



Asia-Pacific
Economic Cooperation

2007/ASCC/1.1

Session: Is an APEC FTA Feasible?

1.1.3

Getting a Liberal Result

Purpose: Information

Submitted by: Robert Scollay

APEC Study Centre, University of Auckland



**Annual Conference of APEC Centres
Melbourne, Australia
18-20 April 2007**

A Free Trade Area of the Asia Pacific (FTAAP): Rationale and Feasibility

Presentation at APEC Study Centre Consortium
Annual Conference
Melbourne
18 April 2007

Robert Scollay
APEC Study Centre
University of Auckland

Some Basic Conceptual Questions

- **Is an FTAAP the optimal outcome for the Asia-Pacific?**
- **Is trade facilitation a complement or substitute for trade liberalisation?**
- **Rationale for an FTAAP**

Possible answer to the question: what is the best way to organise preferential trade in the Asia-Pacific region in order to realise the benefits of region-wide economic integration?

Preferential Trading Arrangements in the Asia-Pacific

- **Proliferation of bilateral (and some plurilateral) FTAs**
 - “spaghetti bowl” issues
 - tendency to “hub and spoke” architectures
- **EAFTA (ASEAN Plus Three)**
 - East Asian regionalism and regional integration
 - “bipolar Pacific”
 - exclusion of US and the Americas
 - turning away from Asia-Pacific region as focus of regional integration efforts
- **CEPEA (ASEAN Plus Six)**
 - also East Asia-focused
 - turning westward (to India) rather than eastward (to the Americas) for expansion
- **ASEAN Plus One initiatives**
 - ASEAN-centric
 - More limited approach to regional economic integration
 - No requirement for liberalisation of trade between the “Plus One” partners

Bilateral and Plurilateral PTAs: Features and Issues for Regional Economic Integration

- can satisfy WTO rules
- provide reciprocity and enforceability
- require tariffs reduced to zero on most products (if developed countries involved)
- allow exclusion of some sensitive products
- allow sensitive bilateral relationships to be avoided
- allow “customisation” to cater for economy-specific concerns and priorities
- **risk for Asia-Pacific regional economic integration**
 - increased complexity and cost of business (“spaghetti bowl” effects)
 - fragmentation rather than integration of Asia-Pacific markets
 - can undermine community-building

Does an FTAAP Make Economic Sense?

Advantages as an instrument of regional economic integration

- avoids market fragmentation and “spaghetti bowl” effects
- potentially offers greater economic benefits to APEC membership than all existing bilateral and “bloc” initiatives
- FTAAP economic benefits may exceed benefits of “APEC MFN” but at expense of rest of world
 - pressure on rest of the world to move faster in the WTO?

Shared characteristics with existing FTAs

- can satisfy WTO rules
- provides reciprocity and enforceability
- will reduce tariffs to zero on most products over time
- Facilitation and investment provisions can be included

Question

- global liberalisation offers greater gains than FTAAP for both APEC and rest of world
 - compared to other ways of organising Asia-Pacific preferential trade, does FTAAP bring us closer to or further away from global liberalisation?

Asia-Pacific v. East Asian Economic Integration

- FTAAP preserves trans-Pacific dimension of Asia-Pacific regional integration
 - can be viewed as the trans-Pacific alternative to EAFTA and CEPEA
- Asia-Pacific export flows
 - 40% intra-East Asia
 - 30% intra-Americas
 - 30% trans-Pacific
- Inclusion of the US
 - positive and negative factors for East Asia
 - importance of US and East Asia to each other
 - East Asian regionalism a search for economic independence from a partner with which vital economic linkages remain
 - apprehension at US dominance
 - constraints of the US political system

FTAAP and Emerging Preferential Architectures (1)

- **Danger of creation of “megablocs”?**
- **Game is changing, e.g.**
 - EU’s aggressive new FTA strategy
 - Potential FTAs with Korea, ASEAN, Andean Group, Central America etc
 - US’s competitive liberalisation
 - FTAs in Asia, the Americas, Africa, Middle East, Oceania
 - outlook is for large parts of the developing world to be linked preferentially with major developed country partners
 - moving towards development of overlapping preferential networks rather than conventional “blocs”?
 - emergence of gaps and exclusions in the evolving preferential architectures
 - Are major trade flows covered?
 - Potential vulnerability of countries denied access to the new PTA networks

FTAAP and Emerging Preferential Architectures (2)

- **Some notable gaps in preferential trade coverage exist between major poles of economic activity**
 - North America and Northeast Asia
 - North America and EU
- **FTAAP brings North America and NE Asia together**
 - US-Korea FTA as an “icebreaker”
- **Divisions in NE Asia an obstacle to FTAAP, EAFTA and CEPEA**
 - signs of rapprochement?

FTAAP and Emerging Preferential Architectures (3)

**Participation in the emerging preferential networks:
developing countries with special issues**

- **Position of small vulnerable developing economies**
 - LDCs likely to get DFQF (duty-free quota-free)
 - many other developing countries have non-reciprocal access
 - EU's Cotonou Agreement, US and Canadian Caribbean initiatives, AGOA
 - pressure for conversion of non-reciprocal to reciprocal preferences problematic under current WTO rules
- **Pockets of exclusion include some significant developing economies:**
 - South Asia, the “Bolivarian Alliance”, key Middle Eastern economies
 - some opt out, others face special problems e.g. agriculture in EU-Mercosur negotiations
- **Situation not fundamentally changed by existence of FTAAP**

FTAAP and Regional Trade Architecture

- **overlapping FTAs already an issue**
 - ASEAN Plus One and individual ASEAN bilateral FTAs
 - some cases of potential double overlap
 - Singapore: TPSEP, NZSCEP, AANZFTA
- **FTAAP shares with EAFTA and CEPEA the potential to transcend or further complicate existing overlaps**
- **Can FTAAP/EAFTA/CEPEA replace all existing bilateral and plurilateral FTAs between their members?**
 - immediate replacement not realistic
 - is an orderly transition feasible?
 - can FTAAP/EAFTA/CEPEA co-exist with existing FTAs
 - initially during a transition phase?
 - indefinitely?
 - failure of FTAA highlights some of the difficulties

Constraints on Feasibility of Region-wide PTA

- existing FTAs reflect balance of interests within each relationship
- balance of interests may be different in a wider group
- constraints on accommodating individual member interests within a larger group
 - less scope for customisation
 - requirement to include sensitive bilateral relationships
- accommodating different levels of ambition associated with different development levels
 - already an issue in ASEAN Plus One FTAs
- existing FTAs exhibit basic differences of approach on some issues
 - ease/difficulty of convergence depends on how far differences reflect basic differences of economic interest
- negotiations will be complex and difficult
 - but difficulty will increase in future as divergences become more entrenched

FTAAP Design Issues (1)

(1) WTO Compatibility Issues

- **Goods: need to satisfy GATT Article XXIV (“substantially all trade”)**
 - existing agreements exhibit range of strategies
 - lengthy implementation periods
 - use of TRQs and special safeguards
 - customised schedules of concessions
 - **limited flexibility for developing countries**
 - some on coverage, some on length of implementation period
 - existing PTAs between developing economies could utilise “Enabling Clause”
- **Services: need to satisfy GATS Article V (“substantial sectoral coverage”)**
 - flexibility for developing countries emphasised but not clearly defined
 - positive v. negative list approaches

FTAAP Design Issues (2)

(2) Basic Design Choices

- **Rules of Origin**
 - crucial to feasibility and effectiveness of FTAAP
 - regional value content v. change of tariff classification
 - partly a technical issue: which approach is more efficient?
 - partly a reflection of different interest: facilitate or constrain expansion of trade?
 - role of vested interests
 - experiments with “dual” rules of origin in some existing FTAs
- **Services and Investment**
 - “GATS style” v. “NAFTA style”
 - Mode 3 in services chapter with separate chapter on investment
 - Different ways of dealing with potential overlap
 - Modes 1 and 2 in services chapter, separate chapters on investment and Mode 4
 - Positive v. negative list
 - Technical issues and economic interests both important

FTAAP Design Issues (3)

(3) Comprehensiveness Issues

- **potential for “WTO-Plus” (or “WTO-Minus”)**
 - intellectual property
 - government procurement
 - trade remedies
- **filling gaps in the WTO Agreements**
 - investment
 - competition policy
- **wide differences in degree of ambition**
 - partly reflected in differences in extent of “hard” obligations and enforceability in existing agreements

FTAAP Design Issues (4)

- **can different interests and levels of ambition be accommodated?**
- **“two tier” approach as a possible compromise:**
 - FTAAP as “base” agreement
 - separate sets of concessions and optional “deeper” commitments
 - FTAAP-plus elements of existing agreements could continue to operate
 - larger economies may see this as diluting their bargaining power
 - basic design choices still have to be made
 - FTAA process provides some insights into potential advantages and problems

Some Possible Next Steps

- **identify potential unique contribution to regional economic integration**
- **study relevant precedents (especially FTAA process, also P4 and US-DR-CAFTA) to identify issues, difficulties and possible solutions.**
- **comparative analysis of existing Asia-Pacific FTAs to identify**
 - differences and reason for them (technical issues, economic interests or levels of development)
 - possibility of convergence through resolving technical issues or accommodating differences in economic interest and levels of development
 - focus on rules of origin and services/investment
- **analyse feasibility and advantages/disadvantages of “two-tier” approach**