Regional Economic Integration in the Asia-Pacific: New Issues

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Outline

State of Play and Global Outlook
Global Trade Paradigm and New Regionalism
Regional Economic Integration in the Asia-Pacific
Ratio of world trade volume to GDP growth was high [2:1 (past 20 years) ⇒ 1:1 (since 2008)]; but will face a decline in this ratio as well as a slowdown in GDP growth both in AEs and Ems.

Source: World Economic Outlook (WEO), IMF
Global economic growth slow down and rising share of EM trade (53% ⇒ 75%)
Rising Inequality and the Impact of Climate Change

The inequality challenge: rising income gaps in advanced countries

Ratio of gross wages of the top 90th to the bottom 10th percentile

<table>
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<tr>
<th>Country</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
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Regional loss of GDP due to the impact of climate change, 2010-2060

% of GNP

- OECD America
- OECD Europe
- OECD Pacific
- Rest of Europe and As..
- South & South-East A..
- World
The Korean economy faces a gloomy economic outlook and growth potential...
... also faces serious demographic challenges: aging with low fertility
Korea:
- already an aging society (7-14% of 65 and older in total population) since 2000,
- an aged society (14-20%) in 2018,
- a super-aged society (20% and higher) in 2026.
Outline

State of Play and Global Outlook

**Global Trade Paradigm and New Regionalism**

Regional Economic Integration in the Asia-Pacific
Global Trade Paradigm is evolving

- WTO and Multilateral Trading System (MTS)
  - Languishing DDA negotiations
  - Plurilateral negotiations: TiSA, ITA, EGA

- Proliferation of FTAs/RTAs (New Regionalism)
  - Mega-FTAs among huge, advanced countries: TTIP (US-EU), Japan-EU FTA
  - REI in the Asia-Pacific: TPP, RCEP, CJK FTA, and (FTAAP?)

- Expansion of Global Value Chain (GVC)
  - Rules of origin (ROO): the Spaghetti bowl effect

The rapid increase in trade without progress in MTS has undermined the need for the latter.

Instead, new regionalism (FTAs/RTAs, and mega-FTAs) has followed to ensure trade growth momentum is maintained.

But will next generation of RTAs and REI be able to help revert the slowing trade growth?
Expansion of Global Value Chain (GVC)

Figure 2. Vertical specialization (G20), 1995 vs. 2009

GVC and the Smile Curve: FDI and Technology Transfer

The smiling curve
Value distribution along the global value chain

Value added

Pre-production intangible
Production tangible activities
Post-production intangible

Value chain activities

R&D
Global value chain in the 2000s
Design
Logistics: Purchase
Production
Logistics
Marketing
Services

FDI are motivated by GVCs, which in turn with growth of trade in general, has made employment more dependent on other countries’ demand.
In fact, FDI flows have introduced a major shift in income levels and employment conditions across the world.

Source: Key Indicators of the Labour Market; October 2011, ILO
These developments (plus other factors) have implications on both advanced and emerging economies.

**Advanced economies are:**

- Implementing policies to attract back their corporations (reshoring) for employment considerations
- Becoming cautious in signing off on new trade deals concerned that agreements are not fully implemented (through domestic regulations)
- Pursuing WTO plus to ensure level playing field vis a vis EM corporations who are thought to benefit from government indirect support

**Emerging markets are:**

- Having second thoughts on GVCs given their value added are marginal and with limited tech transfers
- Feeling the pinch of inefficiencies hidden in their economic systems
- Facing capacity constraint in reforming their respective systems
- Coping with continuous inflows of labor for whom jobs have to be created (potential tension with the first point)
Outline

State of Play and Global Outlook

Global Trade Paradigm and New Regionalism

Regional Economic Integration in the Asia-Pacific
Asia-Pacific remains the most dynamic area with various REI initiatives

- **TPP (12 APEC member economies)**
  - High standard, tariff elimination without exception, adoption of rules and standards

- **RCEP (ASEAN + 6(CJK, Australia, New Zealand, India))**
  - Not as high standard as TPP; but due regards to development gaps
  - Tariff schedule and liberalization time line for services and investments remain difficult
  - Lack of existing FTAs among participants such as China-India, China-Japan, or Korea-Japan also hinder progress

- **FTAAP (Including all 21 APEC member economies)**
  - The Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP including through a “collective strategic study (CSS)” and capacity building activities; a step-by-step, consensus-based approach
Income Gains from Alternative Agreements (2025 estimates) are not negligible

<table>
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<th>Alternative Template</th>
<th>GDP Baseline</th>
<th>TPP</th>
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| Memorandum         | TPP (12) | 33,045 | 285.0 | 155.1 | 892.8    | 878.6    | 454.5    |
|                    | RCEP (16) | 35,290 | 137.4 | 617.9 | 1516.8   | 1400.2   | 887.4    |
|                    | APEC (21) | 58,951 | 239.2 | 553.0 | 1973.0   | 2517.1   | 1410.7   |

<table>
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<th>Relative to the world (%)</th>
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Note 1): 44% if intra-EU trade is excluded from the world trade

Sources: Petri (2013), Kim (2013), World Bank, UN Comtrade Yearbook, USTR

Source: results from model described in Petri et al. (2012).
Notes: FTAAP is simulated using 17 and 21 member groups as described in the text. The templates indicated represent those projected for TPP and RCEP.
The pathways, however, will be shaped by various economic and political considerations

Possible pathways to Asian Economic Integration

- P4
- TPP 12
- RCEP
- CJK FTA
- + Korea, China, …

Umbrella agreement or a hybrid approach by APEC?

Pathways towards REI in the Asia-Pacific

- TPP and RCEP competitive vs. complementary? Consolidating them to FTAAP? Non-issue
- Umbrella agreement or hybrid approach?
- Step-by-step (gradual) and issue-by-issue approach?

Note: “Umbrella agreement” proposed by Petri (2014) or the hybrid approach proposed by Schott (2014)
New Issues in REI in the Asia-Pacific

- New trade issues
  - Emergence of E-Commerce (internet access, taxation), IPR (longer patent lives), competition policy, environment (level playing field) and labor (standards)

- Other politically sensitive issues
  - SOEs (competition, subsidies), government procurement, investment and ISDS

- Non-tariff barriers (NTBs) rather than tariffs more critical
  - Rules and regulations (transparency)

- Dichotomy in issues and interests by development level
  - Services, investment, IPR for the advanced countries
  - Development, manufacturing and technology for developing countries

- Proliferation of FTAs and Spaghetti bowl effects from diverse and complex ROOs
  - Simplification and harmonization; issue-by-issue approach

Macroeconomic development considerations:

- job creation and labor; aging; inequality; currency and imbalance; slowing global growth and the need for new engine of growth
Global labor supply will continue to increase for the next few decades to come

Economic integration

- Consideration will be given to creating sufficient jobs in individual countries
- Tension between adopting international standards vs. maintaining respective country specific characteristics
- Tension between efforts to invite FDI (GVCs) vs. nurturing domestic enterprises
REI in the Asia-Pacific: Challenges and Opportunities

- **Challenges**
  - Negotiations within RTAs: between developed and less developed countries and between different systems
  - Domestic politics and regional geopolitics
  - Economic integration and political tension: ensuring the benefit of economic integration dominates as to overwhelm political tension
  - Incorporating all the different economic objectives

- **Opportunities**
  - New sources of economic growth
    - Greater market access and efficiency gains through regional economic integration and GVCs
  - Dominance of REI over political tension
REI and Korea

- Korea established as an FTA hub
  - 14 FTAs with 51 countries in effect including US, EU, China, ASEAN, and India
  - 1 FTA (Colombia) signed

- Korea engages in all the regional integration initiatives but TPP.
  - in CJK, RCEP, FTAAP (through APEC).
  - Korea showed interest in TPP but not yet asked to join.
  - Several outstanding issues regarding TPP both domestic and external

- Korea supports REI efforts and will actively participate in regional initiatives.
  - REI and Korea’s role as a middle-power in the Asia-Pacific
    (lynchpin across the Pacific through KORUS FTA and Korea-China FTA?)
Principles to adopt for REI in the Asia-Pacific

**Trade Initiatives**
- TPP, RCEP, and FTAAP;
- US-China BIT together with CJK FTA
- Gradual issue-by-issue approach (eg. ROO)

**Investment and Development**
- Common prosperity and development through ECOTECH, ODA, KSP, Infrastructure (OBOR/AIIB), etc.
- Enhance Connectivity

**Security**
- Stability through deeper REI
- Common interests and prosperity
Thank you!