The Asian Noodle Bowl: Is It Serious?

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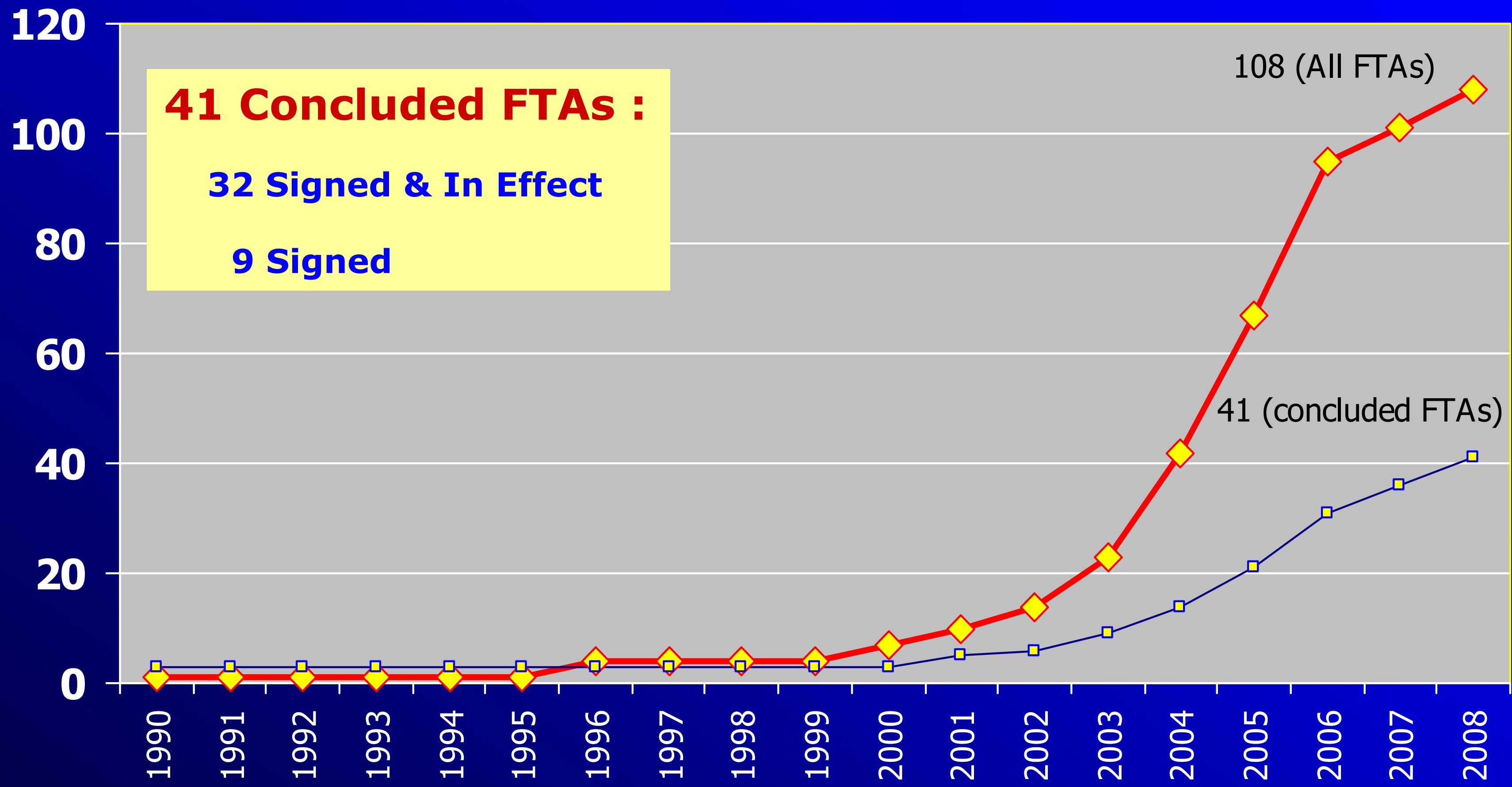
I. Setting and Research

Growth of FTAs in East Asia

No. of FTAs involving East Asian economies



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All FTAs includes concluded FTAs, FTAs under official negotiation, and proposed FTAs in East Asia.
East Asia covers the 10 ASEAN members; Japan; Korea, PRC; Hong Kong, China; and Taipei,China.
Source: ADB FTA Database www.aric.adb.org (data as of June 2008)

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Reasons for Emergence of Noodle Bowl

- Political and national security reasons
- Fear of exclusion
- Defensive response to the proliferation of regional trading blocks elsewhere (EU, NAFTA)
- Dissatisfaction with the slow progress at global trade talks (insurance policy)
- Need to improve international competitiveness through exploitation of scale economies

Debate on Asian Noodle Bowl

- Spread of FTAs has triggered concerns about harmful noodle bowl effects which may raise trade-related business costs, especially for SMEs
- These can arise from different and competing tariffs, standards & rules in overlapping FTAs
- Yet others argue that, in the absence of a Doha deal, FTAs are a second-best tool of regional liberalization
- Firm-level evidence on FTA impacts is lacking and ADB project provides new data

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Description of this Research

- Aims:
  - ✓ Inform debates on East Asia FTAs with new firm-level evidence on the business impact of FTAs
  - ✓ Focus on market access issues of FTAs to assess the severity of the Asian Noodle Bowl effect on goods
  - ✓ Suggestions for tackling Asian Noodle Bowl effect
- 4 enterprise surveys in 2007/2008 - Japan, Singapore, Thailand and Philippines
  - ✓ Mix of development levels and FTA experiences
  - ✓ Large, diverse dataset (464 manufacturing firms)
  - ✓ ADB and different partners involved in surveys

Asian Noodle Bowl: Key Questions

- Are FTA preferences being used?
- What are the benefits and costs of FTAs?
- Are multiple rules of origin a burden on SMEs?
- Is there enough support for domestic firms to export under FTAs?

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FTAs by Country and Status

Country	GDP per capita [a] (US$, 2006)	Concluded FTAs [b]		FTAs under negotiation and proposed FTAs [b]
		In Effect	Signed	
Japan	39,824	6	3	10
Singapore	27,125	13	2	13
Thailand	2,601	6	1	16
Philippines	1,154	3	2	6

[a] At constant 2000 prices, World Development Indicators online.
[b] Status of FTAs as of June 2008, ADB FTA database (www.aric.adb.org).

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FTA Elements of Asian Noodle Bowl Effect

- Varying modalities and time-frame for tariff concessions
  - ✓ Many FTAs adopt a negative list approach but some adopt a positive list approach with exclusions
  - ✓ Tariff elimination by 2010 for AFTA members and developed countries while longer period for developing countries under bilateral FTAs
- Tariff preferences vary across products and FTAs
  - ✓ Negligible tariff margins in electronics; higher MoPs for clothing (24.5%) and transport equipment (4.2%) in favor of Japan exports to Thailand under the Thailand-Japan FTA
- Rules of Origin systems differ
  - ✓ ASEAN-PRC FTA use VC; Japan-Singapore EPA with alternative ROOs; AFTA generally RVC but moving towards alternatives; US-Singapore has restrictive RoO on textiles
- FTAs have agreements on standards benefiting members only
  - ✓ Mutual Recognition Arrangements (MRA) between US and Singapore; ASEAN has sectoral MRAs

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Varying Rules of Origin in FTAs

Selected Products

PRODUCT (HS CODE)	AFTA	Japan-Thailand EPA	US-Singapore FTA	ASEAN-China FTA
Electronic integrated circuits (85.42)	CTC or 40% RVC	CTC or 40% VC	CTC	40% RVC
Parts and accessories for motor vehicles (87.08)	40% RVC	CTC or 40% VC	6 digit CTC or CTC plus 30% RVC (build-up)	40% RVC
Woven fabrics of cotton (52.09)	CTC; or 40% RVC; or Process Criterion for Textile Products	CTH or CTC plus fabric/yarn is dyed or printed in either Party	CTH	40% RVC; or Process Criterion for Textile and Textile Products
Men's or Boy's suits, blazers, etc. (62.03)	40% RVC; or CTC plus good is both cut (or knit to shape) and sewn in any party; or Process Criterion for Textile Products	CTC plus non-originating material is knitted or crocheted in either party or any ASEAN member	CTC plus good is both cut (or knit to shape) and sewn or otherwise assembled in the territory of one or both of the Parties	40% RVC; or Process Criterion for Textile and Textile Products

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Notes: CTC= Change in Tariff Classifications VC= Value Content, LDCS= Least Developed Contracting States
Sources: Official texts of FTAs (status as of June 2008).

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Complex Origin Administration

Country	System	Issuing Authority	Steps/Time Required: Factory Registration/ Inspection	Steps/Time Required: Cost Statements Submission & Verification	Steps/Time Required: CO Approval	Actual Cost
Japan	Paper-based	Chamber of Commerce and Industry	5-7 days	0-3 days	0-3 days	JPY 12,000+30 for Japan-Malaysia and Japan Thailand; JPY 2,100+30 for Japan-Mexico FTA
Singapore	EDI / Trade Net System	Customs	At least 7 days (for exporter's registration only)	At least 7 days prior to CO application	5-10 minutes	S$6.40 online or S$10.0 manual processing; S$ 3.30 export permit
Thailand	Paper-based	Dept of Foreign Trade Ministry of Commerce	N/A	0-3 days	1 day	B30 inspection fee, 200B exporter ID, B30 for Form D or FTA forms
Philippines	Paper-based	Customs; One-Stop Export Documentation Center (OSEDC)	N/A	3 days (thru forwarders); Post-audit/ inspection	1-2 hours	Php185 processing fee and doc stamps; Php115 CO form thru OSEDC// Php1,150 thru freight forwarders

II. Firm Survey Findings – Japan, Singapore, Thailand and Philippines

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Sample Profile

	All Firms	Japan	Singapore	Thailand	Philippines
No. of exporting firms	**464**	38	75	221	130
By Sector, % distribution					
Textiles/Garments	19.2	23.7	21.3	29.0	…
Electronics	49.4	42.1	66.7	33.0	69.2
Auto	29.5	34.2	…	38.0	30.8
Pharmaceuticals	1.9	…	12.0	…	…
By Size*, % distribution					
SMEs	44.0	15.8	69.3	48.4	30.0
Large	38.3	18.4	25.3	38.5	51.5
Giant	17.7	65.8	5.4	13.1	18.5
By Ownership, % distribution					
Foreign	55.2	13.2	50.7	44.8	87.7
Domestic	44.8	86.8	49.3	55.2	12.3

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* Based on the number of permanent employees:
SME (100 or less), large (101 to 1,000), and giant (over 1,000).

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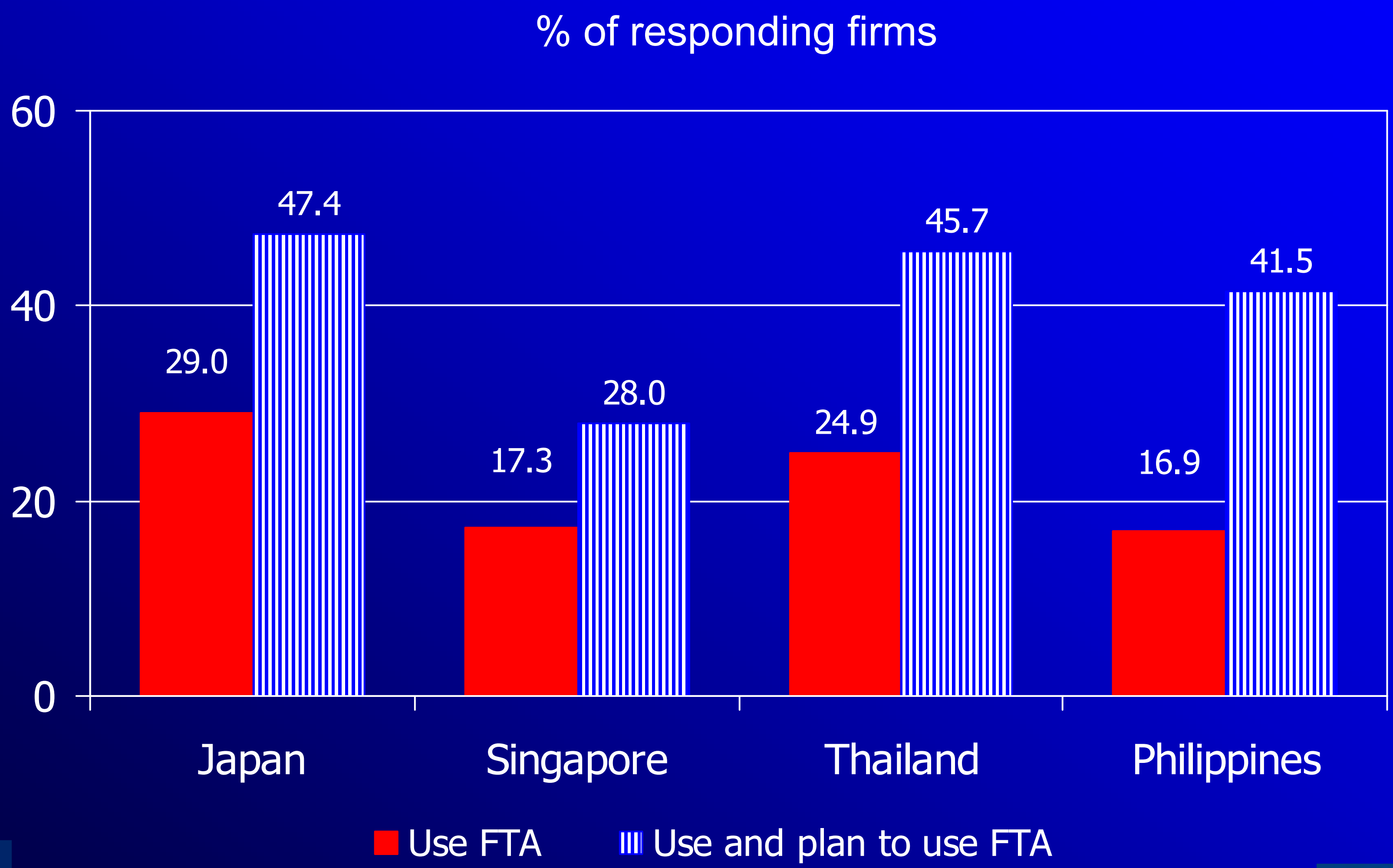
Utilization of FTA Preferences



Profile of Users and Non-Users of FTA Preferences*

- Firm size: FTA preference users in Japan, Singapore, & Thailand are significantly larger than the non-users
- Foreign ownership: Users have significantly higher share of foreign equity than the non-users in Japan & Thailand
- Age of firm: Users are generally older than non-users in Thailand & Philippines
- Awareness of FTA provisions: Users in Japan, Singapore & Philippines are more knowledgeable of FTA provisions that affect their business than the non-users
- Responsiveness to FTAs: Users in Japan, Singapore & Thailand have changed business plans in response to FTAs

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* Findings based on t-test between samples of users and non-users of FTA preferences. Only findings with significant differences between the two groups are shown.

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Impediments to Using FTA Preferences

% of responding firms

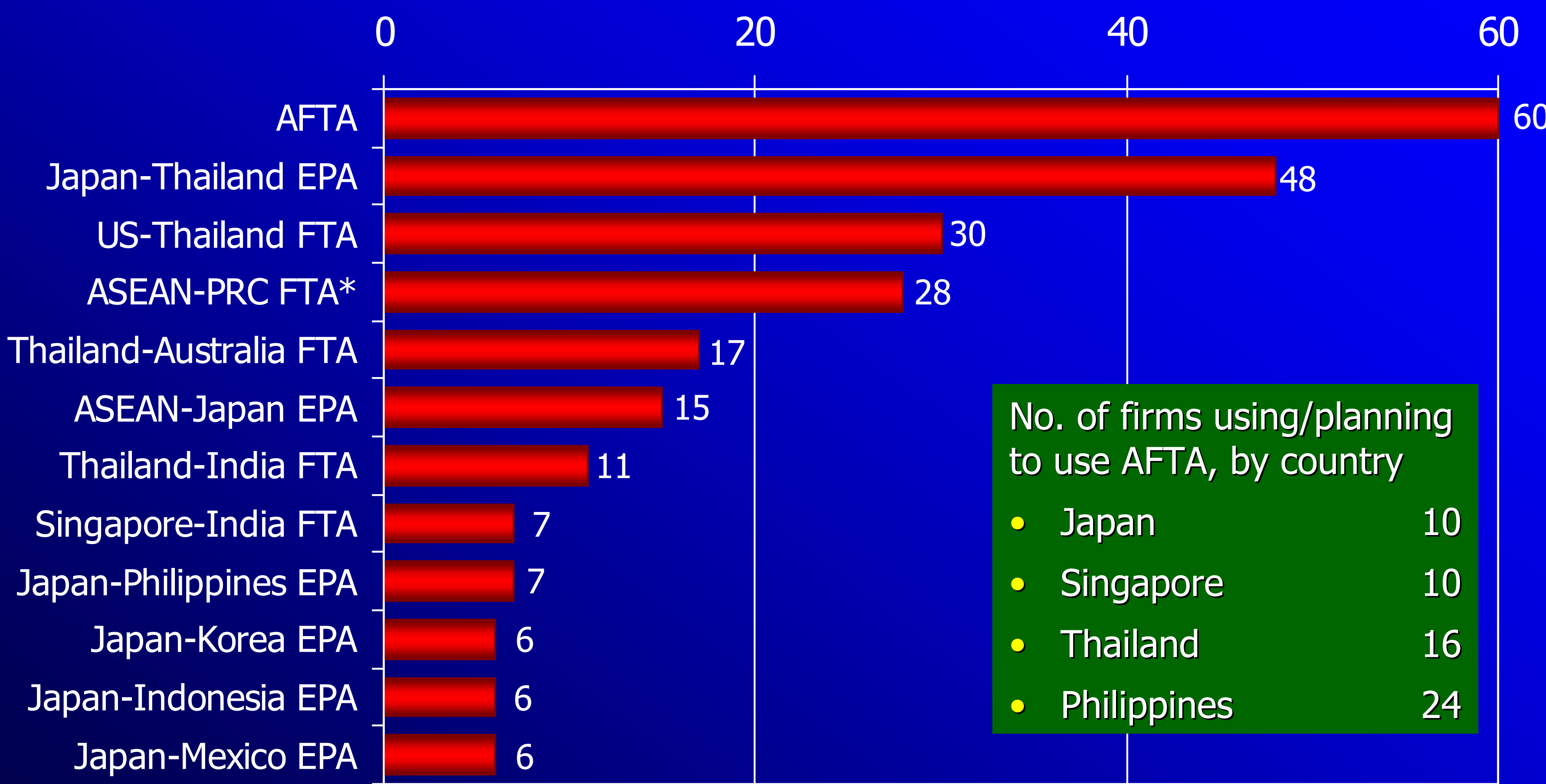
	Thailand (n=36)	Philippines (n=110)
Lack of information	...	40.9
Use of EPZ schemes/ITA	...	20.9
Rules of origin issues*	22.2	17.3
Small margin of preferences	16.7	10.9
Too many exclusions	25.0	7.3
Non-tariff measures in FTA partners	36.1	2.7

* Include delays and administrative cost in applying for origin, arbitrary classification of product origin, and the need for confidential information in origin application.

. . . not covered in the survey questionnaire.

AFTA and Major Bilaterals Useful

Ranking by no. of firms that use and/or plan to use FTAs



No. of firms using/planning to use AFTA, by country

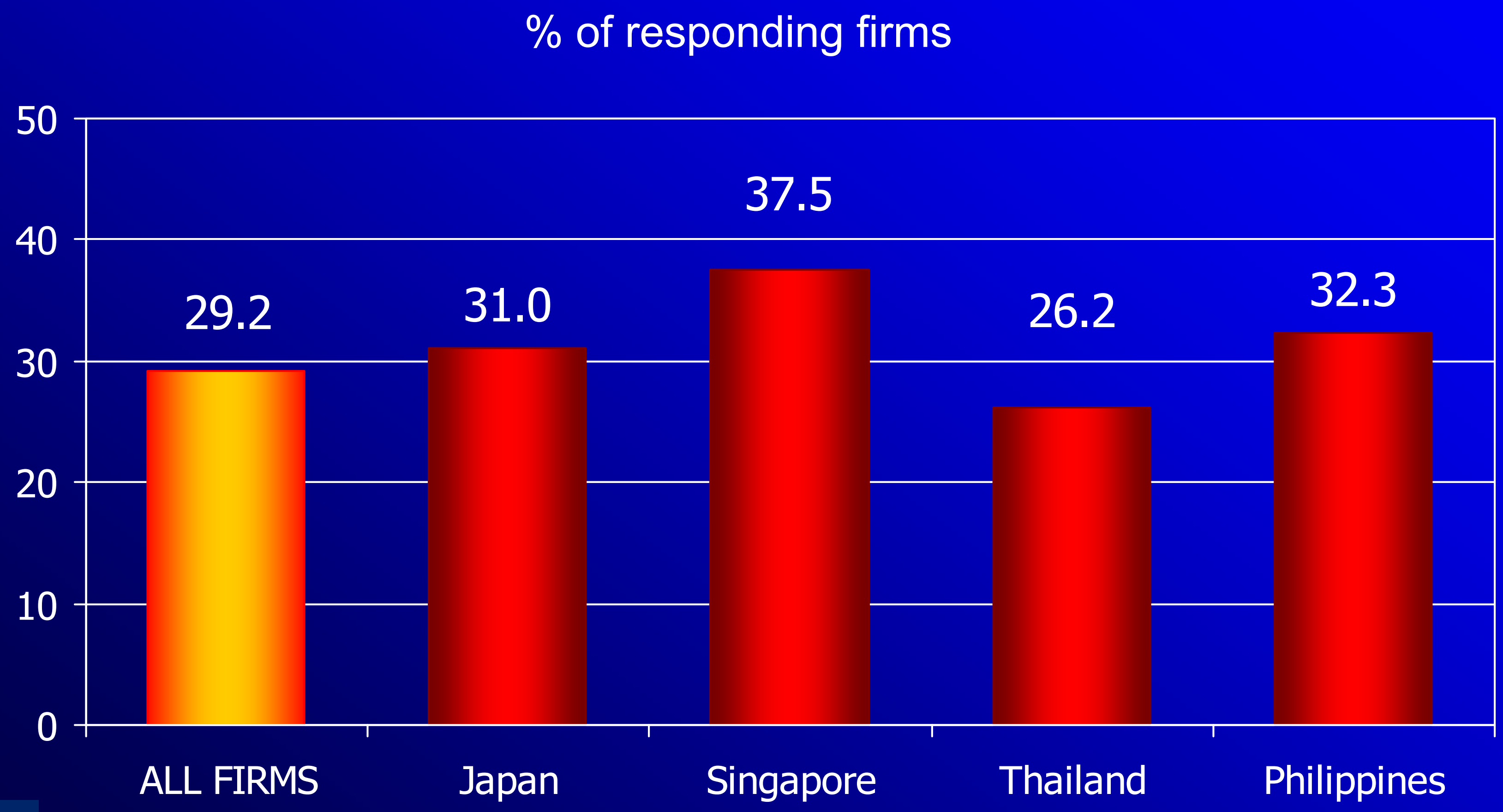
Japan	10
Singapore	10
Thailand	16
Philippines	24

* Includes firms that reported Thailand-PRC Early Harvest.

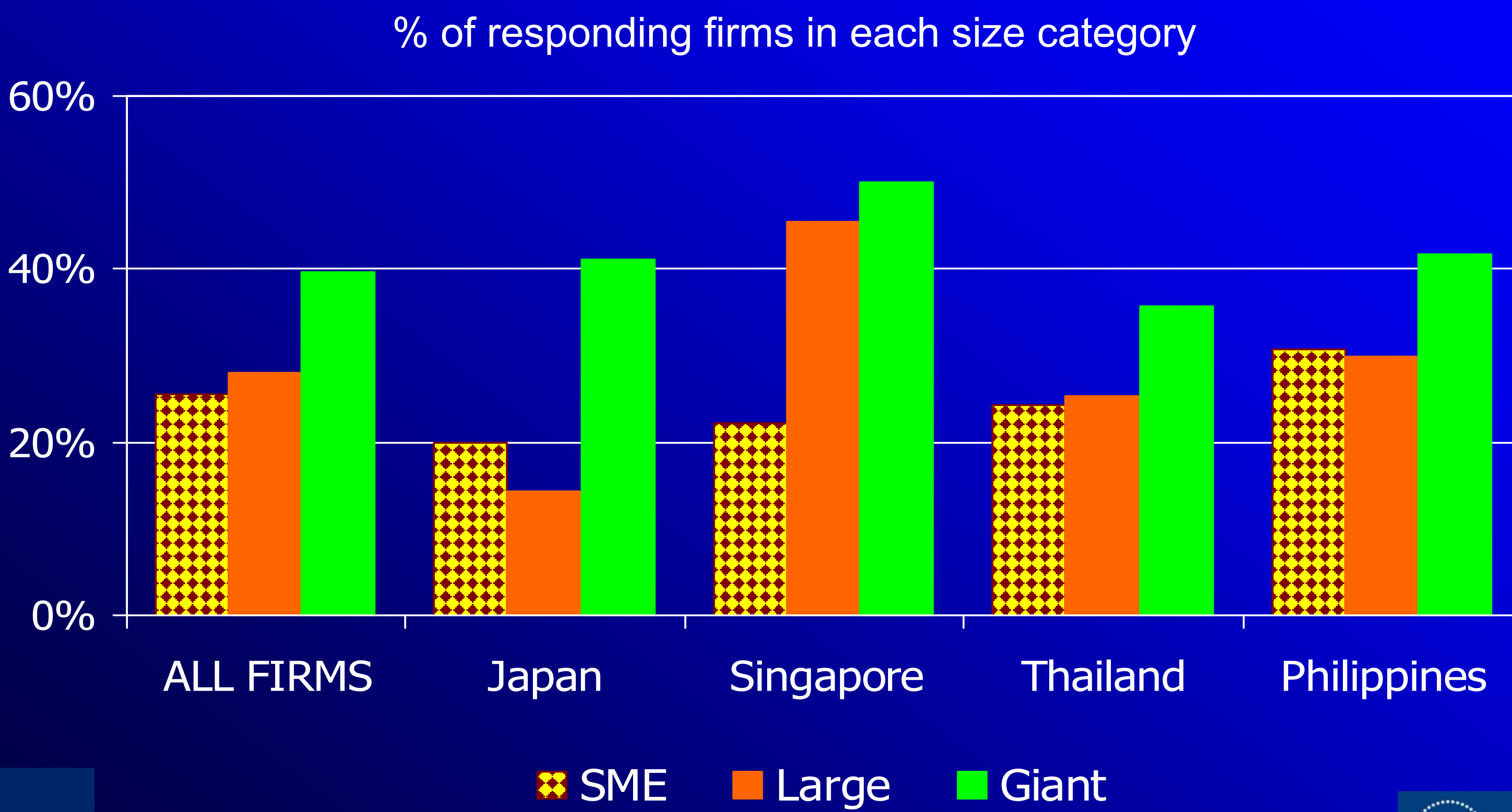
More Positive than Negative FTA Impacts

	No. of firms that reported on the FTAs that they use and/or plan use			
	AFTA	ASEAN-PRC FTA	Japan-Thailand EPA	Japan-Philippines EPA
Positive Impacts				
✓ Market access	34	17	24	5
✓ Preferential tariffs	28	10	11	3
✓ Concentration of production	15	5	13	6
✓ New business opportunities	13	4	9	2
Negative Impacts				
× Increased competition	12	0	5	3
× Documentation of FTA use	10	2	5	1
× Competitive disadvantage	7	3	4	0
× Relocation of production	10	2	1	1

Multiple ROOs Add to Business Costs



Burden Imposed by Multiple ROOs by Firm Size: A Puzzle?



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Puzzle of ROO Perceptions: Some Insights

Probit Estimates

Dependent binary variable: 1 = firm reports that dealing with multiple ROOs significantly adds to business costs; 0 otherwise

Explanatory Variables	Est. Coefficients	z-values	
Firm size (no. of permanent employees)	0.00005	1.94	*
Age (no. of years since establishment)	0.00797	1.51	
Dummy: 1 = foreign-owned	0.26260	1.57	
Dummy: 1 = uses FTA preferences	0.32136	1.76	*
Dummy: 1 = aware of FTA provisions that affect business	0.21286	1.20	
Dummy: 1 = changed business plan in response to FTAs	0.56839	3.29	***
Dummy: 1 = located in Singapore	-0.20384	-0.46	
Dummy: 1 = located in Thailand	0.10003	0.24	
Dummy: 1 = located in Philippines	0.60115	1.27	
Constant	-1.63515	-3.59	***
	n	348	
	Wald χ^2	46.44	***
	Pseudo R^2	0.14	

*** significant at 1% level, ** at 5% level, * at 10% level.

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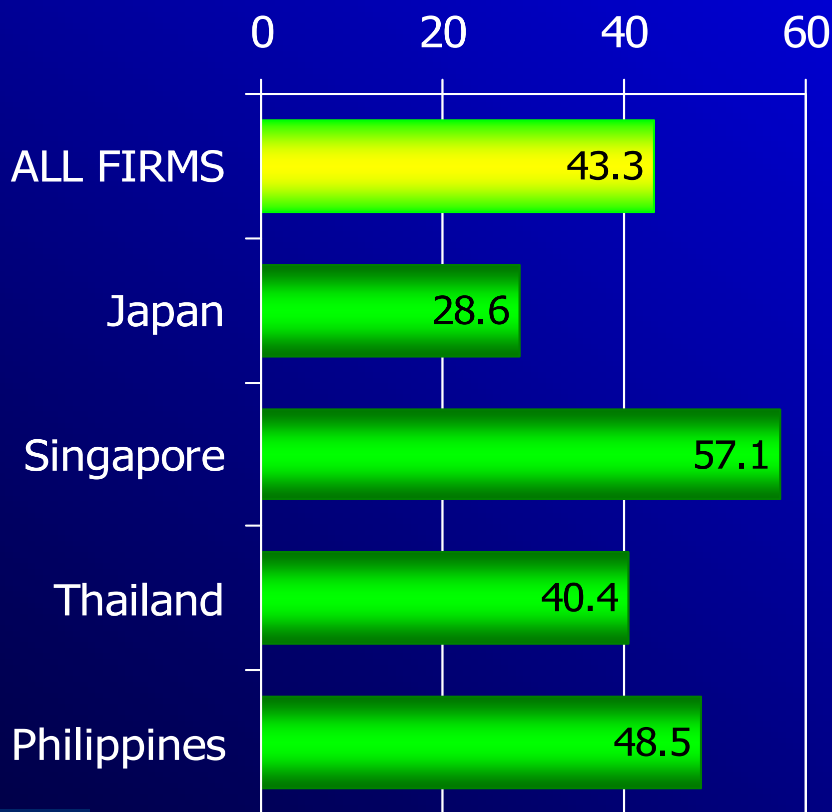
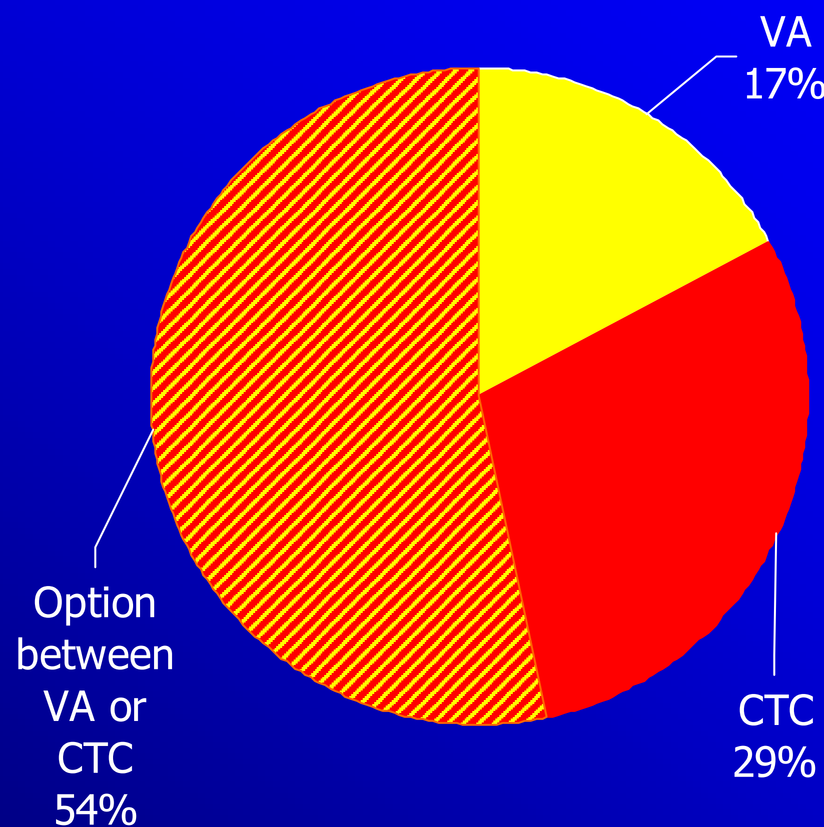
Benefits of Harmonized ROOs

% of firms that see benefits from ROO harmonization



% of firms that chose a particular rule



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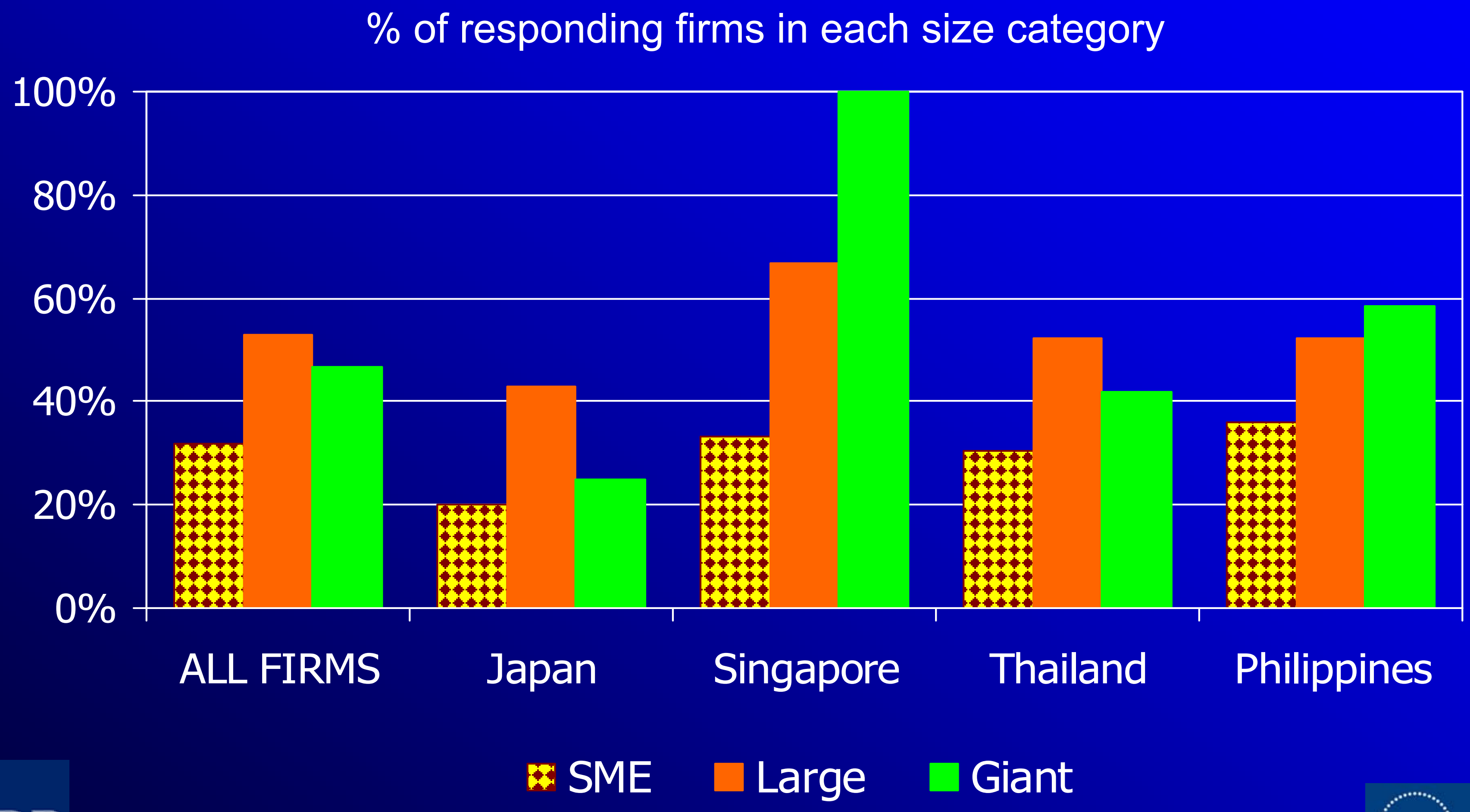
Benefits from harmonized ROO by firm size



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Sources of Support

% of responses

	Japan	Singapore*	Thailand	Philippines
Public sector sources	48.9	45.5	74.3	61.6
Of which: Ministries	26.5	45.5	54.9	34.0
Private sector sources	51.0	45.4	25.6	38.5
Of which: Business/industrial assoc.	20.4	13.6	18.8	18.7
Chamber of Commerce	14.3	13.6	6.8	4.8

* Around 10% of Singapore firms reported that they do not use available FTA-related services.

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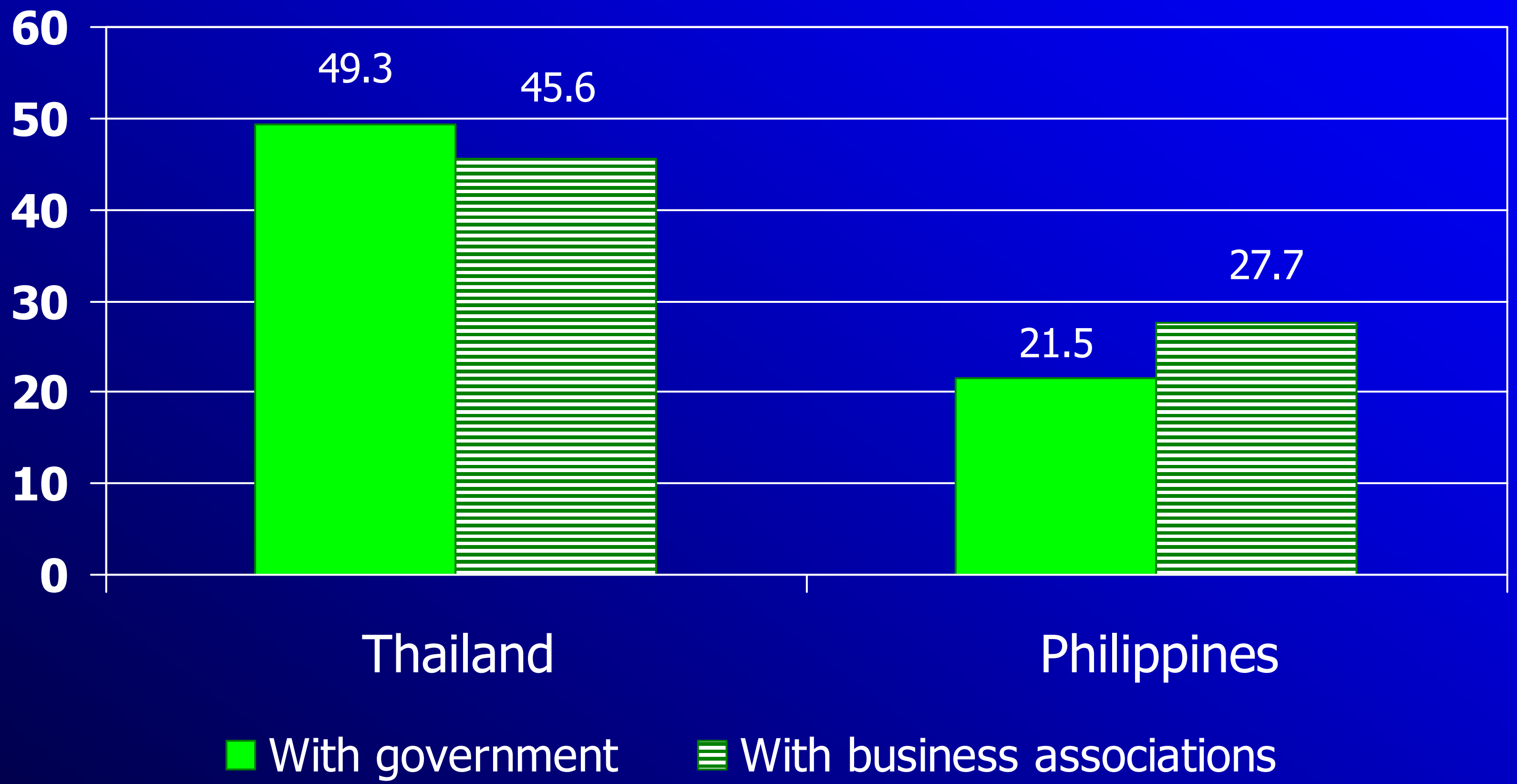
Consultations on FTAs

% respondents that participated in consultations



Low Use but Quality Support in Japan and Singapore

	Japan		Singapore	
Available Services	Usage rate, % of sample	Quality level (1 to 5)	Usage rate, % of sample	Quality level (1 to 5)
✓ Online information on FTAs/EPAs	21.0	2.7	14.7	3.7
✓ Business consulting services on FTAs/EPAs	10.5	3.2	1.3	…
✓ Support for issuance of Origin Certificate	10.5	3.0	14.7	3.7

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Big Demand for Support in Thailand and Philippines

Services Demanded by Firms	Thailand % respondents (n=202)	Thailand Of which: SMEs	Philippines % respondents (n=130)	Philippines Of which: SMEs
✓ More awareness training on concluded FTAs	33.7	30.7	83.1	45.4
✓ More information on the implication of FTAs on business	49.0	41.1	68.5	36.2
✓ Upgrading of technical standards and quality	44.6	35.6	55.4	30.8
✓ Adoption of EDI to speed up and simplify procedures for ROO certification	25.7	22.3	60.8	33.8
✓ Financial support for upgrading technology and skills	36.1	25.7	41.5	23.8
✓ Enhanced consultations during FTA negotiations	27.7	20.3	44.6	22.3
✓ Improved extension services for SMEs	21.8	16.8	46.9	24.6
✓ More effective surveillance of NTMs in FTA partner country market	19.3	16.8	38.5	20.8

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III. Policy Implications and Conclusion

Policy Implications

- Upgrade ROO administration – e.g trusted trader program, private sec issuing COO, more IT-based systems
- Encourage ROO rationalization – e.g. co-equality of rules and extended cumulation
- Increase awareness on how to use FTAs
- Improve business participation in FTA consultations
- Improve institutional support systems especially for SMEs

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Conclusion

- With the spread of FTAs, many East Asian firms are responding to new opportunities.
- View that Asian noodle bowl has harmed business over last 8 years receives little support from the firm surveys.
- As more FTAs take effect and complexity of noodle bowl increases, a more intense business impact is expected.
- Implementing key policies can help to mitigate negative effects and facilitate a more SME-inclusive response to FTAs

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Conclusion continued

- Key findings from surveys:
  - ✓ Use of East Asian FTAs is higher than expected
  - ✓ Firms report more benefits than costs from major FTAs in effect including AFTA
  - ✓ Multiple ROOs impose a limited burden on firms in East Asia
  - ✓ Significant demand for more institutional support for SMEs to export under FTAs
- Firm surveys:
  - ✓ Valuable empirical research tool.
  - ✓ Next steps - widening sample countries and extending the scope to services

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Thank you

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