

# **Issues in the Development of RTAs in the Asia-Pacific Region**

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# Current State of Play

- **“Old” (pre-1999) Agreements (5)**
  - **NAFTA**
  - **CER**
  - **AFTA**
  - **Mexico-Chile**
  - **Canada-Chile**

- **Concluded “New” Agreements (6)**
  - **Singapore-US**
  - **Singapore-Japan**
  - **Singapore-Australia**
  - **Singapore-New Zealand**
  - **US-Chile**
  - **Korea-Chile**
- **New developments in “old” agreement (1)**
  - **Bangkok Agreement**

- **Under Negotiation (or negotiations announced) (12):**
  - **ASEAN-China**
  - **ASEAN-Japan**
  - **FTAA**
  - **Singapore-Canada**
  - **Singapore-Korea**
  - **Singapore-Mexico**
  - **Singapore-Chile**
  - **Japan-Mexico**
  - **Thailand-Japan**
  - **Thailand-Australia**
  - **US-Australia**
  - **Singapore-Chile-New Zealand**

- **Proposed and/or under discussion (7)**
  - ASEAN Plus Three
  - Japan-Korea
  - US-ASEAN (“Enterprise for ASEAN”)
  - US-Andean Community
  - Canada-Andean Community
  - US-New Zealand
  - Mexico-New Zealand
- **Previously proposed but not currently under active development (as PTAs) (11)**
  - AFTA-CER
  - Japan-Canada
  - Japan-Mexico
  - P5 (US, Australia, Singapore, Chile, New Zealand)
  - Japan-Chile
  - Korea-US
  - Korea-Mexico
  - Korea-New Zealand
  - Hong Kong-New Zealand
  - Chinese Taipei-New Zealand

# Possible Classifications

## 1. **Bilaterals**

**Plurilaterals**

**“Blocs” (ASEAN Plus Three, FTAA)**

## 2. **“Hubs” and “Spokes”**

**Hub candidates:**

**US**

**China**

**Japan**

**ASEAN (ASEAN Plus One model)**

# PECC Position

**Objective:** Achievement of free trade and investment in the Asia-Pacific region in a way that complements the multilateral trading system

**Questions:** Implications of the new RTA developments for this objective?

Under what conditions can the new RTA developments support the wider regional (APEC) objective?

# Basic Concepts

- APEC Commitments and the Regional Approach to Liberalisation
- The Logic and Benefits of the APEC Approach to Liberalisation
- The Distinctive Features of the Preferential Route to Trade Liberalisation
- The Attractions of PTAs

# Building Blocks or Stumbling Blocks?

- From PTAs to APEC-wide or Global Free Trade – Possible Routes
- Incentives for Expansion, Amalgamation or Convergence of PTAs – “Competitive Liberalisation”
- Effects of RTAs on Incentives for Multilateral Liberalisation
- “Hubs and Spokes” – Likelihood and Implications
- Inclusion and Exclusion: “Ins” and “Outs”
- Rules of Origin
- The “Spaghetti Bowl” – Potential Costs
- Facilitation Measures – the “non-PTA” elements
- Inconsistencies Between Models

# Some conclusions from 38 empirical studies

- **Gains**

**APEC > ASEAN + 3 > ASEAN + 1 > bilaterals**

- **Small/medium economies usually (not always) gain substantially from PTAs with “large” partners**

- **Expansion of existing PTAs to include new members tends to erode benefits of the existing members (esp. the smaller members)**

- **Gains to members (“ins”) generally (not always) accompanied by losses for excluded economies (“outs”)**
  - losses concentrated on “outs” that trade intensively with “ins”
  - larger blocs impose larger losses on these “outs”
  - suggestion in some studies that negative impact on “outs” may be mitigated by “new age” elements or productivity growth
- **Studies of individual PTAs can produce widely differing (sometimes contradictory) results**
  - e.g. **US-Australia**
  - Japan-Korea**

- Gilbert analysis of 13 potential US FTAs
  - Individually: US gains little and large gains for partners
  - Simultaneously: partners gain little and US gains are larger

# Some Implications

- **“domino” effect (“competitive liberalisation”)  
likely to be strong  
→ favours “hub and spoke” developments**
- **incentives for consolidation are mixed**
- **Conflict between economic desirability and political feasibility**
- **key to region-wide integration is intra-NE Asian and NE Asia-US linkages**

# Further Design Issues

- WTO- and APEC-Consistency
- Treatment of Sensitive Items
- Trade in Services

# Towards PTAs as Building Blocks

- Commitment to Bogor Goals
- WTO Consistency
- Consistency with APEC Commitments
- Expansion, Amalgamation and Convergence of RTAs
- MFN Liberalisation

- Liberalisation Modalities
- Rules of Origin
- Facilitation Measures
- Development Dimension
- Transparency