
MULTILATERALIZING ASIAN REGIONALISM: APPROACHES TO UNRAVELING THE ASIAN NOODLE BOWL

Introduction

Asia is a relative latecomer to free trade agreements (FTAs); but over the past decade, the number of FTAs involving at least one country from the region has increased dramatically—creating the so-called “Asian noodle bowl.”⁵¹

By January 2013, ratified FTAs had more than tripled—109 from 36 in 2002. There are another 148 FTAs at various stages of development, bringing the total to 257. Today, global FTA activity involves Asia more than any other region.⁵²

Clearly, the delay in concluding the World Trade Organization’s (WTO) Doha Development Agenda (DDA) of multilateral negotiations drove FTA activity. This section does not question choices made by Asian policymakers, or revisit arguments on the first- versus second-best ways to liberalize trade. Instead, it examines the current situation and asks “where do we go from here, and how do we do it?” One could argue that there are limited short-run options given this current environment. However, there is increasing recognition—even from FTA proponents—that FTA proliferation has become convoluted—the so-called “noodle bowl” effect.⁵³

The proliferation of FTAs has been greatest in Asia; the global multilateral impasse has helped create an Asian noodle bowl, with more than 100 ratified FTAs involving at least one Asian economy.

So where do we go from here? The number of FTAs will increase, given the pipeline of would-be FTAs at differing levels of completion, with new proposals still the fastest growing component (see *FTAs in Asia: State of Play*, p. 50). A speedy and successful conclusion of global multilateral negotiations would likely remove much of the motivation to pursue new FTAs. It may also dilute the preferences in many existing FTAs, thereby reducing their impact on trade and other flows. But the question remains as to whether a successful conclusion is even likely, let alone when. There is also renewed discussion of sectoral agreements on trade facilitation and other issues, which may substitute for such a more comprehensive multilateral round. The so-called cherry picking approach of sectoral agreements appears the most likely way to break the deadlock in moving away from the DDA’s demanding all-or-nothing “single undertaking” option.

In any case, the current state of FTAs suggests that the DDA alone or some variant may be insufficient to neutralize today’s highly complex and distorted trading environment, and complementary efforts will be required. So, how do we do it? Several proposals have been advanced to deal with the noodle bowl. These can be broadly grouped into two categories: consolidation and multilateralization of preferences. Consolidation involves compressing bilateral FTAs into a broader region-wide FTA where intraregional bilateral FTAs become redundant. Multilateralization of preferences, or multilateralization for short, grants non-discriminatory preferences to nonmembers, eliminating any margin of preference (MoP). Of the two approaches, multilateralization would be ideal. However, as we have seen in the DDA discussions, there are some very difficult issues that will take time to resolve. Yet, there are several interim steps that can prepare the groundwork for taking this approach, such as harmonized reduction of external tariffs and dilution of rules of origin (ROOs).⁵⁴

⁵¹There is no generally accepted definition of Asia. But one used here is the ADB definition (Table 2).

⁵²The parties to Asia’s 101st FTA, the Republic of Korea and the United States (US), have a total of 47 FTAs, 23 of which are in force. This FTA came just 2 weeks after the 100th FTA was ratified, between Japan and Peru. Even the Lao People’s Democratic Republic (Lao PDR), a relatively poor, landlocked nation of only six million people, is involved in 13 FTAs, 8 of which are currently in effect, despite having struggled for more than a decade to meet the requirements for accession to the World Trade Organization.

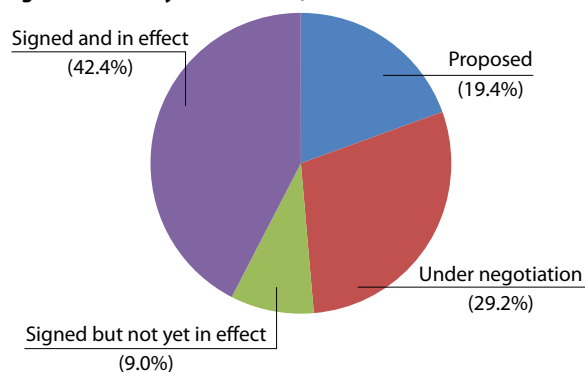
⁵³Contributing to the administrative complexity of the sheer number of FTAs are the varying rules of origin (ROOs), different commencement dates, completion dates, tariff reduction schedules, exclusion lists (temporary and general), and any other item that is up for negotiated liberalization.

⁵⁴These are discussed in further detail in Baldwin (2006, 2008) and Menon (2009).

Two key proposals have been advanced to disentangle the Asian noodle bowl: consolidation—which creates a regional FTA to harmonize bilateral FTAs; and multilateralization—which grants nondiscriminatory preferences to nonmembers, eliminating preference discrepancies.

The remainder of this article is in seven parts. In Part 2, the current state of play of FTAs in the region is outlined, as well as examining why FTAs have been so popular, especially bilateral. In Part 3, issues related to the DDA are assessed in terms of both the likelihood and the form in which it might be concluded—including the possibility of one or more multilateral sectoral deals. Parts 4 and 5 examine the pros and cons of the two main approaches being proposed in dealing with the noodle bowl, consolidation and multilateralization, respectively. Part 6 examines the interim steps that can be taken to prepare the groundwork for moving closer to the remedies proposed. Part 7 looks at the different welfare effects, in stylized form, of consolidation, multilateralization, and interim steps discussed, and catalogues the benefits and challenges of each approach. A conclusion follows.

Figure 39: FTAs by Status—Asia, 2013

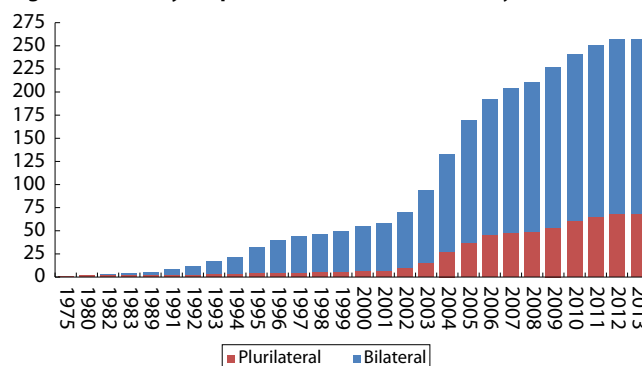


FTA= free trade agreement.

Notes: **Proposed** = the parties consider an FTA; governments or relevant ministries issue a joint statement on its desirability or establish a joint study group/joint task force to conduct feasibility studies. **Under negotiation** = the parties, through relevant ministries, negotiate the contents of a framework agreement that serves as a framework for future negotiations, or declare the official launch of negotiations, or start the first round of negotiations. **Signed but not yet in effect** = the parties sign the agreement after negotiations have been completed, but the agreement has yet to become effective. **Signed and in effect** = FTA provisions become effective, after legislative or executive ratification. Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

Figure 40: FTAs by Scope—Asia (cumulative, selected years)



FTA= free trade agreement.

Notes: **Bilateral** refers to a preferential trading arrangement involving only two parties.

Plurilateral refers to a preferential trading arrangement involving more than two parties.

Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

FTAs in Asia: The State of Play

Over the past decade, the number of FTAs involving at least one Asian country has more than tripled—from 70 in 2002 to 257 as of January 2013 (**Table 18**). This surge in FTAs has been driven by a significant increase in the number of proposed or under negotiation FTAs. In 2002, a quarter of the FTAs in the region were in proposed or negotiation stages. By early 2013, that share had increased to almost half the total. Of the 257 FTAs announced as of January 2013, 132 have been signed, with 109 already in effect; 75 are being negotiated, and 50 have been proposed (**Figure 39**).

Close to three-quarters or 189 of the total were bilateral FTAs (involving two countries) as of January 2013; only 68 were plurilateral FTAs (involving more than two countries) (**Figure 40**).

Within Asia, FTAs involving the ASEAN+6 countries—the 10 ASEAN members plus Australia, the People's Republic of China (PRC), India, Japan, the Republic of Korea, and New Zealand—have increased at an even faster rate than Asia's FTAs as a whole, growing more than six-fold from 27 in 2002 to 179 in January 2013. To date, ASEAN+6 countries account for 70% of the total FTAs in Asia (see **Table 18, Figure 41**).

Of the 179 FTAs involving ASEAN+6 countries, the vast majority (130) are bilateral FTAs. Only a third (42) of these bilateral FTAs involves two ASEAN+6 countries; the rest are with countries outside of the group; 67 of these involve an ASEAN+6 country and a trading partner outside Asia (**Table 19**). The growing importance of non-

Table 18: FTAs by Status—Asia and ASEAN+6 (cumulative, selected years)

Year	Under negotiation											
	Proposed		Framework agreement signed		Negotiations launched		Signed but not yet in effect		Signed and in effect		Total	
	Asia	ASEAN+6	Asia	ASEAN+6	Asia	ASEAN+6	Asia	ASEAN+6	Asia	ASEAN+6	Asia	ASEAN+6
1975	0	0	0	0	0	0	1	1	0	0	1	1
1976	0	0	0	0	0	0	0	0	1	1	1	1
1980	0	0	0	0	0	0	1	1	1	1	2	2
1981	0	0	0	0	0	0	0	0	2	2	2	2
1982	0	0	0	0	0	0	1	0	2	2	3	2
1983	0	0	0	0	0	0	1	0	3	3	4	3
1989	1	1	0	0	0	0	1	0	3	3	5	4
1991	1	1	0	0	0	0	2	1	5	5	8	7
1992	1	1	0	0	0	0	6	2	5	5	12	8
1993	1	1	0	0	0	0	2	1	14	6	17	8
1994	1	1	0	0	0	0	5	1	16	6	22	8
1995	1	1	0	0	0	0	12	1	19	6	32	8
1996	1	1	0	0	0	0	15	1	24	6	40	8
1997	2	2	0	0	0	0	17	1	25	6	44	9
1998	2	2	0	0	0	0	16	2	28	6	46	10
1999	4	3	0	0	1	1	16	2	29	6	50	12
2000	3	3	0	0	6	5	16	3	30	6	55	17
2001	2	2	0	0	8	8	15	1	33	8	58	19
2002	8	6	2	2	8	8	16	1	36	10	70	27
2003	18	14	4	3	9	8	22	4	41	14	94	43
2004	31	26	14	9	15	13	24	7	48	18	132	73
2005	43	35	18	13	28	24	24	7	56	25	169	104
2006	48	41	18	13	37	31	20	6	69	33	192	124
2007	46	39	18	13	42	38	23	7	75	38	204	135
2008	46	39	16	11	42	38	22	9	85	44	211	141
2009	53	43	16	11	45	41	22	9	91	50	227	154
2010	57	47	17	12	47	41	23	10	97	56	241	166
2011	60	49	17	12	47	42	23	8	104	63	251	174
2012	50	41	14	9	61	54	24	9	108	66	257	179
2013	50	41	14	9	61	54	23	8	109	67	257	179

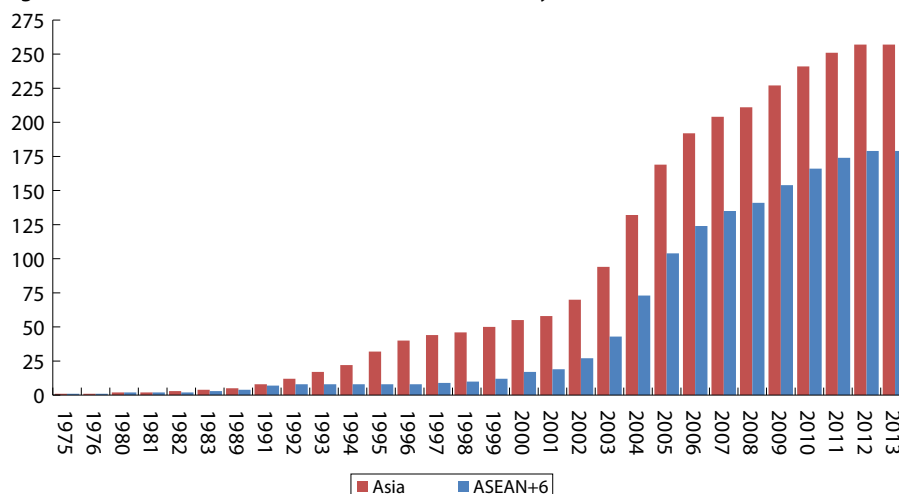
ASEAN+6 = ASEAN plus Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand; FTA = free trade agreement.

Note: **Proposed** = the parties consider an FTA; governments or relevant ministries issue a joint statement on its desirability or establish a joint study group/joint task force to conduct feasibility studies. **Framework agreement signed** = the parties, through relevant ministries, negotiate the contents of a framework agreement that serves as a framework for future negotiations.

Negotiations launched = the parties, through relevant ministries, declare the official launch of negotiations, or start the first round of negotiations. **Signed but not yet in effect** = the parties sign the agreement after negotiations have been completed, but the agreement has yet to become effective. **Signed and in effect** = FTA provisions become effective, after legislative or executive ratification. Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

Figure 41: FTAs—Asia and ASEAN+6 (cumulative, selected years)



ASEAN+6 = ASEAN plus Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand; FTA= free trade agreement.

Note: Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

Table 19: Bilateral FTAs—ASEAN+3 and ASEAN+6, 2013

Region	Number
Within sub-region	
ASEAN+3	19
ASEAN+6	42
Across sub-region (within Asia)	
ASEAN+3 + Non-ASEAN+3	34
ASEAN+6 + Non-ASEAN+6	21
With Non-Asian Countries	
ASEAN+3 + Non-Asia	51
ASEAN+6 + Non-Asia	67
TOTAL: ASEAN+3	104
TOTAL: ASEAN+6	130

ASEAN+3 = ASEAN plus the People's Republic of China, Japan, and the Republic of Korea; ASEAN+6 = ASEAN plus Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand; FTA = free trade agreement.

Notes: **Within subregion** means both countries are ASEAN+3 (ASEAN+6) members. **Across subregion** means one is an ASEAN+3 (ASEAN+6) member with its partner an Asian country but not an ASEAN+3 (ASEAN+6) member. Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

Asian trading partners is mirrored in the membership of plurilateral FTAs (**Table 20**).

Perhaps not surprisingly, the rapid increase in FTAs in Asia has been led by Singapore, India, and the large economies of East Asia—the PRC, Japan, and the Republic of Korea (**Figure 42**). As of January 2013, Singapore had the most with 37, of which 18 are currently in effect. India came in second with a total of 34 FTAs, 13 in effect. The Republic of Korea had a total of 32 FTAs, while the PRC and Japan had 27 and 26 FTAs, respectively. Pakistan also has 27 FTAs, 6 in effect. Within ASEAN, Malaysia, Thailand, and Indonesia are not far behind with 26, 26, and 21 FTAs, respectively.

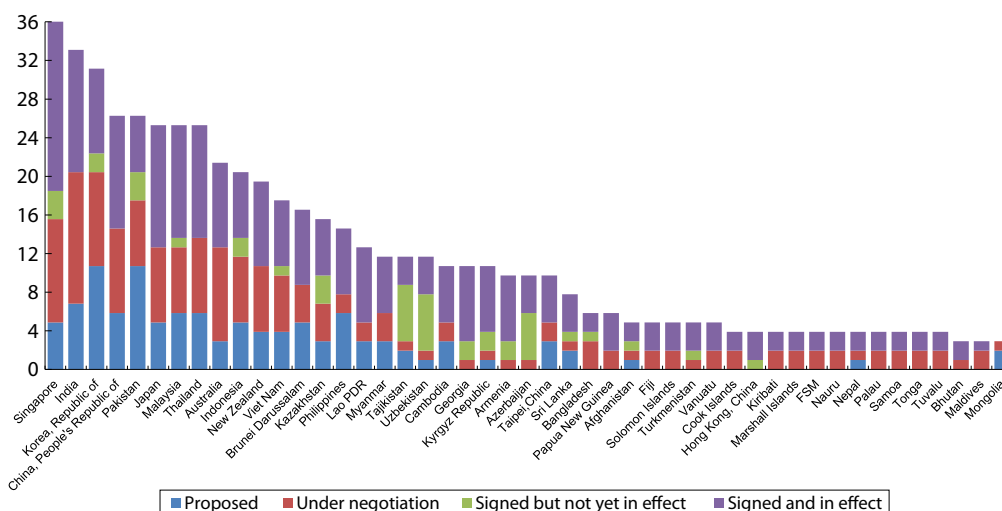
Why are FTAs so popular, especially bilateral?⁵⁵ An important reason is disenchantment with the WTO.

The difficulties associated with concluding the DDA have simply reinforced this view. Many have pursued FTAs as a means of pressing ahead with their trade and liberalization agendas regardless.

FTAs are generally welfare enhancing, with respect to their members at least. The extent of the welfare improvement depends on the amount of trade created versus trade diverted, which in turn depends on a host of factors—including the extent, breadth and speed of

⁵⁵See Menon (2007b) for details, and a taxonomy of motivations for pursuing FTAs.

Figure 42: FTAs by Country—Asia, 2013



FSM = Federated States of Micronesia ; FTA = free trade agreement.

Notes: **Proposed** = the parties consider an FTA; governments or relevant ministries issue a joint statement on its desirability or establish a joint study group/joint task force to conduct feasibility studies. **Under negotiation** = the parties, through relevant ministries, negotiate the contents of a framework agreement that serves as a framework for future negotiations, or declare the official launch of negotiations, or start the first round of negotiations. **Signed but not yet in effect** = the parties sign the agreement after negotiations have been completed, but the agreement has yet to become effective. **Signed and in effect** = FTA provisions become effective, after legislative or executive ratification. Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

Table 20: Plurilateral FTAs—Asia and ASEAN+6, 2013

Plurilateral FTAs	Number
Asian Plurilateral	12
ASEAN+6 Plurilateral	5
Asian Plurilateral + Asian Country	7
ASEAN+6 Plurilateral + ASEAN+6 Country	5
Non-Asian Plurilateral + Asian Country	33
Non-ASEAN+6 Plurilateral + ASEAN+6 Country	28
Asian Plurilateral + Non-Asian Plurilateral	2
ASEAN+6 Plurilateral + Non-ASEAN+6 Plurilateral	1
Asian Plurilateral + Non-Asian Country	0
ASEAN+6 Plurilateral + Non-ASEAN+6 Country	1
Cross-regional Plurilateral (Asia)	11
Cross-regional Plurilateral (ASEAN+6)	10
Cross-regional Plurilateral + Asian Country	2
Cross-regional Plurilateral + ASEAN+6 Country	2
Cross-regional Plurilateral + Non-Asian Plurilateral	1
Cross-regional Plurilateral + Non-ASEAN+6 Plurilateral	1
TOTAL ASIA	68
TOTAL ASEAN+6	53

ASEAN+6 = ASEAN plus Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand; FTA = free trade agreement.

Notes: **Asian (ASEAN+6) plurilateral** refers to groupings of more than two economies with all members Asian (ASEAN+6) economies. **Non-Asian (Non-ASEAN+6) plurilateral** refers to a plurilateral FTA with no Asian (ASEAN+6) member. **Cross-regional plurilateral** refers to groupings of more than two economies with members a combination of Asian (ASEAN+6) and non-Asian (non-ASEAN+6) economies. Data as of January 2013.

Source: Asia Regional Integration Center FTA database, ADB.

the preferential liberalization. There are also longer-term dynamic effects that could accrue members through competitive and related effects, which are possible but difficult to quantify. FTAs have the potential for deeper agreements to be reached more rapidly on a range of areas, especially non-tariff issues, when there are only two or a few negotiating partners involved. Preferential accords involving some non-tariff measures—such as in services for instance—can be more easily achieved regionally or bilaterally, compared with the large numbers at the multilateral level. Reforms in these difficult sectors and the more difficult non-tariff barriers have stalled at the multilateral level, and some FTAs have been successful in moving these agendas forward. The deep integration provisions in the (Republic of) Korea–EU (European Union) FTA and the Singapore–US FTA are cases in point. The (Republic of) Korea–US FTA, which includes provisions to promote and protect investment, also contains an Investor-to-State Dispute Settlement Mechanism. Although the majority of FTAs involving at least one Asian economy have remained relatively shallow, the potential for deepening over time exists, and increases as the delay at the multilateral level continues. These welfare effects are a clear economic motivation to pursue FTAs, and arguably their key economic benefit.

There are also non-economic benefits to FTAs. There is no doubt that political economy considerations also come into play, as FTAs can promote international ties

beyond pure economics between a pair or group of countries. Indeed, it is often claimed that most—if not all—FTAs have political or strategic motivation. The fact that the EU was awarded the Nobel Peace Prize in 2012 is a recent and clear recognition of how a regional cooperation agreement can be more than just an economic imperative. Similarly, ASEAN's success has been on non-economic as well as economic fronts. All these suggest that the value of an FTA goes well beyond its direct economic impact.

FTAs may also be more politically feasible, as they tend to attract less attention, including from the media. So the pressure from the political opposition at home (such as the anti-free trade lobby or particular “sensitive” industry groups) or from abroad (like traditional trade partners or other regional group members) will likely be low. This would quicken the speed of negotiation, and thus the number of FTAs concluded.

A snowballing or domino effect has also been driving FTA growth. There is clearly momentum driving some of the growth in FTAs with countries not wanting to be left behind. There are costs of doing nothing in an environment where FTAs are proliferating, when access to traditional markets may be affected. More than 5 years ago, one study (Baldwin 2008, p. 474) predicted such an effect could continue to play a role in the proliferation of FTAs in the region:

If history is any guide, the domino effect in East Asia will spread to many, many more countries in the neighborhood. In Europe, for example, the playing out of several waves of domino effects has left the EU with preferential trade deals with every WTO member except nine. It is therefore conceivable that the 13 members of the ASEAN+3 group will end up signing a very large number of bilaterals in the coming years.

These predictions appear to have been confirmed.

The final reason, which favors bilateral over plurilateral FTAs, relates to pure possibilities (or the maximum number) that are technically feasible. In theory, it is possible to have thousands of bilateral FTAs—many more than plurilateral or one multilateral deal—because only two entities are involved. There are no geographical (regional) restrictions on membership. Indeed, any two countries, in any part of the world, for any reason, can come together to form a bilateral FTA. If n represents the number of countries in the world (a number

approaching 200), it is technically possible to have up to $(n \times n - 1)/2$ bilateral FTAs, or more than 18,000 of them. Of course, this does not explain why bilateral FTAs are so popular. But they do suggest that, if they are, then they can proliferate dramatically and almost uncontrollably.

Despite their immense popularity, and the significant benefits they confer to members—both economic and non-economic—FTA negotiations and implementation come at a cost.

The costs of FTAs are increasingly shown through data on utilization rates of preferences that show many FTAs have yet to significantly impact actual trade and other flows. Although there is variation across studies on the utilization rates of FTAs in ASEAN and East Asia, it is not uncommon to find utilization rates as low as 10%–20%; rarely are they above 30%. However, the most recent enterprise surveys conducted by Asian Development Bank (ADB) and Asian Development Bank Institute (ADBI) in seven countries suggest that utilization rates could be improving, as firms become more aware of and familiar with FTAs—32% of firms in the sample reported that they used FTA preferences for exporting their goods (Kawai and Wignaraja 2012). Despite these recent increases, utilization rates of one-third or less are low by any standard—including comparisons with Europe or North America.⁵⁶

How do we explain these low utilization rates? The ADB and ADBI surveys show that, while lack of information on FTAs was cited as the most significant reason, low margins of preference (MoPs) and delays or administrative costs associated with rules of origin (ROOs) are also significant barriers to the wider use of preferences (Kawai and Wignaraja 2011a, 2011b). Because the cost of complying with ROOs and other requirements are perceived to be higher than the benefits accrued, importers choose to ignore the preferential tariffs and use most favored nation (MFN) rates. One study (Pomfret 2007) claims that much world trade continues using MFN rates, despite the proliferation of FTAs. Needless to say, this dilutes the potential benefits of FTAs. Previous assessments of FTAs have assumed complete utilization of preferences, and when more realistic utilization rates are employed, the positive impacts on economic welfare are almost equally diminished (Menon 2013a).

⁵⁶To put this in a comparative perspective, utilization rates of below 50% are considered low in European preferential trading agreements (see, for instance, Augier, Gasiorek, and Lai-Tong [2005]).

Apart from the underutilization of costly FTAs, another potential economic cost is greater trade diversion. This is well-known. But perhaps the biggest cost of FTA proliferation is its impact on the global trading system. While FTAs can produce significant benefits for members, there are harmful spillover effects that cannot be ignored. While major trading partners that are excluded may be individually hurt, raising the risk of retaliation, the overall trade landscape affecting all countries can be hampered as well and more so if the fallacy of composition applies. One study (Bhagwati 2008) argues that the system of preferences embedded in bilateral or even plurilateral FTAs is destroying the principle of nondiscrimination in trade, with FTAs serving as stumbling rather than building blocks. While this remains an open question, a key issue facing policymakers in the short- to medium-term is “what else can be done?”

The Doha Development Agenda: Compromise or Coma?

The difficulty of agreeing on the Doha Development Agenda’s (DDA) ambitious program is clear; attention has shifted recently toward a compromise involving sectoral deals, including one that addresses trade facilitation.

The heads of all the multilateral development banks recently signed a petition promoting such a deal.⁵⁷ Enthused by this prospect, *The Economist* (2012a) has dubbed it the Global Recovery Round.

Concluding sectoral agreements may be one way to break the deadlock and relieve the DDA’s long-standing coma. But one concern is that it may actually reduce the incentive to conclude a comprehensive multilateral deal. This may well be warranted, as sectoral agreements dilute the strength of available trade-offs, and therefore reduce the ability to strike a bargain among countries with disparate interests. Although the multilateral framework remains the best forum to deal with liberalizing sensitive sectors or difficult issues, this advantage rests on one key factor: the ability to trade concessions across a wide range of countries with divergent interests. That is the ability to offset the costs to countries of conceding protection in sensitive sectors—such as agriculture, for example—against the

benefits from increased market access in areas where they hold comparative advantage: for example, changing rules on investment, intellectual property, or services.⁵⁸ A sectoral agreement may constrain negotiating positions and options within the WTO. In the same vein, each time an FTA allows a country to bypass this trade-off—simply through its choice of partner—and secure benefits without incurring costs, the task of liberalizing sensitive sectors is more difficult. The recent announcement to pursue a US–EU FTA highlights how a common interest—limiting the liberalization of the agricultural sector—can assist in facilitating an agreement second in size only to that of the DDA, while simultaneously diminishing prospects of addressing the most distorted sector in world trade. The problem, however, is that reaching a bilateral agreement is easier and more practical—with unquantifiable gains from a political economy perspective—in comparison with concluding a sectoral agreement involving several countries, let alone a multi-country, multi-sector agreement.

Yet, with the likelihood of striking a single deal like the DDA already low, the benefits derived from successfully concluding a sectoral deal on trade facilitation should not be underestimated. Indeed, the benefits would be quite significant, and the prospect of concluding one by the time of the WTO Bali Ministerial Meeting in December 2013 is a further plus. On average, trade-weighted tariffs account for about 5% of trade costs, while logistical and other trade facilitation costs are about 10%. The WTO-based trade negotiations aim to bring these logistics costs down by half, or to an average of 5%—equivalent of removing all tariffs. These potential gains are substantial enough to warrant serious consideration, and perhaps counter concerns over the reduced incentives to conclude the more elusive, comprehensive deal.

Depending on timing and the form a multilateral deal eventually takes, both the need and urgency for other remedies could be reduced, although not removed. The longer it takes to conclude a multilateral deal and the weaker any eventual deal is, the greater will be the need and urgency for other remedies. If all that can be salvaged from the DDA is a sectoral deal, or a few sectoral agreements, then restoring order to the multilateral trading system will require a different approach.

⁵⁷See *Modern Ghana* (2012).

⁵⁸A potent example was in the lead-up to the WTO meeting in Hong Kong, China in December 2005. Brazil and India, representing the apparent position of a majority of developing countries, proposed opening their markets further to industrial goods and services in exchange for the EU and the US dismantling the elaborate system of agricultural support. In the end, this did not happen, but for a host of mostly unrelated reasons (see Menon 2007b).

Consolidation

Given the problems posed by FTA proliferation, consolidation involves compressing intraregional agreements into a broader regional FTA, making those between members of the broader region unnecessary or redundant.

The consolidation approach has gained ground as a way to disentangle the noodle bowl (see Brummer 2007, Kawai 2007, and Park and Park 2009). Indeed, there are examples of defunct bilateral FTAs after the EU was created that lend credence to this approach. For example, the creation of the Central European Free Trade Area (CEFTA) in 2006 successfully subsumed and nullified 32 bilateral FTAs involving CEFTA members. Also, the US–Canada FTA was superseded by the North American Free Trade Agreement (NAFTA). If successful, consolidation could be considered multilateralizing bilateral accords at the regional level, or “regional multilateralization.” In Asia, the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) could pave the way for consolidating ASEAN FTAs under a single regional agreement.⁵⁹ The RCEP will initially include all ASEAN+6 members.

What are the likely welfare impacts of the RCEP? It remains too early to say, given that implementation and other pertinent details remain unclear—for instance, will the RCEP address existing FTAs between members or serve purely as a template for future negotiations? Nevertheless, the analytical framework for assessing FTAs and their expansion offers some useful pointers. An expanded region-wide FTA would be welfare-improving if it results in substantial terms of trade gains, where size matters. If the FTA is large enough, it could lead to improving the FTA's *collective* terms of trade by reducing imports from and export supply to the rest of the world. This implies a substantial amount of trade diversion. In this scenario, the welfare gains from improving terms of trade is large enough to offset the welfare losses associated with increased trade diversion (Menon 2000).

⁵⁹The ASEAN Framework on the RCEP was formally endorsed at the 19th ASEAN Summit held in November 2011, and negotiations kicked off on 20 November 2012, on the sidelines of the East Asia Summit in Phnom Penh, Cambodia.

The ASEAN-led Regional Comprehensive Economic Partnership could pave the way for consolidating ASEAN FTAs under a single regional agreement, although it is still too early to tell.

While this holds for the expanded FTA as a whole, the distribution of gains (or even losses for some) among group members may vary significantly. Given that ASEAN centrality is often emphasized—and with the ASEAN Free Trade Area (AFTA) the only plurilateral FTA involving a subset of RCEP members—the distribution issue could be assessed by examining how an expansion could affect AFTA. In other words, could an AFTA expansion to the RCEP result in a welfare outcome superior compared with the original AFTA? If the AFTA expansion results in a substantial amount of trade creation, then this could lead to some deterioration in the terms of trade, because part of the resultant increase in real incomes is likely to spill over into greater demand for imports from the rest of the world. Under this scenario, the welfare loss associated with deteriorating terms of trade would have to be smaller than the welfare gains from increased trade creation. In the end, the question on welfare impacts will be determined empirically.

The Trans-Pacific Partnership (TPP) is the other major preferential initiative that involves several RCEP members. However, the TPP does not strictly fit as consolidation. Whereas RCEP will initially involve countries already with existing bilateral FTAs, the network of bilateral FTAs between potential members of the TPP is far from complete. Instead, the TPP follows an *expansion* approach—it has an accession clause, and countries not involved in the networks of bilateral FTAs among potential members can also join the initiative (Hamanaka 2012, Drysdale 2013). The TPP agenda is wide-ranging and demanding, much more so than most other high-quality FTAs, let alone DDA requirements. It is unclear if many TPP members will be able to comply with these stringent requirements. Another challenge involves its current limited membership, which excludes the “plus 3” countries—the PRC, Japan, and the Republic of Korea. Although Japan and the Republic of Korea are contemplating joining TPP negotiations, as are other Asian economies, a significant increase in Asian membership is needed before it can be a serious alternative to the RCEP. Should many Asian economies join, and the program comes to fruition without too many exemptions, the welfare effects could be significant. But as with the RCEP, the likely impact can only be empirically determined—and thus, too early to tell.

Despite this, consolidating existing FTAs through the RCEP or TPP expansion will likely continue in light of the challenges faced in concluding multilateral negotiations. However, consolidation comes with its own set of challenges. FTAs are a highly heterogeneous group of agreements. They invariably have different tariff rates, treatment of quantitative restrictions, sector exemptions (and often different “phase-in” rates for each), ROOs that vary by product, and a host of other arrangements ranging from some service sector liberalization rules to labor and standards provisions. If consolidation moves ahead, the more likely outcome is a “race to the bottom” to reach consensus, with the result determined by the lowest common denominator, which would likely achieve very little, and could even set back reforms in some cases. The recent trend attempting to link regional blocs globally could increase these difficulties, as these tie-ups increase both the number of members and total diversity, as well as the degree of heterogeneity of accords that need to be harmonized.

Even if it were possible to implement a consolidated or expanded regional FTA, it would be critical to examine the incentives for policymakers to lobby their governments to join. If the provisions in bilateral FTAs are superior to those of a regional FTA, then the regional utilization will likely be low. One example is the case of trade involving Sri Lanka and India. The South Asia Free Trade Area (SAFTA) came into effect in 2006, after a number of intraregional bilateral FTAs had been ratified, including an India–Sri Lanka FTA. Like most bilateral FTAs, the India–Sri Lanka agreement had better provisions compared to SAFTA’s in almost all respects. As a result, 93% of Sri Lanka’s exports to India currently enter duty free under the bilateral FTA (Weerakoon 2008). Thus, rather than consolidating and neutralizing the India–Sri Lanka or other bilateral FTAs, it appears the use of SAFTA has been quite limited given the existing bilateral FTAs. The results of one study (Rodríguez-Delgado 2007) seem to bear this out. Using a modified gravity equation, the effects of SAFTA’s Trade Liberalization Programme (TLP), which started in 2006, were examined. The results showed that SAFTA would have a minor effect on regional trade flows. SAFTA’s TLP would affect regional trade flows mainly by increasing India’s exports and imports from Bangladesh and Nepal. Of course, it could be argued that this may be a timing issue, since full implementation of SAFTA is scheduled for 2016.

Proponents generally argue that deeper agreements can be achieved more rapidly on a range of areas when there are only two, or a few, negotiating partners involved. But many of the same proponents also promote FTA

consolidation, without saying how these wider accords can be agreed upon among a much larger group of countries. In fact, bilateral FTA consolidation—to create a regional agreement—may be more difficult than starting from scratch, particularly where potential members do not have any, or only a few FTAs between themselves.

While the RCEP holds promise, it is interesting to note that most Asian bilateral FTAs are with countries outside the region (see Table 19). Hence, the RCEP will likely address roughly a third of all bilateral FTAs, leaving a significant majority of FTAs unaffected (Menon 2013b).

There is also a systemic concern associated with consolidating bilateral FTAs. Regional blocs may be seen as fragmenting the world trade system. While RCEP may rightly be Asia’s response to the EU and NAFTA—more so now with the proposed EU–US FTA—a consolidated Asia-centered FTA may be viewed as another major bloc. It is therefore critical to coordinate South–South as well as North–South to ensure that regional blocs do not become trade fortresses. This was heightened recently with the announcement of EU–US FTA negotiations.

If a consolidated FTA is perceived as isolating or discriminatory in any way, it could provide fresh impetus for a new wave of bilateral FTAs, as traditional trade partners outside the region seek to retain trade access with the newly-formed FTA.

Perception and reality can vary, but in this context, perceptions may matter more in the end. It is quite likely that a new, large, consolidated bloc could be seen as threatening traditional nonmember trading partners, however open the consolidated FTA is designed to be. If this perception holds—with more countries outside the region than inside—it is possible that total bilateral FTAs could actually increase. This could happen if the reduction in the number of intraregional bilateral FTAs through a consolidated FTA is more than offset by the number of inter-regional market-restoring bilateral FTAs that it indirectly induces. This is hardly a remedy to the problems facing Asian economies or the world trading system. On the contrary, it could spin more noodles.

However, like the proliferation of FTAs, consolidation then is a recent reality that must be addressed. So consolidation should not be seen as an end to itself, but rather as a means of preparing the groundwork for greater liberalization in some non-tariff areas, if it is viewed as part of the journey rather than the destination.

Multilateralization of Preferences

In remedying the noodle bowl and its distortions, multilateralization can be pursued in two ways—moving forward after consolidation or proceeding unilaterally.

The first follows from the consolidation approach, whereby the harmonized accords of the consolidated FTA are offered to nonmembers on a nondiscriminatory basis. This would realize the full gains from consolidation, removing the potential for trade diversion and the costs associated with implementing ROOs, while reducing the risk of a new wave of market-restoring FTAs. So once a country has concluded FTAs with most, if not all, of its major trading partners, it may then make sense to (i) equalize preferences across these FTAs, and (ii) offer them to non-FTA countries on an MFN basis. Instead of limiting the harmonized procedures to members, as pursued in regional blocs, this approach goes one critical step further in multilateralizing them. There are several proponents of this approach (for example, Baldwin 2006, 2008; Feridhanusetyawan 2005; and Menon 2007a, 2009).

In the discussion on the practicality of consolidating FTAs, the difficulties associated with folding multiple, disparate FTAs into one big harmonized FTA were highlighted. But consolidation is not a prerequisite for multilateralization. Even without consolidation, or even if an attempt to consolidate fails to work, multilateralization can still be pursued unilaterally. Indeed, the need in this situation becomes more pressing from a welfare perspective.

Multilateralization can proceed from a consolidated regional FTA, or economies can seek multilateralization independently; but they both must overcome competing interests that lose from the dilution of preferences.

Although all this may be appealing in theory, how realistic is it in practice? There are precedents to the voluntary multilateralization of preferential accords. ASEAN's FTA is a case in point—and the actions of its original members confirm this (see Feridhanusetyawan 2005, Menon 2007a). When multilateralization is pursued in conjunction with aggressive preferential liberalization such as with AFTA, the goal of free, nondiscriminatory trade can be reached sooner. To illustrate, trade liberalization outcomes under AFTA—with and without multilateralization—can be portrayed in stylized form (**Figure 43**). The outcome under a WTO-based

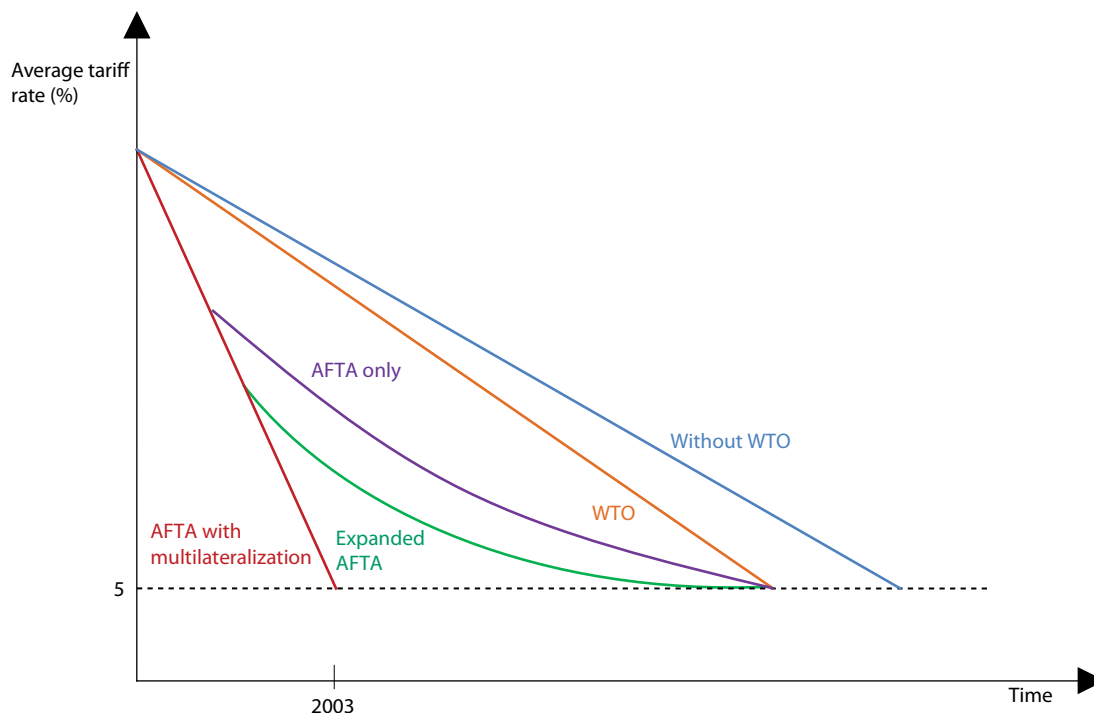
multilateral deal is also depicted, as a reference point, to identify the goal of free and open trade (defined here as 0%–5% average tariff rates).

How can AFTA be used to move its members toward this ultimate goal? If AFTA is implemented on a purely minimalist basis (refer to *AFTA only* curve in Figure 43), or without any multilateralization of tariff preferences, then the time taken to reach its goal is unchanged. Average tariff rates do fall more rapidly however, particularly up to AFTA's 2003 deadline for 0%–5% internal tariff rates, but this gain could be offset by the trade diversion that it would also induce.⁶⁰ If AFTA expands its membership (*Expanded AFTA* in Figure 43)—or participates in a consolidation exercise such as proposed by the RCEP—then the pace of reduction increases but the end-point remains unchanged. If, however, members choose to multilateralize their preferences soon after AFTA becomes effective (*AFTA with multilateralization* in Figure 43), then the deadline for free and open trade moves closer to AFTA's deadline of 2003. In reality, the preferences for a majority of tariff lines were fully multilateralized before the AFTA deadline. For instance, preferences were fully multilateralized—or the MoP was zero—for more than half of the tariff lines for the original ASEAN members by 2002, while more than two-thirds had MoPs of less than 10% (Feridhanusetyawan 2005). This share continues to increase yearly (Calvo-Pardo, Freund, and Ornelas 2011), although admittedly the MoPs for a range of sensitive products remain high. If these remaining tariff lines are dealt with relatively soon, then the deadline will fall somewhere between 2003 and possibly before a multilateral deal is concluded. In any case, AFTA has already served as a building block enabling its original members to achieve their goal much faster, because of the multilateralization of the majority of preferences.

At the Asia–Pacific Economic Cooperation (APEC) Leaders' Summit in Subic Bay in 1996, President Fidel Ramos of the Philippines raised the option of multilateralizing the AFTA accords within APEC. At that time, Indonesia had already begun providing its AFTA accords to other APEC members. Although this proposal was never formally adopted by AFTA members, the original members have been pursuing multilateralization of their accords as well, not just within APEC, but on an MFN basis on a wide range of products. As most trade liberalization worldwide has stemmed from unilateral actions, there is a strong basis for optimism in promoting this approach. For instance, the World Bank (2005)

⁶⁰This deadline applies to the original ASEAN members, while the newer member countries have been given more time.

Figure 43: The Speed of Tariff Liberalization Outcomes with and without Multilateralization—AFTA and WTO



AFTA = ASEAN Free Trade Agreement; WTO = World Trade Organization.
Source: Adapted from Menon (2007a).

estimates that—between 1983 and 2003—unilateral actions comprised the bulk of liberalization, or 65% of developing country tariff reductions (see also ADB 2012). In particular, with respect to the original ASEAN members, a highly liberalizing competitive unilateralism took place in the 1980s and 1990s to attract FDI from Japan into regional production networks (Vézina 2010).

As mentioned, preferential accords in non-tariff areas—such as in services—can be more easily reached regionally or bilaterally when a smaller number of participants are involved. If these breakthroughs can be achieved, and if they can be harmonized within a consolidated FTA, then implementing multilateralization would be easier, and the potential gains much greater. The accords in these areas are quite easily multilateralized once they have been negotiated (see Hoekman and Winters 2007, Lloyd 2002). This is because the instrument of protection in many services, for example, is regulation of one form or the other—such as rules related to foreign investment, competition policy, or government procurement. The same applies to the myriad measures relating to trade facilitation (see Hamanaka, Tafgar, and Lazaro [2010] for examples of how trade facilitation measures in FTAs can be

multilateralized), as well as sanitary and phytosanitary measures, technical product standards, certification procedures and processes, and mutual recognition arrangements relating to professional qualifications. These regulations are quite naturally applied in a nondiscriminatory fashion, treating domestic and foreign firms equally. This is quite different from tariffs affecting trade in goods, where domestic/foreign and intra-foreign discrimination is the objective.

Unlike tariff liberalization, it is often difficult or costly to remove non-tariff barriers or measures (NTBs or NTMs) preferentially. It is usually impractical for these types of concessions to be exchanged in a discriminatory fashion—once a NTB or NTM is removed, the cost of excluding nonmembers is likely to be high, if not prohibitive, as with most public goods. This difficulty and associated cost varies by type of measure. While export subsidies or export licensing, for example, could be offered or applied preferentially, production subsidies cannot be reduced in the same way. With reducing production subsidies arguably the biggest barrier to

reforming agricultural trade, this is a major problem (Bhagwati 2013).⁶¹

In terms of supporting global trade liberalization, the multilateralization process fares well. Because preferential tariff reduction schedules are generally quite ambitious and rapidly paced, this approach can also accelerate multilateral trade liberalization.

What then stands in the way of pursuing this approach? Clearly the desire to secure more reciprocal concessions or market access is a key factor. While the benefits from reciprocal liberalization outweigh unilateral actions, the more relevant question currently is how much longer should countries wait for reciprocity from countries outside any existing FTA, while foregoing the gains from multilateralization. Furthermore, the low utilization rates of FTAs in Asia also suggest that the benefits expected from reciprocity may be seriously overestimated. The potential for trade deflection further erodes expected benefits. Given the difficulties of linking mega-blocs together, as noted in a recent editorial (*The Economist* 2012c), the risk is very real. Taken together, there is little basis for holding off on multilateralization to try and gain reciprocity in a residual set of countries not covered by existing FTAs. There is, however, a greater need to make the case for multilateralization more strongly, especially when resistance from vested interests and other lobbies can stand in the way (Menon 2013b).

⁶¹ Even if it were possible to exclude third parties, this could seriously derail the reform program. A recent study by the United Nations Economic and Social Commission for Asia and the Pacific (2011) notes that preferential treatment negotiated with selected trading partners typically involves additional documentation. The study presents evidence of significant delays associated with such requirements, as FTAs have adopted different approaches to the rules on substantive measures relating to trade facilitation. Moreover, differences in scope, depth, and level of detail often translate into varying degrees of administrative inefficiency, through a maze of different procedures applied to respective trading partners under different FTAs.

Interim Steps to Multilateralization: Harmonized Reduction of MFN Tariffs and Dilution of Rules of Origin

There are two interim steps that can be used on the way toward multilateralization—harmonizing reduction of MFN tariffs and diluting rules of origin (ROOs).

As attempts to multilateralize face resistance, what are the interim steps that can be taken to prepare the groundwork for multilateralization? While “pure” unilateral actions are commonplace and account for the vast majority of trade liberalization observed worldwide, the multilateralization of FTA-based preferences is so far much less commonplace. One way forward is to reduce the MoP and the distortions it creates by bringing down MFN tariffs themselves. When brought down gradually, the MoP is not zero in the interim or at the end, but much smaller. This approach may be more realistic when members feel committed to the preferential arrangement and therefore prefer a measured approach that retains some integrity of the arrangement, especially in the interim. When employing this method, an aggressive stance would involve a coordinated approach—such as harmonizing MFN tariffs, as with a Customs Union—to the lowest rate applied in the region. This does not require an established Customs Union, however in the case of Latin American FTAs (Estevadeordal, Freund, and Ornelas 2007). This aggressive approach is preferred, if practicable, in harmonizing MFN tariffs through coordinated reduction. To some extent, this approach can be considered a mirror to multilateralization, only more pragmatic in its gradualism, and with an eventual result that is less ambitious (non-zero MoP). It also differs from multilateralization in that it applies only to tariffs but not non-tariff measures.

The second possible interim step is the dilution of ROOs through liberalization. If FTA members are not yet ready to give up reciprocal preferences, then this approach could be seen as preparing the groundwork for that process. It could be done through harmonization, and expanding rules of cumulation. If the ROOs are sufficiently liberalized and rules of cumulation adequately expanded, it can remove distortions associated with artificial sourcing of inputs simply to meet regional accumulation requirements. This will reduce the incentive for the spoke or peripheral

countries to pursue FTAs with either the hub or other spokes in order to prevent (non-preferential) spoke-spoke trade being diverted to (preferential) hub-spoke trade. The Pan-European Cumulation System (PECs) is a good model for how this can work (see Gasiorek 2007).

If rules of cumulation are sufficiently expanded and then harmonized across different agreements, complete multilateralization of tariff accords is no longer needed. In this sense, liberalizing ROOs, like harmonized reduction of MFN tariffs, can be thought of as an alternative means to the same end. Like the harmonized reduction approach, it would apply mainly to tariff measures. It should be noted, however, that the high share of product fragmentation trade—as a result of the vertical specialization spread across this region—is likely to limit the extent to which a system like PECs could be successfully introduced. Multilateralization, when pursued by all members of the consolidated bloc, also delivers reciprocity the same way that a consolidated FTA does. This was, after all, the idea behind the “open regionalism” approach in the original conception of APEC (Drysdale and Patrick 1979, Garnaut and Drysdale 1994). But with multilateralization, the possibility of addressing non-tariff barriers and regulatory reforms is enhanced, as they are naturally non-excludable once achieved and therefore easier to reach when pursued without the constraint of requisite excludability. Therefore, in East Asia in particular, dilution of ROOs may still serve mainly as a sequential complement that prepares the groundwork—rather than a substitute—for multilateralization.

Neither multilateralization nor consolidation—or interim measures—can directly result in any change in barriers existing in nonmember countries. Barriers facing members in export markets outside the region remain an important issue preventing the realization of further welfare gains to all parties. A multilateral deal would do this, but, as mentioned, reaching a deal appears increasingly remote. In the quest for reciprocity, members of a consolidated bloc may wish to pursue tie-ups with other blocs—and this is becoming increasingly popular (see *The Economist* 2012c). The recent decision to create the world’s largest FTA between the EU and the US will increase pressure to pursue such tie-ups, either with this mega-FTA or with others around the world.⁶² Although such tie-ups may be inevitable, adding to the benefits members receive, does it become an end point in and of itself?

⁶²In fact the EU has been aggressively pursuing FTAs with countries globally, and tie-ups with other FTAs. So has the US, although to a lesser extent.

As with a consolidated regional FTA, an expanded inter-regional one should be viewed as a means rather than an end. Issues relating to trade diversion will remain, although they could begin to diminish as the mega-bloc grows, but the risk of trade deflection could increase. Concerns over incomplete utilization would also remain and significantly erode potential benefits expected on the assumption of full utilization. Any expanded FTA would only realize its full potential—while removing these risks and the need to implement ROOs—when preferences are multilateralized. In fact, such tie-ups between large blocs should make eventual multilateralization easier, as members would have secured preferential access with a larger number of trading partners. In the absence of a multilateral deal, multilateralization should still remain the end game.

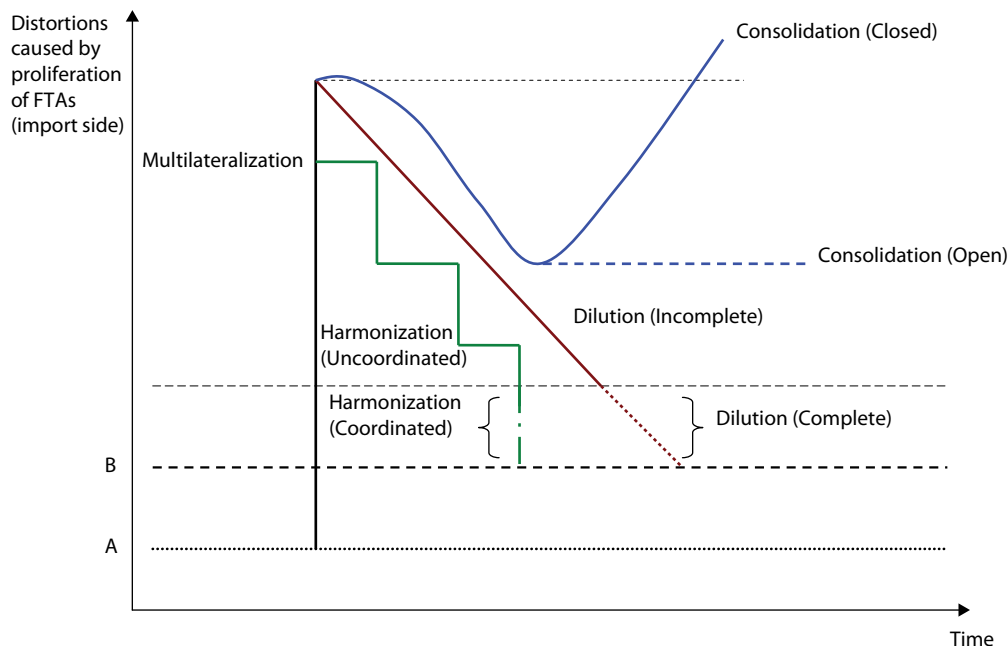
Comparing the Relative Merits of Consolidation, Multilateralization, and the Interim Steps to Multilateralization

The assessment and likely impact from consolidation, multilateralization, and the two interim steps to multilateralization—harmonized reduction of tariffs and dilution of ROOs—in disentangling the noodle bowl and promoting liberalization more generally can be summarized. Again, in stylized form, the likely welfare effects of each remedy on a single country relating to its own (import) barriers can be portrayed, before considering the benefits and challenges of each (**Figure 44, Table 21**). The stylized framework captures only imports and only tariffs, but it is broadly applicable to non-tariff parameters as well.

Two points about Figure 44 are worth highlighting. First is the fact that multilateralization produces the most significant reduction in distortions and does so in the shortest time. It can eliminate not only MoPs, but also some distortions associated with discriminatory non-trade restrictions, especially in services. It can achieve this in the shortest time because it involves a one-off decision, as opposed to staggered (harmonization) or gradual (dilution) changes.

If multilateralization is the most preferred approach, the least preferred is consolidation. Although distortions fall initially, as (some) intraregional FTAs are neutralized,

Figure 44: Stylized Welfare Effects of Different Remedies



FTA = free trade agreement.
 A: Distortions (Trade Barriers)
 B: Distortions (Trade and Non-Trade Barriers)
 Source: Menon (2009).

they can rise again if (i) a “lowest common denominator” outcome prevails, whereby the average level of distortions actually increases; and/or (ii) they induce new extra-regional FTAs. If the consolidated FTA is perceived as being relatively closed, then it is likely that distortions could increase substantially. Even if the consolidated FTA is “open” and is perceived to be so, the reduction in distortions is lowest among the four approaches because most FTAs involving an Asian country are inter-regional, and these are not addressed using consolidation alone. If the share of intraregional trade involving final goods is high, however, consolidation does offer benefits to exporters through increased access to each other’s markets. Reciprocal access would offset the welfare losses associated with the distortions described above.

These stylized impacts can be better understood by cataloguing the benefits and challenges of the different approaches, considering unilateral liberalization for completeness (**Table 21**). Table 21 is largely self-explanatory—it is clear that each has its own strengths and weaknesses, with the severity of each varying by approach. Furthermore, the most beneficial may not be politically feasible, however, so trade-offs must be struck.

Concluding Remarks

The proliferation of FTAs has been greatest in Asia. The noodle bowl—with more than 100 ratified FTAs involving at least one Asian economy—is an understandable response to the global multilateral impasse. Yet its sheer complexity and diversity requires reform. Reviving the Doha Developing Agenda (DDA) alone may be insufficient, and the prospects for doing so are not high. It is more likely the DDA will be sliced into a host of sectoral agreements. Against this backdrop, two key proposals have been advanced to disentangle the Asian noodle bowl—consolidation and multilateralization. Consolidation builds a regional FTA to harmonize bilateral FTAs—such as the RCEP—while multilateralization grants nondiscriminatory preferences to nonmembers, eliminating preference discrepancies. These two approaches, however, need not be mutually exclusive. Should the consolidation approach result in a regional FTA, it does not preclude multilateralization. The preferences of a regional FTA could still be offered to outsiders on a nondiscriminatory basis. Indeed, consolidation, if possible, should be viewed as a means toward an end. However, several questions on the consolidation approach remain, such as (i) how multiple bilateral agreements—each with its own defining rules and characteristics—can be folded into one

Table 21: The Trade Journey—Benefits and Challenges of Trade Liberalization

Steps in the sequence of trade reforms	Benefits	Challenges
Unilateral Liberalization	<ul style="list-style-type: none"> Maximizes trade creation without trade diversion No need for coordination (Note: 65% of developing tariff reductions from 1983–2003 were unilateral) 	<ul style="list-style-type: none"> Lack of reciprocity is politically costly
Consolidation	<ul style="list-style-type: none"> Political capital for governments and policymakers Higher welfare generally assured for members Potential for long-term dynamic partnerships, by opening up markets, providing growth opportunities, and promoting competition, among others Potential to achieve deeper reforms, because of the smaller number of economies involved, compared with the WTO, for instance 	<ul style="list-style-type: none"> Trade diversion (although FTAs also create new trade) and deflection Complexity of dealing with different rules of origin (ROOs) Low utilization rates may limit benefits, especially given high transaction costs in drafting and negotiating FTAs; consolidated FTA may not negate the use of bilateral FTAs if the commitments of the latter are superior Could tax consumers and producers if a lower cost supplier lies outside the region and if trade is diverted as a result of high margins of preference (MoPs) Possible retaliatory actions by non-members if significantly harmed
Harmonized Reduction of External Barriers	<ul style="list-style-type: none"> More practical with flexible pace of implementation MoP reduction secured indirectly and therefore more feasible 	<ul style="list-style-type: none"> More easily applied to tariff than non-tariff measures
Dilution of ROOs	<ul style="list-style-type: none"> Practical if members are unwilling to give up reciprocal preferences Reduces trade diversion and the “export of protection” 	<ul style="list-style-type: none"> Applies only to tariffs and any domestic content requirements of investment provisions Less effective in Asia (particularly East Asia) given the high share of production network trade and low value-added involved
Multilateralization of Preferences	<ul style="list-style-type: none"> Flexible as it can be pursued unilaterally, but coordinated form delivers reciprocity to all parties involved Realizes the full gains from consolidation Amenable to building block approach, although consolidation is not a prerequisite for multilateralization Removes potential for trade diversion or deflection Eliminates costs associated with implementing ROOs Reduces/eliminates the risk of a new wave of market-restoring FTAs 	<ul style="list-style-type: none"> Time-consuming and fraught with political difficulties if concessions/preferences are extended to all A key stumbling block is securing reciprocity from—and/or market access to—third parties Liberalizing non-tariff barriers is complex, and vested interests (such as agriculture) prevent extending preferences to nonmembers

FTA = free trade agreement; WTO = World Trade Organization.
 Source: Office of Regional Economic Integration, ADB.

agreement without resorting to the lowest common denominator to reach consensus; and (ii) how to address inter-regional bilateral agreements, which constitute the majority of Asia’s FTAs—including RCEP members. The recent trend favoring tie-ups between regional blocs could address part of the problem associated with (ii), but may exacerbate the difficulties involved with (i), as tie-ups increase both the number and likely diversity of members. Both issues are addressed by multilateralization however, whether applied independently or jointly with consolidation. Although

consolidation requires multilateralization, the reverse is not true. Countries are free to pursue multilateralization independently. But they must overcome competing interests that lose from the dilution of preferences—usually the same interests that favored the FTAs to begin with.

Although consolidation and multilateralization are not mutually exclusive—consolidation is a means; multilateralization is the end—history shows that unilateral actions (of which multilateralization is a special case) are not only feasible but account for most trade liberalization to date.

Because most trade liberalization to date has been unilateral, there is much to support this approach. The argument that unilateral actions such as multilateralization lack the proper incentives and are therefore, impracticable, ignores the lessons of history. Nonetheless, policymakers handling trade in Asia and in other regions continue to face considerable challenges. The arguments presented in this special section, which favor multilateralization—or consolidation as an interim step—should not be construed as underestimating these problems. But the case for multilateralization should be made stronger, and pursued more strongly, as the welfare gains will likely be larger.

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