

The Future of Asian Integration: Rivalry or Complementarity

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Stylized Facts

Some Stylized Facts (EMERGING ASIAN REGIONALISM: A Partnership for Shared Prosperity, by ADB 2008)

- Asia is as big as the U.S. and EU.
- Asia is the Growth Center.
- Important increasing intra-regional trade (Japan's production abroad is greater than exports.)
- Integration has been accelerated
- Production network developed by MNCs, coupled with export oriented policy → parts trade → low tariff rate (In Asia, *de facto* FTA, rather than *de jure* FTA)
- WTO failure → Proliferation of FTA/EPAs (BUT Rivalry is serious between Japan, China, and Korea)
- BoP surplus of Asia vs. deficit of US or US being destination of final products of Asia

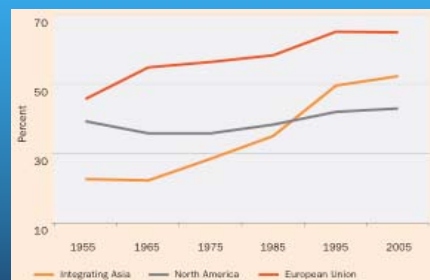
The size of Asia is almost compatible with the USA and EU (in terms of GDP)

Economy	Population (million)	Gross domestic product (GDP)				Trade/GDP (2006, percent)
		\$ billion (2007)	Average growth rate (1986-2006)	per capita (2007)	Average growth rate (1986-2006)	
Total Asia	3,714.0	12,081	4.0	3,253	2.5	62.9
European Union	461.3	16,586	2.4	35,958	2.0	64.3
United States	301.1	13,841	3.1	45,963	2.0	22.4
World	6,615.0	50,609	3.8	7,651	1.7	50.5

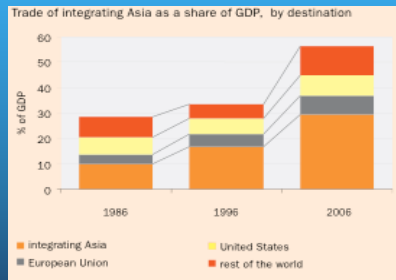
Asia is the Growth Center



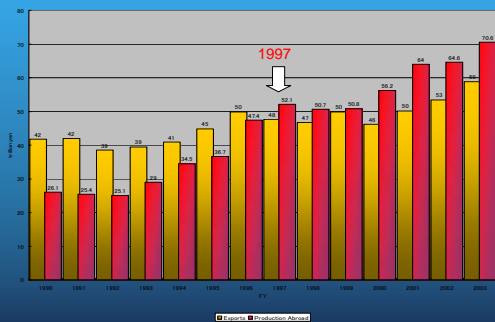
Increasing intra-regional trade



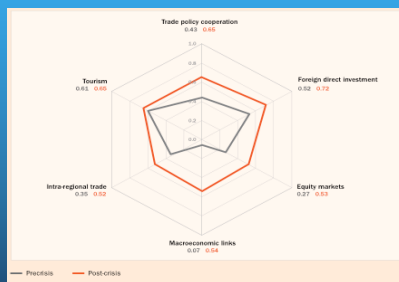
Intra-regional trade is important for Asia



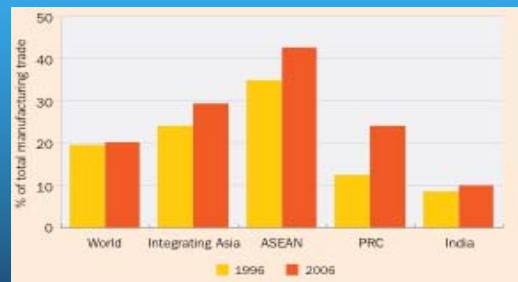
Japan's production abroad > exports



Integration being accelerated



Parts Trade is important in Asia



Vietnam is even engaged in Parts Trade

- FDI cum export oriented growth strategy induces Vietnam to be involved under international production network and Vietnam's export performance is currently quite similar to those of Malaysia, Korea, Singapore, and Japan in SITC77 sector. Import performance is similar to HK, Japan, Malaysia, Philippines, and Singapore.
- SITC77: Electronic machinery, apparatus, and parts

Export Composition Similarity for SITC7 2 digit level

	China	HK	Japan	Korea	MALY	PHIL	SING	THAI	VN
China	1.00	0.12	0.24	0.31	0.33	0.17	0.18	0.26	0.28
HK	0.12	1.00	0.06	0.23	0.41	0.30	0.40	0.27	0.32
Japan	0.24	0.06	1.00	0.80	0.62	0.42	0.35	0.41	0.58
Korea	0.31	0.23	0.80	1.00	0.59	0.49	0.41	0.30	0.62
MALY	0.33	0.41	0.62	0.59	1.00	0.62	0.75	0.61	0.65
PHIL	0.17	0.30	0.42	0.49	0.62	1.00	0.62	0.41	0.26
SING	0.18	0.40	0.35	0.41	0.75	0.62	1.00	0.42	0.62
THAI	0.26	0.27	0.41	0.30	0.61	0.41	0.42	1.00	0.31
VN	0.28	0.32	0.58	0.62	0.65	0.26	0.62	0.31	1.00

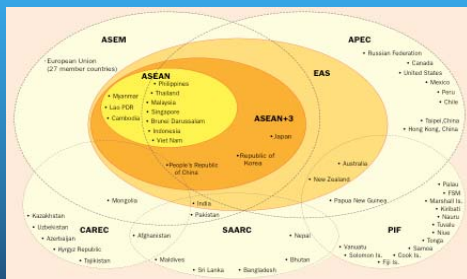
Import Composition Similarity for SITC7 2 digit level

	China	HK	Japan	Korea	MALY	PHIL	SING	THAI	Viet
China	1.00	0.22	0.09	0.72	0.39	0.14	0.15	-0.02	0.12
HK	0.22	1.00	0.38	0.34	0.55	0.78	0.47	0.27	0.71
Japan	0.09	0.38	1.00	0.36	0.73	0.62	0.78	0.06	0.48
Korea	0.72	0.34	0.36	1.00	0.72	0.34	0.42	-0.01	0.32
MALY	0.39	0.55	0.73	0.72	1.00	0.67	0.47	0.18	0.53
PHIL	0.14	0.78	0.62	0.34	0.67	1.00	0.68	0.21	0.55
SING	0.15	0.47	0.78	0.42	0.47	0.68	1.00	0.21	0.59
THAI	-0.02	0.27	0.06	-0.01	0.18	0.21	0.21	1.00	0.18
Viet	0.12	0.71	0.48	0.32	0.53	0.55	0.59	0.18	1.00

Increasing Number of FTAs

Negotiating body	Status as of December 2007					
	Concluded	Under negotiation	Proposed	Total	of which	
ASEAN	2	4	0	6	4	2
Brunel Darussalam	3	0	4	7	3	4
Cambodia	1	0	2	3	2	1
China, People's Republic of	7	6	9	22	8	14
Hong Kong, China	1	1	0	2	1	1
India	8	10	12	30	8	22
Indonesia	3	1	6	10	4	6
Japan	8	7	4	19	12	7
Korea, Republic of	6	5	11	22	9	13
Lao People's Dem. Rep.	3	0	2	5	3	2
Malaysia	4	5	4	13	5	8
Myanmar	1	1	2	4	2	2
Philippines	2	0	4	6	3	3
Singapore	11	10	5	26	6	20
Taipei, China	4	2	1	7	0	7
Thailand	6	6	6	18	7	11
Viet Nam	1	1	2	4	3	1
Total *	44	49	41	134	30	104

Economic Integration Architecture



Stumbling Blocks?

Bilateral FTAs?

- To complement *de facto* integration
- Spaghetti bowl
- Consistency issues
- Rule of Origin: cost equal to 5 % tariff
- Policy game just like Olympics?
- Asian way? Flexible and no stumbling blocks.

ASEAN+3: dilemma intensified

- centripetal force declining while centrifugal force increasing
- sovereignty and institutionalization difficulty (ADB suggests to setup a headquarter for administration.)
- Political and economic costs of Japan and China
- +3 depends on ASEAN initiative: ASEAN having problems → no leadership

Problems

- Still high dependency on US for final goods
- Dependency on US\$
- China's absorptive power?
- Competition within the region in inviting FDIs
- US strategic bilateral FTAs: 'regionalism' in East Asia becomes a mere name only

Further Problems

- Basic Structure of Economic Development of East Asia
 1. FDI and Trade Linkages
 2. Japan Model of Industrial Policy
 3. strong manufacturing vs. weak financial market
- Conflicts between regionalism and sovereignty
 1. limited regionalism
 2. difficulty of comprehensive package deals
- Japan vs. China: Rivalry and different stance
 - China: strong political motivation and weak institutional capacity
→ practical FTA (e.g. early harvest deal with Thailand), flexibility
 - Japan: strong institutional capacity and weak political motivation → rule first FTA, transparency

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

Obstacles to FTAs in East Asia

Economic obstacles

- Opposition to trade liberalization

Political and security obstacles

- Lack of strong 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 (rice!)
- GATT-WTO minimum access -> scandals
- Labor mobility
- Care takers from Indonesia and the Philippines

Hub-ness Impacts (Fukagawa)

- Strongest impacts for Japan+Korea+China as hub economies, especially for EU and USA
- For Korea, China has stronger impacts than Japan
- For EA countries, Japan+Korea and Japan+Korea+China no difference
- More work should be done in this area.

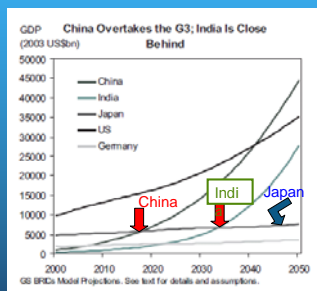
East Asian Regionalism: Back to APEC?

- PAFTAD, PECC, APEC, WTO, Bilateral FTA+ Regional FTA → APEC?
- Japan's original stance: GATT+WTO, difficulty in liberalizing agriculture
- Japan's move toward bi- and multi-lateral PTAs: (a) proliferation of FTAs (b) competitive race among EA countries
- First FTA with Singapore: no serious agricultural trade issues and yet a crucial step
- Second with Mexico: Keidanren initiative (NAFTA, EU, Maquiladora, gain of \$3.6 bil.)
- Two channel strategy: individual ASEAN and ASEAN

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)

Another Factor: India



Human Capital Development

	Undergraduate	Graduate	Total
China	47,654	17,262	64,916
India	108	256	364
Bangladesh	129	799	928
Sri Lanka	213	245	458
Nepal	124	238	362
Total	69,480	31,282	100,762

Tough competition in new markets

Major manufacturing companies have started to advance their FDI to India. Mostly to explore local market.

•Toyota
1984 DCM International, Joint Venture, Truck called Dyna, 1994 Withdrew
1997 Toyota Kirloska Motor, Kijarn, 1999 Production started, 100,000 units, Toyota Way
Toyota's Priority Experiments: a) production & distribution, b) Toyota techno park, help FDI of supporting Japanese companies, c) youngest project team (30s and 40s)
10% market share till 2010.

•Suzuki
1982 Suzuki joint venture with MarutiUdyok, Maruti800 best seller, sold 5 mil. Units till April 2005.
Sold 480,000 units(46%) while Toyota's share 5%.
May 2005, new model Swift, 2007 new factory of 250,000 unit capacity

•SONY
Invested in India in 1994 while LG 1997
TV LG 26%, Sony < 5%
washing machine, refrigerator LG > 20%
Why LG so strong? a) HO's fast decision and strong support, b) large scale FDI, c) huge advertisement, d) target being lower middle, low pricing
July 2004 Sony stopped production in India, decided to export from Thailand, targeting the rich

Conclusions: Avoid being
Stumbling Blocks

- 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)
- FTA in EA is more political than economics
- Cut high administrative costs of FTA negotiations
- Cut ROO costs.
- Back to APEC style Open Regionalism! And enjoy and enhance *de facto* integration!
- In case region-wide integration should become possible, construct some insurance schemes for losers of integration.