



The 25th Pacific Economic Community Seminar
Advancing Regional Economic
Integration-Potential
Roles of India and Taiwan



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Welcome Remarks- (From left) Ms. Lily Hsu, Dr. David Hong, Mr. Pradeep Rawat



Session I-(From left) Prof. Alicia Frohmann, Prof. Tan Khee Giap, Dr. David Hong, Prof. Ippei Yamazawa, Prof. Robert Scollay

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Session II-(From left) Dr. Sheng-Cheng Hu, Prof. Robert Scollay, Prof. Alicia Frohmann, Mr. Durgesh K Rai, Dr. Gary Gong



Session III-(From left) Prof. Tan Khee Giap, Prof. Dengker Lee, Dr. Sheng-Cheng Hu, Ms. Pallavi Kalita, Prof. Fu-Kuo Liu

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Chinese Taipei Pacific Economic Cooperation Committee (CTPECC)

The 25th Pacific Economic Community Seminar

Advancing Regional Economic Integration-Potential Roles of India and Taiwan

Date: Thursday, 2nd December 2010

Venue: 4F VIP Room 5-7, Regent Hotel

Introduction

Regional Economic Integration (REI) in the Asia-Pacific region has been gathering momentum through ASEAN and APEC, in particular in the forms of ASEAN+N, FTAAP, TPP, and also APc. In the midst of these developments, Taiwan and India have both indicated strong desire to be active participants, for they are major countries with the economic competitiveness to make substantial contributions to REI. Taiwan has shown strength in information technology (IT) especially the hardware capacity such as semiconductor and personal computer manufacturing. India, meanwhile, has become a world flagship in IT software designs. Both countries have experienced a tremendous economic leap thanks to their advancing and improving IT capability. Working together, Taiwan and India could offer tremendous contribution to the REI process.

Accordingly, the Chinese Taipei Pacific Economic Cooperation Committee (CTPECC) and Taiwan Institute of Economic Research (TIER) consider it important to take a closer look at the perspectives of Taiwan and India in Asia-Pacific REI. The purpose of the seminar is to examine the role that Taiwan and India can play in strengthening REI in the Asia-Pacific region. In addition, the seminar will explore and identify potential opportunities and challenges for Taiwan and India as well as for the region.

Program

09:00-09:40	Registration
09:40-10:00 (5 min each)	Welcome remarks- Dr. David Hong, President, Taiwan Institute of Economic Research Remarks- Ms. Lily Hsu, Director General, Department of International Organizations, Ministry of Foreign Affairs Remarks- Mr. Pradeep Rawat, Director General, India-Taipei Association
10:00-10:20	Coffee Break

Session I: Regional Economic Integration Outlook

10:20-10:25	Session Chair	David S. Hong	President, Taiwan Institute of Economic Research
10:25-10:45	Speaker	Ippei Yamazawa	Professor Emeritus, Hitotsubashi University
10:45-11:05	Speaker	Robert Scollay	Associate Professor, University of Auckland
11:05-11:20	Discussant	Tan Khée Giap	Chairman, SINCPEC
11:20-11:35	Discussant	Alicia Frohmann	Consultant, Fundación Chilena del Pacífico, Inter American Development Bank (IADB), Organization of American States (OAS) & Fundación Empresarial EuroChile
11:35-11:50	Floor Discussion (Q & A)		
11:50-1:30	Lunch		

Session II: Roles of India and Taiwan in Global IT Supply Chain

1:30-1:35	Session Chair	Alicia Frohmann	Consultant, Fundación Chilena del Pacífico, Inter American Development Bank (IADB), Organization of American States (OAS) & Fundación Empresarial EuroChile
1:35-1:55	Speaker	Durgesh K Rai	Research Associate, ICRIER
1:55-2:15	Speaker	Gary Gong	Executive Vice President, Institute for Information Industry
2:15-2:30	Discussant	Robert Scollay	Associate Professor, University of Auckland
2:30-2:45	Discussant	Sheng-Cheng Hu	Academician, Academia Sinica
2:45-3:00	Floor Discussion (Q & A)		
3:00-3:20	Coffee Break		

Session III: Regional Economic Integration-Potential Roles of India and Taiwan

3:20-3:25	Session Chair	Sheng-Cheng Hu	Academician, Academia Sinica
3:25-3:45	Speaker	Pallavi Kalita	Research Assistant, ICRIER
3:45-4:05	Speaker	Fu-Kuo Liu	Research Fellow, Institute of International Relations, National Chengchi University
4:05-4:20	Discussant	Dengker Lee	Professor, National Chengchi University
4:20-4:35	Discussant	Tan Khée Giap	Chairman, SINCPEC
4:35-4:50	Floor Discussion (Q & A)		



Session I

Regional Economic Integration Outlook

Taipei Regional Economic Integration Outlook of Asia Pacific after 2010 APEC Yokohama

Regional Economic Integration Outlook

Regional Economic Integration Outlook of Asia Pacific after 2010 APEC Yokohama

Ippei Yamazawa, Hitotsubashi University, Tokyo

2010 APEC Yokohama was completed two weeks ago with three major achievements, first the mid-term assessment of its Bogor target, second a concrete direction toward (Free trade Area for the Asia-Pacific (FTAAP), and third APEC's growth strategy. The first two give us a future prospect for APEC's main activity of Trade Investment Liberalization and Facilitation (TILF), while the last packages its new initiatives undertaken for the past decade in order to combat with changing economic environment in the region. We have also witnessed throughout this year major developments in regional institutions, major bilateral and plural FTAs, ASEAN PMC in Hanoi in October, and G20 Summit in Seoul immediately before APEC Yokohama. All these development affect the REI outlook of the region, TIER's assignment given to me at this seminar.

This article aims to give an overview of the regional Economic Integration (REI) in Asia Pacific incorporating all these development mentioned above. I wish this report will provide readers with a broader base for discussion at this seminar focusing on Taiwan, India and IT industry. Section 1 examines the extent of REI based on the trade matrix of the Asia Pacific economies. European Union and India are added as major external partners in the table and analysis. Although with only loose institutional framework not comparable with the legally tightened REI in Europe, its REI has been driven by market basis and has achieved the highest growth performance in the world. Asia Pacific is the late comer of the world-wide move of REI and still weak Section 2 reviews the institutional development of REI in Asia Pacific, APEC, ASEAN, ASEAN plus 1 FTAs, ASEAN plus 3, and East Asian Summit (EAS) as well as flourished bilateral FTAs/EPAs. Section 3 overviews recent developments of Asia Pacific REI institutions, China-Japan-ROK relationship, China-Hong Kong and China-Taiwan FTAs, ROK's and Japan's FTA with India, and EAS's expansion to ASEAN plus 8. Section 4 summarizes the major achievements of 2010 APEC Yokohama mentioned above and discusses their impacts on future prospect of Asia Pacific REI. Section 5 concludes this article with a probable roadmap toward East Asian Community widely shared by Asian economies based on the realistic understanding of political and security constraints on its REI.

1. Economic Integration in Asia Pacific

First let's review the GDP growth rates (at constant prices) for the past 15 years. Three benchmark years of 1995, 2001, and 2007 are selected in order to avoid the disturbance of Asian currency crisis in 1997-98 and the world financial crisis in 2008-09. However, ASEAN members had not recovered fully from the currency crisis in 2001 so that their growth rates in the first period were as low as 1 ~2%. But in the following six years, Asian economies except Japan grew at over 5%. Especially China grew at 10% and Vietnam at 7%, followed by Russia. Chile, Peru and Mexico grew at 3 ~ 4%. On the contrary, industrialized economies of United States, Australia, Canada and New Zealand grew at 2~3% and Japan was the lowest of all throughout two periods. Incidentally EU15 grew at 2.65% and 1.95% respectively. Asian economies are not affected very much by the world financial crisis in 2008-9. China and other developing economies in East Asia have pulled the high growth of APEC region.

Appendix Tables 1 shows the consolidated trade matrix of this region; Japan, China, Republic of Korea (ROK), Hong Kong, and Taiwan, ASEAN 7 (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam), Oceania (Australia, New Zealand, Papua New Guinea), USA and America 4 (Canada, Chile, Mexico, Peru), and Russia. It also give figures for APEC 21 and EU15 for comparison. The EU figures include trade between 15 EU members¹. The three years, 1995, 2001 and 2007 are selected as benchmarks for a long-term trend.

The right-end column of the trade matrix gives the total exports of individual economies and groups to the world, while its bottom row gives their total imports from the world. Its diagonal cells give the intra-regional trade for groups but zero for single economy like Japan, China, USA, and Russia. Trade matrix provides us with a lot of information and we will examine the size of trade, intra-regional trade ratio, increase of trade, and trade intensity.

In East Asia, Japan and East Asia 3 (ROK, Hong Kong, and Taiwan) exported about the same amount, followed by ASEAN 7 with its three quarter and China with its one third in 1995. However, in 2007 China came to the top, followed by East Asia 3 and ASEAN 7, all far exceeded Japan. The similar trend is witnessed in imports as well. Let us compare the whole East Asia with America 5 and EU15. EU15 exported the largest amount, followed by East Asia of its 57% and America of 37%. The similar ranking is observed in import as well, with East Asia 62% and America 5 52% of EU15 respectively. As we saw in Chapter 1.1, EU15 and

¹ EU has expanded to 27 members by now but, in order to examine the expansion between 1995 and 2007, we applied the 1995 membership to 2001 and 2007.

America 5 are of the same GDP and East Asia was two third of the two. The trade/GDP ratios, measuring the openness of the group economy, is half for America 5 but East Asia is of the same order as EU15.

Table 1 Exports and imports of major groups (billion US dollars)

	To the world		From the world	
	1A995	2007	1995	2007
Japan	443	714	335	563
China	148	1218	129	843
ROK+HK+TW	420	955	421	937
ASEAN7	322	858	357	746
East Asia Tot	1,335	3,547	1,243	3,094
India	31	147	31	218
America5	847	1,948	1,003	2,520
EU15	2,351	4,801	2,012	4,865

(Source) compiled from Appendix Table 1

Let us compare the intra-regional trade ratios of the three groups. The ratio is obtained by dividing the intra-regional group trade by the average of its export and import. EU has the highest ratio of 60%, but that of East Asia increased closer to EU15.

Table 2 Intra-regional trade ratios of East Asia, America5, and EU15

	East Asia	America 5	EU15	APEC21 *
1995	50.6	43.8	63.5	72.2
2001	51.6	49.3	60.1	72.6
2007	57.7	44.3	58.9	68.6

(Source) calculated from Appendix Table 2 by

(intra-regional trade X 2) / (export to the world + import from the world)

(*) Intra-regional trade ratio depends upon not only the trade intensity within the region but also the size of the region. Thus intra-region trade ratio for APEC 21 takes a biggest value because of its size, including America and Russia.

Let us overview the trend of trade expansion, percentage rates of increase in trade values over 2001/1995 and 2007/2001 (Appendix table 2). The rate of increase of the world trade total were 20% for 1995-2001 and 123% for 20010-2007. Major groups' total exports and their total imports give small or nega-

tive percentage for the first period but very high percentage (more than double for half of the groups) for the second period. Individually, China achieved a distinguished growth in both periods, Russia decreased in the first but recovered greatly in the second period, America 4 kept the similar growth in both periods, in both export and import.

These three years were taken in order to obtain the average trend over upside down by Asian currency crisis and Lehman shock. But ASEAN economies had not recovered fully from the currency crisis, while industrialized economies suffered from the break of the IT bubble, both far below the average trend in 2001. Thus the rate 2001/2001 tended to underestimate the trend for the first period, while the rate 2007/2001 tended to overestimate that of the second period. However, it is worthwhile to note that we had a rapid expansion of trade before the Lehman shock.

Which economies achieved higher trade expansion? The increase of the world total gives an average and can be used as a reference. China achieved a higher expansion in both export and import than any economy, far exceeding the world average. It is highest for China's export to Russia, America 4, EU, Oceania, and ASEAN, while for its import from America 4, ASEAN, and Oceania. Russia's trade decreased in both export and import due to the change of political and economic regime in the first period, they recovered greatly in the second period, as evidenced in her trade with East Asia 3, EU, China, Japan and America 4.

Next comes ASEAN 7 in both export and import. Distinct expansion is witnessed in her exports to China, Russia, Oceania, while in her imports from China, America 4, and intra-regional trade of ASEAN 7 itself. East Asia 3's trade expansion was a half of the average of the world total for the first period but it resumed greatly for the second period. Incidentally India still a minor participant in the world trade (1.1 ~ 1.5 percent), although its trade trade increased five to seven times as much for 1995-2007 as rapid as that of China.

Trade expansion of Japan and EU 15 were below the world average in both exports and imports. The US expansion in export and import exceeded the world average in the first period but decelerated down to a half of it in the second period. Oceania's expansion was closer to world average among industrialized economy groups but increased in her trade with China, ASEAN and Russia.

Trade intensity indexes (Appendix Table 3) provide us with a useful measure of factual REI in Asia Pacific. While values of trade in trade matrix reflect the size of exporting and importing economies, trade intensity index excludes the impact of the size. The index is obtained by dividing the importer j's share in total export of exporter i by j's share in the world import. As the denominator reflects j's size, if i exports in

the same proportion, the intensity of i 's export to j will be 1. The intensity below 1 gives a thin trade, while that above 1 gives a close trade. On the other hand, the intensity of j 's export to i tends to give a similar intensity to that of i to j , but a different direction sometimes.

Trade intensity index in all diagonal cells are high; 7~8 for Oceania, 3~4 for ASEAN, and 2 for East Asia. It is as low as 0.5 for America 4, which reflect the inclusion of four economies in remote geographical location. The trade intensity for the US and America 4 is as high as 5~7. Trade intensity for APEC21 is 1.5, close to that within EU15.

Trade intensity indexes between East Asian economies deserve a careful investigation. Japan have achieved intensity of as high as 2 to 3, increasing in exports about decreasing in imports over time. She has also high intensity with Oceania and the US in both export and import, increasing with Oceania but decreasing with the US. ROK has the similar intensity pattern to Japan's.

China, Hong Kong and Taiwan have achieved a very high intensity among themselves. Hong Kong is almost concentrated in trade with China, while Taiwan has only 1.3 intensity in imports from China and Hong Kong and diversify her trade with Japan and ASEAN. China has intensity as high as 2 to 3 with Japan and ROK but she is decreasing them with East Asia but increasing with ASEAN, the US, Oceania, Russia and India, diversifying her trade partners.

ASEAN has achieved high intensity within itself and with Japan, and increasing distinctly with China, ROK, and Oceania. Oceania has achieved high intensity with East Asian groups, reflecting its big supply of primary products. The US has as high intensity of 1~1.5 with East Asian groups, especially increasing distinctly with China. On the other hand, America 4's intensity with East Asian groups are as low as less than 0.5. EU15 has as low intensity as below 0.5 with APEC economies except for Russia. Russia increased its intensity with EU distinctly but its trade intensity with APEC economies is low except trade with China and Japan, reflecting its geographical location that its European part is much greater than its Asian part. India used to have high intensity with Russia but is increasing intensity with ASEAN, China, and ROK.

The growth of international transaction is related with that of domestic activities. The ratio of commodity trade with GDP is also called 'trade dependence', which tends to be higher for small economies, reflecting the greater need for cross-border transaction; 120-140% for Singapore and Hong Kong, 80% for Malaysia, 50-70% for PNG, Brunei, Chinese Taipei, Vietnam, and Thailand, 30-40% for Canada, ROK, and Philippines. On the other hand, this ratio is in the order of 10% for Japan and Australia, less than 10% for

the US.

It is worthwhile to note that, in spite of her big size, China's export and import dependence amounted to as high as 35% and 24% respectively in 2007. It reflects the openness of the economy and incorporation of international transaction to domestic economy. The trade dependence increased in all economies for 1995-2007, reflecting the globalization. This trend is most distinct in China, ROK, Taiwan, Thailand, Vietnam, Canada, Chile, and Peru. It increased by 50% from 14% to 21% for APEC as a whole. EU 15 proceeded in this trend, from 26% to 30% in exports and from 23% to 31% in imports.

2. Institutional Development: Main Features

East Asian has been a late-comer in this move of regional integration. It started with APEC, a weak institution for regional cooperation. We have found above that commodity trade expanded in APEC economies for 1995 – 2007, especially in the 2000s. It is most distinguished in China, Hong Kong, Singapore, and Vietnam, reflecting their high growth pattern. It is difficult to regress this growth on the APEC's program of liberalization and facilitation. Few academic study have ever succeeded in identifying trade expansion by a particular policy measure on ex-post basis. However, it is evident in our statistics that the developing economies of APEC have expanded trade more than EU and their GDP ratios increased as the globalization proceeded. These economies still keep trade barriers but they have made this remarkable growth in spite of remaining barriers. Can we not claim that the APEC's policy coordination for liberalization and facilitation worked well in the APEC region?

However, a paradigm shift of institutional REI has occurred in East Asia. After the Asian currency crisis, ASEAN has taken an initiative of the ASEAN plus Three (APT), including China, Japan, and ROK. It mentions about moving toward East Asian Community in future. On the other hand, Australia, New Zealand, US and Canada, although all being the APEC members from its start, have not participated in APT. They are critical about the move of APT and suggest it should be open to external partners. Australian PM Rudd' proposal of Asia Pacific Community in 2008 is consistent with this direction (Rudd, 2008). President Obama delivered his Asian policy address in Tokyo in 2009 in which he expressed the US interest in joining East Asian Summit (Obama 2009). In East Asia cross-border trade and investment will proceed before the institutionalization of regional integration via FTAs but we have to see over how these external countries will react to the regional economic integration in East Asia.

Moves toward the East Asian Community

While APEC suffered a set-back at the Asian currency crisis, East Asian regional cooperation has enhanced since 1997-98. Most evident is the Chiang Mai Initiative (CMI), a package of currency and financial measures preventing the recurrence of the currency crisis, which includes currency swap agreement at the emergency, Asian Bond market, and early warning system. During the rapid growth period of East Asian miracle before the crisis, East Asian governments pegged their currency with the US dollar individually and promoted capital liberalization thanks to the stable currency value. They simply did not need such a cooperation before the crisis. CMI was agreed upon by 10 ASEAN members and China, Japan and ROK, so-called ASEAN plus Three (APT) group at the Asian currency crisis.

On the other hand, institutional integration has proceeded in this region. Bilateral FTAs have been concluded both within the region and with outside partners; Japan-Singapore, Singapore-Australia, Thailand-India, Thailand-Australia, Singapore-ROK, Japan-Malaysia, Japan-Thailand, Japan-Philippines, and Japan-Indonesia. Furthermore, China, Japan, and ROK have concluded FTAs/EPAs with ASEAN as a whole, so-called ASEAN plus 1 type. However, APT has attracted attention as a core institution in the region. Its joint statement was announced at the APT Summit meeting in 2001 and the East Asian Community idea was proposed by the East Asian Vision Group (EAVG) set under the APT Summit. (EAVG 2001).

ASEAN has taken an initiative in the East Asian cooperation. While started with five countries (Indonesia, Malaysia, Philippines, Thailand and Singapore) in 1967, it had made a few achievements in political and diplomatic negotiation with outside partners but not much in economic areas such as Preferential Trading Agreement (PTA) and Common Industrial Projects. In 1992 ASEAN started to implement a large scale tariff reduction, AFTA, toward an effective regional integration. It has taken an initiative of the APT implementing the Chiang Mai Initiative and formed a co-centric circle of cooperation, such as ASEAN + 1 and ASEAN +3, around ASEAN as a core and on the driver's seat.

Here ASEAN has taken advantage of its unique formula of ASEAN Post Ministerial Conference (ASEAN PMC). While ASEAN organized its economic and trade ministers meeting every year, it has started since the late 1980s to invite counterpart ministers of such partner countries as Japan, China, ROK, and Australia and to negotiate as a group with individual partners, that is ASEAN + 1 type formula. ASEAN extended this formula to summit meetings so that it could easily organized APT Summit and ASEAN + 1 Summits taking advantage of the presence of leaders of partner countries. This is a big success of ASEAN diplomacy. China, Japan, and ROK have all accepted this ASEAN initiative.

While hosting ASEAN Summit in 2005, Malaysia organized the first East Asia Summit (EAS) by inviting additional three countries, Australia, New Zealand and India and discussed a broader regional cooperation on such issues as anti-terrorism, recovery from natural disaster, preventing pandemic, environmental protection, energy cooperation. APEC is referred to as an outer circle organization for cooperation but not assigned a major role for East Asian cooperation. It cannot be denied that there underlies in this paradigm shift the preference of China and Malaysia against the US influence.

Although sitting on the driver's seat of APT and EAS, ASEAN perceives well the fact that ASEAN is its weakest member and has moved to strengthen its economy. At the ASEAN Summit in December 2007. It adopted the ASEAN Charter and all ten leaders signed it. The charter has institutionalized ASEAN as an international organization and announced its plan to build Economic Community, Political and Security Community, and Social and Cultural Community by 2015. The Blue Print for Economic Community details concrete measures to be implemented every other years toward 2015. It reflects an increased momentum among advanced ASEAN members toward further institutionalization but some concerns are heard about the blue print will not be implemented on schedule. Nevertheless, individual members completed their ratification and the charter effected at the ASEAN Summit in Bangkok in March 2009.

3. Recent Development

3.1 China-Japan-ROK Relationship

China, Japan and ROK have been each others' nearest neighbors for the past two thousand years. But Japan's aggression to the neighbors in the first half of the last century as well as the political and economic impacts of the cold war in the region in the 1950-1970s impeded closer contacts and delayed the formation of close cooperation networks with the two neighbors. Japan started a formal diplomatic relationship with ROK in 1965 and ROK has become the fourth largest trade partner, with frequent movement of people, in business, sightseeing and education. Japan established formal diplomatic relationship with China in 1979 to the extent that China has become the largest partner both in commodity trade and FDI.

However, bilateral FTA has not been concluded yet between any pair of the three countries. Regarding Japan-ROK FTA, a joint study was conducted as early as in 1999 immediately after the monumental visit to Japan by the ROK President Kim Dae Jung in 1998 and it was upgraded to a tripartite consultation by business, academic and officials of the two countries, and the negotiation started in 2003. But it has been suspended since 2004. Potential mutual benefit from the bilateral FTA between the closest neighbors is well

perceived. But ROK's concern about long-continued trade deficit with Japan and fear of possible dominance of Japanese business over Koreans and the Japanese business's reluctance of technological transfer are often cited as major impediments to its final conclusion (Yamazawa 2000). On the other hand, ROK signed an FTA with the US in 2007 and with EU in 2010.

A joint study on China-ROK FTA started between Development Research Center, State Department, PRC, and Korean Institute of International Economic Policy (KIEP), ROK, in 2004 and was upgraded to a tri-partite joint study of industry, academic and government in 2006, but an official negotiation has not been initiated yet. China takes an active stance. On the other hand, although ROK recognizes a possible big merit from FTA with its biggest export market and investment destination, such industries as steel, general machinery and fine chemicals feel threatened by rapid catching-up growth of Chinese industries and their products.

China-Japan FTA is most delayed and no move is witnessed yet. Either economy sees both positive and negative aspects and has not taken any initiative yet. In stead of searching a balance between three pairs, they may possibly jump up to a trilateral investment treaty from the beginning.

The C-J-ROK Trilateral Summit started on the occasion of ASEAN related summit meetings in 1999, taking advantage of the presence of the three leaders. With President Kim Dae Jung's proposal in 2001, a joint study of trilateral FTA started by Development Research Center, State Department, PRC, National Institute for Research Advancement (NIRA), Japan, and Korean Institute for International Economic Policy (KIEP), all being government-related think tanks. They jointly conducted questionnaire surveys to businessmen in three countries and organized jointly open seminars in individual countries, and issued a joint report in the end of 2008 (C-J-ROK Joint Report, 2008). The report stressed a clear benefit from closer cooperation among the three countries and that 70-80 percent of businessmen of each country support the trilateral FTA, but added that each country is constrained by adjustment cost in sensitive sectors. The report concludes with a suggestion that the joint study and PR activities should be continued in order to maintain the momentum for closer trilateral cooperation.

On December 13th 2008, the Trilateral Summit was organized in Fukuoka, Japan independently from the ASEAN Summit so that the three leaders, Chinese PM Wen Jiabao, Japanese PM Taro Aso, and ROK President Lee Myung-Bak, could have more time for discussion on trilateral issues. However, it is never easy to form a joint initiative among the three. It is well-known that it has been prevented by historical legacy and diplomatic rivalry, and that the difference in economic system between Japan/ROK and China sets a high

hurdle for negotiating FTA. The three leaders started with easy issues at the trilateral table, leaving difficult ones to individual pairs of bilateral talks and issued the joint statements emphasizing strengthening trilateral cooperation in international finance, improving business environment, and announced their action plans (C-J-ROK Trilateral Summit 2008).

On October 10th 2009, the Second Trilateral Summit was hosted by PM Wen Jaibao in Beijing after PM Yukio Hatoyama replaced Aso. They confirmed the joint declarations at the previous trilateral summit and issued two joint statements. First, they acknowledged the achievement over the past ten years of deepening mutually beneficial cooperation in various economic areas. Second, they reviewed and reaffirmed their cooperation on sustainable development, referring to water-resources, forest management, clean energy and energy efficiency, and successful achievement of the Copenhagen Conference (C-J-ROK Trilateral Joint Statement, 2009). Later, on the occasion of the ASEAN and Related Summits on October 25 2009, economic and trade ministers of the three countries acknowledged to follow up the Business Environment Action Agenda, and grade up the joint study on the trilateral FTA to include business people and government officials.

Investment policy has been given a strategic priority in the trilateral cooperation. FDI has become instrumental for further strengthening the economic partnership among the three and they agreed to reach a substantive agreement on a Trilateral Investment Treaty. As a matter of fact, the three governments had been conducting joint study and then consulting on its legal framework since 2004, and started the negotiation of a trilateral investment treaty, one step before FTA, in 2007. The economic and trade ministers agreed to conclude the Trilateral Investment Agreement negotiation in early 2010.

Investment treaties have been concluded in increasing number in the global trend towards regionalism. They used to focus on the protection of foreign investors in MFN, national treatment, fair treatment, free fund movement, limitation and guarantee against expropriation, transparency of legal and administrative procedures, and dispute mediation and settlement process with host government, which are post-measures after investment is admitted. But they have tended to include pre-measures in providing MFN and national treatment, transparency of prohibition for foreign investment, limitation of performance requirements, which have the element of investment liberalization.

Japan and ROK are late-comers in negotiating investment treaties but have concluded ones with both post- and pre-measures. China has increased investment treaty recently with perfect provisions for post-measures but cautious about pre-measures. Investment protection is necessary in order to invite the FDI,

but China apparently wishes to keep policy intervention in upgrading FDI with further technological transfer. China conceded some liberalization along TRIM at its accession to WTO in 2001. But the existing investment treaty between Japan and China admits various exceptions and performance requirements. ROK's new investment treaty with China does not include pre-NT but restrict performance requirement in only four aspects of TRIM. It is likely for the three governments to conclude their negotiation with some additional liberalization of pre-measures by China.

Many expect that the three economies strengthen their trilateral ties but it is also the fact that it cannot be done quickly so long as each pursues own national interest because each differs in its expectation for others. Besides there underlies a weak political and security basis between Japan/ROK and China. The capture of a Chinese fishing boat by Japanese patrol boats off the Senkaku Islands. In late October caused anti-Japanese demonstration wide-spread in China and suspended the bilateral summit meeting of Japan and China and other diplomatic intercourses. North Korean provocation over her border with ROK occasionally impede ROK's relationship with China backing North Korea. They need to emphasize a great mutual benefit from the trilateral cooperation, while each government manages cleverly its diplomatic and security dimension with others.

3.2 China-Hong Kong-Taiwan: Institutional Basis Strengthened

We have seen in Section 1 that China's trade has expanded immensely with any partners and driven the world economy as a powerful engine and that Hong Kong and Taiwan have joined in it as is shown by high trade intensity with China. It is well known that business firms of Hong Kong and Taiwan have invested in China, provided technology and marketing know-how, and contributed a lot to the rise of China through their Chinese subsidiaries. It may be called 'the rise of Greater China'. However, they have lacked institutional arrangements supporting their high intensity because of delicate political relationship among the three. Big changes have occurred here too in the 2000s.

In 2002 China concluded the Closer Economic Relations Agreement with Hong Kong which apparently accelerated Hong Kong economy integrated into China. Almost half of Hong Kong's export and import are now with China. On the other hand, Taiwan had restricted her import from China as is shown in her relatively low import trade intensity with China. However, in June 2010 the current administration signed the Economic Cooperation Framework Agreement (ECFA) with China, under which commodities, funds and personnel will move more freely across borders. The lopsided trade will be corrected so that Taiwanese economy will be more integrated into mainland. The two agreements have institutionalized the basis of

Greater Chinese economy. We may assume that Hong Kong and Taiwan will go together with China either in China-Japan-ROK FTA or in APT or EAS FTAs in future.

3.3 ROK- and Japan-India FTAs

India has expanded her trade with East Asia for the past decade under her open policy. As we saw in Session 1, India occupies only 1.1 percent in export and 1.6 percent in import of the world total trade but they have expanded as fast as China. Its trade pattern has shifted toward East Asia. Judging from its huge population, human resources, high soft ware technology, and capital next to China, it will continue its rapid growth and become the second engine of world economic growth.

India has already been developing institutional ties with East Asian economies. India-ASEAN FTA was concluded in 2009 and joined the EAS. It concluded FTA with ROK in January 2010 and signed an EPA with Japan in October 2010. India has been applying for the membership of APEC for more than a decade but it was not finalized at 2010 APEC Yokohama. These institutional ties will help India more integrated into Asia Pacific.

3.4 East Asia Summit Expanded to include US and Russia

EAS started as a luncheon meeting at the ASEAN PMC in 2005 and its membership consists of ASEAN plus six. It has been discussing such issues for broader regional cooperation as anti-terrorism, natural disasters, and climate change. In 2009 APEC in Singapore, President Obama expressed the US interest in joining EAS and the United States signed ASEAN Treaty of Amity, which is a pre-requirement for joining agreement with ASEAN. In October 2010, EAS in Hanoi agreed to invite both the US and Russia to EAS in 2011 and the US Secretary of State Hiralay Clinton and Russian Foreign Minister Ruslov attended EAS/FM. EAS will become ASEAN plus 8 and the duplication of membership with APEC will be further strengthened.

EAS will continue to discuss broader regional cooperation but it will also pick up security issues, taking advantage of the participation of the US and Russia. EAS's defense ministers' meeting was held in Shanghai in early October and they agreed on a principle of not recouring to military power when conflict arises. REI is inevitably constrained by the political and security dimension of the region. Because of this constraint APEC has confined to economic issues. It is only at Leaders' meeting that they have started to discuss occasionally political and security issues such as anti-terrorism taking advantage of the Leaders' presence of major powers in the region. If EAS serves for political and security dimension, it will support the grading up of APEC to a more institutionalized REI.

4. APEC 2010 and After

4.1 Mid-term Assessment of the Bogor Target

APEC SOM reported the assessment of the Mid-term Bogor Goals achievement to Leaders' Meeting in 2010. It included five industrialized economies designated to achieve the free and open trade by 2010 plus eight economies which volunteered to be assessed this time, namely Chile, Hong Kong, ROK, Malaysia, Mexico, Peru, Singapore, Taiwan. They were not assessed individually but as a group of five plus eight economies.

(APEC/LM 2010b) summarized their achievement as the 13 economies as follow.

The overall growth in commodity trade for all APEC economies increased by 7.1% annually for 1994-2009, services by 7.0%, and inflow and outflow of FDI by 13.0% and 12.7% respectively.

The 13 economies reduced their simple average tariffs from 8.2% to 5.4% for 1994-2009, far lower than the world average of 10.4%, as well as further tariff reduction within their FTA framework.

They opened their services markets through unilateral reform of domestic policy and maintained liberalized investment regime.

They have also taken significant steps on trade facilitation to streamline customs procedures and align standards and conformance procedures. Under the Trade Facilitation Action Plan (TFAP) they have reduced transaction costs in the region by 5% for 2002-2006 and are achieving an additional 5% under the second TFAP by this year.

On the other hand, (APEC/LM 2010b) also noted that impediments still remain in sensitive sectors;

- * higher tariffs in agricultural products and textile and clothing,
- * remaining restrictions in financial, telecommunications, transportation, and audiovisual services, and the movement of people least liberalized,
- * sectoral investment restrictions in the form of prohibitions or capital ceiling and continuing general screening system.
- * Non-tariff measures need further efforts
- * Further works need to be done in standard and conformance, customs procedures, intellectual property rights, and government procurement,
- * Behind-the-border issues need to be addressed by facilitating structural reform.

Leasers concluded as

“It is a fair statement to say that the 2010 economies have some way to go to achieve free and open trade in the region. APEC challenges in pursuing free and open trade and investment continues. APEC will continue to review economies’ progress towards the Bogor Goals of free and open trade and investment. We recognized that all APEC economies must maintain their individual and collective commitment to further liberalize and facilitate trade and investment by reducing or eliminating tariffs, restrictions on trade in services, and restrictions on investment, and promoting improvement in other areas, including non-tariff measures and behind-the-border issues.” (APEC/LM 2010b)

“APEC has achieved much since its inception, evolving to become the pre-eminent economic forum in the Asia-Pacific, the world's most dynamic and open region. Looking back over the past 15 years, the progress made by APEC in pursuit of the goal of free and open trade and investment has reinforced the fact that full achievement of the Bogor Goals for all economies should continue to provide direction for APEC's work of trade and investment liberalization and facilitation” (APEC/LM 2010b)

This is a fair assessment of APEC's achievement, considering the severe constraints that the WTO/DDA negotiation has got stumbled and the Bogor process has been implemented under non-binding liberalization modality. APEC's TILF process will continue for all APEC economies, including the 13 economies summarized as above. However, it is not clear from the Leaders’ statements and report that how this process will be conducted.

- * Will all 21 economies conduct the peer review process of IAP/CAP at SOM?
- * Will the 13 economies assessed this time be given a new form of review, focusing on their remaining impediments?
- * Will all 21 economies be subject to a new review process toward the final target of 2020?

The past three rounds of the IAP review process were criticized occasionally because of its huge works and voluminous documents and ambiguous focus due to its positive list formula. This is a good opportunity for reshuffling the IAP review process as a Post Bogor Agenda.

I proposed earlier how to reshuffle the IAP review process so as to make it more effective in encouraging APEC economies’ liberalization efforts (Yamazawa 2010). I found by my independent quantitative assessment that the thirteen economies differed greatly in their achievement and remaining eight economies have achieved much less toward the Bogor Goals. They may be treated differently according to their different

extent of liberalization and facilitation. What about each of the thirteen economies list up the areas which it perceives insufficiently achieved the Bogor Goals and voluntarily report its continuing efforts to complete every three years? It will become another IAP reporting in negative list formula. On the other hand, it is no use for the remaining eight economies to continue their current IAP reporting as before. They may be better advised to change it to the IAP in negative list formula to be submitted every three years. It will change the IAP process more effective in promoting liberalization and facilitation.

4.2 Post-Bogor Agenda: via TTP toward FTAAP

At APEC 2010 Yokohama Leaders clearly declared to continue TILF as a core activity of APEC for another decade and symbolized the FTA in the Asia Pacific (FTAAP) as its concrete target.

FTAAP was proposed to APEC Leaders by ABAC in 2006 aiming at a greater FTA covering the whole APEC economies (ABAC 2006). It promotes the integration and conglomeration of all FTAs mushroomed in the APEC region for the past decade and thus creating a greater single market achieving the maximum scale economy. ABAC/PECC joint report of the same year (ABAC/PECC 2006) included both pros and cons of the FTAAP. Fred Bergsten, Director of Peterson Institute of International Economics, Washington D.C., expressed his concern about the stumbled negotiation of the WTO/DDA and recommended FTAAP as a ‘Plan B’ in preparation for the failure of the DDA and resulting vacuum of liberalization momentum in the region (Bergsten 2006). He served as the chair of APEC/EPG for 1993-1995 and led actively the liberalization momentum within APEC then.

The momentum heightened to the Bogor Declaration in 1994 and he planned to achieve it by negotiating an FTA. However, in the following year the Japanese host invented the concept of ‘Concerted Unilateral Liberalization’ within the Osaka Action Agenda, which disappointed many Americans including Bergsten. The author conjectures he resumed his original proposal together with American ABAC members after ten years. On the other hand, Charles Morrison, the American Chair of PECC, represented a majority view of PECC academics, indicating practical difficulty with conducting liberalization negotiation within APEC and insisting the pragmatic strategy along the Busan Roadmap (Morrison 2006).

Nevertheless, the current studies of FTAAP have not gone into concrete procedures of achieving it. Academic studies focused on the CGE model calculation under specific assumptions, which results in a greater welfare gains of FTA of a greater geographical coverage. Sangkyom Kim (2009) reported that, under the assumption of all tariffs abolished, 10% reduction of services barriers, 5% reduction of transaction cost

through trade facilitation, and simplified rules of origin, all APEC economies would gain and APEC's real GDP increase by 1.13%, while the real GDP of EU would decrease by 0.08% and that of rest of the world decrease by 0.06%. Since welfare gains is in the order of 0.1% or less for smaller FTAs, FTAAP would give a greater trade creation but less trade diversion effects.

After all, APEC Leaders agreed to continue to study ‘a possible Free Trade Area of the Asia-Pacific in the long term’ as stated in the subtitle of its report *The APEC Initiative for Strengthening Regional Integration* (APEC 2007). At Yokohama APEC Leaders upgraded FTAAP to a concrete target of the post Bogor agenda. They declared “We believe that an FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership (TPP), among others. To this end, APEC will make an important and meaningful contribution as an incubator of an FTAAP by providing leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping and addressing the ‘next generation’ trade and investment issues that a FTAAP should contain.” (APEC/LM 2010c)

TPP was formed by four APEC economies of Brunei, Chile, New Zealand, and Singapore in 2006. Its objective in Article 1 states that it aims to ‘establish a Trans-Pacific Strategic Economic Partnership among the parties, based on common interest and deepening of the relationship in all areas of application’. It has taken a ‘WTO plus’, covering not only commodity and services trade but also such facilitation areas as rules of origin, customs procedures, trade remedies, technical barriers to trade, competition policy, intellectual property, government procurement, and dispute settlement. (TPP 2006).

The evolution of TPP originated in the late 1990s, when some APEC economies got disappointed by the installed move for liberalization within APEC. The like-minded economies of Australia, New Zealand, the United States, Singapore, and Chile started the P5 talks on the occasion of APEC meetings in order to find a path toward further liberalization. While the US and Australia came out, the remaining P3 conducted four round negotiations in 2002-2005 and announced their agreement on TPSEP (Trans-Pacific Strategic Economic Partnership) Agreement at the APEC/MRT in 2005. Brunei joined at the last minute to form the P4. (Elms 2010). In late 2008 the United States expressed her interest in participating in TPP and started a negotiation for the expansion together with Australia, Peru and Vietnam in March 2010.

The US participation in TPP as well as EAS reflects her strengthening engagement in Asia (USTR Report, 2010). Three rounds negotiation have already been held. Vietnam has decided to join formally and Malaysia has also joined the negotiation. Japan and Canada have expressed their interest in TPP and started informal

contacts. TPP has emerged as a major trade policy issue throughout this year so that APEC/LM designated it as a possible roadmap top FTAAP as mentioned above (APEC/LM 2010c). However, there is a trade-off between its high level FTA and its scale merit from greater membership in the TPP negotiation.

TPP's predecessor, P4 is a high level FTA and admits few exception for liberalization. Current TPP negotiators wish to succeed this feature and the US is active in introducing such NAFTA formula as environment and labor standard into TPP. Most participants, especially developing economies, in the TPP negotiation will face difficult task to adopt it back home. Japan has already encountered in her informal contact the difficult task of eliminating current protection of her rice production within ten years so that she has postponed its decision until June 2011 against fierce objection by agricultural cooperatives and their MPs. It will be hard even for the US to pass at the Congress the TPP bill terminating the protection of dairy products and sugar which she insisted persistently to continue in her negotiation of the US-Australia FTA in 2004.

On the other hand, P4 has not achieved a big scale merit. Table 6-1 gives the trade intensity indexes for the eight economies negotiating the expansion of TPP, compiled from Appendix Table 5. Out of the first four original member economies, Brunei and Singapore have had a high intensity and New Zealand and Singapore have doubled the intensity between the two, while Chile has had so far little trade with other three. Even after the US and other three join, traditional close trade between Australia and New Zealand, Singapore and Vietnam, and Chile and Peru are distinguished but rather remote trans-pacific trade would result between Asia-Oceania and America. P4 accounts for only 1.63% of APEC in the total GTP, seven economies other than USA account for 5.5%. These figures do not support a strong case for the eight economy TPP.

It will require greater membership by including Japan, ROK, other ASEAN members and the Greater China for TPP to bring forth a big scale merit.

It may be necessary for the TPP participants to lower its FTA level so as to induce other APEC economies toward FTAAP in the 2020s. A possible alternative is to strengthen the continued TILF process committed by the Leaders in Yokohama (APEC/LM 2010b). I have already suggested to work out an effective modification by introducing a negative list formula and some binding element.

Nevertheless, there still remain cautious attitude in Asia. They insist that APEC should maintain its conventional modality of voluntarism, non-binding, and consensus building but not admit a negotiation for liberalization. The author believe it necessary for APEC to introduce a binding element gradually. Late Hadi

Table 3 Trade intensity indexes of the TPP economies: 1995 and 2007

	Brunei	Singapore	New Zealand	Chile	USA	Peru	Australia	Vietnam
Brunei		3.93 1.06	- 9.32	0 0	0.11 0.42	0.94 0	0.67 12.21	- -
Singapore	17.9 8.9		1.18 2.57	0.23 0.10	1.20 0.64	0.12 0.06	1.94 3.39	6.51 4.47
New Zealand	1.16 0.31	0.57 1.12		1.37 0.49	0.65 0.84	2.83 0.69	17.93 19.92	1.22 2.05
Chile	- -	0.20 0.10	0.34 0.19		0.99 0.94	18.06 11.67	0.33 0.38	- 0.34
USA	0.47 0.46	1.07 1.34	1.05 1.20	1.97 2.36		2.01 2.63	1.63 1.50	0.19 0.34
Peru	- -	0.01 0.01	0.07 0.20	8.76 20.28	1.13 1.39		0.17 0.32	0.15 0.36
Australia	1.29 0.70	2.19 1.43	26.47 27.82	0.64 0.39	0.42 0.44	0.18 0.37		1.24 1.74
Vietnam	- -	2.91 2.72	0.51 0.68	- 0.32	0.22 1.52	1.27 0.25	3.29 7.09	

(Source) Compiled from trade matrix, original of Appendix Tables. The first four economies formed TPP in 2006, while the last four currently apply for the membership.

Scesastro, Director of CSIS Jakarta, used to say that APEC needs to move from v-APEC (voluntary) to b-APEC (binding) some day (Scesastro 2006). I would argue that some day is coming now. ASEAN members are now working hard to build its Economic Community by 2015 on binding basis. The current Greek crisis and the resulting disturbance of Euro tell us that, if we wish to build East Asian Economic Community, its member economies need to be disciplined so as to implement proper economic policies and we need to start moving in that direction now. A modified APEC will provide us with a role model for disciplined economic management. FTAAP will come along its extension.

5. Roadmap to East Asian Community

It is legitimate for East Asians to have an outlook of the REI in Asia Pacific on the basis of the past record and future potential of economic growth in East Asia. Any regional integration is pursued for both peace and prosperity but the political and security basis is far less matured in East Asia than in Europe.

Political and Security Dimension

Let's compare briefly the past record of regional integration in Europe with that of East Asia. Territorial struggle and war continued between national sovereign states in Europe from 17th century to the first half of 20th century. National borders were redrawn many times to the extent that many people speak neighbor country's language as their native. After World War One European people got weary of wars and Pan-Europeanism got spread over so that they preferred to lower national borders rather than to redraw them. Regional integration was attempted in the western Europe in the form of EEC and EFTA in the 1950s. It continued during the cold war against USSR and Socialist regime countries in Eastern Europe under the support of the United States. It has succeeded to achieve prosperity through the Single Market (1992) and European Union (1998), expanded its membership to 27 including Eastern Europe after the demise of the cold war (1989). Some member states must have paid economic cost in the form of assisting other members' development but no strong voice has been heard against the regional economic integration and of reverting the process. They have enjoyed peace without territorial struggles and military conflict between themselves for the past 60 years.

On the other hand, the history of East Asia has been quite different. Japan, Korea, and China adopted the isolation policy until the half of 19th century and colonial wars and imperial aggression followed for a century. Korean War and Vietnam War occurred after World War Two and severe conflicts remained between capitalistic market economies and state-planned socialist economies during the cold war. Only with the open economy policy by China in the 1980s and by Vietnam in the 1990s, trade and investment have flourished over the regimes and the market mechanism has been introduced to the socialist regimes. However, North Korea has still remained isolated and its military threat has still continued. People do not share like-mindedness for ceasing struggles and conflicts in Asia as in Europe yet.

A series of conflicts occurred recently have reminded us of the absence of the like-mindedness in East Asia. Conflict between China and Japan near the Senkaku Islands immediately triggered anti-Japanese demonstration in number of Chinese cities and harassment to the Chinese Embassy in Tokyo. Recent expansion of Chinese worships toward the Eastern Pacific has caused serious concern among neighbor countries. The announcement of Kim Jong-un as the successor of Kim Jong-il in North Korea and Chinese Government's quick support to it, as well as Chinese government's imprisonment of the Chinese laureate of 2010 Nobel Peace Prize, remind us of a clear difference of their political regime from our democratic ones.

We expect that the difference in political regime will be mitigated in the long term by mutual efforts

on both sides. China will introduce democratic and rule-based elements into their political regime as her economy develops and living standard rises. Economic merit mentioned above will support and strengthen the convergence of the two regimes. Nevertheless, the regional economic integration in East Asia is now constrained by this weak political and security basis.

Current Direction

What is the likely roadmap toward the East Asian Community? As regards its further extension, ASEAN has already concluded six sets of ASEAN plus 1 type FTA/EPAs but does not seem to take quick initiative in merging them toward ASEAN + 3 or ASEAN + 6. It is partly because they are satisfied with their status quo and partly because they will be heavily engaged in the ASEAN's Economic Community process for the next decade. However, much delay will reduce the momentum toward the East Asian community. Thus the merging process needs to be pushed by China, Japan and ROK as well in a part of their trilateral cooperation but, as we saw in Session 3, the trilateral cooperation will not proceed as fast as we expect.

APT, EAS, and APEC have different but partly duplicating sets in both membership and action agenda. APT has a solid base for building an economic community in order for East Asia to survive the global competition but they face various impediments existing among its members. Their current achievement remains to be only the Chiang Mai initiative in currency swapping among 13 members. EAS has started as a complement to APT, while focusing on such new cooperation issues as terrorism, natural disaster, and epidemic requiring a broader membership. The two should be promoted in parallel so as to utilize the comparative advantage of each other.

APEC has twenty year experiences in trade and investment facilitations as streamlining custom procedures, disseminating information technology, harmonizing standards and certification schemes, and promptly issuing business visas. Industrialized economies have transferred technology to help developing economies build their capacity in these areas so that steady progress has been made toward the Bogor Goals. It seems ASEAN members have benefited from their APEC affiliation in implementing their facilitation measures within the ASEAN Economic Community blueprint

An East Asian Community cannot be achieved easily. That is, we need not decide immediately to adopt one option and discard others. APT, EAS, and APEC may be floated in the next decade or so, in the sense that each of the three continues to be partially implemented when its own specialized area meets an immediate need but none can be completed due to various constraints. As each proceeds with partly duplicating

members in parallel, each will interact with others and necessary modification will be made in membership and agenda when a conflict arises.

Each has an annual conference series and its activity is expanded with a ‘proponent-driven’ modality in which a cooperation project is proposed by a member with real resources input and is adopted so long as other members see it beneficial. If China and Japan steps in trade and investment liberalization beyond the Chiang Mai Initiative, APT will proceed further. The expansion of EAS with USA and Russia in 2011 will strengthen the broader regional cooperation, which, we expect, will also improve the political and security basis of the Asia Pacific. APEC has moved toward the post-Bogor agenda in 2010, continued TILF process and activated TPP channel both toward FTAAP, which will inevitably affect the APT and EAS process. The US can ensure through APEC that American business be fairly treated within APT. Rivalry will push the three ahead through interaction. If conflicts arise, they will be modified through coordination. This interaction will continue at least for a decade or so that the East Asian regional institutions will evolve with better coordination with external partners. This can be a likely roadmap of the regional integration in a wider East Asia and the Pacific.

This direction is quite consistent with the familiar phrase in the joint statements of the ASEAN PMC; ‘promote development of regional and sub-regional cooperation of various mechanisms such as ASEAN integration and community building, ASEAN plus Three, East Asia Summit, ASEAN Regional Forum, and APEC’ (EAS Joint Statement, 2009 and Trilateral Summit Joint Statement 2009).

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Appendix Tables 1 ~ 3: Sources and Notes

Appendix Table 1 Consolidated Trade Matrix of APEC Economies: 1995,2001,2007 (million US dollars)

(Source) Jointly produced by Ippei Yamazawa and Chiang Chunhua, May 2010. Original figures of 2001 and 2007 are compiled from Institute of Trade and Investment, ITI's International Trade Matrix by Commodity:2009. The 1995 figures are compiled from UN, Direction of Trade on export basis, supplemented by country statistics of Chinese Taipei. ITI compiled its trade matrix based on all available trade statistics of individual countries on the fob basis. The total world trade of ITI's Trade Matrix amounts to 97.9% of that of IMF's International Financial Statistics.

(Footnotes)

- 1) Economies are listed not in alphabetical order but by geographical proximity, focusing on East Asia so that it provides us with a clear view of the trade pattern in the Asia Pacific.
- 2) In trade matrix, 0 stands for 0 and - stand for 0 and no figure in original statistics, while empty cell no trade as in the case of intra-regional trade for a single economy. They are all treated as 0 in summation.
- 3) World total trade stands for the sum of all reporting countries' exports to the world.
- 4) Consolidated from the original trade matrix with the following groupings.
ASEAN 7: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam

Oceania 3: Australia, New Zealand and Papua New Gunie

America 4: Canada, Chile, Mexico, and Peru

Appendix Table 2 Increase of Trade Flow between APEC Economies (%): 2001/1995, 2007/2001

(Surce) Compiled from Appendix Table 1. The % increase of trade between 1995 and 2001 is calculated by $(2001 \text{ value} / 1995 \text{ value} - 1) \times 100$.

Appendix Table 3 Trade Intensity matrix of APEC Economies: 1995, 2001, 2007

(Source) Calculated from Appendix Table 1 according to

Trade intensity index of exporter i to importer j : $lij = (X_{ij}/X_{i.})/(X_{.j}/X_{..})$ where X_{ij} , $X_{i.}$, $X_{.j}$ and $X_{..}$ denote i 's export to j , i 's total export, j 's total import, and world total trade, respectively. lij takes values either above or below 1.

Appendix Table 1. Consolidated Trade Matrix of APEC Economies: 1995, 2001, 2007 (Million US Dollars)

IMPORT TO EXPORT FROM		Japan	China	ROK	Hong Kong	Taiwan	ASEAN7	Oceania 3	
JP	1995		21,934	31,292	27,780	28,984	77,649	9,851	
	2001		30,941	25,286	23,249	24,214	54,025	8,911	
	2007		109,279	54,305	38,895	44,863	86,830	16,873	
China	1995	28,466		6,688	36,003	3,095	9,757	1,874	
	2001	45,078		12,544	46,503	5,006	17,814	4,028	
	2007	102,116		56,129	184,289	23,480	91,493	20,371	
ROK	1995	17,088	9,192		10,646	3,887	17,896	1,570	
	2001	16,506	18,190		9,452	5,835	16,119	2,455	
	2007	26,370	81,985		18,654	13,027	38,120	5,409	
HongKong	1995	10,596	57,861	2,804		4,619	11,838	2,751	
	2001	11,261	70,407	3,430		4,642	10,748	2,543	
	2007	15,357	168,683	7,265		7,134	20,722	4,976	
Taiwan	1995	14,329	14,785	2,560	16,710		16,435	3,362	
	2001	12,714	4,727	3,264	26,858		14,546	1,559	
	2007	15,136	58,430	7,475	34,188		34,762	3,736	
ASEAN7	1995	45,763	8,562	9,425	19,570	11,120	74,760	6,890	
	2001	53,147	16,541	14,467	21,349	16,172	85,247	11,231	
	2007	89,055	79,557	31,946	56,763	23,005	208,593	36,171	
Oceania 3	1995	15,073	2,711	5,385	2,547	2,828	9,617	8,255	
	2001	14,229	4,579	5,608	2,498	3,087	9,334	7,555	
	2007	30,007	21,867	12,402	2,805	5,565	18,218	17,579	
USA	1995	64,298	11,749	25,413	14,220	19,295	39,670	12,532	
	2001	57,452	19,182	22,181	14,028	18,122	43,744	13,063	
	2007	62,703	65,236	34,645	20,118	26,309	60,409	22,092	
America 4	1995	12,866	2,973	3,088	1,358	2,171	2,772	1,056	
	2001	8,556	4,482	2,284	992	1,277	2,099	1,034	
	2007	19,786	23,795	8,227	1,948	3,855	5,670	3,033	
Russia	1995	3,173	3,377	747	311	463	1,982	31	
	2001	2,428	3,955	827	113	262	1,268	17	
	2007	7,403	15,031	6,056	245	885	2,518	52	
APEC(21)	1995	211,652	133,144	87,402	129,145	76,462	262,376	48,172	
	2001	221,372	173,006	89,890	145,040	78,616	254,943	52,395	
	2007	367,933	623,863	218,450	357,905	148,122	567,334	130,292	
India	1995	2,130	283	394	1,821	251	2,348	410	
	2001	1,532	916	452	2,408	372	3,202	456	
	2007	3,257	9,427	2,568	5,875	1,517	13,658	1,239	
EU(15)	1995	48,870	21,313	18,099	20,732	13,713	51,388	17,632	
	2001	39,826	27,243	13,874	19,260	11,560	38,254	15,949	
	2007	56,651	93,929	32,416	27,657	17,496	70,720	35,602	
WORLD	1995	335,882	129,113	135,119	192,751	93,193	357,327	72,638	
	2001	315,571	221,052	130,350	174,791	101,682	331,398	73,685	
	2007	563,672	843,361	327,425	405,594	204,451	746,151	180,785	

	USA	America 4	Russia	APEC (21)	India	EU(15)	WOELD
	122,034 121,153 143,664	10,616 11,396 22,925	1,170 715 10,763	331,310 299,890 528,397	2,134 1,922 6,164	70,367 64,351 96,524	443,116 403,247 714,126
	24,744 54,319 232,761	2,285 6,145 37,163	1,674 2,715 28,484	114,586 194,152 776,287	765 1,903 24,036	19,258 40,965 221,345	148,797 266,661 1,218,155
	24,173 31,211 45,766	3,374 4,945 14,570	1,407 938 8,088	89,233 105,651 251,989	1,125 1,408 6,600	15,319 19,627 43,501	125,058 150,439 371,489
	37,851 42,327 47,300	3,645 4,558 5,558	315 212 900	132,280 150,127 277,894	803 1,204 4,971	25,959 27,547 44,584	173,750 191,244 349,663
	30,158 27,552 31,025	3,021 2,839 3,789	88 261 796	101,448 94,320 189,337	312 628 2,302	19,612 18,302 23,287	121,308 122,409 234,710
	59,887 67,786 104,985	3,545 5,117 10,801	1,061 614 2,567	242,747 291,807 643,488	3,399 5,946 24,312	46,775 55,660 101,469	322,770 381,536 858,844
	4,768 8,216 11,652	1,474 1,799 3,201	222 109 673	52,880 57,014 123,968	896 1,319 8,221	8,308 9,895 20,181	69,074 78,546 172,995
		177,724 269,403 397,415	3,066 2,716 7,365	367,967 459,890 696,292	3,296 3,757 17,589	123,615 158,767 237,884	584,743 729,100 1,162,479
	222,725 372,467 568,873	4,868 7,888 22,349	147 255 1,473	242,674 401,336 659,008	416 751 5,169	20,781 23,622 65,513	262,226 443,955 785,980
	5,092 2,858 7,067	203 195 803		15,379 11,922 40,062	998 592 3,482	26,051 24,729 115,248	81,096 68,416 279,724
	531,432 727,888 1,193,092	210,755 314,289 518,574	9,150 8,535 61,110	1,701,854 2,065,548 4,185,634	14,144 19,433 102,845	376,045 443,464 969,536	2,331,938 2,835,553 6,148,166
	5,305 8,310 20,169	407 916 2,227	1,031 816 926	14,380 19,379 60,863		8,233 9,888 30,189	30,764 43,314 147,564
	136,872 218,122 345,041	27,606 37,819 69,750	18,003 27,688 100,657	374,228 449,594 849,919	8,937 10,713 38,543	1,385,800 1,429,616 2,844,826	2,351,363 2,466,883 4,801,884
	770,852 1,089,024 1,866,565	232,419 375,207 653,218	60,945 48,171 222,945	2,380,239 2,860,931 6,014,166	30,539 49,035 218,406	2,012,120 2,291,204 4,865,324	5,078,010 6,107,443 13,636,373

**Table 2. Rates of Increase of Consolidated Trade Flow (%):
2001/1995, 2007/2001**

IMPORT TO EXPORT FROM		Japan	China	ROK	Hong Kong	Taiwan	ASEAN7	
Japan	2001 -2007		41.06 253.19	-19.19 114.76	-16.31 67.30	-16.46 85.28	-30.42 60.72	
China	2001 2007	58.36 126.53		87.57 347.44	29.16 296.30	61.74 369.07	82.57 413.61	
ROK	2001 2007	-3.41 59.76	97.89 350.71		-11.22 97.37	50.12 123.25	-9.93 136.49	
Hong Kong	2001 2007	6.28 36.37	21.68 139.58	22.32 111.82		0.49 53.69	-9.21 92.80	
Taiwan	2001 2007	-11.27 19.05	-68.03 1,136.06	27.49 129.04	60.73 27.29		-11.49 138.98	
ASEAN7	2001 2007	16.14 67.56	93.20 380.96	53.49 120.82	9.09 165.88	45.43 42.25	14.03 144.69	
Oceania 3	2001 2007	-5.60 110.88	68.91 377.52	4.14 121.17	-1.93 12.28	9.14 80.29	-2.95 95.18	
USA	2001 2007	-10.65 9.14	63.27 240.08	-12.72 56.19	-1.35 43.42	-6.08 45.18	10.27 38.10	
America 4	2001 2007	-33.50 131.25	50.77 430.87	-26.05 260.27	-26.95 96.35	-41.18 201.86	-24.29 170.16	
Russia	2001 2007	-23.49 204.96	17.11 280.06	10.66 632.67	-63.79 117.89	-43.34 237.53	-36.01 98.52	
APEC(21)	2001 2007	4.59 66.21	29.94 260.60	2.85 143.02	12.31 146.76	2.82 88.41	-2.83 122.53	
India	2001 2007	-28.07 112.57	223.52 929.61	14.80 467.83	32.21 144.04	48.06 308.29	36.35 326.60	
EU(15)	2001 2007	-18.51 42.25	27.82 244.79	-23.34 133.64	-7.10 43.60	-15.70 51.36	-25.56 84.87	
WORLD	2001 2007	-6.05 78.62	71.21 281.52	-3.53 151.19	-9.32 132.04	9.11 101.07	-7.26 125.15	

	Oceania 3	USA	America 4	Russia	APEC (21)	India	EU(15)	WORLD
	-9.54 89.35	-0.72 18.58	7.35 101.16	-38.92 1,406.16	-9.48 76.20	-9.93 220.71	-8.55 50.00	-9.00 77.09
	114.94 405.74	119.52 328.51	168.93 504.76	62.16 949.29	69.44 299.83	148.76 1,163.06	112.72 440.33	79.21 356.82
	56.35 120.34	29.11 46.64	46.56 194.63	-33.32 762.08	18.40 138.51	25.16 368.75	28.12 121.64	20.30 146.94
	-7.57 95.70	11.83 11.75	25.05 21.94	-32.69 324.38	13.49 85.11	49.94 312.87	6.12 61.85	10.07 82.84
	-53.62 139.57	-8.64 12.61	-6.03 33.47	197.08 204.62	-7.03 100.74	101.28 266.56	-6.68 27.24	0.91 91.74
	63.00 222.08	13.19 54.88	44.33 111.09	-42.09 317.75	20.21 120.52	74.93 308.88	19.00 82.30	37.52 18.21 125.10
	-8.48 132.68	72.32 41.82	22.05 77.91	-50.72 515.51	7.82 117.44	47.21 523.28	19.10 103.95	13.71 120.25
	4.24 69.12		51.59 47.52	-11.41 171.18	24.98 51.40	13.99 368.17	28.44 49.83	24.69 59.44
	-2.13 193.49	67.23 52.73	62.04 183.32	73.24 478.40	65.38 64.20	80.53 588.28	13.67 177.34	69.30 77.04
	-45.47 208.40	-43.88 147.29	-3.69 310.76		-22.48 236.02	-40.68 488.18	-5.08 366.05	-15.64 308.86
	8.77 148.67	36.97 63.91	49.13 65.00	-6.72 615.95	21.37 102.64	37.39 429.23	17.93 118.63	21.60 116.82
	11.23 171.61	56.64 142.70	125.08 143.08	-20.89 13.56	34.76 214.07		20.11 205.29	40.79 240.68
	-9.55 123.22	59.36 58.19	37.00 84.43	53.80 263.53	20.14 89.04	19.87 259.78	3.16 98.99	4.91 94.65
	1.44 145.35	41.28 71.40	61.44 74.10	-20.96 362.82	20.20 110.22	60.57 345.41	13.87 112.35	20.27 123.27

Appendix Table 3. Consolidated Trade Intensity Index of APEC Economies: 1995, 2001, 2007

IMPORT TO EXPORT FROM		Japan	China	ROK	Hong Kong	Taiwan	ASEAN7	
JP	1995	-	1.95	2.65	1.65	3.56	2.49	
	2001	-	2.12	2.94	2.01	3.61	2.47	
	2007	-	2.47	3.17	1.83	4.19	2.22	
China	1995	2.89	-	1.69	6.37	1.13	0.93	
	2001	3.27	-	2.20	6.09	1.13	1.23	
	2007	2.03	-	1.92	5.09	1.29	1.37	
ROK	1995	2.07	2.89	-	2.24	1.69	2.03	
	2001	2.12	3.34	-	2.20	2.33	1.97	
	2007	1.72	3.57	-	1.69	2.34	1.88	
Hong Kong	1995	0.92	13.10	0.61	-	1.45	0.97	
	2001	1.14	10.17	0.84	-	1.46	1.04	
	2007	1.06	7.80	0.87	-	1.36	1.08	
Taiwan	1995	1.79	4.79	0.79	3.63	-	1.93	
	2001	2.01	1.07	1.25	7.67	-	2.19	
	2007	1.56	4.03	1.33	4.90	-	2.71	
ASEAN7	1995	2.14	1.04	1.10	1.60	1.88	3.29	
	2001	2.70	1.20	1.78	1.96	2.55	4.12	
	2007	2.51	1.50	1.55	2.22	1.79	4.44	
Oceania 3	1995	3.30	1.54	2.93	0.97	2.23	1.98	
	2001	3.51	1.61	3.35	1.11	2.36	2.19	
	2007	4.20	2.04	2.99	0.55	2.15	1.92	
USA	1995	1.66	0.79	1.63	0.64	1.80	0.96	
	2001	1.53	0.73	1.43	0.67	1.49	1.11	
	2007	1.30	0.91	1.24	0.58	1.51	0.95	
America 4	1995	0.74	0.45	0.44	0.14	0.45	0.15	
	2001	0.37	0.28	0.24	0.08	0.17	0.09	
	2007	0.61	0.49	0.44	0.08	0.33	0.13	
Russia	1995	0.59	1.64	0.35	0.10	0.31	0.35	
	2001	0.69	1.60	0.57	0.06	0.23	0.34	
	2007	0.64	0.87	0.90	0.03	0.21	0.16	
APEC(21)	1995	1.37	2.25	1.41	1.46	1.79	1.60	
	2001	1.51	1.69	1.49	1.79	1.67	1.66	
	2007	1.45	1.64	1.48	1.96	1.61	1.69	
India	1995	1.05	0.36	0.48	1.56	0.44	1.08	
	2001	0.68	0.58	0.49	1.94	0.52	1.36	
	2007	0.53	1.03	0.72	1.34	0.69	1.69	
EU(15)	1995	0.31	0.36	0.29	0.23	0.32	0.31	
	2001	0.31	0.31	0.26	0.27	0.28	0.29	
	2007	0.29	0.32	0.28	0.19	0.24	0.27	

	Oceania 3	USA	America 4	Russia	APEC (21)	India	EU(15)
	1.55 1.83 1.78	1.81 1.68 1.47	0.52 0.46 0.67	0.22 0.22 0.92	1.60 1.59 1.68	0.80 0.59 0.54	0.40 0.43 0.38
	0.88 1.25 1.26	1.10 1.14 1.40	0.34 0.38 0.64	0.94 1.29 1.43	1.64 1.55 1.44	0.85 0.89 1.23	0.33 0.41 0.51
	0.88 1.35 1.10	1.27 1.16 0.90	0.59 0.54 0.82	0.94 0.79 1.33	1.52 1.50 1.54	1.50 1.17 1.11	0.31 0.35 0.33
	1.11 1.10 1.07	1.44 1.24 0.99	0.46 0.39 0.33	0.15 0.14 0.16	1.62 1.68 1.80	0.77 0.78 0.89	0.38 0.38 0.36
	1.94 1.06 1.20	1.64 1.26 0.97	0.54 0.38 0.34	0.06 0.27 0.21	1.78 1.64 1.83	0.43 0.64 0.61	0.41 0.40 0.28
	1.49 2.44 3.18	1.22 1.00 0.89	0.24 0.22 0.26	0.27 0.20 0.18	1.60 1.63 1.70	1.75 1.94 1.77	0.37 0.39 0.33
	8.35 7.97 7.66	0.45 0.59 0.49	0.47 0.37 0.39	0.27 0.18 0.24	1.63 1.55 1.62	2.16 2.09 2.97	0.30 0.34 0.33
	1.50 1.49 1.43	- - -	6.64 6.01 7.14	0.44 0.47 0.39	1.34 1.35 1.36	0.94 0.64 0.94	0.53 0.58 0.57
	0.28 0.19 0.29	5.60 4.71 5.29	0.41 0.29 0.59	0.05 0.07 0.11	1.97 1.93 1.90	0.26 0.21 0.41	0.20 0.14 0.23
	0.03 0.02 0.01	0.41 0.23 0.18	0.05 0.05 0.06	- - -	0.40 0.37 0.32	2.05 1.08 0.78	0.81 0.96 1.15
	1.44 1.53 1.60	1.50 1.44 1.42	1.97 1.80 1.76	0.33 0.38 0.61	1.56 1.56 1.54	1.01 0.85 1.04	0.41 0.42 0.44
	0.93 0.87 0.63	1.14 1.08 1.00	0.29 0.34 0.32	2.79 2.39 0.38	1.00 0.96 0.94	- - -	0.68 0.61 0.57
	0.52 0.54 0.56	0.38 0.50 0.52	0.26 0.25 0.30	0.64 1.42 1.28	0.34 0.39 0.40	0.63 0.54 0.50	1.49 1.54 1.66

Regional Economic Integration Outlook

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The evolution of regional economic integration in the Asia-Pacific region is at something of a cross-roads. There are at least four separate but overlapping strands that can be identified in this evolution: the trans-Pacific approach to regional integration; “East Asian regionalism” ; the “ASEAN-centric” approach to regionalism; and of course bilateralism. The first three of these strands have reached particularly interesting stages in their development, where the next steps in each case will have especially important implications for the overall process of economic integration in the region. This paper will take each of these three strands into account in considering the current status and future outlook of economic integration in the region. In order to do so it will also briefly review the role that each of these strands have played in the evolution of regional economic integration to date.

The APEC Approach to Trans-Pacific Integration: Rise and Fall in the 1990s

The trans-Pacific approach to regional economic integration is of course embedded in APEC, and can be traced back in time through earlier developments such as the establishment of PECC, PBEC, and PAFTAD, and the proposal by Professor Koyama for a Pacific Free Trade Area. The approach received its best-known expression in the Bogor goals of free trade and investment in the Asia-Pacific region by 2010/2020, adopted by APEC leaders in 1994. APEC also sought to reconcile the seemingly opposed multilateral and regional approaches to trade liberalisation by adopting a version of “open regionalism” that emphasized non-discriminatory liberalisation at the regional level, encapsulated in the concept of “concerted unilateralism”. As many commentators have noted, one of the motivations behind the establishment of APEC was to “avoid drawing a line down the middle of the Pacific” . From the perspective of the East Asian side this meant maintaining United States engagement in East Asia while from the perspective of the United States it meant defusing any temptation on East Asia's part to form itself into a separate economic bloc.

APEC's trans-Pacific approach and its non-discriminatory approach to regional trade liberalisation cap-

tured the attention of member governments through the mid-1990s. An alternative proposal by Malaysia for an East Asian Economic Grouping failed to gain traction at that time. After conclusion of the ASEAN Free Trade Area (AFTA) and NAFTA agreements in the early 1990s, interest in new preferential trade agreements on the part of APEC member governments was largely absent through the mid-1990s, while proliferation of agreements of this nature began to accelerate elsewhere in the world.

This paradigm was shaken by two developments at the end of the 1990s. The East Asian economic crisis, and especially APEC's apparent impotence in the face of the crisis combined with East Asian dissatisfaction with the role of the United States and the multilateral institutions perceived to be heavily under United States influence in the response to the crisis, provided the catalyst for the emergence of East Asian regionalism as a preferred alternative to trans-Pacific integration among East Asian economies. For much of the next decade, although East Asian governments continued to offer formal support for APEC and its objectives, most of the thinking on regional economic integration in East Asian policy circles, both inside and outside governments, was focused squarely on economic integration within East Asia.

The East Asian crisis coincided with the failure of APEC's Early Voluntary Sector Liberalisation (EVSL) initiative and the resulting onset of disillusionment over the prospects for success of APEC's "concerted unilateral" approach to regional trade liberalisation, followed soon after by a lowering of expectations for multilateral liberalisation in the light of the debacle at the WTO's Seattle Ministerial Conference 1999 and the severe difficulties encountered subsequently in launching the new round of multilateral trade negotiations. While there may be some debate over the precise identification of cause and effect, there is no doubt that these developments were quickly followed by a decisive switch of attention by Asia-Pacific governments to the preferential mode of liberalisation, leading to the rapid proliferation of preferential trade agreements and associated emergence of the East Asian or Asia Pacific "noodle bowl" or "spaghetti bowl" that has characterized the early years of the twenty-first century. Once under way the spread of preferential agreements has developed a self-sustaining momentum through the "domino effect" resulting from the scramble by governments to avoid being placed at a competitive disadvantage in the region's markets.

Numerically, by far the majority of the new preferential agreements are bilateral, and there are now over 30 bilateral agreements in existence between Asia-Pacific economies. Although the spread of bilateral agreements is often linked by commentators to the rise of East Asian regionalism, in fact even a cursory examination of participation in these agreements shows that they are not by any means limited to East Asia. Certainly there are bilateral agreements between East Asian economies, but there are also several trans-

Pacific bilateral agreements and several bilateral agreements linking East Asian and Australasian economies. Several bilateral agreements have also been concluded between APEC economies in the Americas, and a number of APEC economies, including in East Asia, have concluded both bilateral and plurilateral agreements with partners outside the Asia-Pacific region.

East Asian Regionalism and “ASEAN Plus”

The ASEAN Plus Three (APT) group, formed in the aftermath of the East Asian economic crisis and comprising the ten members of ASEAN plus China, Japan and Korea, remains one of two groupings whose agenda focuses on region-wide economic integration in East Asia. Understandably in view of its origins in the East Asian response to the crisis, the APT agenda has from the beginning included a strong focus on monetary integration. The main products of this focus to date have been the Chiang Mai Initiative (CMI) and its subsequent multilateralisation, and the rather less well defined Asian Bond Market Initiative (ABMI). There has also been ongoing discussion in “think tank” circles on the possibility of creating an “East Asian currency unit” as a unit of account in East Asian economic transactions, and possibly also some form of exchange rate coordination.

Trade was also included in the APT agenda at an early stage, via the proposal for an East Asian Free Trade Area (EAFTA). Studies on this proposal by both an East Asian “Vision” Group and successive study groups have resulted in recommendations that EAFTA should have a central role in East Asian economic integration, and working groups have been formed to prepare the way for eventual negotiations. While the technical issues being addressed by the working groups are important, in practical terms the most important and also the most difficult issues that must be resolved if EAFTA is to be realized concern the establishment of a basis for economic integration between China, Japan and Korea, including both the economic and political sensitivities surrounding that prospective integration. East Asian economic integration could not be considered complete in any meaningful sense unless it includes integration among these three economies, which account for around 90% of East Asian GDP.

In moves that could be interpreted partly as ways of sidestepping the issue of economic integration between themselves, and partly as expressions of the rivalry between them, these three major Northeast Asian economies each focused in the early years of the twenty-first century on establishment of their individual “ASEAN Plus One” FTAs with the ASEAN group. The successive establishment of the ASEAN-China FTA (ACFTA), ASEAN-Korea FTA (AKFTA) and ASEAN-Japan FTA (AJFTA) was accompanied by entrenchment of the understanding that ASEAN should play the central and leading role in East Asian economic integration.

For ASEAN this understanding took on something of the character of a fundamental non-negotiable principle, while for the three Northeast Asian economies it was a convenient mechanism that allowed them to avoid resolving leadership issues among themselves.

Leadership concerns influenced two further developments in East Asian integration. Recognising that progress in integrating themselves was important to the credibility of their role as leaders in the East Asian integration process, the ASEAN members committed themselves to establishment of the ASEAN Economic Community (AEC), essentially an ASEAN single market, by 2020. The target date for achieving the AEC was later brought forward to 2015. Concerns over the potential dominance of the APT group by China, especially on the part of Japan, were one of the motivations behind the decision to establish an East Asian Summit (EAS) with expanded membership. Japan is known to have favoured inclusion of the United States as a foundation member of the EAS, but in the end the East Asian economies looked south and west for the expanded membership of the EAS, by including Australia, New Zealand and India in an EAS group that has also been known as “ASEAN Plus Six”. ASEAN subsequently moved to conclude “ASEAN Plus” FTAs with the additional three members of the “ASEAN Plus Six” group, leading to establishment of the ASEAN Australia New Zealand FTA (AANZFTA) and the ASEAN-India FTA. The “ASEAN Plus Six” group has thus emerged as an alternative to the APT group as the vehicle for region-wide integration in East Asia. It is generally understood that Japan prefers the “ASEAN Plus Six” group for this role while China prefers APT.

The economic agenda of the EAS group centres on the concept of a Comprehensive Economic Partnership for East Asia (CEPEA), strongly promoted by Japan and supported by a substantial Japanese financial commitment to a CEPEA-related research programme implemented through the Economic Research Institute for ASEAN and East Asia (ERIA), located alongside the ASEAN Secretariat in Jakarta. The CEPEA concept includes an FTA among the EAS members. Where the APT focuses on monetary integration as a key complement to regional trade and investment liberalisation, CEPEA places more emphasis on development of regional infrastructure and supply chain connectivity. ERIA's research agenda also includes a strong emphasis on supporting the realization of the ASEAN Economic Community (AEC).

For some time the work programmes associated with the EAFTA and the CEPEA FTAs proceeded separately and in parallel, each with their own working groups, which not surprisingly had overlapping agendas. In 2009 a decision was taken to merge the working groups for the two initiatives. ASEAN was given the responsibility of bringing about this merger of working groups. Progress to date on achieving the merger has been slow.

Issues in the Future Evolution of East Asian Economic Integration

Two issues that have begun to draw increasing attention because of their importance for the future evolution of regional economic integration in East Asia are the role of ASEAN as leader of the process and the importance of integration in Northeast Asia.

The three major economies of Northeast Asia account for around 90% of East Asian GDP, as noted above, and the trade flows between them are the largest and most important in East Asia. The lack of economic integration arrangements among these three economies thus stands out as a major gap in the matrix of East Asian bilateral trade flows covered by preferential trade agreements. Moving from the current array of “ASEAN Plus” FTAs to a single EAFTA or CEPEA FTA could be viewed in simplistic terms as equivalent to filling this gap.

In fact the issue of Northeast Asian integration has never been an entirely neglected facet of the East Asian regional integration process. Japan and Korea announced in 1998 that they would explore the possibility of an FTA between themselves, and FTA negotiations subsequently commenced, although they were later suspended, reportedly over reluctance by Japan to open its agricultural market to Korean exports. It is known that more recently a “track two” study has been completed of a possible China-Japan-Korea (CJK) FTA, and that interest has also been expressed in both China and Korea in a possible China-Korea FTA.

The obstacles however, either to a CJK FTA or to agreeing terms for trade liberalisation between China, Japan and Korea in the context of EAFTA or CEPEA, remain formidable. The political sensitivities in relationships between the three countries are well-known. In each country the perceived competitive threat to domestic industries represents a further serious political economy difficulty. Japan for example is concerned about the impact on its agriculture while China is concerned about the impact on its motor vehicle and chemical industries.

A recent development that injects a new potential dynamic into the Northeast Asian equation is the conclusion this year of an Economic Cooperation Framework Agreement (ECFA) between China and Chinese Taipei, which is perceived by Korea in particular as a significant competitive threat, because of the extent of direct competition between Korea and Chinese Taipei in the Chinese market. Reports from Korea indicate that Korea is considering whether it should respond by moving immediately to negotiate an FTA with China, rather than wait for a CJK accommodation. Such a move by Korea would not be welcome to

Japan, which would then find itself under pressure to move forward more quickly than it might wish on economic integration with China in particular but also with Korea. The conclusion of the ECFA may thus have a catalytic effect on economic integration in Northeast Asia, and consequently on the overall process of East Asian economic integration.

Another regional significance of the ECFA is that it may open the way for greater participation by both Chinese Taipei and Hong Kong in the process of East Asian regional economic integration. China has hitherto been strongly opposed to FTAs between Chinese Taipei and other Asia-Pacific economies, but it has reportedly signaled that following the conclusion of the ECFA it will no longer oppose such FTAs, provided the formula followed in the WTO, where Chinese Taipei participates as a separate customs territory, is also observed in each FTA, and provided that Chinese Taipei's partner in each case already has a bilateral FTA with China. Relying on this signal, Singapore is reported to have moved immediately to revive an earlier aborted proposal for an FTA between itself and Chinese Taipei.

Opening participation in East Asian regional economic integration processes to Chinese Taipei and Hong Kong would be a significant development. Both Chinese Taipei and Hong Kong are major players in East Asian trade, and their exclusion to date from both the EAFTA and CEPEA processes has represented a substantial limitation on the scope of the economic integration that the region has been able to contemplate.

Increasing recognition of the centrality of progress toward economic integration in Northeast Asia for the overall process of East Asian integration has perhaps inevitably been accompanied by an increasing tendency to question both the capacity and appropriateness of ASEAN in the role of leader of the East Asian process. Acceptance of ASEAN leadership and “ASEAN centrality” has hitherto suited the purposes of both ASEAN and the Northeast Asian economies. As and when concrete steps begin to be taken to break the impasse in Northeast Asia the centre of gravity of the East Asian integration process is however likely to shift to Northeast Asia and leadership of the process may well shift with it. ASEAN may find it difficult adjust to this shift. There are questions however over whether ASEAN has sufficient internal cohesiveness to form a united view on how to move East Asian integration forward, especially when the principal issues being addressed concern integration in Northeast Asia. The incentive for ASEAN to move from the current array of “ASEAN Plus” FTAs to an EAFTA or CEPEA FTA may also be questionable, since the move may involve some erosion of ASEAN's preferential access to the markets of its APT or EAS partners. It may be rational for ASEAN to prioritise establishment of its own ASEAN Economic Community over EAFTA or CEPEA, but this

may not be helpful in moving the East Asian integration process forward.

Another issue that has tended to lurk in the background of the East Asian economic integration process is how an integrating East Asia should manage the implications for its relationship with the United States, which could not be expected to welcome being discriminated against by an emerging East Asian economic bloc. One solution that has been suggested in East Asian circles is the adoption of a sequential approach, whereby EAFTA is launched first, to be followed by a move to CEPEA once EAFTA is operating successfully, with establishment of an Asia-Pacific-wide FTA (the Free Trade Area of the Asia Pacific or FTAAP, discussed in the next section of this paper) to follow as the final step. It may not however be realistic however to expect that the United States will readily accept a sequencing that would require it to suffer discrimination for several years while East Asian integration is being established, before finally being invited to join the process itself. The dynamics surrounding this issue have in any event changed recently with the adoption by the United States of a more proactive approach to engagement with East Asia, also discussed in the next section of the paper, which is in turn placing pressure on East Asian economies to decide on a response.

Renewed Momentum in the Trans-Pacific Approach to Integration

In the early years of the twenty first century the trans-Pacific approach to regional integration suffered an eclipse as East Asia gave priority to East Asian integration, and governments throughout the Asia-Pacific region turned increasingly to preferential liberalisation, reflecting a disillusionment with APEC as a vehicle for trade liberalisation and also with prospects for far-reaching progress in the WTO. Trans-Pacific integration continued to be pursued in a number of bilateral FTAs and also in a plurilateral agreement between Singapore, Chile, New Zealand and Brunei known as the Trans-Pacific Strategic Economic Partnership (TPSEP) or more succinctly as the P4 (Pacific Four) agreement. Undoubtedly the most important of the trans-Pacific bilateral FTAs to date is the Korea-United States (KORUS) FTA, which is the first bilateral FTA between the United States and one of the major East Asian economies, although this agreement has yet to be ratified by the United States Congress.

Renewed interest in trans-Pacific integration on a region-wide basis emerged first in the APEC Business Advisory Council, (ABAC) where there was a history of dissatisfaction with the non-binding approach to liberalisation adopted within APEC, and corresponding suggestions from time to time that APEC should shift

to a binding approach. In 2004 the ABAC formally proposed the establishment of an APEC-wide FTA to be known as the Free Trade Area of the Asia Pacific (FTAAP), and began a campaign for endorsement of the FTAAP concept by APEC leaders.

The initial reception of the FTAAP proposal by a number of APEC economies, especially larger economies such as the United States, was lukewarm. By 2006 however the United States had change its tune, and successfully pressed for inclusion of the FTAAP in APEC's Regional Economic Integration agenda, as a "long term prospect". Since then APEC officials have maintained a work programme aimed at preparing the way for eventual adoption of the FTAAP. It is probably realistic to assume that the FTAAP now represents the best prospect for full achievement of the original APEC objective of free trade and investment in the Asia-Pacific region.

In 2008 the United States changed tack again. After initially indicating an intention to participate in scheduled P4 negotiations on financial services and investment, USTR announced that the United States would negotiate to join the P4 agreement, which has since been universally referred to as the Trans Pacific Partnership (TPP). This was followed by announcements from Australia and Perú at the 2008 APEC Leaders' Meeting that they too would seek to join an expanded P4, with Viet Nam also expressing interest in joining. The initial excitement cooled somewhat in March 2009 when newly-elected President Obama requested a postponement of the TPP negotiations, effectively placing the initiative on hold, a position that was maintained through most of 2009 as deployment of the Administration's political capital was directed primarily to domestic policy priorities, especially health reform. It was in November 2009, en route to the APEC Leaders' Meeting in Singapore that President Obama eventually announced that the United States would "engage" with the TPP (USTR 2009), a statement that was quickly clarified to confirm that the United States would indeed participate in formal negotiations, to commence early in 2010. At the time this was the first major trade policy initiative undertaken by the Obama Administration.

In March 2010 TPP negotiations formally commenced among the United States, Australia, Perú and the four foundation members of the TPSEP, Singapore, New Zealand, Chile and Brunei, with Viet Nam also participating in the negotiations as an observer. Three TPP negotiating sessions have already been held during 2010, and a fourth session is imminent. At the third session Malaysia announced that it would join the negotiations as a full participant. There is a clear intention on the part of the existing participants in the TPP to encourage the gradual widening of the membership of the TPP, to eventually embrace if possible the entire membership of APEC. In other words, the TPP is seen as opening up a potential route to the eventual reali-

sation of the FTAAP. This incremental approach towards realizing the trans-Pacific vision embodied in the TPP may be seen by its participants as offering a more realistic route toward establishing an Asia-Pacific-wide trade agreement than the more direct approach of seeking immediate agreement on establishment of the FTAAP.

Of the thirty six bilateral relationships or dyads among the TPP participants, only eleven are not already covered by an existing FTA relationship, and the latter are generally of only minor trade importance to at least one and sometimes both of the countries involved. Malaysia, New Zealand, Viet Nam and Brunei are the participants for whom the TPP potentially offers the most significant “prizes”, in the form of new FTA relationships with the United States, but these four economies account for only a tiny share of United States trade. In fact the seven economies that joined the United States in the opening TPP negotiations at the beginning of 2010 account for only 4% of United States’ trade. Thus the TPP, in establishing a limited number of new bilateral FTA relationships, clearly does not signify a dramatic increase in the overall coverage by FTAs of trade between the current participants, although it may of course also extend the trade coverage of some existing FTAs and may add new dimensions to at least some of them. In particular, trade potential with the existing TPP members clearly does not explain the level of commitment of the United States to the TPP. There is greater potential significance for United States trade arising from the possibility that additional Asia-Pacific economies may decide to join the TPP in future. Expansion of TPP membership to include Japan, Korea, Canada, Mexico and the non-APEC members of ASEAN would increase the TPP’s coverage of United States trade to 44%, while the further addition of China, Chinese Taipei and Hong Kong would increase this coverage to 60%.

More broadly, the TPP has a strategic significance for the United States, as well as to the other participants, as a concrete step toward realization of the trans-Pacific vision of regional economic integration that was embodied first in APEC and more recently in the proposal for a Free Trade Area of the Asia Pacific (FTAAP), either in opposition to or parallel with what one US commentator describes as the “narrower, more exclusive vision of regionalism, limited to Asian nations” that has been evolving within the ASEAN Plus Three (APT) and East Asian Summit (EAS) groups. In the President’s 2008 “Annual Report on the Trade Agreements Program”, the USTR explicitly highlighted concern over the development in the Asia-Pacific region “of several regional economic integration initiatives that exclude the United States.” Revitalising the trans-Pacific approach to regional economic integration through its participation in TPP is a way for the United States to counter these developments. From a more positive perspective the United States, by

throwing its weight behind the TPP, has given a clear signal of its determination to maintain and deepen its economic engagement with East Asia. In addition to the obvious political considerations there is clearly also an economic imperative underlying this stance, deriving from the need for a sharp increase in United States exports to re-balance the United States economy and restore sustainability in its external position, with East Asia projected to account for by far the largest share of that increase in exports over the next five years. It is this range of strategic considerations that presumably accounts for the extent of resources devoted by USTR to a domestic outreach programme to build support for the TPP.

Recognition of the TPP as a statement of United States intentions toward trade relations with East Asia serves also to highlight the importance of East Asian responses. This question is clearly linked to the wider question of the future role of the United States in East Asia, which had come into sharper focus in regional debates sparked by the proposals in 2008 and 2009 of Australia's then Prime Minister Rudd for an Asia Pacific Community and by Japan's then Prime Minister Hatoyama for an East Asian Community, with sharply divergent views being expressed for example even within the normally cohesive Singapore policy establishment. The recent announcement by ASEAN Foreign Ministers that the United States (along with Russia) will be invited to join the East Asian Summit, and the indication that the United States will accept this invitation, are significant developments in this context.

In the economic sphere, deciding on a response to the TPP has raised particularly acute questions for Japan, where concerns were already evident in the business community over how Japan's FTA policy should respond to Korea's FTAs with the United States and (especially) with the European Union, and to the signs that Korea may be about to press ahead with efforts to negotiate its much-discussed FTA with China, following the conclusion of a trade agreement between China and Chinese Taipei. There appears to be strong support within the Japanese business sector and large parts of the Japanese policy establishment for Japanese participation in the TPP. Statements by Japan's Prime Minister strongly indicated that the Japanese government was leaning towards a decision to participate. At the same time, agricultural interests in Japan have mounted a fierce campaign against Japanese participation. In the event Japan's Prime Minister announced a compromise outcome at the APEC Economic Leaders' Meeting in Yokohama, whereby Japan will make its decision on participation in the TPP in mid-2011, and will work during the intervening period on policy measures to assist adjustment in its agricultural sector.

Outlook for the TPP and the trans-Pacific Approach to Regional Economic Integration

The decision by the United States to negotiate participation in the TPP has thus transformed an initiative previously perceived as a somewhat obscure trade agreement among four small Asia-Pacific economies into a potentially major element in the development of the Asia-Pacific regional trade architecture, and in the process has imparted new momentum to the pursuit of the trans-Pacific approach to region-wide economic integration.

If the TPP is to fulfil its potential as a stepping stone to an eventual FTAAP it is clearly essential that it should attract participation by the major Northeast Asian economies. Japan's decision on participation may therefore be pivotal, as it would be the first of these three economies to come on board, and its decision to join might also add decisive weight to Korea's incentives to participate. Elsewhere in East Asia the Philippines government under newly elected President Benigno Aquino has made statements indicating a serious interest in joining the TPP. This would leave Indonesia and Thailand as the two remaining ASEAN members of APEC yet to indicate a stance toward the TPP.

Looking further ahead the issue of Chinese participation looms as the ultimate challenge for realizing the strategic potential of the TPP. Both China and the United States may have reservations about early involvement in negotiations for an agreement that would include the assumption by them of binding obligations toward each other. On the other hand, if the TPP is viewed primarily as a step along the road to an eventual FTAAP there are risks in deferring Chinese participation. China will understandably wish to have a role in shaping any FTAAP in which it is to participate, and may well be inclined to resist proposals that a TPP in whose negotiations it has played no part should be accepted as the basis for design of the FTAAP. The difficulties in achieving economic integration in Northeast Asia will also be relevant here. As in the case of EAFTA and CEPEA, simultaneous participation of the three major Northeast Asian economies in the TPP or subsequently in an FTAAP will imply a need for a viable basis to be found for economic integration among themselves.

In the meantime, successful conclusion of a TPP even among the existing participants faces formidable challenges of both an architectural and political economy nature. In each case there are difficulties relating to both negotiation of an agreement among the current participants and to the provision for, and attraction of, additional participants. Consideration of the interests of potential additional participants has a peculiar importance in the TPP case that derives from the fact that the expected economic benefits of a new trade

agreement among the current TPP participants are relatively small, and the larger economic and strategic benefits that are expected to make the exercise worthwhile depend on the future attraction into the TPP of significant new members, especially from East Asia.

A key architectural issue is whether the TPP should replace the existing bilateral agreements among the participants, or complement them and if so on what basis. This issue of course arises in any initiative that seeks to create a large plurilateral agreement among countries that are already connected by bilateral agreements. It has been one of the main issues addressed in the initial rounds of TPP negotiations, and has not yet been fully resolved. While replacement of existing FTAs by the TPP would be the neatest solution architecturally, it does raise difficulties. As one commentator has noted, “many of the provisions in the existing FTA agreements were carefully crafted compromises, offering a balance of benefits, opportunities and pain to the economic interests in each member state.”¹ This is particularly true of the partners in bilateral FTAs with the United States. Negotiations for replacement of the existing FTAs by the TPP could easily, perhaps inevitably upset some of these hard-won balances. Countries that emerged “battered and bruised” from their own bilateral negotiations with the United States could be reluctant to re-open difficult issues for a further negotiation with the United States. Chile, in particular, is known to have been particularly reluctant to enter into fresh FTA negotiations with the United States, and Peruvian representatives are also understood to have expressed strong views on this issue. On the other hand, countries that found it necessary in their own bilateral negotiations with the United States to swallow unpalatable provisions on certain issues in order to reach agreement, would find it difficult to accept an outcome where other TPP participants were able to negotiate more favourable terms for the same issues through bilateral bargaining with the United States within the TPP negotiations.

Related to these concerns is the fundamental question of how far the TPP should be modeled on existing agreements. The two potential models are the existing P4 agreement and the well-established “template” that the United States seeks to apply in all its FTAs, as it has done in each of its four bilateral FTAs with current TPP participants, with only limited “customisation” to cater for the particular sensitivities and circumstances of each bilateral partner. The P4 is likely to be viewed by the United States as an inadequate model that falls short of its preferred template in a number of respects. On the other hand, for each of the other TPP participants there are elements of the United States template that are unpalatable. More importantly, basing the TPP on the United States template could reduce its attractiveness to additional participants

¹ Elms, D., “Evolution of the Trans-Pacific Partnership (TPP) Talks (paper for PECC Conference: “A Post-2010 Agenda for the Asia-Pacific”, Tokyo, Japan, 6-7 July 2010. The remainder of this paragraph also draws on Elms’ paper.

in East Asia, thus potentially reducing the expected economic and strategic benefit from the TPP for its current participants. The intellectual property component of the United States template may be a particular sticking point for potential new entrants from East Asia. The negotiators face the challenging task of crafting an agreement that simultaneously meets the aspirations of the participants for a “high quality” agreement, satisfies the fundamental interests of the current participants to an acceptable degree – and in particular satisfies United States preferences to an extent sufficient to secure political acceptance in the United States – while avoiding features likely to become unnecessary impediments to expanding the membership of the agreement.

Potential new members of the TPP also have choices to make. While the TPP is likely to be formally open to accession by new members at any time, as was also the case with the P4, the ability of acceding members to negotiate revision of the terms and conditions of the agreement is likely to be limited. Their ability to influence the design of the agreement will be greatest if they participate in the current negotiations, which would allow them to exploit the bargaining power that derives from the incremental economic gains that would flow from their inclusion in the TPP. There is some provision for potential members to attend the negotiations as observers, as has been the case to date with Viet Nam, but the participants have apparently decided to limit the availability of observer status to three negotiating sessions, after which observers are expected to either join the negotiations as full participants or withdraw (some flexibility may be shown to Viet Nam in this regard, in consideration of the difficulty that Viet Nam would have in reaching any decision during the protracted political process leading up to its National Party Congress in February 2011).

The TPP negotiation, like any trade negotiation, will also inevitably involve specific issues that are sensitive to a greater or lesser degree for one or more participants. By the standards of other FTA negotiations the challenges posed by the individual sensitive issues in the TPP do not appear to be especially severe, given both the extent to which issues have already been resolved in previous bilateral FTAs among participants and given also what seems to be a broad consensus among participants that product and issue coverage in the TPP should be as comprehensive as possible, and that there should be no a priori exclusion of any issue. The principal source of difficulty is likely to be the relatively small economic gains anticipated for most participants from the TPP if its membership remains as it is, which implies correspondingly small incentives for the participants to make the effort to reach agreement on their sensitive issues, unless they factor in the potential larger gains from the uncertain prospect of future expansion of the TPP membership.

As in most trade negotiations there are sensitivities in the agricultural sector. However there do not appear to be suggestions from any participant that all or even a large part of the agricultural sector should be excluded from the TPP. The sensitivities are concentrated instead on particular product categories that are also of strong export interest to other participants, notable dairy products, sugar and beef in the United States. On the other hand, acceptance that agricultural trade issues cannot be quarantined from the negotiations is a major consideration in deciding whether to participate in the TPP not only for Japan but also for some other potential participants such as Canada. Textiles and apparel will also be sensitive for the United States if Viet Nam chooses to become a full participant, but this is balanced by the fact that Viet Nam's membership offers probably the most attractive source of incremental market access potentially available to the United States from the negotiations at least among the original participants. For Viet Nam however TPP participation is probably more sensitive than for any other current participant, with concerns over how much additional adjustment will be required by TPP membership over and above the adjustments required by its relatively recent WTO accession. New Zealand can also expect to face pressures from the United States over its system for managing the purchase of subsidized medicines, and from the United States and other participants over its non-participation in the WTO's Government Purchasing Agreement. Both Viet Nam and New Zealand, and also now Malaysia are likely to face pressures from the United States for commitments on intellectual property protection comparable to those made by its partners in its four existing FTAs with TPP participants, and a significant sacrifice of economic welfare may be necessary in these cases. Viet Nam, New Zealand and Malaysia however are also in proportionate terms the largest potential beneficiaries of the TPP, provided that their potential gains in access to the United States market are in fact realized, in which case they may have strong incentives to make the accommodations needed for conclusion of an agreement.

Ultimately much will depend on the response of those East Asian economies that are not currently participating in the TPP. It will also depend on maintenance of the initial political impetus imparted to the TPP by the Obama Administration. The challenge for the Administration is all the greater because it lacks Trade Promotion Authority (TPA) and is unlikely to secure it in the current United States political climate. Conventional wisdom would suggest a window of opportunity stretching from the recent 2010 mid-term elections to the APEC leaders' meeting in Hawaii in November 2011, but even this may be problematic with a hostile House of Representatives now in place. Nevertheless, although conclusion of a full agreement by the time of the APEC leaders' meeting in Hawaii appears unlikely, negotiations would need to be at an advanced stage by then if conclusion during the President's current term of office is to be a realistic possibility.

Conclusion

This paper has highlighted the formidable challenges facing the processes supporting progress towards region-wide economic integration both in East Asia and across the Asia-Pacific region. Substantial uncertainty surrounds the possible outcome in each case. In both cases the challenges include the issues involved in achieving economic integration within Northeast Asia. In both cases also meeting the challenges involves among other things working through the issues relating to future engagement between East Asia and the United States at all levels, political as well as economic.

It might appear superficially that the Asia-Pacific integration process has the greater momentum, because the TPP negotiations are well under way, whereas agreement to begin negotiations on an EAFTA or CEPEA still seems some distance away. Successful conclusion of the TPP negotiations is by no means a foregone conclusion however, and fulfillment of the conditions needed for the TPP to fulfil its strategic potential is also subject to considerable uncertainties. At the same time, when negotiations for an EAFTA or CEPEA do begin, they will face comparable challenges to those currently facing the TPP negotiations. In particular, issues relating to the relationship between a new region-wide agreement and existing bilateral and plurilateral agreements will need to be resolved, just as in the case of the TPP.

A final point that may perhaps be made is that it is not necessary to think of region-wide economic integration in East Asia and across the Asia-Pacific as being mutually exclusive. The integration agenda of the TPP and the prospective agenda of the FTAAP are focused squarely on trade and investment, as has also been the case to a large degree with APEC. The existence in East Asia on the other hand of a complementary focus on monetary cooperation and possibly integration could be conducive to pursuit of deeper levels of integration in that region. It would therefore be possible to conceive of an architecture in which region-wide liberalisation of trade and investment is pursued across the Asia-Pacific region, while East Asia moves beyond this to embark on a project of deeper economic integration involving monetary and possible other dimensions of economic integration as well as trade and investment.



Session II:

Roles of India and Taiwan in Global IT Supply Chain



Patterns and Structure of Indian IT Industry: Scope for Strengthening India-Taiwan Ties

Roles of India and Taiwan in Global IT Supply Chain A Win-Win Proposition to Bring IT to People

Patterns and Structure of Indian IT Industry: Scope for Strengthening India-Taiwan Ties

Durgesh K. Rai¹

1. Introduction

The information technology (IT) is one among the few modern industries that has not only increasingly become an important industry in itself but also emerged as enabling part of infrastructure for efficiency gain in other sectors of the world economy. As an industry, it has increasingly become a significant contributor to the gross domestic product (GDP) growth and employment generation. As an enabling factor, IT has become an important source of modernization and restructuring of the overall economic activities in several economies in the world, including India and Taiwan. The performance of this industry has been crucial for both developed and developing economies. For advanced economies, the sector is critical for sustaining and enhancing their innovation potential and long-term competitiveness. For emerging and developing countries, in addition, the sector plays a critical role in fostering structural transformations, increasing efficiency as well as reducing the digital, economic, and social divides within their territories and vis-à-vis more advanced economies.²

The IT industry has also revolutionized the pattern of international trade, especially in services. It has significantly contributed to the rise in global trade, principally in two ways. As it has grown over the period, the industry itself has become an important constituent of world trade (both in terms of goods and services), but more importantly it has increased the tradability of many services. The progress in IT has resolved the problem of non-transportability and non-storability of many services.³ It has made possible to supply many of the services (both intermediate and final consumption, but mainly as intermediate goods and services) across the borders without the physical movement of consumer or supplier to each other's place. Another impetus to this rapid increase in global trade in services has been the phenomenon of international outsourcing⁴ or off shoring both within the IT industry and in other industries. These developments have drastically increased the scope for trade in services and have provided opportunity for many low cost

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² World Economic Forum and INSEAD, 2010

³ World Investment Report 2004

⁴ Outsourcing is a type of engagement between the two or more firms under which one firm sources some of goods or services from other firm/s instead of producing within the boundary of the firm.

countries, like India, to become part of the global supply chain of IT related and other services sectors. As a result, there has been a significant rise in global trade in services and countries like India have become leading exporters of IT and IT enabled services (ITES) to the world market. The expansion of IT industry has also led to substantial increase in international trade in IT goods or hardware products in which many East Asian countries like Taiwan have become important part of supply chain and are leading exporters in the world market.

One of the common and salient features of both India and Taiwan is that both economies are known for their IT prowess in the world. IT industry has played a key role in putting both countries on the global map. Export is the dominant component of total revenue of the IT industry in both the countries. For instance, in 2010 the Indian IT industry is estimated to report a revenue of US\$ 73.1 billion, of which around 69.0 percent would comprise the export. However, their specialisation and competencies within the IT industry are starkly different from each other. India is known for its ability in software and services and is one among leading exporters of same, while Taiwan is famous for its IT hardware products and is one among top exporters in the world.

The IT industry in India has grown at much faster rate than the average GDP during the same period. The share of the industry has increased both in GDP and total external trade, especially in country's exports. In 2010, the shares of IT industry in India's GDP and total exports (merchandise and services) were more than 6.0 percent and around 26 percent respectively. Similar to India, IT industry has played a critical role in Taiwan's economy. The industry has not only substantially contributed to the GDP but IT related products have become some of the largest contributors to the Taiwan's export basket. In fact, Taiwan is the largest supplier of some IT goods, such as Notebook PC and LCD Monitors etc. in the world.

Although both countries are among the largest exporters and importers of IT goods and services, and are integral part of global supply chain, bilateral engagement between the two is quite limited. Both countries do not figure among major trading partners of each other.⁵ This is despite the fact that the industrial structure and sectoral specialisation within their IT industries are very complementary to each other. As mentioned previously, India's specialisation is mainly in IT software and services, and Taiwan is specialised in IT hardware products. However, India is trying to improve its hardware segment of IT industry and Taiwan is trying to enter into high end services part of the industry. Given the complementarities in strengths and aims in IT industry, there exists a great scope for strengthening bilateral ties.

⁵ For instance, India was just 15th largest export market for Taiwan in 2009.

In the background of the above discussion, this paper is an attempt to enquire into the patterns and structure of IT industry in India and see the areas of strengths and weaknesses within the industry. The paper also tries to look into the scope for strengthening ties between India and Taiwan in the context of IT industry that can be beneficial to both countries. Including the introduction, the paper contains six sections. Section 2 highlights the importance of the IT industry in India, in terms of its contribution to GDP, employment generation and external trade. Section 3 examines the structure of IT industry in India and analyses the strengths and weaknesses of the industry. Section 4 looks into India's position in world trade in IT software and services. Section 5 explores the scope and possibilities for strengthening the bilateral ties between India and Taiwan in the IT industry. The final section is the conclusion.

2. Significance of IT Industry in Indian Economy

The Indian economy has witnessed a remarkable growth and transformation during the last two decades and IT has played a very vital role in this process. IT industry has been one of the hotshots of Indian economy. The sector has not only played a critical role in restructuring of the economy but also in making India as one of the major exporters of services in the world. The growth and development of the sector has wedged the attention of the world market. India is now being identified as the major powerhouse for incremental development of computer software. The reason for this world interest is not the actual size of the industry but its rapid growth rate during last two decades (Chakraborty and Dutta 2006).

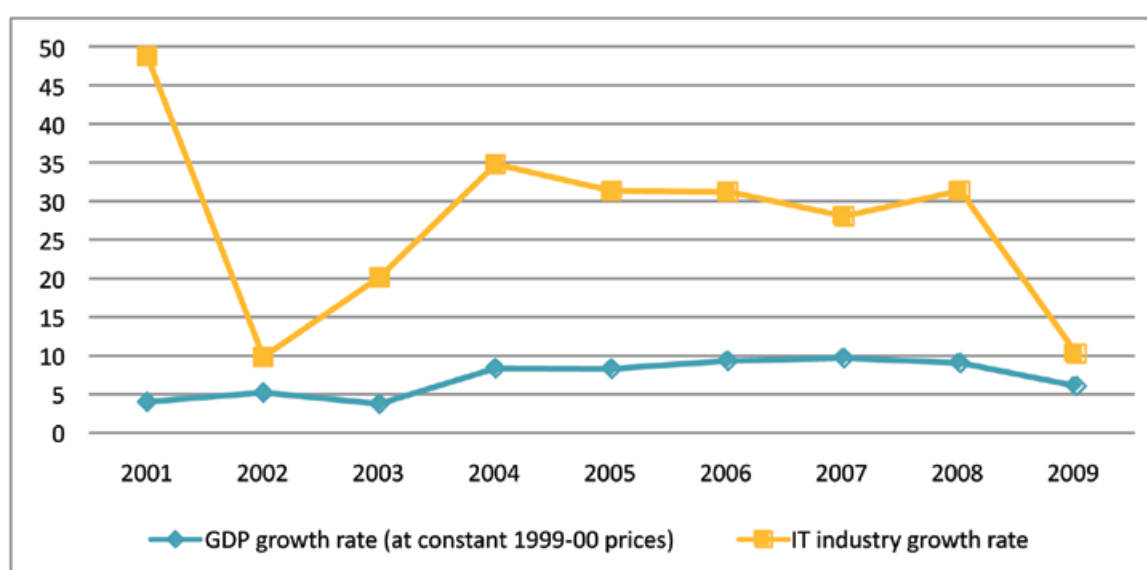
The phenomenal growth of the IT industry during last two decades and the emergence of the country as a top outsourcing destination in the world have made India one among the top IT nations. Due to rapid development in the sector many scholars have described this as a leapfrog development for the country (Mathur 2006). The sector has increasingly contributed to the national economy, employment generation and export earnings.

2.1. IT Industry and GDP:

The IT industry has increasingly played a vital role in transformation of the Indian economy. The industry has been growing at significantly higher rate than the average GDP. It has witnessed a rapid growth for more than last one decade. The industry has grown at a CAGR of around 24 percent during 2001-09, which has substantially been higher than any other major sector of the economy. As can be observed from the Figure 1, the IT industry has not only grown at a much higher rate than the overall GDP but except during the year 2002 and 2009, the growth rate has been above 20 percent annually. Although the global financial

crisis in 2008-09 impacted the industry and the annual growth rate in 2009 slowed down compared to 2008, it maintained a positive growth rate of above 10 percent in 2009. In 2010 the industry is expected to grow by 5.4 percent, which is lower than the estimated GDP growth for the same year. In fact, this will be the first time in almost last two decades when IT industry growth will be lower than the average GDP.

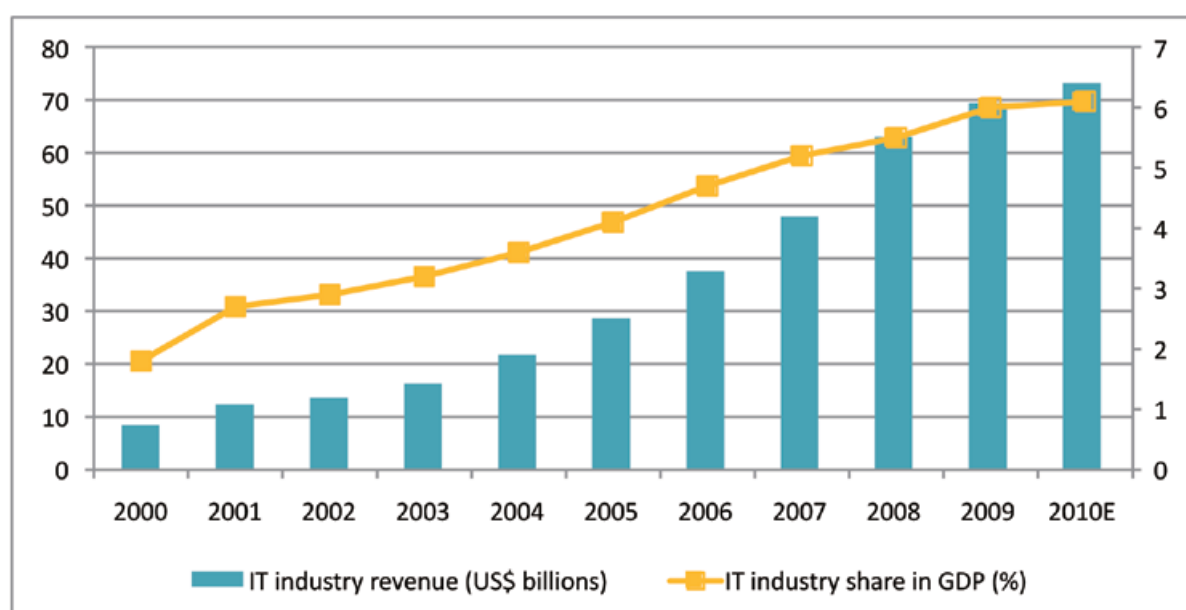
Figure 1: Annual growth rates of IT industry and GDP:



Source: CMIE Database and NASSCOM Strategic Review Reports (2005, 06, 07 and 10), compiled by author

Due to a fast pace of growth compared to overall GDP, as mentioned previously, the share of the IT industry in Indian economy has continuously been increasing. As can be observed from the Figure 2, the total revenue from the IT industry in India has increased from about US\$ 8.0 billion in 2000 to more than 73 billion in 2010. This means that in 2010 the size of the industry is more than nine times than what it was in the year 2000. According to a recent report by the Department of Information Technology (Government of India)⁶, the IT industry in India is expected to generate total revenue of US\$ 225 billion by 2020. The phenomenal growth in the industry has substantially increased the contribution of the Indian IT industry into total GDP from less than 2.0 percent in the year 2000 to more than 6.0 percent in 2010. It is important to note that the rapid growth in IT industry has mainly come from the export sector. However, as the Indian economy is growing and getting into higher technological sophistication the domestic IT demand has also been picking up in recent years.

⁶ Information Technology Annual Report 2009-10, Department of Information Technology, Government of India

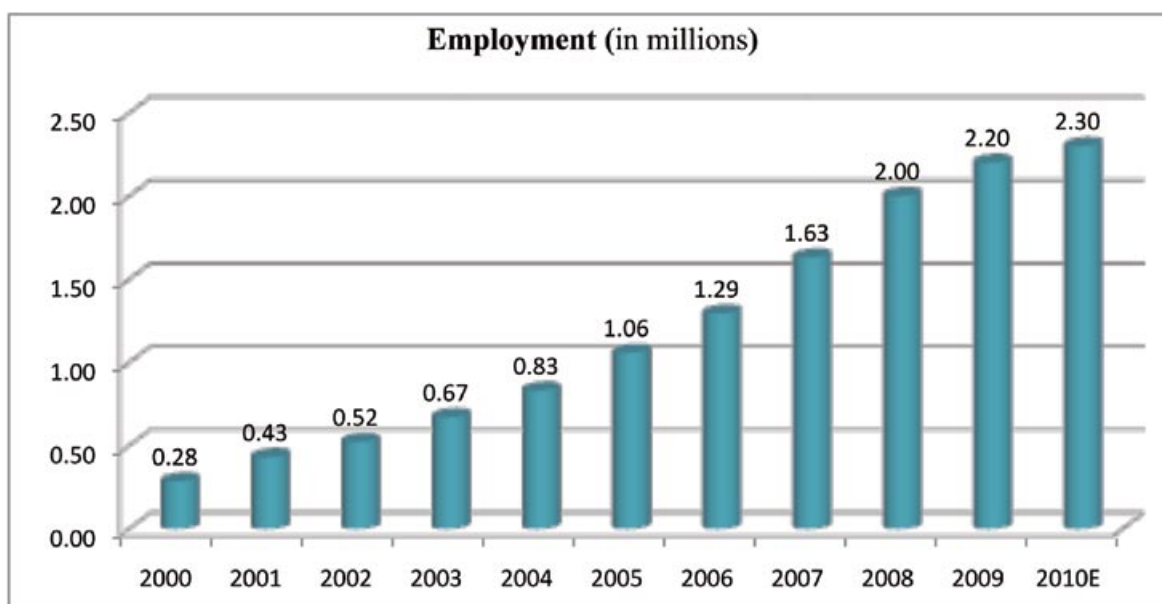
Figure 2: India's GDP and IT Sector

Source: NASSCOM Strategic Review Reports (2005, 06, 07 and 10), compiled by author

2.2. IT Industry in Employment Generation:

One of the major contributions of the IT industry in India has been in terms of employment generation. The sector has generated substantial employment opportunities for the educated youth population, which has been growing at a faster rate. In 2010, the total direct employment (excluding the hardware segment) in the industry was estimated to be 2.3 million that was more than eight times of employment generated by the industry in 2000. The industry has also created millions of indirect jobs. In 2010, the industry is expected to provide 8.2 million indirect jobs. Employment generation in the industry has also been growing at a fast pace. Before coming down to 10.0 percent in 2009 and 4.5 percent in 2010, the number of employed persons in the industry grew at more than 22 percent annually since the year 2000. Given the dominance of exports in total revenue generation in the industry, more than 75 percent of jobs have been created in export sector. Within the export sector, with more than 56 percent of total jobs, IT services segment was the larger contributor than the ITES-BPO segment. However, employment in BPO sector has been growing faster than IT services in recent years. Another noticeable aspect of employment in IT industry in India is, most of the direct and indirect jobs in the industry have concentrated in major urban agglomerations, such as Bengaluru, New Delhi, Mumbai, Hyderabad, Chennai etc. However, as the cost of both labour and physical infrastructure is rising in these locations, companies have started spreading activities to the second and third tier cities. In addition, some rural locations are also being utilised to perform the low end services.

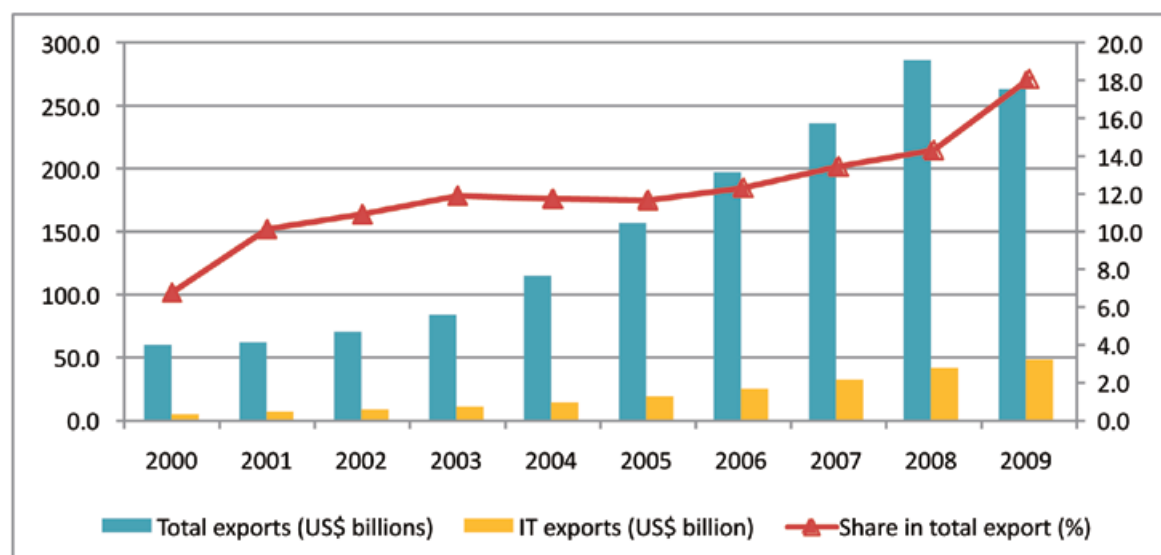
Figure 3: Direct employment in IT industry in India (excluding hardware):



Source: NASSCOM Strategic Review Reports (2005, 06, 07 and 10), compiled by author

2.3. IT Industry in India's External Trade:

The biggest contribution of IT industry in India has been in terms of its export earnings. India has become one of the largest trading countries in services in the world and IT has played the most critical role in this phenomenon. As can be observed from the figure 4, total Indian exports (goods and services) have increased at a phenomenal rate during last ten years. Total exports have increased from US\$ 59.0 billion in 2000 to about US\$ 286 billion in 2008. However, the global financial crisis has had an adverse impact on export earnings which decreased to US\$ 263 billion in 2009. On the other hand, the exports of IT goods and services increased from US\$ 4.0 billion in 2000 to US\$ 47.7 billion in 2009. It is important to note that although the overall exports from India decreased during 2008-09 on account of global financial crisis, IT exports have continued to rise during the same period. This shows the resilience and strength of the Indian IT export sector. As the exports of IT goods and services have increased at much faster rate than the total exports, share of IT industry in total exports continuously increased from less than 7.0 percent in 2000 to more than 18.0 percent in 2009. It is a noticeable fact that the rise in IT exports has been mainly on account of the software and services exports.

Figure 4: Contribution of IT industry in total exports

Source: WTO Trade Statistics 2010, UNCTAD Trade Statistics and NASSCOM Strategic Review Reports (2005, 06, 07 and 10), compiled by author

In addition, IT industry's impact on Indian economy goes beyond the contribution to the overall GDP, foreign reserve earnings and employment generation. Despite adverse conditions entrepreneurs in IT sector in India have been able to create world class business models and have had a demonstration effect on other sectors of the economy. These changes have led to the creation of conditions for widespread institutional transformation and reforms in the overall business environment in the whole economy (Athreye 2010).

Many studies, such as by Arora and Athreye (2001), have argued that Indian software companies have emerged as models of good corporate governance that companies from other sectors can and increasingly emulate. This has a productivity spillover effects on other sectors of the economy. They found that the sector has been characterised by many impressive features such as increases in investment in staff training, incentive pay linked to performance, changes in work culture especially in terms of flat hierarchies and team organisation, promotion of entrepreneurship etc. The sector has had a very positive impact on creation of innovation environment and has also provided necessary impulse to the creation of intellectual property. The industry has also helped to enhance the credibility of the country as a business destination and improve the image of the economy on the global map. In addition, the IT industry has given impetus to corporate social responsibility (CSR) activities in India. In 2009 alone, the industry contributed over US\$ 50 million towards the CSR activities.⁷

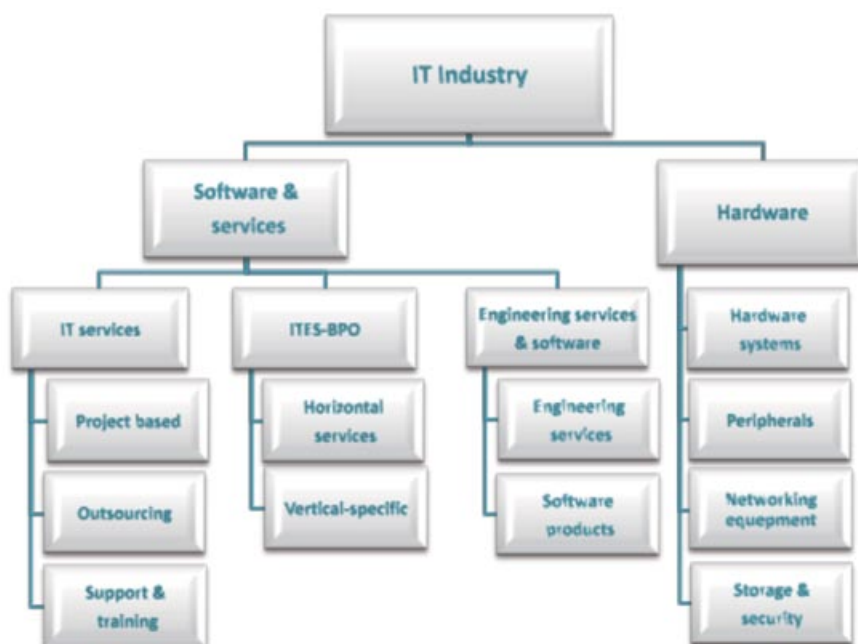
⁷ NASSCOM, Strategic Review Report 2010

3. Patterns and Structure of IT industry in India

Figure 5 demonstrates a broad structure of Indian IT industry. The Indian IT industry can be broadly categorised into two segments: software and services, and hardware. Both segments have applications across the industry verticals like banking, financial services and insurance (BFSI), retail, manufacturing, telecom and healthcare etc. The software and services segment can be further categorised into three sectors: IT services or software services, ITES-BPO services and, engineering services and software products. Globally the non-IT outsourcing part is referred to as BPO but the segment is commonly referred to as ITES. To have a reasonable comparison between Indian industries with the world the segment is referred as ITES-BPO.

Every sector further consists of different sub-sectors, which are at the different levels of the value chain. These sub-sectors consist of various services lines. For instance, project based IT services or software services include IT consulting, system integration, custom application development (CAD), network consulting and integration and software testing. Under the outsourcing, IT services application management, infrastructure outsourcing (IS) services, and service oriented architecture and web services plus e-business/e-commerce are most important ones. Software and hardware deploy and support and, IT education and training are part of support and training sub-sector. Horizontal services lines under the BPO sector include a variety of activities ranging from customer interaction services to high skill intensive knowledge services. Major verticals include BFSI, healthcare, telecom, manufacturing etc.

Figure 5: Structure of Indian IT Industry



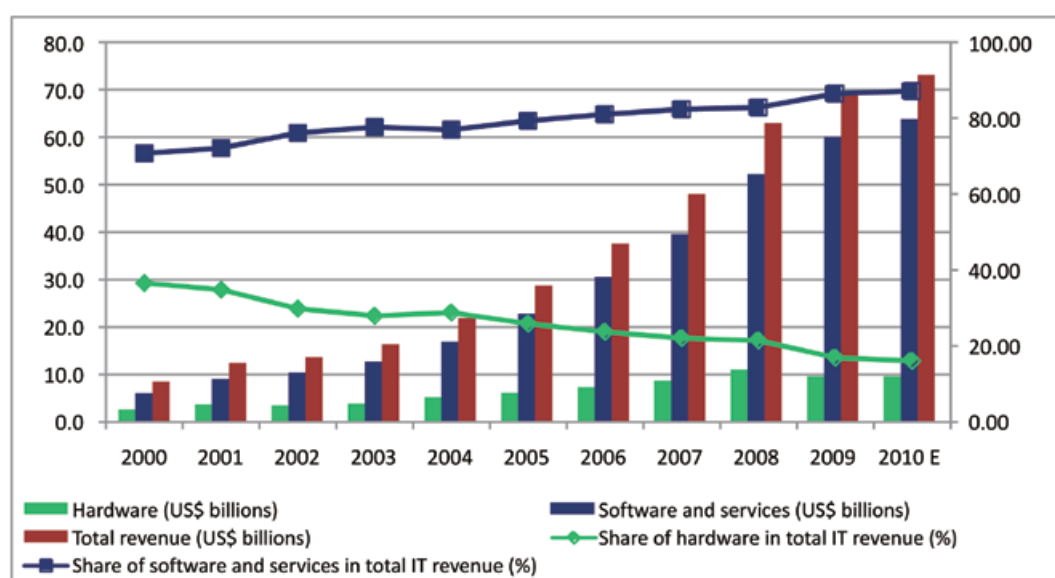
Source: Prepared by author

3.1. Software and services vs. Hardware:

As has been mentioned earlier, the Indian IT industry has witnessed a phenomenal growth during last one decade. This rapid growth has largely been fuelled by software and services segment of the industry. While both segments have witnessed a consistent year-on-year growth over the last one decade, the software and services segment has grown at a much faster rate than the hardware. As the Figure 6 shows, in the last ten years, growth in the software and services segment has been phenomenal. Total revenue from the hardware segment increased from US\$ 2.4 billion in 2000 to US\$ 9.4 billion in 2009 and estimated to earn a revenue of US\$ 9.4 billion in 2010 also. Revenue from software and services segment, on the other hand, increased from less than US\$ 6.0 billion to US\$ 60.0 billion during the period 2000-09. In 2010, the segment is expected to generate around US\$ 64.0 billion of revenue. This has led to continuous increase in the share of software and services and a decline in share of hardware in the total revenue generation of the industry. In 2010, the contributions of software and services, and hardware segment are estimated to be more than 87 percent and around 13 percent compare to 71 percent and 29 percent in the year 2000, respectively.

It is worth noting that, the global financial crisis 2008-09 has had a negative impact on growth of the hardware sector. Its revenue declined from around US\$ 11 billion in 2008 to about US\$ 9.0 billion in 2009. The software and services segment, on the other hand, witnessed a positive growth during the same period. This highlights the strength and robustness of the software and services segment of IT industry in India.

Figure 6: Software vs Hardware

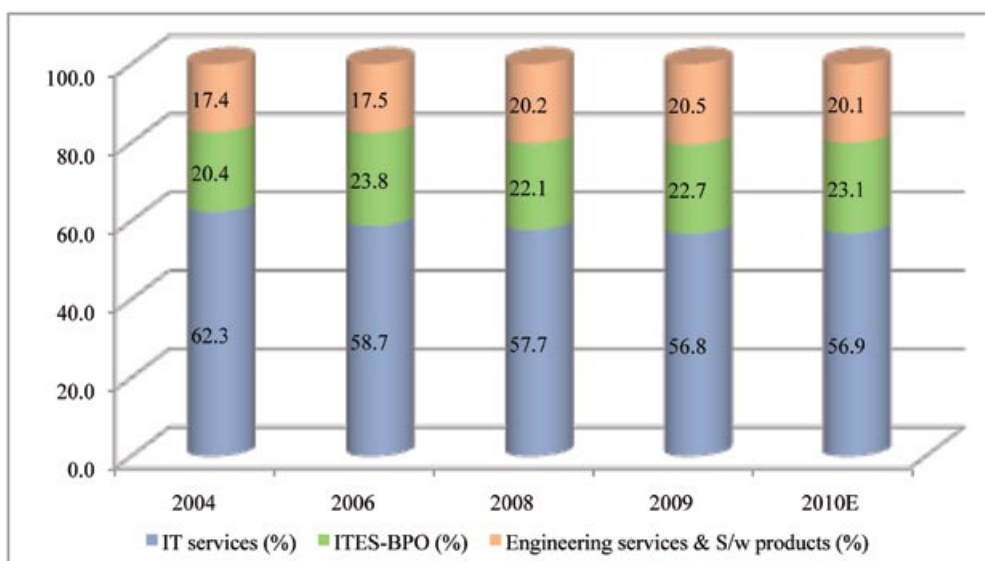


Source: NASSCOM Strategic Review Reports (2005, 06, 07 and 10), compiled by author

As far as sectors within the software and services segment are concerned, IT services are the largest contributor to both the overall revenue of the IT industry and within the software and services segment. In 2004, IT services alone contributed about 48 percent in total IT revenue of the economy, which is estimated to increase at around 50 percent in 2010. Till 2004, the hardware segment was the second contributor in total IT revenue but thereafter not only its share has declined, but since 2009, it has become the fourth contributing segment from second position in 2004.

Figure 7 highlights the contribution of various sectors in the total revenue generation of software and services segment. Although, with the share of around 57 percent, IT services remain the dominant contributor, their share is continuously declining in the overall software and services segment. On the other hand, the shares of ITES-BPO and engineering services and software product sectors, which are the second and third largest contributors, have been rising. Revenue from both these sectors has increased faster than IT services. As can be observed from the figure, the share of ITES-BPO and engineering and software product sector have increased from around 17 percent and 20 percent in 2004 to 20 percent and 23 percent in 2010, respectively. During the same period, revenue from these two sectors has increased from US\$ 3.4 billion and US\$ 2.9 billion to 14.7 and US\$ 12.8 billion respectively. As far as the impact of global financial crisis is concerned, it seems to have had some impact on the engineering and software product sector as revenue is estimated to decline from US\$ 17.7 billion in 2009 to US\$ 17.5 billion in 2010. However, both IT services and ITES-BPO services continued to rise during the crisis period as well.

Figure 7: Share (in %) of various sectors in total IT Revenue in India



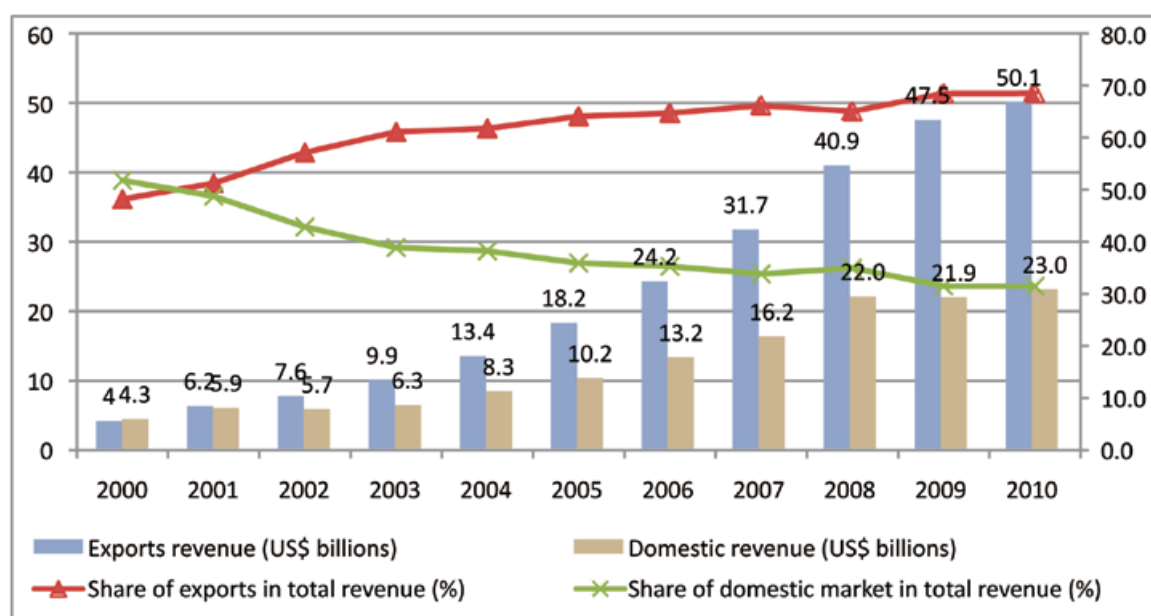
Source: NASSCOM Strategic Review Reports (2005, 06, 07 and 10), compiled by author

3.2. Exports vs. Domestic Market:

In terms of domestic vs. external markets for the Indian IT industry, it is the exports that have driven the industry and dominated in terms of contribution to revenue and employment generation. Although, there has been rapid growth in both domestic and external markets, growth in exports has substantially been higher than growth in domestic market in the last one decade. The revenue from exports have grown at a CAGR of over 28 percent, while domestic market has grown at CAGR of more than 18 percent during 2000-09.

The rapid growth in exports compared to the domestic market has led to substantial rise in its share in total revenue. In 2000 the domestic market's share was slightly greater than exports in total IT revenue, but in 2009 share of exports became more than 68 percent of total IT revenue generation. It is notable that exports revenue continued to rise during the global crisis period 2008-09, while revenue from domestic market has witnessed a marginal decline. Nevertheless, global financial crisis seems to have impacted the growth rates of both export and domestic revenue. Annual growth rates of export and domestic revenue were 16.1 percent and -0.6 percent in 2009 respectively compare to 29.1 percent and 35.7 percent in 2008.

Figure 7: Share of Exports and domestic market in total IT revenue:



Source: NASSCOM Strategic Review (2005, 06, 07 and 10), compiled by author

3.2.1. Patterns and Structure of Exports:

As discussed above, exports have been a vital component in the phenomenal growth of the Indian IT industry during the last one decade. The export sector has largely been dominated by the software and services segment in comparison to the hardware segment. The hardware exports have not only remained very low but have also declined in terms of total revenue and share in total IT exports. Exports of all the sectors of software and services segment, on the other hand, have continuously been increasing. As the Table 1 shows, with a contribution of more than 54 percent, IT services have always been the largest contributor to the total IT export from India. Within the IT services sector, the project based services have been the largest contributor followed by outsourcing, and support and training services. Custom application development services have been a dominant constituent of project based services but software testing is growing at a very fast pace in recent years. Within the outsourcing IT services, application management has been the major constituent but IS outsourcing is growing at a fast pace. Software deployment and support is the principle service under the support and training sector.

Table 1: Structure of IT export from India (US\$ billions)

Export items	2004	2005	2006	2007	2008	2009	2010 E
IT services	7.3 (54.5 %)	10 (54.9%)	13.3 (55.0%)	17.1 (53.8%)	22.2 (54.3%)	25.8 (54.3%)	27.3 (54.5%)
ITES-BPO	3.1 (23.1%)	4.6 (25.3%)	6.3 (26.0%)	7.6 (23.9%)	9.9 (24.2%)	11.7 (24.6%)	12.4 (24.8%)
Engineering services & S/w products	2.5 (18.7%)	3.1 (17.0%)	4 (16.5%)	6.6 (20.8%)	8.3 (20.3%)	9.6 (20.2%)	10.0 (20.0%)
Hardware	0.5 (3.7%)	0.5 (2.7%)	0.6 (2.5%)	0.5 (1.5%)	0.5 (1.2%)	0.4 (0.8%)	0.4 (0.8%)
Total Revenue	13.4 (100%)	18.2 (100%)	24.2 (100%)	31.7 (100%)	40.9 (100%)	47.5 (100%)	50.1 (100%)

Note: Figures in parentheses are percentage of total exports of IT sector

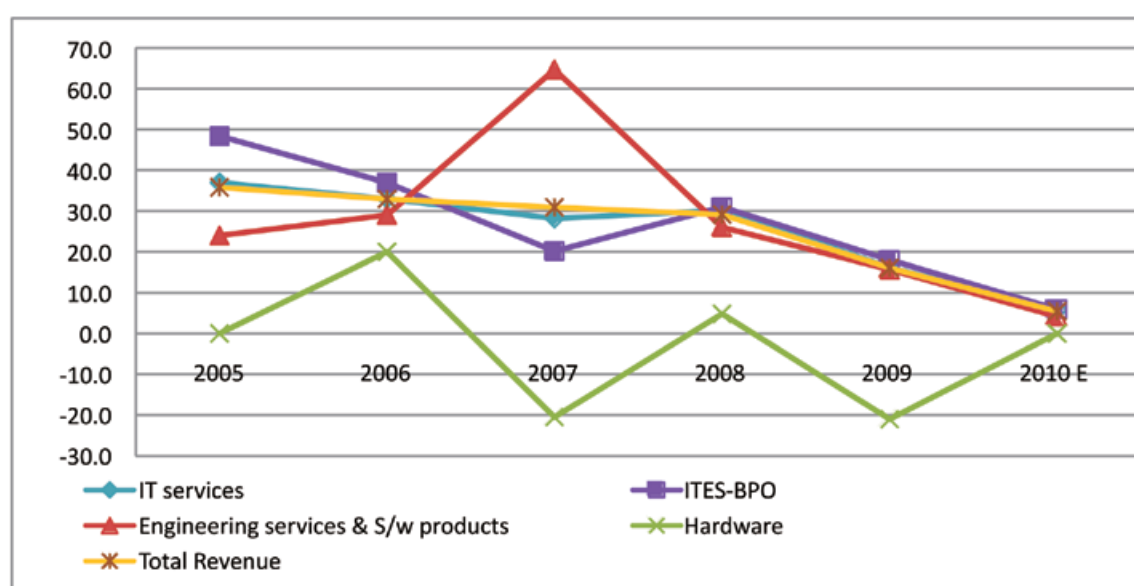
Source: NASSCOM Strategic Review (2005, 06, 07 and 10), compiled by author

The second and third most important exporting items of Indian IT industry are ITES-BPO services and engineering services & s/w products that have been growing at a faster rate than the IT services in recent years. As a result, the shares of both these sectors in total IT exports have increased from about 23 percent and 19 percent in 2004 to about 25 percent and 20 percent in 2009, respectively. Within the ITES-BPO ser-

vices sector, customer interaction services are the largest contributor followed by finance and accounting and vertical specific services. Knowledge services or knowledge process outsourcing (KPO) services are also growing at a fast pace in recent years within the ITES-BPO sector. Within the engineering services and s/w products sector, engineering services are the main constituent.

Growth in engineering services market is driven by many factors such as an increasing number of companies are utilising India as base for delivery of off-shored engineering services, increase in high value work outsourced to India, growth in services around the new verticals etc. The engineering services have mainly been provided to sectors like telecom, semiconductors and automotive but Indian vendors have also developed competencies in new verticals like energy and infrastructure, which have witnessed significant growth in recent past. As far as software products are concerned, they have not been a major contributor to overall IT revenue previously but in last few years have witnessed a significant growth in this sub-sector. Revenue from export of software products is estimated to reach US\$ 1.4 billion in 2010 in comparison to US\$ 0.79 billion revenue in 2007. Many factors are responsible for the limited size of the business in software products, including lack of sizable domestic demand, limited supply of experienced professionals, underdeveloped ecosystem, and lack of global scale, network and distribution capabilities among the Indian firms etc. However, there have been significant improvements on all the factors, which have increased the business in software sector during the last few years.⁸

Figure 8: Annual growth rate of various segments of exports (in %):



Source: NASSCOM Strategic Review (2005, 06, 07 and 10), compiled by author

⁸ Ibid

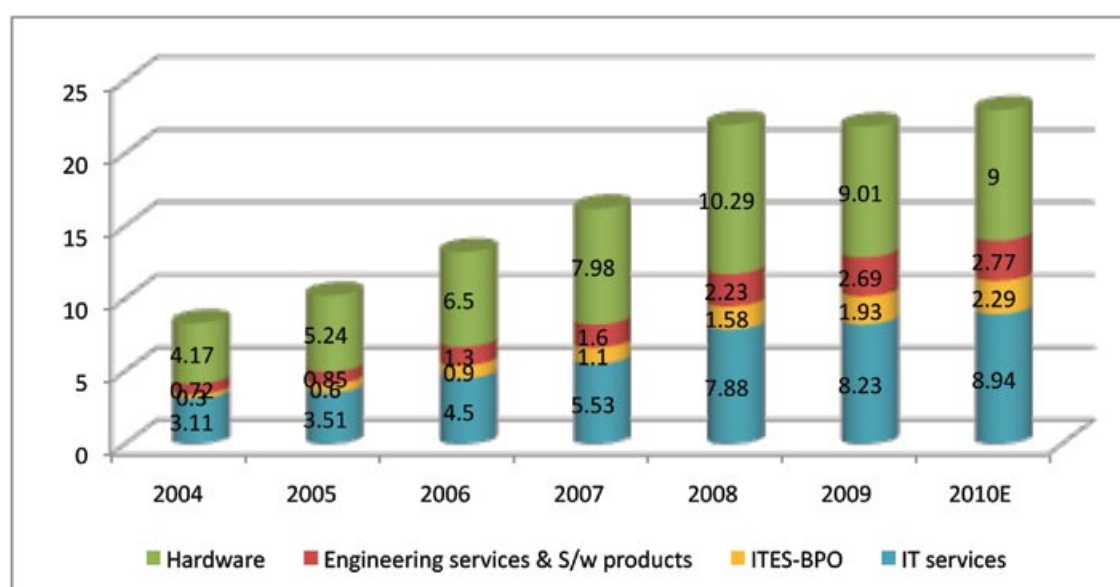
3.2.2 Patterns and Structure of Domestic IT Market:

Though the Indian IT industry is dominated by the export sector, as the economy is witnessing a fast pace growth across the industries, the domestic IT market has started picking up pace in recent years. Many factors are contributing to growth in the domestic IT market including increasing capability of Indian companies, increase in government spending on IT's software and hardware, enhanced connectivity and increasing adoption of IT in various sectors of the economy. Some sectors like telecommunications, retail, transportation and logistics etc. spend more of their revenue on IT utilisation, compared to other sectors. Moreover, these are also high growing sectors of the economy. In addition, Indian companies are also increasingly indulging in outsourcing activities especially in telecommunication and retail sectors. Outsourcing component, in sectors like government, BFSI, manufacturing, healthcare etc., is likely to further increase in coming future.

Unlike the exports, the domestic IT market is dominated by the hardware sector. Figure 8 highlights the overall patterns and structure of domestic IT market in India. Contrary to the software and services sector, which has been focusing on international market since the beginning (Majumdar 2010), the hardware sector is entirely domestic market oriented. For instance, in 2009, the total revenue from the hardware sector was US\$ 9.4 billion, out of which US\$ 9 billion was originated from the domestic market alone. As can be observed from the figure also, the domestic IT market is dominated by the hardware segment followed by IT services and others. It is worth noting that although the shares of both the ITES-BPO services and engineering and software products sectors are small, they have witnessed a rapid growth during last few years. As Indian companies are seeing growth and expansion of their businesses in recent years, they have also now increasingly started participating in outsourcing activities. For instance, during 1999-2009, both the number of domestic outsourcing deals and average annual contract value of these deals have grown from 6 and US\$ 2.0 million to 62 and US\$ 16 million.⁹ This has led to rapid growth in all three sectors of software and services segment of domestic IT industry. However, growth in ITES-BPO services and engineering services and s/w products sectors has been substantially high. During 2004-09, the hardware and IT services grew at CAGR of over 13 percent and 17 percent, while the ITES-BPO and engineering and software products sectors grew at a CAGR of more than 36 percent and 24 percent.

⁹ NASSCOM Strategic Review Report 2010

Figure 8: Patterns and Structure of Domestic IT Market in India (figures in US\$ billions)



Source: NASSCOM Strategic Review (2005, 06, 07 and 10), compiled by author

4. India in the Global market of IT and ITES-BPO services

As mentioned in previous discussions, over the past two decades the IT industry has become vital to the world economy. As the industry has grown in its size and influence on other sectors of economic activities over the period, the software segment has overtaken hardware as a principle contributor to the overall value generation of the industry (Dossani, 2010). In 2009, the global IT industry's revenue was US\$ 2.6 trillion. Out of this, hardware sales generated US\$ 550 billion and rest was related to software items like software services, BPO, packaged software, R&D, engineering services.¹⁰

The industry has also increasingly contributed to the world trade, especially in services. With relatively lower costs of production and abundance of human capital, several countries including India, have become an integral part of global supply chain of IT and ITES-BPO services and emerged as major exporters of these services. For instance, with a value of US\$ 160 billion in 2007, the world exports of computer and information services (a close proxy to IT software and services) have grown annually at 19 percent during 2000-07. With a share of more than 17 percent, India was the largest exporting nation in 2007.¹¹

Although services have constituted an increasing part of global economy, their share in world trade

¹⁰ Ibid

¹¹ WTO Trade Statistics 2009

has been limited by many factors but mainly non-tradability across the borders. However, technological advancements have led to fragmentation of production processes and drastic improvements in IT infrastructure have substantially enhanced the scope for trade in services without the physical movement of consumers and suppliers to each other's place.¹² Many of the services, including IT services, now can be traded through high speed internet and there has been a continuous decline in the cost of high speed internet. These developments have led to the phenomenon of outsourcing and off-shoring and substantial increase in global trade in both IT and non-IT ITES-BPO services and engineering or technology services. This has provided opportunity for many countries like India, Ireland, Philippines, China, etc. to become integral part of the global supply system. With a large English speaking young and educated population available at relatively low cost, India has emerged as the most favoured destination for the global sourcing of IT and ITES-BPO services.

The size of the global non-hardware IT segment or IT software and services segment in 2009 was US\$ 2.05 billion. With revenue of about US\$ 1.1 trillion engineering and R&D (ER&D) services is the largest segment of non-hardware IT. A significant proportion of ER&D expenditure happens in public sectors in areas like defence, fundamental research, emerging technologies (in solar etc.). IT services or software services are the second most important contributor to the non-hardware segment of IT industry. In 2009, the global revenue generated from IT services was US\$ 589 billion and with a share of around 40 percent IT outsourcing was the largest component followed by project based services and support and training services. With revenue of US\$ 307 billion, software products segment was the third important segment of non-hardware sector and within this, the largest contributor was application software followed by system infrastructure software and application development and deployment software. The worldwide BPO revenue was US\$ 112 billion in 2009, which was just 2 percent higher than in 2008. With a share of more than 52 percent worldwide BPO sector was dominated by customer management services, followed by finance and accounting, human resources, training and procurement services.¹³

However, as per the size of global sourcing market is concerned, it was around US\$ 94 billion in 2009. India has a share of almost 51 percent in this market. India's shares in global technology services market of about US\$ 58 billion and global business outsourcing market of around US\$ 37 billion were 62 percent and 32 percent, respectively.¹⁴ As mentioned in the previous discussions, IT services or software services have

¹² World Investment Report 2004

¹³ NASSCOM Strategic Review Report

¹⁴ <http://www.articlesbase.com/information-technology-articles/india-is-regarded-as-the-premier-destination-for-the-global-sourcing-of-it-industry-3471297.html>

been major constituent of Indian IT exports to the global market. Initially, the major IT services that were sourced from India were up-gradation of legacy systems and platforms, Y2K technology and internet services. This involved activities like low level application development, system infrastructure and maintenance support services etc.¹⁵ However, after the dot com bust in 2000, many MNCs and domestic companies started focusing on the delivery of high end services like package implementation, large scale system integration, infrastructure outsourcing and IT consulting etc. These services are not only of high value but also provide opportunity to enhance the capabilities of Indian companies since the companies try to become end to end IT service providers. The key competency of Indian IT service providers lies in developing customised application for a diverse set of industries.¹⁶

As been mentioned in previous discussions, although the IT services continues to be largest constituent of India's export to the world market, last few years have witnessed a surge in export of ITES-BPO services and engineering services. With a share of more than 43 percent in total revenue in 2009, customer interaction services segment is the largest contributor to the ITES-BPO sector, followed by finance and accounting, vertical specific BPO services and knowledge services. In recent years, the industry has been focusing on moving up the value chain to provide higher end services like business analytics, knowledge based services etc. This has resulted into continuous rise in share of high end BPO or KPO services like research and analytics services, legal services outsourcing, financial research and data management services etc. Procurement is another area whose share has continuously increased in the last few years. Engineering and software products sector is the third largest constituent of Indian software and services export basket. This sector is largely dominated by engineering related services. With about 52 percent share embedded hardware and chip design is the largest part of engineering services exports from India, followed by prototype building and testing services, design support services and engineering analysis/modelling etc. As per software products, they are still very small contributor to IT export but have been increasing in recent years.

5. Scope for Strengthening India-Taiwan Ties in IT Industry

Like in India, the IT sector has played a critical role in Taiwan's economy as well. The sector's contribution to total GDP in general and manufacturing output in particular has continuously increased over the years. Its share in manufacturing increased from around 19 percent in 1990 to more than 36 percent in 2000. Although the share of the sector has declined after 2000 and reached to about 32 percent in 2008, it still remains the largest contributor to the manufacturing sector (Ministry of Economic Affairs, Taiwan,

¹⁵ NASSCOM, Strategic Review Report 2010

¹⁶ Ibid

2009).

Similar to India, Taiwan's IT industry is also very global oriented and vital component of world IT supply chain. However, unlike India which is leading destination in the world for IT software and services sourcing, Taiwan occupies an important position in the global IT industry in the manufacturing or hardware segment. In fact, Taiwan is largest supplier of many of IT related products like monitors, notebook PCs, desktop PCs etc. to the global market. The economy, presently, accounts for three quarters of the global production of PCs, half of the LCDs, a quarter of semiconductors and a fifth of mobile phones.¹⁷ The economy is home to the world's renowned IT companies like IBM, Dell, Acer, Compaq etc. Many Taiwanese technology firms, such as Acer, HTC etc., have also a growing presence in Indian market. However, despite remarkable footprints of both countries at the global IT landscape, bilateral engagements between the two IT industries from both the countries are not so high.

Nevertheless, given that both economies have significant complementary strengths in IT industry, there exist immense opportunities for strengthening the bilateral engagements. Also, both countries are trying to diversify their respective IT industries. India is trying to expand its IT manufacturing base along with moving up in the software and services value chain, while Taiwan is promoting the industry to move into high end services like design services, R&D services, digital content etc. India's strengths in software could be meshed with Taiwan's prowess in hardware, which can be instrumental in fulfilling their respective goals regarding the IT industry. Some of the major areas where bilateral coupling between the Indian software and Taiwanese hardware could take place include wireless networks, energy (light-emitting diodes (LED), green power), medical electronics (distance healthcare, equipments), digital (electronic government, virtual classroom) and auto electronics etc. There exists a high chance of trade expansion in a variety of segments like PC and peripherals, 3G mobile equipments and phones, LED. Some companies have already entered into joint collaboration in these areas. For instance, recently, Taiwan's HTC and India's Bharti Airtel launched 3G compatible mobiles.¹⁸ Similarly, Taiwan's Inventec has joined hands with India's Reliance Communications to launch a CDMA mobile phone.¹⁹

Taiwan is heavily dependent on China for sourcing of many IT products. It is looking for diversifying its sourcing options beyond China. India not only provides a vast and growing market for IT products but also opportunities for investment for many Taiwanese IT manufacturers. In addition to its geographical proxim-

17 http://findarticles.com/p/articles/mi_m0EIN/is_20100314/ai_n52442182/

18 <http://www.airtel.in/wps/wcm/connect/About%20Bharti%20Airtel/bharti+airtel/media+centre/bharti+airtel+news/mobile/pg-bharti-airtel-htc-and-qualcomm-launch-the-htc-smart-in-india>

19 http://www.emmaexpo.com/en_US/industry/news/info.html?id=F680B75BC37BEE80

ity, India offers a vast pool of labour force, a stable and fast growing economy, and an advanced ICT investment environment. Also, there exists a great potential for Taiwanese firms to outsource a host of requirements ranging from chip design, testing and packaging and embedded software to developing IPs (intellectual property) from the Indian IT companies. Collaboration or joint ventures between the companies from both sides will be a win-win situation for competing and capturing the world market.²⁰

To take the bilateral relations at new heights, the engagements between the two sides need to be up-graded and expanded both at government and industry levels. Government to government interactions are important to address the policy related issues and industry level engagements are necessary for exploring the real opportunity in each other's market. The IT industry associations from both sides can especially play an important role in enhancing and strengthening their bilateral engagements to facilitate exploration of investment and trade opportunity between the two countries.

6. Conclusion

The IT industry has become a vital industry in the global economy. It has contributed to the world economy not only in terms of output but has had a transformative impact on economic structure and world trade. Growth in IT industry has led to substantial rise in trade in IT goods and services and many non-IT services. Technological advancements have enhanced the tradability of many services and led to the phenomenon of outsourcing and off-shoring, providing opportunities for many countries, including India and Taiwan, to supply IT products and services to the world market. India has emerged as a leading global sourcing hub for IT and ITES-BPO services, while Taiwan is among the world's largest procurement centres for many IT hardware products.

The Indian IT industry has witnessed phenomenal growth and structural change over period, especially during last one decade. The industry has grown faster than the average growth of the economy and has had a profound impact in terms of growth, employment generation and export earnings. It has also contributed to the Indian development process in terms of developing new work culture, entrepreneurship, etc. The structure and patterns of the IT industry has been changing over last one decade. Although, the industry has always been dominated by software and services segment, the share of hardware to the overall revenue of the industry has continuously been declining during last ten years. Since its inception, the industry in India has been focusing on international market and exports have always had a dominating role in the total revenue generation of the industry. In fact, IT services have been the major contributor to the total export earn-

20 <http://www.kuna.net.kw/NewsAgenciesPublicSite/ArticleDetails.aspx?Language=en&id=1670168>

ings since inception of the industry. However, the post dot-com-bust period has witnessed a rapid growth in ITES-BPO and engineering services and software products. The industry has moved up the value chain from providing low value services to the high end services in both IT services and ITES-BPO services.

Both economies possess complementary strengths and policy outlook in the IT industry. Cooperation and collaboration between the two sides can lead to greater bilateral trade and investment. India desires to expand its IT manufacturing base along with moving up the value chain in software and services, while Taiwan aims to strengthen and expand its capabilities in high-end IT services. Also, since India has proven capabilities in software and services and Taiwan is good in hardware, cooperation and collaboration between the IT companies from both sides will not only lead to more bilateral trade and investment but will also enhance their respective competencies in the global market. Given that India is fast growing market place and has conducive investment environment in IT sector, it could prove to be formidable option for investment diversification to Taiwan's companies, which are heavily dependent on China for sourcing at present. Bilateral engagements between the governments, industries and academia from both the economies need to be substantially improved for realising the full potential of complementary strengths that the both sides possess.

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Roles of India and Taiwan in Global IT Supply Chain

A Win-Win Proposition to Bring IT to People



Dr. Gary Gong

EVP, Institute for Information Industry



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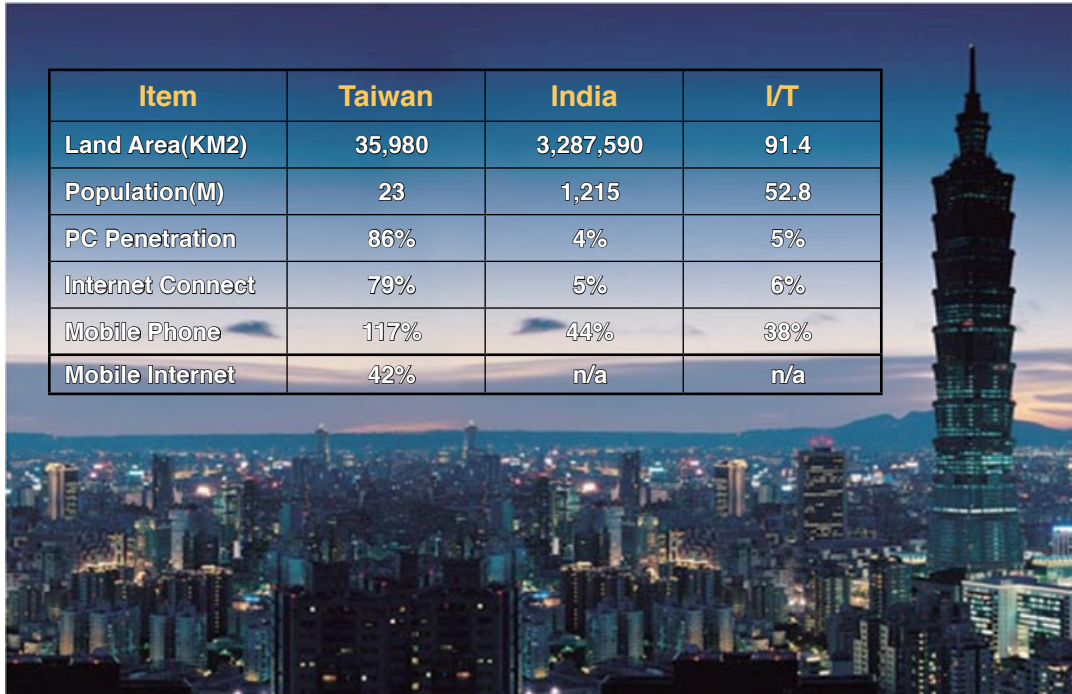
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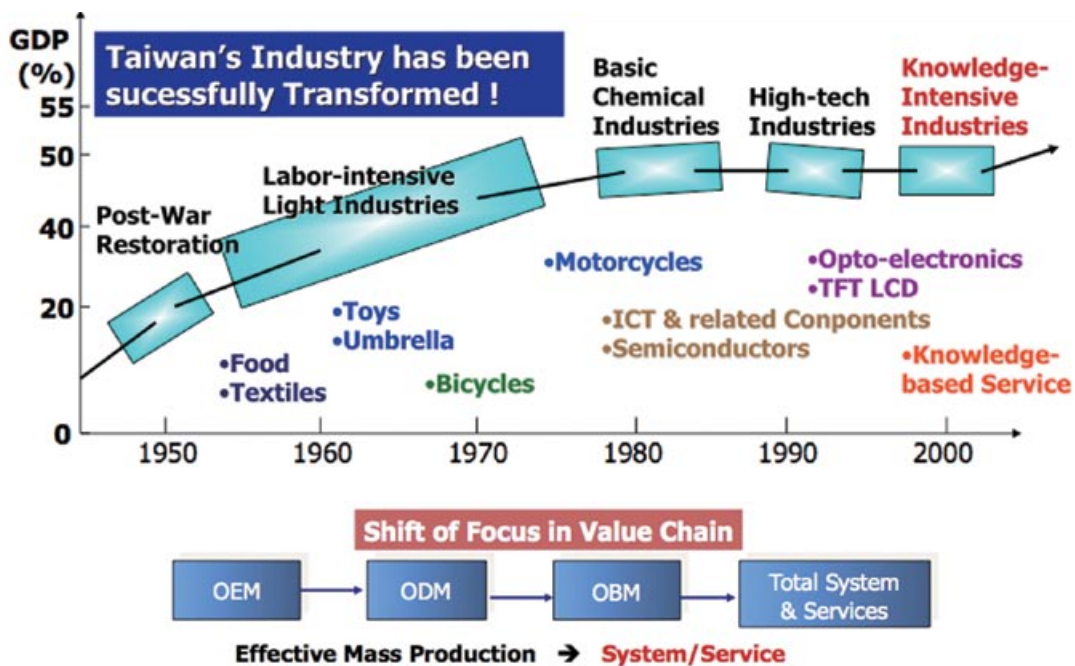
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Taiwan Profile (1/3)



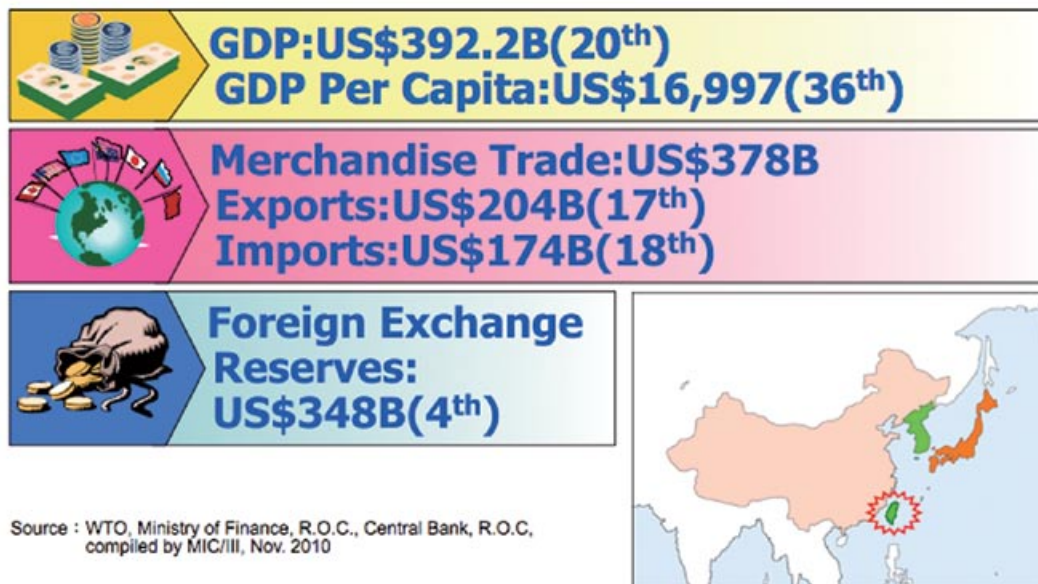
Taiwan Profile (2/3)





Taiwan Profile (3/3)

Important Player in Global

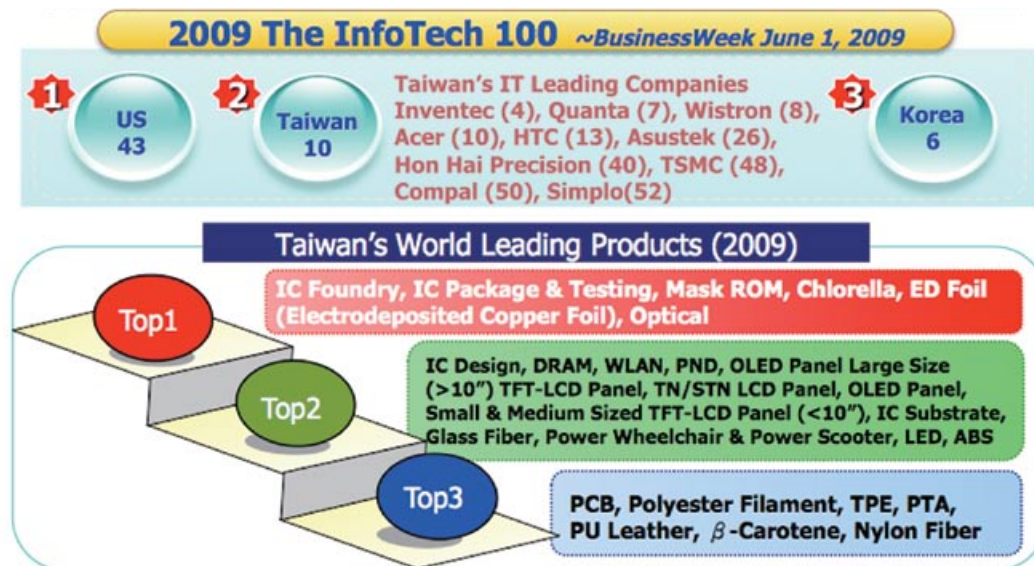


Taiwan in Global IT Supply Chain

- The World's Leading High-Tech Supplier
- The World's Leading ICT Products
- Taiwan Inside®
- Strengthen R&D Competitiveness
- The Best R&D Partners of the MNCs
- Why Taiwan Matters



The World's Leading High-Tech Supplier



Note: The data are only good for products made in Taiwan, excluding the products made overseas by Taiwanese investment

Source: Business Week, ITIS Project, MOEA, compiled by MIC/III, Nov. 2010



The World's Leading ICT Products

Product	2009 WW Market Share	Product	2009 WW Market Share
Notebook PC 	95.3%	Server (System/MB) 	88.7%
Motherboard 	93.5%	LCD Monitor 	71.8%
Cable CPE 	93.0%	DSL CPE 	65.0%
WLAN NIC 	90.8%	CDT Monitor 	59.2%
Netbook PC 	90.7%	IP Phone 	54.0%

◆ In addition, WLAN AP, Cable STB, Desktop PC, ODD and DSC ranked 2nd in 2009

◆ Source: MIC/III, Mar. 2010



Taiwan Inside ®

The Speed of Taiwan ICT Production...

- ❖ Every 0.2 second produce a WLAN
- ❖ Every 0.2 second produce a Motherboard
- ❖ Every 0.3 second produce a **LCD Monitor**
- ❖ Every 0.3 second produce a **Mobile Phone**
- ❖ Every 0.3 second produce a **Notebook Computer**
- ❖ Every 0.4 second produce a Optical Disk Drive
- ❖ Every 0.6 second produce a Digital Still Camera
- ❖ Every 0.7 second produce a **Desktop Computer**
- ❖ Every 3.7 second produce a CDT Monitor
- ❖ Every 10.7 second produce a Server



- ◆ **85%** of PCs with Windows® OS are produced by Taiwanese IT companies
- ◆ **80%** of WW data communications equipment is produced by Taiwanese networking companies
- ◆ **"Taiwan Inside®"** would probably be the most suitable description of Taiwan's vitality and its position in the worldwide ICT Industry

Source: MIC/III, April 2009



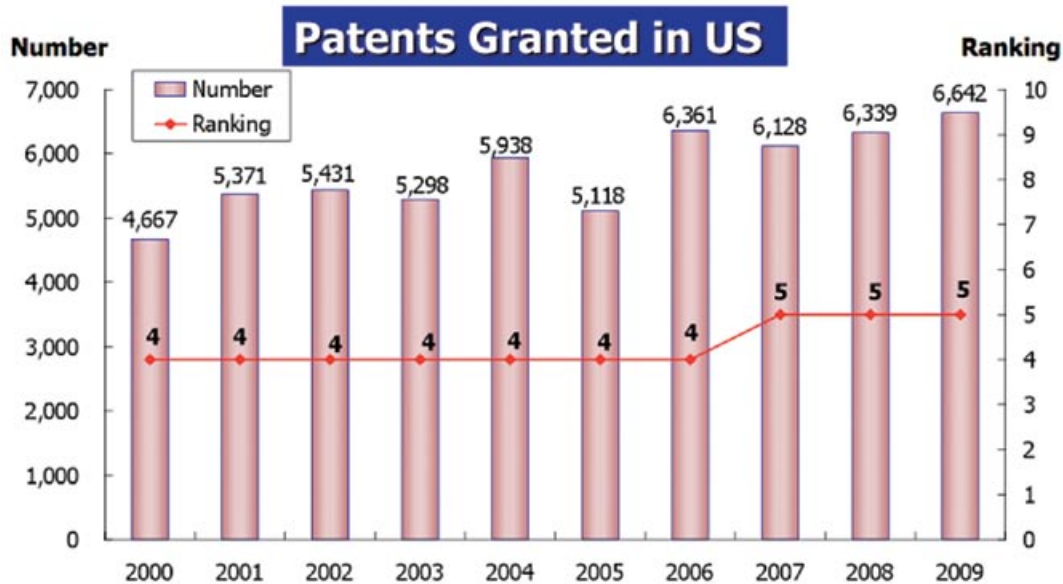
Strengthen R&D Competitiveness (1/2)

IMD/2010				WEF/2010			
Technological Infrastructure		Scientific Infrastructure		Technology		Innovation	
1	USA	1	USA	1	US	1	US
2	Singapore	2	Japan	2	Finland	2	Switzerland
3	Hong Kong	3	Germany	3	Taiwan	3	Finland
4	Israel	4	Korea	4	Sweden	4	Japan
5	Taiwan	5	Taiwan	5	Denmark	5	Sweden
8	Sweden	7	Sweden	6	Switzerland	6	Taiwan
15	Finland	9	Switzerland	7	Korea	7	Germany
18	Korea	10	China	8	Japan	8	Singapore
22	China	12	Singapore	10	Singapore	11	Korea
23	Japan	13	Finland	64	China	26	China

Source : The World Competitiveness Yearbook 2010 (IMD), The Global Competitiveness Report 2009-2010 (WEF)



Strengthen R&D Competitiveness (2/2)



Note: Excluding New Design

Source : USPTO, compiled by MIC/III, Nov. 2010



Best R&D Partners of MNCs

32 foreign-invest R&D centers in Taiwan		
Fields	No.	MNCs
ICT	22	HP, SONY, AIXTRON, IBM, PERICOM, DELL, MICROSOFT, ERICSSON, BROADCOM, ALCATEL, NEC, FUJITSU, INTEL, AKT, MOTOROLA, GI, TELCORDIA, SYNOPSYS
Machinery & Transportations	4	BECKER, FESTO, ULVAC, ASML
Materials & Chemicals	4	DuPont, ATOTECH, UL, DOW
Biotechnology & Pharmaceuticals	2	IBM, GSK



Why Taiwan Matters

"Hidden" Center of Global Economy



Business Week
May 16, 2005

Taiwan: Emergence as an ICT Giant



WEF 04/05

Impact of ICT on Competitiveness & Social Development



WEF 05/06



Basic Theme for I/T Collaboration

- ◆ **India's View:**
To make own hardware industry
- ◆ **Taiwan's View:**
Looks for next growth market
- ◆ **Indian vs China PC Market**
- ◆ **Where Do We Stand Now?**
- ◆ **The Road Ahead: Information Industry or Information Society?**



India's View: To make own h/w industry

- ◆ India wish to develop its own **manufacturing capacity** alongside service sector in order to sustain high economic growth and its fast-growing young population
- ◆ With a sizable home market, India will be benefit with more control over technology standards, product specs, and access advantages like **China** enjoys today
- ◆ Taiwan ICT industry is interested in developing economic and trade tie with India and shows **no threats** to India



Taiwan View: Looks for Next Growth Market

- ◆ Taiwan IT companies constantly search for new growth markets in order to sustain healthy growth
 - The traditional markets in the **US, Europe, and Japan** are slowly recovering from the financial crisis with dismal growth
 - Continuous market advancement in developing countries **led by China** has helped Taiwan maintain steady growth during the financial Crisis
 - But, where will be the next sizeable market for Taiwan's IT industry **outside China**?
- ◆ Taiwan's IT industry would like to see India develop herself into another strong marketplace. Is **India** the answer?
- ◆ Let's look at the numbers...



Indian vs China PC Market

(Unit:M-set)

Year	India		China		C/I Market
	D/T	NB	D/T	NB	
2010	6.0	2.8	27.0	28.5	
	8.8		55.5		631%
Grow Rate	16.5%	44.7%	8.2%	33.8%	

Source: MIC/III, Oct. 2010

- ◎ Top Taiwanese NB vendor **Quanta** is expected to produce more than **45M** notebooks in 2010
- ◎ IT giant **Foxconn** will put out near **8M** NB ranks 6th in the world



Where Do We Stand Now?

- ◆ Taiwanese IT companies have managed to produce and deliver PCs to the whole world without utilizing much manufacturing **support from India**
- ◆ Considering India's land space, the size of the Indian PC market is not big enough to **attract Taiwanese vendors** to establish base right now
- ◆ However, there are also good news:
 - ◎ There are plenty of examples ranging from **mobile phones to automobiles**, India quickly catching up with China and turned herself into a major player in the global arena

Item	India	China	C/I Rate
Mobile Phones(2010)	104	310	298%
Automotive(2009)	3	13	433%

(Unit:M-set)



The Road Ahead (1/2)

◆ It is time for our Indian friends to consider:

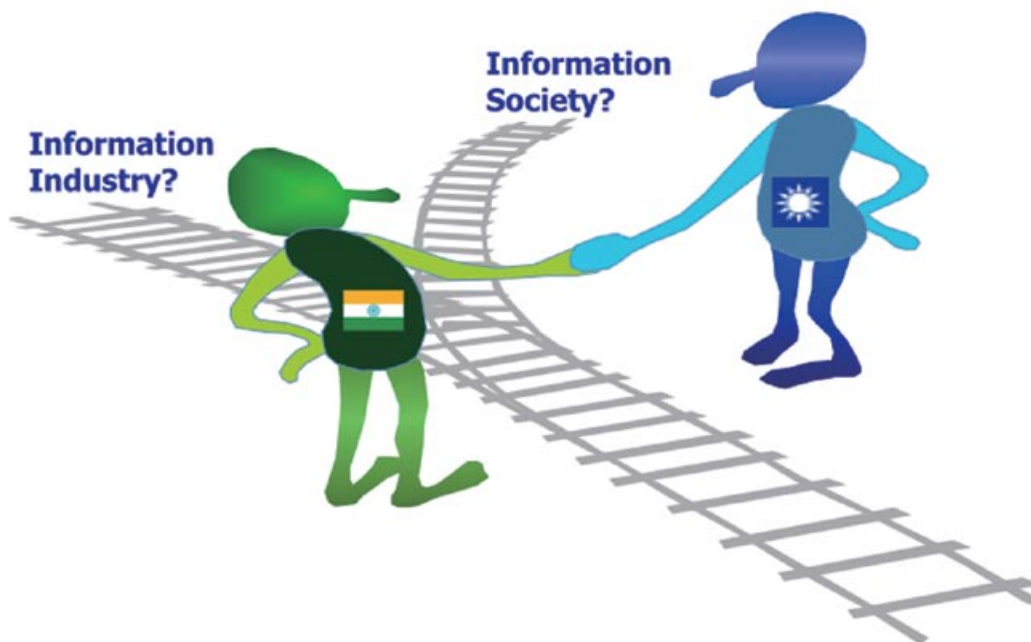
- Whether **IT industry** is strategically important for India's future economic development?
- Whether establishing an **information society** that can benefit all the people and different industries is essential for India's future societal development?

◆ To achieve these objectives, will require :

- Active **participation** from the gov't, industry, citizens,
- National policies and initiatives established to deploy all the necessary resources, invest in infrastructure, and develop **localized contents and services**



The Road Ahead (2/2)





Taiwan Information Society

Evaluated By	Ranking Index	TW	JP	KR	SG	HK	CN	ID
 WEF	2008-2009 Networked Readiness	13	17	11	4	12	46	54
 EIU	2008 E-Readiness Ranking	19	18	15	6	2	56	54
	2008 Benchmarking IT Industry Competitiveness	2	12	8	9	21	50	48
 World Bank	2008 Knowledge Economy Index	17	19	31	21	26	77	100
 ITU	2009 ICT Development Index	25	12	2	15	11	73	118
 Brookings Institution	2008 Global E-Government	2	37	1	4	24	67	36
 Japan Waseda U.	2009 e-Government	8	5	5	1	14	26	24

Source:As above, Compiled by FIND, III



Well-established S&T Infrastructure

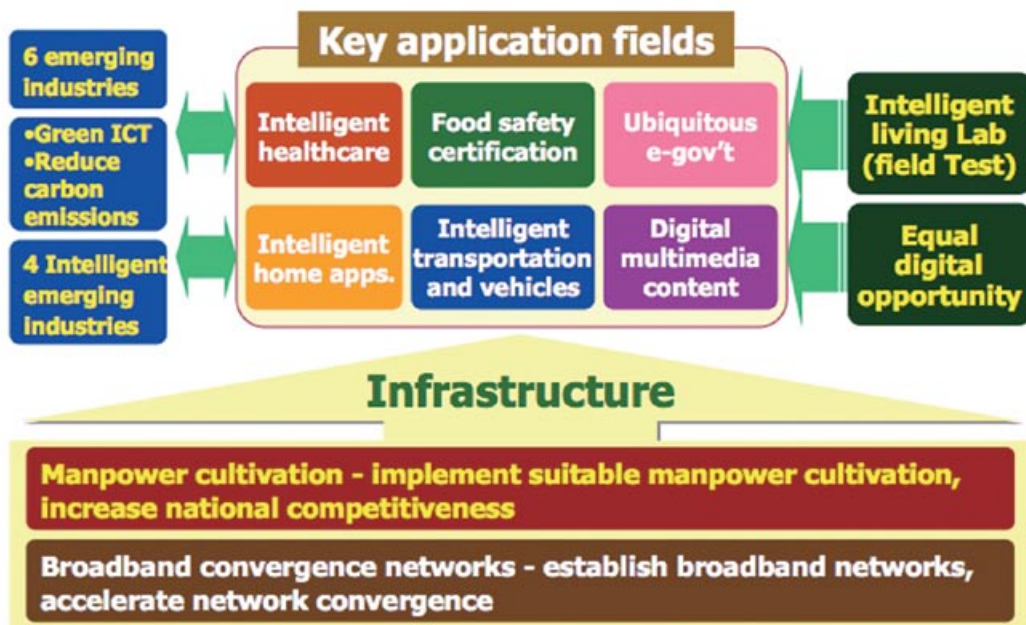




E-government Initiatives

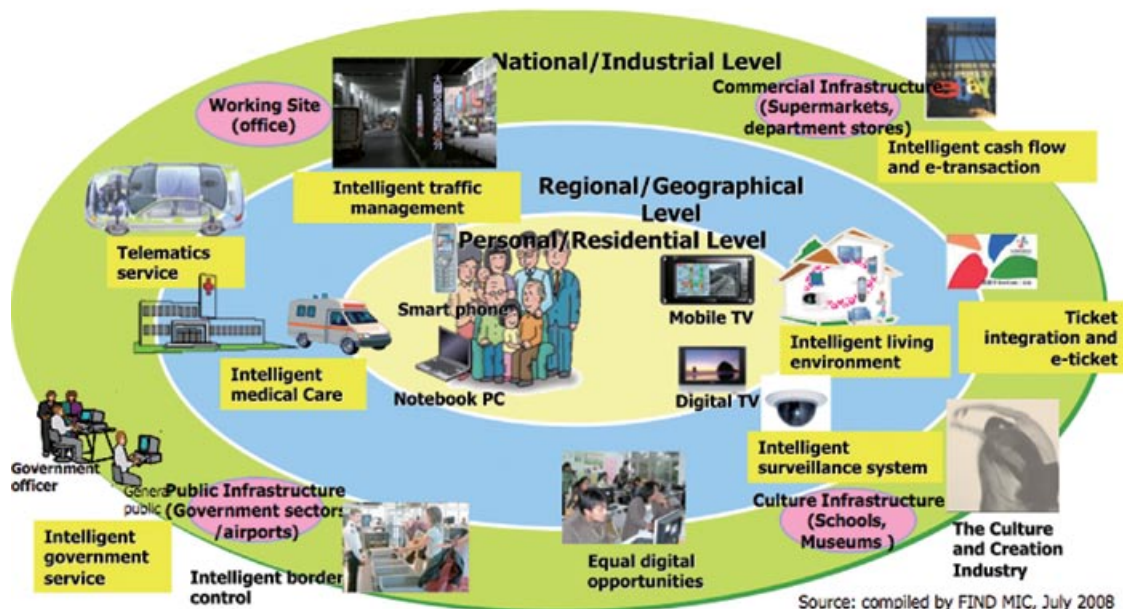


Intelligent Taiwan Project





Demand-Driven Application Deployment



Bridging Digital Divide Initiatives

- ◆ Over 60 Digital Opportunity Centers are established in 8 countries, that train over 100,000 people, foster 1,853 SMEs starting new business, assist 3,905 street kids, drop outs, orphans back to schools





India+Taiwan: To bring IT to People

- ◆ It's **not the good timing** to jointly set up the PC manufacturing base in India now for the market size and infrastructure issues
- ◆ Information society is **much worthwhile** to pay attention than IT industry for it can benefit more people and need longer time to develop
- ◆ Taiwan can share our experience with India and we expect that more people use computer will lead to the **good base to develop IT industry**, then would generate enough demands for both Indian and Taiwanese IT companies accordingly





Session III:

Regional Economic Integration-Potential Roles of India and Taiwan

Growing Regional Integration in Asia: India's Emerging Role

**Regional Economic Integration in East Asia: toward a Comprehensive Partnership
between India and Taiwan**

Growing Regional Integration in Asia: India's Emerging Role*

Pallavi Kalita**

Abstract

In the wake of the recent financial crisis, the need for greater regional integration in Asia has been reiterated once again. For a successful Asian wide integration, India's involvement is crucial given the country's consistent economic performance and growing global integration. India has shown a shift in its trade partners from the European Union and the USA to the Asian economies. The time has come for greater Asian regional economic integration, and India must play a major and proactive role in all future endeavours towards this. Only an integrated Asia will be able to find its right place in shaping the global economic governance structure.

Key words: Financial Crisis, Trade, Economic Integration, Asia

JEL Classification: F1, F15, G01

December, 2010

I. Introduction

The evolution of the Indian economy, from a state of stagnant - growth governed by a socialist, import substituting regime, into its emergence as the second fastest growing economy since the adoption of economic policy reforms in 1991, defies conventional economic wisdom. India's role in the Asian region as well as in the global market has grown significantly over the years and after the global financial crisis of 2008, its importance cannot be denied any more. The crisis of 2008 which began as financial in nature and then became general economic crisis has once again reiterated the need for strengthening the process of regional integration in Asia. The crisis has exposed the fragility of existing global financial and economic institutions mainly existing in the USA and Europe. The Asian economies on the other hand have shown much more resilience and are on the path of recovery. Emerging trends now point towards a shift in traditional engines of growth from industrial countries to emerging economies. This Asian recovery is led by China and

* Paper prepared for the 25th Pacific Economic Community (PEC) Seminar held at Taipei Regent Hotel on December 2, 2010. I am really grateful to Prof. Nisha Taneja for her constant guidance and understanding of the subject matter. I am also thankful to Shravani Prakash for her expert comments and guidance. The views expressed herein are those of author. The usual disclaimers apply.

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India, who are on track to return to their pre- crisis growth rates (Sally, 2010). USA and European Union which have been the traditional exports markets for Asian emerging economies are no longer a safe bet. Mr. Haruhiko Kuroda, (President of ADB) very correctly remarked that “Asia's dynamism in the future has to be sustained by finding new aggregate demand within the region. This in turn, requires the region to rebalance itself towards greater domestic consumption and investment and through deepening regional cooperation and strengthening regional connectivity.” In such a scenario, strengthening the process of Asian Integration and facilitating India's greater interaction with Asian economies present tremendous opportunities. India's efforts at establishing greater economic ties with the Asian economies are evident in its “Look East Policy” . Further, since most of the developed Asian economies have a comparative advantage in the manufacturing sector while India's advantage is in the service sector; greater India- Asian economic ties would be mutually beneficial. Thus, India's role in regional economic integration is of utmost importance.

This paper seeks to analyse India's efforts at regional integration in Asia and explore future opportunities. To understand India's regional integration efforts, the current paper assesses the evolution of the Indian economy, the country's growing trade and investment ties with Asia as well as India's RTA Initiatives.

II. Evolution of Indian Economic Growth

India's growth path has been very different from its Asian counter parts. In fact India's growth can be considered a miracle because of the completely unconventional pattern that it has followed- a path that has no precedent in any of the other late developing economies. The success of the major Asian economies like China, South Korea, Hong Kong, Taiwan and Singapore has been based on low cost manufacturing. With their huge reserves of low cost labour, the best possible option was to go for labour intensive, export led growth strategy. However India did emulate the export led growth strategy of the East Asian economies and it has not yet focused on manufacturing in the same way as them. Indian economy has been sustained on domestic consumption and its growth was fuelled by services unlike manufacturing in the case of the successful Asian economies. One of the reasons why India chose a services led growth path was that there was a lack of adequate infrastructure to focus on manufacturing. India is now moving towards skill intensive services and its growth is further fuelled by external demand for services.

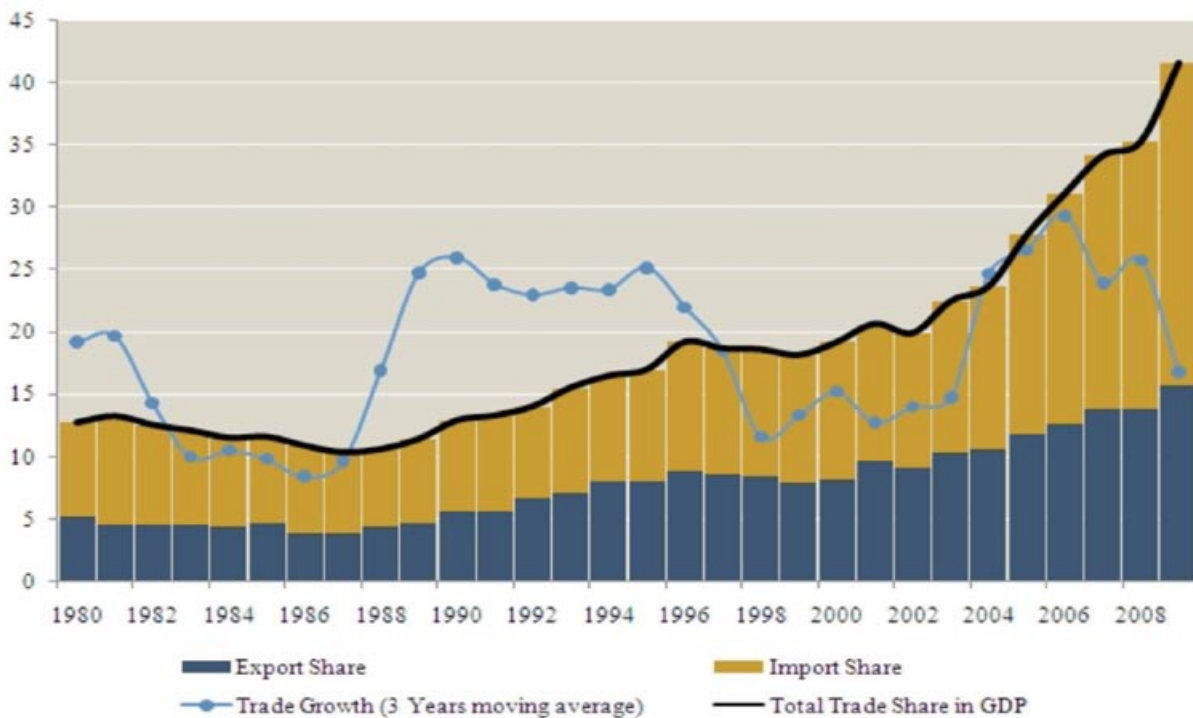
The classical import substituting, state-directed industrialisation model held sway for three decades in India, from 1950-1980. Indian five-year plans were designed to bring about economic and social development within a ‘ socialist’ framework. The model began to erode in the 1980s. Following a serious external

liquidity shock in 1991 the model appeared to be fundamentally changed, if not abandoned altogether (Singh, 2008). This unshackling of the economy is credited with achieving the huge increase in India's trend rate of growth of GDP, from the stagnant "Hindu (Nehru-Mahalanobis) growth rate" of 3 to 3.5 percent during 1950-80 to nearly 6 to 7 percent per annum over the last two decades. New Industrial Policy of 1991 introduced a far-reaching set of economic reforms, which drastically changed the policy regime by abolishing licensing requirements and opening up publicly-reserved sectors to private enterprise. The Government also introduced measures favourable for foreign direct investment and steps were taken to start the reform of competition policy.

The economic reform has led to the acceleration of economic growth. In the recent past, between 2003 and 2009 (including the last two years of crisis), the Indian economy has grown at an average rate of growth of more than 8 percent per annum. This higher growth trajectory in the recent past has been driven by two digit growth rate of both manufacturing and services, on the supply side. On the demand side, growth is driven by the rise in saving and investment as a percentage of GDP and tremendous export growth. In the last decade, India's investment rate has burst into the dizzy heights of the East Asian miracle (Robertson, 2010). Having quadrupled since 1950, investment as a fraction of the gross domestic product (GDP) is now in the 30- 40 percent range. There has been a fourfold rise in export share in GDP and export growth at a rate more than 20 percent per annum since 2004-05. This robust economic growth has enabled India to become more globally integrated. The increasing external trade as well rise of the trade share in the GDP indicates India's increasing global linkages.

This trade growth can be attributed to various changes notable among which is the abolition of quantitative restrictions on imports of intermediate and capital goods coupled with tariff reductions and easing of restrictions on FDI and inward portfolio investment (Krueger, 2008). Between 1990 and 2008, India's exports as a share of GDP have risen from 6.4 percent to 20.3 percent, at a compounded annual growth rate¹ (CAGR) of 20 percent. This clearly indicates the importance of external trade for the Indian economy in the current scenario. Along with this increasing trade, there has also been a shift in India's trading partners from the EU and the US to the Asian economies. There has been a rising trend in trade with the Asian economies particularly the ASEAN + 3 (China, Japan and Korea) economies. This increasing trade with Asian economies is coupled with growing intra- Asian investments.

¹ CAGR hence forth

Figure 1: India's Total Trade

Source: RBI Handbook of Statistics on Indian Economy, 2010

III. India's Growing Trade in Goods and Services with Asia:

1. Trade in Goods

Bilateral Trade

India's trade has grown fourfold from 2003 to 2009, indicating its growing trade openness and integration with the world economy. India's exports have grown three times from US\$59.4 billion in 2003 to US\$176.8 billion in 2009. The country's imports have also seen almost a fourfold increase from US\$ 72.5 billion in 2003 to US\$ 266.4 billion in 2009. Not only has India's trade volume grown; there has also been a diversification in the direction of its trade. In the year 2009 India's top export destinations were United States (10.8 percent) followed by China (5.9 percent) and Hong Kong (4 percent). China has emerged as a major trading partner for India. Bilateral trade has reached nearly 50 billion US Dollars. China has also become one of the largest project contractors especially in infrastructure sectors such as roads, highways, steel and power. The EU countries which are among the top ten largest export markets are United Kingdom, Netherlands and Germany. USA's share in India's exports has seen an 8 percentage point fall while

China's share rose from 4 percent to nearly 6 percent during 2003 to 2009. Similarly in case of imports destination also there has been a shift: largest import market in the year 2003 was the United States (7 percent), while in the year 2009 it was China (11.5 percent).

Table 1: India's Export markets

2003			2009		
Rank	Partner Country	Export Share	Rank	Partner Country	Export Share
1	United States	18.8	1	United States	10.8
2	UAE	7.1	2	China	5.9
3	Hong Kong, China	5.8	3	Hong Kong, China	4.0
4	United Kingdom	4.7	4	Singapore	3.9
5	China	4.3	5	United Kingdom	3.9
6	Germany	4.0	6	Netherlands	3.7
7	Belgium	3.0	7	Germany	3.7
8	Japan	2.9	8	Saudi Arabia	3.3
9	Singapore	2.9	9	Korea, Rep.	2.2
10	Bangladesh	2.8	10	Belgium	2.1

Source: UN Comtrade Database

Table 2: India's Import Markets

2003			2009		
Rank	Partner Country	Import Share	Rank	Partner Country	Import Share
1	United States	7.0	1	China	11.5
2	Belgium	5.3	2	UAE	7.4
3	China	5.0	3	United States	6.0
4	Switzerland	4.3	4	Saudi Arabia	5.4
5	United Kingdom	4.1	5	Australia	4.5
6	Germany	3.8	6	Germany	4.1
7	Korea, Rep.	3.3	7	Iran, Islamic Rep.	4.0
8	Japan	3.2	8	Switzerland	3.8
9	Australia	2.8	9	Korea, Rep.	3.1
10	South Africa	2.7	10	Kuwait	2.9

Source: UN Comtrade Database

Trade with sub- regions

India's trade with the US, the EU and the ASEAN (Association of South East Asian Nations) + 3 (Japan, Korea and China) economies have been looked at from 2003 to 2009. The ASEAN + 3 economies feature among India's top most trading partners and as such this group of countries has been considered for our analysis. Also the shares of the South Asian economies are being considered given India's FTA² with the South Asian countries.

Table 3: India's Exports (US \$ mil) to selected regions: 2003-09

	USA		European Union		ASEAN+3		South Asia	
	Export	Share	Export	Share	Export	Share	Export	Share
2003	11187	18.8	13455	22.7	10012	16.9	3875	6.5
2004	13105	17.3	16609	21.9	14468	19.1	4580	6.0
2005	16543	16.5	22503	22.4	21444	21.4	5400	5.4
2006	18706	15.4	25768	21.3	25325	20.9	6233	5.1
2007	20133	13.8	31312	21.5	29042	19.9	7848	5.4
2008	21407	11.8	38796	21.3	36925	20.3	10130	5.6
2009	19128	10.8	35733	20.2	35257	19.9	7374	4.2

Source: UN Comtrade Database

Table 3 shows the change in the shares of the EU, the US and the ASEAN + 3 economies. The export figures bring to fore the important point that trade in goods with ASEAN+ 3 economies has been on the rise, while that with the US it has declined and with EU it has remained stagnant during 2003-09. The ASEAN +3 economies' share in India's total exports has seen a 3 percentage point rise from 16.9 percent in 2003 to 20.3 percent in 2008, with a slight decline in 2009 to 19.9 percent. US's overall exports continue to grow with India, but its share in India's total exports has declined by 8 percentage points from 18.8 percent in 2003 to 10.8 percent in 2009. EU's share has remained the largest but stagnant ranging from 20 to 22 percent during 2003-09. Another point worth mentioning here is that EU comprises of 25 nations, while ASEAN +3 comprises of 13 countries i.e. almost half the number of EU countries. This clearly indicates that the volume of trade with the ASEAN + 3 economies is much more on a relative basis. The growth rate of exports to the ASEAN+ 3 economies has also been more than that with the USA and EU countries for the entire study period.

² SAFTA

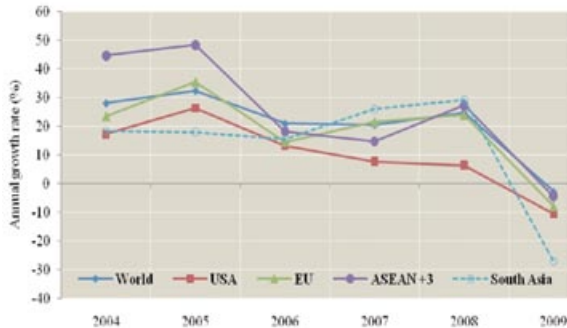
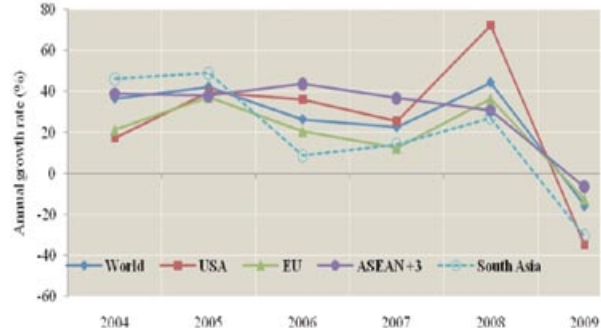
Exports to South Asia have also been on the rise, but its share is still very less compared to other regional groupings like the ASEAN and EU. The share of SAARC (South Asian Associations for Regional Co operation) has more or less remained the same ranging from 4-6 percent between 2003 and 2009. This low intra-SAARC trade has been on account of positive list based approach on exchange of tariff preferences, small product coverage, narrow margins of preferences and inability to address non-tariff barriers, among many other problems. However the growth rates of exports to the SAARC countries have gone up from 18 percent in 2004 to 29 percent in 2008 with a dip in 2009 on account of the crisis. So, overcoming these bottlenecks can increase trade among the South Asian nations to a great extent and thereby leading towards great Asian economic integration.

Table 4: India's Imports (US \$ mil) from selected regions: 2003-09

	USA		European Union		ASEAN+3		South Asia	
	Import	Share	Import	Share	Import	Share	Import	Share
2003	5065	7.0	14141	19.5	15044	20.8	634	0.9
2004	5944	6.0	17152	17.3	20927	21.1	926	0.9
2005	8307	5.9	23549	16.7	28890	20.5	1380	1.0
2006	11322	6.4	28389	15.9	41575	23.3	1499	0.8
2007	14206	6.5	31904	14.6	56877	26.0	1713	0.8
2008	24487	7.8	43573	13.8	74420	23.6	2180	0.7
2009	15998	6.0	38020	14.3	69500	26.1	1516	0.6

Source: UN Comtrade Database

India's imports of goods from the Asian economies have also seen an increase. The ASEAN + 3 economies occupied the largest share throughout 2003-2009 followed by the EU. The shares of the EU economies as well as the United States have been declining steadily, while that of the ASEAN +3 economies has been rising in India's total imports. EU's share in India's total imports has declined by 5 percentage points, while USA's share has declined by 1 percentage point from 2003 to 2009. On the other hand the share of ASEAN+ 3 economies has increased by nearly 6 percentage points in India's total imports. India's growing dependence on its Asian counterparts reflects in this increasing imports from the ASEAN+ 3 economies. However imports from the SAARC countries have been negligible with less than 1 percent share in India's total imports.

Figure 2: India's Export growth**Figure 3: India's Import growth**

Source: UN Comtrade

2. Trade in services

The services sector has expanded rapidly in India. According to the World Trade Organisation's (WTO) "International Trade Statistics 2009" India occupied the 9th position in commercial service exports in 2008. India's world ranking for exports has in fact seen a huge jump from the 19th position in 2001 to the 13th position in 2002 and further to 9th position in 2008. If we look at the services exports growth rate then India's rate is the second highest at 17 percent with only China's growth rate being higher than that of India's. The services sector in India also attracted the highest share of FDI inflow. India's cumulative FDI inflow during April 2000 to July 2010 was 21 percent of the total FDI inflow.

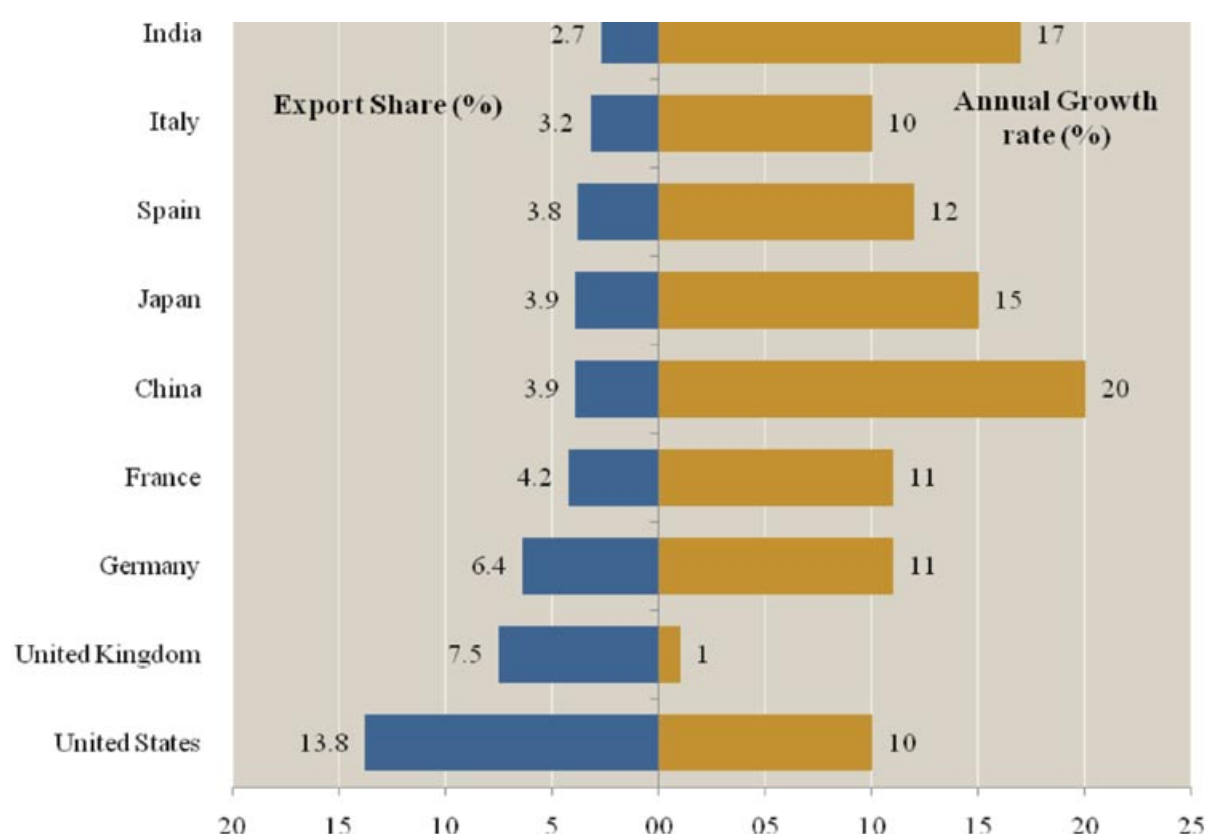
India's services exports have increased from US\$18.1 billion in 2002 to US\$ 102 billion in 2008 with a rise in its share from 1.1 percent to 2.7 percent during this period³. The miscellaneous services category share has increased by 16.1 percentage points to 76.4 per cent in 2008 as compared to 2000. While the share of software services increased by 6.5 percentage points to 45.5 per cent, the share of non-software services increased by 9.6 percentage points to 30.9 per cent in 2008. Information technology and related services is a potential area of co-operation between India and the Asian economies, particularly the South East and East Asian economies. According to the Department of Information Technology, the share of information technology enabled services (ITeS) and business process outsourcing (BPO) exports has expanded. The total ITeS-BPO exports is estimated to have risen from US\$ 1.5 billion in 2001 to US\$ 12.7 billion in 2008, a CAGR of about 39.2 per cent. BPO now accounts for about 27 per cent of total exports⁴. India's global competitiveness in the outsourcing business has led to its establishment as the hub of outsourcing services, particularly

³ Services world ranking not yet available for 2009, hence 2008 data used

⁴ <http://www.ibef.org/economy/services.aspx>

BPO. However its business within the Asia region still occupies less than 10 percent of its overall outsourcing revenue. Thus there is tremendous scope for multinationals from the developed Asian economies to outsource their services to India. Similarly India's partnership with ASEAN economies could help India develop expertise in the telecom and the hardware industries (Chanda & Sasidaran 2008). Another area for co-operation between India and Asian counterparts is in the tourism industry. With improved Air connectivity between India and the ASEAN Economies, the tourism sector can also play an important role in the economic development of the region.

Figure 4: Leading Exporters of Commercial Services: 2008



Source: WTO, International Trade Statistics, 2009

India has proposed and initiated various bilateral and regional economic partnership agreements that seek to liberalize trade in services. At present the only services agreements between India and an Asian economy which are in force are those with Singapore (Comprehensive Economic Cooperation Agreement (CECA)) and South Korea (Comprehensive Economic Partnership Agreement (CEPA)). The CECA with

Singapore has facilitated the exports of professional services, particularly the IT sector and ensures favourable movement of other professionals from India to Singapore. Commitments have been made by both countries on a wide range of sectors. The CECA can be used as a model agreement for future co-operation in services with ASEAN, as well as for Services Agreements with other partners as well. In the South Asian region a text agreement was signed in April 2010 and negotiations are expected to start soon. The other Asian economies with which India's services agreement negotiations are going on include Japan, Malaysia, Mauritius and Thailand.

Greater trade between India and Asian economies could definitely lead to greater regional integration. The services led growth of the Indian economy could not just lead to development of the country but of the region as a whole.

IV. India's Investment Relations with Asia:

FDI plays a crucial role in today's globalised world for economic development of a country. In recent years the role of Asian economies in global foreign direct investment (FDI) has seen a lot change. Asia is attracting larger FDI inflow as well as contributing to larger FDI outflow. Also there has been a surge in Intra- Asian investment flow. According to UNCTAD'S World Investment Report, 2010 Intra-regional FDI has made an increasing contribution to industrial upgrading. There has been a shift in the major Investment sources for the Asian economies. During the 1960s and 1970s US was the largest investor, followed by Japan in the 1980s. However with growing regional economic integration intra-regional investment now accounts for 40 percent of the total FDI stock of the region.

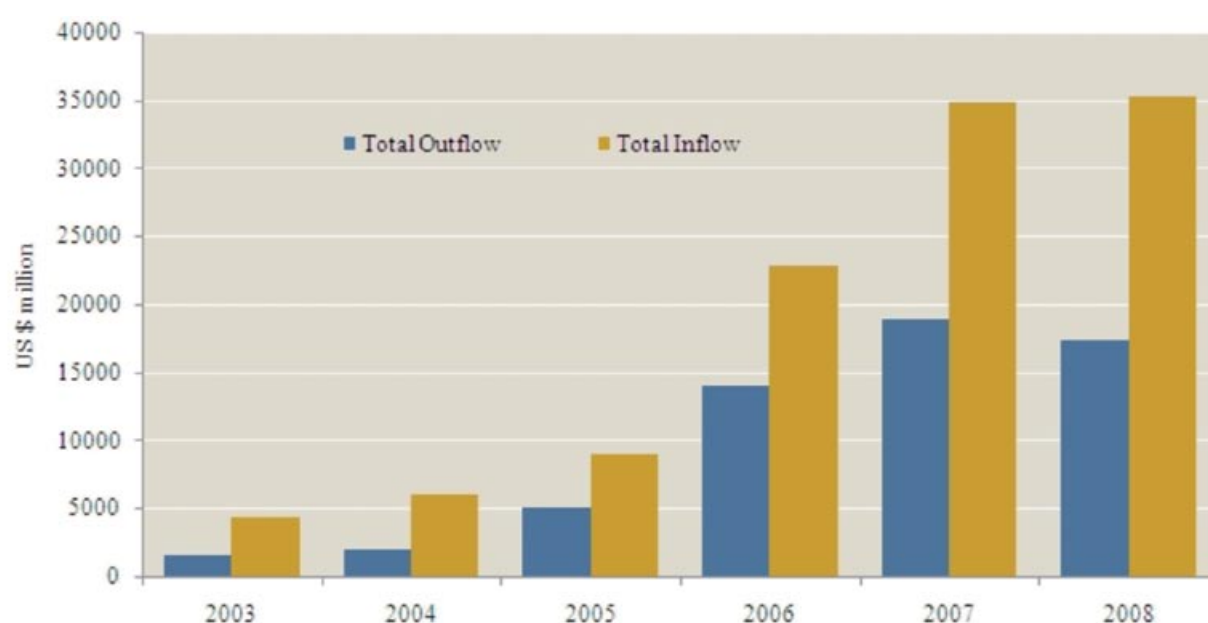
Table 5: Share of major sources of FDI flow to South, East and South East Asia

	1981	1991	2001	2008
United States	23.2	15.6	10.0	7.9
European Union	18.3	16.3	12.7	14.3
Japan	19.5	22.7	8.9	8.0
South, East and South Asia	22.4	30.7	41.1	38.0

Source: UNCTAD, World Investment Report, 2010

India has emerged as one of the most attractive investment destinations among the Asian economies. It has Bilateral Investment Promotion and Protection agreements in force with 68 countries. The Government has liberalized the foreign investment regime substantially over the last decade. Today, foreign direct investment is allowed in almost all sectors barring a few sensitive areas such as defense. The Indian government has allowed the Foreign Investment promotion Board (FGIPB), under the Ministry of commerce and industry to clear FDI proposals of up to US\$ 258.3 million. Earlier proposals above US\$ 129.2 millions had to be approved by the Cabinet Committee of Economic Affairs (CCEA). This policy change would greatly increase FDI inflow into India. Also India has progressively liberalized and simplified overseas investment policies to meet the changing needs of a growing economy

Figure 5: India's Investments trends: 2003- 09



Source: Dept. of Industrial Promotion and Policy, and Dept. of Economic Affairs, India

India has been ranked as the third most attractive destination for international investors during 2010-11, according to United Nations Conference on Trade and development (UNCTAD). India's FDI inflows have grown nearly 6 times from US\$ 6051 million in 2004-05 to US\$ 35180 million in 2008-09. The outbound FDI flows have also increased almost nine times from US\$ 1895 million in 2004-05 to US\$17344 million in 2008-09.

Mauritius with 42.2 percent share accounted for the highest share of FDI inflow into India in 2009, followed by Singapore with 9.47 percent and USA with 7.52 percent respectively. Japan, Korea, Indonesia

and Hong Kong are the other Asian economies that are among the top twenty investing countries in India. India's highest FDI investments were in Singapore accounting for US\$ 4284 million during 2008-09, followed by Netherlands (US\$ 3544 million). These numbers point towards the increasing bilateral investment flows between India and the Asian economies.

The Major recent Asian investments in India include investments by Singapore Utilities, a company based in Singapore. It has 49 percent stake in the 1320 mega watt (MW) coal- fired plant of Thermal Powertech Corporation India Ltd for US\$ 235.1 million. Japanese pharmaceuticals major, Eisai also plans to invest US\$ 21.25 million in India to expand its manufacturing capacity and research capabilities. Japan's Kobelco Cranes is also planning to invest US\$ 12.7 million to set up a plant near Chennai⁵. Also India's has been witnessing a surge in outward investment with the number of approved projects on the rise. HCL Technologies has signed a five year IT outsourcing agreement with Singapore Exchange (SGX), while Reliance power has signed share-sale agreement with Indonesia's SUGICO group to acquire three coal mines.

India- Taiwan Trade: Enhancing Economic Ties

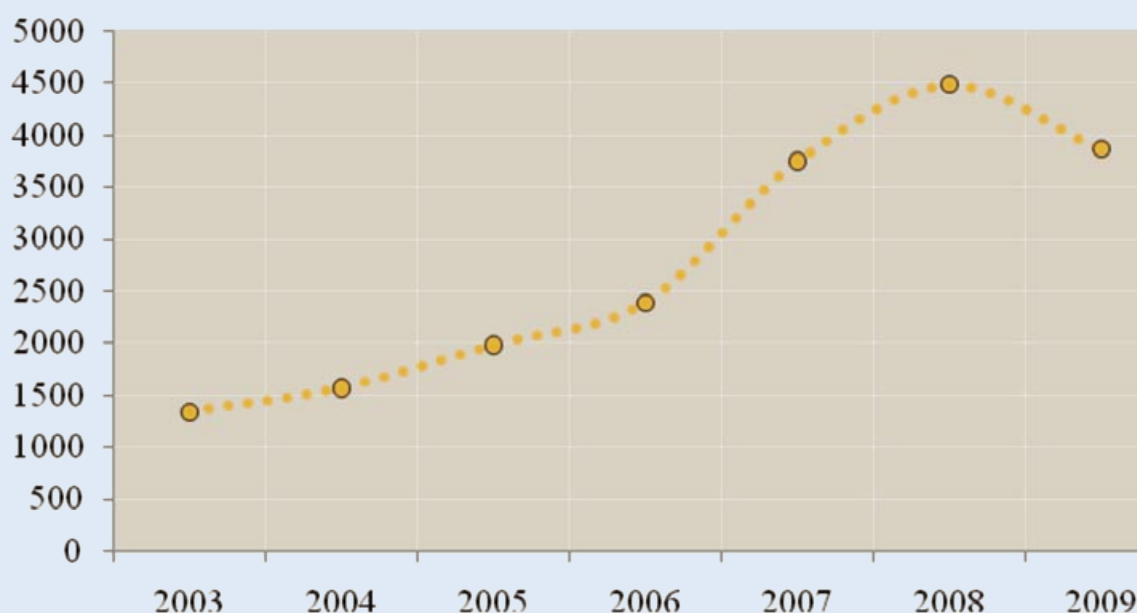
Bilateral trade between India and Taiwan has witnessed significant growth in recent years. India's exports to Taiwan have grown two folds from US\$ 560 million in 2003 to US\$ 1293 million in 2009, while its imports grew from US\$ 779 million to US\$ 2575 million. On the other hand, Taiwan's exports to India have increased more than three times from US\$ 769 million to US\$ 2535 million during this period, and imports from India increased from US\$ 533 million to US\$ 1625 million. The major Indian exports to Taiwan are mineral fuels and waste oils, organic chemicals, iron and steel, salts, aluminum and pearls and stones; whereas Taiwan's major exports to India are plastics, electrical machinery and organic chemicals.

Despite this growing trade, the share of bilateral trade in their total trade occupies a small percentage. Taiwan's exports to India accounted for 1.2 percent of Taiwan's total exports to the world in 2009, while imports were less than 1 percent (0.9 percent) of the total world imports. Similarly, India's exports to Taiwan accounted for only 0.7 percent of India's total exports to the world, while imports accounted for 1 percent in 2009. However, this share is expected to grow up in the near future given that both the Indian and Taiwanese governments are making efforts to initiate trade and investment ties between the two countries. Also as India is trying to seek greater economic integration with the Asian economies,

⁵ http://www.ibef.org/artdispview.aspx?in=23&art_id=26526&cat_id=412&page=2

the time is ripe to develop economic partnership with Taiwan. Further forging economic ties with India, also gives Taiwan the opportunity to diversify its markets and thereby diversify its global trade and investment risks (Asher, 2006). At present China is Taiwan's largest trading partner and total trade with China accounted for 21 percent of Taiwan's entire external trade in 2009.

Figure 6: India- Taiwan Total Trade (US \$ mil)



Source: UN Comtrade Database

To increase trade between India and Taiwan one needs to look at the areas in which each has a comparative advantage. Taiwan is one of the world's largest suppliers of contract computer chip manufacturing as well as LCD panels and a number of electronic products. Taiwan's occupies more than 80 percent of the global market for wireless and DSL modems and 70 percent for personal digital assistants. With Taiwan's proven expertise in manufacturing and technologies, particularly in electronics hardware, investments by Taiwan in the manufacturing sector in India and technological research capabilities would definitely lead to closer ties between the two nations. India on the other hand has comparative advantage in the commercial services trade. India ranks 9th in the world commercial services exports with 2.7 percent share in total world exports, while Taiwan is ranked 28th with 0.9 percent share. India can be a service provider in areas like software services and systems developments for Taiwan.

In recent years the Taiwanese IT companies, shoe manufacturers and mobile related compa-

nies have set up SEZs in Andhra Pradesh and Tamil Nadu. More SEZs between the two countries are expected as business ties between the two countries are increasing. Taipei World Trade centre (TWTC) also has its offices in Chennai and Mumbai to enhance bilateral trade ties between the two nations. Taiwan's investments in India accounted for 0.03 percent of the India's total FDI inflow between April 2000 and July 2010. However with Taiwan's keenness to pump investments into India, particularly in the Information Technology sector, this share is likely to go up. And if the Double Taxation Avoidance Agreement (DTAA) is signed by the year-end it would immensely help in this regard. Taiwan also seeks to contribute its expertise in agriculture and food processing in India, besides encouraging Indian students to go for "efficient but cost-effective" higher education in Taiwan.

Clearly the Indian strengths and Taiwanese strengths are complementary and combining India's software capabilities with Taiwan's hardware capabilities would be mutually beneficial for both countries.

V. India's involvement in Regional Trade Agreements (RTAs)

India, as one of the largest economies in Asia has played a pivotal role in regional integration. India has always stood for an equitable, predictable, non-discriminatory and rule based international trading system. It views Regional Trade Agreements as 'building blocks' towards the overall objective of trade liberalisation, which complement the multilateral trading system. The gains from Asian regional economic integration could be substantial if it's realized through well designed RTAs. While initially India adopted a rather cautious and guarded approach to regional arrangements, for quite some time now, an important feature of India's foreign policy has been the strengthening of regional co-operation.

Asian developing countries had in the past also made a number of attempts at regional economic co-operation. The Bangkok agreement of 1975 (which included India, Lao PDR, South Korea and Sri Lanka) and Asian clearing Union of 1974 (which included Bangladesh, India, Iran, Myanmar, Nepal, Pakistan and Sri Lanka) were some of the regional integration efforts initiated in the 1970s. Despite, these efforts did not pay dividends given the limited coverage of membership and products as well as the limited scope of the agreements. However inspired by the success of the North American Free trade Agreement (NAFTA) and the European Union, renewed regional integration efforts were observed in the 1990s. Consequently the ASEAN Free Trade Agreement (AFTA) came into force in 1997 and the SAARC Preferential Trading Agreement (SAPTA) in 1995.

But it was the East Asian Economic crisis of 1997 that proved to be the turning point. The crisis highlighted the need for greater regional co-operation among the Asian economies and since then several regional as well as bilateral initiatives have been introduced. The ASEAN economies now have FTAs in force with India (2009), China (Goods agreement 2005, Services agreement 2007), Korea (2006) and Japan (2008) and a joint agreement with Australia and New Zealand (2009). Also deeper economic integration is being sought through the “Comprehensive Economic Partnership in East Asia” (CEPEA), whose underlying ambition is to establish an ASEAN + 6 FTA (ASEAN and China, India, Japan, S Korea, Australia and New Zealand). The SAARC region also moved from a preferential trading agreement to a free trade agreement (SAFTA) in 2004. An important sub-regional initiative is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC FTA), the protocol agreement for which was signed in 2004. The BIMSTEC initiative involves 2 members from ASEAN (Thailand and Myanmar) and 5 members from SAARC (India, Bangladesh, Bhutan, Nepal & Sri Lanka) and is seen as a bridge between the two major regional groupings.

India has been rigorously pursuing unilateral liberalisation and has entered into various trade agreements with the Asian economies as part of trade facilitation initiatives. India has traditionally favoured multilateralism over regionalism. However over the last two decades, geo-political considerations have led India to seek regional integration initially with South Asian countries and later with the economies of South East and East Asian countries. India has signed various trade agreements with countries outside Asia as well. Within Asia India has entered into Trade Agreements with ASEAN and South Asia (SAFTA), in addition to bilateral trade agreements with Sri Lanka, Nepal, Afghanistan, Singapore and Korea. Also negotiations for trade agreements are going on with various other Asian economies which include Japan, Malaysia, Thailand, and Mauritius. However, at present most of these agreements only cover goods. These RTAs have indeed led to increased trade. For instance the implementation of the Comprehensive Economic Partnership Agreement (CEPA) earlier this year with Korea, led to a 70percent increase in bilateral trade between the two countries in the first four months of operationalisation. Also India has been experiencing increased investments from South Korea into India.

The need for entering into comprehensive services agreement is of utmost importance to further the cause of regional economic integration. Currently there is a services agreement in place only with Singapore and Korea, while negotiations for a SAARC Agreement on Trade in Services (SATIS) are ongoing. India has a competitive advantage in services and is keen to broaden its trade basket with Asian economies through

increased share of services exports and therefore, great importance is attached to the early conclusion of negotiations of the on going Services Agreements.

**Table 6: India's concluded Free Trade Agreements
(FTAs)/Preferential Trade Agreements (PTAs)**

FTAs/PTAs	Date of Sign	Date of Enforcement	Area Covered
Asia Pacific Trade Agreement (APTA)	1975	June 1976	Goods
India-Chile PTA	November 2005	September 2007	Goods
India-Sri Lanka FTA	December 1998	March 2000	Goods
India-Nepal (Revised) FTA	October 2009	-	Goods
India-Afghanistan PTA	March 2003	-	Goods
India-Bhutan Trade Agreements	28 July 2006	29 July 2006	Goods
India-ASEAN FTA	August 2009	January 2010	Goods
South Asia Free Trade Area (SAFTA) FTA	January 2004	January 2006	Goods
India-Mercosur (Brazil, Argentina, Paraguay and Uruguay) PTA	2004	June 2009	Goods
India-Singapore (Comprehensive Economic Cooperation Agreement (CECA))	Jun 2005	August 2005	Goods, services, investments
India-Korea (Comprehensive Economic Partnership Agreement (CEPA))	August 2009	January 2010	Goods, services, investments, trade facilitation

Source: Ministry of Commerce and Industry and Asia Regional Integration Centre (ARIC)

Table 7: India's Ongoing FTAs/PTAs Negotiations

FTAs/PTAs	Launch of negotiations	Status	Area Covered
India-Japan (CEPA)	January 2007	Negotiations completed. It will be signed soon.	Goods, services, investments
India-EU Broad based Trade and Investment Agreement (BTIA)	June 2007	Government plans to sign it by the end of 2010.	Goods, services, investments, government procurement, etc.
India-Gulf Cooperation Council (GCC)- Customs Union of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE	2004	First round of negotiations held in March 2006. No Progress till now.	
India-Malaysia (CECA)	February 2008	Negotiations completed. It will be signed soon.	Goods, services, investments, etc.

India-Mauritius (Comprehensive Economic Cooperation and Partnership Agreement (CECPA))	August 2005	Negotiations on trade in goods concluded and MoU signed on a PTA, services and investments negotiations are ongoing.	Goods, services, investment, etc.
India-European Free Trade Association (EETA) FTA	January 2008	Five rounds of negotiations held (Fifth round was in 20 August 2010)	Goods, services, investment, etc.
SAARC Agreement on Trade in Services (SATIS)	November 2008	Text agreement was signed in April 2010. Schedule negotiations will start soon.	Services, investment, etc.
India-Thailand CECA	November 2003	17 rounds of negotiations have been completed.	Goods, services, investment, etc.
India-New Zealand (CECA)	April 2007	First round of negotiations held in April 2010.	Goods, services, investment, etc.

Source: Ministry of Commerce and Industry, and Asia Regional Integration Centre (ARIC)

VI. The Way Forward:

This paper lucidly brings forth India's growing integration with Asia. With the growing importance of the Asia region globally, it is incumbent on India's part to forge closer economic ties within the Asian region. It can be rightly said that India cannot do without Asia, and likewise Asia cannot do without India.

It is quite clear that various Asian countries have recently entered into a number of bilateral and sub regional RTAs. However, it is important to realize that generally trade complementarities within a sub region do not exist. For instance lack of complementarities is one of the reasons for low trade intra- SAARC trade. Trade analysis of South Asia indicates that the countries have almost identical pattern of revealed comparative advantage in a relatively low range of products, and bilateral trade structure exhibit low levels of trade complementarities (Kemal, 2005). In such a situation, the formation of a broader Asian Community is very important to benefit from the comparative advantage that each sub region enjoys.

Given India's increasing commercial services share in the world as well within Asia, an urgent need is to hasten the speed of ongoing services negotiations within Asia as well as with the rest of the world. India's services trade competitiveness is likely to increase further as it has now started exploring its potential in healthcare, tourism and education services trade. Further given the growing importance of services trade in international trade, there is a need to develop a database for recording services trade as is currently the case for the merchandise trade (Asher, 2006). It is important for India in this regard to develop its own database for services transactions and also encourage relevant policy research in this area.

Similarly India currently needs huge energy reserves. In the next two decades meeting India's energy needs will be of tremendous importance. As such India has been involved in various trade negotiations within and outside Asia to secure its energy needs. In this regard the proposed India- Japan FTA for which negotiations are ongoing, holds immense importance in the context of energy co-operation (Chanda & Sasidaran, 2008). In fact the major Asian countries can be less dependent on oil and gas imports from outside the region by mutually co operating in this area.

Many fortune 500 companies have invested in India's R & D. However the Asian firms have been lagging behind in setting up such centres in India. In such a scenario partnering with India in setting up such centres would prove mutually beneficial for countries from developed Asia as well as India. One area where expertise from particularly East Asian economies would benefit India is in developing a strong logistics sector. Developing a strong Logistics sector would also lead to increasing India's trade with the Asian region. The positive impact of growing trade and economic integration is almost lost in the absence of a strong transport infrastructure and connectivity within Asia. As such huge infrastructure investments are required in air, road and rail infrastructure within the region. The Asian Highway and the Trans- Asian Railway projects have been important developments in this regard.

Also for India to engage in meaningful economic partnerships with its Asian counterparts it is important that India engages in FTAs/ PTAs which are more forward looking and competitive. There is a need to address the disputed issues, particularly those related to sensitive sectors. Also deeper integration goes beyond trade, involving investment, services, product standards and technical regulations, competition policy and even environment and labour standards among them. In most Asian FTAs most investment commitments are rather general, with inadequate details to ensure proper implantation of the same. India along with the developed Asian economies should take the lead in liberalizing investment; while at the same time promote competitiveness of domestic industries.

VII. Conclusion

The analysis in this paper clearly puts forth the point that the time is ripe for the formation of a stronger and broader Asian Economic Community. India with its rising economic eminence in Asia as well as globally has a crucial role to play to facilitate this integration. Despite being one of the late entrants in forging closer ties with the Asian economies, India has managed to establish itself as a formidable force in Asia with its increasing trade and investment ties not only with the Asian economies, but also globally. India's

economic ties with the Asian economies are expected to be strengthened further with the conclusion of the ongoing FTAs.

India's trade in merchandise goods has grown phenomenally. The analysis shows that India's total trade share with the ASEAN +3 economies has increased over the years. In fact its share with the ASEAN +3 economies has surpassed that with the USA while its share has remained stagnant with the EU countries. Intra SAARC trade however continues to lag behind. But never the less commendable progress has been made in full implementation of the South Asian Free Trade Agreement (SAFTA) agreement. Intra-SAARC trade touched US \$530 million in 2009, a considerable improvement from the previous two years. Besides infrastructure bottlenecks, there is a need to reform the institutional structure of SAARC as well as integrate the region better with the rest of Asia.

Coupled with the increasing trade in merchandise goods, trade in services with the Asian economies has also seen an increase. However, India's trade in services with the Asian countries is still less compared to its trade with rest of the world. Given this low intra-Asian services trade, there is tremendous potential for increasing trade in services within the region. Particularly in the Information and Communication Technology sector India can play a crucial role in the region. Also partnership with the ASEAN countries could help India upgrade its telecom and hardware industry.

Along with trade, investment ties among the Asian countries have also become stronger in the recent years. Increasing FDI flows among the Asian nations can be observed now. Some of India's largest investors in the recent years have been Asian economies like Singapore, Japan, Korea and Hong Kong. India on its part has also made considerable investments in Asian economies.

Further forging closer economic ties with Taiwan, is mutually beneficial for both countries thereby giving impetus to their aim of diversifying their global trade and investment risks.

The analysis lucidly pinpoints to the fact that there is ample scope for enhancing trade and investment ties among the Asian countries by exploiting each others comparative advantage and fulfilling the dream of a self sufficient region. Also there is an urgent need to successfully conclude the ongoing FTA negotiations while at the same time encourage the formation of newer sub regional and bilateral FTAs in the region. The time has come for greater Asian regional economic integration, and India must play a major and proactive role in all future endeavours towards this. Only an integrated Asia will be able to find its right place in shaping the global economic governance structure, both within multilateral trade negotiations and the Brettonwoods institutions. India's Prime Minister Manmohan Singh rightly observed at the recent

15th SAARC Summit in Bhutan (2010), “Regional cooperation can be a significant multiplier in improving the quality of governance for managing our natural resources, preventing land and water degradation and strengthening our food, water and energy security” .

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Regional Economic Integration in East Asia: toward a Comprehensive Partnership between India and Taiwan

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IIR, NCCU

APEC, FTAAP and P4

- FTAAP would be a long term effort. Currently, APEC members do not have common positions on it.
- FTAAP was the American idea to push APEC to return back to the center of regional integration.
- The new focus comes to Trans-Pacific Strategic Economic Partnership Agreement (P4/TPP)
- The US, Australia, Peru and Vie Nam announced to join TPP. P4 (Singapore, New Zealand, Chile, and Brunei) becomes P8

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India and ASEAN

- "India believes that ASEAN is the core around which the process of economic integration of the Asia-Pacific region should be built." (30 October 2010, Manmohan Singh)
- "I commend the officials of both sides for developing a Plan of Action to implement the ASEAN-India Partnership for Peace, Progress and Shared Prosperity for the years 2010-2015. It is an ambitious road map and the 82 Action Points reflect the vast potential and desire to develop a multi-faceted India-ASEAN relationship." (30 October 2010, Manmohan Singh)

IIR, NCCU

India's Effort in Regional trade Cooperation

- India welcomes further progress on a Comprehensive Economic Partnership Agreement for East Asia (CEPEA) process.
- In 2009, India signed CEPA Agreements with Singapore and ROK and a Trade in Goods Agreement with the ASEAN.
- In the last one year, India has completed negotiations on a CEPA with Japan and Malaysia. An Agreement on Trade in Services and Investment is under negotiation with the ASEAN.

Regional Economic Integration and Taiwan

- At the sideline of regional economic integration: Taiwan has been unable to be in the process of regional mechanisms.
- Cross-strait Economic Cooperation Framework Agreement (ECFA) and its broader impact on East Asian economic cooperation
- ECFA and Taiwan's role in East Asian Supply-Chain

Taiwan's Role in East Asian Economy

- Taiwan is crucial to East Asian economy. A large trader, investor and industrialist
- Taiwan relies more on regional markets: ASEAN and China.
- Links with China's economic potential.
- ECFA with China would bring about new connectivity in the region.
- Taiwan-Singapore is negotiating FTA and will expand its opportunity.

Overviews: India and Taiwan Relations

- India and Taiwan do not have much crossing interest in the international community.
- Taiwan-India relations are in their infancy and have to show the confidence to be wide ranging and not just restricted to the economic sphere.
- In terms of economic development, India and Taiwan do have great common interests to be explored.
- India and Taiwan have dramatically increased technological cooperation in terms of quality and quantity.
- Much needs to be accelerated for the bilateral cooperation.

IIR, NCCU

India and Taiwan : A New Opportunity for Partnership

- IT Cooperation: India-software and Taiwan-hardware
- Service Industry Cooperation: India-channels and Taiwan-system delivery
- India and Taiwan could cooperate in India's infrastructure demands.
- Enhancing Mutual Understanding of importance via conferences and workshops
- Encouraging Cooperation in regional and international institutions (e.g. ADB development projects)

India-Taiwan Technological Cooperation Updates

- Technological Cooperation
 - Cooperative Mechanism: NSC + Department of Science and Technology (2007 first bilateral memorandum signed: on sponsoring joint research projects, bilateral conferences)
 - Cooperative Platform: facilitate mutual cooperation on conferences and international exchanges and training
 - Joint Researches: since 2008, NSC and DST have encouraged mutual research projects

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Prospects: India and Taiwan Cooperation in the Regional Integration Context

- On economic and development cooperation: India-Taiwan-ASEAN projects (e.g. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, BIMSTEC; Greater Mekong Sub-region, GMS)
- On Security: maritime security, energy security, and non-traditional security
- On Social Sectors: Social safety net – environmental issues, aging, unemployment etc.

Conclusion

- Establishing a comprehensive partnership based on sharing common strategic interests: economic, security, cultural and social ones etc.
- Levels of economic and technological cooperation should be further deepened.
- Developing cooperative mechanisms to help accelerate investment and trade so as to expand current levels of bilateral trade.
- Co-organising Joint research projects and conferences to explore mutual interests

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