

Leaders of Asia-Pacific economies differ on the formation of a free trade area

(Lu Jianren 2006-11-25)

The 14th Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting was held in Hanoi, Viet Nam on November 18-19 under the theme of "Toward a Dynamic Community for Sustainable Development and Prosperity." The theme conveys two messages: One is to enhance trade and investment in a rapidly changing world, the other is to promote community links, economic growth and sustainable development.

Summit outcomes

This year's APEC summit revolved around the fact that economic, trade and regional cooperation has made sustained progress, the Doha round of free trade negotiations became caught in a deadlock and both global and regional non-traditional security threats have increased day by day.

From a positive aspect, the summit achieved the following:

First, the Statement on the Doha Development Agenda of the WTO was released. It expresses the firm determination of APEC members to support the global multilateral trade system. In the statement, leaders not only call for an early resumption and timely conclusion of the Doha round of WTO negotiations, but also commit themselves to reduce tariffs on agricultural and industrial products of their own countries, which is seen as a practical action to facilitate the Doha round.

Second, APEC economic leaders endorsed the Hanoi Action Plan aimed to push forward trade and investment liberalization process in the Asia-Pacific region. The plan was tailored to implementing the Busan Roadmap worked out in last year's APEC meeting. The Hanoi Action Plan is widely viewed as a foundation for APEC economic and trade cooperation in the next 15 years.

Third, the Hanoi Declaration was adopted, calling for measures and capacity building to realize the Bogor Goals, which include a further 5 percent reduction of trade transaction costs in the Asia-Pacific region by 2010 based on the current level. APEC leaders undertook to cooperate with relevant international organizations to further facilitate investment liberalization, pay attention to the importance of intellectual property rights protection to economic growth in the Asia-Pacific region, prevent infringement and simplify the complicated procedures, in order to help small and medium-sized enterprises to be more competitive and creative.

Fourth, the summit passed a package plan for APEC reform. To maintain their vigor and efficiency, APEC economies will continue to advance the reform, which will include strengthening

the work of the secretariat, improving the links among all members and working out more clarified agendas.

Fifth, APEC leaders reaffirmed the importance of counter-terrorism actions to maintaining peace and security in the Asia-Pacific region and the world as a whole. The meeting also supported the new initiatives on the fight against terrorism put forward in 2006.

Sixth, APEC economic leaders agreed to expand and strengthen cooperation on preventing the spread of epidemics, disaster management and energy security, so as to ensure security and health of the people in the region.

Seventh, the leaders proposed in the Hanoi Declaration to strengthen economic and technological cooperation and build APEC into a more dynamic and harmonious community.

No go to free trade area

At the Hanoi meeting, the United States failed to advance the initiative of establishing the Free Trade Area Asia-Pacific (FTAAP).

In fact, the formation of FTAAP was first put forward by Canada at the the APEC Business Advisory Council (ABAC) meeting in 2004. Canada proposed to form a free trade area comprising 21 APEC members by 2007, which would transform APEC into a gigantic multilateral free trade area, with restrictions. ABAC submitted the initiative to the APEC economic leaders' meeting that year, but it was not adopted at that time.

The initiative features the following aspects:

First, FTAAP will be a multilateral trade agreement with restrictions on the basis of mutual benefit, which is different in nature from the non-restriction feature and principle of open regionalism of APEC.

Second, if it comes into being, FTAAP will closely connect the east and west banks of the Pacific in a real sense and realize economic integration in the entire Asia-Pacific region. So, if the Doha round of negotiations fails, APEC members are able to compete with the EU.

Third, FTAAP is proposed to be set up with principles that conform to those of WTO, but using even higher criteria than WTO's. It will include trade in goods and services, investment, trade facilitation and intellectual property rights, becoming a comprehensive and new generation of free trade agreement.

Fourth, if FTAAP is set up, all free trade arrangements between APEC members will be integrated into a pan-Asia-Pacific free trade area.

Fifth, according to projections, FTAAP will bring about more economic benefits to APEC members than any current free trade agreement within APEC.

When the initiative was first put forward, it stirred up disputes among APEC members. Most developing members believed that FTAAP would totally change the current APEC mechanism, and thus it should be weighed carefully. But most developed members considered it as an effective measure to realize trade liberalization in the Asia-Pacific region. At that time, the United States attached more attention to the Doha round of negotiations, and so it suggested postponing the initiative.

Two years later the initiative was raised again, but what is interesting is the change of the U.S. stance, shifting from a wait-and-see attitude to leading the initiative. What are the reasons behind this change?

At first, in 2005, the United States' efforts for a free trade area in America ended up as a failure, which forced it to again turn its eyes to the Asia-Pacific region. Washington tries to maintain its dominance in the economic integration in the Asia-Pacific region through supporting FTAAP.

Second, in recent years, the Doha round of negotiations did not go smoothly, and they were even suspended indefinitely in July of this year. It forced the United States to turn from a global multilateral trade system to regional integration. If FTAAP is set up, it will become the United States' trump card when dealing with the WTO or the EU.

Third, concerned that it may be excluded out of the economic integration process in East Asia, the United States tries to replace the proposed free trade area in East Asia with FTAAP. According to studies of the U.S. Institute of International Economics, if the free trade area in East Asia is set up, the United States may lose \$25 billion of exports.

If the FTAAP initiative is implemented, it will completely change the principle and model of APEC, and developed and developing members will face different paths. In this sense, it is understandable that the initiative was shelved. Although the Hanoi Declaration agrees to consider it as a long-term goal, it is almost unlikely for it to be accepted by all members in the short term.

However, even if FTAAP is set up, it cannot replace APEC, as the latter has now evolved into an irreplaceable political and economic exchange platform in the Asia-Pacific region.

Since 2001, the APEC summit has included political and security agendas every year, which touch upon counter-terrorism, anti-corruption and containment of infectious diseases. Although these topics may water down economic agendas, they can reflect the urgency for APEC members to discuss these problems. APEC also has a loose, unrestrictive coordination mechanism, which has advantages that the UN and the World Health Organization lack. It is easier for APEC members to reach consensus on some important political agendas within such a kind of mechanism.

The second reason is that the economic interests that FTAAP may bring about to APEC members are uncertain, and there are also risks involved for members. Although in theory the economic benefits of FTAAP are better than those of any bilateral trade agreements within APEC, it is only a conclusion under assumption, a static analysis, and thus it is unreliable. Obviously, the risks of free trade agreements within a smaller sphere will be lower than those of free trade agreements within a larger sphere. Based on this consideration, most APEC members hold a prudent attitude toward the proposal of setting up FTAAP.

In addition, it is also very difficult to implement the FTAAP initiative, which will involve more than 20 bilateral and multilateral agreements. In addition, it is impossible for the United States to give up the North American Free Trade Agreement (NAFTA). The final result is very likely to be that all free trade agreements within APEC may disappear, but NAFTA will remain operational. Undoubtedly, the United States will be the final winner.

Don't abandon Bogor Goals

Despite the FTAAP initiative being out of what consideration, it has caused a certain kind of conflict to the Bogor Goals. What is urgent for APEC is to ensure the Bogor Goals are met on time. It is not only related to whether trade and investment liberalization can be realized in the Asia-Pacific region in a real sense, which would make all APEC members enjoy the benefits, but it is also related to whether APEC members can fulfill their commitments.

To realize the Bogor Goals, the APEC 2005 summit came up with the Busan Roadmap. And at this year's APEC meeting, a more detailed approach toward the Bogor Goals has been worked out. But, APEC observes an unrestrictive principle, and the implementation of the Hanoi Action Plan will depend on voluntary activities of all members. Thus, the attitudes of the member economies are very crucial.

The year 2010 is not far away. Developed countries should make efforts to lead others to implement the Bogor Goals, rather than taking an attitude of watching and buck passing.

On the other hand, APEC needs to continue to improve its unilateral and collective action plans, perfect its supervision and examination system, and strengthen the transparency of the entire examination process. In this way, all members will be able to know the progress of others in implementing trade and investment liberalization, and those lagging behind will be forced to keep up with others. Moreover, whether the Bogor Goals can be realized will also be related to the future and destiny of APEC. As for the initiative of FTAAP, it still needs time for discussion.