

Regional Economic Integration in Asia-Pacific: Is an FTAAP the Optimum Shape?

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Contents

- 1. Characteristics of FTAs/RTAs in AP**
- 2. Conditions for Desirable RTA**
- 3. Is an FTAAP Desirable RTA?**
- 4. Policy Implications**
- 5. Policy Options**

Unilateral	Bilateral		Plurilateral		Under Consideration
	Inter-Regional	Intra-Regional	Inter-Regional	Intra-Regional	
<p>Various trade liberalization measures taken by Individual Economies</p> <p>APEC Individual Action Plans (IAPs)</p> <p>Unilateral use of force</p>	<p><u>IMPLEMENTED</u></p> <p>Australia-PNG(1977)</p> <p>Australia-New Zealand(1983)</p> <p>Chile-Canada(1996)</p> <p>Mexico-Chile(1998)</p> <p>Singapore-Japan(2002)</p> <p>China-Hong Kong(2004)</p> <p>Chile-US(2004)</p> <p>Singapore-Korea(2006)</p> <p>Japan-Malaysia(2006)</p> <p>Japan-Thailand(2007)</p> <p>Japan-Indonesia(2008)</p> <p>Japan-Brunei(2008)</p> <p>Japan-Philippines(2008)</p> <p>China-Singapore(2009)</p> <p>US-Peru(2009)</p> <p>Chile-Peru(2009)</p> <p>Canada-Peru(2009)</p> <p>Japan-Vietnam(2009)</p> <p><u>UNDER NEGO</u></p> <p>Korea-Japan</p>	<p><u>IMPLEMENTED</u></p> <p>Singapore-New Zealand(2001)</p> <p>Singapore-Australia(2003)</p> <p>Chile-Korea(2004)</p> <p>US-Australia(2005)</p> <p>Chile-China(2005)</p> <p>Singapore-US(2005)</p> <p>Malaysia-Australia(2005)</p> <p>Mexico-Japan(2005)</p> <p>Thailand-New Zealand(2005)</p> <p>Thailand-Australia(2005)</p> <p>Japan-Chile(2007)</p> <p>China-New Zealand(2008)</p> <p>Australia-Chile(2009)</p> <p>Singapore-Peru(2009)</p> <p>Peru-China(2010)</p> <p><u>SIGNED</u></p> <p>Thailand-Peru (2005)</p> <p>Korea-US (2007)</p> <p>Hong Kong-New Zealand (2010)</p> <p>Korea-Peru (2010)</p> <p>Korea-EU (2010)</p> <p><u>UNDER NEGO</u></p> <p>Singapore-Mexico</p> <p>Canada-Singapore</p> <p>Thailand-US</p> <p>Australia-Malaysia</p> <p>China-Australia</p> <p>Korea-Malaysia</p> <p>Korea-Canada</p> <p>Korea-Mexico</p> <p>Malaysia-Chile</p> <p>US-Indonesia</p> <p>US-Philippines</p> <p>Japan-Australia</p> <p>Japan-Peru</p> <p>New Zealand-Kore</p> <p>Australia-Korea</p>	<p><u>IMPLEMENTED</u></p> <p>AFTA (1993)</p> <p>ASEAN-China(2005)</p> <p>ASEAN-Korea(2007)</p> <p>ASEAN-Japan(2008)</p> <p>NAFTA(1994)</p>	<p><u>IMPLEMENTED</u></p> <p>P4(2006)</p> <p>Australia-ASEAN-New Zealand (2010)</p> <p><u>UNDER NEGO</u></p> <p>TPP</p>	<p>Bilateral and Intra-Regional</p> <p>China-Thailand</p> <p>ASEAN-US</p> <p>Bilateral and Inter-Regional</p> <p>Thailand-Chile</p> <p>Indonesia-Australia</p> <p>Plurilateral and Intra-Regional</p> <p>ASEAN+3</p> <p>ASEAN+6</p> <p>ASEAN-Chinese Taipei</p> <p>Plurilateral and Inter-Regional</p> <p>FTAAP</p> <p>ASEAN-USA</p> <p>ASEAN+3</p> <p>ASEAN+6</p>

Characteristics of RTAs/FTAs in Asia-Pacific

- **Currently, 40 RTAs have been implemented, 5 RTAs have been signed, and more than two dozen RTAs are being negotiated or considered by APEC economies.**

Fact 1

- After East Asian financial crisis in 1997, the Northeast Asian members have changed their policy stance from favoring a global approach to favoring a regional approach
- 35 RTAs have been implemented after the crisis.

Fact 2

- Most of RTAs in the Asia-Pacific region have taken a form of bilateral negotiation similar to the world-wide trend of seeking a lower and easier negotiation cost even though the gains from the freer trade are limited

Fact 3

- No distinction between intra- and inter-regional partnerships

Fact 4

- Most of sub-regional RTAs within APEC have been making a complicated web of hub-and-spoke type of overlapping RTAs which may cause a spaghetti bowl phenomenon.

Conditions for Desirable RTA

- **Significant economic gains for sustainable growth and co-prosperity**
 - Produce trade creation while minimizing diversion
- **Potential to consolidate into larger-scale RTAs**
 - Stepping stone towards global free trade

Is an FTAAP Desirable RTA?

① Market Condition

FTAP should create a significant and sufficient positive trade creation effect

Condition 1

- The consolidated market size (40% of the world population and 53% of the world GDP) is large enough to create a positive trade creation effect

Condition 2

- The strong interdependence among APEC member economies in terms of intra-regional trade share of over 65% is the most promising factor in expecting a large trade creation effect

Condition 3

- Pre-union industrial structure of the potential members is competitive and may expect significant efficiency gains from the regional free trade.
- The simple averaged complementarity index of APEC is 53.7, a figure not excessively high or low.

Is an FTAAP Desirable RTA?

② Economic Benefit

Empirical analysis found that an FTAAP is economically beneficial for all participating economies.

(Unit: US\$ Billion, %)

Economy	Unit	Static Model			Capital Accumulation Model
		Scenario 1 (TR)	Scenario 2 (1+Service)	Scenario 3 (2+TF)	Scenario 3
Members	Welfare	55	75	285	636
	Real GDP	0.13	0.36	1.13	3.08
EU	Welfare	-14	-16	-22	-10
	Real GDP	-0.04	-0.04	-0.08	-0.11
Rest of World	Welfare	-19	-19	-17	-19
Types of Rules of Origin		Trade Creation Effects		Trade Diversion Effects	
Bilateral Cumulation		0.9		-9.0	
Diagonal Cumulation		16.0		-16.0	
Full Cumulation		35.8		-3.1	

An optimum FTAAP calls for a high-quality and comprehensive free trade agreement for the participating economies to enjoy the leveraged economic gains.

- Target high quality and comprehensive FTA
 - Apply tariff elimination in goods trade under the legal provision of *GATT Article XXIV comprehensively*
 - *Strengthen Trade Facilitation*
 - *Liberalize Trade in Services*
- Simplify Rules of Origin to Full Cumulation, where possible
- Strengthen continued effort to promote REI regardless of FTAAP progress

Building on **strong political commitment** and FTAAP needs to embrace following conditions to become a desirable RTA conducive to promoting global free trade.

- 1. The capacity to respond to the challenges and changes facing the region**
- 2. Inclusiveness of interests and agenda**
- 3. The capacity for harmonizing the roles of other groups in the region**
- 4. Should involve the pursuit of multilateralism and consistency with the WTO.**

In addition to the economic effects of FTAAP, policy makers need to carefully examine the feasibility of FTAAP at various perspectives.

- 1. Readiness – Is each economy ready for FTAAP in terms of “capacity building”?**
- 2. Awareness – Is each economy aware of the importance of FTAAP and the impact it will have**
- 3. Willingness – Is each economy willing to form FTAAP or do they prefer other forming?**
- 4. Challenges – Is there any diagnose and prescription on both domestically or APEC-wide wide obstacles?**

Utilize Regional Cooperation Mechanisms as platform to Institutionalize Regional Integration

- 1. If economic integrations being pursued by sub-regional groups are successfully accomplished, there is room to expand them to a bigger integration, which is ‘FTAAP’ in the future.**
- 2. Sub-regional groups, such as the APT, EAS and PPT will not only serve the members but also for non member**
- 3. Forming an East Asian Community should not be viewed as a move against the Asia-Pacific Community**

APEC's dynamism including its non-binding principle is subject to be taken advantage of, not to be abandoned.

- 1. Endeavour to utilize pathfinder initiative: 21- X, Sector/Area Specific Approach**
- 2. Take full advantage of current initiatives on REI, Growth Strategy and etc**
- 3. Promote Further Structural Reform**
- 4. Introduce Peer Review mechanism for intra-FTAs/RTAs**

Road map to FTAAP: Modality and Tool

	Maintain APEC's Principle	Transform APEC into a Negotiating Body
Modality	<ul style="list-style-type: none"> - Expansion of Existing FTAs/RTAs by voluntary basis <ul style="list-style-type: none"> • Utilize RCM as platform (APT, EAS, TPP etc.) - Path-Finder Approach <ul style="list-style-type: none"> • 21-x approach • Sector/Area specific approach 	<ul style="list-style-type: none"> - APEC initiates FTAAP negotiations <ul style="list-style-type: none"> • Agree modality • Differential treatment (both timeframe and scope) among developing and developed economies - APEC leads negotiations to harmonize RTAs/FTAs
Policy Tools	<ul style="list-style-type: none"> - Develop and implement APEC REI and Growth Strategy <ul style="list-style-type: none"> • Encourage members to engage in high-quality FTAs/RTAs - Promoting Further Structural Reform - Conduct Joint Studies - Introduce Peer Review mechanism for intra-FTAs/RTAs 	<ul style="list-style-type: none"> - EU style 'Asia Pacific Economic Community'

Thank you very much.