



CJK FTA in Asian Economic Integration 2.0

FUKAGAWA Yukiko

Visiting Fellow, Center for Development Studies/Faculty of Asian and Middle Eastern Studies, Cambridge University

Outline

- ▶ CJK FTA is so behind, why?
- ▶ Diversion > Conversion
- ▶ Regional integration 2.0
- ▶ Resetting CJK: the agenda
- ▶ Conclusion

CJK FTA Behind:

- ▶ Lack of Political will?
- ▶ Lacking in motivation (1): Big enough
- ▶ Lacking in motivation (2): Common goal? ≠ ASEAN hosting FDI
- ▶ Lacking in motivation (3): Sense of rising competition, Industrial adjustment costs

Diverging interests

- ▶ Competitive liberalization
- ▶ Diverging interests:
 - Japan: FDI network/ Intra-firm Trade
 - ☞ EPA ≠ FTA (TPP: 21 sections), Pluri pacts
 - Korea: Market size, "FTA hub"
 - ☞ FTA+EPA, Bilateral Approach
 - China: Resource security, Trade friction
 - ☞ Resource rich partners, Market economy status under WTO

Diverging FTAs among Japan, Korea and China (2): Concession level

- ▶ Japan, Korea: Quicker tariff lift (70-80%) vs. China (30-40%)
- ▶ ACFTA under enhancing right
 - Tariff reduction, not tariff lift
 - Mutualism in Sensitive items
- ▶ Japan's agro-protectionism: Long exclusion lists, Non ad valorem items

Diverging FTAs among Japan, Korea and China (3): Service sector

- ▶ Smallest reservation by Japan (Positive list), and Smaller by Korea (Negative list) vs. China (Positive lists)
- Reserved measures in services:
 - China outstands in Business and Trade
 - Korea in Social/Personal and Telecom
 - Japan in Business and Construction
- ▶ Behind the border rules and regulations
- ▶ Slow deregulations on natural persons

Table 4. Reservation levels of FTAs on Service by Japan, Korea, China (LUNCP code6 digit)

	K-Singapore	K-USA	C-NZ	C-ASEAN	J-Singapore	J-Thailand
Mode	Negative	Negative	Positive	Positive	Positive	Positive
Items	180-100	246-262	296-313	541	189	175
Share(%)	26.7-14.8	28.44-28.81	59.00-46.00	80.61	28.00	25.92

Note: From present reservation - future reservation
Source: Same as Table 2.

Table 5. Major categories for present reservation in FTAs (LUNCP code6 digit)

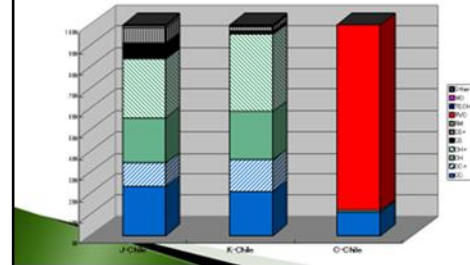
	K-Singapore	K-ASEAN	K-USA	C-ASEAN	C-NZ	J-Singapore	J-Thailand
Construction	54	54	54	35	35	35	35
Trade service	4	9	33	132	71	9	2
Transportation, Telecom	20	42	48	81	69	39	31
Business service	72	82	85	181	122	67	53
Social/Personal service	29	32	28	112	69	39	54

Source: Same as Table 2.

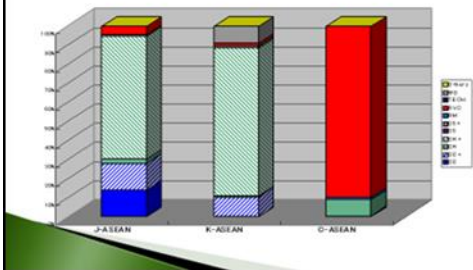
Diverging FTAs among Japan, Korea and China (4): Rule of Origin

- China: Simplest RoO by dominating RVC by 40% in ACFTA, CC and CH based rules+
 - Korea: Different RoO by counterparts (NAFTA and EU system), tendency for CC+, CH+
 - Japan: Consistent RoO policy based on CC and CH
- Converging trend with OECD members

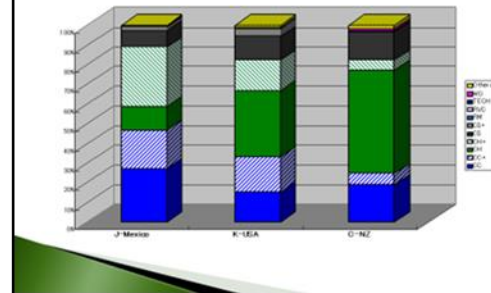
RoO with Chile



RoO with ASEAN



RoO with OECD members



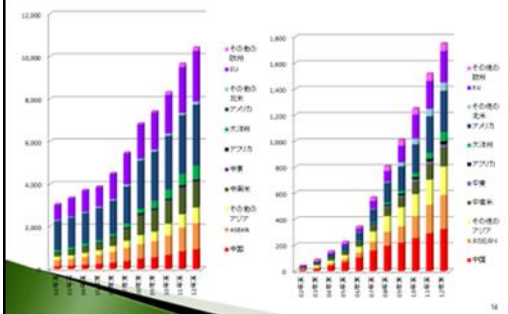
Post 2008 and the CJK economies (2)

- J, K: Different paths from the global shock
 - J: Appreciation of ¥ K: Won crisis
 - ⇒ J: FDI driven trade/ M&A, Upstream
 - ⇒ K: Export led recovery, Middle stream
- China: Mega policy packages
 - ⇒ Side effects ⇒ Structural reforms
 - ⇒ State enterprises > Private > SMEs
 - ⇒ Wage hikes ⇒ Consumption-led growth?
 - ⇒ From down to middle stream?

Post 2008 and the CJK economies

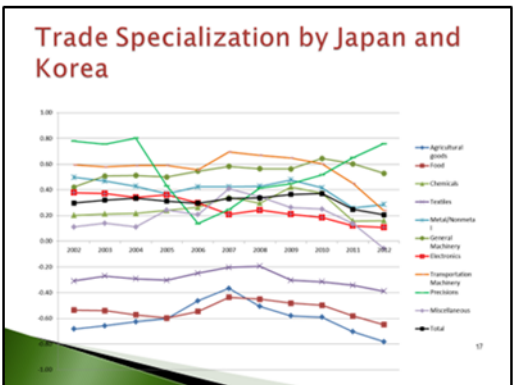
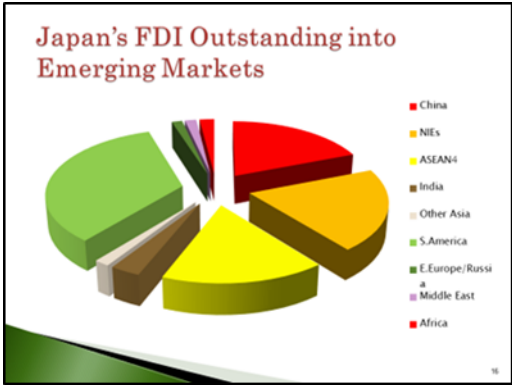
- Different response towards China:
 - J: FDI (services) , Export substitution
 - K: FDI and Export drive (manufacturing)
 - ⇒ Soared dependence by K
 - ⇒ From vertical to horizontal division of labor
 - ⇒ K for more upstream (ex. Devices)
 - ⇒ C for more middle stream (ex. LCD)
- Stagnant innovation and productivity (CJK)
 - ⇒ More opened market, more NTMs, arbitrary regulation/ standard changes, SPS inspection

FDI stock: Japan vs. Korea (100million \$)



Japan's FDI Outstanding Portfolio (World, 2012)





Export Share of Electronics/ Intermediate goods by Japan and Korea (METI (2012))

Destination	2000		2010	
	Market Share (%)	Assigned Share (%)	Market Share (%)	Assigned Share (%)
USA	10.0	10.0	10.0	10.0
China	1.0	1.0	1.0	1.0
India	0.5	0.5	0.5	0.5
ASEAN4	1.0	1.0	1.0	1.0
Other Asia	1.0	1.0	1.0	1.0
S. America	1.0	1.0	1.0	1.0
E. Europe/Russia	1.0	1.0	1.0	1.0
Middle East	1.0	1.0	1.0	1.0
Africa	1.0	1.0	1.0	1.0

New questions : FTA is not a magic!

- Japan: Outsourcing vs. Domestic production (Reform in location advantage) FTA to push reform? (Gaiatsu)?, TPP leverage, TPP-RCEP hinge
- China: End of Export/Investment driven growth, Job creation/ Service/ SME as strategic interests?
- Korea: End of Hub strategy? (Merit of Pluri negotiation, Japan-US-EU FTA converge?)

Regional integration 2.0 in East Asia

- Simultaneous negotiations: AEC, RCEP, TPP CJK and WTO (Pluri-lateral approach)
- Beyond "Competitive Liberalization" by bi-lateral FTAs (Intra-regional trade > Inter-regional trade)
- Bi-lateral+ Regional + Global (Pluri-lateral approach)
- From FTA to EPA packages
- Evolving tradition of cooperation: Connectivity

Agenda: RCEP

- Conversion?: J/ANZ (EPA) vs. C/K (FTA+BIT+ITSA)
- Concession level: Beyond "Mutualism" in ACFTA
- Setting up common tariffs?
- Conversing RoO, Promoting SC
- Liberalization + Cooperation? (Connectivities)
- Pushing up late comers (Myanmar)
- Making India productive participant

Agenda: WTO and Pluri-lateral approach

- May prevent "Noodle bowl effects" of FTA/EPA
- May enhance functionalism: ex. Japan-Korea in ITA+, TISA without EPA
- Institutional sustainability? (ex. ACTA ratification)
- Consistency with WTO principles, Ad hoc agenda settings
- No disadvantages for late comers?

Implication for CJK FTA (1)

- Market realities matters: Careful studies on IIT find cooperation seeds
- Institutions for industrial adjustment, Fair trade policy, Market economy status for China
- WTO-consistent FTA and political capacity
- Behind-the-border issues: Standards and MRA, SPS, IPR, Environment....

Implication for CJK FTA (2)

- ▶ Internal politics matters: Market cannot save the politics
- J: Gap in economy and political vested interests
- K: Economic democratization?
- C: Industrial adjustment and political reform
- ▶ FTA coordinated with the new growth strategies
- J: Deregulations
- K: Innovation
- C: Productivity

Where to cooperate?

- (1) Trade: Modality including sensitive sectors, Conversion of ASEAN+1 (ROO), Facilitation
 - ☞ Depoliticize the negotiation process
 - ☞ Let the market to lead (ex. Logistics?)
 - ☞ Focus on investor protection (ISDS? Upgrading BIT....)
- (2) Cooperation strategy: Making the accumulation effects work, Sharing interests
 - ☞ Service/ SME/ Medical care...
 - ☞ Local to Local
 - ☞ Deregulation, Competition policy, Standards

Where to cooperate (2)

- (3) Macro economic dialogue
 - ☞ Stop currency war type of ideas
 - ☞ Reducing financial risks: Settlements, Crisis prevention
- (4) Movement of persons: Professionals
 - ☞ Networks for Accountability (ex. IPR protection, SPS, Environment...)
 - ☞ Finding complementarity

Resetting Agenda for CJK

- ▶ What for? : The real, common incentives for integration?
- ▶ Time commitment: Never shared visions and prospects without sense of time
- ▶ Too much sovereignty: Market-led integration constraints / FTA as the policy tool, not the goal
- ▶ Strategic common: Aging, Jobs, Financial reform...
- ▶ Geopolitics: Taiwan, North Korea

Conclusion

- ▶ Diverging CJK interests
- ▶ Economic integration 2.0: Complementing AEC, RCEP, TPP
- ▶ CJK initiatives?
- ▶ Finding strategic common goal/ Time Commitment
- ▶ Agenda: Adjusting capacity, Growth strategy, Service/ IPR, New functionalism, Geopolitics