



US Free Trade Agreements and the Enterprise for ASEAN Initiative

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Free Trade Agreements: US Strategies and Priorities

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In this conference volume, distinguished economists and trade policymakers address the US initiatives to enter into free trade negotiations with a broad range of countries in the Asia-Pacific region, the Western Hemisphere, and Africa.



Overview

- US Free Trade Agreements -- Departure from Multilateralism?
- US Competitive Liberalization Strategy
- How Asia and ASEAN Fit In
 - US Perspective on regional setting & issues
 - Enterprise for ASEAN Initiative
 - Progress and prospects
- Will Competitive Liberalization Prevail?



US Free Trade Agreements -- Departure from Multilateralism?

- US Administration fought hard for so-called Trade Promotion Authority under the US Trade Act of 2002
- But protectionist interests remain entrenched in US economy (sugar, dairy, apparel & textiles, and other low-wage manufacturing sectors)
- Moreover, FTAA and WTO Doha Round negotiations are moving ahead only slowly
 - Fundamental disputes, beyond simply the liberalization of border measures restricting merchandise trade
 - Difficulty of forging consensus among large numbers of especially WTO members



Doha Round Issues

- Agriculture
- Market access for non-agricultural goods
- Trade in services
- Trade-related aspects of IPR
- Anti-dumping & subsidies
- Regional trade agreements
- Dispute settlement
- Trade & environment
- Electronic commerce
- Capacity building
- Special & differential treatment



US Bilateral Free Trade Agreements

- Follow in footsteps of EU partnership agreements, and many bilateral and regional trade agreements among developing countries
- Several bilateral US FTAs under negotiation or concluded to date -- mainly with small trading partners but covering a substantial share of US trade (approaching 40 percent)
- US FTAs viewed as keeping the US trade liberalization "bicycle" moving forward, but also as promoting *competitive liberalization*



US Competitive Liberalization Strategy

- Global
 - WTO Doha Round

- Regional
 - FTAA
 - ASEAN Initiative
 - NAFTA
 - MEFTA
 - APEC

- Bilateral
 - Andean FTA
 - Australia FTA
 - Bahrain FTA
 - Chile FTA
 - Central America FTA
 - Israel FTA
 - Jordan FTA
 - Morocco FTA
 - Panama FTA
 - Singapore FTA
 - SACU FTA



US Competitive Liberalization Strategy

- US recognizes superiority & supports multilateral liberalization
- However, bilateral and regional FTAs are viewed as more timely means of pursuing "deeper" economic integration issues with like-minded countries, satisfying important US interests favoring greater exports and foreign direct investment
- Additionally, FTAs are viewed as a means of promoting economic development and locking-in economic reforms in less developed countries, because the policy reforms are incorporated in FTAs with force of international treaties (Analogous to IFI conditionality? Reforms implemented on nondiscriminatory basis vis-à-vis all trading partners?)
- Finally, FTAs are viewed as promoting US geopolitical objectives, including anti-terrorism & other security objectives
- An important condition: US FTAs must incorporate US Congress-mandated requirements for observing "international labor and environmental standards" (Veiled US protection?)



Spurring Regional & Multilateral Trade Negotiations

- Following the Domino Theory (Richard Baldwin) or the Competitive Liberalization Hypothesis (Fred Bergsten), US policymakers view bilateral FTAs as pressuring excluded countries to support broader regional FTAs and the Doha Round. That is, they contend
 - Bilateral FTAs spread economic liberalization more widely (and rapidly), diluting prior trade preferences
 - In the limit, successful multilateral trade negotiations trump bilateral and regional FTAs
- Downside risk (S. Andriamananjara): US FTA partners lessen interest in regional or multilateral trade deals, hindering wider trade liberalization (FTAs pit "Ins" vs "Outs")



Quantitative Estimates of FTA Impacts

- Gravity and CGE models are widely employed to assess the potential impacts of US FTAs
- *Empirical* gravity models find large gains in trade between US and FTA partners, on the order of 100 percent or more!
- *Applied* CGE models, mainly examining impacts of liberalizing border measures, generally find smaller estimates but provide greater detail and estimates of impacts on national economic welfare ...

CGE Estimates of US FTA Impacts on US & Prospective FTA Partners

	USA	Australia	CAFTA	Chile	Morocco	Singapore	Sri Lka	Thailand	Botswana	SACU Rest of SACU
Import Value (% change)	1.5	1.3	16.2	2.5	4.1	0.1	8.4	3.7	-0.9	2.5
From Partner/s	21.0	16.5	61.6	44.7	93.9	-0.3	154.3	58.5	37.4	44.5
From ROW	-0.4	-2.7	-5.1	-9.7	-4.9	0.2	1.1	-3.9	-2.5	-3.7
Export Value (% change)	4.5	8.1	17.9	9.0	11.3	2.8	10.7	6.2	4.6	7.7
To Partner/s	24.5	16.6	64.3	29.4	21.6	7.6	75.5	35.9	1.8	21.6
To ROW	-1.1	7.0	-14.1	5.7	10.3	1.9	-17.1	-1.2	4.7	6.1
Tariff Rev (\$mill change)	-4,246.6	-562.9	-2,616.0	-619.1	-287.5	-27.5	-52.3	-1,101.9	-7.4	-461.1
From Partner/s	-3,377.7	-436.4	-2,329.6	-444.3	-115.2	-25.1	-31.6	-746.9	-2.2	-234.5
From ROW	-868.9	-126.5	-286.4	-174.8	-172.3	-2.4	-20.7	-355.0	-5.2	226.5
Welfare as a % of GDP	0.03	-0.01	3.36	-0.11	-0.26	0.21	2.77	0.76	-0.06	-0.06
Total EV (\$US millions)	2,595.2	-37.5	3,162.8	-82.3	-90.4	164.0	431.3	1,204.6	-3.0	-57.8
Allocative Efficiency	381.8	-41.6	1,300.3	-87.5	-16.4	4.7	172.6	258.3	0.2	-30.6
Terms-of-trade	2,213.4	4.1	1,862.4	5.2	-74.0	159.3	258.7	946.3	-3.2	-88.4

Source: DeRosa & Gilbert (2004). GTAP model results using GTAP 5.4 database.



How Asia & ASEAN Fit In

- Asia is home to a number of regional and sub-regional trading arrangements: APEC, AFTA, SAPTA, CER, among others
 - FTAs in Asia range from "exemplary" to "questionable" in terms of their openness and objectives
 - Most have lost their momentum, if not their way, towards freer trade during recent years.



Free Trade Agreements in Asia

- With the emergence of China in the global economy, rising security concerns, and the "glacial speed" of regional and Doha Round trade negotiations, several new & proposed FTAs have come to the fore in Asia
 - Singapore, Korea, & Japan most active FTA hubs
 - Also, India, Bangladesh & Sri Lanka in South Asia
 - Proposed ASEAN+3 (China, Korea, Japan) FTA looms particularly large
 - New FTAs working to knit the Asian economies closer together (With China as a central hub?)



Enterprise for ASEAN Initiative

- US has vital economic and security interests in greater Asia. Hence, US participation in APEC and concern for emerging Asian FTAs
- Southeast Asia is among the most important sub-regions of Asia to the US
 - US-Singapore FTA begun Nov 2000, concluded Jan 2003
 - Enterprise for ASEAN Initiative announced Oct 2002
 - Offers prospect of US FTA to each ASEAN country that accedes to WTO and establishes a TIFA with the US
 - Potentially spurs AFTA & greater economic development in ASEAN
 - Evens playing field for US exports to ASEAN, especially in anticipation of proposed ASEAN+3 FTA
 - Offers backdoor for expanded exports to China by US MNCs?



US-ASEAN FTAs -- Progress & Prospects

- US-Singapore FTA a special case?
 - No agricultural trade liberalization
 - Mainly liberalization of services trade and foreign investment policies (Singapore domestic economic policy reforms extended to US but not third-countries?)
- US-Thailand FTA
 - Negotiations begun in mid-2004
 - Likely blueprint for FTAs with other ASEAN-4
- Next US FTA with Indonesia, Malaysia or Philippines?
 - Malaysia more keenly interested than previously
 - Indonesia and Philippines might be favored by US on regional security grounds
- Next for Vietnam & other low-income ASEAN countries, WTO accession and TIFAs with US



Sensitive Issues in US-ASEAN FTA Negotiations

- Implementation, timing of tariff preferences
- Agriculture
- Processed foods
- Textiles & apparel
- Auto sector
- Service sector liberalization
- Intellectual property rights protection
- Labor & environment
- Domestic economic policy reforms
- Global terrorism



Goods Sectors Protected by High Tariffs & Nontariff Barriers

United States

- Processed foods
- Sugar, dairy, fruits & vegetables
- Textiles & apparel
- Certain machinery & electric equipment
- Misc. manufactures

ASEAN-4

- Agriculture (rice, corn, poultry)
- Processed foods
- Rubber & plastics
- Footwear
- Autos & transport equip.
- Misc. manufactures



Sensitive Services & Foreign Investment Policies in ASEAN-4

■ Services

- Restrictions against foreign professionals and service firms in several service sectors, including telecommunications, wholesale & retailing, accounting & legal services, coastal shipping, and engineering services.

■ Foreign Direct Investment

- Remaining domestic content requirements, restricted sectors for investment & ownership shares, and export earnings requirements.
- Inadequate protection for intellectual property rights.

Impacts of Current & Prospective US FTAs vs Multilateral Free Trade

	US FTAs			Multilateral Free Trade		
	Exports to		Economic Welfare (%GDP)	Exports to		Economic Welfare (%GDP)
	US	World		US	World	
US*	0.0	1.7	0.03	0.0	7.5	0.01
Indonesia	-2.9	-0.4	-0.08	17.2	10.3	1.42
Malaysia	-0.4	-0.2	-0.14	0.4	2.6	1.00
Philippines	-2.0	-0.6	-0.26	17.7	6.4	0.23
Singapore*	5.9	0.1	0.21	-1.6	-1.6	0.09
Thailand*	31.4	2.4	0.76	9.1	10.8	1.91
Vietnam	-2.7	-0.1	-0.07	14.5	19.9	7.68
ASEAN-6	6.8	0.3	0.13	6.5	4.7	1.37
Australia*	12.3	0.9	-0.01	-6.5	10.0	0.80
China	-2.3	-0.4	-0.11	12.3	15.0	0.51
India	-2.7	-0.3	-0.05	20.4	16.8	0.20
Japan	0.7	0.0	-0.02	-0.3	13.7	0.33
Korea	-0.7	-0.2	-0.07	5.2	7.3	0.96
Taiwan	-0.6	-0.2	-0.06	-2.1	9.9	1.32
European Union	0.0	-0.1	-0.02	6.5	1.6	-0.02
World	1.5	0.3	0.00	3.8	7.2	0.27

Source: DeRosa & Gilbert (2004). GTAP model results using GTAP 5.4 database. Asterisks denote US FTA partners.



The Outlook: Will Competitive Liberalization Prevail?

- In Southeast Asia, US will continue to pursue FTAs with ASEAN
 - Will this re-energize AFTA & promote structural adjustment in ASEAN?
 - Will this spur ASEAN FTAs with China & other Asian partners? How will it affect multilateralism in ASEAN?
- Globally, US will continue to pursue FTAs with many countries
 - In Middle East, South Asia & other developing regions
 - US may pursue FTAs with "large" trading partners if FTAA & Doha Round falter further
- The US will remain committed to multilateralism
 - Some hopeful signs surround the Doha Round, but successful outcome still distant (Near 2007, when US TPA expires?)
 - But whether US competitive liberalization strategy will prevail and result in a successful multilateral outcome remains uncertain (A fruitful area for political-economy research!)
 - Downside risk: global patch work of FTAs results in predominance of discrimination rather than nondiscrimination in the global trading system, contravening GATT objectives & economic principles.