

MARY BOYD'S BIOGRAPHY

Mary Boyd is responsible for programme development and client servicing in Shanghai. She also provides research and conceptual support on China for Corporate Network programmes.

Before joining the Economist Group Mary Boyd was in the Canadian Department of Foreign Affairs, serving on assignment in Hong Kong, Thailand, Taiwan and China (in Shanghai, Guangzhou and Chongqing). Since leaving government service she has researched and published on economic development and governance issues in China, and has undertaken consultancy work for the World Bank and other international institutions, as well as multinational companies. She has written for a number of Economist Intelligence Unit publications, including Country Report, China Hand and Business China. She co-authored the Economist Intelligence Unit report Taking on the Competition: Domestic Companies in China in 2005.

Ms Boyd has an MA (Area Studies) and an MSc (Public Policy and Management) from the School of Oriental and African Studies, University of London, and has also completed language studies at Nanjing University. Her research interests include local governance and decentralization policies, and public-sector reform.

Economic Interdependencies: China, Japan, ROK

**International Manganese Institute
37th Annual Conference
May 25, 2011, Jeju**

Mary Boyd
Director, Economist Corporate Network
maryboyd@economist.com



Smiles all round



Trade ministers have their homework assignments



Why the FTA “fever” in Asia ?

Four main factors :

- (i) Deepening market-driven economic integration in Asia,
- (ii) European and North American economic integration,
- (iii) the 1997–1998 Asian financial crisis, 2008-2010 GFC
- (iv) slow progress in the WTO Doha negotiations.

Market-driven economic integration through trade, FDI, and the formation of Asian production networks and supply chains.

Requires further liberalization of trade and FDI and harmonization of policies, rules, and standards governing trade and FDI, including the protection of investment and intellectual property rights.

Intra-regional interdependence in trade and investment has been deepening in North-east Asia due to geographical proximity and sheer market forces.

Following the 1997 Asian financial crisis, consensus among East Asian countries for closer regional economic cooperation to avoid a recurrence of another regional financial crisis.

Framework for financial cooperation was consolidated in May 2000 by the ASEAN + 3 Chiang Mai Initiative (CMI), which involves a **regional currency swap** to provide self-help and support mechanisms.

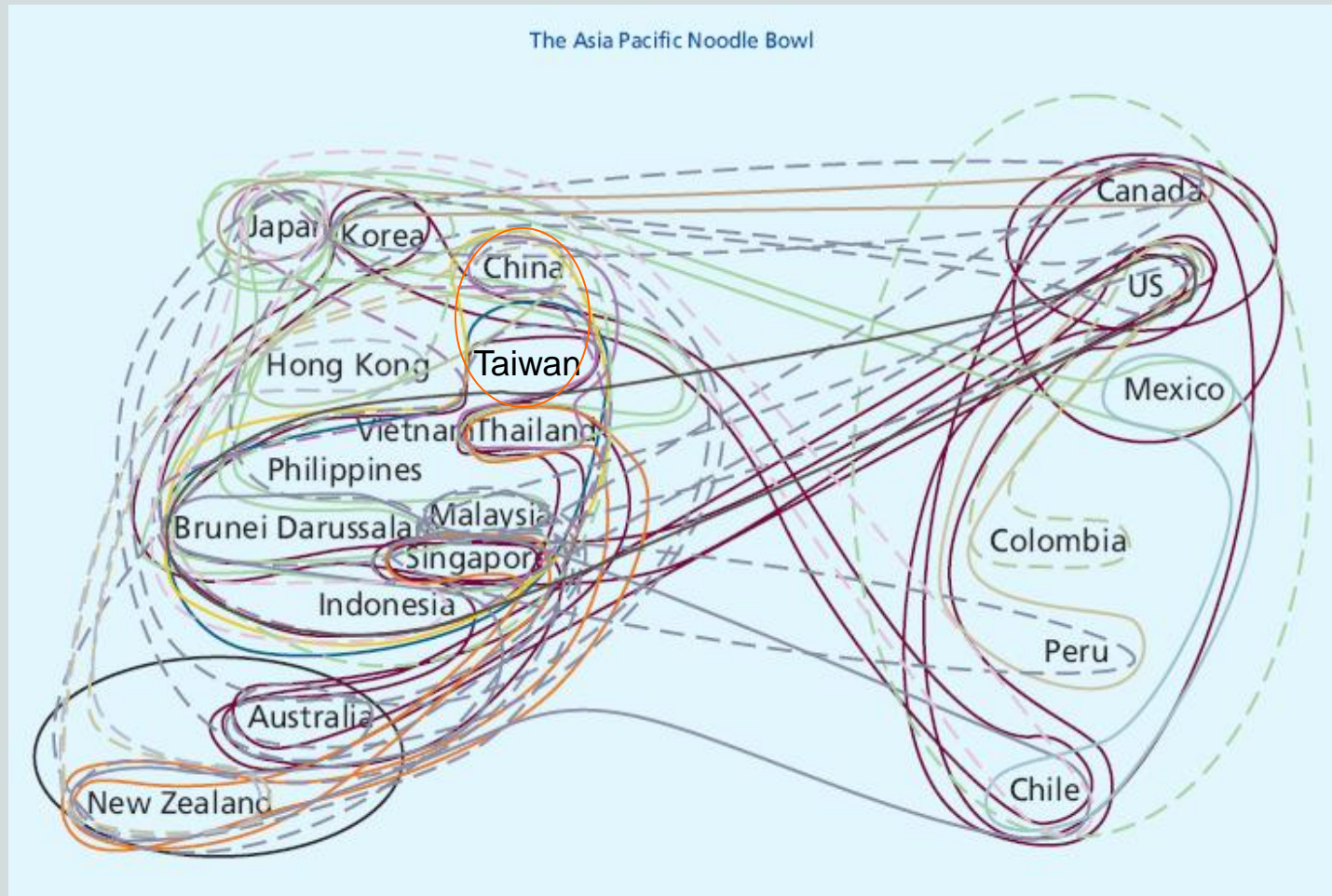
What are the advantages of an East Asian FTA?

- Market-driven integration of East Asian economies has already achieved impressive results - production networks have been developed
- Formal institutionalization would support and facilitate greater growth
- Objectives: institutional transparency and stability, market liberalization, reduction of tariffs and non-tariff measures
- The shift of economic power from G7 to G20 reflects the increasing role of emerging countries in global policymaking.
- Regionalization in East Asia will help to amplify the role of Asia.

Density of FTAs:
Implemented, Negotiated or Studied

	ASEAN	China	Japan	Korea	US
ASEAN	●	●	●	●	●
China	●	●	●	●	
Japan	●	●	●	●	
Korea	●	●	●	●	●
US	●			●	●

Bring coherence to the trans-Pacific noodle bowl



Source: adapted from PECC, *State of the Region*, 2005.

Mutual complementary economic cooperation/competition amongst Japan, Korea and China

China

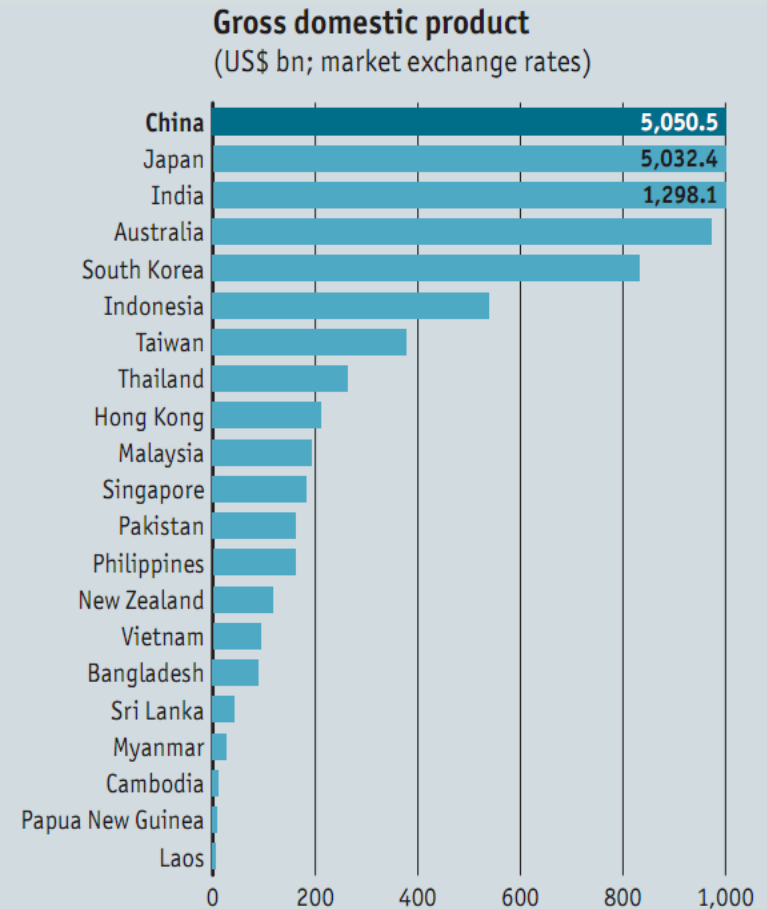
abundant natural resources, huge labour force, less developed technologies, growing capital resources, growing domestic market.

ROK

medium-level technology, high economic development, few natural resources

Japan

high technology, abundant capital, skilled (but ageing) labour force, lacks natural resources.



Sources: Economist Intelligence Unit estimates; national sources.

The “flying geese” model vs. “parallel development” for the region

- **Flying geese:** Japan, ROK and China, in that order, had experienced successful commercialization of new technologies, mass-production system, and transfer of production base to foreign countries through vertical and hierarchic transfer of technology
- Since the 1990s industrial growth amongst the three countries has overlapped, promoted by government industrial policies and new capital.
- **High trade intensity**
- trade of manufactured goods among Japan, Korea and China has continued, spurred by China’s economic growth and industrial development.
- China has increased the portion of manufactured goods in exports to and imports from Korea and Japan.
- Manufactured goods in Japan-Korea trade have shown a slight decline
- Supply chain and production fragmentation have been reinforced by geographical proximity and differential factor endowments to generate closer economic linkages at the cross-border level
- Examples: IT and automobile industries
- This has led to increased competition – but also to increased intra-regional trade and connectivity

Prior regional initiatives: Japan, China and ROK

All three have promoted open cross-border regions and supra-regions as a national development strategies – to overcome the problems associated with fragmented boundaries and to establish region-wide platforms for trans-boundary and trans-border cooperation

- **Japan:** nurture mega-regions through designating four supra-regional axes and eight mega-regions in the initiative, "Seamless Asia" to connect Japanese enterprises with the transportation and logistics networks of the Northeast Asian region = an airline-centered network seeking to connect western regions of Japan such as Kyushu with South Korea, the eastern coastal region of China
- **China's:** regional development policies to balance national development through development corridors, regional clusters, cross-border cooperation strategy = Pearl River Delta region
- **ROK** = The 4th revised national comprehensive territorial plan (2006-2020) proposed open developmental axes, which connect to the Eurasian continent and the Pacific Rim through close linkages with China, Japan, the Russian Far East, and other Asia-Pacific countries.

“Sino-dependency” adds some urgency to the debate



Global financial crisis
illustrated the importance of
China's market and capital

Largely self-funded

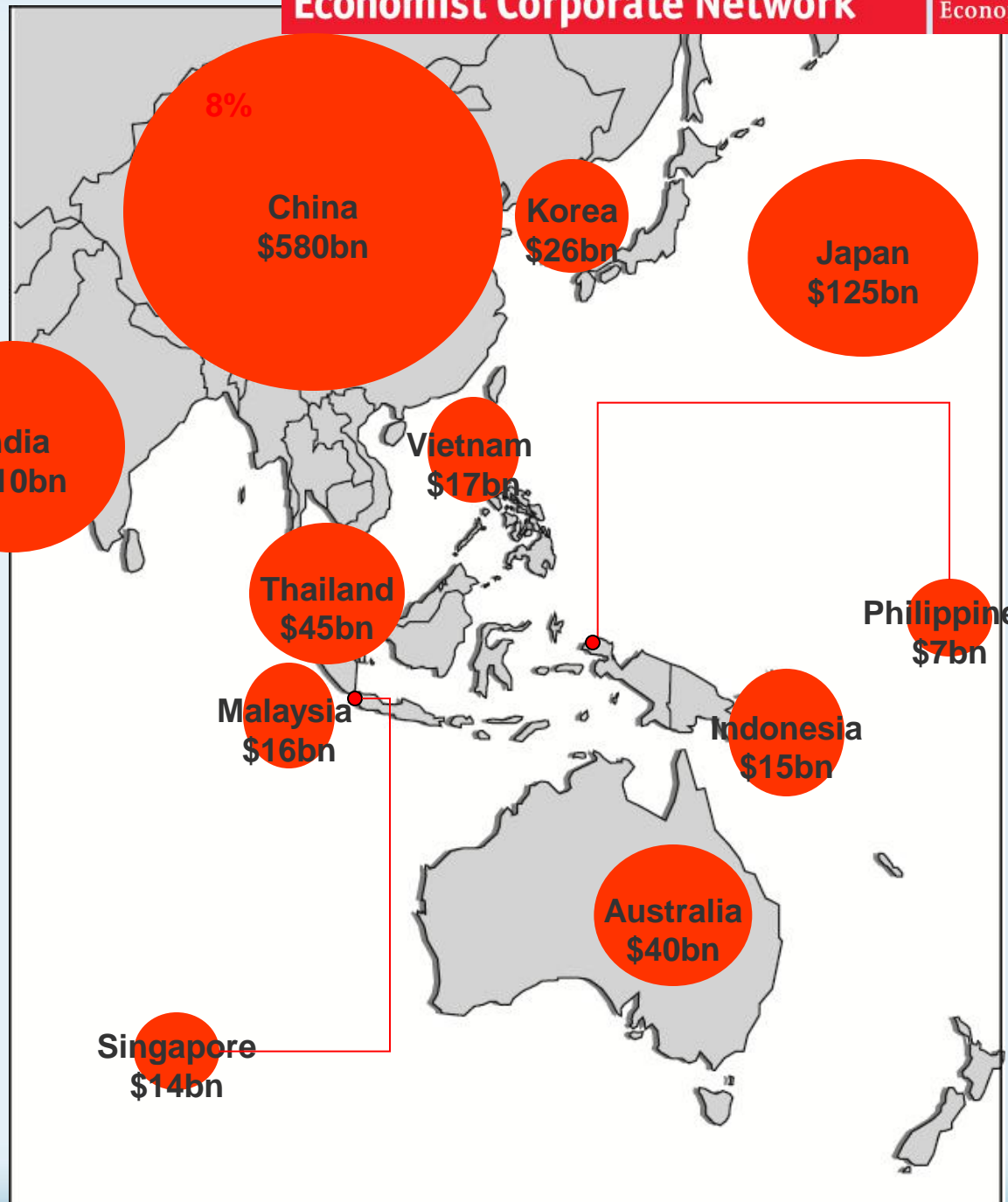
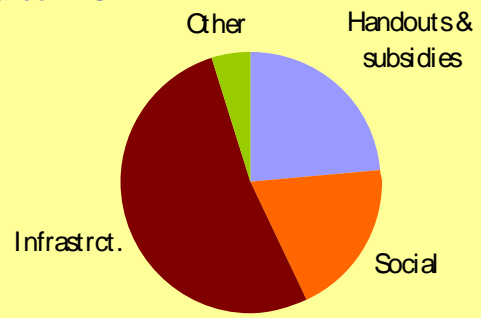
Stimulus spending

Total amount dispersed

Source: EIU

Percentage dispersed in Asia by spending category

Source: EIU



8%

China \$580bn

Korea \$26bn

Japan \$125bn

India \$110bn

Vietnam \$17bn

Thailand \$45bn

Malaysia \$16bn

Philippines \$7bn

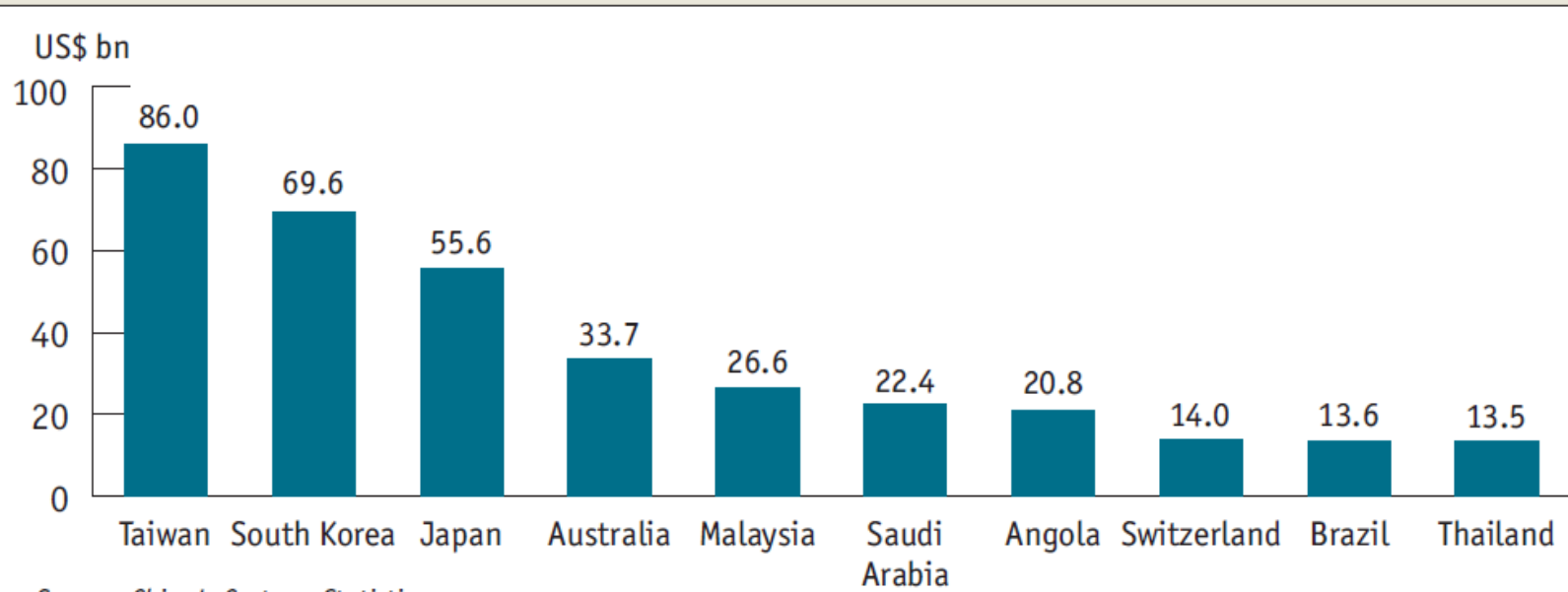
Indonesia \$15bn

Australia \$40bn

Singapore \$14bn

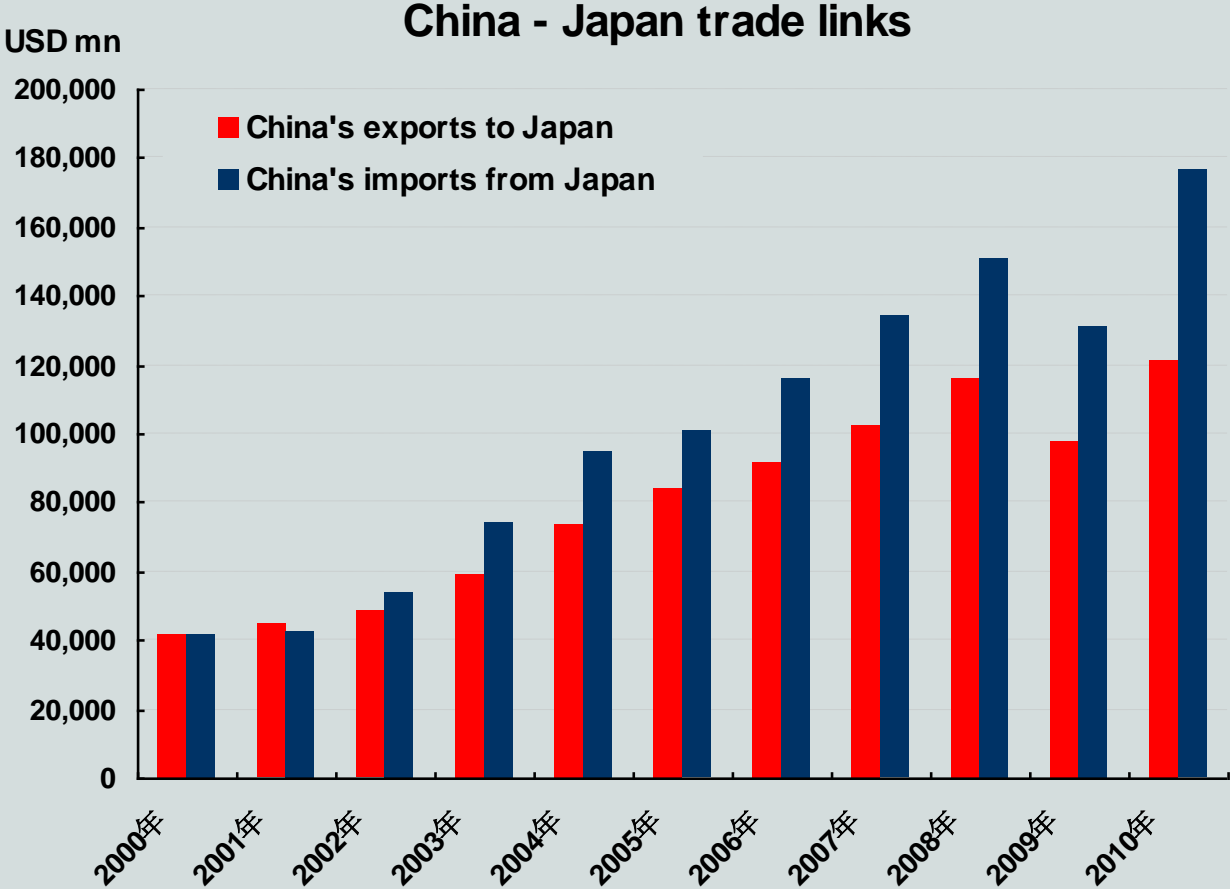
Beneficiaries of the China growth story

Major sources of China's trade deficit, 2010

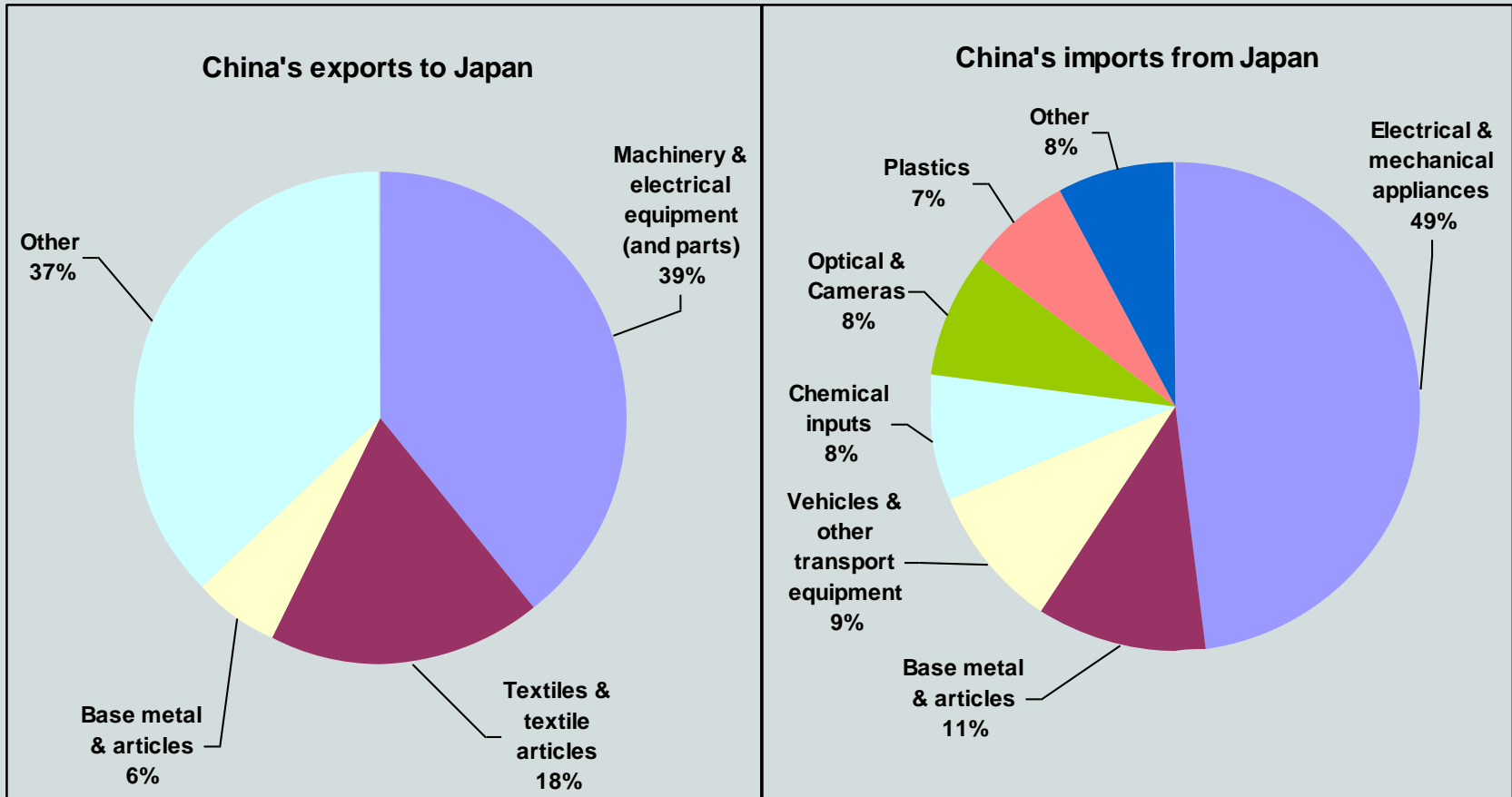


Source: *China's Customs Statistics*

The size of China's trade deficit with Japan

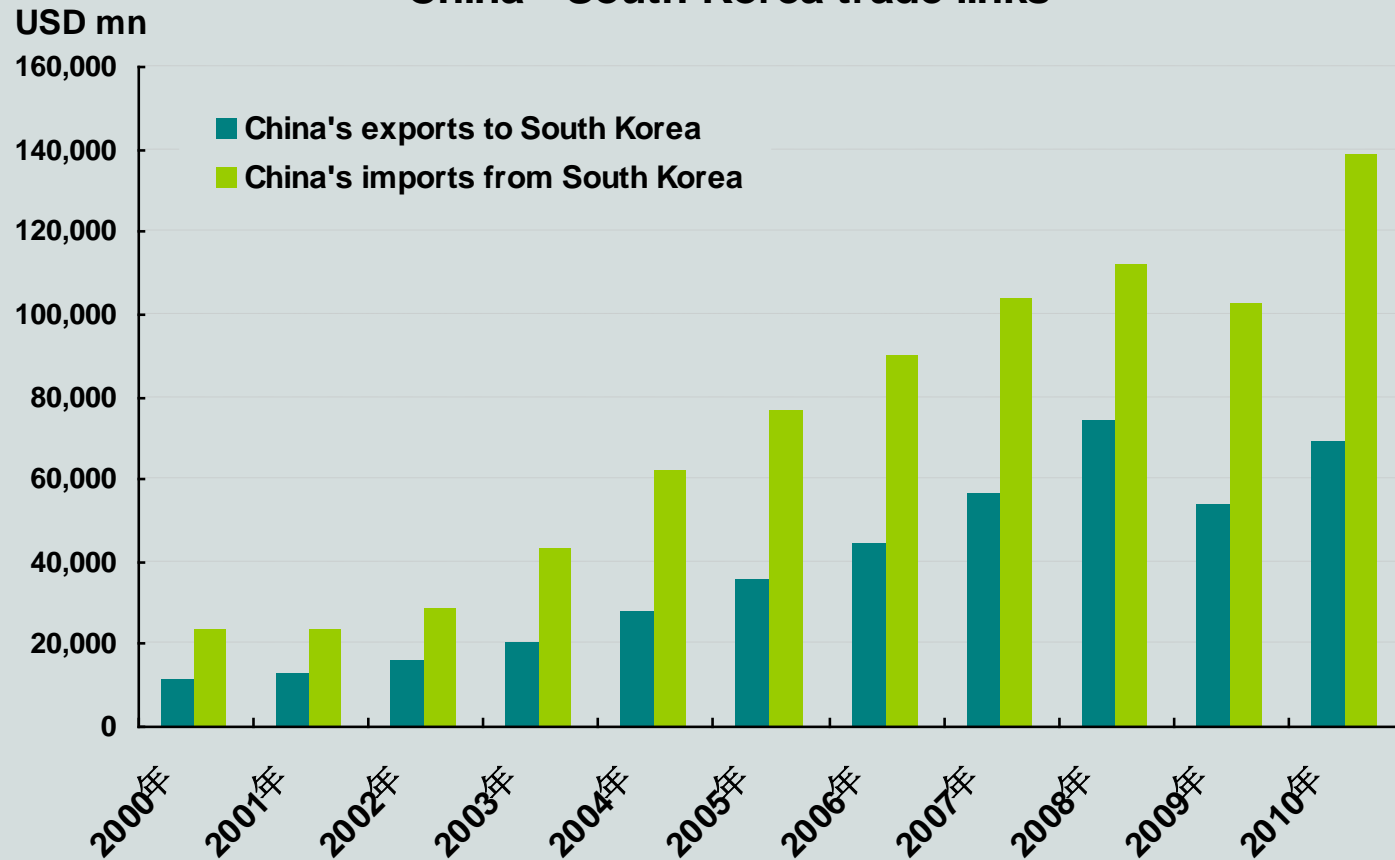


Structural composition of trade shows interdependency

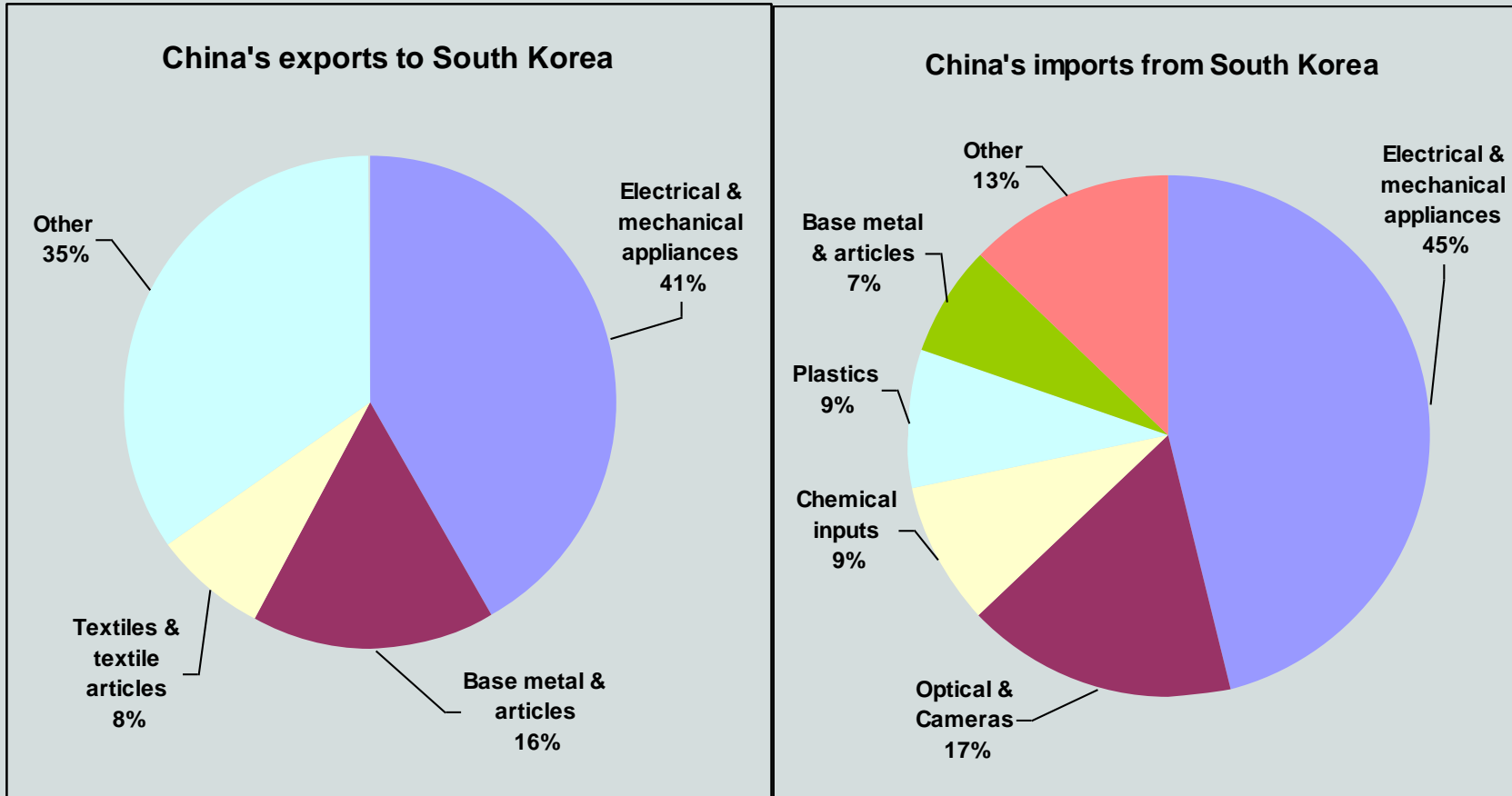


Korea is a major supplier for China

China - South Korea trade links



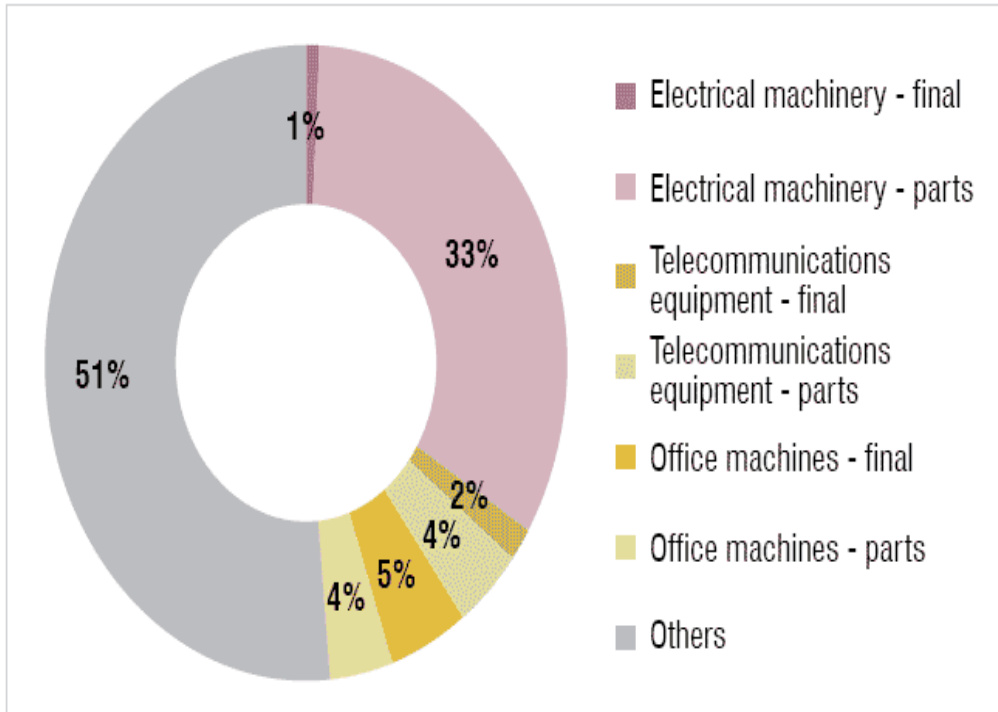
Electronic components predominate



Importance of global and regional supply chains

Figure 16. Parts and components dominate China's imports from East Asia

(In percent of total exports)



Source: Datastream, CEIC and World Bank staff calculations.

- transportation costs
- adoption of just-in-time production techniques

Reliance on Japan for advanced components essential to supply chains

- Produces 60% of silicon wafers
- 90% of BT resin for circuit boards
- Flash-memory chips (iPhone and iPad)
- Advanced electronic navigational devices (for autos)

iPhone example - international production fragmentation

iPhone 3G's major components

Manufacturer	Component
Toshiba (Japan)	Flash Memory
	Display Module
	Touch Screen
Samsung (Korea)	Application Processor
	SDRAM-Mobile DDR
Infineon (Germany)	Baseband
	Camera Module
	RF Transceiver
	GPS Receiver
	Power IC RF Function
Broadcom (US)	Bluetooth/FM/WLAN
Numonyx (US)	Memory MCP
Murata (Japan)	FEM
Dialog Semiconductor (Germany_	Power IC Application Processor Function
Cirrus Logic (US)	Audio Codec

Source: Rassweiler 2009; ADBI Working Paper 257

Financial cooperation

- In 2001, leaders of ASEAN+3 met together at Chiang Mai = created a set of bilateral swap arrangements
- Chiang Mai Initiative (CMI), countries in East Asia could borrow short term liquidity in the event of a crisis or contagion = an important step in establishing a regional monetary cooperation.
- CMI multi-lateralization (CMIM) at the ASEAN+3 Finance Ministers' Meeting (AFMM+3) in May 2009 in Bali, Indonesia. The CMIM came into effect in March 2010.
- Multiple BSAs were replaced by a single contractual self-managed reserve pool agreement and the total size of the swap pool was extended to US\$120 billion.
- Member contributions and borrowing limits were decided in such a way that Japan and the China would contribute 32% each, Korea 16% and ASEAN 20%.
- May 2010 = ASEAN+3 agreed to establish an ASEAN+3 Macroeconomic Research Office (AMRO) in Singapore by May 2011, who work with the ASEAN Secretariat to conduct an effective surveillance and monitoring of member states' economies.
- CMIM *could* be platform for Asian Monetary Fund, with further institutionalized structure combined with independent surveillance unit.
- Increasing intra-regional trade, a regional FTA and capital investment = formation of a common currency??

Pros : Trilateral FTA (China, Japan, ROK)

- Intra-regional trade accounts for more than half of total trade in East Asia
-
- Increase in intra-regional trade was due to the increase in the trade of parts and components, as East Asian firms shifted from exports to cross-border production
-
- Increasing intra-regional trade was supported by large intra-regional FDI in East Asia
- China = new dominant economic force, promoting increased intra-regional trade. China exports finished and semi-finished products while importing raw materials, semi-finished components, and capital goods.
- Financial markets in East Asia are far more globally integrated.

Current areas of trilateral cooperation

Customs clearance :customs mutual assistance agreement (CMAA) between China and Korea, a Korea-Japan CMAA; a China-Japan CMAA under negotiation.

Transportation Northeast Asia Port Directors-General' Meetings have been held since September 2000 = joint studies on promotion of cruising, investment and free-trade zones as well as the new design method of port facilities.

ICT the trilateral ICT Ministers' Meetings were formalized and the ministers agreed on a closer trilateral cooperation and the framework of "East Asia (CJK) ICT Summit". The working groups were set up for cooperation on six areas (the next generation Internet (IPv6), 3G and next generation mobile communications, network and information security, telecommunication service policies, digital TV and broadcasting, open source software)

Environmental co-operation a comprehensive sub-regional environmental co-operation mechanism in Northeast Asia, and the monitoring and early warning network system for [dust and sand storms](#), the Acid Deposition Monitoring Network in East Asia, the Northwest Pacific Action Plan for the protection of the regional marine and coastal environment, the North East Asia Sub-regional Program for Environmental Cooperation.

Sustainable development for East Asia seas through the framework of the "Partnerships in Environmental Management for the Seas of East Asia".

Cons : Challenges ahead for a PRC-Japan-ROK FTA

Political rivalry over FTA leadership (either a trilateral FTA among, or three bilateral FTAs)

Concerns:

Japan: rising competitiveness of the PRC's manufacturing sector and agricultural products.

Japan wishes to treat the PRC as a **non-market economy** so that it can use safeguard measures against a rapid increase of the PRC's imports into the Japanese markets, but

PRC insists upon **market economy** status for itself.

IPR, equal treatment, food safety issues, lack of investment treaty (Japan-PRC)

ROK: excessive dependence on the PRC, worries about PRC's agricultural competitiveness.

Japan and ROK

Japan's primary concern is the competitiveness of the Republic of Korea's agriculture and fishery sectors.

ROK concerned about Japan's competitiveness in manufactured products, and potentially large tariff concessions (MFN), risk of greater bilateral trade deficits with Japan.

If joint political commitment can be found, mutually agreeable FTAs could provide a strong foundation for a trilateral trade pact, as well as enhanced monetary cooperation

Thank you!

고맙습니다

谢谢

Mary Boyd

Director, Shanghai Corporate Network

Economist Group

maryboyd@economist.com