

# RESEARCH NOTE

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## ASEAN Plus Three: Towards the World's Largest Free Trade Agreement?

ASEAN Plus Three (APT) is the dialogue process that brings together China, South Korea, Japan and ASEAN aimed at greater regional economic coordination. Although distant, its natural extension would be an East Asian Free Trade Agreement (FTA).

### Background

The APT summit held 4 November in Phnom Penh after the annual ASEAN Summit, marked the sixth Leaders' Summit for what is an increasingly significant regional dialogue process.

Regionalism in Asia has been slow to develop. This can be attributed to historical rivalries and Japanese reluctance to assume a leadership role given regional sensitivities to its actions in WWII. Opposition was also expressed by the US during the early 1990s, adding to Japan and South Korea's earlier lack of enthusiasm. More recently, obstacles have included the weak internal economic situation in Japan and Indonesia and competitive rivalries

such as competition in labour intensive industry between China and ASEAN.

Despite these obstacles, regionalism has steadily grown since earlier aborted proposals such as the 1990 proposal of Malaysian Prime Minister Mahatir to form an East Asia Economic Grouping (EAEG). The proposal aimed to counter the threat posed by the emergence of trade blocs in the EU and North America and to provide a stronger voice for Asia in global trade negotiations. The EAEG was initially rejected due to opposition from both within ASEAN and externally. A weakened successor, the East Asia Economic Caucus (EAEC) faded away due to the rapid success of APEC and opposition from the US. However the Mahatir legacy, a vision of greater Asian regionalism, did not disappear.

Regionalism involving ASEAN and its North Asian partners gained momentum as a result of the necessity for consensus during the

since occurred annually.

Regionalism has also increased at bureaucratic, academic and cultural levels. Meetings occur between groups as diverse as the e-APT Working Group, APT Young Leaders and the APT Labour Ministers.

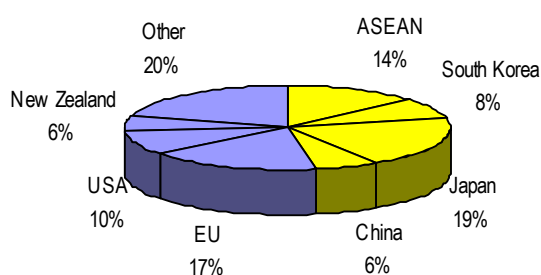
Institutionalisation of APT has also increased pace since the Kuala Lumpur Summit. The East Asia Vision Group (EAVG), set up in 1998, consists of eminent persons from each member state. It undertakes studies on regional integration and cooperation such as the 1999 study *East Asia Economic Cooperation System* designed to nurture future cooperation and integration. More recently, focus has centred upon the possible creation of an APT Secretariat to be set up in Kuala Lumpur.

The current surge in regionalism is the result of the global increase in regional and preferential trade agreements and also the rise of China as major competitor and potential market. ASEAN trade with China has increased from \$925 million in 1977 to an estimated \$74 billion in 2002.<sup>1</sup>

### Current Status and Future

There is a general consensus in North East Asia that APT dialogue should proceed towards the goal of an FTA, although timing and details are yet to be agreed upon. Statements from the leaders of South Korea, Japan and China have at one stage or another spoken in favour of the proposal. Both President Kim Dae-Jung of South Korea and Prime Minister Koizumi of Japan proposed

**Figure 1: Percentage of Australian Merchandise Trade CY2001**



Source: DFAT Composition of Trade Australia 2001

initial Asia-Europe Meeting (ASEM) in 1996. The *de facto* grouping that emerged was further forged by regional initiatives to combat the Asian economic crisis at the 1997 Kuala Lumpur ASEAN Summit.

APT Leaders' Summits have

**Figure 2: Changes in Welfare (equivalent variation basis) as percentage of initial GDP**

	North Asia Three	ASEAN Plus Three (APT)	APT-ANZCER
Singapore	-0.87	4.12	0.92
Malaysia	-0.70	1.24	1.74
Indonesia	-0.15	0.89	0.71
<b>Australia</b>	<b>-0.05</b>	<b>-0.11</b>	<b>1.05</b>
Japan	0.25	0.34	0.57
China	2.09	1.96	1.94
South Korea	0.80	1.18	1.20

Source: Robert Scollay and John P. Gilbert, *New Regional Trading Arrangements in the Asia Pacific?*, Source: Robert Scollay and John P. Gilbert, *New Regional Trading Arrangements in the Asia Pacific?*, Institute for International Economics 2001, pp. 68.

(Figure 1). According to the Scollay-Gilbert calculations the formation of an APT FTA would have a negative economic effect on Australian welfare to the

talks on an APT free trade area during 2001. It is China, however, that has made further progress towards this goal by initiating the ASEAN-China free trade area negotiations.

At the November 2001 annual APT summit meeting it was officially agreed by both parties to negotiate towards the implementation of a free trade agreement by 2010. The ASEAN-China free trade agreement could be considered to be a strategic coup by Beijing, allowing it to take the lead in future proposals for the inclusion of Japan and South Korea in any APT free trade agreement. The idea that the ASEAN-China free trade agreement would eventually include South Korea and Japan has been understood from the beginning and was reiterated at the press conference announcing the deal after the ASEAN-China Summit of 2001 held in Brunei.

However, significant achievements have been made, particularly in the area of financial and monetary cooperation. This is attributed to the absence of a credible regional institution to deal with the Asian economic crisis. The in-principle agreement between APT finance ministers at the Asian Development Bank annual meeting in Chiang Mai, May 2000, to pool hard currency resources is one of several endeavours included in the Chiang Mai initiative (CMI) to increase regional cooperation.

The CMI has resulted in a series of bilateral currency swap arrangements among member states, helping economies move out of the currency

crisis and avoid future crises. Also in the interest of avoiding a future crisis, the CMI arranged for information exchanges on the movement of short term capital, in effect creating an early warning system for regional governments. The CMI will undertake initiatives in regular finance meetings, joint training and utilisation of Japanese expertise. The CMI also proposes close coordination on an APT approach to reform of the international finance system.

#### **ASEAN Plus Three—Implications**

Currently APT is still in its infancy and agreement on its development is still a matter of conjecture. The effects of a successful APT FTA, if realised, would be significant for international trade. APT would join the European Union (EU) and the Free Trade Area of the Americas (FTAA) as one of three major regional trading blocs.

The emergence of large regional trade blocs could conceivably lead to aggressive and ultimately destructive trade wars. This is balanced by the argument that greater coordination in liberalisation on a regional scale will ease global trade liberalisation.

Central to Australia is its possible participation in a future APT FTA. Japan, South Korea, Thailand and Singapore have supported greater Australian participation in regional forums but strong opposition remains in Malaysia.

The APT area accounts for approximately 47 per cent of Australian merchandise trade

amount of 0.11 per cent of initial GDP (Figure 2). The same calculations result in a negative 1.16 per cent change in exports from an initial base. Inclusion of Australia in such an arrangement would result in significantly positive effects for the Australian economy, including a substantial 1.05 per cent change in welfare and 17.42 per cent increase in exports.

#### **Issues**

- How can Australia benefit from greater Asian regionalism?
- What will be the consequences of China assuming greater leadership in regional economic coordination?
- How would other major trading blocs view the emergence of an ASEAN Plus Three FTA?

1. 'China seeks giant Asian trade zone', *Australian Financial Review*, 5 November 2002.

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