I. Economic Integration and FTA Initiatives in East Asia
Market Driven Economic Integration in East Asia

Drivers of Integration

- Economic openness
- Improved physical connectivity
- IT revolution
- Production networks and supply chains by MNCs
- Rapid growth of PRC

Intra-Regional Trade, in %

Source: IMF Direction of Trade Statistics and UNCTAD
Trade Liberalization in East Asia

- Recent shift to a three-track approach
  - Global (WTO) cum trans-regional (APEC) framework
  - Regional (ASEAN+3 or East Asia Summit)
  - Bilateral FTAs

- Several FTAs have been implemented and many are under negotiation. Major economies and ASEAN are involved.
Reasons for the Proliferation of FTAs in Asia

• Defensive response to the proliferation of regional trading blocks elsewhere (EU, NAFTA)
• Dissatisfaction with the slow progress at global trade talks (insurance policy)
• Complementarity with the WTO process—FTAs can be productive if designed appropriately, i.e., if they can induce market opening and structural reforms in sectors that are highly protected.
• Need to improve international competitiveness through exploitation of scale economies
• Promotion of deeper regional integration and greater institution building at the regional level
Evolving Economic Architecture in East Asia

- East Asian Economic Community (EAEC). Region-wide FTA is a core component of EAEC
- ASEAN on its way towards “ASEAN Economic Community” to be created by 2015
- Key roles for ASEAN, ASEAN+3, and East Asia Summit
II. Salient Characteristics of East Asian FTAs
Growth of FTAs in East Asia

No. of FTAs involving East Asian economies

NOTES: Data includes concluded FTAs, FTAs under official negotiation, and proposed FTAs in East Asia.
East Asia covers 10 ASEAN members; Japan; Korea, PRC; Hong Kong, China; and Taipei, China.
Source: ADB FTA Database (data as of April 2007)
Bilateral and Cross-regional FTAs in East Asia, 2007

- 76% Bilateral
- 24% Plurilateral

- 66% Within East Asia
- 33% Cross-regional

*Covers the 33 concluded FTAs only.

Source: ADB FTA Database (data as of April 2007)
Coverage of FTAs in East Asia, 2007

“WTO Plus” provisions cover Singapore issues and cooperation enhancement.

TOTAL: 33 concluded FTAs in East Asia

Source: Official texts of FTAs (data as of April 2007).
Rules of Origin in FTAs in East Asia

VA = Value Added
CTC = Change of Tariff Classification
SP = Specific Product

64% VA Rule only
14% VA +/or CTC Rule
11% VA +/or SP Rules
11% Combination of all Rules

TOTAL: 28* concluded FTAs in East Asia

*Official texts of 5 other concluded FTAs are inaccessible.
Source: Official texts of FTAs (data as of April 2007).
III. CGE Analysis of East Asian FTA Scenarios
FTA Scenarios Examined

- **ASEAN+3 FTA**: free trade among 10 ASEAN countries, PRC, Japan and Korea
- **ASEAN+4 FTA**: free trade among 10 ASEAN countries, PRC, Japan, Korea, and India
- **ASEAN+6 FTA**: free trade among 10 ASEAN countries, PRC, Japan, Korea, India, Australia, and New Zealand
CGE Exercise

- Global Trade Analysis Project (GTAP) model and database
  - Covers all world trade and production
  - Input/output structure and captures intermediate linkages between sectors
  - Medium to long-run investment effects inc.
- Database is projected through to 2017 trade and production patterns to represent a post-Uruguay Round world
- Focus - a stylized FTA which inc. goods, services and trade costs via infrastructure improvement and trade facilitation
CGE Findings

• Of the 3 scenarios, ASEAN+6 scenario brings the largest gains to world income.
  - Gains to members are significant while losses to non-members are small.
  - The 3 Northeast Asian countries see the largest gains while ASEAN also see notable gains.

• Integration is accompanied by distributional gains for members.

• FTA dealing with goods, services, trade costs, etc. is better than a goods-only FTA.
Impact on World Income

Change in income compared to 2017 baseline, in $ Bn
(at constant 2001 prices)

Source: ADB estimates
### Impacts on Regions/ Countries

Change in income compared to 2017 baseline, in $ Bn
(at constant 2001 prices)

<table>
<thead>
<tr>
<th>Region</th>
<th>ASEAN+3 FTA</th>
<th>ASEAN+4 FTA</th>
<th>ASEAN+6 FTA</th>
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<tr>
<td>Northeast Asia</td>
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<td>172.1</td>
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<tr>
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<td>Sub-Saharan Africa</td>
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</tr>
</tbody>
</table>

Source: ADB estimates
IV. Policy Issues, Implications, and Conclusions
Key Issues

• Maximizing benefits and costs of FTAs
• Enhancing FTA quality – WTO consistency, breadth, and depth
• Sequencing FTA consolidation
• Providing complementary support
Conclusions

• East Asia is becoming highly integrated.

• Consolidation of multiple and overlapping FTAs into a single East Asian FTA can mitigate “noodle bowl” effects.

• Further expanding WTO Plus elements and consolidation at ASEAN+6 level yields largest gains for East Asia.

• Relations with US and EU are important.

• An East Asia – North America FTA is a future agenda.
Thank You