

***Towards a seamless Asia Pacific economy:
more than just a trade deal***

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FTAAP: Asia-Pacific Economic Integration by 2020 And Beyond

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Main points

- **Deep integration of Asia Pacific economies will need much more than a possible FTAAP.**
- **The potential economic gains from better connectivity are far greater than from marginal trade liberalization.**
- **Therefore, the capacity-building and learning together needed to boost connectivity should not be delayed by trade negotiations.**
- **The TPP experience can help shape an attempt to negotiate a broader, better and far more balanced potential outcome from a possible FTAAP.**
- **All governments must be willing to amend their legislation and regulations to deliver an agreement which:**
 - achieves worthwhile additional market access;
 - has simple and non-discriminatory rules of origin; and
 - sets rules for new issues which are:
 - based on sound economic principles;
 - takes account of the interests of all participants; and
 - can be precedents for WTO rules of the 21st century.

Opportunities for integration

- A. Liberalize the remaining traditional border barriers to trade.**
- B. Set rules for issues including:**
 - anti-dumping;
 - subsidies;
 - managing state-owned enterprises;
 - intellectual property rights;
 - labour and environment standards.
- C. Cooperate to promote physical, institutional and people-to-people connectivity, including:**
 - transparency and consistency of economic regulations, including competition policy and government procurement;
 - efficient customs procedures;
 - improved transport, communications and energy networks;
 - movement of business people and tourists;
 - mutual recognition of standard and professional qualifications.

Efficient economic integration

- **The potential gains from better connectivity are now far greater than from any further marginal reductions in border barriers.**
 - **Asian Development Bank:**
 - reducing port clearance times by one day can ... save up to 1 per cent of the value of traded products.
 - **World Economic Forum and the World Bank:**
 - *“supply chain barriers to international trade ... are far more significant impediments to trade than tariffs. In fact, reducing supply chain barriers could increase world GDP over six times more than removing all tariffs.”*
- **Therefore, efficient integration should focus on boosting connectivity:**
 - **improving physical, institutional and people-to-people connectivity will need far more than trade negotiations.**
- **Business priorities are in line with this evidence.**

Priorities for economic integration

Relative importance to business people

<p>(A) Liberali- zation</p>	<p>(B) Rule- making</p>	<p>(C) Physical, institutional and people-to- people connectivity</p>
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(based on survey of business priorities for the East Asian Economic Community by the Economic Research Institute for ASEAN and East Asia (ERIA, 2012))

Objectives and instruments

- Reforms to liberalize trade or comply with internationally binding rules impose some costs, at least to some parts of economies:
 - they are not seen as positive-sum games.
 - negotiations are needed to find an acceptable balance of costs and benefits to participating economies.
- A single undertaking is likely to be needed for agreement on trade liberalization and binding rules in a possible FTAAP.
- Cooperation to improve connectivity is a very different process,
 - **it should not be bundled into that single undertaking.**

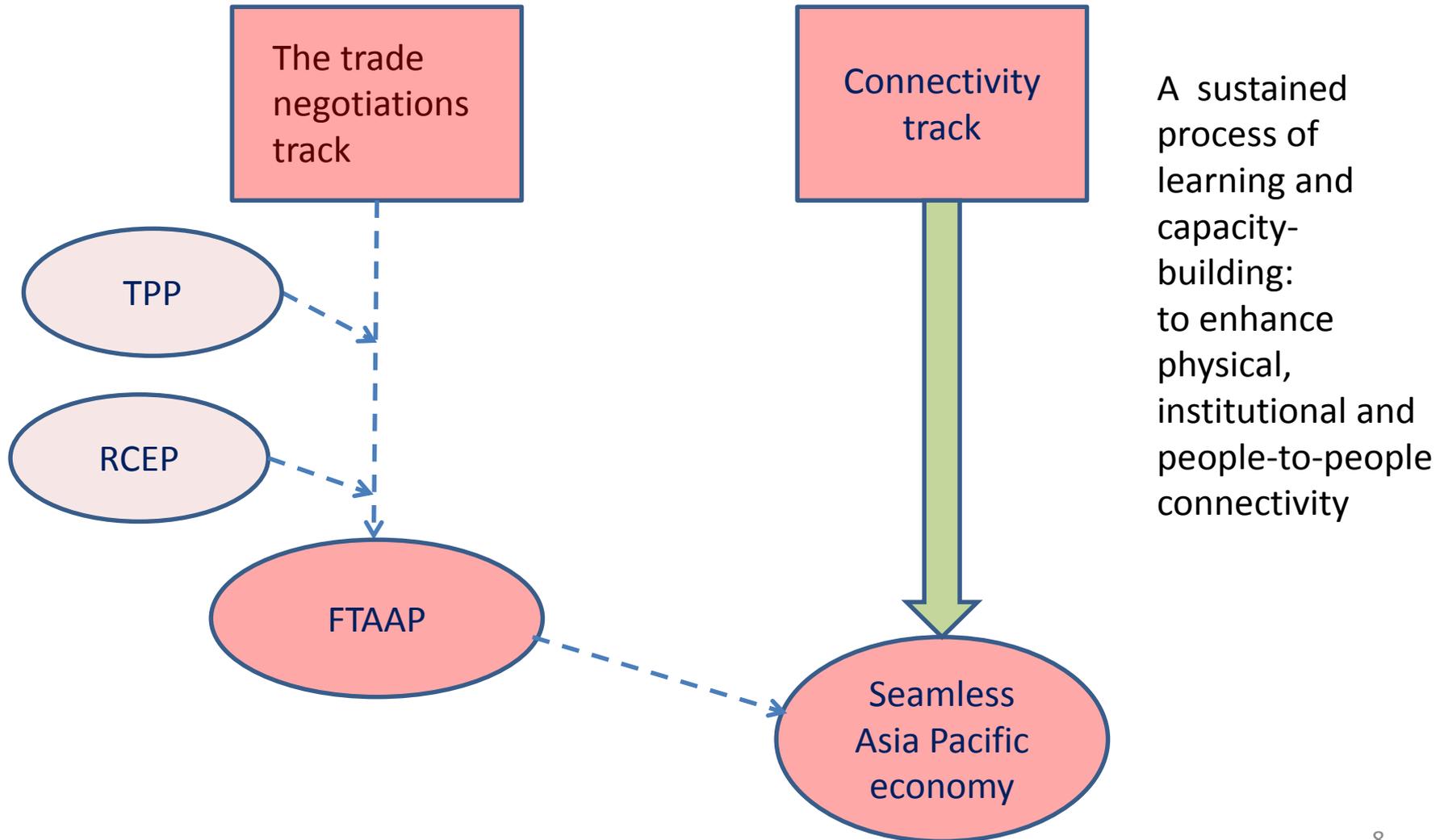
Policies for economic integration

<p>(A) Liberali- zation</p>	<p>(B) Rule- making</p>	<p>(C) Physical, institutional and people-to- people connectivity</p>
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<p>Complex, multi-level games, including prisoners dilemma games</p>	<p>Positive sum games, and positive network effects</p>
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<p>Trade negotiations</p>	<p>Learning together to overcome limits of skills, institutional capacity and finance</p>
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Parallel tracks towards economic integration



Recommendation: work on parallel tracks

- APEC governments should work on parallel tracks towards a seamless regional economy.
- Any negotiations towards a possible FTAAP should be complemented by intensive efforts to promote connectivity:
 - **cooperation to improve connectivity should NOT be held up by delays in negotiations on agreement on trade liberalization or rule-making.**

Potential for a balanced trade deal?

- **The United States has been able to dominate the nature and content of the potential TPP:**
 - simple, region-wide non-discriminatory rules of origin have been ruled out;
 - any changes to United States legislation have been ruled out; and
 - rules on issues like IPR, state-owned enterprises, labour and environment will limit the potential of emerging economies to compete against producers of the currently most developed economies.
- **We should not expect all Asia Pacific governments to accept the rules set in trade deals shaped by the United States.**
- **China can, and is likely to, expect a deal based on mutual respect which takes account of the balance of interests of all participants.**
- **These realities lead to issues and recommendations on trade liberalization and rule-making in a possible FTAAP.**

Trade liberalization - issues

- **Potential gains from additional market access will depend on reductions in border barriers in addition to what has been achieved in agreements already reached:**
 - need to be realistic about the extent of additional liberalization that can be expected.
- **Actual gains from liberalizing border barriers to trade will depend on reforms to market access restrictions due to domestic legislation of participating economies:**
 - for example, can a possible FTAAP reform the limits on access to United States markets which are embedded in domestic legislation?
- **The benefit of a possible FTAAP will also depend on whether rules of origin can be simplified:**
 - TPP negotiations have failed to deal with the ‘noodle bowl’;
 - that mistake should not be repeated.

Trade liberalization - recommendations

- Estimates of the potential gains from trade liberalization should be made on realistic assumptions about likely gains, based on experience of past negotiations.
- **Participating governments, including the United States, should not be allowed to rule out changes to domestic legislation.**
- FTAAP negotiations on trade liberalization must lead to simple unified rules of origin, similar to what has been agreed by ASEAN and in the P4 trade agreement.

Setting new rules - issues

What kind of rules for policies including state-owned enterprises, IPR, labour and environment?

- Option 1: complex rules designed to suit vested interests of large firms in the largest economies.
- Option 2: rules based on clear economic principles, reflecting a balance of all interests, which could form the basis of WTO-wide rules.

Enforcing agreed rules:

- Option 1: guilty until proved innocent: any economy can apply sanctions against any other economy it declares to be breaking an agreed rule.
 - Option 2: innocent until proved guilty: a dispute settlement procedure based on the WTO's procedure.
- Option 2 would need an agreed process to settle disputes.
 - 2a: a dispute settlement panel could be part of a possible FTAAP, or
 - 2b: the WTO could be asked to settle disputes.
 - in either case, the dispute settlement panel would recommend whether any sanctions should be applied and how the costs of dispute settlement process should be shared.

Setting new rules - recommendations

- The rules to be imposed on participants in a possible FTAAP should reflect a reasonable balance of the interests of economies at various stages of development;
 - they should be based on sound economic principles which could become the basis of WTO-wide rules as soon as possible.
- Sanctions that restrict trade or other international commerce should not be imposed unilaterally.
- Assertions that any rules are not being followed should be tested by a dispute settlement panel, based on protocols agreed as part of a possible FTAAP:
 - that panel should set any sanctions and allocate the costs of settling the dispute.

Concluding remarks

- **A high quality potential FTAAP should:**
 - achieve worthwhile additional trade liberalization;
 - deal with significant market access problems due to behind-the-border domestic legislation;
 - set simple, non-discriminatory region-wide rules of origin;
 - set rules for 21st century issues which reflect a reasonable balance of the interests of all participating economies.
- **Negotiations towards a possible FTAAP are not likely to begin until a potential TPP is ratified by a critical mass of governments;**
 - and FTAAP negotiations could take at least as long as TPP negotiations so far.
- **Cooperation to improve physical, institutional and people-to-people connectivity can deliver far bigger gains than a possible FTAAP:**
 - therefore, work on connectivity should not be tied to, or delayed by, negotiations towards a possible FTAAP;
 - the cost of delaying a concerted APEC drive towards better connectivity would be far greater than the potential net benefits of any possible APEC-wide trade deal.