Business Participation in FTAs: Seizing Opportunities, Minimizing Risks

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Messages

- Asia cautiously rebounding from crisis, world recovery shaky and downside risks lurk
- Expanding production networks and FTAs have created more dynamic and complex regional markets for trade.
- Regional markets remain top priorities – The TPP and an EU FTA are a future agenda.
- Significant challenges are low use of FTAs, gaps in trade policy capacity and supply-side constraints
- In moving forward, business and government need to work closer together to ensure success

Structure of Presentation

- Where are we?
- What are the opportunities and risks?
- Where do we go?

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1. Where are We?

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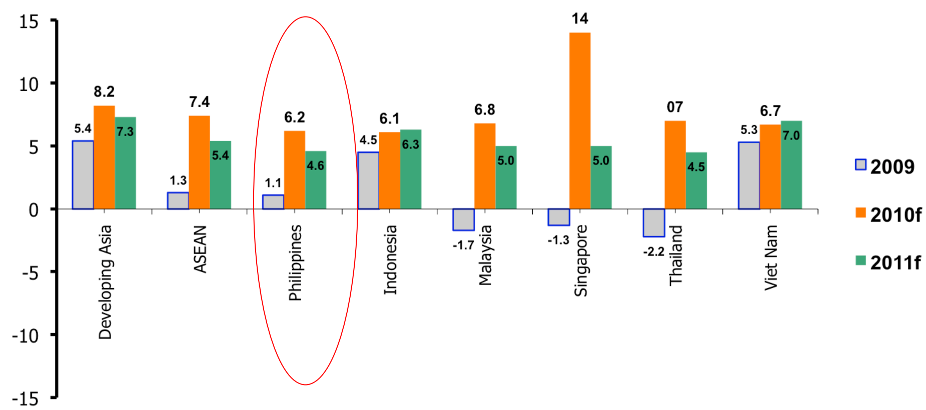
Asia Rebounding from Crisis

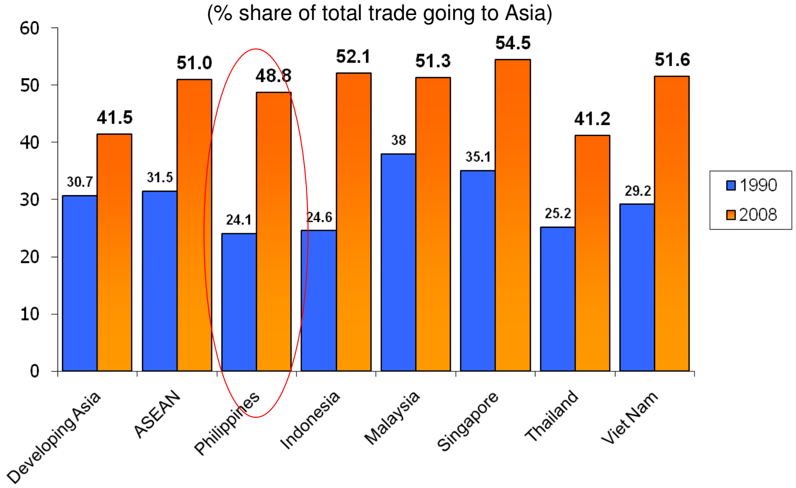
(GDP, % change, year-on-year)



Note: 2010 and 2011 data are forecasts. Developing Asia refers to 44 developing member economies of the Asian Development Bank and Brunei Darussalam, an unclassified regional member
Source: ADB, Asian Development Outlook 2010 (September 2010 Update)

Growing Regional Trade in Asia

Intraregional Trade Share
(% share of total trade going to Asia)

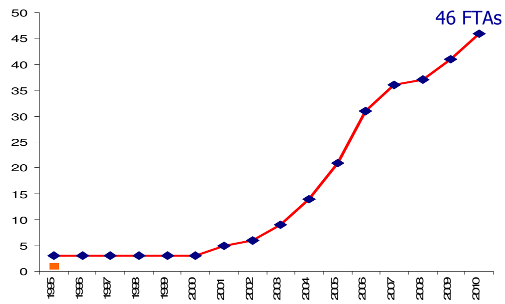


Note: Trade share is the percentage of trade with Developing Asia to total trade of a country/region. A higher share indicates a higher degree of integration between partner countries/regions.
Sources: ADB Asia Regional Integration Center (ARIC) Database (www.aric.adb.org), computed from IMF, Direction of Trade Statistics (2009).

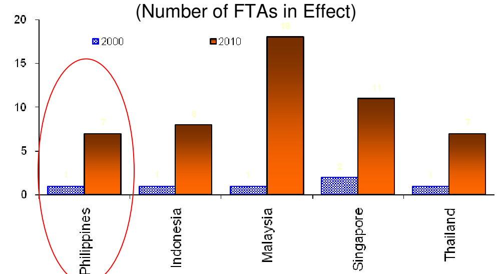
Spread of FTAs in East Asia

What are the drivers of rising FTA-led activities?

1. Deepening of production networks through FTA-led trade and investment liberalization.
2. Response to European and North American economic regionalism to improve competitiveness and raise voice on global trade issues.
3. Address common concerns after 1997-98 Asian financial crisis.
4. Slow progress of Doha - FTAs seen as building blocks to continued multilateral liberalization and WTO-plus scope.



(Number of FTAs in Effect)



Note: East Asia covers the 10 ASEAN members; Japan; Korea; PRC; Hong Kong,China; and Taipei,China; Source: ADB FTA Database www.aric.adb.org; data as of Sept. 2010.

2. What are the Opportunities and Risks?

Philippine FTAs in effect

(1) AFTA
(1 Jan 1993)

(2) ASEAN–PRC CECA
(1 Jul 2005 for TIG; 1 Jul 2007 for TIS)

(3) ASEAN–Korea CECA
(1 Jun 2007 for TIG; 1 Sep 2009 for TIS)

(4) ASEAN–Japan CEPA
(1 Dec 2008)

(5) Japan–Philippines EPA
(11 Dec 2008)

(6) ASEAN–Australia and New Zealand FTA
(1 Jan 2010)

(7) ASEAN–India CECA
(1 Jan 2010)

FTAs in the pipeline

- **EAFTA/ ASEAN+3** (2004)
- **CEPEA/ ASEAN+6** (2007)
- **Philippines-Taipei,China** (2010)

Note: TIG=Trade in Goods; TIS=Trade in Services
Source: ADB's Asia Regional Integration Center (ARIC) FTA Database (www.aric.adb.org), data as of September 2010.

Key FTAs in Effect (regional)

- ASEAN-PRC CECA
  - Food, Education, Investments, Electronics
  - 2nd largest trade partner
- ASEAN-India CECA
  - BPO, Tourism, mineral fuels
  - Joint ventures and technology exchange in BPO
- Philippines-Japan EPA
  - Electronics, Medical professionals, Aid
  - Global production network partner for electronics

Impetus for Asia-Wide FTAs (EAFTA and CEPEA)

- Broad and deep agreement brings more gains than bilaterals
- ASEAN is the integration hub
- Benefits include:
  - Market access
  - Economies of scale
  - Inward FDI and technology transfer
  - Mitigate Asian “noodle bowl” effect

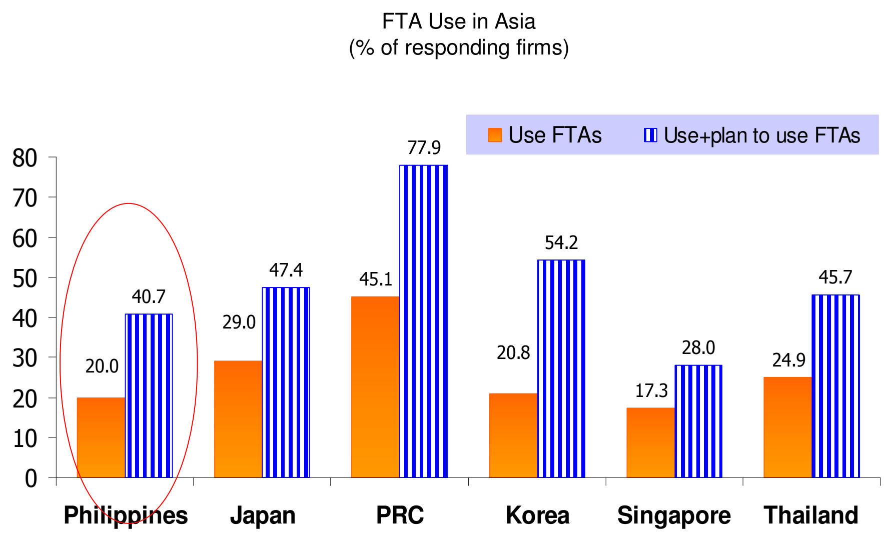
Future FTA Agenda (cross-regional)

- Trans-Pacific Partnership (TPP)
  - Deep market access in U.S. – largest trading partner
  - Vietnam, Malaysia, Singapore and Brunei are already part of the TPP negotiations
- Philippines – EU FTA
  - Tourism, food, medical professionals
  - Vietnam, Malaysia, Singapore and Thailand are already negotiating FTAs with the EU

Challenges/Risks

- Low use of FTAs by businesses
- Gaps in trade policy capacity
- Supply-side constraints
- Slow recovery of trade partners from the global economic crisis
- Non tariff measures and other protectionist measures

ADB study: Philippines' FTA use is lagging



Source: Kawai and Wignaraja, FTAs in Asia: How is Business Responding? (forthcoming 2011)

ADB study: Lack of info and delays/admin costs impede FTA use

(% of responding firms)

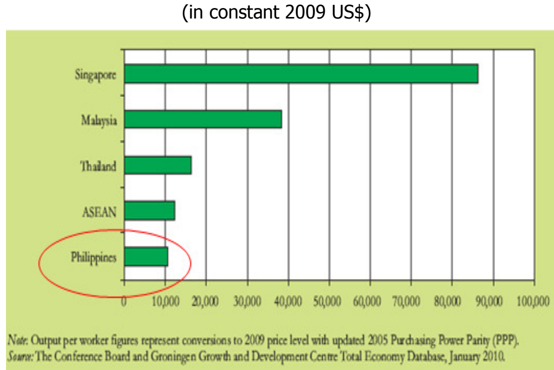
Reasons for Impediments	Philippines
Lack of information	**70.1**
Delays and admin costs	**30.6**
Use of EPZ schemes/ITA	26.9
Rent-seeking	23.1
Too many exclusions	14.9
Small margin of preference	13.4
Confidentiality of information	12.7
NTMs in FTA partners	9.0
Number of respondent firms	134

Source: Kawai and Wignaraja, Asia's Free Trade Agreements: How is Business Responding? (2011)

Supply-side constraints

- Poor infrastructure
  - Over-all quality of infrastructure ranked 113 out of 139[a]
  - High power cost[b]
    - $0.14/kwh
    - 6th highest out 58 countries surveyed;
    - Rate same as Singapore and Turkey
- Labor productivity lags[c]

Output per worker, selected ASEAN countries, 2008
(in constant 2009 US$)



Sources: a – WEF, Global Competitiveness Report, b – IMD, World Competitiveness Yearbook 2010; c- International Labour Organization Regional Office for Asia and the Pacific, 2010

3. Where do We go?

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Business

- Actively learn about FTAs (preferences, ROOs, FDI rules, IPR etc)
- Incorporate FTAs into business strategies
- Develop B-B links with FTA and market partners through business chambers
- Tie up with services value chains – BPO, education, IT, business consulting and financial services
- Link into regional industrial supply chains in ASEAN (e.g. processed foods and machinery)

Government

- FTA as trade policy tool - shift of trade to regional FTA partners
- Provide greater access to FTA information (with SME-focused outreach) and support to upgrade business
- Conduct broad-based consultations (before, during, after FTA negotiations)
- Improve administrative capacity to address issues in second generation FTAs
- Better surveillance of NTMs