

## ASEAN-Japan Economic Relations in Global Trade Governance

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CURRENT GLOBAL TRADE governance is shaped by two parallel trends: the ongoing development of the multilateral trading system and the proliferation of agreements set by two or more countries at the regional level. The multilateral trading system is based on the 1995 Uruguay Round of negotiations under the World Trade Organization (WTO), while regional arrangements are defined in regional trade agreements (RTAs) with little or no control by any powerful supranational implementing agencies. Although the two have coexisted since the beginning of the postwar trading system, recent developments have put greater importance on the link between them.

Over the 20 years since the last Uruguay Round was completed, global trade has evolved dramatically, not only in terms of its value but also in terms of its participants and even of the characteristics of products traded. Trade's interdependence with investment, production, and services is a crucial development that has not been managed well in the current trade governance system, especially at the multilateral level. ASEAN and Japan have made important contributions to global trade governance through their economic relations, but there are opportunities for them to take on more of a role in trade governance reform, as discussed below.

### THE CHANGING NATURE OF THE GLOBAL TRADE ENVIRONMENT

To understand the needs that would shape the future of global trade governance, it is important to examine the changing nature of the global trade environment that has taken place in the last 20 years since the General

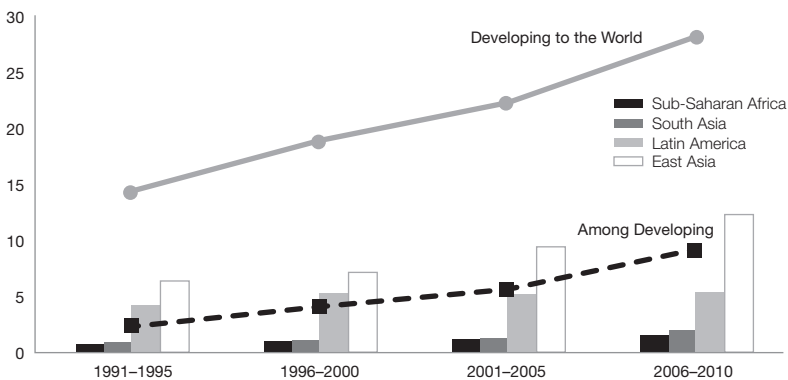
Agreement on Tariffs and Trade's (GATT) Uruguay Round was completed. These changes have shifted bargaining power between members of the WTO, caused strategic distrust, and altered members' perspectives on the costs and benefits of global trade negotiations.

## Increasing Importance of Developing Countries

The most obvious and dramatic change in global trade has been the increasing participation of developing and less-developed countries. The majority of developing countries, including even the poorest, are increasingly more important in shaping global trade. In the late 2000s, these countries' contribution was around 28 percent, almost double what it was in the early 1990s (see fig. 1). Trade has risen not only between the developed countries of the Global North and the developing economies of the Global South but also between countries in the South. South-South trade now accounts for almost 10 percent of total global trade, three times higher than what it was in the early 1990s. The figure also shows that most of the trade escalation has taken place in East Asia, which currently accounts for more than 12 percent of total global trade. However, other regions have also grown substantially, albeit at rates much lower than East Asian countries. Even Sub-Saharan Africa more than doubled its share of global trade over the same period, increasing its total trade volume almost seven times.

Successful developing countries have normally pursued more aggressive trade promotion by diversifying from primary commodities to

Figure 1. Developing countries and global trade



Source: UN Comtrade.

manufactured goods.<sup>1</sup> Following this pattern, developing countries have increased their presence in manufactured goods exports significantly in recent years. Figure 2 compares the composition of developing countries' exports in 1990 and 2012. Diversification of exports is quite obvious. Exports of manufactured goods have increased from 48 percent of exports from the South to 58 percent. More striking is the decline of resource-intensive manufacturing and the rise of medium- and high-skill-intensive manufactured goods in the composition of developing countries' exports.

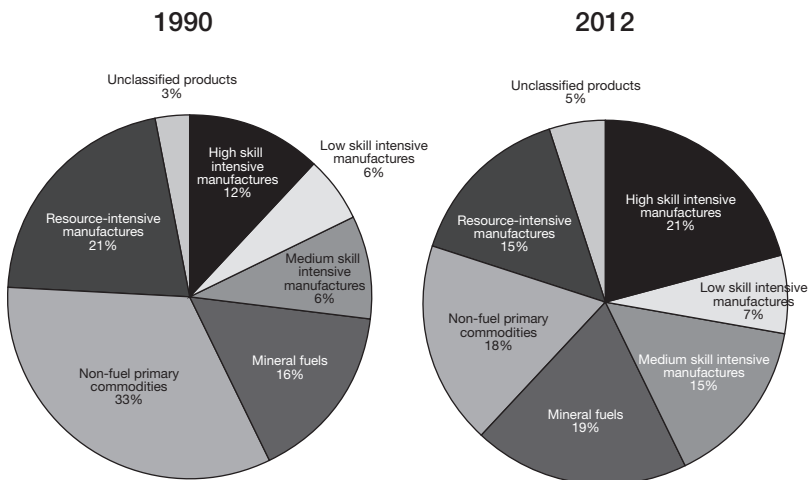
ASEAN countries have also played a more important role in the world market, accounting for around 7 percent of world merchandise exports in 2014.<sup>2</sup> Even the least developed countries in Southeast Asia have seen dramatic increases in their shares, mostly by diversifying to manufacturing.

### The Emergence of Global Production Networks

There are several reasons behind the greater involvement of developing countries in global trade. One factor is the increasing demand and world price of commodities. As many developing countries have an abundance of raw materials, commodities exporters have experienced increases in their shares of global trade. But as figure 2 shows, developing countries have also become producers of manufactured goods.

This development is heavily related to the emergence of new production practices that create international production networks, or global value

Figure 2. Composition of exports from developing countries



chains. With this new business model, firms use their comparative advantages by slicing up production at different stages and placing those stages in different locations according to their intensity and the abundance of factors of production. This new practice of internationalization of production is composed of two major elements: (1) doing business and production abroad and (2) connecting international production facilities.<sup>3</sup> Placing production bases in different countries requires firms to conduct international business activities normally performed through foreign direct investment (FDI). This production normally takes place in the South, where labor is abundant and relatively cheaper than in the North.

The dispersed production bases would remain disconnected, however, without activities to bring them together. Organizational management and coordination, as well as the cross-border movement of goods, people and ideas, have become the ties that link those separate production activities and form the global production network. The availability of excellent services industry, including logistics, telecommunications, and finance, is necessary to ensure that such interconnections can take place in an efficient and timely manner.

The interconnections among trade, investment, and services have become the backbone of the current global trading arrangement and international production networks, which now account for some 80 percent of the global movement of goods. The majority of developing countries, including even the poorest, are increasingly participating in these production networks, with the developing-country share of value-added trade increasing from 20 percent in 1990 to more than 40 percent a decade later.<sup>4</sup>

This development is easily observed in economic relations between Japan and ASEAN countries, and many scholars have pointed out the development and the importance of such networks of production in East Asia as a whole.<sup>5</sup> Richard Baldwin goes even further, calling the networks “Factory Asia,” where “conveyor belts” of production connect thousands of firms operating in various countries, many specializing in certain stages of the production process.<sup>6</sup>

## **The Global Financial Crisis and the Threat of Protectionism**

The global financial crisis that started in 2008 has brought about a new perspective on global trade governance. A sharp contraction in global growth following the crisis has caused even sharper contractions in trade and FDI. During the first year of the global crisis, nominal trade fell by 30 percent on average, and the declines have been widespread across countries

and products.<sup>7</sup> The current practice of relying on global value chains has caused demand shocks in developed countries, which were reflected in an even higher drop in the industrial production of developing countries as well as their trade value.

But even more worrying about the picture in the wake of the global financial crisis was the increasing tendency toward protectionism. Government interventions in terms of bailouts and fiscal stimulus were often followed by the application of various restrictive trade measures. More protectionist measures are expected to increase the effectiveness of government interventions by keeping fiscal stimulus in a closed economy environment. In order to obey WTO rules regarding trade policy instruments, most countries resort to more subtle types of discriminatory measures, such as the application of nontariff measures, trade defense measures, or more restrictive government procurement.<sup>8</sup> Moreover, the global economic crisis has constrained WTO members' ability to keep the multilateral trading system going and to make further concessions in completing the Doha Round.

### **The Emergence of Regional Trade Agreements**

One important feature of the more globalized and integrated world today is the proliferation of RTAs. The number of RTAs in force has rapidly increased, quadrupling in the last two decades. RTAs have become very important in shaping global trade governance, both in terms of trade coverage and in terms of issues discussed in the agreements.

One of the reasons for the rapid propagation of RTAs is the current state of multilateral trade negotiations. While the WTO is functioning well in implementing multilateral trade rules, which are generally respected because of their strong supporting institutions, the multilateral liberalization process has been stalled for a while. The current negotiations of the Doha Round—also sometimes referred to as the Doha Development Agenda—have just recently shown some improvement with the acceptance of the Bali Package, an agreement on lowering import tariffs and agricultural subsidies and the first agreement approved by all WTO members. Moreover, the Doha Round itself has been criticized for not including a number of trade-related issues that need to be addressed for 21st-century trade, which is dominated by strong linkages between trade, services, and investment, as discussed above.

In order to deal with increasingly complex trade-related problems, countries have resorted to regional or bilateral agreements involving a limited number of participants. ASEAN countries and Japan, as some of the biggest participants in global value chains, are no exception. In 1992, ASEAN

members started a process of regionalism that became more complex and adopted the objective of having an ASEAN Economic Community by 2015. Those countries are also actively involved in seeking trade agreements with their main trading partners, including Japan. Currently, ASEAN is also pursuing an East Asia-wide trade agreement, the Regional Comprehensive Economic Partnership (RCEP), which would become a mega-regional arrangement if approved.<sup>9</sup>

## CHALLENGES TO BETTER GLOBAL TRADE GOVERNANCE

In the face of these developments that have been emerging since the conclusion of the last round of multilateral trade negotiations in 1995, there is an increasing need to redefine the functions and coverage of global trade governance. Various challenges need to be addressed in order to make it more relevant and more effective in providing rules for global trade activities.

The first challenge is related to the greater involvement of developing countries in global trade and also in multilateral trade negotiations. Compared with the Uruguay Round, in the Doha Round negotiations, developing countries have voiced their interests more strongly, and their stances are often different from those of developed countries. This North-South tension has led to difficulties in concluding the Doha Round. From the South's perspective, the current negotiation round is heavily biased toward the principal interests of developed rather than developing countries. On the other hand, developed countries see the situation as a result of the reluctance of developing countries to share responsibility in formulating global trade rules. The future global trade governance system should explore the differences and should find some possibility for compromise to accommodate various interests.

The second challenge, still related to developing countries' participation, is the growing tensions among them. Since many developing countries have been aggressively using outward-oriented strategies to promote their stake in global trade, often producing similar products, competition among them is also increasing and is even more intense than North-South competition. Disputes between developing countries are not something uncommon these days, often taking a large portion of their resources to settle. Mechanisms solely devoted to South-South economic relations would complement the multilateral system and help it to run more effectively.

The third challenge is finding ways to make sure that the benefits from global trade expansion are not only enjoyed by a handful of nations or

people. While trade and investment are recognized as the main engines of growth in many developing nations and have lifted hundreds of millions across the globe out of poverty, “there is also evidence that many countries and people remain marginalized and have failed to benefit from the resulting growth.”<sup>10</sup> Some of the least developed countries remain disconnected from global trade due to either lack of capacity or poor connectivity. At national levels, the gains from trade have often not been distributed appropriately, benefiting only some who manage to develop access to trade and leaving behind others who are less fortunate. This happens in many developing countries, where mechanisms for distributional policy, such as fiscal transfers to vulnerable groups or adjustment assistance, are not present. Development issues need to be addressed more seriously in the global trade system to allow greater participation and more inclusive trade.

The fourth challenge is related to the rise of the global value chain. This trade-investment-service nexus has brought the complexity of production, flows of knowledge, and flows of goods—which previously took place within close proximity—to the global stage and on a much bigger scale. This situation has introduced many new problems that were previously unknown in the traditional model of production. One of the most difficult problems is related to issues about protection of business activities, referring to both physical and intellectual assets. There are also problems related to market failures, such as information asymmetry and anticompetitive behaviors. Moreover, more intensive cross-border activities require greater facilitation and frictionless trade—for both goods and services—as well as freer movement of capital, people, and ideas. It is imperative that global trade governance provide rules that encompass all of those issues and provide answers to problems related to global value chains.

The fifth challenge is related to the fact that trade has affected the global environment significantly. We know that trade correlates positively with economic growth, which in turn affects the environment, following the Environmental Kuznets Curve. At early stages, growth brings about a deterioration in the environment, but at more advanced levels, further growth improves the environment. But the rapid increase in global trade from developing countries has led to greater negative impacts on the environment. Faced with increasing global competition, while at the same time having limited capacity and technology, developing countries often find themselves with limited options other than using environmentally damaging processes and technologies. Commodities exporters rarely apply sustainable practices or environmentally friendly resource management. Evidence suggests that some indices of environmental degradation, such as air pollution, are positively correlated with growth in trade, especially for countries with lower

incomes. But as countries get richer, the detrimental effects of trade are no longer as obvious. Global trade arrangements need to find ways to tackle environmental problems without being used as measures to restrict trade.

The sixth challenge is finding a way to position the rapid proliferation of RTAs in the framework of global trade governance together with existing multilateral trade rules. There is a long-standing debate on whether regionalism can serve as a building block for global governance or if it will become a stumbling block. Supporters of the building-block theory point out that although countries normally set preferential concessions discriminatorily in RTAs, they generally lead to more open most-favored-nation (MFN) regimes. Moreover, parties to RTAs often find themselves in situations leading to the enlargement of existing RTAs or the creation of bigger ones, which eventually sets the foundation for global free trade agreements (FTAs).<sup>11</sup> However, empirical studies on the subject of East Asia RTAs, for example, reveal that trade diversion cannot be neglected.<sup>12</sup> In addition, overlapping bilateral and regional trade agreements have been the source of many difficulties in realizing the potential benefits of trade liberalization. This phenomenon is often referred to as the “spaghetti-bowl” effect.

The last issue that needs to be addressed in the future global trade arrangement is the ability of this system to prevent “murky” protectionism from increasing during bad economic times. The last economic crisis taught us that the current trade rules are powerless to deal with this trend. It is therefore important to think about mechanisms for dealing with the issue more effectively.

#### GLOBAL TRADE GOVERNANCE: SOME FUTURE DIRECTIONS

In discussing global trade governance, three aspects need to be considered. The first aspect is related to the processes of negotiation and decision making that shape the trading system and rules. With the involvement of emerging countries changing the balance of power, the process needs to accommodate more diverse interests. The second aspect is the discourse on the scope of global trade rules. The more complex arrangement of global trade has given rise to debates on the extent to which new trade issues can be incorporated in the multilateral trading system or can be dealt with through other related international forums. The third aspect to consider is the mechanisms and institutions through which accepted trade rules can be implemented effectively and in an efficient manner.



## Negotiation and Decision-Making Processes

There is an enormous need to find better mechanisms in the trade negotiation process. The progress of the current negotiation round does not only serve a more open global trade regime, but it also maintains the credibility of multilateral arrangements as the main driver of global trade governance. One possible way to improve the rule-making process of the multilateral trading system is to relax the principles that have been used successfully in the previous negotiation rounds, such as single undertaking (whereby a package of agreements are signed rather than allowing parties to pick and choose individual agreements), consensus rule, and MFN status. With 159 countries currently engaged in the Doha Round negotiations, those principles have been slowing down the pace of negotiations and are likely to result in the lowest common denominator imposed by the least ambitious of the participants.

A plurilateral approach, or selective multilateralism, is an alternative that may reduce the complexities of the negotiation process for the contemporary multilateral trade rules. Through this approach, only interested countries discuss a common set of rights and obligations related to a particular issue or sector. The results then bind those groups of countries, while other members of the WTO outside of the groups may enjoy the benefits of the concluded concessions. In order to make the agreement more substantial and bring about significant effect, the number of participating members should be quite large.

## The Scope of Trade Governance

The original objectives of trade governance under the multilateral trading system are simple: obtain greater market access for all members and ensure that international trade is conducted according to multilaterally agreed rules. However, many other new issues are now also considered part of trade governance due to the complexity of the trade environment discussed above.

There are three categories of issues currently deemed to be closely related to trading rules. The first category is commercial-related issues, a set of rules and disciplines that determine the regulatory framework in which trade and investment activities take place, including investment rights and protection, intellectual property rights, and competition policy, as well as liberalization of trade in services. These measures are closely related to the rise of the global supply chain discussed above.<sup>13</sup> The second category is other issues that may not be closely related to commercial activities but

instead are affected by such activities, such as environmental protection, labor standards, and sustainable development. The last category is economic cooperation issues, more specifically the aid-for-trade discussion, which includes development and trade capacity-building measures to enable the less developed nations to implement other trade rules.

The new issues are currently not being discussed in the WTO's multilateral system, with the exception of several of the GATT's inherited measures, such as the Trade-Related Investment Measures. However, since the need for new forms of discipline is increasing, many commercial-regulatory provisions have been addressed at the regional and bilateral levels, especially among countries that are participating intensively in the global supply chain, including ASEAN countries and Japan. Other new issues can also be observed in many RTAs.

Some questions should be considered when one looks at the scope and coverage of the future global trade governance system: Do those measures really need to be addressed at the multilateral level? Which measures would have the highest impact as part of the global trade governance system? And what mechanism can effectively incorporate those issues into the multilateral trading system?

These questions are relevant since many of them can be addressed efficiently at the regional level, especially those that fall into the first category. Nevertheless, placing them in the context of global governance has some merit. Doing so will reduce fragmentation of trade-related discipline and support better regulatory coherence, a favorable condition for the business climate. This would also create a better environment for successful implementation of those rules. The plurilateral approach discussed above can provide a way to multilateralize those issues. Richard Baldwin goes even further by suggesting a new multilateral system side-by-side with the old one, taking care of this newly emerging commercial regulatory measure.<sup>14</sup>

Other issues, such as the environment, really need global action to provide discipline since the externalities might be global in nature. There is an argument to be made for addressing them outside the framework of trade rules. Many have raised concerns that those environmental issues have only been used as instruments for protectionism, especially to limit market access of products from developing countries.<sup>15</sup> As has been discussed above, increasing trade has been partly responsible for environmental degradation in many countries. It is inevitable that environment-related measures will be included as part of any trade governance system. However, the implementation of rules and sanctions needs to be based on facts decided by independent experts rather than pressure from interest groups. It also needs to be targeted specifically to the products

and companies violating the rules, rather than to whole industries in a particular country.

Although the current round of WTO negotiations has “development” in its semi-official name, cooperation on development has not been an important part of the discussions. With an ever-growing scope of trade-related agreements, technical assistance on the implementation of commitments is becoming crucial, especially for resource-strapped developing countries, which often find that they have no capacity to carry out the obligations. Furthermore, cooperation can also enhance the capacity of developing countries’ economies to produce more marketable products for markets in advanced economies. Such cooperation can encompass at least three areas: (1) training and human capacity improvement, (2) advisory assistance, and (3) assistance to support institutional reform.

### **Institutions and Implementation Mechanisms**

The WTO is considered to be doing quite well at protecting global trade rules. However, the recent developments in the global trade environment demand some new functions along with the introduction of new approaches. Two functions can be enhanced by the multilateral system in order to support more effective global governance.

The first function is dispute settlement. While the WTO’s dispute-settlement mechanism remains a trusted instrument for finding solutions to conflicts over trade, investment, and industrial-related issues, some issues are open to improvement. In the wake of increasing South-South economic relations, along with rising tensions, the future dispute-settlement mechanism should be more efficient and affordable for developing countries. The current sanctions mechanism is less effective for many smaller countries, especially when they have to deal with big and powerful nations. Even if they win a dispute in the WTO, they have no capacity to carry out the sanctions. Making the right to sanction open to other countries, or enabling the right to be auctioned to others, might increase the credibility of the WTO as the guardian of global trade governance.

The second function is related to monitoring and surveillance. Today’s economic crisis tells us that it is relatively easy for countries to resort to protectionism. Better monitoring and transparency among members of the WTO will ensure that the threat of protectionism can be handled quickly and in an effective manner. Another monitoring function is related to the position of RTAs in the global trade environment. At the moment, there is an obligation for countries that sign preferential agreements to notify and

report on them to the WTO. But despite this obligation, the WTO has no influence on the contents of trade agreements. In order for global governance to operate well, such monitoring activities need to be improved.

## ASEAN-JAPAN CONTRIBUTIONS TO GLOBAL TRADE GOVERNANCE

ASEAN and Japan can contribute significantly to any attempts to revive multilateral trade processes. Their economies have been contributing greatly to the process of integration in East Asia and the Pacific as well as at the global level. Market-driven integration in the region was initiated, to a large extent, by economic relations among business groups from Japan together with their ASEAN counterparts. Those relations have created networks of trade, production, investment, and services spanning the developing countries of ASEAN.

The economic relationship seems likely to improve in the future. ASEAN-Japan economic relations have been overshadowed by China-Japan relations for several decades, mostly because China's economy has been quite assertive in fulfilling the needs of the Japanese economy and its multinational corporations. But with China entering the upper-middle income group, its position in the regional supply chain has started to change. Developing countries in ASEAN are also now ready to embrace greater roles in Japan's international production networks, making it more likely that those countries will assume a strategic position in influencing global economic governance.

### **Lessons Learned from the Integration Process in the Region**

The gap between the most developed and least developed countries in ASEAN is enormous: developed countries enjoy a per capita GDP that is more than 50 times that of their less developed counterparts. Even taking out the poorest and richest countries, ASEAN countries still find a substantial gap, an eightfold difference in GDP. The region is a replica of the global economy. The success story of the regional integration process between Japan and ASEAN offers many lessons that may be beneficial for integration at the global level.

First, it is important to take into account variations among member countries. Special treatment enables less developed members to be engaged in various commitments. However, longer transition and implementation periods for those countries need to be determined in a strict manner.

Together with more advanced commitments from the most developed countries, this will allow sensitive issues to be discussed in negotiations. Such a practice may also be employed in the multilateral trading system.

Second, integration in ASEAN has taught us that some issues can be addressed only by several interested participants, much like the plurilateral approach of the multilateral trading system. The use of consensus in the ASEAN integration process is overwhelming, just like in the WTO, but in a few cases some members were willing to move ahead on selective issues while waiting for others to join.

Third, single undertaking may be beneficial to keeping coherence in the negotiation and bargaining process. But integration in East Asia shows that separate discussions on various issues can also lead to coherence as long as a larger framework can be established in the first place.

### ASEAN and East Asia Regionalism in Defining Trading Rules

ASEAN and Japan can also play more active roles in defining trading rules by supporting efforts to reform the WTO and the multilateral trading system, as mentioned above. More specifically, there are five ways ASEAN and Japan can contribute to enhancing global governance in trade and investment. **The first important issue is to find and actively support breakthroughs in completing the current negotiation round.** The completion of the Doha Round is necessary to keep the multilateral trading system going. With the momentum of the successful Bali Package negotiations, ASEAN and Japan can provide the case for the importance of completing the whole round of negotiations. One way to do that is to have more of a common voice in the issues discussed in this round of negotiations. While ASEAN countries, as well as Japan, have formed many preferential trade agreements among themselves, they never really deliver a coherent voice in WTO negotiations. This is quite important in the case of ASEAN members in order to increase their strategic position in global trade governance, as well as to make sure that the objectives of the ASEAN Economic Community—one of which is to create a more competitive region—are in line with initiatives at the multilateral level.

With a background of extensive efforts at preferential liberalization, ASEAN members and Japan are in fact quite ready to extend greater market access to other countries. On the one hand, completing the Doha Round will not affect trade policy in ASEAN countries significantly, while on the other hand it provides greater access for ASEAN products in the global market. In addition, countries in the region have been prepared for other

areas discussed in the Doha Round, such as trade facilitation and the liberalization of services.

It all depends on the political willingness to proceed with multilateral liberalization. The countries can use their existing regional forums to come up with real commitments to move forward in completing the WTO's Doha Round, such as committing to reduce bound tariff rates below or at least at the same level of current MFN rates, as well as commitments to bring down domestic support. Japan, through various economic forums with ASEAN, can also push for greater support from the countries in Southeast Asia. It is time for Japan to become a champion for multilateral initiatives after being successful with regional efforts over the last 15 years.

**The second is to refocus multilateral trading system and the WTO to address new global trade issues.** ASEAN and Japan are not unfamiliar with the new trade issues, such as investment rights and competition policy. As previously mentioned, countries in the region have benefited from the emergence of international production networks, which flourish even more with the acceptance of behind-border arrangements and regulatory coherence. In fact, RTAs between the two, as well as bilateral trade agreements between Japan and individual ASEAN members, have covered commitments in those areas.<sup>16</sup> Greater cooperation in behind-border issues would extend the importance of international production networks in many production sectors outside of machinery and electronics, which is currently still low.<sup>17</sup> This would in turn enhance the development objectives of the trade agreement as it would allow participation of more developing countries in the global value chain.

Some plurilateral efforts in Geneva have attempted to push forward the agenda at the global level, such as in services and competition policy. Japan has been part of those initiatives, but the involvement of ASEAN members is still limited. Engaging big ASEAN countries such as Indonesia would offer leverage to make those initiatives more appealing. While the idea of including new trade issues in global trade governance comes mostly from developed countries, it is also in the interests of countries that have been involved actively in international production networks, like ASEAN members, to incorporate new trade issues into global governance systems. Japan more specifically can provide some assistance for ASEAN countries to understand the mechanism and procedures of joining the plurilateral agenda. More intensive and rigorous studies on its possible impacts for ASEAN member economies would provide better support for this proposal.

**The third issue is to reposition ASEAN-Japan and East Asian regionalism to support the multilateral trading system.** With the recent proliferation of preferential trading agreements, it is important to ensure

that RTAs serve as building blocks rather than stumbling blocks. One thing that countries in the region can do is to simplify the regional agreements among them, focusing on the divergence of commitments in the bilateral and regionwide agreements between ASEAN members and Japan. This might include simplification of the tariff schedule or more harmonized rules of origin. Such moves would help make these regional arrangements more business friendly and ease trade facilitation between them. The next stage is to make regional arrangements less trade diverting. One area where this can be done is in reducing local or regional content requirements. This could be achieved by applying less stringent rules of origin to enable goods from outside the region to also enjoy lower trade barriers.

Countries should actively support the initiative to harmonize East Asian RTAs under the RCEP among ASEAN's trading partners. The proposed regional partnership needs to set as its objective the creation of a high-quality RTA. It should aim for higher-level harmonization of rules rather than focusing on just the lowest common denominator among all existing ASEAN+1 FTAs. The partnership should also embrace the concept of "open regionalism," which allows greater participation of nonmembers and less trade diversion. For example, ASEAN and Japan can consider extending as far as possible lower trade barriers to outsiders. Empirical studies have found that preferential liberalization is often followed by reduction in applied MFN tariffs.<sup>18</sup> Making that more explicit in the regional agreements signals to other countries that the region maintains an open trade environment, a significant move for effective global trade governance.

At the global level, ASEAN and Japan can further push the agenda to "multilateralize" regionalism. As influential WTO members, the countries can initiate an effort to strengthen the position of the WTO in influencing RTAs. While such efforts to harmonize and monitor RTAs need to be discussed first among WTO member countries, ASEAN and Japan can propose that the organization formulate "guidelines" for more open regionalism. It is in the interest of ASEAN and Japan to support proposals for reducing the complexity of FTAs from the newly formed preferential agreements.

**The fourth issue is related to the multilateral trading system's institutional development.** As discussed above, one of the reasons behind the difficulties in reaching an agreement in the current multilateral trading system's negotiation round is that the decision-making process has not been developed to accommodate more diverse interests and the growing importance of developing countries. Three factors need to be reconsidered in the institutional background of the WTO and the multilateral trading system to allow better representation of all member countries: single undertaking, special and differential treatment, and cooperation and capacity building.



ASEAN and Japan should share and promote their experience with the negotiation and implementation process. The region's success in dealing with diverse and sometimes conflicting interests due to large development gaps between countries, needs to be used as a model at the multilateral level. While capacity building and cooperation might seem, at first glance, to be a burden on developed economies, they are necessary in order to ensure that global trade governance and rules can be implemented successfully. Even less sensitive trade facilitation measures need improved capacity and competency. More capacity building and cooperation would increase the likelihood of less developed countries also enjoying the benefits of trade as intended by the development agenda. This will in turn benefit the global economy.

**The fifth important issue where ASEAN and Japan can play an important role is in strengthening the monitoring system of the multilateral trading system.** As we learned from the financial crisis, there is still a threat of protectionism, including among East Asian countries. According to the Global Trade Alert database, East Asian countries have implemented almost 8 percent of discriminatory measures recorded globally since the start of the financial crisis in 2008, and half of those measures came from ASEAN countries.<sup>19</sup> Most of the protectionist measures take the form of nontraditional barriers to trade like tariffs and quotas, but they are disguised as policy, which is currently not being governed by the multilateral trading system.

ASEAN and other East Asian countries need to show their commitment to addressing protectionist measures that are currently in place. ASEAN countries can use current trade relations with their partners to make sure that countries in the region do not exacerbate the situation by launching an initiative to reduce the number of measures within a certain time period. In addition, ASEAN and Japan can urge more systematic efforts at the global level to remove the current protectionist measures and also to prevent similar incidents in the future.

One concrete proposal is to eliminate the gap between the applied MFN tariff rates and WTO bound tariff rates. As a result of unilateral liberalization, the gap between applied and bound tariff rates in the developing ASEAN countries has been growing. Many ASEAN countries maintain bound tariffs of more than 25 percent, while their average applied tariff was already as low as 7 percent in 2010.<sup>20</sup> This big gap, while having no effect on trade activities in normal times, increases the risk of having a higher protectionist regime, especially during times of crisis. ASEAN countries can set an example for other developing members of the WTO by closing this gap and adjusting their bound rate accordingly.



ASEAN and Japan can also support proposals to strengthen surveillance mechanisms in the WTO and the multilateral trading system. One possible instrument is an increase in transparency of trade policy among member countries. Requiring WTO members to take greater responsibility for providing reliable and timely information on any changes in trade policy would discourage members from initiating protectionist and discriminatory measures, as they can be easily challenged by others.



The current global trade environment presents many opportunities for ASEAN-Japan cooperation. Japan and the countries in ASEAN are already important players in global trade, and a more open multilateral trading system will benefit them and their trading partners. Trade arrangements among ASEAN countries and between them and Japan are well developed, despite many challenges and strong diversity in the region. That success can offer valuable lessons to the rest of the multilateral trading system as it seeks to enact a more effective and beneficial governance system.

## NOTES

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