

What Challenges for an East Asian FTA?

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Introduction

- East Asian countries: Latecomers to regionalism
- Recently substantial progress for forming FTAs
- Many and overlapping FTAs: Possibility of Spaghetti Bowl Effects
- EAFTA proposed in the East Asian Vision Group Report (2001), but many challenges in the road of the EAFTA

Proliferation of FTAs in East Asia and Rationale of the EAFTA

- Most East Asian FTAs are bilaterals
 - Many overlapping FTAs
 - Very wide differences across FTAs
 - Less comprehensive and low quality
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- Competitive regionalism (“F. Bergsten”)
 - Regional liberalization, especially trade
 - A web of FTAs with low quality

Higher
Chance
for
Noodle
Bowl
Effects

Growth of FTAs in East Asia, 1976–2007 (Cumulative)

Year	No. of FTAs	Status of FTAs		
		Concluded	Under Nego	Proposed
1976	1	1	0	0
1986	1	1	0	0
1996	4	3	0	1
2000	7	3	1	3
2001	10	5	2	3
2002	14	6	4	4
2003	23	9	5	9
2004	42	14	16	12
2005	67	21	30	16
2006	96	31	42	23
2007	102	36	41	25

Source: Kawai and Wigraraja (2007)

Progress of FTAs in East Asia

	Discussion/ Joint Study	Negotiation	Signed (year)	Effective (year)
ASEAN	Australia, New Zealand, EAFTA	India		AFTA (1992), China (2005), Korea (2007)
China	EAFTA, Korea, MERCOSUR	Australia, GCC, India, Peru, Russia	New Zealand (2008)	Hong Kong (2004), Macao (2004), ASEAN (2005), Chile (2008)
Japan	EAFTA	Korea (2003-2004), CGG, India, Australia, Vietnam, Switzerland	Thailand (2007), Indonesia (2007), Brunei (2007), Chile (2007)	Singapore (2003), Mexico (2004), Malaysia(2005), Philippines (2006)
Korea	China, EAFTA, MERCOSUR, Russia	EU, Canada, India, Mexico, GCC, Japan (2003-2004)	U.S. (2007)	Chile (2004), Singapore (2006), EFTA (2006), AFTA(2007)

Rationale for EAFTA

- EAFTA: An important foundation for regional community–building
- Economic gains from forging closer regional economic linkages through commercial liberalization, regulatory conformity, economic cooperation and others.
- Facilitate industrial cooperation, structural adjustment, and production supply chain
- Increase intra–regional trade

Rationale for EAFTA

- Remove losses from overlapping FTAs
- Solve trans-boundary problem in East Asia
- The increase of bargaining power, signalling the region's policy credibility and commitment to reform
- Preparation for bolder reforms and future challenges in a regional context

Rationale for EAFTA

- Contribution to the development of the WTO
 - Today the question in hand is not WTO or RTAs anymore, but how to design RTAs to act as the stepping stones towards a freer global trading environment.
 - ‘WTO Action Plan on Regionalism’, suggesting the WTO not to remain ‘an innocent bystander’ in the rise of regionalism. “If the WTO does nothing to adjust to the new realities of regionalism, it risks an erosion of its relevance.” (Baldwin and Thornton 2008)

Challenges for East Asian Countries in Promoting the EAFTA

- Favorable conditions for forming an EAFTA
 - The recognition of the improvement in the regional economic integration in East Asia due to the realization of the need for closer regional cooperation after the financial crisis
 - Also, as economic dependence among East Asian countries increases, the need to reinforce economic cooperation with neighboring countries is being keenly recognized.

Challenges for EAFTA

- *High dependence on the "final demand" outside East Asia*
- *FTA Consolidation Issues in Pushing Forward the East Asian FTA*
- *Low Quality in East Asian FTAs*
- *Differences in Tariff Structures*
- *Building Business Supports for the EAFTA*
- *Regional Coverage of EAFTA*
- *Lack of Leadership for Regional Economic Integration*
- *Political Challenges to Overcome*

High dependence on the "final demand" outside East Asia

Contribution towards Total Export in terms of GDP share (%)

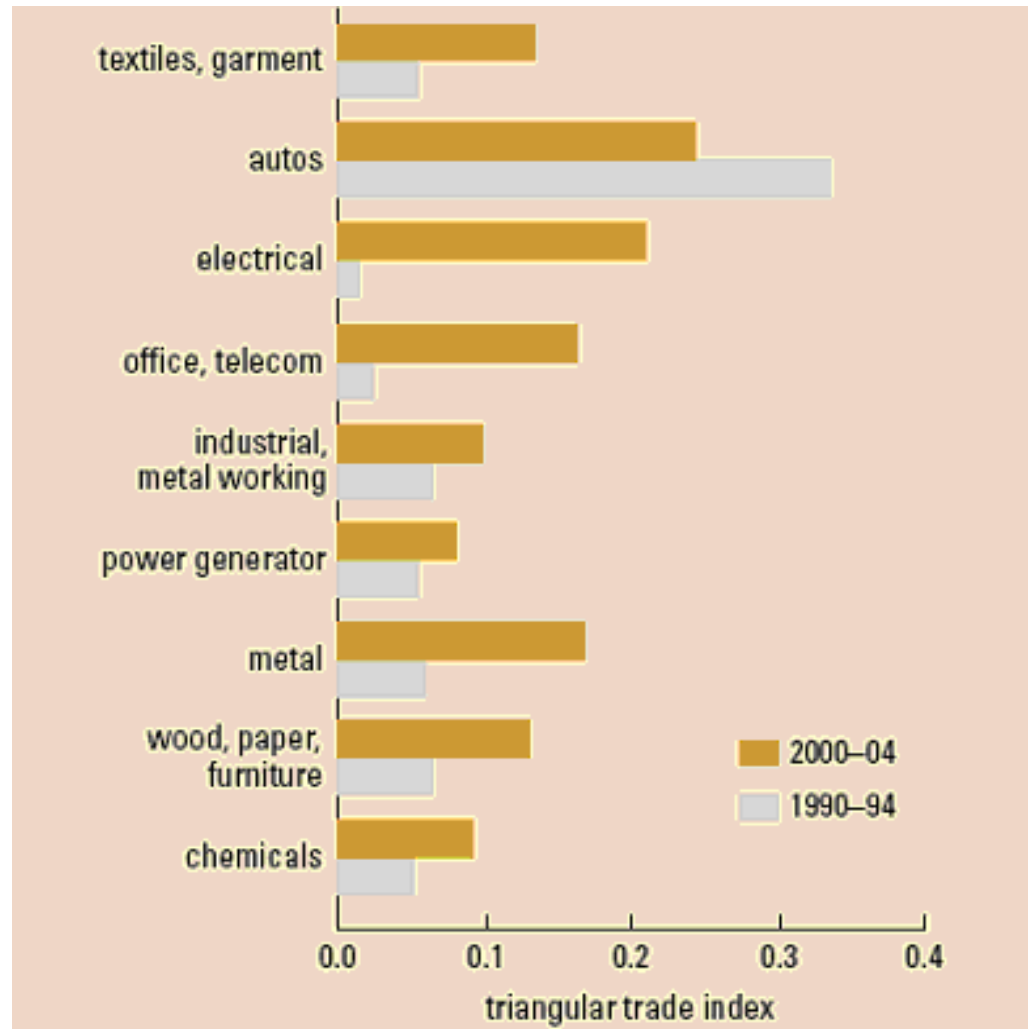


Source: Gruenwald, Paul and Masahiro Hori (2008), "Asian exports: Intra-regional Trade Key to Asia's Export Boom" IMF Asia and Pacific Department, IMF

FTA Consolidation Issues in Pushing Forward the East Asian FTA

- The recent conclusion of many FTAs in East Asia can be an obstacle to the promotion of the EAFTA.
- EAFTA means that existing FTAs be consolidated, but it is not easy to conclude a single agreement since the existing agreements greatly differ in scope and contents.
- Each agreement, difficult as it was to conclude, was effectuated via the ratification of the national congress.
- Thus, it is politically not easy to abolish or amend the agreements under implementation.

China and ASEAN are intermediating more East Asia's Trade



Thorbecke (2006): Currently 60 percent of exports by Japan, NIEs (South Korea and Taiwan) and ASEAN (Indonesia, Malaysia, and Thailand) to East Asia are intermediate products or capital goods.

Source: Urata, Shujiro (2006). "The Changing Patterns of International Trade in East Asia." Background paper, Washington, DC: World Bank.

Low Quality in East Asian FTAs

Quality Assessment of FTAs

		Comprehensiveness (services, investment, trade rules, IPRs, cooperation, etc)	
		More	Less
Market Access	Wide	Group I: ANZCER NAFTA KORUS FTA	Group II: AFTA-China FTA
	Narrow	Group III: AFTA Japan-Singapore EPA Chile-Korea FTA	Group IV: AFTA-Korea FTA AFTA-Japan FTA

Differences in Tariff Structures

	Simple average MFN applied(2006)			Trade weighted average(2005)		
	Total	Agriculture	Non-Ag	Total	Agriculture	Non-Ag
Brunei	3.3	5.2	3.0	n/a	n/a	n/a
Cambodia	14.3	18.1	13.7	10.9	9.2	11.1
Indonesia	6.9	8.2	6.8	4.8	6.1	4.7
Malaysia	8.5	12.3	7.9	4.6	16.0	4.0
Myanmar	5.6	8.7	5.1	n/a	n/a	n/a
Philippines	6.3	9.6	5.8	3.7	14.5	2.8
Singapore	0.0	0.2	0.0	0.0	1.3	0.0
Thailand	10.0	22.1	8.2	4.8	12.7	4.5
Vietnam	16.8	24.2	15.7	n/a	n/a	n/a
China	9.9	15.7	9.0	4.7	15.4	4.2
Japan	5.6	24.3	2.8	4.5	27.0	1.9
Korea	12.1	47.8	6.6	8.0	101.9	4.0

Building Business Supports for the EAFTA

- Net economic gains from trade liberalization can be marginal, due to current ASEAN+3 FTAs
 - CGE simulations ignore many bilaterals
 - Low utilization ratios by business (Kawai and Wignaraja 2008)
 - Complex ROO and small preference margins
- If the EAFTA targets comprehensive and high quality FTA, then the concerns by business will increase

Other Challenges

- *Regional Coverage of EAFTA*
 - *ASEAN+3 vs ASEAN+6*
- *Lack of Leadership for Regional Economic Integration*
 - *The role of China and Japan is limited*
 - *Too diverse*
- *Political Obstacles to Overcome*
 - *Lack of mutual trust*
 - *Historical issues*

Recommendation for a Successful EAFTA

- Close cooperation among countries will be a key condition for building the EAFTA
- Several modalities can be raised.
 1. All East Asian countries be members of the EAFTA
 - ASEAN+6?, Taiwan?
 2. Gradual approach
 - Facilitation in trade and investment in the short run
 - Liberalization in trade and investment should be the main driving force toward the East Asian community in the long run.

Recommendation for a Successful EAFTA

3. During the process of liberalization, special considerations on less developed economies, such as CLMV, should be given in terms of implementation period and coverage, in order to minimize the pressure of industrial structure adjustment.
4. The FTA should be aimed to be comprehensive and of high quality for high economic gains.
5. Consolidate all FTAs in the region into a single EAFTA.

Thank you for listening