

—SUMMARY—

International Symposium hosted by Japan Economic Foundation (JEF)

And Taiwan Institute of Economic Research (TIER)

**“Seeking a new balance in the regional integration of the Asia-Pacific region”**

12 October 2011, Taipei, Taiwan

**OPENING SESSION**

**Welcome Remarks by**

**Dr. David S. Hong, President, Taiwan Institute of Economic Research (TIER)**

Dr. Hong greeted participants from AP region, including 18 panelists from 10 countries and 100 domestic delegates, and thanked JEF and TIER for organizing and co-hosting this year’s event. He pointed out that regional integration has been gaining momentum and that Taiwan is playing an active role.

**Opening Remarks by**

**H.E. Mr. Vincent Siew, Vice President, Taiwan**

Mr. Siew thanked JEF and TIER for organizing this event in the centennial anniversary of Taiwan. He is convinced of the benefits of regional integration, which has been considered a major policy of Taiwan government.

Taiwan has suffered from global economic tsunami, but effective responses from the government, including supporting banks by offering blanket guarantees for bank deposits, which in turn enabled the banking sector to support the corporate sector with necessary loans, have proven to be effective. He stressed the importance of

economic liberalization and global engagement for Taiwan and that its link with AP economies will help sustain healthy momentum for reforms and create competitive edge for Taiwan.

Taiwan's relationship with China has been developed in a pragmatic approach that focuses on mutually beneficial economic and trade ties, and ECFA, effective on Jan. 1, 2011, is a cornerstone for this process. Similar negotiations are underway with Singapore, India, Indonesia, Philippines, and Japan.

AP countries need to leverage the momentum for economic integration so as to play a leading role in world economy. Taiwan's experience with Japan over the past years shows it's an achievable goal, and Taiwan is capable of playing an active role.

Mr. Siew expressed high hope for concrete outcomes of this forum that will help Taiwan more actively participate in the process.

#### **Keynote Address by**

**Mr. Francis Kuo-Hsin Liang, Vice Minister of the Ministry of Economic Affairs, Taiwan**

The stall of WTO Doha round has led to strong growth of regional economic integration. Taiwan is highly dependent on trade, and regional economic integration is vital for its future survival. The 2007-2008 global financial crisis has shifted global economic gravity towards Asia, which contributed 40% growth in total global trade volume in 2010, with China leading the way. This trend has accelerated regional integration in recent years, and the ASEAN and ASEAN + N models play a key role.

Taiwan's exports to China, Japan, Korean and ASEAN countries account for 65% of its total exports, and East Asia has become the main export market for Taiwan products. Faced with the new challenge of regional integration, Taiwan needs to find ways to participate in the process so as not to be marginalized.

Taiwan government has adopted a new policy of improving economic relations with China. The recently signed ECFA with China includes 3-stage reduction of tariffs over 3 years to allow Taiwan products to be more competitive in China. It will enable

Taiwan to attract FDI, allow local companies to attract business partners from abroad, and boost foreign companies' confidence and interest in investing in Taiwan.

The bilateral investment agreement between Taiwan and Japan, signed on Sep. 22, 2011, is another response to the growing needs of the business community. Currently, Taiwan is in the process of negotiating bilateral investment agreement with Singapore as well as exploring possible means of signing bilateral agreements with other countries.

Taiwan is lack of resources and has limited local market, and it needs to actively participate in economic integration to get needed resources and expand overseas markets.

Starting with ECFA and with other FTAs down the road, Taiwan government needs to help its agricultural and manufacturing sectors to respond effectively to the challenge of opening up Taiwan market to other countries.

### **Opening Speech by**

#### **Mr. Noboru Hatakeyama, Chairman and CEO, Japan Economic Foundation (JEF)**

Mr. Hatakeyama was pleased to host the 10<sup>th</sup> Asia Pacific forum in Taiwan when it celebrates its 100<sup>th</sup> anniversary, with full support from TIER. He thanked the government and people of Taiwan for their support 311 earthquake/tsunami relief in Japan, including a rescue team immediately dispatched after the earthquake.

Economic recovery from the financial tsunami in recent years has been supported by economic stimuli packages. Deregulation as one of the solutions will be much easier if implemented in a FTA context.

Regarding the development of regional economic integration in Asia Pacific, ASEAN is the first mover, followed by other models like FTAs, TPP, and ECFA. The two main topics of this forum will be the role of regional integration in security, energy, mineral, food and parts and industrial materials, and the impacts, positive and negative of FTAs and other similar arrangements.

## **SESSION 1**

**Role of regional integration in ensuring stable supply of resources, parts and industrial materials** – How can regional integration contribute to ensuring stable supply of resources, including the issue to recover the parts supply chain disrupted by the Great East Japan Earthquake?

**Moderator: Prof. Zhang Yunling, Director, Chinese Academy of Social Sciences**

**Presenters:**

**1. Dr. Biswajit Dhar, Director-General, Research and Information System for Developing Countries**

Regarding disruption in supply chains caused by Japanese tsunami, in spite of global economic slowdown, trends over past 2 years show that major economies didn't resort to protectionism but explored ways of further economic integration.

Production network in Southeast Asia is spreading westwards to include India. A major concern in the future is increasing food and commodity prices.

As western markets lose vitality and dynamics, new markets must be opened up. East Asia and Southeast Asia have experienced better connectivity in their regions, thus creating a favorable trade environment.

The emergence of new players in the production networks provides enough scope for optimism that the losses suffered from the disruption of the value chains caused by the tsunami can be overcome. With countries like India joining in the efforts to deepen the level of integration, Asia Pacific economies will continue to perform strongly, thus providing the hope that they will be the anchor which would prevent its destabilization.

**2. Prof. Shujiro Urata, Professor of International Economics, Graduate School of Asia-Pacific Studies, Waseda University**

The speaker focused on supply chain and covered post-disaster auto-production in

Japan, lessons learned from tragedy, and ways to deal with issues in the future.

Supply chain recovered much more quickly than anticipated, but the medium- to long-term impacts may lead to relocation of production resources. Experiences showed that auto producers do not have an extensive supply chain, and it's therefore important for the industry to maintain inventories and to promote the use of standardized parts and components.

FTAs can be used to provide more diverse sources of parts and components supplies, facilitate trade in parts and components.

### **3. Prof. Gary Hawke, Emeritus Professor, Victoria University of Wellington**

Supply chains have become more visible and they span cross national boundaries, with links between producers and consumers being supplanted by links among producers.

The prevalent "Just-in-time" manufacturing model has had great impacts on supply chain. Interdependence within the production process increases the importance of precision of specifications, making interoperability indispensable and maintenance of standards and innovation important. An international regime for managing intellectual property and standards is an essential component for economic integration, but it is no easy task.

Even in the face of major natural disasters, we should look to regional economic integration above all to promote innovation in the face of protectionism pursued through intellectual property and standards regimes.

What is also needed is the willingness to update current thinking, and the Asian consensus building can be a viable alternative to the western-oriented "negotiations"

**4. Dr. Thomas G. Aquino, Senior Fellow, Center for Research and Communications, University of Asia and the Pacific**

Responding to supply disruption can be done by either consolidating production in a single location or by maintain dispersed sourcing locations, which entails higher inventory levels.

In terms of stability of supply, regional integration should also encompass cooperation and take into consideration of excessive supply; discussion of resources should also cover human resources; and definition of disasters should be updated and plans of action upgraded.

Four main points that merit consideration are as follows: business outlooks and appreciation of risks should be globalized; regional approaches are needed in disaster recovery plans; cooperation is necessary in learning more about disasters; and regional business-to-business and business-to-community cooperation are needed.

The important lesson that we need to learn from the past experience is that supply disruptions occur not because economic systems have been integrated, but because economic systems have not integrated enough, and governments, business and communities do not have a regional disaster recovery plan of action.

**5. Dr. Mignonne Man-jung Chan, Executive Director, Chinese Taipei APEC Study Center, Taiwan Institute of Economic Research (TIER)**

Key factors that affect supply chain vulnerability by descending order of importance are globalization, product variant, outsourcing, reduction of suppliers, focus on efficiency (Just-In-Time), central distribution, and central production. Major challenges for supply-chain risk management are finding effective ways of minimizing probability of occurrence and lowering level of negative consequences.

Infrastructure building for supply chain connectivity must cover both hard and soft aspects. The former refers to ensuring right amount (capacity, pricing, maintenance), right time (opportunities, interest rates), right type (air, sea, land connectivity) and right place, while the latter covers systems & IT, regulations and licensing, governance, and safety .

Taiwan has contributed to supply chain connectivity in APEC in the areas of Emergency Preparedness, APEC Center for Typhoon (ACT), APEC SME Crisis Management Center, Cloud Computing for Value Chain, and APEC Food System.

#### **Q&A:**

Regarding advantages of regional value chain vs. trade liberalization, most of the benefits of the former are internalized, while the latter has to deal with red tape and numerous rules and regulations and often runs into other issues.

Resistance is there in Japan to TPP and FTAs, but the potential benefits should eventually convince people and government since FTAs lower the barrier for cross-border transfer of materials and enable partners to cooperate and overcome risk hurdles.

Access to supply of materials like minerals and foods may be limited if the government imposes restricted export policy, and FTA is not a panacea but only one of the tool. ASEAN+3, China, Japan, and S Korea have signed an agreement for 787,000 tons of grain reserve for disaster relief, which is a good example of non-FTA approaches.

The Interests of exporters outweighing importers seems to be an underlying WTO philosophy (Article 11), an issue which can be redressed by FTAs. China's dealing with export restriction over trade dispute under WTO is a good case for reference.

Sourcing parts and components from local suppliers should be encouraged and explored. In the case of Japanese auto-makers, they were using highly customized parts and components that cannot be easily found in a foreign location, hence the importance of standardization.

FTA comes in where there are barriers due to policy or technical reasons. In the electronics sector, parts and components are highly standardized across the world and sourcing can be easily substituted. There is a need to apply the concept and practice of standardization in the electronic sector to other sectors.

## **Concluding remarks**

**Hawke:** we need to think about political process that will prevent the distortion of economic ideals. The world is much more inter-related and integrated.

**Urata:** it is important to protect IPR, or companies will be discouraged from innovation. We need a good business environment that encourages R&D.

**Dhar:** Regional integration and FTA are not either-or choice can be mutually reinforced.

**Aquino:** Rules of international trade still favor interests of exporters over those of importers

**Chan:** FTA per se cannot guarantee disaster resilience. Lots of good will and building a sense of community will be required to achieve consensus.

## **SESSION 2**

**Impact of new FTAs and possible FTAs on the ASEAN economic integration and other Asian FTAs – Impact of ECFA, Korea-EU FTA, TPP, etc. on the other Asian FTAs**

### **Part 1: Current status and Significance, Reactions of the Asian countries**

**Moderator: Mr. Noboru Hatakeyama, Chairman and CEO, Japan Economic Foundation (JEF)**

#### **Presenters:**

**1. Mr. J. Jayasiri, Senior Director, Multilateral Trade Policy and Negotiations, Ministry of International Trade and Industry, Malaysia**

The speaker focused on TPP due to the wide interest it has generated. TPP has a comprehensive scope that includes new areas like horizontal issues of SMEs, development, regional integration, competitiveness and supply chain, and regulatory coherence. Major challenges for TPP include complex structural issues, dual/triple



membership in FTA, competing interest, architecture and future membership.

TPP is significant as it goes beyond liberalization and sets rules for areas not covered by WTO, defines new standards for IPR and transparency and has attracted attention of countries within and outside the region.

While it is uncertain if TPP will serve as the precursor to FTAAP, TPP is complementing existing regional integration initiatives like ASEAN +3 / +6 and is contributing to regional integration.

## **2. Dr. Chulsu Kim, Chairman, Institute for Trade & Investment**

The speaker cited data of existing East Asia FTAs: as of July 2011, 167 have been concluded, 87 being negotiated, and 83 proposed.

He gave an overview of the Korea-EU and Korea-USA FTAs. The two FTAs have competitiveness and trade diversion implication for other East Asian countries. They will have immediate impacts in Northeast Asia and will expedite the process of Korea-China and Korea-Japan FTAs. However, likelihood of launching China-Japan bilateral FTA is limited and it is therefore difficult to achieve Northeast Asia economic integration via bilateral FTAs.

Trilateral FTA in Northeast Asia may be more complicated, but these three countries together could also have a better chance to avoid non-economic issues and make more progress on economic ones. Also, sensitive issues like agriculture could be better diffused through give and take among the three countries.

## **3 .Prof. Simon SC Tay, Chairman, Singapore Institute of International Affairs**

Asia Pacific needs to find new resources for further growth instead of relying on US and EU. Its link with the US has been largely dependent on the USA domestic politics and now Asians need to what they can do for themselves.

TPP is a heroic effort but it has faced big challenges, especially when the USA is

involved. Domestic political resistance in the USA may discourage the progress of TPP. Asian-only agreements, on the other hand, tend to be China-centric, but certain territorial disputes have slowed down the progress.

ASEAN efforts have experienced some fatigue, and Singapore is looking forward to completing a FTA with EU.

The way to go forward is to go deeper. FTAs should be seen as economic integration in a deeper sense, and cross-border cooperation in the business sector is happening and needs further support.

#### **Q & A:**

TPP is both strategic and economic for the USA, with a number of initiatives from USA actually driven by its private sector. China hasn't been included in TPP, and the reason might be for moving things fast enough with fewer players in the beginning. APEC is seriously looking at FTAAP, and the process must start somewhere. So TPP may be a pre-cursor and a catalyst to further development of ASEAN initiatives, but fresh leadership commitment is needed to promote ASEAN template.

Korea will eventually look at the possibility of joining TPP, but its current priority is more on implementing signed agreements like FTA with US. Korea will look closely the development of TPP, e.g. trade agreements, before it makes the final decision.

TPP is purely a free-trade agreement rather than a customs union, but it does cover issues that are not addressed by WTO. ASEAN is not moving toward customs union but focuses more on free flows of goods and services within the bloc.

East Asia regionalism emphasizes economic cooperation, whereas TPP and ASEAN are more about setting rules. ASEAN countries don't seem to have any issue with the development of TPP.

The coming East Asia summit with USA and Russia will not be about developing an East Asia Community; it is more about developing network diplomacy. The ideal is to create diverse sets of forums and institutions to foster a sense of community, which does not require formal definition of membership.

## **Part 2: IMPACT and PROSPECT**

**Moderator: Dr. Mignonne Man-jung Chan, Executive Director, Chinese Taipei APEC Study Center, Taiwan Institute of Economic Research (TIER)**

### **Presenters:**

#### **1. Dr. Ping-kun Chiang, Chairman, Straits Exchange Foundation**

Taiwan's export volume is over 140% GDP, and Asia is Taiwan's largest export market (over 70%), with exports to China reaching 42% of Taiwan's total exports in 2010.

The objective of signing ECFA with China is to seek fair treatment of Taiwan products in China market. ECFA includes reducing tariffs and eliminating non-tariff trade barriers through its agreements on investment protection, trade in goods and services, dispute settlement, and economic cooperation. As a result, Taiwan's export to China has grown significantly.

Taiwan has started negotiating an "Economic Partnership Agreement" with Singapore; signed a "mutual assistant agreement on custom matters" with India and an "Arrangement for the mutual Cooperation on the liberalization, promotion and protection of investment" with Japan, and has started a feasibility study on "Economic cooperation Agreement" with India and Philippines.

Taiwan president Ma Ying-jeou has proposed for Taiwan to join TPP, and his vision is to develop Taiwan into a global innovative center, an Asia-Pacific trade hub, an operation headquarters for Taiwan businesses, and a regional headquarters for foreign enterprises.

## **2. Mr. Noboru Hatakeyama, Chairman and CEO, Japan Economic Foundation (JEF)**

Regarding FTA development in Asia Pacific, all FTA efforts should be welcomed. If ASEAN integration is completed in 2015 with a single market, it will be great news for foreign investors.

FTA between China-Korea-Japan sets to begin next year upon the conclusion of FTA feasibility study. Japan will make a final decision on participating TPP, while it remains to be seen if China and Korea will participate in TPP negotiation at later stages, or if China and Korea are keen to sign a bilateral FTA.

TPP framework is supposed to be agreed in Hawaii, if not, its future is less certain due to the coming presidential election in 2012. If USA's request for exemption on products like beef is granted, it will reduce the value of TPP.

Taiwan's economy is bigger than most ASEAN countries, but no plan has been tabled to invite Taiwan in EA FTA or to consider including Taiwan in the China-Japan-Korea meetings. Asian countries, including India, Australia and New Zealand, have been harsher on Taiwan than on other Asian countries. Most countries have accepted one-China policy, Japan being one of them. If Taiwan can be referred to by a name that does not indicate it as a country, then there is a better chance for Taiwan to be admitted as a FTA member.

## **3. Prof. Zhang Yunling, Director, Chinese Academy of Social Sciences**

East Asia needs an early market integration to overcome market fragmentation caused by multilayered FTAs and to facilitate restructuring the economic growth model by joint efforts of the regional members. The pragmatic approach is to let TPP and EAFTA (CEPEA) move forward simultaneously, which eventually leads to an integrated AP FTA.

China and Japan have come up with a joint proposal of setting up working groups on practical approaches to either EAFTA or CEPEA, which is a big step for the two countries towards creating a shared strategy.

Leaders in East Asia should adopt the China-Japan joint proposal, and the approach should be flexible, starting with ASEAN + 3. Also, the China-Japan-Korea FTA process should be encouraged to move fast so as to facilitate further market integration in East Asia. ASEAN needs to play a more active role in leading the process towards greater market integration.

#### **4. Dr. Hank Lim, Senior Research Fellow, Singapore Institute of International Affairs**

East Asia needs to progress from the proliferation of multi-layered FTAs to a region-wide FTA with wider participation and broader coverage. The question is how best to do it?

ASEAN has been the default hub of this regional-wide integration, and AFTA has progressed to ASEAN Economic Community (AEC), scheduled to be completed by 2015. ASEAN is preparing a draft on regional architecture.

TPP has gone to its 8<sup>th</sup> Round of Negotiations. While making continued progress on the texts across all the nine negotiating groups, further progress was made on the accompanying commitments on access to each other's markets for goods, services and government procurement and on product specific rules of origin and find a common ground on the regulatory coherence.

Due to time constraint, it is possible that by the time of APEC Summit in November in Honolulu, a concrete agreement would not be achieved, except a declaration of "substantive progress" has been made. The impact on ASEAN will be limited without the participation of China, Japan and Indonesia.

Potentially, KORUS FTA would have important implications on Japan's, Taiwan's and China's trade with the US and in turn, these three countries FTA strategy with the US and also on TPP and the ongoing feasibility FTA study among China, Japan and Korea.

ECFA has made possible the bilateral FTA negotiations between Taiwan and Singapore and other ASEAN countries and other Taiwan's trade initiatives with other East Asian countries with potentially no explicit China's opposition as long as the FTA is negotiated on the basis of Customs Territories principle of the WTO.

CEPEA working groups involving the EAS members to study the issue of Economic Cooperation, Rules of Origin, Customs Procedures, Tariff nomenclatures had been established. These 4 working groups have facilitated ASEAN in formulating its ASEAN Plus One FTA and in drafting the proposed Bali Declaration on Regional Architecture on trade facilitation.

#### **5. Dr. Andrew Elek, Visiting Professor, Australian National University**

Economic integration is important but has a long way to go, and it does not always have to rely on negotiation.

It is important to think in terms of the strategic, political context. Influence of East Asia will increase in the years to come, and its strategy for economic integration needs to take into consideration possible reactions from the rest of the world.

An East Asia FTA would be very difficult to negotiate and very likely to generate negative reactions from the rest of the world. ASEAN, on the other is setting a good example of practical, outward-looking economic integration Investment in better connectivity is the key.

International production networks were largely invented in East Asia, and they are the main drivers of economic integration. Most products moving along the supply chain do not face significant traditional border barriers. The main constraints to economic integration are problems of trade logistics and different economic regulations among trading partners.

The time has come to complement an environment of low boarder barriers with smoother movement of business people and capital. The time has come to focus on new, innovative and practical ways to deal with the far more significant logistic and regulatory constraints on economic integration. ASEAN is showing the way, and they are ready to work with the rest of East Asia to enhance connectivity and reduce needless behind-the-border regulatory obstacles to trade and investment.

#### **Q&A**

The regional architecture proposed by ASEAN refocuses and re-enhances centrality of ASEAN. The China-Japan joint proposal focuses on functionality topics rather than the centrality of ASEAN, whereas ASEAN would like to propose topics proven to have been done well within its framework, e.g. exclusive list, trade in goods and services, and investment.

The China-Japan joint proposal is very flexible in terms of participation. Another approach is to start with the China-Korea-Japan negotiations as they have already agreed to work on a feasibility study and can also be open to new members; It's not an East Asian grouping, but an open, flexible approach.

One clarification about CEPEA is that it is an ASEAN + 6 framework. USA and Russia haven't expressed their interest in joining CEPEA.

Regarding the concern over provoking trade war through East Asia regional integration, one main reason is that no rational reactions could be expected from the USA. East Asia cannot live alone as it must export, and the last thing they should do is to allow an EA economic bloc to emerge as a sitting target for the rest of the world. TPP, on the other hand, is a template for the USA to influence certain issues, and the coming meeting in Hawaii will most likely conclude with some exemptions for USA products.

At the summit last year, it had been acknowledged that FTAAP can be achieved through ASEAN +6, TPP or other mechanisms, and it is hoped that in spite of the all these competing and sometimes conflicting proposals, eventually there will be converge in a positive light.

## **CONCLUDING SESSION**

### **Mr. Noboru Hatakeyama, Chairman and CEO, Japan Economic Foundation (JEF)**

Some consider that EA economic bloc might be dangerous, while others applaud the ASEAN approach. Japan will welcome a more inclusive approach.

Regarding TPP, the process is problematic with so many members, but the coming meeting in Hawaii may still be able to see the approval of a framework, leaving

details for further discussions later on.

Korea does not want to re-open KORUS discussions, which is the reason for its reluctance to participate in TPP. KORUS must be implemented before Korea will consider joining TPP negotiation.

Taiwan-Singapore negotiation seems to have been openly discussed, which is a great step forward.

**Dr. Mignonne Man-jung Chan, Executive Director, Chinese Taipei APEC Study Center, Taiwan Institute of Economic Research (TIER)**

Finding the new doesn't mean discarding the old. The need is to bring new value into the value chain, not just supply chain. All these different approaches are symbolic in the sense that some parties would like to be leaders or on the spotlight, while others remain to be inspired. Various perceptions or misperceptions which may lead to undesirable backfire will need further exploration, but as the dialogue continues we will be on the right track toward finding convergence in a positive light.

**Dr. David S. Hong, President, Taiwan Institute of Economic Research**

Regional market mechanisms are needed for regional integration, but finding the right size of such markets is an issue that deserves further thinking. Much can be expected on further symposiums and future opportunities for cooperation between TIER and JEF.