

BUILDING A FREE TRADE AREA IN THE ASIA-PACIFIC: A LONG ROAD FROM IDEA TO REALITY

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Trend towards globalization and regionalization seen in the last two decades after the Cold War has given impetus to the conclusion of numerous free trade area (FTA) agreements in the world. According to the World Trade Organization (WTO), from 1990 to February 2010, over 460 RTAs/FTAs had been notified to the GATT/WTO. As estimated by the WTO, moreover, about 400 FTAs will be implemented by the end of 2010.¹

In this context, the Asia-Pacific region has become one of the central venues experiencing the boom in free trade area initiatives. 30 FTA agreements were signed between regional countries from 1999 to 2006 and about 20 FTA agreements are being negotiated. In addition, many other FTA initiatives have also been introduced and are currently under study and discussion. Among such initiatives, particularly notable is the idea of a free trade area covering the whole Asia and the Pacific.

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¹ Data from the WTO Secretariat published on the WTO website www.wto.org in May 2009.

The formation and development of the FTAAP idea in APEC

In 2004, at the 12th APEC Summit in Chile, in a report on regional economic situation submitted to APEC leaders, the APEC Business Advisory Council (ABAC) recommended that APEC study the possibility of setting up a free trade area of the Asia - Pacific region (FTAAP). This surfaced when the APEC business community was disappointed by the stalemate of the Doha negotiations and the introduction of a series of free trade agreements between two or several APEC members that were arguably to the detriment of many regional enterprises' business opportunities. However, in the first two years since (2004, 2005), ABAC's recommendation did not receive APEC leaders's attention.

In 2006, seeing a voluminous increase in the number of FTA agreements in the world,² ABAC proposed the formation of an FTAAP. In reports and recommendations submitted to the annual Economic Leaders' Meeting and Ministerial Meetings, ABAC showed that the high density of FTA agreements signed in the region had increased the complexity, cost, and administrative procedures prescribed for business operations. Therefore, the establishment of an FTAAP would help codify multiform regulations and reduce any possible confusion that might arise when doing business in the region. However, ABAC also noted that the biggest current obstacle to the creation of an FTA spanning the entire Asia and the Pacific was the lack of political goodwill from APEC members.³ The APEC Summit in Hanoi in 2006 was the first to seriously

² At the end of 2006, 35 FTA agreements have come into effect and 40 other FTA agreements are under discussion in the Asia-Pacific. Data from the APEC Secretariat, available at www.apec.org/apec/

³ ABAC's 2006 annual report to APEC Economic Leaders, available at www.apec.org/apec/business_resources/apec_business_advisory

consider ABAC's aforementioned recommendations. In the statement concluding the Summit, the leaders reiterated their commitment to greater economic integration in the Asia-Pacific region and their determination to make greater efforts for this goal, agreed with ABAC's assessment that an FTAAP was desirable and pledged to "instruct officials to undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific as a long-term prospect, and report to the 2007 APEC Economic Leaders' Meeting in Australia".⁴ Thus, the Hanoi Summit in 2006 can be seen as an important marker: for the first time the idea of FTAAP was considered by APEC leaders as a possibility and a long-term prospect of APEC. Such result was reached after many negotiations and deliberations between APEC members, with the United States and China lead

Subsequently, at the Summit in Sidney (Australia) in September 2007, APEC leaders acknowledged ABAC's assessment of the importance of fostering regional trade agreements articulation, agreeing to consider methods and practical steps towards FTAAP.⁵

At the Summit in Lima (Peru) in November 2008, APEC leaders adopted the report on "Advancing regional economic integration," which confirmed that FTAAP should meet WTO-plus criteria (i.e. a higher level of commitment to trade liberalization than that of the WTO) and further promote regional economic integration; it should also complement and support the implementation of the Bogor goals and help reduce the complexity and overlapping of Regional Trade Agreements

⁴ APEC Leaders' Declaration at the 14th APEC Economic Leader's Meeting in Hanoi in November 2006, available at www.apec.org/apec/leaders_declarations/2006.html

⁵ APEC Leaders' Declaration at the 15th APEC Economic Leader's Meeting in Sydney in September 2007, available at www.apec.org/apec/leadersdeclarations/2007.html

(RTA) and Free Trade Agreements (FTA) in the region. The leaders also pointed out related issues that need further study including: the impacts of FTAAP on APEC, the feasibility of FTAAP ideas, measures and methods to set up an FTAAP and how to evaluate the capacity building requirements prerequisite for effective future negotiations⁶.

At the 17th APEC Summit in Singapore in November 2009, ABAC continued to call on the Ministers and the Leaders to decide on concrete steps and a clear roadmap towards FTAAP. In the Summit's concluding statement, the Leaders reaffirmed their commitment to the Bogor goals of trade and investment liberalization, noting potential economic benefits that FTAAP could bring to the region as well as possible challenges awaiting in the FTAAP building process. The Leaders also vowed to continue efforts to build an FTAAP in the future and to assign relevant Ministers and Senior Officials to study possible ways to realize FTAAP and the submission of a feasibility report to the Summit in 2010.⁷

In sum, from a proposition set forth by the business circle in 2004, which did not attract much of APEC Leaders' attention initially, the FTAAP idea has gradually become a topic of discussion on APEC agenda, even at the highest-level decision-making mechanisms, and has been recognized as a long-term option for APEC to be studied in details, particularly suitable ways towards this goal, by APEC scholars and officials.

⁶ Report to the APEC Economic Leaders' Meeting in 2007 and APEC Economic Leaders' Declaration at the APEC Economic Leaders' Meeting in 2007, available at www.apec.org/apecleaders_declarations/2008.html

⁷ Declaration of the APEC Economic Leaders' Meeting in Singapore in November 2009, available at www.apec.org/apecleaders_declarations/2009.html

Factors encouraging the development of the FTAAP idea

Theoretically, in the general trend towards globalization regionalism from the end of the Cold War, one important manifestation is the explosion in the number of FTA agreements included worldwide. This has primarily been stimulated by the theory of liberalism, especially the theory of comparative advantage vigorously endorsed by David Ricardo, among others.⁸ Various aspects of free trade continued to be developed by theorists of later generations, most notably Jacob Viner's customs union theory,⁹ R. J. Wonnacott's hub-and-spokes theory,¹⁰ Jagdish Bhagwati's second-best theory.¹¹ In the study of political economy, institutional theory¹² has also contributed to the solidification of theoretical basis much needed to justify pro-free trade policies.

⁸ According to Ricardo, countries will gain when they free trade with each other because each country will focus on producing the goods they produce most efficiently and exchange them for goods that other countries are relatively more efficient at producing. See D. Ricardo, *On the principles of political economy and taxation*. Paris: Flammarion, 1971.

⁹ According to Viner, FTAs help create new trade between its members and incite trade shifts from member countries to non-member countries, because non-member countries enjoy preferential treatment, and thus divert the direction of trade because FTA members have no common tariff policy towards non-member countries. See J. Viner, *The Customs Union Issue*, NY: Carnegie Endowment for International Peace, 1950.

¹⁰ This theory assumes that a country signing many bilateral free trade agreements with other countries can act as a hub steering trade liberalization and thus enjoy many benefit, especially different preferential treatments brought about by these BFTA (each BFTA serves as a spoke connecting a partner country with the hub country). See "Trade and Investment in a Hub-and-Spokes System versus a Free Trade Area", *Journal of World Economy*, 19 (3), 1966, pp. 237-252

¹¹ According to the theory, in the context multilateral trade liberalization does not progress, trade liberalization achieved through bilateral free trade agreements (BFTAs) may be a better solution and the more FTAs are created in the world, the closer the goal of global trade liberalisation liberalization will be. See J. Bhagwati, *Protectionism*, Cambridge, Mass: The MIT Press, 1998.

¹² Proponents of this theory advocate creating more and more international institutions (organizations, establishments) of all functional aspects. These institutions will help constrain member states' tendency to act on their own free will for their own benefits, thereby minimize the possibility of wars and conflicts. See R. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton, N.J. Princeton University Press, 1984.

Practically, several critical developments in global and regional affairs have accelerated the formation and advancement of the FTAAP idea include:

Firstly, the prolonged stalemate of the Doha round is slowing down the global trade liberalization and thus encouraging many countries to seek for bilateral and regional FTA agreements to continue expanding their international market so as to meet their development goals.

In November 2001, after missing out on a meeting in Seattle (US) in 2000, a new round of global trade negotiations within the WTO framework (called the Doha Development Agenda - DDA) was officially launched in Doha. At first, these negotiations were expected to wrap up in 5 or 6 years. However, nearly a decade has passed and they still have not come to an end, because the parties involved have yet to reach an agreement on many issues. Moreover, the agenda of this negotiation round has yet to cover many other important issues of considerable impacts on the trade liberalization and economic integration among its members. Many subjects brought to the negotiating table could also get no high commitments for liberalization as expected. Disappointed with the Doha round's status quo, many countries decided to accelerate bilateral and regional free trade deals, consequently in the last decade, the Asia-Pacific region has witnessed an upsurge in FTA agreements. Major regional economies have all established FTAs with their partners. China, Japan, Korea and India have FTA agreements with ASEAN. Australia and New Zealand are also negotiating their FTA with ASEAN. America has signed bilateral FTA agreements with Singapore and South Korea and is negotiating similar agreements with some other countries. Up to this point, a total of 50 FTAs have been signed or are being either negotiated or studied and prepared for negotiation. These current and

forthcoming agreements are intended to foster trade between APEC members or between them and non-APEC economies.

Secondly, the recent trend towards FTAs establishment contains a number of new characteristics that can significantly affect countries' calculations when participating in these FTAs.

(i) Later launched FTAs are more comprehensive (covering many areas ranging from trade in goods to services, investment, labour, environment, public procurement, competition policy, technology transfer, cooperation in capacity-building, etc.) and refined (reflected in the higher level of liberalization commitments, including those in new areas that have not yet been incorporated in the text of the current provisions of the WTO and earlier launched FTAs - these commitments are called WTO+).¹³ Countries with low level of economic growth and poor competitiveness usually have to face many challenges and difficulties participating in these new FTA agreements. Therefore, these countries will need to be more cautious about joining the agreement(s) and will likely prepare their negotiation plans carefully.

(ii) The majority of FTAs formed in the Asia-Pacific region are pivoting on economies of scale (the United States, Japan, China, India, Korea, Australia, Mexico, Australia ...). Many of the agreements inaugurating these FTA have been politicized deals; for example, Washington has declared that the United States will only select "capable" partners, i.e., only countries with political will and strong commitment to the liberalization can take part in US-devised FTAs. Given such indication, it appears that the US did not pick Thailand to negotiate a bilateral free trade agreement at random (The US has long considered Thailand an important non-NATO ally). It is also no coincidence that

¹³ Refer to Japan-Singapore, US-Singapore and US-South Korea FTAs.

Japan and India have been pushing negotiations for free trade agreements with ASEAN zealously, after China has signed an agreement setting up an ASEAN-China free trade area (ACFTA).

(iii) The formation of too many FTAs in the Asia-Pacific will lead region to the "spaghetti bowl" phenomenon negatively affecting regional economic and trade relations.

Singapore, Chile and Mexico were among the countries that played an important role in initial FTA promotions in Asia and the Pacific. Recently, other major economies such as the United States, China and Japan have been more active in fostering FTAs in the region and, therefore, have opened the prospect of emerging "hub-and-spokes" structures in which large economies act as the "hub" - the heart of the FTAs connecting free trade partners, while other small countries only play the role of the "spokes" attached to the "hub". Countries like Singapore, Chile and Mexico that try to become minor "hubs" can have more complex trading relations. In this context, smaller economies have no alternatives but to find their own FTAs with major partners so as not to suffer discrimination. Some scholars deem the Domino effect unavoidable, at least in the short-and medium-term, as the continued increase in the number of FTAs signed in the region suggests. Rober Scollay¹⁴ has pointed out many negative consequences of excessive bilateral or sub-regional FTA build-ups in the Asia-Pacific region, most noteworthy among those are:

- Creating new discrimination against and damage to countries not participating in the FTAs, while reducing regional trade efficiency.

¹⁴ Robert Scollay, "Preliminary Assessment of the Proposal for a Free Trade Area of the Asia-Pacific (FTAAP)", research report to ABAC, 2004.

- Increasing trading transaction costs, even hindering regional economic integration processes because of too many overlapping FTAs with conflicting provisions, such as those concerning rules of origin.

- Undercutting member economies' efforts and resources intended for negotiation processes within the APEC and WTO frameworks.

- Driving small and weak economies facing strong pressure from bigger and more powerful partners, to accept unequal terms and conditions during bilateral FTA negotiation processes in which they are usually at a disadvantage.

Accordingly, Scollay concludes that an uncontrolled increase in the number of FTAs formed could lead to the risk of disrupting rather than fostering trade relations in the Asia-Pacific region. Implication of this is an important factor stimulating the idea of creating a FTA for the whole Asia-Pacific region.

Thirdly, the progression of Asia and the Pacific to become one of the world's most dynamic economic centers and, hence, the venue accommodating regional economies' vigorous process of economic cooperation and integration linkage witnessed in the last decade is a necessary foundation for these economies to integrate wider and deeper with the another in the same playing field.

The Asia-Pacific region encompasses most the world's large countries with leading economies such as the United States, China, Japan, Russia, etc. The member economies of APEC alone account for half of the world's population, 52% of its territory, 70% of its natural resources and contribute about 57% of world GDP and over 50% of global trade.¹⁵ Nine out of 21 APEC members are participants of the

¹⁵ APEC Secretariat, *APEC at a glance*, Singapore 2010.

G20. Geopolitically and geoeconomically, the Asia-Pacific is an important location: It is adjacent to the oceans, joining with other continents and is the gateway, the essential dock connecting a number of major powers including America, China, Russia etc. with the world. This region possessing very large oil and gas reserves, is also witnessing many countries' economic rise. Therefore, the Asia-Pacific region is also home to many conflicts of interests and competition for influence between big powers.

It should also be noted that trade and economic relations between regional countries have developed dramatically in recent years. From 1992 to late 2008, internal-APEC export and import rose by an annual average of 8.3%-8.7%, respectively. Intra-trade in goods between APEC members (export + import) as compared to APEC's total trade with the world increased from 69.2% in 1989 to 71.4% in 1993, 72.2% in 1995 and basically stayed above 70% until 2003. From 2004 onwards APEC's intra-trade in goods gradually decreased to 64.9% in 2008¹⁶. This worried many APEC members, who wanted APEC to enhance its capabilities and measures to further promote intra-APEC trade, among which FTAAP is one significant solution.

A highlight of the Asia-Pacific region is the very dynamic development of regional economies in recent decades, especially since the end of the Cold War. If the whole region is counted, from 2002 to 2008, the Asian-Pacific economic growth averaged 5.0% a year (in terms of US dollar absolute value at market price) and 6.1% (calculated in purchasing power parity - PPP). Many regional economies have achieved spectacular growth in many consecutive years and are seen as the

¹⁶ Australian Department of Foreign Affairs and Trade, *The APEC Region Trade and Investment 2009*, Canberra, October 2009, pp. 148-151.

region's dragons or tigers, most notably China, South Korea, Taiwan, some ASEAN members, India, Brazil, Chile, Mexico and Argentina. These countries, along with the world's leading economies such as America, Japan and Australia have formed a vibrant force driving the global economy. The dynamic development of the Asia-Pacific is also an important factor accelerating regional economic integration. Many countries in this region have prioritized regional economic integration fostered through multilateral and bilateral FTAs on their policy agenda.

In the Asia-Pacific region, there have been several initiatives for economic linkage besides the FTAAP initiative. Noteworthy among them are the Australia-proposed initiative for the "Asia-Pacific Community" (APC) basically by merging the three current regional fora, namely the East Asia Summit (EAS), the ASEAN Regional Forum (ARF) and APEC, and the idea of establishing an East Asian trade bloc based on the "ASEAN + 3" mechanism (which includes China, Japan, Korea and ten ASEAN countries) that has been conceived and promoted for years by ASEAN and the countries concerned. Japan has recently proposed building strategic economic partnerships in East Asia aiming at creating a free trade agreement between ASEAN, Australia, China, India, Japan, South Korea and New Zealand. Running parallel with the above, a Trans-Pacific Strategic Economic Partnership Agreement (TPP) has also been promoted by the United States and Singapore.

Fourthly, APEC economic cooperation and integration have contributed to creating the basis for the formation of FTAAP.

APEC was established in 1989 to promote economic cooperation and integration among to member economies. APEC operates on three main pillars: trade and investment liberalization, trade and investment facilitation and economic-technical cooperation. Of these three factors,

trade and investment liberalization are the top priority which the other two pillars support. In 1994, in Bogor (Indonesia), APEC leaders adopted the goal of trade and investment liberalization to be achieved through the gradual elimination of trade and investment barriers by 2010 for developed economies and by 2020 for developing economies (known as the Bogor goals). Subsequently, at the Osaka Summit (Japan) in 1995, APEC adopted specific measures to implement the stated objectives, which included members' Individual Action Plans (IAPs), the Collective Action Plan (CAP) and the Early Voluntary Sectoral Liberalization (EVSL) initiative.

However, the EVSL initiative was short-lived, due to the outbreak of the Asian monetary and financial crisis in 1997. To many observers, the failure of the EVSL initiative shows two limitations of the APEC liberalization process. Firstly, APEC is not the suitable venue to open official dialogues and negotiations on trade liberalization commitments. Secondly, the majority of the most developed economies in APEC are in favour of a non-discriminatory style of liberalization; that however comes with conditions, among which reciprocity is an important norm to be respected. Yet, it is hard to turn APEC's principle of voluntary, non-binding participation into one of reciprocal commitments immediately. This implies that the APEC process itself is not likely to become a driving force for trade liberalization unless its members are willing to accept negotiations based on the principle of reciprocity or binding commitments.

In 2005, APEC completed a mid-term review of the members' implementation of the Bogor goals and adopted the Busan Roadmap in which necessary measures to achieve the Bogor goals within the prescribed time were elaborated. The members' IAPs and the mid-term

review showed that APEC was on track to achieve the Bogor goals. Currently Japan, APEC Chairman in 2010, together with Indonesia, is presiding over the drafting of a review plan for assessment of APEC developed member economies' implementation of the Bogor goals by 2010. There are many different and opposite opinions on how to assess the implementation of the Bogor goals. Some scholars believe that the Bogor goals are abstract and are therefore difficult to evaluate. The Pacific Economic Cooperation Council (PECC) and the APEC Business Advisory Council (ABAC) both argue that APEC can hardly attain the Bogor goals by the set deadline of 2010.¹⁷ Studies on the viability of FTAAP by China and New Zealand's experts showed that FTAAP or any propositions relating to regional economic integration, if they are to materialize, will have to be compatible and complementary to the Bogor goals. In other words, FTAAP is one concretization of the Bogor goals. Through the process of examining and studying FTAAP's feasibility, APEC member's economies will be encouraged to consider appropriate implementation steps to achieve the Bogor goals. As a potential way to foster deeper regional economic integration, FTAAP can be seen as one tangible and doable component of the Bogor goals¹⁸. As feasible as many APEC members have suggested however, FTAAP is still seen by many other APEC members as a long-term goal that should only be discussed after 2020.

Prospects for the formation of FTAAP

Whether, how and when FTAAP could be established are no easy questions, the answers depends largely on regional countries' perception

¹⁷ See Statement of the Pacific Economic Cooperation Council (PECC statement) at the 2th Senior APEC Officials' Meeting in May 2005.

¹⁸ Source: "Preliminary Inventory of Issues Related to a Possible Free Trade Area of the Asia Pacific", Singapore, July 18, 2009.

of the advantages/disadvantages FTAAP entails, as well as the efforts and policies these countries will conduct in the future.

Impacts of FTAAP

The FTAAP idea is recommended by many researchers and APEC officials as a good initiative to promote economic integration in Asia and the Pacific. If established, FTAAP will surpass NAFTA to become the world's largest free trade area in all aspects,¹⁹ and as such will have tremendous impacts on the region, regional countries as well as the global trading system. This article mainly focuses on the economic impacts of FTAAP.

Impacts on APEC member economies

FTAAP will have a strong impact on intra-APEC trade. Researchers conducted by ABAC have shown that FTAAP, once formed, will greatly benefit East Asian countries, the total of which may even triple the sum of economic benefits these countries gain from their FTAs with ASEAN²⁰. Overall, the major economic benefits that FTAAP will bring to members include:

- Reduction of trading transaction costs through the implementation of a common set of rules of origin to rectify the overlapping of the many rules of origin existing in regional and bilateral trade agreements.
- Promotion of trade among member economies through the elimination of trade barriers. The FTAAP Study Group consisting of experts from several APEC member economies has pointed out that: (i)

¹⁹ JETRO, *East Asian Economic Integration and US-Japan Relations*, Special Report, 2007, p. 3.

²⁰ ABAC, *Research report on the likely economic impact of an FTAAP*, 2008, p. 26.

trade liberalization will help increase the value of trade deals among its members from US\$ 48 billion to US\$114 billion, (ii) measures facilitating economic interactions through a further 5% reduction of trading transaction costs will help increase the total value of trade from US\$ 256 billion to US\$ 504 billion, (iii) liberalization of trade in services by further reducing 10% of trade barriers on further 10% will contribute to increase the total trade volume from US\$ 271 billion to US\$ 527 billion; (iv) resultant effects of rules of origin standardization will further facilitate a 32% increase in regional trade.²¹

- Contribution to economic growth in member countries. Not only promoting trade, FTAAP will also contribute to fostering capital flows among its members and between the region with the rest of the world by removing trade and investment barriers and helping improve each country's trade and investment environment to improve its competitiveness. Furthermore, through FTAAP, economic and technical cooperation, technology transfer, tourism, cooperation in human resources development... among member economies in the region will be further enhanced.

In brief, what member economies can gain from FTAAP in the future are no trivial benefits, but whether they can make the most of these benefits will very much depend on their capability and actual efforts. It should be noted that prospective members, especially developing economies, will also have to face with many disadvantages and

²¹ Ministry of Foreign Affairs, Department for Multilateral Economic Cooperation, *Prospects for building free trade area in Asia-Pacific region and policy recommendations for Vietnam*, research project submitted in December 2009, p. 65.

challenges taking part in a more comprehensive and higher-level liberalization process when FTAAP is established.

Impacts on APEC

In evaluating the impacts of an FTAAP, three main different views stand out:

Opponents of the FTAAP agree with the PECC's assessment that this venture will negatively affect the APEC forum, arguing that negotiations for FTAAP establishment will likely cause discords within APEC, especially if some APEC member economies decide not to participate in FTAAP. Even if all members agree to join, the ensuing negotiation process will likely divide the membership. The current APEC process is not conformable to the prospective FTAAP negotiation process. Fundamentally speaking, FTAAP would include provisions that are legally binding and discriminatory towards non-APEC economies. This contradicts APEC's basic principles of voluntary, non-binding and open cooperation, which make the Forum different and unique. Therefore, FTAAP is against some basic principles of APEC, and, possibly, will lead to eventual change in APEC.

On the other hand, proponents of the FTAAP argued that FTAAP is the principal method to achieve the Bogor goals; hence, APEC could be restructured to become an effective forum for FTAAP agreement negotiations if necessary. Moreover, so the argument runs, in order for APEC to survive and demonstrate its ability to rise to global challenges as well as its effectiveness in fostering cooperation, the Forum should move from voluntary, non-binding principles to a mandatory approach.

A third line of argument, harmonizing the two aforesaid opposing views, advocate that APEC proceed with the Forum's basic principles and FTAAP develop as an independent process. Quite a few APEC members are considering this approach with more keenness.

Impacts on non-APEC economies

These economies will be subject to discrimination once FTAAP is formed, which is their major concern. In particular, three ASEAN member (Laos, Cambodia and Myanmar), currently not participating in APEC and possibly not participating in FTAAP in the future either, will be placed at a tremendous disadvantage as a result of trade shift when other ASEAN members participating in FTAAP accelerate trading activities, attract foreign investments and boost economic growth. Because of the negative impacts of trade deflection when the ASEAN members participating in FTAAP increase import and export activities, attract foreign investment, boosting economic growth. This may deepen ASEAN's developmental divide and undermine the Organization's cohesion.

Impacts on the global multilateral trading system

ABAC' researches reveal that economic benefits APEC economies can reap from an FTAAP agreement are about 20% lower than the advantages brought about by the application of (currently negotiated) new trade liberalization commitments when the WTO's Doha round is completed. Thus, reviving the Doha round and bringing it to a successful conclusion remain a common goal of all economies.

Many experts believed that the establishment of an FTAAP could energize APEC and non-APEC economies to undertake stronger commitments to complete the Doha negotiations. Moreover, such FTAAP would serve as the bedrock elevating global trade liberalization

to a higher and wider extent.²² However, some PECC members argued that the loss of confidence in the WTO is what has induced APEC member economies to propose negotiations for FTAAP. Thus, investing efforts in setting up FTAAP will undermine member economies' faith in the benefits offered by the WTO and may even further paralyze the Doha round.

Relevant countries' views on FTAAP

So far, although the FTAAP idea has been recognized by APEC leaders as one possible route for APEC in the future to be further studied and discussed at various APEC fora, APEC members still hold many different views on many aspects of FTAAP, especially its impact on the APEC cooperation process and its member economies, methods and a timetable for setting up FTAAP, as well as many issues related to the content, scope and level of liberalization commitments required. Generally speaking, there are three dominant groups of views:

The first group strongly supports the initiative, considering it highly feasible and should be realized as soon as possible. This group includes the United States, Singapore, Taiwan, Hong Kong.

The second group considers the idea a well-thought-out and feasible one that should be embraced as a long-term goal. This group comprises Canada, Japan, Korea, Australia, New Zealand, Latin American countries, Russia.

The third group is more cautious, concerned that FTAAP entails negative effects and needs more comprehensive studies before a final decision is made. China and some ASEAN members stand in this group.

²² JETRO, *East Asian Economic Integration and US-Japan Relations*, Special Report, 2007, p. 10.

Specifically, key regional players' views are as follows:

The United States

In 2004, when the FTAAP idea was first proposed, America was one of the members that did not support it. By the 14th APEC Summit in Hanoi in 2006, America had become one of the leading countries advocating bringing FTAAP into the Summit's official agenda and actively campaigning and lobbying for the inclusion of a paragraph mentioning FTAAP in the Declaration of the 2006 APEC Summit. From 2006, the United States has been continuously pushing for FTAAP. The Obama administration considers joining the Trans-Pacific Partnership agreement (TPP) the first step towards a free trade agreement for entire Asia and the Pacific, although there still is a long way towards that goal. "America will bind itself with its partners in APEC in the Trans-Pacific Partnership Agreement".²³

The attitude and policy shift of the United States from not supporting to vigorously advocating and promoting the FTAAP idea can be explained in the following ways:

Firstly, this adjustment conforms to a general trade policy adjustment trend developed since mid-2000's that has altered U.S policy conduct from prioritizing global trade liberalization promotion (through the Doha negotiations in the WTO) to focusing on regional and bilateral FTA agreements stimulation. This is a more pragmatic approach given the prolonged stalemate of the Doha Round and the voluminous increase in the number of regional and bilateral FTA agreements worldwide and especially in the Asia-Pacific region.

²³ Statement by US Trade Representative Ron Kirk at the Asia-Pacific Economic Cooperation Forum in Singapore in November 2009.

Secondly, the Asia-Pacific region takes on great significance to American interests and has always been a priority on U.S foreign policy agenda in the last many decades. In the face of strong development of regionalism in East Asia, Southeast Asia and even Asia and the Pacific in recent years, the United States cannot stay indifferent or resist the trend but to adjust its policy or risk being "outstripped" and "marginalized". The Obama administration is set on strengthening relations with Asia and the Pacific and enhancing U.S role and influence in the region. President Obama declared last November in Tokyo that "the United States looks to strengthen old alliances and build new partnerships with the nations of this region... and expects to be involved in the discussions that shape the future of this region, and to participate fully in appropriate organizations as they are established and evolve".²⁴ Thus, supporting and promoting the establishment of FTAAP not only help strengthen U.S relations with regional countries and assist U.S political and security objectives on regional and international arenas but also, economically speaking, enable America to open regional markets, including those of the world's most dynamic economies, as widely as possible to serve U.S interests.

China

From the beginning, China has remained aloof from the idea of an FTAAP. At the 17th APEC Summit in Singapore in November 2009, China rejected ABAC' proposal to work out a schedule for FTAAP formation. China argued that FTAAP can undermine efforts at the Doha Round and hinder APEC developed member economies' commitments to meet the Bogor goals in 2010, and that FTAAP is incompatible with the

²⁴ Nguyen Hoa, "Vi loi ich cua chnh My va ca khu vuc" [For the interests of America and the whole region], November 14, 2009, available at www.home.vnn.vn

nature of cooperation in APEC.²⁵ However, according to some analysts, China's reluctance to foster FTAAP establishment is resulted from several political and economic considerations. Politically, China would be at a disadvantage if the United States and other developed countries could use the FTAAP as a measure to undermine the ongoing East Asian regional economic integration process to affirm US role in the whole regionalization process in the Asia-Pacific region. Besides, if established, FTAAP would include Taiwan (because Taiwan is an APEC member), and thereby, would give Taiwan a new status in this multilateral framework. Economically, international trade agreements in which China has participated so far are basically not of high quality, whereas FTAAP will be a high-quality free trade agreement (with high extent and far-reaching scope of liberalization, including areas that are sensitive to China).

Russia

Russia endorses a policy of maximum integration with the Asia-Pacific region and participates in all regional activities.²⁶ Therefore, Russia considers FTAAP a good idea and supports it. However, Russia also argued that since member economies have different levels of development and cooperation in APEC has been promoted on the basis of consensus and voluntariness, practical ways FTAAP should be, therefore, carefully examined.

²⁵ Dr. Bin Shen at the APEC Research Center at Nankai University, contends that "Some Chinese officials are concerned that starting an FTAAP may distract APEC developing economies' attention from the implementation of the Bogor goals or delay the implementation process. Sources: Ministry of Foreign Affairs, Department for Multilateral Economic Cooperation, *Prospects for building a free trade area in the Asia-Pacific and policy recommendations for Vietnam*, research project presented in December 2009, p. 44.

²⁶ Russian President's speech at a talk with students of the Russian Far Eastern National University in December 2008.

Japan, South Korea

Both countries believe that FTAAP is a highly feasible option for APEC in the long term. Korea leads efforts to study the feasibility of FTAAP, as well as its possible impacts on regional economies. Japan took a more cautious approach to the FTAAP proposal at first, but soon turned to support the idea. That is because Japan has realized FTAAP's compatibility with its policy objectives and FTAAP's potential in bringing to Japan a high-quality free trade area that is strategically vital to Japanese interests.

Australia, New Zealand, Canada

The three countries support the idea of FTAAP, believing FTAAP is a doable project that can be a long-term goal of APEC. They also argued that as the idea is at the incipient stage, APEC should continue to study the effects FTAAP may have on each member and their specific capability to implement FTAAP commitments. In particular, Australia, a strong supporter of FTAAP, argues that in order for FTAAP to be effective and to avoid assimilation with the WTO, FTAAP should focus more on measures facilitating trade and investment, ensuring business safety as well as safety for foreign capital goods. They also relish at the Trans-Pacific Partnership Agreement (TPP), regarding this as a feasibility test towards an FTAAP that could become APEC's development goal in the future. Australia is also pursuing a new idea in the regional multilateralization process: Prime Minister Kevin Rudd has proposed an Asia-Pacific Community (APC) to serve as a comprehensive framework for political, security and economic cooperation in the region.

ASEAN

The seven ASEAN member countries in APEC have yet agreed on a common viewpoint. While Singapore is strongly in favour of the idea, the remaining majority retain their hesitation, even object to APEC's commitment to FTAAP. Most of these countries argue that there have been many FTA agreements in the region between ASEAN and Northeast Asian countries (ACFTA, AJFTA, AKFTA), FTAAP should only be long-term project to be discussed in 2020, after APEC has achieved the Bogor goals. Additionally, the Asia-Pacific is a vast region, encompassing many economies with different levels of development, thus building an FTAAP takes time. Furthermore, since APEC is just a loose, voluntary and non-binding cooperation mechanism, FTAAP as a highly binding one should be carefully considered before launched.

South American countries

Generally, supporting Asian-Pacific regional economic cooperation and integration, these economies therefore support FTAAP, considering it a good and highly feasible idea. However, due to existing differences between APEC members' levels of economic development, only when FTAAP is regarded as an APEC long-term goal will it be feasible.

Ways to FTAAP

How to achieve FTAAP is an important issue in current APEC's researches and discussions about FTAAP. APEC Economic Leaders, at their 17th Summit in Singapore in November 2009, agreed to conduct in 2010 studies on practical ways and methods of construction for FTAAP. As of now, three main routes (scenarios) towards FTAAP are being mooted, namely (i) Convergence of existing trade agreements (FTAs/RTAs) in the Asia-Pacific, (ii) Elevation of trade agreements with broad geographic scope

and high level of commitment such as the Trans-Pacific Partnership agreement (TPP) and (iii) Negotiation for a new FTAAP.

Convergence of existing FTAs/RTAs

Since 2008, APEC has conducted some researches on the practicability of converging and expanding existing FTAs / RTAs in the region to cover the whole Asia-Pacific. These studies show similarities and differences between current regional FTAs/RTAs, thereby contributing to identifying possible measures to achieve FTAAP and promoting larger-scale FTAs/RTAs. Preliminary research results indicate that regional RTAs/FTAs' provisions for some critical areas such as: market access, services, investment, customs procedures, epidemiological safety, technical trade barriers and trade restoring measures are similar in essence. However, in areas such as origin rules and a number of other sensitive areas, for example competition policy, environment, labour, and considerable differences between current RTAs/FTAs still persist. Therefore, the convergence of regional FTAs/RTAs may be one way to go to FTAAP, but that requires more time to discuss, standardize and harmonize different commitments.

Enhancement of regional RTAs/FTAs to become FTAAP pillars

This approach to FTAAP devises building economic blocs as the mainstays of future regional economic cooperation leading to FTAAP. With the expected size of FTAAP, these economic entities should be high-quality free trade agreements that meet several basic criteria: they should be open for accession, be attractive to motivate regional economies' active participation, and should be at the same time to ensure

a balance of participation between developed and developing member economies. They should also be comprehensive, in that all areas related to trade are fully covered. Given the stated primary requirements, the Trans-Pacific Partnership agreement (TPP) - currently in negotiation, is seen as a promising free trade area agreement that can be extended and converted into FTAAP.

Negotiation for a completely new FTAAP agreement

Initial analyses indicate that this option is fraught with many difficulties and therefore enjoys modest chances of success. The complex political reality resulting from the participation of a number of members such as Taiwan, Hong Kong is one core issue. Another challenge arises from the intricacy of the issues to be negotiated, including the many issues some members may regard as sensitive but other members may not consider as such. Lastly, the high-quality criteria required of FTAAP is also challenging. In the context of enduring discrepancies between prospective partakers of future negotiations, especially many conflicting perspective and interests of giant partners such as the United States, China, Japan, Russia, the negotiation is deemed lengthy, difficult and costly for all participants.

In sum, APEC has thus far retained a generally positive view on the FTAAP idea, regarding it as a long-term option and continuing to conduct in-depth studies in all aspects of the initiative, particularly ways to accomplish the project. APEC members still hold many different perspectives on many specific issues pertaining to FTAAP. In the next few years, APEC is not likely to arrive at a final decision on a definite way to realize FTAAP. In this context, APEC cooperation will proceed in the current direction and in parallel with existing or forming integration

processes in the Asia-Pacific region. Current and would-be processes of economic cooperation and partnership in the Asia-Pacific region are being considered. The FTAAP idea will continue to be further studied and discussed more extensively not only at various APEC fora, but also at many other venues in Asian-Pacific countries and the world.