Japan’s Strategy for Regional Trade Agreements

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(This Paper is based on METI , but rearranged by the author. It is the author’s view and does not represent view of either METI or RIETI)
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1. Why Regional Approach? Why East Asia?

1-1 Growing Economies

2020

- U.S.A. (18.5%)
- Western Europe (19.4%)
- Japan (9.6%)
- East Asia (15.9%)
- Others (36.6%)
- Total: $49.89 trillion

1990

- U.S.A. (26.1%)
- Others (29.8%)
- Japan (13.9%)
- East Asia (5.4%)
- Western Europe (24.8%)
- Total: $21.14 trillion
1-2 De-facto Economic Integration

The amount of trade and investment with East Asia is increasing

Direct investment: 27%

EU

14% → 13%
20% → 15%

Direct investment: 18%

East Asia
(ASEAN 10 + China, Korea, Taiwan, Hong Kong)

33% → 42%
31% → 43%

Direct investment: 44% (share of the world total amount from 1992 to 2001)

NAFTA

Import share 26% (1992) → 20% (2002)
Export share 31% (1992) → 31% (2002)

The Share of East Asia
- Exports 43%
- Imports 42%
- Direct Investment 18%

Note: The figures are calculated by METI.
### 1-3 Difficulty in WTO Negotiation

- 148 members with wide variety of interests

| Albania | Angola | Antigua and Barbuda | Argentina | Armenia | Australia | Austria | Bahrain, Kingdom of | Bangladesh | Barbados | Belgium | Belize | Benin | Bolivia | Botswana | Brazil | Brunei | Darussalam | Bulgaria | Burkina Faso | Burundi | Cambodia | Cameroon | Canada | Central African Republic | Chad | Chile | China | Colombia | Congo | Costa Rica | Côte d'Ivoire | Croatia |
|---------|--------|---------------------|-----------|---------|----------|---------|---------------------|-----------|----------|---------|--------|-------|--------|----------|--------|--------|-----------|---------|--------------|--------|--------|--------|----------|-------|-------------|--------------|--------|
| Cuba    | Cyprus | Czech Republic      | Democratic Republic of the Congo | Djibouti | Dominica | Dominican Republic | Ecuador | Egypt | El Salvador | Estonia | European Communities | Fiji | Finland | Former Yugoslav Republic of Macedonia (FYROM) | France | Gabon | The Gambia | Georgia | Germany | Ghana | Greece | Grenada | Guatemala | Guinea | Guinea Bissau | Guyana | Haiti | Honduras | Hong Kong, China | Hungary | Iceland | India | Indonesia | Ireland | Israel | Italy | Jamaica | Japan | Jordan | Kenya | Korea, Republic of | Kuwait | Kyrgyz Republic | Latvia | Lesotho | Liechtenstein | Lithuania | Luxembourg | Macao, China | Madagascar | Malawi | Malaysia | Maldives | Mali | Malta | Mauritania | Mauritius | Mexico | Moldova | Mongolia | Morocco | Mozambique | Myanmar | Namibia | Nepal | Netherlands | Nicaragua | Niger | Nigeria | Norway | Oman | Pakistan | Panama | Papua New Guinea | Paraguay | Peru | Philippines | Poland | Portugal | Qatar | Romania | Rwanda | Saint Kitts and Nevis | Saint Lucia | Saint Vincent & the Grenadines | Senegal | Sierra Leone | Singapore | Slovak Republic | Slovenia | Solomon Islands | South Africa | Spain | Sri Lanka | Suriname | Swaziland | Sweden | Switzerland | Chinese Taipei | Tanzania | Thailand | Togo | Trinidad and Tobago | Tunisia | Turkey | Uganda | United Arab Emirates | United Kingdom | United States of America | Uruguay | Venezuela | Zambia | Zimbabwe |
Main Regional FTAs/EPAs

1-4 Global networks of FTAs/RTAs
2. Development of Bilateral Agreements

<table>
<thead>
<tr>
<th>Country Pair</th>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan-Singapore</td>
<td>2002</td>
<td>Jan. Negotiations</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>Nov. EPA in effect</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>Sept.: Signed</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>April EPA in effect</td>
</tr>
<tr>
<td>Japan-Mexico</td>
<td>2001</td>
<td>Nov. Negotiations</td>
</tr>
<tr>
<td>Japan-The Philippines</td>
<td>2002</td>
<td>Feb. Negotiations</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>Nov. Agreed in principle</td>
</tr>
<tr>
<td>Japan-Malaysia</td>
<td>2004</td>
<td>Feb. Negotiations</td>
</tr>
<tr>
<td>Japan-Thailand</td>
<td>2005</td>
<td>Jan. Negotiations</td>
</tr>
<tr>
<td>Japan-Indonesia</td>
<td>2006</td>
<td>Dec. Negotiations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Substantive agreement in 2005</td>
</tr>
</tbody>
</table>
3. Development of Regional EPAs

- Japan-ASEAN: Start Negotiation on CEP (Comprehensive Economic Partnership) from April 2005
- Japan-China-Korea: FTA Study Group, Investment Agreement Study Group
- ASEAN+3/EFTA: Feasibility Study
4. From Bilateral to Regional-EPAs

4-1 What We Should Do?

-to demonstrate building block

-to clear spaghetti bowl
4-2 Key Principles

4-2-1 Economic Goal First

Economic Effect of East Asia FTA (ASEAN+3) (GDP increase)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>0.81%</td>
</tr>
<tr>
<td>China</td>
<td>3.27%</td>
</tr>
<tr>
<td>Korea</td>
<td>8.78%</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.76%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.44%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8.80%</td>
</tr>
<tr>
<td>Philippine</td>
<td>4.49%</td>
</tr>
<tr>
<td>Thailand</td>
<td>19.52%</td>
</tr>
</tbody>
</table>

(Source: Kawasaki, RIETI)
4-2-2 Political Leadership and Technocratic Skill

4-2-3 Pragmatism
4-3 Key Issues / Sectors

- Market access, Rules of Origin
- Investment, Services
- Institution Building, Structural Reform
5. Broader Strategy

5-1  Double Track Approach with WTO

5-2  Exchange Rate Regime / Currency

5-3  Energy Cooperation
Step by step with realistic approach toward longer-term and broader goal.