Comments on "Trade Patterns and Global Value Chains in East Asia"

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ADB

Contribution to Literature

- Net value approach
  - avoids double counting by estimating trade flows on a net basis at each stage of the supply chain
- Improves trade policies and analysis of production networks
  - Identify determinants of international competitiveness and comparative advantages
  - Assess the effects of foreign trade on economic growth and employment

1. Asia's Growth Outlook

- ADB Asian Development Outlook projections
  - Developing Asia growth of about 7% in 2011 and 2012
  - G3 (US, EU and Japan) growth of about 2% in 2011 and 2012.
- Risks to Asia's Outlook
  - Sluggish growth in G3 countries
  - Currency wars/protectionism
  - Inflation pressure building up from increasing oil and food prices

Growth Projections for Asia

(Growth rate of GDP, % per year)

	2011	2012
PRC	9.3	9.1
Korea	4.3	4.3
India	7.9	8.3
ASEAN	5.4	5.6
Indonesia	6.6	6.8
Malaysia	4.8	5.1
Thailand	4.0	4.5
Viet Nam	5.8	6.5

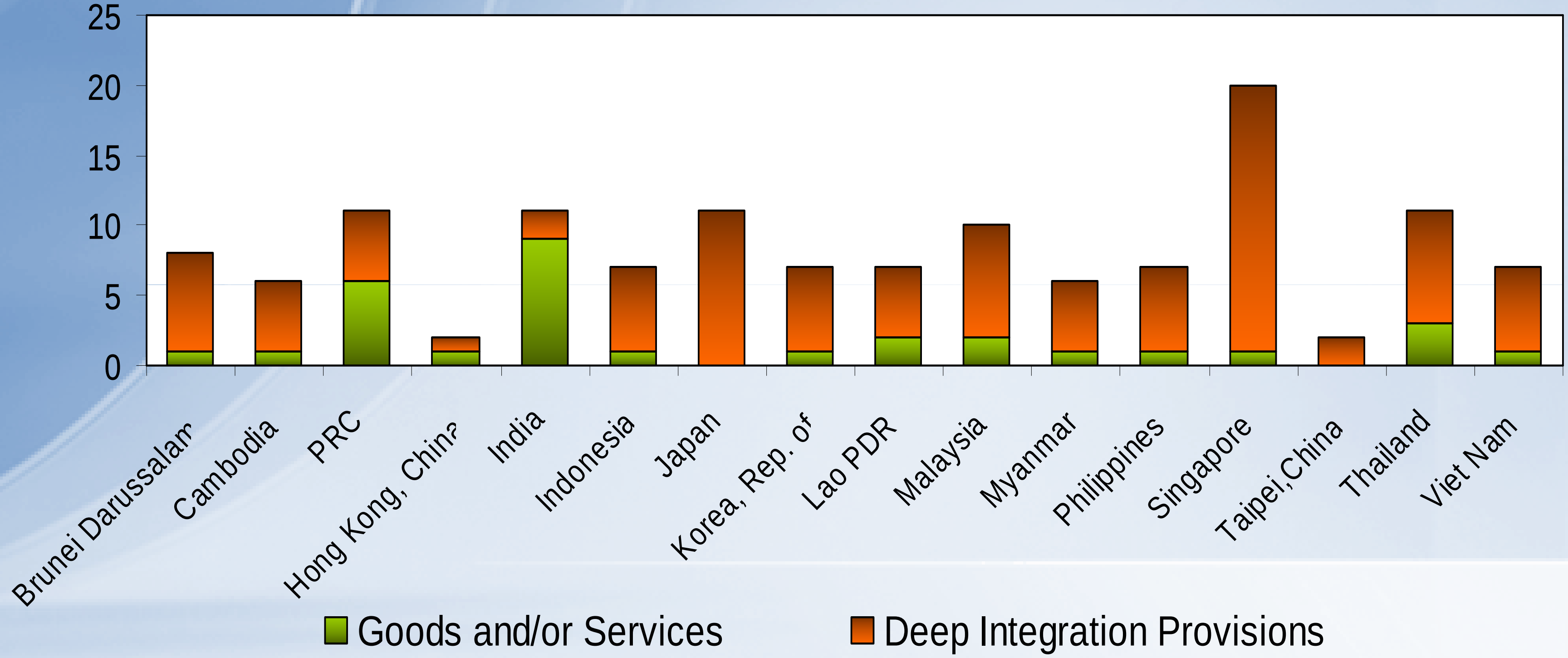
Source: ADB, Asian Development Outlook 2011 Update (September)

2. Rebalancing Growth: S-S Trade and Production Networks

- Global imbalances raising concerns about world growth sustainability
- Rebalancing growth towards regional and domestic demand in Asia imperative
  - Asian competitiveness built on deep production networks now centered on PRC as assembly hub
  - Rising intra-regional trade in Asia, particularly intermediates
  - Emerging markets and S-S trade vital growth engine
- Production networks need more S-S orientation:
  - Cross-border infrastructure
  - Liberalization of trade and investment rules
  - Exchange rate movements
  - Trade finance

3. Increasing "Deep Integration" Provisions in Asian FTAs

Number of Concluded FTAs, 2011



Source: *Kawai and Wignaraja (2011b).*

4. FTAs Have Helped Production Networks

- Published data on COO use not available.
- ADB/ADBI FTA enterprise surveys shed insights
  - 1,047 firms in 7 countries (PRC, Japan, Korea, Singapore, Thailand, Philippines, Indonesia)
  - Covers key sectors in production networks
- Growing production networks have benefitted from firms growing use of FTAs
  - Average utilization rate in 7 countries is about 30%;
  - Future use rate expected to rise to 52%
  - Highest use rates in PRC and Indonesia

Impediments to FTA use

(% of non-users)

Impediments	PRC	Indonesia	Philippines
Lack of information	**45.1**	**83.7**	**70.1**
Delays and admin costs	10.6	24.5	30.6
Small margin of preference	14.2	8.1	13.4
Use of EPZ schemes/ITA	8.8	30.6	26.9
NTMs in FTA partners	6.2	8.1	9.0
Number of respondents	**226**	**98**	**134**

5. Focus on Region-Wide FTAs

- Key to market access, production networks and reducing risk of Asian “noodle bowl”
- Evolving scenario is for linked FTAs (ASEAN+ and TPP) with variable coverage of members and issues
- Applying “Boiler plate” provisions and increasing business support vital
- Trade architecture in 2022, being shaped by political economy and will, hard to predict

6. TPP11- Goods Market Liberalization

Country	EV in US (Bn)
Japan	13.5
Korea	5.0
Australia	2.5
Malaysia	1.1
Singapore	1.5
Viet Nam	2.0

- Tariff reduction under TPP sees Asian members gain
- Without TPP, their growth prospects may be affected

Note: *TPP 11 = Brunei, Chile, New Zealand, Singapore, Viet Nam, Malaysia, Peru, Australia, USA, Japan, Korea

Source: Preliminary CGE estimates from Wignaraja and Mirza (forthcoming)

Resources

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Thank you!

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