

Trade liberalization and the new regionalism in the Asia-Pacific: taking stock of recent events

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Abstract

In the aftermath of the regional financial crisis of 1997–98, many Asian economies have underscored the need consciously and aggressively to explore alternative liberalization paths or ‘fallback positions’. This is where the ‘new regionalism’ or new regional trade agreements (RTAs) become relevant. This paper explores some of the primary rationale behind, and main concerns regarding, the proliferation of bilateral and plurilateral trade pacts in the Asia-Pacific region. It also considers the ‘dynamic time path’ of Asian RTAs. Do they facilitate or hinder multilateral trade liberalization?

1 Introduction

Exploration of the nexus between trade liberalization, growth, and poverty reduction remains an active research agenda in academic circles. A reading of the burgeoning literature leads one to the following general conclusion. For trade liberalization to have sustained growth effects, it must be accompanied by a constellation of other complementary domestic policies and institutions. These include, but are not limited to, labour market flexibility, macro-economic stability, reasonable infrastructure, and good governance. These policies do not surface automatically with trade liberalization; they need to be consciously developed and nurtured. However, even if a strong positive link between trade liberalization and growth is accepted, it is still far from clear whether it will make direct inroads into poverty. The case for or against trade liberalization must be judged mainly in terms of how effective it is in garnering

the necessary resources (i.e. enlarging the overall pie) for society to tackle the goal of poverty alleviation directly via compensatory mechanisms. This is the experience shared by many developing East Asian economies (Rajan, 2003).

It should therefore come as no surprise that many East Asian developing economies have been among the most vocal proponents of global trade liberalization and the free flow of goods and services across international borders. Nonetheless, recognizing that they have limited influence in the multilateral arena, where recent progress on many important economic issues relating to trade and investment liberalization is perceived to have been disappointingly slow and negotiations protracted and cumbersome, many developing East Asian economies have concomitantly pursued a second track to liberalization via the regional route. Regionalism has historically involved both the Southeast Asian region via the ten-member Association of Southeast Asian Nations (ASEAN) grouping (the ASEAN Free Trade Area, AFTA) and the larger Asia and Pacific region via the twenty-one member Asia-Pacific Economic Cooperation (APEC) grouping.¹

However, the financial crisis of 1997–98 has reduced the pace of, if not the commitment to, trade liberalization by some of the ASEAN members and appears to have depleted ASEAN's collective economic strength (Kraft, 2000; Ruland, 2000; Low, 2003); meanwhile APEC has become large and unwieldy and appears ill equipped to handle substantive trade and investment liberalization issues effectively (Bergsten, 2000). Accordingly, many Asian economies have underscored the need consciously and aggressively to explore alternative liberalization paths or 'fallback positions'. This is where the 'new regionalism' or new regional trade agreements (RTAs) take on relevance. There have been well over thirty trade pact proposals in the Asia-Pacific region. Table 1 summarizes the existing and older RTAs in the Asia-Pacific region. Table 2 highlights the recently established RTAs and those currently being negotiated or proposed.

What is different about the new RTAs or the new regionalism? Apart from the fact that the term 'regional' is a misnomer (as some of the trade agreements are transpacific in scope), Ethier (2001) states that some of the stylized facts of the new regionalism are as follows: (i) it typically involves one or more small countries linking up with a big country; (ii) the degree of liberalization is usually modest and not a dramatic move to free trade between members; (iii) the liberalization is due to concessions by the small countries – the agreements are asymmetric; and (iv) RTAs often entail 'deep' integration, involving

1 Chang and Rajan (1999) highlight the responses of ASEAN and APEC to crisis-hit member economies.

Table 1 'Older' RTAs in the Asia-Pacific

RTA	Member countries	Date of entry into force	Average per capita GDP in 2001 (US\$)	Average % trade within RTA	Average % exports-to-GDP of members
AFTA	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1992	1,975	24.5	52.3
APEC	Australia, Canada, Chile, People's Rep. of China, Hong Kong-China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russian Federation, Singapore, Thailand, United States, Vietnam	1989	7,408	75.2	47.8
Bangkok Agreement ^a	Bangladesh, China, India, Lao PDR, Sri Lanka, Thailand	1975	n.a.	n.a.	n.a.
CER	Australia, New Zealand	1983	19,283	9.2	20.8
ECO	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan	1991	1,220	6.6	36.3
SAPTA	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	1995	461	4.8	25.7
SPARTECA	Australia, Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu, Western Samoa	1981	15,195	12.3	33.5

^aIn June 1997, Bangladesh, India, and Thailand, along with Myanmar and Sri Lanka, created a new regional agreement called BIMST-EC. Cambodia, Thailand, Myanmar, and Lao PDR, along with Cambodia and the Yunnan Province of China, established the Greater Mekong Subregion (GMS) in 1992.
Sources: Asian Development Bank (2002, part 3); Economic and Social Commission for Asia and the Pacific (2002a).
n.a. – not available.

Table 2 Recently established or proposed RTAs in the Asia-Pacific (since 1999)

RTA	Status
Singapore–New Zealand (ANZSCEP)	In force since 2001
Singapore–New Zealand–Chile	Proposed
Singapore–United States (USSFTA)	Negotiations completed
Singapore–Japan (JSEPA)	In force since 2003
Singapore–Australia (SAFTA)	Negotiations completed
Singapore–EFTA ^a	In force since 2003
Singapore–Canada	Negotiations ongoing
Singapore–India	Negotiations ongoing
Singapore–Mexico	Negotiations ongoing
Singapore–Jordan	Negotiations ongoing
Singapore–Korea	Proposed
Pacific-5 (P-5) ^b	Proposed
ASEAN ^c –China (ACFTA)	Framework proposed
ASEAN ^c –Japan	Framework proposed
ASEAN ^c –Korea	Proposed
ASEAN ^c –India	Proposed
AFTA ^c –CER ^d	Proposed
Japan–Korea	Proposed
Japan–Chile	Proposed
Korea–Chile	Negotiations ongoing
Northeast Asia Initiative ^e	Proposed
India–Sri Lanka	In force since 2001
India–Thailand	Framework proposed
Thailand–Australia	Proposed
Thailand–Japan	Proposed

^aEFTA = Iceland, Liechtenstein, Norway, Switzerland.

^bPacific-5 = Australia, Chile, New Zealand, Singapore, United States.

^cASEAN/AFTA = Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam.

^dCER = Australia, New Zealand.

^eNortheast Asia Initiative = China, Japan, Korea.

Sources: Lloyd (2002); Economic and Social Commission for Asia and the Pacific (2002b); WTO website (www.wto.org/english/tratop_e/region_e/region_e.htm); Singapore's Ministry of Trade and Industry (MTI) website (www.mti.gov.sg/); various media sources.

economic policies over and above tariff and other frontier barriers. As an indication of this, the appendix to this paper highlights the main aspects of the Japan–Singapore trade agreement.

The remainder of this paper explores some of the primary rationale behind, and main concerns regarding, the proliferation of bilateral and plurilateral trade pacts in the Asia-Pacific region.

2 RTAs in the Asia-Pacific: rationale²

RTAs appear to be increasingly regarded by policymakers as effective and expeditious instruments for achieving trade liberalization among 'like-minded' trading partners (The World Bank, 2000). The Asian Development Bank (2002, p. 161) has noted,

The operational question now facing policymakers is how to achieve fuller benefits of increased openness to trade. Although [R]TAs involve a measure of controversy – particularly within the economics profession – they are, at the moment, a popular means of liberalization in the face of domestic and international constraints. There has been a substantial increase in the formation of regional TAs in the past decade.

Formation of bilateral RTAs among such partners is seen as a way of overcoming the so-called convoy problem, in which the pace of trade integration is held back by the 'least willing member' – or, as it is sometimes said, 'those who can run faster should run faster and ought not to not be held back by those who choose not to run or do so at a snail's pace'. Although the argument that RTA negotiations are easier to conclude and can happen at a faster pace than global negotiations may not hold true as a general rule (Bhagwati, 1995; Baldwin, 1997), it does seem appropriate in the case of some Asian countries, such as Singapore and Korea, which try to set strict deadlines for completion of discussions.

Trade accords nowadays go well beyond just merchandise trade liberalization to encompass liberalization of services trade and other trade facilitation measures which lead to 'deep integration' among partners (Lawrence, 1999). These measures include investment protection and liberalization, harmonization and mutual recognition of standards and certification, protection of intellectual property rights, opening of government procurement markets, streamlining and harmonization of customs procedures, and development of dispute settlement procedures. These RTAs are therefore more appropriately referred to as trade and investment facilitation agreements (TIFAs). A case in point in this regard is the Japan–Singapore agreement (see Appendix).

The surge in recent RTA initiatives in the Asia-Pacific may also be a means of building political momentum for other ASEAN/APEC member economies to hasten the process of regional and unilateral liberalization.³ Simultaneously, to the extent that contracting parties to a RTA agree to move beyond

2 This and the next section draw on and update the discussion in Rajan and Sen (2003a,b) and Rajan *et al.* (2001). Also see Dent (2003) and Ravenhill (2003) for recent discussions on regionalism in the Asia-Pacific.

3 Referred to as 'competitive liberalization', in which modest liberalization induces broader liberalization (Bergsten, 1998, 2000).

their respective World Trade Organization (WTO) commitments, there may be a demonstration effect that motivates future rounds of broader multilateral negotiations under the auspices of the WTO. Thus, one often hears policy-makers in the region refer to their proposed RTAs as being 'state of the art', 'trail-blazing', or 'WTO-plus'.

Another 'first-mover advantage' in forming RTAs with a large number of different countries early on takes the shape of a 'hub' of overlapping arrangements. Producers in the hub have cost advantages vis-à-vis producers in the 'spokes' as they are able to obtain more of their intermediate goods at lower prices. Further, since exports originating from the hub are granted preferential access to a number of other markets, this may encourage the transshipment of goods via hubs, hence fortifying their already dominant role as entrepôt points. Of course, it is for this very reason that RTAs have special provisions or rules of origin (ROOs) which are meant to prevent goods being re-exported from the lower-tariff country to the higher-tariff country (i.e. trade deflection). However, this in turn may lead to a shift of export platforms from other regional developing economies to the hub in order to benefit from duty-free market access; though care must be taken to ensure that ROOs are not manipulated in such a way that partners gain de facto protection for their goods in the hub market.⁴

At the Shanghai summit of the APEC leaders in 2001, an agreement was reached to take a 'pathfinder' approach in advancing the free trade goals by allowing members able to proceed faster to do so, with others joining in at a later time. Thus, the APEC leaders effectively endorsed the subregional or bilateral RTA strategies under way in the region.

3 The Asia-Pacific and the new regionalism: areas of concern

What are some potential concerns of this new regionalism? Setting aside the perennial concern about trade diversion (which may be of particular concern in service-based activities, where behind-the-border restrictions are critical), the proliferation of a number of overlapping RTAs also raises many technical problems with respect to the implementation of ROOs. Krueger (1997b, p. 22) has warned that

[i]t is difficult to imagine that a series of overlapping [RTAs] . . . with different ROOs attendant for different countries' access, the need for individual producers to know and keep records for a variety of ROO

4 Even if ROOs are in place, there could be 'indirect trade deflection' – a low-tariff member could meet its requirements for a product from the non-members and export a corresponding amount of its own production to the members of the trade alliance (Robson, 1998).

requirements, and the complications associated with negotiations for accession of additional members, will lead to the WTO-plus world. . . . The problems of proliferating overlapping. . . . RTAs . . . deserve considerably more critical attention than they have so far received.

Even with a single RTA, a concern is that ROOs with a particular country – say Singapore vis-à-vis the United States – may be sufficiently prohibitive to induce Singapore exporters to source their inputs from the United States rather than some other developing country in Asia (such as Korea, for instance). In other words, the United States exports its external tariffs to Singapore. This appears to have been the case with North American Free Trade Agreement (NAFTA), where the United States negotiated a ROO on Mexican assemblers of cars.⁵ ROOs also give rise to significant costs owing to the need for administrative surveillance and implementation.⁶ In practice, ROOs are particularly complex as they have to take into account tariffs on imported intermediate goods used in products produced within the RTA. The bookkeeping and related costs rise sharply as production becomes more integrated internationally, especially as there may not be uniformity in the computation of regional content requirements. Bhagwati (1995) stresses this point when he refers to the ‘spaghetti-bowl proliferation of preferential trading arrangements’.

Apart from the issue of ROOs, cross-membership of a country in multiple RTAs may leave investors confused as to which rules, obligations, and incentives apply to which partner. This is in contradiction to one of the main aims of RTAs, namely, to enhance transparency and reduce transactions costs to facilitate cross-border business activities. Worse still, there is the possibility that membership in multiple trade pacts may create *conflicting and contradictory obligations* (The World Bank, 2000). Bergsten (2000) highlights this point in the context of compatibility of subregional agreements with APEC’s goals of region-wide trade liberalization (i.e. the Bogor declaration of free and open trade by 2010/2020).

Time and effort spent on negotiating and implementing a web of bilateral and trilateral RTAs may divert scarce resources from the multilateral rounds. Potentially more important than the direct impact of this ‘scarce negotiator resources argument’ is the fact that, by being involved in a number of RTAs, a country must accept at least partial responsibility for diverting the attention

5 See Krueger (1995, 1997a,b), Lloyd (1993), The World Bank (2000), Wonnacott (1996a,b), and Wonnacott and Wonnacott (1996). Krueger strongly favours a customs union or CU (where members have common external tariffs or CETs) over RTAs. Wonnacott and Wonnacott (1996) have suggested a hybrid scheme, i.e. an RTA but without ROOs in two sets of products: one where the members agree on CETs and the other where all members have low tariffs. The World Bank (2000) discuss these and other proposals.

6 Herin (1986) estimated these costs to be between 3 and 5 per cent of f.o.b. prices for trade between the European Free Trade Area (EFTA) and the European Community (EC).

of trade partners away from multilateral negotiations. For instance, the US Trade Representative (USTR) paying more attention to a number of bilateral RTAs will mean that much less attention at the margin is paid to the WTO or APEC.

Small Asian countries such as Singapore appear to be willing and able to negotiate RTAs fairly quickly. However, this rapid pace apparently hinges on their readiness to accept a number of conditions in the context of the bilateral pacts set forth by the larger partners (as noted by Ethier's stylized characterization of RTAs noted previously). For instance, Singapore's bilateral pact with Japan appears fairly weak when it comes to the agricultural sector, and the proposed United States–Singapore RTA may include non-trade issues such as those pertaining to capital account liberalization.⁷ Although acceptance of such conditions may not be problematic in the case of Singapore (given the negligible agricultural sector and strong financial institutions), the presence of such linkages could imply that Singapore-based RTAs may be an altogether inappropriate model for future trade arrangements and could make the Singapore-based RTAs *de facto* exclusionary to other ASEAN members. This is despite repeated 'assurances' by policymakers that their RTAs are not exclusive and are open to accession by any country *which agrees to the terms of the agreement*. Indeed, referring to the United States–Singapore trade agreement, Singapore's Minister of Trade and Industry, George Yeo, reportedly remarked, 'We have set high standards. . . . I'm doubtful other countries can come up with these standards, because their economies are not as advanced as ours, but in any case, it should be something they should strive to achieve' (quoted in Lien, 2002b).

This is a key point. The initial spate of activity pertaining to RTAs has tended to involve many middle- and high-income countries; most lower-income countries have been left out in the cold. Thus, the current trend towards RTAs among 'like-minded' countries could exacerbate the differences between the richer and the less well off countries and also lead to trade and investment diversion away from the latter, thereby being inconsistent with the goal of reducing regional poverty. We will revisit this issue in the final section.

4 Concluding remarks

As noted previously, the new RTAs have two important features: (i) they are far broader in scope in terms of issue coverage and degree of integration of members (involving so-called behind-the-border issues and not just a traditional tariff-cutting exercise) and (ii) they may not be restricted to just the

⁷ See Perroni and Whalley (1994), who formally show how large countries have dominated negotiations over RTAs with smaller countries (i.e. large countries have the bargaining power in RTAs).

immediate regions. Because of the depth of issue coverage, the new RTAs tend to be far smaller in initial membership (i.e. bilateral, trilateral, or minilateral) than the older and existing RTAs, which had a preference for shallowness or narrowness in issue coverage but broadness in terms of membership.⁸

Given that there is a limit to which lower-income, developing countries are willing or able to go beyond the negotiation of frontier issues to seek deeper integration pertaining to harmonization of investment and unification of intellectual property rights and regulatory regimes, this has inevitably meant that the new RTAs in the Asia-Pacific have been dominated by middle- and upper-income countries (Singapore, Australia, New Zealand, Japan, Korea, and so on).

Although neither theory nor empirics is able to offer definitive insight into whether there are any net benefits from a country being a member of RTAs, it is almost certain that a country that is *not* a participant in any of the new RTAs will be adversely impacted as a result of trade and investment diversion and a reduction in its terms of trade. Although all RTAs appear, in principle, to be open to new members, terms of accession for new members are unclear. In many cases it is likely that a new or potential member will have to be prepared to join the existing RTAs at the prevailing terms, implying a de facto loss of policy autonomy at best and complete inaccessibility at worst. In other words, there is a strong case for joining RTAs for 'defensive reasons' (Whalley, 1996). As is sometimes noted, 'RTAs are like street gangs: you may not like them, but if they are in your neighbourhood, it is safer to be in one' (quoted in Crawford and Laird, 2001, p. 201).⁹ It is therefore imperative that developing countries that have hitherto not been part of the new regionalism, such as India, consciously look to establish such linkages with other high-income countries. For such liberalizing countries, RTAs with higher-income liberal trade partners may strengthen the hands of exporters and other pro-trade forces and thus the political support for further liberalization.

8 This is not to suggest that the older RTAs were in any way completely open to new members. For instance, APEC, although not an RTA, set a moratorium on membership and showed no inclination to include other Asian countries such as Sri Lanka or India, despite both countries having expressed interest in joining and seemingly being eligible.

9 In addition, countries looking to maintain a first-mover advantage by remaining a hub may in turn be stimulated to seek out newer RTAs. Wonnacott (1996a) cautions that although spokes are certainly worse off in a hub-and-spokes regime than in a 'full' or complete RTA, it is unclear whether hubs are better or worse off. This ambiguity arises because as the collective income of a hub-and-spokes arrangement tends to be smaller (given the inefficiencies caused by overlapping RTAs), the share of benefits accruing to the hub is larger than in a full RTA. As is often said, hub-and-spokes arrangements 'combine regional integration with the hub and disintegration among spokes'. This 'domino effect' will further proliferate the creation of RTAs. Note that Baldwin (1995) used the term 'domino regionalism' to refer to a phenomenon whereby the incentives to join an RTA rise as it gets larger.

With regard to ASEAN, although some of its Southeast Asian neighbours initially greeted Singapore's new commercial trade strategy with much scepticism and even irritation, their view seems to have softened significantly. Indeed, countries such as Thailand and the Philippines are now looking to emulate the Singapore strategy. In addition, a case might be made that Singapore's go-it-alone approach helped push ASEAN to seriously explore the possibility of an ASEAN–China RTA and even one with Japan and India (Lee, 2002). In addition, US President George W. Bush launched the Enterprise for ASEAN Initiative (EAI) during the APEC summit in October 2002 to strengthen bilateral trade linkages with ASEAN. Although details of the EAI remain unclear, the proposal essentially offers ASEAN countries the opportunity to sign bilateral trade pacts with the United States, provided that they are members of the WTO and that they are signatories to TIFAs with the United States (implying that Malaysia and the non-WTO ASEAN members, i.e. Cambodia, Laos, and Vietnam, remain ineligible for the time being). Although the EAI is viewed as a means of eventually networking Southeast Asia with the United States seamlessly, the initiative appears to have less to do with economics than it does with symbolism regarding the commitment of the United States to the Southeast Asian region at a time of global security and political tensions (Lien, 2002a).

A final note on the 'dynamic time path' of RTAs. Do they facilitate or hinder multilateral trade liberalization? This is an issue that has fascinated academics and economists for a long time. The analytical literature is inconclusive (Winters, 1999), and the empirical literature far too unreliable to make any definitive judgements. RTAs may be a stumbling block if preferential access gained by some reduces the motivation or incentive to liberalize multilaterally.¹⁰ Related to this, countries that are members of RTAs may take the view that '[i]f we do not get what we want in the . . . multilateral . . . negotiating agenda, why should we worry? We have our own RTA. That is where the action is!' (Crawford and Laird, 2001, p. 207). Such an attitude would undoubtedly weaken the multilateral trading system and might even pose an outright threat to multilateralism.

On the other hand, the fact that the new regionalism tends to involve multiple membership in various RTAs and has been driven by some of the more open economies in the Asia-Pacific (e.g. Singapore, Australia, New Zealand) offers hope that regionalism will not be a stumbling block to multilateral liberalization. As Lawrence Summers, former US Treasury Secretary noted, there ought to be a 'rebuttable presumption in favour of all the lateral

10 The WTO recently warned in its Annual Report (2001) that the cumulative impacts of all the various RTAs that have proliferated worldwide 'posed a systemic risk to the rules-based multilateral trading system' (see also de Jonquieres and Williams, 2001).

reductions in trade barriers, whether they be multi, uni, tri or plurilateral' (cited in Frankel, 1997).

One way to minimize contradictions between the web of bilateral, sub-regional, and transnational RTAs (which overlap in membership), while also ensuring that such preferential arrangements facilitate rather than impede multilateralism, is for them to be accompanied by a sunset clause that would require, over time, signatories to the agreement to offer bilateral or regional concessions to all non-members on the basis of most-favoured nation (MFN) status. In other words, concessions offered by one WTO member country to another should be offered to all within a pre-specified timeframe. As Panagariya (1999) notes, this *would be the best dynamic time path to ensure RTAs lead to multilateral free trade* (Panagariya, 1999 and Srinivasan, 1998). Although this is something that ought ideally to be written into the WTO Articles of Agreement, countries in the Asia-Pacific could take the lead in this regard and insist on it being included in trade accords to which they are a signatory. Regional countries ought also to stand firm on requiring their RTAs to be comprehensive in coverage, not allowing omission of any sectors (even if the sectors may not always be of significance to the countries involved in the negotiations). Exclusion of specific sectors in RTAs only perpetuates the problems that exist with multilateral trade liberalization.

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Appendix: Overview of the Japan–Singapore free trade agreement¹¹

The Japan–Singapore Economic Partnership Agreement (JSEPA, commonly dubbed the 'New Age Economic Partnership') was signed in January 2002 in Singapore. The agreement comprises a number of elements pertaining to the liberalization and facilitation of trade in goods and services and investment flows as well as a number of other elements dealing with broader economic cooperation.

A.1 Trade in goods

Tariffs. The JSEPA eliminates tariffs on goods making up 98.5 per cent of current trade between the two countries. This is much higher than the WTO zero-tariff commitments, which cover about 65 per cent of current Japan–Singapore trade. Singapore is committed to granting zero-tariff treatment to all imports from Japan. In turn, Japan has more than doubled its zero-tariff commitments to Singapore, from 34 per cent to 77 per cent of total tariff lines. Although preferential tariff-free market access has been granted to an extensive range of products, agriculture is the one area where tariff concessions have lagged because of the extreme political sensitivity of this sector in Japan, on the one hand, and its relative unimportance to Singapore, on the other. Both countries are prohibited from maintaining any export duties that may distort bilateral trade.¹²

Customs procedures and paperless trading. As tariff barriers have progressively come down worldwide, the focus of trade agreements (bilateral, regional, and multilateral) has shifted to other potential barriers to the flow of goods that may restrict market access opportunities. Complex and non-uniform customs procedures are seen as a significant hindrance to the movement of goods across borders. The JSEPA commits both countries to improve the speed and efficiency of customs clearance of goods on a mutual basis by streamlining and simplifying existing procedures and through the use of information technology. In relation to this, the countries have agreed to replace the current

11 This section draws on Rajan and Sen (2002, 2003b).

12 As with all trade agreements, the JSEPA also discusses ROOs to prevent the transshipment of goods from third countries. We do not discuss these provisions here.

paper-based supporting trade documents that are typically required for goods to be cleared with more cost-effective electronic versions. Steps will be taken to ensure that the necessary infrastructure is put in place to support 'paperless trading'.

Mutual recognition. Differences in testing and certification standards are another important barrier to the trade in goods across borders. In recognition of this, both countries have agreed to take steps to ensure mutual recognition of test results and certification by accredited conformity assessment bodies in either country. Once this is in place, exporters can have their products tested and certified by assessment bodies locally and not have to duplicate the procedures in the importing country. These measures are bound to reduce delays in cross-border transactions, hence facilitating bilateral trade. The agreement focuses specifically on electrical and electronic and telecom products, which are a major area of bilateral trade (discussed in Section A.2), as well as pharmaceuticals. The latter is not only of growing importance in terms of bilateral trade but also of strategic relevance in view of the rapidly ageing populations in both countries.

A.2 Trade in services

As noted, the services sector is of particular significance to both economies. The JSEPA therefore discusses a number of provisions for the liberalization and facilitation of transactions in this sector. To begin with, the agreement vastly increases the commitments by both countries well beyond those agreed under the WTO (over 130 sectors in both cases). Much more than in the case of trade in goods, non-tariff and non-quantitative barriers hinder cross-border services trade. Accordingly, steps (i.e. trade facilitation measures) have been taken to ensure that behind-the-border impediments to trade and investment flows have also been addressed. The committed sectors are subject to market access, national treatment, and domestic regulation disciplines. Given the degree of internationalization of the Singapore economy, the JSEPA has been extended to include permanent residents and multinational firms which have 'substantive business operations in Singapore'. Although a number of services sectors are expected to benefit from the agreement, it is noteworthy that four sectors have come in for special attention.

Tourism. In an effort to promote the tourism sectors in both countries, the JSEPA has proposed the establishment of a Joint Committee on Tourism. More concretely, the countries have agreed to a memorandum of understanding (MOU) on the twinning of Ginza and Orchard Road, which are the premier shopping districts of Japan and Singapore, respectively. The aim of this is not only to promote the two areas to one another's citizens

and those of third countries but also to undertake joint promotions and special events to showcase the arts and culture of both Asian countries.

Information and communication technology (ICT). Both Japan and Singapore are among the leaders in ICT trade and its day-to-day utilization. Undoubtedly one of the reasons for the depiction of the JSEPA as being ‘New Age’ is its emphasis on cooperation and facilitation of this sector. The JSEPA has put in place steps to (i) fortify market access in Japan for Singapore-based businesses delivering ICT products and services and vice versa; (ii) augment the knowledge of business environments in both countries and provide a more level playing field for businesses dealing in telecommunication services; (iii) reduce technical and technological obstructions to ICT trade; (iv) offer additional and alternative routes to orderly dispute settlement; and (iv) catalyse and facilitate the ongoing expansion of e-commerce transactions.

Broadband. Cooperation in media and broadcasting has also been identified as a key area in which Japan and Singapore can help each other in the development and provision of innovative technologies.

Financial services. Singapore, Tokyo, and Hong Kong are the three important financial centres in Asia. In an effort to give one another’s financial sectors a boost in terms of turnover and cost efficiency, the JSEPA has taken a number of initiatives to enhance bilateral cooperation to promote financial sector and capital market development.

A.3 Investment facilitation and movement of natural persons

As noted previously, Singapore is highly dependent on foreign direct investment, and Japan is the second largest investor in the city-state. Indeed, study after study has emphasized the complementarity between foreign direct investment and trade growth. Thus, issues relating to the facilitation of investments must be part of any broad-ranging economic cooperative agreement. The JSEPA contains a set of detailed provisions on investment promotion and protection aimed at fostering an open international environment for cross-border investment and providing access to each other’s markets. Issues covered include national treatment, prohibition of performance requirements, expropriation and compensation, transfers of profits and other funds, and investor-to-state dispute settlement mechanisms and procedures. As with trade in services, the agreement spans both citizens and permanent residents of Singapore and encompasses firms formed either in Japan or in Singapore that are owned or controlled by non-Singaporeans/Japanese and are ‘engaged in substantive business operations’. Steps have also been taken to encourage cooperation and business alliances between small and medium-sized

enterprises (SMEs) between the two countries to gain greater market shares in one another's economies as well as to penetrate third countries.

Trade in services and investments invariably requires complementary movement of natural persons. The JSEPA will grant Singaporeans and permanent residents of Singapore guaranteed entry and stay in Japan to work and to administer their investments under fairly liberal conditions. Similarly, Japanese professionals will be able to work in Singapore. Measures are also being taken towards the mutual recognition of professional qualifications.

A.4 Other areas of cooperation

Beyond those already stated and other specific measure to promote trade and investments (by enhancing facilities for export credit insurance and overseas investment reinsurance), the JSEPA has taken steps to (i) promote mutual recognition of, and cooperation with regard to, competition policies; (ii) put in place a set of procedures and regulations pertaining to government procurement; (iii) undertake collaborative measures and cooperative activities on intellectual property; (iv) step up cooperation in science and technology and human resource development; and (v) establish provisions for orderly dispute settlement.