

THE MILLENNIUM TRADE AGENDA FOR THE ASIA-PACIFIC: RESPONDING TO NEW CHALLENGES AND UNCERTAINTIES¹

The Environment Faced: New Challenges and Greater Uncertainties

The East Asian economies continued to open up and undertake comprehensive trade and investment structural reforms. This has occurred despite earlier fears of a revival of protectionism in the wake of the East Asian crisis. There have been no observed beggar-thy-neighbor policies and the recent rebound in the East Asian economies demonstrate their continued strength based on a policy of openness.

However, a number of concerns remain about the momentum of increasing openness of the trading system. The external environment facing economies in the region remains uncertain due to the question of sustainability of economic recovery in East Asia, the potential for necessary adjustments in the US economy, and the crucial issue of the uncertainties surrounding the world trading system post Seattle.

Furthermore, there is a fear of complacency and of a slow down in reforms due to the faster than expected rebound in the crisis economies. There are also now many more “voices” questioning the benefits of globalization and how to best manage its effects. At the national level, many more developing economies in the region have become democratic and have to deal with greater participatory processes. There are, in general, louder demands for equity and for better ways to deal with the groups adversely affected by reforms. As new actors and groups enter into the policy debate in these new democracies, the potential for increased nationalism and calls for industrial policy is evident. Unfortunately trade policy instruments remain the easiest to use for this purpose. The dangers of ad hoc policy making in this environment must not be overlooked.

The demonstrations at Seattle also indicate that there are greater number of coalitions opposing free trade in major developed countries, ranging from labor unions, environmentalists, conservative isolationists, and human rights

¹ This Issues Paper is based on the discussion and papers presented at the Trade Policy Forum, May 28-29, 2000, Brunei Darussalam and also draws on work undertaken by core TPF members on regional trading arrangements (Andrew Elek, Christopher Findlay, and Robert Scollay). Contributions were also made by other TPF IAG members to reflect on events since the TPF in May.

groups in the US to farmers and consumers in Europe. The lack of progress at Seattle highlights the problems of US leadership (see box).

The problem of US leadership:

- A recent poll conducted in the US indicated that 61 percent of Americans thought that globalization was positive; 78 percent also responded positively to the use of trade instruments to ensure labor and environment standards in other countries, and 81 percent responded positively to the use of trade instruments to ensure human rights in other countries.
- Recent reviews such as the Meltzer report also show a waning support in the US polity for international organizations including WTO.
- There is clearly a big question mark over US leadership in world trade policy.

There has also been a clear lack of preparation to account for the new negotiating framework of the multilateral trading system. There are now many more members and issues on the agenda. By the time of the Seattle Ministerial meeting, the number of WTO members had increased to 135 and out of that number a majority were developing economies. The issue of greater transparency and inclusion of developing economies in the setting of the agenda and the negotiation process have become major issues of concern.

The major issues that plagued Seattle remain unresolved. This situation and the lack of leadership by major developed countries mean that it will take some time before the new Round of WTO negotiations could be launched. In order to maintain the momentum for the launch of the new Round, it is crucial that the time to the launch of a new round not be wasted. *The time should not be seen as a protracted delay in the process.* Much can be done in the interim to build support for the multilateral agenda as well as to regroup and rebuild consensus on the global trade agenda. There were too many hard issues to deal with at Seattle and insufficient preparation so far. The hard issues include the linkages between trade and labor as well as environment, agriculture negotiations, anti-dumping disciplines and reopening of Uruguay Round agreements based on implementation problems faced by developing country members, as well as a range of newer issues surrounding investment and competition. WTO members could make use of the time before the launch of the new Round to narrow down their differences on such controversial issues. Apart from rebuilding consensus, it is important to restore confidence in progress towards free and open trade

and investment, whether in the multilateral trading system or in the APEC process. The time gained can also benefit developing country members in terms of capacity building. Through capacity building work, the developing economies could be better equipped for their meaningful participation in the multilateral trading system.

There is a risk that these benefits will be eroded by the cost of delay and greater uncertainties surrounding us. These include the potential systemic effects arising from a proliferation of Regional Trading Arrangements (RTAs), the costs of the slow down in liberalization and, most important of all, a lack of momentum in the trading system to tackle difficult problems.

The Asia Pacific region needs to meet the following two major challenges if we are to keep the open trade and investment regimes that have been so important for the growth and development of this region.

1. Maintaining Momentum of the Multilateral Agenda and Confidence Building

Maintaining Momentum

There is much that can be done to maintain the momentum of the multilateral trade agenda including the built-in agenda in services and agriculture, the moratorium on the imposition of customs duties on e-commerce, and improvements in the dispute settlement process. Even though negotiations in services and agriculture may not be possible without a broader round, much preparatory work and capacity building can be achieved in the interim to prepare the way for negotiations.

Much can be done to solidify the political commitment to maintaining the momentum in the multilateral agenda. Commitments can be made in November 2000, including a reiteration of the importance of the Bogor goals and more extensive work in the IAP process in APEC, all of which will demonstrate the value to APEC of increasing openness. It is also hoped that in the following APEC cycle, by the time of the Leaders Meeting in Shanghai in 2001, it would be possible to deliver an APEC coalition for a new WTO Round.

Confidence Building: Striking a True Balance

The trade agenda faces complex challenges in the new millennium. A broad-based Round is not possible without broad-based support, and a new consensus needs to be built. A consensus will be needed on the millennium trade agenda that accommodates the diverse interests of developing and developed countries, and broadens public support for WTO in major trading nations. The delay in the start of the new Round provides time for regrouping to take place in the region with regard to setting the global trade agenda.

PECC and APEC can also contribute to bridging the divides. Confidence building can be achieved through greater consultations to bridge the division between economies on the priority issues that should be on the trade agenda. PECC and APEC can provide such a forum to discuss the various divisions in positions.

One set of divisions between developed country members relates to agriculture, investment and competition. APEC has done much ground work in both the areas of investment and competition, and can provide useful precedents for potential multilateral principles and co-operative arrangements.

Another set of division exists between developed and developing country members. A major concern of developing countries is related to the market access issues which span the faithful implementation of the phase-out of the quotas on textiles and clothing, greater discipline in the use of anti-dumping, peak tariffs and tariff escalation. In June 2000, APEC Ministers Responsible for Trade in Darwin have made a call to begin preparatory work on industrial tariffs and other related areas under the auspices of WTO. This is a positive initiative but the region needs more evidence of the commitment to provide market access.

Given the developed-developing country divide, there also needs to be better research on trade and development to inform policy, in particular, with regard to their linkage effects, and to the effect of the new economy. Also important are areas in the WTO that will benefit developing countries such as market access and better special and differential treatment provisions.

Another divisive issue is the linking of trade to labor standards and environmental degradation. These are valid concerns faced by developed countries and need to be addressed. This is especially true because they come from the broad public in major developed countries. We can't ignore these political realities if we are to achieve the broad support for a new Round. Continued insistence on linking these issues to trade will be futile as the developing countries will be adamantly against it. APEC, with support from its contributing organizations like PECC, can help find ways to address legitimate concerns about labor standards and the environment.

For instance labor could be discussed in the context of strong and rigorous empirical work on the linkages between trade and employment or labor and development. Similarly with environment there is already an extensive body of analysis on the linkages between environment and trade to draw on. These studies and their policy implications could be the basis of the dialogue that can be carried out in the PECC as well as APEC fora.

Confidence Building: Capacity Issues and Managing “Voices”

Before any new Round can be launched, WTO members should also focus on the much-needed capacity building for developing countries. The notion of capacity building should be a broad one and include the need to rebuild constituency as well as support for maintaining openness within member economies and in a region.

The more narrow interpretation of capacity building is still important but technical cooperation should not be used as a “bait” to induce developing countries to liberalize. It should address the real capacity issues faced by different developing countries in a concrete and focused way. Within the APEC process such capacity building has been repeatedly promoted, and APEC Ministers Responsible for Trade have made a call for enhancing the capacity of developing economies to implement the WTO agreements, develop legal framework for domestic implementation, participate in international negotiations, utilize the WTO dispute settlement mechanism, and for supporting accession of non-members to the WTO. The recent proposal from Japan to undertake a comprehensive survey to assess the needs of developing economies for capacity building as part of a comprehensive package is very much welcome. It is hoped that the survey will highlight not only priority areas, but also how to fund and implement the capacity building programs.

Capacity building programs in APEC will help members formulate trade and investment policies as part of an overall development strategy. Globalization has exposed the problems of domestic policy mismanagement and the lack of appropriate institutions in economies. Therefore, given the rapid pace of globalization, institution building and human resource development are even more crucial and should be prioritized in any capacity building program. APEC pioneered the new perspective on capacity building and the financial crisis has reinforced the value of this approach.

Another important element of capacity building after the crisis is how to manage the greater “voice” and coalitions opposing globalization and openness. The message of the benefits of liberalization and delivery of the message need to be reformulated to recognize the associated risks and adverse effects as well as to address the issue of how to best manage them. This could include best practices and disciplines in introducing temporary trade remedies and social safety nets to mitigate the effects of globalization on vulnerable groups and the unemployed. It is also important to highlight in a concrete manner, for instance, by providing empirical evidence on, how trade policy reforms affect not just growth but also development and the quality of development at a regional, country-specific and sector- specific level. PECC has been involved in these studies in the past and welcomes the opportunity to extend that work to new areas of policy making.

2. Coping with the Resurgence of RTAs: APEC minus X as Building Blocks

Amidst the increasing trend of globalization, it is interesting to note the proliferation of regional trading arrangements. Quite ironically since the beginning of the WTO in 1995, there has been an increase in the number of new regional trading arrangements being notified, from 42 in 1991 to 87 in 1998. At the same time there have been an acceleration of the number of non-notified agreements being established, from 18 to 58 by 1998.

The APEC members are no exception to this trend. At the time of the Bogor Declaration in 1994 there were only three RTAs between APEC members, the ANZCERTA between Australia and New Zealand, the ASEAN Free Trade Agreement, and NAFTA. Between 1994 and 1999 only two new RTAs were established among APEC members: the Mexico-Chile and Canada-Chile agreements. However, in the last 12 months, especially since

the APEC Leaders Meeting in September 1999 in Auckland, there have been a number of new RTAs announced or proposed, including APEC members which previously had not been part of RTAs such as Japan and Korea. These proposals include proposals for bilateral FTAs between Japan and Korea, Japan and Mexico, Japan and Chile, Japan and Canada, Korea and Chile, Korea and Mexico, Singapore and Chile, Singapore and New Zealand, Singapore and Japan, Chile and New Zealand. Other proposals include establishment of an FTA between sub groups of APEC members such as the US, Australia, Singapore, Chile and New Zealand, the Korea-New Zealand FTA, and even a Japan-Korea-China FTA. Is RTA an effective response to the new challenges in the new millennium?

Most of these initiatives are at the proposal and negotiation stage, and some will not be realized any time soon. Their limited scope makes them harder to negotiate and makes it harder to deal with private interests who are threatened by liberalization. The agreements under discussion are interesting because participants include countries previously committed to the MFN principle such as Japan; also while some participants are neighbors, other relationships are long-distance. The coverage of the proposed agreements goes beyond traditional trade barriers and typically includes investment, services and standards. They all appear to apply a WTO consistency principle as well as an additional open access clause.

Whether or not the proliferation of these proposals will be a stumbling block or a building block to APEC's brand of open regionalism to promote trade liberalization on a non-discriminatory and multilateral basis remains to be seen. On the one hand the creation of new RTAs can be a stumbling block due to the adverse effects of trade and investment diversion as well as the ensuing new complications and costs of transactions in areas of standards, rules of origin and other administrative barriers. More importantly, APEC members may shift trade policy priority to negotiations of free trade agreements of a potentially discriminatory nature. A shift by Japan, in particular, to a strategy of regionalism of this type would have a considerable impact on East Asia and the Pacific, and within the world trading system.

On the other hand RTAs can also be building blocks to promote greater openness multilaterally. Sub-regional and bilateral initiatives can be constructive means of promoting progress towards the shared commitment

to free and open trade and investment by 2010/2020 and can set positive examples for all APEC governments. Another potential positive effect is that preferential agreements help “lock in” policy change, since backsliding will mean loss of the advantages provided by the agreement. Given the broader coverage of these RTAs, they can help participants go further than they could in the multilateral system. As such they help countries deal with new policy issues and emerging impediments to trade and investment at a regional level, and become part of the important process of education about free trade and its benefits.

There is little information available on the motivations behind these RTAs at present and thus it is not clear about their likely inconsistencies with regard to APEC or WTO principles. A thorough review is necessary before assessment can be made. The efforts by APEC to undertake a review is welcome but much more needs to be done to assess their potential impact and their consistency with open regionalism.

Preliminary analysis would indicate the following preconditions and principles would help ensure that these arrangements are going to be building blocks. First is that WTO consistency with regard to Article XXIV alone will not be sufficient to guarantee non-discriminatory RTAs due to various reasons. There is ambiguity and lack of clarity with regard to the meaning of various requirements of WTO consistency, such as the meaning of substantially all trade among parties, not raising trade barriers against non-members, and the wide variation in the provisions covering contingent protection in RTAs, especially with respect to safeguards, anti-dumping and rules of origin.

In fact adhering to APEC consistency is more demanding than WTO consistency since it suggests that all members’ consider extending, on a voluntary basis, to all APEC economies measures agreed from sub-regional arrangements. A further constraint is the commitment to the Bogor goal, which will extend the same benefits to all economies. The comprehensiveness and flexibility principles that underpin the Osaka Action Agenda also imply that RTAs should be comprehensive and not exclude key sectors such as textiles and clothing and agriculture.

However, since the APEC process is non-binding, based on its informal structure, APEC is not able to impose such disciplines on RTAs. The furthest APEC could go would be to establish a set of guidelines or

principles to which APEC-consistent RTAs should conform. The exercise of coming up with principles itself would be an extremely useful one as it will provide a framework of reference, which is currently missing. Doing so would also make any violation of the principles apparent.

The guiding principles could encompass:

- Consistency with existing principles/ agreements, including those under APEC and WTO
- Homogenous rules of origin
- Transparency
- Avoiding new barriers to other economies
- Provisions for accession by other economies
- Provision for peer review

Conclusion

Regional structures can help or hinder the rebound of the global approach to liberalization. APEC is an example of an architecture whose principles drive it to make positive contributions. Within it, there are emerging more and more examples of a bilateral and selective approach to reform. While some will die a natural death, they are a risk to the system. At best, they divert attention from the main game. At worst, they divert trade and investment flows in a damaging way. The antidote is movement towards new principles on regionalism plus the maintenance of the multilateral momentum. The latter requires more work on the difficult issues in the multilateral system, and APEC and its associates like PECC are well placed to contribute. This package works better in the presence of a well-thought-out program of capacity building, designed to deal with not just technical issues but also the process of managing change.