


# FUTURE TRENDS IN ASIAN TRADE LIBERALIZATION

By Jason Wright, Cornell University

The expansive and rapid growth of export-driven Asian economies over the past two decades has been largely coincident with the development of various free trade agreements, most notably the successful negotiation of the Asia-Pacific Economic Cooperation (APEC) forum in 1989 and the Association of Southeast Asian Nations (ASEAN) Free Trade Area in 1992. Regional economic integration and trade liberalization have been an instrumental component of Asia's economic growth, and will continue to be so for the foreseeable future. Yet the slowdown in global trade talks, in particular the prolonged delay in the Doha round negotiations at the World Trade Organization (WTO), have motivated Asian countries to develop bilateral free trade agreements as alternatives to multilateral trading regimes like the WTO.

The proliferation of free trade agreements has accelerated immensely since 2000, when only eight were in effect. Today East Asia has in place 74 FTAs, with dozens more under negotiation. The changing nature of trade terms in Asia has the potential to create disruptions in commerce and have conflicting effects on multilateral trade agreements, in large part due to the highly politicized nature of individual trade agreements and inevitable overlap between complicated labeling and certification rules on Asian firms. This phenomenon has been referred to as the Asian "noodle bowl", which has been the modus operandi for Asian trade talks for the past few years. While trade agreements are almost always designed in a manner that benefit domestic business environments, some critics such as Masahiro Kawai and Ganeshan



Wignaraja of the Asian Development Bank argue that “the plethora of overlapping and complex FTAs in East Asia carries the risk of becoming unwieldy and making business cumbersome.” The divergence between increasing trade volume and decreasing export share in East Asia seems to confirm that changes in trade policy since 2000 have increased trade flow at the expense of the competitiveness of Asian firms.

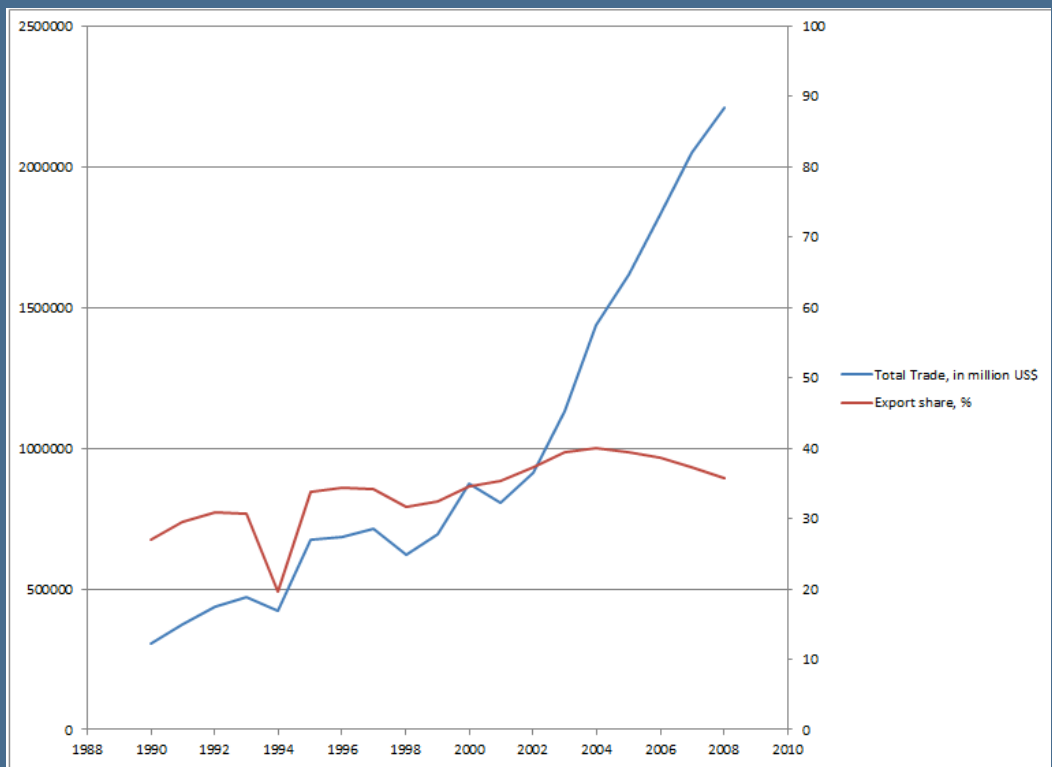
Still, critics who point to the marginal impact of bilateral FTAs as an argument for slowing or ceasing entirely the ongoing process of trade liberalization are misguided. Several Asian countries are now in the midst of critical negotiations over landmark trade agreements, and a failure to conclude these negotiations in a timely manner could send a new wave of protectionism across the continent. Instead,

Asian policymakers should work to craft FTAs that facilitate regional economic groupings and the eventual consolidation of bilateral agreements. Kawai and Wignaraja, among others, have proposed incorporating elements of global trade talks into Asian FTAs, such as including WTO-plus provisions and using FTAs as a vehicle for concessions on global trade “sticking points” like agriculture.

At the same time as Asian countries seek to liberalize trade with the West, some scholars have called for the development of a “pan-Asian FTA”, with proposals ranging from an expansion of ASEAN to a South Asian Free Trade Agreement. The main benefit of intra-Asian free trade, as opposed to individual negotiations with Western countries, is that it can facilitate regional trade policies that maximize and equally distribute

the benefits from trade among countries that often compete for similar markets in a way that is consistent with the WTO. For example, one proposal for the SAFTA argues that “the SAFTA should, at a declared later date, graduate into open or autonomous trade liberalization by accepting the two basic pillars of the WTO, namely the most-favored nation (MFN) clause and the national treatment (NT) for trade with non-members of SAFTA.”

This process, however, relies on continued action on individual FTA negotiations themselves. At the center of Asian trade talks in the past few months has been South Korea, who has found willing trade partners in both the European Union and the United States. The EU recently completed the ratification process for what its Parliament calls “the most ambitious trade agreement the EU has ever negotiated,” the EU-South Korea FTA. While the US-South Korea FTA (KORUS) still awaits ratification in the United States, prospects look increasingly promising. President Barack Obama’s continued influence and political capital have created favorable conditions in the 112th Congress, alongside sizable support from business and labor. Although there is always a possibility that new, controversial issues could divert Congressional focus on free trade accords and derail ratification, lawmakers in South Korea should seize the opportunity to implement these two pacts while political support still exists. A recent report from the Congressional Research Service emphasized the strategic necessity of the KORUS FTA for the promotion of trade liberalization in Asia, claiming “the fate of the KORUS FTA is likely to be seen as a bellwether for broader U.S. trade policy, which is now in a period of re-evaluation... This raises questions in the minds of U.S. policymakers and other experts, regarding the future role of the WTO and multilateral negotiations in shaping the international trading framework. The



KORUS FTA will likely play a role in this reassessment. For better or worse, its rejection or indefinite delay might call into question the viability of FTAs as a serious U.S. tool to strengthen economic ties with major trading partners.”

The consequences of failure to successfully conclude KORUS could be fatal to global economic engagement with Asian economies. Future proposed trade agreements, such as the oft-mentioned Trans-Pacific Partnership (TPP), FTA negotiations with Japan and Taiwan, and trilateral negotiations that would include Japan, South Korea, and China, could suffer. While much work remains to be done to strengthen these agreements, FTAs will remain the path to Asian economic integration for the indefinite future. Domestic protests, opposition from South Korea’s Democratic Party, and uncertainty surrounding ratification in the United States have all held up ratification in the National Assembly. South Korean lawmakers must act swiftly to ratify these pending free trade agreements. The rest of Asia should follow suit by developing trade agreements that further Asian integration with the global economy. They must not allow “noodle bowl” concerns to hold up trade liberalization entirely. The fate of trade integration and economic growth in the region depends on it.