

Session 2:
**Changes in the Political and Economic
Environment which affect FTAs in Asia**

DR. THOMAS G. AQUINO

Senior Fellow, Center for Research and Communication
Former Senior Undersecretary,
Philippine Department of Trade and Industry

“FTAs as a Growth Strategy for Asia”

3 - 5 February 2013

Tokyo, Japan

**Japan Economic Foundation (JEF)
Japan External Trade Organization (JETRO)**

Outline

1. Nature of Free Trade Agreements (FTAs)
2. Analysis of factors influencing FTAs
3. Assessment of factors influencing FTAs
4. Impact of EU currency crisis on economy of Asia-Pacific region
5. Evaluation of impact of (i) recessionary fears and (ii) recent changes in international political situation involving Japan, China and South Korea

Nature of Free Trade Agreements (FTAs)

- designed to stimulate trade creation
- embodies eventual elimination of barriers to trade
- a structured opportunity for trade promotion highlighting product/service value chain
- profiles stakeholder interests
- an accountability of political decision makers under a given political trade scenario

Analysis of factors influencing FTAs (1/2)

- Each aspect of an FTA may undergo changes thus having potential to affect the future state of an FTA
 - non occurrence of trade creation can raise doubts on expected outcome of growth in trade
 - imposition of new forms of barriers to entry will manifest backsliding on commitments
 - absence of trade promotion measures implies lackluster support to trade and industry sectors
 - absence of real benefits from trade occurring to constituents' interests puts in question wisdom behind FTA as a source of growth.

Analysis of factors influencing FTAs (2/2)

- Any aspect or a combination thereof manifesting negative outcomes are negative influences or factors on the performance of an FTA
- Similarly, any aspect or a combination thereof manifesting positive outcomes are strengthening influences or factors on the performance of an FTA.

Assessment of factors influencing FTAs

- Factors of influence (whether positive or negative) may internally arise from within a specific FTA or may originate outside a specific FTA serving to challenge it
- In addition, factors of influence depending on the nature of behavior, may either be initiating or triggering influences
 - Initiating means occurrence in an autonomous way and arising from within an FTA
 - Triggering means occurrence giving the earlier initiating influence a conclusive impact on a performing FTA

Impact of EU currency crisis on the economy of the Asia-Pacific region

- The EU currency crisis is an external factor of influence
 - initiated from within the EU zone
 - gained traction as governments tried to contain impact but with extremely limited results
 - inability of governments to contain the recessionary conditions serve to trigger negative impact on EU members' internal and external trade, however varying their intensities.
- The EU currency crisis has impact on the region of Asia-Pacific via different FTAs with the EU.

Evaluation of impact of:

- (i) recessionary fears on the global economy and on the economy of the Asia-Pacific region
- impact on global economy will depend on the extent to which most regions (and countries) rely on the EU as market, source of production inputs, foreign direct investments and development assistance
 - impact on the economy of the Asia-Pacific region will be different to the extent of its reliance on the EU as a regional economic partner
 - impact on the Asia-Pacific region can be mitigated by the sustained strength of the economic growth taking place internally in the region

Evaluation of impact of:

(ii) recent changes in the international political situation involving Japan, China and South Korea on trade and the economy

- internally originating within the Asia region
- can have severe repercussions to Asia-Pacific trade and economy
- continued threat of further deterioration will generate fears of uncertain economic future in the region
- inability of the three countries to exercise political will to resolve differences will serve to trigger slowdown in economic growth

Evaluation of impact of:

(ii) recent changes in the international political situation involving Japan, China and South Korea on trade and the economy (continued)

- a slowdown in economic growth in Asia will challenge existing FTAs and negate the region's contribution to promotion of global trade
- a profoundly negative development will dawn upon the Asia-Pacific region and aggravate the deeply negative influence of EU recessionary conditions
- a gloomy trade scenario indeed.