

# Deep integration: current trends and future opportunities for CAREC countries



**WORLD BANK GROUP**

Nadia Rocha  
Trade and Competitiveness  
June 2017



**WORLD BANK GROUP**

# Roadmap

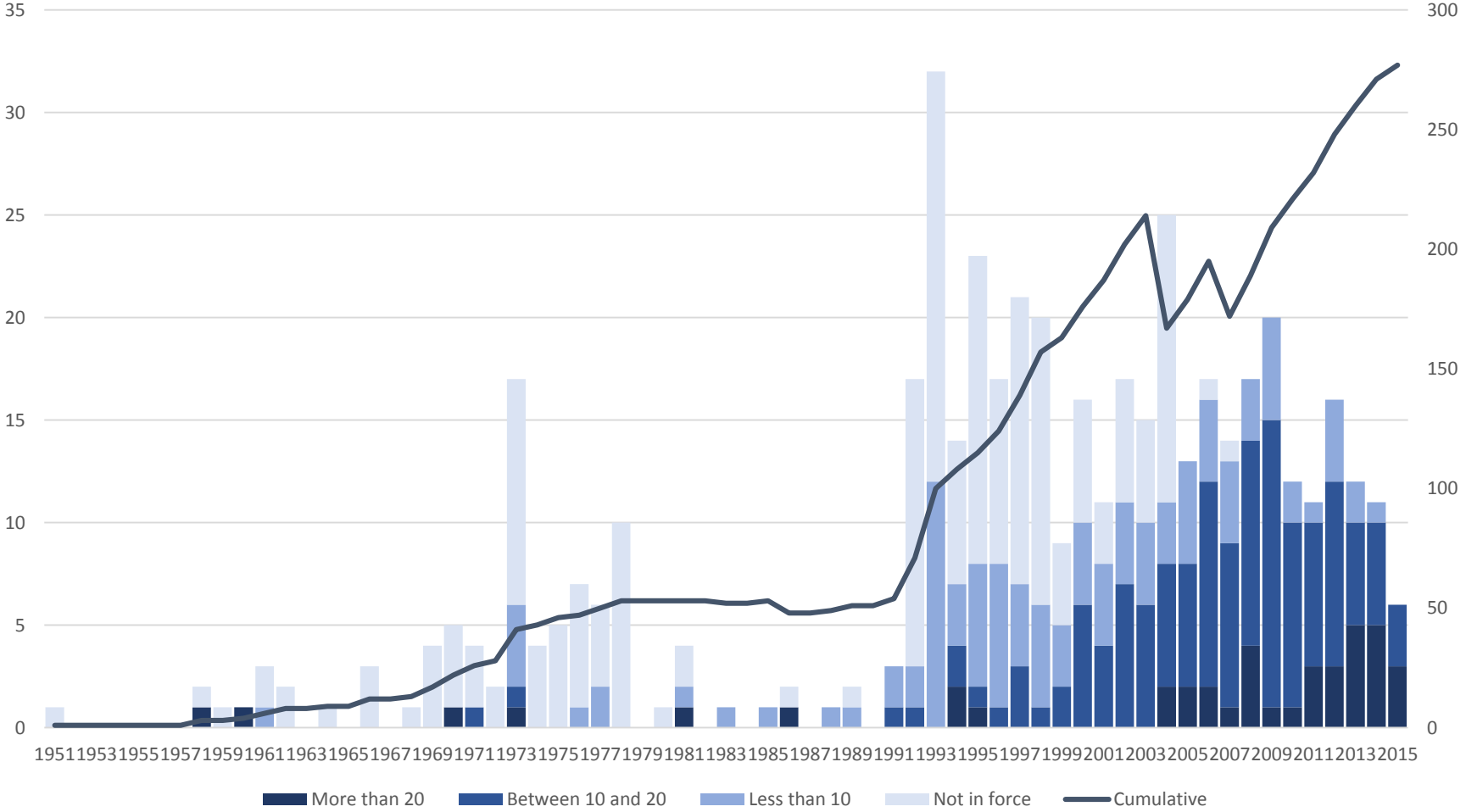
- I. Motivation
- II. Deep PTAs in the CAREC region: a snapshot
- III. Patterns of GVC integration in the CAREC region
- IV. Relationship between deep PTAs and GVCs: what do CAREC countries need to better integrate?

# I. MOTIVATION

# What are deep agreements?

- Deep Agreements are regional arrangements that go beyond tariffs: They are about, trade, investment, competition, business environment, etc.
- Why are they important?
  - Regional integration has boomed since 1990 –this may also be where most action will be in coming years.
  - Along with the multilateral trading system, deep agreements define the rules in which economies operate, integrate and grow.

# The coverage of PTAs in terms of policy areas has widened and deepened over time



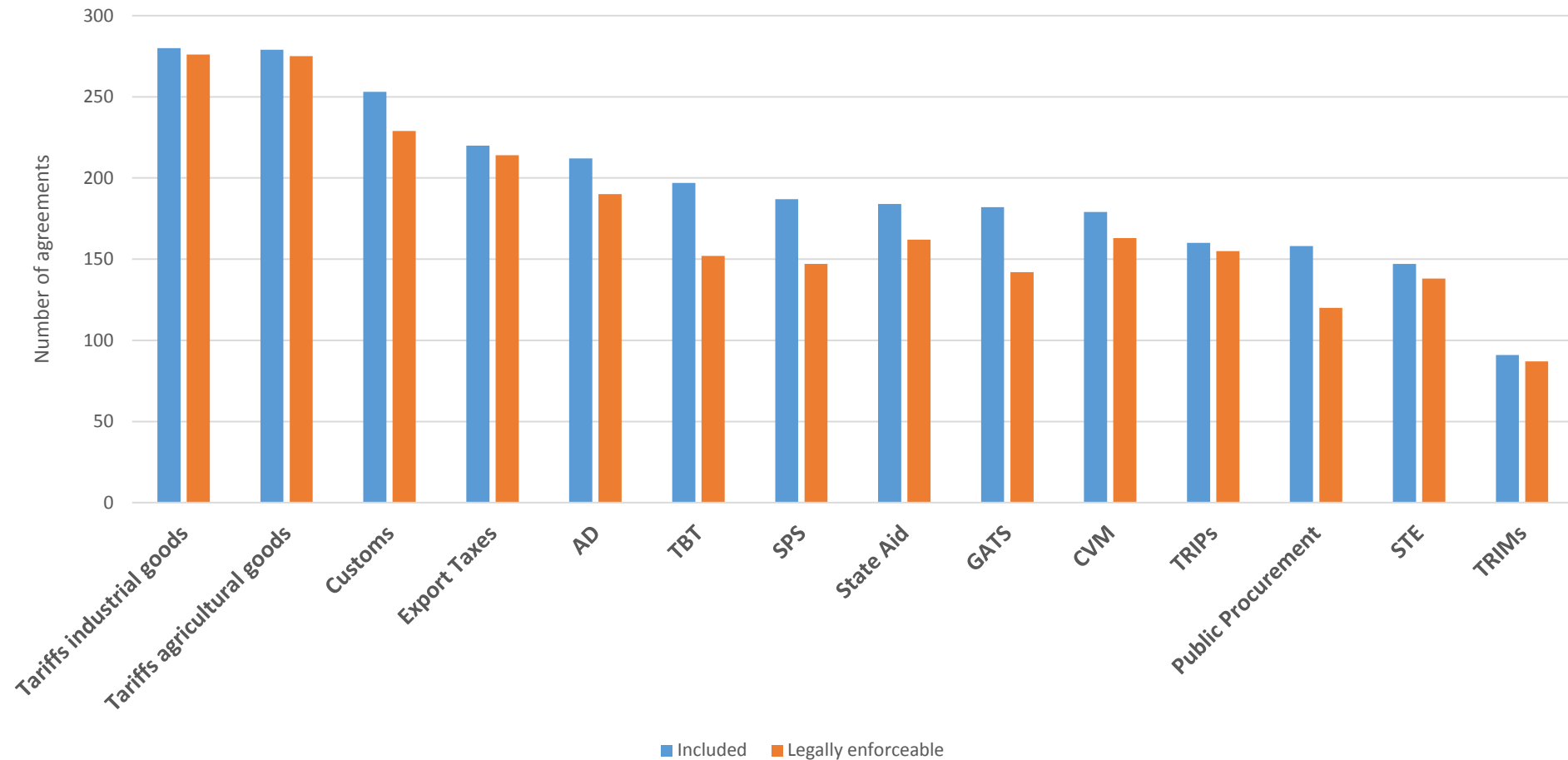
# PTA content database: 279 Agreements

"WTO plus" areas covered by the WTO	"WTO extra" areas beyond the WTO	
<ul style="list-style-type: none"> <li>• Tariffs industrial goods</li> <li>• Tariffs agricultural goods</li> <li>• Customs administration</li> <li>• Export taxes</li> <li>• SPS measures</li> <li>• State trading enterprises</li> <li>• TBT measures</li> <li>• Countervailing measures</li> <li>• Anti-dumping</li> <li>• State aid</li> <li>• Public procurement</li> <li>• TRIMS measures</li> <li>• GATS</li> <li>• TRIPS</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-corruption</li> <li>• Competition policy</li> <li>• Environmental laws</li> <li>• IPR</li> <li>• Investment measures</li> <li>• Labour market regulation</li> <li>• Movement of capital</li> <li>• Consumer protection</li> <li>• Data protection</li> <li>• Approximation of legislation</li> <li>• Agriculture</li> <li>• Audiovisual</li> <li>• Civil protection</li> <li>• Innovation policies</li> <li>• Cultural cooperation</li> <li>• Economic policy dialogue</li> <li>• Education and training</li> <li>• Energy</li> </ul>	<ul style="list-style-type: none"> <li>• Financial assistance</li> <li>• Health</li> <li>• Human Rights</li> <li>• Illegal immigration</li> <li>• Illicit drugs</li> <li>• Industrial cooperation</li> <li>• Information society</li> <li>• Mining</li> <li>• Money laundering</li> <li>• Nuclear safety</li> <li>• Political dialogue</li> <li>• Public administration</li> <li>• Regional cooperation</li> <li>• Research and technology</li> <li>• SMEs</li> <li>• Social Matters</li> <li>• Statistics</li> <li>• Taxation</li> <li>• Terrorism</li> <li>• Visa and asylum</li> </ul>

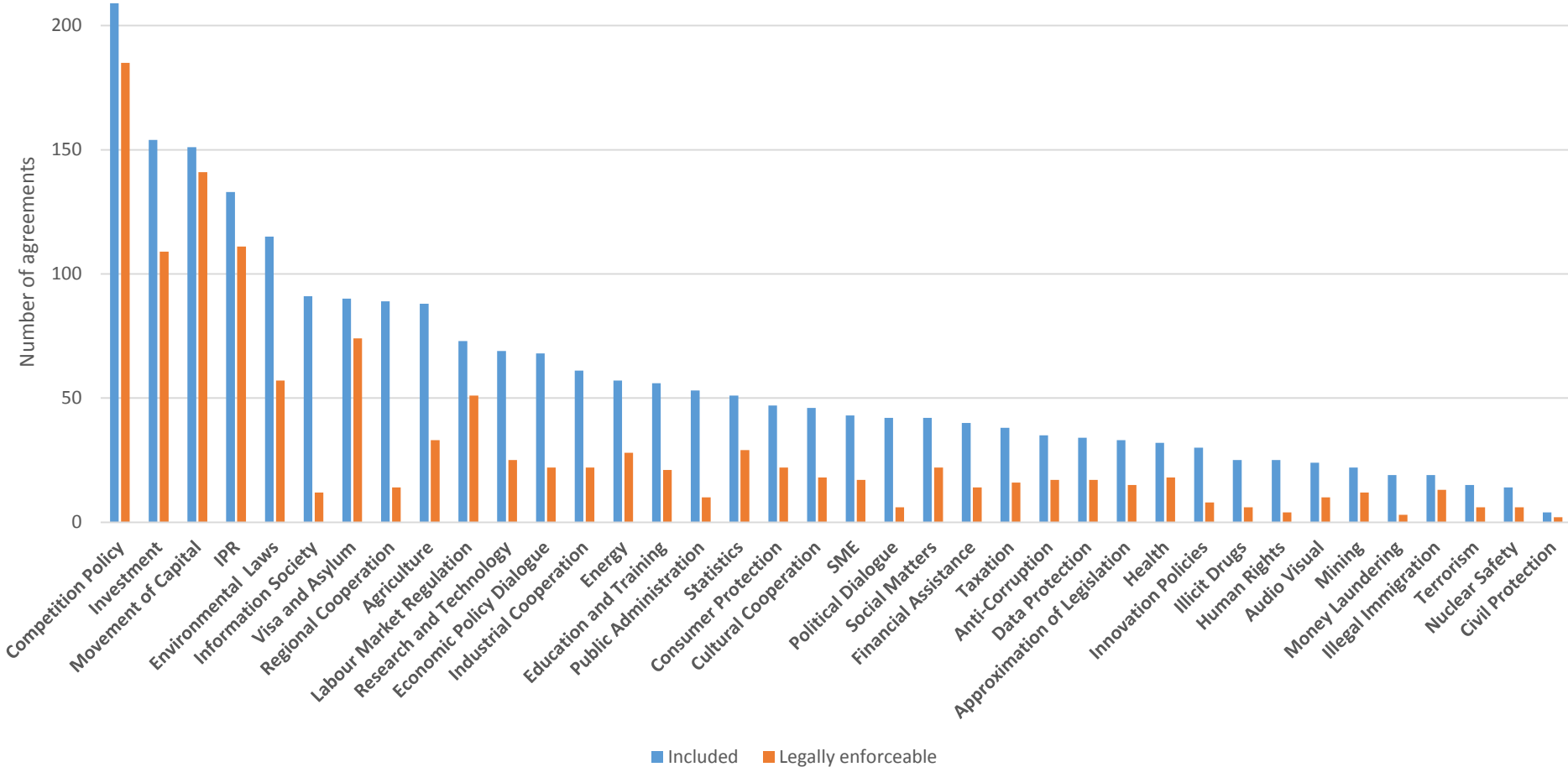
Source: Source: Hofmann, Osnago and Ruta (2017)

<http://data.worldbank.org/data-catalog/deep-trade-agreements>

# How are trade agreements changing? “WTO+”

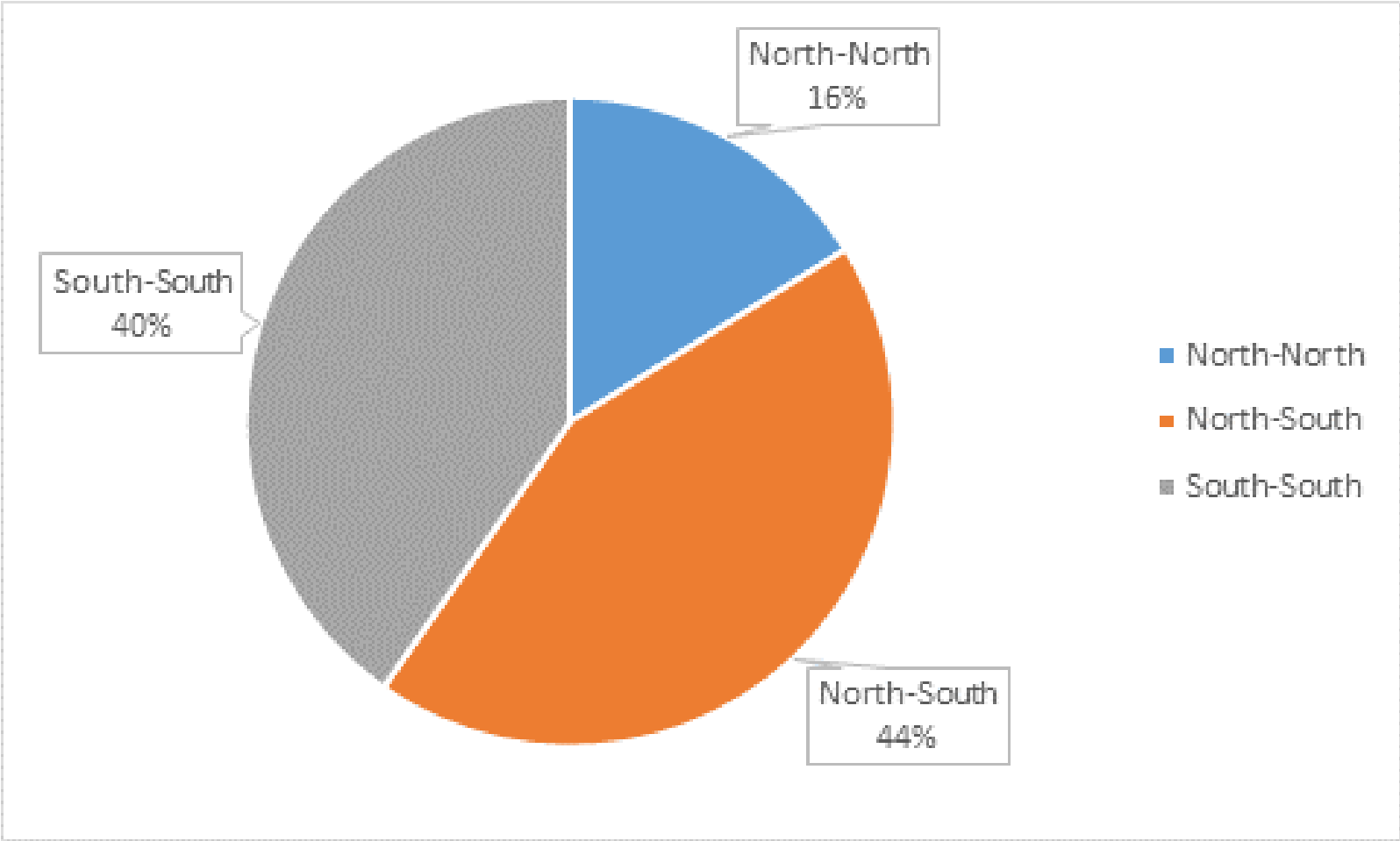


# How are trade agreements changing? “WTO-X”



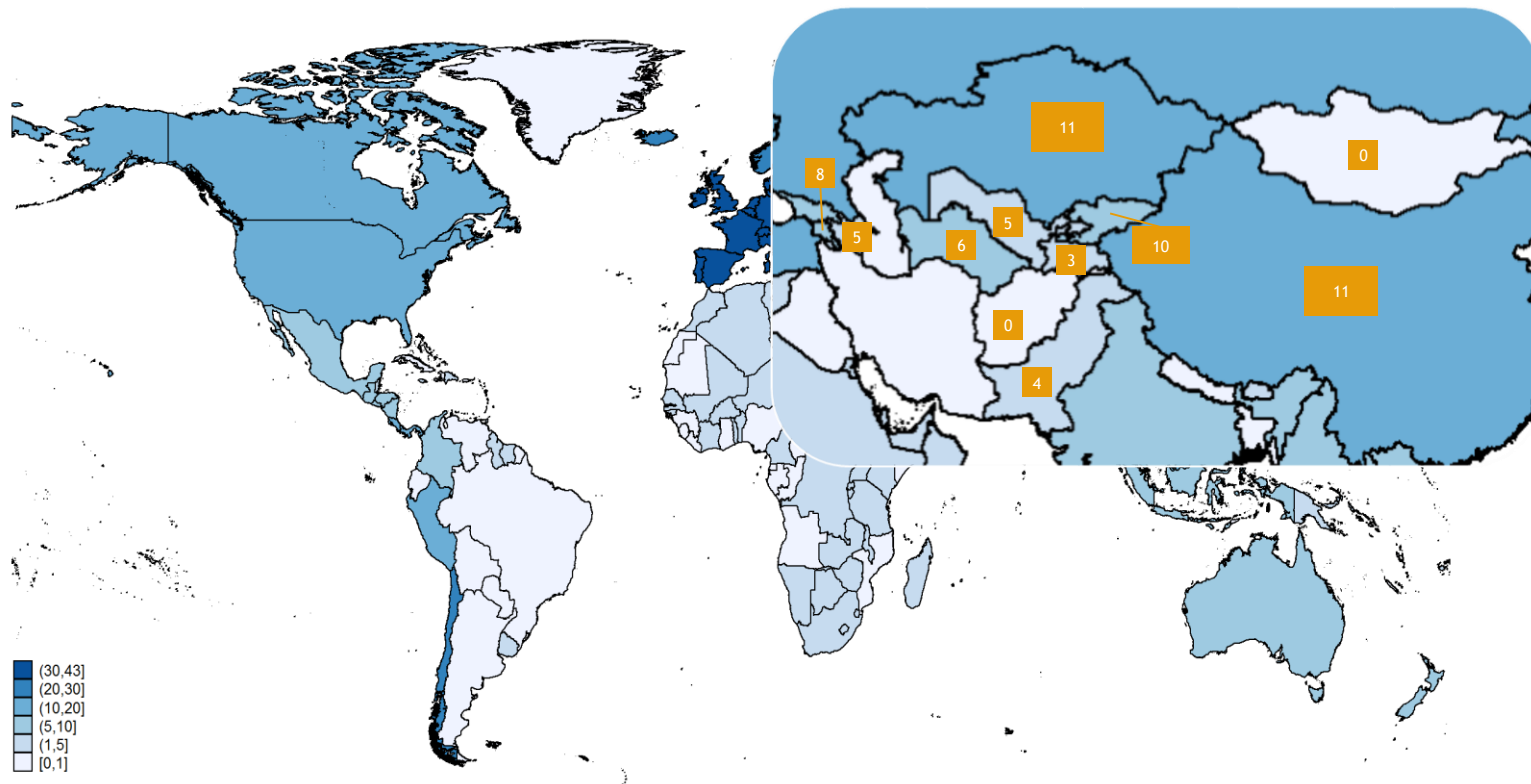


# PTAs proliferation over the last 30 years involves a wide network of participants

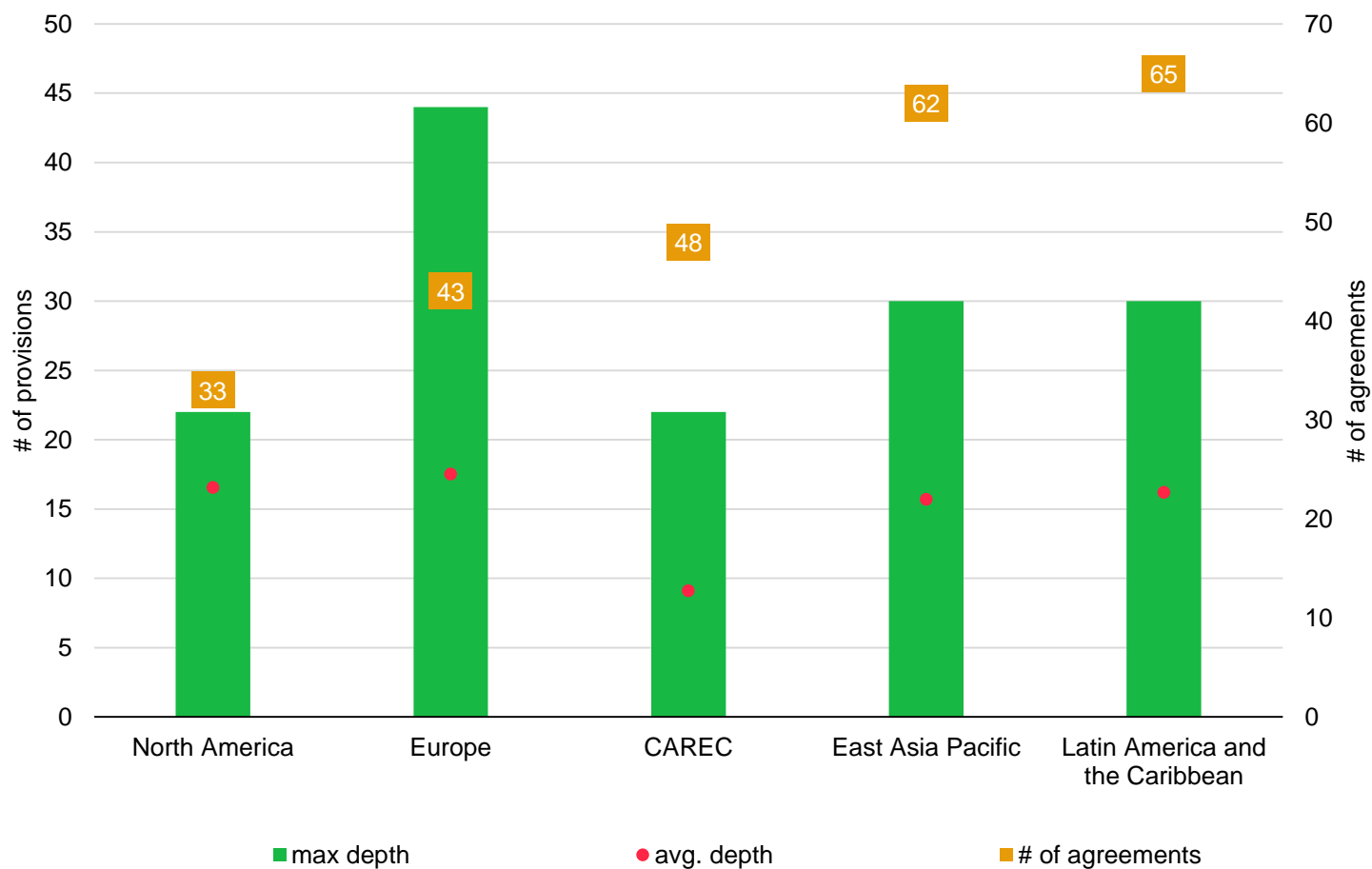


## II. DEEP PTAs IN THE CAREC REGION: A SNAPSHOT

# PTAs signed by CAREC countries represent 18 percent of total active agreements.



# Agreements signed by CAREC countries tend to be shallow compared to other regions



# PTAs signed by CAREC countries cover WTO+ disciplines that go beyond tariff reductions

WTO+ provisions Legally Enforceable in PTAs

Agreements	Azerbaijan 5	Georgia 8	Kazakhstan 11	Kyrgyzstan 10	Pakistan 4	Tajikistan 3	Turkmenistan 6	Uzbekistan 5	China 11
FTA Industrial	100%	100%	91%	100%	100%	100%	100%	100%	100%
FTA Agriculture	100%	100%	91%	100%	100%	100%	100%	100%	100%
Export Taxes	100%	100%	73%	90%	25%	67%	100%	100%	55%
Customs	60%	38%	82%	100%	75%	67%	50%	60%	82%
State Aid	60%	38%	36%	40%	50%	67%	33%	40%	45%
Anti-dumping (AD)	40%	13%	45%	40%	50%	33%	33%	40%	91%
Technical barriers to trade (TBT)	40%	25%	36%	30%	50%	0%	33%	40%	100%
Countervailing measures (CVM)	40%	13%	36%	30%	50%	0%	33%	40%	64%
SPS measures	20%	13%	36%	30%	50%	0%	17%	20%	73%
Public Procurement	40%	13%	9%	10%	0%	0%	33%	40%	73%
GATS	0%	13%	36%	30%	25%	33%	0%	0%	18%
TRIPs	0%	25%	36%	30%	25%	0%	0%	0%	27%
TRIMs	20%	0%	9%	0%	25%	0%	17%	20%	55%
State trading enterprises (STE)	0%	25%	0%	0%	50%	0%	0%	0%	36%

# Only a few WTO-X provisions are included and legally enforceable in a relevant number of CAREC PTAs

**WTO-X provisions Legally Enforceable in PTAs**

	Azerbaijan	Georgia	Kazakhstan	Kyrgyzstan	Pakistan	Tajikistan	Turkmenistan	Uzbekistan	China
<b>Agreements</b>	<b>5</b>	<b>8</b>	<b>11</b>	<b>10</b>	<b>4</b>	<b>3</b>	<b>6</b>	<b>5</b>	<b>11</b>
Competition Policy	60%	100%	73%	80%	0%	67%	67%	60%	18%
Statistics	40%	75%	36%	70%	0%	0%	33%	40%	0%
Movement of Capital	0%	13%	36%	30%	25%	33%	0%	0%	27%
IPR	0%	13%	27%	30%	50%	0%	0%	0%	64%
Labour Market Regulation	0%	0%	36%	40%	0%	33%	0%	0%	27%
Investment	0%	0%	18%	20%	50%	0%	0%	0%	64%
Agriculture	0%	0%	18%	20%	0%	33%	0%	0%	9%
Approximation of legislation	0%	13%	9%	10%	0%	33%	0%	0%	0%
Visa and Asylum	0%	13%	9%	10%	0%	33%	0%	0%	36%
Education and Training	0%	0%	9%	10%	0%	33%	0%	0%	18%
Industrial Cooperation	0%	0%	9%	10%	0%	33%	0%	0%	27%
Research and Technology	0%	0%	9%	10%	0%	33%	0%	0%	18%
Energy	0%	13%	18%	20%	0%	0%	0%	0%	0%
Consumer Protection	0%	0%	18%	20%	0%	0%	0%	0%	9%
Money Laundering	0%	0%	18%	20%	0%	0%	0%	0%	0%
Terrorism	0%	0%	18%	20%	0%	0%	0%	0%	0%
Illicit Drugs	0%	0%	9%	10%	0%	0%	0%	0%	0%
Taxation	0%	0%	9%	10%	0%	0%	0%	0%	0%

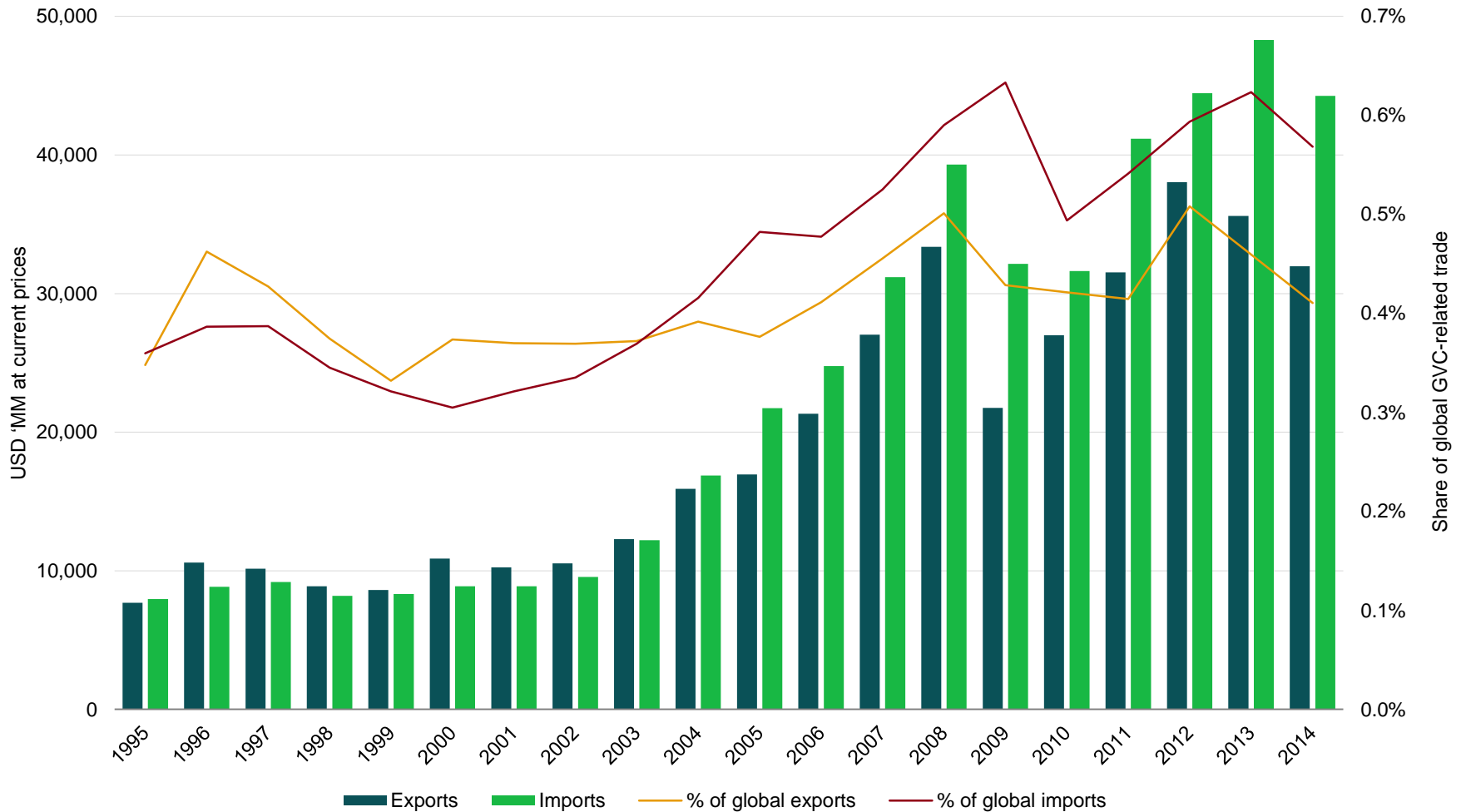
### **III. PATTERNS OF GVC INTEGRATION IN THE CAREC REGION**

# How do we measure the extent of GVC integration between countries?

- Imports in parts and components of country  $i$  from country  $j$  in year  $t$ . Parts and components are defined as sections 42 (parts and accessories of capital goods) and 53 (parts and accessories of transport equipment) of BEC plus code 65 of SITC (textiles) (COMTRADE)
- Value added flows: VA of intermediate exports from country  $i$  that are re-exported by  $j$  to third countries (WIOD)
- FDI flows: announcements of cross border greenfield investments across sectors and countries (FDI Markets)



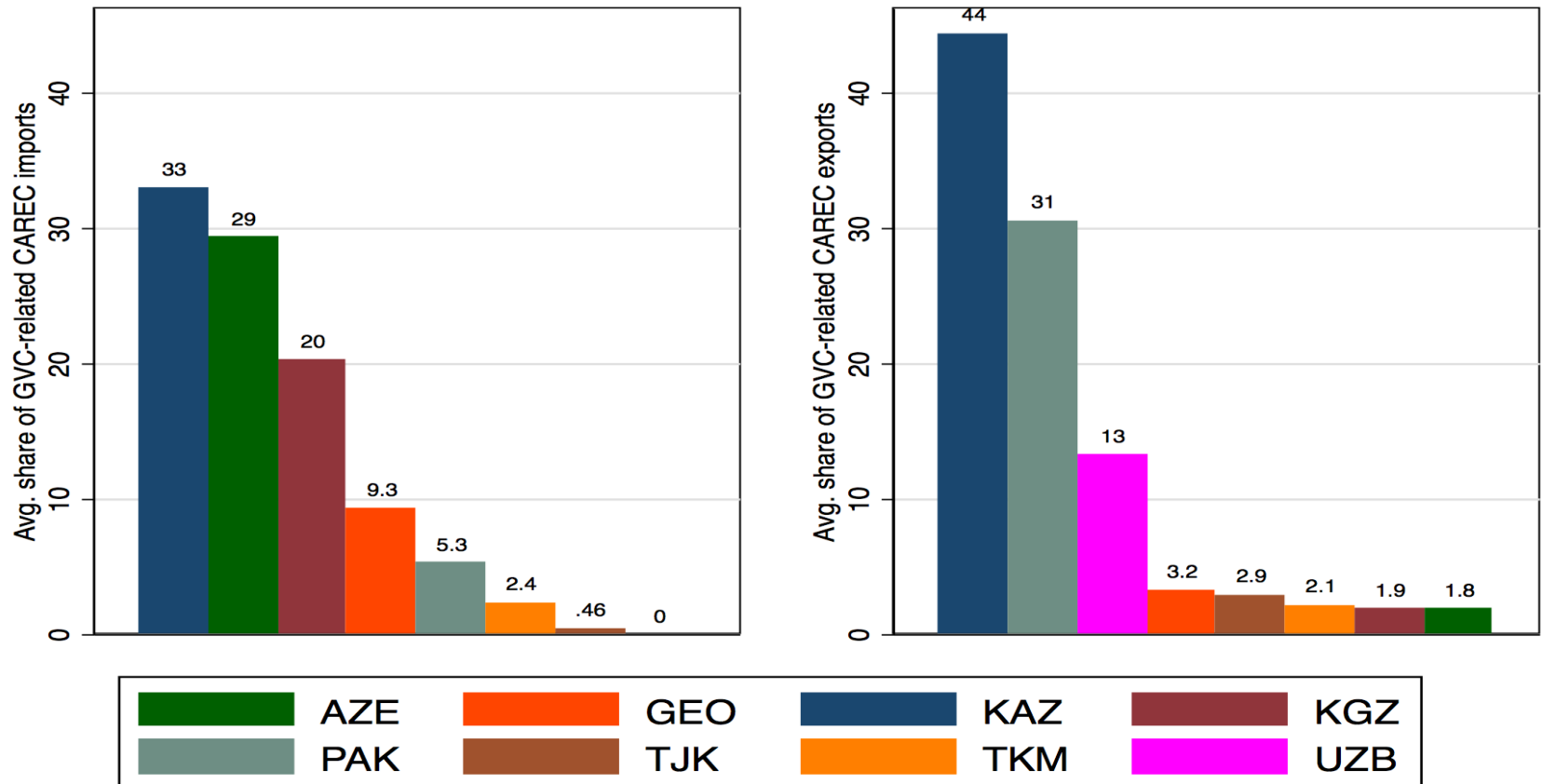
# GVC patterns – CAREC (without China)



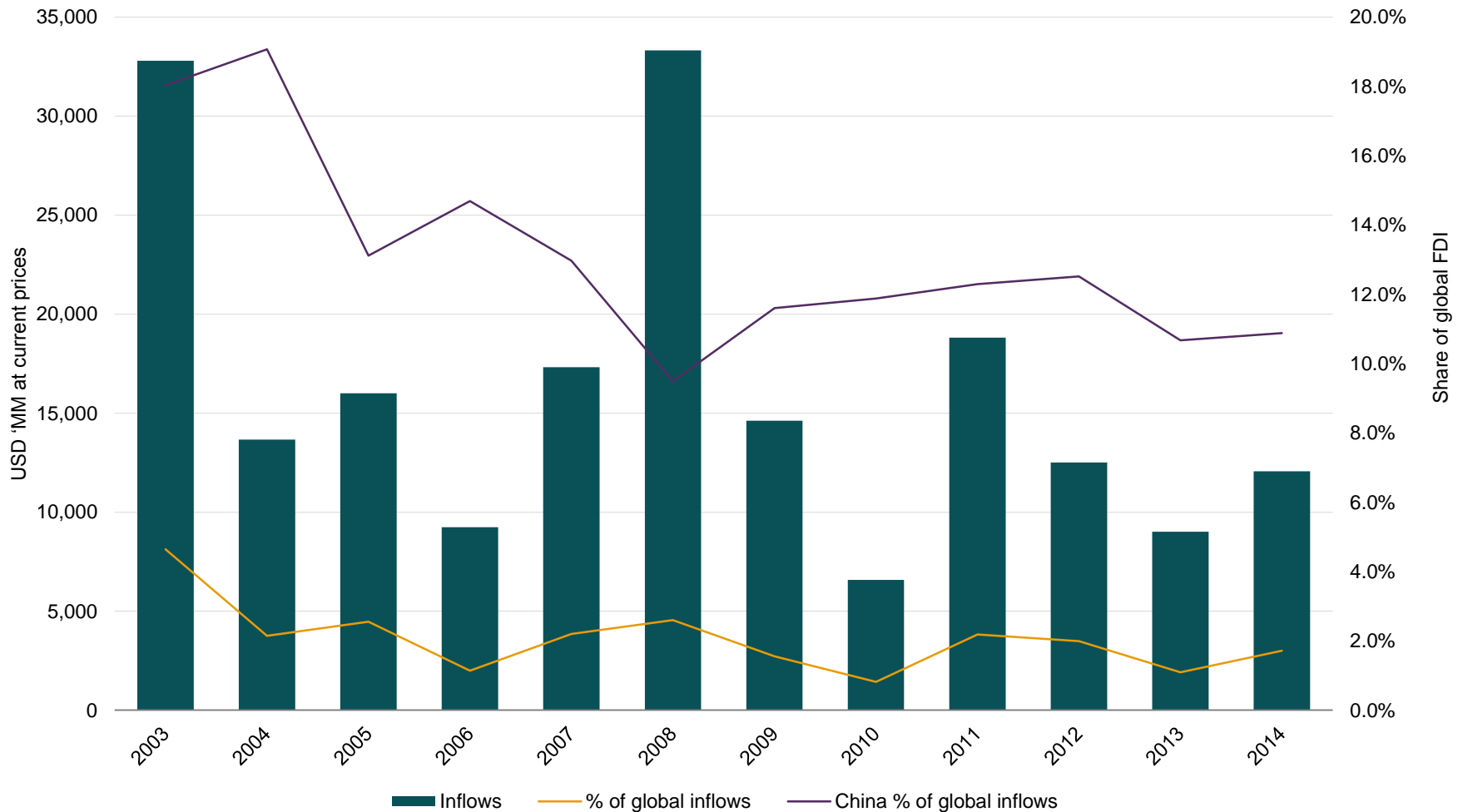
Source: COMTRADE

# GVC patterns – CAREC (without China)

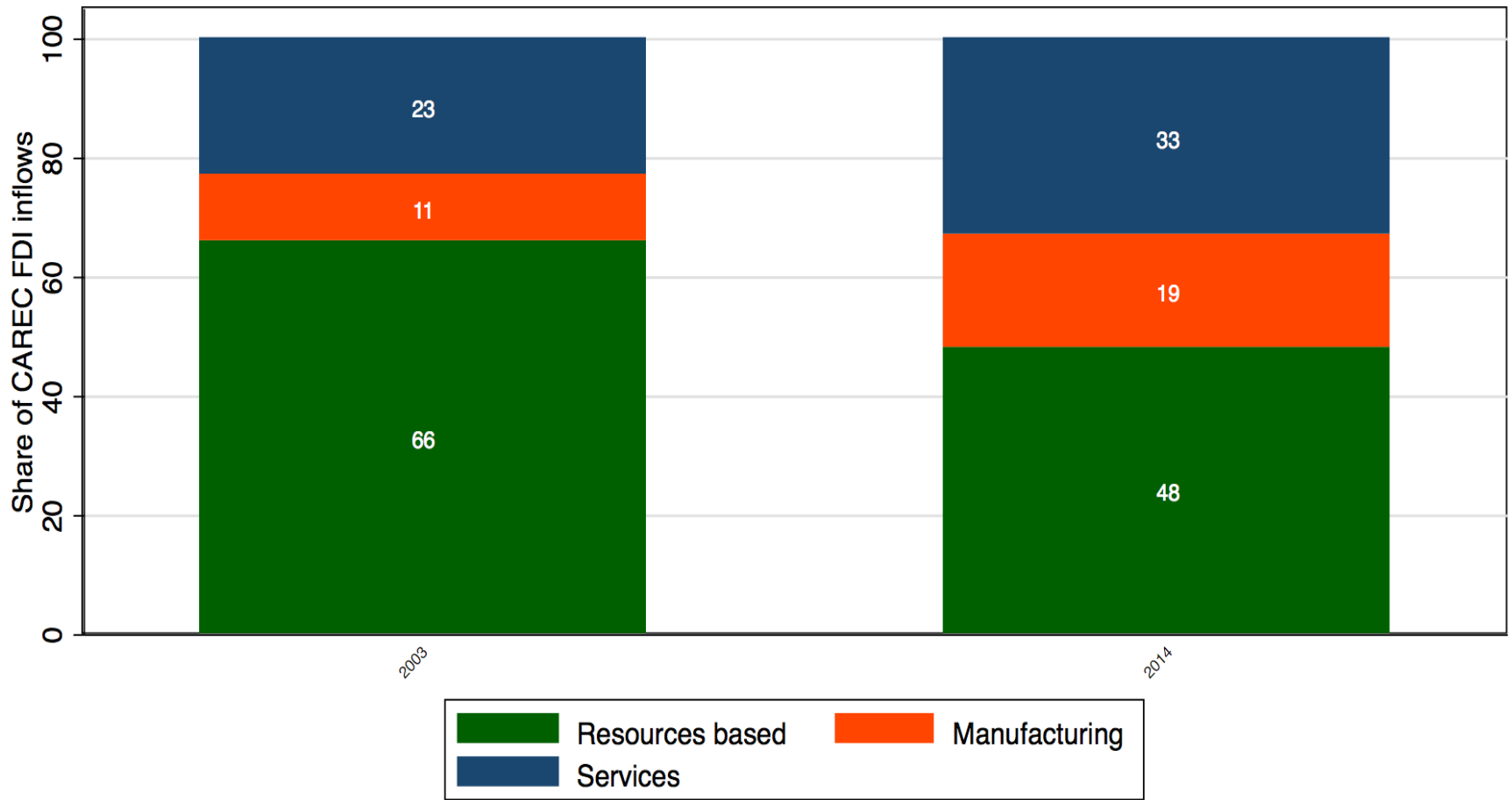
Avg. share of GVC-related trade  
1995-2014



# FDI patterns – CAREC without China

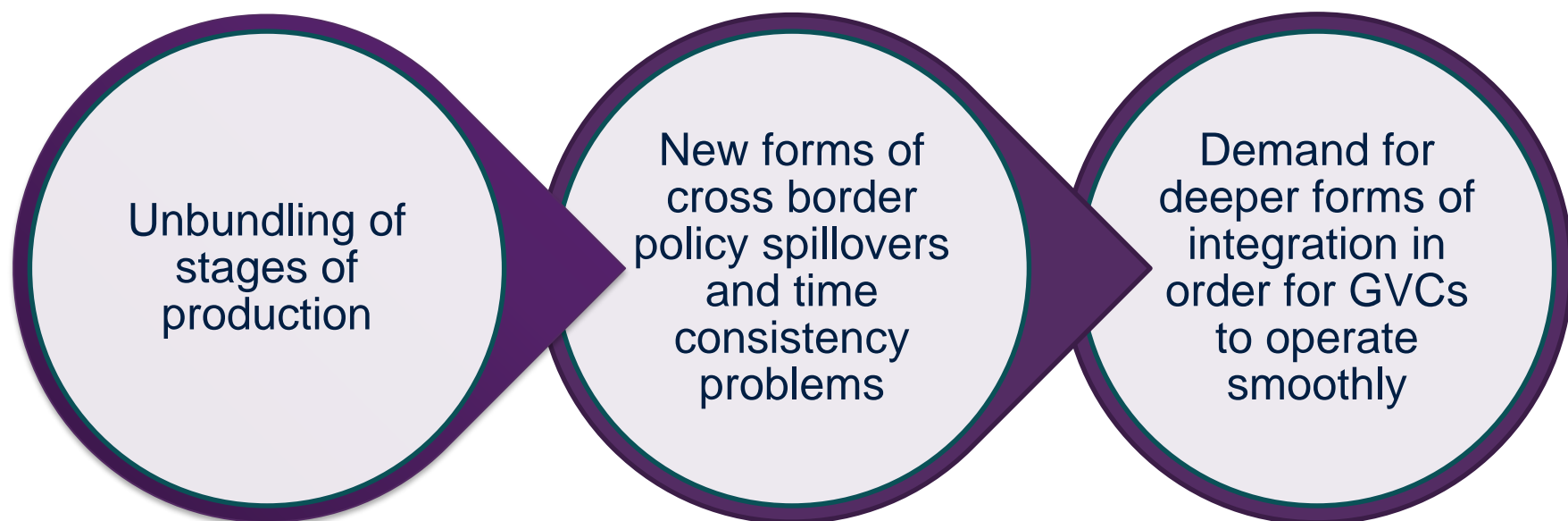


# FDI patterns – CAREC without China



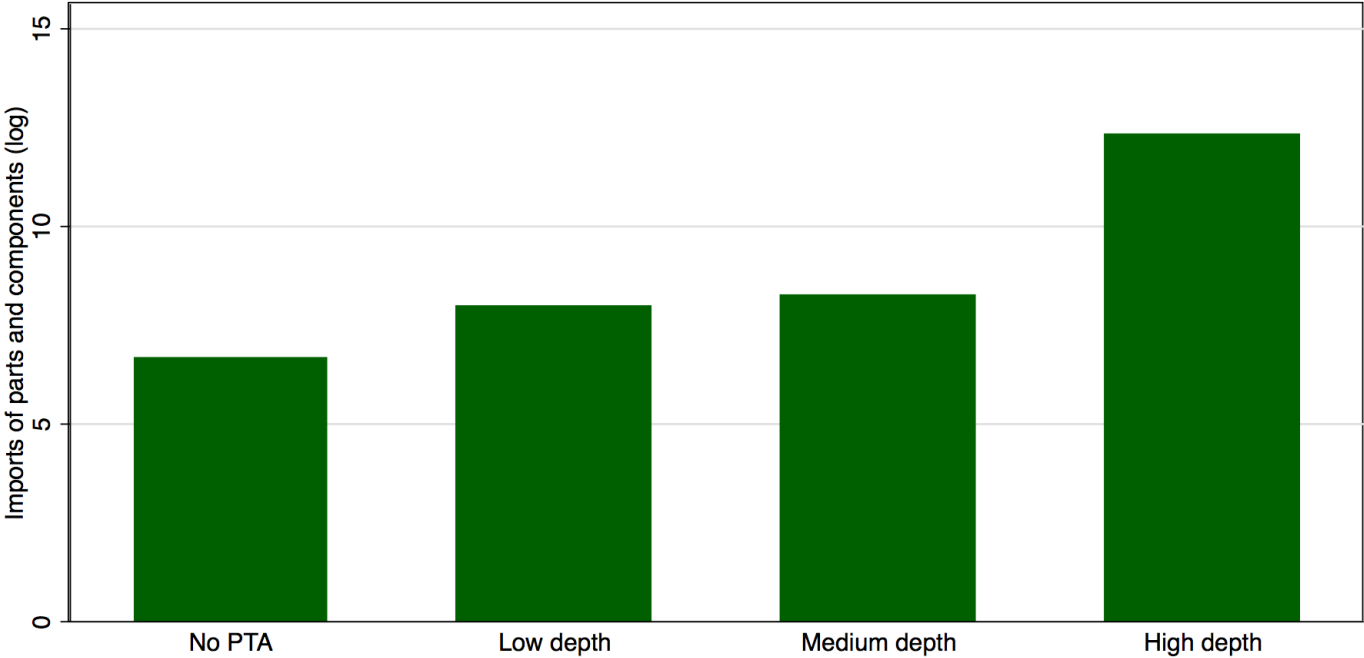
## **IV. DEEP PTAs AND GVCs: WHAT DO CAREC COUNTRIES NEED TO BETTER INTEGRATE?**

# Why GVCs and deep agreements?



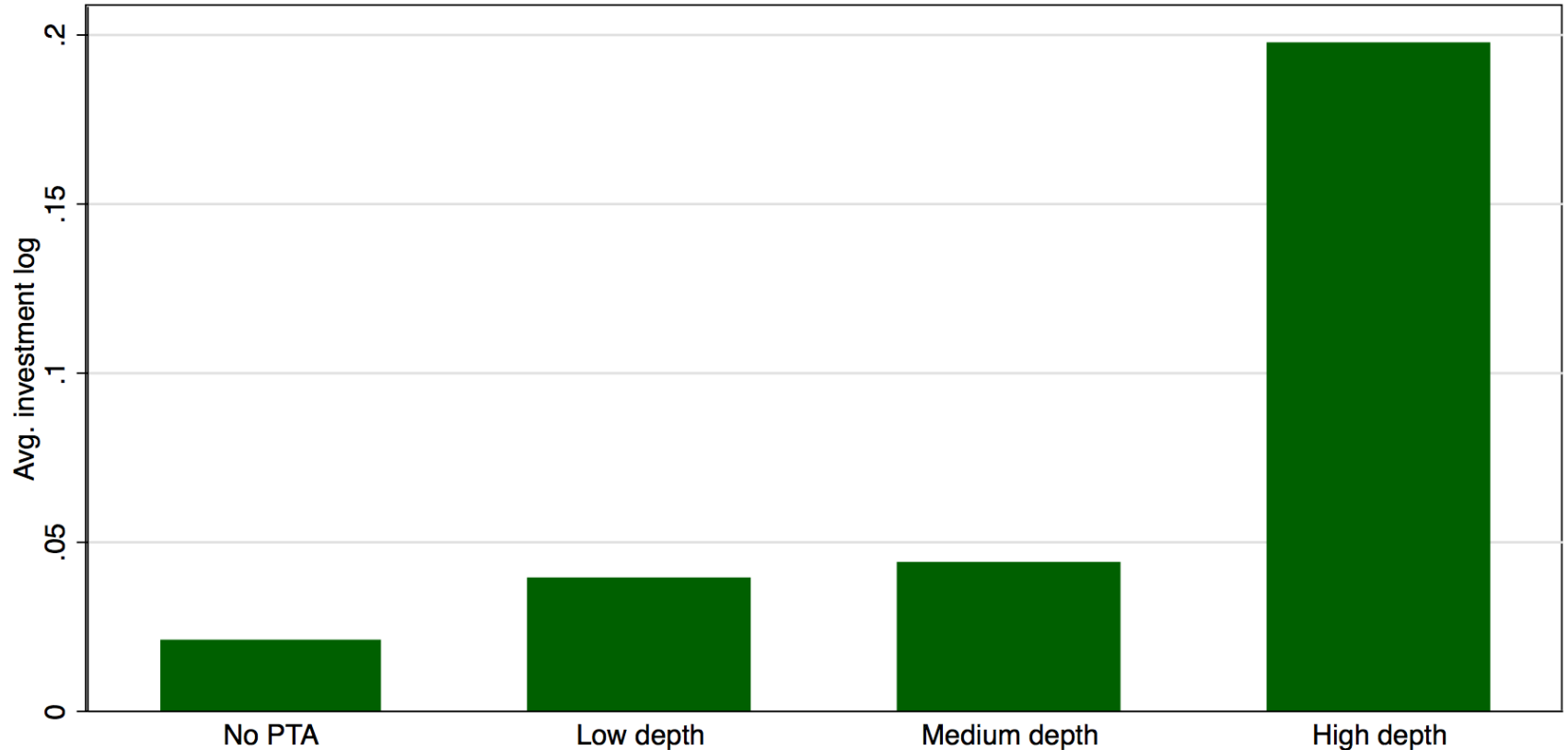
# PTA depth is correlated with GVC-trade

Distribution of imports over levels of depth



Trade in parts and components

# Deep agreements stimulate FDI flows





# Deep agreements matter for manufacturing and services FDI, but not for natural resources FDI

- The positive relationship between the depth of an agreement and FDI flows is mainly driven by disciplines that are outside the WTO mandate (WTO-extra provisions).
- Within the manufacturing sector, deep agreements matter as much for sectors with high or low technological intensity
- Deep PTAs mitigate the costs of distance

# How could CAREEC better integrate into GVCs?

- Both the extensive and intensive margins of deep integration matter for CAREEC integration agenda
  - CAREEC should integrate with countries other than its natural partners
  - CAREEC should aim at signing Agreements with a higher level of depth
  - New agreements should include provisions such as investment and competition policy that are demonstrated to be very important in terms of North-South integration and for FDI attraction

**Thank you!**

# Additional Slides

# WTO+ provisions included in CAREC PTAs

WTO+ provisions included in PTAs

	Azerbaijan	Georgia	Kazakhstan	Kyrgyzstan	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Agreements	5	8	11	10	4	3	6	5
FTA Industrial	100%	100%	100%	100%	100%	100%	100%	100%
FTA Agriculture	100%	100%	100%	100%	100%	100%	100%	100%
Customs	80%	100%	100%	100%	100%	100%	83%	80%
Export Taxes	100%	100%	82%	90%	50%	67%	100%	100%
State Aid	60%	38%	36%	40%	50%	67%	33%	40%
Anti-dumping (AD)	40%	25%	45%	40%	75%	33%	33%	40%
Technical barriers to trade (TBT)	40%	25%	36%	30%	75%	0%	33%	40%
SPS measures	40%	25%	36%	30%	50%	0%	33%	40%
Countervailing measures (CVM)	40%	13%	36%	30%	50%	0%	33%	40%
GATS	20%	25%	36%	30%	25%	33%	17%	20%
Public Procurement	40%	25%	9%	10%	0%	0%	33%	40%
TRIPs	0%	25%	36%	30%	25%	0%	0%	0%
TRIMs	20%	0%	9%	0%	25%	0%	17%	20%
State trading enterprises (STE)	0%	25%	0%	0%	50%	0%	0%	0%

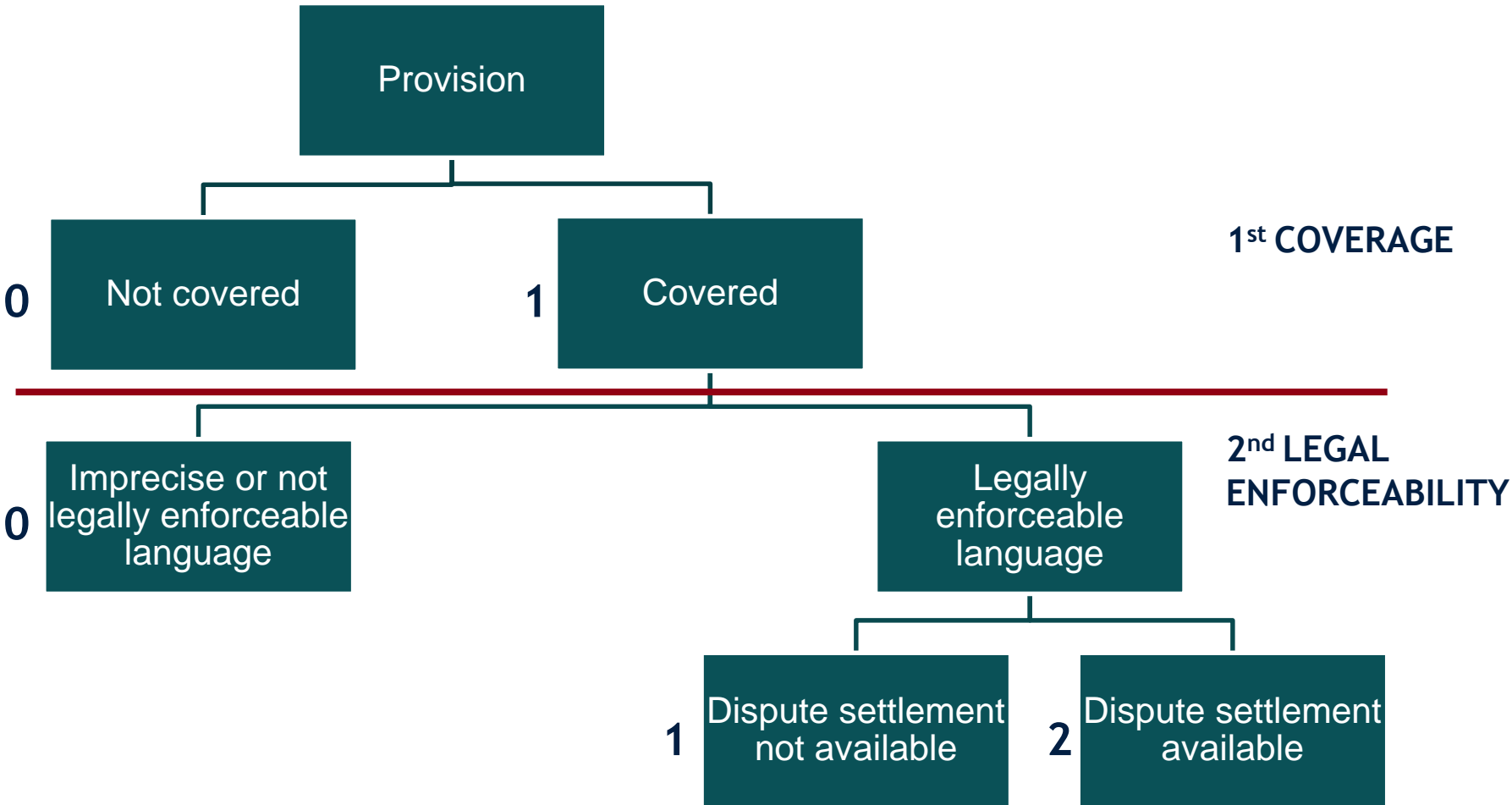
# WTO-X provisions included in CAREC PTAs

WTO-X provisions included in PTAs<sup>1</sup>

Agreements	Azerbaijan 5	Georgia 8	Kazakhstan 11	Kyrgyzstan 10	Pakistan 4	Tajikistan 3	Turkmenistan 6	Uzbekistan 5
Competition Policy	60%	100%	73%	80%	0%	67%	67%	60%
Statistics	40%	88%	36%	70%	0%	0%	33%	40%
Movement of Capital	0%	25%	36%	30%	25%	33%	0%	0%
Economic Policy Dialogue	20%	50%	27%	10%	25%	0%	17%	0%
IPR	0%	13%	36%	30%	50%	0%	0%	0%
Labour Market Regulation	0%	13%	36%	40%	0%	33%	0%	0%
Investment	0%	13%	18%	20%	50%	0%	0%	0%
Agriculture	0%	13%	18%	20%	0%	33%	0%	0%
Approximation of legislation	0%	13%	18%	20%	0%	33%	0%	0%
Industrial Cooperation	0%	13%	18%	20%	0%	33%	0%	0%
Visa and Asylum	0%	13%	18%	10%	0%	33%	0%	0%
Education and Training	0%	13%	9%	10%	0%	33%	0%	0%
Research and Technology	0%	13%	9%	10%	0%	33%	0%	0%
Illicit Drugs	0%	13%	9%	10%	25%	0%	0%	0%
Information Society	0%	13%	9%	10%	25%	0%	0%	0%
Consumer Protection	0%	13%	18%	20%	0%	0%	0%	0%
Energy	0%	13%	18%	20%	0%	0%	0%	0%
Money Laundering	0%	13%	18%	20%	0%	0%	0%	0%
Terrorism	0%	13%	18%	20%	0%	0%	0%	0%
Health	0%	13%	9%	10%	0%	0%	0%	0%
Taxation	0%	13%	9%	10%	0%	0%	0%	0%

29 (1) Innovation Policies provisions are included in 1 Pakistan agreement; Anti-Corruption, Environmental Laws, Data Protection, Audiovisual, Civil Protection, Cultural Cooperation, Financial Assistance, Human Rights, Illegal Immigration, Mining, Nuclear Safety, Political Dialogue, Regional Cooperation, Social Matters provisions are included in 1 Georgia Agreement

# Coding of provisions in PTAs



# Legally Enforceable Language

---

## Example of a legally enforceable provision

“The parties shall allow the free movement of capital ...”

“Neither party may expropriate or nationalise a covered investment ...”

“By the end of (exact date) a party shall accede to the following international conventions: ...”

“Each party shall not fail effectively to enforce labour (environmental) laws ...”

---

## Example of a provision that leads to conclude that an area is not legally enforceable

“The parties shall cooperate ...”

“Dialogue shall be established ...”

“Special attention shall be paid to ...”

“Measures necessary for development and promotion of ...”

“Parties may conclude ...”

---

Source: Horn, Mavroidis and Sapir (2010)