



Now or Never For an Asian FTA

by C. Fred Bergsten



AT THEIR ANNUAL summit in Vietnam last November, the leaders of the 21 members of the Asia Pacific Economic Cooperation 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 WTO. 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.

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 George W. 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

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“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 U.S., 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 Asians skeptical of FTAAP specifics welcome the active engagement of the U.S. 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 needs to move ahead quickly because of the domestic political situation in the U.S., intensified by the sweeping victory of Democrats in the recent Congress-

sional 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 this summer, without which it will be difficult for the U.S. to participate in any significant international trade negotiations.

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 prospect to support TPA extension. America’s trading partners in the Asia-Pacific region clearly need TPA to continue and can substantially boost that prospect by accelerating APEC’s movement toward an FTAAP through meetings of their officials and 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 and Congress toward entering into any new trade talks. Hence it would also behoove U.S. 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 NAFTA when he inherited it from his Republican predecessor in 1993, any new U.S. president would be under a similar obligation with an FTAAP if its deliberations were already well underway.

The initial step taken by 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 U.S. trade policy and the global trading system for years to come. ■