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Towards a free trade area of the Asia Pacific

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The agreement in early November of 15 nations to a Regional Comprehensive Economic Partnership (RCEP) can be a big step towards achieving the APEC dream of a Free Trade Area of the Asia Pacific (FTAAP). It happens that each of the 15 members of RCEP is also a member of APEC. Who's missing? They are the US, Canada, Mexico, Peru, Chile and PNG. Four of those APEC members are also signatories to the Trans-Pacific Partnership (TPP). A further eight countries are members of both RCEP and the TPP.

So, if RCEP and the TPP were merged at some time in the future, the only APEC member nations not included in the merged deal would be the US – which withdrew from the TPP – and PNG. It should not be too hard to bring in PNG, leaving only the US out of the merged deal. In the future, under a different President, the US might



consider joining. In the meantime, negotiations could begin for FTAAP minus one. A free trade agreement of the Asia Pacific that doesn't include the United States is still well worth having.

From Australia's perspective, we already have agreements with ASEAN and New Zealand, and separate bilateral deals with APEC members China, Thailand, Singapore, Malaysia, Korea, Japan, Chile and soon, Indonesia.

When a business wishes to avail itself of the benefits of trading with one of these nations, which provisions should it invoke – those of a bilateral deal, the ASEAN-Australia-New Zealand deal, RCEP or the TPP? Each has its own, different restrictions on goods called rules of origin. They provide a tariff concession to imports from Australia on goods that are designated as originating in Australia. But if most of the value of a particular good sold by Australia is attributable to inputs that were made overseas, then the final good might not qualify as Australian made under the particular agreement's rules of origin.

What a mess! It's what eminent trade economist, Jagdish Bhagwati, called the 'spaghetti bowl effect'. As we move towards FTAAP, a vital task will be to convert the multiple sets of rules of origin to one. This will be an enormous job.

When achieved, FTAAP will be the dominant trading bloc in the world – with or without the US. But it will still have tariff walls and trade and investment restrictions against non-members. In a nightmare scenario, the world could evolve into two rival trading blocs, each offering no or low trade and investment barriers to its members while putting up walls against the rival bloc. History teaches us that this is how military wars begin.

To avoid this dystopian world, membership of FTAAP should be offered to any non-member country willing to accept and adopt the liberalising FTAAP's concessionary provisions. In this way, FTAAP could be a building block to a reformed global trading system. At the same time, a reformed and revitalised World Trade Organization (WTO) could be working to the same goal – free trade for the whole world. If one faltered the other could continue until, one way or the other, the world agrees to free and open trade among all nations.