

Prospect of an Asia-wide FTA: Is CEPEA an Answer?

By Ichiro ARAKI

In the eyes of skeptics, the prospect of an Asia-wide network of free trade agreements (FTAs) is dim. According to them, unlike in Europe, which has gotten over the unfortunate past (“three wars in a century”) to create an ever-widening and ever-deepening economic and political integration in the region, Asia is too diverse both politically and economically. There are no visionaries around who are committed to the formation of a political and economic union in the region. Their famous joke is: “To the Asians, Monet is a painter and Schumann is a composer.” Of course they are. What they mean is probably that Asia lacks the equivalent of Jean Monnet (1888-1979), a French businessman, and Robert Schuman (1886-1963), a French politician, whose vision formed the basis of the current European integration. (The subtle spelling differences should be noted.) To make the matter worse, they would argue, the Cold War is not yet over in Asia. Unlike the Berlin Wall, the DMZ along the 38th parallel is still intact; and unlike Europe’s security and stability ensured by NATO, the tension across the Taiwan Strait is yet to be resolved.

These arguments would have been more persuasive before the outbreak of the new Cold War in the Caucasus, but setting that issue aside, there is no doubt that the skeptics are looking at the Asian situation through a European lens. This kind of attitude was evident in an article carried by *The Economist* in its August 2, 2007, issue on the occasion of the 40th anniversary of the establishment of the Association of Southeast Asian Nations (ASEAN). The article was titled “Past it at 40?: South-East Asia’s regional block disappoints again.” However, the question here is: Is Europe the only model for regional integration?

Perhaps a different kind of dynamism is at work in Asia. Over the past decades, trade and investment linkages within ASEAN and with its neighbors have intensified. The initial driving forces in the formation of this linkage were Japanese companies, but Taiwan and South Korea followed suit. Now the emerging economies of China and India are the integral part of this linkage. Australia and New Zealand, the only developed economies in the region except Japan, have also played a significant part in the formation of this linkage. One of the characteristics of Asian economic integration is the high ratio of intraregional trade, which is higher than that of the North American Free Trade Agreement (NAFTA) region.

So, unlike in Europe, the level of *de facto* economic integration was already high in Asia. However, starting around the turn of this century, the move towards *de jure* integration has intensified in East Asia. The 10 member economies of ASEAN are now covered by the ASEAN Free Trade Area (AFTA), which is poised to develop into an ASEAN Economic Community (AEC). Non-ASEAN countries in East Asia have been concluding FTAs both bilaterally and regionally. These developments have led to a web of the so-called “ASEAN plus one” FTAs concluded by China, South Korea and Japan and their

ASEAN partners. Australia, New Zealand and India are also negotiating FTAs with ASEAN.

Against this backdrop, Japan has proposed a Comprehensive Economic Partnership in East Asia (CEPEA). This was endorsed by leaders of the East Asia Summit (EAS) at its second meeting in Cebu, the Philippines, in January 2007. The EAS comprises ASEAN, Australia, China, India, Japan, South Korea and New Zealand. The leaders welcomed ASEAN’s efforts towards further integration and community building, and reaffirmed their resolve to work closely together in narrowing development gaps in the region. The leaders also reiterated their support for ASEAN’s role as the driving force for economic integration in this region and agreed to launch a Track Two study on CEPEA among the EAS participants to deepen the integration.

I was a member of this study group, chaired by Risaburo Nezu, a former official of the Japanese Ministry of Economy, Trade and Industry (METI) and a veteran negotiator at the Organization for Economic Cooperation and Development (OECD). Two other Japanese members of the group were Professor Hirokazu Okumura of the University of Tokyo and Professor Shujiro Urata of Waseda University. Experts from all 16 economies of the EAS participated in the study group. Starting with an inaugural meeting in Tokyo in June 2007, the group met six times until it adopted its report in Jakarta in June 2008.

The group conducted discussions based on papers submitted by the experts. The group also invited business leaders to their meetings to reflect business perspectives in the report. Progress of the study was reported to the EAS leaders at their third summit in Singapore in November 2007. In the Chairman’s Statement issued after the meeting, the leaders encouraged the group to incorporate the views of the private sector in the work process. The leaders also affirmed that CEPEA should build upon and add value to existing FTAs in the EAS region.

In its final report, the group makes the following recommendations:

- (a) The objectives of CEPEA should be deepening economic integration, narrowing development gaps and achieving sustainable development, and CEPEA should be composed of the three pillars of economic cooperation, facilitation of trade and investment, and liberalization of trade and investment;
- (b) Discussions should be commenced among East Asian governments on cooperation and facilitation measures under CEPEA. It is best to commence discussions on work plans for collective actions in areas such as the environment, energy, logistics, and facilitation issues covered by the AEC Blueprint. Institutions such as the ASEAN Secretariat, the Economic Research Institute



A CEPEA study group in session in Jakarta in June 2008 (on the extreme left is the author)

Participants in the Jakarta meeting pose for a commemorative shot.

for ASEAN and East Asia (ERIA) and the Asian Development Bank (ADB) should assume an important role in this process;

(c) Necessary decisions should be made regarding an FTA under CEPEA: whether to begin a governmental process immediately, provide a clear timeline for future negotiations, or continue a further detailed study as a Track Two process. If the decision is to continue the Track Two study further, possible agenda items include:

- Detailed study of recently concluded FTAs in the region focusing on the progress of ASEAN+1 FTAs, and areas such as establishing an effective special and differential (S&D) rule.
- Appropriate measures of facilitation and liberalization that can contribute the most to narrowing the development gaps.
- Identifying cooperation initiatives and programs that can help to narrow the development gaps and build capacities and capabilities for implementation of liberalization measures through an FTA under CEPEA.

(d) A mechanism should be developed for enhancing the opportunity for regional business leaders to contribute to the CEPEA realization process.

It remains to be seen how the EAS leaders will deal with these recommendations, but certainly it is an ambitious plan for furthering the *de facto* economic integration into a *de jure* entity. If this proposal materializes, certainly it will become a new model for regional economic integration, distinct from the European model.

The question is: Can CEPEA really be the path for future economic integration for Asia? Again, the skeptics would point to the fact there are other proposals or blueprints in the region. Two notable examples are the East Asia Free Trade Area (EAFTA) and the Free Trade Area of the Asia-Pacific Region (FTAAP). If CEPEA is in competition with these other proposals, what makes it so special?

As someone involved in the study group, I am naturally inclined to defend the CEPEA concept. Incidentally, I was involved in the first phase of the EAFTA feasibility study, as were Professor Zhang Yunling of China, Professor Lee Chang-Jae of South Korea and

many others. This shows that EAFTA and CEPEA are not in competition. Some might see EAFTA as a South Korean initiative supported by China and CEPEA as a Japanese counterproposal, a desperate effort to maintain economic hegemony in the region. However, the experts who were involved in both projects do not see it that way. After all, it is up to the political leaders of the region to choose the path.

The possible competition with FTAAP might be a different story. Whether it is possible to form a regional economic grouping without participation of North America is an unanswered question. However, one thing is certain. Unlike the case of the ill-fated East Asian Economic Caucus proposal broached in 1990 by then Malaysian Prime Minister Mahathir Mohamad, the United States has not openly opposed either EAFTA or CEPEA. In any event, the fate of FTAAP depends on the progress of discussion at the Asia-Pacific Economic Cooperation (APEC) forum.

CEPEA's advantage is that it is an ASEAN-centered project and that it builds upon *de facto* economic integration of the region. While the study group may not have been able to draw utopian visions for the future, I think it was able to present a feasible roadmap for economic integration of the region. Without Monnet or Schuman, the Asians have been able to come up with their own model. So, to answer the question posed in the title, yes, certainly CEPEA can be an answer. However, if there is a source of worry for the future, it is the health of the multilateral trading system. As the study group report makes it clear, CEPEA (or for that matter, any regional grouping) must be fully compatible with WTO rules. Regional groupings can never be a substitute for the multilateral system for trade liberalization. Just as European economic integration made progress along with multilateral trade liberalization, we need a healthy multilateral trade regime coexisting with the Asian economic integration. **JS**

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