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TRADE BEAT

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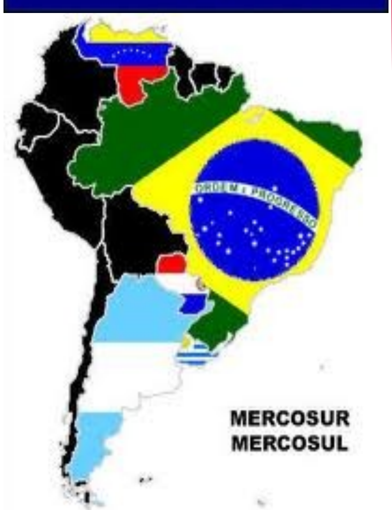
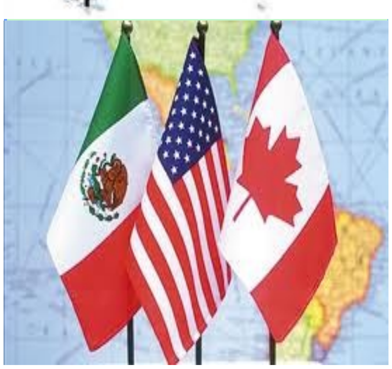
This issue will inform readers about the Regional Trade Agreement.





Regional Trade Agreement

During the second half of the 1990's, trade liberalization and the pursuit of global free trade shifted its focus from multilateral tariff negotiations to smaller Regional Trade Arrangements (RTAs). A Regional Trade Agreement (RTA) involves the liberalization of the exchange of goods and services across the borders of countries that are party to the agreement.

A major feature of recent RTAs is that many go beyond the traditional liberalization of goods and services; they now may cover investment, intellectual property, technical barriers to trade, dispute settlement and so on (Crawford, Laird). The wider scope of the recent RTAs is of greater benefit, as it allows participants greater efficiency gains than would have been possible from the elimination of frontier barriers alone.

Although, the WTO does not allow countries to use their trade regimes to discriminate against another country, RTAs are an exception as neighbouring countries are allowed to enter into preferential trade agreements (reduced tariffs/barriers).

There are four principal types of RTAs. These are: **Preferential Trading Agreements (PTAs); Free Trade Agreements (FTAs); Customs Union and Common Market.**

Preferential Trading Agreement (PTA)

A Preferential Trade Agreement (PTA) is a trading bloc which gives preferential duty access to certain products from the participating countries. A PTA can be established through a trade pact. It is the first stage of an economic integration. The line between a PTA and a Free Trade Agreement can be blurred as almost any PTA has a main goal of becoming an FTA in accordance with the General Agreement on Tariff and Trade.

Free Trade Agreement

A Free Trade Agreement/Area (FTA) is a reciprocal arrangement whereby trade barriers (usually tariffs) between participating nations are abolished. However, each member determines its external trade policies against non-FTA members independently. Most commonly, barriers to trade are reduced over time, but in most cases, not all trade is completely free from national barriers. An example of an FTA is the North American Free Trade Agreement (NAFTA).

Customs Union

In a Customs Union, all trade barriers among members are eliminated. Also, the participating nations adopt a common external trade policy (e.g. common external tariff regime or CET) to other countries that are not a part of the agreement. A Customs Union is equivalent to an FTA plus a common external trade policy. The Customs Union of the Southern Cone Mercosur-represents such an arrangement.

Common Market

In a Common Market, countries remove all barriers to movement of both goods and factors of production, while retaining a common external trade policy. It is equivalent to a customs union plus free mobility of factors of production. One example of Common Market is the Common Market for Eastern and Southern Africa (Comesa) and CARICOM.

Economic Union

The Economic Union, in addition to the free movement of goods and factors of production, ensures that member countries adopt common macroeconomic policies. One example of an Economic Union is the European Union (EU).

Reasons for participating in RTAs

Perhaps the most conventional objective thought to underlie a country's participation in any trade negotiation is the idea that through reciprocal exchanges of concessions on trade barriers there will be improvements in market access from which all parties to the negotiation will benefit. The following are some of the benefits:

Increased Multilateral Bargaining Power

Countries participate in regional trade agreements to increase their bargaining power with third countries by negotiating an agreement with common external barriers (i.e., through a CU rather than an FTA). This idea was shared by the countries involved in the formation of the European Community (EC) in the late 1950s. At the time, the notion was that individual European countries might have limited leverage in a negotiation with the United States, including multilaterally, but if all the European countries acted cooperatively in using a common trade policy, they would increase their leverage.

Strategic Linkage

Negotiating an RTA can help underpin security arrangements among the integrating countries, a central theme in early European integration in the 1950s. The idea was that a postwar regional trade agreement that produced enhanced trade flows between Germany and France would help prevent a fresh outbreak of European war. As such, strategic linkages became the dominant consideration in the negotiation of European trade arrangements, overriding all other integration objectives because the issues at stake were so important.

Disadvantages of RTAs

While there are benefits to be derived from participating in RTAs, there are also disadvantages. Some disadvantages are:

Trade diversion

At times, companies in countries outside an RTA bloc divert their products to a country that is party to the agreement with the aim of disguising the products as being that of the country which is party to the agreement. For instance, some companies outside the RTA bloc would send goods to Country A (party to RTA) but the final destination of the product is Country B (party to RTA). They would go to Country A and label the goods as originating there and export it to Country B, thus evading customs duties.

Establishing the nationality of a product

RTAs increase the complexity of the international trading system and can raise transaction cost of business. With different rules, for instance Rules of Origin, negotiated under different agreements, enforcement of these rules and compliance with them by business can be very tedious and time consuming.

Loss of revenue

In RTAs, some tariffs are reduced and others are eliminated therefore there will be a reduction in the revenue collected. In such a situation, countries that rely significantly on duties from imports would be adversely affected.

Greater competition

All countries do not operate on the same standards as some are more developed than others and have the resources to create vast opportunities for their nationals. The previous statement holds true for countries in RTAs as well; and in such a case countries with more resources would be able to subsidize their local industries which would pose a threat to the other countries in the RTA that are not blessed with such resources. For instance, Country A and Country B are parties to an RTA, however, Country A has vast amount of resources, as a result their production would be of superior quality when compared to Country B which does not have the resources. Thus, people in both countries would more likely gravitate to Country A's goods because, due to the RTA, they will be of reasonable value and they may also be of better quality.

Like any institution, the RTA has both advantages and disadvantages however, the advantages outweigh the disadvantages and this lends credence to Alan Winters statement when he argued that RTAs are like street gangs: "you may not like them, but if they are in your neighborhood, it is safer to be in one". (Crawford, Laird 2004).

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