

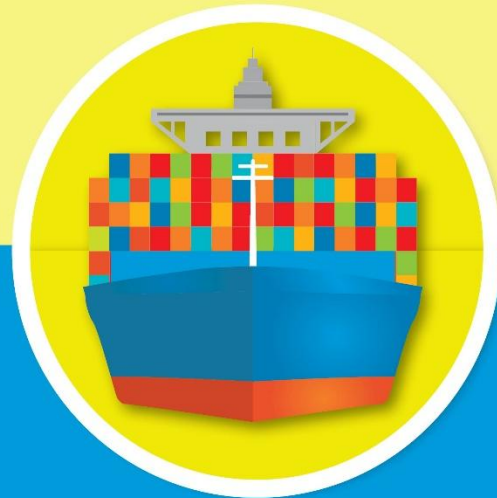
Regional Trade Agreements in Asia and the Pacific: Approaches and Emerging Trends

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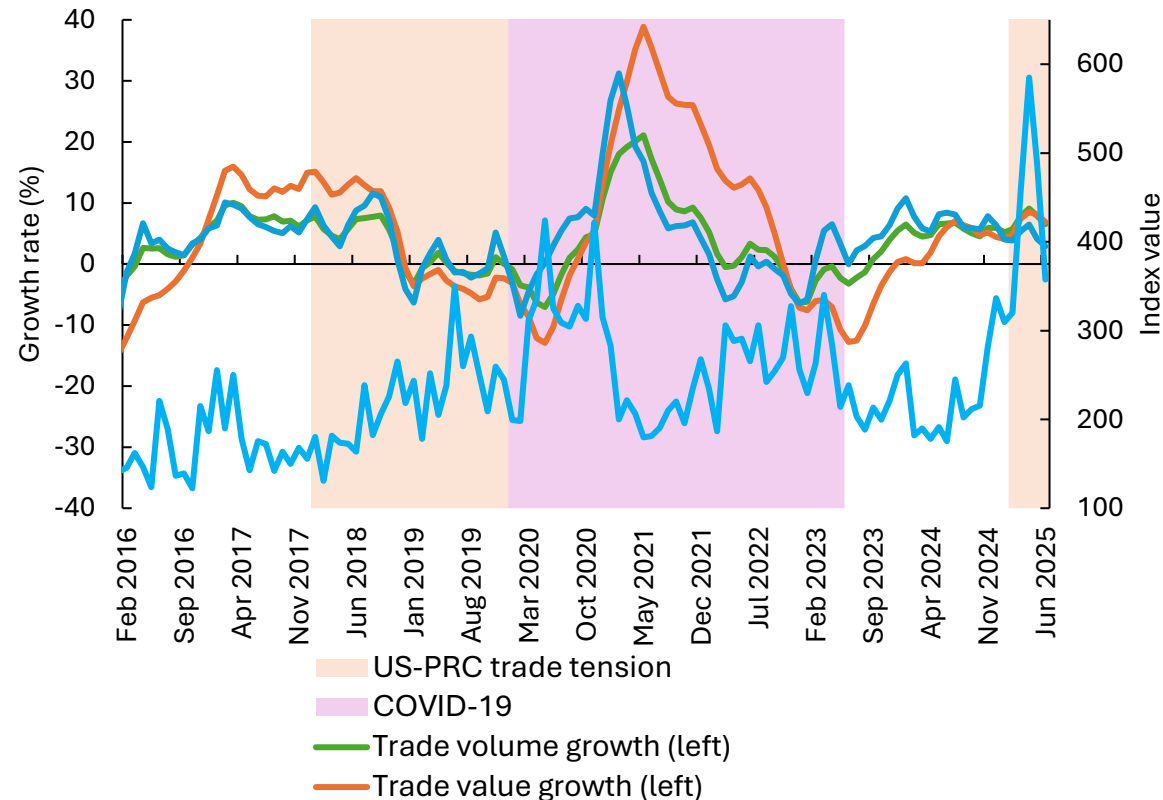
Outline

- Trends in RTA in Asia and the Pacific and CAREC economies
- Scope and breadth of Regional Trade Agreements in Asia
- RTAs, GVCs and trade facilitation

Merchandise trade in Asia and the Pacific has grown since 2024, though growth rates have declined in recent months

- The region's trade volume and value growth rates have been positive since early 2024
- The relationship between trade growth and policy uncertainty seems to be countercyclical
- Recent spike in uncertainty has been accompanied by a reduction in trade value and volume growth in Asia, though too early to say that this will be sustained

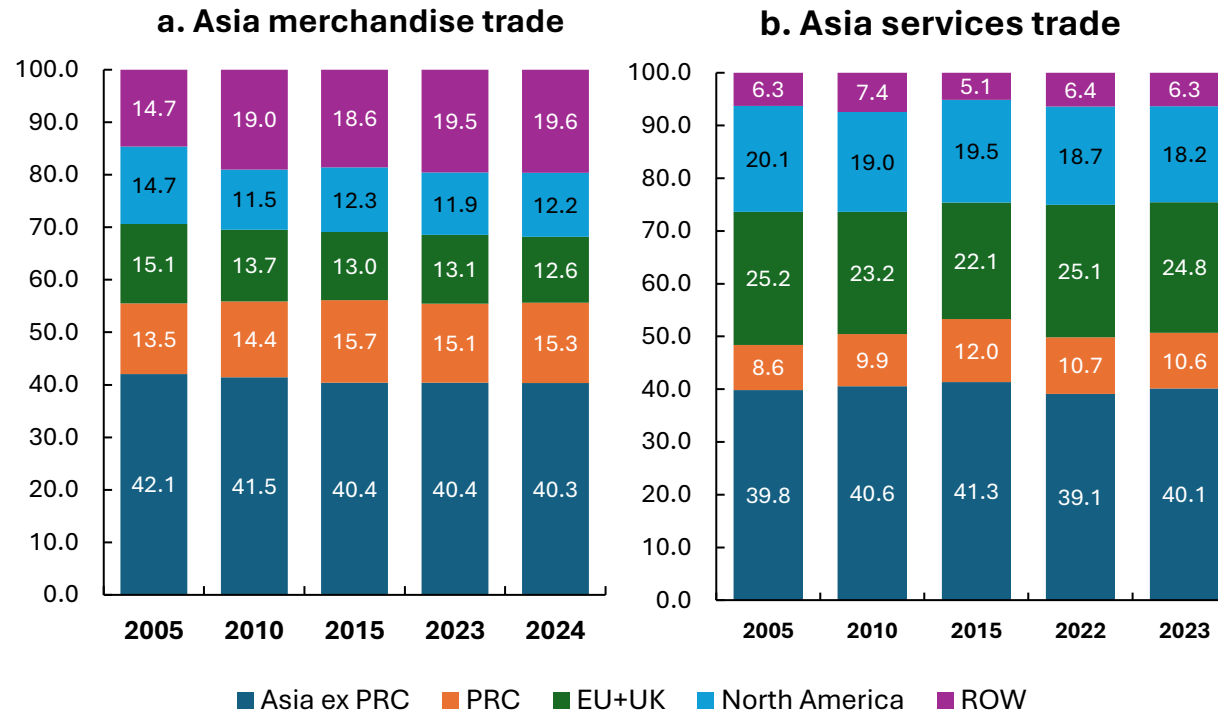
Asia monthly trade growth and global trade policy uncertainty



The regional component of merchandise and services trade in Asia remains strong

- The region's strong intraregional trade in goods and services has been maintained.
- In goods trade, it slightly increased from 55.5% in 2023 to 55.6% in 2024
- For services trade, the intra-Asia share rose from 49.8% in 2022 to 50.7% in 2023

Asia and the Pacific trade, by partner(%)

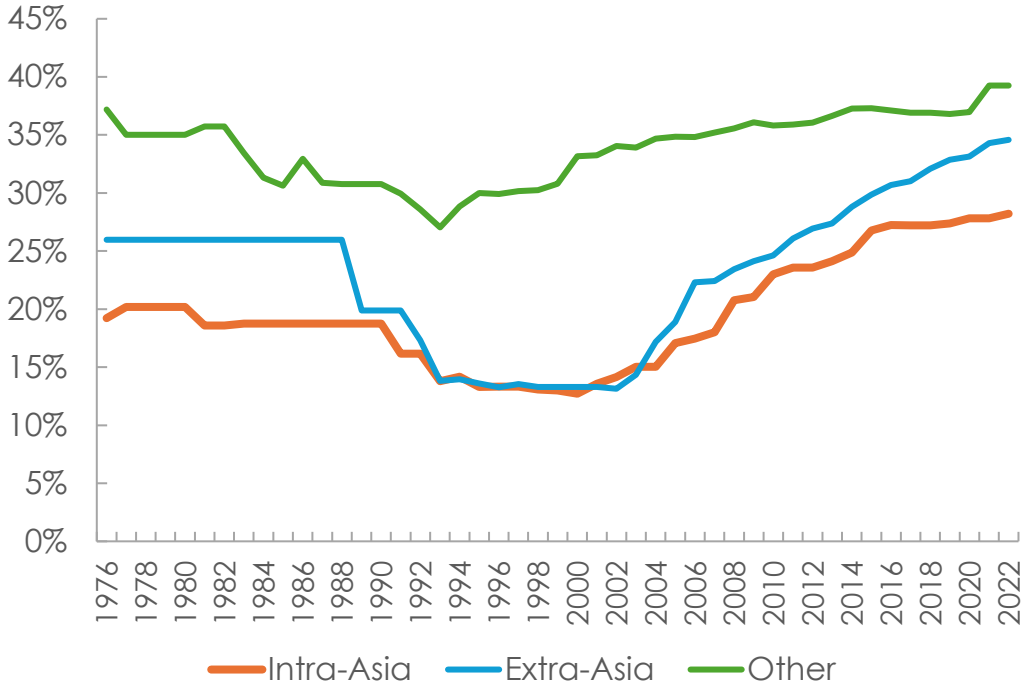


Note: Asia and the Pacific now includes Turkiye.

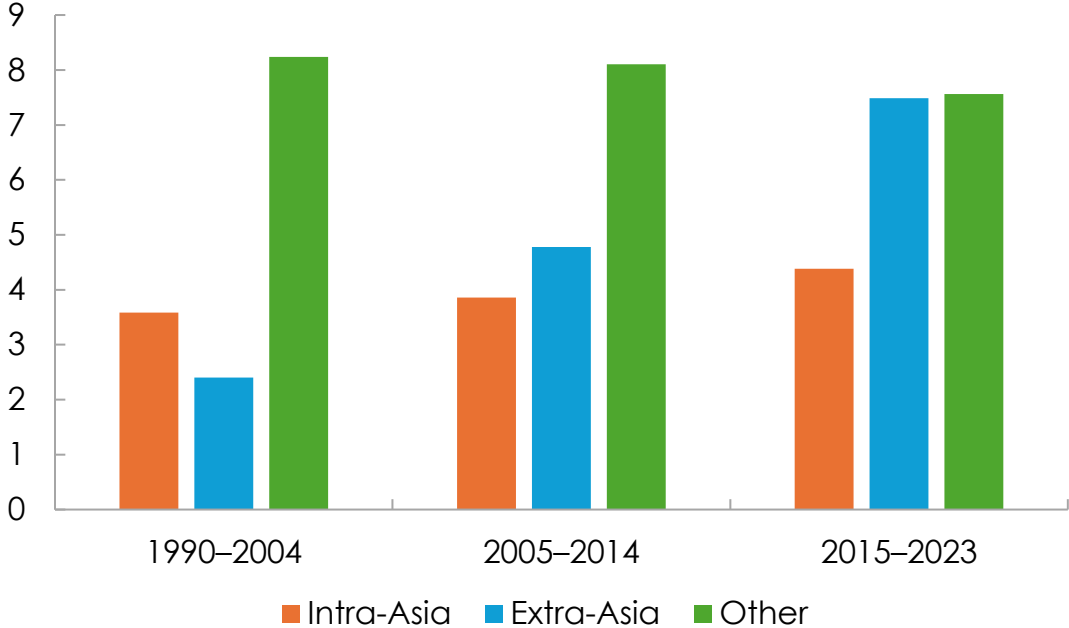
Despite the rising number of trade agreements, those involving Asian economies are narrower in scope and membership

Relative Scope of Trade Agreements

(% of total provisions, out of 52 provisions analyzed)



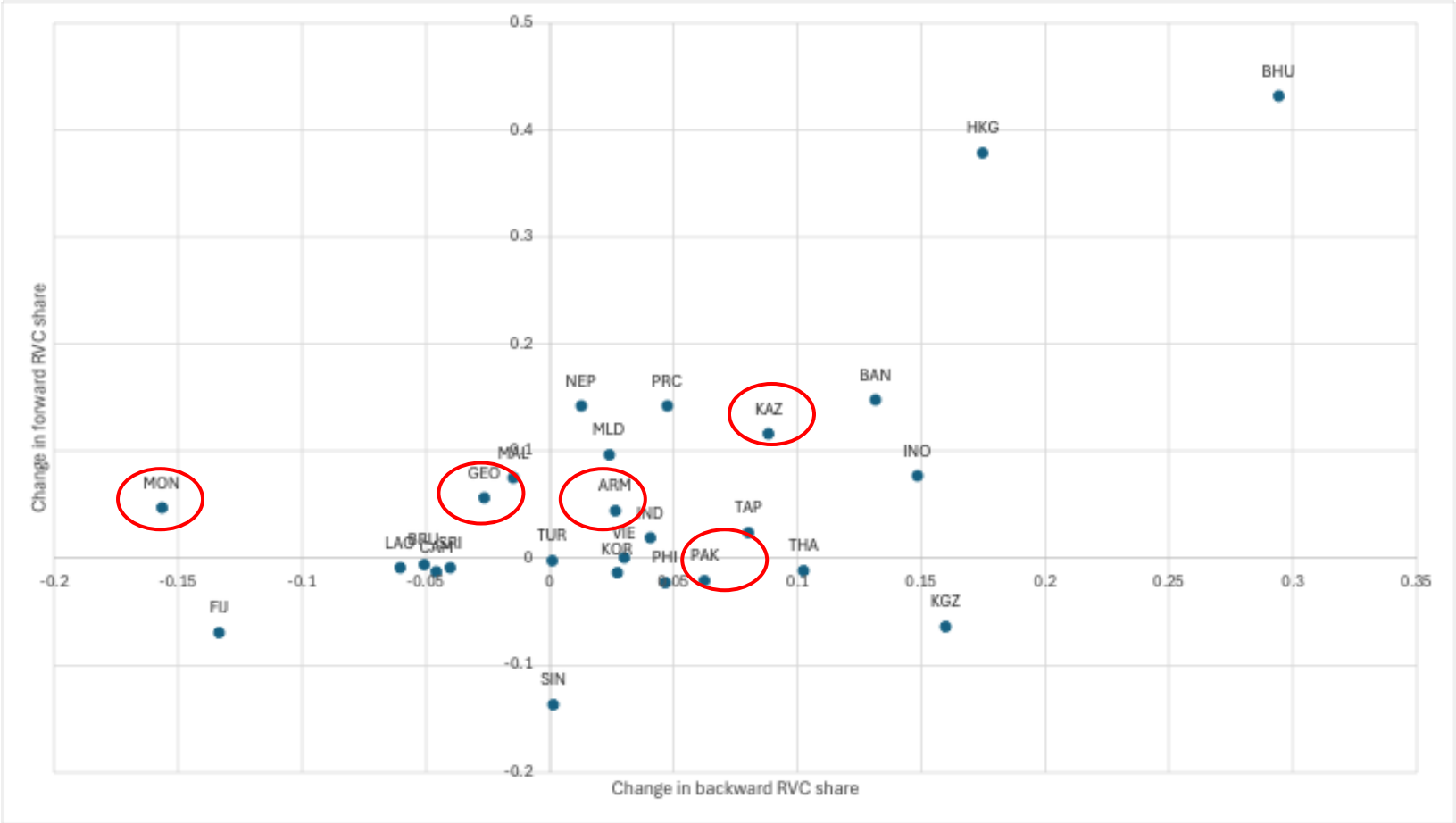
Average Number of Trade Partners in Trade Agreements by Geographic Scope



Notes: Asia refers to the 49 regional member economies of ADB. Intra-Asia refers to the trade agreements of Asian economies within Asia. Extra-Asia refers to the trade agreements of Asian economies with economies outside of Asia. Other refers to the trade agreements between non-Asian economies.

Source: ADB calculations using data from World Bank, Deep Trade Agreements Database. <https://datatopics.worldbank.org/dta/table.html> (accessed August 2024).

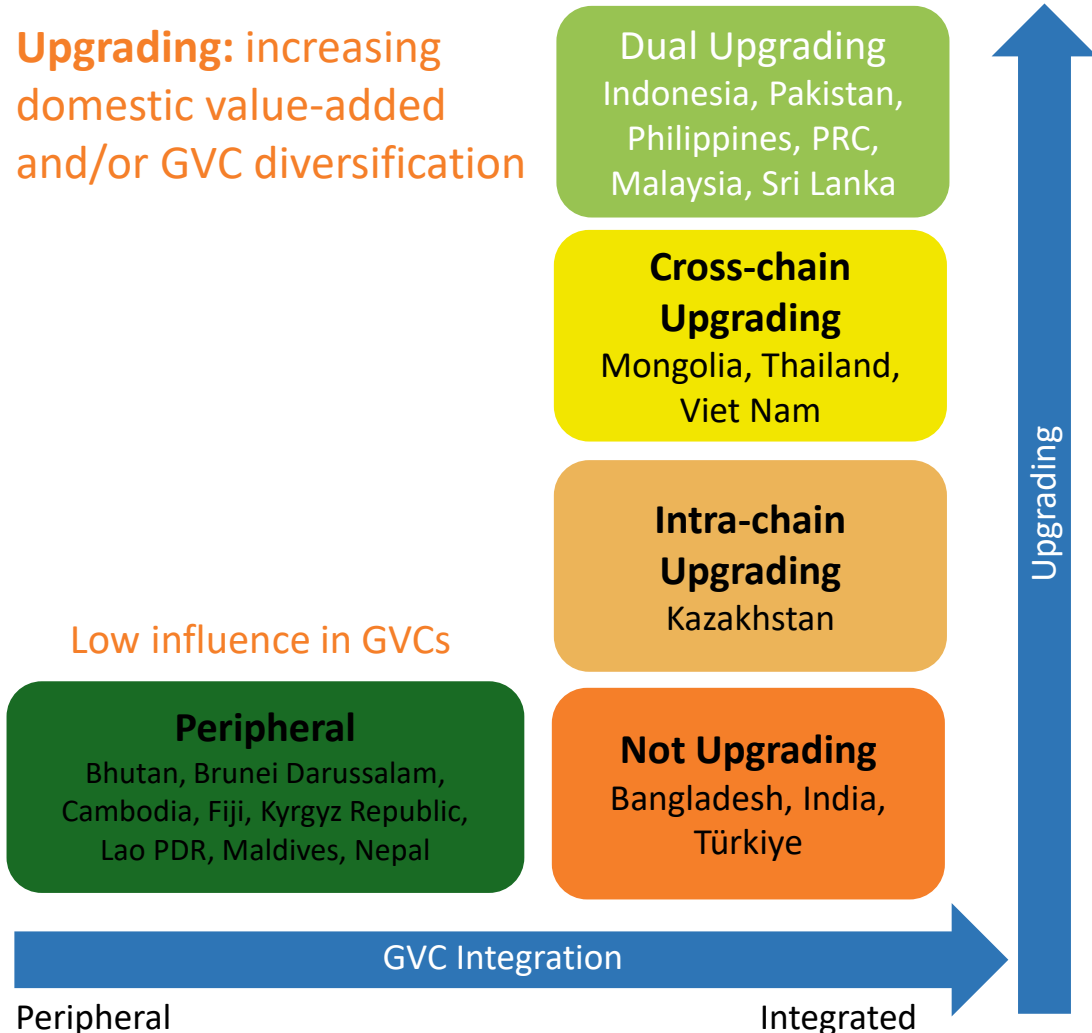
GVC integration has become more regional since 2017 in most ADB economies



Note: regional value chain participation constructed using hypothetical extraction
Source: ADB MRIOTs

GVCs, growth and inclusive development

Upgrading: increasing domestic value-added and/or GVC diversification



- Global value chains (GVCs) have enhanced growth and reduced poverty in developing Asia and the Pacific
- But the benefits have been unequally shared:
 - Some economies have remained peripheral in GVCs
 - Smaller firms, low-skilled workers, and females have not always benefited from GVC integration
- Emerging challenges are reconfiguring and narrowing traditional GVC pathways
- Realizing inclusive GVC gains requires coordinated system-level policies differentiated by the nature and level of GVC participation

Peripheral Integrated
 PRC = People's Republic of China. GVC = global value chain, Lao PDR = Lao People's Democratic Republic,
 Source: ADB.

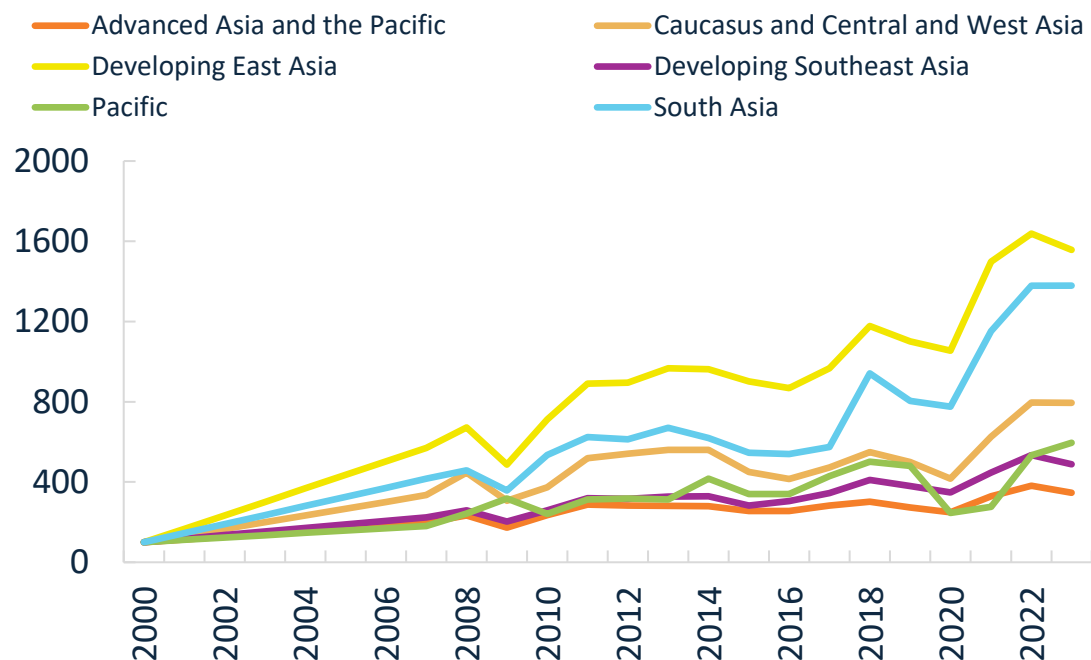
GVCs pathways differ by subregion, reflecting distinct development strategies, capabilities, and policies

All subregions have seen substantial increases in their GVC trade, with developing East Asia and South Asia showing the most impressive growth since 2000

Developing East Asia and Developing Southeast Asia have developed their high-tech manufacturing sectors, while South Asia has developed high-tech services and lower-tech manufacturing

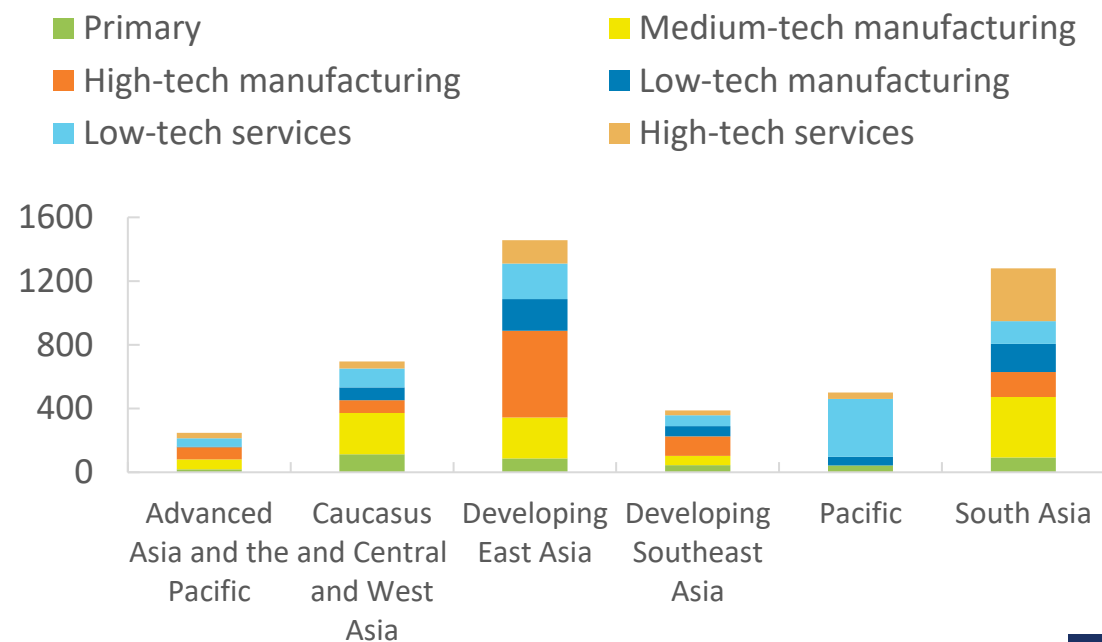
(a) Evolution of GVC Trade by Asian Subregion

(index, 2000 = 100)



(b) Growth in GVC Trade, by Sector and by Asian Subregion

(percentage change, 2000 vs. 2023)



GVC = global value chain.

Source: ADB calculations using data from ADB. Multiregion Input-Output Tables.

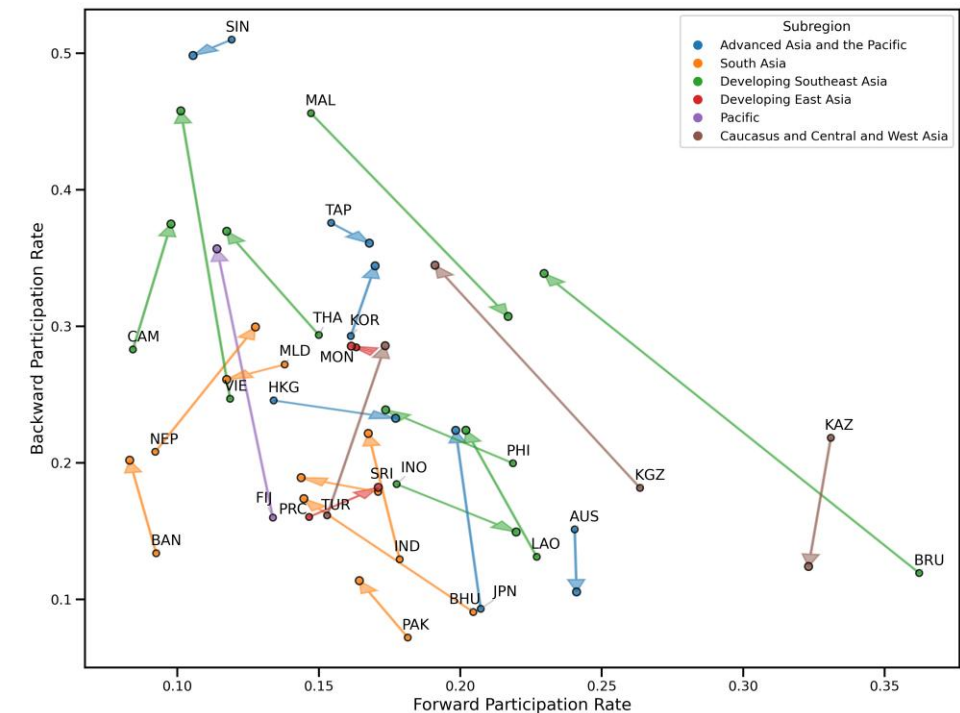
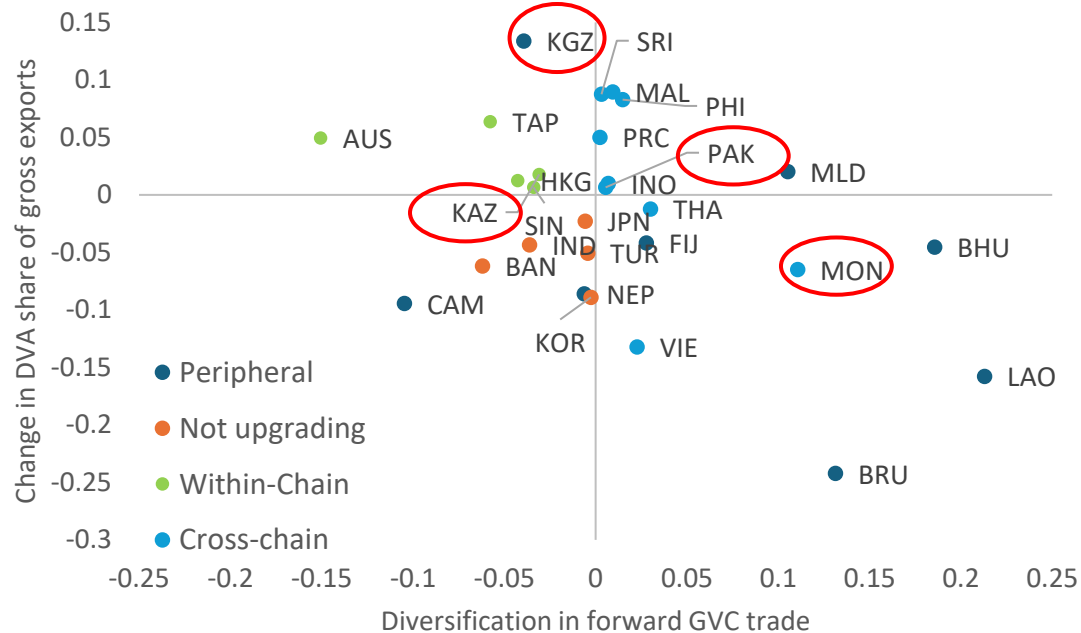


Upgrading in Global Value Chains show divergent paths across developing Asia and the Pacific

Upgrading is uneven across dimensions, with few economies both diversifying across value chains and raising domestic value-added performance

Few developing Asia and the Pacific economies have shifted upstream in GVCs, with the PRC and Malaysia achieving this in high-tech manufacturing

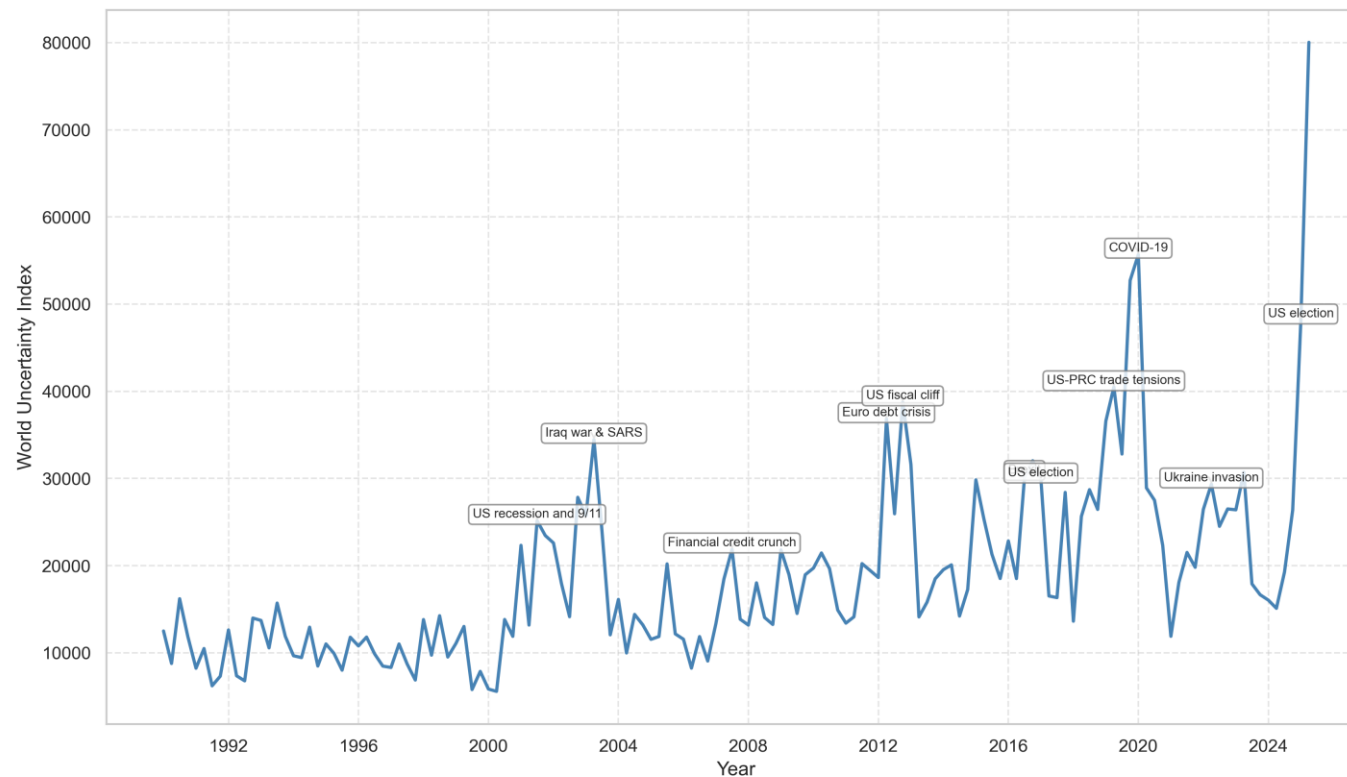
(a) Evolution of GVC Trade, Selected Asian Economies



AUS = Australia; BAN = Bangladesh; BHU = Bhutan; BRU = Brunei Darussalam; CAM = Cambodia; PRC = People's Republic of China; FIJ = Fiji; HKG = Hong Kong, China; IND = India; INO = Indonesia; JPN = Japan; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; KOR = Republic of Korea; LAO = Lao People's Democratic Republic; MAL = Malaysia; MLD = Maldives; MON = Mongolia; NEP = Nepal; PAK = Pakistan; PHI = Philippines; SIN = Singapore; SRI = Sri Lanka; TAP = Taipei, China; THA = Thailand; TUR = Türkiye; VIE = Viet Nam.

Source: ADB calculations using data from ADB. Multiregion Input-Output Tables.

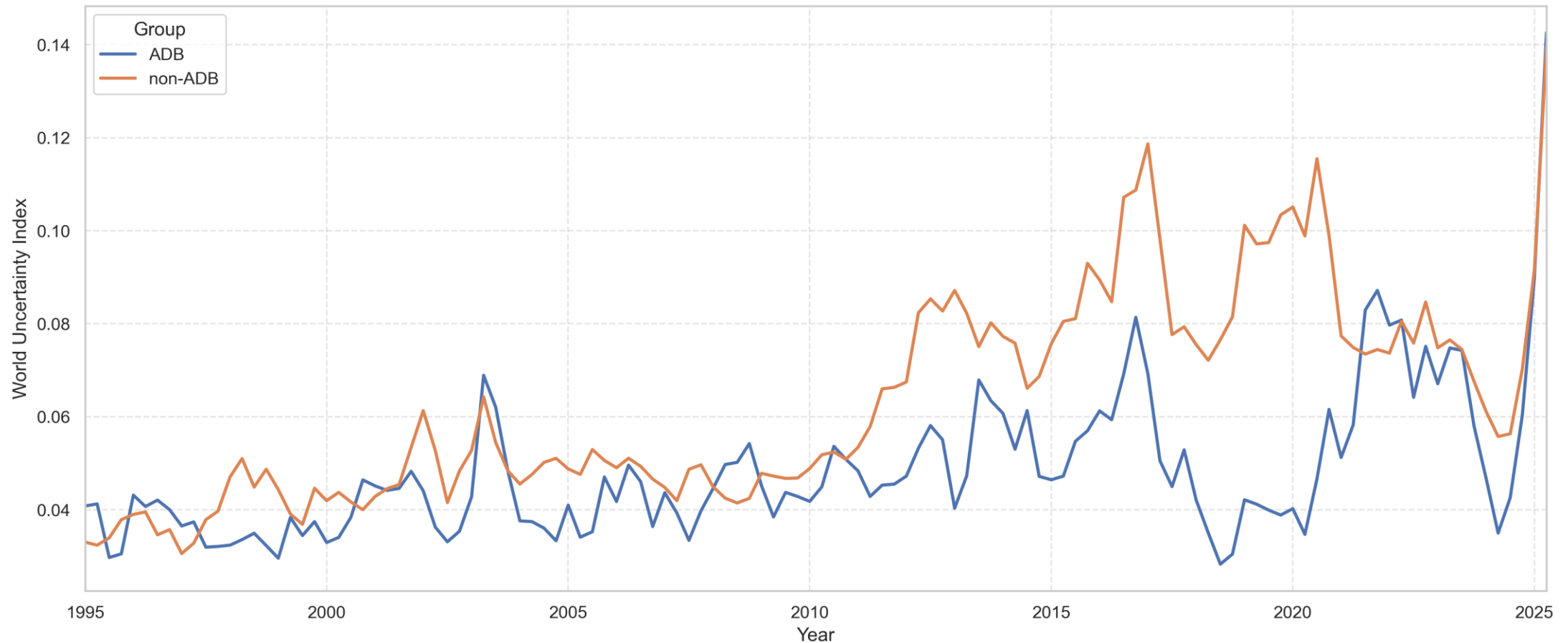
Global uncertainty has risen in recent years, further becoming more volatile



Notes: The index is constructed for 143 economies and reflects the frequency of the word “uncertainty” (and its variants) in Economist Intelligence Unit reports for each economy multiplied by 100,000.

Source: Ahir, H., Bloom, N. and Furceri, D. 2022. The World Uncertainty Index. NBER Working Paper no. 29763.

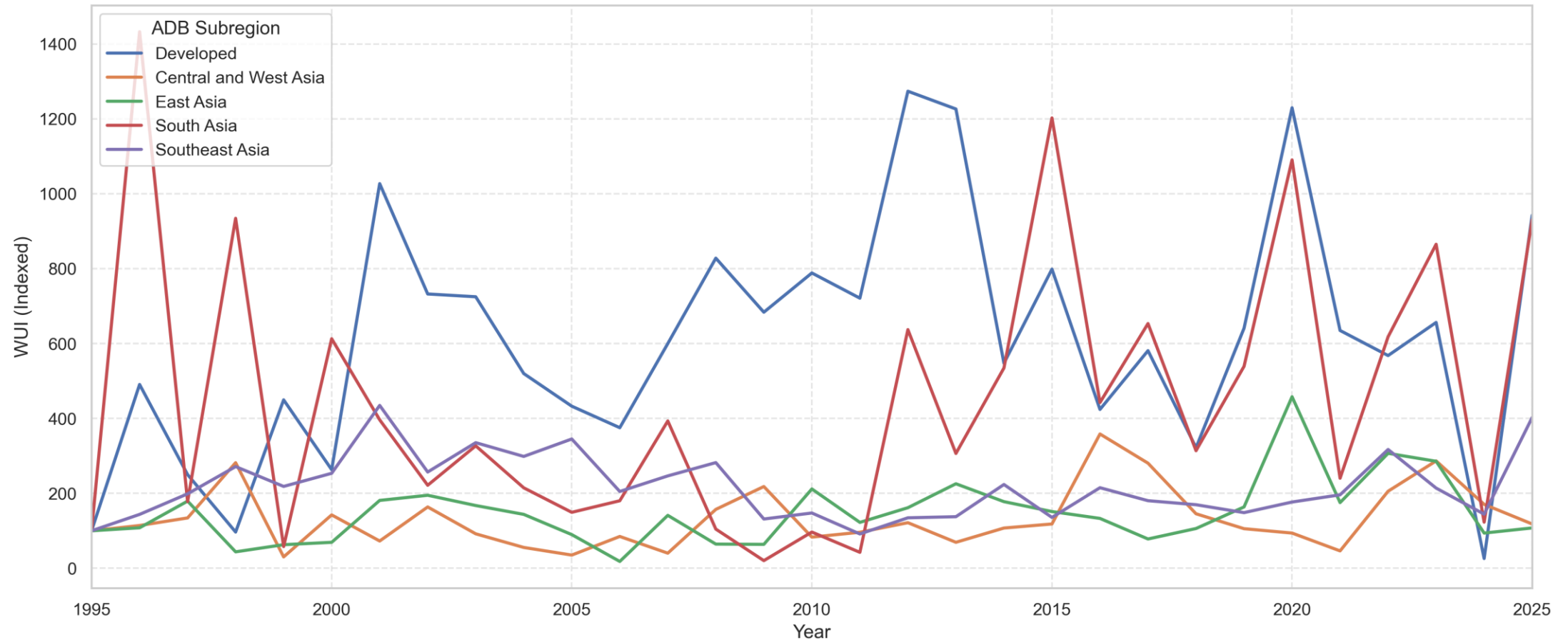
Uncertainty in ADB economies is below that in other parts of the world



Notes: The index is constructed for 143 economies and reflects the frequency of the word “uncertainty” (and its variants) in Economist Intelligence Unit reports. The figure reports unweighted averages for all 143 economies and the set of ADB economies.

Source: Ahir, H., Bloom, N. and Furceri, D. 2022. The World Uncertainty Index. NBER Working Paper no. 29763.

Differences exist across subregions, with higher uncertainty in South and Developed Asia



Notes: The index is constructed for 143 economies and reflects the frequency of the word “uncertainty” (and its variants) in Economist Intelligence Unit reports. The figure reports unweighted averages.

Source: Ahir, H., Bloom, N. and Furceri, D. 2022. The World Uncertainty Index. NBER Working Paper no. 29763.

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Background

- Recent years have seen increased economic uncertainty
 - This uncertainty driven by policy and non-policy shocks
- Uncertainty has become a central feature of the international economic environment
- With Asian economies deeply integrated into GVCs and reliant on stable trade flows, increased uncertainty presents risks
- To what extent has uncertainty impacted upon the trade of Asian economies?
 - Do trade agreements mitigate the effect of uncertainty?
 - What are appropriate policy responses to uncertainty?

Uncertainty can reduce trade and GVC activity, further shifting trade structures

- Consequences of uncertainty for trade:
 - Increase the cost and complexity of cross-border commerce
 - Complicates supply chain planning
 - May force firms to carry excess inventories and hedge against losses
 - Delay investment decisions, reducing investment in factories, technology, and workforce development
 - May encourage a cycle of uncertainty—as trust in existing trade rules fade, governments shift to increasingly ad-hoc responses
 - Effects may be more severe for small firms and vulnerable economies that struggle attract capital, sustain export strategies, and build productive capacity
- GVC firm's responses to uncertainty can alter established trade patterns:
 - Diversifying suppliers and destinations
 - Reshoring production
 - Investing in digital resilience

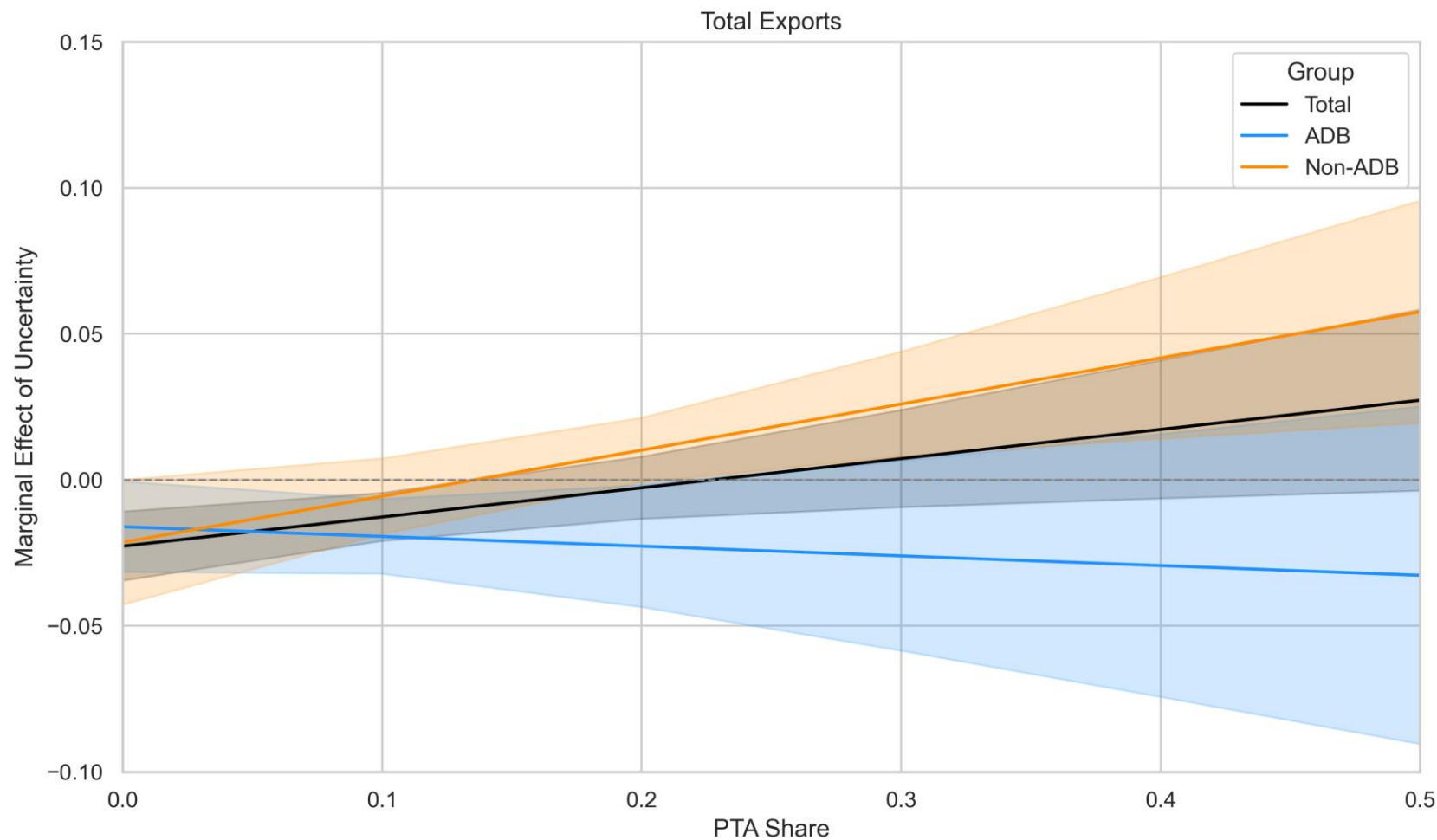
Rise of economic uncertainty is linked to several factors

- Geopolitical Fragmentation
 - US reciprocal tariffs, Increased US-PRC tensions, Reshoring / Nearshoring / Friendshoring, Weakened multilateral cooperation through WTO
- Climate Risk and Disasters
 - Asia is highly exposed to climate events that disrupt supply chains
- Technological Change
 - AI, automation, and digital trade are changing the nature of participation in GVCs
- Policy Volatility
 - Export restrictions (e.g., on food, semiconductors), sanctions, and sudden policy changes have injected uncertainty into cross-border trade
- Post-COVID Strategic Reconfiguration
 - Countries and firms diversifying supply sources and rethinking efficiency vs. resilience

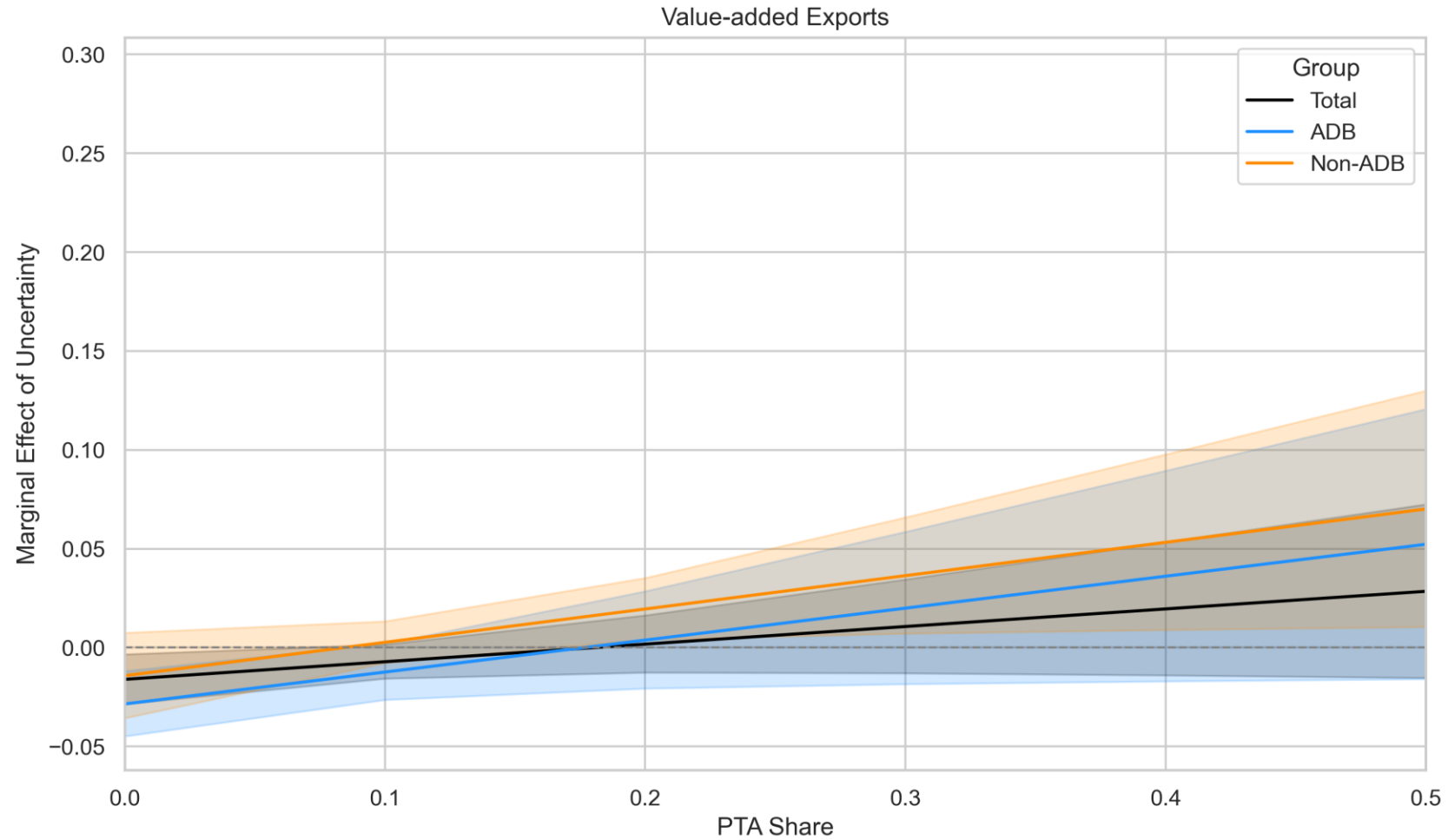
Do trade agreements mitigate the effects of uncertainty on exports?

- Rather than assuming that trade policy uncertainty has uniform impacts across countries or time, the institutional context of trade likely matters
- Trade agreements are designed to reduce uncertainty by embedding trade relationships in formal, rules-based frameworks.
 - Through tariff commitments, transparency provisions, dispute resolution mechanisms, and institutional coordination, PTAs can make trade policy more predictable, reducing the risks faced by firms engaged in international commerce.
- Economies with a higher concentration of trade within PTA-covered trade relationships may be better shielded from the adverse effects of uncertainty, as these agreements provide more stable and transparent trading conditions

Economies with low PTA shares see negative effects of uncertainty, though benefits are weaker in ADB economies

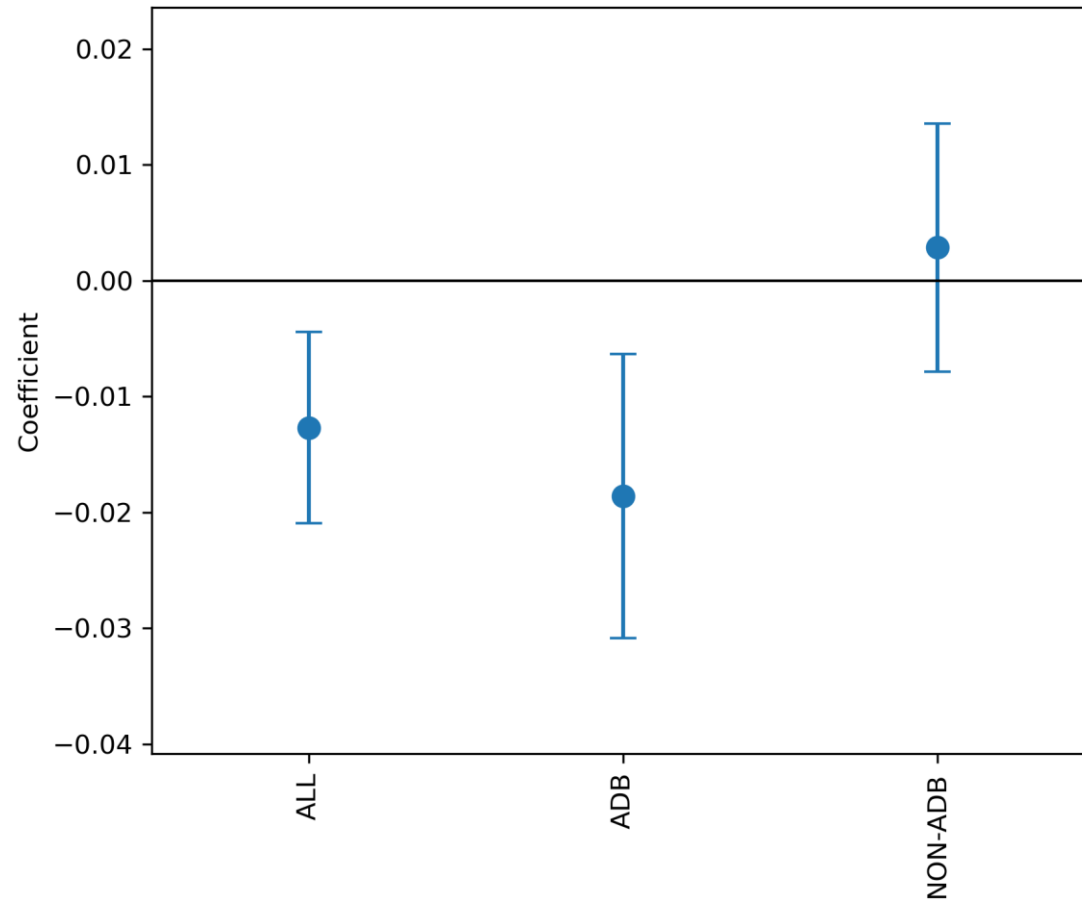


...with similar effects found for value-added trade

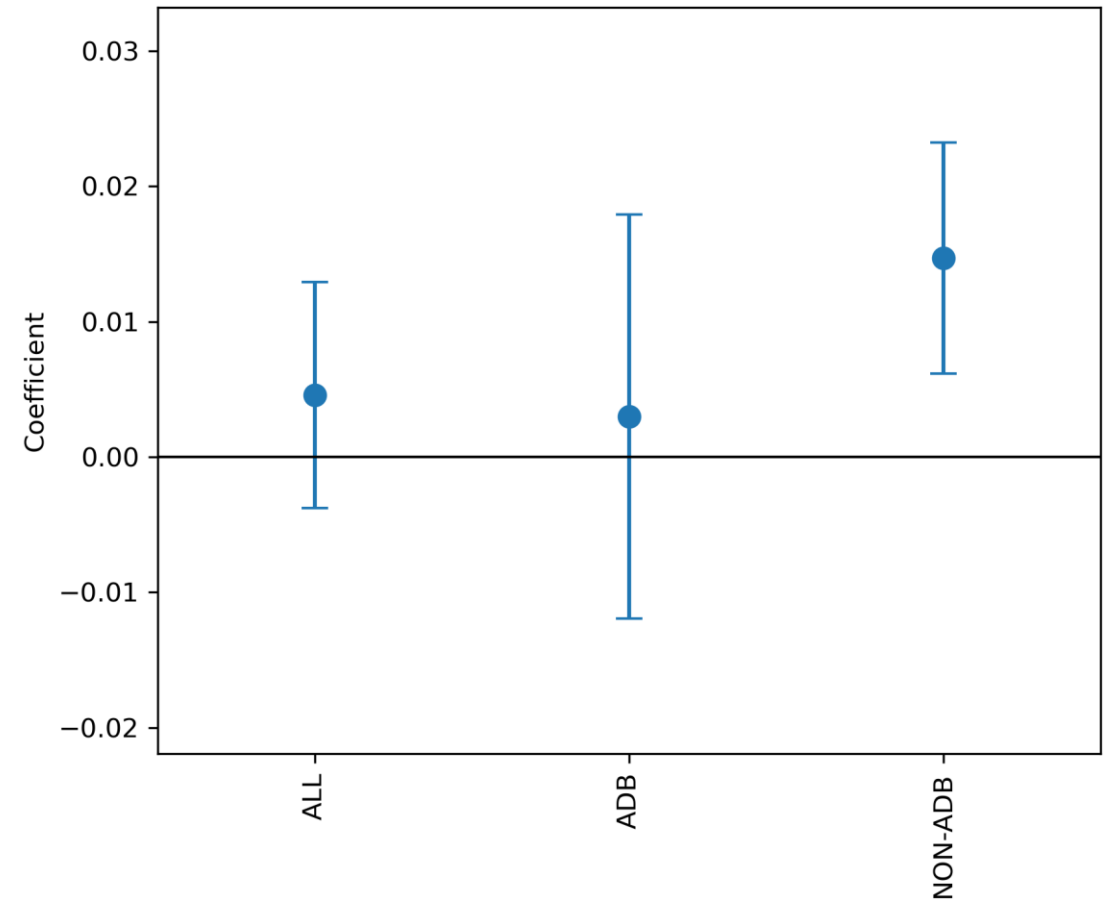


Uncertainty lowers (gross) exports in ADB economies by raising trade costs

Outward (export) Multilateral Resistance

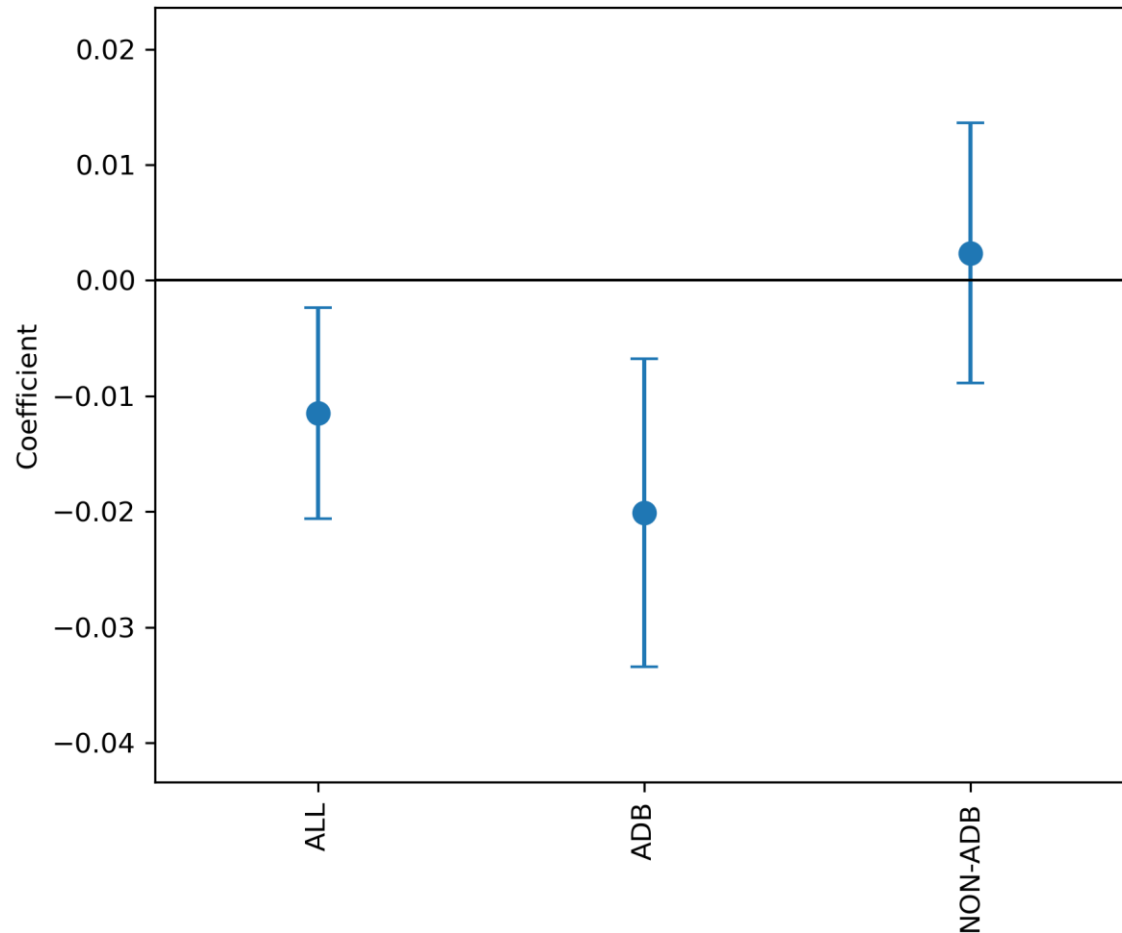


Inward (import) Multilateral Resistance

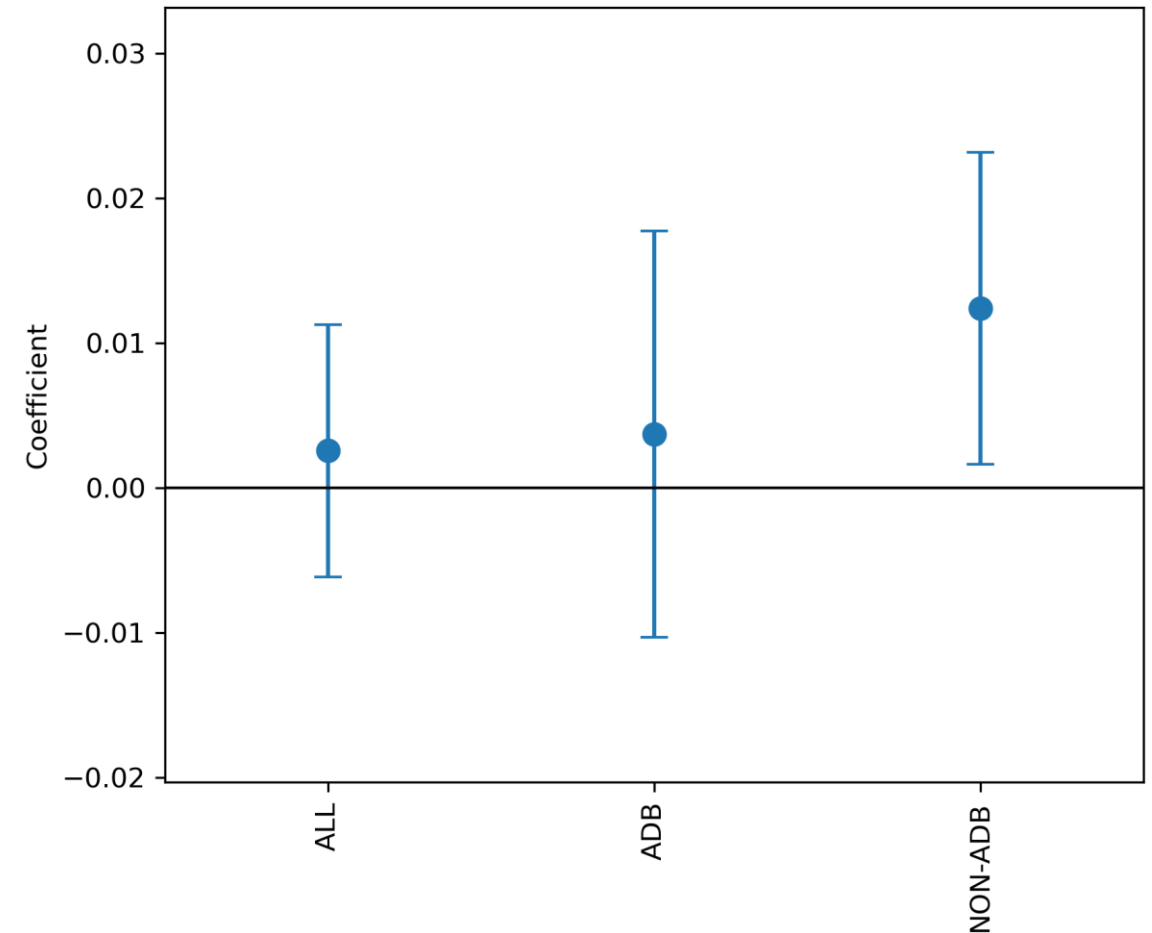


With similar effects found for value-added exports

Outward (export) Multilateral Resistance

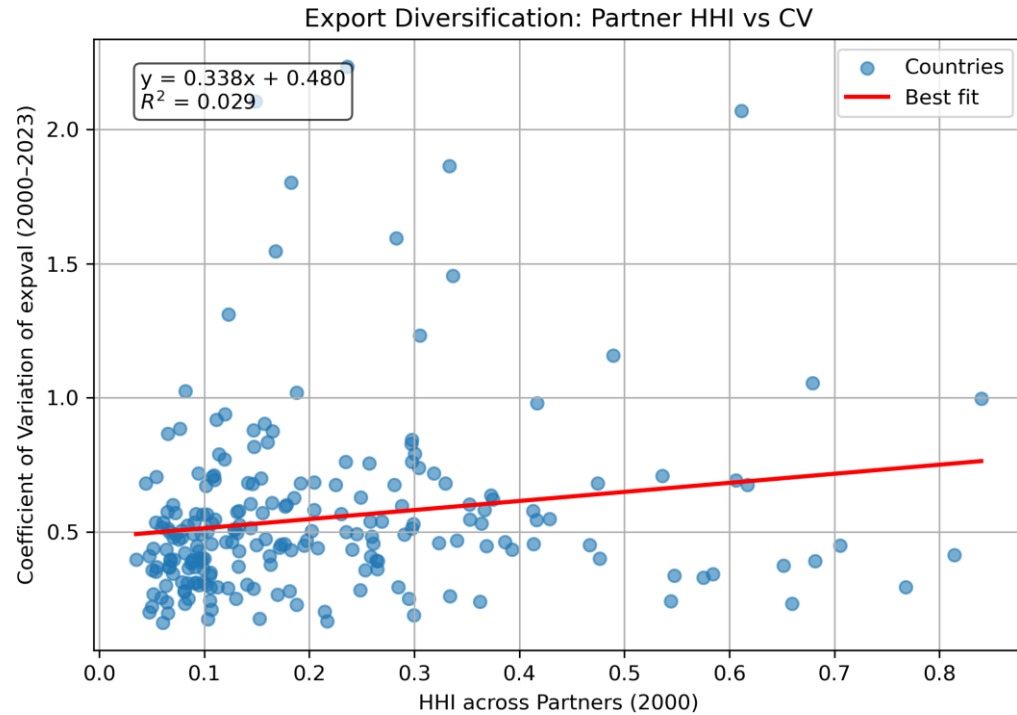


Inward (import) Multilateral Resistance

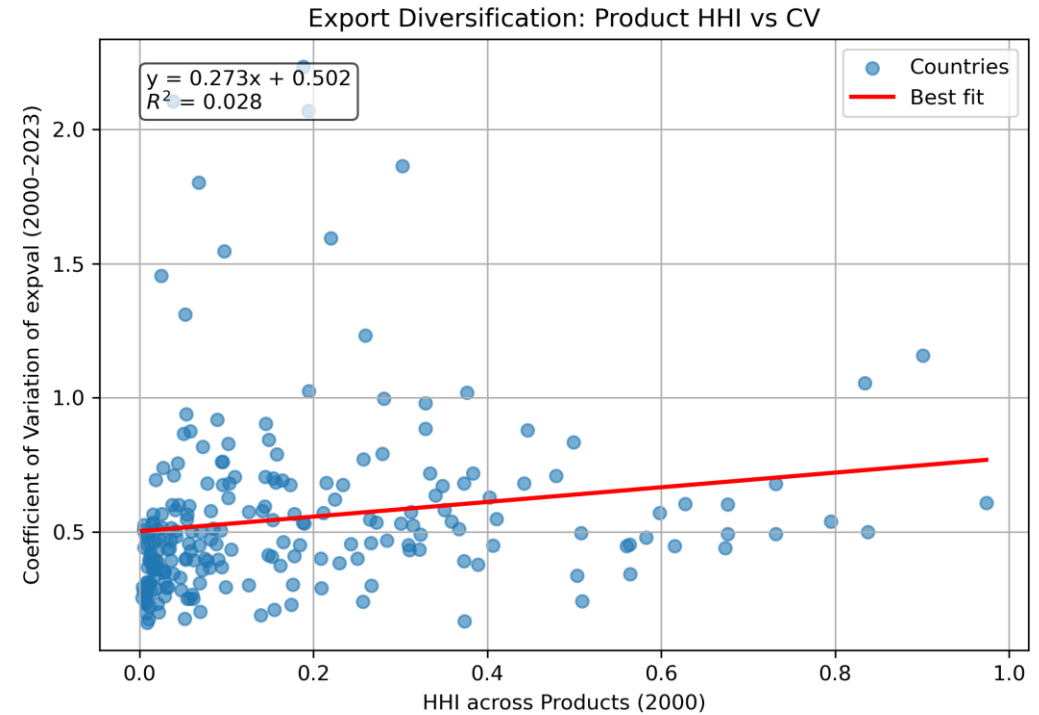


Diversification remains an important objective in reducing the effects of trade uncertainty

There is a positive correlation between the concentration of a country's exports among its trade partners (Herfindahl index) in 2000 and the volatility of exports over the period 2000-2023



A similar positive correlation exists between the concentration of a country's exports among HS products in 2000 and the volatility of exports over the period 2000-2023



Summary

- Higher uncertainty raises exporter trade costs and suppresses export volumes
 - Impact on imports is less clear, with some evidence of a positive impact (raising import prices / firm responses to uncertainty)
- Globally, trade agreements appear to play a stabilizing role
 - Economies that have large shares of trade taking place within trade agreements are found not to suffer from the negative effects of uncertainty on exports
- For ADB economies, the stabilizing role of trade agreements seems to be weaker
 - Potentially reflecting the weaknesses of trade agreements in Asia (AEIR 2025)
 - Limited depth of agreements, overlapping and fragmented PTA architecture, weak institutional enforcement, unclear wording and arbitrary implementing practices...

New Trade Agreements / Trade Policy Developments

Name	Type	Status (Date)
Intraregional		
Uzbekistan-Turkmenistan FTA	FTA	In force (25 Feb 2025)
Thailand – Bhutan FTA	FTA	Signed (3 Apr 2025)
Extraregional		
Viet Nam – Israel FTA	FTA	In force (17 Nov 2024)
United Kingdom – CPTPP Accession	FTA	In force (15 Dec 2024; applies vis-à-vis Australia from 24 Dec 2024)
Thailand – European Free Trade Association (EFTA)	FTA	Signed (23 Jan 2025)
Singapore - Pacific Alliance FTA	FTA	In force (3 May 2025)
Eurasian Economic Union-[Islamic Rep. of] Iran FTA	FTA	In force (15 May 2025)
India – United Kingdom CEPA	CEPA	Signed (24 Jul 2025)
Indonesia – Peru CEPA	CEPA	Signed (11 Aug 2025)
Indonesia – European Union CEPA	CEPA	Signed (23 Sep 2025, planned)

CEPA = comprehensive economic partnership agreement, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, EFTA = European Free Trade Association, FTA = free trade agreement.

Note: All agreements cover both goods and services. Cover information available as of 10 September 2025.

Source: ADB compilation based on national sources.

Policy Implications

- Diversification—across partners and products—remains an important means of reducing volatility in trade flows and can help mitigate effects of rising trade uncertainty
- Trade agreements can further mitigate the effects of uncertainty, though need to be designed and implemented well
 - Deepening and strengthening PTA commitments to improve transparency and help firms anticipate and navigate changing conditions.
 - Streamlining the regional trade architecture to reduce uncertainty about applicable rules can ease firm concerns about trade costs
 - Improving dispute resolution and enforcement mechanisms to bolster confidence in the stability of trade relationships and encourage long-term investments in export markets
 - Promoting transparency and predictability of trade practices

Policy Implications (II)

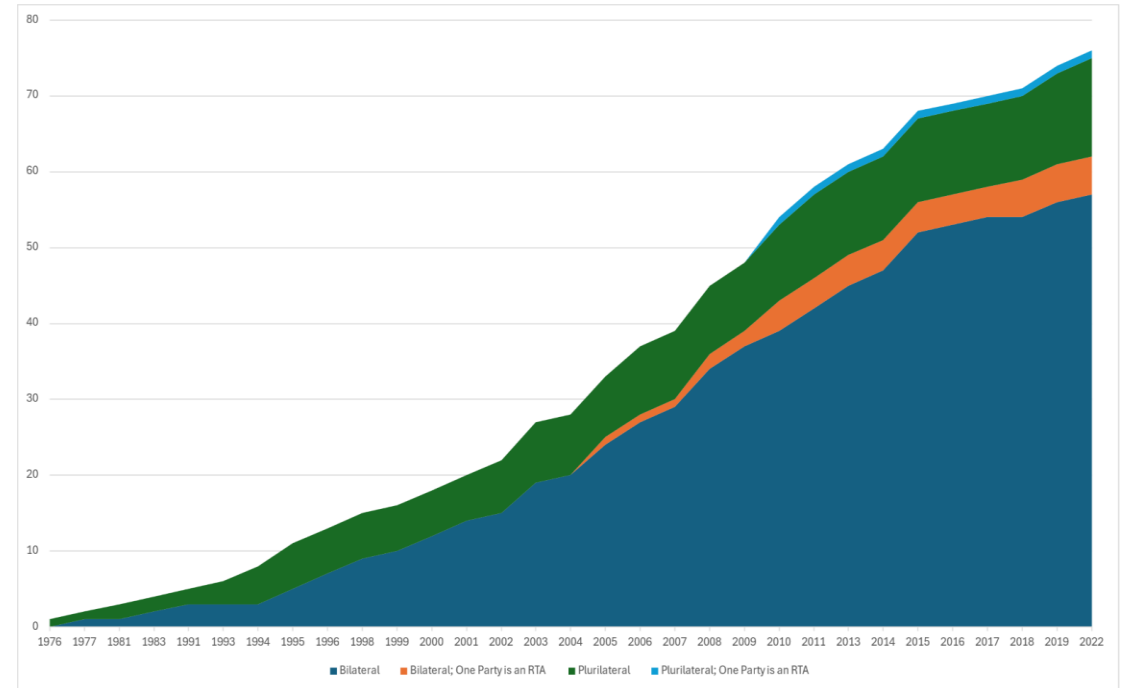
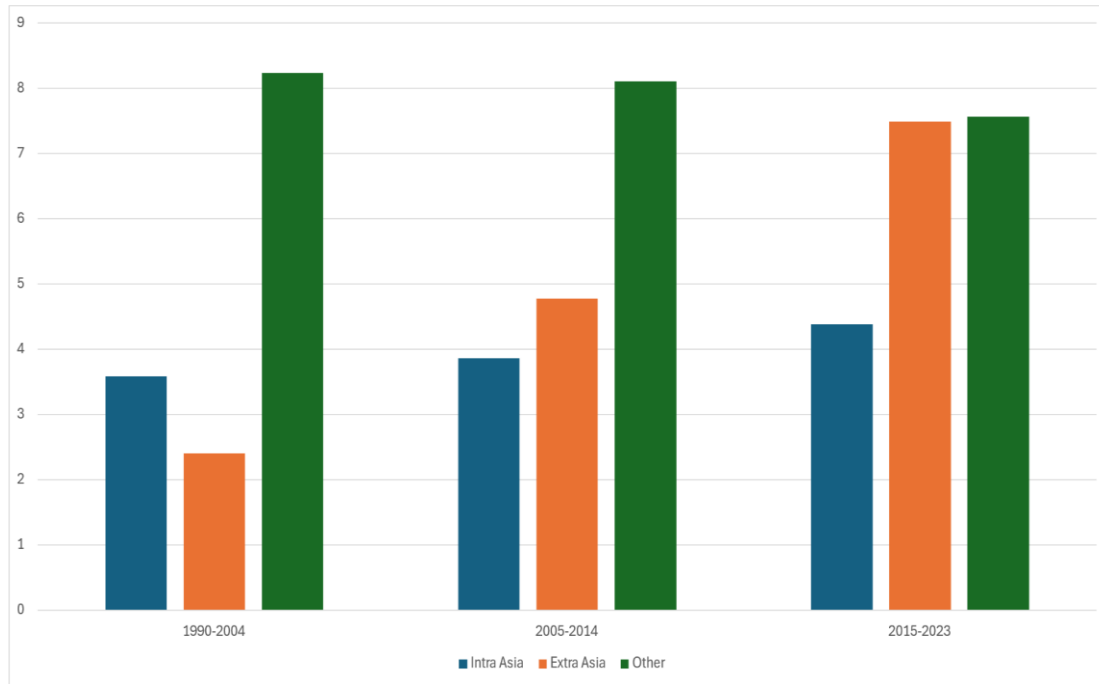
- Strengthening transparency and communication around trade policy
 - E.g., Providing advance notice of policy changes, transparent economic analysis to support policy changes
- Promoting international coordination of macroeconomic and trade policy to reduce effects of uncertainty associated with broader macroeconomic shocks
- Enhance trade facilitation and customs predictability to insulate exporters from effects of policy uncertainty
- Support firm-level resilience to uncertainty through export promotion programs, access to trade finance, market intelligence.

- ANNEX

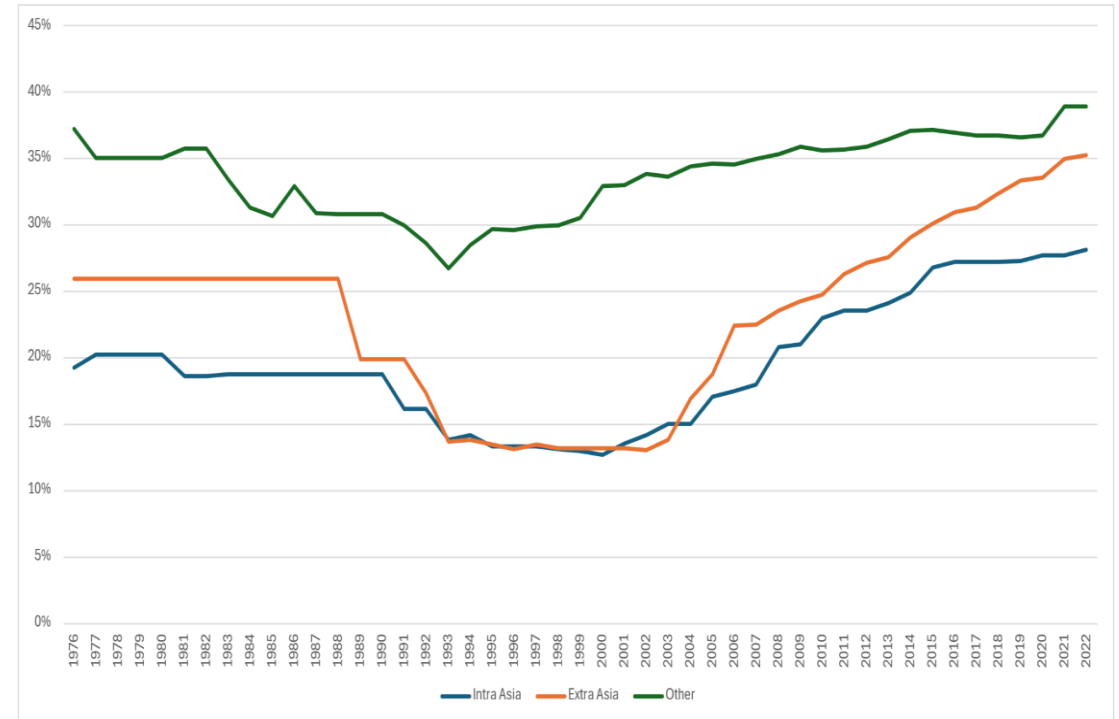
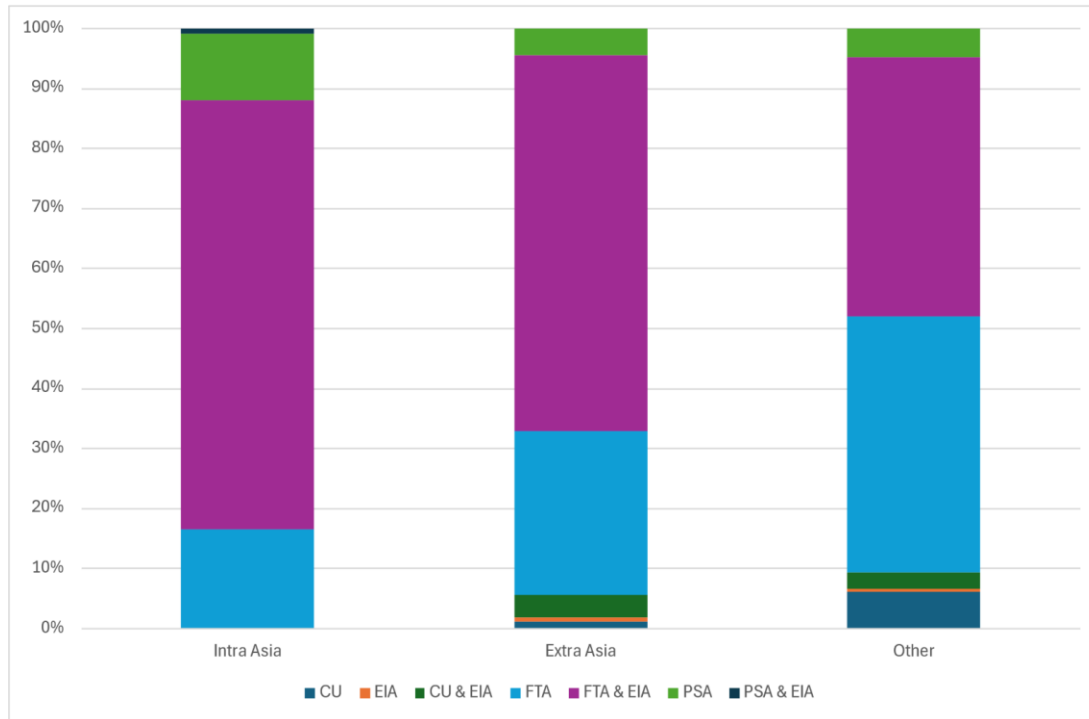
Policy Responses to Trade Uncertainty



Agreements within Asia tend to have fewer members; partly reflecting the large number of bilateral agreements (i.e., the noodle bowl of overlapping agreements)



They also tend to be shallower (i.e., involving less liberalization) and narrower (i.e., fewer provisions)



The share of trade taking place within trade agreements has increased in all sub-regions except for Central Asia where it has declined

