

Planning for an FTAAP

Jeffrey J. Schott

Senior Fellow

Peterson Institute for International Economics

Conference on
“FTAAP: Asia-Pacific Economic Integration by 2020 and Beyond”
Beijing, China

15-16 October 2015

FTAAP Timeline

- **1993-1995:** APEC Eminent Persons Group reports recommend long-run goal of free trade and investment in the Asia-Pacific; endorsed by APEC leaders at Bogor, Indonesia in Nov 1994.
- **2004-2006:** APEC ABAC recommendation to study FTAAP leads to agreement to discuss long-term prospects for FTAAP.
- **2010:** APEC leaders discuss pathways to FTAAP and ask APEC to take concrete steps toward its realization.
- **2008-2015:** Proliferation of FTAs in the region, including launch of the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).
- **Nov 2014:** APEC leaders commission a collective strategic study on issues related to the realization of FTAAP, to be presented at the 2016 meeting. The leaders recognize FTAAP will be pursued “outside of APEC, parallel to the APEC process.”
- **Oct 2015:** TPP negotiations conclude in Atlanta; agreement open to accession by APEC countries and others deemed eligible by the existing membership after TPP entry into force possibly in 2017 or 2018.

FTAAP Scenarios: 2015-2025

TPP Expansion Model

- Expand TPP membership to other countries in the region willing and able to implement and enforce the pact's broad ranging obligations.
 - Countries can accede after the TPP enters into force.
 - But candidates are not invited to participate; those who have joined after talks started – Japan, Canada, Mexico, and Malaysia – asked to join and then entered negotiations with current TPP members.
- Three challenges to this approach: (1) special arrangements for Least Developed Countries (LDCs) like Cambodia, Laos, and Myanmar; (2) participation by Chinese Taipei and Hong Kong; and (3) whether to include non-APEC countries like India, Colombia, and others.

FTAAP Scenarios: 2015-2025 (2)

FTAAP Negotiation

- Start from scratch but draw on FTA experience in the region.
- However, this option could not aspire to harmonize TPP and RCEP provisions since the quality of the pacts is so different.
- US officials would not consider a compromise that results in a watered down version of the TPP.

FTAAP Scenarios: 2015-2025 (3)

Umbrella Agreement over Existing Regional RTAs

- This option would not substitute for existing pacts such as TPP, but would add a chapeau or umbrella agreement that would supplement trade obligations among participating countries.
- The more comprehensive and legally binding TPP provisions would remain in force among the TPP signatories.

Implications of the TPP for the FTAAP

- TPP is the most comprehensive trade accord involving developed and developing countries in terms of scope of coverage and depth of commitments to trade liberalization and policy reform.
- TPP countries account for 40 percent of global output and 25 percent of global exports – the cumulative totals could increase substantially with new members.
- TPP potential as the megaregional template for FTAAP: The TPP-12 are like-minded but not alike; while RCEP-16 are less like-minded and even less alike. Compared to TPP, RCEP is much less comprehensive, more incremental, and will have more exceptions to core trade reforms.

TPP & RCEP: Complementary but Different

- TPP and RCEP proceeding at different speeds: TPP talks are finished and the pact could enter into force in 2017 or 2018; RCEP talks have been extended and negotiations on broader issues like services and investment deferred for several years.
- TPP and RCEP are not alternatives nor are they mutually exclusive:
 - Almost half of RCEP members are in TPP and several others are considering TPP accession in the future, including Korea, Philippines, Thailand, Indonesia.
 - Chinese and Indian officials are carefully studying TPP to assess how membership could complement and reinforce their domestic reform strategies.

Core Components for FTAAP in an Era of Global Supply Chains

- **Use resources efficiently** to boost productivity and propel economic growth; limit product and sectoral exceptions from FTA reforms and avoid restrictive origin rules that offset liberalization commitments.
- **Promote inclusive growth** through targeted domestic support programs and time-limited transitions to more open trade and investment in sensitive sectors.
- **Promote policy predictability:** FTA obligations that can be reasonably expected to be maintained and enforced over time provide a stable environment for new or increased investment.
- **Reform of trade and investment restrictions** inhibiting competition in key infrastructure services, such as telecommunications, transport, distribution, and financial services.

Core Components for FTAAP in an Era of Global Supply Chains (2)

- **Avoid performance requirements** and other restrictions on establishment by foreign firms, including forced transfer of technology and local content or nationality quotas, except for narrowly defined national security reasons.
- **Encourage digital trade and e-commerce** by limiting restrictions to cross-border data transmissions to those necessary for privacy and national security reasons.
- **Enhance transparency of government procurement** practices to get best value for contracts and to deter corruption.
- **Ensure adequate protection of intellectual property** to promote innovation, with incentives for broad distribution of knowledge and patented materials (and prohibitions against commercial cyber espionage).
- **Discourage provision for state-owned enterprises** of concessional financing and other kinds of preferential access to government services and contracts not available to private firms.