

Regional Economic Integration in East Asia and Japan-India Comprehensive Economic Partnership Agreement

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I. Introduction

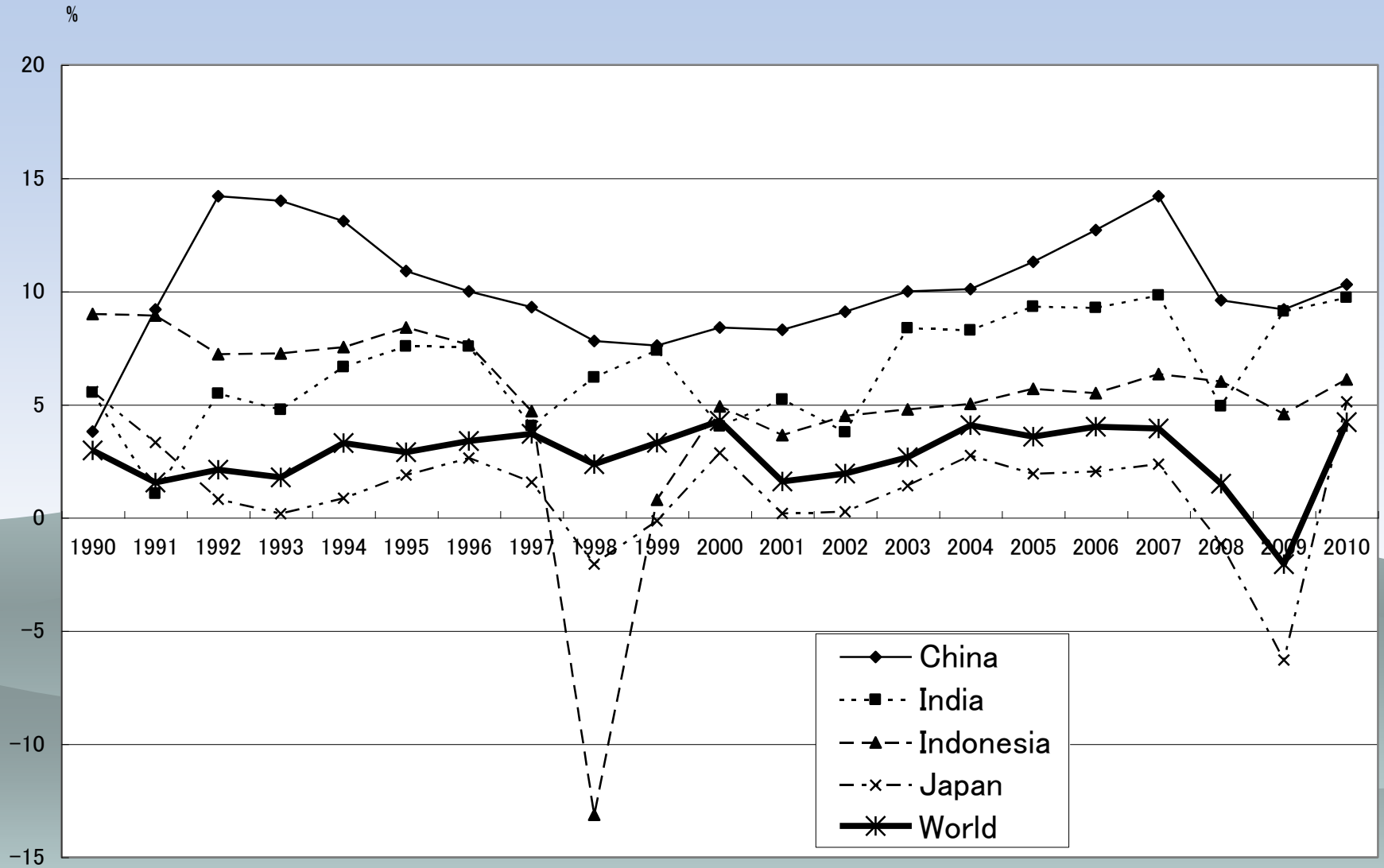
Background

- ◆ Rapid economic growth in East Asia despite global financial/economic crisis
- ◆ Prime drivers of economic growth have been foreign trade and foreign direct investment (FDI): Trade-FDI nexus, Regional Production Network

Purpose of Presentation

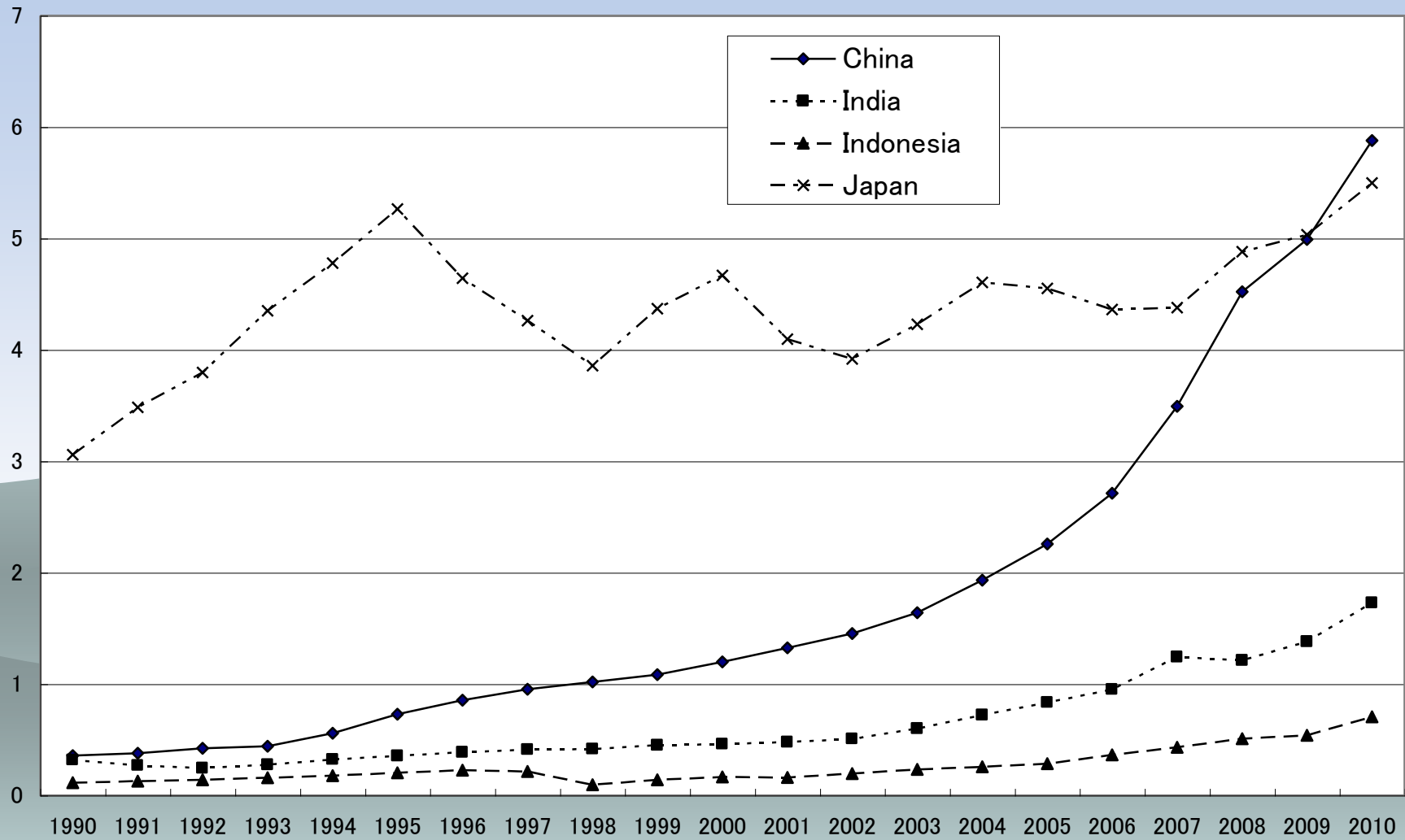
- ◆ Investigate recent developments in regional economic integration in East Asia
- ◆ Analyze the possible ways for India to participate in regional production networks
- ◆ Examine the possible impacts of Japan-India Comprehensive Economic Partnership Agreement on their economies

GDP Growth Rates

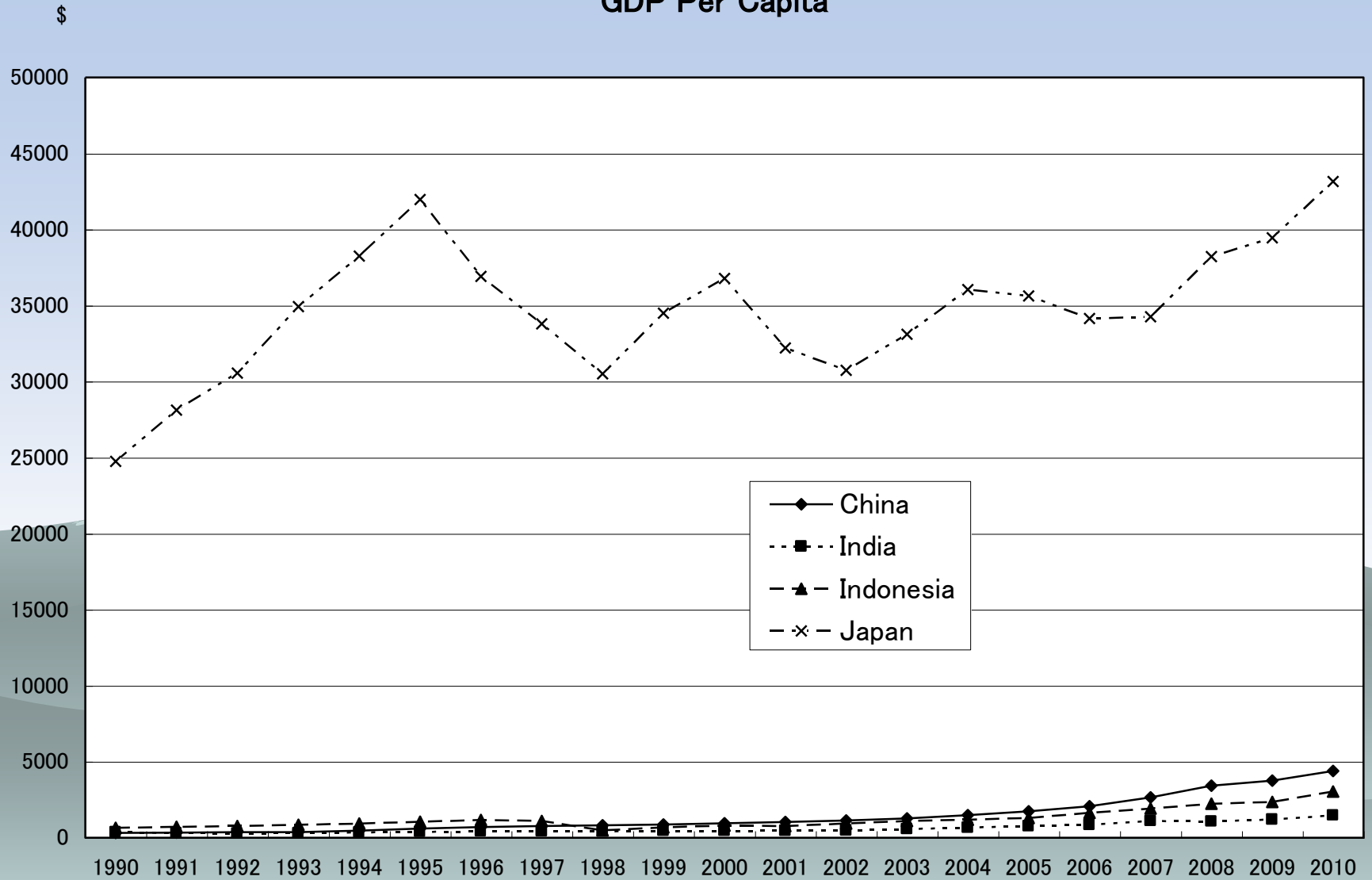


\$ trillion

GDP

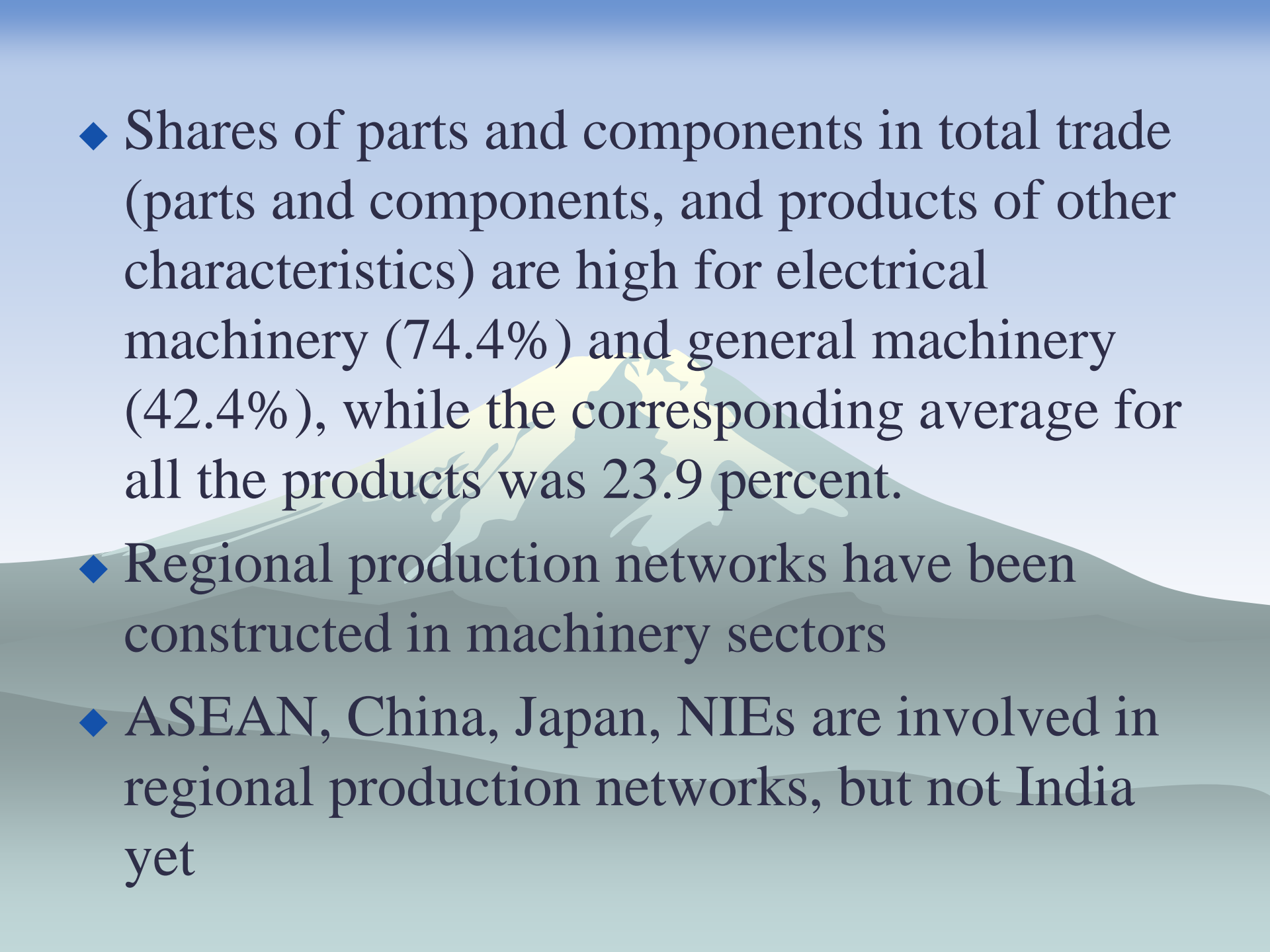


GDP Per Capita

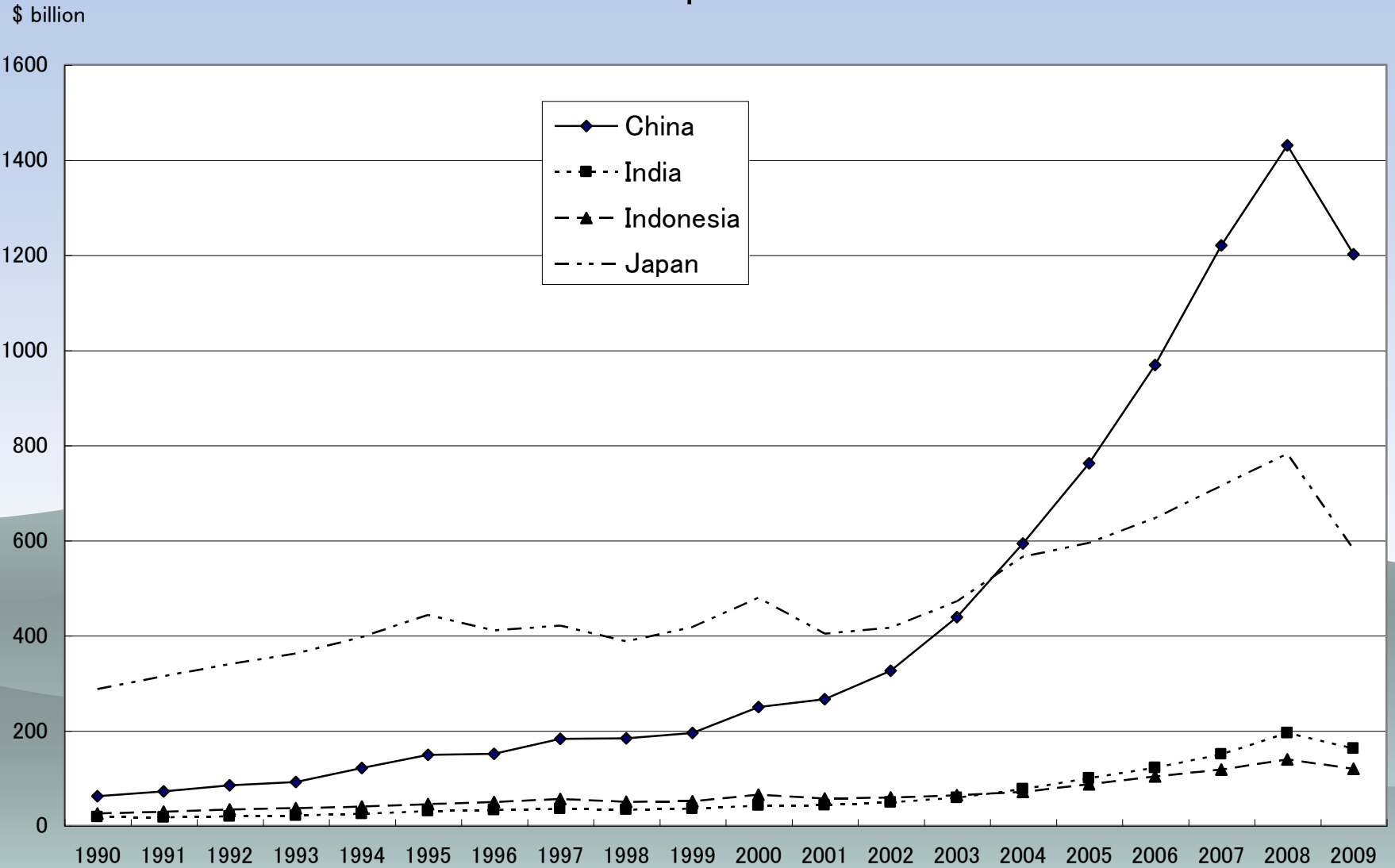


II. Market-driven Regional Economic Integration

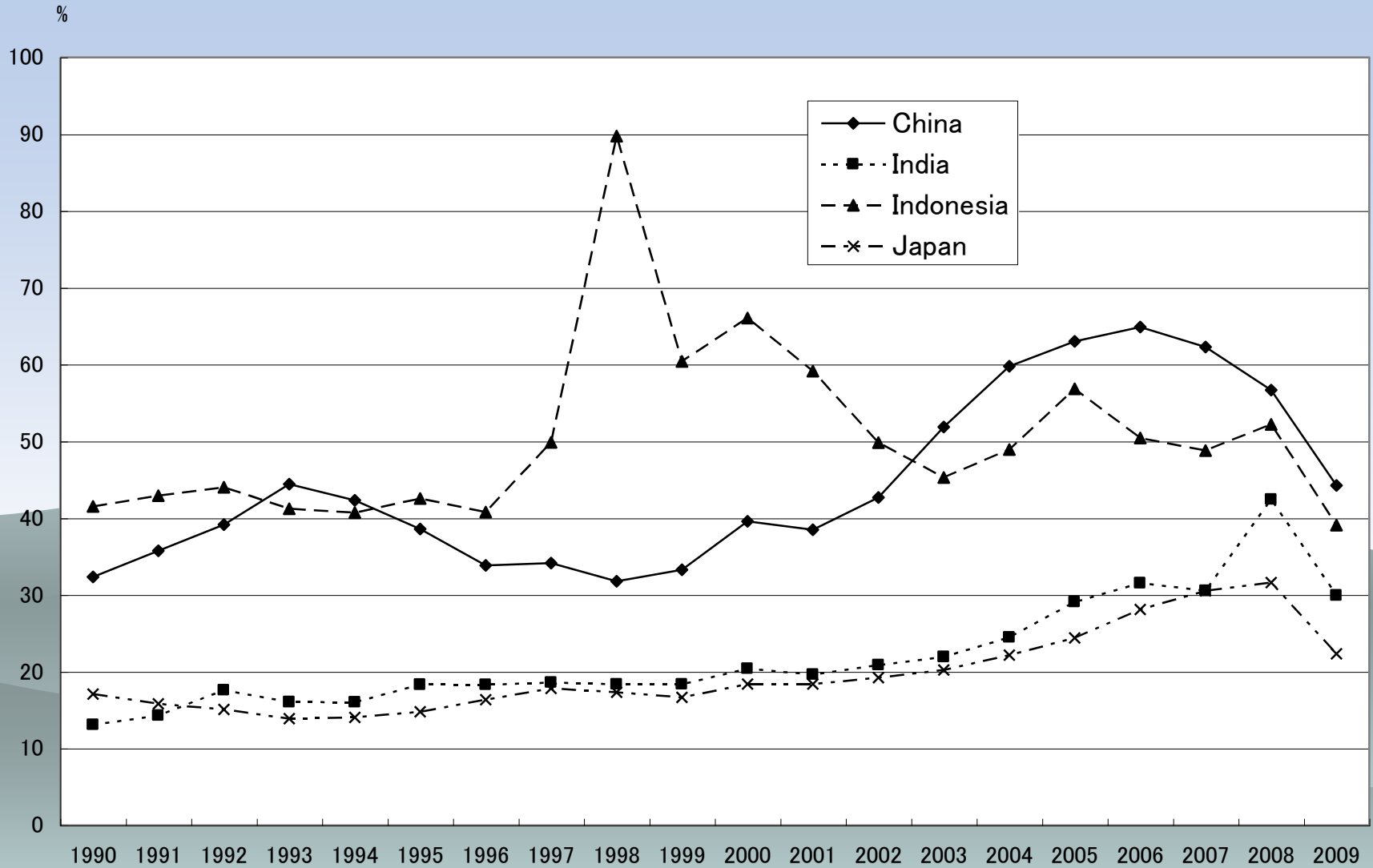
- ◆ Rapid expansion of foreign trade by East Asian countries, especially by China
- ◆ Advances in regional economic integration
- ◆ Increased shares of machinery, electronic machinery
- ◆ Increase in parts and components trade

- 
- ◆ Shares of parts and components in total trade (parts and components, and products of other characteristics) are high for electrical machinery (74.4%) and general machinery (42.4%), while the corresponding average for all the products was 23.9 percent.
 - ◆ Regional production networks have been constructed in machinery sectors
 - ◆ ASEAN, China, Japan, NIEs are involved in regional production networks, but not India yet

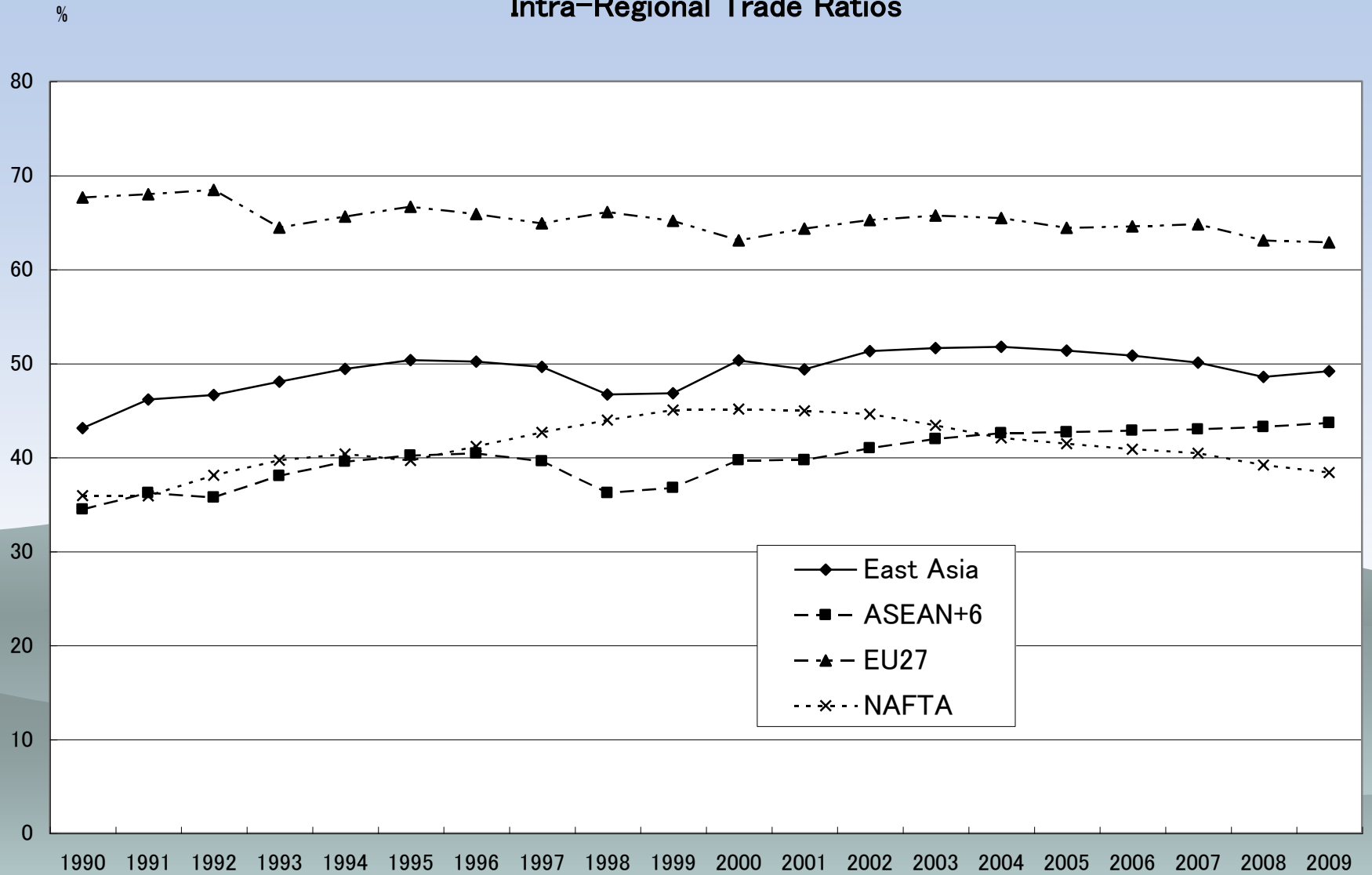
Exports



Trade-GDP Ratio



Intra-Regional Trade Ratios



Product Composition of Foreign Trade in East Asia (%): 2009

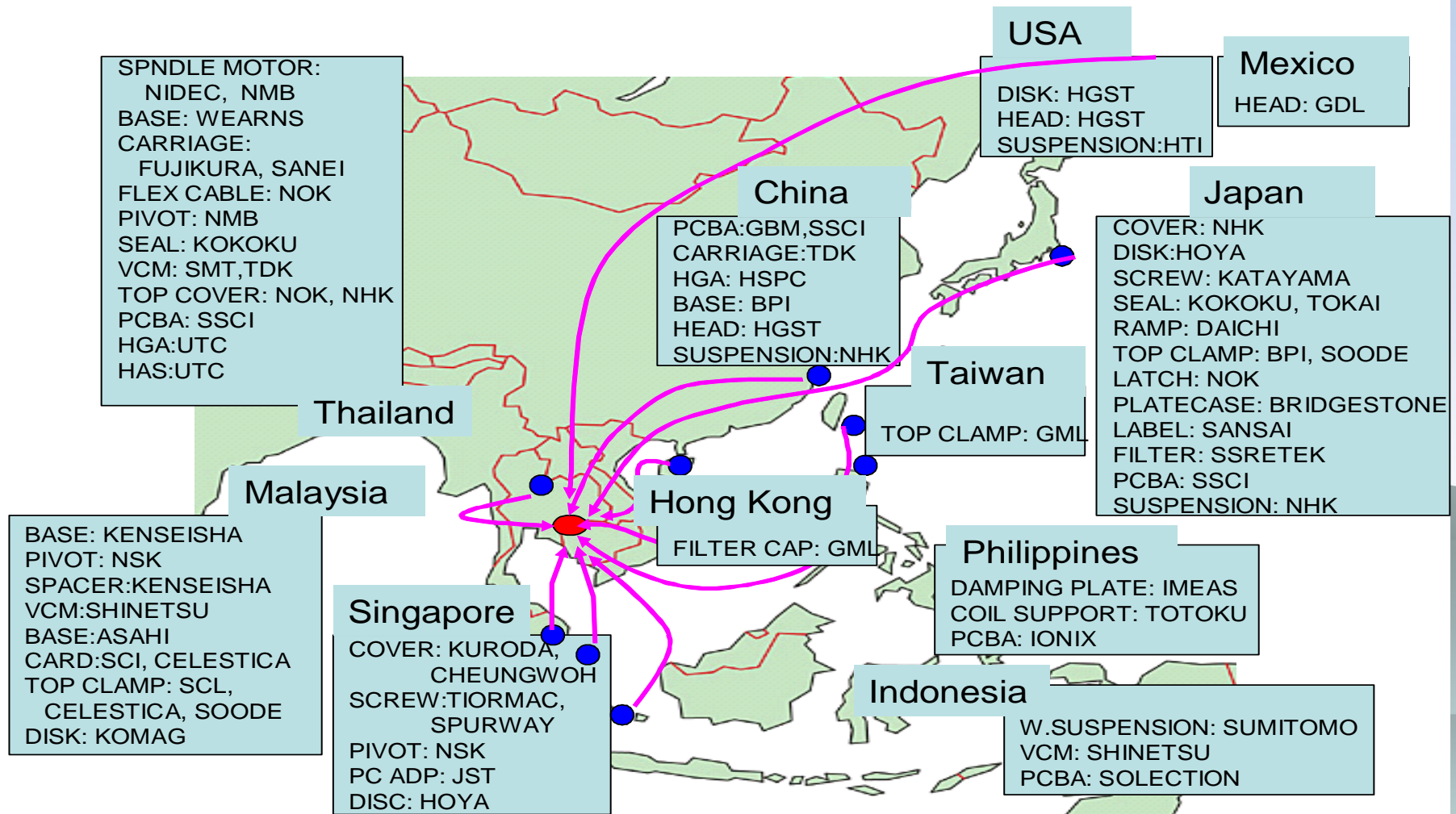
	Exports	Imports
Foods	2.8	5.0
Textile	7.4	3.5
Pulp, Paper and Wood	5.7	4.9
Chemicals	9.5	11.1
Oil and Coal	5.6	19.0
Stone, clay, glass and concrete product	1.5	1.6
Iron and steel , Nonferrous metals	8.0	12.5
General machinery	15.0	11.6
Electrical machinery	22.9	19.3
Household electric appliances	4.9	1.6
Transportation Equipment	7.1	4.1
Precision machinery	3.2	3.1
Toys and Miscellaneous goods	6.2	2.8
Industry Total	100	100

Product Composition of Foreign Trade by Production Stages in East Asia (%): 2009

	With the rest of the world		Intra-East Asia
	Exports	Imports	Trade
Primary goods	3.4	20.4	5.0
Processed goods	25.9	30.3	32.2
Parts and Compornen	24.4	22.9	32.0
Capital goods	23.0	14.7	18.2
Consumption goods	23.4	11.8	12.6
Industry Total	100	100	100

Parts Procurement of a Hard Disc Drive

Assembler Located in Thailand



Intra-Asia (ASEAN+6) Trade: Electric Machinery, Parts and Components

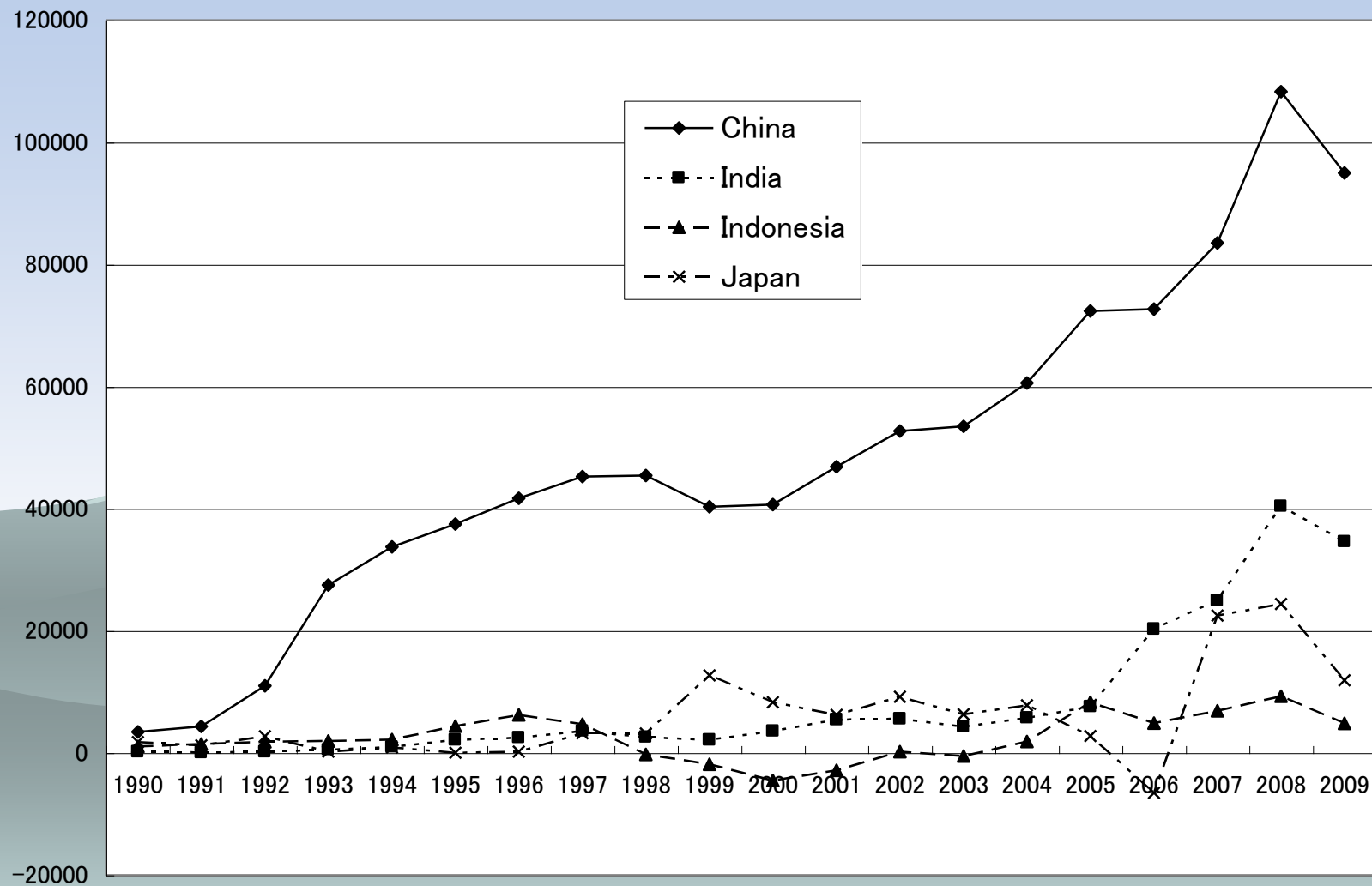
	Compositional Shares by Groups of Countries			
	Exports to ASEAN+6		Imports from ASEAN+6	
	2000	2009	2000	2009
ASEAN	41.8	37.6	52.6	33.3
China	6.6	15.6	18.0	42.9
Japan	37.9	23.6	14.4	9.6
Korea	13.1	22.6	12.9	11.1
India	0.2	0.3	0.6	2.1
ANZ	0.4	0.2	1.5	1.1
Total	100	100	100	100

Role of Foreign Direct Investment in the Formation of Regional Production Networks

- ◆ Regional Production Networks have been constructed by Multinational Corporations (MNCs) by foreign direct investment (FDI)
- ◆ Rapid FDI expansion
- ◆ China attracted a large amount of FDI
- ◆ India became an attractive host to FDI
- ◆ Active FDI in electronics sector

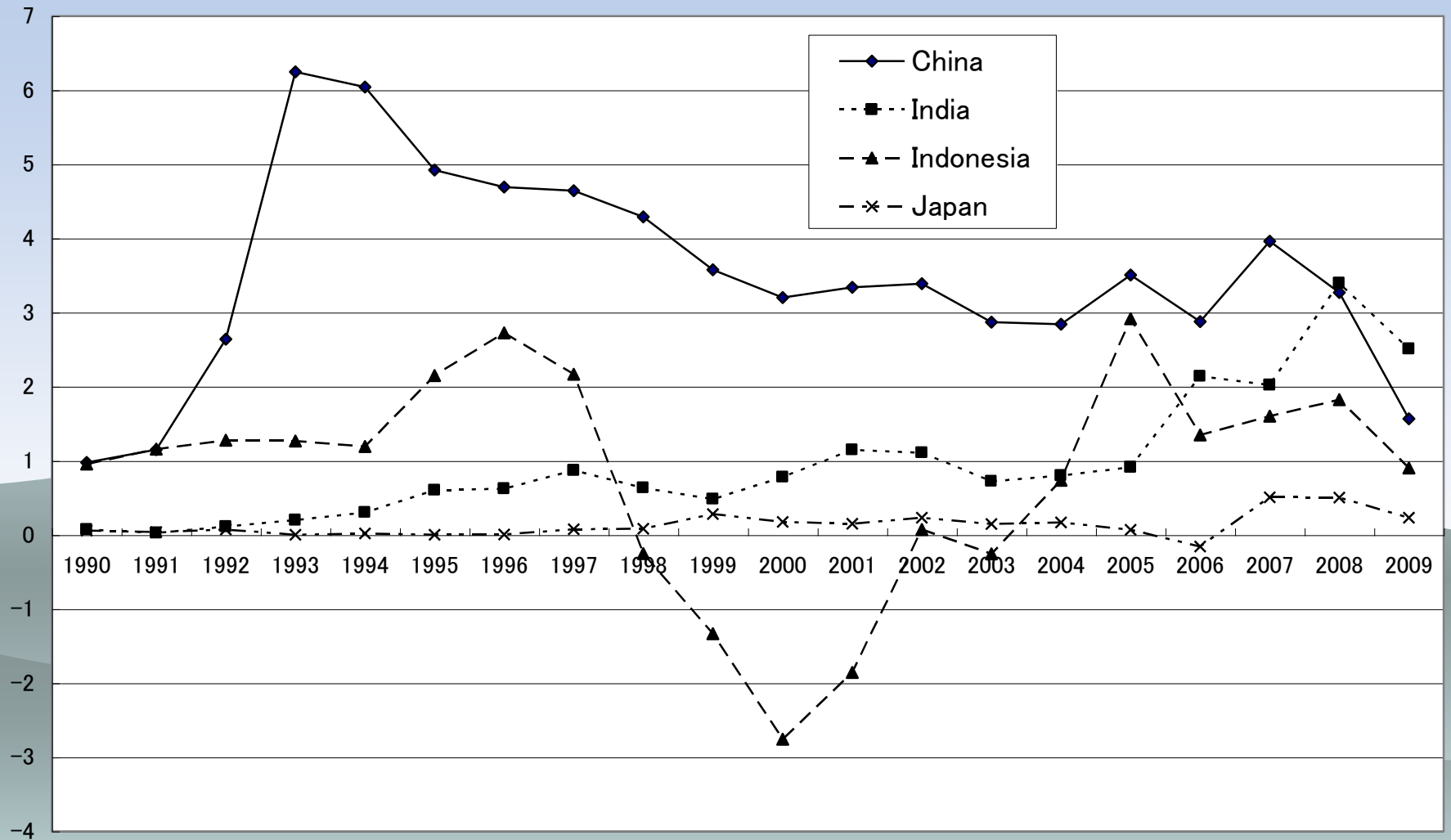
\$ million

Foreign Direct Investment Inflows



%

Foreign Direct Investment Inflows – GDP Ratio



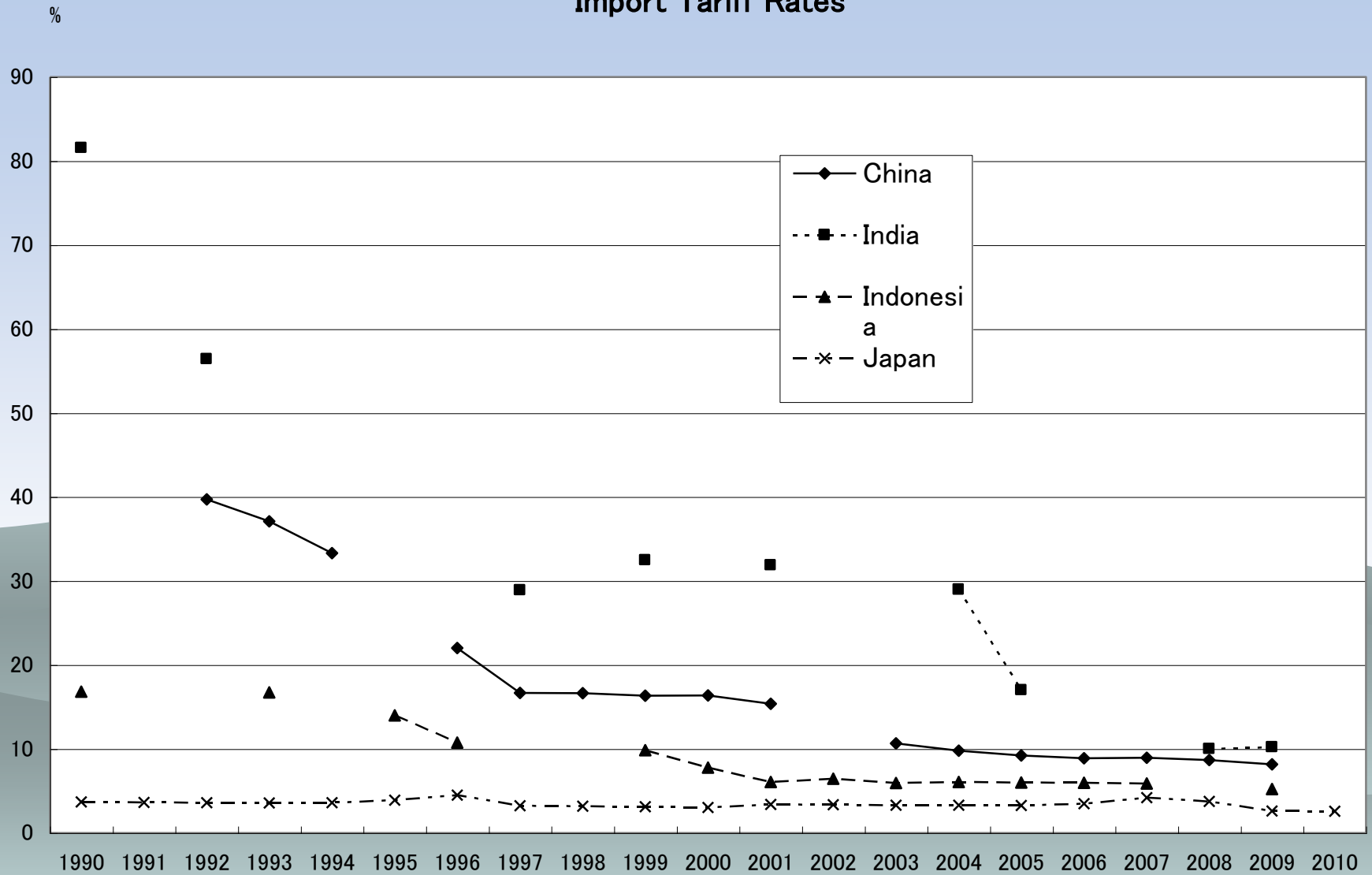
Factors Contributed to Rapid Expansion of Trade and FDI

- ◆ Stable Macroeconomic Environment
- ◆ Availability of Low-wage Workers
- ◆ Business Friendly Environment
- ◆ Well-functioning Infrastructure
- ◆ Liberalization Policies in Trade and FDI

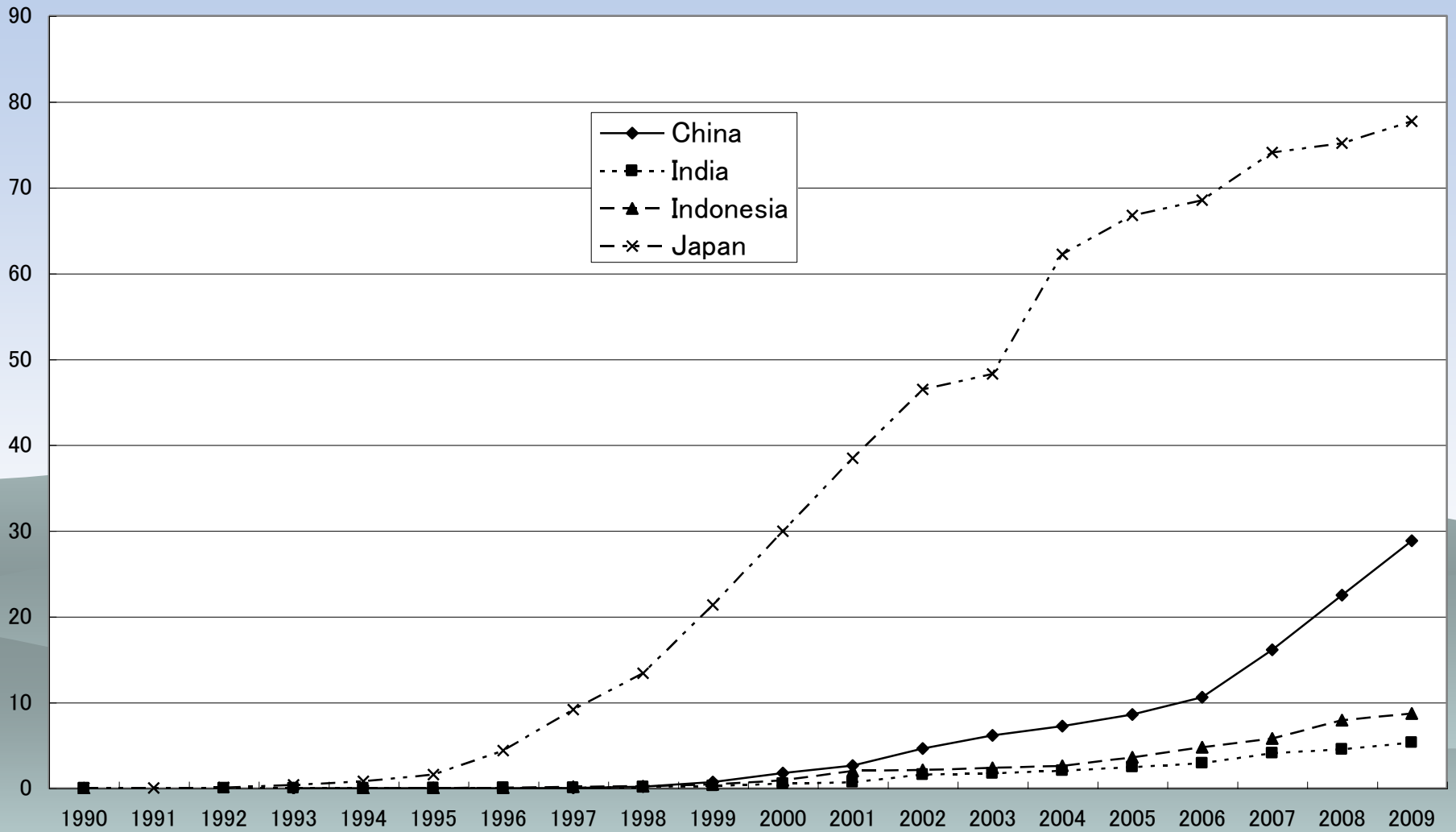
Challenges

- ◆ Maintain and improve these factors

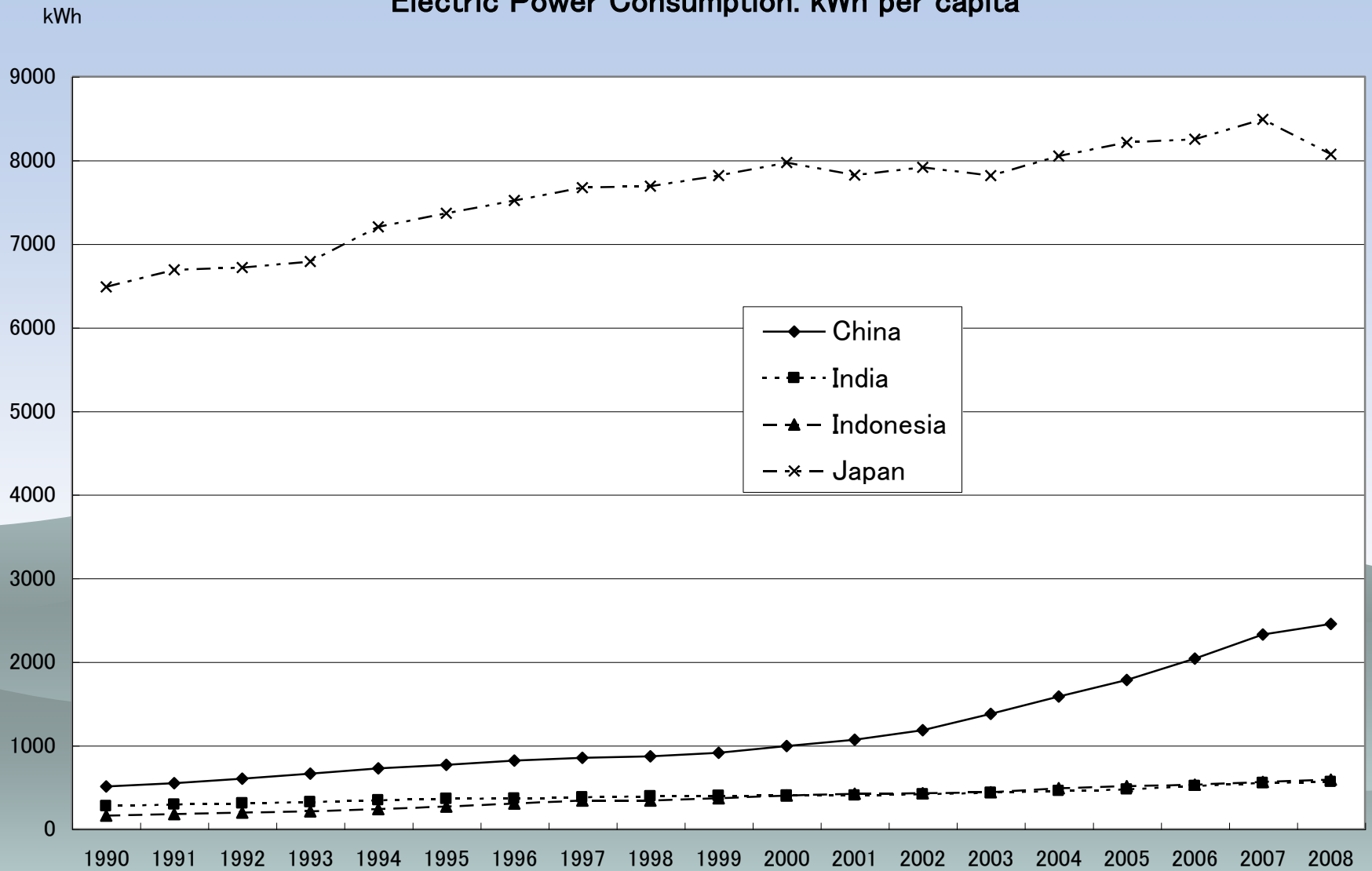
Import Tariff Rates



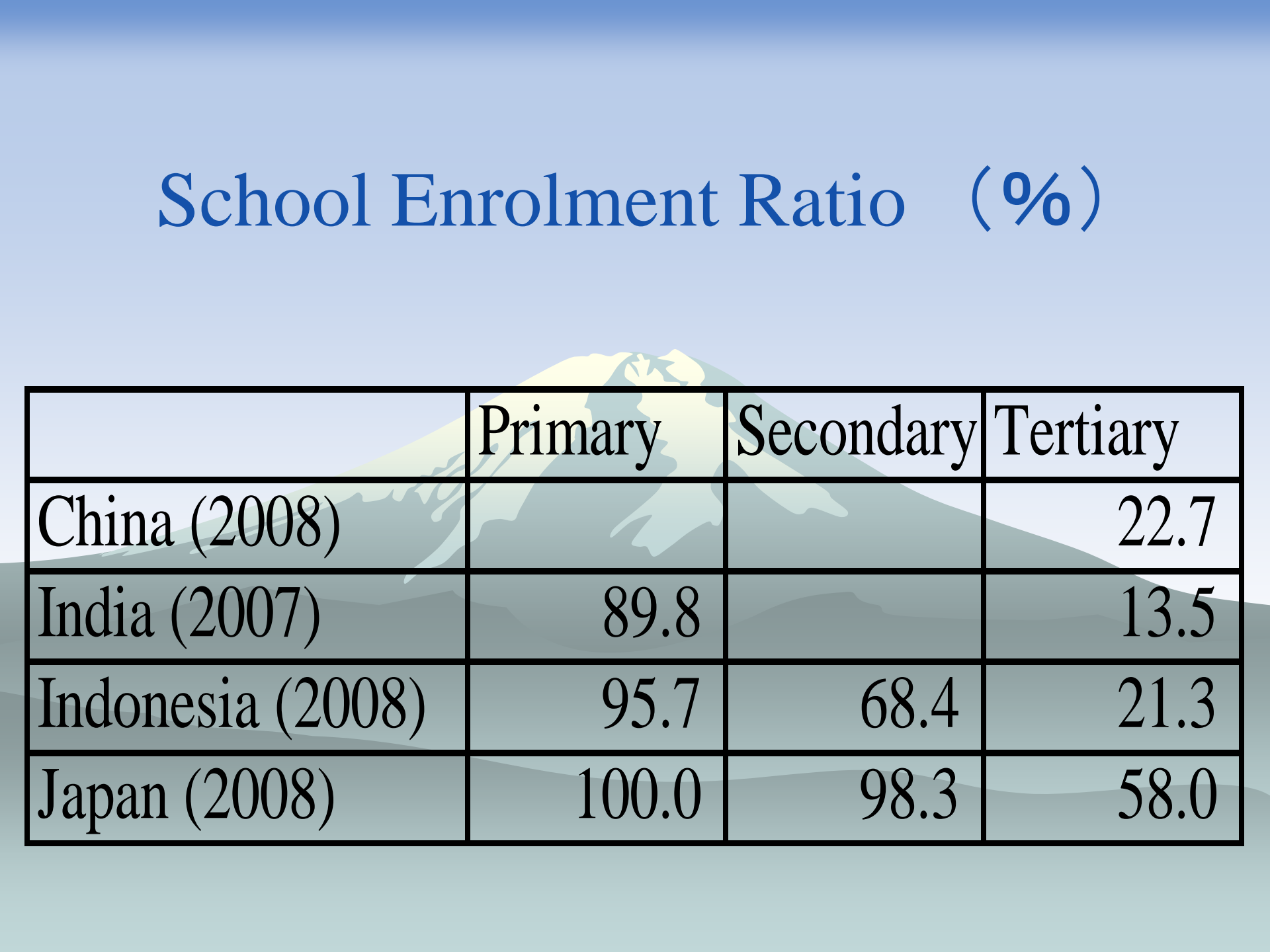
Internet Users per 100 People



Electric Power Consumption: kWh per capita

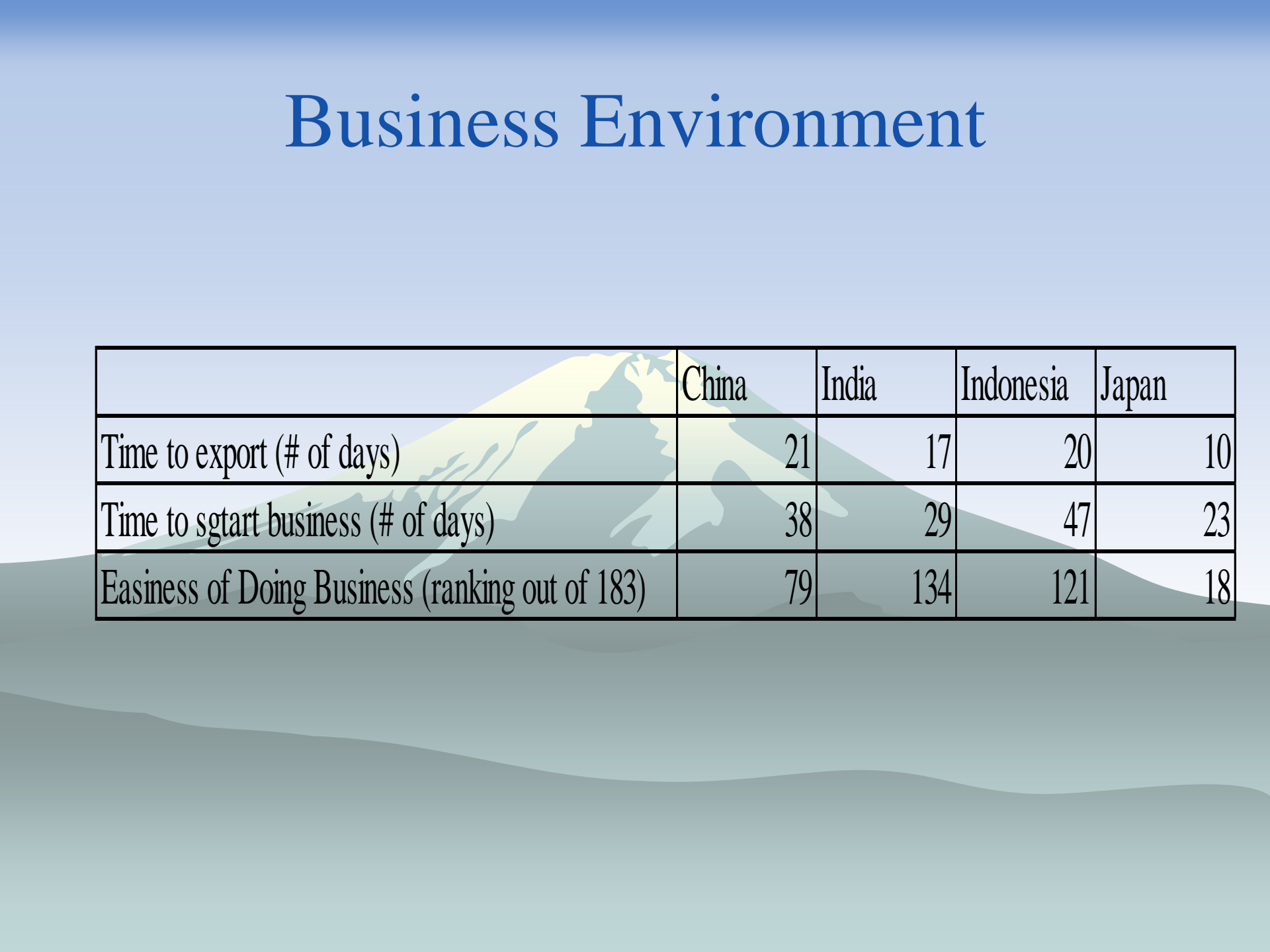


School Enrolment Ratio (%)



	Primary	Secondary	Tertiary
China (2008)			22.7
India (2007)	89.8		13.5
Indonesia (2008)	95.7	68.4	21.3
Japan (2008)	100.0	98.3	58.0

Business Environment



	China	India	Indonesia	Japan
Time to export (# of days)	21	17	20	10
Time to start business (# of days)	38	29	47	23
Easiness of Doing Business (ranking out of 183)	79	134	121	18

III. A Shift from Market-Driven to Institution-Driven Regional Economic Integration (FTA)

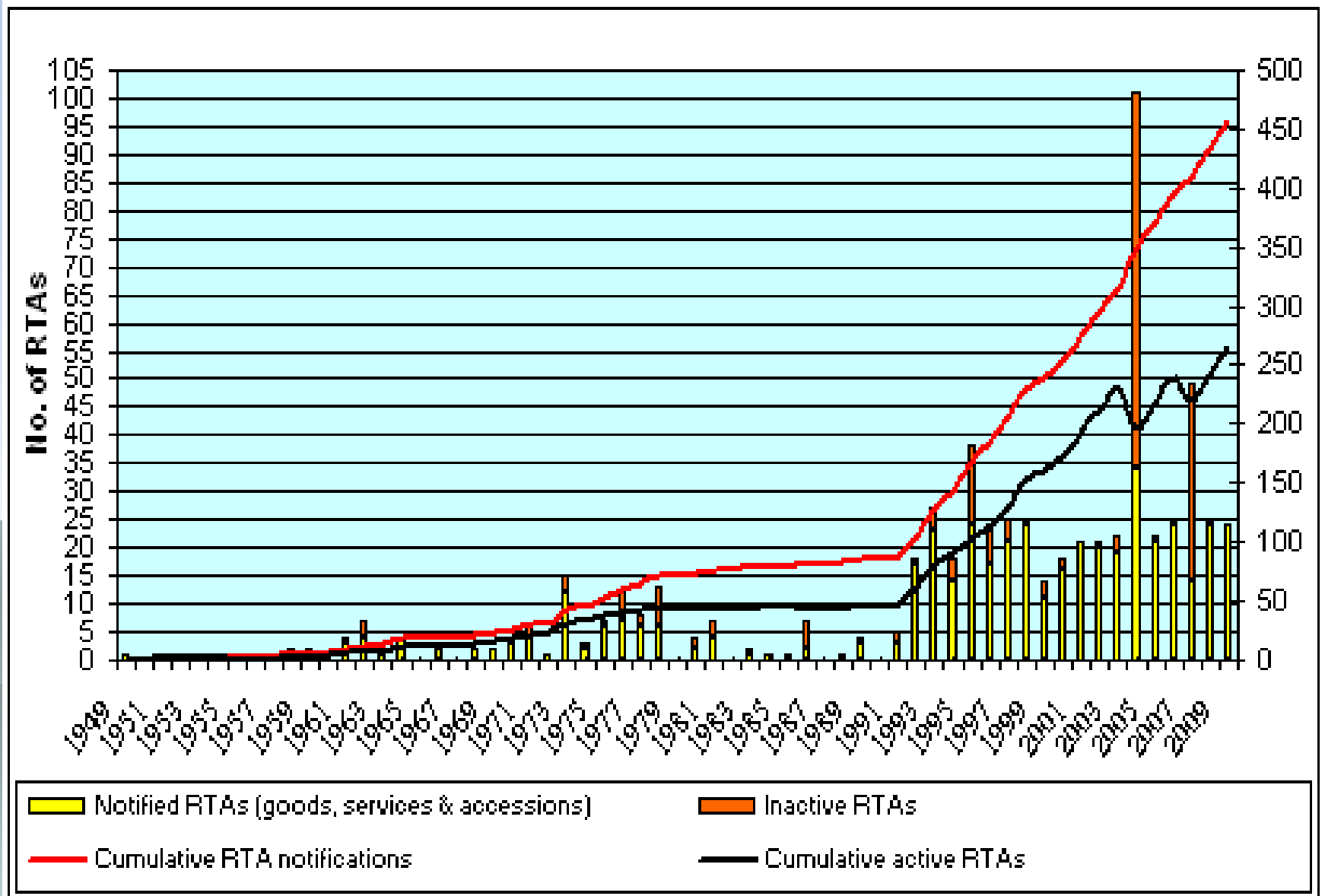
Recent Development

- ◆ FTA (free trade agreement): free trade (elimination of tariffs) among FTA members
- ◆ Rapid expansion of FTAs in the world
- ◆ Rapid expansion of FTAs in East Asia in the 21st century
- ◆ ASEAN has become a hub of FTAs
- ◆ 3 initiatives have been proposed for region-wide FTA: ASEAN+3, ASEAN+6, and APEC (TPP)

Special characteristics

- ◆ Comprehensiveness: trade and FDI liberalization, facilitation, and economic cooperation

Rapidly Increasing FTAs in the World



FTAs in Asia (cumulative)

	Framework Agreement					Total	Types of FTAs	
	Signed/	Under	Signed	In effect	Bilateral		Plurilateral	
	Proposed	Under neg Negotiation						
1989	1	0	0	1	3	5	3	2
1995	1	0	0	16	14	31	26	5
2000	3	0	6	20	25	54	46	8
2005	45	18	28	28	51	170	133	37
2010	55	19	45	27	92	238	180	58

Motives behind FTAs in East Asia

- ◆ Increase market access through trade and FDI
- ◆ Improve FDI environment
- ◆ Promote domestic reform
- ◆ Rivalry between and among East Asian countries
- ◆ Financial crisis in 1997-98
- ◆ Global financial crisis in 2008-

Impacts of FTAs

- ◆ Trade and FDI expansion between and among FTA members (short run effect)
- ◆ Economic growth (medium to long run effect)
- ◆ Reduced production and employment (short run effect)

Economic Obstacles to FTAs

- ◆ Opposition from non-competitive sectors

Impacts on GDP (%)

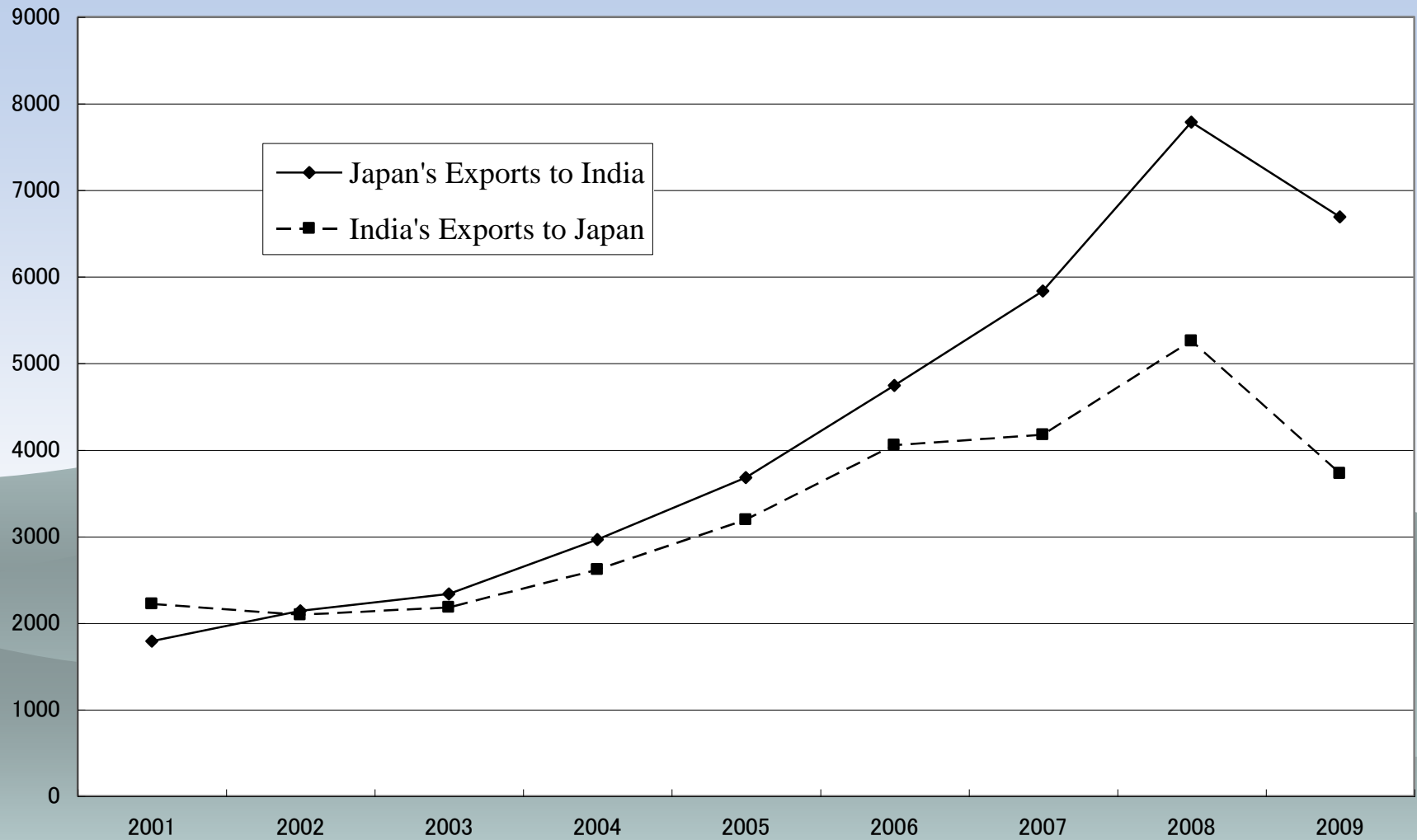
	EAFTA (ASEAN+3)			(ASEAN+1)x5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	0.01	0.44	0.44	-0.01	0.10	0.05	0.54	0.54
China	0.13	1.66	4.72	0.01	0.20	0.14	1.77	4.84
Korea	1.13	3.56	3.55	-0.04	0.20	1.15	3.72	3.71
Indonesia	0.07	1.74	3.94	0.07	1.00	0.07	1.94	4.14
Malaysia	0.39	5.83	8.62	0.51	3.30	0.50	6.21	9.00
Philippines	0.21	3.94	6.28	0.20	2.20	0.25	4.18	6.52
Singapore	0.06	4.22	4.24	0.10	2.30	0.05	4.40	4.42
Thailand	0.68	4.49	7.02	0.80	2.80	0.74	4.78	7.32
Vietnam	2.21	7.08	9.67	2.33	5.00	2.25	7.33	9.92
Other Souteast Asi	0.09	0.88	2.91	0.11	0.50	0.10	0.92	2.95
Australia	-0.03	-0.09	-0.09	0.01	0.20	0.16	1.35	1.35
New Zealand	-0.03	-0.06	-0.06	0.00	0.10	0.10	1.87	1.87
India	-0.04	-0.10	-0.10	0.31	0.50	0.41	1.30	3.45
Hong Kong	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
Taiwan	-0.06	-0.09	-0.08	-0.03	0.00	-0.07	-0.10	-0.10
NAFTA	0.00	-0.01	-0.01	0.00	0.00	0.00	-0.01	-0.01
EU15	0.00	-0.01	-0.01	0.00	0.00	-0.01	-0.01	-0.01
Rest of the World	-0.03	-0.06	-0.06	-0.02	0.00	-0.03	-0.08	-0.08
ASEAN	0.36	3.60	5.67	0.41	2.14	0.39	3.83	5.89
ASEAN+3	0.14	1.18	1.93	0.04	0.30	0.17	1.30	2.05
ASEAN+6	0.12	1.02	1.68	0.05	0.31	0.19	1.30	2.11

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

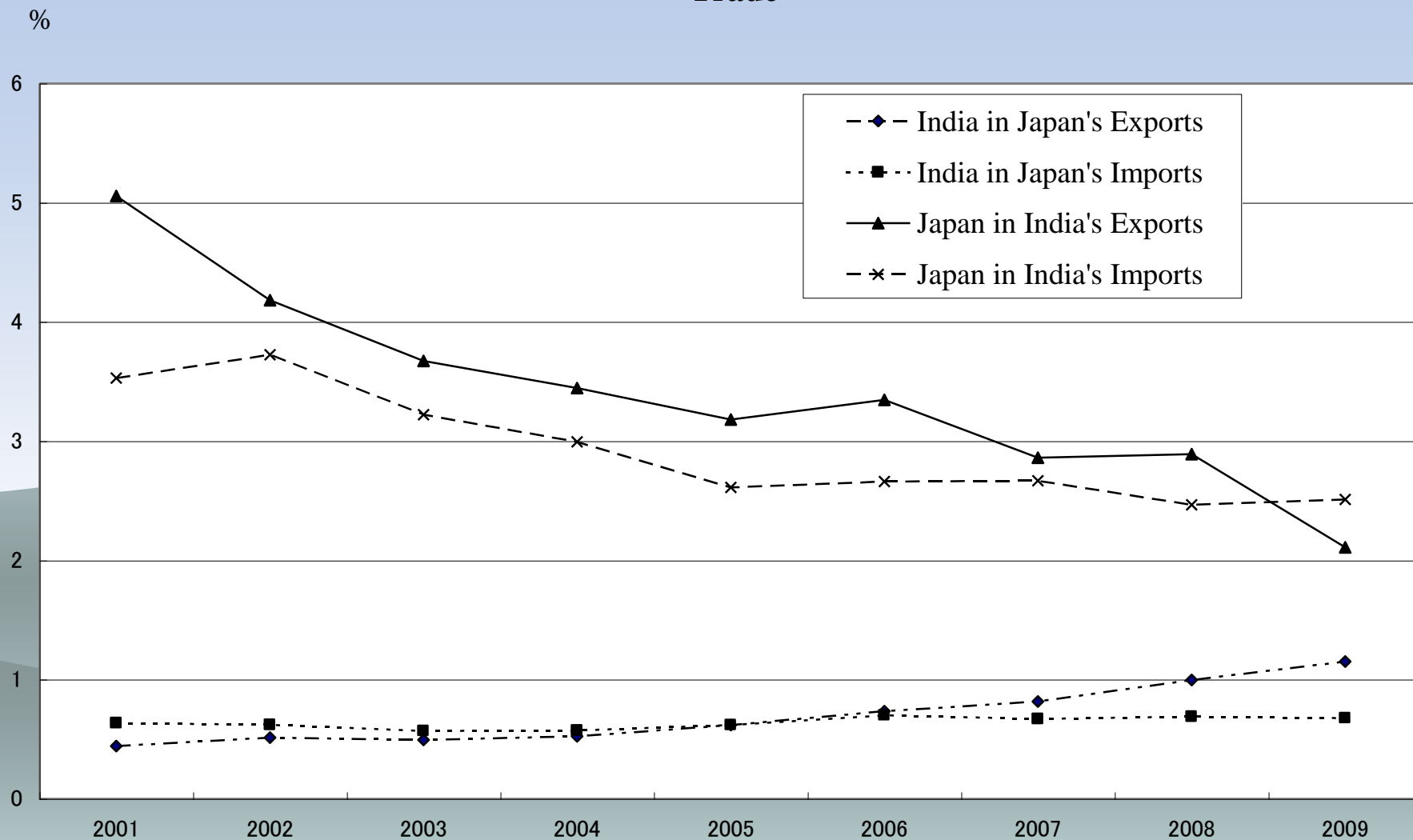
- ◆ Japan-India Economic Relations
- ◆ Trade: Bilateral trade is growing but importance of bilateral trade in their global trade is declining
- ◆ FDI: Japan's FDI to India is on upward trend
- ◆ Economic Cooperation: second largest (behind Vietnam) recipient of Japan's bilateral official development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

Japan-India Bilateral Trade

\$million



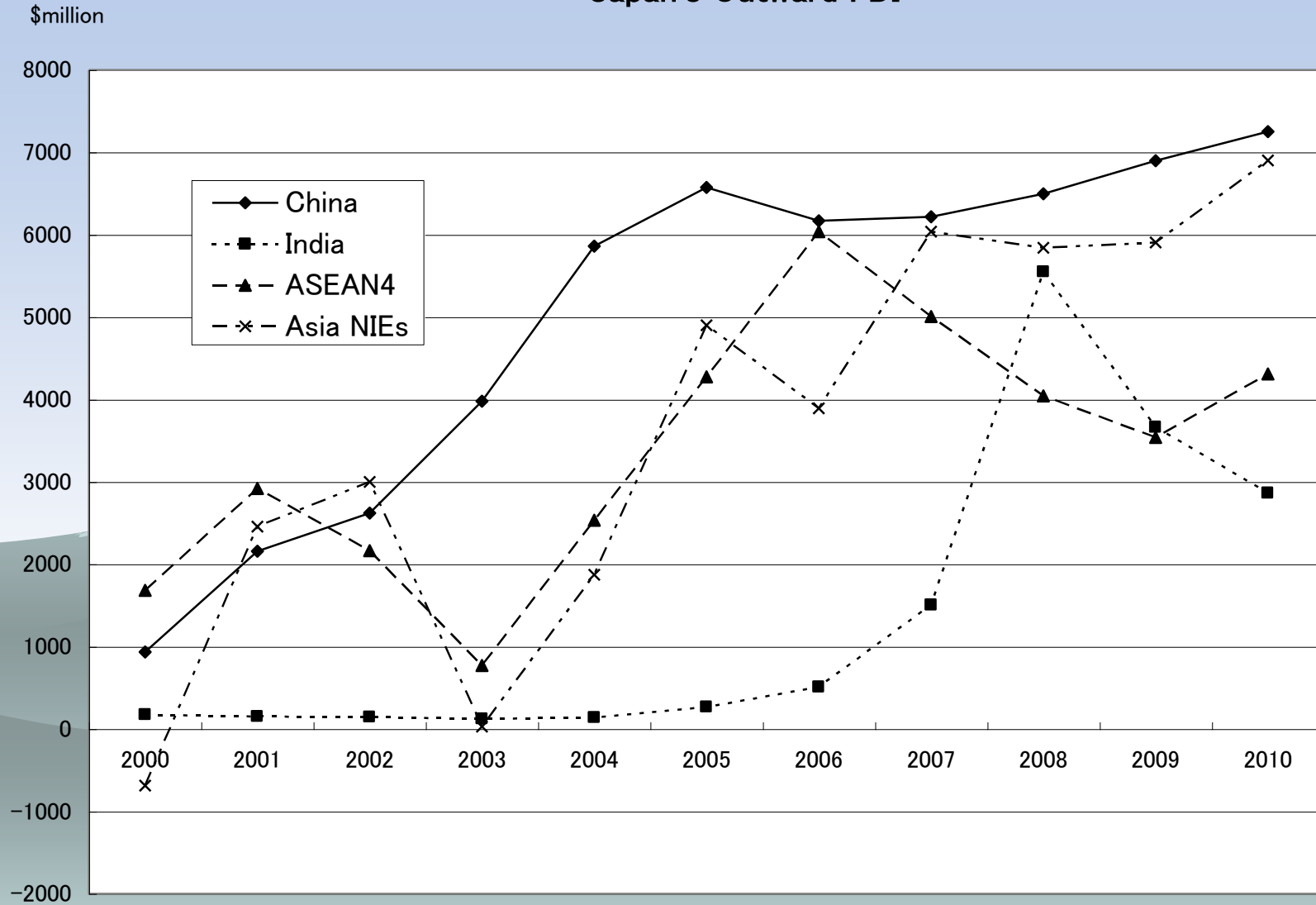
Importance of Bilateral Trade for Japan and India: With Repect to Their Global Trade



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

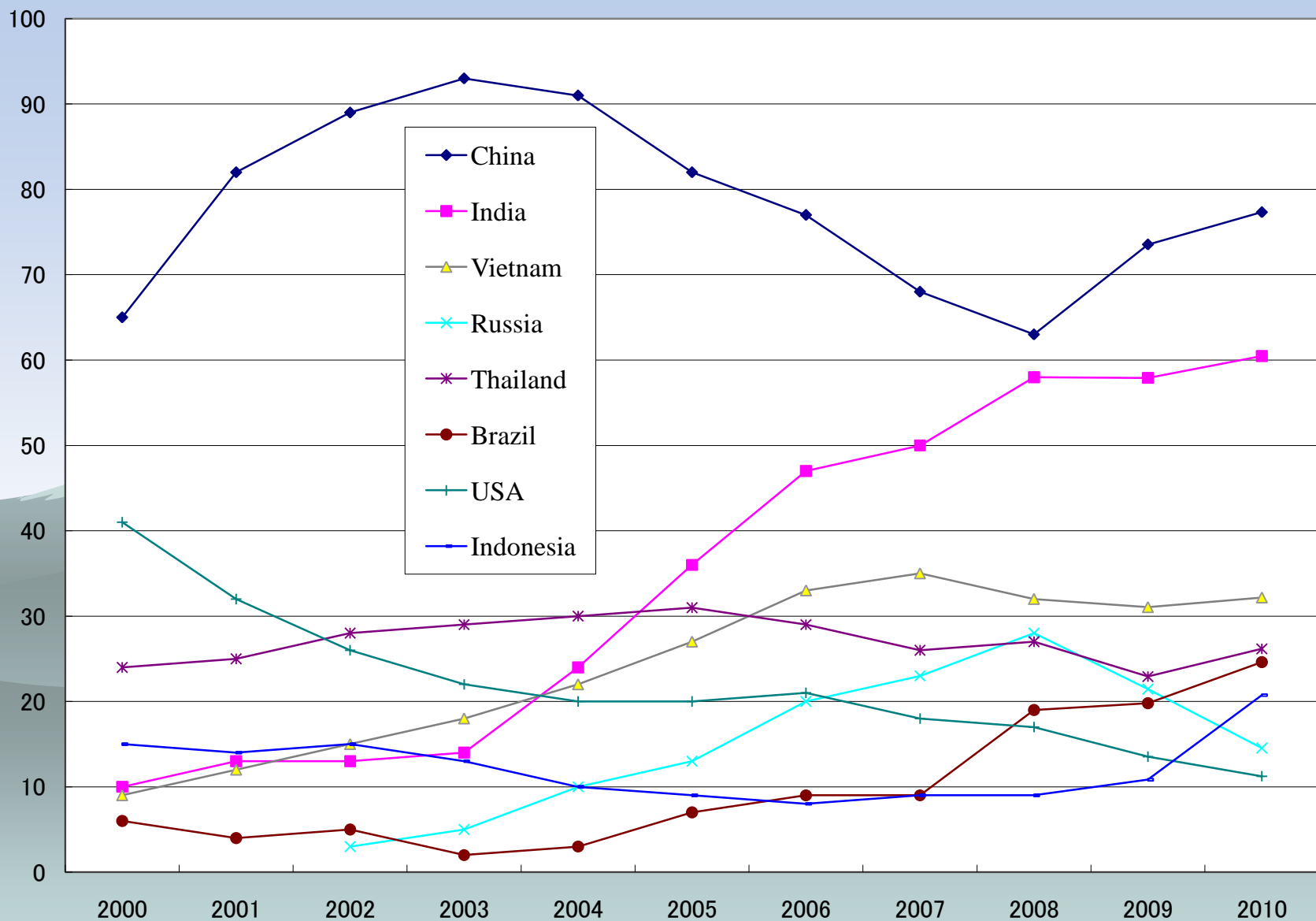
Japan's Outward FDI



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

FTAs: India and Japan

		India	Japan
FTA Partners		ASEAN APTA Chile Afganistan Bhutan Nepal Singapore Korea Mercosur SAFTA SAPTA Japan	Singapore Mexico Malaysia Chile Thailand Philippines Brunei Indonesia ASEAN Switzerland Vietnam India
FTA trade coverage shares (%)	Total	17.9	18.2
	Exports	21.0	18.4
	Imports	15.7	18.0

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 Asian countries have achieved rapid economic growth
- ◆ Rapid expansion of trade and FDI contributed to rapid economic growth
- ◆ Establishment of regional production networks (RPNs) has been a key factor behind rapid economic growth
- ◆ India has not yet participated in RPNs
- ◆ Attracting FDI is an important factor for India to participate in RPNs

- 
- ◆ Proliferation of FTAs has been witnessed in Asia
 - ◆ No region-wide FTAs have been established in Asia
 - ◆ Japan-India Comprehensive Economic Partnership Agreement with comprehensive coverage is likely to contribute to strengthen Japan-India economic relationships by increasing trade and investment
 - ◆ In order for IJCEPA to contribute to economic growth of Japan and India, both governments have to facilitate the use of IJCEPA
 - ◆ IJCEPA is expected to contribute to the formation of a region-wide FTA or CEPEA
 - ◆ Japan and India need to increase and strengthen ties through trade, investment, economic cooperation, people exchange etc to realize economic growth