

Strategy for Coping with a Proliferation of RTAs and Encouraging Convergence toward Regional and Global Liberalization and Integration Objectives: an East Asian Perspective

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1. Bilateral FTA initiatives proliferate in East Asia

- ✍✍* Korea: Chile; Japan, Singapore; Mexico
- ✍✍* Japan: Singapore; Korea, Mexico, Chile, ASEAN
- ✍✍* China-ASEAN
- ✍✍* ASEAN: AFTA; China, Japan; EAI (U.S.), CER, EU, India
- ✍✍* Singapore: New Zealand, Japan, EFTA, Australia, U.S.; Canada, Mexico; India

2. Why the New Surge of Bilateral Initiatives

- ✍✍* The APEC TILF and the WTO MTN processes stalled.
- ✍✍* The domino effect of proliferation elsewhere, associated with fear of the loss of export markets and foreign investment, accentuated by the 1997-98 economic crisis
- ✍✍* The desire to gain international political influence

3. Prospects for Evolution of RTAs in East Asia

✍✍ As far as the trade policy is concerned, the true nature of regionalism in East Asia is bilateralism, specifically, a “competitive hub-&-spoke bilateralism.” There is a race to develop as many spokes as possible.

- Korea, Japan, ASEAN, and China each want to become a major hub in the network of bilateral FTAs in the Asia-Pacific region as well as East Asia.

Each East Asian economy has many politically “sensitive” sectors, and each FTA will be designed to protect these sectors with many exclusions and its own complex rules of origin. The resulting network of bilateral FTAs will give rise to a serious “spaghetti bowl” effect, accompanied by significant distortions in trade, investment, and production in the region.

- Korea-Chile FTA

The refrigerator and the washing machine are excluded.

Apple, pear and rice are excluded while grape is subject to seasonal tariffs.

Concession on more than 370 agricultural products have been withheld and will be discussed after the conclusion of the DDA round.

- Japan-Singapore FTA

All agricultural products are excluded as a matter of principle.

- ASEAN FTA (AFTA)

The ASEAN-6 countries refuse to lower tariffs on their “sensitive” products (e.g., Indonesia’s textile and petrochemical, Philippines’ cement, and Malaysia’s automobile) to below 5%.

Non-tariff barriers remain numerous and serious.

- ASEAN-China FTA

China will exclude rice and palm oil.

ASEAN countries each will request exclusion of many manufactured products.

- The EAI envisages separate FTAs for individual ASEAN countries.

The hub-&-spoke bilateralism of the East Asian countries is likely to serve more as a stumbling block than as a building block for an East Asian Free Trade Area (EAFTA) or “free and open trade and investment” in the APEC region, unless checked by a collective political will to countervail this trend.

- This outcome stems from the assumption that the FTA negotiations would fail to empower the participating governments to overcome the political resistance from the “sensitive” sectors to concession on those sectors.

✍️The consequence of the “competitive hub-&-spoke bilateralism” will be detrimental to the economic dynamism of the East Asian countries as a whole.

- These economies have been thriving together by forming a region-wide supply chain that is geared to the global market. The spaghetti bowl effect will undermine the efficacy of such intra-regional interdependence.

4. Strategy for Coping with Proliferation of Bilateral FTAs

✍️“Open subregionalism” is the antidote to the spaghetti bowl effect and serves to promote plurilateralization and amalgamation of the FTAs, turning the latter into a building block for regional and global trade liberalization, and specifically for the realization of “free and open trade and investment” in the APEC region.

- See the 3rd report of the APEC Eminent Persons Group (1995) for the definition of “open subregionalism”.

✍️To cope with the proliferation of bilateral FTAs, it is essential to create and exercise the collective political will of the regional governments to pursue open subregionalism.

✍️The necessary political will should be generated at the levels of the ASEAN+3 and the APEC.

- The principle of open subregionalism should apply to the goals of the ASEAN+3, including to the goal of an EAFTA itself. Thus, the latter goal, too, should be interpreted in the spirit of the APEC’s Bogor Goals and as a conceptual constituent building block of the APEC’s vision of free and open trade and investment in the region, and not as a preferential trading bloc by itself.

- The role of the ASEAN+3 is, in fact, to be the main force or the caucus for open subregionalism as well as for open regionalism in APEC.

✍✍The pursuit of open subregionalism cannot be done effectively without simultaneously pursuing to liberalize the trade of “sensitive” products at the multilateral level, i.e., at the level of WTO. This would help pursue open subregionalism effectively.

- The governments do not seem to be politically capable of attacking the “sensitive” products in the limited context of bilateral FTAs.
- The most critical sector from this perspective is agriculture. This sector calls for a global agreement to liberalize, or at least, a globally uniform rules for trading.

5. Creating the Requisite Political Will: Mission for PECC

✍✍In order to generate and exercise the political will to adhere to, and impose, open subregionalism at the level of ASEAN+3 and APEC:

- widely-held misconceptions about FTAs, and especially, the general ignorance about the perils of FTAs, should be dispelled;
- a set of rules of open subregionalism should be developed and applied to all RTAs, by the APEC level, if not also by WTO;
- governments should be required to explain the conformity of their FTAs to these rules at the appropriate APEC forum;
- APEC’s collective effort for the implementation of the Bogor goals should be revived and pursued vigorously;
- the leadership role within APEC may be provided by the ASEAN+3 countries, and especially jointly by ASEAN and Korea, in view of the special stake in this development to these countries.

✍✍The necessary educational role may best be performed by PECC. PECC should undertake and provide a systematic and rigorous analysis of the possible benefits as well as possible perils of RTAs, and in particular, of FTAs, depending on their designs, especially with respect the scope of exclusion, rules of origin, and openness to accession by the third parties. PECC should also submit to the APEC governments policy recommendations for specific actions to implement open subregionalism in the region.

- It is wrong to argue that “FTAs are a building block for free trade and investment”, for this is not always true.
- It is misleading to use the term, “free trade agreements”. These should be accurately called “preferential trade agreements”.