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# US AND EU REGIONALISM: THE CASE OF THE WESTERN PACIFIC RIM

**John Ravenhill**

Western Pacific Rim countries were slow to jump on board the regionalism bandwagon.<sup>1</sup> A decade ago, the common refrain in the literature was that the Asia-Pacific was “underinstitutionalized” as far as regional cooperation was concerned. For Fishlow and Haggard (1992, p. 30) “the puzzle with reference to the Pacific is not to explain the progress of regional initiatives, but their relative weakness.” A prominent theme in the work of other specialists on regionalism was that the paucity of regional institutions in East Asia in particular and Asia-Pacific more generally, and the fragility of those few that were in existence, stood in marked contrast not only with the depth of regionalism in Europe but also with its resurgence in the Americas (for instance, Kahler, 1995). At the turn of the century, the economies of the Western Pacific Rim had fewer regional trade agreements in force or under negotiation than any other part of the world (World Trade Organization, 2000). The disdain for discriminatory trade extended to agreements with economies outside the region as well as to those within it. Neither the European Union nor the United States had concluded a reciprocal preferential trade agreement with a Western Pacific Rim economy at this time.

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<sup>1</sup>By Western Pacific Rim, I mean East Asia plus Oceania. By East Asia, I mean Northeast Asia and Southeast Asia.

The literature identified a familiar catalogue of factors that together were held accountable for the absence of regionalism in the Asia-Pacific generally and in East Asia in particular (Ravenhill, 2001, chapter 2). The “region” whether one took a more expansive Pacific Rim definition or a more limited, Asia-only, approach, was characterized by enormous diversity—of cultures, historical experiences, political systems, and levels of economic development. Such diversity distinguished the “region” not only from Western Europe but also from Africa and Latin America, where states at times had pursued regionalism energetically, albeit with little sustained success. The Cold War had further divided the “region”. Whereas the developments of 1989–90 in Europe had paved the way for reunification or reconciliation, the Cold War divisions in East Asia remained largely intact with three states—China, Vietnam, and North Korea—still governed by communist parties.

Economic interests were another reason often advanced for the apparent lack of enthusiasm of most East Asian states for negotiating preferential trade agreements. Of particular significance here was the diversity of their export markets. Intra-regional trade along the Western Pacific Rim had grown markedly in the 1980s, particularly after the Plaza Accord had fostered a new regional division of labour in manufacturing by forcing an appreciation of first the yen and then the Korean won and the New Taiwanese dollar against the US dollar. The level of intra-regional trade, however, remained substantially below that of Europe and no more than that among the three countries that were to become partners in NAFTA. Econometric analysis suggested that the growth of intra-East Asian trade merely reflected the relatively rapid growth rates of the individual economies rather than demonstrating any regional “bias” in trading patterns (Frankel, 1991).

Extra-regional markets remained significant for most countries. In 1985, close to half of the exports of Northeast Asian

economies—Japan, Korea, Taiwan, and Hong Kong—went to the United States and the European Union. Among the larger Southeast Asian economies, the dependence on these two markets ranged from 28 percent for Indonesia and Malaysia to 50 percent for the Philippines (Table I). Given their overall dependence on an open world trading system, most East Asian states, it was frequently asserted, would have no interest in pursuing an external trade policy that might exacerbate the danger, raised frequently in the context of GATT's problems in the late 1980s and the difficulties in completing the Uruguay Round, that the global economy would fragment into rival trading blocs. Regionalism might make good sense for the Europeans but not for East Asians.

And East Asian governments of the day appeared to heed the advice frequently given them by most economists that they should avoid preferential trade agreements. At the turn of the century, China, Japan, South Korea, and Hong Kong were the only large economies within the WTO not to have entered into such arrangements. Within East Asia, the only such agreement was among ASEAN member states. While they had pledged in 1981 to move towards a fully fledged free trade area, neither ASEAN's record on trade collaboration nor the initial provisions for the ASEAN Free Trade Area (AFTA), which contained a great deal of ambiguity over the commitment to trade liberalization, gave much confidence that the new agreement would pave the way for an effective regional trading scheme (Ravenhill, 1995). As with the only other preferential agreement on the Western Pacific Rim, the Australia-New Zealand Closer Economic Relationship (ANZCERTA), the share of AFTA participants' total trade that was conducted with their regional partners was small (it remained below 25%, the share having changed little since ASEAN's formation in 1967). Singapore dominated the region, contributing more than half of most ASEAN members' intra-regional trade (Table I). Perhaps the most telling statistic as far as AFTA's effectiveness was concerned was that only 1.5 percent of

Table I  
 Destination of East Asian Exports (% share of Total Exports)

		China	Hong Kong	Japan	South Korea	Singapore	Other ASEAN <sup>a</sup>	United States	EU
China	1985	*	26.2	22.3	n.a.	7.6	2.8	8.6	10.0
	1995	*	24.2	19.1	4.5	2.4	4.7	16.6	13.6
	2004	*	17.0	12.4	4.7	2.1	5.1	21.1	18.1
Hong Kong	1985	26	*	4.2	1.8	2.8	3.7	30.8	13.4
	1995	33.3	*	6.1	1.6	2.9	3.6	21.8	15
	2004	44.0	*	5.3	2.2	2.2	4.0	17.0	14.0
Indonesia	1985	0.5	1.9	46.2	3.5	8.7	2.0	21.7	6.5
	1995	3.8	3.7	27.1	6.4	8.3	6.0	13.9	15.2
	2004	6.4	1.9	22.3	6.8	8.4	9.8	12.3	12.6
Japan	1985	7.1	3.7	*	4	2.2	4.4	37.6	13.3
	1995	5	6.3	*	7.1	5.2	12.4	27.5	16.1
	2004	13.1	6.3	*	7.8	3.2	9.7	22.7	15.8
South Korea	1985	n.a.	5.2	15	*	1.6	3.5	35.6	12.0
	1995	7	8.1	13	*	5.1	8.6	18.5	13.3
	2004	19.7	7.2	8.6	*	2.2	7.3	17.0	15.0
Malaysia	1985	1.1	1.3	24.6	5.9	19.4	6.5	12.8	14.8
	1995	2.6	5.4	12.5	2.7	20.3	7.3	20.8	14.4
	2004	6.7	6.0	10.0	3.5	15.0	10.1	19.5	12.4

Philippines	1985	1.8	4	19	1.6	5.4	6	35.9	14.5
	1995	1.2	4.7	15.8	2.6	5.7	7.9	35.8	17.7
	2004	6.7	7.9	20.1	2.8	6.6	10.6	18.2	17.2
Singapore	1985	1.5	6.4	9.4	1.2	*	22.8 <sup>b</sup>	21.2	11.1
	1995	2.3	8.6	7.8	2.7	*	30.3 <sup>b</sup>	18.3	13.9
	2004	8.6	9.8	6.4	4.1	*	24.3 <sup>b</sup>	13.0	14.5
Thailand	1985	3.8	4	13.4	1.9	7.9	7.0	19.7	19.9
	1995	2.9	5.1	16.6	1.4	13.8	7.0	17.6	16.1
	2004	7.3	5.1	13.9	1.9	7.2	14.6	15.9	14.7
Vietnam	1985	0	6.9	4.7	2.2	5.2	1.2	0	8.9
	1995	6.4	4.6	26	4.2	12.3	7.5	3.0	12.6
	2004	8.6	1.6	13.4	2.3	4.7	8.1	19.8	23.2

<sup>a</sup>The other ASEAN members with the exception of Singapore.

<sup>b</sup>Does not include Singapore's exports to Indonesia (not reported by the Singapore government).

<sup>c</sup>Source: Calculated from IMF, *Direction of Trade Statistics*.

intra-ASEAN trade in the late 1990s used the certification required to attain preferential tariff treatment under AFTA's rules of origins: the balance either entered duty free or at most favoured nation rates (Teh Jr., 1999). For most companies, the benefits from AFTA did not exceed the transactions costs incurred in preparing the paperwork to qualify for preferential tariffs.

For East Asian states at the beginning of the 1990s, the form of regionalism advocated in the nascent Asia-Pacific Economic Cooperation (APEC) grouping appeared to be a perfect fit for their interests. At this time, APEC was but a series of meetings at the ministerial and senior official levels, essentially a continuation of the information exchange, confidence-building, and socialization processes that had previously been conducted under the auspices of the tripartite Pacific Economic Cooperation Council (PECC).<sup>2</sup> To the extent that an intergovernmental mechanism was required for managing the tensions arising from increased interdependence in the region, as the community of economists associated with PECC and the Pacific Trade and Development conferences (PAFTAD) advocated,<sup>3</sup> APEC—with its emphasis on unilateral and non-discriminatory liberalization, and its lack of formal institutionalization—appeared to fit the bill.

A phenomenon as complex as regionalism, which reflects actors' pursuits of a multitude of economic and other interests, cannot be reduced to a single factor explanation. A combination of dynamics caused key actors in East Asian governments and the private sector to change their attitudes towards preferential trade agreements after 1997. The East Asian financial crises of 1997–98 were a precipitant but perhaps more important for elevating the symbolism of enhanced regional cooperation than for any concrete

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<sup>2</sup>For the history of these arrangements, see Woods (1993).

<sup>3</sup>For instance, Drysdale (1988); Krause and Sekiguchi (1981). The primary focus was on the increased resort of the US government to unilateralism in its efforts to cope with surging East Asian exports.

outcomes in response to the financial crises themselves. The hostility of the United States towards Japan's proposal for an Asian Monetary Fund reinforced perceptions that the reactions of Western governments to the crises had been ungenerous. The goal of enhanced regional cooperation as a means of reducing external vulnerability acquired emotive significance.

Second, East Asian economies were becoming more significant economic partners for one another. The share of intra-regional trade in their total trade rose to close to fifty percent by the onset of the financial crises, up from less than forty percent in 1990. The crises themselves led to a significant downturn in the intra-regional trade ratio. But expectations that continued high rates of economic growth in China would provide a locomotive for the region led to a focus on the merits of action to facilitate intra-regional trade, a tendency reinforced by the apparently positive impact of the NAFTA provisions on intra-regional trade and investment among Canada, Mexico, and the United States.

The desire for new mechanisms for pursuing regional collaboration was strengthened by perceptions that existing institutions were ineffectual. Co-incidental with the onset of the financial crises, APEC's trade agenda began to unravel when its Western members attempted to push for more rapid liberalization of (what Asian governments perceived as) politically sensitive sectors through its Early Voluntary Sectoral Liberalization (EVSL) program. The EVSL debacle alienated APEC's principal Asian supporter—Japan—and encouraged Tokyo to look to alternative means of promoting regional cooperation, preferably ones that would minimize costs to domestic political constituencies.<sup>4</sup> Pessimism regarding the prospects for an early settlement of a new round of WTO talks also encouraged a search for alternative means of promoting trade liberalization and/or facilitation.

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<sup>4</sup>On the EVSL failure see Krauss (2004), Ravenhill (2001), and Wesley (2001).



Meanwhile, the increased pace of regionalism elsewhere caused Western Pacific Rim governments to reconsider their attitudes towards preferential trade agreements both with one another and with countries from outside the region. This was not just a matter of concern over the need to level the playing field so that exporters would not be disadvantaged in markets where competitors enjoyed preferential access—although this consideration became increasingly significant—but also of a desire to take advantage of what were increasingly perceived to be positive consequences of the new regionalism. Here, the change in the attitude of the government of the region's largest economy, Japan, was particularly important and provides an effective illustration of the considerations in play.

### I. JAPAN'S MOVE TO PREFERENTIAL TRADE

Despite the spread of regional arrangements throughout the global economy, particularly after the US signed its first preferential agreement in 1985 with Israel, the Japanese government had continued to criticize such arrangements within GATT working parties that scrutinized regional agreements (Masato, 2001). Its fear of the potentially negative repercussions of discriminatory trading blocs had driven its commercial diplomacy in the Asia-Pacific region.

Increasingly, however, concerns were voiced within the Japanese government that the country was isolating itself through its refusal to enter preferential trade agreements. Fear grew that preferential trade in the Asia-Pacific might become even more widespread, to Japan's disadvantage. One response of the US government to the slow progress on trade liberalization within APEC had been to float a proposal in November 1997, through the office of the US Trade Representative, for a free trade area with the four other APEC members perceived to be most enthusiastic about liberalization—Australia, Chile, New Zealand, and Singapore. The governments of the latter three countries took up this proposal in 1999 after the failure of APEC's EVSL program.

Japan's Ministry of International Trade and Industry (MITI) had begun in the second half of the 1990s to conduct studies of regionalism in other parts of the global economy, and of the potential costs and benefits to Japan of pursuing preferential trade arrangements. The first public indication that the Japanese government was seriously reconsidering its stance on regional trade agreements came in the publication of MITI's *White Paper on International Trade 1999*. Noting that whereas Japan had traditionally stressed the negative impact of regional arrangements on third parties and thereby had distanced itself from the majority of countries in the international community that were now participating in such arrangements, the White Paper asserted that evidence was now accumulating of the positive effects that regional arrangements were generating not just for participating states but for the global trading system as a whole.

The *White Paper* concluded that Japan should reconsider its policy on regionalism:

... to supplement the multilateral trading system, Japan should seek to deepen intra-regional exchange and understanding in Northeast Asia, the only area in the world which has shown little interest in regional cohesion or integration, applying itself with greater vigor to the development of regional cohesion and presenting a model which will contribute positively to the strengthening of the multilateral trading system. (Ministry of International Trade and Industry 1999)

A report issued in the following year—*The Economic Foundations of Japanese Trade Policy—Promoting a Multi-Layered Trade Policy*—articulated the new approach in more detail. This report suggested that a broadening and deepening of regional integration had occurred in response to the growth of economic interdependence, reflected in flows of trade and foreign direct investment. The new regionalism had generated positive effects for participating economies not just through conventional Vinerian trade creation and through enhancing the competitiveness of domestic industries, but also because these arrangements had encouraged investment flows. MITI noted that

the new regionalism typically involved “deeper integration,” with provisions relating not just to border barriers but also to investment, services, etc. Conventional economic models that focused only on the static effects of integration therefore tended to underestimate the gains from such arrangements.

MITI was particularly impressed with the benefits that NAFTA appeared to have delivered in the form of accelerated growth for its member economies. Moreover, various studies of the new regionalism seemed to suggest that it had relatively few negative consequences for non-participants.<sup>5</sup> At a time when negotiations within the WTO had stalled (the failed ministerial meeting in Seattle in 1999), regional arrangements appeared to offer an opportunity for like-minded countries to move the liberalization agenda forward. MITI also noted that entering into regional arrangements strengthened the negotiating position of their participants in their talks with members of other regional groupings. In a globalizing economy, the paper suggested, it was also beneficial for a country if the technical standards used by its industries were adopted throughout a wider geographical area that a regional trading agreement might encompass.

Calls for a reconsideration of Japan’s policies towards preferential trade agreements also came from the private sector. *Keidanren*, the Japan Federation of Economic Organizations, in its statement on the agenda for the proposed “Millennium” round of WTO negotiations, asserted that Japan needed to give “concrete consideration” to pursuing WTO-consistent free trade agreements (Keidanren, 1999). In July of the following year, *Keidanren* (2000) issued a more detailed call for the government to negotiate free trade agreements (FTAs), noting that businesses were concerned that government action on this issue, despite business pressure, had been “lamentably slow.”

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<sup>5</sup>But contrast Wall (2001) who suggests that Japan’s exports may have been as much as 19 percent lower than they would otherwise have been because of the negative effects of NAFTA and the EU.

In pressing its case that the government should not confine its negotiation of FTAs to a specific region, *Keidanren* restated some of MITI's arguments about how such agreements might complement actions within the WTO and indeed facilitate multilateral negotiations. It also emphasized the beneficial effects such agreements might have on promoting Japan's own structural reform. However, *Keidanren* also added specific business concerns to the case for FTAs. Because the new regional agreements were typically "WTO Plus" in providing for investment protection and liberalization, harmonization and mutual recognition of standards, and liberalization of trade in services, they would offer expanded opportunities for Japanese business in the economies of partner states. Moreover, with North American and European countries aggressively expanding the number of preferential agreements to which they were party, Japanese companies would be at a disadvantage unless the government negotiated similar arrangements. *Keidanren* pointed to the case of Mexico, where American firms enjoyed preferential access to the market through the NAFTA arrangements, and European firms had similar access because the EU had signed a bilateral free trade agreement with Mexico. In contrast, Japanese companies faced Mexican tariffs of 10 to 20 percent on key exports such as automobiles and household electrical appliances. Moreover, Japanese companies were excluded from bidding for government contracts in Mexico: these were open only to companies from countries with which Mexico had signed a preferential trade agreement.<sup>6</sup>

The pressure from *Keidanren* marked a significant development in the evolution of the regionalism debate in Japan. Previously, regionalism in the Asia-Pacific had been largely a governmental affair. Although business had participated in the tripartite PECC (Pacific Economic Cooperation Council), governments had enjoyed little success in interesting large corporations in

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<sup>6</sup>Yoshimatsu (2005) provides further details of the role of *Keidanren*.

the activities of the principal regional arrangement, APEC. Indeed, the capacity of business to operate successfully across national boundaries on the Western Pacific Rim and its consequent lack of interest in regionalism was often held to be one of the most significant factors in the lack of institutionalization of inter-governmental collaboration in the Asia-Pacific.<sup>7</sup>

The *Keidanren* proposal also noted another feature of the new FTAs that was to become significant in the negotiation of the preferential agreements first with Singapore and then with Mexico. Whereas, the Federation argued, it was desirable “to liberalize as much trade as possible,” the WTO requirement that such agreements should cover “substantially all trade” among the participants provided an opening to omit “sensitive” items from the liberalization schedule, thereby minimizing the domestic political costs of the new regionalism.

The decisive political breakthrough in Tokyo’s consideration of the role of regionalism in its foreign economic policies came with the visit to Japan in October 1998 of Korea’s President Kim Dae Jung. The visit produced a Joint Declaration on a New Japan–Republic of Korea Partnership Towards the 21st Century; the action plans appended to the Declaration included provisions for strengthening economic ties. Building on the spirit of reconciliation that the presidential visit had created, the Korean trade minister in the following month proposed to his Japanese counterpart at an APEC ministerial meeting that the two countries should establish a joint study group on the future of bilateral economic relations, including the possibility of negotiating a free trade agreement.<sup>8</sup> At the same time, Mexican President Zedillo proposed that Japan should enter into a free trade

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<sup>7</sup>For further discussion, see Ravenhill (2001).

<sup>8</sup>The results of a study conducted by government think tanks on the future of Japan–Korea economic relations were published in May 2000. Munakata (2001), a former Director of Policy Planning in MITI, provides a detailed discussion of the developments that led to Tokyo’s decision to pursue bilateral trade agreements.

agreement with his country, to parallel that which Mexico was about to negotiate with the EU.

Japan's failure to reject these initiatives was perceived as a signal that the government was undertaking a reconsideration of its policies on preferential agreements, providing the encouragement the Singapore government needed to begin to explore informally the interest that Tokyo might have in negotiating a bilateral accord. Munakata (2001) reports that the initial response of the Japanese government to the Singaporean initiative was one of skepticism, in part because of the relatively small size of the Singaporean economy, but also because of doubts about the wisdom of abandoning the previous policy of emphasizing multilateral approaches to trade liberalization. Tokyo remained concerned at the potential backlash of other countries—within and outside the region—to such a move. Nonetheless, negotiations, which built on the report of a joint study group, progressed relatively rapidly—not least because the Singaporean government was willing to accept an agreement markedly uneven in its obligations.<sup>9</sup>

Participation in preferential trading agreements continues to generate considerable controversy in Japan, primarily because of opposition from agricultural interests that are resisting the use of FTAs to push for further liberalization of agriculture beyond the commitments that Japan has made in the WTO. In the agreements that Japan completed by the start of 2005—with Singapore and with Mexico—the Ministry of Agriculture, Forestry and Fisheries, drawing on the European precedent, has succeeded in minimizing the concessions made to foreign partners, even to the extent that the coverage of agricultural products is less than the 90 percent that some countries use as the benchmark for compliance with the provisions of Article XXIV of the GATT. But

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<sup>9</sup>In contrast, the proposals for agreements with Korea and Mexico, even though launched a year earlier, moved forward much more slowly. The agreement with Mexico was eventually finalized in 2004. On the negotiations with Mexico see Solis (2003).

negotiation of FTAs is now a central plank of the government's foreign economic policies. It enjoys the support of export-oriented manufacturing industries that see the agreements as a means of levelling the playing field and of encouraging better policies on competition and on investment in partner countries. And although the Ministry of Agriculture, Forestry and Fisheries remains hostile, FTAs enjoy the support of the Ministry of Economy, Trade and Industry, which views them as an instrument to accelerate domestic economic restructuring by exposing inefficient sectors to increased competition, and the Ministry of Foreign Affairs, which sees them as an essential instrument of Japan's regional diplomacy.

Of particular note here is the competition between China and Japan for regional leadership: Tokyo was placed on the back foot by the proposal made by Premier Zhu at the China-ASEAN summit in November 2001 that a free trade agreement between the countries should be finalized within ten years, and that a framework agreement, enabling the implementation of "early harvest" provisions, should be negotiated immediately. A determination not to be perceived as reluctant to engage in regional partnerships has been an important factor not just in Japan's foreign policy considerations but also in those of other Western Pacific Rim governments. It has opened the way for a proliferation of agreements and proposals for agreements both within the region and with countries from outside of it.

## II. THE NEW ENTHUSIASM FOR PREFERENTIAL TRADE

Countries on the Western Pacific Rim may have been latecomers to preferential trade agreements but since the turn of the century have pursued them with great enthusiasm. By mid-2005, more than 60 preferential agreements involving Western Pacific countries were either being implemented, under negotiation, or

under study (Table II).<sup>10</sup> The Western Pacific Rim has quickly emerged as the world's most active region for the negotiation of preferential trade agreements.

A quick glance at Table II indicates several key features of the distribution of the new FTAs:

### **The Extra-Regional Orientation of Agreements Negotiated to Date**

Despite the post-financial crises emotive appeal of enhanced collaboration among East Asian countries to reduce their vulnerabilities to the unpredictable forces of globalization, the majority of the preferential trade agreements signed to date have been between Western Pacific Rim countries and governments from outside the region. This situation may change rapidly if many of the current agreements under study and negotiation are brought to a successful conclusion. Nonetheless, the pattern of agreements indicates strongly that Western Pacific Rim governments are not attempting to construct a closed regional trading bloc. Governments are open—indeed enthusiastic—about initiatives from outside the region, something that should encourage the EU and the United States.

### **The Relatively Minor Significance of Trade Partners**

Despite the attention given to the more ambitious of the East Asian proposals—especially the agreement between China and ASEAN—these intra-regional agreements are in some instances merely “frameworks” mandating further negotiations and/or have long lead times before their provisions will be fully implemented. Their immediate economic impact on participants will be

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<sup>10</sup>The typical practice in PTAs involving Western Pacific countries is for the proposed agreement first to be subject to scrutiny by a study group involving officials and sometimes private sector representatives from both parties. Following the reports by the study groups, official negotiations begin.



Table II  
Bilateral FTAs involving East Asian Countries

Country	Implementing	Negotiating	Study Group
ASEAN	AFTA China	Australia-New Zealand India Japan South Korea	
China	ASEAN Hong Kong Macau Thailand	Australia Chile Gulf Cooperation Council New Zealand Pakistan SACU	India
Hong Kong	China	New Zealand	
Japan	Mexico Singapore	ASEAN South Korea Malaysia Philippines Thailand	Chile India Indonesia Switzerland
South Korea	Chile Singapore	EFTA Japan	Canada India Malaysia Mexico United States
Indonesia			Japan
Malaysia		Australia Japan	India South Korea New Zealand United States
Singapore	Australia EFTA Japan Jordan South Korea New Zealand United States	Bahrain Canada Chile Egypt India Kuwait Mexico Panama Peru Qatar	Sri Lanka
Taiwan	Panama	Guatemala	

(continued)

Table II  
(Continued)

Country	Implementing	Negotiating	Study Group
Thailand	Australia	EFTA	
	Bahrain	New Zealand	
	China	Peru	
	India	United States	

Totals: Implementing 18; Negotiating: 30; Under Study: 16

small. Indeed, even when fully implemented, many of the agreements will have minimal economic impact. One of the most striking characteristics of the preferential agreements involving East Asian countries signed to date is that most link countries that are relatively minor trading partners for one another. Consequently, the potential aggregate welfare gains from such arrangements for participants are likely to be small: the counterpoint is that the welfare losses to non-participants are also likely to be relatively minor.<sup>11</sup> Consider, for instance, the free trade agreement between Japan and Mexico. Neither country accounts for more than one percent of the exports of its partner. The estimated welfare gain for Japan from the free trade agreement is less than one tenth of one per cent of its GDP.

If overall welfare effects are likely to be relatively small, what are the principal motives for the agreements? One possibility is that even though aggregate welfare gains may be limited, in some instances substantial gains may accrue to particular sectors. In the Japan-Mexico agreement, for instance, the Japanese automobile industry was particularly concerned to secure improved access to the Mexican market that would go a considerable way to levelling the playing field compared with the treatment Mexico gave to its

<sup>11</sup>For estimates of the likely welfare gains and losses from many of the proposed arrangements in the Western Pacific see Scollay and Gilbert (2001).

North American and European competitors. Similarly, Japanese electronic companies operating under the maquiladora program were disadvantaged by NAFTA-induced changes that required duties to be imposed from 2001 on components sourced from outside NAFTA for final goods exported to Canada or the United States.

The primary motivations underlying the agreements of course may be political rather than economic including, for instance, conventional considerations of using economic cooperation as a means of building confidence, and/or a desire to enhance credentials as a regional leader. Another factor is that, as newcomers to preferential arrangements, some governments were anxious to negotiate their initial agreements with partners that would pose the least threat to domestic economic interests. This motivation explains the popularity for several countries of selecting Singapore as a first partner: a relatively small, high-wage economy with negligible agricultural exports that would cause few problems for sensitive domestic sectors. The motivation in the choice of partners appeared to be one of minimizing costs rather than maximizing gains.

### **The Prominence of Singapore**

Singapore has been the pioneer among Western Pacific countries in negotiating preferential trade agreements—despite the opposition of its ASEAN partners, particularly Prime Minister Mahathir's Malaysia, in the period before 2002. The reasons are straightforward. Singapore relies heavily on international trade and has a particularly diverse set of export markets. Its tariffs on most products are zero (which means that few protected domestic interests exist that would oppose a free trade agreement, that it has few concessions that it would have to make on tariffs in a preferential agreement, and, because of the low levels of tariffs, the possibility of trade diversion arising from its negotiation of a preferential agreement is low). It has also consciously positioned itself as a regional hub with the intention, for instance, of

attracting investment by TNCs that use the island state as regional headquarters for their operations.<sup>12</sup> The Singapore government insists that PTAs are an effective tool for accelerating trade liberalization at the global level.<sup>13</sup>

### Who Participates?

Table II also reveals other patterns of participation in the new preferential agreements. The less developed economies of the region have not been invited to the table, except as part of the collective negotiations involving ASEAN. Here several factors are at play. As small economies, the potential benefits that an agreement with them will bring to partners is tiny; in many instances they lack the bureaucratic resources to negotiate what are often complex and detailed agreements (especially on rules of origin). Finally, potential partners often doubt that they have the bureaucratic capacity to make credible commitments in many of the areas covered by the preferential agreements.

The other dimension of the participation issue is political rather than economic: unlike the largely de-politicized MFN requirement of the WTO, political considerations directly affect the choice of partners in preferential trade agreements. Most obvious here is the unwillingness of other countries in the region to negotiate with Taiwan, its only preferential trade agreement to date being with Panama. Beijing has signalled clearly to other governments in the region that it would regard their negotiation of a trade agreement with Taiwan as an unfriendly act.<sup>14</sup> Political considerations have

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<sup>12</sup>For further discussion of Singapore's foreign economic policies see Dent (2001) and Low (2003). Thailand has begun to emulate Singapore's strategy, again attempting to position itself as a regional hub for certain industries, most notably automobile manufacturing.

<sup>13</sup>See Desker (2004).

<sup>14</sup>See, for instance, *People's Daily* "FTA with Taiwan means political trouble: official", (21 June 2002) [http://english.peopledaily.com.cn/200206/21/eng20020621\\_98285.shtml](http://english.peopledaily.com.cn/200206/21/eng20020621_98285.shtml), accessed November 10, 2003

also played a role in the choice of partners by the United States: New Zealand's repeated requests for negotiation of a free trade agreement being knocked back first because of the country's stance on visits by US nuclear warships, and then because of the Clark government's criticisms of the Bush administration's Iraq policies.<sup>15</sup>

### III. THE UNITED STATES AND THE EU IN WESTERN PACIFIC RIM INTER- AND TRANS-REGIONAL STRATEGIES<sup>16</sup>

Despite the sustained rapid growth of China, the United States and the European Union remain the major export markets for most East Asian countries (Table I). To be sure, the share of the United States in the exports of most East Asian countries has fallen from its peaks in the mid-1980s (the exceptions being China and Vietnam where the United States became a substantially more important export market in the second half of the 1990s). The United States remains the largest single export market for China, Japan, Malaysia, and Thailand. In contrast to the substantial fluctuations in the US share in East Asian exports, that of the EU has remained relatively unchanged over the last two decades (again with the notable exceptions of China and Vietnam, the EU now being the latter's largest single export market).

In themselves, these data indicate why East Asian countries may have as much economic if not political interest in negotiating preferential trading agreements with the United States and with the EU rather than with other countries in their region. The data, however, largely reflect the size of their trading partners'

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<sup>15</sup>For further discussion of the political economy of the agreements, see Ravenhill (2006).

<sup>16</sup>I follow Aggarwal and Fogarty (2004) in distinguishing inter-regionalism—formal links between two free trade areas or customs unions/common markets—from trans-regionalism, a free trade agreement between countries located in different geographical areas (e.g., North America and Asia).

Table III  
Trade Intensity Indices, 2001

	<i>China</i>	<i>Hong Kong</i>	<i>Japan</i>	<i>South Korea</i>	<i>Taiwan</i>	<i>ASEAN</i>	<i>EU</i>	<i>United States</i>
China	-	5.4	3	2.1	1.1	1.2	0.4	1.1
Hong Kong	9.4	-	0.7	0.8	1.4	1	0.4	1.2
Indonesia	1.4	0.7	3.8	2.8	2.1	3.7	0.4	0.8
Japan	1.9	1.7	-	2.7	3.4	2.4	0.4	1.1
South Korea	3.1	2	2	-	2.3	2	0.4	1.1
Malaysia	1.1	1.5	2.4	1.5	2.2	5.9	0.4	1.1
Philippines	0.6	1.6	2.9	1.5	3.9	3.2	0.5	1.5
Singapore	1.1	2.7	1.3	1.7	2.9	8.3	0.4	0.8
Thailand	1.1	1.6	2.8	0.8	1.7	4.4	0.5	1.1
Taiwan	1	6.9	1.9	1.2	-	2.2	0.4	1.2
Vietnam	1.8	0.6	3.2	1.2	1.7	3	0.8	0.4

Source: (Sakakibara and Yamakawa 2004, Table 3.5, p. 79).

economies. The trade intensity index (Table III) provides a means of estimating the extent to which bias exists in countries' trade with one another. The index adjusts the trade shares of a country by deflating it by the country's share in world trade, i.e., it is the ratio of the share of a country's exports with another country to the share of that partner in world imports. A number greater than one indicates that a country exports more to the partner than would be expected from the partner's share in world imports.

A prominent feature of the data in Table III is the apparent substantial under-representation of the EU in the trade of East Asian countries: in its relations with East Asia, the EU is punching significantly below its weight in the global economy. East Asia is similarly under-represented in European foreign direct investment: Asia's 6.8% share of EU outward FDI in 1999 put it in fourth place, after NAFTA (67.5%) and Central and South America (15.1%), and Europe outside the EU (7.5%).<sup>17</sup>

<sup>17</sup>This figure includes South Asia. Commission of the European Communities (2001).

In contrast, the United States is a more important trade partner for most East Asian countries than would be expected from its overall role in world trade (although its more intensive trade relations with countries in the region is affected by geography, a reflection of the relatively short distance from most East Asian economies to the US West Coast).

Neither the United States nor the EU was quick to seize on the new enthusiasm of Western Pacific Rim states for preferential agreements.

### **The EU and Inter-Regionalism**

Given the EU's pioneering role in promoting inter-regional trade agreements, its lack of any preferential agreement with economies on the Western Pacific Rim (other than the non-reciprocal, non geographically-specific provisions for less developed countries offered through the EU's Generalized System of Preferences and "Everything But Arms" initiative) is all the more surprising. This is even more so given the status of the region as the most rapidly growing component of the global economy—and the historical under-representation of the EU in the region's international economic relations. Rather than seek a preferential trade treaty with one or more states in the region, the EU instead accepted a proposal by the Singapore government in November 1994 to participate in an Asia-Europe meeting (ASEM).

ASEM is an informal process of dialogue that brings together the EU and 13 Asian countries (Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam). Summit meetings are held every two years (the most recent, the fifth, was held in Hanoi in October 2004); meetings of economic, finance and foreign ministers have also been held every two years (usually alternating with the summit meetings). In addition, ASEM has held ministerial conferences on the environment, on science and technology, and

on migration. An annual Asia-Europe Business Forum brings together private sector representatives from the two regions.

ASEM was intended as a Europe-Asia counterpart to the APEC grouping in order to strengthen what Gilson (2004, p. 65) terms the “weak side of the triangle” of Asia, Europe, and North America.<sup>18</sup> Although broad in scope, embracing three “pillars” of economic, political, and cultural dialogue, its agenda has been even less ambitious than that of APEC. For instance, it has eschewed setting targets for trade liberalization. It has no secretariat—despite the establishment of one being advocated by a “Vision Group” advisory committee (the EU Commission serves as a *de facto* secretariat). Although it has adopted two flagship projects, a Trade Facilitation Action Plan and an Investment Promotion Action Plan, it has no working groups comparable to those of APEC to help implement its trade facilitation agenda. Gilson (2004, p. 70) notes that a number of working groups have been phased out because of lack of interest; ministerial meetings are often poorly attended and/or attract only relatively junior representation. It is difficult to point to any substantive economic outcomes from the ASEM process.

The European Commission’s website on the partnership spells out the limited goals of ASEM:

As an informal process of dialogue and cooperation, based on equal partnership and enhancing mutual understanding, ASEM can best work to facilitate and stimulate progress in other fora, and should not seek to duplicate what is being done within our bilateral and multilateral relationships with Asia. For this reason, there are no formal institutions within the ASEM process. . . . (Commission of the European Communities 2003a)

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<sup>18</sup>For additional material on ASEM see Jung and Lehmann (1997), Lee Tsao Yuan (1997), Segal (1997), Higgott (1998), Maull, Segal, and Wanandi (1998), Gilson (1999), Richards and Kirkpatrick (1999), Stokhof and Velde (1999), Higgott (2000), Lee (2000), Rosamond (2000), Yeo Lay Hwee (2000), and the links on the ASEM Research Platform website, hosted by the International Institute for Asian Studies in the Netherlands: <http://www.iias.nl/asem/>, accessed January 8, 2005.



ASEM remains a consultative forum: to its critics, a mere talking shop. It had symbolic importance in providing the first venue in which the (pre 1997–98 expansion) ASEAN Plus Three countries came together as a grouping, realizing Prime Minister Mahathir's vision of an East Asian Economic Group. Membership questions subsequently became a contentious issue, however, because of the initial refusal of the EU to accept the participation of the new ASEAN members—Cambodia, Laos, and Myanmar—in the forum, primarily because of European concerns about human rights violations in Myanmar. The European determination to dictate the composition of its Asian counterpart has caused considerable resentment, as have suspicions that the Europeans want to widen the forum to include India and Oceania.<sup>19</sup>

Despite the lack of substance to ASEM, and the insistence that it should only supplement bilateral and multilateral relationships with East Asian countries, the European Union has not to date attempted to negotiate any preferential trade agreements with countries in the region. It is the only economic entity to have knocked back (in 2000) an approach by Singapore for negotiation of a free trade treaty. The EU's stated reason was that it was not willing to embark on any new talks for preferential trade agreements until the future of the Doha Round of WTO negotiations became clear. Subsequently, it was apparent that any reconsideration of the issue would not occur until after the new EU Commission took office in late 2004.

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<sup>19</sup>Meetings of ASEM finance ministers in July 2004 and of economic ministers in September 2004 were cancelled because ASEAN refused to agree to the participation in ASEM of the ten new members of the EU unless the EU accepted ASEAN's three most recent members into ASEM. A compromise under which the participation of Myanmar was agreed provided representation was not at the Head of State/Government level was eventually negotiated, permitting the fifth ASEM summit to proceed as scheduled in Hanoi in October 2004.

On a visit to Singapore in September 2004, Trade Commissioner Pascal Lamy announced that the Commission was willing to begin talks with Singapore (and Thailand) on an economic partnership agreement as soon as it received a mandate from its 25 member states. Such a partnership, he added, would not be a free trade agreement: “our plan is to negotiate (a) free trade agreement with ASEAN as a block . . . We consider such a region-to-region approach has the potential to generate more economically viable and interesting results” (“Singapore-EU Cooperation Agreement Talks May Start Within Weeks,” *Channel News Asia* (7 September 2004); “Singapore, EU Move to Boost Cooperation,” *The Straits Times Interactive on Sunday* (8 September 2004).

The EU’s refusal to negotiate a free trade agreement with Singapore puts it at odds with most of the world’s major economies (Singapore has bilateral agreements with the United States, Japan, and even with EFTA, and is negotiating agreements with China and India). The EU’s motives are not entirely clear especially since an agreement with Singapore would hardly be likely to generate any significant domestic opposition in European countries. And, given the number of agreements that Singapore has signed with other states, it is unlikely that other ASEAN members would take affront if the EU signed an agreement with Singapore before negotiating with them. It could be that the EU believes that any levelling of the playing field for European businesses operating in Singapore can be achieved through an economic partnership agreement. Given the existing low levels of Singapore’s tariffs, the principal gains for Singapore’s partners from preferential trade agreements have come from better access to the services sector and to government procurement, and from improved provisions on competition policy, benefits that an economic partnership agreement might secure.

European insistence on negotiating with ASEAN as a whole is, however, entirely consistent with the EU’s policy of pursuing inter-regional trade agreements, that is, agreements with regional

groupings in other parts of the world. This harks back to a long-standing EU objective to promote regional integration elsewhere (it continues to provide financing, for instance, to upgrade the technical skills of the ASEAN Secretariat). The EU gave this objective new priority with the growth in the number of countries seeking preferential trade agreements with Brussels. The EU is conscious of the high transactions costs of a proliferation of negotiations on PTAs. A particular concern here has been the perceived need, following adverse WTO rulings on the EU's banana regime, to negotiate agreements with the African, Caribbean and Pacific (ACP) group of countries under the Cotonou Convention that are compatible with the WTO's Article XXIV. The EU not surprisingly has indicated that it is unwilling to negotiate individual agreements with the close to 80 countries that make up the ACP Group and has encouraged them to form regional groupings to negotiate the partnership agreements that the Convention mandates.<sup>20</sup>

The only preferential agreement that the EU is currently negotiating with Western Pacific Rim countries is an economic partnership agreement with the Pacific Islands countries, negotiations that began in September 2004, mandated by the Cotonou Convention. The three year negotiations must be completed by December 2007 before a new trade arrangement with the EU under the Cotonou Agreement comes into force on January 1, 2008.

### **The United States and Transregionalism**

Unlike the European Union, the United States has had a long-standing interest in negotiating preferential trade agreements with Western Pacific Rim countries, dating from the decision of the Reagan administration to supplement multilateral approaches with bilateral agreements. In 1985, the USTR Mike Smith approached the Office of the Prime Minister and Cabinet in

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<sup>20</sup>For further discussion see Ravenhill (2004).

Australia about the possibility of an Australia-US free trade agreement.<sup>21</sup> Then-Secretary of State George Shultz, also talked of promoting a free trade area in the Pacific in the period leading up to the establishment of APEC.<sup>22</sup> During his re-election campaign in 1992, George H.W. Bush issued a manifesto—“Agenda for American Renewal”—which proposed a global web of free trade agreements, building on the yet to be ratified NAFTA agreement (“The A-Team’s Sales Drive,” *US News and World Report* September 21, 1992). This proposal, developed by Bob Zoellick, then aide to White House chief-of-staff James Baker, identified a number of Western Pacific Rim countries, including Australia, as possible candidates for agreements. Again, this proposal met with little enthusiasm, Western Pacific Rim countries being concerned that it would lead to the development of a hub and spokes system to their disadvantage.<sup>23</sup> The proposal for negotiating free trade agreements with Western Pacific Rim countries was not resurrected until March 1997 when USTR-designate Charlene Barshefsky released “The President’s Trade Policy Agenda” which included the commitment that

. . . the United States will continue to negotiate reciprocal free trade agreements with individual nations in the Asia-Pacific. Australia, New Zealand, and Singapore are a few of the possible partners in this respect.

The USTR followed up on this commitment in its November 1997 proposal for a “Pacific 5” free trade agreement with Australia,

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<sup>21</sup>Garnaut (2002). In response, the Australian government commissioned a study by the Monash University economist, Richard Snape (1986), which concluded that Australia’s trade interests would be best served through non-discriminatory liberalization. A summary of the study is published as Snape (1989).

<sup>22</sup>In the late 1980s, there was discussion of potential free trade agreements with Japan, South Korea, and Taiwan as well as Australia. See Schott (1989).

<sup>23</sup>The proposal led the Australian government to commission a second report (Snape, Adams, and Morgan [1993]) into Australian participation in preferential agreements, which reached the same conclusion as Snape’s 1986 study.

Chile, New Zealand, and Singapore. But it failed to pursue this idea. Significant factors here were the inability of the Clinton administration to secure “fast track” negotiating authority, and ongoing domestic opposition to free trade agreements, particularly over labor and environmental concerns, following the implementation of NAFTA. Australia and New Zealand, moreover, posed potential problems for agricultural interests in the United States (to compound in the case of New Zealand the political difficulties mentioned above). While an agreement with Singapore was unlikely to cause any significant opposition from domestic interests in the United States,<sup>24</sup> a preferential agreement with lower wage economies in the region, especially those with which the United States was running substantial trade deficits, was likely to prompt domestic opposition. Moreover, official circles in the United States had little confidence that a free trade agreement with most East Asian countries, given the continued presence of “structural impediments” to United States imports, would in itself provide the unimpeded access to markets that it sought, a concern compounded by doubts that some East Asian governments could make credible commitments on significant trade issues.<sup>25</sup>

The first negotiation of a free trade agreement between the US and a Western Pacific Rim country began in December 2000 after the then lame-duck President Clinton accepted an invitation for talks from Singaporean Prime Minister Goh Chok Tong at the November 2000 APEC leaders’ meeting in Brunei. Eleven negotiating sessions followed over the next two years before agreement was reached on a 1400 page text, the first preferential trade agreement between the United States and an Asian economy (signed in May 2003). Critical to the US assent to the

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<sup>24</sup>When the US subsequently negotiated an FTA with Singapore, the US International Trade Commission (USITC) (2003) concluded that its impact on the United States would probably be “negligible to very small.”

<sup>25</sup>On the problem of credibility of commitments by East Asian countries see Cowhey (1993).

agreement was the success of the administration of George W. Bush in persuading Congress to give it “fast track” negotiating authority (re-christened “trade promotion authority”) in August 2002. Shortly thereafter, the Bush administration launched its “Enterprise for ASEAN Initiative” through which it made a commitment to negotiate bilateral free trade agreements, modelled on the agreement with Singapore, with ASEAN countries that are committed to economic reforms and openness. To be eligible for inclusion, ASEAN countries have to be members of the WTO and have concluded a Trade and Investment Framework Agreement with the United States.<sup>26</sup> On his trip to SE Asia in October 2003, following the APEC Leaders’ Meeting, President Bush and Thai Prime Minister Thaksin announced that negotiations for a free trade agreement would be launched in June 2004. Malaysia, in a complete reversal of its policy towards free trade agreements following the departure of Prime Minister Mahathir, has also indicated its interest in negotiating with the United States, signing a Trade and Investment Framework Agreement with the United States in May 2004.

In the Oceania region, in August 1999 Australian Prime Minister John Howard and his New Zealand counterpart, Jenny Shipley, issued a joint communiqué on a task force set up to examine the bilateral economic relationship between their two countries. This included the statement that

New Zealand and Australia are willing to consider free trade arrangements with other significant individual economies or regional groupings, where they would deliver faster and deeper liberalization

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<sup>26</sup>The United States has Trade and Investment Framework Agreements with Brunei, Indonesia, Malaysia, the Philippines, and Thailand.

than the multilateral process... (quoted in Parliament of the Commonwealth of Australia 2004, p. 202)

While this was a reconfirmation of a stance that New Zealand had adopted several years before, for Australia it was a U-turn in official attitudes towards discriminatory trade agreements (other than the longstanding agreement with New Zealand). Governments had previously lined up with academic economists in opposing preferential trade agreements on the grounds that the interests of Australia as a small player in world trade were best served by non-discriminatory trade liberalization undertaken either unilaterally or through negotiations at the global level. Governments had also rejected previous US initiatives, arguing that a free trade agreement with the United States would discriminate against East Asian countries, which were a far more important market than the Americas for Australia.

In December 2000, the Australian ambassador to the United States made a speech to the American Australian Association in New York on the mutual benefits of a free trade agreement between the two countries, a first indication that the Australian government was intending to approach Washington for a preferential agreement. In the first half of the following year, the government commissioned two studies on the economic impact and broader implications of a free trade agreement between the two studies: following talks between foreign and trade ministers, in August of 2001, the Prime Minister confirmed that the government intended to pursue a free trade agreement with the US. Further movement awaited the Bush administration's gaining trade promotion authority. Three months after the passage of the Trade Act 2002, the USTR Bob Zoellick and Prime Minister Howard announced that negotiations would start on an FTA; five rounds of negotiations were held before agreement was reached in February 2004.

#### IV. US INTERESTS IN FTAS WITH WESTERN PACIFIC RIM COUNTRIES

Richard Feinberg (2003, p. 1020) has provided a succinct statement of US interests in negotiating FTAs. He suggests that these are:

- “Asymmetric reciprocity” that advantageously opens markets for US traders and investors;
- Establishing precedents, models or serving as catalysts for wider trade agreements (competitive liberalization);
- Rewarding and supporting domestic market-oriented reformers; and
- Strengthening strategic partnerships.

All of these elements are present in the two agreements—with Singapore and Australia—that the US has negotiated to date, and in the other relationship—with Thailand—where negotiations are currently taking place.

Consider first the asymmetric reciprocity dimension. The basis for this, of course, is the asymmetries in the significance of the partner economies for one another. Whereas the United States accounts for between 10 and 20 percent of the exports of Australia, Singapore, and Thailand, none of these countries individually provides a market for more than 2.5 percent of US total exports (Table IV).

Table IV  
Significance of PTA Partners in Total Trade 2002 (%)

	<i>US Share in Total Exports</i>	<i>Share in Total US Exports</i>
Australia	9.9	1.6
Singapore	16.1	2.4
Thailand	20.2	0.7

Source: IMF *Direction of Trade* data.



The outcome of the negotiations with Singapore and Australia reflected these power asymmetries. Whereas Singapore committed itself to provide zero tariffs on all imports from the United States immediately and to bind these tariffs, the United States offered a differentiated schedule. Non-sensitive products enjoyed immediate duty free access but tariffs on other goods would be phased out with the most sensitive not entering the US market duty free for 10 years.<sup>27</sup> In the Australian agreement, the principal asymmetry came in agricultural trade, the sector where Australian exporters faced the most significant barriers to accessing the US market, and the sector where computer modelling suggested that most of the benefits to Australia from a comprehensive free trade agreement with the United States would accrue (Centre for International Economics 2001). Duties on all US agricultural exports to Australia, which totalled nearly \$700 million in 2003, were eliminated immediately upon entry into force of the Agreement. In contrast, duties on most agricultural imports from Australia will be phased out over periods of between four and 18 years. The United States made no concessions on two of the most sensitive products from which Australian exporters expected to make substantial gains: sugar and dairy products. In addition, for certain products including beef, dairy, cotton, peanuts and certain horticultural products, the Agreement includes other mechanisms, such as preferential tariff rate quotas and safeguards, to limit Australian access to the US market.<sup>28</sup>

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<sup>27</sup>Maintenance of US barriers to exports from Singapore is somewhat ironic given that subsidiaries of US corporations are estimated to manufacture more than 60% of all Singapore's exports to the United States.

<sup>28</sup>Weiss, Thurbon, and Mathews (2004) and Capling (2005) provide excellent discussion of the details of the Australia-US agreement.

The United States also aggressively pursued benefits for its exporters in areas other than tariff barriers. In the Singapore agreement, some of the most important of these include substantially improved access for US suppliers to the services sector in Singapore, including the right to establish local subsidiaries and right to national treatment; non-discrimination and most favored nation treatment for US banks, and full rights of establishment for US insurance and securities firms, and the creation of an open market in telecommunications. Singapore committed itself to establish a competition commission by January 2005 and to enact a law regulating anti-competitive business conduct. In the Australian agreement, the USTR negotiated provisions that required Australia to provide national treatment and MFN treatment in all services sectors that were not explicitly excluded in the agreement and prohibited local presence requirements. The agreement limits the capacity of the Australian government to implement new measures to limit access for US suppliers in the broadcast and audiovisual sector. The provisions that have generated the most political controversy in Australia require the Australian government to establish an independent review process for listing of pharmaceuticals under its Pharmaceutical Benefits Scheme, a government program under which listed drugs are bought by the government from pharmaceutical companies and then sold to Australian consumers at a subsidized price.

The asymmetries in obligations in the two US PTAs with Western Pacific Rim countries are typical of agreements between larger and smaller economies (Freund, 2003). Both of the agreements included provisions on investment, intellectual property rights, and competition policy. They are “WTO Plus” and thus very much in accord with the second of Feinberg’s points—the setting of precedents for other agreements (as noted above, the United States has pointed to the Singapore agreement as a model

for others under its Enterprise for ASEAN Initiative). Both Australia and Singapore qualify as countries that have significantly reformed and liberalized their domestic economies in the last two decades. And both are strategic allies of the United States, with both the Howard government in Australia and the Bush administration having made a strong rhetorical linkage between the successful conclusion of a free trade agreement and Australia's support for US policies on Iraq.

## V. CONCLUSION

Western Pacific Rim countries have quickly made up for their late entry into preferential trade agreements by beginning negotiations on a considerable number of partnerships with one another and with countries outside the region. The approaches of the United States and the EU to the new interest from Western Pacific Rim countries in preferential trade partnerships have been markedly different.

The EU's approach seems destined to reinforce Europe's long-standing under-representation in the economic relations of most Western Pacific Rim countries. Europe is unwilling to add these countries (with the exception of the South Pacific islands) to the long list of countries with which it has preferential trade agreements. This reluctance to negotiate preferential agreements has been maintained even though the most recent strategy paper (Commission of the European Communities, 2001) for relations with Asia as a whole notes that the region "is a crucial economic and political partner for Europe" (p. 4) and that

Upgrading the institutional basis for our relations with key partners in Asia would allow for a more coherent approach to all relevant issues (in the political and security fields as well as on economic and development issues), would create a powerful stimulus for the intensification of our dialogue and cooperation in all areas, and would give a clear public signal of the commitment of both parties to raise our relationship to a new level (p. 12).

Given that Europe lags behind the United States in its relations with Asia, its unwillingness to use one of the most popular weapons in its foreign economic policy armory—the negotiation of preferential trade agreements—is all the more surprising. If the EU maintains its position that it will not negotiate a preferential agreement with countries in the region until after the Doha Round is successfully completed, it may find that European exporters are at a significant disadvantage compared with their principal competitors from North America and Japan.<sup>29</sup> In a position paper on future relations with ASEAN, the Commission of the European Communities argued that the EU experience was that preferential trading agreements “deliver their greatest benefits where they build upon an existing base of mutual trust and understanding” (Commission of the European Communities, 2003b, p. 17). “At this stage”, the Commission continued, “work remains to be done to develop a foundation of shared knowledge and experience between the EU and ASEAN, to put in place the mechanisms and processes to create greater transparency and convergence between the regions, and to evaluate the potential benefits, as well as the impact on both EU and ASEAN policies, of any future FTA” (*Ibid.*).

Rather than negotiating a preferential trade agreement immediately, the Commission proposed a “Trans-Regional EU-ASEAN Trade Initiative (TREATI)” “to expand trade and investment flows and establish an effective framework for dialogue and regulatory co-operation on trade facilitation, market access, and investment issues between the two regions.” According to Trade Commissioner Pascal Lamy, on his visit to Southeast Asia in September 2004, the EU’s approach offered a more effective form of economic co-operation because “the real 21st-century trade

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<sup>29</sup>At its meeting of economic ministers in September 2004, for instance, ASEAN announced that it intended to begin negotiations for preferential trade agreements with China, Japan, India, Australia, and New Zealand.

issues are not tariffs and quotas, but standards and rules in areas such as safety, health or consumer protection” (quoted in “EU’s Tack on ASEAN FTAs May Be Best in Long Run,” *The Straits Times Interactive*, 7 September 2004, <http://www.straitstimes.com/money/story/0,4386,271352,00.html>). A recent Commission Strategy Paper (Commission of the European Communities, n.d.) indicates that the new Commission has not moved beyond this thinking: it merely suggests that funding will be provided in 2005–2006 in support of the objectives of the TREATI programme.

Even if one accepts the logic of the EU’s argument on the need for pursuing deeper integration, ASEAN governments must surely wonder why the Europeans are treating them differently to other parts of the world where the EU has not hesitated to enter into preferential trade agreements. It is difficult to imagine, for instance, that issues such as transparency, and the need for shared knowledge and experience, distinguish Singapore’s relations with the EU from those that Mexico or Mercosur have with their European partner. By insisting on negotiating with ASEAN as a whole, the EU is spurning an opportunity to reach agreements with the region’s more advanced economies, notably Singapore, Malaysia, and Thailand. Moreover, its current insistence that free trade agreements must include a human rights clause may complicate reaching agreement with countries for which issues of sovereignty remain sensitive.

In contrast to the European approach, the United States is aggressively pursuing preferential trade agreements with the more developed economies of Southeast Asia and Oceania. Developments within ASEAN Plus Three have attracted most of the public attention on issues relating to regional trade agreements. But many of these agreements will take a considerable period to come to fruition and then may well not provide even for free trade yet alone deeper integration. In contrast, the United

States has moved quickly to negotiate agreements that not only are WTO Plus in their content but most of whose provisions—or at least those undertaken by its partners—come into effect immediately after signature. If agreements are negotiated with Malaysia and Thailand, to complement the agreement with Singapore, US preferential trade initiatives in Southeast Asia may well have a more significant effect on the economies of the region than anything that is negotiated at the ASEAN Plus Three level—or, given its track record on these issues, within ASEAN itself. For the United States, the future basis for trade relations with the four major Northeast Asian economies—China, Japan, South Korea, and Taiwan—remains the most challenging issue. Although both Korea and Taiwan have expressed interest in a preferential agreement with the United States, Washington has yet to show any enthusiasm for negotiating with these Northeast Asian economies, which are more likely than those of Southeast Asia and Oceania to pose significant challenges for US domestic interests.

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