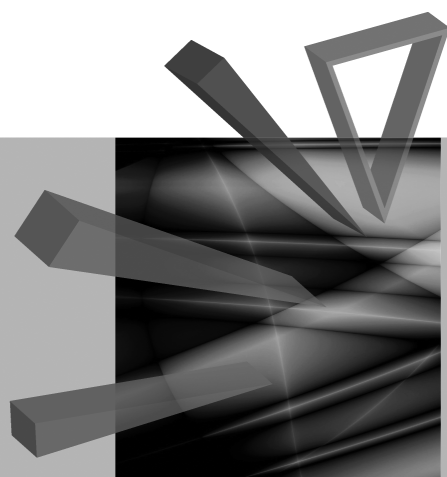


# Faces of Competitiveness in Asia Pacific



edited by  
**Bogusława Skulska**  
**Anna H. Jankowiak**



Publishing House of Wrocław University of Economics  
Wrocław 2011

Senat Publishing Committee

*Zdzisław Pisz* (chairman)

*Andrzej Bąk, Krzysztof Jajuga, Andrzej Matysiak, Waldemar Podgórski,  
Mieczysław Przybyła, Aniela Styś, Stanisław Urban*

Reviewers

*Ewa Oziewicz, Beata Stępień, Maciej Szymczak,  
Katarzyna Żukrowska*

Copy-editing

*Marcin Orszulak*

Layout

*Barbara Łopusiewicz*

Proof-reading

*Agnieszka Flasińska*

Typesetting

*Małgorzata Czupryńska*

Cover design

*Beata Dębska*

All rights reserved. No part of this book may be reproduced in any form  
or in any means without the prior permission in writing of the Publisher

© Copyright by Wrocław University of Economics  
Wrocław 2011

**ISBN 978-83-7695-126-3**

**ISSN 1899-3192**

Printing: Printing House TOTEM

## Contents

Introduction.....	9
-------------------	---

---

### Part 1. Determinants of the competitiveness of regional groupings in the Asia and Pacific region

---

<b>Ewa Oziewicz:</b> Remarks on international competitiveness of ASEAN economies.....	13
<b>Yoshiaki Sato:</b> The drift of East Asian Community. Why promoting freedom of movement now? .....	22
<b>Sebastian Bobowski:</b> Baldwin’s “domino theory” of regionalism – its sources and implications for East Asian states .....	29
<b>Andrzej Cieřlik, Tao Song:</b> Preferential trade liberalization in Southeast Asia. The case of ASEAN countries.....	41
<b>Bartosz Michalski:</b> Linking free trade with fair competition. Case study of ASEAN’s experiences .....	51
<b>Marcin Grabowski:</b> Will Trans-Pacific Strategic Partnership Agreement increase the competitiveness of the Asia-Pacific region? .....	61
<b>Marcin Nowik:</b> The competition in the field of development co-operation – between the Beijing and the Washington Consensus.....	74
<b>Monika Paradowska:</b> Transport as an area of co-operation between integrating countries in Europe and Asia .....	82
<b>Zbigniew Piepiora:</b> The regional co-operation in the field of counteracting the results of natural disasters as the factor of increasing the competitiveness in the Asia-Pacific region .....	91
<b>Marian Źuber:</b> Nuclear-Weapon-Free Zones in the Asia and Pacific region in the context of global security.....	100

---

### Part 2. International competitive potential of the economic actors of the Asia and Pacific region

---

<b>Guenter Heiduk, Agnieszka McCaleb:</b> Competitiveness of Chinese MNEs. Innovation versus imitation, branding versus price, acquiring versus developing? .....	117
<b>Piotr Adam Wiřniewski:</b> Competitiveness of Chinese suppliers of telecommunication technology on international markets.....	128
<b>Sylwia Przytuła:</b> Human capital as a source of competitive advantage of East Asian corporations (Chinese and Japanese) .....	141

<b>Anna Żelezna:</b> Transnational corporations and their influence on the competitiveness of Asian newly industrialized economies .....	150
<b>Sebastian Bobowski, Anna H. Jankowiak, Szymon Mazurek:</b> Business networks and the competitiveness of transnational corporations in East Asia .....	163
<b>Anna H. Jankowiak:</b> Cluster models in Japan on the example of Toyota cluster .....	173
<b>Karolina Łopacińska:</b> <i>Keiretsu</i> as a form of partnership in the Japanese business system .....	182
<b>Agnieszka Piasecka-Głuszak:</b> The main problems in the implementation of Japanese <i>kaizen/lean</i> tools in companies on the Polish market in accordance with the <i>Kaizen</i> Management System – the analysis of research.....	194

## Streszczenia

<b>Ewa Oziewicz:</b> Uwagi na temat międzynarodowej konkurencyjności gospodarek ASEAN .....	21
<b>Yoshiaki Sato:</b> Koncepcja Wspólnoty Azji Wschodniej. Dlaczego właśnie teraz powinno się promować Ruch Wolności? .....	28
<b>Sebastian Bobowski:</b> „Teoria domina” regionalizmu Baldwina – jej źródła i implikacje dla państw regionu Azji Wschodniej .....	40
<b>Andrzej Cieślik, Tao Song:</b> Preferencyjna liberalizacja handlu w krajach Azji Południowo-Wschodniej. Przypadek krajów ASEAN.....	50
<b>Bartosz Michalski:</b> Między wolnym handlem a uczciwą konkurencją. Studium przypadku ASEAN .....	60
<b>Marcin Grabowski:</b> Czy Porozumienie o Strategicznym Partnerstwie Transpacyficznym (TPP) podniesie konkurencyjność regionu Azji i Pacyfiku? .....	73
<b>Marcin Nowik:</b> Konkurencja w obszarze pomocy rozwojowej – pomiędzy Konsensem Waszyngtońskim a Pekińskim.....	81
<b>Monika Paradowska:</b> Transport jako obszar współpracy w integrujących się krajach Europy i Azji .....	90
<b>Zbigniew Piepiora:</b> Współpraca regionalna w zakresie przeciwdziałania skutkom katastrof naturalnych jako czynnik wzrostu konkurencyjności w regionie Azji i Pacyfiku .....	99
<b>Marian Żuber:</b> Strefy bezatomowe w regionie Azji i Pacyfiku w aspekcie bezpieczeństwa globalnego .....	113
<b>Guenter Heiduk, Agnieszka McCaleb:</b> Konkurencyjność chińskich przedsiębiorstw wielonarodowych. Innowacja kontra imitacja, branding kontra cena, przejęcia kontra rozwój organiczny? .....	127
<b>Piotr Adam Wiśniewski:</b> Konkurencyjność chińskich dostawców technologii telekomunikacyjnych na rynkach międzynarodowych.....	140

---

<b>Sylvia Przytuła:</b> Kapitał ludzki jako źródło przewagi konkurencyjnej przedsiębiorstw wschodnioazjatyckich (chińskich, japońskich) .....	149
<b>Anna Żelezna:</b> Korporacje transnarodowe i ich wpływ na konkurencyjność gospodarek nowych krajów przemysłowych Azji .....	162
<b>Sebastian Bobowski, Anna H. Jankowiak, Szymon Mazurek:</b> Połączenia sieciowe a konkurencyjność korporacji transnarodowych z Azji Wschodniej .....	172
<b>Anna H. Jankowiak:</b> Modele klastrów japońskich na przykładzie klastra Toyota .....	181
<b>Karolina Łopacińska:</b> <i>Keiretsu</i> jako forma partnerstwa w japońskim systemie biznesowym .....	193
<b>Agnieszka Piasecka-Głuszak:</b> Główne problemy we wdrażaniu japońskich narzędzi <i>kaizen/lean</i> w przedsiębiorstwach na rynku polskim zgodnie z <i>Kaizen Management System</i> – analiza badań.....	203

**Sebastian Bobowski**

Wrocław University of Economics

---

## BALDWIN'S "DOMINO THEORY" OF REGIONALISM – ITS SOURCES AND IMPLICATIONS FOR EAST ASIAN STATES

---

**Summary:** The second wave of regionalism expanded rapidly within the East Asian region in the late 90s, resulting in the proliferation of free trade agreements. A specific chain reaction of concluding more and more, especially bilateral agreements was identified by Richard E. Baldwin as the political “domino effect” that marginalized *de facto* economic issues and determinants of trade co-operation.

**Keywords:** regionalism, “domino effect”, PTA, rules of origin.

### 1. Introduction

Richard E. Baldwin, an influential economist, a professor of Institute of International Affairs in Geneva, and researcher of regionalism’s phenomenon, used to perceive local economic initiatives, including bilateral and plurilateral preferential trade agreements (PTAs), as a specific chain reaction that leads to multilateralization of trade regime. In his article, *A Domino Theory of Regionalism*,<sup>1</sup> he proposed an explanation of a sequence of effects, externalities that are generated and imposed by various types of formal co-operation between the states on the third parties. So-called “the second wave of regionalism”, which started in the late 90s and expanded rapidly after disappointing WTO’s (World Trade Organisation) ministerial meeting in Cancun 2003, might be interpreted as a counterreaction to uneffective multilateral process of liberalization of trade, so additional short term or middle term side effect and threat for WTO’s mission, but also, according to Baldwin, another step towards global fair trade regime.

The article provides an explanation of “domino theory” of regionalism, basing on East Asian process of liberalization of trade’s experiences, points out main implications through the illustration of East Asian regionalism characteristics.

---

<sup>1</sup> R.E. Baldwin, *A Domino Theory of Regionalism*, National Bureau of Economic Research, Working Paper 4465, September 1993.

## 2. 1993 “domino theory”

Baldwin proposed a paradigm that predicts continuous proliferation of PTAs. An idea of creating such formal co-operative linkages between the states is to address common interests and challenges, offer reciprocal preferences. More and more PTAs, especially those bilateral ones, involve “Singapore issues” (“WTO Plus”), a wide set of regulations and principles of competition and investment policy, intellectual property regimes, government procurement, dispute settlement, labour standards, trade facilitation, and rules of origin.<sup>2</sup> The most fundamental principle of the WTO is most-favoured nation clause that means to conclude regional trade agreements (RTAs) without affecting third parties.<sup>3</sup> Limitations imposed on freedom of agreements, particular discipline,<sup>4</sup> remain, in many cases, only a guideline, not an obligation.

Moreover, WTO does not realize any widespread evaluation and monitoring of implemented, the same as concluded and negotiated RTAs. A “domino effect” is connected with strengthening expectations of international business from “third countries” as to conclude similar agreements in order to reduce externalities and disadvantages generated by already signed and implemented PTAs. In short, formulation and implementation of one trade agreement may inspire and stimulate another. However, such a chain reaction, inspired mainly by private actors (competitors), is conducted and directed at the government level. Because of that, Baldwin is studying political dimension of “domino effect”.

According to Baldwin, an indirect effect of expansion of PTAs might be the establishment of a platform for trade liberalization on a broader geographical scale. Incompatibility of many implemented regulations and principles, especially rules of origin, disadvantage international business involved in global production networks and supply chains, and strengthen expectations as to the multilateralization of regional trade agreements.

---

<sup>2</sup> All of them, excluding trade facilitation, were removed from Doha Negotiation Agenda because of the pressure of large coalition of developing countries led by China, India, Brazil, and South Africa; the explanation given during Cancun meeting was that discussion over “Singapore issues” was supposed to replace the main goal of the Round: gradual reduction and elimination of direct subsidies and other non-tariff barriers imposed by the European Union, United States and Japan, which disadvantage imports, in order to liberalize trade in labor-intensive sectors of specialization of many LDCs (Least Developed Countries) and emerging markets: agriculture and textiles.

<sup>3</sup> According to Article XXIV of the original GATT Treaty, 1979 Enabling Clause (for arrangements solely involving LDCs), and Article V of the GATS (for services) that legitimized RTAs.

<sup>4</sup> Imposed especially by the principle of Article XXIV that PTAs should cover “substantially all trade” among their signatories; meanwhile, the Enabling Clause does not require even a little discipline of Article XXIV, stating that preferential agreements involving LDCs should not “raise barriers to or create undue difficulties for the trade of any other contracting parties” and shall not constitute an impediment to the reduction or elimination of tariffs and other barriers on a most-favoured-nation basis; therefore, political attractiveness of such agreements is relatively high (further information in J. Ravenhill, The new bilateralism in the Asia-Pacific, *Third World Quarterly* 2003, 24, pp. 299-317).

In the case of East Asian states, the proliferation of trade agreements could be explained directly by "domino theory": business groups react rationally in a situation of preferential treatment of foreign competitors. The scale of FTAs<sup>5</sup> regional expansion is illustrated in Table 1.

**Table 1.** FTA status by country, March 2011

Country	Under negotiation		Concluded			Total
	Proposed*	Signed/Under negotiation**	Under negotiation***	Signed****	In effect*****	
Australia	4	2	7	0	8	21
Brunei Darussalam	4	1	1	0	8	14
Cambodia	2	0	1	0	6	9
People's Republic of China	8	2	3	1	11	25
India	9	4	8	1	11	33
Indonesia	6	1	2	1	7	17
Japan	7	0	3	1	11	22
Republic of Korea	12	2	5	3	6	28
Lao PDR	2	0	1	0	8	11
Malaysia	3	2	6	2	9	22
Myanmar	2	1	1	0	6	10
New Zealand		1	4	0	9	18
Philippines	4	0	1	0	7	12
Singapore	4	1	9	3	18	35
Thailand	6	4	3	0	11	24
Vietnam	4	1	2	0	7	14

Note: The author takes into account ASEAN Plus Six states (ASEAN: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam Plus Australia, the People's Republic of China, India, Japan, the Republic of Korea, and New Zealand), regarded as future members of East Asian Community, most active within regional integration projects, focused on multilateralization and institutionalization of legal co-operative frameworks.

\* Proposed – parties are considering a free trade agreement, establishing joint study groups or joint task force, and conducting feasibility studies to determine the desirability of entering into 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 (FA); \*\*\*\* Signed – parties sign the agreement after negotiations have been completed. Some FTAs would require legislative or executive ratification; \*\*\*\*\* In effect – when the provisions of FTA becomes effective, e.g. when tariff cuts begin.

Source: WTO database.

<sup>5</sup> Free Trade Agreements.



As Table 1 indicates, East Asian states develop intra- and interregional network of trade arrangements, mostly bilateral – the process was strongly influenced by Asian Financial Crisis of 1997 and modest progress of multilateral liberalization within Doha Development Round. Extraordinary number of proposed FTAs (the Republic of Korea – 12, India – 9, the People’s Republic of China – 8), negotiated (Singapore – 9, India – 8, Australia – 7) and implemented (Singapore – 18, China, the People’s Republic of, India, Japan, Thailand – 11) reflects main concern of contemporary East Asia – a distance between puzzle of bilateral free trade agreements and complete free trade, multilateral trade agreements. Obviously, the inclusion of the WTO’s best practices, broadening of PTAs with “Singapore issues” may lead to a gradual unification of rules of trade, and consequently, transform the East Asian trade bloc into more homogenous structure, as those in North America and the EU.<sup>6</sup>

In Table 2 a few chosen regional bilateral trade agreements were evaluated taking into account nine factors – as a result, each agreement was classified as one of five categories: A – an agreement promotes high standards, in accordance with WTO guidelines; B – an agreement promotes good practices, some improvements are necessary; C – an agreement represents a lot of gaps and failures, problems are possible; D – an agreement does not follow any external rules, may affect international trade; I – aspects excluded from agreement.

Asian Development Bank (ADB) Working Group confirmed broadening coverage of regional PTAs, increasing quality and conformity with WTO guidelines, however, with serious disfunctional rules of origin, far from multilateral liberalization’ principles and best practices.

In the case of East Asian PTAs analytics are still quite skeptical as to achieving two goals:

- providing advantages that improve the competitive position of contracting parties’ business actors,
- providing disadvantages that affect the competitive position of third countries’ business actors.

---

<sup>6</sup> Richard E. Baldwin identified three influential trade blocs: North America, Europe and East Asia, evaluating them as partly “untransparent and leaky”, especially in the case of the last one, because of multitude of partly fictitious agreements, excluding those between Japan and Malaysia and those negotiated at the level of ASEAN; even industrialized regional countries like Japan, Australia, and New Zealand did not manage to cover within implemented FTAs such aspects like environment and labour standards; in the case of services, countries mentioned earlier failed to extract substantial concessions from the regional developing economies; in fact, lack of appropriate discipline imposed by WTO resulted in exclusion of many sensitive sectors from FTAs’ regulations (S. Bobowski, *Efekt spaghetti – przejaw czy zagrożenie procesów integracyjnych w regionie Azji i Pacyfiku?*, [in:] B. Drelich-Skulska (ed.), *Studia azjatyckie, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu* Nr 28, *Ekonomia i Międzynarodowe Stosunki Gospodarcze* Nr. 19, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2008, p. 42; J. Ravenhill, *The move to preferential trade on the Western Pacific Rim: Some initial conclusions*, *Australian Journal of International Affairs* 2008, Vol. 62, pp. 129-150).

**Table 2.** Evaluation of chosen regional bilateral trade agreements

	G	S	RO	GP	C	I	IPR	DS	TTB
Singapore-New Zealand	A	B	A-	B+	A	A	A	A	A
Japan-Singapore	A	A	C	A	B	A	A	A	B
USA-Singapore	A	A	C	A	A	A	A	A	A
Australia-Singapore	A	A	C	A	A	A	A	A	A
Republic of Korea-Chile	B	B	C	A	A	A	A	A	A
Japan-Mexico	A	B	C	A	A	A	A	A	A
Thailand-Australia	A	B	C	B-	A	A	A	A	A
India-Singapore	B	B	C	C	C	B+	C	A	A
Republic of Korea-Singapore	B	B+	C	A	A	A	A	A	A

Caption: G – Goods, S – Services, RO – Rules of Origin, GP – Government Procurement, C – Competition, I – Investments, IPR – Intellectual Property Rights, DS – Dispute Settlement, TTB – Technical Trade Barriers.

Source: Author's own study based on M. G. Plummer, *Toward Win-Win Regionalism in Asia: Issues and Challenges in Forming Efficient Trade Agreements*, *ADB Working Group Series on Regional Economic Integration* 2006, No. 5, pp. 45-46.

The main problem is the agreements' limitations related to the inclusion of Enabling Clause requirements. It is widely prevalent within a wide spectrum of free trade agreements concluded by developing economies, like the ASEAN (the Association of Southeast Asian Nations) member states, China and India. One of the direct consequences is a lack of clarified specification of goods that shall benefit from special tariff rates. Moreover, many signed agreements were implemented quite longer than expected, and cover a modest range of products. For instance, within India – Singapore FTA only 4.3% of Indian goods were granted duty-free access, while 56% were completely excluded from reciprocal preferences.

### 3. Determinants of a “domino effect”

It is worth noting that the majority of PTAs were studied and projected using computable general equilibrium (CGE) model that, basing on limited set of variables and simplifying assumptions, provides an *ex ante* evaluation of possible influence of proposed trade agreement on a particular economy. However, World Bank economists claimed that in CGE modelling “critical relationships are often specified with no empirical justification; many crucial variables cannot be measured satisfactorily; the level of sectoral detail is often rather low (...) and the specification of the behavioral relationships is usually very simple”.<sup>7</sup> In fact, practical utility and

<sup>7</sup> M.W. Schiff, L.A. Winters, *Regional Integration and Development*, Oxford University Press for the World Bank, New York 2003, p. 49.

relative value of CGE model's assumptions and conclusions remain, in many cases, at least problematic.<sup>8</sup>

One of the basic assumptions made within CGE modelling was that proposed PTAs would not generate any significant externalities, for instance, through the implementation of rules of origin or any other non-tariff barriers for third parties. Moreover, expectations were formulated as to complete removal of tariff barriers (in fact, ASEAN treats tariff rates between 0% and 5% as guaranteeing "free" trade). The lack of fundamental discipline imposed by multilateral forum (WTO) results in a large gap between theory of liberalization of trade through bilateral and plurilateral agreements and practices of East Asian governments.<sup>9</sup> Another CGE modelling assumptions, like those stating that, for example, industrial sectors are under perfect competition (without returns of scale and so on), national and foreign goods are imperfect substitutes for one another (the "Armington assumption"), no factor mobility occurs across national borders, might be put into the question. Further statements, like "constant employment" and "endogenous wages", may be found quite unrealistic.<sup>10</sup> Static nature of CGE modelling may, in many cases, lead to over-estimating of potential benefits of implemented PTAs – especially in the case of industrialized economies with low tariffs. For instance, the anticipation as to potential influence of PTAs on foreign direct investment inflows and outflows or technology transfers might be also difficult to formulate. Furthermore, political expectations are supposed, in some cases, to generate additional pressure as to final recommendations and assumptions made during CGE modelling.

To summarize, a few arguments toward limited economic impact of PTAs are given:

- the capacity of governments to exclude politically-sensitive sectors from free trade agreements, protected through various non-tariff barriers (like import quotas, countervailing duties, rules of origin, direct and indirect subsidies, etc.);
- more and more free trade agreements are proposed, negotiated, and implemented within smaller, less strategic, and influential economies;
- since concluding General Agreement on Tariffs and Trade (GATT) in 1947, world trade overall tariff rates were reduced from over 40% to just below 5%, so the expectations as to advantages and additional benefits from free trade agreements should not be high; in fact, many PTAs imply situations in which preferential

---

<sup>8</sup> T. Hertel, *How Confident Can We Be in CGE-Based Assessments of Free Trade Agreements?*, National Bureau of Economic Research, NBER Working Paper 10477, May 2004.

<sup>9</sup> R. Scollay, J. Gilbert, *New Regional Trading Arrangements in the Asia Pacific?*, DC: Institute for International Economics, Washington 2001.

<sup>10</sup> F. Kimura, Bilateralism in the Asia-Pacific: An economic review, [in:] *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution and Implications*, Routledge, London 2006, pp. 50-71; L. Taylor, R.V. Amim, *Modelling the Impact of Trade Liberalisation: A Critique of Computable General Equilibrium Models*, Oxfam Publishing, Oxfam Research Report, Oxford 1 June 2007.

tariff rates remain higher than MFN tariffs (like it was in the case of Japan-Mexico PTA<sup>11</sup>);

- the specificity of the international financial system, based on floating exchange rates, determines partial neutralization of PTAs' economic effects;
- many innovative types of arrangements, like sectoral trade and information technology ones, together with expanding network of export-free zones, provide already duty-free access for components and semi-manufactured goods to widening set of external markets;
- a complex net of restrictive rules of origin, together with other limitations imposed on liberalization, stimulate so-called "spaghetti bowl effect", which increases the costs of conducting business (approximately between 4 to 8% of overall costs of consignment),<sup>12</sup> because of difficulties while complying with rules of origin and other PTAs' regulations.

Overall benefits from using PTAs are very well reflected by intra-regional trade within ASEAN Free Trade Area (AFTA) – according to McKinsey and Company<sup>13</sup> estimates, less than 5% of exchange were associated with preferential treatment under various PTAs. Moreover, only 2% of Indonesian exports benefit from ASEAN-China FTA special provisions,<sup>14</sup> while 5.1% of Japanese firms are making use of East Asian PTAs (over 80% of which prefer external PTAs concluded by regional host economies, than those signed by Japanese government). Furthermore, according to JETRO, nearly 43% of Japanese companies do not have any intention of using PTAs.<sup>15</sup>

It appears that also *ex post* evaluation of PTAs economic influence may be hard because of a wide set of variables, like for instance a relatively short period of being in force or extraordinary long period of complete implementation. The impact of movements within exchange rates should be also taken into consideration. In fact, many determinants of PTAs' effectiveness do not have any direct correlation with preferential treatment under particular agreement, but involve short-term or middle-term consequences of some events, like BSE (Bovine Spongiform Encephalopathy) outbreak in the United States, which stimulated Mexican exports of beef to Japan (under special preferences guaranteed by Mexico-Japan PTA). In addition, a quite

---

<sup>11</sup> A study made in 2007 proved that about a half (nearly 10,000) of Mexico's MFN tariff lines on manufacturing and mining commodities were lower than those that Japanese exporters benefitted from through the PTA's preferences (based on M. Ando, *Impacts of Japanese FTAs/EPAs: Post Evaluation from the Initial Data*, Research Institute of Economy, Trade and Industry, Tokyo June 2007, pp. 7-8).

<sup>12</sup> A. Estevadeordal, J. Harris, K. Suominen, *Multilateralizing Preferential Rules of Origin around the World*, WTO/HEI/NCCR, Geneva 10-12 September 2007.

<sup>13</sup> *ASEAN Competitiveness Study*, McKinsey and Company, ASEAN Secretariat, Jakarta 2003.

<sup>14</sup> T. Anas, *Indonesia in World Bank Preferential Rules of Origin: Policy Research Report*, World Bank, Washington 2007, p. 91.

<sup>15</sup> J. Ravenhill, *The New East Asian Regionalism: A Political Domino Effect?*, UNU-CRID Working Papers, United Nations University, Brugge, November 2009, p. 21.

frequent situation is the increase in bilateral trade generated by MFN zero tariff instead of positive influence of PTAs' regulations.

Quite limited potential of PTAs might be also confirmed by the example of "Early Harvest" provisions of ASEAN – China FTA, which covers a trade of total value of less than 1 million dollars.<sup>16</sup> Besides, PTAs agreements that involve Japan exclude agricultural sector, field of especially strong protectionism, from wide set of major concessions. Obviously, Japan, the same as the EU and the United States, was obligated to reduce tariff rates gradually in order to broaden the access to the market for labour – intensive sectors from developing world – in fact, almost half of Japanese industrial tariff lines were bound at zero, but still the rules of trade are far from fair and equal for foreigners.<sup>17</sup>

However, still there is an open question as to potential "domino effect" of PTAs in economic dimension because of limited expectations as to welfare gains, so the benefits of states – signatories. Probably, such conditions may discourage private businesses' lobbying, influence negatively the movements toward the proliferation of PTAs and broadening the membership. In other words, private beneficiaries of various preferences and concessions offered by PTAs may lose incentives to protect their preferential margins because of its relative erosion caused by inefficiency and limited welfare impact. However, in some cases, breaking the chain reaction of expanding new PTAs may encourage stronger defence of already guaranteed benefits in order to protect the comparative advantage over the third countries. Consequently, it is the matter of potential value of welfare that is supposed to be gained or lost. Therefore, while taking governmental willingness as to proliferation of PTAs, businesses' statements differ.

When realizing the performance of many regional trade agreements, more and more doubts arise as to determinants of PTAs' attractiveness for regional countries. If we bring into question the so-called economic "domino effect", what are the other incentives and motivations for negotiating and implementing PTAs? Evidences given by some economists as to the positive impact of trade agreements on investment flows do not generate the rule. In fact, in many cases, such a positive correlation is very hard to prove.<sup>18</sup> If so, where are the other arguments towards PTAs possible to find?

The answer is deeply rooted in the political dimension. Seeking for new PTA partners, removing the barriers for mutual exchange and movements of goods, services, production factors, the same as negotiating common principles and rules of competition policy or intellectual property rights regimes may reflect strategic goals of state as to maximizing political benefits and strengthening international

---

<sup>16</sup> N. Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration*, Brookings Institution Press, Washington 2006, p. 118.

<sup>17</sup> Japanese average tariff rate for manufactured goods reached the level of 3.5%.

<sup>18</sup> For instance, an unprecedented number of concluded and implemented Singaporean FTAs do not generate extraordinary volume of FDI.

(regional, interregional global) position or minimizing the political costs, including, for instance, the risk of isolation and being "the outsider" or "the third".<sup>19</sup> Such fears and concerns were faced by local governments after the financial crisis 1997, when more and more states realized an urgent need for a closer co-operation, strengthening interdependences, through active participation in regional economic diplomacy. In fact, many regional countries seriously affected by financial fluctuations and economic instability of the late 90s (like newly industrialized South Korean economy<sup>20</sup>) found it very hard to attract a bilateral partner for negotiations. However, basing on a simple realistic political calculation, Seoul made a lot of steps forward in order to avoid the path of Mongolia.

During the first decade of the new millennium, the proliferation of East Asian PTAs became an illustration of regionalism that was not supposed to reduce transaction costs and favour local businesses, but to draw a new political landscape that became a field of rivalry between two most influential actors: Japan and China. While economic regionalism took step backward (through concluding more and more partly fictitious, so ineffective PTAs), political one took step forward (through making up political aspirations and goals like reducing the uncertainty as to strategic security). In this context, a Chinese proposal of negotiating free trade agreement given to ASEAN<sup>21</sup> was supposed to reduce mutual untrust, to familiarize with regional economic and political "giant", meanwhile to balance traditional regional Japanese leadership. In fact, Tokyo was still unwilling to liberalize and open broadly its agriculture sector (representing, together with the European Union and the United States, a serious opposition against elimination of agricultural subsidies and reducing tariff and non-tariff barriers imposed on labour-intensive production from emerging states, including ASEAN member states), experienced long-term stagnation and worsening FDI performance (the lowest FDI/GDP ratio within OECD member states). Therefore, defensive position of Tokyo was challenged by Chinese regional offensive of eliminating the threat of domination and further strengthening

---

<sup>19</sup> Such a description might be dedicated directly to an East Asian state, Mongolia, far more liberal in political dimension than such states like Vietnam, China or Singapore, but passive and unwilling to participate in regional integration and liberalization processes. Contemporary economists, like Sen, Stiglitz, and North, co-authors of a new paradigm of development, refer in this context to "development path" of a given country, which illustrates endogenous potential, challenges, and goals identified and chosen independently.

<sup>20</sup> S.-H. Park, M.G. Koo, Forming a cross-regional partnership: The South Korea-Chile FTA and its implications, *Pacific Affairs* 2007, No. 80, pp. 259-278.

<sup>21</sup> Beijing began formulating FTA with ASEAN soon after becoming a member of WTO (31 December 2001); Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China was signed at the ASEAN-China Summit in November 2002 in Cambodia, the ASEAN-China Free Trade Agreement (ACFTA) came into being in 2004 (based on S. Francis, M. Kallummal, *The New Regionalism in Southeast Asian Trade Policy and Issues in Market Access and Industrial Development: An Analysis of the ASEAN-China Free Trade Agreement*, The IDEAs Working Paper Series, No. 6/2008, p. 10).

of Beijing when imposing additional costs and obligations on smaller neighbours. In fact, ACFTA has disadvantaged smoothly the Chinese economy by increasing its domestic costs.

Political pillars of regional proliferation of PTAs reflect the importance of cultural dimension and “Asian values”. In a region where the “face” defines an individual as the member of various groupings, opposing or requesting the proposal of other states as to negotiate a trade agreement is regarded as undiplomatic, undesirable. However, in many cases a particular government might send a refusal message because of rational, economic calculation. Usually, following comprehensively respected and cultivated “paths”, officials solve this specific dilemma by sitting at the table, signing and implementing an agreement with various, relatively minor partners, which do not have much to offer or to receive. Such kind of “pressure” might be perceived as a source of dynamism of the political “domino effect” in the region, which is far stronger than the economic one. So, naming a bilateral partner “a key trade partner”, a strategic destination of intensive diplomacy, remains, in many cases, only an empty password that explains the motivations of concluding a given type of trade agreement.

#### 4. Conclusions

East Asian regionalism is a relatively “young” process of realizing far reaching goals. Its dynamism is defined by a specific chain reaction determined by deepening interdependences of local actors, a recognition of sharing common threats and challenges, cultural foundations that shape political strategies. Following policy of openness,<sup>22</sup> deregulation, export-led growth, attracting FDI, participating within regional and global production networks and supply chains, stimulate leading local economies and their followers to “play the game” and be as active as possible and necessary. This phenomenon was defined by Richard E. Baldwin as “domino effect”. A proliferation of free trade agreements is an appropriate illustration of its political dimension. So-called “spaghetti bowl effect” results from many failures of intra- and interregional trade agreements, especially those bilateral ones that should be standardized within basic principles and practices promoted by WTO. Political motivations of concluding PTAs confirm the importance of developing and advancing governmental co-operation, with a special emphasis put on the issues of security, poverty, and environment.

---

<sup>22</sup> East Asian regionalism is an open process that does not exclude anyone and respects national sovereignty, aspirations and limitations. For many regional countries of relatively young nationality the only way to participate within regional integration and liberalization processes is to be independent and freely decide about the fields and directions of co-operation with the others – this is an emanation of cosmopolitan political realism and pluralism, typical of ASEAN and ADB.

## References

- Anas T., *Indonesia in World Bank Preferential Rules of Origin: Policy Research Report*, World Bank, Washington 2007.
- Ando M., *Impacts of Japanese FTAs/EPAs: Post Evaluation from the Initial Data*, Research Institute of Economy, Trade and Industry, Tokyo June 2007.
- ASEAN Competitiveness Study*, McKinsey and Company, ASEAN Secretariat, Jakarta 2003.
- Baldwin R.E., *A Domino Theory of Regionalism*, National Bureau of Economic Research, Working Paper 4465, September 1993.
- Bobowski S., Efekt spaghetti – przejaw czy zagrożenie procesów integracyjnych w regionie Azji i Pacyfiku?, [in:] B. Drelich-Skulska (ed.), *Studia azjatyckie, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu Nr 28, Ekonomia i Międzynarodowe Stosunki Gospodarcze Nr 19*, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2008.
- Estevadeordal A., Harris J., Suominen K., *Multilateralizing Preferential Rules of Origin around the World*, WTO/HEI/NCCR, Geneva, 10-12 September 2007.
- Francis S., Kallummal M., *The New Regionalism in Southeast Asian Trade Policy and Issues in Market Access and Industrial Development: An Analysis of the ASEAN-China Free Trade Agreement*, The IDEAs Working Paper Series, No. 6/2008.
- Hertel T., *How Confident Can We Be in CGE-Based Assessments of Free Trade Agreements?*, National Bureau of Economic Research, NBER Working Paper 10477, May 2004.
- Kimura F., Bilateralism in the Asia-Pacific: An economic review, [in:] *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution and Implications*, Routledge, London 2006.
- Munakata N., *Transforming East Asia: The Evolution of Regional Economic Integration*, Brookings Institution Press, Washington 2006.
- Park S.-H., Koo M.G., Forming a cross-regional partnership: The South Korea-Chile FTA and its implications, *Pacific Affairs* 2007, No. 80.
- Plummer M.G., *Toward Win-Win Regionalism in Asia: Issues and Challenges in Forming Efficient Trade Agreements*, ADB Working Group Series on Regional Economic Integration No. 5, October 2006.
- Ravenhill J., The new bilateralism in the Asia-Pacific, *Third World Quarterly* 2003, Vol. 24.
- Ravenhill J., The move to preferential trade on the Western Pacific Rim: Some initial conclusions, *Australian Journal of International Affairs* 2008, Vol. 62.
- Ravenhill J., *The New East Asian Regionalism: A Political Domino Effect?*, UNU-CRID Working Papers, United Nations University, Brugge, November 2009.
- Schiff M.W., Winters L.A., *Regional Integration and Development*, Oxford University Press for the World Bank, New York 2003.
- Scollay R., Gilbert J., *New Regional Trading Arrangements in the Asia Pacific?*, Institute for International Economics, Washington, D.C., 2001.
- Taylor L., Amim R.V., *Modelling the Impact of Trade Liberalisation: A Critique of Computable General Equilibrium Models*, Oxfam Publishing, Oxfam Research Report, Oxford 1 June 2007.



**„TEORIA DOMINA” REGIONALIZMU BALDWINA  
– JEJ ŹRÓDŁA I IMPLIKACJE DLA PAŃSTW REGIONU  
AZJI WSCHODNIEJ**

**Streszczenie:** Druga fala regionalizmu zapoczątkowana została w regionie Azji Wschodniej pod koniec lat 90., implikując przyrost puli nowych porozumień o wolnym handlu. Specyficzna reakcja łańcuchowa sprowadzająca się do zawierania coraz to nowych, w szczególności bilateralnych umów określona została przez Richarda E. Baldwina mianem politycznego „efektu domina”, marginalizującego *de facto* aspekty i determinanty ekonomiczne współpracy handlowej.