

April 28, 2005

Free Trade Vision for East Asia

By MATSUDA Iwao

1. Present conditions in East Asia: Increasing interdependency and immense growth potential

East Asia is now the growth center of the world economy. Spectacular economic growth has been achieved by Japan since the 1950s, by the newly industrialized economies since the 1970s, by the member states of the Association of Southeast Asian Nations (ASEAN) since the 1980s, and by China since the 1990s. Today ASEAN + 3 has expanded to such an extent that it accounts for one-fifth of the world's gross domestic product, its share having risen from 11.7% in 1960 to 19.4% in 2003. In addition, the average GDP growth rate from 1995 to 2002 was 2.7% in the major developed countries, 4.7% in developing countries, and 6.6% in Asia, making this region the growth center of the world economy.

During this period, economic relations of interdependence have advanced rapidly in East Asia. Unlike the international division of labor until now, in which end products were exchanged, today the process of corporate activity, from product planning and design to the production, sales, and after-sales services, is carried out across national borders. For example, looking at changes that have taken place in the trade of intermediary goods, the trade value of general machinery parts within the region of East Asia increased by about six times from 1990 to 2003, and the trade value of electric machinery parts rose by about seven times during the same period. As a result, in 2003 the intraregional trade ratio was 53.3%, which was higher than that for the North America Free Trade Area (NAFTA; 44.5%) and not very inferior to that of the European Union (60.3%). Unlike Europe, where integration was driven on the institutional side, in East Asia a de facto integration has made headway through the market.

East Asia has immense growth potential. In 2002 East Asia accounted for 32.9% of the world's population, compared with 11.7% for Europe and 13.8% for the Americas. Furthermore, according to economic growth outlook for the period from 2007 to 2010 by the IMF, the figure for Asia is 6.9%, compared with 2.9% in the major developed countries and 5.8% in developing countries.

2. Promotion of the WTO's Doha Development Agenda (DDA) negotiations

There are various factors for the development in East Asia, but the liberalization of trade and

investment is a very important one. In order to turn the growth potential of this region into a reality and to bring about further development, it is necessary to proceed with further liberalization on all fronts, including the WTO, APEC, and FTA/ EPA on a mutually supportive basis.

First of all, against the background of growing globalization, the multilateral free trade system centering on the WTO continues to be the main framework to ensure the sustainable development of the world economy.

Among the ASEAN+3 countries, only Vietnam and Laos are not yet members of WTO. Japan has already had five sessions of official negotiations with Vietnam, and Japan strongly supports Vietnam's early accession to the WTO. Laos has not yet started accession negotiations, but Japan would like to strongly support Laos's accession to the WTO as well.

At the Doha WTO Ministerial Conference in November 2001, it was decided to start a new round of multilateral talks, which would be the first since the establishment of the WTO. Taking account of the views of the developing countries, it is called the Doha Development Agenda (DDA). As its name implies, it is important to gain results that enable the developing countries also to enjoy the benefits of free trade. With regard to the WTO, Asian countries should cooperate to make the Hong Kong Ministerial Conference in December of this year a success. East Asia is the largest beneficiary of the successful conclusion of the DDA. Therefore we should aim to conclude all talks before the end of 2006, lead to the success of DDA, and promote the liberalization as well as the strengthening of rule-based system at a global level.

3. Achievement of the APEC's Bogor Goals

Next, the activities of APEC are also extremely important in order to realize a free trade regime in East Asia. Unlike other frameworks of regional integration, APEC is based on voluntary efforts of participating countries and advocates an open regionalism with the aim of sharing the results of trade and investment liberalization with countries outside the region as well. In addition, it covers a wide region that includes the countries of NAFTA, ASEAN, Russia, and Latin America. As regional integration advances in East Asia from now on, APEC will become increasingly important as a framework for the cooperation between East Asia and other regions.

We should steadily implement the Bogor Declaration, which is to achieve free trade and investment in the APEC region by 2010 for developed countries and by 2020 for developing countries.

4. Promotion of EPA negotiations

(1) Definitions of FTA/EPA

Moreover, it is important to make efforts for the further development and expansion of trade and investment through the conclusion of FTA/EPA between countries or regions that have close economic ties. Free trade agreement (FTA) is a type of agreement aimed at eliminating tariffs, regulations and other limitations in services, and thus promoting the liberalization of trade in goods and services. In contrast, Economic Partnership Agreement (EPA) comprises, in addition to the FTA element, i) promotion of investment and the movement of natural persons, ii) rule-making in such fields as mutual recognition, government procurement, competition policy, and intellectual property rights, iii) cooperation in the fields of the development of human resources and system building support. Japan promotes EPAs which are more comprehensive than FTAs.

(2) Significance of EPA

The reasons for the significance of EPA are as follows.

WTO with 148 members (as of March 2005) takes time to reach an agreement. On the other hand, EPAs involve only a few countries, and an agreement on high-level liberalization can be reached quickly. In addition, if both parties agree, it is possible to include in the scope of EPA the areas that are not covered by the WTO. And once an agreement is reached in EPA negotiations, the content of that liberalization constitute a building bloc in a wider context. As a result, the accumulation of independent EPAs also leads to the promotion of the free trade regime through the WTO.

The EU began with the joint management of the production of coal and iron and steel by European countries centered on France and Germany, which were enemies in the past. There was of course an economic reason for this, in that they wanted to achieve economic recovery. But at the same time, the move had significance as an attempt to prevent future conflict and make it impossible to wage war between them again by putting the industrial lifeline under joint management. I believe that the deepening of interdependent relations between countries through the establishment of EPAs will contribute to peace and stability in such regions.

Furthermore, through its enlargement, the EU has recently increased its voice on the international stage. The widened circle of friends brought about through regional integration increases that region's influence in the international community. Asian countries also should strengthen the sense of regional partnership through EPAs and increase Asia's voice in the international arena.

(3) Promotion of EPAs

As I said earlier, the EPA is more comprehensive than the FTA, which aims at sharing common systems and rules. Accordingly, the EPA is an effective system between the parties that have already deeper economic ties and are able to achieve further economic development by sharing common systems and rules, and it is a big step toward economic integration. At the same time,

Japan regards “cooperation” as an important element of EPAs which will allow us to attain high level of regional system.

Since the relations of interdependence are deeper in East Asia, the EPAs are more appropriate type of agreements for East Asia. Accordingly, Japan is promoting EPAs with the aim of coordinating systems and making common rules in the region of East Asia. And if the partner country is in need of know-how, human resources, and funds for system building, then the field of cooperation is included in the EPA so that assistance can be provided.

(4) Japan’s efforts

Japan already has concluded EPAs with Singapore (effective November 2002) and Mexico (effective April 2005) and has reached an agreement in principle on major elements with the Philippines (November 2004). In addition, Japan is currently conducting negotiations with Malaysia, Thailand, and South Korea, has completed joint study with Indonesia and conducting one with Chile. A joint study group with India is scheduled to be launched as well, and requests also have been received from Australia and Switzerland to start such joint study.

Furthermore, Japan began negotiations with ASEAN as a whole in April. The aim is to conclude an EPA between Japan and ASEAN. With regard to the relationship between bilateral EPAs and this Japan-ASEAN EPA, we have in mind the following picture. In a Japan-ASEAN EPA, common rules including the common rules-of-origin will be formed. This will enable countries to avoid confusion in transactions resulting from different EPAs which contain different rules and standards (Professor Jagdish Bhagwati has referred to this kind of confusion in transactions as the “spaghetti-bowl effect.”), at the same time, make it easier to promote an international division of functions among companies in the region. Also, tariff concessions are stipulated in Japan’s bilateral EPAs with each ASEAN countries. (In the case of countries with which EPAs have not yet been concluded, talks will be conducted simultaneously with the Japan-ASEAN EPA negotiations.)

Through comprehensive and high-level EPAs with the ASEAN countries, Japan intends to achieve further liberalization and close economic partnerships in the region.

In addition, regarding the cooperation among Japan, China, and South Korea, with our eyes on an EPA in the future, for the time being, we would like to go ahead first of all with the rule-making in the field of investment, and urge the governments of the countries concerned to start negotiations on an investment agreement among Japan, China, and South Korea as soon as possible.

In this way, Japan will make efforts toward the conclusion of EPAs primarily with East Asian countries, with which Japan has deep ties in terms of economic realities.

5. Toward formation of the East Asia Free Trade Area and the East Asia Community

As a future objective, we would like to share the ideas of the East Asia Free Trade Area (EAFTA) and the East Asia Community, and make efforts toward their realization.

(1) Toward materialization of the EAFTA

First of all, in order to realize a wider economic relationship, we should make positive efforts toward the formation of the EAFTA. A joint study by the group of experts meeting, which will be launched at an early date, should engage in studies that cover such areas as services, investment, intellectual property rights, dispute settlement and competition rules, aiming for a high-level agreement from the start.

(2) Toward the East Asia Summit and formation of the East Asia Community

At the ASEAN + 3 Summit at the end of 2004, it was agreed that the first East Asia Summit (EAS) would be held in Malaysia at the end of 2005. This development has an extremely high historical significance as a move that will further promote regional cooperation in East Asia. Japan intends to contribute positively so that the EAS lives up to this historical significance.

Regarding the regional cooperation in East Asia, on the basis of the partnership and integration in the areas of trade and investment that I have explained so far, at the same time, and in parallel with these efforts, it is important to powerfully and actively build up functional cooperation on issues that are common to the region, such as political cooperation, nontraditional security, monetary policy, finance, energy, the environment, natural disasters, infectious diseases, and transnational crime.

East Asia is brimming with potential for development. Let us further deepen our mutual understanding and interdependence, and build an open East Asia Community that is befitting for us.

(This is the text of a statement delivered by Mr. MATSUDA Iwao, Member of the House of Councilors, at the Inter-Parliamentary Union (IPU)'s "ASEAN+3" Group Meeting in Tokyo on April 18-23, 2005.)