

Panel Session III
Economic and Financial Cooperation and the Regional Integration

Regional Economic Integration in East Asia and Japan's FTA Policy

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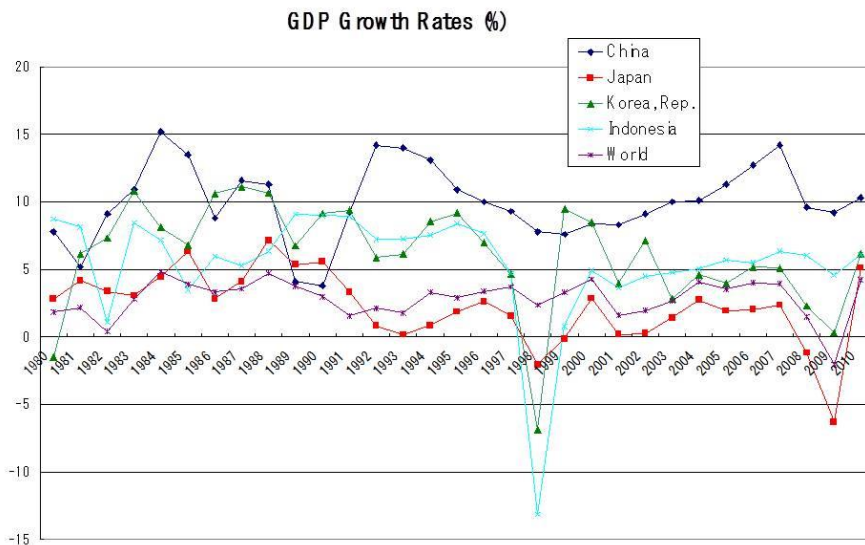
I. Introduction

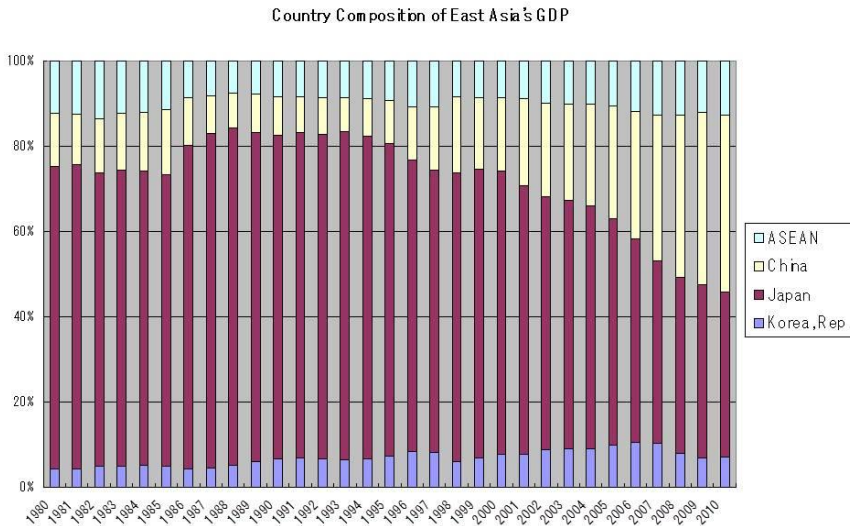
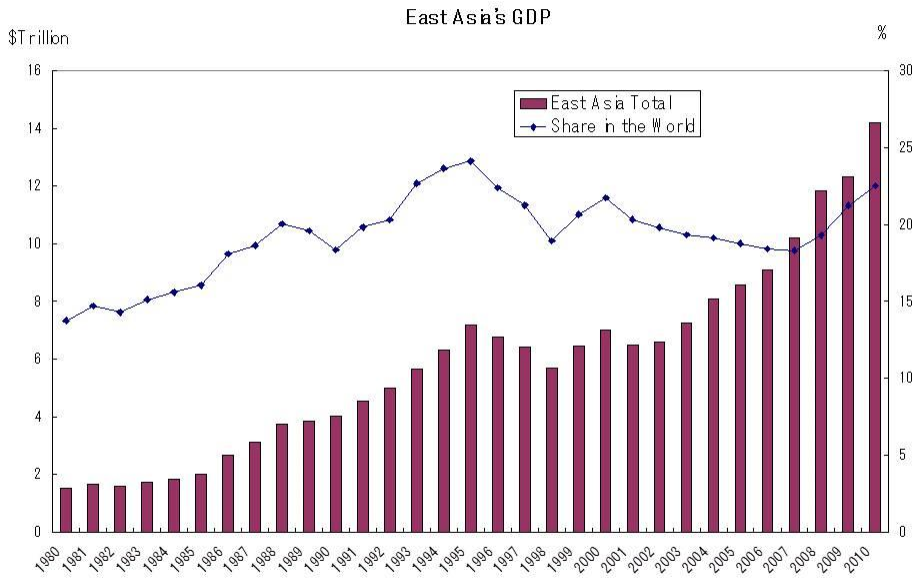
Background

- Rapid economic growth in East Asia despite global financial/economic crisis
- Prime drivers of economic growth have been foreign trade and foreign direct investment (FDI): Trade-FDI nexus

Purposes of the presentation

- Investigate recent developments in regional economic integration in East Asia
- Analyze Japan's FTA policy in East Asia





II. Market-driven Regional Economic Integration

- Rapid expansion of foreign trade by East Asian countries, especially by China (Figures 1 and 2)
- Advances in regional economic integration (Table 1)
- Increased shares of machinery, electronic machinery (Table 2)
- Increase in parts and components trade (Table 3)

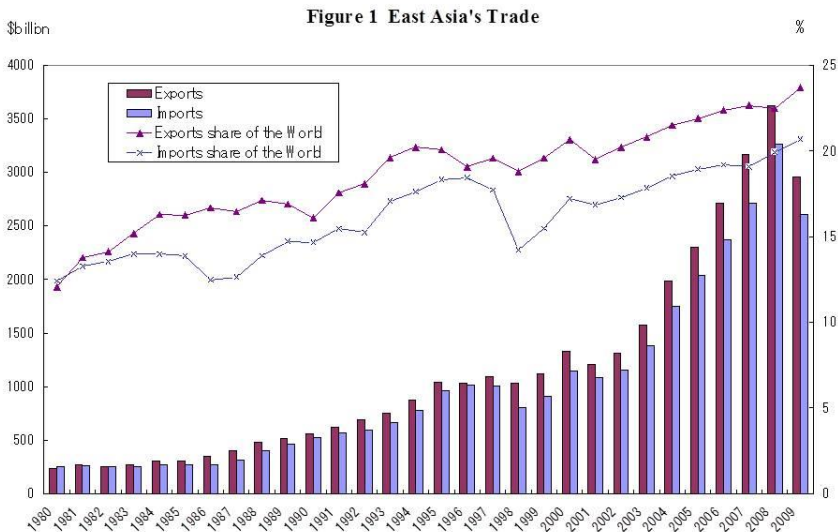


Figure 2 Country Composition of East Asia's Exports

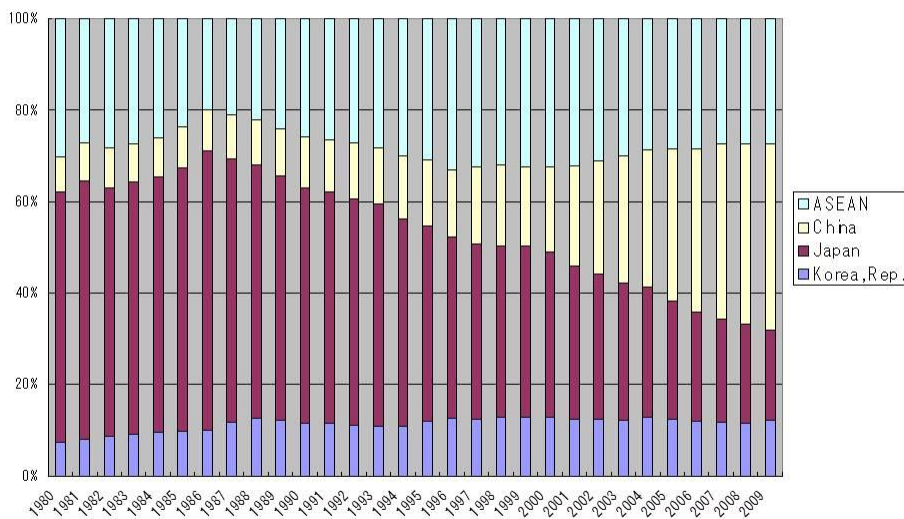


Table 1 Intra-regional Trade Ratio (%)

	1980	2007
East Asia	35.5	52.3
EU	61.3	67.2
NAFTA	33.8	43.0

Table 2 Product Composition of Foreign Trade in East Asia

	1990	2005	1990	2005
	Exports		Imports	
Foods	4.3	2.4	8.8	4.8
Textile	9.1	6.9	3.8	2.1
Pulp, Paper and Wood	7.8	5.5	8.5	5.5
Chemicals	6.0	8.0	12.3	14.0
Oil and Coal	6.2	4.8	6.4	5.1
Stone, clay, glass and concrete product	1.4	1.4	2.2	1.4
Iron and steel, Nonferrous metals	6.2	6.5	8.6	8.9
General machinery	14.8	17.8	17.9	18.4
Electrical machinery	16.2	23.3	14.0	24.9
Household electric appliances	6.9	6.2	1.9	2.0
Transportation Equipment	13.1	8.0	9.5	6.9
Precision machinery	1.8	2.7	1.9	4.0
Toys and Miscellaneous goods	6.1	6.5	4.3	2.0
Total	100.0	100.0	100.0	100.0

Table 3 Product Composition of Foreign Trade in East Asia (%)

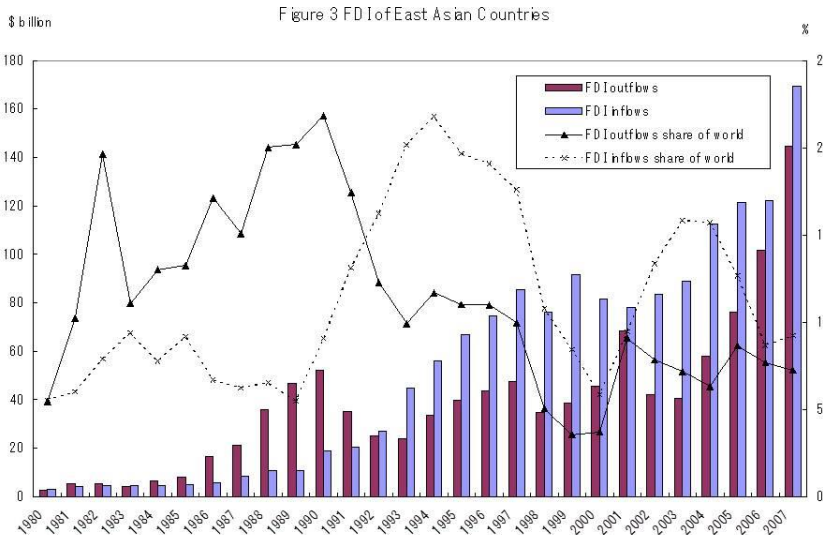
	With the rest of the world				Inside East Asia			
	Exports		Imports		Exports		Imports	
	1990	2005	1990	2005	1990	2005	1990	2005
Total	100	100	100	100	100	100	100	100
Primary goods	5.6	3.2	11.8	7.7	12.0	5.6	13.3	5.8
Processed goods	23.4	22.3	31.4	28.5	36.7	31.9	36.9	31.3
Parts and components	18.9	25.6	18.9	31.7	19.7	31.7	18.4	32.1
Capital goods	21.4	24.2	22.1	20.9	17.0	19.1	15.4	18.6
Consumption goods	30.7	24.6	15.8	11.1	14.7	11.7	16.0	12.2

Trade patterns observed above indicate:

- Formation of regional production networks
- Fragmentation strategy by multinational corporations.
- Triangular trade pattern in that China became a factory for the world market

Foreign direct investment (FDI)

- Rapid expansion (Figure 3)
- China became a large recipient of FDI (Figure 4)
- Active FDI in electronics sector (Table 4)



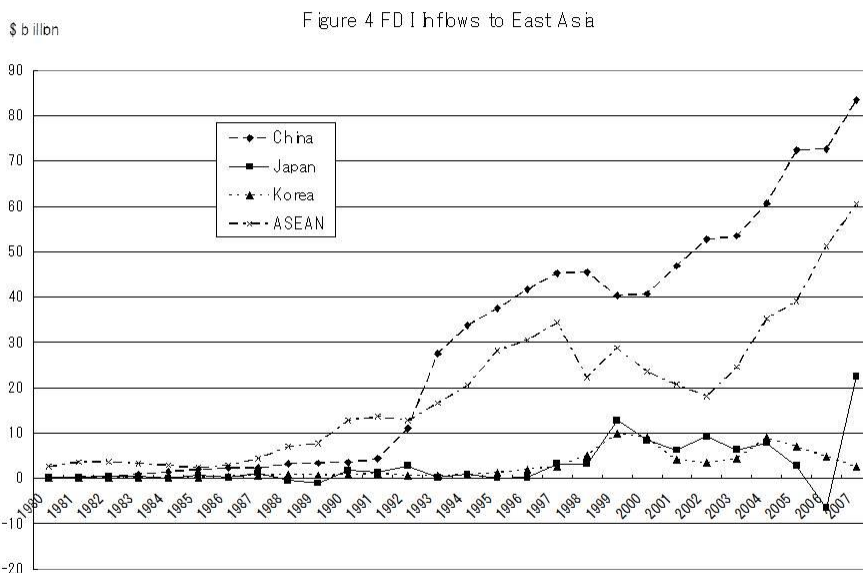


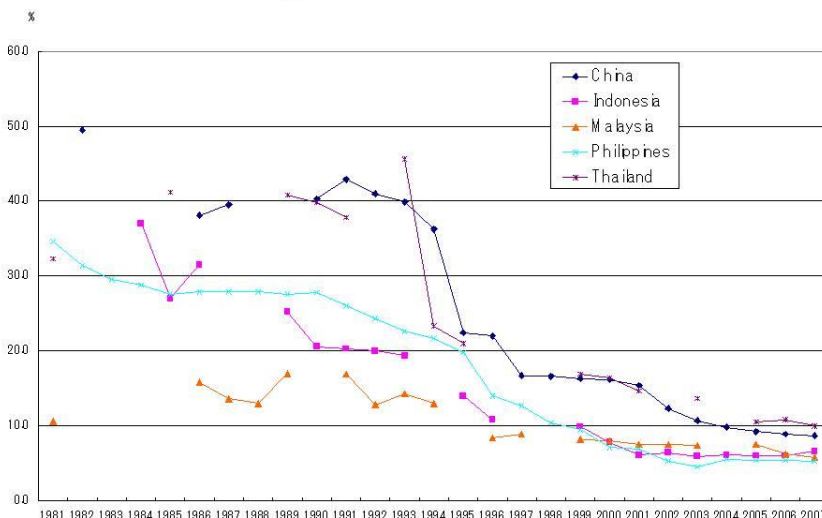
Table 4 Sectoral Distribution of FDI Inflows in Malaysia and Thailand (%)

	Malaysia 1997-2006	Thailand 1997-2006
Manufacturing	100.0	100
Food	3.6	5.5
Textiles	1.7	2.0
Wood and wood products	6.1	-
Chemicals	12.1	10.4
Petro chemicals	12.4	2.1
Metal products	9.4	10.5
General machinery	2.3	-
Electric machinery	41.7	24.6
Transport machinery	4.4	31.6
Scientific instruments	2.0	-
Others	4.3	13.3

Factors behind Market-driven Regional Economic Integration

- + Trade liberalization and facilitation
 - Substantial reduction in tariffs but high tariffs still remain (Figure 5, Table 5)
 - Non-tariff barriers are increasing
- + FDI Liberalization
 - Freer FDI environment, but still FDI barriers remain.
 - Need for further FDI liberalization and facilitation

Figure 5 Tariff Rates



**Table 5 Trade Liberalization:
Reduction in Tariff Rates**

		Primary goods	Manufacture goods	Total
Japan	1988	8.3	3.5	4.2
	2007	11.4	2.9	4.2
China	1992	35.1	40.6	40.4
	2007	9.0	8.9	8.9
Korea	1988	19.3	18.6	18.6
	2007	20.8	6.6	8.5
Indonesia	1989	18.2	19.2	19.2
	2007	6.6	5.8	5.9
Malaysia	1988	10.9	14.9	14.5
	2007	2.8	6.5	5.9
Philippines	1988	29.9	27.9	28.3
	2007	6.0	4.8	5.0
Singapore	1989	0.2	0.4	0.4
	2007	0.2	0.0	0.0
Thailand	1989	30.0	39.0	38.5
	2006	13.6	10.4	10.8
Australia	1991	3.0	14.1	12.8
	2007	0.9	3.1	2.8

III. A Shift from Market-Driven to Institution-Driven Regional Economic Integration (FTA)

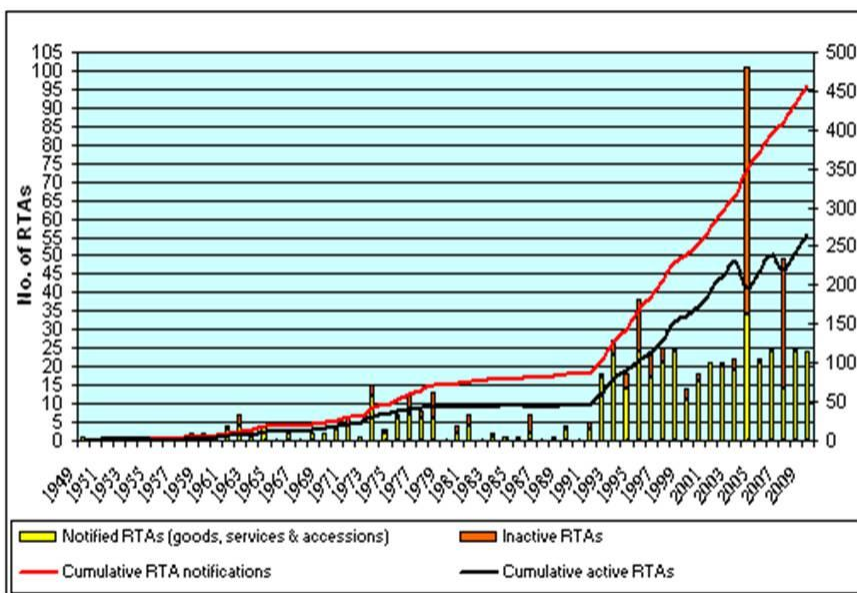
Recent Development

- FTA (free trade agreement): free trade among FTA members
- Rapid expansion of FTAs in the world (Figure 6)
- Rapid expansion of FTAs in East Asia in the 21st century (Table 7)
- ASEAN has become a hub of FTAs
- 3 initiatives have been proposed for region-wide FTA: ASEAN+3, ASEAN+6, and APEC (TPP)

Special characteristics

- Comprehensiveness: trade and FDI liberalization, facilitation, and economic cooperation

Figure 6 Rapidly Increasing FTAs in the World



FTAs in East Asia (October 2010)

Bangkok Treaty(1976)	Thailand • Australia(2005)	Japan • ASEAN(2008)
AFTA(1992)	Thailand • NZ(2005)	Japan • Indonesia(2008)
Singapore • NZ(2001)	Singapore • India(2005)	Japan • Brunei(2008)
Japan • Singapore(2002)	Korea • Singapore(2006)	China • NZ(2008)
Singapore • Australia(2003)	Japan • Malaysia(2006)	Taiwan • Nicaragua(2008)
Singapore • EFTA(2003)	Korea • EFTA(2006)	Singapore • Peru(2009)
Singapore • US(2004)	China • Chile(2006)	China • Singapore(2009)
Korea • Chile(2004)	Korea • ASEAN(2006)	Japan • Switzerland(2009)
China • Hong Kong(2004)	Singapore • Panama(2006)	Japan • Vietnam(2009)
China • Macao(2004)	Japan • Chile(2007)	India • ASEAN(2010)
Taiwan • Panama(2004)	Japan • Thailand(2007)	ASEAN • CER(2010)
Singapore • Jordan(2004)	China • Pakistan(2007)	China • Peru(2010)
Japan • Mexico(2005)	Malaysia • Pakistan(2007)	
China • ASEAN(2005)	Japan • Philippines(2008)	

Motives behind FTAs in East Asia

- Increase market access through trade and FDI
- Improve FDI environment
- Promote domestic reform
- Rivalry between and among East Asian countries
- Financial crisis in 1997-98
- Global financial crisis in 2008-

Impacts of FTAs

- Trade and FDI expansion between and among FTA members (short run effect)
- Economic growth (medium to long run effect)
- Reduced production and employment (short run effect)

Economic Obstacles to FTAs

- Opposition from non-competitive sectors

IV. Japan's FTA (EPA: Economic Partnership Agreement) Policy

Developments

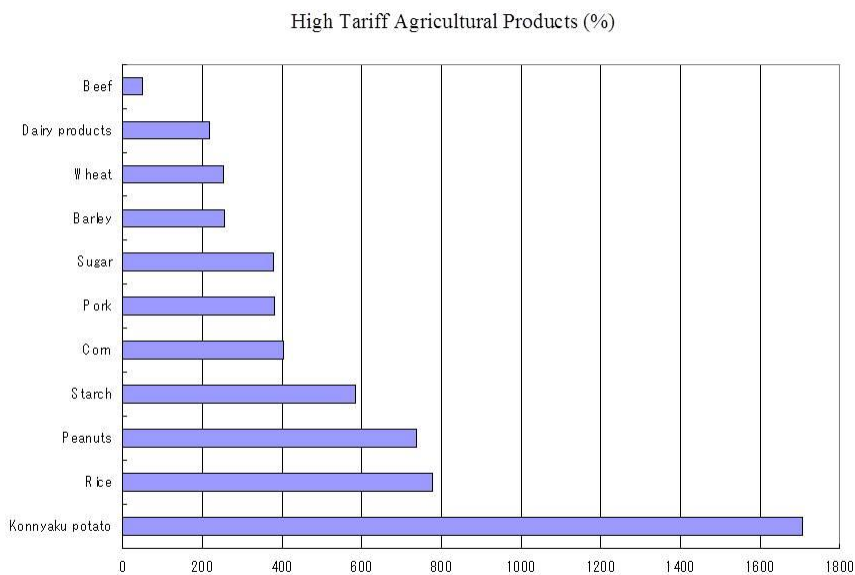
- In action: Singapore (2002), Mexico (2005), Malaysia (2006), Chile (2007), Thailand (2007), Indonesia (2008), Brunei (2008), ASEAN (2008), the Philippines (2008), Switzerland (2009), Vietnam (2009), India (2011)
- In negotiation: Korea, GCC, Australia, Peru (concluded)
- Under study: ASEAN+3, ASEAN+6, China+Japan+Korea, TPP (consultation with 9 negotiating member countries)

Motives

- Expand export market for Japanese firms
- Improve investment environment for Japanese firms
- Obtain energy and natural resources
- Promote structural reform in Japan
- Improve and establish good relationship
- Provide economic assistance to developing countries

Opposition

- Agriculture, fishery



Special characteristics

- Trade and FDI liberalization, facilitation, economic cooperation
- Improvement of business environment

Impacts

- Trade and FDI expansion

- Improvement of business environment

Examples from Japan-Mexico EPA: Protection of IPRs, Adoption of mutual recognition of technical standards, improvement of security, etc

Impacts on GDP (%)

	EAFTA (ASEAN+3)			(ASEAN+1)×5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	0.01	0.44	0.44	-0.01	0.10	0.05	0.54	0.54
China	0.13	1.66	4.72	0.01	0.20	0.14	1.77	4.84
Korea	1.13	3.56	3.55	-0.04	0.20	1.15	3.72	3.71
Indonesia	0.07	1.74	3.94	0.07	1.00	0.07	1.94	4.14
Malaysia	0.39	5.83	8.62	0.51	3.30	0.50	6.21	9.00
Philippines	0.21	3.94	6.28	0.20	2.20	0.25	4.18	6.52
Singapore	0.06	4.22	4.24	0.10	2.30	0.05	4.40	4.42
Thailand	0.68	4.49	7.02	0.80	2.80	0.74	4.78	7.32
Vietnam	2.21	7.08	9.67	2.33	5.00	2.25	7.33	9.92
Other Southeast Asia	0.09	0.88	2.91	0.11	0.50	0.10	0.92	2.95
Australia	-0.03	-0.09	-0.09	0.01	0.20	0.16	1.35	1.35
New Zealand	-0.03	-0.06	-0.06	0.00	0.10	0.10	1.87	1.87
India	-0.04	-0.10	-0.10	0.31	0.50	0.41	1.30	3.45
Hong Kong	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
Taiwan	-0.06	-0.09	-0.08	-0.03	0.00	-0.07	-0.10	-0.10
NAFTA	0.00	-0.01	-0.01	0.00	0.00	0.00	-0.01	-0.01
EU15	0.00	-0.01	-0.01	0.00	0.00	-0.01	-0.01	-0.01
Rest of the World	-0.03	-0.06	-0.06	-0.02	0.00	-0.03	-0.08	-0.08
ASEAN	0.36	3.60	5.67	0.41	2.14	0.39	3.83	5.89
ASEAN+3	0.14	1.18	1.93	0.04	0.30	0.17	1.30	2.05
ASEAN+6	0.12	1.02	1.68	0.05	0.31	0.19	1.30	2.11

V. Concluding Remarks

- East Asia’s rapid economic growth has been attributable to rapid expansion of trade and FDI, which in turn resulted from trade and FDI liberalization
- To achieve further economic growth, further trade and FDI liberalization and facilitation would be effective
- With difficulty in WTO liberalization, free trade agreements are second-best solution
- Region wide FTA should be established: EAFTA (medium level), CEPEA (medium-level), TPP (high-level)
- Gradual liberalization should be pursued .
- Then expand it or merge with other FTAs to lead to global trade liberalization

- Japan can gain a lot from FTAs not only in East Asia but also with countries in other parts of the world such as the US, the EU, Latin American countries
- Japan should lead CEPEA and join TPP
- FTAs face opposition from non-competitive sectors
- For Japan, trade liberalization in agriculture is an impediment
- Various measures including gradual phase-in liberalization, temporary assistance to negatively affected workers, structural reform and other policy measures can moderate the negative impacts during the transition period
- Need strong political leadership to promote FTAs