



## **Mechanism for Institutionalization of the Trade Sector in ACD**

### **Concept Paper Prepared by the Islamic Republic of Iran**

#### **1. BACKGROUND AND JUSTIFICATION:**

- At the Coordinating Group of the Asia Cooperation Dialogue, held on 25<sup>th</sup> August 2009 in Colombo, institutionalization of the sectors such as trade, tourism and transport was proposed.
- In recent years, the ACD has progressed rapidly and dynamically in terms of membership, from 18 countries in 2002 to 31 countries by 2009, cooperation projects; in 20 areas, and dialogue (twice yearly at the ministerial level for 7 years now). Member countries felt that the time has come to explore issues and mechanism important to the future of the Forum particularly mechanisms related to the institutionalization of the ACD. One way to address the issue is focusing on a more areas with common interests widely among ACD members.
- Trade has assumed a central role in economic growth, development and well-being in many countries in Asia.
- Twenty years ago, North America absorbed 28% of all exports from East Asia. Today, that share has dropped to only 16.7% of East Asia exports. Meanwhile, Europe has consistently claimed about 15% of East Asia's exports. In 2008, the developed world absorbed only 32% of East Asia's exports. There is a considerable drop on exports of other blocks of Asia to destinations such as North America and Europe. The share of West and South part of Asia's export to the said destinations has dropped considerably. What this means, is that nearly 70% of Asia's export go to a destination other than the US and Europe ([www.wto.org](http://www.wto.org)). Increasingly, that destination is found somewhere else in Asia. Asia now absorbs 54% of its own exports. Over 10 years since 1996, the total value of merchandise trade within Asia has tripled. Experts expect these stunning rates of inter-Asian trade growth to continue.



- The total value of Asia's trade in 2007 was 3800 Billion \$, out of which 2040 Billion \$ was among the Asian countries. On the other hand Asia enjoys 27.9% of the world trade in 2007. According to the latest statistics, more than 54% of the Asia's trade is done within the continent ([www.wto.org](http://www.wto.org)).
- It should be added that the trade among the members of the regional groups in Asia is increasing. For example, the total value of trade of ASEAN countries in 2007 was 864 Billion Dollars out of which 216 Billions Dollars was among ASEAN members. At the same time, the total value of ASEAN imports in 2007 was 774 Billion Dollars, out of which 190 Billion Dollars was from the said block. The total value of trade among ECO and SAARC members in 2007 was 30 Billion \$ and 49 Billion Dollars respectively.
- Therefore, trade is one of the significant area of cooperation within the ACD, which has not been properly addressed since the inception of the Forum. This area of cooperation has suitable potential for paving the grounds for an enhanced and institutionalized ACD. The materialization of this matter needs aiming appropriately.

## 2. FINANCIAL TURMOIL AND ECONOMIC SITUATION IN ASIA:

Generally speaking, the macroeconomic and financial situation of Asia is more stable than many other regions. It is a fact that Asia remains the most dynamic region on trade and economic growth in the world today. It accounts for one third of the world's output in goods and services, and contributes almost half of the growth in global GDP. In 2008, despite the financial turmoil, emerging Asia outperformed other regions, growing by 7.7% on the average, compared with the global GDP growth average 3.2%.

We learnt from the current crisis that the exclusive dependency on external markets, outside our continent is not reliable. Reformulation of our domestic economies and trade to rely more on regional and intra-regional consumption for our goods and services is a need. Considering such approach within our Forum may result to establish links between various regional trade agreements in Asia.

Deepening, broadening and establishing links between regional and sub-regional economic groups in Asia could increase intra-regional trade volumes.



### **3. REGIONAL TRADE AGREEMENT IN ASIA:**

Regional Trade Agreements (RTAs) are proliferating in Asia. At least 26 such agreements involving Asian economies have entered into force since 2001. RTAs can be a cornerstone of larger economic block to increase regional cooperation beyond the multilateral agenda. They can also stimulate inward foreign direct investment and growth through technological transfers.

Regional experts are of the view that there is a possibility of enhancing intra-regional trade volume within ACD member countries and achieving proper agreement in Asia through establishing links between the existing regional trade agreements.

Economists along with policy makers are generally viewing trade agreements as a 'second best' process for trade expansion and economic growth on a continent scale. The current surge of Preferential Trade Agreements on a bilateral and multilateral basis in Asia is somehow helpful with a view to consolidating and deepening as well as institutionalizing trade agreement in whole continent.

Some of the most important RTAs in Asia can be named as follows:

- SAARC member countries are aware that the expansion of trade could act as powerful stimulus to the development of their national economies and convinced of the need to establish and promote regional preferential trade arrangement for strengthening intraregional economic cooperation. Hence, they established South Asian Free Trade Area (SAFTA). Members of the SAFTA are the member of ACD as well.
- ASEAN Free Trade Area (AFTA) is a trading bloc established by the Association of Southeast Asian Nations supporting local manufacturing in all ASEAN countries. AFTA, signed in 1992, aims to eliminate tariff and non-tariff barriers among its member countries. Members of the AFTA are the members of the ACD as well.
- The Economic Cooperation Organization (ECO) established Economic Cooperation Organization Trade Agreement (ECOTA) in 2003 to promote regional trade cooperation. 8 out of 10 ECO members are the member of ACD.



#### **4. OVERALL AIM:**

- The overall aim is to inter link trade agreement in Asia to contribute to the social and economic development of Asia as well as ACD member countries through enhancing regional and intra-regional trade within the Asia. Promotion of better understanding of Asia's economies and trade linkages are other aspect of economic cooperation within ACD.

#### **5. MAIN AIMS:**

- To reduce the associated costs of trade among the member countries in particular and Asian countries in general.
- To build institutions, adopt policies and develop mechanisms we need to expand trade between different blocks in Asia.
- To assist member countries liberalize trade policy at relatively low costs, reduce the risk of possible protectionist measures by trading partners and boost intra-regional trade.
- To share Asian market and increase exports among member countries to provide new opportunities for enterprises and expand their production as well as create more and better jobs.

#### **6. SPECIFIC AIM :**

- To establish links between the existing preferential trade agreements in Asia in the form of establishing a general trade agreement covering the

whole ACD countries in the first step and covering the rest of Asia in due time. This general agreement could be a sort of umbrella agreement.



## 7. EXPECTED ACTIONS:

- Establishment of an open – ended and ad hoc working group on trade for further consideration of institutionalization of trade sector in the ACD is recommended.
- Feasibility study should be conducted by an international consultancy group, which its evaluation will be presented to the said working group in order to prepare ACD framework agreement on trade for the 9<sup>th</sup> ACD Ministerial Meeting in 2010.
- ACD MM in 2010 may consider the framework agreement and advise the working group on trade how to proceed to achieve trade umbrella agreement in ACD.