

ADVANCING A FREE TRADE AREA OF THE ASIA-PACIFIC

Background

APEC Leaders, the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC) have long advocated a Free Trade Area of the Asia-Pacific (FTAAP). Yet there has not been agreement on the form that FTAAP could or should take, what benefits it might yield and how to achieve it.

Economic integration had been accepted for decades as the primary purpose of APEC. However, in more recent years rising geopolitical tensions have created challenges for further economic integration in the region. The question now is: how can we best take forward the FTAAP concept so as to help advance APEC's Putrajaya 2040 Vision of market-driven integration?

Support for FTAAP

FTAAP was first proposed by ABAC in 2004. ABAC remains a strong supporter of the FTAAP concept.

As early as 2006, APEC Leaders announced they would examine the long-term prospect of FTAAP.

In 2014, Leaders endorsed the Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP, under which they agreed to pursue the FTAAP with a step-by-step, consensus-based approach.

In 2016, APEC Leaders agreed a Declaration on FTAAP at Lima, Peru. They affirmed that FTAAP should be realised outside of APEC and achieved by building on regional undertakings such as the Trans-Pacific Partnership (now the CPTPP), the Regional Comprehensive Economic Partnership (RCEP) and other regional integration undertakings, which they wanted to be "open, transparent and inclusive."

In 2020, APEC Leaders endorsed the Putrajaya 2040 Vision, which reaffirms APEC's "voluntary, non-binding and consensus-building principles" and commits APEC to advancing market-driven economic integration in the region, including through work on an FTAAP agenda that contributes to high-standard and comprehensive regional undertakings.

At their meeting in 2021, APEC Leaders declared:

"We will advance economic integration in the region in a manner that is market-driven. We support ongoing efforts to conclude, ratify, implement and upgrade trade agreements in the region that benefit our people and our businesses. In this context, we will advance the APEC Free Trade Area of the Asia-Pacific (FTAAP) agenda in line with implementing the Lima Declaration, to contribute to high quality and comprehensive

regional undertakings. We also note that APEC Business Advisory Council considers the realisation of FTAAP its preeminent economic priority.”

The 2021 Aotearoa Plan of Action notes the desire of APEC economies to:

“further advance the Bogor Goals and economic integration in the region in a manner that is market-driven, including through the work on the Free Trade Area of the Asia-Pacific (FTAAP) agenda which contributes to high standard and comprehensive regional undertakings.”

At their 2022 meeting, APEC Leaders declared:

“Recognising the useful contributions of the Lima Declaration and the Beijing Roadmap on progressing the Free Trade Area of the Asia-Pacific (FTAAP) agenda, we welcome the advancement of this agenda this year through a refreshed conversation on the FTAAP in the COVID-19 pandemic and beyond. We will continue to build on this momentum towards high quality and comprehensive regional undertakings through the FTAAP Agenda Work Plan.”

Proposed approach

The FTAAP vision would help provide a framework to guide, encourage and prioritise actions towards further economic collaboration, regional integration and trade openness.

PECC would work to advance an FTAAP concept with the following features:

1. It would be voluntary, non-binding and non-discriminatory;
2. It would be an evolving series of undertakings; and
3. The journey would be more important than the destination.

1. Voluntary, non-binding and non-discriminatory

Consistent with the founding principles of APEC, work on an FTAAP concept would be voluntary, non-binding and non-discriminatory. This approach is consistent with the Bogor Goals of free and open trade and investment in the Asia Pacific by 2020. Guided by the Bogor Goals, APEC economies voluntarily reduced average tariffs in the region from 17 per cent in 1994 to just over 5 per cent. These tariff reductions apply to all economies not just the APEC economies.

Similarly, the APEC agreement at Vladivostok in 2012 to limit tariffs on 54 environmental goods to no more than 5 per cent has been implemented by all but one of the APEC economies, with those tariff reductions being available to all economies, not just the APEC

economies. No penalties have applied to APEC members that had not achieved the agreed tariff reductions by the due date.

2. An evolving series of undertakings

The project envisages that the FTAAP would not be a trade agreement but, rather, an area characterised by economic collaboration and integration, and trade liberalisation. It would entail a journey taken in a series of steps.

3. The importance of the journey over the destination

Consistent with the view that the FTAAP would not be concluded on a particular date but would continue to evolve as new issues emerged and would not be an enforceable agreement, outcomes would be agreed at Leaders' Meetings on an ongoing basis.

The initial steps

Initially, PECC will consider how the range of existing undertakings might fit together in the context of the FTAAP idea, where the gaps are and what the next steps might be.

PECC could apply lessons drawn from the APEC agreement on environmental goods to a broader set of issues, based on a voluntary, non-binding and non-discriminatory approach, to articulate a step-by-step path to implement the FTAAP concept.

PECC could identify best-practice provisions of existing arrangements such as CPTPP, RCEP, AANZFTA, USMCA and the Pacific Alliance, and consider their relevance to FTAAP if they were adopted by other APEC economies. In the same vein, PECC could identify where existing provisions in these agreements could be strengthened.

PECC could assess elements of some pathfinder agreements on 'new generation issues' such as digital trade and the green economy and how they could also be adopted more widely; for example, the Digital Economy Partnership Agreement, the Australia-Singapore Digital Economy Agreement and the Singapore-Australia Green Economy Agreement.

The PECC project would also explore specific topics to deepen understanding and illustrate the application of the framework proposed here. These topics can be selected according to criteria such as the following. We can explore issues:

- Of common interest and on which collaboration is realistic, such as women and inclusive growth, building from the La Serena Roadmap for Women and Inclusive Growth agreed by APEC Leaders in 2019;
- Of importance for economic integration such as supply chains, logistics and other services, and infrastructure; and
- Of global concern such as climate change, energy transition and food security.

This list is not exhaustive and is not intended to be prescriptive.

The expectation is that the outcomes of this project will help inform APEC members' consideration of potential building blocks for an FTAAP. This work could also feed into the development of plurilateral/bilateral arrangements in the region, which would be open for others to join if they were able to match the ambition in an agreement. APEC members would decide which areas should be pursued under the FTAAP concept, and when and how this should be done.

What's next?

FTAAP would be an ongoing journey, or a living, evolving set of undertakings.

The PECC Taskforce is now developing a work program for the project activities for this year. The Taskforce will further consider the proposed selection criteria above and potential projects on specific topics. This work would benefit from feedback from the APEC process and from ABAC. The Taskforce currently comprises Australia, Canada, Chile, New Zealand and Thailand.