

# A Short History of Japan's Movement to FTAs (Part 3)

By *Hatakeyama Noboru*

It is said that at an Association of South-East Asian Nations (ASEAN) Economic Ministers' meeting (AEM) held at Chiangmai, Thailand in October 2000, the ASEAN secretariat proposed studying some kind of economic integration among the ASEAN plus three (Japan, China and South Korea) in the first place. However, since no consensus was reached on this point, the AEM chair proposed another idea to study free trade agreements (FTAs) or economic partnership agreements (EPAs) between ASEAN and Japan, China and South Korea respectively. This idea was said to have been approved by the AEM. Based upon this approval, the ASEAN secretariat proposed studying some kind of economic integration such as an FTA or EPA between ASEAN and Japan at the AEM-Ministry of International Trade and Industry (MITI; now Ministry of Economy, Trade and Industry [METI]) meeting held on the same date at the same place. The Japanese side might have thought that if Japan declined this offer, an FTA between ASEAN and China or South Korea alone should have begun to be studied or negotiated since ASEAN had made a similar proposal to China and South Korea at their respective ministerial meetings. Minister of Economy, Trade and Industry Hiranuma Takeo answered that MITI would study the ASEAN proposal with great interest. This answer was a little bit indefinite for starting the joint study on an FTA between Japan and ASEAN. However China grabbed this opportunity immediately and Premier Zhu Rongji proposed starting a joint study on a FTA between ASEAN and China at the Leaders' meeting between them held in Singapore in November 2000. This proposal was accepted by ASEAN leaders, and since then ASEAN and China experts have begun the joint study. Looking at this development, Hiranuma brought back a definitely

positive answer to start a joint study on a Closer Economic Partnership (CEP) between Japan and ASEAN at the AEM-MITI meeting held in Hanoi, Vietnam on Sept. 12, 2001. For this, ministers also agreed to establish an Expert Group comprised of government officials. Prime Minister Koizumi Junichiro visited some ASEAN countries in January 2002, and proposed pursuing a comprehensive economic partnership initiative, covering not only trade and investment but also science, technology, education, tourism and so on. The Expert Group met several times before the AEM-METI meeting held in Bandar Seri Begawan, Brunei on Sept. 13, 2002. Based on the recommendations of the Expert Group, both AEM and METI agreed to recommend to the Leaders that ASEAN and Japan should commence consideration of a framework that would provide a basis for concrete plans and elements towards realizing the ASEAN-Japan CEP in accordance with guiding principles such as the comprehensiveness of countries and sectors. AEM and METI also agreed that the framework should be developed and its outcome presented to the Leaders in 2003 for their consideration. For this purpose, the ministers agreed to recommend to the Leaders the establishment of a committee, consisting of senior economic officials of ASEAN and Japan, by 2003. These AEM-METI recommendations were all accepted by the ASEAN-Japan Leaders' meeting held in Cambodia on Nov. 5, 2002.

Thus, the stimulus caused by the Japan-Singapore Economic Partnership Agreement (JSEPA) towards FTAs in the Asian region has led to the reaction on the part of China, which has invited another action by Japan. If Georg Wilhelm Friedrich Hegel should still be alive, he would have called this situation a "dialectic development."

Japan has also been studying a possi-

ble CEP, EPA or FTA with the Philippines and Thailand bilaterally. Japan has already had two expert meetings with each country. Each study began with a request from President Gloria Macapagal-Arroyo or Prime Minister Thaksin Shinawatra to Koizumi. Thus far the Philippines seems to be interested in sending nurses to Japan more freely through an EPA, and Thailand hopes to increase its agricultural exports. In addition, Prime Minister Mahathir Mohamad of Malaysia showed interest in studying a possible EPA with Japan when he visited Japan in December 2002. The Malaysian idea regarding the contents or structure of an EPA with Japan is expected to be conveyed to Japan soon. Furthermore, it was reported that Minister of Industry and Trade Rini Soewandi of Indonesia also suggested her interest in studying a possible EPA with Japan on the sidelines of the Asia-Pacific Economic Cooperation (APEC) Ministerial meeting at Los Cabos in Mexico in October 2002. The fact that Japan has been engaged in studying a possible EPA with ASEAN on the one hand, and similar mechanisms with the Philippines or Thailand on the other, means, of course, that Japan has started exploring both regional and bilateral approaches for EPAs in this area. Which approach would be better? Ideally speaking, a regional approach would be better. First of all, when the bilateral approach is taken, some ASEAN countries may blame Japan for trying to split ASEAN. In addition, in the case of a bilateral approach, Japan should have as many as 10 EPAs if it wishes to conclude them with all the ASEAN countries. Trading houses would then be stifled by the vast quantities of documents they would have to deal with. However, realistically speaking, if Japan takes a regional approach alone – studying or negotiating just with ASEAN as a whole, an

ASEAN country can have the veto power against it. Therefore, I think Japan will inevitably need to take a double track approach.

Now, as I explained in my previous articles, it seems that an ASEAN-China FTA and a Japan-ASEAN EPA, if any, will be coexisting in this area in the near future. Perhaps ASEAN countries might feel more comfortable to have Japan and China compete with each other by having two different FTAs or EPAs, one for Japan and the other for China, rather than having them included in a single FTA or EPA, in which case the voices from Japan and China might predominate over those of the ASEAN countries. It was reported that South Korean Prime Minister Kim Suk-Soo told his ASEAN colleagues at Phnom Penh in November 2002 that it would take time to start the FTA negotiations between ASEAN and South Korea because of the importance of protecting the agricultural sector.

However, it was President Kim Dae-Jung who proposed establishing an East Asia Vision Group (EAVG) at the second ASEAN plus three Summit Meeting held in Hanoi in December 1998. The EAVG came up with a recommendation at the fifth ASEAN plus three Summit Meeting held in Brunei in November 2001 to establish an East Asia Free Trade Area (EAFTA) that would mainly consist of the ASEAN plus three. So it is a bit ironic for South Korea not to be ready for an FTA even if it is only between South Korea and the ASEAN countries. In any case, this recommendation was welcomed by the summit leaders there.

Would it be possible to have an EAFTA in the near future? My personal opinion is that every economy concerned should make the maximum effort to formulate an EAFTA. Especially, it is very important for Japan and China to cooperate with each other for the development of an Asian economy under the same umbrella of an EAFTA. Economic development in this area will lead to sustainable peace in this area. Time is short. We have to hurry to formulate an EAFTA that includes Japan, China and the other important economies in this area. In



Leaders from ASEAN, China, South Korea and Japan pose in a group photo before the start of the ASEAN plus three meeting in Phnom Penh, Nov. 4, 2002

order to realize an EAFTA as soon as possible, it might be better to insert an article similar to article 35 of the General Agreement on Tariffs and Trade (GATT) into the EAFTA. GATT article 35 is an article for the non-application of the Agreement between particular Contracting Parties. Even in the case of an EAFTA, a certain economy may not wish to enter into an FTA relationship with the other particular economy. For example, although this is just a hypothesis, China may not wish to have an FTA relationship with Taiwan, which is supposed to be one of the important members of an EAFTA. If we can insert the article to allow the non-application of EAFTA rules between China and Taiwan, we can welcome both China and Taiwan as members of an EAFTA. There is another issue. When China was admitted to the World Trade Organization (WTO), there were conditions attached by the other member countries of the WTO. One of those conditions is the "Transitional Product-Specific Safeguard Mechanism" (TPSSM) against China. According to WTO rules, safeguards in general should be applied on a most favored nation (MFN) basis. So you cannot single out a particular country even if the exports of the products concerned are increasing drastically from that particular country. However, the TPSSM allows importing countries to single out China. Of course, certain conditions should be met for any importing countries to apply the TPSSM against China. Furthermore, the WTO prohibits export restraints as a substitute for import restrictions to be adopted as a means of

safeguard. But the TPSSM allows export restraints of China as well. Now every contracting party of the WTO other than China has the right to apply the TPSSM against China. An important question here is whether or not the right to apply the TPSSM against China can be maintained even after China and the other East Asian economies will have become members of an EAFTA. If China accepts the possibility of a TPSSM being applied against her even after China and the other economies have become members of an EAFTA, this issue is not a problem. But if China insists that the TPSSM should not be applied among EAFTA member economies, then, perhaps, the aforementioned non-application article incorporated in an EAFTA might be useful between China and some other Asian economies which do not want to have a full-fledged FTA relationship with China, giving up the right to apply the TPSSM against China 11 or so years before it expires under circumstances where the United States and the European Union will still be enjoying this right. As a matter of fact, the issue of whether or not the TPSSM can be applied against China by the other member countries of an FTA will come up soon when ASEAN-China FTA negotiations enter the final stage. **JTI**

(To be Continued)

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