

# Global Supply Chains and Region-wide FTAs

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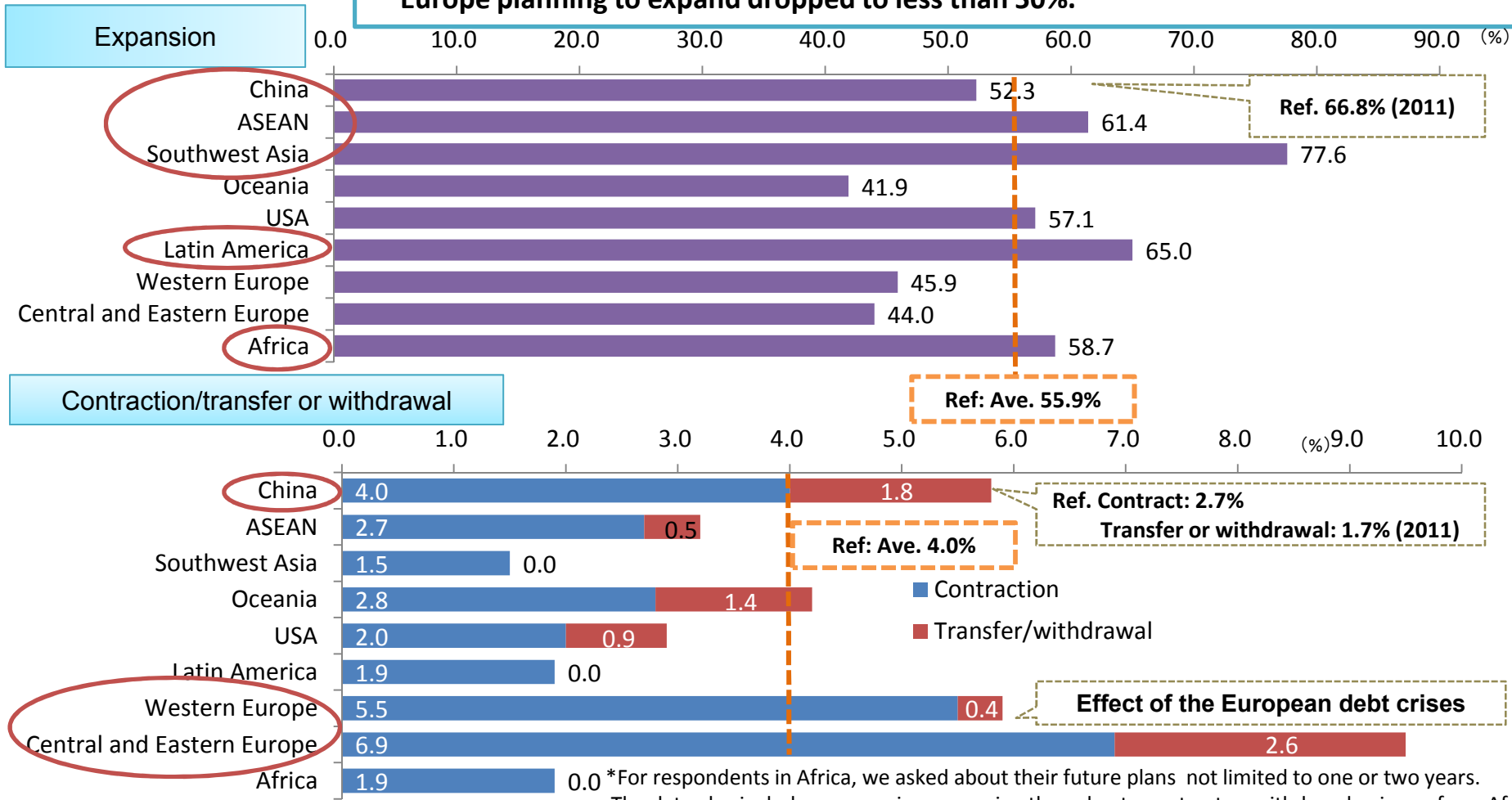
# Factors influencing FTAs in Asia

- The EU currency crisis
- The impact of recessionary fears
- The WTO Doha Round
- Political tensions between Japan and China as well as Japan and Korea
- The intensified regional economic integration within Asia
- Competition among the regional economic integration initiatives within Asia-Pacific

# Direction of Japanese companies' overseas business development in one or two years

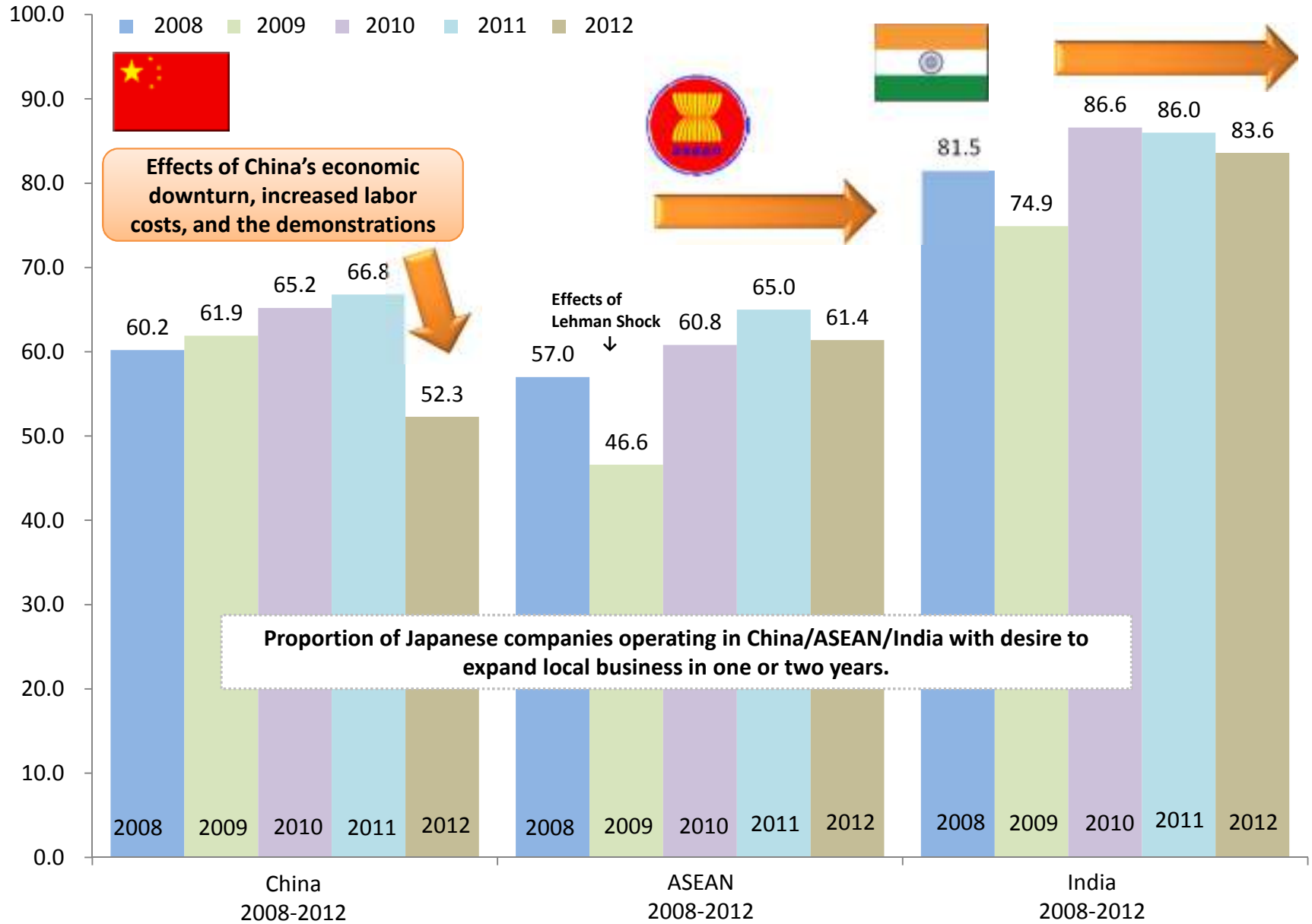
Survey period: Oct. - Dec. 2012  
 No. of respondent Japanese companies: 5,903  
 (74 countries and regions)

- ◆ Remarkable enthusiasm for expansion into emerging countries.
- ◆ China's economic downturn and increased labor costs, along with effects of the demonstrations, reduced the willingness of Japanese firms to expand in China compared to the previous year.
- ◆ Due to the effects of the European debt crisis, the proportion of Japanese firms in Europe planning to expand dropped to less than 50%.



\*For respondents in Africa, we asked about their future plans not limited to one or two years. The data also includes companies answering they plan to contract or withdraw business from Africa.

◆ Along with the wage increase, last year's demonstrations in China have had an impact on the decisions made by Japanese companies regarding business in China



## China as a market

- ◆ At the 18<sup>th</sup> National Congress of the Communist Party of China (concluded on Nov. 14, 2012), the government set a goal to double its national income per capita in 2020 compared to that of 2010.
- ◆ The trend in expansion of the Chinese market will continue.

- ◆ Japanese companies in logistics, food and other industries which used to rely on domestic demand in Japan, will expand their business in China to take advantage of its growing market.

## China as a production base

- ◆ Changes in the investment environment of China (e.g., labor cost increase) to continue

Firms in labor-intensive industries	Firms in other fields (e.g., electronic appliances, general machinery)	Companies placing a high value on production networks in China
Production shift to lower-wage countries (e.g., Vietnam, Myanmar) will continue.	To address changes in the investment environment of China, they will partly shift their production to third countries and regions.	Due to well-established production networks, including suppliers, and convenience in logistics, shifting the system for high-quality and large-quantity production outside of China is too burdensome.

## Recent demonstrations

The demonstrations have led Japanese firms to accelerate efforts to adjust operations in China in a way suitable to their respective fields and strategies.

- ◆ The change in the Asian economy is mainly reflected by wage increases in the region
- ◆ The increase has greatly impacted the supply chain structure of Asia

## Monthly wages: workers in manufacturing

Unit: USD, %

	China	Thailand	Philippines	Vietnam	Bangladesh	Myanmar
2009	217	231	221	101	47	23
2012	328	345	253	145	74	53
The amount of increase	111	114	32	44	27	30
The rate of increase	51.2	49.4	14.5	43.6	57.4	130.4

**(China = 100)**

	China	Thailand	Philippines	Vietnam	Bangladesh	Myanmar
2009	100	106	102	47	22	11
2012	100	105	77	44	23	16

Around the same level as China

Opposite trend in wage levels compared to China

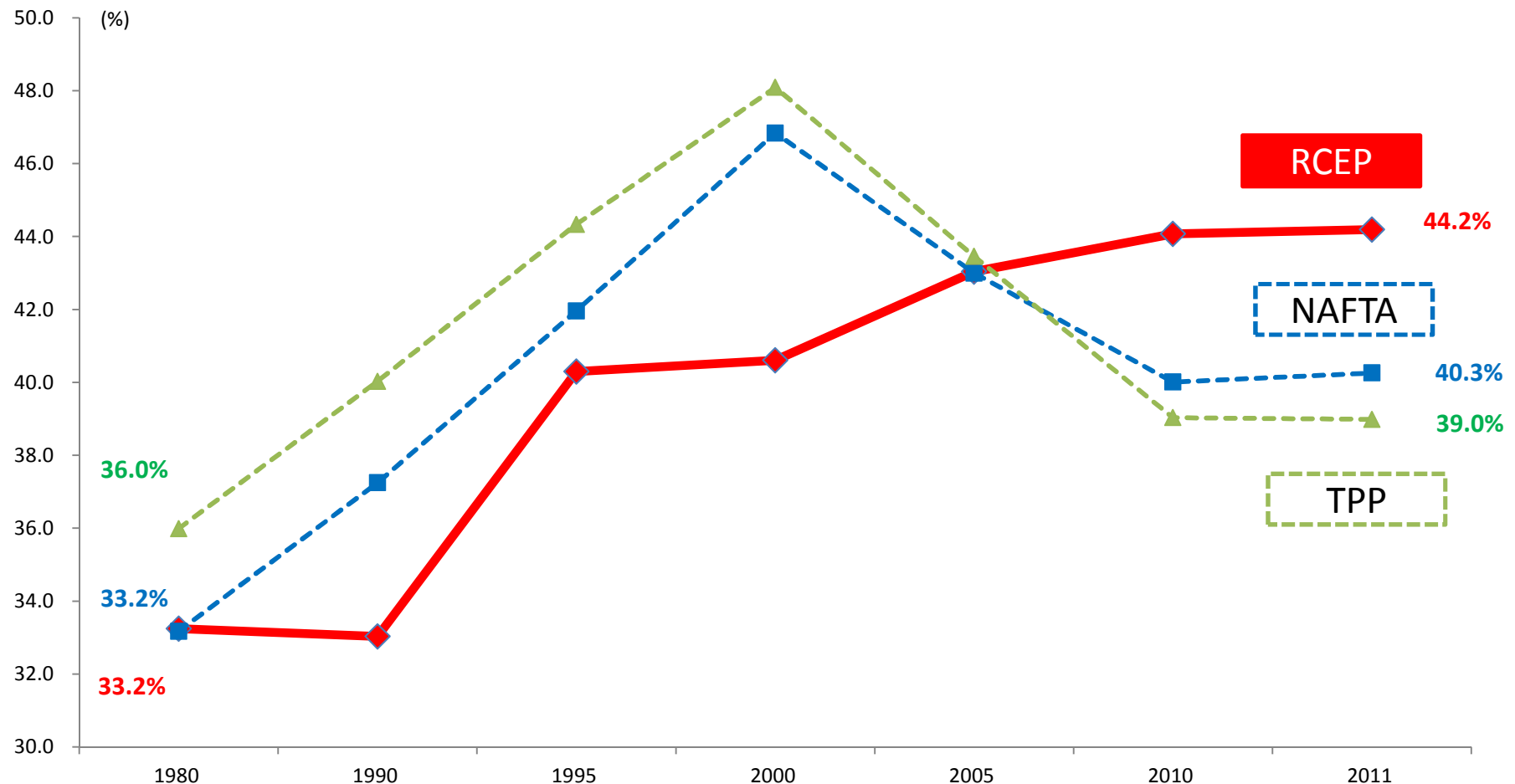
Slightly lower than half of China's level

One-fourth of China's level

One-sixth of China's level

◆ “*De facto*” enhancement of supply chains and deepening economic integration are progressing in Asia

Intra-regional trade ratio\* (RCEP/NAFTA/TPP)

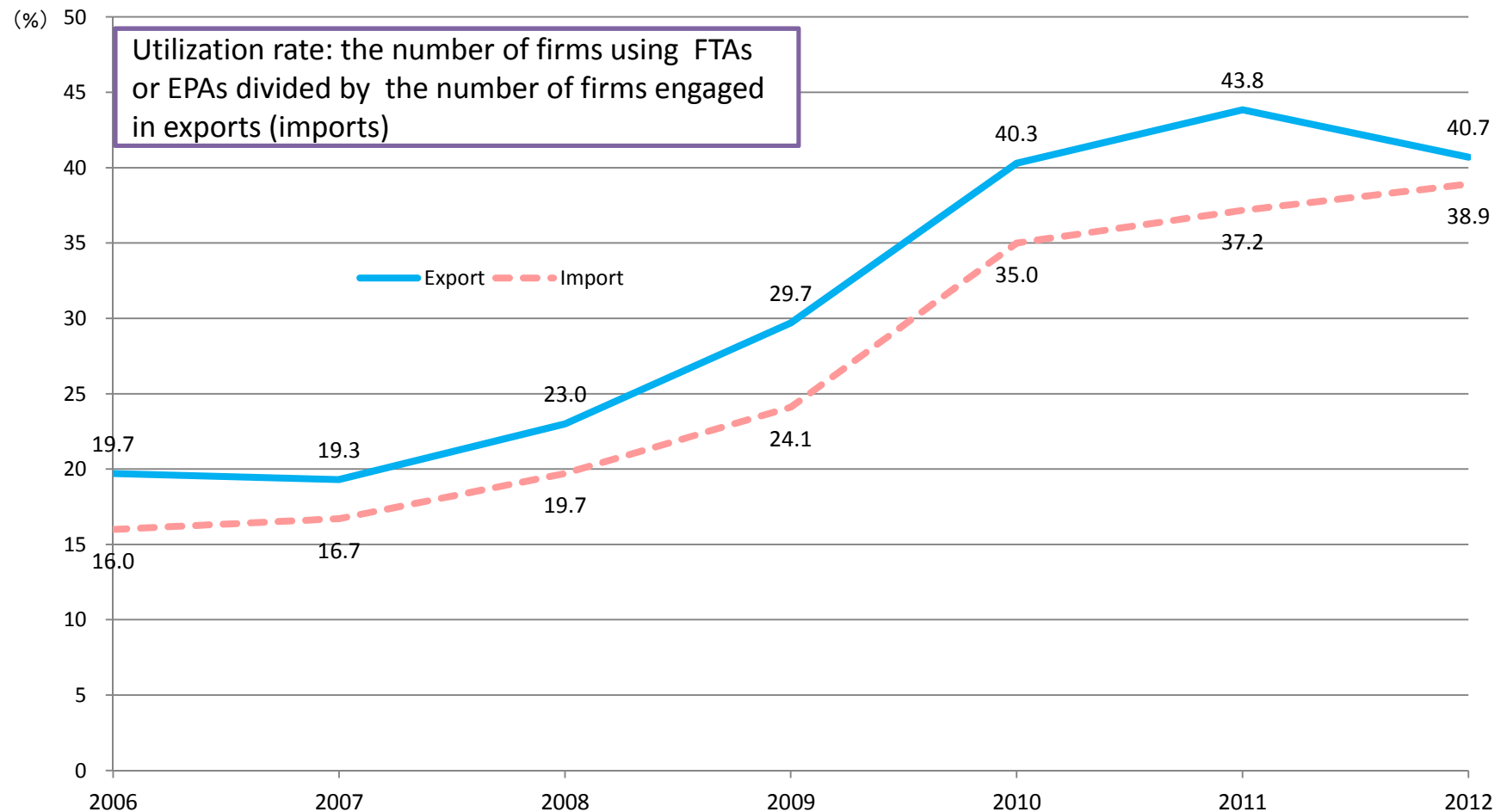


Source: Data and chart were calculated and depicted by JETRO using the following formula stated in *IMF Direction of Trade Statistics (DOT, June 2012)*. (year)  
 Intra-regional trade ratio = [intra-regional export value + intra-regional import value] / [total export value of the world + total import value of the world] x 100

## ◆ Expansion of FTAs/EPAs adds momentum to enhanced institutional stability in business

### Progress of FTA/EPA utilization rates by Japanese companies in ASEAN markets

Survey period: Oct. - Nov. 2012



Source: Survey of Japanese-Affiliated Companies in Asia and Oceania by JETRO

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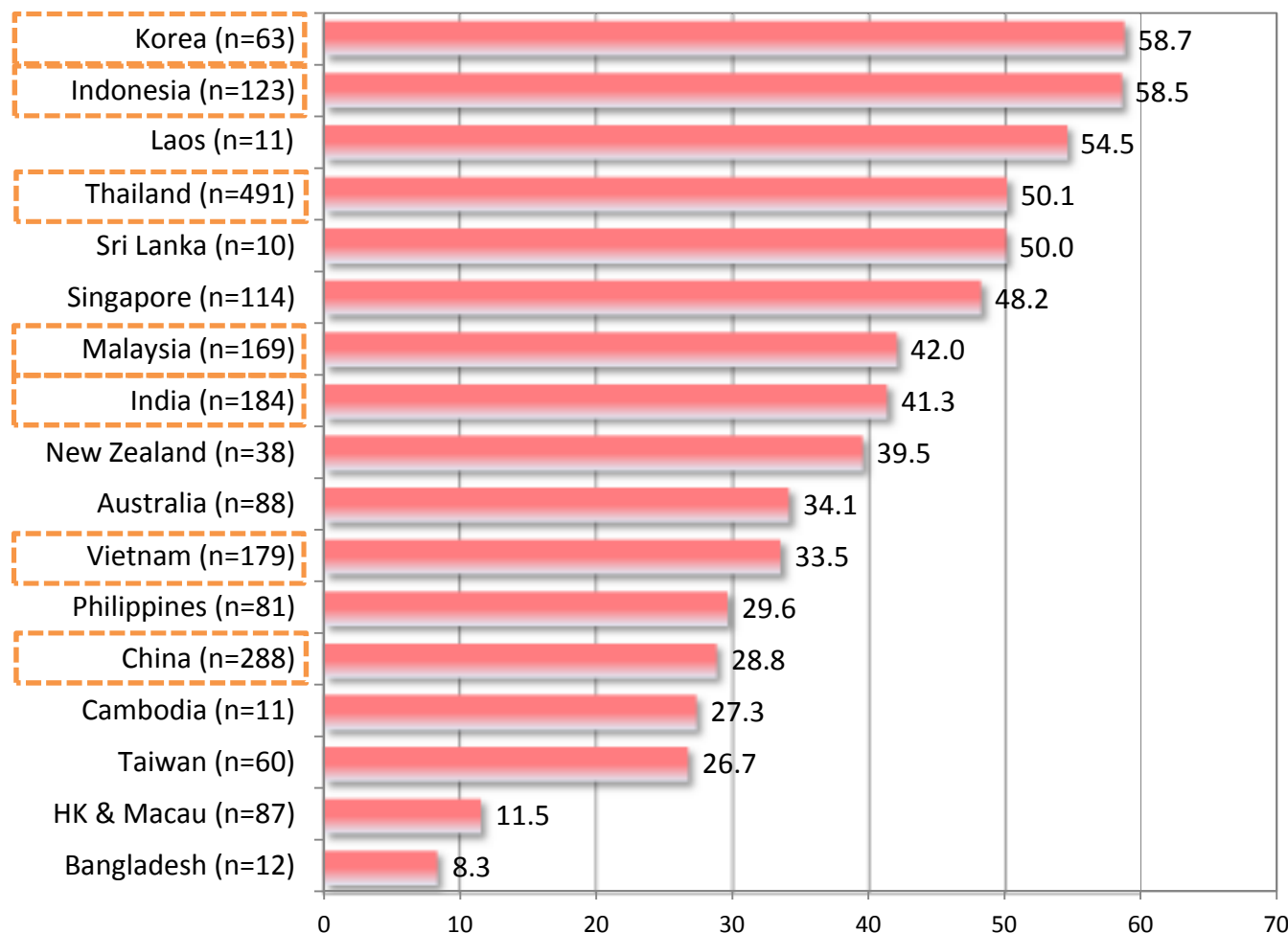
## ◆ Asia-based Japanese companies utilizing multiple FTAs

### Utilization rates of effective FTAs/EPAs

Survey period:  
Oct. - Nov. 2012

#### Major FTAs utilized

- ➔ ASEAN, EU
- ➔ Japan, ASEAN, China
- ➔ Japan, ASEAN, China, Korea, India, Australia, NZ
- ➔ Japan, ASEAN, China, Korea, India, Australia
- ➔ Japan, ASEAN
- ➔ Japan, ASEAN, China
- ➔ ASEAN, HK, Taiwan



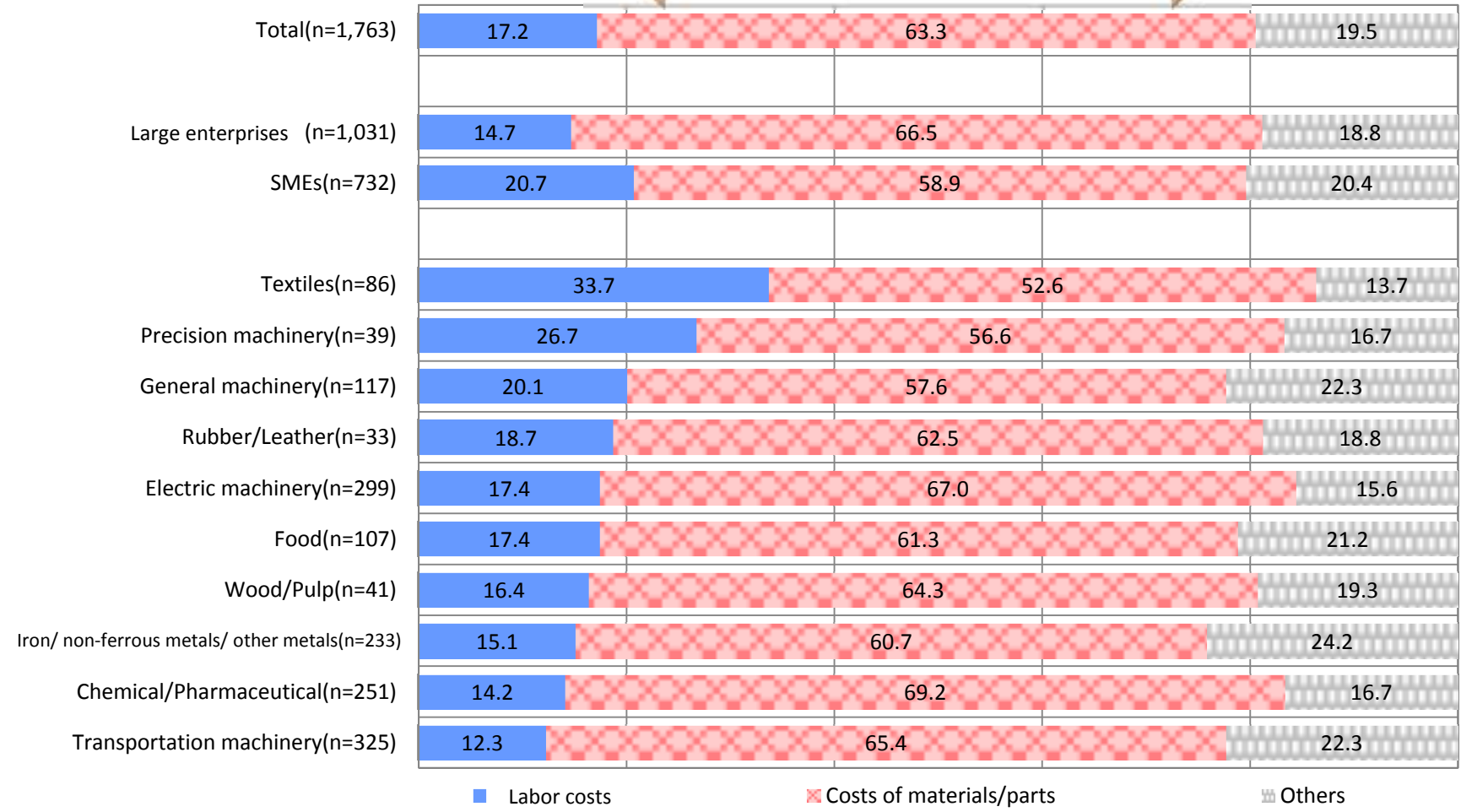
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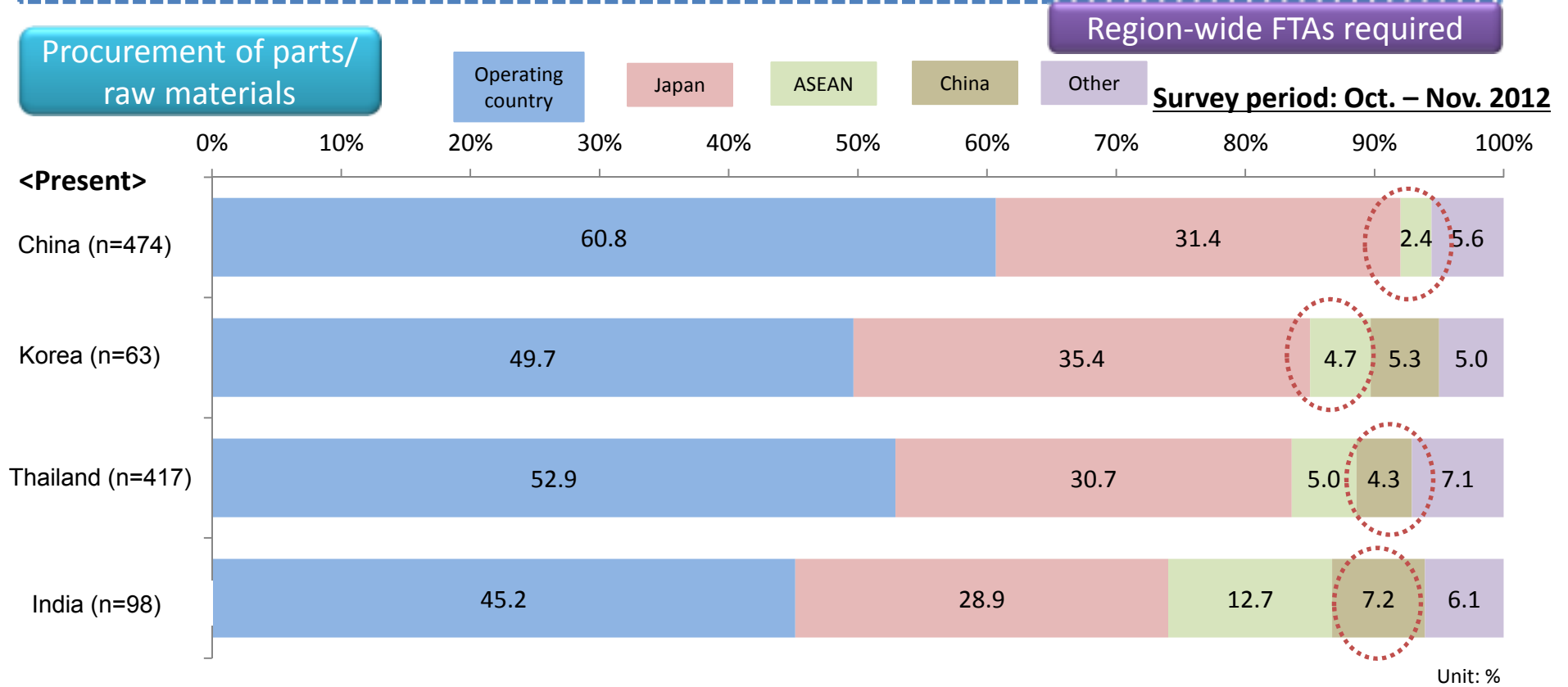
◆ Liberalization of trade in parts and raw materials is crucial for establishment of supply chains

Costs for parts and raw materials account for more than 60% of total manufacturing costs.  
 → Trade facilitation by FTAs is essential.

**Survey period:**  
Oct. - Nov. 2012



◆ Procurement by ASEAN/India-based Japanese companies from China has been increasing, as has that of China/Korea-based firms from ASEAN →RCEP would facilitate this process



<Future>  
Rate of respondent Japanese companies planning to increase procurement of raw materials and parts (multiple answers allowed)

	Operating country	ASEAN	China	Japan	Other
China (n=491)	88.0	12.4	—	10.4	3.0
Korea (n=65)	70.8	20.0	24.6	13.8	7.7
Thailand (n=420)	78.6	28.3	16.9	10.0	9.0
India (n=116)	85.3	23.3	16.4	9.5	0.9

◆ Service sector (e.g., logistics, accounting, corporate regulations) : vital factor towards high-value added value chains

Forming comprehensive FTAs is necessary

Survey period:  
Oct. - Nov. 2012

### Reasons of Asia-based Japanese firms for raising future procurement rate for raw materials/parts

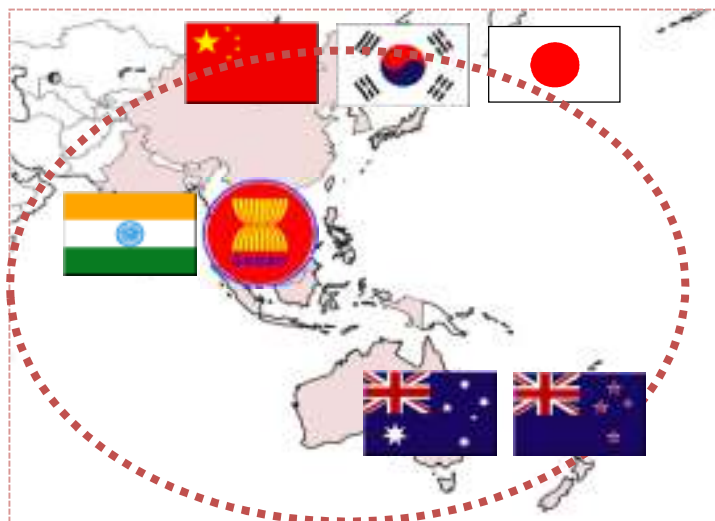


Source: Survey of Japanese-Affiliated Companies in Asia and Oceania by JETRO

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- RCEP: Announcement of agreement to launch negotiations
- Japan-China-Korea FTA: Announcement of commencement of negotiations

## RCEP



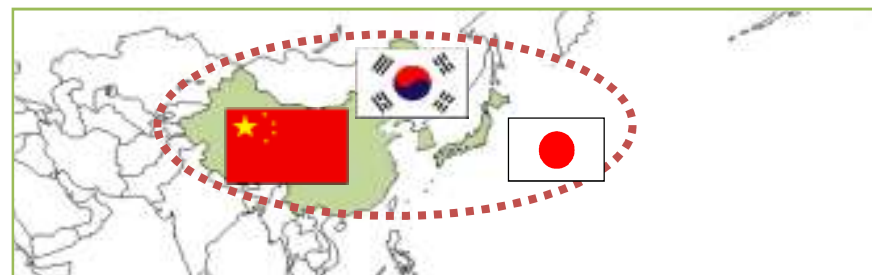
### The 21<sup>st</sup> ASEAN Summit and Related Summits (Nov. 20, 2012)

Leaders of 16 countries approved the Guiding Principles and Objectives for Negotiating the RCEP, and jointly declared the launch of the negotiations for the RCEP.



“RCEP negotiations will commence in early 2013 with the aim to be completed by the end of 2015”  
(Cited from the Guiding Principles and Objectives for Negotiating the RCEP)

## Japan-China-Korea FTA



### Japan-China-Korea Economic and Trade Ministers’ Meeting (Nov. 20, 2012)

Ministers of the three agreed on the commencement of negotiations towards the FTA. They decided to hold the first meeting for the negotiations in early 2013.



In early 2013: The first negotiation meeting to be held  
(under coordination)

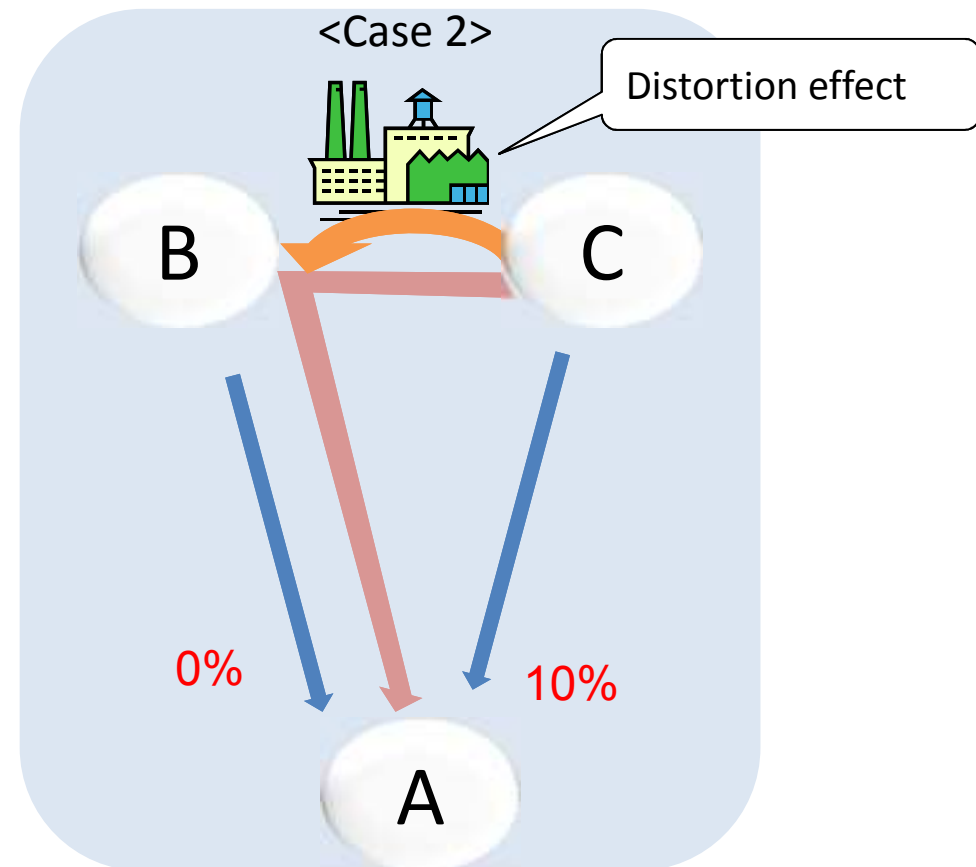
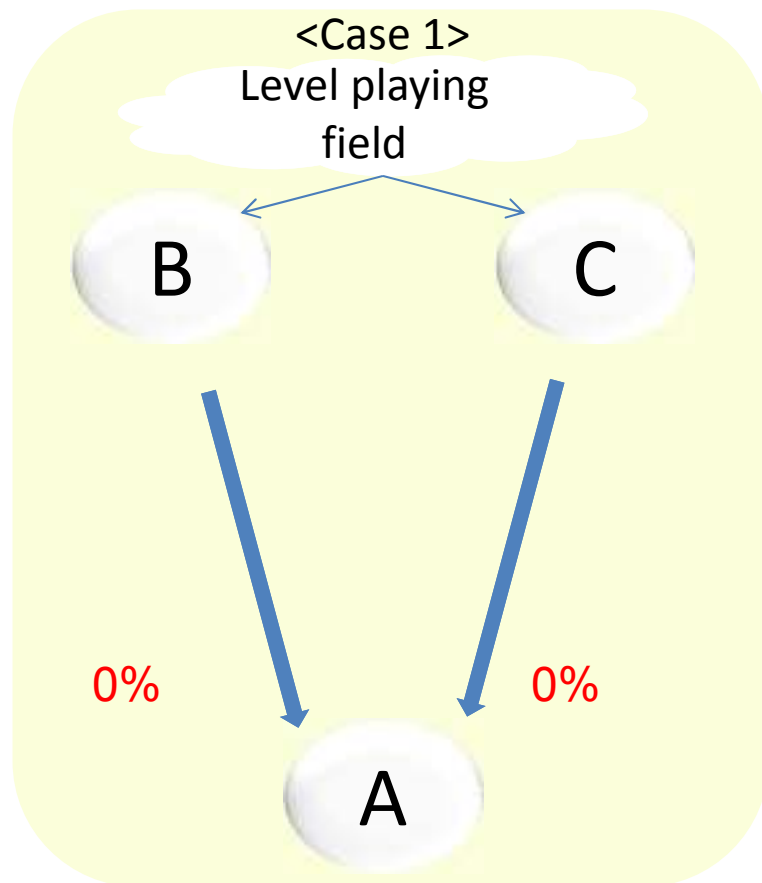
<Case1> One schedule applied to all member countries

→ no discrimination among exporting countries

<Case 2> Individual schedule for each country;

→ Trade will be distorted (goods export(production) may move from C to B)

= Discourage development of the efficient supply chain networks



The ROO should not be a burden for business, especially for SMEs  
 =simple & business friendly rules are needed!

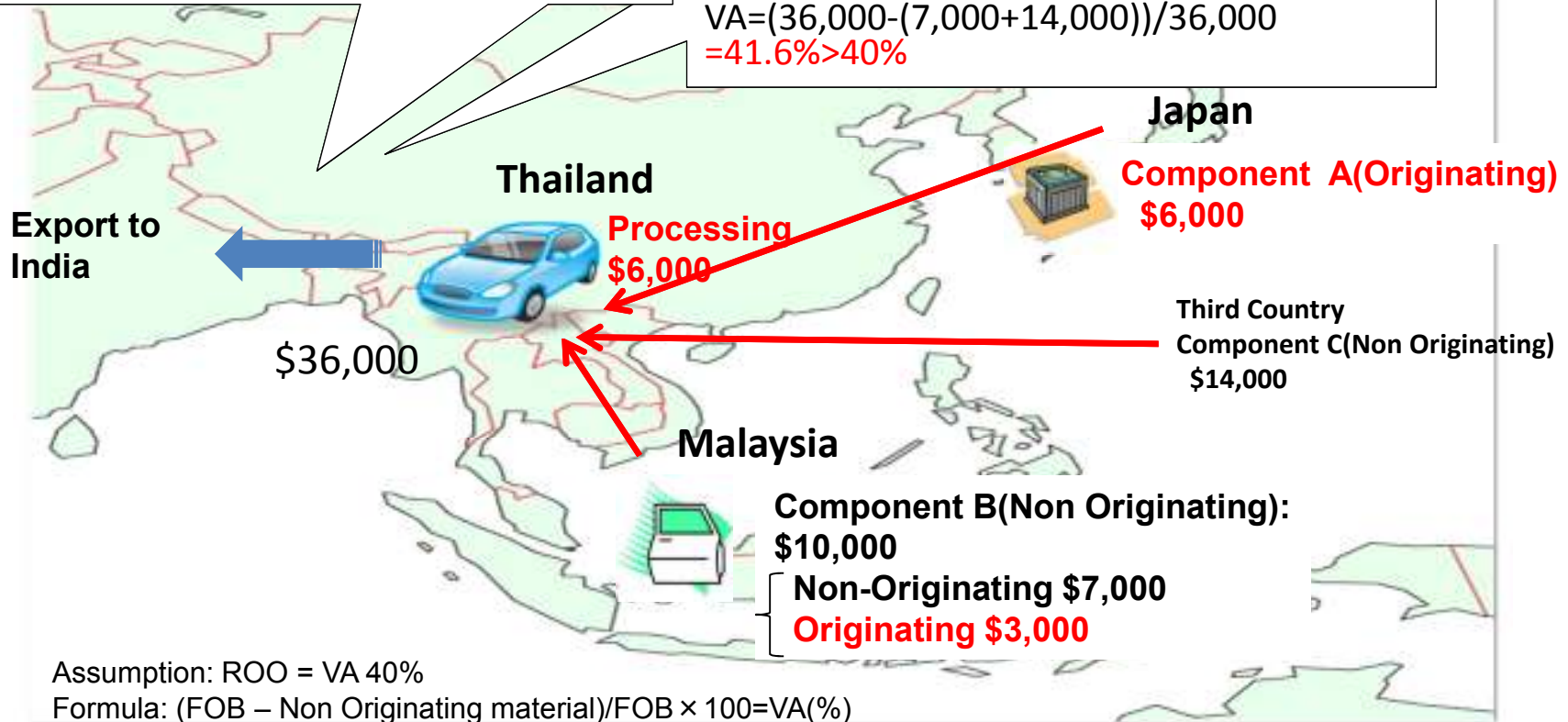
ex. (i)co-equal rule, (ii)full accumulation rule, (iii) Approved Exporter self-certification system

**Without full accumulation rule;  
 ROO not satisfied**

$VA = (36,000 - (10,000 + 14,000)) / 36,000$   
 $= 33.3\% < 40\%$

**With full accumulation rule;  
 ROO satisfied**  
 (Production carried out in MY can be taken into account)

$VA = (36,000 - (7,000 + 14,000)) / 36,000$   
 $= 41.6\% > 40\%$



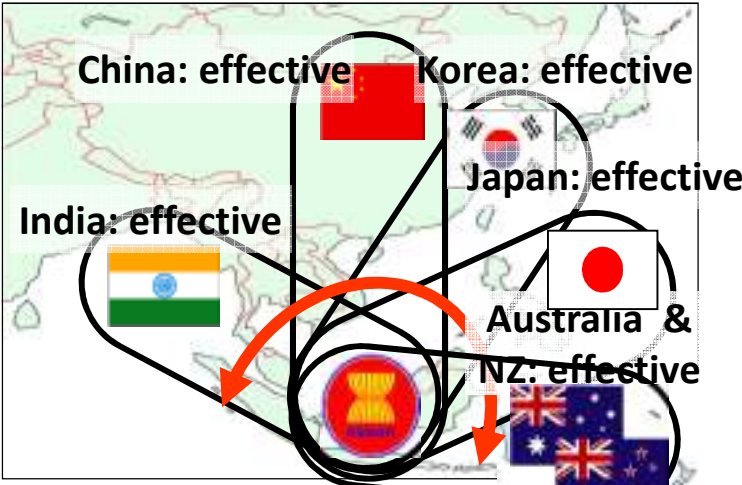
Assumption: ROO = VA 40%  
 Formula:  $(\text{FOB} - \text{Non Originating material}) / \text{FOB} \times 100 = \text{VA}(\%)$

# Formation of FTAs/EPAs in East Asia

◆ In 2012, five ASEAN Plus One FTAs (namely with China, Korea, Japan, India, and Australia and New Zealand) took effect. ASEAN and these signatory countries have been accelerating efforts towards further development of regional production networks.

→ **Formation of the Regional Comprehensive Economic Partnership (RCEP)**

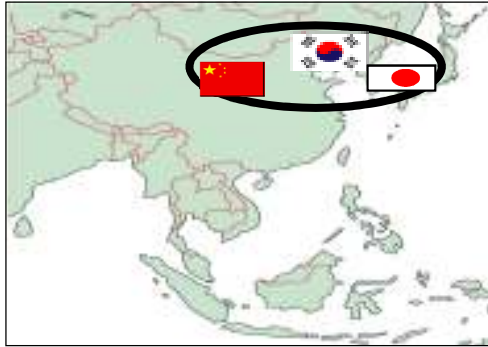
### ASEAN's FTAs/EPAs



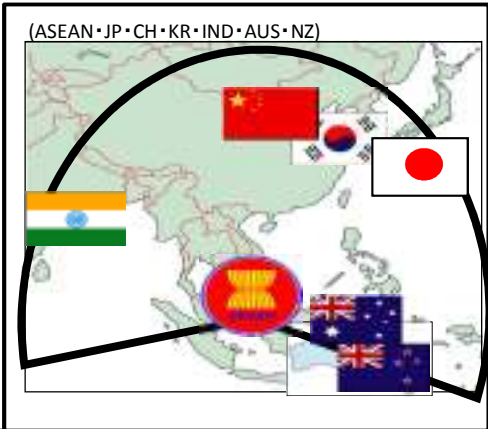
FTAs	Effective date
China-ASEAN	Field in goods (Jul. 2005) Field in services (Jul. 2007) Field in investment (Jan. 2010)
Korea-ASEAN	Field in goods (Jun. 2007) Field in service (May 2009) Field in investment (Sept. 2009)
Japan-ASEAN	FTA took effect. (Dec. 2008)
India-ASEAN	Field in goods (Jan. 2010)
Australia & NZ-ASEAN	FTA took effect (Jan. 2010)

### Efforts towards region-wide economic integrations

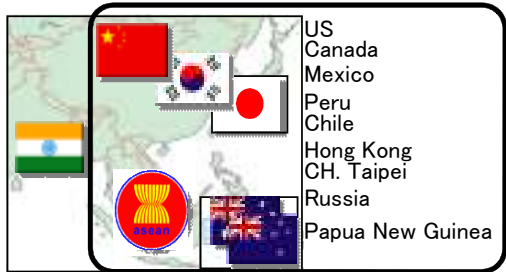
#### Japan-China-Korea FTA



**RCEP\*** \*RCEP=Regional Comprehensive Economic Partnership

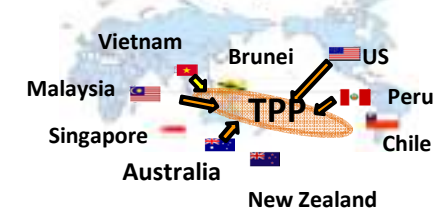


#### APEC (FTAAP)



Among the 10 ASEAN member countries, Myanmar, Cambodia and Laos have not joined APEC.

#### TPP





- ◆ Taking achievements accomplished into account, economic integrations in Asia, particularly ASEAN, has progressed steadily
- ◆ Formation of the AFTA and ongoing creation of the AEC clearly demonstrate the development in the economic integration of ASEAN
- ◆ The US should not limit the range of participant countries for the TPP placing too much priority on the degree of liberation..

Slow but steady wins the race !

TPP



RCEP

	TPP	RCEP
<p><b>Speed</b></p> <p>Beginning of negotiations</p>	<ul style="list-style-type: none"> <li>◆ Started in March 2010</li> <li>◆ Achievement of "broad outlines" in November 2011</li> <li>◆ The 16th round of Trans-Pacific Partnership (TPP) negotiations will be held in Singapore on March 4-13, 2013.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Agreed to launch negotiation at EAS held on Nov 20, 2012.</li> </ul>
<p><b>Depth</b></p> <p>Negotiation areas</p>	<ul style="list-style-type: none"> <li>◆ Not limited to liberalization of goods and services→"The TPP teams have agreed to construct <u>a fully regional agreement that facilitates trade and the development of production and supply chains among TPP members.</u>"(TPP Trade Ministers' Report to Leaders, November 12, 2011)</li> <li>◆ 24 negotiating groups including for cross-cutting trade issues such as regulatory coherence, competitiveness and business facilitation, small- and medium-sized enterprises</li> </ul>	<ul style="list-style-type: none"> <li>◆ <u>RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.</u>(Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership, 30 August 2012)</li> <li>◆ Three Working Groups on trade in goods, trade in services and investment</li> </ul>
<p><b>Economic coverage</b></p>	(11 countries)	(16 countries)
GDP (global share), 2011	29.8%	28.4%
Intra Regional Trade (total trade), 2011	39.0%	44.2%
Population (global share), 2011	9.6%	49.1%

# EU's FTAs with countries in the Asia-Pacific region

**Korea**  
Took effect  
(in July 2011)



**China** (Investment Agreement)

Leaders agreed to promote efforts towards the earliest possible launch of negotiations.  
(The EU-China Summit on Feb. 14, 2012)

**India**  
Under negotiation  
(from June 2007)



**Singapore**  
Negotiation completed  
(in Dec. 2012)



**Malaysia**  
Under negotiation  
(from Oct. 2010)



**Vietnam**  
Under negotiation  
(from June 2012)



**Thailand, Indonesia, the Philippines**  
Discussing launch of FTA negotiations



**Japan**

Launch of the negotiation to be announced officially at the next Japan-EU Summit (Spring in 2013)



**US**

Final report of high-level working group (scheduled in Feb. 2013) →  
Launch of negotiation within 2013?



**Canada**  
Under negotiation  
(from May 2009)



**Mexico**  
Took effect  
(in 2000)



**Peru**  
Signed  
(in June 2012)



**Columbia**  
Signed  
(in June 2012)



**Chile**  
Took effect  
(in 2003)