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## Overcoming the Geneva Impasse: How Regional Trade Agreements Can Help Global Trade

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# The Bulletin

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# Overcoming the Geneva impasse

## Why regional agreements can help global trade

Chin Leng Lim, University of Hong Kong

The World Trade Organisation's rules have permitted regional trade agreements since 1947. Over the years its membership has made only half-hearted efforts to tighten these rules. Without ignoring some well-known drawbacks which attend regional trade agreements, we need to understand the reasons for this hesitancy: regional agreements can help global trade.

Imagine a well-known US auto manufacturer with plans to establish an Asian office in Singapore. It will find the US-Singapore free trade agreement useful. It may also wish to set up a subsidiary and manufacturing plant in Chennai in India. The Singapore-India free trade agreement and the Asean-India FTA could facilitate this.

### Sourcing strategy

Singapore does not impose a capital gains tax and a Mauritius-style double-taxation agreement would exempt from Indian capital gains tax an 80% equity infusion into the Chennai plant, raised through Singapore banks. The plant in Chennai might find an eventual India-Thailand FTA useful for a strategy of sourcing the parts from Thailand.

There could be a problem with meeting rules of origin, but the Thai assembly plant may get to count design and research and development work done in Malaysia.

Thus, the parts could be designed in Malaysia, manufactured in Thailand, and

shipped to Chennai for further assembly. The wholly built-up vehicle could be shipped from India to Japan where, again, the India-Japan FTA could prove quite useful.

This demonstration shows that the auto manufacturer, like other businesses, can find today's RTAs indispensable.

### Tariffs and trade

While Geneva talks on further multilateral liberalisation have been at a near-standstill for 15 years, nations have been to work with RTAs. There are now some 400 agreements. Some say that such proliferation is problematic. But the higher the number of agreements, the less discriminatory they are likely to become, since the margin for discriminatory preferences grows thinner each time.

According to the 2011 World Trade Report, 50% of world tariffs are already at zero, and only 16% of world trade benefits from positive preference margins under RTAs. The rest flows either free of tariffs or under positive non-discriminatory tariffs.

This illustrates that, after more than a half-century of reducing global tariffs, trade diversion by RTAs has become less threatening.

Today, nations from Japan to India are engaged in RTA negotiations which aim to bring down long-lasting trade barriers. Nothing of equivalent effect is being done at the multilateral level in Geneva.

Nations in Asia see as an ultimate goal a regional comprehensive partnership, in the form of one 'mega' agreement. In the case of Asia, this would require Sino-Indian and Sino-Japanese engagement, which might be difficult to achieve in Geneva, although it would bring positive security implications for a fragile continent.

As for the other mega-regional deals, the US-led Transpacific Partnership talks are nominally the most ambitious.

Talks on the Transatlantic Trade and Investment Partnership, too, set a high objective in cutting through regulatory barriers and merging American and European regulatory standards.

This is important because, today, trade barriers lie no longer at but behind national borders. We require national regulation to harmonise discordant food, health and safety, environmental and other standards.

All these examples show that regionalism – in Asia, across the Pacific, and across the Atlantic – is now playing a major role in opening global markets and driving growth.

Regionalism has taken over from multilateralism in promoting these and other objectives. These two instruments point in the same direction. ■

Chin Leng Lim is professor of law at Hong Kong University and serves on the Committee on Pacific Economic Co-operation which advises Hong Kong's Secretary for commerce. Lim took part in the Bank Negara-OMFIF KL debate on 20 March

## 'No conflict' between regional and global integration, EIB's Knapen tells KL Debate audience



Regional economic co-operation in Asia will enhance the wealth and status of members of the Association of Southeast Asian Nations, and also improve Asean's influence in the world economy, according to Ben Knapen (right) of the European Investment Bank.

Arguing there was 'no conflict' between regional and global integration, Knapen, the EIB's Brussels permanent representative and a former state secretary in the Dutch foreign ministry, was taking part in the inaugural KL Debate organised by Bank Negara Malaysia and OMFIF in Kuala Lumpur on 20 March.

Muhamad Chatib Basri, former Indonesia finance minister, now president of Indonesia Infrastructure Finance, said 'theoretically' there was a conflict as proliferating bilateral free trade agreements could be risky for globalisation. He said it was important to incentivise Asean members to take part in Asean trade agreements to smooth the integration process.

Prof. Michael Plummer of the Johns Hopkins University in Bologna saw a potential conflict between regional and global integration, while Chin Leng Lim, law professor at Hong Kong University, argued that the two objectives were compatible.

The debate saw a sharp swing among the 400-strong audience in favour of the notion that global and regional integration were self-reinforcing. 63% of the audience, according to electronic voting, said the goals were in conflict, while at the end of the two hour session the two sides had drawn level – a clear victory for the position adopted by Knapen and Lim.

