



WORLD TRADE
ORGANIZATION

World Trade Report 2011

The WTO and preferential trade agreements:
From co-existence to coherence

- » What are the current trends in preferential trade liberalization?
- » Why is deep integration gaining momentum?
- » What are the patterns in the content of PTAs?
- » How can we ensure greater coherence between PTAs and the WTO?



The continuing growth and increasing prominence of preferential trade agreements remains a pronounced feature of international trade relations. PTAs now cover a wider number of issues – beyond tariffs – and involve more structured institutional arrangements, reflecting important changes in the world economy.

The report traces the historical development of PTAs; analyses the current landscape of agreements; examines the motivations and economic effects of PTAs; and investigates the policy content of a large number of PTAs in terms of whether they augment WTO provisions in particular policy areas and introduce entirely new issues.

The report also identifies areas of synergies and potential conflicts between preferential trade agreements and the multilateral trading system and examines ways in which the two «trade systems» can be made more coherent.



Pascal Lamy
WTO Director-General

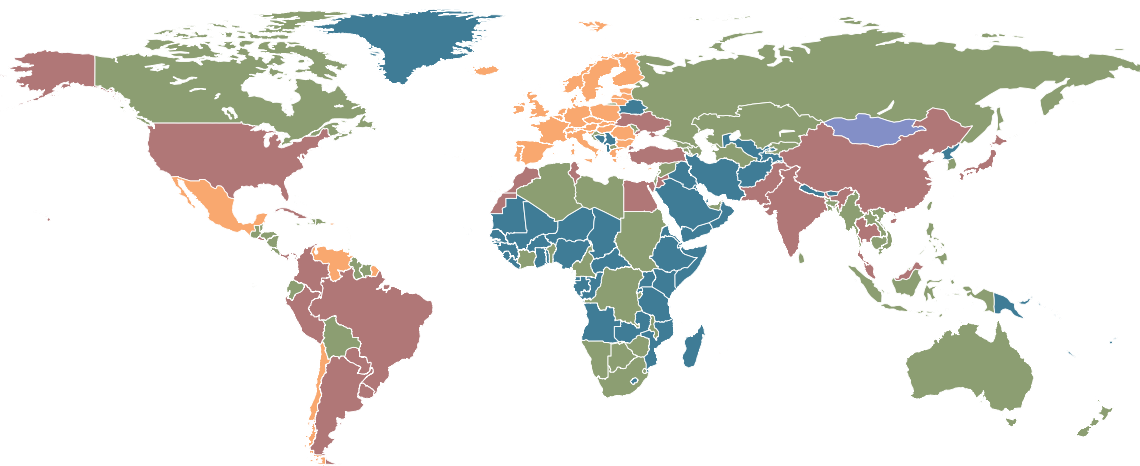
"I believe that to the extent that PTAs are motivated by a desire for deeper integration rather than market segmentation, there could be a role for the WTO to promote greater coherence among non-competing but divergent regulatory regimes that in practice cause geographical fragmentation or raise trade costs. There is no doubt that we need to build towards a more stable and healthier trading environment, where alternative trade policy approaches are mutually supportive and balance equitably the needs of all nations."

WTO Director-General
Pascal Lamy

Key facts

- Almost 300 preferential trade agreements (notified and not notified) were in force in 2010. A WTO member is party to 13 PTAs on average.
- Despite the surge of PTAs in recent years, only 16 per cent of global merchandise trade receives preferential treatment. In addition, less than 2 per cent of world trade is eligible for preference margins above 10 percentage points.
- MFN tariffs are low and equal to 4 per cent on average in 2009. Also, most "sensitive" sectors remain "sensitive" in PTAs: approximately 66 per cent of tariff lines with MFN rates above 15 percentage points have not been reduced in PTAs.
- If the preferential access enjoyed by other exporters is taken into account, less than 13 per cent of preferential trade benefits from a competitive advantage exceeding 2 percentage points.
- Signing deep integration PTAs increases trade in production networks by almost 8 per cent on average. In addition, high levels of trade in production networks raise the likelihood of signing deep agreements.
- A large number of disputes between PTA members are brought to the WTO dispute settlement system. On average, about 30 per cent of WTO disputes are between members who are parties to the same PTA.

Membership in PTAs in force, 2010, notified and non-notified PTAs, by country



Source: WTO Secretariat.

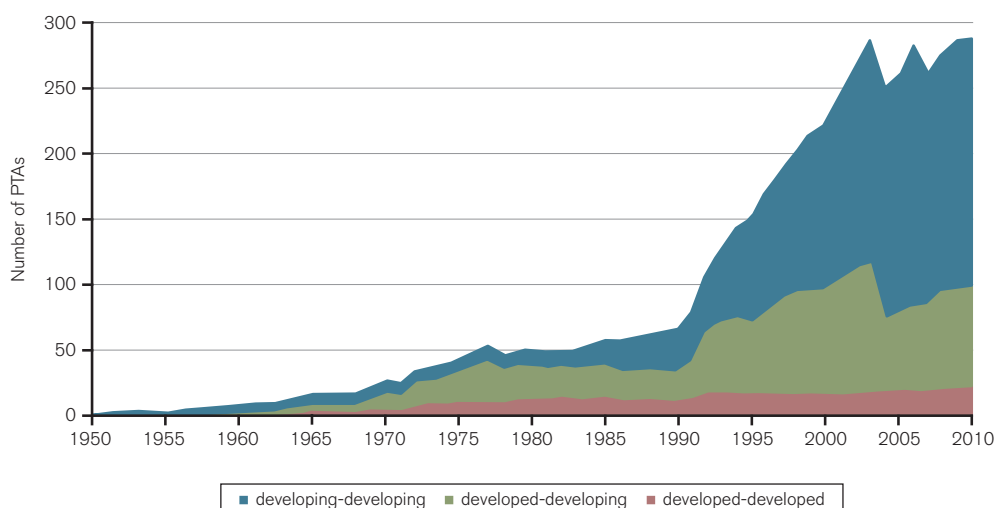
Key findings of the report

- **Trends in PTAs:** PTA participation has accelerated over time and become more widespread. PTA activity has transcended regional boundaries. One half of the PTAs currently in force are not strictly “regional” with the advent of cross-regional PTAs being particularly pronounced in the last decade. Free trade agreements are far more prevalent than customs unions and a number of products continue to be excluded from preferential access.
- **Preferential trade and margins:** The explosion of PTAs is not being matched by an expansion in trade flows that receive preferential treatment. This result should not be surprising in light of the huge reduction in tariffs that has occurred since the end of the Second World War. Rules of origin procedures sometimes associated with PTAs have also contributed to these low figures by making the costs of compliance requirements higher than the perceived worth of the underlying preference margins.
- **Preferential margins** are small when they are adjusted to account for the preferential access enjoyed by other exporters. The proliferation of PTAs means that the difference between the MFN rate and the PTA rate overstates the competitive advantage of a PTA member, since increasingly its competitors will also enjoy preferential access to the market. The implication of these results is that one has to look beyond tariffs to explain why countries enter into PTAs.
- **Deep PTAs:** More and more PTAs are deep rather than shallow agreements and include a wide range of issues beyond tariffs, such as services, investment, intellectual property protection, and competition policy. These policy areas involve domestic regulations (or behind-the-border measures). In this context, one may need to think in terms of a framework

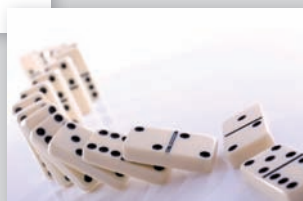
distinct from trade creation and trade diversion because changes to domestic regulations are difficult to tailor so as to favour only certain trade partners.

- **Deep integration** is likely to occur for several reasons. First, trade openness increases policy inter-dependency (spillovers) that makes unilateral decision-making inefficient compared with decisions taken collectively. A second reason is that deep integration agreements may be necessary to promote trade in certain sectors and economic integration more broadly. This second explanation applies to international production networks which require a governance structure beyond low tariffs.
- **Coherence between PTAs and the WTO:** Deep PTAs present a different challenge to the multilateral trading system. The building-block stumbling-block paradigm may not offer a good fit to deep PTAs since the underlying question behind this approach was whether preferential tariff opening would eventually lead to multilateral opening.
- The report identifies a number of options for **increasing coherence** between PTAs and the multilateral trading system that WTO members can take up. These options include: fixing deficiencies in the WTO legal framework (i.e. a “hard law” approach); adopting a more nuanced and non-litigious approach to considering PTAs in the context of transparency and information exchange in order better to understand mutual multilaterally based interests in relation to PTAs (a “soft law” approach); accelerating a multilateral MFN-driven agenda on trade opening; and multilateralizing regionalism (extending existing preferential arrangements in a non-discriminatory manner to additional parties).

Cumulative number of PTAs in force, 1950-2010, notified and non-notified PTAs, by country group



Source: WTO Secretariat.



The ever-growing number of preferential trade agreements (PTAs) is a prominent feature of international trade. The World Trade Report 2011 describes the historical development of PTAs and the current landscape of agreements. It examines why PTAs are established, their economic effects, and the contents of the agreements themselves. Finally it considers the interaction between PTAs and the multilateral trading system.

Accumulated trade opening - at the multilateral, regional and unilateral level - has reduced the scope for offering preferential tariffs under PTAs. As a result, only a small fraction of global merchandise trade receives preferences and preferential tariffs are becoming less important in PTAs.

The report reveals that more and more PTAs are going beyond preferential tariffs, with numerous non-tariff areas of a regulatory nature being included in the agreements.

Global production networks may be prompting the emergence of these “deep” PTAs as good governance on a range of regulatory areas is far more important to these networks than further reductions in already low tariffs. Econometric evidence and case studies support this link between production networks and deep PTAs.

The report ends by examining the challenge that deep PTAs present to the multilateral trading system and proposes a number of options for increasing coherence between these agreements and the trading system regulated by the WTO.

Further information

The *World Trade Report* is an annual publication that aims to deepen understanding about trends in trade, trade policy issues and the multilateral trading system.

The Report is available in English, French and Spanish:

World Trade Report 2011
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