

# Regionalization in Search of Regionalism: Production Networks and Deep Integration Commitments in Asia's FTAs

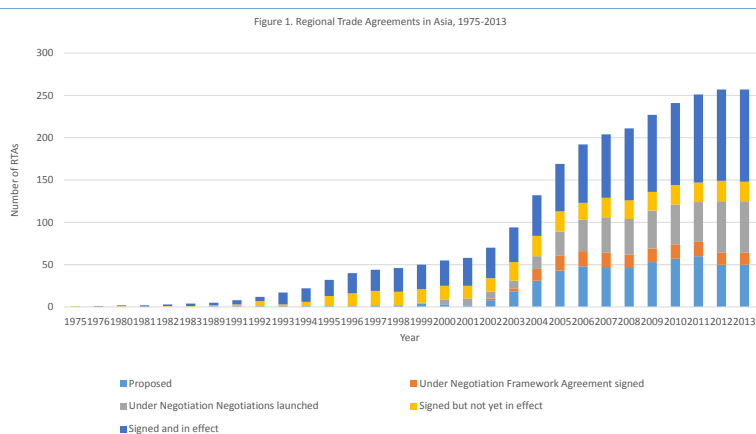
Soo Yeon Kim

Department of Political Science  
National University of Singapore  
sooyeon.kim@nus.edu.sg

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# Asia is a Latecomer to the FTA Scene

Worldwide proliferation of PTAs in the 1990s, Asia since 2000



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# Asian Regional Integration

Until recently, high on Regionalization, Low on Regionalism

- "ASEAN" Way (Acharya): avoidance of binding legal commitments
  - Asia-Pacific Economic Cooperation (APEC): voluntary liberalization through individual action plans
- Regional integration led by the private sector
  - Pacific Economic Cooperation Council (PECC)
  - Pacific Basin Economic Council (PBEC)
  - Chinese Diaspora
- 'Market-oriented, decentralized Asia-Pacific' (Funabashi 1995)

# Asia Now an Active Site for FTA-formation

- 109 FTAs in effect, 23 awaiting ratification
- Even Mongolia has joined: negotiations for accession to Asia-Pacific Trade Agreement (APTA) since 2011; FTA with Japan under negotiation since 2012
- Consolidation of drive toward greater regionalism (Fiorentino et al 2006)

# Why the Shift to State-Led Institution-Building?

By forming FTAs, governments have become active leaders in regional economic integration

- Possible explanations:
  - Global trends in FTA-formation: does not explain wide variability in quality of agreements (highly symbolic India-Bhutan FTA vs. highly complex Korea-US FTA)
  - Consolidation of regionalism after the Asian Financial Crisis (1997): ASEAN FTA (AFTA) was signed in 1992
    - Crisis and FTA activity are unrelated (Ravenhill 2008)

# Argument: Regionalization in Search of Regionalism

Recent FTA activity is a response to the institutional demands of production networks and the current stage of regional economic integration

- Private-sector led economic integration has reached its limits
- The increasing intensity and complexity of the region's production networks calls for deep integration and coordination of domestic trade-related rules
- Deep integration requires coordination by governments
  - Regulatory convergence to facilitate establishment and operations of production networks by multinational firms
  - Deep integration building on existing levels of market access: internal tariffs at zero for 98.6% of 98,176 tariff lines in ASEAN (ASEAN 2013)

# Proctor & Gamble in ASEAN

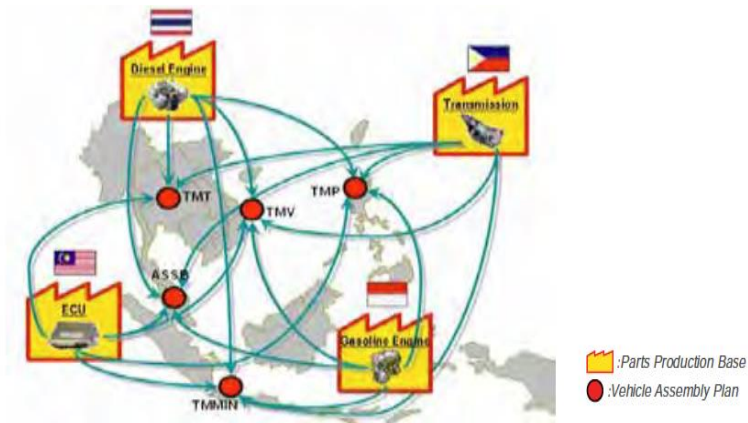
## ASEAN Hair Care Supply Chain (AIR 2013)



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# Toyota's Auto Parts Production and Supply Chains in ASEAN

ASEAN Investment Report (2013)



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## Integrated ASEAN Business Model (AIR 2013)

- core activities include oil palm cultivation, sugar merchandising and refining, specialty fats, oleo-chemicals, biodiesel and fertilizers manufacturing, grains processing
- Plantations in Indonesia and Malaysia
- Production and distribution networks extend to Philippines, Thailand and Vietnam
- R & D in Singapore, Malaysia, Vietnam, and Indonesia

# Production Networks Promote Deep Integration FTAs

- Deep integration: a process of economic integration that erodes differences in national economic policies and regulations and renders them more compatible for economic exchange
  - 'behind the border' integration (Lawrence 1995); 'positive integration' (WTO era liberalization approach)
- Deep integration FTAs strengthen contestability of markets for foreign firms
  - Protection of foreign firms' interests
  - Liberalization of 'behind the border' trade barriers
  - Harmonization of domestic trade rules to enhance efficiency of international production

# The Trans-Pacific Partnership Agreement(TPP)

## A Deep Integration FTA for the 21st Century

- Currently under negotiation (19th round) among twelve countries: current members include Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Japan joins as 12th member in July 2013 (18th round)
- Economic arm of the Obama Administration's 'Asian Pivot'
- Regulatory coherence as a key objective
- Advanced as fully regional agreement designed to facilitate the development of production and supply chains among member countries

# The TPP: Areas of Negotiation

## The Trans-Pacific Partnership (TPP) Agreement: Areas of Negotiation

Market Access for Goods.  
Trade Remedies  
Legal Issues/Dispute Settlement.

Cross-Border Services  
Financial Services  
Telecommunications

Competition Policy  
Government Procurement.  
Intellectual Property.  
Investment  
Sanitary and Phytosanitary Standards (SPS)  
Technical Barriers to Trade (TBT)  
Temporary Entry  
Rules of Origin.  
Textiles and Apparel/ROOs

Cooperation and Capacity Building.  
Customs  
E-Commerce.  
Environment  
Labor

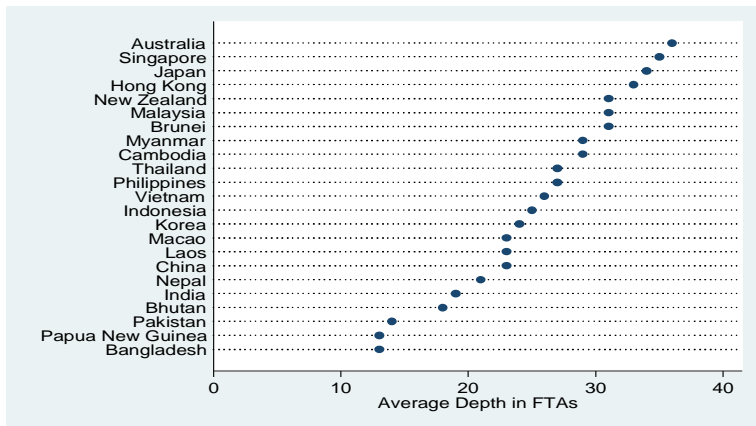
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# Depth of Integration in Asia's FTAs

## Patterns across Space and Time

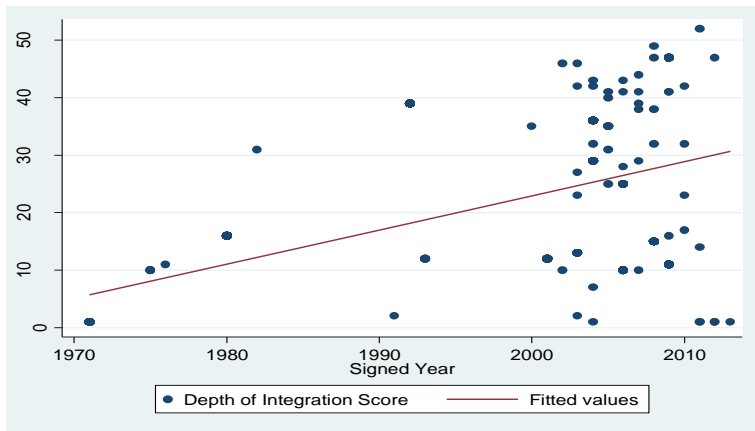
- United Nations Economic and Social Commission for the Asia-Pacific (UNESCAP) compilation of FTA provisions
- Depth of Integration score for FTA: simple sum of number of provisions included in FTA
  - 58 provisions concerning market access for goods, investment, services, trade facilitation, rules of origin, and an others category that includes issue areas such as competition, intellectual property rights, labor and environmental standards, government procurements, dispute settlement, and technical cooperation
- Highest scores for WTO-notified recent (2000 and later) FTAs and Economic Integration Agreements (EIAs) that include services commitments
- Lowest scores for earlier agreements not notified to the WTO or notified under Enabling Clause

# Depth of Integration Scores by Country



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# Depth of Integration Scores over Time 1971-2013



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# Case Study: Investment Provisions

## 10 broad categories

- 1 Sectoral coverage to include portfolio investment as well as FDI
- 2 Investor-state dispute settlement
- 3 Positive or negative-list bindings in MFN and national treatment
- 4 Scope of MFN and NT as they concern the stages of investment: establishment, acquisition, post-establishment and (re)sale
- 5 Investment protection, covering fair and equitable treatment, repatriation of profits, and expropriation
- 6 Restrictions on transfers and payments
- 7 Performance requirements
- 8 Restrictions on senior management and board of directors, in terms of membership and temporary entry provisions
- 9 Denial of benefits for third-party investors
- 10 General transparency provisions regarding the publication of laws and regulations and the availability of a national inquiry point



# Production Networks and FTA Commitments

	Depth of Integration	Investment Commitments
Trade in Parts and Components	1.439 (0.279)**	0.398 (0.133)**
FDI Inflows	-0.880 (0.375)*	0.115 (0.186)
Trade Openness	0.107 (0.022)**	0.011 (0.014)
Economic Asymmetry	2.524 (1.026)*	1.020 (0.528)
Economic Growth	0.749 (0.485)	-0.108 (0.233)
Democracy	0.537 (0.337)	0.364 (0.172)*
Veto Players	-23.560 (9.770)*	-4.888 (5.005)
Constant	22.513 (5.053)**	6.843 (2.798)*
R-squared	0.31	0.15
N	208	191

\* p<0.10, \*\* p<0.05. OLS with robust standard errors

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# Conclusions

- FTAs have emerged as an important institutional mechanism for managing Asian regional integration)
- Deep integration commitments in FTAs are an integral part of the protection, liberalization, and harmonization domestic trade-related regulations to facilitate production networks by multinational firms
- More production network trade associated with deeper FTAs
- Work under preparation:
  - Compilation of FTA provisions data on regulatory areas most relevant to production networks: TBTs (standards), competition policy, and services]
  - The role of FDI and trade-investment linkage: stocks vs. flows
  - Multinational firms as political actors in host countries

- Thank you!
- sooyeon.kim@nus.edu.sg