

### Research Focus

#### ***The Turn to Preferential Trade in the Asia-Pacific***

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Since the turn of the century, the Asia-Pacific has become the most active region for the negotiation of preferential trade agreements (PTAs). The proliferation of agreements represents a dramatic transformation from a few years ago. Before the East Asian financial crises of 1997-98, only one preferential trade agreement of any substance existed in East Asia—the ASEAN Free Trade Agreement. None of East Asia's major economies—China, Japan, Korea, and Taiwan—were parties to a preferential agreement.

In the five years following the crisis, most East Asian countries jumped aboard the PTA bandwagon—and the Australian government and others, that had been similarly sceptical of such agreements in the past, joined suite. Today, more than 80 PTAs involving East Asian economies are either being implemented, negotiated or the subject of study groups.

We now have a substantial database from which we can begin to draw conclusions about the move to preferential trade in the Asia-Pacific region. Inevitably, such conclusions will have to be tentative. The number of agreements that are actually being implemented is still relatively small; many of them have only entered into force in the last couple of years; and several contain

provisions that will not be fully implemented for some considerable period. Nonetheless, some clear patterns have begun to emerge.

The first is that marked differences exist among the agreements both in their scope and in the motivations of the parties in negotiating them. By far the most comprehensive agreements are those involving the United States. These go substantially beyond existing WTO commitments on issues such as intellectual property, investment, and trade in services. At the other end of the spectrum are the agreements involving China and ASEAN, which typically have very selective coverage of trade (primarily in goods), flexible schedules for implementation, and few aspirations for 'WTO Plus' 'deeper' integration.

Differences in the content of the agreement are in part a reflection of the range of motivations that governments have in entering these negotiations. These typically are a combination of both economic and political factors—but the balance varies from country to country, and from one agreement to another. While the United States has used PTAs to reward allies and to pursue accelerated trade liberalisation, China has used the agreements to stake its claim to regional leadership and to attempt to improve the security of its access to resources.

Japan has been playing catch-up with China on both regional leadership and resource security, but has also pursued agreements that have levelled the playing field for its exporters in markets such as Mexico, where competitors already enjoyed preferred access.

What are the main outcomes of the agreements and to what extent have they lived up to the claims that proponents and opponents have made for them?

(1) *Overall Trade and Investment Flows:* to date, the agreements have had little impact, belying the often wildly optimistic predictions made in some economic modelling. This is hardly surprising given the existing low levels of applied tariffs and the presence of other arrangements such as the WTO's Information Technology Agreement, duty-drawback schemes, and free trade zones in many East Asian countries that all enable components to move around the region tariff-free.

With the proliferation of schemes, the advantages enjoyed by any one country often prove to be transitory. Preferences are also frequently offset by other factors, particularly movements in exchange rates. Moreover, private sector actors often decide that the benefits from preferences are not sufficient to outweigh the costs of complying with rules of

origin. Non-tariff barriers (NTBs) are now the principal obstacles to trade, but few PTAs address these (except in the area of services trade).

(2) *WTO Plus?* Although most of the PTAs negotiated in the Asia-Pacific region contain some 'WTO Plus' elements, these provisions—with the exception of the agreements involving the United States—are often very shallow. The typical reference is to 'cooperation' or to 'facilitation' on matters such as competition policy. The provisions on the environment are no stronger than vague commitments that states will not lower environmental standards in their efforts to attract foreign investment. Labour standards are seldom mentioned.

(3) *Promotion of Domestic Reform:* Proponents have argued that by increasing external and domestic pressures for liberalisation, the negotiation of PTAs will help promote structural adjustment. But such claims have been largely belied by the practice of carving out sensitive domestic sectors, particularly in agriculture, from the agreements.

(4) *Who Concedes Most?* It is now well established that in PTA negotiations between parties of unequal size, smaller economies make more concessions. Most PTAs in the Asia-Pacific region follow this pattern, for example, those involving Japan and the United States. One significant exception exists: in its PTAs with ASEAN and with Hong Kong, China made the lion's share of concessions, a reflection of the political objectives it was pursuing.

(5) *A Strengthening of Regionalism?* More than two-thirds of the agreements negotiated by East Asian states are with countries from outside the region. Rather than strengthening regionalism, the new PTAs have tended to undermine it. Some ASEAN countries now give more extensive preferences to extra-regional partners than they provide within ASEAN itself.

(6) *Who Participates?* The low-income economies of the region participate in few PTAs—a reflection of the fact that they typically have relatively little to offer partners (although Indonesia is an exception given its

natural resources), their lack of negotiating capacity, and partners' concerns about the lack of state capacity to enforce any agreement reached.

PTAs are unlikely to have significant effects on aggregate flows of trade and investment. They are most important for individual firms seeking particular advantages or attempting to level the playing field. They are important also in the services sector where a host of NTBs prevail. Whether the benefits of PTAs justify the resources being devoted to them is questionable. They tend to distract not only from talks at the global level but also from domestic reform efforts, both of which hold the promise of generating larger returns than those achieved through preferential agreements.

Note: A Symposium on 'Australian and Free Trade Agreements' is being held at the Australian National University on 1-2 November 2007 <http://rspas.anu.edu.au/ir/ausfta/>.

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### **Events**

**14 November**, *Japan's 'free trade' agreements and agricultural protection*, seminar, Canberra

**26 November**, *Pacific Islands Update*, Sydney

**29 November**, *Pacific Islands Update*, Canberra

### **Publications**

#### ***Asia Pacific Economic Papers***

368 Measuring trade and trade potential: a survey

Shiro Armstrong

### **New Books**

*Multinational Corporations and the Emerging Network Economy in the Pacific Rim*, Juan J. Palacios, ed., Routledge

#### ***Asia Pacific Press***

*Myanmar—the State, Community and the Environment*, Trevor Wilson and Monique Skidmore (eds)

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