

A World Trade Organization for the 21st Century: The Asian Perspective

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Book Content

- Analysis of evolving 21st century world trading system and the role of the WTO
- 13 chapters covering a broad range of issues:
 - Supply chain trade issues
 - Future of the WTO
 - Multilateralising Asian Regionalism
 - ASEAN integration
 - Plurilaterals
 - FDI
 - Protectionism
 - Industrial policy & more
- ADBI/CTEI conference, Geneva 11-12, March 2013 2

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Conclusion

- Doha deadlock + mega-regionals are likely to transform world trade governance
- Need to start thinking ahead about the shape of global trade governance in a broader way than before
- The book contains a well-informed, but original thinking on “A WTO for the 21st century”.
- How Asia thinks and acts on these issues will likely influence the world economy. As Pascal Lamy writes in his foreword to the book:

“Asia has been a successful model of development through trade, which has inspired many others around the world. There is no doubt that the region will continue to inspire the trade community in the next decades to come.”

Lessons from Asia's development experience – medium term

- Pursuing market-friendly trade and industrial policies to develop supply chain trade,
- Improving surveillance of non-tariff measures post global financial crisis,
- Consolidating trade agreements into a large region-wide one.
- Using more accurate data to measure value-added trade and participants in supply chain trade (e.g. SMEs) provide empirical insights for policy development.

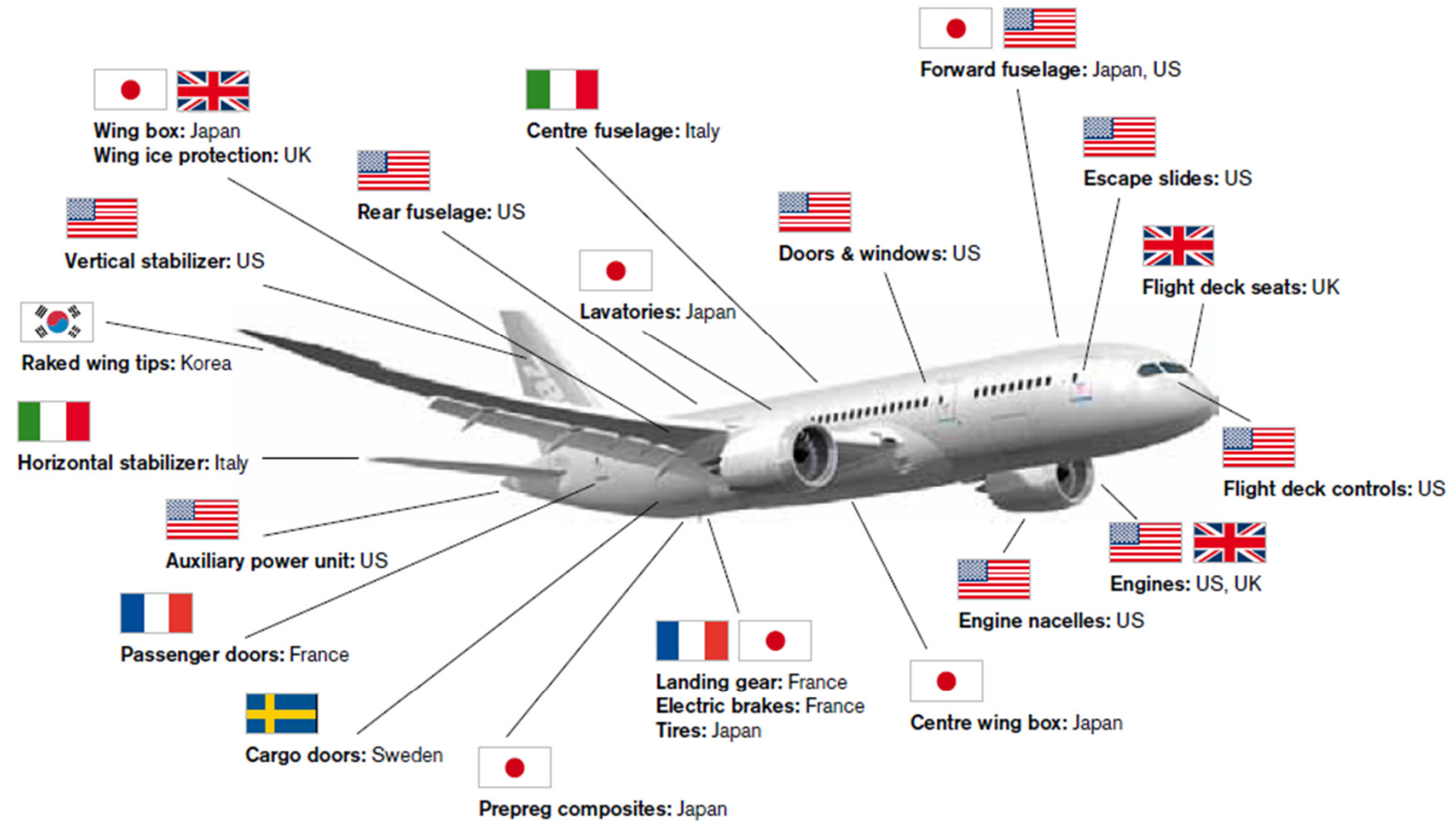
Lessons from Asia's development experience – longer term

- Better coherence is vital between Asia's regional trade rules and global trade governance.
 - Improving the quality of large Asia-wide trade agreements,
 - A WTO agenda on supply chains and trade agreements,
 - Significant reforms of the WTO
 - Issue-based plurilateral agreements and an eventual multilateral agreement on investment
- The debate on global and regional trade governance in the new era is a work in progress and we hope that this book will better inform the search for policy options

My Contribution

- Chapter 1 Introduction and overview (with Richard Baldwin and Masahiro Kawai)
- Chapter 4 Joining the supply chain: a firm-level perspective
- Chapter 8 Policy challenges posed by Asian free trade agreements: a review of the evidence (with Masahiro Kawai)

Boeing 787 is made in ???

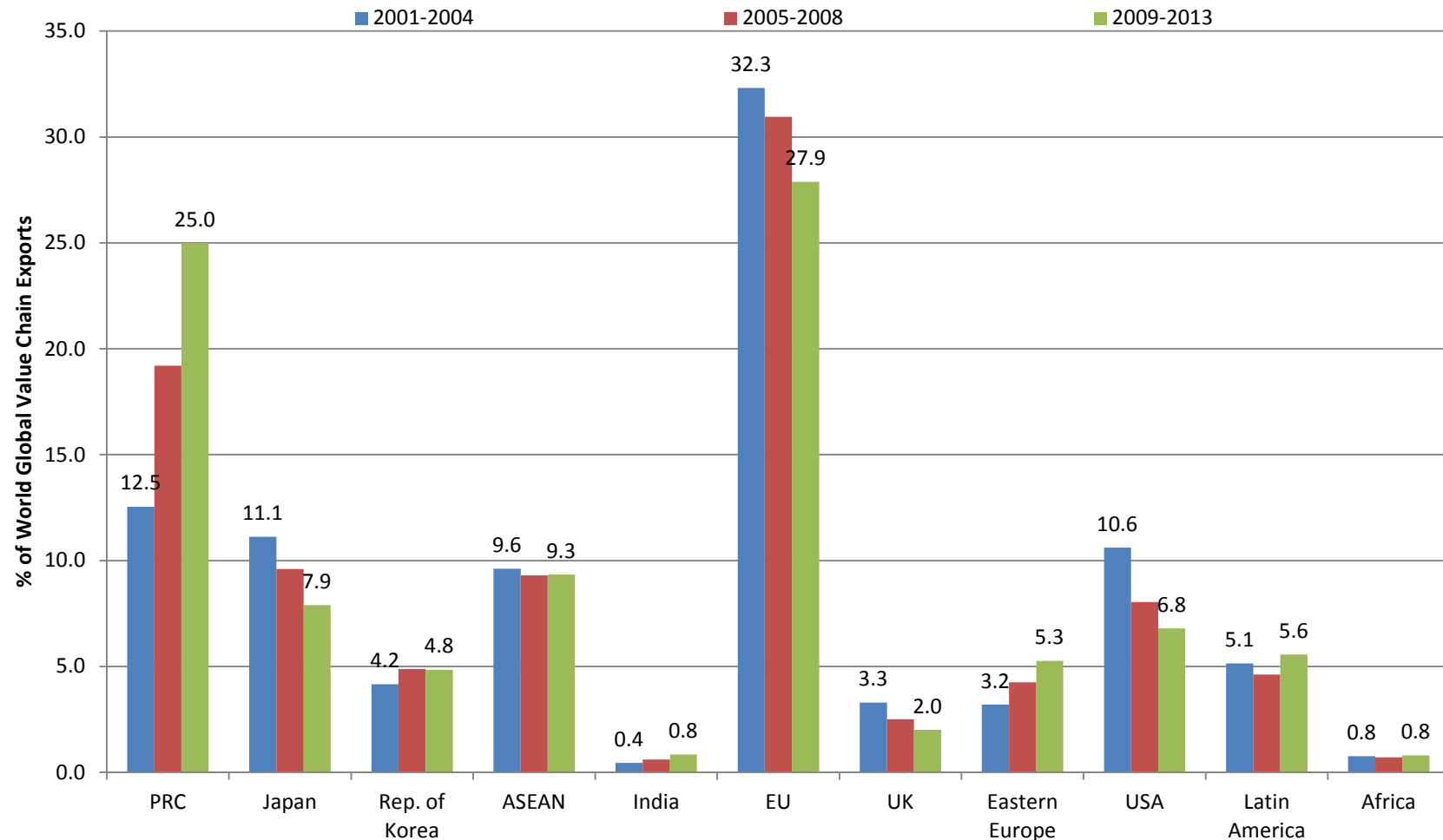



Tools/Software: France
Navigation: US
Pilot control system: US
Wiring: France


Final assembly: Boeing
Commercial Airplanes, US

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

Share of World Production Network Exports, 2001-2013 (%)



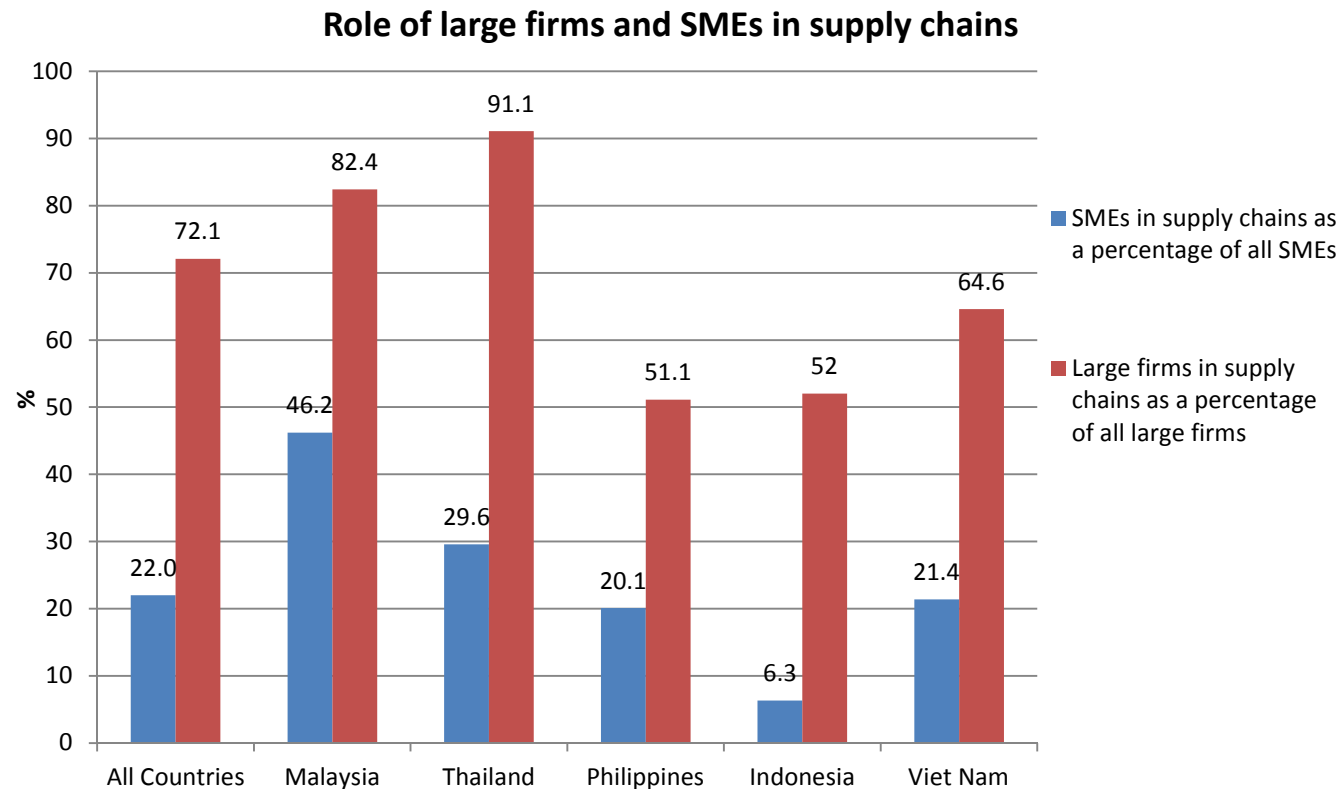
Note: *Production network is defined as trade in parts and components using the gross trade approach of Athukorala, P C., 2011. Asian Trade Flows: Trends, Patterns and Projections. Departmental Working Papers 2011-05. The Australian National University, Arndt-Corden Department of Economics. **Source:** Compiled from UN Comtrade database

What Influences Firms to Join Supply Chain Trade Firms in Southeast Asia?

- Various studies (supply chain trade and value added trade) but few on firms in Asian supply chains
- Chapter 4 by Wignaraja examines firm characteristics in supply chain trade in Malaysia, Thailand, Philippines, Indonesia and Vietnam.
 - ✓ Firm heterogeneity matters for joining supply chains
 - ✓ Large firms dominate supply chain but higher SME engagement in some economies
 - ✓ Apart from size, **technological capabilities, skills, access to credit** and foreign ownership also matter
 - ✓ Tackling supply-side and policy constraints helps firms including SMEs to join supply chains

Mapping Supply Chain Trade by Firm Size

- Across 5 economies 37% of firms were in supply chain trade. Large firms dominate. SME engagement varies.



Source: Wignaraja, G., (2014), "Joining the Supply Chain: A Firm-Level Perspective" in R. Baldwin, M. Kawai and G. Wignaraja (edited), *A World Trade Organization for the 21st Century: The Asian Perspective*, Cheltenham (UK): Edward Elgar

Firm Size Matters for Joining Supply Chain Trade But Not The Whole Story

Variable	All firms in Supply Chains		SMEs in Supply Chains	
	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%

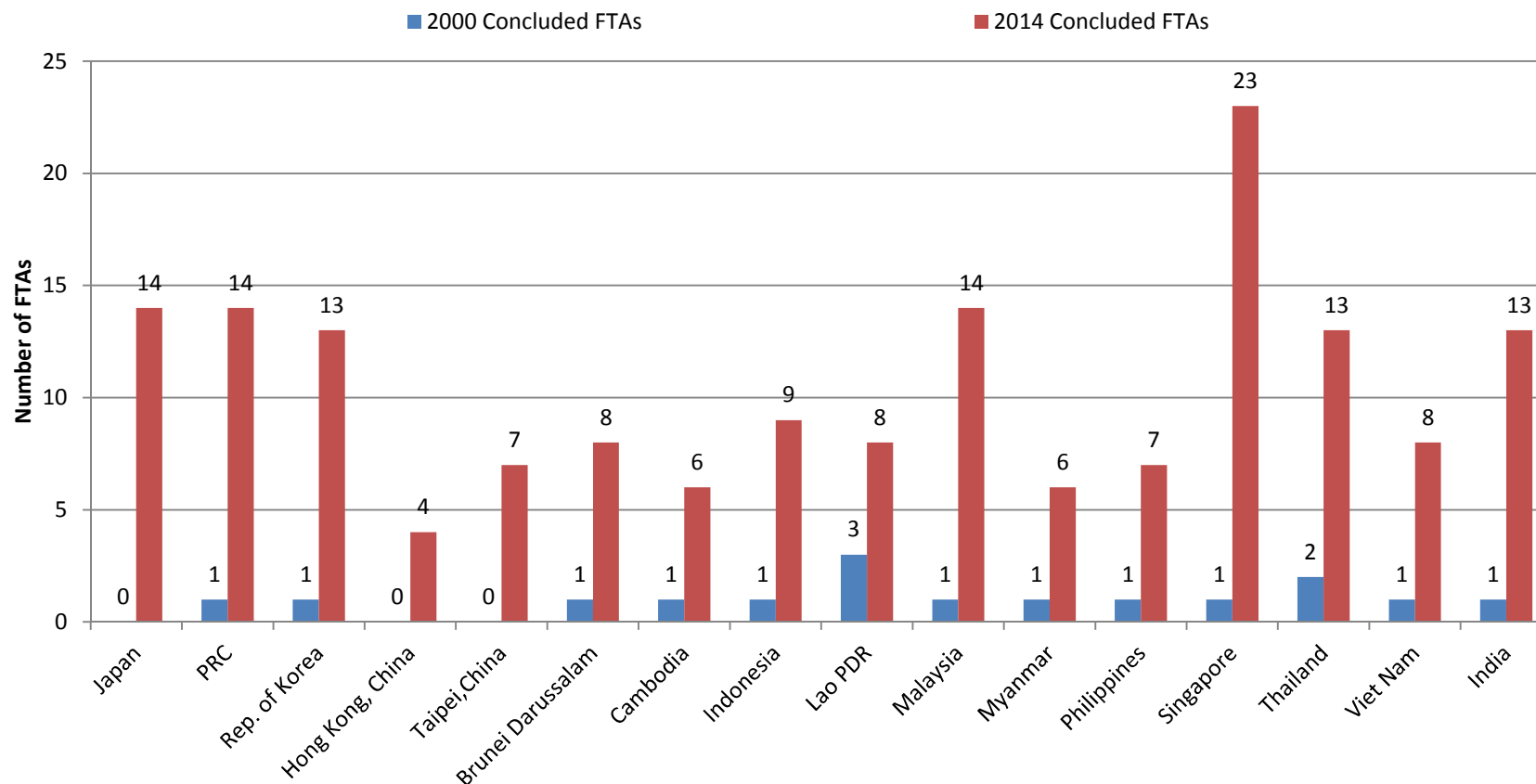
*Dependent variable is binary: 1 if part of supply chain trade, 0 otherwise.

Source: Wignaraja, G., (2014), "Joining the Supply Chain: A Firm-Level Perspective" in R. Baldwin, M. Kawai and G. Wignaraja (edited), *A World Trade Organization for the 21st Century: The Asian Perspective*, Cheltenham (UK): Edward Elgar

Assessing Asia's Evolving Trade Policy

- Proliferation of FTAs globally; Asia catching up and shifting to multi-track trade policy
- The spread of FTAs in Asia is posing various policy challenges including:
 1. Increasing depth of FTAs (i.e. 21st Century Trade Issues)
 2. Increasing use of FTA tariff preferences
 3. Tackling the Asian 'noodle bowl' of FTAs,
 4. Impact on government negotiating capacity
- Chapter 8 by Kawai and Wignaraja examines these policy challenges by reviewing literature, new data on use of FTA preferences and enterprises surveys, and the contents of FTAs.

Spread of Free Trade Agreements in Asia

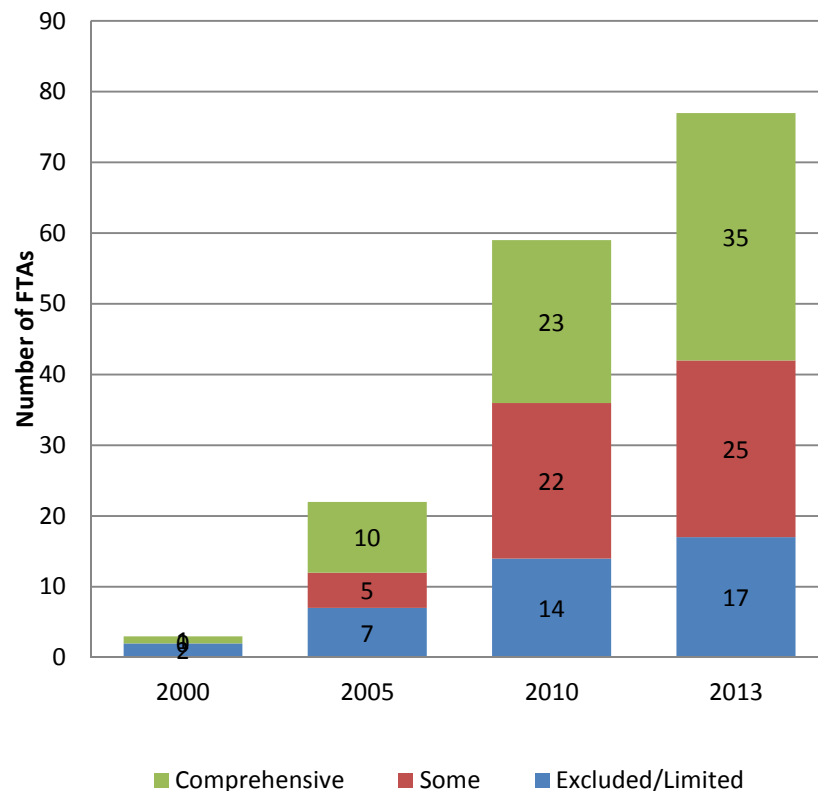


Note: Concluded FTAs include those that are in effect and those that have been signed but not in effect.

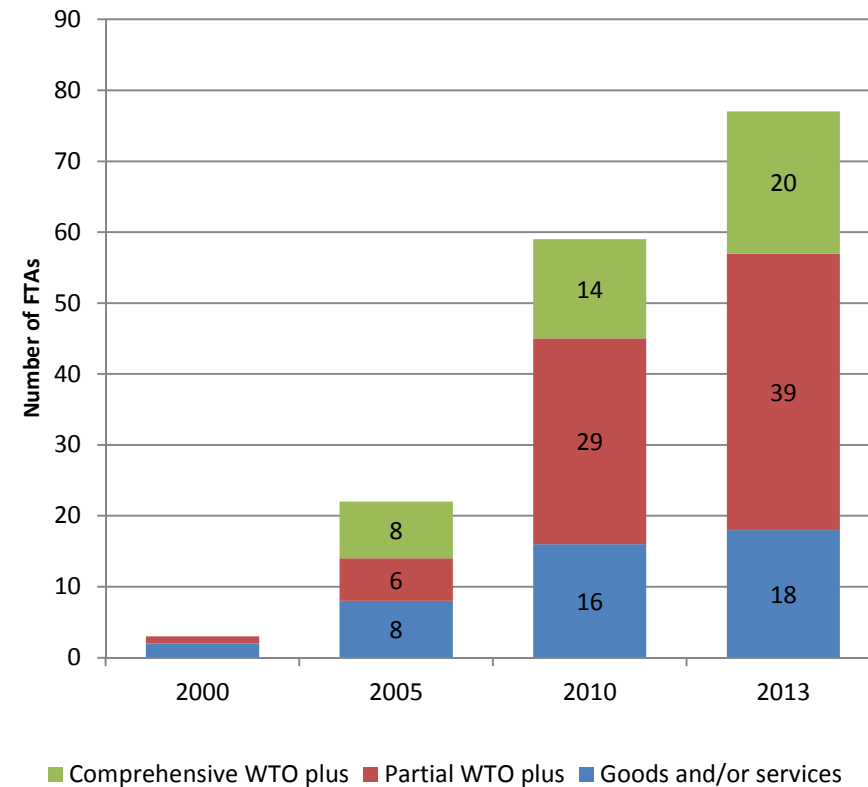
Source: ADB's Asia Regional Integration Center (ARIC) FTA Database (www.aric.adb.org), data as of July 2014. Accessed March 2015

Challenge 1: Improve Coverage of 21st Century Trade Issues

**Services Coverage of Asian FTAs
(numbr of FTAs)**



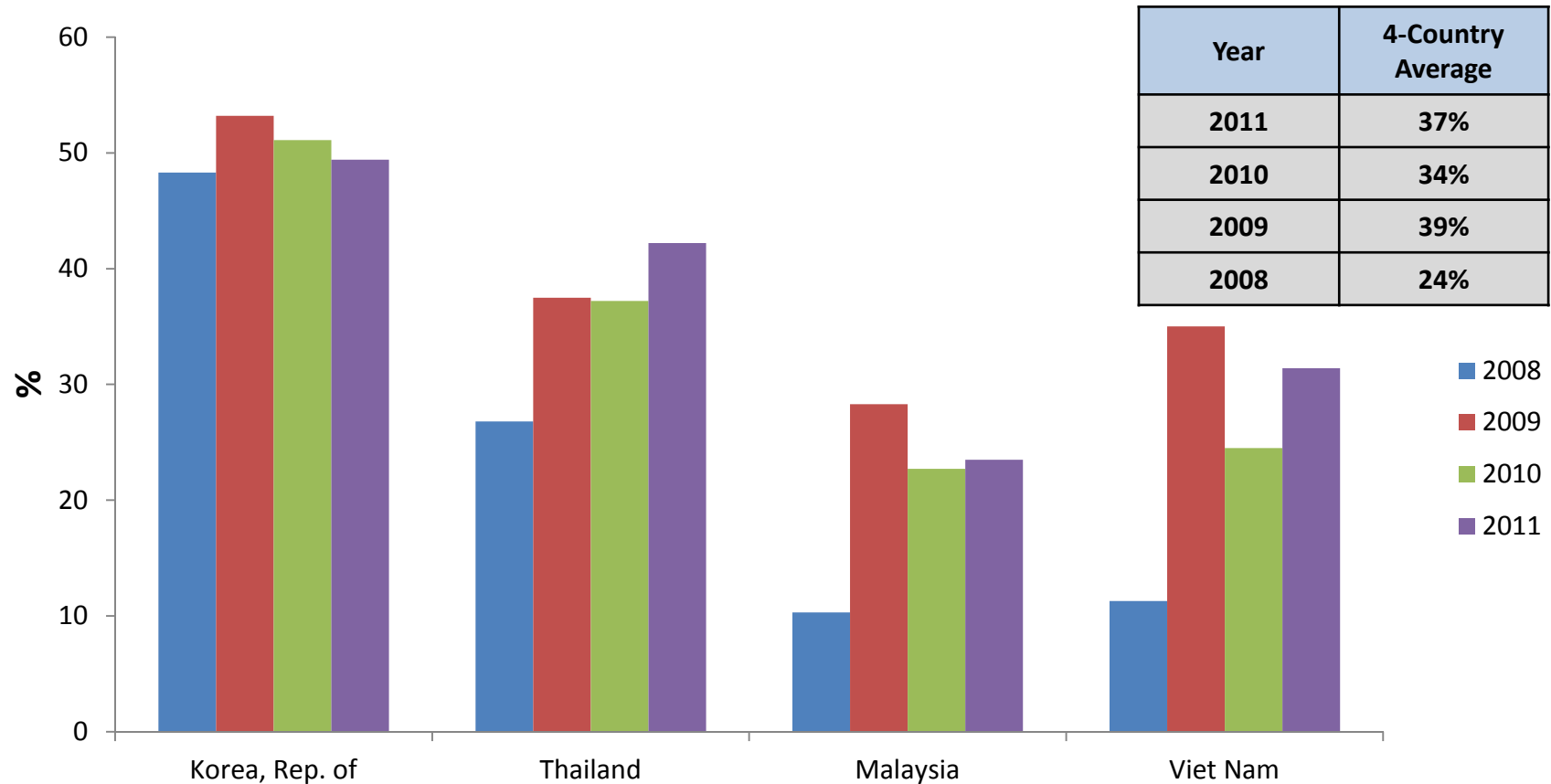
**WTO plus elements in Asian FTAs
(number of FTAs)**



Source: Kawai, M. and G. Wignaraja. (2014), "Policy Challenges Posed by Asian Free Trade Agreements: A Review of the Evidence" in R. Baldwin, M. Kawai and G. Wignaraja (edited), *A World Trade Organization for the 21st Century: The Asian Perspective*, Cheltenham (UK): Edward Elgar

Challenge 2: Raise FTA Preferences Use

Proportion of export value with FTA preferences



Source: Kawai, M. and G. Wignaraja (2014), "Policy Challenges Posed by Asian Free Trade Agreements: A Review of the Evidence" in R. Baldwin, M. Kawai and G. Wignaraja (edited), *A World Trade Organization for the 21st Century: The Asian Perspective*, Cheltenham (UK): Edward Elgar. 16
Based on data compiled by the national trade and industry ministries; IDE-JETRO

What Impedes Using FTA Preferences – Firm-level Evidence

Impediments	PRC	Korea	Philippines ^a	Indonesia	Malaysia
	% of Respondents				
Lack of Information	45.1	34.2	55.5	39.8	50.9
Use of EPZ schemes of ITA	8.8	-	20.0	14.6	15.0
Delays and administrative costs ^b	10.6	10.8	21.9	11.7	20.9
Small preference margins	14.2	35.8	5.8	3.9	26.1
Too many exclusions	4.4	-	9.0	-	-
Rent seeking	5.3	-	12.9	10.7	23.1
NTMs in FTA partners	6.2	4.2	3.9	3.9	3.4
Confidentiality of information required ^b	10.6	-	7.1	-	-
Not Interested in Trading with FTA Partners	-	-	-	9.7	30.3
Number of respondents ^c	226	120	155	206	234

Notes:

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

^a AFTA only

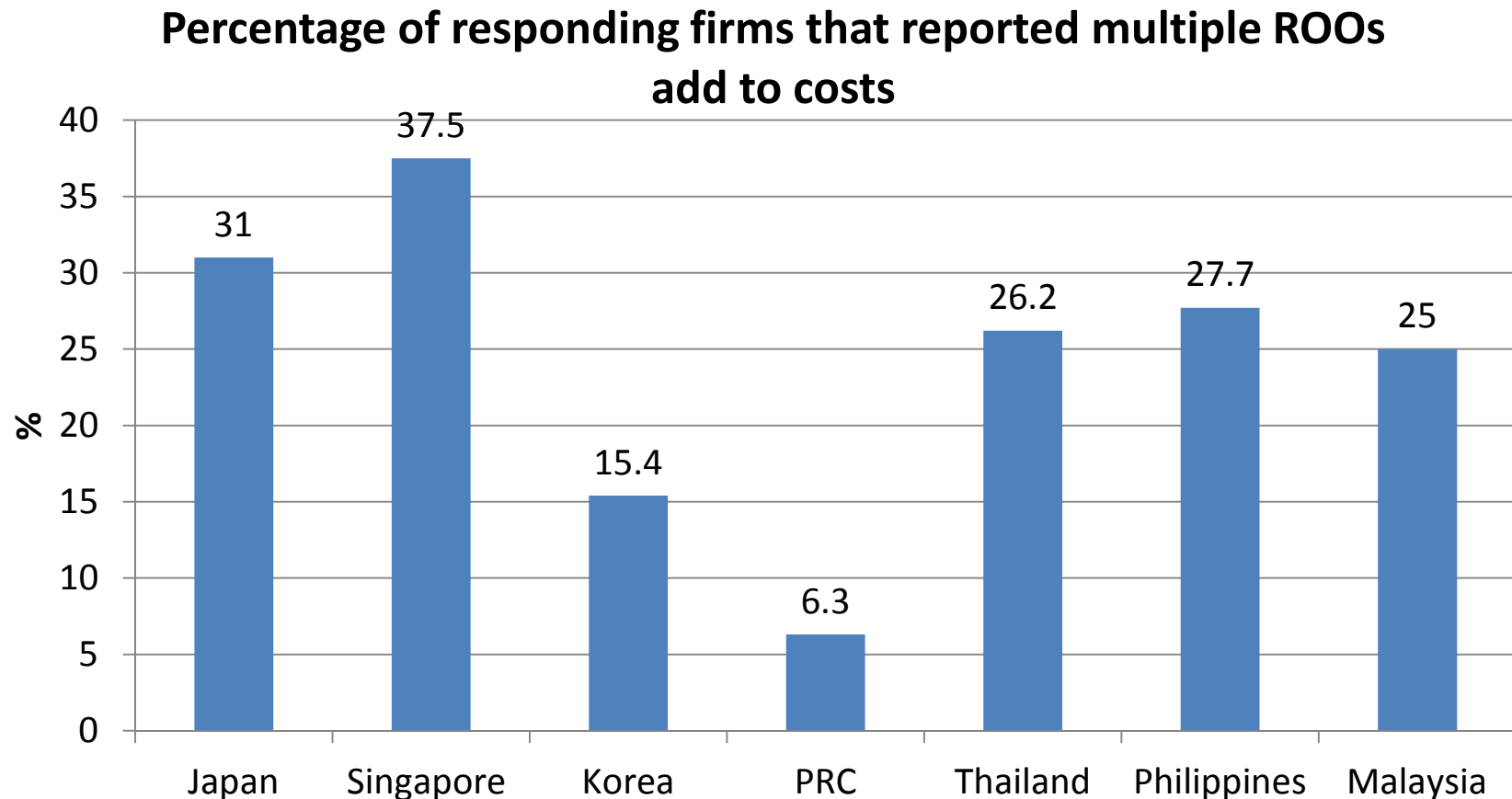
^b Rules of origin requirement

^c Multiple responses were allowed

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

Source: Kawai, M. and G. Wignaraja. (2014), "Policy Challenges Posed by Asian Free Trade Agreements: A Review of the Evidence" in R. Baldwin, M. Kawai and G. Wignaraja (edited), *A World Trade Organization for the 21st Century: The Asian Perspective*, Cheltenham (UK): Edward Elgar

Challenge 3: The Asian ‘Noodle Bowl’: A Future Risk?



Source: Kawai, M. and G. Wignaraja. (2014), “Policy Challenges Posed by Asian Free Trade Agreements: A Review of the Evidence” in R. Baldwin, M. Kawai and G. Wignaraja (edited), *A World Trade Organization for the 21st Century: The Asian Perspective*, Cheltenham (UK): Edward Elgar

A Pragmatic Approach to Asian FTAs

- **Mainstream FTAs into national development strategies**
 - ✓ Implement key domestic structural reforms in a phased yet credible way (agriculture, services and 21st century trade issues)
 - ✓ Pursue deep integration FTAs by including WTO-consistent provisions and 21st century trade issues in future FTAs
 - ✓ Improve business support for SMEs to use FTAs (FTA outreach, export marketing, finance, and technology)
 - ✓ Provide adjustment assistance (training and social protection)
- **Consolidate Asian FTA regionalism**
 - ✓ Adopt best practices (e.g., rationalize ROOs, adopt co-equals for ROOs, upgrade ROO admin., harmonize regional ROOs).
 - ✓ Consolidate FTAs into a region-wide mega FTA (e.g. Regional Comprehensive Economic Partnership, RCEP).
 - ✓ Develop a high-quality FTAs – e.g. the Trans Pacific Partnership (TPP) agreement or the Korea-EU FTA
 - ✓ Eventually converge RCEP and TPP to form an FTAAP
- **Support WTO reforms and an agenda for global supply chains and FTAs**

RCEP and TPP – Salient Features

RCEP

- On-going negotiations launched in Nov 2012
- Focus: trade in goods and services and investment
- Limited openness allows developing countries to join through gradual liberalization and reforms

TPP

- Agreement reached in Oct 2015 after 5 years of negotiations to expanded P-4 membership
- Comprehensive coverage of new trade issues, e.g. intellectual property, government procurement, competition, labour and the environment
- High degree of openness and hence limited membership

Region-wide FTA: Way Forward

- A harmonious Asia-Pacific may see the two processes converging as building blocks for an eventual APEC-wide FTA (FTAAP)
- An FTAAP can be forged by:
 - i. combining RCEP and TPP
 - ii. absorption of RCEP by TPP
 - iii. developing a new FTAAP agreement
- But this requires notable political will:
 - i. the PRC and other developing economies to be ready to accept high standard liberalization and transparent rules
 - ii. the US to accept the PRC as a responsible trade and investment partner
 - iii. India to become a member of APEC

Possible WTO Reforms?

- Following WTO Ministerial Conference in Nairobi in Dec 2015, timely to explore its role and a reform agenda.
 1. Enhance the WTO's think tank and capacity building role on international trade data, law and dispute settlement
 2. Strengthen the WTO's Dispute Settlement Mechanism such as appointing full-time panellists
 3. More use of plurilateral agreements on sector-specific issues for like-minded countries within the WTO framework. Open accession essential.
 4. A limited Doha Round agreement anchored on trade facilitation, eliminating agricultural export subsidies and LDC provisions would be better than no agreement.
 5. Explore reforming the voting system at the WTO before embarking on another WTO trade round.
 6. Formulate a WTO agenda on supply chains and FTAs to encourage convergence of regional and global trade rules.

END

Thank you for listening

The book can be downloaded free from:

<http://adbi.adb.org/files/2015.01.08.book.wto.21st.century.asian.perspective.pdf>

A VoxEu Book with summaries from more authors can be downloaded free from:

<http://www.voxeu.org/content/future-world-trading-system-asian-perspectives>

