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Asia's Strategic Participation in the Group of 20 for Global Economic Governance Reform: From the Perspective of International Trade

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ADB Working Paper Series on Regional Economic Integration



Asia's Strategic Participation in the Group of 20 for Global Economic Governance Reform: From the Perspective of International Trade

Taeho Bark and Moonsung Kang

No. 74 | February 2011

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ADB Working Paper Series on Regional Economic Integration

Economic Governance Reform: From the Perspective of International Trade

Taeho Bark⁺ and Moonsung Kang⁺⁺

No. 74 | February 2011

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Abstract

After considering the background to the G20 summit meetings after the recent global economic and financial crisis, this paper aims to identify the trade agenda that represents Asia's concerns for the global and regional trading system. Asia, in particular East Asia, has played an important role in evolving the global production and trade networks. The regional production network in East Asia became the major transmission mechanism of the crisis, resulting in a trade collapse, but Asia experienced a relatively quick rebound, demonstrating that its network was not derailed. Asian economies have also shifted their policy focus from multilateralism to regionalism, even though there are several challenges such as underuse and a shallowness of their regional trade agreements. This paper recommends that the Seoul Summit seek tangible results on resolving the stalemate of the Doha Development Agenda to strengthen the credibility of G20, integrate individual free trade agreements into broader regional trade agreements, and link the development agenda to trade.

Keywords: global governance and Group of Twenty (G20), international and regional trade, global and regional production networks, global and regional trade systems

JEL Classification: F13, F15, F44

1. Introduction

In an era of globalization, the recent global economic and financial crisis, which originated in the United States (US) in 2008, spread to Asian economies. This transmission was partly because Asian economies are heavily dependent on markets of the US and Europe. Most economies in Asia, particularly those in East Asia, had adopted outward-looking trade policies for their industrialization, and the key destinations for their exports are the US and Europe; hence, the crisis there significantly reduced their demand for commodities produced in Asia, undermining the export performances of Asian economies.

The global production network was another channel through which the crisis spread to Asian economies, as they have been closely linked to the global value chain since the 1990s (discussed in Section II). When the crisis hit this network, Asia started to be damaged.

In an effort to recover quickly from the crisis, major countries formed the “G20 summit” and made efforts to discuss and set a policy agenda in a sincere and cooperative manner. During the four rounds of the G20 summit meetings,¹ G20 leaders tried to move the global economy beyond the crisis to a path of sustained and balanced growth. These meetings provided mutually agreed outcomes, including identification of key principles for financial market reform;² commitment to a standstill on protectionism; efforts to restore economic growth and employment recovery (US\$ 5 trillion to be spent to stimulate growth by the end of 2010); reform and reinforcement of financial supervision and regulations; exit strategies to be taken under international collaboration once economic recovery is certain; agreement on principles for fiscal consolidation by advanced economies; and agreement on the direction of reform of the International Monetary Fund (IMF).³

At the G20 Pittsburgh Summit, countries designated the Republic of Korea as the host country for the fifth G20 summit in November 2010. The Seoul Summit is the first G20 summit meeting hosted by an Asian and emerging country, providing opportunities for reflecting Asia’s own views on the agenda.

¹ Washington, DC, United States (15–16 November 2008); London, United Kingdom (2–3 April 2009); Pittsburgh, United States (24–25 September 2009); and Toronto, Canada (26–27 June 2010).

² These principles are reinforcement of transparency and a sense of responsibility; improvement of financial supervision and regulations; enhancement of the reliability of financial markets; reinforcement of international cooperation; and reform of international financial organizations. See Declaration: Summit on Financial Markets and the World Economy (15 November 2008) for more information.

³ See Declaration: Summit on Financial Markets and the World Economy (15 November 2008); The Global Plan for Recovery and Reform (2 April 2009); Leaders’ Statement: The Pittsburgh Summit; and The G20 Toronto Summit: Declaration for more information.

Having outlined the background of the G20 summit meetings, this paper aims to identify the trade agenda that represents Asia's concerns for the global and regional trading system. It aims to design a consistent and concrete regional agenda that G20 Asian members can bring to the global decision-making table. Up to the fourth Summit, member countries had focused on macroeconomic and financial issues, even though some trade issues, such as commitment to a standstill on protectionism⁴ and avoiding protectionism and promoting international trade,⁵ were discussed. However, since most developing countries consider international trade as a vital tool for industrialization and economic development, the G20 Seoul Summit emphasized trade issues.

To meet this aim, this paper evaluates the importance of global and regional production and trade networks, and the concrete steps to link the global and regional trading systems in Section II. Section III discusses the impact of the crisis on regional trade networks and consequently on emerging Asia's economies. Section IV assesses the development status of global and regional trade systems from the Asian perspective. Finally, Section V discusses specific policy suggestions and areas of cooperation that emerging Asia could highlight on the G20 agenda.

2. Recent Developments in Global and Regional Production and Trade Networks in Asia

2.1. Asia's Role in the Global Production and Trade Network

The global production network—which entails fragmenting the production process into geographically separated, low-cost destinations—has kept evolving over the past three decades. It has widened and deepened. Starting from simple electronics and clothing industries, global production networks spread horizontally to, for example, footwear, automobiles, office equipment, cameras, and publishing. This fragmentation also expanded vertically, to include customer services, legal services, R&D activities, and human resources.

The globally integrated production network has led to the formation of a global trade network for countries to trade intermediate and final goods as well as services. Most multinational corporations have tried to establish their own network of supplying intermediate goods and services from their own branches or their partners in various countries.

Given these trends, trade volumes in the “triad” of North America, Europe, and East Asia have significantly increased since the 1990s, via the formations of intra- and interregional trade networks. In 2009, the European Union accounted for 35.1%, East Asia⁶ 26.3%, and North America 12.8% of world exports, recording 74.2% in total.

⁴ See Declaration: Summit on Financial Markets and the World Economy (15 November 2008) for more information.

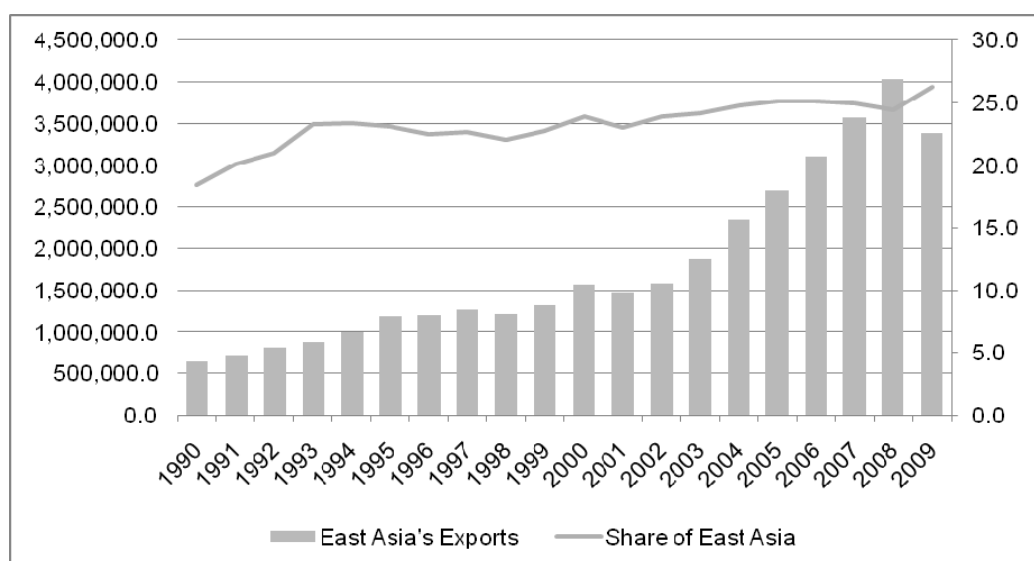
⁵ See The Global Plan for Recovery and Reform (2 April 2009) for more information.

⁶ In this paper, East Asia refers to 10 economies in East and Southeast Asia: People's Republic of China;

Asia, in particular East Asia, has played an important role in evolving the global production and trade networks. As shown in Figure 1, the volume of East Asian exports increased from 1990, even though it significantly fell in 2009 due to the crisis. Its share of exports also increased, from 18.4% in 1990, even after the crisis, recording 26.3% in 2009.

As shown in Athukorala (2009, 2010), Kang et al. (2010), Kim, Lee, and Park (2010), and Wakasugi et al. (2008), as part of global production networks, economies in East Asia are linked more closely to one another than economies in any other region. Its intraregional exporting volume increased from 38.2% in 1990 to 46.6% in 2009 (Figure 2).

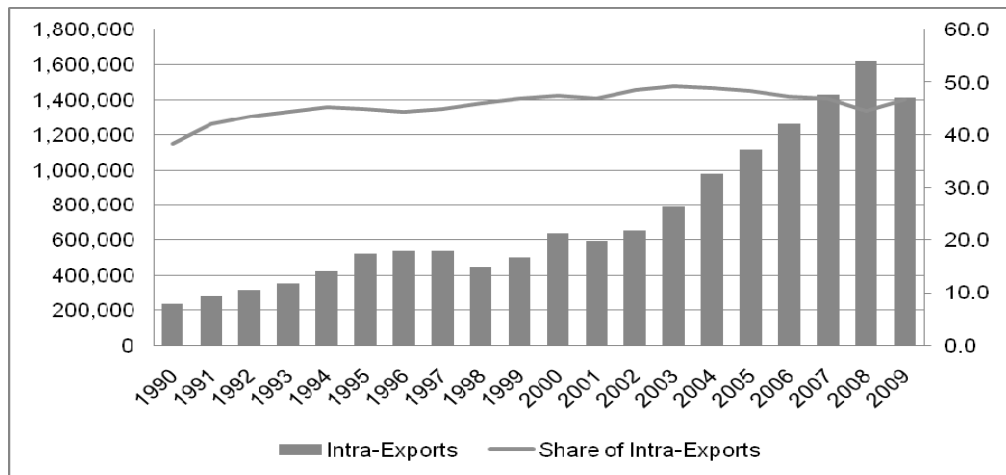
Figure 1: Recent Trend of East Asian Exports and Share in World Exports
(US\$ million, %)



Source: Authors' calculations using Direction of Trade Statistics, International Monetary Fund.

Hong Kong, China; Indonesia; Japan; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Each of them exported more than US\$ 50 billion in 2009, for a total of US\$ 3.4 trillion. India is also one of Asia's key exporters, but we exclude it to focus on East Asia. Taipei, China is obviously one of the most important players, but is not included because the Direction of Trade Statistics (DOTS) does not cover its data.

Figure 2: Recent Trend of Intraregional Export in East Asia
(US\$ million, %)



Source: Authors' calculations using Direction of Trade Statistics, International Monetary Fund.

2.2. Asia's Regional Production and Trade Network

East Asia's intraregional trade network is different from that of the other triad regions. While both North America and Europe have been developing their networks by forming an institutional framework, such as the North American Free Trade Agreement (NAFTA) and the European Union (EU), East Asia's network is a market-driven or functional economic integration.

Hong Kong, China has the greatest share of intraregional exports (as a proportion of its total exports) among the 10 East Asian economies, at 72.4% in 2009, followed by Indonesia (66.1%), Malaysia (63.2%), Viet Nam (60.5%), the Philippines (59.5%), Thailand (52.7%), Singapore (48.7%), the Republic of Korea (44.0%), Japan (39.4%), and the People's Republic of China (PRC, 34.6%). Using regional trade and production networks in East Asia, these economies produce and export intermediate goods to the PRC—the main “factory” in the region—and then the PRC assembles and exports final goods to countries all over the world. The main destinations of these exports are the US and Europe—as explored in Ando and Kimura (2009) and Kim, Lee, and Park (2010)—implying a vulnerable channel through which the recent crisis spread from these regions. This issue will be discussed in Section III.

The Asian Input-Output Table 2000 from the Institute of Developing Economies and the Japan External Trade Organization (2006) enables us to analyze East Asia's regional production network and services offshoring. Tables 1 and 2 show flows of material and services inputs in selected economies of East Asia and in the US,⁷ in 2000.⁸ As found in Kang et al. (2010), each country has been supplied with a large share of materials and services from its own economy.

Both Japan and the US have been one of top three providers of material and services inputs into all economies' supply chain.⁹ As concluded in Kang et al. (2010), Japan, the US, the PRC, and the Republic of Korea are the main suppliers of material and services inputs in East Asia.

Again as shown in Kang et al. (2010), firms in East Asia have tried to use the most efficient material and services inputs within the regional production network, rather than in their home country, leading East Asia as a whole to enhance its productivity. Kang et al. (2010) also showed that the productivity impact of services offshoring in East Asia was greater than that in the US, suggesting a strong motivation for strengthening and deepening the network.

3. Impact of the Global Economic and Financial Crisis on the Regional Production and Trade Network in Asia

3.1. Trade Collapse after the Crisis

The recent crisis was triggered by a credit crunch in the US, due to the burst of the housing bubble, the subprime mortgage problem, and the collapse of the shadow banking system.¹⁰ It was deepened by consecutive risks in other countries, such as the sovereign debt crisis of some eurozone countries. The impact of the crisis on international trade was very great—a “trade collapse” in the words of the Organisation for Economic Co-operation and Development (OECD) (2010). As shown in Figure 3, global export volume in 2009 fell by 22.0%. This trade collapse triggered concerns for international trade, including worries about protectionism.

⁷ We included the United States to analyze regional production network and services offshoring in East Asia because it plays an important role in this regional network.

⁸ Data for 2000 are the most recent from the Institute of Developing Economies and the Japan External Trade Organization. However, after analyzing trends of flows of material and services inputs in this region in 1990, 1995, and 2000, as Kang et al. (2010) have already done, one finds that East Asia's regional production and trade networks have deepened and widened. Therefore, these networks are stronger than what these two tables show.

⁹ Unfortunately, we did not have any relevant data on European countries to determine their roles in East Asia's regional production and trade networks. We leave it for future research.

¹⁰ The shadow banking system provides channels of funds from investors to businesses, consisting of nonbank financial institutions. Bear Sterns and Lehman Brothers are good examples.

Table 1: Flows of Material Inputs in Selected Economies in East Asia, 2000
(US\$ million)

Country	PRC	Indonesia	Japan	KOR	Malaysia	Philippines	Singapore	Thailand
PRC	1,041,693	864	12,281	5,365	1,871	480	2,595	2,186
	88.02%	1.37%	0.67%	1.45%	2.07%	1.32%	3.28%	2.50%
Indonesia	1,794	44,230	3,893	1,328	1,252	417	1,311	861
	0.15%	70.17%	0.21%	0.36%	1.39%	1.15%	1.66%	0.99%
Japan	23,718	2,800	1,693,870	18,918	10,335	4,315	10,278	9,025
	2.00%	4.44%	92.49%	5.12%	11.45%	11.89%	13.00%	10.33%
Korea, Republic of	18,157	1,347	11,594	289,664	2,789	1,849	2,024	1,775
	1.53%	2.14%	0.63%	78.46%	3.09%	5.09%	2.56%	2.03%
Malaysia	3,693	685	5,305	2,468	35,060	917	6,322	2,130
	0.31%	1.09%	0.29%	0.67%	38.85%	2.53%	8.00%	2.44%
Philippines	824	40	2,116	838	1,210	15,695	186	355
	0.07%	0.06%	0.12%	0.23%	1.34%	43.24%	0.24%	0.41%
Singapore	3,444	656	2,098	2,068	9,298	1,731	26,385	2,125
	0.29%	1.04%	0.11%	0.56%	10.30%	4.77%	33.38%	2.43%
Thailand	2,351	450	4,784	1,023	2,774	655	1,857	50,596
	0.20%	0.71%	0.26%	0.28%	3.07%	1.80%	2.35%	57.93%
US	11,160	1,585	25,836	16,207	8,062	2,964	6,548	3,811
	0.94%	2.51%	1.41%	4.39%	8.93%	8.17%	8.28%	4.36%
ROW	59,526	9,693	60,137	28,183	14,103	6,095	19,932	12,647
	5.03%	15.38%	3.28%	7.63%	15.63%	16.79%	25.21%	14.48%

Notes: KOR = the Republic of Korea; PRC = the People's Republic of China; ROW = rest of the world; US = United States.

1. Each data point shows the volume of input flows from the country in the column to the country in the row. 2. From the perspective of the country in the rows, the shaded areas are the top three suppliers to that country (excepting the country's own inputs).

Source: Recalculation and reproduction from Kang et al. (2010) using Asian International Input-Output Table, Institute of Developing Economies and Japan External Trade Organization (2006).

Table 2: Flows of Services Inputs in Selected Economies in East Asia, 2000
(US\$ million)

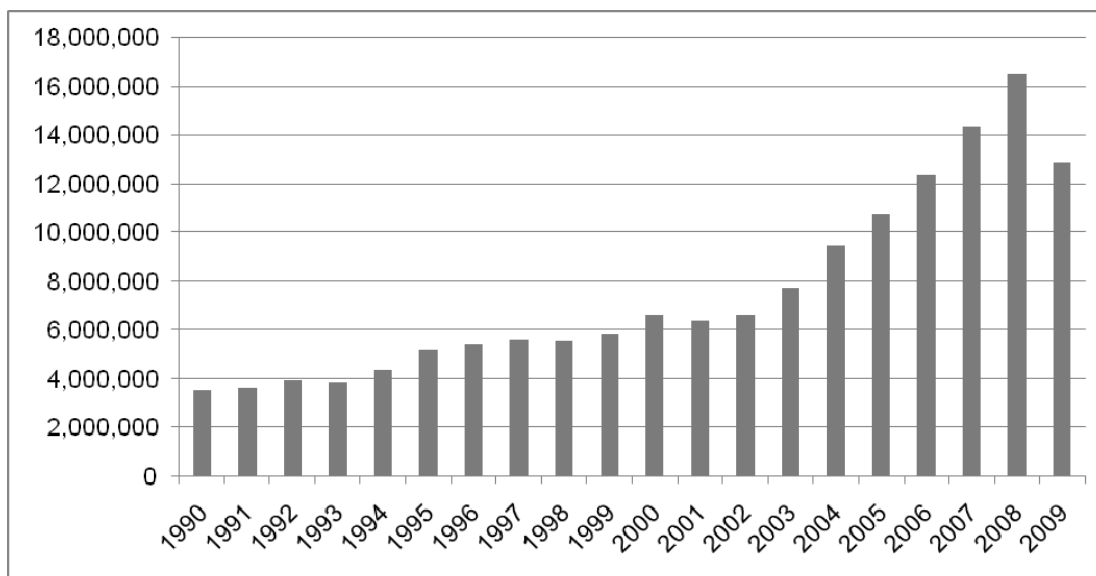
Country	PRC	Indonesia	Japan	KOR	Malaysia	Philippines	Singapore	Thailand
PRC	372,578	101	2,073	922	196	61	248	230
	96.26%	0.21%	0.12%	0.46%	0.51%	0.26%	0.31%	0.53%
Indonesia	372	41,484	835	206	205	62	40	151
	0.10%	86.58%	0.05%	0.10%	0.53%	0.27%	0.05%	0.35%
Japan	3,204	348	1,642,753	2,137	2,085	366	979	997
	0.83%	0.73%	96.34%	1.07%	5.40%	1.58%	1.24%	2.29%
Korea, Republic of	863	60	503	173,460	179	69	75	79
	0.22%	0.13%	0.03%	86.89%	0.46%	0.30%	0.09%	0.18%
Malaysia	175	37	736	114	26,892	44	2,396	104
	0.05%	0.08%	0.04%	0.06%	69.62%	0.19%	3.03%	0.24%
Philippines	205	11	560	188	218	19,004	41	98
	0.05%	0.02%	0.03%	0.09%	0.56%	82.09%	0.05%	0.23%
Singapore	207	129	154	126	568	98	58,213	162
	0.05%	0.27%	0.01%	0.06%	1.47%	0.42%	73.53%	0.37%
Thailand	298	76	498	99	374	58	155	40,750
	0.08%	0.16%	0.03%	0.05%	0.97%	0.25%	0.20%	93.75%
US	1921	277	7,343	2,558	1,692	450	1,084	606
	0.50%	0.58%	0.43%	1.28%	4.38%	1.94%	1.37%	1.39%
ROW	5,132	5,304	49,027	19,581	5,539	2,816	15,785	84
	1.33%	11.07%	2.88%	9.81%	14.34%	12.16%	19.94%	0.19%

Notes: KOR = the Republic of Korea; PRC = the People's Republic of China; ROW = rest of the world; US = United States.

1. Each data point shows the volume of input flows from the country in the column to the country in the row. 2. From the perspective of the country in the rows, the shaded areas are the top three suppliers to the country (excepting the country's own inputs).

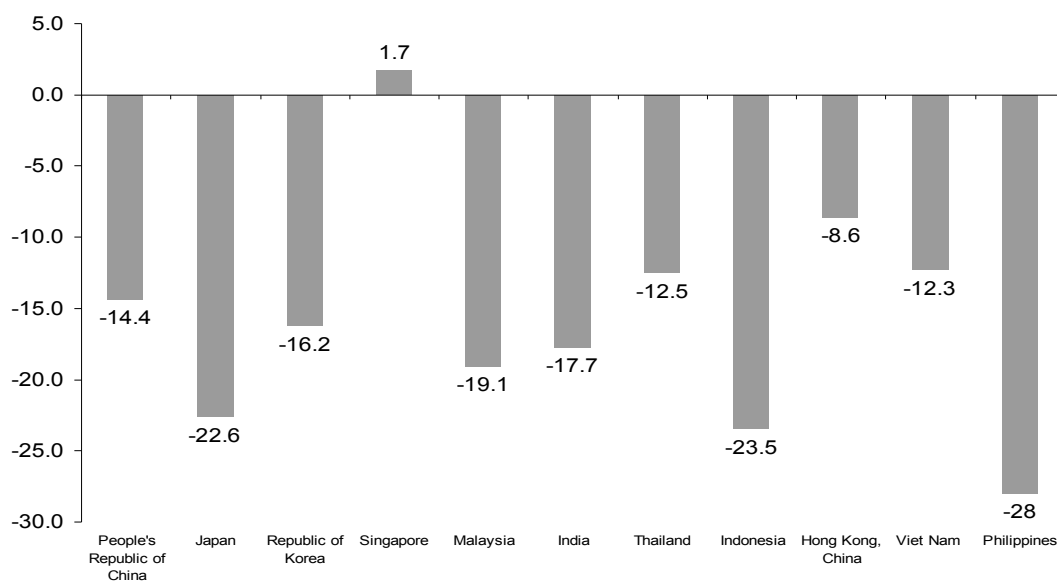
Source: Recalculation and reproduction from Kang et al. (2010) using Asian International Input-Output Table, Institute of Developing Economies and Japan External Trade Organization (2006).

Figure 3: Recent Trend of World Exports
(US\$ million)



Source: Direction of Trade Statistics, International Monetary Fund.

Figure 4: East Asian Trade Collapse, 2009
(%)



Source: Authors' calculations using Direction of Trade Statistics, International Monetary Fund.

The crisis hit the export performance of East Asia (Figure 4). In 2009, the Philippines' exports dropped by 28.0%, followed by Indonesia (23.5%), Japan (22.6%), Malaysia (19.1%), the Republic of Korea (16.2%), the PRC (14.4%), Thailand (12.5%), Viet Nam (12.3%), and Hong Kong, China (8.6%), while Singapore's exports increased by 1.7%.

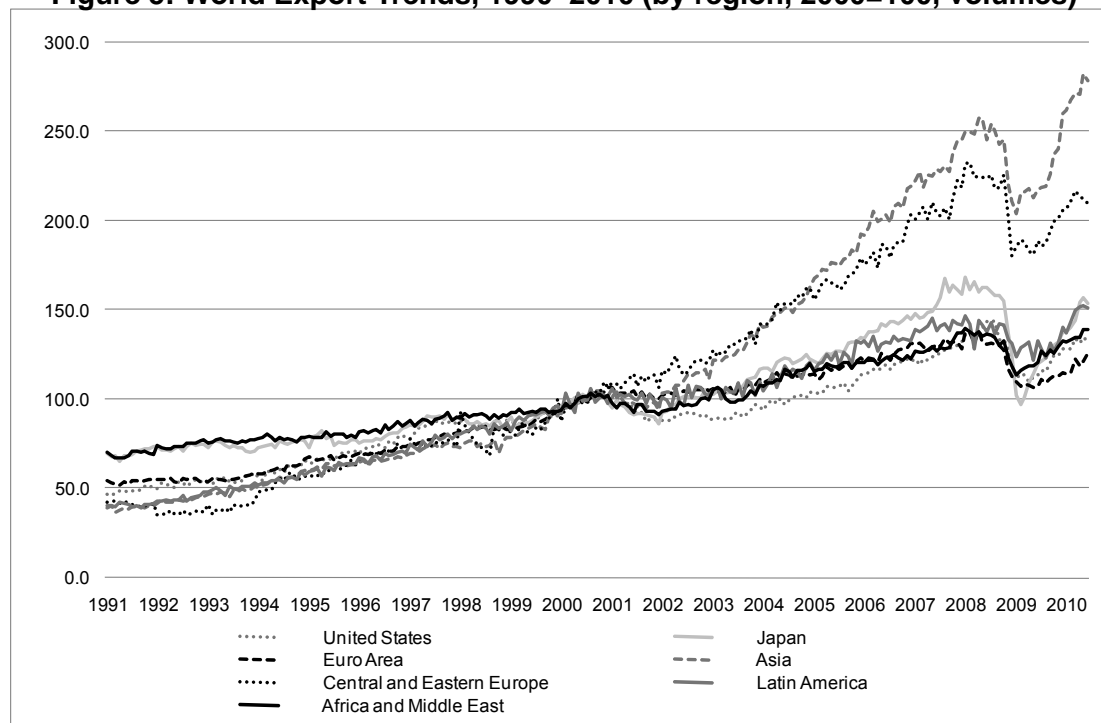
The OECD (2010) identifies three main reasons for the trade collapse: (1) a collapse in demand; (2) a shortage of short-term trade finance; and (3) compositional factors related to a disproportionate fall in output and trade of goods that make up a larger share of trade than of GDP. The crisis led the global economy to experience a collapse in demand for export goods, which in turn led the exporters to reduce their production and exports. As discussed in Lane and Milesi-Ferretti (2010), since manufactured goods are more cyclical than non-manufactured goods, the uncertainty of future economic prospects and the credit crunch heavily affected demand for them. In addition, the credit crunch also reduced access to trade finance, as discussed in OECD (2010) and Auboin and Meier-Ewert (2003). But there is no evidence that protectionist measures after the crisis were a major factor in the trade collapse, as shown in OECD (2010), even though the risk of protectionism is still a major concern.

Ironically, regional production networks in East Asia—having been at the heart of the growth in trade among East Asian economies—became the major transmission mechanism of the crisis. Since trade in parts and components expanded more rapidly than that in final goods in East Asia, the collapse in demand for the latter damaged demand for the former, hence the trade collapse spread to East Asia through their regional production networks. In addition, they were vulnerable to external shock because they adopted outward-looking trade policies.

3.2. Impact on Regional Production Network in Asia

The crisis hit international trade hard, as said earlier. However, world exports in 2010 (Figure 5) show diversity of regional experiences. While most regions saw a major decline in exports after the crisis, Asia and Latin America experienced a relatively quick rebound, even surpassing the previous peak of export volumes. It demonstrates that the regional production network in East Asia was not derailed.

Why is the export performance of East Asia different from that in other regions? As discussed in Kim, Lee, and Park (2010) and Kuroiwa and Ozeki (2010), the major export destinations of East Asia are markets of the US and Europe. However, by September 2010, the US and Europe had not yet made up all the ground lost since the credit crunch began, and were not resilient enough to import more from East Asia. Rather, demand from emerging economies is helping to reestablish and reoperate East Asia's regional production and trade networks. It is also expected to help advanced countries' trade performance. Therefore, the mutually beneficial trade patterns would be helpful for the sustainable growth of the global economy because the growth in one part of the global economy can help stimulate a recovery in other part (if countries are successful in opening their markets).

Figure 5: World Export Trends, 1990–2010 (by region, 2000=100, volumes)

Note: It was hard to find a dataset showing recent trade performance by region, except the CPB dataset of the monthly trade index. However, as CPB's regional classification does not match the one in this paper, the figure reports Asia's trade performance rather than East Asia's.

Source: Authors' calculations using the data of CPB Netherlands Bureau for Economic Policy Analysis (www.cpb.nl).

4. Recent Developments in Trade Systems from the Asian Perspective

4.1. The Global Trade System

Asian economies consider the multilateral trading system the top item on their trade policy agenda. In particular, more Asian economies have been participating in the system since 2000. The PRC and Taipei, China became members of the World Trade Organization (WTO) in 2001, Cambodia and Nepal in 2004, and Viet Nam in 2007. The expansion of Asian membership in the WTO is compatible with the growing Asian share of global trade.

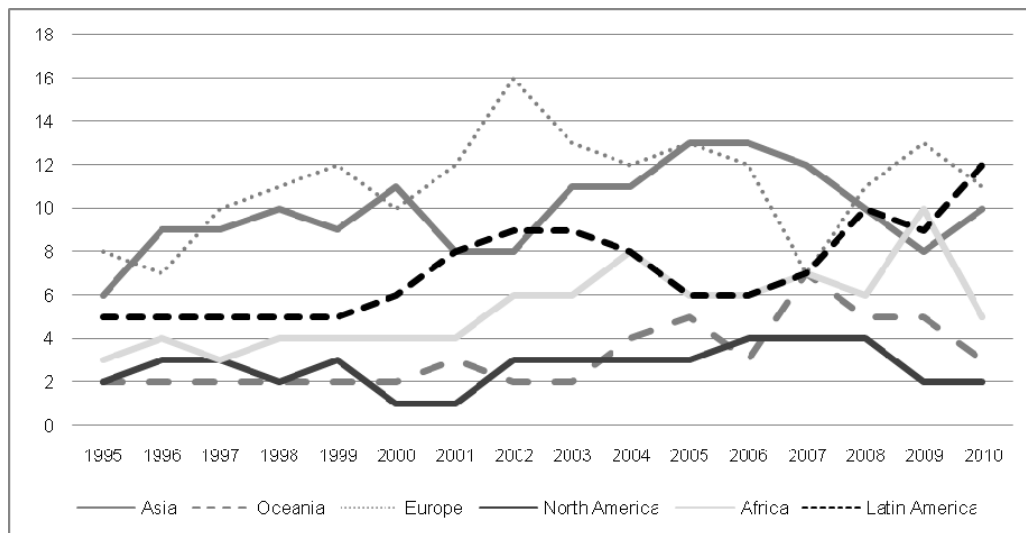
Even though the current Doha Development Agenda (DDA) negotiations¹² have had trouble concluding successfully, the multilateral trading system has played an important

¹¹ The DDA negotiations were launched on November 2001 and the main subjects are agriculture; non-agricultural market access; services; rules (antidumping, subsidies, and regional trade agreements); trade facilitation; trade and development; trade-related intellectual property rights; trade and environment; and dispute settlement understanding.

role in reducing various barriers to trade and strengthening the rule-based trading system. East Asian economies, adopting outward-looking trade policies, have benefited greatly. Several studies, such as those by Felbermayr and Kohler (2006), and Liu (2007), showed that trade among WTO member countries is higher than when one of the trade partners is not a WTO member. While Martin et al. (2008) failed to show that GATT/WTO membership alone was significant to the growth of trade, they verified that membership in the multilateral trading system was important in promoting trade growth in the Asia-Pacific region. In addition, Li and Wu (2004) showed that accessions to the General Agreement on Tariffs and Trade/WTO have a positive impact on the productivity of acceding economies. These findings underline the importance of the multilateral trading system to successful economic and trade performance of East Asia.

In recent years, Asian economies have been involving themselves more in the work of the WTO (Figure 6).

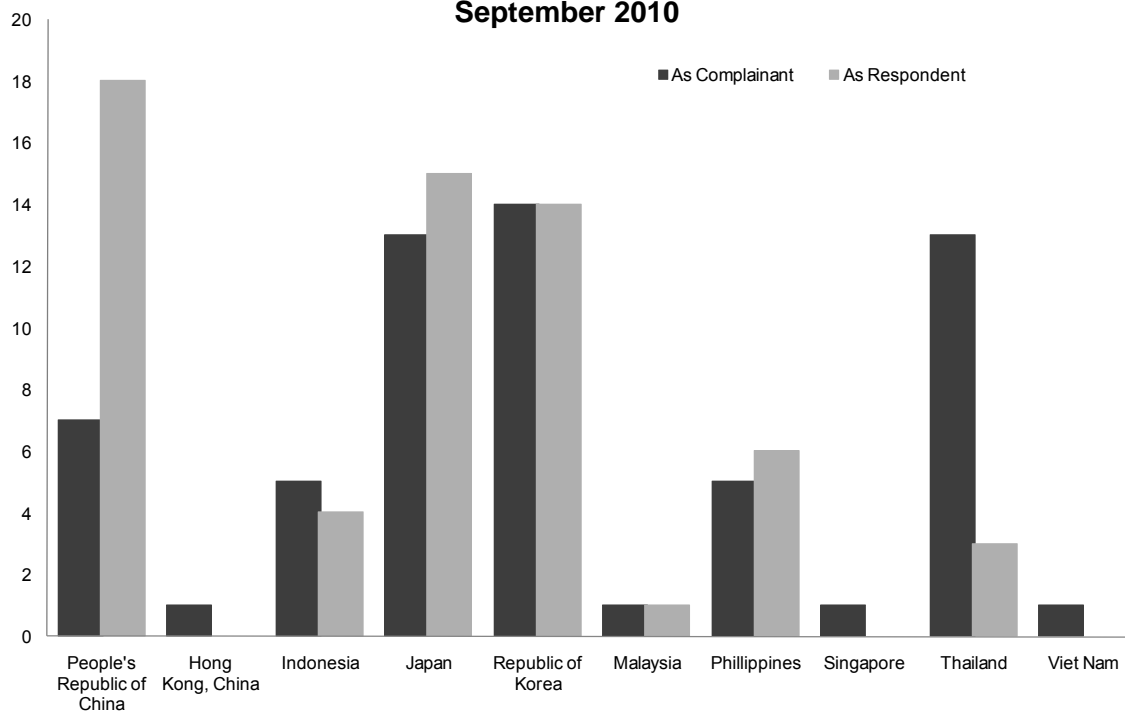
Figure 6: Regional Trends of Chairpersons of World Trade Organization Bodies and Subsidiary Bodies



Source: World Trade Organization (<http://www.wto.org/>).

East Asian economies have also become much more active in using the WTO Dispute Settlement Procedure (DSP) to assert their legal rights, as shown in Ahn (2003) and in Figure 7. There were 411 cases under the DSP as of September 2010, with East Asian economies involved in 122 cases (61 cases as complainant and 61 cases as respondent), representing 30.0% of the total cases. While the main target economies in East Asia were the PRC, Japan, and the Republic of Korea, East Asian economies have brought trade disputes to the DSP.

Figure 7: World Trade Organization Disputes of East Asian Economies, September 2010



Source: World Trade Organization (<http://www.wto.org/>).

Presumably, East Asia's use of DSP is based on a belief that the WTO can improve the image of globalization, governments of member countries, and the multilateral trading system itself—more specifically, that multilateral trade liberalization can serve their commercial interests. Most Asian economies' traditional policy preference for multilateralism over regionalism could be another factor. Asian economies have expressed their support to the rule-based multilateral trading system and balanced outcomes of the DDA under the WTO, especially using the Asia-Pacific Economic Cooperation (APEC) Summit Meetings,¹³ even though most Asian countries have adopted regional rather than multilateral trade talks since 2000.

In light of what was said above, the DDA negotiations are crucial for East Asian economies, even though they have varied positions on each subject. Presumably, any multilateral agreement to further reduce barriers to trade will be helpful for countries adopting outward-looking trade policies. Particularly, East Asia—having its own regional production and trade networks—will secure real benefits from a balanced and ambitious conclusion of the negotiations.

¹² APEC has 21 members, including 12 in Asia. However, it would be very unlikely for these members to declare harmonized views on specific areas of the WTO/DDA negotiations. For example, while APEC has countries exporting agricultural goods, such as Thailand, the United States, and Viet Nam, it also has countries importing them, such as Japan, the Republic of Korea, and Taipei, China, whose agriculture sectors are highly sensitive in domestic political terms.

4.2 The Regional Trade System

Even though East Asia as a whole does not have any institutional regionalism,¹⁴ many of its economies have been actively engaging in bilateral, intraregional, and interregional trade agreements with various economies since 2000. Most of its economies have multiple regional trade agreements with other economies (Table 3). Singapore is the most active regional country in economic integration agreements. The PRC, India, Japan, the Republic of Korea, and Thailand also have been active in regional trade talks while the PRC and Taipei, China signed the Economic Cooperation Framework Agreement in June 2010.

Table 3: Regional Trade Agreements, Selected Economies in Asia

Economy	Goods Notifications (RTAs)	Goods Notifications (Accessions)	Services Notifications (EIAs)	Services Notifications (Accessions)
PRC	9	1	7	0
Hong Kong, China	1	0	1	0
India	12	1	2	0
Indonesia	7	0	4	0
Japan	11	0	10	0
Korea, Republic of	8	1	5	0
Malaysia	8	0	5	0
Philippines	8	0	4	0
Singapore	18	0	15	0
Taipei, China	3	0	3	0
Thailand	10	0	6	0
Viet Nam	7	0	4	0

Note: EIA = economic integration agreement; PRC = the People's Republic of China; RTA = regional trade agreement.

Source: World Trade Organization RTA database (<http://rtais.wto.org/>).

This shift from multilateralism to regionalism is based on several factors: fear of being left out from the global trend of regionalism; a race to be the “hub” of regionalism in East Asia; the strong need for formal cooperation, generated by the crises of the last 15 years. Before 2000, there were roughly 75 regional trade agreements (RTAs) in the world, except those RTAs currently not effective. Among them, there were only five effective regional trade agreements in East Asia: the Protocol on Trade Negotiations (PTN),¹⁵ the

¹³ Different from institutional (or de jure) integration, East Asia's economic integration using its regional production and trade networks can be called functional, market-driven, or de facto integration.

¹⁴ This Agreement entered into force in 1973 and East Asian countries among the current signatories are

Asia-Pacific Trade Agreement (APTA),¹⁶ the Global System of Trade Preferences among Developing Countries (GSTP),¹⁷ the Lao People's Democratic Republic (Lao PDR)–Thailand Preferential Trading Arrangement,¹⁸ and the ASEAN Free Trade Agreement (FTA).¹⁹ However, these RTAs are legally covered by the enabling clause under the WTO and their scope of trade liberalization has been negligible. In a practical response to the spread of regionalism throughout the world, East Asia decided to expand regional integration, hoping to secure foreign markets through RTAs with major trading partners, including neighboring countries.

Previous literature on regionalism (De Benedictis et al. 2005; Momani 2007; Park and Park 2009) has taken the hub-and-spoke approach to explain the proliferation of regionalism. This approach postulates that a large country could be a member of several RTAs, but that smaller countries might only belong to one of these RTAs each, implying that the large country would then be the hub and the others would form the spokes in a series of RTAs. As economies in East Asia started to shift their policy focus from multilateralism to regionalism, there has been a race to become the RTA hub in East Asia and then economies have more actively participated in regional trade talks.

In addition, disasters and crises, such as the financial crisis in 1997-98, SARS, the tsunami, bird flu, and the recent crisis, have exposed the lack of intra-Asian cooperation. To redress this lack, East Asian economies have held regional discussions on economic integration since 2000.

For instance, there have been 286 regional trade agreements, notified to the WTO as of September 2010 (Table 4), and East Asia has participated in 171 such agreements, (Table 3 above). From the late 1990s, East Asia began to use FTAs as a trade policy tool and now this region is at the forefront of regionalism (Kawai and Wingnaraja 2009b). While ASEAN would be the hub of regionalism in East Asia, the race to be the RTA hub is not yet over because other regional economies have become more aggressive in engaging in regional trade talks.

Still, since East Asia has become a major player in international trade, it is quite reasonable for most countries in the world to participate in any regional trade talks and channels to cooperate with East Asia. Various bilateral, intraregional, and interregional trade talks that include East Asia are under way and this approach is expected to keep evolving.

the Republic of Korea and Philippines. It mainly covers trade in goods.

¹⁵ This Agreement, known as the Bangkok Agreement, came into play in 1976, and the current signatories are Bangladesh, the PRC, India, the Republic of Korea, Lao PDR, and Sri Lanka. It mainly covers trade in goods.

¹⁶ This Agreement became effective in 1989 and East Asian countries among the current signatories are Indonesia, the Republic of Korea, Malaysia, Philippines, Singapore, Thailand, and Viet Nam. It mainly covers trade in goods.

¹⁷ This bilateral PTA between the Lao PDR and Thailand entered into force in 1991 and covers mainly trade in goods.

¹⁸ This Agreement entered into force in 1992 and all ASEAN members signed this Agreement. It covers trade in goods.

Table 4: All Regional Trade Agreements in Force (by World Trade Organization Legal Coverage, September 2010)

	Accessions	New RTAs	Total
GATT Art. XXIV (FTA)	2	156	158
GATT Art. XXIV (CU)	6	9	15
Enabling Clause	1	30	31
GATS Art. V	3	79	82
Total	12	274	286

Note: CU = customs union; FTA = free trade agreement; GATT = General Agreement on Tariffs and Trade.

Source: World Trade Organization RTA database (<http://rtais.wto.org/>).

East Asia must overcome several challenges in the near future. The first is how to improve companies' utilization of RTAs, as discussed in Kawai and Wignaraja (2009b) and Baldwin (2006). Various surveys, such as Kawai and Wignaraja (2009a), report that RTAs are underused in East Asia, even though companies are supposed to fully use RTA preferences. (After conducting more in-depth studies on this issue, scholars can provide policy implications for East Asian economies.)

In addition, compared with the other regions in the triad, East Asian regionalism is relatively shallow, with relatively low coverage of products and services but wide exceptions for sensitive products and sectors. Another challenge is, therefore, how to promote comprehensive trade coverage in goods and services. Other challenges must also be resolved, such as multiple rules of origin, generating spaghetti bowl effects;²⁰ forming its own region-wide RTA in East Asia; and harmonizing beyond-the-border issues.

5. Policy Recommendation from the Asian Perspective

World trade has been hit hard by the recent global crisis, as discussed. In particular, the emerging Asian economies that depend heavily on trade as their growth engine saw a severe drop in their exports in 2009. Fortunately, the world economy since the beginning of 2010 has shown a modest-paced, yet noticeable recovery, which in turn has been followed by an improvement in the world trading environment. Despite such signs, it is still too early to proclaim the crisis fully over; in fact, there are many obstacles for the world economy to overcome if it is to see robust growth.

Since their inception in November 2008, G20 summit meetings have provided a forum for world leaders to discuss key issues, allowing a concerted effort to overcome the crisis. Their evaluation is relatively positive. Specifically, their contribution in proposing

¹⁹ This term is used by Professor Jagdish Bhagwati of Columbia University to describe the complexity of trade rules resulting from a proliferation of RTAs.

policies to prevent the crisis from spiraling out of control to become another Great Depression received much international support. However, despite discussions on policies to overcome the crisis, on financial-regulation reform, and on reforms of international financial institutions that have led to substantial progress, the Summits have not been able to produce binding outcomes on politically sensitive issues such as IMF quota adjustments and governance reforms. For that reason, at the Seoul Summit, countries focused on attaining tangible results on unconcluded items on the agenda. (As the host, the Republic of Korea added a global financial safety net as well as development issues to the agenda.)

On the trade front, since the first Washington Summit, G20 leaders have voiced a unified concern of the global financial crisis reverting world trade to protectionism, and subsequently agreed to a standstill on trade restriction measures. With regard to enforcement, it was agreed that the WTO, OECD, and UNCTAD would lead monitoring efforts and report to the G20 summit meeting on the status. Some scholars are attributing the absence of a substantial increase in protectionist trade measures to this commitment. However, as most G20 countries are resorting to trade remedies such as anti-dumping duties, the concern for increased protectionism still lingers. At the Toronto Summit, the OECD, International Labour Organization, World Bank, and WTO assumed responsibility to study the effect that trade liberalization will have on employment and growth, and report the results at Seoul.

However, the stalemate in the WTO DDA negotiations presents a challenge to the credibility of the G20 as an international governance vehicle; despite being on every Declaration of the G20 summit meetings (Table 5), the DDA negotiations have shown no substantial progress. (They are the first multilateral trade negotiations launched by the WTO since its inception in the mid-1990s. The official negotiations began in 2001 and were originally scheduled to be completed by 2004.) A bigger worry is that it is uncertain when, or whether, they will be concluded at all. From the perspective of global governance, a crisis of multilateral trading system epitomized by the WTO system in a sense preceded the recent crisis.

Compared with the active discussions on reforms in international financial institutions conducted by G20 leaders recently, the effort the G20 is making in strengthening the multilateral trading system through concluding the Doha Round seems insufficient. More disconcerting is a growing opposition to the G20 involvement in DDA discussions based on a concern that G20's continuing issuance of unrealistic promises (such as the early conclusion of the Doha Round) will only damage the credibility of the G20 summit system.

However, this criticism fails to see the full picture of the DDA negotiations and the implications for the future of the G20 summit system. The fundamental reason why there is no conclusion of the DDA negotiations is that there is no agreement on the major issues; and the main reason why there is no agreement on the major issues is the disputes among key players, which are core members of the G20. Hence, if the G20 countries avoid the issue of stalemate in the DDA negotiations, at base caused by their disagreements for political reasons, that in and of itself will seriously hurt the credibility of the G20 summit as the premier forum for international economic cooperation.

Table 5: Trade-Related Declarations of G20 Summit Meetings

Place	Contents
Washington, DC, United States	<ul style="list-style-type: none"> - Refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports. - Strive to reach agreement on modalities that leads to a successful conclusion to the WTO's DDA with an ambitious and balanced outcome.
London, United Kingdom	<ul style="list-style-type: none"> - Reaffirm the commitment made in Washington. - Notify promptly the WTO of any such measures. - Take whatever steps possible to promote and facilitate trade and investment. - Ensure availability of at least US\$ 250 billion over the next 2 years to support trade finance.
Pittsburgh, United States	<ul style="list-style-type: none"> - Remain committed to further trade liberalization. - Seek an ambitious and balanced conclusion to the DDA in 2010.
Toronto, Canada	<ul style="list-style-type: none"> - Renew for a further 3 years, until the end of 2013, commitment to refrain from raising barriers or imposing new barriers. - Reiterate support for bringing the DDA to a balanced and ambitious conclusion. - Commit to maintain momentum for aid for trade.
Seoul, Republic of Korea	<ul style="list-style-type: none"> - Re-emphasize the need to promptly conclude the DDA. - Remain committed to the aid for trade levels beyond 2011. - Make progress toward duty-free quota-free market access for least-developed country products - Coordinate a collective multilateral response to support trade facilitation. - Support measures to increase the availability of trade finance in developing countries.

Note: DDA = Doha Development Agenda; WTO = World Trade Organization.
 Sources: Summit declarations.

Leaders at Seoul re-emphasized the need to promptly conclude the DDA negotiations (Table 5). They suggested that 2011 is a critical window of opportunity. Again, they did not discuss specific issues to resolve the disputes among key participants but simply directed negotiators to engage in across-the-board negotiations. However, without compromises among political leaders, negotiators cannot make any breakthrough. This aspect is similar to that found in all previous G20 summit declarations. One positive note from Seoul is that leaders showed their commitment to make progress toward duty-free quota-free market access for least-developed country products (Table 5).

Nevertheless, there is a limit to the impact that multilateral trade negotiations under the WTO can have on global trade liberalization. First, they are a compromise among more than 150 countries; therefore, the depth of the consequent trade liberalization can only be limited. The G20 leaders recognize the importance of regional integration by

advancing a commitment in the Seoul Summit Document to support “the regional integration efforts of African leaders, including by helping to realize their vision of a free trade area through the promotion of trade facilitation and regional infrastructure.”²¹ If the multilateral trading system represented by a robust WTO loses its footing in the world economy, the global trade system will be replaced by regional trade blocs. RTAs have their roots in trade liberalization; however, their negative consequences, such as trade diversion effects and increased maintenance and harmonization costs, preclude their replacing multilateral trading system. From the perspective of global governance, this is why the G20 leaders must strengthen the multilateral trading system under the WTO. In order to find the “framework of strong, sustainable and balanced growth” proposed at Pittsburgh, the role of international trade is even more important.

Considering that international trade can create jobs and assist economic growth of developing countries despite the recent global crisis, the DDA negotiations must be concluded as soon as possible. That may boost the world’s confidence in the multilateral trading system. And such strengthening of the system will be very important for emerging Asian economies. However, concluding them by the end of 2011 looks very slim (despite the Seoul Summit commitment to do that). In fact, some experts advocate a discussion of exit strategies from the DDA negotiations, deeming them a failure. Hence, the negotiations must fight against time as well. The G20 leaders must consider, on the one hand, costs incurred by the failure of the negotiations and, on the other, results of less than optimal, but binding, negotiations, and evaluate which will be more compatible with the sustainable and balanced growth the world is striving for. What must be stressed again is the need for a tangible solution that is legally binding along with an action plan to implement such solution.

In addition, the G20 leaders should voice their concern over the continuous upward trend of RTAs. Moreover, several bilateral FTAs should be integrated into multilateral RTAs, and it should be stressed by the G20 leaders that such RTAs must meet the requirements put forth by the WTO. Particularly, the RTAs in the Asian region have spread at an accelerated rate recently. Already, the PRC, Japan and the Republic of Korea have each agreed on FTAs not only with ASEAN, but also with many individual ASEAN members. For example, the Republic of Korea and the PRC recently started FTA discussions at the government level, and the Republic of Korea and Japan are now discussing the resumption of their bilateral FTA talks that halted in late 2004. Moreover, at the PRC-Japan-[Republic of] Korea summit meeting of October 2009, the heads of state agreed to pursue studies regarding a possible trilateral FTA. Even though regionalism took hold of Asia much later than it did other regions, too many separate bilateral FTAs among Asian economies constitute a suboptimal approach.

On that note, as participants in the G20 summit, these three countries must consider possibilities of integrating individual bilateral FTAs not only in Northeast Asia, but also in East Asia more widely, into broader RTAs. There are a few options of RTAs that be nurtured in the region of Northeast Asia and East Asia that the PRC, Japan, and the Republic of Korea can all participate in: APEC evolving into an RTA; a Trans-Pacific Partnership (TPP); an East Asian FTA; and a PRC-Japan-[Republic of] Korea (CJK) FTA.

²⁰ The G20 Seoul Summit: Leaders’ Declaration.

None of the four options has yet seen visible progress, except for the last one (as discussed in the previous paragraph). In this regard, anticipation of a Northeast Asian FTA will rise until reaching its climax at the end of 2012, when the above studies on a possible CJK FTA is completed. The studies' evaluation of a Northeast Asian FTA will likely be more positive and deem it more efficient than separate bilateral FTAs among the three countries.

If the CJK FTA negotiations are initiated, the quality of the FTA will receive much critical attention; in fact, the heads of the three states may be well advised to proclaim that a prospective trilateral FTA should be a high-quality, comprehensive FTA that meets and even goes beyond WTO requirements. If not, CJK FTA will not contribute much to global trade liberalization.

If CJK FTA is agreed on, the next step would be a CJK + ASEAN FTA. This is because, as said, all three countries already have separate FTAs with ASEAN and therefore the addition of ASEAN into a CJK framework will not be too arduous or costly. If the CJK + ASEAN FTA—or East Asian FTA—is signed, leaders need to recognize the importance of keeping it inclusive: more precisely, the East Asian FTA must keep its membership open to any interested party, and countries such as Australia, India, and New Zealand should be free to join.

Considering that numerous development projects have been attempted and have consumed vast resources, and that they have not produced as much success as hoped for, the G20 Seoul Summit looked to link development with other important issues on the agenda. The government of the Republic of Korea explained that the focus was the advancement of developing countries' capabilities. It also stressed that the projects born out of this discussion would be multiyear rather than one-time projects, and emphasized that this approach is different from that in the past. However, to achieve maximum returns from the limited given resources, development partners must select and focus.

Reflecting on economic development lessons that trade plays a critical role in lifting developing economies, the summit considered linking development with trade. To be precise, trade was already included in the development agenda, since other items such as infrastructure, human resource development, private investment, and job creation, if discussed with a focus on the linkage between them and trade, would benefit developing countries and their efforts to develop even further.

The Seoul Summit dealt with aid for trade in a more comprehensive manner than the previous summit meetings. It presented an explicit commitment by G20 countries of "at least maintaining, beyond 2011, aid for trade levels that reflect the average of the last three years (2006 to 2008)"—a substantial development from the vague commitment made at Toronto (Table 5). But in order to take on such challenge, there must first be a better understanding and a more critical evaluation of the nature and consequences thus far of aid for trade projects. The G20 leaders also noted this necessity in the Multi-Year Action Plan on Development by linking further efforts to collaborate among international organizations to deliver aid for trade with the outcomes of the Global Aid for Trade Review of July 2011, which is being conducted jointly by the OECD and WTO. In addition, the Summit advanced new commitments in duty-free quota-free market access

for least-developed countries, coordination of a collective multilateral response to support trade facilitation, and support of measures to increase the availability of trade finance in developing countries. These results committed in the Multi-Year Action Plan on Development from the Seoul Summit should result in practical long-term results geared toward trade promotion and facilitation.

From the perspective of global governance, the G20 leaders should continue their utmost efforts to settle the DDA negotiations by the end of 2011. Such a feat will ultimately serve to enhance the reputation and credibility of the G20 summit as the premier forum for international economic cooperation. Furthermore, the G20 leaders must express their concerns for an undeniable encroachment of regionalism. Related to this point, leaders of the PRC, Japan, the Republic of Korea, and ASEAN should attempt to consolidate and multilateralize the numerous individual bilateral FTAs that are being concluded in Northeast and East Asia into a broader RTA that liberalizes a larger area of the region. They should also ensure that this “East Asian RTA” is a high-quality and comprehensive RTA, meeting the WTO requirements. The Multi-Year Action Plan on Development produced at Seoul should be faithfully implemented. This will contribute to capacity building of developing countries, promoting their economic growth.

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Asia's Strategic Participation in the Group of 20 for Global Economic Governance Reform: From the Perspective of International Trade

This paper aims to identify the trade agenda that represents Asia's concerns for the global and regional trading system. Asia, in particular East Asia, has played an important role in evolving the global production and trade networks. Even though Asia's export performance was hit hard during the recent global economic and financial crisis, Asia experienced a relatively quick rebound. This paper prescribes three policy options: resolve the stalemate of the Doha Development Agenda; integrate individual free trade agreements into broader regional trade agreements; and link the development agenda to trade.

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