Multilateralising RTAs in the Americas: State of Play and Ways Forward

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3rd Quarter 2008
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Introduction

The countries of the Americas\textsuperscript{2} have been key drivers of the now global spree of regional trade agreements (RTAs). Collectively, the regional economies have notified three dozen intra- and extra-regional RTAs to the World Trade Organization (WTO) (figure 1), and are negotiating several further ones. Major contributors to the global spaghetti bowl of RTAs and the source of nearly a fifth of global trade, the countries of the region can also play a major role, if not serve as the focal point, in the search for options for multilateralising RTAs— for arriving at global free trade by way of regionalism.

Figure 1 – RTAs Notified to the WTO in the Americas and around the World, 2007

Conceptually, multilateralisation can be accomplished through two alternative (yet also complementary) measures: (1) deepening tariff liberalisation by RTA members vis-à-vis each other while also reducing discrimination toward non-members until it becomes inconsequential; and/or (2) incorporating non-members to an RTA until all countries are members. The latter measure in particular would by default eradicate one of the key potential problems of the RTA spaghetti bowl of overlapping agreements, namely differences in rules.

\textsuperscript{2} Due to methodological issues, “Americas” and “hemispheric” refer in this paper to a group composed of Canada, the Dominican Republic, Mexico, Central and South America, and the United States.
between the various RTAs. Simply put, multilateralisation would “flatten” and expand RTAs; this would also tame the RTA rule tangle.

The purpose of this paper is to examine the extent of liberalisation in RTAs in the Americas in comparison to agreements in other world regions, and to put forth policy recommendations for multilateralising the regional RTAs. While primarily focusing on market access in goods—and tariff liberalisation schedules, in particular—we also explore the regional RTAs’ employment of rules of origin, investment, and services provisions. While the analysis centres on the depth of liberalisation accomplished by the region’s RTAs, we preliminarily investigate the extent to which the regional RTAs feature “open regionalism” — liberalisation vis-à-vis third parties.

Our main finding is that the Americas is a notably liberalised region in terms of the maturity, geographical coverage, and depth of its RTAs. Rather than the pursuit of new negotiations, the region’s main challenge today is to further synergies between the existing agreements, all the while forging extra-regional ties with Europe and countries of Asia and deepening liberalisation vis-à-vis third parties.

The following section takes stock of the advance of regional integration in the Americas, and details the “liberalisation state of play” in the RTAs formed by the countries of the Americas. The third section surveys the extent of open regionalism in the Americas. Section four examines investment and services provisions. The fifth section puts forth policy proposals for further multilateralising RTAs formed by countries of the Americas; section six concludes.

**Liberalisation in RTAS in the Americas**

This section focuses on the comparative depth of liberalisation in RTAs formed by the countries of the Americas over the past decade and into the next 20 years. The first part describes the advance of integration in the regional economies’ trade policy portfolios. The second part centres on the liberalisation statistics.
RTA Pathways in the Americas: From Intra-Regionalism to Trans-Continentalism

Countries in different regions of the world have had distinct RTA paths over the past two decades among four main “stations”: intra-regional blocs, intra-regional bilateral RTAs, continental megablocs, and trans-continental RTAs. In the Americas, the common path has been from intra-regional blocs to an attempted megabloc, accompanied and followed by intra-regional bilateral agreements and, subsequently, trans-continental RTAs.

The first RTAs were intra-regional customs unions formed (or reformed) in the early 1990s—Andean Community, Caribbean Community (CARICOM), Central American Common Market (CACM), and the Southern Common Market (Mercosur). The North American Free Trade Agreement (NAFTA) launched in 1994 connected Canada, Mexico, and the United States. The same year, the first Summit of the Americas launched the 34-country negotiations for the Free Trade Area of the Americas (FTAA), which was to merge the aspiring customs unions and NAFTA under a single umbrella. The FTAA process was paralleled by bilateral agreements particularly between Mexico and Chile on the one hand, and numerous other countries of the region, on the other. The stagnation of the FTAA talks in 2003 furthered and “regionalised” the quest for bilateral intra-regional FTAs. Among the most recent highlights are the Mercosur-Andean Community FTA of 2004, the US-Central America-Dominican Republic FTA (DR-CAFTA) of 2005, and the culmination of the US-Colombia, US-Peru, US-Panama, Chile-Peru, and Chile-Colombia FTA negotiations last year.

Intra-regionalism is today yielding to trans-continentalism. Many regional countries have sought to establish an early foothold in Asia’s fast-growing RTA panorama. In 2003, Chile and South Korea signed the Asian country’s first comprehensive bilateral FTA, and in 2005, Chile concluded negotiations for a four-party FTA (P-4) with Brunei Darussalam, New Zealand, and Singapore. An FTA between Chile and China—the East Asian economy’s first extra-regional FTA—went into effect in October 2006, and in November 2006 Chile became the second country of the Americas to reach an FTA with Japan. The United States and Singapore reached in 2003 one of the first agreements of Singapore’s now extensive network of RTAs, and the US-Australia agreement entered into force in 2005. The Mexico-Japan Economic Partnership Agreement, Japan’s first extra-regional free trade agreement, also took effect in 2005. The same year, Peru and Thailand signed a bilateral FTA, while FTAs between
Taipei, China and Panama and Guatemala took effect in 2004 and 2006, respectively. Panama concluded FTA negotiations also with Singapore in 2006.

Trans-Pacific agreements are set to proliferate further: for instance, the United States has concluded negotiations with Korea, and Chile has launched talks with Malaysia. Furthermore, five countries of the Americas—Canada, Chile, Mexico, Peru, and the United States—are pursuing closer ties with Asia in the context of the Asia-Pacific Economic Cooperation (APEC) forum founded in 1989.

Countries of the Americas have also been reaching across the Atlantic for agreements with the European Union (EU). Mexico launched an FTA with the EU in 2000, as did Chile in 2003. In May 2006, the EU and CACM countries announced the launch of comprehensive Association Agreement negotiations, while the EU-CARICOM talks have entered the final phase. The EU and the Andean Community have explored the opening of Association Agreement negotiations. Furthermore, in addition to the trans-Pacific and trans-Atlantic fronts, Mercosur has concluded an agreement with India, and the United States is building a network of agreements with selected Middle Eastern countries.

The geographic composition of trade flows of the countries of the Americas appears to have followed the advance of regionalism (table 1ab). The most notable change in the Latin American and Caribbean (LAC) export profile is the decline of the importance of trade with Europe and rise in the importance of the intra-hemispheric market, as well as a moderate increase in the share of Asia-Pacific as an export destination. To be sure, there are wide intra-regional differences; countries such as Argentina, Brazil, Chile, and Peru have seen their commodity exports to China surge markedly in their export profiles.

Western Hemisphere exports, which include those of the United States and Canada, have grown particularly in the North American market. On the import side, however, Asia has penetrated LAC market forcefully, accounting for roughly a fifth of the region’s imports. This appears to have come at the expense of Europe, whose import share in LAC has been eclipsed to some 14 percent of the region’s total imports.
While trade per se has surged in importance in the regional output in the past two decades, so has the relevance of RTAs in governing the regional economies’ trade. For instance, the share of imports with RTA partners of total imports was 85 percent for Chile, 74 percent for Mexico, 45 percent for Argentina, and more than 30 percent for the United States in 2006 (figure 2). Of the total intra-Americas trade, the share of trade among countries with a common RTA is today above 90 percent of the total intra-regional trade; the level is still three-
quarters of all trade when NAFTA is not taken into account. While these figures do not capture the level of trade that enters under the RTA regime (as opposed to MFN or other regimes), they are indicative of the fact that a sizable share of the hemispheric economies’ trade is with their RTA partners—as well as that countries of the region have forged ties with some of their leading trade partners.

**State of Integration in the Americas in a Comparative Perspective**

This section strives to break new ground in dissecting the liberalisation state of play in RTAs in the Americas. We focus on tariff liberalisation schedules of 76 parties in 38 RTAs (Appendix I table 1). Much of the data here draw on IADB (2006). The first part of this section surveys the overall approach of the tariff liberalisation regimes in the 38 RTAs. The second part analyzes tariff-line data from the RTA parties’ tariff liberalisation schedules, and also examines tariff rate quotas and exceptions and exclusions. The third part explores alternative measurements—share of liberalised tariff lines trade-weighted by Harmonized System chapters, and share of trade that is liberalised from the RTA partner in a given year—in sub-samples of 27 and 23 RTAs, respectively. We examine three sets of agreements—those formed in the Americas (here, “intra-regional”), those formed between a country of the Americas and a partner in another region (“inter-regional” or “Americas as Partner”), and agreements not involving any countries of the Americas (“extra-regional”).

**i) Empirical Survey: Tariff Liberalisation Regime Models**

Tariff liberalisation could be classified along the lines of three different regimes: divided here into basket, sectoral and preferential tariff approaches. The basket approach assigns all products into a set of distinct categories in the tariff elimination program, each providing a time frame and trajectory towards complete elimination of tariffs. Also included

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3 The tariff liberalization schedules were obtained from the Foreign Trade Information System at [http://www.sice.oas.org/](http://www.sice.oas.org/), and some national sources, including websites. Some tariff data was obtained from TRAINS. The study also maps out the coverage in RTAs of four trade disciplines besides tariffs, including non-tariff measures, rules of origin, special regimes, and customs procedures.

4 There are a handful of other studies on tariff liberalization in RTAs. The World Trade Organization (2002) carries out an extensive inventory of the coverage and liberalization of tariff concessions in 47 RTAs of a total of 107 parties. The data cover tariff treatment of imports into parties to selected RTAs, tariff line treatment as obtained from individual countries’ tariff schedules, and tariff dispersion for a number of countries. Scollay (2005) performs a similarly rigorous analysis of tariff concessions in a sample of 18 RTAs. The IADB (2002) presents an exhaustive survey of market access commitments of RTAs in the Americas, while the World Bank (2005) carries out a more general mapping of the various disciplines in RTAs around the world.

5 Various prior studies characterise tariff elimination as carried out on the basis of a positive or a negative list, or as based on a certain formula. This study strives to abstract from these characteristics and classify liberalization programs by their categorization of goods into distinct paths of liberalization. To be sure, some of the categories are more aligned with a positive list approach, while others lend to a negative list approach.
are any TRQs, typically with a reference to an appendix with the quantities, as well as exceptions to preferential treatment (that are typically entered into a basket of continued MFN treatment). Many of the agreements in this study, such as those signed by the US, tend to follow the basket approach. This generally subjects nearly the entire tariff universe to eventual full tariff elimination, with some of the less visible “action” in the US agreements taking place within the framework of TRQs.

The sector approach, typically reflected in the EU and European Free Trade Association (EFTA) agreements, subjects all industrial products to a general tariff elimination schedule. A separate list for exceptions and separate annexes or protocols govern the treatment of such products as agriculture, fish, and processed agricultural goods. The protocols tend to be quite complex and feature various regimes, such as end-point preference margins or residual preferential tariffs, TRQs, reference quantities, and a phased reduction of tariffs to a final level (which can be non-zero).

Some agreements, including many of those forged under the Latin American Integration Association (LAIA) framework, involve a preferential tariff approach, focusing on the end-point preferential tariff or margin of preference. The Bangkok Agreement also focuses on the end-point preferences, with additional concessions provided to less developed RTA members. These models take a positive list approach to the concessions, whereby the schedules contain the products to which the market access provisions of the RTA apply, rather than a negative list approach, and lends itself more to partial scope agreements.

This paper generally focuses on relatively comprehensive agreements and is thus mainly geared towards those in the first two categories. In the next section, a more nuanced

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6 Thailand-Australia and Thailand-New Zealand FTAs defy easy categorization, as they do not use any clearly defined baskets, but, rather, implement staging simply by cross-tabbed reduced tariff rates. This lends itself mostly to the basket approach, due to the use of comprehensive schedules. However, there are a large number of case-by-case trajectories, which suggests a preferential tariff approach, as well.
7 It should be noted that the in-quota quantities (and even the existence of in-quota treatment) in these agreements differ greatly within CAFTA. Although the United States has given the same schedule with the same baskets to the other countries, the treatment within these baskets differs greatly between countries. So although the statistics will reflect identical treatment of all Central American countries, this will not be the case, especially when considering that a number of the products subject to TRQs are those where Central America will have a strong comparative advantage (such as in sugar).
8 In this paper, the data on tariff elimination in the EFTA-Mexico FTA is based on Switzerland’s tariff schedules.
9 The recent EU-Chile FTA that entered into effect in 2003 diverged from the EU’s standard practice of dividing tariff elimination into separate venues by establishing a single schedule for each party that contains all products. In its category column, the schedule includes various measures that will be maintained, such as TRQs, elimination of only the ad-valorem component of a mixed duty (including in cases where the non ad-valorem component is linked to an
approach to tariff liberalization is used that focuses on the trajectories of individual tariff concession schedules.

**Tariff Liberalisation Statistics**

This part turns to analyzing tariff-line data developed on the basis of the tariff liberalisation schedules of 76 parties in 38 RTAs. An introductory set of general indicators strives to capture the share of each individual RTA party’s tariff lines that are accorded some tariff reductions, and the share of lines that are duty-free by certain benchmark years (generally 1, 5, 10, and 15 or 20) after the launching of the RTA\(^{10}\). Year 1 refers here to the year of entry into force.

Figure 3 provides an overview of the share of tariff lines liberalised by the partners in the 38 RTAs by mapping out the shares of national tariff lines that become duty-free in year 1, years 2-5, years 6-10, years 11-20, and more than 20 years into the RTA. The three-letter ISO code of each country giving the concession (i.e., the importing country) precedes the arrow, while the code of the partner country follows the arrow.

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8 entry price), products subjected to a tariff concession of 50 percent of the basic customs duty, and cases where no liberalization takes place, for instance due to “protected denominations.”

10 Dummies are assigned according to when a product becomes duty-free (whether or not in year 1, 5, 10, or 15). The dummies are subsequently multiplied by the number of lines with that treatment, and then divided by the total number of lines to obtain the percentage incidence. The total number of lines includes all tariff lines regardless of whether that line was duty-free prior to the entry into force of the agreement. Split products or products partially covered by an agreement, as a general rule are accorded a reduction at the first date at which any of the various baskets accord a reduction, but a treated as having tariffs eliminated at the last date at which any of the various baskets accorded elimination, i.e., a line on which tariffs are eliminated on part one year but not the rest is treated as having the least generous duty-free treatment, as duty-free treatment must cover a product in its entirety). The analysis includes lines subject to TRQs, based on when out-of-quota tariff rates are reduced or phased out. For example, where tariff eliminations are made on in-quota tariff rates, the product in question is treated as not receiving full tariff elimination. Products subject to entry prices are, when relevant, are counted as receiving tariff reduction, but not as having tariffs eliminated.

Safeguards are not taken into account here (i.e., as interfering with tariff elimination). Other sidenotes are dealt on an ad-hoc basis. Any TRQ, regardless of whether reductions occur on the in-quota or out-of-quota tariff rate, are counted in the TRQ incidence measure. Note that for the CAFTA agreement, indicators for the Dominican Republic and each of the five Central American countries were calculated individually and then averaged together to create a single, indicative partner to the United States. Similarly, for NAFTA, Canadian and US concessions to Mexico are averaged together to make a single US-Canada partner to Mexico, and Mexico’s concessions to the two countries are averaged together to make a single representative concession to US-Canada. Where possible, similar averaging is performed for other agreements with more than two signatories.
Agreements formed in the Americas and particularly those signed by the NAFTA members generally liberalise trade relatively fast, with some 75 percent or more of lines freed in the first year of the agreement. On the other hand, some of Mercosur’s agreements have somewhat more backloaded liberalisation, with a large share of lines being liberalised between years 6-10 into the agreements. Asia-Pacific RTAs stand out for being particularly frontloaded: they liberalise the bulk of the tariff universe in the first year of the RTA; this is in good part due to Singapore’s according duty-free treatment to all products upon the entry into force of its agreements.

Figures 4a and 4b assess the extent of tariff elimination reciprocity between RTA parties to an RTA by years 5 and 10. They are sorted in a descending fashion from the least reciprocal to the most reciprocal. Two patterns emerge.
Figure 4a - Reciprocity of Concessions: Year 5

Figure 4b - Reciprocity of Concessions: Year 10
First, while the parties’ respective product coverages often diverge markedly in year 5, with some partners (such as Korea) liberalizing up to twice as many lines as their partners (such as Chile) are freeing, the differences shrink considerably by year 10.

Second, agreements formed in the Americas tend to be more reciprocal than agreements formed with extra-regional partners. This in part owes to the north-south differences in liberalization—a pattern that is evident nearly throughout the sample. Nonetheless, while countries of the Americas have wide variations in their liberalization trajectories, most liberalize more than 90 percent of lines by the tenth year into the agreement.

Figure 5 disaggregates the liberalisation schedules between three sets: those in RTAs signed in the Americas, RTAs between countries of the Americas and extra-regional partners, and extra-regional agreements. The 90 percent threshold, which is often used as a benchmark for “substantially all trade”, is marked with a horizontal line.

**Figure 5 - Evolution of Duty-Free Treatment in Selected RTAs**
The figure echoes the prior findings in two ways. First, it shows that while some countries, such as the original NAFTA partners, employ a “stair-step” approach to tariff liberalisation (stemming from the use of various gradual baskets), others have a constant percentage coverage of tariff lines in what could be characterised as a “now-or-never” approach. Examples of this include Singapore which liberalises basically 100 percent of tariff lines in year one into the agreement, as well as the EU in some agreements, albeit at a level below 100%. Still others—often developing countries of Asia and Latin America—start from a low coverage, proceeding through one or two jumps to a near-100 percent coverage.

Second, the averages of the three samples (in bold) reveal differences. Intra-regional agreements start from a relatively low level of liberalisation, but accelerate in the fourth year, surpassing the liberalisation in extra-regional agreements by year 9. The inter-regional agreements also start off more boldly, but are met by the intra-regional agreements in year 10.

On average, a substantial part of liberalisation in the intra-hemispheric agreements takes place in the interim period following entry into force (especially in years 5-10) as opposed to up front. This is due not only to a greater use of the stair-step approach, but also to the heterogeneity of the sample. Agreements among Central America, Mexico, and the United States tend to be characterised by a large number of small steps, as are US agreements with Peru and Colombia. However, Mexico’s agreements with Chile and Uruguay frontload concessions. The Chile-Central America FTA and Canada’s agreements with Chile and Costa Rica fall somewhere between the two poles.

The Southern Cone’s approach is different still. ACE 58 and ACE 59, the agreements between Mercosur and the Andean Community, start at a very low share of duty-free lines, and then increase substantially with a small number of large jumps after year 5. This is most pronounced in Mercosur’s earlier agreements with Bolivia and Chile, where duty-free coverage is minimal through around year 8, and then quickly jumps to around 90 percent or more, followed by an eventual progression towards nearly 100 percent coverage over time.

Most of the inter-regional agreements follow the stair-step model. In agreements involving a northern and a southern party, the latter generally starts at a lower initial point and takes larger steps than the northern counterpart. This is particularly clear in the Korea-Chile FTA (with Korea classified as north), and US agreements with Jordan and Morocco. However, there are exceptions. Concessions are much more even in the EU-Chile agreement;
in the EFTA-Mexico FTA, Mexico’s schedule starts at around 40 percent of lines duty-free and surpasses the 90 percent threshold well before 10 years by means of a few jumps, at the same time overtaking Switzerland’s constant coverage of slightly less than 80 percent of lines.

Extra-regional agreements exhibit a greater variation in tariff lowering. This can be explained in part by two counter-balancing forces. For one, the sample includes a number of agreements involving Singapore, where Singapore gives duty-free access to 100 percent of lines as of entry into force of the agreement. However, the countervailing force is agreements with low initial coverage and large jumps; once again these tend to be caused by the southern parties in North-South agreements. China’s concession to Hong Kong is one such case, with duty-free coverage starting around 4 percent and then jumping to 100 percent in year 3. Accentuating the flatness of the extra-regional average are Japan’s schedule for Singapore, and the EU’s concessions to Morocco and Lithuania. Since the “flat” schedules in these agreements entail coverage well below 100 percent, they serve to moderate the behaviour of the overall extra-regional average, as well.

Table 2 presents the same information in a “real time state of play” matrix. Grey boxes indicate FTAs; the numbers therein denote the share of liberalised tariff lines between the countries in 2007. Boxes in grey without numbers are FTAs for which liberalisation statistics are currently lacking in the study. The black boxes indicate common customs unions; liberalisation in these agreements can be seen as nearly full and complete. Within the Americas, 57 percent of the total possible 380 pairs of countries have no comprehensive RTA, a third of all pairs feature a comprehensive FTA, while twelve percent of pairs shared a customs union.

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11 In the case of Australia and New Zealand’s agreements with Singapore, both parties provide immediate duty-free access to 100 percent of tariff lines.
12 Importantly, the matrix is not intended to present the state of play of FTAs worldwide. The primary focus of this study is the Western Hemisphere, thus the matrix contains the countries of the Americas, those countries with which the Americas have signed an agreement, plus a few countries that are party to a small number of select agreements outside the Hemisphere. Thus, the matrix is not representative of the scope of involvement of extra-regional countries in FTAs in the sense that it is not fully ‘Copernican’.
13 I.e., an RTA that liberalises more than 4,000 tariff lines.
The main finding is the extent of deep liberalisation throughout FTAs of the Americas: most members have liberalised more than four-fifths of the tariff items to their intra-regional partners. To be sure, liberalisation in the 2004 Mercosur-Andean agreement, which is an amalgam of bilateral agreements among the groups’ members, is only incipient. Meanwhile, Chile, Mexico, and the United States are the main drivers of the inter-regional agreements formed by the countries of the Americas. The liberalisation in these agreements is generally somewhat lower than in the intra-regional RTAs.  

Figure 6 goes beyond the 2007 snapshot to explore an entire period of 1994-2026. The bold line maps out the simple average for the intra-regional sample from 2007 onward (i.e., during the period during which all agreements considered here are expected to have entered into effect). The main finding is the extent of deep liberalisation throughout the Americas: as of today, most RTA members have liberalised more than four-fifths of the tariff items to their

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14 The apparent clustering in the southeast corner of the matrix is of interest as well. This clustering is particularly pronounced for a subset of the Asia-Pacific countries in the sample, both in terms of the prevalence of agreements (proximity of grey cells, as well as the depth of the agreements (statistics within cells).
partners; some of the newer FTAs will attain this level by 2010. Liberalisation in the recent Mercosur-Andean agreements is more limited, reaching about a fifth or a quarter of tariff lines by 2010.

Overall, the figure conveys the maturity of liberalisation in intra-regional agreements in the Americas: even with the slower pace of the Mercosur-Andean agreements, the regional agreements will have freed more than 95 percent of lines by 2015. Moreover, the on-going proliferation of FTAs in Asia could affect the extra-regional average if the newer agreements were included. In contrast, the Americas is a rather saturated region in terms of intra-regional agreements, which means that the figure provides a particularly accurate reflection of the progression of future liberalisation in the case of the intra-regional agreements.
Laggards and Leaders in Liberalisation

The aggregate tariff reduction statistics disguise what could be expected to be important variation in the speed of liberalisation across product categories. Which products are the laggards and which leaders in liberalisation?

Figures 7a and 7b take the first stab at the cross-sectoral patterns by displaying the degree of dispersion of liberalisation in the 97 Harmonized System chapters within the liberalisation schedules of 64 RTA parties. Parties in the southeast corner feature deep liberalisation across-the-board. Meanwhile, those in the northwest corner are marked by limited liberalisation and high dispersion of liberalisation across chapters. Dots in red indicate RTAs formed by countries of the Americas, while green are agreements where a country of the Americas is a partner and blue are extra-regional agreements. The bulk of countries approach across-the-board liberalisation by year 10.

Figure 7a - Distribution of Liberalization of Chapters in RTA Parties’ Schedules, Year 5

*15 Viewing the percentages of lines that are duty-free by a certain benchmark year (e.g., year 10) disaggregated by two-digit HS chapters may be ideal given that the level of disaggregation is detailed enough to provide distinct product categories. Furthermore, 2-digit chapters tend to be more stable across time, i.e., between various versions of the HS. A four-digit approach may be useful as well, but can be excessively complex and disguise the more general trends. The best method could be to identify some two-digit chapters that have the least comprehensive tariff elimination, and then use these as priors to conduct four-or six-digit analysis within these chapters.*
Overall, intra-regional agreements feature not only the deepest liberalisation, but also the least dispersion across chapters in tariffs, particularly by year 10—which means that even sectors that have yet to be free of duties have rather low tariffs\textsuperscript{16}. Even for those schedules that exhibit a substantial average share of lines that are not fully liberalised, the standard deviation tends to be below those agreements involving extra-regional parties with similar averages. However, outlier sectors persist in many extra-regional agreements, in particular. The most marked dispersion occurs in Morocco’s and South Africa’s schedules in their FTAs with the

\textsuperscript{16} Of course, an average liberalization level of one (100 percentage coverage) will necessarily be accompanied by a standard deviation of zero, but there are cases where one chapter may exhibit a higher standard deviation (dispersion among agreements) than another for a given level of average liberalization, or vice versa. Note however, the outlier behaviour exhibited by Mercosur-Bolivia and Mercosur-Chile at the five-year benchmark, evidencing a uniformly low duty-free statistic.
EU, a pattern that reflects sensitivities in the agricultural and textile sectors, respectively.\footnote{Note however, the outlier behavior exhibited by Mercosur-Bolivia and Mercosur-Chile at the five-year benchmark, with a uniformly low duty-free statistic. However, these four dots have moved to the southeast corner by year 10. This raises an important point regarding the sample set. Mapping out the myriad relationships entailed within the Mercosur-Andean agreements was not feasible at this stage. However, from the aggregate numbers we can deduce that the average chapter coverage would be low, mitigating to some degree the findings that the intra-regional agreements were more liberalised.} Agriculture is one of the main laggards in liberalisation. Figure 8 maps out the evolution of duty-free treatment for agricultural and industrial products (as grouped by the WTO) by the three main regional samples. As expected, in each region agricultural products are protected longer and more strongly than industrial products are. On average, for the full sample of all agreements together, RTAs explored here liberalise only 61 percent of tariff lines in agriculture by year 5 and 78 percent by year 10, while reaching duty-free treatment for 77 and 94 percent of industrial goods by the same points in time.

**Figure 8 - Evolution of Sectoral Duty-Free Treatment in Selected RTAs**

![Graph showing evolution of sectoral duty-free treatment in selected RTAs.](image)

However, notably, intra-regional FTAs in the Americas take off in agricultural liberalisation in year 10, surpassing the other regional groups. This is largely due to very large...
jumps (in the order of 60 percentage points or more) in agricultural duty-free coverage in the Mercosur-Bolivia and Mercosur-Chile agreements, as well as smaller increases in coverage in the Mexico-Nicaragua and Mexico-Costa Rica FTAs and the representative average Central American countries’ schedule in CAFTA vis-à-vis the United States. Perú’s agricultural concession to Mercosur also increases substantially that year.

The inter-regional average also sees a meaningful, though smaller jump in year 10. This is due primarily to increases in coverage that year by Jordan and Morocco in their agreements with the United States, China’s concession to Chile, and Panama’s to Singapore. Extra-regionally, the jump is less substantial and comes earlier, driven mainly by increases in coverage in the China-Hong Kong schedule in year 3, and Morocco-EU, South-Africa-EU, and EU-South Africa schedules in year 4.

In industrial goods, both intra-regional and FTAs with a country of the Americas as a partner feature progressively deeper liberalisation, with the take-off again occurring in year 10. In fact, the trajectories of the agricultural versus industrial goods for the three subsets of agreements almost appear as parallel lines, with industry simply starting at a higher intercept on the vertical axis. In the intra-regional sphere, the jump in year 10 is in part due to Mexico’s industrial coverage rising from 72 to 100 percent that year. In Americas as partner, there is a very large jump in Mexico’s coverage of Japan’s industrial products that year. The patterns driving the extra-regional average still hold, with the exception that South Africa’s industrial concession to the EU does not change to the same extent in the early years as in agriculture.

Figures 9a and 9b provide further nuance by measuring the average liberalisation (x-axis) and dispersion of liberalisation (y-axis) across 64 RTA partners’ (in a total of 32 RTAs) liberalisation schedules in the 97 Harmonized System chapters. The dots in red indicate chapters generally consisting of agricultural products, while dots in blue refer to chapters consisting of mostly industrial products. The chapters in the southeast corner are those in which all RTAs analyzed here feature deep liberalisation, with negligible dispersion values resulting. Chapters in the northwest corner indicate limited liberalisation across RTAs and particularly shallow liberalisation in some RTAs, with high dispersion resulting.

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18 For ease of presentation, in these figures chapters 1-24 (excluding chapter 3) are highlighted as agriculture. However, in the analyses of tariff liberalization statistics, agricultural and industrial products are defined at the 6-digit HS level.
Figure 9a - Distribution of Liberalization by RTA Parties in Chapters, Year 5

Figure 9b - Distribution of Liberalization by RTA Parties in Chapters, Year 10
The pattern is clear: agricultural chapters in RTAs feature the least liberalisation and also the highest dispersion of liberalisation across RTAs, indicating that these chapters are particularly protected in some RTA parties’ schedules. The figures also show the relatively slow pace of liberalisation: on average, RTA parties liberalise well below 50 percent of tariff lines in the most sensitive chapters—dairy (ch. 04) and sugars (17) by the fifth year of the agreement, and less than 55 percent in several others, including meat, cocoa, prepared cereals and baked goods, tobacco, and footwear (02, 17, 18, 24, and 64, respectively), while sugar and dairy still remain below 60 percent at year 10.

When the figures are analyzed at the intra-regional level (not shown here), a very distinct picture emerges. For one, it is intra-regional agreements that are driving much of the overall protectionism in dairy, sugar, and footwear. Moreover, there is great variation in the treatment of chapters at the intra-regional level—even in the case of chapters that are relatively liberalised. Meanwhile, the extra-regional sample even at the five-year benchmark resembles the overall findings at year 10: there is a crescent of points stretching from the highly liberalised southeast to the more protected northwest. The inter-regional sample falls somewhere in between. Agreements involving Singapore tend to increase the averages of all chapters in the extra-regional sample, and to a lesser extent, in the inter-regional sample.

Encouragingly, however, RTA parties on average liberalise more than 75 percent of tariff lines in the bulk of chapters by year 5 and more than 90 percent of tariff lines in most chapters by year 10. The fastest and deepest liberalisation is effected in such non-sensitive products as ores (ch. 26), fertilisers (31), pulp of wood (47), and some base metals (81); perhaps one of the reasons is that these are intermediate inputs into other products. There is, however, notable variation across countries of the Americas in these goods as well as in leather (ch. 42). However, overall, the intra-regional set now resembles the 10-year figure for the full sample.

Notably, there is significant movement in the textile chapters between the 5- and 10-year benchmarks; by the same measure, dairy and sugar show little additional liberalisation. The persistent variation in agriculture owes largely to the EU’s agreements where liberalisation tends to be postponed—at times in perpetuity, as is the case, for example, for
certain live animals, fish, meat, dairy, grains, and sugar products originating in South Africa in the EU-South Africa RTA.

**ii) Trade-Weighted Tariff Liberalisation**

Simply measuring the share of liberalised tariff lines fails to capture the full effects stemming from the exclusion of sensitive products from RTAs if those products are covered in a very small number of tariff lines. Does the picture of integration in the Americas change with alternative measures?

We strive to shed light on this question by combining the data on liberalisation as a share of tariff lines with data on trade flows. In particular, we introduce two alternative methods of exploring the depth and speed of liberalisation in RTAs: liberalisation statistics examined above as weighted by trade at the HS chapter level, and the actual percentage of total trade (imports) from the RTA partner that is liberalised.

Figure 10 takes the first cut, examining the evolution of duty-free treatment as trade-weighted share of tariff lines. There are general similarities with the unweighted data in Figure 5; however, it is notable that the initial point at year 1 is higher in the trade-weighted dataset than in the unweighted tariff lines. This is hardly surprising: most trade occurs in sectors that are opened up rapidly, while sectors with backloaded liberalisation tend to have very little trade (precisely because they are protected). To be sure, while the bolded averages in the two figures are also similar, they are not immediately comparable due to different numbers of observations—38 vs. 27 RTAs.

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19 Notably, dairy has the lowest standard deviation of all of the chapters, showing that the low duty-free share of products in this chapter is relatively common across agreements in the Americas.

20 The calculations are based on data from United Nations Comtrade database, DESA/UNSD.
In the intra-regional sample, one of the most striking results is the high degree of liberalisation in the early years (as opposed to the finding in figure 5). However, this is mainly due to methodological reasons: the more backloaded agreements involving Mercosur were excluded from the sample, which flattens the average\textsuperscript{21}.

Figure 11 measures the evolution of duty-free treatment as a share of imports from the partner that are liberalised. By this measure, RTA partners in all regions on average reach the 90 percent mark right at year 10\textsuperscript{22}. Moreover and importantly, the figure does not capture the potential trade among the RTA partners. This is due in part to the endogeneity of trade

\textsuperscript{21} For the extra-regional case, the average is higher here than in the non-weighted case. There are two reasons for this. The most obvious is that EU-Lithuania and Thailand-Australia were excluded from the sample, and thus the agreements involving Singapore, where one or both countries provided immediate duty-free access, became more highly weighted. Second, all of the remaining schedules left in the trade weighted sample exhibited higher duty-free statistics (or the same when they reached 100 percent coverage) than in the unweighted sample where only tariff lines were analyzed. This was especially true of the EU-South Africa agreement, where both schedules returned a positive difference of around 20 percentage points in the first three years, while South Africa’s schedule maintained this difference throughout the 20-year period under study.

\textsuperscript{22} Ideally, imports were averaged over a three-year period immediately prior to the entry into force of the agreement. However, due to data availability constraints as well as to ensure consistency between versions of the Harmonized System, the number of years taken as well as the years themselves varied somewhat from party to party.
flows: even if the share of actual trade excluded from an RTA were very small, the potential trade could be very significant in the absence of policy barriers.\footnote{That the extra-regional sample has a higher average in figure 11 than in 10 is partially due to the sample set: here the EU-Morocco agreement was additionally excluded from this sample, increasing the average somewhat. The change in measurement method also had a strong positive effect on coverage in the two early years of the China-Hong Kong concession, flattening the initial part of the curve.}

**Figure 11 - Evolution of Duty-Free Treatment as % of Imports**

![Graph showing evolution of duty-free treatment as % of imports](image)

**TRQs and Exceptions**

While RTAs around the world are encompassing and liberalising, it is also the case that they carry provisions that could potentially be classified as “other restrictive regulations of commerce” under Article XXIV, such as TRQs, exceptions, and demanding rules of origin (RoO). Such provisions can qualify the market access provided for in the tariff lowering schedules—and, as such, affect the degree of liberalisation conferred by RTAs.
TRQs in RTAs are usually additional to TRQ entitlements under the WTO Agreement on Agriculture, so that the RTA parties’ existing entitlements are not affected. Figure 12 maps out the use of TRQs in the three sets of data. Countries of the Americas, like extra-regional agreements, are frequent TRQ users particularly in agriculture, and also employ TRQs in textiles (where extra-regional agreements do not apply TRQs). In the Americas, US agreements drive the TRQ incidence in agriculture, with Canada and Mexico contributing to a somewhat lesser extent. Box 1 details the operation of TRQs in CAFTA.

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24 GATT Article I establishes disciplines on general most favoured nation treatment and for preferential margins in arrangements that are mentioned in the article. The Appellate Body in the dispute Turkey – Restrictions on Imports of Textile and Clothing Products found that a dispensation could be available in cases where it could be shown that the proposed measure is essential to the formation of the PTA, but did not set the criteria by which this condition could be fulfilled in practice. Nevertheless, in quota-controlled markets where the Agreement on Agriculture allocates quotas to several supplying countries, the expansion of the quota of one supplying RTA partner will put downward pressure on prices, causing some erosion in the quota rents available to all quota-holders, while only the RTA partner is compensated by increased market access. Given the possible negative impact on other quota-holders, it is not clear that TRQs in RTAs are consistent with the WTO rules on quotas. It is also unclear whether Article XXIV provides a dispensation from those rules—or from GATT Article I.
Figure 12 – % of RTAs with TRQs, by Region and HS Section

- Live Animals/Products
- Vegetable Products
- Animal/Vegetable Fats
- Processed Foods/Tobacco
- Mineral Products
- Chemical/Industrial Products
- Plastics/Rubber
- Animal Hides/Skins
- Wood/Wood Articles
- Paper/Cellulose Material
- Textiles
- Footwear/Misc. Articles
- Stone/Glassware
- Precious/Semiprec. Mat.
- Base Metals
- Machinery/Electrical Equip.
- Motor Vehicles/Vessels
- Precision Instruments
- Arms/Munitions
- Misc. Manufactured Articles
- Art/Antiques

% of Agreements with Tariff Rate Quotas

- Intra-Regional
- Americas as Partner
- Extra-Regional
Box 1: Tariff Rate Quotas in CAFTA

The United States presented a single schedule of tariff concessions to the Central American countries and the Dominican Republic in CAFTA. However, there are some differences in the actual concessions to each Latin American party. The differences in treatment arise from the granting of immediate elimination of duties for finite quantities of some goods by means of a tariff rate quota. While some of the parties receive duty-free access under a quota, others do not, and while the products subject to quotas are similar across the parties, the quantities vary widely among them (table 3). The differences can have substantial implications, as the products in question are among the most sensitive, and as the tariff reduction takes a long time and may be subject to grace periods before actual reductions begin.

Each of the Central American parties and the Dominican Republic have their individual schedules on products entering from the United States. The concessions are rather similar for the various product categories among these countries. Table 4 displays the TRQs by the Central American countries and the Dominican Republic on the United States. Indeed, while there are some differences in the tariff elimination treatment within Central America for individual products and for the in-quota quantities, the products on which the Central American parties open TRQs tend to be very similar. The Dominican Republic has a slightly different list of products than the Central American parties do; however, the differences can in part be explained by the aggregation of the TRQ in terms of product coverage.

25 These tables are summary versions of those used in the Comparative Guide to the Chile-United States Free Trade Agreement and the Dominican Republic-Central America-United States Free Trade Agreement, a joint project of the Tripartite Committee (IDB, OAS, and ECLAC). The categories in the US table are in order of appearance in the US General Notes, while those for the Central America/Dominican Republic table are an alphabetized common set.

26 TRQs between the Dominican Republic and Costa Rica and Nicaragua are also part of the Agreement, but are not shown in these tables.
# Table 3 - Products Subject to Tariff Rate Quotas in CAFTA: US Tariff Quotas on Products Entering from Central America and the Dominican Republic

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Out-of-Quota Tariff Elimination Treatment</th>
<th>Initial Quantity</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CRI</td>
<td>DOM</td>
</tr>
<tr>
<td>Beef</td>
<td>15 year</td>
<td>10,536</td>
<td>1,320</td>
</tr>
<tr>
<td>Sugar (Organic)</td>
<td>Continued MFN</td>
<td>2,000</td>
<td>*</td>
</tr>
<tr>
<td>Peanuts</td>
<td>15 year, non-linear, 6 year grace period</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Peanut Butter</td>
<td>15 year</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Cheese</td>
<td>20 year, 10 year grace period</td>
<td>300</td>
<td>413</td>
</tr>
<tr>
<td>Milk Powder</td>
<td>20 year, 10 year grace period</td>
<td>50</td>
<td>*</td>
</tr>
<tr>
<td>Butter</td>
<td>20 year, 10 year grace period</td>
<td>50</td>
<td>*</td>
</tr>
<tr>
<td>Other Dairy Products</td>
<td>20 year, 10 year grace period</td>
<td>150</td>
<td>110 (230*)</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>20 year, 10 year grace period</td>
<td>97,087</td>
<td>160,194</td>
</tr>
<tr>
<td>Fluid Fresh Milk and Cream, and Sour Cream</td>
<td>20 year, 10 year grace period</td>
<td>407,451</td>
<td>*</td>
</tr>
<tr>
<td>Ethyl Alcohol (Central America originating)</td>
<td>Immediate</td>
<td>Unlimited</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Ethyl Alcohol (non-Central America originating)</td>
<td>Most Favored Nation</td>
<td>31,000,000</td>
<td>*</td>
</tr>
</tbody>
</table>

Source: Adapted from: Tripartite Committee, Comparative Guide to the Chile-United States Free Trade Agreement and the Dominican Republic-Central America-United States Free Trade Agreement, based on TRQ Annexes to CAFTA Agreement.

1 In-quota imports shall be free of duty as of entry.

2 With the exceptions of imports of "Sugar (Organic)") and "Ethyl Alcohol (non-Central America originating)" from Costa Rica, which remain fixed, access quantities will be subject to growth over time.

3 TRQ access based on trade surplus condition.

4 A fixed 2,000 MT TRQ was allocated by the U.S. to Costa Rica for organic sugar under the U.S. specialty sugar TRQ, and applies to tariff lines AG17011110, AG17011210, AG17019110, AG17019910, AG17029010, and AG21069044.

5 In the case of Nicaragua, an additional initial quantity of 250 metric tons applies to 5 tariff lines of the 52 total tariff lines making up the entire Cheese TRQ.

6 In the case of the Dominican Republic, an additional initial quantity of 220 metric tons applies to 4 tariff lines of the 46 total tariff lines making up the entire Other Dairy Products TRQ.

7 Or 10 percent of the base quantity of dehydrated alcohol and mixtures established under Section 423, whichever is lesser.

No TRQ.
### Table 4 - Products Subject to Tariff Rate Quotas in CAFTA: Central American and DR Tariff Quotas on Products Entering from United States

<table>
<thead>
<tr>
<th>Product Category</th>
<th>CRI</th>
<th>DOM</th>
<th>SLV</th>
<th>GTM</th>
<th>HND</th>
<th>NIC</th>
<th>CRI</th>
<th>DOM</th>
<th>SLV</th>
<th>GTM</th>
<th>HND</th>
<th>NIC</th>
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<tbody>
<tr>
<td>Bacon</td>
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<td>Beans</td>
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<td>Beef</td>
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<td>Buttermilk, curdled cream, and yogurt</td>
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<td>Cheese</td>
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<td>Cheese, mozzarella</td>
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<td>Fresh onions</td>
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<td>Frozen french fries</td>
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<td>Glucose</td>
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<td>Ice cream</td>
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<td>Meat dairy</td>
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<td>Liquid milk</td>
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<td>Milk powder</td>
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<td>Other dairy products</td>
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<td>Rice, rough</td>
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<td>Sorghum</td>
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<td>Soybean meal</td>
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<td>Sugar</td>
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Out-of-Quota Tariff Elimination Treatment:

- **GP** = grace period; **NL** = non-linear.
- **Con’t MFN** = Continued Most Favored Nation.
- **5. The aggregate quantity of goods entered into El Salvador from the United States under SAC provision 1006 shall be free of duty in any calendar year specified, "and shall not exceed 3,000 MT for ‘parboiled rough’ rice or its equivalent ‘parboiled milled’ rice quantity in any such year. Parboiled milled equivalency shall be calculated according to a 0.7 conversion factor, where 1 MT of parboiled rough rice is equivalent to 0.7 MT of parboiled milled rice.”**

| Source: Adapted from: Tripartite Committee, Comparative Guide to the Chile-United States Free Trade Agreement and the Dominican Republic-Central America-United States Free Trade Agreement, based on TRQ Annexes to CAFTA Agreement. |

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Figure 13 turns to exceptions, defining the share of product categories in which at least one of the parties to an RTA has placed an exception (i.e., never brings the tariff on the product to zero) or an exclusion (i.e., has exempted a product from the RTA concessions altogether). Exceptions in most RTAs fall on the most protected sectors—agricultural products, food preparations, chemicals, and textiles and apparel. In the Americas, Mexico’s agreements are the main drivers of exceptions in agriculture. Mexico-Northern Triangle, Chile-Central America, and Canada-Costa Rica FTAs contribute to the count in a broad number of sections. On the extra-regional front, the EU agreements and the Japan-Singapore FTA drive the figures.
Figure 13 - % of RTAs with Exceptions or Exclusions, by Region and Section

% of Agreements with Exceptions or Exclusions

- Intra-Regional
- Americas as Partner
- Extra-Regional
RTAs formed by the countries of the Americas are unique in three ways in comparison to other regions: they are mature; most of them are encompassing, liberalising all or nearly all products of the tariff universe; and particularly RTAs signed by the original NAFTA members free most products rapidly (usually some 70 percent in the first year), while the South American FTAs are somewhat more backloaded. In contrast, agreements in Asia are rather young, less encompassing, and, like European agreements, more backloaded. Singapore is a clear exception; it liberalises basically all goods in the first year.

There are similarities between the Americas and the extra-regional sample. Most extra-regional agreements, like those formed by countries of the Americas, liberalise 90 percent of tariff lines (as well as trade-weighted lines) by year 10 into the agreement. As such, the coverage of products in all RTAs tends to become rather homogeneous by the end of the first decade.

All three regional samples carry a number of outlier RTA parties (often southern parties) and product categories (particularly in sensitive sectors—agricultural products, food preparations, textiles and apparel, and footwear) that trail the overall trend of liberalisation. Many agreements in the Americas also carry provisions that could potentially be classified as “other restrictive regulations of commerce”, such as tariff rate quotas and exceptions. Such instruments appear to capture the price the region’s integrationist interests are to pay for the liberalising and encompassing RTAs. They could certainly also be interpreted as a challenge to multilateralising RTAs, or at least as an issue that prolongs moves toward multilateralisation. Indeed, some analysts see RTAs as useful vehicles for protectionist lobbies to lock in protection and capture rents in the RTA region. However and more positively, the fact that RTAs in most instances and in the Americas, in particular, do eventually drive protectionism down in basically all of the products in these sectors augurs well for multilateralisation: RTAs could be seen as the instruments to start overcoming protectionism.

Open Regionalism in the Americas?

The Americas is one of the most integrated regions in the world. Liberalisation within the regional RTAs is deep and many countries of the Americas are connected to most others in the region. But how discriminatory are agreements formed by countries in the Americas? Are

27 See, for example, Krueger (1995).
RTAs in the region based on “open regionalism”—i.e., has regional liberalisation been paralleled by multilateral liberalisation—and have the region’s RTAs created, rather than diverted, trade? The first part of this section examines this question in a preliminary fashion by addressing applied external tariffs and rules of origin. The second part discusses some recent empirical findings on the trade effects of RTAs in the Americas and beyond.

**Multilateral Tariffs in the Americas**

In the 1990s, MFN liberalisation in the Americas proceeded in lock-step with RTA liberalisation, with preferential margins remaining rather unchanged during the period. Indeed, in the late-1980s, many countries of Latin America started MFN liberalisation from average levels as high as 40 percent or more. However, the more recent period has seen fewer changes in the Western Hemisphere countries’ external tariffs: the proliferation of RTAs has been accompanied by little additional downward movement on external tariffs.

Appendix II Figures 1-2 take a snapshot of the regional economies’ and China, EU, India, and Japan’s applied tariff profiles, and the tariffs applied by these countries in the various HS chapters, respectively. The median chapter average of applied external tariffs in Latin America ranges from around 14 percent (Colombia) to 6 percent (Chile). The regional median is not very different from that of China; however, all Latin American countries have a lower median than is applied by India. US and Canadian tariffs are 2.8 percent and 3.5 percent, respectively.

Tariff dispersion in the region is rather moderate, barring extreme outliers particularly in Mexico (meat, cereals, and tobacco), and Costa Rica and Panama (dairy). As for dispersion across countries by chapter (figure 15b), the dispersion is rather moderate across the tariff universe; yet, outliers persist in textiles (Mexico) and agriculture (India, EU, Mexico, and the United States, among others). Averages are also higher in these sectors.

Whether the Americas features less or more discrimination than in the late 1990s requires a more detailed analysis than performed here. It is the case that the advance of RTA liberalisation has been accompanied by a more modest liberalisation of external tariffs in the past few years than was the case in the 1990s. In general, however, it can also be said that the

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28 It should be noted that these averages that non ad-valorem tariffs are not included in the averages (i.e., calculations do not include ad-valorem equivalents). Since non ad-valorem tariffs are generally more highly protective, the actual level of protection applied by the US and Canada would be slightly higher. Mexico, EU, and Japan also apply non ad-valorem tariffs to some degree.
region’s most liberalised countries in the RTA sphere also have the lowest MFN tariffs and least MFN tariff dispersion. Moreover, the formation of new RTAs has alleviated discrimination vis-à-vis the new partners (while also accentuating the disadvantages of remaining outside the RTA spaghetti bowl).

**Rules of Origin**

Rules of origin arbitrate the discriminatory impact and trade-creating potential of RTAs. Since a failure to meet the RoO disqualifies an exporter from the RTA-conferred preferential treatment, RoO can and must be seen as a central market access instrument reigning over preferential trade. The potential effects of RoO accentuate over time: RoO remain in place even after preferential tariffs have been phased out.

RoO are widely considered a trade policy instrument that can work to offset the benefits of tariff liberalisation in RTAs.29 RoO in effect set up walls around RTA members that prevent them from using some inputs in each final product. This can limit the access of member country producers to inputs from the rest of the world, as well as input providers’ sales to the RTA region. When rules are more restrictive, the walls are higher, and efficient allocation of resources is even more difficult. Moreover, multiple overlapping RTAs with divergent origin regimes entail many such walls to free and efficient sourcing of inputs. The multiple criss-crossing RTAs in the Americas make RoO of particular importance in the region.

Particularly agreements forged by the original NAFTA partners carry some of the most complex and restrictive rules of origin (figure 14).30 Encouragingly, however, unlike the straitjacket RoO model that the EU uses in all of its RTAs, agreements in the Americas are marked by diversity in RoO that suggests not only political economy forces but also accommodation of RTA-specific idiosyncrasies. The regional countries have also employed such measures as short supply clauses to help producers adjust to shocks in availability of intra-regional inputs.

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29 Most prominently, RoO can be employed to favour intra-RTA industry linkages over those between the RTA and the rest of the world, and, as such, to indirectly protect RTA-based input producers vis-à-vis their extra-RTA rivals (Krueger 1993; Krishna and Krueger 1995). As such, RoO are akin to a tariff on the intermediate product levied by the country importing the final good (Falvey and Reed 2000; Lloyd 2001).

Furthermore, developments over time are marked by a trend toward market-friendly rules of origin, particularly in North America. US RoO regimes have evolved toward a more liberal framework from NAFTA to US-Chile FTA, CAFTA, and US-Colombia and US-Peru FTAs; in the meantime, NAFTA RoO regime itself has been under a liberalisation process, with more flexible RoO being adopted in as varied sectors as alcoholic beverages, petroleum, chassis fitted with engines, photocopiers, chemicals, pharmaceuticals, plastics and rubber, motor vehicles and their parts, footwear, copper, and others.
Economic Effects of RTAs in the Americas: Trade Creation or Trade Diversion?

Academic literature remains divided as to whether RTAs are ultimately trade-creating or trade-diverting—and whether RTAs are a stepping stone or a stumbling bloc to global free trade\textsuperscript{31}. Deardorff and Stern (1994), Baldwin (1993, 2006), Wei and Frankel (1995), Bergsten (1995), Frankel, Stein, and Wei (1997), Ethier (1998), Cadot et al. (2001), Freund (2000) and Ornelas (2005), and, on the political science side, Oye (1992) and Kahler (1995), provide grounds for believing that RTAs can be ever-expanding and propel strategic interactions conducive to global free trade. In contrast, Bhagwati (1993) argues that reduced protection between RTA members will be accompanied by increased protection vis-à-vis outsiders, with RTAs ultimately undermining multilateral liberalisation. Cooper (2004) holds that FTAs can deviate attention and resources from accomplishing multilateral liberalisation.

For many authors such as van der Mensbrugghe et al. (2005) and Schott (2004), much depends on the exact characteristics of RTAs. Aghion, Antràs, and Helpman (2006) arrive at two equilibria: one in which global free trade is attained only when preferential trade agreements are permitted to form (a building bloc effect), and another in which global free trade is attained only when preferential trade agreements are forbidden (a stumbling bloc effect). To be sure, while seeing RTAs as the second-best option to multilateral free trade, most analysts view them as superior to not liberalising at all.

There are few studies that engage tariff concessions. Limão (2006), examining concessions, finds that the United States and the EU have limited their multilateral tariff liberalisation in goods traded with the RTA partners. Limão and Olarreaga (2006) make a similar finding in the case of import subsidies afforded to RTA partners by the United States, EU, and Japan.

However, Estevadeordal and Robertson (2004) and Estevadeordal, Freund and Ornelas (2005), operationalising tariff liberalisation in a number of Western Hemisphere RTAs, find that RTAs in the Americas have not only been liberalising and conducive to trade in the region, but also helped further multilateral liberalisation. The latter examine the effects

\textsuperscript{31} For early works on the welfare effects of RTAs and customs unions, in particular, see Viner (1950), Meade (1955), Lipsey (1960), Johnson (1965), Mundell (1964), Corden (1972), and Kemp and Wan (1976). Richardson (1994) and Panagariya and Findlay (1996) extend the political economy analysis of PTA formation to looking at welfare implications of endogenously determined RTAs.
of RTAs on external trade liberalisation using industry-level data on applied MFN tariffs and bilateral preferences for ten Latin American countries from 1989-2001. The results show that the greater the tariff preference that a country gives to its RTA partners in a given product, the more the country tends to reduce its MFN tariff in that product. The authors conclude that RTAs can further open regionalism and set in motion a dynamic that attenuates their potential trade diversionary effects.

Suominen (2004) and Estevadeordal and Suominen (2006b) find that while RTAs help create trade, restrictive RoO embedded in them dampen their trade-creating potential. Meanwhile, restrictive RoO in final goods encourage trade in intermediate goods, and can thus entail trade diversion in inputs. Estevadeordal, López-Córdova and Suominen (2006) extend the analysis of the effects of RoO to investment flows in manufacturing industries in Mexico, finding that investment in Mexico during the NAFTA era has been attracted to sectors with flexible RoO—RoO that allow industries to establish production and supply networks of global reach, and thus also import supplies from around the world (rather than from the NAFTA market alone, as they would have to do in the presence of restrictive RoO).

Overall, the empirical evidence of RTAs’ trade-creating effects remains mixed. Much appears to depend on the instrument (tariffs, RoO etc.), time period, and set of countries and product categories that are analyzed. Nonetheless, the continued drive toward RTAs even among distant partners should help ensure, barring the implications of RoO, that blocs become increasingly connected to the rest of the world if not by multilateralism then by way of regionalism, evolving to an increasingly “fuzzy” and “leaky” format (Baldwin 2006).

**Beyond Market Access: Services and Investment**

Analyzing tariffs and other instruments governing trade in goods provides at best a limited view of RTAs’ anatomy and effects. RTAs formed by countries in the Americas, much like RTAs around the world, contain a host of disciplines beyond tariffs ranging from investment to competition policy; from labour issues to dispute settlement; from standards to government procurement and transportation. These can provide for important complementarities, such as between tariff, services, and investment liberalisation.
This section strives to supplement the tariff liberalisation statistics by providing a brief comparative analysis of the coverage (rather than depth of liberalisation) of investment and services provisions (listed in Appendix II) in agreements formed by countries of the Americas in a comparative context as well as vis-à-vis multilateral agreements such as the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Investment Measures (TRIMS). The main question examined here is not the extent of liberalisation by RTAs, but, rather, the extent of their comprehensiveness. As such, this analysis can also help elucidate the extent to which RTAs are “WTO+” in terms of incorporating a larger number of and/or more specific provisions than are present in the multilateral regime.

**Services**

Services chapters in RTAs usually only cover modes 1 and 2 and are, therefore, separate from RTAs chapters on investment and temporary entry of business persons. RTAs generally cover a large number of services provisions, particularly most favoured nation treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers and denial of benefits. Many RTAs also contain (whether in different chapters or in annexes to the services chapters) specific provisions for telecommunications and financial services.

Intra-hemispheric RTAs are particularly comprehensive and often go well beyond GATS provisions (figures 15 and 16). Older agreements such as NAFTA, the first agreement to cover services in an exhaustive manner, cover MFN treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers and denial of benefits, as well as certain provisions for telecommunications and financial services. The coverage of services in these two sectors has accentuated in recent US agreements with Chile, Peru, Colombia and Panama, and, on the inter-regional front, with Australia, Singapore, and Morocco. In contrast, most South American agreements do not have specific services provisions.
Figure 15 – Coverage of 29 Services Provisions in Selected RTAs
Overall, this entails that more than 60 percent of inter- and intra-regional agreements cover MFN treatment, national treatment, market access, and unnecessary barriers to trade, and prohibit discriminatory treatment—all areas addressed by fewer extra-regional agreements, which are in general much thinner with the exception of the Japan-Singapore FTA, which covers national treatment, market access, domestic regulation, recognition of qualifications, transparency and restriction of transfers, as well as certain provisions on telecommunications and financial services.

Mexico and Chile’s agreements with the EU differ from each other. The EU-Chile FTA covers national treatment, market access, domestic regulations, recognition of qualifications, transparency and restrictions of transfers, and also contains a thorough regulation of telecommunications and financial services. The EU-Mexico FTA covers only MFN treatment, national treatment, market access, restrictions of transfers, and denial of benefits, while sporting no provisions on telecommunications and covering financial services only rather marginally.
**Investment**

As in services, the latest RTAs’ investment chapters tend to be encompassing, extending to such areas as MFN treatment, national treatment, transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements, expropriation, and investor-state disputes.

It is intra-hemispheric RTAs, and US RTAs in particular, that are comprehensive—and often extend well beyond GATS and TRIMs (Figure 17). Indeed, all RTAs forged in the Americas apply the four modalities of investment—establishment, acquisition, post-establishment operations and resale—and also cover such disciplines as MFN treatment, national treatment, and dispute settlement (figure 18). Eighty percent or more also cover transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements and expropriation. In inter-regional agreements, the coverage is somewhat lower due to the limited coverage of disciplines in the EU-Mexico and EU-Chile agreements, as well as in Chile-China FTA, P-4, and US-Jordan FTA. On the extra-regional front, Singapore and Australia’s agreements are more encompassing, but other agreements have scant coverage.

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32 An FTA’s investment provisions are coded when there is an investment chapter in an RTA or when the RTA refers to a bilateral investment treaty as the agreement applicable to the RTA. When no such mentioning is made, a zero value is assigned (even if the RTA partners were connected via a BIT.
Figure 17 - Coverage of 17 Investment Provisions in Selected RTAs
In sum, there is marked variation across RTAs in the coverage of services and investment provisions. Yet, the analysis also communicates clustering of RTAs by main world regions—Asia, Europe, North America, and South America. A closer inspection of the data also suggests the exportation of RTA models from one region to the next through trans-continental RTAs, such as “borrowing” of some of the US-Chile RTA’s market access provisions in the Chile-Korea RTA. Many US RTAs in particular could be viewed as WTO+ in terms of incorporating a larger number of and/or more specific provisions than are carved in the multilateral regime. This indicates the perceived usefulness of rule-making in the RTA context, perhaps both as a means of overcoming slow multilateral negotiations and as a way to deepen and appropriately mould provisions that are particularly pertinent to the RTA relationship—as well as a tool to attain greater synergies across the various RTA disciplines.
Furthering Multilateralisation in the Americas

Countries of the Americas are at a crossroads: their intra-regional integration is increasingly complete and mature, and many regional countries have already established ties with numerous extra-regional partners. As such, the key challenge for many countries of the region is not as much the negotiation of new agreements as it is optimising the benefits of their existing RTA portfolios. One key measure for achieving this is to address the domestic supply-side constraints to trade. But another has to do with the external environment, where one policy option is multilateralising the regional RTAs.

Conceptually, multilateralisation can be achieved through pulling three alternative (yet complementary) levers: multilateral, regional and two-way.

The multilateral lever could entail changing and/or making more precise the multilateral rules governing RTAs, particularly the rather vague requirement of the GATT Article XXIV that RTAs liberalise “substantially all trade” among the partners and eradicate “restrictive regulations on commerce” within a “reasonable length of time”, and not raise new barriers to trade vis-à-vis non-members. For transparency purposes, the multilateral path could also entail strengthening the notification of RTAs to the WTO and deepening the incipient multilateral examinations of RTAs’ compliance with Article XXIV.

The regional lever could be applied within each individual RTA or among groups of RTAs. The former would mean driving down intra-RTA barriers and lowering discrimination toward non-members (or incorporating new members). The latter would entail convergence—merging RTAs together into broader cumulation zones through the adoption of common rules and regulations—while driving external protection to the lowest common denominator.

The two-way lever would entail using what is “regional” to shape what is “multilateral”, and vice versa. For instance, it could mean using the empirical measures of liberalisation and external discrimination in RTAs, something this paper has sought to establish, as a revealed regional preference and reality check in multilateral rule-making on RTAs, and as an agreed-upon benchmark for new RTAs to aspire to. It could also mean employing tried and tested trade-related disciplines in RTAs that currently go beyond multilateral rules in coverage and/or precision in crafting new multilateral trade rules.
Conversely, the two-way lever could be pulled to incorporate new multilateral rules governing RTAs in the texts of new RTAs, and even involve some mechanisms to enforce compliance with multilateral mandates at the regional level. It could also bring some multilateral rules to govern regional convergence processes to ensure that expanded RTA zones would not result in discrimination vis-à-vis non-members or systemically problematic scenarios along the lines of Krugman’s (1991) three-bloc world.

Besides the political opposition to multilateralisation, however accomplished, the risk to be managed in any of these processes would be one of incentives. Stronger multilateral monitoring of RTAs could turn countries away from regionalism, while doing little to guarantee that they would turn their energies to multilateralism. Regional convergence among RTAs could yield trade-diverting megablocs should it raise effective barriers vis-à-vis non-members. Pulling the two-way lever risks straitjacketing regions with unsuitable one-size-fits-all multilateral rules and, conversely, succumbing to the political economy of RTAs at the multilateral level.

More concretely, what might be some of the regional levers countries of the Americas could pull (a process over which countries of the region have control) as opposed to the multilateral levers (that they do not fully control)?

The first alternative is an “all countries-all disciplines” approach: pursuit of a broad integration scheme in the Americas that would open all regional trade channels and streamline the regional trade architecture, essentially superseding the RTAs crisscrossing the region. Traders, investors, and customs authorities would need to refer only to one single agreement on such issues as market access and rules of origin, services and investment regulations, standards, dispute settlement, and so on. Akin to the FTAA, a region-wide RTA would also help circumvent the rise of intra-regional RTA-induced hub-and-spoke systems—and further trade creation when based on open regionalism (external tariff lowering by the members and RoO that result in lower effective restrictiveness than those of the existing regional RTAs).

The second and seemingly more feasible alternative would be a “selected countries-selected disciplines” convergence approach. This would at first instance mean knitting subsets of the existing RTAs together and allowing for cumulation among them. The initial focus of such a convergence could be market access provisions and rules of origin; again, the drive
should be toward the least restrictive RoO. The convergence packet could be gradually expanded to incorporate further disciplines and/or further countries (i.e., move toward an all countries-all disciplines model), perhaps with some form of variable geometry. While differing in process from that aiming at a mega-regional agreement, convergence would have effects similar to those of a single integration agreement among the set of RTAs pursuing it—open the current non-RTA channels and simplify the whole of the regional RTA network—and likely also greater in terms of the economic impact than the sum of the parts. Some of this thinking is taking hold in the Americas, perhaps most concretely among the Pacific Basin Forum of 11 countries in Latin America, which has formed a working agenda to study, among other things, trade convergence and integration.

The third and again more feasible alternative would be a “case-by-case” approach: accelerating liberalisation within each individual RTA (as well as vis-à-vis nonmembers) for instance by reducing the restrictiveness of rules of origin, as has been pursued in the NAFTA context since 2003.

There are other, shorter-term, more piecemeal tactical measures that could be taken. One possibility would be to liberalise goods (both in RTAs and vis-à-vis third parties) in product categories that countries in the region have already liberalised to major exporters in or outside the region, so that the marginal pain of liberalisation in these sectors is small if not inexistent. For example, in CAFTA, Central American countries freed photographic or cinematographic goods (HS chapter 37) and fruit and nuts (08) to imports from the United States, the key source of their imports in the two sectors, yet they also maintain positive applied MFN rates in these sectors. Another example is wood pulp (47) for Chile in the Chile-US FTA.

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33 See Estevadeordal, Harris and Suominen (2007) for details.
Conclusion

The underlying notion of this paper is that there are no clear and simple answers to whether RTAs are “multilateralised” or “multilateralisable”: much depends on the RTA, RTA partners, and product categories under analysis. We have found that RTAs in the Americas are among the most mature and liberalised in the world. However, as in other regions, in the Americas there are some outlier RTA parties and product categories that remain closed for extended periods of time. RTAs formed by the countries of the Americas also carry a number of trade policy instruments, such as TRQs and exclusions, that can curb liberalisation among the parties, and restrictive rules of origin, that can undermine trade between RTA members and non-members (as well as between RTAs).

Overall, however, the findings of paper are encouraging: particularly the manifold RTAs formed by the original NAFTA partners liberalise the bulk of goods and do so rapidly. Furthermore, the region’s integration was especially in its early days accompanied by forceful multilateral tariff liberalisation—the slowing of which may today be in part compensated by the regional economies’ seemingly incessant RTA spree with partners around the world. Countries of the Americas and the United States, in particular, have also pushed the frontiers of such RTA disciplines as services and investment. Today’s challenge for the region is managing the risks of the regional lever: pursuing a path that is good both for the regional countries and for the multilateral trading system.
References


## Appendix 1, Table 1

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* = Ratification dates.
Appendix II, Figures 1-2

Figure II-1 - Boxplots by Country (Chapter Distributions)

Source: INT calculations based on UNCTAD TRAINS data.
Figure II-2 - Boxplots by Chapter (Country Distributions)

Source: INT calculations based on UNCTAD TRAINS data.