

# Proliferation of FTAs in East Asia

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# I. Introduction

## Economic Situation in East Asia

- Rapid economic growth before the financial crisis based on trade and FDI expansion with economic fundamentals
- Serious damage from the financial crisis (except China)
- Not fully recovered from the crisis (except China)
- Potential for rapid economic growth

Objective of Presentation: Discuss Issues related to FTAs, which would promote economic growth in East Asia

## II. Regionalization in East Asia

### Regionalization

- Concentration of economic activities in a particular region (trade in goods and services, capital, people, etc)

Benefits of agglomeration > costs of  
agglomeration

- Measurement of regionalization in terms of trade:  
Increasing intra-regional trade in world trade  
Increasing intra-regional trade in region's  
overall trade

## Changing Patterns of Intra-regional Trade in World Trade

	Intra-regional trade as a percentage of global trade		Intra-regional exports as a percentage of region's overall exports		Intra-regional imports as a percentage of region's overall imports	
	1990	2003	1990	2003	1990	2003
East Asia	8.4	12.7	40.1	50.5	47.5	59.7
NAFTA	6.7	8.5	41.4	55.4	35.0	39.9
EU	29.1	23.3	66.0	61.4	66.6	63.5

Source: calculations based on figures from JETRO International Trade Database

# Two Types of Regionalization

- Market-driven regionalization
- Institution-driven regionalization

# Factors behind Market-driven Regionalization

- Rapid economic growth
- Trade and FDI liberalization:  
multilateral and unilateral  
liberalization

# Institution-driven Regionalization in East Asia (1)

- Regional cooperation  
APEC : Trade and FDI liberalization,  
Facilitation, Economic and Technical  
cooperation
- Bilateral and plurilateral cooperation  
Free trade agreements (Economic  
Partnership Agreements, comprehensive  
contents)  
Chiang-mai Initiative (Currency swap), etc



# Institution-driven Regionalization in East Asia (2)

- ASEAN
  - AFTA, AIA (ASEAN Investment Area), AICO, etc.
- ASEAN+3 (China, Japan, Korea)
  - Annual Leaders` Meeting, Meetings of Finance, Foreign Ministers
- China, Japan, Korea
  - Annual Leaders` Meeting

# III. Recent Surge of FTAs in East Asia

## Trends

- East Asian economies started showing strong interest in FTAs toward the end of 1990s

## Special characteristics

- Comprehensive FTA (EPA) covering trade and FDI liberalization, facilitation, economic cooperation: APEC's three pillars

# FTAs in East Asia

In Action	In Negotiation	Under Study
Bangkok Treaty (1976)	Japan-Korea	Japan-ASEAN
AFTA(1992)	Japan-Malaysia	Japan-Indonesia
Singapore-New Zealand (2001)	Japan-Thailand	Korea-Australia
Japan-Singapore (2002)	Japan-Philippines	Korea-New Zealand
Singapore-Australia (2003)	Korea-Singapore	Singapore-Chile
Singapore-EFTA (2003)	Korea-ASEAN	Singapore-Taiwan
Singapore-US (2004)	Singapore-Canada	ASEAN-India
Korea-Chile (2004)	Singapore-Mexico	ASEAN-US
China-Hong Kong (2004)	Singapore-India	ASEAN-EU
Taiwan-Panama(2004)	Thailand-India*	ASEAN-CER
China-ASEAN (2004)	Thailand-US	
Japan-Mexico (2005)	Thailand-Australia	
	Hong Kong-New Zealand	

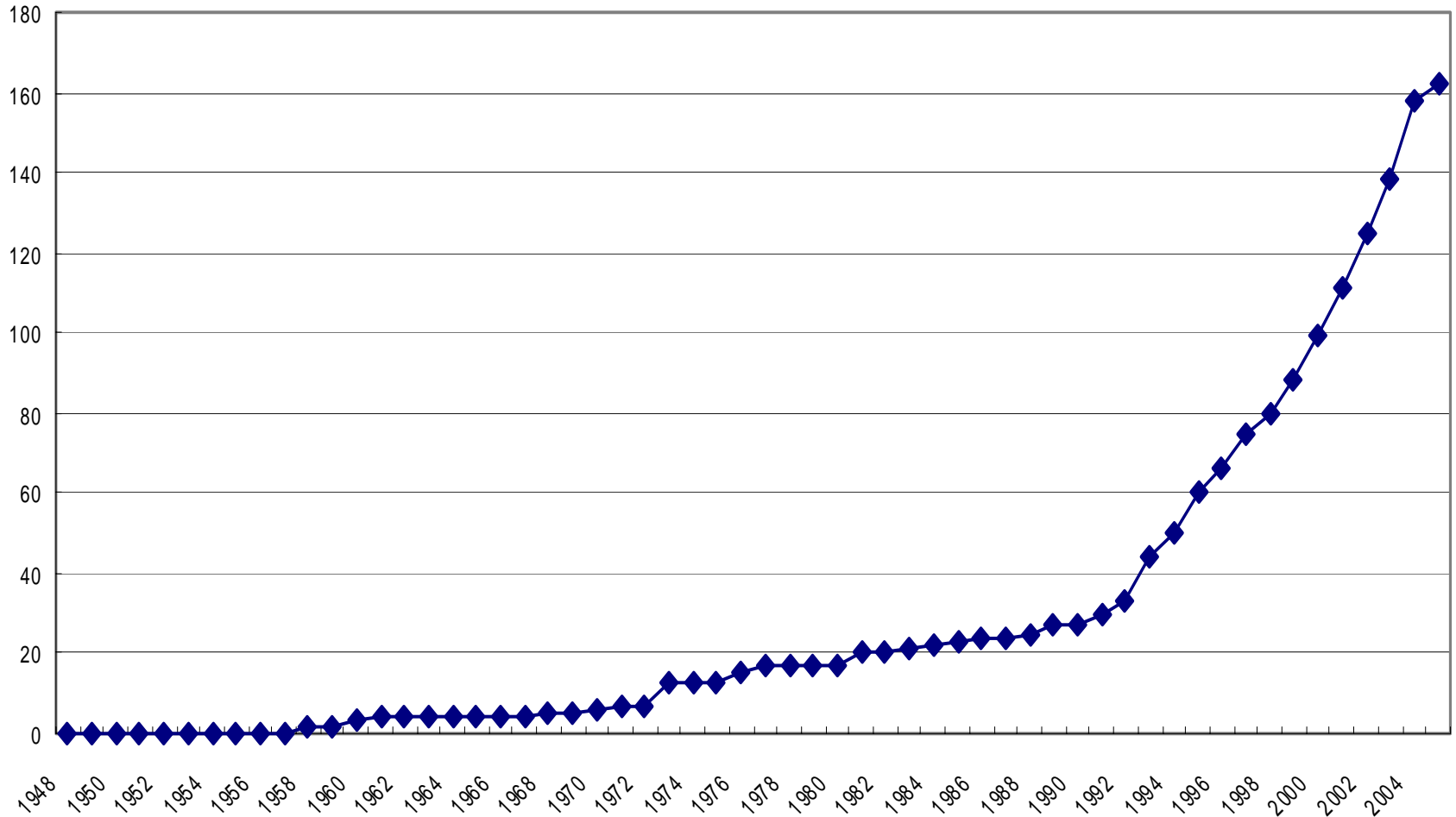
# Japan-Singapore EPA

- Liberalization: goods trade, service trade, FDI, government procurement, etc.
- Facilitation: trade, FDI, mobility of natural persons, etc.
- Cooperation: science and technology, information technology, human resource development, tourism, etc.

## IV. The Factors behind the Proliferation of FTAs in East Asia

- Increase market access
- Sharp increase in FTAs in the world
- Slow progress in trade liberalization under the WTO
- Promote liberalization and policy reforms
- Financial crisis in 1997-98
- Rivalry among East Asian countries  
(competitive FTAs, China-Japan, among ASEAN members)

# The Number of FTAs in the World (cumulative)



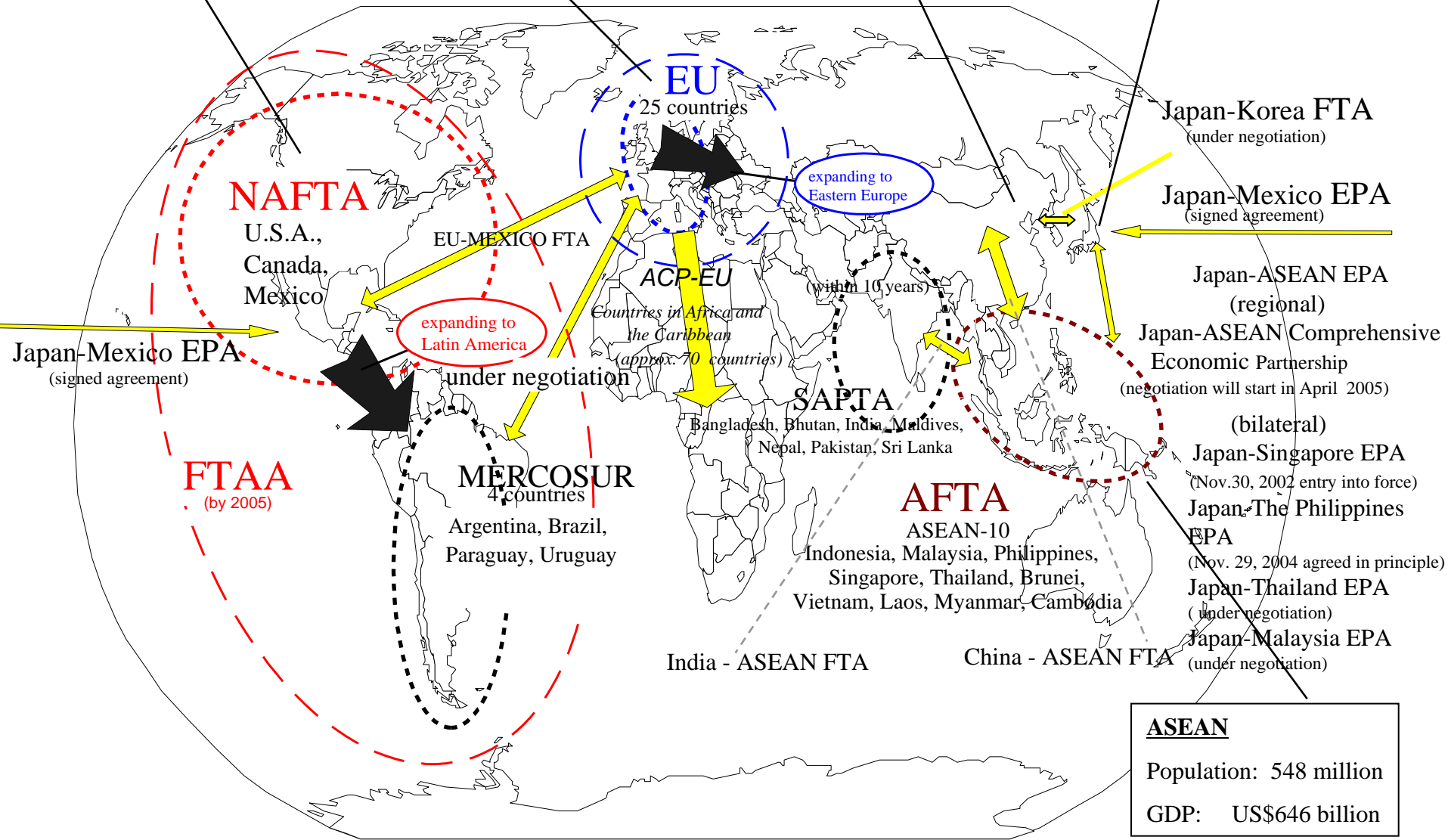
# Main Regional FTAs/EPAs

**NAFTA**  
 Population: 411 million  
 GDP: US\$11.100 trillion

**EU**  
 Population: 453 million  
 GDP: US\$9.600 trillion

**CHINA**  
 Population: 1.266 billion  
 GDP: US\$1.080 trillion

**JAPAN**  
 Population: 126 million  
 GDP: US\$4.760 trillion



**NAFTA**  
 U.S.A.,  
 Canada,  
 Mexico

**EU**  
 25 countries

expanding to  
 Eastern Europe

expanding to  
 Latin America

**ACP-EU**  
 Countries in Africa and  
 the Caribbean  
 (approx. 70 countries)

(with 10 years)

**SAPTA**  
 Bangladesh, Bhutan, India, Maldives,  
 Nepal, Pakistan, Sri Lanka

**Japan-Mexico EPA**  
 (signed agreement)

**Japan-Korea FTA**  
 (under negotiation)

**Japan-Mexico EPA**  
 (signed agreement)

**Japan-ASEAN EPA**  
 (regional)

**Japan-ASEAN Comprehensive  
 Economic Partnership**  
 (negotiation will start in April 2005)

**Japan-Singapore EPA**  
 (Nov.30, 2002 entry into force)

**Japan-The Philippines  
 EPA**  
 (Nov. 29, 2004 agreed in principle)

**Japan-Thailand EPA**  
 (under negotiation)

**Japan-Malaysia EPA**  
 (under negotiation)

**FTAA**  
 (by 2005)

**MERCOSUR**  
 4 countries  
 Argentina, Brazil,  
 Paraguay, Uruguay

**AFTA**  
 ASEAN-10  
 Indonesia, Malaysia, Philippines,  
 Singapore, Thailand, Brunei,  
 Vietnam, Laos, Myanmar, Cambodia

**India - ASEAN FTA**

**China - ASEAN FTA**

**ASEAN**  
 Population: 548 million  
 GDP: US\$646 billion

# Motives behind FTA for Selected East Asian Countries (1)

- Japan

Promote economic growth in East Asia:

Increasing dependence on East Asia

Improve business environment for Japanese firms

- China

Promote economic relations with East Asia



# Motives behind FTA for Selected East Asian Countries (2)

- Korea

Play a role of facilitator for institutional regionalization in East Asia

Reunification of Korean Peninsula

- ASEAN

Maintain bargaining power in East Asia

Receive economic assistance

# Japan's FTA Strategy

- Focus on East Asia
- Comprehensive framework: WTO-plus  
Economic Partnership Agreement  
(FTA, Economic Cooperation: Policy  
coherence)
- System harmonization (technical standard,  
etc)

# V. Expected Benefits of FTA in East Asia for East Asia

- Economic benefits
  - Economic growth
- Non-economic benefits
  - Deeper mutual understanding
  - Closer social ties
  - Political and social stability

	GDP	Equivalent Variation	
	(Changes from basedata, %)	(Changes from basedata, US\$ million)	(Changes divided by GDP in 1997, %)
Australia/New Zealand	-0.23	-1,342	-0.29
China	1.27	5,485	0.64
Hong Kong	1.41	3,389	2.42
Japan	0.05	8,199	0.19
Korea	1.71	7,805	1.75
Taiwan	1.51	5,597	1.87
Indonesia	5.61	10,209	4.89
Malaysia	2.83	2,279	2.15
Philippines	2.02	602	0.77
Singapore	2.26	2,944	3.69
Thailand	15.90	19,790	12.54
Vietnam	8.42	1,446	6.61
Other Asia	-0.31	-1,803	-0.34
United States	-0.06	-7,059	-0.09
EU	-0.01	-1,807	-0.02

# VI. Obstacles to FTAs in East Asia

- Economic obstacles
  - Opposition to trade liberalization
- Political and security obstacles
  - Lack of political leadership
  - Different political systems
  - Different views on regional security
- Historic and other obstacles
  - Lack of mutual understanding

# Obstacles to FTAs for Japan

- Liberalization in agricultural imports
- Labor mobility

**Table 3 Effects of East Asia FTA on Production by Sectors (% change)**

Sector	China	Japan	Korea	Hong Kong	Singapore	Taiwan	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Agriculture	4.5	-3.9	-11.9	0.3	4.7	1.6	1.3	0.4	2.0	5.2	0.4
Forestry	-0.2	-1.8	-3.6	1.7	-7.4	3.2	8.6	2.1	2.1	16.3	11.4
Fishing	0.9	-2.8	7.6	-2.6	7.8	-1.0	3.9	2.5	1.3	12.6	6.1
Mining	-0.2	-0.7	-2.1	3.8	4.1	-0.9	1.4	1.7	4.1	19.2	-8.3
Food products and beverages	1.6	-3.4	30.1	19.3	36.7	6.9	5.3	15.3	-1.3	23.5	8.9
Textiles	-0.2	-2.3	17.4	3.2	1.9	17.1	3.7	7.7	13.9	8.4	174.8
Pulp, paper and paper products	-1.1	-0.4	1.9	3.3	3.7	1.6	8.9	4.3	0.8	16.1	16.9
Chemicals	-1.6	1.1	3.4	5.5	11.1	7.1	1.4	4.4	2.0	10.6	-2.0
Iron, steel and metal products	-1.5	2.2	-1.4	4.7	7.7	0.0	2.9	1.4	6.7	20.1	-18.3
Transportation machinery	-16.2	5.2	1.0	-7.9	-14.3	-6.9	-47.8	-24.0	29.3	-11.0	-55.1
Electronic equipment	6.9	-0.7	-1.9	0.9	1.9	-2.5	17.4	5.7	8.9	29.2	-0.9
General machinery	-1.6	2.2	-4.8	7.4	5.5	1.7	22.8	7.4	12.7	26.8	-3.7
Other manufacturing	1.6	-0.5	0.9	8.1	5.0	2.5	7.3	1.2	5.8	18.1	12.9

## VII. Ways to Overcome the Obstacles (1)

- Implement programs to deal effectively with structural adjustment necessitated by trade and FDI liberalization

### Specifically

- \*Scheduled trade liberalization (10 years)

- \*Economic assistance to impacted workers (income compensation, technical assistance to improve quality of labor)

- \*Need for comprehensive FTA (Economic Partnership Agreement, EPA) to include economic and technical assistance



## Ways to Overcome the Obstacles (2)

- Pursue economic cooperation programs covering broad range of issues with common interests: energy, food, environment, etc
- Deepen mutual understanding through closer communications and active exchange of people of all levels
- Strong political leadership
- Strong support from the general public (education and advocacy, role of mass media)

## Japan's Role

- Play active role in promoting FTAs by liberalizing agricultural and labor markets.
- Actively engage in comprehensive and effective economic cooperation in human resource development, energy use, environmental problems, food security, infrastructure development, etc.
- Overcome historic problems with China and Korea
- Formulate a roadmap toward EAFTA with cooperation with other East Asian countries.

## VIII. East Asia FTA and Beyond?

### Challenges

- Setting the Common Goals (EAFTA [medium term goal?], East Asian Community [long term goal?])
- Drawing a Roadmap (3x(ASEAN+1), ASEAN+3, ASEAN+3+3, ....)
- WTO Consistency: Comprehensive liberalization (liberalization in substantially all the trade) and other conditions (GATT XXIV, Enabling Clause)
- Establishing consistent rules of origin

### Japan's Role

- Lead discussion to formulate a roadmap toward EAFTA with cooperation with other East Asian countries.

# IX. Conclusions

- Promote FTAs, East Asia FTA, East Asian Community to achieve economic prosperity, social and political stability
- Promote trade liberalization at global (WTO) and regional levels (APEC)
- Improve WTO Rules on FTA (RTA):
  - Phase out FTAs under Enabling Clause (high-level, transparency)