

## Role of FTA and FDI in Guiding the Future of Regional Economic Integration

— In the Case of Asia, can any Lessons be Drawn from the EU's Experience? —

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### Introduction

For these several years, the movement for conclusion of Free Trade Agreement (FTA) (note 1-1) in the Asian Region, particularly among the members of ASEAN + 3, has become very active. In the past, these countries have not made the effort pertaining to the progress of bilateral FTA. In fact, at the beginning of 1990's, many Asian countries together with those surrounding the Pacific Ocean, had founded APEC, with the aim of liberalizing the trade and capital.

In fact, APEC which has been controlled by the super power, United States of America was considered as opposite to ASEAN in principle, since the latter is the group of developing countries. The negative attitudes vis-a-vis the liberalization of trade and capital by the Asian countries, including Japan, which have been considered as inevitable, could be justified by the following reasoning.

The Asian countries, as a whole, have estimated the system of GATT which was succeeded by WTO, by which they could search for the liberalization of trade through bilateral negotiations. They have considered that APEC might have showed the significant role for these purposes.

Until the Asian crisis in 1997, the Asian countries, as a whole, have satisfied of their economic growth and not considered the regional cooperation as indispensable. The Japanese economists have been septic for the regional integration in Asia, and the Asian countries depending on a huge market of USA have been stayed in a position as economic rival and protected individually by political agreement.

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As for the trade liberalization, Japan has adopted the political protectionism regarding the import of agricultural products, particularly the rice by the conservative political party.

The Asian countries, particularly Japan have been faced with the several problems of promoting the regional cooperation. For the purpose of realizing the regional integration in the future, what kind of method shall be adopted from now on, that is the fundamental question. Are there any good lessons to be drawn from the experience of EU's enlargement process with many members of different conditions?

### Text note of Introduction

Note 1-1: FTA is an abbreviation of the Free Trade Agreement, but sometimes used as Free Trade Area. In this article, the author uses this term only as Free Trade Agreement.

## Chapter 1. Regional economic integration and FTA & FDI

### 1.1 Stages of process of Regional Economic Integration

Many economists have already given explanations and formed theories on the advantages and efficiency of FTA.

So, instead of repeating these theories from the beginning, I will look at the examples in the international market.

FTA is in a sense an initial step of regional economic integration. The European Union (EU) has reached the final stage of regional economic integration after 50 years of effort.

The well-known Bela Balassa's theory classifies the process of regional integration into 5 stages:

- 1) Free Trade Agreement
- 2) Common Custom Union
- 3) Common Market
- 4) Common Economic and Monetary
- 5) Total Economic and Political Union.

In each stage, the economic elements could be classified as shown in the figure below. (Figure 1-1)

The EU has reached the last stage of political integration by creating the constitutional law, at the same time; she is going to increase the member countries while Asian countries have started only the first step by way of bilateral negotiations.

However, hereby we make one remark saying that we could expect faster realization of any institution for regional cooperation in Asia, since the Asian countries, the member of ASEAN and those of NIES are the new modern nations. If they might be considered so, they will have much more flexibility of their administrative institution or juridical system.

They prefer in reality as economic practice, the functional approach rather than the institutional one.

The members of ASEAN officially declared that, until the year of 2020, they would achieve the regional economic integration under what kind of forum it might be.

One Chinese economist, a staff of ASEAN Research Centre, replied to a Japanese journal

Stage	Market Integration			Integration of Currency	Political and Economic Integration
	Removal of Customs Tariffs	Policy of Common Market	Free Movement of Productive Factors	Fixed Exchange Rate or Common Currency	Common Political and Economic Policies
Free Trade Agreement					
Common Customs Union					
Common Market					
Common Economic and Monetary Union					
Total Economic and Political Union					

Source: Société générale SGCIB-FX and Fixed-Income Research

Figure 1-1 Economic Integration: Stage according to Bela Belassa's Theory

in the interview as follows: (note 1-2)

- (1) ASEAN countries don't make a process like EU nor need to have a similar institution.
- (2) It has taken too long period for EU to arrive at the actual stage.
- (3) The Asian countries also would have unique money for them in future.

The lessons to be learned from European experience, such as the creation of Euro as common money for several countries, would be summed up by the following two main elements: The first is the economic convergence mechanism by which many partners could obtain this convergence.

The second is the political momentum and national consensus regarding the introduction of common money.

The Asian countries, ASEAN plus three have already created a sort of cooperation system among them. Even if their economic and financial cooperation is not yet satisfactory in a long term, their relations would be enlarged and deepened.

## 1.2 Political problems

In the field of international politics, there has been a barrier which could not be overcome, that is the China - Japan relation. From only the economic point of view, the two partner countries have the mutual benefits.

The China has the needs of Japanese industrial activities as well as capital; vice versa the

Japan is in need of the huge market of China. However the two have had the political relation extremely rigid, since each other has the intention of taking the initiative for the leadership of ASEAN countries. (note 1-3) USA has manipulated for a long period these two countries who have the opposite political system and who could not be together against USA.

China has a very significant position in the worldwide market, in a sense that she has influence a lot due to her huge population and importance of the market. However, the China's behaviour regarding Taiwan, for example, the one that she threatens the other country by military force and makes the other ASEAN countries distrustful, especially those where a considerable number of Chinese people stay as inhabitants.

On the other side, in Japan many economists, opinion leaders and government responsible also, have published their opinions saying that Japan should be the leader for the Asian co-operation. Such kind of propaganda should not be repeated for the aim that all the participants have the equal partnership at the initial step.

In any case, without establishing the friendly solution for Chinese - Japanese political relation, which have been also manipulated not to be smoothed by the management of American global politics, it's very difficult even if it's not impossible, to develop and realize an economic and political cooperation with the aim of Regional Economic Integration in Asia.

If we admit that the political integration is the final stage of regional integration, a process of economic reconciliation is also deeply influenced by political element, because the economic integration itself must be followed from the political will of each participant.

### 1.3 Relation between Europe and Asia

At this stage, it shall be also mentioned the movement and object of the relation between the Europe and Asia. The new strategies which were declared by the members of ASEAN at the conference of Asia and Europe, showed the six objects as the followings:

Contribution for the peace and security of the region by enlarging the engagement of EU  
Enforcement of the movement of trade and investment as well as the dialogue economic and finance.

Promotion of the development of the country less developed in the region

Protection of the human right and encouragement of the democracy

Construction of the association and the alliance between the Asia and Europe by way of international forum

Strengthening of the conscience from Europe to Asia and from Asia to Europe.

#### Text note to Chapter 1

Note 1-2 Nikkei Shinbun 2003 5 4, by a Chinese economist of Asean Rescherch Center

Note 1-3 Two French journalists of Le monde, explained the fact by expression of China and Japanese relation as "Relation Infernal" in the book entitled "Japon, La fin d'une économie"

## Chapter 2. Japanese FTA with developing countries, especially in East Asia.

Because FTA has become an urgent requirement for Japan during the last two years, I here-under point out some essential elements:

### 2.1 Negative positions toward FTA in East Asia, especially in Japan

As a whole, East Asian countries have not been interested in formulating an institutional cooperation system. The reasons for their reluctance might be explained by the following facts:

Existence of differences in their stages of development.

Intra-trade structure (for a long period the trade among them had not been very significant)

Dependence on USA. some countries have been dependent individually on the economic, monetary and political power of the USA

Most East Asian countries have been adopting monetary policies pegging their currencies to the dollar, within some allowed band. Japan has made efforts to apply a floating exchange-rate system, but fundamentally it has always been faithful for maintaining the value of the dollar by way of buying American national debt denominated in dollars.

Japanese passiveness against FTA for long periods can be explained by considering the following points:

FTA has a tendency of risk to discriminate the one against other trade partners and to formulate a closed international market.

Through GATT (currently the WTO), it is possible to pursue trade liberalization.

Japan has respected APEC, expecting to obtain some concrete fruitful results regarding trade and investment.

As a whole, it is said that Japan has always preferred multilateral methods to bilateral ones; and it has been observed that Japan has been faithful to this principle to some extent. Nevertheless, there are other aspects of Japan's conservative policies which are related to positions concerning agricultural goods and Japan's total dependence on the US market and policies.

### 2.2 Other examples of regional integration such as Mercosur (4 Latin American countries plus one) and NAFTA. (USA, Canada and Mexico)

They also took similar steps. Initially, they adopted the way of FTA, through bilateral relations and multilateral consensus agreements. In the case of East Asia, ASEAN member countries have taken the initial step, aiming to create AFTA.

### 2.3 The behaviour of Asian countries towards FTA

In Asia, China has been taking a positive approach of FTA to the ASEAN countries, in a number of sectors including the agricultural industry.

As for Japan, because of its political structure, which is composed of a conservative political party founded upon the agricultural sector, this country has always put up barriers

against the conclusion and even against the opening of negotiations for a Free Trade Agreement with partner countries. For many years, the negotiation of Japanese agricultural problems, especially that of rice, has been a subject of conflict between Japan and the United States.

Not only was the political party pushed by agriculture associations, who collectively have kept a strong position as a pressure group in Japan, but also many kinds of intellectuals have been conservative regarding this subject. Even the stimulation coming from abroad by the successful examples of the European Union as well as the advancement of the NAFTA movement, has not been sufficient to arise incentives in Japan for improving the industrial structure, including agriculture.

As the 21st century began, Japan found itself obliged to look forward to the formulation of a regional cooperation system, since in other regions, institutional associations in various forms have been very quickly formulated. One example of this is that, in the world market, there already exist 158 FTA (in 2003) but Japan has concluded only one (1) FTA with Singapore. The US and China have taken quick action in negotiating agreements with Asian countries, especially with ASEAN members. Japan can delay this subject no more.

### Chapter 3. Japanese foreign direct investment (FDI) in East Asian countries

FDI has direct effects on the industries on sides of both investor and host country. Here I briefly present an outlook for Japanese FDI:

#### 3.1 Recent trend of Japanese FDI in Asia

In tracing the evolution of Japanese FDI, until the period beginning in 1980 one of the main characteristics observed in Japanese FDI was its tendency to promote activities much more through domestic elements than by pursuing profit on capital itself.

Beginning from the mid-1980's, motivated by the high Yen exchange rate, Japanese industry; especially manufacturing industries have rushed out to neighbouring countries. Needless to say, the motivations for FDI are complicated by the fact that the form of investment made must be altered according to the market's condition and/ or the degree of maturity of the subject industry. But even under those conditions, Japanese investors became deeply motivated in providing FDI, in order to avoid the burden of the Yen exchange rate. This continued until 1997.

In 1997, due to the Asian monetary and economic crisis, the Japanese investors marked significant losses on their invested capital. The loss of capital did not mean a definitive damage, but resulted in a slowing down in sales while commercial activities staggered. According to the statistical records, Japanese FDI in general has decreased remarkably after 1997 (note 3-1) and many of the remaining investors have shifted their target to China. (see table 3-1 and graph 3-1, 3-2)

#### 3.2 Options for Japanese FDI

According to the results of inquiry research performed by the Japanese Bank for

International Cooperation (JBIC) in recent years, Japanese enterprises in manufacturing industries are again showing their willingness to continue increasing their FDI in the coming several years.

As a whole, non-manufacturing industries have accounted for a larger percentage of the total FDI for several years now, but the interest for inquiry still focuses on manufacturing industries. This results not only from the tendency of FDI to be for a long period, but also from the fact that FDI of the manufacturing industries leads to exports from the host country, which are considered to replace exports from Japan.

In addition, for several years recently, Japanese industries have increased their interest toward the Chinese market, even though their accumulated investment amount in 2003 still remains larger in ASEAN countries than in China.

The main reason for their interest in the Chinese market can be explained by their expectations for finding large-scale markets in China, even though they have faced several difficulties in managing their activities, such as the non-existence of intellectual property rights and inadequate financial systems. For a long time Japanese enterprises had been criticized for their conformity and haste in their overseas investment moves, and this tendency is still observed nowadays. For example, as soon as a few of them found the Chinese market to be interesting, many others rushed to the same market uncritically. However, their recent behaviour has in many ways changed in character from the traditional patterns, as explained in the following paragraph. Even in evaluating their options for choice of overseas investment host countries, they are nowadays more likely than before, to apply long-range planning horizons.

### 3.3 Trends of Japanese investments in the manufacturing industries

In 2002, foreign direct investment outbound from Japan showed its first increase in three years, as it had been on the decline ever since hitting a peak in 1999. While FDI of the manufacturing sector made a mere 2.2% gain over the previous year, that of the non-manufacturing sector increased by 19%. As might be expected, the difference between the growth rates of investment in the two sectors has brought about a significant change in their relative shares since 1999, when manufacturing accounted for the larger proportion. But even though the manufacturing sector share is smaller now, it remains important because of its multiple effects. Following the results of recent survey taken by the Japanese Overseas Investment Institute, I will summarize the status of foreign investments by Japanese manufacturing industries as follows: Since the late 1980s, especially since 1989, there has been a remarkable rise in FDI of Japanese manufacturing industries in Asia, to the point that in 1995 Asia became the largest investment destination (note 3-2). However, the Asian currency crisis in the summer of 1997 caused a decline in new Asia-bound investment. (see table 3-1)

### 3.4 Characteristics of Japanese FDI in Asia

In this section I point out the salient characteristics of Japanese FDI, in comparison with the FDI of other industrial countries. With applicability limited to the Asian market and to

the manufacturing industries, the following features can be considered as typical of recent years. (note 3-3) In the JOI (Japanese Institute for Overseas Investment) report, Kitamura made a very meaningful categorization of Japanese FDI characteristics as:

Export-oriented production takes a large share.

Division of labour is calculated between several host countries' units.

Changing products following the degree of industrialization of the host country have been considered.

Sophistication of the products which Japanese companies have developed recently, has been remarkably applied in the host country.

However, it is an interesting question whether these are characteristics of Japanese investments alone, or whether some of them may be observed in the FDI of other developed countries. The subject should be re-examined. In the same article Kitamura well explained the problems Japanese enterprises have faced in dealing with international competition.

Moreover, two additional remarks should be made to these observations on the tendencies of Japanese FDI: Firstly, the ratio of Japanese production in foreign countries has significantly increased in many kinds of industries. An exodus of industries from Japan has become an inevitable route to be taken. Secondly, the ratio of re-investment in the host country has remarkably increased during the last several years. In the past, Japanese overseas enterprises were still relying on their head office in Japan, but they have changed their attitude towards being independent in the host country.

### Text Notes to Chapter 3

Note 3-1: In 2002, Japanese foreign investments increased by 11% on a value basis, reaching 4.4 trillion yen, and total FDI cases numbered 2,144, a 21% increase from the preceding year.

Note 3-2: In FY 1995, Japanese FDI in Asia totalled 781.4 billion yen distributed over 1,248 cases, while in the same year Japanese investors placed 726 billion yen in 200 cases in North America.

Note 3-3: In the JOI report, Kayoko Kitamura mentioned four points about this:

- 1) Japanese manufacturers shifted their export-oriented production facilities to other countries in Asia.
- 2) There was remarkable evolution in the division of labour between Japan and the other countries where the investments were made.
- 3) The development of industrialization has been characterized by increasing integration: The scope of investment has been expanded from product manufacturers to parts and processing industries and to materials manufacturers.
- 4) There has been increasing sophistication of the products in response to changes in the business environment

## 4. FTA, FDI and the inter-relations between them

### 4.1 The joint roles of FTA and FDI

FTA has been considered as a tool to bring down the barriers of trade customs so as to



expand mutual trade. The traditional means of protectionism are to maintain both customs and non-tariff barriers to trade, the latter by means such as exclusionary enforcement of administrative regulations. However, nowadays FTA are no longer considered simply as a measure to remove the traditional customs barriers, but rather, they often include other elements to enable foreign enterprises to work smoothly in their host countries. Even though there have been so many examples of FTA in the international market, up to now Japan has concluded only one FTA ever since.

Currently, commencing from February 2004, a second one with Mexico was settled. Many other countries have long considered FTA as their first step in liberalization of trade and capital movement, but Japan is coming to take this step very late.

As for FDI, it has usually been studied independently, even though it has close links to trade and other economic and social activities. It has also been the target of both multilateral and bilateral negotiations. The subject of increasing FDI in East Asian countries will be discussed together with FTA, on the assumptions that there are close inter-relations among the two and that they directly influence each other. To a large extent, empirical observations of these inter-relations have been discussed separately from the academic research into related theories. For the purpose of developing a strategy for overseas economic activities, we need integrated studies on supporting theories with observation.

#### 4.2 Role of FTA for the regional economic integration in the future

Many economists have already discussed and published the opinions on the subject of advantage and disadvantage of FTA.

The disadvantages are found mainly in the decrease of custom revenue during certain periods and also in the less choice of imports from the countries out of the group with whom they have the FTA contract.

In case of ASEAN, the risk of having the latter disadvantage is not so remarkable. In fact since they have had established the free trade relation inside of the group (AFTA), they will find at the same time, certain possibilities of establishing the individual relation with the partner out of the above mentioned group. However, from the very beginning of conclusion of FTA with the partner countries they could not expect much advantage, because they have had already advanced to some extent their free trade in the region.

In any case, with the progress of liberalization of trade, there is no doubt that the trade as well as the FDI in the partner countries would be accelerated.

The co-relation between the trades and investments has been considered as quite naturally observed in the business movement. Nevertheless, the Japanese theorists have the tendency of making the research on the investment as if it has the independent policy and the latter is dissociated with the former.

We stated previously that Japan himself had declared officially his willingness to conclude the FTA and began to make the negotiations with the members of ASEAN and South Korea. These movements have been considered as the first step for the liberalization of capital transfer and regional economic integration under what sort of form it might be.

It's evident that the quick approach to the economic integration only by way of trade could

not be expected. That is to say, the conclusion of FTA could not bring immediately the effect to formulate the common market. However we need to advance this movement of FTA as much as possible, with the aim to peruse the target of creating the common market.

#### 4.3 Role of FDI in the regional economic integration

We have previously mentioned the two characteristics of recent evolution of Japanese FDI. From the midst of 1980's decade until 1997, we could observe the two period classified by the different characteristic concerned. The one is the period just after 1985 of Plaza Agreement from when the exchange rate of yen has become so quickly high.

As a consequence, Japanese enterprises have preferred the investment of their capital in the overseas markets. On the other side, after 1990 during the period when the economic recession has been continued more than ten years, the Japanese domestic market has been contracted. Therefore, if we try to find several elements for justifying the expansion of Japanese FDI in each a period of boom, we could not point out as motivation of promoting investment, at least in the past, any kind of will to develop the regional economic integration.

However, Japanese enterprises have adopted and applied many kinds of strategies for the overseas market. One example is found in the activity that the demarcation of production of machine parts as well as the integration of overseas market which has shown their plan to take into account of the integration of market and production.

#### 4.4 Increase of receiving the FDI resulting the regional integration.

It's said that one of the efficient method of promoting the regional economic integration, is to advance the liberalization of capital transfer so as to encourage the foreign enterprises particularly multinational enterprises for the investment in the targeted market. Therefore the integrated common market could to some extent absorb more investment than the other which has no facilitated institution for introducing the foreign capital.

Related statistics with regard to the FDI in Germany and France shows that these two countries have always kept the position of great recipient of FDI, even by considering their total economic size. In the case of Asian countries, the East Asia, newly industrialized countries have received FDI, owing to their policy without placing comparatively no specific barrier against introducing the foreign capital. Successively, the member countries of ASEAN have followed the same policy and result.

Nevertheless, if a country takes a policy to open its door without limit for the foreign capital, it means the risk that the capital for speculation will also come together like in the case of Thailand in 1997. The liberalization of receiving the foreign capital itself is favourable for a developing country who wants to promote the industrialization. However, since there exists almost always the different interest rate and monetary position between the markets of developed country and developing one, the speculator could attack for their benefit the market of the latter who adopt the free transfer of capital together with the monetary system of fixed exchange rate.

Regarding to this problem, the European countries have had from the early stage the severe experience of attack on each an European currency by speculation of Eurodollar.

For the purpose of protecting the economy of the concerned country, there might be several solutions even under the actual international monetary system as presented in the author's thesis entitled of "Asian Recovery and Financial Reforms after the 1997 Crisis" (note 4-1)

Among many different ways of solution, the one which could be adopted in an early period, by Asian countries consists of the international monetary system based on the basket of the many currencies such as US dollar, Euro, Yen and other Asian currency. To realize such a system, Japan himself shall make the effort of internationalizing his currency Yen.

In fact, it's confirmed that the investors hesitate to move his capital to the market where the exchange rate is not stable, even though this targeted market has so much interesting commercial conditions.

In the Asian zone, in these years the fluctuations of exchange rate of the currency as well as the movement of capital have been much more remarkable than that of trade.

To show the internal economic relation in Asian countries, hereby we draw some examples: The five ASEAN countries that have made the trade within the internal Asian zone with share of 14.2 % in 1976 increased its share to 15.9 % in 1986. As a result, European economists judged that ASEAN have not obtained almost no fruitful result in the field of economic cooperation. (for example, the member countries of European Commission (EC) marked 30.1% in 1958 and reached 45% in 1968)

Another example is that Asian countries having received certain volume of FDI have not showed the mutual investments among themselves.

Therefore we must consider their stage as developing country who have individually the vertical relation with the industrially developed countries.

However, in 1987 they adopted the "Declaration of Manila" by which they would willingly encourage the export of industrial manufactured goods according to the plan of BBC (Brand to Brand commerce). This plan means that the Japanese automobile industry, for example, would adopt the strategy similar to that of Multinational Enterprises and the plan of manufacturing the industrial parts concentrated in each country of ASEAN (note 4-2).

Their strategies are well elaborated and if the mutual cooperation inside of each ASEAN country could be favourably developed for their demarcation of works, these enterprises could formulate their production system divided into each country.

Such kind of activity promoted by the enterprises especially industrial manufacturers could bring the direct influence positive for them on the process of regional economic integration.

#### Text Notes to Chapter 4

Note 4-1 Thesis submitted to the international conference held at Tunis in 2002 may and published in the revue of "le Monde en developpement" 2003 4

Note 4-2 Thus, Mitubishi and Toyota established their factories in Thailand, Philippine, Malaysia and Indonesia. Nissan in the above 4 countries plus Taiwan.

## Conclusion

- 1 Until the end of 1990's, due to the lack of powerful motivation for the regional economic integration among the member countries of East Asia and ASEAN, there has been no remarkable result in this field.

Many kinds of causes have been found as the origin of their behaviours, but from the monetary and economic crisis arrived in 1997, it's evident that they started to prefer to a close cooperation among them.

- 2 Reconsidering the importance of Free trade Agreement (FTA) which is considered often as first step for economic integration, the members of ASEAN as well as South Korea and Japan have started very recently the negotiations of FTA

Theoretically, the concerned countries could take the considerable benefits in the industrial sectors, since there are the new businesses created by the promotion of free trade institution. The industrial sector in China, South Korea and Japan has been favourable vis- a- vis the conclusion of FTA as shown by the result of questionnaire survey effectuated recently.

- 3 Foreign Direct Investments (FDI) in the region of Asia will have the different forms and directions. The private capital of Japanese manufacturing industries will continue, first of all, to enlarge their activities in the market of China and ASEAN since these countries will have the economic growth much higher than that of Japan. At the same time, the capital of newly industrialized countries will also increase their investments in the region, since they will increase their international competitive force.

The enterprises non manufacturer industries also will enlarge their activities in the Region.

Even though the diverse enterprises of each country have the different level of development and even without any specific institution to favour the investments in the Market of China, and ASEAN, the rhythm of their activities will enforce their evolution.

As a matter of fact, according to my opinion, in the Asian market, FDI will be much more activated by the open door policy of the market and better condition of the manufacturing than by certain politics specific to encourage the industrialization.

- 4 Such kind of dynamism will create at the same time the structure of not resisting against the risk easily foreseen such as quick change of industrial structure for example IT, overflow of investments, quick economic growth, monetary speculation etc,

In a word, the cooperation among the member countries is the condition quite indispensable for defending themselves against such a risk which will easily contaminate each other so quickly.

- 5 When we try to retrace the evolution of the entire act for the sake of economic cooperation in the Asian region, we grope, on several occasions, for establishing the relation among them. The creation of ASEAN and effort for promoting the AFTA, have been considered as one sort of the opposite action against the APEC.

At the midst of 1990's the member countries of APEC especially Japan showed his

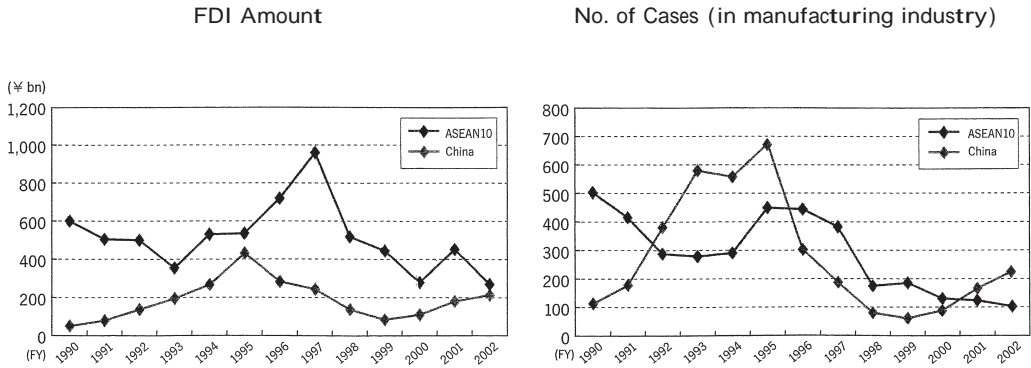
expectation for obtaining some concrete result of the liberalization of trade and capital by the mechanism of APEC. But several years later, it was discovered that such an expectation has not been realized. In fact, the member countries of ASEAN who have had the severe experience of the Asian crisis; have taken the option for the mechanism including only the Asian countries.

- 6 However, under such a circumstance, the position of ASEAN countries remains very difficult. That is the case of Thailand for example, who has the difficult negotiation with Japan concerning the FTA. The latter has kept the conservative politic for import especially the agricultural products and put much more importance in the opinion of the United States of America than that of the Asian countries.

One another aspect not favourable for the reconciliation of the countries of East- Asia and South East Asia lies in the tight relation between China and Japan who have struggled to look for the leadership of the hegemony of Asia.

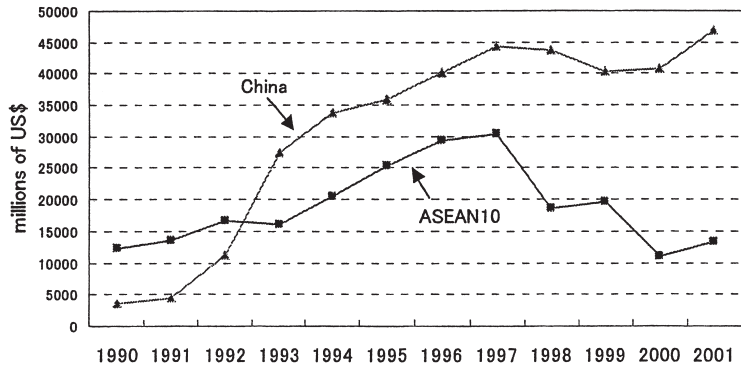
Taking into consideration of several different aspects, more political than economical, It seems to take many decades before arriving at certain level of regional integration.

However, this target becomes more than more one obligation for all the concerned parties.



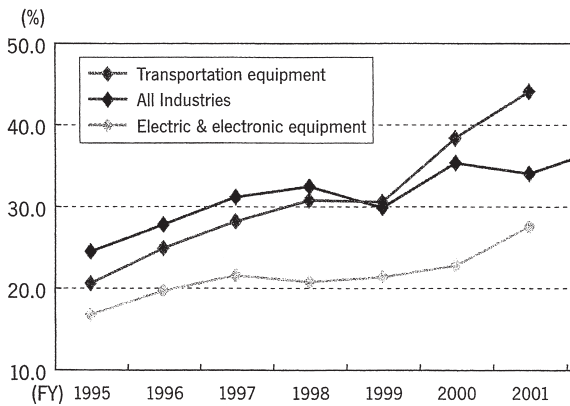
Source: Ministry of Finance

Graph 3-1 Japanese FDI into China and ASEAN 10



Source: The UNCTAD World Investment Report

Graph 3-2 Inflow of FDI into China and ASEAN 10 from the world



Source: Ministry of Economy, Trade and Industry

Graph 3-3 Overseas Production Ratio

Table 3-1 Japanese FDI by Country (FY, 100mn ¥)

	1995	1996	1997	1998	1999	2000	2001	2002/
China	4,319	2,826	2,438	1,363	838	1,099	1,802	1,132
ASEAN 4	3,991	5,575	6,990	4,276	3,208	2,253	2,944	695
Indonesia	1,548	2,720	3,086	1,378	1,024	457	576	160
Thailand	1,196	1,581	2,291	1,755	910	1,034	1,102	348
Malaysia	555	644	971	658	586	256	320	57
Philippines	692	630	642	485	688	506	946	130
NIES	3,121	3,986	4,186	2,259	3,567	2,964	2,672	1,078
Singapore	1,143	1,256	2,238	815	1,073	468	1,223	355
Hong Kong	1,106	1,675	853	770	1,083	1,034	370	152
Taiwan	439	587	552	287	318	563	399	179
Korea	433	468	543	387	1,093	899	680	392
Asia Total	11,921	13,083	14,948	8,357	7,988	6,555	7,730	3,171
USA	21,845	24,789	25,486	13,207	24,868	13,413	7,970	3,804
Europe Total	8,281	8,305	13,749	17,937	28,782	26,974	13,228	9,533
Latin America	3,741	5,008	7,775	8,274	8,295	5,783	9,583	2,887
Total	49,568	54,094	66,229	52,169	74,390	53,690	39,548	20,808

Source: Ministry of Finance

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