

The Future of the World Trading System

Asian Perspectives

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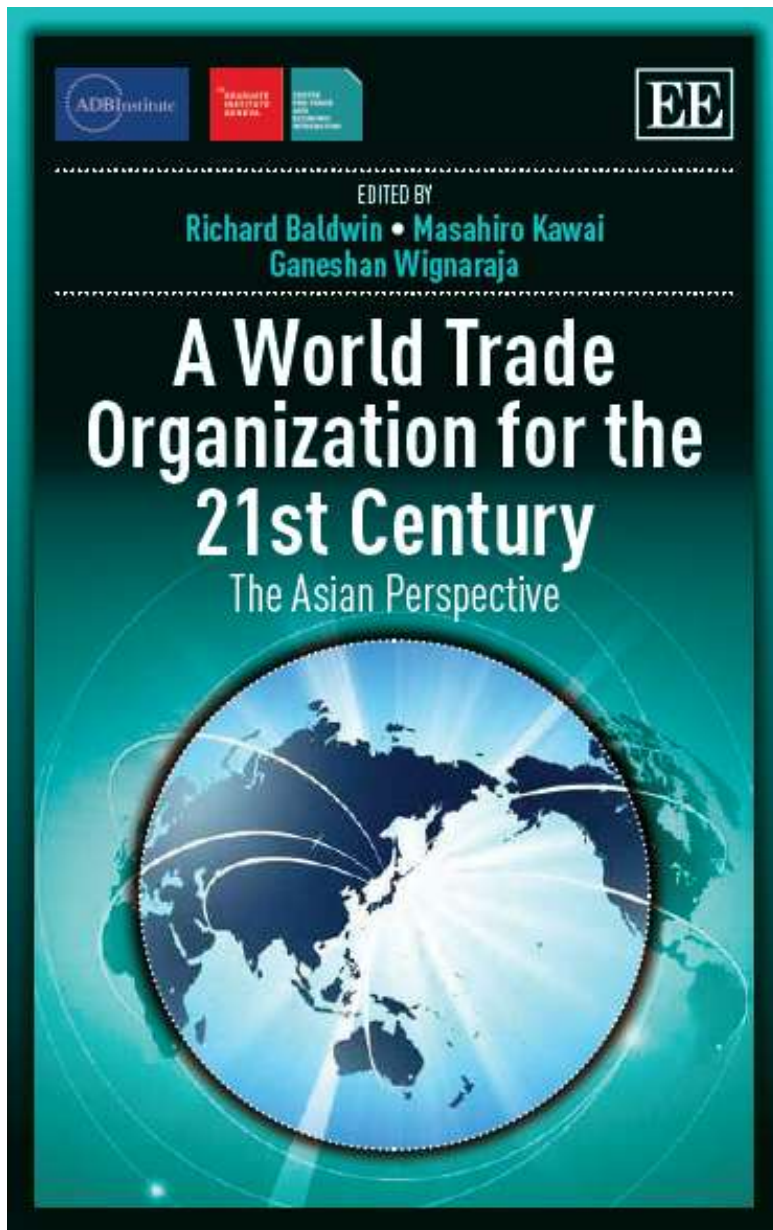
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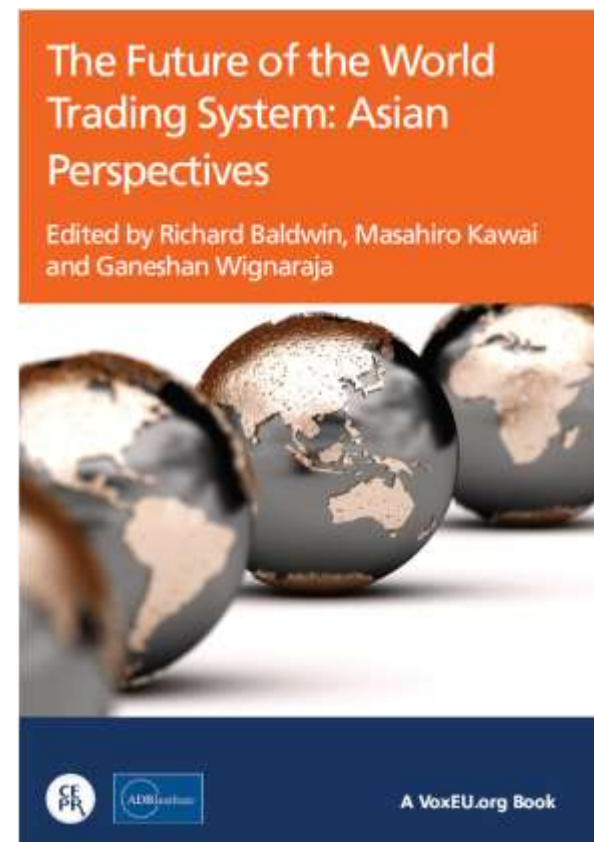
Background and Motivation



- Trade has played a key role in transforming Asian economies in recent history.
- Asia has prospered using outward-oriented development policies anchored on multilateral trade rules under the General Agreement on Trade in Tariffs (GATT) before 1995 and the World Trade Organization (WTO) after 1995
- However, recent developments, have thrown the world trading system into a state of flux causing uncertainties over global trade governance.
- Present the results of two books: Baldwin, Kawai and Wignaraja (eds. forthcoming 2014) and Baldwin, Kawai and Wignaraja (eds. 2013).
- Books were motivated by the uncertainty in the governance of the world trading system and its economic implications for Asia. Key issues:
 - What are the key changes relating to supply chains and the rules governing trade from an Asian perspective?
 - What are the policy challenges resulting from the rapid spread of Asian FTAs?
 - Which way forward at national, regional and global levels
- Contributes to the debate on how to reform the world trading system and develop greater coherence between multilateral and regional trade rules.



A World Trade Organization for the 21st Century: Asian Perspectives (forthcoming 2014) and The Future of the World Trading System: Asian Perspectives (2013) examines key changes taking place in the world trading system and explores policy implications for Asia. It also offers lessons for other regions.



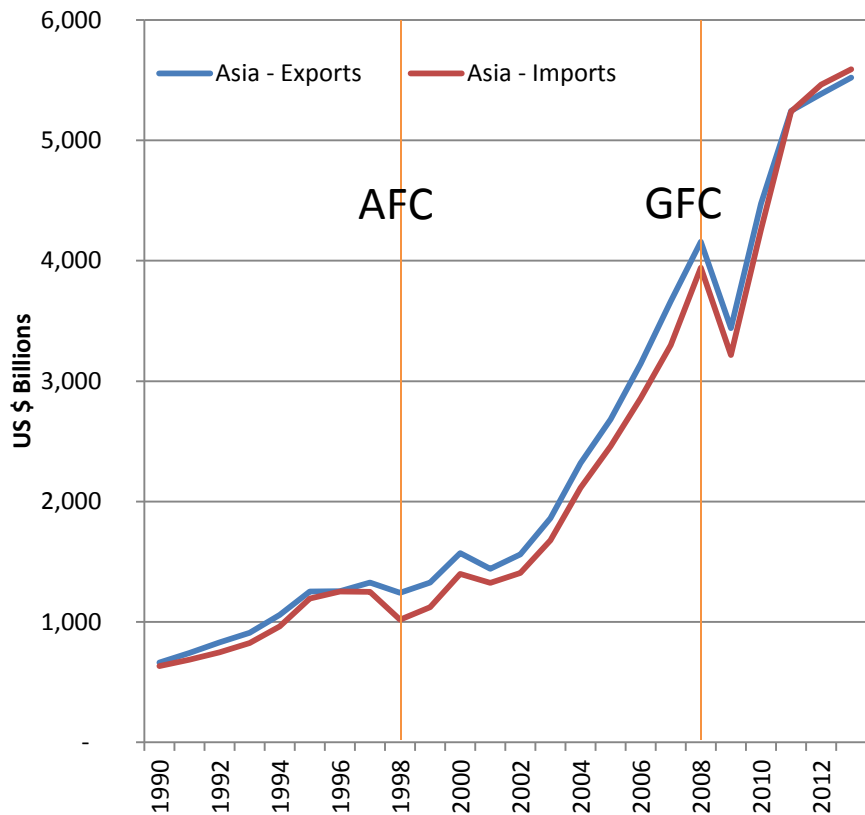
1.

Trends in Asia's Trade and Investment

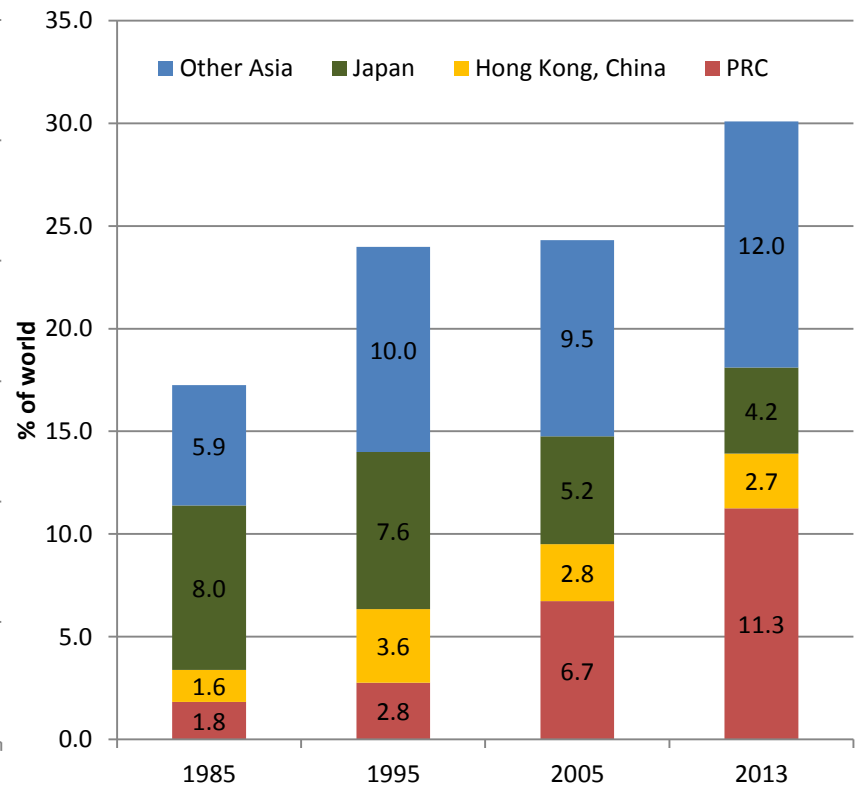
- Impressive historical performance
 - Asia achieved prosperity over several decades through outward-oriented policies under the multilateral trading system.
 - Rebound in trade from global financial crisis
 - Intra-regional trade shares rising with expansion of production networks (PNs) over geographical space
- Yet challenges on the horizon for Asia's trade
 - PNs hit by external shocks (global financial crisis, floods, multiple compound disasters, political events)
 - PN concentrated in some countries
 - SMEs important in employment and GDP, but underrepresented in trade and PNs
 - Tariffs at historic lows but rise in murky protectionism
 - Services trade restrictions remain a barrier to sectors' growth
 - WTO centrality in global trade governance is eroding
 - Free trade agreements (FTAs) are spreading

Substantial Growth in Asia's Trade

Asia's trade with the world 1990-2013, US\$Billions



Asia's share of World Trade



Notes:

Asia is defined as ASEAN10; PRC; Japan; Republic of Korea; Hong Kong, China; Taipei,China; and India

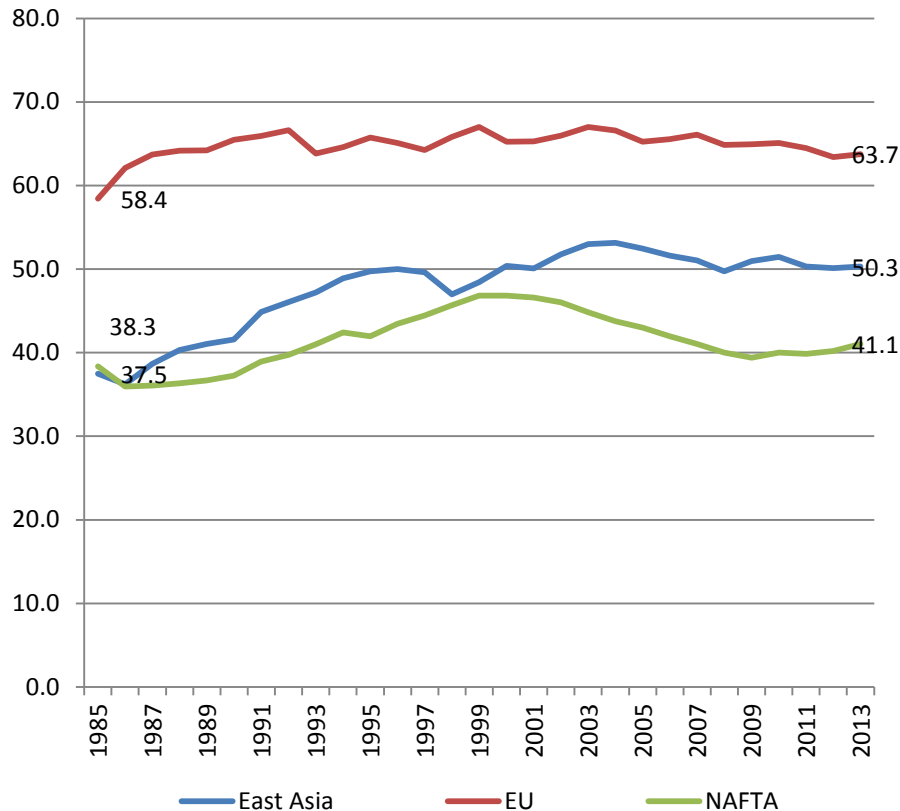
AFC – Asian Financial Crisis,

GFC – Global Financial Crisis

Source: IMF, Direction of Trade Statistics, Accessed 3 June 2014

Increased Regional and Global Integration

Intraregional trade: share in trade with the world (%)

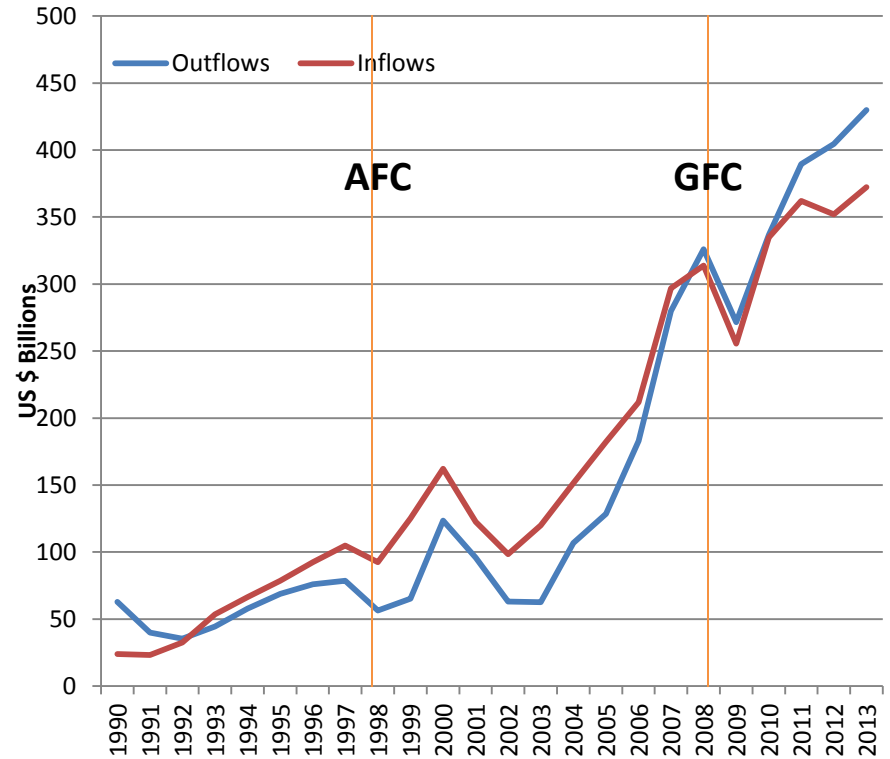


Notes:

Intra-regional trade share is the percentage of intra-regional trade to total trade of the region, calculated using trade data.

Source: IMF Direction of Trade Statistics, (Accessed 3 June 2014)

FDI flows into and out of Asia



Notes:

Asia is defined as ASEAN10; PRC; Japan; Republic of Korea; Hong Kong, China; Taipei, China; and India

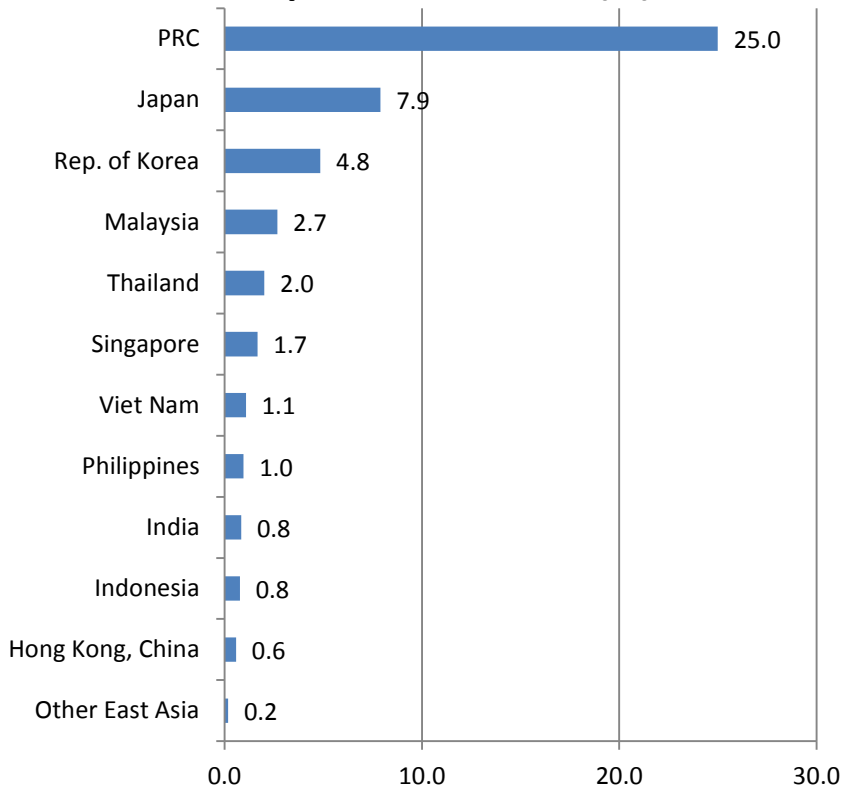
AFC – Asian Financial Crisis

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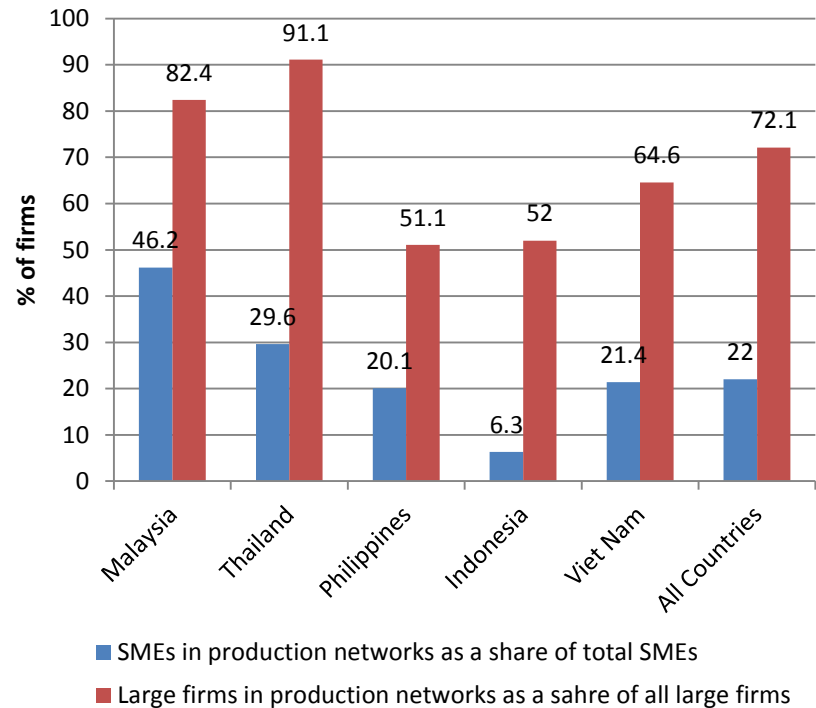
Source: Authors' calculations using UNCTAD FDI Database, accessed October 2014

Rise of Factory Asia, but Production Network Trade Concentrated in Some Asian Economies and in Some Firms

Share of world production network exports, 2009-2013 (%)



Role of SMEs and large firms in production networks, late 2000



Source: Wignaraja (2013)

Note: Production network is defined as trade in parts and components using the gross trade approach of Athukorala (2011)
Source: Compiled from UN Comtrade database

Factors influencing joining production networks

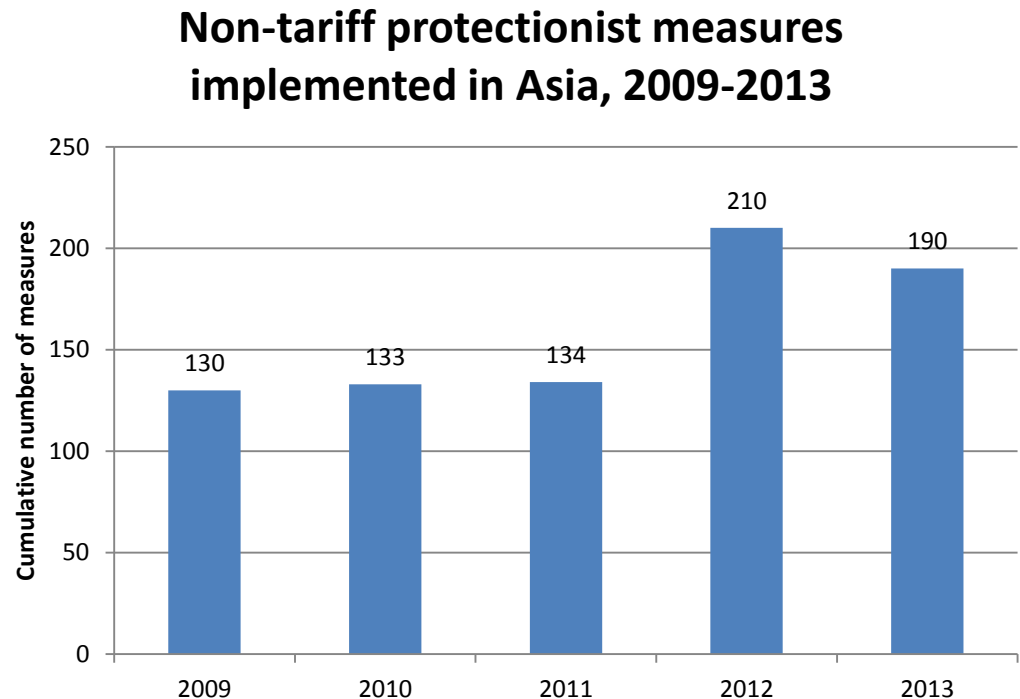
Variable	All firms in PN		SMEs in PN	
	Sign	Significance	Sign	Significance
Firm Size	+	1%	+	1%
Firm Size squared	-	1%		
Firm Age	-	10%	-	10%
Firm ISO certified	+	1%	+	1%
Firm has Patents	+	1%	+	1%
GM has degree	+	5%	+	
GM's experience	+		+	
Workers have HS education	+	1%	+	1%
Foreign Ownership	+	1%	+	1%
Access to Credit	+	1%	+	10%
Country Dummies	-/+	1-10%	+/-	1-5%

Note: *Dependent variable is binary: 1 if part of production network, 0 otherwise.

Source: Wignaraja (2013)

Post-GFC - Rise in Murky Protectionism

- MFN tariffs have fallen, from 10.8% (2000) and 7.4% (2010), but limited appetite for further tariff reduction via unilateral liberalization
- “Murky” non-tariff protectionist measures on the rise (Global Trade Alert)
- Some examples include:
 - use of health and safety regulations to restrict imports
 - export taxes on food items to restrict exports
 - ‘green protectionism’ - subsidies for domestic ‘green’ manufacturers
 - clauses in stimulus packages that confine spending to domestically produced goods



Source: Global Trade Alert database (Accessed October 2014)

WTO Centricity in Global Trade Governance is Eroding

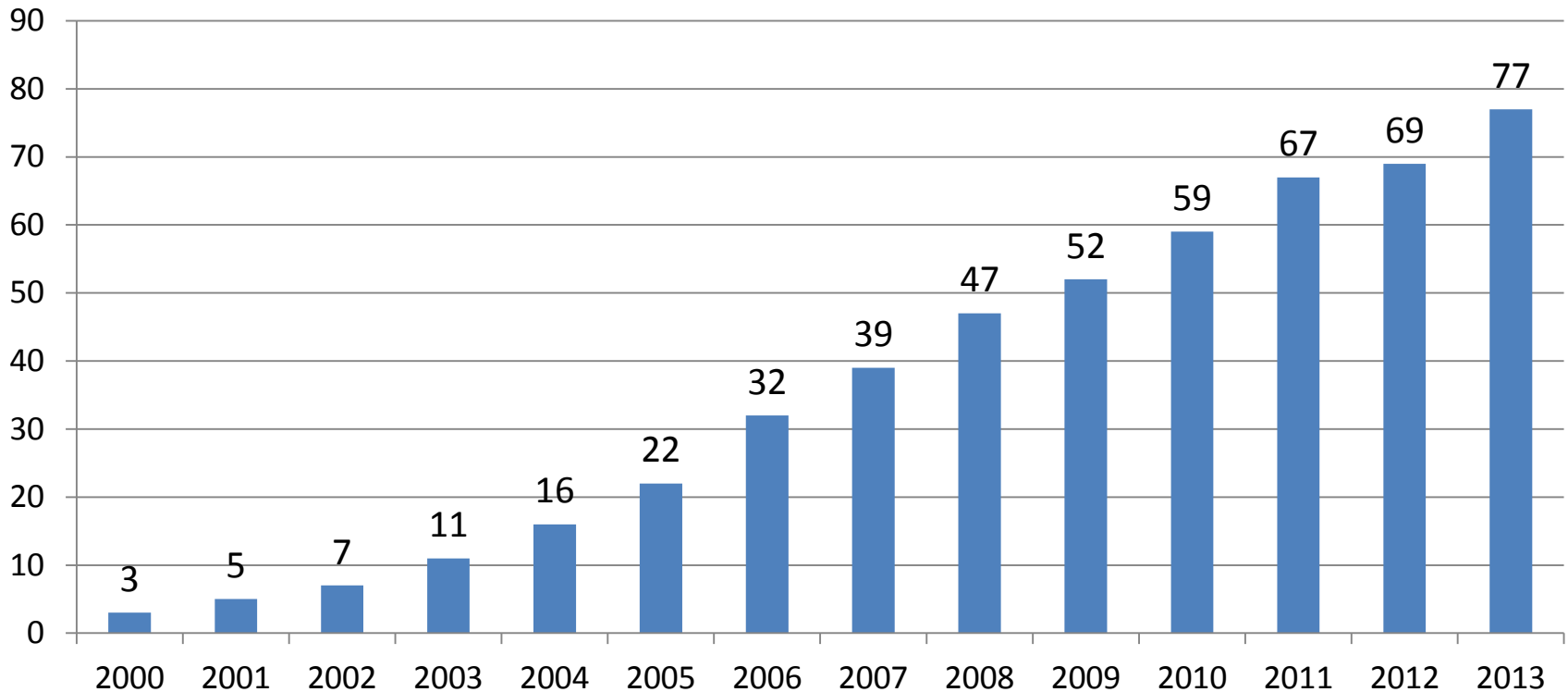
- Established in 1995, the WTO has played a valuable role in providing:
 - a rules based trading system where all countries are treated alike; and
 - a global judicial role for trade disputes and monitoring trade policies
- The trade negotiating function of the WTO seems problematic
 - After difficult negotiations, the WTO Ministerial Conference in Bali in Dec 2013 adopted the Bali Package made up of several agreements in four core areas:
 - The Trade Facilitation Agreement (TFA) aims to accelerate the cross-border trade of goods by enhancing transparency, harmonizing customs procedures, and by improving trade infrastructure.
 - The main agreement in the area of agriculture is on Public Stockholding for Food Security Purposes. It puts in place an interim mechanism for continued food stocking for security purposes by WTO developing members until a permanent solution can be found.
 - WTO members agreed to hold biannual discussions on trade-related developments in cotton concerning market access, domestic support, and export competition.
 - Development and least developed countries (LDCs) issues contain four texts that underscore the special needs of LDCs, including exceptions and waivers from certain WTO rules.
 - The implementation of the TFA was expected to have the biggest impact on trade and was seen as a step towards an eventual WTO Doha Round deal

WTO Centricity in Global Trade Governance is Eroding (*cont*)

- However, the TFA has hit an impasse
 - India has blocked the implementation of the TFA approved by all members of the WTO in return for the renegotiation of the Bali accord reached at a ministerial meeting in December 2013
 - New Delhi's objective is to permanently exempt Indian food security subsidies from WTO review.
 - This has derailed efforts to revive broader multilateral trade negotiations.
- The WTO is now at grave risk
- The loss of confidence in using the WTO forum for multilateral trade negotiations will inevitably undermine the credibility of its highly-valued dispute settlement system and its role as the respected monitor of trade policies of member countries

Free Trade Agreements Spreading in Asia

Total FTAs in Asia



Notes:

* Concluded FTAs include those that are in effect and those that have been signed but are not yet in effect.

** Asia includes 10 ASEAN countries; PRC; Hong Kong, China; Japan; Republic of Korea; Taipei, China; and India.

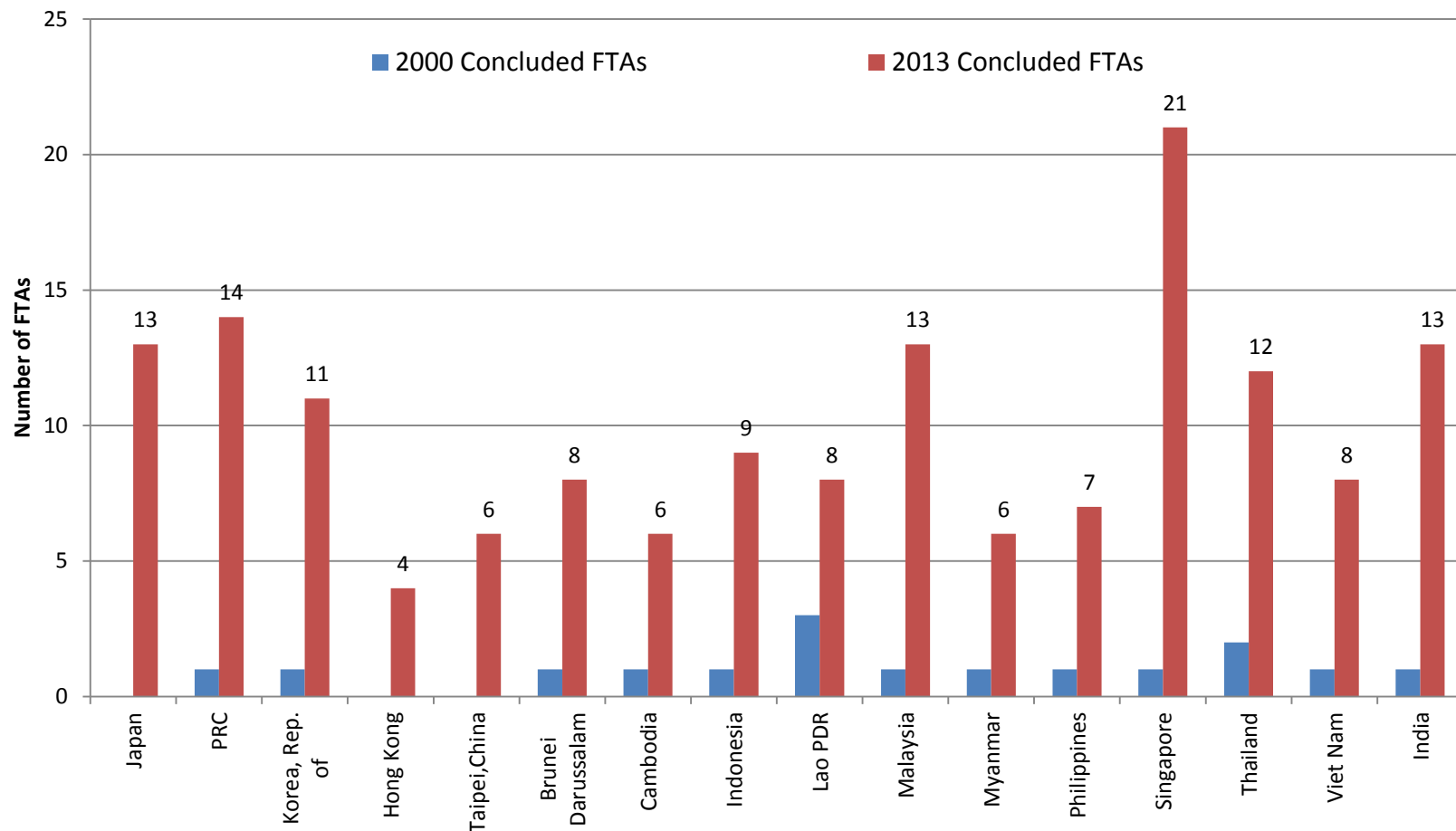
Source: ARIC FTA Database (www.aric.adb.org); Data as of December 2013.

2.

FTA-led Regionalism in Asia

- Proliferation of FTAs globally; Asia catching up and shifting to multi-track trade policy
- In the absence of multilateral and unilateral liberalization, FTAs can support Factory Asia by reducing barriers to trade and FDI
- But Asian economies face important policy challenges regarding FTAs including:
 - Increasing width and depth of FTA coverage
 - Increasing use of FTA tariff preferences
 - Tackling the Asian ‘noodle bowl’
 - Impact on government negotiating capacity

Number of Concluded FTAs in Asian Economies

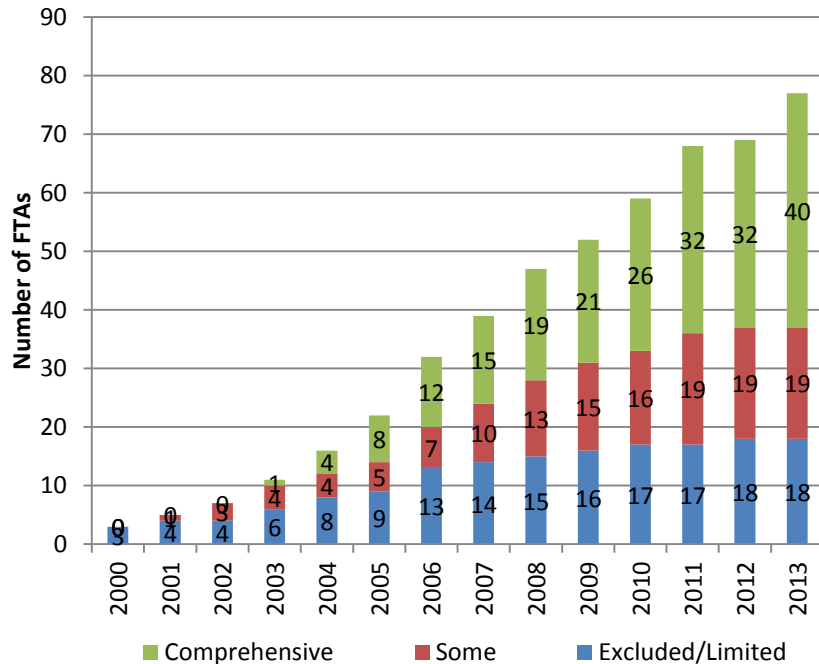


Note: Concluded FTAs include those that are in effect and those that have been signed but not in effect.

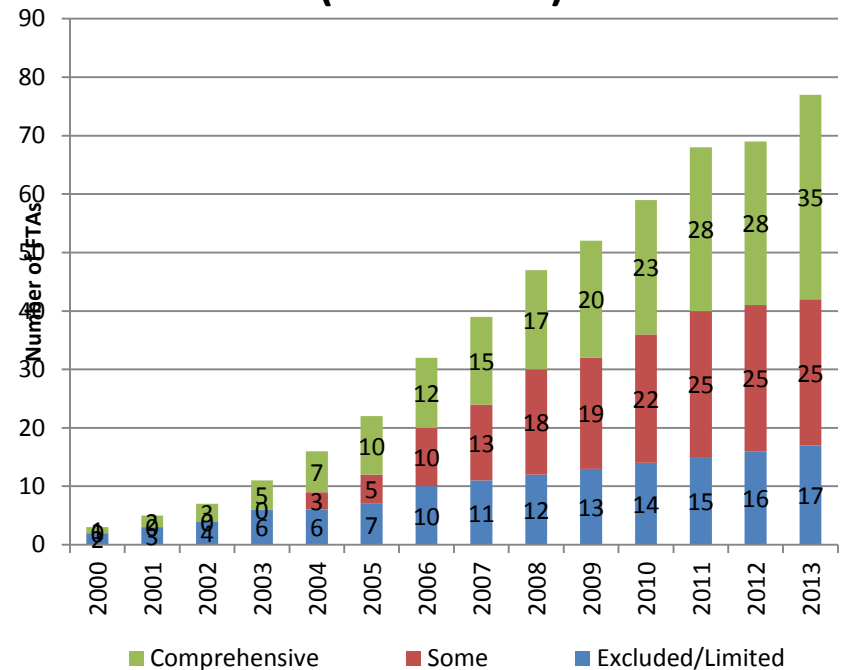
Source: ADB's Asia Regional Integration Center (ARIC) FTA Database (www.aric.adb.org), data as of December 2013.

Agriculture and Services Excluded from Most Early FTAs

Agricultural Coverage of Asian FTAs (no. of FTAs)



Services Coverage of Asian FTAs (no. of FTAs)



Note:

The data cover 77 FTAs in Asia. Agricultural products and chapters are classified according to World Trade Organization (WTO) classification. "Comprehensive" means agriculture is substantially covered (at least 85% of agricultural product lines) or not more than 150 product lines are excluded. "Excluded or Limited" means agriculture is completely excluded or less than 100 product lines or then 5% of the total tariff lines. "Some coverage" refers to those in between excluded/limited and comprehensive.

Source: Legal annexes of FTAs (www.aric.adb.org) and WTO reports; data as of December 2013.

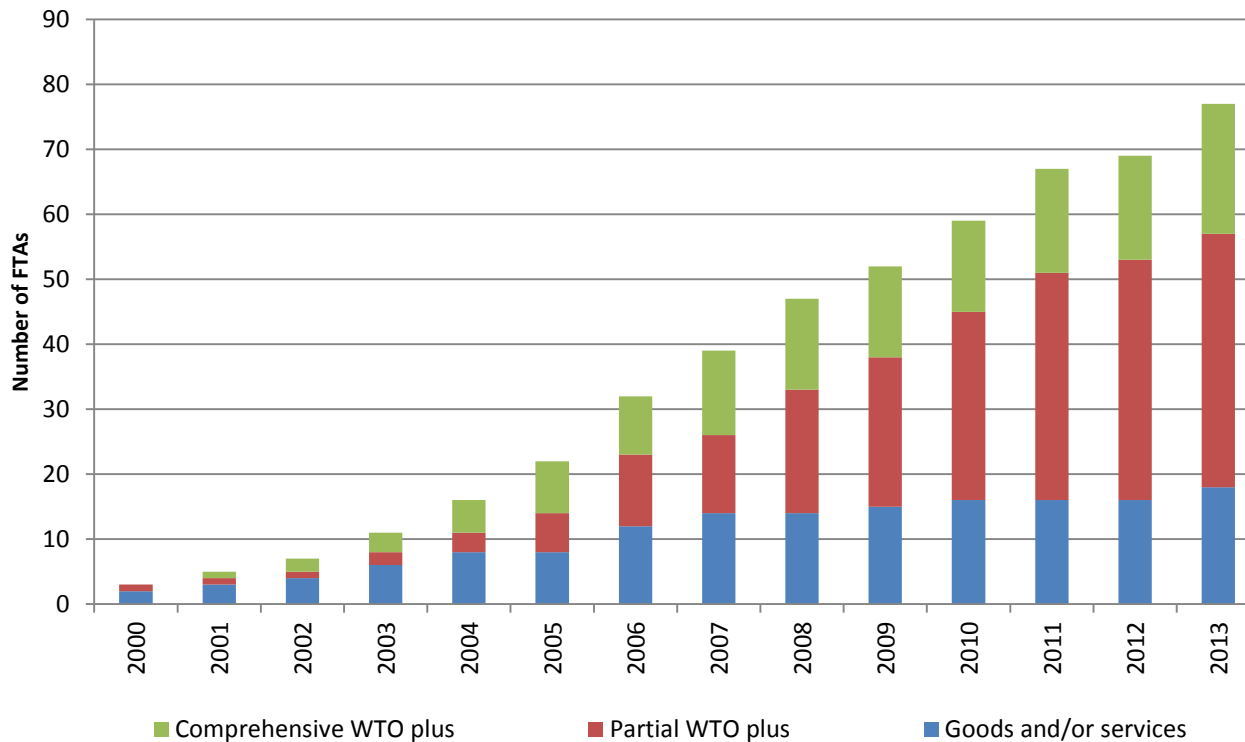
Note:

The data cover 77 FTAs in Asia. "Comprehensive" means covers the five key sectors of the GATS—business and professional services, communications services, financial services, transport services, and labor mobility/entry of business persons. "Excluded/limited" means FTA either excludes services trade liberalization or provides only general provisions thereof, or covers only one of the five key sectors in addition to some other sectors. Coverage of other sectors may also be included. "Some coverage" refers to those in between excluded/limited and comprehensive.

Source: Legal annexes of FTAs (www.aric.adb.org) and WTO reports; data as of December 2013.

Coverage of New Issues Varies (21st Century Agenda)

WTO plus elements in Asian FTAs
(Number of FTAs)

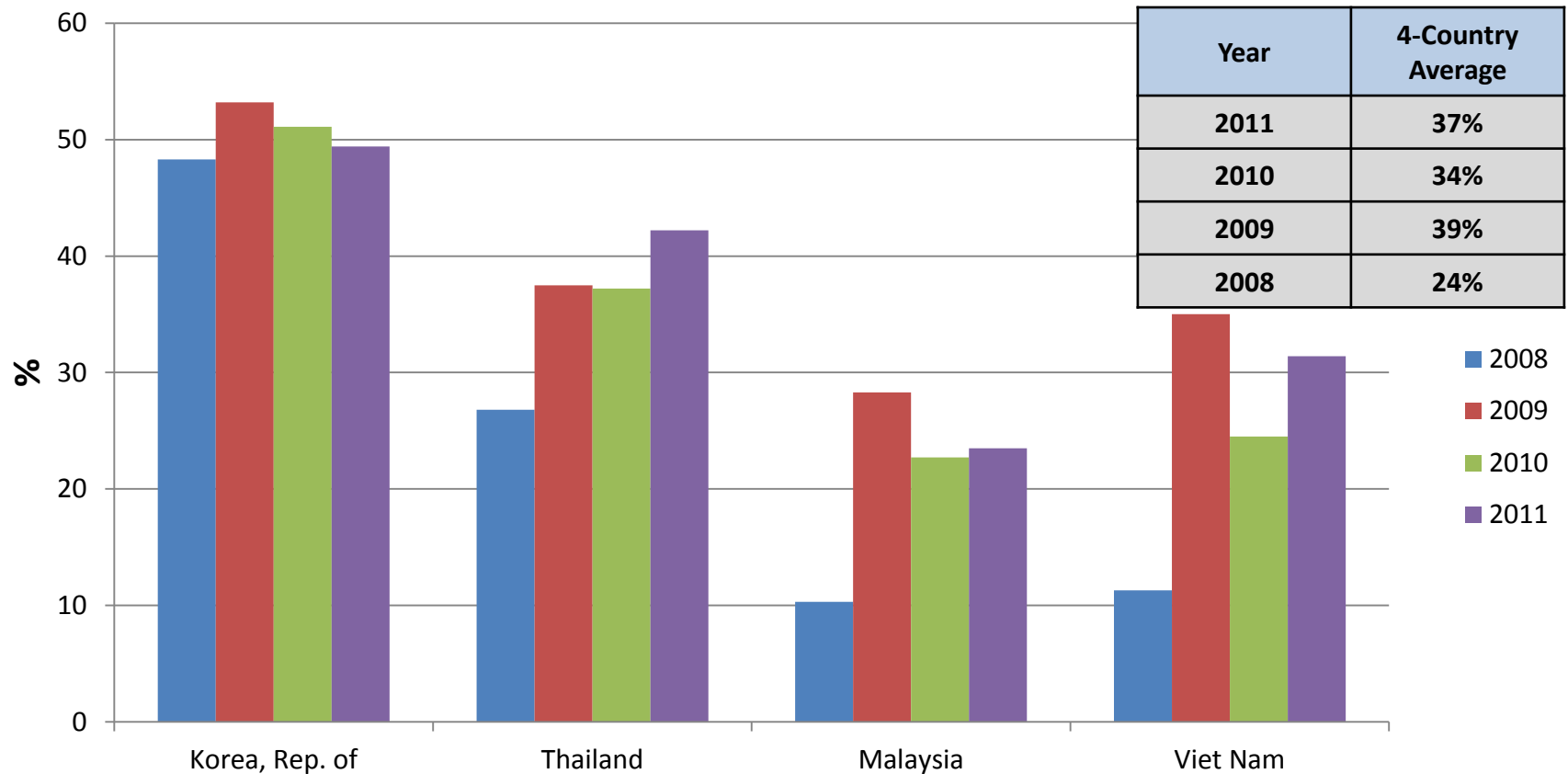


Note: The data cover 77 FTAs in Asia.

Source: FTAs and ARIC FTA Database (www.aric.adb.org); Data as of December 2013.

Need to Improve FTA Use

Proportion of export value with FTA preferences



Source: National trade and industry ministries; IDE-JETRO

Impediments to Using FTA Preferences – Firm Survey Evidence

Impediments	PRC	Korea	Philippines ^a	Indonesia	Malaysia
	% of Respondents				
Lack of Information	45.1	34.2	78.9	83.7	71.7
Use of EPZ schemes of ITA	8.8	-	28.4	30.6	21.1
Delays and administrative costs ^b	10.6	10.8	31.2	24.5	29.5
Small preference margins	14.2	35.8	8.3	8.2	36.7
Too many exclusions	4.4	-	12.8	-	-
Rent seeking	5.3	-	18.3	22.4	32.5
NTMs in FTA partners	6.2	4.2	5.5	8.2	4.8
Confidentiality of information required ^b	10.6	-	10.1	-	-
Not interested in trading with RTA partners	-	-	38.5	20.4	42.8
Number of respondents ^c	226	120	155	206	234

Notes:

FTA = Free trade agreement, EPZ = Export processing zone, NTM = Non-tariff measures, ITA = Information Technology Agreement, PRC= People's Republic of China

^a AFTA only

^b Rules of origin requirement

^c Multiple responses were allowed

- Indicates the category was not included in the survey for the country under consideration.

Source: Author's calculations based data from Kawai and Wignaraja (2011a) and Wignaraja (2013).

Tackling the 'Noodle Bowl'



Source: Kawai and Wignaraja (2011a) and ADB/ADB I Malaysia Survey 2012.

3.

Which Way Now? - Policy Implications

- Asia's evolving trade policy architecture may be anchored on FTAs for the foreseeable future because:
 - the multilateral negotiating function at the WTO seems broken
 - lack of momentum for further unilateral liberalization in Asia with import tariffs reaching historic lows
 - Most economies are pursuing FTAs to sustain liberalization and reduce behind the border regulatory barriers.
- Costs and benefits exist with the formation of FTAs
- A realistic and pragmatic approach would be to design and implement FTAs to maximize potential benefits and minimize potential costs
- Complementary actions are needed at national, regional and multilateral levels

National Level Actions

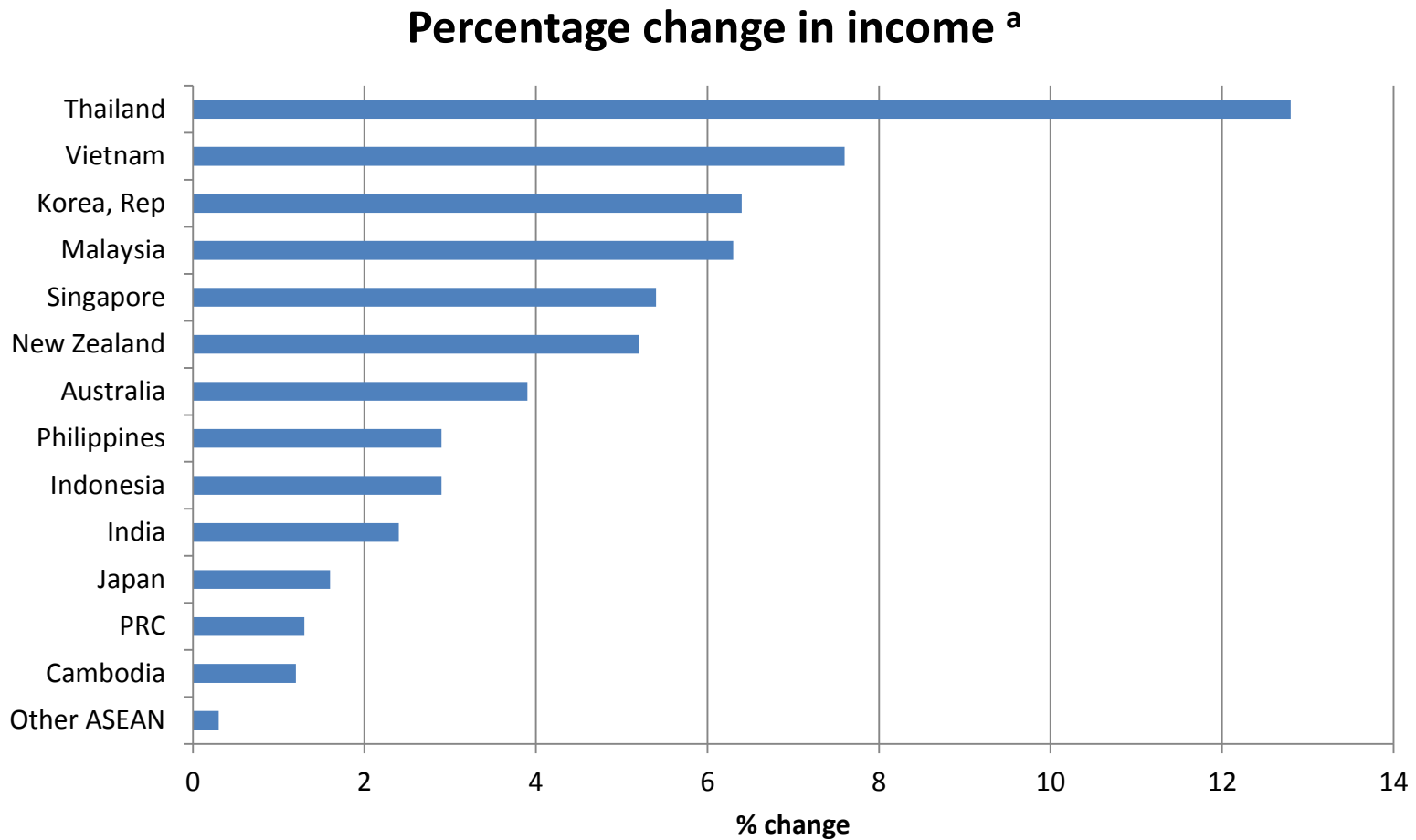


- Facilitating Services Trade Liberalization
 - cover the five key sectors of the GATS and adhere to GATS principles
- Increasing WTO-Plus Elements
 - inclusion of all four Singapore issues - transparency in government procurement, trade facilitation, investment and competition - in all future Asian FTAs
- Improving Use of FTA Preferences
 - raising awareness of FTA provisions
 - invest more in public business support for SMEs and raise service quality and coverage
 - Business associations to play a greater role in supporting industry
- Tacking the Asian Noodle Bowl of rules of origin (ROOs)
 - Simplification of ROOs (harmonized ROOs, cumulation of value contents and co-equality of ROOS)
 - Adopt international best practices in ROO administration

Regional Level Actions

- Multilateralization of regional FTAs—through liberal cumulation rules and eventually a merger of various overlapping FTAs in Asia into a large region-wide agreement
- Would provide notable economic benefits including:
 - greater market access for goods, services, skills, and technology; larger market size permitting increased specialization and realization of economies of scale;
 - easier foreign direct investment and technology transfer by multinational corporations and SMEs;
 - simpler trade and investment rules; inclusion of small, low income economies in the region's wider trade agreement; and insurance against protectionist sentiments. (Chia, 2010; Baldwin and Kawai, 2013)
- A region-wide agreement in Asia could arise from a series of linked agreements covering varied issues and participants
- RCEP and TPP are not mutually exclusive and likely to prove complementary

RCEP – Estimated National Gains



^a Compared to a 2017 baseline. Estimated from a CGE model.
Source: Kawai and Wignaraja (2013)

Multilateral Level Actions

- WTO reform essential to ensure continued relevance . In particular the WTO needs to:
 - find a mechanism to close out the Doha Round, if possible
 - revive the negotiating function by pursuing plurilateral deals on sector-specific issues for like-minded countries with open accession (Nakatomi, 2013).
 - Some of the successful examples of plurilateral agreements include: Anti-Counterfeiting Trade Agreement (ACTA), Information Technology Agreement (ITA), the Financial Services Agreement, and the Basic Telecommunications Services Agreement
 - develop a new program to tackle behind the border issues relevant to supply chain trade, e.g. trade facilitation, investment policy and non-tariff barriers (Baldwin, 2013)
 - use its expertise to play a greater role in trade policy and be a think tank on capacity building (Messerlin, 2012)

Conclusion

- Asia's success in recent years is largely linked with its outward-oriented development policies under a multilateral system
- The trading landscape has changed considerably in recent years:
 - emerging economies are increasingly important
 - production networks growing in Asia;
 - protectionist tendencies, especially murky forms of protection
 - WTO centrality in global trade governance is eroding
 - Spread of FTAs

Conclusion *(cont)*

- Asia has taken a multi-track approach including FTA-led liberalization support deepening supply chains but challenges remain
 - FTA preference use, ROOs, agricultural and services trade liberalization, WTO plus elements (21st century agenda)
- A way forward for Asia's trade?
 - market-friendly policies to support supply chain trade and better measurement of supply chains
 - address non-tariff barriers
 - multilateralize FTAs to reduce business costs
 - reform the WTO

Selected References

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