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The Impacts of Discriminative Trade Arrangements on Foreign Direct Investment and Foreign Trade in Southeast Asia during the 1988-2008 Period

東南アジアにおける差別的貿易政策の直接投資および貿易に与えた影響：1988年～2008年

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The liberalization of trade and investment can be divided into five different types: (1) Unilateral; (2) Bilateral; (3) Sub-Regional; (4) Regional and (5) Multilateral. This study focuses on three of these five forms (Sub-Regional, Bilateral, and Regional) in the context of Southeast Asia. The exclusion of the unilateral level is because its economic liberalization is conducted independently regardless of other country's market liberalization. While multilateral is beyond the scope of this study, as it is limited to the regional level.

This study uses three analyses in its approach. The first analysis is to review FDI inflows resulting from the sub-regional organization of a particular product. This study chooses natural rubber in particular because Southeast Asian is home to the world's top three natural rubber producing countries: Thailand, Indonesia and Malaysia. Further, rubber product is among the top eleven priority products for the ASEAN Economic Community (AEC) 2015. This study takes the International Tripartite Rubber Organization (ITRO) and assesses how it attracts FDI inflows of rubber. ITRO is a producer organization established in 2001 by Thailand, Indonesia and Malaysia, and controls over 65% of world's natural rubber production. ITRO is tasked to manage the quantity of natural rubber production with a specific supply-side policy, the Supply Management Scheme (SMS) and quantity of natural rubber trading under an Agreed Export Tonnage Scheme (AETS). Both policies are designed to achieve oligopoly market power as the higher the oligopoly market powers in primary product, the higher are the incentives for the investors to invest their FDI (Pindyck, R. and Rubinfeld, D., 2005). The Hypothesis of this first analysis is that 'ITRO attracts FDI inflows of rubber'. This is a proxy to describe the enhancement of trade and investment integration at the sub-regional level of ASEAN.

For the bilateral level, this study adopts the impact of Bilateral Free Trade Agreement (BFTA) on FDI inflows. Yet, BFTA itself creates a dilemma for its regional FTA. On one side, member states receive benefits from having the BFTAs; though given the economic gap among ASEAN member states, such benefit will cause disparity and increases the economic gap among them and this results contrast to the main objective of regional trade agreements to narrowing the economic gap among member states (Panagariya, 2000, Tumbarello, 2007, Kawai and Wignaraja, 2009). However, no member state would want to be left behind when its fellow members establish direct BFTAs with non-member states from advanced economies at which at the end they make trade arrangements become very complicated.

The hypothesis of this second analysis is that 'BFTA attracts FDI inflows', which will assumingly enhance trade and investment integration at ASEAN's bilateral level.

Whereas at the regional level, the ASEAN Free Trade

Area (AFTA) established in 1992 and took effect in 1999, imposes trade discrimination policies between Southeast Asian countries as member states and non-Southeast Asian countries throughout the implementation of a Common Effective Preferential Tariff (CEPT) (Nesadurai, 2003). AFTA is expected to generate positive impacts on both intra regional trade (trade creation) and FDI inflows (investment creation). Yet, ASEAN under its 'soft and open regionalism principles, allows her member states to have BFTA with non-member states apart from AFTA. The hypothesis of this third analysis is that 'AFTA and BFTA positively affect intra regional trade and FDI inflows'.

This study gives the following original contributions: (1) Understanding the impact of sub-regional economic cooperation on FDI inflows in specific product (investment creation) using both the Macroeconomic and Microeconomic approaches. The results are completed with field-survey and input-output table simulation. (2) Identifying the impact of direct Bilateral Free Trade Agreement (BFTA) on own country's FDI (investment creation) using the simple Ordinary Least Squares (OLS) of time-series data. (3) Discovering the impacts of ASEAN Free Trade Area (AFTA) on Intra Regional Trade (trade creation) and FDI inflows (investment creation) using the system of equations of time-series data. (4) Finding the impact of direct Bilateral Free Trade Agreement (BFTA) on intra regional trade. This is a proxy to prove the existence of a 'noodle bowl phenomenon' in Southeast Asia. This study finds that all of the hypotheses are rejected. This proves that sub-regional (ITRO), bilateral (BFTA) and regional (AFTA) are still not effective to attract an equal flow of FDI into the region.

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