

# The Role of FTA/RTAs in Achieving APEC's Objectives

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**Asia-Pacific  
Economic Cooperation**

**Advancing** Free Trade for Asia-Pacific **Prosperity**

# APEC's Ultimate Objectives



The APEC Leaders' Declaration of 1994 states two **key objectives**:

- Sustainable growth and equitable development
- Strengthening the sense of Asia-Pacific community

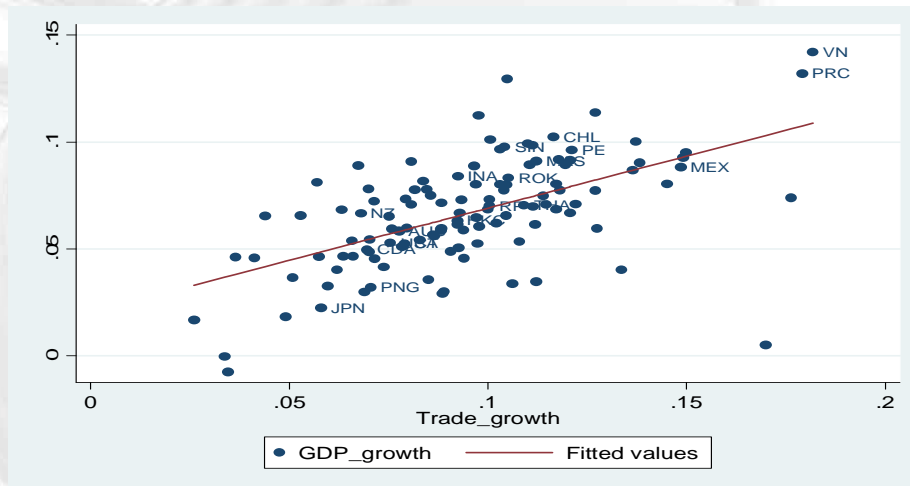
How to achieve these objectives? The 1994 Declaration highlights to lead the way in:

- Strengthening the open multilateral trading system
- Enhancing trade and investment liberalization in the Asia Pacific
- Intensifying Asia-Pacific development cooperation

# Relationship between Trade and GDP Growth



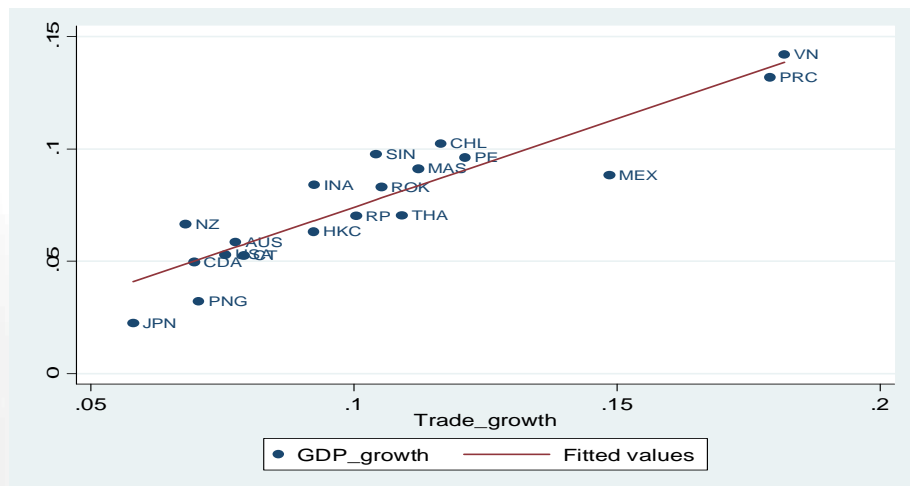
## World



$$\text{GDP\_growth} = 0.02^{***} + 0.49^{***}\text{Trade\_growth}; \quad \# \text{ Obs} = 118; R^2 = 0.329$$

(3.17)    (7.54)

## APEC



$$\text{GDP\_growth} = -0.00 + 0.79^{***}\text{Trade\_growth}; \quad \# \text{ Obs} = 19; R^2 = 0.832$$

(0.54)    (9.17)

Positive correlation between growth rates of GDP and Trade

# The Bogor Goals



To enhance trade and investment liberalization in the Asia-Pacific and achieve APEC's objectives, the 1994 Leaders' Declaration says:

“(...) we agree to adopt the **long-term goal of free and open trade and investment** in the Asia-Pacific. This goal will be pursued promptly by **further reducing barriers to trade and investment** and by promoting the free flow of goods, services and capital among our economies. We will achieve this goal in a **GATT-consistent manner** (...)”

A timeframe to achieve this goal was established:

“We further agree to announce our commitment to complete the achievement of our goal of free and open trade and investment in the Asia-Pacific **no later than the year 2020** (...) with the **industrialized economies** achieving the goal of free and open trade and investment no later than the **year 2010** and **developing economies** no later than the **year 2020**.”

# GATT-WTO Consistency of Bogor Goals



- The 1994 Leaders' Declaration provides guidance but no prescription to achieve the Bogor Goals.
- It provides the chance for trade and investment liberalization in different ways:
  - ✓ Multilateral negotiations
  - ✓ Regional or bilateral negotiations (e.g. FTA/RTAs)
  - ✓ Unilateral measures
- WTO allows differentiated timeframe. For example: based on the development level
- Further reduction of barriers to trade and investment  $\neq$  zero barriers. WTO allows liberalization covering “substantially-all-the-trade” (GATS' Article XXIV)



# GATT-WTO Consistency of Bogor Goals



- Non-discrimination principle in force. Exceptions according to WTO:
  - Integration arrangements: preferences to partners only
  - Unilateral preferential market access treatment to developing economies
  - Trade-related measures to protect public interests: public health and safety, WTO-consistent trade remedies.
- FTA/RTA-negotiated approach must follow GATT's Article XXIV or Enabling Clause (Trade in Goods) and GATS' Article V (Trade in Services):
  - Substantially-all-the-trade (Goods) and substantial sector coverage (services)
  - Duties and regulations to non-partners should not be higher than the existing ones for partners before the formation of FTA/RTA
  - Differentiated treatment to FTA/RTA partners is through reduction (and not increase) of barriers

# Importance of FTA/RTAs toward the Bogor Goals



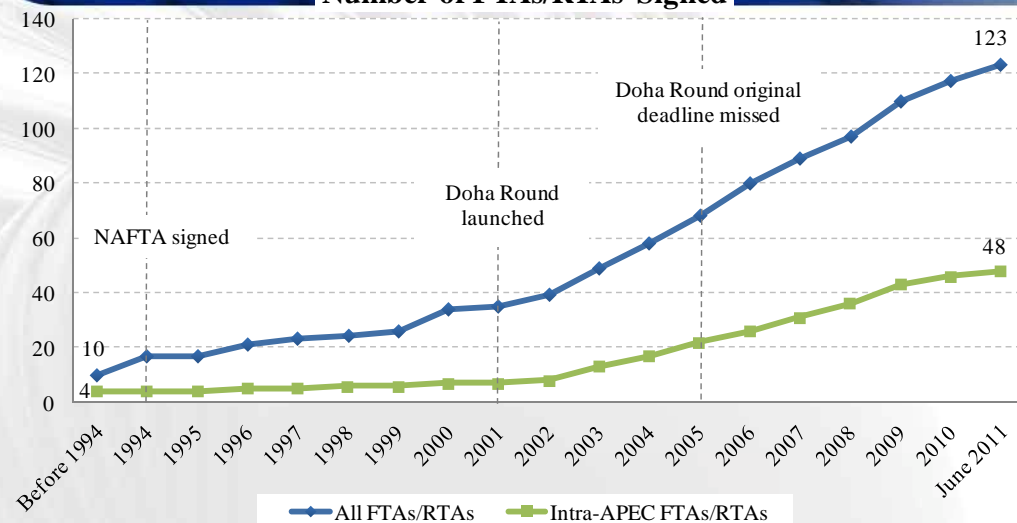
FTA/RTAs in APEC have contributed to:

- Open markets
- Provide stable and clear regulations among partners
- Promote the application of best practices
- Set pillars to strengthen regional economic integration in the APEC region
- Help advance in the liberalization agenda, given the lack of progress in the Doha Round

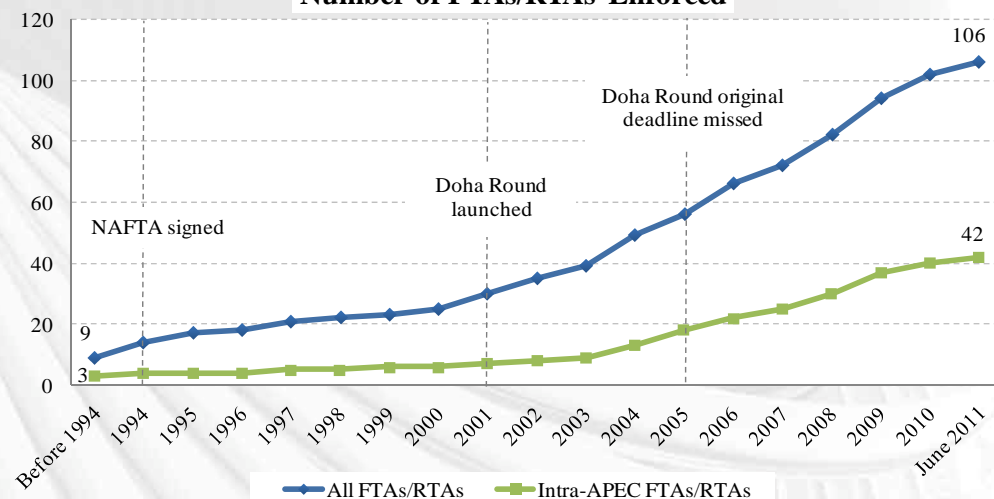
# FTA/RTAs by APEC Members



Number of FTAs/RTAs Signed



Number of FTAs/RTAs Enforced



- Proliferation of FTA/RTAs since last decade
- Lack of progress in Doha Round created additional incentive to pursue FTA/RTAs
- APEC members have increased FTA/RTAs at intra and extra regional levels



# APEC: Share of Trade with FTA/RTA Partners



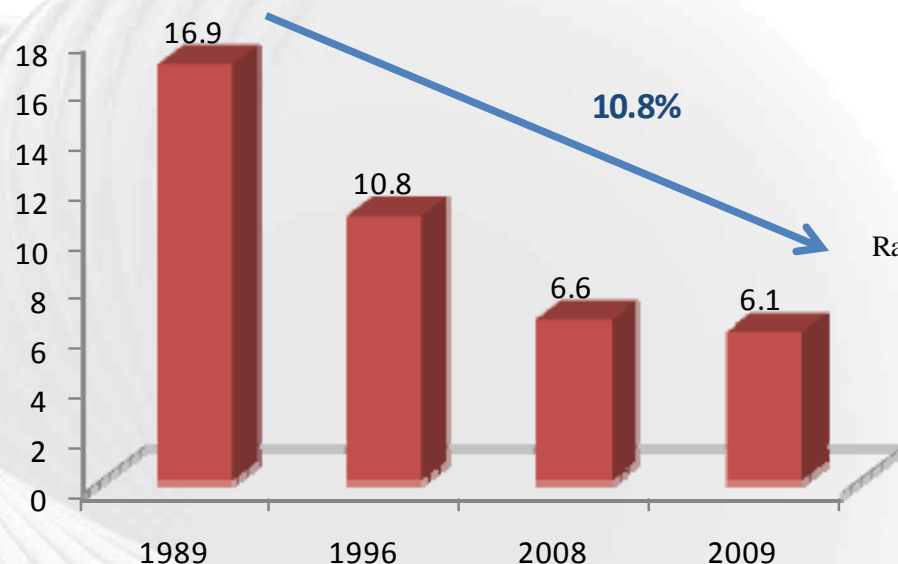
APEC Member	Exports		Imports	
	1996	2010	1996	2010
Australia	8.8	17.9	6.2	35.5
Brunei Darussalam	21.4	98.8	42.7	83.0
Canada	82.7	77.8	69.9	59.2
Chile	13.3	89.4	17.4	89.4
China	0.0	24.0	0.0	13.9
Hong Kong, China	0.0	52.7	0.0	45.5
Indonesia	15.1	64.6	11.9	67.9
Japan	0.0	17.2	0.0	17.2
Korea	0.0	14.7	0.0	15.1
Malaysia	28.2	62.6	19.7	70.1
Mexico	87.4	91.4	78.0	78.9
New Zealand	20.2	44.4	24.2	48.7
Papua New Guinea	29.9	28.2	55.2	42.5
Peru	7.2	61.9	15.4	67.5
Philippines	13.1	58.6	9.6	62.0
Russian Federation	18.2	12.2	31.6	13.2
Singapore	28.2	66.1	22.0	66.2
Chinese Taipei	0.0	0.2	0.0	0.1
Thailand	18.9	54.2	12.3	60.0
United States	31.3	40.8	29.4	30.5
Viet Nam	22.1	41.6	25.7	68.7
<b>APEC</b>	<b>22.6</b>	<b>37.3</b>	<b>21.0</b>	<b>36.4</b>

- The percentage of trade by APEC members with their corresponding FTA/RTA trade partners has increased in most cases
- The percentage is significant, above 40% in 14 APEC economies (exports and imports)
- Some APEC members did not have a single FTA/RTA in 1996. Now all of them have at least one FTA/RTA.

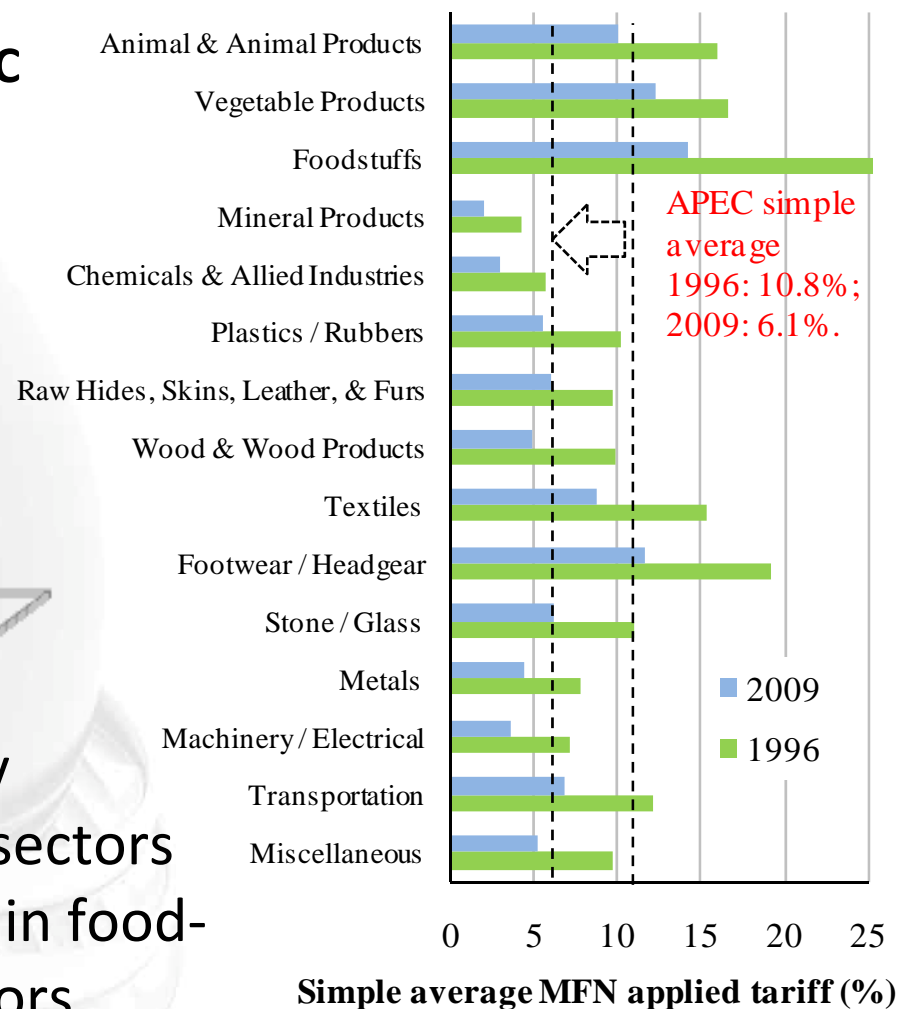
# Progress in Trade Liberalization - Tariffs



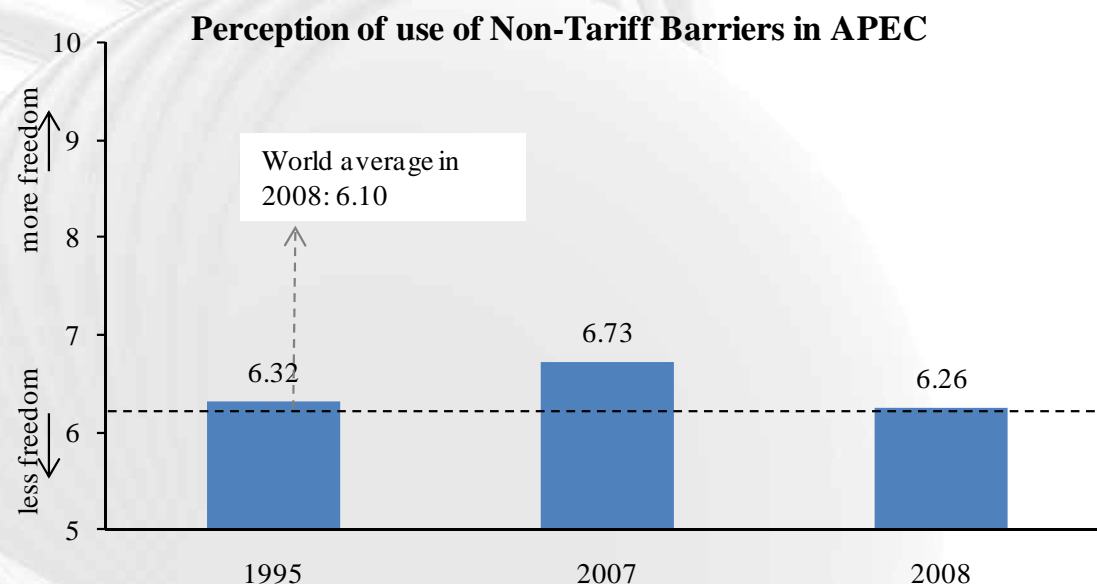
**Simple Average MFN Tariff in APEC**



- Tariffs have fallen substantially
- But progress is uneven across sectors
- More effort needed especially in food-related and labor-intensive sectors



# Progress in Trade Liberalization – Non-Tariff Barriers



Source: Fraser Institute - Economic Freedom of the World

- Perception of use of NTB is lower in APEC than in the rest of the world
- However, the perception of using NTBs increased in 2008.

The higher perception in the use of NTB in 2008 might be related to the Global Financial Crisis

# Progress in Services and Investment Liberalization



- GATS commitments do not reflect current level of openness in services sectors in the APEC region.
- Openness has taken place at unilateral level in many APEC economies.
- Commitments in FTA/RTAs tend to be much deeper than GATS commitments.
- In some cases, commitments in FTA/RTAs led to further liberalization of the existing level of openness.
- Higher openness in commercial presence (mode 3)
- Lower openness in mobility of business persons (mode 4)
- Room for progress. Restrictions in national treatment and market access remain in many APEC economies and sectors.

# Final Remarks



- APEC's goal of open and free trade and investment system in the Asia-Pacific is being pursued in three parallel ways: multilateral, bilateral/regional and unilateral.
- WTO-consistent FTA/RTAs have made a positive contribution toward the achievement of this goal and APEC's ultimate objectives.
- APEC considers high-quality FTA/RTAs as important component of its agenda on regional economic integration
- Progress in APEC to further reduce barriers to trade and investment has been significant.
- However, there is still room for improvement, especially in terms of tariff liberalization in agriculture, textiles, as well as in NTB and services



# Further Information



APEC Website - [www.apec.org](http://www.apec.org)

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