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ABAC Australia Contribution to Discussion on the FTAAP Proposal

A “Single Market Agenda” for Asia-Pacific

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A region-wide trading bloc: could the concept be revived?

Given the frustrations at the WTO since Cancun, it has not been surprising to see a revival of interest in looking at the concept of a Free Trade Area of the Asia Pacific (FTAAP). Our region of the world has been vigorously spawning bilateral FTAs – and the notion of an FTAAP can seem to be a natural extension, building on the regional political momentum for trade expansion opportunities as well as overcoming the complexities of a multiplicity of agreements.

The Auckland Meeting of ABAC has an important paper before it from Professor² Scollay of PECC analysing the FTAAP concept in the context of achievement of the Bogor goals. We believe that should stimulate a valuable discussion of the prospects for trade expansion opportunities in the region and globally, and ways to achieve it.

Of course, as the PECC paper was being finalised, the WTO managed to reach a framework agreement on 31 July that should allow the previously stalled Doha Round to proceed. Proposals for any FTA or RTA need to be considered against that background now.

Our own perspective on the FTAAP specifically is that:

- first, regional willingness to lower trade barriers should continue to be expressed through the global WTO process, which now appears back on track, so as to give it every chance of success,
- second, whatever its merits, an FTAAP, which attempted to deal with those same key issues which have slowed the WTO negotiations, is highly unlikely to be achievable in any meaningful timeframe (and for that reason does not seem to be a viable alternative to the current proliferation of FTAs),
- third, the pursuit of an FTAAP through APEC runs up against the reality that APEC has no capability to conduct formal trade and investment liberalisation negotiations, and
- fourth, our sense of the mood within APEC is that the concept of an FTAAP will not get official support.

We believe that ABAC, as the voice of business, must be especially concerned with promoting sound ideas to APEC that could achieve concrete results in the shorter timeframes which are meaningful to business. The FTAAP concept does not seem to fit that mould.

A project ABAC could pursue: a “single market agenda”

It would certainly be desirable to find other new and imaginative ways to challenge APEC Leaders and achieve results in the area of trade. What is needed is a way to channel the strong sentiment around the region in favour of expanded regional trade and investment into another ambitious agenda, that could make a real difference; an agenda which *complements*, rather than tries to substitute for, multilateral trade reform.

The Single Market Agenda for Asia-Pacific (SMAAP) discussed in Section 6 of Professor Scollay’s report seems to us to be attractive, from this point of view. It proposes a substantial action programme to promote closer market integration in the Asia Pacific. Major elements of this agenda are already well underway in the context of APEC’s work on trade facilitation; this work could be intensified and new elements added as noted below. This approach is well-suited to APEC’s capabilities. It is consistent with WTO principles, and would take us a long way down the path to the Bogor Goals. It constitutes a package of initiatives for market integration

in the broadest sense, which can be pursued in parallel with ongoing multilateral, regional and bilateral trade liberalisation efforts.

The concept has generated interest in economic policy circles in Australia and elsewhere. We believe it has real prospects for success as an initiative of ABAC.

Trade liberalisation agreements and SMAAP are complementary

Importantly, a role model for the SMAAP exists in the European “Single Market” agenda which generated very substantial new benefits after its introduction in 1992, complementing the free trade agreement which Europe has had in place from the late 1960s.

The trade liberalisation agenda of increasing commitments to market access is fundamental, and most of it should continue to be pursued through the WTO. At the same time, there are many important issues which are not yet, or not best, addressed through the WTO process. They need not await completion of that process.

There is much more to market integration than getting rid of border barriers. There are many opportunities to facilitate trade and investment, by addressing the myriad of other significant obstacles and costs that cause trade and investment flows to be smaller than they otherwise would be, given the same formal market access rights.

Moreover, a “single market agenda” would also need to address some aspects of trade liberalisation which are not yet dealt with fully in the WTO.

We believe that the pursuit of a “single market agenda” is an opportunity for ABAC to make a real contribution to the work of APEC and the outcomes it achieves over the years ahead. It would also serve to ensure an appropriate division of effort between APEC and the WTO, in line with the comparative advantage of each of these valuable institutions.

The challenge: an ambitious extension of APEC’s existing agenda

APEC governments have been working for some years on the massive program of facilitation which is needed to achieve free and open trade and investment. The Osaka Action Agenda set this process in motion. However business considers that insufficient progress has been made. The concept of a “single market agenda” would signal a renewal and acceleration of APEC’s efforts, not least by formalising them into a more coherent program with well-defined targets.

The essence of the SMAAP proposal is, therefore, to reinvigorate APEC’s existing trade facilitation initiatives, bringing them together under a single banner, and setting new and more ambitious goals, so as to create much greater momentum for reform.

At the same time it should be possible to bring in some new aspects of trade and investment liberalisation, not currently part of APEC’s agenda, which are not expected to be fully addressed in the Doha Round. As an outward looking, trade-oriented region, APEC should be able to agree on regional arrangements to facilitate, for example, international investment and trade in services in ways that can set examples for the rest of the world.

While analogous to the EU’s Single Market Agenda, a SMAAP would need to be implemented in a way suitable to the much more diverse group of economies found in Asia-Pacific.

Under this proposal, rather than advocating yet another trading bloc, ABAC would be challenging APEC Leaders to move forward in other significant, innovative and, importantly, achievable ways.

As set out in Section 6 of Professor Scollay's report, some initial goals, to be achieved by 2020 at the latest, might include:

- An intensified program of mutual recognition of product standards and professional qualifications, comparable in scope to that achieved by the EU
- Full compatibility and fully electronic data interchange of customs documentation and clearance procedures
- Transparency and harmonisation of a wide range of administrative procedures, including agreed minimum standards for auditing and disclosure
- Harmonised fiscal incentives for international investment and an APEC code for the taxation of international income,
- Region-wide minimum standards for competition policy, which are sufficiently rigorous to avoid the need for anti-dumping actions among APEC economies

or even more ambitiously:

- Full rights of establishment and the national treatment of all firms, in all significant sectors,
- Open seas and open skies in the Asia Pacific, subject to an agreed set of traffic control and other safety and security procedures for ports and airports,
- An end to all restrictions on short-term business-related travel.

These possible goals are just some of the many challenges which would need to be met in order to approach free and open trade and investment. An APEC SMAAP programme could, in fact, embrace any trade-expanding reform which:

- first, can profitably be pursued by APEC countries either as a whole or individually,
- second, represents a significant step towards a "single market" for goods and services in the APEC region, and
- third, can be pursued by APEC now without compromising the eventual achievement of a full multilateral outcome.

A SMAAP can make progress incrementally

Given the diversity of the region, APEC-wide targets for a SMAAP will be reached by some ahead of others. It is therefore important that practical, cooperative arrangements for trade facilitation are genuinely open to others. Pathfinders who implement initiatives will need to share the information, experience, expertise and technology needed for others to join as soon as they perceive the benefits of doing so.

This renewed reform effort will take many years, since it will require extensive ongoing capacity-building to enhance human resources, technology and institutions throughout the region. APEC governments need to do much more on this front, starting now, even while they muster the courage for genuine free trade.

Importantly, seizing the enormous potential gains from trade facilitation need not be held hostage to impasses in agricultural trade or other sensitive areas. A “single market agenda” of reforms can stand alone and is entirely consistent with WTO principles. Asia-Pacific governments can pioneer approaches to meet these targets.

As long as the arrangements which are implemented initially by some APEC economies remain open to others who are willing and able to join these arrangements, they can be pathfinders to subsequent WTO-wide arrangements.

A SMAAP would help to give real impetus to the important objective of “open regionalism” in Asia-Pacific.

Recommendations

The SMAAP concept is an emphatic re-endorsement of APEC’s trade liberalisation and facilitation agenda, which has been consistently and strongly supported by ABAC. It would supplement and extend existing work by setting broader goals, with defined targets, and bring it all under the banner of a compelling “single market agenda”.

We commend this concept to ABAC for consideration and hope that a proposal along these lines can go forward to APEC Leaders this year. If there is support for that, it would be useful to alert APEC Leaders to these views, and offer to help flesh out them out, drawing on expertise from PECC and elsewhere.

While time is short to develop proposals for APEC Leaders, it should be borne in mind that the proper forum to develop and implement the SMAAP concept is APEC itself. That is where the detailed work would need to be done.