

APEC AND PROGRESS TOWARD BOGOR GOALS

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APEC and Progress toward Bogor Goals

Background on the Bogor Goals

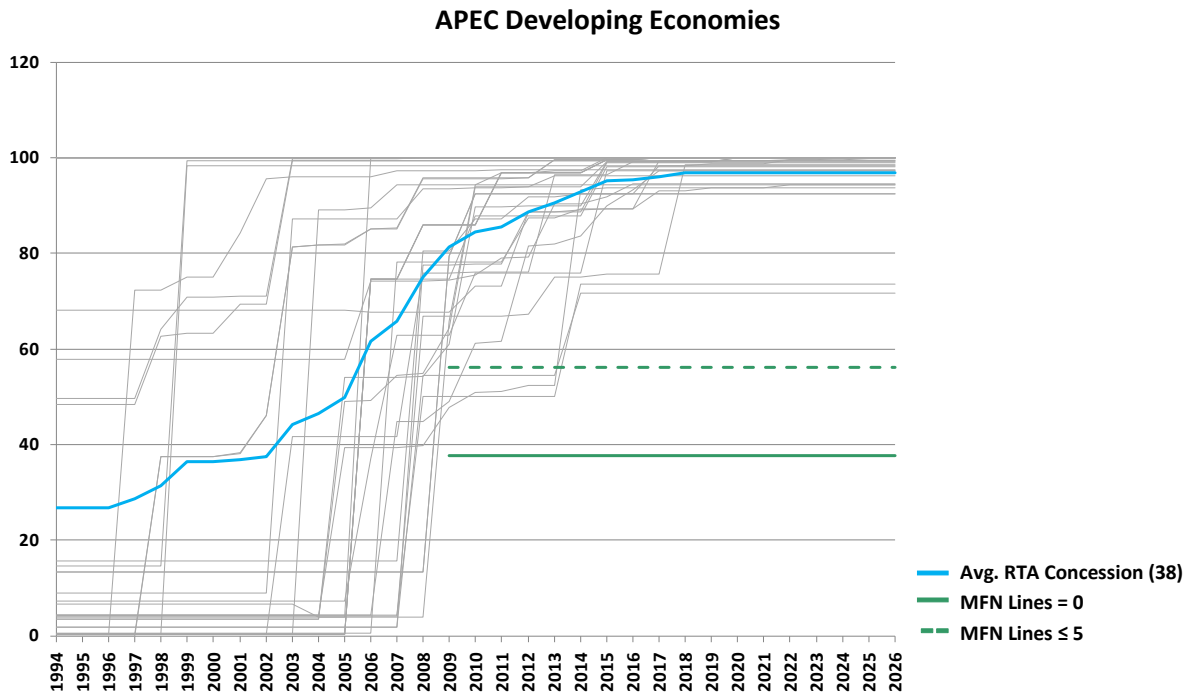
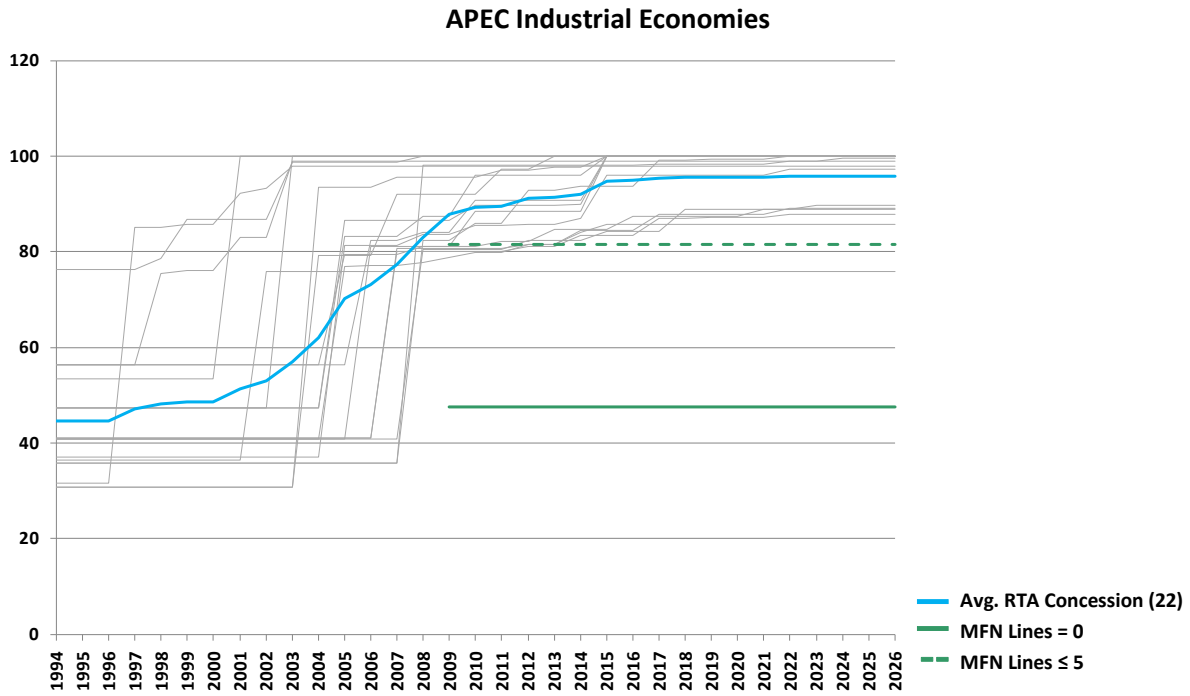
The language of the Bogor Declaration is general yet clear, and the goals set forth include: i) achieving free and open trade and investment in the Asia-Pacific region, specifically in the industrialized economies by 2010 and the developing economies by 2020; ii) complementing liberalization with strengthened trade and investment facilitation efforts; and iii) intensifying development cooperation. The statement underscores the importance of open regionalism, so much so that language in support of multilateral and unilateral liberalization precedes the goal of regional free trade. The Osaka Action Agenda of the following year restates the timelines and provides further guidance on implementing the Bogor Declaration. General principles are enunciated on the APEC liberalization and facilitation process, including comprehensiveness, WTO-consistency, non-discrimination, transparency, and standstill, *inter alia*. Specific actions include progressive reductions in tariffs, non-tariff measures, and restrictions on trade in services.

State of Play: The World Trading System and Intra-APEC Trade Relations

Trade flows have increased among the Pacific Rim economies not only with the lowering of trade barriers, but also with the rise of China and the Asian Newly Industrialized Economies, as well as the deepening of supply chains.

Nearly two-thirds of APEC members' total trade is with other APEC economies. 42 percent of the Intra-APEC trade, in turn, is between parties to an FTA; thus, around 27 percent of overall APEC trade is between mutual parties to intra-APEC free trade agreements. While not all of this trade conducted among FTA counterparts is free of duties or even eligible for reduced duties, these agreements are quite comprehensive: a sample of 22 Intra-APEC FTA concessions by industrialized economies shows that on average, 89 percent of overall tariff lines are duty-free as of 2010, and 84 percent of (a sample of 38) developing economy concessions are free of tariffs. These respective shares increase to 96 percent and 97 percent by 2020 as the tariff implementation programs run their course (figure 1). Please see the Annex for further details on the methodology used in this analysis.

Figure 1: Average % of Products Duty-Free



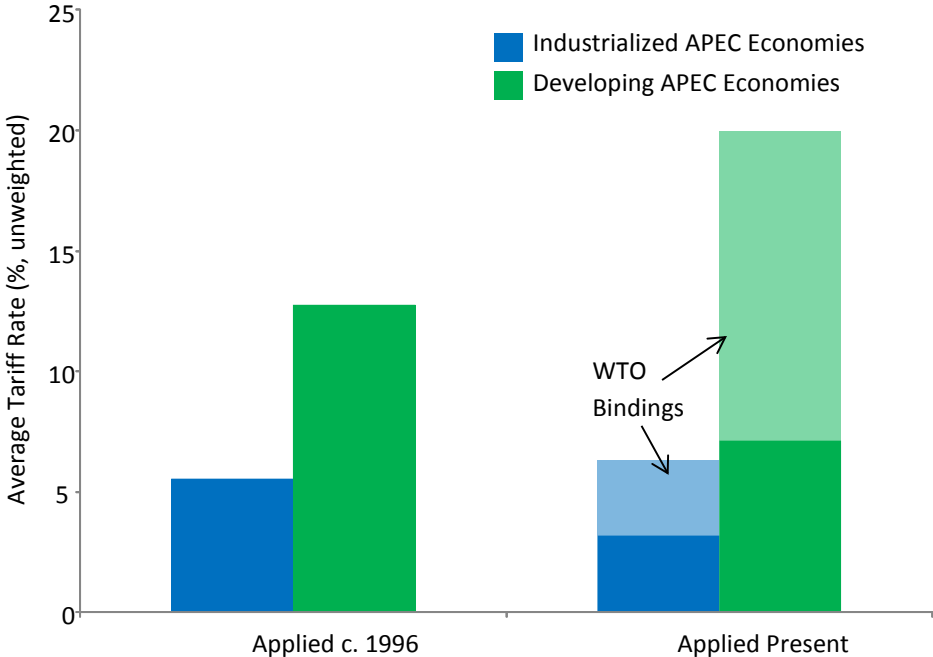
Note: Free trade agreements results are calculated at the tariff line level; MFN results are calculated at the subheading level.

Source: IDB Integration and Trade Sector based on INTradeBID, WTO, and UNCTAD TRAINS data.

The objective of free trade is less complete for the bilateral relationships between economies where there are not FTAs in force, however. The share of applied *most favored nation tariffs*, which govern trade in the remaining products, that are duty-free is an average 48 percent for industrial economies, and 38 percent for developing economies. When the criterion is expanded to include all applied ad-valorem tariffs of 5% or lower, the shares expand to 82 percent and 56 percent, respectively, a significant improvement, but still well short of all trade.

What is noteworthy is the amount of liberalization that has taken place over time. When these duty-free MFN tariff shares are compared with an earlier benchmark (1996 for most members), it is apparent that each coefficient has increased by over ten percentage points from the years immediately following the conclusion of the Uruguay Round. This is perhaps more evident when comparing average applied MFN tariff rates. The simple average applied duties on all products have fallen from 6% to 3% in the five APEC industrial economies, and from 13% to 7% for the 16 APEC developing economies (figure 2). Moreover, these reductions in applied rates do not take into account some of the less measurable successes of the multilateral system over the last decade or so, such as the conversion of non-tariff barriers to import duties (“tariffication”) and increases in binding coverage, both of which contribute to the predictability of trade.

Figure 2: Average MFN Applied Tariff Rates



Source: IDB Integration and Trade Sector based on WTO and UNCTAD TRAINS data.

However, unlike tariff liberalization through FTAs, some of which continue to provide progressive tariff cuts while at the same time new FTAs are being signed, the multilateral tariff cuts agreed in the Uruguay Round have been completed. Therefore, in the absence of further progress in the multilateral theater, future improvements in market access will be on the margins. In the case of the APEC, any bilateral FTA between two of the 21 APEC economies will by nature leave the other 19 out. Figure 3 shows the potential bilateral FTA relations among APEC economies. Of a total of 420 bilateral relationships, 120 are covered by FTAs (in black), while 300 are governed by MFN provisions (in white).¹ While any reduction in trade barriers is a step toward realizing the goal of free and open trade, the proliferation of FTAs increases the complexity of the international trading system not only for governments, which must balance multiple negotiations simultaneously, but also for exporters, who are subject to different rules in their destination markets.

Figure 3: FTAs in the APEC Region

	Australia	Brunei	Canada	Chile	China	H.K., China	Indonesia	Japan	Korea, Rep.	Malaysia	Mexico	New Zealand	P.N.G	Peru	Philippines	Russia	Singapore	Taipei, Chinese	Thailand	U.S.	Viet Nam	
Australia	Black																					
Brunei		Black																				
Canada			Black																			
Chile				Black																		
China					Black																	
H.K., China						Black																
Indonesia							Black															
Japan								Black														
Korea, Rep.									Black													
Malaysia										Black												
Mexico											Black											
New Zealand												Black										
P.N.G													Black									
Peru														Black								
Philippines															Black							
Russia																Black						
Singapore																	Black					
Taipei, Chinese																		Black				
Thailand																			Black			
U.S.																				Black		
Viet Nam																					Black	

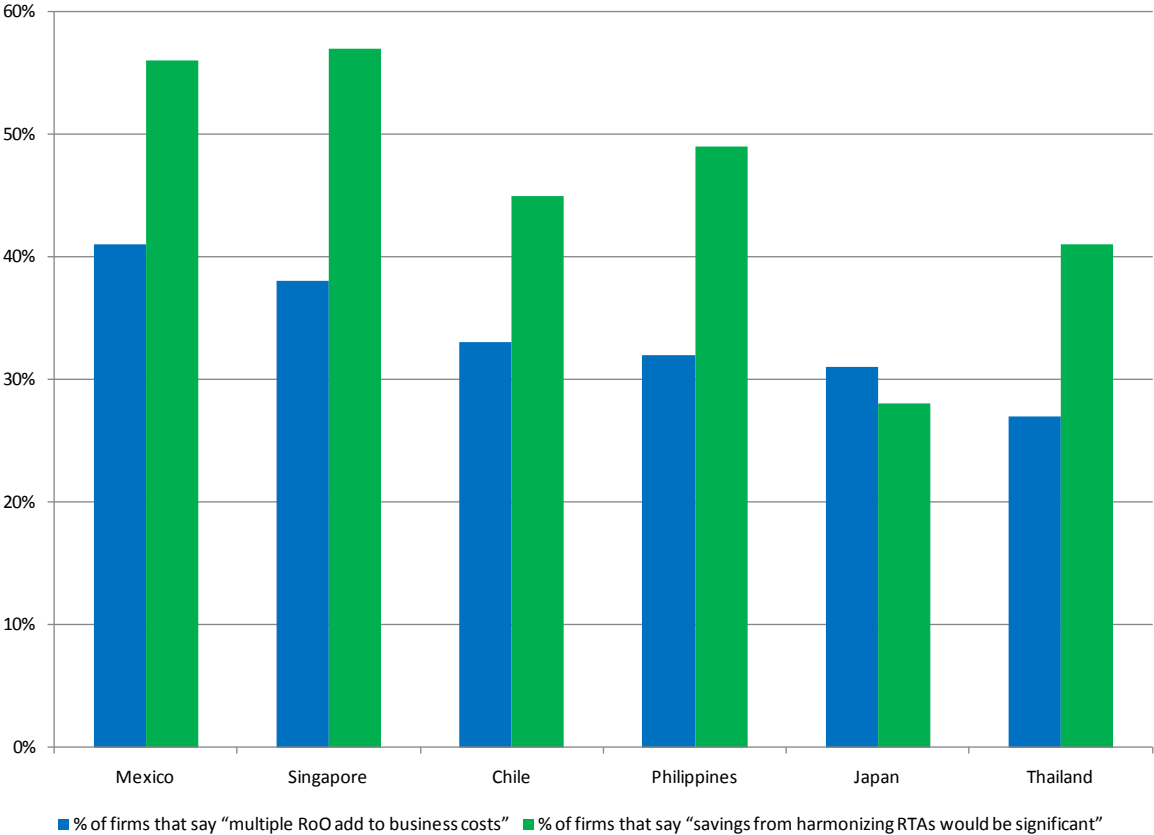
Source: IDB Integration and Trade Sector.

¹ Unilateral preferential programs provide additional access to developing members, but have not been analyzed here for simplicity of presentation and because such programs are not contractually binding and do not necessarily entail comprehensive product coverage.

Rules of origin, intended to prevent the transshipment of goods from third parties through a low-tariff FTA partner, also can constrain the trade-creating potential of an agreement due to their restrictive nature (Estevadeordal et al. 2009). FTAs are subject to two sources of friction arising from rules of origin. The first is a divergence problem, where different rules among FTAs increase the costs of trading with various markets. The second is a pooling problem where the agreement does not allow the export of finished goods to one FTA partner using inputs from a third market with which the destination market also has an FTA. This limits the ability of firms to benefit from regional supply chains and economies of scale (Estevadeordal et al. 2009).

Broader regional free trade initiatives can address these two challenges through rules of origin harmonization and cumulation, respectively. Surveys conducted of firms in the region find that harmonizing RTAs would reduce the administrative costs of complying with rules of origin (figure 4) (Estevadeordal et al. 2009; Kawai and Wignaraja 2009). Creating such a convergence among regional FTAs could improve competitiveness by providing greater flexibility in sourcing of inputs, facilitating just-in-time production, and allowing the natural development of scale economies. Such efforts could take a piecemeal form of bridging and harmonizing existing agreements, or comprehensive negotiations toward the Free Trade Area of the Asia-Pacific.

Figure 4: Results of Firm Surveys on Rules of Origin and Harmonization



Source: Estevadeordal et al. 2009, Kawai and Wignaraja 2009.

Note: Results may not be completely comparable between economies due to differences in the IDB and ADB survey methodologies.

Regional FTAs, as long as they are consistent with the open regionalism principles encouraged by APEC, can improve multilateral outcomes. For one, they allow member economies to find solutions to collective action problems, with fewer parties involved, which can then serve as a template to be applied to multilateral negotiations (Bergsten 1997). A related issue is that once a commitment is made with a major trading partner in a regional FTA, doing so at the multilateral level entails lower marginal costs; in effect, the concession has already been made in a given sector². The overlapping web of the agreements in the Asia-Pacific is also notable not only in that it makes trade more complex, but also increases the ultimate potential trade creation of any future efforts at convergence.

A Note on Trade Facilitation

The Bogor Declaration notes the importance of accompanying trade liberalization with complementary initiatives in trade facilitation. Aided by improvements in technology, many economies have automated their customs procedures or implemented electronic single window systems.

Although preferential trade agreements may provide some additional access to certain trading partners, broad reductions in trade barriers accomplished via the multilateral system place limits on the relative advantages enjoyed by the signatories of these agreements. As such, improving the efficiency of bringing goods to international markets becomes increasingly relevant, since the major constraint to exports is less likely to be the ability to access these markets, but rather the ability to supply markets. Furthermore, insofar as pre-existing administrative and logistical hurdles to trade are not intended to pose barriers to trade, trade facilitation measures can be pareto-improving, as the benefits accruing to consumers and/or producers comes from reducing inefficiencies.

Conclusions

Progress toward the Bogor Goals is difficult to quantify. If the Goals are expressed as zero tariffs in the industrialized economies on intra-APEC imports as of 2010, then progress has clearly fallen short. Solely conceiving trade liberalization in terms of reductions in applied tariff rates, however, fails to take into account meaningful progress in reducing non-tariff measures and improving trade facilitation. Significant reductions in applied MFN duties have been complemented by deeper preferential commitments among some members. However, the existing network of preferential agreements is qualified by differing and/or restrictive rules of origin. Moreover, not all members are covered, and there are disproportionate costs to smaller and/or developing economies to participating in multiple negotiations.

² See Estevadeordal et al (2008) for evidence of this causal relationship between preferential liberalization and subsequent multilateral tariff liberalization in Latin America and Calvo-Pardo et al. (2009) in the case of ASEAN. The key findings are that: i) preferential trade liberalization does not come at the expense of trade with nonmembers; and ii) preferential reductions in trade barriers are accompanied with reductions in MFN duties.

Two principles must therefore be emphasized: i) commitment to continued progress in the multilateral trading system; and ii) deepening existing intra-APEC liberalization through efforts at convergence among FTAs. Taking advantage of available synergies between these two dynamics can augment APEC's role in the Doha Round in congruity with the leading part it played in concluding the Uruguay Round.

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Annex

Figure 1 builds on a methodology used in Estevadeordal et al. (2009) and its predecessor studies, depicting the dynamic, annual evolution of duty-free treatment for a sample set of FTAs among APEC member economies. Products are categorized at the tariff line level according to staging category for each available tariff schedule. Then the share of tariff lines that are duty free is calculated for each concession from one party to an FTA counterpart. These data points are then categorized according to whether the granting party is an industrialized or developing APEC economy, and simple averages are calculated for each grouping. For purposes of calculating the averages, the share of products that are duty-free under applied MFN tariffs are used for the years prior to entry into force of an agreement. Not all FTAs among APEC member economies were included due to constraints on data availability or the feasibility of processing the tariff liberalization schedules. The FTAs included in this exercise are catalogued in table 1 below.

Table 1: FTAs Used in the Calculations for Table 1

Agreement
Australia - Chile
Australia - Singapore
Australia - Thailand
Australia - United States
Canada - Chile
Canada - Peru
Chile - China
Chile - Japan
Chile - Korea
Chile - Mexico
Chile - Peru
Chile - United States
China - Hong Kong, China
China - New Zealand
Japan - Malaysia
Japan - Mexico
Japan - Philippines
Japan - Singapore
Japan - Thailand
Korea - Singapore
NAFTA
New Zealand - Singapore
New Zealand - Thailand
P4: Chile - New Zealand - Singapore - Brunei
Peru - Thailand
Peru - United States
Singapore - United States