

Fiscal 2012 Asia-Pacific Forum  
International Symposium  
FTAs as a Growth Strategy for Asia  
(Summary)

Date: February 4, 2013



## **JEF and JETRO Joint Symposium FTAs as a Growth Strategy for Asia**

(Held Monday, February 4, in the fifth-floor Exhibition Hall at JETRO Headquarters)

### **Opening remarks**

Mr. Noboru Hatakeyama, Chairman and CEO of the Japan Economic Foundation (JEF), welcomed participants and expressed gratitude to the symposium's organizers and the other parties who made it possible. Making reference to the European debt crisis, which seems to have eased for the time being, as well as the fiscal cliff in the U.S., the slowdown in the Brazilian economy, and slowing growth in the Chinese economy, he expressed hope that markets are reacting actively to the Abe Administration's "Three Arrows" economic policy in Japan. He also emphasized the need for Japan to actively pursue free trade agreements (FTAs) and invited symposium participants to engage in an intense discussion about the future prospects for FTAs in the Asia-Pacific region.

### **Keynote address**

Mr. Nobuhiko Sasaki, Vice-Minister for International Affairs, METI, characterized Japanese current trade policy as a pursuit of three goals: participating in the Trans-Pacific Partnership (TPP); starting negotiations on a China-Japan-South Korea FTA as well as the Regional Comprehensive Economic Partnership (RCEP); and starting negotiations on a Japan-EU FTA. He noted that although each of those negotiations would be difficult, Japan's FTA strategy, which began with ASEAN, has finally reached the stage of starting negotiations with countries and regions worldwide in the circumstances that major trading partners of Japan are lowering barriers of trade and investment bilaterally and multilaterally.

The Free Trade Area of Asia-Pacific (FTAAP) and associated growth strategy was adopted in the form of the Yokohama Vision at the Asia-Pacific Economic Cooperation (APEC) forum in 2010, and leaders agreed to lower tariffs on 54 environmental goods at the APEC summit in Vladivostok in 2012. This year's APEC summit in Indonesia will focus on the three priorities; achieving the Bogor Goals, sustainable growth with equity, and promoting connectivity. The issue for the time being is the question of how much progress can be made toward the FTAAP in order to achieve the final Bogor Goal in 2020.

Looking at the WTO, participants in the Eighth WTO Ministerial Conference (MC8), which was held in 2011, agreed to focus on areas where progress could most likely be achieved. Negotiations addressing widening of the range of products covered by the Information Technology Agreement (ITA) (ICs, GPS hardware, car navigation systems, medical devices, etc.) are underway in preparation for MC9, which will be held this December. Participating countries have expressed a common desire to forge an agreement on trade facilitation measures such as the simplification of customs procedures. Currently, participants are groping their way toward the start of negotiations on an International Services Agreement (ISA).

The Abe Administration has indicated that it will pursue a "Three Arrows" economic policy consisting of bold financial measures, expeditious public finance, and a growth strategy, and markets are already reacting. While the details of the growth strategy are expected to be announced by this summer, it has been hinted that this strategy will involve finding a way to cope with the challenges posed by a declining birthrate and

aging population, which Japan is facing in advance of other developed nations, thereby positioning Japan to contribute with technologies and services as other countries find themselves forced to navigate the same path.

Next, Mr. Sasaki pointed out the current vigorous parts trade between Japan and China and expressed his view that restoring the countries' bilateral relationship was an important priority. Addressing energy policy, he mentioned that the policy of phasing out all nuclear reactors in Japan by the 2030s as put forth by the former Democratic Party Administration would be reassessed and that nuclear power plants if whose safety were confirmed by the Nuclear Regulation Authority would resume operations during or after this summer.

Finally, Mr. Sasaki noted that FTAs would continue to be the key means of pursuing the liberalization and facilitation of investment and trade worldwide until progress is seen in WTO negotiations. Despite expectations of a return to the WTO process, he indicated that countries have no choice but to conclude high-level FTAs for the time being. He concluded his address by noting that Japan is currently pursuing FTA negotiations with four major partner countries and regions.

### **Session 1: Status of Bilateral and Regional FTAs in the Asia-Pacific Region**

Professor Hidetoshi Nishimura, Executive Director of the Economic Research Institute for ASEAN and East Asia (ERIA), noted negotiators at the 13th ASEAN summit held in November 2007 agreed to establish ERIA and to adopt a blueprint for the establishment of the ASEAN Economic Community (AEC) in 2015 as proposed by then-Prime Minister Abe at the 12th ASEAN summit. He mentioned that the need for FTAs was listed as the fourth pillar in the AEC blueprint, and it was proposed that the RCEP be completed by 2015 as the main provision in the blueprint. He emphasized that it had been agreed upon by ASEAN leaders who were aware of the importance of ASEAN centrality.

Dr. Djisman Simandjuntak, a professor of business economics at Prasetya Mulya Business School, focused on the appeal of the RCEP. Issues being faced by East Asia include declining profits due to liberalization, gaps in wealth, long-term sustainability and the domestic policy environment. While the region's approach to date has depended on a Westphalian model of economic integration, the time has come to pursue integration of Asian elements. A balanced agenda that encourages RCEP participation and a prior commitment to functional cooperation will be necessary. Dr. Djisman asserted that if the involved governments intend to conclude the RCEP by 2015, they must quickly learn from existing research.

Mr. Kazumasa Kusaka, Corporate Advisor for Mitsubishi Electric Corporation, highlighted such important factors for domestic TPP policies as regional economic growth, supply chain development, shared rules, and other aspects that support other FTAs, including the one with the EU. He pointed out that reductions in transaction costs due to the facilitation of trade and investment are a lifeline for small and medium-size businesses. It is not possible to ascertain the true price of goods through window shopping. The perception of the Asia-Pacific region as an integrated market leads to regional development. Mr. Kusaka argued that speed is vitally important in business, and noted that an FTA with Australia would serve as a touchstone for the Abe Administration.

Mr. Jayasena Jayasiri, Senior Director of the Ministry of International Trade and Industry's Multilateral Trade Policy and Negotiations Division in Malaysia, pointed out that as many countries in the Asia-Pacific region have concluded regional and bilateral FTAs, there is a high degree of overlap. While the issues involving state-owned companies, intellectual property rights, labor rights, and environmental protection pose challenges for the TPP, the high standards, comprehensive coverage, cumulation effects and facilitation of SMEs into the supply chain are the TPP's greatest advantages. Mr. Jayasiri also noted that while opinions vary as to whether the TPP and RCEP are competing entities, the fact that six countries in the region participate in both the TPP and RCEP demonstrates that the two entities do not run counter to one another.

Professor Emeritus Gary Hawke of Victoria University of Wellington mentioned that FTAs have always been seen as means of facilitating economic growth and that the purpose of regional economic integration is minimizing the impact of national borders. On the other hand, he noted that it is necessary to pay attention on the points concerning the maximization of resources, comprehensive growth, formation of coordinated policy, and cultivation of intergovernmental trust relating to regulatory systems. He described that the biggest difference between the TPP and RCEP is the question of whether participating countries would understand and support these structures based on the extent of regional ambitions for comprehensive growth and countries' commitments to sustainable, innovative growth.

#### **Questions and answers / open discussion**

Dr. Hank Lim, Senior Research Fellow at the Singapore Institute of International Affairs (SIIA), pointed out that the benefits of FTAs include not only economic, but also political and security, advantages. He also questioned whether it is possible to separate economic and political benefits, and whether there is a specific method by means of which the TPP and RCEP could be combined into a single structure.

Professor Hawke asserted that the TPP and RCEP will serve as complementary structures since they have common objectives. The TPP makes sense only as a foothold in the drive to establish FTAs in the Asia-Pacific region. TPP and RCEP may both stimulate willingness to complete each other (as may other agreements such as CJK.). He noted that by extension, FTAs in the Asia-Pacific region should be pursued.

Professor Nishimura noted that there is a significant difference in the economic realities that serve as the basis of the TPP and RCEP. He pointed out that this reality takes the form of global supply chains for the TPP and high-level production networks for the RCEP, where the term "connectivity" is used.

Mr. Hatakeyama noted from the floor that the Abe Administration has expressed its opposition to participate in TPP negotiation, unless an across-the-board elimination of tariffs is excluded and asked how negotiations are going now in other countries involved (whether participating countries had placed all goods on the table).

Mr. Jayasiri noted that there is currently a lack of clear discussion on exceptions and line-drawing. He forecasted that it would be difficult for Japan to join in any discussion

so long as an exception of across-the-board elimination of tariffs remained as a Japan's precondition for negotiation.

Next, Mr. Jayasiri responded to questions on whether the RCEP and TPP would involve the creation of different country-of-origin regulations, and whether it would be possible to consolidate the structures.

Mr. Jayasiri responded that tariff negotiations are easier than rules of origin negotiations. He noted that discussions are currently underway in trying to accommodate the different arrangements in the FTAs that TPP countries have entered into. Additionally, he explained that while negotiations on sensitive goods are being carried out, it is not necessarily true that these goods will become exclusions.

Responding to a query from Dr. Elek, Research Fellow at the Crawford School of Public Policy of Australian National University, inquiring whether "country-of-origin regulations are actually useful," Professor Hawke responded that the significance of emphasizing the ease of doing business and open access suggests the need to clarify a common schedule and country-of-origin regulations. Moreover, participation in networks is vastly more important than protection through country-of-origin regulations. Seeking a "single undertaking" is now unlikely to succeed although long transition periods will facilitate adherence to any plurilateral agreement. Perhaps most important is finding an appropriate mechanism for incorporating new adherents.

Next, questioners from the floor asked whether there is confrontation in the ASEAN region between countries participating in the TPP and RCEP and those not participating, and pointed out that for the RCEP, cooperation to resolve differences in levels of development will be extremely important.

Dr. Djisman responded that the importance of ASEAN integration lies in bringing RCEP negotiations to a conclusion by 2015 and highlighting the changes that are actually occurring in the region. Gini's coefficient is increasing in every country, and it is necessary to take action quickly to address domestic issues. Dr. Djisman stated that the Asia-Pacific region can offer a lesson in cultivating harmony and tolerance, although confrontation could arise between countries in the ASEAN region participating in the TPP and those not participating if they were forced to choose between either the RCEP or the TPP approach. He also asked how likely Japan would participate in the TPP.

Mr. Kusaka responded that the issue of timing is important and also indicated his belief that the real question is whether a decision could be made quickly or not. He added also that Prime Minister Abe mentioned that it is important to protect national interest as a result. This would be resolved through negotiations.

Dr. Elek brought the discussion by asking two questions: first, whether discussions should be limited to the European/American FTA concept or allowed to explore a more useful approach; second, whether integration in the Asia-Pacific region would have meaning in the absence of global integration.

## **Session 2: Changes in the Political and Economic Environment Which Affect FTAs in Asia**

Professor Simon S.C. Tay, Chairman of the Singapore Institute of International Affairs (SIIA), expressed his belief that changes in the political and economic environment that will impact FTAs are important and indicated his desire to examine how political issues are intertwined and how they are affecting economy in Session 2. Asia continues to enjoy intriguing growth while pursuing a vision of economic integration. On the other hand, growth has slowed in China and India, where leaders have been changed. These changes are giving an impact on the speed and direction of liberalization. Proponents of the TPP, RCEP, and China-Japan-South Korea FTA are all contending with a variety of obstructions that are casting doubt on early implementation.

Professor Yao Yang, Dean of the National School of Development (NSD), Peking University, explained that China was embarking on a period of important changes for the next 8 to 10 years and that it was likely that China's GDP would exceed that of the U.S. by 2020. China views the TPP as a U.S.-led initiative. Because the TPP's labor and environmental conditions are not such that they could be satisfied by China in the short term, the structure has raised suspicion and resulted in a source of excessive tension. Japan, China and South Korea will become the world's largest economic block by 2020. From this perspective as well, the three countries should act quickly to settle their territorial disputes.

Mr. Hiroyuki Ishige, Chairman and CEO of JETRO, expressed his view that the European debt crisis, fears of a global economic slowdown, and the lack of progress in the WTO Doha Round were serving to advance the RCEP and TPP in East Asia. On the other hand, the fact that the involved parties had agreed to start negotiations on the China-Japan-South Korea FTA and RCEP despite political tensions between Japan and China and between Japan and South Korea is noteworthy and, in his analysis, suggests the influence of movement on the U.S.-led TPP in the background\*.

Addressing the current situation, Mr. Ishige pointed out that a survey of Japanese-affiliated companies carried out by JETRO found a significant decline in the proportion of companies planning to expand operations in China in the future. He gave voice to his view that while wage levels are a major factor in this change, the demonstrations in China are contributing to a trend among Japanese companies to disperse their operations so that they are not overly centralized in China and that Japanese companies could not seriously pursue investment in China until this unease is eliminated. He also pointed out that economic integration is actually progressing, as indicated by the fact that the intra-regional trade ratio in the RCEP already exceeds that of the North American Free Trade Agreement (NAFTA). He summed up his position by stating that a number of factors are fueling the trend toward economic integration in Asia, including (a) the impact of the European debt crisis, (b) a global economic slowdown, (c) the lack of progress in WTO Doha Round negotiations, (d) competition among regional economic integration initiatives, and (e) the already high level of trade interdependence in the region\*.

Professor Shujiro Urata of Waseda University's Graduate School of Asia-Pacific Studies pointed out that, in light of the EU-South Korea FTA's entering into force, an FTA domino effect as well as an FTA synergistic effect can be seen in Japan's pursuit of an FTA with the EU. He also noted that although the economic slowdown encourages the formation of FTAs, the global economy, including Europe and the U.S., had averted the immediate risk of a crisis and predicted that if current trends continue, the economies of developing nations in East Asia will enjoy smooth growth. Furthermore, Professor Urata pointed out that a worsening of the international political situation can exert a negative

effect on the economy, as exemplified by the Senkaku dispute. He also pointed out that China's transition to a democratic system is a major issue.

Dr. Thomas Aquino, Senior Fellow at the Center for Research and Communications of University of Asia and the Pacific asserted that the ultimate objective of FTAs is the creation of trade and elimination of trade barriers, that FTAs shed light on stakeholder's concerns, and that FTAs require the trustworthiness of political decision-makers involved in trade. The EU currency crisis affected domestic trade in EU member countries as well as international trade, including in the Asia-Pacific region. Additionally, the failure to resolve challenges stemming from changes in the international political situation in Northeast Asia in recent years has the potential to have a serious, adverse effect on trade and economy in the Asia-Pacific. Dr. Aquino noted that in light of these issues, the prospects for trade would darken so long as the economy is not founded on firm political ground.

### **Questions and answers / open discussion**

Professor Tay noted that the amount of trade and investment between Japan and China has declined dramatically during the last year and asked whether the countries recognize that recent diplomatic tensions have had an impact on the domestic economy. Professor Yao said that it would be dangerous and pointless to tolerate the current deterioration in relations and that the U.S. could play a more productive and active role in the region, but that the current U.S. approach is based on an incorrect view that China is making aggressive demands.

After stating that the Japanese government recognizes the seriousness of economic issues, Mr. Ishige pointed out that while automobile production in China has recovered to about 80% of the level prior to September 2012, good relations between the two countries are an important element for corporate investment\*. Professor Urata asserted that problems could be avoided if exchanges at all levels were increased as the countries' economies become increasingly closely linked and proposed that channels of communications be opened by all East Asian countries in order to prevent a recurrence of the issue.

Mr. Hatakeyama suggested that parties should share wisdom for keeping politics and the economy separate, and that such sharing should not be limited to Japan-China relations.

Mr. Jayasiri asserted that the U.S. should recognize that China would be an extremely appealing and indeed essential participating country for the TPP if China's market develops at the rate Professor Yao described. Noting that the U.S. is excluded from the RCEP for geographical reasons, he questioned whether it would be possible to exclude China when forging an agreement in the Asia-Pacific region.

Professor Tay expressed the view that while circumstances make it difficult for China to participate in the TPP in the short term, such issues would be overcome as a result of long-term development. He also noted his personal view that the current mixture of political and economic issues related to the TPP is the result of efforts by the U.S. to exclude China. This state of affairs reflects the projection that, by playing a leading role in TPP negotiations, the U.S. would be establishing its ability to function as a leader in the Asia-Pacific region by the time China is able to participate.



Professor Yao asserted that China's exclusion is not the result of an intentional campaign by the U.S. Instead, he viewed it as a result of the expansion of U.S. domestic politics into the international arena. While the U.S. asks why China fails to meet standards, China's perspective would be "why China was not included in the process from the beginning."

Mr. Ishige voiced his view that the participation of China in the TPP is the ultimate goal of the U.S. and that for China, the TPP provides an opportunity to advance goals such as trade and investment liberalization and reform of state-owned companies\*.

### **Session 3: Future Prospects for FTAs in the Asia-Pacific Region**

Professor Zhang Yunling of the Chinese Academy of Social Sciences touched on the trend toward economic cooperation in the Asia-Pacific region to date and asked how openness and integration can be maintained in regional markets in this time of a long-lasting recession. He stated that initiatives to create new growth engines and the process of reallocating and rebuilding production networks in East Asia would be of key importance. He also pointed out that coordination would be essential in order for the RCEP and TPP to function in a complementary manner. Additionally, he mentioned that it would be necessary for the Chinese economy to shift to a sustainable development model based on domestic demand. He also spoke of the need to build an open global market system.

Dr. Chulsu Kim, Chairman of the Institute for Trade and Investment (ITI), pointed out that latent issues are preventing the early conclusion of the TPP, including major issues such as access to the dairy products, sugar markets and intellectual property. He also noted that the China-South Korea FTA is an important FTA that has a high level of potential to serve as a model for a trilateral China-Japan-South Korea FTA. Concerning the RCEP, ASEAN and its partner countries have agreed to negotiations, but it is unlikely that a high-quality FTA will emerge from that process. However, it should be easier to conclude the RCEP than the TPP. He asserted that despite temporary interruptions due to geopolitical factors, there will be progress toward wide-area economic integration based on the economic advantages of mutual cooperation among the nations of the Asia-Pacific.

Mr. Mark Sinclair, New Zealand's Ambassador to Japan, voiced the view that in surveying the future prospects for FTAs in the Asia-Pacific region, the starting point of any discussion must be "the market". A variety of bilateral and multilateral initiatives are being undertaken by governments to improve access, and important FTA trends such as convergence, regionalization and a focus on high quality can be observed. He pointed out that while governments in the Asia-Pacific region will continue to pursue positive initiatives, problems such as the scope of discussion, achievement of a new level of development, and ambition and political management would remain.

Dr. Lim of the SIIA stated that while it is possible for the TPP and the RCEP to converge conceptually, there is a need to prevent disputes by deciding a bottom line by 2015. He also pointed out the absence of discussion of the views of domestic stakeholders, indicating that efforts to socialize the advantages of FTAs have been inadequately pursued. Finally, he asserted that the future prospects of FTAs would be affected by whether the emphasis on political security issues can be abandoned, whether the

nations of ASEAN will come together to work toward a common purpose, and whether the China-Japan-South Korea FTA will succeed.

Dr. Mignonne Man-jung Chan of National Chengchi University examined the basis of regional integration and listed numerous outcome-oriented deliverables that the process yields. She also offered an overview of regional integration as implemented by the EU, NAFTA, and APEC and highlighted newly emergent regional economic issues such as supply chain connectivity, secured growth, sustainable growth, balanced growth, inclusive growth, and innovative growth. Finally, she expressed the view that it is necessary to shift to new development models under the current rapidly changing political and economic circumstances and characterized the future of the old international economic order as bleak.

Mr. Kurt Tong, Deputy Chief of Mission at the U.S. Embassy in Japan, told participants that the U.S. views FTAs as helpful instruments of trade, employment creation, and economic recovery and that the idea that the U.S. pursues FTAs primarily for political or strategic purposes is a misunderstanding. He emphasized that the U.S. is motivated by the private sector and business opportunities. While the U.S. approach is by no means exclusive, its desire to conclude extremely high-quality FTAs makes it a challenging partner. After noting that this is due to the fact that FTAs must be approved by the Congress and that a majority of Americans are skeptical about the advantages of FTAs for the country, Mr. Tong expressed his view that FTAs should be effective instruments that minimize trade barriers by governments.

#### **Questions and answers / open discussion**

Addressing the current situation in which the complexity of economic integration has increased, Dr. Elek pointed out that some are calling for problems that transcend national boundaries to be addressed.

Amb. Sinclair explained that from a practical perspective, the delicate problem of market access is an important touchstone for measuring the strength of participating governments' commitment to economic openness.

Mr. Tong noted the need to examine all opportunities, wherever they may be found, and asserted that while non-binding agreements may be adequate in some cases, some difficult trade issues require binding agreements that give both parties a level of certainty.

Mr. Hatakeyama pointed out that despite the fact that FTA negotiations of the U.S. are based on commercial motivations, its actions may be misconstrued as politically motivated. Mr. Hatakeyama asked candidly whether it was true that the U.S. had declined to place sugar on the TPP negotiating table.

Mr. Tong responded that the U.S. approach to FTAs is to place everything on the discussion table to be determined by the negotiating process.

Professor Yao questioned pushing the TPP on countries as best practices. Had China conformed to European and U.S. best practices, the country would not have developed as it has. After explaining that China had learned from its own successes and failures, he

asserted that it would be a mistake to identify certain things as best practices and push unilateral standards on other countries. He added that these attitudes would not serve to encourage internal change.

Amb. Sinclair explained that it is not the intention of Western countries to push certain standards on other countries under the umbrella of best practices. The objective is to imbue global trade rules with certainty and fairness, and FTAs and other rules function through coordinated initiatives. He asserted the need to provide a higher level of certainty which is now being demanded by consumers and the market, particularly with regard to the environmental and labor issues that affect China.

Mr. Tong suggested that one cause of China's economic development lies in the convergence of its trade and investment rules toward the approach taken by other countries, including developing and developed nations alike. He also noted that the expression "best practices" referred not to rules that developed nations force on other countries, but rather to common-sense rules providing a level of certainty that are reached via broad consensus.

Responding to a question from the floor asking whether China would recognize Taiwan's participation in the RCEP as it had for Hong Kong, Professor Zhang, expressing his personal view, stated that the two cases differ in that while Hong Kong is already part of China, Taiwan and China are in the process of building trust. He indicated that if political aspects are excluded, it would be easy to address purely economic issues that remain.

Addressing a question asserting that South Korea had not yet laid out a clear position on the TPP, Dr. Kim responded that as far as he knows, the South Korean government has not yet finalized its position with regard to the TPP, giving the country the status of an interested onlooker. He also noted that a decision by Japan to participate in the TPP would presumably encourage South Korea's participation, and vice versa.

Next, there was a question from the floor whether participation in the TPP would have the effect of destroying Japan's public health insurance system, and whether it would enable the country to preferentially import shale gas.

Amb. Sinclair responded based on his own experience, he had never had the impression that countries participating in the TPP intended to place their basic medical policy or medical insurance systems on the negotiating table.

Mr. Tong responded that the U.S. approach to the TPP is the same as described in Amb. Sinclair's answer, and affirmed that no participating country had targeted those systems for discussion. Concerning shale gas and energy exports, he stated that FTA partners of the U.S. would enjoy relatively simpler procedures.

### **Concluding remarks**

At the end of the session, Mr. Ishige mentioned that a specific and candid exchange of views at the symposium had furthered understanding of the U.S. and Chinese positions on FTA negotiations and suggested the ongoing need for similar efforts in the future. He

closed the symposium by expressing his hope that this day's discussion would contribute to future discussions about economic integration in the Asia-Pacific region\*.

\*Source: JETRO Daily (2013, February 21, 22 and 25 issues)