

A Free Trade Area of the Asia-Pacific

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Notes for Remarks

[SLIDE 1] - Introduction

- Since it was first mooted a couple of years ago, the notion of a possible Free Trade Area of the Asia-Pacific - or FTAAP - has served to stimulate a great deal of debate in the APEC region.
- It is a controversial proposition, Like all controversial propositions, it has served as an excuse for its proponents and opponents to write a lot of papers - including those found in the surprisingly voluminous joint study by the Pacific Economic Cooperation Council and the APEC Business Advisory Council.
- The FTAAP is often discussed in the context of APEC. This is not surprising given its origins in the ABAC. We're here today in an APEC meeting, but I suggest we try to separate APEC and the FTAAP idea.

[SLIDE 2] - Arguments for an FTAAP

- The most salient arguments in favour of an FTAAP are fairly well known and probably nobody has stated them more succinctly - or more often - than Fred Bergsten, who contributed the second chapter to the PECC-ABAC study and who has expanded on his initial thoughts in subsequent policy papers.
- Fred argues that current day circumstances make the arguments in favour of an FTAAP even more compelling today than they were in 2004.
- I spent about two decades of my professional career involved in the multilateral trade policy of the GATT and the WTO. Naturally, I agree with everybody who argues that the best avenue for trade negotiations is the non-discriminatory WTO route - that also packs more bang for the buck. But we have to agree with Fred, it seems to me, that we should have a good plan "B" someplace in our pockets.
- Fred's other arguments are also well-known if not universally shared. Nobody wants a line down the Pacific or a spaghetti bowl of origin rules worse than we have now.
- It's also important to keep the United States involved in the region and to do what we can to energize trade liberalization in APEC where it seems nobody believes we are on track to meet the Bogor goals.

[SLIDE 3] - Arguments against an FTAAP

- The arguments against an FTAAP are also pretty persuasive - particularly when the FTAAP is confused or co-mingled with APEC as an institution.
- Opponents argue that the FTAAP is not politically feasible - nor is it politically desirable. They emphasize that the magnitude of the undertaking would almost certainly drain participating economies of resources and demand a political leadership focus that would doom the Doha Round.
- A negotiation of an FTA with legally binding commitments would also be alien to APEC's culture of voluntary, individual actions. In addition, all the work devoted over the years to community-building in APEC could be destroyed by a failed FTAAP negotiation.
- Finally, many of the critics allege that it would be just too hard to imagine the diverse membership of APEC agreeing to the requisite elements of a high-quality FTA.

[SLIDE 4] - Relevant Facts

- Against these largely political arguments, both pro and con, there are some facts worth bearing in mind. Many of these facts are already highlighted in the draft 2007 report to APEC Economic Leaders.
- There are already a large number of operating PTAs criss-crossing the APEC region and they cover a very substantial percentage of intra-APEC trade. The rest of my slideshow for today tries to graphically portray what is going on.
- It is also the case that APEC economies, especially developed economies, but also developing economies, now have mainly very low MFN duties and a substantial proportion of their tariff schedules bound at duty free on an MFN basis.
- A third fact to bear in mind - and this goes to the "line down the Pacific" argument - is that the continued flow of very large volumes of other East Asian economies' parts and components to China is directly related to China's continued ability to trade assembled manufactures across the Pacific to North America.

[SLIDE 5] - Major Existing APEC PTAs

- If they work correctly, the remaining slides are designed to produce some entertainment value.
- This map details the major existing PTAs in the APEC region. Box 2.1 in the draft report lists 19 existing agreements, most of which appear on this slide.
- With or without an FTAAP as a final objective, APEC economies have clearly jumped on the FTA bandwagon in large numbers since the conclusion of the last round of multilateral trade negotiations in 1994.

- A pretty good number of these existing PTAs in the APEC region are high quality agreements that would stand the test of compatibility with the WTO rules. Many of them also have important WTO plus provisions.
- To their credit, APEC economies care about such issues and adopted a set of best practice principles in November 2004 designed to encourage the negotiation of high quality, WTO consistent PTAs.
- As the backdrop to a potential negotiation of an FTAAP this is important. There would be little point in negotiating a broad trans-Pacific agreement if it were not intended to subsume or replace existing PTAs. If it did not do this, it would be hard to see how the FTAAP would make a contribution to unravelling the spaghetti bowl.
- The FTAAP should ideally take the best provisions of the best existing agreements and standardize them across the region. Already APEC economies have some experience in this field.
- Take the case of Singapore's FTAs with the United States and Australia and the Australian-American FTA. Singapore's two FTAs are of a high quality, but they are slightly different even if the broad coverage is very similar. When the U.S. and Australia sat down to negotiate, they took the best of each others' agreements with Singapore and used them as the basis for their own bilateral agreement.
- A good example of a decision to use the best of the agreements' provisions is the generalized use in the US- Australian agreement of the "Change in Tariff Classification" approach to rules of origin.
- By the same token, the so-called "P-4" Agreement is another high quality agreement involving Singapore again and Chile - another APEC economy with an FTA with the United States. New Zealand is also part of this deal and New Zealand also has a separate FTA with Singapore.
- Now, put APEC out of your mind for a minute and imagine that Singapore, Australia, Brunei, New Zealand, Chile and the United States decided to start the process of negotiating an FTAAP by sorting out and rationalizing the provisions of what are now six separate and stand-alone PTAs.
- Does that strike anybody as an impossible task?

[SLIDE 6] - Major APEC PTAs in Negotiation

- This map tries to paint a picture of the APEC area PTAs that are now under discussion and/or negotiation. I hope you don't mind too much, but I know this is far from the complete picture.
- China, for example, is reportedly in PTA discussions with more than 20 trading partners and I have heard that Malaysia has about ten agreements under consideration.

- One recent event that I think has to give new impetus to the argument that an FTAAP is “doable” is the recent successful conclusion of FTA negotiations between Korea and the United States.
- I have not seen the text of the agreement between Korea and the United States but the fact sheet paints a pretty promising picture:
 - 95 percent of bilateral trade in consumer and industrial products duty-free within three years;
 - More than half of current US farm exports to Korea duty-free immediately;
 - Significantly expanded commitments to free up bilateral trade in services.
- Just a few years ago, few people would have believed it to be politically possible for the United States and Korea to succeed in negotiating this kind of deal.
- Reportedly, the initial reaction of Japan to the Korea-US deal has been re-energized interest in Japanese PTA negotiations with Korea, China and the United States. Australia was already interested in a PTA with Korea and will likely now want to accelerate its bilateral discussions.
- So politically “difficult” PTAs are clearly possible to successfully negotiate among APEC economies. One can easily see the argument that each of these new agreements - especially the difficult ones - cumulatively make it easier to imagine movement towards an FTAAP.

[SLIDE 7] - Existing & Forecast APEC PTAs

- We are getting to the point where it seems to me the question is not so much “is an FTAAP possible?” as it is “What would we rather see in the Asia-Pacific? - an ever expanding spider web of bilateral agreements or an effort at some degree of regional coherence through an FTAAP?”
- We might also ask which is a healthier outcome for the multilateral system of the WTO?
- A large number of questions have been asked about an FTAAP:
 - What will be the impact of the FTAAP on the global trade architecture?
 - Will the FTAAP supersede all of the current RTAs and FTAs in the APEC region?
 - What impact will FTAAP have on the Bogor Goals?
 - Do APEC and its institutions need to be turned inside-out to accommodate the FTAAP idea?
 - Would FTAAP negotiations be open to non-APEC members?
- We can speculate on the answers to some of these questions; however, many of them seem premised on (a) the FTAAP being undertaken as a “big-Bang” negotiation or (b) the FTAAP as an APEC-branded exercise.
- If we can agree to throw those issues out of the debate, FTAAP starts to look much more doable.

- For starters, the FTAAP can be built-up over some time, with progressively greater participation and coverage. Rob Scollay made a presentation last December in Melbourne on how APEC can be an exemplar - and many of the points he covered could be applied to an evolutionary FTAAP process.
- For example: in preferential trade negotiations, promote convergence on high quality measures. As I discussed a minute ago, this kind of convergence makes it much easier to move to an FTAAP.
- Another example: work for greater uniformity in rules of origin. Here's how we can combat the spaghetti bowl.
- A third idea from Rob: support plurilateralisation of bilateral initiatives. We have the P-4 Agreement and I can see plenty of potential for that agreement to be further plurilateralized.

Conclusions:

- At the beginning of Chapter 2 of your draft report to the Economic Leaders, you have re-stated that APEC is not a negotiating forum, but rather a voluntary process of cooperation in support of open and efficient markets. It supports, rather than implements, liberalization.
- Far be it from me to argue with this. I think we have to accept that while some - including me - think there could be considerable merit in an FTAAP, we should probably conclude up front that it cannot reasonably be an APEC-branded exercise.
- But there are a lot of ways in which APEC member economies can support an FTAAP in part through what they do through their cooperation in APEC. Best practices, model measures, trade facilitation initiatives, enhanced transparency -- all of these APEC initiatives should be built into any FTAAP exercise.
- And if the FTAAP is done in the right way and its participants take into account the work of APEC, it will over time enhance the prospects for greater numbers of APEC economies' eventual participation in an FTAAP.
- Finally, we can see from my admittedly incomplete map that PTA activity is continuing to accelerate in our region.
- We can say with almost 100 percent certainty that each of these lines represents a set of rules and market access conditions that are at least slightly different from the others.
- Clearly, it's a bad day for MFN. But it's also a pretty ugly picture of incoherence in the region. If you don't think the PTA activity is about to stop suddenly, doesn't an FTAAP have some appeal?
- Thank you for your attention.