

Toward the Formation of East Asia FTA (EAFTA)

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Outline

I. Benefits of EAFTA

1. Economic Benefits

A) Economic growth through expansion of foreign trade and foreign direct investment

2. Non-economic Benefits

A) Political and social stability, resulting from economic growth and increased interaction among the FTA members.

II. Obstacles to EAFTAs

1. Opposition to trade and FDI liberalization from non-competitive sectors

2. Different political systems: Democratic states vs. Non-democratic states

3. Security issues: US allies vs. Potential Enemies

4. Different Views on History: Japan vs China and Korea

III. Ways to Overcome Obstacles

1. Implement structural adjustment policies to deal with trade and FDI liberalization under FTAs by using 10-year grace period permitted in the WTO..

2. Increase exchange of people from all areas including politicians, bureaucrats, academics, students, etc, in order to deepen mutual understanding

3. Promote the WTO process to mitigate the negative impacts of EAFTA on non-members.

Text

I. Benefits of EAFTA

East Asian countries will benefit substantially from the formation of EAFTA, as it would promote economic growth by promoting foreign trade and foreign direct investment (FDI). For Japan, which has been suffering from a long recession, FTA with East Asian countries, whose economic growth potential is huge, will provide substantial benefits, as it enables Japan to have closer economic relationship with these countries. Moreover, EAFTA would promote domestic structural reform such as reforms in agriculture sector and labor market thereby contributing to the revitalization of the Japanese economy. The same arguments can be applied to other East Asian countries. Despite these expected benefits from the formation of EAFTA, various obstacles do

exist.

We can also expect non-economic benefits from EAFTA. Through EAFTA East Asian countries can expect economic growth and deeper mutual understanding, both of which would reduce political and social frictions to achieve social and political stability. Social and political stability in turn would contribute to economic growth.

II. Obstacles to EAFTA

One may classify the obstacles on the formation of EAFTA into several categories including economic, political, and historical factors. Let me begin with economic factors. The formation of FTA involving the countries in different levels of economic development as the case for EAFTA is likely to result in sizeable economic benefits as the removal of trade barriers through FTA enables the members to use resources efficiently by making them specialize in the production of goods with a comparative advantage. This point may be justified theoretically, but in reality the formation of such FTA encounters strong opposition from non-competitive sectors, as FTA forces non-competitive sectors to experience structural adjustment. Indeed, it is argued that the formation of FTA involving the countries with similar level of economic development is easier because they are engaged in intra-industry trade of horizontal type more actively, and under such circumstances weaker opposition may be expected.

In addition to economic factors, several political factors are hindrance to EAFTA. One is a security issue. East Asia has countries with different political systems. Most countries have democratic political system, but China and Myanmar have authoritarian regime. While many countries have security alliances with the US, China is still considered as a possible threat to these alliances. These issues may be dissolved as economic development is achieved and as international exchange among these countries is enhanced to result in sharing common views toward political system and regional security.

Another political problem in this region toward the establishment of EAFTA is the absence of strong political leadership for its formation. From the experiences in Europe we learned the crucial role that strong political leadership played in the formation of the EEC and subsequent deepening experiences.

Finally, different views on history involving the Northeast Asian countries, namely, China, Japan and Korea are obstacles to EAFTA. Closer economic and social relations will contribute to reducing the gaps in their views on historic and other issues.

III. Ways to Overcome the Obstacles

To overcome structural adjustment problem imposed on non-competitive sectors by FTA, the countries should implement scheduled trade liberalization in sensitive sectors as a part of FTA agreement. GATT/WTO allows the members of FTA to take ten years to complete FTA. East Asian countries should use the breathing space to facilitate structural adjustment through appropriate adjustment policies. For example, potentially impacted workers should be given financial, technical and other types of assistance so that they can improve their quality of human resources, in order to be able for these impacted workers to obtain productive jobs. If such program is successful, trade liberalization through FTA can be pursued smoothly to result in the benefits for all the countries. Indeed, the needed assistance should be provided by the members as a part of economic assistance programs under EAFTA. For example, in the case of educating and training workers for upgrading their skills, more developed members such as Japan, Korea, Taiwan, and Singapore can provide useful assistance to other countries.

To overcome political and non-economic obstacles, East Asian countries need to deepen mutual understanding at all levels, from top leaders to young people, to increase the awareness of the importance of integrated regional market and regional political and social stability. Leaders' meetings should be held at least annually to increase their mutual understanding. Frequent television-conferences can be used to supplement face-to-face meetings. Policy makers, who are responsible to formulate policies, should establish close communication links. Bureaucrats, business people, academics, students, and others should also increase their exchange. In order to facilitate such exchange, the establishment of frameworks such as student exchange programs is effective. Such programs can be set up independently but they would be more effective if they are coordinated under bilateral and plurilateral FTAs before achieving EAFTA.

Finally, East Asian countries should not regard completing EAFTA as a goal, but they should regard it as a step toward achieving global free trade under the WTO. This is very important as EAFTA has negative impacts on non-members such as the U.S., the EU and other countries. To avoid an EAFTA becoming a stumbling bloc for global free trade, East Asian countries should make every effort to promote multilateral trade negotiations under the WTO and establish FTAs with countries outside East Asia.