

# Understanding the Emerging Pattern of Regional Trade and Economic Cooperation in Asia

Presentation by

**Biswa N BHATTACHARYAY**

Special Adviser to Dean, ADBI

(views expressed in this article are those of the author and do not represent the policy or views of the Asian Development Bank. The usual disclaimers apply)

Die Conference on Regional Integration Beyond Europe  
19-20 December 2007, Bonn, Germany



# Presentation Contents

- Introduction
  - High economic growth in Asia
  - Challenges facing Asia
  - Role of Regional Cooperation and Integration in Asia
- Regional Trade and Cooperation Agreements in Asia
  - Nature and Forms
  - Regionalism and Multilateralism
  - Trends of RTCAs
  - New Trade Blocks: prospects and problem
- Future shape of RTCAs in Asia
- Role of multilateral institutions
- Conclusions

## Introduction

# High economic growth in Asia

- Asia is emerging as a new economic dynamics in the global economic growth
- China and India emerged as major economic powers in the region

GDP growth rate (percent per year)

Year	2002	2003	2004	2005	2006	2007	2008 est.
World-wide	n.a	2.7	3.8	4.9	4.7	5.3	n.a
Asia	6.4	7.1	7.9	7.9	8.3	7.6	7.7
China	9.1	10.0	10.1	10.4	10.7	10.0	9.8
India	3.8	8.5	7.5	9.0	9.2	8.0	8.3

Source: Asian Development Outlook 2007

## Introduction

# Major Challenges facing Asia

- Extreme and persistent poverty & Income inequality
  - Two-thirds of the world's poor live in Asia
  - Poverty reduced remarkably for the last 15 years
  - Still 1.9 billions or 57% of Asians living on less than \$2 per day
- Inadequate infrastructure (e.g., Transport & Power)
- Lack of access to basic social services (e.g., portable water, sanitation, education, healthcare, etc.)
- Explosive and unplanned urbanization
- Environmental degradation
- Weak and underdeveloped financial sector
- Corruption and poor governance
- Excessive capital inflow and currency appreciation

# Role of RCI in Asia

- **Regional Cooperation and Integration (RCI)** is a key instrument for sustainable economic development and poverty reduction
- **Reconstruction in Afghanistan** provides an opportunity for greater economic ties among Central Asian Republics, South and East Asia
- **Cross-border initiatives** would bring about
  - Trade facilitation and investment promotion
  - Deepened economic fabric
  - More jobs and increasing national/sub-regional growth
- It helps **Asia reemerge as a major power** in the global economy through successfully addressing the challenges

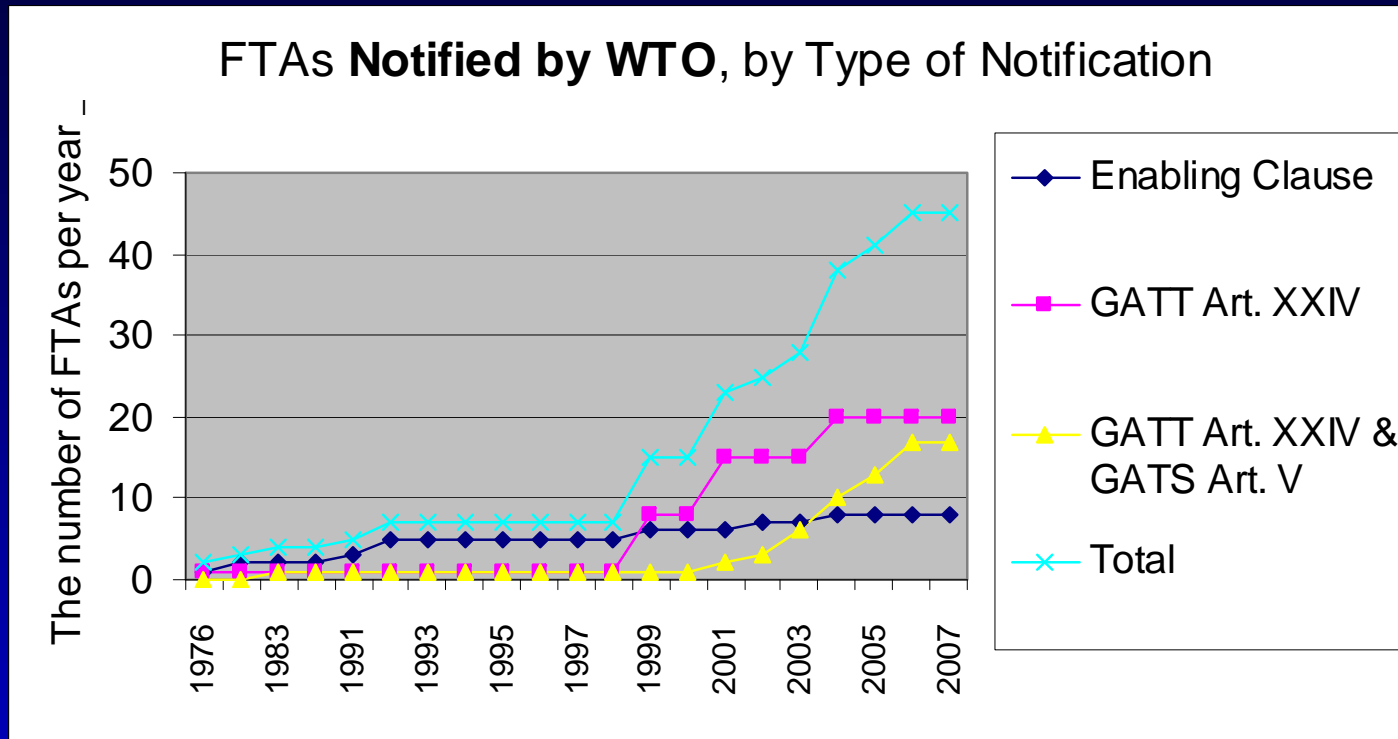
# Role of RCI (cont.)

- Asia becomes more resilient against external shocks and financial crises through RCI programs in
  - Trade and Investment cooperation
  - Financial market development
  - Money and Finance Cooperation
  - Develop regional economies through cross-border infrastructure
- Foster outward-oriented development and generate socioeconomic benefits
  - Reduced transaction and trade costs
  - Lower trade barriers
  - Greater productive infrastructure services
  - Rising capital flows

# Recent wave of RTCAs

- **Regional trade and cooperation agreements (RTCAs)** = "*actions by governments to liberalize or facilitate trade in a regional basis, sometimes through free-trade areas or custom unions*"
- The **unsuccessful WTO Talks in Cancun (2003)** → an increasing world-wide trend towards RTCAs (e.g., EFTA, NAFTA, CAFTA, ASEAN-FTA, SAARC, COMESA, and GCC)
- **WTO negotiations of the Mini-Ministerial Meeting in Geneva (2006)** ended in a logjam over the issues of
  - Cutting agricultural subsidy in industrialized countries
  - Reducing tariff on industrial goods in developing ones

# Introduction



Source: ARIC-ADB, 2007

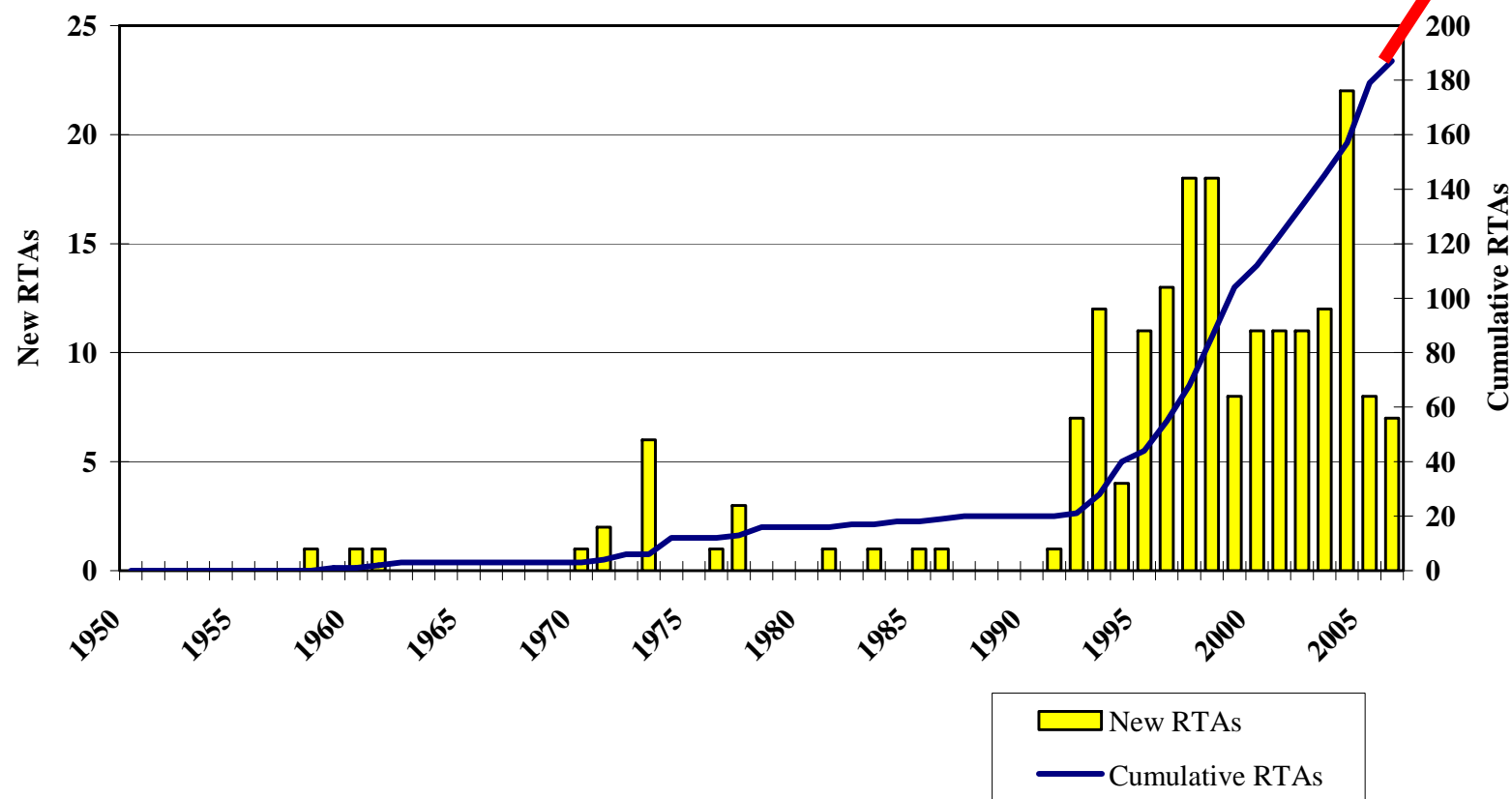
By July 07: 342 agreements compared to 40 in 1997



## Introduction

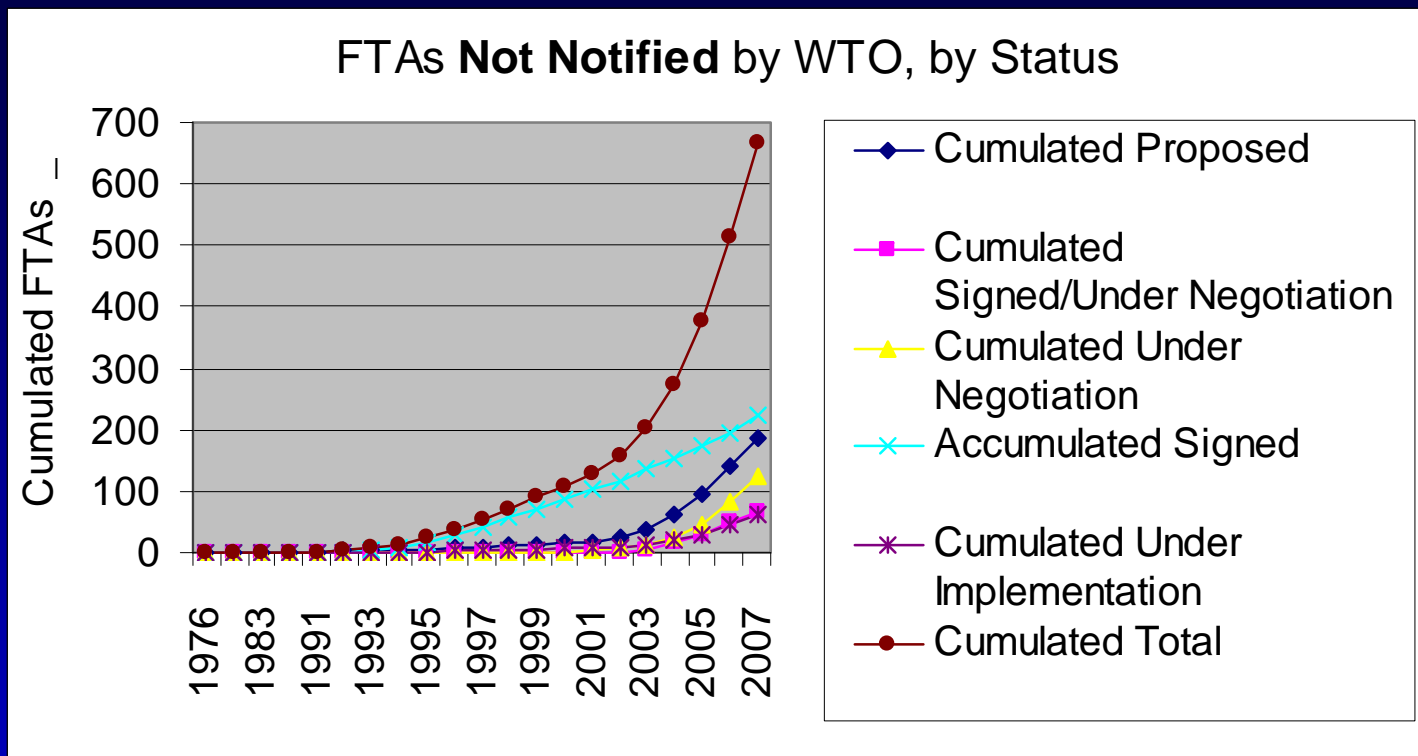
Of the 342, 180 is currently in force  
→ RTAs have proliferated around the world

400 in 2010



Source: E. Antoni, 2007

## Introduction



Source: ARIC-ADB, 2007

By July 07: 665 agreements **not notified** by WTO

# Forms and Nature of Regional Economic Cooperation

## Forms

- Regional and sub-regional economic-GMS
  - e.g., cross-border infrastructure, tariff harmonization
- Trade and investment-ASEAN
  - e.g., FTAs and WTO issues
- Monetary and financial-ASEAN + 3
  - e.g., regional reserve pooling, bond market development
- Regional public goods-APEC
  - e.g., sustainable environment, communicable diseases, and terrorism

# Forms and Nature of Regional Economic Cooperation (cont.)

## Enabling factors in Asia

- Disillusionment with the unclear WTO agreements outcome at Doha
- Lack of experts capable of handling WTO trade negotiations, particularly less developed countries
- Negative memories of the 1997 Asian crisis
- Regionalism elsewhere (North America and Europe)
- In-depth economic cooperation and integration easier in FTAs compared to the global free trade framework
- Complicated new political economic issues
- etc.

# Forms and Nature of Regional Economic Cooperation (cont.)

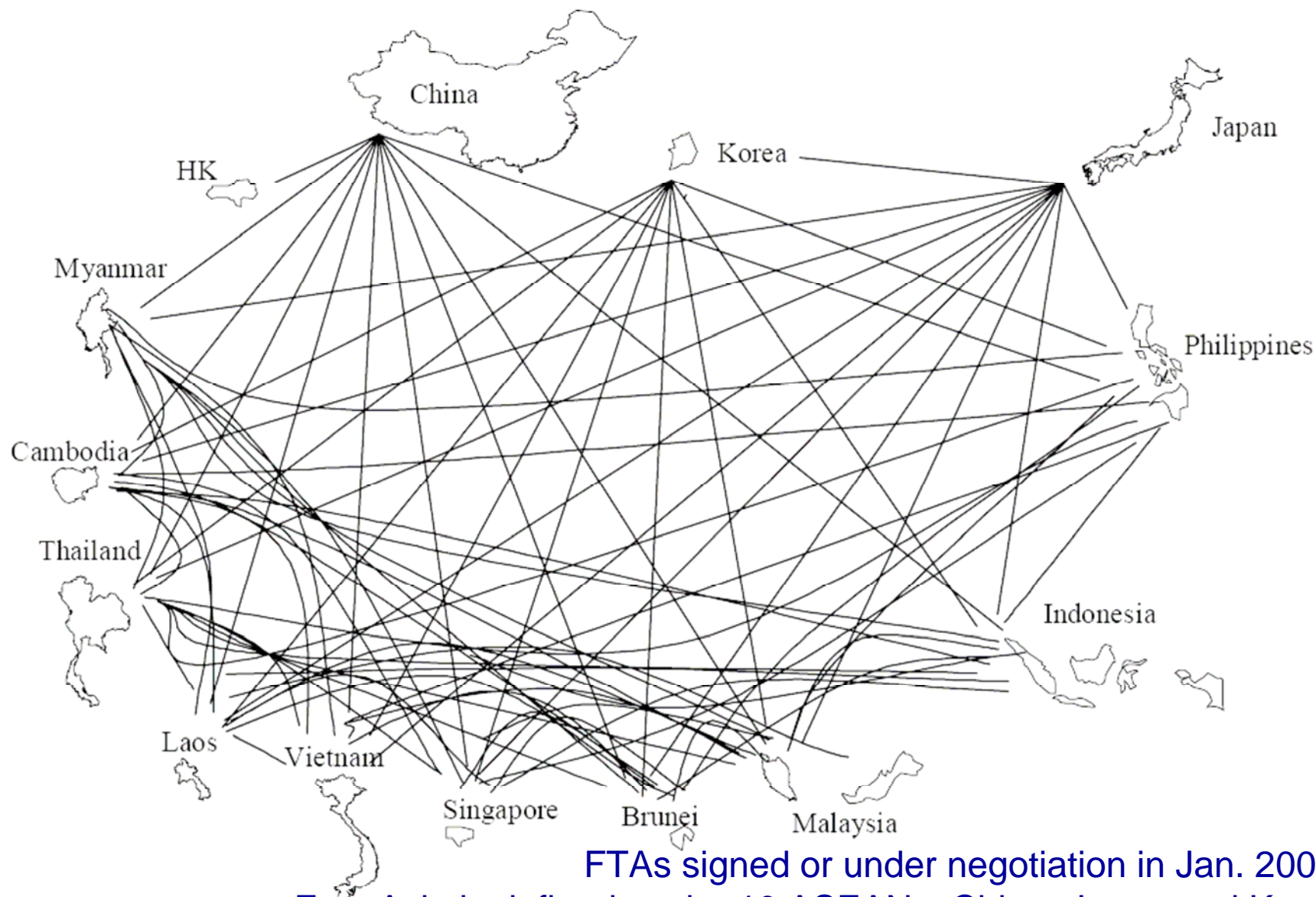
## The nature

- Bilateral between two countries (e.g., Sing.-India)
- Sub-regional consisting of several countries in the same region (e.g., AFTA)
- Between one country and a subregion (e.g., Japan-ASEAN)
- Among three countries in different regions (e.g., India-Brazil-South Africa triangle)
- Between two subregions/groups (e.g. ASEAN-EU)

# Regionalism vs. Multilateralism

- 'Multilateralism' always favored by economists
- 'Regionalism' or RTCAs is a building or stumbling block for multilateralism/global free trade framework?
- '*Spaghetti/Noodle Bowl*' effect resulted by many RTCAs may be a stumbling-block for the global free trade framework?
- A RTCA will contribute, through trade creation, to structural reforms in participating countries, which, in turn, will facilitate multilateral trading system.
- Countries with strong reservation against openness of domestic economy have to open their market to participating countries and, thus will be more open to multilateral trading framework.

# The East Asian 'Noodle Bowl' syndrome



FTAs signed or under negotiation in Jan. 2006  
East Asia is defined as the 10 ASEANs, China, Japan and Korea

## Lack of regional coordination in Asia → Increasingly overlapping ROOs

- Growing “noodle bowl” in the region  
*e.g.*, AFTA, ASEAN+1’s and Japan’s bilateral arrangements with individual countries in Asia
- ASEAN ROOs not used much in bilateral FTAs, EU and NAFTA-like ROOs could come to Asia through extra-regional FTAs (Baldwin, 2007)  
*e.g.*, Korea, Thailand and Singapore have extra-regional FTAs with Chile, Mexico, Peru and the USA, and the PECS or single list rule through FTAs with the European Union.



## Regionalism vs. Multilateralism (cont.)

### Overlapping networks of RTCAs

- Impacts on trade and investment patterns, such as FDI
- Increases the complexity of RTCAs
- Magnify negative effects on trade of complex due to preferential ROOs

## Regionalism vs. Multilateralism (cont.)

### WTO Secretariat (1995)'s viewpoint

- RTCAs can strengthen the multilateralism
- A trend toward broader and faster market access liberalization of non-tariff measures in RTCAs in parallel to developments in the Multilateral Trading System
- These have been contested through basic changes in the geographical scale and trade-policy scope of the RTCA process

## Recent Trend in Regionalism

Until recently, regional cooperation activities in Asia have focused mainly on subregional cooperation. In Asia, the major subregional economic cooperation initiatives include

- i. Associations of South East Asian Nations (ASEAN) in East Asia;
- ii. South Asian Association for Regional Co-Operation (SAARC) in South Asia;
- iii. Greater Mekong Subregion Economic Cooperation Program (GMS) in Southeast and East Asia; and
- iv. South Asia Subregional Economic Cooperation (SASEC) in South Asia,

## Recent Trend in Regionalism (cont.)

- v. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (**BIMSTEC**) in South and Southeast Asia,
- vi. The Brunei Indonesia Malaysia the Philippines–East ASEAN Growth Area (**BIMP-EAGA**) in Southeast Asia, and
- vii. **Kunming Economic Cooperation Initiative** among Bangladesh, the People Republic of China (PRC), India and Myanmar in South and East Asia.

## RTCAs in Asia

# Trends in subregional and bilateral T&CAs in Asia

- Asia has also witnessed a shift in regional trade strategy from multilateral to sub-regional and bilateral trade agreements

Sub-region (47 countries in Asia)	Subregional eco. coop. initiatives
East & Southeast Asia	ASEAN, GMS
South Asia	SAARC, SASEC
Central Asia	BIMSTEC, BIMP-EAGA
The Pacific	Kunming ECI

Cross-border Infrastructure Developments & RPGs

## Bilateral FTAs by Geographic Area, WTO Notification and Status, 2000 and 2007

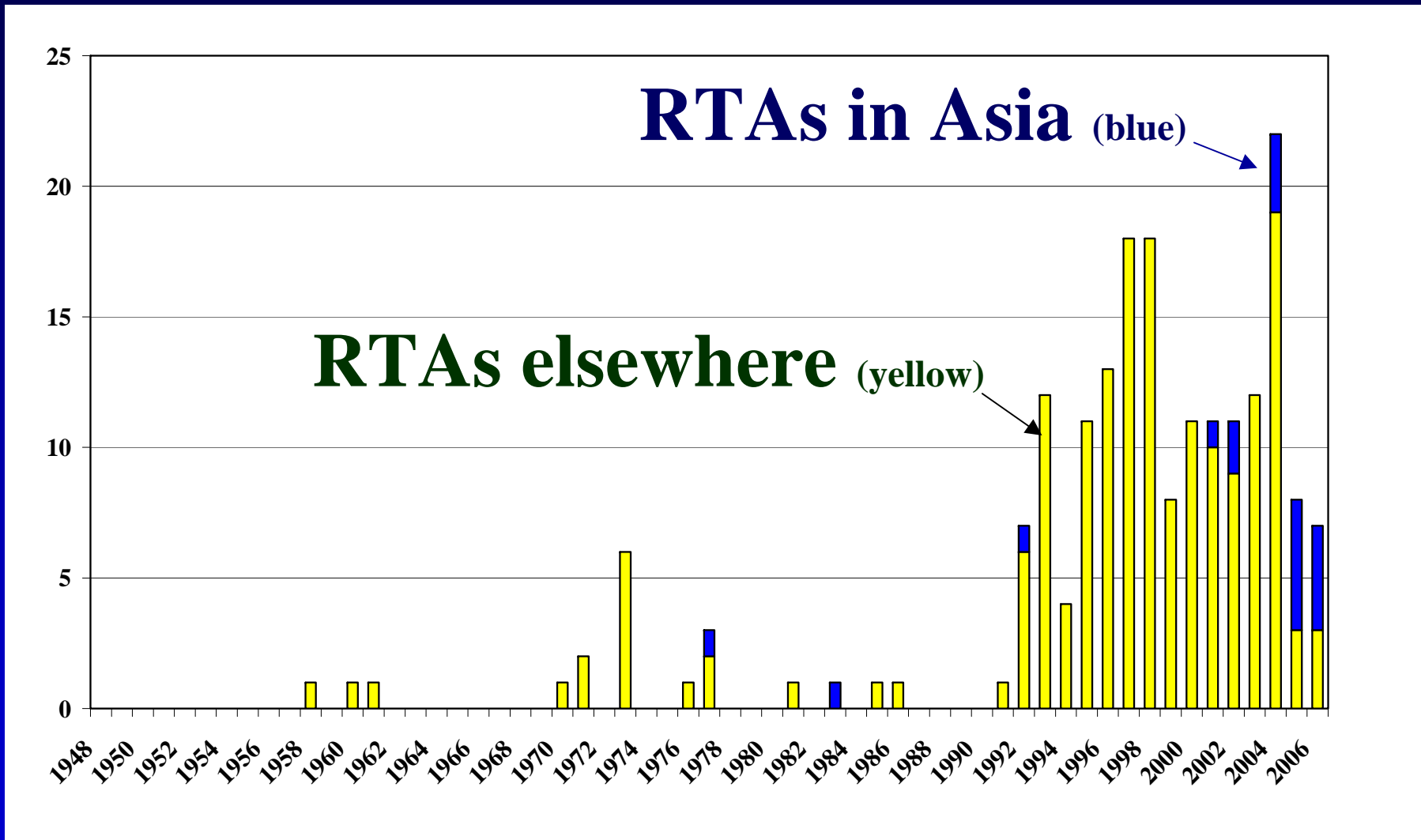
BILATERAL FTAs	WTO NOTIFIED		NOT WTO NOTIFIED		TOTAL	
					Notified and Not Notified	
	2000	2007	2000	2007	2000	2007
<b>Within sub-region</b>						
Central and West Asia	2	9	8	8	10	17
East Asia	0	1	0	3	0	4
South Asia	0	1	0	5	0	6
Southeast Asia	1	1	0	0	1	1
The Pacific	2	2	0	0	2	2
<b>Across sub-region</b>						
Central and West Asia + South Asia	0	0	0	2	0	2
East Asia + South Asia	0	0	0	4	0	4
East Asia + Southeast Asia	0	3	0	9	0	12
East Asia + The Pacific	0	0	0	6	0	6
Southeast Asia + South Asia	0	0	0	10	0	10
Southeast Asia + The Pacific	0	4	0	2	0	6
The Pacific + South Asia	0	0	0	2	0	2
<b>With Non-Asian Countries</b>						
Central and West Asia + Non-Asia	3	8	7	8	10	16
East Asia + Non-Asia	0	3	0	18	0	21
South Asia + Non-Asia	0	0	0	16	0	16
Southeast Asia + Non-Asia	0	2	3	19	3	21
The Pacific + Non-Asia	0	1	1	7	1	8
<b>TOTAL</b>	<b>8</b>	<b>35</b>	<b>19</b>	<b>119</b>	<b>27</b>	<b>154</b>

Source: ARIC-ADB, 2007



## RTAs in Asia

*However, Asian Countries are today relative newcomers to the RTA Theater...*

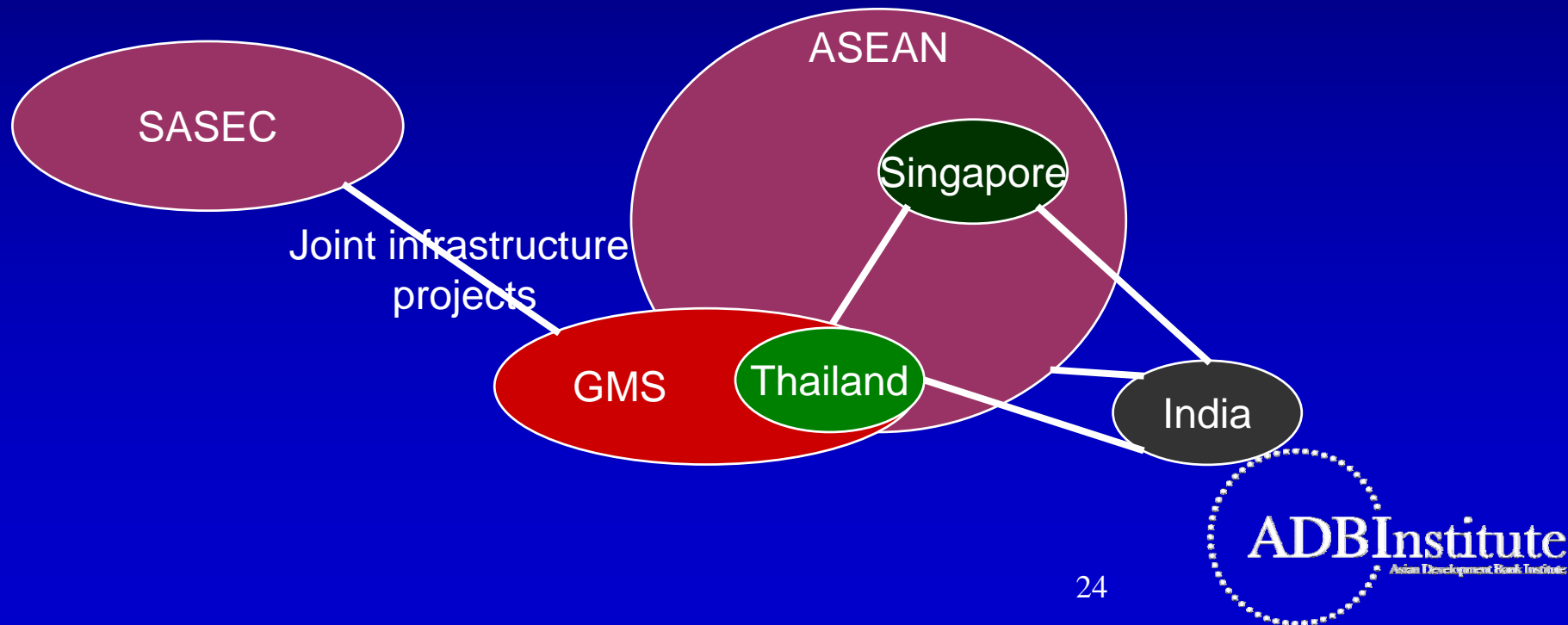




## RTCAs in Asia

# Trends in subregional and bilateral T&CAs in Asia (cont.)

- FTAs between Asian subregions as emerging “bridges or linkages” across the region





## RTCAs in Asia

# Trends in subregional and bilateral T&CAs in Asia (cont.)

- Bilateral regional cooperation and integration can help maximize the benefits of globalization, while minimizing its risks.
- As one component of a larger political effort to deepen economic relations with neighboring countries
- Can create opportunities to expand trade through joint action to overcome institutional as well as policy barriers to trade
- The flexibility to pursue trade-expanding policies not addressed well in multilateral trading rules
- Form cornerstones of larger economic and political efforts to increase regional cooperation
- Can help motivate and reinforce broader reforms in domestic policy and contribute to a political environment that is more conducive to stability, investment, and growth

## New trade blocks

### Problems

*Difficult to foresee a pan-Asian RTCA including all Asian countries..*

- The large number of countries (47)
- Significantly cultural, economic, and social disparities
- The future direction of the open regionalism in Asia is not very clear despite of the ongoing subregionalism process in Asia

## New trade blocks

### Emergence of a “Hub and Spoke” configuration in the RTCAs in Asia..

- Major high-income countries/ trading powers are aggressively racing to bilateral RTCAs → secure trade hegemony in the region
- Middle income countries/ smaller trading powers highly involved in securing bilateral RTCAs, and may also be competing to act as hubs
- A multilayered structure is evolving consisting of a dominant hub-and-spoke arrangement with sublayers of other hub-and-spoke arrangements

## New trade blocks (cont.)

- Major hubs
  - China
  - Japan
  - India (South Asia)
- ASEAN as a major hub, assisting in building confidence in spoke countries
- “Hub” countries negotiating bilateral treaties with many “spoke” countries

# Future shape of RTCAs in Asia

- Consolidation and expansion of subregional groupings into a more cohesive arrangement
- Establishment of common principles for a regional economic partnership to include broader areas of economic cooperation

Stage	No. of Countries	Member Countries	Time Horizon
Stage 1	10	ASEAN countries	Near Future
Stage 2	13	ASEAN countries, Japan, China, and Korea	Short-term
Stage 3	16	ASEAN countries, Japan, China, Korea, India, New Zealand, and Australia	Medium-term
Stage 4	19	ASEAN countries, Japan, China, Korea, India, New Zealand, Australia, Pakistan, Bangladesh and Sri Lanka	Long-term

# Future shape of RTCAs in Asia (cont.)

- Kawai and Wignaraja (2007)
  - “Consolidation of multiple and overlapping FTAs into a single East Asian FTA could help mitigate the harmful “noodle bowl” effects of different rules of origin and standards and that consolidation at the ASEAN+6 level would yield the largest gains to East Asia — while the losses to non-members would be relatively small “.

# Roles of Multilateral Institutions

- e.g., IMF, WB, ADB, WTO and UNESCAP
  - “Mapping service” to assist countries in taking stocks and reviewing RTCAs
  - Help test ideas
  - Work toward improved effectiveness
  - Country capacity building
  - Avoid duplication
  - Subsidiary role in supporting and nudging forward the regional policy agenda
  - Multilateralise regionalism and make it as multilateral-friendly as possible

# Conclusions

- The environment for greater cooperation and integration in Asia is better than ever while the opportunity **cost of non-integration** continues to increase
- In the imperfect Asian region, **a multi-phased approach toward a pan-Asian RCTA** is the right process
- If bilateral and subregional RTCAs are compatible with each other and with WTO agreements, then they will be building blocks for worldwide multilateral agreements.



# Conclusions (cont.)

- Consolidate RTCAs to a regional standard by establishing **East Asian Community**
- Regional harmonization of ROOs and to make the system of Asian ROOs more development friendly
- Need to establish an **Asian community secretariat**, which will pursue the initiatives to widen cooperative arrangements and to study the possibility of pursuing deeper economic cooperation and integration
- An advocacy of enhanced cooperation among major Asian economies **does not imply any restriction upon multilateral WTO global trade framework** or other existing regional cooperation in Asia and the rest of the world

# THANK YOU

*For any questions or comments, please contact*

Biswa N BHATTACHARYAY, Special Advisor to Dean  
Asian Development Bank Institute, Tokyo  
Tel + 81 3 3593 5566, Fax + 81 3 3593 4270,  
Email: [bbhattacharyay@adbi.org](mailto:bbhattacharyay@adbi.org)

