

Regional Trade Liberalisation and Fuller Cooperation: Some Asia Pacific Case Studies

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Parallel to the spread of regional integration initiatives there has been a growing interest in the potential for these initiatives to serve as catalysts for cooperation that extends beyond trade, including cooperation in the provision of regional public goods. This paper examines the relationship between trade and non-trade cooperation in the western Pacific region. In the majority of cases regional trade liberalisation has been pursued through conventional preferential arrangements based on the establishment of free trade areas. The region also provides, in the case of APEC, an example of an innovative attempt to achieve regional trade liberalisation on a non-discriminatory basis, which briefly took centre-stage in the mid-1990s as the focus of regional liberalisation endeavours.

It turns out that while there is indeed a relationship between trade and non-trade cooperation in regional integration initiatives in the western Pacific (defined here to encompass East Asia and Oceania), that relationship is neither simple nor unilinear. Regional integration initiatives in the region can be divided into four broad groups, according to the way in which trade and non-trade cooperation has been sequenced in each group. First, there are a number of cases where non-trade cooperation has preceded regional trade liberalisation initiatives, for example in ASEAN, the ASEAN-Plus Three group, and the South Pacific Forum (now known as the Pacific Islands Forum). In the ASEAN and South Pacific Forum cases the introduction of a trade component into regional cooperation has been followed by further moves to deepen both trade and non-trade cooperation. These two cases will be examined in this paper as representative of the first category. APEC represents a second category, where a determined effort was made to establish non-trade cooperation, understood as development cooperation, as an essential corequisite with trade liberalisation. In the third category, exemplified by EU's arrangements with the Pacific Island states through the Lomè Convention and Cotonou

Agreement, cooperation for development is firmly positioned as the principal driver of the relationship, and trade cooperation is presented as an instrument for furthering the development objectives of the arrangement. Finally, the bilateral FTAs that have emerged in the region over the last five years provide some examples of cases where the free trade agreement provides a framework through which non-trade cooperation objectives can also be pursued. Within this latter group there is considerable variation in both the nature and extent of non-trade cooperation. The Trans-Pacific Strategic Economic Partnership will be taken in the paper as an illustration of this fourth category.

The paper analyses integration initiatives in the region from each of these four categories, highlighting in each case how the linkage between trade and non-trade cooperation has developed, the motivations for the linkage, and the nature of the non-trade cooperation that has emerged.

1. Cooperation Precedes Trade Liberalisation; ASEAN and the South Pacific Forum

1.1. ASEAN

The origins of the Association of Southeast Asian Nations (ASEAN) date back to the height of the Cold War, when Southeast Asia found itself thrust into the role of frontline theatre in the political, strategic, military, and ideological conflict between the great powers engaged in the Cold War struggles. The conflicts between the great powers had a profound direct impact on the region, most obviously through the Viet Nam war. They also interacted with domestic conflicts within the Southeast Asian nations, including the insurgencies that threatened governments in all the newly independent states of the region¹ as they struggled to establish their legitimacy. The stability of the region was also threatened by conflict between the Southeast Asian nations themselves, driven by political, ethnic and religious tensions as well as territorial disputes.

¹ Thailand was the only ASEAN country that escaped colonisation.

ASEAN was established by the Bangkok Declaration of 1967, and consolidated at the Bali Summit of 1976, immediately after the ending of the Viet Nam war. Its function as seen by its members was to assert and defend Southeast Asian independence from big power interference, to provide a framework within which conflicts between members could be settled by peaceful rather than military means, and to facilitate increased domestic stability in the member countries through the establishment of authority by the mainly authoritarian governments of the region. In pursuit of these objectives “ASEAN solidarity” has always been accorded a high value, even at times of tension between members. A key principle designed to minimize conflict between members and to promote their internal stability has been the principle of non-interference, whereby ASEAN members forswear any right to interfere in each others domestic affairs.

One index of ASEAN’s success in defusing conflicts between members has been the relative absence of serious conflict between members. The de-escalation of tensions between Indonesia and Malaysia and the acceptance of Singapore’s right to exist were especially important, but ASEAN also contributed to the dampening of conflicts elsewhere, for example border conflicts between Malaysia and the Philippines. ASEAN also provided support and reassurance to Thailand in dealing with the long period of instability in Indo-China that followed the ending of the Viet Nam. As stability returned to Indo China, first Viet Nam and then Cambodia and Laos were absorbed into ASEAN during the second half of the 1990s decade.

ASEAN could also reasonably claim to have contributed to relative stability within its members, although cataclysmic upheavals such as those that occurred in Indonesia in 1965 and 1998, in Malaysia in 1969 and in the Philippines in 1986 were reminders of the volatile elements that generally remained below the surface. ASEAN’s external policy was closely related to its pursuit of independence. It sought to institutionalize its relations with the big powers and other countries like Australia, New Zealand and India by designating them as “dialogue partners” with whom formal consultations were held after each ASEAN meeting. In the interests of asserting its independence ASEAN sought wherever possible to play a leadership role in the region, including through establishment

of the ASEAN Regional Forum as an important venue for dialogue on security issues.

Moves to use the framework provided by ASEAN for trade and economic cooperation were slow to materialize and initially distinctly hesitant. One factor inhibiting support for integration through trade was the relative similarity in resource endowments of the ASEAN economies other than Singapore, leading them to see themselves as competing rather than complementary economies. Initial attempt at trade and economic cooperation sought to avoid competition and to support the import substituting industrialization strategies being followed by ASEAN economies other than Singapore at that time.²

The ASEAN Industrial Projects (AIPs) initiative, launched at the Bali Summit in 1976, sought to establish large-scale plants for certain products, allocated between countries on an agreed basis, to supply the entire ASEAN membership with the benefit of substantial protection from competitors outside ASEAN. In response to difficulties encountered with the AIPs, subsequent “complementation schemes” emphasised private sector leadership, still on the basis of encouraging complementary developments enjoying tariff preferences within the region and substantial protection against outside competitors. The ASEAN Industrial Complementation (AIC) Scheme was followed by the ASEAN Industrial Joint Venture (AIJV) scheme.

In an effort to energise trade within ASEAN a Preferential Trade Agreement (PTA) was then established. This was a positive list arrangement based on tariff preferences rather than tariff elimination for the products on the list. The preferences tended to be given on products not traded among ASEAN members or in some cases not even imported by ASEAN members. The reduction of tariffs on snowploughs by the Philippines is sometimes quoted as an example of the futile liberalisation often undertaken under this scheme, Not surprisingly there was little stimulus to intra-ASEAN trade.

The watershed in ASEAN’s approach to trade liberalisation occurred in the early 1990s. At this time ASEAN faced new external economic challenges in the form of the

² Singapore also went through a brief phase of import substitution, but quickly abandoned it.

emergence of new pressures for closer economic cooperation among economies of the Asia-Pacific in the aftermath of the Cold War, reflected in the establishment of APEC, increasing internationalization of production as part of the emerging phenomenon of globalization, and a dramatic increase in the attractiveness of China as a competitive destination with ASEAN for foreign direct investment. In the meantime ASEAN countries themselves had been progressively abandoning the import substitution paradigm in favour of outward-oriented trade and development strategies.

After vigorous intra-ASEAN debate on the best way to respond to these challenges, the decision was taken in 1991 to proceed with an ASEAN Free Trade Agreement (AFTA), which was launched the following year in 1992. It was hoped that by thus broadening the ASEAN market APEC would continue to be able to attract large amounts of foreign direct investment, in competition with China. Initially the provisions of AFTA were relatively cautious, with a lengthy liberalisation timetable, a target of tariffs in the 0-5% range, and long lists of excluded products. The subsequent development of AFTA was governed by ASEAN's perceptions of the requirements for maintaining its international competitive position and also preserving some degree of regional leadership role for itself. The tariff reduction programme was accelerated on a number of occasions during the 1990s. Most notably, ASEAN responded to the East Asian economic crisis of 1997-98 by accelerating rather than slowing down the implementation of AFTA, and by adjusting its final target from 0-5% tariffs to zero tariffs. It has made some moves towards reducing or eliminating non-tariff barriers, and liberalisation of services trade, as well as the creation of an ASEAN Investment Area (AIA). The most ambitious of ASEAN's declared objectives, and the one that will be most difficult to realize is the establishment of an ASEAN Common Market. This is seen as necessary to ensure that ASEAN maintains its relevance by staying ahead of other integration initiatives in the region.

ASEAN has welcomed the emergence of "ASEAN Plus" initiatives – at first "ASEAN Plus Three"³ and then a series of "ASEAN Plus One" initiatives⁴ – that have included

³ ASEAN, China, Japan and Korea

proposals for establishing various forms of free trade arrangement. These initiatives are seen as assisting ASEAN to maintain for itself a central role in the East Asian region by establishing itself as an East Asian economic “hub”. Working against this ambition however has been the willingness of several individual ASEAN members to negotiate bilateral trade agreements with ASEAN’s intended partners in the “ASEAN Plus One” initiatives.

Parallel to the quickening of ASEAN’s involvement in trade liberalisation initiatives, ASEAN has continued to pursue non-trade cooperative activities. Regular meetings are now held of ASEAN ministers in a variety of fields such as tourism, agriculture and the environment, and ASEAN members have become accustomed to cooperating with each other on a range of non-trade matters, such as environmental issues.

1.2. South Pacific Forum

The South Pacific Forum (now known as the Pacific Islands Forum) was established in 1971. Pursuit of integration through trade was envisaged from the beginning as one of its functions, but over 25 years would elapse before this would occupy a prominent position on its agenda.

Like the members of ASEAN the Pacific Island members of the Forum (known as Forum Island countries or FICs) are countries that have emerged relatively recently from colonization or other forms of administration by metropolitan powers. The FIC membership has gradually expanded as more states have gained their independence, and now numbers 14 in total. Unlike ASEAN however, the South Pacific Forum includes as members two of the former metropolitan ruling powers, Australia and New Zealand, who are also the regional hegemon in the South Pacific, and also the largest donors of foreign aid to the FICs.

⁴ There are now five “ASEAN Plus One” free trade arrangements under negotiation: ASEAN-China, ASEAN-Japan, ASEAN-Korea, ASEAN-CER, and ASEAN-India

Defining characteristics of the FICs are their tiny size and extreme geographic dispersion. The seven million inhabitants of the FICs (5 million of whom are accounted for by Papua New Guinea alone) are scattered in more than a thousand islands over an area of ocean several times the size of Europe. Under these conditions regional cooperation is the only practical way of dealing with some policy issues, and the Forum has built up a range of regional institutions dealing with issues such as environment, resource management, fisheries, tourism, customs, education, and fiscal affairs.⁵

The FICs have endeavoured to replicate ASEAN's practice of designating important external actors as dialogue partners. The presence in the Forum of the regional hegemony and principal aid donors, as well as the tiny size of the FICs, makes it difficult however for the FICs to emulate ASEAN's assertion of independence.

Cooperation in trade was limited in the early years of the Forum to a non-reciprocal trade agreement known as SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement), which provides duty-free access to the Australian and New Zealand markets for almost all FIC exports. SPARTECA however has been relatively unsuccessful in stimulating FIC exports to Australia, due to inability to meet the rules of origin and other technical and quarantine requirements of entry into those markets. The one major development to which SPARTECA contributed was the development of the Fiji garment industry, which occurred from the late 1980s onward when a fortuitous combination of policy changes in Fiji and introduction of new export promotion measures in Australia combined with the SPARTECA provisions to make Fiji an attractive platform for garment exports to Australia and New Zealand. This development was however essentially the by-product of independent domestic policy changes in Australia and Fiji rather than of concerted cooperative action by the two countries. When policy settings changed in Australia and Fiji cooperation was needed to sustain the industry and the trade, but proved very difficult to achieve in practice.

⁵ Extra complexity is added to regional cooperation by a division of responsibilities between the Forum and the Pacific Community (formerly known as the South Pacific Commission), which in addition to the FICs and Australia and New Zealand also includes as members the French and US Pacific territories and their metropolitan powers.

The FICs as part of the African Caribbean and Pacific (ACP) countries also have non-reciprocal access to the EU market through the Cotonou Agreement, the successor agreement to the Lomé Convention. Former US territories have non-reciprocal access to the US market under Compacts of Free Association with the US.

Moves to closer trade integration within the Forum began in earnest in the late 1990s. They were motivated by the realisation that the traditional FIC approach to trade policy – based on high tariffs that provided a significant proportion of government revenue as well as protection for a limited range of domestic industries – would increasingly be rendered unsustainable by the onset of globalisation. The FICs accordingly made the decision in principle to move toward greater integration with the global economy.

This decision however exposed significant differences between Australia and New Zealand and the FICs as to how to proceed. The FICs preferred a “stepping stone” approach, which would begin with an FTA among themselves before moving to wider regional integration initiatives and eventually MFN liberalisation. Australia and New Zealand on the other insisted on the right as Forum members to be included in any FTA involving Forum members. The compromise eventually reached allowed the FICs to proceed with an FTA among themselves (the Pacific Island Countries Trade Agreement, or PICTA), while entering into a framework agreement with Australia and New Zealand (the Pacific Agreement on Closer Economic Relations, or PACER) that foreshadowed a future reciprocal free trade agreement with those two countries. A factor behind the compromise was the knowledge that the FICs would shortly enter negotiations for a reciprocal trade agreement with the European Union, for reasons to explained later, and the insistence by Australia and New Zealand that they would not tolerate being disadvantaged relative to the EU in the FIC markets. This negotiation marked a significant step for the FICs in asserting their right to adopt an independent stance toward Australia and New Zealand on some issues.

While these developments were proceeding a new factor was emerging to affect the

nature of cooperation within the Forum. Growing political and social instability and a general decline in governance standards in the FICs, against a global background of a dramatically increased threat of terrorism, began to alarm the Australian and New Zealand governments. They reacted by adopting a more assertive approach to cooperation within the Forum. One outcome of this was a commitment in principle to develop and adopt a “Pacific Plan”, heavily promoted by Australia and New Zealand, that would address key issues that were undermining stability in the region and in the process causing serious concern to those two countries.

2. APEC (Asia Pacific Economic Cooperation)

APEC differs fundamentally from ASEAN and the South Pacific Forum in that its genesis is in cooperation between the developed economies of the region, whose presence in APEC ensures that accounts for almost 60% of world GDP. APEC evolved out of earlier regional initiatives aimed at finding ways to exploit the complementarities within the region through expanded trade and investment flows. The decision to establish APEC reflected a recognition by governments of the region that new modes of cooperation were needed in light of the end of the Cold War and changing economic conditions of the region.

The Declaration from the initial APEC meeting in 1989 heavily stressed cooperation as the guiding principle of APEC, and included a commitment to specific cooperative programmes in the areas of human resource development, and science industry and technology. It is interesting to note that ASEAN was initially very hesitant about supporting APEC, because of apprehension that the advent of APEC would quickly diminish ASEAN’s importance and result in ASEAN’s interests being submerged in those of the larger powers of the region. In their Kuching Consensus of 1990, ASEAN members insisted that their support for APEC was conditional on observance of principles of “equality, equity and mutual benefit”, and on agreements that commitments in APEC should be voluntary and non-binding.

As APEC continued to evolve promotion of regional trade and investment flows began to figure increasingly prominently among the objectives of cooperation between its members. The defining moment in the development of APEC's agenda occurred in 1994, when the members committed themselves in the Bogor Declaration to the objective of free trade and investment in the Asia Pacific region, to be achieved by 2010 by APEC developed economies and by 2020 by APEC developing economies. APEC would pursue the objective through a three-part agenda comprised of trade and investment liberalisation, trade and investment facilitation and economic and technical cooperation (Ecotech).

The inclusion of economic and technical cooperation as the third element of the agenda was the outcome of intense debate between developed and developing members of APEC. While the developed members were primarily interested in the objective of free trade and investment, developing members argued that they could support this objective only if there was an equal measure of support for cooperation to develop their capacities to the point where they could expect to realise in practice the gains potentially available from trade and investment liberalisation. The term "economic and technical cooperation" was used to emphasise that this capacity building effort would not be based on traditional donor-recipient relationships but rather on the APEC principles of equality and equity, reflected in a sharing of resources and capacities.

After two years of intensive effort to develop the substance behind the agenda announced at Bogor, APEC members in Manila in 1996 adopted the Manila Action Plan for APEC as the framework for pursuing APEC's liberalisation and facilitation objectives, and a Framework for Strengthening Economic and Technical Cooperation that identified six priority themes: development of human capital; development of stable, safe and efficient capital markets; strengthening economic infrastructure; harnessing technologies for the future; safeguarding the quality of life through environmentally sound growth; and developing and strengthening the dynamism of small and medium enterprises. The institutional outcome was the creation of an extensive structure of working groups to

pursue APEC's Ecotech agenda, covering subjects such as human resource development, energy, fisheries, marine resource conservation, industrial science and technology, agricultural technical cooperation, small and medium-sized enterprises, telecommunications, tourism and transportation. In addition to these working groups, a considerable amount of activities undertaken under APEC's liberalisation and facilitation agenda were also of a capacity-building nature.

APEC represented a unique approach to regional liberalisation, based on non-discriminatory rather than preferential liberalisation. As has been amply discussed elsewhere, this approach has not yet delivered the desired results. Progress through APEC itself has been hampered by the insistence of some APEC members on legally binding reciprocity in liberalisation commitments, while the complementary non-discriminatory processes of unilateral and multilateral liberalisation have failed to deliver sufficient progress. Meantime APEC's cooperation activities have taken on a momentum of their own, expanding beyond the original Ecotech agenda into areas such as building social safety nets, counter-terrorism, health (responses to epidemic diseases), industry dialogues, life sciences innovation and structural reform.

3. European Union's Proposed Economic Partnership Agreement with Pacific ACP States

The Cotonou Agreement that succeeded the Lomé Convention as the basis for economic relations between the EU and the ACP states, including the Pacific island states (known in this context as Pacific ACP states, or PACPs), emphasises two key concepts in relation to cooperation and trade. The purpose of cooperation is "the economic, cultural and social development of the ACP states". Trade is one of the instruments for achieving the agreement's development objectives. The Agreement also requires the replacement of the existing non-reciprocal trade arrangements between the EU and the ACP states with a series of WTO-consistent free trade agreements (to be known as Economic Partnership Agreements or EPAs) between the EU and regional groupings of ACP states, including the PACPs as one group. Regionalisation is viewed in the Cotonou Agreement as a key

development strategy, and the EPAs are accordingly required to be supportive of regional integration processes within the various ACP regions. Since 2004 the PACPs have accordingly been in formal negotiation with the EU for the establishment of the EPA.

The agreement contains separate provisions on trade and development finance cooperation, all of which are required to support the development objectives of the Agreement. It turns out however that the EU and the PACPs and other ACP states have very different views of the relationship between the development finance and trade provisions, reflecting in part the fact that these two sets of provisions are the separate responsibilities of two different directorates-general in the European Commission, DG-Development and DG-Trade.

The EU already has a well-established mechanism, the European Development Funds or EDF, for disbursing financial assistance for development. This assistance is provided for agreed programmes established in accordance with agreed development priorities, on a five-year rotating cycle. Assistance for trade-related capacity building may be disbursed through this mechanism if the EU and the recipient states agree that it should be given a sufficiently high priority. The EDF in the EU's view is quite separate from the proposed EPAs, which are to deal solely with trade liberalisation issues.

The ACP states on the other hand argue, rather like the developing members of APEC, that agreements to liberalise trade will support development only if appropriate steps are taken to build capacity in the ACP states. The ACP states are able to support their case by pointing to the clear statement in the Cotonou Agreement that development is the principal purpose of the Agreement, which is not the case in APEC. Thus the Pacific ACP states have been arguing that the EPA should contain measures to assist them to build capacity in meeting the requirements of exporting to the EU market, to adjust to the needs of reciprocal free trade (for example by developing alternative sources of revenue to replace the expected loss of tariff revenue), and to develop their principle tradeable resources (which in the case of the PACPs are located in the fisheries and tourism sectors) so that they can respond to opportunities potentially available under the EPA.

Since these demands run counter to the EU concept of an EPA, it is not surprising that these issues constitute an unresolved controversy in the negotiations between the EU and the Pacific ACP states.

4. The Trans-Pacific Strategic Economic Partnership (TPSEP)

On one level the TPSEP, an agreement between Chile, New Zealand, Singapore and Brunei Darussalam, is one of 18 bilateral and plurilateral FTAs that have been concluded between APEC members in the early years of the twentyfirst century. Many of these agreements are fairly conventional in character. Typically they will contain provisions relating to the liberalisation of trade in goods, together with provisions that vary in the degree of substantive obligations they impose on subjects such as trade in services, investment, government procurement, customs procedures, standards and conformance, intellectual property and competition policy. In some agreements considerable emphasis is placed on these additional provisions, which may include requirements of variable specificity for cooperation and consultation.

The TPSEP is one of a number of these agreements that link countries that conduct a relatively small proportion of their trade with each other. It contains most of the “typical” provisions outlined above, except that there is no chapter on investment. It is unusual however in containing a separate chapter on “Strategic Partnership” which essentially deals with future cooperation between the parties. After some general provisions on the objectives and scope of cooperation, the chapter goes on to detail a number of areas where cooperation is expected to occur. These include economic cooperation, research science and technology, education, cultural cooperation, and primary industry. There is also a section dealing with mechanisms for cooperation.

The strategic partnership provisions of the TPSEP may be interpreted as an endeavour to impart additional value to the agreement, given that the effect on the trade of the parties is expected to be relatively minor. The TPSEP has been concluded very recently, and it

remains to be seen how the strategic partnership provisions will be implemented in practice.

Conclusion

An examination of a set of regional economic integration initiatives in the Asia Pacific region indicates that there is no unilinear pattern of sequencing between trade and cooperation provisions. There is considerable variety both in the nature of both types of provision and in the ways they relate to each other. The differences reflect in part differences in the origins of both the trade and cooperation elements of the initiatives, the characteristics of participants and their objectives, and the external pressures to which they respond.