



IMAGE: HONG KONG BY NEONBUBBLE

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Preface

Two big regional trade initiatives have become the focus of sometimes heated debate – the Regional Comprehensive Economic Partnership led by ASEAN and supported by China and Japan, and the Trans Pacific Partnership, which is

increasingly associated with renewed United States engagement with Asia. The RCEP, which also welcomes Australian and New Zealand membership, is moving slowly. The TPP is viewed in strongly political terms in some quarters – the negotiations

have been called “secretive” and Australia has been singled out as a country assisting the United States “plotting”.

• **Political economist Gary Hawke clarifies the issues and debate around this new activism in economic architecture.**

GARY HAWKE

Economic integration with Asia: Bridging the divide

Australia and New Zealand face an important choice in global economic governance. For over 25 years they have been well-served by the Asia Pacific being a key component of the world economy. The Pacific Economic Cooperation Council (developed in the 1970s and founded in 1980) took the Japanese concept of Asia Pacific – the Pacific Rim of Asia and, because of its importance to Japan, the United States – and used it as the basis of “Open Regionalism”: a region of mutual cooperation without discrimination against outsiders. The Asia Pacific Economic Cooperation process (APEC, which started in 1989) took those concepts as the basis for inter-governmental co-operation and sought to reconcile Asian processes with US conventions of reciprocity.¹

1. As formulated by Ross Garnaut.

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APEC spread to include the Pacific Rim of South America as well as the US partners in the North American Free Trade Agreement, but it is now challenged by the rise of China. As Hugh White has argued so persuasively, the major challenge of our times may prove to be finding a means for accommodating China as an equal participant in all aspects of global affairs.²

In the economic sphere, the issues are being explored in efforts to create mega-agreements: TPP and RCEP. The former is an Asia-Pacific concept, a stepping-stone towards a Free Trade of the Asia Pacific agreement. The latter is an Asian concept, based on the ASEAN Economic Community, and including all the major economies of East Asia (including Australia and New Zealand).³

Nobody is thinking about economic blocs; global interdependence is too great for that. But the question is whether future global rules are to be shaped by an interaction of the Asia Pacific with Europe and other major regions, or by interaction among Asia, North America, South America, Europe and other regions. (The Trans-Atlantic Trade and Investment Partnership introduces a different complexity. Its completion along with TPP would put the US at the centre of two of the major components of future world economic governance.)

The tension between TPP and RCEP refers to future world economic governance. It will be resolved in the evolution of lower-level economic agreements.

In a further complication, these agreements are changing from traditional trade agreements. World trade has changed so as to have a much larger component of intermediate goods (those used in further processing rather than entering final demand directly); the international economy now depends on cooperation among producers who are geographically dispersed; and trade is no longer just a set of bilateral exchanges of exports and

imports. Producers and governments need confidence in regulatory systems, not just in customs administration. It is no longer sensible to separate financial and trade relations. Services are becoming as important in international transactions as they are in domestic production.

Meanwhile, the greater scope of negotiations is creating concerns about invasion of sovereignty and policy autonomy, most recently in Kuala Lumpur during the latest round of TPP negotiations.⁴ Many Malaysian commentators are worried about the implications for valued customs and institutions. Unfamiliarity with the conventions of economic negotiations is also generating claims of secrecy. These concerns will dissipate as economic integration becomes better known and debate is focused on specific issues where differing interests have to be reconciled.

TPP emerged from an existing Trans-Pacific Strategic Economic Partnership which links Brunei, Chile, New Zealand and Singapore. The Singaporean and New Zealand originators sought Australian and US participation in what was intended to be a pilot for further Asia Pacific integration, but only Chile was willing to participate. It was nevertheless always conceived as trans-Pacific. The US eventually recognised its possible value and TPP is now widely (and sensibly) regarded as US-led. It is seen as a possible route to a Free Trade Area of the Asia Pacific, which is a long-term aim of APEC. TPP is proceeding through a sequence of rounds and is usually discussed as leading to a single undertaking. The media, negotiators and protagonists often refer to it as a “high quality”, “leading edge”, “21st Century” agreement which sets the “platinum standard”, but that reflects a victory in the battle of rhetoric rather than sober analysis and description.

TPP is structured with conventional chapters such as goods, services, investment, intellectual property, government procurement and electronic commerce.

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2. E.g. Hugh White “The new security order” *East Asia Forum* (24 June 2013).

3. An early recognition of the distinction between “Asia” and “Asia Pacific” is Anthony Milner “From Asia-Pacific to Asia?” *East Asia Forum* (3 June 2010).

4. E.g. Chandra Muzaffar “Trans Pacific Partnership is a Threat To National Sovereignty” *Counterpunch* (10 July 2013); Dr Muzaffar acknowledged the force of the response by Malaysian negotiators while remaining unconvinced.

It deals with the “Singapore issues”, or “WTO+” – the agenda of issues that were obvious at the end of the Uruguay Round but which have not been progressed at the multilateral level because of the impossibility of reaching agreement. These are transparency in government procurement, trade facilitation (customs issues), trade and investment, and trade and competition, but the term is often used imprecisely to include labour and environmental issues.

TPP does not really deal with contemporary integration. It extends to “supply chain issues”, but the content of that chapter is not known and the information available does not suggest that it goes far towards seeing the world in terms of international production networks. TPP has a self-imposed deadline of October 2013 but virtually nobody takes that seriously. There is talk of delaying familiar market-access issues, and IP, SOEs and other issues crucial to supply chain seem far from agreement.

Most worrying for those concerned with the future of the multilateral trading system and with regional economic integration is the likely provision in TPP for widening its membership, and this is where US leadership really matters. US processes require Congressional endorsement of economic agreements, and China is unlikely to subject itself to a US veto. It is somewhat ironic, given the political situation in Washington, that to get TPP to the starting line as a potential positive step towards economic integration in the modern world, a major change in US legal procedures (and probably in US law) is required.

RCEP is less advanced than TPP. What trade negotiators call the “modalities” (the rules of procedure and the structure of negotiating subgroups) that will be used are not yet obvious. The agreed objectives, which were negotiated by all ASEAN members with the existing ASEAN Free Trade Agreement partners, envisage an agenda at least as wide and

ambitious as TPP. There are some caveats, especially for the CLM (Cambodia, Laos, Myanmar) economies, but it is generally agreed that they should be managed by differential implementation phases rather than by differences in objectives. Especially interesting is endorsement of “an effective, efficient and transparent process for consultations and dispute resolution”, and provision for delayed entry by an ASEAN FTA partner that did not participate at the outset, as well as entry to a completed RCEP by “any other economic partners”. (In practice, an agreement with RCEP rather than entry into it is more likely for the US, EU and other partners, and would probably have to be preceded by a free trade agreement with ASEAN.)

The basic concept of RCEP is to locate the ASEAN Economic Community appropriately in its regional and global setting. This poses challenges: a business-friendly RCEP requires something close to a common tariff schedule among ASEAN and its partners, and requires fewer restrictions on investment. But there is no basis for thinking that RCEP aims at lower objectives than TPP, and the widespread belief that Asian FTAs have many more exclusions than most is increasingly outdated. Asian FTAs are now likely to include coverage of agriculture, services and the WTO+ “Singapore issues”.⁵

RCEP is likely to draw on the experience of the “ASEAN way” and in particular the manner in which the ASEAN Economic Community was developed. This would mean even more emphasis on agreed end-points – and flexibility on how long it would take individual members to reach those points – than has become customary with FTAs. RCEP is also likely to place more reliance on peer review and less on formal monitoring than TPP, and there is probably considerable difference in understandings of the initial position on disputes resolution. Journalistic and public commentary on what is “legally enforceable” is surprisingly resilient in the face of the debacle of legally binding agreements in Europe. Even the

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5. Masahiro Kawai and Ganeshan Wignaraja *Patterns of Free Trade Areas in Asia* (Honolulu: East-West Center Policy Studies 65, 2013), p. xv, 27–38. ERIA research, especially Yoshifumi Fukunaga et.al. “FTA Mapping Study” and *Mid-Term Review of the Implementation of the AEC Blueprint: Executive Summary* (Jakarta: ERIA, October 2012) dispels any notion that ASEAN FTAs are “low quality” with little coverage, although there is certainly room for improvement.

WTO rests eventually on peer esteem and the desire to be credible in further international interactions. Game theory has taught us the enormous difference between one-off and repeated transactions, and ASEAN has the enormous advantage of a history of continual interactions. Conventional trade negotiations often lead to a climax in which political leaders seek a compromise agreement by trade-offs among components formerly treated separately. Finding a single package in which all participants can acquiesce (which essentially means satisfies domestic political interests) is often very difficult. Maintaining an agreed evolution where everybody is sure that national interests will be accommodated over time may well be easier and is at the core of the “ASEAN way”. International terminology will eventually catch up with Asian emphasis on relationship maintenance.⁶

Because of its continuity from the ASEAN Economic Community, RCEP starts with a better understanding of international production networks in Asia. It will more readily see the movement of skilled labour as part of the just-in-time strategy of regional manufacturing enterprises and not as belonging in a “migration” category. It will more readily adopt an “ease of doing business” strategy and be less constrained by conventional thinking about the standard chapters of an FTA. But the differences between TPP and RCEP in these matters are of degree rather than of principle, or even of procedure rather than substance.

RCEP will take a more determined approach to ensuring that it contributes to “narrowing development gaps” and to providing a collegial approach to capability development. TPP will see development as an automatic implication of liberalisation, with supplementary efforts conceived essentially as official development assistance. An Asian approach will see much more relevance in spreading international

production networks to economies that are still marginal to Asian economic integration such as Laos and Myanmar, to sectors other than those where they are already prominent such as textiles, motor vehicles, electronics (including to food), and to more specialisation on innovation and marketing in relatively developed economies.

The “business-led” nature of economic integration in Asia is much more at home in RCEP than it is in TPP, although this too is a matter of degree. The emphasis on facilitating innovation will focus attention on how international production networks promote consumer welfare rather than condemn SMEs to subservience to multinationals. Economic integration would both be, and be seen to be, a vehicle for inclusive growth and not a source of inequality. Emphasis on facilitating innovation would also necessitate a welcome return to a sensible approach to intellectual property rights in place of rent-extraction for patent-holders.

The biggest difference between TPP and RCEP is likely to be the extent to which participants understand and support regional aspirations for inclusive growth. Next biggest is the extent of participants’ commitment to seeing integration and liberalisation as a means to sustainable, resilient and innovative growth in a world characterised by international production networks. ASEAN has a reputation for making progress slowly, but it is not only in *Aesop’s Fables* that the tortoise can beat the hare. Furthermore, while TPP has the US as its clear leader, modern leadership theory favours dispersed leadership in which participants lead where they know most and have most at stake. Concentrated leadership is high-risk and not necessarily effective.

Much will depend on whether ASEAN negotiators can turn their minds from familiar wrangling over tariff lines and conceptualise the internationalisation of

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6. The contrast between the EU and ASEAN is not black and white. ASEAN has involved a mixture of binding and voluntary agreements. The EU has come to rely in some contexts, especially in social policy, on the effect of frequent consultation to generate agreed norms. It can be argued that the problem with the Euro was not in a breakdown of black-letter agreements subject to independent enforcement but in a failure to decide in advance whether the agreement shared the usual EU practice of separate judicial enforcement or depended on agreed norms of behaviour. Nevertheless, the EU is still characterised by reliance on supranational enforcement in a way which will not work in Asia, and the key is not to achieve a “legally binding agreement” but to secure commitment to an agreed process.

the ASEAN Economic Community, and especially whether they can focus on the structural reform agenda. But then in the case of TPP, much will depend on whether American trade representatives can be diverted from a fixed mindset of pursuing US interests exclusively rather than promoting economic integration by finding reconciliation between US interests and those of partners.

The difference in membership is much greater than China being in RCEP and the US in TPP. Perhaps most importantly, TPP is “Asia Pacific” in orientation while RCEP is East Asian. The role of the US is central because of the problems posed by its political system to adapting to modern economic integration. Furthermore, the US is crucial for the issue of whether TPP can evolve into FTAAP – a Free Trade Area of the Asia Pacific. If it cannot, it will not play the role in determining international norms and rules which is sought from it. There cannot even now be any enunciation of world rules and norms that does not involve Chinese participation in their formulation.

More pragmatically, we can note that the P4 agreement (between Brunei, Chile, New Zealand and Singapore) from which TPP is being evolved includes a very permissive accessions clause. It was always designed to be welcoming to new members who were willing to agree to its provisions. The US did not even consider acceding to P4 rather than initiate TPP negotiations. No difference in behaviour can be expected of China.

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