

**New Asia-Pacific Trade Initiatives
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Multilateralizing Regionalism

Fitting Asia-Pacific Agreements into the WTO System

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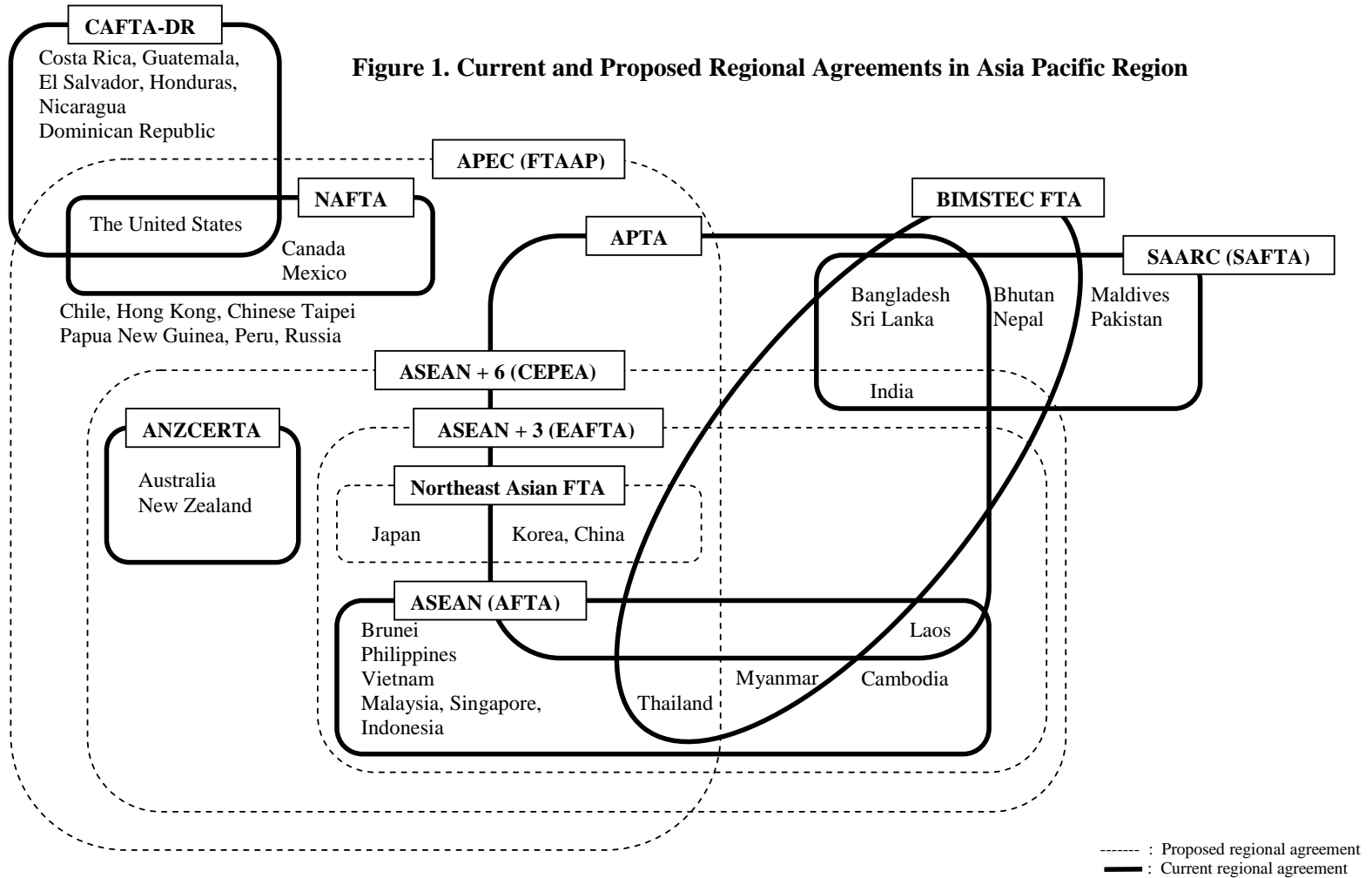
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Overview

- Some 37 regional trade agreements (RTAs) have been concluded in East-Southeast Asia since 2000.
- Some argue that rapid growth of free trade agreements (FTAs) will erode the World Trade Organization (WTO) system.
- We investigate the effects of current and potential Asia-Pacific FTAs and suggest ways to make agreements complement the WTO.

Figure 1. Current and Proposed Regional Agreements in Asia Pacific Region



ANZCERTA : Australia and New Zealand Closer Economic Relations Trade Agreement
 APEC : Asia Pacific Economic Cooperation
 ASEAN : Association of Southeast Asian Nations
 CAFTA-DR : Central America Free Trade Agreement and The Dominican Republic
 EAFTA : East Asia Free Trade Area
 NAFTA : North American Free Trade Agreement
 SAFTA : South Asian Free Trade Area

AFTA : ASEAN Free Trade Area
 APTA : Asia Pacific Trade Agreement (Known as Bangkok Agreement)
 BIMSTEC : Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
 CEPEA : Comprehensive Economic Partnership in East Asia
 FTAAP : Free Trade Area of the Asia-Pacific
 SAARC : South Asian Association for Regional Cooperation

Gravity Model Results (Trade)

- US and ASEAN agreements in force appear to provide the largest gains to members.
- Potential agreements centered on Japan would likely generate large gains if enacted.
- FTAAP would increase total trade by roughly 50 percent for most participating regions and countries:
 - Slightly more than 50 percent for agricultural trade.
 - Around 60 percent for manufactures trade.
- Majority of agreements show diversion in agriculture.
 - On balance, however, the coefficients indicate as much trade creation vis-à-vis nonmembers as trade diversion.

Gravity Model Results (FDI)

- Inward foreign direct investment (FDI) stock from a partner country is boosted when the two countries have more trade (implied elasticity of FDI stock response is about 0.5). By boosting two-way trade, FTAs encourage FDI from the partner country.
- Investment diversion with respect to nonmembers appears to exist for EFTA, EU FTAs, CUSFTA, Mercosur, AFTA, and SAFTA.
- Substantial investment creation for members found for EU and US-Mexico FTAs. Inward investment creation from nonmembers is important.

Implications for the WTO

- American and Asian regionalism differ sharply.
- WTO norms for FTAs are deliberately fuzzy and are likely to remain so.
- New WTO Transparency Mechanism for RTAs:
 - A timid step forward
 - Best idea: notifications of changes in terms of FTAs
- WTO members prefer the policy of “don’t ask too much, don’t tell too much” towards their FTAs.

Improvements in FTAs

- APEC Best Practices initiative:
 - Model chapters already drafted for trade in goods, technical barriers to trade (TBT), transparency, government procurement, cooperation, dispute settlement, trade facilitation, rules of origin, and sanitary and phytosanitary (SPS) measures.
 - Little implementation so far. Negotiations still follow each country's own template.
- Accession Clauses
 - Limited use because existing FTA members don't want to give away "freebies" and potential new members don't want to "sign on the dotted line".
- Rules of Origin
 - Will continue to discriminate until most-favored-nation (MFN) tariffs are lowered.
 - Interim step: harmonize MFN tariffs of RTA members to lowest rate applied in the region.

Concluding Remarks

- Continued proliferation of FTAs is inevitable.
- Current FTAs have increased trade and investment for the countries and regions involved; future agreements are likely to do the same.
- Trade diversion is limited for total and manufactures trade, but common in agriculture. On balance, a new FTA probably increases trade between members and nonmembers. Investment diversion may be a bigger worry.
- WTO efforts to shape FTAs to complement the WTO have so far been timid.
- In the Asia-Pacific region there is some attempt to conform FTAs to WTO norms.