



Redesigning East Asian Integration

Yukiko Fukagawa
Waseda University



After several years: Back to APEC?

- ASEAN+3: Remaining dilemma for regional integration
 - ① Centripetal vs. Centrifugal force
 - ② Sovereignty vs. Institutionalization
 - ③ Hub geopolitics

Momentum for the regionalism?

- No common threats after the financial crisis
- Diversified interests among +3
 - (1) Japan: Australia, India > China
 - (2) Korea: US, EU > East Asia
 - (3) China: Energy security > regionalism

After the 1st round of ASEAN+1.....

- Major constraints are confirmed.....
 - (1) China: Still under the enhancing rights?
 - (2) Korea: Institutional level and coverage?
 - (3) Japan: Agricultural protectionism forever?
- Bottom lines are.....
 - (1) Japan: Real merits for Japan's MNEs
 - (2) China: Capitalist status
 - (3) Korea: ROO in Kaeson products?

Economic dilemma



- Openness: Dependency on the U.S. market
- Remaining dollar regime but with macro disequilibrium
- China's real absorbing power?
- Competitive structure except Japan
- Japan's constraints in agriculture sector
- Korea's desire openness

Policy dilemma



- Basic conditions unchanged
 - (1) FDI-driven trade
 - (2) Tradition of “industrial policy”
 - (3) Competitive manufacturing vs. fragile financial system
- Sovereignty vs. Regionalism
 - (1) Less comprehensive FTA package (FTA>BIT)
 - (2) WTO consistency?: Reciprocity principle
 - (3) Cross-border industrial adjustment?

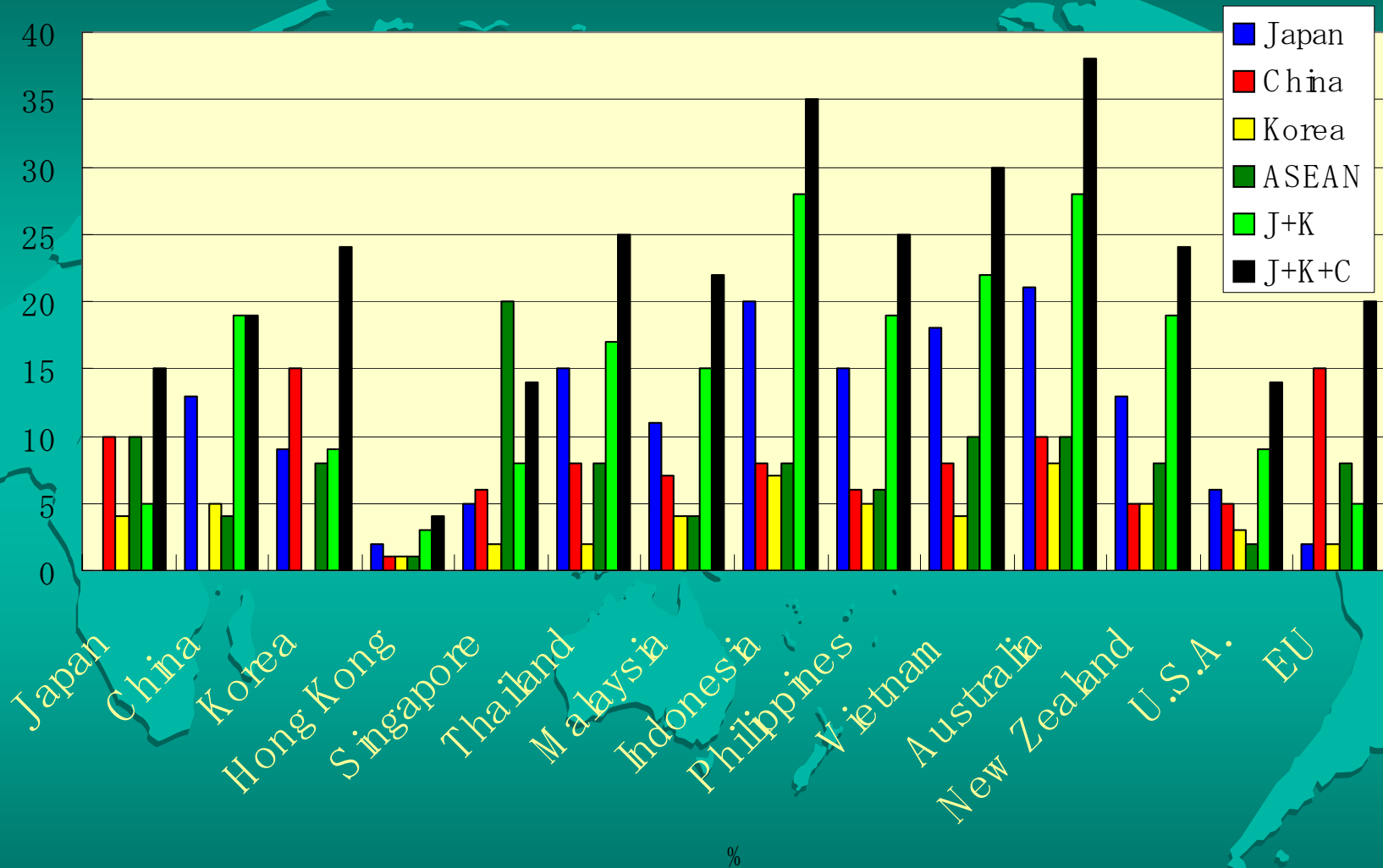
Geopolitical dilemma

- China: Political will + Weak institutional capacity → “Business oriented FTA” “Flexibility”
- Japan: Less political will + Institutional capacity → “Rule based FTA” “Transparency”
- Double hubs for different FTAs with the others → Diverging FTA with the other members (ex. Thailand) → “Insurance” seeking incentives for openness (ex. Korea)

Diverging FTAs (1)

- Regional integration without a hub
- FTA with enhancing rights
(ex. China-ASEAN FTA: great liberalization but with enhancing rights?)
- Intra-regional FTAs synchronizing Inter-regional FTAs
(ex. Korea: U.S., EU, Canada, India, Mexico, Mercosur....
Thailand: Australia, U.S., India, Peru.....)

Figure Hub-ness in East Asia



Diverging FTAs (2): Coverage

- Different level of liberalization: Investment and service
- No commitment for national treatment
- Competition policy coordination with China?
- Low level of IPR protection
- Trade facilitation at what level?

Diverging FTA coverage

	Tariff	Investment		List	Performance c	Service		Facilitator	Disputes	MRA	PR	Comp	Persons
		N. treatment	ex post			List	N. treatment	cross-border					
NAFTA	○	ON	○	ON	TRMS+	ON	○	○	○	○	TRPS+	○	○
J-Mexico	○	ON	○	ON	TRMS+	ON	○	×	○	○	○	○	○
J-Singapore	○	ON	○	ON	TRMS+	OP	○	×	○	○	○	△	○
J-Thailand	○	ON	○	ON	TRMS+	ON	○	×	○	○	△	△	○
J-Malaysia	○	ON	○	ON	TRMS+	ON	○	×	○	○	△	△	○
J-Philippines	○	ON	○	ON	TRMS+	ON	×	×	○	○	△	△	○
K-Singapore	○	○	○	ON	TRMS+	OP	○	△	○	○	○	△	○
K-Chile	○	○	○	ON	TRMS+	ON	○	○	○	○	○	○	△
Aust-Thailand	○	○	○	ON	△	ON	○	×	○	○	△	○	○
Aust-USA	○	ON	○	ON	TRMS+	ON	○	○	○	△**	○	TRPS+	○
AFTA	○	OP	○	○	×	OP	○	×	○	△**	△	×	△
ACFTA	○	×	×	×	×	×	×	×	○	△**	×	×	△*
CARCOM	○	OP	×	×	×	ON	×	×	○	○	×	×	×
MERCOSUR	○	ON	○	×	○	OP	○	×	○	○	×	×	×
COMESA	○	OP	×	×	×	OP	○	×	○	○	×	×	×

Note: * Market economy status by China

** Investor-State relations c.bse

○ Explicit, △: Less explicit commitment, × no commitment

ON: Negative list, OP Positive list, OS Stand-still only

Source: World Bank (2005)

Diverging FTAs (3): rule of origin

(1)

- Major ROOs

- ① **PANEURO**: Generous intra-regional rules with de minimis, roll-up, cumulation/ Strict inter-regional rules with change in heading number, alternative close, MC standard...)
- ② **PANAMERICA**: Rigorous and complicated rules with change in heading number in combination of 2 digits and 4 digits, Divergent value-added standard, bilateral cumulation....
- ③ **PANASIA?** : Generous and simple rules with 40% of value-added only, full cumulation, RCV standard....

Diverging FTAs (3): rule of origin(2)

- Proof of roo

① License by authorities : ROO by exporters + Examination by importers (preventing de-tour export, complication)

→ Japan, S-Australia, ASEAN

② Self declaration: Report by producer/exporters (Potential false report, simplicity)

→ Korea-Chile, Singapore-EFTA, Japan-Switzerland??

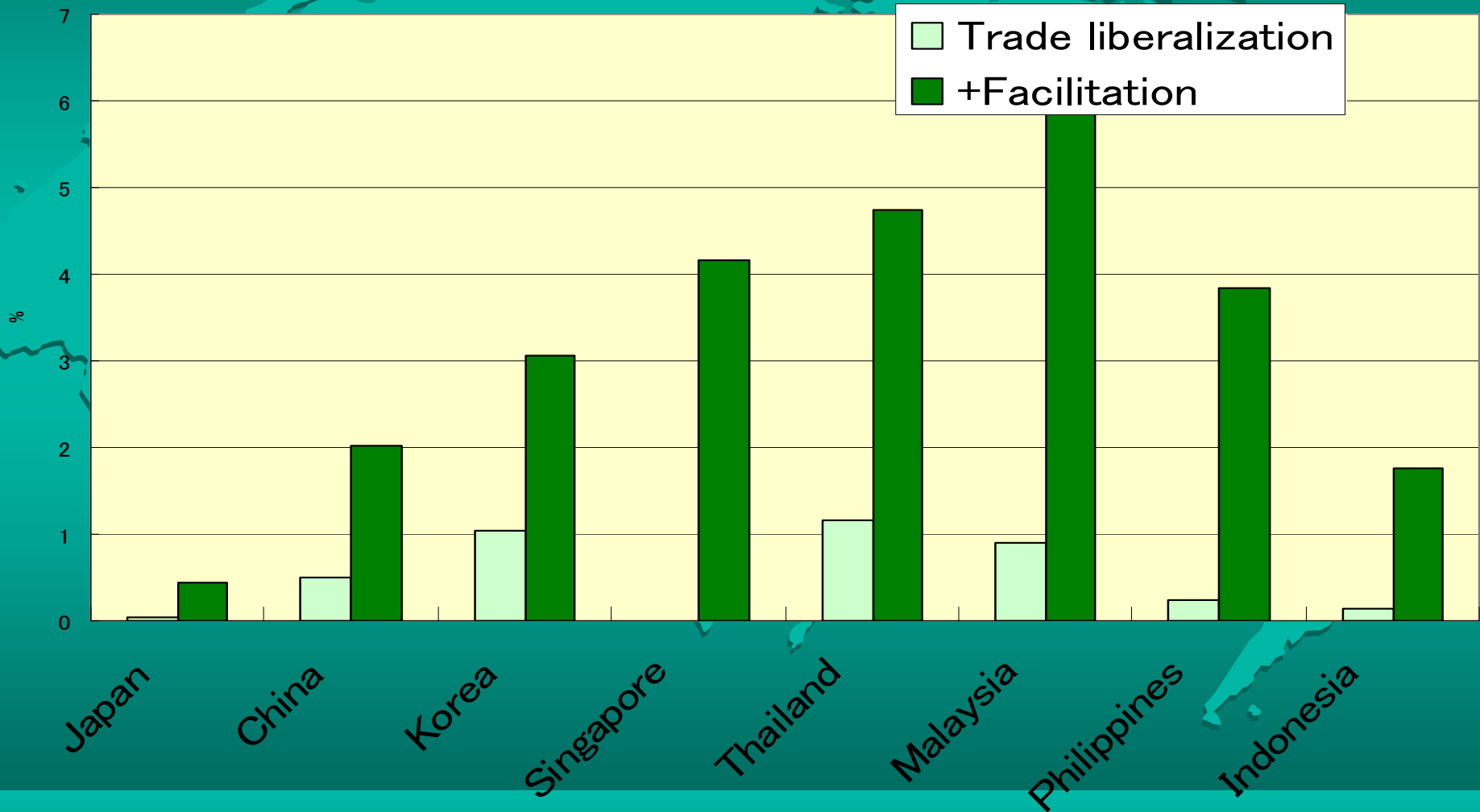
Potentially high const of ROO

- Administration cost
Koskinen(1983) : Finland's case of EC-EFTA(
1.4-5.7% of export)
- Virtual protection effect?
Krueger (1985) : Canada's loss in NAFTA
Fukagawa (2001): Approximately 2% of
Japan's export gain in Japan-Korea FTA

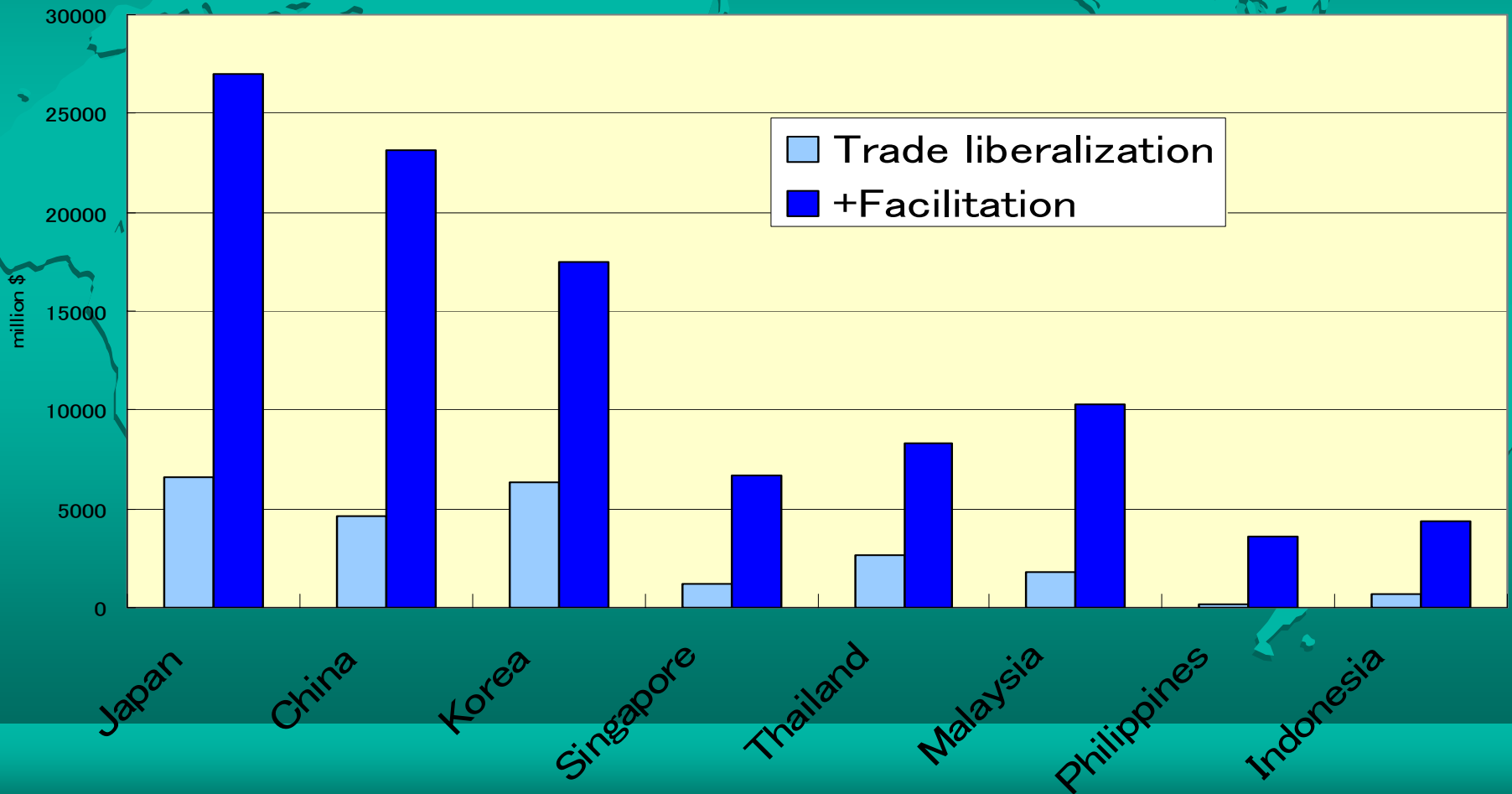
Dual track approach for the regionalism

- WTO-consistent FTAs
- FTA-complementary cooperation
 - (1) ROO coordination and trade facilitation
 - (2) BIT beyond TRIMs
 - (3) Strategic liberalization in services
 - (4) Standardization and MRA
 - (5) Financial cooperation in settlement

Great Impact of trade facilitation on GDP



Great Impact of trade facilitation on economic welfare



Asia Gate Way: Japan's New Approach

- Strategic partnership with China
- Positive response by the U.S.
- Practical merits > Exhausting politics
- The Concept of “Asia Gate Way”
- Seamless Asia ①: Logistics Initiatives
- Seamless Asia ②: Tokyo Financial Market
- Seamless Asia ③: Internationalizing the domestic industries

Seamless Asia : Custom Clearance

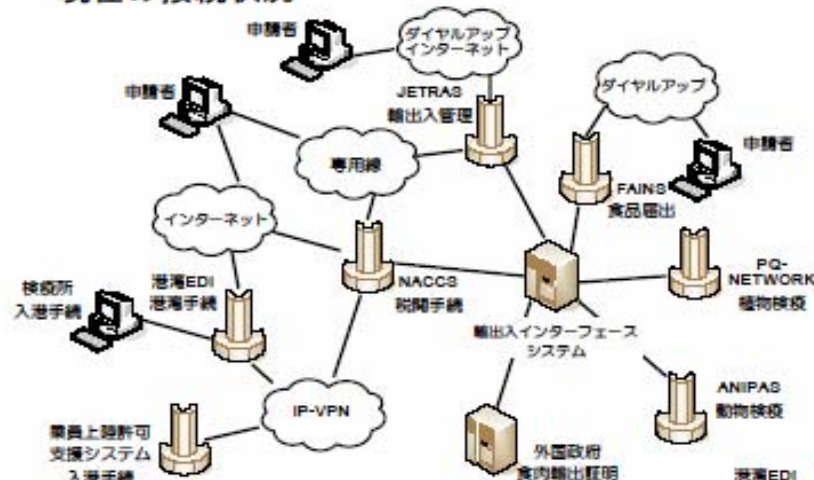


- Next generation of “Single Window” system
- Japan’s version of C-TPAT (*Custom–Trade Partnership Against Terrorism*, Compliance program, conversion of the programs), AEO (*Authorized Economic Operators*)
- Standardization of the procedures

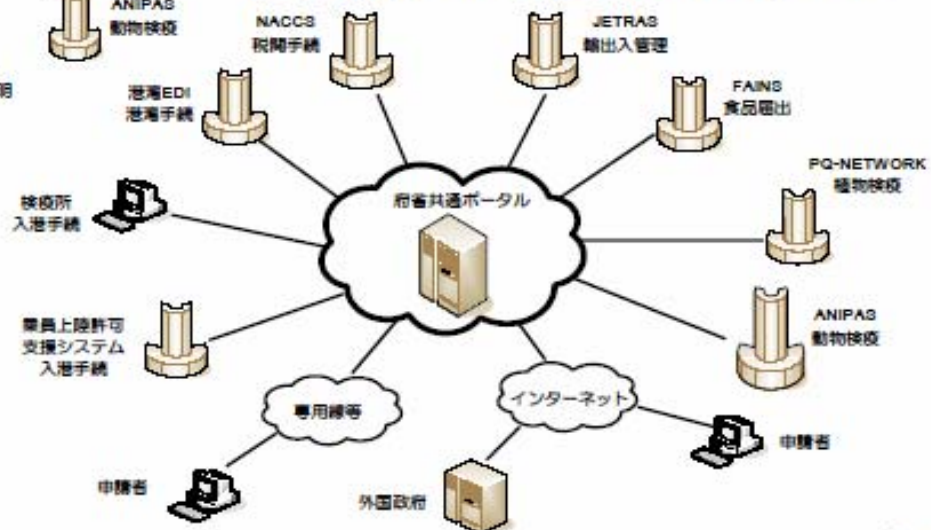
Seamless Asia : System integration

次世代シングルウィンドウイメージ図

現在の接続状況



将来の接続状況(次世代シングルウィンドウ)



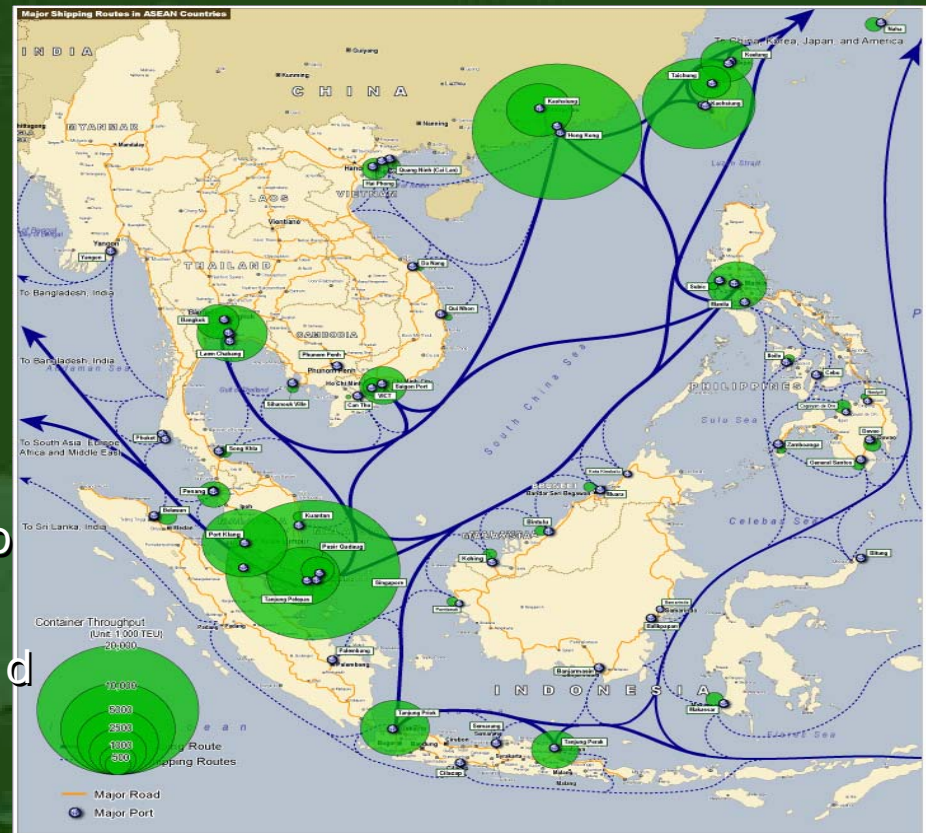
Seamless Asia : ASEAN Logistics Initiative

The Study on Cross border Trade Facilitation for ASEAN Countries - Development of the ASEAN LOGISTICS NETWORK MAP -

Port Information (Operation Data)

Port-wise Data (Operation)

- Container Throughput
- Cargo Handling Volume
- Major Shipping Route
- Lead-time from/to Other Ports
- Transportation Cost from/to Other Ports
- Connectivity to Road, Inland Waterway and Railway



Seamless Asia : ASEAN Logistics Initiative(2)

The Study on Cross-border Trade Facilitation for ASEAN Countries - Development of the ASEAN LOGISTICS NETWORK MAP -

Software Infrastructure of Logistics

Logistics related Rules and Regulation

1. Special Traffic Control in Urban Area
2. Introduction of EDI (Electronic Data Interchange)
3. Introduction of Bar Code
4. Export/Import Declaration Documents
5. Standard Hours of Customs Clearance
6. Rules on Records of Origin
7. Laws and Standards on Logistics
8. Licenses Approvals on Logistics Service

Logistics Education and Service

1. Training Course on Logistics and SCM
2. University Offering Logistics Course
3. Qualification on Logistics and Related Service
4. Major Logistics Consultants
5. Major Logistics Service Provider

Seamless Asia:Enhancing Tokyo Market

- Goal : Gate Way for domestic assets + Capital allocation of firms (non London type)
- Better usability : Regulation and tax system, Supervisory system, Dispute solution, Electronic platform, Airport innovation
- Professionals: Law, Accounting, Auditing, Pension management, Analyst, System operation
- Government-Private exchange
- Financial products

Seamless Asia: Enhancing the Financial Platform

- Mitigating the risks①: Regional integration (Surveillance, “Asia clear”, Bond guarantee)
- Mitigating the risks②: Information gathering (International accounting, English information opening, Hiring locals)
- Mitigating the risks③: Depository Receipts and other allocation system、Insurance, Global Counting Management)



Conclusion:

Dual track approach among +3

- Functional cooperation should lead and enhance the market-driven integration
- Institutional conversion of +1 FTAs
- Break through in Japan-Korea FTA
- Institutional conversion of China-Korea
- ASEAN way as the heritage: Pragmatism, Gradualism, and Tolerance