How Should We Deal with 3 FTA Proposals in Asia?

By Noboru HATAKEYAMA

ASEAN countries, Japan, China and South Korea have been considering establishing an Asian regional FTA, consisting of these countries and others. As an institutional organization to cover each region, North America has the NAFTA and Europe has the EU. A possible Asian regional FTA is Asia's undertaking to catch up with the regional integrations in North America and Europe. There are three proposals on the table as follows.

1. East Asia Free Trade Area (EAFTA) proposed by China, consisting of ASEAN+3 (Japan, China and South Korea)
2. Comprehensive Economic Partnership in East Asia (CEPEA) proposed by Japan, consisting of ASEAN+6 (Australia, India and New Zealand in addition to the three mentioned above)
3. Free Trade Area of the Asia-Pacific (FTAAP) proposed by the United States

At a meeting of ASEAN+3 economic ministers held in Kuala Lumpur in August 2006, the ministers were briefed about a feasibility study on the proposed EAFTA conducted by a joint expert group chaired by a Chinese. The ASEAN ministers stressed "the need to expeditiously conclude ASEAN-plus-one FTAs as the foundation for deeper regional integration." ASEAN has been negotiating FTAs respectively with six countries in the context of ASEAN+6 mentioned above. Since ASEAN's negotiations with each partner country were conducted one by one without having them formulate a group, the ASEAN negotiation formula was called "ASEAN plus one." At that time, ASEAN concluded an FTA only with China, which can be called in this context "ASEAN plus China." Therefore the ASEAN ministers insisted that ASEAN plus South Korea or Japan should be concluded before an EAFTA is discussed formally between the governments of East Asian countries. The EAFTA idea was also discussed at the ASEAN+3 summit held in Cebu, the Philippines, in January 2007. ASEAN+3 leaders noted that they should continue to examine other possible FTA configurations such as CEPEA and they also welcomed South Korea's proposal to conduct a phase II study, involving in-depth sector-by-sector discussions on details of the EAFTA. As of now, the sector-by-sector EAFTA study has been conducted under the leadership of South Korea.

Although the CEPEA proposal had been just taken note of when it was submitted at first to the ASEAN+3 economic ministers' meeting in August 2006, the second East Asia Summit held in Cebu in January 2007 agreed to launch a Track Two study on it and asked the ASEAN Secretariat to prepare a time frame for the study. Study group meetings were already held several times under the chair of Japan and participants have been assigned to report on issues related to CEPEA.

The FTAAP was formally proposed at the 14th APEC economic summit held in Hanoi in November 2006. APEC economic leaders instructed officials to undertake studies on ways and means to promote regional economic integration, including an FTAAP as a long-term prospect, and report to the 2007 APEC economic summit in Sydney.

What would be the relationship between the EAFTA, CEPEA and FTAAP?

Of course each of the three has its merits and demerits. A study on the EAFTA is most matured at this stage, having entered into a phase II study. However, the EAFTA does not include India, an emerging economic giant, as a member. It does not include Australia either whose economy ranks fourth in Asia. CEPEA does include these two important countries. However, the EAFTA and CEPEA do not include the United States. Of course it would be strange for the United States, not located in Asia, to be a member of an East Asian regional integration. However, the United States offers the biggest markets to many East Asian countries including Japan and China. Therefore, it is in the interest of all if we come up with a geological scheme to include the United States institutionally. Such a scheme is the FTAAP. By adding a "Pacific" element to Asia, APEC enabled the United States to be a natural member. The FTAAP includes Canada and Taiwan which are not members of the EAFTA and CEPEA. The FTAAP, however, does not include India. On the other hand it includes as many as 21 economies. To conclude an FTA among 21 economies may be difficult. Perhaps it is better to recruit members of an FTA from like-minded economies of APEC.

With these merits and demerits, 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+3 summit for the EAFTA, the East Asia Summit for CEPEA and the APEC economic summit for the FTAAP. Why don't we have them compete with each other on a first-come, first-served basis? JS

COMING UP

"Evolving Japanese-style Management and Global Competition" will be the main theme of the next issue. It will focus on CSR (an important key to corporate governance in the 21st century), changes in Japanese management and its impact on overseas businesses, accented by interviews with business leaders. It will also carry special articles on the upcoming G-8 Hokkaido Toyako Summit, food culture, arts, and a foreign businessman's viewpoint to shed light on various aspects of Japan.

TOPICS

Domestic Demand-led Firms Looking Overseas
Pressed by Shrinking Home Markets

By Hiroshi OKABE

Photo: Kyodo News

A Chinese man tries out a brand of Japanese sake at a tasting event in Beijing.

Overseas expansion is no longer limited to export industries such as automobiles and electric machinery. Even food and beverage producers, apparel makers and retailers catering to domestic demand are now eying overseas markets to make up for shrinking home markets. In view of the aging population and the sagging birthrate, companies that have hitherto relied on domestic demand find it essential to move into markets abroad if they are to survive and continue growing. Some of them have already resorted to aggressive M&A deals.

Fast Retailing Co., the operator of the Uniqlo casual clothing retail chain, opened its first French store in Paris in December 2007. The company had earlier opened stores in the United States, Britain, China and South Korea. In addition, Fast Retailing is exploring the possibility of acquiring widely known upscale American and European clothing makers.

Fast Retailing lost to a state-owned investment company of the United Arab Emirates in a battle to acquire Barneys New York, a major American department store chain. But Fast Retailing President Tadashi Yanai remains bullish, saying, "Our bid to buy Barneys has boosted our name recognition in the United States and has greatly benefited us."

Also in the apparel sector, Ryohin Keikaku Co., the operator of MUJI brand stores, has opened a store in the SoHo area of New York city as its first outlet in the United States. With leading fashion shops gathered in the SoHo area, the company expects to use the SoHo outlet to boost its presence and plans to open 40 to 50 more stores in the US market in the coming five years.

In the food/beverage sector, Kirin Holdings has acquired all shares in National Foods, a major Australian dairy product company, at about ¥290 billion and made it a wholly owned subsidiary. As the domestic beer market is tapering off, Kirin is seeking to strengthen its corporate base through diversification. "The acquisition of National Foods will help make us a comprehensive beverage company, boost our globalization and strengthen our presence in the food and health sectors," says Kirin President Kazuyasu Kato.

Changes are also taking place in the *sake* brewing industry. In these health-conscious days, the number of Japanese restaurants is increasing in the United States and other foreign countries, boosting overseas demand for *sake*. Exports of *sake* set a record in 2007 for the first time in 11 years. As domestic *sake* consumption continues to decline on the back of the growing popularity of *shochu* (Japanese distilled liquor) and beer, *sake* brewers look to foreign countries as a new promising market and are moving to step up overseas sales. Some *sake* brewers have already started local production in foreign countries.

Meanwhile, Lawson Inc., a major convenience store chain, plans to hire 10 foreign students studying at Japanese universities, including Chinese, as regular employees in the spring of this year. The number accounts for 10% of about 100 new university graduates the company plans to hire as regular staff this year. Lawson plans to continue to regularly hire foreign students. At a time when the convenience store market is approaching saturation in Japan, Lawson intends to expand overseas operations, mainly in Asian countries where high economic growth is foreseen. Foreign students hired as regular employees will be prospective managers of overseas stores. Aeon Co., another major retail chain, also plans to accelerate the opening of outlets in China, boosting the number there five times in five years from 22 in fiscal 2007 to 102 in fiscal 2012.

Food, beverage and clothing manufacturers, retailers and other companies oriented to domestic consumers customarily sought to boost their domestic market shares. As domestic demand continues to shrink, however, they have begun to look to overseas markets as the stage of competition. Overseas expansion by home demand-oriented industries sounds contradictory, but success or failure of their overseas operations is likely to decide their fate.

TO READERS

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Will a "Media Big Bang" Happen?

Broadcast/Telecom Regulations to Be Unified

The government is going all out to review the legal system that regulates telecommunications and broadcasting in a bid to to remove barriers between them. An advisory panel to the Ministry of Internal Affairs and Communication has called for overhauling the current legal structure concerning telecommunications and broadcasting, segmented under nine laws – including the Broadcast Law, the Radio Law and the Telecommunications Business Law – and unifying them into an "information and telecommunications law." Based on the proposal, deliberations have gone into full swing with a view to legislative revisions by 2010.

From a technical point of view, an environment is being put in place in which services are available irrespective of telecommunications or broadcasting in the wake of sophisticating telecommunications infrastructure such as widely spreading broadband services and the advent of digital broadcasting. The communications ministry believes the problem is that the legal system has failed to match those technological innovations. The proposed integration of those vertically segmented laws is expected to encourage the creation of new integrated services surpassing the current barriers. For example, broadcasters will be allowed to distribute programs over the Internet by building networks of their own while telecommunications carriers will be able to deliver their own programs over their own networks.

However, there are some problems to the fusion of telecommunications and broadcasting. One is whether the government should be allowed to regulate content on the Internet in the same way it is permitted under the current Broadcast Law. When Internet delivery of video programs becomes available in a way similar to TV programs, their public nature will be rightly called into question. Still, excessive regulations may infringe freedom of expression. Moreover, given that telecommunications carriers are far larger than broadcasters in size, broadcasters have strong feelings of resistance toward possible crossover industry reorganization, likely led by telecom companies.

In the United States, the 1996 revisions of the federal Communications Act paved the way for AT&T to take over cable television companies one after another and for media mogul Rupert Murdoch to create a media conglomerate. It is worth noting whether a similar "Media Big Bang" will happen in Japan.

Shakeup over Flat TV Panels

Business reorganization is accelerating in the electrical appliance industry over display panels for flat-screen TV sets. Following an agreement between Sharp Corp. and Toshiba Corp. over mutual supply of such panels, Matsushita Electric Industrial Co., Hitachi Ltd. and Canon Inc. have also forged a comprehensive alliance for panel production. The TV panel business has thus been consolidated into these two groups and another alliance – Sony Corp. and Samsung Electronics Co. of South Korea.

Under their agreement, Sharp will supply to Toshiba large panels the size of 40-60 inches to be produced at the world's largest liquid crystal panel plant Sharp is building with an investment totaling ¥380 billion. Toshiba will equip its TV sets with the Sharp panels. Sharp will enjoy the advantage of securing demand for flat panels to be produced at the new plant, and Toshiba can maintain cost competitiveness by procuring outsourced panels.

On the other hand, Matsushita, which once abandoned production of liquid crystal panels to concentrate its management resources on plasma-screen TVs, will resume liquid crystal panel production through the alliance with Hitachi and Canon. It is now painting a strategy picture of creating a "vertically integrated model" of panel production ranging from plasma to organic electroluminescent (EL) panels.

Global demand for flat-screen TVs is expected to register double-digit growth again in 2008, bolstered by fresh demand from viewers of the Beijing Olympic Games. With an eye on ubiquitous society, flat-screen TVs are "positioned as the core of digital household electrical appliances," according to Matsushita President Fumio Otsubo.

Photo: Kyodo News

A liquid crystal flat-screen Hitachi TV set as thin as 3.5 cm

But product prices have continued to decline in the aftermath of intensifying competition, and the burden of investment in state-of-the-art technology is snowballing. To survive competition, the strategic thinking of business selection and concentration is imperative. Against that background, Japanese electronics companies are stepping up strategic moves in quest of partnerships with other firms.

Hiroshi Okabe is a business news editor at Kyodo News.