

**Reflection on the FTAAP: Stocktaking and Prospects**  
**Report from the 2016 APEC Study Centers Consortium Conference**

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## **I. The theme of the 2016 ASCCC Peru**

The theme of 2016 ASCCC (APEC Study Center Consortium Conference) Peru was ‘Advancing Regional Economic Integration and Quality Growth’. It reflects the main theme of 2016 APEC Peru - “Quality Growth and Human Development.” In the two-day conference, six sessions were organized under the heading of (1) FTAAP: Opportunities and Challenges, (2) Regional Economic Integration: New Issues, (3) Human Capital and Development, (4) Improving MSME’s capabilities, (5) Human Security: Food, Health, Natural Disasters and Environmental Issues. About 20 papers were presented by scholars from the APEC member economies. It is remarkable that two sessions were organized under the FTAAP. At the FTAAP session, I presented a paper titled, “Paths and Strategies towards the FTAAP: Linking Integration and Inclusive Growth.”

There has been a growing recognition in the APEC community that the quality of growth matters, because the conventional growth paradigm failed to adequately deal with the global challenges such as climate change and food security. If these challenges are not met, the mere accumulation of wealth alone would neither guarantee prosperity nor sustainable development. This awareness led to the onset of the research on the quality growth and its linkage to various stakeholders in the economy. Moreover, the prolonged global recession in the aftermath of the 2008 global financial crisis and the non-closing economic disparities added another layer of seriousness and significance on the quality of growth. In fact, the 2016 ASCCC Peru provided a venue for the stocktaking of this line of policy-oriented studies and exchange of ideas to advance researches and derive policy recommendations.

## **II. Pathway to the FTAAP**

The FTAAP (Free Trade Area of Asia Pacific) has been intensively debated in the APEC. Since the 2014 Beijing APEC Leaders Meeting, rivalry between the US and China on taking the initiative in the designing and implementation of the FTAAP has been intensified. Therefore, it is no surprise that the FTAAP was given the most of attention at the ASCCC

Peru 2016. Three perspectives or scenarios contend for mapping out the pathway to the FTAAP. The first perspective ('TPP-based approach') is to have the TPP as the basic platform for further expansion to non-TPP APEC members to join and expand. The second perspective ('RCEP-based approach') is to have the RCEP as the basic platform. Finally, the third perspective ('Third way') is to develop multitrack framework: a comprehensive and a high-level agreement for advanced economies and less comprehensive and not-so-high-level agreement for developing ones. As of now, only the TPP is concluded and we know what is in it. On the contrary, the RCEP talks are moving at a slow pace with a modest level of ambition, having not much of a high hurdle for investment and services. The third perspective is only on the mindset of some policy makers and scholars, but not yet linked to any of the significant negotiating efforts.

To have these approaches in the proper context, we need to understand the current state of play. When China was the APEC host economy in 2014, it strongly promoted the realization of the FTAAP, and succeeded in securing agreement from the APEC Leaders' announcement (November 2014) to a "Roadmap for APEC's Contribution to Realization of the FTAAP". The roadmap includes "Collective Strategic Study" on issues relating to the realization of the FTAAP. This Study will be completed in 2016 (i.e. Peru's APEC year). Hence, one needs to bear in mind the Guiding Principles for the FTAAP (from Beijing Road Map), stating that the FTAAP should

- support and complement the multilateral trading system
- be comprehensive, high quality and incorporate and address "next generation" trade and investment issues
- build on APEC's progress toward achieving the Bogor goals
- be negotiated and realized outside of APEC, in parallel with the APEC process
- aim to minimize any negative effects resulting from the proliferation of regional and

bilateral RTAs/FTAs

- be pursued by building on current and developing regional architectures, with emphasis on TPP and RCEP as “pathways”

The Guiding principles requires that APEC should

- maintain its non-binding, voluntary cooperation character
- continue to play a role as incubator of the FTAAP and provide leadership and intellectual input to its realization.

Noticeably, the TPP-based approach alone qualifies the condition of “comprehensive, high quality and incorporates and addresses the “next generation” trade and investment issues.” It is because the RCEP is still yet to be completed and the current direction of the RCEP talk is not comprehensive enough and not advanced enough in the “next generation” trade and investment issues. Although one cannot rule the possibility that the RCEP may incorporate advanced and comprehensive agreement in trade and investment issues, it would be unrealistically optimistic wish. Nonetheless, considering non-binding and voluntary nature of the APEC process, all the three approaches are worth considering.

The biggest strength of the TPP-based approach is the presence of the text. The TPP was concluded last year and 12 participating countries signed the agreement. It is now waiting for the ratification. While there is a strong concern on whether the TPP would survive the US domestic politics at the ratification stage, it is reasonable to assume that the TPP would be eventually ratified even with some modification. The issue here is whether TPP or no TPP, but when TPP - as it is now or TPP with some modification - would be effective. In this regard, 2017 will prove a testing time - the first year after President Obama, who negotiated the TPP against the unwillingness of his own Party, is succeeded by the new President.

Hilary Clinton, the Democratic candidate, campaigned that she is against the TPP (in fact, she was for the TPP before her campaign trail). Donald Trump, the Republican candidate, vowed to disapprove any further free trade deals, and even the renegotiation of the existing deals.

Whether these positions taken by the two main contenders are only for the disguised protectionism, only for the campaign, or the convicted protectionism would wait for the test of the time. Realistic assessment is that the TPP would muddle through, even though it would go through some additional negotiations. The cost of non-ratification of the TPP is too much to assume for the US. The US leadership and credibility in the international community would be gravely damaged, and will make the US unreliable to its allies in the era of US-China contest in the Asia Pacific.

While the future of the TPP is being tested in the US politics, the RCEP is too slow and does not have any momentum to get it going. The same is true for China. China, with its desire to exert its influence, displays a strong enthusiasm in the FTAAP, whereas such leadership is missing on the RCEP. This remarkable absence of Chinese leadership in the RCEP raises question about its true intention of the FTAAP.

In terms of the negotiating agenda, the TPP and the RCEP have common elements in Market access for goods (TPP aimed at 100%, RCEP aiming for 90%), Rules of origin, Trade facilitation, Services (TPP adopted “negative list”, RCEP adopted “positive list”), Investment, Competition, Intellectual Property, Development. There are a wide range of issues included only in the TPP, and not in the RCEP. These are Government Procurement, SOE, E-Commerce, Environment, Labour, Trade Remedies, Textiles and Apparel, Temporary Entry, Horizontal Issues like SME, Supply Chain Facilitation, and Regulatory Coherence. These issues exclusive to the TPP are often called “21<sup>st</sup> Century Issue.”

Experts agree that the TPP is a “High Standard”, “21<sup>st</sup> Century”, “Comprehensive” Agreement. On the other hand, some sceptics criticize TPP and claims that it reflects only of the US priorities and interests. A close scrutiny to the negotiating process reveals that the outcome reflects compromise, reflecting the negotiating power and the time constraint. Some raise concerns that TPP will be too demanding for several APEC economies. In specific, the list of the issues mentioned includes: SOE, Environment and Labor, ISDS, IPR, cross-border Data Flow and so on. It is undeniable that some APEC economies are sensitive to these issues. However, the following aspect of the TPP should also be considered. In the TPP, there is no

presumption of privatisation of SOE. Sovereignty and policy space are preserved with modest commitments to specific actions in Environment and Labor. Moreover, there is greater balance between investor certainty and host government policy autonomy in ISDS. Lastly, the US initial position was substantially modified with regard to Intellectual Property and access to medicines.

Notwithstanding these fine details, embracing the TPP still is a hard act for several APEC economies. The critical litmus test for the TPP-based pathway toward the FTAAP is whether China can join the TPP. In the early days of the TPP, Beijing criticized the TPP as the US conspiracy to block China. With the change of Chinese leadership to Xi, Beijing has also changed its rhetoric about the TPP. At least on the surface, Beijing became somewhat more flexible: For instance, some Chinese policymakers began to show more positive attitudes toward China's eventual joining of the TPP. Yet, some insiders still remain doubtful and critical (hinting that such an event will be long and winding road). China will make sure that no stones are unturned until it can possibly imagine its place in the TPP. On the other hand, the possibility of the US in the RCEP is less plausible. The US has never negotiated a low-level international trade agreement, whether bilateral, regional or multilateral.

All considered, China may regard the third scenario more palpable multi-track framework: comprehensive and high-level agreement for advanced economies and less comprehensive and not-so-high-level agreement for developing ones. The problem is which text they would use. At least two texts will be available for the effective implementation of the third scenario. If not, China will have to rely on the TPP. Yet, the more likely text alongside the TPP agreement is the RCEP, in case of the successful completion of the RCEP. As pointed out before, the RCEP is silent on many of the so-called "21<sup>st</sup> Century Issue" like SOE, Trade and Labor, Trade and Environment and so on. Which means, non-12 initial members to the TPP, including China, would find themselves still in the universe of the TPP in those issues in their "opting out" decision.

In a nutshell, there are two potential structures on the FTAAP. One is the single agreement with "single undertaking." If the TPP goes into force, the momentum will be gaining for other

APEC economies to join the TPP. Then, the TPP becomes “de facto” FTAAP. This pathway looks challenging at the moment and will take time even in the optimistic scenario. The other path is the “Two-speed” FTAAP, with the FTAAP as “umbrella agreement with common commitments linked to two further agreements: the TPP or “TPP-style” agreement with a higher level of commitments and benefits, and the RCEP or “RCEP-style” agreement with a lower level of commitments and correspondingly a lower level of benefits.

### **III. Finding Missing Link in Trade and Growth**

While pathway to the FTAAP was much discussed with focus on its architecture, something has been missing and that is the way to link trade and investment liberalization with quality growth of the APEC member economies. In the early days of the APEC, the prevailing assumption was that trade and investment liberalization would benefit all the economies involved by providing the parties with more trade opportunities and competition, ultimately leading to job creation, income generation, the rise of middle class and so on. However, the outbreak of the 1997 Asian financial crisis and the 2008 global economic crisis weakened such presumption. Despite greater liberalization, inequality and unemployment still remains unsolved. People began to mount their opposition on trade, although jury is still out to find out causality between trade and growth, and also distribution. Yet, one thing certain is that any future discussion or negotiation towards the FTAAP should involve this missing piece of dimension on ‘inclusive integration’ - how trade and investment liberalization would promote inclusive growth.

In fact, the APEC is well aware of this issue. In 2010, APEC Leaders developed “The APEC Leaders’ Growth Strategy.” According to the APEC Leaders, the APEC economies have a greater connection and integration. The Trade and Investment Liberalization and Facilitation (TILF) will continue to act as a major driver for growth. Moreover, the expansion of cross-border activities has transformed the economic environment yet with one undesirable side effect, which was the imbalance and disparity between and within the economies. Hence,

APEC Leaders called for the necessity of promoting the broadest participation in the global economy with the aim of sharing the benefits of economic integration with all the parties involved. The APEC Growth Strategy identified the five key attributes for economic growth: 1) Balanced Growth; 2) Inclusive Growth; 3) Sustainable Growth; 4) Innovative Growth; and 5) Secure Growth. The APEC Leaders have continued to care about growth. In 2015, they proclaimed the the APEC Strategy for Strengthening Quality Growth. The 2016 Peru ASCCC is natural extension of this line of policy awareness.

Notwithstanding this policy awareness, the research community has been slow in rising up to this challenge. The current discussion on the FTAAP is too overly focused on external integration, forgetting the main reason for pursuing integration - promoting an environment that is mutually advantageous granting equal economic opportunities for all the stakeholders. Hence, the linkage between external integration and inclusive growth is still yet to be found. In the light of the Bogor Goal of “2010/2010 trade and investment liberalization”, the most important guiding principle of the APEC, and the two pillars of the APEC – Trade and Investment Liberalization (TILF) and Economic and Technical Cooperation (ECOTECH), the linkage between trade-driven integration and inclusive growth is of a significant issue. In particular, considering the onset of ‘new normal’ in the aftermath of the 2008 Financial Crisis, and the growing suspicion of trade liberalization in relation to inequality and unemployment, this missing link is in urgent need of being discovered.

While there are plenty of discussions on the expansion paths based on the TPP and the other one based on the RCEP for the eventual realization of the FTAAP, only few studies have been conducted on how they relate to inclusive growth. As a consequence, future studies on their relation to inclusive growth are expected to shed a light on the importance developing a balanced and comprehensive agenda, promoting trade facilitation, and addressing domestic reform challenges, when the APEC mulls on its path towards the FTAAP. If growth is inclusive, it would help facilitate economic transition from a less-trade (prior to opening) equilibrium to a more-trade (post opening) equilibrium. However, if growth fails to be inclusive, there will be a substantial resistance and an opposition to market opening,



generating a huge cost - cost from sticking to an inefficient resource allocation, and political cost spent on creating market opening and so on. Accordingly, this research, which deals with finding a missing link in trade and growth, is imperative. Hence, the discussion in the 2016 ASCCC Peru is only a start. A series of future extensive and in-depth discussion is highly desired.

#### **IV. Korean Contribution to the ASCCC**

The APEC has been an important venue for Korea's regional economic diplomacy. In fact, Korea was the co-founder of the APEC along with Australia, and had contributed to the successful enlargement of the APEC in the critical early days. Embracing China, with Taipei and Hong Kong, to the APEC was done when Korea was the host in 1992. The 1990s - first decade of the APEC - coincided with the Uruguay Round and Korea's accession to the OECD. In retrospect, the 1990s were the time for grand opening up. The passion for liberalizing trade and investment, and making it a catalyst for moving up the last ladder of economic development to the advanced economy was among the priorities of the then Korea's national strategy. With this national strategy, Korea played a crucial role in advancing the APEC.

The Korea Institute for International Economic Policy (KIEP) provided an important intellectual contribution in this process. The KIEP conducted a series of policy-oriented researches estimating the economic effect of the APEC in the broad context of trade liberalization and its strategic implication to the global economy. At the same time, the KIEP played the role of convenor - bringing a group of scholars into the APEC study. In fact, this is the origin of the ASCC (APEC Study Center Consortium). Major universities in Korea participated in the ASCC network. Annual academic conference under this ASCC umbrella has been a fertile ground, connecting the scholars in the universities and think tank, allowing them to exchange, test, and upgrade policy proposals. The division of labor was at work: researchers from think tank were more focused on short-term and imminent policy issues, while those from universities were more inclined to examine long-term trend and see a big picture. This intellectual endeavor was one of the driving forces behind Korea's active

participation at the ASCCC (APEC Study Center Consortium Conference). At every ASCCC, Korea sent scholars and made a significant contribution, mainly in the topic of trade and investment liberalization and design of the future course of the APEC, which are the main topics for the ASCCC.

However, unfortunately, such endeavor is rarely pursued these days in the ASCC in Korea and also in the ASCCC. It is hard to find scholars, in particular young scholars, at universities who are interested in the ASCC. Considering lackluster performance of the APEC, this is not so surprising. However, the new rise of trade and investment issue under the name of the FTAAP provides a golden opportunity for the renewed rise of the ASCC. While the US intends to spread the TPP as a benchmark, China remains skeptical, and the APEC members remain divided. Korea, as one of the co-founder of the APEC back in 1989 and a significant contributor to the evolution of the APEC, and a major trading economy, this discussion is of considerable interest. During the two-decade long period of the APEC, Korea has emerged from one of the developing economies to the group of advanced economies and to one of the most active players in pursuing FTAs with economies in and out of the APEC. In this process of transformation, Korea has undergone significant economic and social changes. This Korean experience needs to be studied in depth and shared with a forward-looking manner. In order to advancing toward the realization of the FTAAP, which can truly be 'inclusive', Korea should play much more active role. The ASCC of Korea should seize this historic momentum.