

CEFTA in the World Trade System

Patrick A. Messerlin

Professor of Economics, Sciences Po

Director, Groupe d'Economie Mondiale at Sciences Po (GEM)

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Europe**

Stability Pact and Friedrich-Ebert-Stiftung

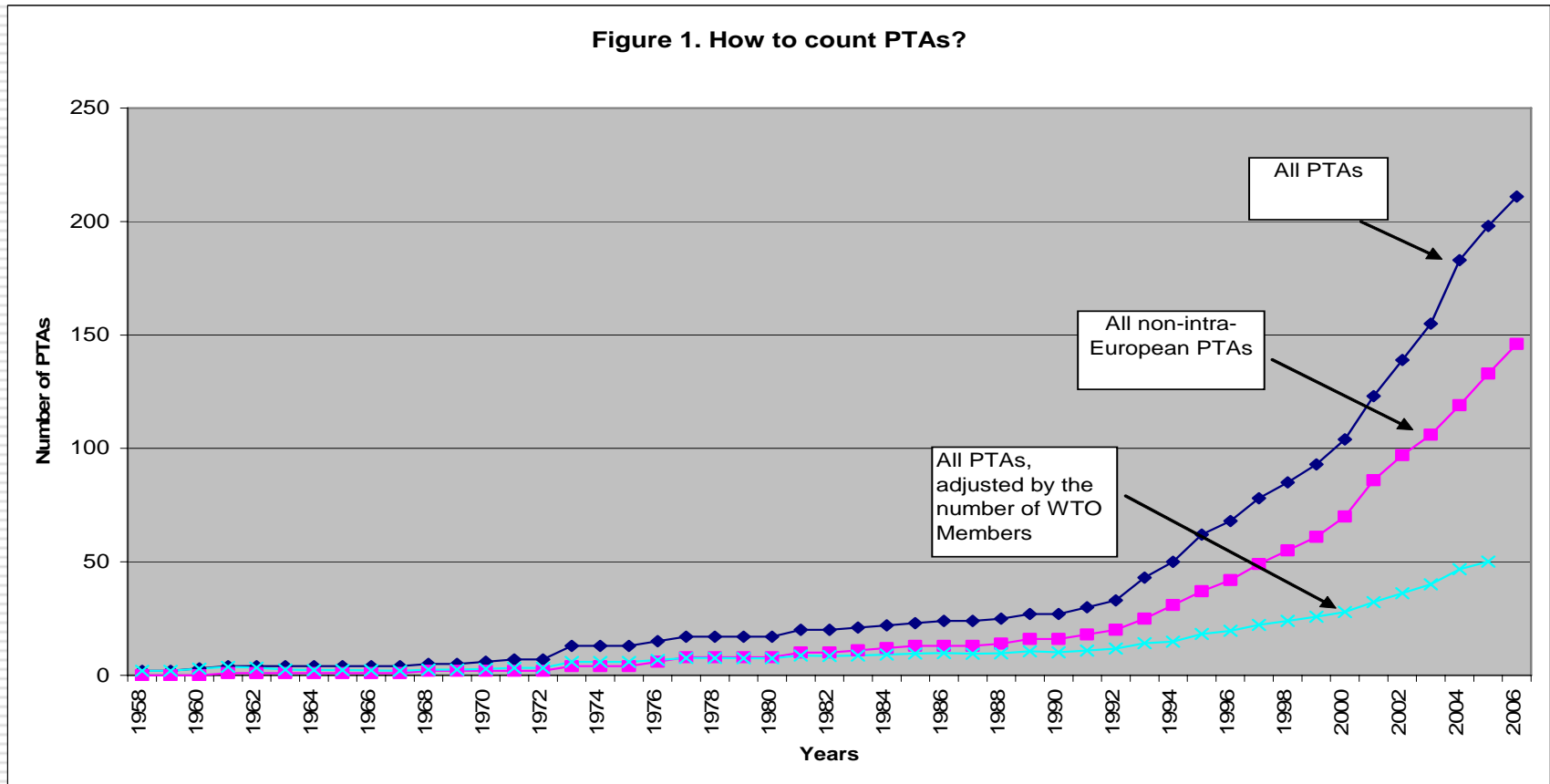
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WTO and Regionalism: Facts

- ❑ 2 FTAs in 1960, 211 FTAs in oct. 2006
- ❑ This is comparing oranges and apples
- ❑ Politics vs. economics: the European integration
- ❑ Increasing number of WTO Members
- ❑ Regional Agreements vs. "Bilaterals"
 - ❑ EC (1958) in goods = 6 bilaterals
 - ❑ EC (1958) in services = 15 bilaterals
- ❑ A better perspective: from 21 to ~50

WTO and "Regionalism": Facts

Figure 1. How to count PTAs?



So far, small countries are in the driving seat

- Good reasons for small countries:
 - Large partner is a proxy for the world
 - Voice not diluted in the WTO forum (at the cost of no coalition)
- But uncertain outcomes:
 - Large partner: often volatile
 - Large partner adds WTO-Plus conditions
 - Large partner adds new bilaterals: spaghetti bowl or electron collider?
- Collapses of FTAs in the past

So far, small countries are in the driving seat

	Small partner	Large partner
Support from exporters	bilateral=WTO	bilateral<<WTO
Opposition from import-competitors	bilateral=WTO	bilateral<<WTO
Additional elements for a bilateral	foreign policy	foreign policy
Net gains of bilateral vs WTO	"easy negotiations" positive in the short run negative in the long run	"neo-imperial" (WTO-Plus) unnoticed, but subjected to unexpected opposition
Domestic forces		
	Bilateral between a "not so small" and a large country	
	"Not so small" partner	Large partner (EC)
Support from exporters	bilateral<WTO	bilateral<WTO
Opposition from import-competitors	bilateral=WTO	bilateral <or= WTO
Additional elements for a bilateral	foreign policy	foreign policy
Net gains of bilateral vs WTO	000	"neo-imperial" (WTO-Plus)
	???, especially if the WTO is more flexible (services)	???, especially if the WTO is more flexible (services)
The table assumes that both partners have relatively small MFN tariffs (ie, are not too much subjected to trade distortions, hence by the same token do not offer deep preferences).		

The Golden Key to FTA success

- ❑ FTA: the crucial need of balancing the pluses and minuses
- ❑ The *economic* Golden Key is in Geneva (WTO)
- ❑ It relies on the balance between the efficiency of the FTA partner and the level of the MFN (WTO) tariffs

The Golden Key to FTA success: Low MFN tariffs

Case 1: The partner is MORE efficient than the rest of the world

	Free trade	WTO non discrimination		Preferential TA	
		tariff rate (%)	price	tariff rate (%)	price
Partner	100.0	10	110.0	0	100.0
Rest World	108.0	10	118.8	10	118.8

Case 2: The partner is LESS efficient than the rest of the world

	Free trade	WTO non discrimination		Preferential TA	
		tariff rate (%)	price	tariff rate (%)	price
Partner	108.0	10	118.8	0	108.0
Rest World	100.0	10	110.0	10	110.0
Partner	108.0	5	113.4	0	108.0
Rest World	100.0	5	105.0	5	105.0
Partner	112.0	15	128.8	0	112.0
Rest World	100.0	15	115.0	15	115.0

Benchmarking CEFTA: goods

- Tariffs: the lower the MFN (WTO) tariffs, the more robust the FTA (see next slide)

- Non tariff barriers: the lower the rank (in terms of regulatory efficiency), the more robust the FTA (see next slide)
 - Trading across borders
 - Licenses
 - Source: Doing Business, World Bank/IFC. Consult at www.doingbusiness.org

- Initially, Estonia introduces zero tariffs. Looks quite extreme. But, economically, what counts is that the tariff is the same on all the products (uniform) and moderate or low. An uniform tariff ensures no distortions in the economy, hence eliminates incentives for corruption.

Benchmarking CEFTA: goods

	Market size [a]		Average industrial tariff (2005) [b]		Regulatory ranking [c]				
	at current USD	at PPP USD	bound	applied	trading across borders	dealing with licences	ease of doing business	registering property	protecting investors
Albania	0.02	0.03	6.6	5.4	101	161	120	76	162
BosniaHerz.	0.02	0.05	6.2	6.2	56	160	95	139	83
Croatia	0.09	0.10	5.5	4.0	92	170	124	109	156
Macedonia	0.01	0.03	6.3	7.4	127	86	92	87	83
Moldova	0.01	0.01	6.0	4.2	105	119	103	47	99
Montenegro	0.00	0.00	--	--	80	154	70	106	19
Serbia	0.07	0.07	10.0	10.0	51	157	68	110	60
UNMIK	--	--	--	--	102	146	75	86	33
CEFTA	0.22	0.30	6.9	6.3	79.9	154.5	100.8	106.5	110.9
EC15	30.56	20.03	3.9	4.0	40.6	56.5	33.3	64.3	58.8
EC12	1.92	2.50	3.9	4.0	71.9	116.3	57.9	77.2	57.8
Greece	0.52	0.46	3.9	4	123	55	109	94	156
Estonia	0.03	0.04	3.9	4	6	13	17	23	33

Benchmarking CEFTA: services and foreign investment

- Services
 - Ease of doing business (see next slide)

- Foreign investment (see next slide)
 - Registering property
 - Protecting investors

- Source: Doing Business, World Bank/IFC.

- In regulatory issues, Estonia also tries to adopt approaches based on uniform taxes ("flat" taxes) and open access to services infrastructures. The level of corruption in Estonia is the lowest of the new EU Member States.

Benchmarking CEFTA: services and foreign investment

	Market size [a]		Average industrial tariff (2005) [b]		Regulatory ranking [c]				
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Benchmarking CEFTA: a world wide look

Table 1: Bilaterals: Seven Countries, Two Strategies

	Nber of co-signatories	Market size [a]		Average industrial tariff [b]		Regulatory ranking [c]				
		at current USD	at PPP USD	applied	bound	trading across borders	dealing with licences	ease of doing business	registering property	protecting investors
	1	2	3	4	5	6	7	8	9	10
A. Bilaterals signed										
Singapore	10	48.5	39.3	4.8	9.2	35.8	41.7	28.0	35.3	16.7
Chile	20	79.0	70.4	5.5	8.0	34.1	70.8	41.5	39.6	46.3
Korea	14	4.1	5.8	7.1	21.5	58.8	70.3	69.0	59.2	68.7
USA	15	7.6	6.5	7.5	19.6	42.9	41.9	29.2	50.1	34.0
China	14	2.9	5.9	8.0	25.4	63.1	77.3	72.8	66.7	55.4
EC	14 [d]	6.4	8.2	9.2	18.3	76.8	91.9	67.1	80.4	53.4
Japan	4	2.7	3.3	10.0	27.4	69.4	62.4	55.6	76.6	52.4
B. Bilaterals under negotiations or consideration										
Singapore	12	90.6	81.2	5.7	9.0	40.0	68.9	43.5	42.3	41.0
Chile	9 [e]	81.6	77.7	6.4	10.3	43.2	77.8	49.4	45.5	45.1
Korea	11	49.1	57.4	7.3	13.3	43.3	85.3	57.6	39.8	40.4
Japan	18	13.4	16.4	7.5	20.0	53.5	58.3	54.8	60.6	56.6
USA	14	14.9	16.5	8.8	21.3	54.1	69.7	52.2	64.7	44.2
China	12	10.4	17.0	10.1	25.5	83.1	96.4	83.5	76.1	47.2
EC	24	23.4	44.2	10.3	17.8	71.1	125.6	91.2	61.8	64.8

[a] GDP (in USD, 2004) as a share of world GDP. [b] WTO Trade Profiles. [c] Doing Business 2007.

[d] Counting as one the 10 countries having acceded to the EC in 2004. [e] Counting as one the EC.

Thank You Very Much !

