

# PTAs and the Future of Asia-Pacific Integration



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By  
Soogil Young

KOPEC

# The APEC Approach: Principles

## ● Goals

- Bogor goal of free and open trade in the Asia-Pacific by 2010/2020

## ● Principles

- Open regionalism: the MFN principle
- Concerted unilateralism: peer pressure approach

# APEC Approach: Failed Strategies

- Strategies
  - OAA and IAPs (1995-97)
  - EVSL (1997-98)
  - A new WTO round (1999)
- Reasons for Failure
  - Entrenched protectionism in sectors: agriculture
  - Lack of reciprocity
  - Free-rider Problem
  - Absence of strong political will: Japan and U.S.

# Shanghai Accord (2001)

- Integrate TILF and Ecotech
- New emphasis on facilitation
- The path-finder approach
- Mid-term stock-taking on definition and implementation of the Bogor goal
  - Seoul (2005)

# Bilateralism and Subregionalism: Trend

- Bilateral and subregional FTAs continue to proliferate in Latin America since NAFTA
- East Asian economies pursuing bilateral and subregional FTAs since the Asian financial crisis
  - Korea and Japan led the new trend.
  - Subregional FTAs: EFTA, ASEAN or ANZCERTA involved

# Bilateralism: Causes

- The trend continues due to:
  - The domino effect
  - Desire to induce investment
  - To chip at domestic protectionism
  - Political desire

## Bilateralism: FTA+

- Many PTAs involving East Asian economies are “new age economic partnership agreements” seeking deep integration:
  - Tariffs, NTBs, customs, MRA, services, investment, competition, tax harmonization, IPR, dispute settlements, e-commerce, IT, preferential treatments, HRD, development assistance, etc.

# Bilateralism as Competition for Hub-and-Spokes Systems

- A race for hub-and-spokes has set in
  - Mexico: 34 spokes
  - Chile: 10 spokes
  - Singapore: 4 spokes
  - ASEAN: China, Japan, U.S. and India by the mid-2010s
  - Korea, Japan, Australia, New Zealand: seeking more PTAs
  - Chinese Taipei: Panama, Japan, Singapore, NZ, and U.S., targeted as spokes



# The WTO Approach

- The DDA round is in progress.
- TPA will enable U.S. to pull DDA through, although not on schedule.
- Large liberalization of trade in goods, including agriculture, and services expected.
- The approach to Bogor goal will be made easier but the quest for PTAs will continue.

# Mega-bloc Approach: FTAA

- Negotiations launched for conclusion by 2005
- Likely to succeed with delay, provided that the U.S. overcomes protectionism at home

# Mega-bloc Approach: EAFTA

## ● The East Asian FTA (EAFTA)

- Recommended to APT Summit(2001) by EAVG
- The 6<sup>th</sup> APT Summit commissioned a study group.
- None of ASEAN, China, Japan, and Korea seem seriously interested.
  - Obstacles: agriculture (Korea and Japan), industry (China), political tensions (Japan vs. China)
  - Economic benefits of Korea-Japan FTA to Korea: ambiguous
- Addition of Australia and NZ improves the welfare of all (R. Scollay)

# Prospects for APEC Liberalization, I

- APEC-wide trade liberalization: either on MFN basis (Bogor spirit) or on preferential basis (APEC FTA)
- The MFN approach to the Bogor goal may be self-defeating
  - APEC FTA is politically more favored than MFN trade liberalization.

# Prospects for Amalgamation of Subregional PTAs

## ● Obstacles

- Many and different exclusions
- Conflicting rules of origin
- Resistance by hubs

## ● Incentives (Robert Scollay)

- Economic benefits from complementarities up to the level of EAFTA and Western-Pacific FTA
  - The domino effect from a Korean-Japan PTA may be the trigger.
- Australia, New Zealand, Indonesia and Malaysia may prefer W-P FTA to APEC trade liberalization
  - But U.S. and other non-W-P countries will oppose.

# The Role of APEC, I

- APEC should play the role of promoting APEC-wide liberalization
  - It will not come about by itself.
  - All subregional PTAs including the EAFTA are inferior in terms of the welfare effect for all

# The Role of APEC, II

- Implement open subregionalism (APEC EPG, 1995)
  - All subregional PTAs to be consistent with WTO
  - Open accession clauses in all subregional PTAs
- Adopt action plans toward Bogor goal
  - Agree on action plans, collective and individual, for implementation of the Bogor goal in 2005
  - Utilize the path-finder approach
  - Allow liberalization under conditional MFN
  - Reconsider target years 2010/2020
  - A peer review process for surveillance and to monitor

# Role of APEC: Summary

- Steer bilateralism and subregionalism toward the Bogor goal
- Work toward a new age economic partnership
  - Liberalization, facilitation and ecotech as three integral components
  - Renew efforts to contribute to a big success at DDA