



Asia-Pacific Economic Cooperation

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## **Thoughts on Sequencing of Preferential Trading Initiatives in the Asia-Pacific Region**

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# **Thoughts on Sequencing of Preferential Trading Initiatives in the Asia-Pacific Region**

**Rob Scollay**

**ASCC/PECC Joint Meeting**

**Chile, 28 May 2004**

# **Sequencing from What?**

## **Today's Reality**

- **Governments throughout the APEC region firmly embarked on preferential liberalisation**
  - **Proliferating bilaterals and plurilaterals**
    - **The “spaghetti bowl”**
  - **Emergence of “hub and spoke” configurations**
    - **Strong impulses from “competitive liberalisation” and the “domino effect”**
  - **Steps to creation of major economic “blocs”**

# **Sequencing Towards What?**

## **Two Visions**

### **(1) Parallel creation of integrated regions in East Asia and the Americas**

- Implies bipolar Pacific and tripolar world trading system**
- **East Asia**
  - Strong focus since East Asian economic crisis**
    - **Desire for East Asian economic identity as counterweight to North America and Europe**
  - Several monetary cooperation initiatives**
    - **Asian Monetary Fund (AMF) – stillborn**
    - **Chiang Mai Initiative (CMI) – “ASEAN Plus Three”**
    - **Asian bond market initiative**
  - Proposal for East Asian FTA based on “ASEAN Plus Three” (East Asian Vision Group)**
- **The Americas**
  - NAFTA already a major “bloc”**
  - Potential creation of FTAA**

# Sequencing Towards What?

## Two Visions

- (2) An integrated Asia-Pacific region encompassing both sides of the “Pacific Rim”**
- **APEC vision based on “open regionalism”**
  - **Two versions of “open regionalism”**
    - **Unconditional non-discrimination**
    - **Conditional non-discrimination**
    - **Both contrast with FTAA’s “open regionalism”**
    - **Lesson of EVSL: major economies unwilling to accept unconditional non-discrimination**
- **Proposal in ABAC for FTAAP**
  - **Preferential trade bloc covering APEC economies**
  - **Involves abandoning APEC commitment to non-discrimination**

# What Role for WTO?

- **Remains first-best and indispensable to a well-ordered, open and rational international trading system**
- **Views on DDA prospects range from cautiously optimistic to deeply pessimistic**
- **Two views on implications of proliferating PTAs and emergence of new “blocs”**
  - **WTO will be rendered superfluous**
    - **Larger economies increasingly able to ignore the WTO**
  - **WTO becomes even more important**
    - **MFN liberalisation reduces the damage from PTAs**
    - **Rule-making role becomes even more crucial**

# Centres of Global Economic Activity

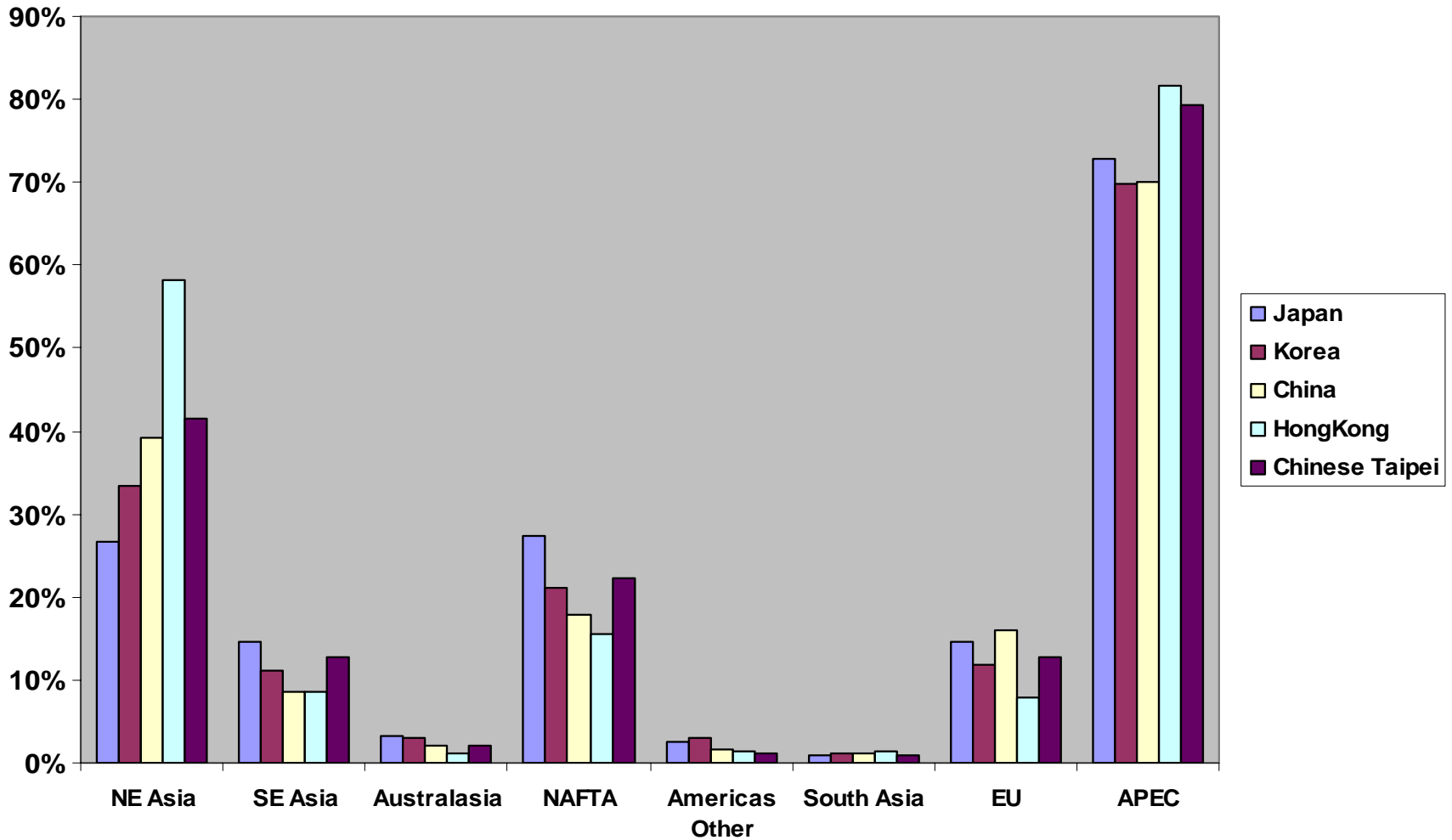
## Shares of World GDP

- **EU**
  - **EU-15** **26%**
  - **EU-25** **28%**
- **The Americas**
  - **USA** **31%**
  - **NAFTA** **35%**
  - **FTAA** **40%**
- **East Asia/W. Pacific**
  - **NE Asia** **20%**
  - **ASEAN** **2%**
  - **ANZCERTA** **1.5%**
- **“Three Major Blocs”** **90%**
- **APEC** **60%**
- **APEC Plus EU** **88%**

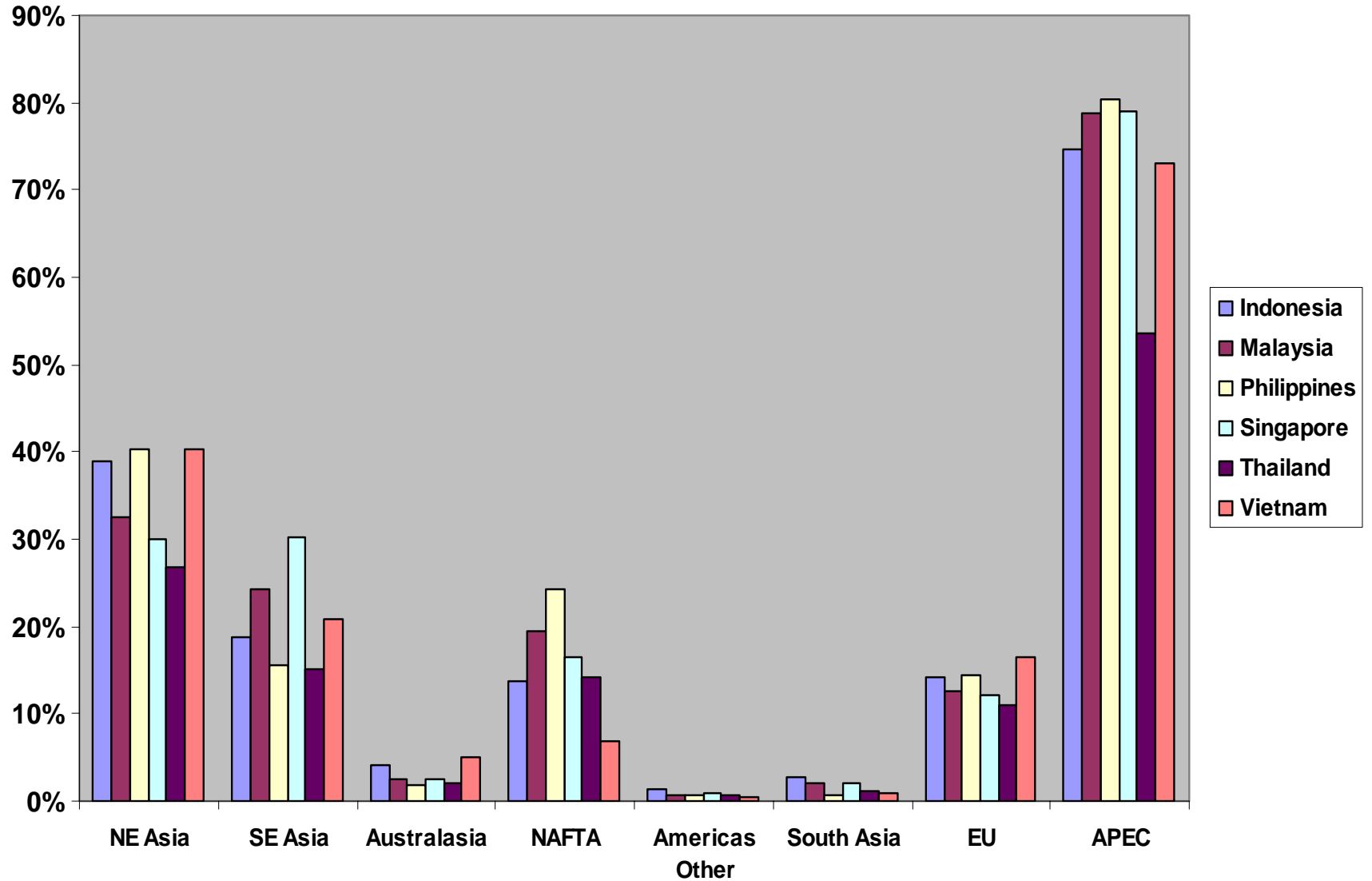
# Where Does the Trade Flow?

- **Northeast Asia**
  - Intensive trade within NE Asia
  - Trades more with N. America than SE Asia
- **Southeast Asia**
  - Trades most with NE Asia, N. America also significant
  - Significant trade within SE Asia
- **USA**
  - Trades as much with E. Asia as with NAFTA partners
  - Trades much more with E Asia than Latin America/Caribbean
- **APEC encompasses large share of trade for all**

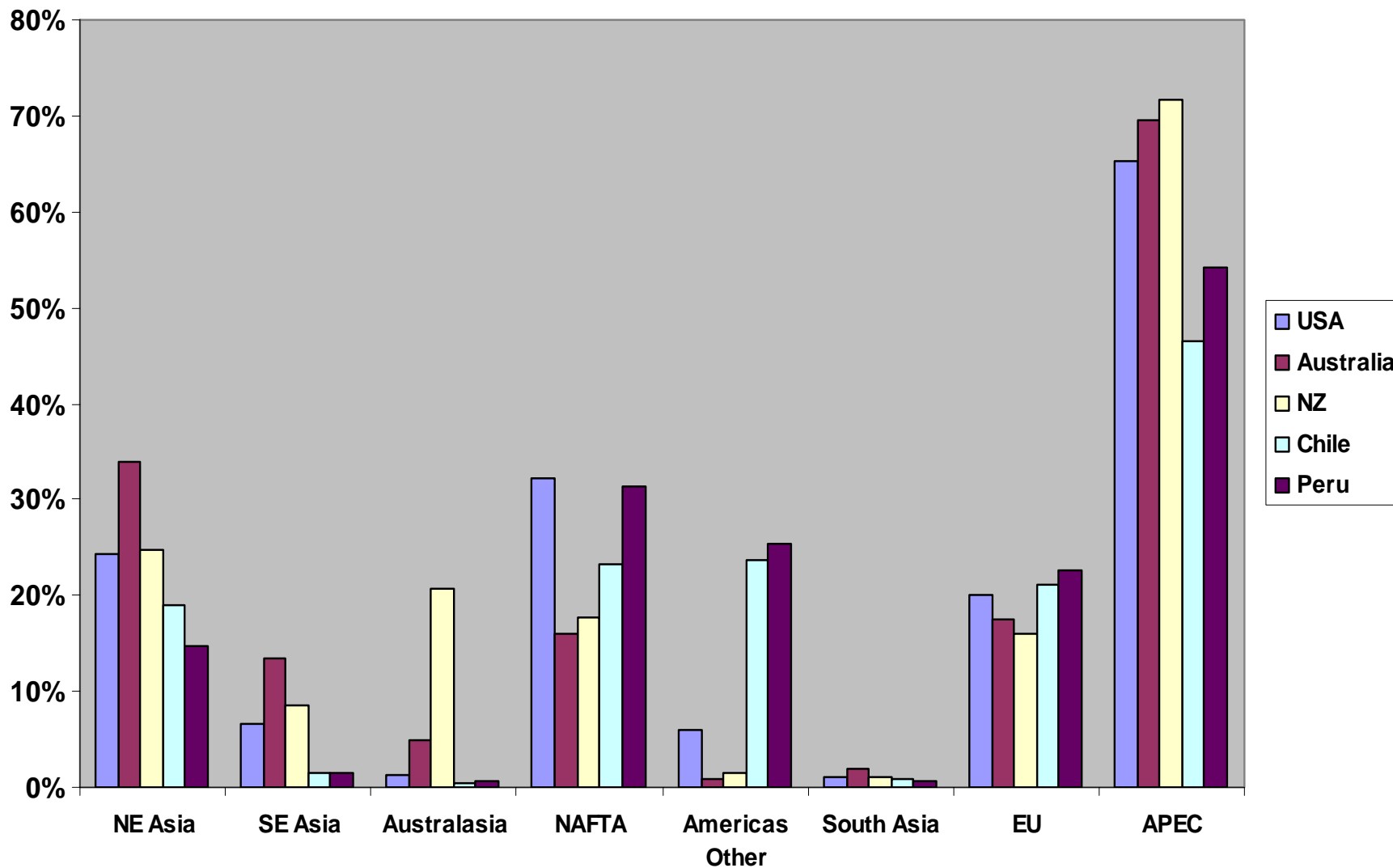
## Regional Distribution of North East Asian Trade 2000-2002



## Regional Distribution of Southeast Asian Trade 2000-2002



## Regional Distribution of Trade 2000-2002 for USA, Australia, New Zealand, Chile and Peru



# PTA Trends in East Asia

## Several distinct patterns

- **Bilaterals – numerous**
- **Emerging “Hub-and-spoke” patterns**
  - **US (seeking to become a global “hub”)**
  - **Japan (incipient “hub”)**
  - **China (incipient “hub”)**
  - **Evidence of “domino effect”**
- **NE Asian developments**
  - **Japan-Korea FTA**
    - **Proposed since 1998**
    - **Negotiations may begin this year**
  - **China-Japan-Korea FTA**
    - **Counter-proposal to Japan-Korea FTA**
  - **Outcome depends on China-Japan relationship**

# PTA Trends in East Asia

- **“ASEAN Plus One” Initiatives**
  - **Several initiatives**
    - **ASEAN-China**
    - **ASEAN-Japan**
    - **ASEAN-India**
    - **ASEAN-CER**
  - **“Bloc-building” or “hub-and-spoke”?**
    - **“hub and spoke” currently seems more likely**
  - **ASEAN ambitions to become alternative “hub”**
    - **Depends on united approach – problematic at present**
- **East Asian FTA based on “ASEAN Plus Three”**
  - **Proposed by East Asian Vision Group**
  - **Japan-China accommodation an essential prerequisite**

# **PTA Trends in East Asia: Economic implications**

- **Bilaterals**
  - **Economic welfare effects**
    - **small-medium/small-medium – effects negligible**
    - **small-medium/large**
      - **potentially substantial welfare gain for small economy**
      - **perceptible negative effect on neighbours**
  - **Risk of “spaghetti bowl” effects**

# **PTA Trends in East Asia: Economic implications**

- **“Hub and Spoke” Configurations**
  - **likely outcome of “competitive liberalisation” (result of “domino effect”)**
  - **balance of advantages heavily favours “hub”**
    - **superior bargaining power**
    - **access to all “spoke” markets**  
(each “spoke” gets access only to the “hub” unless spokes establish PTAs with each other)
    - **enhanced attractiveness for foreign investment**
    - **relative welfare gains greatest for “hub” and lowest for spokes”**
      - **Contrast to single large/small country FTA in isolation**
  - **likely to follow “hub’s” preferred model**
    - **may lead to competing “models” in rival “hub and spoke configurations**  
→ **future convergence difficult**
  - **“successful spokes” have some defences**
    - **Establish as “secondary spokes”**
    - **Membership of multiple “hub and spoke” configurations plus role as “secondary spokes” may offset weakness in bargaining power and allow capture of most of the available “gains from trade”**
  - **Excluded economies (“unsuccessful spokes”) may suffer serious economic damage**

# **PTA Trends in East Asia: Economic implications**

- **“ASEAN Plus One” (ASEAN-China and ASEAN-Japan) Initiatives versus East Asian FTA**
  - **East Asian FTA has more favourable economic welfare effects for all NE Asia economies in both cases**
    - **More favourable for China than ASEAN-China FTA**
    - **More favourable for Japan than ASEAN-Japan FTA**
  - **East Asian FTA also has more favourable economic welfare effects for ASEAN as a group**
    - **some ASEAN economies are exceptions**
  - **East Asian FTA threatens significant economic damage to excluded economies**
  - **Future convergence of “ASEAN Plus” initiatives may prove difficult**
  - **East Asian FTA cannot be realised without Japan-China accommodation**
  - **Experience suggests that “ASEAN Plus” initiatives will degenerate into individual bilaterals**

# Trans-Pacific Initiatives

- **Bilaterals – several concluded and proposed**
- **“Hub and spoke” activity**
  - **US active (FTAs with Singapore, Australia; others proposed)**
  - **Japan and Korea (incipient?): FTAs with Mexico and Chile respectively**
- **Largest trans-Pacific trade flows are between US and NE Asia**
  - **No US-NE Asia FTAs currently proposed (except US-Korea study)**

# Trans-Pacific Initiatives

- **APEC (non-preferential)**
  - PECC proposal for “common understanding” for PTAs as avenues to the achievement of APEC’s Bogor goals
- **Proposal in ABAC for FTAAP (preferential)**
- **Welfare effects**
  - Asia-Pacific-wide free trade (preferential or non-preferential) superior to East Asian FTA for almost all APEC economies
  - Avoids exclusion/losses for East Asian FTA non-members
- **APEC and FTAAP have different implications for multilateral trading system and goal of global non-discriminatory free trade**
  - APEC non-preferential liberalisation contributes directly
  - Asia Pacific FTA can contribute only indirectly through pressure on other players – is this realistic?
- **APEC or FTAAP impossible in absence of accommodation between USA and Northeast Asia**

# Conclusions

- **Realisation of East Asia-wide or Asia-Pacific-wide free trade depends on support and mutual cooperation of major economies**
  - **Japan and China in East Asia**
  - **USA and NE Asia in the Asia-Pacific**
- **Likely alternative:**
  - **“spaghetti bowl” dominated by “hub and spoke” configurations**
  - **rational strategy for individual economies becomes to seek PTA with as many trading partners as possible**
    - **Chile, Mexico, Singapore**
    - **Korea’s new strategy**

# Conclusions

- **Can the “rational strategy” lead to free trade for individual economies?**
  - **Possibly “yes” for some (Chile, Mexico, Singapore?)**
  - **Probably “no” for most**
- **Sub-optimal outcome inevitable in absence of decisive and visionary leadership**