East Asian Regionalism: Managing the Noodle Bowl

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Plan of talk

• Long paper, little time.
• Talk focuses on policy implications .
• Bottom line:
  – East Asian regionalism is fragile.
  – No clear plan for fixing it.
  – The pressing need is now for management, not vision.
  – ASEAN should take the lead; its moment in history.
• Plan: (i) Sources of fragility, (ii) likely trajectory, (iii) solutions.
“Factory Asia”

- Extreme interdependence of region’s manufacturing sectors.

East Asian IO industry matrix, 2000

% of all manufacturing intermediates imported (from row nation to column nation)

Asymmetric Interdependence, Japan & China

<table>
<thead>
<tr>
<th>2000</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
<th>Singapore</th>
<th>Taiwan</th>
<th>Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>2%</td>
<td>10%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>10%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Philippines</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>10%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5%</td>
<td>6%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Korea</td>
<td>3%</td>
<td>4%</td>
<td>8%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>3%</td>
<td>4%</td>
<td>8%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Japan</td>
<td>2%</td>
<td>6%</td>
<td>16%</td>
<td>22%</td>
<td>16%</td>
<td>17%</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td>RoW</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>
What underpins this trade?

• “Race-to-bottom unilateralism” by ASEANs, China & Korea (applied MFN cuts, not bound).

East Asian Regionalism: 5 oddities

1. East Asian regionalism is a mess: Noodle Bowl Syndrome.
   - Domino theory of regionalism explains spread of EA deals & predicts much more.
2. ASEAN FTA (AFTA) does not matter yet.
4. Japan’s bilaterals with major ASEANs are very different.
5. Largest trade flows in the region excluded.
Mistaken view EA regionalism

ASEAN-Korea FTA
ASEAN-China FTA
ASEAN-Japan FTA

AFTA

Reality: Noodle Bowl Syndrome

Domino Theory
EA regionalism doesn’t matter, yet

AFTA preferences on paper
Almost no one uses AFTA preferences

- “Utilisation rates” for AFTA under 10%

Form D Utilisation (% of Intra-ASEAN trade)

Source: PriceCooperWaterhouse

What do ASEANs trade?

Intra-ASEAN Trade by HS Chapter, 2003

- Electrical machinery (HS 85)
- General machinery (HS 84)
- Lubricants, oil & fuels (HS 84)
No margin of preference

MFN v. AFTA’s CEPT on Machinery

<table>
<thead>
<tr>
<th>Sector:</th>
<th>East Asia</th>
<th>N. America</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>General machinery (84)</td>
<td>1.5</td>
<td>1.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Electrical machinery (85)</td>
<td>1.4</td>
<td>1.5</td>
<td>2.2</td>
</tr>
<tr>
<td>All products</td>
<td>7.4</td>
<td>5.5</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: MacMap

Japan’s bilaterals are different

- Japan-Malaysia, Dec.05
- Japan-Philippines, Sep.06
- Written like European FTAs.
- Announced under Article 24, not ‘Disabling Clause’.
- Mercantile interests will ensure they are implemented; not so for ASEAN-China and ASEAN-Korea.
Likely Trajectory?

• If domino theory is right:
  – Other Japan bilaterals with big ASEANs will get done.
  – Next round of dominos?
    • Hub-hub (JK, KC, JKC)? US or EU moves?
  – It will spread beyond EA.
    • cf. EU has preferences with 141 of 148 WTO members.
Fragility of the Current situation

• 1. Extreme interdependence of ‘Factory Asia’
  – Worrying asymmetry of interdependence.
• 2. Lack of WTO discipline.
• 3. Noodle bowl:
  – un-tamed & no tamer.
• 4. No serious tariff discrimination yet, but a great deal is promised by 2010.

System Fragility

• Think of East Asia as a magnificent factory, fantastically complicated, just-in-time factory.
• Think of regional trade as “conveyor belts.”
• If a few ‘conveyor belts’ break down, whole factory suffers.
• NB: Same in North America & Europe, but those systems are not fragile.
  – WTO bindings & well functioning RTAs.
  – Well established leadership.
• Who calls the meeting if the wheels start to come off?
Management, not vision.
   – Vision deadlock (rice & high-end industry).

Urgent:
   – Discrimination is a source of conflict; Discrimination is scheduled to start 2006 – 2010.

New East Asian Management Effort:
   – ASEAN+3 group.
   – Management is a ‘club good’.
   – Membership should be limited to those most involved in the collective action problem.
     • Reduce likelihood of free-rider or strategic behaviour.
     • Include all that are most affected.
Solutions

• 2. Management priorities:
  – #1: Bind the MFN applied rates.
    • Get credit in DDA, NAMA.
  – #2: Transparency and confidence building deliverables.
  – #3: Keep talking.
• ¿ ASEAN’s “moment in history”?

Bottom line

• Vision would have been best.
  – Window of opportunity was missed.
• Concrete foundations of EA regionalism have been poured and are hardening.
• What East Asian needs is management now.
• Need is pressing since discrimination is about to begin to emerge & discrimination can foster tensions.
Thank you for listening.

Papers (Domino theory, 1994 book, etc) can be downloaded from hei.unige.ch/baldwin

EXAMPLE: Parts Procurement of a Hard Disc Drive Assembler Located in Thailand

Thailand

Japan

China

USA

Mexico

Taiwan

Japan

Thailand

Hong Kong

Singapore

Indonesia

Malaysia

Base
Pivot
Spacer
VCM
Base
Card
Top Clamp
Disk

S spindle Motor
Base
Carriage
Flex Cable
Pivot
Seal
VCM
Top Cover
PCBA
HGA
HAS

PCBA
Carriage
HGA
Base
Head
Suspension

USA

Mexico

Damping Plate
Coil Support
PCBA

Top Clamp

Cover
Disk
Screw
Seal
Ramp
Top Clamp
Latch
Plate Case
Label
Filter
PCBA
Suspension

TOP COVER

DISK

HEAD

SUSPENSION
### Lack of WTO discipline

<table>
<thead>
<tr>
<th>Country</th>
<th>Binding Coverage</th>
<th>Final bound</th>
<th>Disciplined</th>
<th>Not disciplined</th>
<th>Applied</th>
<th>Import duties as share of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>99.6</td>
<td>2.3</td>
<td>2.5</td>
<td>n.a.</td>
<td>3.2</td>
<td></td>
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<tr>
<td>Korea</td>
<td>94.5</td>
<td>10.1</td>
<td>6.7</td>
<td></td>
<td>3.2</td>
<td></td>
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<tr>
<td>China</td>
<td>100.0</td>
<td>9.1</td>
<td>9.5</td>
<td></td>
<td>2.7</td>
<td></td>
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<tr>
<td>Malaysia</td>
<td>83.7</td>
<td>14.9</td>
<td>9.1</td>
<td></td>
<td>3.1</td>
<td></td>
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<tr>
<td>Thailand</td>
<td>74.7</td>
<td>24.2</td>
<td>13.3</td>
<td></td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>96.6</td>
<td>35.6</td>
<td>6.7</td>
<td></td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>66.8</td>
<td>23.4</td>
<td>5.8</td>
<td></td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Taiwan</td>
<td>100.0</td>
<td>4.8</td>
<td>5.5</td>
<td>n.a.</td>
<td></td>
<td></td>
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<tr>
<td>Singapore</td>
<td>69.2</td>
<td>6.3</td>
<td>0.0</td>
<td></td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

### Asymmetric Interdependence

Share of all manuf’d intermediates imported from E. Asia

- **Natural leaders care less.**

- **RoW**
- **Japan**
- **Taiwan**
- **ASEAN5**
- **Korea**
- **China+HK**

- **Japan** 8%
- **Korea** 11%
- **China+HK** 63%
• Very uneven market sizes
• 2 big
• 1 medium
• many small or tiny
• ASEAN-10 is about 9% of EA GDP
• ASEAN-4 & Vietnam

Economy size

MFN v. CEPT on Machinery

Table 1: Intra-East Asian preference margins vis-à-vis EU and North America

<table>
<thead>
<tr>
<th>Sector</th>
<th>Exporter to East Asia</th>
<th>Preference margins:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>East Asia</td>
<td>North America</td>
</tr>
<tr>
<td>Mining products (HS25-27)</td>
<td>1.7</td>
<td>2.6</td>
</tr>
<tr>
<td>General machinery (HS 84)</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Electrical machinery (HS 85)</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Others</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Wood and paper</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Precision apparatus</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>41</td>
<td>29.7</td>
</tr>
<tr>
<td>Light industry</td>
<td>26.8</td>
<td>8.3</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>21.8</td>
<td>28.4</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>7.3</td>
<td>7.6</td>
</tr>
<tr>
<td>Transportation machinery</td>
<td>4.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Pottery products</td>
<td>2.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.4</td>
<td>3</td>
</tr>
<tr>
<td>Basic metals</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>All products</td>
<td>7.4</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Note: Tariff data for 2002; see the paper for aggregation schemes.
Source: Author’s reorganisation of data drawn from Freudenberg and Paulmier (2005), Table 3.
Figure 1. Machinery goods and the parts and components: shares in total exports and imports in 2000

Data source: Authors' calculations, based on PC-TAS (UN Comtrade only for exports of Hong Kong and exports and imports of Russia and Slovakia).