

(英語版)

**November 30, 2006**

### **Opening Remarks**

#### **Dr. Hadi SOESASTRO, Executive Director, Centre for Strategic and International Studies (CSIS-Jakarta)**

He welcomes participants to the Symposium. Japan Economic Foundation has initiated the discussion on the EAFTA (East Asian Free Trade Area) and this is their 5<sup>th</sup> symposium. The notions of East Asia cooperation, free trade area, and community building are very relevant to this part of the world. Until today in Indonesia this issue has not been discussed beyond the meetings among experts. Therefore, this is a valuable and timely meeting.

#### **Mr. Noboru HATAKEYAMA, Chairman and CEO, Japan Economic Foundation (JEF) (Former Vice-Minister for International Affairs, Ministry of International Trade and Industry, Japan)**

East Asia integration comprises many FTAs including the China-ASEAN FTA. More FTAs are under construction including Korea-USA. Additionally, the Joint Expert Group (JEG) was established in 2005 under the chairmanship of Mr. Zhang Yunling. The JEG proposed the forming of an ASEAN+3 FTA. Then, Japan proposed a feasibility study on an ASEAN+6 FTA. The 2<sup>nd</sup> East Asian Summit will soon be held in Cebu Island.

### **Keynote Address**

#### **H.E. Jusuf KALLA, Vice President of the Republic of Indonesia**

All countries want prosperity and welfare. We need cooperation with Asian value. Therefore, the problem is how we can cooperate based on our own values. ASEAN+3 are countries with per capita income that range from less than \$1000 to over \$20,000. Like the problem of chicken and egg, it is difficult to say whether we should promote cooperation only after achieving welfare or the other way around. The obstacle is the big economic gaps among countries in the region. Furthermore, even within a country there are still income gaps, e.g. in Indonesia. Differences can also be found in the provision of infrastructure provision, the legal system, and capacity of the bureaucracy.

Europe needs 40 years to build the European Union. In East Asia we also want to promote cooperation based on our own values that are different from those of the EU. The many gaps need to be taken into consideration. Therefore, it will take time to implement the EAFTA. We cooperate to be able to compete globally. We are also competing within the East Asian region. We should discuss what system we want to adopt in forming an EAFTA. We should look at the gaps not as obstacle but as strength. The purpose of the EAFTA is to increase prosperity in the region.

#### **Session 1: The recent FTA movements in the East Asian region and future prospects toward the EAFTA**

**Moderator:**

**Dr. Hank LIM, Director for Research, Singapore Institute of International Affairs (SIIA)**

This symposium is very strategic since the topic is very relevant currently. In the last 12 months there are several developments in the East Asia cooperation. The first is the FTA agreement between Japan and Malaysia. The second is between Japan and the Philippines. The FTA between Japan and Indonesia has been signed in principle last week. In July, the JEG issued a roadmap and modality towards an East Asia FTA (EAFTA).

**Panelists:**

**Dr. Thomas G. AQUINO, Senior Undersecretary, Department of Trade and Industry, the Republic of Philippines**

Will Regional Trade Agreements (RTAs) serve as building blocks that will eventually lead to more efficient processes at the multilateral level? Or are they only producing a “spaghetti-bowl” effect, where rules are becoming more complex and difficult to harmonize? What will be the impact of the recent FTAs and EPAs on the direction towards the creation of an EAFTA?

The EAFTA is envisioned to involve the integration of an existing regional block – the ten members of the ASEAN and three large countries – China, Japan, and Korea. There are also initiatives to expand the membership of this East Asian group to include India, Australia, and New Zealand. ASEAN practices “open regionalism”. ASEAN has already established partnerships with other Asian countries, namely China, Japan, India, Korea as well as Australia and New Zealand.

With ASEAN as the common denominator in all these integration initiatives, the organization is emerging as the driver for the EAFTA. ASEAN is a more cohesive political and economic group than the three countries (China, Japan and Korea). Some have questioned the possibility of ASEAN assuming leadership of the process, given the size and power of other partners involved.

Individual ASEAN countries are also active in bilateral negotiations. The key question then applies to ASEAN in assuming the role as driver of the EAFTA: Will these FTAs or EPAs enhance or impede the process towards an EAFTA? I argue that the FTAs of ASEAN countries – given certain desired outcomes – will serve to enhance the process towards an EAFTA:

- First, these bilaterals are negotiated in the context of ASEAN.
- Second, this will help prepare and upgrade their institutional structures and capacities for negotiating with the other participants in the EAFTA.
- Third, it will be an opportunity to build trust and confident relationships with the officials of other countries – allowing for a better understanding of their contexts and challenges.
- Lastly, the FTAs are an opportunity to provide convincing arguments on the benefits of integration. Disappointing results from the FTAs can provide counter-arguments against further integration at the regional level.

As a result, FTAs and EPAs should be negotiated, concluded, and implemented in a manner that will further the real and authentic development objectives of all partners involved. It is in this spirit that we are looking at bilateral FTAs and EPAs and the EAFTA.

**Mr. J. JAYASIRI, Senior Director, Bilateral and Regional Relations, Ministry of International Trade and Industry, Malaysia**

From the negotiators point of view, the negotiators are those who suffer most from the cooperation, not the scholars or the political leaders. Before discussing FTAs and regional agreements, we need to make a commitment that puts multilateral agreement as a priority. The Doha Agenda cannot fail. While we are talking about FTAs and regional agreements, we are not making a Plan B for the WTO multilateral agreement.

Survey of all FTAs in the region: 1) AFTA, the CEPT is not completed yet; 2) Bilateral agreements; 3) ASEAN with dialogue partners. Next could be the EAFTA. None of the agreements is a traditional free trade agreement. They not only cut tariffs, but also have economic partnership component.

The difficulties in negotiations are:

1. Meeting the deadlines. If we are unable to meet the deadlines, usually protocol agreement will be used to correct this. As for FTAs without a deadline such as ASEAN-China which has no deadline for investment and services agreements, the negotiation process is driven by the slowest partner.
2. Single undertaking or not. A single undertaking means all pillars are negotiated together: goods, services, and investment. In the case of ASEAN-China, goods were negotiated first, and after the parties realized the benefit in free trade of goods, they negotiate in other areas such as investment and services.
3. Capacity building and technical cooperation. This also includes dispute settlement mechanism.
4. Overlapping regulations. For example, there is a mismatch between bilateral provisions and regional provisions in the rules of origin.
5. WTO plus agreement. Proponents of WTO plus argued for the inclusion of Intellectual Property Rights (IPR) and Competition Policy. ASEAN+1 includes binding agreement and technical cooperation. Both are right but how far we can obtain the inclusion of the WTO plus depends on the individual country.

There are resource constraints in the negotiation of agreements. This is reflected in the difficulties in determining the dates for negotiation. The same people are involved in the negotiations of many agreements. Therefore, this resource constraint must be considered in the negotiations of the EAFTA.

Issue of sequencing should also be considered. For ASEAN, the first should be the CEPT of AFTA. Second should be AFAS. Third should be ASEAN investment integration, Fourth should be the ASEAN Economic Community in 2015, and only then should be the EAFTA.

**Mr. Yuji KIYOKAWA, Advisor, Toshiba Corporation**

Comment on FTA from business' point of view.

Toshiba's profile: Established in 1875, has participated in Japan's development for about a hundred year. It has large sales in Asian countries. Its TV business is divided into 5 areas. The problem of TV business in Indonesia is the cost of competitiveness due to high procurement cost (>80%). They import materials from Japan, Korea, and other countries because domestic supporting industry for TV is not fully developed.

There are two challenges in TV industry:

1. Demand on TV is changing from CLT TV to LCD TV. High cost of material for LCD is the problem. Therefore, according to Toshiba, the key success of AFTA is reducing the cost of material, not the labor cost;
  2. Marketability of ASEAN. ASEAN has changed from production base to market.
- These challenges are common for other machinery industry.

To be able to compete with EU and NAFTA, East Asia should have freer business competition. With freer competition, tariff reduction, NTBs removal, and shorter days for production will be obtained. In addition, according to Toshiba, EPA is important for industrial development in Asia.

Toshiba is optimistic that the proposed EAFTA will increase citizens' wellbeing. The company expects an economic integration of Asian region that is equal to NAFTA and EU as well as an Asian industrial promotion which is an integration of the consumer market and a formation of vertical production chain.

**Dr. Djisman SIMANDJUNTAK, Chairman, Board of Director, CSIS Foundation/  
Executive Director, Prasetya Mulya Business School**

RTAs are the second best. The first best is the non discrimination approach to global cooperation. The most important objective is prosperity. Global liberalization can achieve prosperity better than through regional liberalization. ASEAN countries are now enjoying MFN-based liberalization rather than AFTA-based. Once one country makes an agreement with Japan, the other countries are forced to follow. Therefore, nowadays Indonesia is signing an EPA with Japan because Malaysia is soon going to sign agreement with Japan. So, RTAs have become an alternative game. There is no way of avoiding it.

Today, there are two options: 1) continue negotiating RTAs separately like we are doing right now; or 2) an umbrella RTA. An additional option is to continue negotiating RTA separately but with the umbrella. Separate RTAs such as the Japan-RI EPA or between Japan and other countries are not attractive to the rest of the world. So, the umbrella RTA is preferred. Nevertheless, Simandjuntak agrees that for now cooperation can be built on the basis of separate RTAs.

Removal of barriers, free movement in goods and services are important. But people can only benefit from this free movement if they have certain competencies. People from this part of the world have limited competencies. JEG was of the view that RTA in East Asia will bring about development but the group is not sure how development cooperation will be funded. Mechanism for capacity equalization is needed to narrow the gap. Narrowing the gap should start from promoting education. Furthermore, the more developed countries should provide regional public goods.

Regarding Kalla's concern about Asian value, Simandjuntak also points out the identity of this East Asian regional cooperation that has not been formulated yet.

-Questions and Answers-

Questions:

1. Question to Mr. Aquino on the involvement of the US. Singapore has concluded FTA with the US, and Malaysia and Thai are still negotiating. Vietnam may follow. How do you

consider an FTA between the Philippines and U.S.? There will be the second East Asia Summit in the Philippines. How do you consider US participation in this cooperation?

2. You are comparing East Asia with EU and NAFTA, but East Asia lacks the cohesion of the other regional arrangements and there are large gaps in the level of economic development. Therefore, Brodiningrat prefers Simandjuntak's 3<sup>rd</sup> alternative which is separate RTAs but under a single umbrella.

Comment to Mr. Jayasiri on the resources constraints and that in addition Indonesia faces the problem of inter-agency coordination.

3. How is the prospect of FTA between ASEAN and India and between ASEAN and Australia & New Zealand?

Answers:

1. Regarding US-Philippines FTA, the Philippines President has discussed with US President about trade initiatives and agreed that they should support multilateral liberalization.

ASEAN-India is still under negotiation and India is opening up only slowly. As for ASEAN-Australia & New Zealand, negotiators on both sides are still in the process of understanding each other's interests and backgrounds.

2. With respect to ASEAN-Australian & New Zealand, the negotiating process is very slow. Although ASEAN has obtained AFTA, the common denominator in AFTA is free trade in goods and services. Beyond that, there is no consensus on property rights, competition policy, and so on. Therefore, other negotiations do not have this kind of consensus.

Regarding ASEAN-India, the negotiation does not accord with the political will on the part of the leaders. Initially India wanted 80% exclusion because of a lot of political pressures. Therefore, it is difficult for ASEAN to cooperate with India. Last week they met in Jakarta, and some progress was achieved as India has brought down their exclusion list.

Considering adopting the umbrella approach, the umbrella agreement should be made first. However, right now we already the bilaterals.

3. There will be more FTAs to come e.g. China-Japan. Even though some have been completed, it still makes sense to adopt the umbrella approach. Under an umbrella agreement, we can make sure that agreements do not deviate too much, how much trade should be included in the FTA, and determine what kind of regional MFN we want to have. Moreover, we somehow need to agree on the time frame because each FTA has a different time frame. As for the rules of origin (RoO), margin of preferences in existing RTAs are very thin because MFN tariff is already low. And the RoO process is so complicated. If the margin of preference is only 3 %, then we need an umbrella agreement about RoO.

Questions:

1. He asked about the role of ASEAN as the driver in the East Asian process.
2. Negotiation under AFAS (ASEAN Framework Agreement on Services) is so slow. Only 70 out of 600 sub sectors have been agreed upon.

3. A participant suggests that East Asian countries need to exchange journalists to disseminate information in the region about this cooperation.

Answers:

1. ASEAN is put in the driver's seat of the process towards EAFTA, but it is not a professional driver.
2. The EAFTA is the beginning of the larger economic community.
2. ASEAN should have accomplished more than it has right now. Countries will gain the benefits of the EAFTA if governments carry out the necessary domestic reforms.

## **Session 2: What is Japan's proposal for Comprehensive Economic Partnership in East Asia (CEPEA) – Former Minister Nikai's Initiatives?**

**Moderator:**

**Mr. Hiroshi TSUKAMOTO, President, Japan External Trade Organization (JETRO)**

**Presenter:**

**Mr. Nobuhiko SASAKI, Deputy Director-General, Trade Policy Bureau, Ministry of Economy, Trade and Industry, Japan**

East Asian countries are activating the movements for economic partnerships. The spaghetti bowl in East Asian countries comprises five main partnerships of ASEAN and some countries in East Asia and the Pacific, including India-ASEAN (negotiation in progress), China-ASEAN (2005 goods agreement come in force), South Korea-ASEAN (concluded in end of 2005), Japan-ASEAN (negotiation in progress), Australia & New Zealand-ASEAN (negotiation in progress).

Japan, China, South Korea, Hong Kong, and Taiwan together with the 10 countries of ASEAN account for one third of the world population (2 billion) and one fifth of the GDP of the entire world (US\$ 7 trillion dollars). By adding India, China, Australia and New Zealand, this group accounts for half of the world populations (3 billion) and quarter of world GDP (US\$ 8.3 trillion)<sup>1</sup>.

A background of economic development and integration in East Asia:

1. Unique regional production network. Since 1995, East Asia has achieved breathtaking economic development through trade and capital flows. Hence, unique regional production network has emerged.
2. Development of institutionalized mechanism fitted together with the network. ASEAN plays a pivotal role by promoting FTA/EPAs with Japan, China, Korea, India, Australia and New Zealand and develops the web of FTA/EPAs in the region.

The basic principles for Deepening East Asian Economic Integration are as follows:

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<sup>1</sup> As of 2003.

1. Establishing free, fair and rules-based market economy which is governed by rule of law, covering not only trade in goods, but also services, investment, trade facilitation, and intellectual property.
2. ASEAN as driving force is a cornerstone of the wider regional integration which would promote development and integration of ASEAN economy.
3. The open dynamism that supports economic development through direct investment and trade with partner outside the region. Therefore, regional integration should be not exclusive but should be open to the partners who engage with the region. Finally, East Asia will also need to strengthen the trans-Pacific cooperation.

Thus, two initiatives derive from this background: Comprehensive Economic Partnership in East Asia (CEPEA) and Economic Research Institute for ASEAN and East Asia.

The vision of CEPEA comprises ASEAN and its FTA partners (China, Japan, Korea, India, Australia, and New Zealand) and covers a wider agenda than FTA (trade in goods, common rules of origin, services, investment, etc).

Japan will commence in 2007 the track-two study of the possibility of CEPEA by experts of ASEAN + 6 countries. The background of this EPA is 5 FTAs in the EA which are expected to be generally agreed upon at the end of 2007. The goal is to bind all these FTA into one.

The 2<sup>nd</sup> initiative is the Economic Research Institute for ASEAN and East Asia (ERIA) which is meant to support the economic integration in East Asia. We think it is good to have a think tank or an organization to undertake research and analyses in order to give policy recommendations. ERIA will also help the ASEAN Secretariat, and ASEAN as a driving force, to support intra ASEAN, ASEAN+1, ASEAN+3, ASEAN+6 economic integration of this region. It is important for this institution to assist in the capacity building and human resources development for the less developed members. The driving force of ERIA comprises existing institutions of 16 member countries like ANU of Australia, BDIPSS of Brunei, CICP of Cambodia, CASS of China, RIS of India, CSIS of Indonesia, IDE/JETRO of Japan, KIEP of Korea, NERI of Laos, MIER of Malaysia, YIE of Myanmar, NZIER of New Zealand, PIDS of Philippines, SIIA/ISEAS of Singapore, TDRI of Thailand, and CIEM of Vietnam. It is hoped that ERIA will start at spring 2007.

Furthermore, one of the backgrounds of these two initiatives is the unique production network of ASEAN+6. In the case of electronic manufacturers, the component supply comes from Japan, China, Korea, Thailand, Malaysia, etc., and then it will be manufactured in Vietnam and Thailand. At the end, it will be exported to India, Australia and NZ. It is expected that this area has now become one factory.

India has strong relationship with China, Korea and ASEAN countries. In 10 years, India's export to China has increased 19.5 fold while export to Korea has increased 3.3 fold. Meanwhile, export to ASEAN has increased by 4.2 fold. As for Australia, in 10 years, its export to China has increase by 2.9 fold and export to Korea has increased by 2 fold. Australia's export to ASEAN has increased by 1.4 fold.

ASEAN has offered a common modality to some countries as a platform of future regional FTA/EPA. China, Korea, Japan and Australia (on proposals) have the same patterns of tariff concession schedules with ASEAN. Meanwhile, India has improved its tariff concession and should be similar to that of China, Korea, and Japan.

In East Asia, Japan has been concluding comprehensive, high-level EPAs. Japan is also proposing the commencement of a track-two study group of CEPEA, which consists of ASEAN+6 nations. Through these efforts, Japan aims for open up trade and investment in the Asia-Pacific.

**Panelists:**

**Prof. Vincent C. SIEW, Chairman, Chung-Hua Institution for Economic Research (CIER) (Former Premier of Taiwan Republic of China)**

ERIA, who will conduct an in-depth research on East Asian economic integration not only trade in goods but also in services, investment, intellectual property, SMEs, institution and other issues, will proved a substantial benefit to EA economic integration. CEPEA provides an opportunity to conclude economic integration among EA countries. If these initiatives can be put into effect, the combined GDP of EA countries will fit to the economies of scale of NAFTA or EU.

The basic concept of CEPEA: Comprising ASEAN and its FTA/EPA partners and also including the establishment of basic framework in the areas of trade liberalization, custom facilitation, investment liberalization, intellectual property and dispute settlement mechanism. At the same time, this region should offer rich international investment opportunities. This will result in cooperation and industrial division of labor economic partnership among the region.

But there are some impediments that could be encountered in the proposed initiative:

1. While China is gradually catching up with the US influence in Asia, the US is still the main destination country for major exports of EA members. CEPEA appears to be based on open regionalism and advocates that Asia should not be exclusive but should be open to the partners who are engaged with the region. It still needs a clarification as to how CEPEA will manage its relationship with the US.
2. The formation of FTA in Asia Pacific was a long term goal in the APEC leader's declaration. Where does Japan stand on all these organizations? Do we need to further analyze the relative advantages, disadvantages, and feasibilities of CEPEA and the FTAAP (Free Trade Agreement of the Asia Pacific)?
3. The more parties in multilateral negotiations the harder it is to conclude an agreement. In the CEPEA, there are great disparities between countries in terms of economies of scale, social and political development which imply difficulties of integration. And since the economies of China and India are now in a competitive state, is it possible for their interests to be in harmony?
4. To support economic integration, it was proposed to capitalize on the unique production network. Why then is a country like Taiwan being excluded? Could this unique production network be established without the inclusion of Taiwan?
5. Taiwan is also excluded from the trade network. This is inconsistent with the concept of being open to partners outside region. Will CEPEA follow the APEC decision to include Taiwan as the members?
6. Is CEPEA a regional economic organization under the WTO framework? If each regional organization can be established without taking the WTO framework into account this will produce the trade diversion effect rather than trade creation effect.

**Prof. Simon SC TAY, Chairman, Singapore Institute of International Affairs (SIIA)**



Congratulates Japan for these initiatives. Japan used to be WTO-only minded. So it is a revolution in Japanese thinking about the region and free trade.

We are divided into two groups. The one focuses only on one partnership like ASEAN+6. The other thinks like the “U.S’ alphabet soup”, that like to make progress in order to make our region more cohesive and integrated. ASEAN is the effort to build community with three pillars: economy, security, and social-cultural.

Why is CEPEA important?

1. Dynamism in India and the market sophistication of many Indian companies. This is one of the strength that few ASEAN+3 countries have.
2. The inclusion of Australia and New Zealand as developed countries, and economies with resources like energy or food as well as a strong base for education and training will strengthen the partnership. If it includes only Japan and Korea as developed economies it will not be very strong in providing education or training.
3. Provides a non-racial idea of this region as it combines the white Caucasians in Australia and New Zealand with the dark ones in India.
4. CEPEA will capture a lot of emerging production patterns. India, Australia, and New Zealand will be very strong in this area although maybe there is a problem of overlapping rules with FTAs in the region.

Lastly, the concepts of ERIA would be better with the coordination of network of existing institutions. ERIA should not be a vehicle of any countries. Thus, it will need good coordination among institutions.

-Questions and Answers-

Questions:

1. First, what is the difference between FTA and EPA? Second, what is the difference between a comprehensive economic partnership (CEP) and EPA?
2. We already have ASEAN+6. Is it feasible to implement CEPEA? Should we start from the larger one or the smaller one and then gradually move to the larger one?
3. What is the difference between ASEAN+6 and CEPEA?
4. The concept of CEPEA is the same as ASEAN+6 as clearly stated in Mr. Sasaki’s presentation. The idea is to include India, Australia and New Zealand in the partnership.
5. We are now talking about negotiations in ASEAN+3 (ASEAN + 1s and EAFTA) and in ASEAN+6 (CEPEA). Do you think they could be done in parallel? Could one agreement (say, ASEAN+1) move faster than the other?
6. Could you explain more about India’s position in this initiative of ERIA?
7. Taiwan may not have strong relationship to ASEAN countries. But Taiwan’s trade to India has grown remarkably. So, maybe it will be a good thought to consider the inclusion of Taiwan in CEPEA, based on the concept to open dynamism and partnership with those engaged to this region.

8. If we include India, Australia and New Zealand in the CEPEA, despite differences in the geographical, cultural and economic aspects, why not try to include Bangladesh, Sri Lanka and Pakistan so they can all contribute to some extent?

Answers:

1. The term EPA was first used when Japan has an economic agreement with Singapore. This agreement not only captures trade in goods but also services, investment, intellectual properties, capacity building, etc. At that time, the term FTA is only used for trade in goods. So, to differentiate from the other agreements we used the term EPA instead of FTA.

There is no difference between a comprehensive economic partnership (CEP) agreement and an EPA. We used the word comprehensive to characterize the agreements to be established in East Asia.

CEPEA is feasible. But we should do it step by step. It should consider the progress of ASEAN+1 and ASEAN+3. In fact, that's why we propose the track-two study, which is non-governmental but by academics, on the feasibility of CEPEA. I think the CEPEA could only be started after we conclude the ASEAN+1 and ASEAN+3.

CEPEA's idea is to start the track-two studies comprising all 16 countries. This is different from ASEAN+3+3, which means involving the 13 countries first and then later to welcome the other 3 countries.

India is very much supportive of the CEPEA ideas. They contribute to this track-two study by sending their representatives to this study. The concept of ERIA is to establish an "OECD" in East Asia, but driven by the research institutions among the region members and to reinforce the function of ASEAN Secretariat.

The US mentioned that FTAAP is a long term goal while DDA is the nearest-term goal. We like to follow that sequence. As FTAAP is wider than CEPEA, why not conclude CEPEA first before the FTAAP.

2. I think India, Australia and New Zealand have been included because of the have greater interactions than Bangladesh or Pakistan with East Asia.

Liberalization in the larger group can be more beneficial than in a smaller group. That is why we believe in the WTO. But a smaller group is also easier to manage. Looking at the sequencing of so many FTAs, it is important to also develop cooperation among non-governmental groups, particularly among regional think tanks to produce policy recommendations.

### **Session 3: An East Asian Community or the EAFTA? (Evaluation of East Asia Summit held in Kuala Lumpur last December)**

**Moderator:**

**Dr. Hank LIM, Director for Research, Singapore Institute of International Affairs (SIIA)**

My opinion is that all the three sessions in this seminar should be integrated and each should not be considered as a distinct session.

**Presenter:**

**Dr. Hadi SOEASTRO, Executive Director, Centre for Strategic and International Studies (CSIS-Jakarta)**

The purpose of this session is to address the question of “EAC (East Asian Community) versus EAFTA”.

I like to begin by summarizing the two morning sessions by asking the question of why the issue of community building of EAS has arisen. In the end the question of whether EAC and EAFTA might simply be a matter of time horizon.

EAC (with a capital C) is different from EAc (with a small C). Community building is a manifestation of the need for some kind of regional order in East Asia, especially after the ending of the Cold War. This regional order is intended to promoting peace and prosperity in the region. APEC is to promote this regional order. APEC includes the US has difficulties understanding the concept of community building.

In the past the Chinese also had difficulties the community concept, in particular with the capital C, but could accept the notion of a community with a small c to mean the creation of a regional family.

EA integration has been largely market driven. Intra regional trade right now is around 50 % of total trade to world. Intra-regional imports are larger than intra-regional exports.

The idea of EAC was first proposed when there were talks about Asian values and the need for the region to raise its voice globally, but it became more intensively discussed after the 1997 financial crisis. It is perhaps obvious why we should create a regional order. However, we need to be cognizant of the many obstacles and problems in the development of this regional order. ASEAN, the first attempt in the region towards community building provides a reality check on what we can do in the region.

The JEG suggests that we should begin with the establishment of working (study) groups on each of elements of a possible regional agreement (EAFTA) and to make an in-depth evaluation of existing conditions and problems. The process of negotiations could be launched after these studies are undertaken.

**Panelists:**

**Mr. Noboru HATAKEYAMA, Chairman and CEO, Japan Economic Foundation (JEF) (Former Vice-Minister for International Affairs, Ministry of International Trade and Industry, Japan)**

An EAFTA is different from an EAC although the former could be part of the latter. I would like to explain the differences between an EAC and an EAFTA by comparing a community and an FTA in general. Firstly, a full fledged community ordinarily has three pillars; an economic community, a security community, and a social community.

The 9<sup>th</sup> ASEAN+3 leaders' meeting and the first East Asian Summit (EAS) were held in Kuala Lumpur on December 12<sup>th</sup> and 14<sup>th</sup> 2005, respectively. The EAS was attended by leaders of not only the ASEAN+3, but also by those of India, Australia and New Zealand.

On the EAFTA, two proposals were submitted to the economic minister's meeting of the ASEAN+3, held on August the 24<sup>th</sup> 2006. The first was proposed by the joint expert group (JEG) from every ASEAN+3 countries. The JEG proposed that the original members of an

EAFTA comprise the ASEAN+3 countries and that an independent process to form an EAFTA could be launched in 2007. However, the economic minister's meeting of the ASEAN+3 of August the 24<sup>th</sup> decided that senior officials should conduct further studies. The second proposal was made by Japan's METI minister, Nikai. According to this proposal, an EAFTA should consist of the ASEAN+3, India, Australia, and New Zealand and a track-two feasibility study on such EAFTA should commence next year with target of negotiations set of 2009.

In conclusion, establishing an EAFTA is feasible, but it is quite difficult to establish an EAFTA. What would the relationship be between an EAFTA, be it consisting of ASEAN+3 or ASEAN+6, and an APEC FTA (FTAAP)? According to my personnel view, the answer is competitive liberalization. Why don't we have three FTAs proposals, namely an ASEAN+3 FTA, an ASEAN+6 FTA, and an APEC FTA to compete with each other on the first come first serve basis? ASEAN+3 countries are involved in three regularly held summit meetings. These three are ASEAN+3 Summit, East Asian Summit and APEC Economic Leaders' meeting. Which meeting should be in charge of which FTA proposal? Identity of members of an FTA with members of a leader's meeting is the key words to answer this question. Namely an ASEAN+3 FTA proposal should be discussed in the ASEAN+3 summit. An ASEAN+6 FTA proposal should be discussed in the East Asian Summit consisting of ASEAN+6. Of course an APEC FTA proposal should be discussed in the APEC Economic Leaders' meeting.

There might be counter arguments against competitive liberalization to the effect that unless discussions on each proposal are held sequentially, human resources would become unavailable due to too many meetings held here and there all at once. However, economies of scale advantage will work. If we negotiate an ASEAN+3 FTA today, you can join a study on an ASEAN+6 on a track-two basis tomorrow and can contribute to complete a report on an APEC FTA the day after tomorrow, in the same venue. Even if three FTAs turn out to be co-existing, that would be fine since they will be integrated in due course.

**Dr. Chulsu KIM, Senior Advisor, Lee International (IP & Law Group) (Former Minister of Trade, the Republic of Korea)**

I want to focus my remarks on membership and modality questions of the EAFTA. Basically, such a regional arrangement is still a long time to be implemented. It is because there should be some consideration about the neighboring countries. Major countries around the region could be affected by the effort.

While we talk about East Asia, few countries still focus on the membership question. East Asia should follow the European Union (EU) or North America Free Trade Area (NAFTA) by restricting their membership. A wider membership could decrease the optimal condition of trade among countries

The next question is how to bring about EAFTA. Basically, AFTA will be completed in 2012. Big countries like Japan, Korea and China should arrange their own FTA and then start a negotiation with ASEAN to create a bigger Free Trade Area. But the problem is that the three countries have problems to negotiate such an arrangement amongst them.

The FTA in the region should not be restrained. But a time line is very important to be scheduled. I hope, the launch of EAFTA could be announced in the next ASEAN summit.

**Prof. ZHANG Yunling, Director, Institute of Asia-Pacific Studies/ APEC Policy Center, Chinese Academy of Social Sciences (CASS)**

I do not agree with the use of “or” in the title of the session. Moreover, what are the boundaries of East Asia? What limits the concept? Is it going to be 10+3+2 to include North Korea and Mongolia?

Actually, we need to encourage 10+6 for EAFTA. EAFTA is a part of EA community building. The basis is 10+3 countries. They should be involved in the working groups mentioned before in order to make a solid foundation.

Without ASEAN we will not be able to realize the East Asian community. We must start with ASEAN then create a larger community step by step. But the problem is that ASEAN probably do not want to lead this community because ASEAN is still busy with its many 10 plus something. Perhaps we could expect ASEAN to be ready in 2015.

About the China’s role, China does not like a wide community but prefers a small one. In principle, the larger the community the better the outcome will be for China. But what is the most realistic one? China thinks that 10+3 is best. So the conclusion is that we do not need any new initiative, we need implementation. Exactly like Dr. Hadi Soesastro has suggested.

**-Questions and Answers-**

**Questions:**

1. In the past, cooperation with India is very hard but now India is advancing. Therefore, is it good to try it again now, but what kind of framework should we use?

Which is more comfortable way, for the three countries to negotiate first and then with ASEAN or the 10+3 all together?

Economic integration is driven by business activities, but why do we focus so much on the economic community?

2. It is perhaps hard for ASEAN to bring EAFTA to reality. How should ASEAN do this?
3. What are examples of initiatives that are not implemented yet?
4. I think the ASEAN+6 is feasible too. But I need to clarify that this proposal is not about a competition between China and Japan. We just want to bring more prosperity to the region.

**Answers:**

1. An economic community should not only involve the business community, but should also involve civil society that have a large stake in the process and outcome as well. We need to educate the civil society about the problems (costs and benefits) of economic integration as they can become a hindrance to regional economic integration. We could see this in Thailand and the Philippines today.

An example of a major initiative in the region that is poorly implemented is the 1994 APEC Bogor goals.

2. It will take time for the 3 countries (China, Japan and Korea) to negotiate, and even a lot more time will be needed towards East Asian integration. I think we should avoid the 3

countries negotiation. Perhaps, ASEAN could make more studies regarding the situation so it could give a more reasonable proposal for regional integrate. The other alternative is that ASEAN could create ASEAN+1 with each of the 3 countries, because it is much easier.

I think the APEC Bogor agreement is like “joke” for regional economic integration (because of its voluntary nature). That is why we need to propose more reasonable agreements.

3. A lot of discussions suggest that the best framework is the three ASEAN+1 framework. But I think we need to promote the 10+3 framework.
4. We need to encourage the three countries to negotiate, because we need them to lead in the economic integration.

### **Closing Remarks**

Mr. Hatakeyama and Dr. Hadi Soesastro thank the speakers and the audience for a lively discussion. They also express great appreciation for the cooperation between JEF and CSIS in organizing the Symposium.

In closing Mr. Hatakeyama mentioned that the next Symposium will be held in China.