A 3 bloc dance: East Asian regionalism and the North Atlantic trade giants

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1. INTRODUCTION

The world is traditionally described as consisting of three trade blocs – the EU, North America and East Asia. The blocs have remained fairly distinct up till now, but the 3 blocs have started to ‘dance’ and the dance is being held in East Asia.

East Asia – the regional that eschewed regionalism for so long – now finds itself at the heart of global regionalism. East Asia itself is rapidly is a pursuing regionalism integration scheme (or perhaps it should be a non-scheme since there is no architect and no blueprint). The US has begun to sign bilateral FTAs with East Asians. The EU is doing the same. What this means is that the two existing trade ‘hubs’ – the EU and NAFTA – are started to pursue bilateral trade agreements with the Asian nations. This paper explores some of the novel political economy forces that may be generated by this 3-bloc dance and suggests some possible policy reactions.

The paper starts by reviewing some background facts that illustrate the importance of Asia as a trade block. It then goes on to consider the current state of trade agreements in Asia and then the arrangements between the US and the EU on the one hand and Asian nations on the other. The paper moves from fact to conjectures with some discussion of various medium run scenarios and their implications for the world trade system. The paper concludes by suggesting that the 3-bloc dance may force the US to push for a global free trade agreement in industrial goods – something like the Information Technology Agreement but covering most industrial sectors.

2. THE BACKGROUND FACTS

East Asia is the fastest region in the world in terms of imports having experienced double digit growth for a couple of decades. It is now a market that no major trading nation can afford to ignore and the importance of this market increase over the next two decades. As the numbers in Figure 1 shows, the EU and US are forecast to remain the largest markets by far, but China should match Germany by the end of the next decade. Note that since we are interested in market potential – i.e. the ability of people to buy imported goods – the size of the market is measured as nominal GDP in dollars.
Figure 1: Current and future (2020) shares of world nominal GDP.
Notes: Nominal GDP in dollars; adjustments for local prices (PPP corrections) are useful for working out living standards but misleading for trade market-size purposes. After all, the fact that non-traded goods are cheap in China does not help the Chinese purchase EU automobiles.

East Asia has also embarked on intra-regional integration that seems to be working. The region’s share of trade with itself has jumped from about 25% to over 40% on the import side between 1990 and 2005 (see Figure 2).

The rise in intra-regional trade has had several is marked by three quite unusual features.
1. Much of this trade is the outcome of ‘Factory Asia’ (Baldwin 2008, Ando and Kimura 2005).

Asian manufacturing depends upon a dense network of intra-regional trade and investment that source parts and components from plants spread across the region. The results products are sold around the world but especially to the North Atlantic trade giants, the EU and US. What this means is that much of the intra-regional trade is ‘caused’ by the extra-regional exports. In short, the high share is not so much a sign of Asia turning in on itself as it is of Asia cooperating with itself to produce goods with world-beating price-quality ratios. This can be seen in Figure 3. Apart from oil exports from Brunei and Indonesia, most intra-ASEAN trade is concentrated in electrical and mechanical machinery, especially...
parts and components. Much of the electronic components are already duty-free due to the 1997 Information Technology Agreement that bound tariffs to zero on such goods worldwide.

Figure 3: ASEAN trades most machines and electronics with itself, 2006
Source: ASEAN Secretariat website.

2. Preferential trade liberalisation is not yet a major feature in the region.

The most commercially important arrangements that have been signed – the ASEAN FTA (AFTA), the China-ASEAN FTA (CAFTA), the Japanese bilaterals with the major ASEANs (JAFTAs) and the Korea-ASEAN FTA (KAFTA) – are supposed to be phased in over by 2010, but they have not yet undertaken any serious discriminatory tariff cutting. A very large amount of the preferential tariff cutting has been accompanied by unilateral extension of the tariff cuts to MFN trade. As Table 1 shows, a good deal of these nations’ imports are already MFN duty-free. Moreover, many of them have unilaterally lowered their MFN applied rates substantially below their bound rates, especially in non-agricultural goods.

Table 1: Applied and bound tariffs in East Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Import share</th>
<th>MFN bound tariff rate (non-ag)</th>
<th>MFN applied tariff rate (non-ag)</th>
<th>MFN binding coverage</th>
<th>MFN bound tariff rate (all goods)</th>
<th>MFN applied tariff rate (all goods)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>55%</td>
<td>36%</td>
<td>7%</td>
<td>97%</td>
<td>37%</td>
<td>7%</td>
</tr>
<tr>
<td>Philippines</td>
<td>49%</td>
<td>23%</td>
<td>6%</td>
<td>67%</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>Thailand</td>
<td>49%</td>
<td>26%</td>
<td>8%</td>
<td>75%</td>
<td>28%</td>
<td>10%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>78%</td>
<td>15%</td>
<td>8%</td>
<td>84%</td>
<td>25%</td>
<td>8%</td>
</tr>
<tr>
<td>China</td>
<td>44%</td>
<td>9%</td>
<td>9%</td>
<td>100%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>


3. There is no regional leader to coordinate or guide regionalism.

In all other major trade area (EU, North America, the Southern Cone, Southern Africa, etc.) the dominant economy takes the lead in organising free trade agreements. In East Asia, the two nature leaders – Japan and China – have been reluctant to play this role and no clear alternative has emerged. Korea has not been active in organising regional trade arrangements (although Korean thinkers have
been important in discussing it) and ASEAN – which has emerged as the de facto focal point – is not institutionally capable of taking a strong leadership position.

3. CURRENT STATE OF TRADE AGREEMENTS IN ASIA

Asian regionalism is complicated. Dozens if not hundreds of trade deals are under discussion, under negotiation, or already signed. Even limiting the universe to the deals that have been signed or are near signing, it is clear that East Asian regionalism is marked what I have called “Noodle Bowl Syndrome.”

3.1. How we got here

FTAs in East Asia are spreading like wildfire, but until quite recently the region was the only region of the world where regional trade agreements were rare. Baldwin (2008) argues that this outcome can be explained by an Asian version of the Domino Theory of regionalism. The reasoning is clearest when distinguish three phases of East Asian regionalism.

- **Phase I**, which lasted from the mid 1980s to 1990, involved regional tariff cutting driven by private firms setting up “Factory Asia”, i.e. fragmentation, offshoring, slicing up the value-added chain, and the deepening of international supply chains. Whatever the name, the key is cross-nation production networks where the various stages of production of manufactured goods are spread among East Asian economies much like production in a single factory used to be organised into ‘bays.’
- **Phase II**, roughly 1990 to 2000, witnessed a rapid expansion of intra-regional trade as the gradual opening of China accelerated the widening and deepening of Factory Asia. East Asian regionalism per se, however, was delayed by the diversionary effect of APEC.

Two events at the end of Phase II set the stage for the “FTA wildfire.” First, the 1997 Asian Crisis revealed the hollowness of APEC and second, China’s continued economic success, pacific behaviour and impeding WTO membership foretold the end of the East Asian status quo. A new player was joining the game and this forced all the other players to re-evaluate their tactics and strategies.

- **Phase III** was triggered by China’s suggestion, in November 2000, that might would be willing to negotiate an FTA with the ASEANs.

The domino effect that China triggered continues to operate even in 2008. The rapidly lengthen list of FTAs within East Asia has drawn interest of many of East Asia’s near neighbours, most notably India, Australia and New Zealand. We start with the intra-East Asian agreements.

3.2. The Noodle Bowl Simplified

The intra-East Asian agreements are complicated, but in trade relations, as in some forms of art, understanding is boosted by ignoring some details. One branch of the Impressionist movement, Pointillism, consists of paintings made up of thousands of small coloured dots. Focusing on the dots provides the viewer with much information but little understanding. To get the big picture, one has to step back and ignore many of the details. A similar thing is true of East Asian regionalism. The situation

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1 See the web site http://aric.adb.org/ for the most up-to-date account.
2 Baldwin (2004), but see Bhagwati (1991) for the original bon mot “spaghetti bowl” applied to North Atlantic trade deals.
3 The domino theory was proposed in the early 1990s to explain spreading regionalism in North America and Europe, see Baldwin (1993, 1995, 1997).
seems hopeless complex, but it becomes clearer when one ignores the FTAs that are inconsequential from the broader international trade perspective. For example:

- Singapore has signed a world-beating number of agreements, but these are irrelevant to broader questions of East Asian regionalism. Singapore is a small economy by world standards and two-thirds of its GDP is generated by its service sector, with trade-related services like shipping, insurance, finance and customs clearing services playing an important role. Moreover, the City-State long ago unilaterally lowered its tariffs to zero, so an FTA with Singapore either avoids substantial liberalisation or it is a unilateral concession by Singapore’s counterparty. Consequently, the proliferation of Singapore’s FTAs can be usefully omitted from Big-Picture thinking about East Asian regionalism and this despite the fact that Singapore accounts for about a tenth of intra-East Asian trade.

- Likewise, the trade deal between China and Hong Kong and China and Macao are no more relevant to the big picture than a free trade deal between Tokyo and Hokkaido would be. In particular, since Hong Kong maintains zero MFN tariffs and exports few goods to China that compete with exports from East Asian nations, its preferential deal with China is essentially irrelevant to East Asian regionalism.

- Most bilateral trade flows in East Asia cover trade volumes that are inconsequential. To make this point, Figure 4 shows all the East Asian FTAs that have been signed by January 2006 and cover at least 1% of intra-East Asian trade based on 2002 figures. (The thickness of the lines is proportional to the volume of trade.) All FTAs involving Singapore have been excluded for the reasons given above.

The trade volume requirement immediately eliminates all of the intra-ASEAN except the Thailand-Malaysia link and Singapore’s link with the four biggest ASEAN traders, Malaysia, Thailand, Indonesia and the Philippines; the no-Singapore condition eliminates these 4 bilaterals. When we have simplified the noodle bowl by only focusing on bilaterals that might be of consequence to third nations in the region, the picture is quite stark. We immediately see that ‘real’ East Asian regionalism is – by my definition – marked by a hub-and-spoke arrangement with two hubs, Japan and China. It is important to note that many of the negative aspects of hub-and-spoke regionalism are mitigated by AFTA, but from a systemic point of view, the key trade arrangements in East Asia – i.e. the trade deals that cause concern to third nations – are dominated by China and Japan. This is what I called the East Asian bicycle pattern in Baldwin (2002).
By focusing on the trade ties that really matter from a political economy perspective, we can more easily organise our thinking about how Asian regionalism.

In mid-2008 East Asian regionalism has four pillars.

- The Japan-ASEAN bilaterals are by far the most solid and commercially important;
- The China-ASEAN FTA;
- The Korea-ASEAN FTA, and
- The FTA-like agreement among the ASEANs themselves, namely AFTA.

These four pillars are very different in terms of the legal, political and institutional solidity. The Japan-ASEAN bilateral read like European FTAs, with pages of legalese that foresee solutions to many possible difficulties, and they will be notified to the WTO under Article 24. Moreover, given the extremely asymmetric dependence of Japanese exporters on the individual ASEAN markets concerned on the one hand, and dependence of exporters in the ASEANs on the Japanese markets, these FTAs are very likely to be implemented as they are written. The ACFTA shares the asymmetry of export dependence and so is likely to implemented, as long as the freeing up of trade does not lead to massive delocation of industry from the ASEANs to China. The Korea-ASEAN FTA does not feature large asymmetries in export dependence – none of the parties cares greatly about the others’ markets – so no one will have a large stake in ensuring the agreement actually becomes effective. Finally, AFTA is useful in that it is a vehicle for much technical coordination of trade liberalisation issues (harmonisation
of the finer HS categories, and rules of origin, etc.), but it has not resulted in substantial intra-regional trade liberalisation.

Next we turn now to the main agreements.

3.2.1. China-ASEAN

China’s unexpected offer in 2000 to sign an FTA with the ASEANs triggered a domino effect in the region. The effect, however, occurred in slow motion. It was only after years of difficult discussions that China and the ASEANs signed an FTA in December 2004. This agreement is complex and affects East Asian regionalism in complex ways.

3.2.2. Japan-ASEAN and bilaterals

Japan proposed an FTA with the ASEANs in January 2002 and the parties signed a Joint Declaration in November 2002 to establish closer economic relationships that could include FTA. In October 2003 they adopted a Framework Agreement laying out further steps, but progress was slow with the agreement being signed only in April 2008.\footnote{See http://www.mofa.go.jp/policy/economy/fta/asean/agreement.html for the latest progress on ratification.}

Since progress on the ASEAN deal would clearly be slow, Japan also embraced bilateralism – negotiating bilateral deals with those ASEANs where the mercantile interest is greatest on both sides, namely Malaysia, Thailand, Indonesia, Singapore, Brunei, and the Philippines. All of these deals have been signed for the past years: Malaysia (December 2005), Thailand (April 2007), Indonesia (August 2007), Singapore (December 2002), Brunei (June 2007), and the Philippines (September 2006).

The Japan-Malaysia FTA (JMFTA), signed in December 2005, sets an extremely important precedence for East Asian regionalism. Indeed, the deal revealed what became the basic pattern for FTAs between the industrialised East Asian nations – Japan and Korea – and the rapidly industrialising East Asian nations such as Indonesia, Thailand, Malaysia, the Philippines and Vietnam. Due to extremely well-entrenched special interest groups, Japan’s government finds it impossible to liberalise most agricultural goods, but especially rice and beef. Japan’s FTA partners use this impossibility as a lever to win concessions from Japan on their favourite import-substitution industrial sector. In the case of Malaysia, the favoured sector is automobiles. However, in the JMFTA the Malaysian government has been very farsighted by agreeing to phase out tariffs but insisting that Japan provide technical assistance for its car industry. Presumably the idea is that auto tariffs will in any case have to be phased out eventually and this JMFTA provides an opportunity for boosting Malaysian auto industry competitiveness in advance. It is also possible that Malaysia felt compelled to make concessions on autos since it knew Japan was also talking about cars with its rivals in Indonesia and Thailand and ASEAN did not coordinate the four sets bilateral talks with Japan.

3.2.3. Korea-ASEAN

Korea – whose market is far less important to ASEAN exporters than China’s or Japan’s – is playing catch-up in the FTA department. The FTA processes between the ASEANs on one hand and China and Japan on the other formally started with Framework Agreements in 2002 and 2003 respectively. Korea’s first step, a Joint Declaration, came a year later in October 2003 and its Framework Agreement with ASEAN was signed in 2005 and even then difficulties between Thailand and Korea prevented publication of the AKFTA framework.
The differences between Korea’s and Japan’s experience with the ASEANs is extremely revealing and helps illustrate the political economy forces that tend to create hub and spoke trade arrangements. For both Korea and Japan, rice is an extremely sensitive issue in domestic politics, while rice is an important export for several ASEANs but especially for Thailand. When the rice issue came up in the Japan-Thai FTA talks, Japan’s large market and high level of imports from Thailand gave it the bargaining leverage necessary to exclude rice from Japan-Thailand liberalisation. Something like 15% of all Thai exports go to Japan, so the market-access gains to Thai manufactures exporters were a prize that compensated the failure to gain better access for Thai rice. Simultaneously, the large size of the Japanese auto industry made Thai car producer believe that it was essential to maintain their protection against Japan. Thus the fact that Japan was so large compared to Thailand was critical to establishing the economic basis of the political deal, rice for autos. Moreover, Japanese FDI has been critical in Thai industrialisation over the past two decades.

Korea, by contrast, was not able to get a deal with ASEAN as a whole in December 2005 since Thailand insisted that Korea could not exclude rice from its preferential market opening. Why would Thailand let Japan do something that it would not allow Korea to do? Korea absorbs only 2% of Thai exports and Korean FDI has not played as significant a role in Thailand’s development. Moreover, while the Japan-Thailand trade relationship is lopsided (Thailand cares far more about the Japanese market than Japan does about the Thai market), the Korea-Thailand relationship is more balance, and balanced at a very low level – neither nation depends upon the others’ market for more than a percentage point or two of its exports. Because neither Korean nor Thai exporters care a great deal about each others’ markets, the protectionist tend to win when it comes to the Korea-Thailand link (low exclusion index), but tend to lose when it comes to the Japan-Thailand link (high exclusion index, i.e. hub-spoke).

3.2.4. Japan-Korea FTA: talks deadlocked

Japan and Korea are two of the three large economies in Asia and together they absorb something like a third of all intra-East Asian trade – a figure that would be even higher if one ignored the trans-shipment trade of Singapore and China’s trade with itself (Hong Kong). What this means is that a tie up between these two nations would create an almost irresistible domino effect in East Asia as I wrote in Baldwin (2002). The resulting shape of East Asian regionalism would be quite positive since the basis, the JKFTA, would be an Article 24 disciplined arrangement between two nations with relatively low MNF tariffs. For these reasons, the Korea-Japan trade relationship is one of the two most important links as far as the development of East Asian regionalism is concerned (the other is Japan-China).

The two countries began talks in 2003. Progress, however, has been difficult and discussions all but came to a halt in 2005. Prospects for an early agreement look grim. The talks ran up against the fundamental incompatibility of the two nations’ development strategies and current situation. For decades, Korea’s trade policy has been aimed at turning the Korean economy into something similar to Japan’s – an exporter of medium and hi-tech manufactured goods to Western markets. Despite Korea’s significantly higher tariffs on such goods, Korea runs a large and persistent trade deficit with Japan in these goods – the goods that Korea is counting on for its future growth. Given the asymmetry in MFN tariffs on such goods, a free trade agreement would do more to foster Japanese access to the Korean market in such goods than it would do to foster Korean access to the Japanese market in the same goods. This is why it will be difficult for an ‘industry-only FTA’ between the two partners to be viewed as ‘balanced’ by the Korean side.

It is conceivable that Japanese promises to boost investment and technology transfers to Korea in the concerned sectors could counter-balance this asymmetry, but such an offer may be seen as incompatible
with Japan’s desire to hold on to its own edge. Another conceivable source of balancing concessions by Japan would be in the area of agriculture. Although Korea’s farm sector is heavily protected and far from competitive by world standards, Japan’s fantastically high agricultural protection means that Korean farmers would have a comparative cost advantage in the Japanese market. Since Korean farmers are a major source of political difficulties for Seoul’s trade policies, a Japan-Korea FTA that won new markets for Korean farmers would have a good chance of counter-balancing the potential opposition of Korean manufacturers. Japan, however, seems quite unlikely to make any significant concessions in agriculture in the context of an FTA.

In summary, Korea’s development strategy makes it difficult to open up its industrial sector to Japanese competition. Japan’s political strategy makes it difficult to open up its farm sector to Korean competition. Until these two positions soften, agreement will require the push from an overarching geopolitical reason for signing the deal.

3.3. Asia beyond East Asia

The list of Asian nations signing or negotiating FTAs is truly impressive. As usual, however, most of the players are too small to matter for global trade relations. Here we focus on India, Australia and New Zealand.

3.3.1. Australia and New Zealand

The 10 ASEANs, and Australia and New Zealand launch negotiations in 2004 on a free trade agreement. Progress has been slow, but the parties aim for a deal in 2008 covering goods, services and investment.

Australia and New Zealand already have bilaterals with Thailand and Singapore. Australia is negotiating with China, India, Japan and Malaysia, while New Zealand already has an FTA with China and is negotiating with Malaysia.

3.3.2. India

Fearing that its exporters might be left behind in the scramble for Asian FTAs, India has launched trade talks with ASEAN, China, Japan, Australia and New Zealand. Since India appears reluctant to remove its industrial and agricultural tariffs even bilaterally, none of these negotiations promise to deliver agreements in the foreseeable future. ASEAN, for example, has explicitly suspended talks until the Indian side produces a more ambitious market access package.

4. ASIAN TALKS WITH EUROPE AND WITH THE US

Trade relations between Asia and small European nations have proceeded rapidly. The European Free Trade Association (EFTA) has already signed an FTA with Korea (2006) and Singapore (2003). Switzerland, the only industrial exporter in EFTA, is conducting talks with Japan and Thailand, and is at a pre-negotiation stage with Indonesia and China.

The willingness of EFTAns to leave out agriculture – especially sensitive items such as beef and rice – as made it relatively easy to find common ground on bilateral FTAs with East Asian nations. This fact augurs well for the much more commercially important trade pacts that the EU is contemplating but the situation is different. Following a long tradition going back to the Cold War, EFTA is willing to largely ignore politically sensitive aspects such as democracy, and social and environmental policy.
4.1. The EU and Asia

Since mid 2007, the EU has been negotiating an FTA with ASEAN as a whole. These talks are complicated by the fact that the EU would have trouble signing an agreement with a military dictatorship such as Myanmar. This may eventually lead the EU to embrace the Japanese dual track system of negotiating with ASEAN as a whole (slowly) and with the economically most important ASEANs individually. Indeed, talks on the EU’s standard less-than-FTA bilateral deals, so-called Partnership and Cooperation Agreements, have already been launched with the major ASEANs.

While the EU’s willing exclude agriculture – a fact that makes trade agreements easier with most ASEANs – the ASEANs have their own reservations. There are also important commercial issues on the side of ASEAN who wish to continue protecting some elements of their industry from Europe’s high-tech advantage.

The EU launched talks with both India and Korea in 2007. Negotiations with India have proven problematic. As in the case of ASEAN, India does not seem willing to accept that a free trade agreement involves zero tariffs on most goods. Moreover, the service-sector access that India seeks is generally controlled by individual EU member states and so difficult to including in the talks.

Discussions with Korea have been more successful, and the EFTA-Korea precedence provides some hope. Some observers hope for a conclusion to the talks in 2008, but difficult issues in the auto sector remain.

4.2. The US and Asia

As part of the Bush Administration’s ambitious FTA agenda, talks where begun with a number of Asian nations. They have been concluded with Singapore, Australia and Korea. The Singapore and Australia FTAs are in place, but the US-Korea arrangement is in deep political trouble in both the US and Korea.

A series of talks between some of the major ASEAN nations – Thailand and Malaysia in particular – were launched in 2004, but have come up against a variety of objections by the Asian nations to the US’s ‘template’ that typically includes free trade in the US’s major agricultural exports as well as government procurement liberalisation, and conditions touching on labour and the environment. While these talks are not formally suspended, observers generally place a low probability on the deals being signed in the median terms. The expiration of the US Administration’s fast-track authority, known as Trade Promotion Authority (TPA), has not helped matters. Nor have the parliamentary manoeuvres by democratic party leaders in the US Congress, which seem to question the applicability of the procedure to agreements reached under the old TPA.

This US continues its cooperation and broad initiatives under the APEC aegis, but this tactic has so far yielded little in the way of value added and seems set to yield little more in the medium term. Take together, these factors seem to have brought the US’s bilateral initiatives in Asia to a full halt.

5. CONJECTURES CONCERNING THE FUTURE IN EAST ASIAN REGIONALISM

Now we move from facts to conjecture – discussion of possible future developments as the three blocks continue to dance in East Asia.

Over simplifying to make the point, one can think of three scenarios going forward.

- All the planned FTA work.
In this vision of the future, the US deals with Korea, Malaysia and Thailand go through with perhaps others with Indonesia and the Philippines following. The EU completes its arrangements with the major ASEANs – Singapore, Malaysia, Indonesia, Thailand, and the Philippines, as well as with India. The ASEAN-centric arrangements get implemented and substantially eliminate tariffs within the region. This would be a world where almost all the world’s largest trade flows are duty free – the trans-Atlantic flows, trade among Japan and Korea, and most of China’s exports being the main exception.

If this does happen, it is likely that the rest of the barriers would eventually fall since there would be little de facto to protect. Leaving China aside, a world with this level of regionalism would be one where domestic prices would be very close to what they would be under free trade, in which case the MFN tariffs have little political economy benefits. One exception to this is the protection that tariffs would provide to developing nations’ industry from the Chinese export machine.

The EU’s superior access to India would be very likely to spark some resentment in the US, but perhaps not too much – probably not enough to force the US to drop its FTA demands that India cannot live with.

• The EU-Asia FTAs work, but the US-Asia FTAs do not.
This would be a world where both the US and China were largely outside a very large, virtual free trade zone for industrial goods. Both nations are important players in the world trade system and the US in particular would probably not take this sitting down. If the most direct redress were not available to it (i.e. signing FTAs that leave out various US demands) for domestic or international political reasons, the US is likely to think of something else.

The last time it looked like it might be excluded from Asia regionalism, the US pushed APEC. This time around, it would have to be even more ambitious. One possibility is that it would revive its zero-for-zero proposal from the Uruguay Round but on a much larger scale – a global free trade pact industrial goods. While this sounds farfetched, it might be the best and perhaps only way the US could avoid having its exporters faced discrimination in all its non-NAFTA export markets. Perhaps such an initiative would resemble the Information Technology Agreement (ITA) but covering almost all industrial goods. As in the ITA there would be no special and differential treatment and the accord would go into effect only if a sufficiently large number of nations signed up.

• Neither EU-Asia nor US-Asia FTAs work.
This would approximate the status quo with a bit more intra-Asia integration. Just as the status quo is fairly stable from the global perspective, this outcome would as well. More specifically, it would not involve any of the discrimination and trade diversion that is the political-economy engine that drives the domino effect.

6. CONCLUDING REMARKS

Until very recently, the world could roughly be described as three trade blocks centred on the US, the EU and East Asia. Since 2004 a series of negotiations have been launched by the EU and US to preferentially liberalise several of the most important inter-bloc trade flows. If only some of these initiative succeed, discrimination will appear and this – historically – has triggered a domino effect that tends to induce further liberalisation.

One not unlikely outcome is that several of the EU-Asian FTA got through but none of the US-Asian arrangements come to fruition. In this case, the US would find itself as an outsider with few options. One of the best of those options, however, would be to eliminate the discrimination by pushing for global free trade in industrial goods.

Maybe three blocks can all dance together after all.
7. REFERENCES

