

New Japanese Government's Trade Policy Southeast Asian Perspective

By Hank LIM

Background

After his appointment as prime minister of Japan, Yukio Hatoyama initiated a policy concept called the East Asian Community (EAC). Although he has not spelled out the details of his policy initiative, it sparked a flurry of interpretations about the nature, modality and implications of the EAC to Japan and the region. Three schools of thought appear to have emerged in Japan – the conventionalists, the Asianists and the eclectics. The first school of thought appears to be holding the view that the recent Trilateral Summit in Beijing among China, Japan and South Korea seems to have faced rough going because of the leadership rivalry between China and Japan. The Asianists appear to point out the possible benefits of closer East Asian integration and Japan's closer ties with China and South Korea. The third school of thought advocates a pragmatic approach to benefit from emerging opportunities in rising China and at the same time holding firm to the traditional paradigm of Japanese national interests, i.e. close strategic partnership with the United States.

It seems the concept was launched for the purpose of having strategic ambiguity to invite major views and opinions on the concept. One possible interpretation could be that it is an economic initiative to forge and accelerate economic cooperation in East Asia. Another alternative interpretation is the concept is a security and political concept. It is likely the concept has both economic and political objectives and implications. However, this article explores the emerging landscape and trend of regional economic integration and the new Japanese government's trade policy viewed from a Southeast Asian perspective.

The current severe global economic crisis has adversely affected the region, especially economies that are export-dependent and externally driven. East Asia had higher intraregional trade than the North American Free Trade Area (NAFTA) in 2007, but trade among the regional economies was mostly in intermediate input, rather than in final products. Therefore, East Asia must rebalance its development strategy by increasing final aggregate demand and promoting intraregional investment. In addition, the region has enormous savings and foreign exchange reserves which can be used to promote investment opportunities in the region through more effective monetary and financial cooperation as embodied in the Chiang Mai Initiative (CMI) and beyond. Following the current economic crisis, East Asia is confronted with enormous opportunities and challenges to become an engine of growth for the world economy. The future and evolving shape and process of East Asian integration would determine how much of that economic potential could become a reality. Towards this end, the role of Japan at this stage is critical as it is the world's second largest economy and the most technologically advanced country in the region.

East Asian Economic Integration

There is already an alphabet soup of bilateral and plurilateral free trade agreements or areas (FTAs) in the region. ASEAN plans to deepen its inte-

gration through the ASEAN Economic Community (AEC). There are initiatives of combining these arrangements into larger, integrated FTAs, including an ASEAN Plus Three (APT) FTA comprising ASEAN and China, Japan and South Korea, and an ASEAN Plus Six FTA that would subsume the APT and India, Australia and New Zealand. Then there are initiatives on financial and monetary cooperation such as the CMI on currency swaps, the Asian Bond Fund and the Asian Bond Market Initiative, an Asian Currency Unit scheme, and the Asian Financial Stability Dialogue. Inherently, there is a mismatch between many of these initiatives and the realities on the ground because the foundations of regional economic integration are weak.

Intraregional trade and investment and foreign direct investment (FDI) have been developed. However, it is mostly in the form of production networking arrangements on information and communication technology (ICT) products for export to the developed markets of the West. Such regional integration is closely linked to global integration and it is driven by external economic impetus. Apart from such economic linkage, the region has basically nonintegrated markets in manufacturing, services and agriculture. They are less integrated and open to finance than to trade and FDI.

What is the prospect of restructuring and realigning the modality of regional economic integration? With a few exceptions, FTAs have not changed national practice in the direction of liberalization as the weight of trade light is in the region's noodle bowl of FTAs, which has been limited to tariff cuts on the border, not behind and across borders. However, the global economic crisis provides a strategic opportunity for Asia to be the main driver of global economic growth by modifying its mode from cooperation to integration, and accelerating and deepening its financial and economic integration.

Japanese Policy Initiatives Will Help Build EAC

What is needed most at this stage is not a new architecture of regional integration but improving its operation and mechanism for more seamless, borderless physical connectivity across the region. In other words, simplifying the procedures and documentation, harmonizing and standardizing rules and regulations, and easing customs procedures needed to comply with the existing FTAs will enable businesses to make better use of them. This was borne out in a recent survey by the Asian Development Bank (ADB), which showed only 22% of the 609 East Asian firms surveyed took advantage of FTAs. In the process, more companies and consumers can benefit from lower material costs and affordable products, thus increasing the flow of goods and services and regional aggregate demand.

Towards this process of clearing regional business obstacles, the 12th meeting of APT economic ministers in August 2009 in Bangkok agreed to recommend to APT leaders that senior officials discuss and consider the recommendations of Phase I and Phase II of an East Asia Free Trade Area (EAFTA) and to submit their recommendations on when and how to establish working groups on rules of origin, tariff nomenclatures, customs-related issues and economic cooperation. The Track Two Study Group on

CEPEA (Comprehensive Economic Partnership of East Asia) also completed its study in June 2008 and submitted it to the East Asia Summit (EAS) economic ministers and leaders. The objectives of CEPEA are to deepen economic integration, narrow development gaps and achieve sustainable development through the three pillars of economic cooperation, facilitation of trade and investment, and liberalization of trade and investment. It seems apparent that the future shape of regional economic integration in East Asia would continue to evolve in line with the multilevel framework and the parallel process of the APT and EAS. Towards this objective, an important first step is to create unified rules of origin, incorporate trade in services and investment, and start overall EAFTA negotiations by 2012.

At the 12th ASEAN-Japan Summit in Cha-am/Hua Hin, Thailand, in October 2009, leaders discussed the global economic and financial crisis that may hinder the pace of sustainable development and community-building efforts in the region and Japan's vital role in addressing the crisis. In this respect, ASEAN leaders encouraged Japan to support the development of an ASEAN Master Plan on Connectivity and an infrastructure development fund for ASEAN. They were encouraged by Japan's initiatives to strengthen Asia's growth and expansion of domestic demand while supporting the sectors and people vulnerable to the effects of the crisis through official development assistance (ODA) such as trade insurance for infrastructure improvement and trade finance in Asia. Japan reaffirmed its continued commitment to help narrow the development gaps in ASEAN through various subregional development initiatives and the convening of the First Mekong-Japan Summit in November 2009 in Tokyo (*photo*) to strengthen the Mekong-Japan cooperative relations. These Japanese policy initiatives and ongoing development programs are very much appreciated and definitely will contribute in reinvigorating the efforts towards building the proposed EAC as a long-term vision based on such principles as "openness, transparency and inclusiveness" and functional cooperation.

At the summit of the Asia-Pacific Economic Cooperation (APEC) forum in Singapore in November 2009, Prime Minister Hatoyama of Japan, the host country of APEC 2010, focused on Japan's priorities for APEC and how to ensure the continued relevancy of the 20-year-old group. He emphasized that APEC must seek new values amid changes in the world economic order following the global economic crisis. Furthermore, he argued that APEC needs to create a system for advancing economic integration in the region by increasing the ease of doing business through regional physical connectivity and should pursue growth based on a sustainable growth model and characteristics of human security. On his proposed EAC, Hatoyama stated that it should be based on nurturing an economy focusing on people in the areas of welfare, education, health-care and the environment. He described this community as a "ship in the ocean of fraternity," which could facilitate assistance and cooperation. As Hatoyama will host the next APEC summit in 2010, Japan will focus on the issue of climate change while the group's 21 member economies will review the APEC Environmental Goods and Services Work Program, conclude APEC's second Trade Facilitation Action Plan in 2010 and reduce trade transaction costs by an additional 5% by the end of 2010.

Japan's Trade Policy Seen Oriented to Environment, Energy

Judging and interpreting from the statements, programs and initiatives announced at the ASEAN-Japan and APEC summits in 2009, the Hatoyama administration would continue to pursue the basic trade policy elements of the previous LDP-led government. It seems his EAC concept



A joint press conference at the end of the first Mekong-Japan Summit in Tokyo

is designed to provide an integrated framework of deepening economic integration by reducing development gaps, enhancing business and physical connectivity, and placing greater emphasis on human security, climate change and sustainability aspects as an integral part of rebalancing development strategy in East Asia following the global economic crisis.

Another major policy dimension that Hatoyama has to deal with is the issue of a trade and investment cooperation framework in Northeast Asia. At this point, ASEAN has concluded FTAs with China, Japan and South Korea separately, which is considered a second-best solution compared to the APT framework as a single Northeast Asia economic entity. With an objective to harmonize rules of origin, tariff nomenclatures, customs-related issues and economic cooperation, it is imperative that gradually Northeast Asia should develop and harmonize trade and investment regimes among China, Japan and South Korea, and subsequently be integrated with the AEC as an integrated, overall East Asian FTA. In the process towards this objective, the issue of ASEAN as the default hub of East Asian economic integration should be accepted as this framework provides stability and is coherent with the existing regional modality and process.

In line with the "Hatoyama initiative" to reduce Japan's greenhouse gas emissions by 25% from the 1990 level by 2020, it is expected that Japan would provide more financial and technical assistance than in the past in accordance with the process of international negotiations. In this respect, it would be advisable to encourage the promotion of cooperation between ASEAN and Japan to address environmental issues through the ASEAN-Japan Dialogue on Environmental Cooperation established in 2008. Japan is one of the most efficient energy-using countries and, under the new government, it is expected to pursue a trade policy oriented to environmental protection and effective energy use. Such a trade policy approach is aligned with Japan's comparative advantage and at the same time it is consistent with the CEPEA objectives of deepening economic integration and sustainable development strategy.

Although the EAC concept espoused by Hatoyama has not been spelled out in detail at this stage, some of the basic salient features seem quite evident based on his personal proclivity and a strategic external environment facing Japan following the severe global financial and economic crisis. The extent and success of Hatoyama's concept is also dependent on domestic political support and the Japanese bureaucracy's compliance with and endorsement of his new approach in meeting regional and global economic, political, security and environmental opportunities and challenges. **JS**

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