

# **The 30<sup>th</sup> Policy Plenary Meeting on “The Recent Development and Future Challenges in the Regional Cooperation in Trade and Investment”**

November 27, 2008

The 30th Policy Plenary Meeting of the Council on East Asian Community (CEAC) was held on November 27 at the conference room of the Japan Forum on International Relations to discuss “The Recent Development and Future Challenges in the Regional Cooperation in Trade and Investment.” Prof. URATA Shujiro, Member of CEAC and Professor of Waseda University, made keynote report, which was followed by an active exchange of views among Members of CEAC. Prof. URATA stated as follows.

Export and import of ASEAN+3 countries have continued to increase in terms of share in global trade as well as value. Although Japan used to rank top among ASEAN+3 countries in value of exports, it has now been put in third place after China and ASEAN due to the low increase rate of its export. While global demands have greatly contributed to the increase of Japanese exports, the competitiveness has played a leading role in the increase of Chinese exports. In recent years, the ratio of trade to GDP has also soared significantly in East Asia. While the increase rate of trade/GDP ratio is low in Japan, it is quite high in China, which is partly attributed to the undervalued Chinese currency. The reduction of tariff rates by each country has also contributed to the rise of trade/GDP ratio. However, there is still room for tariff reduction. Therefore each country is interested in concluding FTAs. The regional interdependence in trade has slightly increased in East Asia. Although it has increased in ASEAN, Korea and Japan, it has declined only in China, which has increased the dependence on the US. Therefore we cannot ignore the importance of the US as an export market. In this sense, it is called into question whether a free trade area should be formed in East Asia or in the Asia Pacific region. At the same time, it needs to be noted that ASEAN, Korea and Japan have increased their dependence on China while ASEAN, Korea and China have decreased their dependence on Japan. Worthy of attention is the fact that, in East Asia, regional production network has been formed, in which China

imports parts of goods from countries within the region and exports final products. Although foreign direct investment has contributed to the formation of regional production network, it has moved in a manner different from trade. Foreign direct investment in East Asia has increased in value since 2000. However, its share in the global foreign direct investment is in a downward trend. The ratio of direct inward investment to GDP has kept the same level in recent years, which is lower than the world average. About half of foreign direct investment to East Asia comes from the US and Europe. On the other hand, most of portfolio investment of East Asia goes to the US and Europe although the financial and capital markets have expanded in East Asia. While regional dependence in East Asia is around 40 percent in trade, it is only a small percent in portfolio investment.

In response to the above reports, 18 member of CEAC joined in an active exchange of views on the topic.