Asian Free Trade Agreements: Trends, Prospects and Challenges

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Issues

- 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?
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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), data as of December 2012.
2. Challenges Posed by Asian FTAs
Challenge 1: Improving FTA Use (COO data) (% of export value with FTA preferences)

<table>
<thead>
<tr>
<th>Year</th>
<th>4-Country Average</th>
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<tbody>
<tr>
<td>2011</td>
<td>37%</td>
</tr>
<tr>
<td>2010</td>
<td>34%</td>
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<tr>
<td>2009</td>
<td>39%</td>
</tr>
<tr>
<td>2008</td>
<td>24%</td>
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</table>

Source: National trade and industry ministries; JETRO
## Examples of Preference Use by Exporters

<table>
<thead>
<tr>
<th></th>
<th>Korea</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Malaysia</th>
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</thead>
<tbody>
<tr>
<td><strong>High use</strong></td>
<td>• US-Korea (69%)</td>
<td>• ASEAN-Korea (49%)</td>
<td>• ASEAN-Korea (91%)</td>
<td>• ASEAN-Korea (51%)</td>
</tr>
<tr>
<td></td>
<td>• EU-Korea (79%)</td>
<td>• Thailand-Australia (59%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Korea-Chile (99%)</td>
<td>• ASEAN-India (80%)</td>
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</tr>
<tr>
<td><strong>Low use</strong></td>
<td>• Korea-India (16%)</td>
<td>• ASEAN-China (35%)</td>
<td>• ASEAN-India (7.4%)</td>
<td>• ASEAN-Australia&amp;NZ (14%)</td>
</tr>
<tr>
<td></td>
<td>• ASEAN-Korea (33%)</td>
<td>• AFTA (28%)</td>
<td></td>
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<td></td>
<td></td>
<td>• Japan-Thailand (25%)</td>
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</tr>
</tbody>
</table>

*Source: National trade and industry ministries; JETRO*
Challenge 2: Tackling the ‘Noodle Bowl’ - Enterprise Surveys

Percentage of responding firms that reported multiple ROOs add to costs

Only 21.4% of firms find multiple ROOs costly to business

Source: Kawai and Wignaraja (2011a) and ADB/ADBI Malaysia Survey 2012
Challenge 3: Forming Comprehensive Coverage of Agriculture Issues

Agricultural Coverage of Asian FTAs (no. of FTAs)

Source: Kawai and Wignaraja (2013)
Challenge 4: Facilitating Services Trade Liberalization

Services Coverage of Asian FTAs (no. of FTAs)

Source: Kawai and Wignaraja (2013)
Challenge 5: Increasing WTO-plus Elements

Scope of Concluded FTAs in Asia
(Number of FTAs)

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

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

World income gains in 2025 under alternative scenarios

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

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

- 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


Thank you
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