



# **G-20, Multilateralism and Emerging Trade Blocs: Options for India and Asian Developing Countries**

ICRIER Conference on Governance and Development,  
New Delhi, 19 September 2013

**Nagesh Kumar**



**South and South-West Asia Office**

## G-20 and Trade

- G-20 has consistently supported ‘open, rules-based, transparent and non-discriminatory WTO-based trading system’
  - Called for successful outcome of the 9<sup>th</sup> WTO Ministerial in Bali in December 2013
- Whether reflected in actual practice by leading countries or just a lip service
- Implications and policy options for Asian developing countries including India

## 1990s a turning point for erosion of MFN

- Single European Market, 1992
  - Further deepening and broadening of the Single market
- North American Free Trade Agreement, 1994
- Followed by others e.g. EFTA, European Economic Space, APEC....

# Implications

- Large proportion of world trade begins to take place outside MFN, on a preferential basis
  - Share of advanced economies in world trade 73% in 1990, 65% in 2000 and 51% in 2012
  - 63% of EU's \$ 5.8 trillion trade intra-regional; 49% of NAFTA's \$2.37 trillion trade intra-regional
- Domino effect: MERCOSUR, SADC, SACU....
- New disciplines in non-trade areas: lot of disputes
  - Chapter 11 cases under NAFTA
- Techno-protectionism; trade wars between the two blocs

# New wave of Interregional Blocs

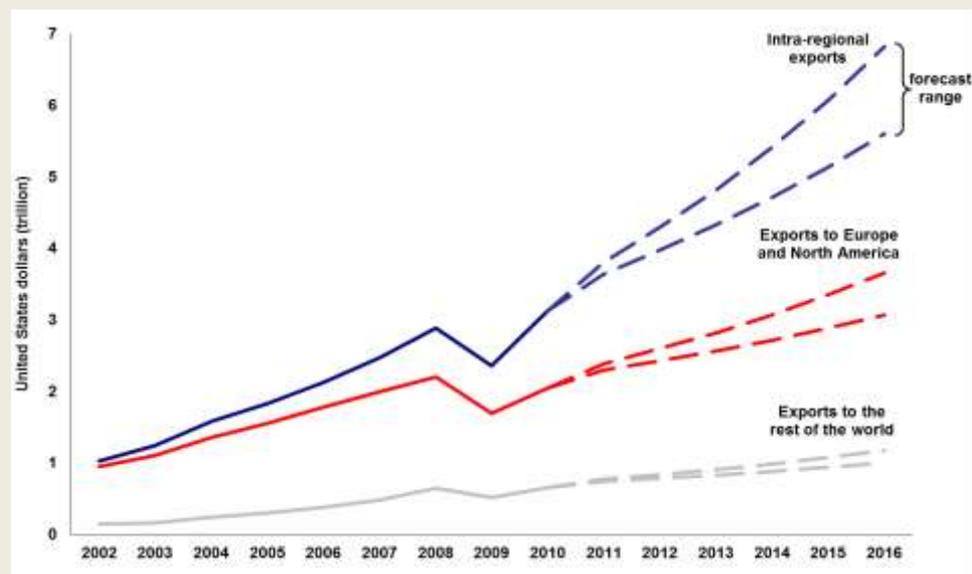
- Trans-Pacific Partnership (TPP) negotiations launched in 2011:
  - bringing together US and Japan, Australia and New Zealand, among other countries
- EU-US Transatlantic Trade and Investment Partnership (TTIP) negotiations launched in July 2013
  - Further erode the MFN trade
    - Virtually entire mutual trade of advanced economies would be conducted on preferential basis with existing regional blocs (EU and NAFTA) and their new emerging inter-regional trade blocs
  - Both seeking ‘to set new standards for global trade and incorporating next-generation issues’ that could provide templates for other forums

## Implications for Asian Developing Countries

- With the bulk of trade of their major trade partners going off the MFN, developing countries in Asia and the Pacific region need to look at the options
  - Exploiting opportunities of expanding intra-regional trade
  - Exploring opportunities for inter-regional trade

# Potential of intra-regional trade in Asia

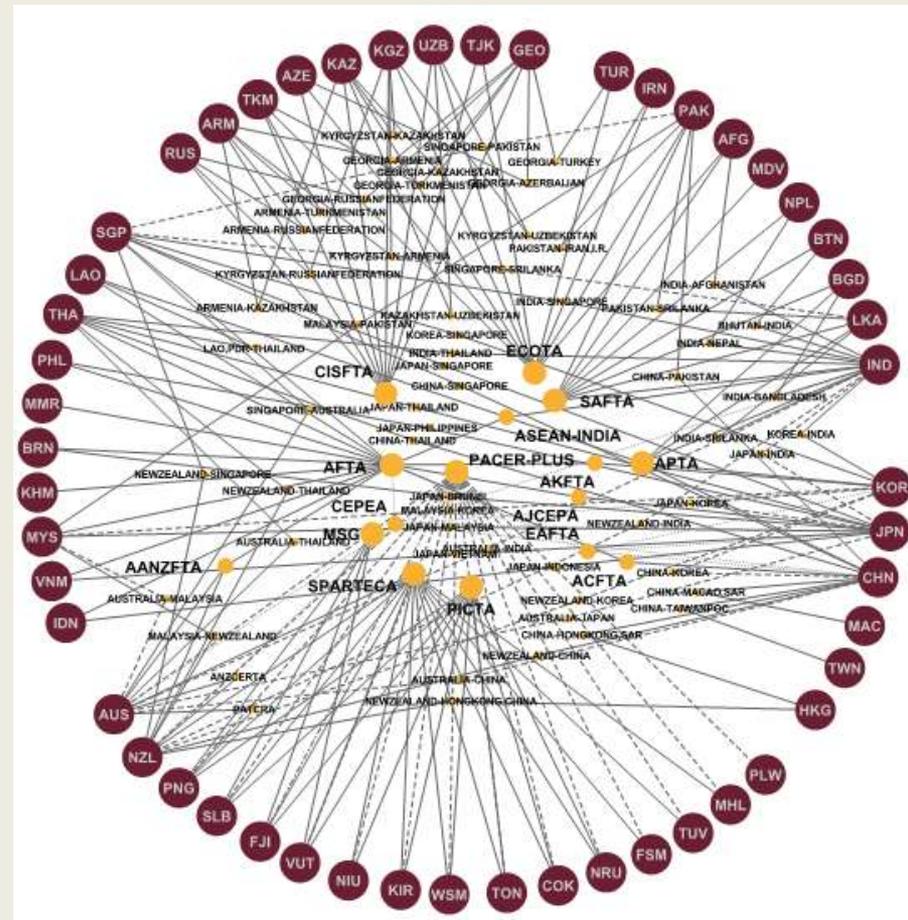
- Intraregional trade expanding fast; can grow faster with some facilitation
- Potential in subregions but often greater across the subregions
- Potential of intraregional trade in services remains to be exploited
- Intraregional FDI flows have started to grow with the emergence of China, India, Hong Kong, Singapore, Malaysia, Thailand as new sources of FDI



Indicator of opportunities to export from	To					Asia and the Pacific	Rest of the World		
	East & North-East Asia	South-East Asia	South & South-West Asia	North & Central Asia	Pacific		Europe	North America	Rest of the World
East & North-East Asia	23.3	3.7	5.3	3.6	0.8	36.8	20.8	3.9	11.8
South-East Asia	19.4	2.3	4.1	1.7	0.6	28.1	16.2	5.4	6.9
South & South-West Asia	9.1	2.1	2.8	1.9	0.5	16.5	12.9	3.6	7.0
North & Central Asia	13.5	3.1	6.1	1.0	0.7	24.4	18.1	7.9	6.8
Pacific	5.2	1.4	2.5	0.7	0.3	10.1	7.3	1.8	3.5
Asia and the Pacific	13.0	2.4	3.9	1.6	0.6	21.4	14.1	4.3	6.7
Europe	13.8	3.8	5.6	4.5	1.0	28.6	29.7	6.1	13.7
North America	32.1	6.6	11.1	4.3	1.5	55.6	40.3	10.9	16.5
Rest of the World	9.5	2.2	3.9	1.3	0.6	17.5	12.1	4.9	5.6

# Approaches towards regional trade liberalization

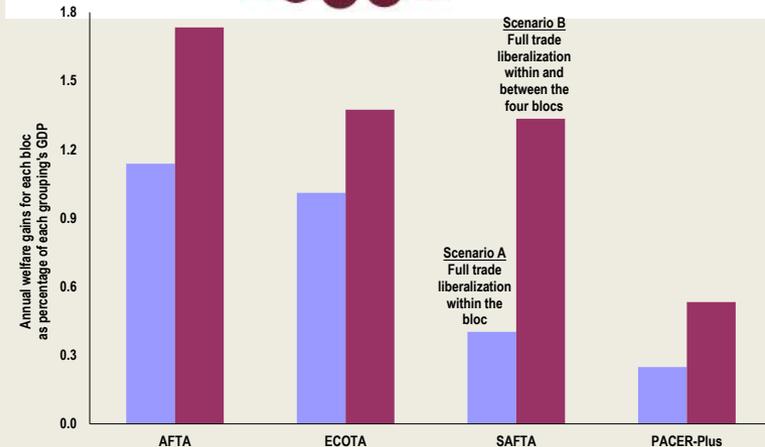
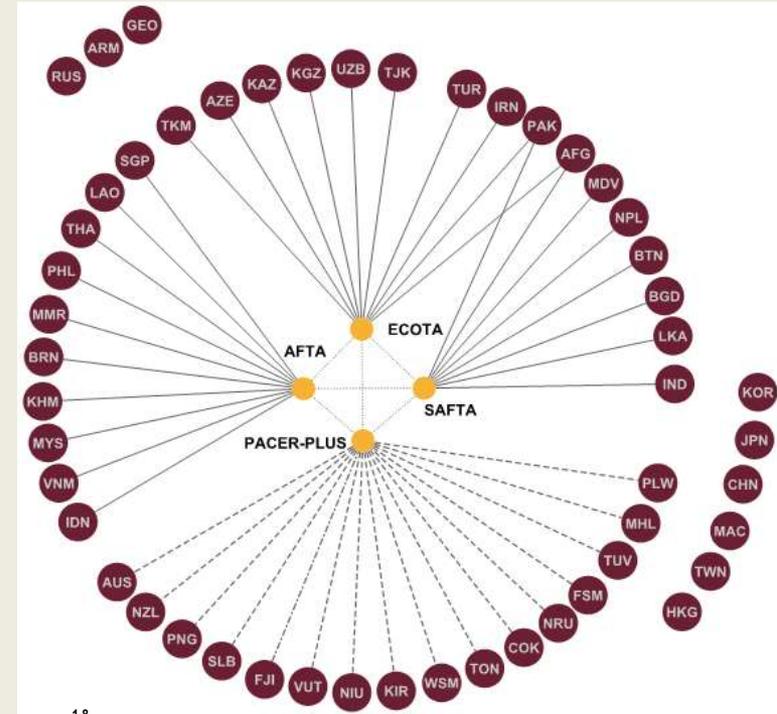
- High trade costs in intraregional trade; Barriers to trade in services and investments also remain
- Approaches to liberalization limited to subregional and bilateral arrangements-**Asian Noodle Bowl**
- Sectoral coverage also varies
- **Need for a broader arrangement to lead to a pan-Asia-and the Pacific regional market**
  - Broader, comprehensive (substantially all trade), deeper
  - Liberalization, facilitation and cooperation
  - Can be evolved in a progressive manner
  - Equitable: S&DT
  - Economic cooperation should cover assistance for lagging regions and vulnerable sections



**Three options to evolve a broader pan-Asia-and the Pacific RTA**

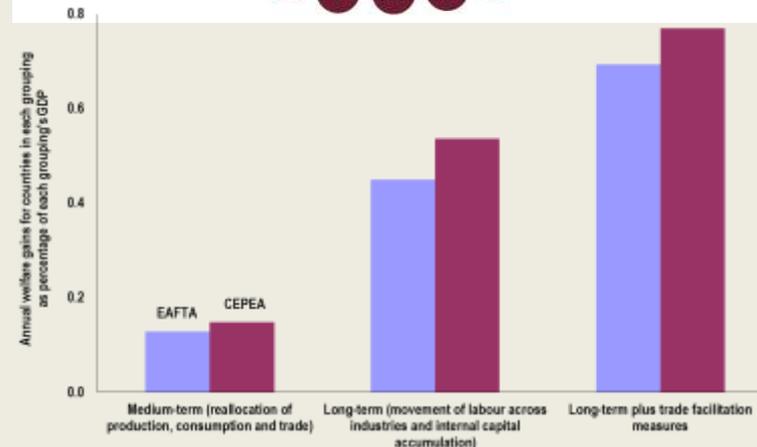
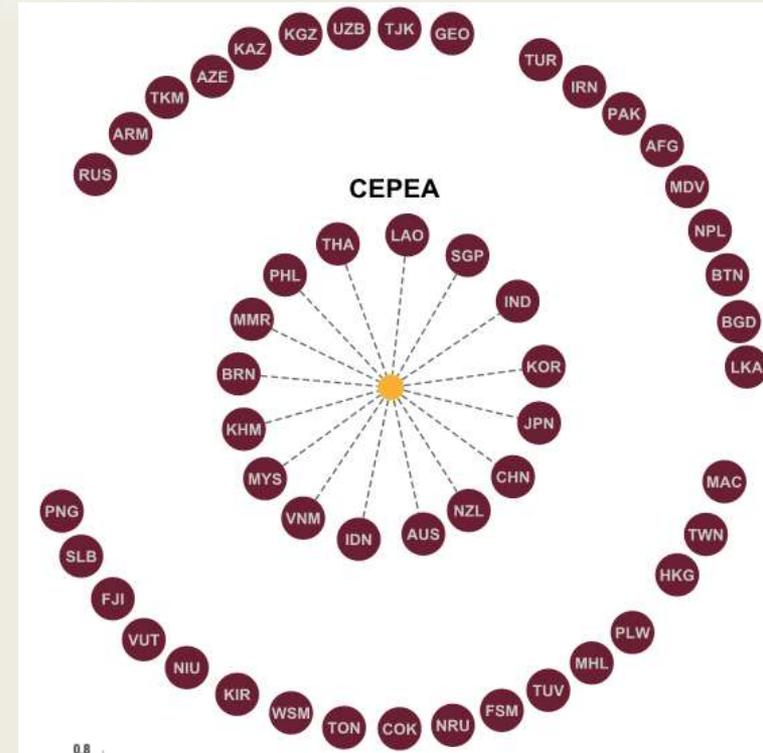
# 1. Creating an Asian Economic Area to join the sub-regional groupings

- One option could be to create an umbrella agreement AEA, negotiated under the auspices of ESCAP to provide a framework for subregional groupings to exchange tariff preferences on a reciprocal basis and share experiences
- May be complicated by different stages of evolution of the subregional groupings
- Potential for substantial welfare gains
- Leaves out some major economies e.g. China, Japan, RoK
- Creating a Consultative Group of the Subregional Groupings on Economic Cooperation to facilitate sharing of best practices between them



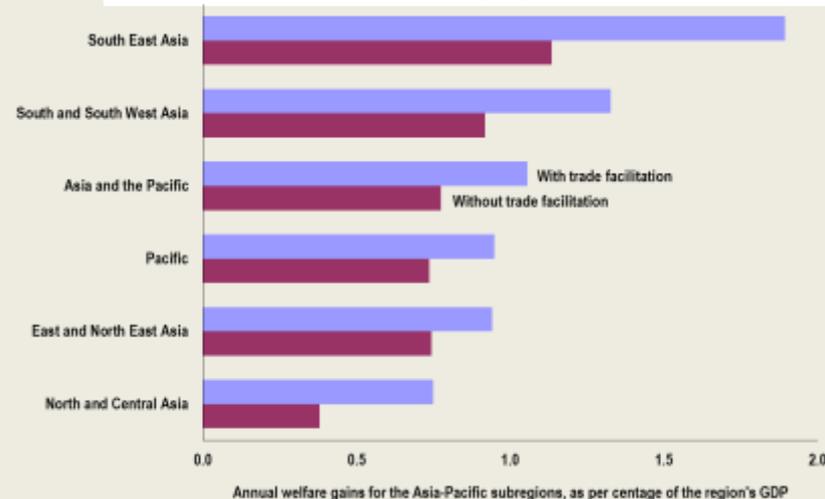
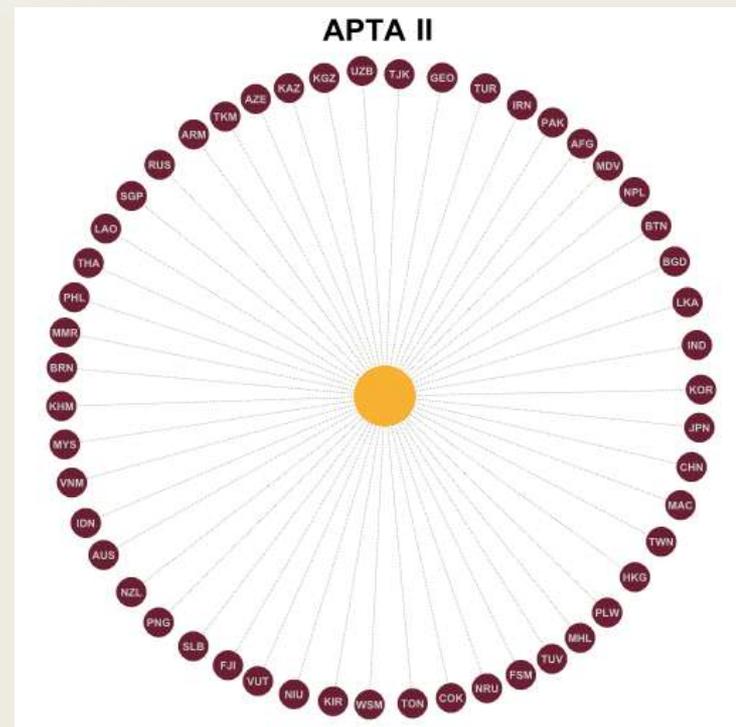
## 2. Building on ASEAN+ approach

- Using CEPEA of ASEAN+6 as a nucleus of an incipient Asia-Pacific-wide FTA to which other Asia-Pacific countries could accede to in future
- CEPEA Study process completed; four ASEAN+ study groups have been set up to develop it further
- ASEAN+1 FTAs concluded with all the six dialogue partners that can be **multilateralized** with common rules of origin
  - Phnom Penh Summit of ASEAN in 2012 launched negotiations for a **Regional Comprehensive Economic Partnership of East Asia (RCEP)** covering ASEAN+6 countries
  - Already based on Liberalization, Facilitation and Economic Cooperation
- Keeping the open accession clause for other Asia-Pacific countries to join the agreement
- **Critical mass**: the largest and most dynamic economies of the region with **USD 20 trillion** market, large capital resources
- Potential for substantial **welfare gains**



# 3. A new Asia-Pacific Trade and Economic Cooperation Agreement

- A new agreement under the auspices of ESCAP open to all member states
- Based on substantially all trade (negative list basis) conforming to Article XXIV of GATT
- Comprehensive coverage: goods, services and investments, facilitation
- Special and differential treatment for poor countries and economic cooperation covering support to lagging regions and vulnerable sections
- Potential to raise welfare by more than one percent of the whole region with poorer countries benefiting more.
  - RCEP based approach is most pragmatic
  - Critical mass, dynamism, a lot of ground work already done in ASEAN+1 FTAs



Annual welfare gains for the Asia-Pacific subregions, as per centage of the region's GDP

## Alongside market integration

- Seamless connectivity and transport facilitation to bring down costs of intraregional trade
- Financial cooperation to mobilize Asian savings for closing infrastructure gaps
- Regional public goods to address shared vulnerabilities and risks including food and energy insecurities, natural disasters, climate change
- ESCAP's first **Ministerial Conference on Regional Economic Integration** to be held in Bangkok in December 2013 will discuss these issues

## To conclude

- World's major markets integrating through trade blocs with the bulk of trade conducted outside MFN
- A compelling case for deepening and broadening economic integration in Asia and the Pacific region and move towards formation of an economic community of Asia-Pacific as a **long term goal**
- Great potential of enhancing intraregional trade and investment by exploiting the synergies beyond those within the subregions through broader regionalism
- Fruitful cooperation possibilities exist also in connectivity, finance, and in addressing the shared risks and vulnerabilities as in food and energy security, disaster risk reduction, and for enhancing environmental sustainability, among other areas
- Deeper cooperation would also assist the region to play its due role in global economic governance and emerge as the centre of gravity of the world economy
- Time also for exploiting the potential of inter-regional trade through deepening GSTP



# GROWING TOGETHER

ECONOMIC INTEGRATION FOR  
AN INCLUSIVE AND SUSTAINABLE ASIA-PACIFIC CENTURY



*Thank you*