

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

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Current Status of the Proposal for an FTAAP (Free Trade Area of the Asia-Pacific)

- **originated in ABAC (APEC Business Advisory Council) in 2004**
- **ABAC recommended commissioning by APEC leaders of a study on FTAAP in 2004 and 2005**
 - **recommendations not accepted**
- **APEC leaders in 2006:**

“.... we instructed Officials to undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific as a long-term prospect, and report to the 2007 APEC Economic Leaders' Meeting in Australia”.
- **Changed factor in 2006 was US support for the FTAAP**

Context of the FTAAP Proposal

- **APEC's Bogor Goals**
 - aiming at free trade and investment in the APEC region
 - ambition for a non-discriminatory process reconciling multilateralism and regionalism
 - disappointing results from the APEC process
 - threat of stagnation/stalemate in the WTO
- **APEC members increasingly turning to preferential trade arrangements**

Preferential Trading Arrangements in the Asia-Pacific

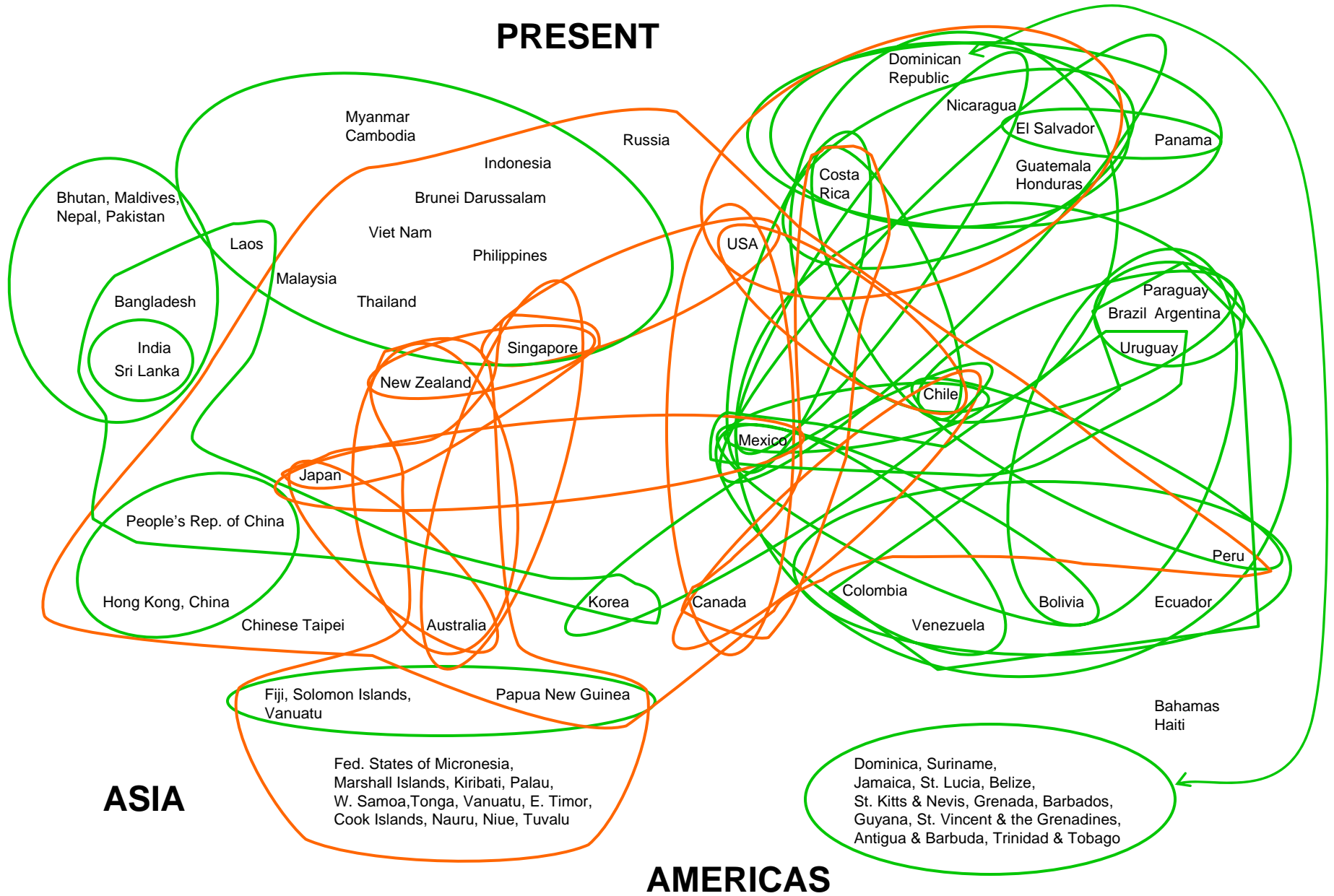
- **Proliferation of bilateral FTAs**
 - “spaghetti bowl” issues
 - tendency to “hub and spoke” architectures
- **EFTA (ASEAN Plus Three)**
 - East Asian regionalism and regional integration
 - “bipolar Pacific”
 - exclusion of US and the Americas
 - turning away from Asia-Pacific region as focus of 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

Preferential Trading Arrangements (PTAs)

Bilateral and Plurilateral PTAs

- **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 APEC**
 - **increased complexity and cost of business (“spaghetti bowl” effects)**
 - **fragmentation rather than integration of Asia-Pacific markets**
 - **can undermine community-building**

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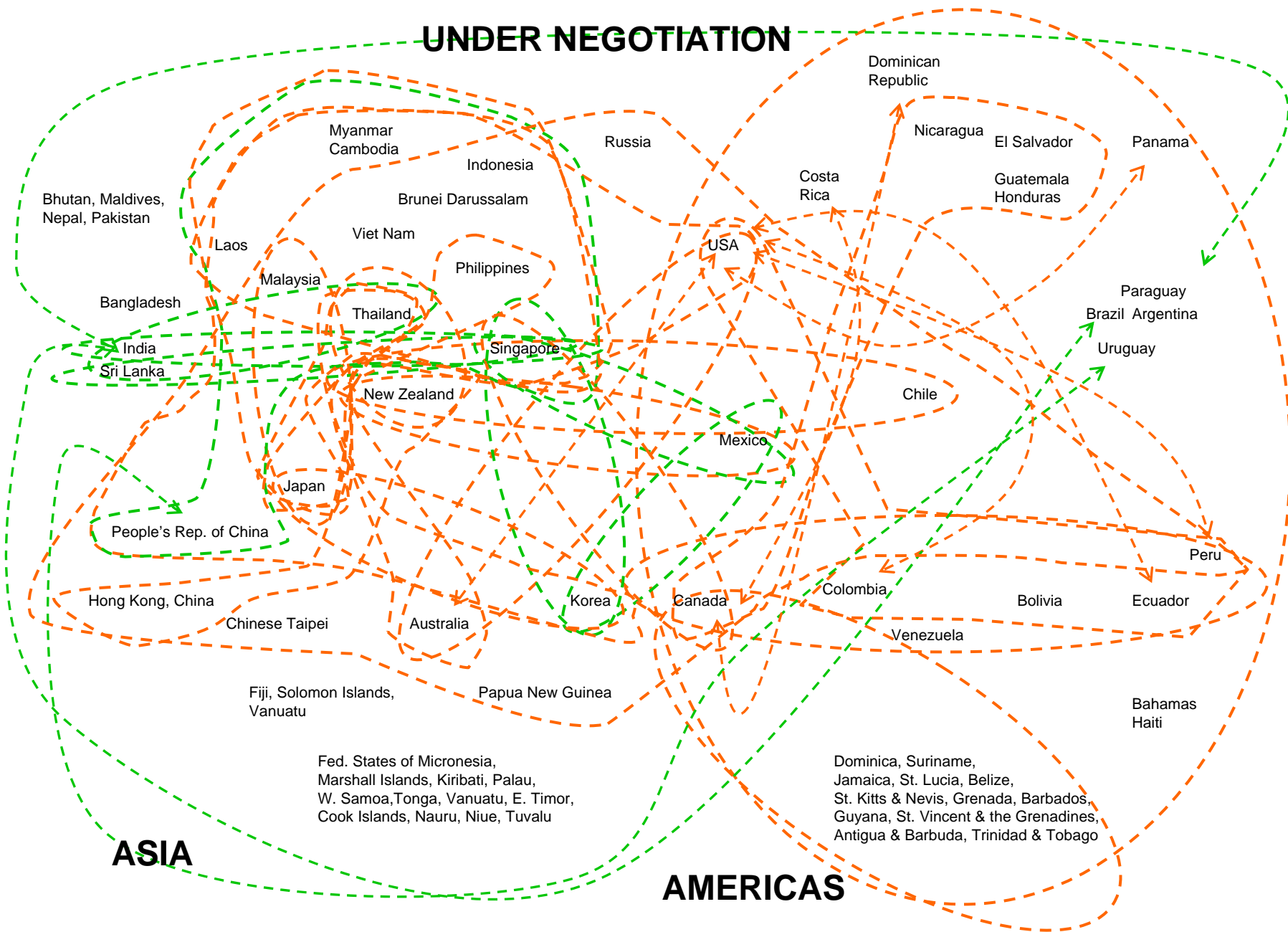


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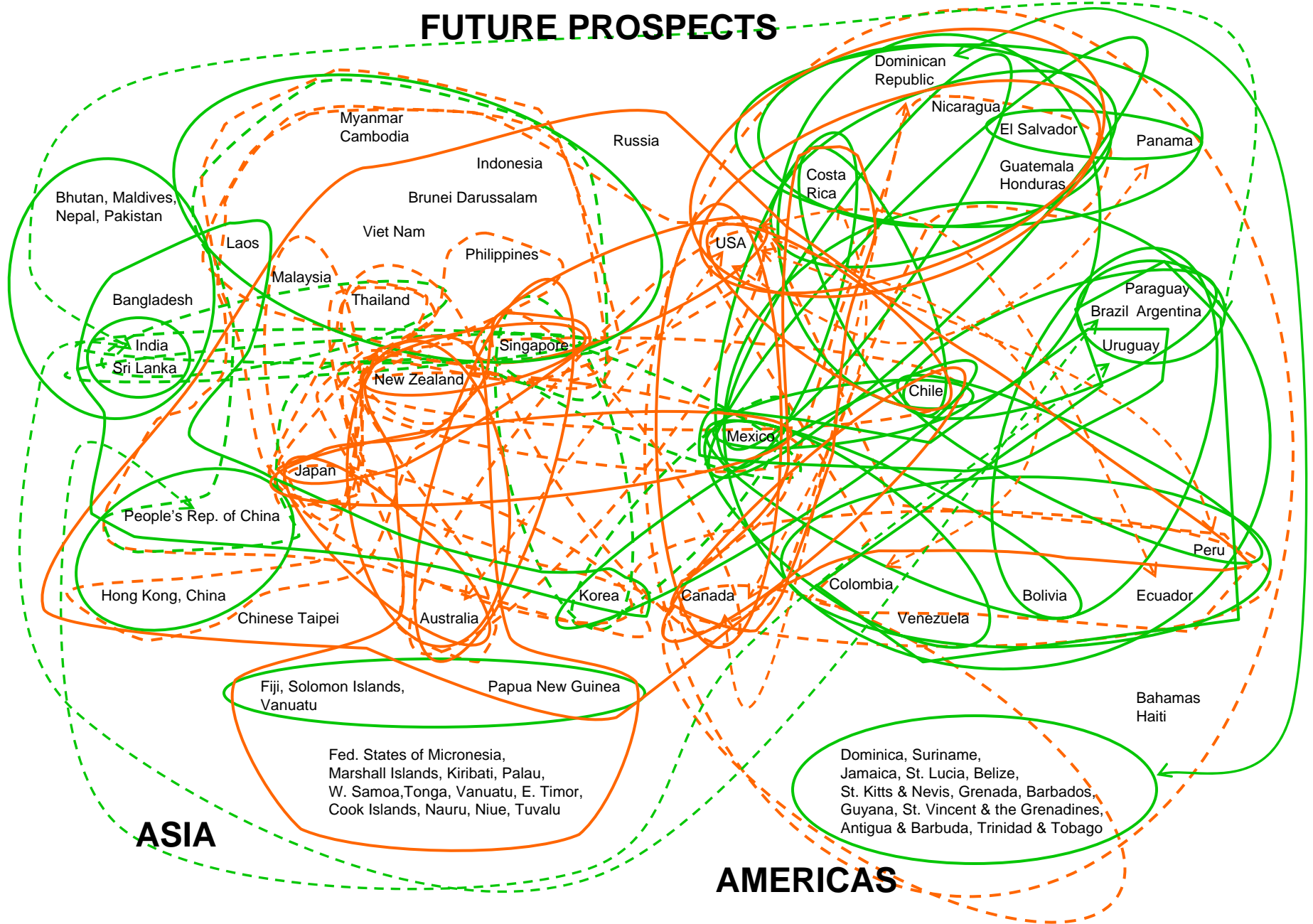
Source: Integration and Regional Programs Department, Inter-American Development Bank

UNDER NEGOTIATION



Source: Integration and Regional Programs Department, Inter-American Development Bank

FUTURE PROSPECTS



Source: Integration and Regional Programs Department, Inter-American Development Bank

FTAAP as a Preferential Trading Arrangement

- would be easily the world's largest FTA
- can satisfy WTO rules (since “core” is an FTA)
- avoids market fragmentation and “spaghetti bowl” effects
- facilitation and investment provisions can easily be added in (as with bilateral FTAs)
- provides reciprocity and enforceability
- has some other advantages in common with bilateral FTAs
- constraints on feasibility include
 - less scope for customisation
 - requirement to include sensitive bilateral relationships
 - negotiations will be complex and difficult

Does an FTAAP Make Economic Sense?

Arguments in favour

- **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 conclude Doha Round?**
- **global liberalisation offers greater gains than FTAAP for both APEC and rest of world**

Risk Factors

- **impact on WTO**

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
 - apprehension at US dominance
 - constraints of the US political system

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?

Some Issues to be Addressed (1)

**Economic: possibility of agreed approaches
(use existing bilateral FTAs as reference points)**

- **Trade in goods**
 - sensitive sectors
 - product coverage and transition periods
 - rules of origin
 - agriculture
- **Trade in services**
 - GATS v NAFTA approaches
 - relation to investment
 - relation to movement of people
- **Differing approaches to inclusion of “trade plus” elements**
 - “comprehensive v. limited FTAs
- **Fundamental differences over issues such as investment, IP, rules of origin**
- **Accommodating different levels of ambition associated with different development levels**
 - already an issue in ASEAN Plus One FTAs

Some Issues to be Addressed (2)

Economic (*continued*)

- 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
 - larger economies may see this as diluting their bargaining power
 - suggestion: study FTAA process to identify issues, difficulties and possible solutions

Issues to be Addressed (3)

Political

- **Impact on spirit of cooperation within APEC**
 - negotiation process should be separate from ongoing APEC process
- **Analysis of obstacles and potential for overcoming them**
(with special focus on larger APEC economies)
 - domestic political economy
 - geopolitical strategy issues
 - support for trans-Pacific integration v. East Asian regionalism
 - shared obstacles with EAFTA and CEPEA with added issues related to US involvement
 - difficult to envisage rapid progress
 - special factors associated with US trade politics and trade negotiating authority

Is an FTAAP Feasible?

- **support from major North American and Northeast Asian economies indispensable**
 - US-China relationship especially critical
 - US-Korea FTA could act as a catalyst
- **strong political will crucial**
- **setting of scope and objectives of negotiating agenda a major challenge**
- **does failure to agree in WTO mean agreement will be impossible in FTAAP?**