Proliferation of FTAs in East Asia

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and
RIETI
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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

<table>
<thead>
<tr>
<th>Region</th>
<th>Intra-regional Exports as % of Global Trade</th>
<th>Intra-regional Imports as % of Region's Overall Imports</th>
<th>Intra-regional Imports as % of Region's Overall Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>8.4</td>
<td>40.1</td>
<td>47.5</td>
</tr>
<tr>
<td>NAFTA</td>
<td>6.7</td>
<td>41.4</td>
<td>35.0</td>
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<tr>
<td>EU</td>
<td>29.1</td>
<td>66.0</td>
<td>66.6</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>In Action</th>
<th>In Negotiation</th>
<th>Under Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangkok Treaty (1976)</td>
<td>Japan-Korea</td>
<td>Japan-ASEAN</td>
</tr>
<tr>
<td>AFTA (1992)</td>
<td>Japan-Malaysia</td>
<td>Japan-Indonesia</td>
</tr>
<tr>
<td>Singapore-New Zealand (2001)</td>
<td>Japan-Thailand</td>
<td>Korea-Australia</td>
</tr>
<tr>
<td>Japan-Singapore (2002)</td>
<td>Japan-Philippines</td>
<td>Korea-New Zealand</td>
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<tr>
<td>Singapore-Australia (2003)</td>
<td>Korea-Singapore</td>
<td>Singapore-Chile</td>
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<tr>
<td>Singapore-EFTA (2003)</td>
<td>Korea-ASEAN</td>
<td>Singapore-Taiwan</td>
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<tr>
<td>Korea-Chile (2004)</td>
<td>Singapore-Mexico</td>
<td>ASEAN-US</td>
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<td>China-Hong Kong (2004)</td>
<td>Singapore-India</td>
<td>ASEAN-EU</td>
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<tr>
<td>Taiwan-Panama (2004)</td>
<td>Thailand-India*</td>
<td>ASEAN-CER</td>
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<tr>
<td>Japan-Mexico (2005)</td>
<td>Thailand-Australia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hong Kong-New Zealand</td>
<td></td>
</tr>
</tbody>
</table>
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**
  - U.S.A., Canada, Mexico
  - Population: 411 million
  - GDP: US$11.100 trillion

- **EU**
  - 25 countries
  - 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

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

- **FTAA**
  - (by 2005)

- **ACP-EU**
  - Countries in Africa, the Caribbean, and the Pacific (approx. 70 countries)
  - Expanding to Latin America

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

- **Japan-ASEAN EPA (under negotiation)**
  - Japan-ASEAN Comprehensive Economic Partnership (negotiation will start in April 2005)
  - Japan-Singapore EPA (Nov. 30, 2002 entry into force)
  - Japan-Philippines EPA (Nov. 29, 2004 agreed in principle)
  - Japan-Thailand EPA (under negotiation)
  - Japan-Malaysia EPA (under negotiation)

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

- **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
- 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
<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (Changes from basedata, %)</th>
<th>Equivalent Variation (Changes from basedata, US$ million)</th>
<th>Equivalent Variation (Changes divided by GDP in 1997, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia/New Zealand</td>
<td>-0.23</td>
<td>-1,342</td>
<td>-0.29</td>
</tr>
<tr>
<td>China</td>
<td>1.27</td>
<td>5,485</td>
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</tr>
<tr>
<td>Hong Kong</td>
<td>1.41</td>
<td>3,389</td>
<td>2.42</td>
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<tr>
<td>Japan</td>
<td>0.05</td>
<td>8,199</td>
<td>0.19</td>
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<tr>
<td>Korea</td>
<td>1.71</td>
<td>7,805</td>
<td>1.75</td>
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<tr>
<td>Taiwan</td>
<td>1.51</td>
<td>5,597</td>
<td>1.87</td>
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<tr>
<td>Indonesia</td>
<td>5.61</td>
<td>10,209</td>
<td>4.89</td>
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<td>Malaysia</td>
<td>2.83</td>
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<td>Singapore</td>
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<td>Thailand</td>
<td>15.90</td>
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<td>Vietnam</td>
<td>8.42</td>
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<td>Other Asia</td>
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<td>United States</td>
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<td>EU</td>
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</table>
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>
<thead>
<tr>
<th>Sector</th>
<th>China</th>
<th>Japan</th>
<th>Korea</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Taiwan</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
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<th>Vietnam</th>
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<td>0.4</td>
<td>2.0</td>
<td>5.2</td>
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<td>2.1</td>
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<td>Fishing</td>
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<td>-2.6</td>
<td>7.8</td>
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<td>2.5</td>
<td>1.3</td>
<td>12.6</td>
<td>6.1</td>
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<tr>
<td>Mining</td>
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<td>-0.7</td>
<td>-2.1</td>
<td>3.8</td>
<td>4.1</td>
<td>-0.9</td>
<td>1.4</td>
<td>1.7</td>
<td>4.1</td>
<td>19.2</td>
<td>-8.3</td>
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<tr>
<td>Food products and beverages</td>
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<td>-3.4</td>
<td>30.1</td>
<td>19.3</td>
<td>36.7</td>
<td>6.9</td>
<td>5.3</td>
<td>15.3</td>
<td>-1.3</td>
<td>23.5</td>
<td>8.9</td>
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<tr>
<td>Textiles</td>
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<td>-2.3</td>
<td>17.4</td>
<td>3.2</td>
<td>1.9</td>
<td>17.1</td>
<td>3.7</td>
<td>7.7</td>
<td>13.9</td>
<td>8.4</td>
<td>174.8</td>
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<tr>
<td>Pulp, paper and paper products</td>
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<td>-0.4</td>
<td>1.9</td>
<td>3.3</td>
<td>3.7</td>
<td>1.6</td>
<td>8.9</td>
<td>4.3</td>
<td>0.8</td>
<td>16.1</td>
<td>16.9</td>
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<tr>
<td>Chemicals</td>
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<td>1.1</td>
<td>3.4</td>
<td>5.5</td>
<td>11.1</td>
<td>7.1</td>
<td>1.4</td>
<td>4.4</td>
<td>2.0</td>
<td>10.6</td>
<td>-2.0</td>
</tr>
<tr>
<td>Iron, steel and metal products</td>
<td>-1.5</td>
<td>2.2</td>
<td>-1.4</td>
<td>4.7</td>
<td>7.7</td>
<td>0.0</td>
<td>2.9</td>
<td>1.4</td>
<td>6.7</td>
<td>20.1</td>
<td>-18.3</td>
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<tr>
<td>Transportation machinery</td>
<td>-16.2</td>
<td>5.2</td>
<td>1.0</td>
<td>-7.9</td>
<td>-14.3</td>
<td>-6.9</td>
<td>-47.8</td>
<td>-24.0</td>
<td>29.3</td>
<td>-11.0</td>
<td>-55.1</td>
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<td>Electronic equipment</td>
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<td>-0.7</td>
<td>-1.9</td>
<td>0.9</td>
<td>1.9</td>
<td>-2.5</td>
<td>17.4</td>
<td>5.7</td>
<td>8.9</td>
<td>29.2</td>
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<td>-4.8</td>
<td>7.4</td>
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<td>1.7</td>
<td>22.8</td>
<td>7.4</td>
<td>12.7</td>
<td>26.8</td>
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<tr>
<td>Other manufacturing</td>
<td>1.6</td>
<td>-0.5</td>
<td>0.9</td>
<td>8.1</td>
<td>5.0</td>
<td>2.5</td>
<td>7.3</td>
<td>1.2</td>
<td>5.8</td>
<td>18.1</td>
<td>12.9</td>
</tr>
</tbody>
</table>
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)