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East Asian success and challenges

• East Asia has become a very influential part of the global economy:
  – the region now has global responsibilities;
    • to sustain global economic growth; and
    • to defend an open international trading system.

• East Asia’s strategy for economic integration needs to take account of the potential reaction by the rest of the world.
Production networks – supply chains

• International production networks were largely invented in East Asia:
  – they are the main drivers of economic integration in this region.

• Most products moving along supply chains do not face significant traditional border barriers.

• The main constraints to economic integration these days are:
  – problems of trade logistics; and
  – different economic regulations among trading partners.
Beyond ‘free trade’

The time has come to complement an environment of low border barriers with:

• smoother movement of business people and capital;
• transparency, best practice, and consistency of regulations, including:
  – competition policy,
  – regulations on government procurement.
  – mutual recognition of standards and qualifications;
• efficient communications, including e-commerce;
• best practice logistics.
The ASEAN Economic Community

The vision of an ASEAN Economic Community is far more ambitious than an FTA.

ASEAN is setting a good example of practical, outward-looking economic integration.
- focused on the most important dimensions of economic integration in the 21st century.

The ASEAN Master Plan on Connectivity sets out practical options for capacity-building to:
- improve logistics, communications;
- create regional power and gas grids;
- streamlining and harmonizing regulations.

Work on these new issues is proceeding in a flexible way,
- some economies can set examples for others, and
- cooperation on new issues is not held back by political resistance to trade liberalization.
**Investing in connectivity**

- Investment in economic infrastructure to promote regional integration will lead to huge economic gains:
  - these potential gains dwarf the gains available from marginal liberalization of remaining traditional border barriers.

- Asia should be spending up to US$750 billion on regional infrastructure 2020.
  - can we make these investments happen?
Constraints to investment for integration: 

(1) financing problems

• To accelerate investment in economic infrastructure
  – we need to fix a serious financial market failure.

• Most of Asia’s savings are intermediated in London and New York,
  – with much of them lent to already deeply indebted governments.

• We can put these savings to better use:
  – multilateral development banks can scale up their activities; or
  – we could create new funds, controlled by emerging economies, to
    invest in economic infrastructure.
Constraints to investment for integration: (1) regulatory problems

• Investment to improve connectivity will also need closer cooperation on sectoral institutions and regulations.

• For example, a regional gas pipeline grid will require: synchronising national technical and security regulation requirements, and differences in the supply, distribution, and management procedures of natural gas across the countries (ASEAN Master Plan on Connectivity)

• These are capacity-building challenges:
  – and capacity cannot be created by negotiations.

• East Asian officials and business leaders can create the necessary capacity by sharing:
  – information;
  – experience;
  – expertise; and
  – technology.
Preferential trade deals

- FTAs, are based on international business models of the mid-20th century;
  - when it was easy to know the origin of products.

- People managing international commerce (Victor Fung) and trade policy specialists (Pascal Lamy) tell us:
  - the world has moved on;
  - the nature of international trade and investment has become much more sophisticated;
  - it is no longer useful or feasible to determine the origin of products.
Are FTAs useful?

• There are very many FTAs around the world, 
  – but the private sector is not taking much notice.

• Only 16 per cent of global trade is preferential; 
  – and less than 2% of world imports enjoy preferences over 10 percentage points.

• Recent FTAs have chapters on new issues, 
  – but rules and statements of good intentions are not enough to make trade and investment cheaper, easier or faster.
An East Asian FTA?

• An East Asian FTA would be very difficult to negotiate: negotiations will either:
  – fail (like the attempted Free Trade Area of the Americas)
  – or lead to a lowest common denominator deal, with no significant liberalization.

• With such limited potential gain, it may be useful to consider the potential costs:
  – there would be a very sharp negative reaction from the rest of the world.
  – the prospect of a trade war would be upgraded from probable to certain.
Conclusion

• There is no need to hold progress on new issues hostage to negotiations about border barriers;
  – these only affect a few agricultural products and low-technology manufactures.

• The time has come to focus on practical ways to deal with far more significant logistic and regulatory constraints on economic integration.

• ASEAN is setting a good example:
  • others in East Asia and in APEC can learn from and follow that example.