



# **Progress in East Asia's Economic Integration and Trend of Japanese-affiliated Firms**

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1. Overall situation of East Asia's economy –  
Economic integration led by business activities

# Macroeconomic Indicators (ASEAN / Japan / China / Korea / India / Australia / New Zealand)

	Population	Real GDP	Real GDP per capita	Total Trade value	Total export value	Total import value	Export value to Japan	Import value from Japan	Direct investment by Japan	Accumulated direct investment by Japan
Year	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
Unit	10 M	\$10B	\$1,000	\$1B	\$1B	\$1B	\$1B	\$1B	\$1M	\$1M
Brunei	0.04	-	-	8	6	1	2.3	0.1	-	-
Cambodia	1.41	0.5	0.4	6	3	3	0.1	0.1	-	-
Indonesia	22.06	20.8	0.9	151	95	56	20.8	9.3	1185	7605
Laos	0.59	0.2	0.4	2	1	1	0.0	0.0	-	-
Malaysia	2.53	11.2	4.4	287	178	109	14.7	12.6	524	4756
Myanmar	5.05	-	-	7	4	3	0.2	0.1	-	-
Philippines	8.31	9.3	1.1	113	61	52	7.7	9.2	442	3462
Singapore	0.44	11.1	25.4	357	182	174	6.7	18.5	557	11695
Thailand	6.42	15.7	2.4	228	124	104	15.6	22.6	2125	11563
Vietnam	8.30	4.5	0.5	68	33	34	4.5	3.6	-	-
<b>ASEAN Total</b>	<b>55.14</b>	<b>73.3</b>	<b>1.3</b>	<b>1226</b>	<b>687</b>	<b>538</b>	<b>72.6</b>	<b>76.1</b>	<b>5002</b>	<b>40082</b>
Japan	12.80	506.6	39.6	1110	644	466	-	-	-	-
China	130.45	188.5	1.4	1585	981	605	108.4	80.0	8357	24414
Korea	4.83	63.8	13.2	548	305	243	24.4	46.7	1736	8171
<b>ASEAN + 3 countries</b>	<b>203.22</b>	<b>832.2</b>	<b>3.9</b>	<b>4469</b>	<b>2617</b>	<b>1852</b>	<b>205.4</b>	<b>202.8</b>	<b>15095</b>	<b>72667</b>
India	109.46	64.2	0.6	208	111	97	3.2	3.5	266	1785
Australia	2.03	45.6	22.4	229	117	112	24.4	12.5	640	10514
New Zealand	0.41	6.2	15.1	47	24	24	2.5	2.4	62	891
<b>ASEAN + 6 countries</b>	<b>315.11</b>	<b>948.2</b>	<b>2.9</b>	<b>4953</b>	<b>2868</b>	<b>2085</b>	<b>235.5</b>	<b>221.2</b>	<b>16063</b>	<b>85857</b>
NAFTA	43.19	1258.9	29.2	3750	1461	2289	65.3	162.6	13797	158262
EU	48.87	908.2	18.6	6900	3468	3433	56.6	77.4	7872	91240
Other	236.83	524.7		5458	2917	2540	157.8	133.7	7728	
<b>World Total</b>	<b>644.00</b>	<b>3640.0</b>	<b>5.7</b>	<b>21062</b>	<b>10714</b>	<b>10347</b>	<b>515.2</b>	<b>594.9</b>	<b>45461</b>	<b>384402</b>

Source: Population, real GDP and real GDP per capita are based on "WDI", World Bank; trade value on "DOT", IMF; and direct investment value on "Trade/investment/balance of payments statistics", JETRO's website.

## Comparison of GDP growth rate (East Asia/United States/EU)

	2004	2005	2006 (Lookout)	2007 (Prospect)
ASEAN	6.1	5.4	5.4	5.7
Japan	2.7	2.6	2.9	2.4
China	10.1	10.2	10.4	9.6
Korea	4.6	2.6	3.0	2.3
India	8.5	8.5	8.7	7.7
Australia	3.0	2.6	3.0	2.3
NZ	4.4	2.6	3.0	2.3
East Asia	4.7	4.6	5.0	4.5
United States	4.2	3.2	3.2	2.1
EU	1.7	1.4	2.4	1.9
World	4.1	3.5	3.9	3.2

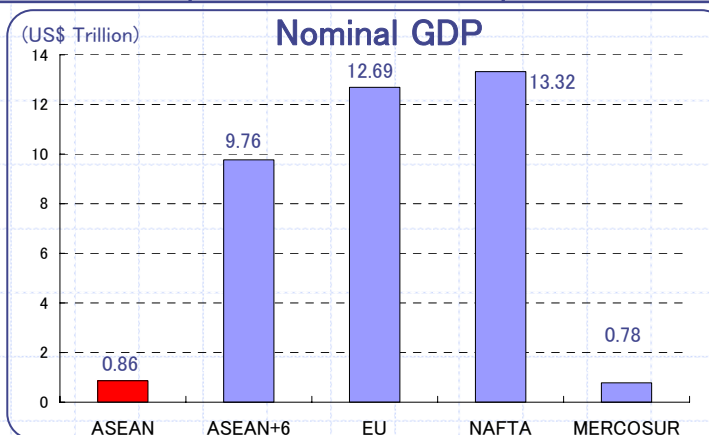
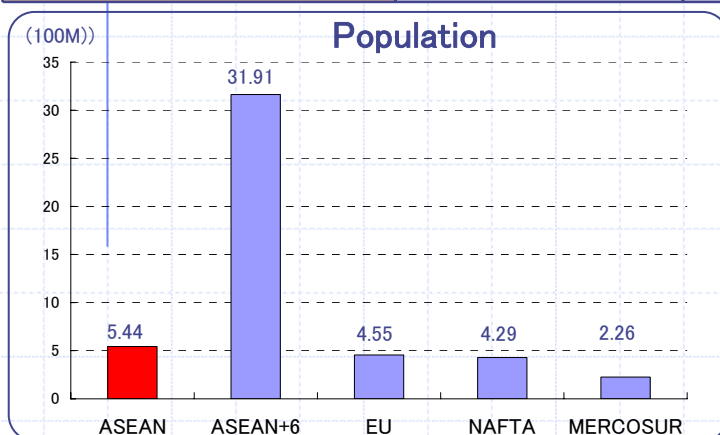
Remarks: 1. Prepared based on the materials by World Bank. Prospects of growth rate were quoted from "Global Economic Prospects 2007". Since prospects for ASEAN, Korea, Australia and NZ were unavailable, the value for "East Asia (exc. China)" was used for ASEAN, and "OECD Member Countries" for Korea, Australia, and NZ. Prospect for East Asia was calculated based on the prospect by World Bank and real GDP for 2004.

2. EU indicates Euro-zone.

Source: Prepared based on "World Development Indicators 2006" and "Global Economic Prospects 2007" by World Bank.

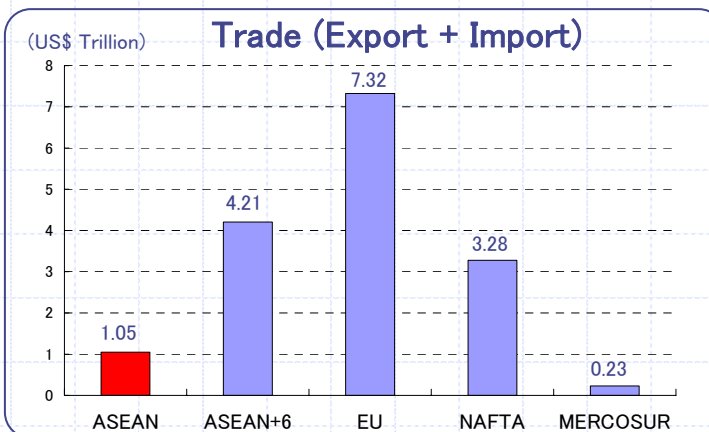
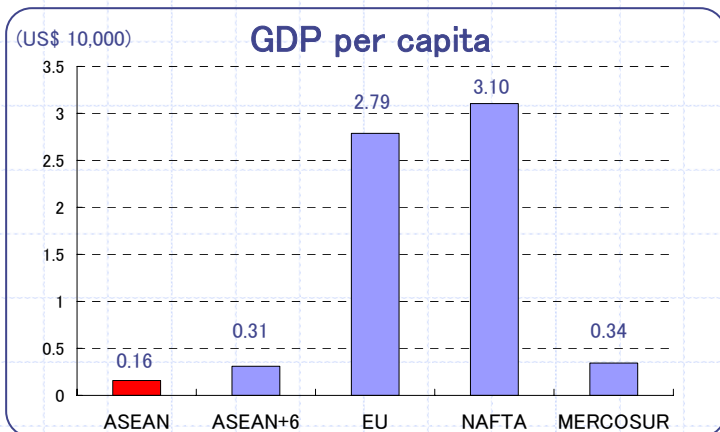
# Scale comparison among ASEAN, East Asia and other regions (Data from 2004)

	Member Countries	Population	Nominal GDP	GDP per capita	Trade (Export + Import)
ASEAN	10 countries	544,360,000	US\$ 861.7 billion	US\$1,582	US\$ 1,047.2 billion
ASEAN + 6 countries (East Asia)	16 countries	3,160,910,000	US\$ 9,763.5 billion	US\$ 3,088	US\$ 4,207.0 billion
European Union (EU)	25 countries	455,300,000	US\$ 12,690.6 billion	US\$ 27,873	US\$ 7,322.1 billion
North American Free Trade Agreement (NAFTA)	3 countries US, Canada, Mexico	429,210,000	US\$ 13,323.8 billion	US\$ 31,043	US\$ 3,278.8 billion
Common Market of the South (MERCOSUR)	4 countries Argentina, Brazil, Paraguay, Uruguay	226,130,000	US\$ 776.6 billion	US\$ 3,434	US\$ 230.4 billion



ASEAN + 6 (East Asia) : ASEAN's 10 countries; Japan; China; Korea; India; Australia; and New Zealand

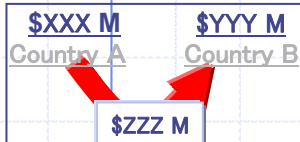
EU: Belgium; Germany; France; Italy; Luxembourg; Holland; Denmark; Ireland; UK; Greece; Spain; Portugal; Finland; Austria; Sweden; Poland; Hungary; Czech; Slovenia; Slovakia; Estonia; Latvia; Lithuania; Cyprus; and Malta.



# Deepening of economic interdependence in East Asia

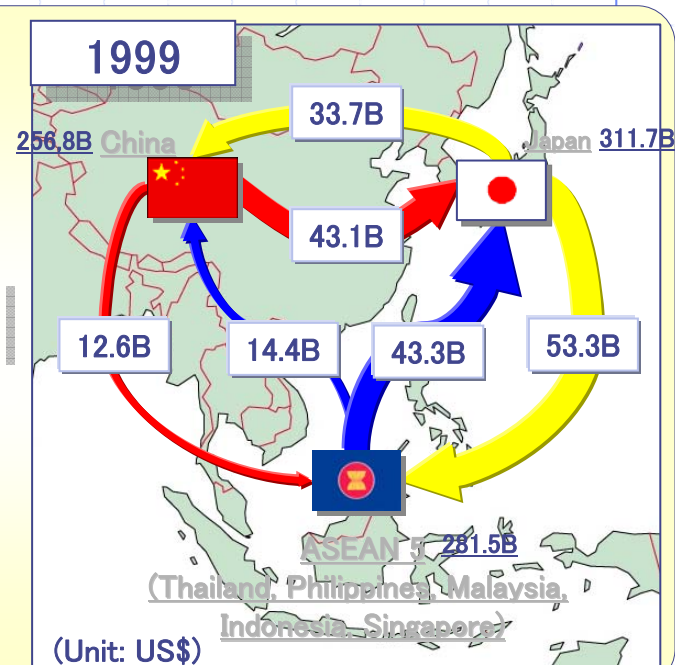
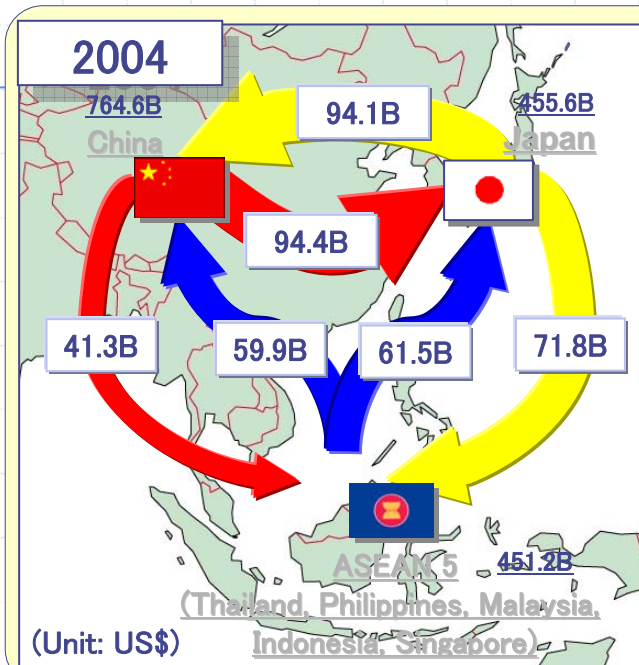
## Transition of total Im/Export value

(Explanatory note)



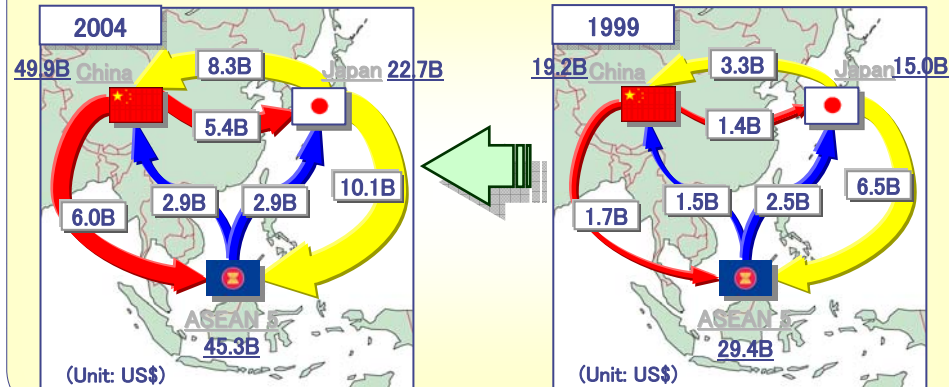
This indicates import from A to B. The figure in the box is import value based on the statistic of importing country. The underlined figure next to the country's name is the relevant country's import value from the world.

\* Prepared by METI based on the statistics of World Trade Atlas.

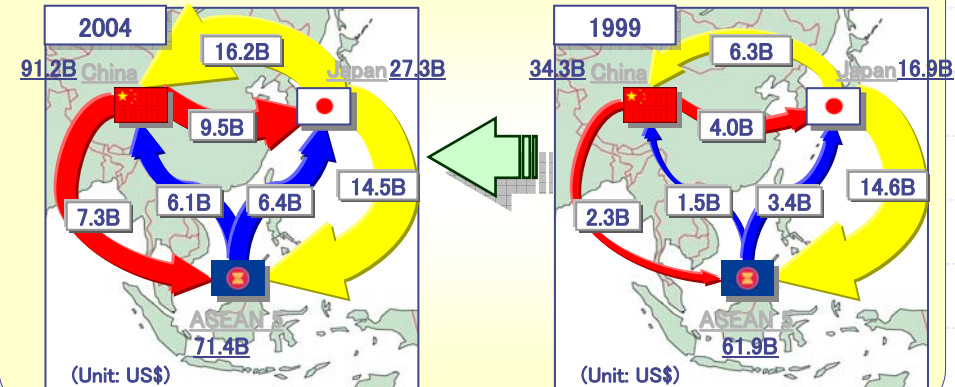


## Transition of trade value for intermediate goods

### (1) General machinery parts



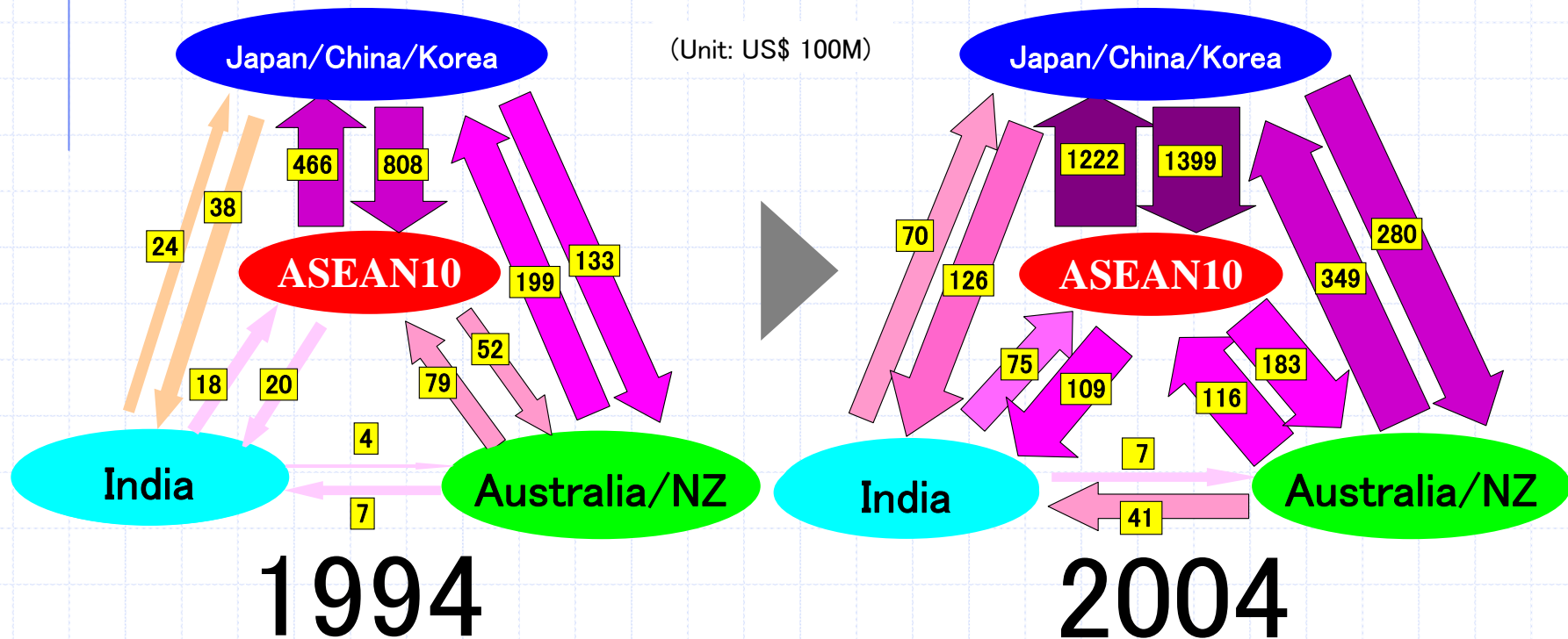
### (2) Electric machinery parts



# Expansion of trade relation between East Asia and India/Australia

- Import/export between Japan/China/Korea and ASEAN has doubled over the past decade. Similarly, trade value between ASEAN and Australia/NZ and that between Japan/China/Korea and Australia/NZ also doubled, strengthening the linkage.
- Trade values between India and each region have significantly increased, making it approximately 4 – 5 times for each in the last 10 years.

Transition of trade values among ASEAN + 6 in the past decade  
(Japan/China/Korea, ASEAN 10, India, Australia, New Zealand)



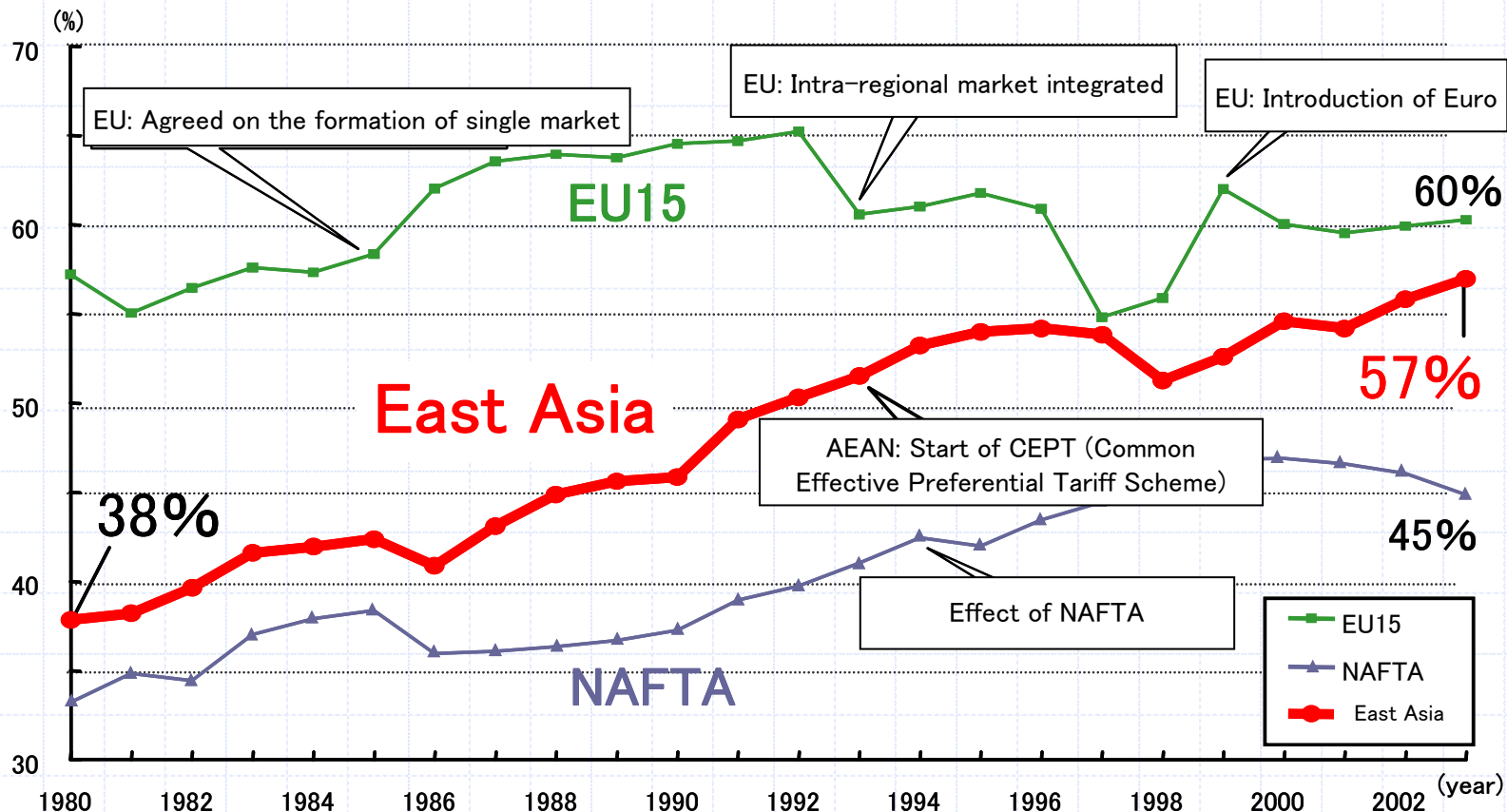
Source: Prepared by METI based on IMF International Trade Statistics and ASEAN Trade Statistics Database. Both indicate export values. Export values of ASEAN 10 are based on ASEAN Trade Statistics Database, but export from Laos and Vietnam is not included.



# Expansion of intra-regional trade ratio in East Asia

- Trade linkage within East Asia has been enhanced continuously. Its intra-regional trade ratio is now higher than that of NAFTA, and almost the same as that of EU.

<Intra-regional trade ratios for each region>



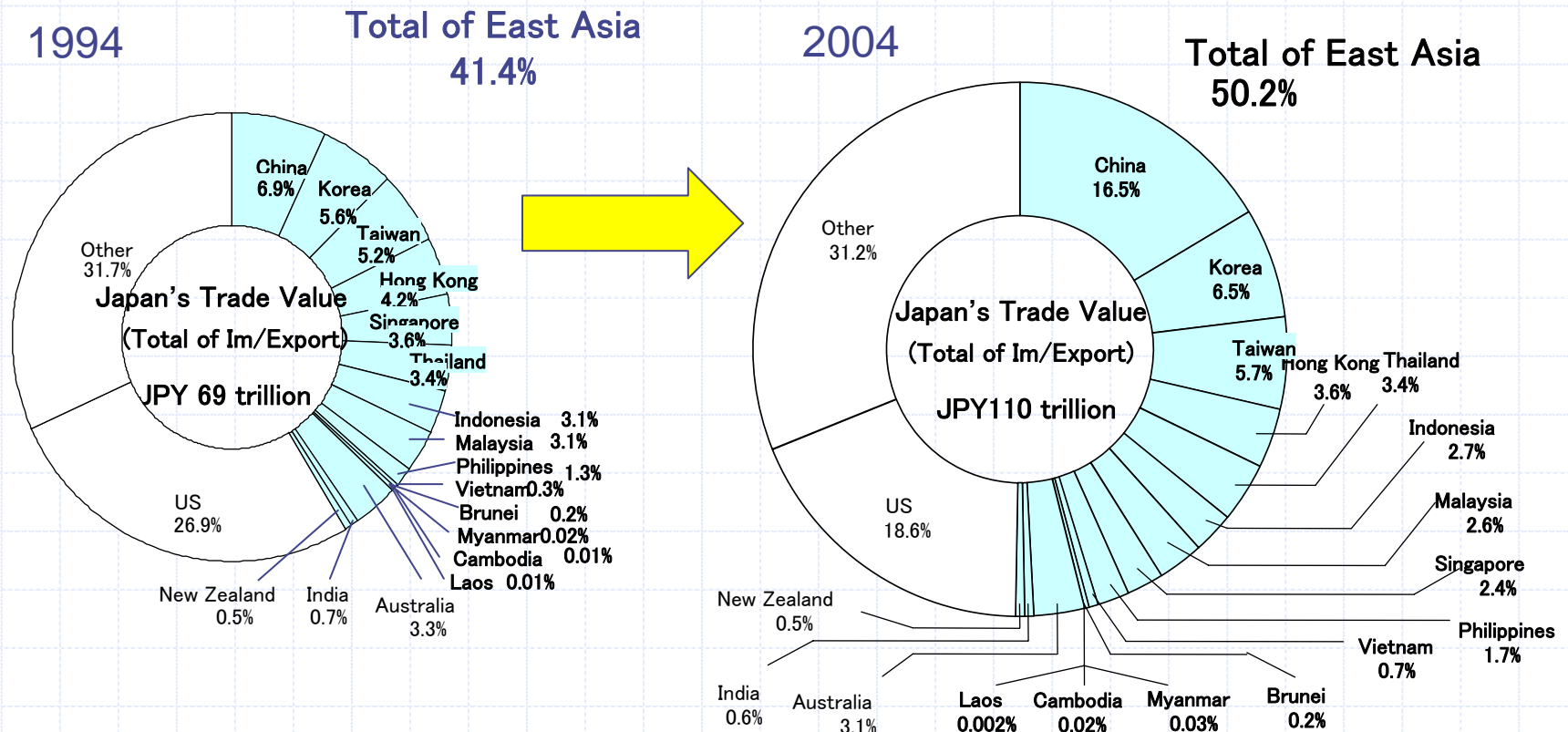
East Asia includes Japan, China, Korea, Hong Kong, Taiwan, ASEAN 10 countries, Australia, NZ, and India.

Source: IMF "DOT" Board of Foreign Trade, Taiwan, Chinese Taipei "Trade Statistics" (<http://eweb.trade.gov.tw/default.asp>)

Source: White Paper on International Trade 2005

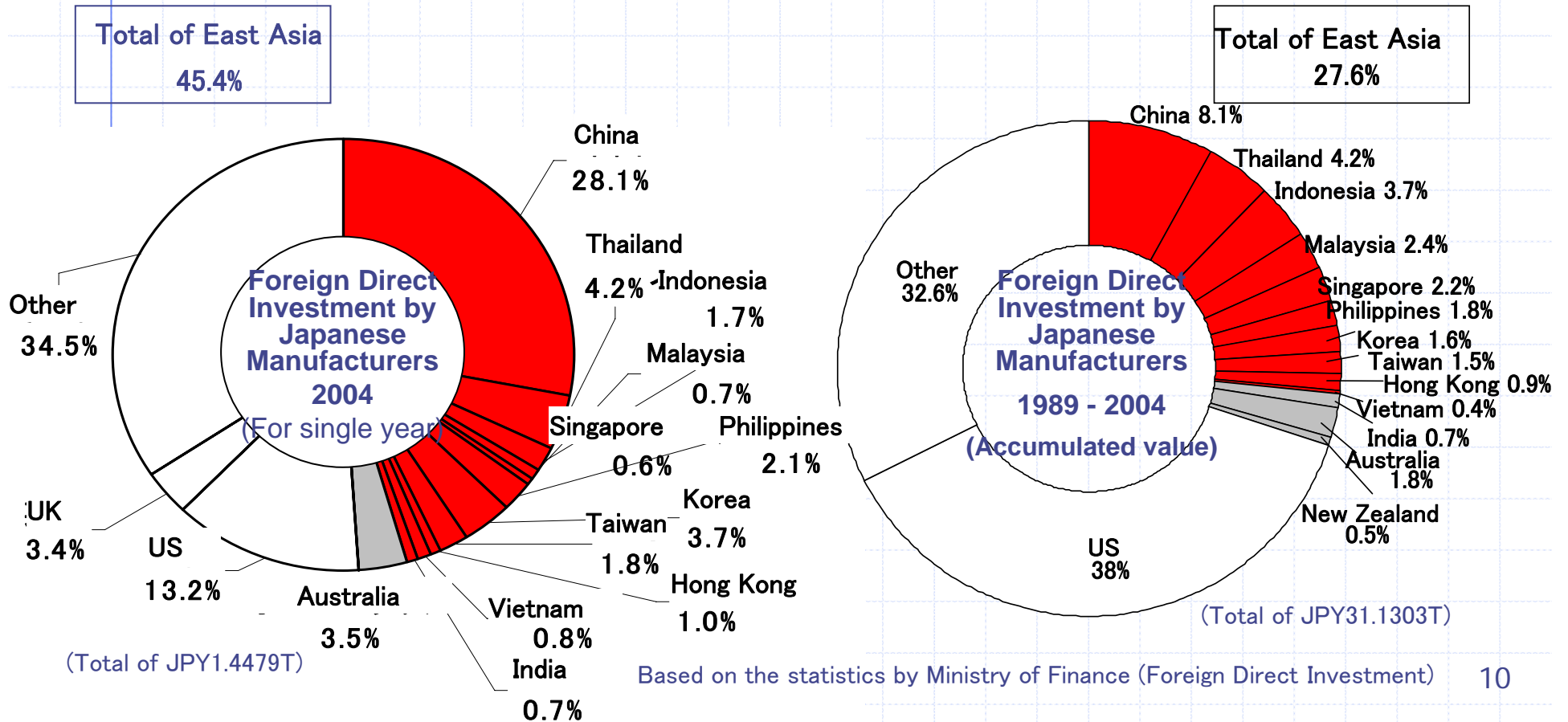
# Trade between Japan and East Asia

- The ratio of the trade value with East Asia to Japan's total trade value has been on the rise in recent years, currently accounting approximately half of the total.
- Especially the trade with China has grown rapidly, reaching the same level as that with the entire ASEAN or higher.



# Investment by Japan in East Asia

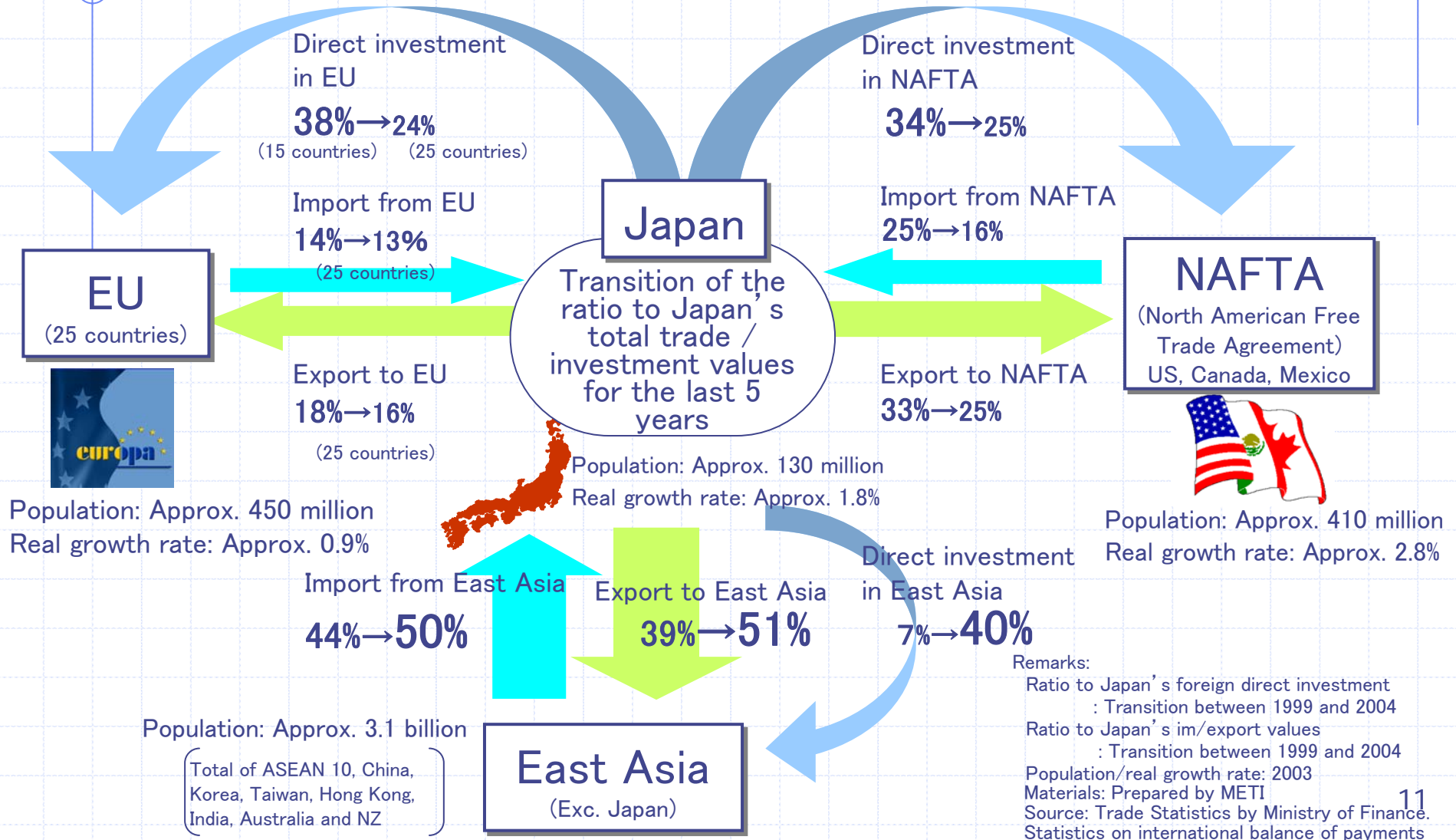
- Investment in East Asia accounts approximately half of foreign direct investment by Japanese manufacturers for FY2004 (Left), more than half of which is investment in China.
- Approximately 40% of accumulated value of foreign direct investment by Japanese manufactures since 1989 (Right) is for US, and approx. 30% for East Asia whose breakdown shows that the total investment in ASEAN is about double of that in China.



Based on the statistics by Ministry of Finance (Foreign Direct Investment)



# Deepening of interdependence between Japan and East Asia

- Historically, Japan's main trade partner and investment destination was the US, but the ratio of East Asia in them has been on the increase recently.

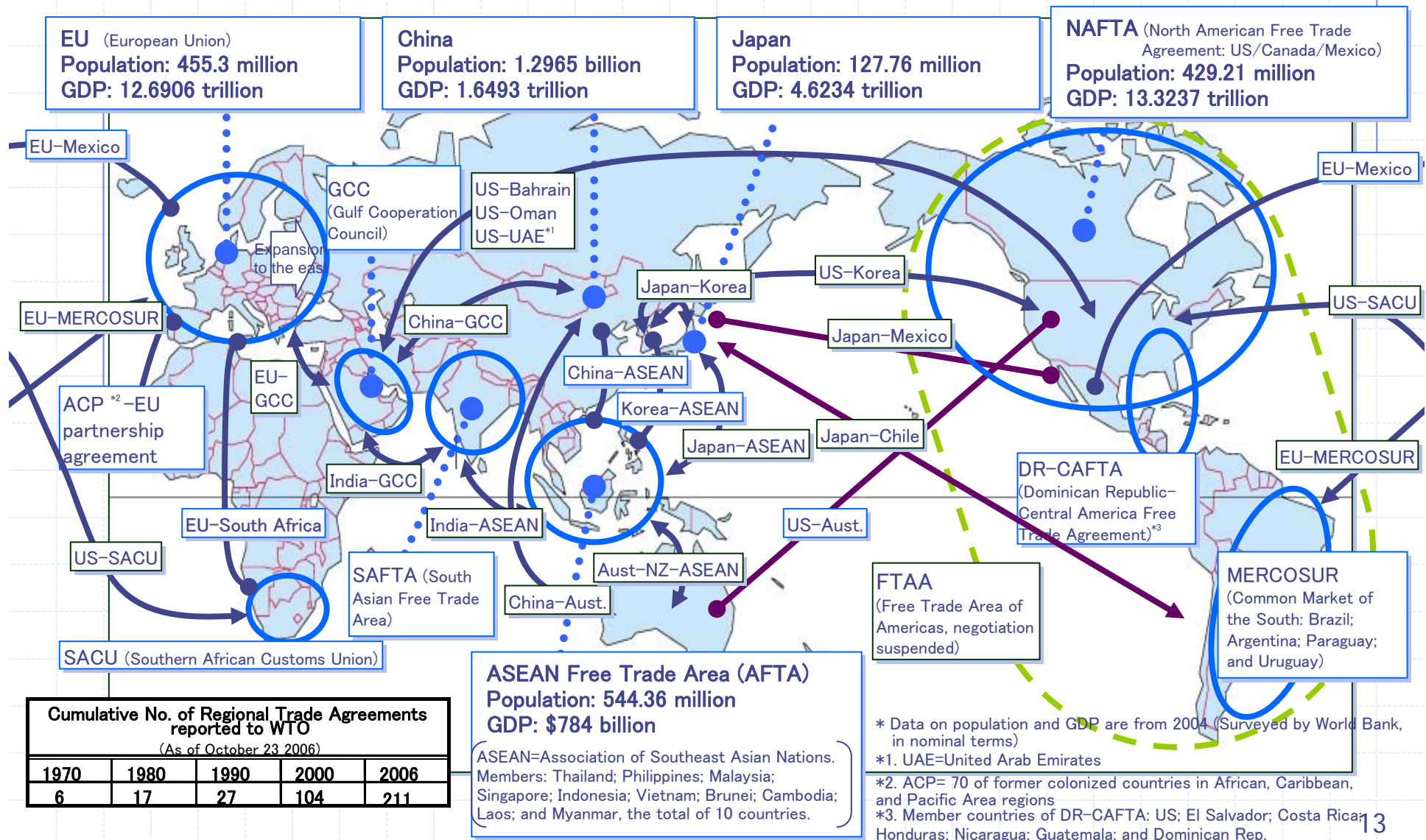




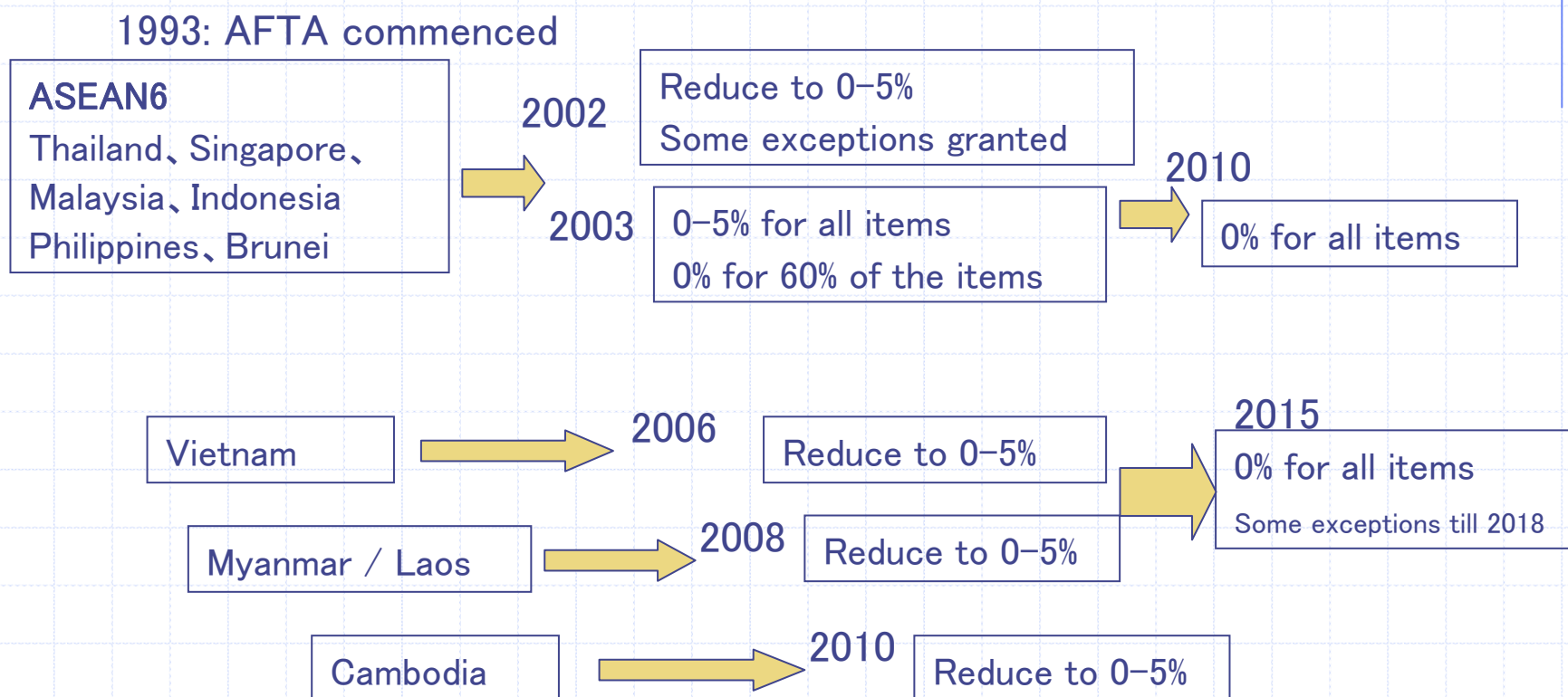
## 2. Rapid development of institutional economic integration

 FTA, etc. already concluded  
 FTA, etc. under negotiation

## Movement of regional trade agreements in the world



## Tariff Reduction Schedule for AFTA (ASEAN Free Trade Area)



\*Elimination of tariffs on 9 priority sectors including automotive, electric machinery, IT, textiles, and foods, etc. is to be accelerated to 2007 (However, tariffs up to 15% can be excluded.) The 11 priority sectors including services are to achieve deregulation of investment, liberalization of the movement of persons, mutual recognition of codes and standards, simplified custom procedures, etc. by 2010.

\*The ratio of intraregional trade to the total ASEAN trade for 2004 is approximately 25%.

## Six of the original ASEAN member countries have achieved tariffs of 0–5% under AFTA

– Myanmar and Vietnam making progress among newly joined members –

### ⊕ Tariff reduction status in AFTA (As of June 2005)

	Total No. of items	Inclusion List (IL)				Temporary Exclusion List (TEL)	General Exception List (GEL)	Sensitive/Highly-sensitive List	
		Tariff rate of 5% or less		Over 5%	Other				
			Share of IL						
Brunei	10,702	9,924	9,748	98.2%	161	15	0	778	0
Indonesia	11,153	11,028	11,028	100.0%	0	0	0	100	25
Malaysia	12,123	12,037	11,672	97.0%	334	31	0	86	0
Philippines	11,059	11,013	10,901	99.0%	112	0	0	27	19
Singapore	10,705	10,705	10,705	100.0%	0	0	0	0	0
Thailand	11,030	11,030	11,020	99.9%	10	0	0	0	0
Total of original 6 members	66,772	65,737	65,074	99.0%	617	46	0	991	44
Cambodia	6,822	3,115	1,615	51.8%	1,500	0	3,523	134	50
Laos	10,690	10,023	8,240	82.2%	1,783	0	0	464	203
Myanmar	10,689	10,385	9,146	88.1%	1,239	0	211	59	34
Vietnam	10,689	10,277	8,496	82.7%	1,781	0	14	371	27
Total of 4 newly joined members	38,890	33,800	27,497	81.4%	6,303	0	3,748	1,028	314
Total of ASEAN 10	105,662	99,537	92,571	93.0%	6,920	46	3,748	2,019	358

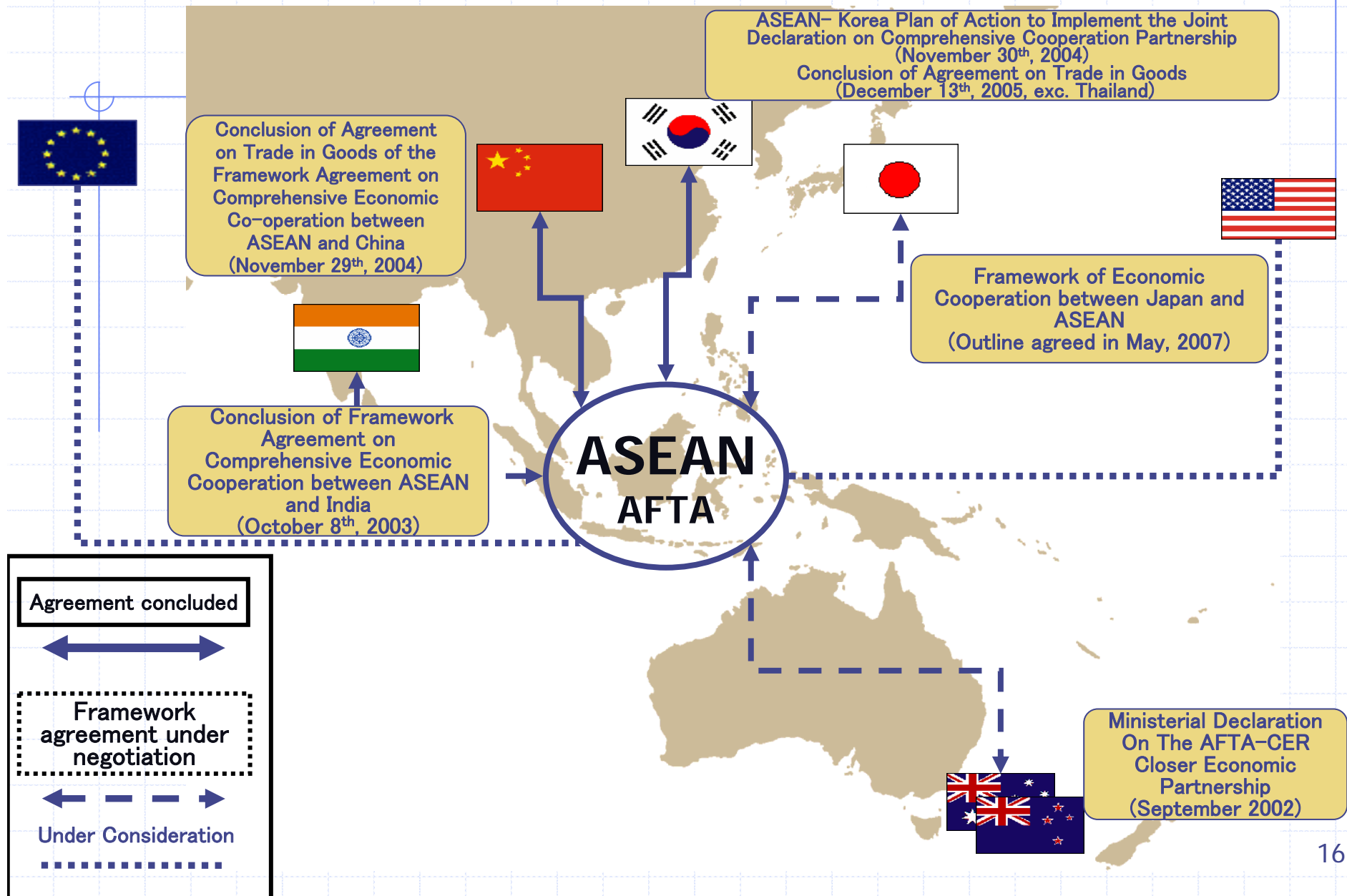
Note: (1) Inclusion List (Items subject to tariff reduction) (2) Temporary Exclusion List (Items not ready for reduction) (3) General Exception List (Items not subject to tariff reduction <Items for national security or with academic value>) (4) Sensitive List (Flexible shift to Inclusion List <unprocessed agricultural products>) (5) Highly Sensitive List <Rice, etc.>

Source: ASEAN Secretariat (2005 Tentative CEPT Package)

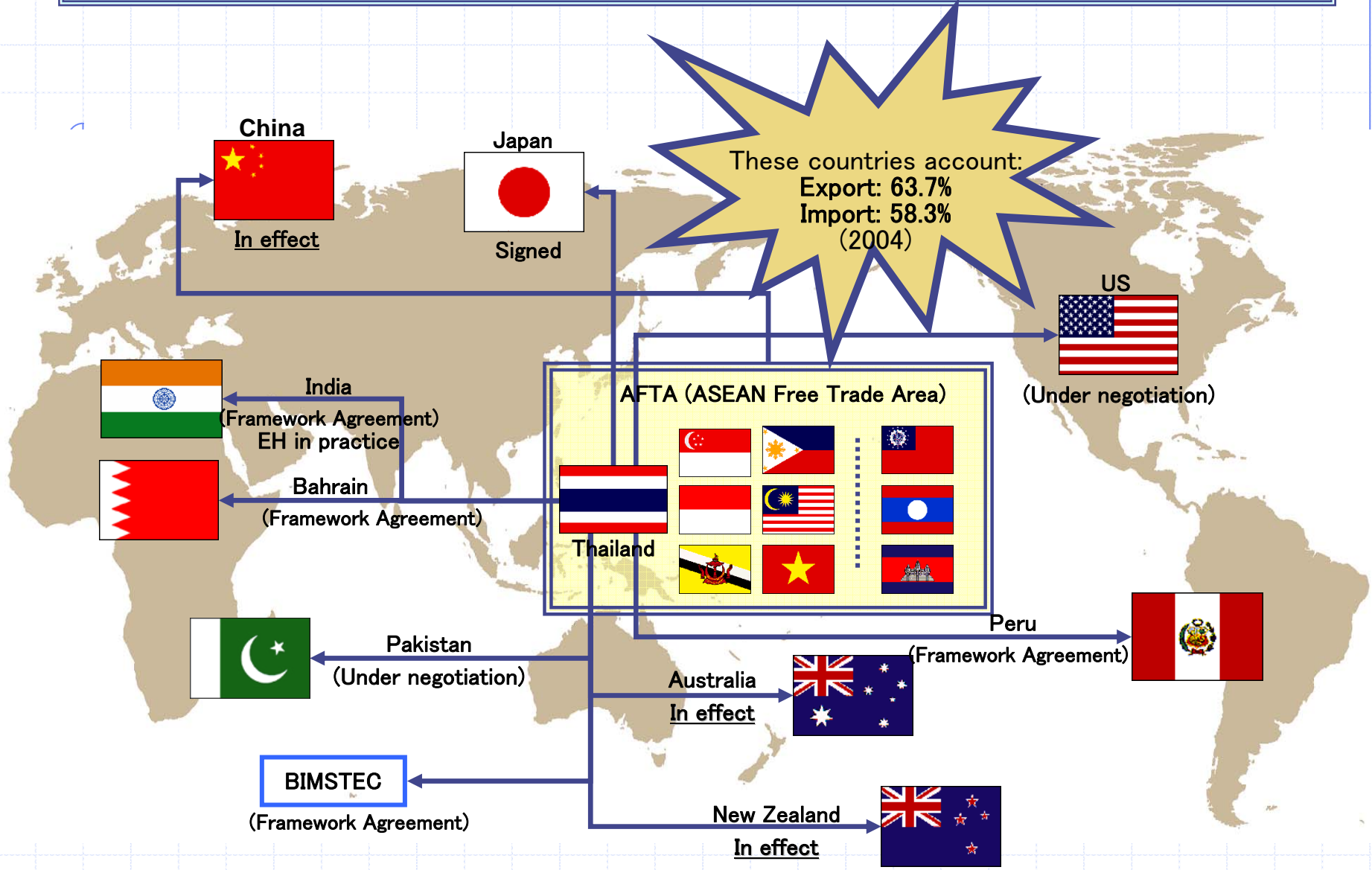
- Items with more than 5% tariff include those with specific tariff rather than ad valorem tariff.
- The number of items is based on AHTN (ASEAN Harmonized Tariff Nomenclature). HS is adopted for Cambodia.



# Current situations of FTA negotiation among ASEAN



# Current situation of Thailand's bilateral negotiations for FTA

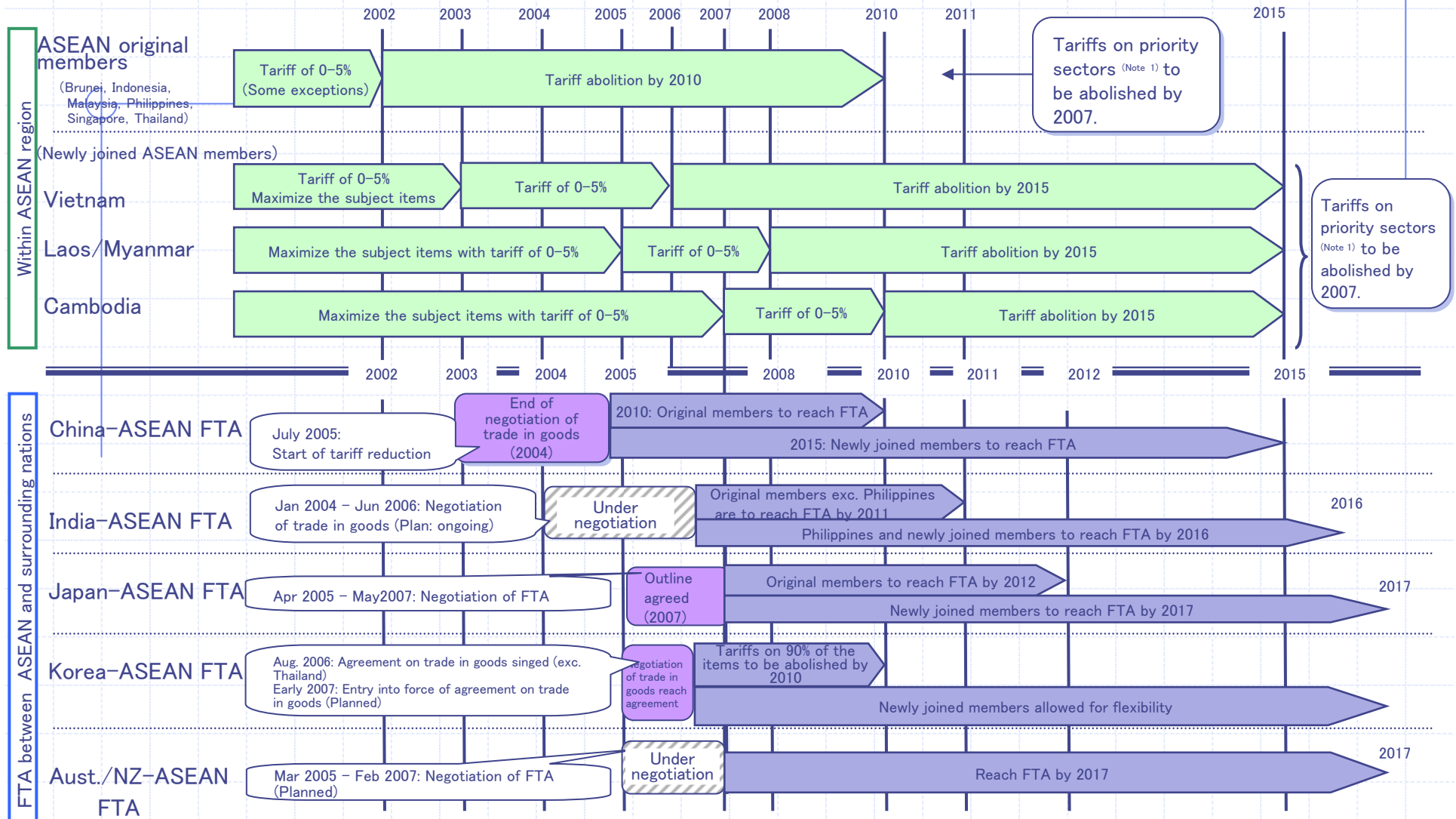


Thailand has 3 FTAs already concluded, one agreed on, and 6 under negotiation. Singapore has 11 already concluded and 4 under negotiation. Malaysia has one already concluded, and 3 under negotiation.

# FTAs in ASEAN and East Asia (Outlook)

With ASEAN as a hub, market integration with surrounding countries including Japan, China and Korea is underway. It is forecasted to realise roughly in 2010–2015.

\* The table below shows implementations related to "Trade in Goods" among each EPA/FTA.



Note 1: Priority sectors: automobiles; electronics; IT; aviation; logging-based industry; agribusiness; fishing; tourism; rubber-based industry; textile/apparel; and healthcare products (Total of 11 sectors).

"Logistics" is under consideration as the 12th sector.

Note 2: - Impact on Japanese economy in case of Japan-ASEAN comprehensive economic cooperation would be the increase of GDP by approx. JPY 1.1-2.0 trillion as well as job opportunities created for approx. 150,000 - 260,000 persons.

Note 3: As for China-ASEAN and Korea-ASEAN, negotiations of investment and service sectors are continuing with view of settlement in 2007 and 2006 respectively.

## Thailand's trade with India under early harvest measure under FTA

Total trade value and trade value on 82 Early Harvest items (2005)				
(Unit: Million baht)				
	Total	Growth rate (%)	EH 82 items	Growth rate (%)
Export (Thailand => India)	61,202.2	66.8	13,657.1	130.8
Import (India => Thailand)	51,162.8	11.7	3,565.4	27.3
Balance of Trade	10,039.4	-	10,091.8	-

Thailand had shown a trade deficit until 2004. Its export increased owing to EH and showed a surplus in 2005.

Many of the exported items are produced by Japanese-affiliated firms in Thailand.

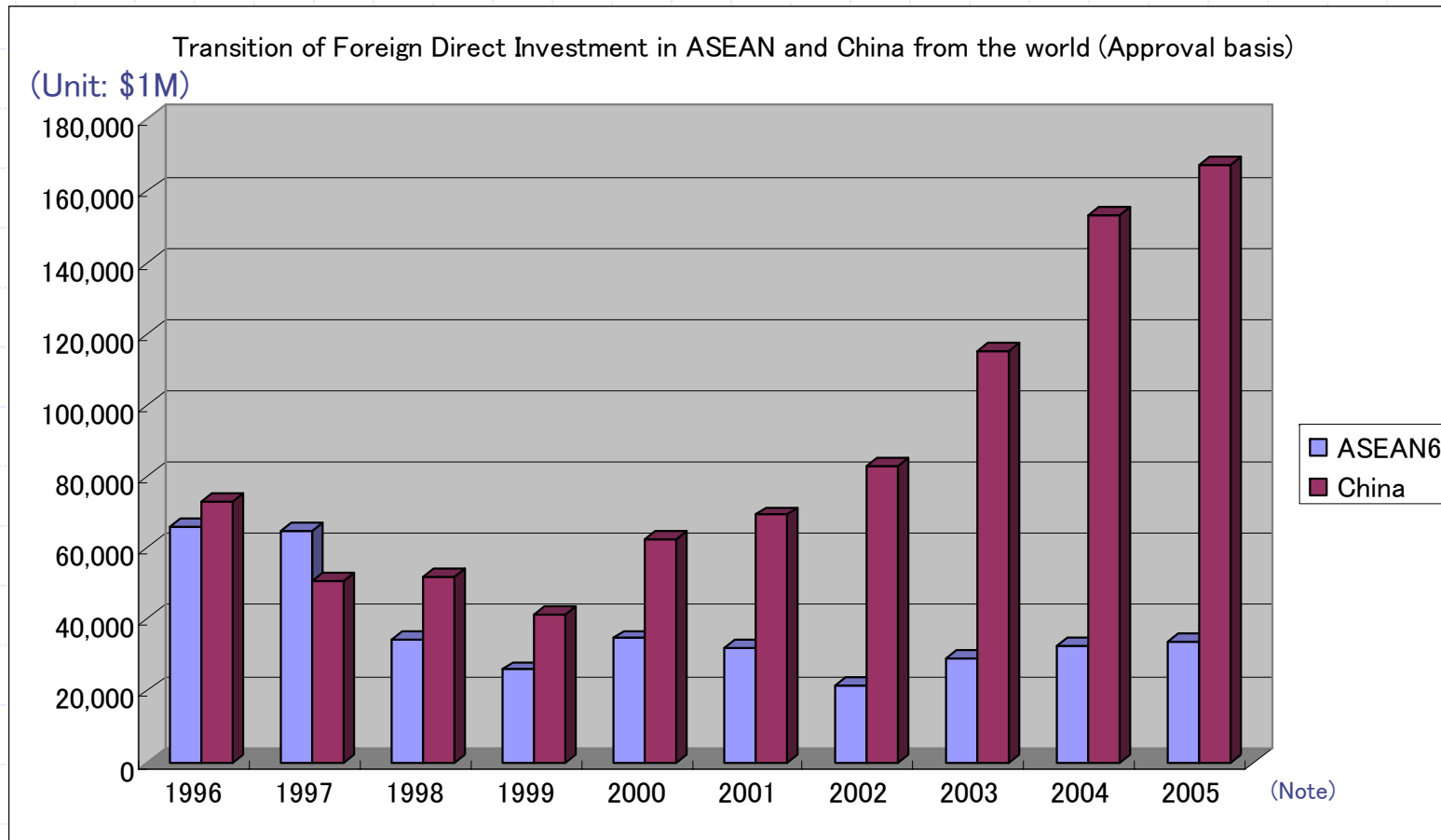
Items agreed to reciprocally eliminate tariffs as an early harvest measure under Thailand-India FTA framework agreement

- Main export items to India:  
Polycarbonate, TV, cathode-ray tube, automobile parts, air conditioner, etc.
- Main import items from India:  
Transmission, aluminum



### 3. Trend of direct investment/investment climate in East Asia and Japanese-affiliated firms

## China, absorbing investments from the entire world

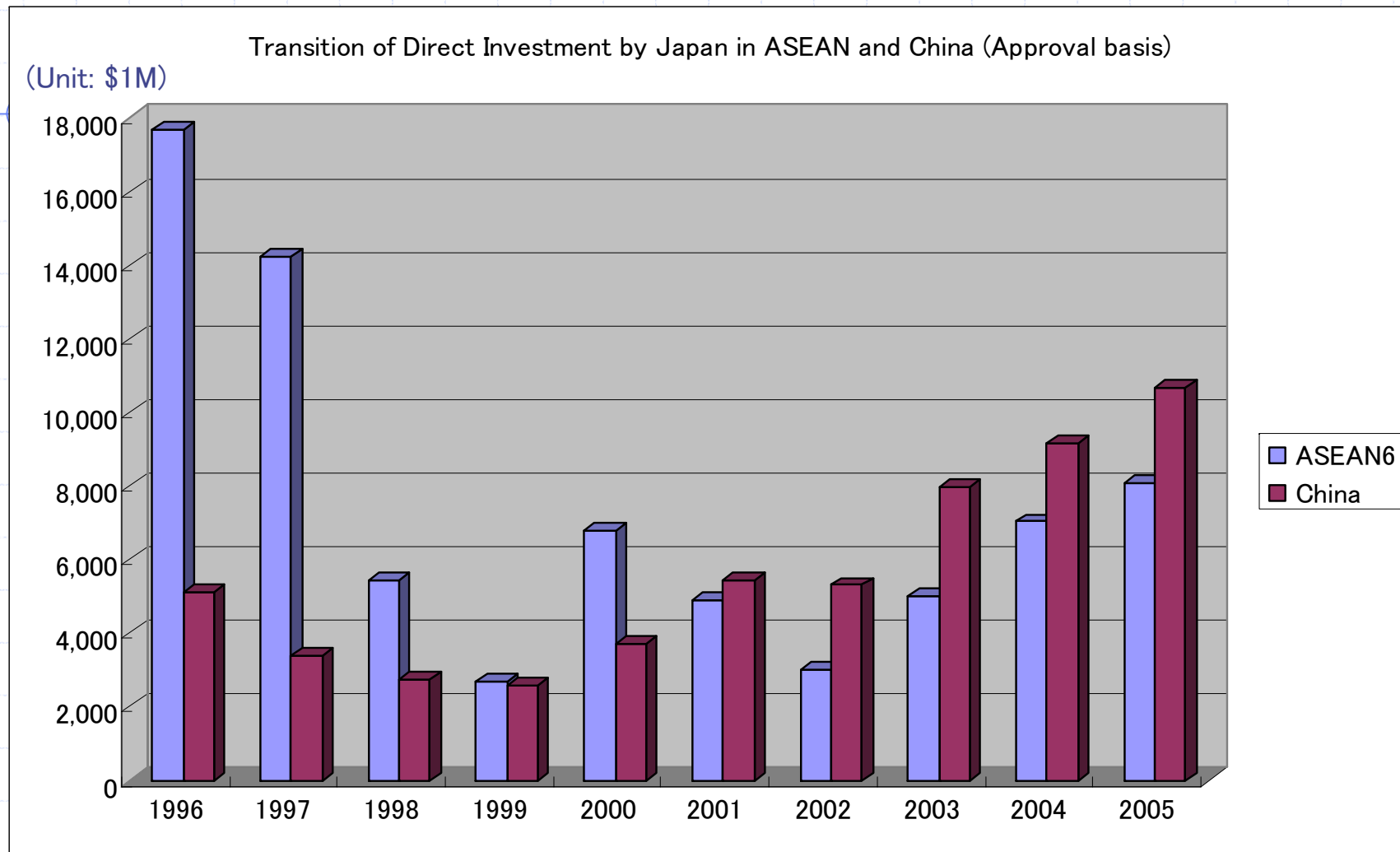


Note: ASEAN6=Thailand, Malaysia, Indonesia, Philippines, Singapore, and Vietnam

In 2006, China for Jan – Nov, Malaysia for Jan – Sept, and Philippines for Jan – Jun.

Source: Statistics of each country

## Investment by Japan in China and ASEAN simultaneously expanding

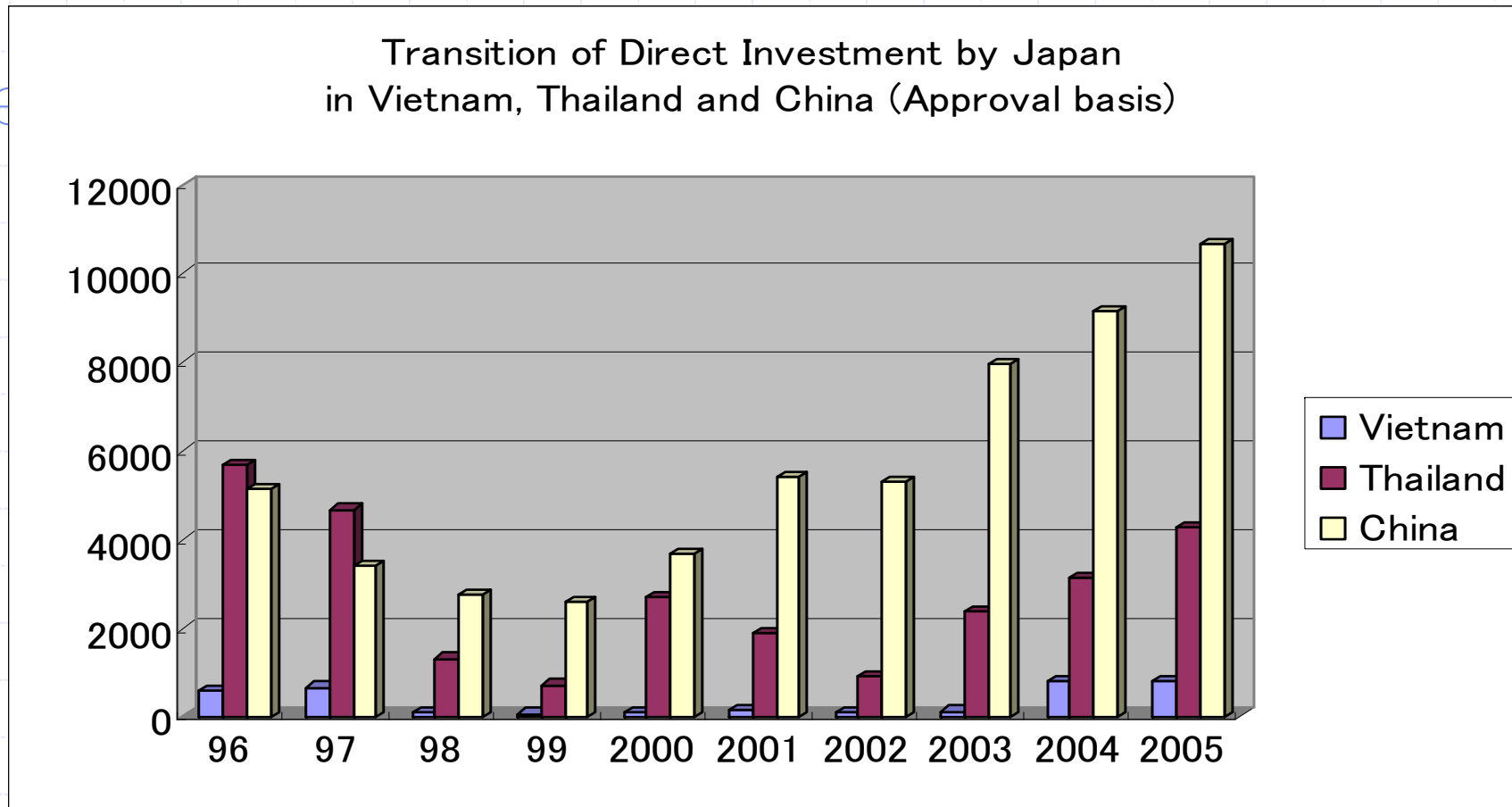


[Ref.] According to Japan's notified statistics, accumulated investment amount from 1951 to 2004 in China is \$31.5 billion while that in ASEAN 6 is \$84.8 billion which is 2.7 times of investment in China.

Note: the source is as the previous slide.

Note: Source is the same as previous slide. 22

## Investment in China: continuously expanding by value



(Unit: No. of cases)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Vietnam	54	65	12	14	25	40	48	53	124	182
Thailand	254	219	157	185	282	257	215	260	350	354
China	1,742	1,402	1,198	1,167	1,614	2,019	2,745	3,254	3,454	3,269

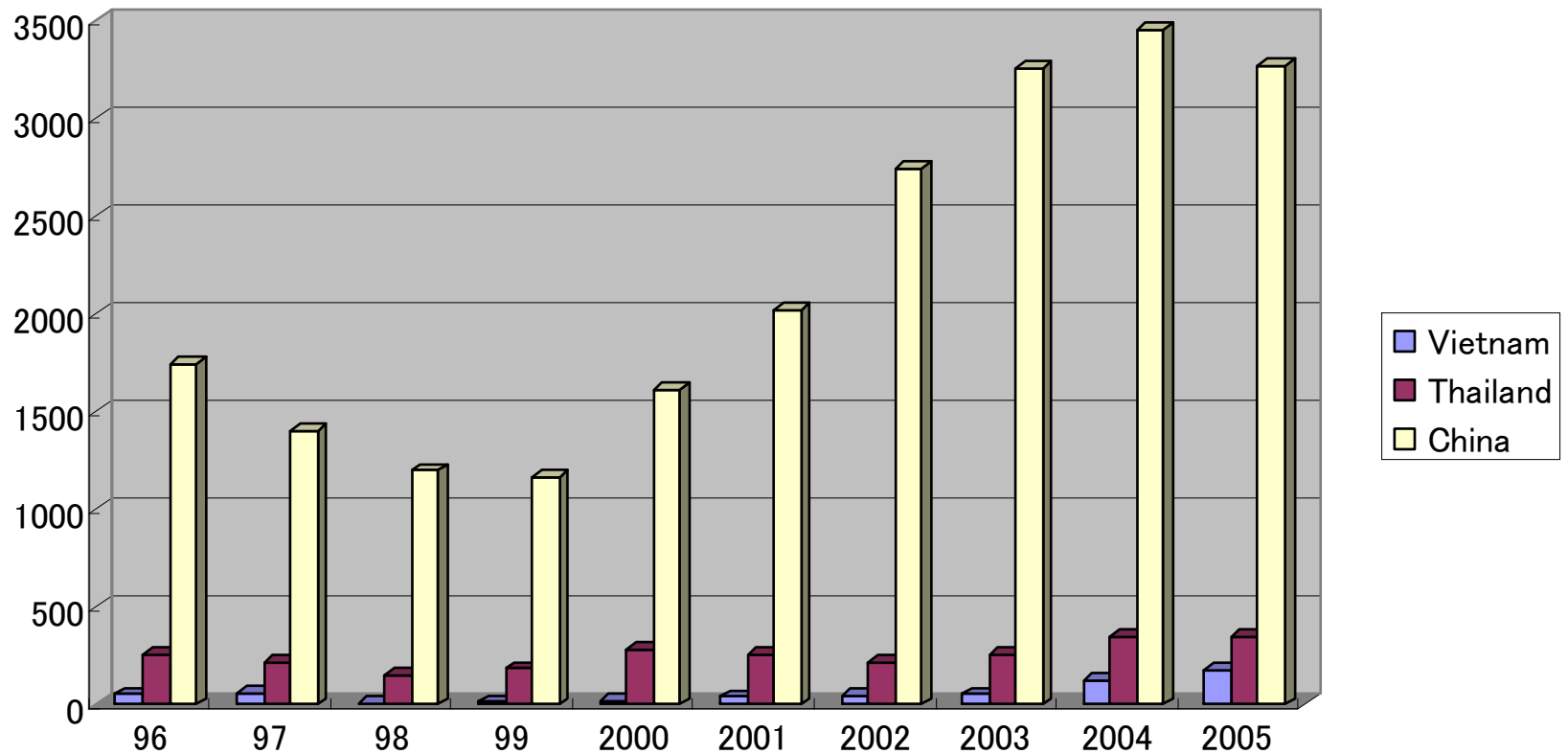
Note: China's data for 2005 is from January to November. Vietnam has begun releasing the figures for extensive investment since 2004, but only for new investment up until then.

Source: Statistics of each country



Investment in China: slightly decreased in the number of cases, while investment in Vietnam increased by 50%

Transition of Investment by Japan in Thailand, Vietnam, and China (No. of cases)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Vietnam	591	657	108	62	81	163	102	120	784	813
Thailand	5,670	4,677	1,304	712	2,677	1,876	894	2,353	3,131	4,266
China	5,131	3,401	2,749	2,591	3,680	5,419	5,298	7,955	9,162	10,681

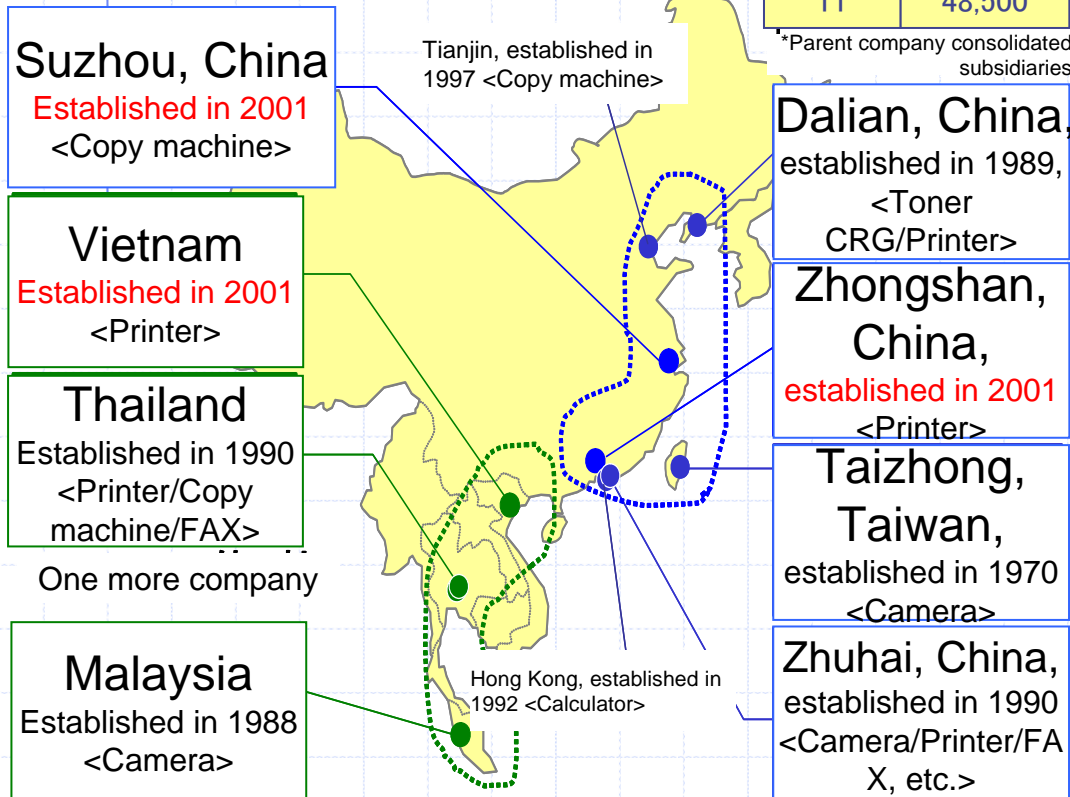
Note: Vietnam has begun releasing the figures for extensive investment since 2004, but only for new investment up until then.  
 Source: Statistics of each country

# Example of business expansion by an electronic/electric appliance manufacturer in Asia (Example of Canon)

- Distribution of production site to East Asia and returning of production of high-value added products/strategic products to Japan
- Strategic production site location (To produce labor-intensive products overseas while technologies remain in Japan)
- Handling of securement of raw material and distribution of production between Japan and other Asian countries depending on the time and situation

## <Major Production Site>

(As of the end of 2005)



## Positioning of Asia

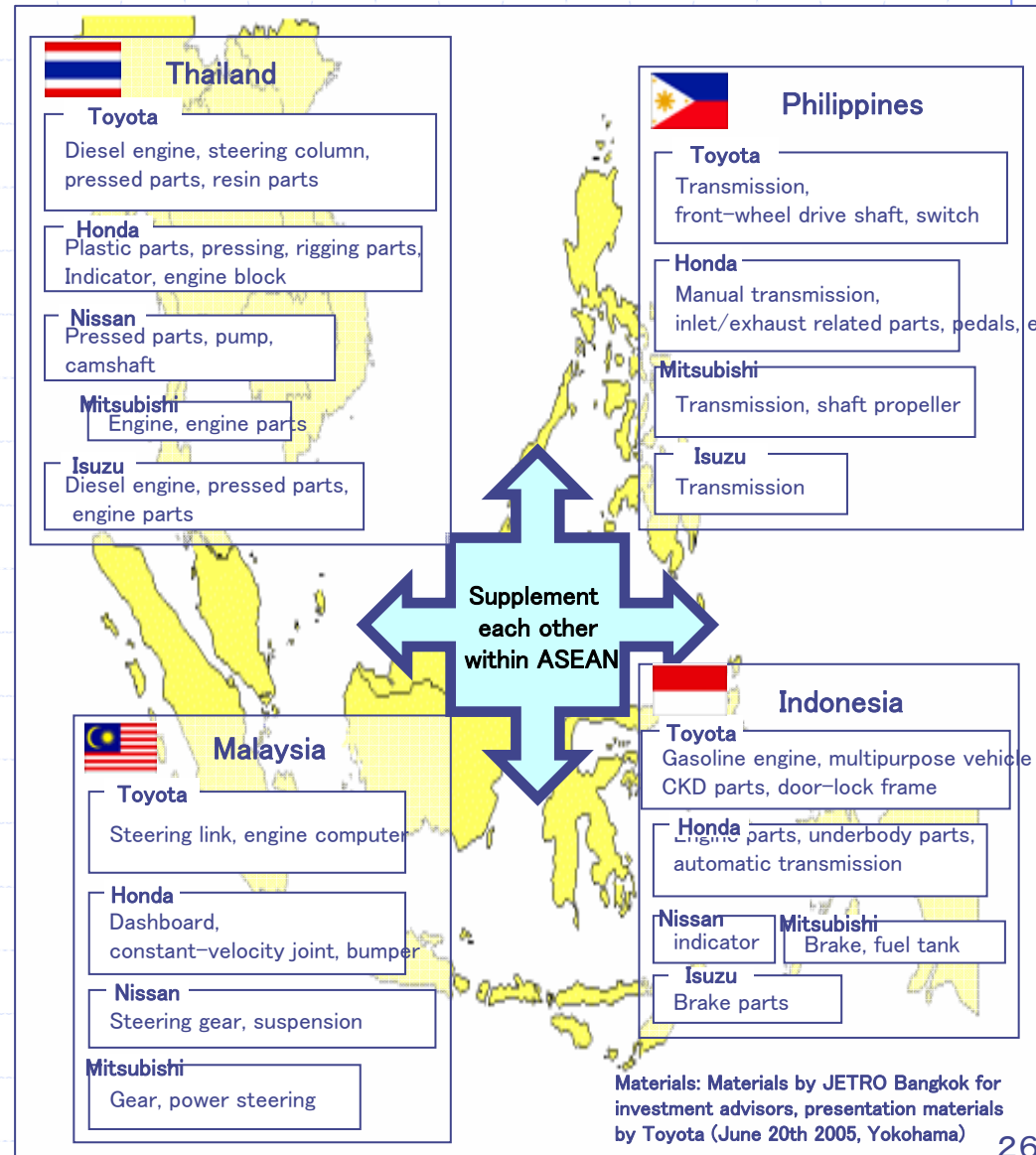
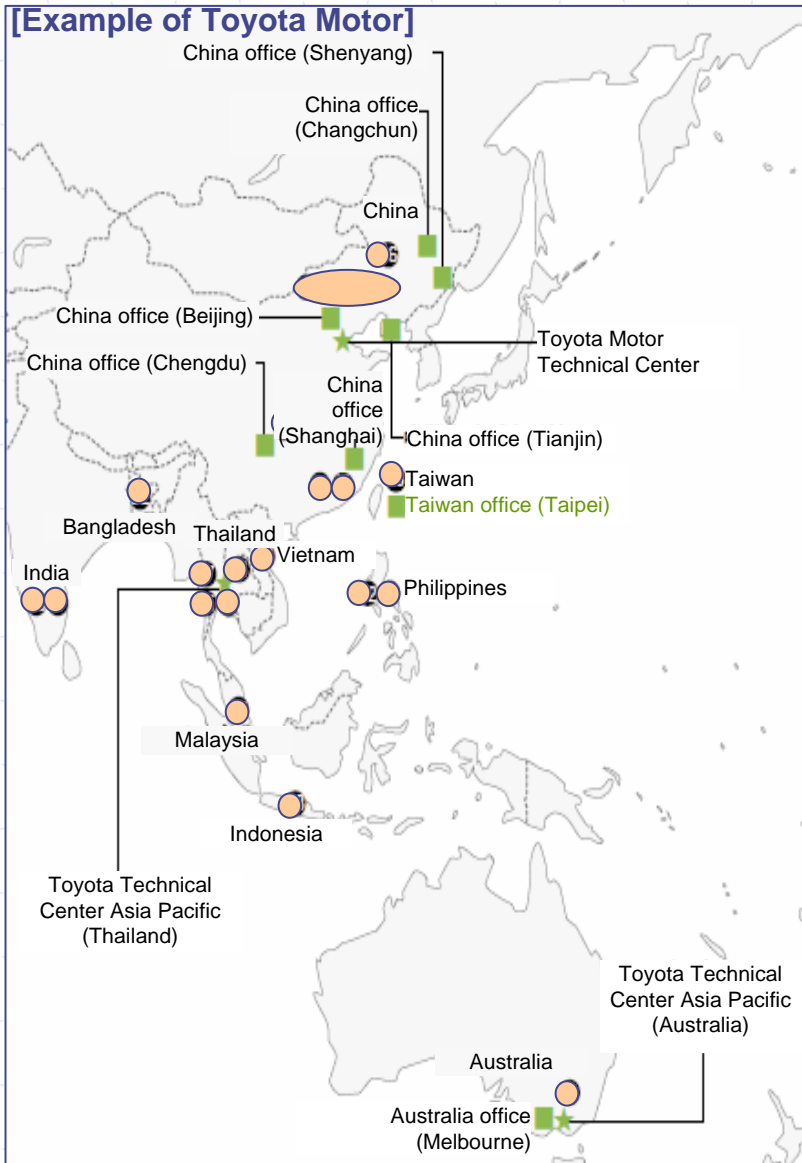
- Sales in Asia: Approx. JPY510 billion
- Ratio to the entire world: Approx. 15%
- Ratio of production in Asia to the entire world: Approx. 37%

## Strategies in Asia

- Enhanced prevention of outflow of intellectual assets
- Further cost reduction
- Aggressive sales expansion to Chinese market

# Production site of Japanese-affiliated car manufactures in East Asia

- Japanese-affiliated car manufacturers have production site in each countries of East Asia, expanding their operations globally.



## Relocating of Japanese-affiliated car manufacturers' production sites responding to AFTA

Examples of mutual trading of completed cars within ASEAN Region

Toyota Motor	From Thailand: IMV "VIGO", "Soluna Vios" (For ASEAN Region) IMV "Fortuna" (For Philippines and Indonesia) From Indonesia: "Avanza", IMV "Innova" (For Thailand)
Honda Motor	From Thailand: "Accord" (For Indonesia, Philippines, and Malaysia) From Thailand: "Jazz" (For Malaysia and Philippines) From Thailand: "City" (For Indonesia) From Indonesia: "Stream" (For Malaysia)
Nissan Motor	From Thailand: "Teana" (For Indonesia) From Indonesia: "X-Trail" (For Thailand)

Source: Research by JETRO

## China, India Vietnam and Thailand show fair prospect for business expansion

◆ Prospect for business expansion over a medium term (Next 3 years or so)

	1999	2000	2001	2002	2003	2004	2005 survey		2006 survey	
								Share		Share
1st place	China	China	China	China	China	China	China	82%	China	77%
2nd place	USA	USA	USA	Thailand	Thailand	Thailand	India	36%	India	47%
3rd place	Thailand	Thailand	Thailand	USA	USA	India	Thailand	31%	Vietnam	33%
4th place	India	Indonesia	Indonesia	Indonesia	Vietnam	Vietnam	Vietnam	27%	Thailand	29%
5th place	Indonesia	Malaysia	India	Vietnam	India	USA	USA	20%	USA	21%
6th place	Vietnam	Taiwan	Vietnam	India	Indonesia	Russia	Russia	13%	Russia	20%
7th place	Malaysia	India	Taiwan	South Korea	South Korea	Indonesia	South Korea	11%	Brazil	9%
8th place	Philippines	Vietnam	South Korea	Taiwan	Taiwan	South Korea	Indonesia	9%	South Korea	9%
9th place	England	South Korea	Malaysia	Malaysia	Malaysia	Taiwan	Brazil	7%	Indonesia	8%
10th place	Brazil	Philippines	Singapore	Brazil	Russia	Malaysia	Taiwan	7%	Taiwan	6%

Source: 2006 Questionnaire on foreign direct investment by Japan Bank for International Cooperation, Nov, 2006

Note the following for whether or not actual business plans exist:

China: Plan for 252 cases > No plan for 112 cases;

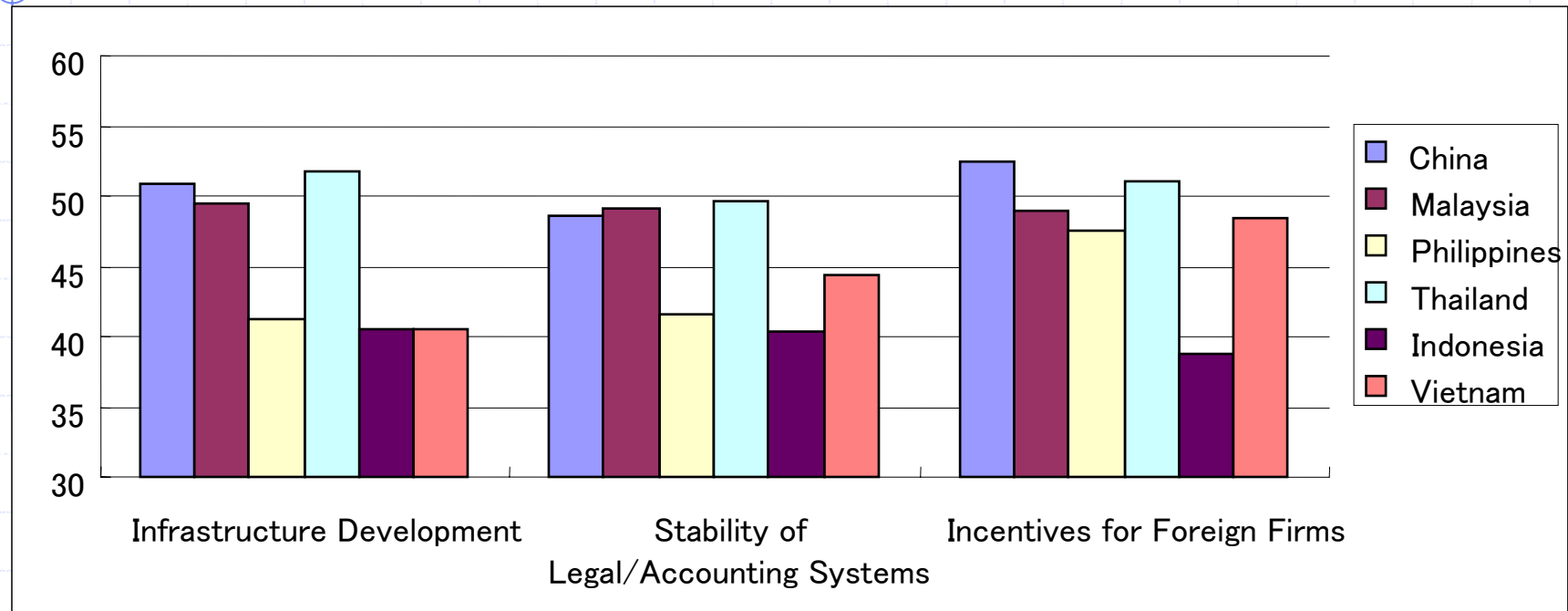
India: Plan for 62 cases < No plan for 157 cases;

Thailand: Plan for 80 cases > No plan for 58 cases;

Vietnam: Plan for 52 cases < No plan for 104 cases.

India and Vietnam have more cases without plan than ones with plan.

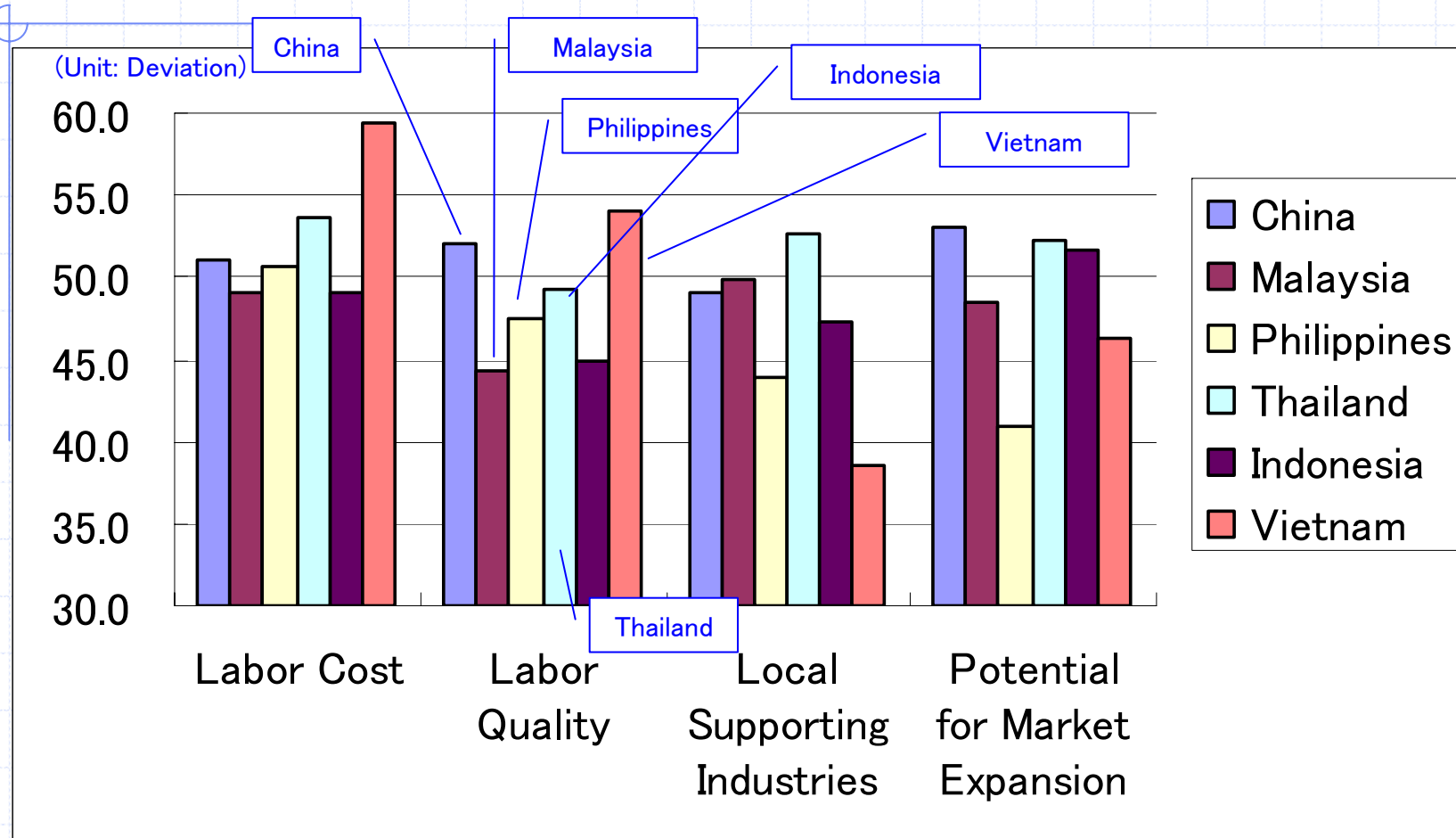
## Investment climate of each country based on the evaluation by Japanese-affiliated firms (1)



Note: The values are indicated in deviation. Figures over 50 means that the evaluation is higher than the overall average (Apart from ASEAN and China, countries/regions targeted for the survey include Asia's NIES such as Korea). The bigger the value is, the "better" the relevant category is evaluated.

Source: White Paper on International Trade, Ministry of Economy, Trade and Industry

## Investment climate of each country based on the evaluation by Japanese-affiliated firms (2)



Note: The values are indicated in deviation. Figures over 50 means that the evaluation is higher than the overall average (Apart from ASEAN and China, countries/regions targeted for the survey include Asia's NIES such as Korea). The bigger the value is, the "better" the relevant item is evaluated.

Source: White Paper on International Trade, Ministry of Economy, Trade and Industry

## Comparison of worker's wage (based on interviews with firms)

	Thailand	Vietnam	China (Southern China/Dongguan)
Minimum wage	\$104	\$50	\$71
Average wage	\$225-\$250	\$90-\$110	\$160-\$190

Note: Vietnam: Outskirts of Hanoi and Ho Chi Minh City; Thailand: Outskirts of Bangkok; calculated as follows: 163 baht (= Approx. \$4) x 26 days.

Average wages are based on the interviews (Jan - Feb 2006) and indicate total cost that the company bears including various allowances, social insurance premiums overtime pay, etc.

- “The wage for a worker is about 600 Yuan. Including overtime pay, it will be about 1,000 Yuan. Boarding fee is 150 Yuan per person. The company bears 1,300 Yuan or so by adding social insurance premium to those. This is 20–25% higher than 2 years ago.” (Japanese electronic parts manufacturer in Dongguan)
- “Workers get 700 Yuan as a starting salary along with housing and meal allowance. Moreover, the company bears social insurance premium. One person gets about 1,500 Yuan including overtime pay. This is 20% higher than expected in 3 years ago.” (Japanese automobile parts manufacturer in Guangzhou)
- Also in Vietnam, the minimum wage has been raised since February 1st 2006. In the surrounding areas of Hanoi, it was about \$35, which is now \$50, increasing by about 30%.



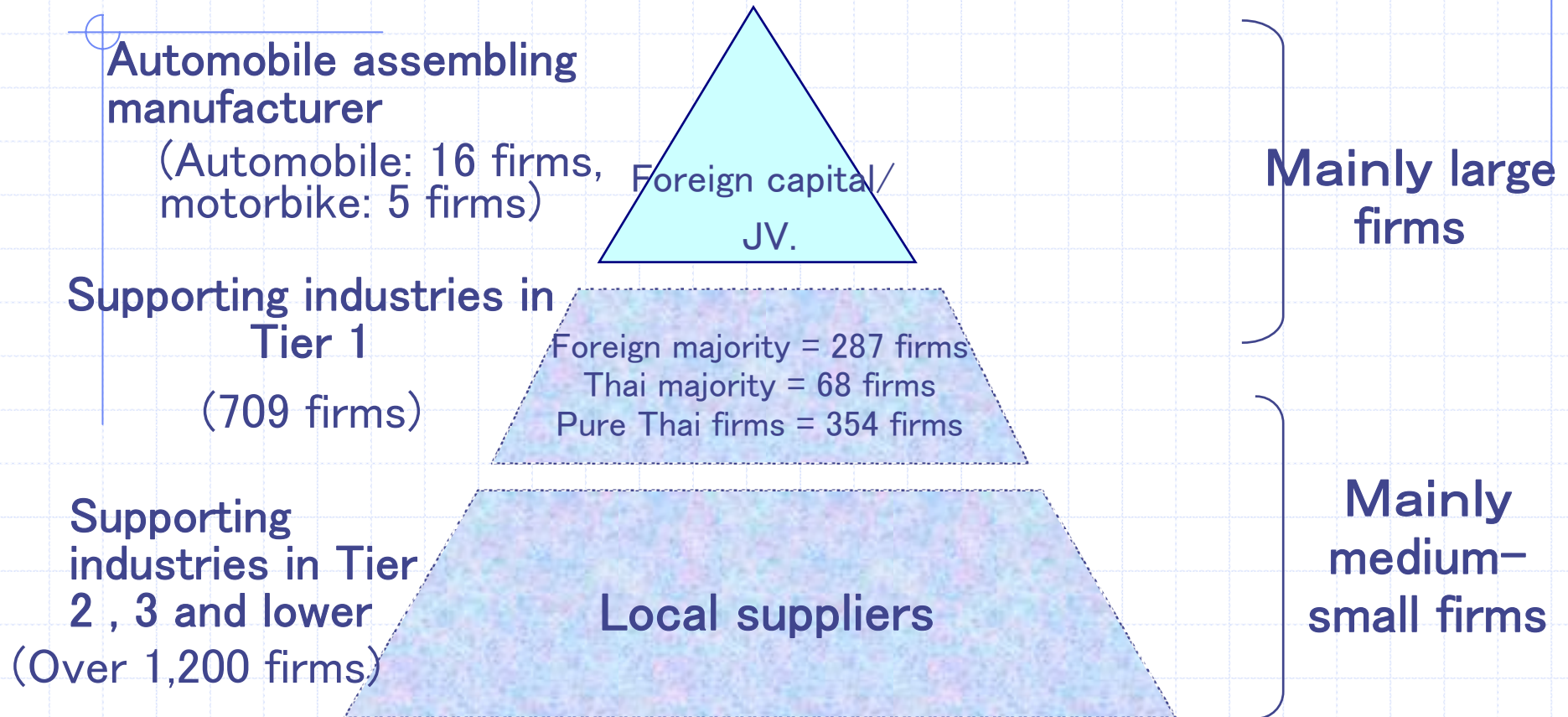
## Comparison of investment cost for each country (Survey by JETRO)

(Unit: US\$)

		Thailand	China			Vietnam		Indonesia	Philippines	Malaysia
		Bangkok	Dalian	Shenzhen	Shanghai	Ho Chi Minh City	Hanoi	Jakarta	Manila	KL
Wage	Worker	184	96-129	86-335	109-218	102-138	79-119	133	170	202
	Engineer	327	171-223	179-494	269-601	200-319	171-353	229	255	684
	Middle	790	380-579	408-1193	567-1573	611-736	504-580	608	619	1892
	Legal minimum wage	4.24/day	50.74/m	56.18/m 72.49/m	38.90/m	40.11/m	40.11/m	74.21/m	4.29/day	N.A.
Land price/rent of office, etc	Land purchase in an industrial	56.42	20-30	24.16	25	N.A.	N.A.	40-45	50-55	49-99
	Rent of an industrial park/ m2	4.51	0.2	0.24-8.46	2.2	0.08	0.21-0.26	3.60-4.10	1	N.A.
	Rent of office/ m2	11.03	30	2.78-13.89	37.5	21	24	14.00-	4.52-7.23	9.92-17.68
	Leased residence	1630	2300	362	2200-3800	2000	1650-1700	1800-2800	1085-1266	737
Public utility charges	Industrial electricity fee	0.04	0.07	0.03-0.09	0.03-0.10	0.05-0.07	0.05-0.07	0.05	0.09	0.05
	General electricity fee	0.05-0.07	0.05	0.08	0.04-0.07	0.08-0.09	0.08-0.09	0.07	0.12	0.06
	Industrial water rate	0.24-0.40	0.41	1) 0.23 2) 0.29	0.15	0.22	0.22	0.78-0.82	0.33-0.40	0.47
	General water rate	0.21-0.36	0.3	1) 0.18 2) 0.27	0.12	0.13	0.13	0.45-0.61	0.10-0.29	0.15
Taxation system	Corporate income tax	30%	33%	33%	33%	25%	25%	10-30%	32%	28%
	Personal income	37%	45%	45%	45%	50%	50%	35%	32%	28%
	VAT	7%	17%	17%	17%	10%	10%	10%	10%	5-25%

Source: Survey by JETRO, Nov. 2003

Automotive industry structure in Thailand :  
accumulation of local supporting industry  
(for parts/processing/material)



Materials: Thai Automotive Institute

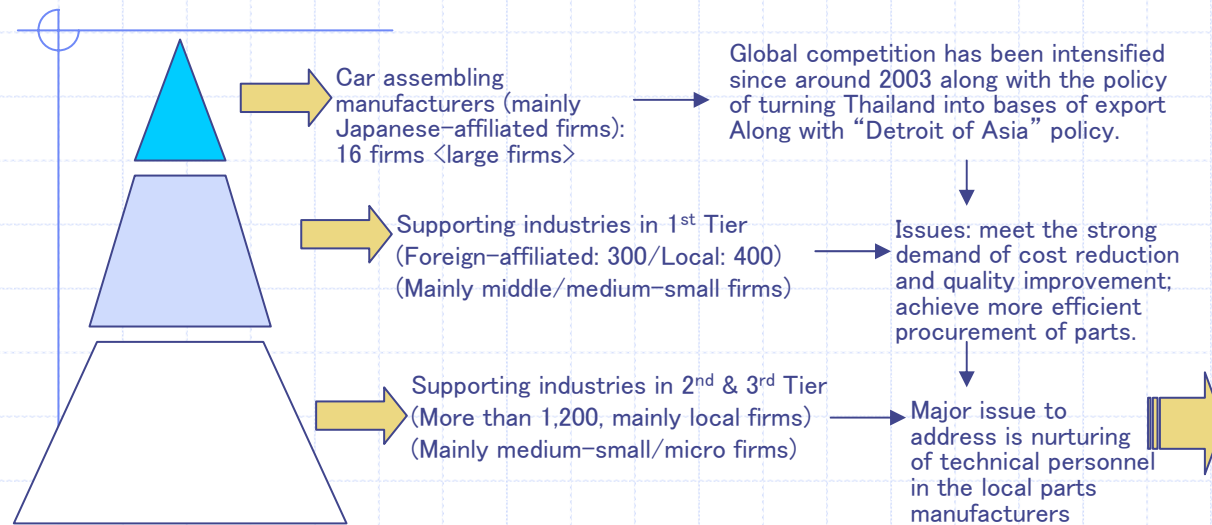
## Advantages of investing in ASEAN in comparison to China

- ◆ Vast amounts of investment stock (more than double of investment in China, most of them have been fully depreciated), long-term partner, and stable environment for investment with a certain level of acceptance of “Japanese style” (while China offers “high risk/high return” investment chance)
- ◆ Huge Market of 530 million people where Japan brand has been already penetrated (Market integration process is almost completed by AFTA) :  
Population of 1.3 billion x Share of 20%  $\leq$  Population of 500 million x Share of 60%?
- ◆ Location strategy as risk hedging against overconcentration in China (“China-plus-one” Strategy by major Japanese firms)
- ◆ It serves as a base for supply/expansion to India, Middle East, and beyond (Ex. Export to India of Japanese home electric appliances through ASEAN/India FTA)
- ◆ Cost is not necessarily high compared to China, and can be rather cheaper depending on the area.

## Issues held by each country of ASEAN

- ◆ Promotion of human resources development (Biggest key)
  - China <1,225 universities, 465,000 graduates with science & technology degree per year>
  - Thailand <70 universities, 35,000 graduates with science & technology degree per year>
- ◆ Deepening of ASEAN market integration (AFTA) and unification as a production base (logistics, custom procedures, standard/code recognition, etc.) => Expectation for ASEAN Economic Community (AEC)
- ◆ Nurturing of supporting industries and local medium–small firms
- ◆ Improvement of soft infrastructure development/design abilities and enhancement of material supply
- ◆ Cross–boarder hard infrastructure development including logistics, power grip, etc.  
(Conventionally, it takes 10 days from Bangkok to Hanoi by sea, but it can be shortened to 3 days at minimum by using the 2<sup>nd</sup> Mekong Bridge as well as East–West Corridors and improving the custom systems.)
- ◆ Increased transparency and facilitation of soft infrastructure operations such as legal systems, taxation systems, etc. (Laws and regulations on foreign firms, custom procedures, interpretations of taxation systems, intellectual property protection, etc.)

# Example of cooperation for human resources development in ASEAN's manufacturing industries: "Thai Automotive Human Resources Development (TAHRD)" Project through quadripartite cooperation by the public and private sectors in Thailand and Japan (Key cooperation project in Japan-Thailand EPA)



## Project Outline

(1) The idea emerged based on pressing needs from both Thailand and Japan in around 2003, from which the mechanism was built in 2004 and 2005. In 2006, the training described in the below (2) began and the training shown in (3) commenced in 2007.

(2) The manual for in-company technical personnel training used in Japanese car manufacturers was translated into Thai for free (Translation fee borne by JETRO). A Japanese trainer from the in-company training facilities was sent to Thailand (Dispatch cost borne by JETRO, training equipment cost borne by JICA, cost for part of training held in Japan born by AOTS). First, Thai trainers are trained in the facilities of Thailand Ministry of Technology (Trainer's Training). Candidates for trainers are selected from engineers who have worked for many years in Japanese car manufacturers/major parts suppliers and have good understanding of Japan's manufacturing style. This began in 2006. The technical skill testing system has been also introduced. >> (2) is implemented mainly through cooperation between Japan's public and private sectors.

(3) Thai trainers nurtured in (2) conduct training for young personnel from Thai local firms, using facilities of Ministry of Industry or vocational schools, which began in 2007. About 5,000 people are expected to be trained for the next 5 years or so. >> (3) will be implemented by Thailand.

## Basic Concept of TAHRD Project

1. Cooperation based on the equal partnership between Thailand and Japan
2. Joint venture between both countries' public and private sectors.
3. Transfer of Japan's technologies to Thailand
4. Human resources development in two stages (1<sup>st</sup> stage: Nurturing of Thai trainers by Japanese instructors; 2<sup>nd</sup> stage: Training in Thai by Thai trainers for young personnel from local firms)
5. Emphasis on on-site training which can be put into practice right away and basic technical training
6. Utilize existing facilities as much as possible without new ones
7. Joint cooperation among METI, JETRO, JICA and AOTS in Japanese side

## Partner companies for Trainer's Training and their training field (No. of trainers nurtured)

- Toyota (Production Management): 10 trainers
- Denso (Management): 26 trainers
- Denso (Manufacturing skills): 18 trainers
- Honda (Mould): 11 trainers
- Nissan (Skill testing): 15 trainers

Total of 80 trainers

## Example of cooperation for ASEAN's highly-skilled human resources development: Establishment of Thai-Nichi (Thailand-Japan) Institute of Technology mainly by ex-students in Japan (Opened in June 2007)

### Thai-Nichi Institute of Technology (Mother body of establishment: Technological Promotion Association: TPA)

- **Faculty of Engineering:** Dept. of Automobile Engineering (from 2007);  
Dept. of Industrial Engineering (from 2008)
- **Faculty of Engineering:** Dept. of Information Technology (from 2007);  
Dept. of Computer Engineering (from 2008)
- **Faculty of Business Admin.:** Dept. of Industrial Management (from 2007)  
Dept. of HR Development Management (from 2008)
- **Graduate School:** Masters course in Industrial Management (from 07)

### Support from Japan

- (1) Provision of scholarships: JPY 30M/year (for 120 students)
- (2) Provision of training facilities and second-hand equipments
- (3) Provision of on-site training at companies
- (4) Provision of advice on curriculum making
- (5) Dispatch of firm's experts as teachers
- (6) Job offers and support for employment opportunities for students

### Principles of the Institute

- (1) Resolve shortage of technical personnel in the Thai industrial sector
- (2) Place emphasis on practical education focusing on hands-on training
- (3) Place emphasis on Japanese language education
- (4) Produce engineers who will play active roles in Thai industrial world including Japanese-affiliated firms
- (5) The establishment is self-funded by TPA (Budget for 2006: Approx. JPY1.2 B).  
TPA is a public entity established by ex-students in Japan, and have operated language schools, workshops on Japanese technologies, management consulting for medium-small firms for more than 30 years.

### Overall Conditions

- (1) **Place:** Bangkok, Thailand
- (2) **Total floor area:** Approx. 10,000 s.q.m., accommodating 3,000 people
- (3) **Facilities:** 5 buildings including classrooms, a library, language and audio-visual laboratories, computer rooms, training rooms, workshops
- (4) **Teaching Staff:** Ex-students in Japan and Japanese experts. There are 30 Thai lecturers and 4 Japanese, and they will be increased to 192 and 13 respectively in 2012.

### Features

- 1) Develop engineers who understand Japanese: Make Japanese lessons obligatory to all students
- 2) Aim for practical and technical education which can be applied on-site. Include many on-site training sessions at companies.
- 3) Conduct technical education required in the automotive and other industries centering on automobile engineering
- 4) Have both daytime and evening classes

### No. of students

FY2007: 500  
FY2008: 1,300  
FY2009: 2,300  
FY2010: 3,400  
FY2011: 4,500  
FY2012: 5,600

1,300  
applicants for  
500 positions



## 4. Japan's policy for Economic Partnership with East Asia

## Economic Partnership Agreement (EPA) and Free Trade Agreement(FTA)

- Japan promotes conclusion of Economic Partnership Agreement which includes element of Free Trade Agreement (FTA).
- Japan aims to strengthen broad economic relationship with major trade partners by not only elimination of tariffs but also promoting investment and cooperation.

FTA: Free Trade Agreement

Elements to eliminate/reduce tariffs on goods and barriers to trade in services, etc, among specific countries and regions

Elimination/  
reduction of  
tariffs

Abolition of  
regulations on  
investment

etc.

EPA: Economic Partnership Agreement

Includes FTA and elements to liberalize and facilitate movement of people, goods and investment in order to strengthen broad economic relationship.

Expansion of  
human  
exchange

Cooperation in  
each field

Deregulation of  
investment/  
development of  
investment rules

Harmonization of  
intellectual property  
system/competition  
policy

etc.



# What EPA targets

## 1. Ensuring free movement of goods/service/people

### (1) Elimination of intraregional tariffs

Implementation of mutual abolition of tariffs and integration of East Asian market

### (2) Smooth movement of “goods”

Development of logistic system, infrastructure, promotion of simplifying customs clearing etc..

### (3) Liberalization of trade in service

Implementation of deregulation regarding services, ensuring transparent and stable service trade, improvement of market access

### (4) Expansion of human exchange

Acceptance of nurses/careworkers, simplification requirements of visa/immigration, development of acceptance infrastructure such as training program.

## 2. Facilitation of intraregional economic activities

### (1) Development/standardization of investment rules

Deregulation on foreign investment, simplification of related procedures, dispute settlement mechanism, etc

### (2) Harmonization of /bringing transparency to various systems

Harmonizing intellectual property system, certification system, IT-related system, competition law, etc.

## 3. Stability/Continuous development

### (1) Establishment of economic/social infrastructure

(2) Cooperation in human resources development, industrial policy, environment and energy conservation policy, etc

# Japan's Basic policies to promote EPA

## Points for basic policies

( determined in the Ministerial Conference for EPA Promotion (December 2004 ) )

- Focus on economic partnership agreement with mostly East Asian countries Japan is now intensively promoting EPA with.
- Economic/diplomatic viewpoints and situation of partner countries/regions will be comprehensively taken into account in selecting partner countries/regions. The following shows specific standards taken into consideration.

## Standards in selection of partner countries/regions

### 1. Establish international environment beneficial to Japan

- Establishment of community in East Asia
- Strengthening Japan's economy and work on political/diplomatic issues
- Cooperation in international negotiation including WTO, etc.

### 2. Ensure economic benefits for Japan as a whole

- Substantial expansion/facilitation of trade/investment and improvement of business environment
- Elimination of disadvantages due to agreement not existing
- Steady import regarding resources and food
- Promotion of structural reform for Japanese economy
- Promotion of accepting professional/technical workers

### 3. Situation of partner countries/regions, feasibility of EPA/FTA

- Consideration on difficulties of liberalization
- Assessment of (trade) friction
- Assessment of implementation of agreement

# Current Status of Japan's EPA/FTA Negotiations

OEPA/FTA is the important key for Japan to activate her economy, and strengthen her international competitiveness

OMainly with East Asia, Japan has currently concluded EPA/FTA with 7 countries, agreed in principle with 1 country, under negotiations/preparing for negotiations with 5 countries and 2 regions and under consideration for EPAs etc. with 1 country and 2 region



[ Japan-China-Korea: negotiating for trilateral investment treaty ]

**Japan-China-Korea Investment Treaty**

- negotiating from Mar. '07
- (c.f.) experts' study on trilateral FTA is also under progress

**India** (population: 1,029 million, GDP per capita: \$700)

- Negotiating from Jan. '07
- Market with huge potential, one of the BRICs nations

**South Korea** (population: 48 million, GDP per capita: \$14,000)

- Negotiation stopped in Nov. '04

**Mexico** (population: 105 million, GDP per capita: \$6,500)

- took effect in Apr. '05

**Singapore** (population: 4 million, GDP per capita: \$26,000)

- Took effect in Nov. '02
- Review treaty signed in Mar. '07

**ASEAN** (population: 550 million, GDP per capita: \$1,200)

- Negotiating from Apr. '05. In May '07, agreed in principle on modality for trade in goods.
- Aiming to build seamless business area, consistent with developing industrial network between ASEAN and Japan.

**Chile** (population: 16 million, GDP per capita: \$5,839)

- signed in Mar. '07.
- important in terms of securing natural resource supply

**Malaysia** (population: 260 million, GDP per capita: \$5,000)

- Took effect in Jul. '06 (eliminated tariffs on essentially all industrial products)

**Viet Nam** (population: 82 million, GDP per capita: \$600)

- Negotiating from Jan. '07.
- Investment from Japan is rapidly increasing.

**Switzerland** (population: 7 million, GDP per capita: \$33,678)

- Negotiating from May, '07

**Philippines** (population: 83 million, GDP per capita: \$1,200)

- Signed in Sep. '06. Including the agreement on the movement of natural persons

**Brunei** (population: 350,000, GDP per capita: \$17,000)

- Signed on 18 June, '07. Important as the supplier of oil and natural gas.

**East Asia as a whole**

- agreed to start Track-Two study, at the East Asia Summit in Jan. '07

**Thailand** (population: 62 million, GDP per capita: \$2,700)

- Signed in Apr. '07.

**Indonesia** (population: 217 million, GDP per capita: \$1,200)

- agreed in principle in Nov. '06

**South Africa**

- considering for ways to strengthen economic relationship

**GCC** (population: 35 million)

- Started negotiations in Sep. '06
- Exporting market with size of more than one trillion yen.
- Important in terms of security of natural resources.

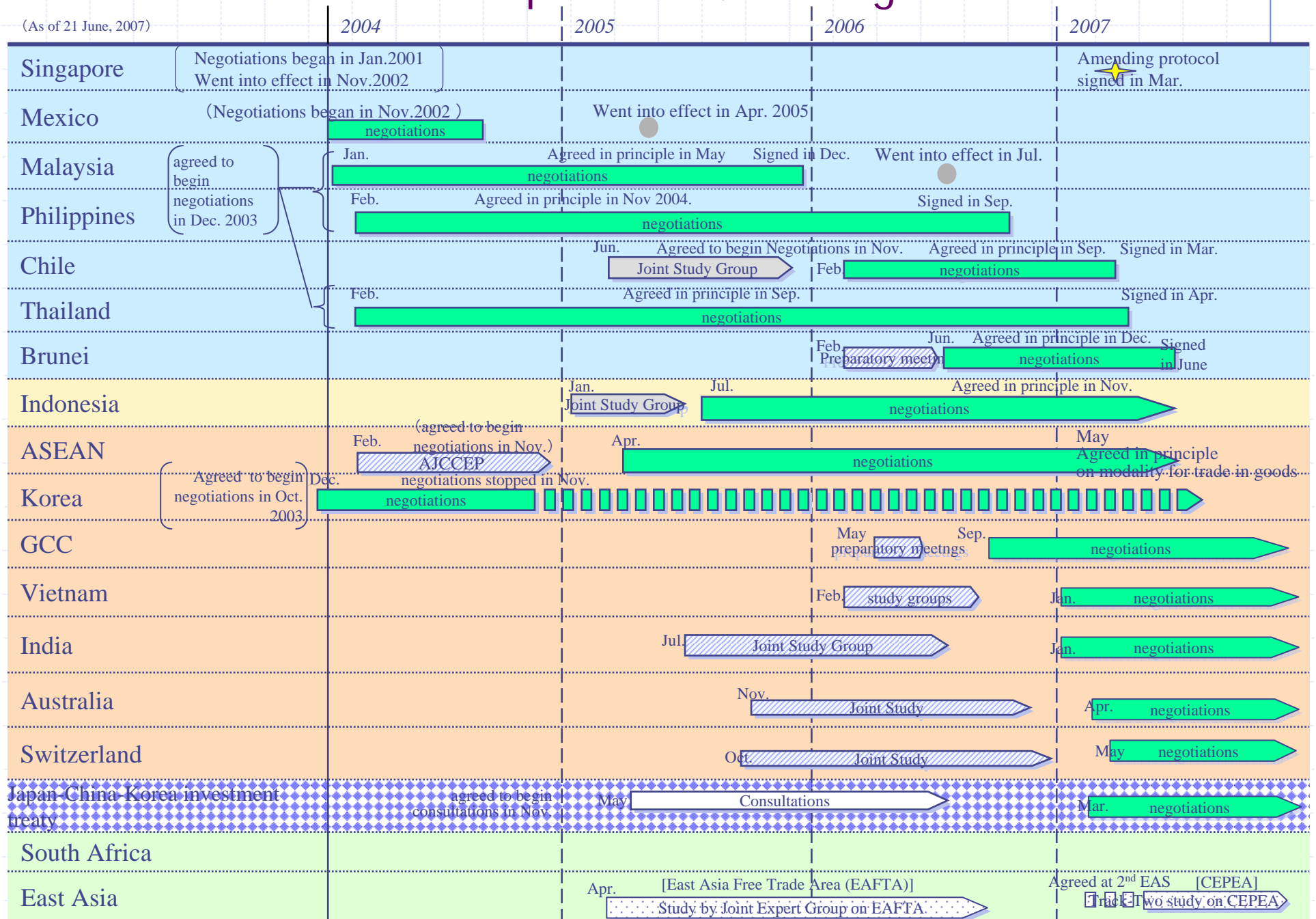
[ GCC: Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar, Oman ]

**Australia** (population: 21 million, GDP per capita: \$30,682)

- Negotiation started in Apr. '07
- Important in terms of securing natural resources supply, economic integration in East Asia, etc.

# Current schedule of Japan's EPA/FTA negotiations

(As of 21 June, 2007)



# Effects of economic partnership between Japan and Mexico

EPA in effect since April 2005

## 1. Trade trends before/after EPA taking effect

(1) Trade after EPA taking effect ( Sources: trade statistics by MOF )  
(FY2004→2005)

### Value of Japan's export to Mexico

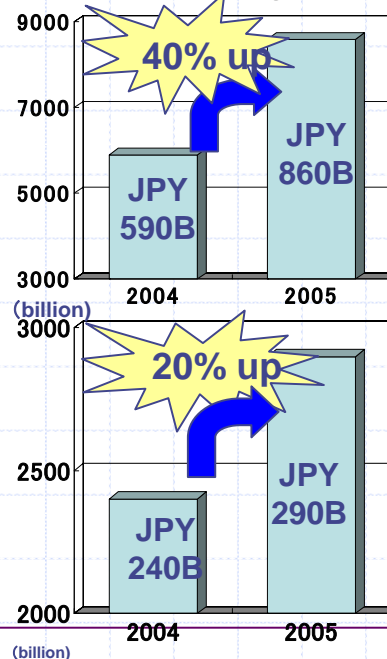
approx. JPY 590B

→ approx. JPY 860B  
(year-over-year basis + 45%)

### Value of Japan's import from Mexico

approx. JPY 240B

→ approx. JPY 290B  
(year-over-year basis + 22%)



(2) Trade of each item (Sources: Mexico's Ministry of Economy)  
(April-December 2004→April-December 2005)

### Value of Japan's export of automobiles to Mexico

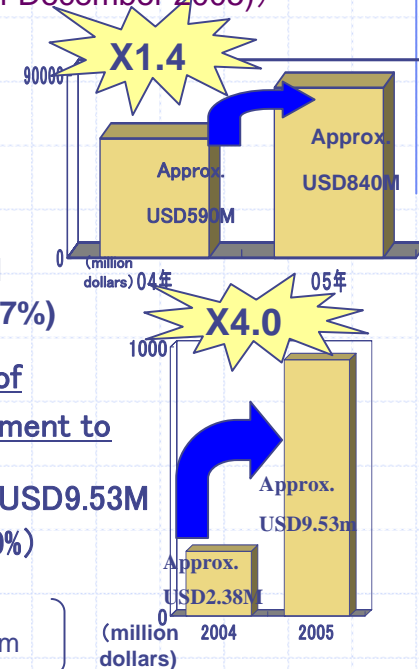
approx. USD 585M

→ approx. USD 835M  
(year-over-year basis +42.7%)

### Value of Japan's export of uninterruptible power equipment to Mexico

approx. USD 2.38M → approx. USD 9.53M  
(year-over-year basis +300%)

(Uninterruptible power equipment: equipment to protect computer from blackout)



## 2. Primary effects on other fields beside trade

### (1) Investment

Increasing number of enterprises has implemented additional/new investment in Mexico focused on cars. The followings are major Japanese enterprises to have implemented additional/new investment in Mexico after Japan-Mexico EPA taking effect;

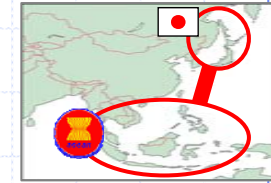
- Mazda Motor Corp. (Sales started from October 2005)
- Isuzu Motors, Ltd. (Sales started in November 2005)
- Nissan Motor Co., Ltd. (Expanded local production)
- Bridgestone Corp. (Established third facilities) etc.

### (2) Development of business environment

Based on the agreement, Established a framework of "Business environment committee" in order to discuss various problems maintained by Japanese enterprises promoting in Mexico with officials from both Japan and Mexico and representatives of private sectors attended

- The first committee was held on April 2006

# Japan-ASEAN Comprehensive Economic Partnership (CEP) Agreement negotiation (overall EPA with Japan and 10 members of ASEAN; agreed in principle on modality for trade in goods in May, 2007)

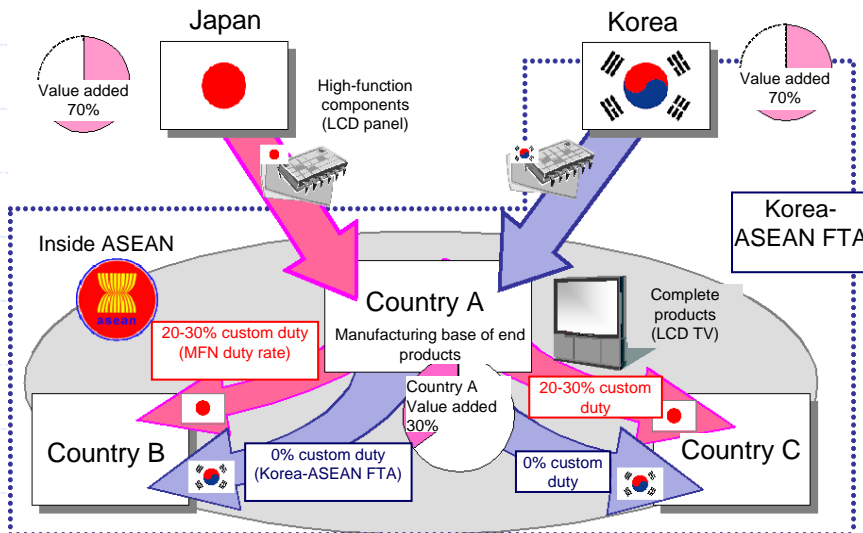


- (1) Strengthen highly intensified production network between Japan and ASEAN
- (2) Following up the trend of Regional FTAs which has been developed with ASEAN as a hub in East Asia.

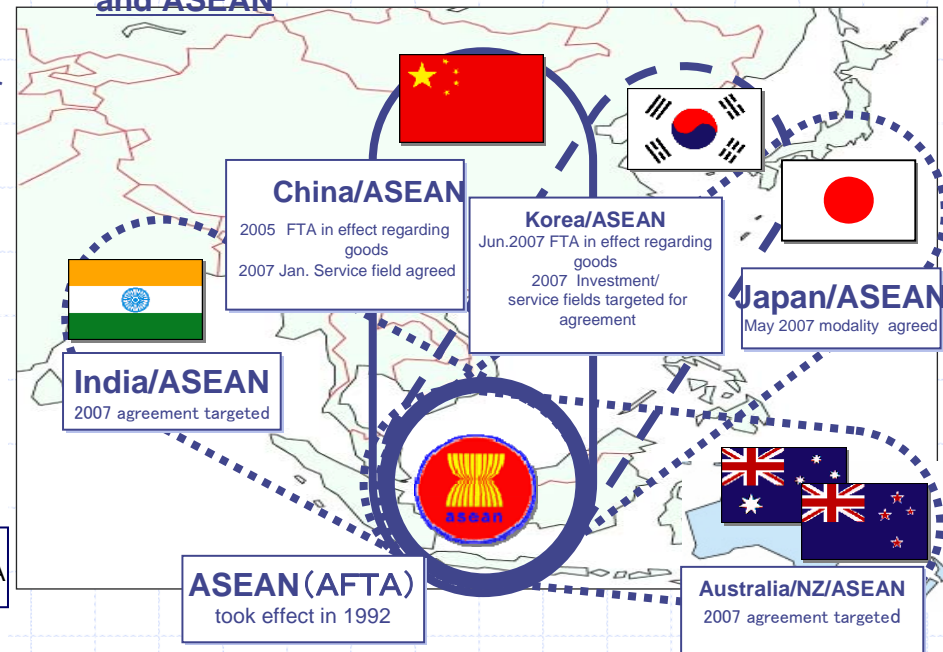
## Expansion of production network

Japan-ASEAN CEP Agreement is needed in order to develop/produce main components with high value added for the purpose of end products completed in ASEAN.

If Japan-ASEAN CEP is not attained, cost competitiveness of Japanese goods will be drastically lowered.



## Engagement with FTA between countries in east Asia and ASEAN

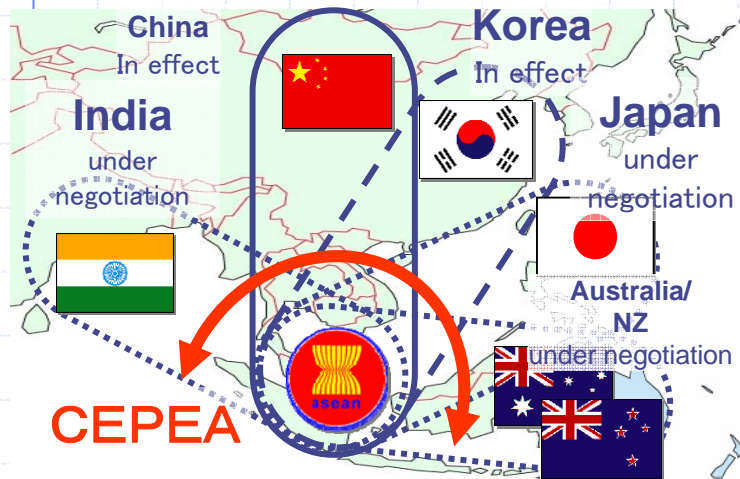


Japan-ASEAN CEP will be substantially agreed in all fields in August 2007. In November, negotiation is to be concluded.

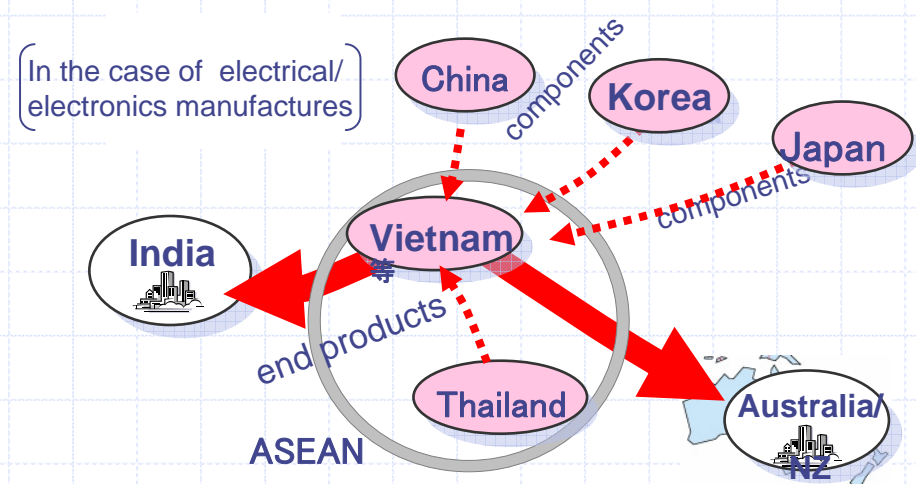
# Comprehensive Economic Partnership in East Asia (CEPEA)

- CEPEA is proposed as EPA among ASEAN and her FTA/EPA partner countries (ASEAN + 6, including Japan, China, Korea, India, Australia, NZ). It aims to further develop **regional production network**.
- CEPEA contributes to establish market economy based on free and fair rules by **covering a wide variety of contents** including not only goods trade but also service, investment, intellectual property, etc.

## Engagement of FTA/EPA with ASEAN



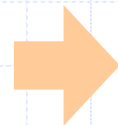
## How regional network works



## Schedule

January 2007  
East Asia Summit

Agreed to start research  
by experts



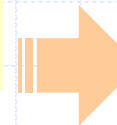
Spring 2007

Started research by experts



November 2007  
East Asia Summit

Possible midterm  
report by experts

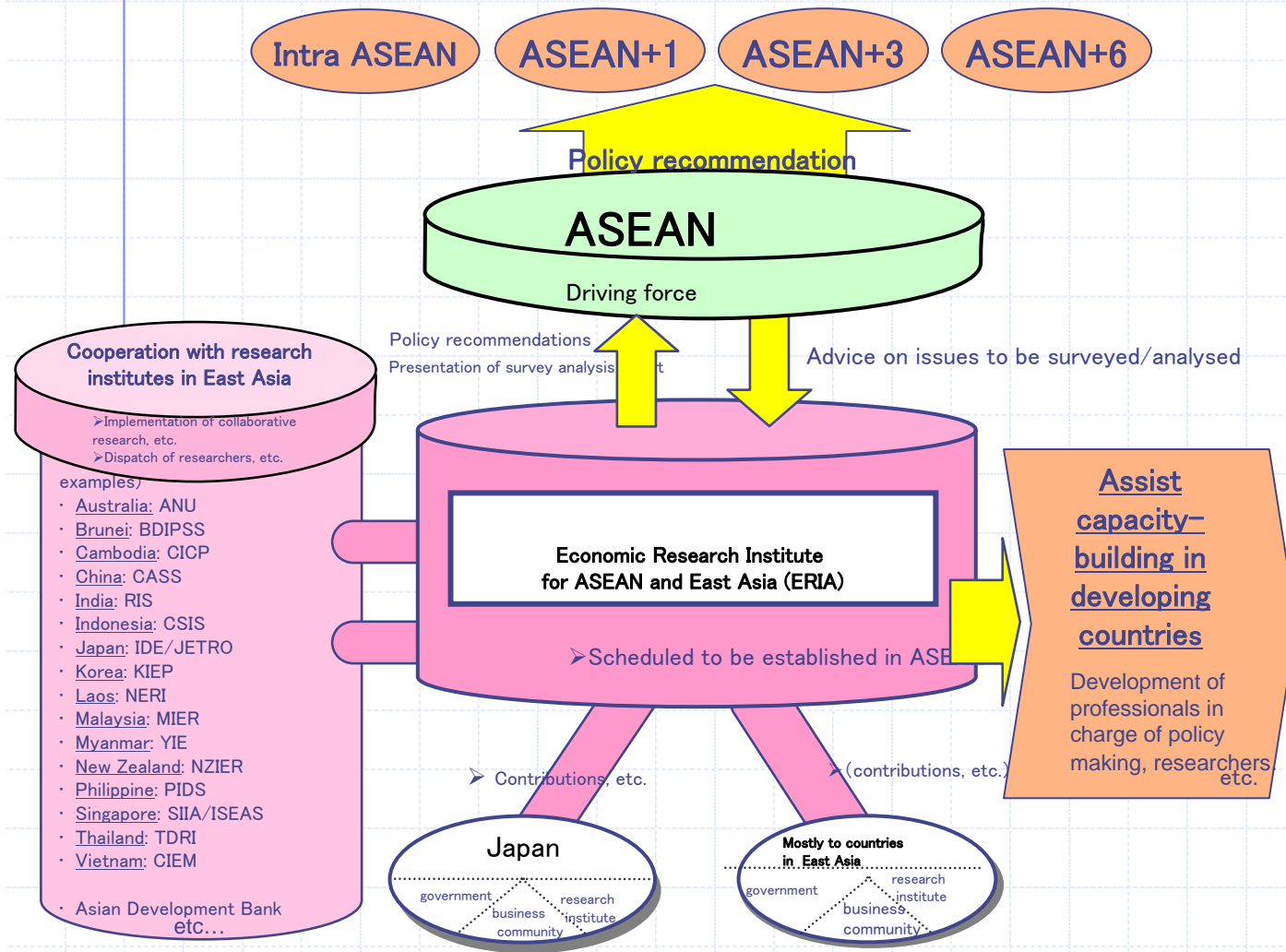


Consideration  
on  
approaches  
to deal with

# Economic Research Institute for ASEAN and East Asia (ERIA)

- Sustainable growth of East Asia needs not only trade/investment liberalization through FTA/EPA but also a engagement with intraregional broad common issues.
- Establish Economic Research Institute for ASEAN and East Asia as a first step. Provide intelligent support including policy recommendations against issues of East Asia focused on ASEAN. Cooperate with intraregional countries respectively to develop ERIA in a phased manner.

## East Asia's Economic Integration



## Agenda

- January 2007 (ASEAN+3+East Asia Summit) **Welcomed ERIA proposal**
- August 2007 (East Asia Economic Ministerial Meeting) **will endorse formal establishment of ERIA**
- November 2007 (ASEAN+3+East Asia Summit) **will welcome formal establishment of ERIA**

## Research theme (plan)

- Besides trade/investment,
- Human resources development
  - Assistance in supporting industry /medium and small enterprises
  - Development of logistic system / information infrastructure
  - Narrowing gaps for developing countries
  - Issues on energy/environment
  - Intellectual property/certification of standards
  - Capacity- building, etc.