



## Preferential Trading Agreements and Agricultural Liberalization in East and Southeast Asia

Gloria O. Pasadilla\*

---

\*Gloria O. Pasadilla is a Senior Fellow at the Philippine Institute for Development Studies (PIDS), Manila, Philippines. The author gratefully acknowledges the excellent research assistance of Angeli Lantin and Fatima Lourdes del Prado. The views presented in this paper are those of the author and do not necessarily reflect the views of PIDS, other ARTNeT members, partners and the United Nations. This study received a research grant from IDRC of Canada through the ARTNeT. The technical support of the United Nations Economic and Social Commission for Asia and the Pacific is gratefully acknowledged. The author received valuable comments from two anonymous reviewers and benefited from the participants' feedback in the Second ARTNeT Consultative Meeting of Policymakers and Research Institutions, held in Macao, China on 6-7 October 2005 and the WTO/ESCAP/ARTNeT Regional Seminar on Agriculture Negotiations, held in Xian, China on 29-31 March 2006. The usual disclaimer applies. Any remaining errors are the responsibility of the author. The author may be contacted at [gpasadilla@mail.pids.gov.ph](mailto:gpasadilla@mail.pids.gov.ph)

**The Asia-Pacific Research and Training Network on Trade (ARTNeT) aims at building regional trade policy and facilitation research capacity in developing countries. The ARTNeT Working Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about trade issues. An objective of the series is to get the findings out quickly, even if the presentations are less than fully polished. ARTNeT working papers are available online at: [www.artnetontrade.org](http://www.artnetontrade.org). All material in the working papers may be freely quoted or reprinted, but acknowledgment is requested, together with a copy of the publication containing the quotation or reprint. The use of the working papers for any commercial purpose, including resale, is prohibited.**

## ***Executive Summary***

The paper analyzes how various preferential trading arrangements deal with agriculture liberalization and examines a few case studies highlighting the provisions on agriculture. It assesses the effect of preferential trade agreements on agriculture trade flows in the case of ASEAN. It finds that while the tariff reduction on all goods, including agriculture, in ASEAN provides a marked advantage from the MFN tariff rates, intra-ASEAN agriculture trade have not been all that significant. Most of the growth in the intra-ASEAN trade had come from trade in industry; and if total agriculture trade had expanded, much of it was due to trade outside the region. The paper argues that AFTA, by original design, had not really been made to boost intra-regional agriculture trade, but rather to facilitate the inter-industry trade arising out of the vertically integrated network of manufacturing transnational corporations.

## ***Table of Contents***

Executive Summary .....	2
1.Introduction.....	4
2. Preferential Trading Agreements and Agriculture .....	5
Number and Motivation .....	5
Treatment of agriculture in Asian PTAs .....	6
i. Market access negotiations only .....	6
ii. Exclusions and extended timelines.....	7
iii. Use of applied tariffs .....	7
iv. Safeguards and non-tariff measures.....	7
Focus on selected PTAs .....	8
i. AFTA .....	8
ii. China-ASEAN (CAFTA).....	10
iii. Korea-Chile.....	12
iv. Thailand-Japan.....	13
Preferential Trading Arrangements versus Multilateral Trade .....	16
3. Effect on Agriculture Protection Structure .....	16
Mean and Median Tariffs .....	17
Tariff Distribution .....	19
Imposed Tariffs .....	21
i. Export-weighted tariffs .....	22
ii. Incidence on top exports .....	25
Relative Tariff Ratio (RTR) Index .....	27
4. Effect of AFTA on Trade.....	30
What past studies say?.....	30
Growth in intra-ASEAN trade.....	33
i. Growth in intra-ASEAN trade due to industry trade .....	34
ii. Growth in total agriculture trade due to extra-ASEAN trade .....	36
iii. Individual country differences .....	37
Non-tariff Measures .....	40
5. Summary and Conclusions .....	43
References.....	45
Appendices.....	48

## **1.Introduction**

In all trade negotiations, opening domestic agriculture market is always a sensitive issue. Even though agriculture takes a relatively small share of Gross Domestic Product compared to manufacturing and services, the sector manages to slow or derail even a most promising trading arrangement. Deadlock in the recent Hong Kong WTO Ministerial Conference is one illustration of how disagreements over agriculture can block further progress towards any new agreement. In ASEAN6<sup>1</sup>, agriculture is, on average, only slightly over 10 percent of 2003 GDP compared to about 40 and 50 percent share of industry and services, respectively, yet, the initial hesitation over China-ASEAN trade pact was largely due to agriculture concern. The Japan-Singapore Agreement, despite very little threat of agriculture export from Singapore, still incited Japanese farmers' protest. Korean farmers' concern threatened to scuttle the Korea-Chile agreement, and the fate of several other negotiations, like Japan-Korea FTA, remain uncertain primarily due to agriculture.

A major reason why agriculture holds so much sway in the political calculations of various countries is, perhaps, the fact that despite its minimal share in the economy, agriculture's share in employment remains significant. In ASEAN, because more than a third of individual country employment is in agriculture, protection of agriculture employment becomes a primordial concern. In the case of developed countries where the employment share of agriculture is almost trivial, intense lobbying of agriculture groups, nevertheless, make governments circumspect. Countries may cite non-trade reasons such as food security, food safety and quality, or the so-called 'multifunctionality' of agriculture, but the true reason is the difficult political economy of liberalizing agriculture. In Europe, maintenance of 'rurality' as a societal preference, along with an aging farmers' population, is used to justify the use of agriculture subsidies; yet, subsidy is, in fact, a cheaper alternative to government payout for relocation of agricultural unemployment.

Agriculture negotiation is a difficult issue everywhere, but more so in the multilateral forum where many developing countries vowed to indefinitely stall negotiations unless they get more favorable concessions in agriculture market access in developed countries. As a result, regional and preferential trading arrangements (henceforward, PTAs) negotiations escalated after the Seattle and Doha Round, with the aim of advancing market liberalization ahead of the multilateral process.

What are the liberalizing measures in agriculture in these PTAs and how they have actually affected agriculture trade is the question this paper tries to explore. In particular, it takes a look at the common features of PTAs in East and Southeast Asia as far as agriculture is concerned, and examines a few selected trade agreements in more detail. The paper is organized as follows: the next section discusses how various preferential agreements in the region deal with agriculture liberalization – their timelines, type of flexible arrangements, as well as safeguards and non-tariff measures. Because

---

<sup>1</sup> ASEAN6 countries are Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand.

most Asian countries have been avid supporters of multilateral negotiations, bilateral and regional trading agreements are relatively recent in the region, hence not yet susceptible to a historical assessment of trade effects of the PTA. For deeper data analysis, therefore, the paper focuses on the oldest and the first PTA that was formed in the region. Sections 3 and 4 next discuss the effect of one specific PTA, the ASEAN Free Trade Area (AFTA) on regional protection structure and agriculture trade flows, respectively. Section 5 summarizes and concludes.

## ***2. Preferential Trading Agreements and Agriculture***

### ***Number and Motivation***

Preferential trade arrangements now appear to be a permanent feature of the multilateral trading system. While there were few PTAs before the Uruguay Round, the number has escalated since year 2000 when the multilateral negotiations went into a virtual crawl. According to the list of WTO notified partnership agreements, half of the total PTAs were forged over the last five years.<sup>2</sup> The PTA fever has affected practically all countries, from the Asian to the African continent, but Asia Pacific and Latin American countries appear most aggressive. Of the 89 WTO-notified PTAs, a quarter involve an East Asian country and counting, as 17 more PTAs involving an East Asian country are under negotiations (see Table 1 and Appendix Table 1), of which, 15 are bilateral trading arrangements.

**Table 1. Preferential Trading Arrangements**

	<b>Number</b>
WTO Notification (1948-2005)	180
WTO Notification (2000-2005)	89
PTAs in Southeast And East Asia (2000-2005)	22
Southeast and East Asia (1990-2005)	24.72
Notification for Southeast and East Asia (1990-2005)	23
Under Negotiation for Southeast Asia and East Asia (1990-2005)	17

Source: Regional Trade Agreement Gateway, [www.wto.org](http://www.wto.org) and RTA-BTA Database, UNESCAP

The rush to partner up with other countries or regions in trade has affected even erstwhile ‘multilateralists’ like Japan and Korea. Following the lead of the European

<sup>2</sup> Seventy-five percent of all PTAs notified in the WTO are bilateral trade agreements; some of which are cross-regional, like Japan-Mexico, while other RTAs are expanding and embracing whole continents, e.g. Free Trade Area of the Americas (FTAA) (still under negotiations).

Union and the US, these two have entered into the PTA-forming bandwagon as a defensive stance to secure and protect market access and as insurance against a possible failure of the WTO consensus. Korea is aggressively pursuing PTAs with scores of trading partners and hopes to sign 15 of them in year 2007. Australia, too, fears being marginalized if the ASEAN plus Three becomes a reality and, thus, forged a tie-up with Singapore as a toehold in the region.

Other reason for initiating free trade agreements is political. China, for instance, courted ASEAN, largely as a confidence-building measure, to ease ASEAN concerns over China as a regional threat and rival by providing preferential access to its domestic market. At the same time, it eyes ASEAN natural resources and large internal market, while seeking to improve geopolitical clout in the region and to counterbalance Japan's and US influence (Chia, 2004). Japan followed suit to preserve its influence in the region and to avoid future exclusion from the \$700 billion ASEAN market. Even the US launched its Enterprise for ASEAN Initiative, in response to the Chinese dalliance with ASEAN, in order to lock in its security relationships in the region.

Whatever the initial motivations, many of the PTAs in Asia have gone beyond WTO provisions. For instance, the Japan-Singapore agreement, considered to be a template for Japan's bilateral agreements with other ASEAN countries, includes chapters on regulatory trade regimes like competition and investment policy that had been rejected in previous WTO rounds. It should, however, be underscored that though these chapters are included, in many cases, they merely state an agreement to discuss these issues in subsequent rounds or provide capacity building grant, e.g. in competition policy, and thus have no major substantial divergence from the WTO.

### *Treatment of agriculture in Asian PTAs*

While to some extent, some PTAs have been considered WTO-plus, for instance, because of restrictions on the imposition of anti-dumping measures or the inclusion of regulatory regimes in investments, the evidence is mixed with regard to provisions that touch on agriculture. As in the multilateral negotiations, agriculture is also a sensitive issue in bilateral and regional trade talks. The same political economy, such as dependence of the rural population on agriculture in developing economies that makes liberalization difficult in the multilateral stage still looms large in small-group negotiations. In many PTAs, negotiators lock horns and face deadlocks because of agriculture as in the on-going negotiations in the FTAA, Japan-Australia, or Japan-Korea.

#### i. Market access negotiations only

In the WTO, agricultural trade liberalization involves three elements – market access, domestic support, and export subsidies. Various PTAs almost always only readily deal with market access issues, rarely with export subsidies, and almost never with domestic support. Domestic support is deemed impossible to handle within the RTA framework because of externality problems brought about by its removal. That is,

once domestic support is removed, its beneficiaries would not only be the preferential trading partner but all countries that trade and compete in agriculture. Thus, the default arrangement is not to discuss domestic support in RTA and leave it, rather to the WTO. Negotiations on export subsidies, however, have prospered in limited sectors which parties to the agreement intensely trade with one another, as in the case of Australia-New Zealand trade agreement (ANZCERTA).

#### ii. Exclusions and extended timelines

Yet, even negotiations on agriculture market access issues have not been walks in the park. The usual way that negotiating partners skirt the difficult issue of agriculture is through exclusion of whole or part of agriculture sector as well as more extended time lines for market liberalization relative to other goods sector. The various EU RTAs, for instance, routinely exclude a significant part of agriculture. Others, while including the agriculture sector, almost always have sensitive sectors that are either permanently or temporarily excluded. Others contain a liberal extension time for transition and adjustments, as in AFTA or Korea-Chile, or Thailand-Australia.

#### iii. Use of applied tariffs

One positive aspect of the PTAs, however, is that the point of departure for negotiations is always the applied, rather than bound, tariffs unlike in the case of the multilateral discussions. Since, almost all the bound tariffs of developing countries are much higher than applied tariffs, this negotiation strategy is already an advance over the WTO talks. PTAs, in essence, therefore, achieve right from the start the end-result that developed countries actually want from previous WTO Rounds, that is, of bringing down bound rates to the actual applied rates.

#### iv. Safeguards and non-tariff measures<sup>3</sup>

Besides, market access issues such as extent and timing of tariff cuts on specific agricultural products, discussion on agriculture also deal with the presence of safeguards (that is, anti-dumping, safeguards, and countervailing duties), non-tariff measures, specially sanitary and phyto-sanitary (SPS) measures, and the appropriate design of rules of origin. In general, PTAs in Asia contain safeguards and SPS measures provisions, but most do not go substantially beyond the provisions of the WTO.

With regard SPS measures, some PTAs have provisions for mutual recognition or the application of equivalence. Some take the approach of promoting international harmonization or for using international standards, if one exists (e.g. Singapore-NZ).

---

<sup>3</sup> OECD (2005) discusses in much greater depth the SPS and safeguard measures across 18 PTAs all over the world.

Korea-Chile FTA established a committee dedicated to SPS matters. Others, like China-ASEAN, identify it as an area for future negotiation.

Safeguard measures are also present in many PTAs in the region. Japan-Singapore and Korea-Chile adopt NAFTA-type safeguard measures during transition with criteria similar to WTO rules.<sup>4</sup> The difference is that the safeguard tariff that is applied is capped at the MFN tariff rate.<sup>5</sup>

Rules of origin is not a very controversial provision as far as agriculture is concerned, except to ensure that the products are indeed produced and harvested in the trading partner and not merely shipped from non-parties.

We next discuss in greater detail a few selected preferential trade agreements in the region to get a clearer idea on how PTAs deal with agriculture issues.

### Focus on selected PTAs

#### i. AFTA

The ASEAN Free Trade Area was signed in 1992 by Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. AFTA signaled to the rest of the world that the ASEAN's focus had morphed from merely political and security concerns towards greater economic cooperation.<sup>6</sup> Later, four other Asian countries acceded to ASEAN: Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. Considered as a South-South trading agreement, AFTA was notified to the WTO under the Enabling Clause, instead of Article XXIV GATT, which means that AFTA was not strictly obliged to liberalize 'substantially all' sectors. Nevertheless, despite the initial exclusion of unprocessed agricultural product from liberalization, AFTA covered more than 89% of tariff lines for scheduled liberalization in 1993 (see Table 2).

---

#### *Box: AFTA-CEPT In Brief*

AFTA follows a negative list approach for liberalizing tariffs using the Common

预览已结束，完整报告链接和二维码如下：

[https://www.yunbaogao.cn/report/index/report?reportId=5\\_8406](https://www.yunbaogao.cn/report/index/report?reportId=5_8406)

