

Conference on Multilateralizing Asian Regionalism

Organized by ADBI and CTEI/HEID

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Welcome Remarks

by

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Professor Richard Baldwin, distinguished participants, honored guests, ladies and gentlemen, good morning.

It is my great pleasure to welcome you all to the “Conference on Multilateralizing Asian Regionalism,” jointly organized by the Asian Development Bank Institute (ADBI) and the Centre on Trade and Economic Integration (CTEI) of the Geneva-based Graduate Institute of International and Development Studies (HEID). We gather today to discuss issues related to Asian economic integration through trade and foreign direct investment (FDI), challenges for Asian free trade agreements (FTAs)—including problems of the Asian “noodle bowl”—and possible steps for reducing the negative effects posed by the “noodle bowl.” We will try to learn lessons from the Western Hemisphere and European “spaghetti bowls” to find possible solutions for deeper economic integration of the Asian economies among themselves and with other regional economies and the global markets. Our focus will be on how Asia can multilateralize its own regionalism.

Private sector-driven, market-based regional economic integration is a distinctive feature of Asia. Over the last 25 years, Asia’s trade and FDI grew rapidly both within the region and with outside partners, and Asia’s trade and investment links have deepened regionally and globally. FDI has been particularly important for Asia’s economic growth, trade expansion, and economic integration by bringing in external funding, better production technology, management know-how, and efficient distribution channels linked to outside markets. In recent years, not only multinational corporations from developed countries—such as Japan, the United States and, the

European Union—but also firms from within emerging Asian economies have become important foreign direct investors into emerging Asia.

There are several factors behind the expansion of trade and investment, and the resulting regional economic integration in Asia. First, production networks and supply chains have been formed throughout Asia, creating vertical intra-industry trade in parts, components, and semi-finished and finished manufactured products. Second, improvement in physical infrastructure, the rapid development of information and communication technology (ICT), and the resulting international connectivity have stimulated trade and investment by reducing costs of international trade. Third, the rapid growth of ASEAN and, more recently, the world's largest emerging market economy, the Peoples Republic of China, has contributed to closer economic ties within East Asia. India, another rising economic powerhouse, is also trying to strengthen links with East Asian economies.

Since the end of the Asian financial crisis, Asia has embarked on bilateral and plurilateral FTAs to help boost trade and economic growth. Despite being a latecomer in the move toward FTAs—compared with the Americas and Europe—East Asia has more than 100 FTAs at various stages of development. The number of FTAs is expected to increase in the next decade as Asia catches up with other regions in the FTA game. We know that FTAs carry potential costs such as discrimination against nonmembers and trade and FDI diversion. But if properly designed, FTAs can create economic benefits, such as wider market access and opportunities, deeper economic integration among partner countries, upgrading of technology, productivity and management practices, and domestic structural reforms. However, current overlapping and complex FTA arrangements in Asia may pose challenges for Asia's trade and investment.

In particular, the presence of different, multiple rules of origin is often identified as one of the most troublesome components of the Asian “noodle bowl”—which also includes different, competing tariff schedules, exclusion lists, and rules and standards. The “noodle bowl” can make Asian firms' international businesses cumbersome and costly, as firms try to utilize more preferences through various FTAs. There have been several proposals to consolidate these multiple and overlapping FTAs into a single East Asia-wide FTA. Through such consolidation, the region could minimize the harmful “noodle bowl” effect. A single, regional FTA would make it easier to do business, attract more FDI and embrace low-income countries in the region. It will

also reduce trade-related business costs—particularly for SMEs—and thus promote more inclusive regional integration.

Thus, the idea of forming an ASEAN+3 or an ASEAN+6 FTA has emerged. Feasibility research has been carried out on such a region-wide FTA. Consolidation of regional FTAs into a single, region-wide FTA is expected to yield larger gains for Asia than would bilateral agreements by individual countries in the region. This consolidation puts ASEAN in the central position in creating a regional FTA, as major production networks are located in ASEAN, and ASEAN has been the *de facto* “hub” for ASEAN+1 FTAs with its major dialogue partners. Furthermore, the ASEAN Economic Community—to be created by 2015—will strengthen the role of ASEAN in East Asian economic cooperation.

This topic of Asian regionalism is one to which ADBI has devoted considerable attention. Earlier this year, ADB-HQ completed a major study on *Emerging Asian Regionalism: A Partnership for Shared Prosperity* with support from ADBI. In July, we held a conference on the “noodle bowl” effect of FTAs in the region. Our Capacity Building and Training team has also been undertaking work on helping officials from our developing member countries to better understand the complex rules of origin specified in FTAs.

Asia has a lot to learn from the European and American experiences of economic integration and FTA consolidation. For example, the EU has played a key role in integrating with its neighboring countries through cumulation of rules of origin requirements, while Central and South America are trying to forge links with NAFTA—if not the creation of a Free Trade Area of the Americas (FTAA). I believe Asia can seize an opportunity for greater regional cooperation by learning useful lessons from the Americas and Europe.

Ladies and gentlemen, let me reiterate my gratitude to all of the experts for their participation in this important conference. I hope that the sessions and discussions to follow will provide valuable direction for deeper and more multilateral integration of Asian economies.

Thank you for your attention.