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## Bilateral trade agreements and the world trading system

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ADB Institute Discussion Paper No. 57

## **Bilateral Trade Agreements and the World Trading System \***

**Jayant Menon**

November 2006

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**Abstract**

The interest in forming BTAs has been growing at a phenomenal rate. In the Asia-Pacific region alone, the number of BTAs has more than tripled over the past 5 years, from 57 in 2002 to 176 in October 2006. There are more than 300 worldwide. In this paper, we try to explain the proliferation of BTAs by identifying the underlying motivations behind them. We identify a set of general and specific factors involved. The general factors related to disenchantment with progress of the WTO; snowballing and domino effects as a result of countries not wanting to be left behind; lower visibility and thus lower resistance from opposing forces; and pure politics driven directly by politicians or political parties. There are three broad categories of specific factors that we identify: economic; strategic and event driven. Each are further divided into sub-categories and in total we identify 11 specific factors to explain the proliferation of BTAs.

Next we look at the impact of BTAs on multilateralism and the world trading system. In general, it would appear that the sheer number of BTAs and their continued rapid growth is fragmenting the world trading system. The most obvious effect is the much discussed spaghetti-bowl effect. It is also distracting, and drawing scarce resources away from the multilateral effort. But the story is not that simple or straight-forward once we consider specific factors. The fallacy of division applies because the motivation in pursuing a BTA can determine if its impact on the world trading system is positive or negative. Most of the event driven BTAs appear to either support multilateralism or have a positive effect on the world trading system. All of the strategically motivated BTAs appear to have a negative effect. Of the economically motivated BTAs, sector expanding and market restoring BTAs have the potential of supporting the multilateral process, while market creating and sector excluding BTAs appear to threaten it.

Finally, we look at what the future might hold. Are BTAs likely to continue proliferating? It seems that they will until the world trading system is so distorted that countries will be forced to seek a remedy. This response may take several forms.

One is the consolidation of BTAs into region-wide PTAs, or blocks, where the various BTAs between members belonging to the same region become largely redundant. For instance, an Asia-wide FTA would supersede a host of regional BTAs and consolidate them into one region-wide agreement. Although this may reduce the number of intra-regional BTAs, it may serve to further fragment the world trading system by carving it up into distinct regional blocks. Furthermore, it may provide fresh impetus for a new wave of market restoring BTAs as traditional trade partners outside the region seek to retain trade access with members of the consolidated PTA. In fact, with more countries outside the region than inside, it is possible that the total number of BTAs could actually increase. Thus, consolidation through region-wide PTAs is not the remedy to the problems facing the world trading system.

The second response may come in the form of the completion of the Doha round with minimum compromises. A *bona fide* conclusion to the Doha Round should dilute preferences that are currently scattered around the world, and take away much of the incentive to continue pursuing BTAs. If this happens, then the proliferation of BTAs would have contributed to their eventual demise, in terms of their impact on the world trading system. This is much more like a remedy to the problems facing the world trading system.

But what if the Doha round fails, or is concluded in such a watered-down form that its impact is minimal? Although this may provide an additional incentive to pursue more BTAs and PTAs, there may eventually come a point where countries may voluntarily seek a remedy that lies in their own best interests. Not only is the cost of administering and implementing multiple country-specific BTAs high, it rises with the number of BTAs. Once a country has concluded BTAs with

most of its major trading partners, it makes sense to: equalize preferences across these BTAs and offer them to non-BTA countries on an MFN basis. This would remove the administrative burden, and eliminate distortions to country and global trade patterns. As it is with reversing much of second-best policies, it is the actual realized cost of implementation rather than any potential unrealized benefits that usually drives the process. And there are significant potential unrealized benefits that will accrue to the country concerned as well as the world trading system if this process of multilateralizing preferences is pursued, whatever the reason.

## Bilateral Trade Agreements and the World Trading System

### 1. Introduction

On 15 August 2004, Mongolia signed a Trade and Facilitation Agreement (TIFA) with the US, a precursor to a Bilateral Trade Agreement (BTA). Prior to this, Mongolia was the only country that had not signed either a TIFA or BTA with another country, or joined a regional or plurilateral trade agreement (PTA). Every country in the world today is a member of at least one PTA and BTA, and most are members of multiple BTAs.<sup>1</sup> If PTAs were considered the main threat to the world trading system in the 1990s, the concern has since shifted towards BTAs. BTAs have been proliferating at an astounding pace recently.

What are the underlying factors driving the proliferation of BTAs? Why are Japan and Korea, countries that had had long resisted the worldwide trend to join or form PTAs, now pursuing BTAs with a vengeance? Can we explain why Singapore is currently negotiating a BTA with Kuwait, or why Sri Lanka has signed one with Iran, or Taipei, China with Nicaragua, for that matter? Indeed, what are the motivations behind the 176 BTAs currently being proposed, negotiated or implemented involving at least one country from the Asia-Pacific region, or the 300 or so BTAs world-wide?

This paper attempts to provide an answer to these questions by providing a taxonomy of BTAs, identifying the underlying motivations behind them in terms of both economic and non-economic factors. Apart from trying to understand why BTAs have been proliferating, identifying the factors driving them is important because they may reveal the impact that they are having on the world trading system. Depending on why countries form BTAs, they could be working as either building blocks or stumbling blocks in terms of a more integrated and successful international economy.

The paper is in 5 parts. Section 2 provides some facts and figures relating to BTAs, including their proliferation, to provide the backdrop for the ensuing analysis. Section 3 provides a taxonomy of BTAs, identifying the different reasons that motivate countries to form them. The impact that BTAs are having on multilateralism and the world trading system is the subject of Section 4. A final section provides a summary of main points, and considers likely scenarios for the future landscape of world trade, and possible responses.

### 2. BTAs: Some facts and Figures

It is useful to start by defining what is meant by a BTA. A BTA can vary by nature of the members involved and by nature of the agreement. Most BTAs are between (two) countries, but a BTA can also be signed between a country and a PTA, a BTA and a PTA, or between two BTAs or PTAs. Furthermore, one or even both parties to the BTA need not be a country or a BTA or PTA. There are three entities that are currently recognized as members of the WTO but are not recognized as independent countries: these are The European Communities; Macao, China; and Hong Kong, China. Macao, China has a BTA with the People's Republic of China (PRC) and the European Union (EU), while Hong Kong, China has a BTA with the PRC and is in negotiations with New Zealand.

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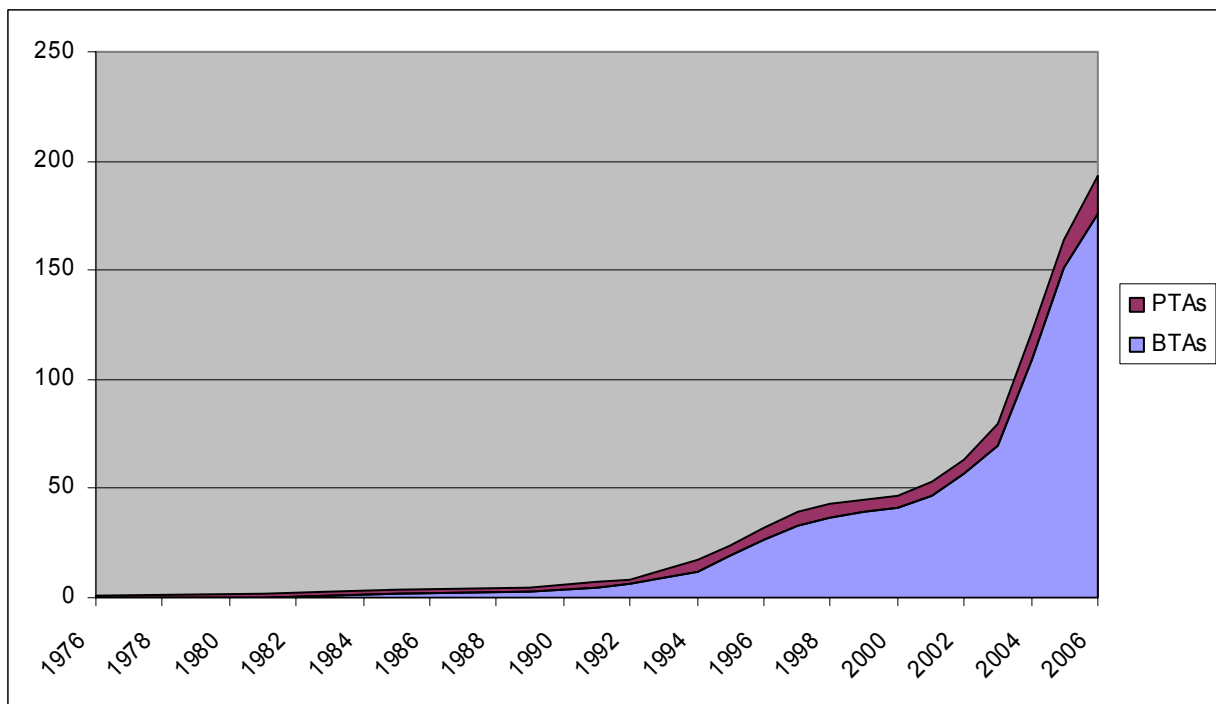
<sup>1</sup> Technically, the Vatican City (Holy See) is considered one of the 193 countries in the world, and has (permanent) observer status at the WTO but is not a member of the United Nations. It is not a member of any BTA or PTA and is unlikely to ever become one.

The most common type of bilateral agreement is a free trade agreement (FTA), although it can also take the form of a Customs Union (CU) or a services agreement. A bilateral CU is rare and a services agreements tends to be accompanied by an FTA.

Table 1 provides a chronological summary of BTAs and PTAs involving at least one country from the Asia-Pacific region.<sup>2</sup> The same information is provided in diagrammatic form in Figure 1. A complete listing of the BTAs that involve at least one country from the Asia-Pacific region, together with their status, is provided in Table 2. As of October 2006, there were 176 BTAs.

As Figure 1 highlights, the number of BTAs doubled between 1995 and 2000, but has increased more than four-fold between 2000 and 2006. Every country, with the exception of Mongolia, is involved in at least 1 BTA. India heads the list with 22 BTAs, although most of these have yet to be implemented. The US comes in second with 20 BTAs, half of which are already under implementation. Singapore and Pakistan are tied in third place with 19 BTAs each. The latecomers to PTAs, Japan and Korea, have caught up on preferential arrangements through BTAs it would seem, and are involved in 17 and 15 of them, respectively.

**Figure 1**  
**BTAs and PTAs of Asia-Pacific Countries (up to October 2006)**



Source: Table 2.

Out of the 176 BTAs, 155 are between countries. Two of them involve the SARs and the remaining 19 involved either a PTA and/or a BTA. There are 7 PTAs and a BTA that are party to at least one BTA in the Asia-Pacific region. The BTA concerned is the Australia-New Zealand Closer Economic Relations Agreement (ANZCER), which is negotiating a BTA with ASEAN.

<sup>2</sup> There are several definitions of the Asia-Pacific region. In this paper, we use the definition employed by the ADB in their ARIC website but expand it to include the US and Canada. The Central Asian Republics are also included in this definition.

Apart from ASEAN, the other 6 PTAs involved in BTAs are: EFTA; EU; Gulf Cooperation Council; MERCUSOR; NAFTA; and South African Customs Union.

Fifty two of the 176 BTAs, or about 30 percent, are already being implemented. Twenty eight BTA agreements have been signed but implementation has yet to commence; in some cases, legislative or executive ratification is required before implementation can begin. Another 30 percent are currently under negotiation, a quarter of which have also signed a Framework Agreement before proceeding. A quarter of the BTAs are still at the proposal stage, where consultation and study are on-going to determine whether the BTA should proceed.

### 3. Why are BTAs So Popular?

The first thing to note when discussing the popularity of BTAs relates to possibilities, or the maximum number that are technically possible. In theory, it is possible to have many more BTAs than PTAs simply because only two entities are involved and there are no geographical (regional) restrictions on membership. With 192 countries in the world (excluding the Vatican and Holy See), and two non-country members of the WTO, it is technically possible to have up to 18,721 BTAs (194 times 193 divided by 2) between them! If we include BTAs between a country and a PTA, a BTA and a PTA, or between PTAs, then this number becomes even bigger. Adding the 7 PTAs and 1 BTA that have already engaged in BTAs raises the maximum number to 20,301. Of course there are many more than 7 PTAs and any of them could start negotiating BTAs in the future. Furthermore, the possibility exists for new PTAs to be formed in the future, that could then participate in BTAs as well, and there is nothing stopping BTAs from forming new BTAs between themselves, and so on and so forth! All of this does not explain why BTAs are popular of course, but they do suggest that if they are, then they can proliferate in a dramatic and almost uncontrollable way, unlike other forms of PTAs.

So what are the factors driving the proliferation of BTAs in the world today? In answering this question, we identify a set of *general* as well as *specific* factors or motivations for the popularity of BTAs. The general motivations apply to most, if not all BTAs, but there is always at least one additional *specific* factor that drives the formation of a BTA. Usually there is more than one *specific* factor involved however. For instance, each party to the BTA may have their own motivation in pursuing the agreement, and this may not coincide with the interest of the other party. It is also possible that each party has more than one motivating factor in pursuing the BTA.

#### 3.1 General factors

An important general reason for the popularity of BTAs is the apparent disenchantment with pace of progress with liberalization at the multilateral level. The difficulties associated with concluding the Doha round have simply reinforced this view. Many feel that the WTO has failed to deliver and so have pursued BTAs (and PTAs) as a means of pressing ahead with their trade and liberalization agendas.<sup>3</sup>

A kind of snowballing or domino effect, as with PTAs in the past (see Baldwin 1996), has also been driving the growth in BTAs. In the Asia-Pacific region, interest in forming BTAs began in

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<sup>3</sup> In a paradoxical twist, it seems WTO meetings themselves are being overshadowed and provide an opportunity for members to pursue new BTAs with other member countries. In the Bangkok-based daily *The Nation* dated 17 June 2004, an item entitled "Peru seen as FTA Gateway" reports that: "In the corridors of the WTO meetings, Thai officials discussed the possibility of FTAs with Mexico, Chile and Peru". In the same vein, it is somewhat ironic that the Japan-Singapore BTA was reached at the APEC summit meeting in Shanghai in October 2001.

the late 1990s with Japan, Singapore, South Korea and New Zealand initially. By 2000, the US, Australia, Thailand and the PRC had joined the trend, with more than 40 new BTAs being proposed or negotiated (see Table 2). The momentum gathered over subsequent years to the point where other Asia-Pacific countries may have felt disadvantaged if they did not join the club. The number of BTAs thus continued to grow, and almost doubled to 109 between 2002 and 2004. It is quite possible that it may double again by the end of 2006. There is clearly a momentum effect driving some of the growth in BTAs with countries not wanting to be left behind in this apparent race. Baldwin (2006, p. 22) argues that it could continue to play a role in the proliferation of BTAs in the region in the coming years: "If history is any guide, the domino effect in East Asia will spread to many, many more countries in the neighborhood. In Europe, for example, the playing out of several waves of domino effects has left the EU with preferential trade deals with every WTO members except nine. It is therefore conceivable that the 13 members of the ASEAN+3 group will end up signing a very large number of bilaterals in the coming years."

BTAs also tend to attract less attention all around, including from the media. So, the pressure from opposition forces at home- such as the anti-free trade lobby or particular "sensitive" industry groups- or from abroad- such as traditional trade partners or members of a regional grouping that the country is a part of, is likely to be low. This would facilitate not only the speed at which a BTA can be negotiated, but also the number of them. Of course there are exceptions, and these generally arise when the partner is a large country (eg. the US) or when sensitive sectors are involved in the negotiations of the BTA.

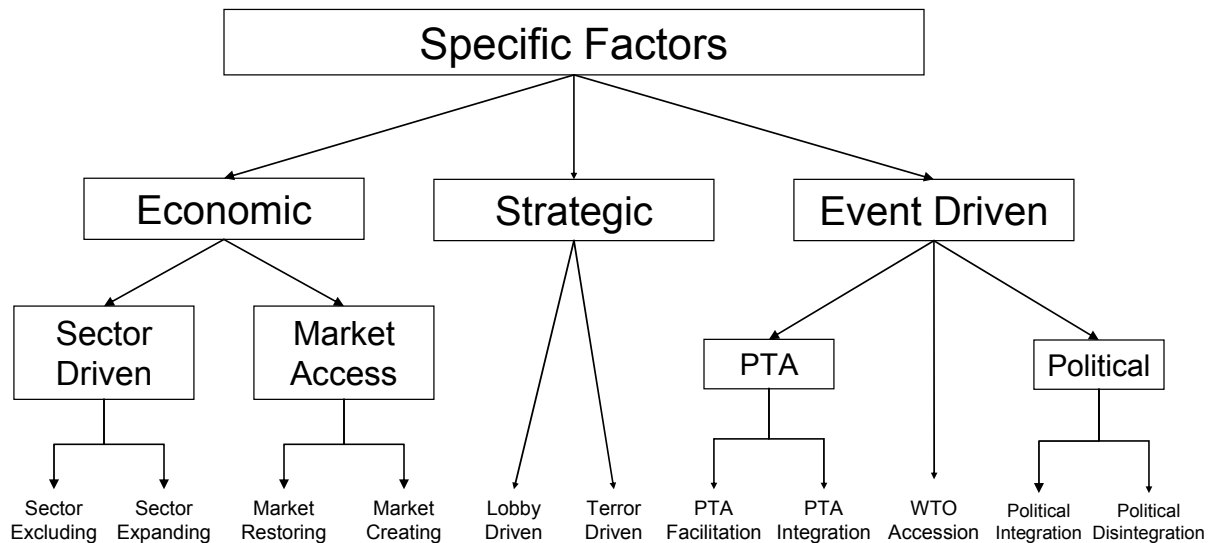
Finally, it is often claimed that some, if at most, BTAs are essentially politically motivated. There is no doubt that political economy considerations, and indeed political parties or politicians themselves, play a major role in driving the proliferation of BTAs. A recent example of this is how the control of both Houses by the Democrats has put at risk a number of the BTAs that the Bush administration has been pursuing. Although we try and take into account political, strategic and foreign policy related issues, we focus on economic and economic related considerations because they are easier to identify and measure. Thus, the discussion that follows is likely to understate the role that politics and politicians play in the proliferation of BTAs, simply because these influences are often difficult to measure or model, let alone classify.

### **3.2 Specific Factors**

There are three broad categories of specific factors that we identify: economic; strategic and event driven. As depicted in Figure 2, each of these broad categories have their sub-categories, and the sub-categories for economic and event driven BTAs are each sub-divided into two sub-categories as well. Thus, in total, we identify 11 specific factors to explain the proliferation of BTAs.



**Figure 2.**  
**The Different Motivations for Forming BTAs: Specific Factors**



### 3.2.1 Economically Motivated BTAs

Within the economic motivation, the two sub-categories are sector driven and market access BTAs. Sector driven BTAs are further sub-divided into sector excluding and sector expanding BTAs. Market access BTAs are also divided into two groups: market restoring and market creating.

#### *Sector Driven BTAs*

These BTAs are motivated mainly by one or a few key sectors. There is both a positive and negative element to this sector based motivation, with some BTAs designed to expand liberalization into sectors or areas that have previously been ignored at the multilateral level while others exclude sensitive sectors or issues. We discuss them separately because their impact on the world trading system is likely to be quite different depending on whether they are sector expanding or excluding

#### *Sector Expanding BTAs*

It is easy to see why BTAs are easier to negotiate and conclude than PTAs or a multilateral deal: with only two parties involved, the potential for disagreement is reduced. As the focus of liberalization shifts away from the relatively easier task of reducing trade taxes on industrial products, achieving agreement on a multilateral level has become more difficult as the agenda broadens to address less transparent forms of protection, more complex issues, and new sectors. By requiring only two parties to agree, a BTA could face fewer obstacles than a regional or multilateral pact. BTAs may then have the potential to achieve a deeper level of integration than that possible through the multilateral approach alone. Even if it is not any deeper, it is often argued that we might be able to get there more quickly using the bilateral approach compared to the multilateral one.

In other words, both the degree and scope of liberalization policy may be enhanced in the context of only two negotiating partners, and so bilateral efforts may be able to surpass the extent of integration possible at the multilateral level. In this sense, sector expanding BTAs are

often described as ‘WTO Plus’ or ‘New Age’ BTAs. The US-Singapore BTA is one of the first such BTAs and is often described as a model worthy of emulation by other negotiating partners. In fact, the BTAs being pursued by the US with the other ASEAN countries as part of its “Enterprise for ASEAN Initiative” is using it as a model.<sup>4</sup>

Of the various so-called “Singapore issues” that were raised at the WTO Ministerial Conference in Singapore in 1996, only the rather fuzzy concept of trade facilitation measures appears to have survived on the WTO agenda. Other Singapore issues such as establishing rules for investment, competition policy, and government procurement are being pursued in some sector expanding BTAs. Progress with liberalization of services in general has been slow at the multilateral level and fraught with difficulties given country-specific sensitivities. A wide-ranging multilateral deal looks unlikely in the near future. Some sector specific BTAs have emerged in response to such an environment. In this environment, BTAs have also been driven by the fact that preferential access may enable a supplier to steal an irreversible march on the competition, and cement a long-term advantage in the market. Many of the US BTAs with developing countries are pursuing more favorable rules relating to investment and intellectual property rights

#### *Sector Excluding BTAs*

The most sensitive sector as far as liberalization is concerned is agriculture. Most sector excluding BTAs relate, in one way or the other, to this sector. An example of the negative element would be the BTA between Japan and Singapore, known as the Japan-Singapore Economic Partnership Agreement (JSEPA). Japan has long resisted joining PTAs because of its reluctance to liberalize its agriculture sector, but the absence of any significant agricultural sector in the city state of Singapore has facilitated the signing of this BTA. Even the few agricultural products that Singapore does export were easily excluded from the JSEPA, such as cut flowers and ornamental fish. Less than 10 percent of the volume of exports of agricultural products from Singapore to Japan is provided with duty-free access, and the JSEPA did not create any new preferences in the agricultural sector (Ravenhill 2006).

A similar set of exclusions of sensitive sectors can be found in Japan’s BTA with Mexico. Unlike Singapore, Mexico does have a large agricultural sector and is a major exporter of meat (pork in particular) to Japan, so the exclusions have been so widespread that about 13 percent of Mexico’s exports to Japan are excluded from the BTA. So, even when agriculture is important to one partner but sensitive in the other, it appears that BTAs can still be concluded by excluding this sector. Clearly the flexibility provided by BTAs through one-on-one negotiations allow such compromises to be made and trade agreements to be concluded when they might otherwise stall or fail.

#### *Market Access BTAs*

As mentioned earlier, we divide market access BTAs into two groups: market restoring and market creating.

#### *Market Restoring BTAs*

In the discussion earlier on general factors behind the popularity of BTAs, we noted that one of the reasons was the apparent disenchantment with pace of progress with liberalization at the multilateral level. The same disenchantment with the WTO was one of many factors driving the

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<sup>4</sup> Agreements with Singapore, Viet Nam and Lao PDR have been concluded, and Thailand is in negotiations. As of October 2006, TIFAs have been signed with Indonesia, Philippines, Thailand, Brunei Darussalam and Malaysia.

original interest in PTAs of course. It also set off a kind of snowballing or domino effect (see Baldwin 1996). As the world trading system started being carved up into blocks, countries that did not belong to a PTA felt compelled to form or join one in order to secure regional markets, or compensate for markets in other regions that were becoming more isolated and less accessible as a result of preferential arrangements.

Some BTAs have developed in response to such a global trading environment. The motivation behind them is to try and restore trading links that existed prior to a trading partner joining a PTA. They generally apply to non-regional but traditional trade partners where one or both have become members of a relatively integrated PTA, which has weakened trade links between them as a result. These BTAs are designed to bypass, or at least reduce, the discriminatory treatment imposed upon them as a result of the PTA. Lloyd (2002, p. 6) describes this as the one factor that is common to all new PTAs and sees it as becoming more important relative to the other factors. As he puts it (pg. 6), "This is the fear of exclusion from major markets. In this context, exclusion does not mean that a country is denied access to a market, that is, total exclusion. It means that it has access on terms less favorable than some other country or countries".

With the EU and NAFTA as centers of regional preferential trading, and with little or no prospect of other countries becoming members of these regional trading blocs, many of the BTAs being pursued with them (either with the EU or NAFTA or with individual member countries) would serve as examples of restoring market access BTAs.

The US is a major trading partner for most of the ASEAN countries. As noted earlier, with the exception of Myanmar, all other ASEAN countries have either concluded or are pursuing BTAs with the US. For the ASEAN countries, the BTAs are viewed as a means of restoring market access in the post-NAFTA era.

#### *Market Creating BTAs*

Market Creating BTAs usually involve countries seeking to strengthen trade and investment relations when there has been little or weak economic relations in the past. To the extent that limited trade in the past has been due to trade barriers or other regulatory or commercial restrictions, market creating BTAs may be successful in achieving its objective of promoting bilateral trade. For instance, it could be that both countries had relatively high trade barriers with the rest of the world, but then each removed them preferentially amongst regional partners in a PTA. In this case, there may be potential for boosting trade between the two countries through a BTA that opens-up a conduit between the PTAs that each country is a member of.

If, however, historically weak trade relations is due to economic reasons based on comparative advantage, such as competitive rather than complementary resource endowments, then such BTAs will have little, if any, effect on boosting bilateral trade, unless the preference margins are very large.

### **3.2.2 Strategically Motivated BTAs**

BTAs that are motivated by strategic factors are classified into two groups: lobby driven and terror driven. Each is discussed in turn below.

#### *Lobby Driven BTAs*

The Seattle Ministerial Meeting of the WTO collapsed in the face of developing countries opposing the push by a number of developed countries, spearheaded by the US and the EU, to introduce labor standards and environmental regulations on to the WTO agenda. Having failed at the WTO, critics claim that the US is now trying to press ahead with this agenda by

intimidating small, weak countries into accepting them in one-on-one negotiations, while simultaneously trying to seduce them with preferential access to a large domestic market. The so-called "fair trade" push by the US and the EU is seen as nothing less than covert protectionism that penalizes exports from low wage emerging and developing economies.<sup>5</sup> Bhagwati (2005) also laments the introduction of what he describes as trade-unrelated "fair trade" demands, referring not only to labor and environmental standards but also intellectual property rights protection, on to the agenda of a trade organization.

The first precedent relating to labor standards was set in NAFTA, or more specifically by the North American Agreement on Labor Cooperation (NAALC), which was negotiated as a side agreement to NAFTA, which came into effect on 1 January, 1994. But critics such as Bhagwati (2005) complain of a ratcheting up effect, as these issues progress from being annexes to trade agreements and into their text. With the US-Jordan BTA, labor standards and environmental regulations found their way into the body of the agreement for the first time. With the BTAs with Chile and Singapore, the agenda broadened to include capital controls, and these agreements forbid these countries from using them. The precedent setting formula is described as a blueprint pattern, whereby the "strongest" BTA to date serves as a model for negotiating the next one.

#### *Terror Driven BTAs*

It would appear that US trade policy has not escaped the Bush Administration's apparent preoccupation with fighting the 'war on terror'. Some of the US's BTAs are viewed as another instrument in pursuing this objective. As Tonelson (2002) notes, "trade policy as an anti-terror weapon is an understandably appealing idea. It doesn't put American soldiers in harm's way. It is non-violent, market-friendly and holds the promise of 'draining the swamp' where terrorists are assumed to thrive. And it doesn't require a line in the federal budget." The use of trade incentives has long been a part of US foreign policy. During the Cold War in particular, trade and access to the US market was used to strengthen ties with allies such as Taipei, China, South Korea, and Israel (with whom the US signed its first BTA in 1985).

There is an element of rewarding friends and forging new geopolitical links by engaging potential foes in this current pursuit. The TIFA with Pakistan and subsequent strong push to conclude a BTA is an example of rewarding an ally for continuing support in this endeavor. The Middle East Free Trade Initiative, proposed by President Bush in May 2003, has already seen BTAs concluded with Jordan, Morocco, and Bahrain, and negotiations are on-going with Oman and the United Arab Emirates. According to FTA Watch (2006), the BTA with Morocco is designed "to 'reward' a moderate Muslim government for its support to the White House's 'war on terror' and to pull a friendly North African kingdom deeper into its sphere of influence, creating a wedge vis-à-vis the Arab world". The US strategy in the Middle East is a graduated one, negotiating bilateral trade agreements country by country before moving toward a regional agreement to be completed in 2013. Strong supporters of the war on Iraq, such as Australia, are also in negotiations with the US on a BTA which would reward Australian firms with the opportunity to directly tender, for the first time, for US government contracts.

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<sup>5</sup> This view of "fair trade" is not new however. As far back as in 1881, William Gladstone remarked: "Fair trade bears a suspicious likeness to our old friend protection. Protection was dead and buried 30 years ago, but he has come out of the grave and is walking around in the broad light of day. But after long experience underground, he endeavours to look more attractive than he used to appear... and in consequence he found it convenient to assume a new name." (as quoted in Brittan (2005)).

### 3.2.3 Event Driven BTAs

Event driven BTAs are divided into three sub-categories: PTA, WTO and Political. The PTA sub-category is further divided into PTA facilitation and PTA integration BTAs, while political BTAs are divided into political integration and political disintegration BTAs.

#### *PTA Facilitation BTAs*

These are BTAs that are designed to hasten the pace of integration between a country seeking to join a PTA of which the other country is a member. In other words, it is a BTA between a non-member and a member of a PTA. Although both parties are usually countries, they need not be so; they could also be BTAs or PTAs. An example of this would be the India-Thailand BTA, with India looking to strengthen ties with AFTA. The same is true of the "Plus 3" countries of ASEAN, with the PRC, Japan and Korea pursuing individual BTAs with ASEAN members. Such BTAs can also be pursued with the PTA as a whole, and all the "Plus 3" countries are doing so with ASEAN.

#### *PTA Integration BTAs*

These are BTAs between members of a PTA. These types of BTAs stand out because unlike all other BTAs, the parties involved already have some form of a preferential trade agreement designed to promote closer economic relations between them. Examples of such BTAs include the Lao PDR-Viet Nam BTA and the Singapore-Thailand BTA, where all countries are also members of AFTA.

#### *WTO Accession BTAs*

These BTAs are essentially a means to an end, and that end is WTO accession. Countries wanting to join the WTO have to negotiate bilateral agreements with major economic powers (such as the US and EU) as part of their entry procedure. These bilateral negotiations lead to specific commitments, concessions and schedules to liberalize trade in goods and services. The results of these bilateral negotiations are merged with the results of more general negotiations carried out between the candidate country and a working party of the WTO membership to form an overall "accession package".

For non-members, the WTO would appear as the largest and most restrictive PTA in the world. With 149 member countries, it is the most restrictive because the cumulative domestic content requirement to access WTO accords is effectively 100 percent. In this way, WTO accession BTAs have much in common with PTA facilitation BTAs from the perspective of non-members. Almost all (28 out of 33) observers to the WTO are currently negotiating facilitating bilateral WTO accession agreements, mostly with the US.<sup>6</sup> For instance, the largest non-member of the WTO, Russia, will sign a BTA with the US during the 2006 APEC Summit in Hanoi, and this is expected to finally clear the way for its accession. Prior to 2002, almost half of the country-to-country BTAs notified to the WTO involved at least one non-member of the WTO.

#### *Political Integration BTAs*

Political Integration BTAs are designed to hasten the economic integration of recent political unions. Examples of these include the BTAs between PRC and its two Special Administrative Regions (SARs), Hong Kong, China (the first BTA for both parties), and Macao, China. As noted earlier, these entities are members of the WTO in their own right but have since become SARs of the PRC. It is also interesting that Hong Kong, China's Chief Executive, Tung Chee

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<sup>6</sup> The five exceptions are: Equatorial Guinea; Iran; Iraq; Sao Tome and Principe; and the Vatican City (Holy See).

Hwa, approached Beijing with the BTA proposal only days after the PRC announced that the SARs would not be included in the proposed PRC-ASEAN FTA (see Dent 2006).

Taipei,China is also a member of the WTO but has so far rejected PRC's offer of becoming a SAR. It does not have a BTA with the PRC nor is it pursuing one. Instead, it is actively pursuing a BTA with the US, which appears unlikely to be concluded as a result of political pressure from the PRC, and apparent concern by the US over its poor record in protecting Intellectual property rights. In the absence of such a BTA, and in order to gain access to the US market, Taipei,China is pursuing BTAs with as many of the Central American countries as it can. This is seen as a way of pursuing access to the US market through the backdoor.

#### *Political Disintegration BTAs*

The break up of the Soviet Union in 1991 resulted in 15 newly independent or post-Soviet States.<sup>7</sup> Following this political disintegration, these newly independent states have been rapidly forging BTAs between each other. In fact, it appears as if BTAs will be signed between most, if not all, of these countries. These BTAs appear to work to restore some degree of political affiliation while ensuring continued economic integration despite political dissolution. They can work as an interim measure to secure market access for goods when market institutions, payments arrangements, and exchange rate convertibility are not yet fully functioning (Tumbarello1 2005). The strengthening of ties amongst each other may also be designed to counter the influence of Russia in the region, and in this way further strengthen their independence. Being newly independent states, many are also not yet members of the WTO. Forging alliances through BTAs or a PTA could strengthen their collective bargaining power and consolidate common positions in negotiating the most favourable deal in WTO accession.

### **4. Impact on Multilateralism and the World trading System**

We began Section 3 by examining a number of general factors that were driving the proliferation of BTAs. We begin this Section by examining the general impact that the overall growth in the number of BTAs is having on multilateralism and the world trading system, before turning to the effects that different types of BTAs are having.

#### **4.1 Impact of General Factors**

A general concern relating to the explosion of BTAs is the distractive effect it is having on multilateralism. As countries devote more and more of their resources towards discussing, designing, negotiating and implementing BTAs, less are available to be directed towards multilateralism. This would be particularly true for the smaller and poorer developing countries, where such resources are particularly scarce. Apart from detracting from the multilateral effort, interest in unilateral trade liberalization, an important but often overlooked modality in the overall liberalization effort of the past few decades, is also likely to wane in the light of the obsession with BTAs.

A related concern is that the appeal of reviving the stalled Doha round of the WTO will fade as more and more BTAs are negotiated. To the extent that BTAs are being pursued to compensate for the perceived inadequacies, or subsequent collapse, of the Doha round, the apparent need to revive it will presumably diminish with each successive BTA. But can BTAs, if there are enough of them, substitute for a multilateral deal? In other words, does a BTA with

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<sup>7</sup> Apart from Russia, the following four categories are identified: (i) Central Asia, consisting of Kazakhstan; Kyrgyzstan; Tajikistan; Uzbekistan; and Turkmenistan; (ii) Baltic states, consisting of Estonia, Lithuania, and Latvia; (iii) Eastern European states of Ukraine, Belarus and Moldova; and (iv) Tran Caucasus, consisting of Georgia, Armenia and Azerbaijan.

every member of the WTO sum to equal a multilateral deal, for instance? Although this could be true in theory, it is unlikely to be so in practice, for at least two reasons: (i) the products covered in each BTA are unlikely to be the same; i.e., the set of exclusions are likely to vary depending on the partner country; and (ii) the assortment of implementing rules are likely to vary across BTAs. This being the case, the sheer number of BTAs cannot substitute for a multilateral deal and, to the extent that it reduces the likelihood of reaching such a deal, it is detrimental to the world trading system.

The fact that most BTAs and PTAs are WTO-consistent does not do much to allay concerns relating to their potentially detrimental effects on the world trading system either. This is because the requirements of Article XXIV and the Enabling Clause and the General Agreement on Trade and Services (GATS) are very weak and have never really been enforced. For instance, as Lloyd (2002) points out, the meaning of “substantially all trade” has never been defined and has been interpreted in many ways. The only effective restraint that GATT/WTO rules have imposed on BTAs and PTAs is that they have generally prevented trade barriers from being raised against third countries.<sup>8</sup> Furthermore, almost all of the deep integration features of recent BTAs are altogether outside the WTO rules.

## **4.2 Impact of Specific Factors**

### **4.2.1 Impact of Economically Motivated BTAs**

#### *Sector Expanding BTAs*

Whether sector expanding BTAs can support multilateralism will depend on whether the accords, which apparently can be achieved at the bilateral but not multilateral level, are eventually offered on a multilateral MFN basis to non-members. So far, there is limited evidence of this happening, but then it might still be too soon to pass judgment.

There is also concern that if the major trading nations achieve liberalization in new sectors through bilateral or plurilateral agreements amongst each other, then the perceived returns from, or motivation for, a WTO-wide agreement will diminish. A WTO agreement would allow smaller, developing countries to free-ride on achievements made at the multilateral level. Without such a deal, and with limited multilateralization of BTA accords, the smaller, developing countries may be locked out and will not be able to participate in the benefits of liberalized markets.

Sometimes BTAs can set positive precedents and develop negotiation modalities that can be adopted later in multilateral negotiations. The Canada-US FTA is an example of this. This BTA developed concepts and modalities in the service trade area that was important in the development of GATS. This can serve the objectives of multilateralism by advancing the agenda in a demonstrably attainable way.

#### *Sector Excluding BTAs*

Although sector excluding BTAs may provide a vehicle to overcome obstacles preventing progress with liberalization in other areas, are they working to further compromise liberalization of these sectors at the multilateral level? It would seem that they are. Basically, they set a negative precedent that can be exploited. Once a country succeeds in securing exclusion, it can use the precedent set in negotiations with other countries. For example, once Japan was able to secure exclusions for certain agricultural products in the JSEPA with Singapore, the same exclusions were insisted upon in negotiations with Mexico and Korea. But other countries

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<sup>8</sup> Even here there appear to be exceptions. See Panagariya (1999).

can also refer to these precedents in their own negotiations. Korea, for instance, was reported to have cited the Japanese exclusions in agriculture to strengthen its negotiating position in pressing for the same with Mexico (Min 2006).

The multilateral approach is arguably the best forum to deal with liberalization of these excluded sectors because it has one key advantage over the bilateral (or regional) approach in this respect. This is the ability to trade concessions across disparate interests; that is, to weigh up the costs to countries of conceding protection in sensitive sectors (such as agriculture) against the benefits from increased market access in areas in which they have a comparative advantage (eg. through changes to rules relating to investment, intellectual property or services).<sup>9</sup> Every time a BTA allows a country to bypass this trade-off simply through its choice of partner, and secure benefits without incurring costs, the task of liberalizing such sensitive sectors is made more difficult.

#### *Market Restoring BTAs*

As members of a PTA engage in more and more BTAs with non-members, the PTA becomes more porous. In this way, BTAs can work to reduce the restrictiveness of existing trading blocs, and open them up to external trade, albeit in a somewhat piece-meal fashion. If a high share of members of a PTA engage in a large number BTAs with non-members, then this has the potential to return trading patterns to a form that existed prior to the establishment of the PTA. In this way, such BTAs have the potential to dilute preference margins and thereby reduce the trade diversion induced by the PTA. If they do this, then Market Restoring BTAs would complement the multilateral trading system and work as building rather than stumbling blocks towards free and open trade.

#### *Market Creating BTAs*

The impact of Market Creating BTA on multilateralism and the world trading system depends on the type of trade that it generates. If the preferences provided by the BTA serve to divert trade that was previously being conducted with a country that was a lower-cost supplier, then this would be welfare-reducing. If, on the other hand, the BTA works to reduce or remove trade barriers or other restrictions that have previously constrained bilateral trade between the two countries, then the impact on multilateralism could be positive, even if second-best. Thus, a lot depends on why trade relations had been limited to begin with. If historically weak trade relations are due to resource endowments being competitive rather than complementary, then such BTAs, if they affect trade patterns, will run counter to multilateralism. Even if they do not affect trade patterns, their impact may still be negative because administering the BTA and implementing the rules associated with it will still be a drain on resources.

### **4.2.2 Impact of Strategically Motivated BTAs**

#### *Lobby Driven and Terror Driven BTAs*

We discuss the impact that lobby driven and terror driven BTAs are likely to have on multilateralism jointly because they both involve the use of trade policy to pursue non-trade related objectives.

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<sup>9</sup> A recent but potent example of this trade-off was provided in the lead-up to the WTO meeting in Hong Kong in December 2005. Brazil and India, representing the apparent position of a majority of developing countries, proposed opening their markets further to industrial goods and services in exchange for the EU and the US dismantling the elaborate system of support to their agricultural sector.



To the extent that BTAs, a trade policy instrument, are used to pursue non-trade related objectives, the likelihood that the BTA is distorting is increased. If terror driven BTAs are designed to reward allies for instance, it cannot do so unless it provides a margin of preference sufficiently high to divert a significant amount of trade. In fact, it may be designed to do so, if the objective is to reward, in a one-sided transfer, rather than to be mutually beneficial, from a gains from trade point of view.

The main concern relating to lobby driven BTAs is that they may be setting precedents that run counter to multilateral principles, and may be promoting protectionism.

Furthermore, as Lloyd (2002) points out, it is useful to adopt a global welfare point of view in evaluating such BTAs, and ask if they have a positive effect on world welfare. For lobby driven BTAs in particular, this approach also avoids having to make value judgments associated with the objectives being pursued and focuses attention on economic effects. *Prima facie*, both lobby driven and terror driven BTAs appear unlikely to raise global welfare for at least two reasons. First, the fact such BTAs are likely to be trade distorting suggest that global welfare will be reduced as a result. This negative welfare impact may be higher for terror driven BTAs because they may be trade diverting by design, where as lobby driven BTAs are trade distorting only as a consequence of using the wrong instrument to pursue a particular objective. Second, as various empirical studies have shown, BTAs and PTAs generally result in the welfare of some non-members being reduced, and the extent of the welfare reduction is usually related to the extent of which trade is distorted.<sup>10</sup> For highly-distorting BTAs, the extent of the global reduction in welfare is also likely to be high.

Apart from the effect on global welfare and the world trading system, others such as Bhagwati (2003) are also concerned about the impact that lobby driven BTAs are having on the WTO as an institution. The concern is that the WTO, a trade institution, is being turned into an institution where domestic lobbies, whether good or bad, can park their agendas and capture, and distort, the working of the institution itself.

### 4.2.3 Impact of Event Driven BTAs

#### *PTA Facilitation BTAs*

Whether or not PTA facilitation BTAs serve the interests of multilateralism depends on the PTA concerned. If the PTA is inward-looking, has complex rules of origin requirements and a high margin of preference, the BTA may hinder multilateralism and hamper the world trading system. If the PTA, on the other hand, is based on open regionalism, the BTA may assist the non-PTA member to hasten its liberalization and integration with the world trading system.

#### *PTA Integration BTAs*

A BTA between these countries suggests that, *prima facie*, they wish to pursue a level of integration that surpasses that possible with the PTA that they are members of. Often members of a PTA can only proceed as fast as its slowest or least ambitious member, especially if the decision making process is consensus based. A BTA may then allow some of its members to

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<sup>10</sup> Scollay and Gilbert (2001), for instance, find that all BTAs in the Asia-Pacific have negative effects on the welfare of some outside countries, with the sole exception of the New Zealand-Singapore agreement which has a zero effect on all countries. This exception arises because both countries have close to zero MFN tariff rates and thereby minimizes the distortion that a BTA can introduce.

pursue more ambitious liberalization programs. This should lead to a positive outcome for the world trading system if it results in a deeper level of integration.

#### *WTO Accession BTAs*

By supporting the process of WTO accession, these BTAs serve to promote multilateralism. Sometimes, the bilateral agreements commit countries to rules on trade liberalization that exceed those of the WTO. For instance, Ecuador had to renounce its status as a "developing country", based on demands from the US, and thereby implement several WTO agreements within a much shorter timeframe. The PRC agreed to a range of "WTO-plus" measures pushed separately by the US and the EU, including anti-dumping measures and import restrictions to curtail the entry of Chinese goods into their markets, prior to WTO accession.

#### **Conclusions and the Future Landscape of World Trade**

The interest in forming BTAs has been growing at a phenomenal rate. In the Asia-Pacific region alone, the number of BTAs has more than tripled over the past 5 years, from 57 in 2002 to 176 in October 2006. Furthermore, this interest seems to be increasing at an increasing rate! The key distinguishing feature of bilateralism is the amount of flexibility it provides- both in terms of process and in pursuing disparate interests. Any two countries, in any part of the world, can form a BTA simply by wanting to do so. In a one-on-one setting, just about any objective can be pursued, and trade-offs can be designed to accommodate parties concerned in a way that would be difficult to do in a plurilateral or multilateral setting.

In this context, it is not surprising that a wide array of both economic and non-economic factors appear to be driving the proliferation of BTAs. We identified a set of general and specific factors involved. The general factors were: disenchantment with progress of the WTO; snowballing and domino effects as a result of countries not wanting to be left behind; lower visibility and thus lower resistance from opposing forces; and pure politics driven by politicians and political parties. There are three broad categories of specific factors that we identify: economic; strategic and event driven. Each of these broad categories have their sub-categories, and the sub-categories for economic and event driven BTAs are each sub-divided into two sub-categories as well. Thus, in total, we identified 11 specific factors to explain the proliferation of BTAs.

In general, it would appear that the sheer number of BTAs and their continued rapid growth is fragmenting the world trading system. The most obvious effect is the much discussed spaghetti-bowl effect. It is also distracting, and drawing scarce resources away from the multilateral effort. But the story is not that simple or straight-forward once we consider specific factors. The fallacy of division applies because the motivation in pursuing a BTA can determine if its impact on the world trading system is positive or negative. Whether or not a BTA contributes to the integration or fragmentation of the world trading system can vary depending on this.

Most of the event driven BTAs, except perhaps some PTA facilitation BTAs, appear to either support multilateralism or have a positive effect on the world trading system. All of the strategically motivated BTAs appear to have a negative effect. Of the economically motivated BTAs, sector expanding and market restoring BTAs have the potential of supporting the multilateral process, while market creating and sector excluding BTAs appear to threaten it.

Are BTAs likely to continue proliferating? At the moment, the answer appears to be yes, since they are increasing at an increasing rate. How much longer is this likely to continue, and where is all of this likely to lead? One view is that they will continue to proliferate until the world trading system is so distorted that countries will be forced to seek a remedy. This response may take several forms.

One is the consolidation of BTAs into region-wide PTAs, or blocks, where the various BTAs between members belonging to the same region become largely redundant. For instance, many if not all of the event driven BTAs are likely to fall into this category, but there could be more. There are numerous examples of defunct BTAs following the establishment of the EU. In the Asia-Pacific region, the US-Canada BTA was superseded by the establishment of NAFTA, and the India-Sri Lanka BTA by SAFTA. An Asia-wide FTA would supersede a host of regional BTAs, and consolidate them into one region-wide agreement.

Although this may reduce the number of intra-regional BTAs, it may be somewhat of a hollow victory if it serves to further fragment the world trading system by carving it up into distinct regional blocks. Furthermore, it may provide fresh impetus for a new wave of market restoring BTAs as traditional trade partners outside the region seek to retain trade access with members of the consolidated PTA. In fact, with more countries outside the region than inside, it is possible that the total number of BTAs could increase if the reduction in the number of intra-regional BTAs through a consolidated PTA is more than offset by the number of inter-regional market restoring BTAs that it indirectly induces. This is hardly a remedy to the problems facing the world trading system.

The second response may come in the form of the completion of the Doha round with minimum compromises. This would undoubtedly be the preferred response to the current chaotic environment of criss-crossing BTAs. A *bona fide* conclusion to the Doha Round should dilute preferences that are currently scattered around the world, and take away much of the incentive to continue pursuing BTAs. If this happens, then the proliferation of BTAs would have contributed to their eventual demise, in terms of their impact on the world trading system. This is much more like a remedy to the problems facing the world trading system.

But what if the Doha round fails, or is concluded in such a watered-down and compromised form that its impact is minimal? Although this may provide an additional incentive to pursue more BTAs and PTAs, there may eventually come a point where countries may voluntarily seek a remedy that lies in their own best interests. One thing that is clear is that the cost of administering and implementing multiple country-specific BTAs is costly. The cost to the supplying countries also rises with the number of country-specific BTAs. The cost of applying for preferences is also apparently high, and may explain why only a very small percentage of non-agricultural world trade is conducted under preferential terms (see Grether and Olarreaga 1998).

Once a country has concluded BTAs with most, if not all, of its major trading partners, it may then make sense to: equalize preferences across these BTAs and then offer them to non-BTA countries on an MFN basis. This would remove the administrative burden, and eliminate distortions to country and global trade patterns. As it is with reversing much of second-best policies, it is the actual realized cost of implementation rather than any potential unrealized benefits that actually drives the process. And there are significant potential unrealized benefits that will accrue to the country concerned as well as the world trading system if this process of multilateralizing preferences is pursued, whatever the reason.

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**Table1**  
**BTAs of Countries in the Asia-Pacific Region, and Status (up to October 2006)**

No.	Bilateral Trade Agreement (Status)
1	Armenia-Georgia Free Trade Area (Under Implementation)
2	Armenia-Kazakhstan Free Trade Agreement (Under Implementation)
3	Armenia-Kyrgyz Free Trade Agreement (Under Implementation)
4	Armenia-Moldova Free Trade Agreement (Under Implementation)
5	Armenia-Russian Federation Free Trade Agreement (Under Implementation)
6	Armenia-Turkmenistan Free Trade Agreement (Under Implementation)
7	Armenia-Ukraine Free Trade Agreement (Under Implementation)
8	ASEAN-Australia and New Zealand Free Trade Agreement (Under Negotiation)
9	ASEAN-China Free Trade Area (Under Implementation)
10	ASEAN-EU Free Trade Agreement (Proposed/Under consultation and study)
11	ASEAN-India Regional Trade and Investment Area ((FA) signed/FTA Under Negotiation)
12	ASEAN-Japan Comprehensive Economic Partnership ((FA) signed/FTA Under Negotiation)
13	ASEAN-Korea Free Trade Area (Signed)
14	Australia-Japan Free Trade Agreement (Proposed/Under consultation and study)
15	Australia-Mexico Free Trade Agreement (Proposed/Under consultation and study)
16	Australia-New Zealand Closer Economic Relations Trade Agreement (Under Implementation)
17	Australia-United Arab Emirates Free Trade Agreement (Under Negotiation)
18	Azerbaijan-Georgia Free Trade Agreement (Under Implementation)
19	Azerbaijan-Kazakhstan Free Trade Agreement (Signed)
20	Azerbaijan-Moldova Free Trade Agreement (Signed)
21	Azerbaijan-Russia Free Trade Agreement (Signed)
22	Azerbaijan-Turkmenistan Free Trade Agreement (Signed)
23	Azerbaijan-Ukraine Free Trade Agreement (Signed)
24	Azerbaijan-Uzbekistan Free Trade Agreement (Signed)
25	Canada-Chile Free Trade Agreement (Under Implementation)
26	Canada-Costa Rica Free Trade Agreement (Under Implementation)
27	Canada-Dominican Republic Free Trade Agreement (Under Negotiation)
28	Canada-Israel Free Trade Agreement (Under Implementation)
29	Canada-Singapore Free Trade Agreement (Under Negotiation)
30	Canada-United States Free Trade Agreement (Under Implementation)
31	China-India Regional Trading Arrangement (Proposed/Under consultation and study)
32	EFTA-Singapore Free Trade Agreement (Under Implementation)
33	India-Afghanistan Preferential Trading Agreement (Signed)
34	India-Australia Free Trade Agreement (Proposed/Under consultation and study)
35	India-Chile Preferential Trading Agreement (Signed)
36	India-Colombia Preferential Trading Arrangement (Proposed/Under consultation and study)
37	India-Egypt Preferential Trade Agreement (Under Negotiation)
38	India-European Union Free Trade Agreement (Proposed/Under consultation and study)
39	India-Gulf Cooperation Council Free Trade Area ((FA) signed/FTA Under Negotiation)
40	India-Indonesia Comprehensive Economic Cooperation Arrangement (Proposed/Under consultation and study)
41	India-Israel Preferential Trade Agreement (Proposed/Under consultation and study)
42	India-Korea Comprehensive Economic Partnership Agreement (Under Negotiation)
43	India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (Under Negotiation)
44	India-MERCOSUR Preferential Trade Agreement (Signed)
45	India-Singapore Comprehensive Economic Cooperation Agreement (Under Implementation)
46	India-Southern African Customs Union Preferential Trade Agreement ((FA) signed/FTA Under Negotiation)
47	India-Sri Lanka Free Trade Agreement (Under Implementation)
48	India-Thailand Free Trade Area ((FA) signed/FTA Under Negotiation)
49	India-Uruguay Preferential Trading Arrangement (Proposed/Under consultation and study)
50	India-Venezuela Preferential Trading Arrangement (Proposed/Under consultation and study)

51	Indo-Nepal Treaty of Trade (Under Implementation)
52	Japan-Brunei Free Trade Agreement (Under Negotiation)
53	Japan-Canada Free Trade Agreement (Proposed/Under consultation and study)
54	Japan-Chile Economic Partnership Agreement (Under Negotiation)
55	Japan-Gulf Cooperation Council Free Trade Agreement (Under Negotiation)
56	Japan-India Economic Partnership Agreement (Proposed/Under consultation and study)
57	Japan-Indonesia Economic Partnership Agreement (Under Negotiation)
58	Japan-Korea Free Trade Agreement (Under Negotiation)
59	Japan-Malaysia Economic Partnership Agreement (Under Implementation)
60	Japan-Mexico Economic Partnership Agreement (Under Implementation)
61	Japan-Philippines Economic Partnership Agreement (Signed)
62	Japan-Singapore Economic Agreement for a New-Age Partnership (Under Implementation)
63	Japan-Switzerland Free Trade Agreement (Proposed/Under consultation and study)
64	Japan-Thailand Economic Partnership Agreement (Under Negotiation)
65	Japan-Vietnam Free Trade Agreement (Under Negotiation)
66	Kazakhstan-Georgia Free Trade Agreement (Under Implementation)
67	Korea-Canada Free Trade Agreement (Under Negotiation)
68	Korea-Chile Free Trade Agreement (Under Implementation)
69	Korea-European Free Trade Association Free Trade Agreement (Under Implementation)
70	Korea-MERCOSUR Preferential Trading Agreement (Proposed/Under consultation and study)
71	Korea-Mexico Strategic Economic Complementation Agreement (Under Negotiation)
72	Korea-Singapore Free Trade Agreement (Under Implementation)
73	Korea-South Africa Free Trade Agreement (Proposed/Under consultation and study)
74	Korea-United States Free Trade Agreement (Under Negotiation)
75	Kyrgyz-Kazakhstan Free Trade Agreement (Under Implementation)
76	Kyrgyz-Moldova Free Trade Agreement (Under Implementation)
77	Kyrgyz-Russia Free Trade Agreement (Under Implementation)
78	Kyrgyz-Ukraine Free Trade Agreement (Under Implementation)
79	Kyrgyz-Uzbekistan Free Trade Agreement (Under Implementation)
80	Laos-Thailand Preferential Trading Arrangement (Under Implementation)
81	Malaysia-Australia Free Trade Agreement (Under Negotiation)
82	Malaysia-Chile Free Trade Agreement (Proposed/Under consultation and study)
83	Malaysia-India Comprehensive Economic Cooperation Agreement (Proposed/Under consultation and study)
84	Malaysia-Korea Free Trade Agreement (Proposed/Under consultation and study)
85	Malaysia-New Zealand Free Trade Agreement (Under Negotiation)
86	Malaysia-Pakistan Free Trade Agreement (Under Negotiation)
87	New Zealand-China Free Trade Agreement ((FA) signed/FTA Under Negotiation)
88	New Zealand-Hong Kong Closer Economic Partnership (Under Negotiation)
89	New Zealand-Korea Closer Economic Partnership (Proposed/Under consultation and study)
90	New Zealand-Mexico Free Trade Agreement (Proposed/Under consultation and study)
91	New Zealand-Singapore Closer Economic Partnership (Under Implementation)
92	Pacific ACP-EC Economic Partnership Agreement (Under Negotiation)
93	Pakistan-Afghanistan Free Trade Agreement (Proposed/Under consultation and study)
94	Pakistan-Bangladesh Free Trade Agreement (Under Negotiation)
95	Pakistan-Gulf Cooperation Council Free Trade Agreement ((FA) signed/FTA Under Negotiation)
96	Pakistan-Indonesia Free Trade Agreement ((FA) signed/FTA Under Negotiation)
97	Pakistan-Iran Preferential Trade Agreement (Signed)
98	Pakistan-Jordan Free Trade Agreement (Proposed/Under consultation and study)
99	Pakistan-Kazakhstan Preferential Trade Agreement (Proposed/Under consultation and study)
100	Pakistan-Mauritius Preferential Trade Agreement (Under Negotiation)
101	Pakistan-MERCOSUR Preferential Trade Agreement ((FA) signed/FTA Under Negotiation)
102	Pakistan-Morocco Preferential Trade Agreement (Under Negotiation)
103	Pakistan-Philippines Free Trade Agreement (Proposed/Under consultation and study)
104	Pakistan-Singapore Free Trade Agreement (Under Negotiation)

105	Pakistan-Sri Lanka Free Trade Agreement (Under Implementation)
106	Pakistan-Tajikistan Preferential Trade Agreement (Proposed/Under consultation and study)
107	Pakistan-Thailand Free Trade Agreement (Proposed/Under consultation and study)
108	Pakistan-Turkey Preferential Trade Agreement ((FA) signed/FTA Under Negotiation)
109	Papua New Guinea-Australia Trade and Commercial Region (Under Implementation)
110	People's Republic of China-Australia Free Trade Agreement ((FA) signed/FTA Under Negotiation)
111	People's Republic of China-Chile Free Trade Agreement (Signed)
112	People's Republic of China-Gulf Cooperation Council Free Trade Agreement (Under Negotiation)
113	People's Republic of China-Hong Kong Closer Economic Partnership Arrangement (Under Implementation)
114	People's Republic of China-Iceland Free Trade Agreement (Proposed/Under consultation and study)
115	People's Republic of China-Japan-Korea Free Trade Agreement (Proposed/Under consultation and study)
116	People's Republic of China-Korea Free Trade Agreement (Proposed/Under consultation and study)
117	People's Republic of China-Macao Closer Economic Partnership Arrangement (Under Implementation)
118	People's Republic of China-Pakistan Free Trade Agreement (Under Negotiation)
119	People's Republic of China-South Africa Free Trade Agreement (Proposed/Under consultation and study)
120	People's Republic of China-South African Customs Union Free Trade Agreement (Under Negotiation)
121	People's Republic of China-Thailand Free Trade Agreement (Under Implementation)
122	Singapore-Australia Free Trade Agreement (Under Implementation)
123	Singapore-Bahrain Free Trade Agreement (Proposed/Under consultation and study)
124	Singapore-Egypt Free Trade Agreement (Under Negotiation)
125	Singapore-Jordan Free Trade Agreement (Under Implementation)
126	Singapore-Kuwait Free Trade Agreement (Under Negotiation)
127	Singapore-Mexico Free Trade Agreement (Under Negotiation)
128	Singapore-Panama Free Trade Agreement (Signed)
129	Singapore-Peru Free Trade Agreement (Under Negotiation)
130	Singapore-Qatar Free Trade Agreement (Under Negotiation)
131	Singapore-Sri Lanka Comprehensive Economic Partnership Agreement (Proposed/Under consultation and study)
132	Singapore-United Arab Emirates Free Trade Agreement (Proposed/Under consultation and study)
133	Sri Lanka-Iran Preferential Trade Agreement (Signed)
134	Taipei,China and Dominican Republic Free Trade Agreement (Proposed/Under consultation and study)
135	Taipei,China and El Salvador Free Trade Agreement (Under Negotiation)
136	Taipei,China and Guatemala Free Trade Agreement (Signed)
137	Taipei,China and Honduras Free Trade Agreement (Proposed/Under consultation and study)
138	Taipei,China and Nicaragua Free Trade Agreement (Signed)
139	Taipei,China and Panama Free Trade Agreement (Under Implementation)
140	Taipei,China and Paraguay Free Trade Agreement ((FA) signed/FTA Under Negotiation)
141	Tajikistan-Armenia Free Trade Agreement (Signed)
142	Tajikistan-Belarus Free Trade Agreement (Signed)
143	Tajikistan-Kyrgyz Free Trade Agreement (Signed)
144	Tajikistan-Russia Free Trade Agreement (Signed)
145	Tajikistan-Ukraine Free Trade Agreement (Signed)
146	Tajikistan-Uzbekistan Free Trade Agreement (Signed)
147	Thailand-Australia Free Trade Agreement (Under Implementation)
148	Thailand-Bahrain Free Trade Agreement ((FA) signed/FTA Under Negotiation)
149	Thailand-Chile Free Trade Agreement (Proposed/Under consultation and study)
150	Thailand-EFTA Free Trade Agreement (Under Negotiation)
151	Thailand-MERCOSUR Free Trade Agreement (Proposed/Under consultation and study)
152	Thailand-New Zealand Closer Economic Partnership Agreement (Under Implementation)
153	Thailand-Peru Free Trade Agreement ((FA) signed/FTA Under Negotiation)
154	Turkmenistan-Georgia Free Trade Agreement (Under Implementation)
155	United States-Australia Free Trade Agreement (Under Implementation)
156	United States-Bahrain Free Trade Agreement (Signed)
157	United States-Brunei Free Trade Agreement (Proposed/Under consultation and study)
158	United States-Chile Free Trade Agreement (Under Implementation)



159	United States-Indonesia Free Trade Agreement (Proposed/Under consultation and study)
160	United States-Israel Free Trade Agreement (Under Implementation)
161	United States-Hashemite Kingdom of Jordan Free Trade Agreement (Under Implementation)
162	United States-Malaysia Free Trade Agreement (Under Negotiation)
163	United States-Marshall Islands Compact of Free Association (Under Implementation)
164	United States-Micronesia Compact of Free Association (Under Implementation)
165	United States-Morocco Free Trade Agreement (Under Implementation)
166	United States-Pakistan Free Trade Agreement (Proposed/Under consultation and study)
167	United States-Palau Compact of Free Association (Under Implementation)
168	United States-Philippines Free Trade Agreement (Proposed/Under consultation and study)
169	United States-Singapore Free Trade Agreement (Under Implementation)
170	United States-Sri Lanka Free Trade Agreement (Proposed/Under consultation and study)
171	United States-Taipei,China Free Trade Agreement (Proposed/Under consultation and study)
172	United States-Thailand Free Trade Agreement (Under Negotiation)
173	Uzbekistan-Georgia Free Trade Agreement (Signed)
174	Uzbekistan-Kazakhstan Free Trade Agreement (Signed)
175	Uzbekistan-Moldova Free Trade Agreement (Signed)
176	Uzbekistan-Russia Free Trade Agreement (Signed)

Sources: Author's compilation based on data from the following websites: ADB ARIC <[aric.adb.org](http://aric.adb.org)>; Bilaterals.org <[www.bilaterals.org](http://www.bilaterals.org)>; Foreign Affairs and International Trade Canada <[www.dfait-maeci.gc.ca](http://www.dfait-maeci.gc.ca)>; Office of the US Trade Representative <[www.ustr.gov](http://www.ustr.gov)>; and WTO <[www.wto.org](http://www.wto.org)>.

**Table 2**  
**BTAs and PTAs of Asia-Pacific Countries, 1976-2006**

YEAR	BTAs	PTAs
1976	0	1
1981	0	2
1983	1	2
1985	2	2
1989	3	2
1991	5	2
1992	6	2
1993	9	4
1994	12	5
1995	19	5
1996	27	5
1997	33	6
1998	37	6
1999	39	6
2000	41	6
2001	47	6
2002	57	6
2003	70	10
2004	109	13
2005	151	13
2006	176	17

*Sources:* Author's compilation based on data from the following websites: ADB ARIC <[aric.adb.org](http://aric.adb.org)>; Bilaterals.org <[www.bilaterals.org](http://www.bilaterals.org)>; Foreign Affairs and International Trade Canada <[www.dfait-maeci.gc.ca](http://www.dfait-maeci.gc.ca)>; Office of the US Trade Representative <[www.ustr.gov](http://www.ustr.gov)>; and WTO <[www.wto.org](http://www.wto.org)>.