

# Asian Free Trade Agreements: Trends, Prospects and Challenges

**Masahiro Kawai and Ganeshan Wignaraja**  
**Asian Development Bank Institute**

ADB-Graduate Institute of International & Development Studies-WTO  
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# Issues

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- Asia has seen a proliferation of FTAs, which supports deepening production networks
- Where is Asia in terms of FTA use, ROOs, agricultural and services trade liberalization, WTO plus elements, etc?
- Can a region-wide Asian FTA, including RCEP and TPP, reduce risk of “noodle bowl” and facilitate a Doha deal?
- How can Asian FTAs serve as a building block towards global trade and investment liberalization?

# Contents

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1. Trade Policy Landscape in Asia
2. Challenges Posed by Asian FTAs
3. Policy Options and Likely Scenarios for FTA Consolidation in Asia

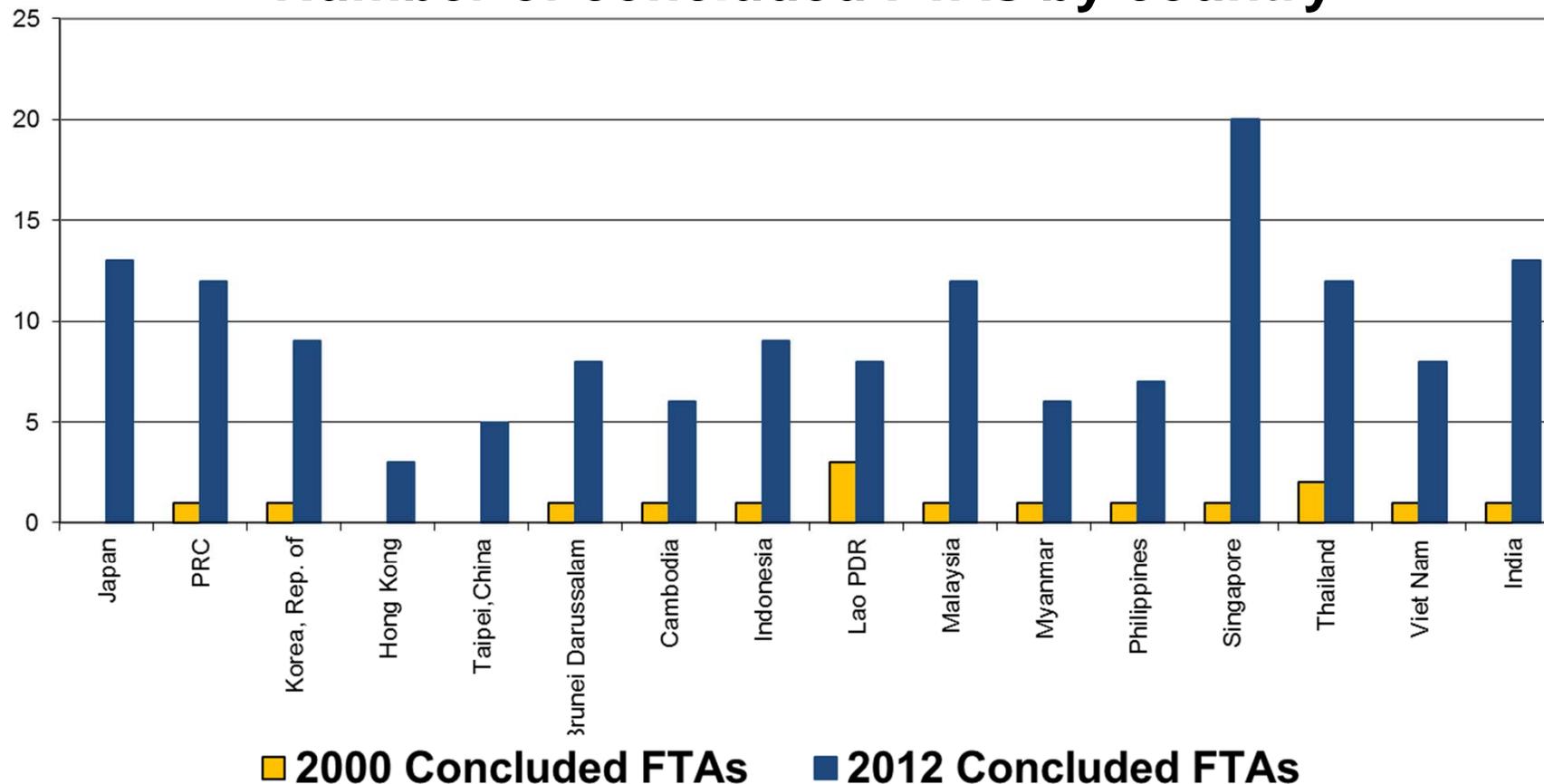
# **1. Trade Policy Landscape in Asia**

# Prospects for Trade Liberalization in Asia

- Appetite for **voluntary, unilateral (or non-reciprocal) liberalization** seems over. Av. Asian MFN tariffs - 10.8% (2000) and 7.4% (2010).
- **WTO Doha Round** began in Nov 2001; stalled in mid-2008. Little end in sight and possible that a “shallow” Doha deal might be the final outcome. Next steps: post-Doha agenda and WTO reforms.
- **Plurilateral/Sectoral agreements** being advocated largely by industrial countries to progress sectoral liberalization such as services and electronic commerce. Small developing countries lack such advanced sectors and prefer other forms of liberalization.
- **FTAs** expanding in Asia to reduce tariffs and smooth trade in production networks. But concerns exist about FTA use, the Asian “noodle bowl,” and FTA depth. New region-wide FTAs offer potential for deeper and targeted liberalization.

# Rapid Spread of FTAs in Asia

## Number of concluded FTAs by country



*Note:* Concluded FTAs include those that are in effect as well as those that have been signed but are not yet in effect.

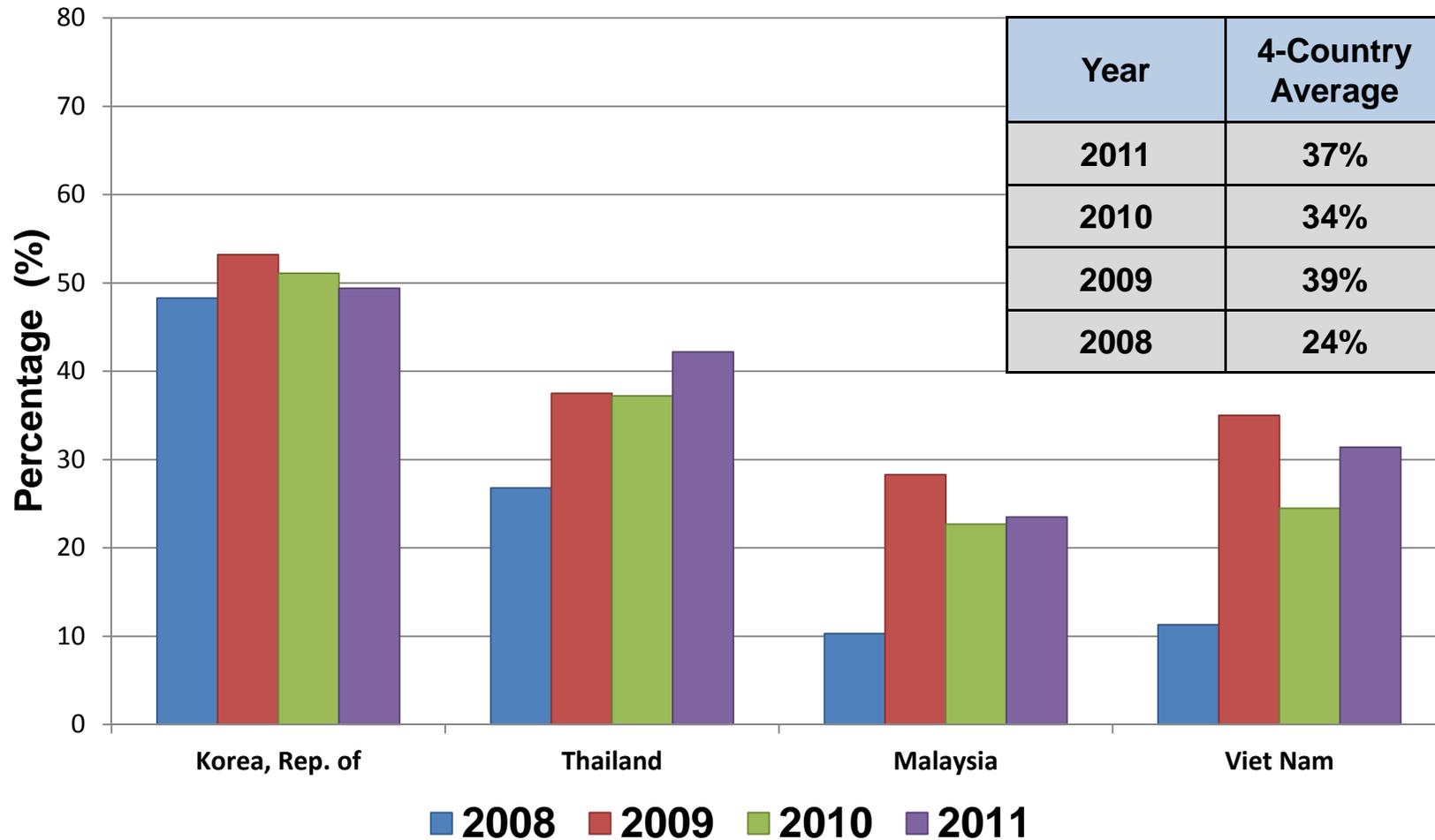
*Source:* ADB's Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)), data as of December 2012.

**2.**

## **Challenges Posed by Asian FTAs**

# Challenge 1: Improving FTA Use (COO data)

## (% of export value with FTA preferences)



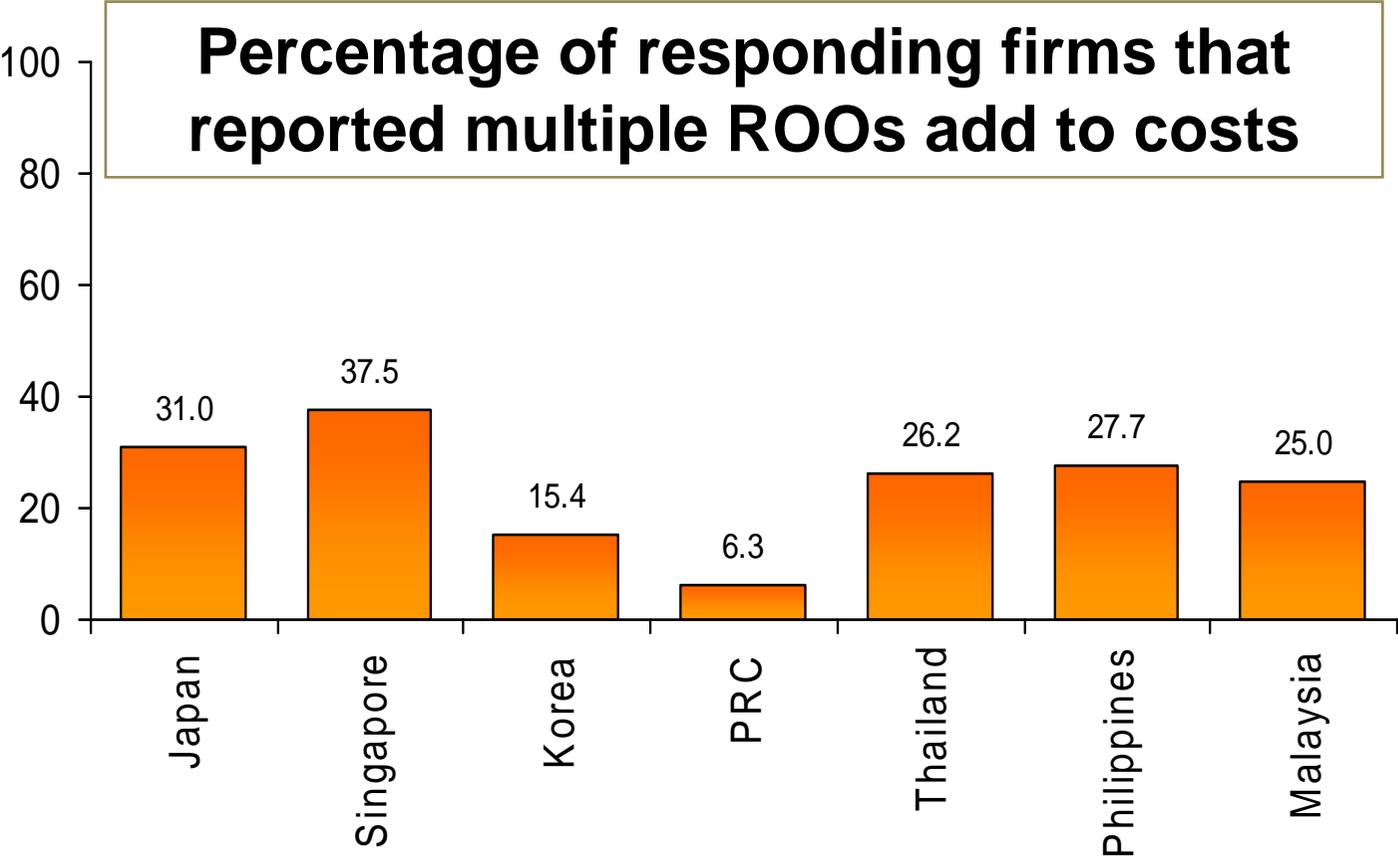
Source: National trade and industry ministries; JETRO

# Examples of Preference Use by Exporters

	Korea	Thailand	Vietnam	Malaysia
<b>High use</b>	<ul style="list-style-type: none"> <li>• US-Korea (69%)</li> <li>• EU-Korea (79%)</li> <li>• Korea-Chile (99%)</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-Korea (49%)</li> <li>• Thailand-Australia (59%)</li> <li>• ASEAN-India (80%)</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-Korea (91%)</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-Korea (51%)</li> </ul>
<b>Low use</b>	<ul style="list-style-type: none"> <li>• Korea-India (16%)</li> <li>• ASEAN-Korea (33%)</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-China (35%)</li> <li>• AFTA (28%)</li> <li>• Japan-Thailand (25%)</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-India (7.4%)</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN-Australia&amp;NZ (14%)</li> </ul>

Source: National trade and industry ministries; JETRO

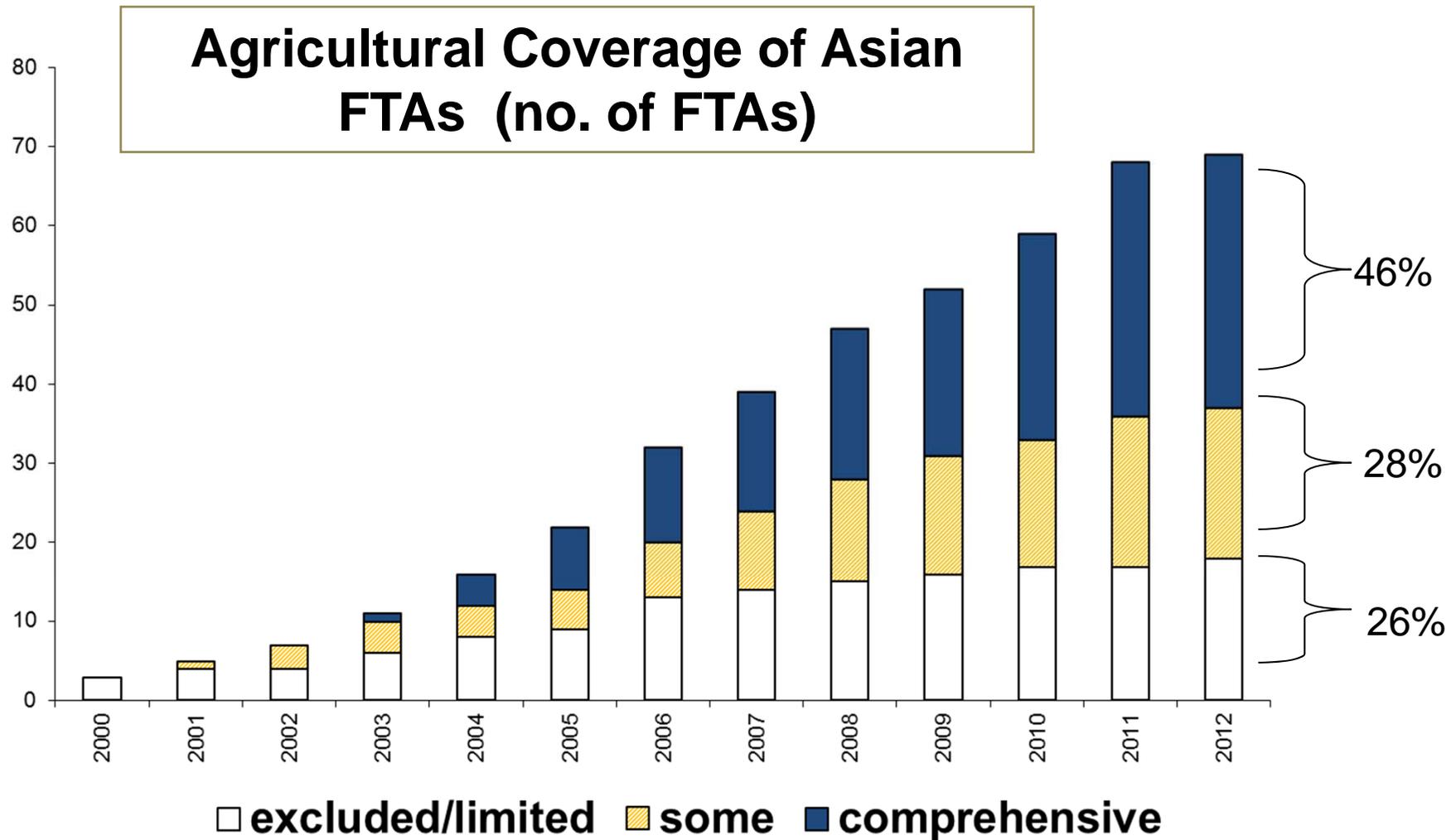
# Challenge 2: Tackling the 'Noodle Bowl' - Enterprise Surveys



**Only 21.4% of firms find multiple ROOs costly to business**

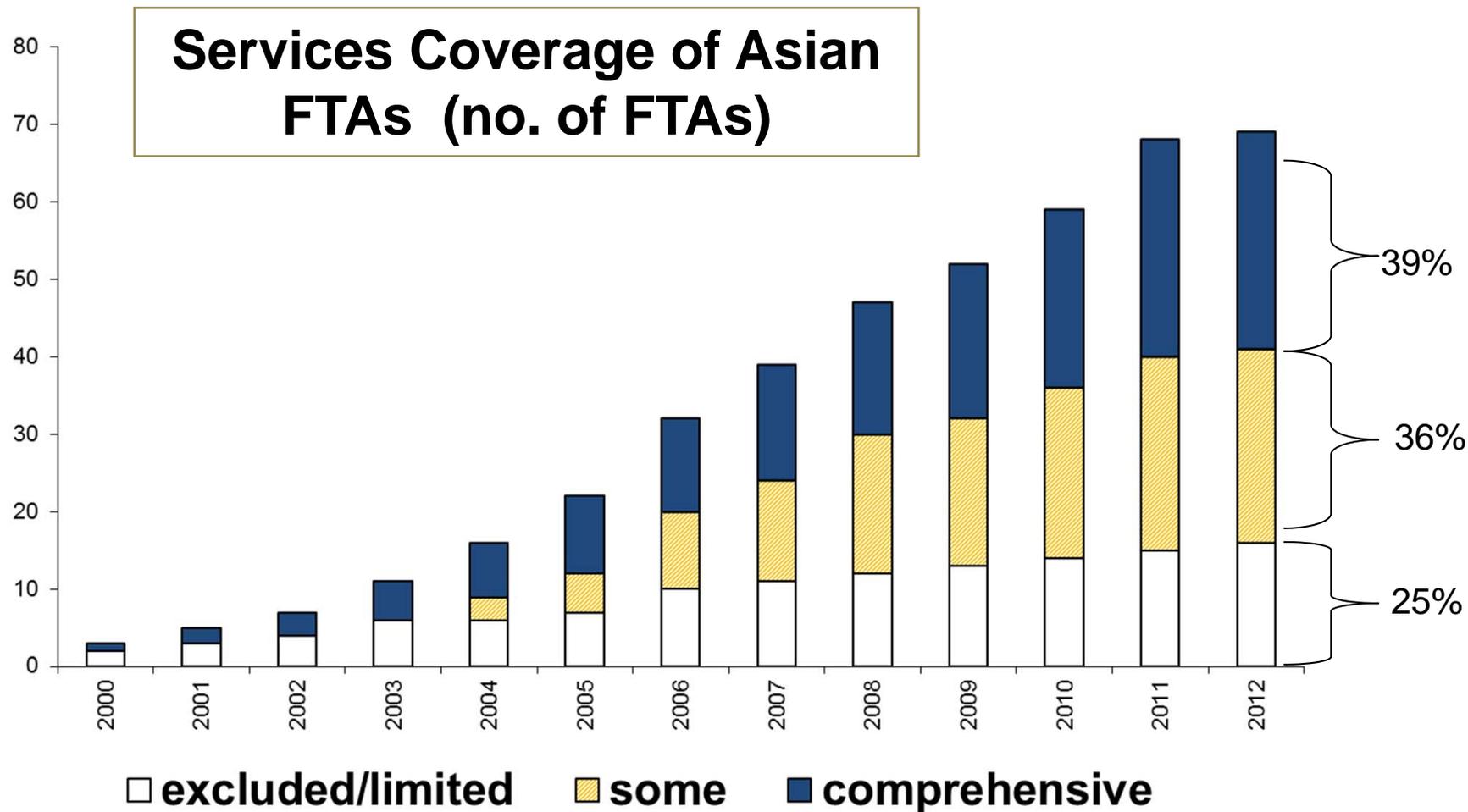
Source: Kawai and Wignaraja (2011a) and ADB/ADB I Malaysia Survey 2012

# Challenge 3: Forming Comprehensive Coverage of Agriculture Issues



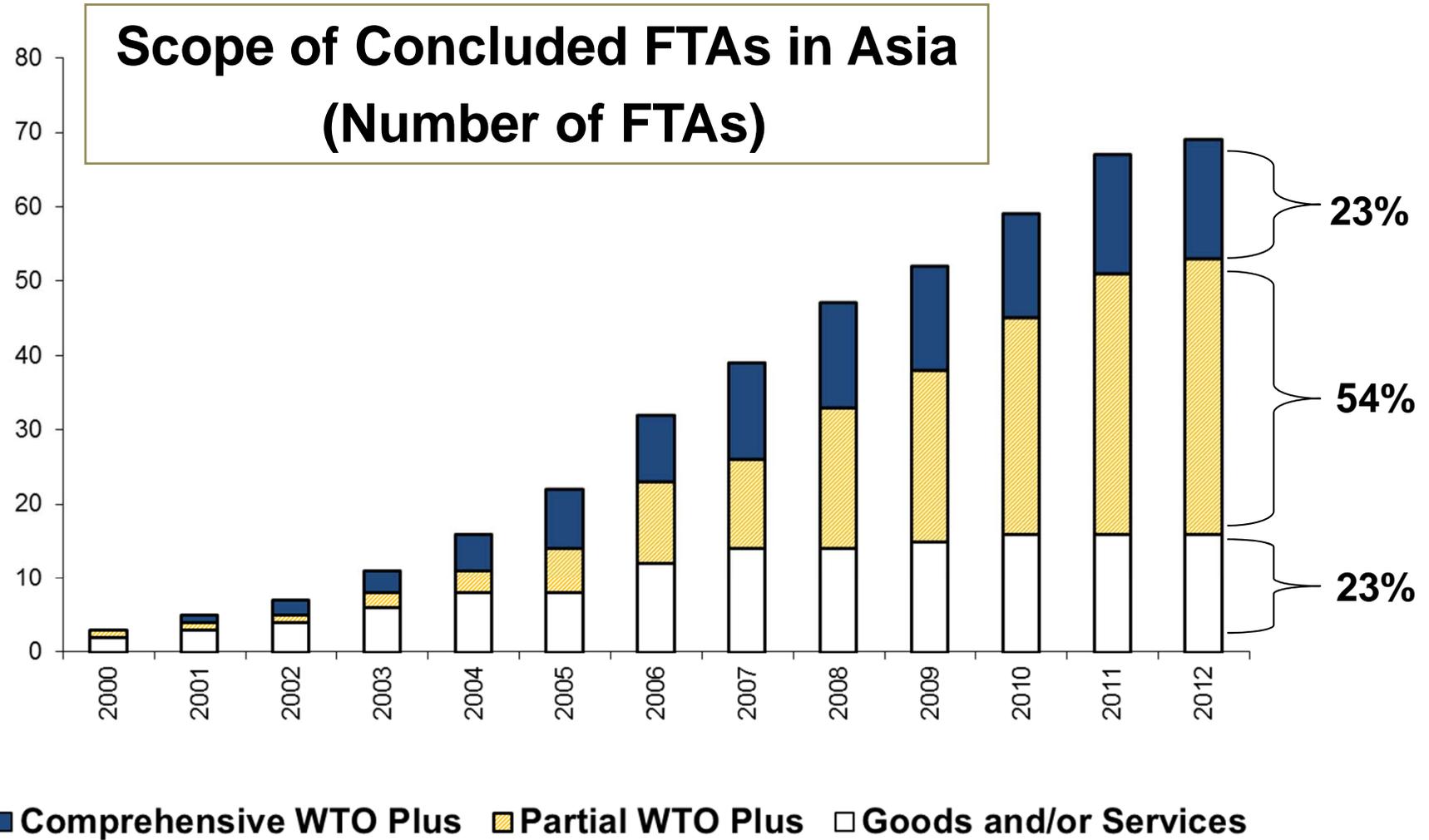
Source: Kawai and Wignaraja (2013)

# Challenge 4: Facilitating Services Trade Liberalization



Source: Kawai and Wignaraja (2013)

# Challenge 5: Increasing WTO-plus Elements



Source: Kawai and Wignaraja (2013)

# **3. Policy Options and Likely Scenarios for FTA Consolidation**

# Policy Options

- Mainstream FTAs into national development strategies
  - ✓ Implement key domestic structural reforms in a phased yet credible manner (agriculture, services and Singapore issues)
  - ✓ Pursue deep integration FTAs by including WTO-consistent provisions and Singapore issues in future agreements
  - ✓ Improve business support for SMEs (FTA outreach, export marketing, finance, and technology)
  - ✓ Provide assistance for marginal gainers and losers from FTAs
- Consolidate Asian FTA-led regionalism
  - ✓ Adopt best practices (e.g., rationalize ROOs, adopt co-equals for ROOs, upgrade ROO admin., harmonize regional ROOs).
  - ✓ Consolidate FTAs into a region-wide FTA (Regional Comprehensive Economic Partnership, RCEP, among ASEAN+6).
  - ✓ Develop a high-quality FTA such as the Trans Pacific Partnership (TPP) agreement
- Support a WTO agenda for global production networks and FTAs

# Likely Scenario for FTA Consolidation

- Any region-wide FTA could be a series of linked agreements with variable coverage of members and issues
- For now, 2 competing processes
  - ✓ RCEP among ASEAN+6 countries
  - ✓ Trans Pacific Partnership (TPP) agreement
- A RCEP requires a PRC-Japan-Korea FTA and its connection with ASEAN+1 FTAs
- TPP will unlikely include the PRC for some time
- Both RCEP and TPP are open to new members
- An APEC-wide FTA (FTAAP) can be forged by combining RCEP and TPP, convergence of the two, or absorption of RCEP by TPP

# RCEP and TPP – Salient Features

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## RCEP

- Negotiations launched in November 2012
- Focus: trade in goods and services and investment
- Limited openness allows developing countries to join through gradual liberalization and reforms

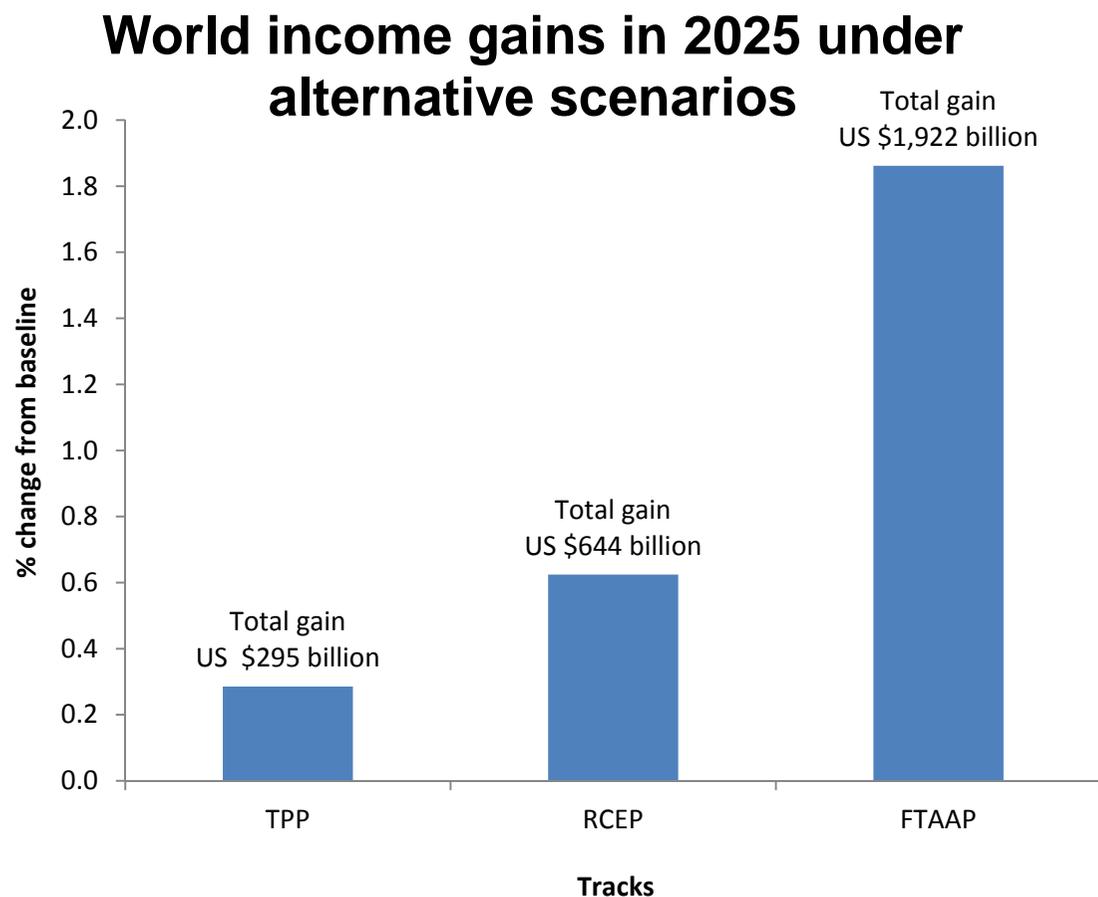
## TPP

- Negotiations to expanded P-4 membership started in March 2010
- Comprehensive coverage of new trade issues, e.g. intellectual property, government procurement, competition, labour and the environment
- High degree of openness and hence limited membership

# Region-wide FTA: Way Forward

- The biggest challenge lies in political will and geopolitical considerations in moving forward on RCEP and/or TPP
- Different reasons make either RCEP or TPP or both more attractive for each economy
- Whichever process is taken, integration should be deepened and domestic reforms pursued with different speed and scope across economies
- A harmonious region will likely see convergence between the two processes as building blocks for an FTAAP—win-win for Asia-Pacific
- But this requires:
  - ✓ (i) the PRC and other developing economies to be ready to accept high-level liberalization of, and transparent rules over, trade and investment and reduction of behind-the-border barriers; and
  - ✓ (ii) the US to accept the PRC as a responsible trade and investment partner

# Larger Grouping, Larger Gains



- Region-wide FTAs offer more gains to world income than bilaterals
- Eventual FTAAP offers notable gains over RCEP and TPP
- Insiders gain while outsiders loose little

Source: Petri, Plummer and Zhai (2011) and their updates

# 4. Summary

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- Asia has a multi-track trade liberalization approach, including FTA-led liberalization, to support deepening production networks but challenges remain
  - ✓ FTA use, ROOs, agricultural and services trade liberalization, WTO plus elements
  - ✓ RCEP and TPP complementary
- A region-wide Asian FTA can reduce risk of “noodle bowl” and facilitate a Doha deal
- Global trade and investment liberalization can be achieved through the WTO process, multilateralization & consolidation of regional agreements, and national efforts

# Selected references by the authors

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# Thank you

## For more information:

**Dr. Masahiro Kawai**  
**Dean & CEO**  
**Asian Development Bank Institute**  
[mkawai@adbi.org](mailto:mkawai@adbi.org)  
**+81 3 3593 5527**  
**www.adbi.org**



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