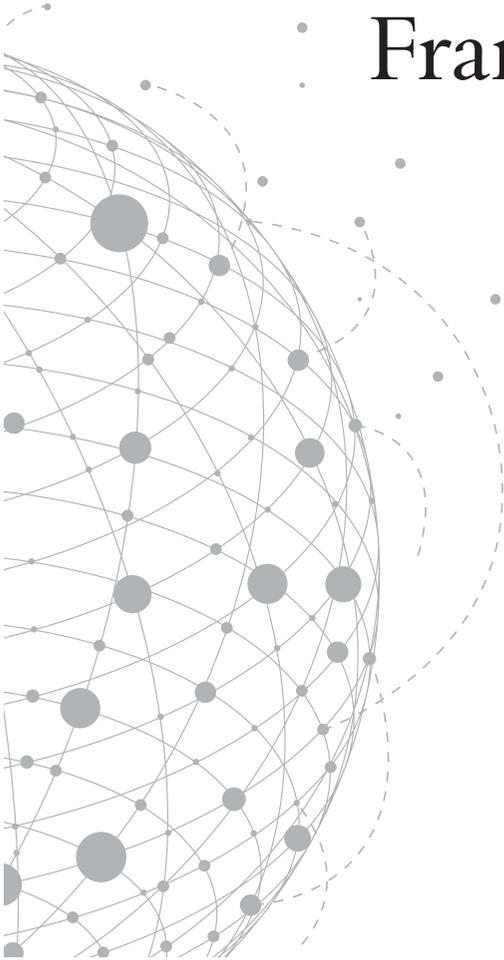


Toward Converging Frameworks



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The TPP and RCEP

Prospects for Convergence

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In 2010, APEC leaders envisioned a process where the Free Trade Area of the Asia-Pacific (FTAAP) would evolve from two parallel tracks. These tracks were subsequently labeled the “trans-Pacific track,” represented by the Trans-Pacific Partnership (TPP), and an “East Asian track” (Petri, Plummer, and Zhai 2012). At the time, the leaders had in mind that the East Asian track would be defined by the ASEAN-Plus-Three and ASEAN-Plus-Six processes. Today, however, the Regional Comprehensive Economic Partnership (RCEP) has been clearly established as the most qualified process for leading the East Asian track, even if some RCEP participants may not yet accept that it is playing such a significant role.

An expectation that the FTAAP will evolve from the trans-Pacific and East Asian tracks naturally implies that the two tracks will converge at some point, although no process for such a convergence has yet been mapped out, even in outline form, and no indication has been provided by the leaders about how they envisaged that convergence might occur. The purpose of this paper is to identify and consider some issues that may influence how, when, and even if convergence might be achieved.

The paper begins by briefly summarizing the key developments that have been reached in the TPP and RCEP negotiations, including some

comparison of the nature of the two negotiating processes and the anticipated eventual agreements as defined by the participants. It goes on to discuss the convergence challenges, which can be grouped into three areas: membership issues, issue coverage, and the level of ambition.

COMPARING PROGRESS TO DATE

The TPP evolved from the earlier Trans-Pacific Strategic Economic Partnership (TPSEP). Negotiations for the TPP began in early 2010, and by the end of 2013 there had been 19 negotiating rounds, as well as various intersessional meetings of negotiating groups and ministers. During the course of the negotiations, the number of participants gradually increased to the current 12 APEC economies. At least two additional APEC economies are pressing for admission to the TPP, and at least two non-APEC members have indicated an interest in joining when the opportunity arises. There have been reports since at least mid-2013 that a substantial number of the agreement's chapters have been finalized or are nearing finalization. On the other hand, it is clear that the most difficult and sensitive issues still remain to be agreed. An expectation was created in some quarters that the full agreement might be finalized by the end of 2013, although in retrospect it is clear that this expectation was never realistic. The question of whether the TPP can be concluded by the end of 2014 has become entangled with the question of whether the United States Congress will grant President Obama trade promotion authority (TPA), or "fast track," prior to the mid-term congressional elections in November 2014.

Negotiations for the RCEP commenced in May 2013. The RCEP was presented as a way to avoid choosing between the ASEAN-Plus-Three and ASEAN-Plus-Six as the basis for an East Asian regional trade agreement. In practice, however, participation in the RCEP is the same as the ASEAN-Plus-Six group: the 10 ASEAN members, plus China, Japan, South Korea, India, Australia, and New Zealand. Four negotiating rounds have now been held, and a ministerial meeting to be held in mid-2014 is expected to give further direction regarding the scope of the agreement and the level of ambition to be pursued. The stated inten-

tion of the participants is to conclude the agreement by the end of 2015, although this target is widely viewed as over-optimistic.

Figure 1 provides a schematic representation of the current state of participation in the TPP, the RCEP, and potentially in the FTAAP. Seven APEC members are participating in both the TPP and the RCEP. All 12 current participants in the TPP are APEC members. The Pacific Alliance is a trade agreement among four (soon to be five) Latin American economies on the Pacific seaboard that consolidates existing trade agreements among its members, and is intended to serve, among other things, as a vehicle for further integration with the Asia-Pacific region. The alliance includes a non-APEC member, Colombia, and is negotiating accession with another non-APEC acceding member, Costa Rica. Both have made clear their desire to participate in the TPP, as well as the FTAAP at some future date. Twelve of the 16 RCEP participants are APEC members. Of the remainder, Cambodia, Laos, and Myanmar are the three least-developed ASEAN members that are not APEC members, and India has never been a member of APEC. Four APEC members, Chinese Taipei, Hong Kong, Russia, and Papua New Guinea are not participating in either the TPP or the RCEP, although Chinese Taipei has made clear its desire to participate in the TPP.

TPP participants have repeatedly emphasized their intention to craft a “high-standard, twenty-first century” agreement, with a broad agenda covering the full range of important issues surrounding modern international trade regulations, and with commitments and rules that reflect this high level of ambition. There are over 20 negotiating groups working on some 29 chapters, and the agreement is being explicitly negotiated as a “single undertaking.”

The Guiding Principles and Objectives for Negotiating the RCEP (ASEAN 2012) emphasize flexibility, including (but not limited to) the provision of special and differential treatment for members at lower levels of development, as well as recognition of “the individual and diverse circumstances of the participating economies.” The RCEP agenda is to include “trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues.” The negotiating modality is left open. The RCEP’s Guiding Principles and Objectives state that “negotiations on

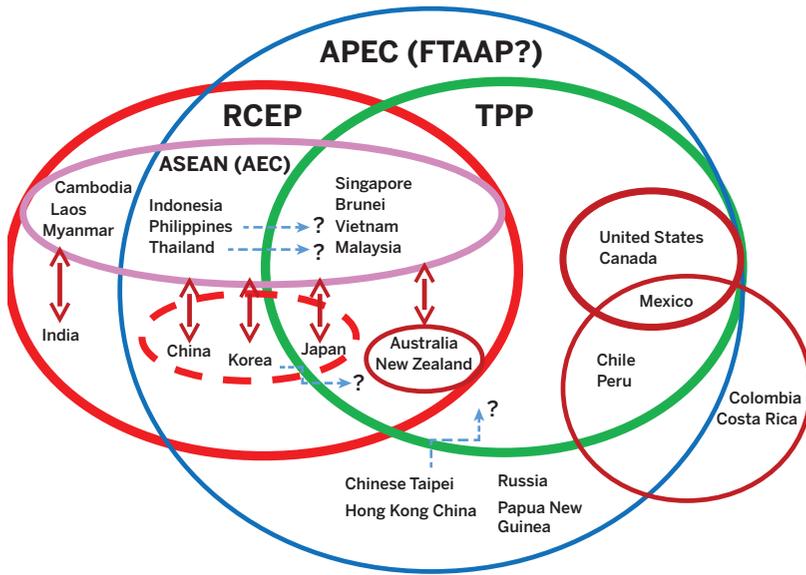


FIGURE 1 *Current Configurations of Regional Integration Initiatives*

trade in goods, trade in services, investment, and other areas will be conducted in parallel to ensure a comprehensive and balanced outcome,” while the framework (ASEAN 2011) endorsed by ASEAN leaders states that the “agreement can be accomplished in a sequential manner, or single undertaking, or through any other agreed modality.”

THE TPP AND THE RCEP—CONVERGENCE ISSUES

Membership Issues

There are clearly membership issues that will need to be resolved if the TPP and the RCEP are to converge into the FTAAP. For the time being, TPP participation is restricted to APEC members. It is difficult to imagine ASEAN supporting the FTAAP unless participation is open to all ASEAN members. This would imply the need for decisions to be made on whether potential future FTAAP participants, including the current non-APEC members of the RCEP and possibly Colombia and

Costa Rica, should first be admitted to APEC before being eligible for inclusion in the FTAAP. At this point in time, the position of India looms as potentially the most problematic of these issues. The RCEP's Guiding Principles and Objectives state that once it has been concluded, the RCEP will be open to accession by other "economic partners." Accessions to the RCEP by non-APEC members could further complicate APEC and FTAAP membership issues, especially if these issues have not been resolved beforehand.

Issue Coverage

Table 1 highlights the overlapping elements in the stated agendas of the RCEP and the TPP, as well as those issues that are on the TPP agenda but not on the stated agenda of the RCEP. Rules of origin and the trade facilitation issues of customs, sanitary and phytosanitary measures (SPS), and technical barriers to trade (TBT) do not appear as agenda items in the RCEP's Guiding Principles and Objectives. However, commentary from RCEP negotiators indicates that these issues, and possibly also trade remedies, will be covered under the heading of "market access for goods." In addition, telecommunications and financial services will be covered within the RCEP's services agenda (Ministry of Trade of Indonesia 2014). It is easy to envisage that temporary entry may also be covered in the RCEP within the services agenda, and textiles and apparel within the market access for goods agenda. Given the long-standing emphasis in East Asian trade policy discussions on supply chain facilitation, it is also difficult to imagine that supply chain facilitation will not be covered in some form in the RCEP agenda, even if it doesn't receive a separate chapter. Issues related to small- and medium-sized enterprises (SME) are also likely to be addressed in some form.

Government procurement and e-commerce could be viewed as natural future extensions of the RCEP's existing agenda, which will evolve to include other issues as they arise. Regulatory coherence is a "new generation" issue in the TPP agenda, one whose content and scope have yet to be clearly defined. It is likely, though, that the substantive content will overlap with concerns being addressed within the ASEAN Economic Community (AEC) initiative, and should consequently be amenable to inclusion in the RCEP agenda. The issue of state-owned enterprises

TABLE I *TPP and RCEP—Common and Differentiated Agendas*

Common Elements	TPP Only
Market Access for Goods	Government Procurement
Rules of Origin	SOEs
Trade Facilitation?	<ul style="list-style-type: none"> • Unless included in RCEP under Competition
<ul style="list-style-type: none"> • Customs • SPS • TBT 	E-Commerce
Services	Environment
Investment	Labor
Competition	Trade Remedies
Intellectual Property	Textiles and Apparel
Economic and Technical Cooperation	Temporary Entry
<ul style="list-style-type: none"> • Development also a horizontal issue in TPP 	Horizontal Issues
Dispute Settlement	<ul style="list-style-type: none"> • SMEs • Supply Chain Facilitation • Regulatory Coherence
“Other Issues” (RCEP)	Separate Chapters in TPP
	<ul style="list-style-type: none"> • Telecommunications • Financial Services

Sources: *Office of the US Trade Representative (2011); ASEAN (2012).*

(SOEs) is one of the most controversial in the TPP, and it is not yet clear how the issue will be treated in the final agreement. If the TPP adopts an approach to SOEs that focuses on competition-based principles, it could open the way to exploring potential convergences with the RCEP’s competition section. Conversely, the TPP might adopt approaches to SOEs that are far less amenable to convergence with the RCEP.

The TPP agenda issues that most clearly lack counterparts or potential counterparts in the RCEP agenda are environment and labor. These issues are contentious within the TPP, with unofficial comments suggesting that preferences among members fall along a spectrum. At one end is the preference for legally enforceable measures, and at the other is the preference for unenforceable expressions of commitment to agreed common principles. Eventual TPP provisions may be very difficult for some RCEP participants to accept if they lie at the former end of the spectrum (legally enforceable measures), but much easier to accept if they lie at the latter end (unenforceable commitments).

Any feasible “middle ground” solution in the TPP is likely to include provisions requiring some degree of scrutiny of member policies in these areas, and the degree of acceptability of these provisions to all RCEP participants may well depend on the specific content.

Differences in agenda coverage between the TPP and the RCEP may prove to be less daunting challenges to convergence than might be suggested by an initial glance at each agenda’s list of issues. Much will depend on the approach finally adopted in the TPP to developing provisions on some of the most controversial and innovative issues on its agenda.

Differences in Level of Ambition

From what is known to date—or can be deduced or inferred—about the agendas of the two initiatives, the differences in level of ambition between the TPP and the RCEP, rather than differences in coverage, are likely to be the biggest obstacle to convergence.

In the case of market access for goods, initial rhetoric surrounding the TPP suggested an intention to achieve 100 percent elimination of tariffs. Information emerging from the negotiations, however, strongly suggests that this objective will not be achieved, with some participants poised to insist on, and likely to receive, traditional “carve-outs.” This would be a serious blow to the market-access ambitions of some other participants. At the same time, there is no indication that the level of tariff elimination eventually achieved will not be very high, perhaps as high as 98 percent of tariff lines.

There is no official RCEP target for the level of tariff elimination to be achieved. Based on the Economic Research Institute for ASEAN and East Asia (ERIA)’s comprehensive mapping of FTAs in the region (Lee and Okabe 2011), Fukunaga and Kuno (2012) recommend an elimination target of 95 percent on tariff lines, while pointing out that this will be challenging for some RCEP participants. Achievement of this target, however, could be a significant step toward convergence of the TPP and the RCEP into an eventual FTAAP. To an impartial observer, a gap of 3 percent in tariff elimination coverage—the gap between 98 percent and 95 percent—should not be impossible to bridge over time. Furthermore, for some economies that are participating in

both the TPP and the RCEP, the remaining tariffs are likely to include traditional “carve outs.”

In a comparison between the TPP and RCEP approaches to all aspects of market access, the TPP does not necessarily always emerge favorably, especially if facilitating regional economic integration is the primary criterion. In two areas, rules of origin and scheduling of commitments, the RCEP has the potential to deliver superior outcomes.

Rules of origin that facilitate comprehensive regional economic integration need to incorporate provisions for full cumulation, mandate coequality between regional value content (RVC) and change in tariff classification (CTH) rules, and develop efficient operational certification procedures (OCs) that facilitate trade. Information emanating from the TPP negotiations suggests that the TPP rules are unlikely to meet these criteria. On the other hand, the ASEAN-Plus FTAs from which the RCEP is evolving have already experimented with rules of this kind. As Medalla (2011) points out, further steps within the RCEP to achieve harmonized rules based on these criteria will be both technically and politically challenging, but not impossible, and they would make significant contributions to regional integration.

Trade agreements that are fully supportive of regional economic integration need to incorporate common schedules of commitments from all members. Information from the TPP negotiations again suggests that the TPP approach to scheduling commitments is unlikely to meet this test. On the other hand, the RCEP still has the opportunity to agree on this approach, and it is hoped that the opportunity will be grasped.

In the case of services trade, the TPP has adopted the “negative list” approach. Difficulties for convergence will be created if the RCEP adopts the General Agreement on Trade in Services (GATS)-based approach that the ASEAN-Plus-One FTAs follow. In their summary of analysis from the ERIA mapping project, Ishido and Fukunaga (2012) also highlight the very low level of liberalization achieved in those FTAs, which often provide little advancement on GATS commitments.

On investment, there is insufficient information on the agendas or possible outcomes in the TPP and the RCEP to enable reliable comparisons to be made. One investment issue, however, that has been extremely contentious in the TPP, and is potentially equally contentious

in any future convergence process, is investor-state dispute settlement (ISDS). Opposition to ISDS derives in part from legitimate concerns over the outcomes of ISDS proceedings in the past, but the case can also be made that such outcomes can be avoided if the ISDS provisions are drawn with sufficient care. In the interests of future convergence with the RCEP, the TPP negotiators need to ensure that the TPP provisions on ISDS take these concerns fully into account.

Intellectual property (IP) has been one of the most contentious issues—in not *the* most contentious issue—in the TPP, as evidenced by the draft text of the TPP intellectual property chapter leaked in late 2013. The chapter was extensively annotated with large sections of text in square brackets, indicating wide areas of disagreement. Conflicting opinions on intellectual property may well make it one of the most difficult issues to resolve in any convergence process. This is partly because of the far-reaching nature and high-level ambition of the TPP proposals, but also because the TPP negotiations, like some others concerning IP, suffer from the lack of a sound analytical framework. Proposals are often based on the premise that more IP protection is always better, a premise drawn perhaps by analogy from the analytical foundation for trade liberalization. In the case of IP, however, welfare-maximizing outcomes are achieved by optimizing rather than maximizing the level of protection. If the level of protection falls short of the optimum, society is deprived of innovation and creative output that it would be willing to pay for, and welfare is sacrificed. But welfare is also sacrificed if IP protection exceeds the optimum. This is because the value of additional innovation is outweighed by the costs to society, in the form of excessive monopoly rents and limitations on the flow of information and ideas. If they wish to avoid creating unnecessary barriers to convergence between the TPP and the RCEP, TPP negotiators should focus on optimizing levels of IP protection, rather than on simply maximizing them.

CONCLUSIONS

Differences not only in levels of ambition, but also in the nature of those ambitions, loom as potentially the largest obstacles to convergence be-

tween the TPP and the RCEP. In a number of areas, convergence is likely to require the RCEP participants to raise their level of ambition to be comparable with that of the TPP. An important question is whether this will be posed as a prerequisite for considering convergence, or whether agreement may be reached on a convergence process that involves phasing of alignment in levels of ambition over agreed periods of time, accompanied by appropriate provisions for capacity-building assistance. But the TPP participants may need to show flexibility in other ways as well. First, they should be prepared to consider RCEP approaches that turn out to be demonstrably superior as instruments for promoting regional economic integration, which may be the case with rules of origin and scheduling of commitments. Second, they should avoid locking in provisions that are unlikely to win acceptance in the overall regulatory architecture for Asia-Pacific regional economic integration, whether because the approaches are conceptually flawed as instruments for maximizing economic welfare in the region, or because they raise insuperable political obstacles for some of the region's economies.

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Asia-Pacific Economic Integration

Projecting the Path Forward¹

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INTRODUCTION

Almost two decades ago, the leaders attending the Asia-Pacific Economic Cooperation (APEC) Summit in Bogor, Indonesia, agreed to achieve free trade and investment in the region by 2010 for developed economies and 2020 for developing economies. The deadlines for those ambitious ventures might have seemed distant to the APEC leaders in November 1994, but the first marker has already long past and the second is fast approaching.

APEC gets a grade of “A” for its vision of regional economic integration and an “incomplete” for its execution. Nonetheless, progress toward an Asia-Pacific free trade region over this period has been notable, even though much of it has taken place outside the scope of APEC deliberations. The network of bilateral and regional free trade agreements (FTAs) in the Asia-Pacific region has expanded dramatically over the past decade, interconnecting almost every major trading nation in the

region, with one notable exception: neither the United States nor China has pursued an FTA initiative involving the other. Most APEC economies now participate in a variety of integration arrangements, and all are committed to the long-run APEC goal of creating a Free Trade Area of the Asia-Pacific, or FTAAP.

That said, the pathway toward economic integration in the Asia-Pacific region is still uncertain. Several options for crafting the FTAAP are under review. As a practical matter, the two mega-regional integration arrangements in the APEC region—the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP)—will substantially inform the APEC debate.² This short chapter assesses the prospects for achieving an FTAAP via the mega-regional pathways.

THE MEGA-REGIONAL PATHWAYS: MERGING OR CONVERGING?

The TPP and RCEP initiatives cover a large number of economies that cumulatively account for a substantial share of world output and exports (see Table 1). Both involve more than half of the APEC membership, and a growing number of economies are participating in both the TPP and RCEP negotiations. Both have ambitious agendas to dismantle barriers to trade and investment in goods and services.

To date, APEC discussions about potential pathways toward an FTAAP have looked at each mega-regional. At first blush, similar negotiating agendas and overlapping membership of the TPP and the RCEP seem to suggest that an FTAAP could be crafted from the convergence of the two. However, merging these arrangements into a common FTAAP would be difficult, for two reasons.

First, the mega-regionals have different time horizons for completion of the negotiations. The TPP talks are likely to conclude in 2014, while the RCEP talks still are in the early stages of a multi-year negotiation. Accommodating the least-developed economies in the Association of Southeast Asian Nations (ASEAN), and avoiding delays provoked by current foot-draggers, like India, to trade liberalization will be stiff tests for the RCEP negotiations, and will likely result in the talks extending

TABLE I *TPP and RCEP: Overlapping Membership*

	TPP	RCEP	In both TPP-12 + RCEP	In both TPP-16 + RCEP	In both TPP-17 + RCEP
Number of economies	12	16	7	11	12
Aggregate share of world GDP (%)	38	29	12	15	27
Aggregate share of world exports (%)	24	30	10	16	28

TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership
Notes: A TPP-16 scenario would include Korea, Indonesia, the Philippines, and Thailand.
A TPP-17 scenario would include China.

Sources: IMF WEO database and IMF Direction of Trade Statistics, 2013.

well beyond the targeted completion date of late 2015.

Second, and more problematic, is that the TPP deal is likely to be much more substantial in terms of the depth of prospective trade liberalization and the scope of rule-making obligations than the RCEP. The TPP aims to develop a twenty-first century rulebook for trade that goes beyond current WTO obligations in important areas, such as labor and environment, intellectual property, investment and competition policy, and disciplines on state-owned enterprises, with enforcement of most obligations covered by binding dispute settlement procedures similar to those in the Korea-US (KORUS) FTA.³ Though the RCEP also aims to expand the liberalization commitments contained in existing FTAs between ASEAN and its six bilateral partners, it has less lofty ambitions regarding the depth and scope of reforms, far more exemptions for sensitive products and for broad development considerations, and more consultative rather than binding dispute resolution procedures.

Harmonization of the two mega-regionals would inevitably require a dilution of the reform commitments mandated by the TPP. Most TPP economies would regard the return on such an investment to be inadequate.

To be sure, the overlapping membership of the TPP and the RCEP will promote the convergence of the two agreements. To date, seven of the sixteen RCEP economies also are negotiating the TPP. In addition,

four RCEP economies—namely Indonesia, the Philippines, South Korea, and Thailand—are already performing “due diligence” on the TPP to assess the potential benefits and domestic policy adjustments that would be required if they join in the coming years. It is thus quite possible that eleven of the sixteen RCEP economies could be engaged in the TPP before the end of this decade.

Since the TPP is expected to conclude well before the RCEP, the TPP outcome could well affect RCEP negotiations. For those economies involved in the two talks, it will be easier to implement RCEP standards if they already have committed to more comprehensive TPP obligations. From this perspective, there already seems to be a convergence of the two mega-regionals. But it is not the merging or harmonization of the TPP and the RCEP that poses the biggest challenge; rather, it is a convergence toward the TPP template!

However, not all APEC economies participate in the two mega-regionals, and some non-APEC members are involved. Russia, Chinese Taipei, and Hong Kong don't participate in either initiative, and the RCEP involves four economies that are not in APEC.⁴ Restrictions on participation in each mega-regional pose problems for the broader application of the pact to the entire APEC membership. The TPP is limited to APEC economies, while the RCEP is limited to ASEAN FTA partners. In practice, membership restrictions etched into these pacts will need to be overcome if the FTAAP, as broadly envisioned, is to build on these initiatives.⁵

In sum, APEC economies seem to be “voting with their feet” for the TPP pathway. Yet, as in any infrastructure project, the site preparation may need some modification to deal with specific challenges. The following sections suggest two scenarios for going forward with the construction of the FTAAP.

TPP: THE PATHWAY TO ASIA-PACIFIC ECONOMIC INTEGRATION?

From the outset, the TPP has been a dynamic initiative, evolving from an agreement of the P4 economies (Brunei, Chile, Singapore, New

Zealand) to an agreement of 12 economies, with new members added throughout the course of the talks and prospects for additional members after the deal enters into force. TPP architects envision building an eventual FTAAP on the comprehensive foundations of the TPP accord, with other APEC economies joining the pact in coming years through an accession process similar to that provided in the World Trade Organization (WTO) for new members—even though there are few precedents for such docking. TPP economies have said that the pact will be open to the accession of other APEC members; however, the procedures have still to be clarified.

As noted earlier, there already are prospective candidates for TPP expansion in a “second tranche” of negotiations once the TPP enters into force. Indonesia, the Philippines, South Korea, and Thailand are primary contenders for boosting the TPP-12 to a TPP-16. These economies have been motivated to consider joining the TPP primarily for two reasons: the perceived larger payoff from TPP reforms, and the cost of nonparticipation in terms of trade and investment diversion.

Another major trading nation carefully weighing the advantages (and disadvantages) of the TPP is, of course, China. If China asks to join the TPP, it would boost the TPP’s prospective additional members to 5, potentially creating a TPP-17—one step closer to a TPP covering all 21 APEC economies.⁶ While China is currently considering how the TPP could complement and reinforce domestic reforms approved by the Third Plenum in November 2013, the broad consensus is that China is not ready to accept TPP obligations, particularly those on transparency and disciplines on government intervention in the market. Participation in the TPP would require significant narrowing of the gaps in China’s current record of liberalization commitments. However, China is making incremental strides toward this end as it deepens pacts with its Northeast Asian trading partners, including its current FTA negotiations with South Korea. China’s willingness to make meaningful commitments within key plurilateral WTO initiatives—the Trade in Services Agreement (TISA) and Information Technology Agreement (ITA), among others—would also provide important signals of progress.⁷

If China is willing and able to join the TPP in the coming years, then it seems clear that the TPP will be the standard not only for the FTAAP,

but also for the global trading system. A TPP-17 would be an irresistible attraction to other trading partners; in that context, it would be relatively easy to accept special TPP arrangements to encourage the participation of nonmember least-developed economies (Cambodia, Laos, and Myanmar). Participation by Chinese Taipei and Hong Kong, both with existing bilateral pacts with China, could follow a similar path to their accession to APEC. However, if the high standards and reforms required by the TPP prove to be significant barriers to crafting an APEC-wide regime, consideration should be given to an umbrella agreement that overlays the hard and soft integration approaches of the TPP and the RCEP without requiring revision of either arrangement.

A HYBRID APPROACH

If China does not participate in the TPP later this decade, then another option for a pathway to an FTAAP would be a hybrid approach that links the “hard” elements of the TPP and the “soft” elements of the intra-Asian approaches to trade integration. Under such a scenario, the hybrid pact—the FTAAP—would be an umbrella providing reciprocal obligations applying to TPP and RCEP economies, while the more comprehensive and legally binding TPP provisions would remain in force among the TPP signatories. Importantly, under this scenario, the United States and China could continue to deepen their commercial relationship without the strain of trying to directly incorporate China into the TPP, or the cost of diluting the vitality of the TPP on trade and investment among its signatories to accommodate China. Indeed, China and the United States, each for its own political reasons and economic objectives, might find it attractive to pursue such a hybrid approach to an FTAAP.

What should a hybrid Asia-Pacific integration pact cover? As a first approximation, it is worth looking at China’s most recent trade and investment initiatives in the region. A prospective middle ground between the TPP and RCEP approaches seems to be evolving within those concurrent Northeast Asia initiatives. South Korea and China launched FTA talks in May 2012, and in 2013, a parallel negotiation between

China, South Korea, and Japan was launched. Although a bilateral or trilateral trade pact among these economies would comprise obligations less comprehensive than those negotiated in the Korea-US FTA—which served in many respects as the foundation for the TPP—these initiatives could produce a deal in the large middle zone between the two sharply distinctive integration paths of the Asia-Pacific region. Precedents for the deal could also be drawn from economic cooperation provisions under construction in the RCEP and from the environment chapter of the TPP, among others.

CONCLUSIONS

The TPP and RCEP countries are pursuing parallel tracks toward the APEC vision of economic integration that could be mutually reinforcing and prepare Asia-Pacific economies for accession to a broader FTA-AP. That said, the TPP seems to have a first-mover advantage in terms of setting important precedents for economic integration in the region that could critically shape the pathway toward the FTAAP. Increasingly, more and more economies are looking into the benefits and adjustment demands of gradually adopting TPP norms. The rationale is straightforward: adopting the TPP's "high standards" would complement prospective domestic economic reforms and help boost productivity growth across the economy. In so doing, it would create new opportunities for trade and investment, while improving the quality of economic institutions and governance.

To be sure, participation in the TPP entails adherence to high standards and binding obligations that would constrain the use of politically popular policies, a fact that has already slowed the integration of China and other economies. If that presents intractable economic or political problems, APEC members should consider a hybrid approach to constructing an FTAAP in the form of an umbrella agreement that serves as an overlay to the RCEP and the TPP.

First-mover effects could prove to be important and encourage convergence toward the TPP as the primary platform for regional economic integration. This will largely depend on TPP's success in attracting and incorporating new members after the talks conclude. If China decides to

participate in the TPP in the coming years, it will cement the TPP as the template for both an FTAAP and an upgrading of the world trade rules. Of course, in this regard, the political and economic climate within the United States and China will play key constraining (or enabling) factors.

NOTES

1. Peterson Institute for International Economics, 2014. Used with permission.
2. For an economic analysis of the prospective gains, see Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, Policy Analyses in International Economics 98 (November 2012), Peterson Institute for International Economics, Washington, DC.
3. In so doing, the TPP will achieve a substantial upgrading of existing trade pacts among participating economies.
4. All 12 TPP economies are APEC members; 4 of the 16 RCEP economies (India, Cambodia, Laos, and Myanmar) are not in APEC.
5. For details, see Jeffrey Schott, "Revisiting APEC's Membership Freeze," *Boao Review*, November 21, 2013.
6. At present, Russia's participation is problematic. Hopefully, current frictions will abate, allowing trade relations to normalize in the coming years and FTAAP participation by all APEC members.
7. See "Froman Says China ITA Stance Does Not Bode Well for TISA, Cites Other Factors," *Inside US Trade*, October 29, 2013, www.insidetrade.com (accessed on March 21, 2014).

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Regional Economic Integration Strategy of South Korea

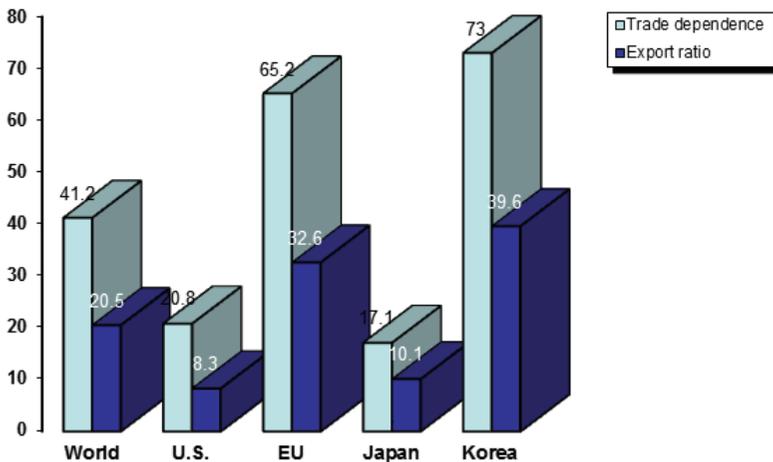
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INTRODUCTION: SOUTH KOREA'S TRADE LIBERALIZATION POLICY¹

The South Korean economy has been highly dependent on trade. As shown in Figure 1, South Korea's dependency on international trade reached 73 percent in 2012.

As one of the beneficiaries of global trade liberalization, South Korea has emphasized trade liberalization at all levels—bilateral, regional, and multilateral. Despite the volatile economic environment, South Korea has kept its trade policy adherent to the principles of an open and rule-based multilateral trading system, and participated in international efforts for a conclusion of the Doha Development Agenda (DDA) negotiations.

South Korea considers free trade agreements (FTAs) and regional economic integration (REI) to be complementary tools for accelerating the Doha negotiations. Therefore, South Korea has pursued FTAs



1) Trade dependence degree = $(\text{total exports} + \text{total imports}) / \text{total value-added}$

2) Export ratio = $\text{total exports} / \text{total value-added}$

Source: Ob-Seok Hyun, "New Korea-US Economic Relations: Recommendation for a Mature Partnership," presentation file, 2013.

FIGURE 1 Trade Dependency and Export Ratio

actively, not only to improve access to foreign markets, but also to secure market access amidst multiplying FTAs with other economies. In particular, South Korea has assumed a leading role in regional economic cooperation, such as ASEAN-Plus-Three, the RCEP, and the TPP, in the belief that they are pathways to multilateral trade liberalization.

This paper proceeds as follows. As a device to accomplish trade liberalization, the second section introduces South Korea's FTA strategies and the progress of free trade agreements. The third section discusses the importance of regional economic integration and presents strategies for accomplishing this. The fourth briefly discusses several negotiations on regional economic integration. A final section concludes with providing policy directions from a South Korean perspective.

FTA STRATEGY

South Korea's FTA Strategy

South Korea has actively engaged in FTA negotiations since 2003, and it has developed its own FTA strategies. First, South Korea uses a multi-track approach, conducting simultaneous negotiations with other players in the global arena and mitigating political opposition by putting several deals simultaneously on the table. Second, South Korea pursues comprehensive and high-level FTAs in terms of contents, which are consistent with the WTO rules and comprehensive in coverage: commodities, services, investments, government procurement, intellectual property rights, technology standards, etc. Third, South Korea's FTAs are widely supported, as public endorsement based on national consensus has been obtained.

FTA Roadmap

An FTA roadmap was formulated in September 2003, and revised in May 2004. This roadmap forms the basis of the FTA agenda. Based on this roadmap, South Korea classifies target economies for negotiating FTAs. Short-term FTA partners include Japan, Singapore, ASEAN, the European Free Trade Association (EFTA), Mexico, Canada, and India. Large economies such as the United States, the EU, China, the South American Common Market (MERCOSUR), and Northeast Asia are mid- and long-term FTA partners. Further FTA partners being considered are the Gulf Cooperation Council (GCC), Russia, Australia, New Zealand, Peru, Israel, Morocco, Algeria, and the Southern African Customs Union (SACU).

Progress of the FTAs

Since the establishment of the FTA roadmap in 2003, Korea has actively pursued FTAs with its major trading partners. So far, FTAs with Chile, Singapore, the EFTA, ASEAN, India, Peru, the EU, and the United States have gone into force. The South Korea-US FTA was signed in June 2007 and entered into effect on March 15, 2012. On April 8, 2014, South Korea officially signed a prolonged FTA with Australia (KAFTA), less than a month after the announcement of the conclusion of negotiations with Canada.

South Korea is under negotiation with Indonesia, Gulf Cooperation Council, New Zealand, and China. South Korea and China announced the launch of FTA negotiations on May 2, 2010. Of particular note, the start of the China-Japan-Korea FTA (CJK FTA) and the Regional Comprehensive Economic Partnership (RCEP) negotiations were announced officially on November 20, 2012.

Prior to official negotiations, South Korea has conducted, and is in the process of conducting, preparation talks or joint feasibility studies with MERCOSUR, Israel, Vietnam, Central America, Malaysia, and Indonesia. Efforts to reopen pending negotiations with the GCC, Japan, and

TABLE I *South Korea's FTAs*

	Partner	Dates in effect
FTAs in effect (9 FTAs, 46 economies)	Chile	April 2004
	Singapore	March 2006
	EFTA	September 2006
	ASEAN	June 2006 (goods) May 2009 (service) September 2009 (investment)
	India	January 2010
	EU	July 2011
	Peru	August 2011
	US	March 2012
	Turkey	May 2013
FTA signed	Colombia	June 2012
	Canada	March 2014
	Australia	April 2014
FTAs under negotiation	China, Indonesia, New Zealand, Vietnam, CJK, RCEP	
FTAs under joint research	Central America, Israel, Malaysia, MERCOSUR	
Pending FTAs	GCC, Japan, Mexico	

Source: <http://www.fta.go.kr>.

Note: Constructed by author.

Mexico are also expected to make progress if unfavorable eco-political environments and conditions are improved.

REGIONAL ECONOMIC INTEGRATION STRATEGY

South Korea's REI Strategy

As noted above, South Korea considers regional economic cooperation to be a pathway to multilateral trade liberalization. Although bilateral FTAs seem to be better in terms of considering trading partner-specific sensitive sectors, the level of liberalization in the scope in services trade and investment is still low in bilateral FTAs. On the other hand, regional economic integration (REI) can bring more benefits by providing common rules and increasing competitiveness. First of all, externality and network effects are expected to be achieved under REI since the benefits to economies joining a network depend on the number of members in the network. Besides, common and cumulative rules of origin (ROO) prevent the “spaghetti bowl effect” from harming supply chains. South Korea, which has supply chains spreading out widely across regions, can exploit its comparative advantages by dividing production processes.

For those reasons, South Korea values REI as another track for trade and investment liberalization and facilitation across regions, which will eventually strengthen the multilateral trading system.

TABLE 2 *FTA vs. REI*

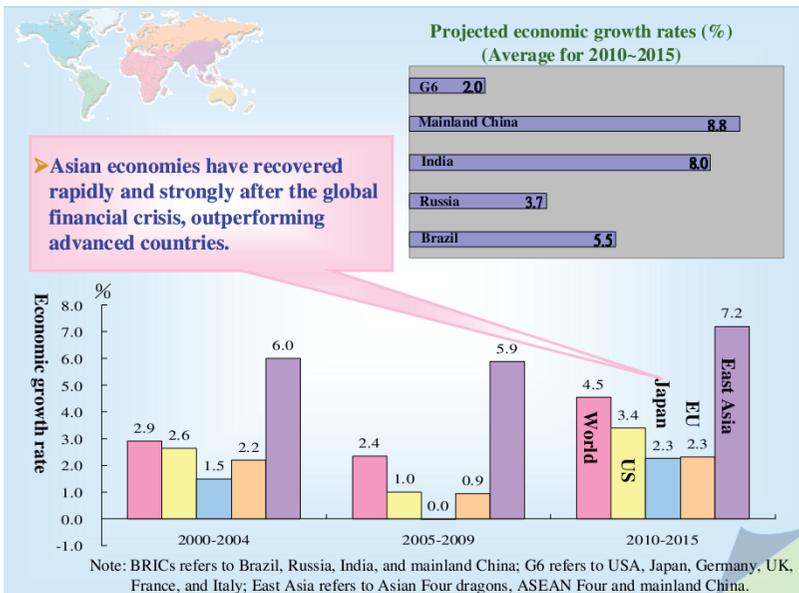
	Bilateral FTAs	REI
Exclusive preference (e.g., market access)	Differentiated concession	Single concession
Non-exclusive issues (e.g., rules, standards, regulations)	Mutual recognition	Network effects
Rules of origin	Bilateral (spaghetti bowl effect)	Common/cumulative in region

Source: Young Gui Kim, “Korean Perspectives on the Trans-Pacific Partnership,” presentation file, 2013.

REI in the Asia-Pacific Region

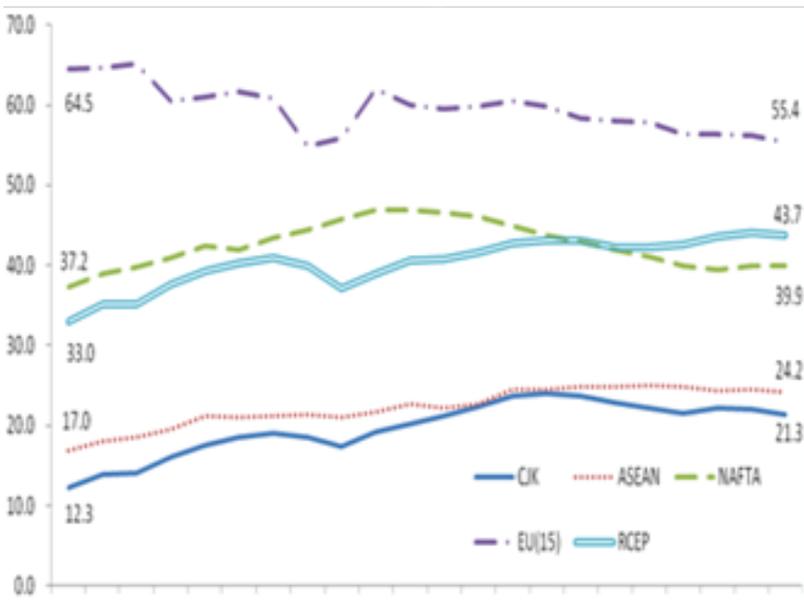
The Asia-Pacific region has been emerging as the nucleus of the global economy, given the region’s many fast-growing markets. Figure 2 shows that the economic growth rate of East Asia is expected to increase up to 7.2 percent in the period from 2010 to 2015. This market, therefore, provides huge trade opportunities. Presented with these opportunities, South Korea is eager to sustain its growth momentum by building cooperative networks with emerging economies.

In addition, strong production networks, which are achieved through high intraregional trade and investment between Asia-Pacific economies, allow members to enjoy the benefits of their comparative advantages. As shown in Figure 3, the share of intraregional trade between Asia-Pacific economies—such as that reached in the RCEP and ASEAN—has increased to 43.7 percent and 24.2 percent, respectively.



Source: Young Gui Kim, “Korean Perspectives on the Trans-Pacific Partnership,” presentation file, 2013.

FIGURE 2 Economic Growth Rates



Source: Calculated from International Monetary Fund (IMF), *Direction of Trade Statistics*, 2012.

FIGURE 3 *Share of Intra-regional Trade*

But now, South Korea needs to look beyond the Asia-Pacific region and to seek a more solid foundation for further prosperity by enhancing the role of institutional arrangements. REI can secure de facto integration by providing a legal framework and serving as a new driving force of sustainable economic growth.

ONGOING NEGOTIATIONS

CJK (Trilateral) FTA

Following the APEC Leaders' Meeting at the summit of 1999, three entities—the Development Research Center (DRC) of the State Council of China, the National Institute for Research Advancement (NIRA) of Japan/Institute of Developing Economies of the Japan External Trade Organization

(IDE-JETRO),² and the Korea Institute for International Economic Policy (KIEP)—began trilateral joint research on establishing an FTA among China, Japan, and South Korea.³ From 2003 to 2009, they conducted the joint research on the CJK FTA (China-Japan-Korea FTA), and announced the launch of CJK FTA negotiations in November 2012.⁴ Most recently, the fourth round of negotiations was held in March 2014 in Seoul.

The CJK FTA aims at establishing a milestone for economic integration in Northeast Asia.⁵ To attain a comprehensive and high-level FTA, the CJK FTA wants to bring consistency to the WTO rules, to balance competing interests, and to allow for consideration of sensitive sectors.⁶

South Korea's strategy for the CJK FTA is linking it to existing FTAs and the RCEP, thereby promoting coherence and avoiding the "spaghetti bowl effect." Coordination is needed in terms of modalities, rules of origin, and customs procedures.

The RCEP

In the context of ASEAN centrality, an ASEAN framework on the RCEP was adopted at the 19th ASEAN Summit in Bali, November 2011. The negotiations were also launched by ASEAN and its six FTA partners (Australia, China, India, Japan, South Korea, and New Zealand) at the East Asia Summit in November 2012. The RCEP aims to be a comprehensive, high-quality, and mutually beneficial economic partnership agreement among the ASEAN member states and ASEAN FTA partners. Srinivasa Madhur (2013) of the Asian Development Bank stated, "RCEP aims primarily at harmonizing existing rules and their application within the various ASEAN FTAs."⁷ The RCEP would lead to greater economic integration, support equitable economic development, and strengthen economic cooperation among the economies involved.⁸

The official home page of ASEAN states the following: "Consistent with the RCEP Leaders' Joint Declaration on the launch of negotiations for the RCEP of November 20, 2012, and the guiding principles and objectives for negotiating the RCEP endorsed by RCEP ministers on August 30, 2012, the RCEP negotiations will aim to:

- achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement establishing an open trade

and investment environment in the region to facilitate the expansion of regional trade and investment and contribute to global economic growth and development; and

- boost economic growth and equitable economic development, advance economic cooperation, and broaden and deepen integration in the region through the RCEP, which will build upon our existing economic linkages.”⁹

Yoshifumi Fukunaga and Ikumo Isono (2013) suggested that the RCEP should introduce many convergent rules, such as a common concession approach, a clear definition and approach about nontariff barriers, a general rule for establishing specific ROO (rules of origin), a region-wide approach to trade facilitation and economic cooperation, and a prioritization of service sectors to strengthen East Asia’s links with global production networks.¹⁰

South Korea will play an active role in the RCEP negotiations, especially in light of its high intraregional dependency, its accumulated experience in forming FTAs with major economies, and its role as a middle-rank power in the context of regional economic cooperation. Whereas South Korea should pursue bilateral FTAs with the RCEP participants and coordinate with the CJK FTA, it is necessary to take a strategic approach to deepen and make use of the production networks in East Asia through the RCEP, rather than focusing on concessions. To penetrate China’s domestic markets, with ASEAN members as a production base, South Korea should build not only a competitive relationship, but also a win-win relationship with China.

The TPP

The Trans-Pacific Partnership (TPP) was originally conceived in 2003 by Singapore, New Zealand, and Chile as a path to trade liberalization in the Asia-Pacific region. Then known as the Trans-Pacific Strategic Economic Partnership Agreement, it grew when Brunei joined negotiations in 2005, and the agreement was concluded in 2006. In March 2008, the United States joined the negotiations to conclude the still-outstanding investment and financial services provisions.

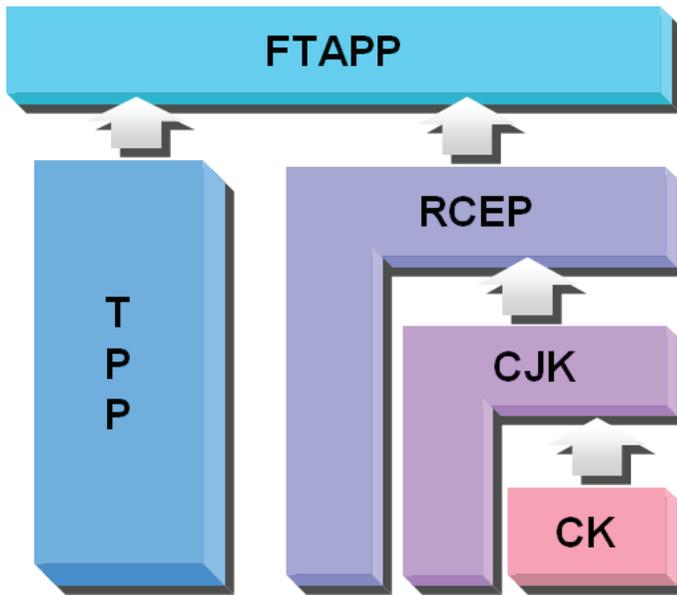
The trans-Pacific option for region-wide trade liberalization was developed further, resulting in the emergence of the TPP initiative. On November 12, 2011, the leaders of nine Trans-Pacific Partnership economies—Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States—announced the achievement of the broad outlines of an ambitious, twenty-first century TPP agreement that would enhance trade and investment among the partner economies; promote innovation, economic growth, and development; and support the creation and retention of jobs.¹¹ With Canada, Mexico, and Japan now joined, the 12 members are involved in shaping trade and investment rules.

A Congressional Research Service report (Fergusson 2013) described the TPP as a “comprehensive and high-standard” FTA that aims to liberalize trade in nearly all goods and services, and to include commitments beyond those currently established in the World Trade Organization (WTO).¹² It also stated that the “TPP could help promote and ensure the longevity of domestic economic policy reforms...TPP is viewed as an important element in the US rebalancing toward Asia...TPP could serve as a building block for a more viable multilateral trade system that responds to trade challenges of the twenty-first century.”¹³

In November 2013, South Korea expressed its interest in joining the TPP. With regard to South Korea’s accession to the TPP negotiations, Sangkyom Kim (2011) stated, “as one of the main objectives of the TPP is setting a new standard for global trade by incorporating a wide range of crosscutting issues, the opportunity cost South Korea should pay will be substantial when the TPP is successfully formed.”

CONCLUSIONS: POLICY DIRECTIONS FROM A SOUTH KOREAN PERSPECTIVE

South Korea maintains the stance that an open regime is vital for every trade arrangement with its trading partners. The thought is that one of the final goals of trade liberalization is the achievement of an FTAAP (Free Trade Area of the Asia-Pacific). As a pathway to an FTAAP, ongoing negotiations such as the CJK FTA, the RCEP, and the TPP become

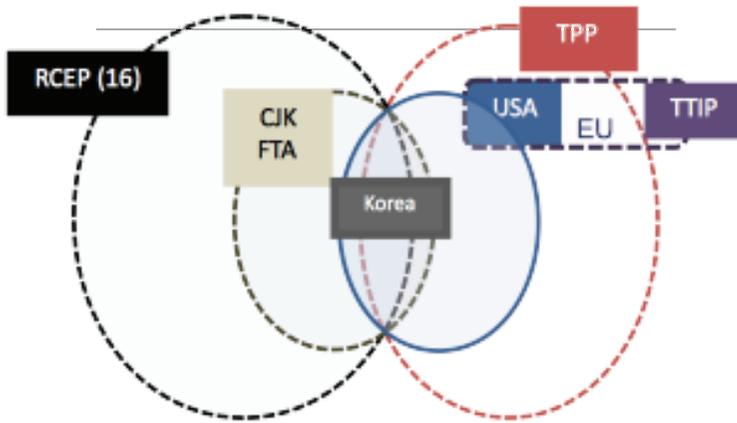


Source: Younggui Kim (2013), "Korean perspective on the Trans-pacific partnership." Presentation material.

FIGURE 4 *New Trade Roadmap*

important. In view of the current political and economic situation of South Korea, conditions seem ripe for achieving national consensus on joining the TPP. The TPP might emerge as one of the premier rule-setting processes shaping new global trade norms, and, in my opinion, South Korea needs to participate. It should strive to become a regular contributor to the process of harmonizing regional trade arrangements. In fact, just as South Korea was able to smoothly move forward with its consultations with TPP members, so too will South Korea's official engagement into the TPP facilitate and trigger the realization that it is a meaningful endeavor, and that significant regional trade agreements will eventually lead to a broader Asia-Pacific community.

In the development of REI negotiations, South Korea will play the role of incubator to harmonize regional trade arrangements, and as linchpin in the regional integration in the Asia-Pacific region.



Source: Younggui Kim (2013), "Korea-US FTA and Prospects of Korea-China FTA." Presentation material.

FIGURE 5 South Korea's Role in Regional Economic Integration

NOTES

1. I thank Hyeri Park and Kyungsoo Lim. I also thank Young Gui Kim for helpful discussions. This paper was prepared for a CNPECC (China National Committee for Pacific Economic Cooperation) conference presentation.
2. NIRA was replaced by JETRO in 2009.
3. See Jae Lee Chang in reference list.
4. See http://www.fta.go.kr/new2/ftakorea/ftakorea2010_c.asp (accessed on November 11, 2013).
5. Ibid.
6. See <http://www.fta.go.kr/kcj/policy/meaning.asp> (accessed on November 11, 2013).
7. See Srinivasa Madhur in reference list.
8. See http://www.fta.gov.sg/press_release%5CFACTSHEET%20ON%20RCEP_final.pdf (accessed on November 11, 2013).
9. See <http://www.asean.org/news/asean-statement-communicues/item/regional-comprehensive-economic-partnership-rcep-joint-statement->

the-first-meeting-of-trade-negotiating-committee (accessed on November 11, 2013).

10. See Fukunaga and Isono in reference list.
11. See <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership> (accessed on November 11, 2013).
12. See Ian F. Fergusson, et al. in reference list.
13. Ibid.

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How to Push the WTO Doha Round in the Current RTA Talks?

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Since the World Trade Organization (WTO) launched the Doha Development Agenda (DDA) in 2001, the global economy has grown larger and the trading system has become far more complex. In turn, solutions through multilateral negotiations have proved elusive. While progress has been recently made at the Bali Ministerial Conference, many critical issues remain open. Meanwhile, a large number of smaller bilateral and regional trade agreements (RTAs) have been concluded addressing similar agendas. These developments raise urgent questions about the future of the world trading system and about potential complementarities between global agreements and RTAs.

The DDA Work Programme of 2001 covered a wide range of issues divided into several negotiating clusters: agriculture, services, market access for non-agricultural products, trade-related intellectual property rights (TRIPS), trade facilitation, WTO rules, dispute settlement understanding (DSU), trade and environments; and non-negotiating issues, i.e., investment, competition policy, transparency in government procurement, implementation issues and concerns, electronic commerce,

small economies, trade debt and finance, trade and transfer of technology, technical cooperation and capacity building, less developed countries, and special and differential treatment.

Meanwhile, WTO membership has increased from 143 members with China's accession at the Fourth Ministerial Conference to 159 members at present. The WTO Doha Development Round that was to be concluded by 2005, or within four years, has been negotiated and extended for 12 years, but the conclusion is still far away.

THE CHALLENGES OF THE DOHA NEGOTIATIONS

It was hopeful in the Seventh Ministerial Conference in December 2009 that the Doha round could be wrapped up by the end of 2010. However, while the negotiations brought promising agreements concerning nonagricultural market access (NAMA) and agriculture, two major members were unable to bridge their disagreement on the threshold or import triggers for the operationalization of agriculture's special safeguard mechanism for developing economies. At the same time, advancements in other areas, such as services, rules, and trade facilitation, seemed to be forthcoming.

At the conference, there was broad agreement that the growing number of bilateral and regional trade agreements (RTAs) was an issue for the multilateral trading system, and that there was a need to ensure that the two approaches to trade opening continue to complement each other. Some support was expressed for the eventual convergence of the two approaches. However, the idea of extending to all members the benefits offered in a regional context was questioned by some.

There were suggestions that while the WTO RTA transparency mechanism had worked quite well, there was still room for improvement, through making the mechanism permanent, highlighting the common elements in different RTAs, and introducing an annual review.¹

At the Eighth Ministerial Conference, ministers recognized that the negotiations were at an impasse, and that not all elements of the Doha Development Round could be concluded simultaneously in the near future. Members recognized that they needed to fully explore different negotiating approaches, looking at the possible results that could

be achieved in different areas. This was done by taking advantage of the ministerial declaration that allowed members to reach provisional or definitive agreements, based on consensus, before they had fully concluded the single undertaking.

Ministers stressed the centrality of development. Many underlined the need to give priority to issues of interest to least-developed economies (LDEs), including cotton. Many mentioned the importance of all three pillars—market access, domestic support, and export competition—in the agriculture negotiations. They also mentioned trade facilitation, special and differential treatment (S&D), an S&D monitoring mechanism, and nontariff measures. To unlock the current impasse, agreements would have to be reached about the balance in contributions and the responsibilities between emerging and advanced economies.

In addition, the ministers pointed to the growing number of RTAs and stressed the need to ensure that they remain complementary to, and not a substitute for, the multilateral trading system. In that regard, many ministers stressed the need for the WTO to address the systemic implications of RTAs for the multilateral trading system, and to study trends in RTAs and report to the Ninth Ministerial Conference.²

THE BALI PACKAGE

The WTO Ninth Ministerial Conference, held December 3–6, 2013, in Bali, Indonesia, produced an outcome called the “Bali Package,” which is comprised of three main issues: trade facilitation, some agriculture, and some development issues.³ The possibility that an accord might be reached that covered only a part of the full agenda was anticipated early on in the Doha negotiations. Ministers agreed in launching the round that “agreements reached at an early stage may be implemented on a provisional or a definitive basis.”⁴

On Trade Facilitation

The ministers agreed to the draft Trade Facilitation Agreement (TFA), which was designed to facilitate the importation, exportation, and transit of goods, and has been divided into two sections. The first section

includes 13 detailed customs rules, such as shortest possible time for the release of perishable goods; fees and charges for customs procedures, which are not in excess of the service cost; a risk management system for customs control on high-risk consignments, and procedures to expedite the release of low-risk consignments. The second section is about flexibilities, or special and differential treatment, given to developing economies and least-developed economies (LDE). The principles are applied through the implementation of three categories of provisions, namely, to implement on the date the agreement takes effect, on a date after a transitional period, and on a date after a transitional period that included capacity building. The WTO members were required to complete internal legal procedures before the ratification period, extending from July 31, 2014, to July 31, 2015, and requiring two-thirds of WTO members to legalize it as a WTO agreement.⁵

On Agriculture

The ministers agreed upon the Tariff Rate Quota Administration Provisions of Agricultural Products, as defined in Article 2 of the Agreement on Agriculture. The agreement required transparency in tariff rate quota (TRQ) administration, and for those with unfilled quota to improve their TRQ administration methods to allow for more imports. WTO members that had imports of less than 65 percent of quota for three successive years needed to adopt a “first come, first serve” method of TRQ administration, or to initiate automatic licensing for a period of at least two years. Such requirements are not applicable to developing economies, which may choose other TRQ administration methods or maintain their current methods. However, the flexibility for developing economies will be reviewed in the Twelfth Ministerial Meeting as reservations have been made by the developed economies on extending the provision.⁶

In addition, the Ministerial Declaration stated that WTO members would proceed with the elimination of all forms of agricultural export subsidies, and would maintain export subsidies at a level significantly lower than the commitments under the Agreement on Agriculture.⁷

The ministers also enacted an interim solution, which was termed “due restraint,” allowing developing economies to take exceptions on

the public stockholding of food for security purposes. Members were instructed to refrain from challenging these exceptions through the WTO dispute settlement mechanism. Members of developing economies would be considered compliant in meeting their obligations under the Agreement on Agriculture, even though the subsidies were in excess of WTO commitment levels, provided the following requirements were met: notification of relevant information, including stocks, prices, and quantities bought, as well as prices and quantities sold, production, and exports; the program could not distort trade or have an adverse impact on food security in other economies; affected members had to be consulted; and the Committee of Agriculture could monitor the program until a permanent solution was achieved. The requirements for implementing the program were designed so that developing economies could not adversely impact the world market in the period between the Ministerial Decision on December 7, 2013, and a permanent solution being reached at the WTO Eleventh Ministerial Conference.⁸

Moreover, the ministers recognized that general services programs under “green box,” or subsidies having no or minimal trade distortion, could be made on the grounds of rural development, food security, and poverty alleviation, particularly in developing economies. The decision was made to include programs related to land reform and rural livelihood security, such as: land rehabilitation, soil conservation, and resource management; drought management and flood control; rural employment programs; issuance of property titles; and farmer settlement programs that promote rural development and poverty alleviation.⁹

With respect to cotton issues, the ministers decided to enhance transparency and monitoring in relation to the trade-related aspects of cotton, and to hold dedicated discussions on a biannual basis. The discussions would take place in the context of the Committee of Agriculture, with special sessions called to examine relevant trade-related developments across the three pillars of market access, domestic support, and export competition in relation to cotton. The development partners were urged to give special focus to such needs within existing aid-for-trade mechanisms/channels, such as the European Investment Fund (EIF) and the technical assistance and capacity-building work of relevant international institutions.¹⁰

On Development Issues

Including LDEs, the ministers agreed to establish a monitoring mechanism on special and differential treatment (S&D). This would be a focal point within the WTO for analyzing and reviewing the implementation of S&D provisions and to complement, not replace, other relevant review mechanisms and/or processes in other bodies of the WTO. The goal is to facilitate integration of developing and least-developed members into the multilateral trading arena. As appropriate, the mechanism could make recommendations to the relevant WTO body proposing actions to improve the implementation of S&D provisions, or it could initiate negotiations aimed at improving the provisions.¹¹

The ministers stipulated that developed-economy members not yet providing duty-free and quota-free market access for at least 97 percent of products originating from LDEs, defined at the tariff line level, should improve access for such products. Developing-economy members that were in a position to do so should also provide duty-free and quota-free market access for products originating from LDEs, or seek to improve their existing duty-free and quota-free coverage for such products.¹²

Continuing, the ministers decided that members should develop or build on their individual rules of origin arrangements as they apply to imports from LDEs. While the provided guidelines should be consulted, members may wish to draw up preferential rules of origin for imports from LDEs under the duty-free, quota-free arrangements.¹³

The Council for Trade in Services (CTS) was instructed to initiate a process for promoting the expeditious and effective operationalization of LDE service waivers, and to periodically review the operationalization of the waivers and make recommendations on steps that could be taken toward enhancing operationalization. At high-level meetings of the Council for Trade in Services, members have been instructed to indicate sectors and modes of supply where they intend to provide preferential treatment to LDE services and service suppliers. They are encouraged at any time to extend preferences to LDE services and service suppliers, consistent with the waiver decision, which deliver commercial value and economic benefits. Also, preferences can be granted to improve market access for LDE services and service providers, in-

cluding the elimination of economic needs tests and other quantitative limitations.¹⁴

On Customs Duties Moratorium on Electronic Transmissions

In the area of electronic commerce, the ministers decided to maintain the current practice of not imposing customs duties on electronic transmissions until the next session, which has been scheduled for 2015.

On TRIPS Non-Violation and Situation Complaints, members have been instructed to not initiate complaints under the TRIPS agreement until recommendations have been made to the 2015 session.

The ministers recognized the continuing aid for trade need of developing economies, particularly LDEs.¹⁵

They also requested that work continue on developing the relationship between trade and the transfer of technology, and that recommendations for increasing flows of technology to developing economies be considered.¹⁶

The Committee on Trade and Development was instructed to continue its work on small economies and make recommendations in dedicated sessions.

The outcome of the WTO Ninth Ministerial Conference, the so-called “Bali Package,” could serve as confidence-building measures, as they mostly covered issues concerning developing economies, particularly least-developed economies (LDEs), on agriculture, development, trade facilitation, and implementation-related issues. The negotiations on major issues concerning market access and agricultural domestic subsidies, as well as rules, have not yet produced outcomes. However, it is expected that the package will build momentum for the advancement and possible conclusion of the Doha Development Agenda.

REGIONAL TRADE AGREEMENTS AND FURTHER PROGRESS

Whether RTAs are complementary or a substitution of the multilateral trading system (MTS), trade liberalization is needed to satisfy demand

for larger markets for goods and services, including the elimination of restrictive trade measures and effective rules that are responsive to the changing international trading environment. If the MTS does not respond quickly and effectively to the needs of the business sector, RTAs become second best for that sector, and it no longer matters whether they act as substitutes or complementary forces of the MTS.

However, there are some rules and dispute settlement mechanisms that cannot be dealt with in the RTAs, but only in the MTS. In bilateral FTA negotiations, it was not practical or possible to impose agricultural domestic support levels between the two parties, as the commitments would have put them at a disadvantage with respect to WTO third parties. Instead, such commitments are best undertaken on a multilateral basis. In addition, even though both parties could conclude a dispute settlement agreement on a bilateral basis, adhering to the WTO dispute settlement mechanism, this path would not be as effective as a WTO dispute settlement system where greater peer pressure from all WTO members is exerted, not just from the counterpart in a bilateral trade agreement.

Most RTAs focus on market access of agricultural products, non-agricultural products, and services far beyond the level normally agreed to within the framework of the MTS. Tariff eliminations of at least 90 percent of tariff lines and trade volumes are expected for developing economies, and 95 percent for developed economies, while some RTAs have gone even further to specify the total elimination of tariffs. Service liberalization in RTAs has also been much more ambitious. For example, the ASEAN Framework Agreement on Services targets unconditional liberalization of cross-border trade and consumption abroad, and sets the foreign equity participation for ASEAN member states to at least 70 percent. This participation rate includes negotiations on liberalization parameters, such as the movement of natural persons, as well as mutual recognition agreements (MRAs) regarding professionals, particularly skilled labor.

However, many controversial issues cannot be agreed on in RTA negotiations among WTO members, particularly the Singapore issues—competition policy, government procurement, investment, e-commerce, agricultural export competition, investor-state dispute settlement,

WTO-plus trade-related intellectual property rights, the environment, labor, etc. Even though most provisions on the aforementioned issues might be limited to cooperation and require the parties to become members of the related international conventions, many imposed additional obligations and commitments to the parties, beyond that required of the WTO.

Once WTO members are engaged in RTAs, which usually require deeper and wider commitments than those under the WTO, their ability to commit to further liberalization within the framework of the WTO becomes enhanced. Most-favored nation (MFN) extensions are only required for other WTO members, particularly in regards to trade in services. With respect to ASEAN members, they should be comfortable with negotiated outcomes concerning market access of goods and services, as agreed upon in the Doha Development Agenda. They are expected to be in a strong position for negotiating their most important issues. In Thailand's experiences negotiating the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) or the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)—which concluded bilateral negotiations with Japan, Australia, and New Zealand—there were fewer obstacles and limitations, and greater efforts to reach ambitious goals.

CONCLUSIONS

It was no secret that a conclusion of the Doha Development Agenda would be difficult to achieve in a single undertaking, where consensus of 159 economies on a wide range of issues would be needed. Since the Doha round of negotiations has been at a standstill for too long, members have begun to investigate different approaches, such as those termed “sequential.” Agreements on the least controversial issues, such as trade facilitation, development, and some agricultural issues in the “Bali Package,” could provide momentum for members to go further on more difficult issues. If WTO members are still not able to find well-balanced outcomes and continue to prolong negotiations, they might have to be content with the administration of existing agreements, dispute settlement procedures, and the trade policy review mechanism. But

those developing economies that did not participate in any regional trade agreements might be at a disadvantage and feel marginalized in world markets.

On the contrary, RTA participants, though limited in number, have normally negotiated agreements on a wider range of issues. In the near future, issues taken up by the Doha Development Agenda could be expanded to cover all areas mandated by the WTO Ministerial Declaration, following a confidence-building process accorded to developing economies, particularly LDEs. And some regional trade agreements are in the process of expanding their membership by new agreements, as in the case of the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP); of enlarging, as in the case of the EU; of docking, as in the case the Japan-Thailand Economic Partnership Agreement (JTEPA) and the ASEAN-Japan Comprehensive Economic Partnership (AJCEP); and merging, as in the case of the ASEAN community. Beyond that, the Free Trade Area of the Asia-Pacific (FTAAP) grows more prominent on the horizon.

The RTAs were exempted from WTO MFN treatment, but were subject to conditions provided in the provisions of the relevant WTO agreements. When it came to rules, most RTAs agreed to apply WTO rules *mutatis mutandis* (with necessary changes having been made). However, RTAs are free to apply higher standards or value-added mechanisms, such as the creation of joint committees to solve problems on issues relating to sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), or on more wide-ranging issues such as investment, the environment, and labor.

It would be useful for the WTO Secretariat to keep records of RTA commitments on various issues, by all parties to the agreements, and to carefully analyze how effectively those commitments were working. The WTO Secretariat could conduct the same kind of simulation as was done in NAMA areas to assure positive outcomes once negotiations have been concluded. An ideal solution would be to extend most-favored nation provisions crafted in these RTAs to the design of WTO provisions, docking them in any way possible.

Negotiated RTAs, however, could not serve as a substitute for the multilateral trading system in the case of rules, particularly rules on agricul-

ture, trade policy reviews, and dispute settlement mechanisms provided by the WTO, but they could remain complementary or exist as building blocks. Given the time it took for the WTO to develop new rules addressing modern trade issues, the RTAs might be better equipped to respond in a more timely way to fast-changing trade environments, especially in the fields of e-commerce, paperless trading, global supply chains, consumer protection, investment, competition policy, government procurement, trade and finance, trade and technology, and many other areas.

NOTES

1. Chairman's Summary of the Seventh WTO Ministerial Conference on December 2, 2009, in Geneva, Switzerland.
2. Chairman's Concluding Statement of the Eighth WTO Ministerial Conference on December 17, 2011, in Geneva, Switzerland (WTO Doc. WT/MIN(11)/11).
3. The Bali Ministerial Declaration of the Ninth WTO Ministerial Conference, adopted on December 7, 2013, in Bali, Indonesia (WT/MIN(13)/DEC).
4. The Doha Ministerial Declaration of the Fourth WTO Ministerial Conference, adopted on November 14, 2001, in Doha, Qatar (WT/MIN(01)/DEC/1).
5. WTO 9th Ministerial Conference, Bali, 2013, Agreement on Trade Facilitation Ministerial Decision (WT/MIN(13)/36, WT/L/911).
6. WTO 9th Ministerial Conference, Bali, 2013, Understanding on Tariff Rate Quota Administration Provisions of Agricultural Products Ministerial Decision (WT/MIN(13)/39 - WT/L/914).
7. WTO 9th, Export Competition Declaration (WT/MIN(13)/40WT/L/915).
8. WTO 9th, Public Stockholding for Food Security Purposes (WT/MIN(13)/38, WT/L/913).
9. WTO 9th, General Services (WT/MIN(13)/37, WT/L/912).
10. WTO 9th, Cotton Negotiations (WT/MIN(13)/41, WT/L/916).

11. WTO 9th, Monitoring Mechanism on Special and Differential Treatment (WT/MIN(13)/45, WT/L/920).
12. WTO 9th, Duty-Free and Quota-Free Market Access for Least-Developed Economies (WT/MIN(13)/44, WT/L/919).
13. WTO 9th, Preferential Rules of Origin for Least-Developed Countries (WT/MIN(13)/42, WT/L/917).
14. WTO 9th, Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of Least-Developed Countries (WT/MIN(13)/43, WT/L/918).
15. WTO 9th, Aid for Trade (WT/MIN(13)/34, WT/L/909).
16. WTO 9th, Trade and Transfer of Technology (WT/MIN(13)/35, WT/L/910).

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The Asia-Pacific Cooperation Agenda

*Moving from Regional Cooperation
Toward Global Leadership*

Charles E. Morrison, President, East-West Center

APEC ACHIEVEMENTS AND CHALLENGES

APEC celebrates its twenty-fifth anniversary in a vastly changed region and world. Since 1989, there has been dramatic economic growth in most Asian developing countries, especially China; regional integration through a combination of reduced political and regulatory barriers and the rise of supply and production chains; and a proliferation of regional institutions and freer trade and investment arrangements. In a context where there is also rising demand that institutions of all kinds, including international organizations, demonstrate concrete outcomes, some would question whether APEC can claim any responsibility for the region's achievements.

In fact, it is very difficult to link APEC as an organization in any specific way to these outcomes. Even the reduction in trade barriers has less to do with Bogor Goals than with obligations undertaken as part of WTO commitments, other negotiations, or unilaterally. However, APEC has been part and parcel of the positive changes that have been occurring

in the region, and undoubtedly the fact that first ministers, then leaders were meeting on a regular basis provided a positive atmosphere for international interaction and integration. Prior to APEC, there were no such meetings; regional cooperation was nonexistent or confined to sub-regional or highly specialized organizations with no sense of broad and converging regional interests; and Asia-Pacific engagement in global issues was fragmented and incoherent.¹

APEC's achievements are much more visible to foreign and trade ministry bureaucracies than they are to the public, or even to more politically and policy-aware stakeholders. APEC has proved to be an efficient venue for the leaders of the region to meet. It has helped build some common sense of international economic norms and values and strengthened adherence to the international trade system. It has provided a vehicle for economies with once-limited awareness of the WTO system to better understand the rules, obligations, and benefits of the system.

While APEC, as a venue for voluntary, nonbinding cooperation, has not itself been a formal vehicle for negotiating free trade areas, much of the inspiration for such agreements has been associated with the APEC process. Freer trade and investment liberalization have been APEC goals for two decades. Today virtually all the economies in the region are engaged in one or another of the major free trade negotiations—the Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, and the Pacific Alliance. APEC itself may not be a rule-making organization, but it has both deepened adherence to global norms and rules and inspired more liberal trade rule-making at the subregional or plurilateral levels.

APEC no longer remains the only broad-gauged trans-Pacific organization; it has been joined by the East Asia Summit (EAS), which includes the United States as a member. If we consider APEC and EAS as complementary institutions in a broad trans-Pacific cooperation and integration process, this process faces two critical challenges during the coming decades: Will it effectively generate international cooperation among the region's economies in addressing the many continuing and often deepening challenges of the region? And, perhaps even more significantly, can the Asia-Pacific region assume a leadership role in the global system?

A GLOBAL CENTURY WITH AN ASIA-PACIFIC CORE

East, Southeast, and South Asia, with a little more than half the world's population, are rapidly regaining an equivalent share of world gross product for the first time in two centuries. There are many reasons to believe that despite cyclical variability and a longer-term decline in the growth rates of the more advanced nations associated with the end of catch-up development and demographic aging, the comparative rise of Asia within the global system will continue. Human capital enhancements, increased economic integration, technological leapfrogging, and the growth of middle classes are among the reasons. Projections by the US National Intelligence Council suggest that by mid-century, China will have slightly surpassed the United States as the world's most powerful nation, based on a composite index of the many elements of power.² But while the power and influence of China and India will continue to rise, and thus Asia's systemic weight increase, no single country will be as influential in the international system of the future as the United States has been in the last part of the preceding century.

The rise of Asia has led to speculation about an "Asian century." With a continuing diffusion of power, the coming century is much more likely to be a global one. However, the international system will have a trans-Pacific core area with much of the economic power and the potential to provide global leadership for the further development of international norms, rules, and cooperation. In this sense, we may be able to refer to an "Asia-Pacific century." Two questions arise: Is North America, with a relatively small share of global population, and a declining share (less than 25 percent by 2050) of global world product, still relevant? Will the nations on the two sides of the Pacific really be able to use their power effectively to assume global leadership? The answer to the first of these is "yes," and to the second, "it depends."

North America's role is not simply based on its population or economic size, but also on the creative dynamism of the American societies, which are constantly being refreshed by new immigration and a highly entrepreneurial culture facilitated by a unique interplay between business, government, and academic sectors, typified by Silicon Valley. Far from retreating from their historical origins as international "melting pots,"

the United States and Canada remain open to high and increasingly diversified levels of immigration, drawing from human talent pools all over the world. The foreign born in the United States today is estimated at about 45.8 million of its 310 million people, the highest share for this country in over a century.³ Canada has an even higher proportion of foreign born, with 7.3 million in a population of 30 million. While helping the United States to remain a global center for higher education, advanced research, and cutting-edge technologies, immigrant communities also inhibit retreat toward "isolationism." The United States is likely to continue to provide a leading share of the world's public goods, especially in such areas as international security, disaster relief, and financial systems.

The second question of whether the Asia-Pacific region will step up to global leadership depends on a number of factors and deserves more attention. It may be likely, but there is no guarantee. To be an effective core leadership area, the region needs to meet a number of requirements.

First, the economies need to be stable and secure units, capable of engaging in cooperation and adhering to international commitments. This appears positive. Despite many challenges, the quality of governance continues to improve in most of the region. Second, there need to be harmonious, cooperative international relations among the societies of the region and intergovernmental institutions capable of creating common values, norms, and action agendas. This is currently questionable. The region's global role will be limited if territorial disputes persist, diverting resources and attention from major regional and global issues and challenges. Only by building a sense of community within the Asia Pacific can the region become a truly effective force for global peace- and order-building. Third, there needs to be a continual process of integration and growing connectivity. This has been occurring and is a key objective of the APEC process. The major economies of Asia are now more integrated in terms of trade flows than those of North America, and almost as much as those of the European Union. Continuing this process, as well as improving the interconnectedness of the region in transportation and communication, is an important force for continued Asia-Pacific growth. Fourth, the economies of the region need to be inclusive domestically, drawing upon the whole of the resources of their own societies. APEC's

goal of “inclusive” growth is important in this regard, as well as in contributing to the first goal of a “stable and secure unit.” Fifth, the APEC economies need to be inclusive internationally, that is, take into account the sensitivities and interests of nations outside the region. Finally, the region will need intellectual, policy, and educational hubs for creative policy ideas and regionally and globally focused leadership training. Just as an integrating Europe required individuals grounded in their own nationalities but with a European sense of challenges and opportunities, the Asia-Pacific region will require such individuals with broad regional and global knowledge.

This last requirement should be a major objective of APEC’s working agenda on education. APEC economies can learn lessons from each other’s experiences, a main current theme of this work, but they should also strive to build networks of individuals with a similar understanding of regional and global history, challenges, and desirable pathways to address issues. This will be facilitated by the greater mobility of students, joint venture and multinational educational programs, and a truly regional center for Asia-Pacific leadership education.

THE MEGA-AGENDA FOR APEC

What then are the challenges facing APEC in its twenty-fifth year? The presenters in this collection will undoubtedly offer many useful, specific directions. The focus here is on the longer-term regional challenges most relevant to an emerging global agenda.

The first challenge, and an essential requirement for all else, is to strengthen the international cooperative relations of the region. This requires overcoming issues of history and focusing on issues of common concern to the APEC community as a whole. In the past, APEC and other regional bodies have been used to dampen regional tensions and reassure populations that leaders remain engaged. But in recent years, leaders have not made such use of APEC and this may have contributed to regional misunderstandings and tension.

Secondly, there are architectural questions, both within the Asia-Pacific region and between this region and other regional systems and

the global system. There is no particular reason that any institution, including APEC, needs to survive in its current form or with its current name. What is important over the longer term is that the process of Asia-Pacific cooperation and economic integration continue. The current architecture of institutionalized regional cooperation with its different components remains a work in progress. The relationship between the East Asia Summit, with its ASEAN base and politico-security dimension, and APEC, with its socioeconomic agenda, will need to be sorted out. Fragmentation into separate processes, however temporarily necessary, undermines political attention and commitment. Moreover, the subregional building blocks of cooperation will need to be filled in. While healthy cooperation takes place in Southeast Asia, Oceania, and the Americas, regional cooperation in Northeast Asia and the North Pacific is quite limited.

Third, APEC should enlarge its stakeholder community within the APEC economies and demonstrate more forcefully its relevance and benefits for the economies as a whole. For the most part, knowledge of and interest in APEC has been confined to bureaucracies. Most of the nongovernmental outreach has been directed toward segments of the business community, as illustrated by the existence of only one advisory committee, the APEC Business Advisory Council. While the business community is an essential sector to be served through APEC, regional integration processes need parallel structures involving parliamentarians and even local political figures, as well as NGOs. Although such involvement does take place, it is usually in settings peripheral to the “core business” of APEC.

Fourth, it is clear that parts of Asia and the Pacific are in the forefront of some of the world’s biggest demographic, environmental, and health challenges. If there are models of cooperation in APEC in these areas, they will quite naturally propel the Asia-Pacific region into global leadership roles. Northeast Asia, for example, has some of the world’s lowest fertility rates, and Japan and possibly Russia already have shrinking populations. Urbanization is at very high levels or occurring at very high rates in many of the APEC economies. Integrating new citizens into urban communities, providing robust and equitable services, and retaining vitality in rural areas are significant issues not

only in themselves, but also to the overall well-being of societies and the quality of their international relationships. With its dense populations and rapidly changing diets and lifestyles, Asia is also at the forefront of many health and environmental challenges. While the medical aspects of these are best dealt with in other forums, general health policies are a legitimate and important topic for APEC cooperation. Sustainable resource use and the environmental agenda for all of the economies have become very acute issues, as attested by the urgent attention the Chinese leadership has vowed to give clean air and water, but the Asia-Pacific regional cooperation agenda in these areas remains underdeveloped. Finally, as mentioned above, APEC should give much greater attention to its education agenda, particularly addressing the task of how to prepare the people of the region for a twenty-first century economy and for global leadership.

POLITICAL CHAMPIONS

Strengthened cooperation in APEC and global leadership from the Asia-Pacific region will, in the end, be driven primarily by the quality, imagination, and attentiveness of political leadership, especially in the larger economies. Without such leadership, modes of cooperation tend to become routinized and bureaucratized, and progress to become incremental. Unfortunately, today's leaders are often highly distracted by the increasingly complex task of domestic governance, combined with responsive rather than proactive approaches to foreign policy issues. But we have a number of new regional leaders who may look upon APEC and the broader regional integration process with fresh eyes. Perhaps this new team of regional leaders can help to formulate a new and workable Asia-Pacific dream.

NOTES

1. Charles E. Morrison, "Four Adjectives Become a Noun: APEC and the Future of Asia-Pacific Cooperation," in *APEC at 20: Recall, Reflect, Remake*,

- eds. K. Kesavapany and Hank Lim (Singapore: Institute of Southeast Asian Studies, 2009), 30.
2. US National Intelligence Council, "Global Trends 2030: Alternative Worlds," Washington, DC, December 2012.
 3. United Nations, Department of Economic and Social Affairs, "Trends in International Migrant Stock: The 2013 Revision," <http://esa.un.org/unmigration/TIMSA2013/migrantstocks2013.htm>.