

Future Prospects for FTAs
in the Asia-Pacific Region

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Two thousand twelve was an important year for regional integration in the Asia-Pacific region. The Trans-Pacific Partnership (TPP) added Mexico and Canada as members and completed the 15th round of negotiations in early December. In East Asia, a number of major initiatives were launched in 2012, such as the Korea-China FTA, China, Japan and Korea FTA (CJK FTA) and the Regional Comprehensive Economic Partnership (RCEP) among the ten ASEAN members and six partner countries. During 2013, these FTAs are likely to gain further momentum with each initiative acting as stepping stones to broader regional agreements.

The TPP has thus far been a pace setter for regional economic integration in the Asia-Pacific. It is an ambitious undertaking. TPP covers eleven countries which together occupy 30 percent of world GDP.¹ Its participants are aiming to achieve a high standard and “Twenty-first century agreement” with open membership.

However, a number of issues seem to stand in the way of an early conclusion of the TPP. They include, among others, market access on dairy, sugar and rice, rules of origin for textiles, intellectual property rights issues, disciplines on SOEs, labor and environment standards. Given the sharp divergence of positions, it may not be easy to overcome differences on some of these issues. In order to make progress, the participants might have to lower ambitions, or drop issues altogether in others.

Several new FTA negotiations are about to commence in East Asia. Given the large

¹ See Table 1, p.4 of this paper.

amount of trade between Korea and China, the Korea-China FTA is a significant FTA in and of itself, but it also has important implications for regional integration. The Korea-China FTA is likely to become a stepping stone to the trilateral FTA among China, Japan and Korea for which the negotiations have also been launched. At the moment, the Korea-China FTA is the only bilateral FTA being negotiated among the three Northeast Asian countries. Because the Korea-China FTA is a bilateral arrangement without any controversial territorial or other political issues, it is likely to proceed faster than the CJK FTA, setting examples and precedents along the way for the trilateral FTA.

The CJK FTA is another major initiative. China, Japan and Korea together account for 20.5 percent of world GDP.² As the three countries are also the members of RCEP, the CJK FTA is likely to have substantial spillover effect on the RCEP. It is remarkable that the decision to begin negotiating this FTA was announced in the midst of territorial disputes between the three countries toward the end of 2012. If this reflects the determination of the three countries to prevent a further spillover into the economic relationship among them, this augurs well for the CJK FTA process. While there are still concerns that geopolitical tensions might interfere with the trilateral process, these concerns are also an eloquent testimony for the necessity of achieving such integration.

By agreeing to launch the RCEP, the ASEAN and its partners have finally agreed to end the controversy over how to proceed with East Asian economic integration. The competition between ASEAN+3 (EAFTA) and ASEAN+6 (CEPEA) proposals had prevented the integration process from moving forward for a number of years. Now the RCEP, based on ASEAN+6, covering 28.4 percent of world GDP, is about to commence under the principles of ASEAN centrality.³

However, it is difficult to envision a high quality FTA emerging from this process. The ASEAN diversity, its consensus-based decision-making process, and the existence of some low quality ASEAN+1 agreements all point to difficulties facing RCEP in pursuit of a strong, high quality region-wide FTA. On the other hand, the process of concluding the RCEP may be less difficult because of lower expectations and ambitions, and greater

² See Table 1, p.4 of this paper.

³ See Ibid.

flexibility. In fact, it may be less difficult than the TPP, which aims for a high quality trade agreement. It may be quite possible to conclude the RCEP process by 2015 as envisioned by the leaders.

The danger of the two competing initiatives, the TPP and the RCEP becoming mutually exclusive trade blocs appears not to be great due to the overlapping membership and the integrative role they are likely to play in harmonizing divergent trade rules in the existing FTAs in the Asia-Pacific region. What is clear is that the two initiatives will now move on separate tracks, with each acting as a catalyst for the other until they take on concrete forms, perhaps in 2014 or 2015. At that juncture, one could envision the creation of a regional dialogue on the convergence of TPP and RCEP, and how these initiatives can be extended to the Asia-Pacific level, perhaps in the form of the Free Trade Area of the Asia Pacific (FTAAP). While geopolitical factors might interject interruptions in this process now and then, the countries in the Asia-Pacific are likely to move in the direction of wider and deeper economic integration due to the tremendous benefits such collaboration will bring to their economies. As Petri and Plummer stated “[T]he TPP and Asian tracks are large, positive-sum projects that promise substantial gains to all participants.”⁴

⁴ Peter A. Petri and Michael G. Plummer, “The Trans-Pacific Partnership and Asian-Pacific Integration: Policy Implications,” Policy Brief, Peterson Institute for International Economics, No. PB 12-16, June 2012, p.2.

Table 1

Comparison of FTAs in Asia-Pacific (2011)

	No. of Countries	Trade		GDP		Population	
		\$ billion	% world	\$ billion	% world	million	% world
China-Japan-Korea	3	6,399	17.5	14,283	20.5	1,521	21.8
RCEP	16	10,131	27.7	19,764	28.4	3,399	48.7
TPP	11	8,508	23.2	20,734	29.8	657	9.5
NAFTA	3	5,371	14.7	17,985	25.8	461	6.6
EU	27	12,270	33.5	17,577	25.2	504	7.2

- Trade: WTO
- GDP: IMF World Economic Outlook
- Population: UN