PLENARY SESSION II

Moderator

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Panel Speakers

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Robert Scollay
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Heng Chee How
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Mari Pangestu
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Squaring FTAs with the Bogor Goals: How Can It Be Done?

Guy de Jonquières (Moderator)

I am Guy de Jonquières, the Asia columnist and commentator of the *Financial Times* based in Hong Kong. Before that, I was a world trade editor of the FT based in London. It is very nice to be here, and I am honored to moderate this session.

When I was first invited to do this, I was slightly taken aback by the title of this session, "Squaring FTAs with the Bogor Goals: How Can It Be Done?" I was not in Bogor but Jakarta when the Bogor Goals were set in 1994. My impressions lately have been that they have become just another victim of collective amnesia. There are many declarations made by world leaders, and then the fine words disappear into a black hole. I have to say that I have not seen very much action since November 1994. That suggests these goals are not anywhere near achievement. So what I will do is to slightly paraphrase the title. I think that we can talk about FTAs and how they can be squared with the spirit of the Bogor Goals, which was achieving free, open trade and investment in the Pacific region. Forget about the fact that was not ever spelled out and also about the deadlines of 2010 and 2020. If we frame it in that light, I think we can have a very interesting debate.

The most striking development since the Bogor declaration has been the proliferation of bilateral and regional trade initiatives. I should use the collective term "Preferential Trade Agreements" (PTA), because that is beyond a doubt what they are. It will be a lengthy discussion this afternoon on whether they are Free Trade Agreements. The trend, of course, started here in East Asia shortly after the failed WTO Seattle Ministerial Meeting in 1999. Since then, the U.S. abandoned its traditional distaste of such arrangements and jumped on the bandwagon. Some account that there are roughly 300 PTAs in effect or planned today. There is a huge range of motives for launching them, including disenchantment with the WTO, hopes that negotiations between small groups can move faster than the multilateralism, the perception that enhanced trade can be a vehicle or a diplomatic bridge building closer cooperation, desire to gain a competitive edge on your neighbors, and simple herd instinct, i.e., fear that you might be left behind. I think the more important question is where the trend is leading. It is an understatement to say there is no consensus on this issue. I think it is without a doubt the most divisive issue between trade policy experts today.

Just to summarize very quickly the positions, proponents of PTAs argue they are a quick way not only to gain markets but also to develop new forms of regulatory and standards harmonization and other innovations in areas such as the environment. They say properly constructed PTAs can force the pace of globalization and act as a stepping stone towards eventual multilateral agreements. The opponents say all regional, bilateral deals are intrinsically preferential and, therefore, violate the WTO's core principle of non-discrimination. They divert as much trade as they create and diminish economic efficiency by adding to business costs by creating complex rules of origin, and other bureaucratic requirements. Finally, it is said that it is peer pressure to the WTO by creating constituencies or preferential holders with inbuilt incentives to oppose global liberalization. The arguments are all fair because we really do not know the answer in many cases. These agreements are not properly placed by the WTO.

Now to discuss this, we have eminent panelists. I should say, first of all, that unfortunately Fred Bergsten of the Institute for International Economics in Washington, who was a long time supporter and promoter of the APEC, cannot be with us because he had some family reasons*. His place is very hard to fill, but we have one man who I am sure can. He is Robert Scollay, Professor at the University of Auckland and Director of the New Zealand APEC Study Center. He is also the author of a study on the idea of the Free Trade Agreement of the Asia Pacific. The next panelist is Mari Pangestu, Trade Minister for Indonesia. She is a highly respected analyst of trade economics with the World Bank and other organizations. Also, we have Jean-Pierre Lehmann, Professor of International Political Economy at IMD, a Swiss management school, and Founder and Executive Director of the Evian Group, which is a pro-free-trade group that Minister Mari Pangestu had been associated with and I am still in today. Then, we have Heng Chee How, Minister of State for Trade and Industry in Singapore, who has blazed a trail in Southeast Asia and much of Asia in negotiating bilateral trade agreements with countries not only in the region but also far away, including the United States. I would like to start by asking Robert Scollay to kick off.

Robert Scollay

This is quite a daunting assignment for number of reasons. Fred Bergsten's shoes are large and a bit uncomfortable to fill as he is at the center of the divisive controversy within our community. Anyway, I am going to try to be as open and direct as I can, trying to pay respects to Fred Bergsten's views but not necessarily reflecting them entirely.

Let me say first that APEC is unique among international regional integration arrangements with the specific target of free and open trade and investment in the Asia Pacific region based on non-discriminatory liberalization. Let me say right up front that I am absolutely clear that non-discriminatory liberalization is actually the first best approach to liberalization. If we look at the avenues that are available to APEC economies to achieve the goal of non-discriminatory liberalization, we have unilateralism, the APEC processes itself, and the WTO. Unilateralism in the APEC process, I think, has lost its momentum. One of the reasons for that is that numbers of economies in the region, particularly large economies, have made it clear that they expect reciprocity on a binding basis before they commit to non-discriminatory globalization. It is also clear that if we want reciprocity on a binding basis for non-discriminatory liberalization, the only avenues available to us that are consistent with the WTO rules are either the WTO itself or free-trade areas and customs unions that comply with the relevant WTO rules.

* Fred Bergsten’s paper for this session is attached on pages 48-52.

We know that the WTO is not moving very fast at this moment, and I think it will be uncontroversial to say that it is not going to get us to the Bogor objectives, certainly not by 2010 and maybe not for many years after that. As the moderator said, our approach of open regionalism based on non-discrimination has been challenged by the proliferation of free trade agreements and, I would say, the rise of alternative concepts of regionalism based in East Asia and in America.

In Fred Bergsten's materials, he argues that this challenge is going to be a lot tougher very shortly. In his view, I think controversially, China and the U.S. are on a collision course. He also argues quite soundly that if the United States and Korea begin negotiations for an FTA, it is going to set up a chain reaction that is going to involve Japan and China, which will have quite unpredictable consequences.

So let me just turn quickly to the question of how we actually approach movement towards the Bogor Goals given we now have this new environment with this emphasis, argued by our governments, very clearly being placed on the negotiation of various forms of preferential trade arrangements. Measured by the amount of energy and resources being devoted to the negotiations, it is clear that there is a main impulse from government going whether we like it or not. Of course, many of us do not like it.

When we look at the situation, the menu is rather different from what we had in 1994. In 1994, we had a clear choice between the preferential and non-discriminatory approach of liberalization. In my view, correctly we chose the non-discriminatory approach. Today governments have changed the menu by themselves, adopting the preferential approach to a very large degree although the non-discriminatory approach is not entirely ruled out.

So I think we should look at the options that we have using the preferential approach to get to the Bogor given that I do not think that we can credibly argue that the non-discriminatory approach is going to get us very quickly towards the objective. First of all, we can build up from the spaghetti bowl of preferential agreements that we have now, trying to find the ways of agreeing on best practices, trying to agree on model provisions, and trying to find the ways of converging these agreements. So these eventually give us movement towards more complete integration across the region without the patterns of exclusion or discrimination that the spaghetti bowl of preferential agreements creates.

We can also do that via the interim approach involving the creation of an East Asia-wide block. Build up from the spaghetti bowl to an East Asian block and an American block on the other side of the Pacific and find some ways of fitting those two regional blocks together to trans-Pacific.

The third approach is the proposal for the Asia Pacific-wide free trade agreement, the FTAAP, which is causing trouble and is associated with Fred Bergsten. I am involved in it a little bit because I have produced a study on this issue - my study was about the pros and cons rather than an advocacy. What we are looking at is an alternative form of preferential liberalization, admitting that this is the second best in the world we are in where there are governments moving towards preferential liberalization. Comparing the FTAAP, it is worse than the first best, which failed, but better than other preferentials available to us. There are some clear advantages to the Asia Pacific-wide integration. It can deliver economies of the region to the greater area and rationalize the spaghetti bowl. It can be a credible route to a modified form of the Bogor Goals and could encompass the trans-Pacific community. There are obviously some very big questions about how it fits with the WTO. There are strongly held views on both sides of argument. But we can say quite clearly, which I am sure that Fred Bergsten will also acknowledge, that it is not going to happen in the near future because of the tensions and difficulties within the relationships between particularly China and the U.S. and China and Japan.

Nevertheless, I think that it is worth keeping on the table. I do not think that we have to make a choice yet given that it is not going to happen in the near future. It is worth keeping on the table because it does highlight the benefits of region-wide liberalization compared to the other limited options which we are possibly going to look at. It does focus on the importance of the relationships between major powers in the region. At this stand, we do not have any avenue that currently is working well towards achievement of the Bogor Goals.

The final thought was in fact inspired by the presentation of Robert Devlin at the trade meeting yesterday based on the experience of the Americas. He raised the question, "Do we have to present this in actual ideal terms?" What he presented was the different avenues of liberalization with the analysis of a four-wheel drive. You will have one wheel, which will be unilateral liberalization; the second wheel, multilateral liberalization; the third wheel, region-wide liberalization, such as the FTAA in the Americas or FTAAP in the Asia Pacific; and the final, bilateral liberalization. His argument was that the whole process of liberalization works well if all of these wheels are spinning and engaged. The problems arise when some of the wheels become disengaged and simply pull off. The problem which he diagnosed in the Americas, and I think it is remarkably the problem of the entire world, is that three of the wheels have stopped working, and we have to live with the bilateral wheel, which is a very sub-optimal situation.

Heng Chee How

I would like to share the views of Singapore. We are trade dependent as a country. So it is in our interest that trade throughout the world becomes as free as possible. In trying to do so, we go to it in three ways. Clearly, we support the WTO. All efforts towards achieving success of the WTO are congruent with our interests. But having stated this very openly and directly, we also feel that perhaps there are many roads that can lead us to the same destination and concurrent approaches might also serve the purpose. As a result, we also pursue regional as well as bilateral FTAs.

We believe that it is not in FTAs themselves that the problems may lie. It depends on the design of FTAs. From Singapore's prospective, we would like to conclude that FTAs need to be high quality not only to us but also clearly to our partners. By high quality, we particularly mean the terms and conditions would be WTO compliance and WTO plus. We see this as an important element of the design because the more you can do this then the more the outcome of those negotiations would be compatible with other such agreements. In the subsequent integration processing from bilateral ones into regional ones or a concurrent regional one and then finally all the way up into bigger blocks and global agreements, it adopts the WTO process. That element of being WTO plus would give us the best chance for consistency and compatibility, therefore, allowing us to achieve progress in the meantime without necessarily waiting for general equilibrium to be achieved before any country can benefit from free trade. Through the process of having FTAs established, it helps demonstrate the value of free trade and persuade those who have dealt with these issues to be on the side of free trade. Therefore, psychologically it can also be a plus. So our bottom line is that an FTA itself is not a problem. It depends on how you design it, how you use it, and whether your partners and you are actually committed to the spirit of free trade.

Mari Pangestu

Let me begin by rephrasing the question that we always seem to pose at every PECC meeting. This time very much from myself as a policymaker and as a stakeholder, "Is APEC relevant for policymakers in answering the question posted, 'Squaring FTAs with the Bogor Goals?'" We all know that we take the goal to be an open trade and investment regime.

Let me give you the answer first. My answer to the question as a ten-month policymaker is that I believe that the Bogor Goals can be still best achieved by concerted unilateral reforms. And second, the answer is that APEC can play a role if you look at the APEC as the process, not deliverable outcomes. You cannot find any deliverables since 1994. You cannot really find any tangible deliverables from the APEC. You have to look at APEC as the process.

Let me try to explain what I mean. In my political and economic reality as a trade minister and policymaker, I have to negotiate in a multi-track strategy of unilateral policy reforms, preferential regional and bilateral agreements, and multilateral negotiations all simultaneously with limited resources and negotiating capacity. I have to feel guilty as to the description of bureaucratic entrepreneurs that we nicely wrote in our paper before. The bureaucrats and ministers have to come home with deliverables. That is one of the reasons why we seem to be negotiating some of these and everyone else is doing it. We are pressured to do it.

My job description as trade minister is to negotiate the best deal for the country's national interest. The key word here is the national interest. I would be fired if I did not negotiate the best deal in our national interest. In the ideal world, national interest should mean a national strategy that informs you what you should be doing unilaterally, what you should be negotiating bilaterally, regionally, and multilaterally. A lack of trade strategy means that your trade policy is going to be reactionary, ad hoc to the demands of external developments, best interests, and international trade institutions included in negotiations. So to get the best deal, I should be a trade and development minister not a trade minister. How do I undertake trade policy and opening so that the gains will be widely spread? This means that you need to have a package of complementary polices, including behind boarder measures as well as all political policy, such as broadening the base for gains in development, such as SME policy and education, and so on.

What can we say about what is now happening in the APEC region? There is the Midterm Stocktaking that APEC has undertaken and all the works that PECC has undertaken in the impediments and measurements and so on. It seems to indicate that there is a great deal happening already for us to go to the Bogor Goals unilaterally on trade liberalization of goods, investments, and services. But the major issues remain on sensitive sectors being excluded, such as domestic regulatory issues, behind the border issues, and so on. So the issue seems to be how to stop the reversal of the current process of opening up unilaterally and bindingly. I think the regional agreements and the WTO are all about the binding game. How can you bind so that you do not have any reversals?

So how can the APEC help given this background? Let me count the ways, three ways. First, the most important is how APEC can continue to provide peer pressure, confidence building measures for countries like Indonesia to continue the process of unilateral policy reform. This is actually what APEC most contributes to policymakers such as myself. Because there is a great wealth of information, frameworks, disciplines, peer pressure, and peer review of processes, APEC could be revitalized to play a role in ensuring us that we are on the path to the Bogor Goals. How can we actually sell the trade package to our domestic constituency? I urge this. I think we talked a lot about this right after the crisis. In countries like Indonesia which are democratic now, we have to sell the package. We have to sell the process of opening up. What is the capacity building here for us to sell our message? I believe that APEC still can play a role as a messenger to the WTO, but more as a consistent messenger. But the leadership is still not forthcoming in actually coming into negotiations and coming to decisions. It may still be forthcoming. At the moment I think as long as it keeps up its consistent messages to support the Doha Round, which is still important, contributes to capacity building, and visits what others are doing under the PECC trade forum, all these are actually very helpful for us in preparing our negotiations.

Finally let's see APEC and the best practices for the RTAs. There is no binding, no sanctions, but they again influence our frame of mind and thinking. I am very grateful to have been a part of the PECC process for the last 15 years because as I am negotiating bilaterally and regionally I have in my mind that I want liberal rules of origin and MFN exclusions. I do that quite seriously in our bilateral negotiations. Whether or not I am successful, I have to convince all the others at the negotiating table. I think pushing on the best practices of RTAs and reminding people of what this means is still important. While the FTAAP is a good idea -- you know that if you have to go with regional agreements, the bigger the better because of the big benefits -- I believe that for practical reasons, given already stretched negotiating capacity and 21 diverse economies, it is probably not a practical idea at this point.

I would rather that we revitalized the three ways that I just mentioned in APEC. I would certainly welcome your questions and input on those points.

Jean-Pierre Lehmann

I would like to make a few points. I have a tendency to be opposed to PTAs for all the good reasons that Guy de Jonquières gave us so I will not repeat them. They should be resorted to only in very special circumstances. I think the proliferation of PTAs that we have seen has contributed to the mess that we are in. I also note that as far as the general environment is concerned regarding trade, we have seen a resurgence of nationalism. Trade is used as an offensive policy tool. The language that we are hearing continuously is that of “concessions” and “offers” and so forth which have nothing to do with what trade is supposed to be about. Protectionism is quite clearly on the rise. This is to some extent due to external environmental factors. Among them, what we were seeing is really a titanic shift between the emergence of new economic powers, primarily China, India, Brazil, and Indonesia and dynamic players like Turkey and declining old economic powers, the heroes of the 1960s like Japan, Germany, Italy, and France. The old powers are ill, very ill. Those four are countries in G7.

For this reason, I think that multilateralism must be very much promoted. I do not entirely agree with what Robert Scollay said. I think that multilateralism must be an engine and then you can have the wheels, maybe different forms of pragmatic policies. But you do not equate multilateralism with bilateralism or regionalism. That has to be absolutely the central piece of the global trading system. I support multilateralism for the right reasons. It is closest to the economic trade theory that should be respected. It is also reflective of new business models. I do attack policymakers very often on this regard. The textile issue shows that they have seemingly no idea how business functions in the 21st century. PTAs and RTAs in particular do not take into account the global supply chain and technological revolution. Also I think we have the China challenge, and multilateralism is by far the best means of managing the smooth transition of China's emergence as a new global player.

Having said that, the problem right now is that we do not have any multilateral champions. It is certainly not the United States nor Japan. The EU unfortunately has this rather disgraceful textile issue, and it is also not a committed or serious player in the multilateral game. It is probably more responsible than other powers for the Doha paralysis.

I want to make a quick comment about Fred Bergsten's comments. I totally disagree with his paper. The one thing I want to mention is that I just do not see the crisis that he is talking about. I do not think there is a China and America crisis. I think there is an America crisis. What I am going to say might sound a bit heartless, which I do not mean it to be. I think in many ways Katrina shows what the problems are in the United States in adjusting to the new economy. In my opinion, what the United States needs to do is to raise taxes and invest in infrastructure for ensuring a much better level of education so it does not have to protect workers who do not have the skills that correspond to where the comparative advantage position should be. It is disgraceful that the greatest power on earth has the level of education which results in the kind of people that we see dying and suffering in New Orleans and then says it has to protect these people against the Chinese in the textile industry. These people should be given a chance and promoted into the knowledge economy that we are talking about.

The last comment I would like to make is somewhat challenging to what Mari Pangestu said. What is the definition of national interest? For example, with the textile issue in Europe, I think that defending national interest is defending that of consumers, particularly the poor, who should have access to cheap textiles. It should not be seven or eight-thousand textile workers who are working in a company and should have been adjusted a long time ago. I will stop here.

PANEL DISCUSSIONS

Guy de Jonquières

I just would like to respond to Jean-Pierre Lehmann on his point about what exactly national interest is. It seems to me that with Chinese textile quotas imported in Indonesia the producers seem to see this as a wonderful opportunity to protect themselves from Chinese competition, which after all trade theories say is not terribly useful in the long term.

Mari Pangestu

I think national interest has got a bit of a bad name. It is not used in a negative sense. To me, national interest means a lot of the things that you said like that it is the consumer getting a lower price. But ultimately it is how trade should be seen as a means to development, because no matter how often you see it, getting the message across is not easier said than done. For the sectors that will be affected -- for instance, in the case of textiles, the low-end garments and low-end shoes that have to compete with China -- it is a question of how fast you open up. You are going to open up in your negotiations or even if you cannot negotiate. In our case it is always too late, but what you negotiate is a time frame. You tell the interest group, “You have got five years or ten years to adjust.” That is what I mean. But to answer that, you must have a clear strategy in your mind. It is a lack of trade strategy that misinforms us in our negotiations, which I, as somebody from a developing country and a democracy, have to face. I need capacity building. I think APEC helps some of us in some issues to come up with the answers on how we should be approaching some of these issues. That is really the point.

Guy de Jonquières

Let's come back to the question of bilateral trade agreements and ask Heng Chee How about something he said. You said that your deals are okay because they are WTO compliant, in many cases WTO plus. Many hundreds of agreements have been concluded since the GATT was founded. They have never been subjected to any scrutiny, and there was one examination which ended up that the deal was okay. How can you possibly know whether it is WTO compliant if there are not any effective rules and there is nobody who can judge them?

Second point, you said about the WTO plus -- well, I do not remember the Singapore government saying under American pressure, “Of course, we will give away our contingency right to reimpose exchange controls because it is WTO plus.” I do not hear from the developing countries saying in the WTO, “Let's have forcible labor standards in the WTO because of WTO plus.” Let me put this to you honestly. The term is pretty meaningless and totally subjective. In the case where a big power is negotiating with small country, we can get away with it because we are big and powerful. But we could not get away with it within the WTO.

Heng Chee How

I suppose this actually proves the point that if you try to wait until everything is settled in one goal then you might literally have to wait forever. So perhaps let me do it another way. I will take your second point as the illustration of the first.

Let's say that there is a FTA negotiation between Singapore and the U.S. The relative size of economies, power, and geography could not have been more different. Singapore on the goods side really does not have very much more in terms of tariffs to cut. But you need to trade because you need it as a country. You support international regimes and developments because they set regulations that would protect the interest of small states such as ours. So when you deal with the bigger voice, you have a better chance of having your rights respected. I will put it that way.

Yet you know that when you are negotiating, it is not quite the same as when two big boys are negotiating. You can turn that into an opportunity because when you are relatively less able to make offers to trade on the goods side then you look very carefully on what you might be able to liberalize and open up in the other areas. Then you extend the idea of collaboration in your agreements beyond what is a straightforward bilateral trade agreement. We may not be totally sure about what exactly a particular definition might eventually come down to mean. In the process, at least by our own experience and because of our own characteristics, we have been subject to examining what would bring value to the table in the negotiation. The process actually forces the Singapore economy to open up faster simply because we have to bring something to negotiate. You can call it unilateral liberalization if you like, but it is a part of the other approach. When you do so, it also concurrently helps the capacity building angle, which was what Mari Pangestu was talking about. In a way you experiment, you can test yourself what other knowledge gaps you need to bridge and what are the mechanisms.

So I will put it this way. Smallness is not a reason for giving up. Smallness is a reason for you to examine how else you can create value and still make trade in goods, services, and in different sectors build capacity and get good-quality agreements. If it is only good for yourself, the other side would not agree. Ultimately there must be something that satisfies everybody. Then you have an agreement. If you pursue it that way, I think there is a good chance that in the end it is possible to integrate it with some other agreements that come along the way.

But I am not saying that we should pursue these to the exclusion of global trade talks. I am not saying that.

Guy de Jonquières

Another question is on bilateral agreements. Fred Bergsten has argued this in the past, so I have had many arguments on this. Bilateral agreements are wonderful. The more bilateral you have, the more you get to the situation where you improve the chances of getting multilateral breakthroughs. People who disagree say that what bilateral agreements seem to be doing is to get more and more bilaterals. Does anyone on the panel actually believe that bilaterals are the way to go to achieve multilateral agreements?

Mari Pangestu

I think it depends on what you are going to get in the bilateral. I do not strongly believe that bilaterals add up to multilaterals. I still believe that it should be the multilateral trading system that is the best for us.

Unfortunately, in the bilaterals, we have to negotiate with large partners, and the negotiating competency for many developing countries such as Indonesia is limited. Secondly, I think what is emerging actually is a kind of hub and spokes arrangement. We are only starting to negotiate with Japan, so I cannot really say much from our experience. As you know ASEAN is also negotiating with Japan. What Japan has done is totally reversed with what China did with ASEAN as a group. Japan negotiates bilaterally with each one of us in ASEAN before completing the ASEAN-Japan agreements. We will have to wait a little while but I am not sure that this is all beneficial for ASEAN. In a way, it is not necessarily Japan's fault. It is really ASEAN's fault, which again remains to be seen. But I think consistency is the one thing that we are very conscious of. How do you make these bilateral negotiations with Japan consistent with negotiations at the ASEAN-Japan level? This is very challenging. I have not got the answer yet because we are still negotiating, but it is going to be a tough battle.

Robert Scollay

I think the experience shows clearly that this idea, competitive liberalization, i.e., proliferation of bilaterals, is going to lead to eventually multilateral liberalization, has limitations. I think even Fred Bergsten acknowledges that today.

I think there are two reasons. One is, what Mari Pangestu has just mentioned, the hub and spokes problem. I think also it is becoming clear to everybody who observes this development that joining at those dots will be a very difficult exercise and maybe impossible. Some of the provisions that are being negotiated in bilaterals are actually going to make it even harder to join up the dots, particularly things like intellectual property rights, labor standards, environmental standards, or capital controls. Some of those dots have those provisions in them and I suspect it is going to be very difficult indeed.

Jean-Pierre Lehmann

I agree with what Robert Scollay just said. I would like to add an addendum that what has taken place is a sort of bandwagon effect. That is also a concept to competitive liberalization which I think is pretty much bankrupt.

Another point I would like to make is in respect to what Mari Pangestu said: that resources are limited whether they are resources of people or of time. It is not just a problem of developing countries. How can they be doing this when there are so many other things on the table? I think it will be interesting to see what effect CAFTA will have on Doha. I must say that I am very skeptical. But if it does all of the sudden sort of open up and lead to the promise land which is not that far from CAFTA, then I will admit that I was wrong.

Guy de Jonquières

Since you raised CAFTA, we move to the level up from bilateral to regional. There are still a lot of talks about big regional projects. But looking around the world, it does not seem to be that the regional is doing terribly well. The most ambitious of them all is FTAA, and it is now almost dead. Nobody thinks that it is going to be revived any time soon. The EU-MERCOSUR talks are in deep trouble, and they are not making any progress. CAFTA got through the House of Representatives by an incredibly narrow margin, only after the Bush administration was forced to offer all kinds of protectionist sops to the most hard-line protectionist U.S. lobbies, thereby disintegrating the spirit if not in the letter of the agreement. If you look the EU at the moment, the proposal for complete liberalization in the services market has been trashed. Now you have France proposing to violate one of the most fundamental points, free movement of capital, by declaring that large sectors of their economy are immune to foreign takeover.

I mean, what is the hope? Are there any examples of regionals where implementation is happening at the moment as it was negotiated in the past?

Mari Pangestu

Narongchai Akrasanee's earlier point of ASEAN in crisis notwithstanding, there is something happening in ASEAN, especially on the good side. The ASEAN economic community is trying to progress much further than ever before. The modality that ASEAN is adopting is the ASEAN plus one model. But as I just mentioned earlier, for instance, whether or not ASEAN-Japan is going to add up, with all the bilaterals, to a more comprehensive ASEAN plus one is questionable. But the fastest one that is going on is actually ASEAN-China. ASEAN-China has already happened and already being implemented but only on the good side. So I think the question still remains whether or not the ASEAN plus one model can really accommodate if you went beyond goods into services and investment and all these other issues.

Robert Scollay

Just one comment on the previous question related to the regional, I need to say this from Robert Devlin's presentation on the Americas. One of the points Robert Devlin did make was on how those things are related to the multilateral negotiations. He did make a point that he believed from the observation of the FTAA process, it had been actually very helpful to the participation of Latin American countries in the WTO process. Even though it did not have a direct spillover effect, it has been actually helpful to the WTO process.

Guy de Jonquières

One more question is on the Pacific agreements, not only including East Asia but also the United States. On Fred Bergsten's proposal for a Free Trade Agreement of the Asia Pacific, is it really feasible or is it realistic to think that in the current state of affairs with signs of phobia in the U.S. Congress voiced everyday that the U.S. is going to be able to sit down in a grouping including China and negotiate anything that looks like a free trade agreement? Especially given the time that we have in terms of 2007, I mean, isn't this all inevitably a myth given the political realities of the day? Can anyone suggest that this might be other than a myth?

Robert Scollay

I actually see exactly what you see that it is not feasible at this moment because of the factors you mentioned. I am pretty sure that Fred Bergsten will acknowledge those factors as well. Maybe he is a little bit more optimistic than you and I that it can be overcome. But I think as long as the situation between the U.S. and China remains, there is no possibility of any other liberalization involving China and the U.S. But depending on whether you think this is a permanent situation or not, whether this can be worked through or not, the situation may change.

Heng Chee How

I thought that I should add a point here. If you are looking at an FTA for the Asia Pacific and you are looking at the relationship between any two member countries, it may be problematic at the moment, resulting in the delay in the prospects of such a thing. The other way of approaching it is actually to have some kind of agreement that may not yet involve everybody in the group but will be open to others for signing on. So in this regard, I was just looking at the agreement which Manfred Wilhelmy talked about this morning where Chile, New Zealand, Brunei Darussalam, and Singapore are now in and which is open to others to sign on to. That might be another way of moving forward.

QUESTIONS & COMMENTS FROM THE FLOOR

No. 1: Narongchai Akrasanee from Thailand

I have been making a living on trade liberalization for over 40 years. I must say that things are much better than when we started off. So I think this argument about multilateral, bilateral, and unilateral is very irrelevant to me. In my view, whatever you can get, go ahead and do it. As long as your objective is to have more trade and if you think that trade is good, whichever opening, go ahead and do it.

In our countries in ASEAN in the 1970s and 1980s when we were having this import substitution policy, we thought export promotion would be better for trade. We went along that route and started to reduce tariff protection. Due to time, I should stop my comments here.

No. 2: Kim Jin Hyun from Korea

I am with the Hyosung Corporation and an adviser to its chairman. We are one of the sponsors of this conference.

First of all, the comment about all the problems of FTAs that the panel has mentioned, I think it was really created by the open battle caused by the WTO poorly defining what is permissible in the first place and not enforcing it. As I recall from the PECC General Meeting two years ago, I heard one of the representatives from the WTO saying that only two of the FTAs had been reviewed for compatibility with the WTO rules of Clause 24 simply because the WTO was not staffed and policed. That is one of the problems. As you face all those problems and the spaghetti bowl, the best way to fix it would be to button up, first of all, Clause 24 which is at the moment defined as substantive old trade rules with the reasonable period of the time. And if you enforce it, I would imagine that gradually, as Mari Pangestu said, the various agreements could become more compatible with each other and, therefore, will be conducive to multilateral agreements.

On the national interest, I think the question is national interests in whose eyes. I think one of the problems is, as somebody put it very aptly, that losers of the free trade and globalization have names, faces, and numbers, and gainers are simply not visible. In the democratic process or lobbying in the Congress, the invisible faces lose out to the very visible organized faces.

The last comment I want to make is about the strong sentiment of the U.S. Congress against China. I think this is very much like 20 years ago. This happens to be the 20th anniversary of the 1985 Plaza agreement. At that time, the U.S. sentiments towards Japan as a result of the trade imbalance were quite similar to the expressions today. Therefore, I would expect similar progress could be made.

No. 3: Mario Jales from Brazil

This is from the Brazilian Institute for International Trade Negotiations. My question is about bilateral and large regional agreements in this big trade off. I remember that we used to say that the world would have just three large blocks: Europe, Asia, and America. But now we see 350 blocks. The question is why we are moving in this direction. Why, for example, are you having negotiations like ASEAN plus three, then ASEAN plus Japan, ASEAN plus China, and ASEAN plus Korea? Japan has bilateral negotiations with many ASEAN countries.

Why are you following the very bad experience of the Americas? The Americas spent ten years trying to have just one block, FTAA, and now we have the explosion of bilateral negotiations. That makes no sense. There is no sense that can be seen in the U.S. Central American agreements. Two years to approve very small agreements with no impact on trade. So why are you not moving in the direction of large regional, especially here in Asia? You already have much more integration. You have commercial integration, infrastructure integration. Why aren't you moving in the direction of, for example, just ASEAN plus three trying to get just one block in this part of the world?

No. 4: Andrew Elek from Australia

I just would like to comment and support Mari Pangestu's comment on the importance of capacity building. In the Australian case study, it really demonstrates the real obstacle in liberalizing as a sensitive factor: it is not just which approach you are trying to spin. Without the political will, you will not do it. Australia used to have this situation where the Prime Ministers came back from Geneva saying, "We have got an excellent result. We do not have to liberalize anything." And that changed when Bob Hawke came along. Bob Hawke had the political courage to liberalize many things. But he was not on his own. He has built institutions, education, and socialization of the idea. The national interest was unilateral liberalization and it still is.

I think that today the biggest, the most fundamental problem with the mindset is that we all seem to be stepping back, saying that trade liberalization is bad and we do it as long as somebody else does. That mentality is coming back even in Australia. It is the fundamentally important thing to remember that national interest is liberalization.

Guy de Jonquières

On Narongchai Akrasanee's previous comment, "Please, forget about any difference between multilateralism and bilateralism. That does not really matter. Just do anything as long as you can increase trade." What do you think about that?

Mari Pangestu

I quite agree with Narongchai Akrasanee. But again that will be fine and well if you have a clear strategy in mind - if you know what you want a trade policy to do, what the role of trade policy in your overall development is. In Indonesia, what wakes everybody up is the real negotiation. The WTO did not wake people up. But if we are negotiating with Japan, this is real. What you are going to negotiate is what you are going to get and what you are going to open up. This is real. That is the kind of work that wakes everybody up in the sense of the government. We have to work with different government ministries to come up with a negotiation position.

It is good to wake everybody up, but we still have to have a comprehensive strategy. This is what we are doing currently. This is exactly where I think a lot of capacity building could help us. In fact, capacity building comes from not only from APEC but also from ASEAN. The one advantage of being a latecomer is that we call all our ASEAN friends and say "hey, when you negotiated with Japan, what did you do?" We are learning actually from what the others are doing. Again, my basic point is we, Indonesia, still have to know what it is that we are fighting for -- I will not use the word, national interest - and what our national policy should be.

Jean-Pierre Lehmann

I agree with Narongchai Akrasanee that things had improved dramatically since 30 years ago up to about 10 years ago. So I think what we have seen is the dramatic improvement at the end of the Cold War. The principles of the market economy have been accepted by many more states. The number of the WTO membership has increased. But at the same time we seem to have regressed in terms of negotiations and attitudes. I do not worry about NGO activists on the street. What I worry about is the apathy, lack of support, and the kinds of sentiment that youth are putting forward.

Let me just say another thing quickly here. I think what can really give an enormous boost to this market is quite simply if Japan opens its market: Japan becomes an importing nation and opens its market to investment, etc. I think Korea might also be able to do a little bit on that. That will be the real engine of trade and growth here. I am very suspicious of Japan's EPAs. There was an economic review on Japan's EPA written by a Japanese official. It was quite amazing because everything he said could be quite simply solved if Japan opened its market unilaterally and became a Germany in regard to the region. That will have a very significant impact.

No. 5: Young Soogil from Korea

On behalf the organizing committee and the host, I would like to invite every panelist to answer the question towards the theme of the session in two or three sentences, "How to square FTAs with the Bogor Goals?" The underlying issue here is what to do with the Bogor Goals. The APEC governments have been striving towards these Bogor Goals after having set them up as a goal bravely. They are going to meet in Busan this November. One of the things they want to make a decision on is whether to give up the Bogor Goals, redefine them so that they become achievable, or keep them as they are and continue to strive towards them knowing that they would never reach them.

Now there are two specific questions. How do you think we should interpret the Bogor Goals in regard to principle of discrimination versus non-discrimination? Should these Bogor Goals be interpreted to incorporate the principle of non-discrimination or not? In the latter case, of course, I think we will be talking about the FTAAP which Fred Bergsten was going to come here to propose.

Secondly, having heard Mari Pangestu, such a champion of free trade on behalf of Asia Pacific negotiating FTAs with number of countries, now I accept this proliferation is unstoppable, and let's accept that as reality. Can we make this consistent with the Bogor Goals whichever way we redefine them? I am not talking about the possibility in a theoretical sense. Robert Scollay has set up the number of theoretical principles by which two can be made consistent. But in political terms, can that be done? Can FTAs be made to converge towards the Bogor Goals under whichever definition you propose to adopt?

Guy de Jonquières

A quick comment on abandon the Bogor Goals or revise them.

Mari Pangestu

Don't abandon the Bogor Goals. I thought I answered your question. I still believe that the way the APEC countries are going to achieve the Bogor Goals is through unilateral policy reforms. The main bad guys, as Jean-Pierre already mentioned, are some of the countries, actually more developed countries in the region, who are not doing their best in the unilateral policy reforms. If you look at most of the developing countries in Asia Pacific, even China has already bound a lot of its unilateral liberalization. So the battle is to maintain movements towards the Bogor Goals. I still subscribe to the non-discriminatory principle. Unilateral liberalization is non-discriminatory. I think the WTO is still important to both for the binding game as well as the more comprehensive game. You still want to do that in non-discriminatory way.

The FTAs are unstoppable. I actually think that it will continue. But it is going to make only marginal differences perhaps in us being able to achieve greater, more comprehensive, and more binding liberalization. The only way we can rescue it is to have temporary discrimination. As long as you have a MFN clause, in other words that you provide preferential treatment only for a specified period before you make it available for everyone else, that is the only way I can square it with my mindset being what it is. That is the only way that I can square FTAs with the non-discriminatory principle.

As a practical answer, I feel that this will continue to proliferate because they are small issues not the big flows yet unless you get China and the U.S. to negotiate a free trade area or the FTAAP happens. They are going to be marginal because of the way they are. Some of them are actually quite comprehensive as you are saying. They do include this so called "normally excluded sector" but they have a very long timetable. However, including this is already something. So practically speaking they are going to have some minor aberrations, but they are probably not going to have such a big impact.

Conceptually speaking, going back to what Robert Scollay pointed out, adding up the dots may not be so easy. While we are trying to maintain this MFN clause, liberal rules of origin, and best practices, it is going to be a hidden myth. Not everybody is going to like finding the way we are thinking. I can give you a concrete example as we are negotiating with ASEAN plus one. We ASEAN stuck to liberal rules of origin with ASEAN and China. We told Japan and Korea that we were going to do that. We are stuck with India because India does not come on board with more liberal rules of origin. However, we have decided that we are going to stick to them. I hope we can stick to them. These are some small wins in the battle of non-discrimination. It is not going to be completely won.

Heng Chee How

Let me make three points. Number one is that the Bogor Goals and spirit are well worth keeping and pursuing. Secondly, the FTA, as a transitional mechanism, is something that we can look at. So long as our eyes stay focused on the final goal, which is liberalization -- having free trade on a global scale -- and if we do not lose the focus of that long-term goal, consistently moving towards it and then finding various methods of looking at the actual situation in reality, we can make progress. My final point is suppose that we do not have any of these FTA-type things, does it mean that today we would have achieved the Bogor Goals? I ask the question because it will cause us to think what other impediments there might be to the process as well. When we build capacity and solve a problem, I think we should also look at it quite comprehensively and really attend to the various issues.

No. 6: Kenneth Waller from Australia

I am from Australia and work at the ABAC Finance Working Group. We have submitted a couple of checklists to promote investment globalization in the financial sector to APEC trade ministers and a year later to leaders. This is a part of a contribution from the business to community building and capacity building. Is this a useful contribution? I would like to address this question to the two ministers in particular. Could you articulate a little bit more what you mean by capacity building? Is it intellectual input that you are looking for from your supporters? Or is it financial resources? Can you be little more precise what you want from the community?

No. 7: Richard Drobnick from the United States

This is from the University of Southern California in the U.S. Question to any of you. Is there very much strong empirical or anecdotal evidence that the Preferential Trade Agreements being negotiated now or in the past few years lead to any substantial increase in bilateral trade or any substantial increase in foreign direct investment? What I am teaching in our business school is, "Do not chase it very much. Go to find the right infrastructure, go to find the right markets, and play in that market."

Mari Pangestu

Let me answer the question on capacity building. To me, it is both the framework and the approach: more training and sharing of experiences which sometimes could involve financial resources. I will give you a very concrete example again. As a policymaker, I have to think a lot these days about how to make policy. I am in charge of reconfiguring the investment policy of Indonesia. What is the first thing I do? I go to the APEC investment guidebooks because I have to come up with a comparison: where we are compared to others. I also used those comparisons to come up with the framework that we are now debating on implementing. The other thing that I used is not from APEC but can be something that came out of APEC. It is a survey done by the World Bank. It shows that it took 150 days to get a business license in Indonesia compared to 30 days in Malaysia, one weekend in Australia. We are actually using it as a target. Now we want to go from 150 days to 30 days. That is peer pressure and peer review in my opinion. This is the kind of thing that I was talking about. For instance, in the case of the RTAs, we are going to need a lot of help, a lot of training, and thinking through on things: What are the issues? How would we approach them? There are training and sharing of experiences which are in abundance in ASEAN as well as APEC. Those are what I would be looking for.

Heng Chee How

I agree with Mari Pangestu. I would like to say that there is a paragraph in the text which actually speaks about Singapore's experiences in the end. Again, it is a question about how we can share knowledge and provide training and exchange programs, things that you do in order for a greater mutual exchange of experiences and better mutual understanding so as to work those agreements better and facilitate the negotiations.

Guy de Jonquières

Thank you. We are already well beyond the allocated time. I think we could have a much longer discussion, but we have to draw it to a close. I would like to ask you to join me in thanking our panel members for their contributions.

A NEW STRATEGY FOR APEC

C. Fred Bergsten
Director, Institute for International Economics

The Economic Crisis Facing the Asia Pacific

The countries of the Asia Pacific region face a series of major economic problems.

First, the region's two largest economies[1], China and the United States, are headed toward a major clash as early as this fall. China's soaring global current account surplus will probably approach $150 billion and 7 1/2 percent of its GDP this year, becoming the largest single counterpart to the US global current account deficit of about $800 billion or almost 7 percent of its GDP. Unless China promptly revalues the renminbi by at least 10-15 percent, and preferably 20-25 percent, the Treasury Department will almost certainly and justifiably[2] label China as a "currency manipulator" in October and be compelled by US law to institute strong measures to induce it to act.

Absent a substantial Chinese revaluation, the Senate is likely to pass the Schumer Amendment, which would impose an across-the-board surcharge of 27.5 percent on all imports from China[3]. The House of Representatives already passed anti-China trade legislation in July. Chinese retaliation against such new restrictions by the United States, were they ever to become law, would be both probable and justified. The result would be a trade war between the two chief locomotives of the world economy.

But China-United States economic relations are on a collision course even if the current impasse over exchange rates can be resolved. Bilateral imbalances are economically irrelevant but politically explosive and China's trade surplus with the United States now exceeds an annual rate of US$200 billion. US imports from China are six times as large as US exports to that country so the imbalance will almost certainly continue to grow. The United States has already imposed substantial new barriers to Chinese exports in six sectors and more such restrictions are coming. Moreover, there are widespread fears in the United States that China is moving rapidly up the technology ladder and strong emotional reactions to China's scramble to secure dedicated supplies of energy, as dramatized by the recent de facto Congressional rejection of CNOOC's bid for Unocal. Numerous political and security problems, most sensitively of course relating to Taiwan, add to this worrisome picture.

1. With exchange rates caculated at purchasing power parity.
2. See Morris Goldstein "The International Financial Architecture," in C. Fred Bergsten and the Institute for International Economics, *The United States and the World Economy: Foreign Economic Policy for the Next Decade,* Institute for International Economics, Washington DC, January 2005.
3. For details on these likely US developments, and an elaboration of the needed remedies, see my "The Transpacific Imbalance: A Disaster in the Making?" also prepared for PECC XVI Session IV.

Second, when President Bush visits Seoul after this year's APEC summit, the United States and Korea are likely to initiate negotiations for a bilateral free trade agreement This would be the first bilateral FTA between the United States and any Northeast Asian, or indeed any large Asian, economy. I strongly support such an agreement and our Institute for International Economics, at the request of Deputy Prime Minister Han-Duck Soo when he was Minister of Trade in 2000, prepared one of the first analyses of its effects.[4]

But Japan, in light of the trade diversion it would suffer from a US-Korea FTA, and even more importantly the broad foreign policy implications of such a step, will then almost certainly seek and receive an FTA negotiation of its own with the United States.[5] The United States may simultaneously be launching FTA talks with one or more Southeast Asian countries, most likely Indonesia and/or Malaysia. <u>China is likely to perceive such a series of US initiatives as a "surround China" or even "containment" strategy in the economic domain</u>, intensifying its concerns over the "surround China" strategy that the United States is already pursuing in the security domain, raising fundamental problems for trans-Pacific relations and exacerbating the more immediate United States-China conflict already noted.

Third, the evolution toward an East Asian Free Trade Area, whether it is ever called that or not, has accelerated with the further proliferation of FTAs in the region. Virtually every possible combination of countries in East Asia, with the exception of Taiwan for obvious political reasons, is engaged in FTA negotiations or preliminary talks or at least officially sponsored studies.[6] The huge trade (and perhaps monetary) bloc that could result would discriminate sharply against outsiders, costing the United States alone at least US$25 billion in lost exports immediately and much more over time.[7] This process could receive a strong political push from the Asian summit that will be held in Malaysia later this year.

At the same time, the United States has just extended its own FTA network in the Western Hemisphere beyond NAFTA to include Central America. It will soon complete an FTA with the Andean Pact countries. It continues to pursue a Free Trade Area of the Americas.[8] <u>The result of these regional developments in both East Asia and the Americans could be the famous "drawing a line down the middle of the Pacific," with profound security as well as economic implications for all countries on both sides of the ocean</u>.

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4. Inbom Choi and Jeffrey J. Schott, *Free Trade Between Korea and the United States?* (Institute for International Economics, Washington DC, April 2001), as updated in Inbom Choi and Jeffrey J. Schott, "Korea-US Free Trade Revisited," in *Free Trade Agreements: US Strategies and Perspectives*, Jeffrey J. Schott, ed., Institute for International Economics, Washington DC, April 2004.
5. Choi and Schott, p. 67, concluded in 2001 that "Japan would likely suffer larger welfare losses than other countries from trade diversion generated by a Korea-US FTA" and that formation of a Korea-US FTA could create "strong pressure on Japan to negotiate FTAs with the United States or Korea. Indeed, if the United States and Korea merely announce their intention to explore an FTA, it could be bigger news in Tokyo than in Washington."
6. For an up-to-date summary see Gary Hufbauer and Yee Wong, "Prospects for Regional Free Trade in Asia," a paper presented at the 8th Annual RAND-China Reform Forum Conference, June 28-29, 2005. See also my "Embedding Pacific Asia in the Asia Pacific: The Global Impact of an East Asian Community," presented at the Japan National Press Club, September 1.
7. Derived from Robert Scollay and John P. Gilbert, *New Regional Trading Arrangements in the Asia Pacific?*, Institute for International Economics, Washington DC, May 2004.
8. Which has stalled for the last year but is likely to revive with a successful conclusion of the agricultural component of the Doha Round.

The APEC Solution

The only idea that has arisen so far for responding constructively to this series of looming clashes is a renewed and serious commitment by the countries of the Asia Pacific region, especially the largest ones, to the Bogor Goals to achieve "free and open trade and investment in the region" as a whole and to APEC as an institution.

At last year's summit in Santiago, the APEC Leaders noted that their APEC Business Advisory Council (ABAC) "presented two relevant proposals… [including] a study of the feasibility and potential scope and features of a Free Trade Area of the Asia Pacific." They "welcomed the reports from our business community, including ABAC's resolve for expanding trade" and "invited ABAC to provide its views… on the benefits and challenges that arise for business from the increasing number of RTAs/FTAs in the region and ways that these can be addressed." A number of Leaders including reportedly from Australia, Canada, Chile, New Zealand, Singapore and Taiwan supported the FTAAP idea but the largest members, including China and the United States, did not and hence no action was taken. Fortunately, however, a careful and balanced study of an FTAAP has been carried out by Robert Scollay from the PECC Trade Forum, taking account of comments from other members of the Forum,[9] so an initial prerequisite for proceeding to negotiations exists.

The question before this panel is: "Squaring FTAs with the Bogor Goals: How Can it be Done?" The honest answer is that it can only be done, over time, by rolling the individual FTAs and Economic Partnership Agreements (EPAs) and otherwise-named subregional trade agreements into a single Free Trade Area of the Asia Pacific.

Only an FTAAP can avoid a severe risk of "drawing a line down the middle of the Pacific" as East Asia and the Western Hemisphere proceed toward creating their separate regional blocs. An FTAAP would embed both Pacific Asia and the Americas in the Asia Pacific and obviate the risk of disintegration of the APEC region.

Only an FTAAP can avert the intensification of hostility between the United States and China if each pursues a series of bilateral and subregional FTAs that discriminate against the other and pose geostrategic concerns as well, including China's likely perception that the United States is pursuing a "surround China" strategy in both economic and political terms.

9. The Trade Forum as a whole was regrettably unable to reach consensus on the paper so it was submitted on the sole responsibility of the author.

There is no prospect for a bilateral FTA between China and the United States.[10] An FTA between the United States and the three powers of Northeast Asia, which some have proposed, would discriminate heavily against the rest of Asia and other parts of the world. Hence only an FTAAP can subsume into a broader and cooperative context, including orderly dispute settlement mechanisms, the growing bilateral trade and other economic disputes between the United States and China that are leading those two economic superpowers toward major conflict that will inevitably have huge spillover effects on the entire region.

US officials have resisted supporting an FTAAP primarily because it would imply free trade with China, albeit in a broader regional context, and there is no doubt that it would be a major challenge to win Congressional approval of the idea. In practice, however, the same economic arguments that have led the Congress to support every previous FTA and multilateral trade round negotiated by subsequent US Administrations should prevail: the United States must avoid the discrimination against its trade that would result if it did not pursue liberalization with the chosen partner(s), and the US market is already largely open so the country can only gain from an agreement that eliminates barriers in the partner countries as well. The US business community, which along with the Administration must ultimately push all trade agreements through the Congress, would be strongly supportive of an FTAAP—far more than any WTO negotiation—because of its major market-opening potential. The United States ultimately decides all its trade policy initiatives on broad strategic and foreign policy grounds, however, and the considerations outlined here vis-à-vis China in particular and East Asia as a whole should thus be decisive. The Administration will have to take a forceful lead on the issue, however, and work hard to convince the Congress and the American public of the merits of the idea.

Finally, only the launch of an FTAAP process by APEC seems likely to galvanize a substantively meaningful outcome for the badly faltering Doha Round in the World Trade Organization. Such an external jolt in 1993, in the form of the initial APEC summit at Seattle and declaration of the Leaders' intention to pursue free trade in the region, played a central role in bringing a successful conclusion to the Uruguay Round and the creation of the WTO. A similar jolt is needed at least as badly now to stimulate a similar outcome for the current negotiation.

If the Leaders at Busan in November are not ready to launch at least a serious study of an FTAAP, as proposed by the ABAC a year ago, the best alternative would be to proceed with the large new transPacific FTAs between (1) the United States and Korea and (2) the United States and Japan. This approach would be risky because of its impact on China, as noted above, and because it could ultimately "draw a line" within Asia that could increase tensions there. But it would augment the small trans-Pacific FTAs that are

10. The United States Administration can contemplate bilateral FTAs with Korea and Japan but not with China because only China of the three, like Mexico and even Central America before it, raises the three objections that create fundamental problems for Congressional approval: most importantly low-wage competition but also low labor standards and low environmental standards. These problems would of course still exist in a regional agreement but would be much less prominent and more diffused among the broader range of countries involved.

already in place (Japan-Mexico, Korea-Chile, United States-Singapore), help avoid "drawing a line down the middle of the Pacific" for at least a while, lay the foundation for a larger APEC effort in the future, and perhaps provide "competitive liberalization" pressure on China to take the lead in pursuing the FTAAP itself. They could be pursued simultaneously with an effort to re-invigorate the Doha Round and, though their jolt to the WTO would be smaller than an FTAAP launch, might succeed in galvanizing it to greater substantive success.

The Role of the PECC

During the 1980s, the PECC provided the intellectual foundation for the creation of APEC itself. The regional and global contexts have changed dramatically since that time and APEC, after a promising start in the middle 1990s, has lost its momentum and sense of purpose.[11] PECC's intellectual leadership is needed once again to propose strategies for the region, and for APEC, that will respond effectively to the current formidable challenges faced by both.

A revival of APEC via launching negotiations for a Free Trade Area of the Asia Pacific is the most promising possibility that has so far come to light. A careful assessment of that approach has already been prepared under the auspices of the PECC Trade Forum. The largest countries in the region, notably including the United States, must still be persuaded to endorse it. But opponents of the idea must come up with credible alternatives, rather than simply reject the FTAAP, if they are to contribute helpfully to the debate.

With APEC now faltering badly, and the region facing the enormous challenges and risks outlined here, the PECC has an opportunity to again provide the intellectual leadership that is badly needed to revive both the policy and institutional processes. I hope that this PECC XVI will begin to do so and that APEC will again be receptive to outside advice that could help it cope with the enormous challenges that it will continue to face for the foreseeable future.

11. See my "Toward a Free Trade Area of the Asia Pacific," presentation at the APEC CEO Summit, Santiago, November 2004.