

## How close is APEC to FTAAP?

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### Abstract

APEC (Asia-Pacific Economic Cooperation) announced in its 2010 meeting held in Yokohama its aim to actively support the formation of FTAAP (Free Trade Area of the Asia-Pacific). It appears to be an ambitious target considering the diversity of the twenty-one member economies of APEC. In quantitative terms, at present, the APEC members have established FTAs with roughly 40% (or 8 out of 20) of other members. The ongoing talks including TPP (Trans-Pacific Partnership) and RCEP (Regional Comprehensive Economic Partnership) will certainly raise this figure closer to 100%. However, the challenge is whether APEC can unite and bring to a convergence the various liberalization schemes as well as meeting the necessities of the globalizing 21<sup>st</sup> century business. If it fails to do so, industries in Asia-Pacific can be trapped in a “spaghetti bowl”, which has already become an issue to some extent.

### 1. Introduction

In its official meeting in 2010, APEC (Asia-Pacific Economic Cooperation) announced its aim to head towards FTAAP (Free Trade Area of Asia-Pacific). With FTAAP, the twenty-one economies of APEC will be further integrated under a single free trade agreement. The leaders declared in Yokohama that:

“We will take concrete steps toward realization of a Free Trade Area of the Asia-Pacific (FTAAP), which is a major instrument to further APEC’s regional economic integration agenda. An FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership, among others. To this end, APEC will make an important and meaningful contribution as an incubator of an FTAAP by providing

leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping, and addressing the “next generation” trade and investment issues that FTAAP should contain.”<sup>1</sup>

Where about is APEC on the road to FTAAP? One short answer from the analysis in this paper would be ‘almost 40%’. APEC members, on average, have concluded FTAs with nearly 40% of other APEC member economies, although some variances among the members remain. APEC itself was not founded initially as a formal, or legally binding, free trade agreement. However, its member economies have gradually formed FTAs with other member economies on bilateral or sub-regional basis. The ongoing talks including TPP (Trans-Pacific Partnership) and RCEP (Regional Comprehensive Economic Partnership) will bring APEC closer to the full coverage of APEC members through the expansion of the FTA network.

Of course, all members achieving free trade with all other members individually through FTAs do not imply the completion of FTAAP. It is necessary but not sufficient. As the Yokohama Vision states, unquantifiable tasks to cope with the next generation trade and investment issues remain:

“APEC should contribute to the pursuit of an FTAAP by continuing and further developing its work on sectoral initiatives in such areas as investment; services; e-commerce; rules of origin; standards and conformance; trade facilitation; and environmental goods and services.”

The “spagetti-bowl” issue raised by Bhagwati (1995) must also not be forgotten. The mushrooming of FTAs may not be beneficial for trade. Kawai and Wignaraja (2009) suggest that some issues along this line are already present in corporate surveys.

In the next section, I briefly review the activities of APEC. An analysis of the FTA network in APEC based on the WTO-RTA database is presented in section 3. Section 4 shows how TPP and RCEP will contribute to the formation of FTAAP and discusses the issues that remain.

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<sup>1</sup> The 18<sup>th</sup> APEC Economic Leaders’ Meeting, Yokohama, Japan, 13-14 November 2010 “The Yokohama Vision – Bogor and Beyond”

## 2. Overview of APEC

The history of APEC dates back at least to 1989 when the former Prime Minister Hawke of Australia announced his idea of creating a forum among the economies in the Asia-Pacific region. The economies that became the founding members of APEC were the following twelve: Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States. China, Hong Kong and Chinese Taipei joined in 1991, followed by Mexico (1993), Papua New Guinea (1993) and Chile (1994). Since Peru, Russia and Vietnam joined in 1998, there are in total twenty-one economies in APEC.

The expansion of APEC is not only characterized by the number of economies but also by its status. Between 1989 and 1992, APEC met as an informal senior official and Ministerial level dialogue. Since 1993, former U.S. President Bill Clinton established the practice of an annual APEC Economic Leaders' Meeting.

One important feature of APEC is that it comprises the word "Pacific"; APEC is not a group of Asian economies, but a group of economies on the Pacific rim, or economies of both sides of the Pacific Ocean. APEC, therefore, provides regular opportunities for dialogue among the economies of Asia and the Americas. Another characteristic of APEC is that it has been working closely with business. APEC has an advisory organization called ABAC (APEC Business Advisory Council), which provides inputs for APEC's liberalization process.

APEC started as a regional forum pursuing what is known as the Concerted Unilateral Liberalization (CUL) approach/modality, or the non-binding unilateral liberalization. In the outset therefore, it was not meant to become a free trade or other forms of binding RTAs. In fact it was expected to act as a forum supplementing the multilateral liberalization process in the WTO. Yamazawa (1992) proposed open regionalism as the way for Asia-Pacific economic integration and APEC, as a loose framework, best fits the concept.

The highlights of APEC's activities on trade liberalization include the Bogor Declaration in 1994, followed by the Osaka Action Agenda (OAA) in 1995, and the Manila Action Plan (MAPA) in 1996. In Bogor, Indonesia, APEC members set the famous "Bogor Goal" which is to realize free and open trade and investment liberalization in Asia-Pacific by 2020.<sup>2</sup> OAA provided a concrete framework to achieve the Bogor goal, and in Manila the first collective and individual action plans (IAPs) were presented by each member economies. Since then APEC members have been reporting periodically on their progress of liberalization in the common format of IAP.<sup>3</sup> Although there was a down-

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<sup>2</sup> Advanced member economies were expected to realize this by 2010. This goal, however, was not met.

turn caused by the Asian currency crisis in 1997 on the member economies and the momentum for further liberalization, APEC proceeded to support and guide the FTAs among the members particularly since the Santiago meeting in 2004. In Santiago, the APEC members agreed on the Best Practices for FTAs, taking into account the concerns of the business community.<sup>4</sup>

### 3. Analysis of the FTA network in APEC

WTO provides a database of the RTAs around the world reported by its members, called the WTO-RTA database. According to the database, prior to 1976, there were no RTAs among the members that later form APEC. The oldest intra-APEC RTA recorded in the database is the one between Australia and Papua New Guinea, which went into effect in 1977. During the period from 1977 to 1991, no new RTAs emerged within APEC, except for ANZCERTA (Australia New Zealand Closer Economic Agreement), the FTA between Australia and New Zealand, in 1983. It was later in this period, in 1989, that the first APEC meeting took place.

To present an overall picture of the FTA network in APEC, I hereafter introduce an aggregate measure in the following way. I calculate for each APEC member how many FTAs it has completed with other members. Since there are twenty-one members in APEC, each member has twenty other potential partners. The  $x/20$  measure is then the number of completed FTAs ( $x$ ) divided by potential partners (20). The average and variance of the  $x/20$ s since 1970 are shown in Figure 1.

In 1992, AFTA (ASEAN Free Trade Area) was created by Singapore, Malaysia, Thailand, Indonesia and Brunei. These members are also the founding members of APEC. AFTA's strong impact on the APEC average of  $x/20$  can clearly be seen in Figure 1, as the steep rise in the value of  $x/20$ . It can be said that along with Australia and New Zealand, these core ASEAN nations became the front runners of economic integration in Asia-Pacific. Following AFTA, on the other side of the Pacific, the well-known NAFTA (North American Free Trade Agreement) started among the United States, Canada and Mexico in 1994. In addition, Chile started a FTA with Canada which added a new link connecting North and South American economies. We can observe in the figure a gradual increase in the average of  $x/20$  but a decline in the variance. It suggests that FTAs started spreading across the APEC members during this period.

The opening of the 21<sup>st</sup> century was accompanied by new intra-APEC FTAs mainly driven by the changes in the trade policies of Japan, China and Korea, which are significant in terms of relative economic size. These nations steered towards FTAs. Japan's first FTA was with Singapore in 2002,

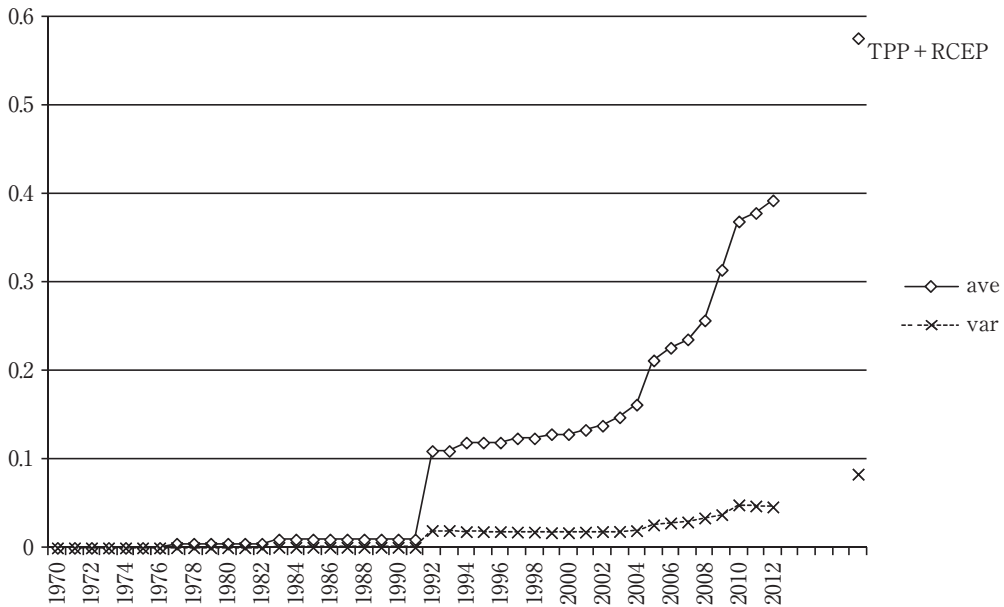
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<sup>3</sup> See Yamazawa et al. (2013) on an external assessment of the IAPs.

<sup>4</sup> See [www.apec.org](http://www.apec.org) on APEC's activities other than trade liberalization such as economic and technical cooperation and facilitation.

which went on to form FTAs with Mexico, Malaysia, Thailand, Chile, Indonesia, Philippines, Brunei and ASEAN as a whole. China has started FTAs with Hong Kong/Macao, ASEAN, Chile, New Zealand and Peru. Korea agreed on FTAs with intra-APEC countries including Chile, Singapore, Peru, ASEAN and the United States, while actively starting FTAs with external economies such as the EU. These new agreements are well reflected in the figure as another steep increase in the average of  $x/20$ . The latest figure shows that  $x/20$  has reached almost 40%, which means that, on average, APEC members have established FTAs with almost 40% (or 8) of other members.

Figure 1: Development of intra-APEC FTA network ( $x/20$  measure)



Source: Calculated by author based on the WTO-RTA database.

#### 4. The road to FTAAP

The leaders of APEC member economies suggested in Yokohama that FTAAP should be based on TPP and ASEAN+ agreements. Indeed, these ongoing talks will further develop the existing FTA network and bring APEC closer to FTAAP.

The first TPP meeting took place in March 2010 with the four founding members-Singapore, New Zealand, Chile and Brunei. It is now being negotiated by the following twelve economies: Singapore, New Zealand, Chile, Brunei, United States, Australia, Peru, Vietnam, Malaysia, Canada, Mexico and Japan. It should be noted that China is currently not taking part in the TPP negotiations. The completion of TPP will add new ties to the network, between the Asian, the Oceanian and the Amer-

ican economies. TPP, however, is not merely a negotiation for trade liberalization. It contains such areas as intellectual property, competition policy, government procurement, labor and the environment. Therefore, it could be said that it is also a rule-making procedure in the Asia-Pacific for the 21<sup>st</sup> century, that goes far beyond traditional FTAs focusing on trade liberalization in goods.

Six economies have already established FTAs with ASEAN which are called the ASEAN+ FTAs. The Six economies are Australia, New Zealand, India, China, Japan and Korea. Although India is currently not in APEC, the remaining five are APEC members. RCEP, as a next step, is an ongoing negotiation to integrate these six ASEAN+ FTAs into one. RCEP is therefore a mega-FTA comprising a population of 3.4 billion, with a GDP of approximately 20 trillion dollars and 10 trillion dollars of trade flows annually. The first meeting for RCEP took place in November 2012, when the leaders from the ASEAN+6 economies declared their commitments to “achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region”.<sup>5</sup> Importantly, they added that they aim to complete the RCEP negotiations by the end of 2015. This is encouraging for the Bogor Goal of 2020 and the FTAAP. It must be noted, however, that FTAs between China, Japan and Korea is currently in a halt due to non-economic issues, although they have been studying on creating FTAs for a number of years. Whether the three economies can come to an agreement under the RCEP scheme is crucially important.

The declaration of the start of RCEP negotiations was accompanied by a document titled “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership”. It states that RCEP comprises trade in services, investment, intellectual property, economic and technical cooperation, and competition (policy). RCEP, as well as TPP, contains the feature of new generation FTAs.

We are today seeing evolutions of two mega-FTAs, TPP and RCEP, in Asia-Pacific. Although it is still uncertain, in particular the RCEP, the completion of these schemes will further deepen the FTA network of Asia-Pacific, as shown in Figure 1. If TPP and RCEP are completed, the average of  $x/20$  presented in the previous section will rise from 40% to 58%, as indicated in the right-end of the figure. In addition, based on what is currently negotiated in TPP and RCEP, we can foresee some of the new features of these 21<sup>st</sup> century mega-FTAs that go far beyond trade liberalization, ranging from intellectual property, competition policy, and government procurement to issues such as labor and the environment<sup>6</sup>

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<sup>5</sup> “Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership”, Dec. 2012.

<sup>6</sup> I reviewed the new aspects of RTAs earlier in Atsumi (2013).

A dense network of FTAs may negatively affect firms operating in the area if they face the increased cost of meeting different rules and standards given by each FTAs. This is the “spagetti-bowl” issue raised by Bhagwati (1995). One notable example is the rules of origin (ROO) that each FTA sets. Through corporate surveys, Kawai and Wignaraja (2009) suggest that the existence of multiple FTAs have already caused delay and increased administrative cost.

Without converging the different rules under the FTAs, therefore, simply creating more FTAs may well be an obstacle for businesses that seek to operate seamlessly in Asia-Pacific. Whether TPP and RCEP can complete such tasks of the alignment of existing FTAs is a touchstone for the realization of a meaningful FTAAP.

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