

New Open Regionalism? Current Trends and Perspectives in the Asia-Pacific

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FTA Networking in East Asia and Beyond

East Asia¹ has been a significant growth center of the world for decades. Most notably, the unprecedented development of production/distribution networks in the manufacturing sector has proceeded since the beginning of the 1990s.² East Asian economies, particularly China and ASEAN forerunners, have adopted aggressive trade and investment-related policies to effectively utilize globalizing market forces. These policies, however, were not well organized and coordinated from the beginning. Rather, piecemeal troubleshooting was continuously accumulated in a random manner. Collective action by countries also barely existed. Intensive efforts for *de jure* or *policy-based* economic integration have only developed since the Asian crisis. Now, East Asia has become one of the world's most active regions in constructing FTA networks, and *de jure* economic integration is quickly catching up with *de facto* economic integration in East Asia. As presented in Table 1, at this point, at least in terms of trade in goods, 70 out of 78 bilateral combinations in East Asia are linked by FTAs. Moreover, a growing East Asia certainly attracts the interest of countries outside the region and, as a result, a number of FTAs with non-East Asian countries can be negotiated and concluded.

==Table 1==

¹ "East Asia" primarily means ASEAN+3 (Japan, Korea, and China), as well as the surrounding economies in some contexts, in this paper.

² As for the formation of international production/distribution networks, see: Kimura, Fukunari. "International Production and Distribution Networks in East Asia: Eighteen Facts, Mechanics, and Policy Implications." *Asian Economic Policy Review*, 1, no. 2, (December 2006): 326-344.

However, we observe notable anomalies in the formation of FTA networks in East Asia: Japan, the Republic of Korea (hereinafter Korea), and China have not been linked by FTAs yet. These three countries are large in size and are major players in extended production/distribution networks in East Asia. Their links are no doubt essential, both economically and politically, to East Asian integration. However, FTA negotiation between/among Japan, Korea, and China has not made significant progress. As a consequence, ASEAN has taken the “driver’s seat” in integration initiatives and has become a “hub” of FTA networks in East Asia.

ASEAN has developed economic integration pretty aggressively, trying not to be totally dominated by the rise of China as a massive FDI attractor. Some scholars still have the perception that the weak legal structure of ASEAN and its lenient method of “10-x” makes its integration scheme basically unworkable. However, in reality, at least in terms of the removal of tariffs among 6 forerunners, ASEAN is about to complete zero tariffs for almost all traded goods. Trade in finished products has obviously been accelerated in response to the reorganization of location patterns across national borders. Furthermore, the AFTA (ASEAN Free Trade Area) methods of tariff reduction scheduling and rules of origin have been a standard format in East Asian FTAs and have been applied in most of the ASEAN+1 FTAs. In this sense, ASEAN has truly been in the “driver’s seat” of East Asian economic integration.

Nonetheless, it is difficult for ASEAN to represent true leadership in East Asia. After all, ASEAN is small in size compared to the three main Northeast Asian countries. ASEAN mostly consists of developing countries and thus is not mature enough to lead deeper economic integration beyond simple tariff removals. Although ASEAN has recently developed the ambitious scheme of an ASEAN Economic Community (AEC), including various economic aspects other than trade in goods, it does not seem to carry enough sophistication for neighboring

countries to accept its format. With a delay in FTA formation for Japan, Korea, and China, East Asian economic integration is likely to have an open setting before establishing a solid identity of “East Asia.”

A new wave of clean regionalism in Asia-Pacific

FTA formation in the Asia Pacific has also been active. Figure 1 identifies nine Asia Pacific countries, including seven OECD member countries in the region in addition to Singapore and Chile, and presents how far the FTA networking has advanced. Out of 36 bilateral combinations among these countries, 19 are already connected by FTAs. Of course, the contents of these FTAs widely differ. However, once some of these relatively advanced countries come together, the formation of a plurilateral FTA certainly seems possible.

==Figure 1==

We must also note the emergence of bilateral FTAs with extremely high liberalization coverage for trade in goods. FTAs recently concluded by Singapore, Australia, and the United States (most notably the U.S.-Korea FTA), commit to the removal of tariffs and other trade impediments almost without any exclusion. Table 2 presents the level of liberalization coverage in terms of trade in goods in FTAs by Japan, Korea, China, Australia, and ASEAN. Tariff removal does not of course tell the whole story of current FTAs – FTAs could include various aspects other than simple tariff removal. However, it is also true that the liberalization coverage

for trade in goods is certainly one of the indicators for evaluating the quality of FTAs. In this sense, we can see a wide variation in the liberalization coverage across FTAs.

==Table 2==

The author believes that the implication of clean FTAs is profound. Concluding clean FTAs with all major trading partners virtually means a new type of open regionalism. FTAs are often regarded as a “dirty” policy tool because 1) trade liberalization is applied in a discriminatory manner (trade is liberalized only among member countries), which may create trade diversion effects³, and 2) a certain proportion of commodities can be excluded from trade liberalization under an FTA (“substantially all the trade” under the GATT article XXIV does not mean “all the trade”). These claims are accompanied by possible complications due to confusing rules of origin in overlapping bilateral/plurilateral FTAs (the spaghetti bowl phenomenon⁴). However, if a country were to conclude FTAs covering all commodities with every country, none of the criticisms above would apply anymore. A country with completely clean FTAs with all trading partners would not care about rules of origin after all, and such FTAs would not create any trade diversion effects.

The concept of “region” would become substantially weakened here: any country could be a counterpart as far as sharing a solid commitment to trade liberalization. The “new open regionalism” looks akin to old-fashioned unilateral liberalization or multilateral liberalization under the WTO, but there is one crucial difference: it comes with a strong “domino effect” so

³ Viner, Jacob. *The Customs Union*, New York: Carnegie Endowment for International Peace, 1950.

⁴ The spaghetti bowl phenomenon was first pointed out by Bhagwati in: Bhagwati, Jagdish. “U.S. Trade Policy: The Infatuation with Free Trade Areas.” In *The Dangerous Drift to Preferential Trade Agreements*, edited by J. Bhagwati and A. O. Krueger. Washington, D.C.: AEI Press, 1995.

that FTA negotiations accelerate trade liberalization in other countries.⁵ Some may claim that the importance of “open regionalism” has been already acknowledged and pursued by APEC economies. However, importance of the levels of liberalization under an FTA has not been strongly emphasized in APEC arena yet.

The era of “new open regionalism”?

Because scholars and policymakers are still obsessed with the old concept of dirty regionalism, potential for a “new open regionalism” has not been explicitly claimed yet. However, once the Doha Development Agenda (DDA) ends with a small package and countries need to start seeking trade liberalization agenda outside the WTO, the “new open regionalism” may become a driving force for seeking a new international economic order. Countries with “new open regionalism” will lead the integration process not only in trade in goods but also in constructing a new international economic order for the globalizing era.

The United States has so far yet to fully utilize FTAs as a political tool. In past FTA negotiations, bilateral deals were always upfront, and the prospects for presenting a “model” FTA did not seem to be strong. However, if the WTO cannot lead the formation of a new international economic order after DDA, a path-finder approach in Asia-Pacific, which is completely different from a bitter trial for FTAs, may become a plausible choice. It would counterbalance increasing micro pressure with a protectionist flavor, and the U.S. could continuously lead the formation of new economic discipline for the globalizing world.

⁵ Using a political economy framework, Richard Baldwin (1995) shows that participation of a country in an RTA induce pro-participation lobbying activity by exporters in other non-member countries who face greater cost disadvantage in the market. This induces further expansion of RTA, which he calls the domino effect. See: “A Domino Theory of Regionalism.” In *Expanding Membership of the European Union*, edited by Richard E. Baldwin, Pertti Haaparanta and Jaakko Kiander. New York: Cambridge, 1995.

Such a scenario would not be bad at all for Japan too. Japan would certainly appreciate East Asian economic integration in an open setting. Japan would like the United States to work on a regional agenda, rather than having excessive Japan-passing. Needless to say, Japan has to clean up its act (i.e., agricultural protection), and raise its capability of concluding clean FTAs in terms of trade in goods; otherwise, Japan cannot participate in this game.

India must notice that the FTA game in East Asia and Asia-Pacific is now entering a new phase. Although its recent growth performance and policy reforms are certainly impressive, its level of liberalization commitment in FTA negotiations seems to be too low to participate in the current trend of FTA networking. It seems to be a critical moment for India to establish a tight connection with the East.

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