

# Growing Regionalism in East Asia and Japan's FTA Strategy

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# Motives and Objectives of Presentation

## Motive

- Increased interest in regional institutional frameworks such as free trade agreements (FTAs) in East Asia since late 1990s

## Objectives

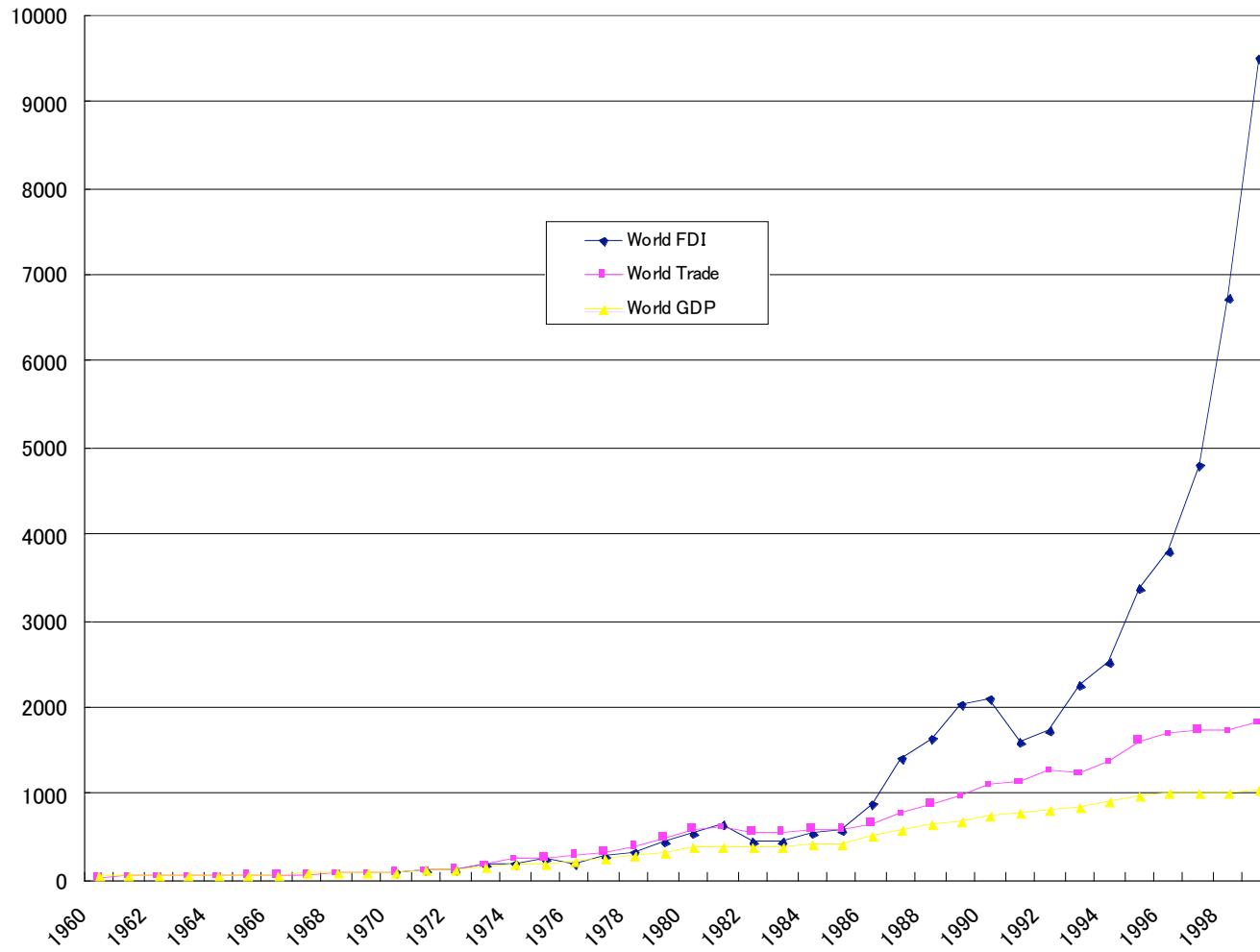
- Identify the factors behind increased interest in regional institutional frameworks in East Asia
- Assess the developments
- Examine Japan's FTA strategy
- Identify the obstacles to East Asia FTA
- Suggest the ways to overcome the obstacles

# Recent Trends in the Global Economy

- Globalization
- Regionalization

1970=100

### Globalization



# Factors behind Globalization

- Worldwide trade and FDI liberalization under the GATT/WTO
- Privatization
- Deregulation
- Rapid technological progress in telecommunication (IT revolution) and transportation services

# Benefits and Costs of Globalization

- Benefits

  - Economic growth

  - Improvement of resource allocation

  - Promotion of technological progress

- Costs

  - Increasing inequality

# 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

## Intra-regional Trade (%)

	Share of intra-regional trade in world trade		Share of intra-regional trade in region's trade			
			Exports		Imports	
	1990	2004	1990	2004	1990	2004
East Asia	8.2	12.9	39.0	49.6	46.9	59.5
NAFTA	6.7	8.1	41.4	55.9	35.0	39.6
EU25	29.9	27.3	66.8	67.2	67.2	68.6

# Two Types of Regionalization

- Market-driven regionalization
- Institution-driven regionalization  
(regionalism)

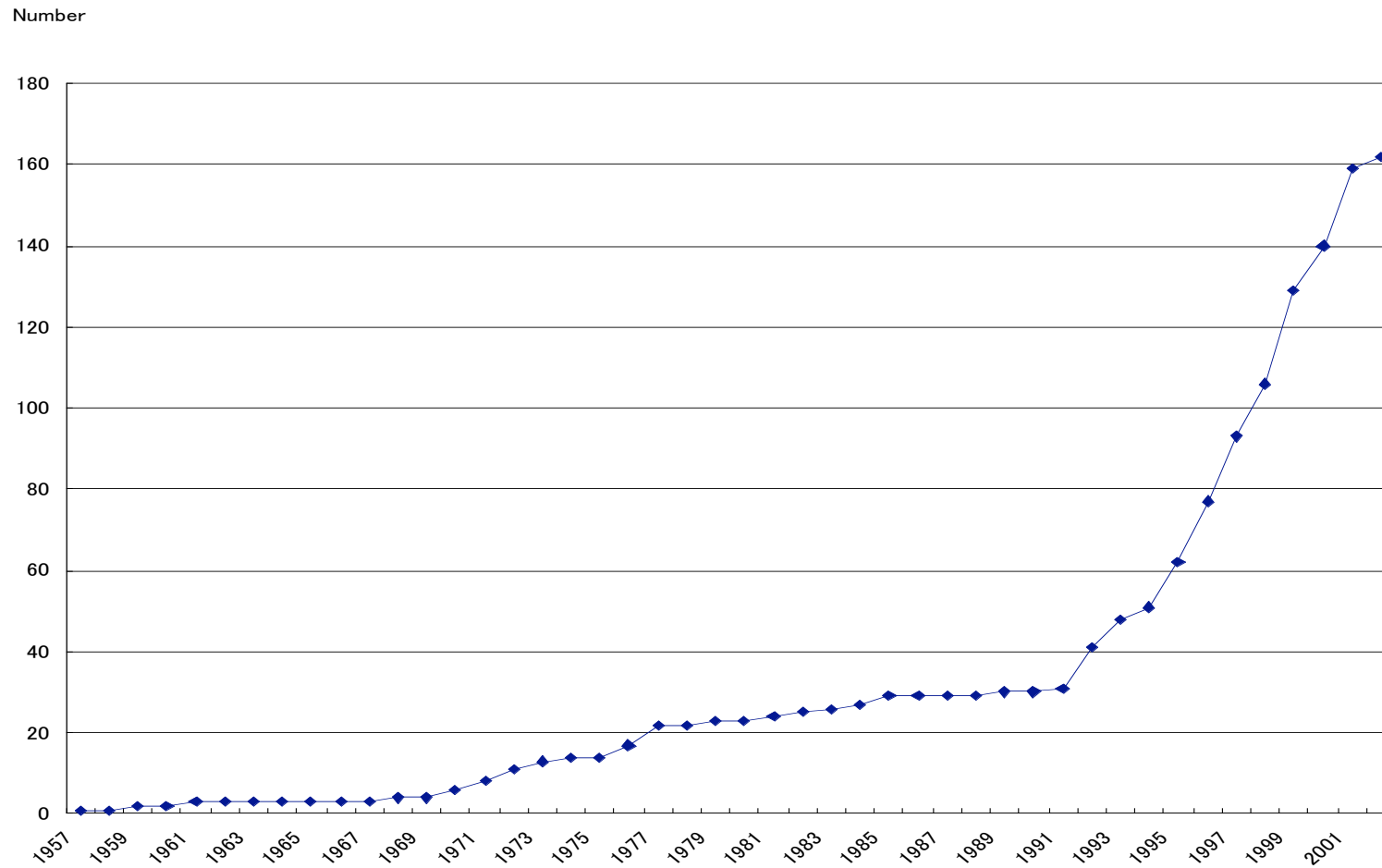
# Factors behind Market-driven Regionalization

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

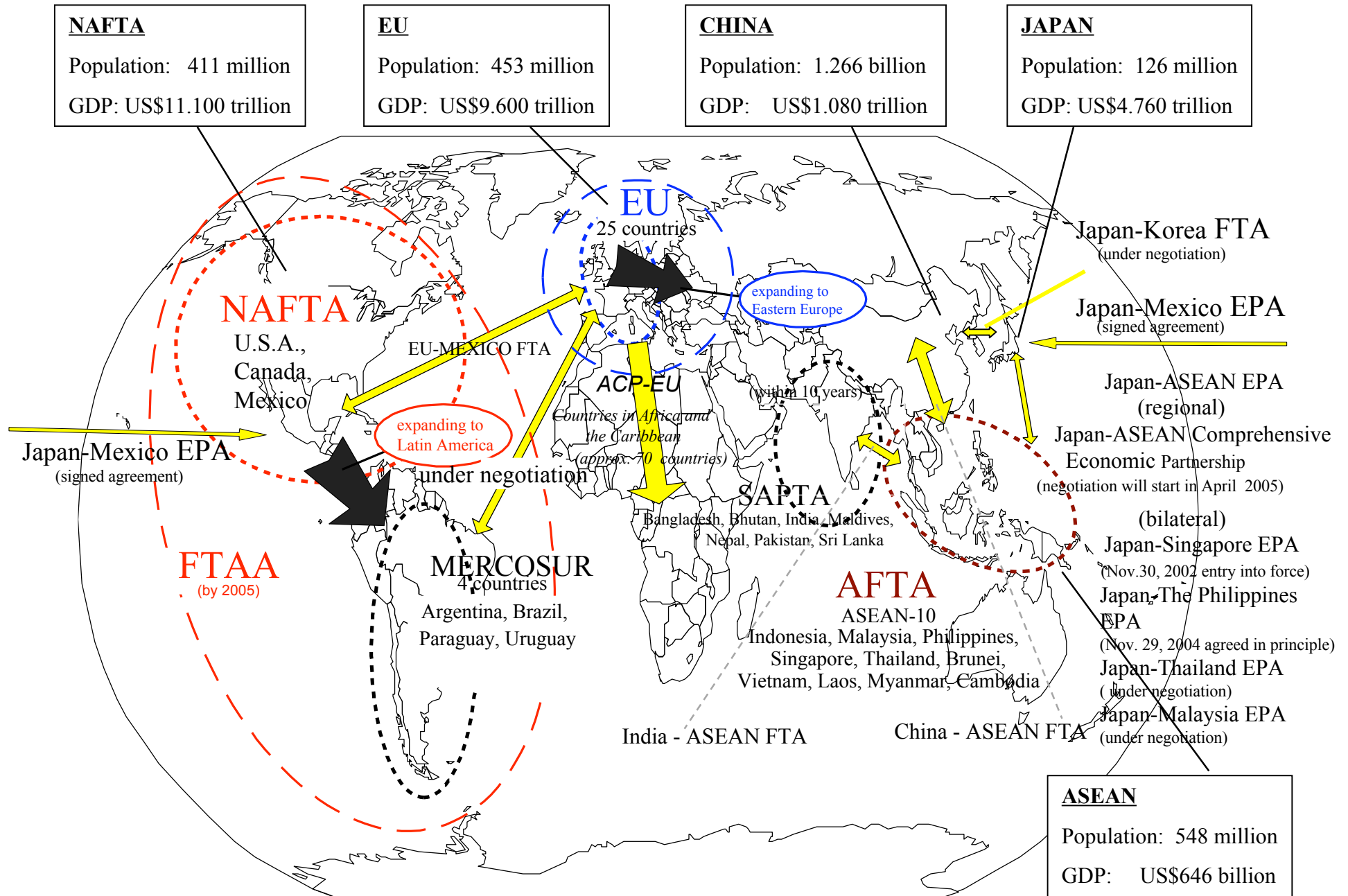
# Institution-driven Regionalization in the World

- Rapid expansion of RTAs (Regional trade agreements including FTAs and customs unions)

# Expansion of FTAs



# Main Regional FTAs/EPAs



# 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)  
Chiangmai Initiative (Currency swap), etc

## FTAs in East Asia

In Effect	In Negotiation
Bangkok Treaty(1976)	Japan-Korea
AFTA(1992)	Japan-Thailand*
Singapore-New Zealand (2001)	Japan-Philippines*
Japan-Singapore (2002)	Japan-ASEAN
Singapore-Australia (2003)	Japan • Chile
Singapore-EFTA (2003)	Japan • GCC
Singapore-US (2004)	Japan • Brunei
Korea-Chile (2004)	China • Chile*
China-Hong Kong (2004)	Korea-ASEAN*
China • Macau (2004)	Korea • US
Taiwan-Panama(2004)	Korea-Canada
Japan-Mexico (2005)	Singapore-Canada
China-ASEAN(2005)	Singapore-Mexico
Thailand • Australia (2005)	Singapore-India
Thailand • New Zealand (2005)	Thailand-India*
Japan • Malaysia(2006)	Thailand-US
Korea • Singapore (2006)	Hong Kong-New Zealand
Korea • EFTA (2006)	

# 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

- AESEAN+6 (ASEAN+3, India, Australia, New Zealand): East Asian Summit

# Motives behind Institution-driven Regionalization

- Promote economic growth by increasing market access in member countries and by promoting domestic policy reform
- Slow progress in WTO process
- Liberalization in new areas such as labor mobility (WTO-plus elements)
- Increase bargaining power in international market

# Motives behind Institution-driven Regionalization in East Asia

- East Asian currency, financial, and economic crisis
- Increasing FTAs in the rest of the world
- Emergence of China as a Big Economic Power
- Rivalry (competitive FTAs: China-Japan, among ASEAN members)

# Japan's FTA Strategy

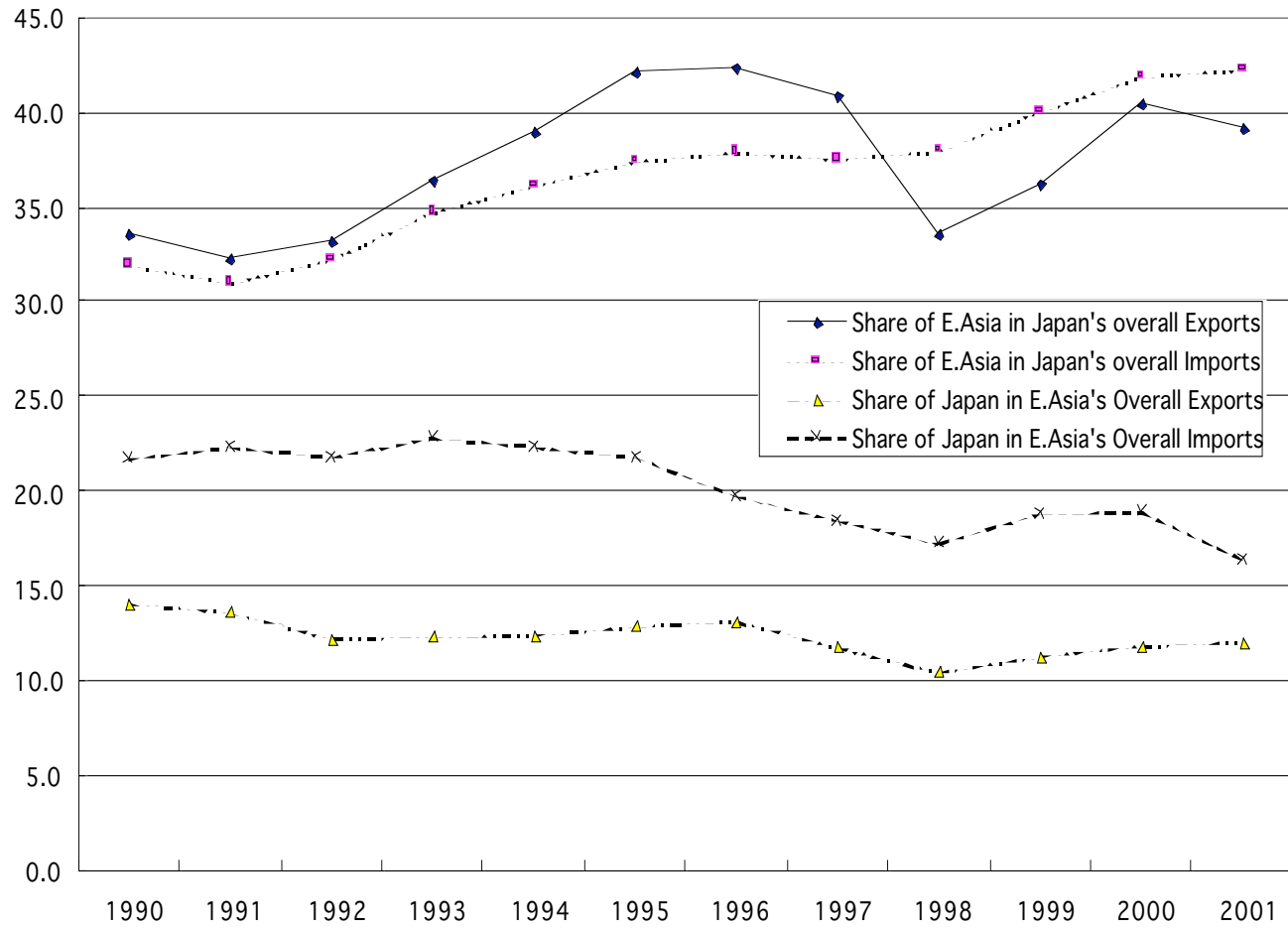
- Focus on East Asia (Nikai Initiative: ASEAN+6 EPA)
- Comprehensive framework: WTO-plus  
Economic Partnership Agreement  
(FTA, Economic Cooperation: Policy coherence)

Free movements of goods, funds, people,  
and information (FTA-plus)

System harmonization

%

Figure 3 Changing Importance of Trade between Japan and East Asia



# Future Economic Prospects of East Asian and Japan

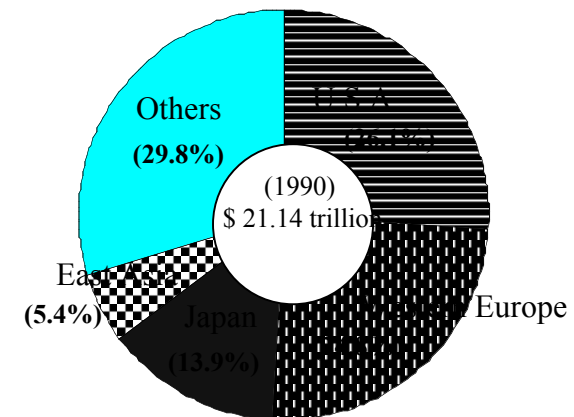
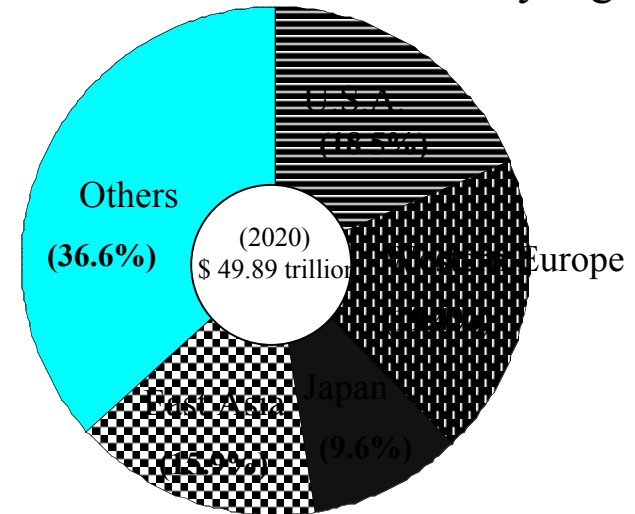
Transition of actual GDP growth rate  
in the world and East Asia (%)

Calendar year	Annual average growth rate			
	1980-90	90-2000	2000-10	2010-20
World	2.8	3.0	2.9	2.8
U.S.A.	2.6	2.1	1.7	1.4
Western Europe	2.3	2.6	2.1	1.5
<b>Japan</b>	<b>4.1</b>	<b>2.6</b>	<b>1.9</b>	<b>0.5</b>
<b>East Asia</b>	<b>7.7</b>	<b>7.6</b>	<b>6.8</b>	<b>5.5</b>
Asia NIES	8.2	7.5	6.6	5.2
ASEAN4	5.4	6.8	7.6	5.9
China	8.9	8.3	6.5	5.6

(Note) ASEAN4: Indonesia, Malaysia, Philippines, Thailand

Sources: IMF, *International Financial Statistics*  
 Republic of China, Taiwan Statistical Date Book 1994  
 World Bank, World Table 1994  
 Economic Planning Agency "Annual Report on National Accounts"

Shares of the world GDP by region



# 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.

# Benefits of FTA

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

## Possible Impacts of FTAs on East Asian Countries (cumulative impacts on GDP for 13 years, static effects only)

	FTA Member Countries for A Variety of FTA Schemes					
	Japan Singapore	Japan Singapore South Korea	Japan Singapore Mexico	Japan Singapore Mexico South Korea	Japan Singapore South Korea ASEAN 4 China	China Singapore ASEAN 4
Japan	0.07	0.14	0.10	0.18	1.02	-0.05
South Korea	0.00	6.33	-0.01	5.89	9.05	-0.16
Indonesia	0.02	0.08	0.04	0.08	13.36	3.16
Malaysia	0.10	0.21	0.18	0.39	18.52	7.24
The Philippines	0.00	0.01	-0.01	-0.01	8.43	2.69
Singapore	5.76	7.23	7.04	9.77	16.85	10.40
Thailand	0.00	-0.01	0.00	-0.01	18.44	6.03
China	0.01	-0.03	0.00	-0.03	27.69	9.17

# On the Creation of East Asia FTA

- Motives

In light of increasing regionalization in the rest of the world, East Asia is trying to establish a regional cooperation framework to achieve economic growth and stability in East Asia

# Challenges

- Setting the Common Goals
- Drawing a Roadmap (3x(ASEAN+1), ASEAN+3, ASEAN+6, ....)
- WTO Consistency: Comprehensive liberalization (liberalization in substantially all the trade) and other conditions (GATT XXIV, Enabling Clause)
- Consistent rules of origin
- WTO liberalization

# Challenges for Japan

- WTO consistency (substantially all trade)
- Agricultural sector
- Labor mobility
- Sharing common goals with other Asian economies

# Obstacles

- Different levels of economic development
  - Historic issues
  - Political and security issues
  - Economic issues
- Opposition to liberalization

# Ways to Overcome the Obstacles (1)

- Implement programs to deal effectively with structural adjustment resulting from trade and FDI liberalization
- 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

# Ways to Overcome the Obstacles (2)

- Strong political leadership
- Strong support from general public

# Ways to Overcome the Obstacles for Japan

- Sense of urgency toward Japan's future
- Growing sense of importance of Asia for Japan