



**Government of South Australia**

Department of the Premier  
and Cabinet

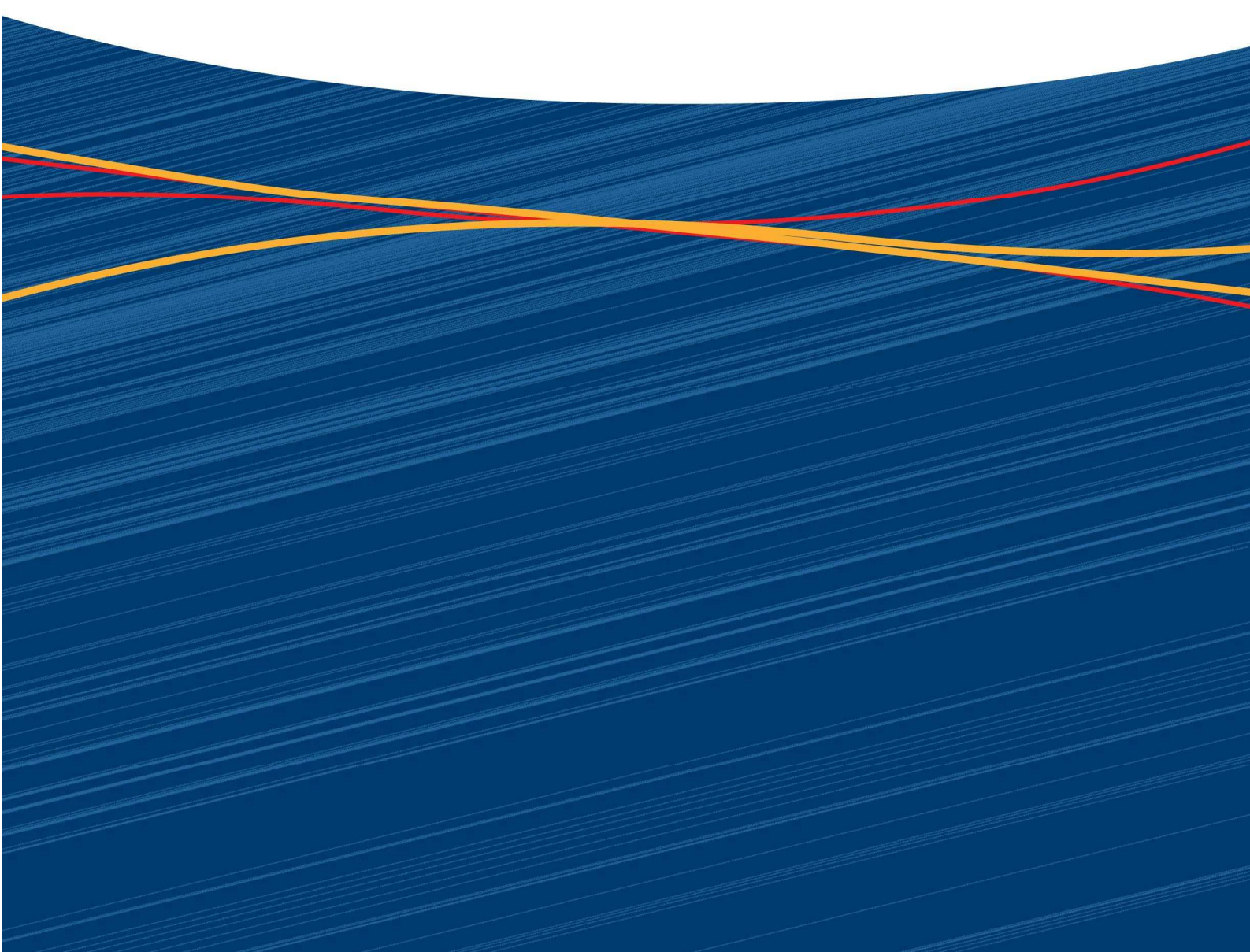
Department of Trade and Economic Development

Written by the Bocconi University intern at the at Department of the Premier and Cabinet-University City Project  
Adelaide, March 2010

New trade networks in the Asia-Pacific  
and Australia's role in the regional context.

## ***The Asian boom and Australian's proximity***

Dr. Manlio Longinotti  
Supervisor: Adj. Prof. Nicola Sasanelli AM





*Thanks to Mr. Greg Mackie and Mr. Bronte Treolar, for gave me the opportunity of undertaking this internship.*

*Thanks to Prof. Nicola Sasanelli, for sharing his ideas with me and attending me during all my internship, stimulating me with new challenges and different approach.*

*Thanks to Dr. Roz Averis and Ms. Desi Angelis for their helpful contribute in improving the quality of this work with their extraordinary experience and knowledge.*

*And, of course, a warm thanks to all the University City Project team for encouraging me every day and supporting me with their optimism and serenity, make me feeling part of the team since the first day until the end.*

*An experience that will certainly leads me towards a brilliant future, in which I am confident we will keep in touch, always having in mind these beautiful months together!*

*Manlio Longinotti*



## Introduction

The Asia–Pacific region has undergone momentous change over recent decades, with extraordinary economic growth experienced by many of the countries in the area. We are referring specifically to countries such as India, China and the South East Asian countries recently merged under the umbrella Association of South East Asia Nations (ASEAN). However, historically the Pacific arena has also included other economic players: two of the world's most powerful economies, Japan and USA; a group of countries including Australia, New Zealand and Korea that essentially have been in sound condition for several decades; and yet another group of countries including Fiji, East Timor, Papua New Guinea and Myanmar that are largely reliant on international aid programs and will continue to confront developmental challenges for some time.

This article aims to outline, from a macroeconomic viewpoint, the intricate net of relations that tie all these nations together. Since the beginning of 2010 several significant Free Trade Agreements (FTAs) have been established involving many of the countries referred to above. The import of this is that the Asia-Pacific region could arguably be considered the largest free trade area in the world – a new cradle of economy and exchange for the contemporary era. Given the global slowdown experienced in 2008-2009, the article also examines how these countries have been able not only to recover from the crisis, but also to strengthen their position. This is due in no small part to the exceptional development they managed to achieve in the preceding years, and the effectiveness of the policy frameworks adopted. In the wake of the crisis, the economic system which has emerged is remarkably resilient and shows outstanding flexibility in the face of extremely complex challenges.

It is instructive to consider how Australia fits into this pattern. As one of the few developed western nations in the region, it could be seriously regarded as both a central hub for those investing and establishing a business base in the area and, particularly from a European perspective, a springboard to Asian markets.

## 1. The global crisis in the Asia-Pacific

While the Asia-Pacific region was heavily affected by the financial crisis that occurred in 2008, it nonetheless reacted well to the slowdown and this can be attributed in essence to the diverse mix of its nations. Initially, the region was hit extremely hard, output in most countries contracting by even more than those nations at the crisis epicentre. Now it is not only leading the charge as the world pulls out of recession, but as a result of greater economic integration with the western economies, playing a key role in their recovery.

Asia's impressive economic recovery has been driven by the sound policy framework that underpinned the pre-crisis economy in respect of monetary policies, governmental fiscal plans and corporate and bank balance sheets. Accordingly, there has been a relatively rapid return to normalcy in trade and finance after the US downturn and its impact. This resilience is now paying off in a faster rebound in economic activity by those economies which are export-dependent<sup>1</sup>. Thus, through greater interdependency, Asia's economies are now more intrinsic to global economy and global recovery.

China's performance, in particular, is outstanding. It was the only major country whose key growth indicators were expanding in August 2009 at rates above their long-term expectations, a trend recently confirmed by official figures, viz. 8.7 percent growth in 2009, and an extraordinary 10.7 percent growth in the last quarter<sup>2</sup>. Exports grew faster than expected in December 2009, growing 17.7 percent (year-on-year basis). The surge in exports can most likely be attributed to increased demand from some Asian economies, especially the ASEAN economies, rather than developed countries. Exports to Asia, for example, had grown 7.6 percent (Month on Month) in November 2009, while exports to North America had simultaneously declined 5.8 percent.

India is another very impressive performer. Most estimates for growth in the financial year 2010 (April 2009-March 2010) have been revised upward, including revision of the growth estimate to 7.5 percent by the Reserve Bank of India (RBI), which had previously forecast 6 percent<sup>3</sup>. The greater part of this upward revision has come from the strong revival in industrial growth, especially the capital goods sector, and rising business confidence. Growth in the three months ending in December 2009 was expected to be much slower than in the third quarter due to a decline in agriculture sector output. However, notably, the percentage only decreased from 7.9 percent in the July-September quarter to 7.2 percent in the last quarter. Unquestionably, this is still an excellent result. The exceptional performance of the Indian economy has a lot to do with a substantial fiscal stimulus and loose monetary policy. In fact, it is estimated that government contributed around 50 per cent of total GDP growth in the year to September. In addition, lower interest rates have supported domestic demand for consumer durables.

---

<sup>1</sup> IMF, *Regional Economic Outlook: Asia and Pacific, building a sustained economy*, Washington 2009

<sup>2</sup> Source: National Bureau of Statistic of China 2010, [www.stats.gov.cn/english/](http://www.stats.gov.cn/english/). There is still an uncertainty on this figures, as the World Bank released a forecast saying China will grow at 9.5 % this year, especially as all these results are partly due to a very low base figure, (February last year was a particularly poor month for trade as the global financial crisis hit China largest markets hard), the timing of the Chinese new year holiday (February this year) and the fact that figures about the energy consumption are not available.

<sup>3</sup> Reserve Bank of India, *Annual Report 2008-2009*, [www.rbi.org.in](http://www.rbi.org.in).

South Korea is also worthy of note amongst the countries able to recover faster from the global slowdown. The fourth quarter figures were strong when compared with the previous year, and a 6 percent growth year-on-year outcome came on the back of 0.9 percent in the third quarter. Sequential growth, however, was rather disappointing with growth stalling at 0.2 percent quarter-on-quarter. Clearly, the lower base from last year has distorted the result to show a very strong year-on-year recovery. In January, exports grew 47.1 percent from a year ago, with a surge in exports to China of 88.5 percent year-on-year. China is the biggest export market for South Korea and, as growth in China is expected to remain solid, it is likely that its export expansion will improve further. Korea's second largest market is the United States, so the final outcome will depend on the capacity for recovery of both these two countries.

Australia, in this difficult context, has maintained production stability and economic independence, being the only advanced economy able to avoid two consecutive quarters of negative growth in real GDP, at the same time minimising unemployment and lowering debt and deficits. Although the foreign capital flows invested reduced, Australia nonetheless continues to be regarded as a country with highly profitable investment opportunities. The International Monetary Fund (IMF) estimates that Australia grew by just under 1 per cent in 2009, which is a remarkable result compared with an average contraction of 3.2 percent for the advanced economies collectively. The housing and automobile sectors are expected to continue to grow due to rising demand from a growing population, however the real boost to the economy could well come from the mining sector. Increasing exports to China, the largest market for Australian exports, helped the economy prevent a slump in this sector. So with the key trading partners of Australia expected to grow steadily in 2010, rising investment in commodity and natural resource projects may result in stronger than expected recovery. The last official figures reported a significant GDP growth of 0.9 percent in the last three months of 2009, with an even more significant 2.7 percent growth for the year<sup>4</sup>, reaching AUD\$1.2 trillion.

The performance of ASEAN is also noteworthy. The Association of South East Asian Nations embraces a number of different economies concentrated in diverse sectors and, as a regional entity, it survived the downturn well. At the time of writing<sup>5</sup>, the figures are positive for the majority of the countries except Singapore and Indonesia, which registered a decrease in the GDP growth in the last quarter of 2.8 and 2.4 percent respectively. When considered as whole, the GDP growth of the area amounts to 1.3 percent. The most interesting figure, however, is the one for the BCLMV<sup>6</sup> group, which grew at 4.2 percent. All the figures related to ASEAN will be examined below. However, before moving on, we can discern from the above examples that not only was the area remarkably flexible, but also that the good news came from those countries regarded as least developed. Furthermore, looking at the GDP growth over the last five years (2004 – 2009) it is clear that all the ASEAN countries, except Singapore, doubled their GDP.

Not all the countries in the Asia-Pacific area performed quite so well, Japan being a case in point. It was massively affected by the global slowdown as it is one of the

---

<sup>4</sup> Source: Australian Bureau of Statistic, 03.03.2010; growth in the expenditure measure of GDP was driven by a 3.5% increase in private investment, a 10.2% increase in public investment and a 0.7% increase in household expenditure. Offsetting these increases was a fall in net exports. The fall in net exports was due to imports (up 7.7%) growing faster than exports (up 1.7%), [www.abs.gov.au](http://www.abs.gov.au).

<sup>5</sup> Source: ASEAN Statistic, [www.aseansec.org](http://www.aseansec.org) as of 15 March 2010; all figures are available on the website, but not for all countries of the Association.

<sup>6</sup> Brunei, Cambodia, Lao PDR, Myanmar, Vietnam.

world's most export-oriented countries and its strongest trading partner is the US. Unemployment in Japan continues to remain high, at 4.9 percent in January 2010<sup>7</sup>, and deflation is likely to continue throughout this year. In combination, these factors mean that domestic demand, a key component of the economy, will remain subdued. In other words, Japan is dependent on exports to convert the fragile recovery experienced in the second and third quarters of 2009 to a sustainable growth pattern. The wages figures for December 2009 released by the Ministry of Health, Labour and Welfare show that wages continue to be in a free-fall, declining 6.1 percent year-on-year in firms employing five or more employees, following a 2.4 percent decline in November. On the positive side, however, its exports to Asian economies are back to pre-crisis levels, buoyed by increasing exports to China, whereas exports to EU and US remain far below the peak reached earlier. The manufacturing PMI was 52.8 in November, then rose to 53.8 in December and fell again to 52.5 in January. It nonetheless still shows continued expansion as it is above the critical value of 50<sup>8</sup>. The latest figures indicate that Japan's economy expanded less than initially forecast in the fourth quarter. GDP rose at an annual pace of 3.8 percent, slower than the 4.6 percent reported in the preliminary figures in February 2010, and the economy grew 0.9 percent in the fourth quarter from the previous three months, slower than the 1.1 percent first reported, indicating that a complete recovery is still somewhat remote.

Last but not least in this analysis is the United States, given its overall importance in the global economy, its weight in the economic balance of the Asia-Pacific, and the fact that it is the country where the global slowdown originated. In the fourth quarter of 2009, the United States economy expanded at an annualised rate of 5.9 percent giving the impression that the recovery in the world's largest economy was stronger than expected. In reality, however, growth was mainly due to inventory rebuilding. Indeed, on a year-on-year basis, the US economy grew only 0.1 percent, its output having deteriorated by 1.9 percent in the last three months of 2008. A significant factor stalling its recovery is the poor condition of the labour market and, as a corollary, household demand, which is so critical for elevating production levels. The US economy lost 7.3 million jobs since the recession began in 2007.

We now turn to the European Union (EU). Over the last few decades it has become the second largest economy in the world and, like others, has been seriously affected by the crisis. GDP increased by 0.1 percent from the previous quarter in both Euro Areas (EA16 and EU27) during the fourth quarter of 2009. In the third quarter of 2009, growth rates were 0.4 percent and 0.3 percent respectively. If it were not for France's 0.6 percent growth, the common currency zone would most likely have recorded a contraction. Compared with the same quarter of the previous year, seasonally adjusted GDP decreased by 2.1 percent in the Euro Area and by 2.3 percent in the EU27 in the fourth quarter of 2009, after -4.0 percent and -4.3 percent respectively in the previous quarter. The weaker than expected GDP data can be attributed to disappointing consumer spending in most member countries, caused mainly by a spike in the unemployment rate. In fact, the Euro Zone's jobless rate reached 9.9 percent in October, the highest since August 1998. Looking ahead, the forecasts for the first quarter of 2010 expect GDP growth to remain below trend.

---

<sup>7</sup> Source: Japan Statistics Bureau and the Director-General for Policy Planning, 02.03.2010, <http://www.stat.go.jp/english/>.

<sup>8</sup> The Purchasing Manager Index (PMI) is an indicator for economic activity; reflects the percentage of purchasing managers in a certain economic sector that reported better business conditions than in the previous months. A reading of 50 or higher generally indicates that the industry is expanding. If manufacturing is expanding, the general economy should be doing likewise. As such, it is considered a good indicator of future GDP levels.



As is now common knowledge, the crisis hit harder in countries whose economies are based more on services than primary and secondary sectors. The United Kingdom illustrates this well. It recorded a decrease of -3.2 percent in the last quarter of 2009 compared with the previous year, an average decrease of -4.98 percent for the year, and discouraging growth of 0.3 percent in December 2009 on the back of the previous quarter.

So, considering the above, it can be concluded that the eastern part of the world, and particularly the countries in the Asia-Pacific region, reacted better to the global slowdown than other major economies, and as a consequence they will almost certainly attract more investments from overseas in the future. It must be conceded that some economies, such as Singapore and Hong Kong, suffered badly as a result of the world crisis. Yet even the figures for these economies look better when compared with other financial districts such as London or New York, leading us to believe that performance in the Asia Pacific Rim will continue to accelerate over the next decades.

China's likely impact on economies in the Asia-Pacific is a matter for increasing conjecture and even concern. In the following chapter, geopolitical developments emerging from the new FTAs will be explored in the context of China's emerging dominance.

Table 1.1

**GDP Growth**

<b>Country</b>	<b>4<sup>th</sup> quarter 2009 (Year on Year) %</b>	<b>4<sup>th</sup> quarter 2009 (Quarter on Quarter) %</b>	<b>Average 2009 %</b>
<b>Australia</b>	<b>2.7</b>	<b>0.9</b>	<b>1.33</b>
<b>New Zealand</b>	<b>0.4</b>	<b>0.8</b>	<b>0.10</b>
<b>China</b>	<b>10.7</b>	<b>9.10</b>	<b>8.45</b>
<b>Hong Kong</b>	<b>2.6</b>	<b>2.3</b>	<b>-2.75</b>
<b>Japan</b>	<b>3.8</b>	<b>0.9</b>	<b>-5.1</b>
<b>S. Korea</b>	<b>6</b>	<b>0.2</b>	<b>0.13</b>
<b>India</b>	<b>7.5</b>	<b>7.2</b>	<b>6.8</b>
<b>ASEAN*</b>			<b>1.3</b>
<b>Indonesia</b>	<b>5.43</b>	<b>-2.4</b>	<b>4.55</b>
<b>Malaysia</b>	<b>4.5</b>	<b>2.2</b>	<b>-1.7</b>
<b>Thailand</b>	<b>5.8</b>	<b>3.6</b>	<b>-2.23</b>
<b>Singapore</b>	<b>4.0</b>	<b>-2.8</b>	<b>-2</b>
<b>Philippines</b>	<b>1.8</b>	<b>n.a.</b>	<b>0.9</b>
<b>Brunei</b>	<b>n.a.</b>	<b>n.a.</b>	<b>0.2</b>
<b>Laos</b>	<b>n.a.</b>	<b>n.a.</b>	<b>4.6</b>
<b>Cambodia</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-2.7</b>
<b>Vietnam</b>	<b>7.4</b>	<b>n.a.</b>	<b>5.3</b>
<b>Myanmar</b>	<b>n.a.</b>	<b>n.a.</b>	<b>4.3</b>
<b>EU</b>	<b>-2.1</b>	<b>0.1</b>	<b>-4.05</b>
<b>USA</b>	<b>5.9</b>	<b>0.1</b>	<b>-2.4</b>
<b>UK</b>	<b>-3.2</b>	<b>0.3</b>	<b>-4.98</b>

Source: ASEAN finance and Macro-economic Surveillance Unit Database (compiled/computed from data submission, and/or website of ASEAN Member States' national statistics offices and other relevant government agencies, and from the International Monetary Fund World Economic Outlook (IMF WEO) Database October 2009), and IMF WEO Update 2010.

\* Estimated using country growth figures and country share of world GDP valued in PPP\$ from the IMF WEO Database October 2009; does not take into account variation in base year of the GDP in national currency. Figures for Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam are preliminary release figures from National Statistical Office's websites.

## 2. ASEAN: an evolving economic reality

The Association of Southeast Asian Nations (ASEAN) is a geopolitical and economic organisation of ten countries, which was formed in 1967. It initially comprised Indonesia, Malaysia, the Philippines, Singapore and Thailand, and membership later expanded to include Brunei, Cambodia, Laos, Burma (Myanmar), and Vietnam. Its aims include: the acceleration of economic growth, social and cultural development among its members; the protection of peace and stability of the region; and the creation of opportunities for member countries to discuss differences peacefully. In 2009, the bloc spanned an area of 4.481 thousand square kilometres, with an estimated GDP of US\$1,492 billion and a population of 591.3 million.

Table 2.1

### GDP (US billion)

ASEAN Member States	Year 2004	Year 2009	Growth 2004/2009 %
<b>Indonesia</b>	<b>239,134</b>	<b>543,897</b>	<b>127.4</b>
<b>Malaysia</b>	<b>124,750</b>	<b>191,618</b>	<b>53.6</b>
<b>Thailand</b>	<b>161,386</b>	<b>264,130</b>	<b>63.6</b>
<b>Singapore</b>	<b>107,464</b>	<b>177,569</b>	<b>65.2</b>
<b>Philippines</b>	<b>86,912</b>	<b>160,884</b>	<b>85</b>
<b>Brunei</b>	<b>7,864</b>	<b>14,147</b>	<b>79.9</b>
<b>Laos</b>	<b>2,518</b>	<b>5,736</b>	<b>127.8</b>
<b>Cambodia</b>	<b>5,311</b>	<b>10,757</b>	<b>102.5</b>
<b>Vietnam</b>	<b>45,544</b>	<b>96,969</b>	<b>113</b>
<b>Myanmar</b>	<b>10,370</b>	<b>26,523</b>	<b>144.7</b>

Source: ASEAN Finance and Macro-economic Surveillance Unit Database (compiled/computed from data submission, and/or website of ASEAN Member States' national statistics offices and other relevant government agencies, and from the International Monetary Fund World Economic Outlook (IMF WEO) Database October 2009), and IMF WEO Update 2010.

ASEAN focused on the 'three pillars' of security, sociocultural and economic integration. The regional grouping has made substantial progress in economic integration, aiming to create an ASEAN Economic Community (AEC) by 2015. The foundation of the AEC is the ASEAN Free Trade Area (AFTA), a common external preferential tariff scheme to promote the free flow of goods within ASEAN. The agreement relates mainly to local manufacturing in all ASEAN countries. It was signed in 1992 in Singapore and involved six members: Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. The latecomers as yet have not fully met the ASEAN Free Trade Agreement's (AFTA) obligations, but they are officially considered part of the AFTA as they were required to sign the agreement upon entry into ASEAN. They were, however, given longer timeframes in which to meet AFTA's tariff reduction obligations.

These arrangements should result in the creation of ACIA, (ASEAN Comprehensive Investment Area)<sup>9</sup>. ACIA's comprehensive provisions will enhance protection of investment and improve investors' confidence in investing in the region. It will encourage further development of intra-ASEAN investment, especially among multinational companies (MNCs) based in ASEAN through expansion, industrial cooperation and specialisation, and contribute to enhanced economic integration. Foreign direct investment (FDI) inflows into ASEAN in 2007 have maintained its strong expansion in the last three years, registering a growth of 23 percent to US\$63.3 billion, compared with US\$51.4 billion in 2006, the highest FDI level recorded since 1998. This strong growth is also reflected in the surge in FDI inflows into the newer ASEAN Member States (Cambodia, Lao PDR, Myanmar and Vietnam), which expanded by 136.8 percent in 2007 to reach US\$8.2 billion. Intra-ASEAN FDI inflows continued an upward trend in 2007, rising by 19.8 percent to US\$9.5 billion. The share of intra-ASEAN investment to total ASEAN FDI grew to 15 percent, compared with 10.7 percent in 2005. To meet increasing competition for FDI flows, ASEAN is continuing with efforts to *create a more favourable environment for investment in the region*. Hence ASEAN Member States have pledged to move towards a more liberal and transparent investment environment to enhance investment flows and attract more investors. Full realisation of the ACIA will entail removal of temporary exclusion lists in manufacturing, agriculture, fisheries, forestry, mining and services incidental to these five sectors. This is scheduled to occur by 2010 for most ASEAN members and by 2015 for the CLMV (Cambodia, Laos, Myanmar and Vietnam) countries.

As has been shown in Table 2.1, and given these figures, the growth for the whole area has nearly doubled in the last five years. However, it is important to understand that, although they are frequently grouped together, these emerging countries have quite different backgrounds in terms of population, size, culture, religion and political context<sup>10</sup>. A key distinction can be drawn between the founding countries and the new members of the Association: this difference reflects the relative disadvantage experienced by some countries joining ASEAN later; that is, specific countries were not at the time ready to trade and gain benefits from reducing tariffs.

This is particularly true if we look at the new FTA between ASEAN and China, (CAFTA), which came into effect at the beginning of 2010. Initially proposed by China, the FTA is the product of eight years of negotiations, with the details only being settled last year when the investment rules were developed. As of January 1, tariffs have been abolished on more than 7000 items or 90 percent of the total number for China and the six more economically developed ASEAN members. The

---

<sup>9</sup> See ASEAN Fact Sheet 2009/AEC/024, issued by Public Affairs Office of the ASEAN Secretariat, Jakarta, [www.asean.org](http://www.asean.org); ASEAN Ministers signed the ASEAN Comprehensive Investment Agreement (ACIA) on 26 February 2009. The ACIA is the result of a consolidation and revision of two ASEAN Investment Agreements: the 1987 **ASEAN Agreement for the Promotion and Protection of Investments** (known as the Investment Guarantee Agreement "ASEAN IGA"), and the 1998 **Framework Agreement on the ASEAN Investment Area** (commonly known as the "AIA Agreement"), as well as its related Protocols. The objective of merging these two agreements was to respond to the changing investment situation and the more competitive global environment.

<sup>10</sup> The divergence in income and background are an obvious feature of the ASEAN Free Trade Area member countries; the divergence in background is reflected by the readiness of each nations approaching the AFTA dateline. An indicator of readiness can be seen from the members' proposal of the average import tariff with the smaller figure implying the higher degree of readiness, with larger figures implying the lower degree of readiness; Kim-Lan Siah, Chee-Keong Choong, Z. Yusop, *AFTA and the Intra-Trade Patterns among ASEAN-5 Economies: Trade-Enhancing or Trade-Inhibiting*, International Journal of Economics and Finance, Vol. 1, N. 1, February 2009.

four remaining ASEAN nations (Vietnam, Laos, Cambodia and Burma) have until 2015 to end tariffs.

In respect of these latter economies, significant limitations arise from their GDP. Firstly, this is often too small to enable them to compete with any one of the other members of the Association, and secondly, as they do not have much to offer, attracting the interest of others is difficult. The costs of involvement in the FTA can also be quite high for small, poor economies with limited negotiation capacity, particularly when gains from FTAs are perceived to be unevenly distributed across various participating countries<sup>11</sup> (which is exactly the case of ASEAN). In contrast, the new AANZFTA (ASEAN-Australia-New Zealand FTA) takes account of the different level of development of members' countries. Accordingly, Australia and New Zealand have the shortest implementation timeframes and the three LDC members (Burma, Cambodia and Laos) have the longest. The agreement took effect in January 2010 for Australia, New Zealand and six of its ASEAN member countries (Brunei, Malaysia, Myanmar, the Philippines, Singapore and Vietnam), while the rest of the ASEAN members have yet to ratify the agreement<sup>12</sup>.

With some exceptions, the region's poorer economies have tended to rely on ASEAN for concluding FTAs with other countries. This also reflects their weak institutional capacity, lack of resources, and limited leverage of poorer economies to undertake FTA negotiations. The ASEAN framework offers the opportunity to pool scarce capacity and resources<sup>13</sup>. Thus the CLMV adopted a pro-export vision after their ASEAN neighbourhood counterparts, registering an increase in FDI later and an expansion of their exports later<sup>14</sup>.

---

<sup>11</sup> M. Kawai and G. Wignaraja, *The Asian "Noodle Bowl": Is It Serious for Business?*, ADBI Working Paper Series No.136, April 2009.

<sup>12</sup> G. Wignaraja and D. Lazaro, *North-South vs. South-South Asian FTAs: trends, compatibilities, and ways forward*; Unu-Cris Working Paper, W-2010/3, Bruges 2010.

<sup>13</sup> M. Kawai and G. Wignaraja, *Asian FTAs: trends and challenges*, ADBI Working Papers Series No. 144, August 2009.

<sup>14</sup> S. Y. Chia; *Trade and Investment policies and regional economic integration in East Asia*; ADBI Working Papers Series No. 210, April 2010.

**Table 2.2: Selected key ASEAN macroeconomic indicators**

Country	GDP 2009 (US\$million)	Sectors (%)			Year-on-year change in FDI net inflow (2008)	
		agriculture	industry	services	US\$ million	percent
<b>Singapore</b>	177.569	0	26,8	73,2	8.748,50	27,7
<b>Indonesia</b>	543.897	14,4	48,1	37,5	990,2	14,3
<b>Philippines</b>	160.884	14,9	29,9	55,2	1.396	27,7
<b>Malaysia</b>	191.618	10,1	42,3	47,6	1.082,90	12,9
<b>Thailand</b>	264.130	42,6	20,2	37,1	1.403,60	12,5
<b>Brunei</b>	14.147	0,7	75	25	21	8,1
<b>Cambodia</b>	10.757	29	30	41	52,1	6
<b>Laos</b>	5.736	41,3	32,2	26,5	95,8	29,6
<b>Myanmar</b>	26.523	40,9	19,7	39,3	260,7	36,5
<b>Vietnam</b>	96.969	19	42,7	38,4	1.311,00	19,5
<b>ASEAN</b>	<i>1.492.230</i>				<i>10.237,90</i>	<i>14,6</i>

**International merchandise trade (2008)**

Country	ratio of exports to GDP (%)	ratio of imports to GDP (%)	ratio of total trade to GDP (%)	growth of nominal value of exports (%)	growth of nominal value of imports (%)	growth of nominal value of total trade (%)
<b>Singapore</b>	132,6	126,7	259,3	-19,3	-12,3	-16,1
<b>Indonesia</b>	26,7	25,2	51,9	20,1	73,5	41,2
<b>Philippines</b>	29,4	34	63,4	-2,9	2	-0,3
<b>Malaysia</b>	87,6	65	152,6	10,4	-1,8	4,9
<b>Thailand</b>	69,9	64,9	128,8	13,9	26,9	20,1
<b>Brunei</b>	60,6	21,5	82,1	14,4	48,1	21,6
<b>Cambodia</b>	39	39,5	78,5	11,6	20,2	15,8
<b>Laos</b>	15,3	33,4	48,7	116,7	153,6	140,7
<b>Myanmar</b>	25,3	14,5	39,7	11,6	36,1	19,4
<b>Vietnam</b>	68,3	87,9	156,2	27,9	29	28,5

Source: ASEAN finance and Macro-economic Surveillance Unit Database (compiled/computed from data submission, and/or website of ASEAN Member States' national statistics offices and other relevant government agencies, and from the International Monetary Fund World Economic Outlook (IMF WEO) Database October 2009), and IMF WEO Update 2010.

The "Vietnamese recipe". (Source; The Economist, March 2010)

Vietnam is one of the LDC countries in South East Asia but, over the last years, it is unarguably striving to improve its economy and lure investments, reaching a higher level of wellness and stability. It is also a good example to understand how the countries belonging to ASEAN act on different basis and pursue different strategies. On February 10<sup>th</sup>, 2010, the central bank devalued the currency, the dong, by 3.4%, following a devaluation of 5.4% in November. The aim was to entice holders of dollars to buy dong. A dollars shortage, in fact, was preventing Vietnam's exporter from purchasing imported parts and material. The government blamed the shortage on dollar hoarding, but the prime cause was its own stimulus spending. However, the 5.3% growth-rate recorded in 2009 came at a price. It is believed to have spent over \$ 1 billion in 2009 (over 1% of GDP) to prop up the economy, mainly by subsidizing banks' loan to businesses. As a result, the credit supply expanded by 37%, driving up the black market price of dollars. Meanwhile, the exchange rate was artificially high, leading to a sharp rise in the trade deficit. Foreign-exchange reserves have shrunk. The government has reluctantly raised state-controlled commodity prices: petrol, electricity and coal are all to be more expensive. All of this has observers wondering whether inflation might be to take off again, as it did in early 2008.

Nonetheless, the figures for the first quarter of 2010 are really encouraging: the economy grew at 5.83% from a year ago, buoyed by construction activity, tourism and banking services amid robust domestic demand, which is supporting the economy as the government tries to stimulate exports after the global slowdown reduced demands for Vietnamese-made product. Industry and construction accounted for 43% of the economy in the first quarter, expanding 5.65% from a year earlier. Services expanded 6.64% from the previous year and they made up the 42% of the GDP. Hotels and restaurants business advanced 7.82%, as the number of foreign visitors to Vietnam jumped to 36%. Financial services grew 7.86%.

It is also interesting to note that Vietnam has already taken part of the FTA signed between Australia-New Zealand-ASEAN but not in the one with People's Republic of China, as we said before. Given these figures, it should be regarded as one of the most interesting economies in South East Asia, with analysts expecting to reach a 6.5% growth full-year, if the global economy continued to improve.

### 3. The new scenario in the Asia-Pacific

East Asian economies have emerged stronger from the global crisis and may experience rapid growth in coming years, according to the World Bank in its semi-annual report<sup>15</sup>. The Bank predicts that emerging East Asia, which excludes Japan and the Indian subcontinent, will expand 7.6 percent this year, more than the November estimate of 6.4 percent. The region grew 4.5 percent last year. In only one year the region shifted from a collapse in exports and investment to leading the global rebound, and returning to the pre-crisis level of real GDP. Global capital flows are likely to recover from the lows of 2009, and the bank predicts as much as US\$800 billion in global capital flows this year, compared with about US\$450 billion annualised to developing economies in the second half of 2009. “Capital flows to East Asia will be supported by expectations of robust growth based on solid fundamentals and prudent policies that are likely to be adjusted with more agility to the changed circumstances of the global economy than in other developing regions”, the report says.

The area is also the most active in concluding Free Trade Agreements, which are likely to improve the region’s economy and strengthen the integration between the countries, notwithstanding some doubt about the impact they will have on some of the weakest economies in the region. East Asia – a relative latecomer to using FTAs as a trade policy instrument – is now at the forefront of global FTA activity, with 86 concluded FTAs. ASEAN is emerging as the hub for Asia’s FTAs, with other major Asian economies joining the FTA bandwagon. All this is known and described as “the Asian noodle bowl”, referring to the series of criss-crossing agreements that potentially distort trade toward bilateral channels. A lively debate ensues between those who view the agreements as a harmful instrument for some of the economies of the area and others who see net beneficial effects in terms of regional liberalisation and a building block to multilateral liberalisation<sup>16</sup>. As table 3.1 shows, the area’s five largest economies have become key hubs of FTA activity, while smaller neighbours have emerged as spokes<sup>17</sup>.

---

<sup>15</sup> The World Bank, *East Asia and Pacific Economic update 2010, Volume I, Emerging stronger from the crisis*, Washington, 2010.

<sup>16</sup> M. Kawai and G. Wignaraja, *The Asian “Noodle Bowl”: Is It Serious for Business?* Cit.

<sup>17</sup> FTA activity in Asia over the last decade has given rise to a classic hub and spoke arrangement; see Hufbauer, G., and J. Schott, 2009. *Fitting Asia-Pacific Agreements into the WTO System*. In *Multilateralizing Regionalism: Challenges for the Global Trading System*, edited by R. Baldwin and P. Low. Cambridge: Cambridge University Press.



Table 3.1: FTA status by country, 2010

COUNTRY	UNDER NEGOTIATION			CONCLUDED		TOTAL
	Proposed	Framework Agreement Signed/Under Negotiation	Under Negotiation	Signed	In Effect	
<b>Australia</b>	6	1	5	0	8	20
<b>New Zealand</b>	4	0	2	2	7	15
<b>Japan</b>	4	0	5	0	11	20
<b>Korea, Republic of</b>	8	1	8	1	6	24
<b>China (PRC)</b>	8	2	4	1	9	24
<b>Hong Kong, China</b>	0	0	0	1	1	2
<b>Taipei, China</b>	1	1	1	0	4	7
<b>India</b>	12	4	6	1	10	33
<b>Indonesia</b>	6	1	1	1	7	16
<b>Cambodia</b>	2	0	1	0	6	9
<b>Thailand</b>	6	4	3	0	11	24
<b>Vietnam</b>	2	0	2	0	7	11
<b>Lao PDR</b>	2	0	1	0	8	11
<b>Malaysia</b>	3	1	5	2	8	19
<b>Myanmar</b>	2	1	1	0	6	10
<b>Brunei Darussalam</b>	4	0	1	0	8	13
<b>Philippines</b>	4	0	1	0	7	12
<b>Singapore</b>	5	0	9	2	18	34

Source: ADB's Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)), data as of January 2010.

Proposed: parties are considering an FTA, establishing joint study groups or joint task force, and conducting feasibility studies to determine the desirability of entering into an FTA. Framework agreement signed/under negotiation: parties initially negotiate the contents of a framework agreement (FA), which serves as a framework for future negotiations. Under negotiation: parties begin negotiations without a framework agreement. Signed: parties sign the agreement after negotiations have been completed. Some FTAs would require legislative ratification. In effect: the provisions of an FTA are effective.

The number of concluded FTAs includes Japan (11), India (10), China (9), Australia (8) and Korea (6), with many more FTAs under negotiation. It can be noted that ASEAN – with one of the oldest trade agreements in Asia – is emerging as a major regional hub linking ASEAN members with the region’s larger economies. It has enacted FTAs with China, Japan, and Korea, recently commenced agreements with Australia and New Zealand and India, and also entered into negotiation with the EU. The development of an FTA hub and spokes pattern in Asia can be related to several factors, including economic size, levels of protection, economic geography, and production network strategies of MNCs.

Singapore is by far the most active Asian economy in terms of the number and geographic coverage of FTAs. With its strategic location, it is the region’s most open economy with world-class infrastructure and logistics, and also the regional headquarters for many leading MNCs. Middle-income countries such as Malaysia and Thailand have emerged, respectively, as regional production hubs for the auto and electronics industries. As one of the founding members of ASEAN, Thailand has entered into agreements with China, India, Japan, and Australia and New Zealand.

Japan could be considered a latecomer to FTAs. As the region’s first developed economy, it has the strongest base of giant MNCs involved in production networks and supply chains throughout Asia. It has rapidly implemented bilateral Economic Partnership Agreements (EPAs) with nine countries as well as an agreement with ASEAN, and is negotiating with Australia, India and Korea.

The two Asian giant economies, China and India, are also forming FTAs to ensure markets for goods and to expand regional coverage for outward investment. To this end, China has implemented separate FTAs on goods and services with ASEAN and is now finalising its negotiations on an investment agreement, while India is still negotiating to widen the scope of the FTA to include services and investment, expecting it will provide huge opportunity to Indian professionals to work in Southeast Asia<sup>18</sup>. Furthermore, China has also forged bilateral Comprehensive Economic Partnership Agreements (CEPAs) with Hong Kong, has concluded FTAs with Singapore and New Zealand and is also a member of the Asia-Pacific Trade Agreement (APTA)<sup>19</sup>.

Within East Asia, Korea has agreements with members of APTA, ASEAN, and Singapore. In respect of countries outside East Asia, it has agreements with Chile and the European Free Trade Area (EFTA). Ratification of the agreement with Asia’s largest trading partner, the US, is on its way, after several years of negotiations and talks.

The Australia-New Zealand FTA with ASEAN (AANZFTA) took effect on 1 January 2010. Under the agreement, tariffs will be progressively reduced to zero on many

---

<sup>18</sup> According to a CII report, the services part of the India-ASEAN FTA is crucial as India seeks market access for its IT, ITeS, health, education and other services in ASEAN with its rapidly growing middle-class. The ASEAN market is important for India, as the region is a net importer of services and imported over \$180 billion worth of services in 2008; source Confederation of Indian Industry, [www.cii.in](http://www.cii.in).

<sup>19</sup> The Asia-Pacific Trade Agreement (APTA), signed in 1975 as an initiative of ESCAP, is a preferential tariff arrangement that aims at promoting intra-regional trade through exchange of mutually agreed concessions by member countries. In December 2009, the Participating States entered into a Framework Agreement on the Promotion, Protection and Liberalization of Investment and the Framework on Trade Facilitation. Members are: Bangladesh, China, India, Korea, Lao PDR and Sri Lanka; source [www.unescap.org](http://www.unescap.org).

goods traded between the countries, and the Australian Government is confident that, by 2020, tariffs on 96 percent of current exports to ASEAN nations will be eliminated. Furthermore, where this does not occur, the agreement will ensure that they do not rise. Trade with ASEAN countries is, collectively, as significant as that with China<sup>20</sup>. AANZFTA is Australia's first multi-country FTA and the most comprehensive FTA ever concluded by ASEAN. Australia is also the only country in the Asia-Pacific that has a FTA with the US, the world's second largest economy, and the largest in the Asia-Pacific Rim.

The US at the moment does not have agreements with any of the countries of the Asia-Pacific – except for Australia and Singapore. It has been negotiating an FTA with Korea for a long time and it may be some time yet before it is signed as there is still some friction concerning the list of goods included in the agreement. Talks with Malaysia and Thailand have also been conducted over the last few years, but at this stage only a Regional Trade Agreement with Malaysia appears tangible. Singapore, Brunei and Vietnam too are discussing a Transpacific Partnership. It is clear, though, that the US cannot remain inactive in this changing scenario<sup>21</sup>.

ASEAN's diplomatic and economic importance is seen in the number of FTAs and EPAs it has signed or is negotiating with major economic partners. The five ASEAN agreements with China, Japan, Korea, India and Australia-New Zealand are in different stages of negotiation, ratification and implementation; they are all FTA-plus and WTO-plus agreements as they include not only trade in goods and services, but also other features. In all cases, the framework agreements provide for economic cooperation and technical assistance in a wide number of areas. Numerous regional groupings and forums have emerged, with substantial overlap. Most of these groups are ASEAN-centric: ASEAN's agreements on trade in goods (AFTA), ASEAN Investment Area (AIA) and ASEAN Economic Community (AEC); ASEAN+1 agreements (with China, Japan, Korea, India, Australia-New Zealand, EU and Gulf Cooperation Council); ASEAN+3 (East Asia Free Trade Area or EAFTA); and ASEAN+6 (Comprehensive Economic Partnership in East Asia or CEPEA)<sup>22</sup>. Others include the South Asia FTA; Trans Pacific Strategic Economic Partnership (TPSEP); and the Asia Pacific Economic Cooperation (APEC) forum.

In May 2009, at the Shangri-la dialogue in Singapore, Australian Prime Minister Rudd proposed an Asia Pacific Community, linking economics to the long-term security priorities of the Asia Pacific. He argued that 'managing major power relations, particularly in the context of the rise of China and India, will be crucial for our collective future. This will place a premium on wise statecraft, particularly the effective management of relations between the US, Japan, China and India'<sup>23</sup>. In

---

<sup>20</sup> Australian Minister for Trade, Hon. Simon Crean, said "the agreement will span 12 economies with over 600 million people and a combined GDP of A\$3.1 trillion and it opens up significant opportunities for Australian businesses in one of the fastest growing regions in the world." The agreement includes: the immediate elimination of a 10% tariff on A\$9.6 million of Australian processed cheese exports (2008) and of a 5% tariff on A\$7.6 million of exports of fresh grapes to Malaysia; the elimination of a 3% tariff on A\$22 million of wheat exports and of a 5% tariff on A\$3 million of sheepmeat exports to the Philippines; source [www.trademinister.gov.au](http://www.trademinister.gov.au), Media Release 3 January 2010.

<sup>21</sup> A major problem is that FTAs with the US have to follow a common US template, which includes government procurement, environmental, and labor standards, areas that are highly sensitive to some ASEAN countries. There is also the political issue of Myanmar, although under the Obama Administration the US has agreed to "engage" with the present Myanmar regime.

<sup>22</sup> ASEAN+3 includes China, Japan and Korea; ASEAN+6 includes China, Japan, Korea, Australia-New Zealand and India.

<sup>23</sup> P. Drysdale, Rudd in Singapore on the Asia Pacific Community Idea, *East Asia Forum*, 2009, <http://www.eastasiaforum.org/author/peterdrysdale/page/3/>.

turn, Japanese Prime Minister Yukio Hatoyama proposed an East Asian Community (EAC), presumably including economic, political and security dimensions, to President Hu of China in Beijing in September 2009<sup>24</sup>. The idea has generated much interest as well as controversy, however much dialogue will need to occur before any such framework reaches a mature conclusion. When pressed at the November 2009 Summit in Singapore, Hatoyama was vague as to the nature and membership of his proposed EAC. US President Obama argued that ‘as an Asia-Pacific nation, we expect to be involved in discussion that shapes the future of this region, and to participate fully in appropriate organizations as they are established and evolve’<sup>25</sup>.

A number of empirical studies have applied the computable general equilibrium model (CGE) to project how the scenario might change pending the effects of a larger region-wide FTA: in general, such an FTA could result in more economic benefits than smaller bilateral and plurilateral FTAs<sup>26</sup>. Given the removal of barriers to trade and investment and freer flows of capital and labour, it can be expected that regional production networks and supply chains will evolve, prompting countries to implement reforms and economic restructuring to better meet the challenges of global interactivity, as well as regionalism and protectionism in the US and Europe. Empirical studies of FTAs have used CGE models to quantify the income and welfare effects of eliminating import tariffs on goods trade and liberalising cross-border services trade. CGE models have also projected sector-level gains and losses, and generated analyses predicting the future of economic integration in the area<sup>27</sup>. Table 3.2, based on such studies, outlines a hypothetical future scenario.

---

<sup>24</sup> As reported by Rowan Callick in *The Australian, A Plus* on January, 15<sup>th</sup> 2010.

<sup>25</sup> As reported by Anthony Rowley in *Business Times* on 20 November 2009 during Obama’s visit to Singapore for the APEC Summit and the US-ASEAN Summit. The Japanese government line will continue stressing that the US has a significant role to play in Asia, but without specifying that this should be as a member of an EAC. Moreover, “a cornerstone of an EAC would be an FTA among all its members, and the US Congress has no appetite for an FTA with China, Japan or even South Korea at present.”

<sup>26</sup> S. Y. Chia, *Trade and Investment Policies and Regional Economic Integration in East Asia*, cit.

<sup>27</sup> For a list of CGE studies on ASEAN, ASEAN+1 and ASEAN+3 see M. Kawai and G. Wignaraja, *ASEAN+3 or ASEAN+6: Which Way Forward*; Asian Development Bank Institute Discussion Paper, No.77, Tokyo, 2007, Asian Development Bank Institute. Serious shortcomings are the studies’ inability to incorporate ROO and NTBs and the liberalization of services trade barriers, as well as their inability to incorporate an FTA’s dynamic investment effects. ROOs and NTBs could protect domestic industries far more than import tariffs. It is also common knowledge that all ASEAN countries view the positive investment effects as a major benefit of signing on to FTAs. Thus, the authors caution that CGE are best used in conjunction with other empirical tools.

**Table 3.2: Income Effects of Alternative Plurilateral Free Trade Agreement Scenarios**

	Compared to 2017 baseline (at constant 2001 US dollar)											
	ASEAN+China FTA		ASEAN+Japan FTA		ASEAN+Korea FTA		ASEAN+3 FTA		ASEAN+6 FTA			
	US\$ million	% change	US\$ million	% change	US\$ million	% change	US\$ million	% change	US\$ million	% change	US\$ million	% change
<b>ASEAN:</b>	<b>44,211</b>	<b>3.72</b>	<b>28,831</b>	<b>2.43</b>	<b>8,088</b>	<b>0.68</b>	<b>62,186</b>	<b>5.23</b>	<b>67,206</b>	<b>5.66</b>		
Indonesia	6,924	2.30	2,834	0.94	1,475	0.49	7,884	2.62	8,588	2.86		
Malaysia	7,551	4.02	4,453	2.37	1,339	0.71	10,391	5.54	11,869	6.33		
Philippines	2,556	2.13	1,915	1.59	630	0.52	3,177	2.64	3,431	2.85		
Singapore	6,854	4.13	3,171	1.91	793	0.48	7,943	4.79	9,002	5.43		
Thailand	16,324	7.39	14,107	6.39	2,640	1.20	26,728	12.10	28,346	12.84		
Cambodia	68	0.75	30	0.33	15	0.16	107	1.20	109	1.21		
Vietnam	3,371	4.68	2,119	2.94	1,136	1.58	5,293	7.35	5,490	7.63		
Others	563	0.50	203	0.18	60	0.05	661	0.59	370	0.33		
<b>Northeast Asia:</b>	<b>9,756</b>	<b>0.11</b>	<b>18,624</b>	<b>0.21</b>	<b>7,256</b>	<b>0.08</b>	<b>165,720</b>	<b>1.85</b>	<b>172,087</b>	<b>1.93</b>		
China	19,103	0.58	(4,475)	(0.14)	(2,351)	(0.07)	41,502	1.26	43,598	1.33		
Japan	(3,965)	(0.08)	24,943	0.51	(1,308)	(0.03)	74,825	1.54	77,137	1.59		
Korea	(5,382)	(0.67)	(1,844)	(0.23)	10,916	1.37	49,393	6.19	51,351	6.43		
<b>Other "East Asia":</b>												
Australia	1,046	0.18	(1,204)	(0.21)	(9)	0.00	(2,376)	(0.41)	22,546	3.91		
New Zealand	166	0.21	(73)	(0.09)	12	0.02	(216)	(0.27)	4,136	5.24		
India	(809)	(0.10)	(658)	(0.08)	(370)	(0.05)	(2,371)	(0.30)	19,270	2.42		
<b>World</b>	<b>81,998</b>	<b>0.17</b>	<b>45,134</b>	<b>0.09</b>	<b>14,173</b>	<b>0.03</b>	<b>213,919</b>	<b>0.45</b>	<b>259,837</b>	<b>0.54</b>		

Source: Kawai and Wignaraja, 2007, Chia 2009

#### 4. Challenges posed by Asian Free Trade Agreements.

There has been growing concern about the increasing spread and progressive implementation of FTAs across Asia. While comprehensive analysis of the full spectrum of the economic, political and legal issues likely to emerge from regional integration in the area is beyond the scope of this paper, a number of concerns are canvassed below.

First, it is important to note that, given the diversity amongst the ASEAN countries (as mentioned above), South East Asia itself is facing some internal issues which essentially can only be resolved at an internal level. ASEAN is still a loose regional grouping. Each member country still insists on its own independent law policies, its legal system, and its sovereign right to control and regulate internal activities as well as conduct external relationships (except those mutually agreed in the economic, social and political cooperation programs). Every program implemented in ASEAN has been agreed among member countries on a consensus basis, but each of them has the right to set its own level of tariffs on import from non-members<sup>28</sup>. Economic studies suggest that the policy makers of the ASEAN member countries should be more concerned to enhance co-operation in intra-ASEAN trade. How, then, could this be realised? First, by reducing transaction costs between ASEAN regions to achieve a deeper economic integration, since distance is among the main determinants of trade; second, by identifying strengths and weaknesses in each member country and, through AFTA, working cooperatively to achieve optimal comparative advantage<sup>29</sup>. There is nonetheless substantial work yet to be done to make each ASEAN country more competitive at the national level through strengthening political stability, fostering a business-friendly environment, and improving education and training sectors to underpin global and regional competition<sup>30</sup>.

The FTA between China and ASEAN (CAFTA) of itself highlights other concerns. By creating the world's third largest free trade bloc behind the European Union (EU) and the North American Free Trade Association (NAFTA) (albeit that CAFTA agreement is more restricted than NAFTA and falls well short of the EU's economic integration), China will have easier and greater access to raw materials and manufacturing parts as well as markets in South East Asia. Already, it has supplanted the US as ASEAN's third largest trading partner after Japan and the EU. ASEAN countries are most concerned about being overshadowed by China, whose GDP is three times that of the combined ASEAN. Under CAFTA, each nation is allowed to list sensitive items on which some tariffs can remain, in some cases, to 2020. Despite this protection, Indonesia called for a last-minute delay on some provisions, fearing that its steel, petrochemical, textile, farming

---

<sup>28</sup> K.L. Siah et al., *AFTA and the Intra-Trade Patterns among ASEAN-5 Economies: Trade-Enhancing or Trade-Inhibiting*, cit.

<sup>29</sup> The main mechanism to realize AFTA is the Agreement of the Common Effective Preferential Tariff (CEPT) scheme. The CEPT Agreement allows ASEAN member Countries to reduce their tariffs to 0-5% on a MFN basis among ASEAN members. It has been noted that, within ASEAN, trade liberalization will stimulate the output of each country within the region according to their comparative advantage. Since trade liberalization tends to increase output of capital-intensive goods more than labor-intensive goods, the less developed countries within the region tend to get smaller benefits compared to other member countries. In addition, the physical means of productions tend to gain more relative to the gains of labor from FTAs. This tends to widen the income gap between high-income and low-income households within ASEAN; see D. Ariyasajakorn, J.P. Gander, S. Ratanakomut, S.E. Reynolds, *ASEAN FTA, distribution of income, and globalization*, Journal of Asian Economics, 2009.

<sup>30</sup> Political economists are divided about the need of East Asia for more regional institutions: Chia (2010) affirms that the ASEAN Secretariat is small and poorly funded and lacks a large professional staff to gather and synthesize information (like OECD), monitor compliance of various agreements and commitments and undertake analytical work. Pempel (2010) argues that the region has a plethora of such bodies and governments must focus on generating more conspicuous results instead of more meetings.

and other sectors would not be able to compete with cheap Chinese imports. There are also fears the FTA will have a negative impact on the fulfilment of human rights. The majority of the Indonesian population is dependent upon agriculture and fishery, and there is a high risk that entry of these products from China, at lower prices, would affect the rights of farmers and fisherman to work and gain a decent livelihood.

Meanwhile, in Thailand, the nation's established beer brewing sector has placed new excise on beer imports to ward off the flood of cheap Chinese alternatives, with similar concerns growing in the textile industry. On the other hand, the Thai Automotive Institute, is expecting Thailand's car-maker to gain from lower production costs brought about by the increased use of Chinese spare parts. In Vietnam, which already has a US\$11.2 billion trade deficit with China, a major investment in bauxite mining and processing by a Chinese corporate is being met with increasing concern as Vietnam simultaneously seeks investment to exploiting its own bauxite reserves, the world's third largest.

All these developments have implications in terms of Indian trade as well. India entered an FTA with ASEAN this year, and now fears losing out to ASEAN's market. India's pursuit of an FTA with South East Asia should be managed carefully, as it is likely to confront similar problems to those encountered by some of the ASEAN countries, as noted above. It will be inevitable that Chinese products, imported within ASEAN countries under FTA provisions, could permeate the Indian market, competing with local products and displacing local producers. Yet it must be conceded that China's potential impact on ASEAN, where trade is in fact highly diversified, could be somewhat exaggerated<sup>31</sup>. Last year ASEAN traded more with both Japan and the EU than it did with China, and Korea, Australia and India also figured as major economic partners. Moreover, ASEAN's deficit (by its own figures) with China is compensated by a matching surplus with the US. This implies that a good proportion of Chinese-ASEAN trade is part of the same supply chains serving the Western markets.

In Japan, the country's long-term ability to cooperate with China in areas beyond trade and investment is the subject of considerable scepticism. Both countries continue manoeuvres to enhance their potential influence in any emerging regional community. However, Japan, given its slow economic growth over the last twenty years, and uncertainties in the face of China's future, will find it difficult to regain sufficient national self-confidence to engage China not simply as a competitor but periodically as an ally in community building. On the other hand, Japan is well poised to provide technical, financial and organisational leadership in an East Asian Community due to its high level of expertise and resources. Finally, at least as much as the region as a whole, Japan has global and not just regional interests. All the critical issues it is dealing with cannot be resolved at a regional level. Japan must find the right balance between being part of Asia and having a key role in the West. Consequently, longstanding ties with the US should be reinforced, rather than relinquished solely on the prospect of tighter links with Asia<sup>32</sup>.

Considering the above, it can be discerned that several challenges need to be met on the path from an EAFTA to a CEPEA. First, it is necessary to solve several problems related to consolidation and/or convergence of the different ASEAN, ASEAN+1 and bilateral FTAs in East Asia. These encompass the scope and coverage of trade, services and lists of exclusions; Rules of Origin, technical barriers, and product standards as well as mutual recognition of service providers; and FDI and other WTO-plus provisions. Second, once the template is established by ASEAN+3, Australia, New Zealand and India entry would be problematic because of the complexities entailed by pre-existing

---

<sup>31</sup> Robert Sutter, "Why China matters," *Washington Quarterly*, Winter 2003-2004, p. 75-89.

<sup>32</sup> T.J. Pempel, *Building an East Asian Community*, 9 April 2010, East Asia Forum, [www.eastasiaforum.org](http://www.eastasiaforum.org)

membership of previously agreed agreements. If the level of integration is confined to trade and investment, then progression from ASEAN+3 to ASEAN+6 over a period of time would pose less of a problem as the more protectionist members would eventually conform. In order to reach a complete framework based on monetary and financial integration, community building and a common political vision that includes India, Australia and New Zealand, a longer timeframe would be required. Third, ASEAN must act as the regional hub: it is a non-threatening subgroup 'trusted' by China, Japan, Korea, India, Australia and New Zealand and can balance the hegemonic ambitions of the large countries<sup>33</sup>. This could be realised only if, acting in concert, the ASEAN countries were able to deepen their own internal economic integration process to cope with the centrifugal forces from the larger economies. Fourth, the relationship with the US and EU cannot be disregarded. East Asia could reinforce economic ties with the US through an East Asia-NAFTA FTA or APEC FTA and with EU through the ASEM process<sup>34</sup>. Some countries in East Asia have expressed their reservations about an FTA with the US, the US did likewise about an FTA that includes China, while Myanmar remains problematic for both the US and EU.

Outside trade considerations, cultural factors are likely to have increasing weight in diplomatic relations. In recent years, the Asia Pacific region has been a major source of immigrants to Australia, which could be advantageous in the consolidation of future alliances. Population issues are briefly explored in section 5.

## **5. Population and Immigration in Australia**

The size and composition of Australia's population has evolved substantially since the time it was colonised by Britain in the 18<sup>th</sup> century. Overseas migration has played an important role in changing Australia's population profile.

In the 1900s the Australian population was 3,780,000 and today it is more than 22,300,000 with a population growth more than 1 percent per year in the last century. Each year the Australian population increases as a result of net overseas migration and natural increase (the excess of births over deaths). In 1901, 23 percent of the Australian population was born overseas and in 2006, 24 percent of the Australian population was born overseas.

Since 1998, net overseas migration approximates 45 percent of Australia's population growth per year (see Table 5.1). Official figures indicate:

- one birth every one minute and 46 seconds
- one death every three minutes and 42 seconds
- a net gain of one international migrant every one minute and 46 seconds
- an overall total population increase of one person every minute and one second.

In 2006, 4,956,900 people were born overseas out of the total population of 20,605,500. While many of the source countries of settler arrivals to Australia have remained the same over the last 20 years, there are nonetheless significant changes. When ranked in

---

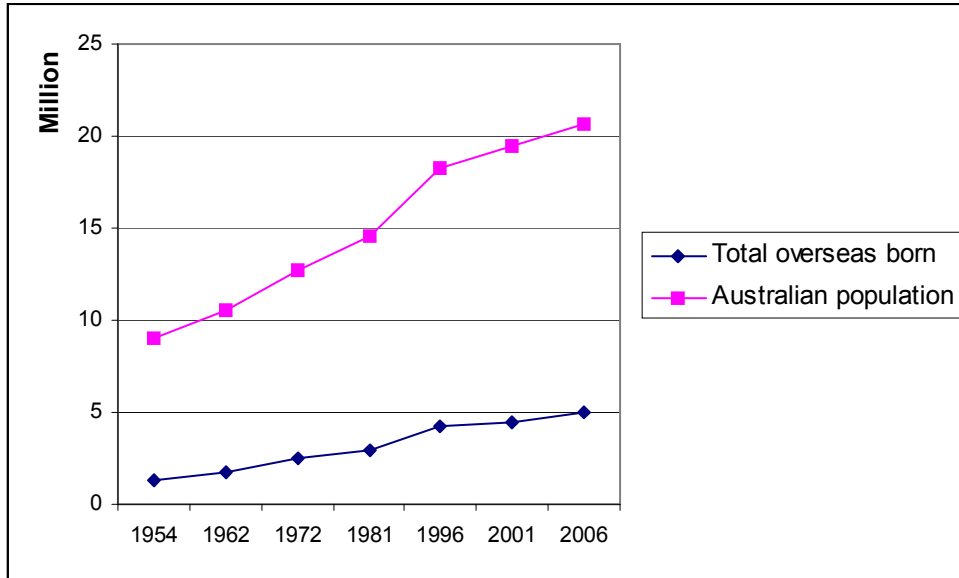
<sup>33</sup> S. Y. Chia, *Trade and Investment Policies and Regional Economic Integration in East Asia*, cit.

<sup>34</sup> ASEM is a vital forum for dialogue between Europe and Asia. Asia-Europe Meeting (ASEM) is the main multilateral channel for communication and dialogue between Asia and Europe since 1996. ASEM involves virtually the whole of Asia and Europe. The 45 ASEM partners represent half of the world's GDP, almost 60% of the world's population and 60% of global trade;  
[http://ec.europa.eu/external\\_relations/asem/index\\_en.htm](http://ec.europa.eu/external_relations/asem/index_en.htm)



terms of settler arrivals to Australia, the United Kingdom and New Zealand remained the top four sources.

**Table 5.1: Proportion of Australian population born overseas**

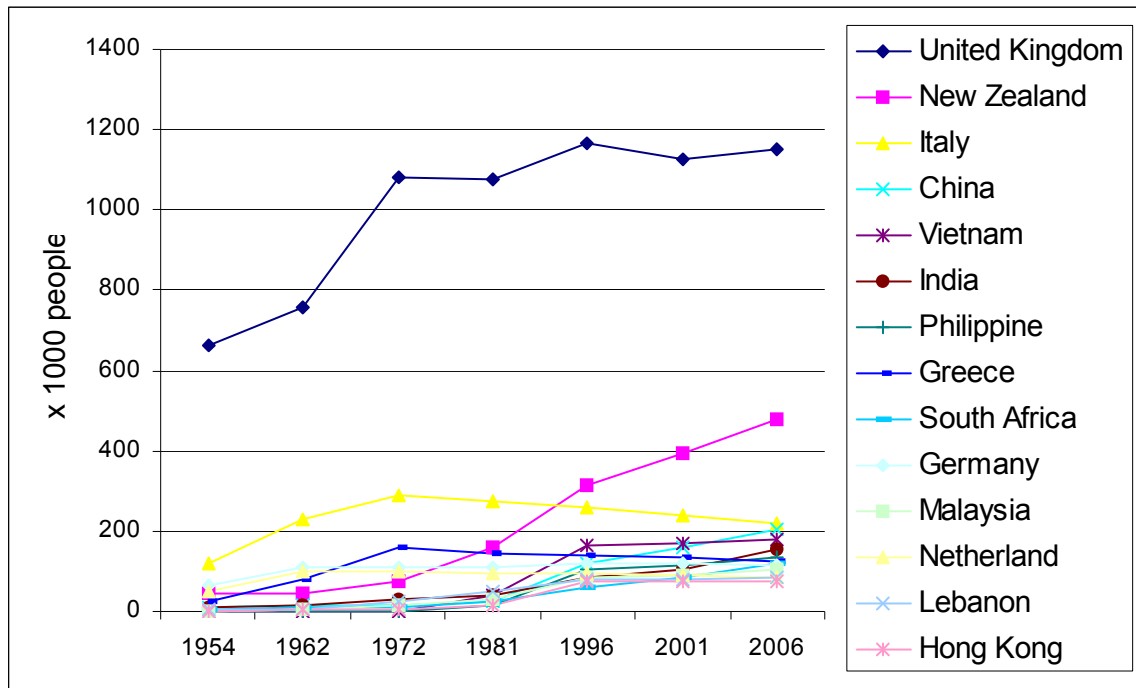


Source: Australian Bureau of Statistic, 2008 Year Book Australia

**Table 5.2: Source countries of settler arrivals to Australia**

	Country	2006 (x1000)	% BornOverseas
1	United Kingdom	1,153.3	23.27
2	New Zealand	476.7	9.62
3	Italy	220.5	4.45
4	China	203.1	4.10
5	Vietnam	180.4	3.64
6	India	153.6	3.10
7	Philippine	135.6	2.74
8	Greece	125.8	2.54
9	South Africa	118.8	2.40
10	Germany	114.9	2.32
11	Malaysia	103.9	2.10
12	Netherlands	87.0	1.76
13	Lebanon	86.6	1.75
14	Hong Kong	76.3	1.54
	Total overseas Born	4,956.9	
	Australian Born	15,648.6	
	Total	20,605.5	

**Table 5.3: Sources of Overseas Immigration to Australia**



In 2005-06, 59,500 people intending to settle in Australia arrived under the Australian Migration Program in the Skilled Migrants category. These comprised:

- **34%** from North West Europe (93% of whom were from the United Kingdom and Ireland)
- **20%** from Southern and Central Asia
- **15%** from North East Asia
- **14%** from South East Asia
- **7%** from North Africa.

So, clearly, if this pattern is replicated in future years on top of a strong European background Australia's skilled migrants are increasingly likely to be drawn from the Asian region.

In addition to the Australian population that was born overseas (an average of more than 20 percent per year last century, and much more if we consider also the second and third generations) vast numbers of **international students** are enrolled in Australian universities and schools every year.

In 2009 international students living in the main Australian cities numbered 631,935 (almost doubling from 322,230 in 2004). In the next few years, many of these students will go back to their home countries to become the future leaders of society; others will remain here and become Australian citizens.

**Table 5.4: International Students in Australia**

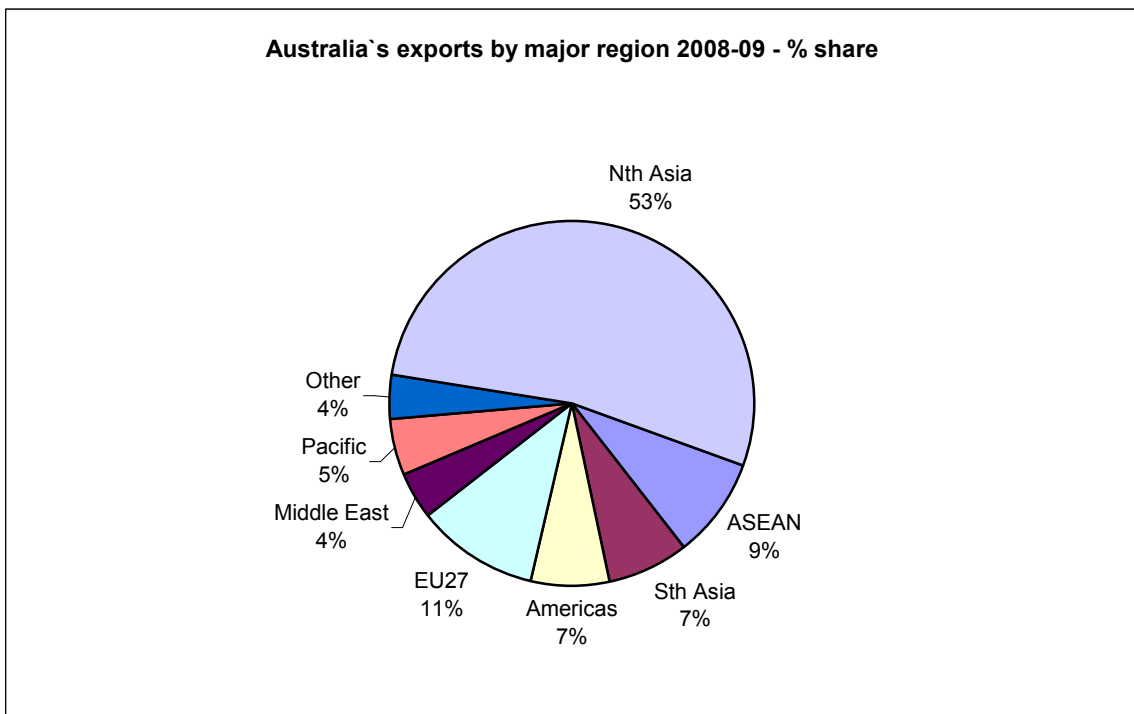
	2008	2009	Share %	Growth %
China	131210	154777	24.5	18
India	96407	120913	19.1	25.4
Malaysia	21091	23103	3.7	9.5
South Korea	35133	35708	5.7	1.6
Viet Nam	15844	23755	3.8	49.9
Hong Kong	12974	11300	1.8	-12.9
Japan	13415	12553	2	-6.4
Saudi Arabia	7788	12599	2	61.8
Singapore	8776	9351	1.5	6.6
Nepal	18002	24579	3.9	36.5
Other Countries	180504	203297	32.2	12.6
Total	541144	631935	100	16.8

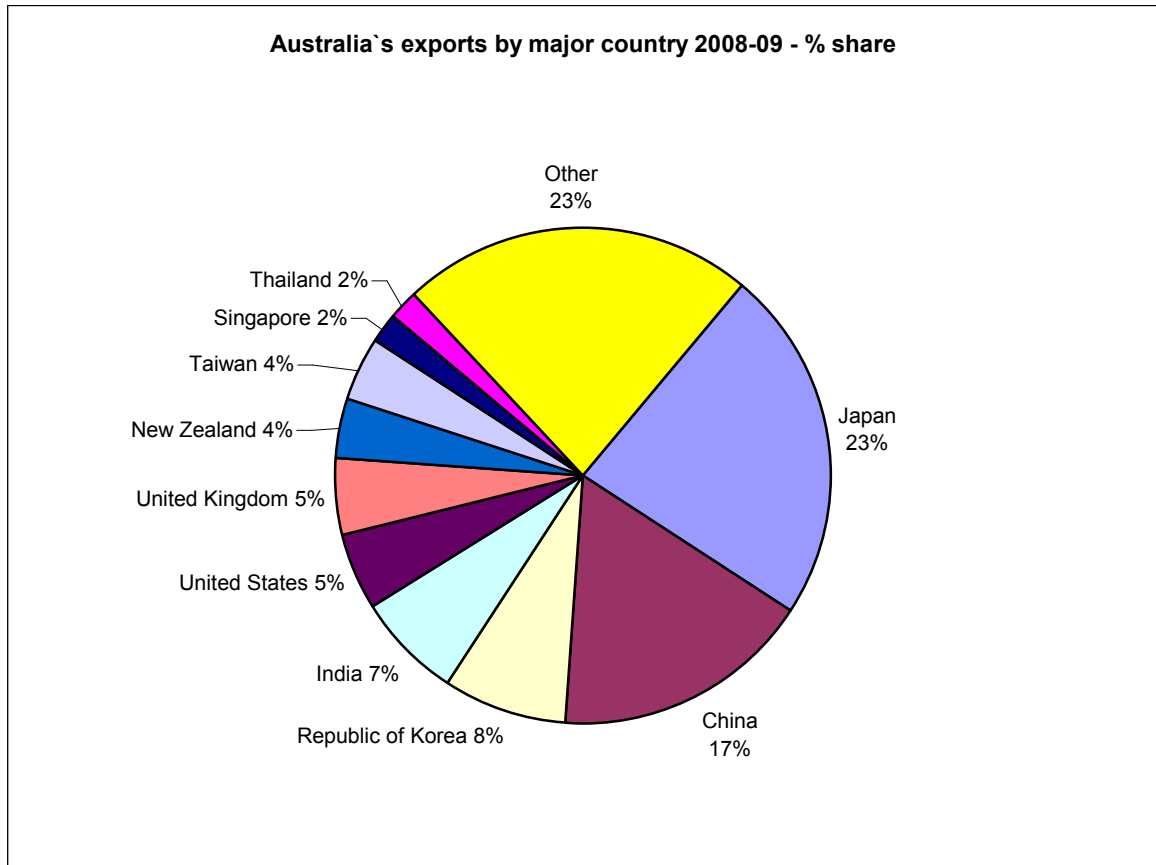
## 6. Conclusion: Australia as dynamic hub in the Asia Pacific Rim

Australia is the only advanced economy which has been able to avoid two consecutive quarters of negative growth in real GDP during the global slowdown, as we explained above. It is well known that Australia's traditional economic and trade dependence is deeply rooted in primary production. However, particularly through new trade engagement with the Asia Pacific region, Australia's export performance in merchandise is experiencing a notable upturn.

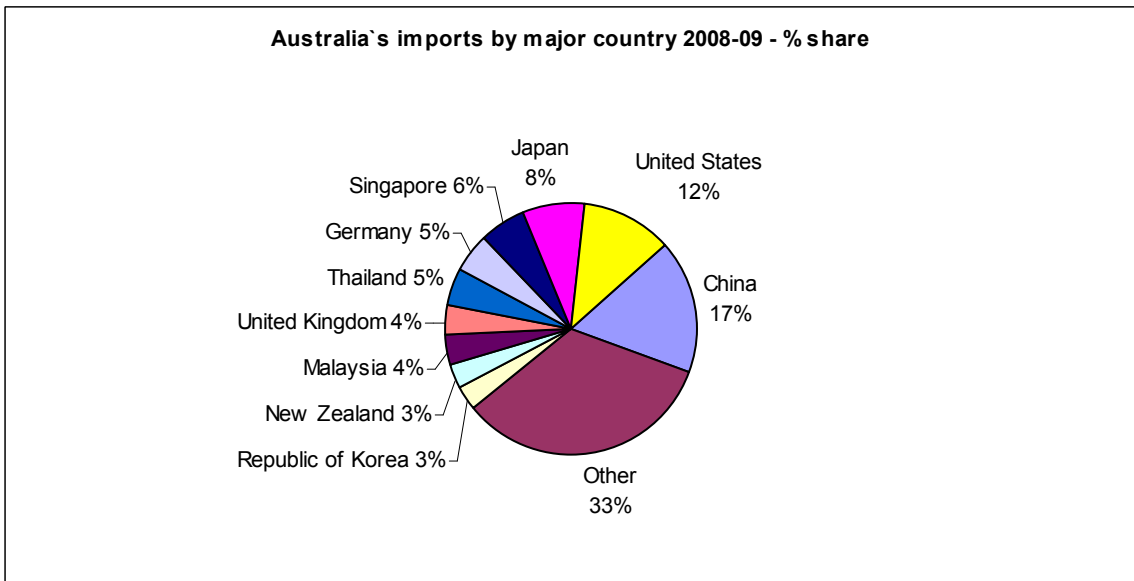
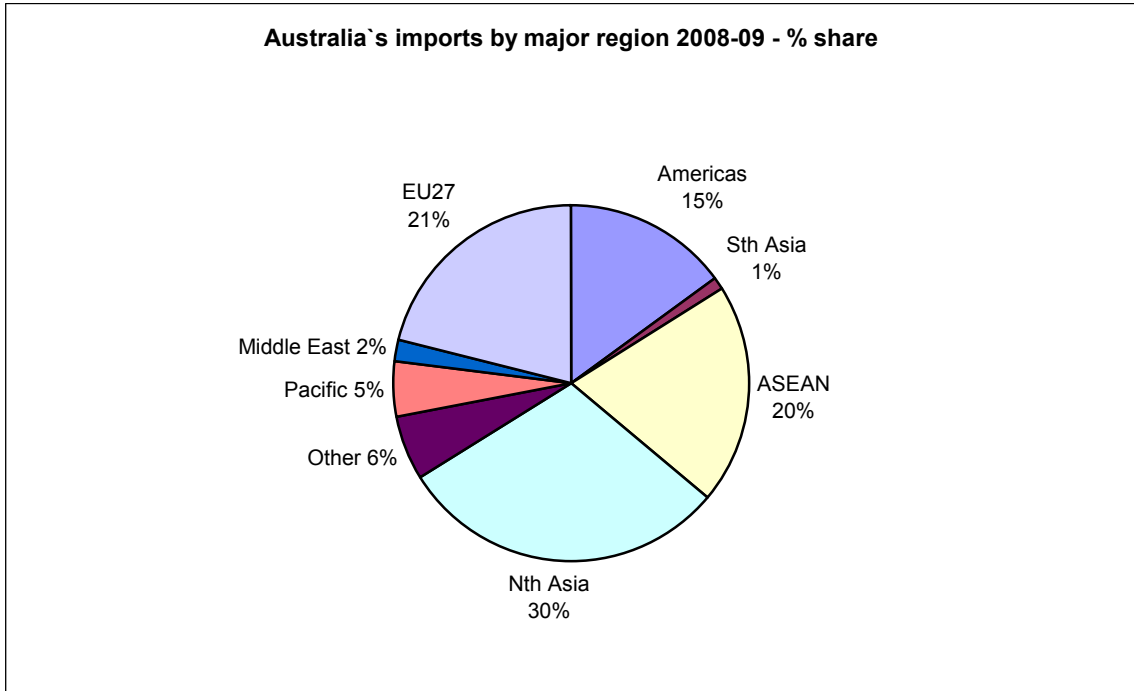
In 2008-09, Australia's merchandise exports increased 27 percent to AU\$231.5 billion, following 8 percent growth in 2007-08. Exports have risen by an average annual rate of 15 percent over the past five years. In 2008-09, North Asian partners accounted for 53.2 percent of total merchandise exports. Exports to the EU27 accounted for 10.4 percent, while exports to ASEAN accounted for 9.2 percent.

In Australia's top ten merchandise country export markets, the recent surges are remarkable: Japan increased 50.4 percent in 2008-09 at average annual rate of 18.5 percent over the last five years; China increased by 45.4 percent in 2008-09 at an average annual rate of 30.4 percent over the last five years; exports towards India increased 65.2 percent in 2008-09, at an average annual rate of 23.5 percent over the past five years. In the same period, exports with EU and ASEAN have risen at an average annual rate of 12 percent, while exports with USA remained stable, growing only 3.9 percent.





Imports increased 9 percent in 2008-09, following growth of 12 percent in 2007-08. The North Asian partners are still in the lead accounting for 30.5 percent of total merchandise imports, whereas the EU27 accounted for 21 percent and ASEAN for 20 percent, followed by the Americas with 15 percent. Amongst the major import sources in 2008-09, strong growth has been registered with India (32 percent at an average rate of 14 percent in the last five years), Thailand (22 percent at an annual average rate of 25 percent), China (20 percent at an annual average rate of 18 percent) and Indonesia (10 percent at an annual average rate of 7 percent over the last five years.)



Source: Direction of Merchandise Imports/Exports 2008-09; DFAT STARS Database.

Despite the worst global downturn in more than 70 years, the value of Australian services exports increased to a record AUD\$53.3 billion in 2008-09. As the Australian Minister for Trade, Simon Crean commented, 'The rise in service exports is a remarkable performance by the Australian services sector; the services sector is the key to driving productivity across the global economy'<sup>35</sup>. Reflecting the strong growth in the Australian economy, imports of services also rose 5.9 percent to AUD\$56.5 billion in 2008-09, with **education services** – by far Australia's largest services export – increasing by 23.2 percent to AUD\$17.2 billion in 2008-09. It is clear that Australia is deeply engaged with East Asia and the Pacific region and, given the results shown in table 3.2, it cannot pass up the opportunity to increase further integration through involvement in broader and more expansive Free Trade Agreements. Unless it becomes party to a broader ASEAN+6 FTA, Australia is vulnerable to lost opportunity and, indeed, degrees of loss within established markets.

Trade has been a prominent theme within Australian foreign policy: in seeking a regional trade structure, Australia took a decisive role in the founding of the Asia Pacific Economic Co-operation (APEC) forum, whose first meeting was held in Canberra in 1989. Since 1994, Australia has also been a strong supporter of the creation of the ASEAN regional forum<sup>36</sup>. The current Australian Federal Government is perhaps even more than previous governments attuned to regional dynamics and their increasing importance to Australia. Prime Minister Rudd commented that:

*I would argue that [one of the] three basic reasons Australians voted for change last November [was that] Australians were becoming more concerned that they were now facing a much more complex region and a much more complex world than ever before, with China and India looming to dominate the 21st century, just as the United States and the United Kingdom had dominated the 20th.*<sup>37</sup>

What might be concluded from this position is that, having an acute awareness of the potential impact of the 21<sup>st</sup> century's new powerhouse economies, the current government is even far more committed than its predecessor to activating trade and other opportunities presented by Australia's fortuitous proximity to the Asia Pacific.

Another important factor is Australia's population growth and population mix. Australia is a young country, its projected median age of 38.2 in 2010 expected to increase to 45.2 years in 2050. From the time of British colonisation, the Australian population has continued to grow and diversify through expanding immigration. Particularly in the post-war years of the 20<sup>th</sup> century, more people were drawn from Europe, later from countries in the Asian region, and more recently from areas in Africa and the Middle East. The nation's multicultural profile is now quite diverse, a characteristic that also fosters the inclination for international cooperation.

In this richly multicultural environment, migrants and international students have been, are and will be a natural bridge between Australia and their countries of origin, promoting culture, economy, trade and scientific and technological cooperation.

---

<sup>35</sup> *Exports of Australian services rise despite global downturn*; S. Crean, Minister for Trade and A. Byrne, Parliamentary Secretary for Trade, Joint Media Release, 17/03/2010, [www.trademinister.gov.au](http://www.trademinister.gov.au).

<sup>36</sup> M Griffiths, M. Wesley, *Taking Asia Seriously*, Australian Journal of Political Science, vol. 45, No. 1, March 2010, pp. 13-28.

<sup>37</sup> K. Rudd, "Address at the launch of *Inside Kevin 07*, by Christine Jackman", Sydney 22 July 2008. Prime Minister of Australia Media Hub.

For Europe, in particular, given its cultural similarities, Australia has particular potential to become the main gateway for activity in the South Pacific region, a bridge between east and west. The population of ASEAN and Oceania as a macro-region is more than 609 million with a GDP of more than US\$2.639 billion. Australia, because of its sound economy, an increasingly strong currency, a quality education system, its 39 universities, internationally recognised research centres and the fact that English is the official language (and is the language adopted by APEC), is an attractive destination for investment in high technology, and an important hub in regional trade and economic activity.

Australia has strong potential to become the cradle of the Asia Pacific area, a foundry for ideas and intellectual capital in the new economy, particularly if Australia's high-end education exports continue to appreciate through the closer integration facilitated by new free trade agreements.



## References:

- ASEAN Fact Sheet 2009/AEC/024, issued by Public Affairs Office of the ASEAN Secretariat, Jakarta, [www.asean.org](http://www.asean.org).
- D. Ariyasajakorn, J.P. Gander, S. Ratanakomut, S.E. Reynolds, *ASEAN FTA, distribution of income, and globalization*, Journal of Asian Economics, 2009.
- Chia, S. Y. 2010. Trade and Investment Policies and Regional Economic Integration in East Asia. ADBI Working Paper 210. Tokyo: Asian Development Bank Institute.
- P. Drysdale, Rudd in Singapore on the Asia Pacific Community Idea, *East Asia Forum*, 2009, <http://www.eastasiaforum.org/author/peterdrysdale/page/3/>.
- M. Griffiths, M. Wesley, *Taking Asia Seriously*, Australian Journal of Political Science, vol. 45, No. 1, March 2010, pp. 13-28.
- Hufbauer, G., and J. Schott, *Fitting Asia-Pacific Agreements into the WTO System*. In *Multilateralizing Regionalism: Challenges for the Global Trading System*, edited by R. Baldwin and P. Low. Cambridge: Cambridge University Press, 2009.
- IMF, *Regional Economic Outlook: Asia and Pacific, building a sustained economy*, Washington 2009.
- Kawai, M. and G. Wignaraja. 2007. *ASEAN+3 or ASEAN+6: Which Way Forward*. Asian Development Bank Institute Discussion Paper No.77. Tokyo: Asian Development Bank Institute.
- 2009. *The Asian "Noodle Bowl": Is It Serious for Business?* Asian Development Bank Institute, Working Paper Series No.136. Tokyo: Asian Development Bank Institute.
- 2009. *ASEAN FTAs: Trends and Challenges*. Asian Development Bank Institute, Working Paper Series No.144. Tokyo: Asian Development Bank Institute.
- T.J. Pempel, *Building an East Asian Community*, 9 April 2010, East Asia Forum, [www.eastasiaforum.org](http://www.eastasiaforum.org).
- Reserve Bank Of India, *Annual Report 2008-2009*, [www.rbi.org.in](http://www.rbi.org.in).
- K. Rudd, "Address at the launch of *Inside Kevin 07*, by Christine Jackman", Sydney 22 July 2008. Prime Minister of Australia Media Hub.
- Kim-Lan Siah, Chee-Keong Choong, Z. Yusop, *AFTA and the Intra-Trade Patterns among ASEAN-5 Economies: Trade-Enhancing or Trade-Inhibiting*, International Journal of Economics and Finance, Vol. 1, N. 1, February 2009.
- Robert Sutter, "Why China matters," *Washington Quarterly*, Winter 2003-2004, p. 75-89.
- G. Wignaraja and D. Lazaro, *North-South vs. South-South Asian FTAs: trends, compatibilities, and ways forward*; Unu-Cris Working Paper, W-2010/3, Bruges 2010.
- The World Bank, *East Asia and Pacific Economic update 2010, Volume I, Emerging stronger from the crisis*, Washington, 2010.

## Websites:

- ASEAN Statistic, [www.aseansec.org](http://www.aseansec.org).
- ASEM, The Asia-Europe Meeting, [http://ec.europa.eu/external\\_relations/asem/index\\_en.htm](http://ec.europa.eu/external_relations/asem/index_en.htm)
- Asian Development Bank's Regional Integration Center, (ARIC) FTA Database [www.aric.adb.org](http://www.aric.adb.org).
- Australian Bureau of Statistic, [www.abs.gov.au](http://www.abs.gov.au).
- Australian Department of Foreign Affairs and Trade, [www.dfat.gov.au](http://www.dfat.gov.au).
- Australian Minister for Trade, Media Release Office, [www.trademinister.gov.au](http://www.trademinister.gov.au)
- Confederation of Indian Industry, [www.cii.in](http://www.cii.in).
- Japan Statistic Bureau, <http://www.stat.go.jp/english/>.
- National Bureau of Statistic of China, [www.stats.gov.cn/english/](http://www.stats.gov.cn/english/).

- United Nations Economic and Social Commission for Asia and the Pacific,  
[www.unescap.org](http://www.unescap.org)