



ASIA-PACIFIC
ECONOMIC
COOPERATION

FREE TRADE AGREEMENTS IN THE ASIA-PACIFIC REGION

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ABSTRACT

The current and potential Free-Trade Agreements embracing the Asia-Pacific Region constitutes what is commonly called this region's "noodle bow" of standards, rules of origin, obligations and other elements of a Free Trade Agreement (FTA). Once trade and investment in the area becomes more complicated, the existence of overlapping and maybe competing potential agreements brings with it a dense net of political implications. Moreover, especially considering that the world's two biggest economies are involved, as well as fast-growing and exporting countries, the economical ties embraced by it are globally important. The foreign policies of all countries comprised by the Asia-Pacific Region are highly constrained by worries about FTAs and its consequences, such as new regulations for intellectual property and global supply and value chains.

1 HISTORICAL BACKGROUND

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As it is widely accepted that the political and economic spheres are mutually influenced, it wouldn't be incorrect to assert that the history of trade in the Asia-Pacific is deeply connected to the political events that took place throughout the region's history and vice versa. Although only recently the attention on this dynamic region of the world economy has grown, it has been a relevant part of the global trade since early Modern Age. It is important, then, to understand some of the main events and features that somehow influenced APEC's economies, as well as the relations among each of its members.

1.1 A BRIEF HISTORY OF TRADE IN THE ASIA-PACIFIC REGION

Some archeologist have found evidences that trade on the South China Sea dates back to the Iron Age (500 B.C. to 500 A.D.) or even before that (Hung, et al. 2007). Throughout centuries, the Chinese, Japanese and Malay sailed the western coast of the Pacific Rim⁶ trading products. In contrast, the oceanic islands were completely isolated from trade flows with the Pacific Rim and seldom traded with each other (McNeill 1998). Most of what is known as East and Southeast Asia was part of the tributary system centered in imperial China, which differs deeply from the Western concept of sovereign states. In this system, tributary states would recognize diplomatically the Chinese Empire, while engaging in commercial partnerships with the regional center. Basically for this reason, Japan was a tributary state of China before the Takugawa shogunate⁷ (Kawakatsu 1994).

Before the modern period, the peoples of East and Southeast Asia had little contact with the West. However, relations indeed existed, and they were mainly enabled by the terrestrial and maritime Silk Roads, which connected China to Europe through either Central Asia or the Indian Ocean. That would change gradually, starting from the 16th century, when the conditions for the European maritime expansion were created, and the rise of commercial capitalism began. The European naval powers progressively extended their reach in the Far East by maritime routes, getting first to the Strait of Malacca, then to South China Sea, to

6 The Pacific Rim geographical concept consists on the coastlines around the Pacific Ocean. In this article, we refer to the political concept, meaning the countries that hold such coastlines.

7 The shogunate was a political design of Japan that existed until 1868, controlled for the Tokugawa family for the last two centuries. The shogun was a superior military commander that had national authority and actually ruled the country in the place of the emperor and the daimyo (regional warlords) had regional authority over their han (domains). The emperor was the ultimate source of political sanction for the shogun, though he did not take part in most of the country's administration (Hall 1973).

Oceania and eventually Japan and the East China Sea (Senise 2008).

Image 1: The Pacific Rim



Whereas the Portuguese, the Dutch, the French and the British successfully reached the Pacific Ocean going east, the Spanish went westward. In 1521, the explorer Ferdinand Magellan crossed the Pacific Ocean leading a Spanish fleet and arrived in Guam, setting the cornerstone for the connections between the American continent and Asia. This event paved the way for the Spanish establishment in the Philippines, more specifically in Manila, which was founded in 1571 and thenceforth served as an entreport for the merchants' ships crossing the Pacific Ocean, the hub of the Asia-American connection⁸ (Flynn e Giráldez 1995).

In the 1570s, the Ming dynasty replaced a paper-based monetary system for a completely silver-based one, meaning that all trade and taxes inside the Chinese tributary system were to be paid in silver. As China's population accounted for a quarter of the world's population, this change had an enormous effect on the world trade of the precious metal. In the late 16th century, the value of silver in gold in China was twice its value in the rest of the world, enabling a very profitable opportunity of arbitrage⁹. The Europeans merchants didnot miss this chance, neither did the Japanese, China's primary source of silver. As Flynn and Giráldez (1995) explain, the center of global trade at early Modern Age was the trade of

⁸ In the view of Flynn and Giráldez (1995), this year marks the birth of actual global trade, when all four major continents were direct or indirectly connected through shipping routes, due to the direct link between America and Asia.

⁹ Arbitrage consists on buying some currency for a price somewhere and then selling it for a bigger price elsewhere.

Spanish-American silver to China – the first great commercial route across the Pacific Rim – in which the Europeans played the role of middlemen.

In the context of the disputes for the shogunate, the Takugawa made an alliance with the Japanese merchants. Thus, the profits from the silver exports to China funded the campaigns against the other Japanese warlords (daimyo), granting the shogunate to the Tokugawa. Unlike the Spanish, the Japanese invested their profits heavily on agricultural and urban infrastructure, leading to the development of a commercial capitalism with “Asian roots” (Flynn e Giráldez 1995). The rise of the Tokugawa Shogun marked Japan’s political consolidation, and the subsequent new economic conditions allowed Japan to leave the Chinese rule and follow an isolationist policy (Kawakatsu 1994).

Compared to the 19th century, the relations between East Asia and Western nations (as well as the trade flow) in the previous centuries was modest, not only because of the distance and technical difficulties, but also because of the overly different cultural norms, which sometimes hampered their trade (Senise 2008). After the Industrial Revolution, however, the power relation between Asian and European nations changed quite dramatically. While the technological advances (like new cannons, steamships and ever larger railway systems) spread in the North Atlantic and the near East – Ottoman Empire, Sweden and Russia –, none of the new technology was introduced in the economic life of the East Asian countries. This created a gap between the industrialized nations and the non-industrialized ones that had never existed before (Hobsbawm 1988). As a result, the European powers, led by Great Britain, confronted East Asia with highly qualified weaponry and strength, which could not be matched by Asian forces.

In the end of the 18th century, the Chinese Empire under the Qing dynasty reached the limits of the Russian and British Empires in Asia and controlled all access lines to China and the commercial routes (Senise 2008). The foreigners’ access to Chinese ports was very strict. In order to ensure their interests in the Chinese market, the British disseminated the use of Indian opium as a narcotic, making millions of Chinese addicted to the drug. This evolved into a serious confrontation between the Qing and the British, the First Opium War (1839- 1842). Defeated, the Chinese were forced to sign the Nanjing Treaty, the first unequal treaty¹⁰ of many to come.

Among its clauses, the treaty provided for the opening of five ports to foreign trade, the concession of Hong Kong – the best deep-sea anchorage spot in the

10 The unequal treaties concept refers to a series of treaties signed by China and other Asian nations with world powers in the era of imperialism - from the mid-19th century to World War I (1914-1918). The name is due to the despairing situation in which the Asian governments signed those treaties and the consequential asymmetric provisions.

region –, a most-favored-nation clause¹¹ and the extraterritoriality¹² principle to the British Crown. The French and the United States soon sought the same privileges. The United States signed in 1844 the Wanghia Treaty, with similar clauses, besides by the fact that they agreed not to smuggle opium or any other product and – probably in exchange – received broader rights. After the Second Opium War (1856-1860), the Qing signed two more treaties with the British and their allies, besides another one that was signed with the Russians, after they annexed the Amur province.

The last decades of the 19th century saw an imperialist/colonial dispute between European powers, Japan and the U.S. that only worsened the plight of Chinese and Southeast Asian peoples. After the example of China, Siam (Thailand) did not resist against the Western powers and promptly signed free trade treaties and remained an independent realm. Burma and Indo-China, however, became British and French colonies, respectively, and so did the rest of Southeast Asian territories. Although it is argued that the colonial period enhanced the Southeast Asia's economy – the growth of per capita GNP could have been equal to the industrial nations' in the turn of the 20th century –, this growth happened mostly in primary goods production. After World War I, the scientific advances in Europe reduced the need for primary goods, causing the fall of commodities' prices worldwide and affecting directly Southeast Asia (Frost 1997).

In February 1850, Karl Marx (1850) stated that the discovery of the Californian gold mines would have more impact on the world than the discovery of America itself. Although this implication can be argued, this discovery triggered the population of the West of North America, adding to the Manifest Destiny's aspirations of settling the land from the Atlantic to the Pacific Ocean and furthering the conquest of the states of California, Oregon and Washington. Over the decades, that would make the United States of America a Pacific country, besides an Atlantic one, and the American decision-makers eventually realized it (Cumings 2009). In the last years, Washington has been reaffirming the status of the U.S. as a Pacific power in several speeches, which is a part of the shift of the American foreign policy toward the Asia-Pacific Region (The White House 2013).

The right to trade laid on the heart of the American Revolution and inspired U.S. foreign policy in the following centuries¹³. The continental expansion west-

11 The most-favored-nation clause is very common in trade-related agreements. It provides that all nations must have access to the economic privileges given by one state to a third.

12 The right of extraterritoriality assures that a foreign national who commits an infraction in a signatory country is tried according to the home nation's laws and courts.

13 Hamilton described foreign policy as “the freedom of American citizens, American goods and American ships to travel wherever they wish in the world in the interest of peaceful trade”

wards, along with the growing expansion of the American industry, only increased the country's commercial interests in the Asia-Pacific region. Furthermore, even isolationist politicians had to resign to the fact that the United States had need of larger markets, and this implied the need for increasing participation in world politics. Washington condemned the Chinese prohibition of opium imports, for instance, always emphasizing the *right* to trade, although it did not defend actual *free trade* and practiced high import taxes (Pike 2010).

In 1852, Commodore Perry, a distinct American naval official, crossed the Pacific with the firm objective of opening the restrictive Japan, intending to establish with Japan an economic relation similar to the one established with China. Unlike his predecessors, Perry frightened the Japanese with the steaming black ships he led. He was received without any sympathy but delivered a presidential letter demanding the opening of Japanese ports to American ships. It was clear for the Japanese that if the answer was negative Japan would face consequences similar to those suffered by China, when confronted by the United Kingdom. This event provoked a tumult in Japan's political scene, but when Perry got back to Japan, the gates were open (Hall 1973).

In 1854 was signed the Kanagawa Treaty, that provided for the opening of Shimoda and Hakodate to American ships for supplies and a most-favored-nation clause, among others (Hall 1973). Four years later, a new treaty was signed, known nowadays as Ansei Treaty or Harris Treaty. It had 14 provisions, among which were the freedom to trade in six ports, including Shimoda and Hakodate, agreed tariffs on the imports and no taxes in the internal trade of American products, in addition to the principle of extraterritoriality (Harris Treaty 1858). In the course of a year, Japan signed similar treaties with four other powers.

The effects of Perry's incursion in Japan was not restricted to the commercial sphere. When Perry gave the Tokugawa administrators an ultimatum, it represented an inevitable external pressure on Japan. Amidst internal political chaos, the Tokugawa shogunate proved unable to deal with the external pressures and hence the emperor – a traditional figure of Japanese politics precedent to the Tokugawa shogunate – became an axe of political reunification of the country, so that Japan could be strong to face the external threat. The reform of Japanese politics was axiomatic, and it took the form of the restoration of the emperor's power, known as the Meiji Restoration, completed in 1868 after a very turbulent process marked by rebellions, like the Satsuma Rebellion (1877) (Hall 1973).

In the economic field, the opening of the Japanese markets did not create competition between Japanese and Western products, because they were not

(Hamilton apud Pike 2010, p. 31).

similar, but between Japanese and other Asian goods. During the years of restrict trade, Japan had developed the production of many articles it used to bring from mainland Asia, like cotton, tea and rice. When Japanese ports were reopened, these products soon flowed into the country at lower prices. The Japanese then refrained from the production of many raw goods and focused investments on the industrial processes related to them, adopting an industrialization policy following the Meiji Restoration. One common example is the cotton-related industry developed in Japan after the Western intervention and the Meiji Restoration. The result was cheaper final products than the Asian competitors could offer. The inevitable consequence of these phenomena was the fast process of industrialization lived by Japan and its ascendance to the group of industrialized – and thus powerful – countries (Kawakatsu 1994). In the course of the last half of the 19th century, Japan developed from an isolated nation assaulted by Western powers to an imperialist power itself, ambitioning lands in the East Asia region.

Besides Japan, since the beginning of the 19th century, American presence had been growing in East and Southeast Asia. Throughout the century, the U.S. had expanded their influence in Hawaii, mostly via American missionaries, until it annexed Hawaii in July 1898, after heated internal debates (Pike 2010). Thenceforth, American annexation of small countries and territories moved on especially to the Caribbean islands, as a revival of the Monroe Doctrine, but also to the Pacific. In the same year of 1898, the Cuban Revolution against Spanish rule turned American attention to European empires. Due to important economic interests in Cuba, American sympathy laid by the rebels side and the US declared war against Spain (Pike 2010). A week later, a naval fleet anchored in the Japanese port of Nagasaki surprised Spain by attacking its possessions in the Pacific and destroying its fleet in Manila. Besides formal and informal acquisitions in the Caribbean, the Spanish-American War earned the Americans the Wake and Guam islands, right in the way to Manila, and the whole Philippine Archipelago. Whitelaw Reid saw the strategic value of the new possessions, besides the obvious commercial value for the articulation with China's market:

To extend now the authority of the United States over the great Philippine Archipelago is to fence in the China Sea and secure an almost equally commanding position on the other side of the Pacific—doubling our control of it and of the fabulous trade the Twentieth Century will see it bear. (Reid 1900, p. 42).

As Pike (2010, 33) states, “[f]or the ‘imperialists’ in Congress, the conquest of the Philippines was just the beginning of America’s economic domination of Asia.” Nevertheless, Americans were in constant debate over whether to follow an

expansionist policy like the Europeans, to build a new order, an “American” way of imperialism, or whether they refrained from international perturbations. This lack of decision culminated in a lack of greater action; therefore, according to Cumings (2009, 151) until the late 1930s “the United States was not really a Pacific power”.

Empire or not, the U.S. acted against other imperialist powers in Asia and America, since colonial possessions meant closed markets, and held the vision that U.S.’ products could – and should – compete with any other (Cumings 2009). Between the years of 1899 and 1900, the American Secretary of State John Hay created the Open Doors Policy, defending the equal opportunity to trade in China amongst all countries and the respect for territorial unity of China. The goal was that the U.S. could seize the commercial privileges held by other powers encroached in China, like Japan, Russia, Great Britain and France (U.S. Department of State n.d.). As Cumings (2009) argues, the United States wanted China to be strong enough to assure some degree of stability but at the same time it should not be so strong as to be able to confront the foreign powers and close its market.

The Open Doors Policy became an official American foreign policy to China through the first half of the 20th century. Nevertheless, the powers did not let go of most of their privileges, and China’s territorial and administrative unity was not possible until 1949, when the Communist Party eventually seized the power over the Chinese government, administration and economy. The most relevant point to retain from the Open Doors Policy is the mark of a new paradigm, that replaced European realist power politics for American universal values of democracy and freedom, including free trade (Cumings 2009). During the 1922 Washington Naval Conference, the U.S. tried to make the Open Doors Policy international law, and thus nine countries signed a treaty on the sovereignty and territorial integrity of China, known as the Nine Power Agreement. Japan was one of the signatories – along with the U.S., the British Empire, the Republic of China under the rule of the Guomindang, the Nationalist Party, and other countries –, even though after a decade it invaded China (Schulzinger 1990).

As Paine (2012) points out, in the first half of the 20th century, while both Russia and China went through long and bloody civil wars in their state-building process until political unity and industrialization were reached, Japan prospered as an industrial country. The status of Japan as an imperial power became evident by its victories in both Sino-Japanese war (1894-1895) and the Russo-Japanese War (1904-1905), when Japan conquered Taiwan and Korea from China. By that time, Japan had replaced China as the dominant regional power.

In the 1922 Naval Conference, Japan was granted the position of third larg-

est fleet in the world¹⁴, only behind Great Britain and the United States, which had fleets in both Atlantic and Pacific Oceans, while Japanese fleets only sailed the Pacific. Notwithstanding, this Conference actually meant a way to establish Japanese naval fleet on a lower level, comparing to U.K.'s and U.S.' ones. This would definitely influence Japan capacity to become a Pacific naval power, constraining its maneuver margin on this ocean (Paine 2012).

Moreover, because of its lack of natural resources, Japan was extremely dependent – as it still is – on trade, especially concerning fuels and mining products. This dependence only deepened with the crash of the stock market of New York in 1929 and the following Great Depression, a period marked by growing protectionism in Western countries. In China, a key market to Japanese economy, the government also raised import tariffs as means of raising its revenues, both to survive the economic crisis and to pay the costs of the ongoing campaigns against warlords and Communists. According to its policy towards China's independence from other imperial powers and its alignment with the Guomindang, the United States supported China's raising taxes. Japan saw its economy threatened by these movements worldwide. Another menace to their economy was communism, a latent threat that came both from inside China and from the northern Chinese border (Paine 2012).

Those are pointed as the main reasons for the invasion of Manchuria by the Japanese army in 1931, called the First Manchurian Incident by East Asians, which was justified by a bombing of the Japanese-owned railway in the region (Paine 2012). Adding to justifications, Japan had more than three hundred cases against China for violations of previously signed treaties and others issues¹⁵. Furthermore, the Chinese Nationalists had made the nationalization of the South Manchurian Railway Company a foreign policy principle. Besides official treaty violations, Chinese economic defiance came from the people, who refused to buy Japanese products¹⁶. All these issues added to a feeling of international disdain¹⁷,

14 In the Conference it was agreed that US, Great Britain, Japan, France and Italy must keep a ratio between their naval tonnage of 5:5:3:1.67:1.67, respectively (Schulzinger 1990)

15 The accusations included illegal taxes, import-substitution schemes that threatened Japanese businesses, restrictions on the residence of Japanese nationals and anti-Japanese propaganda. The Chinese construction of competing railway lines in Manchuria was particularly condemned. The Nationalist government answered Japanese claims alleging the principle of sovereignty and denied the legitimacy of treaties signed by the previous Chinese governments (Paine 2012).

16 Between the years of 1908 and 1931, there were eleven boycotts to Japanese imports, during 3 to 13 months (Paine 2012).

17 Besides the results of the naval Conference mentioned above, other Western actions in the 1920s dissatisfied Japan. Great Britain did not renew its alliance with Tokyo, and the U.S., for example, imposed restrictions on Japanese immigration to the country (Schulzinger 1990).

which only strengthened the aggressive nationalism that rose amid the Japanese military and society.

Following the invasion of Manchuria, the Kanto Army pursued the conquest of the rest of North China. The Japanese practiced the smuggling of cheap goods into China, so that the local Chinese businesses would go bankrupt and could be bought by the Japanese, also aiming that the customs revenues to the Nationalist government would decline abruptly, weakening the Chinese rule in the regions to be attacked. Chiang Kai-Shek, Chinese nationalist leader, was unsure whether to confront the Chinese communist rebels or the Japanese army. In 1937, it decided for the latter, and so the multiple “incidents” became an official war: the Second Sino-Japanese War (1937-1945).

Japan attacks furthered southwards, affecting also the European concessions in China; in response, some powers involved contributed to Chinese forces. From late 1941 to 1942, Japan attacked Pearl Harbor and other territories in the Pacific, like Burma, and the Second Sino-Japanese War turned into the Pacific theater of World War II. Japan justified its aggressions in East and Southeast Asia proclaiming the idea of the Greater East Asia Co-Prosperity Sphere, which consisted on an area larger than East Asia led by Japan aiming better economic conditions and total independence from Western rule (Kim 2008). The Allies, particularly the U.S., joined the Chinese struggles against Japanese aggression. In order to fulfill Japanese economic necessities – especially after 1942, when Japan’s access to American markets were closed – some Japanese encroachments went through a process of industrialization under the monopoly of the Japanese zaibatsu - Taiwan, Manchuria and Korea in particular (Paine 2012).

Following World War II, the Chinese Communist Party (CCP) grew stronger and eventually found its way to the power. Since 1949, China went through a period of relative reclusion in the world economy, having the Soviet Union and other revolutionary countries as its main economic partners. This would change after the rise of the regional tensions during the 1960s in Asia, which motivated the breach of the Sino-Soviet diplomatic ties, and the later opening of the Chinese economy.

1.2 THE POST-WAR PERIOD IN THE ASIA-PACIFIC REGION AND THE EMERGENT IDEA OF AN ASIA-PACIFIC COMMUNITY

The end of the Second World War created a whole new international environment, establishing new relationships, institutions, hopes and challenges throughout the continents. Meanwhile, the Asia-Pacific region could not have

been left out of these new changes and developments.

According to Michael Yahuda (1996), it was the advent of the Cold War in the late 1940s and early 1950s that brought about a junction in the Asia-Pacific between the international, regional and local dimensions of politics and economics. This trend has been manifested in the Korean War, started in June 1950, which effectively integrated the Asia-Pacific into the Cold War system that had first emerged in Europe.

The immediate aftermath of the Second World War was shaped by the understandings reached at the Yalta Conference¹⁸, which reflected the realities of American maritime hegemony in the Pacific and the Soviet dominance of the landmass of Northeast Asia. Consequently, the region was divided into spheres of interest. The United States exercised predominance in the Pacific Ocean, including Philippines¹⁹, Okinawa and Japan (Yahuda 1996). As a way to maintain its predominance, The United States built great commercial relations with these countries (Evans 1994). These relations include China which, especially in the Vietnam War occasion, firmed great relationships with the U.S. with economic and political interests (Visentini 2013). Also, from this moment on, the US begun to regard Japan not only as a country that had to be encouraged to develop along liberal lines, but also as one that had to undergo reconstruction as a potential ally and as a source of stability in Northeast Asia (Yahuda 1996).

Looking back to the 1960s, it is easy to see the substantial changes that the peoples of Asia-Pacific have been through in the past decades. Starting from an area of economic depression, the Asia-Pacific, more specifically East Asia, has become one of the powerhouses of global economic growth, rivaling the traditional economic centers of North America and Europe (Evans 1994). The extraordinary performance of the Japanese economy, which was the first to take off and remains the strongest in East Asia, is well known. However, others have been catching up with vengeance. For example, the Association of Southeast Asian

18 The Yalta Conference, sometimes called the Crimea Conference and codenamed the Argonaut Conference, held February 4–11, 1945, was the World War II meeting of the heads of government of the United States, the United Kingdom and the Soviet Union, represented by President Franklin D. Roosevelt, Prime Minister Winston Churchill and Premier Joseph Stalin, respectively, for the purpose of discussing Europe's post-war reorganization. The conference convened in the Livadia Palace near Yalta in Crimea.

19 The United States contributed to the economic rehabilitation of the Philippines, but at the same time it insisted upon a trade act that benefited American agrarian and manufacturing interests. In March 1947 it was agreed that huge American bases would be installed on Filipino territory. By 1949, the communist-led Huks had turned to armed struggle against the corrupt ruling elite. This led to greater American military aid and to relative success in containing the insurgency. In January 1950, the American secretary of state, Dean Acheson, declared the Philippines to be part of America's strategic defense perimeter in the Pacific.

Nations (ASEAN) economies grew almost 7 percent over the past five years, with their output almost doubling in the last decade; meanwhile, the strongest individual performer over recent years in the region has been China, with annual growth of 12 to 13 percent from 1990 until 2010 (Evan 1994, Economist 2014). Most of this great performance of China was enabled by the economic reforms adopted by Deng Xiaoping since the late 1970s.

This new tide of the Asia-Pacific Region was basically characterized by real economic growth; by an increase of security, for both individuals and States; and, most importantly, by the emergence of a sense of shared interests, values and perceptions (Evans 1994). Consequently, these developments produced the beginning of a sense of common identity and purposes throughout the Pacific Rim. Even so, that common identity had been evident in particular regional sub-groups like ASEAN, but not in the region as a whole. ASEAN, or the Association of Southeast Asia Nations, is a political and economic organization of ten Southeast Asian countries, first formed on 8 August 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand. Lately, Brunei, Myanmar, Cambodia, Laos and Vietnam joined the group. The organization basically aims to foster economic growth, social progress and sociocultural evolution among its members, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully. The creation of ASEAN was also motivated by a fear of the communism, besides this thirst for economic development (Bernard Eccleston 1998).

The birth of the new idea of such a community dates back to 1965, when the Japanese Professor Kyoshi Kojima was proposing a Pacific Free Trade Area involving, initially, Japan, United States, Canada, Australia and New Zealand (Evans 1994). However, ideas of an OECD²⁰-style body for the Asia-Pacific Region were only discussed with the formation of ASEAN itself, in 1967, what brought up the commitment of a sub-regional cooperation and development. And last, we have the Pacific Basin Economic Council (PBEC) that was, basically, an influential independent business association founded by Weldon B Gibson in 1967 with the objective of facilitating business in the Asia-Pacific Region (Yahuda 1996).

The establishment of the ASEAN dialogue in 1984, in which Australia was the first external dialogue partner, substantially strengthened inter-governmental

20 The Organization for Economic Co-operation and Development (OECD) is an international economic organization of 34 countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members (OECD, <http://www.oecd.org/> 1961).

consultations in the region. In the 1980s the pace quickened considerably, with a number of new suggestions being made by regional statesman. The specific idea to establish what is known nowadays as the Asia Pacific Economic Cooperation (APEC) forum was launched by Australian Prime Minister Bob Hawke, during a speech in Seoul in January 1989. It has to be said that the evolution from the prime ministerial speech in Seoul to a ministerial-level organization was not automatic: it required a fair degree of juggling to balance, on the one hand, the interests of Japan and the United States in being major players in the process; and, on the other hand, the concerns of ASEAN not to be subsumed, and institutionally overwhelmed, in a wider regional process. There is no doubt that APEC has now become the region's preeminent economic forum, with a growing list of aspirants for membership. Having that said, there is still a great deal of ignorance and uncertainty – both within and outside the region, and particularly in the business sector – concerning what are APEC's real significance and objectives (Yahuda 1996).

The beginning of an idea of community during the Cold War evolved and resulted in some particular treaties and agreements in order to enhance this new commitment. Already in the 1990s, we can see a trend toward regionalization, which will culminate in some other agreements.

The North American Free Trade Agreement (NAFTA) is one of these agreements cited above. Signed by Canada, Mexico and the United States, it basically creates a trilateral rules-based trade bloc, in order to enhance the commitment and the commerce between these nations. The agreement gained force on January 1st, 1994, when it was signed (Representative 2014).

ASEAN, as another important player of the Asia-Pacific region, also brought its own Free Trade Agreement. Known as AFTA (ASEAN Free Trade Area), is a trade bloc agreement supporting local manufacturing in all ASEAN countries. The AFTA agreement was signed on 20th January 1992 in Singapore. When it was originally signed, ASEAN had only six members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand). Nowadays, it comprises ten countries, Vietnam, Laos, Myanmar and Cambodia joined the bloc throughout the years. The basic goals of the AFTA seek to increase ASEAN's competitive edge as production base in the world market through the elimination of tariff and non-tariff barriers and; consequently, the attraction of more Foreign Direct Investments (FDIs) to the ASEAN countries.

As another outstanding agreement, The Pacific Alliance is key to understand the commercial system of the Asia-Pacific Region. The alliance is basically a Latin American trade bloc, with some features of further integration. It currently has

four member states (Chile, Colombia, Mexico and Peru) and its basic aim is to reduce trade barriers between this countries. Nowadays, the Pacific Alliance has begun several other projects for regional integration, including visa-free travel, a common stock exchange and joint embassies in several countries (Press 2012).

2 STATEMENT OF THE ISSUE

2.1 THE CURRENT FREE TRADE AGREEMENTS UNDER DISCUSSION IN THE ASIA-PACIFIC REGION

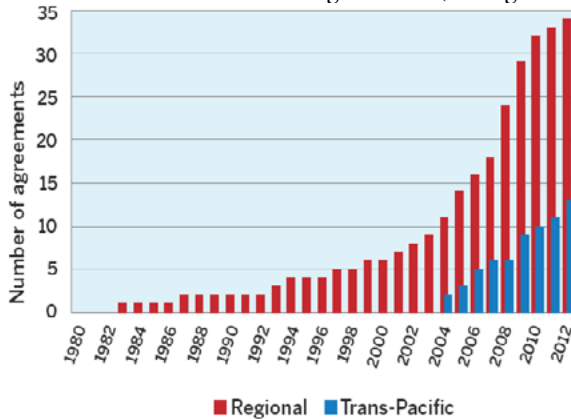
The Asia-Pacific Region is one of greater international value not only for the big economies it comprises, but also because of its impressively and growing intra-region trade. Assuming this situation, this region's countries have firmed a plethora of Free Trade Agreements (FTA) in bilateral and multilateral ways, with the means of earning the maximum benefits from its trade. In the attempt of unifying the great number of FTA, as well as getting more benefits from trade, two propositions of mega-FTA have prevailed: the U.S.-headed Trans-Pacific Partnership (TPP) and the ASEAN-based Regional Comprehensive Economic Partnership (RCEP). Being somewhat overlapped, but having, not only in its members, but also in its core potential rules, relevant differences, scholars have been discussing which will be the most fruitful and successful path to the regional integration. In this context, the recent revival of the willing to conform a Free Trade Area of the Asia Pacific (FTAAP) integrates the debate of which path can bring the region to it, or if it must pass through TPP or RCEP at all. Bearing all this in mind, this session aims to cover these two main FTAs under discussion and the possibility of a FTAAP.

2.1.1 PROSPECTS OF REGIONAL INTEGRATION IN THE ASIA-PACIFIC: THE TRANS-PACIFIC PARTNERSHIP (TPP) AND THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

The Asia-Pacific is one of the main protagonists when talking about regional integration. It is the main locus of trade and growth in the world, and the development of multiple FTAs is a logical consequence of it. Moreover, three main features justify the proliferation of FTAs: the region's scale, its dinamic adaptation to world development – e.g. the formation of global production chains – and the growing willingness of countries in the region to connect with each other

(Petri, Plummer and Zhai 2014), which can be added with the need to regulate its increasing economic activity (Dai 2014). Nevertheless, the proliferation of FTAs is a very recent trend, considering that efforts on this aim have commenced in the beginning of the 2000s, while initiatives for integration in other regions of the globe have started at least ten years before. The region is a latecomer in the context of trade agreements, but it has been catching up really fast, as showed in the image below.

Image 2: Trades in Asia Pacific Trade Agreements (among APEC members)



Source: United Nations ESCAP database apud Petri, Plummer and Zhai (2014)

It is important to notice that the economies of the region were already pretty integrated before the emergence of FTA or regional agreements among them; that is, “under the global trade regime” (Drysdale 2014, 1). Asian economies have developed its exported-led nature though unilateral measures and gradual liberalization, integrating the globalization process mainly through global supply chains. In this context, APEC played an important role in coordinating unilateral liberalization, as the Chinese process before its accession to the World Trade Organization in 2001. The process of integrating the world economy and liberalization built the foundations for the beginning of integration and cooperation processes in the region (Drysdale 2014), which culminated in today’s myriad of FTAs.

Because of the great number of FTAs existing in Asia, it has become popularized to characterize the region as a “Noodle Bowl”, as a metaphor of the overlapping characteristics of the FTAs²¹. Due to this situation, the same product may be “subject to different tariffs, tariff reduction trajectories and ROOs [Rules of

21 It refers to Bhagwati’s (1995) term “Spaghetti Bowl”.

Origin] for obtaining preferences” (Kawai and Wignaraja 2009, 6). This may increase the costs for enterprises, specially small and medium ones, because of the multiplication of labelling and certification needs (to obtain FTA advantages), which difficult and often dissuades this action – consequently, a lot of enterprises do not use FTAs’ preferential treatments (The Economist 2009). One of the main problems involved is the high diversity of Rules of Origin (ROOs), the procedures that determine if a product is originated from a member state and, then, if it is eligible for preferential treatment. Among RCEP members, for example, there are currently 22 ROOs in order, with a lot of product-specific rules, adding complexity and costs for business in general. While RCEP faces this difficulty, the TPP’s members committed in 2011 to have a single set of ROOs; however, there are some disagreements, mainly inside the US, where some labor unions ask for more strict ROOs for certain kinds of goods (Tran and Heal 2014).

It is in this context that the TPP and RCEP propositions, which are now dominating the field of regional integration debates, must be analyzed. Both strategies are designated to boost trade liberalization and growth, to solve the current “Noodle Bowl” problem and to be a possible pathway to a future FTAAP. All together, TPP’s members represented approximately 40% of world’s GDP, 11,3% of world’s population and 25,8% of world’s trade, while RCEP’s numbers are 48,3%, 29,2% and 28,3%, respectively (Urata 2014). Moreover, both strategies carry the possibility of being a framework of rules of procedure and patterns of trade that can form the basis for a global trade regime, given not only the outstanding size of these potential new blocs, but also the influence the countries comprised by them have in the rest of the world (Drysdale 2014). However, each of them has its own particularities, which shall be further treated.

The TPP is a comprehensive and ambitious strategy of agreement that involves twelve economies of the Asia-Pacific region. It evolved from the P4 agreement launched in 2005, by Singapore, Brunei, Chile and New Zealand, gaining more strength when the United States deposited its interest on it from 2009 onwards, highly possibly as a reaction to the World Financial Crisis, once TPP provided a significant opportunity for recuperation. Negotiations of TPP started in 2010; after that, Mexico, Canada and Japan integrated the process. Nowadays, it involves the following countries: the P4 ones, the US, Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan (Urata 2014). Membership is open to any APEC economy; until now, new memberships were subjected to consensus, and the country willing to enter must have achieved some requirements, important for facilitating further negotiations. Moreover, new members cannot change agreements already established, what diminishes its potential to influence the final set

of rules (D.K. Elms 2014).

This way by which TPP was formed – with members entering during the negotiation process – have actually benefited those countries who pursue more deep and specific commitments, as the U.S.. This is due to the fact that the larger the agreement – especially if it includes reluctant members, as China would be, for example –, the lower is the possibility to reach common grounds, being more likely to reach just shallow cooperation (Dai 2014).

Regarding its potential rules and objectives, it is commonly agreed that TPP may be way more ambitious than RCEP, specially concerning the level of tariff and non-tariff removals (Tran & Heal 2014; Kawasaki 2014; Wignaraja 2014)²². Its rules might even surpass current WTO provisions in several areas, as market access, good and services liberalization (pursuing a 100% liberalization ratio); labor and environmental standards; intellectual property rights (protecting property for extended time); government procurement (pursuing liberalization of it among member countries); international investment; advanced internet freedom; among others (Tran & Heal 2014, Contreras 2014). Amidst its objectives, becoming a “twenty-first century agreement” has to do with its ambitious aims, as well as its underlying will of becoming paradigmatic to future FTAs, helping them to establish globally accepted trade and investment standards. This may be one of the key objectives for the US (Contreras 2014). The complexity of its negotiations are mainly because of the degree of deepeness it seeks and of the diversity of its members in terms of interests and levels of development. Table 1 summarizes some negotiations’ disagreements. Having this in mind, and also the fact that TPP’s envision its conclusion by a single undertaking of the rules, rather than a sequential manner, it is understandable why the TPP has already lost its first time horizons for the conclusion of the treaty. The high degree of disagreements concerning some areas, specially about U.S.’ high demands in some points, put it on doubt its prospects of being concluded. Moreover, the TPP negotiations had been occurring under closed sections, and only through some leaks of information it has been possible to get to know about what is really being discussed and proposed. This is even more controversial and difficult to accept if its considered that there are evidencies suggesting that the TPP would give more benefits to big corporation than other deals have already done so far. This situation make it difficult for the internal insitutions and the public opinion, even in the U.S., to agree with what could be the signing of “black cheque” to big corporations.

22 However, it must be noted that some exceptions may be allowed, as it was for Japanese agriculture and automobile sectors, whose protection was a pretty important condition for its entering in TPP (D. K. Elms 2014).

Table 1: Contentious Issues in TPP Negotiations as of June 2014

Areas	Economies most involved	Issues
Market access	US vs. JPN	The US claims that Japan's tariffs on agricultural products should be substantially reduced. Japan claims that auto tariffs in the US should be eliminated.
Intellectual property rights	US (JPN) vs. MAS & VIE	The US claims that data for pharmaceutical products and copyrights (for novels, movies, music, etc.) should be protected for a long period, while Malaysia and others claim that such protection should be for a short period.
Competition policy	US (AUS, JPN) vs. MAS, VIE, BRU	The US claims that policies that favor SOEs (such as subsidies) should be abolished to establish a level playing field against private firms, while Malaysia and others argue against such a claim.
Government procurement	SIN (US, JPN) vs. MAS, VIE, BRU	Singapore and others argue that government procurement should be opened to foreign firms, while Malaysia and others are reluctant.
Investment	US (JPN) vs. AUS (NZL, MAS)	The US and others argue that an investor-state dispute settlement (ISDS) system should be introduced, while Australia and others are against it.
Environment	US (CAN, JPN) vs. VIE, MAS	The US and others argue that environmental standards for firm activity should be improved, while Vietnam and others are reluctant.

Note: AUS=Australia, BRU=Brunei, JPN=Japan, MAS=Malaysia, NZL=New Zealand, SIN=Singapore, US=United States, VIE=Vietnam.

Source: Kawai (2014).

Among the disagreement highlighted in the Table 1, particularly controversial is TPP’s potential investor protection rules. The most meaningful attacks to TPP’s structure is about its possible Investor-State Dispute mechanism, which may favor much more the multinationals and limit a lot of government’s ability to take actions of public interest²³. Non-Tariff measures are another main area of discussion. The TPP has meaningful commitments about it, but given the variations on member level of development – such as between the U.S. and the Vietnam – achieving a common ground may be difficult (Tran and Heal 2014).

For its turn, RCEP is a more recent initiative. Deriving essentially from ASEAN+1 treaties, its negotiations started in 2013, and involved 16 members: the

23 According to Ikenson (2014), the Investor-State Dispute Settlement (ISDS) gives disproportionate benefits and special legal advantages to multinationals (MNCs), in its aim to reduce their risks in international markets. For example, it exceeds “national treatment obligations” - a principle of nondiscrimination of foreign firms -, because it gives legal privileges to MNCs that are not available for domestic enterprises in its own market. Furthermore, it gives plenty of space for creative interpretations of what is “fair and equitable treatment” that can favor even more the MNCs.

10 ASEAN countries, plus China, Japan, Australia, New Zealand, South Korea and India. Since then, no other members entered negotiations. An important feature of RCEP is the fact that most of the members (notably ASEAN and China) integrate the greatest world supply chains; that is, a huge FTA among them would have great potential of increasing the efficiency and scale of these chains, as well as turning the region even more attractive to multinational investments. RCEP's issues coverage are less extensive, comparing to TPP, as well as the deepness of its commitment, hitherto, appears to be more modest (Urata 2014).

The RCEP is a deal with great potential to become the representation of Asian's community, mainly because of its gradual and consensual process, which enables its members to adapt, each in its own rhythm, to the requisites to a comprehensive FTA. One distinguished characteristic of RCEP is its objective of equitative growth among its members, which is not touched in TPP's main aims. It is reflected on its goals, as it aims to recognize the different levels of development and to provide development assistance to the least-developed members. This is not just a good initiative per se, but also because it can make it easier for these economies to accept the RCEP final results, as well as it paves the way for future accessions of less competitive economies (Wignaraja 2014). That is, on the contrary of what may be happening on TPP negotiations, the RCEP can provide an arena of negotiation where even small and under-developed countries can put its demands under discussion, once the principles of ASEAN – as equal sovereignty for all members and the pursue of cooperation – must govern all the process.

Considering that most members of ASEAN already have agreements with each other, it must be noted that

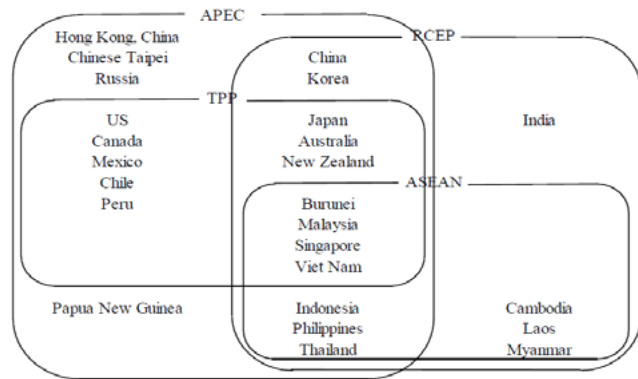
The larger gains from RCEP derive mainly from assumptions of increased trade amongst the large ASEAN+6 partner, i.e. Japan, China and India, because there is no agreement at present involving all three of these countries, rather than from greater trade with the ASEAN economies (Tran and Heal 2014, 4).

The possibility of a deal between Japan, China and India is not only important because of its economic consequences, but also because of its political impact. That is, the RCEP really offers an opportunity of a big and comprehensive deal, among large Asian economies – as the three quoted above – that can actually be opened to small and developing economies demands through its gradual and less ambitious process. That is its main difference from the TPP, once more fragile countries may find very difficult to accept its standards, which could put their economies under risks and could in fact deem their development process.

Moreover, the RCEP is less ambitious than the TPP, and as tariffs are higher

among members right now, the benefits from tariff reduction are supposed to be larger. However, it “will likely contain more exemption for sensitive products and services” (Tran and Heal 2014, 4). This characteristic is mainly due to the great number of least-developed countries embraced in RCEP negotiations, and because of its commitment with providing them space to develop and discuss their own demands. Furthermore, it includes India, one of the countries with less liberalization ratio and that has not manifested so much willingness on increasing it. Concerning Non-Tariff Measures (NTMs) removals, RCEP has some commitments about it, but if it follows as the ASEAN’s commitments, it has little chance to succeed (Tran and Heal 2014). In general, RCEP’s provisions might not go so much further than WTO’s and already established ASEAN+1 in areas of services, investment and trade on goods liberalization. As RCEP pursue flexibility – the possibility that the agreement can be accomplished in a sequential manner, rather than in a single undertaking (Wu and Mealy 2012) – and beneficial treatment for less developed economies, the deal may have less disagreements and be easily concluded. However, here is the risk that it turns into something largely redundant, advancing little on the current level of liberalization. This is one of RCEP’s most important challenges. Moreover, another obstacle is to unify those agreements, once all ASEAN+1 treaties and bilateral FTAs have different templates, specially concerning the ROOs, as already commented (Kawasaki 2014). Still, the RCEP actually has the potential to be a great and deep agreement, and also “a new paradigm in the international trade system” (Das and Jagtiani 2014, 32), if it follows correctly more outrageous objectives and try to supercede the rules that already exist under ASEAN+1 FTAs; for example, it would be important to try to reduce the exemptions permitted in some reasonable term, but only if respecting its aim of prioritizing the development of the nations involved. The most important achievements to be reached are:

conclude with a positive outcome of tariff elimination coverage of 95 per cent; have a common market access schedule and comprehensive coverage of WTO-plus issues (such as deeper cooperation in investment [...]); focus on domestic structural reforms; and give consideration to private sector interests and ‘behind the border’ integration measures such road connectivity, port services bottlenecks and customs delays [...] (Das and Jagtiani 2014, 31).

Image 3: The Asia-Pacific Integration Framework

Source: Kawasaki (2014).

Concerning the possibility of conclusion of any of these treaties, the costs of non-participation are especially high, mainly because of trade diversion effects²⁴, as well as the fact that the gains from NTMs reduction for third economies may exist, but will not be significant, according to studies simulations (Kawasaki 2014). Then, the option between entering or not in a treaty is more complex than just considering if its standards and structure benefits one's economy. According to Dai (2014), there are two main scenarios involving this choice, when referring to the dilemma countries left out from the TPP face. First, a country may see absolute gains from entering in the treaty, even though it would have been better to have integrated it before, as it would have the chance to influence the rule-making process. Second, the deal is not good at all for the country (e.g. a country with a less competitive industry), as no absolute gains come from entering it. However, the establishment of a mega trade deal changes the status quo; that is, the situation before the treaty was definitely better for this country, but if it is impossible to have it, the country may enter the deal anyway, because staying out of it may entails even worse results. The conclusion is that once the deal is concluded, any country in the region that has been left out of the negotiations may be forced to enter it²⁵.

24 Trade diversion effects were first defined by Viner (1950) and are related to the fact that when two or more economies eliminate tariffs through a FTA, they may reduce or stop trade with sometimes more efficient non-members states, preferring (because there is no barrier) to trade with treaty members. The global net gains are defined by the difference between the efficiency earned by trade among member states (trade creation) and what is lost by deviating trade from outside the treaty, with countries that are more efficient in producing certain kind of products (trade diversion).

25 The main reason underlying this situation is that "powerful countries can effectively 'go it

Moreover, Dai (2014) affirms that regionalism in East Asia is said to be pretty fragmented, because, according to empirical studies, it lacks cohesion in institutional building of trade and financial policies. This situation paves the way for the emergence of any new treaty that can deal effectively with the challenge of “glueing” the region with institutional strength. In the end, there is a relevant vacuum expected to be fulfilled, and once its done, the author’s argument proves that it would be hard to avoid it to encompass all the region. This prediction is made for the future of the TPP. However, it is possible that the fact the TPP is not nowadays a fully accepted agreement – which is demonstrated by the hardness of finding agreement over its high standards – can defy such affirmative. Moreover, to be comprehensive and, then, have this effect of attracting all countries to it, TPP must achieve a lot of under-developed countries that, for now, do not appear to be willing to accept its demands – mainly U.S.’ ones. Either way, Dai’s argument may be valid for any comprehensive agreement that encompasses the majority of the nations in the region. For example, the Chinese proposition of a FTAAP that can be a more agreeable deal may represent this situation, if it succeeds reaching a great number of countries of the region.

While the most positive gains from Asia-Pacific FTAs come from studies that consider the conclusion of an agreement that comprises China and the U.S., the prospects for the Chinese entry in the TPP, the most debated possibility, seems to be highly unlikely in the near and medium terms. There are some areas where an agreement would be very difficult to reach, as intellectual property protection (the main disagreement is about how much time the protection period should last); government procurement; state-owned enterprise (SOE) governance (while the TPP requires the government does not own more than 20% of a SOE, in China, despite it is in reform, this shares goes from 50% to 80%); investment disputes; among others. Furthermore, given the congressional process of the U.S. and Japan, even if China met all the requirements and asked to join the TPP – which, must be stressed, is not in the Chinese interests – it would be impossible to happen in less than two or three years (Jianping 2014). For the Chinese, entering in TPP as it is right now is not a reasonable move. Besides the reform needs, political relations also adds further complexity to this situation.

Despite its dense economic interdependence, China and the U.S. are said to have been recently competing in the Asia-Pacific, not only for markets, but also for influence and potential allies, once the region is strategically important

alone’ to establish an institution that benefits some and hurts others, giving no regards to those who would have preferred the status quo without the new institution. Those who are hurt cannot undo the institution.” (Dai 2014, 7).

for both nations. Today the Asia-Pacific region figures as the “new global economic driving force” and centers all the important trends, from geopolitical and military to economic ones (Swielande 2012, 75). Putting in practice what Hillary Clinton has called the “America’s Pacific Century” in 2011, the U.S. has been clearly engaging for more presence in the region, which is manifested as a strategic “pivot”. Economic expansion, defense concerns and assuring freedom of navigation are the main features of its interests. The U.S. has as its main allies in the region Japan, South Korea, Australia and some ASEAN countries – that for itself already represents a priority in the U.S. contemporary foreign policy –, such as the Philippines, Singapore and, more recently, Vietnam (Swielande 2012). With them, the U.S. tries to assure those interests, what intrinsically involve counterbalancing China, once “[t]he pivot is taking place in the context of deepening Chinese regional relationships.” (Majid 2012, 22).

For its part, China is geographically constrained to expand its influence in the region, especially given security issues and its dependence on international trade. Chinese recent approximation with South Korea is a relevant factor altering the status quo of the region. Their recently agreed FTA, certainly has huge political and economic results that increases Chinese leverage in the region. Moreover, its more traditional ties with Southeast Asia also pose serious constraints to the U.S. pivot. That is, if in fact China and the U.S. compete in the region, and as they have different economic objectives in participating in FTAs, much dialogue and trust building must be made before they can integrate the same agreement, if this would be possible at all. This bilateral relationship is of utmost importance for determining the future of a potential FTAAP.

2.1.2 PATHWAYS TO THE FREE TRADE AREA OF THE ASIA PACIFIC (FTAAP): AN ULTIMATE GOAL OR A THIRD ALTERNATIVE?

The last APEC reunion in 2014, in Beijing, has thrown back to the table, mainly by Chinese initiative, the possibility of a FTAAP, which has been the ultimate goal of APEC’s members²⁶ since 1994. The benefits of a potential FTAAP are said to be huge by the majority of studies, especially because of the number of countries involved (all the 21 APEC members), and also because of the participation of the three biggest economies in the world: the U.S., China and Japan.

26 Actually, the FTAAP idea has its origins in an APEC summit in Bogor, Indonesia, which happened in 1994. By that time, leaders had agreed to achieve free trade in the region up to 2010 for developed economies and 2020 for developing ones. In 2006 and 2010, FTAAP was again subject of APEC’s meetings. The 2014 meeting “has reinvigorated the prospects for a future deal” (Tran and Heal 2014, 2).

Moreover, if the FTAAP is able to make obsolete all other FTAs of the region, the gains of trade system simplification, as of its standards, ROOs and general rules, could also be very significant.

Table 2: Economic Size of TPP, RCEP and FTAAP

	TPP	RCEP	FTAAP
Number of economies involved	12	16	21
Aggregate share of world GDP (%)	38	29	58
Aggregate share of world exports (%)	24	30	46

Source: Schott (2014) and ESCAP calculations based on APEC statistics apud Tran and Heal (2014).

In the FTAAP roadmap established in 2014, it was agreed that the FTAAP might emerge from the existing FTA agreements in discussion, the TPP and RCEP²⁷. There is plenty of debate about which pathway would be the most probable and adequate to achieve an FTAAP. Thenceforth some alternatives will be analyzed.

Some authors (Tran and Heal 2014; Petri, Plummer and Zhai 2014) analyze the possibility of an expansion of either TPP or RCEP. In the first case, it is commonly stated that TPP have the “first-mover” advantage, as well as deeper template in terms of liberalization, which would facilitate further benefits from a FTAAP. Moreover, TPP is declared open to new members and has already accepted three of them after the beginning of negotiations. According to Tran and Heal (2014, 8), “APEC economies could gradually join the TPP when ready to do so via a process analogous to WTO accession”. Furthermore, the possibility that the TPP would become a “living agreement”, that is, an agreement opened for permanent and regular discussions about its provisions, would prevent it from being obsolete (D. K. Elms 2014) and also would allow it to adapt to new demands when converging to a FTAAP. However, the main obstacle in this alternative would be Chinese entry, which is essential to build an Asian-Pacific Free Trade Area, but is constrained by some important factors, as stressed in the last section. Moreover, due to its high standards, the accession of other APEC economies, especially the less developed ones, would also be seriously hampered.

The possibility of a RCEP expansion is also treated, but it is sometimes considered less probable (Tran and Heal 2014; Petri, Plummer and Zhai 2014).

27 One important question that cannot be ignored is that there are three APEC economies that are in neither of the potential agreements: Russia, Chinese Taipei and Honk Kong. Furthermore, RCEP includes four economies that do not integrate APEC: India, Cambodia, Laos and Myanmar (Schott 2014).

That is because of its potential lower standards, which would difficult the entry of developed economies, and also because of the fact that its openness to new members is not so pronounced as TPP's, once, hitherto, only countries which have FTA with ASEAN are participating of the negotiations. However, RCEP offers, as said before, an opportunity of constructing an agreement that actually benefits and gives voice to all of its members, even the small ones.

A hybrid pathway, also called the “umbrella agreement” would be an alternative if the first possibilities fail – that is, if RCEP does not evolve to deeper commitments, if TPP members cannot achieve a common ground on its difficult negotiations, or even if China does not enter in TPP. This alternative would consist in bringing together TPP and RCEP member and uniting the greater commitments of the former (that would just apply to its members) with the softer approach of the latter, giving potential new members the choice to opt between them, while FTAAP would bind each of them to some obligations and provide the benefits of trade facilitation. Therefore, it would be a multi-tiered system. Obviously, the expectation would be that all economies in the end converged to greater standards, but each in its own pace (Petri, Plummer and Zhai 2014; Schott 2014).

Finally, Urata (2014) makes a new approach of a possible pathway to the FTAAP, the “Two-Stage Approach”. It focuses on the fact that these agreements are complementary, but should not merge; they should instead constitute two stages in the way to get to an Asia-Pacific Free Trade Area. Developing economies should first integrate RCEP, until they grow enough to be able to accept TPP standards. In the author's words:

[t]he RCEP, with its emphasis on equitable and sustainable economic development through economic cooperation, may begin with shallow integration – limited issue coverage and relatively low levels of trade liberalization – but gradually achieve deeper integration. [...] The TPP, on the other hand, will establish a rule-based, free and open business environment by achieving high-level trade and investment liberalization and by setting up high level rules on competition, intellectual property rights, government procurement, and other areas. The TPP aims to develop into a FTAAP, which may eventually turn into the WTO mark II, or global economic rule (Urata 2014, 128).

There are two meaningful suggestions for making FTAAP more feasible. First, to foster China-US dialogue under APEC coordination, once their actions are the most crucial for achieving this final goal. Second, TPP and RCEP could develop clauses of “mutual accession”, that would represent “commitments to consider expe-

ditionously applications from each other's members. They could also identify future windows for enlargement" (Petri, Plummer and Zhai 2014, 88).

China, the main pusher of FTAAP discussion in the last APEC meeting, has special interests on it, mainly due to its concerns with the probability of a concluded TPP. One possible hypothesis for Chinese behavior on pushing the FTAAP is explained by Dai (2014). China is stuck in an important dilemma.

Not joining TPP could mean economic losses and losing the chance to help shaping important new patterns of trade and investment. Meanwhile, entering it may be very tricky, considering the need for reforms and the TPP's ideologically different principles. Actually, entering it is not considered a reasonable path to continue to follow Chinese aims of development. One possible alternative, then, would be to reinforce East Asian existing regional institutions²⁸, through launching initiatives where it can be a leader and influence greatly in the rule-making. In this context that China brings back the FTAAP discussion to APEC's meeting, as well as puts forward its plans to build the Asia Infrastructure Investment Bank (AIIB), a possible way to foster regional financial institutions and to exercise leadership on it. In this scenario, it is for the US that a dilemma appears: it can ease its demands on TPP or invest a great deal on a new deal, as the Chinese proposed FTAAP, or in the contrary it may accept the risk of staying out of Asia-Pacific FTAs (as RCEP) in the case that disagreements on TPP persist. Therefore, the future of Asia-Pacific integration depends not only on the developing of the negotiations of TPP and RCEP, but also on the region's evolving institutions, especially when it involves Chinese leadership.

2.2 CASE STUDIES

2.2.1 INTELLECTUAL PROPERTY IN THE ASIA-PACIFIC REGION

During the last years, countries of the world have been searching for development and economic growth. Innovation and technological progress are special tools for these objectives, considering that new products and processes are always emerging and enterprises need to keep up with that evolution. This is why intellectual property (IP henceforth) regulations are so important to discuss, especially regarding Free Trade Agreements, since those regulations may interfere in commerce and in the relations between countries.

Intellectual property can be defined as "a form of knowledge or intel-

²⁸ As before stated, according to Dai (2014), it is the weakness of East Asia regional institutions that creates a vacuum that gives TPP the opportunity to cease it and rewrite the "rules of the game".

lectual activity embodied in various manners in the production and marketing of goods and services of an industrial, scientific, literary or artistic nature” (Wattanapruttipaisan 2004, 2). Once registered, the creators – individuals or enterprises – own an IP asset, which guarantees the protections of the goods and services by several rights and for a determined period of time. This way, others are not allowed to use these creations without authorization, usually associated to the payment of royalties to the creators. Furthermore, the development of more IP assets for a company can also improve the private investment for researches. IP is normally divided into two categories: industrial property and artistic and literary property. Industrial property is what comprises the creations that relate to industrial production, such as patents, trademarks, industrial designs and geographical indications, whereas artistic and literary property involves copyrights. Besides, IP has become a great indicator of a company’s competitiveness and the origin of various disputes between countries in the Asia-Pacific region (Wattanapruttipaisan 2004).

Analyzing the evolution of international regulations for IP is a form to understand the current regulations and how countries have been dealing with the issue. In 1883, the Paris Convention on the Protection of Industrial Property was signed, one of the first treaties concerning IP. It established a Union, in which every member would have the same status and rights to protect their industrial property. Eleven countries started the Union and, today, there are 174 members, representing one of the most adopted treaties in the world. After that, there was the Madrid Agreement Concerning the International Registration of Marks (1891), which created the Madrid System. This system is used nowadays to facilitate the registration of trademarks worldwide, in a way that enterprises do not need to register in each individual country, but in the international system. In 1970, the Patent Cooperation Treaty was signed, with the objective to unify the patent filling procedures and protect the inventions of the contracting countries. The PCT does not grant international patents, but it can facilitate the fillings in regional and national levels. It was only in 1994, with the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS), that the regulations on IP gained importance in the trade issues. The TRIPS agreement is the most respected regulating system because it has an innovation: the dispute settlement mechanism. It is part of the General Agreement on Tariffs and Trade and administered by the World Trade Organization. Besides those treaties, there is the World Intellectual Property Organization (WIPO). It was created in 1967, as one of the United Nations specialized agencies, and is now the main institution for IP regulations and treaties (WIPO, International Treaties and Conventions

on Intellectual Property 2004).

The IP importance usually relates to development. Developed countries tend to insist in greater IP regulations, so that their creations cannot be copied by the not so developed ones. Their enterprises want protection for their subsidiaries in developing countries and want to guarantee their rights. Besides, with protection, their products are sold with higher prizes, providing more profit for the entrepreneurs. On the other hand, the developing countries that introduce more severe regulations won't have the option of technological learning by imitation and the products will be more expensive, such as medicines and agricultural inputs. Their domestic production would also be affected by the introduction of several foreign products (CIPR 2002).

As noted, there is an understanding that IP regulations are good for developed countries and might damage developing ones. Since the TRIPS agreement, the trade regulations are linked to the IP regulations, creating some sort of obligation to developing countries to participate, because they were interested in the global trade regulations. During the negotiations for this agreement, a group was created, the Group of 14²⁹, which consisted in developing countries coming together in order to secure their development interests by considering the different levels of development between the members of WTO. One of the biggest issues was the relation of IP with public health and how developing countries would guarantee their citizens with health support if the medications are so expensive. This group was very important for the existing regulations, but not as successful as it could have been (Chon 2006).

When it comes to development, countries from APEC have large disparities. There are several stages of economic growth and levels of openness to IP stronger laws. Some countries from East Asia have been able to develop great information technologies and have set themselves as important players in the global economy. The problem, however, is that this development only reflects in small parts of the populations, keeping others apart. It is important to consider the Asia Pacific region as heterogenic - a group of countries with huge differences in development and technological knowledge - when discussing the introduction of IP regulation in trade agreements (Cardoza and Liang 2008).

Negotiations of FTAs usually include the IP subject. In the Asia Pacific region, the United States have a vast number of FTAs and is always using them as an instrument to impose their wishes related to IP regulations. The pressures also come from the European countries that, together with the U.S., have been

29 Group of developing countries formed by Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Pakistan, Peru, Tanzania, Uruguay and Zimbabwe.

successful in changing various regulations in the Asian developing countries. Furthermore, the TRIPS agreement has showed how some of the Asian economies were able to improve their regulations, such as Malaysia, Singapore and Thailand, and others are still struggling with the changes, like Indonesia and the Philippines. South Korea, for example, experienced several changes in its laws by North-American pressure, which only damaged the Korean industries, whose innovation capacity was not yet developed. On the other hand, Japan identified the development in its industries and their ability to compete in a global level, and established stronger IP regulations. Therefore, it is perceived that when a country is already moving forward in its technological development, IP laws start gaining importance for its industries (La Croix 1995).

As for the current situation of IP in the region, China has become the country with the highest number of patent filings, resulted from its rapid economic growth. It accounts for more than a quarter of the world's filings. In second, there are the United States, followed by Japan and the Republic of Korea (WIPO, World Intellectual Property Indicators 2014). The following image shows the world ranking for IP filings for all the countries of APEC:

Image 4: Ranking of IP filing Activities

Ranking of IP Filing Activities

Overview of total (resident and abroad) IP filing activity by origin, 2013

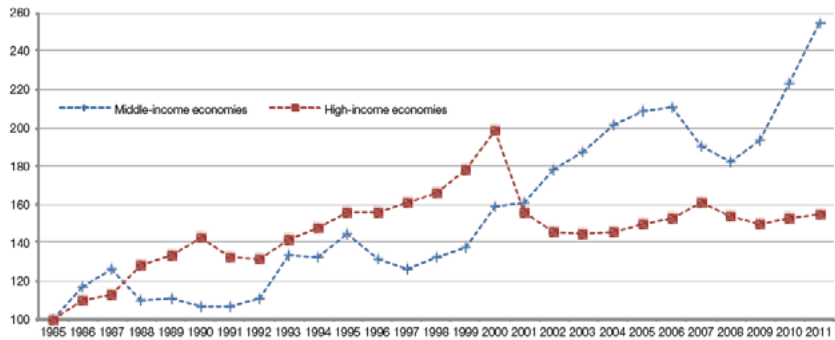
Origin	Patents	Marks	Designs
China	1	1	1
United States of America	2	2	6
Japan	3	5	7
Republic of Korea	4	10	3
Russian Federation	9	6	21
Canada	12	15	25
Australia	18	16	17
Singapore	28	34	39
New Zealand	31	40	40
Mexico	39	17	32
Thailand	40	29	24
China, Hong Kong SAR	41	25	22
Chile	48	28	71
Indonesia	50	22	27
Viet Nam	54	26	36
Philippines	65	44	44
Peru ^(a)	88	43	75

Source: WIPO statistics database (2014).

The majority of patent filings is controlled by these four countries, along with the European Union. China is also the leader in other forms of IP filings, such as trademarks and design, illustrated by the image above (WIPO 2014). When we cross the data for number of filings and development, we can see that developed countries have had a decline in their trademarks filings, while developing economies have showed rising numbers. This reflects the idea that, during the last ten or fifteen years, the evolution in technology in developing countries has provided them with more innovation, increasing the need to publicity and to discuss IP regulations (WIPO 2013). The evolution of filings can be seen by the image 5.

The discussions related to IP laws have been strong between countries from APEC. China and U.S. have had huge disputes on the relating subject, since they are always disputing trade related aspects. China has only entered the WTO in 2001, which means that the country only started to implement the laws in the later years (La Croix 1995). Besides, IP regulations are usually included in FTAs, and the Asia-Pacific region bursts with bilateral and multilateral trade agreements. Therefore, it is important to understand the disputes between the countries in IP issues.

Image 5: Trademarks and GDP



Source: WIPO statistics database (2013).

2.2.1.1 THE IP DISPUTES BETWEEN THE APEC MEMBERS

The United States is the country with the highest number of disputes relating to IP with APEC members. It has disputes in the WTO dispute settlement with Japan, Canada and China. Moreover, there is also bilateral disputes and the

series of disputes generated by the North-American proposal of a trade agreement in the Pacific region, the TPP, which included several points of IP regulations and concerned the developing countries involved.

The first case in the WTO dispute settlement involving the TRIPS agreement was initiated by the United States. It complained that the Japanese copyright regime for sound recordings was not consistent with the provisions of the agreement. Both countries managed to negotiate and arrived in a mutual decision one year after (WTO 2010). Another dispute was the one between the U.S. and Canada, that started by the American government who entered with a complaint on the dispute settlement of WTO, relating to the TRIPS agreement. United States were complaining that the Canada's Patent Act did not follow the rules established by the TRIPS. The length of the patent protections was under the minimum of twenty years decided by the WTO agreement. Canada had to change its regulations and implement the twenty year protection (WTO 2010).

The case between the U.S. and China arose before the TRIPS agreement. The U.S. have threatened China with sanctions, trade wars and the opposition to its entrance in the WTO. China only entered the organization in 2001 after accepting a huge number of conditions demanded by the European countries and the U.S. Both countries signed a bilateral agreement in 1979, which represents the beginning of western IP regulations in China. After China started to be part of most of the important treaties relating to the subject, IP regulations are still affecting the relations between the two powers (Yu 2001). The Chinese economic development has created the environment in which the country can focus on IP regulations for its own enterprises, consolidating its place as the leader of filings in the world. In 2007, the United States entered with a complaint in the WTO dispute settlement to China, relating to the criminal procedures for intellectual property infringements. Other economies from APEC have requested to join the consultations, such as Japan, Mexico, Chinese Taipei, Australia, Canada, Korea and Thailand. The decision was that China was not in conformity with the provisions of the TRIPS agreement and would have to change its regulations accordingly (WTO 2010). This is a discussion that continues to happen in WTO, if China is actually following the laws of global IP regimes. It has clearly based its development in weaker rules for this subject, and being a part of the WTO requires adoption of all the provisions.

Another issue between countries from APEC is the case of Australian laws on tobacco packages that restrict trademarks and geographical indications in the products. Indonesia was the complainant and counted with Canada, China, Japan, Korea, Malaysia, Mexico, New Zealand, Philippines, Russia, Chinese

Taipei, Thailand, United States, Peru, Singapore and Chile as third parties. This shows how these Australian measures affect almost all other countries in the region and how IP regulations can be important for trade relations. The case does not have a decision by the dispute settlement and is still in course (WTO 2014).

Japan and the United States are the two biggest participants in the TPP. The agreements usually signed in Asia do not involve IP regulations, whereas the north-American agreements tend to address these issues. The US intention with the TPP is to go beyond the rules from the TRIPS agreement and pressure the developing countries from the region to adopt stronger laws that would benefit the north-American products. The proposal focuses on on-line infringements for copyrights, protecting mainly the side of the producer and reflecting the imbalance in the US proposal (Flynn, et al. 2012). This imbalance can be seen when it proposes a period of seventy years for the protection of copyrights, as it is already the case in Singapore, Australia, Chile and Peru, when countries like Mexico protect for one hundred years. Most economies in the region have protection times of fifty years and are not so willing to change. The proposal also addresses patent and data protection, imposing the US position on every controversial aspect and eliminating the flexibilities proposed by the TRIPS agreement. The US protects information for new pharmaceutical products for a period of five years – as well as Vietnam, New Zealand, Australia and Malaysia –, while it forces regulations to consider ten years (Kawai 2014). It is a way to secure a much stronger regulation on IP subjects. This has created a disagreement with the developing countries of the region, since these measures would affect directly their development and ability to provide affordable medication (Flynn, et al. 2012). The implementation of IP regulations in FTAs always results in discussions related to the capacity of developing countries to improve their technological development and to ensure the public services to its citizens. For the developed countries, especially the US, which is always trying to impose stronger regulations, it is only a matter of protecting their enterprises.

2.2.2 GLOBAL SUPPLY AND VALUE CHAINS IN THE ASIA-PACIFIC REGION

As well as intellectual property, global supply and value chains are of main importance to discuss when it comes to development and economic growth. The production systems within the global economy are integrated, linked and interdependent in high levels through those chains. Concerning FTAs, their importance is highlighted: since the production of goods is affected by the way supply and value chains are organized – in this case, inside the Asia-Pacific region – and,

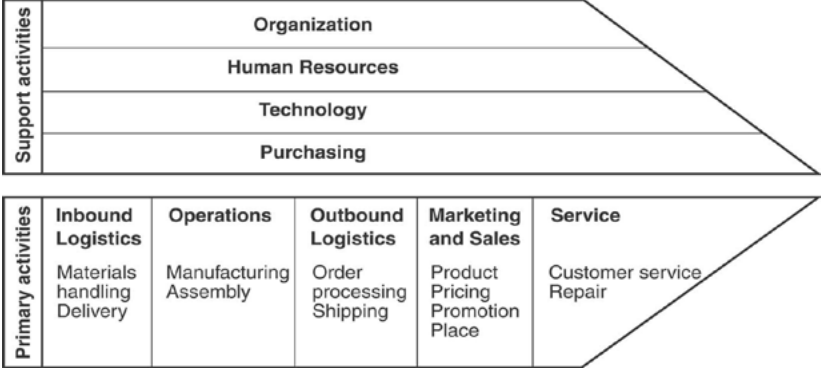
therefore, the costs and profits of these operations, countries may use them to reach their goals in terms of economic development.

To better understand what these chains are, it is important to bear in mind two concepts: the one of supply chains and the one of value chains. The first one can be defined as a set of services and distribution options that performs the functions of acquisition of materials, further transformation of them into intermediate and, then, finished products, and the distributions of these to customers (Ganeshan and Harrison 1995, Rodrigue 2013). For its turn, the concept of value chains can be defined as composed of primary activities (such as inbound logistics, outbound logistics, operations, service, marketing and sales) and support activities (such as human resource management, infrastructure, procurement and technology development), with both working together and aiming to supply value to customers and beget profits for the organization (Porter 1990). Therefore, both concepts are complementary tools, with the flows of products and services being enabled by the integrated supply chain processes and demand and cash flows from costumers being generated by the value chain. (CSCMP, et al. 2013).

The emergence of supply and value chains in the Asia-Pacific region began in the 1970's, when a new industrial standard, led by Japan, spread through the country and, later, with its internationalization, to the Asian region, overlaying the hitherto prevailing standard, which was led by the United States. This new standard endorsed the vertical disintegration – i.e. the purchase of commodities, intermediate goods, especially parts and components and services to companies (or outsourcing) – which led to the reduction of costs and protectionist barriers and a revolution in information and knowledge transmission through the modularization³⁰ of the productive processes. This episode is known as the “Flying Geese” and, nowadays, supply and value chains in the Asia-Pacific region are deeply connected not only inside the countries, but also between them (Alvares, Baumann and Wholers 2010).

30 “Modularization is a method of manufacturing products from combinations of various components under a standardized interface without the need for adjustments so as to eliminate mutual incompatibility between the components. It provides advantages as low cost and stable quality” Fonte bibliográfica inválida especificada..

Image 6: Value Chain



Source: InSemble (1995).

The usage of the concepts of supply and value chains has been expanded since they have been applied, in a broader sense, to explain these value chains that cross the countries’ boundaries, namely, the ones that have different steps of value addition to the final product in different countries – the global value chains, which aims to increase efficiency, lower costs of production and enhance competitiveness (APEC 2014). These goals are targeted by APEC since its creation³¹, in 1989, and the institution has tried to achieve them by using the concept of trade facilitation as the main driving force, mainly in the 1990’s³²: it “refers to the simplification and rationalization of customs and other administrative procedures that hinder, delay or increase the cost of moving goods across international borders” (APEC 2007, 1).

The growth experienced by the APEC member states and the emergence of the already mentioned global and regional supply and value chains in the region enhanced the necessity of maintaining the improvement of trade facilitation by reducing costs and turning trade simpler. For those reasons, in 1994, the Bogor Goals were announced by APEC Leaders in a meeting in Bogor, Indonesia, expressing the commitment of member economies to the goal of open trade and investment. As a consequence, the first Trade Facilitation Action Plan (TFAP I) was created as an attempt to better focus and coordinate the actions aiming

31 Since APEC’s inception, the economies of the member states have reduced tariffs from 16.9% in 1989 to 5.8% in 2010 (APEC 2012).

32 “Trade facilitation has taken on added importance since the early 1990’s due to the increasing globalization of the world economy, which has accompanied the reduction of trade barriers. The dramatic increase of both the volume and complexity in world trade means that it is necessary to keep trading procedures simple, predictable and transparent to allow commerce to flow as freely as possible” (APEC 2007).

the Bogor Goals: it proposed for the member economies to achieve a reduction in trade transaction costs by 5% between 2002 and 2006, which was accomplished. In 2005, in order to continue the gains resulted by FTAP I, the second Trade Facilitation Action Plan (TFAP II) was launched for a further 5% reduction between 2007 and 2010, which was also accomplished (APEC 2007, APEC 2012).

From 2010 forward, APEC began moving beyond the matters of the TFAPs, namely the reduction of transaction costs, and started to include trade logistic issues in the trade facilitation arena, aiming an expansion of its trade facilitation work (APEC 2013), which resulted in the creation of the Supply-Chain Connectivity Framework Action Plan (SCFAP), to be fulfilled by the end of 2015³³. The main goal of the SCFAP is to improve trade logistics and connectivity (i.e. infrastructure in supply and value chains) by turning them more efficient (less costly and faster), more reliable (less variable and less risky), safer and greener. For those reasons, moving offshore supply chain's business functions or activities (such as product development and/or new product introduction, demand planning and/or forecasting, supply chain planning and sales and operations planning, strategic sourcing and/or supplier development) to reach APEC's objectives has been a trend in the last years and it is estimated that over 50% of them were moved offshore between 2010 and 2012 (APEC 2014).

Nevertheless, there are issues that hinder SCFAP's goal of reaching its fulfillment: (1) there is a lack of knowledge and know-how on managing supply chains across borders; (2) there is an equal problem on how to make transportation, logistics and supply chain across borders to interact in an effective value chain; and, finally, (3) there is a need to improve supply chain performance (APEC 2013). Moreover, there are eight supply chain chokepoints that, if removed, may turn faster, less expensive, easier and more secure intra-APEC trade. They are listed in the following table:

33 APEC has set as target to improve supply chain performance by 10% (i.e. improving the flow of goods and services within the APEC region in terms of reduced time, cost and uncertainty) by 2015 (APEC 2012).

Table 3: The 8 Chokepoints of Supply Chains of APEC member economies

Transparency	Lack of transparency and awareness of the full scope of regulatory issues affecting logistics (leading economy in the matter: United States).
Infrastructure	Inefficiency of inadequate transport infrastructure and cross-border physical linkages as roads and bridges (leading economy in the matter: Australia)
Clearance	Inefficient clearance of goods at customs and lack of coordination among border agencies (leading economy in the matter: Japan).
Standards/Regulations	Variations in cross-border standards and regulations for movement of goods, services and business travelers (leading economy in the matter: Australia).
Logistics	Lack of capacity of local and regional logistics sub-providers (leading economy in the matter: People's Republic of China).
Documentation	Burdensome customs documentation and other procedures (leading economy in the matter: South Korea).
Nodal Connectivity	Underdeveloped multimodal transport capabilities and inefficient air, land and multimodal connectivity (leading economy in the matter: Singapore).
Transit	Lack of regional cross-border customs-transit arrangements (leading economy in the matter: Chile).

Source: APEC (2012) and APEC (2013).

The solution of these eight chokepoints may have to take into account the interests of each member economy and its public and private actors, since suggestions to solve them can benefit just a few, mainly the mature economies, at the expense of the fast-growing economies of the region. It is also important to stress the influence political matters have on international trade flows, hence, supply and value chains. This can be noticed in recent events in the Asia-Pacific region: the disputes over clusters of islands between China, Japan and South Korea in its

surrounding waters led to several episodes in the last years in which the countries cut off supplies of commodities or intermediate products vital to supply chains within the region as retaliation measures to each other (Telegraph 2010).

A first example of the influence supply and value chains have over a country's economy is the People's Republic of China: since it joined the World Trade Organization, in 2001, the country began to integrate in the global supply and value chains, especially in industries focused on knowledge-intensive products. This process allowed continental China to expand the set of participant countries on its supply and value chains, such as Australia, Russia and the ASEAN countries. Benefits as rapid expansion of domestic production for exports and increase in the degree of comparative advantages in knowledge-intensive industries, along with other comparative advantages were also noticed (World Bank 2015). Notwithstanding, the country should remain vigilant on its moves towards the Spratly islands in Southeast Asia, as well as with the military presence of the United States in the region, which may serve as threats to intra-APEC trade and, therefore, further development of supply and value chains.

Finally, a second example is the growing participation of the ASEAN countries in the regional and global supply and value chains: within the region, which has continental China and India as main economic forces, the exports from member economies to these two countries almost tripled from 2000 to 2010 (5.3% to 15% of total exports, in reason of the growing demand of commodities, which benefits countries as Indonesia, Thailand and Malaysia). Also, South-South trade cooperation is to be enhanced, allowing a growth of demand for solutions provided by supply and value chains, which may address the needs of distinct industries (Cottrill and Singh 2011). If ASEAN countries, as well as the APEC member economies, are to benefit further on the global shift in economic power from west to east and to reach, in a near future, the conclusion of a FTA within the scope of the bloc, they must act towards the realization of the APEC goals and develop world class supply and value chains facilities, directly influencing a better global trade facilitation and the necessary heightening of confidence between themselves (APEC 2013).

3 PREVIOUS INTERNATIONAL ACTIONS

It is important to notice that some measures have already been taken in order to discuss FTAs in the Asia-Pacific Region as a whole, as well as many other measures that are currently in progress. In this section, some examples of previous international actions concerning global value chains and intellectual property are presented.

3.1 VALUE AND SUPPLY CHAINS

As previously mentioned, the debate on regional economic agreements and its potential improvement of supply chains casts many different issues, from infrastructural weaknesses to the convergence of customs policies. This section will holistically present connectivity, trade and investment facilitation measures already agreed by the APEC member economies.

3.1.1 WTO

The set of agreements establishing the World Trade Organization (WTO) in 1994 ruled many aspects that somehow affected international trade, fostering a worldwide movement of trade liberalization. Some key points concerning supply and value chains were addressed in the General Agreement on Tariffs and Trade 1994 (GATT) and others, such as the Trade-Related Investment Measures (TRIMs) and the General Agreement on Trade in Services (GATS). Thus, as the member economies acceded to the WTO, they compromised to take part in world trade liberalization. However, despite reduction of tariff and non-tariff barriers to trade, not much was agreed upon facilitating trade and investment. In 2012, the former director-general of the organization stated in an international meeting that the growth of global and regional value chains raises the need to reconsider how to address trade-related issues (WTO 2012). He further argued that

[I]n making the most of the growth, diversification, employment and developmental opportunities arising from participation in global value chains, it is essential to look beyond traditional trade policies, important as these are. We need to think more broadly about the impact of an array of policies. Investment policy is crucial, for example. The same is true for policies associated with technology, innovation and intellectual property. Beyond that, the longer-term success of countries in fostering economic prosperity in an increasingly internationalized global economy will be influenced by factors more remote from trade, such as education and the existence of social safety nets (WTO 2012).

This diagnosis put forth issues related to Global Value Chains (GVCs) in the negotiating table of the unresolved Doha Round. In 2013, WTO members reached by consensus the Trade Facilitation Agreement (TFA), also known as the 2013 Bali Agreement, considered one of the little successful outcomes of the Doha Round (Hoekman 2014). It included provisions for making the flow and clearance of goods faster, enhancing the previously existing articles of GATT, and

provisions for customs cooperation (WTO 2014). The TFA also contained an unexampled section acknowledging the special circumstances faced by developing and least-developed countries concerning institutional capacities and their need of external support. According to the TFA, these groups of countries have the possibility of not only compromising to the implementation of the agreement's provisions according to their capacity to do so, but also declaring which provisions can only be met if the country receives assistance and support from more developed countries in the area. In order to ensure that countries will receive the assistance necessary to reach the agreement's benefits, the WTO created the Trade Facilitation Agreement Facility in 2014. This measure is considered vital to the full implementation of the new Agreement by all members and is part of WTO's Post-Bali work program (WTO 2015).

Notwithstanding, although the Protocol of Amendment incorporating the TFA into the WTO regulations was to be adopted before July 31, 2014 only five economies have accepted it, four of them APEC members, namely Hong Kong (China), Singapore, the U.S., and Malaysia. The main reason for the delay is that a group of countries led by India fears the possible threat it poses to food-security programs, since agriculture goods are included on the list of goods whose trade should be liberalized and facilitated (Hoekman 2014).

3.1.2 APEC

The Bali Agreement and the Post-Bali agenda have only added to a movement already taking place among APEC members. The subject of global value chains and the measures to improve them is widely discussed in APEC's meetings, since GVCs and supply chain connectivity are keys to the realization of the FTAAP, APEC's main goal. As previously mentioned, the member economies' perception of the benefits of larger participation in GVC led to many actions under APEC's scope, especially the declaration of the Bogor Goals, the TFAPs and SCFAP. Currently, member economies' officials have been working on a study on the achievement of such goals, whose final version will be delivered in 2016.

In August 2014, the APEC Alliance for Supply Chain Connectivity (A2C2), a forum open to participation of interested stakeholders, experts from APEC economies, companies, industry associations, multilateral institutions and non-governmental organizations held its first meeting in Beijing. In APEC's 2014 Ministerial Meeting, the ministers directly addressed the value chains/supply chains issues in 12 different paragraphs. Concerning GVCs, the ministers endorsed the APEC Strategic Blueprint for Promoting Global Value Chain Development

and Cooperation (henceforth Strategic Blueprint) as a mechanism to strengthen mutual economic cooperation within the global value chain network. Moreover, they supported the initiative on Promoting Small and Medium-sized Enterprises' (SMEs) Integration into Global Value Chains in Major Industries and noted the importance of GVCs in job creation. The completion of the APEC Policy Support Unit (PSU) study on Comprehensive Analysis on Enhanced Resiliency of Cross-Border Value Chains was also mentioned (APEC 2014).

Regarding supply chain connectivity, the ministers welcomed the Capacity Building Plan, which is supposed to guide APEC members' work to reach the goal of improving supply chain performance in ten percent by 2015, to deploy the resources in the Supply Chain Connectivity Sub-Fund³⁴ and to help developing countries overcome obstacles on the matter and implement the WTO's TFA. They also endorsed the APEC Initiative on Asia-Pacific Model E-port Network and the Terms of Reference of the Asia-Pacific Model E-port Network (APMEN) and agreed to establish the APEC Cooperation Network on Green Supply Chain³⁵ (APEC 2014).

By the end of 2014, APEC Leaders' Declaration took up the matters mentioned above, reiterated the necessity of achieving the Bogor Goals by 2020 and stated the relevance of WTO's Bali Agreement. The APEC Leaders additionally endorsed the Beijing Roadmap for APEC's Contribution to the Realization of the Free Trade Area of Asia-Pacific, which aims to enhance information sharing and capacity building. The Roadmap paved the way for the Collective Strategic Study on Issues to the Realization of the FTAAP, which shall be concluded by the end of 2016. Furthermore, the APEC Leaders summarized the discussions involving GVCs and produced the Strategic Blueprint, annexed to the Declaration. The member economies agreed on: (i) addressing trade and investment issues that impact GVCs; (ii) cooperating on improving statistics related to GVCs; (iii) realizing the critical role of trade in service within GVCs; (iv) enabling developing economies to better participate in GVCs; (v) assisting SMEs to benefit from GVCs; (vi) improving the investment climate for GVCs Development; (vii) adopting effective trade facilitation measures; (viii) enhancing resiliency of GVCs; (ix) encouraging public-private partnerships for GVCs; and (x) strengthening col-

34 The 'Supply Chain Connectivity' is one of the six Sub-Funds of the APEC Support Fund (ASF), consisted on voluntary donations from member economies, whose objective is to support developing economies to overcome specific obstacles they face in enhancing supply chain performance.

35 It aims to "strengthen the capacity building and information sharing on green supply chain and to promote green supply chain cooperation among APEC economies and stakeholders, and to contribute to the green development of the region" (APEC, Annex B - APEC Strategic Blueprint for Promoting Global Value Chains Development and Cooperation. 2014).

laboration with other stakeholders on GVCs (APEC 2014).

Following the instructions in the 2014 Ministerial Declaration and the 2014 Leaders' Declaration, the APEC's Committee on Trade and Investment (CTI) established the Strategic Framework on Measurement of APEC Trade in-Value Added under GVCs, as well as an Action Plan to promote it. This Framework aims to produce a wide study on trade in-value added within APEC region, in collaboration with OECD/WTO mechanisms with similar goals. By 2018, the construction of an APEC Trade in Value-Added database shall be complete (APEC 2014).

More recently, in May 2015, took place the APEC Ministers Responsible for Trade (MRT) Meeting, which adopted the APEC 2015 theme of "Building Inclusive Economies, Building a Better World" and focused discussions on the inclusion of micro, small and medium enterprises (MSMEs) in global value chains. MRT reiterated the Post-Bali WTO's Program and APEC's Bogor Goals besides other initiatives taken by APEC on trade and investment liberalization and facilitation crucial to the improvement of GVCs. The ministers recognized that too often MSMEs are left behind in the process of GVC growth. For this reason, the MRT Meeting adopted the Boracay Action Agenda to Globalize MSMEs, a plan consisted on measures to simplify and to reduce the costs of international trade so in a way that such enterprises can participate in GVCs (APEC 2015).

3.1.3 TPP

As TPP negotiations have been secretly discussed, the last actions related to the partnership cannot be properly listed. However, recent leaks of drafts for TPP chapters allow us to address some questions related to GVCs and supply chains. Most of TPP harsh disciplines discussed in section 2.1 favor cheaper and more efficient supply chains (even though no agreement has been reached on institutional arrangements necessary to the realization of this goal, such as the unification of rules of origin). However, civil society organizations often criticize the lack of compensatory measures related to national state's autonomy and social and environmental issues. In the U.S., the potential offshoring of jobs is seen as a terrible threat to the North-American society (Public Citizen n.d.).

Moreover, one of the most questioned matters of TPP is the chapter on investment, which establishes investor-state dispute (ISDS) settlement provisions. In this chapter, foreign companies and investors are given the same or even superior rights than domestic companies and States. Since most part of the GVC is generated by transnational enterprises and their subsidiaries, through foreign

direct investment (FDI), the ISDS is directly related to the existence of GVCs. TPP's harsh disciplines and the ISDS might be seen as the means to protect value chains amid TPP members from national measures that may somehow disfavor FDI. Notwithstanding, for this very reason, the dispute settlement mechanism could undermine countries sovereignty, since any of these national measures could be set aside by the action of international corporations (Public Citizen n.d.).

3.1.4 ASEAN AND THE RCEP

The issue of connectivity has been a key point in ASEAN dialogues. In the end of 2010, ASEAN published a Master Plan on ASEAN Connectivity, aiming the improvement of the region's physical, institutional and people-to-people connectivity in order to facilitate the implementation of the ASEAN Community by 2015. The ASEAN connectivity projects rely strongly on official development assistance of Dialogue Partners, as Japan and China, and on support from other international institutions, particularly the Asian Development Bank. Recently, some analysts have pointed out the potential role the Chinese-led Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and other Chinese investments can play in capacity building and connectivity enhancement in Southeast Asia (Pitlo III 2015).

As mentioned in section 2.1, RCEP, as an outcome of overlapping FTAs among ASEAN+6 countries, carries provisions that are clearer than TPP's. Current designs for the RCEP focus on tariffs reduction, but disciplines on services, investment and government procurement, for example, are relatively weak. According to Sally (2014), this could lead to the agglomeration of "the 'noodle-bowl' of FTAs among members rather than ironing out distortions among them". He further adds that if this becomes true, "RCEP will create little new trade and investment, and cause extra complications for global supply chains. But negotiations still have some way to go" (Sally 2014). Nonetheless, negotiations on RCEP could lead to a trade agreement better suited for a GVC environment, and hence to the promotion of growth and development in the region, with special opportunities for MSMEs (D. Elms 2015).

3.2 INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights (IPRs) protection is a basic key factor to promote foreign trade and investment, as well as for boosting economic development. Following the recognition of this fact, the IPR have been included in some

agendas of forums of the world in order to achieve investments and boost economies. Again, as an important place of trade in the world, the Asia Pacific Region couldn't be left out of the discussions. This section will present what has been discussed and agreed by the APEC member economies regarding the Intellectual Property Rights (IPRs).

3.2.1 APEC

The IPR were included in the 1995 Osaka Action Agenda – APEC's strategic roadmap to achieve free and open trade and investment in the region. Thereafter, in 1996, the Committee on Trade and Investment (CTI) established the Intellectual Property Rights Get-Together (IPR-GT). The goal was to enhance and ensure adequate and effective protection, through administrative, legislative and enforcement mechanisms of intellectual property rights in the Asia-Pacific region based on the principles of the World Trade Organization's Agreement on Trade-Related Aspects of the Intellectual Property Rights (TRIPS Agreement) and other related agreements. After that, in 1997, the CTI made the IPR-GT an official APEC group with explicit terms of reference, and renamed in the Intellectual Property Rights Experts' Group (IPEG) (APEC 2014). The IPEG recommended to (APEC n.d.) (APEC n.d.):

1. Deepen the dialogue on intellectual property policy;
2. Survey and exchange information on the status of IPR protection and administrative systems;
3. Study measures for the effective enforcement of the IPR;
4. Fully implement the TRIPS Agreement;
5. Facilitate technical cooperation to help economies implement TRIPS.

Nowadays, the IPEG has been especially active in providing IP capacity building programs; for instance, a seminar entitled Trading Ideas 2009: the Future of IP in the Asia Pacific was held in conjunction with the 29th IPEG meeting in Singapore in July 2009. This event aimed at building the capacity of small and medium enterprises to commercialize their IP. In Honolulu, Hawaii, a workshop on Effective Practices in the Border Enforcement of Intellectual Property Rights was held on 2009. The workshop demonstrated how economies could develop a successful border enforcement regime. The discussion was rounded by the TRIPS border measure obligations, public policy concerns, case studies, risk assessment and ex-officio actions, and the APEC Model Guidelines (APEC 2014).

The APEC project "Enhancing of APEC Capacity Building for Intellectual Property Protection and Utilization: Training for Trainers" was held in Sanya,

China, in 2010. Twenty-two trainers from different APEC member economies attended to the session. Participants exchanged knowledge of different approaches and best practices of intellectual property training in APEC economies. A comparative analysis of the existing capacity building and IP training programs has also been developed. A follow-up workshop from Russia on “Training for Trainers on Intellectual Property Issues: Management and Commercialization” is currently being organized as well (APEC 2014).

The 33th IPEG meeting was preceded by a joint “ACT-IPEG Workshop on Investigating and Prosecuting Corruption and Illicit Trade: Stemming the Flows of Counterfeits and Dismantling Illicit Networks”, organized in September 2011 in San Francisco, United States. This event was a follow-up workshop to one that was held in Washington D.C. on counterfeit medicines, in March 2011, and an IPEG Seminar “From Research to Reality: IP Commercialization and Policy” held in September 2010 in Sendai, Japan (APEC 2014).

3.2.2 WTO AND TRIPS

As the main regulator of world trade, the WTO is deeply concerned about the IPR issues. Proof of this is the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the 1986-1994 Uruguay Round, which introduced intellectual property rules into the multilateral trading system for the first time (WTO n.d.).

The extension of protection and enforcement of the IPR vary around the world. Therefore, as intellectual property became more important in trade, these differences of IPR around the world became a source of tension in international economic relations. New internationally agreed trade rules for intellectual property rights have been seen as a way to introduce more order and predictability, and to settle disputes more systematically. The Uruguay Round achieved that purpose. The WTO’s TRIPS Agreement is an attempt to narrow the gaps in the way these rights are protected around the world, and to bring them under common international rules (WTO n.d.). The agreement covers five broad issues (WTO, TRIPS 2001):

1. How basic principles of the trading system and other international intellectual property agreements should be applied;
2. How to give adequate protection to intellectual property rights;
3. How countries should enforce those rights adequately in their own territories;
4. How to settle disputed on intellectual property between members of the WTO;

5. Special transition arrangements during the period when the new system is being introduced.

From this moment on, these questions have been intensively discussed within the WTO's forums. Consequently, many controversial problems have been brought to discussion. Public health, for instance, is one of them. The 2001 Doha Declaration on TRIPS and Public health was a political statement affirming that intellectual property protection and public health objective must not contradict each other: "We agree that the TRIPS agreement does not and should not prevent member from taking measures to protect public health" (WTO, TRIPS 2001). It gave governments the confidence to use the flexibilities available in the TRIPS agreement (WTO n.d.).

Therefore, an important result of the 2001 declaration is closer work between the World Health Organization, World Intellectual Property Organization and World Trade Organization. Nowadays, these three IOs have been focused both on access to medicines and incentives for research and development, so that new medical technologies become available. This has shown the fact that intellectual property is the only part of the picture. Ensuring that poorer patients be able to access medicines and other health products involves proper "rational" use of the products, affordable prices, properly health systems, suitable financing, and carefully selecting strategies for procuring the products (WTO n.d.).

3.2.3 ASEAN

ASEAN, as an important player of the Asia-Pacific region, is also deeply concerned about Intellectual Property Rights and its enforcement. The ASEAN Working Group of Intellectual Property Cooperation (AWGIPC) is the sectorial group responsible for IP issues in the region. It is composed by the IP offices of the ASEAN member States. The AWGIPC was established in 1996, pursuant to the ASEAN Framework Agreement on Intellectual Property Cooperation, which was signed by ASEAN Member States in Bangkok, Thailand, in 1995. Nowadays, the work of the AWGIPC is based on the ASEAN IPR Action Plan 2011-2015. This action plan identifies five strategic goals that will contribute to the collective transformation of ASEAN into a competitive region with the use of IP (ASEAN n.d.). The strategic goals are (ASEAN n.d.):

1. A balanced IP system that takes into account the varying levels of development of Member States and differences in institution capacity of national IP Offices to enable them to deliver timely, quality, and accessible IP services to promote the region as being

conductive to the needs of users and generators of IP.

2. Developed national or regional legal and policy infrastructures that address evolving demands of the IP landscape and AMSs participate in global IP system at the appropriate time.
3. The interests of the region are advanced through systematic promotion for IP creation, awareness, and utilization to ensure that IP becomes a tool for innovation and development; support for the transfer of technology to promote access to knowledge; and with considerations for the preservation and protection of indigenous products and services and the works of their creative people in the region.
4. Active regional participation in the international IP community and with closer relationships with dialogue partners and institutions to develop the capacity of Member States and to address the needs of stakeholders in the region.
5. Intensified cooperation among AMs and increased level of collaboration among them to enhance human and institutional capacity of IP Offices in the region.

Thus, the target for the AWGIPC is to transform ASEAN into an innovative and competitive region through usage of IP for their nationals and ensuring that the region remains an active player in the international IP community. The protection of intellectual property rights stimulates creativity and innovation, which fosters progress in industries and leads to national development (ASEAN n.d.). As decreed by the AWGIPC (ASEAN n.d.), intellectual property policy can serve as a powerful stimulus to:

1. Cultural, intellectual and artistic creativity and their commercialization.
2. The efficient adoption and adaptation of more advanced technologies.
3. Continuous learning to meet the ever-rising threshold of performance expectations

Through the AWGIPC, ASEAN has made concerted efforts since 1996 to improve the regional framework of policies and institutions relating to intellectual property. More recently, the 30th AWGIPC Meeting deliberated on the ASEAN IPR Action Plan 2012-2015 and carried out consultations with ASEAN Dialogue Partners and Organizations, namely ASEAN-China; ASEAN-European Patent Office, ASEAN-EU; ASEAN-JPO; ASEAN-USPTO and ASEAN-WIPO. During this meeting, the AMS-IPOs and Japan Patent Office (JPO) adopted the ASEAN Intellectual Property Offices-JPO Action Plan 2012-2013 (ASEAN n.d.).

ASEAN-Japan Heads of Intellectual Property Offices (IPOs) and JPO signed a Memorandum of Cooperation (MOC) on Industrial Property between

the ASEAN Member States (AMS) IPOs and the JPO on July 11, 2012. Malaysia was represented by Dato' Azizan Mohamad Sidin, Director General of Intellectual Property Corporation of Malaysia. Also part of this meeting is the third Meeting of the ASEAN-China Heads of Intellectual Property Offices (IPOs) which discussed areas of cooperation under the ASEAN-China Work Programme 2012-2013. The meeting focused on Database on Traditional Chinese Medicines (TCM) as one of the important areas of cooperation (ASEAN n.d.).

Although much has been discussed about global value chains and supply chains connectivity as well as intellectual property rights, and despite some measures already taken by the international community, many discrepancies remain among APEC member economies. While establishing the standards that will guide international trade in the Asia-Pacific region, they shall meet further agreements concerning these specific issues. In this regard, the 2015 APEC Meetings can be very fruitful to the advancement of international trade regimes across the Pacific Ocean.

4 BLOC POSITIONS

China is in a central position in the topic discussed. Besides its own characteristics – being a big economy in terms of trade and GDP –, it is also a very relevant member of one of the main potential blocs (the RCEP) and it was the main voice calling for relaunching efforts for a FTAAP in the 2014 APEC meeting. Moreover, the fact that it is not present in the TPP is commonly said to be the biggest obstacle for the TPP to become FTAAP eventually, which gives the country a great bargaining power (Tran and Heal 2014). However, China has important stakes in risk: some of its main trade partners are in TPP; besides that, TPP countries may be more interesting destinations for investment if the agreement is concluded. Meanwhile, RCEP is just in the beginning of the negotiations. The possibility of being out of the biggest FTA in the Asia-Pacific region – if TPP gets concluded after all – could be even more harmful than engaging it and at least trying to shape some of its rules, since its bargaining power is huge (Dai 2014). Nevertheless, it would involve definitely accepting many crucial points of Chinese domestic economy, as State Owned Enterprises. Therefore, China may focus on its priorities: approaching its Asian neighbors through FTA with Korea and Japan and the RCEP (Jianping 2014; Hufbauer 2013). It may also have to advance its own initiatives, as propositions for the AIIB or for the relaunching of FTAAP – rather independently from TPP, although it has already declared TPP's relevance and the

possibility of joining it. If China is a leader in the APEC negotiations, it may circumvent the need of accepting TPP high standards, by reaching FTAAP by other means. Concerning intellectual property rights, although being the number one in patents production's rankings, China still puts itself in the position of an emergent country, pursuing standard and relatively low protection to intellectual property – differing from the tougher propositions of developed countries (Jianping 2014), mainly because it is imperative to a country under the development process to have access to new technologies and medicines. It is marked, then, by subsequent violations of TRIPS' measures after its WTO accession in 2001 (Lane 2013). Regarding its supply chains issues, China's main problems are with its own logistics capability.

The **United States** are extremely concerned about the subject in discussion, especially because it involves its central mean of approaching Asia, the TPP, which has been operationalizing the concept of the US “pivot” to Asia in its economic aspect (Swielande 2012). The TPP is central in current US foreign policy and its interest to develop high quality rules and reshape international standards of trade – what the country has tried to do with the Transatlantic Trade and Investment Partnership (TTIP) as well. Moreover, TPP countries are great trade partners of the US and promoting free trade and investment with them would largely benefit the country economically – even more if it evolves to a FTAAP. The US pursues higher standards than the WTO – right now stuck in endless negotiations – provides. The main areas of concern are, among others, the intellectual property rights and protection to foreign enterprises. It pursues higher standards in the IP, usually called the TRIPS Plus, while pushes for mechanisms of Investor-State Dispute Settlement that must largely benefit US investors from the risks of investing in emerging countries (Kawai 2014; Ikenson 2014). Moreover, the US has important internal issues that must be taken into account when discussing TPP. For instance, Japanese agricultural (mainly beef, pork, wheat and, in a small extent, dairy products), service and automobile markets' liberalization is an important condition to the US Congress easing approval of TPP (Hufbauer 2013; Kawai 2014). Concerning supply chains, the US main problem to be addressed regards transparency and awareness of regulatory issues affecting logistics in trade.

Japan is in a special position in the debate, considering that it is a negotiating member of both TPP and RCEP. This gives the country great bargaining power, once it can simultaneously negotiate gains in both discussions. Japan's participation in both propositions is part of Prime Minister Abe's “Abenomics” policy, which emphasizes the need to restore economic growth in Japan. Liberalization and entering in FTA are a core part of this policy, and either of the treaties can bring large economic benefits to Japan (Mulgan 2013). Its situation urges for new

market opportunities, once right now it is falling behind Korea and other competitors – e.g. in the US market (National Economic Interests n.d.). Both initiatives face internal controversies, more in the TPP case, since farmers oppose to it, while the greater concerns for the RCEP are Japanese relations with China (National Economic Interests n.d.). While in RCEP no adjustment had yet been necessary, entering in TPP implicates on tough negotiations. The most important issue is about Japanese agricultural markets - namely rice, beef and pork, dairy products and sugar. Japan protects these markets with high tariffs, and this is the most important problem with the US. Automobile market's non-tariff measures are also a claim from the US, while the Japanese claim for US liberalization of tariffs of its own automobile sector (Kawai 2014; Cooper and Manyin 2013). Concerning intellectual property, Japan is commonly perceived as in the block of developed nations, that is, defending high protection; however, the US still pushes for harsher measures in Japanese internal laws, as of increasing its general time period of protection from 50 to 70 years, as well as increasing its efforts to reduce piracy in the internet (Palmedo 2013). Regarding the supply chains, Japan's main issue to be treated is its inefficient clearance of goods at customs and lack of coordination among its border agencies.

The **Republic of Korea** is involved in RCEP negotiations and was invited to enter the TPP in 2010. Since then, the country has been following the negotiation process from the outside, but closely. Therefore, Korea has certainly huge interests in the topic discussed. While it has been a traditional ally to the United States, relations with China have been improved recently, and this may put the country in a difficult position during the debate, but also with great bargaining power. As its economy is highly dependent on trade, South Korea is always benefited by free trade arrangements; however, as it already has a FTA with the US, the main benefits would come from establishing free trade with China and Japan. Its main priority right now is the China-Korea FTA and the China-Korea-Japan FTA. A potential entry in TPP has among its advantages to Korea the potential protection to its emerging high technology industries (National Economic Interests n.d.). However, entering in such agreement demands cautious analysis, which certainly involves considering China's position on the matter, once entering in TPP could disturb their relations. Moreover, it is important to state that Korea has a FTA network that covers 60% of the global economy, and is in negotiations and pre-negotiations phases with a myriad of countries, which can reach 90% of its trade (Hess 2013). This has to do with its policy of establishing a comprehensive net of bilateral FTAs. Regarding intellectual property, Korean internal legislation is less harsh than what the US pushes for: in the KORUS FTA they agreed in strong

protective measures that went beyond WTO TRIPS requirements, e.g. a minimum of 70 years of protection for copyrights (Williams, et al. 2014). Regarding its chokepoints on supply chains, Korea's main issue is with burdensome customs documentation and other procedures.

The **Russian Federation** is in a difficult path in this discussion, once it is not part of any negotiation process of FTA; then, it should pursue its interests harshly in APEC, once it is the arena where the country can be taken into account. As a member of APEC, the country is an automatic candidate for the FTAAP, which can bring huge economic benefits to Russia. The country should push it to be concluded as soon as possible, but until then Russia may suffer from trade diversion effects from the other two mega-trade deals. However, entering in FTA requires big internal reforms, as service and investment liberalization, which may be politically difficult for Russians to accept. Therefore, the potential gains may be weighted with the necessary concessions during APEC meetings, in order to achieve a FTA that is favorable to Russia (National Economic Interests n.d.). Moreover, due to the current Ukraine crisis and the US's trade embargo against Russia, the US may have problems in accepting Russia in a FTA in the near future, which may be an important obstacle (Devonshire-Ellis 2014). Regarding intellectual property measures, Russia has a poor IP protection historic, which has allowed its companies to copy patented technology and copyrighted material. However, Russia has just entered the WTO (2011), which means that it has just accepted the standard of the TRIPS agreement. Notwithstanding, the following IP legislation is rarer in transition economies, as China and Russia, than in other nations (Lane 2013). It is a point where Russia can bargain with in order to achieve gains on prospecting the needed inward FDI and an increase on trade (Lane 2013), even though Russia might oppose any steps that go way beyond property legislation agreed in WTO.

Taiwan, as Russia, is not part of any mega-FTA in discussion in the Asia-Pacific region. As it is an important pole of manufactured products in the global supply chains, as well as its ports are important trade hubs, Taiwan has great interests in boosting trade in the Asia-Pacific region. It has already manifested its high concern in following with great attention FTAAP negotiations, since its conclusion may represent great gains to Taiwan. Furthermore, Taiwan's Prime Minister Jiang Yi-huah has required Taiwanese agencies to make efforts that are necessary to integrate TPP and RCEP negotiations (Taiwan Embassy 2014). It seems extremely necessary that Taiwan integrates the emerging FTA not only because of its trade dependence, its role in global supply chains and the need to follow competitors (such as Korea), but also because of the potential these FTAs have to reshape the future patterns of trade, in a context of a slowed down WTO. However, among the

challenges preventing Taiwan to enter in TPP, is the position of China; although Taiwan has not manifested it yet, the country does not want to harm its relations with one of its main trade partners. Moreover, internal lobbies for services (such as banking, insurance and professional services) and agriculture oppose the ending of protectionist measures that would come from entering in the TPP, for instance (Stephens 2014). The country wants to avoid the trade diversion effects that will derive from the conclusion of these agreements without Taiwan. The likelihood of losses is greater if it is excluded from RCEP, since Taiwan has stronger commercial ties with East Asian economies (Kawasaki 2014). Concerning intellectual property, Taiwan has been advancing strongly in the last decades in order to provide a safe environment to innovations and inventions. It has progressed mainly in the fields the US had pointed out that should be addressed – under its “Special 301 Watch list”, that should set sanctions against countries that did not follow IP rights -, such as the need to establish an IP court (Intellectual Property Court 2009).

Hong Kong, as Russia and Taiwan, is not part of the negotiation process of neither RCEP nor TPP. As Taiwan, Hong Kong is a global trade hub for global supply chains. Movements to achieve FTAAP – of which the country may be considered a member - are to be taken, as they would boost trade in the region in a large scale. Indeed, Hong Kong might benefit of any FTA that is concluded in the region. Its own enterprises could benefit from trade and investment facilitation, which would consolidate it as an important destination for foreign enterprises that want to establish their main offices and coordinate investment in Asia, as well as its role as re-exporter, considering Hong Kong’s strategic position and the quality of its trade facilities. The benefits will certainly depend on the comprehensiveness of the treaty, and, of course, if Hong Kong ultimately will be part of them (Poon 2013); if not, it will likely suffer from trade diversion effects. Moreover, as its economy is really tied to China, China’s presence in the treaty is also a matter of concern. RCEP seems, then, an interesting alternative, as China is present and as Hong Kong has great commercial ties with ASEAN countries. A FTA between Hong Kong and ASEAN is now being negotiated, what may be crucial for this matter. Furthermore, its role as a gateway to China may also be important (Low 2014). In the intellectual property sphere, Hong Kong, as having a separated legal system from China, has been regarded as a model of IP protection to Asian countries, once it diminished IP-related crimes to a bare minimum and nowadays has robust protection. It is noticeable that important reforms have acted as a reaction to US threats through the “Special 301 Watch list” (Civil Service Bureau n.d.; Wong and Work 2014).

Singapore is the country with the highest number of FTAs in ASEAN, mak-

ing it a strong supporter of these agreements. Its economy depends immensely on its trade; therefore, the country uses several bilateral FTAs, not only the ones with ASEAN, to guarantee best relations and concessions. The country is also one of the P-4, which started the negotiations for the TPP with the United States (Ministry of Foreign Affairs n.d.). The city is an example on IP regulations, ranked as second in the world and top on Asia for IP protection. It also has a high number of patent applications (Spruson & Ferguson 2014). Regarding supply chains, Singapore has issues to be solved concerning air, land and multimodal connectivity and transport capability. Furthermore, it aims to protect the capital invested internationally and facilitate its mobility.

Indonesia and **Malaysia** are two countries with a strong tradition of FTAs, having covered a huge part of their trade with free trade agreements. Both are ASEAN members and support the regional trade agreements, especially the RCEP, hoping to increase their investment levels. Malaysia also believes that FTAs are the best way to guarantee liberalization in commerce (Ing 2015, Ministry of International Trade and Industry 2015). Comparing to the other members of ASEAN, both countries have been growing their patent applications. However, Malaysia is doing better than Indonesia in improving its intellectual property regulations (Spruson & Ferguson 2014). Furthermore, both are gaining importance in global and regional supply chains. Malaysia by its electronics production and Indonesia benefiting from its commodities exports.

Thailand has been combining efforts to improve free trade and one of the paths is through FTAs. During 2014, the country had some difficulty in establishing FTAs because of the internal political situation, but is now working towards that goal again. The country has bilateral agreements with European Union, United States, Japan, Australia, New Zealand, Peru, China and Chile, with negotiations being held with India and Pakistan (Oxford 2014). As a member of ASEAN, it also benefits from the FTAs from the association. Moreover, the country became more important for global supply chains, because of the growing demand for commodities, even though it is the largest industrial producer in ASEAN. Regarding IP rules, Thailand is one of the few countries that use the TRIPS flexibilities in order to guarantee access to affordable medicines and can serve as an example to other developing countries (Oh 2009).

The government of the **Philippines** considers FTAs as a form of complementing multilateral relations, mainly the WTO rules. It is a great encourager of FTAs in ASEAN, but is still cautious in bilateral negotiations. The Philippines have a bilateral trade agreement with Japan, which is important because it goes beyond normal regulations for FTAs, concerning deeper issues. The country is negotiating

agreements with European Union, Pakistan and United States, its current biggest trade partner, followed by Japan. Considering its relations with the region, an East Asia FTA would be logical and natural for the Philippines to participate (Medalla and Mantaring 2009). It has also left the US Watch List for countries that do not protect intellectual property rights effectively (Spruson & Ferguson 2014).

As much of the members of ASEAN, **Brunei Darussalam** supports a FTA between ASEAN and China, which would improve the potential of increasing efficiency and scale of supply chains. As a small country with high GDP, it could have more benefits with liberalization. It also defends the control over the processes of production in supply chain, especially the ones focused on food goods. It is still reluctant over some requirements shown in some FTAs proposals, such as the TPP, regarding government procurement. Concerning intellectual property regulations, the country is trying to improve its policies, but is still lacking enforcement agencies (Skodon n.d., B. G. Oxford 2011). As another member of ASEAN and supporter of FTAs, **Vietnam** has passed through a period of focused relations with the US, followed by a period of efforts towards regional integration in ASEAN. The country has FTAs with US, Japan, Chile, European Union, South Korea, and Russia and is part of negotiations to TPP (Vu 2013). It has been dealing with international pressures over its intellectual property system, since it does not have very strong laws and has a market in growth with potential to import foreign products (Spruson & Ferguson 2014) – besides being an important country for global supply chains.

Australia and **New Zealand**, as two examples within the TPP, both disagree, as well as many others, with the introduction of an Investor-State Dispute mechanism in the agreement, which would protect private investors and multinationals at the expense of public investments. Australia goes further on defending governmental actions in the market by advocating the abolishment of subsidies (Kawai 2014). However, the country faces a dispute against many of its APEC colleagues concerning intellectual property in tobacco packages (WTO 2014), as well as internal issues to be solved concerning infrastructure and regulations in order to improve supply and value chain mechanisms (APEC, The 2013 Interim Assessment for Supply Chain Connectivity Framework Action Plan 2013). New Zealand, for its turn, disagrees with the length of IP restrictions that the USA is defending and holds concern with the goals to be achieved by the end of 2015 within the RCEP. The country also focuses on the security of its supply and value chains, with special attention to the ones aimed at food exports (Eyob e Tetteh 2012). **Papua New Guinea** has only one bilateral FTA with Australia, with whom trade relations are extremely important for the country's economy. It focuses on

multilateral agreements with the small islands in the Pacific region, which also have importance for the Papuan exports (Asian Development Bank n.d.). The country has a very new IP system still in development and has a very small rate of filings (Spruson & Ferguson 2014).

The establishment of environmental standards for firm activity is an issue addressed within the TPP and defended by many countries, with **Canada** as one of the leading supporters (Canadians 2015). The country, on the other hand, is pressured by the Australian government to grant TPP countries the same trade advantages that were granted in talks to the European Union in their Comprehensive Economic and Trade Agreement (CETA), which is still to be signed (Blanchfield 2015). Another stressing point for Canada concerns the IP regulations inside NAFTA: the country should commit to standards of protection that are stronger in some cases than the ones in TRIPS and, if there is difficulty in smaller proportions, proposals of deeper regulations on IP within APEC would be hard to be fulfilled (Maskus 2000). Lastly, Canada works towards further development of its supply and value chains of services and manufactured products, which have many of its inputs derived of other countries (OECD, Global Value Chains (GVCs): Canada 2009).

Latin American countries, such as **Chile**, **Mexico** and **Peru**, have shared identical thoughts when it comes to discussing IP regulations: the three agree that the United States is suggesting too extensive and deep standards. When it comes to the TPP discussions, Mexico sees it as a mechanism to further develop its role in the global supply chains and diversify its exports (Mexico 2015). On the contrary, Chile and Peru have faced inside pressure of their congresses concerning the implications of the agreement to their countries. It has been stated in these spheres that the TPP would go far beyond what has already been negotiated in previous agreements (mainly for Chile, that has FTAs with all the TPP member states) and that, from the economic and commercial costs and benefits point of view, the balance for both countries would be negative (Furche 2013; Boehner 2013). Concerning global supply and value chains, Chile still has to work on solving the transit chokepoint problems (APEC, The 2013 Interim Assessment for Supply Chain Connectivity Framework Action Plan 2013) and Peru works towards fostering development of their own GVC connections, mainly the ones of agricultural industries (Humphrey and Memedovic 2006).

5 QUESTIONS TO PONDER

1. How can megaregional free trade agreements contribute to international economy and to APEC Members' economies?
2. What are the main difficulties for the implementation of megaregional FTAs in the Asia-Pacific?
3. How to conciliate the visions between the APEC members, considering the different levels of development between them?
4. Would a future FTAAP be similar to RCEP's provision or would it follow the principals of the TPP?
5. How can IP regulations benefit countries in different levels of development and implementation in order to improve development in the region? Are the existing regulations acting in favor of all countries?
6. How can global value chains stimulate growth and development? Do differences in countries' levels of development affect the way GVCs act in domestic economies?
7. How can FTAs include IP and GVC aspects aiming for the whole region's economic development?

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