

# Regional Economic Integration in Asia: Challenges and Roles for Japan and India

December 13, 2012

Shujiro URATA

Waseda University

# Contents

I. Introduction

II. Proliferation of FTAs in Asia

III. Establishment of a Region-wide FTA

VI. Japan-India Comprehensive Economic Partnership Agreement

V. Concluding Remarks

# I. Introduction

- Countries in the world have become active in establishing FTAs since the 1990s.
- Asian countries became active in establishing FTAs in the 21<sup>st</sup> century.
- Proliferation of bilateral FTAs may lead an increase in trade cost, possibly reducing trade volume.
- Increased interest in setting up region-wide FTAs
- This presentation reviews the developments of FTAs in East Asia and discusses the ways to establish a region-wide FTA with a view on Japan-India Comprehensive Economic Partnership Agreement

## II. Proliferation of FTAs in Asia

- The first major FTA in Asia is AFTA (1992)
- ASEAN: AFTA → ASEAN Trade in Goods Agreement (ATIGA) → ASEAN Economic Community (AEC)
- Many FTAs (mostly bilateral) have been established in East Asia
- ASEAN has become a hub with five ASEAN+1 FTAs
- Region-wide FTAs: ASEAN+3 FTA (EAFTA), ASEAN+6 (CEPEA), Regional Comprehensive Economic Partnership (RCEP), Trans-Pacific Partnership Agreement (TPP), Free Trade Area of Asia-Pacific (FTAAP)

# Growth of FTAs in the World

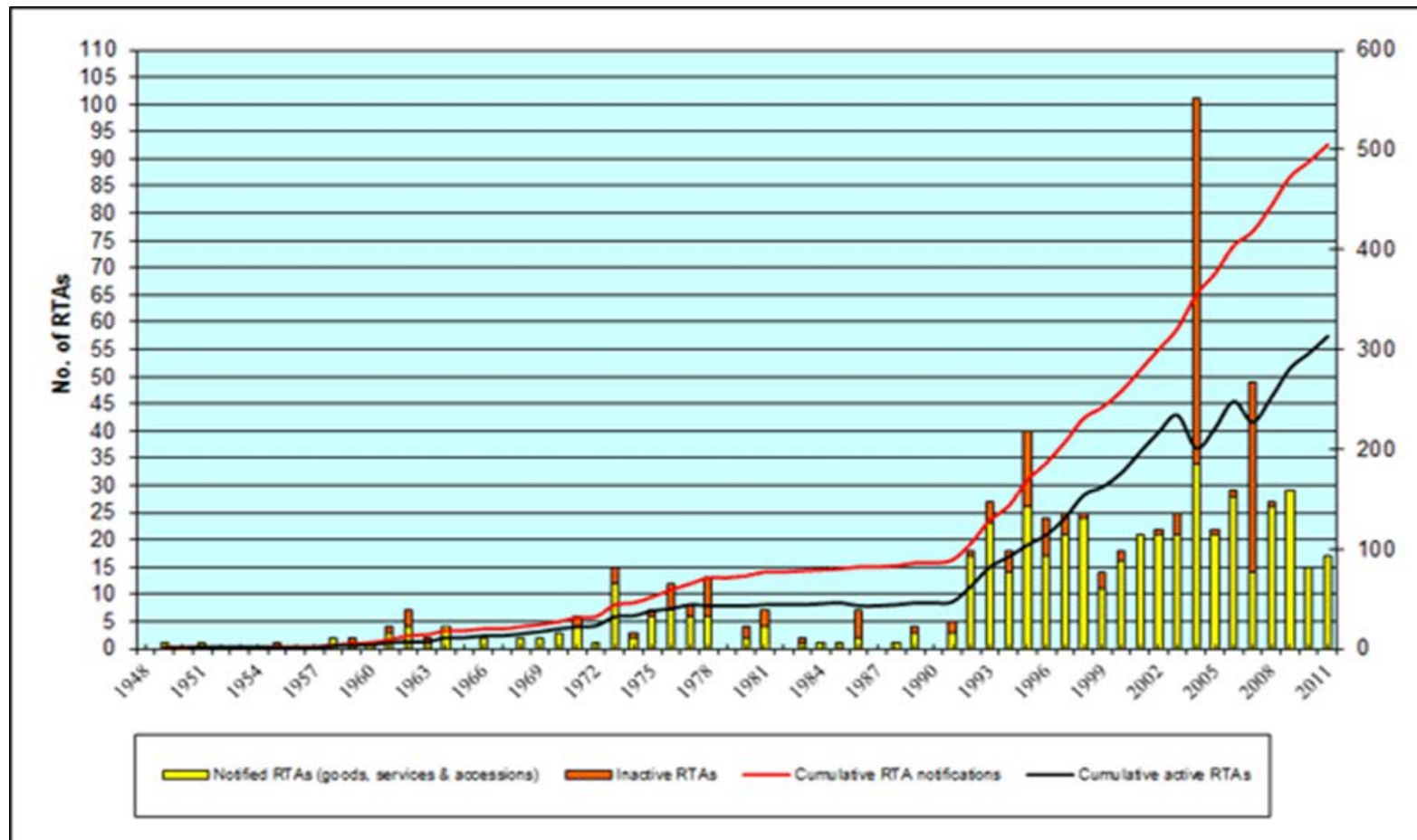


Table 1 FTAs in Asia as of September 2012 (cumulative number)

		Framework Agreement						
		Signed/	Under			Total	Types of FTAs	
	Proposed	Under neg	Negotiation	Signed	In effect		Bilateral	Plurilateral
1989	1	0	0	1	3	5	3	2
1995	1	0	0	15	14	30	26	4
2000	3	0	6	19	25	53	46	7
2005	44	18	28	27	51	167	130	37
2010	56	17	48	26	92	239	178	61
2012	51	15	55	26	100	250	185	65

Note: Asia in this table include the Asian Development Bank members.

Source: Asian Development Bank, Asian Regional Integration Center website, accessed on December 10, 2012

Table 2 FTAs for Selected Asian Countries: (as of September 2012)

COUNTRY	Proposed	Under Negotiation		Conclusion		TOTAL
		A	B	Signed	In Effect	
ASEAN						
Brunei Darussalam	5	2	1	0	8	16
Cambodia	3	0	1	0	6	10
Indonesia	5	1	5	2	7	20
Lao PDR	3	0	1	0	8	12
Malaysia	7	1	4	2	11	25
Myanmar	3	1	1	0	6	11
Philippines	5	0	1	0	7	13
Singapore	5	1	9	3	18	36
Thailand	6	3	4	0	12	25
Viet Nam	4	1	4	1	7	17
Northeast Asia						
China, People's Republic of	7	2	5	0	12	26
Japan	5	0	5	0	13	23
Korea, Republic of	12	1	8	1	9	31
Hong Kong	0	0	0	1	3	4
Taiwan	2	1	1	0	5	9
Mongolia	2	0	1	0	0	3
Australia-New Zealand						
Australia	3	2	7	1	8	21
New Zealand	4	1	5	0	9	19
South Asia						
Bangladesh	0	2	1	1	2	6
India	7	4	9	0	13	33
Pakistan	11	4	3	3	6	27
Sri Lanka	2	1	0	1	4	8

Note: A: Framework Agreement, B: FTA

Source: ADB, Asian Regional Integration Center, Free Trade Agreement Database for Asia, accessed on December 10, 2012

## FTA Trade Coverage Ratio: As of July 2012

(% Share of trade with FTA Partners in Total Trade)

Chile	91.2		
Mexico	81.4		
Peru	75.6		
EU	73.8		
Canada	67.1		
Singapore	62.7		
ASEAN	60.0		
New Zealand	47.0		
US	38.8		
Korea	34.0		
Australia	26.0		
Japan	18.6		
India	17.9		
China	16.2		

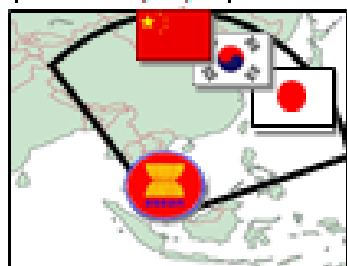
# FTAAP: Free Trade Area of the Asia-Pacific

7

Efforts under various frameworks

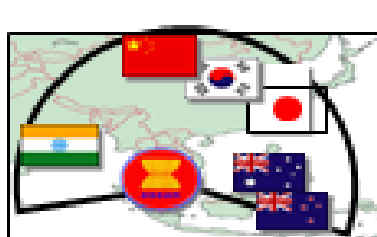
**ASEAN+3 (EAFTA)**

(ASEAN + JP, CH, KR)



**ASEAN+6 (CEPEA)**

(ASEAN+JP, CH, KR, IND, AUS, NZ)



**RCEP** Establishment of 3 working groups (for trade in goods, services and investment) in 2012

**Japan-China-Korea**



Launch of negotiations in 2012

**TPP**

Current members



**FTAAP (APEC)**



(Source: METI, Japan)

# III. Establishment of Region-wide FTA

- The impacts of RCEP on GDP of the countries (members and non-members)
- Members benefit, while non-members lose
- Importance of trade facilitation
- Consolidate 5 ASEAN+1 FTAs?
- Does not seem easy.
- Japan and India may become burden as their levels of trade liberalization in ASEAN+1 FTAs are low compared to others.

Table 4 The Impacts of FTAs on GDP (% change)					
	ASEAN+6			ASEAN+3	
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
China	-0.03	4.65	4.64	-0.05	4.49
Japan	0.04	0.64	0.56	0.02	0.63
Korea	0.38	2.67	2.28	0.34	2.64
Indonesia	0.13	4.35	4.13	0.11	4.15
Malaysia	0.62	9.53	8.95	0.57	9.24
Philippines	0.12	5.95	5.51	0.11	5.77
Singapore	-0.02	3.83	3.65	-0.02	3.63
Thailand	0.59	7.46	7.17	0.56	7.21
Vietnam	1.61	11.04	10.17	1.60	10.79
Cambodia	0.38	8.59	7.17	0.29	8.38
Myanmar	0.07	6.15	5.36	0.07	6.00
Lao PDR	0.40	5.99	4.69	0.40	5.94
Brunei and East Timor	1.86	6.98	6.14	1.86	6.92
Australia	0.11	1.27	1.20	-0.03	-0.03
New Zealand	0.08	1.94	1.77	-0.04	-0.02
India	0.45	3.40	2.70	-0.03	-0.07
Hong Kong	0.00	0.02	0.02	0.00	0.02
China, Taipei	-0.10	-0.18	-0.15	-0.11	-0.17
NAFTA	0.00	-0.02	-0.02	0.00	-0.02
EU25	-0.03	-0.09	-0.09	-0.02	-0.08
Latin America	-0.02	-0.05	-0.05	-0.02	-0.04
Rest of the world	-0.03	-0.08	-0.09	-0.03	-0.07
Source: CEPEA (2009)					
Note: Scenario 1: ASEAN+6: tariff elimination					
Scenario 2: ASEAN+6: tariff elimination, trade facilitation, cooperation					
Scenario 3: ASEAN+6: tariff elimination (excluding agriculture and food products), trade facilitation, cooperation					
Scenario 4: ASEAN+3: tariff elimination					
Scenario 5: ASEAN+3: tariff elimination, trade facilitation, cooperation					



Table 7 Tariff Concessions in ASEAN+1 FTAs (%)					
	AANZFTA	ACFTA	AIFTA	AJFTA	AKFTA
Brunei	99	99.9	82.6	96.1	97.8
Cambodia	86	86.7	84.1	na	85.5
Indonesia	93	89	50.4	88.1	90.3
Lao PDR	91	96.4	77.5	na	85.4
Malaysia	96	99.9	79.6	93.6	93.5
Myanmar	86	86.9	73.6	na	87.5
Philippines	95	86.5	75.8	96.8	97.9
Singapore	100	100	100	100	100
Thailand	99	88.3	74.3	96.9	93.7
Vietnam	91	na	69.7	na	83.8
Australia	100	--	--	--	--
New Zealand	100	--	--	--	--
China	--	94.6	--	--	--
India	--	--	74.3	--	--
Japan	--	--	--	86.5	--
Korea	--	--	--	--	92.2
Source: Kuno (2011)					
Note: na indicates the data are not available.					
AANFTA: ASEAN-Australia-New Zealand FTA					
ACFTA: ASEAN-China FTA					
AIFTA: ASEAN-India FTA					
AJFTA: ASEAN-Japan FTA					
AKFTA: ASEAN-Korea FTA					
Figures indicate the proportion of tariff elimination in terms of tariff lines.					

Table 8 Commonality of ROOs across 5 ASEAN+1 FTAs

				Frequency distribution of HS lines (6-digit HS2002)	
Degree of commonality				No.	%
At least one common ROO in all 5 FTAs				3318	64.0
in only 4 FTAs				766	14.8
in only 3 FTAs				825	15.9
in only 2 FTAs				255	4.9
No common ROOs				23	0.4
Source: Meddala (2011)					

Table 9 Correlation Coefficients of Service Trade Liberalization Commitments among ASEAN+1 FTAs				
	AFAS	AANZFTA	ACFTA	AKFTA
AFAS	1			
AANZFTA	0.718	1		
ACFTA	0.615	0.826	1	
AKFTA	0.704	0.87	0.83	1
Note: AFAS: ASEAN Framework Agreement on Services				
AANAFTA: ASEAN-Australia/New Zealand FTA				
ACFTA: ASEAN-China FTA				
AKFTA: ASEAN-Korea FTA				
Source: Ishido (2011)				

Table 10 Elements of Investment Agreement/Investment Chapter in FTAs

		ACIA	ACFTA	AKFTA	JS-EPA
Liberalization of Investment	National Treatment (pre-establishment)	⊙	△	⊙	⊙
	Most-Favoured-Nation Treatment (pre-establishment)	⊙	⊙	⊙	△
	Prohibition of Performance Requirement(PR)	⊙	△	⊙	⊙
	○=Absolutely prohibited ● =Permitted if required as a condition for granting interest X=no mention	Export requirement	×	×	○
		Export restriction	○	×	○
		Local content requirement	○	×	○
		Local procurement requirement	○	×	○
		Export and import balance requirement	○	×	○
		Domestic sale restriction requirement	×	×	×
		Technology transfer requirement	×	×	×
		Head office establishment requirement	×	×	×
		Research and development requirement	×	×	×
		Specific region supply requirement	×	×	×
		Local citizen employment requirement	×	×	×
		Officers' nationality requirement	×	○	○
	Reservations	Negative	-	Negative	Negative
Protection of Investment	National Treatment (post establishment)	⊙	⊙	⊙	⊙
	Most-Favoured-Nation Treatment (post establishment)	⊙	⊙	⊙	⊙
	Treatment of Investment	⊙	⊙	⊙	⊙
	Umbrella Clause	△	⊙	△	△
	Expropriation and Compensation	⊙	⊙	⊙	⊙
	Compensation in Cases of Strife	⊙	⊙	⊙	⊙
	Transfers	⊙	⊙	⊙	⊙
	Subrogation	⊙	⊙	⊙	⊙
	Investment Dispute Between an Investor and a Member State	⊙	⊙	⊙	⊙
	Disputes Between or Among Member States	⊙	⊙	⊙	⊙

Notes: ACIA=ASEAN Comprehensive Investment Area, ACFTA=ASEAN-China FTA, AKFTA=ASEAN-Korea FTA

JS-EPA=Japan-Singapore EPA, Investment Chapter

For items other than performance requirement, ⊙ indicates the presence of provision concerning the item and △ indicates otherwise.

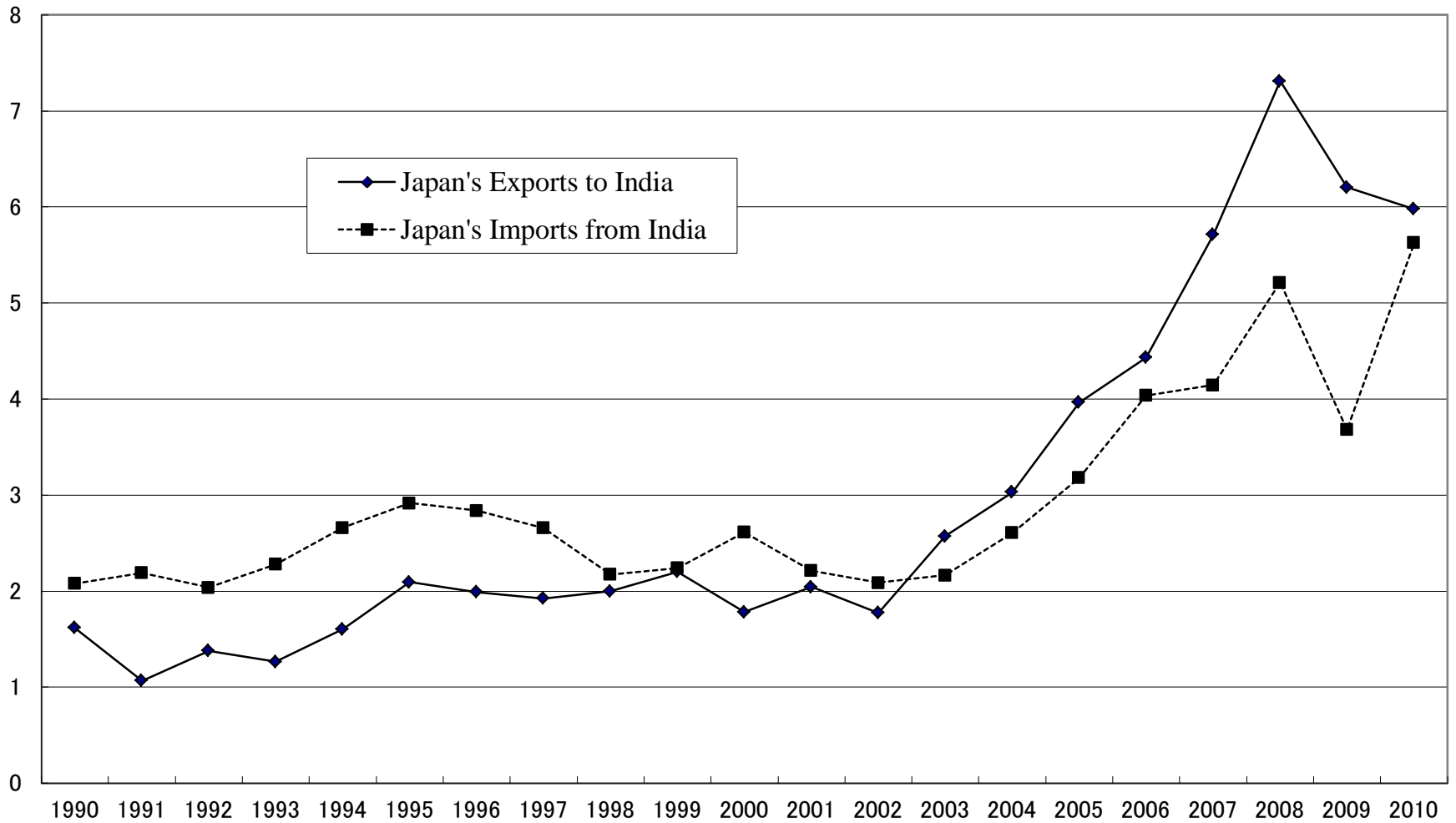
Source: Ministry of Economy, Trade and Industry, Japanese Government

## IV. Japan-India Comprehensive Economic Partnership Agreement (CEPA)

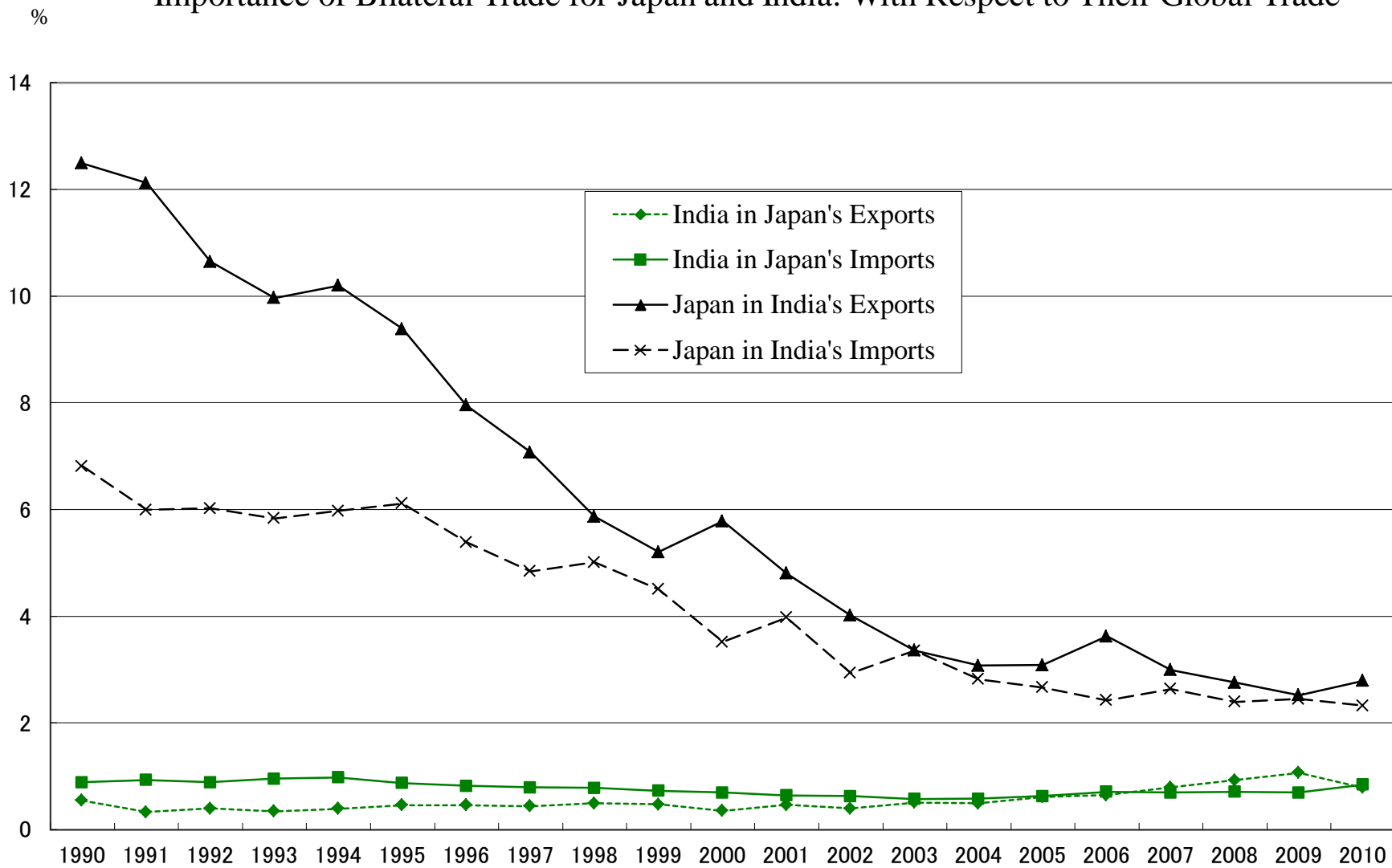
- Japan-India Economic Relations
- Trade: Bilateral trade is growing but importance of bilateral trade in their global trade is declining
- FDI: Japan's FDI to India is on upward trend
- Economic Cooperation: second largest (behind Vietnam) recipient of Japan's bilateral official development assistance (ODA), amounting to \$517 million, 8.51 percent of total (2010)
- CEPA is expected to contribute to the expansion of bilateral trade, FDI, and economic cooperation.

## Japan-India Bilateral Trade

\$billion



## Importance of Bilateral Trade for Japan and India: With Respect to Their Global Trade

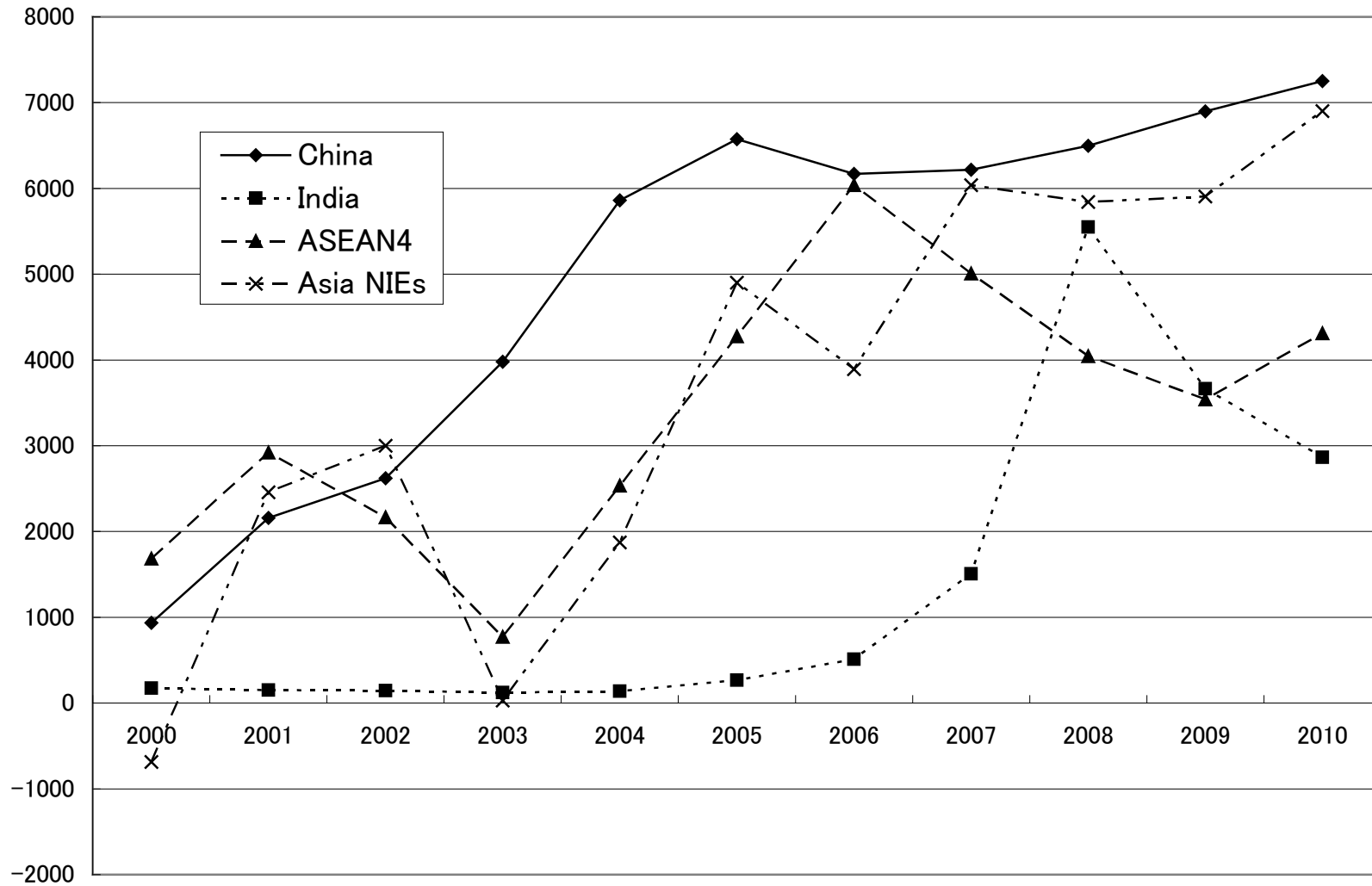


## Product Composition of Bilateral Trade: 2010 (%)

	India's Exports	India's Imports
	Japan's Imports	Japan's Exports
Food	15.1	0.0
Raw materials	14.6	1.5
Minerals	35.6	2.1
Chemical products	8.4	10.0
Metal products	15.7	22.7
General machinery	1.9	30.7
Electric machinery	1.6	16.8
Transportation machinery	0.7	8.5
Others	6.6	7.7
Total	100	100

## Japan's Outward FDI

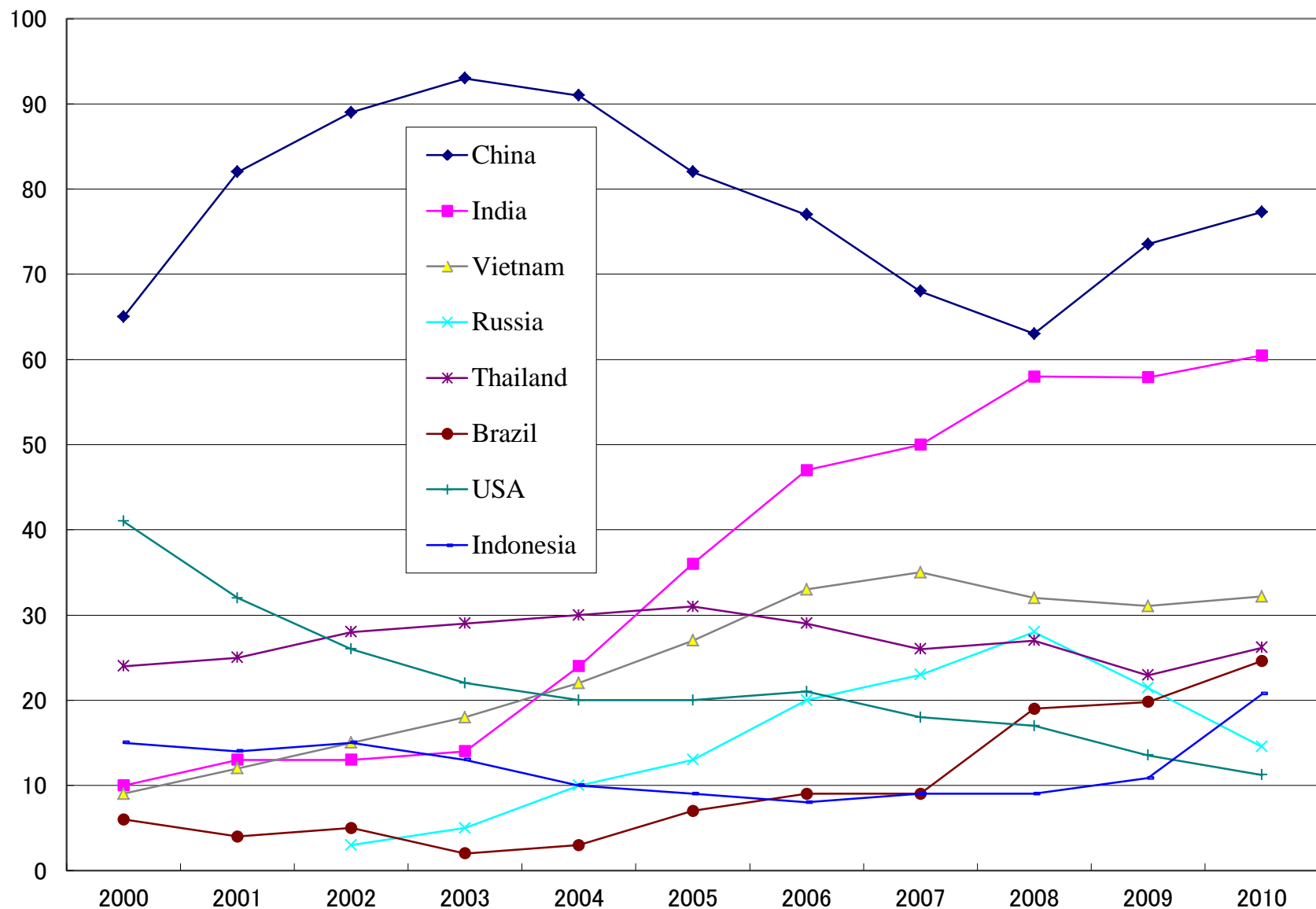
\$million



# Future FDI Prospects and Challenges: Survey Results of Japanese Firms

- 2 Surveys: (1) Japan Bank for International Cooperation (JBIC), (2) Japan External Trade Organization (JETRO)
- Attractive FDI hosts to Japanese manufacturing firms (JBIC 2010): (next 3 years) China, India, Vietnam, (next 10 years) India, China,

**Figure 3 Promising FDI Host Countries for Japanese MNEs:  
Next 3 Years**



## Reasons for their attractiveness

- Local sales/future local sales: India, China, Vietnam, Indonesia
- Low wage workers: Vietnam, Indonesia

## Challenges in FDI host countries (other than tough competition)

- Rising wages: China
- Lack on transparency in legal system: China, India, Vietnam, Indonesia
- Underdevelopment of infrastructure: India, Vietnam

# Japan-India CEPA: Contents

- Trade in goods
- TBT/SPS
- Trade in services
- Movement of natural persons
- Investment
- Intellectual Property
- Government Procurement
- Improvement of Business Environment
- Cooperation

# Significance of Japan-India CEPA

- Increased Access to large market (both sides)
- Goods: Tariff elimination on 94 percent of bilateral trade (Approximately 97% by Japan and 90% by India)
- TBT/SPS: Cooperation on generic medicine, application of national treatment
- Movement of natural persons: social security agreement
- Investment: pre-establishment national treatment
- Improvement of business environment
- Cooperation in various areas including environment, trade and investment promotion

# V. Concluding Remarks

- East Asia has witnessed proliferation of bilateral/minilateral FTAs
- Establishment of a region-wide FTA (RCEP) is in order. Negotiations on RCEP is scheduled to begin in 2013.
- Japan and India can benefit from RCEP and thus they should make efforts for completing the negotiations as quickly as possible. Japan needs to join TPP and promote RCEP, CJK FTA, etc.
- Specifically, they have to work hard to liberalize their trade regimes.

- Japan and India need to speed up the process of completing the Japan-India CEPA and they also need to utilize the Japan-India CEPA.
- To promote RCEP and other FTAs, Japan and India need to formulate appropriate policies such as provision of safety nets for negatively affected people.
- The key factor is the presence of strong political leadership in Japan and India with a good future vision of their own economies as well as the world economy that would push FTAs, RCEP, and TPP forward, eventually leading to the establishment of the open and free global trade regime.