

Session 2: The Post Financial and Economic Crisis and FTAs

Outline of Presentation

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1. How is the international system coping in the post-economic and financial crisis-Next Step

-As a result of the global economic and financial crisis, the gravity of world economy has rapidly shifted to East Asia. The region has become the most promising and dynamic economic region specially with the rapid economic rise of China and India

-However, East Asia's economic potential must be accompanied by the following major policy shifts in

-**Balance Growth** within and across the region through macroeconomic policy and structural reform that will gradually unwind imbalances and raise potential output

-**Sustainable Growth** compatible with global efforts to protect the environment and transition to green economies

-**Secure Growth** to protect the region's economic and physical well-being and to provide the secure environment necessary to economic activity

-**Innovative Growth** to create an economic environment that promotes innovation and emerging economic sectors

-**Inclusive Growth** to ensure that more people should be provided with economic and social benefits and protection in the process of growth

2. What is the role of FTA agreements? Who uses FTA agreements?

- FTAs have proliferated in East Asia. Currently there are more than 30 RTAs in East Asia of which 14 are intra-regional. However, such proliferation does not automatically increase the number of international transaction as the administrative costs for securing certificates of origin are quite high due to different Rules of Origin.

The impact of FTA on trade is often evaluated by estimating the well-known gravity equation.

3. The relation between financial regulatory reform and regional economic integration

- It is not necessary for the region to pursue the same financial regulatory reform as in the United State. However, it is imperative to streamline and harmonize rules and regulation behind and across borders to facilitate cross border trade and production networking through agglomeration and fragmentation as explained by the new theory of economic geography and spatial economics.

-Lower trade cost due to FTA does not automatically result in the dispersion of economic activities. Rather, a reduction in trade cost generated two countervailing forces of agglomeration and dispersion forces. Controlling these two countervailing forces is the key for pursuing both deepening economic integration and narrowing development gaps which is the crux problem of economic integration in East Asia.

4. Financial liberalization as part of “FTA for Services Trade”

- FTA for services trade remains a major impediment to integrate the region as services constitute a major element for regional connectivity and a seamless market place. Financial liberalization is one of the elements or part of FTA for services trade. In addition, the region needs to liberalize and harmonize transportation and logistics, communication and customs, other technical barriers to trade and to actively promote trade and investment facilitation and capacity building. Without having those regulatory and structural reforms, (behind and across trade barriers) the proliferation of FTA would not lead to more trade and investment and deepening of regional economic integration in East Asia.

- The optimum future shape for regional economic integration critically requires the integration of the real and financial sectors through harmonization and standardization of rules and regulations behind and across border based on incremental approach by gradually converging and integrating different levels and modalities of FTAs into a coherent regional FTA and a seamless regional marketplace which will simultaneously deepen economic integration and narrowing development gaps in the region.

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