and Countries of Central and Eastern Europe, as well as between the EU and Mediterranean Basin countries, are other examples. The Asia-Europe Meeting (ASEM) is yet another initiative that seeks to bridge trade, investment and social issues between the EU and Asia.

Overall, however, progress in all the above initiatives has been slow. If the momentum that does exist is to be sustained, and financial and technical resources are to be mobilized, the private sector needs to be convinced of the gains to be reaped. Funds from the donor community for conducting research and sectoral projects are also essential to keep the process moving forward.

Some have expressed concern that this proliferation of RTAs and their coalescing into various permutations could eventually lead to global trade being carved into three mega-trading blocs. Accordingly, the negative impact that such an outcome could have on the credibility of WTO rules and the integrity of the multilateral trading system would underline the need for reform of WTO rules to put the mutually supportive relationship between multilateralism and regionalism on a more solid legal foundation.<sup>11</sup> These aspects are discussed in the next section.

#### **D. Primacy of the multilateral trading system**

As has been discussed so far, RTAs in the ESCAP region are for the most part distinguished by their outward orientation and open regionalism. Consequently, on balance it would appear that they have served as useful stepping stones towards a broader trade liberalization strategy, and have contributed to the more effective integration of developing countries in the world trading system. If RTAs have been broadly complementary of the multilateral process, a question arises: What role have WTO rules and procedures played in this process?

It would appear that this broadly complementary role may have been little influenced by GATT/WTO rules and procedures, but more influenced by political and other socio-economic factors that drive countries' desires to form regional agreements.

To date, 220 RTAs have been notified to WTO. Of these, 191 agreements were notified under GATT Article XXIV, of which 109 are still in force today. More than 87 RTAs were notified after 1990, of which the EU accounts for about two thirds. Eighteen agreements were notified under the enabling clause, and 11

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<sup>11</sup> WTO annual reports, various issues (Geneva, WTO).

were notified under GATS Article V.<sup>12</sup> Most of the major RTAs of the ESCAP region, notably, AFTA, SAPTA, SPARTECA and the Bangkok Agreement, were notified under the enabling clause. ANZCERTA was notified under GATT Article XXIV.<sup>13</sup> A number of FTA type agreements between countries in the Commonwealth of Independent States (CIS) and the Interim Agreement for the Establishment of a Customs Union were also notified under GATT Article XXIV in 1999. Examination of these agreements has not yet started (see table I.3).

Out of the 86 RTAs that the Committee on Regional Trading Agreements is in the process of examining, only two operative RTAs, namely the Caribbean Community (CARICOM) and the Czech-Slovakia Customs Union, have been found to be compliant with GATT Article XXIV. For most other agreements, as shown in table I.4, factual examination is at various stages of progress, while for some RTAs, factual examination has been completed. However, the Committee has not been able to finalize any of its reports. Therefore, for all practical purposes, the matter is undetermined, and the overall consensus among WTO members seems to be that, even though the rules on RTAs have not exactly been broken, they are creaky.<sup>14</sup> Some changes are needed to deal with the wide diversity of views and practical difficulties that continue to plague the Committee. These difficulties centre around the interpretation of GATT Article XXIV. Key provisions such as “substantially all trade” and “not on the whole higher or more restrictive” requirements have led to conflicting interpretations on the implications for third country interests. A number of proposals have been made. However, few countries within RTAs appear willing to seek tighter discipline, preferring to maintain the responsibility of what constitutes an economically sound RTA within their own confines.

A few of these proposals are briefly highlighted. One proposal suggests the introduction of new rules that require members of customs unions to harmonize tariffs at the lowest level applied previously by members. Another suggestion centres on a reform of the rules of origin, to make them more harmonious and less restrictive for FTAs, while introducing tighter discipline to deal with hub-and-spoke systems. Other reforms propose that customs unions and free trade areas have liberal accession clauses, or a presumptive right of association clause. As is the case under the MFN principle, if association is granted to one country, there would be a presumption that similar terms should be available to others.<sup>15</sup> Other proposals

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<sup>12</sup> WTO, Report (2000) of the Committee on Regional Trade Agreements to the General Council, WT/REG/9.

<sup>13</sup> WTO, Basic Information on Regional Trade Agreements: Agreements Notified to the GATT/WTO and in Force as of 14 July 2000, note by the Secretariat, Geneva, WT/REG/W/39.

<sup>14</sup> World Bank, Regional Integration Arrangements, November 2000.

<sup>15</sup> Ibid.

**Table I.3. Regional trade agreements of the ESCAP region notified to GATT/WTO and in force as of 14 July 2000**

**A. Agreements notified under GATT Article XXIV**

Parties and agreements	Type of agreement	Transition period	Date of entry into force	Notification date	Examination report		Latest periodic report		Standard format
					Reference	Date	Reference	Period covered	
<b>1. Belarus/Kazakhstan/Kyrgyzstan/Russian Federation</b>									
Interim Agreements for the Establishment of a Customs Union <sup>a</sup>	CU	2003 (proposed)	8 October 1997	6 April 1999		Examination not started	---	---	---
2. Kyrgyzstan/Kazakhstan	FTA	---	---	29 September 1999		Examination not started	---	---	---
3. Kyrgyzstan/Moldova	FTA	---	21 November 1996	15 June 1999		Examination not started	---	---	---
4. Kyrgyzstan/Russian Federation	FTA	---	24 April 1993	15 June 1999		Examination not started	---	---	---
5. Kyrgyzstan/Ukraine	FTA	---	19 January 1998	15 June 1999		Examination not started	---	---	---
6. Kyrgyzstan/Uzbekistan	FTA	---	20 March 1998	15 June 1999		Examination not started	---	---	---
7. Azerbaijan/Armenia/Belarus/Georgia/Moldova/Kazakhstan/Russian Federation/Ukraine/Uzbekistan/Tajikistan/Kyrgyzstan	FTA	---	30 December 1994 <sup>b</sup>	1 October 1999		Examination not started	---	---	---
<b>8. Australia/Papua New Guinea</b>									
PATCRA	FTA	None	1 February 1977	20 December 1976	24S/63	11 November 1977	Awaiting receipt of biennial report	---	---
<b>9. Australia/New Zealand</b>									
Closer Economic Relations Trade Agreement (ANZCERTA)	FTA	End of 1988	1 January 1983	14 April 1983	31S/170	2 October 1984	Awaiting receipt of biennial report	---	---

<sup>a</sup> As appearing in the notification of the accession of Kyrgyzstan on 6 April 1999.

<sup>b</sup> The Agreement came into force with respect to Kazakhstan, Moldova and Uzbekistan on 30 December 1994; Kyrgyzstan on 28 December 1995; Azerbaijan on 18 December 1996 and Tajikistan on 7 May 1997.

Table I.3. (continued)

B. Agreements notified under the enabling clause

Parties and agreements	Type of agreement	Transition period	Date of entry into force	Notification date	GATT/WTO process		Latest regular report/review	
					Reference	Date	Reference	Period covered
<b>10. Islamic Republic of Iran/Pakistan/Turkey</b>								
Preferential tariffs among members of the Economic Cooperation Organization (ECO)	Mutual reduction/elimination of tariffs	None		22 July 1992	C/M/257	10 July 1992	---	---
<b>11. Bangladesh/Bhutan/India/Maldives/Nepal/Pakistan/Sri Lanka</b>								
South Asian Preferential Trade Arrangement (SAPTA)	Mutual reduction/elimination of tariffs	End of 2001	7 December 1995	22 September 1993	C/M/266	7 October 1993	---	---
<b>12. Bangladesh/China/India/Lao People's Democratic Republic/Republic of Korea/Sri Lanka</b>								
Bangkok Agreement	Mutual reduction/elimination of tariffs	None	17 June 1976	2 November 1976	25S/109	14 March 1978	L/6718	1981-1987
<b>13. Brunei Darussalam/Cambodia/Indonesia/Lao People's Democratic Republic/Malaysia/Myanmar/Philippines/Singapore/Thailand/Viet Nam</b>								
Agreement on ASEAN Preferential Trade Arrangements	Mutual reduction/elimination of tariffs	None	31 August 1977	1 November 1977	26S/321	29 January 1979	L/7111	1987-1989
Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (AFTA)	Mutual reduction/elimination of tariffs	End of 2001	28 January 1992	30 October 1992	39S/20	3 December 1992	L/7111/Add.1	1993-2003
<b>14. Lao People's Democratic Republic/Thailand</b>	Non-reciprocal concessions	None	20 June 1991	29 November 1991	---	---	---	---
<b>15. Australia/Cook Islands/Fiji/Kiribati/Marshall Islands/Micronesia/Nauru/New Zealand/Niue/Papua New Guinea/Samoa/Solomon Islands/Tonga/Tuvalu/Vanuatu</b>								
South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)	Non-reciprocal access	None	1 January 1981	20 February 1981	C/M/148	11 June 1981	L/6279	1982-1986
<b>16. Bangladesh/Brazil/Chile/Egypt/Israel/Mexico/Pakistan/Peru/Republic of Korea/Romania/Tunisia/Turkey/Uruguay</b>								
Protocol Relating to Trade Negotiations among Developing Countries	Mutual reduction/elimination of tariffs	None	11 February 1973	9 November 1971	---	---	L/6921	1988-1990

Table I.3. (continued)

## B. Agreements notified under the enabling clause (continued)

Parties and agreements	Type of agreement	Transition period	Date of entry into force	Notification date	GATT/WTO process		Latest regular report/review	
					Reference	Date	Reference	Period covered
17. Algeria/Angola/Argentina/Bangladesh/Benin/Bolivia/Brazil/Cameroun/Chile/Colombia/Cuba/Democratic People's Republic of Korea/Ecuador/Egypt/Ghana/Guinea/Guyana/Haiti/India/Indonesia/Islamic Republic of Iran/Iraq/Libyan Arab Jamahiriya/Malaysia/Mexico/Morocco/Mozambique/Nicaragua/Nigeria/Pakistan/Peru/Philippines/Qatar/Republic of Korea/Romania/Singapore/Sri Lanka/Sudan/Thailand/Trinidad and Tobago/Tunisia/United Republic of Tanzania/Uruguay/Venezuela/Viet Nam/Yugoslavia/Zaire/Zimbabwe								
Global System of Trade Preferences (GSTP)	Mutual reduction/elimination of tariffs	None	19 April 1989	25 September 1989	36S/49	4 December 1989	---	---
18. Fiji/Papua New Guinea/Solomon Islands/Vanuatu								
Trade Agreement among the Melanesian Spearhead Group (MSG) Countries	Mutual reduction/elimination of tariffs	---	---	7 October 1999	---	---	---	---

## C. Agreements notified under GATS Article V

Parties and agreements	Date of entry into force	Notification date	Examination report		Standard format
			Reference	Date	
19. Australia/New Zealand ANZCERTA	1 January 1989	22 November 1995	Consultations on report		WT/REG40/1

Source: Extracted from "Overview of developments in the international trading environment", *WTO Annual Report 2001*, WT/REG/W/59, (Geneva, 2001).

**Table I.4. List of RTAs under examination<sup>a</sup>**

<b>RTAs for which factual examinations have been completed and the draft examination reports are in various stages of consultation and finalization:</b>		
ANZCERTA (services)	EC-Romania	Norway-Faroe Islands
Bulgaria-former Yugoslav Republic of Macedonia	EC-Slovak Republic (goods and services)	Poland-Lithuania
Canada-Chile	EC-Slovenia	Romania-Moldova
Canada-Israel	EFTA-Bulgaria	Slovak Republic-Estonia
CEFTA	EFTA-Estonia	Slovak Republic-Latvia
Czech Republic-Estonia	EFTA-Hungary	Slovak Republic-Lithuania
Czech Republic-Latvia	EFTA-Israel	Slovak Republic-Turkey
Czech Republic-Lithuania	EFTA-Latvia	Slovenia-Croatia
Czech Republic-Turkey	EFTA-Lithuania	Slovenia-Estonia
EC-Andorra	EFTA-Poland	Slovenia-former Yugoslav Republic of Macedonia
EC-Bulgaria	EFTA-Romania	Slovenia-Latvia
EC-Czech Republic	EFTA-Slovenia	Slovenia-Lithuania
EC-Enlargement (goods and services)	Estonia-Latvia-Lithuania	Switzerland-Faroe Islands
EC-Estonia	Iceland-Faroe Islands	Turkey-Bulgaria
EC-Hungary (goods and services)	Israel-Czech Republic	Turkey-Estonia
EC-Latvia	Israel-Hungary	Turkey-Hungary
EC-Lithuania	Israel-Poland	Turkey-Israel
EC-Poland (goods and services)	Israel-Slovak Republic	Turkey-Lithuania
	Israel-Slovenia	Turkey-Romania
	NAFTA (goods and services)	
<b>The 17 RTAs under factual examination:</b>		
EC-Faroe Islands	Kyrgyzstan-Azerbaijan,	Kyrgyzstan-Russian
EC-Turkey	Armenia, Belarus, Georgia,	Federation, Belarus and
EFTA-Morocco	Moldova, Kazakhstan,	Kazakhstan
EU-Tunisia	Russian Federation, Ukraine,	Kyrgyzstan-Ukraine
European Union (services)	Uzbekistan and Tajikistan	Kyrgyzstan-Uzbekistan
Faroe Islands-Estonia	Kyrgyzstan-Kazakhstan	MERCOSUR
Hungary-Latvia	Kyrgyzstan-Moldova	Poland-Latvia
Hungary-Lithuania	Kyrgyzstan-Russian Federation	
<b>The seven RTAs for which factual examination has not yet commenced:</b>		
EC-Israel	EC-Palestinian Authority	Turkey-Poland
EC-Mexico	Poland-Faroe Islands	
EC-Morocco	Estonia-Ukraine	

Source: WTO, Report (2000) of the Committee on Regional Trade Agreements to the General Council, WT/REG/9.

<sup>a</sup> Unless otherwise indicated, the examination of RTAs listed below refers to trade in goods only.

stress the need for a more rigorous definition of rules, for example, “substantially all trade” should cover 95 per cent of all trade after 10 years, and 98 per cent after 15 years. On “other restrictive regulations of commerce”, some advocate the inclusion of the abolition of internal barriers such as safeguard actions and anti-dumping duties.

Yet another set of proposals centres on improving the surveillance of customs unions and FTAs in the WTO. Not relying on complex legal interpretations and not requiring amendment of existing rules constitute perhaps the most pragmatic approach, as it relies on “peer pressure” and group persuasion. Experience has shown that this is indeed a useful enforcement mechanism. When entering into an RTA, countries generally try to forestall the likelihood of a future dispute arising by maintaining multilateral discipline and keeping in mind the interests of third countries. In this regard, the strengthened dispute settlement rules of WTO are expected to lend greater weight to group persuasion.

The debate is likely to continue, and as long as the overall perception is that of a generally positive relationship, the impetus for change is unlikely to gather speed.

## **E. Conclusion**

The confluence of economic growth, technological advancement and political events of the past decade brings to the fore unprecedented challenges to the international trading system. How can the reach of the WTO be extended geographically to make it a truly universal trading system while ensuring that it remains effective for the conduct of orderly trade and economic cooperation among all countries?

At the same time, the ESCAP region is characterized by an ever-growing constellation of regional integration arrangements. Some are formal, based on intergovernmental agreements, and others are more informal and private sector driven. Some are making headway faster than others. All are aimed at harnessing transborder and international trade and investment synergies. ESCAP, as the regionwide cooperative mechanism of eminence – by providing opportunities for closer communication and consultation among Governments already involved in these creative initiatives – can facilitate the expansion and coalescence of these constellations and RTAs into an increasingly integrated, regionwide zone of efficient production, with enhanced opportunities for world trade. However, if the hitherto outward-oriented, flexible and open regionalism of ESCAP is to continue to be centred around MFN liberalization, it is important that marginalized countries, especially those that are not yet WTO members, be allowed to integrate more

effectively into the multilateral trading system. In an interdependent world, where trading power nevertheless remains unequal, a system of global rules that can respond equitably to the changing needs of a globalizing world is of fundamental importance to the region's long-term trade interests and the well-being of its people.