

# **Increasing FTA Initiatives of East Asia and the World Trading System: Current State of Play and Policy Options for the 21<sup>st</sup> Century**

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## **I Introduction**

As a number of analysts discussed, East Asia had long been "a white spot" or "an empty box" in the geography of increasing worldwide regionalism.<sup>2</sup> Since the end of 1990s, however, the region has emerged as the most dynamic region, in terms of number of FTAs (Free Trade Areas) concluded. Currently, more than thirty FTAs have been concluded between the countries in East Asia. Counting the number of FTAs concluded with countries outside the region together, East Asia is responsible for nearly thirty percent of FTAs notified to the WTO in the period of 2001-2005.<sup>3</sup> Also, there is an increasing number of regionalism initiatives in various stages: some are just discussed, some under feasibility study, and others are already under negotiation. With this intensified interest of East Asia in its own regionalism, the world trading community has been facing increasing challenges. This short essay describes the current state of play of East Asian regionalism, and discusses the future shape of East Asian and worldwide regionalism by presenting alternative scenarios of East Asian regionalism.

## **II Current State of Play of Worldwide and East Asian Regionalism**

The trend of increasing worldwide regionalism over the last six decades is shown in Chart 1. As Park (1999) noted, there seemed to be two periods of strong regionalism in the post-war era: 1970s and 1990s onward. Whereas the first wave of regionalism in 1970s can be characterized by South-South or North-North integration agree-

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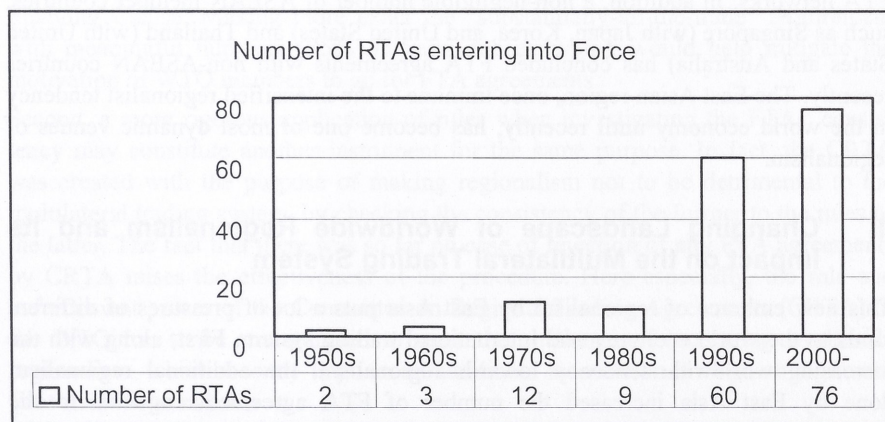
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<sup>2</sup> See, for example, Scollay (2001) and Park (2001).

<sup>3</sup> WTO registers currently a total of 200 RTAs (Regional Trade Agreements) in force. 93 RTAs went into force since the beginning of 2001, and East Asian countries are parties of 27 of them. See: [http://www.wto.org/english/tratop\\_c/region\\_c/cif\\_c.xls](http://www.wto.org/english/tratop_c/region_c/cif_c.xls) (viewed on May 22, 2006).

ments confined within same regions, the second wave of regionalism since the beginning of 1990s, the force of which seems to continue until now, shows several new features. First, there has been an increasing number of South-North or North-South agreements, with NAFTA, Australia-Thailand FTA being representative examples. Second, many FTAs that entered into force since the beginning of 1990s – the so-called new-generation FTAs – pursue comprehensive cooperation agenda, including areas other than the traditional tariff reduction such as environment, labor standards, trade remedy measures, etc. Third, Asian countries, which had been long immune to intensifying regionalist tendency until the mid-1990s, have become actively involved in this worldwide tendency. Especially, they have been intensifying their attempts to pursue both intra-regional and trans-regional FTAs since their recovery from the 1997 Asian financial crisis.

**Chart 1: RTAs (Regional Trade Agreements) in Force by Date of Entry into Force (1948-2005)**



Source: WTO (2005), *Regional Trade Agreements notified to the GATT/WTO and in Force*, [http://www.wto.org/english/tratop\\_c/region\\_c/region\\_c.htm](http://www.wto.org/english/tratop_c/region_c/region_c.htm).

East Asian countries, in fact, have become vigilant with their own regionalism initiatives since they were affected by the financial crisis of 1997-98. A number of factors have contributed to this new development. First, East Asia, facing with the turbulences in international financial markets in 1997-98, was indulged into a major financial crisis, which affected Korea, Thailand, Indonesia, and Malaysia most seriously. As no meaningful and effective help was provided by major countries in other regions, there was observed an increasing consciousness of the value of the regional solidarity. Second, this call for a strengthened regional solidarity was reinforced by the fact that the 'Peso crisis' of Mexico, contrary to Asian crisis, was more

quickly and effectively overcome through an immediate financial assistance provided by the United States, which had had an increased stake in the Mexican economy's sustainability through its engagement in the North American Free Trade Agreement (NAFTA) with crisis-affected Mexico. Also, the relatively high degree of market integration in the Asian region was another motivation for East Asian countries to ponder on the institutionalization of their own regionalism in the form of FTA.

Since then, an increasing number of FTA initiatives has been discussed, feasibility-studied, and partly negotiated among East Asian countries. They are also involved in numerous FTA negotiations with countries outside the region, with part of them having gone into force already.<sup>4</sup> Korea, for instance, started official negotiation for an FTA agreement with the United States, after having established a network of FTAs with Chile (concluded in 2003), EFTA (in 2005), Singapore (in 2005) and ASEAN (in 2006). Japan and China are also very busy with assembling their own FTA networks. In addition, a non-negligible number of ASEAN member countries, such as Singapore (with Japan, Korea, and United States) and Thailand (with United States and Australia) has concluded FTA agreements with non-ASEAN countries recently. The East Asian region, once immune to the intensified regionalist tendency in the world economy until recently, has become one of most dynamic venues of regionalism.

### III Changing Landscape of Worldwide Regionalism and Its Impact on the Multilateral Trading System

This new embrace of regionalism by East Asia puts a lot of pressures of different kinds to the world economy and international trading system. First, along with the increasing worldwide tendency towards regionalism, the additional regionalism done by East Asia increased the number of FTA agreements notified to the GATT/WTO enormously. A recent WTO analysis reveals that currently each of the 149 member countries of the WTO maintains more than five FTA agreements on average, and more than half of world trade is done within FTAs.<sup>5</sup> Second, the concern of "interest diversion", which Bhagwati (1996) once raised to warn the negative impacts of regionalism to multilateralism, appears to have become one of main causes of difficulties observed in the multilateral trade negotiations under the title of Doha Development Agenda (DDA).

It seems that the need to liberalize their trade policy had been – to some extent – satisfied by the increasing networks of FTAs of the WTO members that are involved in the DDA. In addition, the extensive use of 'preferential' rules of origin by individ-

<sup>4</sup> FTAs with countries in other region are called 'trans-regionalism', and received increasing research interest. See, for example, Park & Koo (2006) and Solis & Takada (2006).

<sup>5</sup> See Crawford & Florentino (2005).

ual FTA agreements has led to increasing costs of managing the multilateral trading system, especially with the famous 'spaghetti bowl' effects.<sup>6</sup> As a result, the increasing regionalism, added by once tranquil East Asia, now has more potential to become a stumbling block to multilateralism.<sup>7</sup> This raises the necessity of appropriate policy responses, specifically to save the effective operation of the multilateral trading system under the WTO.

#### IV Searching for Appropriate Policy Responses

A number of policy responses can be brought to discussion, in order to minimize the costs put on the multilateral trading system by the proliferation of regionalism initiatives. First, a reform of WTO rules governing regionalism may have an influential impact to reduce the regionalist tendency in the world economy. Especially, it will be in the interest of the MTS to be more specific and exact with several "ambiguous" provisions set forth in the Article XXIV of GATT/WTO, Article V of GATS and Enabling Clause. Making more exact the "substantially-all-the-trade" requirement with meaningful numbers (95% of trade, for example), would help mitigate the motivation of WTO members to go for FTA agreements.

Second, a more rigorous application of rules when investigating the FTAs' consistency may constitute another instrument for the same purpose. In fact, the CRTA was created with the purpose of making regionalism not to be detrimental to the multilateral trading system, by checking the consistency of the former to the rules of the latter. The fact that there was so far no case of rejection of any FTA agreements by CRTA raises the effectiveness of the procedure. Here especially, the role and enforcement power of the Committee on Regional Trading Agreements (CRTA) of the WTO has to be strengthened to meet the challenge of increasing worldwide regionalism, which recently is given an additional momentum through strengthened East Asian regionalism.

More effective multilateral trade liberalization, however, may provide an instrument, which is most effective to weaken the motivation of WTO members to be engaged in regional trade liberalization, which takes place within a limited number of countries and thus generates limited economic gains. As stated earlier, some part of increasing regionalism seems to have been motivated by the sluggish process of multilateral trade negotiation. Making affirmative commitments to multilateralism through effectively resolving such contentious trade issues as liberalization in agricultural and services trade between major trading nations could pave the fundament for a successful conclusion of the DDA, which then may exercise restricting influence on the regionalist tendency of the world economy.

<sup>6</sup> See, for instance, Baldwin (2005).

<sup>7</sup> For a more detailed discussion about "stumbling block" and "building block" effects of regionalism towards multilateralism, see, for example, Young (1993) and WTO (1995).

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