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ABSTRACT

Recent development in global trade saw countries moving in multiple fronts in liberalising trade, utilising multilateral, regional and bilateral trade agreements to promote trade. This paper examines the issues surrounding this latest trend, noting the opportunities as well as dangers to global free trade associated with such an approach. In particular, it investigates implications of the growing numbers of regional trade agreements (RTAs) and free trade agreements (FTAs) within the APEC region, particularly in light of the Doha development agenda.

Keywords: Asia-Pacific Economic Cooperation (APEC), World Trade Organization (WTO), Doha round, regional trade agreements (RTA), free trade agreements (FTA)

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Introduction

Current world trade situation is perhaps to a large degree characterized by the many trade policy initiatives that are being pursued at the global, regional and bilateral levels at the same time. Many governments have adopted such policy of moving on *multiple fronts*. This is best exemplified by the US strategy of *competitive liberalization*, in which global, regional and bilateral trade negotiations are seen as complementing and reinforcing each other. With the passage of the Trade Promotion Act 2002, which gives the US Administration fast track authority, it is in the position to pursue what USTR Representative Robert Zoellick called “free trade on the offensive” [1]. On the global front, the US has proposed a bold initiative to push multilateral negotiations on the Doha Development Agenda (DDA). This initiative includes significant removal of agricultural subsidies, substantial reduction of agricultural tariffs, zero tariffs on consumer and industrial goods by 2015, zero-for-zero sectoral liberalization as well as liberalization of key services sectors. On the regional front, it is pursuing the FTAA (Free Trade Area of the Americas). It has launched the EAI (Enterprise for ASEAN Initiative) and a similar initiative for the Middle East. On the bilateral front, it has recently signed a FTA (free trade agreement) with Singapore, the first with an Asian country, and has concluded one with Chile. It has begun negotiations with Australia and is also engaged with Morocco, CAFTA (Central American Free Trade Area) and SACU (Southern African Customs Union) in bilateral negotiations. The US, as argued by Feinberg (2003), is not the leader in the global rush towards bilateral and regional free trade agreements, rather it is only playing catch-up with the rest of the world. It should be noted that in the late 1980s a similar policy of moving on multiple fronts was also developed by USTR Representative William Brock, producing the US-Israel FTA and a US-ASEAN Initiative (UAI) that never took off.

As suggested by Bergsten (2002), the US remains “the pivotal operator” in the global trading arena. Through its regional and bilateral trade deals the US intends to put pressure on non-members of individual trade agreements either to join the group itself or to conclude broader agreement. The objective is to accelerate their own liberalization in ever-widening circles until global free trade is achieved. Its “free trade on the offensive” policy is also, if not mainly, directed towards the European

Union (EU). EU's actions will also be decisive in determining the outcome of global trade negotiations. It is the view of the US that Europe badly needs outside pressure to implement internal reforms, especially in agriculture, and that such outside pressure can come primarily from the US (Bergsten, 2002).

There are concerns that the US does not have the will to lead Doha to a successful conclusion due to its engagement in regional and bilateral free trade agreements and increased protectionist pressures at home. It has been argued that recent US actions on steel and farm subsidies in response to those protectionist pressures will be temporary in nature and were essential in winning congressional approval of the new fast track that will help achieve global free trade. Bergsten advanced a number of arguments why US priority must remain Doha. One main reason is that significant agricultural liberalization is essential for the US and this is possible only at the global level.

Another, more recent concern is with the side-effects of US new security concerns as manifested in the war on terror and the war in Iraq. The US may use its bilateral trade deals to reward members of the coalition of the willing and penalize, or even punish, members of the "coalition of the unwilling". A suggestion was made that the US was ready to sign the US-Singapore bilateral FTA but delays the signing of the US-Chile bilateral FTA to demonstrate the use of such trade deals as an instrument of its foreign policy. This suggestion has been refuted. However, it cannot be denied that bilateral FTAs potentially are an important foreign policy instrument. As will be examined later, most FTAs involving East Asian economies today are essentially politically motivated.

It also needs to be noted that the use of bilateral FTAs as an instrument to promote global free trade can have political implications due to the selectivity in which such instrument can be used. The EAI as well as Japan's bilateral FTAs with ASEAN will practically be limited to a subset of ASEAN members. The newer members of ASEAN are likely going to be left out because they simply cannot take part in the exercise. This can have serious repercussions for ASEAN's cohesion.

This, indeed is an issue for the developing world as a whole. There are developing countries that can already take part in bilateral, regional and global trade liberalization efforts but a large number of developing countries, especially the least developed countries (LDCs), do not have the capacity to do so. This is perhaps recognized in the DDA as reflected in the inclusion of technical cooperation and capacity building as well as the reaffirmation of the special and differential (S&D) treatment for

developing countries. Indeed, more than ever before, the DDA contains more “development friendly” language (Miljani, 2003). However, given its ambitious and far reaching agenda, there are increased concerns that the DDA cannot deliver on its development promise. Some have argued that many of the concerns of the developing members cannot simply be addressed through S&D treatment. It is also argued that the WTO may not have a comparative advantage in technical cooperation and capacity building. In embracing the need for trade facilitation, technical cooperation and capacity building, WTO appears to have been much inspired by APEC. Can APEC perform some leadership here?

Since a large proportion of new and proposed FTAs involve APEC members, can APEC also provide some guiding principles to ensure that these initiatives will indeed lead to global free trade?

Challenges to APEC post-Los Cabos

The APEC Meeting in Los Cabos last October reaffirms that the APEC Economic Leaders Meeting has gained its own life. This is understandable and inevitable because once leaders from the 21 economies are coming together they will want to address important and pressing regional and global issues. What can come out from the “leaders track” need not be prepared through the proper APEC process, the “first track” involving ministers and senior officials, with an agenda that is developed during the one-year cycle.

Like in Shanghai the year before, APEC leaders have again brought forth the problem of terrorism. This suggests that the leaders are also not bound by the (self-imposed?) limitation to address only economic issues.

It is unfortunate that the media has portrayed this situation as an indication that APEC was not able to move ahead on its agenda, especially its trade liberalization agenda, forcing the leaders to focus on such “big picture” geopolitical issues as terrorism. It is still not clear whether this development would lead to a broadening of APEC’s agenda beyond the STAR (Secure Trade in the APEC Region) Initiative.

It is important to note that the Los Cabos APEC Economic Leaders’ Declaration in fact contains a substantial section on “Implementing the APEC Vision of Free and Open Trade and Investment” (see Annex 1). The leaders reaffirm APEC’s strong support for the multilateral trading system and welcome the launch of a new trade

round. However, APEC leaders did not come up with a major initiative on this matter. They agree to contribute to the Doha Development Agenda negotiations by encouraging and coordinating confidence building activities in all areas of the agenda. They also encourage the WTO to build on APEC's leadership towards more effective and coherent programs and delivery of trade-related technical assistance.

To have an impact, APEC leaders need to adopt a high profile stance on the DDA, building on what APEC has set out to promote and what it has achieved in the area of trade facilitation and capacity building. APEC's agenda also needs to be adjusted to contribute to the DDA negotiations so that APEC can play a leadership role in the WTO. It may be useful to have ad-hoc committees in APEC that parallel the seven negotiating bodies (services, agriculture, non-agriculture market access, rules [anti-dumping, subsidies, RTAs], environment, geographic indications for TRIPS, and DSU [Dispute Settlement Understanding] reform), and existing working groups (competition, investment, transparency in government procurement). At the very least, they can be organized as APEC caucuses in Geneva.

As there are signs of creeping protectionism in many APEC economies, an APEC leaders' call on standstill and rollback is critical not only to the achievement of the APEC Vision (Bogor goals) but also to the success of the new round of trade negotiations.

APEC's efforts may be strengthened or undermined by increasing activities in East Asia and in the Western Hemisphere to form sub-regional and bilateral "free trade" agreements. APEC should not only monitor these developments but need to come up with principles guiding the formation of RTAs that assure consistency with the Bogor goals and timetables and that will be "trail blazing" for the WTO.

APEC and the Doha Development Agenda

WTO members have experienced major difficulties in negotiating the DDA. They have failed to reach key deadlines. There is widespread tacit understanding that the Doha negotiations will not be concluded by its target date of 1 January 2005. The real deadline for Doha, as predicted by Bergsten (2002), is mid-2007 when US negotiating authority expires. If this is the case, there is still time for APEC to organize itself so that it can contribute to, perhaps even provide leadership for, the successful conclusion of the DDA.

There is also widespread agreement that the successful conclusion of this trade negotiations round will depend on progress on agricultural issues. This is an old issue, but there is hope that it will finally be tackled and resolved in the multilateral forum. The US and the Cairns Group are, on one side, demanding deeper cuts in agricultural support and tariffs, which are opposed by Europe and Japan. On their part, Europe and Japan are mainly interested in multi-functionality and non-trade measures. Real progress on agriculture is in the interest of the developing countries, but the outcome of the negotiations will be largely determined by the US and the EU. Is there room for APEC's contribution towards resolving this issue?

A study by the Agricultural Trade Study Group (ATSG) of PECC's Trade Forum shows the diverse interests amongst PECC/APEC members on agricultural liberalization [2]. It should be noted, however, that while agriculture is a sensitive issue in several East Asian economies (Japan, Korea, Indonesia), none have relied on export subsidies to protect the sector. This provides for a common ground for APEC to form an effective coalition to work towards the elimination of export subsidies, which is a major source of disruption to international trade in agricultural product. The Study Group proposed a possible package for agricultural negotiations that seek a middle ground, covering the following elements: market access, domestic support, export competition, S&D treatment, and non-trade concerns. The adopted approach appears to be based on gradualism and flexibility. This could provide a starting point for discussions in APEC.

The success of the Doha Round will also depend on the outcome of the negotiations on the new issues, the so-called "Singapore issues", namely trade and investment, trade and competition policy, transparency in government procurement, and trade facilitation. The US and in particular the EU are expecting outcome on these new issues, specifically investment and competition policy and also environment, but most developing countries do not readily accept this. The fifth WTO Ministerial Meeting in Cancun in September 2003 will have to come up with an explicit consensus on the modality for negotiation of these new issues.

Finger (2002) has pointed to the concern that "developing country concessions on Singapore issues could be a claim developed countries will press in order to counter pressure on them to make concessions in agriculture". There are other concerns as well. An agreement on investment and competition policy would be toward imposing as international obligations the policies that are already in place in developed countries. Reform in these areas should be in the interest of developing countries.

However, undertaking such reforms as concessions to foreign interests would often tend to underplay their benefits. It should also be noted that the Doha Declaration stipulates that only the “trade-related aspects” of investment and competition policy will be dealt with. Finger raised two issues in regard to this. First, the trade-related aspects as viewed by trading partners may be a poor guide to their economic development dimensions. Second, new regulations and institutions cost money to establish and then to operate. The amounts required are beyond the reach of many developing countries.

There could be room for technical cooperation and capacity building in these areas. APEC can play a role here. A work program can be built on the principles of investment and competition that have been developed and adopted by APEC.

Developing countries are looking for an agreement to apply stricter rules on the use of anti-dumping. This may not be readily accepted by the US and the EU. However, it should be noted also that since the Uruguay Round developing countries themselves have become frequent users of anti-dumping. The Doha Declaration specifies that in regard to WTO rules, there will be negotiations on anti-dumping. The objective is to clarify and to improve disciplines while preserving basic concepts. Trade remedies, such as anti-dumping, were initially used as “pressure valve” to help governments manage domestic politics in maintaining a policy of liberalization. As things evolved, such trade remedies have become expressions of the rights of import-competing interests to protection (Finger, 2002).

Discussions in APEC could explore the possibility of a deal that could be built around a significant move on anti-dumping by the US in exchange for East Asian commitment to progressively cut the high tariffs, to close the gap between their bound tariffs and actual applied tariffs that are already much lower, and to bring already very low tariffs to zero.

In the area of services, the Doha Declaration carries forward without qualification the basis for negotiations established in the Uruguay Round. The GATS, a framework for negotiation of one-by-one liberalization, is regarded as more suited to the realities of the underlying economics and particularly to the underlying politics than are other “new areas” agreements (TRIPS and standards). A study on services liberalization undertaken for the East Asian Trade Policy Strategy group at the Australian National University shows the complexity of the subject matter [3]. Capturing many of the potential gains from services liberalization depends on the capacity to address

domestic regulatory policies. Many developing countries have difficulties addressing this problem. Indonesia, for instance, has not been able to respond to the 19 requests on services trade that have been directed to it. Furthermore, it has not been able to make similar requests to other partners. It has also made no initial offers of market access liberalization for services by the deadline on 31 March 2003.

This is clearly another area for technical cooperation and capacity building. It will not be sufficient to confine the activity to their trade-related aspects. Here is where APEC can usefully play a role. A clear work program in this area would also help provide a structure to APEC's Ecotech activities that currently still lack relevance and coherence.

The above study also made an interesting observation that many of the recent FTAs have included services or are mainly about services. However, none of the FTAs have really tackled the issues proving most difficult in Geneva, namely the interface between domestic regulation and liberalization. FTAs have not really produced GATS-plus agreements. The FTAs have not achieved more progress in areas such as telecoms or financial services although they may have encouraged, in developing countries, greater transparency in implementation. The observations made in this study suggests that services liberalization is best undertaken in the WTO. This argument can be strengthened by pointing to the danger that bilateral agreements in services that do not deal with the competition policy environment can create opportunities for rent-seeking and bestow first mover advantages to firms that may not be world-class suppliers. A preliminary conclusion can be drawn here that perhaps the "main game" in FTAs is to bind domestic policy. Indeed, as will be shown later, this is the case with the Japan-Singapore bilateral agreement (JSEPA).

APEC and FTAs in East Asia

In East Asia there is a surge of initiatives to form bilateral and sub-regional FTAs (free trade agreements). The list of such initiatives is rather impressive. However, in the four years since the first initiative was launched with the proposal for a Japan-Korea FTA, only a few have been actually concluded amongst East Asian countries, namely the Japan-Singapore Economic Partnership Agreement (JSEPA) and the ASEAN-China Comprehensive Economic Cooperation Framework Agreement. Some East Asian economies have also concluded trans-Pacific agreements, involving APEC economies. The US-Singapore FTA and the Korea-Chile FTA are the first two. Many others are likely to follow.

Since concluding its first framework agreement with China, which has a FTA component, ASEAN has been courted by other trading partners. A framework agreement is being negotiated with Japan, and will be concluded before the end of 2003. India has made a similar proposal. The US, through Bush's EAI (Enterprise for the ASEAN Initiative) proposed bilateral FTAs with selected ASEAN countries. Having been drawn into the game as well, the challenge to ASEAN as a group is to consolidate the various initiatives that it and its members are engaged in so as to be able to promote region-wide and global trade liberalization. In the East Asian context today, ASEAN has a specific role that it can play and can carve out for itself in promoting the development of an East Asian Economic Community through trade cooperation and liberalization. In doing so it is not so much a matter of becoming a hub -- or the hub-- in East Asia, but more so to prevent it and its individual members from becoming spokes to other hubs that could endanger its cohesion.

The proliferation of FTAs in East Asia need to be assessed in the context of ASEAN's strife towards deeper integration in Southeast Asia and the desire in East Asia to build an East Asian Economic Community as well as East Asia's interest in a successful outcome of the WTO Doha Development Round.

Bilateral and sub-regional FTAs are being promoted on the assumption that they will produce a kind of "competitive liberalization" as economies are being challenges to undertake more ambitious market opening measures. It is also proposed that the separate agreements can become "building blocks" towards regional and ultimately global free and open trade.

What has developed thus far in East Asia is a sense of "competitive confusion" as it becomes more and more apparent that East Asian countries do not have a clear idea about the dynamics of the processes, specifically the risk of trade fragmentation and political tensions resulting from the un-coordinated processes. The fact that more and more countries are contemplating to join in the FTA game for defensive reasons signals a clear and present danger. Even with the few agreements that have been concluded it also becomes more and more apparent that linking them is a rather complicated matter. Although they might not become stumbling blocks to region-wide or global free trade, but they do not necessarily become building blocks either. Rather they may end up being simply "bumbling blocks".

FTAs in East Asia are essentially politically driven. However, politics alone cannot

bring about a successfully negotiated outcome. The Japan-Korea FTA proposal was meant to cement a political relationship that greatly improved in the late 1990s. However, it did not come off the ground because the economic benefits from the FTA were perceived to be too asymmetrical to the Koreans. The Japanese side of the joint study, undertaken by IDE/JETRO, showed that if tariffs are eliminated Japan's exports to Korea will expand much more than Korea's exports to Japan, and consequently Japan's trade surplus with Korea will grow by about 35 percent. In addition, the Korean side of the joint study, undertaken by KIEP, showed a negative income and welfare effect for Korea. In the public symposia on the Japan-Korea FTA proposal held in Seoul and Tokyo, the proposed FTA was strongly opposed by Korean journalists and some business circles as being too premature. Some argued that China should be included to mitigate Japan's economic influence (Kagami, 2003).

The Japan-Singapore agreement (JSEPA), signed in January 2002, can be regarded as politically driven as well. In the context of the Southeast Asia's development post-crisis, Singapore sees the need to differentiate itself from the rest and to remain in the radar screen of its major trading partners by going into bilateral FTAs. Negotiations with New Zealand was to provide a training ground. Japan was next, as Japan was looking for a partner with which it can conclude an agreement. Singapore has virtually no agricultural sector and provided a suitable training ground for Japan. One main purpose for Japan to do so is to gradually erode the domestic resistance to agricultural liberalization through a series of FTA commitments. JSEPA has been advertised as a "new age" partnership agreement, some kind of "state-of-the-art" agreement that goes beyond the WTO agenda. Singapore wants to see both its FTAs with New Zealand and Japan (and the more recent ones with Australia and the US) as a way to push others to do the same, and in so doing advances the liberalization at the regional (AFTA, APEC) and global (WTO) level.

It is perhaps still too early to assess the impact of JSEPA that entered into force on 30 November 2002. A preliminary assessment by Leow (2003), described the following benefits of JSEPA. First, tariff savings, which according to the Singapore Ministry of Trade and Industry (MTI) would amount to S\$ 60m per year immediately and S\$ 330m per year within 5 years. This is presently the main quantifiable benefit. The business community in Singapore, according to Leow, is still unclear about the rules of origin (ROO) that are applied. Second, the agreement provides legal guarantee of services and investment rules. Both Singapore and Japan are legally bound to their services and investment commitments. For instance, Japan has committed to allow up to 1/3 foreign capital participation in NTT. However, it is still unclear whether MNCs

operating from Singapore will qualify in Japan. Overall, the commitments in services and investment made in the agreement bind existing *status quo*. No commitments were made to further liberalize existing regimes and many sectors remain unbound. Third, the agreement on investment protection rules provides for an investor-state dispute resolution mechanisms to protect Japanese and Singaporean investors. However, this may not be significant as Japan and Singapore are generally seen as stable investment environments. Fourth, the agreement also promotes economic cooperation on various functional levels between Singapore and Japanese government agencies. However, they are not legally binding. Fifth, the agreement provides “signals to market”, namely as a signal for Japanese and Singaporean businesses to move into each other’s markets. It cannot be determined whether this is already happening.

The Japanese side has made known that the benefit of JSEPA to Japan thus far is the sudden increase of beer exports to Singapore, growing by about 35 percent since last year. It is also too premature to assess the benefits of the recently concluded Singapore-Australia Free Trade Agreement (SAFTA). As can be seen from Table 1 on the key outcomes of SAFTA for Australia, the explicit expectation is also for an increase in Australia’s exports of beer to Singapore. It is unlikely that beer consumption in Singapore is likely to increase dramatically as a result of its FTAs. This is a clear illustration of trade diversion at work, and that the gains to Japan and Australia will only be temporary so long as Singapore continues to negotiate other FTAs. Perhaps, as can be expected, the gains from FTAs with Singapore are mainly to be found in the non-goods trade sectors.

Trade in goods, i.e. tariff elimination, also is a less significant element in US-Singapore Free Trade Agreement. Singapore is to apply zero tariffs immediately on all US products, including beer and stout -- the only items that has been subject to tariff protection. US tariffs on 92 percent of Singaporean goods are also to be eliminated immediately with remaining tariffs phased out over eight years. Singapore also agreed to allow the importation of chewing gum (banned since 1992) from the US with therapeutic value for sale and supply subject to laws and regulations relating to health products. The ROO provision in the agreement stipulates that only exports with substantial transformation and value added done in Singapore can be conferred “Singapore origin” and qualify for the FTA tariff rates. A major controversy in the US itself is with regard to the rules of origin in textile and garments and the issue of whether they might become a precedent for other trade agreements (Nanto, 2003). The controversy did not lead to formal rejection because it was noted that US import

quotas in textiles and apparel are due to be eliminated anyway on 1 January 2005 under the WTO agreement. Moreover, Singapore is not a major trading partner in the textile and apparel sector. The yarn forward rule of origin requires that products be made from US and/or Singaporean originating yarn, with limited exceptions. For imports into the US, all other assembly processes must be carried out in Singapore.

The US-Singapore FTA also provides for imported inputs used in the manufacture of the final products within Singapore to be classified under a different tariff classification from the final product. For some electronic products, the origin is Singapore if a certain percentage of the value added (typically 35 to 60 percent) is done in Singapore. An interesting provision in the FTA is the *Integrated Sourcing Initiative* that applies to components produced in non-sensitive, globalized sectors, particularly IT and certain medical devices, on which both countries do not impose tariffs. These components, including about 100 IT products, will be treated as being of Singapore origin when they are used in the manufacture of final products in Singapore. For example, qualifying IT components manufactured on the Indonesian islands of Batam and Bintan and exported to the US in products assembled in Singapore would be considered to be of Singapore origin.

Table 1 Singapore-Australia Free Trade Agreement (SAFTA) -- Key Outcomes for Australia

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- Elimination of all **tariffs** from entry into force, including on Australian beer and stout.
 - Comprehensive and transparent “negative listing” of **services** commitments.
 - Restrictions on the number of wholesale **banking licenses** to be eased over time.
 - More certain, and enhanced operating environment for **financial services suppliers**.
 - Conditions eased on establishment of joint ventures involving Australian **law firms**.
 - Number of Australian **law degrees** recognized in Singapore doubled from 4 to 8.
 - Removal/easing of **residency requirements** for Australian professionals.
 - Mutual recognition agreements (**MRAs**) between **architects and engineers** under way.
 - National treatment and market access commitments for Australian **education** providers.
 - Singapore government overseas **scholarships** will be tenable at Australian universities.
 - The **environmental services** sector will be largely open to Australian businesses.
 - Open market access and national treatment for a range of other **service sectors**.
 - Transparency of **investment restrictions** in Singapore’s government-linked companies.
 - **Investors** protected against expropriation; compensation for expropriation or other loss.
 - **Telecoms** regulators must operate in transparent manner and properly explain decisions.
 - Telecoms service suppliers have **right of appeal** to an independent authority.
 - Telecom **interconnection** provided on non-discriminatory, timely, cost-oriented terms.
 - Telecoms regulators to adopt or maintain **effective sanctions** to enforce decisions.
 - Agreement to facilitate **consultation** with telecoms industry participants.
 - Australian firms get national treatment in **procurement** by 47 Singapore agencies.
 - Protection of **intellectual property** supplied in government tender processes.
 - **Short term entry** for Australian business people extended from 1 month to 3 months.
 - **Long-term business residents** in Singapore granted total stay up to at least 14 years.
 - **Spouses** of business people can work as managers, specialists, office administrators.
 - Commitment to address **anti-competitive** business practices.
 - **Competitive neutrality** disciplines to apply to government-owned businesses.
 - Cooperation on eliminating trade in goods infringing **intellectual property rights**.
 - Measures to prevent the export of goods infringing **copyright or trade marks**.
 - No customs duties on bilateral **electronic transmissions**.
 - Agreement to facilitate **paperless trading** in order to reduce business transaction costs.
 - Promotion of confidence in bilateral **e-commerce**, e.g. in electronic signatures.
 - Cooperation on investigation and prevention of infringements of **customs** law.

Source: Australian Department of Foreign Affairs and Trade
 (www.dfat.gov.au/trade/negotiations/safta/safta_outcomes.html)

Trade in services is the main component of the FTA. The FTA is to accord substantial market access across each other’s entire services sector, subject to a “negative list”. The negative list deals with sectors that usually require government certification or licenses (lawyers, accountants), involve governmental institutions (airports, provision of social security, public hospitals, government corporations), or involve national policy (atomic energy). The other components of the agreement are: e-commerce and digital products; investment, intellectual property rights; competition policy; government procurement; customs procedures (regarded as “ground breaking”); temporary entry of personnel; labor and environmental provisions; and dispute settlement.

The US side does not expect any significant economic effects of the agreement with Singapore because of the relative small size of the Singapore economy. The agreement was rejected by one of the 31 Administration trade advisory committees, namely the Labor Advisory Committee, arguing that it repeated the same mistakes of the NAFTA. Some see the agreement mainly as providing a standard for FTAs with other countries. In terms of US security interests, the FTA would add a formal economic link to the security relationship with Singapore. The FTA is also seen as providing an additional link between the two countries that could enhance cooperation on certain issues such as terrorist financing and customs inspections, and in determining courses of action on issues of interest to the US in fora such as ASEAN or the ASEAN Regional Forum (Nanto, 2003).

Singapore has been in the forefront amongst ASEAN economies in the FTA game. The direct effects of its bilateral FTAs may not be significant for the other ASEAN countries. The above examination of Singapore's FTAs also shows that the nature of its FTAs does not lend itself readily to an adoption by other ASEAN countries. However, this should not mean that other ASEAN members should be indifferent to Singapore's undertakings. Singapore may be given the role (by ASEAN) as the first mover, to use the FTA to strategically engage major economic partners in the Southeast Asian region as a whole. Singapore is more readily to do so than other ASEAN countries. However, being given such a role implies that Singapore should fully consult and brief other ASEAN countries on the process and progress of its FTA negotiations. This has not been the practice in the past.

A more consolidated, coordinated process in and by ASEAN, including in the development of a common external policy, should be seen as an important element of an ASEAN Economic Community, which is already firmly placed in the ASEAN agenda.

While it may give Singapore the role of first mover, ASEAN should have a firm strategy to involve in FTAs as a group. The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China (the ASEAN-China CEC), signed on 4 November 2002, will enter into force on 1 July 2003. The agreement explicitly aims at the establishment of an ASEAN-China FTA within 10 years. It is the first for ASEAN (as a group) and is also the first for China. The process leading to the signing of the agreement has been relatively short and swift. This has surprised many observers, including within ASEAN itself. But the agreement is essentially a framework agreement with many of its components

still to be negotiated further. Negotiating the FTA has commenced and is to be concluded by 30 June 2004. The negotiations, conducted by the ASEAN-China Trade Negotiation Committee, will produce schedules for tariff reduction and elimination over a period from 1 January 2005 to 2010 for ASEAN 6 and China, and from 1 January 2005 to 2015 for the newer ASEAN members. This is a rather ambitious goal.

Implementing the agreement will be a major challenge for ASEAN and China. The negotiations may turn out to be more difficult and time consuming than anticipated. However, both sides should recognize that it may not be desirable to conclude the negotiations in big haste only to produce a “dirty” FTA. Indeed, the ASEAN-China FTA does not intend to use WTO’s enabling clause. The process of negotiations itself will be as important to the relationship as the outcome. From ASEAN’s perspective it will force the group as a whole to have a constructive engagement with China. Therefore, it was a strategic decision of the part of ASEAN to broaden the basis for the engagement from a narrowly focused FTA, as originally proposed by China, into a comprehensive economic cooperation package. To have framed the relationship within an FTA framework would be very risky since trading relations between ASEAN and China are bound to be highly contentious (Soesastro, 2003).

The ASEAN-China agreement is essentially politically motivated. This should not be a justification for producing a “dirty” FTA. It should be recognized, however, that ASEAN-China relations are one of the most important relationships in East Asia. Sheng (2002) has given a clear and succinct explanation on China’s position in regard to developing closer economic relations with ASEAN. “For China, the process of working for an FTA with its South-east Asian neighbours is just as important as the outcome itself”. This is also how ASEAN feels about the engagement. According to Sheng, this is the first time in Chinese history that it found common interest to engage all the Southeast Asian countries constructively, to talk about cooperation, instead of quarreling on issues such as the dispute over the Spratlys. The process can be seen as “political confidence-building” for both sides.

For ASEAN, apart from the importance of the engagement with China, the invitation by China to enter into a formal economic agreement of some high profile, i.e. one that has an FTA component, has brought ASEAN back to the center stage (Soesastro, 2002). Thus ASEAN did not hesitate to accept China’s offer. ASEAN was ill-prepared to start a negotiation to form a FTA with China, but it grabbed the opportunity. To some extent, ASEAN’s assumptions proved right. Japan has also made a similar, albeit less firm, offer. The US came up with the EAI, and even India

has proposed an ASEAN-India FTA.

If indeed the process is seen by both sides as political confidence-building, it may well be that the negotiations can proceed rather amicably. This suggests, however, that the process should not be left to the trade negotiators. Since the agreement is a “comprehensive” one, it should be given attention to at the highest levels of government. This will ensure that the negotiations will not get bogged down.

There are increased speculations that the FTA component of the agreement will practically be negotiated bilaterally. Alternatively, the forum for negotiation will be ASEAN-China, and the rules and principles will be commonly agreed upon, but individual ASEAN countries will come up with its own tariff reduction schedules. This more consolidated process should at least be secured. Unfortunately, some ASEAN members have other ideas. Thailand has proposed to start bilateral negotiations with China, and the Chinese side appears to be reluctant to reject this invitation. This will be a big blow to ASEAN as it will further reduce ASEAN’s ability to play a major role in facilitating the building of an East Asian Economic Community. More importantly, it threatens ASEAN cohesion and credibility.

Japan too, with its two-prong approach of negotiating an ASEAN-Japan framework agreement and negotiating bilateral FTAs with selective ASEAN members, is threatening ASEAN’s cohesion and credibility (Aquino, 2003; Feridhanusetyawan, 2003). India too is proposing a FTA with ASEAN but may also embark on negotiating a bilateral agreement with Singapore. Only the EU has consistently insisted to deal with ASEAN as a group at the advise of European companies that are not interested in a fragmentation of the ASEAN market. Korea, for other motives, has refrained from embarking on a Korea-ASEAN FTAs. It should also be advised not to go into bilateral FTAs with selective ASEAN countries. Korea should perhaps focus its attention and efforts to promoting the region-wide East Asian FTA, EAFTA, as contained in the Vision for East Asia outlined by the East Asian Vision Group, and officially adopted by the East Asian Study Group. However, if Korea decides to join in the FTA game, or what Soogil Young (2003) described as participating in “the race for spokes”, it must at the same time do a number of things: (a) contribute to APEC efforts towards the Bogor goals as well as to the success of the WTO Doha Development Agenda; (b) promote liberalization of agriculture policies at home as part of rural restructuring and revitalization; (c) complete financial and industrial restructuring and firmly establish good governance at home; (d) work with ASEAN to provide the necessary leadership to steer cooperation; (e) promote financial and

monetary cooperation in East Asia; and (f) pursue strong and effective diplomacy in five concentric circles (Korea-China-Japan trilateral level; ASEAN Plus Three; APEC; ASEM and the multilateral level).

Kim (2003) has proposed three possible ways to form a FTA at the region-wide level. The first, most ideal one is to immediately negotiate a region-wide EAFTA. This may prove to be too premature. However, the groundwork can be prepared. The second way involves forming a trilateral FTA in Northeast Asia (China, Japan, Korea) and subsequently link it to AFTA. Its feasibility is being questioned because of difficulties to bring in China into this trilateral undertaking. However, it should be noted that it was China that first proposed to study the possibility of this trilateral FTA (Tsugami, 2003). It will be a more difficult proposition if Chinese Taipei (Taiwan) is to be included, which some consider only logical (Hakateyama, 2003). The third is through various bilateral FTAs between ASEAN and Northeast Asia, and then consolidate them into a pan-regional FTA. This may prove to be a very complicated task unless individual agreements are being designed towards convergence. This suggests the importance of developing guiding principles for the region, which could be applied globally as well.

Issues

For various reasons, East Asian economies are likely to continue to promote bilateral and sub-regional FTAs or RTAs. This is a political reality. Basic guiding principles need to be developed so that the prevailing political pressures to develop FTAs can be channeled in ways that maximize their potential benefits while minimizing the risks.

The many reasons for promoting FTAs have been surveyed in Findlay *et al* (2003). Observations suggest that FTAs in East Asia have the following issues.

First, they are being pursued within a “multi-layered” trade policy involving bilateral, regional and multilateral initiatives. Governments in the region appear to be confident that they can pursue all trade policy options at the same time. However, there is the concern that the many FTA proposals absorb a lot of attention and scarce policy-making resources. Perhaps unintentionally, these FTAs create a systematic threat to the WTO and the DDA.

Second, recent FTAs deal with a wider range of issues beyond border barriers to trade and investment. There are two types. One is in the form of comprehensive agreements (CEC, CEP), which has a FTA component. Such comprehensive agreements suit

groups like ASEAN that has a diverse membership. The ASEAN-China CEC is an important experiment for ASEAN to act as a group even though the liberalization schedules of its members will vary. The other is built around “new partnership agreements” involving services, IPR, the IT sector and e-commerce. tend to be constructed around a core FTA. This is not the case with the agreements involving Singapore, which tend to be built around services liberalization. Such agreement may essentially involve a binding of prevailing policies.

Third, a number of countries are joining in the FTA game or will do so essentially for defensive reasons because they do not want to be left out. This has created greater confusion as countries become more and more unclear where all these FTAs may lead to. Japan feels that it is being highly disadvantaged by Mexico’s inclusion in NAFTA and its many bilateral agreements, specifically with the EU. However, this is mainly because Mexico’s MFN tariffs remain high at an average of 16 percent (Saeki, 2003). This could be less of a problem in East Asia, particularly in the ASEAN region, if MFN tariffs continue to fall significantly resulting in smaller tariff differentials between MFN tariffs and AFTA’s CEPTs (common effective preferential tariffs).

Fourth, the various FTAs in East Asia are pursued in an un-coordinated fashion. Lack of coordination or clarity not only exist region-wide but also within an individual country. This is felt, in particular, if developments are viewed within the context of promoting an East Asian region-wide agreement, i.e. the East Asian Free Trade Agreement (EAFTA). The issue of ASEAN as a “hub” is discussed in this context. Some countries, such as Japan, will need to resolve their ambiguities. It is said that the Ministry of Foreign Affairs is adopting the misguided approach of developing bilateral FTAs with selected ASEAN countries while METI is promoting an agreement with ASEAN as a group. Thailand is well advised not to pursue its own bilateral FTA with countries that are already (or will be) engaged with ASEAN as a group. ASEAN members have yet to develop a common strategy to dealing with FTAs as part of an common external trade policy. The role of Singapore as first mover for ASEAN should be examined.

Fifth, bilateral FTAs have not been able to deal with the sensitive sectors of their participants. Even though Singapore does not have a meaningful agricultural sector, during the FTA negotiations with Japan the issue of gold fish exports became a major issue. During this negotiation process, the policies that guided the Japanese side were based on the decision of the Research Commission on Trade in Agriculture, Forestry, and Fishery products of the Liberal Democratic Party of 3 September 2001, which

stipulates the following: (a) Japan must be careful not to have negative impacts on domestic agricultural, forestry and fishery industries; (b) as a specific issue, tariffs on agricultural, forestry and fishery products are not to be further curtailed or revoked under the two-country agreement, because this subject has to be discussed in the WTO (emphasis added); (c) similar bilateral agreements which will be negotiated in the future are to be dealt with under the same policy (Kagami, 2003). Nanto (2003) also reported that in the US-Singapore negotiations the US was willing to commit to introduce more liberal rules of origin (ROO) for textiles in the FTA assuming further liberalization on ROO is achieved in the WTO.

If indeed FTAs tend to be tailor-made to exempt the sensitive sectors of their respective participants they cannot easily be made open to accession by others.

Sixth, the private sector has yet to understand the full implications of the diverging ROO on the cost of doing business. The survey by Low (2003) of Singapore's bilateral FTAs with New Zealand, Japan, EFTA, Australia and the US showed the resulting complex and varied rather than a one-size ROO design.

If RTAs/FTAs are to function as stepping stones (or building blocks) towards multilateral free and open trade, the following "ideal" conditions need to be taken into consideration. APEC can develop guiding principles that aim at such ideals:

- They must be made genuinely open to further accession rather than tailor-made to particular sets of interest (Principle of Open Accession); and/or
- They should contain specific provisions which ensure that the benefits are subsequently extended on a MFN basis (Principle of Multilateralization).
- Other important provisions include harmonization of and the adoption of common ROO methods, which are simple, clear, liberal and transparent.

Perhaps the most powerful and important principle is that of multilateralization. This has been adopted by ASEAN as a matter of practice. If East Asia could agree to adopt this principle in any of its future RTAs/FTAs, this could set a positive precedence to others. APEC can encourage this.

Footnotes

[1] Keynote Address by Robert Zoellick at the Inaugural Symposium of the United States Asia Pacific Council, Washington, DC, 24 April 2003.

[2] The draft report of the Study Group was presented at the PECC Trade Forum Seminar at the Institute for International Economics (IIE), Washington, D.C. on 22 April 2003.

[3] This was discussed at the “East Asia Trade Policy Strategy Conference” at the Australian National University on 20-21 March 2003.

[4] *Ibid.*

[5] The report of the Conference will be published.

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ANNEX 1

Implementing the APEC Vision of Free and Open Trade and Investment

(From the APEC Economic Leaders Declaration, Los Cabos, Mexico, 27 October 2002)

We discussed the fundamental contribution of trade to economic growth, and the need for APEC to strongly support the multilateral trading system, while implementing our commitments.

- We called on Ministers to continue negotiations that will open markets and enhance the multilateral trading system, foster economic growth and poverty reduction particularly in developing economies, promote sustainable development, improve disciplines, improve WTO coherence with other institutions, and provide opportunities for all citizens of the world.
- We welcomed the launch of new multilateral trade negotiations in Doha and encouraged all economies to pursue substantive negotiations in all areas of the Doha Development Agenda by the agreed timelines to ensure that the deadline of January 1st, 2005 to conclude such negotiations is met. We call for progress across all areas in the lead-up to the 2003 WTO Fifth Ministerial Conference in Cancun.
- We agreed that these negotiations hold the prospect of real gains for all economies; and particularly developing economies in the areas of agricultural reform, improved market access for goods and services, and clarification and improvement of trade disciplines.
- We call for the negotiations to pursue, as one of the objectives, the abolition of all forms of agricultural export subsidies, and unjustifiable export prohibitions and restrictions.
- We also remain committed to on-going work in the negotiating group on rules. Such negotiations are aimed at clarifying and improving disciplines under the Agreements on the Implementation of Article VI of the GATT 1994 and on Subsidies and Countervailing Measures, while preserving the basic concepts, principles and effectiveness of these agreements and their instruments and objectives.
- We agreed that APEC should further contribute to the Doha Development Agenda (DDA) negotiations by encouraging and coordinating confidence building activities in all areas of the agenda, including investment, competition, trade facilitation, transparency in government procurement, and trade and environment.

- We welcomed work in APEC to ensure all economies develop the capacity to participate effectively in the DDA negotiations. We encouraged the WTO to build on APEC's leadership towards more effective and coherent programs and delivery of trade-related technical assistance.
- We supported the early accession of Russia and Viet Nam to the WTO.
- We called for an exchange of views in APEC on regional and bilateral trade agreements, noting that these agreements need to be consistent with WTO rules and disciplines and APEC's goals and principles.

We discussed how to implement pro-growth policies in the Asia-Pacific region. Last year we agreed on an updated vision for APEC in the Shanghai Accord that stressed implementation of commitments to expand trade and investment, broadened the basic mission to include new economic developments, and underscored the need for economic and technical cooperation.

We acknowledged the importance of the timely implementation of the Shanghai Accord to achieve the Bogor goals and recognized the significant progress made this year. These undertakings represent a framework through which member economies agree to move forward together, as an entire group or through pathfinder initiatives, to expand trade, investment and economic growth. We called on Ministers to develop new initiatives for the coming year. Today, in Los Cabos, we:

- Endorsed the APEC Trade Facilitation Action Plan which will implement our commitment to cut transaction costs by five percent in the APEC region by 2006. We recognized the significant economic and trade benefits which can accrue from trade facilitation and took special note of the Action Plan's call for providing appropriate capacity building assistance to developing economies. We directed our Ministers to continue moving forward with the selection and implementation of trade facilitating actions and measures and to assess the benefits of associated transaction cost reductions.
- Adopted the attached Statement to Implement APEC Transparency Standards, and directed that these standards be implemented as soon as possible, and in no case later than January 2005. We agreed that economies that may implement these standards earlier, under domestic law or an international agreement, will accord their benefits immediately to all APEC economies.
- Endorsed pathfinder initiatives on advance passenger information systems; the revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures; electronic SPS certification (e-cert); electronic certificates of origin; mutual recognition arrangement of conformity assessment on electrical and electronic equipment parts II and III; and corporate governance.
- Adopted the attached Statement to Implement the APEC Policies on Trade and the Digital Economy, which contains a set of targets related to trade policies for the New Economy, also a pathfinder initiative.

- Encouraged all APEC members to consider participating in these initiatives and instruct officials to continue to identify pathfinder initiatives that will deliver real benefits to APEC members.
- Praised the strengthened Peer Review process of the Individual Action Plans for monitoring our process to achieving the Bogor goals.
- Endorsed the broadened Osaka Action Agenda, which reflects our strong commitment to the achievement of the Bogor goals, while responding to changes in the global and regional economy.

ANNEX 2

Doha Ministerial Declaration Work Program

(This summary interpretation of the content is intended to be explanatory but has no official standing)

I. Negotiations

Agriculture

1. Negotiations aimed at substantial improvements of *market access*, reductions with a view to phasing out, all forms of *export subsidies*, substantial reductions of trade-distorting *domestic support*;
2. without prejudicing the outcome of the negotiations;
3. allow developing countries to take into account development needs including food security and rural development;
4. taking non-trade concerns into account is confirmed; and
5. special and differential treatment shall be an integral part ... embodied in the schedules of concessions ... in the rules and disciplines ... so as to be operationally effective.

Market Access for Nonagricultural Products

1. Negotiations shall aim to reduce or eliminate tariffs, tariff peaks, high tariffs, tariff escalation, non-tariff barriers;
2. in particular on products of export interest to developing countries; and
3. less than full reciprocity from developing and least developed countries.
4. Modalities will include *studies and capacity-building measures to assist least developed countries* to participate effectively in negotiations.

Services

1. With a view to promote economic growth of all members, the development of developing and least developed countries;
2. previously agreed guidelines and procedures are reaffirmed; and
3. participants shall submit initial requests by 30 June 2002, initial offers by 31 March 2003.

Trade-Related Aspects of Intellectual Property Rights

1. Ministers stress the importance of implementation and interpretation supportive of public health ... adopt a separate Declaration ...;
2. agree to negotiate a multilateral system of notification and registration of geographic indicators for wines and spirits; and
3. extensions of protection of geographic indicators will be addressed in the TRIPS Council.
4. Ministers instruct the TRIPS Council to examine the relations between TRIPS and the Convention of Biological Diversity, the protection of traditional knowledge and folklore...

Relationship between Trade and Investment, Interaction between Trade and Competition Policy, Transparency in Government Procurement, Trade Facilitation

1. Negotiations will take place after the Fifth Ministerial, by explicit consensus,

- according to modalities adopted there.
2. Until the Fifth Ministerial the relevant Working Group or Council will continue preparatory work on scope and definition, modalities, etc.
 3. Ministers support technical assistance and capacity building.
 4. Negotiations on government procurement explicitly limited to transparency, not to restrict the scope for countries to give preferences to domestic supplies and suppliers.

WTO Rules

1. Clarify and improve disciplines under the antidumping and subsidies and countervailing measures agreements; and
2. preserve basic concepts and objectives of these agreements and their instruments.
3. Clarify and improve disciplines on fisheries subsidies; on WTO provisions on regional agreements.
4. Take into account development needs of developing countries (mentioned three times in this section).

Dispute Settlement Understanding

1. Negotiations on improvements and clarifications.

Trade and Environment

1. Negotiations without prejudging their outcome;
2. on procedures for information exchange between Secretariats of multilateral environmental agreements (MEAs) and WTO;
3. on relationship between WTO rules and trade obligations in MEAs; (limited to the impact of existing WTO rules among parties to the MEA in question);
4. on reduction or elimination of tariff and non-tariff barriers on environmental goods and services; and
5. include identification of any need to clarify WTO rules.

Electronic Commerce

1. Ministers agree to continue the *Work Program* on electronic commerce; and
2. declare that members will maintain their current practice of not imposing customs duties on electronic transmissions until the Fifth Ministerial.

II. Continuing Consideration (Not Negotiations)

Small Economies

1. Ministers agree to a work program under the general Council; and
2. to further integrate small, vulnerable economies into the multilateral trading system, not to create a WTO subcategory.

Trade, Debt, and Finance

1. Ministers agree to examine in a Working Group under the General Council, of the relationship among trade, debt, and finance; and
2. strengthen coherence of international trade and financial policies.

Trade and Transfer of Technology

1. Ministers agree to examine in a Working Group under the General Council of the relationship between trade and transfer of technology.

III. Cross-Cutting Considerations

Implementation-Related Issues and Concerns

1. Where there is a negotiating mandate implementation issues will be an integral part of the negotiations; and
2. other implementation issues to be addressed as a matter of priority in the relevant WTO bodies.

Technical Cooperation and Capacity Building

1. Confirm that technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system.
2. Instruct the Secretariat with other agencies to support domestic efforts to mainstream trade into development, poverty reduction strategies.
3. WTO technical assistance is to assist developing and transition countries to adjust to WTO rules and disciplines, implement obligations, and exercise the rights of membership, including drawing on the benefits.

Least Developed Countries

1. Ministers recognize the needs for market access, support for technical assistance, capacity building, diversification of production, and export structures;
2. welcome past market access improvements and commit to consider additional market access;
3. agree to work to facilitate and accelerate negotiations with acceding least developed countries (LDCs);
4. endorse the Integrated Framework and urge development partners to increase contributions to the Integrated Framework trust fund; and
5. instruct the Subcommittee for LCD's to design and report a work program consistent with the WTO mandate adopted at the Third UN Conference on LDCs.

Special and Differential Treatment

1. Ministers reaffirm that special and differential treatment is an integral part of WTO agreements; and
2. agree that special and differential treatment provisions shall be reviewed with a view to strengthening them and making them more precise, effective, and operational.

Source: J. Michael Finger, *The Doha Agenda and Development: A View from the Uruguay Round*, ERD Working Paper Series No 21, Economics and Research Department, Asian Development Bank, Manila, September 2002.