

*Multilateralising Asian Regionalism:
Lessons from the European
spaghetti bowl*

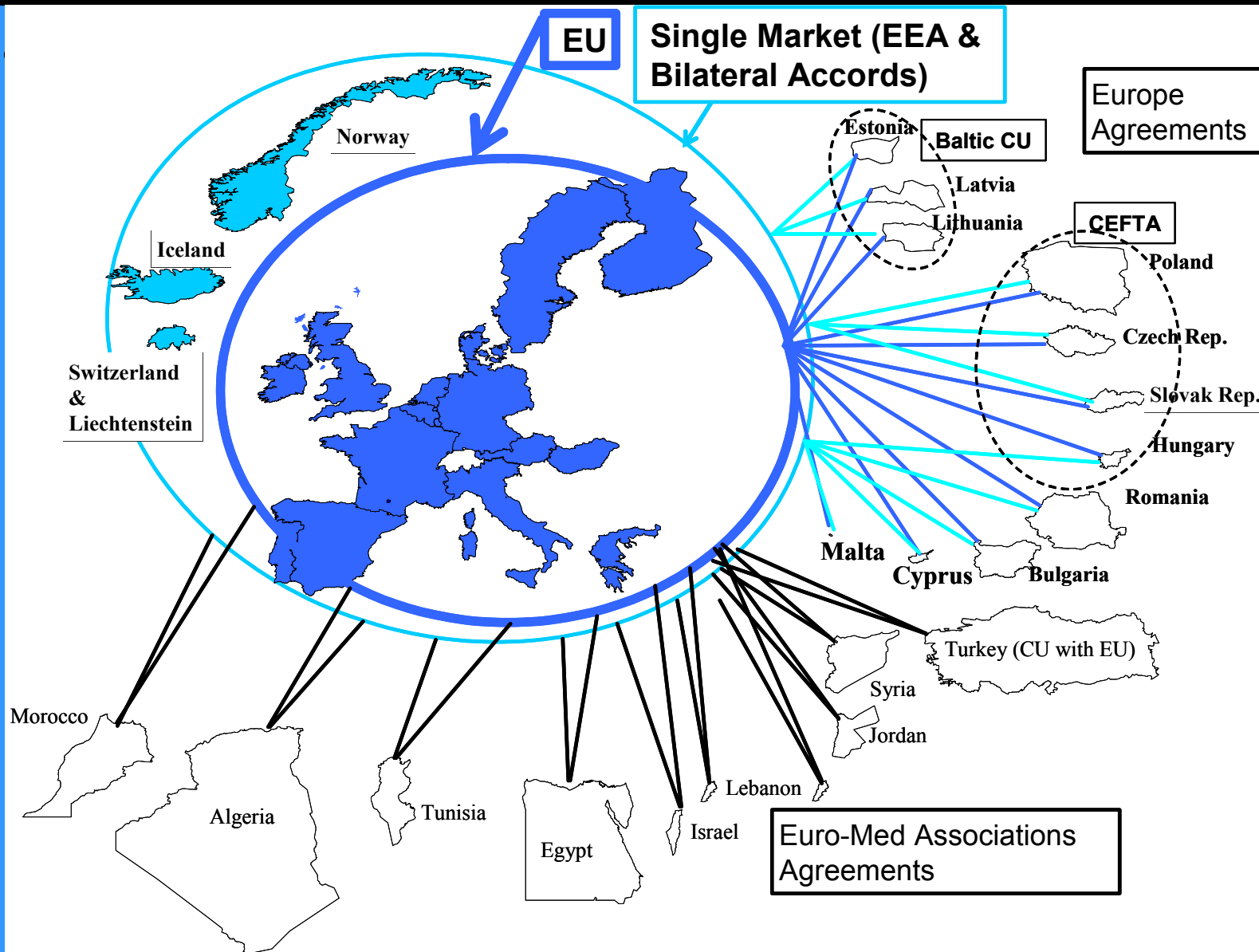
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Outline

1. Noodle bowls around the world.
2. European regionalism before PECS.
3. PECS.
4. Basic economics of regionalising rules of cumulation (“multilateralising”).
5. Basic politics.
6. The evidence that PECS worked.
7. Lessons for Asia.

European spaghetti bowl, circa 1995



EU MFN tariffs, 1995

Table 1: EU tariffs in 1995 (trade weighted by sector)

Sector	Mean	Sector	Mean
Food products	16%	Miscellaneous petroleum and coal products	4%
Beverages	11%	Rubber products	5%
Tobacco	42%	Plastic products	5%
Textiles	10%	Pottery china earthenware	11%
Wearing apparel except footwear	13%	Glass and products	7%
Leather products	5%	Other non-metallic mineral products	5%
Footwear except rubber or plastic	10%	Iron and steel	6%
Wood products except furniture	6%	Non-ferrous metals	6%
Furniture except metal	6%	Fabricated metal products	6%
Paper and products	9%	Machinery except electrical	5%
Printing and publishing	9%	Machinery electric	6%
Industrial chemicals	8%	Transport equipment	8%
Other chemicals	7%	Professional and scientific equipment	6%
Petroleum refineries	5%	Other manufactured products	6%
All goods (trade weighted)	8%		

Economics

- 1. FTA: duty-free preferences everywhere but bilateral cumulation.
- 2. Rules of origin not harmonised, but:
 - (a) Hub & Spoke, and (b) not too different.

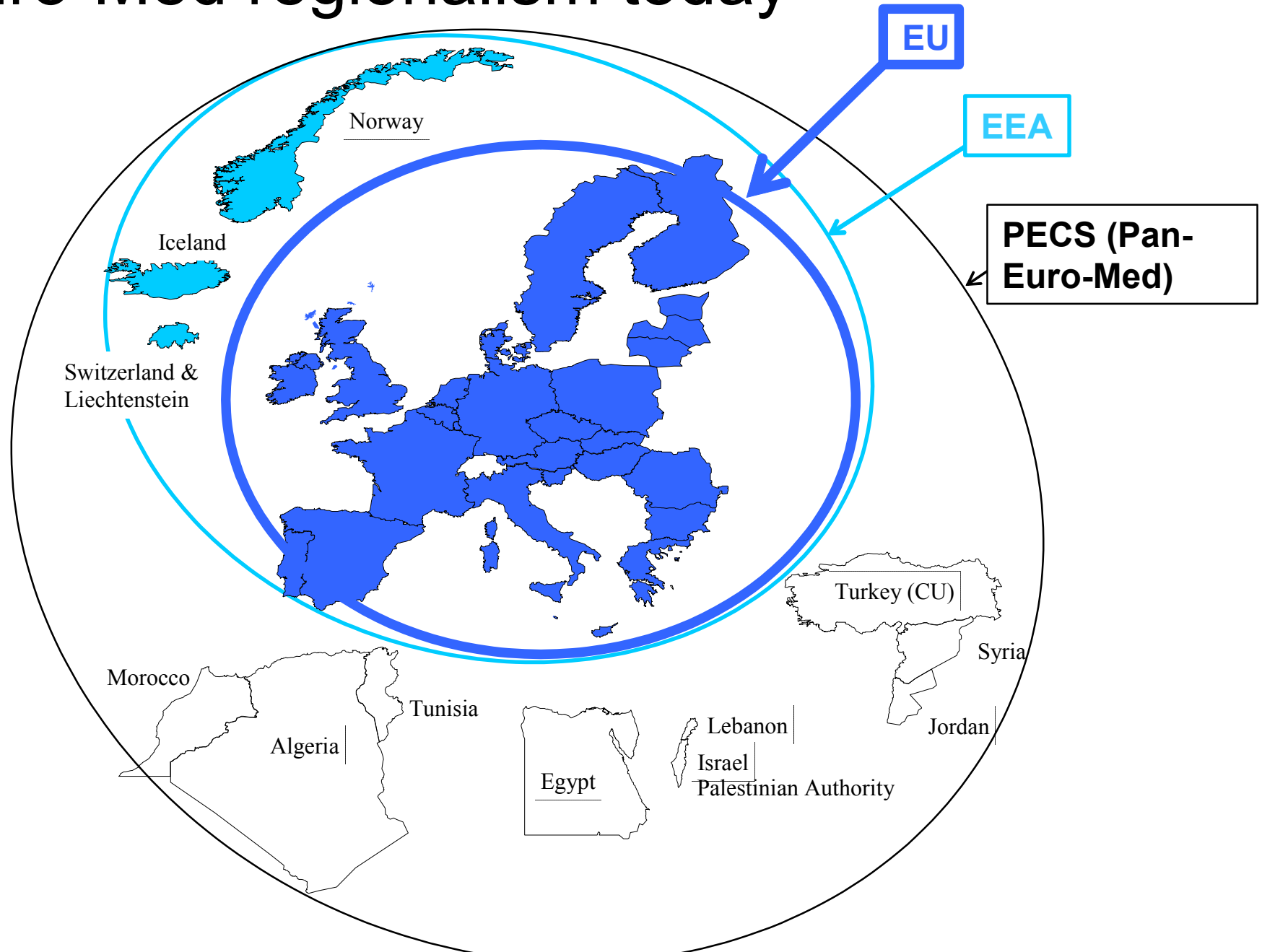
Economics

- Regionalising cumulation rules is like reducing the stringency of Rules of Origin (ROOs).
- Easy/cheaper to comply with ROOs
 - but much bigger impact Spoke-Spoke.
- Something like *customs union* for ROOs.

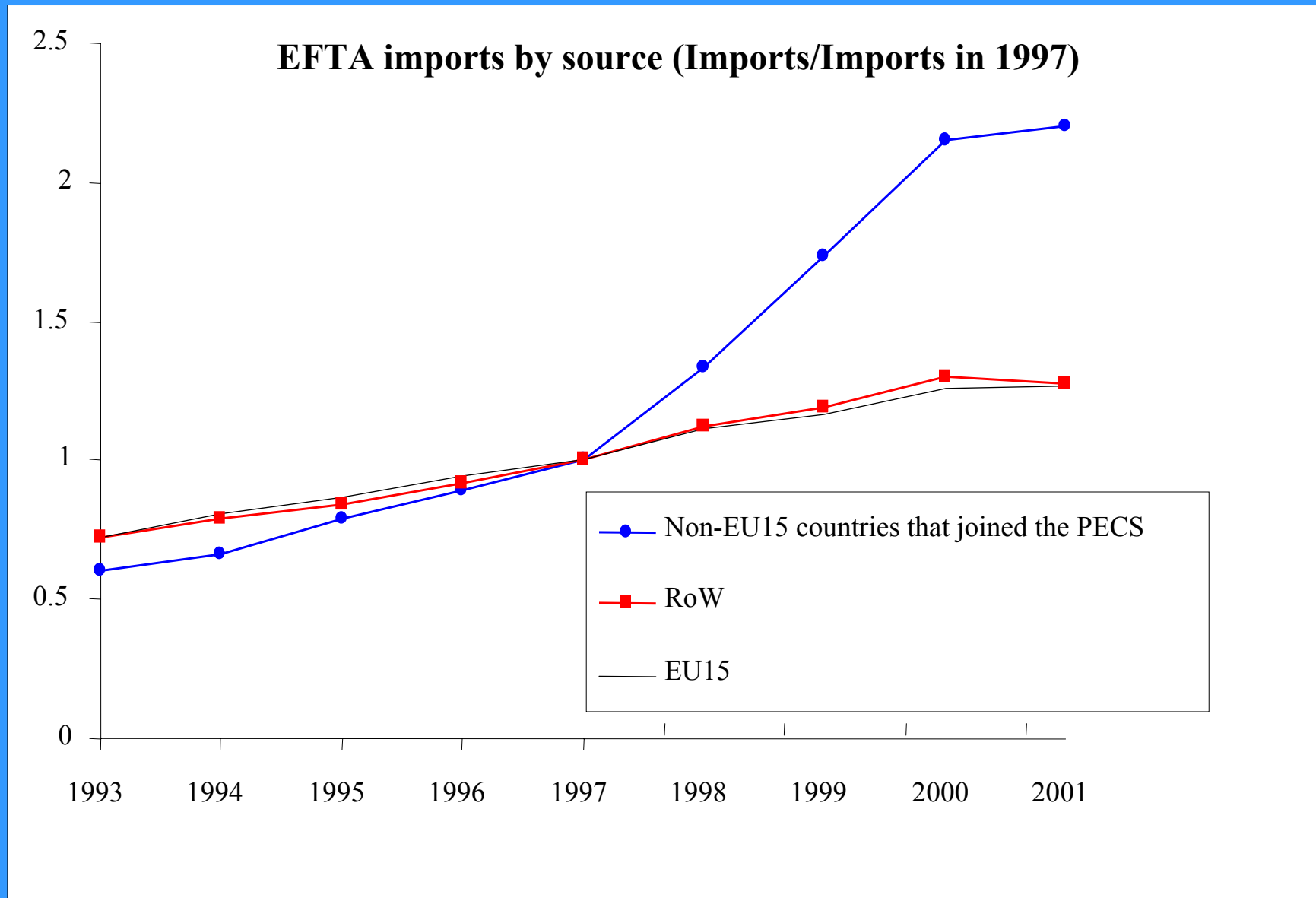
Politics

- Unbundling of production in Europe
 - ‘us’ became confused with ‘them’
 - Business pushed EU to ‘tame the tangle’
 - “Spaghetti bowl as a building bloc”
- Central Europe nations planning to join EU, so little opposition to ROO harmonisation.
- PECS lead to domino effect.

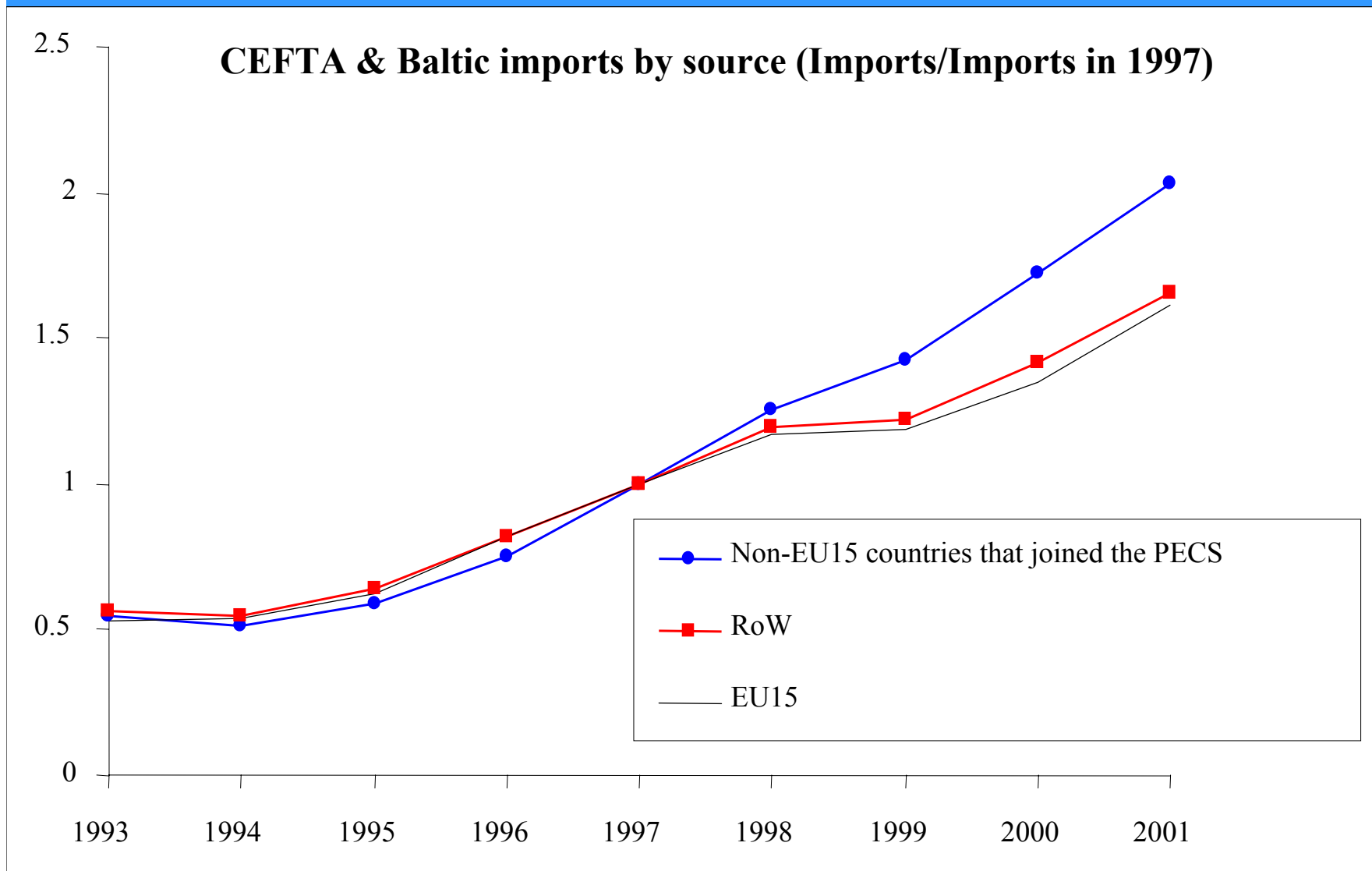
Euro-Med regionalism today



PECS worked (prima facie evidence)



PECS worked (prima facie evidence)



PECS worked (prima facie evidence)

- Relatively high utilisation rates in 2001

	<u>% of the 96 two-digit sectors with utilisation rates that are:</u>		
	<u>Above 25%</u>	<u>Above 50%</u>	<u>Above 75%</u>
Czech Republic	81	70	38
Poland	86	70	46
Hungary	90	75	52
Egypt	73	58	43
Jordan	67	52	42
Morocco	81	67	46
Tunisia	78	64	48

PECS worked (Econometric evidence)

- See the paper

Lessons for Asia

1. Fully implemented FTAs with tangled ROOs can harm trade – especially among the ‘spokes’.
2. Problems with ROOs can be overcome and cumulation helps.
5. Business was the demandeur (outsourcing).
BUT
3. EU-like leader helps.
4. Need complete matrix of FTAs, all fully implemented.
5. Need same ROOs (including co-equal)

Idea/Proposal

- Harmonizing ROOs & expanding cumulation:
 - Maybe too hard/slow for the ASEAN+3 nations (FTAs among the +3 nations???)
- Why not ASEAN-led talks on an East Asian duty-free zone for all industrial goods.
 - Like ITA but for all industrial goods (few exceptions as politically possible).
 - Like solution between EFTA and EU.
- Maybe trigger a domino effect leading to worldwide free trade area in industrial goods?

END

- Thank you for listening.

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- Also see: 10-12 September 2007, WTO Conference, “Multilateralising Regionalism” website:

www.wto.org/english/tratop_e/region_e/conference_sept07_e.htm

- A new economic policy web site by CEPR

<http://www.VoxEU.org>

– “research-based policy analysis and commentary”

Noodles with everything: Western Hemisphere

