

Vision 2020- The International Trading System

I Liberalization of International Trade

1. One of the features of international trade in goods in the past 50 years or so has been its expansion. While the world GDP has expanded six-fold international trade in merchandise has risen 19-fold. To a large extent this has been due to the liberalization of trade on industrial products by the developed countries. GATT 1947 had already abolished the use of quantitative restrictions except in certain specified situations and the process during the last five decades has involved mainly the reduction of tariffs. It has been estimated that during this period the average tariff on industrial products of industrialized countries has come down from a level of about 40 percent to less than five percent. During the last two decades or so the newly industrialized countries have also joined the mainstream and have been reducing the tariff levels on an autonomous basis. The Uruguay round created the opportunity for these countries to consolidate to some extent the level of tariff that they had reached at that time. After the Uruguay Round the process has continued and both developed and developing countries have participated in a major initiative to eliminate tariffs on information technology products. There have been regional initiatives also to eliminate tariffs on a non-discriminatory basis. The Heads of States and Governments of APEC met a few years ago at Bogor and declared their intention to eliminate tariffs on all products by the year 2010, with some further time being given to the developing countries.
2. Until the end of the Uruguay round the liberalization of international trade remained confined principally to industrial products. In respect of temperate-zone agricultural products the policies of the industrialized countries evolved in the opposite direction. Because of policy objectives of these countries to achieve the maximum degree of self-sufficiency in food and to maintain parity of income between the urban industrial sector and the rural agricultural sector, there was a phenomenal rise in agricultural protectionism in these countries in the postwar era. However the Uruguay Round brought about a major change in the situation. The rising protectionism has been stemmed and more importantly a framework has been created for future

liberalization of trade. The WTO Agreement on Agriculture mandated the conversion into tariffs of all non-tariff barriers on imports and required Members to reduce tariffs by a specified percentage. The Agreement also required them to reduce trade and production distorting domestic support and export subsidies as well. It is true that the tariff levels remain high in most countries, particularly as a result of tariffication, and domestic support and export subsidies continue to cause unacceptable levels of trade distortion. But since a framework has been created for continuing the process of reform in agriculture and the WTO Members have committed themselves to work towards further liberalization, expectations are high for the lowering of barriers to trade on agriculture. At present the WTO Members are engaged in serious negotiations in this area.

3. If the past is any indication the future is likely to see considerable progress in the liberalization of trade on merchandise on a worldwide basis. Trade in industrial products is likely to be freed of the traditional barriers in most countries. On agricultural products the outlook is not so bright given the concerns in developed and developing countries alike, and the process of reduction of barriers may be slower. Export subsidy is one trade -distorting subsidy that might be eliminated sooner rather than later but domestic support may prove to be more of a problem. Tariffs on agricultural products may be brought down to more reasonable levels than at present but are likely to remain relatively high on staple foods, because of the concern in all countries for a reasonable degree of self-sufficiency.
4. The greater liberalization of traditional barriers to international trade in goods will be accompanied with trade facilitation measures by a larger number of countries. At present in many countries trade barriers are compounded by procedural delays at the border. It has been estimated that non-harmonized and excessive documentation requirements in certain countries increase paper work four-fold. The time lost waiting at the border in these countries for release of consignments accounts for up to 20 percent of the total transport cost and up to 25 percent of the cost. Many countries have come to realize that for low risk consignments, transaction based controls not only slow down clearance, but also result in sub-optimal use of customs resources. Risk assessment and audit-based controls facilitate trade while at the same time they

allow for more efficient enforcement of regulations and improve collection of duties. These techniques are therefore being increasingly adopted the world over. Cost conscious trading countries are also making increasing use of electronic data submission to speed up filing and processing of customs documents. In some countries exclusive reliance is already being placed on submission of customs documents and the communication of assessment of duty by electronic means. The importer's bank then pays the duties assessed and the information about this is sent to the customs electronically. The whole process between the filing of customs documents and clearance of the consignment takes a few hours. Increasingly international investors are seeking that not only the barriers to trade should be low but also that the process of customs clearance should take the least time. In the past the norm for the time taken in customs clearance used to be less than a week and now it is already less than a day. Some countries are ensuring that customs clearance does not take more than a few hours. In 2020 the international norm will be in terms of minutes rather than hours.

5. The likely reduction or elimination of traditional trade barriers to trade in goods does not necessarily imply that trade will start flowing without any impediment. In industrial goods the elimination of tariffs and licensing requirements will make standards a more important determinant of trade flows, making it more necessary for manufacturer exporters to adopt international standards. In agricultural products the heightened food safety concerns in the developed countries may make sanitary and phytosanitary measures more important.
6. In recent decades in addition to trade in goods countries have been liberalizing trade (and investment) in services. This process has received impetus from the inclusion in the WTO Agreement of the General Agreement on Trade in Services. We deal with the details of this Agreement in the next Section. For the purpose of this Section it enough to say that in the recent past all developed countries have already liberalized considerably trade in services as far as cross-border flows and commercial presence and investment in the service sector are concerned. They have been very illiberal in allowing the movement of natural persons necessary for the supply of services. However given the demographic developments and the aging population of these

countries it is most likely that by 2020 they will become more liberal in allowing the movement of not only highly skilled but also less skilled persons from the developing countries. The developing countries will progressively liberalize their policies on investment and commercial presence in services and to some extent cross border supplies as well. But except those developing countries that are deficient in manpower most of them will remain protective in respect of the movement of natural persons.

II Evolution of the Multilateral Trading System

1. When the General Agreement on Tariffs and Trade (GATT) was originally adopted in October 1947 it was designed as a temporary trade agreement within the broader institutional framework of the International Trade Organization (ITO), which was then under negotiations. About six months later the United Nations Conference on Trade and Employment drew up the Havana Charter for an International Trade Organization. The Charter was an ambitious instrument. It aimed at international cooperation on employment and economic activity, economic development and reconstruction, commercial policy, restrictive business practices and inter-governmental commodity agreements. It envisaged wide-ranging disciplines, including those on fair labour standards, security of international investments, control of restrictive business practices, and establishment of commodity control agreements. The Havana Charter never entered into force primarily because of the refusal of the United States Congress to ratify it. As a result GATT 1947 was to continue for three decades in the form in which it had been originally put in place.
2. GATT 1947 was principally concerned with trade policy, with commercial policy instruments such as tariffs quantitative restrictions and export subsidies. These measures are applied by governments at the border and can be distinguished from domestic economic policies that impinge on all economic operators, whether or not they engage in international trade. Domestic policies were placed largely outside the

purview of the disciplines of GATT 1947, except when they directly or indirectly caused nullification or impairment of GATT benefits such as tariff commitments.

3. However, things began to change when it was realized that domestic policies also led to serious distortions to international trade. The evolution in the thinking among GATT contracting parties started during the Tokyo Round (1973-79) but became much more evident during the Uruguay Round (1986-94). One of the most important decisions taken in the negotiations for reform of agriculture in the Uruguay Round was that in the Agreement on Agriculture disciplines would be imposed not only in respect of market access and export subsidies but also on domestic support. Domestic support measures that do not distort trade and production or do so only minimally (Green Subsidies) were exempted from reduction commitments. There was agreement also to exempt those measures that involved a limitation on production and were consequently less distorting. Certain measures used by the developing countries were also exempted from reduction commitments. All other measures of domestic support were to be taken into account for the purposes of calculation of the Aggregate Measurement of Support (AMS), which was required to be reduced specific percentages during the implementation period. In the traditional area of trade in merchandise, this is the most striking instance of multilateral rules moving inland and directly imposing a discipline on domestic policy matters.
4. One of the significant features of the WTO Agreement is that it goes beyond the realm of trade in merchandise that was the exclusive concern of GATT 1947. The WTO Agreement comprises of three sets of substantive agreements, the Multilateral Agreements on Trade in Goods, the General Agreement on Trade in Services (GATS) and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), bound together by an overarching dispute settlement machinery. The GATS and the TRIPs Agreement envisage disciplines on domestic economic policies even more than the Agreement on Agriculture does.
5. The GATS establishes a multilateral framework of principles and rules for trade in services in order to achieve expansion of such trade through progressive liberalization. Article I of the Agreement defines trade in services as supply of a service:

- (a) From the territory of one Member into the territory of any other Member;
- (b) From the territory of one Member to the service consumer of any other Member;
- (c) By a service supplier of one Member, through commercial presence in the territory of any other Member;
- (d) By a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member.

During the negotiations in the Uruguay Round and later, WTO Members have undertaken commitments to liberalize trade in services in the four modes enumerated above. Liberalization of services through the modes of commercial presence and the presence of natural persons became necessary in view of the nature of service transactions in which, in many cases, the supply of the service product and its consumption must take place simultaneously. Furthermore, as far as the service sector is concerned domestic producers are protected not through border measures but by denying foreign producers the benefit of national treatment. The result has been that the commitments that have been made for providing access to foreign service providers have involved commitments not on measures applied at the border but those applied within the territory. The GATS is not only a trade agreement but an investment agreement as well.

6. The TRIPs Agreement is an agreement even more concerned with domestic policies. In the early phases of discussions for launching the Uruguay Round the idea seemed to be to cover only border measures on counterfeit goods taken by customs authorities. However, the major developed countries took the initiative to broaden the negotiations to include the norms and standards of intellectual property rights on the plea of their trade relatedness. In the case of patents the TRIPs Agreement imposes disciplines on the scope of patents, its term as well as on the conditions of compulsory licensing. These aspects had been earlier left to the discretion of individual governments in the Paris Convention for the Protection of Industrial Property, which was the international convention regulating certain intellectual property rights. The WTO Agreement imposed on its Members all the obligations of

the substantive conventions on intellectual property rights plus some more. The relevant point to note here is however that the TRIPs Agreement is concerned more with domestic economic policies than with trade in goods or services.

7. During the Uruguay Round the rules of the multilateral trading system evolved significantly from one that was concerned mainly with border measures to one that included disciplines on aspects of domestic economic policies. At that time it was envisaged that in future it might be necessary to cover additional areas of domestic policy in the future framework of the multilateral trading system. Consequently the following provision has been made in Article III of the Marrakesh Agreement Establishing the World Trade Organization:

“The WTO shall provide the forum for negotiations among its Members concerning their multilateral trade relations in matters dealt with under the Agreements in the Annexes to this Agreement. The WTO may also provide a forum for further negotiations among its Members concerning their multilateral trade relations, and a framework for the implementation of the results of such negotiations, as may be decided by the Ministerial Conference.”

8. During the Marrakesh Ministerial meeting in 1994 a number of Ministers had listed the areas in which they would like to propose negotiations in the WTO. These included investment, competition policy, environment, labour standards and commodity related problems. Since then there have been important developments on the question of taking up a consideration of these issues in WTO.
9. At the Marrakesh meeting itself a Declaration was adopted for the establishment of the Committee on Trade and Environment (CTE), with a broad-based mandate to study the relationship between trade and environmental measures and to make appropriate recommendations on whether any modifications of the provisions of the multilateral system are required. The CTE has been functioning for almost seven years now but deep disagreements between developed and developing countries have prevented it from making any recommendations on changes in the provisions of the WTO Agreement. The developing countries suspect that the developed countries want eventually to be able to use trade measures to enforce higher environmental standards on them (the developing countries), than what is appropriate for their level

of development. In the meantime there have been other developments. India, Malaysia, Thailand and Pakistan raised a dispute against a ban imposed by the United States on the importation of shrimps if the shrimp was harvested with technology that may adversely affect sea turtles. While the dispute resulted in a verdict that went in favour of the complaining countries, significantly the Appellate Body of the WTO held that such trade measures for environmental reasons were basically justified as an exception under Article XX of GATT 1994. The seed has been sown for the use of trade measures for extra-territorial application of environmental laws of importing countries.

10. The relationship between trade and labour standards has been another issue that has been knocking at the doors of WTO and before that of GATT for quite some time. The USA had proposed the inclusion of the subject in the agenda of the Uruguay Round but this was not agreed. Despite the rejection, during the years 1986 onwards the USA continued to propose the establishment of a working group to study the issue in the normal machinery of GATT. Due to the resolute opposition of the developing countries the subject was kept out from the agenda of GATT. After the creation of the WTO the issue was raised again during the first meeting of WTO Ministers at Singapore in December 1996. At Singapore the Ministerial Declaration included a paragraph on core labour standards, which is reproduced below:

“We renew our commitment to the observance of internationally recognized core labour standards. The International Labour Organization (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way put into question. In this regard, we note that the WTO and ILO Secretariats will continue their existing collaboration.”

11. During the preparations for the Seattle Ministerial Meeting the USA again proposed that the “WTO ministers should agree to the establishment of a WTO Working Group on Trade and Labour”. This time the EEC also came up with a proposal “that the ILO

and WTO organize a joint ILO/WTO Standing Working Group on trade, globalization and labour issues". After wide informal consultations on the issue the Vice Minister of Costa Rica presented a draft for consideration of Ministers, which according to her was "an attempt to reflect the middle-ground of opinions expressed by delegations". This draft proposed that in-depth discussion be undertaken on trade, globalization, development and labour, with a view to promoting a better understanding of the issues involved through a substantive dialogue among governments and relevant non-governmental organizations." Due to the general chaotic conclusion of the Seattle Ministerial Meeting the proposal was not taken up for a decision.

12. Two other matters of domestic economic policies have been proposed in the WTO for developing multilateral discipline viz., investment and competition policy. The Singapore Ministerial Meeting established separate working groups "to examine the relationship between trade and investment" and "to study issues raise by Members relating to the interaction between trade and competition policy, including anti-competitive practices, in order to identify any areas that may merit further consideration in the WTO framework". The Ministerial Declaration also laid the following guidelines for the work of these groups:

"These groups shall draw upon each other's work if necessary and also draw upon and be without prejudice to the work in UNCTAD and other appropriate intergovernmental for a. As regards UNCTAD, we welcome the work under way as provided for in the Midrand Declaration and the contribution it can make to the understanding of issues. In the conduct of the work of the working groups, we encourage cooperation with the above organizations to make the best use of available resources and to ensure that the development dimension is fully taken into account. The General Council will keep the work under review, and will determine after two years how the work of each body should proceed. It is clearly understood that future negotiations, if any, regarding multilateral disciplines in these areas, will take place only after an explicit consensus decision is taken among WTO Members regarding such negotiations."

13. Work has been continuing in these two working groups since then and the mandate has been extended beyond the initial two years. In the context of the Seattle Ministerial Meeting and again for the Doha Meeting the EEC and Japan have proposed that the time has come for commencing negotiations in these areas. In respect of investment the EEC has scaled down its demands by proposing that the negotiations should take up only the issues related to the post-establishment phase of investment. More recently it has suggested that the negotiations should be undertaken without there being a commitment that every WTO Member will accede to it. In other words they envisage the possibility of the eventual agreement being a plurilateral one. So far an agreement on the issue has eluded the WTO Members, the notable dissenters being a group of developing countries and the USA.
14. At present the requirement of consensus in decision making has ensured that these new subjects are not brought on the WTO agenda. However, pressure is being generated all the time for the multilateral consideration of these subjects. We have seen how in the Shrimp Turtle dispute the Appellate Body has ruled that the existing WTO rules allow the imposition of trade measures related to environmental objectives even if this implies extra-territorial application of domestic environmental laws. Furthermore, while the consistency of eco-labels with the requirements of WTO rules is an area of controversy many voluntary organizations, consumer forums in particular, have been advocating the use of such labels. The same applies to certain labour standards. A requirement to label products as having been manufactured without the employment of child labour, for instance, would be WTO-inconsistent. However, there is no remedy in the WTO if consumer organizations insist that they will purchase only products that are so labeled and certified. Considering that developing countries are competing to attract foreign direct investment, an agreement on investment such as the one now being proposed by the EEC is unlikely to be resisted by the developing countries for a long time. As regards competition policy many experts doubt whether nations have reached a stage in which they may accept a supra-national competition authority which may be necessary for an effective international agreement in the area. However, they envisage the possibility of an international agreement on certain broad principles relating to competition policy. On

a more general note it must be observed that with globalization and liberalization the domestic policies of one country affect the economic situation of another more directly. The conclusion to be drawn from all this is that by 2020 the framework for multilateral trade will become more intrusive and contain disciplines on more areas of domestic economic policies. In all likelihood it will cover the areas such as core labour standards, environment, investment and competition policy on which so much heat has been generated in the WTO discussions in the recent past. Even if the continued resistance of developing countries prevents these aspects being covered by international trade rules, consumer movements in the developed world are likely to induce developing countries to adopt policies in respect of environment and core labour standards which conform with internationally agreed standards.

III Regional Trading Arrangements

1. Despite the importance attached to the principle of non-discrimination in international trade in merchandise the General Agreement on Tariffs and Trade (GATT 1947) allowed the formation of customs unions and free trade areas from the outset. In customs unions GATT contracting parties were allowed to liberalize trade completely among them while maintaining a common external trade regime vis-à-vis third countries. In free trade areas they could liberalize trade among themselves while retaining their individual trade regimes vis-à-vis third countries. It was thought at that time that such arrangements would be isolated exceptions and the bulk of trade will be conducted on a non-discriminatory basis. The expectations of the founding fathers of GATT proved correct in the first decade of GATT's existence. It was only in 1957 that the foundation was laid of the first economically significant customs union with the signing of the Treaty of Rome for the formation of the European Economic Community initially with six West European countries. The next two decades saw continuing economic integration activity in Europe: the European Free Trade Association and the European Economic Area came into being and the EEC was itself progressively widened. In other areas of the world too, and particularly in Africa and

Latin America, there were significant initiatives for the formation of free trade areas but in many cases the arrangements did not prove to be successful at that time.

2. In the early Nineties when the Uruguay Round was foundering due to deep differences among key countries especially on the question of reform of world agriculture, the spectre of world divided into three warring regional blocs centred on the three major economic powers haunted observers of the world trade scene. It is a paradox of our times that although the Uruguay Round was successfully concluded by the end of 1993, an unprecedented upsurge in the formation of free trade areas and customs unions also began in that year. In the 45 years from 1948 to 1993 the total number of regional trade agreements notified to GATT was about 125, but in the subsequent seven years as many as 220 new arrangements were notified. These differ considerably in scope: some provide only for an exchange of preferences on a limited range of products while others not only liberalize trade on “substantially all” the trade but also contain disciplines in such areas as standards, services, intellectual property rights and competition. As much as 90 percent of these agreements are free trade areas, and the remaining customs unions. While in most cases two or more countries are parties to these arrangements, in some one of the parties to an agreement is a regional arrangement. One feature of recent agreements is that distance is not an impediment in the formation of free trade areas. Several free trade agreements have been entered into by countries that are geographically far apart.
3. The position at the turn of the century is that there are as many as 240 regional trade agreements in various parts of the world. Of these 172 were already in force, while 68 were under negotiation as of July 2000. The Euro-Mediterranean region has been traditionally the centre of activity in the formation of free trade areas and customs unions but at present as many new arrangements are being negotiated in the Americas as in this region. Of late the regional agreement fever has spread to the Asia Pacific region as well. Some of the agreements under negotiation in all these regions involve major trading nations and these may have a major impact on international trade in the years to come. In the following paragraphs we look at the existing regional trade arrangements in five geographical regions and the evolving situation of regional arrangements in these regions. At present the web of regional arrangements is very

complex with individual countries being parties to several agreements at the same time. We consider below only the more important of these agreements.

Euro-Mediterranean

4. At present the EEC has 15 member states while the EFTA has four. The EEC as well as the EFTA have partnership agreements with 12 East European and Mediterranean countries viz., Estonia, Latvia, Lithuania, Poland, the Czech Republic, the Slovak Republic, Hungary, Slovenia, Romania, Bulgaria, Morocco, Tunisia and Israel, while the EEC alone has such an arrangement with Tunisia and Jordan. It is expected that by the year 2005 the EEC-15 would become EEC-21 with the addition of Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. At the same time there will be additions to the list of countries with associate status. Apart from the six members of the Gulf Co-operation Council, Egypt, Algeria and Syria are likely to become partner countries of the EEC.
5. At present six countries Poland, the Czech Republic, the Slovak Republic, Slovenia, Hungary, Romania and Bulgaria are parties to Central European Free Trade Agreement (CEFTA) and the Baltic countries have formed the Baltic Free Trade Area (BAFTA). With some of these countries joining the EEC the membership of CEFTA and BAFTA will shrink. The Czech and Slovak Republics had formed a Customs union shortly after they came into being by splitting Czechoslovakia. If the Czech Republic joins the EEC by 2005, this customs union will be dissolved.
6. In North Africa and the Middle East there are at present three main regional trade agreements: the Arab Maghreb Union (AMU) with Mauritania, Morocco, Algeria, Tunisia and Libya as members, the Gulf Co-operation Council (GCC) with Saudi Arabia, Oman, U.A.E., Qatar, Bahrain and Kuwait as members and the Arab Free Trade Area (AFTA) with a membership of 18 countries including all members of the GCC and three members of the AMU and eight other countries. By the year 2000 bilateral regional agreements will intensify in the area and by 2010 the majority of the countries in North Africa and the Middle East are likely to become a part of the Euro-Mediterranean Free Trade Area.

Africa

7. We have already seen that in North Africa five states have formed the Arab Maghreb Union. In West Africa there are three overlapping regional Trade Agreements, the Mano River Union (MRU), the West Africa Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS). Guinea, Sierra Leone and Liberia are members of the MRU and the French speaking countries viz., Mali, Senegal, Cote d'Ivoire, Burkina Faso, Benin and Togo constitute the WAEMU, and the MRU and WAEMU together with Cape Verde, Gambia, Ghana, Mauritania and Nigeria have formed the ECOWAS.
8. In Central Africa, Chad, Cameroon, Central African Republic, Gabon and the Republic of Congo have formed the Central African Economic and Monetary Union (CEMAC). A broader group the Economic Community of Central African States has been formed by these countries by linking up with five other countries in the region.
9. In Southern Africa the five members of Southern African Customs Union (SACU) have been absorbed in the larger grouping of 14- member Southern African Development Community (SADC), which spans across the whole of the Southern part of the continent.
10. In East Africa, Uganda, Kenya and Rwanda are members of the East African Co-operation (EAC) and the Cross- Border Initiative (CBI) links them with 11 countries in East and Southern Africa. A more ambitious Common Market for Eastern and Southern Africa (COMESA) links 20 countries in North East and Southern Africa. The African Economic Community has the still more ambitious goal of formation of the African Common Market by 2020.

Eastern Europe and Central Asia

11. All 12 countries of this region, except Turkmenistan, which earlier were a part of the Soviet Union have joined to form a free trade area. The Russian Federation, Kazakhstan, Kyrgyzstan, Tajikistan and Belarus are members of a customs union. A

number of these countries have bilateral agreements with other individual countries of the region.

Asia Pacific

12. The most important of the regional agreements in the region is AFTA (Association of South East Asian Nations) Free Trade Area (AFTA), formed by Indonesia, Malaysia, Singapore, Thailand, Philippines, Brunei, Cambodia, Vietnam, Laos and Myanmar. The SAARC (South Asian Association for Regional Economic Co-operation) Preferential Trading Arrangement (SAPTA) has the South Asian countries as members. Australia and New Zealand are linked by the Closer Economic Relations Agreement (CER).
13. While four major economies of the region, China, Japan, Hong Kong, China and Korea were, till recently not a part of any regional trade agreement, an important development over the last one year or so has been that Japan, Korea and Singapore are in the process of negotiating new bilateral trade agreements with partners from within the region and without. Other developments in the region are that the ASEAN and CER are also negotiating for linking the two agreements with a free trade agreement. The South Pacific Forum, which includes 14 Pacific islands as well as Australia and New Zealand is in the process of being transformed into a Pacific Regional Trade Agreement (PARTA).

The Americas

14. There are five main regional trade agreements in the region. Canada, USA and Mexico, the three major economies of North America have formed the North American Free Trade Agreement (NAFTA). Five Central American countries, Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica constitute the Central American Common Market (CACM). The nine island states of the West Indies and three other countries, Belize, Guyana and Suriname are linked by the Caribbean Community (CARICOM). Colombia, Venezuela, Ecuador, Peru and Bolivia are

members of the Andean Community. MERCOSUR has at present four members, Brazil, Argentina, Uruguay and Paraguay.

15. There is a great deal of regional activity currently going on in the regions and a large number of bilateral agreements have either come into existence or are in the process of negotiations. It is estimated that by the year 2005 as many as 20 more agreements would be negotiated. But over time there will be fewer rather than more regional agreements as the individual agreements are consolidated. For instance, the Andean Community's agreements with Argentina and Brazil are likely to be superseded by its agreement with MERCOSUR.
16. There are two other developments to be noted in the region. MERCOSUR is in the process of negotiating a Free Trade Agreement with the EEC and so is Mexico. And straddling both the American continents is the Free Trade Area of the Americas (FTAA) on which the Heads of States and Governments have reaffirmed their political support as recently as April 2001. The FTAA is likely to come into being in the year 2005.

Some conclusions on regional trade agreements in 2020

17. Several of the existing regional trade agreements are fully functional while others are in the process of being negotiated. On the present assessment the number of regional agreements will diminish over time and many smaller ones will disappear as larger ones are concluded. In the year 2020 we might well have the FTAA, the African Common Market and a Euro- Mediterranean Free trade Area in existence. Smaller groupings with closer integration might coexist within the larger arrangements. For instance, the EEC with perhaps 30 members forming a customs union will continue within the Euro- Mediterranean Free Trade Area.
18. The outlook for the Asia Pacific region is not entirely clear at this stage. In the past there have been suggestions that the countries of East and South East Asia should form a free trade area, but the notion has not been encouraged by Japan. The countries of this region have not gone beyond creating a forum for consultations in the APEC and that too with the American countries in the Pacific Rim. However,

Japan and Korea having recently overcome their inhibition against being a part of economic groupings, the future may see an initiative for an Asia Pacific Free Trade Area. This will be more likely if the FTAA makes concrete progress.

19. The experience in South Asia with regional trade agreements has not been very fruitful. Political differences with India have led Pakistan to impede all attempts to closer economic ties between the countries of the region, despite the formation of SAPTA. What is even more significant is that other countries of Asia and Pacific region have not encouraged India to join the ASEAN or even the APEC.
20. As the world moves towards region-wide economic groupings individual countries within each region might try to retain preferential access in the markets in other regions through bilateral agreements as the EEC has done with Mexico and MERCOSUR.