

Comments on:

Heribert Dieter (2012). The Drawbacks of Preferential Trade Agreements in Asia. Economics Discussion Papers, No 2012-68, Kiel Institute for the World Economy. <http://www.economics-ejournal.org/economics/discussionpapers/2012-68>

The Drawbacks of Preferential Trade Agreements in Asia

The author provides a critical assessment of preferential trading agreements in Asia. Dieter considers it an “irony that Asian economies, who have been major beneficiaries of today’s open trade regime, have firmly embraced the trend towards PTAs” (page 20). He argues that the rise of China, rather than PTAs, has been the main driver of the progressing trade integration in the region. This leads to the question why Asian economies departed from the multilateral regulation of trade and increasingly opted for PTAs. It appears that major players, notably the US and the EU, deserve a large part of the blame of having weakened the multilateral framework. The paper then portrays the mushrooming of PTAs in Asia, with China and Japan as the most active players.

Dieter makes the case that the resulting ‘noodle bowl’ of trade regulations in Asia has hardly enabled companies to trade more freely within the region. A particularly interesting part of the paper relates to the issue of rules of origin in PTAs and the low utilization rates of trade preferences in Asia. It appears that intra-regional trade continues to be largely conducted on an MFN basis, rather than making use of tariff preferences coupled with the need to produce certificates of origin. Dieter concludes that the economic utility of PTAs in Asia is limited at best (page 15).

Discussing possible ways forward, Dieter focusses on the options of creating an Asia-wide free trade area or even a customs union, as alternatives to the complex web of existing PTAs. The option of a custom union is preferred, but – perhaps still somewhat euphemistically – regarded as “not an easy task” (page 18). The ASEAN-China FTA is considered to serve as an economic nucleus of an Asian integration project in the future, though such a project appears to be at best a distant prospect from a political perspective.

Some specific suggestions:

- There are some instances in the first part of the paper where the wording should be “updated.” For example, on page 1, the author may check whether trade has recovered since 2010 (rather than noting that trade is recovering in 2010). See also on page 7 where the final paragraph starts with “Nowadays, at the end of the first decade of the 21st century.”
- The reasoning on China on page 3 of the paper appears to be in some conflict with the reasoning on page 19 (and the final sentence on page 21) where Dieter stresses the recent suspicion and concerns among China’s neighbors about its longer term aims and “increasing bullishness.” In particular, recent developments seem to suggest that Shambough’s (2004) favorable assessment needs to be qualified with hindsight. From today’s perspective, one may also doubt that China’s diplomacy has been particularly clever in the most recent past (or that China’s popularity is still “current”). Perhaps the wording on page 3 should be slightly adjusted to take most recent developments and changing perceptions into account at this stage of the paper already.

- The statement in the first paragraph on page 4 that “China does not generate a large surplus in trade with its neighbors” does not fit with the abstract and the subsequent paragraph on page 4 (where China is said to have accepted trade deficits with its neighbors; see also Table 1). The quoted sentence could simply be deleted, I guess.
- In the first full paragraph on page 6, it would help the reader if the author clarified how the export destination shares add up to 100 (probably the “rest of the world” does not include developing Asia?).