



However, in great contrast to Europe, multilateral institutions have been relatively underdeveloped in East Asia. The only Asian counterparts are ASEAN (AFTA) and APEC, which are far weaker as international organization. East Asians were disillusioned on APEC when the Currency/Financial Crisis attacked most of East Asian economies. The AFTA framework which was set up in 1992, effective in 2003, has worked to increase intra-regional trade but that in 2003 was no more than 24%. It is higher than that in 1985 (20.3%) but evidently the figure is very low (Table 1). Why is it so low? Because their trade/industrial structures are more or less similar with exceptions of Singapore and Brunei. Japan committed itself for a long time to the GATT-WTO, the multilateral trade organization, believing that multilateral trading system was the best for the national interest of Japan. That's the main reasons why Japan was late in considering seriously to put its emphasis on regional groupings on trade on goods and services. Sure, APEC was set up some 15 years ago, but it is a kind of a consulting body to increase trade and investment by peer pressure among members although the APEC Summit is politically important..

But the world has changed more than Japanese had expected. In Europe, the European Union (EU) was set up in 1993 by fifteen developed countries and the regional currency-euro is in use The American continent was no exception of economic grouping, either. North American Free Trade Area (NAFTA) was created in 1994. And new larger free trade area covering North and South America is under negotiation.

The Currency/Financial Crisis in 1997-8 brought a sea change in the East Asia. They felt they were at the mercy of global capitalism in which any country even with relatively good macro-economic management may be attacked by huge speculation on its currency all of a sudden and that the current multilateral financial system, with the IMF as the last resort to those countries in dire financial needs, was not fair to them particularly after they open their capital markets according to the suggestion by the IMF, etc. Japanese government proposed a creation of an Asian Monetary Fund (AMF) in the autumn of 1997 to improve the turbulent situation, believing that the basic problem at the point was the lack of liquidity of those damaged countries. But the proposal was derailed by the strong opposition of the U.S. (and to some extent China). Thus, a regional financial cooperative framework among the 'ASEAN+3'<sup>2</sup> began to start just afterwards, not to repeat the similar crisis. It has worked rather well. One fruit of this cooperation was the *Chiang Mai Initiative (CMI)*, which could provide ASEAN+3 member countries in temporary financial need with liquidity by

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<sup>2</sup> ASEAN-10 plus Japan, China and Korea. Japanese experts tend to point at that Taiwan and Hong Kong should be invited in this grouping.

swapping arrangements of regional central banks to avoid being damaged by the speculative attack on their currencies. Another fruit was the *Asian Bond Fund* by regional central banks, and *Asian Bond Market Initiative*, which aims at recycling regional long-term capital within the region. China, for one, has strongly committed itself to this kind of regional financial cooperation and highly appreciates Japan's initiative on this issue.

Secondly, let me talk to where the East Asian economic regionalism will go.

Sentiment in favor of economic integration in East Asia appears much more deep-rooted now than it did 10 or 20 years ago. It is mainly due to the experience of the *Currency/Financial Crisis* as I already mentioned<sup>3</sup>. Indeed, it was the average citizens of the affected countries that were hardest-hit by the crisis.

Except financial cooperation and "natural" market integration, what is going in the region now? Yes, some ten FTAs are in action and some more FTAs in the region and across the region are under negotiation or under study. India is one of the players. It is not easy to catch up the latest situation on the progress on those FTAs.

**Table 2 FTAs in East Asia**

<b>In Action</b>	<b>In Negotiation (* Concluded)</b>	<b>Under study</b>
<b>Bangkok Treaty (1976)</b>	<b>Japan-Mexico *</b>	<b>Japan-ASEAN</b>
<b>AFTA (1992)</b>	<b>Japan-Korea</b>	<b>Korea-ASEAN</b>
<b>Singapore-NZ (2001)</b>	<b>Japan-Malaysia</b>	<b>Korea-Australia</b>
<b>Japan-Singapore(2002)</b>	<b>Japan-Thailand</b>	<b>Korea-NZ</b>
<b>Singapore-Australia (2003)</b>	<b>Japan-Philippines</b>	<b>Singapore-Chile</b>
<b>Singapore-EFTA (2003)</b>	<b>Japan-Indonesia**</b>	<b>Singapore-Taiwan</b>
<b>Singapore-U.S. (2004)</b>	<b>Korea-Singapore</b>	<b>ASEAN-India</b>
<b>Korea-Chile (2004)</b>	<b>Singapore-Canada</b>	<b>ASEAN-U.S.</b>
<b>China-Hong Kong(2004)</b>	<b>Singapore-Mexico</b>	<b>ASEAN-EU</b>
<b>Taiwan-Panama</b>	<b>Singapore-India</b>	<b>ASEAN-CER</b>
	<b>Thailand-India*</b>	<b>Japan-India</b>
	<b>Thailand-Australia</b>	<b>U.S.-Korea</b>
	<b>Hong Kong-NZ</b>	
	<b>China-ASEAN*</b>	

\*\* will soon begin

<sup>3</sup> Dr. Arjun Sengupta, Chairman of RIS also stressed the impact of the Crisis in the foreword of a book: *Towards an Asian Economic Community* published in 2004.

**Japan signed its first FTA (more exactly, an *Economic Partnership Agreement (EPA)*<sup>4</sup> with Singapore in 2002. This EPA, or "JSEPA," is the first FTA or EPA in East Asia involving any northern Asian country. Japan's roadmap is to conclude bilateral EPAs with individual ASEAN countries first, and then to conclude an EPA with 'ASEAN' as a whole.**

**Japan's negotiation with the Philippines ended successfully a few months ago. Negotiations with Thailand, Malaysia, and Korea will be finished in a few months, and that with Indonesia will soon begin. Japan-ASEAN FTA (EPA) negotiation will begin in a month. It would make sense for Japan to accelerate these negotiations: in view of the fact that as Japan's industrial/trade structure vis-à-vis ASEAN countries are basically supplemental, rather than competitive, concluding FTAs (EPAs) would benefit all parties concerned. As for China, Japanese government has proposed to conclude agreements on investment rules and intellectual property before embarking on negotiation on FTA(EPA).**

**In the meantime, China already concluded an FTA agreement with ASEAN as a whole, not with individual countries. Its decision to commence the agreement's implementation early last year by invoking the "early harvest" clause (to cut tariffs on agro-based products in advance) was very strategic and well received by ASEAN countries. Additionally, although the industrial/trade structure between China and the ASEAN countries is basically competitive rather than supplemental, China's consistently high growth has enabled ASEAN countries to boost their exports to China rapidly, independent of the FTA.**

**Are there some problems related to burgeoning FTAs (EPAs) in the region? Yes. One of the problems is that technical problems. China's FTA with ASEAN cannot serve as a template for a Japan-ASEAN agreement on which Japan will start negotiation in next month. Japan's view of the China-ASEAN FTA is lukewarm. For example: (a) there are innumerable items excepted from free trade; (b) services are not included as free trade items; (c) the agreement does not contain investment rules; and (d) the 'rules of origins' are not well defined.**

**In contrast, Japan, as a developed country bound by the rules of the WTO, needs to cover both goods and services in FTA it concludes with another country.**

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<sup>4</sup> EPA is aimed at (a) Assuring free movement of goods and services, and people mainly through FTA, (b) Ensuring smoother economic activity by creating and sharing investment rules and by system harmonization and transparency, and (c) Ensuring stability and sustainable development by stabilizing and deregulating the financial sector and exchange rates and by cooperation on energy security, etc.

**Thus, once Japan has concluded a bilateral FTA (or EPA) with a given ASEAN country, both sides may encounter multiple, and possibly conflicting, standards, creating the so-called “spaghetti bowl effect.” This fact could somewhat distort trade and investment flows in the region. China's government and some Chinese opinion leaders admit that China's FTA with ASEAN contains an unusually large number of exceptions, because to conclude FTAs with all of the ASEAN countries at once, China had to accept many compromises. However, they state that free trade negotiations on services will follow in due course.**

**Anyway, all the concerned parties will have to adjust the content of the FTAs sooner or later to make the regional economic integration go smoothly.**

**Now, Ladies and Gentlemen, I would like to touch on India or India-Japan relation in the context of East Asian regionalization. India signed an FTA with Thailand and is negotiating a FTA with Singapore. Japanese have paid an attention to India's recent approach to East Asia, South East Asia in particular. It looks natural that India has taken a kind of ‘Look East Policy’ as Mr. Rakesh Mohan just mentioned. It would be understandable particularly when we look at the current situation in South Asia where substantial economic regionalization is difficult for some more time. But, frankly, our knowledge on Indian policy in this respect including ‘Asian Economic Community Building’ and the concept JACIK (a grouping of Japan, ASEAN, China, India and Korea) is very limited. We appreciate if Indian experts disclose the strategy into details.**

**Most people in the East Asian region appear to be awaiting the realization of the *East Asia Free Trade Area (EAFTA)* through bilateral and regional FTAs (EPAs).**

**With an eye to these developments in the future, we Japanese hope India to strengthen further its socio-economic relations with East Asia as a whole. It is timely, in this context, that India and Japan are currently probing ways to enhance bilateral trade and investment through concluding an EPA. It is also encouraging that Japan's private sector has begun to focus on India as one of the important next target countries for FDI.<sup>5</sup>** ( e nd)

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<sup>5</sup> According to a latest survey by the Japan Bank for International Cooperation, India ranks the third only after China and Thailand as a prospective place to make direct investment in around three years. Many Japanese firms, simultaneously, tend to raise such problems in India that has hindered more FDI from Japan to India as tax problems and labour-related issues.

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**Table 3 Diversity of Major East Asian Economies and India**

	Land Size (1000 km <sup>2</sup> )	Population (Mil.)	GDP (Bil. \$)	Per-Capita GDP (\$)	Main religion	% of Ethnic Chinese
Indonesia	1,919	217	173	798	Islam	3~5
Thailand	515	64	126	2,034	Buddhism	10
Malaysia	330	24	95	3,958	Islam	24
Philippines	300	79	78	992	Catholic	7
Singapore	0.7	4	87	20,806	--	77
China	9,561	1,295	1,266	978	--	--
Japan	378	127	3,986	32,805	Buddhism	>1
Korea	99	47	477	10,050	Buddhism/ Christianity	n. a.
India	3,287	1,049	495	470	Hinduism Islam	>1

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