

# **Overview**

## **State of Play on RTA Development and PECC's Response; Survey of Empirical Studies**

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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?**

# 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**

## **Some Implications**

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

# Further Issues

- **what role for APEC's own "Principles"?**
- **political motivations and constraints can be crucial**
- **dangers of the "spaghetti bowl"**
- **some attractions of RTAs**
  - **RTAs may seem capable of going further, faster**
  - **RTAs are also often vehicles for delivery of regional public goods**
  - **bilateral RTAs can provide a context for resolving difficult bilateral issues**

# **“Hub and Spoke” Issues**

- **“hub and “spoke” developments may imply competing “models”**
  - **compatibility of “models” becomes an issue**
  - **increased risks of “spaghetti bowl” effects**
- **for “large” economies**
  - **gains available from larger blocs linking large economies are foregone**
- **for “smaller” economies**
  - **can secure virtually all available economic gains if they can secure “hub and spoke” agreements with every “large” economy in the region**
  - **multiple membership of “hub and spoke” agreements may partly offset unequal bargaining strengths in individual “hub and spoke” arrangements**
  - **excluded “smaller” economies may suffer significant economic damage**

# **Some “easy” but inadequate answers from earlier PECC work**

- **“WTO Consistency”**
  - lack of agreed interpretation of key provisions of GATT Article XXIV
- **PTAs as “building blocks” to wider liberalisation**
  - in some cases but PTAs may prepare way for multilateral liberalisation but in others PTAs may create incentives to resist multilateral liberalisation
  - potential incentive for members of existing PTAs to resist expansion or amalgamation
- **Open Accession**
  - desirable in theory but not always realistic in practice

- **PTA members should extend benefits of liberalisation within PTAs to all APEC members (as per OAA and EPG)**
  - may not comply with current understanding of GATT Article XXIV
  - lack of reciprocity → lack of incentive (multilateralisation of PTA benefits overcomes the first objection but not the second)
- **focus on TIFAs (Trade and Investment Facilitation Agreements) rather than PTAs**
  - TIFAs generally attached to PTAs in practice
  - some facilitation is diversionary

# **From proliferating PTAs to APEC-wide liberalisation: Possible Routes**

- **gradual expansion of existing PTAs**
  - question mark over incentives
  - political obstacles
- **“web” of bilaterals linking each pair of APEC members**
  - is this realistic? efficient?
  - will the agreements be mutually compatible?
- **amalgamation of existing PTAs**
  - compatibility issues
- **PTA formation accompanied by MFN liberalisation by PTA members**

- **Key gaps in existing configuration of Asia-Pacific RTAs**
  - **intra-NE Asia linkages**
  - **NE Asia – US linkages**
  - **linking Australia/NZ with E Asia (esp NE Asia)**
  - **inclusion of Chinese Taipei**

# Questions

- **what “model” or “models” can best serve the objective of Asia Pacific-wide liberalisation?**
- **can it be demonstrated to all APEC members that such models are in their best interests?**
- **what are the main obstacles to implementation of these models and how can they be overcome?**