

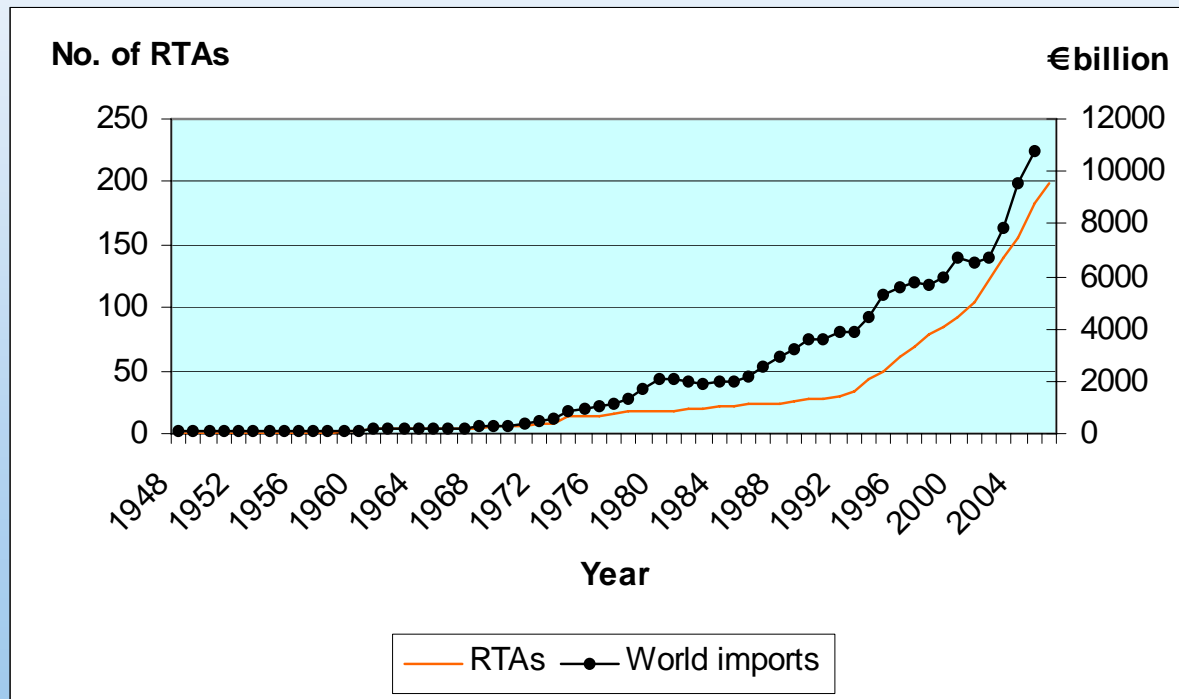
Regional trade agreements: An EU perspective

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Regionalism: definition and scope

- “actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions”
(Dictionary of Trade Policy Terms)
- However, regional trade agreements (RTAs) are often concluded between countries not belonging to the same geographical region.

RTAs in force by date of entry into force (as of 15 Sept. 2006)



Source: WTO Secretariat

Why regionalism? An EU view

- Removal of tariffs on goods is not enough to realise the full gains of an RTA. Some wish to move ahead also with other issues.
- Difficult to achieve consensus among 150 WTO members. RTAs are a means for partners with similar ambitions to move forward.
- Therefore, RTAs often include provisions to liberalise trade in services and to create common rules in fields such as investment, intellectual property rights, government procurement and competition.

WTO requirements for regional trade arrangements (Article XXIV)

- RTAs violate the WTO's principle of MFN treatment, but allowed if certain requirements are met.
- Overall trade barriers of the participating countries shall not be higher than prior to the formation of the RTA.
- "substantially all trade" should be liberalised within "a reasonable length of time".

WTO requirements for regional trade arrangements (Enabling clause)

- No disciplines for RTAs among developing countries (c.f. trade coverage and transition period above).
- Allows for unilateral non-reciprocal and non-discriminatory preferences such as the GSP.
- Special treatment for LDCs.

Economic impact of RTAs: Classical effects

- Trade creation: inefficient, high-cost domestic production replaced by low-cost imports from RTA partner.
- Trade diversion: efficient, low-cost imports from non-RTA members replaced by less-efficient imports from RTA member.
- Is trade creation greater than trade diversion?
An empirical issue to be examined ex-post.

Economic impact of RTAs: Deep integration issues

- Policies and institutions that facilitate trade by reducing or eliminating regulatory and behind-the-border impediments to trade.
- E.g., customs procedures, regulation of domestic services production and of investments, product standards regulation, competition policy, IPR and rules concerning access to government procurement.
- Induced growth effects stimulated by, e.g. productivity growth, increased specialisation and economies of scale, attracting FDI and locking in of reforms.

Lessons from experience

- RTAs create more trade than they divert, but excluded countries tend to lose.
- Comprehensive liberalization across all sectors – a prerequisite for a successful RTA. Deeper agreements can lead to larger effects.
- Design and implementation crucial. E.g. simultaneous reductions in applied MFN tariffs are key, especially for countries with high tariffs.

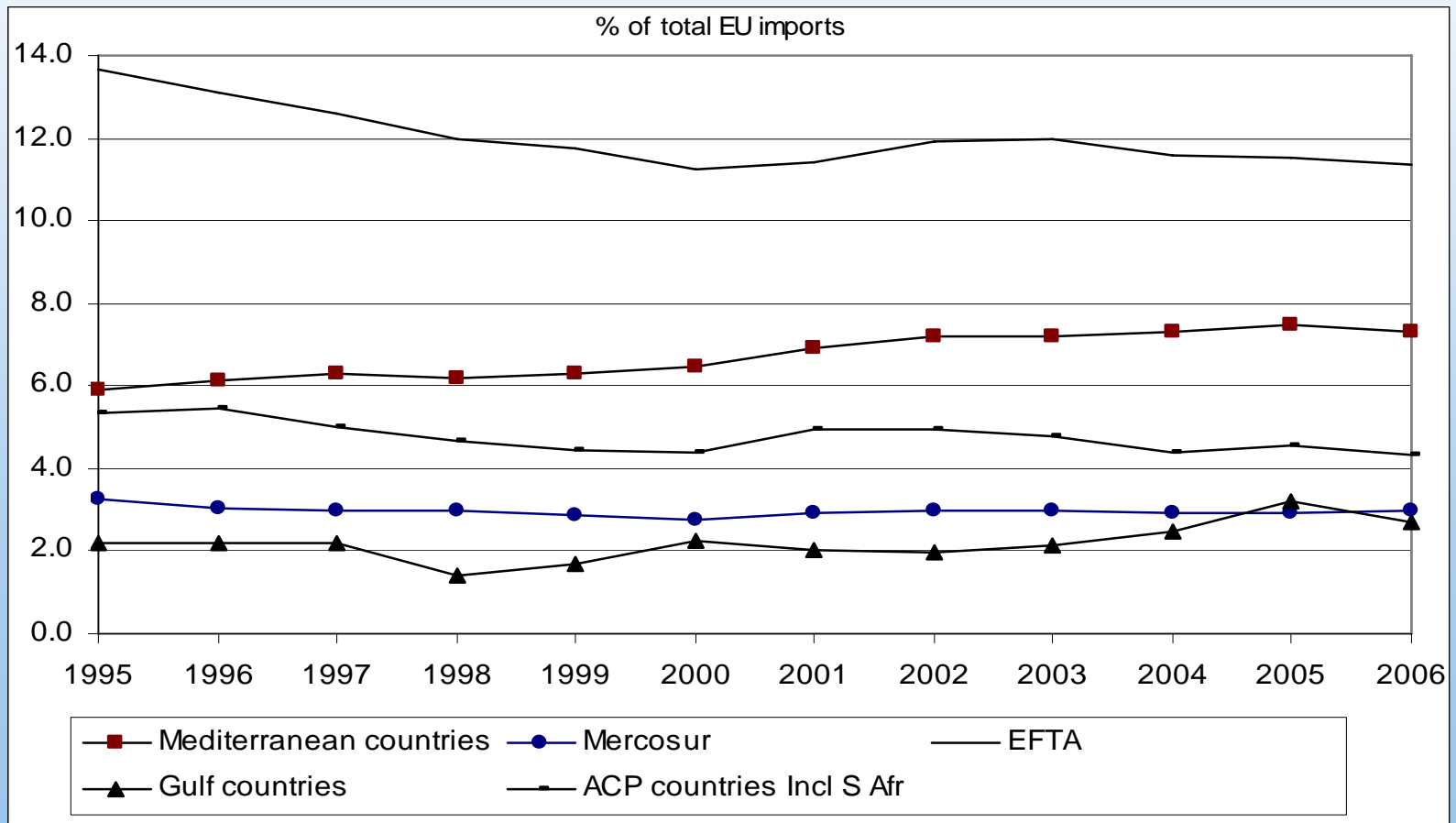
The EU and regionalism I

- The EU itself is an RTA. It is also the most frequent participant to RTAs notified to the GATT/WTO (more than 30).
 - Rationale for (former) EU RTAs:
 1. Preparing for membership
 2. Relations with neighbours
 3. Development
 4. Market access
- } Security, political developments

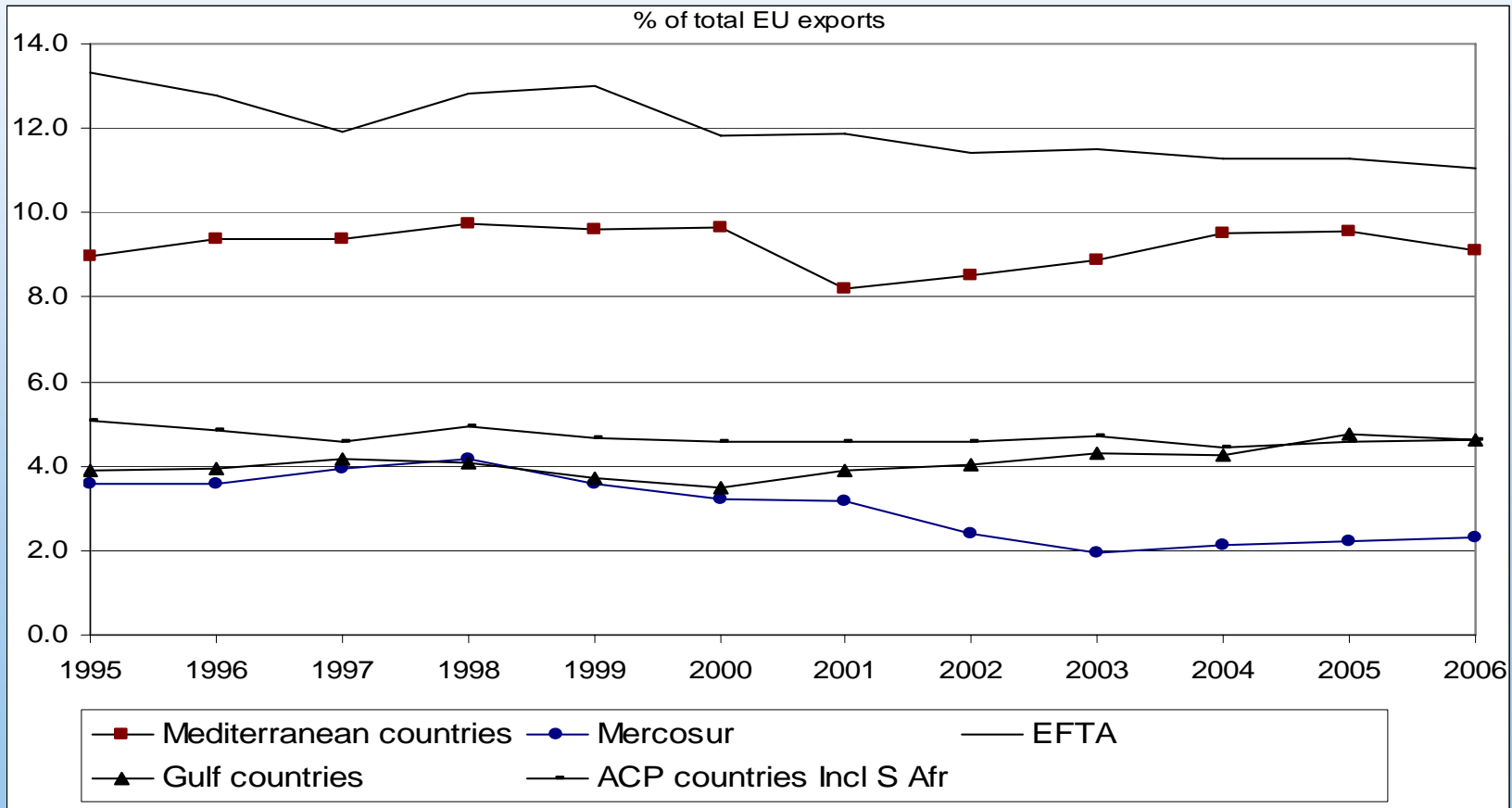
The EU and regionalism II

- The EU promotes a bi-regional approach in many of its RTAs.
- ...combines potential positive effects of inter-regional liberalization (e.g. locking in of reforms, good governance and technology transfer).
- ...with the potential positive effects of intra-regional liberalization (e.g. economies of scale, competition, and a larger market size to attract FDI).

EU-25 imports from a selection of current or future RTA partners



EU-25 exports to a selection of current or future RTA partners



Rationale for new generation of EU RTAs

- Market potential: economic size and growth.
- Level of protection against EU export interests (tariff and non-tariff barriers).
- Potential partners' on-going negotiations with our competitors.
- ASEAN, Korea, India and Mercosur (with whom negotiations are ongoing) emerge as priorities.

Content of new generation of EU RTAs

- Highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. At least parity with potential partners' FTAs with EU competitors.
- Quantitative import restrictions and all forms of duties, taxes, charges and restrictions on exports should be eliminated.
- Tackling NTBs through regulatory convergence.
- Strong provisions on IPR, competition, trade facilitation provisions and good governance, etc.

Link to the multilateral track

- The WTO is the most effective means of expanding and managing trade for the benefit of all and provides a unique framework for dispute settlement.
- FTAs should pave the way for further progress at the WTO
- ...and thus act as building blocs rather than stumbling blocs to further multilateral liberalisation.
- BUT, could distract attention from the WTO if perceived as alternatives rather than complements to multilateral rule-making and liberalisation.
- ...and overlapping RTAs may cause problems through costs to traders to meet multiple sets of rules, including RoO.