

Chapter 11

Asia-Pacific Trade Agreement: A future roadmap

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Introduction

The world has witnessed an unprecedented growth in the number of regional trade agreements (RTAs) and comprehensive economic cooperation agreements (CECAs). What used to be bilateral and intraregional economic engagements now appear to be moving more and more towards mega-trade blocks across continents and oceans. It is in this context that the future of economic and cooperation integration needs to be analysed for the Asia-Pacific region, which has also been re-endorsed by the Ministerial Council of the Asia-Pacific Trade Agreement (APTA). This chapter also analyses how APTA can help benefit this process of integration for the Asia-Pacific economies. The context, rationale, objectives and modalities of outlining a way forward for APTA are analysed in greater detail in this study. In doing so, addressing the constraints on APTA is the prime focus of this study.

Signed in 1975, APTA is the oldest preferential trade agreement among developing countries in the Asia-Pacific region, yet it has languished and at times faltered; therefore, it needs to be made more topical and relevant with a clear vision that will help it to achieve broader developmental objectives of employment generation through flows of trade, investment, technology and people. The imperatives of such an exercise are highlighted in greater detail below.

The original members of APTA included Bangladesh, India, the Republic of Korea, the Lao People's Democratic Republic and Sri Lanka. China acceded to the Agreement in 2001. Mongolia, the newest member, is scheduled to accede to APTA at the upcoming fourth Ministerial Council. It is against this backdrop that a "Vision for the future" of APTA is laid out in the following sections through a narrative covering four major dimensions. These include:

- (a) *Backdrop.* The backdrop includes three major components, viz. (i) the global dynamics of economic regionalism, (ii) some stylized facts about APTA and Asian regionalism, including the potential for, and constraints to APTA, and (iii) an assessment of APTA's Fourth Round of tariff concessions;
- (b) *What to do?* The objectives, philosophy and economics of APTA. The objectives and the philosophy of regional economic integration through APTA together with the economics of APTA integration are elaborated;
- (c) *How to do it?* The modalities and scope of APTA way forward. Having assessed the context and the present status of APTA regional cooperation in terms of its impact, an attempt has been made to lay down the possible ways in which the

APTA process could be made more dynamic by making it (i) truly Asia-Pacific, and (ii) more comprehensive and effective. This could be done by focusing on new areas of cooperation – with emphasis both on the commercial and civilizational aspects;

- (d) *Implementing the vision.* The way to implementing the APTA vision is also suggested by highlighting the ways and means for building a robust work-programme for the APTA Secretariat and further strengthening it.

The backdrop thus analyses the recent trends of mega-regional groupings, as any vision for APTA would have to take cognizance of them. Therefore, in section A, APTA is considered in the context of the emerging mega-trading blocs such as the Trans-Pacific Partnership (TPP) or Trans-Atlantic Free Trade Area (TAFTA), Trans-Atlantic Trade and Investment Partnership (TTIP), Regional Comprehensive Economic Partnership (RCEP) and Free Trade Area of the Asia-Pacific (FTAAP). Some stylized facts regarding the Asian economic regionalism, including RCEP and APTA are presented in section B. This includes highlighting the potential of APTA and what constraints have acted upon APTA, preventing the realization of its full economic potential. The present status of the Fourth Round of tariff concessions is summarized in section C, together with an assessment of the possible impact of APTA tariff liberalization on intra-APTA trade.

The philosophical basis for guiding the APTA process in future is spelt out in section D. This includes achieving the broad vision of peaceful co-existence, through regional economic integration, that is achieved via trade and investment cooperation, among other areas of regional cooperation. It is argued as to how such economic integration can help to alleviate poverty through employment generation that can be achieved by augmented trade and investment flows. In doing so, the adoption of an integrated approach towards trade in goods, trade in services and investment is put forth. In a novel attempt, it also argues in favour of moving towards cultural integration with the help of commercial and economic integration as well as combining a production network with people's network – placing people's welfare at the core of the whole exercise of economic integration through APTA.

While section E discusses making APTA truly Asia-Pacific by expanding the membership, section F focuses on how to make APTA really comprehensive by including trade in goods, trade in services, investment, trade facilitation and non-tariff measures (NTMs). Further, in section G it is suggested that some of the new areas of cooperation, which are not in effect yet in other groupings even in Asia, need to be included in APTA for it to become more effective and comprehensive. In a quest to make APTA forward-looking, new mechanics of trade, science and technology, and climate-smart production and trade are explored in section H. From commerce to civilization, enhancing people-to-people engagements at various levels have the potential to unleash an Asia-Pacific way of life rather than just create an Asian economic grouping. Section I presents some thoughts for consideration.

Finally, in terms of implementing APTA, some measures for the future work programme of the APTA Secretariat and steps for strengthening it are presented in section J, together with broad conclusions and policy recommendations for making APTA more dynamic.

A. Global dynamics of regionalism

1. Mega-economic groupings

The world has witnessed in recent times initiatives aimed at creating mega-economic groupings. These include the TPP agreement, TAFTA or TTIP, and RCEP. More recently, a FTAAP has been proposed. Since the focus, scope and coverage of countries in these groupings are different, APTA can also be made a major part of the global dynamics of regionalism process, since it is open to all developing member countries of ESCAP. However, currently, APTA is just a PTA, while RCEP is more comprehensive in its coverage as it includes trade in goods, trade in services and investment. In addition, the relative political will at the highest level of leaders of the ASEAN+6 countries is much greater than that which drives the APTA process. Therefore, the basic issue is how to make APTA more dynamic; to do so, some of the basic facts need to be understood about the ongoing processes of regional integration. These are summarized below.

(a) Trans-Pacific Partnership agreement

Originally conceived as the Trans-Pacific Strategic Economic Partnership (TPSEP or P4), this agreement was conceived in 2005 as a free trade agreement (FTA) among Brunei Darussalam, Chile, New Zealand, and Singapore. The United States joined the negotiations in 2009 and the membership expanded to Australia, Peru, Viet Nam and Malaysia. More recently, Canada and Mexico joined. Japan's decision to join negotiations certainly elevated the importance of the initiative. The TPP negotiation was concluded in October 2015 and signed on 4 February 2016. This grouping currently accounts for more than 40% of global trade.

One of the most important features of the TPP negotiation was that it had a very comprehensive and ambitious negotiating agenda. The legal texts "cover all aspects of commercial relations" among the TPP countries. These include market access for goods, rules of origin, customs, textiles and apparel, e-commerce, cross-border services, financial services, telecommunications, temporary entry, investment, sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), competition, environment, government procurement, intellectual property, labour, legal issues, trade remedies, cooperation and capacity-building.

It is clear that the TPP negotiations went beyond the conventional comprehensive economic partnership agreements as it included more binding commitments on issues such as competition, environment, government procurement, intellectual property, and labour. These inclusions have been heralded as "high quality" engagements. Yet, it has certain elements of bilateralism in nature since some members have undertaken country specific commitments of liberalisation.

(b) Transatlantic Trade and Investment Partnership

The genesis of announcing the intent to launch negotiations on a United States-European Union Transatlantic Trade and Investment Partnership lies in detailed exploratory process that began at the November 2011 United States-European Union Summit whereby the

leaders tasked the High Level Working Group (HLWG) on Jobs and Growth with identifying policies and measures to increase United States-European Union trade and investment to support mutually beneficial job creation, economic growth, and international competitiveness. The HLWG recommended negotiations on the TTIP. On 18 April 2013, the European Union trade ministers set the end of June 2013 as a deadline for reaching an accord on the mandate to start negotiating the TTIP. This is the most significant initiative as, together, the European Union and the United States account for nearly half of world GDP and 30% of world trade.

The HLWG report also suggested making the TTIP a “comprehensive” agreement that should aim to achieve ambitious outcomes in three broad areas: (a) market access; (b) regulatory issues and non-tariff barriers (NTBs); and (c) rules, principles and new modes of cooperation to address shared global trade challenges and opportunities. It is also intended that this agreement will include tariffs, services, investment, government procurement, sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), intellectual property rights (IPR), environment, labour and competition policies, in order to make it a “high quality” agreement.

(c) Regional Comprehensive Economic Partnership

The economic regionalism process in Asia gathered momentum with the ASEAN+3 process from which India remained excluded until the East Asia Summit (EAS) began in 2005 with ASEAN+6 countries (including the 10 ASEAN members, China, Japan, the Republic of Korea, India, Australia and New Zealand). This grouping was expanded to include the United States and the Russian Federation at the Sixth EAS in 2011.

RCEP, which aims to become one of the largest regional economic groupings in the world, comprises all 10 ASEAN members and the six other countries which the group has ASEAN+1 FTAs (i.e., China, India, Japan, the Republic of Korea, Australia and New Zealand). The bloc represents 49% of the world’s population and accounts for 30% of world GDP. It also makes up 29% of world trade and 26% of world FDI inflows. Conservative estimates using various computable general equilibrium models, suggest that if the RCEP were to be implemented it would bring large income gains to the world economy, amounting to between \$260 billion and \$644 billion within a decade or so.

The RCEP process is supposed to reconcile two different sets of proposals recommended by two study groups, i.e., the East Asian Free Trade Agreement (EAFTA) in the realm of ASEAN+3 and the Comprehensive Economic Partnership Agreement (CEPA) covering the ASEAN+6 countries. In this sense, the RCEP bridges the two proposals¹ and maintains an open accession scheme.² The negotiations among the 16 countries began in early 2013 and are expected to conclude by the end of 2016.

¹ Government of Australia, 2012, *Background to the Regional Comprehensive Economic Partnership (RCEP) Initiative*, Department of Foreign Affairs and Trade – the Chairman’s Statement at the sixth East Asia Summit, held in Bali, Indonesia, 19 November 2011, and the Chairman’s Statement at the seventh East Asia Summit, held in Phnom Penh, 20 November 2012.

² *Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership*. Available at <http://www.asean.org/storage/images/2015/October/outreach-document/Edited%20RCEP.pdf>.

2. Economics of Regional Trade Agreements

The dynamics of mega-trading blocs cannot be well-understood without clarifying the economics of regional trade agreements (RTAs). This is particularly important as it will help to place the APTA process in a visionary perspective of Asian economic integration. Although regional integration initiatives entail trade liberalization and investment cooperation agreements, they have largely failed to be contextualized in terms of achieving developmental goals such as understanding of the channels through which regional trade and investment integration could yield developmental outcomes. The importance of understanding these issues is especially pronounced in the underdeveloped regions.

The complexity inherent in the economics of regional trade and FDI integration can be explained. Any regional economic integration agreement, especially if it covers trade in goods, trade in services and investment issues, can generate higher regional trade primarily due to: (a) increased market access; (b) a decrease in transaction costs through trade facilitation; (c) increased trade in services (due to the two-way relationship between trade in goods and services); (d) increased investment; (e) improved knowledge and technology; and (f) rules of origin (RoO) effects (Das *et al.*, 2012).

Increased market access is ensured by a reduction in trade barriers in a static scenario and the scale expansion effect incumbent in a dynamic setting. Similarly, trade-augmenting investment can be a summation of (a) domestic investment and (b) FDI from outside the region (i.e., global FDI and intraregional FDI); all spurred by the possibilities of enhanced intraregional trade due to reduced trade barriers under an FTA. Together, these have potential for employment-generating developmental effects.

Explaining it further, strengthening the trade-investment linkages is crucial to achieving higher levels of regional trade as well as to its developmental impact (Altomonte, 2004). Such linkages help to improve export supply capabilities in the countries of a regional grouping by establishing trade-creating joint ventures. They are also employment-generating on the basis of the three types of investment mentioned above (domestic investment, global FDI from extra-regional sources and regional FDI from intraregional sources). While an FTA can spur investment flows in terms of efficiency-seeking regional restructuring, it is the trade-creating joint ventures that ultimately have a decisive impact on regional trade flows.

In this context, if production networks through vertical integration and horizontal specialization are also given policy focus with the help of cross-country investment flows that strengthen trade-investment linkages, gains in terms of higher trade and investment flows leading to greater employment generation become possible. This may essentially mean distributing different stages of production in a particular industry regionally in an integrated manner, i.e., vertical integration, together with specialization at the same stage of production with the help of product differentiation across the region, i.e., horizontal specialization.

It should also be noted that the effects of RoO can either be trade-augmenting, especially through its regional accumulation provisions, or restrictive, depending upon their formulation and implementation. Further, RoO provide yet another channel through which regional

trade can have developmental effects, especially with regard to employment generation. Whether or not a product has originated in a particular country hinges on whether the product has undergone substantial transformation, with the latter having developmental effects in terms of local value-addition and employment generation (Das and Ratna, 2011).

Given the backdrop of global dynamic of mega-trade blocs and the economics of RTAs, it is imperative to galvanize the APTA process, which is highly suited for regional integration in Asia, as highlighted above. However, APTA is beset with several problems that need to be addressed in order to make it more dynamic and welfare-enhancing. This issue is taken up in subsequent sections as part of the APTA vision.

B. Stylized facts about APTA

Despite the fact that APTA has not performed to its full potential, there are a number of reasons for APTA being well-suited for Pan-Asian economic integration as listed below.

- (a) APTA is possibly the most broad-based grouping in Asia, as it has membership from a wide range of Asian subregions such as those in the South, South-East and East Asian regions. The South Asian region is represented by Bangladesh, India and Sri Lanka, the South-East Asian region by the Lao People's Democratic Republic; and the East Asian region by the Republic of Korea and China;
- (b) It is a regional grouping in Asia that has a comprehensive scope of cooperation, including trade in goods, services, investment and several other areas of cooperation;
- (c) It is the only grouping to include three of the world's most dynamic economies, i.e., China, India and the Republic of Korea;
- (d) It has a structured institutional mechanism with a Secretariat at the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) since 1975;
- (e) Since the recent global recession, China and India have been playing an important role in creating a faster recovery among the Asia-Pacific economies due to their large import demand (notwithstanding the recent Chinese economic meltdown). This exemplifies the future impact of APTA in the Asia-Pacific region, since the population and GDP of APTA member countries represent 67% and 38% of the region, respectively;
- (f) The Participating States of APTA have already concluded the Fourth Round of negotiations that cover more than 10,000 items for preferential trade. The impact is significant as highlighted in a subsequent section of this chapter;
- (g) Current intra-APTA trade is not insignificant, with an 11% intra-APTA share of exports (table 11.1). A comparison of APTA with other regional groupings in the developing world presents interesting insights. The level of intraregional APTA exports as a share of total exports to the world has remained one of the

lowest at 10.97% in 2005 and 11.2% in 2013 when compared with ASEAN, MERCOSUR, Indian Ocean Rim (IOR) and Southern African Development Community (SADC). This compares rather poorly with similar shares of intraregional exports in total exports to the world in the case of ASEAN (25.3% in 2005 and 26% in 2013); MERCOSUR (11.6% in 2005 and 14% in 2013); IOR (26.3% in 2005 and 29.3% in 2013); and SADC (9.01% in 2005 and 12.72% in 2013);

- (h) However, it is important to note that the absolute volume of intra-APTA exports has risen from approximately \$127 billion in 2005 to \$351 billion in 2013, which was an increase of 175% during that period. This growth in intraregional exports in absolute terms is much higher than that of ASEAN, MERCOSUR and IOR (98%, 130% and 138%, respectively) during the same period, and only below SADC (approximately 200%). In addition, it is equally important to note that in absolute terms intra-APTA exports stood at \$351 billion ahead of ASEAN (\$328 billion), MERCOSUR (\$59 billion) and SADC (\$24 billion). Again, intra-APTA exports were behind IOR (\$640 billion) in 2013;
- (i) It is worth mentioning that, in analysing the intraregional trade flows, only export trends have been included because imports would just mirror export behaviour at the aggregate intraregional level. However, the extent of intra-APTA trade integration varies across the Participating States of APTA, with some countries having strong linkages and others only weak linkages. Strong intra-APTA linkages are displayed by the Republic of Korea and the Lao People's Democratic Republic, moderate linkages by India, China and Sri Lanka and somewhat weaker linkages by Bangladesh;
- (j) Figure 11.1 shows that exports from individual Participating States of APTA to other Participating States have displayed enormous dynamism in recent times. Since 2002, in particular, all Participating States of APTA have shown an increasing trend in their exports directed towards other Participating States. This may well be due to tariffs in the initial rounds of negotiations as well as the bridging of the information gap and increased awareness among the business communities in the Participating States of APTA;
- (k) Several important observations can be drawn from table 11.2. First, intra-APTA export share remained almost constant between 2005 and 2013. The share of intra-APTA exports in total APTA exports to the world increased only marginally from 10.97% to 11.22% during that period. However, this only suggests that the numerator and the denominator increased at the same pace, keeping the ratio almost constant. Second, as highlighted above, the absolute value recorded a substantive increase of around 175% during this period. Third, those Participating States of APTA with the strongest export linkages with other Participating States included the Republic of Korea (23.68%) and India (11.85%) in 2005; and the Republic of Korea (28.44%) and the Lao People's Democratic Republic (28.21%) in 2013. During 2005-2013, China, India and Sri Lanka displayed moderate export linkages as a proportion of their total exports to the world while Bangladesh remains characterized by weak export linkages with other Participating States of APTA. Fourth, on the

import side, it is interesting to note that (i) intra-APTA imports as a share of total imports from the world were the highest for Bangladesh (36.55%) and Sri Lanka (33.75%) in 2005, and (ii) they have remained the most import-integrated in proportionate terms with Bangladesh (45.63%) and Sri Lanka (41.66%) in 2013. What is important to note in this context is the increased intra-APTA import integration of the Lao People's Democratic Republic, from 10.95% in 2005 to 29.79% in 2013, while in the case of the Republic of Korea it increased from 15.34% in 2005 to 19.36% in 2013. Fifth, India's proportionate import integration within APTA region registered a marginal increase from 14.16% to 14.85% between 2005 and 2013, while China's share declined from 11.63% to 9.98% during the same period;

- (l) In order to realize the true potential of being a Pan-Asia-Pacific agreement, APTA is intending to expand its membership. This was mandated by the APTA Ministerial Council Declaration in Goa held in 2007 (box 11.1);
- (m) The Participating States of APTA are also set to launch negotiations on trade facilitation, trade in services, investment and other areas of cooperation, such as NTMs. In August 2011 the Participating States of APTA entered into the Framework Agreement on the Promotion and Liberalization of Trade in Services, following the Framework Agreement on the Promotion, Protection and Liberalization of Investment and the Framework Agreement on Trade Facilitation that were adopted in December 2009. All three Framework Agreements have been duly signed and ratified by all Participating States of APTA to date;
- (n) It is also the first preferential agreement among the developing countries in the region to adopt a common operational procedure for certification and verification of the origin of goods.

However, despite its high potential, APTA did not progress fast enough in terms of deepening and widening preferential trade, which was due to limited coverage of items in tariff concessions and long-time taken in concluding the rounds and accession of new members. Hence, this chapter explores the possibility of membership expansion, which will have positive impacts on potential member countries and the existing Participating States of APTA.

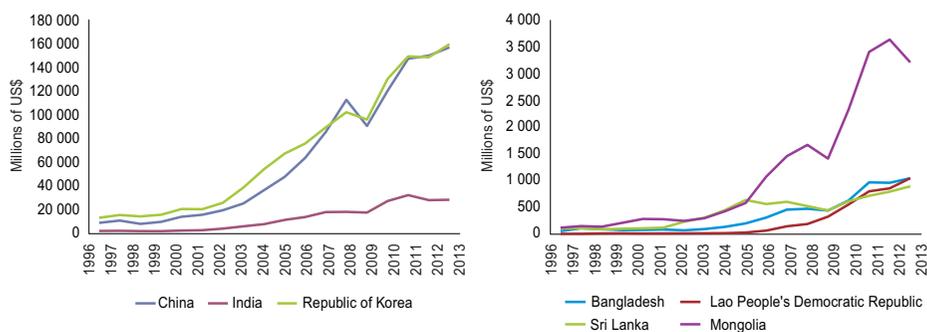
Table 11.1. Intra-regional exports among developing countries' regional groupings, 2005 and 2013

(US\$ million)

Regional grouping	Total intra-regional exports	Total exports to the world	Intra-regional exports as share of exports to the world (%)
2005			
APTA	127 340.23	1 160 494.16	10.97
ASEAN	165 457.14	652 998.14	25.34
MERCOSUR	25 670.39	221 137.72	11.61
IOR	268 717.19	1 022 835.48	26.27
SADC	8 327.02	92 420.00	9.01
CARs	1 504.76	38 013.01	3.95
2013			
APTA	351 300.11	3 129 670.21	11.22
ASEAN	328 806.98	1 262 529.86	26.04
MERCOSUR	58 946.84	42 069.80	14.00
IOR	640 409.95	2 179 791.21	29.38
SADC	249 17.28	195 828.82	12.72
CARs	5 200.39	85 280.19	6.10

Source: IMF Direction of Trade Statistics, 2015.

Figure 11.1. Total intra-APTA exports by individual Participating States of APTA



Source: IMF DOTS, 2015.

Table 11.2. Intra-regional exports among Participating States of APTA, 2005 and 2013

(US\$ million)

2005									2013		
To	From	Bangladesh	China	India	Republic of Korea	Lao PDR	Sri Lanka	Intra-APTA exports	World	Intra-APTA exports as a share of exports to the world (%)	
		Bangladesh		46.33	118.88	22.86	0	8.81	196.88	8 494.4	2.32
China		2 403.52	8 936.91	35 116.8	105.34	941.17	47 503.74	762 347.0	6.23		
India		1 656.05	6 473.30	1 630.83	4.77	1 871.80	11 636.75	98 201.6	11.85		
Republic of Korea		611.14	61 915.00	4 597.84	13.93	204.87	67 342.78	284 341.0	23.68		
Lao PDR		0	23.22	0.08	1.92	0	25.22	726.51	3.47		
Sri Lanka		15.77	29.41	566.41	23.27	0	634.86	6 383.65	9.95		
Intra-APTA imports		4 686.48	68 487.26	14 220.12	36 795.68	124.04	3 026.65	1 160 494.2	10.97		
2013											
To	From	Bangladesh	China	India	Republic of Korea	Lao PDR	Mongolia	Sri Lanka	Intra-APTA exports	World	Intra-APTA exports as a share of exports to the world (%)
		Bangladesh		401.93	472.98	146.49	0	0	19.46	1 040.86	25 913
China		9 711.65	48 445.60	91 174.40	1 720.56	2 448.91	3 437.27	156 938.39	2 210 660	7.10	
India		5 710.36	14 517.00	4 099.29	45.52	15.74	4 227.28	28 615.19	315 127	9.08	
Republic of Korea		1 427.20	145 869.00	11 375.80	187.05	399.47	299.32	159 557.84	559 625	28.51	
Lao PDR		2.26	927.86	101.57	11.35	0	0	1 043.04	3 985.6	26.17	
Mongolia		0	3 179.54	8.10	0.02	0	0	3 212.17	3 515.71	91.37	
Sri Lanka		36.13	165.77	611.68	76.84	0.03	2.17	892.62	10 843.9	8.23	
Intra-APTA imports		16 887.60	165 061.10	61 015.73	95 532.88	1 953.18	2 866.29	351 300.11	3 129 670.21	11.22	

Source: RIS based on IMF DOTS, 2015.

Box 11.1. APTA Ministerial Declaration: Goa, India, 2007

"We, the Ministers of the Participating States of the Asia-Pacific Trade Agreement, gather today in Goa, India for the Second Session of the Ministerial Council of the Asia-Pacific Trade Agreement. We reaffirm our commitment to the principles and objectives of the Ministerial Declaration adopted by us at our First Session held in Beijing, China on 2 November 2005. In particular, we reaffirm our commitment on a priority basis to expand the membership of the Agreement to evolve it into a truly Pan-Asia-Pacific Trade Agreement. In this regard we direct the Standing Committee to consider and facilitate the accession of new members which are ESCAP developing member countries, including members which are countries with economies in transition, and accord particular attention to members which have been confirmed by the Standing Committee as priority countries. We look forward to welcoming at least a few new members when we meet again in two years' time."

Source: ESCAP, 2007.³

1. Variable geometry of Asian regionalism

It is now a well-established fact that the centre of economic gravity has shifted to Asia, and the twenty-first century could well be an Asian century of economic prowess. It is increasingly being recognized that, due to a growing middle class, Asia has now emerged as a significant source of final demand that is providing its own stimulus for regionalism. According to a study by Kharas (2010), the shift in global goods production towards Asia is well-documented. However, global consumer demand has so far been concentrated in the rich economies of the Organisation for Economic Co-operation and Development (OECD). By combining household survey data with growth projections for 145 countries, the study showed that Asia accounted for less than one-quarter of today's middle class. By 2020, more than half the world's middle class could be in Asia and middle class Asian consumers could account for more than 40% of global consumption. This has important implications for the region. At the same time, this may not mean a complete decoupling of emerging economies from the rest of the world. The world has taken cognizance of this and it is amply evident in the recent initiatives of the TPP and TTIP that seek to not only take advantage of the Asian economic dynamism but also attempt to consolidate the leading economic forces of the Americas and Europe, with the latter a response to Asia's economic rise as predicted. What follow from these are the imperatives of a Pan-Asian economic integration strategy, fostered through strong and efficient institutional mechanisms.

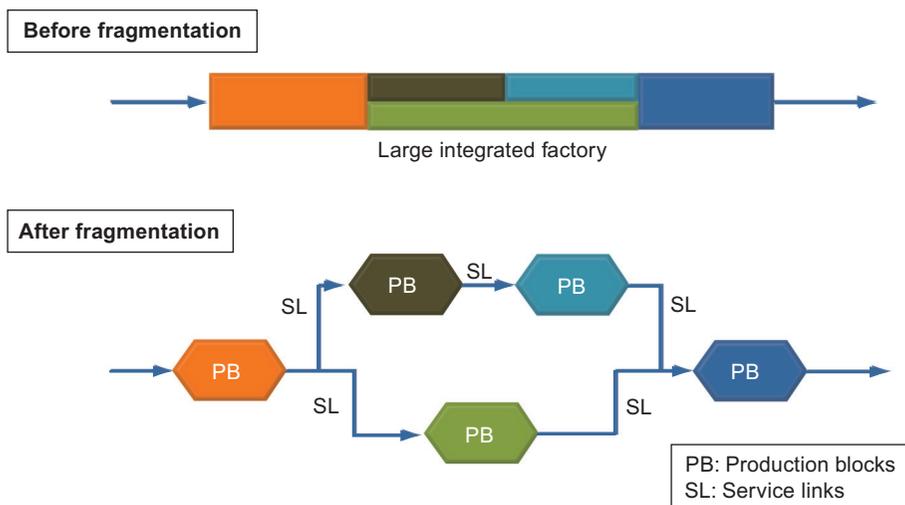
³ This was stated in ESCAP (2007), in regards with the second session of the Ministerial Council of the Asia-Pacific Trade Agreement held in Goa, India, on 26 October 2007.

2. Basis of regional integration under APTA: Understanding the regional value chains

There are a few stylized facts and trends discernible in this context.

- (a) There is de facto market-driven production integration in some parts of Asia (Chen, 2008). A salient feature of the East Asian region is the persistent discrepancy between the progress in de facto and de jure economic integration (Nicolas, 2010);
- (b) The de facto trend manifested in production fragmentation processes or regional value chains (RVCs) is more pronounced in the East and South-East Asian regions (Athukorala, 2011), with other subregions of Asia conspicuous by their absence from these important processes. Simply defined, a production/value chain is the full range of activities that firms and workers undertake to bring a product from its conception to its end use;
- (c) The main idea of fragmentation is presented in figure 11.2. The fragmentation theory has played a central role in explaining the functioning of production networks. However, several conditions, such as availability of different locational advantages and service-link costs (that include transport, coordination costs and technical separation of production processes), need to be met for fragmentation of production processes to be economically viable and efficient. These would have to be focused upon in future APTA economic integration;

Figure 11.2. Fragmentation theory: Production blocs and service links



Source: Kimura and Obashi (2011).

- (d) Considering the significance of institutionalized efforts towards economic integration, recent times have witnessed de jure processes of economic integration whereby the East, South-East and, to some extent, South Asian regions have embarked upon a policy-induced strategy of forging bilateral, subregional, regional and interregional free trade agreements (FTAs/RTAs);
- (e) These policy-driven initiatives of FTAs/RTAs are increasingly becoming deeper forms of economic integration with the scope of cooperation expanding from mere trade in goods to include trade in services and investment;
- (f) These initiatives are characterized by the phenomenon of variable geometry, with Pan-Asian economic integration initiatives expressed over time in terms of APTA, ASEAN+1, ASEAN+3, ASEAN+6 and the East Asia Summit. The oldest of these initiatives has been the APTA process;
- (g) More recently, the process of the ASEAN+6 has been consolidating with the launching of RCEP negotiations;
- (h) What is more, several of the East and South-East Asian countries are now also part of the interregional TPP, in which the United States plays a predominant role. Quite obviously, this is an effort by the Americas to tap the economic dynamism of the Asian region;
- (i) The Asian region is characterized by an institutional paradox with a weak link between availability of institutional infrastructure and level of intra-grouping economic integration. There is a lack of institutional mechanism despite its need, given the imperatives of Pan-Asian economic integration. On the other hand, APTA has an established institutional mechanism, but has not met with the desired degree of success in terms of much higher intra-APTA trade in goods accompanied by higher flows of intraregional trade in services and investment, which are even difficult to measure at this stage given the data limitation on an inter-country comparative basis. It is important to note that intra-APTA goods' trade, which is hovering at around 11%, shows the extent of potential that can be tapped. Between 2005 and 2013, it did not grow in any noticeable percentage terms. The expectations are high, if tariff preferences are combined with trade facilitation, for trade in services and investment growth through an integrated approach (this theme addressed later in this chapter).

It may be inferred from these stylized facts that one of the most plausible ways to evolve a Pan-Asian economic grouping could be through the expansion of APTA membership by covering other regions of Asia and the Pacific. This would make APTA the most representative grouping in the Asia-Pacific region, a fact that is explored later in this chapter. Given the existing institutional infrastructure of APTA, it appears to be well-suited for the purpose.

3. Constraints to APTA

APTA, thus far, has progressed rather slowly relative to its potential, especially with China, India and the Republic of Korea as Participating States. Issues such as those focused on in this study have not been analysed in depth in the available literature, which is possibly one of the reasons why APTA has not been seen as an efficacious alternative for evolving a broad-based, truly Pan-Asian economic grouping. Despite its potential, APTA faces several constraints that have prevented it from becoming a truly dynamic regional economic grouping.

First, APTA has not been able to take advantage of the presence of some of the most dynamic and emerging economies such as China, India and the Republic of Korea due to the fact that it is just a PTA, as reflected in the current state of intra-APTA merchandise trade flows. However, the optimism that it can be further enhanced stems from the fact that the flow of intra-APTA trade in goods has displayed enormous dynamism.

Second, in order to expand the scope of economic complementarities, APTA has not been able to generate enough enthusiasm for newer members that have enormous potential to galvanize the APTA process. After the accession of China, it is only Mongolia which will accede as member that too after several years of negotiations.

Third, because APTA has thus far functioned through ministerial-level interactions and not at the Summit level, its efficacy has been rather limited. This is relevant because if the discourse and impetus do not come from the highest levels they may not percolate into actual outcomes in terms of strengthened economic linkages. This would be a pertinent move since various other regional economic groupings, such as SAARC in South Asia and ASEAN in South-East Asia, among others, are guided by Summit-level declarations of the Heads of Governments/States.

Finally, the fact that APTA has a Secretariat in a multilateral organization has remained a constraint due to the lack of adequate attention in terms of strengthening that Secretariat. This situation is exacerbated by an information gap, a lack of awareness among businesses and APTA's current structured as a PTA, all of which add to slow progress under the RTA.

C. The past foretelling the future

1. Present status

During the Fourth Round of negotiations on tariff liberalization, the Participating States of APTA decided to shift towards a different approach to the modality of tariff reductions by changing to an "across-the-board basis" rather than the conventional request-and-offer approach that was previously followed. The modality was based on minimum coverage of items (in terms of a fixed percentage of the total number of national tariff lines) and average margin of preference (MoP) that a Participating State of APTA would offer. The Participating States agreed to exchange their final offer covering 28% of their national tariff lines with an average MoP of 33%. With the conclusion of the Fourth Round, coverage of

preferences of total tariffs for each nation amounted to 10,677 items (up from 4,270 at the conclusion of the Third Round) and deepened the average MoP to 31.46%. LDCs are entitled to additional concessions on 1,259 items for Bangladesh and 1,251 items for the Lao People's Democratic Republic with an average MoP of 86.44% and 86.20%, respectively, under the special and differential treatment provision of APTA.

The analysis of the top 25 import items of the Participating States of APTA showed that for each nation the top 25 imports in the latest year available had tariff concessions under the Fourth Round as well as the Third Round; over the years, the composition of the top 25 items imported under APTA have undergone changes but concessions are still available. This means that there has been a product diversification of exports to the Participating States of APTA among the top 25 items between 2003 and 2013. The top 25 imported items from within APTA ranged from \$0.1 billion (40.1% in total imports by Mongolia from the Participating States of APTA to \$122 billion (59.4% of China's total imports from the Participating States of APTA). The MoP weighted average also varied across countries. For example, the Republic of Korea provided the largest MoP increase (a 14.7% increase from 5.8% under the Third Round) while China ranked second (14.4% increase). However, these two countries have rather small MoP for the top 25 imported products from the other Participating States of APTA, implying that market access opportunities exist in these two major export markets (ESCAP, 2014).

The above is only an indication of past trends in tariff reductions in Participating States of APTA, suggesting that enormous potential exists for making APTA more meaningful in terms of trade and welfare gains (Das, 2014).

2. Impact assessment of the Fourth Round tariff concessions

Having highlighted the positive implications of the Fourth Round of APTA tariff concessions, an assessment was made of the possible impact of these concessions on the imports of individual Participating States of APTA. It should be mentioned that due to (a) the paucity of internationally comparable data at disaggregated levels, and (b) the lack of statistics on "preferential" imports, an impact analysis is difficult and can only be indicative. The elasticity-based methodology was used to make such an assessment in order to gauge the impact of the Fourth Round tariff liberalization on intra-APTA trade flows.

First, the import elasticity of a Participating State of APTA was calculated with regard to MFN tariff change at the HS 6-digit level between two points in time and vis-à-vis imports from all countries of the world. Subsequently, the import elasticities obtained at the HS 6-digit level were used to find the possible increase/decrease in imports due to the Fourth Round tariff concessions for each country vis-à-vis other Participating States of APTA, taking the MoP schedule of concessions expressed as a percentage of MFN tariff.

A brief description of the methodology is given below and results are presented in table 11.3.

Table 11.3. Impact of the Fourth Round APTA concessions on intra-APTA imports

(US\$ million)

Imports of ↓ from →	Bangladesh			China			India			Republic of Korea			Sri Lanka			APTA				
	IMP ₁	IMP ₂	Per cent Change	IMP ₁	IMP ₂	Per cent Change	IMP ₁	IMP ₂	Per cent Change	IMP ₁	IMP ₂	Per cent Change	IMP ₁	IMP ₂	Per cent Change	IMP ₁	IMP ₂	Per cent Change		
Bangladesh																				
China	52	710	1 266				793	2 903	266	49 688	169 159	241	8	113	1 307	50 521	172 884.20	242.20		
India	29	52	79	16 423	32 013	95				3 274	6 126	87	104	186	79	19 830	38 377.42	93.53		
Rep. of Korea	18	33	87	3 106	3 617	104	458	924	101						N.A.	3 582	4 574.00	27.69		
Sri Lanka	10	13	34	263	465	77	327	674	106	76	171	125				676	1 324.32	95.90		
																APTA	76 925	222 581.94	189.35	

Source: Author's estimates.

Notes: IMP₁ – Imports 2011; IMP₂ – potential imports.

(a) Scenario I: Calculating import elasticity

The impact on imports of country A with regard to change in MFN tariff:

η = Proportionate change in imports of country A/ proportionate change in MFN tariff

$$\eta = \Delta \text{IMP}/\text{IMP} \div \Delta \text{MFN}/\text{MFN}$$

$$\eta = (\text{IMP}_2 - \text{IMP}_1)/\text{IMP} \div (\text{MFN}_2 - \text{MFN}_1)/\text{MFN}$$

= ((imports of country A from the world in year 2 – imports of country A from the world in year 1)/imports of country A from the world in year 1) ÷ ((MFN of country A in year 2 – MFN of country A in year 1)/MFN of country A in year 1))

(b) Scenario II: Impact on Intra-APTA imports using import elasticity

The elasticity as calculated above is used for assessing the impact of APTA concessions at the bilateral level on intra-APTA imports:

Import potential at the HS 6-digit level of a bilateral trading pair, country A and country B of APTA = potential import of country A from its APTA partner country B (i.e., IMP_2) is calculated using the formula:

$$\eta * ((\text{IMP}_2 - \text{IMP}_1)/\text{IMP}_1) * \text{IMP}_1 + \text{IMP}_1$$

where $\eta \rightarrow$ elasticity for country A with regard to change in tariff:

$$\text{Proportionate change in tariff} = ((\text{MFN}_2 - \text{MFN}_1)/\text{MFN}_1) * 100$$

where MFN_1 is MFN tariff of country A in year 2; MFN_2 is liberalized tariff under the APTA Fourth Round, i.e., $\text{MFN}_1 - \text{MFN}_1 * (\text{MoP}/100)$

IMP_1 is initial imports of country A from bilateral partner country B.

Overall, the import coverage of products included by all Participating States of APTA for tariff concessions stood at \$77 billion in 2011. This was subjected to the elasticity estimates obtained on the basis of MFN tariffs of APTA in 2011; as per the formulae described above, the Fourth Round of APTA tariff concessions have the potential to register a 189% increase in intra-APTA imports, raising its absolute amount to \$222 billion. This is a significant result. When this is added to the actual total of intra-APTA imports, which stood at \$354 billion, the total absolute level of intra-APTA trade could reach \$571 billion, which is a 67% increase.

Two points need to be mentioned here. First, quite obviously \$77 billion of intra-APTA imports pertains only to those HS 6-digit level products that are covered under the Fourth Round of tariff concessions, which is a subset of overall existing intra-APTA trade, i.e.,

\$354 billion. Second, the aggregate intra-APTA impact assessment was arrived at with the help of disaggregated bilateral APTA country pairs and at the HS 6-digit level of product classification covered under the Fourth Round schedule. China displays the maximum amount of percentage change in terms of import absorption from other Participating States of APTA in the post-Fourth Round APTA concession phase, followed by India, the Republic of Korea, Bangladesh and Sri Lanka.

It must be added here that the relatively unexpected lower import absorption projected for the Republic of Korea under this empirical exercise is due to the fact that the MFN tariff levels are quite low for that country, whereby a large MoP now has a limit on engendering import flows from other Participating States of APTA. It should also be noted that due to the non-availability of adequate data it was not possible to carry out this exercise in the case of the Lao People's Democratic Republic.

D. The broader canvas of economic integration

1. An integrated approach towards trade in goods, trade in services and investment

One of the most important aspects of economic cooperation is cognizance of the linkages among trade in goods, trade in services and investment. More often than not, these issues are dealt with separately. It is for this reason that the concept of "single undertaking" remains elusive.

This needs to be further elaborated. When trade in goods under an FTA is envisaged, concomitant liberalization of trade in services is also needed, such as trade finance, transportation, insurance services etc. The converse is also true when services trade is liberalized, as it necessitates a freer flow of trade in goods. For example, an attempt to export tourism services may require making a freer flow of trade in goods in areas of construction materials, food and beverages, and vehicles. On the other hand, a trade in goods FTA creates a more conducive environment in which intercountry investments can flow, which is efficiency-seeking and takes advantage of the duty free trade regime for the movement of goods. In the realm of services, Mode 3 pertains to FDI and Mode 4 is related to the movement of natural persons. In short, trade in goods, trade in services and investment need to be viewed as an integrated approach and their negotiations should be on the basis of "single undertaking".

Since APTA is being negotiated only in the field of trade in goods, it is GATS minus currently as it does not include negotiations on trade in services. More importantly, even within the area of trade in goods it has remained a PTA and not an FTA, so in a way it becomes an FTA minus initiative. However, APTA is a dynamic process of economic cooperation that is advancing towards new areas of cooperation with the signing and ratifying of the three Framework Agreements on Trade Facilitation, Investment and Trade in Services, thus making it much more comprehensive.

In this context, one of the major advantages of APTA vis-à-vis RCEP is that APTA has framework agreements on issues relating to Trade Facilitation, Investment and Trade in Services, and therefore, what is needed is the launching of time-bound negotiations on these dimensions together with discussions on converting this PTA to an FTA in order to realize the vision of making APTA a truly Pan-Asia-Pacific grouping that is more substantive, faster and more representative of the Asia-Pacific region if it expands its membership in a planned and phased manner.

2. Employment generation through trade and investment

Trade and investment is not an end in themselves; instead, they are a means to achieve broader developmental objectives such as poverty alleviation and employment generation. Economic cooperation initiatives among countries such as FTAs and comprehensive economic cooperation agreements provide additional market access through tariff liberalization, whereby MoP help to spur productive scale expansion and, hence, an enhanced level of economic activities and employment generation (McKay *et al.*, 2000). Similarly, such trade and investment agreements provide additional investment incentives in the economies of partners, thus having a direct impact on the level of labour absorption. In economies where product fragmentation by penetration of RTAs has played a major role, employment growth in export manufacturing is a likely consequence with the relative rise in the demand for labour.

3. Poverty alleviation through employment generation

One of the best antidotes to poverty is employment generation. While direct anti-poverty programmes are important but any poverty alleviation effects emanating out of income generation through job creation can only be preferable. This is so because in the latter, poverty is reduced while the self-esteem is also enhanced along with skills development. The moot point thus is how to achieve employment generation through economic cooperation among countries. The answer lies in greater economic cooperation in the realms of trade and investment.

A framework mapping of the regional integration and poverty effects was proposed by Te Velde *et al.* (2004). Regional integration affects poverty through four channels: (a) changes in volume and poverty focus of trade; (b) changes in volume and poverty focus of investment; (c) changes in volume and poverty focus of migration; and (d) other routes (including migration). RTAs include certain provisions that may affect the volume, price and “poverty focus” of trade and investment. This may, in turn, affect different characteristics of poverty intermediated through complementary conditions including public policies. With changes in the volume and focus of goods traded, there are changes in total income and its distribution that, in turn, have an impact on the poverty situation. The poor may also benefit when regional imports comprise goods that they consume more. Regional integration can also be of benefit in poverty reduction through regional cooperation in development projects, which will have a significant impact on poverty (Kweka and Mboya, 2004).

4. Peace via trade and investment

It is often believed that trade and investment flows among countries can flourish only when the countries also have a peaceful relationship. However, there can be “reverse causality” whereby trade and investment can serve as a means to achieve higher levels of economic activity that, in turn, impinge upon the relationship across countries by making them more peaceful. One of the prime channels of this approach is achieved through poverty alleviation (box 11.2).

Box 11.2. Peace via trade and investment

According to the French philosopher Montesquieu (1748), peace is a “natural effect of commerce”. The Italian economist Pareto (1889) argued that customs unions could help to achieve peace between countries. These statements show that the fact that regional economic integration can lead to peace dividends among the member countries was realized long ago.⁴

More recently, according to Brown *et al.*⁵ a number of arguments suggest that regional trade integration can result in peaceful outcomes. Some of these arguments include:

- (a) Economic integration makes conflicts more costly for individual States as their trade gains will be adversely affected;
- (b) Regional cooperation can help to reduce trade conflict resources such as blood diamonds and illegal timber. For example, in 1998 the Economic Community of West Africa States (ECOWAS) established the world’s first regional moratorium on small arms, by banning imports of new weapons without approval from other member States; and
- (c) Regional trade agreements provide non-military ways to resolve disputes and promote understanding and dialogue between countries.

According to Lee and Pyun,⁶ the “liberal peace” view in political science including that of Montesquieu, Kant, Angell, and Schumpeter, emphasizes the fact that mutual economic interdependence can be a pathway to peace. This implies that bilateral economic interdependence reduces the use of military force in interstate relations. A country is less likely to get involved in a conflict with its trade partner as there is an opportunity cost of losing the trade gains from the agreement between the two countries. Moreover, the effect of trade integration on interstate conflict varies, depending on the characteristics of specific pairs of States. According to Schiff and Winters,⁷ trade among neighbouring countries raises security by building trust and interaction among countries. Martin *et al.*⁸ used

⁴ Cited in Schiff, M. and L.A. Winters. 2003, *Regional Integration and Development*, World Bank, Washington D.C.

⁵ Brown, O., F.H. Shaheen, S.R. Khan and M. Yusuf, 2005, *Regional Trade Agreements: Promoting Conflict or Building Peace?* International Institute for Sustainable Development, Winnipeg, Canada.

⁶ Lee, J-W and J.H. Pyun, 2009, *Does trade integration contribute to peace?*, ADB Working Paper Series on Regional Economic integration, No. 24, Manila.

⁷ Schiff, M. and L.A. Winters, 1998, *Dynamic and politics in regional integration arrangements: An introduction*, World Bank Economic Review, vol. 12, No. 2; pp. 177-195.

⁸ Martin, P., T. Mayer and M. Thoenig, 2010, *The geography of conflicts and regional trade agreements: If you want peace, prepare for trade*, paper prepared as a part of a research project of the Institute Universitaire de France, and ANR.

a simple theoretical framework to illustrate the different mechanisms at work in making a decision on whether to sign an RTA or not. In addition to standard trade gains, political leaders consider two types of peace-promoting security gains: (a) RTAs serving as a political forum that facilitates the settlement of disputes; and (b) RTAs increasing the opportunity cost of any potential war, which can reduce trade and investment.

Several trading agreements were designed with the initial purpose of promoting peace in the member countries. For example, the establishment of regional groupings such as the Association of South-East Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) began with cooperation in non-economic domains, and the economic agenda in the form of formal trade agreements arrived much later in their deliberations. Similarly, MERCOSUR was originally established to reduce tensions between Argentina and Brazil. In 2000, there were efforts in South-Eastern Europe to create a free trade area designed to promote economic recovery and integration in the war-devastated Balkan region. In 2004, Egypt and Israel signed a trade protocol with the United States. The deal included the creation of five special zones where Egyptian goods would have free access to United States markets, as long as 35% of the goods were the product of Israeli-Egyptian cooperation.⁹ It is argued that given the violent conflicts in Africa, RTAs can prevent the situation by minimizing the sources of conflicts. This would reduce the suspicions among the neighbouring countries. The incentives for membership in RTAs could prevent conflicts among the countries.¹⁰

In sum, the existing literature does highlight the fact that the establishment of regional trade agreements leads to a reduction in military conflicts among the member countries and thus promotes peace.

Source: Excerpted from Das (2013).

5. From economic to cultural integration

One of the important ways of economic integration among countries is by also combining various aspects of cultural integration. In fact, when economic integration takes place, it is imperative that cultural integration follows. If nothing else, it can only help create stronger economic linkages. For example, language and culture are prerequisites to business. Illustratively, a soft-drink company like Pepsi has been able to diversify in other domains of business by understanding the local culture in a country such as India, by diversifying its business towards processed food manufacturing. The company also understood that its branding would receive the much-needed attention if they connected with the most popular sport in India, i.e., cricket. On the other hand, by cultural integration, businesses understand the tastes and preferences of consumers in various walks of life, such as food, clothing, shelter etc.

Previous studies have argued as to how economic integration and cultural standardization can go together (Bowles and Pagano, 2003), as the former can lead to the other. It is not

⁹ Brown, O., F.H. Shaheen, S.R. Khan and M. Yusuf, 2005, *Regional Trade Agreements: Promoting Conflict or Building Peace?* International Institute for Sustainable Development, Winnipeg, Canada.

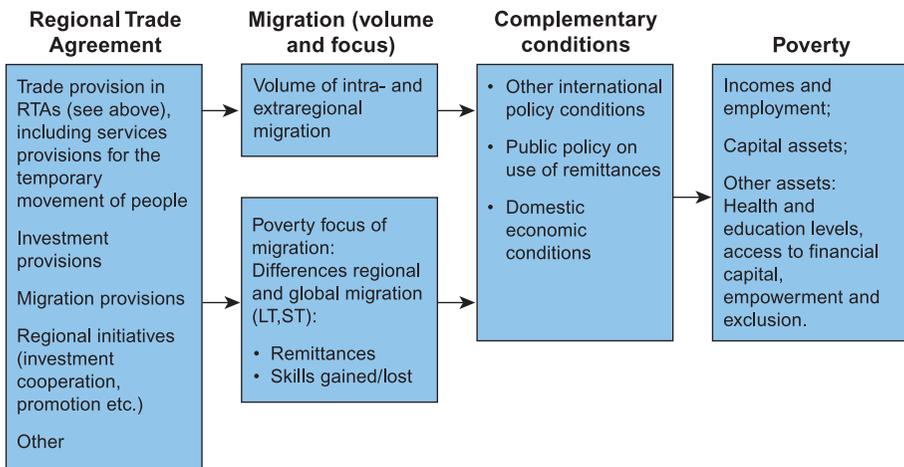
¹⁰ African Development Bank. 2000, *African Development Report*, Oxford University Press, New York.

difficult to understand the logic. With economic integration, countries interact more frequently and more closely through their people-to-people interactions and business-to-business links. In this process, while businesses benefit from cultural learning from other countries, which facilitates their businesses, they also adopt various aspects of other cultures, including language, cuisine, customs, clothing etc., all of which lead to cultural standardization. What could be truer in the case of a continent such as Asia, which is known for its oriental culture and civilization? However, this process has been lost in cultural fragmentation and it is an opportune time to aim for a Pan-Asian cultural integration while pursuing Asian economic integration.

6. Combining a production network with people's network

A corollary to the point made above, in terms of the linkages between economic and cultural integration, is when production networks among countries are as strong as people's network. It is a well-known fact that manufacturing facilities in various parts of Asia with Japanese and Republic of Korea investment have also introduced country-specific industrial organizations, skills, approaches and managerial practices. People are at the core of a production network, an important aspect that is often missed in the literature on regional production networks (figure 11.3). It amply demonstrates interlinkages and theoretical underpinnings of causal relations among different relevant variables under discussion, of which people with different skill sets are the core. This analysis can be easily extended to the area of production fragmentation and regional value chains, whereby manufacturing hubs linked with various services include those delivered by human resources and not so much by technology.

Figure 11.3. Combining a production network with people's network



Source: Te Velde *et al.* (2004).

In summary, an integrated approach towards trade in goods, trade in services and investment has the potential to harness the interlinkages across these dimensions in contrast to a situation when negotiations in a particular regional economic grouping take place in a segmented manner. Such an approach helps in taking advantage of economic complementarities in sectors of member countries of a particular economic grouping, and creates a process of employment generation. This, in turn, through income generation effects, can contribute to addressing developmental challenges in countries by achieving the goal of poverty alleviation when national efforts are supplemented with regional cooperative efforts. All these together offer prospects of making trade and investment serve as instruments of scaling-up economic activities in members of a regional grouping, and thus resulting in peace dividends via trade and investment. What is more, commercial and economic relations are strengthened through a comprehensive and integrated approach, which results in cultural integration. As an offshoot of which, it becomes possible to combine production network with people's network.

It is this broader comprehensive and integrated vision that APTA must adopt in its future endeavours towards becoming a Pan-Asia-Pacific economic grouping. As such, an approach thus far has not been adopted in a process such as an RCEP, which has emerged as a major regional trading bloc.

E. Making APTA a truly Pan-Asia-Pacific Trade Agreement

1. Expansion of membership towards becoming more dynamic regional trade agreement

Membership of APTA suggests that it is already a truly Asian economic grouping, with South Asia, South-East Asia and East Asia represented. What is more, given the fact that the economic gravity has shifted to Asia with the strong likelihood of this becoming the Asian century, three of the most dynamic and emerging economies of the world as well as Asia – i.e., China, India and the Republic of Korea – are already the Participating States of APTA. The global dynamics of regionalism mentioned above can best be captured within APTA by its membership expansion. With Mongolia's accession to APTA, and given the potential for the Central Asian Republics (CARs) as dynamic future Participating States of APTA as well as the fact that the South Asian region could evolve into a hub of economic activities connecting East and South-East Asia to Central and West Asia, the vision of expanding APTA membership is to make APTA a dynamic regional economic grouping by linking the five subregions of ESCAP.

Therefore, the main intention of expanding membership of APTA is to make it "more Asia-Pacific" and more amenable to tapping a larger set of economic complementarities. In other words, APTA can become a truly Pan-Asia-Pacific economic grouping, as its membership is open to all ESCAP developing member countries. The macroeconomic context of CARs suggests that these economies are quite amenable to regional economic integration, which can help achieve their growth and developmental objectives. Some idea of the potential mutual benefits needs to be highlighted if CARs are included in APTA

membership. Some of the new areas that could be worked on between new members (such as CARs) and current Participating States of APTA also need to be included in the analysis as discussed below. This has also been explored in a separate comprehensive study on CARs (Das, 2015).

(a) Energy

The effort towards making APTA a truly Pan-Asia-Pacific trade agreement would be further facilitated by the availability of energy resources in the region's countries whereby generation and trade in energy would be possible with enormous developmental implications.

The Asia-Pacific region has become increasingly dependent on energy imports to fulfil its energy requirements. Thus, addressing this challenge would be an important development for the countries in the region. Within the region, China, India, and the Republic of Korea are the top importers of the three primary fossil fuels (i.e., oil, gas and coal); and the CARs, the Islamic Republic of Iran, Kazakhstan, Azerbaijan, the Russian Federation and Turkmenistan are the top fossil fuel exporters with abundant energy resources¹¹. Thus, there is tremendous potential for greater diversification of the energy mix of the Participating States of APTA through imports from Central and South Asia. While, this will be empirically demonstrated later in this chapter, suffice it to say that energy security would perhaps be an important imperative for including the CARs in APTA.

(b) Tackling climate change in CARs and implications of cooperation with APTA

As has been discussed in Chapter 5, progress made in different areas by some of the APTA members such as China, the Republic of Korea and India on climate change mitigation could be useful for the CARs. For example, the National Carbon Trading Scheme of China and the Republic of Korea for creating a "low carbon civilization" should be carefully studied. In addition, the Republic of Korea is considered to be the leader in Asia with regard to greenhouse gas legislation, which was adopted in 2009. In line with its plan to limit climate-changing greenhouse gas emissions, the Republic of Korea started the world's second-biggest carbon emission market in January 2015, which imposes caps on emissions from 525 of the country's biggest companies (Business Insider, 2015). In the case of India, the national plan on climate change, which includes areas such as solar emission and enhanced energy efficiency, could be studied. Altogether, the CARs and Participating States of APTA could cooperate in fostering clean energy technology innovation and trade/investment.¹²

¹¹ This has been discussed in Chapter 5 in detail.

¹² This will become clearer in a subsequent section where this subject is discussed. Nevertheless, this does provide important logic for the expansion of APTA membership, particularly in the case of the CARs.

(c) Inclusion of developed countries

In order to be a truly Pan-Asia-Pacific trade agreement, APTA must also open membership to the developed countries in the ESCAP region, i.e., Australia, Japan and New Zealand. This is important for several reasons:

- (a) The level of development of a developed country could serve as an export destination for APTA exports, given the huge purchasing power effects in such countries;
- (b) The developed countries may well serve as a source of much-needed FDI for the Participating States of APTA, especially the lesser developed States:
 - (i) In various areas of labour-intensive and capital-intensive manufacturing;
 - (ii) In basic and high-end services and contributions to modernization of agriculture;
 - (iii) As a source of investment in the cross-cutting infrastructure sector comprising roads, railways, airlines, shipping, waterways, power generation and information technology.

The fact cannot be ignored that the inclusion of developed countries in future would also help the APTA process in (a) accessing state-of-the-art technologies, (b) facilitating the consolidation of RTAs in the Asia-Pacific region and serving as an alternative to mega-trading blocs, and (c) making APTA a true Pan-Asia-Pacific agreement with developed countries of the region such as Australia, Japan and New Zealand.

Thus, an APTA Plan of Action needs to be drawn up for expanding membership, with suggested preparations and timelines, and implemented as soon as possible.

F. Making APTA a comprehensive agreement

1. Commitments in trade in goods, trade in services, trade facilitation, investment and NTMs

APTA is comprehensive in terms of scope, which includes trade in goods, trade in services, trade facilitation, investment and NTMs. However, progress in these areas has to be stepped up by implementing the APTA Framework Agreements that were signed and duly ratified during the Fourth Round of negotiations as well as making APTA a truly effective Pan-Asia-Pacific comprehensive economic cooperation agreement akin to an RCEP.

(a) Trade in goods

Within the ambit of trade in goods under the PTA, the Fourth Round of APTA negotiations has already shown the potential for augmenting intra-APTA trade in goods in a substantive manner. However, to further enhance intra-APTA trade in goods, several new and immediate steps would have to be taken. First, the PTA needs to be converted into an FTA so that the possibilities of MoP maximization can be ensured when tariffs are reduced to zero or

near-zero levels. Second, the proposed APTA FTA in goods needs to focus on substantial trade coverage. Third, special and differential treatment (SDT) of LDCs could be strengthened. Fourth, mechanisms to address unfair trading practices and safeguards need to be evolved. Finally, the RoO under the PTA/FTA need to be evolved and implemented in a business-friendly manner by also recognizing their developmental role in the Participating States of APTA.

(b) Trade in services

For this to happen, the Participating States of APTA need to simultaneously launch negotiation. First, within the APTA Framework Agreement on Trade in Services the Participating States may adopt a negative list approach for negotiations in different sectors for trade in services. Second, the initial requests and offers of the Participating States of APTA must be revised in the light of sectoral requests and offers already made. Third, a timeline for finalization of requests and offers for different sectors could be set. Fourth, in order to harness the trade in services liberalization to its fullest extent, mutual recognition agreements (MRAs) need to be concluded among the Participating States by finalizing the list of credited and recognized institutions pertaining to different sectors in each country. Overall, the Participating States of APTA need to focus on APTA commitments that are GATS-consistent and GATS-plus. In this context, adequate emphasis on financial services, especially trade finance, needs to be made so that there is a favourable impact on trade in goods at the intraregional level, thus maximizing the trade in goods and trade in services nexus.

(c) Investment

Similarly, the Framework Agreement on Investment needs to be moved into a negotiating mode on an urgent basis by ensuring transparency. First, in order to augment intra-APTA investment flows, the four dimensions of cooperation, promotion, protection and liberalization of investment all need to be negotiated simultaneously. Second, preferential treatment may be embedded during the course of negotiations for granting fast track investment clearances in each Participating State of APTA for the other APTA Participating States. Third, a special provision for cross-country, intra-APTA investments could be made in new sectors such as energy, climate-smart goods and technologies, tourism and digital connectivity. Finally, focus could also be placed on investments in developing the banking sector of some LDCs among the Participating States of APTA. With these actions in place, APTA can easily become a distinct economic grouping compared to other similar processes such as an RCEP.

(d) Trade facilitation and non-tariff measures

The APTA Framework Agreement on Trade Facilitation provides the Agreement with an edge over other initiatives such as an RCEP as the latter has still not made any significant progress on this dimension. First, in the domain of trade facilitation there are three areas that need to be given special emphasis upon, among others, including: e-commerce, e-certification for rules of origin and collection of preferential trade statistics. Second,

a user-friendly database related to NTMs and NTBs that is more up-to-date and sourced directly from the Participating States of APTA, rather than from secondary sources, needs to be created. Third, APTA needs to have an outreach programme to increase awareness of the availability of the NTM/NTB database at the APTA website so that the stakeholders can utilize it to harness more intraregional trade among the Participating States of APTA. Finally, some of the priority areas for cooperation under the Framework Agreement on Trade Facilitation could cover: (a) notification of existing and new trade laws and regulations, including amendments; (b) harmonization of trade-related fees; (c) the establishment of a Single Window for trade data and documentation requirements; (d) establishing risk assessment and management procedures; and (e) the use of automatic and information technology in customs procedures.

2. From a PTA to an FTA to a CEPA

It is in this sense that the APTA vision should progressively evolve from a PTA to an FTA (with a negative list approach), and move further forward to a CEPA that includes trade in goods, trade in services, trade facilitation, investment and NTBs.

A PTA is a partial scope trade arrangement where member State(s) offer tariff concessions on a limited number of items to the PTA partner(s). The preferential rates of duties are lesser than MFN applied rates of customs duties but not essentially need to be brought down to zero duty. The tariff concessions are expanded through higher tariff concessions on existing items and adding new items for tariff concessions in different rounds of negotiations. On the other hand, in the case of an FTA, member countries commit to bring customs duties on majority of items (termed as 'substantially all the trade' in WTO) to zero for imports from the FTA partners. The FTAs follows a negative list approach of negotiations where the entire national tariff lines are categorised. While PTAs and FTAs cover only trade in goods, and realizing that the economics of RTAs goes well beyond trade in goods, the recent trend has been a movement towards a more comprehensive coverage of issues which is achieved by encompassing trade in services, investment and other areas of cooperation such as energy, science and technology, information exchange, trade facilitations, customs cooperation, capacity-building etc. This is why these agreements are called Comprehensive Economic Cooperation Agreements (CECA) or Comprehensive Economic Partnership Agreements (CEPA).

It may be emphasized that such an endeavour is not a matter of semantics or a simple attempt to expand the scope of cooperation among member countries. Instead, movement away from a mere PTA or an FTA towards CECAs and CEPAs is a manifestation of a sound understanding of the new economics of RTAs, which takes cognizance of the interlinkages among trade in goods, trade in services and investment. The aim is to gain deeper economic cooperation and engagements as already noted above.

G. Expanding the scope of APTA by inclusion of new issues

APTA can be made even more comprehensive by including relevant and emerging issues that are often not addressed in other regional economic/trade agreement groupings.

1. Energy compact

Most of the current Participating States of APTA are net energy importers; therefore, given their future economic needs due to strong potential for higher economic growth, it is imperative that APTA expands its membership in such a manner that focuses on energy security. In this regard, expansion of APTA membership to include the CARs would help develop an energy compact under APTA. One of the major arguments in favour of expansion of APTA membership to the CARs is the possibility of regional cooperation in energy trade. The discussions in Chapter 5 have amply demonstrated that tremendous complementarities exist between the current Participating States of APTA and most of the CARs. It also presents a strong case for the expansion of APTA membership to include the CARs.

2. Digital connectivity

The future of economic linkages within a country and across countries will depend on fast digital connectivity that is easily accessible to all. This is a new area and requires well-focused attention, since service providers in different domains of digital services will need to be taken on board together with harmonization of regulations governing digital space across countries.

A brief analysis of digital connectivity in the Participating States of APTA shows that there is sufficient basis for cooperation. This fact becomes even more pronounced in the context of expanding APTA membership to include the CARs. As shown in table 11.4, there has been a marked improvement in various dimensions of digital connectivity across these countries, which include: (a) fixed broadband Internet subscribers per 100 people; (b) Internet users per 100 people; (c) mobile cellular subscriptions per 100 people; and (d) secure Internet servers per 1 million people. Similar trends are also evident in telephone lines per 100 people. However, it has declined in China, India, Kyrgyzstan and Tajikistan, and has remained stagnant in Bangladesh, Mongolia and Uzbekistan.

However, what is more important is the fact that the level of digital connectivity is quite disparate across countries; in most cases, it is quite low with the exception of the Republic of Korea. Only in the case of mobile cellular subscription has there been tremendous improvement both in terms of the level of mobile outreach and its increased usage, between 2005 and 2013 in most of the countries. In short, within APTA tremendous scope exists for cooperation in various dimensions of digital connectivity, thus adding to the already strong case for including the CARs in APTA membership.

Table 11.4. Digital connectivity statistics

	Fixed broadband Internet subscribers (per 100 people)		Internet users (per 100 people)		Mobile cellular subscriptions (per 100 people)		Secure Internet servers (per 1 million people)		Telephone lines (per 100 people)	
	2005	2013	2005	2013	2005	2013	2005	2013	2005	2013
APTA countries										
Bangladesh	0	0.97	0.2	6.5	6	74	0	1	1	1
China	2.83	13.63	8.5	45.8	30	89	0	4	27	19
India	0.12	1.16	2.4	15.1	8	71	1	4	4	2
Rep. of Korea	25.91	38.04	73.5	84.8	82	111	20	1 995	51	62
Lao PDR	0.01	0.13	0.9	12.5	11	68	0	1	2	10
Mongolia	0.07	4.92	9 ^a	17.7	22	124	3	22	6	6
Sri Lanka	0.11	1.99	1.8	21.9	17	95	2	9	6	13
Central Asia										
Kazakhstan	0.02	11.34	3	54	36	185	1	9	18	27
Kyrgyzstan	0.05	2.45	10.5	23.4	11	121	1	5	9	8
Tajikistan	0.05 ^a	0.07	0.3	16	4	92	0 ^c	1	4	5
Turkmenistan	0 ^b	0.03	1	9.6	2	117	0 ^c	0	8	11
Uzbekistan	0.03	1.06	3.3	38.2	3	74	0	1	7	7

Source: World Bank, WDI database.

Note: ^a 2007 figures; ^b 2008 figures; and ^c 2009 figures.

3. Integrated cross-country and cross-sectoral tourism

The importance of tourism as one of the sectors on which the APTA member countries can focus and reap the benefits has already been emphasised in Chapter 5. Immense scope exists in this sector for cooperation among APTA member countries and the new members. Therefore, APTA could focus on a plan for “Integrated Cross-Country and Cross-Sectoral Tourism” that could include heritage tourism, health tourism, religious tourism, festival tourism, sports tourism as well as film festivals, music concerts and events tourism.

The tourism sector has the potential to introduce a range of economic activities in different areas of trade in goods, trade in services and investment. Increased tourist arrivals among the Participating States of APTA and an expanded membership can provide impetus to business sector activities related to construction, transportation, telecommunications, health services, financial services, insurance services, automobiles, and the restaurants and other entertainment sectors. Therefore, the potential of the tourism sector to provide a boost to the APTA process need not be overemphasized.

4. Media as a vehicle of integration: Trade in audio-visual services

An often ignored aspect of economic integration is the use of the media as a vehicle of integration. This relates to emphasis on trade in audio-visual services. It is often forgotten that trade in audio-visual services and cultural products also have commercial dimensions. These include films, music, television and radio broadcasts, gaming software, animation etc. This could be yet another useful area for cooperation among the Participating States of APTA.

First, various co-production treaties and arrangements for cooperation would have to be forged among the Participating States of APTA. These have the advantages of commercial propositions for earning fees for film production, the development of the local film and music industry, a positive impact on event management and the advertising business, tourism revenue generation etc.

Second, making the use of foreign locations for shooting films is extremely beneficial for the tourism industry. With a large number of global audiences appreciating cinema and television content, the popularity of locations where films and television shows have been produced increases. For example, in addition to providing work for Thai film crews and extras (including the Royal Thai Army), films produced in Thailand have helped the country to promote itself as a tourist destination. As a result, the Tourism Authority of Thailand is keenly interested in attracting production companies to produce films in the country.

The Participating States of APTA thus need to form a working group of experts and representatives from the audio-visual sector under the purview of the APTA Framework Agreement on Trade in Services as a new area for cooperation.

H. Focusing on new mechanics of trade in goods and services: Science, technology and innovation

1. Knowledge creation, development and dissemination

In a significant departure from the assumptions made in the Solow economic growth model, the vintage models of growth-inspired technological progress such as “learning by doing” (Kaldor and Mirrless, 1962; Arrow, 1962). In terms of the latter, new models of capital goods embodied advancements that were based on the experiences gained in the earlier models. The proponents of the new growth theory (Romer, 1986; Lucas, 1988; Scott, 1989) have followed the Arrow-Kaldor approach in which technological progress is treated as an endogenous variable. This is a departure from Solow’s neo-classical growth model in which technology was treated as an exogenous variable.

While the Solow-type model assumed that all countries would grow at the same rate in the long term, the new growth theory attempted to provide an explanation as to why this might not happen. The argument concerned the beneficial external effects of capital accumulation (which included investments in physical and human capital), leading to technological progress in the form of learning-by-doing, or knowledge, and asserted that the latter outweighed the adverse effects of increasing capital per worker (i.e., declining marginal productivity of capital). Therefore, ultimately what happens is that the marginal productivity of capital does not fall in these models with productivity growth or increasing GDP per capita. Thus, rich countries remain rich and poor economies remain poor (Fagerberg, 1994).

The new mechanics in trade in goods and services reveal that the knowledge factor has become a major determinant of manufacturing output as well as service sector performance including actual trading. This results from an important effect whereby knowledge as a factor countervails the trends of diminishing marginal productivity of factors of production. Therefore, modalities for knowledge creation via research and development (R&D) as well as patents become crucial; hence, it needs to focus on knowledge creation, development and dissemination.

APTA can play a vital role in trade and investment by advancing science, technology and innovation (STI) for more inclusive and sustainable development among the Participating States of APTA. The logic is simple. With trade and investment augmentation and facilitation, not only investments in S&T activities can be made and promoted; in addition, trade in scientific goods, such as state-of-art machinery, testing equipment, surgical devices, new materials etc., also can be enhanced on an intra-APTA basis. This will provide an impetus to STI, which, in turn, can contribute towards more inclusive and sustainable development among the Participating States of APTA.

Given the fact that some of the Participating States of APTA are well advanced in this area, it may be appropriate to create an APTA R&D Investment Fund that will help, in particular, the lesser developed Participating States of APTA to focus on knowledge creation, development and dissemination on a sustained basis. This is very important to keep creating newer markets for products and services originating in the Participating States of APTA; however, for this to happen, the proposed APTA R&D Investment Fund above would be the best channel to help mitigate the risks associated with any R&D activity.

2. Climate-smart products including clean technology capital goods

To ensure sustained economic development through trade in goods and services it is equally important to produce climate-smart goods, including clean technology capital goods and provision of environmentally sound services. A blend of these would go a long way in making the economic integration of APTA a low carbon or carbon neutral process¹³.

¹³ The detailed analysis is in Chapter 5.

A greater cooperation among the Participating States of APTA and the possible accession of the CARs (Kazakhstan, for example, has displayed a high share of CSGTs in its total imports) especially on trade in climate-smart energy technologies, which comprise a subset of CSGTs as a whole.

It will be important for the Participating States of APTA to make conscious decisions to remove tariff and non-tariff barriers on trade in climate-smart energy technologies. In this context, it should be noted that the Asia-Pacific region, on the whole, is a net exporter of solar PV systems and energy-efficient lighting but a net importer of the other two climate-smart energy technologies, i.e. wind power generation and clean coal technologies.

I. Towards a more dynamic APTA

1. Unifying Asia: From commerce to Asian civilization

The grand vision of APTA should be to move through the roads of commerce towards the heights of Asian and the Pacific social values and virtues by unifying the region and fostering the time-tested Asian and the Pacific way of life. This can be done through the roots of Asia-Pacific civilization in multi-polar religious, cultural and philosophical tenets that have shaped the art of living in Asia.

2. People-to-people contacts

This can be achieved best through engineering and facilitating people-to-people contacts across the Participating States of APTA and its proposed new incarnation at multifarious levels. This may include youth, women, parliamentarians, sports-persons, academia and businesses. One of the initiatives in this regard could be the establishment of APTA Chambers of Commerce and Industry (APTA CCI), similar to the SAARC CCI. The most important policy initiative here would be to consider the proposal of visa-free movement of people across the Participating States of APTA. This proposal can be further strengthened by facilitating adequate work permits to enhance movement of professionals in various services sectors such as architecture, legal, accountancy, medical, education etc., under the trade in services agreement of APTA. Overall, such endeavours to enhance people-to-people contacts among the Participating States of APTA would also bring about greater cultural affinity.

3. A more dynamic APTA

It is very important to raise the level of APTA discourse because a lack of policymakers' attention at the highest level has been a major factor inhibiting the dynamism of the APTA process. Therefore, it is recommended that the Ministerial Meetings of APTA should be followed by an Annual Summit of Heads of Governments/States. The annual presence of the leaders would not only galvanize the APTA process by periodic stock-taking of actions taken and progress made in a time-bound manner on a continuing basis, but also provide

direction to the APTA process in terms of realizing its grand vision of achieving Pan-Asia-Pacific economic integration.

4. Strengthening the APTA Secretariat

The APTA Secretariat needs to be strengthened in order to address the institutional paradox referred to above. This would entail availability of qualified human resources, both technical and non-technical, and would have to be complemented with adequate infrastructural resources and financial resources. This aspect is crucial to the realization of a broader vision for making APTA a dynamic process, as evidenced by some of the more active regional groupings such as the European Union and ASEAN. To do that, the following work programme for the APTA Secretariat can be considered.

- (a) *Research.* One of the most important ways in which the APTA Secretariat can be made more effective is by conducting high-quality policy research in collaboration with highly qualified consultants;
- (b) *Capacity-building.* Even with the expansion of APTA membership the need for capacity-building will be an important component of the Secretariat Work Programme. This would have to be complemented with workshops, conferences and advocacy, among other aspects, in order not only to disseminate the research and policy recommendations as well as the importance of APTA, but also to create a useful interface with policymakers, academia and businesses to take the APTA process forward;
- (c) *Data portal and statistical tools.* An information gap and information asymmetry, in terms of basic statistics, will hamper good quality research. To avoid this problem the Secretariat could prepare and disseminate database relating to (a) preference utilisation, (b) certificate of origin, and (c) projection of gains, among others;
- (d) *Publications and website.* The Secretariat should have a strong publication programme that may include Reports, Working Papers, Policy Briefs and a Journal brought out by a reputed publisher.

J. Conclusions and policy recommendations

Against this backdrop of facts that relate to global dynamics of regionalism and variable geometry of Asian regionalism, the potential of APTA needs to be tapped by laying its foundation on the basis of important economic cooperation and integration, whereby peaceful co-existence needs to be achieved through employment generation via trade, investment, technology and people. In this regard, a people-centric approach encompassing economic and cultural integration would be crucial. For this, APTA may need to make a transformation by: (a) shifting towards an FTA and a CEPA mode; (b) including newer areas of regional cooperation as proposed in this chapter; (c) expanding the scope of economic complementarities through membership expansion; and (d) raising the APTA process to the Summit level.

1. Towards a more dynamic APTA through APTA Summits

It is clear that APTA has remained suspended at a low level of equilibrium. It cannot be overemphasized that APTA needs to be made more dynamic. The lack of attention among high-level policymakers has been a major factor inhibiting the dynamism of APTA process. It is recommended to raise the level of engagement to the APTA Ministerial followed by an Annual Summit of Heads of Governments/States.

2. Expansion of membership

A comparison of APTA with other regional groupings in the developing world has shown that APTA membership has remained less dynamic. It is noticed that the level of intra-regional exports as a share of total exports to world in 2013 was at around 11.2%, which is the lowest when compared with ASEAN (25.9%), MERCOSUR (14.1%), IORARC (29.3%) and SADC (12.72%). Thus, a huge untapped economic potential exists among the Participating States of APTA, given that the three relatively more dynamic economies of the world – China, India and the Republic of Korea – are Participating States. In addition, the Participating States of APTA face new challenges in the areas related to energy security, climate change, digital connectivity and tourism.

One of the ways to confront these problems is to expand APTA membership, the rationale for which is discussed below, in order to include countries with which these challenges can be dealt in a mutually beneficial manner. However, there has been little effort to expand membership to help address these challenges, with only Mongolia acceding to the Agreement in the past several years. In this regard, a two-pronged approach could be adopted, one related to the CARs and another related to developed countries.

Membership of CARs

The rationale for the CARs acceding to APTA membership is given below:

- (a) *The potential for expanding intra-APTA trade.* A recent study has demonstrated that by the inclusion of CARs as APTA member countries not only CARs would reap gains in the realm of trade in goods but existing Participating States of APTA would also enjoy substantive trade gains. In addition, it has empirically been found to help augment intra-APTA trade;
- (b) *Energy security.* Most of the current Participating States of APTA are net energy importers, and given their expected future economic needs due to their strong potential for higher economic growth trajectories, it is imperative that APTA membership is expanded with a focus on energy security. In this regard, expansion of APTA membership to include the CARs would help develop energy trade under APTA. For this to happen on a speedier basis, an “APTA Energy Dialogue” could be launched by Energy Ministers. The scope of this dialogue could cover both the non-renewable and the renewable energy

sectors as well as their subsectors, and aspects such as energy generation, conservation and transportation;

- (c) *Digital connectivity*. The level of digital connectivity is disparate across the Participating States of APTA. Thus, tremendous scope exists for cooperation on various dimensions of digital connectivity, including cellular services, hardware and software. The analysis suggests that this can serve as a strong case for including CARs while expanding the APTA membership;
- (d) *Climate-smart goods including clean technology capital goods*. For sustained economic development through trade in goods and services, it is equally important to produce climate-smart goods, including clean technology capital goods, and provide environmentally sound services. A blend of these would go a long way in making APTA economic integration a carbon-neutral process.
- (e) *Membership for developed countries*. It is worth-mentioning that in due course APTA will also need to explore the inclusion of some of the other developed countries, e.g., Australia, Japan and New Zealand. This is important for several reasons:
 - (i) Trade – A developed country could serve as an export destination for APTA exports of goods and services, given the huge purchasing power afforded in the developed countries;
 - (ii) Investment – A developed country could well serve as a source of much-needed FDI in the APTA Participating States, especially the lesser developed States; in various areas of labour-intensive and capital-intensive manufacturing, and basic and high-end services, and could contribute to the modernization of agriculture;
 - (iii) Infrastructure – This could also be a source of investment in a cross-cutting infrastructure sector comprising road, railways, airlines, shipping, waterways, power generation and information technology;
 - (iv) Technology – The inclusion of developed countries would also help the APTA process in accessing state-of-the-art technologies.

Thus, an APTA Plan of Action needs to be drawn up for expanding membership, with some suggested preparations and timelines, and it must be implemented as soon as possible.

3. Integrated approach

(a) Trade in goods: From PTA to FTA

One of the obstacles facing APTA has been its low level of intraregional trade. This is primarily due to a very important structural problem in the design of APTA, which is in the form of merely an old-fashioned trade agreement that provides preferential market access only to the Participating States. Therefore, the opportunity to gain additional market access is limited, and with MFN tariffs going down due to unilateral liberalization, the margin of preference is being consistently eroded. This results in low intra-APTA trade. Moreover, the positive list approach to tariff negotiations means that the agreement covers market access for only a few products.

On the other hand, in modern-day trade negotiations with a negative list approach towards trade liberalization, negotiations are conducted substantially on all products, with only a selective basket of items on the negative list remaining outside the realm of negotiations. This results in substantial market access. However, the negative list approach alone does not guarantee market access as it does not determine the extent of tariff cuts. For this to happen, APTA should be changed from a PTA to an FTA (with a negative list approach) whereby not just preferential tariff treatment is provided, but also zero or near-zero tariff treatment. Thus, future Fifth Round of APTA negotiations must be based on a negative list approach.

(b) From FTA to CEPA

Furthermore, in order to harness the full potential of APTA, it needs to take cognizance of the economic implications of the interlinkages of trade in goods, trade in services and investment by moving forward to a CEPA that includes trade in goods, trade in services, trade facilitation, investment, NTBs, etc. Thus, to augment intra-APTA trade it is recommended to (i) move away from positive list approach to negative list approach, (ii) aim at FTA in trade in goods and (iii) adopt an integrated approach towards trade in goods, trade in services and investment by converting APTA to a CEPA as part of the broader visionary landscape.

(c) Implementing CEPA

The basic question is to work out the modalities of implementing a CEPA. APTA is already quite comprehensive in terms of its scope, which includes trade in goods, trade in services, trade facilitation, investment and NTMs. However, progress in these areas has to be stepped up by making the Framework Agreement on Services, Framework Agreement on Investment and Framework Agreement on Trade Facilitation truly effective; and by making APTA a Pan-Asia-Pacific comprehensive economic cooperation agreement vis-à-vis initiatives such as an RCEP. In doing so, clearly defined steps to convert and amalgamate these Framework Agreements into CEPA. This would also require a clear time frame.

4. APTA Secretariat

(a) Strengthening the APTA Secretariat

Despite APTA having a Secretariat in a multilateral institution, it has suffered from a lack of adequate attention in terms of its strengthening. A major contributor to this problem is a lacklustre performance by the Participating States of APTA. The APTA Secretariat needs to be strengthened in order to address the institutional deficit. This would have to be complemented with adequate infrastructural and financial resources as well as a strong Work Programme that includes: (a) regular organisation of APTA meetings, (b) conducting high-quality policy research, (c) a data portal, (d) publications and information dissemination, including reports, working papers, policy briefs and an APTA Journal, (e) capacity building programmes, and (f) massive campaigning for expansion of membership.

(b) Suggested Plan of Action for the Participating States of APTA

In order to achieve the broader vision of making APTA a truly Pan-Asia-Pacific economic mega grouping with a difference, the Participating States of APTA need to initiate certain steps as outlined below:

- (a) *Adoption of the APTA Vision document.* The first step would be to adopt the APTA Vision document at a Ministerial Meeting. A national level Expert Group could be set up by each Participating State of APTA to examine the provisions and recommendations of the document. This could then be further deliberated upon at an APTA-level Expert Group meeting with representatives from the Participating States and the APTA Secretariat;
- (b) *Raising APTA to Summit level.* The officials, experts and the ministers of APTA members need to recommend their leaders to raise APTA to the Summit level;
- (c) *Making APTA an FTA.* With the above systems in place, the ministers may take mandate from their respective leaders for making APTA an FTA on an immediate basis;
- (d) *Initiating negotiations on APTA Framework Agreements.* Similarly, members may be mandated to initiate negotiations on Framework Agreements with the ultimate goal to achieve the proposed CEPA;
- (e) *Contributing to the APTA Secretariat.* For the functions outlined and highlighted earlier, APTA member countries need to make adequate commitments to the APTA Secretariat both in terms of financial and human resources contributions;
- (f) *Launching work on new areas of cooperation.* Each Participating State of APTA could establish a task force with domain experts and officials drawn from specialised agencies pertaining to the newer identified areas of cooperation. The actual implementation level issues of cooperation in these areas may be communicated to the APTA Secretariat for consideration and submission to Ministerial- and Summit-level processes.

5. New areas of cooperation

(a) Tourism

Tourism is one sector on which the APTA countries can focus and reap benefits not only within the services sector but also through interlinkages with other sectors. However, the potential in this sector remains largely untapped due mainly to a lack of initiative to do so. APTA could focus on an integrated cross-country and cross-sectoral tourism plan that will include heritage tourism, health tourism, religious tourism, festival tourism, sports tourism, and film festival, music concerts and event tourism. Increased tourist arrivals in the Participating States of APTA, especially with an expanded membership could give a boost to businesses related to manufacturing and services sectors, including construction, transportation, telecommunications, health services, financial and insurance services, and the restaurants and other entertainment sectors.

(b) Trade in audio-visual services

An often ignored aspect of economic integration is the use of the media, especially trade in audio-visual services. In this regard, various co-production treaties and arrangements for cooperation need to be forged among APTA member countries. In addition, making the use of foreign locations for film production and television shows would prove to be extremely beneficial for the tourism industry. Therefore, the Participating States of APTA need to establish a working group comprising experts and representatives from the audio-visual sector in order to take advantage of possibilities in this services subsector.

(c) Knowledge creation, development and dissemination

Technology and knowledge at large have become a major determinant of economic activities at the national and intercountry levels, and thus have important developmental implications. APTA can play a vital role in the area of trade and investment by advancing STI for more inclusive and sustainable development among the Participating States of APTA. With trade and investment augmentation and facilitation, not only investments in S&T activities can be promoted; trade in scientific goods, such as state-of-art machinery, testing equipment, surgical devices, new materials etc., also can be enhanced on an intra-APTA basis. With such impetus STI, in turn, can contribute towards more inclusive and sustainable development among the Participating States of APTA. Since some of the Participating States of APTA are well-advanced in this area, it may be appropriate to set up an APTA R&D Investment Fund, which would help to create greater focus on knowledge creation, development and dissemination on a sustained basis, especially among the lesser developed country members.

(d) People-to-people contacts

This is also a very important aspect, as ultimately it is people who help to realize commercial and business propositions as well as to take advantage of policy regimes. Therefore, people-to-people contacts need to be facilitated including among youth, women, parliamentarians, sports-persons, students, academia, professional service providers and businesses across the Participating States of APTA. This could be achieved through:

- (i) The establishment of APTA Chambers of Commerce and Industry network to facilitate people-to-people business contacts;
- (ii) Setting up of an APTA network of economic think-tanks to strengthen research and address the information gap and information asymmetry across the Participating States of APTA;
- (iii) Facilitation in issuing visas and allowing visa-free temporary movement in the Participating States of APTA for experts from various professions.

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