

# MIZUHO RESEARCH PAPER

---

## 12

*The FTAAP and Economic  
Integration in East Asia:  
Japan's approach to  
regionalism and  
US engagement in East Asia*

**Junichi Sugawara**  
**Senior Research Officer**

Mizuho Research Institute

**Junichi Sugawara** currently holds the position of senior research officer at Mizuho Research Institute Ltd. (MHRI). Subsequent to joining the Fuji Research Institute Corporation in 1996, he has engaged in policy research on international trade issues including those of the World Trade Organization (WTO), Asia-Pacific Economic Cooperation (APEC) and Free Trade Areas/Agreements (FTAs). He was an advisor to the Permanent Delegation of Japan to the OECD in Paris during the period from July 2001 to June 2004, dealing with trade, investment and cooperation with non-members. He concurrently holds the position of guest fellow of the WTO Research Center of Aoyama Gakuin University.

(In 2002, the think tank division of the Fuji Research Institute Corporation was merged with the Dai-Ichi Kangyo Research Institute and the research division of the Industrial Bank of Japan to form MHRI.)

*E-mail: [junichi.sugawara@mizuho-ri.co.jp](mailto:junichi.sugawara@mizuho-ri.co.jp)*

\* This report is a revised version of the report in Japanese “*Totsujo Fujoshita FTAAP Koso* (An FTAAP as a policy agenda – suddenly upgraded from a mere concept)” published on December 8, 2006. The views expressed in this paper are the author’s and do not represent those of MHRI.

*The FTAAP and Economic  
Integration in East Asia:  
Japan's approach to regionalism  
and US engagement in East Asia*

**Junichi Sugawara**  
**Senior Research Officer**

*Published by*  
**Mizuho Research Institute**  
*Tokyo, February 2007*

# Contents

	page
Summary	1
1. Introduction	2
2. APEC Leaders' cautious approach to the concept of the FTAAP	3
(1) ABAC's initiative	3
(2) The APEC Leaders' cool response to the ABAC's proposal	5
3. The FTAAP as a policy agenda: US policy change	7
(1) The FTAAP as a catalyst that could advance the Doha Round	8
(2) The FTAAP as the US counter strategy against regionalism in East Asia	9
(3) The FTAAP as a no-risk no-cost policy tool	11
4. Japan's approach to regionalism and the US engagement in East Asia	12
5. Conclusion	17
Notes	18
Bibliography	19

## Summary

1. At the 14<sup>th</sup> APEC Economic Leaders' Meeting held on 18–19 November 2006 in Hanoi, Vietnam, the APEC Leaders agreed to undertake studies on a Free Trade Area of the Asia–Pacific (FTAAP). This came as a considerable surprise for many in East Asia, given the APEC Leaders' hesitance to do so until a few months before. The APEC Leaders, it seemed, had suddenly changed their minds in Hanoi.
2. The ABAC recommended the APEC Leaders to establish a high–level task force to examine the feasibility of the FTAAP at the 12<sup>th</sup> APEC Economic Leaders' Meeting in Santiago, Chile, in November 2004, because the stagnation of trade and investment liberalization in the APEC/WTO and the drastic proliferation of RTAs/FTAs in East Asia urged ABAC members to explore the new concept. However, the APEC Leaders had tried to achieve freer trade and investment in the APEC region without the FTAAP.
3. Surprisingly, at the Hanoi meeting, the strongest proponent was the US, which had been one of the most hesitant APEC members toward the FTAAP. Many view that the US proposed the initiation of studies on the FTAAP as a catalyst that could advance the Doha Round and its counter strategy against regionalism in East Asia. Although it seems that the US proposal would have limited effect, it was a risk–free and cost–free option for the US. Even if the proposal leads to nothing, the US would have nothing to lose.
4. To the East Asian countries, the FTAAP proposal provided a chance to reassess their strategies for economic integration in East Asia, the US engagement in the region, the achievement of the Bogor Goals and APEC reform. There are various ideas on the framework of economic integration in East Asia. Japan has advocated a Comprehensive Economic Partnership in East Asia (CEPEA) which is composed of ASEAN plus Six. China is promoting the East Asia Free Trade Area (EAFTA) which is an

FTA comprised of ASEAN plus Three. The FTAAP was added to these initiatives in Hanoi.

5. Japan must define its core stance in order to take a proactive role in discussions about these initiatives. In my opinion, a CEPEA would be a realistic framework for establishing a free trade area. To ensure the US engagement in institutionalization of economic integration in East Asia, an East Asian OECD would be an ideal solution.
6. No matter which initiative it chooses, Japan must upgrade its relationships with China and Korea, and move forward with its domestic reforms. As the APEC chair of the year 2010, only a few more years remain for Japan to prepare itself to fulfill the role.

## **1. Introduction**

At the 14<sup>th</sup> APEC Economic Leaders' Meeting held on 18–19 November 2006 in Hanoi, Vietnam, the APEC Leaders agreed to undertake studies on a Free Trade Area of the Asia–Pacific (FTAAP). This came as a considerable surprise for many in East Asia, given the APEC Leaders' hesitance to do so until a few months before. The APEC Leaders, it seemed, had suddenly changed their minds in Hanoi.

A fast rewind to the year 2004 when the 12<sup>th</sup> APEC Economic Leaders' Meeting was held in Santiago, Chile. Despite the APEC Business Advisory Council's (ABAC) recommendation at this meeting to launch a feasibility study on an FTAAP, the calls went unheeded by the APEC Leaders. Even though the ABAC once again urged leaders to discuss the FTAAP at the 13<sup>th</sup> APEC Economic Leaders' Meeting held in Busan, Korea, in November 2005, no mention was made of the FTAAP in the Busan Declaration. The APEC Leaders continued to take a similarly aloof stance and the FTAAP did not even appear on the agenda of the APEC trade

minister meeting in June 2006.

What had happened in Hanoi? According to media reports, the sudden shift in stance is said to stem from strong support by the US to launch a study on the FTAAP. The US, it should be noted, had been one of the most hesitant APEC members toward the FTAAP. US President George W. Bush commented two days prior to the meeting that the idea of an FTAAP “deserves serious consideration.” (Bush 2006)

What had caused the sudden US policy shift in Hanoi? Furthermore, what are the implications upon economic integration in East Asia? After briefly describing the pre-Hanoi story on the FTAAP in Section 2, I will discuss the aim of the US policy change and its implications in Section 3. In the final section, I will consider Japan’s approach to institutionalization of economic integration in East Asia after the FTAAP proposal, and ways in which to seek US engagement in East Asia regionalism.

## **2. APEC Leaders’ cautious approach to the concept of the FTAAP**

### **(1) ABAC’s initiative**

While the fledgling concept of an Asia-Pacific region-wide free trade area can be traced back to the 1960s (Note 1), the immediate origin of the proposal for the FTAAP, which led to the Hanoi Declaration, is the paper proposed by ABAC Canada in March 2004. After discussions on the pros and cons of the FTAAP at ABAC meetings, the ABAC recommended the APEC Leaders to establish a high-level task force to examine the feasibility of the FTAAP at the 12<sup>th</sup> APEC Economic Leaders’ Meeting in Santiago, Chile in November 2004 (ABAC 2004). In the discussions, some members expressed negative views against the concept of an FTAAP (Note 2). However, the stagnation of trade and investment liberalization in the

APEC/WTO and the drastic proliferation of RTAs/FTAs in East Asia urged ABAC members to explore the new concept.

In 1994, the APEC established the “Bogor Goals” which aims to realize “free and open trade and investment in the Asia–Pacific” by 2010 for the industrialized economies and by 2020 for developing economies (APEC 1994). However, since the “Early Voluntary Sectoral Liberalization (EVSL)” initiatives – an important step towards the Bogor Goals – essentially collapsed in 1998, the movement towards trade and investment liberalization came to a pause within the APEC framework. The main arena of liberalization subsequently shifted to the WTO Doha Round launched in 2001. The ABAC members, however, recognized that it was unlikely that the Bogor Goals for industrialized economies would be met by 2010 after the 2003 WTO Ministerial Conference in Cancun, Mexico, ended in failure.

In contrast to the meager progress in global and APEC–wide trade and investment liberalization, the number of RTAs/FTAs has grown rapidly, particularly in East Asia. East Asia, which was an “FTA vacuum” at the end of 1990s, has become a “hot spot” for RTAs/FTAs since Japan, China and Korea rushed into the FTA competition in the region. Among the APEC economies, Japan has implemented FTAs with Singapore, Mexico and Malaysia, and has finished FTA negotiations with the Philippines, Thailand, Chile, Indonesia and Brunei. Furthermore, Japan is also in the process of FTA negotiations with Korea, Vietnam, Australia and the ASEAN as a whole. China and Korea have also implemented and are currently in the process of negotiating FTAs with several APEC economies. As of the end of 2006, approximately 20 FTAs have been established among the APEC economies. According to US Secretary of State Condoleezza Rice, “more than 50 preferential trade arrangements are completed or still under negotiation in the Asia–Pacific.”(Rice 2006)

These trends have led to new sources of concern for the industrial sector. While the proliferation of RTAs/FTAs among APEC economies has led to the liberalization of trade and investment

in the APEC region, it has also led to the potential risks of increasing transaction costs in the region because of the so-called “spaghetti bowl” effect, referring to the coexistence of tangled and oft-conflicting trade rules among different FTAs. The FTAAP proposal for ABAC members was a way “to accelerate progress toward achievement of the Bogor Goals and full global liberalization in the WTO” and to minimize “the possible ill effects associated with the increasingly complex web of RTAs/FTAs in the APEC region.”(ABAC 2004)

## **(2) The APEC Leaders’ cool response to the ABAC’s proposal**

At the Santiago meeting, the APEC Leaders failed to share the concerns among the ABAC members. According to the Ministry of Foreign Affairs of Japan, “a number of leaders were hesitant about the Free Trade Area of the Asia Pacific (FTAAP), a concept proposed by the APEC Business Advisory Council (ABAC). A number of leaders underlined the importance of utilizing existing measures as a building block, rather than embarking on new FTA efforts.” (MOFA 2004) The APEC Leaders expressed support for efforts to stimulate the liberalization of trade and investment by advancing the Doha Round negotiation and to minimize the possible ill effects of the web of entangled RTAs/FTAs through the accumulation of “Best Practices for RTAs/FTAs.” In November 2005, at the 13<sup>th</sup> APEC Leaders’ Meeting in Busan, Korea, the Busan Roadmap to the Bogor Goals was endorsed and “Best Practices” were developed into works on “Model Measures” on each chapter in RTAs/FTAs (APEC 2005). Although the ABAC suggested starting a feasibility study on the FTAAP once again at the Busan meeting (ABAC 2005), the APEC Leaders showed no interest toward the suggestion. These events clearly indicate that the APEC Leaders had tried to achieve freer trade and investment in the APEC region without the FTAAP until the end of the year 2005.

It is not entirely unreasonable for the APEC Leaders to express hesitance regarding the start of feasibility studies on the FTAAP. The hesitance stems from their awareness that the commencement

of official studies on the FTAAP would have a profound impact upon the APEC economies and multilateral trade system.

The FTAAP naturally possesses the main characteristics of an FTA, namely that they are legally-binding commitments and that they discriminate against non-members. However, they are contradictory to the basic nature of the APEC – voluntary, non-binding and “open regionalism.” Therefore, the pursuit of the FTAAP could be detrimental to APEC’s unique and fundamental characteristics. The APEC Leaders’ guarded stance toward the FTAAP proposal is understandable, considering the lack of a consensus among the APEC Leaders to change the APEC itself.

The FTAAP would have a huge potential impact upon non-APEC members and the multilateral trade system. APEC members account for over 40 percent of the world population, half of world trade and approximately 60 percent of global GDP. If they built a single free trade area, it would have a huge negative impact on trade between the APEC members and non-members. APEC members in East Asia, whose intra-APEC trade accounts for approximately 70 percent of their total world trade, might place priority on FTAAP negotiations rather than negotiations under the WTO.

Furthermore, the APEC Leaders are fully aware of the difficulties of the successful conclusion of FTAAP negotiations. Understandably, it will be difficult for the US and China to successfully conclude FTA negotiations between them as part of FTAAP negotiations anytime soon. The same is true with respect to Japan. FTA negotiations between Japan and Korea have been suspended and FTA negotiations between Japan and China are yet to be initiated. Moreover, a Japan-US FTA is just an idea. For Japan and the US, as with the other APEC economies, the FTAAP was not a realistic agenda, at least in 2005.

At the Busan meeting, the APEC Leaders did not support the ABAC’s FTAAP proposal because of the lack of a compelling reason to do so. Even so, the ABAC continued to pursue the feasibility study of the FTAAP with the Pacific Economic Cooperation Council (PECC), despite their disillusionment with APEC’s response. When

the ABAC members discussed the results of the study (PECC/ABAC 2006) in the summer of 2006, the APEC was still hesitant over the concept of an FTAAP. In fact, a senior US official expressed negative views toward the idea. The sudden shift in position came within a few months, when the APEC Leaders surprised with world with a complete change of mind.

### **3. The FTAAP as a policy agenda: US policy change**

At the 14<sup>th</sup> APEC Economic Leaders' Meeting in Hanoi, Vietnam on 18–19 November 2006, the FTAAP was suddenly upgraded from a mere concept to a policy agenda (APEC 2006), despite the conclusion by the PECC/ABAC joint study that “the FTAAP is not politically feasible at the present time or in the near term.” (PECC/ABAC 2006, 9) Surprisingly, the strongest proponent was the US. During my visit to Washington D.C. in September 2006, a large number of officials and trade experts unanimously expressed doubts about the feasibility of the FTAAP while possessing very different views on its desirability.

While the underlying reasons for the US policy turnaround are still unclear, note that there are two crucially different points in the Hanoi meeting when compared with circumstances in Busan. First, the WTO Doha round had been suspended and the resumption of negotiations was the most urgent agenda. At the Hanoi meeting, the APEC Leaders issued a separate statement on the Doha Round. Second, the institutionalization of East Asian economic integration was gaining momentum. In addition to the drastic proliferation of FTAs in East Asia, the inaugural East Asia Summit was held in Kuala Lumpur, Malaysia, in December 2005, in a step toward community building among the nations of East Asia. These changes in circumstances most likely led to the change in US policy.

## **(1) The FTAAP as a catalyst that could advance the Doha Round**

Many view that the US proposed the initiation of studies on the FTAAP in order to advance the Doha Round negotiation. In fact, before the US proposal, Dr. C. Fred Bergsten, Director of the Peterson Institute for International Economics and the foremost advocate of the FTAAP, had been urging APEC Leaders to launch an FTAAP initiative for the successful conclusion of the Doha Round.

Dr. Bergsten has insisted that the launch of an FTAAP would revive the prospects for the Doha Round on the grounds that the first APEC summit, held in November 1993, revived the Uruguay Round, the previous multilateral trade negotiation under the GATT. According to Bergsten (2006), the Uruguay Round negotiation came to a deadlock due to a disagreement between the US and the EU (then the EC) in the agricultural sector. Given the lack of other options for the EU, the EU ultimately conceded because of concerns that the US would turn to the APEC as an alternative option in the event of a failure of the Uruguay Round. In the Doha Round, negotiations have been stalled by severe conflicts among major players such as the US, EU, Brazil and India. In the same way as in the Uruguay Round, 'A broader group of naysayers would be jolted into supporting the global approach, including India and Brazil as well as the European Union because they would be so adversely affected if "Plan B" were to supplant Doha.' (Bergsten 2006) Needless to say, "Plan B" refers to the launch of an FTAAP.

Even if the US tried to reproduce the success story in the Uruguay Round, it would not necessarily succeed. A trade expert in the US said that the US would not be able to use the same trick. Note that EU, Brazil and India are not members of the APEC. However, they are not entirely unrelated, because APEC members such as China and Indonesia are leading parties of the G20 along with Brazil and India. Japan, on the other hand, is on EU's side in agricultural negotiations. Professor Jagdish Bhagwati of Columbia University, commented, "Can anyone seriously believe that an FTAAP – requiring free trade among countries as diverse as China, Japan and

the US – can be agreed more easily than Doha can be concluded?” (Bhagwati 2006) (Note 3) The failure of EVSL initiative is an illustration of the difficulties involved.

Moreover, the current world trade map differs sharply from the one in the 1990s. There are a large number of inter-regional RTAs/FTAs between APEC members and non-members. EU has concluded FTAs with Mexico and Chile and will start FTA negotiations with Korea and ASEAN soon. The impact of an FTAAP “as a long-term prospect” (APEC 2006) would not be as great as the impact at the first APEC summit. According to Peter B. Favila, Trade and Industry Secretary of the Philippines, “An FTAAP at this point will only distract us from the more important goal of restarting and concluding the DDA (Doha Development Agenda) negotiations.”

(Note 4)

## **(2) The FTAAP as the US counter strategy against regionalism in East Asia**

According to reliable sources, it is said that Japan was the direct trigger to the US policy change. In April 2006, the Ministry of Economy, Trade and Industry (METI) of Japan presented its vision of a “Comprehensive Economic Partnership in East Asia (CEPEA)” and the establishment of the “East Asian OECD”. After discussions within the government, Toshihiro Nikai, then Minister of the METI of Japan, proposed launching a study on a CEPEA and establishing an “Economic Research Institute for ASEAN and East Asia (ERIA)” as a first step towards the “East Asian OECD” at the ASEAN plus Three Economic Ministers Meeting in Kuala Lumpur, Malaysia, in August 2006. Both CEPEA and ERIA will be comprised of ASEAN plus Six countries (ASEAN, China, Japan, Korea – ASEAN plus Three, and Australia, India, and New Zealand). The successive launch of these proposals by Japan served as a source of considerable irritation on the part of the US, given the lack of prior consultations and the exclusion of the US as a party.

Until then, the US policy for the institutionalization of economic integration (= *regionalism* (Note 5)) in East Asia was to conclude FTAs

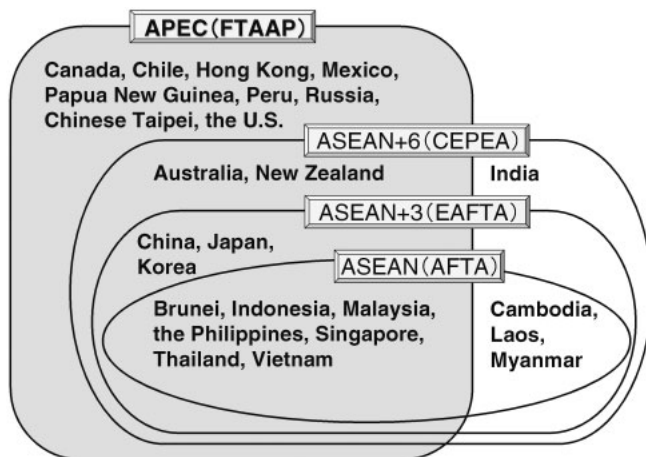
with counties in the region and to revitalize the APEC. In the 1990s, the US opposed initiatives toward East Asia regionalism such as the ideas on the East Asian Economic Group (EAEG) and the Asian Monetary Fund (AMF). But the US has changed its stance toward these kinds of initiatives to engagement and encompassment, leading to the conclusion of an FTA with Singapore and a TIFA (Trade and Investment Framework Agreement) with ASEAN as a whole. The US is also in the course of negotiations for FTAs with Korea, Malaysia and Thailand (suspended). As regards APEC, the US had advocated the reform of APEC including a stronger APEC Secretariat, but not including an FTAAP. However, the US changed its policy after Japan proposed its initiatives in Kuala Lumpur and has become a leading advocate of an FTAAP. Japan's initiatives might serve as sources of concerns on the part of the US regarding the acceleration and expansion of regionalism in East Asia (Note 6).

Dr. Bergsten pointed out that these initiatives “would create a new Asian bloc that, along with the European Union and the North American Free Trade Agreement, would produce a tripolar world with all its inherent instabilities.”(Bergsten 2006) And he also said, “[b]y contrast, an FTAAP would embed these Asia-only arrangements in a broader Asia-Pacific framework” and could “avoid renewed risk of ‘drawing a line down the middle of the Pacific’.”(PECC/ABAC 2006, 23) While it is not clear what extent the US government shares Dr. Bergsten's views, a large number of people in East Asia perceive the FTAAP proposal as the US counter strategy against regionalism in East Asia.

Even if this view prevailing in East Asia is true, no one can stop the acceleration and expansion of regionalism in East Asia. The countries of East Asia including Japan and China supported the US proposal in Hanoi because they recognized that the FTAAP does not contradict their own initiatives. Japan has advocated a CEPEA which is composed of ASEAN plus Six. China is promoting the East Asia Free Trade Area (EAFTA) which is an FTA comprised of ASEAN plus Three (**Figure 1**). An FTAAP does not replace a CEPEA and/or an EAFTA. All these initiatives including an FTAAP will be

pursued simultaneously in parallel fashion, albeit at a different pace. Indeed, an FTAAP proposal might provide impetus to movements towards the establishment of CEPEA and/or EAFTA.

**Figure 1: Regional groupings in the Asia-Pacific region**



Source: Compiled by Mizuho Research Institute.

### **(3) The FTAAP as a no-risk no-cost policy tool**

The real reason behind the US proposal of the FTAAP in Hanoi is not clear. However, the above-mentioned views provide a reasonable explanation.

A plausible explanation is that the US was acutely aware of the differences in circumstances between the Uruguay Round and the Doha Round. Even though the impact of an FTAAP in the Doha Round would be much smaller than its impact at the first APEC Summit in the Uruguay Round, the US most likely found it worthwhile to suggest the launch of an FTAAP initiative. If an FTAAP worked as a catalyst and the Doha Round was successfully concluded, it would provide the best results for the US. Even if events did not unfold in such manner, the US could still pursue an FTAAP as a “Plan B” as Dr. Bergsten has advocated.

Another likely factor is that the US recognized the limited impact of an FTAAP proposal on regionalism in East Asia. In my opinion, it was enough for the US to remind the countries of East Asia of the importance of the US engagement in the region. The countries of East Asia had interpreted that the US had accepted a form of East Asian regionalism which was different from the 1990s and had no intention to participate in new initiatives such as the East Asia Summit and the East Asian community. Based upon such interpretation, the East Asian countries put aside the important agenda of the US engagement in economic integration in the region, despite the fact that the US is the largest market for East Asian products. The FTAAP proposal by the US was a reminder to the East Asian countries that the due date for the long-overdue issue is fast approaching; namely that it is time to consider what relationship they should build with the US in the institutionalization of regional economic integration.

Most importantly, an FTAAP proposal was a risk-free and cost-free option for the US. Note that the US proposed launching a study and not the commencement of negotiations on an FTAAP. For the time being, the US does not have to tackle the immediate task of concluding an FTA with China. If the proposal bears meaningful fruits, the US would benefit. Even if the proposal leads to nothing, the US would have nothing to lose. In other words, it was a good bet for the US.

#### **4. Japan's approach to regionalism and the US engagement in East Asia**

Like the US, Japan took a cautious attitude towards the FTAAP proposal by the ABAC. Junichiro Koizumi, former Prime Minister of Japan, was one of the leaders who were hesitant about the FTAAP proposal in Santiago in 2004. Even so, Japan had a twofold reason to

support the US proposal in Hanoi. One, it was a proposal by the US, the most important global partner for Japan. Two, Japan felt that it would not hamper its initiatives in East Asian regionalism.

The wording on an FTAAP in Hanoi Declaration is very modest. The Declaration said;

*We shared the APEC Business Advisory Council's (ABAC) views that while there are practical difficulties in negotiating a Free Trade Area of the Asia-Pacific at this time, it would nonetheless be timely for APEC to seriously consider more effective avenues towards trade and investment liberalization in the Asia-Pacific region. Therefore, while affirming our commitments to the Bogor Goals and the successful conclusion of the WTO/DDA negotiations, we instructed Officials to undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific as a long-term prospect, and report to the 2007 APEC Economic Leaders' Meeting in Australia. (APEC 2006)*

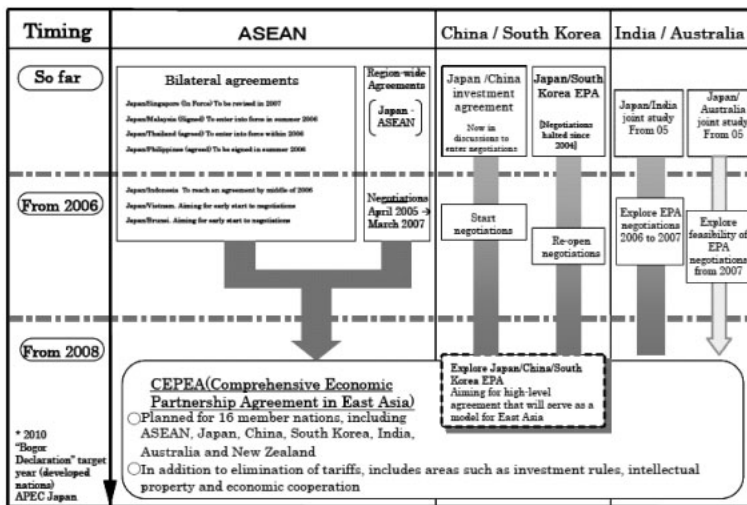
Note that the FTAAP is only perceived as “a long-term prospect”. It is neither a short-term agenda nor a long-term goal. The APEC will start a study, and not a negotiation, on an FTAAP as only one of the “ways and means to promote regional economic integration.” There were no reasons for Japan and other countries of East Asia including China to oppose this very modest proposal.

For Japan, the top priority issue in its trade agenda is still the resumption and successful conclusion of the WTO Doha Round. Efforts for this end should be complemented with FTA negotiations. Negotiations with Korea should be restarted as soon as possible and the Japan – ASEAN Comprehensive Economic Partnership Agreement is also scheduled to be concluded this spring. Based on these efforts and domestic reforms in agriculture and other sectors, Japan should advance region-wide initiatives in East Asia such as EAFTA (ASEAN plus Three) and/or CEPEA (ASEAN plus Six). Furthermore, the FTAAP was added to these initiatives in Hanoi.

Within the government of Japan, there appears to be a divergence

of views on the FTAAP. Some officials strongly support the ASEAN plus Six scheme (CEPEA and ERIA), expressing their preference of the CEPEA over the EAFTA. These officials contend that the CEPEA has the potential to expand into an FTAAP in the future. Other officials take a neutral position. They have no preference among the three initiatives, namely the EAFTA, CEPEA and FTAAP. These officials believe that all these initiatives can be advanced in parallel and proceed on a first-come, first-go basis. Of course, there are others within the government with other priorities and preferences. (Figure 2)

Figure 2: East Asia-wide EPA Roadmap by the METI of Japan



Source: METI(2006)

Prime Minister Shinzo Abe of Japan officially commented in Hanoi, that “it is significant for APEC to examine the Free Trade Area of the Asia-Pacific as one of the multilayered efforts in the region.” (MOFA 2006) Regarding the intent of Prime Minister Abe’s comments, one official said that the wording “multilayered efforts”

signifies that there are no preferences and no priorities among the various efforts, saying that each official has “his/her own views.” Although Japan is a leading advocate of CEPEA and ERIA at regional meetings in East Asia such as the East Asia Summit held in Cebu, the Philippines in January 2007, this means that the Japanese government as a whole does not necessarily place more emphasis upon these initiatives than others at the moment.

A “first-come, first-go” approach might be good for Japan. However, in such case, the question is who decides which is first. There is a potential risk of Japan being left in the backseat in East Asian regionalism, with ASEAN as the driver and China the navigator. It is natural that Japan should “proactively take part in discussions” (MOFA 2006) on all initiatives. Although Japan might have to change its priorities and strategies, Japan must define its core stance in order to take a proactive role in discussions by considering how to proceed with the institutionalization of economic integration in East Asia, and how to seek the US engagement in such initiatives.

Judging from the number of participants and the existing regional production network in East Asia, it seems to me that the ASEAN plus Three is the best framework to build an FTA as a first step. That said, taking account of the current FTA negotiations in the region, the ASEAN plus Six would be a more realistic framework. In contrast to the scant progress made in the Japan–China and Japan–Korea FTAs, Japan–Australia and Japan–India FTA negotiations are scheduled to start early this year. Furthermore, five “ASEAN plus One” negotiations are making good progress. ASEAN–China and ASEAN (except Thailand)–Korea FTAs have been concluded, ASEAN–Japan, ASEAN–India and ASEAN–Australia and New Zealand FTAs are under negotiations. China is negotiating FTAs with Australia and New Zealand, and studying the feasibility of an FTA in joint efforts with India. Therefore, countries having a preference for ASEAN plus Three FTAs would be able to conclude ASEAN plus Six FTAs with little difficulty, if they are able to conclude ASEAN plus Three FTAs. There would be no rational

reason to exclude Australia, New Zealand and India. Apart from the WTO negotiations, it may be beneficial for Japan to place the ASEAN plus Six FTA (CEPEA named by Japan) at the top of its agenda.

Turning to the ways in which to ensure US engagement in the region on an institutional basis, there are several options. One option would be the conclusion of bilateral FTAs with the US by East Asian countries establishing EAFTA or CEPEA. Another option would be the participation of the US in EAFTA, CEPEA or the East Asian OECD. An FTAAP would also be another option. Since these options are not mutually exclusive, the choice of Japan's option would depend upon the core stance it chooses to take.

In my opinion, the East Asian OECD would be the best vehicle to seek US engagement. The establishment of an East Asian OECD would play an instrumental role in the coordination of functional cooperation in East Asia. The East Asian OECD should be composed of the ASEAN plus Six countries along with several APEC members including the US. Like the OECD in Paris, the East Asian OECD would have several policy committees such as trade, investment, energy, finance and environment, with peer-learning and capacity building implemented by each committee. US engagement in East Asian regionalism may be ensured by the US joining this organization. Furthermore, US participation in the organization would enhance the effectiveness of functional cooperation in the various sectors under the organization. Even so, the US might be reluctant to join a new organization in East Asia while some of the ASEAN plus Six countries might prefer the East Asian OECD without the US. In that case, the US participation in functional cooperation, and not the organization itself, would be the second best option and an FTAAP would become a more useful policy tool.

APEC is still an important forum as a bridge between Asia and the Pacific. In APEC, the achievement of the Bogor Goals by the following deadlines is the most important and urgent issue: 2010 for developed members and the year 2020 for developing members. While the Bogor Goals refer to the achievement of "free and open trade and investment in the Asia-Pacific", the meaning of the Goals

is vague. If “free and open trade and investment” refers to the removal of “substantially all” trade and investment barriers, the developed members’ achievement of the goals by the deadline is unlikely. It would be the best if substantially all trade and investment barriers could be removed in methods characteristic to APEC such as “concerted unilateral liberalization” and “open regionalism.” If this is not possible, along with the progress of trade and investment liberalization on a most favored nation (MFN) basis, an FTAAP would become a more important tool to achieve “free and open trade and investment in the Asia–Pacific.” CEPEA would play the core role as well as a pathfinder to the FTAAP. The year 2020 – the deadline for developing members set by the Bogor Goals – could be set as the target year for establishment of the FTAAP.

## **5. Conclusion**

The FTAAP proposal by the US in Hanoi, whatever its real intention, has had a profound impact both upon APEC members and non–members. Still, it seems to me that its impact was larger for APEC members than for non–members. For non–members like the EU and Brazil, the FTAAP is not a threat in the short or medium term. Even though the Doha Round negotiations are approaching a critical phase, the expected effect of the FTAAP on the Doha Round negotiation is not yet apparent.

For APEC members, although an FTAAP is only “a long–term prospect,” the FTAAP proposal provided a chance to reassess their strategies for economic integration in East Asia, the US engagement in the region, the achievement of the Bogor Goals and APEC reform. Some members may confirm and accelerate their strategies. Others may choose to change their strategies and build new ones.

For Japan, an FTAAP was added to its multilayered efforts in the region such as EAFTA, CEPEA and ERIA as a first step towards the

East Asian OECD. Japan must examine which is the best option for each policy objective and consider how to advance them. Whichever it chooses, Japan must upgrade its relationships with China and Korea. Without some sort of agreement among Japan, China and Korea, neither EAFTA, CEPEA nor FTAAP would materialize.

Lastly, note also that Japan must move forward with its domestic reforms in order to play an important role in these initiatives. The progress of domestic reforms would also contribute to the successful conclusion of the Doha Round negotiations and the achievement of the Bogor Goals. In addition to its responsibilities as a developed country in the region, Japan possesses special responsibilities as the chair of the APEC meetings in 2010, which is the deadline of the Bogor Goals for developed members. Dr. Shen Bin, Professor at APEC Study Centre, Nankai University, said, "Chinese officials are concerned that the launch of an FTAAP would probably dilute the dedication of developed economies on achieving the Bogor Goals or subtly delay the original target date, because the end of transitional period in the FTAAP is widely expected beyond the year of 2010." (PECC/ABAC 2006, 67) If the failure of the EVSL initiative experienced in 1998 is repeated in 2010, impetus towards the completion of EAFTA/CEPEA would be greatly attenuated. Only a few more years remain for Japan to get ready to fulfill its role.

\* \* \* \* \*

Notes:

1. PECC says, "Japanese economist Kiyoshi Kojima is usually credited with the first Pacific Free Trade agreement proposal in 1966." <http://www.pecc.org/ftaap/>
2. For example, ABAC Australia (2004) apparently disliked the FTAAP concept because it is unrealistic.
3. Professor Bhagwati called an FTAAP "hare-brained." In this article, he also denied the view that an FTAAP can ease the "spaghetti bowl" problem by integrating a lot of bilateral FTAs in the region into a single region-wide FTA. He said, "[L]asagna cannot be made from spaghetti: it needs flat pasta!" (Bhagwati 2006)
4. "Favila bats for re-start of stalled Doha talks," Manila Bulletin Online, November 16, 2006. <http://www.mb.com.ph/issues/2006/11/16/BSNS2006111679802.html>. Dr. Vinod Aggarwal, Director of the Berkley Asia Pacific Economic Cooperation Study

Centre at the University of Berkley California, said in the next chapter in the same report as Dr. Bergsten pointed out the merit of an FTAAP, “even the tactical use of an FTAAP to advance the WTO agenda is likely to backfire and simply further undermine prospects for successful completion of the Doha Round.” PECC/ABAC (2006), Ch.2 & 3.

5. “Regionalism” is distinguished from “regionalization.” “Regionalization” is defined as *de facto* economic integration through market forces, whereas “regionalism” means institutionalization of economic integration.
6. In an interview with *Nihon Keizai Shimbun*, Ambassador Karan K. Bhatia, Deputy U.S. Trade Representative, denied this view and supported Japan’s initiatives. But he admitted that a lot of FTA initiatives proposed in East Asia forced the US to rethink its policy. *Nihon Keizai Shimbun*, December 7, 2006. One Japanese official said that it was a good result if Japan’s initiatives had urged the US to reconsider its policy.

## Bibliography

- APEC Business Advisory Council (ABAC) (2004), “Bridging the Pacific: Coping with the Challenges of Globalization,” *Report to APEC Economic Leaders*, Santiago, Chile.
- (2005) “Networking Asia–Pacific: A Pathway to Common Prosperity,” *Report to APEC Economic Leaders*, Busan, Korea.
- (2006) “Driving Forward a Prosperous and Harmonized APEC Community,” *Report to APEC Economic Leaders*, Hanoi, Vietnam.
- APEC Business Advisory Council (ABAC), Australia (2004), “A ‘Single Market Agenda’ for Asia–Pacific,” 12 August.
- Asia–Pacific Economic Cooperation (APEC) (1994), “*APEC Economic Leaders’ Declaration of Common Resolve*,” Bogor, Indonesia, November 15.
- (2004), ‘12<sup>th</sup> APEC Economic Leaders’ Meeting, Santiago Declaration, “One Community, Our Future,” Santiago, Chile, 20–21 November
- (2005), “13<sup>th</sup> APEC Economic Leaders’ Meeting, Busan Declaration,” Busan, Korea, 18–19 November.

- (2006), “14<sup>th</sup> APEC Economic Leaders’ Meeting, Ha Noi Declaration,” Ha Noi, Vietnam, 18–19 November.
- Bergsten, C. Fred (2005), “A New Strategy for APEC,” Speech at the 16<sup>th</sup> General Meeting of the PECC, Seoul, Korea, September 6. <http://www.pecc.org/ftaap/papers/PECCXVI-GM-Bergsten.pdf>
- (2006) “Plan B for World Trade: Go Regional,” *Financial Times*, August 16,.
- Bhagwati, Jagdish (2006), “Why Asia Must Opt for Open Regionalism on Trade,” *Financial Times*, November 6.
- Bush, George W.(2006), “President Bush Visits National Singapore University” November 16. <http://www.whitehouse.gov/news/releases/2006/11/20061116-1.html>
- The Ministry of Economy, Trade and Industry of Japan (METI) (2006), *Global Economic Strategy*.
- The Ministry of Foreign Affairs of Japan (MOFA) (2004), “APEC Economic Leaders’ Meeting in Santiago, Chile (Overview and Evaluation),” November 21. <http://www.mofa.go.jp/policy/economy/apec/2004/overview-1.html>
- (2005), “APEC Economic Leaders’ Meeting in Busan, Republic of Korea, (Overview and Evaluation),” November 25. <http://www.mofa.go.jp/policy/economy/apec/2005/overview-2.html>
- (2006), “14<sup>th</sup> APEC Economic Leaders’ Meeting (Overview and Evaluation),” November 19. <http://www.mofa.go.jp/policy/economy/apec/2006/overview.html>
- The Pacific Economic Cooperation Council(PECC) & The APEC Business Advisory Council(ABAC) (2006), *An APEC Trade Agenda?: The Political Economy of a Free Trade Area of the Asia Pacific*. <http://www.pecc.org/ftaap/>
- Rice, Condoleezza(2006), “Remarks at the APEC CEO Summit,” November 18. <http://www.state.gov/secretary/rm/2006/76277.htm>



**Mizuho Research Institute**

*5-5, Otemachi 1-chome, Chiyoda-ku,  
Tokyo 100-0004, Japan*

*TEL: (03) 3201-0519*

*FAX: (03) 3240-8223*

*<http://www.mizuho-ri.co.jp/english/>*