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## Factory Asia – another mega-regional trade agreement?

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# The Current Column

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## Factory Asia – another mega-regional trade agreement?

Bonn, 19 May 2014. This weekend saw a meeting of the trade ministers of the Asia-Pacific Economic Cooperation (APEC), a forum of 21 countries in the Asian and Pacific area, including the USA, Japan and China. The goal of the meeting was to lend impetus to the idea of a free trade agreement. Everyone is talking about the mega transatlantic agreement TTIP, but the Asia-Pacific area also boasts initiatives that will make their mark on the global economy. With the APEC initiative the formation of a giant trading bloc is on the agenda, which would represent some 60 % of global gross domestic product.

In view of the significance of cross-border production networks, the treaty represents a key initiative for the further economic integration of the region. A comprehensive regional treaty makes more sense than the current plethora of bilateral agreements between the members. However, there is also a risk that the new agreement does not replace the existing ones, but instead supplements them. This could make trade regulations in the region even more complex. It is therefore important that the APEC members continue to push for open regionalism that does not block the path towards a multilateral approach that is beneficial to all.

### **Why have a new agreement?**

The impulse for the new agreement is partly down to economic reasons: the APEC treaty could lower the costs of trading significantly. On the other hand, the stagnation of the multilateral negotiations within the scope of the World Trade Organization (WTO) also plays a role. However, above all there are strategic considerations behind the current Chinese push for a new mega treaty: the APEC agreement is a reaction to the "Trans-Pacific Partnership" (TPP), which excludes China. For China there is a great deal at stake: under US leadership, TPP represents a new agreement that could determine the standards and regulations for the region – and even beyond. This endangers China's key role in the Asian trading area. World trade in the 21st century is increasingly characterised by "value chains". The integration of emerging countries in international production networks is a significant factor in their economic success over the course of the past decade. Factory Asia is a prime example of this phenomenon: in Asia, the share of foreign value added in exports stands at over 30 %. This means that many intermediate goods are imported, processed and then exported again. As the goods cross multiple national borders en route to the end customer, even minor obstacles to trade can incur significant costs when taken as a

whole. The dismantling of trade barriers via a new APEC agreement could therefore lend a clear impetus to the exchange of goods in the Asia-Pacific region, further aiding the participation of the member countries in regional and global value chains.

### **Spaghetti or lasagna?**

A further factor in favour of a comprehensive agreement is the complex weave of over 40 existing bilateral trade agreements between the APEC members. The significance of international production networks means that other policy areas are increasingly also becoming relevant to trade. The multilateral trade regulations of the WTO are no longer sufficient to cover this development. As a reaction to this, many new agreements are consequently moving beyond the dismantling of trade barriers, covering areas such as investment, (intellectual) property rights, industrial standards and competition. "Deep" agreements such as these can be seen to have a stronger trade-creating effect.

But is it possible, as the economist Hamada put it, to bake a common regional lasagna from bilateral spaghetti? This seems difficult. The fact that an APEC agreement would bring far-reaching integration with it is highly ambitious, particularly in view of the loosely-structured organisation with few legal obligations on the part of the heterogeneous member states. An APEC agreement would therefore barely be capable of replacing the existing bilateral treaties. Instead, there is a risk of adding a further layer of regulations to a region with already complex trade ties.

### **Multilateralisation in mind**

The APEC agreement has one decisive advantage, however: it brings China and the USA to a common negotiating table. With the TPP China is absent, at other negotiations in the region the US is not present. Without a joint move by the APEC members, regional integration in the Asia-Pacific region will remain fragmented. The new APEC agreement needs to build a bridge between TPP and parallel negotiations between China, Japan and South Korea. It should stand for open regionalism, hindering the manifestation of competing trading blocs and holding the door open as widely as possible for future multilateralisation. This is also in the interests of the European Union (EU): of the seven mega negotiations currently underway worldwide, the EU is involved in just two of them. The Europeans are therefore largely excluded from the process of redefining the trading regulations in the economic regions of tomorrow.