



UNISCI Discussion Papers

WHY EAST ASIA IS NEGOTIATING FTAs

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The recently concluded ASEAN Summit in Vientiane witnessed a decision to abolish tariffs in 11 sectors by 2007, three years earlier than the 2010 plan for the ASEAN Free Trade Area. The ASEAN/China FTA was signed removing tariffs on goods traded with China by 2010. ASEAN FTA negotiations with Australia, New Zealand and South Korea will begin early next year. Within Southeast Asia, even once-sceptical states such as Malaysia have raised the issue of concluding bilateral FTAs in meetings with trading partners such as South Korea, Japan and the United States. While Singapore has moved most aggressively within the region in concluding bilateral FTAs, Thailand and the Philippines have also demonstrated a keen interest in such negotiations.

Even its most earnest proponents agree that such FTAs are a second-best option compared to WTO agreements which promote universal trade liberalization. While economists may seek the ideal solution, governments will focus on the politically attainable, even if it is a second-best choice. This rationale explains the rush to conclude FTAs in the region.

Significantly, the ASEAN decisions have come after the successful WTO General Council meeting concluded on 31 July 2004 which put the Doha round of negotiations back on track after they were derailed by the failure of the WTO Ministerial Conference in Cancun in September 2003. However, the Geneva agreement should only be seen as a framework agreement and the hard bargaining will take place over the next year now that the US presidential elections have been concluded and a new EU Commission has been appointed. The EU is committed to the elimination of agricultural export subsidies, a major source of distortions in global farm trade, while the US has, in principle, accepted restrictions on its food aid and export credit schemes. Although agricultural liberalization would provide the largest percentage gains in real income, this issue is politically most difficult for WTO members and likely to delay conclusion of the current negotiations. The Geneva meeting also adopted a vague outline for cutting industrial tariffs while the provisions for the liberalization of trade in services represent declarations of good intentions rather than clear negotiating guidelines. Finally, the jury is still out on whether the Doha Round should be seen as a 'development round' as it is unlikely that the current set of negotiations will result in an outcome where the

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developing countries will emerge as the net beneficiaries. Nevertheless, this outline Geneva agreement was widely welcomed given the difficulties of reaching an agreement requiring a consensus among the 148 WTO members, and the fear that another failure after the Seattle and Cancun debacles would lead to a retreat to bilateralism and regionalism.

The WTO negotiations are likely to be protracted and arduous, with another breakdown when ministerial level negotiations are held again. Because of the practice of brinkmanship, and the high stakes involved, breakdowns are part of the WTO/GATT negotiating process. It is unlikely that a negotiating package will be ready before the Hong Kong WTO Ministerial Conference scheduled for December 2005.

However, because US fast track authority expires in 2007, there will be pressure for the conclusion of negotiations before the end of the next term of President Bush. In the absence of 'fast track', which allows members of the US Congress only to vote in favour or against bills, without the right to amend such legislation, the tendency will be for Congressmen to revise negotiated texts which have already been agreed at international meetings and to include 'pork barrel' items. No international trade agreements could be concluded in such circumstances.

WTO negotiating rounds now last for almost a decade, although they are usually launched with a three or four year time frame for completion. As governments in East Asia work within four to five year electoral cycles, there is a growing tendency to seek bilateral and regional FTAs as they can be successfully negotiated during their current term of office. Such agreements are justified on the grounds that they are 'WTO plus' agreements. Governments in East Asia have therefore opted for a parallel track process combining multilateral trade negotiations with bilateral and regional FTAs.

In doing so, East Asia is following a trend begun by the United States through NAFTA and the European Union. Both the US and EU have asserted that the preferential trading arrangements that they were parties to expanded international trade and did not violate international trade rules agreed at the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT).

I would argue that as long as trade liberalization occurs, it matters less whether it is at a bilateral, regional or multilateral level. Such FTA negotiations have the significant benefit of promoting technology and knowledge transfers, domestic reforms, productivity gains and improved developmental prospects. By contrast, the critics of FTAs emphasize the negative effects including the distortion in trade patterns between 'insiders' and 'outsiders' which undermines the welfare gains arising from expanded trade. They also stress that the trade distortions create incentives for inefficient resource allocation. The critics also emphasize the institutional dimension of rules, especially the rules of origin, highlighting the 'spaghetti bowl' of separate rules of origin with multiple FTAs. The operational costs of meeting different requirements in different countries pose a major challenge, especially for SMEs. This is why it is argued that FTAs are a second-best option compared to a multilateral agreement at the WTO with uniform rules applicable to all WTO members.

Given the spate of FTAs that are being negotiated in the region, especially with partners outside East Asia, the test of their usefulness is whether they provide benefits that can be utilized. The utility of FTAs is a relative function of the tariffs lowered through such agreements as well as the market-opening measures in the services sector arising from such agreements. If the compliance costs are high as well as benefits are minimal because of the low volume of trade in goods and services, then FTAs that are concluded are likely to have the



same impact as the agreements on the establishment of joint commissions which are often the outcome of ministerial visits.

An important consideration for East Asian states is whether the WTO will continue to focus on trade liberalization and the promotion of domestic deregulation or whether the WTO adopts the EU preference for increasing the regulation of global trade, including the establishment of rules governing domestic regulation of trade and investment. Pascal Lamy, the previous EU Trade Commissioner stated in an address in Jakarta on 6 September 2004, “The EU, for its part, remains convinced that the real 21st-century trade issues are not tariffs and quotas, but standards and rules.” As most Asian states have only recently emerged from colonialism, the desire to maintain a separate national identity and to have domestic regulatory frameworks, which differentiate, rather than integrate, will continue to be a key driving force in the region.