

# **A CASE FOR EAST ASIAN COOPERATION**

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## **Introduction**

East Asian regionalism has become a popular issue to be discussed at international conferences but diverse views have been expressed on it by both pros and cons. It is often asked whether the EU type of regional integration is feasible in East Asia or not. It is obvious that East Asian economies are not matured yet to adopt the EU type of integration. Nevertheless they wish to form a different type of regional cooperation. Some also argue that the regional integration movements, as the second best solution to liberalization when the WTO does not work well, should be stopped since the WTO's Doha Development Agenda has launched. Nevertheless, the momentum for seeking for closer regional cooperation in East Asia has not decelerated since November last year.

A more productive approach is to identify the region's need for closer cooperation, give a clear vision of East Asian regionalism, and guide arguments and official consultations to be consistent with open regionalism. This is the sole aim of this short paper. Its composition will be as follows. Section 2 overviews the emerging regionalism in East Asia. Section 3 will analyze its main features and give its clear vision that East Asia needs closer cooperation for revitalizing its economy and securing a steady growth in the globalization. Sections 4 and 5 elaborate its two main agenda for actions, joint promotion of liberalization, facilitation and structural reform on the one hand and strengthening financial cooperation on the other. Section 5 elaborates the Japanese case for the East Asian cooperation and the last section discusses how to guide it along its vision and to achieve the two agenda, including the promotion of a variety of existing RTA framework and a better use of APEC.

## **1. Emerging Regionalism in East Asia**

### **EAEC proposal in 1990**

The proposal of the East Asian Free Trade Area appeared in the headlines in newspapers in November 2000. This proposal was tabled at the ASEAN plus Three Summit – the gathering in Singapore of the members of the ASEAN plus China, Japan, and South Korea – by Singaporean Prime Minister Goh Chok Tong. However it was preceded by Malaysian Prime Minister Mahatir Mohamed's proposal of “ East Asian Economic Caucus” strikingly similar in geographical coverage to the 2000 concept in December 1990 – soon after the missed deadline for conclusion of the Uruguay round of negotiations in the GATT..

The EAEC proposal met with fierce objection from the U.S. Secretary of State James Baker, and neither China nor Japan followed up with support for the plan. Prime Minister Goh's more recent proposal, however, was made in response to a call from Chinese President Jiang Zemin for the inking of FTA between China and ASEAN members. Japan and South Korea also came on board, and the nations agreed to launch joint study toward the realization of this plan. This reflects an environment in which regionalism can take root much more easily than ten years earlier.

### **Global prevalence of regionalism**

Regionalism is currently in fashion around the world. During the last decade we witnessed the global prevalence of regional trading arrangements (RTAs). RTAs are exempted from the GATT/WTO rule of non-discrimination and need to be notified whenever they are concluded. Since the start of GATT in 1947, 214 RTAs have been notified and 120 of them are still effective. 88 of the 120 effective RTAs were concluded after 1990, 60 of which were concluded from 1995 to 2000.

The most advanced region in this respect is Europe. The European Community (EC) has 15 member countries and has evolved into the European Union (EU) with its integrated currency. Negotiations are now underway for the participation of eight additional members from Eastern Europe. In North America, the NAFTA free-trade pact between United States and Canada was expanded to include Mexico, and is in the process of expanding further to include Chile. Agreement has been reached among 34

countries in North, Central and South America to negotiate for the Free Trade Agreement of the Americas (FTAA), which will take effect in 2005. <sup>1</sup>

### **Emergence in East Asia**

Regionalism has also emerged in East Asia. The six members of ASEAN formed the ASEAN Free Trade Agreement (AFTA) in 1992, and AFTA is now in the process of expansion with the inclusion in ASEAN of Vietnam, Laos, Cambodia and Myanmar. Among the ASEAN members, Singapore has been particularly active. It has already signed a free-trade agreement with New Zealand and Japan, and is negotiating a similar agreement with United States. Japan and Korea have traditionally emphasized multilateralism, but over the past three years there have been news reports of free trade agreements under consideration between Japan and Korea, Japan and Mexico, and Korea and Chile. A network of currency swap agreements are being formed among the ASEAN plus Three members.

The proposal of an East Asian Free Trade Area mentioned in the beginning came in the middle of this increased momentum for regional cooperation in East Asia. Furthermore, sub-regional groupings of different combinations for FTAs or closer economic cooperation are going on among this ASEAN + Three members. Nowadays there are plenty opportunities such as APEC, ASEAN plus Three, and ADB meetings for leaders and ministers of East Asian economies to discuss strengthening cooperation. The ASEAN plus Three Economic Ministers' Meeting in Bandal Seri Begawan on September 13-15, 2002 provided the most recent occasions to promote the China-ASEAN and Japan-ASEAN FTAs. China and ASEAN leaders had agreed on forming a FTA within ten years in November 2001. This time their economic ministers added an early harvest implementation of tariff reduction of hundreds items in eight agricultural sectors within 2004-2006. A framework agreement incorporating all these is to be signed by their leaders at the Summit Meeting in November 2002. On the other hand, economic ministers of Japan and ASEAN agreed to conclude an Economic

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<sup>1</sup> This process will be strongly supported by the pass of the Trade Promotion Authority Act at the US Congress in early August 2002.

Partnership Agreement including FTA within ten years and to start its negotiation in 2003. Korean economic minister also stated about his efforts to explore the possibility of forming a FTA with ASEAN members.<sup>2</sup>

China, Japan and Korea have started their consultation on strengthening regional cooperation among the three. According to the proposal by Korean President Kim Dae Jung at the Three's summit meeting in Manila in November 1999, three research institutes representing the Three respectively have started a joint study in how to promote trade and investment facilitation among the three since January 2000.<sup>3</sup>

We should note, however, that East Asia has been slow to come around to the global fashion for regionalism. Negotiations are only taking place among a few countries, and in most cases they have so far been at the joint research and preparatory consultation stages. Nevertheless East Asian economies share needs for strengthening economic cooperation among themselves as we discuss below.

## **2. East Asian Regionalism: Main Features and Impacts**

It may sound paradoxical to witness the prevalence of regionalism in the world of globalization. The regionalism does not contradict with the globalization. The globalization describes private firms intensifying their business across national borders, while national governments resort to RTAs so that they attract both foreign and domestic firms within their territory by means of liberalization and facilitation.

### **Regionalism as a pragmatic approach**

The idea of current RTAs is that neighboring countries should cooperate together to liberalize trade and investment and reform and integrate domestic systems. It would be better if these liberalization efforts were made on a global scale, such as the WTO's negotiation, but few can wait for the 144 members of the WTO to reach an agreement, so countries rush towards the achievable goal of forming regional economic integration with their neighbors.

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<sup>2</sup> *Nihon Keizai Shinbun*, September 14, 2002

<sup>3</sup> *Report and Policy Recommendations on Strengthening Trades Between China, Japan, and Korea*, issued in November 2001, reprinted in Abe and Urata (2002 )

On the other hand, there is heard a criticism against the FTA initiatives based on its inconsistency with multilateral liberalization. It is correct in theory because a FTA incurs a trade diverting effect on non-member countries. This is based on the negative static effects of the elimination of tariffs and non-tariff measures between members resulting from the formation of FTA but many economists admit it is likely to be more than offset by positive dynamic effects of intensified competition, economies of greater scale, promotion of investment and technology flow. Furthermore, the criticism is addressed to the conventional concept of FTA focusing on the elimination of tariffs defined by Article 24 of GATT fifty three years ago. Many of the current FTA initiatives aim to include a greater coverage such as investment and services, rules of origin, harmonization of rules and standards, intellectual property rights, and dispute settlement mechanism as well as tariffs and NTM as is shown in the 'new age FTA's mentioned by Singaporean Prime Minister Goh Chok Tong and to pursue the dynamic effects mentioned above. This provides a new type of regional integration different from free trade area which minimizes its discrimination against non-members and is strengthened by facilitation and Ecotech.(Yamazawa, 2000c)

### **Cooperation for revitalizing East Asia**

East Asian economies need these dynamic effects for revitalizing their economies. They continued a decade long 'miraculous growth' before it was stopped by the financial crisis in 1997-98. Their macro economies have recovered quicker than had been anticipated since 1999, but their structural deficiencies have remained uncorrected. Liberalization momentum heightened during the miraculous growth has tended to decrease in many economies. The return to a steady growth cannot be secured with liberalization and structural reform efforts. While sharing the recognition of these problems and strengthening regional cooperation toward a FTA, liberalization and structural reform will be secured through dynamic effects of FTA in individual economies. It should be a New Age FTA incorporating a wide variety of measures rather than a traditional one. The shared recognition of this need underlies the increased momentum of East Asian regionalism.

### **China's dynamic advancement**

Furthermore, an emerged instability in East Asia brought about by recent advancement of the Chinese economy and Chinese firms has also added a strong case for East Asian cooperation. It cannot be denied that there exists a feeling of uneasiness and threat against the China's advancement in the rest of East Asia.<sup>4</sup> Although its majority view the China's dynamism as a strong engine of Asian development and other economies will benefit from it, there may emerge a persistent request for restrictive measures against China by sectors and firms directly competing with China. Closer cooperation is needed in order to prevent these protective moves and enable all East Asia benefit from China's dynamic advancement.

### **Warning against the East Asian regionalism**

Nevertheless, some observers warn against the tendency of regionalism in East Asia. They contend that new bilateral FTAs are inconsistent with the Bogor goal, may erode the APEC's fragile efforts for liberalization, and will impede the liberalization efforts under WTO. East Asian Free Trade Bloc will become inward looking so that it will discriminate against non-East Asian members of APEC and thus stimulate similar regional grouping in the other region, especially in North and South America, and APEC will fall apart into Free Trade Area of America and East Asian Free Trade Bloc.(Yamazawa, 2000c)

However, this reflects imaginary fear and a bit over-reaction, while neglecting the region's need for closer cooperation. East Asian economies are late comers on the RTA initiatives. As a matter of fact it is only five East Asian economies, China, Hong Kong, and Taiwan as well as Japan and Korea, which have not formed FTAs either bilaterally or plurally. Its regionalism is never an aggressive one but no more than a pragmatic approach under competitive liberalization. Furthermore these regional grouping proposals differ in their feasibility in near future. Singapore and Mexico have been quick in realizing their FTA initiatives. FTAs between Singapore-New Zealand and Mexico-EU were concluded in 2001 and Singapore-Japan FTA in early 2002. Korea has already been negotiating a FTA with Chile for two years. The Japan-Mexico FTA may come in near future. However, the Japan-Korea FTA will take more time for preparation.

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<sup>4</sup> "Buying Fast into Southeast Asia", in *Far eastern Economic Review*, March 28, 2002

ASEAN members other than Singapore seem to be cautious about going far beyond their currently going AFTA liberalization. It will be a long way to go to an East Asian FTA.

### **Sub-regional group cooperation on progress**

While the RTAs are officially promoted by central governments, there exist sub-regional cooperation groups (often called sub-regional economic zone, SREZ) participated by provincial governments neighboring each other across national borders. They are Growth Triangle of Singapore, Riau Islands of Indonesia and Johor Bahru of Malaysia, South China Economic Zone of Hong Kong, Guangdong, Fujian, and Taiwan, Yellow Sea city groups of China, Korea and Japan (Quingdao, Tianjin, Talian, Puzan, Inchon, Kitakushu, and Fukuoka), and Northeast Asian Economic Conference Group consisting of China, Korea, Japan, Russia and Mongol. Each SREZ forms a natural economic territory across national border in which neighborhood trades are activated. Provincial governments are inspired by the intensified movements of commodities, money and personnel between neighboring provinces across national border and intervene either actively or passively to further facilitate these movements. These SREZs are active in East Asia where formal integration has lagged in spite of rapid market-driven integration.

## **3. Liberalization, facilitation and Structural Reform**

### **Structural deficiencies remain after recovery**

East Asian economies have recovered from the financial crisis of 1997-98 but their structural deficiencies have remained yet to be amended. Their foundation lay in the weak economic systems of the country's themselves such as the vulnerability of financial systems, the immaturity of corporate governance and the lack of transparency in the market systems of Asian economies. Their financial system has developed non-competitively under governmental protection, while unsound government-business relationships have sometimes been aggravated by paternalistic industrial policies. These sorts of structural deficiencies were concealed during rapid growth but were revealed all at once by the current crisis. Although masked by the performance of the miraculous growth of East Asia, they came to the surface once the currency crisis broke. They

should be corrected in order to prevent the resurgence of the crisis.

The need for structural reform is shared by transition economies as well. China and Vietnam, under tight regulation, could avoid the detrimental effects of the crisis and have continued high growth but they share the same structural deficiencies. The recent access to WTO brings forth both encouragement for Chinese firms to globalizing activities and difficulties in adjusting their system and practices to the market economy. It depends on their success in their reform efforts whether they really resume a steady growth path or not.

Financial systems of East Asian economies are crippled by a few common impediments; they all suffer from accumulated non-performing loans which tend to cause a serious credit crunch to the real economy sector. Badly regulated financial sectors tend to bear unsustainably high risks, inducing great vulnerability to national economies.

### **Domestic resistance against changes in status quo**

It cannot be denied that momentum for liberalization has diminished in some ASEAN economies. China, Taiwan, and Vietnam have to adjust their legislature to their WTO accession. Japan and Korea require revitalization of their economies. All East Asian economies need to intensify their efforts of liberalization, facilitation , and structural reform. They all realize the necessity for these efforts and they will do so voluntarily in economic textbook. However, in the reality of political economy, these efforts meet severe resistance by vested interest groups at home. These groups had benefited from the current economic and social systems and object to any attempt to change it.

Liberalization and structural reform basically depend on self-help efforts, but it is a fact that reforms tend to make little headway due to the resistance from entrenched domestic interests. Here we should remember why our predecessors established GATT. The GATT was created as an international mechanism under which countries could jointly pursue liberalization. Resistance to liberalization in import sectors is counteracted by support for liberalization in export sectors, and a framework of international liberalization commitments is created to move the process forward.

Joint international implementation will also be effective in structural reforms. It will be helpful in this context to provide guidance in the form of success stories from other countries. The structural adjustment lending offered by the World Bank and IMF already play this role. However, when international institutions encourage structural reforms in specific countries, they may not be in line with the circumstances of the country or region and may create an impression within the recipient country that it has been "forced" to make reforms. By contrast the mediation of a regional cooperation organization may be able to induce structural reforms in ways that are better suited to the specific conditions of the region. APEC economic and technical cooperation plays this role in some aspects.

So we rely on closer regional cooperation for joint promotion of liberalization, facilitation, and structural reform. There are two reasons for the joint promotion. First we would better utilize external commitments to the neighbors and peer pressure to break through the vested interest groups' resistance. Second our companies operate across national borders and concerted efforts are needed to suggest the best practices or encouraging to implement minimum standard at least. This latter point suggests that the East Asian cooperation is good for outside companies and other APEC members as well.

The dynamic effects of a FTA is realized only through structural changes of status quo and inevitably meets strong resistance by vested interest groups at home. It succeeds only through breaking their resistance, which is common to the WTO liberalization. In this respect forming a FTA serves as a laboratory of breaking through domestic resistance and thus contribute to the preparation for liberalization under a greater coverage such as APEC and WTO.

Regional cooperation also helps East Asian economies to efficiently implement environmental protection and secure supply of food and energy, taking advantage of complementary position of Japan and Asian NIEs with other members. Successful integration in East Asia will also intensify competition and inevitably cause trade disputes between members. Closer cooperation network is required to resolve disputes and implement industrial cooperation in time for early settlement.

#### **4. Closer Financial Cooperation**

##### **Insufficient financial cooperation**

Increased interdependence between East Asian economies through steady expansion of trade and investment has been accompanied by rapid financial integration in terms of the increased flow of foreign capital across money and capital markets in the region. Before the Asian crisis the dollar peg and capital account liberalization supported this integration process. Financial cooperation had started to facilitate this integration but did not work in time to prevent the crisis.

Major efforts for financial cooperation include the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), APEC Finance Ministers' Meeting (FMM), and Pacific Economic Cooperation Council (PECC) Financial Market Development (FMD) Taskforce. The EMEAP started in the 1980s and has been conducting frequent exchanges of information but also has aimed at building a network of repurchase arrangements in order to cope with the currency and financial crisis. APEC/FMM started only in 1994 and has had regular exchanges of information and policy forums regarding financial development in the region. PECC/FMD has organized an expert group on developing financial markets and promotes personnel training so that its analyses and recommendations are inputted into the APEC/FMM.(Yamazawa, 1998)

The proposal for an Asian Monetary Fund came out of these dialogues in the region. The proposal was for Asian members to establish a common fund in order to better prepare for a liquidity crisis in the region. But it failed to materialize because of the strong objection of some non-Asian members which did not want to see an increase of fund pooling outside the IMF. During the miraculous growth the East Asian economies watched over the financial aspects of rapid growth mainly through their individual efforts of maintaining the dollar peg and their prudent management of macroeconomic policies, but they all were caught by the crisis. This should be contrasted with the progress in trade and investment liberalization and facilitation (TILF) and economic and technical cooperation (Ecotech) projects in APEC. As the APEC leaders suggested in their Vancouver statement, both financial and real sector cooperation should be promoted.

### **Current efforts for financial cooperation**

Recovery from the Asian crisis basically depends on the efforts of each country. Nevertheless, wouldn't regional cooperation help to supplement, strengthen and support the recovery under way, especially the fragile recovery of some ASEAN members? In November 1998, the Deputy Finance Ministers meeting agreed to the Manila Framework, later supported by the APEC Leaders' Declaration in Kuala Lumpur, which authorized the expansion of a loan system to prevent the spread of the crisis and strengthen the financial supervisory system. At the same Economic Leaders' Meeting Japan announced the Miyazawa Plan to give \$30 billion support to the crisis-hit economies. In addition, ASEAN plus Three met in Chiang Mai, Thailand in May 2001 and reached agreement over currency swaps to provide against the recurrence of a similar crisis. The agreement is designed to supplement emergency loans from the IMF and World Bank by improving regional cooperation. In the immediate aftermath of the Asian crisis, Japan proposed an 'Asian Monetary Fund' but opposition from the US and China prevented it from being realized.

The Chiang Mai agreement makes us feel that the momentum of regional cooperation, while a little late, is building up. The seventh APEC Finance Ministers' Meeting in Bandar Seri Begawan in 2000 welcomed the Chiang Mai Initiative and confirmed that economies' integration with the world capital market requires exchange rate policies that are highly credible and consistent with broader economic and financial policies. Finance Ministers also reviewed the activities of APEC forum on financial cooperation for the preceding year, which included Voluntary Action Plan for Promoting Freer and More Stable Capital Flow, Development of Domestic Bond Markets, Bank Failure Management, Financial Regulations Training Initiative, Strengthening Corporate Governance, Insolvency Law, APEC Initiative on Fighting Financial Crisis, and Electronic Financial Transaction System.

### **Need for stable exchange rates**

On the other hand, there has not been much visible progress toward a stable exchange rate regime. While most of the Asian currencies have been floated, the exchange rate movement seems to require further efforts for stabilization. Chart 1 shows the changes of exchange rates of East Asian currencies against the US dollar for the past

six years. There is witnessed a convergence to respective levels of depreciation from the pre-crisis levels. Renminbi and Hong Kong dollar stayed pegged with the US dollar and stayed still at the 100 level, that is their pre-crisis levels. Japanese yen fluctuated by 10-15 percent around the 100 level, depreciated sometimes and appreciated in other times, and on average has remained at the pre-crisis level.

<Insert Chart 1 here>

All other Asian currencies depreciated by 20-75 percent against the US dollar from July 1997 to January 1998. They have regained by 5 – 10 percent in 1999 and the first half of 2000, they all tended to depreciate again after the mid-2000 and have stayed still for a year, while showing synchronized movement with the Japanese yen but by lesser extent than the yen, suggesting they floated in between the US dollar and the yen. Ringgit has returned to the dollar peg at 35 percent depreciated level since September 1998. As a whole, Chart 1 shows clearly that these Asian currencies tend to converge to respective levels of depreciation from the pre-crisis level. Rupiah depreciated roughly by 75 percent, peso by 50 percent, bath by 45 percent, ringgit by 35 percent, won by 30 percent, Singapore and Taiwan dollar by 20 percent.

For almost a decade before the crisis, they were all on the level of 100 but now their cross-rates have changed by 20-75 percent. Do they show new equilibrium cross -rates reflecting their changed competitiveness after the crisis? Economists' answers differ greatly on this. The depreciation of other Asian currencies has certainly helped the East Asian exports to the US market and contributed to their quick recovery from the crisis. It tended to decelerate Chinese firms' exports and it was rumored that renminbi would be devalued after the crisis. However, some has been recently suggesting renminbi may be revalued owe to the advancement of China. Indeed, the pre-crisis cross-rates of Asian currencies (all currencies returning to the 100 level) do not reflect their competitiveness after the crisis. It is difficult to find a priori an equilibrium set of exchange rates. Nevertheless, I am concerned about that under the current float regime independently managed by individual monetary authorities another speculative run on an Asian currency may incur a contagion to neighbor currencies and trigger a competitive devaluation, thus resulting another Asian crisis.

Some form of region-wide currency arrangement seems to be needed to assure traders and investors about exchange rate stability in the region. De facto dollar-peg has

proved inadequate given diversified trade patterns, greater capital mobility and inadequate monetary policies in each country. There is no guarantee that currency board arrangements escape from the same drawbacks as pegged regime. Free-float has their own costs of possible excessive volatility and free riding risks. Some form of managed exchange rate system with a market basket peg seems to meet the need of the region. Such a system needs to be combined by some form of currency cooperation among the US dollar, Euro, and yen.

Some form of region-wide currency arrangement seems to be needed to bring in the stable exchange rates in the region. A managed exchange rate system with a market basket peg seems to serve the job, together with a currency cooperation among the US dollar, Euro, and yen. East Asian economies should introduce a minimum coordination of macroeconomic policies among themselves. This means that they need to introduce a set of ceiling ratios for their government debts, balance of payment deficits, external debt to their GDP, and inflation and sustain these target ratios through mutual surveillance and early warning in order to avoid the recurrence of big macroeconomic disturbances. It is important to make the market believe in the sustainability of the stable currency regime in East Asia for some length of time.

## **5. Japan's Approach to East Asian Regionalism**

### **Japan's change in commercial policy stance**

Since 1997-98 Japan has been adjusting her commercial policy stance to a pragmatic one allowing a wider choice including various forms of RTAs. Japan, more than many other countries, showed strong attachment to the traditional multilateral approach to trade relations. But with the regionalist trend gaining ground around the world and increased pressure of 'competitive liberalization', she has to leave its option open. The competitive liberalization refers to the phenomenon wherein liberalization occurring between two nations or among several in a region spark participation in process by other nations anxious not to be left outside. Without a flexible approach to

regionalism, Japan could not well end up tying its own hands in the diplomatic sphere.<sup>5</sup>

In 1997 JETRO, a public corporation subordinate to Ministry of Economy, Trade and Industry (METI), started a joint study with Mexican Ministry of Commerce in the feasibility of Japan-Mexico FTA. It responded to Japanese firms' concern about being discriminated in Mexico against American and European firms resulting from NAFTA and EU-Mexico FTA. In 1999-2000, Institute of Developing Economies (IDE) of JETRO conducted a joint study with Korean Institute of International Economic Policy (KIEP) on the Japan-Korea FTA. The IDE-KIEP reports highlighted the dynamic effects to be achieved through the integration of the two markets.<sup>6</sup>

In 2000 Japan and Singapore conducted a joint official study on a FTA between the two countries, which was followed by intergovernmental negotiation in 2001. The Japan-Singapore Economic Partnership Agreement (JSEPA) was concluded by the two Prime Ministers in January 2002. It fits to the Prime Minister Goh Chock Tong's New Age FTA and incorporate facilitation and Ecotech elements as well as the elimination of tariffs and non-tariff measures. Singapore eliminates all tariffs while Japan eliminates 98 percent of its tariffs on manufactured products but excludes some sensitive agricultural products. Services trade is liberalized 90 percent by Singapore and 86 percent by Japan. Agreement on investment, mutual recognition agreement, movements of professionals, and intellectual property rights are also included. The scope for economic partnership is extended so as to cover IT technology, human resource development, trade and investment promotion, small and medium enterprises, tourism, electronic trade documents exchange. Prime Minister Koizumi made it clear in his speech in Singapore then that Japan was willing to conclude similar economic partnership agreements with other ASEAN members in working out a Japan-ASEAN FTA.<sup>7</sup>

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<sup>5</sup> Yamazawa (2001c)

<sup>6</sup> Japan-Mexico FTA is being negotiated currently between the two governments and expected to be concluded by the end of 2002. Japanese and Korean governments took an additional step of the follow-up by a joint business forum after the initial study in 2001, in order to observe its public acceptance in both countries. They finally started official consultation in 2002.

<sup>7</sup> Speech by Prime Minister of Japan Junichiro Koizumi, "Japan and ASEAN in East

## **FTA helps revitalizing Japan**

Japan's change in policy stance also meets her necessity to utilize East Asian dynamism in order to sustain the growth of her matured economy. The relationship between Japan and East Asia has undergone fundamental changes in the last 10 years. A decade ago, Japan stood out as a leader of the flying geese in Asian development. It provided assistance for development in other East Asian countries much as a father would treat his sons. Now the sons have grown strong and the father has matured and entered old age. Japan still has money and technology, but it has lost its vigor for new growth and has little stomach for bold reforms. Not only must it live in harmony with its sons, it must also survive in a globalized world.

The East Asian region is the home base for the Japanese economy. Ever since the appreciation of the yen in the late 1980s, Japanese companies have been moving out of Japan and establishing business networks in the East Asian region. This continued even during the prolonged domestic recession of the 1990s. It is important for Japanese companies and the Japanese economy that East Asian countries and regions move forward with structural reforms and return to the path of steady economic growth. The keys to this are the promotion of trade and investment liberalization, the reinforcement of market competition functions, and the resolution of remaining structural problems. This requires support for capacity building, and economic cooperation will be vital in this.

The Japanese economy has been slow to write off defaulted credits and strengthen corporate governance, and has very little room to comment on liberalization and structural reform in its neighbors. However, Japanese companies will not be able to survive just inside Japan. They must make effective use of the business networks they have built up across borders in East Asia. For this to develop into a vigorous and vibrant section of the globalized economy, East Asia as a whole must continue to liberalize and make structural reforms. This must move forward whether in the form of bilateral FTAs, East Asian regional cooperation, APEC cooperation, or WTO liberalization. It is a vital

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Asia: A Sincere and Open Partnership", January 14, 2002, Singapore.

policy objective, on par with domestic liberalization and reform efforts.

Regionalism has continued in spite of the launching of the Doha Development Agenda and it has also emerged in East Asia but the East Asian regionalism is a late comer on the bandwagon. However, it aims not a traditional FTA focusing on liberalization of border measures and discriminating nonmembers. It aims at an open regional cooperation of a wider range of activities including joint promotion of structural reform, strengthening financial cooperation and stable exchange rate regime, effecting settlement of industrial and trade conflicts among members. The future prospect of East Asia also depends upon the success of this regional cooperation.

## **6. How to guide East Asian Regionalism**

### **Pragmatic approach**

So much are the vision and action agenda for the East Asian cooperation. To summarize;

- it aims to help East Asian economies achieve a steady and sustainable growth
- it requires all efforts inclusive of liberalization, facilitation, structural reform as well as financial cooperation in parallel,
- it needs a comprehensive framework agreement like JSEPA to enable joint implementation by all members,
- it needs to be promoted in a stance of open regionalism and avoid unnecessary fear and overreaction by nonmembers.

Its momentum for realization is never as high as bilateral FTAs and sub-regional FTAs. Its proposal emerged from the discussion at the Summit Meeting of ASEAN plus Three in November 2000 without any prior consultation and preparation at official level and the leaders just agreed on starting a study and exchange of views on its feasibility in remote future. Nevertheless, the proposal responds to the need for closer economic cooperation among the East Asian economies resulting from a steadily intensified interdependence in the region and they have already implemented such a needed measure as currency swap agreement at the Chiang Mai Initiative in May 2001. The cooperation will be extended to technical assistance to strengthening financial systems of individual economies, facilitation of trade and investment and capacity

building.

East Asian cooperation is not likely to be completed in a few years because many members are not ready yet to participate in such a high level FTA as described earlier. It will require a series of negotiations at different levels to coordinate between members' different interests. Nevertheless, the momentum for bilateral FTAs and sub-regional FTAs have gained momentum as is evidenced recently at the ASEAN plus Three Economic Ministers meeting. We have to be pragmatic and patient enough to guide these bilateral and sub-regional moves toward a consolidated cooperation covering the whole East Asia.

- (1) We should accommodate all bilateral and sub-regional FTAs reflecting competitive liberalization, the reality of today, and take best advantage of it. But it is a double-edged sword and can change to a stumbling bloc. If only bilateral and sub-regional FTAs are pursued while the region-wide or global liberalization get paralyzed, FTAs will be inward-looking and discriminate non-members. It is very necessary to promote bilateral and sub-regional approach and the East Asian cooperation in parallel.
- (2) We should encourage individual member governments engaged in bilateral and sub-regional FTAs to make public all information about their consultation works and to make their FTAs consistent with the major elements of action agenda for the East Asian cooperation.
- (3) ASEAN plus Three have agreed to start an official consultation to follow up their region-wide cooperation. It will help them if research institutions representing individual member economies conduct regularly a joint review of progress and feasibility studies in major issues on the action agenda as mentioned above.

### **Taking Advantage of APEC**

So far a wide variety of cooperative activities have been identified for the East Asian cooperation. Individual member governments are supposed to pursue most part of them at home by themselves. However, some of them may not be able to do so alone and expect help from fellow members. ASEAN plus Three is still at the stage of talking and preparatory consultation and cannot extend help to those members not sufficiently

endowed. Here we should take advantage of APEC forum.

All members of ASEAN plus Three except for Cambodia, Laos, and Myanmar participate in APEC together with four American and three Oceania members. APEC made a modest start as an annual meeting of foreign and economic ministers in 1989 but it has developed to be a big Asia Pacific cooperation body which, under annual Leaders' and Ministerial meetings, incorporate annual meetings of finance ministers and trade ministers, and occasional ministerial meetings in charge of small and medium industries, environment, science and technology, and education. Its Osaka Action Agenda of 1994 set two main tracks of actions, liberalization, facilitation, and Ecotech. They also include deregulation and competition policies which encourage structural reform efforts and financial cooperation was added after the Asian crisis. APEC organizes more than two hundreds task forces and forum along these tracks all through every year and officials, experts, businessmen, and NGOs participate in these forum.

Its cooperation activities are based on the principle of voluntary participation and are not equipped with legally-binding enforcement such as FTAs let alone the tightly structured European Union. Its liberalization program has not made much achievement because of the lack of legally-biding enforcement and negotiating mandate and only provides technical assistance for liberalization and plays as a catalyst for liberalization through maintaining momentum for liberalization in the region. However, in facilitation, technical cooperation for structural reform, and financial cooperation, its forum have made progress taking advantage of the composition of APEC of both developed and developing members.<sup>8</sup> East Asian members have been participating in these forum activities, which benefit them in achieving steady and sustainable growth. I would like to suggest that East Asian members should take full advantage of these APEC activities on purpose.

Some may object to my suggestion on the ground that APEC cannot be utilized only for the East Asian members. However, with its 21 members scattered around the Pacific, many task forces cannot accommodate the need of all members and inevitably focus on the need of one or another subgroup of members. Under the principle of

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<sup>8</sup> Yamazawa and Urata (2000)

voluntary participation and flexibility, APEC's task force is proposed and organized by one or few members and participated only by interested members.(Yamazawa, 2001b) Even non-members are welcome to participate. It is quite legitimate for East Asian members to propose and organize task forces of facilitation, Ecotech, structural. reform, and financial cooperation particularly meeting their needs.

On the other hand, American and Oceania members can participate in these task forces if they are interested in doing so. Their participation should be encouraged so long as their firms also participate in trade and investment in East Asia. It will help the open stance of the East Asian cooperation to the outside of the region. Officials and experts knowledgeable about APEC activities are encouraged to give pragmatic advices to East Asian members about how to utilize them for the sake of the East Asian cooperation.

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