

The Enduring Logic of Asia-Pacific Regional Integration

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Accepting the reality of RTAs in the Asia-Pacific region:

- **Are they stumbling blocks or building blocks?**
- **To what?**
 - **is the answer still “free trade and investment in the Asia Pacific region?”**
 - **(and a more open multilateral trading system)?**

Possible Outcomes

- **“kaleidoscope” of overlapping/intersecting bilaterals and plurilaterals**
- **“bipolar Pacific” based on megablocs in East Asia (ASEAN Plus Three) and Americas (FTAA)**
- **“hub and spoke” arrangements based on large regional “hubs” (US, China, Japan, Korea)**
 - **ASEAN as a possible alternative “hub”**
 - **perhaps combined with the “kaleidoscope” of BTAs**
- **achievement of the APEC “vision” of free trade and investment in the Asia-Pacific region**

Some considerations from PTA modelling

- **Larger blocs (centred on “large” economies)**
 - **larger gains for members**
 - **negative effects on excluded countries**
 - **minor if include all countries with major trade links (variation of “natural trading bloc” concept)**
(e.g. effect on East Asian trade bloc on Latin America)
 - **serious for excluded economies**
(e.g. effect of East Asian trade bloc on Taiwan, Australia, New Zealand)

- **small economies derive large welfare gains from PTAs with “large” partners e.g. ASEAN-China, ASEAN-Japan, ASEAN-US, Australia-US, Singapore-Japan, Singapore-US
(and suffer large welfare losses when “large” partners discriminate against them)**
- **economic welfare effects of BTAs among small economies are generally negligible
e.g. Singapore-NZ**

Some implications for alternative RTA configurations

- **Bilaterals among small economies**
 - weak rationale as “end in themselves”
 - more easily explicable as tactical initiatives
 - manoeuvring to avoid future exclusion from larger arrangements
 - “demonstration effect”
 - signalling “availability”
 - supporting specific policy objectives

- **“Hub and spoke” pattern with “large” economies as “hubs”**
 - **for “large” economies**
 - **gains available from larger blocs are foregone**
 - **for “smaller” economies**
 - **can secure virtually all available economic gains if they can secure PTA 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**
 - **“hub and spoke” pattern a natural development when “large” economies cannot reach agreement**

- involvement of US (US-ASEAN) helps to preserve the “trans-Pacific” dimension**
- potential for divisive trade rivalries**
- obstacles to gradual “broadening” or “multilateralisation” through enlargement or amalgamation**
 - neither “large” nor “small” members have a strong incentive to admit new “small” members
(and “small” members may have an incentive to resist this)**
 - possibility that tailoring of individual “hub and spoke” arrangements to “hub” sensitivities on agriculture, labour, environment etc may lead “hub and spoke” groups to develop as mutually inconsistent and irreconcilable “islands” of trade preference**

- **“East Asian trade bloc”**
 - **relatively benign in economic welfare terms if it includes all western Pacific economies**
 - **seriously damaging for any excluded western Pacific economies**
 - **cause for some concern to US**
 - **cuts across “trans-Pacific dimension” of APEC vision (“bipolar Pacific”)**
 - **contributes to formalisation of “three-bloc” world**
 - **leadership problem**

- **implications for multilateral trading system**
 - **danger of “trade wars” between blocs**
 - **“trade wars” will be mutually destructive**
 - **incentive for blocs to ensure WTO remains sufficiently effective to function as insurance against “trade wars”**
 - **incentives may be lacking for the large blocs to converge toward global free trade**

- **“free trade and investment in the Asia-Pacific region”**
 - **larger economic welfare gains**
 - **inclusive approach avoid problems of exclusion**
 - **maintains “trans-Pacific dimension”**
 - **leadership problem remains**
 - **is APEC PTA a viable alternative to APEC non-discriminatory liberalisation?**
 - **what is impact on incentives for further convergence toward global free trade?**

Bipolar Pacific versus APEC

For East Asia

- **APEC liberalisation potentially yields greater economic benefits**
(although gain is modest for some E Asian economies)
- **trade links with the US remain vitally important for E Asia especially NE Asia**
- **incremental negative impact of FTAA (compared to NAFTA) relatively small**

For the USA

- **US conducts approximately equal shares of its trade with NAFTA and E Asia**
- **share of trade with S and C America much smaller**
- **East Asian bloc will have a significant negative impact (could offset gains from FTAA)**

Economic versus Political logic again

- **economic logic favours APEC over a bipolar Pacific**
 - **US should take the lead in supporting APEC**
- **political logic pointing in different directions?**

**“Building blocks” or “Stumbling Blocks”
for
more open multilateral trading system?
realisation of vision of Asia-Pacific as
region of open trade and investment?
development of an East Asian FTA?**

- **Possible routes are**
 - **expansion of existing PTAs**
 - **amalgamation of existing PTAs**
 - **multiplication of bilaterals**
 - **multilateralisation of regional commitments**

Task for PECC

- **identify the conditions for RTAs to serve as “building blocks”**
 - **for free trade and investment in APEC region**
 - **for multilateral trading system**
 - **need to**
 - **go beyond “WTO compatibility” and “compatibility with APEC principles”**
 - **be grounded in reality of RTA development (e.g. non-feasibility of open accession)**
 - **be informed by understanding of the content of existing proposals and agreements**
 - **learn from other experiences e.g. the Americas**

- **possible “stumbling block” factors include:**
 - **potential incentive for members of existing PTAs to resist expansion or amalgamation**
 - **scope for PTAs to cater for specific “sensitivities” (e.g. agriculture, labour, environment) may lead to preference for PTAs over multilateral liberalisations**
- **conditions for “building blocks” include**
 - **PTA members reduce external barriers against non-members**
 - **design to facilitate expansion or amalgamation**
 - **comprehensiveness**
 - **liberal rules of origin**
 - **emphasis on trade facilitation**

- **consider complementary role of cooperation agreements to produce regional public goods**
 - encourage cooperation at the level of desired trade integration
 - suggests crucial role for APEC Ecotech and trade and investment facilitation
 - importance of “community building” (‘East Asia’? Asia-Pacific?)
- **consider how Asia-Pacific integration can co-exist with political processes operating at a lower regional level**