

Session 1:  
**The financial and economic crisis and FTAs:**  
*How can intra-regional export growth through  
FTAs help tackle the crisis?*

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# Characteristics of global trade

## Markets

- Continued concentration of markets, especially in the United States, Europe, and Japan.

## Production

- Increased fragmentation of production, with many countries providing inputs to global supply chains; presently centered on China as the world's manufacturing hub.

# Push and pull of trade

## Drivers of trade

- Larger markets mean cost reductions and quality improvements associated with economies of scale of serving a larger market (than one's own domestic economy)
- Wider array of country-sources of products and components mean a more diverse supplier base with potentially greater benefits from comparative advantages.

## Limits to trade

- Logistics costs have been more pronounced with fuel price increases.
- Coordination costs of managing a complex production chain.
- Associated risks of: (1) being exposed to a wider range of uncertainties, even to factors not directly related to domestic country-economies; and (2) domestic industries are now part of production chains, supplying parts and components but are not producing any complete finished product.

# Advantages of Asian regional trade

- Regional trade, especially among Asian countries, allows optimal balancing of benefits and costs of trade
  - Asia is a large-enough market, in terms of population and income, to allow substantial economies of scale.
  - Region hosts diverse countries in terms of socio-economic, cultural and political conditions, and factors of production, to allow significant comparative advantages to occur along complementary resources / factor endowments.

# What have we learned?

- First, trade does not happen in a vacuum. Trade occurs as a result of a number of enabling elements such as business environments, hard and soft infrastructure, financing, and international marketing programs, among others.
- Second, trade alone is not enough to bring about development nor to make development more inclusive. Existing real and financial investment flows and structures, technology pools, migration patterns, and others are just as important—including the global institutions (or lack thereof) that govern them.

# What can be done in Asia?

- Confirm “building blocks” approach to regional trade.
- Enhance trade integration within Asia in two areas:
  - First, move towards greater inflow of investments to countries within the region;
  - Second, open more developed Asian economies to migration of professionals.
- Current global crisis exposed weaknesses of consumer-oriented western societies.
- Asia is home to a talented and diverse people. Migration patterns indicate that western countries attracted the most talented professionals globally.

# Suggested action points

- Focused effort at studying the continuing impact and consequences of an enlarged market;
- Promote greater opportunities for interaction among aspiring regional businesses, including confidence-building face-to-face meetings, “on-the-ground” regional market promotion activities, and timely, continuous exchange of relevant business information;
- Studies on barriers to doing business in the region, oriented towards those already present in the region and who aspire to expand their scope of operations;
- Initiate study on the creation of a regional institution to champion regional trade, possibly working towards transforming the region into an economic community;
- Adopt a concrete, initial project on a critical issue in order to gain relational confidence and introduce a bonding element, e.g. work on a region-wide contribution to the global issue of “trade and climate change.”

Thank you!

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