Introduction by Ganeshan Wignaraja

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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
• ADBI/CTEI conference, Geneva 11-12, March 2013
Contents

List of contributors vii
Foreword by Pascal Lamy ix
Preface xiii
List of abbreviations xiv

1 Introduction and overview
Richard Baldwin, Masahiro Kawai and Ganesan Wignaraja 1

2 WTO 2.0: governance of global supply-chain trade
Richard Baldwin 12

3 Trade in value added: concept, development, and an East Asian perspective
Satoshi Inomata 48

4 Joining the supply chain: a firm-level perspective
Ganesan Wignaraja 71

5 Effective industrial policies and global value chains
Patrick Low and Julia Tijaya 110

6 Mapping crisis-era protectionism in the Asia and Pacific region
Simon J. Evenett 130

7 Exchange rate policy and regional trade agreements: a case of conflicted interests?
Víctor Pontines and Richard Pomfret 157

8 Policy challenges posed by Asian free trade agreements: a review of the evidence
Masahiro Kawai and Ganesan Wignaraja 182

9 Constructing and multilateralizing the Regional Comprehensive Economic Partnership: an Asian perspective
Shujiro Urata 239

10 The ASEAN Economic Community: progress, challenges, and prospects
Siow Yue Chia 269

11 The future of the World Trade Organization
Biswajit Dhar 316

12 Plurilateral agreements: a viable alternative to the World Trade Organization?
Michitaka Nakatomi 361

13 The role of foreign direct investment flows and a possible multilateral agreement
Yunling Zhang and Rongyan Wang 403

Index 421
Conclusion

- Doha deadlock + mega-regionals are likely to transform world trade governance
- Need to start thinking ahead about the shape of global trade governance
- 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

• Pursing market-friendly trade and industrial policies to develop supply chain trade,
• Improving surveillance of non-tariff measures,
• 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)
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 is the Role of SMEs in Supply Chain Trade in Southeast Asia?

- Various studies (supply chain trade and value added trade) but few on the characteristics of firms in Asian supply chains
- Chapter 4 by Wignaraja examines the characteristics of firms in supply chain trade in Malaysia, Thailand, Philippines, Indonesia and Vietnam.
- World Bank data collected by random sampling
- Main findings for Southeast Asian economies:
  - Firm heterogeneity matters for participating in supply chain trade
  - Large firms dominate supply chain trade but higher SME engagement in some economies
  - Apart from firm size, technological capabilities, skills, access to credit and foreign ownership affect firms joining supply chain trade
  - Tackling residual supply-side and policy constraints can further firms including SMEs joining supply chain trade
Mapping Supply Chain Trade by Firm Size

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

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

<table>
<thead>
<tr>
<th>Variable</th>
<th>All firms in Supply Chains</th>
<th>SMEs in Supply Chains</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sign</td>
<td>Significance</td>
</tr>
<tr>
<td>Firm Size</td>
<td>+</td>
<td>1%</td>
</tr>
<tr>
<td>Firm Size squared</td>
<td>-</td>
<td>1%</td>
</tr>
<tr>
<td>Firm Age</td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td>Firm ISO certified</td>
<td>+</td>
<td>1%</td>
</tr>
<tr>
<td>Firm has Patents</td>
<td>+</td>
<td>1%</td>
</tr>
<tr>
<td>GM has degree</td>
<td>+</td>
<td>5%</td>
</tr>
<tr>
<td>GM’s experience</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Workers have HS education</td>
<td>+</td>
<td>1%</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>+</td>
<td>1%</td>
</tr>
<tr>
<td>Access to Credit</td>
<td>+</td>
<td>1%</td>
</tr>
<tr>
<td>Country Dummies</td>
<td>-/+</td>
<td>1-10%</td>
</tr>
</tbody>
</table>

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

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)

Challenge 2: Raise FTA Preferences Use

Proportion of export value with FTA preferences

<table>
<thead>
<tr>
<th>Year</th>
<th>4-Country Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>37%</td>
</tr>
<tr>
<td>2010</td>
<td>34%</td>
</tr>
<tr>
<td>2009</td>
<td>39%</td>
</tr>
<tr>
<td>2008</td>
<td>24%</td>
</tr>
</tbody>
</table>

What Impedes Using FTA Preferences – Firm-level Evidence

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

Notes:
- EPZ = Export processing zone, NTM = Non-tariff measures, ITA = Information Technology Agreement, PRC= People’s Republic of China
- AFTA only
- Rules of origin requirement
- Multiple responses were allowed
- Indicates the category was not included in the survey for the country under consideration.

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

Percentage of responding firms that reported multiple ROOs add to costs

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
Chapter 3: Satoshi Inomata’s Contribution

Trade in value-added measures international trade as a flow of values rather than of products.
Traditional measurement

Value-added measurement

2009 US trade balance in iPhones
(million US$)

World

Of which:

China
Japan
Korea
Germany
Rest of World

-1,901
-1,901
-685
-259
-341
-543
US trade deficit with selected Asian countries (2008)

Million USD

China

Japan

Korea

Traditional measurement

Value-added measurement

31%
Measuring trade in terms of value-added allows us:

• To provide a more realistic view of bilateral trade in the light of international production sharing;

• To avoid multiple counting of trade flows when goods are transferred across borders;

• To univocally identify the origins of values, which helps to design regional trade agreements (FTA, EPA).
Thank you for listening

The book can be downloaded free from:


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