



Japan Emerges From Its Trade Shell

by Akihiko Tamura

SKEPTICISM GREETED Japan's plan for greater integration of economic activities when it was announced at the Asean Plus Three Economic Ministers Meeting and at the East Asian Economic Ministers Meeting, both of which took place last August in Kuala Lumpur. The cynicism sprang from the mistaken belief that Japan was merely playing catch-up with an ambitious China—Beijing has been engaged in signing a host of free-trade agreements with nations and organizations in the Asia-Pacific region. Specifically, China signed an FTA with the Association of Southeast Asian Nations for goods (in 2004) and for services (in 2007). In addition, China has been actively involved in the proposed Asean Plus Three FTA (also known as the East Asian Free Trade Area, which is still in the feasibility-study stage). Both of these actions by Beijing—in particular the former—served as abrupt wake-up calls for Tokyo, promoting Japan to buck up and grab on to the East Asian FTA bandwagon.

The initial tepid response to the Japanese proposal—known by the acronym CE-

PEA (Comprehensive Economic Partnership in East Asia)—could be partly attributed to the early onset of FTA-fatigue. Asia is awash with FTAs and EPAs (economic partnership agreements) so much so that it has become increasingly difficult to decipher one acronym from another in the tangled mess that is the Asian “noodle bowl” of trade agreements. But more significantly, the lukewarm reaction was probably due to doubts as to whether Japan really has what it takes to lead regional economic integration. Japan—with its history of protecting certain sectors such as agriculture—could hardly be held up as a shining example of a free-trade advocate.

But by the end of 2006, there was a marked increase in the amount of attention given to the proposal, with some Asian nations beginning to warm to Japan's proposal. This led to the decision at the East Asia Summit (EAS) in Cebu in January

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2007 to launch a feasibility study on the proposal.

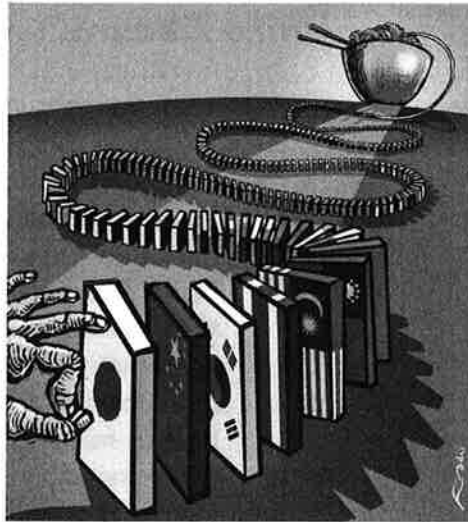
It could be that Asean member states and other countries in the region began to warm to the CEPEA proposal at the start of 2007 because it gradually dawned on them the huge potential such an agreement offers in terms of its anticipated economic impact. According to the Ministry of Economy, Trade and Industry (METI), at stake is the chance to boost the GDP of participating states by an estimated 25 trillion yen (\$208 billion). Currently, there are 3.1 billion people living in the area covered by CEPEA, with a GDP of \$9 trillion.

Tokyo's vision for economic integration in the region, however, does not just stop at the establishment of a trade regime that would cover enormous populations and a broad range of economic activities. There is much more to it than that. Successful implementation of the plan—and the full embracement of its underlying philosophy by Japan—could fundamentally influence in a significant way the economies of Asia, including that of Japan, and even effect the global economy, too.

So what is Japan's proposal and what makes it so special? The goal of CEPEA is to create an efficient, mature market-economy area encompassing the 10 member states of Asean, plus Japan, China and South Korea, as well as India, Australia and New Zealand. Or, put another way, the agreement would mirror the current membership of the EAS.

According to Japan's blueprint, the agreement would, as its name suggests, be a "comprehensive" one both in terms of the sectors covered (trade in manufactured

goods, services, investment, etc.) and—perhaps more noteworthy—in terms of how Japan defines its potential FTA/EPA partners. Notably, the decision to include India marks a new departure for Japan into relatively uncharted territory, as Japan looks to include countries that—even though they may not currently constitute a close fit for economic integration—nonetheless display strong signs of evolving into important economic partners in the future. It is this nod to future potential that is one of the more interesting aspects of CEPEA in that it seems



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to suggest a more forward-looking approach toward economic integration on Japan's part than has been the case in the past. This is especially remarkable when one considers that, to date, proposals for economic integration in Asia have tended to focus on the creation of arrangements that reflect de facto economic integration. In other words, these proposals are an

attempt to design a structured framework to cover existing flows of trade and investment as opposed to future or potential flows. In contrast, CEPEA tries to incorporate future flows of trade and investment, as the inclusion of India shows.

Yet even these details are not sufficient to mark CEPEA apart from the multitude of FTAs and EPAs that are already signed or are in the process of being negotiated. To uncover the true significance of the plan, we need to compare and contrast the sentiments expressed in CEPEA with the traditional stance that Japan has taken with regard to global economic activities. CEPEA is premised on a different paradigm from previous economic arrangements in the region. Up to now, regionalism in East Asia

was driven by nations' responses to perceived threats from other trade blocs such as the European Union and the North American Free Trade Agreement. As such, trade agreements have tended to be both reactive and exclusive. But CEPEA is different in that its goal is not just to set up a regional trade bloc. Instead, it's my view that CEPEA is outward-looking in nature and this inherent characteristic will result in spurring other countries—or even regions—to pursue proactively economic integration with East Asia. This phenomenon has already manifested itself. The fact that CEPEA was embraced by EAS members in late 2006 apparently elicited a formal proposal by the United States on an FTA covering the Asia-Pacific Economic Cooperation members, which was unveiled at the APEC Leaders' meeting in Hanoi in November 2006. Leaders, including the ones from EAS members (except India which is not an APEC member), agreed to undertake studies on the proposal.

Should this domino effect continue, the result could be the formation of a larger trade regime that would encompass developed countries and emerging economies, which, while not quite to the scale of multilateral bodies such as the World Trade Organization, could nonetheless serve as an effective trade regime.

As described, CEPEA is both forward-looking and outward-looking in nature. I would like to take particular note of this spirit embedded in CEPEA—one which is not discernable in any other bilateral FTA/EPAs engaged by Japan to date—and call it “extrovert regionalism.” This “extrovert” trajectory per se is particularly crucial for Japan—much more than individual trade agreements—because it is this spirit that could tremendously affect the dynamism of the Japanese economy.

It is normally argued that a trade agreement, if properly formulated, could have a positive impact on the domestic regulatory

reform of the participants and thus could further invigorate the economies of participating countries. However, it should be acknowledged that trade agreements—which are basically collections of rights and obligations aimed at freeing up trade—have their limits. For Japan, sectoral (or vertical) regulations only partly explain the insufficient dynamism of its economy. Cross-sectoral (or horizontal) regulations such as competition law, labor law, educational system, etc., are also to blame. Furthermore, nonregulatory factors such as complacent mindsets, including Japan's almost knee-jerk reaction to curb competition, play a role. This mindset originates from the inward-looking mentality which is frequently found in all strata of Japan society, and results in apathy toward global realities.

Therefore, the most effective, if not the fastest-acting, prescription that Japan needs to take is to formulate public policy which would irreversibly foster an “extrovert” mindset, i.e., being mindful of the realities on the globe, not just within her territory and not just within East Asia, so as to help all sections of Japanese society optimize their thinking and behavior in the global context. Thus Japan's “extrovert regionalism,” if appropriately and tirelessly implemented, could affect other public-policy fields and transform Japan as a whole.

Of course, extrovert regionalism is not the only trade policy with an extrovert trajectory built in. Another typical example is multilateralism. However, the extrovert regionalism is a course which Japan has actively pursued. Therefore, it seems that extrovert regionalism could be more forceful and result in a seismic change to the Japanese mindset.

Japan's new extrovert trade policy could play a vital part toward facilitating this much-needed change. A reformed and new Japan could then embark on a path of spurring further economic growth for Asia and the global community as a whole. ■