

THE CREATION OF A FREE TRADE AREA OF THE ASIA PACIFIC

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The fifteenth APEC Economic Leader's meeting in Sydney this year was rather disappointing. I had hoped there would be some progress of discussion on an FTAAP from the previous year. Last year the APEC Economic Leader's Meeting (in Hanoi) instructed Officials to undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia Pacific [FTAAP] as a long term prospect, and report to the Leader's Meeting this year. Although, far-fetched, the original intention was very clear. That was to put an FTAAP idea on the table for starting at least a track-two study endorsed by the governments of each member economy of the APEC. However no such proposals were made at the fifteenth APEC Economic Leader's meeting in Sydney. It was just said that "through a range of practical and incremental steps, we will examine the options and prospects for an FTAAP." Frankly speaking, this was a retreat from the 2006 APEC Leaders' Declaration in Hanoi. Although it was said "we will examine", I wonder who is meant by "we"? Will the leaders themselves examine the options and prospects for an FTAAP? If so, by when? These important questions were not answered in the Declaration in Sydney.

I think it is imperative for a study on an FTAAP to be undertaken immediately. There are two reasons. The first is for the sake of the APEC itself. As we all know well, the APEC was born in 1989, stressing the importance of outward looking policies as opposed to closed economic blocks. The motto of the APEC was "open regionalism". What does this mean? It means that outcomes of trade liberalization of one APEC member economy should be extended not only to other APEC member economies but also to

non-member economies. Therefore in “open regionalism” trade liberalizations are supposed to be conducted rather unilaterally and voluntarily without give and take negotiations with other countries. The “open regionalism” implied tacit criticism of FTAs of which outcomes can only be enjoyed by member countries. This philanthropic and idealistic APEC concept culminated in the Bogor Declaration announced in 1994. According to the Declaration, APEC Leaders agreed to announce their commitment to complete the achievement of their goal of free and open trade and investment in the Asia-Pacific with this goal for the industrialized economies achieved no later than 2010 and for the developing economies no later than the year 2020. However, the Bogor Declaration was criticized harshly by APEC Eminent Person’s Group chaired by Dr. Fred Bergsten, which stated for example, that it allowed a “free ride” for non-member countries on the liberalization APEC members were going to implement unilaterally. In addition, it was quite ironic that FTAs, whose proliferation the APEC was trying to stave off, played a role in making it obvious that the Bogor Declaration was not going to be complied with. This was illustrated when, for example, two influential APEC countries betrayed their commitment by having established in their own bilateral FTA the goal of a trade liberalization schedule of certain products in 2023 which goes beyond the goal year not only for the industrialized economies but also for the developing economies. In addition, the Early Voluntary Sectoral Liberalization scheme proposed in 1997 failed to reach agreement to voluntarily liberalize 9 sectors, including fishery and forestry products. Thus the APEC method of liberalizing trade voluntarily has come to a deadlock.

The APEC should face this reality squarely by trying to change its method of trade liberalization from a voluntary one to a compulsory one. In this regard, FTAAP will be an appropriate tool to bail APEC out of the deadlock.

The second reason for a study on an FTAAP to be undertaken immediately is related to the U.S. In October last year, a senior official of the US government told me here in Washington DC that: “*China has proposed an ASEAN+3 FTA, excluding the US and a Japanese former METI Minister has proposed an ASEAN +6 FTA, also excluding the U.S.*”

My comment on this issue is as follows:

The US is not located in Eastern Asia therefore it is difficult for the US to join an East Asian FTA, *per se*. Many Americans counter this argument on the basis that although the US is not located in East Asia, the

US should qualify to join because it offers the biggest market to this region and ensures the region's national security by means of bilateral security arrangements with many countries. This is true, however, it is also true that immediately after the World War II the US assisted European economic restoration, mainly through the Marshall Plan and furthermore bolstered European security with the establishment of NATO. Nevertheless, the US has not joined the EEC or the EC. In view of this history, why is the US trying to join an FTA in Eastern Asia?

Of course, it is in the interests of East Asian countries to have the US involved in this region. If we can come up with a legitimate scheme for the US to join an FTA in this area, we welcome the US wholeheartedly. Such a scheme is an FTAAP. The APEC does include the US as a member. In order for us to engage the US in this area legally, the APEC should have an FTA among its members and then the US economy will be linked institutionally to this area. That was why the government of the US proposed an FTAAP. The government of China proposed ASEAN +3 FTA [EAFTA] last year and the government of Japan proposed ASEAN+6 FTA [CEPEA]. What would be the relationship between EAFTA, CEPEA and FTAAP?

For the EAFTA, since a general track-two study finished under the chair of China last year, a new track-two study for specific areas such as investment or intellectual property has started. For the CEPEA, a general track-two study has started with three meetings being held already.

However, there has been no such movement for an FTAAP. I think an FTAAP should start similar track-two study as soon as possible. In this regard, an FTAAP, at least its study, should not be regarded "as a long term prospect" [*1] and should proceed in parallel with an EAFTA and a CEPEA. It is a waste of time to argue which FTA should be studied first. There are three platforms for each FTA to be discussed, namely the ASEAN plus Three Summit for an EAFTA, the East Asian Summit for CEPEA and the APEC Economic Leaders' Meeting for an FTAAP. Why don't we have them compete with each other on the first come first served basis? Some countries may say they cannot afford to be involved in as many as three studies all at once. However, if a certain thoughtfulness is incorporated in decisions of timing and venues for three meetings so that an expert can attend all rather easily, that problem will be overcome.

What should we do if some APEC countries are opposed to starting a study on an FTAAP soon? In that case, like minded countries for an early FTA study should be called upon. This may serve as leverage to have all

APEC members participate in the FTAAP, although there can be as many 2 million combinations of bilateral and plurilateral FTAs between or among 21 or less APEC members.

Docking current FTAs should be avoided in principle because to harmonize them will take more time than to start from zero. By the way, there are 26 bilateral or plurilateral FTAs that APEC member economies concluded mutually.

One of the difficult issues in formulating an EAFTA or a CEPEA is Taiwan's participation. Although it is natural for Taiwan to join such an FTA, since Taiwan's economy is larger than that of any ASEAN countries, China has consistently opposed Taiwan's participation in international organizations.

However Taiwan is a member of APEC, not as a country but as a custom territory. Therefore, Taiwan can become a member of an FTAAP with such status almost automatically.

By the way intra export dependency ratio in the East Asia was 50.4 percent last year which was close to that of NAFTA, 53.4 percent. Because of proximity of these two figures, it is often said that the East Asia has already achieved a regional integration through business activities without governmental system such as a FTA. This is not necessarily true.

When we refer to intra export dependency ratio in the East Asia as being 50.4 percent, the exports to Taiwan and Hong Kong are included.

If we exclude Taiwan and Hong Kong from "East Asia", remaining countries are ASEAN+3, which mean ASEAN 10 countries, China, Japan and Korea. In the case of ASEAN+3, however, intra export dependency ratio goes down to 34.8 percent which is only two thirds that of NAFTA. Even if we add another 3, meaning Australia, India and New Zealand, intra export dependency ratio among ASEAN+6 is 39.2 percent which is less than three fourths that of NAFTA. For this statistical reason as well, Taiwan and Hong Kong should be included in an FTA in this area and an FTAAP is the easiest way to include them with a status of a separate customs territory, not with a status of a country.

The design of an FTAAP should not be too ambitious. To reach a consensus with as many as 21 economies is not an easy job. To change the method of trade liberalization from a voluntary one to a compulsory one is also difficult. Therefore we should not try to achieve a high quality FTA. Rather, we should seek an early conclusion of an FTAAP.