

The Financial and Economic Crisis and FTAs

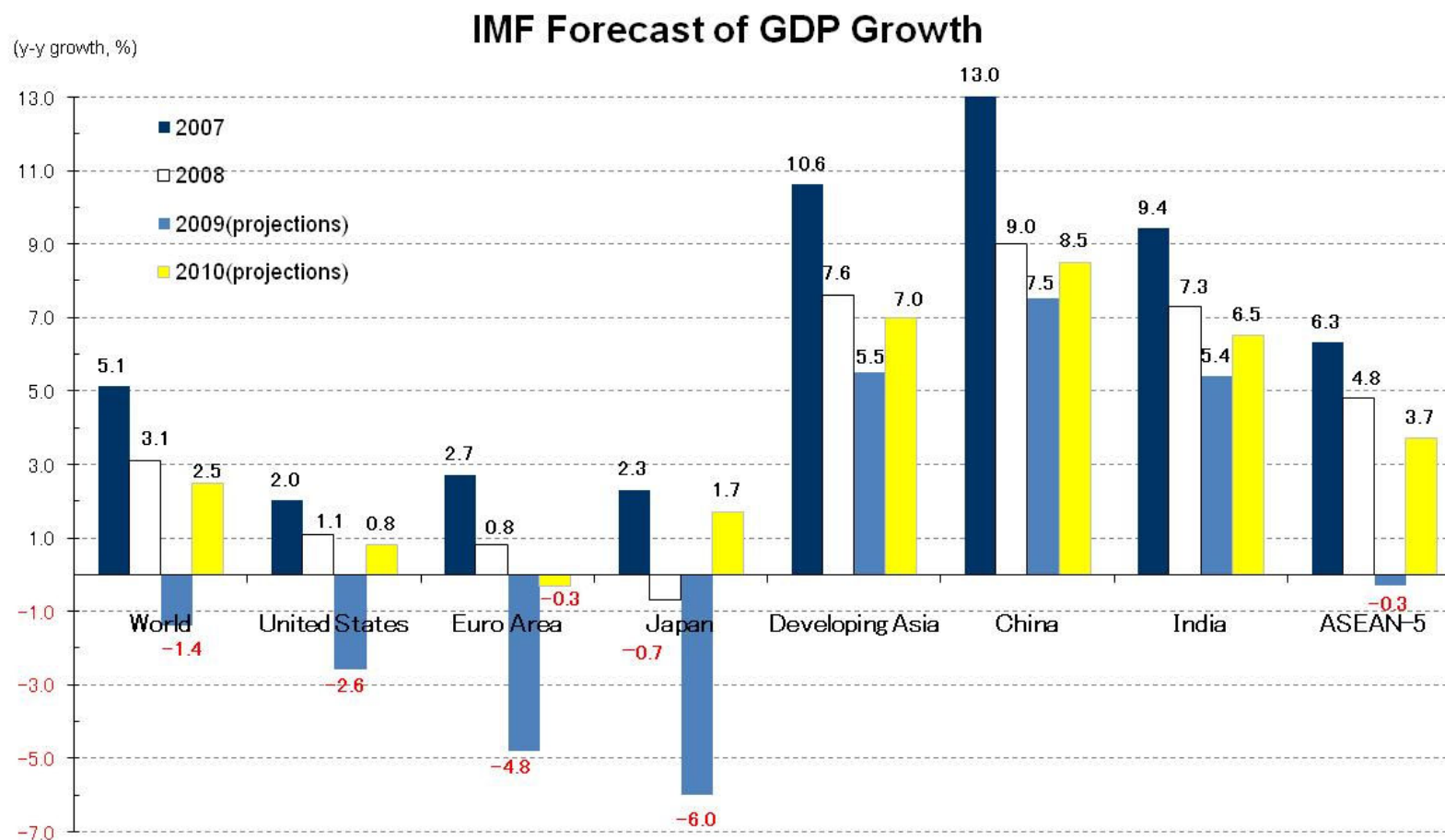
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1. The Impact of Financial and Economic Crisis in East Asia

Impact of Global Financial Crisis on East Asia

- Not as exposed to financial risks as US or Europe, but seriously affected (no decoupling)
- Signs of recovery, vary from countries

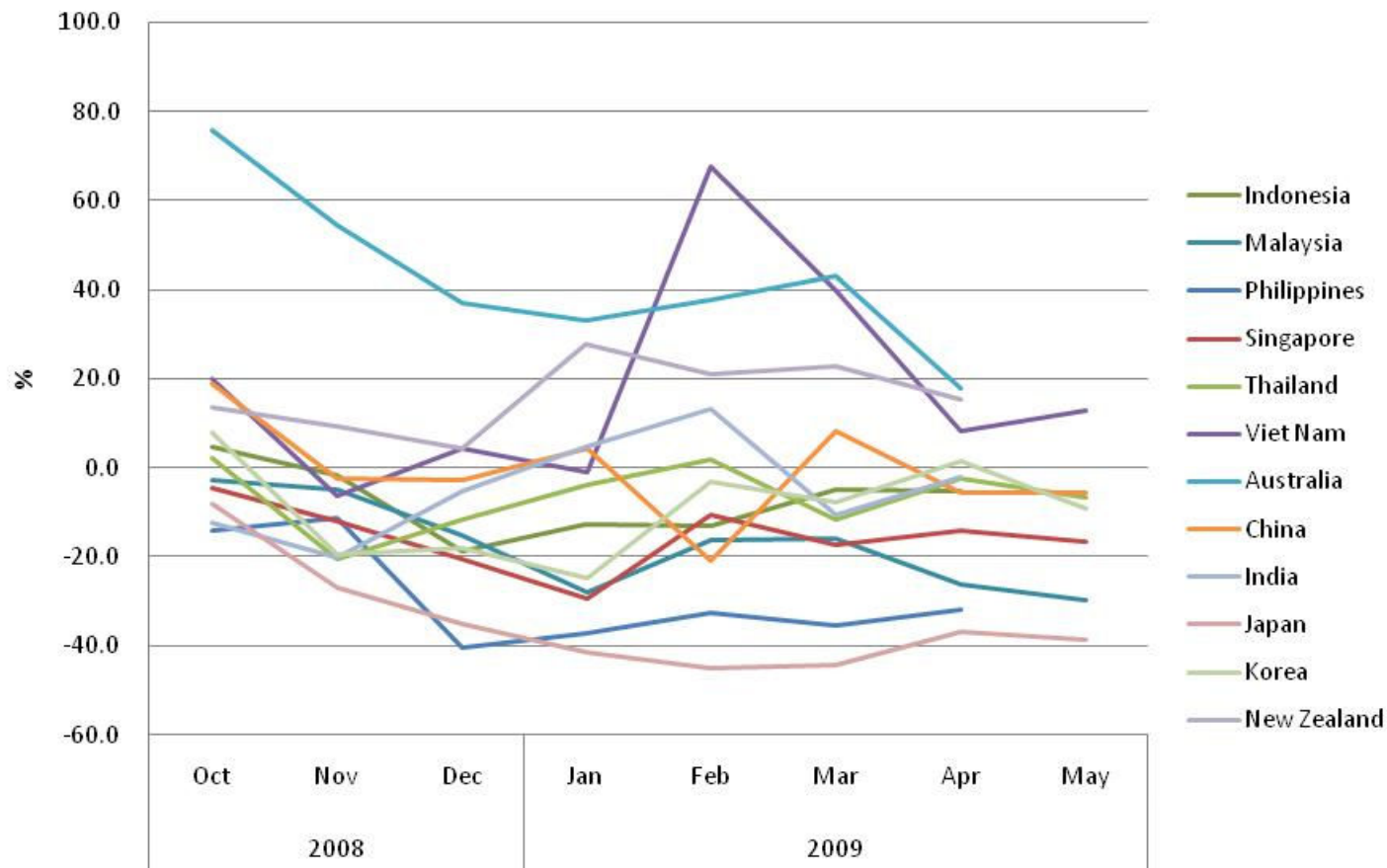


Note: Developing Asia includes China, India, ASEAN-5 and others.
 ASEAN-5 includes Indonesia, Malaysia, Philippines, Thailand and Viet Nam.
 Source: IMF, "World Economic Outlook" (July, 2009)

Decline in Exports Lead to Serious Impact

- Rapid decline in merchandise exports as main cause for such serious damage
- Especially on the manufacturing sector

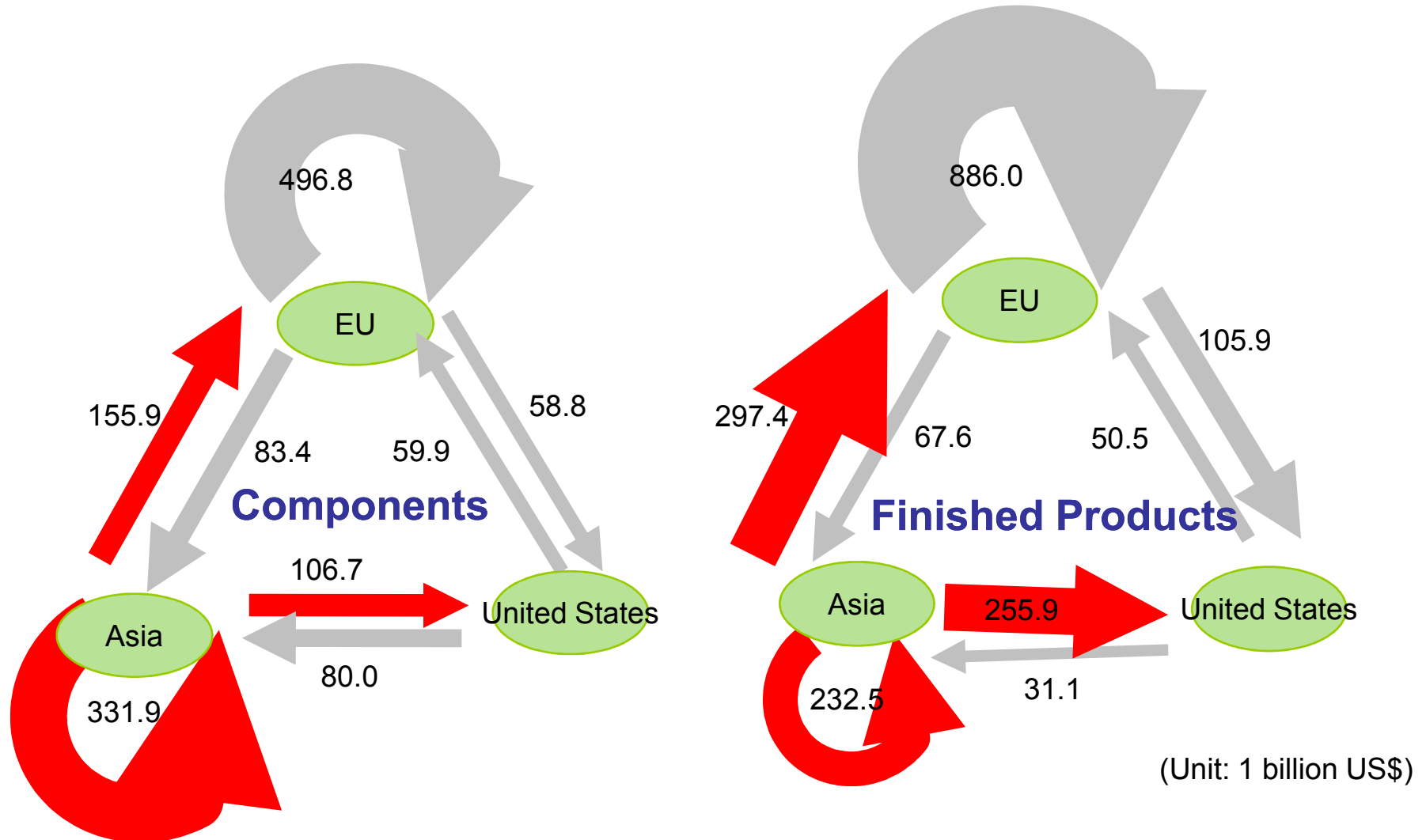
Growth Rate of Merchandise Exports



(source)Compiled from data based on IMF, "International Financial Statistics", CEIC Database, Bloomberg, Department of Statistics Malaysia

Risk Factors (1) ~ High Dependence on External Markets ~

- High dependence on external markets, especially final products shipped to US and Europe
- The intra-regional trade developed mainly by intermediate goods



Note: Asia consists of Japan, Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam, Cambodia, Brunei, India, Australia, New Zealand

Source: RIETI-TID2008 Research Institute of Economy, Trade and Industry (RIETI)

Risk Factors (2) ~ Concentration on Specific Sectors ~

- Concentration on a few specific sectors
- Whole regional economy easily affected by decline of external demand in those sectors

Industry Structure in East Asia by Value-added Terms (Manufacturing) (by ISIC classification Revision 3)

| | 1st | 2nd | 3rd |
|-------------------------------------|---|---|---|
| Cambodia (2000) | Wearing apparel, except fur apparel | Spinning, weaving and finishing of textiles | Processed meat,fish,fruit,vegetables,fats |
| | 44.8% | 34.2% | 5.8% |
| Indonesia (2003) | Tobacco products | Food Products (incl. processed meat, fish, fruits, vegetables, grain mill products, Other food products, beverages) | Chemicals (incl. basic chemicals and other chemicals) |
| | 12.0% | 11.0% | 10.2% |
| Lao PDR (1999) | Processed meat,fish,fruit,vegetables,fats | Wearing apparel, except fur apparel | Tobacco products |
| | 33.7% | 21.4% | 12.0% |
| Malaysia (2004) | Electronic valves/TV, radio transmitters, receivers and associated goods | Chemicals (incl. basic chemicals and other chemicals)/Man-made fibres | Refined petroleum products |
| | 18.7% | 11.9% | 11.7% |
| Myanmar ^{1), 2)} (2003) | Machinery (except electrical) | Transport equipment | Fabricated metal products |
| | 35.8% | 23.7% | 12.5% |
| Philippines (2003) | Food Products (incl. processed meat, fish, fruits, vegetables, grain mill products, Other food products, beverages) | Coke oven products/refined petroleum products | Electronic valves/TV, radio transmitters, receivers and associated goods |
| | 16.0% | 14.8% | 13.8% |
| Singapore (2004) | Basic Chemicals | Electronic valves/TV, radio transmitters, receivers and associated goods | Office, accounting and computing machinery |
| | 28.9% | 21.6% | 9.7% |
| Thailand (2000) | Electronic valves/TV, radio transmitters, receivers and associated goods | Textiles (spinning, weaving and finishing, textile fibre preparation, etc) | Food Products (incl. processed meat, fish, fruits, vegetables, grain mill products, Other food products, beverages) |
| | 9.6% | 7.7% | 6.9% |

Industry Structure in East Asia by Value-added Terms (cont.)

| | 1st | 2nd | 3rd |
|-----------------------------------|---|---|---|
| Viet Nam (2000) | Food Products (incl. processed meat, fish, fruits, vegetables, grain mill products, Other food products, beverages) | Non-metallic mineral products (incl. glass/glass products) | Apparel/dressing, dyeing of fur |
| | 25.0% | 10.6% | 8.7% |
| Australia ¹⁾ (2001) | Food Products (incl. processed meat, fish, fruits, vegetables, grain mill products, Other food products, beverages) | Basic Iron and Steel | Motor vehicles/automobile bodies (incl. trailers & semi-trailers), part/accessories |
| | 27.3% | 18.1% | 11.0% |
| China ²⁾ (2005) | Machinery electric | Industrial chemicals | Iron and steel |
| | 16.2% | 11.2% | 10.1% |
| India (2004) | Basic Iron and Steel /Basic precious and non-ferrous metals, casting of metals | Chemicals (incl. basic chemicals and other chemicals)/Man-made fibres | Coke oven products/refined petroleum products |
| | 19.0% | 16.6% | 11.4% |
| Japan (2004) | Motor vehicles/automobile bodies (incl. trailers & semi-trailers), part/accessories | Machinery (general, special)/domestic appliances | Chemicals (incl. basic chemicals and other chemicals)/Man-made fibres |
| | 12.2% | 11.5% | 11.2% |
| Korea (2005) | Electronic valves/TV, radio transmitters, receivers and associated goods | Motor vehicles/automobile bodies (incl. trailers & semi-trailers), part/accessories | Machinery (general, special)/domestic appliances |
| | 20.5% | 10.2% | 8.7% |
| New Zealand (2004) | Food Products (incl. processed meat, fish, fruits, vegetables, grain mill products, Other food products, beverages) | Struct.metal products;tanks;steam generators | Publishing |
| | 25.4% | 8.7% | 7.6% |

(note 1) For Australia and Myanmar, "Share in Manufacturing Industry" is not available and is calculated manually.

No industrial statistics available for Brunei

(note 2) For China and Myanmar, the ISIC of economic activities are based on Revision 2.

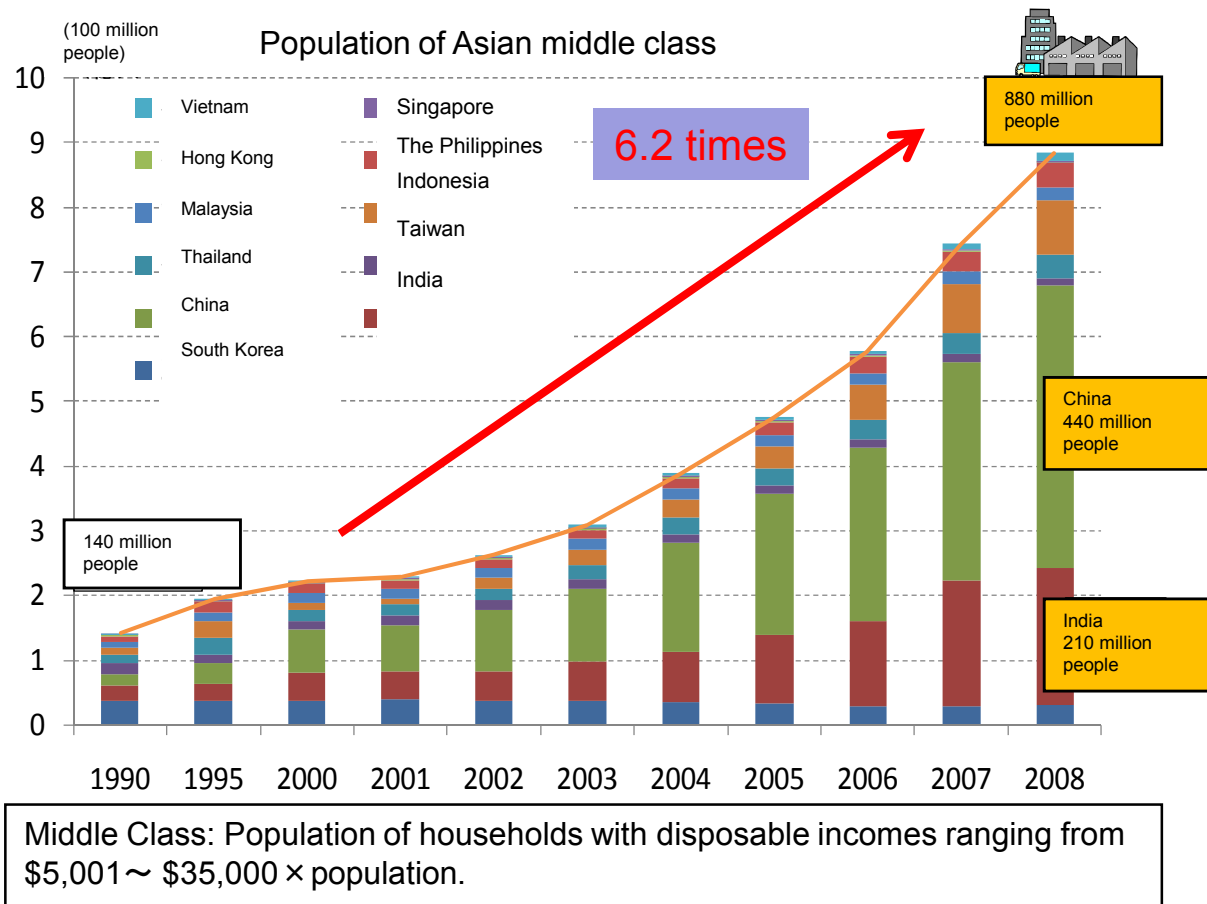
(Source) Industrial Statistics, UNIDO INDSTAT2009 Database

2. Transformation of Region's Economic Structure and Role of FTAs

- (1) Expanding Domestic Demand**
- (2) Enhancing Economic Efficiency (Upgrading Production Network)**
- (3) Developing Infrastructure (Hard & Soft)**
 - Deepening integration as well as narrowing gaps**

(1) Expanding Domestic Demand

- Short Term ~ Government expenditure and investment
- Potential for growing huge market (rising middle class)
 - ⇒ **Balanced Intra-Regional Trade and Stimulating Consumption through (Regional) FTA**
- Policies to encourage consumption (social safety net, etc.)



Source: Euromonitor International World Consumer Lifestyle Databook

(2) Enhancing Economic Efficiency (Upgrading Production Network)

◆ Strategic and Effective (Re)Allocation of Resources

- Response to demand/needs and competition situation in time
- Strategic new production location (Investment Strategy)
- Rational production specialization
(cf. eliminating duplication of concentrated sectors)

- Free Flow of goods, services, capital, and people for choice of location
Improving business environment
Facilitating Investment (liberalization and protection)

◆ Efficient Movement of Resources

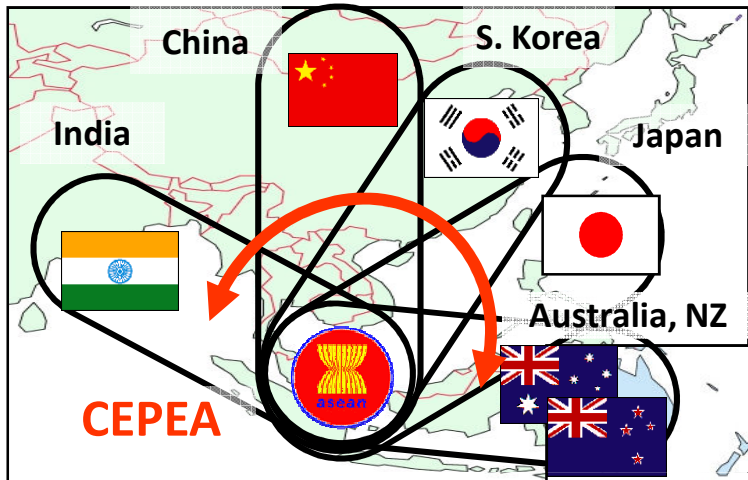
- Reduction of cost and time for movement of resources
- Elimination of obstacles and facilitation of efficient flow at and across the border

- Tariff liberalization
Trade facilitation (rule of origin, custom procedures, etc.)
*divergence among FTAs as burden
Movement of natural person

- ➡ Optimal Production Network and Enhanced Competitiveness of Region

(Ref.) Development of FTA Network in East Asia

ASEAN+1 FTA/EPAs



| | |
|----------------------------|---|
| China-ASEAN | -Jul. '05: took effect (goods) -Jul. '07: took effect (services) -Aug. '09: signed (investment) |
| S. Korea-ASEAN | -Jun. '07: took effect (goods) -May. '09: took effect (services) -Jun. '09: signed (investment) |
| Japan-ASEAN | -Dec. '08: took effect |
| Australia, NZ-ASEAN | -Feb. '09: signed |
| India-ASEAN | -Aug. '09: signed (goods) |

FTA/EPAs between dialogue partners

| | Japan | China | S.Korea | India | Australia | NZ |
|-----------|-------|-------|---------|-------|-----------|----|
| Japan | | | △ | △ | △ | |
| China | | | | | △ | ◎ |
| S.Korea | △ | | | ○ | △ | △ |
| India | △ | | ○ | | | △ |
| Australia | △ | △ | △ | | | ◎ |
| NZ | | ◎ | △ | △ | ◎ | |

◎:took effect
○:concluded, signed
△:under negotiation

(Ref.) FTA's Possible Contribution to Deepen Production Network

-AFTA

Process of changing export value to ASEAN10(1000US\$)[cars (1000cc ~ 1500cc:870322)]

| Country | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-------------|-------|--------|-------|-------|---------|---------|---------|---------|---------|
| Indonesia | 3,467 | 1,609 | 48 | 409 | 446 | 55,445 | 24,569 | 100,909 | 158,962 |
| Malaysia | 5,044 | 5,879 | 3,382 | 3,761 | 2,127 | 3,863 | 13,296 | 5,554 | 17,542 |
| Philippines | 0 | 0 | 0 | 0 | 15,884 | 0 | 0 | 0 | 0 |
| Singapore | 1,473 | 1,762 | 2,484 | 1,608 | 9,574 | 5,330 | 1,364 | 619 | 366 |
| Thailand | 4,606 | 12,846 | 7,366 | 1,048 | 239,329 | 528,404 | 394,831 | 350,532 | 413,621 |

Source: World Trade Atlas

Process of changing export value to ASEAN10(1000US\$)[cars (1500cc ~ 3000cc:870323)]

| Country | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|
| Indonesia | 2,405 | 1,483 | 1,285 | 7,379 | 26,521 | 54,113 | 128,480 | 63,207 | 57,275 |
| Malaysia | 4,249 | 5,194 | 4,005 | 3,487 | 2,518 | 9,804 | 8,650 | 8,468 | 25,096 |
| Philippines | 11 | 464 | 74 | 23,903 | 137,927 | 152,158 | 168,009 | 86,124 | 57,931 |
| Singapore | 12,953 | 22,940 | 32,492 | 33,194 | 60,244 | 58,444 | 54,471 | 43,677 | 37,331 |
| Thailand | 692 | 12,023 | 17,806 | 22,213 | 121,551 | 233,187 | 460,870 | 504,745 | 610,102 |

Source: World Trade Atlas

-Australia-Thailand FTA

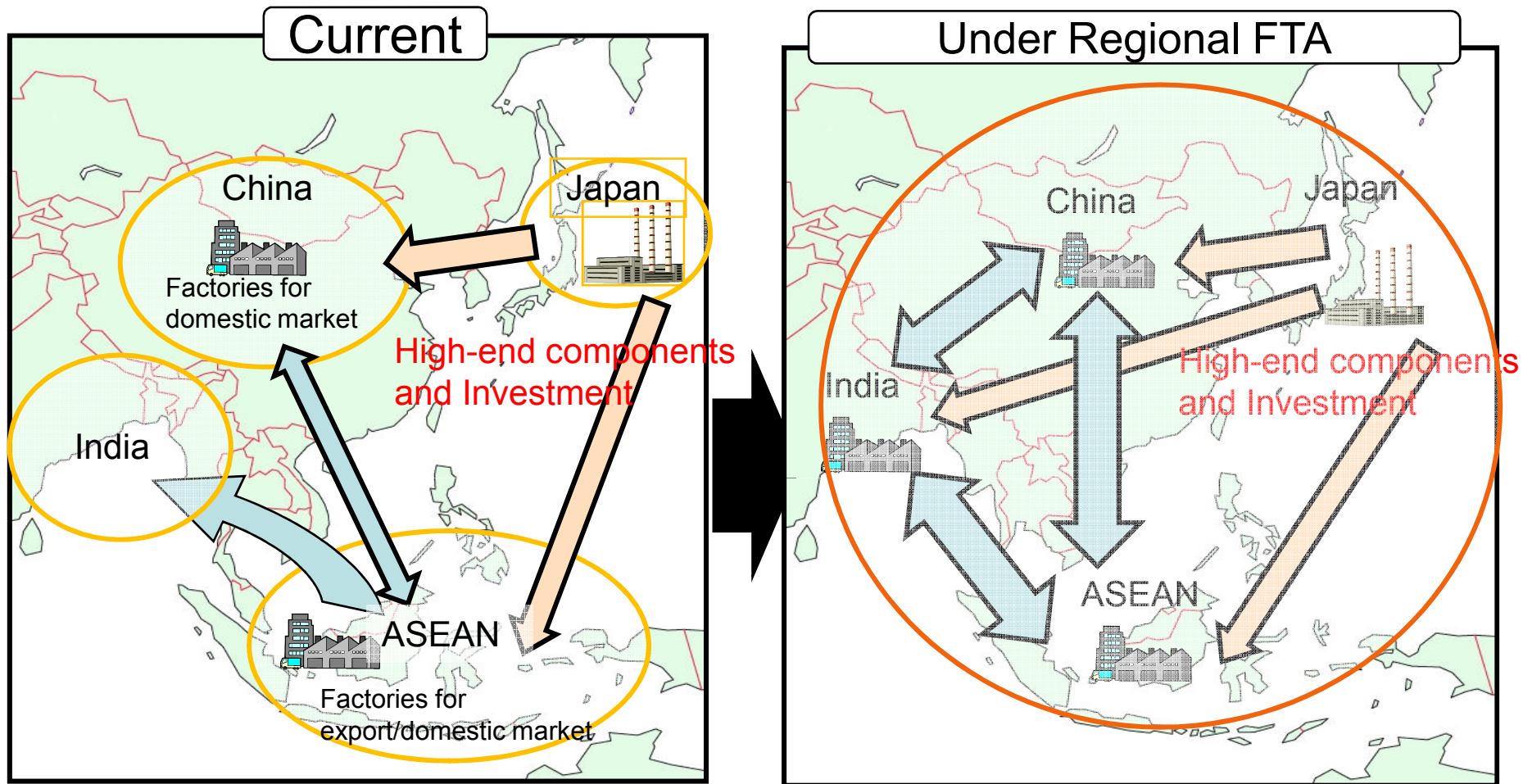
Australia Imports of Passenger Cars and Commercial Cars (Unit: million US\$, %)

| | | 2004 | 2005 | 2006 | 2007 | (Compare 2007 to 2004) | |
|-----------------|-------------------------|----------|-------|-------|--------|------------------------|-------|
| Passenger Cars | Total amount of Imports | 8,141 | 9,268 | 9,482 | 11,651 | | |
| | Share(%) | Japan | 58.9 | 55.1 | 49.6 | 45.3 | -13.6 |
| | | Thailand | 1.1 | 2.2 | 4.8 | 8.5 | 7.4 |
| Commercial Cars | Total amount of Imports | 2,556 | 3,040 | 3,343 | 4,596 | | |
| | Share(%) | Japan | 43.8 | 29.9 | 28.3 | 27.6 | -16.2 |
| | | Thailand | 25.3 | 38.1 | 32 | 36.3 | 10.9 |

(Source) Trade Statistics of Australia

*Effective Jan. 2005

(Ref.) Optimal Production Network with Regional FTA



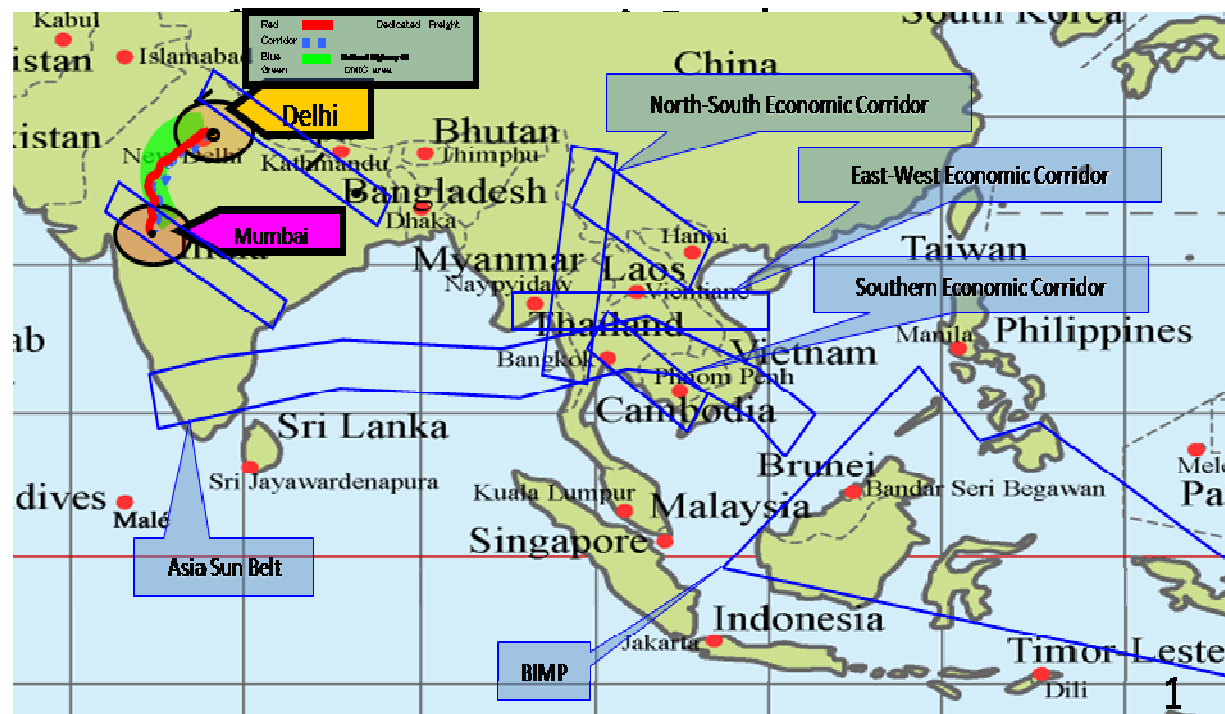
Benefits of Utilizing Regional FTA (allowing much more choices for creating production network)

1. Covering flow of goods and other resources for all direction
 - Liberalization with countries without bi-lateral FTAs
 - Intra-Regional cummulation for rules of origin
2. Convergence and Improvement of Business Environment
 - Harmonized systems and procedures, facilitation measures

(3) Developing Infrastructure

- Basis for industrial development and efficient production network
(energy, water, other supply, etc.) (transport, logistics, border, etc.)
- Narrowing gaps
- Physical infrastructure and soft infrastructures (procedures, human resources, etc.)
- Facilitation measures through (Regional) FTA
Cooperation

Sub-Regional Development Plans



Conclusion: FTA on and after the crisis

◆ FTA as a vehicle to transform economic structure of East Asia

- Increasing domestic demand and balanced intra-regional trade
- Upgrading Production network (strategic allocation and efficient movement of resources)
- Infrastructure Development
 - *Deepening integration and narrowing gaps

◆ Comprehensiveness (not only trade)

- Investment and improvement of business environment for resource allocation
- Facilitation
- Cooperation (Infrastructure development, etc.)

◆ Developing FTA network in East Asia

- Convergence (or harmonization) cf. Noodle Bowl
- Wider regional FTA

◆ Protectionism and FTA

- Possible effective measures to restrain moves from rising protectionism
- Open Regionalism and multi layered approach