# 第１セッション 経済統合の現状
# Economic Integration in Asia

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## 第 1 セッション
## 経済統合の現状 Economic Integration in Asia

セッションチェア
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それでは準備ができましたので、第 1 セッションに移りたいと思います。第 1 セッションでは、「経済統合の現状」というテーマのもと、東アジアの経済統合が現在どうなっているのか、どういう形で進んでいるのか、というような論点を中心に議論を進めたいと思います。ちなみに、経済統合を推進する力としましては、市場と制度という異なった要因があると言われています。

最初の報告では、市場メカニズムによる地域統合の現状について発表していただき、２番目の報告では FTA（自由貿易協定）といったような制度的な枠組みのもとでの地域統合の進展、そして 3 番目に FTA などの制度的な枠組みが国際的な形でできた場合、国内の制度にどのような変化が必要になってくるか、という問題について発表して頂きます。このセッションでは、まず論文を発表していただき、それに対してコメントをいただくという形で進めたいと思います。

それでは、こちら側から、私に向かって近いほう、皆さまから向いまして左側の発表者、その次に討論者をご紹介したいと思います。まず最初にシンガポール国立大学准教授の Shandre Thangavelu（シャンドラ・サンガベル）教授であります。続きまして、木村福成慶応義塾大学経済学部教授、木村先生は東アジア・ASEAN 経済研究センターのチーフエコノミストという役職も兼務されております。続きまして、ソウル国立大学教授であります安徳根（アン・ドングァン）さんです。よろしくお願いいたします。

この 3 人の方が発表者です。その発表者による発表のあと、討論者ということで 3 人の方にお願いしております。最初の討論者が早稲田大学商学部准教授の横田一彦さんです。続きまして、経済産業省通商政策局経済連携課の課長であります三田紀之さんです。続きまして横浜国立大学大学院国際社会科学研究科教授、荒木一郎さんです。よろしくお願いいたします。皆さまの略歴は配布物の中にありますので、時間の関係もありますので、お名前だけをご紹介させていただきました。

それでは、論文ごとに発表そして討論に移りたいと思います。できるだけ聴衆の皆さまからの質問を受けるという形で進めたいと思います。全体が 2 時間ですから各々の論文に 40 分使えるわけですけれども、報告者に 15 分から 20 分くらいで発表していただきます。その後討論者から 10 分討論いただき、残った時間をオープンにして、皆さまのほうから質問をお願いしたいと思います。最後に数分で発表者の方に回答していただくとこういう形で進めたいと思います。

【報告】

# Trade, FDI and Regional Integration in East Asia

「東アジアの貿易、投資、そして地域統合」

**Shandre M. Thangavelu**[1]

(Associate Professor at Department of Economics, National University of Singapore)

First Preliminary Draft

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Please do not quote

**Abstract**

The paper examines the long-run relationship between trade, FDI and GDP growth in the East Asia region employing panel integration and cointegration techniques for a dynamic heterogeneous panel of 20 East Asian countries over the period 1980 to 2007. The paper also explores the long-run impact of FDI and trade among ASEAN, ASEAN plus 3 and ASEAN plus 6 groupings in the panel framework. The long- and short-run relationships are examined in a vector-autoregressive error correction model using the pooled mean group (PMG) estimation of Pesaran et al. (1996). Our findings support the existence of long-run relationship between trade, FDI and GDP growth for ASEAN and ASEAN plus 3 groupings. The panel unit roots test indicates that the panel series are stationary after first differencing. The panel cointegration tests of Pedroni (1999) clearly indicate the existence of long-run relationship between trade, FDI and GDP for East Asia, AESAN plus 3 and ASEAN. However, we found little evidence of long-run relationship for ASEAN plus 6 groupings from the panel cointegration analysis and PMG estimation. The direction of the causality clearly indicates that FDI is the key variable driving the trade and regional integration in East Asian region.

## 1 Introduction

Given the increasing trend of trade and investment around the world, countries have not only increased their integration regionally but also globally. Moreover, despite having bilateral and multilateral trade agreements, most of the countries are also linked directly or indirectly as members of regional trade blocks. Each regional grouping has different characteristics due to interplay of the forces of regionalism and regionalization.

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Due to these two phenomena, the production networks have more extensive spread in the East Asian region compared to other regions (Gill et al, 2007). Ando and Kimura (2003) describe the production networks in East Asia as vertical intra-industry trade phenomena that involves back and forth links where by several countries participate in various stages of the production chains compared to horizontal intra-industry trade pattern in Europe. The European intra industry trade model involves the two directional flows of finished goods varieties. Besides having similar intra industry trade models in other regions, each region may present different characteristic due to competing forces of bilateral and multilateral trade agreements. So in any economic turbulence whether it is in the form of common shock or idiosyncratic shock, the business cycles of the countries are exposed to different transmission mechanisms that may originate through bilateral, regional or multilateral ties.

Economic integration also leads to greater volatility from global shocks. If the economic turbulence is originating from a country specific or idiosyncratic shock, most of the research is focused on finding out whether other countries or regions are decoupled from it. However, if the disturbance is global in nature that is affecting all the countries at same time, the studies focus on finding out correlations among the macroeconomic variables on country or regional levels. In all these studies, the focus is on the outcome, whether a country or regional business cycle has co-movements with the output of the crisis affected country or region. By not considering the transmission mechanism, the task of designing the policy for dampening the effect of shock on a country or region output becomes quite cumbersome.

The impact of trade integration presents two opposing effects on the business cycle co-movements. Some empirical research findings support positive relationship between trade integration and business cycle movements (Frankle and Rose, 1998; Kenen, 2000; Imbs, 2004; Baxter and Kouparitsas, 2005; Sato and Zhang, 2006; Kumakara, 2006; Arndt, 2006). However, there are other findings that presents an opposing view that trade integration leads to more specialization based on comparative advantage in the production of goods and importance of asymmetric or sector specific shocks increases with economic integration thereby leading to idiosyncratic business cycles (Krugman 1993).

Similarly, there are other factors such as the financial integration may also lead to business cycle co-movements through wealth effects if a country's financial markets trigger negative wealth effects in other countries (Imbs, 2004 and 2006; Inklaar et al, 2008; Kose et al., 2003). On the contrary, international diversification of portfolios may allow consumption smoothening due to risk sharing that may not require diversification in production bases and may lead to greater specialization and less co movements in

business cycles (Kalemli-Ozcan et al, 2001). In addition, empirical research have also found evidence in support of inter group convergence within industrial countries and within emerging countries, while it found no support for worldwide convergence of business cycles, thereby suggesting decoupling between industrial countries and emerging countries (Fidrmuc et al, 2008; Kose et al, 2008). Regarding exchange rate volatility, some empirical evidences have failed to show any systematic link between short term exchange rate volatility and volume of bilateral and multilateral trade (Leung, 1997). However, some evidence suggests that pattern of trade could be affected by the exchange rate volatility and that currency invoicing of trade matters. Despite the availability of currency hedging for managing exchange rate volatility, studies have found support for common currency standards among close trading partners (McKinnon, 2000; Mundell, 2000). Similarly the fiscal convergence can also lead to business cycles co-movements (Inklaar et al., 2008; Darvas et al., 2005).

Economic integration could also occur through investment and trade. Macroeconomic studies which examine the causality between FDI and growth using aggregate FDI inflows and growth data in a cross country framework, generally, suggest that FDI inflows positively affect economic growth. Zhang (2001) finds that FDI strongly Granger-cause GDP growth in a sample of 11 countries. Choe (2003) finds a bi-directional causality between economic growth and FDI in a sample of 80 countries over the period 1971-1995. However, their results also show that the causality is rather more apparent from growth to FDI than from FDI to growth. In a sample of 32 countries that includes OECD and non-OECD countries and using a single-country time series regression framework, De Mello (1999) find that the long-term effect of FDI on growth is heterogeneous across countries. He does not find firm evidence for the positive effect of FDI on growth in a panel of non-OECD countries. Nair-Reichert and Weinhold (2001) find that FDI on average has a significant positive impact on growth though the relationship is highly heterogeneous across countries. There are many studies that attempt to draw conclusions on FDI-growth causation by controlling for human capital, openness of the economy and different stages of growth. Blomström et al. (1996) find that FDI inflows are an influence on growth rates for high income developing economies, but not for lower income ones as it depends more on domestic factors such as secondary education, changes in labour force participation, and infrastructure. Balasubramanyam et al. (1996) find that FDI promotes economic growth in a sample of 46 developing economies during the period 1970-1985. Their results further revealed that FDI inflows are more productive in countries with export promoting trade and investment strategies than with import-substituting strategies. Basu, Chakraborty and Reagle (2003) also emphasize trade openness as a crucial determinant for the impact of

FDI on growth. By revisiting these findings in the context of more recent cross-sectional data, Greenaway et al. (2007) confirm the robustness of the impact of FDI on economic growth. The heterogeneity of the results of these macro level studies indicate different country-specific effects and also points to various specification issues in models. There are arguments that these studies do not fully control for simultaneity bias, country-specific effects, and the lagged effects of dependent variables in growth regressions (Carkovic and Levine 2005). By addressing these issues in data, Carkovic and Levine (2005) find that the exogenous component of FDI does not exert a robust and positive influence on economic growth. Hansen and Rand (2006) using mean group estimator find a strong causation from FDI to GDP, and their results indicate that FDI appears to be growth enhancing much in the same way as domestic investment.

In this paper, we examine the long-run relationship between trade, FDI and GDP growth in the East Asia region employing panel integration and cointegration techniques for a dynamic heterogeneous panel of 20 East Asian countries over the period 1980 to 2007. Given that the economic growth in the East Asian region is driven more by the production networks, it is appropriate to examine the impact of FDI on output growth with a view of regional integration in East Asia. In this respect, the paper also explores the long-run impact of FDI and trade among ASEAN, ASEAN plus 3 and ASEAN plus 6 groupings in the panel framework. The long- and short-run relationships are examined in a vector-autoregressive error correction model using the pooled mean group estimation of Pesaran et al. (1996).

The short-and long-term effects of FDI and exports on the region growth have been considered in a Panel VAR framework to account for country-specific and reverse causality issues. We considered the major regional grouping such as East Asia, ASEAN, ASEAN plus 3, and ASEAN plus 6. We used Pooled Mean Group estimator (PMG) that was proposed by Pesaran et al. (1996) to establish the long-run equilibrium in our model. The advantage of PMG is that it is very flexible to allow for the short-run responses to be different but the long-run coefficients are restricted to be equal across the cross-sections. This allows us to test for the long-run relationship among our key trade regions or groupings. Our empirical results indicate the existence of long-run relationship from FDI and trade with GDP growth for East Asia and key groupings of ASEAN plus 3 and ASEAN. However, we do not find any long-run impact of FDI and trade on GDP growth for ASEAN plus 6 groupings.

The plan of paper is as follows: Section 2 highlights the key trends of the FDI, export and GDP in East Asia. Section 3 discusses the Pooled Mean Group estimation methodology adopted in the study. Section 4 presents the results of the panel unit root,

cointegration tests and Pooled Mean Group estimator. We provide the conclusion in section 5.

## 2 Key Trends of FDI, Export and GDP in East Asia

Although the Asian crisis had a dampening effect on output growth in East, there is strong recovery in the region in the post-crisis period (see Table 1). The direct impact of the Asian crisis that swept across the region was the drastic fall in output growth in most of the Asian countries. Except for China, Taiwan and Vietnam, all the other Asian economies being studied in this paper experienced negative growth rates in 1998. Thereafter, the countries affected by the crisis were also hit by several other external shocks – such as the September 11 attacks, the slowdown in the US and global economies, and SARS – which resulted in more volatile output growth in the post-crisis period.

**Table 1: Real GDP Growth Rate for Selected Asian Economies from 1995 – 2007**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 10.9 | 10.0 | 9.3 | 7.8 | 7.6 | 8.4 | 8.3 | 9.1 | 10.0 | 10.1 | 10.4 | 11.1 | 11.9 |
| Hong Kong | 2.3 | 4.2 | 5.1 | -6.0 | 2.6 | 8.0 | 0.5 | 1.8 | 3.0 | 8.5 | 7.1 | 7.0 | 6.4 |
| Indonesia | 8.2 | 7.8 | 4.7 | -13.1 | 0.8 | 4.9 | 3.8 | 4.3 | 4.8 | 5.0 | 5.7 | 5.5 | 6.3 |
| Korea | 9.2 | 7.0 | 4.7 | -6.9 | 9.5 | 8.5 | 3.8 | 7.0 | 3.1 | 4.7 | 4.2 | 5.1 | 5.0 |
| Malaysia | 9.8 | 10.0 | 7.3 | -7.4 | 6.1 | 8.9 | 0.5 | 5.4 | 5.8 | 6.8 | 5.0 | 5.9 | 6.3 |
| Philippines | 4.7 | 5.9 | 5.2 | -0.6 | 3.4 | 4.4 | 1.8 | 4.4 | 4.9 | 6.4 | 5.0 | 5.4 | 7.2 |
| Singapore | 8.2 | 7.8 | 8.3 | -1.4 | 7.2 | 10.1 | -2.4 | 4.2 | 3.5 | 9.0 | 7.3 | 8.2 | 7.7 |
| Taiwan | 6.5 | 6.3 | 6.6 | 4.5 | 5.7 | 5.8 | -2.2 | 4.6 | 3.5 | 6.2 | 4.2 | 4.9 | 5.7 |
| Thailand | 9.2 | 5.9 | -1.4 | -10.5 | 4.4 | 4.8 | 2.2 | 5.3 | 7.1 | 6.3 | 4.5 | 5.1 | 4.8 |
| Vietnam | 9.5 | 9.3 | 8.2 | 5.8 | 4.8 | 6.8 | 6.9 | 7.1 | 7.3 | 7.8 | 8.4 | 8.2 | 8.5 |

Source: Asian Development Bank

But despite the economic volatility, there appears to be a strong recovery in the post-crisis period converging to pre-crisis levels.[2] The average growth rate of the crisis-affected South-East Asian countries of Indonesia, Malaysia, Singapore, the Philippines and Thailand was around 5% in the post-crisis period of 1999-2007, as compared to 6.8% over the period 1995-1997. Two crisis-affected economies, Thailand and Hong Kong, actually grew at a higher average annual rate of 5.0% each in the post-crisis period, compared to 4.6% and 3.8% respectively in the pre-crisis period.

[2] Even though the Asian crisis struck in the later part of 1997, the impact of the crisis on real GDP, FDI and exports was only felt in 1998 for most of the crisis-affected countries. Hence, for the purpose of this paper, the pre-crisis period includes the year 1997, while the post-crisis period starts from 1999.

The GDP growth experienced by Asian economies in the post-crisis period was supported by strong export growth. From Table 2, it is clear that the Asian crisis and subsequent external shocks had negatively affected export growth in the region. However, export growth rates have since recovered and appear to be returning to pre-crisis levels. The importance of exports for the economic growth of South-East Asian countries is also reflected by their high export to GDP ratios. In the post-crisis period, most of the South-East Asian countries have seen a rise in their export to GDP ratios. For instance, the export to GDP ratios for Malaysia and Singapore rose from 94% and 187% respectively in 1995 to 110% and 230% respectively in 2007, thereby reflecting their increasing reliance on exports. Export growth is also emerging as an important source of output growth for Indonesia, the Philippines and Thailand, which saw their export to GDP ratios rise from 26%, 36% and 42% respectively in 1995 to 29%, 43% and 73% respectively in 2007. Just as in South-East Asia, export growth too is becoming an important component of growth in the East Asian economies. China's export to GDP ratio doubled from 20% in 1995 to 41% in 2007.

**Table 2: Export Growth for Selected Asian Economies**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 23.0 | 1.5 | 21.0 | 0.5 | 6.1 | 27.8 | 6.8 | 22.4 | 34.6 | 35.4 | 28.4 | 27.2 | 25.7 |
| Hong Kong | 14.9 | 4.0 | 4.2 | -7.4 | 0.1 | 16.6 | -5.8 | 5.4 | 11.7 | 15.9 | 11.4 | 9.4 | 9.2 |
| Indonesia | 13.4 | 9.7 | 7.3 | -8.6 | -0.4 | 27.7 | -9.3 | 1.5 | 9.4 | 11.5 | 22.9 | 17.5 | 13.3 |
| Korea | 30.3 | 3.7 | 5.0 | -2.8 | 8.6 | 19.9 | -12.7 | 8.0 | 19.3 | 31.0 | 12.0 | 14.4 | 14.1 |
| Malaysia | 20.2 | 6.5 | 12.1 | 29.7 | 12.2 | 16.1 | -10.4 | 6.9 | 11.3 | 21.0 | 10.9 | 10.3 | 2.7 |
| Philippines | 29.4 | 17.7 | 22.8 | 16.9 | 18.8 | 8.7 | -15.6 | 9.5 | 2.9 | 9.5 | 4.0 | 14.9 | 6.4 |
| Singapore | 13.7 | 5.2 | 5.3 | -1.0 | 5.7 | 22.4 | -8.3 | 2.7 | 12.1 | 20.5 | 14.0 | 12.8 | 4.4 |
| Taiwan | 20.1 | 7.7 | 9.6 | 8.0 | 6.0 | 18.6 | -10.0 | 9.8 | 10.8 | 17.9 | 4.5 | 14.2 | 11.1 |
| Thailand | 23.6 | 0.4 | 27.9 | 24.4 | -1.4 | 25.2 | 4.0 | 1.4 | 13.7 | 16.5 | 14.6 | 11.4 | 6.4 |
| Vietnam | 34.4 | 33.2 | 26.6 | 1.9 | 23.3 | 25.5 | 3.8 | 11.2 | 20.6 | 31.4 | 22.5 | 22.7 | 21.9 |

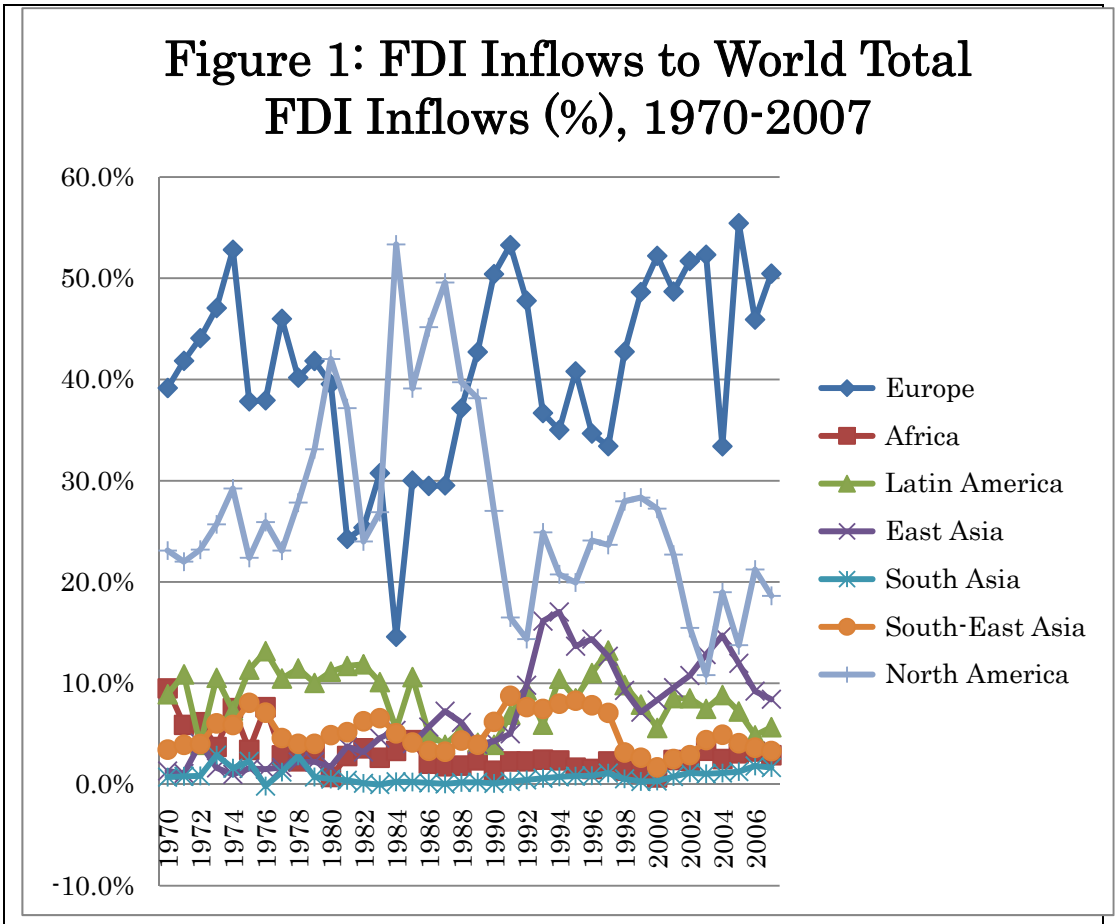
Source: Asian Development Bank

The pre-Asian crisis era was characterized by increasing net FDI inflows into the East and South-East Asian regions (Thangavelu et al., 2009). This can clearly be seen from changes in the region's share of total World FDI inflows after the crisis (see Figure 1). As before, Figure 1 shows that the Asian crisis in 1997 had no immediate impact on the share of FDI inflows into Asia. Its impact only became obvious in 1998 when a sharp decline in the shares of FDI inflows into East and South-East Asia was observed. Since 1998, South-East Asia's share of total World FDI inflows has

continued to languish at relatively low levels; East Asia's share appears to have picked up after the crisis before tapering off in more recent years. Over the period 1999-2007, South-East Asia's share of total World FDI inflows averaged 3.3%, a level that was only slightly higher than Africa's share of 2.4% for the same period, and a far cry from the 7.7% it enjoyed during 1992-1997. Although most other regions also saw their post-crisis shares of total World FDI inflows decline, the fall in South-East Asia's share was one of the most drastic.

Table 3 provides the average shares of total World FDI inflows for selected South-East and East Asian economies during the pre- and post-crisis periods. Among the South-East Asian countries, Singapore's post-crisis average share of total World FDI inflows was the highest at 1.7% in the post-crisis period, although this was still below its pre-crisis average of 2.6%. The post-crisis shares of the other South-East Asian countries too remained below their respective pre-crisis levels. Malaysia, the Philippines and Indonesia, in particular, experienced a large decline in their respective shares in the post-crisis period.

As for the situation in East Asia, Hong Kong, South Korea and Taiwan have become less important than China in attracting FDI inflows from the early 1990s onwards. Following the Asian crisis in 1997, net FDI inflows into East Asia were mainly driven by inflows into China, and to a much lesser extent, Hong Kong and South Korea. China's status as a magnet for FDI since the mid-1990s is underscored by the fact that between 1994 and 2004, net FDI inflows into China nearly doubled from US$33 billion to US$56 billion. With the opening up of China's economy, MNCs have found China to be an attractive investment destination, given its promisingly large market and pool of cheap labor. It is thus not surprising that out of the 10 Asian economies studied, China received the largest share of FDI inflows at 10.5% of total World FDI inflows before the crisis (see Table 4). This share fell to 6.2% after the crisis. A decline in share was also observed in Taiwan, while South Korea and Hong Kong saw an increase in their respective shares.




**Average FDI to World FDI Inflows (%)**

| | 1992-1997 | 1999-2007 |
|---|---|---|
| Europe | 38.06% | 48.75% |
| Africa | 2.09% | 2.40% |
| Latin America | 9.73% | 7.17% |
| East Asia | 13.94% | 10.33.% |
| South Asia | 0.77% | 1.06% |
| South-East Asia | 7.71% | 3.34% |
| North America | 21.29% | 19.68% |
| Others | 6.41% | 7.28% |

Source: UNCTAD

**Table 3: Average FDI Inflows to Total World FDI Inflows (%) for East Asia, 1992-2007**

| | 1992-1997 | 1999-2007 |
|---|---|---|
| China | 10.52 | 6.22 |
| Hong Kong | 2.56 | 3.14 |
| Indonesia | 1.12 | 0.11 |
| Korea | 0.39 | 0.65 |
| Malaysia | 2.05 | 0.40 |
| Philippines | 0.45 | 0.14 |
| Singapore | 2.58 | 1.68 |
| Taiwan | 0.48 | 0.32 |
| Thailand | 0.77 | 0.63 |
| Vietnam | 0.50 | 0.20 |

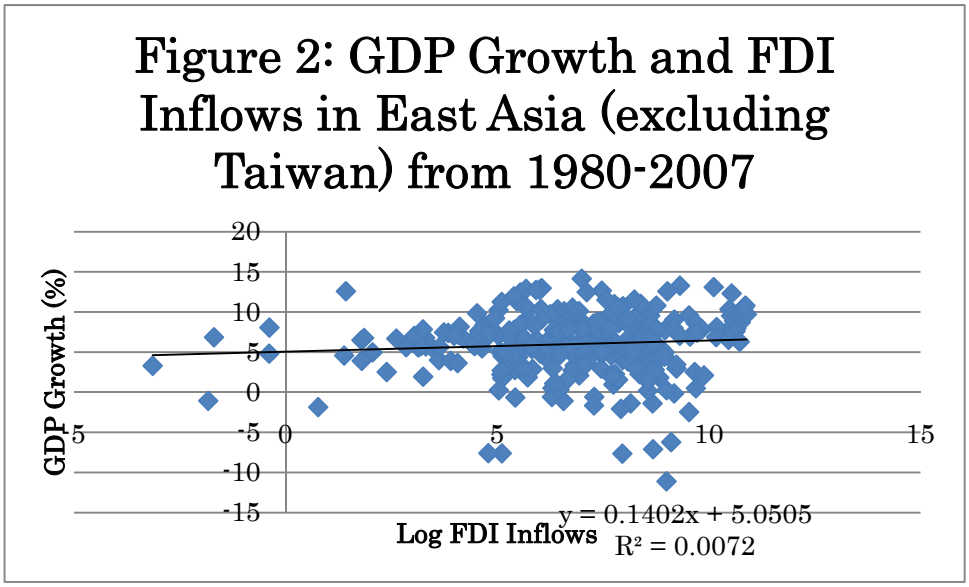
Source: UNCTAD

## 2.1 FDI and Exports on Output Growth in East Asia

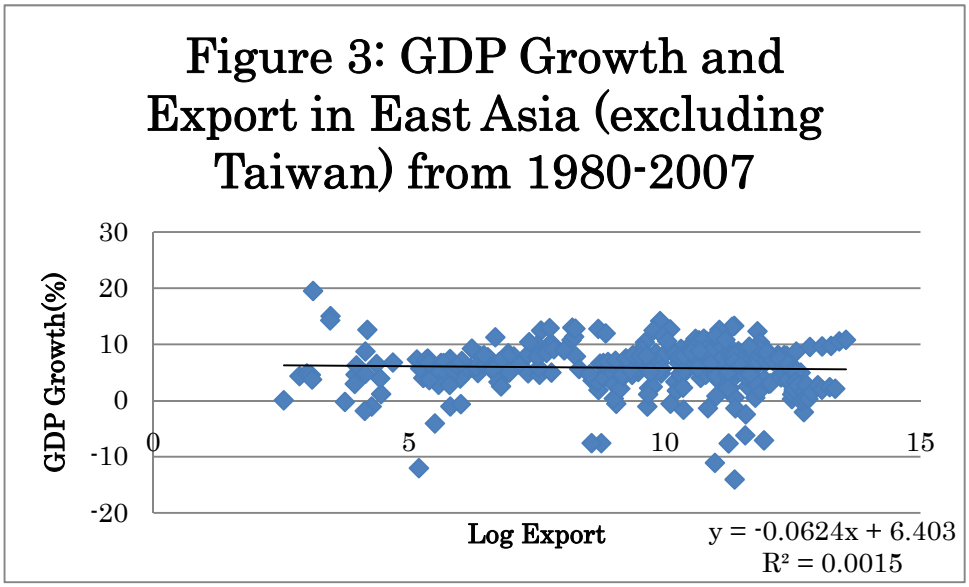
According to Gill et al. (2007), the production networks have more extensively spread in the East Asian region as compared to other regions. The spread is due regionalism and regionalization. Factors such as low trade barriers, efficient duty drawback regime for exports, encouragement of export oriented FDI, good logistics and labour wage differentials in the country can be the result of regionalism. In contrast, close proximity to production networks, scale economies and other agglomeration economies that affect the cost structure of intermediate inputs is mainly due to regionalization. Due to these processes at work, the economies have become closely integrated and one country income growth generates demands for parts and components in other countries in the supply chain. Ando and Kimura (2003) describe the production networks in East Asia as vertical intra-industry trade phenomena that involve back-and-forth links whereby several countries participate in various stages of single production chains compared to horizontal intra industry trade pattern in Europe. The European intra-industry trade model involves the two directional flows of finished goods varieties. Kimura et al. (2007) further describes the vertical intra- industry trade in East Asia that unit prices of exports and imports differ widely where as Krugman (1980) and Helpman and Krugman (1985) well established model of intra- industry trade is based on horizontal product differentiation and fits the mechanics of intra- industry trade among developed countries such as the core EU countries.

The key trends of FDI, export and GDP growth for East Asia[3] are given below in Figures 2 and 3. The relationship between FDI inflows and GDP growth for the East Asian countries is given in Figure 2. It is clear from Figure that there is a marginal positive trend (the sloped of the trend line is given as 0.14) between GDP growth and FDI inflows (in logs) in the East Asian region. However, we do not see similar positive trend between export and GDP growth in Figure 2. In fact, we do observe a marginal negative relationship between export and GDP for the East Asian countries. The marginal effects of FDI and export on the GDP growth in East Asian region might be due to the heterogeneity of economic development and hence the different growth directions of the countries in the region. This indicates that the heterogeneity in the region have to be accounted for to have a better understanding of the economic integration in the East Asian region.

[3] East Asia includes China, Korea, Cambodia, Hong Kong, Indonesia, Japan, Malaysia, Laos, Myanmar, Philippines, Singapore, Thailand, and Vietnam.



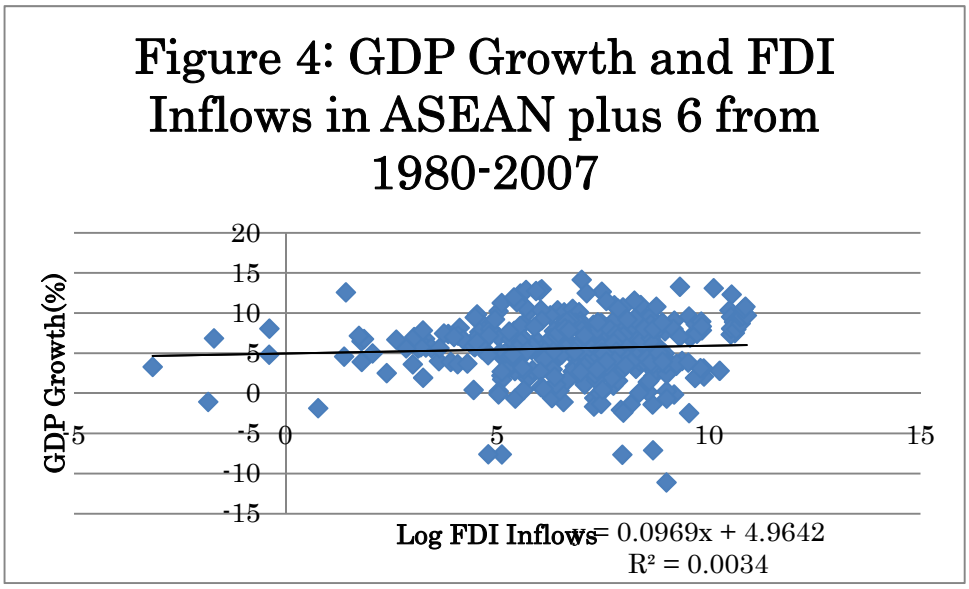

Source: UNCTAD and World Development Indicators (WDI). The fit of the trend line is given in the Figure.



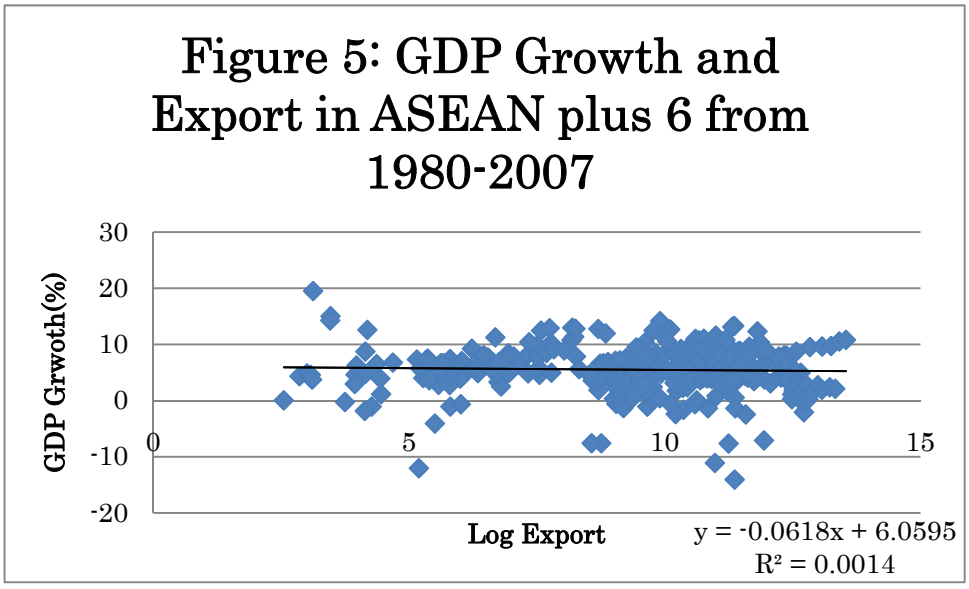

Source: UNCTAD and World Development Indicators (WDI). The fit of the trend line is given in the Figure.

The key trends for ASEAN (Cambodia, Indonesia, Loas, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) plus 6 countries (Australia, China, Korea, Japan, India and New Zealand) are given in Figures 4 and 5. Although we observe a positive relationship betweem FDI inflows and GDP growth, the impact is less significant as compared to the overall East Asian region. This might be due to the

inclusion of countries that have less FDI reliance such as Australia, New Zealand and India, which might reduce the overall impact of FDI on output growth in the region. The impact of export on GDP growth is again not very significant for the ASEAN plus 6 groupings and this might be due to greater heterogeneity in economic development and less reliance of export for output growth for certain countries in the grouping.

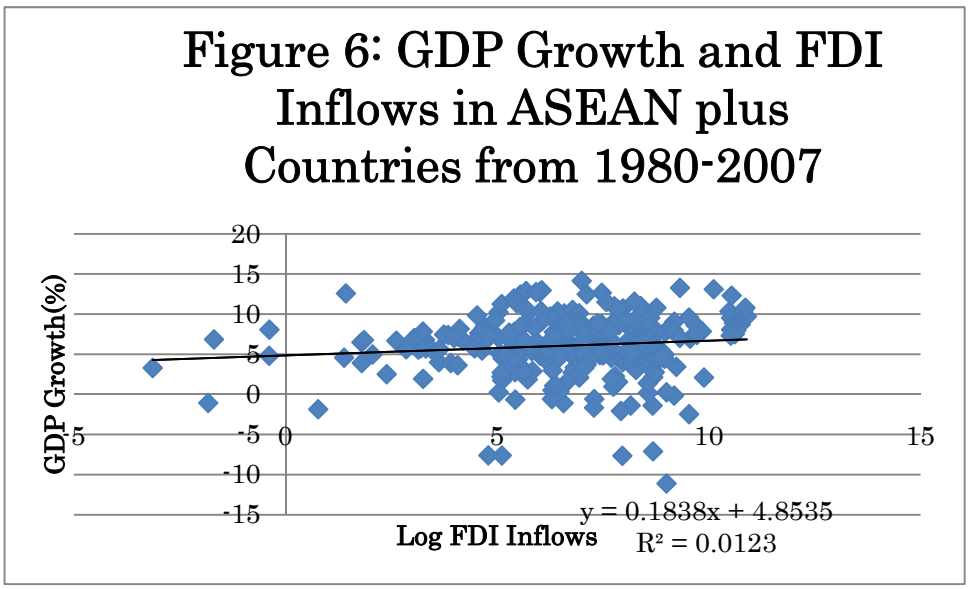



Source: UNCTAD and World Development Indicators (WDI). The fit of the trend line is given in the Figure.

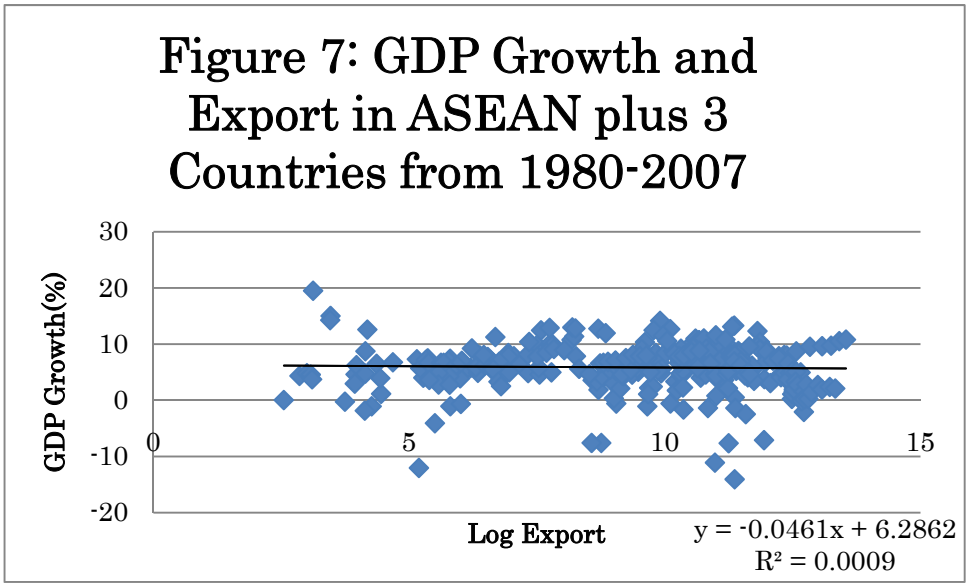



Source: UNCTAD and World Development Indicators (WDI). The fit of the trend line is given in the Figure.

The impact of FDI and export on GDP growth for ASEAN plus 3 countries (China, Korea and Japan) are given in Figures 6 and 7. It is very clear from Figure 6 that FDI inflows have greater impact in this grouping as compared to the previous ones. In particular, there is significantly greater positive impact of FDI inflows on GDP growth in ASEAN plus 3 groupings. This might suggests greater production network and trade linkages among these countries as compared to ASEAN plus 6 grouping. As with the previous groupings, we also observe a marginally negative impact of export on GDP growth, however this seems to be of less significance as compared to East Asia and ASEAN plus 6 countries.




Source: UNCTAD and World Development Indicators (WDI). The fit of the trend line is given in the Figure.




Source: UNCTAD and World Development Indicators (WDI). The fit of the trend line is given in the Figure.

It is not surprising to see the positive impact of FDI inflows on GDP growth in the East Asian region and in particular among the ASEAN plus 3 countries, which is increasingly becoming an important production network in the global economy. However, the negative impact of export on GDP growth raises several questions on the "export-led" paradigm in the East Asia region and if trade is the key driver for economic integration in the region. It is important to highlight that the impact of export might not have a direct impact on output growth as there might be other positive externalities in terms of productivity improvements from global competition and also greater technology transfer export driven firms that might have more indirect impact on output growth (Greenaway et al., 2007). It is also very likely that there might be greater direct and indirect interaction between FDI and export that might be the key factor for output growth in the region, which might be driven by production networks and global value-chain. Thus it is of interest and of great importance to understand the long-run relationship of FDI and export in a more extensive and rigorous framework. The paper adopts a panel VAR framework as suggested by Pesaran et al. (1996) using the Pooled Mean Group estimation (PMG) to understand the long-run relationship between FDI, export and GDP growth.

## 3 Empirical study on the Long-Run Relationship of FDI, Export and GDP

### 3.1 Data and Methodology

The data for the study is collected from UNSTAT and UNCTAD Handbook 2008. All the variables are defined in real values (US$) by deflating to 1990 prices using the GDP deflators of the respective countries in the sample. We used annual data that covers a period of 1980 to 2007. All variables are expressed in logs. We believe that the 27 observations are sufficient time series for this study to detect both the short- and long-run relationships of the FDI, exports and GDP growth.

The panel of countries in our study are grouped into four key groupings: East Asia (13 countries), ASEAN plus 6 (15 countries), ASEAN plus 3 (12 countries) and ASEAN (9 countries). Given that the time series, *T*, in our sample is greater than the cross-section dimension, *N*, it is likely that pooled dynamic heterogeneous models generate estimates that are inconsistent even in large samples (Pesaran and Smith, 1995). However, Pesaran et al. (1996) propose estimation by pooling the long-run parameters, if the data allows, and estimating the model as a system, which they defined as Pooled Mean Group estimator (PMG). PMG estimation combines the efficiency of pooled estimation, while avoiding the inconsistency of the heterogeneity in the dynamic relationships. The advantage of PMG estimator is that the long-run coefficients are constrained to be the same across the cross-sections, while the short-run responses are allowed to be different across the panel.

The unrestricted specification for the system of ARDL equations for $t = 1, 2, ...., T$ and $i = 1, 2, .., N$ is given as

$$y_{it} = \sum_{j=1}^{p} \lambda_{ij} y_{i,t-j} + \sum_{j=1}^{q} \delta_{il}\, x_{i,t-j} + \mu_i + \varepsilon_{it} \quad , \qquad (1)$$

where $x_{i,t-j}$ is the ($k$ X 1) vector of explanatory variables for group $i$ and $\mu_i$ are the fixed effects. The above could be reparameterised as a VECM system.

$$\Delta y_{it} = \theta_i \left(y_{i,t-1} - \beta_i' x_{i,t-1}\right) + \sum_{j=1}^{p-1} \gamma_{ij} \Delta y_{i,t-j} + \sum_{j=1}^{q-1} \gamma_{ij}' \Delta x_{i,t-j} + \mu_i + \varepsilon_{it} \quad (2)$$

where $\beta_i$ are the long-run parameters and $\theta_i$ are the equilibrium (or error) correction parameters. The pooled mean group restriction is that the elements of $\beta$ are common across the cross-section, thereby given as follows:

$$\Delta y_{it} = \theta_i \left(y_{i,t-1} - \beta' x_{i,t-1}\right) + \sum_{j=1}^{p-1} \gamma_{ij} \Delta y_{i,t-j} + \sum_{j=1}^{q-1} \gamma_{ij}' \Delta x_{i,t-j} + \mu_i + \varepsilon_{it} \quad (3)$$

where $\gamma_{ij}$ and $\gamma_{ij}'$ are the short-run dynamic coefficients. We could test for the existence of long-run relationship by testing the null hypothesis of $\beta' = 0$ against the alternative that $\beta' \neq 0$. The long-run equilibrium is also substantiated by the negative sign of $\theta_i$, the error correction terms, which indicates the dynamic adjustment of the variables towards the long equilibrium. The joint statistical significance of $\beta' \neq 0$ and $\theta_i < 0$ will establish the existence of long-run equilibrium. Pesaran et al. (1996)

propose a maximum likelihood estimator for the above. Pesaran et al. (1996) also suggest a Hausman test or "poolability test" based on the group parameter restrictions. This is based on the result of the long-run parameters derived from the mean group of the individual *N* regressions. The test is based on a Chi-square distribution. However, Pesaran et al. (1996) highlight that PMG estimator is consistent even under heterogeneity but it is more efficient if the parameters are homogeneous.

## 4 Results of Pooled Mean Group Estimation

### 4.1 Panel Unit Root Tests

As we embark on the estimation of the long-run equilibrium using the PMG estimation, we must first try to establish the stationarity of our data series. We adopt the panel unit roots approach of Im, Pesaran and Shin (2003) and Levin, Lin and Chu (2002) to establish the stationarity of the variables. The test proposed by Levin, Lin and Chu (2002) (LLC) allow for individual specific intercepts, time trends along with error variance and permitting patterns of higher order serial correlations to vary among individuals. The null hypothesis in this test considers each individual time series having a unit root against the alternative that each time series is stationary. In contrast, Im, Pesaran and Shin (2003) (IPS) propose an alternate testing procedure that is based on averaging of individual (augmented) Dickey-Fuller (Dickey and Fuller, 1979) statistics computed for each group in the panel that has standard normal distribution so long as $T>5$. They also suggest more general test statistics where errors may be serially correlated with different serial correlation patterns across groups, panel with $T$ and $N$ dimensions sufficiently large and to unbalanced panels and dynamic panels with intercepts and trends.

The results of the panel unit-root tests for the key regional groupings are given in Table A1 in the Appendix. The unit-root tests are conducted for FDI, GDP and export at both the levels and first-difference. The results indicate that all the variables are non-stationary at the levels but they are stationary after differencing.

### 4.2 Cointegration Tests

Once the stationarity of the variables are established, we apply the panel cointegration techniques developed by Pedroni (1994, 1999) that test spurious regressions in heterogeneous panels. The Pedroni (1999) framework allows one to test for the presence of long-run equilibrium in a heterogeneous panel. Pedroni (1999) derives the asymptotic

distributions and explores the small sample performances of seven different statistics[4] for testing the null-hypothesis of no cointegration. Panel $v$-Statistic, Panel $\rho$-Statistic, Panel *t*-Statistic (non-parametric) and Panel *t*-Statistic (parametric) are commonly referred to as *within*-dimension or panel cointegration test. The remaining three test statistics - Group $\rho$-Statistic, Group *t*-Statistic (non-parametric) and Group *t*-Statistic (parametric), are based on pooling along the between-dimension or group mean panel statistics.[5] (see Pedroni (1999) for the detail derivation of the various tests).

The results of panel cointegration test by regional groupings are given in Table 2A in the Appendix. Due to brevity, we only report the Panel $v$-Statistic, Panel $\rho$-Statistic, Panel *t*-Statistic (parametric), Group $\rho$-Statistic, and Group *t*-Statistic (parametric). For each of the four test statistics, the test statistics diverges to a negative infinity under the alternative hypothesis, and consequently the left tail of normal distribution is used to reject the null hypothesis. In this case, for any of these six test statistics, a large negative value implies that a null of no cointegration is rejected. The test statistics for Panel $\rho$-Statistic, Panel *t*-Statistic (parametric), Group $\rho$-Statistic, and Group *t*-Statistic (parametric) rejects the null hypothesis of cointegration at 5 percent level of statistical for East Asia, ASEAN plus 3 and ASEAN region. This provides strong support for the proposition that there is a strong correlation between FDI, export and output growth in these regions in the long-run. However, the results for ASEAN plus 6 groupings indicate that all of the above test statistics could not reject the null hypothesis of no cointegration in the panel, except for Group *t*-Statistic (parametric) at 10 percent level of statistical significance. This indicates that there is little or no long-run relationship among the ASEAN plus 6 groupings in our sample.

### 4.3 Pooled Mean Group Estimation

The results for PMG estimation is given in Table 3A in the Appendix. The results clearly support the impact of FDI and export on GDP growth in East Asia, ASEAN plus 3 and ASEAN, as the long-run coefficients and the error-correction term are statistically significant. In fact, the long-run coefficients for both FDI and GDP are positive and the error-correction terms are negative for East Asia, ASEAN plus 3 and ASEAN regions. The joint statistically significance of long-run coefficients and error-correction term strongly rejects the non-causality hypothesis in these groupings. We also observe the

[4] See Pedroni (1999), pp 659-662 for the testing procedure and the complete formulation of test statistics.

[5] The within dimension statistic are constructed by summing numerator and denominator terms over the N dimension in the test statistic separately, whereas the between-dimension statistics are constructed by dividing the numerator by denominator prior to summing over N dimension.

long-run impact of FDI in ASEAN and ASEAN plus 3 countries are much stronger than in the East Asia region. This clearly indicates greater economic integration in these regions due to the stronger impact of the production network and value-chain in ASEAN plus 3 and ASEAN region.

We also observe positive long impact of export on the GDP growth of East Asia, ASEAN plus 3 and ASEAN regions. In fact, there is a stronger impact of export on GDP growth in the ASEAN plus 3 countries, thereby supporting the "export-led" growth paradigm in the region. The positive long-run impact of export on output growth supports the conjecture that there trade is an important component in driving economic integration in these regions.

The PMG results also indicate FDI and the error-correction terms for ASEAN plus 6 groupings are not statistically significant, thereby rejecting the existence of long-run equilibrium in this region. Based on the PMG estimation, we could not reject the null hypothesis of no long-run causality in ASEAN plus 6 groupings.

## 6 Conclusion

The paper investigates the causal linkages between FDI, export and GDP growth in the East Asian region. The results support a positive and statistically significant equilibrium relation between FDI and export on GDP growth. In fact, we found greater positive impact of FDI and export on output growth in ASEAN plus 3 grouping and ASEAN countries. This clearly indicates greater investment and trade integration in these regions. The investment and trade integration in these regions might be due to the presence of intra-industry trade, thereby supporting the production network and value-chain production structure. In fact, the East Asia East Asia region is now trading more intraregional than interregional.

However, we do not find any long-run relationship between FDI and export on GDP growth in the ASEAN plus 6 grouping in both the panel cointegration tests and also in the PMG estimation. This might be due to greater disparity in national income and heterogeneity in the economic development of the ASEAN plus 6 countries. Given that ASEAN plus 6 region will provide a large market for trade and investment, there is potential to create production and trading linkages in the region. Thus it is important the region focuses on increasing investment and trade integration by reducing barriers in trade and foreign investment, thereby allowing greater flow of international activities across the region.

The results of the paper clearly support the "export-led" growth in the East Asian region. The importance and sustainability of "export-led" growth in the region is becoming an important topic of discussion given the current global crisis. Given the

large and dynamic nature of domestic market in the East Asian region, the export growth in the region is sustainable. With growing consumerism and income in the region, the intra-regional trade in the region is expected to grow. The development of international brands in the region will be crucial to maintain the export competitiveness in the region. In particular, the ASEAN countries have to develop key international brands and locally linked multinational companies that drive greater trade and investment in the region.

The importance of FDI for the long-term growth of the East Asian region is clearly indicated in the study. Given that most of the R&D activities and new technologies are concentrated in the developed countries, FDI forms an important conduit for transfer of technologies to the region. However, it could be argued that given the proprietary nature of FDI activities, there is less incentive for multinationals to transfer key technologies to the domestic economy. It becomes more imperative that the region develops key technologies to complement the FDI activities in the region. As the development in the region reaches a sustainable level, the region has to develop strong indigenous technologies to complement the flow of foreign technology into the domestic economy through FDI activities.

The paper provides strong evidence that FDI and trade are important drivers of economic integration in the region. Given there is strong evidence for long-term growth in the regional through FDI and trade, it is important to reduce the barriers for greater flow of trade and FDI in the region. In particular, there should strong emphasis to reduce not only trade barriers but also to address the behind the border issues such as technical barriers to trade and institutional barriers. This will enhance greater regional integration through FDI and trade.

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**Appendix**

**Table1A: Results of Panel Unit Root Tests for East Asian Countries**

| | **Levels** | | **Difference** | |
|---|---|---|---|---|
| | **LLC** | **IPS** | **LLC** | **IPS** |
| **East Asia (13 countries)** | | | | |
| GDP | -1.014 | 5.304 | -7.495* | -8.159* |
| FDI | -1.381 | -0.584 | -15.520* | -16.533* |
| Export | 0.894 | 5.986 | -13.349* | -13.061* |
| **ASEAN plus 6 (15 countries)** | | | | |
| GDP | 1.893 | 2.188 | -6.417* | -8.770* |
| FDI | -1.493 | -0.809 | -17.325* | -18.587* |
| Export | 1.815 | 6.890 | -13.887* | -13.847* |
| **ASEAN plus 3 (12 countries)** | | | | |
| GDP | 1.226 | 5.502 | -6.844* | -7.581* |
| FDI | -1.235 | -0.610 | -15.545* | -16.626* |
| Export | 1.123 | 6.042 | -12.923* | -12.698* |
| **ASEAN (9 countries)** | | | | |
| GDP | 2.572 | 6.305 | -6.505* | -6.570* |
| FDI | -0.474 | -0.313 | -15.915* | -15.031* |
| Export | 1.210 | 5.081 | -10.487* | -10.695* |

*- 1 percent level of statistical significance

**Table 2A: Results of Panel Cointegration for East Asian Countries**

| | **East Asia** | **ASEAN plus 6** | **ASEAN plus 3** | **ASEAN** |
|---|---|---|---|---|
| Panel *v*-statistic | -0.656 | -1.399 | 0.007 | -0.647 |
| Panel *p*-statistic | -3.454* | -0.573 | -3.360* | -3.277* |
| Panel *t*-statistic | -5.823* | -1.412 | -2.027* | -2.560* |
| Group *p*-statistic | -3.718* | -0.560 | -3.713* | -3.714* |
| Group *t*-statistic | -2.773** | -1.986*** | -2.728** | -4.119* |

*- 1 percent level of statistical significance, **- 5 percent level of statistical significance, ***- 10 percent level of statistical significance

**Table 3A: Pooled Mean Group Estimation for East Asia**

| | **East Asia** | **ASEAN plus 6** | **ASEAN plus 3** | **ASEAN** |
|---|---|---|---|---|
| FDI | 0.810* | 1.030 | 2.110* | 2.540* |
| Export | 3.780* | 2.770* | 5.680* | 5.310* |
| Error Correction Te | -0.0002** | -0.0001 | -0.0006** | -0.0008* |

*- 1 percent level of statistical significance; **- 5 percent level of statistical significance.

【Power Point】

**Trade, FDI and Regional Integration in East Asia**

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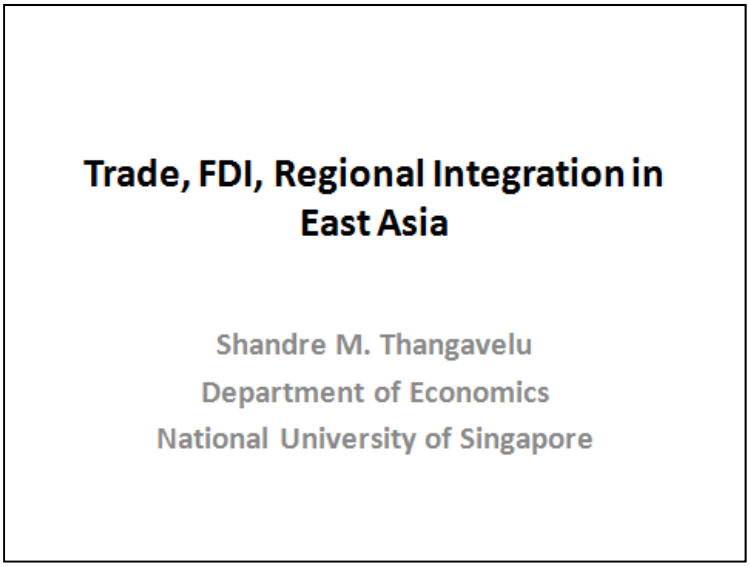
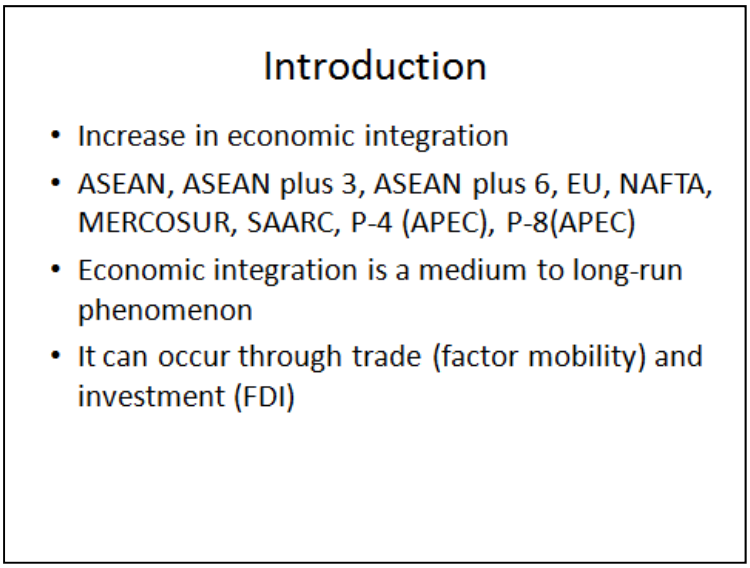


## Economic Integration

- Production network and Global value-chain production (Gill, 2007; Ando and Kimura, 2003)
- Due to regionalization and regionalism
- Regionalization: close proximity to production networks, scale economies and other agglomeration economies that affect the cost structure of intermediate inputs
- Regionalism: low trade barriers, efficient duty drawback regime for exports, encouragement of export oriented FDI, good logistics and labour wage differentials

## Economic Integration: ASIA

- Vertical production network (Ando and Kimura, 2003)
- Production linkages and spillovers from FDI activities
- Intra-industry trade
- Greater FDI activities
- Greater Export activities

## Objective of the study

- Examine the long-run relationship between trade, FDI and GDP growth in the East Asia region employing the dynamic panel techniques of 16 East Asian countries over the period 1980 to 2007
- Regional integration by examining key regional groupings: East Asia, ASEAN, ASEAN plus 6, ASEAN plus 3

## Literature

- Business cycles and Economic Integration: Frankle and Rose (1998), Kenen (2000), Imbs (2004), Baxter and Kouparitsas (2005)
- Financial development and Integration: Imbs (2004 and 2006), Inklaar et al (2008), Kose et al. (2003)
- Investment and Trade as key sources for economic integration: Ando and Kimura (2003), Balasubramanyam et al. (1996), Nair-Reichert and Weinhold (2001), De Mello (1999), Carkovic and Levine (2005), Hansen and Rand (2006)

## Key Trends

**Table 1: Real GDP Growth Rate for Selected Asian Economies from 1995 – 2007**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 10.9 | 10.0 | 9.3 | 7.8 | 7.6 | 8.4 | 8.3 | 9.1 | 10.0 | 10.1 | 10.4 | 11.1 | 11.9 |
| Hong Kong | 2.5 | 4.2 | 5.1 | -5.0 | 2.6 | 5.0 | 0.5 | 1.8 | 3.0 | 8.5 | 7.1 | 7.0 | 6.4 |
| Indonesia | 8.2 | 7.8 | 4.7 | -13.1 | 0.8 | 4.9 | 3.8 | 4.5 | 4.8 | 5.0 | 5.7 | 5.5 | 6.3 |
| Korea | 9.2 | 7.0 | 4.7 | -6.9 | 9.5 | 8.5 | 3.8 | 7.0 | 3.1 | 4.7 | 4.2 | 5.1 | 5.0 |
| Malaysia | 9.8 | 10.0 | 7.3 | -7.4 | 6.1 | 8.9 | 0.5 | 5.4 | 5.8 | 6.8 | 5.0 | 5.9 | 6.3 |
| Philippines | 4.7 | 5.9 | 5.2 | -0.6 | 3.4 | 4.4 | 1.8 | 4.4 | 4.9 | 6.4 | 5.0 | 5.4 | 7.2 |
| Singapore | 8.2 | 7.8 | 8.3 | -1.4 | 7.2 | 10.1 | -2.4 | 4.2 | 3.5 | 9.0 | 7.3 | 8.2 | 7.7 |
| Taiwan | 6.3 | 6.3 | 6.8 | 4.5 | 5.7 | 5.8 | -2.2 | 4.6 | 3.5 | 6.2 | 4.2 | 4.9 | 5.7 |
| Thailand | 9.2 | 5.9 | -1.4 | -10.5 | 4.4 | 4.8 | 2.2 | 5.3 | 7.1 | 6.3 | 4.5 | 5.1 | 4.8 |
| Vietnam | 9.5 | 9.3 | 8.2 | 5.8 | 4.8 | 6.8 | 6.9 | 7.1 | 7.3 | 7.8 | 8.4 | 8.2 | 8.5 |

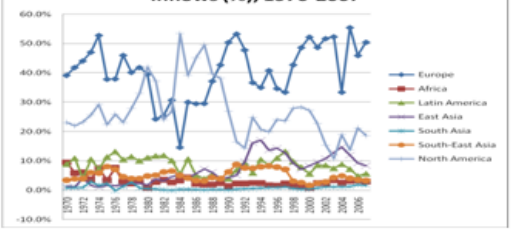
Source: Asian Development Bank

**Table 2: Export Growth for Selected Asian Economies**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| China | 23.0 | 1.5 | 21.0 | 0.5 | 6.1 | 27.8 | 6.8 | 22.4 | 34.6 | 35.4 | 28.4 | 27.2 | 25.7 |
| Hong Kong | 14.9 | 4.0 | 4.2 | -7.4 | 0.1 | 16.6 | -5.8 | 5.4 | 11.7 | 15.9 | 11.4 | 9.4 | 9.2 |
| Indonesia | 13.4 | 9.7 | 7.3 | -8.6 | -0.4 | 27.7 | -9.3 | 1.5 | 9.4 | 11.5 | 22.9 | 17.5 | 13.3 |
| Korea | 30.3 | 3.7 | 5.0 | -2.8 | 8.6 | 19.9 | -12.7 | 8.0 | 19.3 | 31.0 | 12.0 | 14.4 | 14.1 |
| Malaysia | 20.2 | 6.5 | 12.1 | 29.7 | 12.2 | 16.1 | -10.4 | 6.9 | 11.3 | 21.0 | 10.9 | 10.3 | 2.7 |
| Philippines | 29.4 | 17.7 | 22.8 | 16.9 | 18.8 | 8.7 | -15.6 | 9.5 | 2.9 | 9.5 | 4.0 | 14.9 | 6.4 |
| Singapore | 13.7 | 5.2 | 5.3 | -1.0 | 5.7 | 22.4 | -8.3 | 2.7 | 12.1 | 20.5 | 14.0 | 12.8 | 4.4 |
| Taiwan | 20.1 | 7.7 | 9.6 | 8.0 | 6.0 | 18.6 | -10.0 | 9.8 | 10.8 | 17.9 | 4.5 | 14.2 | 11.1 |
| Thailand | 23.6 | 0.4 | 27.9 | 24.4 | -1.4 | 25.2 | 4.0 | 1.4 | 13.7 | 16.5 | 14.6 | 11.4 | 6.4 |
| Vietnam | 34.4 | 33.2 | 26.6 | 1.9 | 23.3 | 25.5 | 3.8 | 11.2 | 20.6 | 31.4 | 22.5 | 22.7 | 21.9 |

Source: Asian Development Bank

**Figure 1: FDI Inflows to World Total FDI Inflows (%), 1970-2007**




**Average FDI to World FDI Inflows (%)**

| | 1992-1997 | 1999-2007 |
|---|---|---|
| Europe | 38.08% | 48.75% |
| Africa | 2.09% | 2.40% |
| Latin America | 9.72% | 7.17% |
| East Asia | 13.94% | 10.33.% |
| South Asia | 0.77% | 1.06% |
| South-East Asia | 7.71% | 3.34% |
| North America | 21.29% | 19.68% |
| Others | 6.41% | 7.28% |

Source: UNCTAD

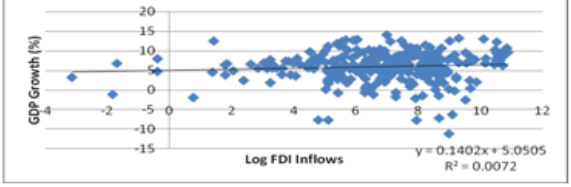
Table 3: Average FDI Inflows to Total World FDI Inflows (%) for East Asia, 1992-2007

| | 1992-1997 | 1999-2007 |
|---|---|---|
| China | 10.52 | 6.22 |
| Hong Kong | 2.56 | 3.14 |
| Indonesia | 1.12 | 0.11 |
| Korea | 0.39 | 0.65 |
| Malaysia | 2.05 | 0.40 |
| Philippines | 0.45 | 0.14 |
| Singapore | 2.58 | 1.68 |
| Taiwan | 0.48 | 0.32 |
| Thailand | 0.77 | 0.63 |
| Vietnam | 0.50 | 0.20 |

Source: UNCTAD

# FDI, Exports and GDP Growth

**Figure 2: GDP Growth and FDI Inflows in East Asia (excluding Taiwan) from 1980-2007**



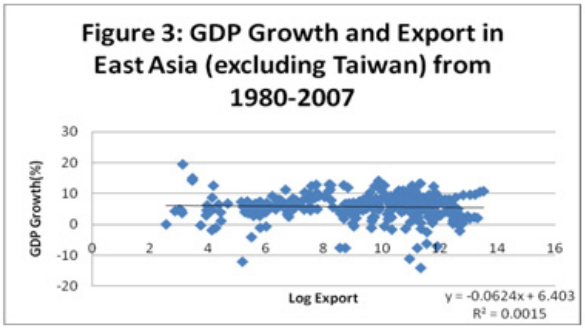


Figure 3: GDP Growth and Export in East Asia (excluding Taiwan) from 1980-2007
GDP Growth(%)
30
20
10
0
-10
-20
0
2
4
6
8
10
12
14
16
Log Export
y = -0.0624x + 6.403
R² = 0.0015

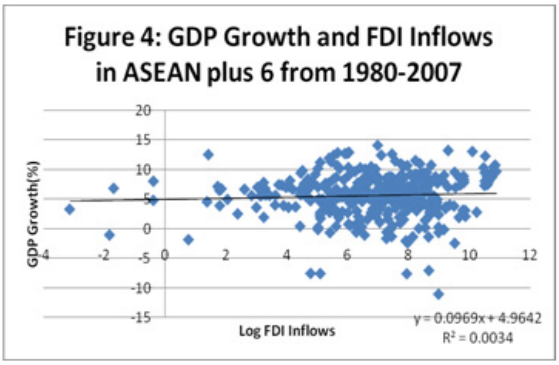


Figure 4: GDP Growth and FDI Inflows in ASEAN plus 6 from 1980-2007
GDP Growth(%)
20
15
10
5
0
-5
-10
-15
-4
-2
0
2
4
6
8
10
12
Log FDI Inflows
y = 0.0969x + 4.9642
R² = 0.0034

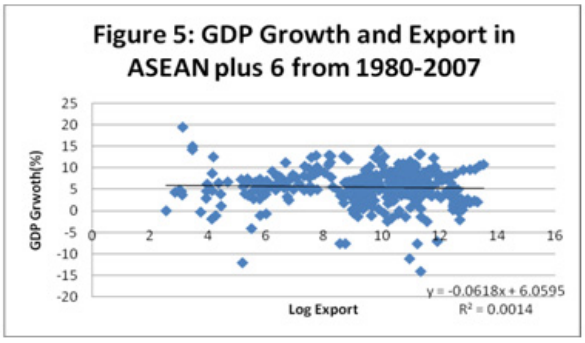
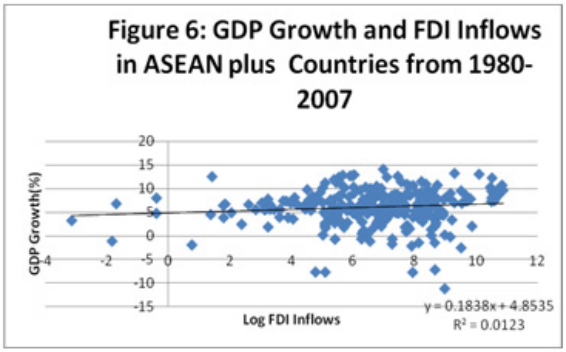
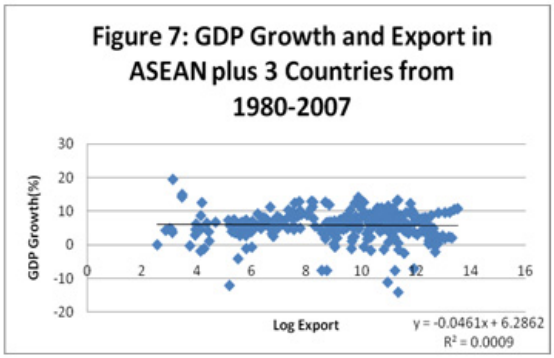


Figure 5: GDP Growth and Export in ASEAN plus 6 from 1980-2007
GDP Grwoth(%)
25
20
15
10
5
0
-5
-10
-15
-20
0
2
4
6
8
10
12
14
16
Log Export
y = -0.0618x + 6.0595
R² = 0.0014




## Dynamic Panel Methodology

- Explores the long-run impact of FDI and trade among ASEAN, ASEAN plus 3 and ASEAN plus 6 groupings in the panel VAR framework
- Panel Unit Roots Test: Im, Pesaran and Shin (2003) and Levin, Lin and Chu (2002)
- Panel Cointegration Test of Pedroni (1999)
- Pooled Mean Group Estimator of Pesaran et al. (1996)

## Pooled Mean Group Estimator (PMG)

Vector Autoregressive Error Correction

$$\Delta y_{it} = \theta_i\left(y_{i,t-1} - \beta_i' x_{i,t-1}\right) + \sum_{j=1}^{p-1}\gamma_{ij}\Delta y_{i,t-j} + \sum_{j=1}^{q-1}\gamma_{ij}'\Delta x_{i,t-j} + \mu_i + \varepsilon_{it}$$

Joint statistical significance of $\beta' = \theta_i$, $\theta_i < 0$

$$\Delta y_{it} = \theta_i\left(y_{i,t-1} - \beta' x_{i,t-1}\right) + \sum_{j=1}^{p-1}\gamma_{ij}\Delta y_{i,t-j} + \sum_{j=1}^{q-1}\gamma_{ij}'\Delta x_{i,t-j} + \mu_i + \varepsilon_{it}$$

## Key Results: Panel Unit Root Tests

**Table1A: Results of Panel Unit Root Tests for East Asian Countries**

| | Levels | | Difference | |
|---|---|---|---|---|
| | LLC | IPS | LLC | IPS |
| **East Asia (13 countries)** | | | | |
| GDP | -1.014 | 5.304 | -7.495* | -8.159* |
| FDI | -1.381 | -0.584 | -15.520* | -16.533* |
| Export | 0.894 | 5.986 | -13.349* | -13.061* |
| **ASEAN plus 6 (15 countries)** | | | | |
| GDP | 1.893 | 2.188 | -6.417* | -8.770* |
| FDI | -1.493 | -0.809 | -17.325* | -18.587* |
| Export | 1.815 | 6.890 | -13.887* | -13.847* |
| **ASEAN plus 3 (12 countries)** | | | | |
| GDP | 1.226 | 5.502 | -6.844* | -7.581* |
| FDI | -1.235 | -0.610 | -15.545* | -16.626* |
| Export | 1.123 | 6.042 | -12.923* | -12.698* |
| **ASEAN (9 countries)** | | | | |
| GDP | 2.572 | 6.305 | -6.505* | -6.570* |
| FDI | -0.474 | -0.313 | -15.915* | -15.031* |
| Export | 1.210 | 5.081 | -10.487* | -10.695* |

*- 1 percent level of statistical significance

1. Results: Stationarity after differencing

## Results: Panel Cointegration Test

**Table 2A: Results of Panel Cointegration for East Asian Countries**

| | East Asia | ASEAN plus 6 | ASEAN plus 3 | ASEAN |
|---|---|---|---|---|
| Panel *v*-statistic | -0.656 | -1.399 | 0.007 | -0.647 |
| Panel *p*-statistic | -3.454* | -0.573 | -3.360* | -3.277* |
| Panel *t*-statistic | -5.823* | -1.412 | -2.027* | -2.560* |
| Group *p*-statistic | -3.718* | -0.560 | -3.713* | -3.714* |
| Group *t*-statistic | -2.773** | -1.986*** | -2.728** | -4.119* |

*- 1 percent level of statistical significance, **- 5 percent level of statistical significance, ***-10 percent level of statistical significance

1. Long-run equilibrium for East Asia, ASEAN plus 3 and ASEAN
2. No or weak existence of long-run equilibrium for ASEAN plus 6

## Result: Pooled Mean Group Estimator

**Table 3A: Pooled Mean Group Estimation for East Asia**

| | East Asia | ASEAN plus 6 | ASEAN plus 3 | ASEAN |
|---|---|---|---|---|
| FDI | 0.810* | 1.030 | 2.110* | 2.540* |
| Export | 3.780* | 2.770* | 5.680* | 5.310* |
| Error Correction Term | -0.0002** | -0.0001 | -0.0006** | -0.0008* |

*- 1 percent level of statistical significance; **- 5 percent level of statistical significance.

1. Reject the null of no long-run relationship from FDI, Export to GDP for East Asia, ASEAN plus 3 and ASEAN
2. Stronger impact from FDI and Export to GDP for ASEAN and ASEAN plus 3: stronger production network

## Conclusion

- Results support a positive and statistically significant equilibrium relation between FDI and export on GDP growth for East Asia, ASEAN plus 3 and ASEAN
- Due to the presence of intra-industry trade, thereby supporting the production network and value-chain production structure
- No long-run relationship in the ASEAN plus 6 for both the panel cointegration tests and also in the PMG estimation.

## Conclusion

- ASEAN plus 6:
  - Need to reduce trade and institutional barriers
  - Potential for greater regional trade
- ASEAN plus 3: Need to reduce behind border issues and greater institutional integration
- Importance of "Export-Led" growth and FDI for growth in the region
- Importance of indigenous technology for growth
- Complementary effects between FDI and Export
- ASEAN needs more local MNCs and global Brands

【討論】

## Trade, FDI and Regional Integration in East Asia

**討論者:Kazuhiko Yokota**

(Associate Professor at School of Commerce, Waseda University)

Thank you, Mr. Chairman. And thank you, Professor Thangavelu, for a very interesting presentation. Let me start by summarizing your paper.

His paper was on a study of evolution of trade, FDI, and GDP growth in the ASEAN region over the past 27 years. Then it also studies a causal relationship between international trade and GDP growth, using a time-series technique, actually panel and time-series technique.

Then the paper shows that exports, FDI, and GDP growth in all groups are integrated of order 1, I(1), and also are cointegrated with one another. That means that these three variables have a long-term relationship.

However, the most interesting point in his paper is that the long-term relationship is identified only for ASEAN and ASEAN Plus Three but not for the ASEAN Plus Six countries.

Hence, the paper concludes that there are large impacts of exports and FDI on GDP growth for ASEAN and ASEAN Plus Three. The paper suggests the importance of a production network, as well as supply-chain networks, in this area.However, in the case of ASEAN Plus Six, the study finds no evidence of any long-term relationships among international trade, FDI, and GDP growth.

So the author suggests that it might be due to a large difference in national income and the difference in development stages in these areas.

The paper also suggests that exports and FDI are important factors in driving economic growth and East Asian integration.

So now I would point out some missing issues in this paper. The first thing is that I would like to see detailed data and a description, which is particularly important when doing a time-series analysis. Second is information. I would also like to see an explanation about processes by empirical studies, such as information or lag length when he uses unit-root tests and causality tests. But these two are relatively minor points among my comments.

The third one, which is a very important point, is that the economic story that is underpinning the empirical study is not perfectly clear to me. So the story to explain the causal relationship among international trade, FDI, and economic growth is important to clarify the characteristics of ASEAN regional integration.

Next, I would show several important points whenever we consider the East Asian region and integration. The first graph shows the trends of FDI stock. It shows world trends and East Asian trade of FDI stock. You can clearly see that it shows that the FDI stock in East Asia has become 34 times larger in 2007 than in 1980, while it has become 20 times larger worldwide over the same period.

Next is the trade data. What do the trade data tell us? This one shows world trade, and this one is East Asian trade. You can see from these figures on East Asian trade that we have a unique characteristic, which is a large amount of trade of intermediate goods.

These facts suggest that a large number of MNEs in East Asia have created vertical production networks, as Dr. Thangavelu suggested, mainly between home and host countries.

Finally, I would like to show an important point when we consider the East Asian region, that is the leading sector in trade of intermediate goods is the electrical machinery sector. Actually, the trade volume in intermediate goods in the machinery sector became more than 100 times from 1980 to 2007. .

So if we consider this unique characteristic of East Asia, we have a hypothesis that FDI induces trade in intermediate goods in East Asia, because of the vertical production networks or supply-chain networks, as Dr. Thangavelu suggested. And the activities of MNEs expand production and the trade in intermediate goods in East Asia, especially in ASEAN countries and China.

But at the same time, we have to address two important issues about East Asia. The first is that the key industry is electrical machinery, and the second is that China and Japan play major roles in this area, especially in trade in intermediate goods.

Taking these points into consideration, I would like to give a brief conclusion. This paper tackles a very interesting topic. However, to reinforce the conclusion of the paper, you may have an attractive hypothesis that can explain the relationships among international (especially intermediate) trade, FDI, and economic growth.

And in that case, the hypothesis should contain the differences in type of international trade, such as intermediate goods, primary goods, and consumption goods (final goods), as well as industry characteristics, since we have seen that the leading sector in this area is the electrical machinery sector.

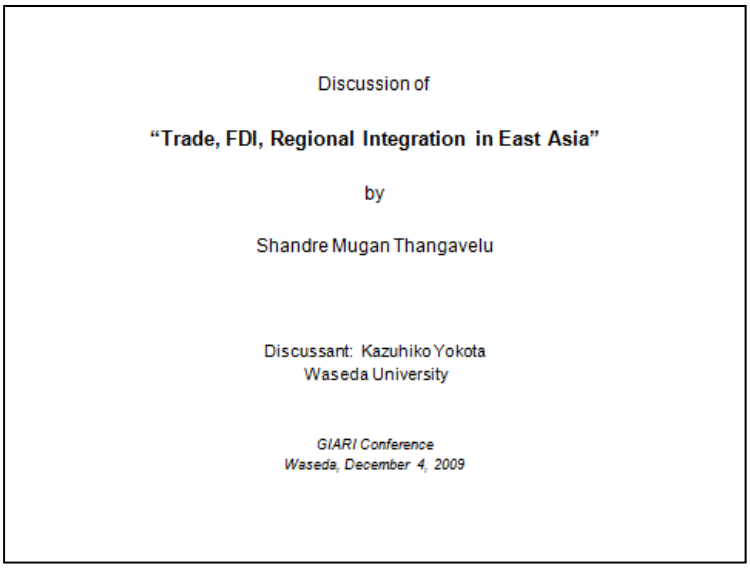
The last one is country-specific factors, especially with regard to China and Japan. China and Japan are major players in the East Asian region and have a large amount of trade in intermediate goods.

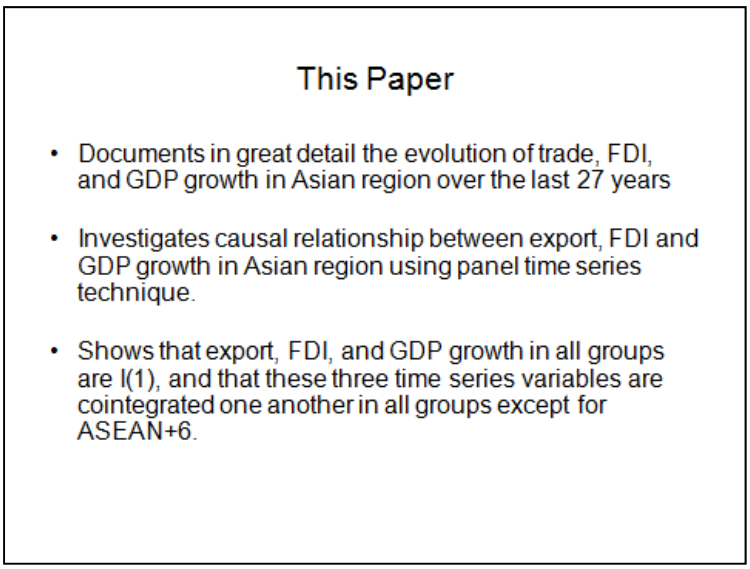
So, these are the comments I should raise today. I guess time is up now, and I should stop here.Thank you.

【Power Point】

**Trade, FDI and Regional Integration in East Asia**

討論者:**Kazuhiko Yokota**
(Associate Professor at School of Commerce, Waseda University)



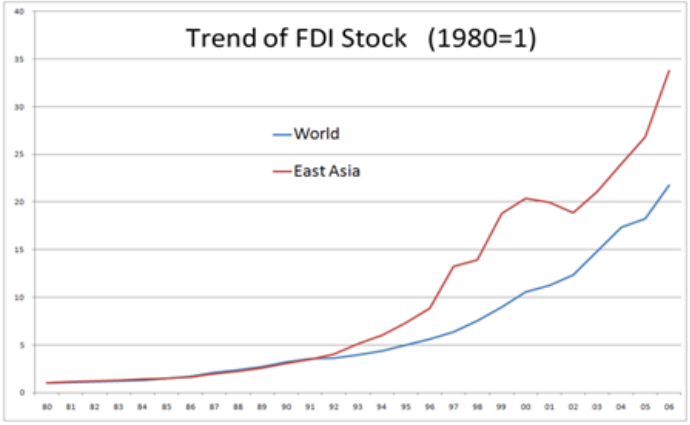
## The Paper concludes

- There are large Impacts of export and FDI on GDP growth in ASEAN and ASEAN+3, due to intra-industry trade, production network, and value-chain network.
- There is no evidence of any long-run relationship between export or FDI and GDP growth in ASEAN+6. It might be due to large difference in national income and development stage among countries.
- Export and FDI are important factors in East Asian region.

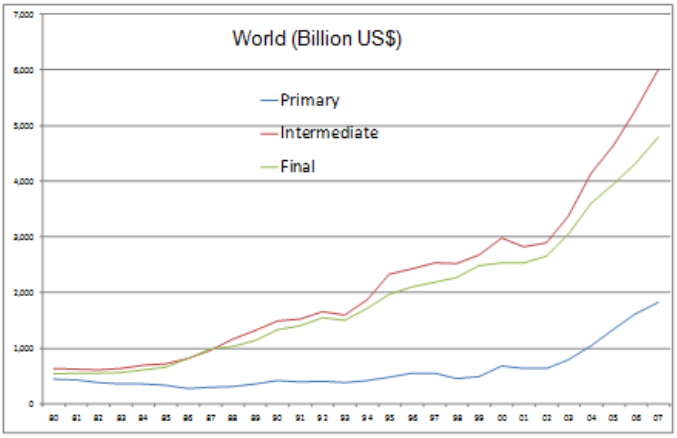
## What are missing

- Detailed data description which is particularly important in time series analysis
- Explanations about actual processes of empirical studies, such as lag-length of unit root test.
- Explanation –an economic story – underpinning the validity of empirical study. A story that explains the causal relationship among export, FDI, and economic growth.

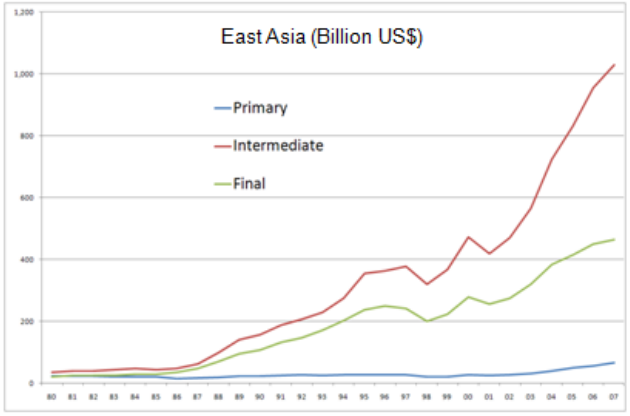
## FDI Data tell us



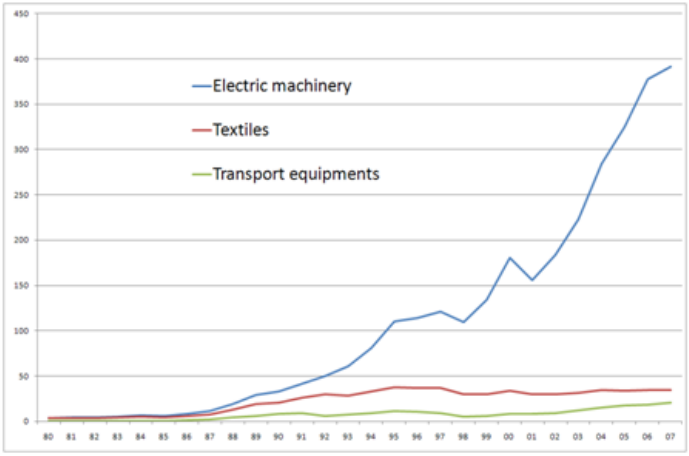
## Trade Data tell us




## Trade Data tell us




## Intermediate Goods Trade in East Asia by Industry



## A Possible Story is

- FDI induces intermediate goods trade in East Asia because of vertical production network or fragmentation
- MNE's activities expand production as well as intermediate goods export in East Asian region, especially in ASEAN and China

But we have to consider:

- Key industry is electric machinery
- China – production or export base, and large market

## Bottom line

- This paper tackles an interesting topic
- But it needs an attractive hypothesis –story- that explains relationship between export, FDI and economic growth.
- Hypothesis needs to contain the difference in the type of trade, difference in the industry, and difference in country, especially China.

## 【質疑応答】

浦田： どうもありがとうございました。今、発表者と討論者の議論をお聞きになって、かなりアカデミックな議論が行われているなという印象を持たれたかと思います。実際、経済学、特に国際経済学では、今お 2 人がお話になったようなことが一番フロンティアのテーマとして議論、また研究されております。そのような理由で、かなりアカデミックなように聞こえたかと思います。ただ、ここで分析しようと思っているのは、どういう形でアジアの統合が起きているかということです。東アジアでは貿易、貿易の中でも、特に中間財、部品が非常に活発に取引されているのですが、その背景には多国籍企業による直接投資があるわけです。そのような関係が存在し、それが経済成長をもたらしているのかどうかということを Shandre さんは検証をして、ASEAN+3 と ASEAN ではそういった関係が認められるけれども、ASEAN+6 ではまだそういった関係が見られていないという話です。

先ほど約束しましたように、議論をオープンにして皆さまのほうからの質問を受けたいと思います。時間の関係でお 1 人しか受け取れないと思いますが、どなたか質問がある方、挙手をお願いします。発言の前にご所属をお願いいたします。簡潔に質問をお願いいたします。

フロア： Thank you, Mr. Chairman. I have a question on Figures 2, 5, and 7 of the presenter's draft. These figures show that there is almost no statistical relationship between GDP growth and exports.

But I think that it's a little bit strange. Economic theory and our experience show that export is one of the most important driving forces of growth. So what is the problem with this chart?

I think the horizontal line should be replaced with the growth rate of exports, not the total value of exports. I recommend that growth rate of exports year by year is more appropriate because we know that the growth rate of GDP mostly depends on the growth rate of exports each year, for almost all countries. Thank you very much.

浦田： どうもありがとうございます。それではもう少し質問したい方がいらっしゃるかもしれませんけれども、時間の関係がありますので、シャンドラさんのほうから答えられるものについて答えてください。特に、観察されたデータの裏にどういうストーリーがあるのか、どういうシナリオがあるのか、どういうことが起きているのかということを統計学的というよりはディスクリプティブに、話してもらえるといいかなと思います。

Shandre： Thank you for the comments.

Yes, with regard to the data on inter-industry and intermediate goods trade, it important to think about the impact of intermediate goods trade on integration. However, it is difficult to obtain consistent trade data over a very long period of time. It is also difficult to obtain disaggregated export and FDI data by industry and countries.

But the story in terms of how integration is occurring and how integration is occurring in medium- to long-term is a very important issue. The focus of the paper is to study the medium and long-term economic integration. The paper collects time-series data and study the impact of different country groupings on economic integration in panel data framework.

With respect to the data and the exports, the graphs simply show the level effects on growth. The growth effects are just as important as the level effects.

The dynamics of exports is based on the conglomerate effects of trade and how each country is trying to increase the level of exports and drive growth. The level effects are as important as the growth effects. These are shown in the graphs.

In fact, it is important to highlight that the level effects are long term effects on output growth and this clearly shown in my econometric model. The results show that there is a long-term relationship that comes from FDI and export growth. So the study quite nicely separates all the growth and the level effects.

So let me conclude with one last comment, which is that the region itself is very much driven by FDI. And although FDI in machinery and electrical goods are equally important, there are only one or two countries such as Japan and Korea that are actually driving the technological development. China is just emerging and starting to develop its own technology. But China is going to take a very long time to develop its technology.

The countries that are really driving technology in the region are Japan, Korea, and Taiwan. And again, the technology they are driving is very much applied, end-of-the-cycle kind of technology, whereas most of the important technology is still technology from the developed countries.

So if you really to discuss about economic integration, the region itself has to develop very strong technology. I still think that the key

countries that are going to drive the integration in the region in terms of inter-industrial trade and in terms of keeping export momentum going are Japan, Korea, and Taiwan. Thank you.

浦田： どうもありがとうございました。最後のコメントである、技術的な面での開発とかを地域内で行っていく必要があると、そうでなければ本格的な地域統合は進んでいかないのではないかという指摘は重要であると思います。

【報告】

# The New Wave of Regional Integration and East Asia

「地域統合の新たな潮流と東アジア」

**Fukunari Kimura**

(Professor, Faculty of Economics, Keio University

Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

Very preliminary draft

Abstract

This paper provides an overview on the recent development of FTA networking in extended East Asia and assesses the quality of FTAs with novel information on the utilization of FTAs, rules of origin, WTO plus elements, and others. It finds that East Asian FTA networking has been an effective driving force of promoting freer trade and investment, particularly through further activating international production networks. The paper also provides an overview of recent explosive increases in intra-regional and inter-regional exports by East Asia, which suggests the possibility of evaluation of FTA networking in a wider scope. The paper concludes that East Asia and Asia-Pacific may become a focal point of multilateralizing regionalism.

Key words: regionalism, free trade agreements, rules of origin, the World Trade Organization, political economy of trade policies

JEL classification: F13, F15

## 1. Introduction

The year 2009 became an epoch-making year. In February, the agreement establishing ASEAN-Australia-New Zealand Free Trade Area was signed. In August 2009, ASEAN-India Trade in Goods Agreement was also signed. These set the completion of ASEAN+1 FTA networking in extended East Asia that includes ASEAN10 + 6. The next step of East Asian economic integration must surely be accompanied with FTAs among Japan, Korea, and China, which is likely to take time for a while. It is thus a good timing to evaluate what has been accomplished.

Economists' views on overlapping bilateral FTAs have recently changed drastically. In the past, the complication due to overlapping bilateral FTAs was emphasized as a major shortfall of regionalism, and the necessity of FTA consolidation was strongly claimed. However, a number of recent empirical evidences suggest that the complexity of trade regime may not necessarily deter international trade, and the effect of promoting trade liberalization by the sequence of FTA negotiations starts being rather appreciated. FTA networking in an open setting may now link to a new wave of regionalism, and "multilateralizing regionalism" (Baldwin (2006)) is not regarded as impossible dream anymore.

FTAs in East Asia are more practical and pragmatic than those in other parts of the world. There exists a strong background in *de facto* economic integration, namely the unprecedented development of international production networks. The FTA networking in East Asia could be a predecessor of the new wave of regionalism with new development strategies.

This paper tries to assess the accomplishment of FTA networking along the line of possible multilateralizing regionalism in the future. It first provides an overview on the current status of FTA networking in East Asia and Asia-Pacific. Then it reviews the existing evaluation of FTA networking from a practical viewpoint. After than, a sketchy observation on recent international trade data is presented in order to set up a possible new approach of evaluating FTA networking with a wider scope. Concluding remarks follow.

## 2. Current status of FTA networking in extended East Asia and Asia-Pacific

FTA networking in extended East Asia, i.e., ASEAN+6, is a relatively recent phenomenon. Table 1 presents the evolution of FTA networking in this region, showing the years of FTA conclusion as well as those when the FTAs became effective. Although the contents of these FTAs widely vary, the hub-and-spoke system of FTAs centered by ASEAN is now completed; six countries, i.e., Japan, Korea, China, India, Australia, and New Zealand, are connected with ASEAN by FTAs.

Table 1 FTA networking in extended East Asia

(As of November 2009)

| | Japan | Korea | China | ASEAN | Brunei | Indonesia | Malaysia | Philippines | Singapore | Thailand | Vietnam | CLM | India | Australia | New Zealand |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Japan | | ○ (suspended) | △ | ◎: 2008 - | ◎: 2008 | ◎: 2008 | ◎: 2006 | ◎: 2008 | ◎: 2002 | ◎: 2007 | ◎ | | ○ | ○ | |
| Korea | ○ (suspended) | | △ | ◎: 2007 - | | | | | ◎: 2006 | | | | ◎ | ○ | ○ |
| China | △ | △ | | ◎: 2005 - | | | | | ◎: 2009 | | | | △ | ○ | ◎: 2008 |
| ASEAN | ◎: 2008 - | ◎: 2007 - | ◎: 2005 - | ◎: 1993 - | (1992) | (1992) | (1992) | (1992) | (1992) | (1992) | (1995) | (LM:1997/C:1999) | ◎ | ◎: 2010 - | ◎: 2010 - |
| Brunei | ◎: 2008 | | | (1992) | | (1992) | (1992) | (1992) | (1992) | (1992) | (1995) | (LM:1997/C:1999) | | | ◎: 2006 |
| Indonesia | ◎: 2008 | | | (1992) | (1992) | | (1992) | (1992) | (1992) | (1992) | (1995) | (LM:1997/C:1999) | | △ | |
| Malaysia | ◎: 2006 | | | (1992) | (1992) | (1992) | | (1992) | (1992) | (1992) | (1995) | (LM:1997/C:1999) | ○ | ○ | ◎ |
| Philippines | ◎: 2008 | | | (1992) | (1992) | (1992) | (1992) | | (1992) | (1992) | (1995) | (LM:1997/C:1999) | | | |
| Singapore | ◎: 2002 | ◎: 2006 | ◎: 2009 | (1992) | (1992) | (1992) | (1992) | (1992) | | (1992) | (1995) | (LM:1997/C:1999) | ◎: 2005 | ◎: 2003 | ◎: 2001 |
| Thailand | ◎: 2007 | | | (1992) | (1992) | (1992) | (1992) | (1992) | (1992) | | (1995) | (LM:1997/C:1999) | △ | ◎: 2005 | ◎: 2005 |
| Vietnam | ◎ | | | (1995) | (1995) | (1995) | (1995) | (1995) | (1995) | (1995) | | (LM:1997/C:1999) | | | |
| CLM | | | | (LM:1997/C:1999) | (LM:1997/C:1999) | (LM:1997/C:1999) | (LM:1997/C:1999) | (LM:1997/C:1999) | (LM:1997/C:1999) | (LM:1997/C:1999) | (LM:1997/C:1999) | | | | |
| India | ○ | ◎ | △ | ◎ | | | ○ | | ◎: 2005 | △ | | | | △ | △ |
| Australia | ○ | ○ | ○ | ◎: 2010 - | | △ | ○ | | ◎: 2003 | ◎: 2005 | | | △ | | ◎: 1983 |
| New Zealand | | ○ | ◎: 2008 | ◎: 2010 - | ◎: 2006 | | ◎ | | ◎: 2001 | ◎: 2005 | | | △ | ◎: 1983 | |

Notes: ◎: signed or being effective, ○: under negotiation or agreed to negotiate, △: feasibility study or preparatory talks. The year indicates when the concerned FTA was in force. "-" after the year means that some ASEAN countries are under the corresponding FTAs in force and other countries follow later. Dark blue indicates FTAs signed before or in the 1990s, blue indicates FTAs signed in the first half of the 2000s, and light blue indicates FTAs signed in the second half of the 2000s. For some FTAs, their status in this table is based on the agreement of trade in goods; negotiations may be still ongoing over other areas such as investment and services even if the agreements are identified as those signed or being effective here. The year in parenthesis shows the year for the corresponding ASEAN country to be the member of ASEAN/AFTA.

Sources: Websites of trade ministries in each country and others including JETRO website (http://www.jetro.go.jp/world/).

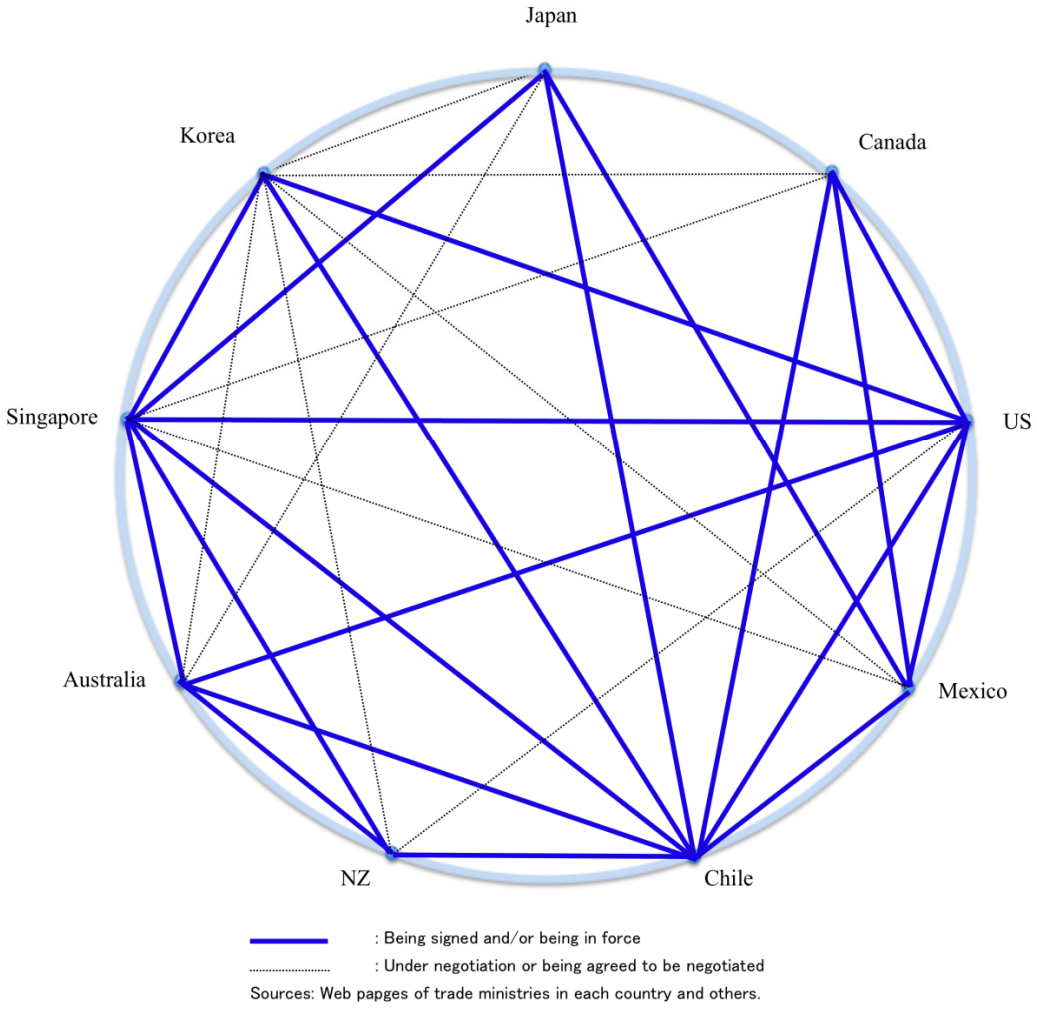
ASEAN has taken a lead in the process by trying to stay in the driver's sear of East Asian economic integration. ASEAN concluded ASEAN Free Trade Area (AFTA) in 1992 and accelerated trade liberalization after the Asian currency crisis in the latter half of the 1990s. Tariff removals among six original members will be completed in January 2010 with very few exceptions. ASEAN now seeks deeper economic integration under the initiative of ASEAN Economic Community (AEC).

A big gap is the lack of FTAs among Japan, Korea, and China though we do not see any sign for immediately initiating FTA negotiations. Both EAFTA ("East Asian Free Trade Area" consisting of ASEAN+3) and CEPEA ("Comprehensive Economic Partnership in East Asia" including ASEAN+6) study groups submitted their final reports to their Economic Ministers Meetings in August 2009, which decided to upgrade these initiatives to track 1 (G-to-G level). However, the timing of initiating formal negotiations was not specified. The enthusiasm of consolidating overlapping FTAs is now obviously weakened at least temporarily, and the current hub-and-spoke system is likely to be preserved at least in the coming few years.

Asia-Pacific, partially overlapped with extended East Asia, is also an active region of FTA networking. Figure 1 shows a current status of FTA networking among nine APEC (Asia-Pacific Economic Cooperation) countries; they include seven OECD (Organisation for Economic Co-operation and Development) countries, Singapore, and

Chile. Out of 36 bilateral combinations, 20 pairs are connected by FTAs, and 9 pairs are negotiating over FTAs. In the recent APEC meetings, US-proposed FTAAP (APEC-wide FTA) has been on agenda. In addition, the Trans-Pacific Partnership (TPP) initiative was started by P4 countries (Brunei, Chile, New Zealand, and Singapore; an FTA among them was being effective in 2006), and the Obama Administration in the US announced (confirmed) to participate in the negotiation in November 2009. The TPP negotiations, involving Australia, Brunei, Chile, New Zealand, Peru, Singapore, the US, and Vietnam, are now supposed to have the first meeting in Australia in early 2010. Furthermore, the Prime Minister of Australia, Kevin Rudd proposed a new model for expanded regional cooperation called Asia Pacific Community in November 2009.

Fugure 1
FTA networking among Asia-Pacific developed countries
(As of November 2009)




Sources: Web papges of trade ministries in each country and others.

Table 2 presents the progress of Japanese negotiations over FTAs. As of November 2009, eleven FTAs have been concluded and entered into force, which cover seven individual ASEAN countries, ASEAN as a whole, two Latin American countries, and Switzerland. Negotiations are going on with GCC, India, Australia, and Peru. Negotiation with Korea has been suspended since November 2004. The completion of FTA networking with ASEAN countries in a short period was a notable accomplishment. However, further extended FTA strategies in Asia-Pacific are in serious difficulty because of agricultural protection; with keeping the current level of protection, there is no hope of concluding FTAs with major countries such as Australia, the US, and Canada.

Table 2
Japan's FTA negotiations
(As of November 2009)

| Counterpart | Negotiation started | Agreement signed | Entry into force |
|---|---|---|---|
| Singapore | 01/2001 | 01/2002 | 11/2002 |
| Mexico | 11/2002 | 09/2004 | 04/2005 |
| Malaysia | 01/2004 | 12/2005 | 07/2006 |
| Chile | 02/2006 | 03/2007 | 09/2007 |
| Thailand | 02/2004 | 04/2007 | 11/2007 |
| Indonesia | 07/2005 | 08/2007 | 07/2008 |
| Brunei | 06/2006 | 06/2007 | 07/2008 |
| ASEAN | 04/2005 | 04/2008 | 12/2008- * |
| Philippines | 02/2004 | 09/2006 | 12/2008 |
| Switzerland | 05/2007 | 02/2009 | 09/2009 |
| Vietnam | 01/2007 | 12/2008 | 10/2009 |
| GCC | 09/2006 | | |
| India | 01/2007 | | |
| Australia | 04/2007 | | |
| Peru | 05/2009 | | |
| (Korea) | 12/2003 | (11/2004: negotiation suspended.) | |

*: Being effective with Singapore/Laos/Vietnam/Myanmar in December 2008,
Brunei in January 2009, Malaysia in February 2009, and Thailand in June 2009.
Source: MOFA, GOJ (http://www.mofa.go.jp).

3. 3. The evaluation of FTA networking in extended East Asia

Let us now examine and evaluate the contents of FTAs in extended East Asia. First, we will review the background of FTA networking in the region, particularly from the historical viewpoint of the interaction between *de facto* and *de jure* economic integration. We will then assess various aspects of the liberalization of trade in goods and other policy modes. At the end, the interpretation in the context of political economy will be presented.

(1) *De facto* and *de jure* economic integration in East Asia

In East Asia, *de facto* economic integration head-started before *de jure* economic integration. The most significant event on the side of *de facto* economic

integration was the formation of international production networks from the beginning of the 1990s. Although cross-border production sharing and off-shoring/outsourcing to less developed countries (LDCs) are observed in the US-Mexico nexus, the Western-Eastern Europe, and other regions, international production networks in East Asia are distinctive in (i) their significance for each economy in the region, (ii) their extensiveness in covering many countries and regions at the same time, and (iii) their sophistication in combining various types of intra-firm and arm's length (i.e., inter-firm) transactions.[6]

The formation of international production networks was backed up by rich series of piecemeal policy reform. In the mid-1980s, Thailand and Malaysia during a recession made a significant step of policy changes for inward foreign direct investment (FDI). Other ASEAN countries followed them with time lags of several years. In order to attract FDI, these countries openly listened to various requests raised by multinationals for trouble-shooting and accumulated piecemeal investment liberalization and facilitation. In addition, the initiative of information technology agreements (ITA) supported by APEC and WTO realized free trade in semiconductor-related electronic parts and components in the latter half of the 1990s. Note that these policy reforms were not based on regionalism but primarily on unilateral liberalization. AFTA was concluded in 1992 but provided a mere advertisement effect in attracting FDI in order to compete with China emerging as a strong FDI attractor. The actual trade liberalization based on AFTA was minimal until the end of the 1990s.

Regionalism in East Asia went up to a center stage after the Asian currency crisis. ASEAN started to make a collective effort to keep incoming FDI by accelerating its integration process and to incorporate latecomers in ASEAN. East Asia as a whole acted together to establish an anti-crisis vehicle in international financial cooperation and ended up with the establishment of the Chiang Mai Initiative. The effort of forming FTAs was launched by the Japan-Korea talk in 1998, followed by the formation of Northeast Asia and ASEAN FTAs. The last three countries in extended East Asia, namely Australia, New Zealand, and India, also recently deepened their relationship with ASEAN.

FTA negotiations were largely motivated by the existing *de facto* economic integration in the region. In the negotiation process of these FTAs, major agenda became (i) the restructuring of import-substituting industries such as automobiles, domestic electric appliances, iron & steel, and petrochemicals by removing remaining trade barriers and (ii) the further activation of intra-regional production networks by conducting trade/FDI

[6] As for the characteristics of East Asian production networks and the background policy environment, see Ando and Kimura (2005) and Kimura (2006).

liberalization and facilitation. These will reflect the contents as well as the usage of FTAs in the region.

(2) Liberalization of trade in goods

Liberalization coverage

One of the obvious criteria for evaluating the quality of FTAs is the degree of the cleanness of liberalization for trade in goods. Reflecting the hub-and-spoke system of FTAs centered by ASEAN, the liberalization coverage of FTAs varies with AFTA the highest.

AFTA was concluded as a FTA under the enabling clause of the WTO and did not follow all the disciplines that the WTO imposed. A major deficiency is the length of interim agreement. The WTO asks countries to complete substantially all the trade liberalization within ten years.[7] In the case of AFTA, since the initiation of tariff reduction in the early 1990s, already more than 15 years have passed. However, the liberalization coverage of the Common Effective Preferential Tariff (CEPT) scheme of AFTA that specifies gradual tariff reduction schedule is pretty high. Under the CEPT scheme, each member country classified traded commodities into the inclusion list (IL), the temporary exclusion list (TEL), the general exception list (GEL), and the sensitive/highly sensitive list (SL/HSL) and gradually moved items from TEL, GEL, or SL/HSL to IL. By now, the original member countries, i.e., Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, have eliminated TEL and have retained GEL and SL/HSL only for very limited commodities (less than 1%). Commodities in IL are now with 0-5% tariffs, which are also supposed to be zero by 2010.[8] Although AFTA has been criticized as a lenient FTA for long, it turns out to be a clean FTA in terms of the liberalization coverage.[9] In addition, ASEAN recently harmonized traded commodity classification up to the most detailed level.

ASEAN-China FTA (ACFTA) and ASEAN-Korea FTA (AKFTA) apply similar tariff reduction scheme to CEPT though they are less clean than AFTA in the liberalization coverage. ACFTA started lowering tariffs under the interim agreement

[7] 1947 GATT XXIV5(c) stated "reasonable length of time," which is further specified as "10 years" by the Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994.

[8] Latecomers of ASEAN, i.e., Vietnam, Laos, Myanmar, and Cambodia, are supposed to eliminate tariffs for almost all commodities by 2015 or 2018.

[9] As of August 2008, the percentage of tariff lines with zero tariffs is 85.4% in Brunei, 80.0% in Indonesia, 82.6% in Malaysia, 82.9% in the Philippines, 100% in Singapore, and 80.0% in Thailand, which clear the interim target of 80%. The average tariff rates are 1.95% for ASEAN10 and 0.97% for ASEAN6 in 2008. See JETRO (2009, p. 24).

in July 2005 while the so-called Early Harvest Program for agricultural and fishery products (HS01-08) was implemented from January 2004. The interim agreement classified commodities other than those under the Early Harvest Program into (i) normal track 1, (ii) normal track 2 (within 150 items), (iii) sensitive track (less than 400 items and less than 10% of trade values), and (iv) highly sensitive track (less than 100 items and less than 40% of items in the sensitive track). The due dates for tariff elimination are 2010 and 2012 for (i) and (ii), respectively. For (iii), the existing tariffs can be retained until the end of 2011, will be reduced to less than 20% by 2012 and 0-5% by 2018. As for (iv), tariffs should be reduced to less than 50% by the beginning of 2015. Items classified in sensitive and highly sensitive lists differ across countries though some important electric machinery and transport equipment are included. AKFTA has a resembled scheme and the similar level of liberalization coverage.

Japanese bilateral FTAs with ASEAN countries set up a higher standard for ASEAN countries than ACFTA or AKFTA. For Japanese bilateral FTAs with Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, the zero-tariff coverage after ten years in terms of trade values on the ASEAN side is 99.94%, 90% (96% including iron and steel for specific use), 99%, 97%, 100%, 97%, and 88%, respectively. The zero-tariff coverage after ten years on the Japanese side is often lower though: 99.99%, 93%, 94%, 92%, 95% (97% after the five-year review), 92%, and 95%, respectively.[10] The lower liberalization coverage on the Japanese side is due to heavy protection on agriculture-related commodities.[11] The asymmetric liberalization commitments are the reflection of Japan's negotiating power in Southeast Asia as well as the existence of side payments in the form of investment promotion and economic/technical cooperation from the Japanese side.

The recently concluded ASEAN-Japan FTA (AJCEP) applies the CEPT-style tariff reduction scheme. On the Japan side, 90% of commodities (in terms of trade values) will have immediate tariff removals, additional 3% will have within-ten-year gradual tariff removals, and the rest will be excluded from liberalization or have certain reduction of tariffs. As for ASEAN6, 90% (in terms of both trade values and the

[10] These figures are obtained from the homepage of the Ministry of Foreign Affairs, Government of Japan (http://www.mofa.go.jp/). Note that the measurement of liberalization coverage in terms of trade values is sensitive to the trade pattern in the base year, which may not properly reflect high spikes of protection. Kuno and Kimura (2008) show that the liberalization coverage of some bilateral FTAs concluded by Japan in terms of the number of tariff lines is substantially lower than the announced figures based on trade values.

[11] As for the agricultural protection in FTA negotiations by Japan, see Ando and Kimura (2008) and Mulgan (2008a, 2008b). Kuno and Kimura (2008) analyze the nature of heavily protected agricultural products focusing on their geographical concentration of production in Japan. Low coverage of liberalization for agricultural products becomes an obvious obstacle to Japan's further extending FTA strategies.

number of tariff lines) will have immediate tariff removals or within-ten-year gradual tariff removals, and the rest will be excluded from liberalization or have certain reduction of tariffs. ASEAN latecomers will have a looser schedule of tariff removals or reduction.

In summary, AFTA is now completing a clean FTA in terms of the liberalization coverage for trade in goods, but other FTAs in East Asia still include dirty aspects. Although manufactured goods are widely covered in liberalization schemes, some specific items, particularly agriculture-related commodities in Japan, retain substantial protection. The recent entry of Australia and New Zealand in the game of FTA networking in the region has provided a certain pressure on protectionism though completely clean trade liberalization in East Asia as a whole is yet to come.

FTA utilization

Tariff reduction or removal does not automatically mean freer trade. Only after utilizing preferential tariffs, trade liberalization effects are realized. FTAs in East Asia, particularly AFTA, have for long been criticized for their low levels of utilization. The situation, however, has drastically changed these days.

Thailand and Malaysia disclose the data of FTA utilization on the official customs data basis. Table 3 presents two countries' exports with utilizing the CEPT scheme of AFTA. As of 1998, CEPT was barely utilized, which confirms the old criticism. However, the utilization ratios have substantially increased since then. In 2007, 31% of Thailand's intra-ASEAN exports and 19% of Malaysia's intra-ASEAN exports utilize CEPT where exports to Singapore are excluded because MFN-applied import tariffs in Singapore are zero for almost all products. These ratios are not small because the denominator, total intra-ASEAN exports, includes exports of commodities for which MFN import tariffs are already zero or very low particularly under ITA and for which duty-drawback system is applied as investment incentive.

Table 3

Exports utilizing AFTA (CEPT) and their shares in total exports in Thailand and Malaysia

(Millions of dollars, %)

| | Export destination | Exports utilizing CEPT | | | | | Share in total exports | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | country/region | 1998 | 2003 | 2005 | 2006 | 2007 | 1998 | 2003 | 2005 | 2006 | 2007 |
| Total for | Vietnam | 7 | 632 | 1,343 | 1,763 | 2,772 | 0.8 | 30.3 | 38.3 | 36.3 | 43.2 |
| Thailand and | Philippines | 179 | 748 | 1,333 | 1,529 | 1,928 | 9.3 | 24.9 | 33.2 | 32.0 | 34.1 |
| Malaysia | Indonesia | 99 | 913 | 2,468 | 2,231 | 3,530 | 5.0 | 20.6 | 33.9 | 30.1 | 34.3 |
| | Malaysia | 212 | 801 | 1,270 | 1,363 | 1,850 | 11.9 | 20.7 | 22.4 | 20.5 | 22.1 |
| | Thailand | 91 | 594 | 1,227 | 1,270 | 1,206 | 3.9 | 13.0 | 16.2 | 14.9 | 13.8 |
| | Brunei | 0 | 2 | 5 | 14 | 15 | 0.1 | 0.7 | 1.3 | 3.3 | 3.0 |
| | Singapore | 17 | 247 | 393 | 382 | 445 | 0.1 | 1.1 | 1.3 | 1.2 | 1.2 |
| | Laos | 0 | 4 | 22 | 23 | 30 | 0.0 | 0.9 | 2.8 | 2.3 | 2.1 |
| | Myanmar | 0 | 2 | 6 | 4 | 13 | 0.0 | 0.4 | 0.6 | 0.4 | 1.0 |
| | Cambodia | 0 | 0 | 1 | 1 | 1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| | Total | 606 | 3,942 | 8,066 | 8,580 | 11,789 | 2.2 | 9.3 | 13.3 | 12.4 | 14.7 |
| | Total (excl. Singapore) | 589 | 3,696 | 7,673 | 8,198 | 11,345 | 5.6 | 18.4 | 24.6 | 22.8 | 25.7 |
| Thailand | Total | 391 | 2,561 | 5,146 | 5,509 | 7,865 | 4.0 | 15.5 | 21.5 | 20.2 | 22.5 |
| | Total (excl. Singapore) | 383 | 2,454 | 4,942 | 5,299 | 7,609 | 7.4 | 23.0 | 30.0 | 28.2 | 30.9 |
| Malaysia | Total | 214 | 1,382 | 2,921 | 3,071 | 3,924 | 1.2 | 5.3 | 7.9 | 7.3 | 8.7 |
| | Total (excl. Singapore) | 206 | 1,242 | 2,731 | 2,898 | 3,736 | 3.8 | 13.2 | 18.5 | 16.9 | 19.1 |

Original sources; Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, trade statistics of Thailand and Malaysia.

Source: JETRO (2008, Table II-12).

Table 4 tabulates exports utilizing various FTAs by Thailand and Malaysia. ACFTA and AKFTA do not seem to be well utilized so far, perhaps due to the slow liberalization process or the low public awareness. On the other hand, the Thailand-Australia FTA and the Early Harvest Scheme items in the Thailand-India FTA present very high utilization ratios, 66% and 98% respectively in 2007.

Table 4

Exports utilizing FTAs and their shares in total exports in Thailand and Malaysia

(Millions of dollars, %)

| | Export destination | Exports utilizing FTAs | | | Share in total exports | | |
|---|---|---|---|---|---|---|---|
| | country/region | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Thailand | ASEAN (excl. Singapore) | 4,942 | 5,299 | 7,609 | 30.0 | 28.2 | 30.9 |
| | China | 614 | 1,450 | 1,769 | 6.7 | 12.3 | 11.1 |
| | India | 267 | 328 | 399 | 17.6 | 18.1 | 14.0 |
| | (82 items in the Early Harvest Scheme) | 267 | 328 | 399 | 79.0 | 89.1 | 98.1 |
| | Australia | 2,122 | 2,746 | 4,067 | 67.3 | 62.6 | 66.2 |
| Malaysia | ASEAN (excl. Singapore) | 2,731 | 2,898 | 3,736 | 18.5 | 18.4 | 19.1 |
| | China | 274 | 1,043 | 1,629 | 2.9 | 8.9 | 10.0 |
| | South Korea | | | 403 | | | 11.1 |
| Total | ASEAN (excl. Singapore) | 7,673 | 8,197 | 11,345 | 24.6 | 22.8 | 25.7 |
| | China | 888 | 2,493 | 3,398 | 4.8 | 10.6 | 10.8 |
| | China-ASEAN (excluding Singapore) | 8,561 | 10,690 | 14,743 | 17.2 | 18.0 | 19.5 |

Note: Malaysia's trade with South Korea is for June-December 2007.

Original sources; Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, trade statistics of Thailand and Malaysia.

Source: JETRO (2008, Table II-13).

Japan External Trade Organization (JETRO) annually conducts an extensive questionnaire survey on foreign affiliates of Japanese firms, which recently starts

including questions related to FTA utilization. The new results (JETRO (2009, p. 22-30)) show that among manufacturing affiliates of Japanese firms in ASEAN conducting exporting activities, 23.0% use FTAs, and 23.3% consider using FTAs. Among those with importing activities, 19.7% use FTAs, and 24.4% consider using FTAs. The questionnaire further asks affiliates not even considering using FTAs for reasons why. Among exporting affiliates without any intention of utilizing FTAs, 37.6% of them say "duty-drawback system on the import side exists," 22.9% claim "there does not exist a FTA with trading partners," and 19.9% state "MFN tariffs at destination are low so that FTAs are not advantageous." Very small proportion of exporting affiliates raises troublesome administrative procedures or their ignorance of FTAs as reasons for not utilizing FTAs. Similarly, among importing affiliates without any intention of utilizing FTAs, 48.9% of them say "duty-drawback system for imports are applied," 13.4% claim "domestic sales on which tariffs are imposed is small," 13.1% state "there does not exist a FTA with trading partners," and 12.8% advocate "MFN tariffs are already low."

The questionnaire also asks some additional questions. One is the minimal preferential margin with which exporting affiliates stop using MFN tariffs and start utilizing FTAs. The average margin across exporting affiliates located in ASEAN is 5.2%. Another is the preferential tariff rate equivalent to the administrative cost of obtaining duty-drawback system. The average across importing affiliates located in ASEAN is 1.9%.

Hayakawa, Hiratsuka, Shiino, and Sukegawa (2009) employ the micro data of JETRO survey and regress the utilization of FTAs on individual affiliates' characteristics. They find that the utilization of FTAs or the intention to utilize FTAs is positively associated with the size of affiliates and negatively associated with the number of commodity items with zero tariffs. The relationship with the proportion of local procurement presents an inverted-U pattern.

Overall, considering other policy arrangements to avoid being taxed such as zero MFN tariffs, duty-drawback system, and others, the utilization of FTAs seems to be fairly high in ASEAN. However, further facilitation ion utilizing FTAs may be required, particularly for small and medium enterprises.

Rules of origin (RoO)

Possible negative consequences of RoO are one of the major concerns in regionalism. So-called spaghetti bowl or noodle bowl phenomenon refers to trade deterrent effects that are generated by the complication of trade regime, particularly regarding RoO, due to the unorganized proliferation of bilateral/plurilateral FTAs.

However, the logic of trade deterrence due to additional FTA is not very clear. Adding another FTA on the top of existing FTAs would certainly enhance the complication of trade regime. However, if private people think a new preferential tariff system too complicated, they will simply continue to use MFN tariff system or other FTAs. It is very unlikely that additional FTA reduces trade; instead, the issue we concerned should be whether additional FTA promotes trade or not. In that sense, RoO may indeed work as a counteracting force against trade liberalization by FTAs. Strict and unfriendly RoO may act for protectionism by nullifying the usage of preferential arrangements.

Estevadeordal, Harris, and Suominen (2007) provide an extensive survey on RoO in FTAs in the world. They conclude that RoO in intra-Asian FTAs tend to be less restrictive and complex than their counterparts in Europe and the Americas. Sample firm surveys in East Asian countries conducted by Kawai and Wignaraja (2009) suggest unexpectedly little Spaghetti/noodle bowl phenomena though further facilitation seems to be needed. We are accumulating evidences that RoO in FTAs in East Asia does not work as a major obstacle to promoting freer trade.

Medalla and Balboa (2009) carefully examine RoO in FTAs in East Asia, review best practices in applying RoO, and propose a direction for improvement. First, they claim that alternative or co-equal system of RoO is less restrictive than other arrangements and is thus to be promoted. RoO is classified by the testing methodology in identifying the origin of goods. Frequently used tests are the value-added measure test, the tariff heading criterion test, the specified processes test, and the combination of these, “both” or “either.” The value-added measure test looks simple in text but is not user-friendly for some products such as machineries consisting of numerous parts and components. A practical way of avoiding unnecessary user cost as well as saving the cost of negotiation is an alternative or co-equal system in which meeting one of the designated tests, for example, either the value-added measure test or the tariff heading criterion test, may suffice.

Table 5 tabulates the number of tariff lines applying various types of RoO in AFTA, ACFTA, AKFTA, and AJCEP. ACFTA reflects an old style of RoO that applies the value-added measure test or regional value content (RVC) test for large number of tariff lines. AFTA used to have a similar pattern but recently switched to a co-equal system applying either RVC test or tariff heading criterion test (CC, CTH, or CTSH in the table) for a large number of tariff lines. AKFTA and AJCEP also apply co-equal system extensively.

Table 5

RoO in AFTA, ACFTA, AKFTA, and AJCEP

| RoO type | AFTA | ACFTA | AKFTA | AJCEP |
|---|---|---|---|---|
| WO | 169 | 8 | 465 | 3 |
| CC | | 1 | 61 | 1,344 |
| CTH | | | 2 | 434 |
| CTSH | | | | 8 |
| RVC(>40) | | | 36 | |
| RVC(40) | 146 | 4,659 | 22 | 219 |
| RVC(<40) | | | 2 | |
| CC + RVC(40) | | | 2 | 1 |
| CTH + RVC | | | 4 | |
| CC or RVC(40) | 564 | 7 | 487 | 126 |
| CTH or RVC(>40) | | | 4 | |
| CTH or RVC(40) | 2,583 | 122 | 4,078 | 3,056 |
| CTSH or RVC(40) | 689 | | 61 | 33 |
| RVC(40) or Textile Rule | | 427 | | |
| CC or RVC(40) or Textile Rule | 300 | | | |
| CTH or RVC(40) or Textile Rule | 327 | | | |
| Total with alternate rules | 4,463 | 556 | 4,630 | 3,215 |
| NA | 446 | | | |
| Total | 5,224 | 5,224 | 5,224 | 5,224 |

WO: wholly obtained

CC: change in commodity classificaiton

CTH: change in tariff heading

CTSH: change in tariff subheading

RVC: regional value content

Source: Medalla and Balboa (2009).

Second, Medalla and Balboa recommend wider application of *de minimis* principle. This principle specifies a maximum percentage of non-originating material to be used without affecting origin, which can substantially reduce the cost of proving the origin of products in the value-added measure test. Third, although RoO in East Asia seem to be relatively simple and liberal, they recommend further facilitation in the procedure to obtain the certificate of origin.

In summary, RoO is certainly important in order to capture the benefit of liberalization effort in FTAs, and there still exists room for further facilitation. However, negative consequences of the complication of RoO seem to be limited in East

Asia.

Regionalism promoting multilateral liberalization

There has been a long-lasting debate on whether trade liberalization in regionalism is a building block or a stumbling block for worldwide trade liberalization. Various political economy models can justify both stories, and the issue is thus empirical. In this context, the paper by Estevadeordal, Freund, and Ornelas (2008a, 2008b) is a path-breaking work. It employs extensive time-series data set of tariff levels in selected Latin American countries, both on the FTA basis and the MFN basis, and rigorously proves that tariff reduction in FTAs tends to be followed by tariff reduction at the MFN level. Calvo-Pardo, Freund, and Ornelas (2009) replicate the exercise for ASEAN and find the same pattern. Trade liberalization in FTAs seems to promote multilateral trade liberalization.

As pointed out by Ando (2007), we observe in East Asia and other parts of the world that MFN-based liberalization often surpasses gradual liberalization in FTAs so that the utilization of FTAs loses its sense at least temporarily. Trade liberalization on the FTA basis seems to be an effective trigger for trade liberalization at the MFN level, particularly in East Asia.

(2) Liberalization in other policy modes

Taking advantage of their flexibility, FTAs in the world have increasingly included various policy modes other than policies on trade in goods. Trade in services is a natural extension on which GATS Article V imposes certain discipline. The actual liberalization of trade in services in intra-East-Asian FTAs, however, is relatively modest because countries in the region do not have strong international competitiveness in most of the services sectors.

ASEAN has ambitiously set the target of ASEAN Economic Community (AEC) in 2015, and the liberalization of trade in services is one of the major efforts. ASEAN Framework Agreement on Services (AFAS) was signed in December 1995, and with seven sequential rounds of negotiations between 1996 and 2009 under the purview of ASEAN Economic Ministers (AEM), the path of liberalization toward “substantially eliminating restrictions to trade in services among ASEAN countries” has gradually been specified. Air travel, healthcare, e-ASEAN (telecommunications and IT services), and tourism as well as logistics are set as priority sectors to realize liberalization earlier, and all the other sectors will follow by 2015 with services negotiations in every two years. As a result, ASEAN is supposed to achieve a free flow of services by 2015 with flexibility. In addition, seven mutual recognition agreements (MRAs) have been

concluded for professional services. The effort of ASEAN is certainly ambitious though how far the actual liberalization is realized is still to be tested.

ACFTA and AKFTA include agreements on trade in services, both of which were signed in 2007. However, the structure of the articles closely resembles to GATS, and the contents do not extensively explore GATS plus. Bilateral FTAs between Japan and ASEAN member countries include a number of GATS plus due to sector-by-sector negotiations. However, agreements are not entirely comprehensive, which reflects relatively weak services sectors in Japan.

As for investment, ASEAN concluded the ASEAN Comprehensive Investment Agreement (ACIA) in February 2009, which is an upgraded version of ASEAN Investment Area (AIA) in 1998, as a part of the comprehensive efforts toward AEC. ACIA includes liberalization, promotion, facilitation, and protection with applying a negative list approach for reservations. How far the reservations will be eliminated is not sure at this moment though.

ACFTA and AKFTA are supposed to include investment after additional negotiations though the contents have not been disclosed yet. As for Japan, although AJCEP does not include a meaningful article on investment, bilateral FTAs between Japan and ASEAN countries as well as bilateral investment treaties with Cambodia (signed in June 2007) and Laos (signed in January 2008) deal with investment. They intend to explore investment liberalization including pre-entry and post-entry national treatment, ban on some performance requirements, and investment facilitation in addition to investment protection. These obviously reflect interests of Japanese firms extending business all over East Asia.

Other elements in intra-East-Asian FTAs reflect development stages and private sector's interests of each country in the region. ASEAN has pursued AEC under the scheme of AEC Blueprint (ASEAN (2008)) in which various policy areas and topics other than policies on goods, services, and investment are listed (Table 6). We observe that the contents that seem to be workable are highly practical and relevant to political and economic conditions of ASEAN.

Table 6

Characteristics and elements of AEC

| | Highilighted topics |
|---|---|
| A. Single market and production base | |
| A1. Free flow of goods | Elemination of tariffs, elimination of non-tariff barriers, rules of origin (ROO), trade facilitation, customs integration, ASEAN Single Window, standards and technical barriers to trade |
| A2. Free flow of services | Services liberalization under AFAS, mutual recognition arrangements (MRAs), financial services sector |
| A3. Free flow of investment | Investment protection, facilitation and cooperation, promotion and awareness, liberalisation |
| A4. Freer flow of capital | Strengthening ASEAN capital market development and integration, allowing greater capital mobility, foreign direct investment, portfolio investment, other types of flows, capital account transactions, facilitation |
| A5. Free flow of skilled labour | |
| A6. Priority integration sectors | Twelve sectors |
| A7. Food, agriculture and forestry | Enhancing competitiveness, cooperation, agricultural cooperatives |
| B. Competitive economic region | |
| B1. Competition policy | |
| B2. Consumer protection | |
| B3. Intellectual property rights (IPR) | |
| B4. Infrastructure development | Transport cooperation, land transport, maritime and air transport, information infrastructure, energy cooperation, mining cooperation, financing of infrastructure projects |
| B5. Taxation | |
| B6. E-commerce | |
| C. Equitable economic development | |
| C1. SME development | |
| C2. Initiative for ASEAN Integration (IAI) | |
| D. Integration into the global economy | |
| D1. Coherent approach toward external economic relation | |
| D2. Enhanced participation in global supply networks | |

Source: ASEAN (2008).

FTAs concluded by Japan in the region are also highly pragmatic. For example, the Japan-Indonesia EPA concluded in August 2007 as well as related documents include practical items, in addition to trade in goods, services, and investment, such as energy and mining resources, movement of natural persons and related cooperation, customs procedure, government procurement, competition, and intellectual property rights, and cooperation. ACFTA and AKFTA also reflect the status of international relations as well as industrial connections; economic cooperation is always an important sub-element in FTAs.

In East Asia, WTO+ works strongly. However, the context is not for pursuing

the legal comprehensiveness of economic integration. Rather, the motivation of introducing WTO+ is pragmatic for serving diplomatic purposes or responding to requests of private sector extending international production networks. In the end, facilitation and cooperation are often emphasized more than liberalization.

4. Further evaluation in a wider scope: preliminary thought with trade data

The former section summarized the standard set of post evaluation of FTA networking. Such a framework is not, however, entirely satisfactory because economic effects, either static or dynamic, either direct or indirect, are not fully measured yet. In the period of FTA networking, particularly after the year 2001, the international trade pattern in East Asia was changed truly drastically. To judge how far the change is accrued from FTA networking requires a careful study, which the paper does not cover. We, however, would like to provide an overview on drastic changes in international trade pattern and infer possible contributions of FTA networking.

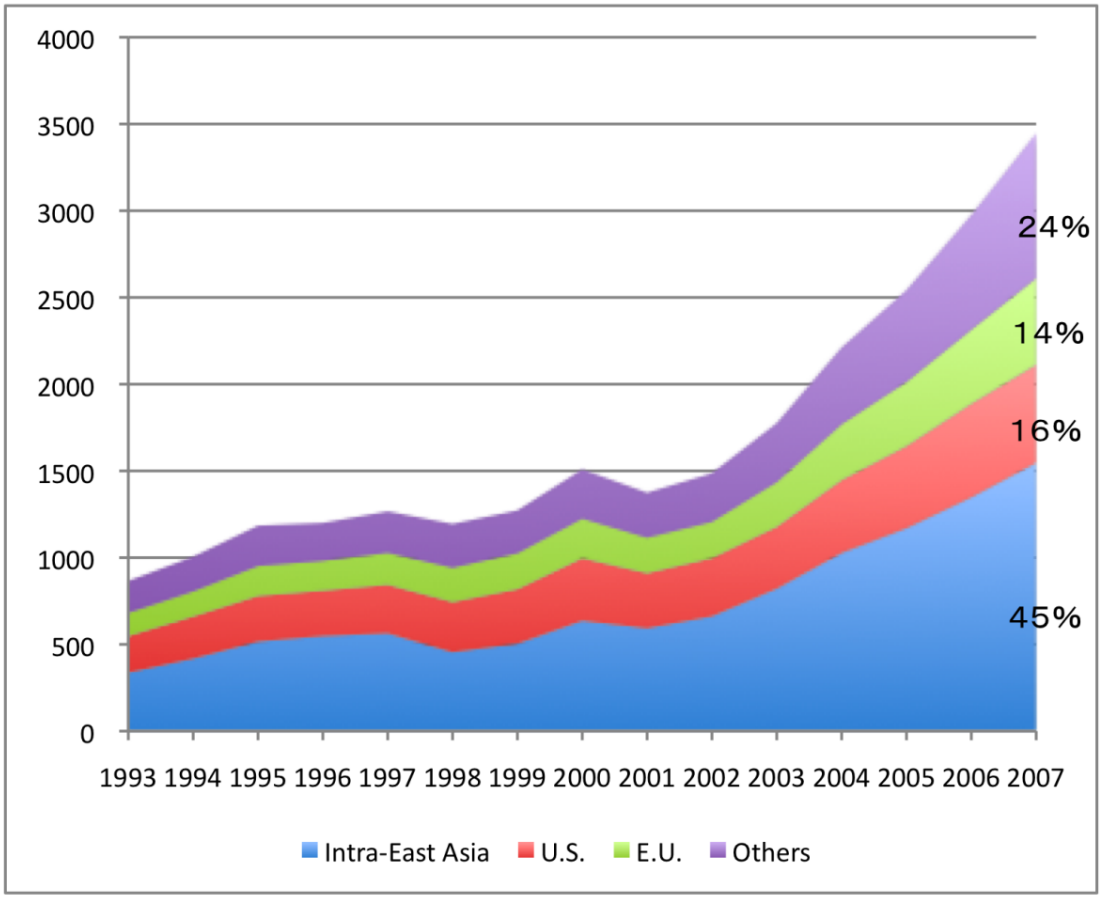
Figure 2 presents changes in by-destination shares of exports by East Asian countries.[12] In 2001-2007, explosive increases in exports, both intra-East Asia exports and exports to the rest of the world, are observed. Particularly, intra-East Asia exports grew at the pace of 18.5% per annum and 15.0% per annum in 2001-2005 and 2005-2007, which is by far faster than GDP growth rates. It means that the trade openness index defined as (exports+imports)/GDP increased. Figure 3 shows that exports of both machinery parts and components and machinery finished products grew at the same pace. Table 7 provides more detailed changes in exporting pattern.

[12] East Asian countries here include Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Figure 2

Export structure of East Asian countries: by-destination shares

(1) The value of exports (US$ billoin)




(2) Annual avarage growth rates (nominal)

| | 1993-1997年 | 1997-2001年 | 2001-2005年 | 2005-2007年 |
|---|---|---|---|---|
| Intra-East Asia | 13.7% | 1.2% | 18.5% | 15.0% |
| U.S. | 7.3% | 3.2% | 10.5% | 9.4% |
| E.U. | 8.4% | 2.7% | 15.9% | 16.1% |
| Others | 6.8% | 2.1% | 19.6% | 25.8% |
| World total | 10.0% | 2.1% | 16.6% | 16.4% |

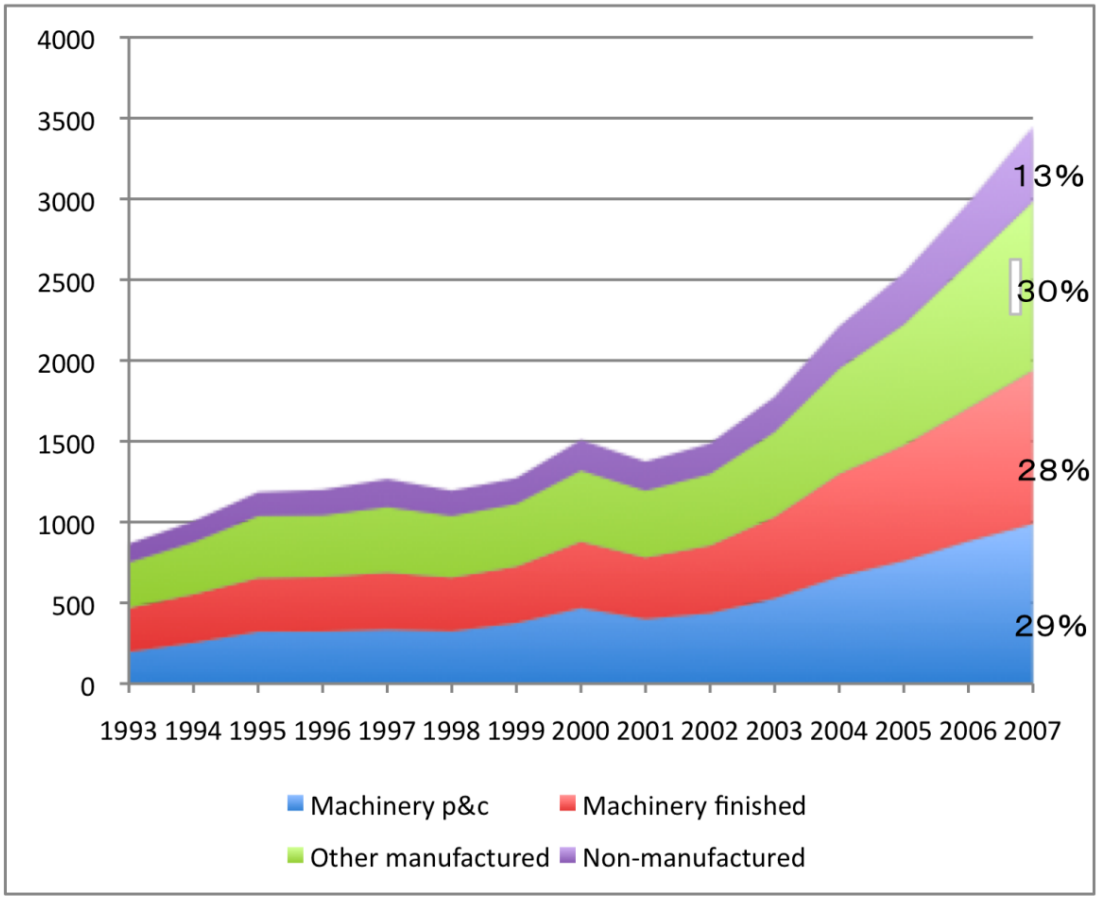
East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade。

Figure 3

Export structure of East Asian countries: by-commodity shares

(1) The value of exports (US$ billoin)




(2) Annual avarage growth rates (nominal)

| | 1993-1997年 | 1997-2001年 | 2001-2005年 | 2005-2007年 |
|---|---|---|---|---|
| Machinery p&c | 14.3% | 4.5% | 17.4% | 14.0% |
| Machinery finished | 6.6% | 1.9% | 17.1% | 15.3% |
| Other manufactured | 9.5% | 0.5% | 15.9% | 18.2% |
| Non-manufactured | 10.9% | 0.9% | 15.4% | 20.5% |
| Total | 10.0% | 2.1% | 16.6% | 16.4% |

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade。

Table 7

By-destination shares of machinery p&c and finished products exports by East Asian countries

| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Machinery | Intra-East Asia | 40.9% | 43.5% | 45.3% | 47.8% | 48.6% | 44.4% | 46.3% | 48.9% | 51.8% | 55.6% | 58.6% | 59.0% | 59.7% | 59.1% | 59.1% |
| p&c | U.S. | 27.9% | 27.5% | 25.6% | 24.5% | 23.3% | 24.5% | 23.6% | 22.3% | 20.3% | 18.1% | 15.6% | 14.9% | 14.2% | 14.0% | 12.8% |
| | E.U. | 14.0% | 13.8% | 14.4% | 13.5% | 13.6% | 15.8% | 15.0% | 14.3% | 13.4% | 12.1% | 11.8% | 11.7% | 11.2% | 11.1% | 11.3% |
| | Others | 17.1% | 15.3% | 14.7% | 14.2% | 14.5% | 15.4% | 15.1% | 14.6% | 14.4% | 14.3% | 13.9% | 14.4% | 14.8% | 15.8% | 16.8% |
| Machinery | Intra-East Asia | 26.2% | 28.6% | 30.4% | 31.9% | 28.7% | 21.9% | 22.5% | 25.5% | 26.8% | 27.9% | 30.0% | 29.3% | 29.2% | 28.9% | 28.8% |
| finished | U.S. | 30.1% | 30.3% | 28.2% | 27.3% | 28.8% | 31.2% | 33.1% | 32.4% | 31.9% | 32.0% | 28.5% | 27.0% | 26.4% | 25.9% | 23.2% |
| | E.U. | 19.4% | 17.8% | 18.6% | 18.4% | 19.4% | 21.7% | 21.8% | 20.2% | 20.1% | 18.9% | 20.0% | 20.7% | 20.4% | 19.4% | 19.3% |
| | Others | 24.3% | 23.3% | 22.8% | 22.4% | 23.1% | 25.1% | 22.6% | 21.9% | 21.2% | 21.2% | 21.6% | 23.0% | 24.0% | 25.8% | 28.8% |

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade。

Possible reasons for such a drastic increase in exports by East Asian countries are listed for future detailed research as follows: first, there exist direct effects of the removal of trade barriers on intra-East Asia trade, which may particularly be important for among ASEAN countries under the AFTA scheme. Second, intra-regional trade may increase if the reshuffling of production sites proceeds for constructing more efficient production/distribution networks. Table 8 provides an interesting observation where the number of production sites of Japanese electric companies in ASEAN is decreased as economic integration proceeds.

Table 8

The number of production sites of Japanese electric companies in ASEAN

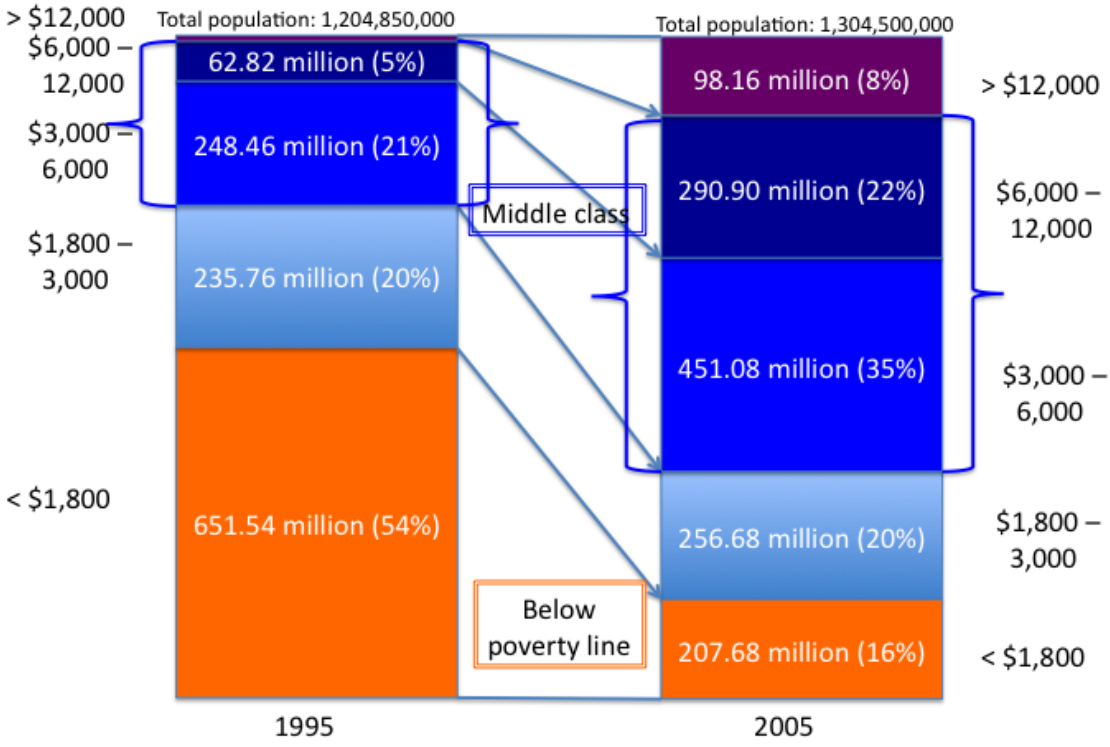
| | Refrigerator | | | Electric washer | | | Ventilator | | | Microwave | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change |
| ASEAN | 17 | 14 | −3 | 14 | 10 | −4 | 8 | 7 | −1 | 4 | 2 | −2 |
| Thailand | 7 | 6 | −1 | 5 | 4 | −1 | 4 | 3 | −1 | 2 | 2 | 0 |
| Malaysia | 2 | 0 | −2 | 2 | 0 | −2 | 1 | 1 | 0 | 1 | 0 | −1 |
| Philippines | 2 | 1 | −1 | 3 | 2 | −1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Indonesia | 5 | 4 | −1 | 3 | 2 | −1 | 2 | 2 | 0 | 0 | 0 | 0 |
| Singapore | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | −1 |
| Vietnam | 1 | 3 | 2 | 1 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |

| | Electric cooker | | | Electric fan | | | Air conditioner | | | Cum. # of production sites | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change |
| ASEAN | 9 | 7 | −2 | 10 | 6 | −4 | 17 | 12 | −5 | 79 | 58 | −21 |
| Thailand | 5 | 6 | 1 | 5 | 3 | −2 | 7 | 6 | −1 | 35 | 30 | −5 |
| Malaysia | 1 | 1 | 0 | 1 | 1 | 0 | 3 | 3 | 0 | 11 | 6 | −5 |
| Philippines | 1 | 0 | −1 | 2 | 1 | −1 | 3 | 2 | −1 | 12 | 7 | −5 |
| Indonesia | 1 | 0 | −1 | 2 | 1 | −1 | 3 | 1 | −2 | 16 | 10 | −6 |
| Singapore | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | −1 | 2 | 0 | −2 |
| Vietnam | 1 | 0 | −1 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 5 | 2 |

Source: Sukegawa (2009).

Third, more than proportional growth of demand for traded goods may enhance trade. Particularly in the case of consumer goods, the preference is not "identical and homothetic" as the standard Heckscher-Ohlin model would set up. In East Asia, we observe a rapid growth of "middle class" (see Figures 4-6[13]). The disproportional growth of middle class may not be surprising if we consider rapid economic growth. One important implication is a shift in demand structure. The demand for traded goods such as domestic electric appliances may be expanded more than proportionally as income goes up.

Figure 4 Population by income groups: China
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)




[13] Figures 4-6 are constructed by using the World Bank's PovcalNet where estimates of income-level-wise population after the adjustment of prices is conducted by income class (http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTPOVRES/EXTPOVCALNET/).

Figure 5 Population by income groups: ASEAN (excl. Singapore, Brunei, and Myanmar)
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)

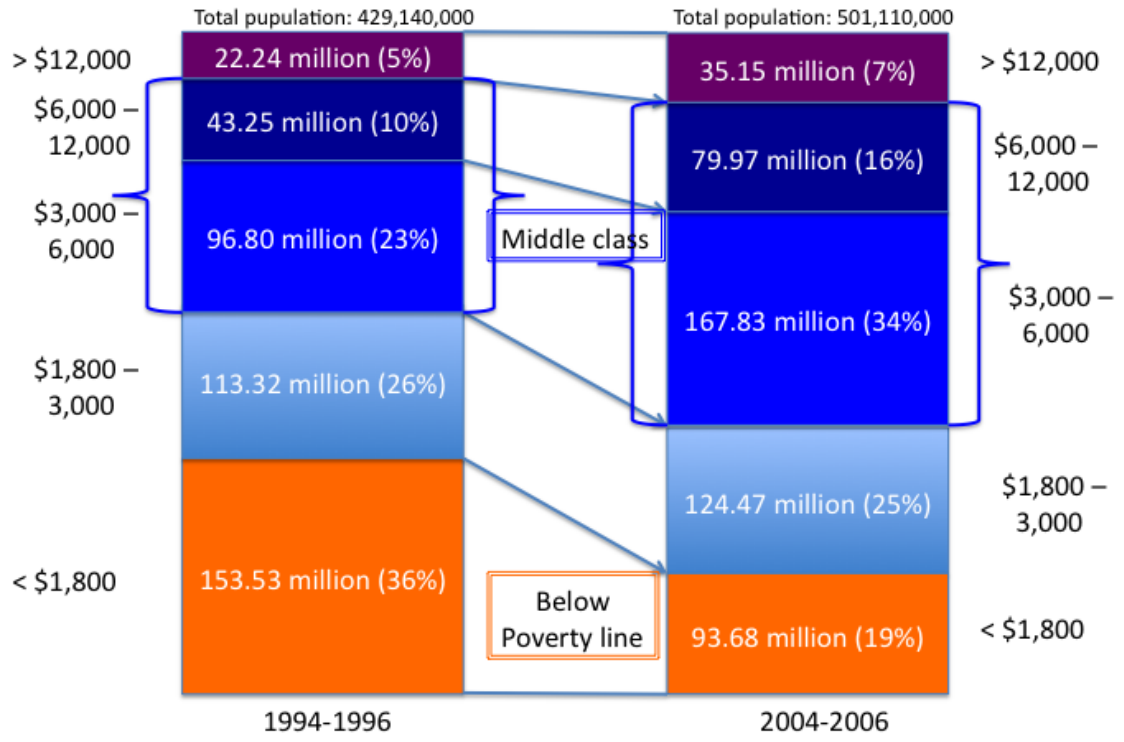
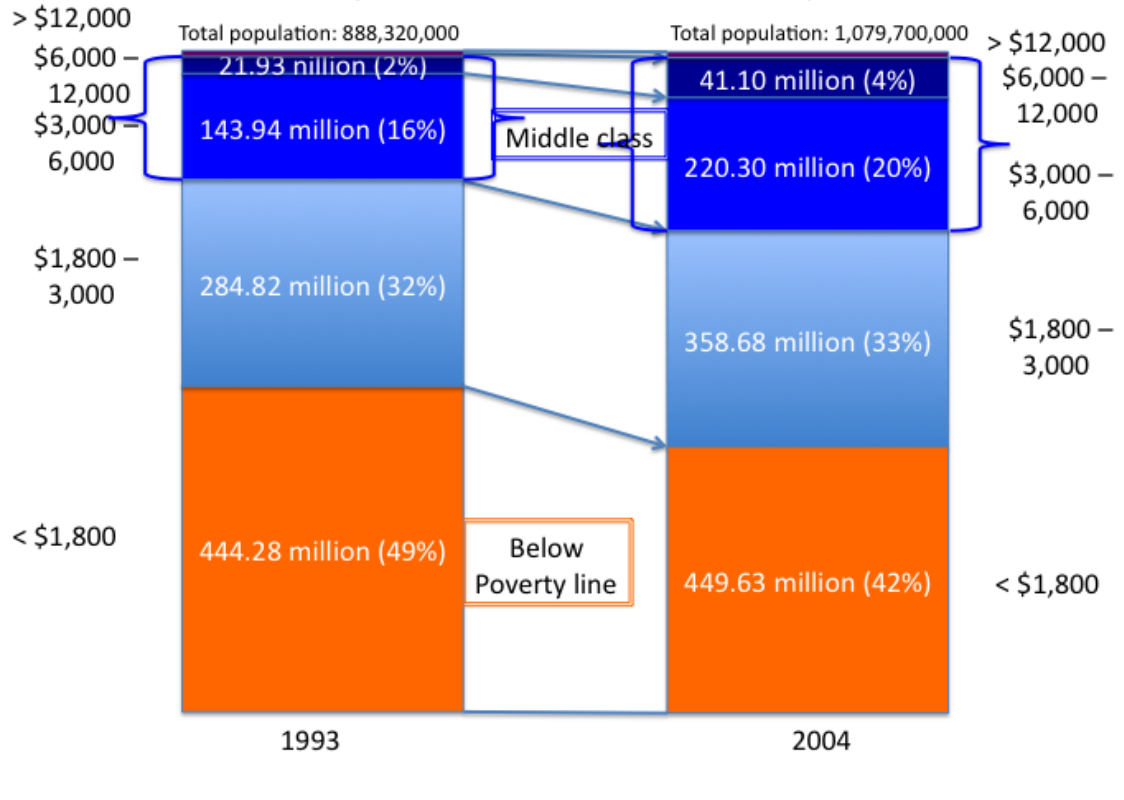



Figure 6 Population by income groups: India
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)



Of course, these are not due to FTA networking. However, it is true that FTA networking and intra-East Asia export growth go forward hand in hand.

5. Where to go from now on

Unlike the European integration, economic integration in East Asia has not been driven by a unified political will of governments in the region. Unlike economic integration in North America, there does not exist a single dominant hegemon or leader in East Asia, either. Decentralized forces of political economy have pushed forward FTA networking in East Asia, and an open-end FTA system has been formulated. Functional deepening of economic integration is likely to continue in order to further activate international production networks. The mechanics of international production networks would work for narrowing development gaps across countries and regions in East Asia, which would present a successful case of inclusive or pro-poor growth. If we calmly review the accomplishment of economic integration so far, East Asian-wide consolidation of FTAs does not seem to be impossible, at least for trade in goods and some elements of functional WTO+. For the coming ministerial meetings in August 2009, study groups of EAFTA (ASEAN+3) and CEPEA (ASEAN+6) are preparing to propose possible paths of FTA consolidation in East Asia.

However, due to the lack of FTAs among Japan, Korea, and China, an East Asian-wide consolidated FTA does not seem to be realized in the coming few years. Rather, the move of Asia-Pacific FTA networking is likely to proceed earlier. FTAs in Asia-Pacific, possibly led by TPP initiative, would have characteristics different from East Asian FTAs; they tend to have higher coverage of trade liberalization and more rule-oriented. Singapore, Australia, New Zealand, and possibly Korea seem to be ready to be on board. If such an initiative goes forward, how will Japan, China, and ASEAN respond? New forces of political economy will certainly emerge in such a case.

All in all, FTA networking has developed in an open setting in East Asia and Asia-Pacific. The development has been backed up by the logic of political economy. With economic dynamism, East Asia and Asia-Pacific are likely to become a focal point of multilateralizing regionalism.

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【Power Point】

**The New Wave of Regional Integration and East Asia**

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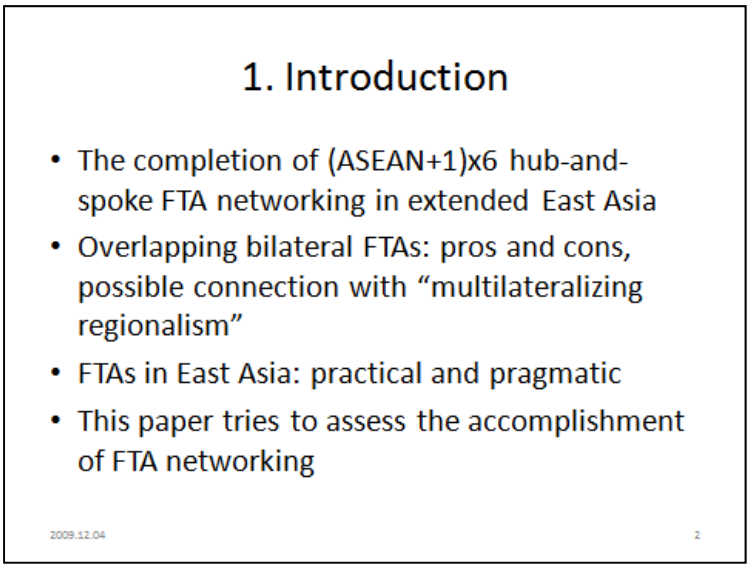


# 2. Current Status of FTA networking

- Extended East Asia: The completion of (ASEAN+1)x6 (Table 1).
  - Given a delay in FTA connection among Japan, Korea, and China, ASEAN becomes a virtual "hub" of FTA networking in East Asia.
- Asia-Pacific: from networking to consolidation (Figure 1)
  - 9 advanced APEC countries have 20 FTAs signed/being effective, 9 FTAs under negotiations.
  - FTAAP (APEC-wide FTA), Trans-Pacific Partnership (TPP) initiative (P4, US, Australia, Peru, Vietnam…)
- Japan: 11 FTAs concluded (Table 2)
  - Agricultural protection reduces the degree of freedom.



Table 1 FTA networking in extended East Asia

(As of November 2009)

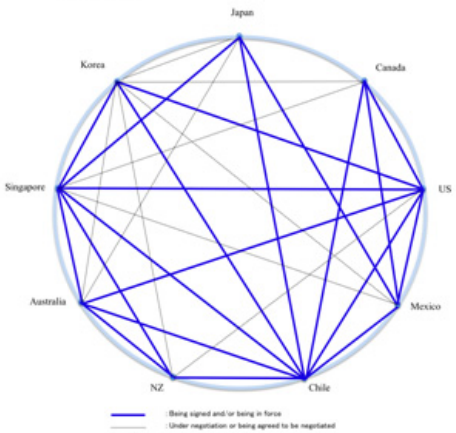
| | Japan | Korea | China | ASEAN | Brunei | Indonesia | Malaysia | Philippines | Singapore | Thailand | Vietnam | CLM | India | Australia | New Zealand |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Japan | | ○ (suspended) | △ | ● 2008 - | ● 2008 | ● 2008 | ● 2006 | ● 2008 | ● 2002 | ● 2007 | ● | | ○ | ○ | |
| Korea | ○ (suspended) | | △ | ● 2007 - | | | | | ● 2006 | | | | ● | ○ | ○ |
| China | △ | △ | | ● 2005 - | | | | | ● 2009 | | | | △ | ○ | ● 2008 |
| ASEAN | ● 2008 - | ● 2007 - | ● 2005 - | ● 1993 - | (1992) | (1992) | (1992) | (1992) | (1992) | (1992) | (1995) | (LM 1997/C1 999) | ● | ● 2010 - | ● 2010 - |
| Brunei | ● 2008 | | | (1992) | | (1992) | (1992) | (1992) | (1992) | (1992) | (1995) | (LM 1997/C1 999) | | | ● 2006 |
| Indonesia | ● 2008 | | | (1992) | (1992) | | (1992) | (1992) | (1992) | (1992) | (1995) | (LM 1997/C1 999) | | △ | |
| Malaysia | ● 2006 | | | (1992) | (1992) | (1992) | | (1992) | (1992) | (1992) | (1995) | (LM 1997/C1 999) | ○ | ○ | ● |
| Philippines | ● 2008 | | | (1992) | (1992) | (1992) | (1992) | | (1992) | (1992) | (1995) | (LM 1997/C1 999) | | | |
| Singapore | ● 2002 | ● 2006 | ● 2009 | (1992) | (1992) | (1992) | (1992) | (1992) | | (1992) | (1995) | (LM 1997/C1 999) | ● 2005 | ● 2003 | ● 2001 |
| Thailand | ● 2007 | | | (1992) | (1992) | (1992) | (1992) | (1992) | (1992) | | (1995) | (LM 1997/C1 999) | △ | ● 2005 | ● 2005 |
| Vietnam | ● | | | (1995) | (1995) | (1995) | (1995) | (1995) | (1995) | (1995) | | (LM 1997/C1 999) | | | |
| CLM | | | | (LM 1997/C1 999) | (LM 1997/C1 999) | (LM 1997/C1 999) | (LM 1997/C1 999) | (LM 1997/C1 999) | (LM 1997/C1 999) | (LM 1997/C1 999) | (LM 1997/C1 999) | | | | |
| India | ○ | ● | △ | ● | | | ○ | | ● 2005 | △ | | | | △ | △ |
| Australia | ○ | ○ | ○ | ● 2010 - | | △ | ○ | | ● 2003 | ● 2005 | | | △ | | ● 1983 |
| New Zealand | | ○ | ● 2008 | ● 2010 - | ● 2006 | | ● | | ● 2001 | ● 2005 | | | △ | ● 1983 | |

Notes: ●: signed or being effective. ○: under negotiation or agreed to negotiate. △: feasibility study or preparatory talks. The year indicates when the concerned FTA was in force. "-" after the year means that some ASEAN countries are under the corresponding FTAs in force and other countries follow later. Dark blue indicates FTAs signed before or in the 1990s, blue indicates FTAs signed in the first half of the 2000s, and light blue indicates FTAs signed in the second half of the 2000s. For some FTAs, their status in this table is based on the agreement of trade in goods; negotiations may be still ongoing over other areas such as investment and services even if the agreements are identified as those signed or being effective here. The year in parenthesis shows the year for the corresponding ASEAN country to be the member of ASEAN/AFTA.

Sources: Websites of trade ministries in each country and others including JETRO website (http://www.jetro.go.jp/world/).



Figure 1
FTA networking among Asia-Pacific developed countries
(As of November 2009)




Sources: Web pages of trade ministries in each country and others.

Table 2
Japan's FTA negotiations
(As of November 2009)

| Counterpart | Negotiation started | Agreement signed | Entry into force |
|---|---|---|---|
| Singapore | 01/2001 | 01/2002 | 11/2002 |
| Mexico | 11/2002 | 09/2004 | 04/2005 |
| Malaysia | 01/2004 | 12/2005 | 07/2006 |
| Chile | 02/2006 | 03/2007 | 09/2007 |
| Thailand | 02/2004 | 04/2007 | 11/2007 |
| Indonesia | 07/2005 | 08/2007 | 07/2008 |
| Brunei | 06/2006 | 06/2007 | 07/2008 |
| ASEAN | 04/2005 | 04/2008 | 12/2008- * |
| Philippines | 02/2004 | 09/2006 | 12/2008 |
| Switzerland | 05/2007 | 02/2009 | 09/2009 |
| Vietnam | 01/2007 | 12/2008 | 10/2009 |
| GCC | 09/2006 | | |
| India | 01/2007 | | |
| Australia | 04/2007 | | |
| Peru | 05/2009 | | |
| (Korea) | 12/2003 | (11/2004: negotiation suspended.) | |

*: Being effective with Singapore/Laos/Vietnam/Myanmar in December 2008,
Brunei in January 2009, Malaysia in February 2009, and Thailand in June 2009.
Source: MOFA, GOJ (http://www.mofa.go.jp).

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# 3. The evaluation of FTA networking

- Interactions between de facto and de jure economic integration
  - The formation of international production networks
  - The mission of FTAs after the Asian currency crisis
    - Restructuring import-substituting industries
    - Further activating production networks
- Liberalization of trade in goods
  - Liberalization coverage
    - AFTA is now completing a clean FTA in terms of the liberalization coverage for trade in goods, but other FTAs in East Asia still include dirty aspects.
  - FTA utilization (Tables 3, 4)
    - Considering other policy arrangements to avoid being taxed such as zero MFN tariffs, duty-drawback system, and others, the utilization of FTAs seems to be fairly high in ASEAN. However, further facilitation ion utilizing FTAs may be required, particularly for small and medium enterprises.
  - Rules of origin (RoO) (Table 5)
    - RoO is certainly important in order to capture the benefit of liberalization effort in FTAs, and there still exists room for further facilitation. However, negative consequences of the complication of RoO seem to be limited in East Asia.
    - Co-equal system works well.
  - Regionalism promoting multilateral liberalization?
- Liberalization in other policy modes
  - AEM (Table 6), ASEAN-Japan FTAs (cf. ACFTA, AKFTA)
    - WTO+ works strongly.
    - However, the context is not for pursuing the legal comprehensiveness of economic integration. Rather, the motivation of introducing WTO+ is pragmatic for serving diplomatic purposes or responding to requests of private sector extending international production networks.

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Table 3
Exports utilizing AFTA (CEPT) and their shares in total exports in Thailand and Malaysia
(Millions of dollars, %)

| | Export destination | Exports utilizing CEPT | | | | | Share in total exports | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | country/region | 1998 | 2003 | 2005 | 2006 | 2007 | 1998 | 2003 | 2005 | 2006 | 2007 |
| Total for | Vietnam | 7 | 632 | 1,343 | 1,763 | 2,772 | 0.8 | 30.3 | 38.3 | 36.3 | 43.2 |
| Thailand and | Philippines | 179 | 748 | 1,333 | 1,529 | 1,928 | 9.3 | 24.9 | 33.2 | 32.0 | 34.1 |
| Malaysia | Indonesia | 99 | 913 | 2,468 | 2,231 | 3,530 | 5.0 | 20.6 | 33.9 | 30.1 | 34.3 |
| | Malaysia | 212 | 801 | 1,270 | 1,363 | 1,850 | 11.9 | 20.7 | 22.4 | 20.5 | 22.1 |
| | Thailand | 91 | 594 | 1,227 | 1,270 | 1,206 | 3.9 | 13.0 | 16.2 | 14.9 | 13.8 |
| | Brunei | 0 | 2 | 5 | 14 | 15 | 0.1 | 0.7 | 1.3 | 3.3 | 3.0 |
| | Singapore | 17 | 247 | 393 | 382 | 445 | 0.1 | 1.1 | 1.3 | 1.2 | 1.2 |
| | Laos | 0 | 4 | 22 | 23 | 30 | 0.0 | 0.9 | 2.8 | 2.3 | 2.1 |
| | Myanmar | 0 | 2 | 6 | 4 | 13 | 0.0 | 0.4 | 0.6 | 0.4 | 1.0 |
| | Cambodia | 0 | 0 | 1 | 1 | 1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| | Total | 606 | 3,942 | 8,066 | 8,580 | 11,789 | 2.2 | 9.3 | 13.3 | 12.4 | 14.7 |
| | Total (excl. Singapore) | 589 | 3,696 | 7,673 | 8,198 | 11,345 | 5.6 | 18.4 | 24.6 | 22.8 | 25.7 |
| Thailand | Total | 391 | 2,561 | 5,146 | 5,509 | 7,865 | 4.0 | 15.5 | 21.5 | 20.2 | 22.5 |
| | Total (excl. Singapore) | 383 | 2,454 | 4,942 | 5,299 | 7,609 | 7.4 | 23.0 | 30.0 | 28.2 | 30.9 |
| Malaysia | Total | 214 | 1,382 | 2,921 | 3,071 | 3,924 | 1.2 | 5.3 | 7.9 | 7.3 | 8.7 |
| | Total (excl. Singapore) | 206 | 1,242 | 2,731 | 2,898 | 3,736 | 3.8 | 13.2 | 18.5 | 16.9 | 19.1 |

Original sources; Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, trade statistics of Thailand and Malaysia.
Source: JETRO (2008, Table II-12).

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Table 4

Exports utilizing FTAs and their shares in total exports in Thailand and Malaysia

(Millions of dollars, %)

| | Export destination | Exports utilizing FTAs | | | Share in total exports | | |
|---|---|---|---|---|---|---|---|
| | country/region | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Thailand | ASEAN (excl. Singapore) | 4,942 | 5,299 | 7,609 | 30.0 | 28.2 | 30.9 |
| | China | 614 | 1,450 | 1,769 | 6.7 | 12.3 | 11.1 |
| | India | 267 | 328 | 399 | 17.6 | 18.1 | 14.0 |
| | (82 items in the Early Harvest Scheme) | 267 | 328 | 399 | 79.0 | 89.1 | 98.1 |
| | Australia | 2,122 | 2,746 | 4,067 | 67.3 | 62.6 | 66.2 |
| Malaysia | ASEAN (excl. Singapore) | 2,731 | 2,898 | 3,736 | 18.5 | 18.4 | 19.1 |
| | China | 274 | 1,043 | 1,629 | 2.9 | 8.9 | 10.0 |
| | South Korea | | | 403 | | | 11.1 |
| Total | ASEAN (excl. Singapore) | 7,673 | 8,197 | 11,345 | 24.6 | 22.8 | 25.7 |
| | China | 888 | 2,493 | 3,398 | 4.8 | 10.6 | 10.8 |
| | China-ASEAN (excluding Singapore) | 8,561 | 10,690 | 14,743 | 17.2 | 18.0 | 19.5 |

Note: Malaysia's trade with South Korea is for June-December 2007.

Original sources; Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, trade statistics of Thailand and Malaysia.

Source: JETRO (2008, Table II-13).



Table 5

RoO in AFTA, ACFTA, AKFTA, and AJCEP

| RoO type | AFTA | ACFTA | AKFTA | AJCEP |
|---|---|---|---|---|
| WO | 169 | 8 | 465 | 3 |
| CC | | 1 | 61 | 1,344 |
| CTH | | | 2 | 434 |
| CTSH | | | | 8 |
| RVC(>40) | | | 36 | |
| RVC(40) | 146 | 4,659 | 22 | 219 |
| RVC(<40) | | | 2 | |
| CC + RVC(40) | | | 2 | 1 |
| CTH + RVC | | | 4 | |
| CC or RVC(40) | 564 | 7 | 487 | 126 |
| CTH or RVC(>40) | | | 4 | |
| CTH or RVC(40) | 2,583 | 122 | 4,078 | 3,056 |
| CTSH or RVC(40) | 689 | | 61 | 33 |
| RVC(40) or Textile Rule | | 427 | | |
| CC or RVC(40) or Textile Rule | 300 | | | |
| CTH or RVC(40) or Textile Rule | 327 | | | |
| Total with alternate rules | 4,463 | 556 | 4,630 | 3,215 |
| NA | 446 | | | |
| Total | 5,224 | 5,224 | 5,224 | 5,224 |

WO: wholly obtained

CC: change in commodity classificaiton

CTH: change in tariff heading

CTSH: change in tariff subheading

RVC: regional value content

Source: Medalla and Balboa (2009).



Table 6

Characteristics and elements of AEC

| | Highlighted topics |
|---|---|
| A. Single market and production base | |
| A1. Free flow of goods | Elemination of tariffs, elimination of non-tariff barriers, rules of origin (ROO), trade facilitation, customs integration, ASEAN Single Window, standards and technical barriers to trade |
| A2. Free flow of services | Services liberalization under AFAS, mutual recognition arrangements (MRAs), financial services sector |
| A3. Free flow of investment | Investment protection, facilitation and cooperation, promotion and awareness, liberalisation |
| A4. Freer flow of capital | Strengthening ASEAN capital market development and integration, allowing greater capital mobility, foreign direct investment, portfolio investment, other types of flows, capital account transactions, facilitation |
| A5. Free flow of skilled labour | |
| A6. Priority integration sectors | Twelve sectors |
| A7. Food, agriculture and forestry | Enhancing competitiveness, cooperation, agricultural cooperatives |
| B. Competitive economic region | |
| B1. Competition policy | |
| B2. Consumer protection | |
| B3. Intellectual property rights (IPR) | |
| B4. Infrastructure development | Transport cooperation, land transport, maritime and air transport, information infrastructure, energy cooperation, mining cooperation, financing of infrastructure projects |
| B5. Taxation | |
| B6. E-commerce | |
| C. Equitable economic development | |
| C1. SME development | |
| C2. Initiative for ASEAN Integration (IAI) | |
| D. Integration into the global economy | |
| D1. Coherent approach toward external economic relation | |
| D2. Enhanced participation in global supply networks | |

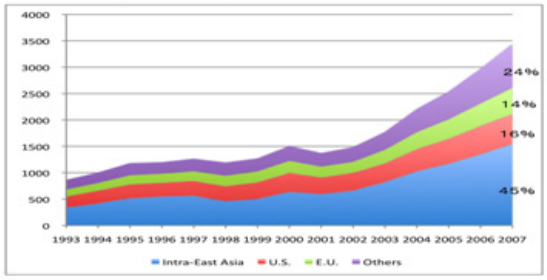
Source: ASEAN (2008).

# 3. Further evaluation in a wider scope

- Toward assessing economic effects of FTA networking
  - Static and dynamic, direct and indirect
- Explosive increases in exports by East Asian countries in 2001-2007
  - Both intra-East Asia exports and exports to ROW
  - "Trade openness" enhanced in East Asia (Figures 2, 3, Table 7)
    - Direct effects of the removal of trade barriers (esp. AFTA)
    - The reshuffling of production sites responding to trade liberalization (Table 8)
    - More than proportional growth of demand for traded goods
      - Non-homothetic tastes, growth of middle class (Figures 4-6)
- Assessment of FTA networking in a wider scope is required.



Figure 2
Export structure of East Asian countries: by-destination shares
(1) The value of exports (US$ billoin)




(2) Annual avarage growth rates (nominal)

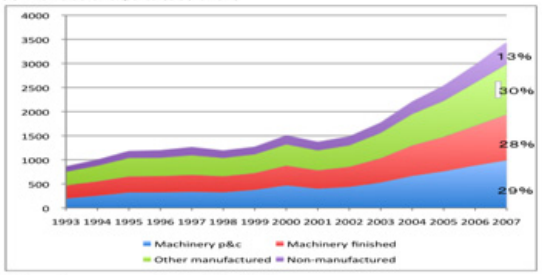
| | 1993-1997年 | 1997-2001年 | 2001-2005年 | 2005-2007年 |
|---|---|---|---|---|
| Intra-East Asia | 13.7% | 1.2% | 18.5% | 15.0% |
| U.S. | 7.3% | 3.2% | 10.5% | 9.4% |
| E.U. | 8.4% | 2.7% | 15.9% | 16.1% |
| Others | 6.8% | 2.1% | 19.6% | 25.8% |
| World total | 10.0% | 2.1% | 16.6% | 16.4% |

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade。



Figure 3
Export structure of East Asian countries: by-commodity shares
(1) The value of exports (US$ billoin)




(2) Annual avarage growth rates (nominal)

| | 1993-1997年 | 1997-2001年 | 2001-2005年 | 2005-2007年 |
|---|---|---|---|---|
| Machinery p&c | 14.3% | 4.5% | 17.4% | 14.0% |
| Machinery finished | 6.6% | 1.9% | 17.1% | 15.3% |
| Other manufactured | 9.5% | 0.5% | 15.9% | 18.2% |
| Non-manufactured | 10.9% | 0.9% | 15.4% | 20.5% |
| Total | 10.0% | 2.1% | 16.6% | 16.4% |

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade。

Table 7

By-destination shares of machinery p&c and finished products exports by East Asian countries

| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Machinery | Intra-East Asia | 40.9% | 43.5% | 45.3% | 47.8% | 48.6% | 44.4% | 46.3% | 48.9% | 51.8% | 55.6% | 58.6% | 59.0% | 59.7% | 59.1% | 59.1% |
| p&c | U.S. | 27.9% | 27.5% | 25.6% | 24.5% | 23.3% | 24.5% | 23.6% | 22.3% | 20.3% | 18.1% | 15.6% | 14.9% | 14.2% | 14.0% | 12.8% |
| | E.U. | 14.0% | 13.8% | 14.4% | 13.5% | 13.6% | 15.8% | 15.0% | 14.3% | 13.4% | 12.1% | 11.8% | 11.7% | 11.2% | 11.1% | 11.3% |
| | Others | 17.1% | 15.2% | 14.7% | 14.2% | 14.5% | 15.4% | 15.1% | 14.6% | 14.4% | 14.2% | 13.9% | 14.4% | 14.8% | 15.8% | 16.8% |
| Machinery | Intra-East Asia | 26.2% | 28.6% | 30.4% | 31.9% | 28.7% | 21.9% | 22.5% | 25.5% | 26.8% | 27.9% | 30.0% | 29.3% | 29.2% | 28.9% | 28.8% |
| finished | U.S. | 30.1% | 30.3% | 28.2% | 27.3% | 28.8% | 31.2% | 33.1% | 32.4% | 31.9% | 32.0% | 28.5% | 27.0% | 26.4% | 25.9% | 23.2% |
| | E.U. | 19.4% | 17.8% | 18.8% | 18.4% | 19.4% | 21.7% | 21.8% | 20.2% | 20.1% | 18.9% | 20.0% | 20.7% | 20.4% | 19.4% | 19.3% |
| | Others | 24.3% | 23.3% | 22.8% | 22.4% | 23.1% | 25.1% | 22.6% | 21.9% | 21.2% | 21.2% | 21.6% | 23.0% | 24.0% | 25.8% | 28.8% |

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade,

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Table 8

The number of production sites of Japanese electric companies in ASEAN

| | Refrigerator | | | Electric washer | | | Ventilator | | | Microwave | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change |
| ASEAN | 17 | 14 | −3 | 14 | 10 | −4 | 8 | 7 | −1 | 4 | 2 | −2 |
| Thailand | 7 | 6 | −1 | 5 | 4 | −1 | 4 | 3 | −1 | 2 | 2 | 0 |
| Malaysia | 2 | 0 | −2 | 2 | 0 | −2 | 1 | 1 | 0 | 1 | 0 | −1 |
| Philippines | 2 | 1 | −1 | 3 | 2 | −1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Indonesia | 5 | 4 | −1 | 3 | 2 | −1 | 2 | 2 | 0 | 0 | 0 | 0 |
| Singapore | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | −1 |
| Vietnam | 1 | 3 | 2 | 1 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |

| | Electric cooker | | | Electric fan | | | Air conditioner | | | Cum. # of production sites | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change | 2000 | 2009 | Change |
| ASEAN | 9 | 7 | −2 | 10 | 6 | −4 | 17 | 12 | −5 | 79 | 58 | −21 |
| Thailand | 5 | 6 | 1 | 5 | 3 | −2 | 7 | 6 | −1 | 35 | 30 | −5 |
| Malaysia | 1 | 1 | 0 | 1 | 1 | 0 | 3 | 3 | 0 | 11 | 6 | −5 |
| Philippines | 1 | 0 | −1 | 2 | 1 | −1 | 3 | 2 | −1 | 12 | 7 | −5 |
| Indonesia | 1 | 0 | −1 | 2 | 1 | −1 | 3 | 1 | −2 | 16 | 10 | −6 |
| Singapore | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | −1 | 2 | 0 | −2 |
| Vietnam | 1 | 0 | −1 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 5 | 2 |

Source: Sukegawa (2009).

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Figure 4 Population by income groups: China

(US dollars; 2005 PPP adjusted; annual total income of a family with four members)

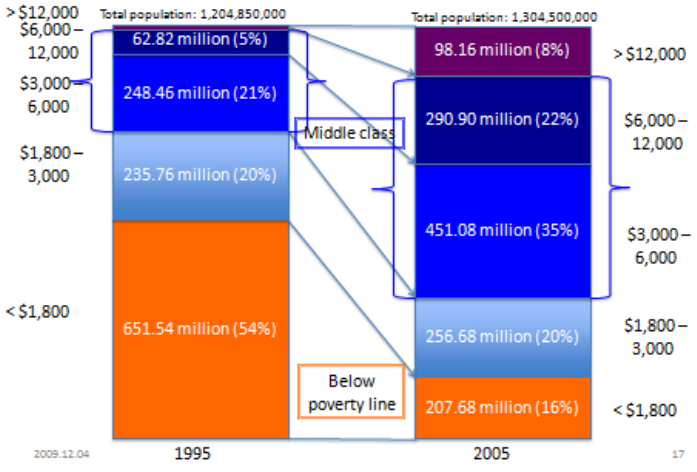


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Figure 5 Population by income groups: ASEAN (excl. Singapore, Brunei, and Myanmar)
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)

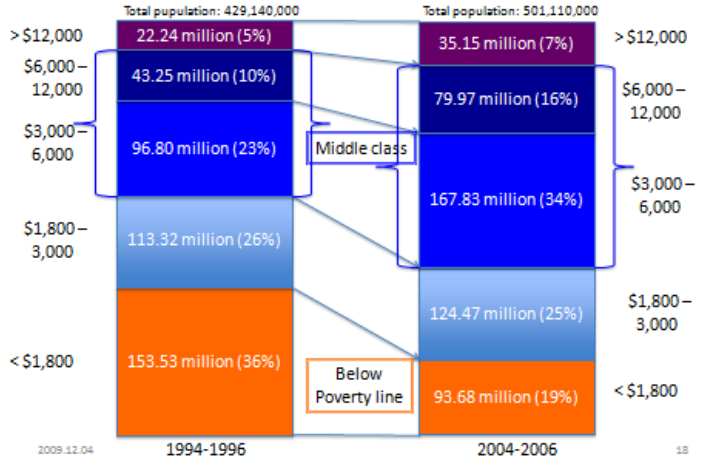
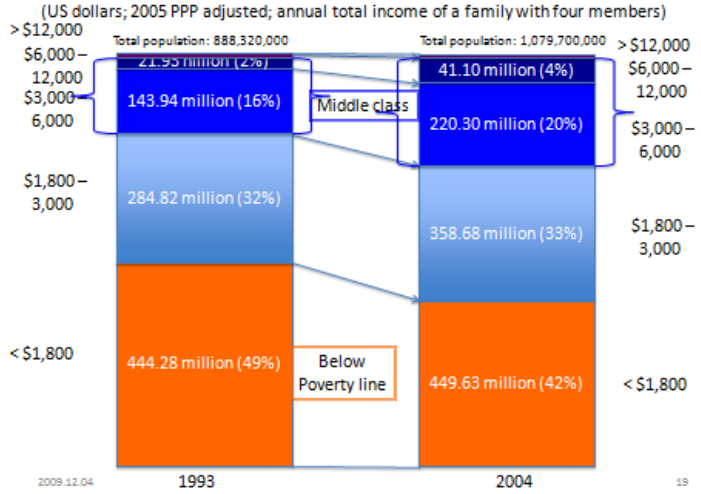



Figure 6 Population by income groups: India
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)




## 5. Where to go from now on

- The current system of overlapping FTAs seems to gain a certain level of appreciation.
- However, it does not mean that consolidated plurilateral framework with more solid institution would be useless.
- Can AEC be a core of institution in East Asia?
- Asia-Pacific is likely to lead further development of FTA networking/consolidation in the coming years.

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## 【討論】
## The New Wave of Regional Integration and East Asia

**討論者:三田 紀之**
**(経済産業省通商政策局経済連携課課長)**

はい、経済産業省の三田です。本日はこのような機会をいただきましてありがとうございます。日本人の方が多いということで今日は日本語で話をさせていただきます。本日私は唯一の政府からの参加と思いますので、現実に交渉あるいは運用している者として、学術的議論というよりはむしろ現場の実感をお伝えするという趣旨でコメントしたいと思います。

まず、基本的には、木村先生の今回の発表は、私どもの現場の実感に非常に沿ったものだというふうに考えています。その上でコメントさせていただきます。

まず、東アジアの FTA における日本政府、我々の基本的視座をご説明させていただきます。これは大きく 2 つあります。1 つはまさに先ほどからお話があった生産ネットワークの重視。2 番目はこの数年間に起こってきている状況ですけれども、FTA の利用といったそのライフサイクルの重視、この 2 点です。

1 点目の生産ネットワークの重視ということは言い方を変えると、この地域、あるいは日系企業の生産ネットワークの競争力をなるべく強化しようという方向です。具体的には、例えば関税の交渉であれば、部品の関税の撤廃というのを重視する。あるいは、原産地規則についてもなるべく生産者にとって使いやすい規則を提案するということで、今お話のあった co-equal ルールというのは日本から提案したものです。

また、日系企業のアジアへの投資というのを重視していますので、投資環境の整備ということを重視していて、投資のルール、あるいはビジネス環境の整備といった枠組みを重視しています。また、日本企業の生産ネットワークは別に日本とアジアの国の二国間の間で貿易をしているだけではなくて、この地域全体に及んでいますので、日本と相手国の FTA だけではなく、第三国間の FTA にも強い関心があり、また原産地規則の累積といった点も重視しています。そのような点が、単に二国間 FTA だけでなく、広い広域の地域統合への関心が強いという最大の理由です。

2 点目の FTA のライフサイクルの重視ということですが、東アジアの FTA は今お話があったように、例えば ASEAN+1 の FTA が今年全部交渉が終わったように、交渉の段階からこれを現実に活用していくという段階になっております。我々も交渉のときには予想もしなかった事態も結構多くて、発効後にきちんとこの FTA が使われるようにしていく、あるいは改善していくということが重要だと思っています。我々、これを「ライフサイクル」というような言い方をしていますが、運用（implementation）、そして利用（utilization）、特に普及活動をきちんとして企業が利用できるようにする。そして利用実態をきちんと把握する。そして最後にこれを踏まえて改善をしていくといった、ライフサイクルの業務が今我々の最

大の仕事となっています。

実は日本企業は、第三国間の FTA を含めた、アジアの FTA の最大のユーザーです。したがって、日本だけでなく、アジアの FTA も含めて、この FTA を改善していく、更には、収斂（convergence）をしていくことについてのニーズが非常に多い。これがもう 1 つ我々が広域のリージョナルな FTA を進めようとしている理由です。

では、次にライフサイクルという観点から見た東アジアの FTA の現状についてです。まず、木村先生のご発表では、企業の利用実態及びその企業活動への影響という点について、焦点が当てられておりました。まさにこれは我々も重視しています。ただその前に、まずそもそもの運用自体が現実には各国の能力等からきちんとできていないケースが結構多いということで、まず前提として東アジアの FTA は、運用をしっかりするということが最大の課題だなというふうに感じております。

その上で、お話のあった「利用」ですけれども、次第に使われてきているけど、まだまだ努力が必要だと思っています。この「利用」もやはり「自由化」の度合いによるところが大きくて、例えば「即時撤廃」が行われている、発効からすぐに撤廃が行われている分野の利用というのは非常に多い。ほとんど 100%近く利用されているのではないかと思います。逆に、長期間かけて関税率が下がっていく分野というのは利用がまだ少ないということが言えます。

すでに発効して 5 年がたったメキシコでは、有税品目の輸出をしている企業のうち、約 7 割が使ってみようと思って税率を調べ、半分が FTA を使っているということを私どもの調査で発見いたしました。また、現地での進出企業の 6 割が FTA のメリットがあるということなので、ある程度 FTA が定常化してくれば使われるという状況はあろうかと思います。

またもう 1 点、第三国の FTA の活用意欲が高いということも言えます。2 年前の JETRO のアンケートですけれども、使っている FTA のうち第 3 位に AFTA（ASEAN 自由貿易地域）が入っていました。また、今後の利用意向としては、上位 5 位のうち、2 位が AFTA、3 位が ASEAN・中国、そして 5 位がタイ・インド、ということで非常に第 3 国間の FTA の利用についての意欲が高いということが言えます。

では現実に、FTA によってどういう影響があるか。木村先生の最後のチャレンジの部分で、まさにこの点に焦点をあてていただいて非常にありがたいと思います。これは学術的には大変難しいと思うんですが、我々現実的にはかなりこういうふうに使われてきてサプライチェーンが変わってきているということを感じています。特に経済危機以降に、「選択と集中」という形で、サプライチェーンの集約が見られるなと思っています。

現実に起こっている例として 3 点、例をあげます。1 つはかなり中長期的なトレンドですが、ASEAN の中の AFTA によって自動車産業のタイへの集中というのが起こっている。2 点目ですが、タイ・豪州の FTA ができたことで、日系企業は豪州への自動車輸出を、日本からの輸出から、タイへの輸出に切り替えているということがあります。これは、タイからの輸出のシェアが増え、日本からの輸出のシェアが減っています。3 番目に、タイとインドの FTA、これはアーリーハベストが既に発効していますが、これによってかなりタイとイ

ンド間の、日系企業の貿易がさかんになっています。例えば自動車部品を相互で輸出し合うという流れがあります。また、企業によってはインドの工場を閉鎖して、タイからの輸出に切り替えているような分野もあるというように聞いています。

次にこのようなライフサイクルから見た FTA の改善点ですけれども、木村先生からの指摘があったようにあまり RO が違うスパゲティボール現象で困っているような声をそれほど強くは聞いていない。1 つにはこれは、交渉時に 1 つ 1 つ利害関係を反映しているからだからだと思います。ただ一方で、例えば運用の問題、インボイスにどう書くかといった問題や、手続き、証明制度といった点への関心は高くて、産業界あるいは執行側の当局、両方がこういった現実の運用に悩んでいるということで、こういった問題を解決していくことが広域的な FTA の 1 つの課題だと思っています。

最後に、今後の方向ですけれども、やはり今まで申し上げてきたように、ライフサイクルの視点から、活用をどうするか、そして問題点をどうしていくか、というのは広域的 FTA の最大のドライビングフォースだと思っています。生産ネットワークにとっての累積の重要性、あるいは既存 FTA の活用がされて、それでサプライチェーンが今言ったように変わってきたという観点、こういった点を重視する必要があります。特に、インド、豪州、ニュージーランドというのが東アジアのサプライチェーンに組み込まれてきたなという実感をしておりますのでそういった意味で、ASEAN+6 の FTA というのを中心に据えて推進していきたいと思っています。

これはまた、中間層の市場、肥えている中間層市場を持つ中国、インドを東アジア全体として取り込むという考えであります。また、現実的な問題としても、こういった広域的 FTA を進めるにあたってコンペティティブ・リージョナリズムの動きがあるな、という点は非常に強く実感しております。我々は、+3、+6 さらには日中間の FTA、この 3 つをある意味同時に走らせながら進めて行くというふうにしたいと思っています。

またもう 1 点、このような観点からは最終消費財の輸出として、アメリカといった点も重要なのでこの TPP（環太平洋戦略的経済連携協定）の動きにも非常に関心があり、これについても日本がどう関与するかというのを考えて行くということであります。以上です。

**【質疑応答】**

浦田：　どうもありがとうございました。では先ほどと同じように、聴衆の方からお 1 人ご質問をお受けしたいと思いますが、どなたかご質問ある方がいらっしゃいましたら挙手をお願いします。質問の際にはご所属をおっしゃってから、お願いしたいと思います。いかがでしょうか。どうぞ。

フロア：　姫野でございます。今、財務省で仕事をしております。時間がありませんので、問題意識を今お話することはやめまして、質問にすぐにいきたいと思います。木村先生のご報告で大変実情を踏まえつついろいろな動きがあるというお話があったんですが、今三田課長のお話にもありましたように、今までの ASEAN+ジャパンのような ASEAN+1 スタイルの FTA に加えて、広域の ASEAN+3 ですとか、ASEAN+6 という FTA に向かっていこうかという話があるわけですけれども、ASEAN の国にとって、ASEAN がハブとなって FTA が出来る状況が変わって、ASEAN+3 になる、+6 になるということになりますと、ASEAN に対するインウォードの FDI に悪影響がでるんじゃないか、というようなこともあろうかと思いますが、データの面ですとか、経済的な分析の面、もしくは政策論議の中でこの ASEAN がどういうふうに影響を受けるか、そしてどのようなポジションをとるかについて何か示唆いただければと思いまして、よろしくお願いします。

浦田：　ありがとうございます。時間の関係ですみません、お 1 人からしか質問を受けられないことをお許しください。では木村さん、三田さんからのコメントあるいは質問と、今の姫野さんからの質問に対して簡潔にお答えください。

木村：　三田さんのコメントどうもありがとうございました。特にお答えすることはありませんが、こういうふうに FTA をどうやったらうまく使っていけるかっていうことをずいぶんきめ細かい取り組みがなされていまして、ひとあたりやっぱり日本人、日本企業がこう FTA に慣れていくっていう過程で、こういうプロセスってすごく大事なプロセスだと思うんですね。だからそういう意味で、協定できたら終わりっていうんじゃなくて、これからもっと使っていくっていう努力は確かに重要なことだというふうに理解しております。

フロアからのご質問ですけれども、おっしゃった通りのことがよく議論されて、陰に日向に議論されているというべきでしょうか。ASEAN は確

かに FTA ネットワークのハブになっているのですが、例えば北米でアメリカが中心にハブになっているとか、あるいは EU で西ヨーロッパがハブになっている、そういう意味でのハブと全く違う性質があって、1 つは経済規模が小さい、それから ASEAN 全体としてはどちらかというと途上国であって、投資をする側じゃなくて、投資をする側になっているということになりますから、通常の NAFTA とか EU で働いたようなドミノエフェクトっていうんですかね、そういうものが違うメカニズムでしか働かないような形になっている。だから ASEAN の立場からすると、とにかく投資をしてもらうことが FTA ネットワーキングをしている 1 つの大きな目標だというふうに考えるとすると、例えば日中間、あるいはインドとの間、そういう FTA ができてきて、あるいは広域 FTA になってくれば、自分たちの相対的な地位はもしかしたら下がるかもしれない、というのは確かにあり得る考え方ではあると思います。

ただ、ASEAN の中での議論としては、あまりオープンにそういう話はしていない。意図的にしていないというふうに理解しています。それは、もう 1 つは広域のインテグレーションの場を提供しているというのがもう 1 つ ASEAN の大事なファンクションであると考えているからだと思うんですね。だから日中間の首脳会談、ついにこの間から ASEAN の外でやられるようになりましたけれども、それまでは ASEAN の会合があるときしかそういうものは開かれていなかった。そういう意味で、フォーラムを提供しているというのはハブの機能として大変重要な機能であるというふうに ASEAN が理解しているということもあるので、だから、必ずしも FTA をコンソリデートして大きくしていくということに情熱を傾けているということではないけれども、そういうことを話す場を提供するというのも自分たちの役割なんだというふうに考えているというのが現状かなというふうに理解しております。

浦田： どうもありがとうございました。まだまだこのテーマにつきましても議論があるかと思いますけれども、時間の関係で次の 3 番目の論文に移りたいと思います。3 番目の論文はソウル国立大学の安先生から「韓国の FTA 政策と制度的発展」というものであります。安先生、20 分以内で発表をお願いいたします。

【報告】

# FTA Policy and Institutional Development of Korea

「韓国の FTA 政策と制度的発展」

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## 1. Overview of Korea's FTA Negotiation

Korea has been very active in promoting free trade agreement (FTA) negotiations since the early 2000s. As indicated in Table 1, after the Korea's FTAs involving relatively small trading partners such as Chile, Singapore and EFTA entered into force, the Korean government has concluded in FTA negotiations with major trading partners including, the United States, European Union, ASEAN and so on.

**<Table 1. Summary of Korea's FTA Negotiation>**

| FTA Partner | Progress |
|---|---|
| Chile | Entry into force on April 1, 2004 |
| Singapore | Entry into force on March 2, 2006. |
| Japan | Formal negotiation began December 22, 2003. Negotiation suspended since the 6th meeting on November 1, 2004. |
| EFTA (Switzerland, Norway, Liechtenstein, Iceland) | Entry into force on September 1, 2006 |
| ASEAN<br>(Thailand joined in Feb. 2009) | Signed "Framework Agreement" on August 24, 2006<br>Agreement for Goods entered into force on June 1, 2007.<br>Services May 1, 2009<br>Investment Sep. 1, 2009 |
| India (Comprehensive Economic Partnership Agreement) | To be entered into force on Jan. 1, 2010 |
| US | Concluded the negotiation in June 2007 |
| EU | Initialed on October 15, 2009 |
| Canada, Mexico, Peru, New Zealand, Australia, GCC | In negotiation |
| MERCOSUR, China, Turkey, Russia, Columbia, Israel, SACU | In preparation |

These FTAs involving major economies are expected to have much more significant economic impacts than the most of the previous FTAs. As shown in Figure 1, the FTAs have been proliferating especially after the establishment of the WTO. But, Figure 2 demonstrates that the exponential increase of FTAs has not contributed much to

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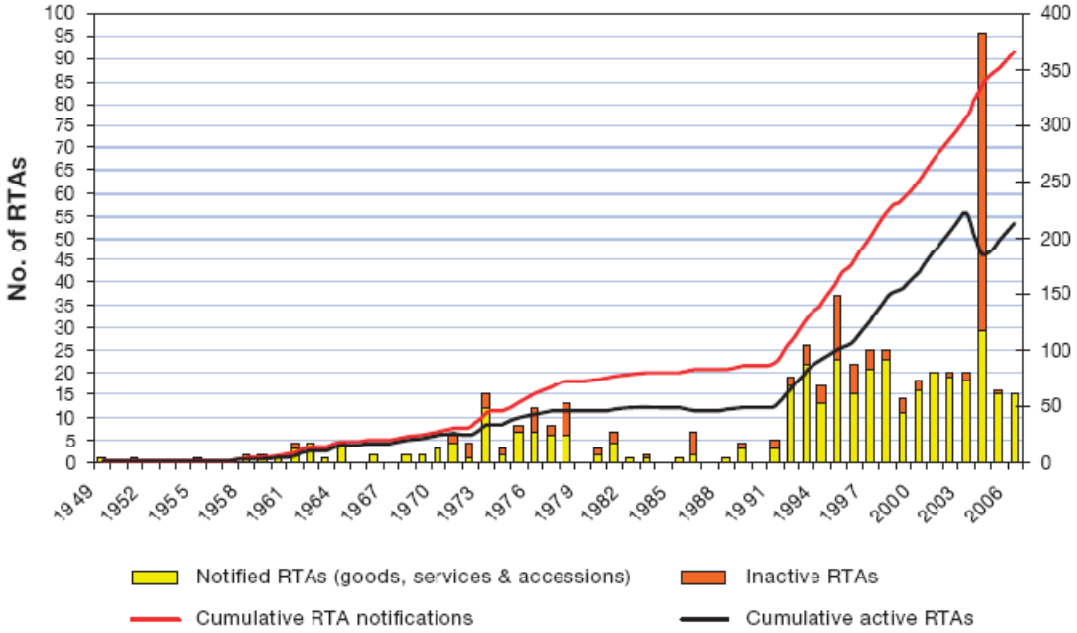
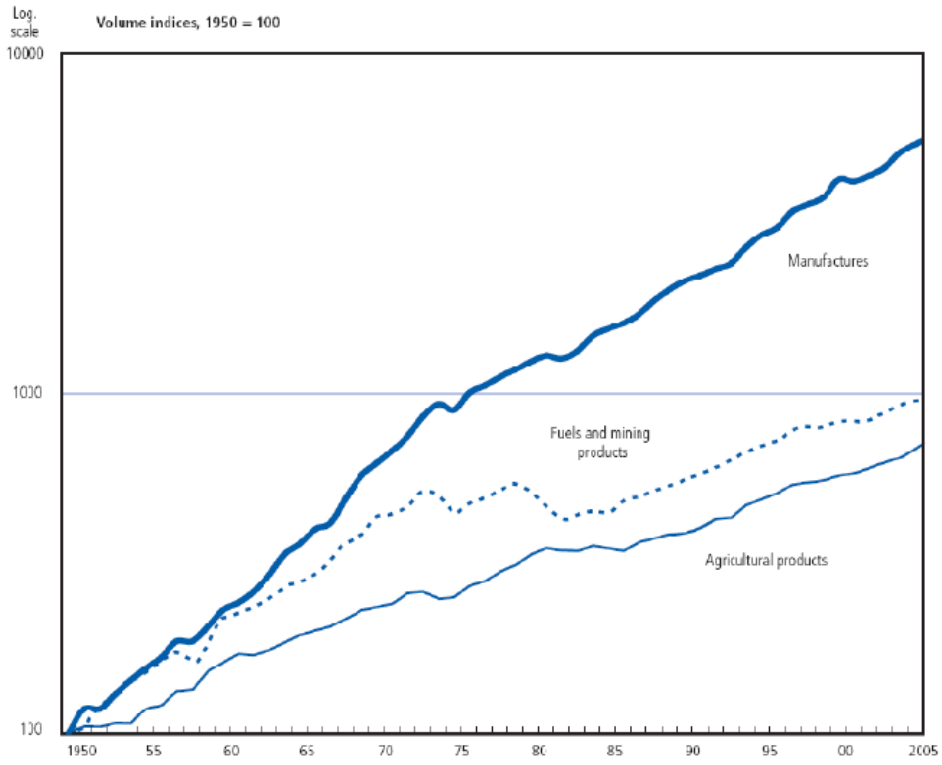
improve the world trade, indicating

**<Figure 1. Trend of RTA>**




<Source: R. Fiorentino et al., "The Changing Landscape of Regional Trade Agreements: 2006 Update", 21 (WTO Discussion Paper No. 12)>.

**<Figure 2. Trend of World Trade>**




<Source: WTO, International Trade Statistics, 2006>

that potential trade creation by FTAs has not been substantial due to trade diversion.

Whether the recent FTAs by Korea involving, *inter alia*, the United States and the European Union can make significant economic impacts to the world trade may be an interesting indication to the question of whether FTAs can be a stumbling block or a building block. In particular, strategic reaction incurred by trade diversion problem of these FTAs may also induce facilitation of significant FTAs by Japan and China.

## 2. Special Features of Korea's FTA Policy[14]

### 2.1. Simultaneous multiple FTA negotiation strategy

The Korean government publicly announced the "simultaneous multiple FTA negotiation strategy". In other words, the Korean government has sought as many FTA negotiations as possible at the same time. This strategy is supposed to make up relatively late participation into a FTA race. Also, it is to enhance bargaining leverage of the Korean government by having various alternatives for FTA negotiation. This FTA strategy, however, required substantial expansion of FTA related government capacity. On December 10, 2004, the Ministry of Foreign Affairs and Trade established new bureau, "FTA Bureau", led by a Director-General level official with four departments where more than 30 officials were recruited. One of the problems of the "simultaneous multiple FTA negotiation strategy" is caused by sequential, not simultaneous, conclusion of FTA negotiations. Sequential conclusion and thereby sequential application of FTAs may entail vastly different economic consequences depending on the order of FTAs, at least unless they are concluded within a relatively short span of time.

### 2.2. Comprehensive "WTO plus" approach

Next, the Korean government generally adopts comprehensive "WTO plus" approach for market liberalization undertaken by FTA negotiations. Since trade barriers at borders of major trading partners are typically very low or scarce, Korea endeavors to work on non-tariff issues such as trade remedy system, investment, trade in services, intellectual property protection, cooperation in science and technology. In this regard, it is noted that the Korean government has adopted *sui generis* FTA trade remedy systems.

For example, the Korea-Chile FTA included special safeguard mechanism for

[14] This part is mostly drawn from Ahn, Dukgeun. "Korea's FTA Policy" in *The New International Architecture in Trade and Investment: Current Status and Implications*, APEC, March 2007.

agricultural products.[15] The Korea-Chile FTA generally resorts to the WTO Agreements for its safeguard mechanism. Chapter 6 stipulates that both parties maintain WTO rights and obligations concerning safeguard matters. Safeguard actions would be dealt with exclusively by the WTO dispute settlement system. Notwithstanding Chapter 6, Article 3.12 sets forth a special safeguard system for agricultural goods in case an import increase causes or threatens to cause serious injury or "market disturbance".[16] This special agricultural safeguard provision substantially differs from the special safeguard mechanism under the WTO Agriculture Agreement that employs an automatic triggering system. Moreover, although 'material injury' and 'threat of material injury' are defined in line with the WTO Safeguard Agreement, the concept of 'market disturbance' is not specifically stipulated and completely unprecedented. The lack of clear definition on the latter element for safeguard actions in the Korean statutory system may lead to serious controversy in actual application of the provisions in a near future, unless it is elaborated with more specific guidelines or criteria.[17]

The exclusion of FTA parties from the WTO safeguard action, first adopted in the NAFTA, has also been discussed and will soon appear in the formal text of the FTA involving Korea. The FTA negotiation with India at the conclusion stage will include the first case of NAFTA style safeguard exception clauses. Such clause is very likely to be adopted in the KORUS FTA

The Korea-Singapore FTA adopted additional commitments for the anti-dumping mechanism: prohibition of zeroing and the "lesser duty" rule. Article 6.2 of the Korea-Singapore FTA stipulates that:

> 3. Notwithstanding paragraph 1, the Parties shall observe the following practices in anti-dumping cases between them in order to enhance transparency in the implementation of the WTO Anti-dumping Agreement:
>
> (a) when anti-dumping margins are established on the weighted average basis, all individual margins, whether positive or negative, should be counted toward the average; and
> (b) if a decision is taken to impose an anti-dumping duty pursuant to Article 9.1 of the WTO Agreement on Anti-dumping, the Party taking such a decision, should apply the 'lesser duty' rule, by imposing a duty

[15] For more general discussion on FTA trade remedy systems, see Dukgeun Ahn, "Trade Remedy Systems for East Asian FTAs" in *The WTO in the Twenty-First Century: Dispute Settlement, Negotiations and Regionalism in Asia* (Yasuhei Taniguchi, Alan Yanovich and Jan Bohanes eds., Cambridge University Press, 2006).

[16] Laws on Investigation of Unfair Trade and Safeguard, Article 22.3 (Public Law 7093, promulgated on Jan. 20, 2004).

[17] Article 22.3 of the Law on Investigation of Unfair Trade and Safeguard was elaborated by Article 22.3 of the Implementing Regulation (Presidential Order 18565, promulgated and entered into force on Oct. 21, 2004). But, the Implementing Regulation did not clarify the concept of "market disturbance" either.

which is less than the dumping margin where such lesser duty would be adequate to remove the injury to the domestic industry.

The above provisions are noteworthy in that they are the first kind of a modified FTA trade remedy system adopted in the East Asia.

While the Korea-EFTA FTA retains basically all the rights and obligations under the WTO Anti-dumping Agreement, it also adopted the above mentioned a "lesser duty" rule. In addition, the Korea-EFTA FTA stipulates that parties "shall endeavor to refrain from initiating anti-dumping procedures against each other" and consult "with the other with a view to finding mutually acceptable solution", although it does not mandate any specific additional legal requirements. Interestingly, the parties under the Korea-EFTA FTA shall review whether there is need to maintain anti-dumping measures after five years of application. On the other hand, the Korea-EFTA FTA requires at least a 30 day period for mutual consultation before parties initiate countervailing investigations.

### 2.3. Special treatment for "internal trade" between South and North Koreas

Currently, South Korea is treating products from North Korea basically as domestic products and does not impose any tariff or other trade measures applicable to importation. In fact, South Korea enacted a special implementation law for WTO Agreements in 1995 and declared that it would treat North Korean products as domestic goods. Article 5 of the "Special Law on Implementation of World Trade Organization Agreement", subtitled "Intra-Nation Transaction", provides that "the trade between South and North Koreas constitutes an internal trading within an economy and as such shall not be regarded as that between countries".[18] Notwithstanding this domestic regulation, the exemption of tariffs and other trade measures may invoke most-favored nation (MFN) treatment problems under the WTO system since North Korea appears to satisfy all the legal requirements to be treated as "independent customs territory".[19]

As transaction between South and North Koreas grows especially using Gaesung Industrial Complex, special North Korean district where South Korean companies manufacture products for consumption or further processing in South Korea,

[18] Public Law No. 4858. See also Moon-soo Chung, "Implementation of the Results of the Uruguay Round Agreements: Korea" in *Implementing the Uruguay Round* (eds. by John Jackson & Alan Sykes) 375 (1997).

[19] Dukgeun Ahn, "Legal Issues for Korea's 'Internal Trade' in the WTO System", in *Multilateral and Regional Frameworks for Globalization: WTO and Free Trade Agreements* (eds. by Lim and Torrens, 2005).

a counterpart for Korea's FTA negotiation has raised a issue whether those products should be benefited under the FTA arrangement. The Korea-Singapore FTA first made a formal recognition of "internal" trade between South and North Koreas. But, transaction between South and North Koreas was not categorically recognized as "internal" trade. Instead, the following "outward processing" provision articulates the specific conditions carefully designed to embrace products from Gaesung Industrial Complex to render preferential treatment:

***ARTICLE 4.4 : OUTWARD PROCESSING***

> 1. Notwithstanding the relevant provisions of Article 4.2 and the product-specific requirements set out in Annex 4A, a good listed in Annex 4C shall be considered as originating even if it has undergone processes of production or operation outside the territory of a Party on a material exported from the Party and subsequently re-imported to the Party, provided that:
>
> (a) the total value of non-originating inputs as set out in paragraph 2 does not exceed forty (40) per cent of the customs value of the final good for which originating status is claimed;
> (b) the value of originating materials is not less than forty-five (45) per cent of the customs value of the final good for which originating status is claimed;
> (c) the materials exported from a Party shall have been wholly obtained or produced in the Party or have undergone there processes of production or operation going beyond the non-qualifying operations in Article 4.16, prior to being exported outside the territory of the Party;
> (d) the producer of the exported material and the producer of the final good for which originating status is claimed are the same;
> (e) the re-imported good has been obtained through the processes of production or operation of the exported material; and
> (f) the last process of production or operation[4-1] takes place in the territory of the Party.
>
> 2. For the purposes of paragraph 1(a), the total value of non-originating inputs shall be the value of any non-originating materials added in a Party as well as the value of any materials added and all other costs accumulated outside the territory of the Party, including transportation cost.
>
> [4-1] The last process of production or operation does not exclude the non-qualifying operations stipulated in Article 4.16.

Goods listed in Annex 4C include plastics and articles thereof (HS Code Chapter 39), nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (Chapter 84), electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (Chapter 85), ships, boats and floating structures (Chapter 89), optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof (Chapter 90).

This provision was similarly adopted in the Korea-EFTA FTA. Annex I of the Korea-EFTA FTA has the provision regarding the exemption for territoriality principle as follows:

APPENDIX 4 TO ANNEX I
EXEMPTIONS FROM THE PRINCIPLE OF TERRITORIALITY

1. In accordance with Article 13 of Annex I, the acquisition of originating status shall not be affected by working or processing carried out outside the territory of a Party on materials exported from the Party concerned and subsequently re-imported to that Party, provided that:
(a) the total added value as set out in paragraph 5(a) does not exceed 10 percent of the ex-works price of the final product for which originating status is claimed; and
(b) the materials exported from the Party concerned shall be wholly obtained in that Party or having undergone working or processing going beyond the insufficient operations listed in Article 6 prior to being exported outside the territory of that Party.

2. Notwithstanding paragraph 1, for products listed in the Table set out at the end of this Appendix, the acquisition of originating status shall not be affected by working or processing carried out in an area, for instance an industrial zone, outside the territory of a Party, on materials exported from the Party concerned and subsequently re-imported to that Party, provided that:
(a) the total value of non-originating input as set out in paragraph 5(b) does not exceed 40 per cent of the ex-works price of the final product for which originating status is claimed; and
(b) the value of originating materials exported from the Party concerned is not less than 60 per cent of the total value of materials used in manufacturing the re-imported material or product.

The product coverage under the above provision was expanded from that of the Korea-Singapore FTA by including, *inter alia*, rubber products, articles of leather; apparel and clothing accessories, footwear, glass and glassware, precious metals, articles of iron or steel, vehicles other than railway or tramway rolling-stock, miscellaneous manufactured articles.

Although the above approach to treat products from North Korean territories was accepted by Singapore and EFTA, other FTA negotiation partners such as Japan and the United States have vehemently opposed to the adoption of similar provisions. The Korea-US FTA finally employed a different approach to this issue. It establishes "Committee on Outward Processing Zones on the Korean Peninsula".[20] The Committee is supposed to establish criteria to determine goods from any outward processing zone as originating goods. These criteria include "progress toward the

[20] Annex 22-B, Korea-US FTA.

denuclearization of the Korean Peninsula; the impact of the outward processing zones on intra-Korean relations; and the environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the outward processing zone", with due reference to the situation prevailing elsewhere in the local economy and the relevant international norms. The Committee decision reached by unified consent pursuant to the above criteria will be recommended to the Parties, which are "responsible for seeking legislative approval for any amendments to the Agreement with respect to outward processing zones". This "Committee on Outward Processing Zones on the Korean Peninsula" has been adopted similarly in Annex IV of the Korea-EU FTA. It remains to be seen whether transaction between South and North Koreas can be recognized, directly or indirectly, as "internal trade" by other WTO Members in the future.

## 3. Institutional Development of Korea for FTA

### 3.1. Reform of Government Organization

The Ministry of Foreign Affairs and Trade (MOFAT), the main government ministry in charge of trade negotiation, basically consists of offices of foreign affairs and offices of trade. In February 1998, the former Ministry of Foreign Affairs was augmented to expand trade negotiation functions that were handled often by the Ministry of Commerce, Industry and Energy (now Ministry of Knowledge Economy, 'MKE').

On the other hand, Chapter 2 of the Foreign Trade Act explicitly provides that the promotion of trade is within the jurisdiction of the MKE. Thus, under the current trading system in Korea, trade negotiation function is rendered to the MOFAT whereas trade promotion function is still maintained by the MKE. The distinction of these two jurisdictions is often obscure and confusing even for officials at the ministries.

In fact, the confusion on the jurisdiction of relevant government ministries becomes more acute when one considers the fact that the Ministry of Strategy and Finance (MOSF) has the authority for general conciliation of foreign economic policies including trade policies. On September 12, 2001, the Korean government promulgated the regulation on "Ministerial Meeting on International Economy" for which the Minister of Strategy and Finance Strategy and Finance becomes the chairman.[21]

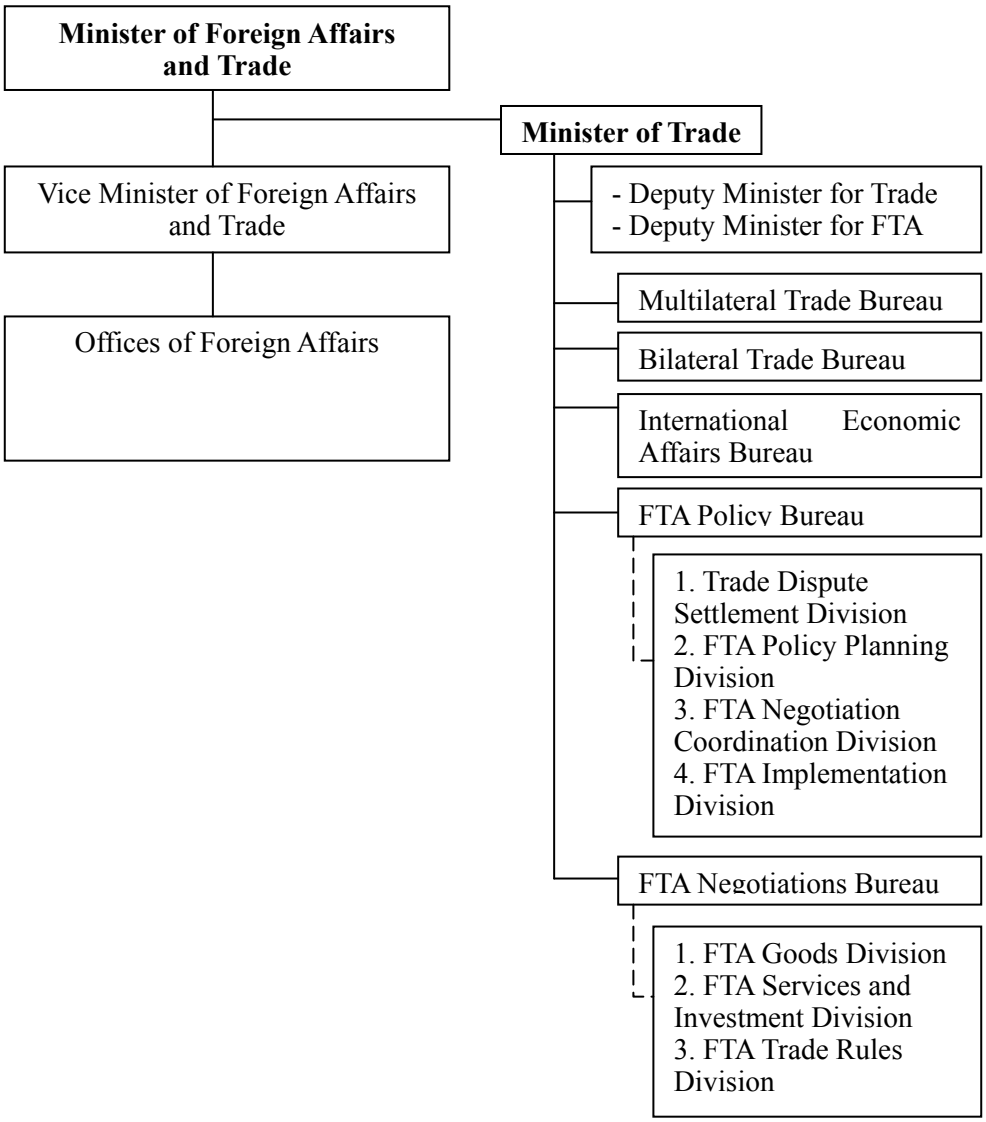
The Korean government used to be one of the most ardent supporters of the multilateral trading system. The trade negotiation related division was structured to

[21] President Order No. 17354.

focus on the WTO matters. But, the MOFAT reforms the governmental organization in order to deal with increasing FTA negotiations. As of November 2009, the ministry of trade in the MOFAT has five Divisions, among which two divisions were newly added to specialize in FTA negotiations.

Also, as indicated in Figure 3, the Ministry of Trade has now two "Deputy Minister" - one for trade in general and the other specifically for FTA. Seven divisions in total were established under two FTA related bureaus, specializing in specific issues such as sectoral negotiations for FTAs as well as FTA policy coordination and implementation.

**<Figure 3. Organizational Structure of Ministry of Foreign Affairs and Trade (MOFAT)>**




Whereas the external negotiation function was substantially improved by beefing up the Ministry of Trade, the internal policy coordination and implementation

issues were assigned to the FTA Promotion & Policy Adjustment Authority (FTA PPAA) established under the MOSF. The FTA PPAA consists of six divisions - Policy Division, Education & Promotion Division, Analysis Division, Assistance Policy Division, Industry Assistance Division, and External Cooperation Division. The FTA PPAA is advised by the FTA Promotion & Policy Adjustment Council, which is composed of 13 private members representing industry, media, civil society and academics as well as 13 government officials who are mostly ministers or minister-level officers from government departments or agencies related to FTA works. The FTA PPAA's main role is, however, to promote FTAs rather than to coordinate policy conflicts among different ministries. As a result, the role of the FTA PPAA in relation to policy coordination needs to be improved.

### 3.2. Trade Adjustment Assistance Program

The Korean government introduced the Trade Adjustment Assistance (TAA) program in 2007 to provide assistance to the parties adversely affected by trade liberalization. The "Act on Trade Adjustment Assistance for Manufacturing and Other Industries (TAA Act)" that provides legal frameworks for TAA programs entered into force on April 29, 2007.[22] Specifically, loans, investments, and job placement support for labor can be requested by manufacturers when sales or production fall by over 25% due to import competition. In 2008, 32 billion won was budgeted for TAA compensation although most of the budget was not actually spent due to the lack of applications.[23]

Whereas the Korean TAA benchmarked the US TAA system, it differs considerably from the US system. First of all, the Korean TAA is primarily focused on supporting small and medium size firms facing structural adjustment. Less emphasis is placed on providing social protection and assuaging workers within the liberalized trading order. This dissimilarity in objectives is manifest in the distribution of TAA funds, as about 90% of $1 billion annual allotment under the US TAA program is received by displaced employees. Only 9% is allocated to farmers and 1% is extended to firms. Meanwhile, according to a 10-year government plan issued in 2007 by the Korean government, 92% of 2,845 billion won budget under the Korean TAA program will go to firms while employees will be given less than 8%. This disproportionate spreading of funds is troubling since firm-oriented support systems may be more vulnerable under the WTO Agreement on Subsidy and Countervailing Measures (SCM Agreement).

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[22] Public Law No. 8852.

[23] WTO, Trade Policy Review: Republic of Korea 2008.

Secondly, the Korean TAA system requires the determination of the Korea Trade Commission (KTC) on the injury caused by pertinent FTAs to become eligible for the TAA support programs. Article 6.2 of TAA Act stipulates that the KTC should make a positive determination on (i) "serious injury" that is defined to mean 25% or more reduction in total sales or production[24] and (ii) causation requirement - imports of same kinds or directly competitive goods or services to be a primary cause of serious injury.

As of November 2009, three TAA measures were implemented based on positive determination by the KTC. The brief summary information is given in Table 2.

**<Table 2. Summary Information of TAA Implementation as of November 2009>**

| Product | Faucet | Wine | Pork | Watch | Pork | Mackerel |
|---|---|---|---|---|---|---|
| **Reason for Application** | Sales Reduction (Loss of 27%) | Sales Reduction (Loss of 45%) | Production Reduction (Loss of 28%) | Sales Reduction (Loss of 49.5%) | Sales Reduction (Loss of 31.6%) | Sales/Profit Reduction (Loss of 19.5%/51%) |
| **Importing Country** | Switzerland (EFTA) | Chile | Chile | Switzerland (EFTA) | Chile | Norway (EFTA) |
| **KTC Determination** | Negative | Positive | Positive | Positive | Positive | Positive |
| **Loan** | | KRW200 million (08.12. 1) | KRW100 million (09. 2. 3) | | KRW100 million (09. 7. 14) | |
| **Consulting Support** | | KRW16 million ('09.1.22~4.30) | KRW16 million ('09.3.2~12.12) | | | |
| | | For marketing strategy development | B2B business strategy development | | | |

<Source: Trade Adjustment Assistance Center, 2009>

It is noted that the very first application under the TAA system was actually declined by the KTC on the basis of negative determination on injury. The KTC determined that the main cause of alleged injury was not the import increase from the FTA partner country but the substantial reduction of exportation by the applicant. The first actual TAA measure was rendered to a local alcoholic beverage producer that

[24] The TAA Act also permits kind of "threat" of serious injury to be a basis for injury requirement. But, it provides that serious injury is certainly to occur, if not already occurred. The difference in terms of legal criteria to distinguish these elements for injury determination is not clearly elaborated in the Act.

produced products allegedly competitive to wine imported from Chile. Pursuant to the positive determination of the KTC, the loan of the total 200 million won was granted to this company. In addition, 16 million won was offered to assist consulting arrangement for marketing strategy development. Since then, two additional TAA measures were implemented to assist pork producing companies that claimed serious injury due to the FTA with Chile. There are two more cases in which the KTC concluded positively on serious injury in relation to the FTA with EFTA. But, concrete TAA measures were not yet finalized and implemented.

Although the KTC, the main trade remedy agency in Korea, is involved in injury determination, the procedure and standards used for TAA system are not rigorous as much as those for normal trade remedy procedures. In fact, all decisions for TAA related injury were made through documentary review instead of having actual deliberation meeting for trade commissioners. So far, the TAA implementation in Korea is still at an inchoate stage. It will take much more real cases to articulate criteria for injury determination and TAA measure development.

### 3.3. Regulatory Frameworks for Trade Negotiation and Legislation Procedure

1) General Procedure under the FTA Directive

The very first FTA negotiation for the Korean government with Chile raised numerous issues regarding the authority for negotiation and policy coordination, procedural legitimacy, and legislative process subsequent to the conclusion of FTA negotiation. Based on the experience of the Korea-Chile FTA he Korean government tried to make up some institutional and regulatory framework for FTA negotiation procedure.

The Korean government must follow the procedures and requirements stipulated in the "Presidential Directive on Procedures for the Conclusion of Free Trade Agreements (FTA Directive)" when it handles FTA negotiations.[25] The FTA Directive governs the entire process of negotiations, including the pre- and post-negotiation stages, of an FTA the Korean Government undertakes.

Pursuant to the FTA Directive, the Ministers' Meeting for External Economic Affairs (MMEEA) has the authority to make decisions on major policy issues concerning FTA negotiations such as the selection of FTA partners, the timing and the method of such negotiations, and other relevant mandates for the negotiations. The FTA

[25] Presidential Directive, No. 224 (Aug. 28, 2008).

Directive has required to establish three committees: the FTA Committee, the working-level subcommittee, and the FTA Advisory Committee. These three committees are expected to undertake the key decision making for FTA negotiations and implementation.

The FTA Committee, which is chaired by the Minister for Trade and consists of Deputy Ministers of relevant ministries, is primarily responsible for making Korea's FTA policy, overseeing FTA negotiations, and undertaking any follow-up measures. The FTA Committee is to be supported by the working-level subcommittee which consists of Director-General level government officials from relevant ministries.

The FTA Advisory Committee, which is chaired by the Minister for Trade, and consists of experts from academia and businesses, supports the Government in relation to various issues covering basic strategy, position decision for individual negotiation agenda, and other matters of FTA negotiations.

The Korean government often carries out a joint study with a candidate FTA partner to examine the feasibility of an FTA before it starts negotiations.[26] However, a joint study is not mandatory under the FTA Directive. For example, the Korean government launched negotiations with Chile merely after two preliminary consultations. Also, the Korea-US FTA and the Korea-EU FTA were initiated without a formal procedure to adopt the joint study report. When the joint study report is prepared with potential partners, such issues as the economic effect of the FTA, the scope and coverage of the FTA, and negotiating modalities are normally discussed. When a joint study or any other form of preliminary consultation ends with the conclusion that the proposed FTA is expected to bring sufficient benefits to Korea compensating potential injury to certain economic sectors, the FTA Committee recommends to the MMEEA the launching of FTA negotiations.

Sometimes, seemingly mere procedural steps can provoke quite controversial disputes. For example, Article 12 of the FTA Directive requires that a public hearing must be held prior to the MMEEA's decision and the result of the public hearing should be presented to the MMEEA at its deliberation. Considering the result from the public hearing along with many other data and information, the MMEEA decides whether or not to launch the negotiations. As in many other administrative processes, public hearing steps ensure that various interested parties and relevant sectors have a chance to be heard by the Government before the Government makes any formal decision on the launching of negotiations.

However, what should be done or achieved with public hearing procedures are

[26] Cheong, I and J. Cho, "The Impact of Free Trade Agreements on Business in the Republic of Korea", ADBI Working Paper Series, No.156 (Oct. 2009).

not articulated. For example, the public hearing meeting on February 2, 2006 for the Korea-US FTA required under the FTA Directive could not be properly processed due to the physical interference of the session by angry farmers and opponent groups. But several hours later, the Minister of Trade announced that pursuant to the FTA Directive, the FTA negotiation with the United States would formally begin. The opponent group claimed that the failure to conduct the public hearing session as planned constituted the violation of Article 12 of the FTA Directive, while the Korean government explained that the opening of the public hearing session technically complied with the requirement under the FTA Directive.

2) Law on FTA Negotiation Procedure

As demonstrated in Appendix, the legislative procedure in the National Assembly after the conclusion of the Korea-Chile FTA raised huge concern for legislative hurdle for trade negotiation. After the voting by the National Assembly turned down the Korea-Chile FTA three consecutive times, the Korean government needed to come up with the massive "Comprehensive Assistance Plan for Agricultural and Rural Sector" that amounted to 119 trillion won basically to address the concern of congressmen from rural sectors. This experience led the Korean government to consider the formalized procedure under which the legislative authority of the National Assembly vulnerable to unlimited political abuse may be constrained in a similar manner to the trade promotion authority (TPA) procedure of the US Congress.[27]

On the other hand, the opposing party also raised the need to establish the institutionalized procedure for initiating and concluding a trade agreement, including FTA, which inevitably causes huge economic harms to a specific sector and too often is rubberstamped by the National Assembly allegedly for the sake of national interest. This request was particularly strong after the Korea-US FTA was initiated despite the lack of social consensus and procedural drawbacks. When the Korean government decided to cut the existing screen quota down to the half - from 146 to 73 days and resume the importation of the US beef before the formal FTA negotiation with the United States began, the demand from the National Assembly to limit overly ambitious trade negotiation undertaken by the administrative body increased.

So, multiple proposals were prepared to establish a formal procedure by which the FTA negotiations could be guided. As of November 2009, the National Assembly did not push forward any particular proposal, although they still agreed on the need to

[27] There is a fundamental discrepancy between Korean and US constitutional system that leads to.

have a more formalized process.

The proposals in this regard share some of the key concerns highlighted from the recent experience of the FTA negotiations. Firstly, there are issues on what should be satisfied to initiate the FTA negotiation. How to ensure that a trade negotiation is supported by certain level of social consensus remains a difficult question. Although the National Assembly does not seem to have a constitutional authority to interfere with the decision to initiate a FTA negotiation by the administrative body, many politicians support the idea that there must be something more than a mere record of public hearing and so-called economic analysis reports issued by government funded institutes. In other words, legal requirements for due process especially at the stage of initiating a FTA negotiation are raised as one of the core issues.

Secondly, it becomes very controversial how to meet transparency requirement in the course of a negotiation. Transparency often contradicts with confidentiality that is also very important element of trade negotiation. In January 2007 at which the Korea-US FTA negotiation was still at a critical phase, the confidential document briefing the Korean government's negotiation strategy prepared only for confidential discussion between the Special FTA Committee of the National Assembly and the administrative body was leaked to the press and published in a newspaper. The next day, the chief negotiator of the US delegation, Ms. Curtler made comments on the Korean government's negotiation strategy when she faced the Korean chief negotiator, Mr. Jonghoon Kim. This incident highlights the importance of maintaining the right balance between transparency and confidentiality. In fact, a significant portion of the criticism towards the government regarding the Korea-US FTA negotiation was about non-transparency. In response, the Korean government tried to improve communication with relevant parties from a wide variety of sectors, particularly opposing sectors. Inevitably, the contents of such communication were leaked to the public forum, not rarely but actually quite routinely. This problem becomes particularly acute because the politically opposing party often tries to and is able to abuse transparency requirement. Although transparency is a critical element of any democratic legislative process, it takes very rigorous scrutiny to decide what to share with whom, when and how often.

Thirdly, there is a controversy as to how the economic analysis report should be prepared. Normally, a government funded research institute issues a report assessing the economic impact of an FTA, typically relying on a computational general equilibrium (CGE) model. In Korea, this report is generally prepared by the Korea Institute for International Economic Policy (KIEP). However, a CGE result is very contingent on the assumptions the model imposes and thereby can vary a lot depending on what kinds of economic assumptions are taken. This nature of econometric analysis routinely adopted

for FTA negotiations can provoke huge controversy when an FTA at issue is politically sensitive. Because the result of economic analysis can vary considerably depending on the assumptions for a model, who is doing how can be not just an economic issue but also a political problem.

As indicated in Appendix 2, the US Congress also demands the economic analysis report for any proposed FTA in the course of negotiation and ratification procedures. This is done by the US International Trade Commission (ITC). Unlike other trade remedy related agencies, the USITC has its own research capacity with significant numbers of economists. A relatively strong credibility of the USITC report has been supported by long experience of trade remedy works which have been protected from direct political influence. In Korea, however, a report by the KIEP often becomes a target of criticism on the basis of neutrality, objectivity, and econometric sufficiency. After the conclusion of the Korea-US FTA negotiation, the economic assessment report was prepared collectively embracing all government funded research institutes. This report, however, did not assuage the concern of opposing groups when they found that none of "their" economists were not included in the analysis works. So, a seemingly neutral economic issue of how to analyze impact of an FTA still remains to be a very political problem that relates to a fundamental issue whether or how much an FTA at issue is beneficial to a country.

Fourthly, what should be a precondition for ratification is also a difficult issue the National Assembly has struggled. It is already a widely accepted notion in the National Assembly that some kind of government measures to address marginalized or injured sectors must be prepared before the ratification. But, how much or what kind of assistance or compensation measures should be prepared is now the core issue of a legislative process in Korea. In this regard, the Korean government prefers the approach taken in the TPA. What to be done for injured sectors by trade negotiations is addressed during the negotiation through the consultation with the US Congress. After the negotiation is concluded, how much a particular sector should be compensated is not a major issue. Instead, they focus more on how the negotiation result should be arranged to accommodate the difficult situations of sensitive industries. Close consultation requirement under the TPA procedure contributes to reduce the burden for the USTR or the President to come up with compensation programs to address injured sectors after the conclusion of an FTA.

Unlike the US Congress that follows the TPA procedure, the Korean National Assembly has to bargain with the administrative body in relation to an FTA ratification. Having seen the controversy of the National Assembly related to the Korea-Chile FTA, the Korean government now faces considerably bigger problems to deal with massive

market liberalization under the Korea-US FTA and the Korea-EU FTA.

Lastly, what should be the time schedule for ratification procedure has become very important especially due to the Korea-US FTA. In principle, the US Congress must make a decision whether to ratify an FTA or not within 90 days from the date it is formally submitted to the US congressional ratification procedure if the FTA was concluded pursuant to the TPA process. However, they do not have any limit about when the FTA should be submitted to the congressional ratification procedure. In the case of the Korea-US FTA, it was signed on June 30, 2007 but not yet submitted to the US Congress. The prolonged delay in the US congressional ratification procedure led the National Assembly to stop ratification process for more than two years. This made another bad example for the politicians in Korea, implying that political reasons can be the basis to sacrifice "national economic interest" almost unlimitedly. The National Assembly begins to discuss what should be the procedure for concluded FTAs to facilitate timely ratification and prevent political maneuvering. The actual possibility for the National Assembly to agree on the established time schedule for ratification process is still very slim.

## 4. Conclusion

Korea has transformed from one of the most ardent opponents for FTAs into the most aggressive FTA using country. Korea now becomes one of the very few countries that establish FTAs with both the United States and the European Union.[28] Moreover, it is seriously considering FTAs with Japan and even China. In the meantime, other countries such as India, Canada, Mexico, and Australia will be embraced under the FTA coverage in the near future. Such an unprecedented level and scope of market liberalization in Korea has inevitably induced various institutional reforms in respect of legislative frameworks as well as trade policy implementation. Considering the current stage of development, it is clearly premature to draw any conclusion. But, the Korea's experience may shed some light on how important role the institutional development of legislative as well as administrative bodies plays to accommodate market liberalization expedited by FTA negotiations.

[28] The only other countries to have FTAs with the US and the EU simultaneously are Mexico, Jordan and Chile.

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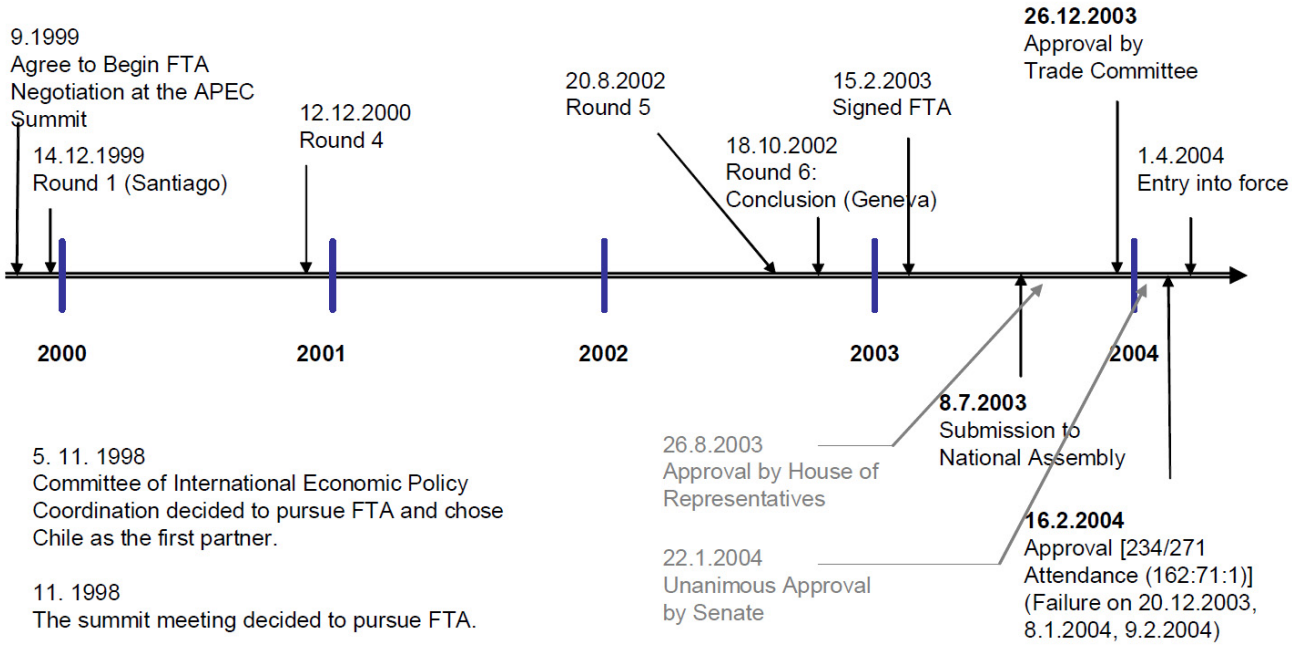
## Appendix 1. Procedural History of Korea-Chile FTA Negotiation



**Appendix 2. US Trade Promotion Authority (TPA) Procedure**

| Timing | Action |
|---|---|
| Prior to Notification | Consult Trade Committees, Congressional Oversight Group (COG) and other Committees as deemed appropriate. |
| At least 90 days before initiating negotiations | Transmit written notification of negotiations to Congress, including specific negotiating objectives. |
| Before initiating negotiations on agriculture, fish and shellfish and textiles | Complete general agriculture tariff assessment & consult with Trade and Agriculture committees.<br>Sensitive agriculture products: Identify products & consult Congressional committees; request ITC report; after receipt of ITC report notify Committees of products for which USTR will seek tariff cuts and reasons.<br>Consult Trade, House Resources, & Senate Commerce Committees on fish & shellfish.<br>Complete assessment on textile tariffs & consult Trade Committees. |
| Before making a tariff offer | Request and receive ITC probable economic effects report. |
| Before making a formal offer on tariffs, non-tariff barriers, service etc. | Hold TPSC hearing and receive summary of views.<br>Take into account advice from ITC, private sector advisory committees, and TPSC. |
| During negotiation | Transmit meaningful labor rights report on negotiating partners to Congress.<br>Conduct environmental impact review and employment impact review.<br>Report to Trade Committees on environmental impact review and employment impact review. |
| 180 days prior to entering into agreement | Report to Trade Committees on trade remedies proposals that could require amendments to U.S. laws and how these proposals relate to TPA objectives. |
| 90 days prior to entering into agreement | Notify Congress of intent to enter agreement; publish notice in *Federal Register.*<br>Provide ITC details & request report on agreement's likely impact on U.S. economy & specific industry sectors. |
| Before entering into agreement | Consult with Trade & other Committees with jurisdiction, COG on (1) nature of agreement, and (2) how and to what extent the agreement will achieve the applicable purposes, policies, priorities and objectives. |
| 30 days after notification of intent to enter agreement | Private sector advisory committees provide reports to Administration and Congress on the agreement. |
| Just before initialing | Consult Trade & Agriculture Committees & Congressional Oversight Group. |
| After entry into agreement(signature) | Transmit copy of agreement to each House of Congress with statement of reasons for entering into agreement.<br>Provide each Member of Congress with a summary of information submitted to each House. |
| 60 days after signing | Submit to Congress a list of changes to existing laws necessary to comply with the agreement. |
| At time to be determined in consultation with Congress | Submit to Congress: (1) copy of final legal text of agreement; (2) draft implementing bill; (3) statement of any administrative action; (4) explanation of how bill & administrative action affect existing law; and (5) statement asserting that agreement makes progress in achieving applicable TPA objectives. Submit implementation plan. |
| House Ways and Means Committee | 45 days |
| House Floor | 15 days |
| Finance Committee | 15 days |
| Senate Floor | 15 days |

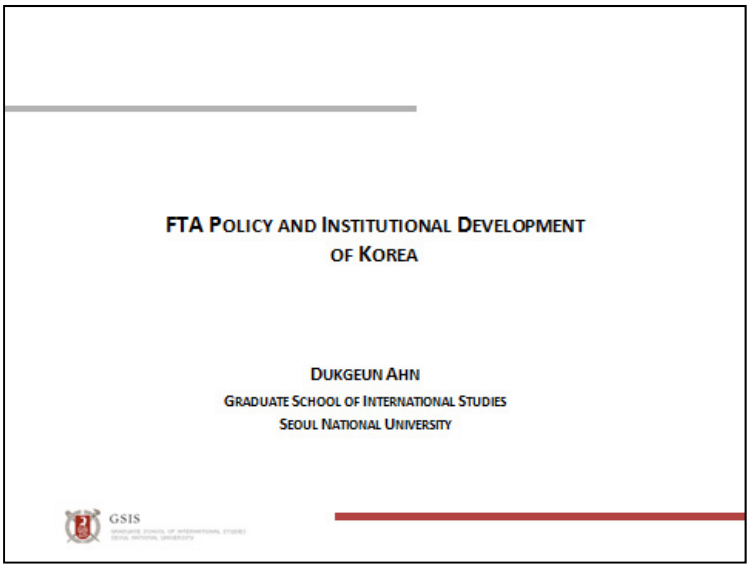
Note: TPA also imposes continuing requirements to consult with and inform Congress, including the Congressional Oversight Group, as well as the private sector advisory committees.

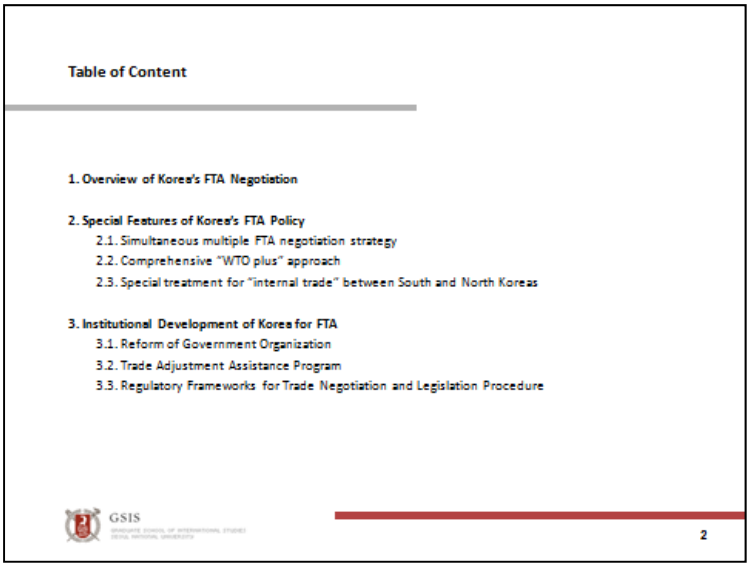
【Power Point】

## "FTA Policy and Institutional Development of Korea"

**Dukgeun Ahn**

(Associate Professor at Graduate School of International Studies,
Seoul National University)



## 1. Overview of Korea's FTA Negotiation

<Table 1. Summary of Korea's FTA Negotiation>

| FTA Partner | Progress |
|---|---|
| Chile | Entry into force on April 1, 2004 |
| Singapore | Entry into force on March 2, 2006. |
| Japan | Formal negotiation began December 22, 2003. Negotiation suspended since the 6th meeting on November 1, 2004. |
| EFTA (Switzerland, Norway, Liechtenstein, Iceland) | Entry into force on September 1, 2006 |
| ASEAN (Thailand joined in Feb. 2009) | Signed "Framework Agreement" on August 24, 2006<br>Agreement for Goods entered into force on June 1, 2007.<br>Services May 1, 2009<br>Investment Sep. 1, 2009 |
| India (Comprehensive Economic Partnership Agreement) | To be entered into force on Jan. 1, 2010 |
| US | Concluded the negotiation in June 2007 |
| EU | Initialed on October 15, 2009 |
| Canada, Mexico, Peru, New Zealand, Australia, GCC | In negotiation |
| MERCOSUR, China, Turkey, Russia, Columbia, Israel, SACU | In preparation |

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## 2. Special Features of Korea's FTA Policy

1) Simultaneous multiple FTA negotiation strategy
- ❖ Basically, to catch up other WTO Members
- ❖ Recently, reconsidering this approach due to too many FTAs concluded
  - Cautious approach towards Korea-Japan FTA and Korea-China FTA

2) Comprehensive "WTO plus" approach
- ❖ In addition to market access for trade in goods, emphasis on service trade, investment, trade remedy issues, technical regulation, government procurement, intellectual property protection, cultural cooperation and so on.
  - FTA trade remedy rules

3) Special treatment for "internal trade" between South and North Koreas
- ❖ Regardless of economic significance, used to be a politically priority issue
  - Relatively less emphasis on this issue
  - "Outward processing" approach
  - "Committee on Outward Processing Zones on the Korean Peninsula"

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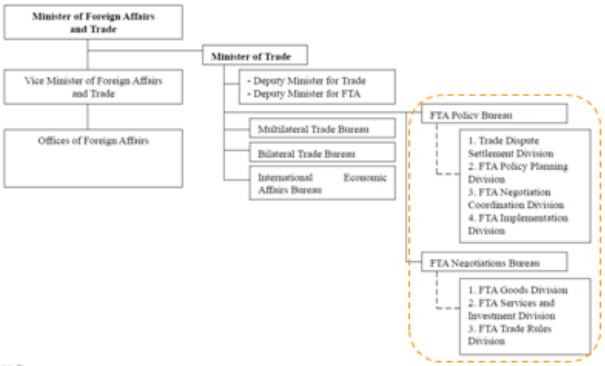
## 3. Institutional Development of Korea for FTA
### 3.1. Reform of Government Organization

<Figure 3. Organizational Structure of Ministry of Foreign Affairs and Trade (MOFAT)>

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## 3. Institutional Development of Korea for FTA
### 3.2. Trade Adjustment Assistance Program

- "Act on Trade Adjustment Assistance for Manufacturing and Other Industries (TAA Act)" entered into force on April 29, 2007
  - Loans, investments, and job placement support for labor can be requested by manufacturers when sales or production fall by over 25% due to import competition.
- The Korean TAA is primarily focused on supporting small and medium size firms facing structural adjustment
  - 92% of 2,845 billion won budget under the Korean TAA program will go to firms while employees will be given less than 8%.
  - Firm-oriented support systems may be more vulnerable under the WTO Agreement on Subsidy and Countervailing Measures.
- The Korean TAA system requires the determination of the Korea Trade Commission (KTC) on the injury caused by pertinent FTAs to become eligible for the TAA support programs.
  - The KTC should make a positive determination on (i) "serious injury" that is defined to mean 25% or more reduction in total sales or production and (ii) causation requirement – imports of same kinds or directly competitive goods or services to be a primary cause of serious injury.



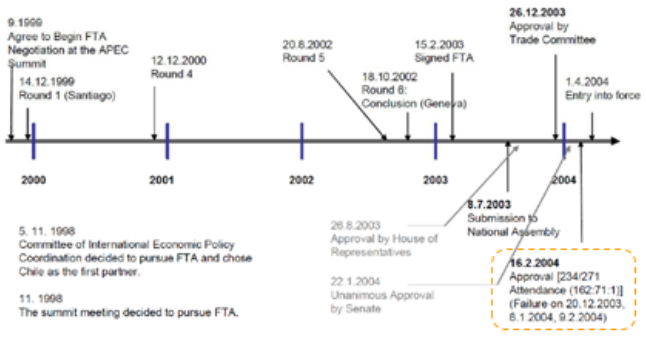
<Table 2. Summary Information of TAA Implementation as of November 2009>

| Product | Faucet | Wine | Pork | Watch | Pork | Mackerel |
|---|---|---|---|---|---|---|
| Reason for Application | Sales Reduction (Loss of 27%) | Sales Reduction (Loss of 45%) | Production Reduction (Loss of 28%) | Sales Reduction (Loss of 49.5%) | Sales Reduction (Loss of 31.6%) | Sales/Profit Reduction (Loss of 19.5%/51%) |
| Importing Country | Switzerland (EFTA) | Chile | Chile | Switzerland (EFTA) | Chile | Norway (EFTA) |
| KTC Determination | Negative | Positive | Positive | Positive | Positive | Positive |
| Loan | | KRW200million (08.12. 1) | KRW100 million (09. 2. 3) | | KRW100 million (09. 7. 14) | |
| Consulting Support | | KRW 16 million ('09.1.22~4.30) | KRW 16 million ('09.3.2~12.12) | | | |
| | | For marketing strategy development | 중소 business strategy development | | | |



## 3. Institutional Development of Korea for FTA
### 3.3. Regulatory Frameworks for Trade Negotiation and Legislation Procedure

Appendix 1. Procedural History of Korea-Chile FTA Negotiation



1) General Procedure under the FTA Directive

- "Presidential Directive on Procedures for the Conclusion of Free Trade Agreements (FTA Directive)"
  - Ministers' Meeting for External Economic Affairs
  - FTA Committee, working-level subcommittee, FTA Advisory Committee
  - Public hearing procedure and Korea-US FTA

2) Law on FTA Negotiation Procedure

- Need for a Korean version of Trade Promotion Authority
  - "Comprehensive Assistance Plan for Agricultural and Rural Sector" amounted to 119 trillion won

- Major Issues
  - what should be satisfied to initiate the FTA negotiation
  - how to meet transparency requirement in the course of a negotiation
  - how the economic analysis report should be prepared
  - what should be a precondition for ratification
  - what should be the time schedule for ratification procedure

GSIS

9

## 【討論】
## FTA Policy and Institutional Development of Korea

**討論者：荒木一郎**
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私も日本語でコメントさせていただきます。最初に他のスピーカーの方々と同様に、こういう機会を与えていただいたことについて大変ありがたいことだと思っております。安先生から韓国の FTA 政策について興味深いお話があったわけなので、私としてはまず最初に日本と比べてみようということを考えたわけであります。慌てて作ったスライドですので、お配りした資料の中にも入ってないんですけれども、日本が FTA に向かってどういう政策のポジションを形成しているかということについては、例えばこれは経産省の資料をそのまま借りてきたわけですが、こういうことで、アジアとの相互の繁栄であるとか、天然資源の確保であるとか、新しい時代の EPA 作りというふうなことを目指してやっていくという、これは皆さんよく聞かれるお話だと思いますし、それから先ほどの三田課長のお話にもいろいろ出ていたと思います。

ひとつ気がつくのは、安先生のお話と、こういう日本の政府の説明と比べて何が違うかというと、名前が違うということです、つまり協定の名前が違うということであります。韓国では「FTA」と言っていて、これはアメリカを中心にしている 2 国間の貿易協定もみんな FTA と呼ばれておりまして、アメリカ標準かなという気がするわけです。日本ではこれを FTA と呼ばず、「EPA」というふうに呼んでいるということです。名前だけ見るとこれはヨーロッパスタイルなわけです。EU がいわゆる ACP 諸国、旧植民地諸国との間で結んでいる FTA のことは Economic Partnership Agreement と呼ばれていて、EPA と呼ぶと何となくと単なる貿易の自由化だけではなくて、開発の次元、開発というものが含まれているというニュアンスがなんとなくあるんですね。私は日本政府がどうしてこういう用語を使ったのかはつまびらかには知りませんが、おそらく単なる貿易自由化だけではなく、開発であるとか、貿易の円滑化であるとか、そういうより大きな政策目標を含んでいるという、少なくともそういう象徴的な意味があるんだろうなというふうに思うわけであります。

それはそれで結構なことなんですが、皮肉な物の見方の人に言わせると、これは先ほど木村先生のお話にもあった農業の分野でなかなか日本が自由化できないということとの見返りであって、単に貿易を自由化するだけではアジアのパートナーに対しても魅力的なパッケージを提供できないので、より大きなものにせざるを得なかったというふうな違いがあるのかもしれません。この点は韓国はそれほど大きくするということではなくて、割と直に FTA ということでやっているということのように見受けられます。

それから、日本の場合は行程表というものがございまして、これは新政権でどういうふうになっているかというのはちょっとよく分からないんですが、少なくとも最新の行程表というのが 2008 年 6 月 27 日の閣議決定で決められております。面白いことに、ここには一種の

数値目標が入っておりまして、2010 年までに日本の貿易総額に占める EPA 相手国との貿易の割合というものを 25%以上にするという目標が掲げられております。現状で計算してみますと、このちょっと表が崩れていますけれども、青で書いたところですね、トータルでまだ今のところ 15%ぐらいしかいっていないから、来年までに 25 にするというのはなかなか厳しいんですが、もちろん韓国でありますとか、湾岸諸国、インド、オーストラリア、こういうところと今交渉中ですから、交渉がうまくいけば、来年までにこういうところの交渉が完結できれば、一応目標は達成できるということになろうかと思います。

去年の 6 月 27 日の閣議決定でも一応アメリカや EU との交渉の話も書かれております。ただし、これは将来の課題として検討をすすめていくという位置づけです。もちろんこれが入りますと、貿易量のパーセンテージはこれだけ大きいわけですから、かなりカバレージが広がるということです。この点はもう韓国はすでにアメリカとは交渉が終わって、批准を待つのみということですし、EU ともほぼ内容的には妥結をしているということですから、こちらは韓国の方がさらに先をいっているということになるということなんだろうと思います。それから、地域的な取り組みはすでに今回のセッションではいろいろ議論が出ているところですから、こちらについては省略をさせていただきます。

今日の安先生のお話と日本の現状とを少し比べてみようということなのですが、まず外交通商部における体制論というお話がありましたけれども、日本では一応そういうふうにはなっていないわけです。つまり、韓国では外交通商部の中に非常に一元的な交渉体制ができあがっておりますけれども、日本の場合は依然として各省がそれなりに意見を持っていて、主要官庁と言えば外務省と経産省と農水省。その閣僚会議になると必ずこの 3 大臣が並んで出て行くというようなのが日本の現状であるということで、やはり意志決定のやり方というのはだいぶ違っているなということがあります。

そうなってくると日本の場合は最終的には官邸で調整をするというか、内閣のレベルで調整をするということになりますから、総理大臣の役割というのが非常に重要になってくるということですね。これはだから、突き詰めて考えれば韓国は大統領制をとっているということで、日本は議院内閣制であるというところの政治体制の違いがこういう違いになってきているんだろうなという気がいたします。

それから、貿易調整援助（TAA）について非常に興味深いお話がありまして、これは日本には全くない制度なんですね。これを日本に導入すべきかどうかというのはいろいろ議論があろうかと思います。もともと安先生のお話にもありました、アメリカが発祥の地なわけですね。アメリカでの TAA というのは必ずしも評判のよい制度ではないわけであります。だいたいその新しい FTA を交渉するたびに労働組合の力を背景にした、反対派の議員たちが俺たちは反対だと、反対なんだけれども TAA を増やしてくれるんだったら同意してもいいよ、みたいな形で取り引きの材料に使われるということが多くて、必ずしも合理的な制度ではないというふうな批判があるわけです。例えば、アメリカの通商政策の専門家であるデ Destler という人がおりますが、安先生の論文でいうと 136 ページの文献表にも Destler の本が紹介されていますけれども、彼の最新版の本では、彼は TAA というのはもうやめてし

まってはどうか、つまり、要するに貿易自由化によって仕事を失った人に対する救済をやろうということなんですけれども、なぜ貿易自由化だけを理由にするのか、だから中産階級が所得を失っているというのであったら、そういう者に対する所得補償政策を全面的にやるべきであって、なぜ貿易によってディスロケートされた人だけを対象にしないといけないのか。だから一般的な調整政策を導入すべきではないかというようなことを言っていてですね、ちょっともちろん彼がそう言っているだけで、アメリカで TAA がなくなることはないと思いますけれども、それはそういう話なわけですね。

日本でこういうことをやろうっていうのは考えた時に、何があるかということですけど、こういう話を言いだすとすぐに、多分皆さんもそうだと思いますけど、すぐに思いつくのはウルグアイラウンドのときの、ウルグアイラウンド対策費 6 兆円という、例の話ですよね。反対派を押さえこむためにお金をばらまくみたいな話に使われるという可能性もあってですね、なかなか合理的にはできないという気がします。しかもそれは、先ほどの議院内閣制なのか、大統領制なのかというところが多分違ってきていてですね、日本の場合、韓国のように KTC（韓国貿易委員会）に判断をさせるというふうな、合理的な制度は多分できないですね。農業者の保護をやろうと思うと、これはやっぱり農水省が自分で決めるという話になってしまうので、なかなかこの日本版 TAA というのは導入は難しい制度じゃないかなと思います。

もう時間がなくなってしまったので、新政権のもとでどうなるかという話は私もよく分からないのですが、これも皆さんよく御存じの通りで、民主党のマニフェストの中にはアメリカとの FTA ということがはっきり書いてあって、それについていろいろ農業団体との間で軋轢があったっていうのはご存じの通りだと思います。ただ、一応かつての行程表も含めて FTA、EPA について積極的に取り組んでいこうということは新政権のもとでも確認されている。もちろん三田課長もやっておられると思いますけれども、例えば外務省でもつい最近、EPA、FTA 本部というのを外務大臣のもとに設立しまして、最初の会合を開いたというふうなことが報じられておりますので、基本的には日本の政策も FTA に積極的に取り組んでいくという方向は変わらないだろうなという気がするということです。

ということで時間も無くなりましたので雑ぱくなコメントですけれども、以上にさせていただきたいと思います。どうもありがとうございます。

【Powepoint】

**Japan's EPA Policy**

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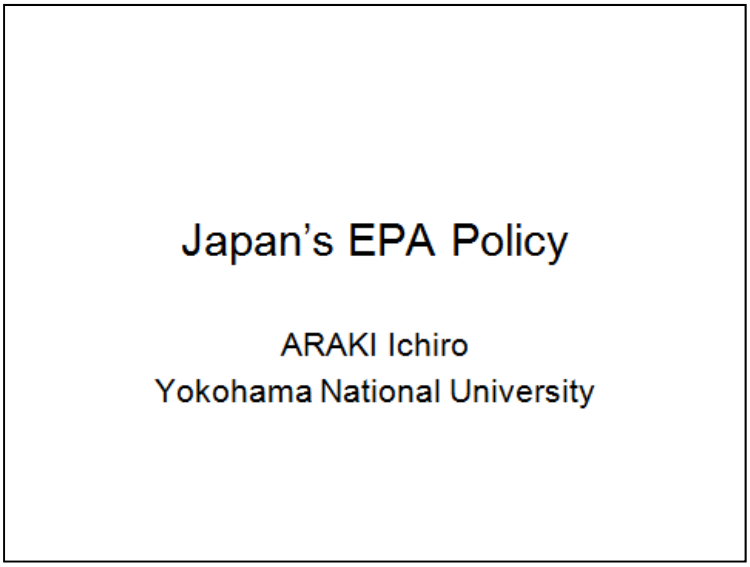


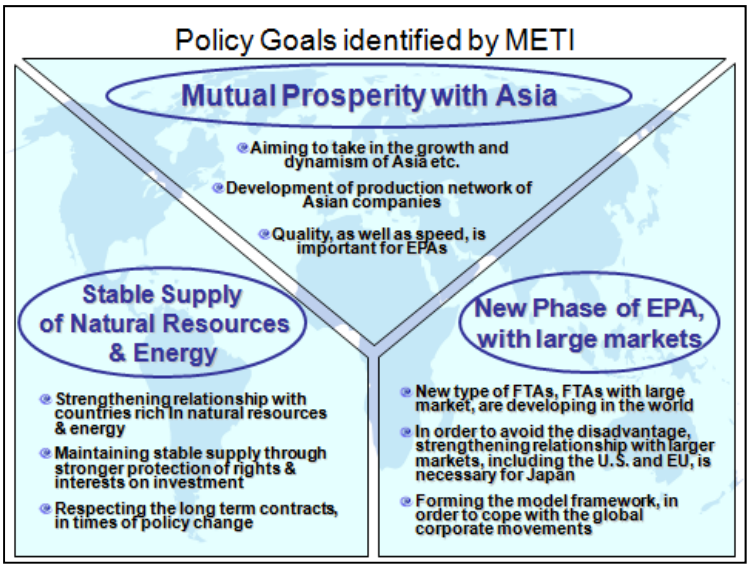

## Cabinet Decision of June 27, 2008

Goal:

- 12 or more EPAs by early 2009
- The ratio of trade with EPA countries: 25% or more by 2010
- Attainment of the Roadmap toward 2010
- Mexico 1.0%, Chile 0.7%, ASEAN 13.0%, Switzerland 0.6% (Subtotal: 15.3%)
- South Korea 6.1%, GCC 9.0%, India 0.8%, Australia 3.4%
- United States 16.1%, EU 12.8%
- EAFTA 36.9%, CEPEA 41.5%, FTAAP 69.7%

Thailand3.3%

## Comparison with Korea

- Institutional Development
  - Ministry of Foreign Affairs (MOFA), Ministry of Economy, Trade and Industry (METI), Ministry of Agriculture, Forestry and Fisheries (MAFF)
  - Leading Role of the Cabinet
- Lack of Trade Adjustment Assistance
- Policies under the New Administration
  - FTA with the United States
  - EPA/WTO Headquarters (MOFA)

## 【質疑応答】

浦田： どうもありがとうございました。今の荒木さんの TAA に関する点、非常に興味深い質問だったと思います。予定の時間を 5 分ほどオーバーしてしまっているのですが、先ほどと同じようにお 1 人から質問をいただきたいと思いますがいかがでしょうか？韓国の FTA 政策に関してですが、いかがですか？どうぞ。

フロア： WTO フォーラム代表の山浦です。青山学院大学 WTO 研究センターの客員研究員も兼ねております。安先生に簡単におたずねさせていただきたいのですが、韓国は日本との FTA 交渉では、EPA ということについて非常に疑念を持っていたように韓国の関係者から伺っているのですが、韓国の FTA 政策は完全にフルフレッジド FTA を追求するという立場なんでしょうか。ちょっとその辺教えていただければと思います。

浦田： では荒木さんからのご質問、コメント、それから今フロアからの質問にお願い致します。

Ahn： First, regarding the question from the floor, yes, as I mentioned, the Korean government has now finished actively, even with the U.S. and the EU, addressing all those issues, including protection of intellectual property and many other issues, like investment.

So the Korean government has become much more aggressive than when they first engaged in negotiations with Japan. So clearly, the Korean government has tried to have full FTA. But in that aspect, probably later, we will resume active negotiations with Japan, and they will raise more controversial problems.

On the other hand, the better aspect is that we are more experienced. Also, our industrial sector is much better prepared to accommodate the requests from other countries, maybe including Japan later.

So in that sense, the situation appears to be more favorable.

On the point raised by Professor Aki, I completely agree. The TAA was very effective in addressing industry injury. But policy-wise already TAA appeared to be a quite interesting basis or excuse for the Korean government to push more aggressive ideas, because now we have institutionalized the process under which the injured sectors may raise

complaints.

So it may not be a very efficient way to address those injury problems caused by import competition. But at least it can work very nicely, as in the U.S. case. There is a good basis for the policymakers to raise a kind of last resort when we push these trade negotiations in Korea.

浦田： ありがとうございます。このセッションではアジア地域経済統合の実態についての議論と制度的な面からの議論を行いました。ここにいらっしゃる発表者、討論者はこういった分野での第一人者たちであります。そのおかげで非常に最先端な議論が聞けたと私は思っております。時間が少しオーバーしてしまいましたが、そもそも始まったのが 10 分ぐらい遅かったので、タイミング的にはちょうどかなというように思います。発表者、討論者に温かい拍手をお送りください。どうもありがとうございました。