

Notes for Chapter 2: “A Free Trade Area of the Asia Pacific In the Wake of the Faltering Doha Round: Trade Policy Alternatives for APEC”

¹ Preliminary Assessment of the Proposal for a Free Trade Area of the Asia Pacific (FTAAP), an Issues Paper for the APEC Business Advisory Council (ABAC) prepared by Robert Scollay from the PECC Trade Forum, especially pp. 25-30 and Table 3.

² A similar case can be made for the Asian Monetary Facility that seems to be emerging as a result of the expansion and multilateralization of the Network of Bilateral Swap Arrangements under the Chiang Mai Initiative.

³ Another possible tendency is for the China-Japan rivalry to create a dividing line within Asia: between a “coastline perimeter” consisting of Japan, Taiwan, Australia and perhaps a few others vis-à-vis a China-dominated “mainland bloc.” This too would be extremely dangerous, perhaps even more so in terms of possible intra-Asian conflict that (as in the past) could draw in the United States, and an FTAAP would also be of great help in countering this risk.

⁴ The US network of FTAs is generally of broader coverage and deeper liberalization than those in East Asia so its preferential impact is presumably greater.

⁵ There is an understandable and laudable desire in many quarters to strengthen both the APEC Secretariat and the level of attention paid to APEC within member economies. The only way to achieve these goals, however, is to restore the substantive importance of APEC and thus raise its priority for members. Serious pursuit of an FTAAP would substantially heighten the salience of APEC to all participating economies and thus inevitably expand their dedication of resources to the institution.

⁶ Protectionist pressure will rise particularly sharply in Europe if the inevitable large decline in the value of the dollar, which is an essential component of any significant correction of the large and growing international imbalances, takes place mainly against the euro because China and the other Asian surplus countries continue to block significant appreciation of their own currencies.

⁷ There have been exhausted cries of “never another round” at the end of every previous round negotiated in the GATT/WTO. All three of the previous major rounds, however, have been widely viewed as extremely successful in advancing global liberalization and improving the rules-based trading system. Hence, whatever the attitudes at the time of their completion, they provided a solid foundation for the next succeeding round. A minimal outcome from Doha, however, let alone its explicit or implicit failure, would radically alter that history and raise serious doubts over the future of the multilateral trading system.

⁸ It could also induce others, especially the European Union, to accelerate their own FTA strategies instead but the magnitude of an FTAAP would be much more likely to bring those countries back to the multilateral WTO table.

⁹ It should be noted that a number of smaller APEC member economies have already, especially at Santiago in 2004, endorsed the FTAAP at least conditionally “if the large countries were to do so as well.” This group includes at least Australia, Chile, New Zealand, Singapore and Chinese Taipei.

¹⁰ Some observers, particularly within the United States, raise doubts about the capacity of the US Government, specifically USTR, to support a major new negotiating effort like the FTAAP. In a world in which the Doha Round was either concluded or suspended, however, the resources now being devoted to that enterprise could readily be shifted to an FTAAP, which would be addressing the same set of issues. A similar shift of US personnel occurred in 1991-92 when the Uruguay Round went into suspended animation and the freed-up resources were largely used to negotiate NAFTA.

¹¹ This would be even more likely if the EU joined the US in applying new trade restrictions to China, and perhaps East Asia more broadly, which could easily result if China continues to block meaningful appreciation of its currency (and thus the currencies of other East Asians) so that the next major dollar decline also occurs primarily against the euro and pushes it to substantial overvaluation against Asia.

¹² See Center for Strategic and International Studies and Institute for International Economics, *China: The Balance Sheet: What the World Needs to Know Now About the Emerging Superpower* (2006), New York: Public Affairs Press, especially Chapter 4.

¹³ As opposed to its currency policy, which does raise major problems because of the country's massive intervention ("manipulation") to block any substantial rise in the value of the RMB.

¹⁴ A technical but very important question is the differing concept of "FTAs" maintained by the United States and other APEC members such as Australia, Canada, Chile, New Zealand and Singapore, on the one hand, and by China and some other Asians on the other. The former group insists on "high quality" FTAs, though they sometimes falter in practice as when sugar was totally excluded from the US-Australia agreement, whereas the latter define "free trade" more loosely and seem to place overriding emphasis on political considerations. These differences would clearly have to be addressed in seriously considering an FTAAP. So would some of the US deviations from its own high-standard principles, however, such as the "yarn forward" concept that dominates the rules of origin for textile/apparel trade in US FTAs and would represent a formidable hurdle to rolling the existing US agreements into a single FTAAP.

¹⁵ Another major plus for the United States is that an FTAAP initiative would presumably include Chinese Taipei under the standard rules governing its participation in all APEC non-political activities.

¹⁶ One way for the United States to signal its interest in an FTAAP would be for the Administration and/or the Congress to ask the International Trade Commission to conduct a study of the idea. All formal US trade negotiations are preceded by such an "official" analysis.

¹⁷ A decision to seriously pursue the FTAAP could also have important implications for the possible expansion of APEC's membership that will be on the agenda in 2007. Any such effort to deepen APEC cooperation would presumably counsel against broadening the makeup of the group, at least to include large new economies such as India, while that process was underway. It might also be desirable, however, to add India to both APEC and an FTAAP before the latter was actually implemented in order to avoid new discrimination between that country and the current membership.

¹⁸ It is unfortunate that the APEC Leaders did not pursue the original ABAC recommendation for a study of the FTAAP at Santiago in November 2004. The Doha Round might now be much further along as a result.

Notes for Chapter 3: "*Chapter 3: The Political Economy of a Free Trade Area of the Asia Pacific: A U.S. Perspective*"

¹⁹ For a discussion of the pros and cons of competitive liberalization, see Feketekuty 1998, Aggarwal and Lin 2002 and Bergsten 1996, 2002, among others.

²⁰ See for example, Mansfield and Milner 1999, p. 592, who recognize the problematic nature of the term "regionalism" but then proceed to use this term in their analysis.

²¹ This usage differs from that of Yarbrough and Yarbrough 1992, which conflates third party enforcement with these terms so that "bilateral" for them can also mean three countries, a highly counterintuitive use. Keohane 1990 refers to an agreement among three or more states as multilateralism. Richardson 1987 is consistent with my usage.

²² Of these, the dimension of geographical scope is the most controversial. It is worth noting that this category is quite subjective, since simple distance is hardly the only relevant factor in defining a "geographic region."

Despite the interest that regionalism has attracted, the question of how to define a region remains highly contested. See the discussion by Mansfield and Milner 1999, Katzenstein 1997, and Aggarwal and Fogarty 2004, among others.

²³ See Schonhardt-Bailey 1996.

²⁴ Bhagwati and Patrick 1990. This is a somewhat different usage from my own focus on “unilateral” in the sense of removal of restraints by one country without an agreement. As with voluntary export restraints (VERs), the unilateral vs. bilateral aspect is often muddled by coercive actions.

²⁵ Adapted from Aggarwal 2001a.

²⁶ See Milner and Yoffie 1989.

²⁷ See Aggarwal, Keohane, and Yoffie 1987 on VERs and Bhagwati 1987 on VIEs.

²⁸ See Tyson 1992 and Irwin 1994.

²⁹ See Fogarty 2004.

³⁰ Curzon 1966, pp. 266-268.

³¹ Tyson 2000.

³² Yarbrough and Yarbrough 1992. McKeown 1983 makes a strong case that Britain did not exhibit hegemonic power in the move to liberalization in the nineteenth century but rather chose to liberalize on its own.

³³ Aggarwal and Urata 2006.

³⁴ Koo 2006.

³⁵ On economies of scale, see Milner 1997; on foreign capital, see Lawrence 1996; and on natural trading blocs, Frankel 1997.

³⁶ See respectively Milward 1992; Gilpin 1987 and Krasner 1976; Haggard 1997; Oye 1992 and Baldwin 1997; and Yarbrough and Yarbrough 1992 among others.

³⁷ See Haggard 1997 and Katzenstein 1997.

³⁸ Aggarwal and Fogarty 2004.

³⁹ This subsection draws heavily on Aggarwal and Lin 2002, which focuses on the pitfalls of what we term “opportunistic liberalization” and where we characterize U.S. trade policy as being recently characterized as strategy without vision. See also the excellent concise discussion of historical trends in U.S. trade policy in Bergsten 2002. The classic account remains Destler 2005.

⁴⁰ See Aggarwal 1985 for a discussion of the nesting of economic issues with a security context.

⁴¹ Diebold 1952.

⁴² While the Ancey Round of 1949 resulted in 5,000 more tariff concessions and the entry of ten new GATT members, the Torquay Round of 1951 led to an overall reduction of close to 25% and the inclusion of four new contracting parties. The 1956 Geneva Round that followed resulted in further agreement of tariff reductions worth approximately \$2.5 billion. Under the terms of the Dillon Round of 1960-61, for the first time, a single schedule of concessions was agreed for the recently established European Economic Community, based on the Common External Tariff. Also, tariff concessions worth over \$4.9 billion in trade were also negotiated. In total, tariff reductions for the first five rounds amounted to 73%. Economic Report of the President (1995), p. 205.

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- ⁴³ Economic Report of the President (1995), p. 205.
- ⁴⁴ For an analysis of the creation and evolution of the textile regime, see Aggarwal 1985.
- ⁴⁵ See Aggarwal, Keohane, and Yoffie 1987, which models the factors that explain why different industries have been able to secure protection of varying length.
- ⁴⁶ Adapted from Bergsten 2002's "One Step Backward, Two Steps Forward" subtitle.
- ⁴⁷ *Toronto Star*, January 6, 1988.
- ⁴⁸ Tyson 2000.
- ⁴⁹ This paragraph draws heavily on Aggarwal 2001b and Aggarwal and Ravenhill 2001.
- ⁵⁰ Business Roundtable 2001.
- ⁵¹ Office of the USTR 2001, 4.
- ⁵² 2003, p. 2.
- ⁵³ See Aggarwal and Urata 2006 on the proliferation of bilateral trade agreements in the Asia-Pacific.
- ⁵⁴ Quoting the Tokyo Shimbun, Bernard Gordon, "The FTA Fetish," *Wall Street Journal*, 17 November 2005.
- ⁵⁵ *Financial Times*, July 10, 2006, p. 9.
- ⁵⁶ Ravenhill 2006, p. 45.
- ⁵⁷ Feinberg 2006, p. 113.
- ⁵⁸ Feinberg 2006, p. 112.
- ⁵⁹ "CAFTA Vote Clouds Prospects for Other Trade Deals--Bitter Fight Reveals Fears Of Globalization, as Talks In Doha Round Languish," *Wall Street Journal*, 29 July 2005.
- ⁶⁰ Agricultural Policy Advisory Committee for Trade, *The U.S.-Peru Trade Agreement: Supplementary Report of the Agricultural Policy Advisory Committee for Trade*, 15 February 2006.
http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Peru_TPA/Reports/asset_upload_file570_8967.pdf
- ⁶¹ "Grasping at straws; Textile industry groups want a special agreement for textiles at the Doha Round," *Journal of Commerce*, 26 June 2006.
- ⁶² "McCrery Expresses Doubts About Trade Deals, Including Vietnam," *Inside US Trade*, 9 June 2006.
- ⁶³ "U.S. Hopes for Momentum from CAFTA; Portman to Push WTO to Negotiate Global Agreement," *Washington Post*, 29 July 2005.
- ⁶⁴ "Free Trade and Security," *Wall Street Journal*, 11 July 2006.
- ⁶⁵ "US and European officials hope big companies flex their muscles to ensure deadlock is broken," *Financial Times*, 12 December 2005.
- ⁶⁶ Bergsten 2005.
- ⁶⁷ Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington D.C. 20233:
<http://www.census.gov/foreign-trade/balance/c5700.html>

⁶⁸ See Industry Trade Advisory Committee on Steel (ITAC-12) report entitled *The U.S.-Peru Trade Promotion Agreement (U.S.-Peru FTA)*, 18 January 2006.

http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Peru_TPA/Reports/asset_upload_file765_8986.pdf

⁶⁹ “Senators Deride U.S. Position on China; Currency System Is Called Unfair,” *Washington Post*, 19 May 2006.

⁷⁰ See, for example, Funabashi 1995, Aggarwal and Morrison 1998, and Ravenhill 2001.

⁷¹ See for example, Aggarwal and Kwei 2005.

⁷² Aggarwal and Morrison 2000.

⁷³ See Aggarwal and Urata 2006 on the driving forces leading to the negotiation of bilateral trade agreements in the Asia-Pacific.

⁷⁴ “U.S., Japan Business Groups Explore Possibility of Bilateral Trade Deal,” *Inside US Trade*, 5 May 2006.

Notes for Chapter 4: “The Political Economy of an Asia Pacific Free Trade Area: China Perspective”

⁷⁵ Calculated based on IMF, *Direction of Trade Statistics*, 2005, and UNCTAD, Comtrade Database (SITC Rev.3).

⁷⁶ Calculated based on Chinese National Bureau, *Chinese Yearbook of Statistics*, 2005.

⁷⁷ A detailed description of “triangle trade” in the Asia Pacific please refers to UNCTAD, *Trade and Development Report*, 2005.

⁷⁸ Bergsten (2005b) points that “China’s soaring global current account surplus will probably approach \$150 billion and 7½ 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.”

⁷⁹ According to WTO statistics, there were 2,743 anti-dumping measures reported during the period from 1995 to first half of 2005, of which 434 were against Chinese products, accounting for 16% (WTO, 2006).

⁸⁰ The data and other information in this section are quoted from WTO trade policy review reports submitted by the Chinese government (2006) and WTO Secretariat (2005).

⁸¹ Calculated on the data of MOC, China.

⁸² Hufbauer and Yee Wong (2005) illustrated several examples of Chinese enterprises’ activities in these industries.

⁸³ In 1996, President Jiang Zemin put forward for the first time the “APEC approach” guiding APEC cooperation. In the following years of summits, he repeatedly emphasized and elaborated on its nature and content from Chinese point of view, and ultimately forged a comprehensive and systematic deliberation of the approach which includes principles as follows: adherence to mutual respect, equality, mutual benefit; recognition of diversity; flexibility and pragmatism; gradual progress and openness; consensus; unilateralism and voluntarism. Detailed description of China’s contribution to APEC approach refers to Sheng Bin (2001).

Notes for Chapter 5: “Japan’s FTA Strategy and Free Trade Area of Asia Pacific (FTAAP)”

⁸⁴ Keidanren (2003)

⁸⁵ Ministry of Foreign Affairs, <http://www.mofa.go.jp/region/asia-paci/asean/pmv0310/framework.html>

⁸⁶ The Ministry of Economy, Trade and Industry (2006).

⁸⁷ The Ministry of Foreign Affairs of the Japanese government released a document entitled “Japan’s FTA Strategy” in November 2002. http://www.mofa.go.jp/mofaj/gaiko/fta/senryaku_05.html

⁸⁸ World Bank, World Development Indicators 2003, publication.

⁸⁹ For the impacts of RTAs, see, for example, Winters(1991).

⁹⁰ See Schiff and Winters (2003) for useful discussions on the dos and don’ts of regional trade agreements.

⁹¹ METI (2001) also provides detailed analysis on economic impacts of EU and NAFTA.

⁹² METI, an internal document.

⁹³ Scollay and Gilbert (2001)

⁹⁴ See, for example, Kawasaki (2003), Ando and Urata (2006) for the impacts including some dynamic impacts

⁹⁵ Ministry of Agriculture, Forestry, and Fisheries home page. <http://www.maff.go.jp/hitokuti/top.htm#mokuji1>

⁹⁶ Ministry of Foreign Affairs, Japan-Singapore Economic Partnership Agreement,

<http://www.mofa.go.jp/mofaj/area/singapore/kyotei/pdfs/f-6.pdf>

⁹⁷ It may not appropriate to take up non-economic obstacles in the discussions of FTA, because all APEC economies are WTO members and thus can be FTA partners. However, some politicians and observers regard non-economic factors to be important in discussing FTAs because to them FTAs are more than trade policy but the policies built on mutual trust.

⁹⁸ See Yamashita (2004) for the discussion.

⁹⁹ The GATT/WTO rules allow ten years to complete trade liberalization under FTAs.

¹⁰⁰ In Japan various forums have been established for the promotion of Japan’s FTAs mainly involving business and academics. Although such activities are gaining momentum and therefore are likely to increase the awareness of the importance of FTAs among Japanese people, there is still a need for further and greater efforts to make the FTA issue as high-priority agenda.

Notes for Chapter 6: “Lessons from the Free Trade Area of the Americas for APEC Economies”

¹⁰¹ See “Plan of Action” accompanying the “Declaration of Principles of the Miami Summit of the Americas” in date of December 9-11, 1994, which can be found on the OAS website at www.oas.org, which sets out the 23

hemispheric initiatives, including the Free Trade Area of the Americas, all as an integral part of the Summit Process.

¹⁰² See draft text of the FTAA Agreement, available on the official FTAA website at www.ftaa-alca.org. This is the third version of the draft agreement, in date of 21 November 2003 (document FTAA.TNC/W/133/Rev.3), which Ministers of Trade agreed to release for public distribution at the time of the Miami Trade Ministerial meeting in November 2003.

¹⁰³ These questions had been settled at the time of the launching of the FTAA process and were not controversial in the Americas. Investment, competition policy and government procurement all formed a part of the FTAA negotiating agenda, to which no one had objected. The issues of labor rights and the environment, however, did not form a part of the formal negotiating agenda at the time of the launching of the FTAA in 1998, and continuous controversy surrounded these issues throughout the life of the negotiations.

¹⁰⁴ This was done on the basis of “self selection”, as the FTAA negotiators never managed to agree formally on what group of countries should be defined as “small economies”. For this reason, the term adopted in the FTAA was “small and relatively less developed economies”. This allowed the group to encompass countries such as those in Central America, Bolivia, Ecuador and Paraguay.

¹⁰⁵ Section 3.7 discusses the issues that are being negotiated in the nine FTAA negotiating groups, while Section 3.8 discusses the issues covered within the three non-negotiating groups/committees.

¹⁰⁶ The General Principles and Objectives agreed by Ministers of Trade of the Western Hemisphere to guide the FTAA negotiations are listed in Annex I of the San Jose Ministerial Declaration of March 1998, which can be found on the official FTAA web site at www.ftaa-alca.org.

¹⁰⁷ The 34 participants in the Free Trade Area of the Americas (FTAA) process are: Canada, the United States, Mexico, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Bolivia, the Dominican Republic, Colombia, Ecuador, Peru, Venezuela, Argentina, Brazil, Chile, Paraguay, Uruguay, and the 15 CARICOM member states, namely: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

¹⁰⁸ Cuba has not been invited to participate in the FTAA process, even though it is an independent state in the Western Hemisphere, because it does not currently have a democratically elected government and was suspended from participating in the Inter-American System of the OAS since 1962.

¹⁰⁹ FTAA meetings at the Ministerial and the Vice Ministerial level are conducted in the four official languages of the Summit Process, namely English, Spanish, Portuguese and French. However, the meetings of the negotiating groups, as well as the circulation of documents, are carried out in the two working languages of English and Spanish.

¹¹⁰ The WTO disciplines are those contained in the various Uruguay Round Agreements that were concluded as part of these negotiations in December 1993 and that are to be applied by all WTO Members. They include disciplines in the areas of tariffs, non-tariff barriers, agriculture, technical barriers to trade, sanitary and phytosanitary (SPS) measures, anti-dumping and countervailing duties, subsidies, textiles and clothing, services and intellectual property rights, among others.

¹¹¹ See the Terms of Reference for the Technical Committee on Institutional Issues in document FTAA.tncmin/2001/02 in date of February 4, 2002, found on the official FTAA Website.

¹¹² See the Third Draft Agreement of the FTAA contained in document FTAA.TNC/w/133/Rev.3 of November 21, 2003, found on the official FTAA Website, www.ftaa-alca.org.

¹¹³ The specific business facilitation measures agreed by the FTAA participating governments, based on the recommendations presented by the private sector representatives at the various Business Forum meetings can be found on the official FTAA website at www.ftaa-alca.org under “Business Facilitation”.

¹¹⁴ A summary of the position papers presented at these issue meetings, together with a list of participants by country and institution, can be found on the official FTAA website at www.ftaa-alca.org under “Civil Society”.

¹¹⁵ A recent agreement was reached at the WTO in the context of the Doha Development Round on a “Transparency Mechanism for Regional Trade Agreements” in an effort to improve the notification of such agreements to the WTO Committee on Regional Trade Arrangements. The mechanism does not, however, cover the critical and much more difficult issue of how to evaluate RTAs for WTO compatibility once they have been notified.

¹¹⁶ See article by Sherry Stephenson discussing GATS Article V, “GATS and Regional Integration: in *GATS2000: New Directions in Services Trade Liberalization*, edited by Pierre Sauve and Robert Stern (2000), Brookings Institution Press, pages 509-530.

¹¹⁷ The question of disciplining domestic support has not been raised in any of the other bilateral free trade agreements negotiated within the Western Hemisphere, nor does it form a part of their disciplines. Only the FTAA was given such a broad and ambitious negotiating mandate. In NAFTA the agricultural area was treated differently than that of other goods, and there is no mention of export subsidies or domestic subsidies. Agricultural market access is governed by bilateral agreements between the three parties rather than by a common agreement. As between Mexico and the United States, the NAFTA promises “free” agricultural trade, defined as the absence of no tariffs or quotas, after long delays and phase-ins for “sensitive” products like sugar, corn, beans, and several minor crops.

¹¹⁸ However, even within North America there are still important sectors that continue to be reserved by each NAFTA party. For example, the United States exempted maritime transport, Canada protected its cultural industries, and Mexico maintained its nationalized energy sector, including electricity and drilling services. All three sectors were placed outside of the disciplines of the agreement. And all three NAFTA parties continue to limit foreign ownership of TV and radio. Indeed, most of the liberalization in the services area that has taken place in North America has occurred independently of the NAFTA, through voluntary liberalization rather than through negotiated market opening (the telecom sector is an excellent example of this). The main exception to this rule is the financial services sector in Mexico.

¹¹⁹ An H-1B visa is the visa category offered by the United States to skilled professionals from abroad and it is capped at an annual quota of 65,000 new entrants. The majority of H-1B visas are granted to engineers, computer programmers and software developers. The U.S. did not expand the number of H-1B visas it offered to grant at all in its services offer to the WTO Doha Development Round.

¹²⁰ The MERCOSUR members (Argentina, Brazil, Paraguay and Uruguay) have still not complied with the terms of the WTO TRIPS Agreement to the satisfaction of the United States.

¹²¹ It will certainly be problematic, if not impossible, to have a future FTAA Agreement approved by the U.S. Congress without provisions on labor and the environment. The United States has gone beyond the formula developed in NAFTA in its more recent Free Trade Agreements with Jordan, Chile, Singapore and Australia. In those FTAs, provisions on labor and the environment form an integral part of the basic treaty and are subject to its dispute settlement proceedings. Each country commits to enforce its own laws, with the possibility of monetary fines or trade sanctions in the event a country engages in a persistent pattern of non-enforcement. These two areas will be greatly scrutinized by the U.S. Congress as a part of any trade agreement that comes up for approval. On the other hand, it is difficult to imagine that such an important political initiative as the FTAA would be denied on the grounds of too lax labor and environment provisions.

¹²² See explanation of the ALBA on the official website www.alternativebolivariana.org

¹²³ The recent study by Simon J. Evenett and Michael Meier on “An Interim Assessment of the U.S. Trade Policy of Competitive Liberalization”, draft of 24 July 2006, is quite instructive in tracing the history and philosophy behind the pursuit of this strategy on the part of the U.S. Government.

¹²⁴ All the free trade agreements concluded by the United States since 2002 without exception have followed a similar template, given by the requirements of the TPA.

¹²⁵ These business facilitation measures can be found in the Annexes to the Toronto Ministerial Declaration of November 1999. They are concentrated in the areas of customs procedures and enhanced transparency. The working group on business facilitation ceased to meet after this Ministerial meeting.

¹²⁶ See the Buenos Aires Ministerial Declaration of April 7, 2001.

¹²⁷ The document on “Methods and Modalities for the Negotiations” can be found on the official FTAA website www.ftaa-alca.org as FTAA.TNC/20/Rev.1 in date of October 18, 2002.

¹²⁸ The document on “Guidelines or Directives for the Treatment of the Differences in the Levels of Development and Size of Economies” can be found on the official FTAA website www.ftaa-alca.org as FTAA.TNC/18 in date of November 1, 2002.

Notes for Chapter 7: “Prospects for Linking PTAs in the Asia-Pacific Region”

¹²⁹ Agreements under study or discussion are not listed here, even if negotiations are believed to be imminent. Proposed agreements for which the negotiations appear to have been suspended without any apparent intention for them to be resumed are also not listed. The proposed New Zealand-Hong Kong and Singapore-Mexico agreements are in this category. On the other hand, the Japan-Korea proposal is listed because while negotiations are suspended they may not have broken down permanently. Likewise there is uncertainty as to whether the Free Trade Area of the Americas (FTAA) negotiations may be revived in the future. The FTAA is bracketed because of course most of the participants are not APEC members. The FTAA would cover the following trade flows between APEC members that are not currently covered by FTAs: Canada-Perú, Mexico-Perú, Chile-Perú (although the latter two are already covered by more limited preferential arrangements).

¹³⁰ There is some doubt whether the Thailand-China FTA should be included in this list. Details are scarce and it is sometimes presented as an “early harvest” agreement, linked to the main ASEAN-China agreement.

¹³¹ The TPSEP (Trans Pacific Strategic Economic Partnership) is sometimes known informally as the ‘P4’ (‘Pacific 4’) Agreement.

¹³² A comparison of the Singapore-Korea and ASEAN-Korea FTAs could not be made for this paper, as the text of the latter has not yet been sighted.

¹³³ Modern PTAs typically contain provisions on some or all of the following: investment, standards and conformance, customs procedures, intellectual property, government procurement, competition policy, and electronic commerce. The term “trade-plus” is applied here to these provisions purely for convenience, to distinguish provisions in these areas from measures liberalising trade in goods and services

¹³⁴ GATT Article XXIV and the Enabling Clause contain the WTO rules for provisions on trade in goods in PTAs. GATS Article V contains the corresponding rules for provisions on trade in services. The rules are almost universally agreed to be unsatisfactory, and the possibility of amending them was included as an agenda item in the DDA negotiations. The prospect of securing meaningful change in the rules has however generally been assessed as minimal or zero, even before the DDA negotiations were suspended.

¹³⁵ There is no formal definition of “developing country” in the WTO. Developing country status is thus a matter of self-selection. Among Asia-Pacific economies Singapore, Hong Kong, Chinese Taipei, Korea and Mexico typically present themselves as developing economies in the WTO context, even though the latter two are OECD members and the first two named have per capita incomes exceeding those of many OECD members.

¹³⁶ In the case of the ASEAN Free Trade Agreement (AFTA) a target of 0-5% was initially set for tariff reductions. The target was later amended to 0%.

¹³⁷ WTO efforts on rules of origin have been limited to non-preferential rules of origin. A combined WTO/World Customs Organisation programme, mandated by the Uruguay Round, to establish an agreed set of

non-preferential rules of origin, is many years behind schedule. There has been no move to establish multilateral rules on preferential rules of origin.

¹³⁸ The way that value added is defined often differs between agreements, and has significant implications. The level (e.g. 4-digit or 6-digit) at which CTC rules are specified can also vary, and also has significant implications.

¹³⁹ This issue does not arise in the GATS itself, because there is no WTO agreement on investment

¹⁴⁰ There is no Enabling Clause for trade in services.

Notes for Chapter 8: “ASEAN Perspectives on Promoting Regional and Global Freer Trade”

¹⁴¹ See for example, Simon Tay, Jesus Estanislao and Hadi Soesastro (eds) (2003). *Reinventing ASEAN*. Singapore: Institute of Southeast Asian Studies.

¹⁴² Possible explanations include declining margin of preference as MFN rates have also come down; lack of private sector awareness; lack of clarity in the application of rules of origin; problems with customs authorities; and lack of dispute settlement mechanism. Problems with rules of origin have led to a revision that incorporates change in tariff headings and product specific rules.

¹⁴³ ISEAS Concept Paper on the ASEAN Economic Community.

¹⁴⁴ ASEAN-ISIS Report on Towards an ASEAN Economic Community.

¹⁴⁵ Recommendations of the High-Level Task Force on ASEAN Economic Integration, annex to the Bali Concord II, 7 October 2003

¹⁴⁶ ASEAN may also use the 2+x approach where 2 member countries that are ready to integrate certain sectors can go ahead first. However this approach could be problematic as it does not require a consensus among all member countries (unlike the ASEAN minus X principle). The other concern is that the bilateral nature of this process could lead to a fait accompli where the third “plus X” country may be bound by whatever has already been agreed by the first 2 countries.

¹⁴⁷ These are agro-based products, air travel, automobile products, e-ASEAN, electronics, fisheries, healthcare, rubber-based products, textiles and apparel, tourism, and wood-based products. A 12th priority sector, logistics, has since been included.

¹⁴⁸ The Common Effective Preferential Tariff is the main instrument to implement AFTA.

¹⁴⁹ Officials from ASEAN and EU have held 3 rounds of talks. Myanmar’s poor human rights record might be a problem. The ASEAN-EU Vision Group has been given the mandate to study and submit recommendations on the future of ASEAN-EU economic relations including possibility of an ASEAN-EU FTA.

¹⁵⁰ ASEAN will not apply Sections 15 and 16 of the Protocol of Accession of the PRC to the WTO and Paragraph 242 of the Report of the Working Party on the Accession of China to WTO.

¹⁵¹ The objectives of the Framework cover: strengthen economic integration through the creation of a comprehensive economic partnership (CEP); enhance the competitiveness of ASEAN and Japan in the world market through strengthened partnership and linkages; progressively liberalize and facilitate trade in goods and services as well as create a transparent and liberal investment regime; explore new areas and develop appropriate measures for further cooperation and economic integration; facilitate the more effective economic integration of CLMV and bridge the development gap among ASEAN members.

¹⁵² A stumbling block was Japan's proposed plan to remove trade barriers on more than 90% of goods between the two sides. However, ASEAN proposed a 100% tariff cut in all of the goods from the grouping to Japan, while seeking some exceptions in goods from Japan. ASEAN which has been in FTA talks with China, South Korea, Australia and New Zealand have created tariff-cutting frameworks in their respective negotiations. In those frameworks, the parties can unilaterally declare a limited number of items to be excluded from trade liberalization so that politically sensitive goods would be immune to drastic tariff reductions. But Japan does not want to adopt this practice and instead is seeking to discuss tariff elimination of each item by exchanging requests and offers.

¹⁵³ Japan's prototype FTA/EPA was with Singapore and had negligible agricultural content. Agreement with Mexico allowed some access for Mexican pork in Japan but the agriculture issue will have to be confronted more directly with the Philippines, Thailand, Indonesia and Korea.

¹⁵⁴ In March 2006, the Japanese government decided to expedite FTA negotiation process by changing its policy of giving priority to conclude EPA over an FTA, noting that an EPA negotiation is more time consuming as it is more comprehensive and include investment, intellectual property and dispute settlement issues. Japan was prompted to speed up the process, after China signed a deal with ASEAN, while Korea reached a basic agreement.

¹⁵⁵ Negotiations have also been stalled by Thailand's political crisis, as the current government has no mandate to make decisions after the April 2 snap polls were annulled.

¹⁵⁶ The Kaesong Industrial Complex is jointly run by South and North Korea. It has figured highly in all of South Korea's FTA negotiations since the complex went into operation in 2004. South Korea wants to help North Korea open to the world and expand inter-Korean cooperation. But the matter causes problems because it conflicts with WTO regulations on tariff exemptions on goods produced in third countries. The 9 October 2006 North Korean nuclear test has occasioned a change in South Korea's policy towards the North and this would affect the Kaesong Industrial Complex.

¹⁵⁷ It was reported that the US preferred the bilateral track with Chile and Singapore and Australia preferred the multilateral track

¹⁵⁸ Negotiating problems centered on agriculture, services and investment. In particular, Chile faced resistance from large scale agricultural landowners in the south, while New Zealand had technical and political problems finalizing its "negative list" on services.

¹⁵⁹ Malcolm Cook and Allan Gyngell, "How to save APEC?" *Policy Briefs*, Lowy Institute for International Policy, 14 October 2005.

¹⁶⁰ Goh Chok Tong, *Towards an East Asian Renaissance*. Address at the opening session of the 4th Asia-Pacific Roundtable organized by the Global Foundation, the World Bank and the Institute of Southeast Asian Studies, Singapore, 6 February 2006.

¹⁶¹ See Andrew Elek and Hadi Soesastro, "Ecotech at the heart of APEC: capacity-building in the Asia Pacific," in Ippei Yamazawa (ed.), *Asia Pacific Economic Cooperation (APEC) – Challenges and tasks for the twenty-first century* (London: Routledge, 2000), pp. 218-254.

¹⁶² See Neantro Saavedra-Rivano, "Options for APEC Reform", paper presented at the International Conference 'APEC Reforms and Evolving Trends: New Ideas for Materializing Busan Roadmap and Making Hanoi Plan' organized by the Vietnamese Academy of Social Sciences (VASS), Ha Noi, 27-28 April 2006.