

The Effect of New Asian Regional Trade Groupings on the Doha Round Negotiations

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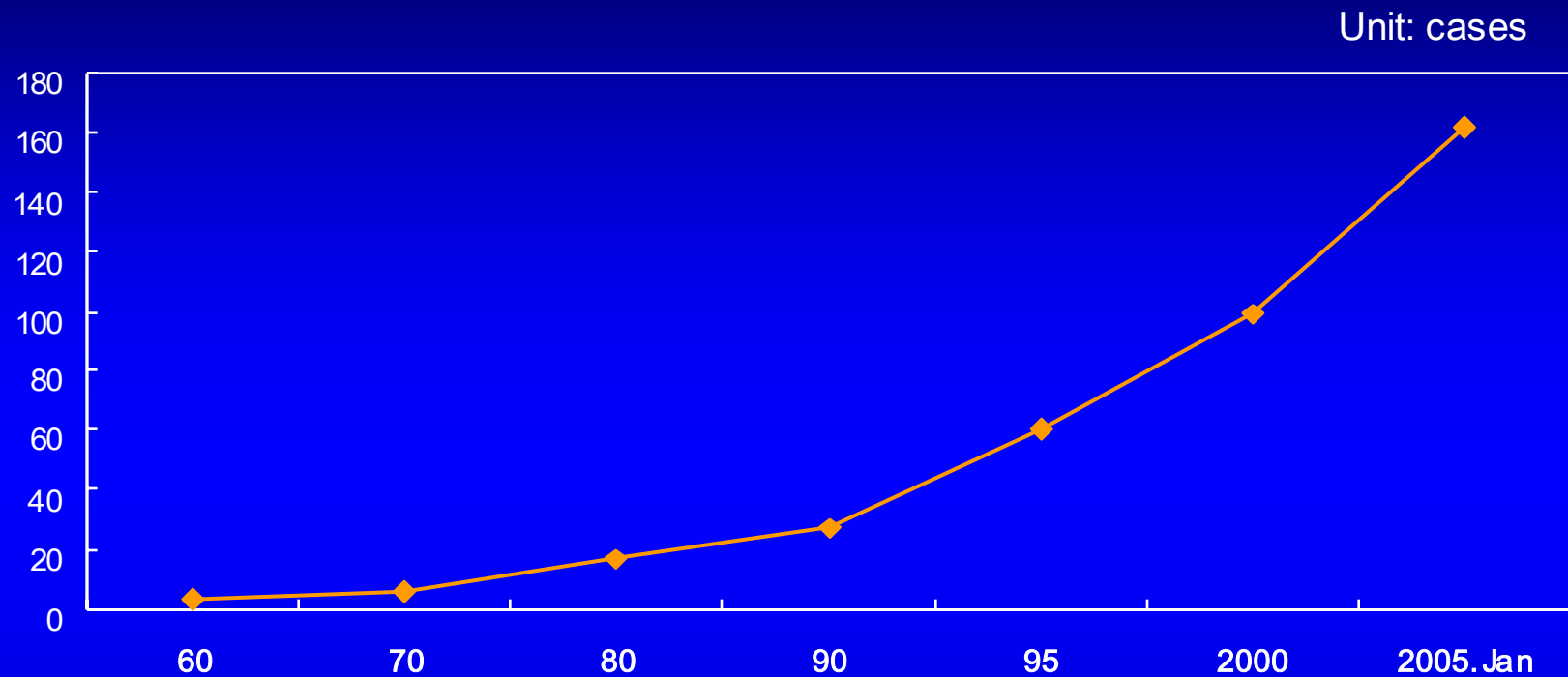
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Contents

- Evolution of the trade liberalization in both multilateral and regional contexts
- Current Status of discussion on the Asian regional trade arrangement and problems related with the development of regionalism
- Asian regionalism in an multilateral context
- Policy implications

RTAs in Force



	'55-60	'61-70	'71-80	'81-90	'91-95	'96-2000	'01-'05 Jan
New	3	3	11	10	33	39	63
Accumulated	3	6	17	27	60	99	162

Source: WTO

Multilateralism

- DDA : Doha Development Agenda(9th round), as big as the Uruguay Round
- Effect : \$ 686 bil. of welfare increase in the world economy
(if 1/3 of trade barriers are reduced through DDA)
- Three Major Issues
 - 1) market opening (agriculture, services, and commodities)
 - 2) regulations (ex: anti-dumping, government subsidy, and regional agreements)
 - 3) other issues (ex: environment and intellectual property rights)

Multilateral DDA, moving slowly

- Multilateral negotiation : numerous participants
- negotiation as a package
 - Nothing is agreed until everything is agreed
- Until July, major issues such as a formula for tariff cuts on commodities to be reached

Regionalism vs Multilateralism

- FTAs are promoted **voluntarily** <-> DDA negotiations are compulsory
- FTAs are **selective**
 - likely-minded FTA partner
 - excluded countries will be damaged by trade diversion effect
- FTAs are much wider and more **comprehensive**
 - FTAs aim at removing tariffs and include various ranges of issues like investment, competition policy, government procurement, environment, and labor, etc

RTAs in American and European Continents

America	<p>O Signed: NAFTA, Mexico-Chile FTA, Canada-Chile FTA, US-Chile FTA, Chile-CACM, Chile-MERCOSUR, Mexico-El Salvador FTA, Mexico-Uruguay FTA Mexico-Costa Rica . Bolivia . Columbia . Venezuela FTA</p> <p>O Under negotiation: FTAA, Mexico-MERCOSUR, Chile-Bolivia FTA, US-Peru . Columbia . Ecuador FTA</p>
Europe	EFTA, EU, EEA

RTAs in Asian Continent

➤ Asia lags behind in RTAs

- **great trade dependence on the US.**
- **lack of leadership**
- **political factors** (wars, ideological conflicts, different cultural backgrounds)
- **since the 1990s, Asia began to actively promote RTAs**
- **1997-98 financial crisis prompted RTAs**

O Signed: AFTA, Korea-Chile FTA, Korea-Singapore FTA,

Japan-Singapore FTA, China-Hong Kong FTA,

Thailand-India FTA, India-Sri Lanka FTA,

India-Bangladesh FTA, China-ASEAN FTA

O Under Negotiation: Korea-Japan FTA, Japan-Thailand FTA,

Korea-ASEAN FTA, India-ASEAN FTA,

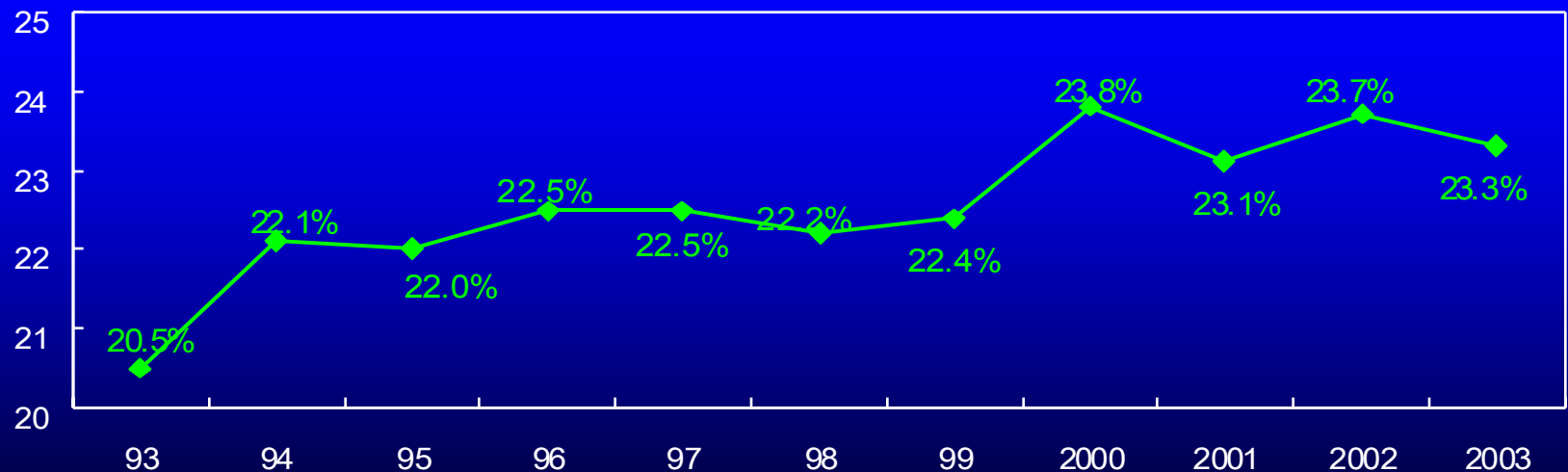
India-Singapore FTA, Singapore-Sri Lanka FTA

Intra-ASEAN Trade ('93~'03)

Unit: billion dollars, %

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Intra-ASEAN trade	91	120	149	161	163	135	148	190	168	180	196
ASEAN's Trade Amount	443	543	676	717	725	608	660	799	727	760	840
Share	20.5	22.1	22.0	22.5	22.5	22.2	22.4	23.8	23.1	23.7	23.3

Source : WTO



Membership of East Asian countries in interregional arrangements

	ASEAN	ASEAN+3	APEC	EAEC	ASEM	WTO
Korea		X	X	X	X	X
China		X	X	X	X	X
Japan		X	X	X	X	X
Hong Kong			X	?		X
Taiwan			X	?		X
Brunei	X	X	X	X	X	X
Indonesia	X	X	X	X	X	X
Malaysia	X	X	X	X	X	X
Philippines	X	X	X	X	X	X
Singapore	X	X	X	X	X	X
Thailand	X	X	X	X	X	X
Viet Nam	X	X	X	X	X	
Cambodia	X	X				X
Laos	X	X				
Myanmar	X	X				X

Note: East Asian Economic Caucus(EAEC) was proposed by Malaysia in 1993, more geopolitical than geoeconomic ASEAN+3. ASEM is the Asia-Europe Meeting.

Changing Phases of East Asian regionalism

Phase/ Timeframe	Representing arrangement	Main features	Paradigms
Old regionalism (1950-70s)	SEATO, ASEAN I	<ul style="list-style-type: none"> ○ Politico-military ○ superpowers & alliances ○ UN & US 	<ul style="list-style-type: none"> ○ cold war ○ realist approach
New regionalism (1980s onward)	PECC, APEC, ESCAP, ARF, ASEM, ASEAN II	<ul style="list-style-type: none"> ○ Openness ○ Industrial cooperation / division of labor ○ networking ○ regional institutions ○ Interregionalism / sub-regionalism 	<ul style="list-style-type: none"> ○ Flying geese model, ○ Liberalist approach ○ Market integration ○ Trade competition ○ Corporate integration
Second new regionalism (since 1997)	ASEAN+3	<ul style="list-style-type: none"> ○ Intraregional link ○ Interregionalism / sub-regionalism ○ early stage of economic integration ○ regional convergence 	<ul style="list-style-type: none"> ○ Security-economic nexus ○ Regional management

Expansion of ASEAN regionalism

	Deadline	Note
AFTA	2010	Launched in Jan 1993
Korea	2009	Negotiations began in Feb 2005
China	2010	To start eliminating tariffs for commodities in July 2005(under the Early Harvest Program)
Japan	2012	To begin negotiations in April 2005
India	2011	Negotiations began in March 2004
CER(Australia, New Zealand)	2015	To start negotiations in 2005 with the aim to reach an agreement within 2 years

Changes in welfare(equivalent variation basis) as % of initial GDP

- Each FTA signee will benefit while non-FTA countries suffering a loss
- FTA of whole ASEAN+3 will enjoy greater welfare benefits than K-C-J FTA

	North Asia Three	ASEAN+3
Korea	0.80	1.18
China	2.09	1.96
Japan	0.25	0.34
Singapore	-0.87	4.12
Malaysia	-0.70	1.24
Indonesia	-0.15	0.89

Source: Scollay and Gilbert, (2001)

Prospects

- In **East Asia**, China and Japan are “competing” through FTAs.
 - In **Europe**, France and Germany took the “initiative” in the economic integration and then neighboring countries joined later.
- Unlike APEC and ASEAN, **the ASEAN plus Three** seems to proceed while maintaining “loose” form of the economic group.
- If India included, the new Asian Regionalism can reduce “risks” by securing more diversity and flexibility.
 - “Look east” policy, accessing individual ASEAN countries ex) Thailand

Scenarios of Asian Regionalism

- Until now, China-ASEAN followed by the Korea-Japan FTA
- Options
 - 1) Korea-China-Japan FTA followed by ASEAN
 - 2) ASEAN takes the initiative, then Korea, China and Japan separately integrated into ASEAN
 - 3) Korea-Japan-ASEAN followed by China
Korea-China-ASEAN followed by Japan
 - 4) ASEAN+three and India
 - comparable to NAFTA in Americas and EU in Europe

Effects of the New Asian regionalism on DDA (1)

➤ Building block :

- Benefits of **restructuring** through increased regional **competition**
- Working as a catalyst for market **openings of agriculture and service market**
- Helping developing countries to be integrated into the **world trade rule**
ex) anti-dumping, subsidy, dispute settlement, investment, competition policy, and government procurement
- **Comprehensive industrial cooperation** in Asia contributes to the expansion of the scope of negotiations in the DDA
- Unlike other regional groupings such as NAFTA, Asia's regionalism has more trade creation effects than trade diversion effects

Analysis on Trade Creation and Diversion effect on Major FTAs

	Trade Creation	Trade Diversion (Offshore Trade→Intra-regional Trade)
ASEAN+3	+	+
N A F T A	+	—
MERCOSUR	+	—
E U	+	?

?: No clear direction, +: increased trade, -: reduced trade

Source: Combined study results of Lee and Park(2002), Scollay and Bora(2001)

The Share of Intra-regional Trade in Major Economic Blocks

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
ASEAN	20.5	22.1	22.0	22.5	22.5	22.2	22.4	23.8	23.1	23.7	23.3
NAFTA	40.9	42.1	41.5	42.6	44.0	45.2	46.4	46.4	46.2	45.7	44.6
E U	63.3	63.5	64.6	64.0	62.6	63.6	63.5	61.3	61.5	61.9	61.8

Unit: %

Source: WTO

Effects of the New Asian regionalism on DDA (2)

➤ **Stumbling block :**

- **Discrimination** against non-FTA member harms multilateralism
- Additional **administrative costs** by increasing FTA(Spaghetti Bowl Effect)
- Difficulties in harmonizing of **rules of origin** by increasing FTA
- a tool for securing regional **hegemony**?

Conclusion

➤ Asian Regionalism as complementary for multilateralism

- Helping Asian countries to achieve training effects in international negotiations and intra-industrial competition effects
- Acting as a catalyst for market openings of the manufacturing, agriculture, and service sectors
- Asian Regionalism ; a viable option until DDA will have a clear direction

Thank You !