

## Toward a Free Trade Area of the Asia Pacific

■ C. Fred Bergsten\*

At their recent annual summit in Vietnam, the Leaders of the 21 members of the Asia Pacific Economic Cooperation (APEC) forum launched a process that could ultimately produce the largest single act of trade liberalization in history. They agreed to «seriously consider» negotiating a Free Trade Area of the Asia Pacific (FTAAP) and instructed their officials to «undertake further studies on ways and means to promote» the initiative, so that they could address it at next year's summit in Australia.

The APEC members account for more than half the world economy and about half of world trade. Hence any agreement that approached free trade among the group would be even more far-reaching, in trade terms, than the European Community or the North American Free Trade Agreement. It would be much more extensive than any of the global liberalizing compacts previously negotiated in the GATT or envisaged in the current Doha Round in the World Trade Organization. Doha of course remains highly desirable, and the APEC Leaders reaffirmed their commitment to its success, but the FTAAP would be by far the best available «Plan B» to restart widespread trade-liberalizing momentum if multilateral progress remains blocked in Geneva.

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\* C. Fred Bergsten is Director of the recently renamed Peter G. Peterson Institute for International Economics. He was Chairman of APEC's Eminent Persons Group, which developed the initial blueprint for the organization's trade strategy, throughout its existence from 1993 through 1995.

The FTAAP idea has been actively promoted by APEC's Business Advisory Council since 2004 as the only means by which APEC could achieve its signature goal, adopted in 1993 and reaffirmed every year since (including at Hanoi), of achieving «free and open trade and investment in the region.» It suddenly became a focal point of this year's official activity because of major shifts in policy positions by several key member economies.

The United States took the lead in promoting the initiative, and the Leaders unanimously endorsed President Bush's call to give it «serious consideration» in a speech in Singapore just before the summit. Japan welcomed the idea, in tandem with its own recent proposal for an «economic partnership agreement» among the 16 leading Asian countries (including India, which is not a member of APEC). Australia, which will play a key role as chairman of APEC over the next year, reiterated its support. So did Canada and Mexico, two of the six largest APEC economies and traders, along with several of the smaller members. Hence the FTAAP project is well on its way even before the official studies begin.

This new enthusiasm for Asia Pacific activity is motivated by five major developments in the global trading system. First, the indefinite suspension of the Doha Round has raised major doubts about the viability of worldwide negotiations and even the WTO as an institution. Second, especially for the United States, the increasing momentum toward an Asia-wide free trade area raises the specter of major new discrimination and an unstable three-bloc world that would, in the memorable words of former Secretary of State James Baker, «draw a line down the middle of the Pacific.» Third, the even wider proliferation of bilateral and subregional preferential trade pacts, which is likely to accelerate further if Doha indeed fails, will produce further disintegration of the multilateral system; those who worry about the «spaghetti bowl» of such deals should strongly support an FTAAP that can subsume many of them under a single umbrella. Fourth, even those Asians that are skeptical of FTAAP specifics welcome the active engagement of the United States in such a bold new regional initiative.

Fifth, APEC itself has floundered badly in pursuing its own liberalization goals and has been totally ineffectual in supporting Doha. The FTAAP initiative provides an effective response to all five concerns.

APEC's consideration of the FTAAP possibility, however, needs to move ahead quickly because of the domestic political situation in the United States, intensified by the sweeping victory of Democrats in the recent Congressional elections. There are now even stronger signs that the Administration will have great difficulty winning extension of the President's Trade Promotion Authority (TPA) when it expires next summer, without which the United States will be unable to participate in any significant international trade negotiations, without realistic prospects for at least one major positive initiative. Continued suspension of Doha, or even progress toward a mini-package for the Round as advocated by some, would leave the FTAAP as the only candidate to play that role. America's trading partners in the Asia Pacific region clearly want TPA to continue and can substantially boost that prospect by accelerating APEC's movement toward an FTAAP through meetings of their trade ministers in early 2007.

In addition, the highly possible election of a Democratic President in 2008 raises questions concerning the attitude of the next Administration, in addition to the Congress, toward entering into any new trade talks. Hence it would also behoove US trading partners to engage the FTAAP negotiations with the supportive current Administration and move the effort as far as possible while it remains in office. Just as President Bill Clinton felt compelled to complete the NAFTA when he inherited it from his Republican predecessor in 1993, any new US President would be under a similar obligation with an FTAAP if its deliberations were already well underway.

[To be sure, other important obstacles remain that could derail this potentially historic initiative. The APEC Leaders themselves envisaged the FTAAP as only «a long-term prospect.» Their officials could effectively bury the idea if they succumb to APEC's traditional «consensus rule» and fail to create innovative mechanisms, including the use of

independent outside experts, to help with the mandated studies. Decisions must be made on the agenda of issues to be included, and whether to seek the high standards of US FTAs or the low standards of China's FTAs or the middle road of Japan's «economic partnership agreements.» APEC will have to admit that it is a negotiating institution, as it clearly already is, but must also contemplate undertaking binding commitments for the first time.

The single largest question, however, is probably the position of China. Its support, on top of that of the United States and Japan and the other APEC members noted above, would clinch the launch of serious negotiations but China expressed skepticism about the issue at Hanoi. Perhaps it (and a couple of ASEAN countries) wants to continue emphasizing its bilateral trade pacts with other Asian countries, which are undertaken primarily for political reasons and are of low economic quality, instead of pursuing either an FTAAP or the Doha Round with their broader geographical scope and higher standards. Perhaps it is reluctant to include Taiwan, which has been accepted as a full participant in all APEC activities since 1991. Such considerations would be extremely short-sighted on China's part, in light of its looming trade conflicts with the United States and a number of other APEC members that could best be defused by entering into comprehensive liberalizing and rule-making negotiations via an FTAAP. Moreover, if most of the other APEC members come to support the idea, China would not want to be viewed as throwing its weight around by vetoing the initiative.]

The initial step taken by the APEC Leaders in Hanoi could turn out to be one of the most significant in the history of the world economy and even of world politics. Alternatively, it could fizzle into irrelevance like many past pronouncements of that group. Decisions taken by the key APEC economies over the next few months will determine the outcome, and perhaps with it the prospects for US trade policy and the global trading system for years to come.