East Asian Regionalism:

Managing the Noodle Bowl

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ADB, Manila, 11 December 2006

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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.

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“Factory Asia”

- Extreme interdependence of region’s manufacturing sectors.

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East Asian IO industry matrix, 2000

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

Asymmetric Interdependence, Japan & China

2000	China	Indonesia	Malaysia	Philippines	Thailand	Singapore	Taiwan	Korea	Japan
Indonesia						2%			
Malaysia				4%	4%	10%	2%		
Philippines									
Thailand			4%	3%		3%			
China			3%	2%	4%	4%	2%		
Taiwan			5%	6%	3%	3%			
Korea		3%	4%	8%	3%	3%	4%		
Singapore			14%	6%	4%				
Japan	2%	6%	16%	22%	16%	17%	14%	7%	
RoW	3%	11%	9%	7%	10%	23%	8%	5%	2%

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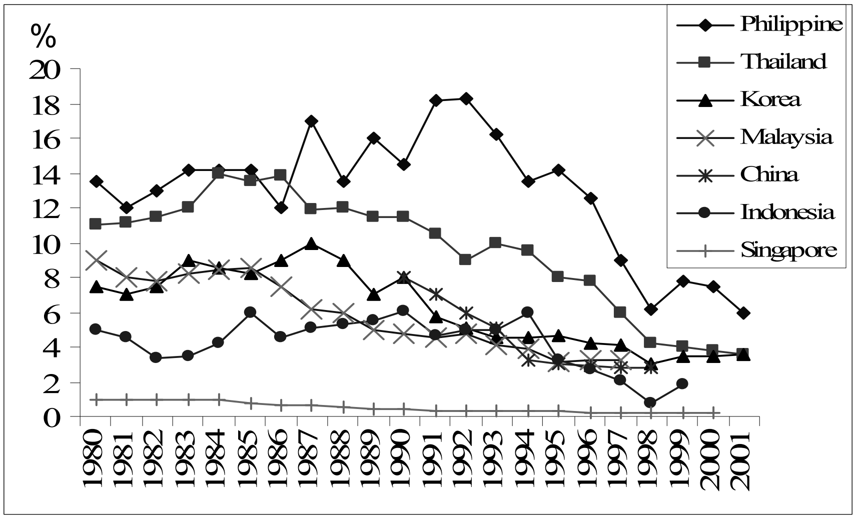
What underpins this trade?

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



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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.
3. Little discrimination now, but much promised for the future, 2010.
4. Japan's bilaterals with major ASEANs are <u>very</u> different.
5. Largest trade flows in the region excluded.

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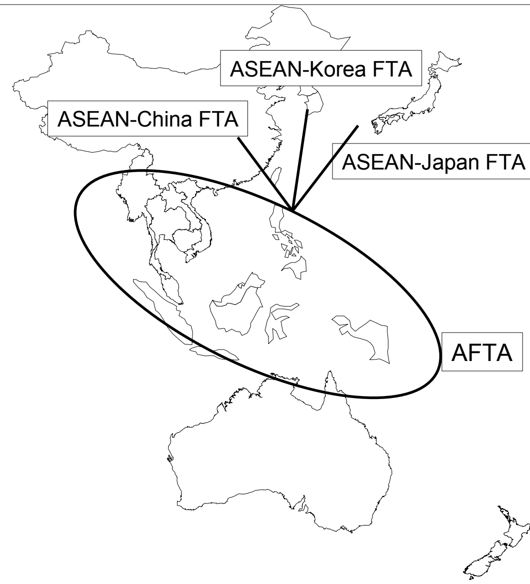
Mistaken view EA regionalism



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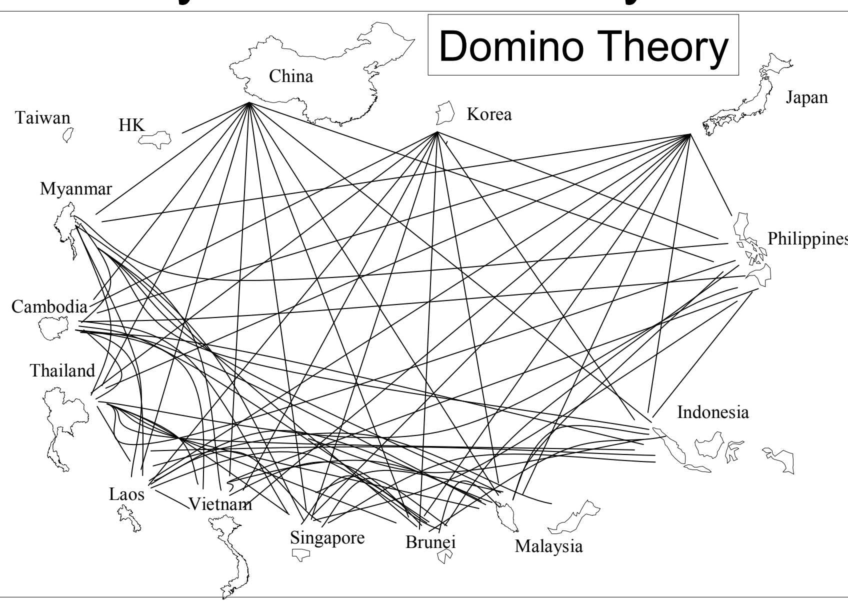
Reality: Noodle Bowl Syndrome



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EA regionalism doesn't matter, yet

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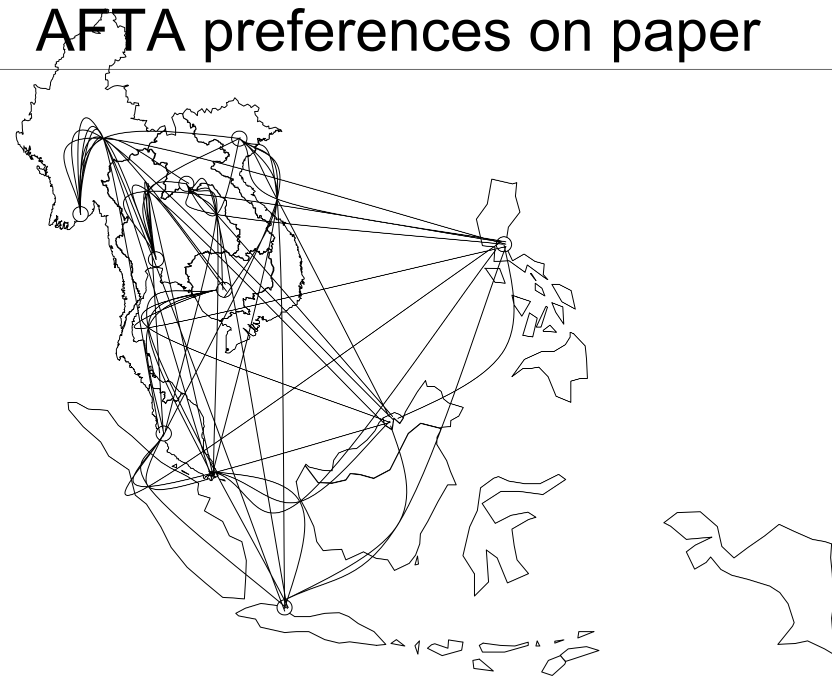
AFTA preferences on paper



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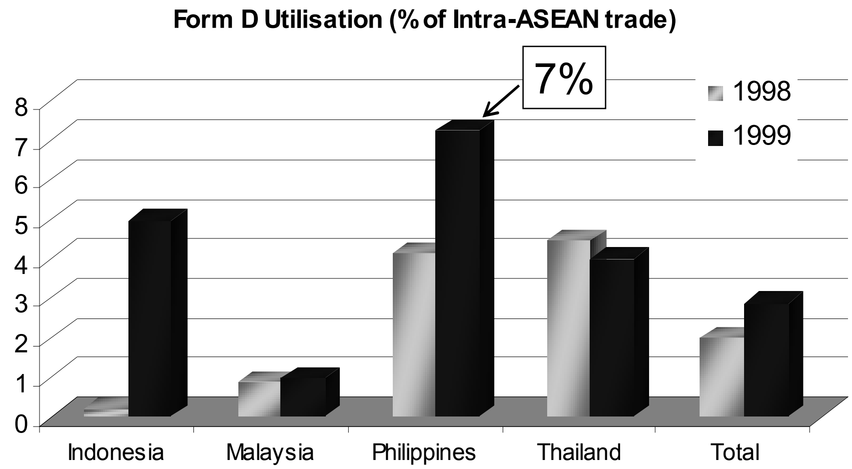
Almost no one uses AFTA preferences

- "Utilisation rates" for AFTA under 10%



Source: PriceCooperWaterhouse

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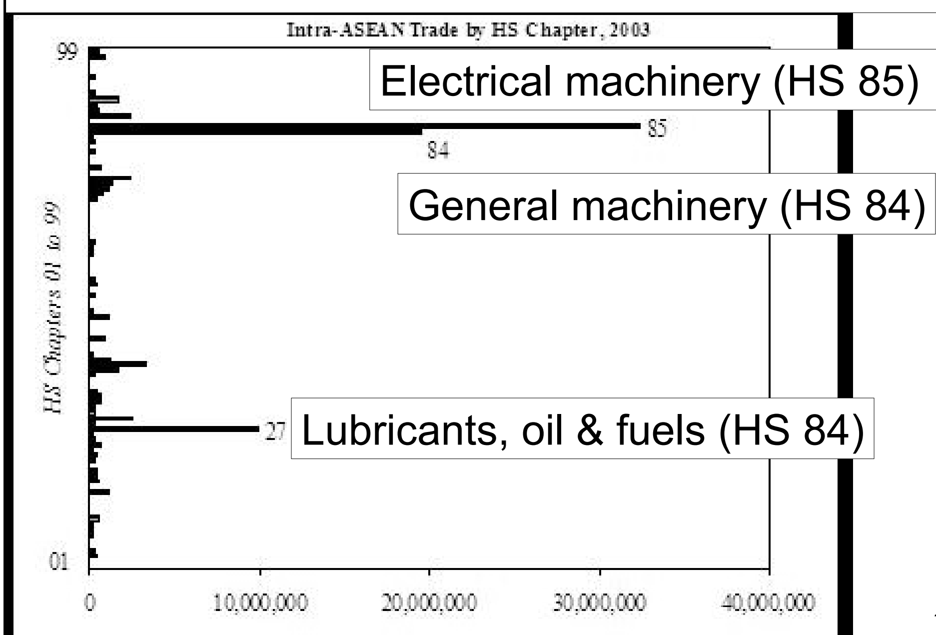
What do ASEANs trade?



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No margin of preference

MFN v. AFTA's CEPT on Machinery

Sector:	East Asia	N. America	EU
General machinery (84)	1.5	1.9	2.5
Electrical machinery (85)	1.4	1.5	2.2
All products	7.4	5.5	7.2

Source: MacMap

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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.

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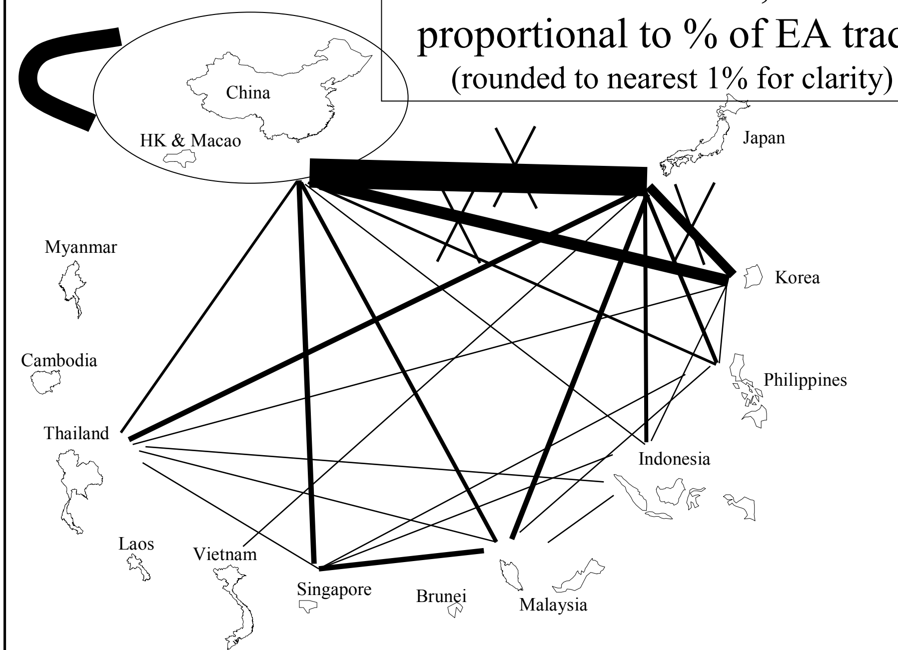
East Asian Trade; width proportional to % of EA trade
(rounded to nearest 1% for clarity)



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.

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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?

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Solutions

Academics, problems v. answers

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Solutions

- 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.

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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" ?

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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.

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Thank you for listening.

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

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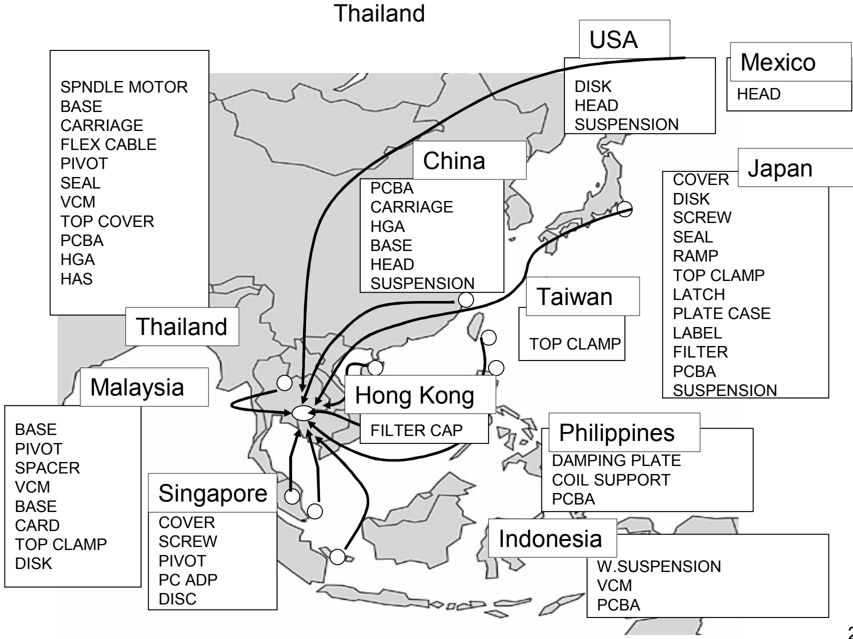
EXAMPLE: Parts Procurement of a Hard Disc Drive Assembler Located in Thailand



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Lack of WTO discipline

	Binding Coverage	Final bound	Applied	Import duties as share of total imports
Japan	99.6	2.3	2.5	n.a.
Korea	94.5	10.1	6.7	3.2
China	100.0	9.1	9.5	2.7
Malaysia	83.7	14.9	9.1	3.1
Thailand	74.7	24.2	13.3	3.4
Indonesia	96.6	35.6	6.7	1.2
Philippines	66.8	23.4	5.8	5.4
Vietnam				
Taiwan	100.0	4.8	5.5	n.a.
Singapore	69.2	6.3	0.0	0.3

Disciplined

Not disciplined

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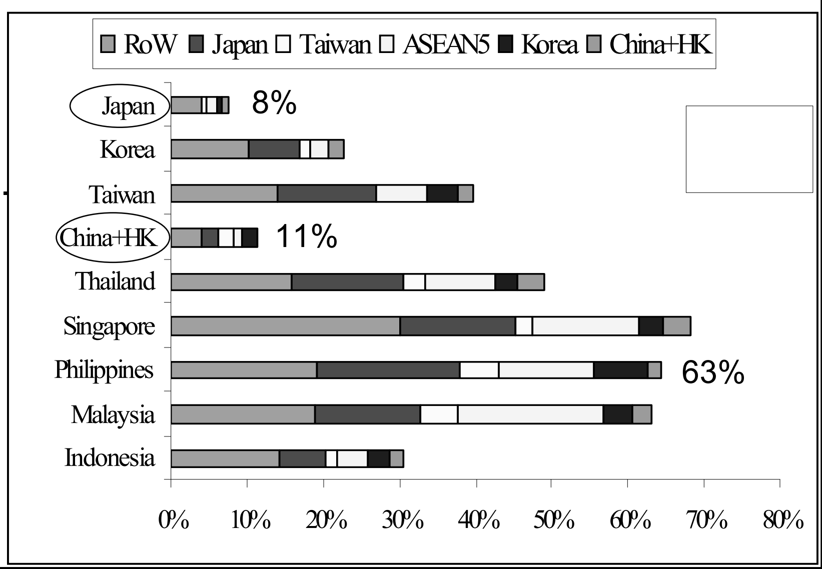
Asymmetric Interdependence

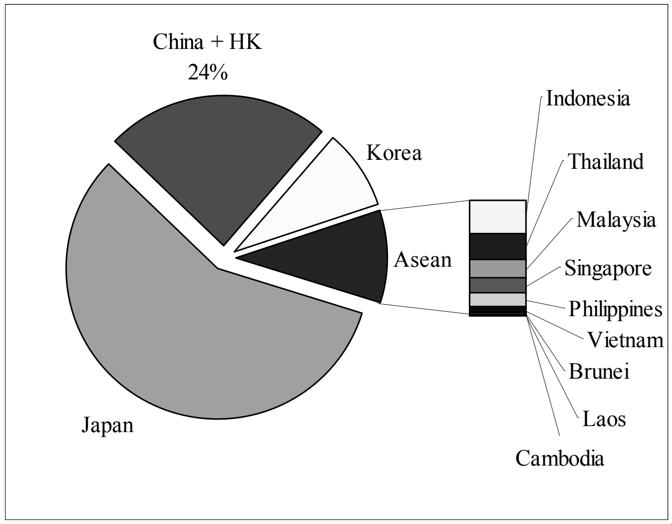
Share of all manuf'd intermediates imported from E. Asia

Natural leaders care less.



Economy size

- Very uneven market sizes
- 2 big
- 1 medium
- many small or tiny
- ASEAN-10 is about 9% of EA GDP
- ASEAN-4 & Vietnam



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MFN v. CEPT on Machinery

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

	Exporter to East Asia			Preference margins:	
Sector:	East Asia	North America	EU	over N.Amer. Exporters	over EU Exporters
Mining products (HS25-27)	1.7	2.6	1.7	0.9	0.3
General machinery (HS 84)	1.5	1.9	2.5	0.4	1.4
Electrical machinery (HS 85)	1.4	1.5	2.2	0.1	-0.3
Others	1.4	1.7	2.6	0.3	-0.6
Wood and paper	1.4	1.3	1.5	-0.1	0.5
Precision apparatus	1.2	1.3	2	0.1	0.7
Agriculture	41	29.7	30.9	-11.3	10.7
Light industry	26.8	8.3	12.8	-18.5	4.1
Food and beverages	21.8	26.4	25.8	4.6	9.8
Textiles and clothing	7.3	7.6	7.8	0.3	-3.1
Transportation machinery	4.6	2.8	8.6	-1.8	5.3
Pottery products	2.9	3.6	4.4	0.7	-1.3
Chemicals	2.4	3	2.7	0.6	-1.4
Basic metals	1.8	2.6	2.3	0.8	-0.7
All products	7.4	5.5	7.2	-1.9	1.5

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.

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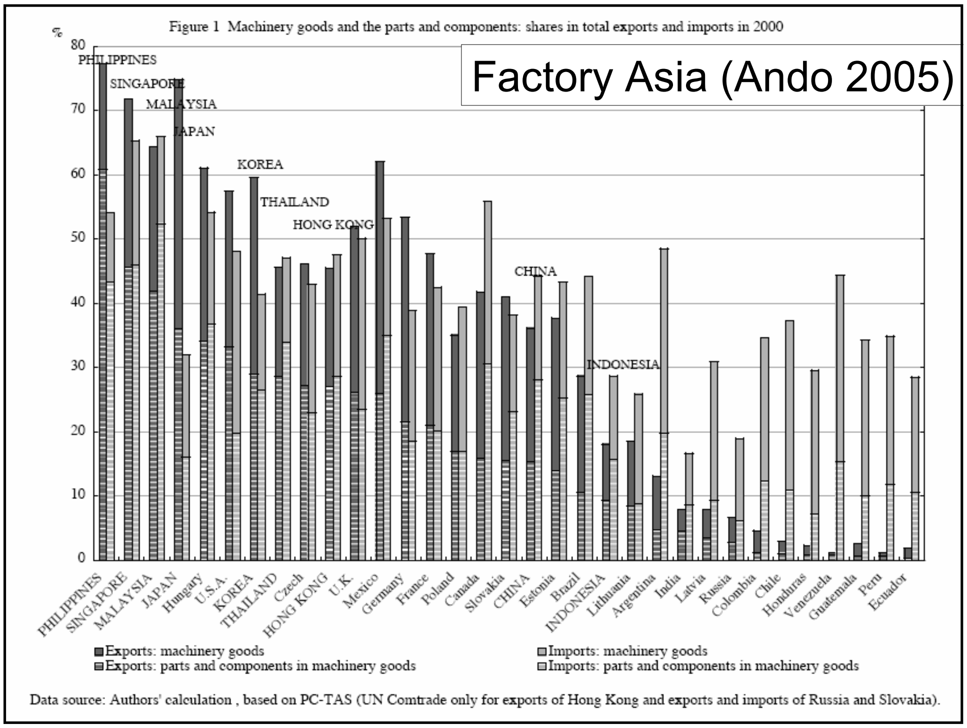

Figure 1 Machinery goods and the parts and components: shares in total exports and imports in 2000
Factory Asia (Ando 2005)
%
PHILIPPINES
SINGAPORE
MALAYSIA
JAPAN
KOREA
THAILAND
HONG KONG
CHINA
INDONESIA
PHILIPPINES
SINGAPORE
MALAYSIA
JAPAN
Hungary
U.S.A.
KOREA
THAILAND
Czech
HONG KONG
U.K.
Mexico
Germany
France
Poland
Canada
Slovakia
CHINA
Estonia
Brazil
INDONESIA
Lithuania
Argentina
India
Latvia
Russia
Colombia
Chile
Honduras
Venezuela
Guatemala
Peru
Ecuador
Exports: machinery goods
Exports: parts and components in machinery goods
Imports: machinery goods
Imports: parts and components in machinery goods
Data source: Authors' calculation , based on PC-TAS (UN Comtrade only for exports of Hong Kong and exports and imports of Russia and Slovakia).