

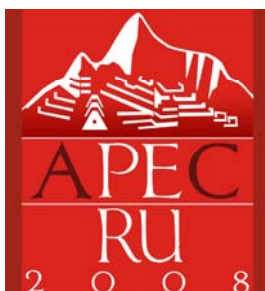


**Asia-Pacific
Economic Cooperation**

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Trade Liberalisation in the APEC Region: State of Play and Alternatives for the Future

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Changing Trade Architecture in the Asia-Pacific Region

- **Focus on APEC in early 1990s**
 - Emphasis on “open regionalism” (non-discriminatory approach to regional trade liberalisation) and support for WTO
- **Rise of “East Asian Regionalism” following East Asian Economic Crisis of 1997/98**
- **Spread of preferential trade agreements (FTAs) from 2000 onward**
- **Proposals for large region-wide FTAs**

APEC

- not a preferential trade agreement (based on non-discriminatory “open regionalism”)
- goal is free trade by 2010 (developed countries) and 2020 (developing countries)
- embraces both sides of the Pacific
- strong trade rationale for trans-Pacific link
- has recently lost some credibility as a vehicle for regional trade liberalisation
 - But significant progress on trade facilitation
- remains an important forum for regional cooperation
- APEC Business Advisory Council has proposed a Free Trade Area of the Asia Pacific (FTAAP)
 - involves moving away from “open regionalism” and creating an APEC-wide FTA

Changes in the FTA Landscape in the Asia-Pacific Region (1)

- 1994
 - Three existing FTAs
 - AFTA
 - ANZCERTA
 - NAFTA
 - APEC’s Bogor declaration
 - Target of regional free trade and investment by 2010/20
 - Trans-Pacific
 - “Open regionalism” as the reconciliation of regionalism and multilateralism?
 - Concerted unilateralism

Changes in the FTA Landscape in the Asia-Pacific Region (2)

● 1994-99

- No new FTAs in East Asia, only 2 among Asia-Pacific economies in the Americas
- Principal emphasis on WTO and APEC process in both East Asia and Asia-Pacific
 - i.e. focus on non-discrimination and “open regionalism”
- Commitment to APEC’s objectives (Bogor goals) unquestioned in both East Asia and Asia-Pacific
- Northeast Asia an “empty box” in regional/global map of FTAs
- East Asian regionalism overshadowed by APEC
 - Trans-Pacific emphasis

Changes in the FTA Landscape in the Asia-Pacific Region (3)

● 1999-2006

- 30 new FTAs concluded in Asia-Pacific, many more “on the way” (at least 19 more under negotiation)
 - Of the new FTAs, 12 are intra-East Asia, 15 link East Asian economies to other Asia-Pacific economies
- FTAs increasingly the central focus of trade policy in practice
 - Increasing doubts over outcome of WTO’s DDA, liberalisation no longer a key focus of activity in APEC
- APEC’s Bogor goals losing credibility
- Northeast Asia a full player in the FTA “game”
- Rise of East Asian regionalism overshadowing APEC

Changes in the FTA Landscape in the Asia-Pacific Region (4)

- **Obvious Gaps**
 - Avoidance of trade flows involving “sensitive sectors”
 - Some signs of relaxation over time (e.g. Japan)
 - Absence of FTAs between major APEC economies (covering the largest trade flows in the region)
 - US-NE Asia (but Korea-US FTA may be a “circuit-breaker”)
 - Between NE Asia economies
- **Korea-US FTA**
 - First FTA between USA and a major NE Asian economy
 - Potential catalytic effect
- **Initiatives within NE Asia**
 - Efforts to overcome inability of NE Asian economies to agree on initiatives
 - Official study of China-Japan-Korea FTA
 - Japan-Korea FTA negotiations (currently suspended but could resume)
 - Proposal for Korea-China FTA

Changes in the FTA Landscape in the Asia-Pacific Region (5)

- **“Extra-regional” developments**
 - Several Asia-Pacific economies have concluded/negotiating FTAs with partners outside the region
 - US has global FTA strategy
- **Entry of EU into Asia Pacific FTA “game”**
 - Negotiating with Korea, Andean group, Central America
 - Seeking parity with the US?
 - About to negotiate with ASEAN
- **Proposal for larger blocs**
 - ASEAN Plus 3 (EAFTA)
 - ASEAN Plus 6 (CEPEA – East Asian Summit group)
 - FTAAP
- **ASEAN+3 group also vehicle for initiatives on monetary and financial cooperation and broader East Asian integration**
 - Chiang Mai initiative, Asian bond market etc
 - East Asian economic community

Bilaterals

- **Intra-East Asia**

Singapore-Japan
Singapore Korea
China-Hong Kong SAR
China-Macao
Japan-Malaysia
Japan-Philippines
Japan-Indonesia
Japan Thailand
Korea-Thailand

Japan-Korea**
Japan-Viet Nam
Japan-Brunei Darussalam

- **Trans-Pacific**

Singapore-USA
Chile- Korea
Mexico-Japan
Australia-US
Korea-US
Chile-China
Chile-Japan
Chile-Australia
Peru-Thailand*

US-Thailand**
US-Malaysia*
Korea-Mexico
Singapore-Canada
Peru-Singapore

- **East Asia-Australasia**

Singapore-New Zealand
Singapore-Australia
Thailand-Australia
Thailand-New Zealand
China-New Zealand

Australia-China*
Australia-Malaysia*
New Zealand-Malaysia*
Australia-Japan *

- **Within the Americas**

US-Chile
US-Peru
Peru-Chile*

Peru-Canada

- **Beyond Asia-Pacific**

Korea-EFTA
Singapore-India
Singapore-Jordan
Chinese Taipei-Panama

Thailand-Bahrain*
Thailand-India*
Korea-EU*
Australia-UAE*
New Zealand-GCC*

Plurilaterals

- **Intra-East Asia**

ASEAN-China
ASEAN (minus Thailand)-Korea
ASEAN-Japan

- **Trans-Pacific**

Chile-New Zealand-Singapore-Brunei (P4)

- **East Asia-Australasia**

ASEAN-CER*

- **Beyond Asia-Pacific**

APTA (former Bangkok Agreement)

ASEAN-India*
BIMSTEC*

What Happened?

- **East Asian regionalism**
 - renewed impulse after East Asian economic crisis
 - policy shift by Japan and Korea
- **loss of confidence in APEC's "concerted unilateralism"**
 - failure of EVSL
(but continued recognition of importance of trans-Pacific dimension)
- **recognition of constraints on pace of progress in WTO**
 - liberalisation
 - wider agendas
- **political obstacles to wider East Asian integration**
 - focus "by default" on bilaterals and "ASEAN Plus One" initiatives
- **"domino effect"**
 - defensive motivations increasingly important
- **political economy factors**
 - growth of production networks in East Asia
 - demand from large businesses for deeper regional integration

Future Avenues

- **Bilateral and plurilateral FTAs**
- **WTO – multilateralism**
- **Unilateral liberalisation**
- **Rationalising the “noodle/spaghetti bowl” (1)**
Establishment of region-wide cumulation regimes
- **Rationalising the “noodle/spaghetti bowl” (2)**
Establishment of large region-wide trade groupings

Bilateral and Plurilateral FTAs

- **Bilaterals**
 - At least 26 concluded, 15 or more being negotiated
 - diversity of regional orientation
- **Plurilaterals**
 - Three “ASEAN Plus One” FTAs now in place
 - ASEAN-China, ASEAN-Korea, ASEAN-Japan
 - Other “ASEAN Plus One” initiatives under negotiation
 - ASEAN-India, ASEAN-CER, soon ASEAN-EU
 - “ASEAN Plus initiatives are vehicles for”
 - “East Asian regionalism”
 - ASEAN’s pursuit of “alternative hub” status
 - P4 (Trans-Pacific Strategic Economic Partnership) also seeks to build trans-Pacific linkages

Bilateral and Plurilateral FTAs: Pros and Cons

Pros

- Liberalisation appears deep in many recent FTAs (taking commitments at face value)
- Commitments are in applied rather than bound tariffs

Cons

- Discriminatory → trade diversion
- Undermining multilateral trading system based on non-discrimination
- Rules of origin can negate liberalisation commitments
- “Noodle/spaghetti” bowl
 - Increased transaction costs for business
 - Fragmentation rather than integration of regional markets
- Emergence of “hub and spoke” patterns – undesirable

Baldwin: “nobody believes this is the best way to organise world trade”
“regionalism is here to stay”

Bilateral and Plurilateral FTAs Policy Issue: Overlapping Initiatives

- ASEAN-China, ASEAN-Korea, ASEAN-Japan, ASEAN-India and ASEAN-CER negotiations have occurred in parallel with negotiation/conclusion of bilateral FTAs with individual ASEAN countries
 - China-Thailand agreement as “early harvest” for ACFTA
 - Korea has FTA with Singapore as well as AKFTA
 - Japan pursued FTAs with Singapore, Malaysia, Philippines before starting AJCEP negotiations and continues to pursue bilaterals with Thailand, Indonesia, Viet Nam and Brunei
 - Australia and NZ each have FTAs with Singapore and Thailand, pursuing FTAs with Malaysia in parallel with AANZFTA
 - Singapore, Brunei, and New Zealand are linked in the P4
 - India has concluded an agreement with Singapore, negotiating with Thailand
- relationship between plurilateral and bilateral processes appears unclear
- ASEAN seeking to advance its own integration in order to promote its own leadership role
 - but bilateral negotiations of individual ASEAN members appear to be uncoordinated with “ASEAN Plus” negotiations

WTO

DDA: slow progress, uncertain outcome
(reasons well-known)

Cons

- **DDA difficulties reflect intractable problems in multilateral negotiations among 150+ members**
- **Modest outcomes only are possible (at best)**
- **“Spoilers” can block progress indefinitely**
- **Political will for further “rounds” questionable**

Pros

- **Superiority of multilateral over preferential liberalisation**
- **Importance of maintaining viability of multilateral system (can it survive without multilateral liberalisation?)**
- **Dropping “single undertaking” could break the log-jam? (is this realistic?)**

Unilateral liberalisation

- **Supported by powerful analytical arguments (at least for small economies)**
- **Historically important**
 - **May well have delivered greater benefits than multilateral liberalisation for many economies**

But

- **Market access is valuable**
 - **Shift from multilateral to preferential liberalisation changes the equation**
- **Being discriminated against in export markets is costly**
 - **Major driving force behind the FTA “explosion”**
- **Access to major markets is the biggest market access “prize”**
- **Major players insist on reciprocity**

Rationalising the “Noodle/Spaghetti Bowl (1) Action on ROOs – Region-wide Cumulation

Design/modify design of ROO to facilitate regional economic integration

- Agree to identify/adopt trade facilitating rules for each sector/product
- Adopt cumulation provisions
 - Ensure materials from any APEC member can be incorporated into goods exported from one APEC member to another without compromising originating status under the relevant FTA
 - Expanded cumulation – harmonisation of ROO not required
 - Full cumulation – requires harmonisation of ROO
 - Aim to facilitate
 - efficient production networks
 - potential participation in networks of all APEC economies
- Political economy problem – trade restricting ROO are generally a response to protectionist pressures

Establishing Large Region-wide Trade Agreements

Replace multiple/bilateral FTAs by large regional FTAs

- EAFTA (ASEAN Plus Three)
 - ASEAN Plus China, Japan, Korea
 - East Asian regionalism and regional integration
 - step towards “bipolar Pacific”
 - exclusion of US and the Americas
 - turning away from Asia-Pacific region as focus of regional integration efforts
- CEPEA (ASEAN Plus Six – the East Asia Summit Group)
 - adds India, Australia, New Zealand to “ASEAN Plus Three”
 - also East Asia-focused and a step towards “bipolar Pacific”
 - turning westward (to India) rather than eastward (to the Americas) for expansion
- FTAAP (Free Trade Area of the Asia-Pacific)
 - FTA in principle covering all APEC members
 - Brings in US, other APEC members in the Americas, (Taiwan, Hong Kong?)
 - Preserves the trans-Pacific dimension of Asia-Pacific Integration
- Arco del Pacifico
 - Proposal to consolidate existing FTAs among Latin American countries bordering on the Pacific (from Mexico to Chile)

Establishing Large Region-wide Trade Agreements: Pros and Cons (1)

Pros

- **Potential answers to the “spaghetti bowl” problem**
 - absorb the confusing array of bilaterals/plurilaterals into larger more economically beneficial and more integrative trade bloc
- **Trade diversion potential should reduce as FTA covers larger share of members’ trade**
 - APEC members typically conduct 70%+ of trade with other APEC members
 - Most APEC developing members have concluded/are negotiating FTAs with EU and other partners (further increases trade coverage)

Establishing Large Region-wide Trade Agreements: Pros and Cons (2)

Cons

- **Difficult to negotiate**
 - Political economy
 - **Require accommodation among major powers**
 - Among major Northeast Asian powers for FTAAP, A+3, A+6
 - Between major Northeast Asian powers and US for FTAAP (US-Korea FTA a potential catalyst?)
 - **Design of provisions of the agreement**
 - Is convergence possible among potential members?
 - Can APEC’s “model measures help?”
 - Rules of origin are especially important

Establishing Large Region-wide Trade Agreements: Questions

- **Implementation**
 - 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/ADP co-exist with existing FTAs
 - initially during a transition phase?
 - indefinitely?
 - FTAA solution: existing bilaterals continue only where their provisions go further
- **Level of Ambition**
 - Divergence between more developed/less developed members
 - Could a “two-tier” structure these accommodate differences?
- **Implications for multilateral trading system**
 - Arguments have been made both ways
- **Position of Chinese Taipei and Hong Kong**

Which Large Regional Grouping?

- Economic analysis suggests largest grouping yields the largest gain i.e. FTAAP
- Advantages/disadvantages for East Asia/ADF of including the US
 - positive and negative factors for East Asia
 - importance of US and East Asia to each other
 - apprehension at US dominance
 - constraints of the US political system
- Are the EAFTA/CEPEA/FTAAP proposals mutually-exclusive or can they be sequenced?
 - EAFTA → CEPEA → FTAAP? (proposed by some in East Asia)
 - will “added” members accept terms of EAFTA as basis for CEPEA or FTAAP?
 - will US accept being “left out” initially?

Trade Liberalisation and Deeper Economic Integration (1)

- **Regional groupings differ in whether/how far regional trade liberalisation is pursued as part of a deeper integration agenda**
 - **FTAAP: trade only**
 - **ASEAN+3: trade plus financial and monetary cooperation**
 - **ASEAN+6/EAS: trade plus ? (yet to be fully defined)**
 - **ASEAN: trade and common market**
 - **Regional public goods also important for some groups**
- **Community building a common objective for APEC, ASEAN +3, ASEAN**

Trade Liberalisation and Deeper Economic Integration (2)

Potential for “nesting” approach to regional economic integration (contrast to sequencing approach)

- **Progressively deeper integration pursued among progressively smaller groupings**
- **Trade: widest possible membership**
 - **FTAAP plus: non APEC ASEAN members, non-APEC Arco del Pacifico members, India? – open to others also**
- **Monetary and financial cooperation: ASEAN+3**
- **Common markets: smaller regional groups eg ASEAN, CER**
- **Regional public goods: smaller groupings as appropriate**
- **Community building a valid objective for each group**

Allows full potential for integration to be exploited while preserving the identity of each group

Institutional Issues

- **Need to consider appropriate institutional mechanisms**
 - Changes in structure/functions of existing institutions
 - Separate institutions for economic integration and community building?
 - E.g. APEC and FTAAP processes
- **Time is opportune for addressing this issue**
 - APEC's Regional Economic Agenda issue
 - Australia PM's call for new approaches to Asia-Pacific community building

Will it Happen?

- **Challenge is to overcome inertia**
- **Line of least resistance is to continue spread of bilateral/plurilateral FTAs**