



UNISCI Discussion Papers

APEC'S FTA AGENDA

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Overview

At their recent meeting in Santiago, Asia Pacific Economic Cooperation (APEC) Leaders and Ministers agreed to a package of measures to enhance the effectiveness of Regional Trade Agreements (RTAs) but deferred any decision on a proposal by the business community to examine the feasibility and potential scope and features of a Free Trade Area of the Asia-Pacific (FTAAP). Leaders agreed that RTAs/FTAs play a constructive role in accelerating liberalization in the region, thus contributing to the achievement of APEC's Bogor Goals and advancing the WTO process. To strengthen this contribution and ensure high-standard agreements, APEC Leaders welcomed the *APEC Best Practices for RTAs/FTAs* as a meaningful reference for APEC members when undertaking RTA/FTA negotiations. Leaders also committed to greater transparency in RTAs/FTAs to facilitate public understanding of the scope and effect of these agreements.

1. Introduction

Since 1998 there has been a rapid proliferation of RTA/FTA initiatives in the APEC region. At least 12 new RTAs/FTAs have been concluded between APEC economies since 1999, a further 15 RTAs/FTAs are under active negotiation and many more are at various stages of discussion or study. Economies not so far involved in these developments are preparing to become involved in the future.

Economies such as Australia and Singapore consider that RTAs/FTAs contribute to competitive liberalization. Efforts to negotiate new trade agreements represent an economies' desire to adopt a flexible, pragmatic approach in which they are not bound to move at a pace dictated by their slowest and most conservative trading partner. Some smaller APEC economies such as Singapore, Chile and Mexico have played a leading role in these developments and are within reach of a situation where most or even all of their main trading relationships will be covered by RTAs/FTAs.

¹ Las opiniones expresadas en estos artículos son propias de sus autores. Estos artículos no reflejan necesariamente la opinión de UNISCI. The views expressed in these articles are those of the authors. These articles do not necessarily reflect the views of UNISCI.



Professor Robert Scollay of the University of Auckland, in a paper presented to the APEC Business Advisory Council (ABAC)², argued that a powerful “domino effect” is now in operation. Smaller economies found themselves impelled to react to the success of their competitors and neighbours in securing RTAs/FTAs with major partners by seeking their own RTA/FTA with the same major partner, to defend themselves against the discrimination they would otherwise suffer in that market. Major economies saw themselves as obliged to match the activity of their major competitors. The strength of this “domino effect” was such that the trend to proliferation of RTAs/FTAs in the Asia-Pacific region was likely to be unstoppable, at least in the short-and medium-term.

APEC Senior Officials had previously discussed these issues at High Level RTA/FTA Policy Dialogues held in 2003 and 2004. These Dialogues concluded that RTAs/FTAs can have a positive impact, both for the economies involved and for the multilateral process of trade liberalization. However, such RTAs/FTAs must be consistent with WTO rules and APEC’s Bogor Goals and proper precautions should be taken to prevent trade distortion and unintended consequences. Senior Officials also agreed that RTAs/FTAs could also encourage the review of policies within economies in such a way that the negotiation of an agreement is effectively a preparation for liberalization under the WTO and APEC. Of particular interest was that RTAs/FTAs between APEC members often contain innovative provisions in areas such as education, science and technology, paperless trading and mutual recognition, in addition to provisions on goods, services, trade remedies, investment, entry for business people and dispute settlement.

In May 2004 Senior Officials agreed that APEC should enhance the contribution of RTAs/FTAs to APEC's goals and principles by a policy response, increased transparency and demand-driven capacity building. They also agreed to hold a further SOM Policy Dialogue in Korea in 2005.

2. Business views on RTAs/FTAs

Over the past year ABAC has made its first priority the successful conclusion of the multilateral DDA negotiations. Nonetheless, ABAC has also expressed its concern about the potential adverse impact the RTAs/FTAs that had been, or were under negotiation, by APEC member economies, could have on business. In ABAC’s view many of the RTAs/FTAs in the region did not conform to WTO principles, were limited in scope, were not comprehensive and had transitional periods that went beyond 2020. They noted that the plethora of RTAs/FTAs now under discussion may lead to the fragmentation rather than integration of trading relationships in the Asia-Pacific region³. Business in particular was worried that significant additional transaction costs could arise from a “spaghetti bowl” of overlapping RTAs/FTAs with inconsistent provisions, such as Rules of Origin.

In response to these concerns and as part of its commitment to the APEC process, this year ABAC proposed that: (a) APEC develop and economies follow a set of best practices covering RTAs/FTAs to ensure that they serve as ‘building blocks’ toward the achievement of the Bogor Goals; (b) APEC and ABAC undertake a joint scoping study for a Trans-Pacific

² ABAC comprises representatives appointed by the Leaders of APEC’s 21 member economies.

³ In the case of APEC, it has been estimated that 210 RTAs/FTAs would be needed to cover all the bilateral trading relationships between the 21 APEC economies.



Business Agenda, to move toward greater integration of regional markets, and; (c) APEC examine the feasibility and potential scope and features of a Free Trade Area of the Asia-Pacific (FTAAP).

Fred Bergsten of the Institute for International Economics has argued that the risks and market distortion of an FTAAP would be far less than those associated with a network of poor-quality preferential trade agreements, that an FTAAP could reinvigorate APEC liberalization and facilitation agenda, and that the perceived competitive threat of an FTAAP would encourage the EU and other WTO members to redouble their efforts and reaffirm their commitment to the WTO.

But concerns remain. Speaking at the CEO Summit held in the margins of the APEC meetings, Stuart Harbinson, a Director in the WTO, expressed concern that the proliferation of bilateral FTAs – as many as 300 by 2007 – was undermining the effort of the WTO to conclude the DDA negotiations, and argued that only a multilateral round could consolidate and rationalize these FTAs.

3. APEC's response

APEC Ministers meeting in Santiago, Chile, welcomed the substantial progress that had been achieved to maximize the contribution of RTAs/FTAs to achieving the Bogor Goals, including an APEC policy response, concrete measures to enhance transparency and targeted capacity building. Ministers also endorsed the “APEC Best Practices for RTAs/FTAs” which provide a meaningful reference for APEC members in their RTAs/FTAs negotiations and highlighted their importance as a means to achieve high standard agreements in the Asia-Pacific region. Ministers recognized that these “Best Practices” are a timely policy response to the challenges arising from the growing number of RTAs/FTAs, as identified by the business community. Furthermore, while they are non-binding, their strength lies in the moral force they have from the backing of economies accounting for 60 per cent of world trade. As such these ‘Best Practices’ provide a valuable reference for the current negotiations to clarify and improve existing WTO rules, and practices relating to regional trade agreements.

APEC members have already concluded 40 RTAs/FTAs and are currently negotiating 34 more. To enhance the transparency of these agreements, Ministers approved a new reporting template to enable economies to share information on their RTAs/FTAs from 2005. Links to official information on APEC economies' RTAs/FTAs have been set up on the APEC Secretariat's webpage for the use of business, policy makers and other stakeholders.

However, this approach leaves richer countries with a serious responsibility to help others with capacity building and to ensure that poorer countries are not left behind. To ensure that all economies can undertake the analytical and negotiating tasks involved in conducting FTA and RTA negotiations, workshops for APEC officials were held in Brunei Darussalam and China in December 2004 and further workshops will be held in 2005.

APEC's Economic Committee has also undertaken extensive research on the benefits and disadvantages that RTAs/FTAs might impose on both the welfare of the region and the achievement of the Bogor Goals. In Chapter 2 of its 2004 APEC Economic Outlook the Economic Committee analysed a number of different trade issues that might hinder or help to



achieve these goals and suggested practical ways APEC economies can minimise the effects of possible trade-distorting practices such as Rules of Origin.

4. APEC Best Practices for RTAs and FTAs

The “APEC Best Practices” are designed to maximise the benefits of RTAs/FTAs to promote trade and investment. They will help to ensure that RTAs/FTAs contribute to achieving APEC’s Bogor Goals and are consistent with, and build upon, existing WTO commitments. The “Best Practices” include the following elements:

- Consistency with APEC’s Principles and Goals to ensure that APEC accomplishes the free trade and investment goals set out in the 1994 Bogor Leaders’ Declaration and they promote structural reform among the parties through the implementation of transparent, open and non-discriminatory regulatory frameworks and decision-making processes.
- Consistency with the disciplines of the WTO, and building upon existing WTO obligations.
- Being comprehensive in scope, and providing for liberalization in all sectors. Enhancing transparency by making the texts of RTAs/FTAs, including any annexes or schedules, readily available.
- Practical measures and cooperative efforts to facilitate trade and reduce transaction costs for business consistent with relevant WTO provisions and APEC principles. Mechanisms for consultation and dispute settlement.
- Simple Rules of Origin that facilitate trade and avoid the possibility of high compliance costs for business.
- Commitments on economic and technical cooperation.
- Sustainable development.
- The possibility for accession of third parties on negotiated terms and conditions.
- Periodic review to ensure full implementation of the terms of the agreement and to ensure the terms continue to provide the maximum possible economic benefit to the parties in the face of changing economic circumstances and trade and investment flows.