

# Japan's Initiatives for Asian Economic Integration

By Brent LAYTON

## Establishment of ERIA

The Economic Research Institute for ASEAN and East Asia (ERIA) was an initiative of the Institute of Developing Economies (IDE), the research arm of JETRO, Japan's trade promotion body. To assist ERIA, IDE recruited a group of research institutes, one from each of the other 15 countries whose leaders attend the East Asian Summit (EAS) – the 10 ASEAN member countries, Australia, China, India, South Korea and New Zealand.

One objective of ERIA is to provide a solid policy-oriented intellectual foundation for cooperation, coordination and development in ASEAN and the wider East Asian region. Other objectives are to strengthen the research capacity and capability of the ASEAN Secretariat and to improve policy research capacities, especially in the less developed countries of the region. ERIA will undertake policy analysis and provide policy recommendations for the leaders and ministers of the region. It will also facilitate tripartite dialogue and interaction among policymakers, researchers and the business and civil communities, aimed at economic integration. The research project will cover a wide range of topics, including infrastructure in the region, developing small to medium enterprises, competition law, liberalization of trade in services, and a roadmap to economic integration.

## CEPEA Study Group

The establishment of a Track II Study Group to report to East Asian leaders on a Comprehensive Economic Partnership in East Asia (CEPEA) was also initiated at the second meeting of EAS leaders in Cebu, the Philippines, in January 2007. JETRO and METI (the Ministry of Economy, Trade and Industry) have been the key organizations behind this initiative. The Study Group's final report outlines the state of economic integration in the region, proposes some objectives and principles for CEPEA and identifies its scope as economic cooperation, including about the environment, the adoption of ICT, and facilitation and liberalization of trade and investment.

## Asian Economic & Environmental Community

The Asian Economic and Environmental Community (AEEC) is a joint initiative promoted by METI and the Ministry of the Environment, both of Japan. It proposes Japanese government agencies pursue policy objectives to facilitate wider and deeper Asian economic integration around three themes – environment and energy; the seamless transfer of people, goods, capital and information; and the invigoration of the consumption market. The objectives of the integration are to ensure Asia's economic development proceeds in harmony with the environment, and Asia remains open to the rest of the world, deepening its cooperation with the United States, the

EU and multilateral mechanisms such as the WTO and APEC.

For each of the three policy themes of AEEC, the specific policies and measures identify the Japanese government agencies that will be their sponsors and the steps they will take towards fulfilling the measures by the end of 2009 and 2011.

The general themes behind the specific policies and measures are about what Japanese government agencies should be doing to promote economic development of an environmentally sustainable kind in the Asian region while also promoting economic opportunities for Japanese firms to sell and develop their particular expertise in areas such as environmental engineering, energy efficiency, infrastructure development, logistics, ICT and e-commerce.

## Commentary

### ERIA: Very Important

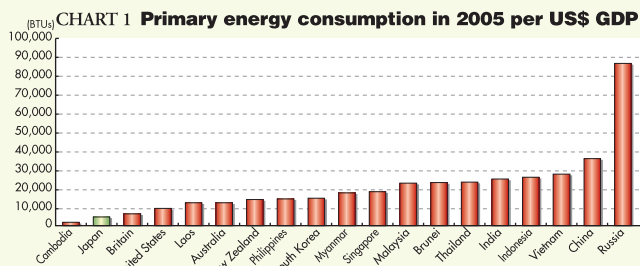
The first point I make on those initiatives is that the three initiatives are complementary and consistent. ERIA will provide the research to support policies to promote economic integration and sustainable development in the region, CEPEA will provide a policy vehicle and AEEC is a concrete set of policy initiatives by Japan to assist in achieving the desired economic and environmental goals.

I have no doubt that solid policy-oriented research is necessary if policymakers and political leaders in the region are to adopt many of the widespread reforms necessary to facilitate and liberalize trade and investment in the Asian region.

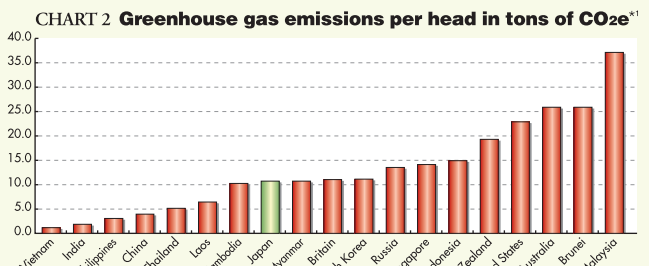
The benefits of liberalizing reforms are usually widespread among the community and are sometimes not immediately obvious to the casual observer. The costs of liberalizing reforms often fall on the relatively few who have hitherto enjoyed some protection at the expense of the rest of the community. Those adversely affected are quick to point out the potential injury they may suffer and can be vociferous (and violent) in their complaints and protests. There are often no similar champions for the beneficiaries because the gains, while considerable compared with the overall losses, are so dispersed among them.

This pattern of concentrated costs and dispersed gains means that research is needed to motivate politicians and policymakers to pursue reforms by demonstrating the benefits that will be gained for their community overall if the vested interests of vociferous minorities whose privileges will be challenged are to be overcome. The research will also be needed to provide politicians with the evidence and the arguments to effectively counter those who oppose reform to protect their own self-interests.

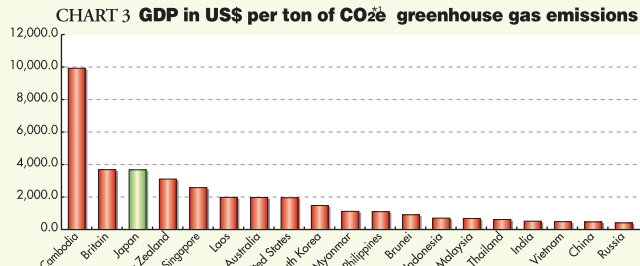
For this reason, I believe the ERIA initiative is very important. Good policy research may prove to be insufficient to ensure reform but reform is unlikely to be easily achieved without it. The research ERIA undertakes should assist in achieving liberalizing reforms, provided ERIA quickly develops a reputation for quality research and remains policy-focused and practical.



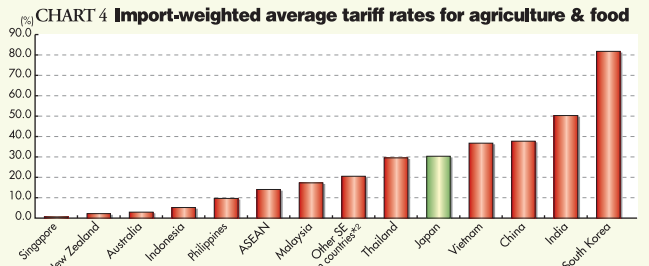
Source : Energy Information Administration, US Department of Energy



Source : Wikipedia



Source : Wikipedia



Source : GTAP database

Note: \*1CO2e = CO2 equivalent ; \*\*2Other SE Asian countries" means Brunei, Myanmar, Laos & Cambodia as a group.

## India's Stance Is Key to CEPEA

The Study Group's report on CEPEA will be presented to leaders at almost the same time as 13 of them will also receive a further report on whether to proceed with an ASEAN-plus-three (China, South Korea and Japan) free trade agreement. While care has been taken to ensure that CEPEA is not the ASEAN-plus-three FTA with three extra countries, a comparison of the options by the leaders seems almost inevitable.

The more comprehensive coverage of countries of CEPEA means it will generate more economic benefits for the 16 countries. It generates smaller economic losses for non-members, as well. This, and the fact that it covers economic cooperation, augur well for the leaders preferring the CEPEA approach. However, against this, CEPEA includes India and ASEAN plus three does not, and, rightly or wrongly, India's stance in the Doha Round, and its reputation in relation to trade liberalization more generally, may be a stumbling block. While the benefits of CEPEA will be larger, leaders may perceive the costs to be also larger. This would be a pity if so, because CEPEA offers the opportunity for community-building among half the world's population and a group that contains all potential Asian economic heavyweights.

## AEEC: Protectionist Stance No Help to Japan

To pursue the AEEC approach it is important for Japan to present a positive example itself. In relation to environmental and energy issues, Japanese practices and technology make it well placed. Japan's energy use per unit of GDP is comparatively low (see *Chart 1*) as is its greenhouse gas emission per head of population (*Chart 2*). Its ratio of GDP to greenhouse gas emissions is relatively high (*Chart 3*).

On the front of access to markets, my view as a citizen of a significant agricultural exporter is that Japan is not well placed (*Chart 4*). A thorough reform of the agricultural sector and some elements of its service sector would be advantageous to Japanese consumers, Japanese economic growth and Japan's ability to pursue the AEEC agenda. Undoubtedly, reforms in these areas will not be politically easy but urging politically difficult but necessary change on others to improve economic efficiency when you resist it yourself is also not likely to be successful. Japan needs open access to the markets of Asia for its goods, services, technology and capital. A protectionist attitude to some aspects of its own economy is not going to help Japan convince politicians in other Asian countries they should face the political risks of reform.

## Conclusion

The ERIA and CEPEA initiatives are both focused on the 16 countries that attend the EAS. The geographic scope of AEEC is 'Asia' more generally. How initiatives to promote East Asian integration will mesh with the more established APEC grouping is interesting. Most EAS countries are also members of APEC, although India is not. Russia and the United States, and other countries on the eastern side of the Pacific, are members of APEC, but not part of the EAS. Will the groupings expand to merge or remain distinct? This is unclear. What is pretty likely is that most countries will be very reluctant to choose between APEC and the EAS. Most will be keen to have several runners in the race for promoting regional cooperation and integration. This appears to be Japan's position as well because one of the objectives of AEEC is that Asia remains open to the rest of the world, deepening its cooperation with the United States, the EU and multilateral mechanisms such as the WTO and APEC.

An idea common to all three initiatives is to link economic development in the region with building environmentally sustainable economies. I think this is a good idea. Where efficient technology already exists to reduce the impact of economic activity on the environment, it is important it be adopted in the rapidly expanding economies of the region. We must be realistic, however. Leaders in developing economies are not going to constrain growth and development by much, if at all, to meet the environmental standards people with much higher incomes than their own citizens think are appropriate for them. The focus must be on developing and disseminating technology that is cost-effective and does not act as a heavy constraint on development and growth in incomes. Exhortations by countries with high incomes for others to save the world by sacrificing their opportunities to develop and improve their living standards will not be well received or successful.

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