

***“What Is the Optimum Shape of  
Future Regional Economic Integration  
in the Asia Pacific Region?”***

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Economic Integration in the Asia Pacific Region?*

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As I mentioned in my opening remarks this morning, there are five major regional FTA proposals in this region. The five proposals are the EAFTA, the CEPEA, the FTAAP, the TPP and the JCK FTA. In my presentation in this session, I would like to talk about my personal thoughts on those proposals.

1. Current status of the five proposals

(1) EAFTA

Of the five proposals, preliminary study for the EAFTA has the longest history. Immediately after the Asian financial crisis in 1997, the East Asian Vision Group [EAVG] was established in 1998 with intellectuals participating from 10 ASEAN countries and 3 North East Asian countries [China, Japan and South Korea [ASEAN+3]].

In Oct. 2001 the EAVG submitted a report to the leaders of ASEAN+3, including a recommendation to establish an EAFTA. In 2004, Economic Ministers of ASEAN+3 [AEM+3] established a Joint Expert Group [JEG] initiated by China to conduct a feasibility study on an EAFTA. The JEG chaired by ZHANG Yunling of China reported the outcome of the study to AEM+3 in August, 2006.

In Jan.2007, the leaders of ASEAN+3 welcomed South Korea's proposal to conduct a phase II study involving a sectoral analysis of the EAFTA. The JEG for the Phase II chaired by Chang Jae Lee of South Korea reported the outcome of the study to AEM+3 in Jun.2009. On October 24<sup>th</sup>, an ASEAN+3 leaders meeting was held in Cha Am Hua Hin, Thailand, where it agreed to start governmental discussions [Track 1 Study] on the EAFTA in parallel with those on the CEPEA.

## (2) CEPEA

In the second East Asia Summit held in Cebu, Philippines in 2007, the leaders of ASEAN+3, India, Australia and New Zealand agreed to launch a Track-Two study on CEPEA, as proposed by Japan. The actual study started in June 2007 and the final report was submitted to the 4<sup>th</sup> East Asian Summit Meeting [EAS] in Cha Am Hua Hin, Thailand in Oct. 2009. It was agreed to start

governmental discussions [Track 1 Study] on the CEPEA in parallel with those on the EAFTA.

### (3) FTAAP

At the APEC leaders' meeting held in Hanoi, Vietnam in 2006, leaders instructed officials to undertake further studies on ways and means to promote regional economic integration, including, in the long term prospect, a Free Trade Area of the Asia-Pacific[FTAAP]. The next APEC leaders' meeting will be held in Yokohama, Japan on November 13<sup>th</sup> [Sat] and 14<sup>th</sup> [Sun] this year.

### (4) TPP

In March this year, the first meeting for negotiations to expand the P4 (Pacific4) FTA joined by Brunei, Chile, New Zealand to the Trans Pacific Partnership (joined further by Australia, Peru, Vietnam and the US) was held in Melbourne, Australia. The second meeting was held in San Francisco in June this year. The third will be held in Brunei this coming October.

### (5) CJK FTA

In October, 2009, a consensus emerged to aim at launching a joint study on an FTA between China, Japan and South Korea

[CJK FTA] at the second summit meeting of leaders of these three countries. In the same month, economic ministers agreed to launch a joint study of experts from industry, academia and government on a CJK FTA. The first and the second meetings were held in May in Seoul, South Korea and in September in Tokyo, Japan. A third meeting will be held in China in December.

## 2. Possibilities for the Future

(1) Of the five proposals I have just described, those covering almost all major Asia or Pacific countries are the EAFTA, the CEPEA and the FTAAP. Based on decisions reached at respective leaders' meetings last October, the EAFTA and the CEPEA are proceeding in parallel with each other sharing information for governmental discussion. But this parallel process cannot continue forever.

One of the merits of the CEPEA is that its market [worth US\$14,641 billion in 2009] was approximately 20 % larger than that of the EAFTA and even slightly larger than the market of the US [US\$14,256 billion in 2009.]. Another merit of the CEPEA is that it includes India, a rising star of the 21st century as well as NZ and Australia which are strong proponents for free trade.

On the other hand, it should be possible for the EAFTA to be concluded first and for the CEPEA to be completed with three

additional countries which are not members of the EAFTA joining at a later stage. In addition, logically speaking, if a country opposes the earlier conclusion of the CEPEA than the EAFTA, which will mean the demise of the EAFTA, it can veto the CEPEA since the country is a member country of the EAFTA and the CEPEA unless the decision-making process of the CEPEA is based on a majority system rather than a unanimous consensus. Taking these points into consideration, we have to decide in due course which one will prevail between the EAFTA or the CEPEA.

(2) As I referred to this morning, since China and Taiwan signed the ECFA, the EAFTA and the CEPEA should not refrain from considering to invite Taiwan to take part in negotiations. Taiwan has a bigger economy than any ASEAN member except Indonesia.

(3) On October 1<sup>st</sup> this year, H.E. Mr. Naoto Kan made his first general policy speech at the diet after the cabinet reshuffle last September. In this speech, he stated that Japan would consider to join the TPP, aiming at establishing a FTAAP. Last July the government of Japan decided to come up with a road map to establish a FTAAP by 2020, taking advantage of Japan's hosting the APEC Leaders' Meeting to be held in Yokohama. On this

occasion, a consensus should be made to change the wording regarding FTAAP from “long-term prospect” to “medium-term prospect”. I believe it will be possible for the EAFTA or the CEPEA and the FTAAP to co-exist. Of 21 APEC members, only 10 are members of the EAFTA. In addition, India, which is not a member of the APEC, should be invited to join the APEC with a view to establishing the FTAAP.

(4) Of the five FTA proposals, the first to be concluded should be a CJK FTA unless an unusual accident happens between them. When I personally decided to promote FTAs in Asia back in 1997, I made a table showing the FTA status of the 30 largest economies by GDP. I discovered that only 5 economies had no FTAs among those 30 economies. Those five economies were Japan, China, South Korea, Hong Kong and Taiwan. [I wrote an article on this in the *Japan Times* on February 28<sup>th</sup>, 1997.] These economies are all located in Northeast Asia. Therefore it is only natural for CJK to try to fill the FTA vacuum in the world by establishing an FTA among themselves, although each of these three countries has concluded FTAs with other nations since then. If a high-quality version of the EAFTA or the CEPEA is concluded after a CJK FTA, the latter may be absorbed into the former.

(5) The TPP may be also concluded relatively soon. Its target is to realize as high-quality an FTA as possible, although I worry whether Peru and Vietnam will be able to keep pace with it. Japan has been informally invited to join the TPP. I think this is a rare opportunity for Japan to avoid being left out of the international FTA game and therefore Japan should make every effort to respond in the affirmative. Also, a possibility that the TPP may develop into the FTAAP should be taken into consideration.

(6) Whatever scenario evolves regarding possible FTAs, agricultural reform is unavoidable before Japan will be able to accept it. The current DPJ government provides a direct subsidy to every farm in the country to compensate for the gap between falling prices and the rising production costs of agricultural goods. If the subsidy is given only when prices fall because of eliminated or reduced import tariffs, this subsidy system will become a powerful measure working for FTA liberalizations.

(7) The ASEAN is trying to create a single market by 2015. This market is called “ASEAN Economic Community”. Although it has not been determined yet whether this community will have only a single window for trade negotiations as is the case with the EU,

ASEAN community's total share in the world, calculated by adding 50% of population share and 50% of GDP share, ranks number 4 in the world, ahead of Japan, as shown in Table 1. Of course, if EU member states are integrated into one unit, the EU ranks number one in this ranking. Through this table, I can understand the enthusiasm ASEAN colleagues have for its community.

**Table 1 Ranking of Influential Economies [2009]**

	GDP [US\$ billion]	share [A] [%]	population [million]	share[B] [%]	[A+B]×0.5 [%]
US	14,256	24,6	315	4,6	14, 6
China	4,909	8,5	1,346	19,7	14,1
India	1,236	2,1	1,198	17,5	9,8
<b>ASEAN</b>	1,480	2,6	582	8,5	5,5
Japan	5,068	8,8	127	1,9	5,3
World	57,937	100,0	6,829	100,0	100,0

(8) In July this year, ASEAN Foreign Ministers decided to welcome the US and Russia to the EAS. If this is implemented, the number of the EAS members will increase from 16 to 18. Many questions remain on this decision, including whether either the US or Russia belongs to "East Asia" geographically. In particular, if these two countries want to enter the CEPEA on

which governmental discussions have already started, it will make the situation more complex.

(9) Thank you for your attention.