

Foreword

Asia is a vast continent with large heterogeneity – physically, culturally, linguistically, politically, and economically. The region includes some of the world’s most competitive and sophisticated economies, as well as large emerging ones which are fast becoming important global players. At the same time, they coexist with numerous smaller, poorer, and more vulnerable economies, including landlocked and island states. Despite its rapid economic growth, Asia still remains the home to nearly a half of the world’s poor. The region is facing numerous challenges, ranging from rising inequalities and disparities, limited natural resources, and vulnerability to climate change and risk of falling into the ‘middle income trap’, all of which have implications for the rest of the world.

The past few decades witnessed the rapid economic take-off of the region. Asia’s share in world merchandise trade has grown from around 13 percent in 1960 to over 32 percent in 2012. Asia is projected to grow and account for more than half of global gross domestic product (GDP), trade, and investment, and enjoy widespread affluence by the middle of the 21st century.

Trade has played a key role in shaping the transformation of Asian economies in the recent history. Asia is a living example of how trade can contribute to economic development. The trade share of GDP in Asia has grown from 13 percent in 1960 to 60 percent by 2012. During the same period, hundreds of millions of people have been lifted out of poverty. It is my belief that trade will continue to play a defining role for Asia’s future prosperity.

Integration – both regional and global – has been central to Asian prosperity. The share of intra-regional trade in Asia’s merchandise trade has grown from about 20 percent in 1960 to over 50 percent in 2012. Asia’s rapid economic growth owes much to the development of webs of supply chains and production networks, often known as ‘Factory Asia’.

Today, nearly 60 percent of the volume of world merchandise trade is trade in components. In Asia, the figure is closer to two-thirds. This owes much to services, including transport, communications, and other business services which become key components in the operation of supply chains. The same can be said of relatively low tariffs on industrial products

and little escalation in the tariff structures. Foreign direct investment (FDI) has also played a big role in the expansion of trade in intermediate goods in Asia.

There is a debate on the causality between the growing supply chains and the number of free trade agreements (FTAs) in Asia. In fact, Asia is a relative latecomer to FTAs, only increasing its involvement over the past decade, albeit at a dramatic scale. The number of ratified FTAs grew from 36 in 2002 to 113 in the beginning of 2014. The development of supply chains in Asia has been driven by businesses, and it is the FTAs that are catching up with business reality of more trade and investment. The key driver of regional integration through FTAs is to reduce the costs of trading, through the improvement of quantity and quality of infrastructure, the quality of logistics, the quality of institutions and the competitiveness of the economy. As tariffs are generally not a significant barrier anymore, these agreements have increasingly focused on non-tariff trade facilitation measures, both at and behind borders.

The coexistence between FTAs and the multilateral trading system is likely to continue for the foreseeable future. The key is how best to pursue coherence between them. In light of the growing supply chains as the basis for deepening Asia's regional and global integration, there is a need for a path toward gradual multilateralization: the extension of existing arrangements in a non-discriminatory manner to additional parties. Some recent initiatives to consolidate intra-regional FTAs into a broader regional agreement – such as the Regional Comprehensive Economic Partnership (RCEP) by the Association of Southeast Asian Nations (ASEAN) plus Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand (ASEAN+6) members or the tripartite FTA among the People's Republic of China, Japan, and the Republic of Korea – could be a stepping stone in that direction. It is important, however, that such convergence efforts should not end up in an agreement of the lowest common denominators or a closed agreement.

The case for multilateralization is particularly strong in Asia. First, the idea of 'open regionalism' originated in the Asia-Pacific Economic Cooperation (APEC) context in 1996, as an option to extend the benefits of the ASEAN FTA accords to non-members on a most-favored-nation (MFN) basis. While this idea was not formally adopted, APEC economies have embraced it and practice it on a range of products.

Second, Asia is increasingly focusing on inter-regional FTAs, outreaching other continents, whether between economies on both sides of the Pacific Ocean or with Europe, in addition to the already existing inter-regional fora such as APEC and the Asia–Europe Meeting (ASEM).

Third, recent Asian FTAs focus more on reducing non-tariff measures,

involving standards, technical regulations, certification procedures, services regulations, prudential rules, and others. While these measures are more complicated to negotiate than tariffs, once an agreement is reached, their implementation would not only be easier, but also less costly and more efficient, if done in a non-discriminatory fashion.

Fourth, unilateral trade opening is one form of multilateralization that has been practiced widely as part of domestic reforms. This is especially true in Asia.

Finally, while multilateralization itself does not automatically translate into multilateral accords, locking in these trade opening efforts in the World Trade Organization (WTO) can provide credibility, transparency, and predictability, which are central to a smooth operation of supply chains. Given the huge economic and systemic interests involved in the maintenance of an open, well-functioning trading system, Asia could proactively contribute to strengthening the global trading system by bringing their negotiating energies back to the WTO, ensuring greater coherence and synergies in their trade-opening efforts at the regional and global levels.

While some Asian members might be frustrated at slow progress on the Doha Development Agenda negotiations, the adoption of the 'Bali Package' at the WTO Ministerial Meeting in December 2013 offers hope for multilateralism. Indeed, there are areas in which the WTO can complement and facilitate the integration efforts back home. For instance, the conclusion of the Trade Facilitation negotiations helps improve regional connectivity by halving logistical and other costs associated with border and customs procedures. Together with regional institutions, the WTO can also ensure that Aid for Trade helps build trade capacity in poorer Asian countries, including capacity to implement a WTO trade facilitation deal. The WTO can also work together with regional institutions to ensure availability and affordability of trade finance, in particular for small and medium-sized enterprises (SMEs).

Asia has been a successful model of development through trade, which has inspired many others around the world. There is no doubt that the region will continue to inspire the trade community in the decades to come.

With its significant economic and trade weight in the global economy, Asia is expected to shoulder more responsibilities and take the lead in the global trading system in the future. Its contribution to formulating a post-Bali agenda will be essential. Asia's successful experience of facilitating Factory Asia can also contribute to the challenges of developing better regulatory convergence in services trade markets, investment rules, and government procurement regimes.

This book, edited by Richard Baldwin, Masahiro Kawai, and Ganeshan Wignaraja, provides a timely analysis of the evolving 21st-century world trading system and the role of the WTO. The chapters in the book examine key changes relating to supply chains and the rules governing trade from an Asian perspective. I believe that they will make a valuable contribution to the debate about how to reform the world trading system and to develop more coherence between multilateral and regional trade rules.

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