

# **Part I.**

## **Free Trade Agreements (FTAs) and APEC**

### **Sub-regionalism (FTAs/RTAs) in the APEC Region and the Road to the Bogor Goals**

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***Sung-Hoon Park***

- I. Introduction
  - II. Stock-taking of Regionalism Initiatives of  
APEC Member Economies
  - III. The Relationship between APEC's  
Sub-regionalism and the Bogor Goals
  - IV. Sub-regionalism, Busan Roadmap, and the  
Bogor Goals of APEC
  - V. Making Sub-regional RTAs/FTAs Contribute  
to the Bogor Goals
  - VI. Conclusions
- References  
Executive Summary

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# Sub-regionalism (FTAs/RTAs) in the APEC Region and the Road to the Bogor Goals

***Sung-Hoon Park\****

## **I. Introduction**

A proliferation of regionalism initiatives has become a shaping factor of the world trading system since the beginning of the 1990s. The Asia-Pacific, a region long immune to regionalism and practicing non-preferential trade liberalization until the end of the 1990s, has also been captured by this worldwide trend especially since then.<sup>1)</sup> Having set the Bogor Goals in 1994 as a long-term vision of achieving “free trade and investment in the region” by 2010/2020, APEC has been facing increasing challenges arising from this new trend of increasing regionalism. Especially burdening the member economies’ efforts towards achieving the Bogor Goals is the increasing number of FTA initiatives to which APEC economies are members. In fact, APEC member economies in particular have become extremely active, more than any other group of countries in the world, in devising their own FTA networks either with other APEC members or with non-APEC countries.

This paper aims at investigating the regionalist forces surrounding the APEC process and discussing possible ways for APEC to achieve the Bogor Goals by taking into consideration this new reality of increasing regionalism pursued by its member economies. The paper is organized as follows. After this introduction, Section II provides an overview of regionalism initiatives of

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1) Pangestu & Sollay (2002), p. 1.

APEC member economies. Though special focus is on intra-APEC RTAs/FTAs, APEC economies' FTA initiatives with other countries are also briefly discussed. Section III then analyzes the relationship between sub-regionalism and the Bogor Goals of APEC by contrasting "building block" and "stumbling block" arguments. Section IV is devoted to a thorough analysis of APEC activities concerning RTAs/ FTAs. Especially, APEC's two new instruments adopted to make sub- regionalism complementary to the Bogor Goals—namely "Best Practices for RTAs/FTAs in APEC" and "High-quality RTAs/FTAs"—are discussed in detail and related APEC activities investigated. Section V presents three instruments that can contribute to making RTAs/FTAs complementary to the Bogor Goals. And finally, Section VI draws the main conclusions of the paper.

## **II. Stock-taking of Regionalism Initiatives of APEC Member Economies**

### **1. Regionalism Initiatives among APEC Member Economies**

As noted earlier, APEC member economies have become increasingly active in making their own regionalism networks. It is interesting to note that they are more active in assembling FTA networks with other APEC members than they are with non-APEC countries. Tables 1 and 2 show an update of the regionalism initiatives at various stages—some are already in force, and others are under negotiation or in discussion—in which APEC member economies are participating.

As for the intra-APEC FTAs, the current state of play of which is shown in Table 1, the following are outstanding features. First, Chinese Taipei and Russia are the only two APEC member economies that are not involved in any kind of FTA initiatives with other APEC members. All other member economies are participating in more than one FTA initiative within APEC. There are three APEC economies that stand out in this regard: Singapore, Chile, and Mexico. They are reported to have concluded more than five FTAs each with other APEC members.<sup>2)</sup> Second, the members of already existing FTAs, such as NAFTA, AFTA, and CER, etc., are expanding their FTA

networks through the APEC territory. Especially active in this new development are the members of AFTA, which are discussing and/or negotiating FTA agreements either individually or collectively with major economies in the region. Involved with AFTA in new FTA initiatives are such APEC member economies as the US, China, Japan, and Korea. Third, the two long-standing supporters of the multilateral route to trade liberalization—namely Japan and Korea—and China have recently embraced regionalism as an additional national strategy at least equivalent to multilateralism and have since then become influential players in the proliferation of FTA initiatives, both within APEC and worldwide.<sup>3)</sup> Another interesting finding in the increasing FTA initiatives of APEC economies is the recent tendency of small- and medium-sized APEC members to negotiate FTAs with other APEC member economies with relatively large market size, such as the United States, China, and Japan. This is, therefore, one of the reasons why the number of FTA initiatives involving these three countries has been increasing and the level deepened over recent years.<sup>4)</sup>

With regards to the long-term vision of APEC—to achieve free trade and investment in the region through Bogor instruments—the recent proliferation of intra-APEC FTAs has put forward an interesting question: What role will the increasing intra-APEC FTA initiatives play in APEC-wide attempts to achieve the Bogor Goals? As the literature on the relationship between regionalism and multilateralism suggests, there are basically two ways to understand the APEC related question on the role and impact of sub-regionalism for the APEC-wide process: building block vs. stumbling block (See Chapter III for a detailed discussion). Very recently, APEC acknowledged FTAs/RTAs as a vehicle to achieving the Bogor Goals,<sup>5)</sup> thereby taking this

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2) These three countries, indeed, are worldwide the most active countries in terms of regionalism activities with more than 10 FTA agreements each in total.

3) See Pangestu & Scollay (2002).

4) Park (2005) registered only 5 new initiatives for each of these three major APEC members, but in 2006 the number increased to 7, 6, and 5 for the US, China and Japan, respectively. Also, the level of initiatives has deepened, as well.

5) The “Busan Roadmap to Bogor Goals” presented “high-quality FTAs/RTAs” as one of six main instruments for APEC economies to use when implementing their respective strategies of achieving the Bogor Goals.

## 16 Sub-regionalism (FTAs/RTAs) in the APEC Region and the Road to the Bogor Goals

**Table 1. FTA/RTA in the APEC Region (as of July 2006)**

|                  | AUS | BRU | CAN | CHL | CHN | HKG | IND | JAP | KOR | MAC | MEX | NZ | PNG | PER | PHL | RUS | SIN | TPE | THAI | US | VN |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|-----|-----|-----|------|----|----|
| Australia        |     | N   |     |     | N   |     | N   | D   | D   | N   | D   | F  | F   |     | N   |     | F   | F   | F    | F  | N  |
| Brunei           |     |     |     | F   | N   |     | F   | N   | F   | F   |     | F  | N   |     | F   |     | F   |     | F    |    | F  |
| Canada           |     |     |     | F   | N   |     |     |     | N   |     | F   | N  |     | ND  |     |     | N   |     |      | F  |    |
| Chile            |     |     |     |     | N   |     |     |     | F   |     | F   | N  | F   | F   | N   |     | F   |     |      | F  | N  |
| China            |     |     |     |     |     | F   | F   |     | D   | F   |     | N  |     |     | F   |     | F   |     | F    |    | F  |
| Hong Kong        |     |     |     |     |     |     |     |     |     |     |     | N  |     |     |     |     |     |     |      |    |    |
| Indonesia        |     |     |     |     |     |     | N   | F   | F   | F   |     | N  |     |     | F   |     | F   |     | F    |    | F  |
| Japan            |     |     |     |     |     |     |     |     | N   | F   | F   |    |     |     | F   |     | F   | N   |      |    | N  |
| Korea            |     |     |     |     |     |     |     |     |     | F   |     |    |     |     | F   |     | F   |     | F    | N  | F  |
| Malaysia         |     |     |     |     |     |     |     |     |     |     |     | N  |     |     | F   |     | F   |     | F    |    | F  |
| Mexico           |     |     |     |     |     |     |     |     |     |     |     |    |     | F   | N   |     | N   |     |      | F  |    |
| New Zealand      |     |     |     |     |     |     |     |     |     |     |     |    |     |     | N   |     | F   | N   | F    | N  | N  |
| Papua New Guinea |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      |    |    |
| Peru             |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      | N  |    |
| Philippines      |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     | F   |     | F    |    | F  |
| Russia           |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      |    |    |
| Singapore        |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     | F    | F  | F  |
| Chinese Taipei   |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      |    |    |
| Thailand         |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      | N  | F  |
| United States    |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      |    |    |
| Viet Nam         |     |     |     |     |     |     |     |     |     |     |     |    |     |     |     |     |     |     |      |    |    |

Note: 1. **D**: under Discussion, **N**: under Negotiation, **F**: FTA signed and/or in force

2. Columns with more than one classification should be understood as FTA initiatives involving countries that are maintaining some already existing FTAs with other countries.

3. To capture the strength of FTA initiatives of each economy, both horizontal and vertical lines have to be looked at.

Source: An updated, revised and corrected version of APEC Website: [http://www.apec.org/webapps/fta\\_rta\\_information.html](http://www.apec.org/webapps/fta_rta_information.html) (viewed on September 30, 2006)

complex reality into consideration. It is also noteworthy in this context that two APEC member economies—Chile and Singapore—officially declared to use intra-APEC FTAs as an instrument to achieve their trade policy commitments with regards to the Bogor Goals.<sup>6)</sup>

## 2. Regionalism Initiatives with Non-APEC Member Countries

As Table 2 illustrates, the regionalism initiatives of most APEC member economies are not confined to APEC territory. Rather, they stretch far beyond it. Several observations can be made as follows. First, in combination with Table 1, Table 2 shows that with regards to the strength of regionalism strategy, three countries appear most outstanding: Chile, Mexico, and Singapore. Whereas Singapore is more focused on FTA initiatives with other APEC economies, the two Latin American countries are busier networking with non-APEC economies on FTA initiatives. Second, most of the APEC members in the Americas, including the United States and Canada, have become relatively more strongly involved in FTA networking activities than their East Asian counterparts. The latter are—except Singapore—only moderately regionalism-dependent as far as the number of FTA initiatives is concerned. Third, the partners of APEC members' FTA agreements are widespread, implying that an increasing force of cross-regionalism may be observed as a shaping factor of the worldwide geography of regionalism as a number of analysts recently stated.<sup>7)</sup> In fact, a number of major East Asian economies within APEC, such as Japan, Korea, and Singapore, have concluded several FTA agreements with both APEC and non-APEC members located outside Asia. Finally, in contrast to the findings by Pangestu & Scollay (2002), who identified several differences in RTA design and approach between East Asia and the Western Hemisphere, the regionalism strategies of these countries today appear not to differ substantially from each other. In fact, East Asian countries no longer focus their debates on the desirability of RTAs and their risks; they have already become major players in regional liberalization spread

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6) See APEC (2003).

7) For a more detailed discussion of cross-regional strategies of East Asian countries, see Solis & Katada (2006).



worldwide. East Asia could be the most dynamic region at the moment, specifically in terms of new RTA/FTA approaches.

The rapid increase in the number of RTAs/FTAs notified to the WTO in general and East Asia's more aggressive participation in this trend in particular have generated a number of impacts on the world economy. In addition to the more common textbook economic effects, such as trade diversion and trade creation, Pangestu & Scollay (2002) presented a list of unintended negative impacts: (1) the spaghetti bowl effect; (2) opening the backdoor for sensitive sectors; (3) unbalanced hub-spoke pattern of regional agreements; (4) diversion of attention and resources; and (5) potential regional tensions. Increasing sub-regionalism within APEC also has the potential to affect the achievement of the Bogor Goals in a similarly negative way.

### **III. The Relationship between APEC's Sub-regionalism and the Bogor Goals<sup>8)</sup>**

A rapid increase in APEC member economies' regionalism activities has also become a major challenge for the whole APEC process in general and for APEC's efforts to achieve the Bogor Goals of making member economies' trade and investment regimes fully liberalized in particular. In principle, increasing sub-regional trade liberalization in the form of FTAs can exert two contrasting impacts on the APEC process: it can be either a stumbling block or building block on APEC's path towards the Bogor Goals.

#### **1. Potential of Increasing Sub-regionalism to be a Stumbling Block to the Bogor Goals**

First of all, increasing sub-regionalism within APEC can become a stumbling block due to a relatively high degree of heterogeneity of the concluded agreements. After checking a total of 25 chapters included in fourteen so far concluded sub-regional FTA agreements, Park (2005) found

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8) This part draws on Park (2005).



that the chapters differed substantially. Especially, provisions on labor and environment were found in only three agreements; those on financial services and accession in only seven agreements among fourteen total agreements. Also, such trade policy issues as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), which are integral parts of the WTO agreement, were not included in five and four intra-APEC FTAs, respectively. APEC (2004A) reported also that even in such areas as trade remedy measures and dispute settlement mechanisms, which are contained in thirteen and eight of fourteen, respectively, there was strong divergence in the detailed contents.

It was also reported by Park (2005) that APEC member economies appeared to have adopted quite different strategic approaches: whereas FTA agreements concluded by Chile, Singapore, the United States, and Australia tend to be rather comprehensive, economies such as Peru and Japan appear to exclude sensitive trade policy areas from the agreements. Also, from the fact that in his survey two economies—Chile and Mexico—accounted for nearly 60% of 40 FTAs concluded by APEC members, both with other members and non-members, Park (2005) also pointed to a wide gap in trade policy orientations of individual members.<sup>9)</sup>

These differences identified in the coverage of FTA agreements and in national FTA strategies of individual APEC member economies have the potential to become a stumbling block on APEC's way towards the Bogor Goals. A series of academic and policy workshops convened by APEC academic and policy circles to investigate the characteristics and best practices of intra-APEC FTA agreements<sup>10)</sup> should be understood as an attempt to minimize this risk of sub-regionalism becoming a stumbling block to the Bogor Goals.

## **2. Potential of Increasing Sub-regionalism to be a Building Block to the Bogor Goals**

There are potentials for intra-APEC FTAs to function as building blocks towards APEC-wide liberalization as well. As has often been suggested in the

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9) See APEC (2004a).

10) See, for example, APEC (2004b).

related literature,<sup>11)</sup> there are at least three possible contributions of regionalism to the multilateral liberalization process that can also be applied to the relationship between intra-APEC sub-regionalism and APEC-wide liberalization. First, if the sub-regional agreements within APEC were concluded in consistency with WTO rules governing regionalism, the overall degree of liberalization of APEC would increase, thereby leading to an “expansion of horizons of freer trade” within the APEC region. Compared to the situation with no such sub-regional agreements, increasing sub-regionalism, therefore, has the potential to bring APEC closer to its long-term vision of trade and investment liberalization within the region.

Second, countries concluding sub-regional agreements can “experiment” with liberalization with a selected number of trading partners, thereby gathering experiences of its real impact on their economies. This information can prove instrumental when they participate in liberalization with more countries, possibly at the venue of APEC. In a sense, sub-regionalism can be a useful “laboratory” for APEC-wide liberalization.

Third, the participation in sub-regionalism inevitably involves negotiations on the coverage, scope, and speed of liberalization that implies “a learning process of negotiation skills” for government officials and expert groups. The accumulated negotiation skills can be utilized so as to reflect national positions better, thereby strengthening the confidence of APEC members to liberalize their trade and investment regimes.

## **IV. Sub-regionalism, Busan Roadmap, and the Bogor Goals of APEC**

### **1. Sub-regionalism and the Busan Roadmap**

As stated before, two APEC member economies—Chile and Singapore—are outstanding in their attempts to make use of intra-APEC FTAs as an instrument to fulfill their Bogor requirements. However, the increasing complexity of FTA agreements concluded by APEC member economies—both

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11) Notably, WTO (1995) and OECD (1995) and more recently Scollay (2005) provide a thorough analysis on this issue.

## 22 Sub-regionalism (FTAs/RTAs) in the APEC Region and the Road to the Bogor Goals

with APEC and non-APEC member economies—makes achieving the Bogor Goals an uneasy venture. As discussed in the two former sections, two alternative views are competing as regards the relationship between the increasing sub-regional liberalization within APEC and the APEC-wide liberalization towards the Bogor Goals.

In this context, the “Busan Roadmap to the Bogor Goals,” which was adopted as Chapter 4 of an APEC document titled “A Mid-term Stocktake of Progress Towards the Bogor Goals,”<sup>12)</sup> deserves further discussion and a more detailed analysis. First, APEC seems to have discovered intra- APEC FTAs as a constructive way to contribute to the Bogor Goals, specifically by stating in the Busan Roadmap that “APEC will continue to support trade and investment liberalization through multilateral, regional and bilateral trade arrangements.” This would imply that APEC no longer sees increasing sub-regionalism as an obstacle to achieving the Bogor Goals. Rather, it seems that APEC has adopted a practical and more positive view on it. Second, in reaffirming their commitment to achieving the Bogor Goals, APEC member economies adopted in the Busan Roadmap the “promotion of high-quality RTAs/FTAs” as one of six crucial vehicles to achieve “true free and open trade and investment in the APEC region.” More specifically, the Busan Roadmap contains APEC’s intention to develop “a more comprehensive work plan” to help maximize the contribution of the sub-regional liberalization arrangements to APEC- wide progress towards the Bogor Goals. Third, the Busan Roadmap also suggests a time schedule for further APEC activities on RTAs/FTAs. Especially, APEC member economies plan to develop “comprehensive model measures on as many commonly accepted RTA/FTA chapters as possible” by 2008 so as to secure high quality, transparency, and broad consistency in intra-APEC RTAs/FTAs. As the Busan Roadmap stipulates, this plan contains APEC’s commitment to develop “model measures for a wide range of RTA/FTA chapters to encourage a high quality and comprehensive approach to the design and contents” of such agreements. In summary, it is expected that a substantial part of APEC activities in relation to sub-regionalism and/or towards the achievement of the Bogor Goals would

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12) This document (2005/AMM/002anx1rev1) was submitted to the Ministers’ Meeting and adopted by the Summit.

be focused on developing these model measures.

From slightly different perspectives, but still alongside the current APEC study on “high-quality RTAs/FTAs” and “best practices for RTAs/FTAs in APEC,” Pangestu & Scollay (2002) presented a list of measures needed to make the reality of increasing (sub)regionalism not detrimental to the APEC process and the WTO negotiations. Focusing on how to strengthen the existing guidelines and institutions, they recommended APEC economies

- explicitly commit to making the RTAs/FTAs open to all APEC members by their target date for meeting Bogor Goals;
- secure greater transparency and clarify the motivations of RTAs/FTAs;
- adopt the most liberal rules of origin;
- ensure broad coverage of RTAs/FTAs, including sensitive sectors and minimizing exclusions or at least to provide clear phase-outs of exclusions;
- clarify the principle of open accession to non-members and make it operational under the umbrella of APEC; and
- unbundle different elements of the agreements to take special principles of APEC cooperation into account (focusing on trade facilitation, etc.).

Considering these new developments, a more detailed analysis of “high quality RTAs/FTAs” and “best practices of RTAs/FTAs” is needed as an attempt to deliver meaningful practical support for the works carried out in the official APEC process..

## **2. High Quality RTAs/FTAs, Best Practices, and the Bogor Goals**

As one of the avenues to achieve the Bogor Goals, APEC intends to support trade and investment liberalization through multilateral, regional, and bilateral trade arrangements as declared in the Busan Roadmap and further elaborated on in Scollay (2006). As stated in the previous section, APEC has adopted two meaningful instruments to help maximize the contribution of these arrangements to APEC-wide progress towards the Bogor Goals: the promotion of “high-quality RTAs/FTAs” and “best practices for RTAs/FTAs

in APEC.” However, APEC still needs to give more exact definitions to these instruments and develop more concrete action plans to better address the needs of its member economies.

### (1) Basic Concepts

#### a. High-quality RTAs/FTAs

There are no definitions yet agreed among scholars and policymakers that describe what “high-quality RTAs/FTAs” exactly mean even though they are frequently mentioned in policy-related and academic literature. The discussion over the “quality” of FTA agreements is widespread. For example, Cheong & Kwon (2005) base their assessment of quality of FTAs only on two policy areas: tariff elimination and rules of origin. In contrast, APEC (2005a) recommends APEC member economies to include a long list of measures when negotiating RTAs/FTAs, especially to set high standards in liberalization and be comprehensive and transparent. It is also widely acknowledged that many measures included in the “Best Practices for RTAs/FTAs in APEC” (hereafter *Best Practices*) overlap with the main elements of high-quality RTAs/FTAs, but the detailed contents appear not yet well defined. In fact, the discussion on high-quality RTAs/FTAs goes well beyond the scope of measures elaborated in *Best Practices*.

In the context of APEC, and more specifically in light of the Bogor Goals, which is regarded as a long-term vision of APEC development, “high-quality RTAs/FTAs” should show the following four main characteristics. First, “high-quality RTAs/FTAs” should promote market opportunities and economic development of signatories through market opening and liberalization and should not exert any negative impact on non-members. Therefore, they have to be in consistency with the full contents of the WTO provisions governing regionalism, such as GATT/WTO Article XXIV, GATS Article V, and the Enabling Clause. Second, to be qualified as “high-quality RTAs/FTAs,” the agreements should ensure trade and investment liberalization that goes far beyond the signatories’ commitments in the WTO. In other words, in terms of coverage, speed, and scope, the

so-called “WTO-plus” liberalization should be the outcome of the agreements. This would also mean that the agreements cover practices not regulated by the WTO, such as investment, competition policy, labor, and environmental standards, etc.<sup>13)</sup> Third, although preferential and discriminatory in nature, “high-quality RTAs/FTAs” should have provisions on “accession” of the non-members that are flexible enough to allow spaces for would-be RTAs/FTAs partners in the future. In concluding RTAs/FTAs among APEC member economies, it is often recommended to allow any willing members into the arrangements, preferably before the respective target dates (2010 or 2020) of the Bogor Goals. Fourth, the completion of the implementation of the agreed liberalization should be scheduled as appropriate in line with the target date of the Bogor Goals as well to better coordinate APEC economies towards the declared vision of APEC.

#### b. Best Practices for RTAs/FTAs in APEC

APEC adopted *Best Practices* as late as 2004 through the channel of the 16<sup>th</sup> APEC Ministerial Meeting held in Santiago, Chile.<sup>14)</sup> It was about the time when the proliferation of intra-APEC RTAs/FTAs (sub-regionalism) started putting increasing pressure on the whole APEC process. *Best Practices*, therefore, can be regarded as an APEC-wide attempt to make the force of sub-regionalism within APEC not become an obstacle to the Bogor Goals. In fact, the objective of *Best Practices* is to “... best support the achievement of APEC Bogor Goals...” as stipulated in the above-mentioned official document.

*Best Practices* contain a total of twelve characteristics that APEC recommends its members consider when negotiating RTAs/FTAs with both APEC and non-APEC economies:<sup>15)</sup>

- Consistency with APEC principles and goals
- Consistency with the WTO

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13) See, for example, Scollay (2006).

14) The then SOM Chair submitted the result of SOM's discussion for consideration by APEC Ministers. See, APEC (2004b).

15) See APEC (2004b), pp. 2-4.

## 26 Sub-regionalism (FTAs/RTAs) in the APEC Region and the Road to the Bogor Goals

- Go beyond WTO commitments
- Comprehensiveness
- Transparency
- Trade Facilitation
- Mechanisms for consultation and dispute settlement
- Simple Rules of Origin that facilitate trade
- Cooperation
- Sustainable development
- Accession of third parties
- Provision of periodic review

A widespread agreement seems to have developed that *Best Practices*, in conjunction with the promotion of high-quality RTAs/FTAs will accelerate APEC's achievement of free and open trade and sustainable development in the Asia-Pacific.<sup>16)</sup> It seems advisable that high-quality RTAs/FTAs embody the principles of *APEC Best Practices* as well to exert maximum impact. It is a declared aim of APEC to develop for each chapter of RTA/FTA agreements model measures that can be used by APEC member economies when negotiating their agreements within APEC and with non-APEC member countries. APEC has started the relevant work already by discussing important items in APEC-wide workshops.<sup>17)</sup>

### (2) APEC Activities in RTAs/FTAs and Bogor Goals

As one of the avenues to achieve the Bogor Goals, APEC intends to support trade and investment liberalization through multilateral, regional, and bilateral trade arrangements as declared in the Busan Roadmap and further elaborated in Scollay (2006). For this purpose, APEC has adopted two meaningful instruments to help maximize the contribution of these arrangements to APEC-wide progress towards the Bogor Goals as discussed in the previous section: the promotion of "best practices for RTAs/FTAs in

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16) See also Hardee (2005).

17) So far three workshops were held in Viet Nam (June 28-30, 2005; February 27-March 1, 2006; May 28, 2006) to discuss and finally to develop model measures.

APEC” and “high-quality RTAs/FTAs.”

As for *Best Practices*, it is reported that APEC member economies have shown a wide acceptance to use them as a “meaningful reference” when negotiating their RTAs/FTAs with APEC and non-APEC economies.<sup>18)</sup> APEC identified some member economies applying *Best Practices* already and recommended all members do the same, thereby ensuring consistency in RTA/FTA negotiations. A high degree of consistency, in fact, is one of most influential pre-conditions for better harmonization of many sub-regional liberalization agreements. For example, Chile has shown that already eight of twelve headings listed in *Best Practices* constitute main elements in FTAs/RTAs subscribed to by Chile and pointed to the importance of having a clear idea on how they are reflected in actual agreements among APEC economies.<sup>19)</sup> Considering the abstract contents of *Best Practices* that should be filled with more meaningful and plausible contents, APEC economies seem to make efforts to find appropriate and practical ways to apply *Best Practices* as well. In an attempt to find a practical and applicable interpretation of these *Best Practices*, Viet Nam, for instance, suggested that best-practice RTAs/FTAs should among other things<sup>20)</sup>

- go beyond minimum WTO requirements;
- be comprehensive in scope, providing for liberalization in all sectors;
- contain phase-out periods for liberalizing of sensitive products to be kept to a minimum;
- be seen as first steps towards multilateral liberalization at a later stage;
- have a simple rule of origin; and
- allow wider accession on negotiated terms and conditions.

With regards to “high-quality RTAs/FTAs,” only small progress was registered. More specifically, among a long list of chapters selected for inclusion into standard FTA/RTA agreements, only one single area has been discussed up to now—trade facilitation. No substantial developments in other areas have been observed. As for trade facilitation, the Concluding SOM

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18) See APEC (2005a).

19) See APEC (2005b).

20) See APEC (2006a).



(CSOM) of 2005 APEC, which was held in November 2005 in Busan, Korea, discussed a report submitted by Australia that listed a total of twelve indicative (not mandatory) model measures for trade facilitation to be considered for inclusion when APEC member economies negotiate FTA agreements.<sup>21)</sup> Though welcomed by a wide range of APEC's membership, these measures—designed to help APEC members make efforts towards the *Best Practices* and finally to contribute to the Bogor Goals by developing RTA/FTA provisions that can facilitate trade and reduce transaction costs for business—have to be still further discussed within APEC and are not at all exhaustive. Nevertheless, these model measures, while not mandatory, appear to have the potential to provide a sound basis for negotiation and development of a high-quality trade facilitation chapter applicable for RTAs/FTAs involving APEC economies.

Alongside this endeavor, APEC has reaffirmed its traditional commitment to making contributions towards the strengthening of the multilateral trading system. Most recently, the 2005 APEC Ministers Meeting discussed the relationship between RTAs/FTAs and a multilateral trading system and came to the recognition that APEC should support RTAs/ FTAs that are in line with WTO rules and make efforts to avoid the “spaghetti bowl” effect of overlapping and inconsistent commitments that distort and complicate global trade relations.<sup>22)</sup> As APEC agreed upon developing model measures for all the chapters included in standard RTA/FTA agreements, more specified and concrete activities will be developed over the coming months and years.

APEC also sees the promotion of “comprehensive RTAs/FTAs” as a way to help the ever-expanding intra-APEC RTAs networks not become detrimental to the Bogor Goals. More specifically, even though no exact definition is provided yet, there is a certain degree of agreement that “comprehensive RTAs/FTAs” should at least include the following chapters:<sup>23)</sup>

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21) The twelve measures include: Transparency; Impartial administration, Consistency and predictability; Release of goods; Modernization and paperless trading; Risk management; Cooperation; Fees and charges; Confidentiality; Express shipments; Review and appeal; Penalties; and Advanced rulings. For a detailed discussion, see APEC (2005c).

22) [http://www.apecsec.org.sg/apec/ministerial\\_statements/annual\\_ministerial/2005\\_17th\\_apec\\_ministerial.html](http://www.apecsec.org.sg/apec/ministerial_statements/annual_ministerial/2005_17th_apec_ministerial.html).

23) See APEC (2005d).

- Trade in goods, including trade remedies (safeguards, anti-dumping measures, and countervailing duties)
- Customs procedures
- Rules of origin<sup>24)</sup>
- Technical barriers to trade
- Sanitary and phytosanitary measures
- Electronic commerce
- Trade in services
- Trade in financial services
- Trade in telecommunications services
- Investment
- Movement of natural persons
- Intellectual property
- Competition policy
- Government procurement
- Transparent administration of laws and regulations
- Consultations and dispute settlement

In summary, it can be said that APEC activities so far have been influential in bringing the importance of *Best Practices* and high-quality RTAs/FTAs to the attention of APEC economies. Also, it is an encouraging sign that an increasing number of APEC economies—more specifically, the developing ones—have actively participated in the related academic and policy discussions and that APEC started paying more attention to the issues more sensitive to developing members.<sup>25)</sup> However, APEC activities have to become more focused and should provide more concrete policy-related actions and programs to be able to better achieve the Bogor Goals in an era of increasingly complex sub-regionalism within Asia-Pacific.

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24) New Zealand suggested that ROO should be simple, robust, easy and economical to administer, business friendly, fair, and consistent.

25) There was a special workshop convened by APEC under the title “Workshop on Identifying and Addressing Possible Impacts of RTAs/FTAs Development on APEC Developing Member Economies,” Hanoi, Viet Nam, 28-30 June, 2005.

## V. Making Sub-regional RTAs/FTAs Contribute to the Bogor Goals

As discussed in the former chapter, there have been a number of APEC initiatives and activities to address the problem of the proliferation of APEC-internal bilateral FTAs and their impact on the Bogor Goals. With only four years remaining until the developed APEC economies' target year, more affirmative APEC-wide concerted efforts have to be started. With the proliferation of RTAs/FTAs being an unavoidable reality for the foreseeable future—not only in the entire world economy, but also and more strongly in the Asia-Pacific region—we have to find ways to make APEC's sub-regionalism contribute to the Bogor Goals. In particular, APEC activities launched already—*Best Practices* and “High- quality RTAs/FTAs Initiatives”—should continue to encourage member economies to pay attention to the principles and guidelines when negotiating their RTAs/FTAs. In addition, more policy efforts are needed so that the whole APEC process gains credibility in relation to its contribution to the strengthening of the multilateral trading system through achieving the Bogor Goals.<sup>26)</sup>

The move by 2006 APEC SOM I—namely, proposing that the CTI (Committee on Trade and Investment) adopt a workplan for RTAs/FTAs—is much welcome in this regard. The recommendation of SOM includes, *inter alia*, the following six activities:<sup>27)</sup>

- to identify areas of convergence and divergence between RTAs/FTAs and study features of RTA/FTA chapters, drawing on research by PECC and other relevant experts;
- to continue to exchange information on RTAs/FTAs and hold a trade policy dialogue at CTI III in 2006 to share experiences in negotiating and implementing RTA/FTA chapters;
- to assist in identifying and developing model measures for commonly accepted RTA and FTA chapters to build on the model measures for trade facilitation in RTAs/FTAs adopted in 2005;
- to develop a mechanism for cataloguing existing RTAs and FTAs with

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26) For a more detailed discussion of APEC's two-fold crises—identity crisis and credibility crisis—see Park (2000).

27) APEC (2006b).

respect to the *Best Practices*, drawing as appropriate on relevant PECC work.

- to provide capacity building on RTAs and FTAs; and
- to encourage economies to report on steps taken to fulfill existing WTO RTA/FTA notification obligations.

Based on this CTI work plan, APEC can and must devise a useful menu of policy instruments on its road to the Bogor Goals. APEC can, in principle, take three alternative paths. First, taking the proliferation of FTA networks involving APEC economies as an unavoidable reality, APEC can and must endeavor to minimize the negative impacts of increasing sub-regionalism—such as “trade diversion” and “spaghetti bowl” effects—on its collective actions to achieve the Bogor Goals. Second, APEC could alternatively pursue to develop itself into an APEC-wide FTA, through which the Bogor Goals can *de facto* be effectively achieved. Third, in case APEC faces difficulties in carrying out either of the two former instruments, APEC should at least attempt to provide practical action plans to achieve the Bogor Goals by way of the increasing regionalism activities of APEC members.

## 1. Minimizing Negative Impacts of Increasing Sub-regionalism

### (1) Minimizing the Trade Diversion Effects

Trade diversion effects arise when, by way of FTAs or Customs Unions, more efficiently produced non-partner countries’ products are replaced by less-efficient partner countries’ products. As a standard textbook analysis illustrates in a simple manner,<sup>28)</sup> the trade diversion effects are welfare reducing for the importing countries. Therefore, analysts have recommended a number of measures that can help minimize trade diversion. Among those measures recommended, the following four instruments prove useful in the context of APEC’s Bogor Goals. First, it is recommended to make territory (or membership) of RTAs/FTAs as large as possible. In the context of APEC’s

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28) For such an analysis, see Salvatore (2004), chapter 8.

road towards the Bogor Goals, this would mean that APEC member economies, when involved in FTA initiatives with other APEC members, have to seek like-minded APEC member economies, with the view of establishing an FTA agreement with a wider membership than originally planned. Second, as the Eminent Persons Group of APEC recommended in its Second Report, APEC could adopt the policy of “open membership” when negotiating an intra-APEC FTA. This will expand the territory and membership of sub-regionalism and strengthen the potential of trade creation effects. Introducing more liberal and generous accession conditions for newly negotiated and/or already established FTA agreements will have the same effect. Also, allowing more flexible accession conditions for developing APEC member economies will help the existing FTAs expand the membership greatly. Third, it seems instrumental that APEC-internal FTAs set a high standard in achieving trade and investment liberalization. In this regard, starting the liberalization schedule of FTA agreements at a relatively high level and ending at a nearly full specialization level will help mitigate the possibility of trade diversion as suggested by Australia in the context of an APEC and WTO discussion on trade liberalization and rules on RTAs.<sup>29)</sup>

## **(2) Minimizing the Spaghetti Bowl Effects**

Spaghetti bowl effects arise through the existence of different coverage and conditions of rules of origin in different FTA agreements that lead to an increasing complexity of rules in different FTA territories. APEC can and must adopt several measures to minimize this negative impact. First, it is recommended that any new FTA agreements be negotiated with simplistic and generous provisions on the identification of the origin of the products. Second, along the same line with the former, it is recommended APEC develop, if possible, APEC-wide standard rules of origin. This will also fit well into the current attempts by APEC to develop model measures for all the chapters included in FTA agreements. Third, APEC member economies would have to

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29) WTO (2005) contains a proposal by Australia to the APEC and WTO community to adopt the initial and final level of liberalization in at least 70 and 95 percent per cent of each economy's HS six-digit tariff line.

make every effort to harmonize the existing rules of origin that are different from each other and incorporate the newly developed APEC rules of origin into the existing ones.

## 2. Establishing an FTA for Asia-Pacific (FTAAP)

Though not easy, the establishment of an APEC-wide FTA will be the most effective way of achieving the Bogor Goals. An FTA for Asia-Pacific (FTAAP) was recommended by a number of experts (Park 1998, Bergsten 2006, Scollay 2005, etc.) as a way of overcoming the difficulties arising from the non-effectiveness of member economies' efforts towards the Bogor Goals. The argument is that if APEC members agree upon an FTAAP, the Bogor Goals can be achieved in a most influential way. After an initial agreement, they have to adjust the schedule of liberalization within the FTAAP congruent to the target years of the Bogor Goals—that is by 2010 for developed APEC members and 2020 for developing APEC members. Then, the problems of trade diversion and spaghetti bowl effects will be effectively solved for the entirety of APEC members, and the problems will be transferred outside of APEC.

To establish an FTAAP, APEC, however, has to overcome several substantial hurdles. First, the different strategic positions of member economies towards liberalization, which are caused mainly by the diversity of members in the level of economic development, have to be bridged. In the history of the APEC process, this proved enormously difficult as Park (2001) illustrated in detail. As a result, reaching consensus—which involves a hard negotiation process—seems very difficult. Second, to establish an FTAAP, APEC member economies that are already engaged in bilateral and regional trading arrangements—such as the Korea-Singapore FTA and ASEAN Free Trade Area (AFTA)—should give up these existing agreements and replace them by the to-be-negotiated FTAAP agreement. The FTAAP deal would thus have to be very attractive. Otherwise, they might be tempted to maintain the status quo rather than engaging in a wide-ranging FTAAP.

Though enormously difficult, the establishment of an FTAAP is not impossible. In fact, several positive signals in this direction have been

observed. For one, ironically, the increasing sub-regionalism among APEC members may well prove supportive of an FTAAP: if the number of bilateral FTAs increases further, the problems of trade diversion and spaghetti bowl effects could overshadow the expected short-term gains for the participants. That is, with an increasing complexity of APEC-internal FTA networks, the costs of maintaining those agreements can become so burdensome that APEC members would be inclined to establish an FTAAP. Also, the fact that an individual WTO member is a member of more than five RTAs on average, and APEC members are no exception to this general trend, is supportive of this hypothesis. Also, the accumulation of negotiation skills for most of the APEC economies could prove helpful as OECD (1995) suggested in the context of the relationship between regionalism and multilateralism.<sup>30)</sup>

### **3. Providing Practical Ways of Achieving the Bogor Goals**

#### **(1) Adjusting the Transition Period of RTAs/FTAs to Bogor Goal Target Years**

In parallel to the two former alternatives and/or supplementally, APEC has also to devise practical ways to achieve the Bogor Goals. In this regard, the following two measures deserve special attention. First, taking the proliferation of sub-regionalism within APEC into consideration, APEC has to find out and reach an agreement on a modality of adjusting the transition period of liberalization in FTAs/RTAs to match the target years of the Bogor Goals.

More concretely, the developed APEC members involved in any FTA negotiations have to complete their liberalization procedure by 2010 while the developing ones are allowed to do the same by 2020. If there is a further increase in FTA/RTAs within APEC, under the assumption that this modality was adopted in consensus, then there will be expanded room for those member economies participating in FTAs/RTAs to extend their liberalization

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30) The relationship between sub-regionalism and APEC-wide liberalization can be interpreted as the lower-scale relationship between regionalism and multilateralism. So, the same analytical tools can be used to analyze the two.

to countries outside their FTA networks. If done in this way, we get closer to the Bogor Goals.

## (2) Strengthening Trade Facilitation Activities

The Bogor Goals contain not only the liberalization of member economies' trade and investment policies, but also the facilitation of trade and investment flows within APEC. Whereas we have so far focused our discussion on the issue of liberalization,<sup>31)</sup> trade facilitation measures—that is, “behind-the-border” measures—are expected to generate significant progress towards the Bogor Goals. For instance, Kim, et al. (2005) has studied the economic effects of a possible improvement in trade facilitation of APEC member economies and found out that a 50 percent improvement of trade facilitation produces economic effects equivalent to those generated through a tariff reduction by more than 80 percent. Therefore, either as an escape measure in times of difficulties in trade liberalization or as a complementary measure to it, trade facilitation could be put into the core of APEC's endeavor to achieve the Bogor Goals.

Second, APEC has also discovered very recently the value of trade facilitation, and it is the first of the trade policy areas for which *Best Practices* are much discussed. “Model measures” are under discussion and development. Therefore, trade facilitation has the potential to be a focal point of APEC's future activities, especially in relation to achieving the Bogor Goals. Addressing the “behind-the-border” measures through trade facilitation will prove instrumental to getting closer to the Bogor Goals.

## VI. Conclusions

This study addressed the problem of the increasing regionalism activities of APEC member economies, and more specifically those RTAs/FTAs

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31) The APEC process in TILF areas until recently also was more strongly focused on trade liberalization rather than trade facilitation.



negotiated within APEC, and their impact on the Bogor Goals, which have been at the core of member economies' trade and investment policies over the last ten years and more. With contrasting views on the relationship between regionalism and multilateralism still existing, this paper attempted to apply these contrasting views to the relationship between sub-regional liberalization through intra-APEC RTAs/FTAs and APEC-wide liberalization according to the Bogor Goals. The paper suggested that with the deadline of the Bogor Goals approaching, APEC has started more aggressive attempts to achieving the goals in time. In particular, APEC appears to utilize the dynamics of sub-regionalism as a conduit towards the Bogor Goals.

The paper investigated the current activities of APEC on sub-regionalism—summarized by *Best Practices*, “High-quality RTAs/FTAs,” and “Model Measures”—and came to the following conclusions. First, The paper argues that there are practically three paths for APEC to take on its road towards the Bogor Goals: (i) minimizing the negative impacts of increasing sub-regionalism, such as trade diversion and spaghetti bowl effects; (ii) developing APEC into an APEC-wide FTA (FTAAP); and (iii) Providing Practical Instruments of Achieving the Bogor Goals when allowing the RTAs/FTAs to proliferate within APEC.

Second, the paper found that these three paths are sometimes mutually exclusive but also sometimes mutually complementary in the sense that the third path will prove useful for the pursuit of the first path and vice versa. On the contrary, the second path seems to be a very unique one that encompasses the other two, making it the most ambitious and, therefore, most difficult to achieve.

Third, the paper found that the establishment of an FTAAP would provide a very influential instrument to achieving the Bogor Goals. Mobilizing all the APEC member economies to agree upon it at one stroke may prove nearly impossible. However, with the sub-regional RTAs/FTAs ever increasing, the paper argues that the environment for an FTAAP has become increasingly favorable. Especially, as Park (2005) suggested, an increasing overlap of intra-APEC networks of RTAs/FTAs may well lead to a *de facto* establishment of an FTAAP in the mid and long term. In doing so, the third path will prove pivotal in reducing related costs of converging the FTA/RTA agreements.

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## Executive Summary

A proliferation of regionalism since the beginning of the 1990s, despite a strengthening of the multilateral trading system through the launch of the WTO, has led to the coexistence of regionalism and multilateralism that has become a shaping factor of the world economy. East Asian countries, long abstaining from using regionalism as an instrument to expand market access for their tradables, are no exception to this new trend. The countries in East Asia that are member economies of APEC at the same time have changed their external economic policies as well from a multilateralism-based strategy to a more regionalist approach. This has increased the number of intra-APEC RTAs (regional trading agreements), which are often termed “sub-regionalism,” to a substantial extent.

Increasing sub-regional trading arrangements within APEC, concluded mainly in the form of bilateral free trade agreements, exercise considerable impacts on the Bogor Goals, the long-term vision of APEC to realize “free trade and investment in the region” by 2010/2020. As academic and policy debates have suggested, regionalism may exert both positive and negative influences to multilateralism. Relevant questions raised in the APEC context are whether or not the increasing regionalism activities of APEC member economies have put stepping stones on APEC’s roads toward the Bogor Goals and how we can create favorable policy environment towards multilateralism.

Faced with both the member economies’ increasing sub-regionalism and regionalism initiatives with non-APEC members, APEC has adopted several policy schemes to accommodate this new trend in their efforts to achieve the Bogor Goals. Most outstanding among these are the adoption of “best practices for FTAs/RTAs” and APEC’s endeavor to encourage only “high-quality RTAs/FTAs” when member economies conduct FTA/RTA negotiations.

This paper took stock of the recent regionalism activities of APEC members and investigated how they could be utilized on APEC’s road towards its long-term vision of the Bogor Goals. Main conclusions of the paper are as follows.

First, in order to make the sub-regionalism initiatives within APEC supportive of Bogor Goals, APEC member economies have to try to minimize the trade diversion effects especially by expanding the membership of such sub-regionalism. Granting an open membership and/or favorable accession conditions of existing intra-APEC RTAs to any willing and prepared APEC member economy would help APEC proceed more affirmatively towards the Bogor Goals.

Second, APEC should devise policy measures specifically designed to reduce the so-called “spaghetti bowl effects” that mainly arise from the different rules, coverage, and depth of liberalization in the concluded sub-regional RTAs/FTAs. More specifically, APEC could develop “model measures” for important chapters that are commonly found in the negotiated agreements and recommend that member economies adopt these model measures when negotiating FTAs/RTAs with other APEC members. Also, it is suggested in this paper to develop APEC-wide “rules of origin” to minimize the negative impacts of spaghetti bowl effects.

Third, the paper suggested guiding increasing sub-regionalism to provide practical assistance towards achieving the Bogor Goals. More specifically, the paper recommended the APEC process (i) pay more attention to trade facilitation measures and (ii) adjust the schedule of liberalization contained in the FTA/RTA agreements to the respective target years of the Bogor Goals.

Fourth and lastly, the paper investigated the prospect of a “FTA for Asia-Pacific” to achieve the Bogor Goals. Though extremely difficult to overcome obstacles, the FTAAP, once adopted, would be an excellent instrument to help the APEC community achieve the Bogor Goals. Expanding the overlap among the existing and newly concluded RTAs/FTAs or negotiating the FTAAP agreement from scratch are two possible ways of establishing the FTAAP.