



Rationale for Trade Liberalization and recent trends in PTAs

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UNCTAD



Outline

- **Introduction**
- **Rational for Trade Liberalization**
- **Approaches and types of Liberalization**
- **Impact of RTAs/PTAs on international Trade**
- **UNCTAD assistance in Trade policy**



Introduction

- Getting rid of protectionism after WW II & creation of the GATT 1947;
- trade reforms/ liberalization in the developing world started in the 1970s ... expanded 1980s & 1990s (South Asia, East Asia, Latin America, Eastern Europe, & **to a lesser extent, in Africa and MENA region**).



Conclusion of UR...creation of the WTO

- Uneven outcome of trade liberalization in the 1990s varied... some DCs were disappointing;
- Globalization - trade liberalization- highly criticized (social effects- The issue of unemployment, recurrence of economic and financial crises);
- WTO perceived negatively in the beginning... Now?
- **Why some succeeded and other failed?**
- **trade liberalization lead AUTOMATICALLY to economic growth?**
- **liberalization reduce poverty & inequalities?**



Trade Liberalization what is it about?

- **Removal or reduction of restrictions or barriers on the free exchange of goods/services between nations.**
- **This includes:**
- **removal or reduction tariff (duties and surcharges)**
- **non-tariff obstacles (NTBs/ NTMs.. like licensing , RoO, quotas, standards...)"**.



- **Rational for Trade Liberalization**

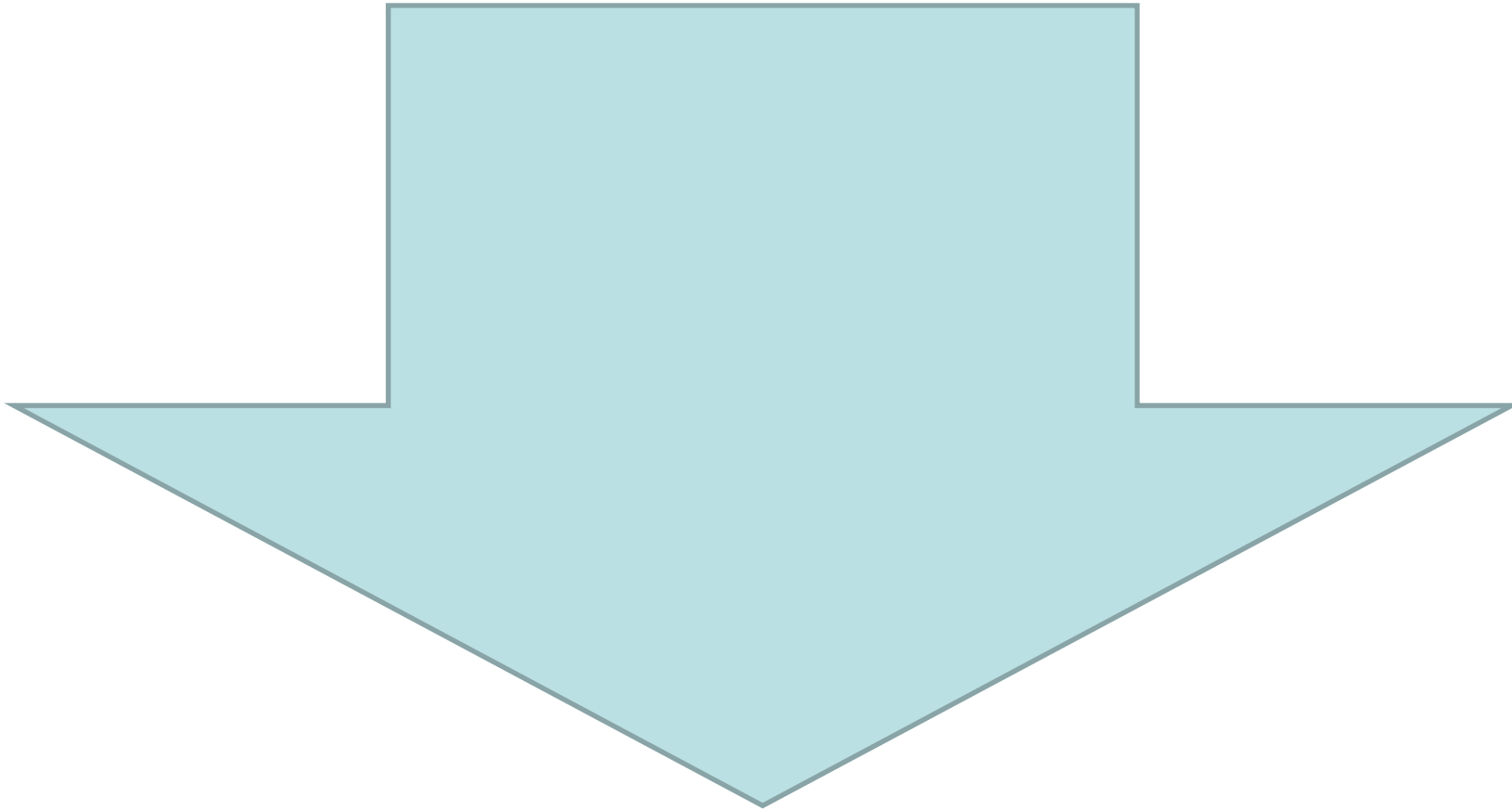


Trade liberalization: What for?

- **comparative advantage Argument:** countries to specialize in producing the goods and services where they have a (produce at lowest opportunity cost);
- **Lower prices:** removal of tariff barriers → lower prices for consumers (food importing countries);
- **Increased competition:** means firms will face greater competition → increase **efficiency** & quality of goods
- **Economies of scale:** greater specialization = efficiency = savings from → **important economy of scale:**
- **Investment (FDIs)**
- **Increase trade and eco.growth**

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Down/Dark side of Trade liberalization





Down/ Dark side...

- **shift in the balance of an economy (Some industries grow, some (local firms decline/ disappear);**



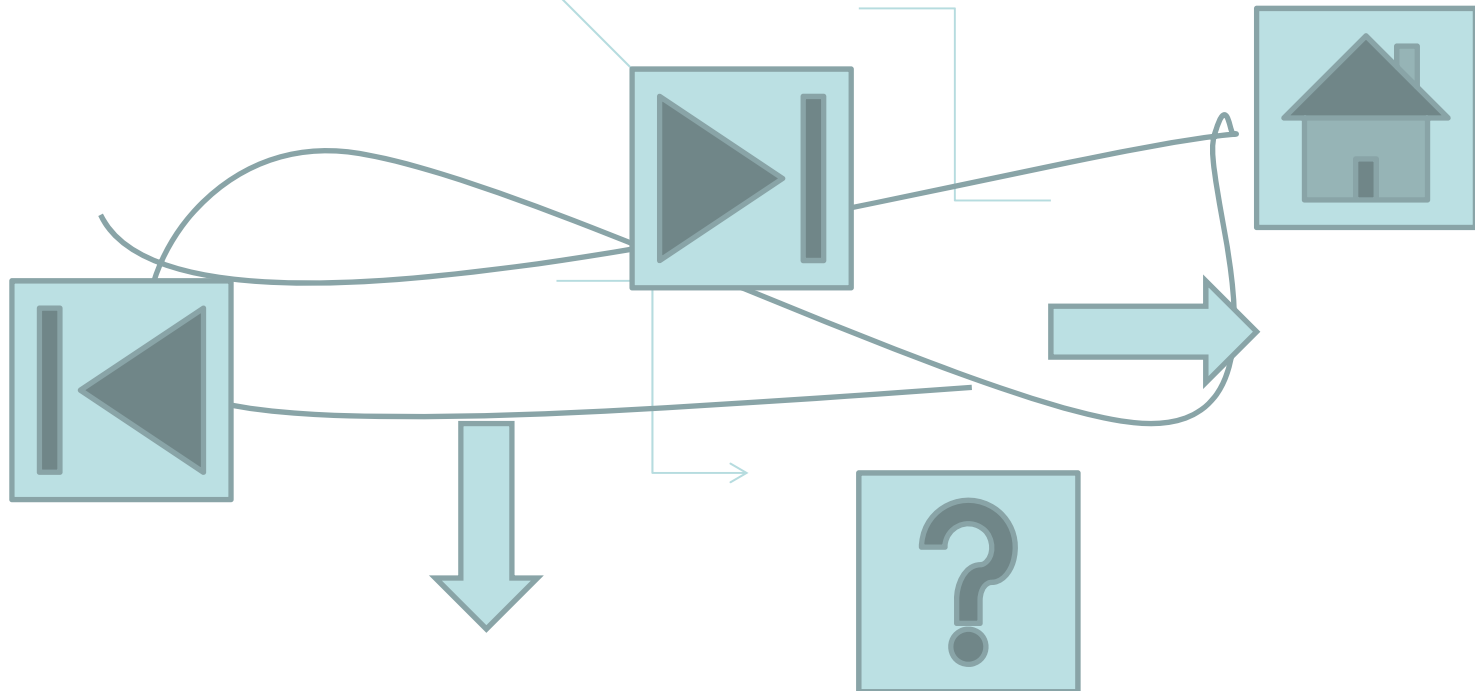
- **Structural unemployment
poverty...** → **social exclusion,**

- **Exposure to external shocks (financial crisis..)**
- **Excessive exploitation of the environment, (use & production of raw materials, trading toxic waste to countries with lower environmental laws...**



Types of Trade Liberalization

- Which way to go ?





Possible ways to open an economy....

- **Autonomous (unilateral)**
- **Bilateral**
- **Regional/plurilateral**
- **Multilateral (GATT/WTO)**



Heterogeneity in country experiences..

- **Timing and pace of reforms:**
- **Different countries have opened up different sectors at different speeds);**
- **Partial liberalization through the establishment of export processing zones (for example China and Mauritius);**
- **Some others have combined **unilateral** trade reforms with participation in **regional trade agreements (RTAs)**...& **Multilateral**....**WTO PROCESSES****
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Unilateral: through tariff reforms

- **Tariff reductions in 1990s contributed to economic growth & positive impact on exports.**
- **the case of S.E Asian countries experiences tariff reductions in the 1990s**  **export boom;**



Partial liberalization

Examples of China and India






China...early reforms

- opted for partial trade liberalization, pursued through a dual-track approach:
- 1- Special economic zones (SEZs)—one of the drivers in China's export and growth success—were set up in the 1980s to give the firms established within them access to duty-free imported inputs.
- 2- Firms outside the SEZs faced much higher tariffs on imports, at 56 % in 1982, falling to 44 % in 1991 & 16 % in 2000 (WB source).



China...early reforms...Cont'd

- first four SEZs in 1980 in two coastal provinces (Guangdong and Fujian), selected for their location;
- The success of the initial zones  addition four years later of 14 more
- coastal cities (including Shanghai) as “coastal open cities,” with authority similar to that of the SEZs.
- By 1992, most cities along the Yangtze River and the borders of China had been granted special privileges as coastal cities, with Shanghai being granted even more autonomy;
- These developments  establishment of “development zones” in many inland  at extended tax benefits and autonomy to foreign & domestic investments.



INDIA..a different model of partial liberalization

coherent trade reform program in 1991



India...Cont'd

- Large reduction in NTBs + streamlining of a very complex import licensing regime came early in the reform program;
- tariffs were reduced in a phased manner;
- Capital and intermediate goods imports were liberalized first, and consumer goods (which were effectively banned) not until several years later;
- consumer goods imports were liberalized in 2001



India...Cont'd

- exports were growing by **20%** annually within three years of the start of the reform program;
- Strong export supply response mpetus for a continued response, because the new export revenues alleviated the pressures on the **balance of payments**;
- Factors that were clearly important for the trade reforms adopted by China and India were the **credibility** of reforms and the importance of strong institutions



Regional liberalization path

- **Some countries achieved integration and growth by adopting unilateral or multilateral trade reforms combined with participation in regional trade agreements;**
- **Signing on to regional trade agreements provides countries with access to preferential markets;**
- **This helped improve their domestic institutions**



Regional liberalization path.. Cont'd

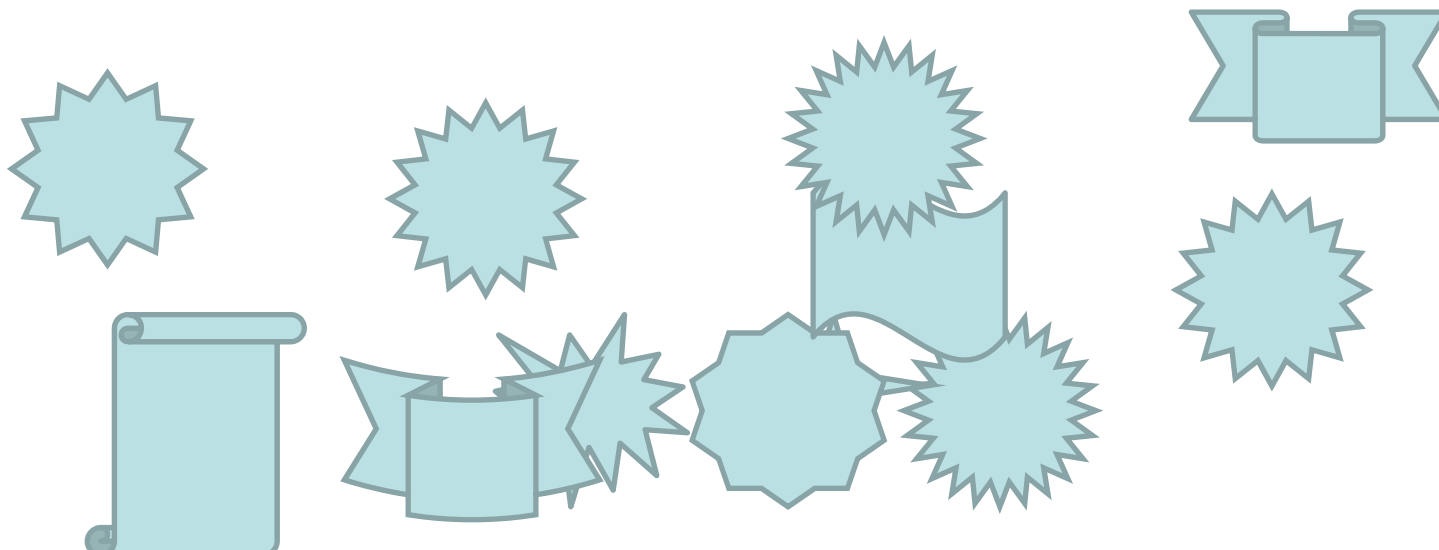
- Central and Eastern European countries signed Europe Agreements in the 1990s with the EU, Mexico joined NAFTA;
- harmonization of investment policies, regulatory rules, and institutions with EU encouraged export-oriented FDIs to Central & Eastern European countries;
- **DCs RTAs with developed countries undertook major economic, political, and social reforms.**






Impact of RTAs/PTAs on international Trade

RTAs / PTAs proliferation.... *What are the effects?*





RTAs Effects...

- the collapse of the Doha negotiations 
rise in number of RTAs;
- Initially seen as “building block” for MTS;
- Now questions on whether they are
“stumbling block”
- Favour WTO + commitments



RTAs Effects...Cont'd

- Risk of having competing and possibly antagonistic blocs
- Other risk of “forum shopping”
- New Regionalism (mega RTAs) + bilateral agreements, also presenting a risk to multilateralism



the Current Doha deadlock...?

RTAs possible positive Effects... **UNCTAD**



- **Large RTAs increase incentive for outsiders to advance multilateral liberalization to minimize trade diversion (Single European Market, NAFTA/APEC)**
- **Laboratories for testing new approaches (services, investment, competition policies)**
- **RTAs as development tool: incubator of production & export diversification for gradual & strategic integration into world economy / MTS**
- **Locking-in of domestic reform at regional level**

RTAs possible **negative** Effects... **UNCTAD**



- **Inward-looking & protectionist blocs;**
- **Reduce incentive for MTS, esp. in MA;**
- **Introduction of new & controversial issues (WTO-plus);**
- **Specialization of areas and «forum-shopping»;**
- **Administrative burdens and negotiating capital constraints (overlapping membership to several RTAs- different set of RoO);**
- **Fragmentation of regional rules in new areas & jurisprudence.....**

UNCTAD's take towards trade liberalization

- UNCTAD is a Development Agency
- Member driven
- Trade NOT an End...
- Trade is an opportunity, **not a guarantee**;
- While trade reforms can help accelerate integration in the world economy, but **cannot ensure** its success.



UNCTAD take towards trade liberalization. Cont'd

- **sound macroeconomic & management, (Pace and sequencing)**
- **trade-related infrastructure & institutions,**
- **economy-wide investments in human capital & infrastructure;**
- **Trade related adequate regulations**



UNCTAD assistance to Members in Trade policy

- ❖ **Trade policy frame works**
- ❖ **Services policy reviews**
- ❖
- ❖ **Investment policy reviews**
- ❖ **Accession to the WTO**