

Chapter **II.7**

A Small Country Perspective from ASEAN

Erlinda M. Medalla

Philippine Institute for Development Studies (PIDS)

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II.7 A Small Country Perspective from ASEAN

Erlinda M. Medalla, Philippine Institute for Development Studies (PIDS)

1. The WTO and PTAs: the Philippine perspective

There is deepening pessimism, if not downright despondency, about the prospects for achieving progress in the Doha Round of the World Trading Organization (WTO) and consequently, a growing concern about the future of the world trading system. Accordingly, a lot has been written about the current state of the WTO, what could lie ahead, and what possible actions could be taken. The ninth WTO Ministerial meeting will be held in Bali in December 2013 to once again try to find effective ways forward. This short chapter aims to contribute to the discussion leading to the Bali meeting, from the perspective of an ASEAN country like the Philippines.

With the protracted stalemate in concluding the Doha Round, different forms of alliances and agreements have emerged. Among the most documented is the proliferation of preferential trade agreements (PTAs) during the past two decades. Debates abound about whether these are likely to become building blocks or stumbling blocks for multilateralism, and certainly, there could be both centrifugal and centripetal forces which could work either way in determining the final outcome.

Like many other countries, the Philippines was characterized in the past by a heavily protectionist trade regime. Starting in the 1980s, it embarked on unilateral trade liberalization reforms, even before joining the WTO. It has been a firm supporter of the WTO principles, and continues to place primary importance on multilateralism. It is a latecomer to PTAs, and even now, is only active in pursuing preferential arrangements as part of ASEAN, except for its lone bilateral agreement with Japan.

From the perspective of a developing country like the Philippines, the direct challenge it faces is how to deal with the changing global trading system, a stalled WTO Doha Round and evolving regionalism. Given its own domestic constraints, it

needs to sort out what trade policy options are available and which of these would be most suitable and complementary to its own development goals.

The Philippines is a developing country with limited resources for engaging in negotiations. Its first priority is to improve its domestic conditions, upgrade its capability and ease domestic constraints, actions which are also necessary to enable the country to maximize the benefits from PTAs. At the same time, with the slow progress in the WTO and the negotiations that are already ongoing, it realizes that it needs to contend with possible negative impacts of being left out of certain PTAs and missing out on opportunities from positive investment and the trade creation effects of joining the latter agreements. Hence, while the WTO remains the basic framework of its trade policy, the current stance is to be open to possible PTAs while at the same time being cautious and selective with regard to its partners.

The prospective PTAs with significant potential benefits, complemented with elements of cooperation and technical assistance, would be its priority. At the top of the list would be the ASEAN initiative to establish a Regional Comprehensive Economic Partnership Agreement (RCEP) with the other six East Asian Dialogue partners. It will be forging an agreement with already existing FTA partners, and could eliminate the messy noodle bowl effect of these ASEAN+1 FTAs. Even where it needs to commit more, RCEP also takes into consideration the different levels of development of participating countries, thereby offering appropriate forms of flexibility. Finally, it adheres to WTO principles, especially with its open accession principle that allows participation of any of the ASEAN dialogue partners.

To sum up, the Philippines still looks to the WTO to provide the basic global trading framework and the WTO remains the primary trade forum for the country. In addition, the Philippines already has the necessary bureaucracy, capacity and experience to deal with the WTO. Nonetheless, it recognizes the advantages of regionalism.

2. Multilateralism and regionalism: ASEAN and East Asian perspectives

In East Asia, regional economic integration, which was mainly market-driven at the start, has adopted a more formal process of regionalism (Medalla and Balboa, 2011).⁴⁷ While the formation of PTAs is likely to continue, the good news, especially in East Asia, is that there is a conscious effort being made to minimize the risks in such arrangements. The ‘new age’ regionalism, at least in terms of the concept and the policy process, has adopted some features to mitigate some of these risks. For example, despite the loose WTO (and GATS) provisions governing PTAs, these agreements are generally explicit about being WTO consistent. This being adopted among the basic principles of the PTAs (however seemingly contradictory in nature) is no small matter. In addition, many small countries entering into such agreements are aware of the risks and see PTAs more as a testing ground and a mechanism for capacity building to face eventual global competition. Hence, there is scope for a mutually reinforcing interface between multilateralism and regionalism.

Nonetheless, while ‘new age’ regionalism thus far appears to be a viable option, and possible support to waning multilateralism, any further erosion of the multilateral trading system could dissolve their complementary interface. In addition, there is some doubt about the eventual form of the mega-blocs currently under negotiation – particularly the Trans-Pacific Partnership (TPP) involving the US and the other Asia-Pacific countries, the US-EU Transatlantic Trade and Investment partnership (TTIP) – and how they will affect the global economic and political landscape. The US-led TPP and the US-EU compact could become what Joseph Stiglitz refers to as ‘free-trade charades’ whose goal is a ‘managed trade regime – managed, that is, to serve the special interests that have long dominated trade policy in the West.’ Yet, participation of developing countries in the TPP need not be tepid. And regionalism is not exclusive to the West.

⁴⁷ Medalla, E.M., and J.D. Balboa (2011), ‘Regional Economic Integration in East Asia: Progress and Pathways’, PIDS Discussion Paper Series No.2011-23. Manila: PIDS.

Hence, to promote the complementarity between regionalism and multilateralism, PTAs need to be structured as building blocks and the WTO must keep moving forward. PTAs should uphold the aim of WTO consistency and represent substantive improvements. The objective is to guard against the possibility of creating an 'inward-looking, self-contained fortress.' RCEP has the potential to become a model PTA that would complement multilateralism. Its guiding principles include consistency and support for WTO and open accession. Its goal is to become a high-quality PTA, with some flexibility for developing and least-developed countries, cooperation, and provision of technical assistance and capacity building.

3. Ways forward?

Many factors have led to standstill in the Doha Round. The most immediate cause is the continuing deadlock in the area of agricultural subsidies and the 'new issues' of investment, IPRs, and government procurement. However, the root of the problem is structural in nature: the number of countries involved in the negotiations is too large, making it difficult to arrive at a consensus, and the number of issues is too big to be tackled under a 'single undertaking,' which exacerbates the difficulty still further. Given the numerous attempts to address these issues in previous Ministerial meetings, what could be done differently in the Bali Ministerial meeting to move the process forward?

One possible way forward is to follow a set of recommendations similar to the suggestions made by the recent Expert Roundtable on RCEP organized by ERIA on approaches to the negotiations of RCEP and its implementation. One recommendation in particular, which could address the difficulty of a 'single undertaking' covering many issues, is to approach negotiations as an 'evolutionary process'. This means rather than strictly adopting a 'single undertaking,' negotiations will produce 'a set of linked agreements that are reached over differing timetables'.

Operationally, this could be achieved using a layered approach. The layers are not necessarily sequential, although they could be configured such that the first layer would include significant objectives that are feasible in the shortest time. This would offer a concrete and substantial way forward, enough for a meaningful down-payment. There could be a second layer of issues whose implementation would require more time, and a third layer to tackle the most difficult areas.

A good down-payment in the first layer that comes to mind is the conclusion of the Trade Facilitation Agreement. This is a clear area where everybody wins, developed and developing countries alike, although some technical assistance and capacity building for developing countries would be needed to ensure that benefits are realized. This is also one agreement where a lot has already been done and which appears 'ripe for early harvest.'

Another possible option is the 'plurilateral' approach, whereby areas for negotiation are broken up, and any Member is free to join. However, in contrast with the usual plurilateral agreements, reciprocity is provided only temporarily and the MFN clause should be applied, whether immediately, or at a predetermined date in the future. This will reduce the risk usually associated with PTAs while still providing some incentive for members to join. Hence, benefits would be felt by all and could later encourage other members to join as a result of the demonstration effect of the agreement. These approaches are especially relevant, useful and important from the perspective of developing countries.

Finally, in addition to finding ways to move the WTO agenda forward, improvements and clarifications, even of existing WTO rules and disciplines, are needed. These include the WTO rules governing PTAs: GATT Article XXIV and the Enabling Clause and GATS Article V. 'Systemic issues' remain about how to define 'substantial sectoral coverage' and 'absence or elimination of substantially all discrimination'.

Another improvement needed is in the dispute settlement mechanism, particularly in terms of improving access for developing countries.

As then WTO Director-General Dr Supachai said when he addressed the Third LDC Trade Ministers' Meeting in Dakar, Senegal: 'If governments and their constituents lose faith in the ability of the DDA to deliver results we shall, no doubt, see a growing imbalance between multilateral and bilateral deal making. This could rock the foundations of non-discrimination and transparency upon which the multilateral system is built. These core principles not only help level the playing field between developed and developing countries, but also make the international trading environment a more predictable and less complex place to do business. I am convinced that the world's poorest and most vulnerable countries would be the biggest losers from a focus on bilateral deals at the expense of multilateralism.'

ASEAN and East Asian regionalism is an illustration of how regionalism can complement and support the multilateral trading system. While there is increasing intraregional trade, interregional trade remains crucial and substantial. Production networks and the supply chain extend beyond the region. Their dynamism cannot be sustained without orderly global trade, best managed under the WTO framework. The relationship is a two-way one. A strong ASEAN community and a more integrated East Asian region could provide stability not only in the region, but across the globe. In addition, the outward orientation of the region would serve the rest of the world well.

In the final analysis, forward movement should be characterized by more active participation of developing countries and key stakeholders, e. g. business, labor, environmental groups, similar to how things are done in APEC. The way forward requires inclusive participation and the goal of working towards inclusive and sustainable growth.