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International Symposium hosted by Japan Economic Foundation (JEF)
and Institute of Strategic and International Studies (ISIS Malaysia)

"EAFTA, CEPEA, FTAAP and Beyond"

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[The following summary is an edited version of the symposium transcript.]

OPENING

Jawhar Hassan: We are meeting at an extremely challenging and interesting time. The global financial crisis is already upon much of the world, and it is just beginning. The real economy is already affected and most people believe that things are going to get worse, at least for next year. We are talking, too, about reaping the benefits of enhanced trade through regional free trade arrangements at a time when major export markets cannot sustain demand.

We also meet at a time of some political uncertainty. The world's largest economy will soon usher in a new president. The prospects for global trade and free trade arrangements may well be affected by who the American electorate chooses. But challenges are also opportunities.

There is little we can do on our own that we cannot significantly do better together. The logic of regional cooperation is irrefutable, especially when global trade liberalization initiatives have disappointed us so often. Whether it is a free trade agreement for the ASEAN+3, a comprehensive economic partnership for the wider East Asia Summit participants, or a free trade area for the Asia-Pacific region, Japan and ASEAN can collaborate closely to enhance their prospects.

We can do this best when we ensure that EAFTA, CEPEA, FTAAP complement and reinforce each other, rather than undermine or subvert each other, and when they each serve their larger purpose without intruding upon the other.

OPENING SPEECH

Noboru Hatakeyama: Since JEF started this symposium five and a half years ago, there have been noticeable changes taking place in East Asia in terms of regional economic integration, in particular with the recent breakdown of the Doha development round. The momentum towards regional or bilateral economic arrangements may intensify.

There are three proposals on the table for discussions on East Asia or Asia-Pacific economic integration: the East Asia Free Trade Area, or EAFTA, proposed by China; the Comprehensive Economic Partnership in East Asia, or CEPEA, proposed by Japan, consisting of ASEAN+6; and the Free Trade Area of the Asia-Pacific, FTAAP, proposed by the United States. What are the relationships among these three initiatives?

Last year Korea started negotiations with the EU on a possible Korea-EU FTA. If this were realized, all Asian goods except Korean would be discriminated against in the EU market, unless the ASEAN-EU FTA were completed. But even in that case, Japanese and Chinese

goods would still encounter discrimination. Perhaps we should study an Asian FTA as a good balance with the APEC FTA study.

The financial turmoil starting the U.S. has increasingly become globalized, including in Asia. We have to be extremely careful that today's financial turmoil does not lead to trade and investment protectionism.

In addition, we can discuss global warming, which will enter a new stage after the Kyoto Protocol starts from 2013. Should we consider introducing trade measures against non-participating countries in the post-Kyoto Protocol, or come up with other ideas to solicit every country to participate?

Now I would like to declare the start of this symposium.

KEYNOTE ADDRESS

Muhyiddin Yassin: East Asia economies have open trade and investment regimes. It is not surprising that they are highly interconnected to the global economy. They have, first and foremost, liberalized multilaterally, and this is still the most preferred option. It has enabled trade to become the main engine for economic growth and the economies to accumulate huge current account surpluses.

It has only been of late that there have been proliferations of bilateral and plurilateral free trade areas. Over 70 FTAs have been concluded by the ASEAN+3 countries, with another 70 or more currently being negotiated. Malaysia in particular has benefited from integration with the world economy at large. As a nation whose total trade is twice the size of its gross domestic product, Malaysia benefits from liberalizing its economy, not least in order to sharpen its competitiveness.

The major regional initiative was the ASEAN Free Trade Area, AFTA. Initiated in 1993 and realized through the common effective preferential tariff scheme, or CEPT, AFTA not only intended to promote regional trade among member countries, but also to make the region more attractive to foreign investors. It has since become one of the more successful FTAs in the world.

By using a step-by-step building block approach, ASEAN economic integration efforts have managed to be substantive and even to accelerate. This highlights an important lesson: that is, given time, member countries can develop confidence and adjust the sensitive sectors. This permits bolder measures to be taken as conditions warrant.

ASEAN is a worthy hub for the wider regional trade integration efforts now being contemplated. In principle, the widest construction of an FTA is preferred because it maximizes trade creation and minimizes trade distortion. A regional trading arrangement that brings together countries from both sides of the Pacific is welcome.

This needs to be moderated by practical factors, but we also should avoid agreements that do not have high standards of commitment. We also need to study the distribution of benefits and costs of large-scale regional-integration initiatives, and the readiness of countries to liberalize. By allowing some degree of flexibility, the process may move more stably and substantially.

Then there is this issue of narrowing the development gap among countries. In theory, less developed countries will benefit more from regional economic integration than developed

members, but we need to help these countries maximize benefits, such as through technical cooperation.

It would be useful to do a stocktaking of the different FTAs in the region and their impact on business. This could also identify the readiness of businesses for a single region-wide FTA. Meanwhile, East Asia could start with economic cooperation programs to narrow development gaps and build capacity and capabilities, the prerequisites of liberalization.

It would be useful if facilitation of trade and investment could start early to provide building blocks for an East Asian FTA. ASEAN efforts in facilitation can provide the basis for cooperation, reduce the cost of doing business and harmonize trade and custom procedures.

SESSION 1

Stocktaking of Bilateral and Regional FTAs in the Asia-Pacific Region

Moderator: Simon SC Tay

Thomas G. Aquino: The current crisis has had a two-fold organizational impact on government bureaucracies. One is that scarce government resources have been diverted from core trade issues. The other is that constant interaction among bureaucracies engaged in FTA negotiations has developed a certain mutual confidence in facilitating regional and global cooperation in response to crisis.

At the political level, these FTAs have local interests, both for and against trade liberalization, in developing definite policy positions, forcing policymakers to complement their local orientation with a strong international dimension. So it is no longer solely domestic interest that counts, because even domestic interests bring in certain international or regional dimensions when dealing with respective governments.

With respect to FTAs and multilateralism, the so-called spaghetti-bowl effect makes it complicated, difficult and costly to conduct trade in regions with overlapping FTAs.

FTAs offer opportunities for deeper cooperation that might even go beyond core trade issues, because they enlarge the dialogue beyond contentious trade issues. New FTA models cover more than strictly core trade issues and enlarge the scope beyond spaghetti to provide reasons, opportunities and occasions to continue cooperation. This is the essence of serving respective constituents or the public. When governments cooperate, crises—whether they be regional or international, trade or otherwise—can have a basis for resolution among governments, thereby to serve better the constituencies that we have been sworn to serve from a government or public sector standpoint.

Hadi Soesastro: The Indonesia-Japan FTA is the first and so far the only bilateral FTA for Indonesia. We have other FTAs, but they are all in the context of ASEAN or ASEAN+1. Some are in the pipeline. For instance, we have negotiations ongoing with Pakistan. Initially, it was a preferential trading arrangement, not an FTA, but then we asked why should we only have a PTA, because Pakistan does not have one with ASEAN. The view in Indonesia is that if ASEAN already has an FTA with a country, we may not need to do so bilaterally.

We're very happy that the Indonesia-Japan FTA has implicit assistance for development cooperation, but of course this is a difficult issue because you can't make it binding. You make a commitment to reduce tariffs and you bind them, but development cooperation is

non-binding. That is the major challenge for us. I think this is important when we discuss the EAFTA, CEPEA and so on, because in those arrangements this will also be an important issue.

Can Indonesia respond effectively to Japan's interests in an improved investment climate and in energy security, which is a complicated issue? There needs to be a systematic effort to monitor implementation and see where this can be done. The joint committee must be empowered and elevated to the highest level possible, and this should lead to the empowerment of the various sub-committees, especially those dealing with cooperation.

Mignonne Man-jung Chan: With Taiwan's limited participation in the regional integration scheme so far, our response to long-term regional economic cooperation is the block-building approach. On a unilateral basis, we also try to be competitive to serve as a global supply chain and play an important economic role in terms of knowledge. Furthermore, under the APEC scheme we are exercising concerted unilateralism, as well as the FTAAP.

Since our ascension to the WTO, we have forged FTAs with Central American diplomatic allies including Panama, Nicaragua, Guatemala, Honduras and El Salvador. We also have selected preferred FTA partners such as the U.S., Japan, Singapore and Korea. Recently the European Chamber of Commerce in Taipei commissioned a feasibility study that strongly urged the EU to forge trade-enhancement measures with Taiwan.

Our FTA strategy is to undertake the entitlements of FTAs with WTO members, particularly in regard to GATT Article 24 and GATS Article 5. We also will continue signing FTAs with allies, as well as with interested partners, to strengthen bilateral relations. We are also on the lookout for WTO+ FTAs that are in compliance with the GATT provisions.

Our strategic goal is to utilize our diplomatic allies as a springboard to further regional integration. We wish to strengthen alliances and enjoy the WTO benefits, as well as fulfill our commitment to create win-win relationships and diversify our trade and investment risks. The Taiwan-Panama FTA is a model case for high-quality compliance with WTO rules.

Our future agenda includes continuing our FTA alliances for improved cross-trade relations and forging domestic consensus on FTA policy while integrating government negotiation synergy.

Hiroshi Tsukamoto: An expert at the new Economic Research Institute for ASEAN and East Asia has identified the pillars of economic integration as being deepening economic integration, narrowing the development gap and sustainable economic development.

Development strategy is very fundamental. We need to remove the large disparities among countries and we also need to transform the gaps into a dynamic development process. The key element is reduction of the service link cost through deeper economic integration and the promotion of a single-window system. Some studies show that trade costs also must be eliminated and that infrastructure must be developed.

Studies should focus on the CLMV rather than less developed countries in general. Very serious efforts are needed to develop this area, including special economic zones as seen in Cambodia. The CLMV has high potential as a transport hub.

In the future, hopefully we will see substantial infrastructure linked to this area to facilitate the pursuit of further economic development.

Mahani Zainal Abidin: Malaysia has bilateral FTAs with Japan and Pakistan, and we are in negotiation with the U.S., Australia, New Zealand, Chile and India. Malaysia's other substantive FTA effort is through ASEAN-based FTAs, such as ASEAN+1, which is quite an active channel for our liberalization efforts. Another route for Malaysia is ASEAN integration itself, adding the components of the ASEAN economic community. This is a much more defining set of commitments due to deadlines, scorecards and so forth.

This is the time to reflect on FTAs—bilateral, ASEAN-based—and ASEAN integration. Are we really making inroads in terms of liberalization, or is it just agreements? I have yet to see a study that really pinpoints actual benefits due to FTAs. Are the benefits really due to liberalization, or actually organic growth in terms of trade relation or investment? There is no clear yardstick.

Are FTAs a strategic symbol of improving relationships or are they really for liberalization? In the end, because of difficult sensitivity of certain sectors, many of the agreements signed are only slightly better than WTO commitments. If the purpose is more for a strategic relationship or to cement a long-standing relationship, then it is not an FTA and the aims can be achieved faster, rather than an FTA that requires deep commitments.

The private sector is not really engaged except for goods. The private sector in ASEAN, or in Malaysia, is almost passive in areas such as services. So are these agreements or FTAs actually driven by government, or is it really the private sector?

It is an appropriate time to concentrate on implementation and harmonization to see the real benefits of liberalization. If we can sort out the kinks of opening up and liberalization within existing FTAs, new FTAs, including those expanded beyond the ASEAN, would be easier. If we can't even solve existing problems, we will not have very good FTAs or economic-integration agreements.

Atsuo Kuroda: Like in North America or Europe, economic integration in Asia came first as a result of multinational firms expanding their production networks from the 1990s, so institutional integration has been catching up since the Asian crisis.

The intra-regional trade ratio in East Asia, including India, Australia and New Zealand, was up to 50% in 2004 from only five years earlier, which was more than NAFTA's 41% and approaching EU's 65%. Among Japan's major trading partners and foreign direct investment destinations, the weight of East Asia rose to 50% in trade and 32% in FDI. Chinese FTAs with the world greatly exceed those of ASEAN, but in terms of FTAs with Japan, China and ASEAN are almost the same, and since 2006, ASEAN has surpassed China.

Japan has signed nine EPAs, of which seven have taken effect, and it is negotiating six more EPAs, of which those with Vietnam and Switzerland have been agreed to in principle. The other four under negotiation are with India, Australia, the GCC and Korea. Additionally, a joint track-two report on a possible economic integration agreement with the EU and Japan was submitted to both governments last July, and a joint track-two study of a possible FTA involving Japan, China and Korea is under consideration.

Based on the six ASEAN+ EPAs almost completed, we have proposed the CEPEA, which reflects the significance of the ASEAN+1 or ASEAN-Japan EPAs based on bilateral EPAs. Imagine electric components from China, an LCD display from Korea, a high-spec CRT from Japan and other components from Thailand, which are then assembled into a television in Vietnam and exported to India. Liberalization and the CPEA will encourage

area-wide production networks and contribute to the economic growth and industrial development of all East Asia.

OPEN DISCUSSION

Aquino: From the standpoint of the Philippines, a multilateral setting definitely takes a long while to get agreement, so bilateral and regional efforts seemed more logical. We only have one FTA signed and ratified, which is with Japan, but note that it is bilateral in the context of ASEAN-Japan.

Soesastro: We are opening up many sectors, but the view of the private sector is that we don't benefit much, and development cooperation is non-binding. This is important when we discuss the EAFTA, CEPEA, and so on. Regarding Indonesia's ability to respond to Japan's interests in investment climate and energy security, there needs to be a systematic effort to monitor implementation. I want to make an appeal to the importance of focusing on implementation and monitoring.

Chan: The key issue is about the rules of the game. Whether it's in the WTO, a regional integration scheme or whatever, just set up the wish list and then orchestrate the rules. In the proliferation of FTAs, whether bilateral or regional or plural, this spaghetti-bowl effect, in my personal view, is exaggerated.

Tsukamoto: The most important thing is to seek development. An FTA can be an important instrument, and infrastructure development is significant too. Trade facilitation is also important, and FTAs can help with this. In Japanese EPAs, cooperation is important, but countries must also study how to enhance their own regional skills.

Mahani: Implementation involves capacity and cost. The cost is difficult to bear for some businesses and governments. What about adjustments for the least developed countries? If we want to have regional integration, developed countries must pay part of the adjustment cost. The least developed countries in Asia can't pay the full cost.

Kuroda: Regarding the quality benefit of EPAs and FTAs, the important thing is to improve the business environment for foreign and domestic companies. Japanese EPAs with ASEAN and other countries always include a business committee to discuss concrete items. This is an important aspect of our implementation.

Tay: Singapore has gained benefits from its many FTAs. There is statistical and other evidence of these benefits. Singapore officials have never suggested that the benefits should be measured in purely economic terms; rather, they have talked in political terms. Moreover, the dynamic effect of EPAs and FTAs is hard to measure and to quantify.

The general mood of this table is that a plateau has been reached and we now need to consolidate and rethink. And yet there is still some suggestion that certain types of agreements and studies are very important. The wider CEPEA is important, because it is like not an envelope, but a wrapping that will bring the different parts together so that the benefits of different bilateral and sub-regional FTAs can really be harnessed.

SESSION 2

Progress and Outlook of EAFTA, CEPEA and FTAAP

Moderator: Hadi Soesastro

EAFTA, CEPEA, FTAAP and Beyond

J. Jayasiri: From a negotiator's perspective, negotiating an EAFTA, CEPEA or FTAAP actually involves a number of steps. ASEAN is not a customs union with a common external tariff, so you must negotiate with ten different members of ASEAN. Even with ASEAN+1 we had to use a lot of creativity and imagination to get agreements, so imagine the challenge of encompassing 21 countries in the FTAAP. This is the main difficulty.

Another question is whether the negotiations cover all three pillars—goods, services and investment—or do we phase the negotiations? So far, most negotiations have finished goods first and then gone on to the more difficult negotiation of investment and services, but we have discovered that this was a mistake.

Would there be a common destiny among all the partners to the EAFTA, CEPEA, or FTAAP? I can't safely say yes. So without a common destiny, it is not going to be easy to achieve something of this magnitude.

Are there enough champions for each of these initiatives? More than a majority must be convinced that one of these directions is the way to go in order to assure access to the resources and political will required to move forward. Otherwise negotiations could drag on longer than Doha, which has already taken seven years.

All studies, not counting FTAAP, say that ASEAN must play the central role as the driving force. But is ASEAN a willing partner? We must read the signs very clearly, or suffer casualties later.

Nagesh Kumar: Hundreds of FTAs are taking shape in Asia, but bilateral FTAs will not allow the region to reap the full harvest of regional economic integration. The potential of industrial restructuring will not be fully exploited without a broader regional grouping because if the idea is to exploit economies of scale and specialization, you need a very large market.

Efficiency-seeking industrial restructuring requires a contiguous region, so the real options are CEPEA or EAFTA. East Asia is characterized by very diverse levels of development, so CEPEA has an advantage over EAFTA or ASEAN+3 FTA, because of its three-pillar approach to economic integration.

Enabling lesser-developed countries to take advantage of economic integration is an opportunity by itself. If the 600 million Asians below the poverty line could become part of the mainstream, the additional demand would be phenomenal.

CEPEA has everything that EAFTA has, plus more. It has the dynamism of India, which is projected to be the world's second largest economy in the next 20 or 30 years. This dynamism is becoming available to East Asian countries in terms growing imports by India. And it's not limited to trade in goods alone. It is also in services. India is one of the largest sources of tourism for many ASEAN countries, including Malaysia. And India has 500 billion dollars of investment opportunities in financial development right now. As the West's demand for Asian products slows down, we need alternative sources of demand, such as from India.

CEPEA's coverage is complementary. Japan, China and Korea have gone in the direction of hardware and manufacturing, while the Indian economy is dominated by services and knowledge-based activities, so they are complementary, as are Australia and New Zealand with their natural resources. A number of studies have shown that the welfare gains under CEPEA are far greater compared to those of any other alternative.

Hank Lim: EAFTA feasibility studies are in phase two, involving in-depth sector-by-sector analysis. It's different than CEPEA. The phase addresses concrete elements of the East Asia FTA, such as market access for goods, services and investment, rules of origin, trade and investment facilitation, and development cooperation.

The study is identifying the economic effects of EAFTA at the sectorial levels of manufacturing and primary industries. In particular, the study will identify not just primary industries and primary manufacturing, but the sensitive sectors that always have difficulties in implementation. Where EAFTA is more of a single undertaking, CEPEA is more multi-phased, not sector-by-sector. A very important part of CEPEA is its encouragement of private-sector participation.

The track-two study group was completed on 20 June 2008 and submitted to the EAS economic minister. It will be discussed at the fourth East Asia Summit in Bangkok as well as the ASEAN Summit. The report is very similar to the ERIA report submitted to the third EAS in Singapore in November 2007. The East Asia Summit process and mechanism through CEPEA and ERIA for East Asia regional economic integration seem to be moving forward ahead of EAFTA.

The APEC Summit in Sydney last year agreed to the FTAAP concept in principle, but as an issue for future consideration. Leaders noted its feasibility as the mechanism for further Asia-Pacific economic integration, but failed to reach a consensus or to take concrete action.

With a new U.S. president coming in January 2009 and the American economy in deep financial crisis, a new initiative on trade will be a very low priority of the new U.S. administration. The outlook for a new FTAAP and any U.S.-led trade initiative will be very unlikely over the next four years.

Chai Yu: The 10+3, 10+6 and APEC all have advantages and constraints. They are complementary to each other functionally. While 10+3 is what we can do seriously and fruitfully at the present time, 10+6 is what we hope to do in the near future, and APEC is where we are cultivating capacities for the further future.

The major short-term challenge is the financial crisis, which has adversely affected our export sectors and calls for changes in our thinking about trade and production patterns in the region. The long-term challenge is the share of the inter-regional trade, which is growing very fast. The global payments imbalance is also a big problem.

In the case of 10+3, the ideal model would be for China, Japan and Korea to work together, but various factors have made it hard for the three to work together, so ASEAN could help to put them together. That's the whole context for the process of East Asia economic integration.

10+3 has been the main vehicle to integration up to now because of strong intentions, cooperation, ASEAN leadership and feasible measures. There are some key differences between 10+3 and 10+6. 10+3 is devoted to long-term, comprehensive development, while 10+6 aims to build a better platform for trade and investment, especially in terms of international production.

Should China be satisfied with its position in the international production network, or could it upgrade its industrial system to a new level? This is also a question for the whole of East Asia. Can we stay dependent on the U.S. market forever, or shall we adopt a new model?

We have to set different priorities for the various mechanisms. They each have their advantages, so we have to functionalize them. The next step for us is to clarify their different strengths and make them complementary rather than competitive.

Shujiro Urata: EAFTA and CEPEA are similar in content and components, with both including three pillars, but they differ in their approaches. EAFTA is a single undertaking of these three components, whereas CEPEA allows the sequential application of economic cooperation, facilitation and liberalization. Both initiatives face common problems, including the need for liberalization among China, Japan and Korea, which do not share any FTA. Creation of either EAFTA or CEPEA would require these three countries to develop a liberalization scheme.

To maximize the benefits of region-wide FTAs, the spaghetti-bowl effect must be minimized by setting common rules of origin. Also, to implement, monitor and evaluate the programs, we need institutions. CEPEA has an advantage because it has ERIA. FTAAP is a more far-fetched idea because it has 21 member economies with substantial differences.

Trans Pacific Partnership is an extension of P-4 or P+ or whatever. This is the so-called pathfinder approach under which whomever is willing to participate can. There is a move toward establishing FTAs even among a small number of APEC countries. I think this is a future trend.

We need to study EAFTA, CEPEA and FTAAP in more detail, such as the difficult areas for liberalization. As a member of the EAFTA study group, I don't think the analysis has been sufficiently detailed.

The members of EAFTA, CEPEA and FTAAP must maintain the momentum toward regional economic cooperation in order not to kill the initiative.

I'd like to emphasize the importance of safeguard mechanisms for dealing with possible negative impact. Many countries are concerned with this, which is why some do not want to negotiate FTAs. But there are means for dealing with negative impact, so we should have FTAs with established means for responding to negative impact.

Regarding timing, there is a view that maybe we could begin with EAFTA and then go on to CEPEA. But that just doubles the task, so it's better to start with a large region-wide FTA.

OPEN DISCUSSION

Soesastro: EAFTA, CEPEA and FTAAP are not being developed in a vacuum. They are part of processes like the ASEAN+3, East Asia Summit, and APEC. There is a rethinking of all these different processes, given that people aren't very happy with the way they have developed. So one should not forget the context in which they develop.

Urata: Suppose we have an FTA negotiation and it's successful, and then we add India, Australia and New Zealand, so you have to do another round of negotiations. Those additional three negotiations required to gain acceptance would be as difficult, energy-consuming and time-consuming as starting out CEPEA with 16 countries. So if one intermediate goal is to set up a region-wide FTA, why don't we go directly to CEPEA rather than sequentially? In the meantime, we know liberalization is not easy, so why don't we begin with cooperation and facilitation, which perhaps would facilitate the liberalization that naturally follows?

Chai: When we talk about the relationships among the mechanisms, we have to give them different functions. For instance, 10+3 is good for the financial integration process in this region, so maybe it would be better for dealing with macro issues. As for 10+6, it may be better for creating favorable micro-levels of integration, so we need to make some basic efforts toward facilitation and sustainable development.

Jayasiri: Countries liberalize because it's good for their economy to instill competitiveness and so on, or because they are forced into negotiations and they have to reciprocate. But Malaysia has never liberalized through negotiations or the WTO. We have unilaterally eliminated about 60 percent of our duties. What is left are the sensitive sectors of manufacturing. Malaysia's answer has been to exclude, minimize or prolong them in FTAs.

ASEAN is currently not a willing partner. We have implicitly asked for a moratorium by asking for further study of the proposals, because we need to have more time to consolidate. We've already got our ASEAN Economic Community, regional +1 agreements, and individual bilateral FTA negotiations going on.

SESSION 3

Issues Beyond FTAs in East Asia, including Possibility of ASEM FTA

Moderator: Hank Lim

Hatakeyama: This year we have experienced a food crisis, oil crisis, financial crisis and possible environmental crisis. Regarding both food and energy, GATT Article 11 allows countries to prohibit exports of foodstuffs or energy during critical shortages, which is understandable for exporting countries but disastrous for importing countries. We should discontinue such prohibitions during critical shortages and instead introduce a clause similar to NAFTA Article 315, so that exports would still be guaranteed, even if on a reduced basis but at least up to a certain percentage.

The Great Depression led to economic blocs and the Smoot-Hawley Tariff Act, so we have to be extremely careful to avoid international trade and investment protectionism. Resumption of the Doha Round is vital. Secondly, an FTA between Japan and the EU, or among ASEM countries, would help to expand the market within a contracted global economy. It would be a good balance between APEC and ASEM to have an FTA among them. It could be an FTA among like-minded countries willing to participate in ASEM.

Global warming is tied closely to trade and investment. Unlike Freon gas, CO₂ cannot be contained in products, so it would be quite difficult to introduce trade measures against non-participating countries in the post-Kyoto Protocol. A different idea would be to restrict foreign direct investment in non-participating countries that otherwise might attract foreign investors from developed countries who seek to avoid environmental obligations. The Kyoto Protocol, under the name of the clean development mechanism, even encourages obligation-evasive investment, so we may have to actively discourage this through investment regulations of developed countries.

Motoshige Itoh: Preventing protectionism is like riding a bicycle, because you have to keep moving; if negotiations stop, then protectionism will proliferate. Especially during this financial crisis, protectionists might skillfully take action, or inaction, such as maintaining old-fashioned practices. For example, nurses are coming to Japan from the Philippines, although in small numbers, but without them the Japanese nurse association would just preserve its old-fashioned models. So this is a movement against protectionist customs.

The Japanese government is opening up its aviation system. North America and Europe now have a one-sky, open-sky policy between them, which is an important step, and ASEAN countries also will have a one-sky policy in 2010. But other countries don't, and China and Japan are probably the only two large countries without any serious free-aviation programs with other countries. Just think about ASEAN+3 or ASEAN+6 with an open-sky program under which any airline in the region could have a trilateral, etc., type of routing system so long as capacity at the destination airport is available. This would provide huge benefits for the movement of people and products. In addition, new business practices such as local carriers will help to expand the opportunities for new types of integration within this region. The benefit of open-sky policy rises as you increase airport capacity and the number of airplanes. The number of airplanes in East Asia is increasing at a world-leading pace, and we have abundant airport capacity, so this could provide additional momentum for regional integration.

Chulsu Kim: An East Asia-Europe FTA covering the ASEAN region could be a long-term possibility, given the flourishing trade and investment relationship between the two regions. The EU decision to begin FTA negotiations with Asian trading partners is motivated largely by economic growth in Asia, and it also is a response to the U.S. FTA initiatives in East Asia. It is natural that the EU is seeking parity with the Korea-U.S. agreement, so Korea-EU is expected to be an equally high-quality FTA with bilateral trade value approaching 100 billion U.S. dollars.

But several issues stand in the way of an early conclusion. In market access, the two sides have not balanced their mutual concessions, particularly for automobiles, electronics, chemicals and machine products, the most heavily traded sectors and with high tariffs on both sides.

Another key is automotive safety and environmental standards. The EU is insisting that Korea recognize Europe's UNEC standards while Korea is seeking flexibility in the EU's rules of origin. Korea is also insisting that the EU withdraw its prohibition of custom drawbacks in existing preferential trade agreements.

The EU has demanded KORUS FTA+ features for legal, financial, telecom and environmental services. Market opening in service sectors has stirred controversy in Korea, so the Korean side is cautious about any additional concessions.

They reportedly will attempt to resolve such issues within the year through the involvement of trade ministers, although the arrival of a new EU trade commissioner and the prospects of the KORUS FTA being ratified by the U.S. Congress and Korean National Assembly are variables.

Djisman Simandjuntak: Issues beyond FTAs can be classified into functional cooperation, development cooperation and trade in services, the last of which largely has remained beyond agreements so far.

The world is too big to be a single financial market, so we need regional stability, such as the European monetary system. Given the current crisis, the challenge has resurfaced again, but there are at least three major issues to address: an exchange rate mechanism, particularly given that intra-Asia trade is rising; surveillance in regards to monetary cooperation, including an early warning system; and concerted fiscal stimulus to encourage greater domestic demand in East Asia.

There is an urgent need for development cooperation to narrow economic gaps, but we need to choose programs carefully because resources are limited. They should be centered on new challenges, including climate change, perhaps in related science and technology.

Services account for a very large part of our economies, so FTAs confined to goods are bound to be very incomplete. It is difficult to address services, yet we have no choice but to try. Trade in education could be important and perhaps it could help to bind people in East Asia. All East Asian economies are major importers of education in terms of students overseas, but intra-East Asian educational imports are still very small.

I look at FTA as ultimatum gain. Once you start a free trade area in goods, you will be forced sooner or later to negotiate services. Once there is an FTA between Malaysia and Japan, Indonesia would be forced to have one. I think it may be good if we could keep in mind that the business of regional integration is not confined to goods.

Tay: Some say now is a time to pause and focus, but I disagree. The moment requires us to challenge the USA to avoid protectionism and isolationism and to rework freer trade through either the WTO and/or APEC. We also need to prepare our Asian regionalism in the widest possible way, including ASEAN-EU.

But even if everyone agrees to have the widest FTA possible, the word 'possible' depends on political will and capacity, which differ by country and timing. Can we do it? First, can we multitask? If we can't, we risk the danger of falling down. We have no choice: we must develop the resources, capacity and political will to do more than one thing at a time, including ASEAN, ASEAN+1 and ASEAN+3, working this alphabet soup in some logical sequence. We need to generate the political will to go forward and commit the resources to help the least developed countries adjust and assure benefits to all countries.

Regarding climate change and trade, we need to stimulate investment, consumption and infrastructure. Instead of restricting investment, I believe we should give priority to investment in green projects and investments that allow Asia to develop with less carbon-heavy intensity.

Part of the challenge is how much Asia can do on its own. A lot of the regionalism we are talking about followed the Asian crisis in 1997 to 1998. So can Asia again pull together in the current crisis? Ideas about open regionalism, such as CEPEA, are attractive. We need more trade and investment, and must ensure that more Asian savings have a direct pipeline to Asian projects, companies and consumption. This would make us stronger in partnering with the U.S. to restart APEC, as well as in partnering with the EU.

OPEN DISCUSSION

Itoh: Which is more important for the U.S. and EU, climate change or free trade and investment? The answer is very difficult. This is a type of protectionist movement that is very different from the previous one.

If we establish some kind of a scheme for financial market stabilization by ourselves, it could be similar to the original IMF, when participating countries donated money for the sake of their own currency stability. This scheme also could be a good step towards macro-economic coordination, which is necessary for financial and other stability.

Kim: FTA trade policies with respect to ASEAN have been quite diverse. I am not sure if the EU policy to negotiate individually with ASEAN countries is motivated by the slow progress of ASEAN+EU, but certainly some ASEAN countries have been discussing individual FTAs as well. I don't think that's unusual for the European Union.

Djisman: All major cities in East Asia are going to be affected seriously by global warming. Targets are important, but in the end the solution has to come from technologies. East Asia needs to give priority to clean coal technologies because it is shifting to coal fuel.

On macro-economic policy for cooperation, a less stringent stability pact is needed. Let's be less bombastic in terms of naming it, lest the rest of the world will somehow oppose it. We should transform East Asia into an oasis of macro-economic stability.

ASEAN economies have moved very far, but the ASEAN institution has progressed very little. The challenge is to reform ASEAN internally and link it more to people, rather than to diplomats alone. Otherwise ASEAN will continue to lose relevance.

Tay: There are a number of technological and other tools that we are not using in our region to combat climate change. If we would just use existing technologies, including solar, etc., we would go very far towards curing most of the problems. Asia has savings that could be tied to the development of green infrastructure. So I am against investment regulation and instead I favor investment criteria that would enhance investment in the right kinds of technologies and infrastructure.

[???:] The movement, especially in Europe and America, to impose trade measures to achieve climate change objectives is worrying to Asian countries. We should be talking about positive measures rather than restrictive measures that would impact trade negatively, especially in this part of the world.

There are many aspects of cooperation for helping to restore stability and for emergency measures regarding financial stability. Academicians need to reflect upon what is the impact of this volatility in exchange rates and the impact on trade financing. We need to see how trade can continue to grow and not be restricted by this kind of issue.

In regard to the ASEAN-EU FTA, the EU's expectations are very ambitious. You can't bring issues like human rights, democracy, environment and labor into a trade negotiation forum. So it's not the case of ASEAN dragging its feet, but rather the EU. Their expectations must be in conformity with ASEAN sensitivities.

It's not a good move for ASEAN to negotiate with the EU on an individual basis. This is an attempt to break the unity of ASEAN as the regional grouping.

Lim: Trade related to climate change is not new. In the '80s we had trade-related intellectual property, and we had TRIM, trade-related investment measures. So these are all old tricks in trade negotiations.

Regarding the EU inserting a variety of issues into negotiations, the United States does the same thing, which is why it has not been able to negotiate with Malaysia. Whoever has the strongest negotiating position on trade will impose these points.

Hatakeyama: The long-term goal is to halve global emissions by 2050. The EU contends to discuss national emissions for midterm goals, but global emissions should be discussed first. Midterm global targets should be distributed to each country under a distribution formula established in the marketplace.

Regarding global warming, trade measures are not desirable, but what is most important is to have every country participate in this scheme with an obligation to establish its quantitative and quantifiable targets. Otherwise, investments will go to non-participating countries, leading to hypocritical behavior on the part of developed countries in the scheme.

Regarding the financial crisis, 10+3 might be interested in Chiang Mai initiative-type macro-policy, while ASEAN+6 might be interested in micro-policy. The financial crisis might bring about an anti-liberalization of financial policy, which even was incorporated in the WTO context. It is very necessary to resume the financial liberalization scheme upon the resumption of WTO negotiations.

CLOSING REMARKS

Hatakeyama: In regard to EAFTA, CEPEA and FTAAP, it was said that these developments are quite confusing, although this was not necessarily the consensus of the participants. I don't know whether the confusion has expanded or contracted as a result of this symposium, but I do think many things have become clear, including the fact that 'let's study further' actually is a diplomatic way of calling for a moratorium on further FTAs. This may not be the majority opinion, but it was quite interesting nevertheless.

In regard to cost, someone said that I proposed that at least half should be paid by developed countries. Actually, in my opinion, if we were united in one society, as in the case of the EU, then this would be logical reasoning. But since we do not belong to one society yet, I would ask why should developed countries alone pay at least half of the cost?

Regarding global warming, the proposal I mentioned regarding investment regulation or trade measures, which is not my proposal but actually an EU proposal, was not very popular with this audience. To solve this issue, every country must participate in the global team with a quantified target. The solution is easy: every country should participate in the scheme, and then the Indonesian tragedy, for example, would disappear.

Regarding the financial crisis, it is important to distinguish between policies in a critical period like now and policies in a normal period. In a normal period, perhaps we should follow the policies of Milton Friedman, but in a critical period perhaps we need to revive the policies of Keynes. We have to distinguish between the two when attempting to avoid any confusion regarding the schemes.

Mahani: On behalf of ISIS Malaysia, I express our greatest thanks to JEF, and to Hatakeyama-san in particular, for bringing this conference to Malaysia. We have benefited greatly by the group of prominent economists he has brought here to share ideas on regional integration and liberalization.

This is a time of importance, of crisis, and it was mentioned that there are worries about the U.S., with a new president who is going to take a more protectionist attitude. I would like to think that this is the time for East Asia to lead world growth. We cannot forever be trapped in the mindset that we always have to depend on the United States.

I know some disagree, but I think it is time for East Asia to look closely at our economic integration and how we can use some of the savings to invest and let Asia grow. Of course, the issue is, are we just doing it for ourselves and for the greater region? I think if we can get East Asia to grow, we can help solve the current situation by expanding the global

demand. For us to do that, it is important that we look at the free trade area in a more serious way for the region.

There is also talk about expanding this concept of liberalization and integration beyond East Asia. Of course, the more members in an economic grouping the bigger the benefit is. But here, the issue that we have raised about implementation, about the speed of making this group into a reality, is a real issue.

Perhaps we should debate a bit more, not just study—it's not a euphemism to call for a moratorium—but seriously study ideas like going for a bigger, wider integration, perhaps on a sectorial basis. We probably can make more progress by confining or deepening the integration sectorially, rather than going broadly. For that purpose, because it involves a lot more countries, we have to find a common interest, a common interest that I propose in sectorial terms, rather than in like-minded countries. If we approach like-minded countries, we are not going to adopt the concept of bigger regionalism. If it were only a group of countries ready to go, then we actually would create a divide.

Finally, I would like to allude to and give thanks for the richness of the discussion today. This is a very important issue that we need to discuss further, because in the end what is important is that liberalization is the means, not the end. We must bear that in mind. The end is growth and welfare for countries and populations.