



FTA Networking in East Asia and Asia-Pacific: Where Are We Going?

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Abstract

This paper provides an overview on the recent development of FTA networking in extended East Asia and assesses the quality of FTAs with novel information on the utilization of FTAs, rules of origin, WTO plus elements, and others. It finds that East Asian FTA networking has been an effective driving force of promoting freer trade and investment, particularly through further activating international production networks. The paper also provides an overview of recent explosive increases in intra-regional and inter-regional exports by East Asia, which suggests the possibility of evaluation of FTA networking in a wider scope. The paper concludes that East Asia and Asia-Pacific may become a focal point of the model formation of “the 21st century regionalism.”

Key words: regionalism, free trade agreements, rules of origin, the World Trade Organization, political economy of trade policies

JEL classification: F13, F15

1. Introduction

The year 2010 became an epoch-making year. Both ASEAN-Australia-New Zealand Free Trade Area and ASEAN-India Trade in Goods Agreement became effective, which marked the completion of ASEAN+1 FTA networking in extended East Asia including ASEAN10+6. The next step of East Asian economic integration must surely be accompanied with FTAs among Japan, Korea, and China, which is likely to take time for a while. On the other hand, FTA networking in Asia-Pacific became active with a commencement of negotiations over Trans-Pacific Strategic Economic Partnership Agreement (TPP), which triggered competition among regional frameworks.

Economists' views on overlapping bilateral FTAs have recently changed drastically. In the past, the complication due to overlapping bilateral FTAs was emphasized as a major shortfall of regionalism, and the necessity of FTA consolidation was strongly claimed. However, a number of recent empirical evidences suggest that the complexity of trade regime may not necessarily deter international trade, and the effect of promoting trade liberalization by the sequence of FTA negotiations starts being rather appreciated. FTA networking in an open setting may now link to a new wave of regionalism, and "multilateralizing regionalism" (Baldwin (2006)) is not regarded as impossible dream anymore.

FTAs in East Asia are more practical and pragmatic than those in other parts of the world. There exists a strong background in *de facto* economic integration, namely the unprecedented development of international production networks. The FTA networking in East Asia could be a predecessor of the new wave of regionalism with new development strategies. In addition, TPP would also possibly provide another novel flavor of new international economic order once it would be realized.

This paper tries to assess the accomplishment of FTA networking along the line of possible formation of the 21st century regionalism. It first provides an overview on the current status of FTA networking in East Asia and Asia-Pacific. Then it reviews the existing evaluation of FTA networking from a practical viewpoint. After that, a sketchy observation on

recent international trade data is presented in order to set up a possible new approach of evaluating FTA networking with a wider scope. Concluding remarks follow.

2. Current status of FTA networking in extended East Asia and Asia-Pacific

FTA networking in extended East Asia, i.e., ASEAN+6, is a relatively recent phenomenon. Table 1 presents the evolution of FTA networking in this region, showing the years of FTA conclusion as well as those when the FTAs became effective. Although the contents of these FTAs widely vary, the hub-and-spoke system of FTAs centered by ASEAN is now completed; six countries, i.e., Japan, Korea, China, India, Australia, and New Zealand, are connected with ASEAN by FTAs.

==Table 1==

ASEAN has taken a lead in the process by trying to stay in the driver's seat of East Asian economic integration. ASEAN concluded ASEAN Free Trade Area (AFTA) in 1992 and accelerated trade liberalization after the Asian currency crisis in the latter half of the 1990s. Tariff removals among six original members will be completed in January 2010 with very few exceptions. ASEAN now seeks deeper economic integration under the initiative of ASEAN Economic Community (AEC).

A big gap is the lack of FTAs among Japan, Korea, and China though we do not see any sign for immediately initiating FTA negotiations. Both EAFTA ("East Asian Free Trade Area" consisting of ASEAN+3) and CEPEA ("Comprehensive Economic Partnership in East Asia" including ASEAN+6) study groups submitted their final reports to their Economic Ministers Meetings in August 2009, which decided to upgrade these initiatives to track 1 (G-to-G level). However, the timing of initiating formal negotiations was not specified. The enthusiasm of consolidating overlapping FTAs is now obviously weakened at least temporarily, and the current hub-and-spoke system is likely to be sustained at least in the coming few years.

Asia-Pacific, partially overlapped with extended East Asia, is also an active region of FTA networking. Figure 1 shows the proposed plurilateral FTAs in East Asia and Asia-Pacific. In the recent APEC (Asia-Pacific Economic Cooperation) meetings, US-proposed FTAAP (APEC-wide FTA) has been on agenda. In addition, the TPP initiative was initiated by P4 countries (Brunei, Chile, New Zealand, and Singapore; an FTA among them was being effective in 2006), and the Obama Administration in the US announced (confirmed) to participate in the negotiation in November 2009. The TPP negotiations, currently involving Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the US, and Vietnam, have had three meetings in March-October 2010, setting up 24 working groups with wide coverage of topics. President Obama presented the US's intention to conclude TPP by the APEC Summit held in Hawaii in November 2011.

==Figure 1==

The feasibility of TPP is not certain at this moment. However, at least, developed countries in negotiations seem to be ready to form a consensus on high-level tariff removal and step forward other policy modes. Figure 2 presents a current status of FTA networking among nine APEC countries; they include seven OECD (Organisation for Economic Co-operation and Development) countries, Singapore, and Chile. Out of 36 bilateral combinations, 20 pairs are connected by FTAs, and 9 pairs are negotiating over FTAs.

==Figure 2==

Table 2 presents the progress of Japanese negotiations over FTAs. As of November 2010, eleven FTAs have been concluded and entered into force, which cover seven individual ASEAN countries, ASEAN as a whole, two Latin American countries, and Switzerland. Negotiations are going on with GCC, India, Australia, and Peru. Negotiation with Korea has been

suspended since November 2004. The completion of FTA networking with ASEAN countries in a short period was a notable accomplishment. However, further extended FTA strategies in Asia-Pacific are in serious difficulty because of agricultural protection; with keeping the current level of protection, there is no hope of concluding FTAs with major countries such as Australia, the US, and Canada.

==Table 2==

3. The evaluation of FTA networking in extended East Asia¹

Let us now examine and evaluate the contents of FTAs in extended East Asia. First, we will review the background of FTA networking in the region, particularly from the historical viewpoint of the interaction between *de facto* and *de jure* economic integration. We will then assess various aspects of the liberalization of trade in goods and other policy modes. At the end, the interpretation in the context of political economy will be presented.

(1) *De facto* and *de jure* economic integration in East Asia

In East Asia, *de facto* economic integration head-started before *de jure* economic integration. The most significant event on the side of *de facto* economic integration was the formation of international production networks from the beginning of the 1990s. Although cross-border production sharing and off-shoring/outsourcing to less developed countries (LDCs) are observed in the US-Mexico nexus, the Western-Eastern Europe, and other regions, international production networks in East Asia are distinctive in (i) their significance for each economy in the region, (ii) their extensiveness in covering many countries and regions at the same time, and (iii) their sophistication in combining various types of intra-firm and arm's length (i.e., inter-firm) transactions.²

¹ This section is an updated version of a section in Kimura (2010).

² As for the characteristics of East Asian production networks and the

The formation of international production networks was backed up by rich series of piecemeal policy reform. In the mid-1980s, Thailand and Malaysia during a recession made a significant step of policy changes for inward foreign direct investment (FDI). Other ASEAN countries followed them with several-year time lags. In order to attract FDI, these countries openly listened to various complaints and requests raised by multinationals for trouble-shooting and accumulated piecemeal investment liberalization and facilitation. In addition, the initiative of information technology agreements (ITA) supported by APEC and WTO realized free trade in semiconductor-related electronic parts and components in the latter half of the 1990s. Note that these policy reforms were not based on regionalism but primarily on unilateral liberalization. AFTA was concluded in 1992 but provided a mere advertisement effect in attracting FDI in order to compete with China emerging as a strong FDI attractor. The actual trade liberalization based on AFTA was minimal until the end of the 1990s.

Regionalism in East Asia went up to a center stage after the Asian currency crisis. ASEAN started to make a collective effort to keep incoming FDI by accelerating its integration process and to incorporate latecomers in ASEAN. East Asia as a whole acted together to establish an anti-crisis vehicle in international financial cooperation and ended up with the establishment of the Chiang Mai Initiative. The effort of forming FTAs was launched by a Japan-Korea talk in 1998, followed by the formation of Northeast Asia and ASEAN FTAs. The last three countries in extended East Asia, namely Australia, New Zealand, and India, also recently deepened their relationship with ASEAN.

FTA negotiations were largely motivated by the existing *de facto* economic integration in the region. In the negotiation process of these FTAs, major agenda became (i) the restructuring of import-substituting industries such as automobiles, domestic electric appliances, iron & steel, and petrochemicals by removing remaining trade barriers and (ii) the further

background policy environment, see Ando and Kimura (2005) and Kimura (2006).

activation of intra-regional production networks by conducting trade/FDI liberalization and facilitation. These will reflect the contents as well as the usage of FTAs in the region.

(2) Liberalization of trade in goods

Liberalization coverage

One of the obvious criteria for evaluating the quality of FTAs is the degree of the cleanness of liberalization for trade in goods. Reflecting the hub-and-spoke system of FTAs centered by ASEAN, the liberalization coverage of FTAs varies with AFTA the highest.

AFTA was concluded as a FTA under the enabling clause of the WTO and did not follow all the disciplines that the WTO imposed. A major deficiency is the length of interim agreement. The WTO asks countries to complete substantially all the trade liberalization within ten years.³ In the case of AFTA, since the initiation of tariff reduction in the early 1990s, already more than 15 years have passed. However, the liberalization coverage of the Common Effective Preferential Tariff (CEPT) scheme of AFTA that specifies gradual tariff reduction schedule is pretty high. Under the CEPT scheme, each member country classified traded commodities into the inclusion list (IL), the temporary exclusion list (TEL), the general exception list (GEL), and the sensitive/highly sensitive list (SL/HSL) and gradually moved items from TEL, GEL, or SL/HSL to IL. By now, the original member countries, i.e., Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, have eliminated TEL and have retained GEL and SL/HSL only for very limited commodities (less than 1%). Commodities in IL are also zero by 2010.⁴ Although AFTA has been criticized as a lenient FTA for long, it turns out to be a clean FTA in terms of the liberalization

³ 1947 GATT XXIV5(c) stated “reasonable length of time,” which is further specified as “10 years” by the Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994.

⁴ Latecomers of ASEAN, i.e., Vietnam, Laos, Myanmar, and Cambodia, are supposed to eliminate tariffs for almost all commodities by 2015 or 2018.

coverage. In addition, ASEAN recently harmonized traded commodity classification up to the most detailed level.

ASEAN-China FTA (ACFTA) and ASEAN-Korea FTA (AKFTA) apply similar tariff reduction scheme to CEPT though they are less clean than AFTA in the liberalization coverage. ACFTA started lowering tariffs under the interim agreement in July 2005 while the so-called Early Harvest Program for agricultural and fishery products (HS01-08) was implemented from January 2004. The interim agreement classified commodities other than those under the Early Harvest Program into (i) normal track 1, (ii) normal track 2 (within 150 items), (iii) sensitive track (less than 400 items and less than 10% of trade values), and (iv) highly sensitive track (less than 100 items and less than 40% of items in the sensitive track). The due dates for tariff elimination are 2010 and 2012 for (i) and (ii), respectively. For (iii), the existing tariffs can be retained until the end of 2011, will be reduced to less than 20% by 2012 and 0-5% by 2018. As for (iv), tariffs should be reduced to less than 50% by the beginning of 2015. Items classified in sensitive and highly sensitive lists differ across countries though some important electric machinery and transport equipment are included. AKFTA has a resembled scheme and the similar level of liberalization coverage.

Japanese bilateral FTAs with ASEAN countries set up a higher standard for ASEAN countries than ACFTA or AKFTA. For Japanese bilateral FTAs with Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, the zero-tariff coverage after ten years in terms of trade values on the ASEAN side is 99.94%, 90% (96% including iron and steel for specific use), 99%, 97%, 100%, 97%, and 88%, respectively. The zero-tariff coverage after ten years on the Japanese side is often lower though: 99.99%, 93%, 94%, 92%, 95% (97% after the five-year review), 92%, and 95%, respectively.⁵ The lower liberalization coverage on the Japanese

⁵ These figures are obtained from the homepage of the Ministry of Foreign Affairs, Government of Japan (<http://www.mofa.go.jp/>). Note that the measurement of liberalization coverage in terms of trade values is sensitive to the trade pattern in the base year, which may not properly reflect high

side is due to heavy protection on agriculture-related commodities.⁶ The asymmetric liberalization commitments are the reflection of Japan's negotiating power in Southeast Asia as well as the existence of side payments in the form of investment promotion and economic/technical cooperation from the Japanese side.

The recently concluded ASEAN-Japan FTA (AJCEP) applies the CEPT-style tariff reduction scheme. On the Japan side, 90% of commodities (in terms of trade values) will have immediate tariff removals, additional 3% will have within-ten-year gradual tariff removals, and the rest will be excluded from liberalization or have certain reduction of tariffs. As for ASEAN6, 90% (in terms of both trade values and the number of tariff lines) will have immediate tariff removals or within-ten-year gradual tariff removals, and the rest will be excluded from liberalization or have certain reduction of tariffs. ASEAN latecomers will have a looser schedule of tariff removals or reduction.

In summary, AFTA is now completing a clean FTA in terms of the liberalization coverage for trade in goods, but other FTAs in East Asia still include dirty aspects. Although manufactured goods are widely covered in liberalization schemes, some specific items, particularly agriculture-related commodities in Japan, retain substantial protection. The recent entry of Australia and New Zealand in the game of FTA networking in the region has provided a certain pressure on protectionism though completely clean trade liberalization in East Asia as a whole is yet to come.

FTA utilization

spikes of protection. Kuno and Kimura (2008) show that the liberalization coverage of some bilateral FTAs concluded by Japan in terms of the number of tariff lines is substantially lower than the announced figures based on trade values.

⁶ As for the agricultural protection in FTA negotiations by Japan, see Ando and Kimura (2008) and Mulgan (2008a, 2008b). Kuno and Kimura (2008) analyze the nature of heavily protected agricultural products focusing on their geographical concentration of production in Japan. Low coverage of liberalization for agricultural products becomes an obvious obstacle to Japan's further extending FTA strategies.

Tariff reduction or removal does not automatically mean freer trade. Only after utilizing preferential tariffs, trade liberalization effects are realized. FTAs in East Asia, particularly AFTA, have for long been criticized for their low levels of utilization. The situation, however, has drastically changed these days.

Thailand and Malaysia disclose the data of FTA utilization on the official customs data basis. Table 3 presents two countries' exports with utilizing the CEPT scheme of AFTA. As of 1998, CEPT was barely utilized, which confirms the old criticism. However, the utilization ratios have substantially increased since then. In 2009, 38% of Thailand's intra-ASEAN exports and 27% of Malaysia's intra-ASEAN exports utilize CEPT where exports to Singapore are excluded because MFN-applied import tariffs in Singapore are zero for almost all products. These ratios are not small because the denominator, total intra-ASEAN exports, includes exports of commodities for which MFN import tariffs are already zero or very low particularly under ITA and for which duty-drawback system is applied as investment incentive.

==Table 3==

Table 4 tabulates exports utilizing various FTAs by Thailand and Malaysia. The Thailand-Australia FTA and the Early Harvest Scheme items in the Thailand-India FTA present very high utilization ratios. Utilization ratios for other FTAs are also increasing.

==Table 4==

Japan External Trade Organization (JETRO) annually conducts an extensive questionnaire survey on foreign affiliates of Japanese firms, which recently starts including questions related to FTA utilization. The new results (JETRO (2009, p. 22-30)) show that among manufacturing affiliates of Japanese firms in ASEAN conducting exporting activities, 23.0% use FTAs, and 23.3% consider using FTAs. Among those with importing activities,

19.7% use FTAs, and 24.4% consider using FTAs. The questionnaire further asks affiliates not even considering using FTAs for reasons why. Among exporting affiliates without any intention of utilizing FTAs, 37.6% of them say “duty-drawback system on the import side exists,” 22.9% claim “there does not exist a FTA with trading partners,” and 19.9% state “MFN tariffs at destination are low so that FTAs are not advantageous.” Very small proportion of exporting affiliates raises troublesome administrative procedures or their ignorance of FTAs as reasons for not utilizing FTAs. Similarly, among importing affiliates without any intention of utilizing FTAs, 48.9% of them say “duty-drawback system for imports are applied,” 13.4% claim “domestic sales on which tariffs are imposed is small,” 13.1% state “there does not exist a FTA with trading partners,” and 12.8% advocate “MFN tariffs are already low.”

The questionnaire also asks some additional questions. One is the minimal preferential margin with which exporting affiliates stop using MFN tariffs and start utilizing FTAs. The average margin across exporting affiliates located in ASEAN is 5.2%. Another is the preferential tariff rate equivalent to the administrative cost of obtaining duty-drawback system. The average across importing affiliates located in ASEAN is 1.9%.

Hayakawa, Hiratsuka, Shiino, and Sukegawa (2009) employ the micro data of JETRO survey and regress the utilization of FTAs on individual affiliates’ characteristics. They find that the utilization of FTAs or the intention to utilize FTAs is positively associated with the size of affiliates and negatively associated with the number of commodity items with zero tariffs. The relationship with the proportion of local procurement presents an inverted-U pattern.

Overall, considering other policy arrangements to avoid being taxed such as zero MFN tariffs, duty-drawback system, and others, the utilization of FTAs seems to be fairly high in ASEAN. However, further facilitation in utilizing FTAs may be required, particularly for small and medium enterprises.

Rules of origin (RoO)

Possible negative consequences of RoO are one of the major concerns in regionalism. So-called spaghetti bowl or noodle bowl phenomenon refers to trade deterrent effects that are generated by the complication of trade regime, particularly regarding RoO, due to the unorganized proliferation of bilateral/plurilateral FTAs. However, the logic of trade deterrence due to additional FTA is not very clear. Adding another FTA on the top of existing FTAs would certainly enhance the complication of trade regime. However, if private people think a new preferential tariff system too complicated, they will simply continue to use MFN tariff system or other FTAs. It is very unlikely that additional FTA reduces trade; instead, the issue we concerned should be whether additional FTA promotes trade or not. In that sense, RoO may indeed work as a counteracting force against trade liberalization by FTAs. Strict and unfriendly RoO may act for protectionism by nullifying the usage of preferential arrangements.

Estevadeordal, Harris, and Suominen (2007) provide an extensive survey on RoO in FTAs in the world. They conclude that RoO in intra-Asian FTAs tend to be less restrictive and complex than their counterparts in Europe and the Americas. Sample firm surveys in East Asian countries conducted by Kawai and Wignaraja (2009) suggest unexpectedly little Spaghetti/noodle bowl phenomena though further facilitation seems to be needed. We are accumulating evidences that RoO in FTAs in East Asia does not work as a major obstacle to promoting freer trade.

Medalla and Balboa (2009) carefully examine RoO in FTAs in East Asia, review best practices in applying RoO, and propose a direction for improvement. First, they claim that alternative or co-equal system of RoO is less restrictive than other arrangements and is thus to be promoted. RoO is classified by the testing methodology in identifying the origin of goods. Frequently used tests are the value-added measure test, the tariff heading criterion test, the specified processes test, and the combination of these, “both” or “either.” The value-added measure test looks simple in text but is not user-friendly for some products such as machineries consisting of numerous parts and components. A practical way of avoiding unnecessary user cost as well as saving the cost of negotiation is an alternative or

co-equal system in which meeting one of the designated tests, for example, either the value-added measure test or the tariff heading criterion test, may suffice.

Table 5 tabulates the number of tariff lines applying various types of RoO in AFTA, ACFTA, AKFTA, and AJCEP. ACFTA reflects an old style of RoO that applies the value-added measure test or regional value content (RVC) test for large number of tariff lines. AFTA used to have a similar pattern but recently switched to a co-equal system applying either RVC test or tariff heading criterion test (CC, CTH, or CTSH in the table) for a large number of tariff lines. AKFTA and AJCEP also apply co-equal system extensively.

==Table 5==

Second, Medalla and Balboa recommend wider application of *de minimis* principle. This principle specifies a maximum percentage of non-originating material to be used without affecting origin, which can substantially reduce the cost of proving the origin of products in the value-added measure test. Third, although RoO in East Asia seem to be relatively simple and liberal, they recommend further facilitation in the procedure to obtain the certificate of origin.

In summary, RoO is certainly important in order to capture the benefit of liberalization effort in FTAs, and there still exists room for further facilitation. However, negative consequences of the complication of RoO seem to be limited in East Asia.

Regionalism promoting multilateral liberalization

There has been a long-lasting debate on whether trade liberalization in regionalism is a building block or a stumbling block for worldwide trade liberalization. Various political economy models can justify both stories, and the issue is thus empirical. In this context, the paper by Estevadeordal, Freund, and Ornelas (2008a, 2008b) is a path-breaking work. It employs extensive time-series data set of tariff

levels in selected Latin American countries, both on the FTA basis and the MFN basis, and rigorously proves that tariff reduction in FTAs tends to be followed by tariff reduction at the MFN level. Calvo-Pardo, Freund, and Ornelas (2009) replicate the exercise for ASEAN and find the same pattern. Trade liberalization in FTAs seems to promote multilateral trade liberalization.

As pointed out by Ando (2007), we observe in East Asia and other parts of the world that MFN-based liberalization often surpasses gradual liberalization in FTAs so that the utilization of FTAs loses its sense at least temporarily. Trade liberalization on the FTA basis seems to be an effective trigger for trade liberalization at the MFN level, particularly in East Asia.

(2) Liberalization in other policy modes

Taking advantage of their flexibility, FTAs in the world have increasingly included various policy modes other than policies on trade in goods. Trade in services is a natural extension on which GATS Article V imposes certain discipline. The actual liberalization of trade in services in intra-East-Asian FTAs, however, is relatively modest because countries in the region do not have strong international competitiveness in most of the services sectors.

ASEAN has ambitiously set the target of ASEAN Economic Community (AEC) in 2015, and the liberalization of trade in services is one of the major efforts. ASEAN Framework Agreement on Services (AFAS) was signed in December 1995, and with seven sequential rounds of negotiations between 1996 and 2009 under the purview of ASEAN Economic Ministers (AEM), the path of liberalization toward “substantially eliminating restrictions to trade in services among ASEAN countries” has gradually been specified. Air travel, healthcare, e-ASEAN (telecommunications and IT services), and tourism as well as logistics are set as priority sectors to realize liberalization earlier, and all the other sectors will follow by 2015 with services negotiations in every two years. As a result, ASEAN is supposed to achieve a free flow of services by 2015 with flexibility. In addition, seven mutual recognition agreements (MRAs) have

been concluded for professional services. The effort of ASEAN is certainly ambitious though how far the actual liberalization is realized is still to be tested.

ACFTA and AKFTA include agreements on trade in services, both of which were signed in 2007. However, the structure of the articles closely resembles to GATS, and the contents do not extensively explore GATS plus. Bilateral FTAs between Japan and ASEAN member countries include a number of GATS plus due to sector-by-sector negotiations. However, agreements are not entirely comprehensive, which reflects relatively weak services sectors in Japan.

As for investment, ASEAN concluded the ASEAN Comprehensive Investment Agreement (ACIA) in February 2009, which is an upgraded version of ASEAN Investment Area (AIA) in 1998, as a part of the comprehensive efforts toward AEC. ACIA includes liberalization, promotion, facilitation, and protection with applying a negative list approach for reservations. How far the reservations will be eliminated is not sure at this moment though.

ACFTA and AKFTA are supposed to include investment after additional negotiations though the contents have not been disclosed yet. As for Japan, although AJCEP does not include a meaningful article on investment yet, bilateral FTAs between Japan and ASEAN countries as well as bilateral investment treaties with Cambodia (signed in June 2007) and Laos (signed in January 2008) deal with investment. They intend to explore investment liberalization including pre-entry and post-entry national treatment, ban on some performance requirements, and investment facilitation in addition to investment protection. These obviously reflect interests of Japanese firms extending business all over East Asia.

Other elements in intra-East-Asian FTAs reflect development stages and private sector's interests of each country in the region. ASEAN has pursued AEC under the scheme of AEC Blueprint (ASEAN (2008)) in which various policy areas and topics other than policies on goods, services, and investment are listed (Table 6). We observe that the contents that seem to be workable are highly practical and relevant to political and economic

conditions of ASEAN.

==Table 6==

FTAs concluded by Japan in the region are also highly pragmatic. For example, the Japan-Indonesia EPA concluded in August 2007 as well as related documents include practical items, in addition to trade in goods, services, and investment, such as energy and mining resources, movement of natural persons and related cooperation, customs procedure, government procurement, competition, and intellectual property rights, and cooperation. ACFTA and AKFTA also reflect the status of international relations as well as industrial connections; economic cooperation is always an important sub-element in FTAs.

In East Asia, WTO+ works strongly. However, the context is not for pursuing the legal comprehensiveness of economic integration. Rather, the motivation of introducing WTO+ is pragmatic for serving diplomatic purposes or responding to requests of private sector extending international production networks. In the end, facilitation and cooperation are often emphasized more than liberalization.

4. Further evaluation in a wider scope: preliminary thought with trade data

The former section summarized the standard set of post evaluation of FTA networking. Such a framework is not, however, entirely satisfactory because economic effects, either static or dynamic, either direct or indirect, are not fully measured yet. In the period of FTA networking, particularly after the year 2001, the international trade pattern in East Asia was changed truly drastically. To judge how far the change is accrued from FTA networking requires a careful study, which this paper does not cover. We, however, would like to provide an overview on drastic changes in international trade pattern and infer possible contributions of FTA networking.

Figure 3 presents changes in by-destination shares of exports by

East Asian countries.⁷ In 2001-2007, explosive increases in exports, both intra-East Asia exports and exports to the rest of the world, are observed. Particularly, intra-East Asia exports grew at the pace of 18.5% per annum and 15.0% per annum in 2001-2005 and 2005-2007, which is by far faster than GDP growth rates. It means that the trade openness index defined as $(\text{exports} + \text{imports}) / \text{GDP}$ increased. Figure 4 shows that exports of both machinery parts and components and machinery finished products grew at the same pace. Table 7 provides more detailed changes in exporting pattern.

==Figure 3==

==Figure 4==

==Table 7==

Possible reasons for such a drastic increase in exports by East Asian countries are listed for future detailed research as follows: first, there exist direct effects of the removal of trade barriers on intra-East Asia trade, which may particularly be important for among ASEAN countries under the AFTA scheme. Second, intra-regional trade may increase if the reshuffling of production sites proceeds for constructing more efficient production/distribution networks. Table 8 provides an interesting observation where the number of production sites of Japanese electric companies in ASEAN is decreased as economic integration proceeds.

==Table 8==

Third, more than proportional growth of demand for traded goods may enhance trade. Particularly in the case of consumer goods, the

⁷ East Asian countries here include Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

preference is not “identical and homothetic” as the standard Heckscher-Ohlin model would set up. In East Asia, we observe a rapid growth of “middle class” (see Figures 5-7⁸). The disproportional growth of middle class may not be surprising if we consider rapid economic growth. One important implication is a shift in demand structure. The demand for traded goods such as domestic electric appliances may be expanded more than proportionally as income goes up.

==Figure 5==

==Figure 6==

==Figure 7==

Of course, these are not due to FTA networking. However, it is true that FTA networking and intra-East Asia export growth go forward hand in hand.

5. Where to go from now on

Unlike the European integration, economic integration in East Asia has not been driven by a unified political will of governments in the region. Unlike economic integration in North America, there does not exist a single dominant hegemon or leader in East Asia, either. Decentralized forces of political economy have pushed forward FTA networking in East Asia, and an open-end FTA system has been formulated. Functional deepening of economic integration is likely to continue in order to further activate international production networks. The mechanics of international production networks would work for narrowing development gaps across

⁸ Figures 5-7 are constructed by using the World Bank’s PovcalNet where estimates of income-level-wise population after the adjustment of prices is conducted by income class (<http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTPROGRAMS/EXTPOVRES/EXTPOVCALNET/>).

countries and regions in East Asia, which would present a successful case of inclusive or pro-poor growth. If we calmly review the accomplishment of economic integration so far, East Asian-wide consolidation of FTAs does not seem to be impossible, at least for trade in goods and some elements of functional WTO+. For the coming ministerial meetings in August 2009, study groups of EAFTA (ASEAN+3) and CEPEA (ASEAN+6) are preparing to propose possible paths of FTA consolidation in East Asia.

However, due to the lack of FTAs among Japan, Korea, and China, an East Asian-wide consolidated FTA does not seem to be realized in the coming few years. Rather, the move of Asia-Pacific FTA networking is likely to proceed earlier. FTAs in Asia-Pacific, possibly led by TPP initiative, would have characteristics different from East Asian FTAs; they tend to have higher coverage of trade liberalization and more rule-oriented. Singapore, Australia, New Zealand, and possibly Korea seem to be ready to be on board. If such an initiative goes forward, how will Japan, China, and ASEAN respond? New forces of political economy will certainly emerge in such a case.

The recent heated debate on participating in the negotiation over TPP in Japan, despite the existence of stubborn agricultural protection, has a touch of alliance policy. In East Asia, China is becoming bigger and bigger beyond our original expectation. Big China generates a lot of business chances for neighboring countries so that friendly relationship with China is essential. At the same time, the G2 world in which many things will be settled solely by the US and China will come soon. Thus, countries around China, including Japan, ASEAN, and possibly India, would like to establish a regional concept such as East Asia and/or Asia-Pacific in order to attract attention of the US and China to the region. Both East Asia Summit and APEC carry such geopolitical intention held by “small” countries. Plurilateral FTAs will surely carry not only economic significance but also geopolitical strategies.

All in all, FTA networking has developed in an open setting in East Asia and Asia-Pacific. The development has been backed up by the logic of political economy. With economic dynamism, East Asia and Asia-Pacific are

likely to become a focal point of the 21st century regionalism.

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Table 1 FTA networking in extended East Asia

(As of November 2010)

	Japan	Korea	China	ASEAN	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	CLM	India	Australia	New Zealand
Japan		○ (suspended)	△	⊙: 2008 -	⊙: 2008	⊙: 2008	⊙: 2006	⊙: 2008	⊙: 2002	⊙: 2007	⊙: 2009		○	○	
Korea	○ (suspended)		△	⊙: 2007 -					⊙: 2006				⊙: 2010	○	○
China	△	△		⊙: 2005 -					⊙: 2009				△	○	⊙: 2008
ASEAN	⊙: 2008 -	⊙: 2007 -	⊙: 2005 -	⊙: 1993 -	(1992)	(1992)	(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1999)	⊙: 2010-	⊙: 2010 -	⊙: 2010 -
Brunei	⊙: 2008			(1992)		(1992)	(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1999)			⊙: 2006
Indonesia	⊙: 2008			(1992)	(1992)		(1992)	(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1999)		△	
Malaysia	⊙: 2006			(1992)	(1992)	(1992)		(1992)	(1992)	(1992)	(1995)	(LM:1997/C:1999)	○	○	⊙
Philippines	⊙: 2008			(1992)	(1992)	(1992)	(1992)		(1992)	(1992)	(1995)	(LM:1997/C:1999)			
Singapore	⊙: 2002	⊙: 2006	⊙: 2009	(1992)	(1992)	(1992)	(1992)	(1992)		(1992)	(1995)	(LM:1997/C:1999)	⊙: 2005	⊙: 2003	⊙: 2001
Thailand	⊙: 2007			(1992)	(1992)	(1992)	(1992)	(1992)	(1992)		(1995)	(LM:1997/C:1999)	△	⊙: 2005	⊙: 2005
Vietnam	⊙: 2009			(1995)	(1995)	(1995)	(1995)	(1995)	(1995)	(1995)		(LM:1997/C:1999)			
CLM				(LM:1997/C:1999)	(LM:1997/C:1999)	(LM:1997/C:1999)	(LM:1997/C:1999)	(LM:1997/C:1999)	(LM:1997/C:1999)	(LM:1997/C:1999)	(LM:1997/C:1999)				
India	○	⊙: 2010	△	⊙: 2010 -			○		⊙: 2005	△				△	△
Australia	○	○	○	⊙: 2010 -		△	○		⊙: 2003	⊙: 2005			△		⊙: 1983
New Zealand		○	⊙: 2008	⊙: 2010 -	⊙: 2006		⊙		⊙: 2001	⊙: 2005			△	⊙: 1983	

Notes: ⊙: signed or being effective, ○: under negotiation or agreed to negotiate, △: feasibility study or preparatory talks. The year indicates when the concerned FTA was in force. "-" after the year means that some ASEAN countries are under the corresponding FTAs in force and other countries follow later. Dark blue indicates FTAs signed before or in the 1990s, blue indicates FTAs signed in the first half of the 2000s, and light blue indicates FTAs signed in the second half of the 2000s. For some FTAs, their status in this table is based on the agreement of trade in goods; negotiations may be still ongoing over other areas such as investment and services even if the agreements are identified as those signed or being effective here. The year in parenthesis shows the year for the corresponding ASEAN country to be the member of ASEAN/AFTA.

Sources: Websites of trade ministries in each country and others.

Figure 1
Proposed plurilateral FTAs in East Asia and Asia Pacific

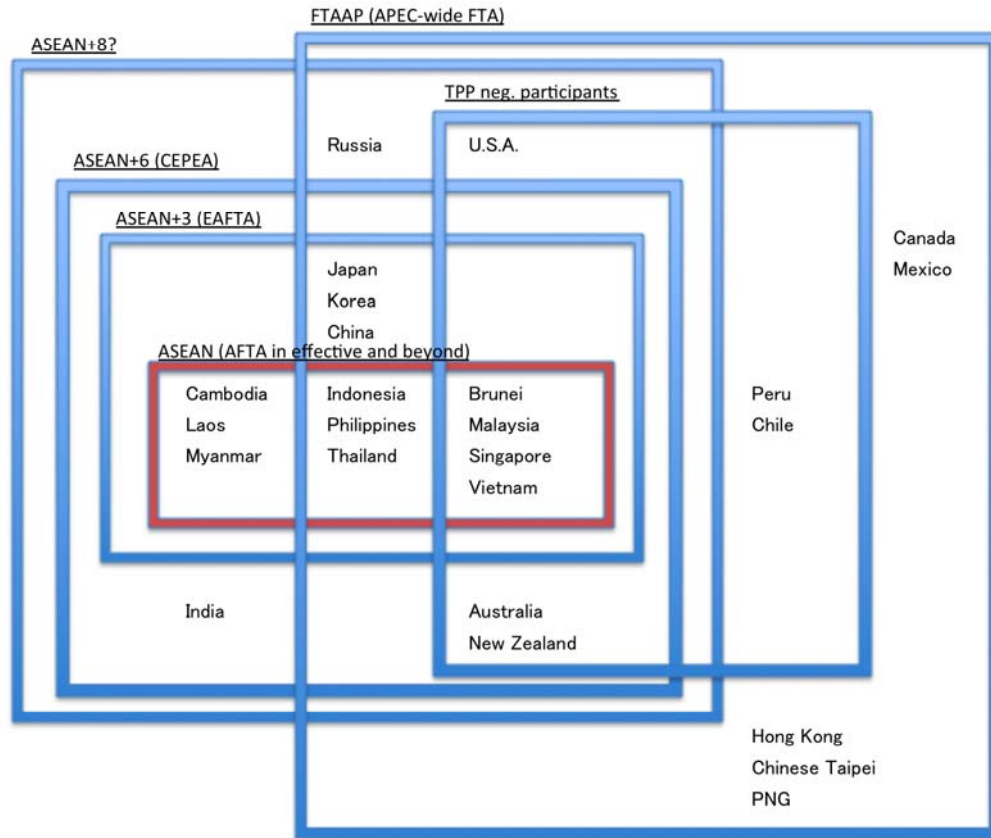


Figure 2
FTA networking among Asia-Pacific developed countries
(As of November 2010)

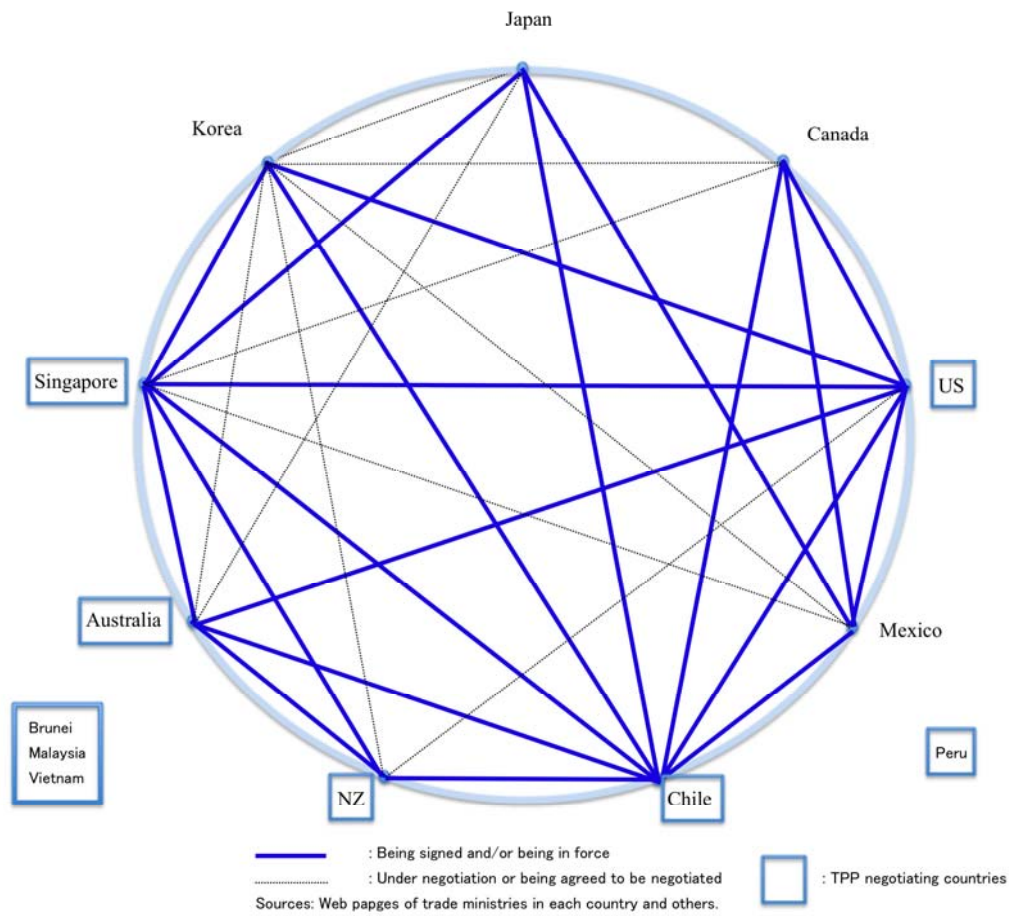


Table 2
Japan's FTA negotiations
(As of November 2010)

Counterpart	Negotiation started	Agreement signed	Entry into force
Singapore	01/2001	01/2002	11/2002
Mexico	11/2002	09/2004	04/2005
Malaysia	01/2004	12/2005	07/2006
Chile	02/2006	03/2007	09/2007
Thailand	02/2004	04/2007	11/2007
Indonesia	07/2005	08/2007	07/2008
Brunei	06/2006	06/2007	07/2008
ASEAN	04/2005	04/2008	12/2008- *
Philippines	02/2004	09/2006	12/2008
Switzerland	05/2007	02/2009	09/2009
Vietnam	01/2007	12/2008	10/2009
GCC	09/2006		
India	01/2007	(09/2010: agreement in principle)	
Australia	04/2007		
Peru	05/2009	(11/2010: completion of negotiation)	
Mongolia	2011?		
EU	??		
TPP	??		
(Korea)	12/2003	(11/2004: negotiation suspended.)	

*: Being effective with Singapore/Laos/Vietnam/Myanmar in December 2008,
Brunei in January 2009, Malaysia in February 2009, and Thailand in June 2009.

Source: MOFA, GOJ (<http://www.mofa.go.jp>).

Table 3

Exports utilizing AFTA (CEPT) and their shares in total exports in Thailand and Malaysia

(Millions of dollars, %)

	Export destination country/region	Exports utilizing CEPT						Share in total exports					
		1998	2003	2006	2007	2008	2009	1998	2003	2006	2007	2008	2009
Total for Thailand and Malaysia	Indonesia	99	913	2,231	3,529	5,127	3,924	5.0	20.6	30.1	34.5	40.9	41.0
	Vietnam	7	632	1,762	2,771	3,328	4,507	0.8	30.3	36.3	43.3	44.7	64.6
	Malaysia	212	801	1,363	1,850	2,465	2,198	11.9	20.7	20.5	22.1	24.9	28.8
	Philippines	179	748	1,529	1,928	2,410	2,308	9.3	24.9	32.0	34.1	37.5	46.3
	Thailand	91	594	1,269	1,206	1,412	1,288	3.9	13.0	15.0	14.0	14.9	15.2
	Singapore	17	247	382	444	646	465	0.1	1.1	1.2	1.2	1.6	1.6
	Myanmar	0	2	4	13	74	41	0.0	0.4	0.4	1.0	4.5	2.4
	Laos	0	4	23	30	46	65	0.0	0.9	2.3	2.1	2.6	4.0
	Brunei	0	2	14	15	23	21	0.1	0.7	3.3	3.0	4.0	3.8
	Cambodia	0	0	1	1	14	39	0.0	0.0	0.1	0.1	0.6	2.2
	Total	606	3,942	8,578	11,787	15,544	14,856	2.2	9.3	12.4	14.7	17.0	20.4
	Total (excl. Singapore)	589	3,696	8,196	11,342	14,898	14,392	5.6	18.4	22.8	25.8	28.6	33.2
Thailand	Total	391	2,561	5,509	7,865	10,735	9,671	4.0	15.5	20.2	22.6	26.8	29.9
	Total (excl. Singapore)	383	2,454	5,299	7,609	10,343	9,393	7.4	23.0	28.2	30.9	34.4	37.8
Malaysia	Total	215	1,382	3,069	3,922	4,809	5,186	1.2	5.3	7.3	8.7	9.4	12.8
	Total (excl. Singapore)	206	1,242	2,897	3,733	4,555	4,999	3.8	13.2	16.9	19.3	20.7	27.0

Original sources; Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, trade statistics of Thailand and Malaysia.

Source: JETRO (2010, Table II-10).

Table 4

Exports utilizing FTAs and their shares in total exports in Thailand and Malaysia

(Millions of dollars, %)

	Export destination country/region	Exports utilizing FTAs					Share in total exports				
		2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Thailand	AFTA	5,146	5,509	7,865	10,735	9,671	21.5	20.2	22.6	26.8	29.9
	AFTA (excl. Singapore)	4,942	5,299	7,609	10,343	9,393	30.0	28.2	30.9	34.4	37.8
	ASEAN–China	614	1,450	1,769	1,691	3,990	6.7	12.3	11.1	10.4	24.8
	Thailand–India	267	328	399	418	352	17.6	18.1	14.0	12.3	11.0
	(82 items in the Early Harvest Scheme)	267	328	399	418	n.a.	79.0	89.1	98.3	83.4	n.a.
	Thailand–Australia	2,122	2,746	4,067	4,944	4,316	67.3	62.6	66.3	61.9	50.5
	Japan–Thailand, ASEAN–Japan	–	–	642	4,507	4,281	–	–	18.1	22.4	27.3
Malaysia	AFTA	2,918	3,069	3,922	4,809	5,186	7.9	7.4	8.7	9.4	12.8
	AFTA (excl. Singapore)	2,729	2,897	3,733	4,555	4,999	18.5	16.9	19.3	20.7	27.0
	ASEAN–China	274	1,042	1,628	1,896	2,381	3.0	9.0	10.6	10	12.5
	Japan–Malaysia, ASEAN–Japan	–	850	1,948	2,503	2,344	–	10.4	12.0	11.6	15.2
Total	AFTA	8,064	8,578	11,787	15,444	14,856	13.3	12.4	14.8	17.0	20.4
	AFTA (excl. Singapore)	7,671	8,196	11,342	14,898	14,392	24.6	22.8	25.8	28.6	33.2
	ASEAN–China	887	2,492	3,397	3,587	6,371	4.8	10.6	10.8	10.2	18.1
	FTAs with Japan	–	–	–	7,011	6,624	–	–	–	16.9	21.3

Original sources; Malaysia Ministry of International Trade and Industry, Thailand Ministry of Commerce, trade statistics of Thailand and Malaysia.

The figure for Japan–Thailand in 2007 includes trade in Nov.–Dec.; the figure for Japan–Malaysia in 2006 includes trade in July–Dec.

Source: JETRO (2009, Table II–6) and JETRO (2010, Table II–9).

Table 5

RoO in AFTA, ACFTA, AKFTA, and AJCEP

RoO type	AFTA	ACFTA	AKFTA	AJCEP
WO	169	8	465	3
CC		1	61	1,344
CTH			2	434
CTSH				8
RVC(>40)			36	
RVC(40)	146	4,659	22	219
RVC(<40)			2	
CC + RVC(40)			2	1
CTH + RVC			4	
CC or RVC(40)	564	7	487	126
CTH or RVC(>40)			4	
CTH or RVC(40)	2,583	122	4,078	3,056
CTSH or RVC(40)	689		61	33
RVC(40) or Textile Rule		427		
CC or RVC(40) or Textile Rule	300			
CTH or RVC(40) or Textile Rule	327			
Total with alternate rules	4,463	556	4,630	3,215
NA	446			
Total	5,224	5,224	5,224	5,224

WO: wholly obtained

CC: change in commodity classificaiton

CTH: change in tariff heading

CTSH: change in tariff subheading

RVC: regional value content

Figures for AKFTA may have to be updated.

Source: Medalla and Balboa (2009).

Table 6

Characteristics and elements of AEC

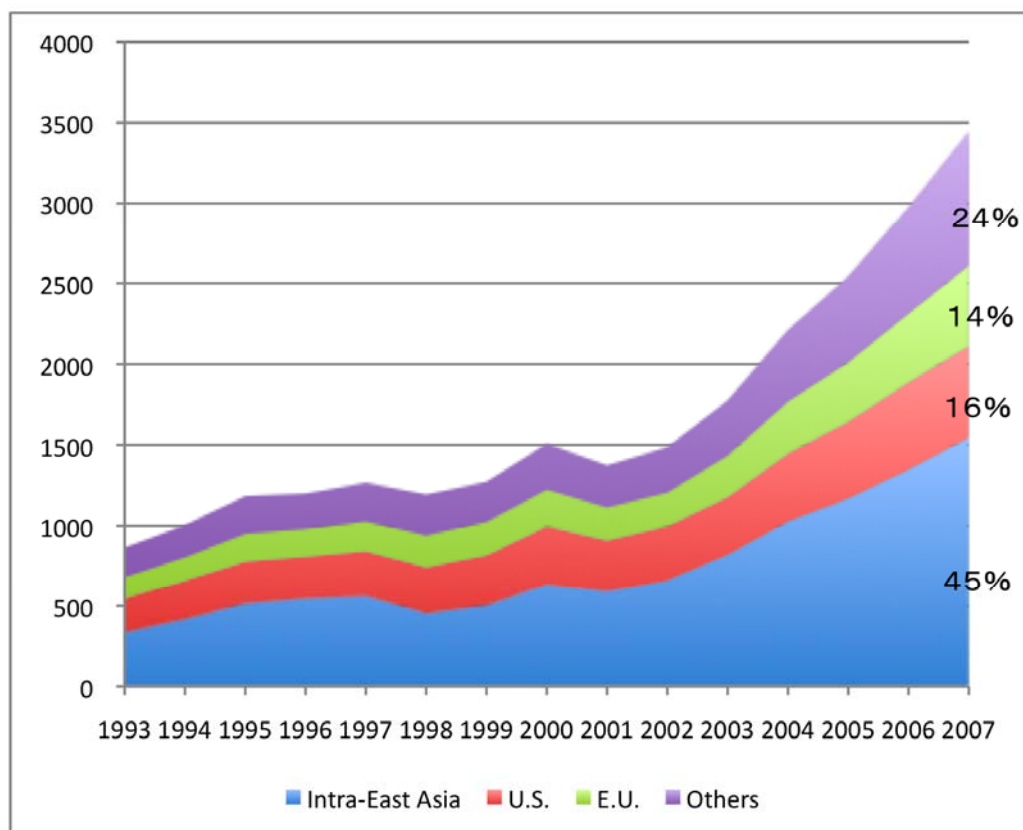
	Highlighted topics
A. Single market and production base	
A1. Free flow of goods	Elimination of tariffs, elimination of non-tariff barriers, rules of origin (ROO), trade facilitation, customs integration, ASEAN Single Window, standards and technical barriers to trade
A2. Free flow of services	Services liberalization under AFAS, mutual recognition arrangements (MRAs), financial services sector
A3. Free flow of investment	Investment protection, facilitation and cooperation, promotion and awareness, liberalisation
A4. Freer flow of capital	Strengthening ASEAN capital market development and integration, allowing greater capital mobility, foreign direct investment, portfolio investment, other types of flows, capital account transactions, facilitation
A5. Free flow of skilled labour	
A6. Priority integration sectors	Twelve sectors
A7. Food, agriculture and forestry	Enhancing competitiveness, cooperation, agricultural cooperatives
B. Competitive economic region	
B1. Competition policy	
B2. Consumer protection	
B3. Intellectual property rights (IPR)	
B4. Infrastructure development	Transport cooperation, land transport, maritime and air transport, information infrastructure, energy cooperation, mining cooperation, financing of infrastructure projects
B5. Taxation	
B6. E-commerce	
C. Equitable economic development	
C1. SME development	
C2. Initiative for ASEAN Integration (IAI)	
D. Integration into the global economy	
D1. Coherent approach toward external economic relation	
D2. Enhanced participation in global supply networks	

Source: ASEAN (2008).

Figure 3

Export structure of East Asian countries: by-destination shares

(1) The value of exports (US\$ billion)



(2) Annual average growth rates (nominal)

	1993–1997	1997–2001	2001–2005	2005–2007
Intra-East Asia	13.7%	1.2%	18.5%	15.0%
U.S.	7.3%	3.2%	10.5%	9.4%
E.U.	8.4%	2.7%	15.9%	16.1%
Others	6.8%	2.1%	19.6%	25.8%
World total	10.0%	2.1%	16.6%	16.4%

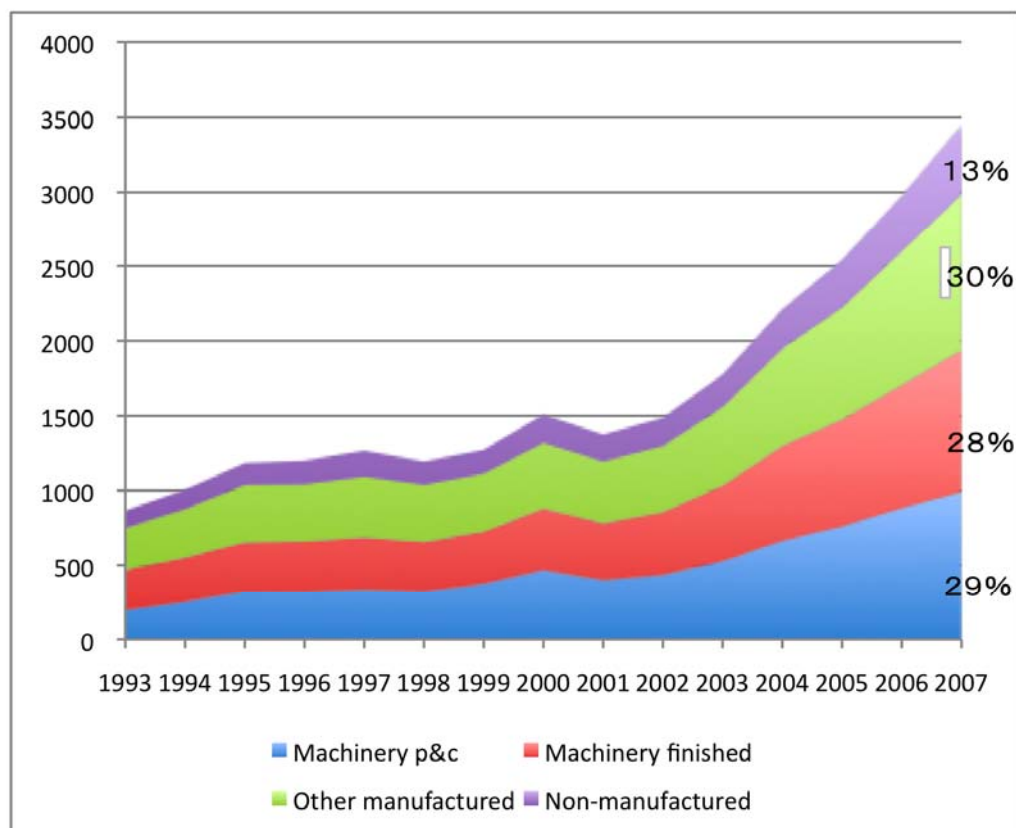
East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade.

Figure 4

Export structure of East Asian countries: by-commodity shares

(1) The value of exports (US\$ billion)



(2) Annual average growth rates (nominal)

	1993–1997	1997–2001	2001–2005	2005–2007
Machinery p&c	14.3%	4.5%	17.4%	14.0%
Machinery finished	6.6%	1.9%	17.1%	15.3%
Other manufactured	9.5%	0.5%	15.9%	18.2%
Non-manufactured	10.9%	0.9%	15.4%	20.5%
Total	10.0%	2.1%	16.6%	16.4%

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Thailand

Data source: UN Comtrade.

Table 7

By-destination shares of machinery p&c and finished products exports by East Asian countries

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Machinery	Intra-East Asia	40.9%	43.5%	45.3%	47.8%	48.6%	44.4%	46.3%	48.9%	51.8%	55.6%	58.6%	59.0%	59.7%	59.1%	59.1%
p&c	U.S.	27.9%	27.5%	25.6%	24.5%	23.3%	24.5%	23.6%	22.3%	20.3%	18.1%	15.6%	14.9%	14.2%	14.0%	12.8%
	E.U.	14.0%	13.8%	14.4%	13.5%	13.6%	15.8%	15.0%	14.3%	13.4%	12.1%	11.8%	11.7%	11.2%	11.1%	11.3%
	Others	17.1%	15.3%	14.7%	14.2%	14.5%	15.4%	15.1%	14.6%	14.4%	14.3%	13.9%	14.4%	14.8%	15.8%	16.8%
Machinery	Intra-East Asia	26.2%	28.6%	30.4%	31.9%	28.7%	21.9%	22.5%	25.5%	26.8%	27.9%	30.0%	29.3%	29.2%	28.9%	28.8%
finished	U.S.	30.1%	30.3%	28.2%	27.3%	28.8%	31.2%	33.1%	32.4%	31.9%	32.0%	28.5%	27.0%	26.4%	25.9%	23.2%
	E.U.	19.4%	17.8%	18.6%	18.4%	19.4%	21.7%	21.8%	20.2%	20.1%	18.9%	20.0%	20.7%	20.4%	19.4%	19.3%
	Others	24.3%	23.3%	22.8%	22.4%	23.1%	25.1%	22.6%	21.9%	21.2%	21.2%	21.6%	23.0%	24.0%	25.8%	28.8%

East Asia': Japan, Korea, China, Hong Kong, Indonesia, Malaysia, the Philippines,
Singapore, Thailand

Data source: UN Comtrade.

Table 8

The number of production sites of Japanese electric companies in ASEAN

	Refrigerator			Electric washer			Ventilator			Microwave		
	2000	2009	Change	2000	2009	Change	2000	2009	Change	2000	2009	Change
ASEAN	17	14	-3	14	10	-4	8	7	-1	4	2	-2
Thailand	7	6	-1	5	4	-1	4	3	-1	2	2	0
Malaysia	2	0	-2	2	0	-2	1	1	0	1	0	-1
Philippines	2	1	-1	3	2	-1	1	1	0	0	0	0
Indonesia	5	4	-1	3	2	-1	2	2	0	0	0	0
Singapore	0	0	0	0	0	0	0	0	0	1	0	-1
Vietnam	1	3	2	1	2	1	0	0	0	0	0	0
	Electric cooker			Electric fan			Air conditioner			Cum. # of production sites		
	2000	2009	Change	2000	2009	Change	2000	2009	Change	2000	2009	Change
ASEAN	9	7	-2	10	6	-4	17	12	-5	79	58	-21
Thailand	5	6	1	5	3	-2	7	6	-1	35	30	-5
Malaysia	1	1	0	1	1	0	3	3	0	11	6	-5
Philippines	1	0	-1	2	1	-1	3	2	-1	12	7	-5
Indonesia	1	0	-1	2	1	-1	3	1	-2	16	10	-6
Singapore	0	0	0	0	0	0	1	0	-1	2	0	-2
Vietnam	1	0	-1	0	0	0	0	0	0	3	5	2

Source: Sukegawa (2009).

Figure 5 Population by income groups: China
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)

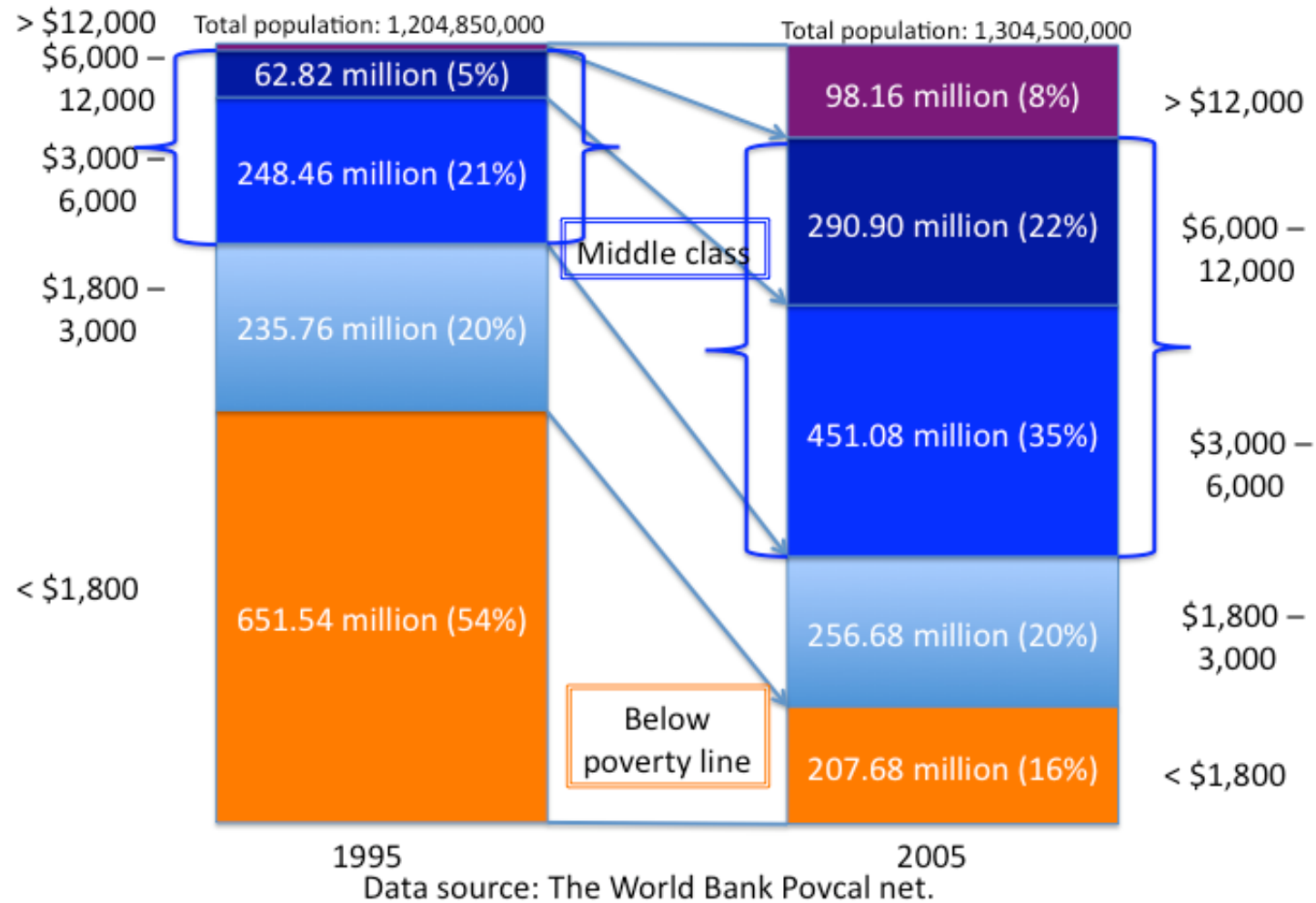


Figure 6 Population by income groups: ASEAN (excl. Singapore, Brunei, and Myanmar)
(US dollars; 2005 PPP adjusted; annual total income of a family with four members)

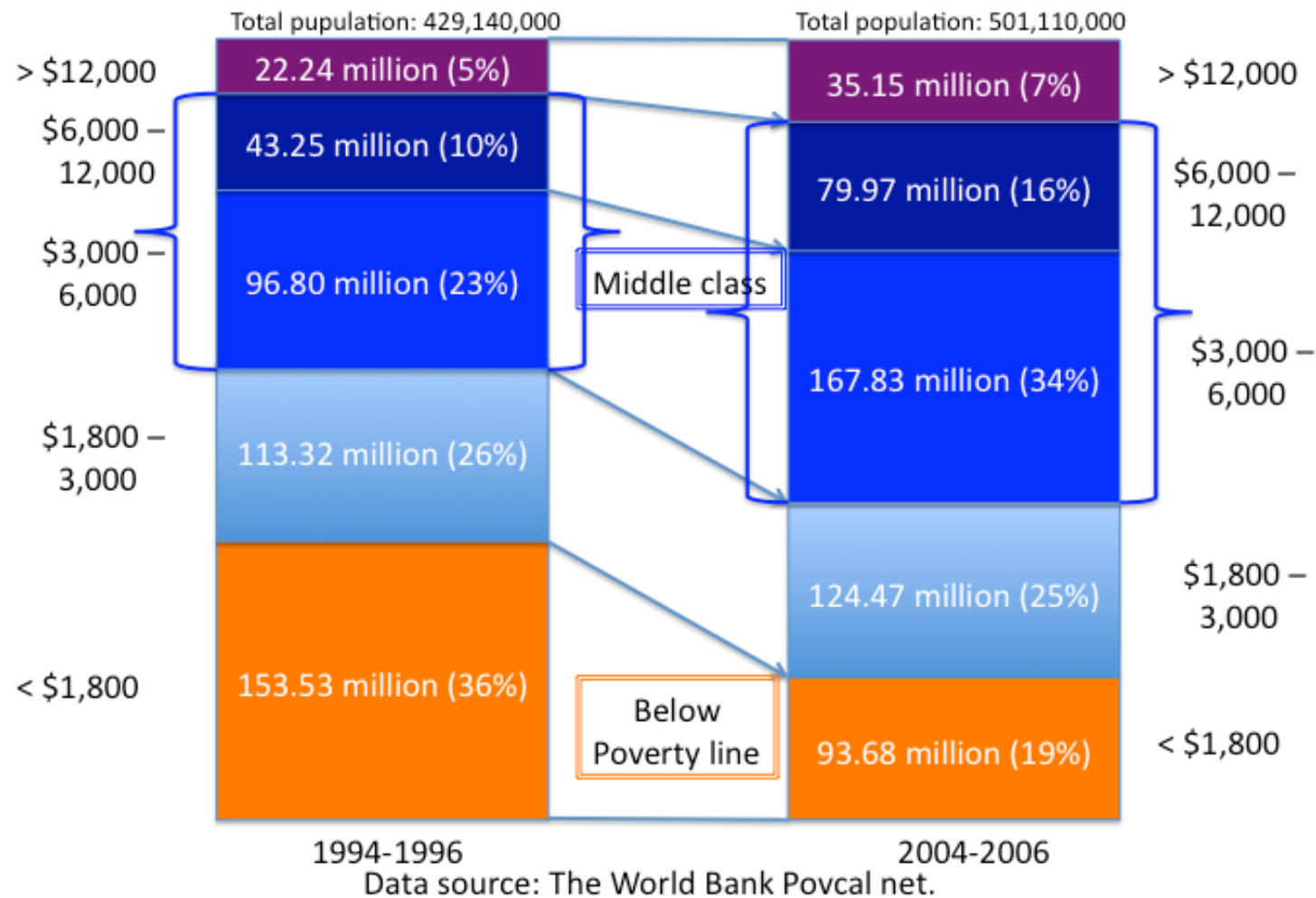
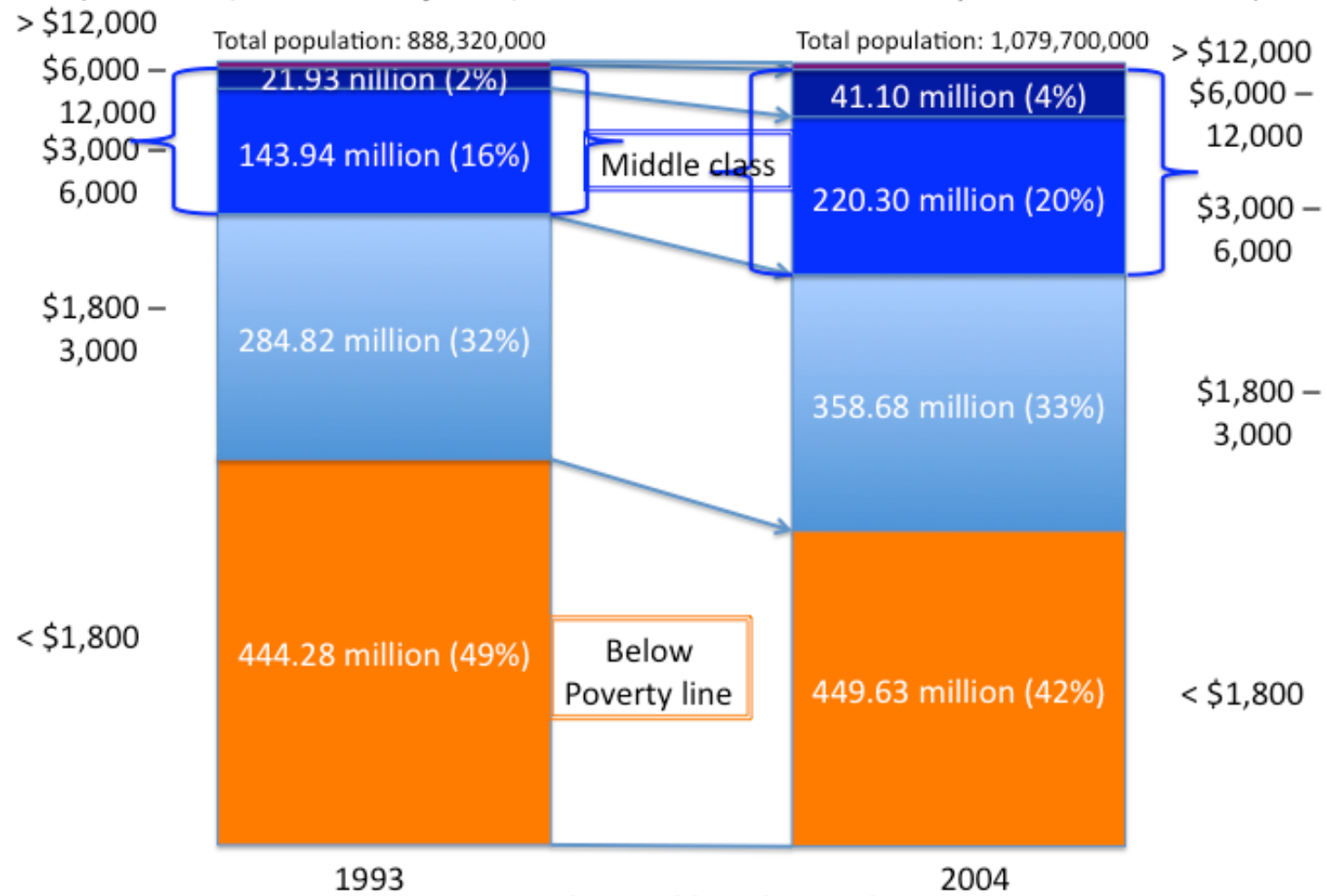


Figure 7 Population by income groups: India

(US dollars; 2005 PPP adjusted; annual total income of a family with four members)



Data source: The World Bank Povcal net.