

New Regionalism in the 21st Century Pacific-Asia: Synergy or Rivalry of Economic Power? Positioning Japan, ASEAN and the Greater Chinese Economies in their Global Context

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New regionalism is becoming a short-cut to economic liberalization in a globalizing world. In May 2004, the most dramatic phase of European integration, in terms of the enlargement of EU (15+10) capturing 25 member countries in Western, Central and Eastern European countries, has been mostly completed. On the other side of the Atlantic (or Pacific if we view from Asia perspective), it is the preparation of Free Trade Area of the Americas (FTAA) that was launched at the Miami Summit in 1994. The FTAA is undoubtedly the most ambitious collective initiative in the history of the Western Hemisphere and has already generated important positive externalities for the development of countries in NAFTA and MERCOSUR countries, and the strengthening of the multilateral system. All these regional initiatives are paralleling the efforts (or the partial success) of the WTO framework building. In short, it is the likely formation of a tripartite system of regional blocs in the global capitalism.

Key Words : Free Trade Agreements, Globalization, New Regionalism, Pacific-Asia, Regional Cooperation, ASEAN, China, Japan

1. Economic Liberalization-Driven Social Change: Prosperity with Inequality?

For Asia, after the Asian Financial Crisis (1997) and at the turn of this new millennium, there have been many regional economic initiatives aiming at bilateral, gradual and reciprocal trade liberalization, without excluding any sector and in accordance with the WTO framework. Yet, for the ASEAN, Japan, China and South Korea (the so-called 10+3) FTA initiative, its most striking features of the New Regionalism is not just the sharply growing disposition of developing countries to enter into reciprocal agreements with industrialized countries, and but also the new world vision(s) that there is a rediscovery of 'good neighborhood' in Asia in a globalizing world, after years of regional tensions and/or conflicts. This paper examines the dynamics (conflicts and chances) and prospects of Asian

regional economic initiatives, with special focus on the economic networking of, and impacts on, the Greater Chinese economies (Hong Kong, Macau, mainland China, and Taiwan).

Before moving into the subject matter of regional approach to economic integration – the road map for regional economic liberalization project of the ASEAN+China+Japan+South Korea (in the so-called 10+3 FTA), a brief update of the social impact of the globalization project should be noted.

1.1 Social Impacts of Globalization - Regionalization

Thanks largely to global economic liberalization, productivity growth has accelerated almost everywhere since 1995 (*The Economist*, 25. October 2003, p.74), and the free and timely flows of capitals and goods across borders are become an integral

part of global economy. Economic liberalization seems to become the functional necessity for speeding up socio-economic development. But the globalization processes are not a smooth, voluntary and benign one; more often than not, they are full of contradictions, confusions and chaos and power struggles.... For these multifaceted and complex manifestations of tensions between local and global forces, anti-globalization processes are developing (Abe & Lai 2005, Held & McGrew 2002).

Globalization processes are problematic and tend to polarize socio-economic life chance of people – this has been confirmed by the *Report of the World Commission on the Social Dimension of Globalization* (WCSDG 2004). Two contesting views on the globalization project: globalization is regarded as a benign and automatic force that fosters better economic benefits for everyone, even the poorest group can be better off. This is in strong contrast to the political extremes of the Left and Right, that for the Left: the unbridled capitalism does produce effects of exploitation of the weak and socio-ecological degradation, and for the Right: the malignant forces of globalization engender xenophobia, the demising local people's jobs, culture, language and hence identity (Milanovic 2003).

Globalization processes hence have put state and society at very peculiar position, as both exposed to the challenges of 'external' forces: capitals, goods, labor (and jobs) are more mobile than the previous regime of global order (Lai 2005).

Since early 1990s, most of the nation states have to champion its project for economic liberalization, for embracing the global free market capitalism. They adopt the international financial institutes (the World Bank and IMF) recipe for reform in macro economic policies, in order to make their economies more competitive. Their strategies are the deregulation of international capital flows and trades, and the re-making of (the once protected or socially guaranteed) labor market into a deregulated (less rigid, more dynamic and more flexible) one. The socio-economic consequences of these reform initiatives are widely different among different countries. With the exception of the Asian Newly Industrializing Economies (NIEs): South Korea, Taiwan, Hong Kong and Singapore and China, most developing economies are not adjusting well with the globalization project. On the other hand, most of the developed capitalist economies were suffered from the sluggish economic growth, ironically resulting from the deregulation of capital markets, which weakened the relationship between banking and industry (Navarro et al. 2004).

Taking the globalization discourse seriously has also reinforced the political ideologically driven reform in the so-called welfare state in the developed economies, but most of the reforms are not successful as judged by their fellow citizens (Huber and Stephens 2001). Whilst for most part of the developing economies, the globalizing forces have not helped them much either. With the exception of China, global poverty has not been improved significantly during the globalization era, 1980s to 1990s (Milanovic 2003, p.679, Ravallion 2004, cf. Adam 1999). The number of poor (less than US\$1 per day) has fallen in Asia, but risen elsewhere: it is roughly doubled in Africa – the figure is about one in three now (see Figure 1). This is in line with the trend of widening global inequality (see Fig.2)!

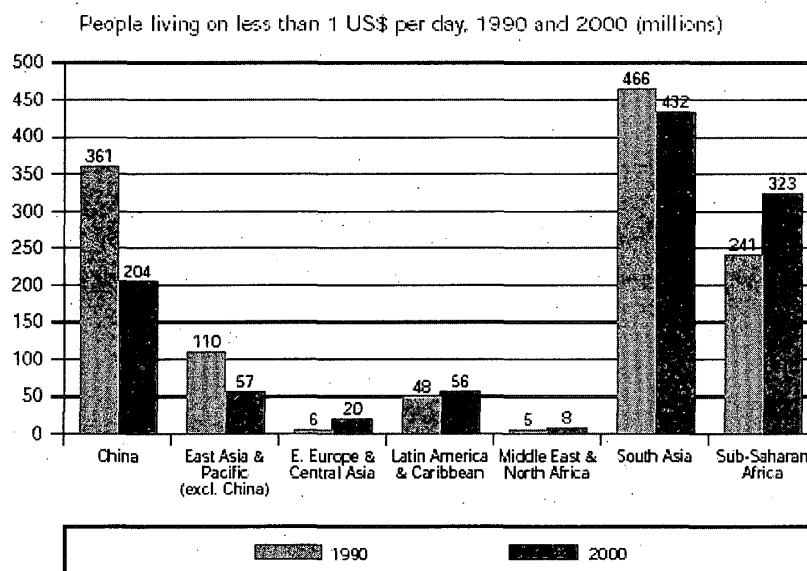
To recapitulate the present state of globalization project: economic productivities have been much improved for the developed economies, but the aggregate progress for the economic liberalization has not achieved its intended purpose for a better and just world. But the globalization processes are shaping the development of dual/divided cities, great disparity between the rich and the poor, as well as the gaps between urban and rural chance of life (for instance, mainland China, Fig.3; Chen 2003). So far, global economic liberalization and globalization are not compatible to the daily life of people and local welfare – as local labor market is demising with the off-shoring strategies of firms. Rather, it is the common trend in social dualism: widespread poverty within affluent societies / localities, in line with a set of deregulatory policy initiatives that favours private sector, commodification and privatization of social services.

This can be seen in recent trend that, individual social rights (say, labor standards, social protection and welfare entitlements) are down-graded by the calling for de-regulation, flexible labor market initiatives under the reform banner of economic liberalization towards globalization. Here, though the basic, or the eligibility, for all kinds of welfare services (social security in particular) is rooted with the definition of citizenship (someone's assigned status by nation state), the social citizenship is eroding under the strong current and waves of economic globalization and pro-market initiatives.

In response, the anti-globalization campaigns at various international economic institutions' (WTO, World Economic Forum and G7) meetings are becoming more of a norm that quest for global social justice, towards a sustainable future (Lai 2004a). At this historical conjuncture, the calling for a more human and fair mode of globalization is timely.

O-K. Lai, New Regionalism in the 21st Century Pacific-Asia: Synergy or Rivalry of Economic Power?

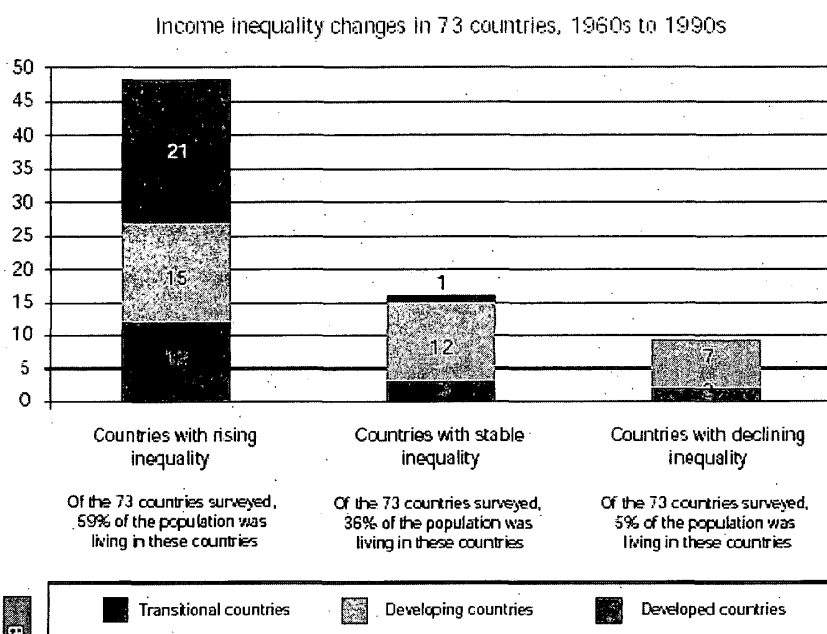
Fig.1: People Living less than 1 US\$ per day.



Source: World Bank, *Global Economic Prospects 2004*.

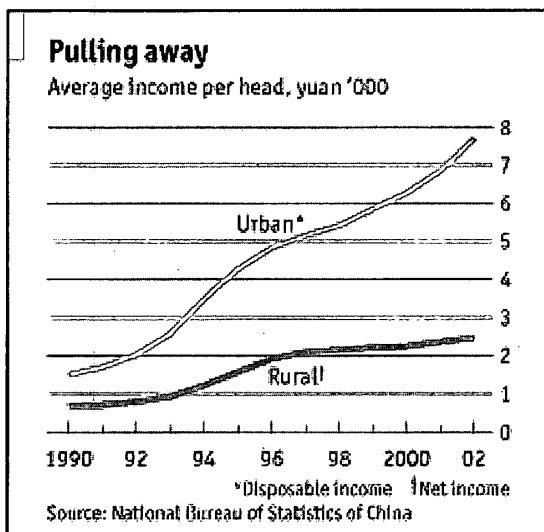
(Source: WCSSDG, 2004, p.45)

Fig.2: Global Inequality.



Source: Giovanni Andrea Cornia and Sampsa Kiiski, "Trends in Income Distribution in the Post-World War II Period: Evidence and Interpretation", WIDER Discussion Paper No. 89, UNU/WIDER, Helsinki, 2001.

(Source: WCSSDG, 2004, p.44.)

Fig.3: China Average Income.

(Source: The Economist, online edition)

1.2 The Case for G22- Group – New Agenda Setting for (Anti-)Globalization

On the other front but in the same logics, the developing countries are gathering momentum to fight for a more equitable and fair regime of trading – highlighted by recent rebellious move of the Group 22 to walk out from the Doha Round of the WTO trade negotiation (WTO Fifth Ministerial Conference) in Cancun, Mexico (September 2003).¹ The Group 22 represents half the world population and two-third of world farmers, their agenda for further economic liberalization (globalization project for WTO and developed economies) are fair and equitable trading regime that at the very least, rich countries should make bigger efforts to cut subsidies and free farm trade – this is in line with the call for a reinvention of global governance for fair globalization (WCSDG 2004).

Retrospectively, as the rich world's concessions for the poor ones were too limited, NGOs' communicative actions in mass and cyber media are highly explosive that are instrumental to the collapse of the WTO Cancun (Mexico) negotiation in September 2003. Shouting loud and long enough in various media enable the strong provocative communicative power to 're-frame' the anti-rich country sentiments, which eventually moving the Group 22 trade negotiators took a decisive and

radical stand against the present global project run by the WTO and the rich countries.

The WTO Cancun talks broke down as developing nations criticized rich nations for refusing to offer meaningful concessions on market access and subsidies – This was the first time in trade negotiations that developing countries were united as a bloc and found their voice. More importantly, the failure of the in Cancun is a major setback for global trade negotiations, reflecting a change of balance between traditional economic giants and other rising powers.

2. Positioning the Regional / Bilateral Economic Initiatives in their Global Context

At the global level, WTO's comprehensive trade negotiations have been held since January 2002 upon the conclusion reached at the Fourth Ministerial Conference in Doha, Qatar, November 2001. Negotiations (the so-called Doha Development Agenda [DDA]) are underway in seven areas: agriculture; market access for non-agricultural products; services; rules; trade-related aspects of intellectual property rights (TRIPS); trade and environment; and the Dispute Settlement Understanding (DSU). The concluding negotiations' deadline for a single undertaking scheduled for 1. January 2005 seems partially completed in August meeting 2004 (see, Fig.4).

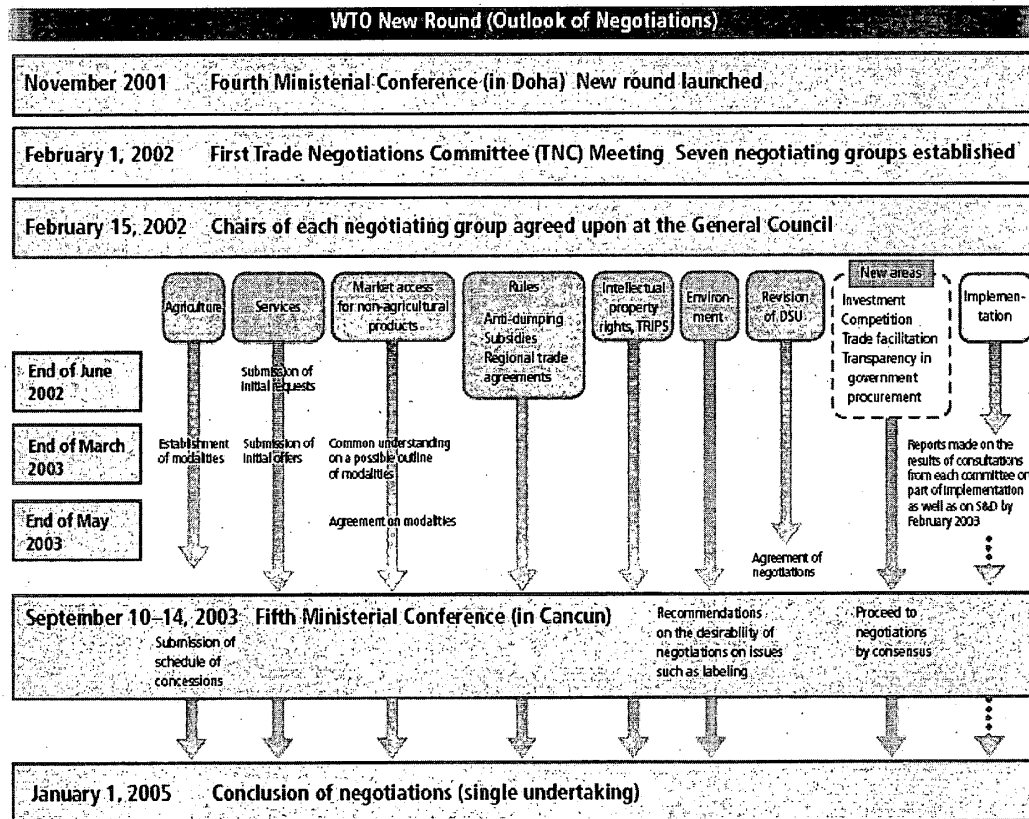
But the impasse, if not the deadlock, of the DDA negotiations, the most important changes to the world's trading and investment architecture are likely to come from the new and dynamic regional arrangements being fashioned in East Asia by Japan, China, South Korea and the ten members of the Association of South-East Asian Nations (ASEAN) – the so-called 10+3 FTAs framework.

In early 2004, approximately 140 FTAs have been notified to the WTO and are in force and among those, over 90 were notified in the 1990s and nearly 30 after the year 2000. The trend is clear that, while moving towards a global governance framework for trading and investment, more and more countries are working towards bi-lateral or sub-regional economic liberalization agreements.

Juxtaposing the Asian regional economic initiatives, the most dramatic phase of European integration, in terms of the enlargement of EU

¹ Group 22 includes developing countries: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela.

Fig.4: WTO New Round Negotiations.



(Source: METI 2004)

(15+10) capturing 25 member countries in Western, Central and Eastern European countries, has been mostly completed in May 2004 (Fig.5). On the other side of the Atlantic (or Pacific if we view from Asia perspective), it is the preparation of Free Trade Area of the Americas (FTAA) that was launched at the Miami Summit in 1994. The FTAA is undoubtedly the most ambitious collective initiative in the history of the Western Hemisphere and has already generated important positive externalities for the development of countries in NAFTA and MERCOSUR countries and the strengthening of the multilateral system. The goal of the process is to achieve a "balanced and comprehensive agreement" with negotiations being concluded no later than December 2004, while entry into force will be sought no later than December, 2005. The negotiation has advanced steadily and now is entering into the critical, and very difficult, final stage of product and sectoral level discussions of reciprocal liberalization. In short, it is the formation of a tripartite (Asia, Europe and Americas) system of regional blocs in the global capitalism (Fig.6).

Prior to 1997, there was selective strong economic

regionalization in the *Asian Economic Miracle* (Lai and So 1997). After the Asian Financial Crisis (1997) and at the turn of this new millennium, there have been many initiatives for formal negotiations aiming at bilateral, gradual and reciprocal trade liberalization, without excluding any sector and in accordance with the WTO framework. Yet, for the 10+3 FTA initiative, its most striking features of the New Regionalism is not just the sharply growing disposition of developing countries to enter into reciprocal agreements with industrialized countries, and but also the new world vision that there is a rediscovery of 'good neighborhood' in Asia within a globalizing world, after years of regional tensions and/or conflicts.

3. Geo-Politics of Japanese Critical Engagement in Asia

Since mid-2003, Japanese economy is on a recovery trend: Japan's exports and imports hit record highs in the first half of 2004. Exports rose 12.5% in the January-June period from a year earlier

Fig.5: EU Enlargement.

The EU Enlargement (15+10+2+1)

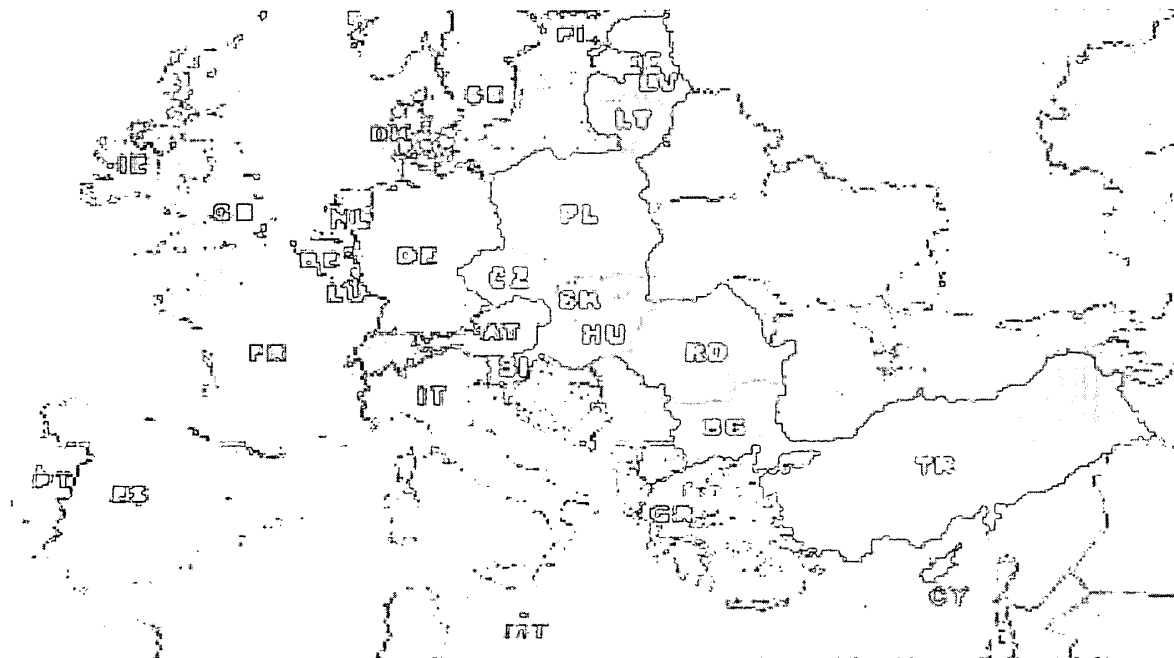
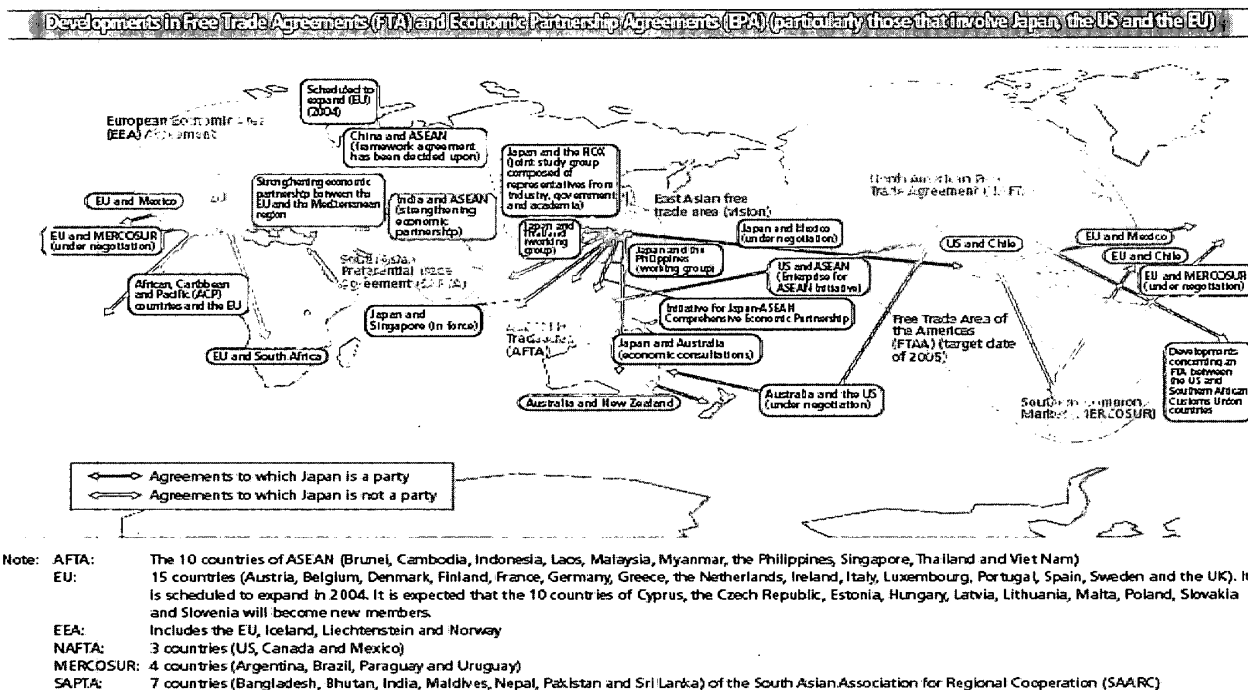
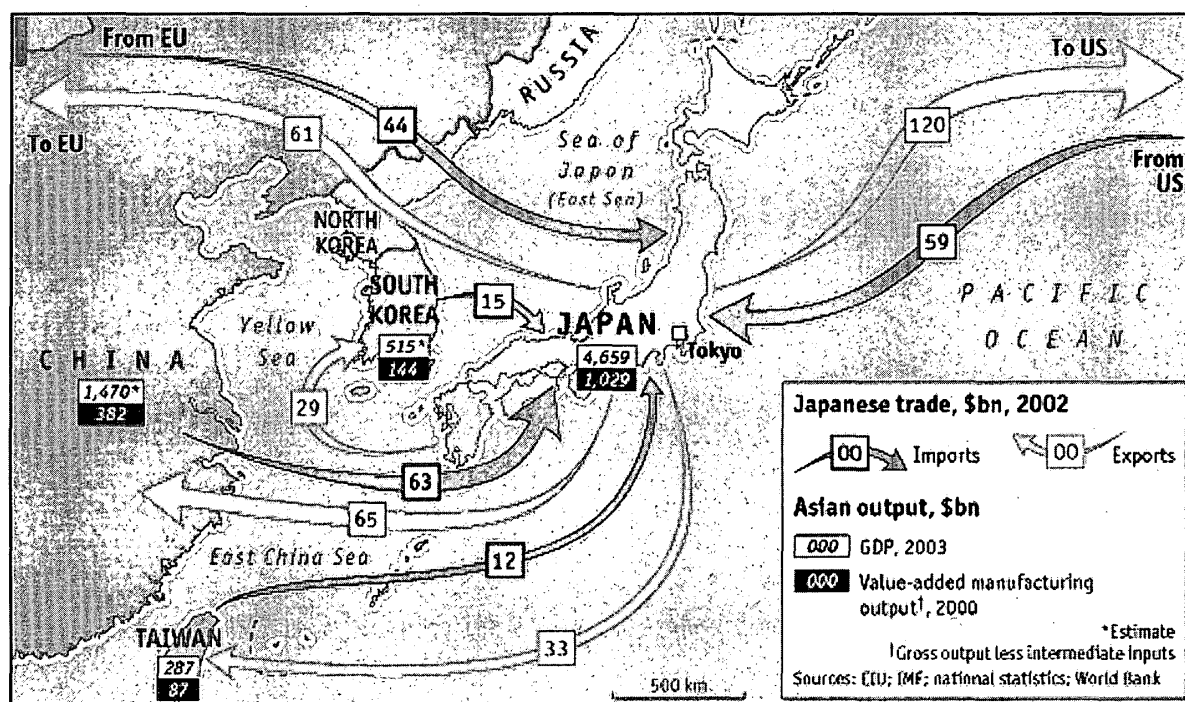


Fig.6: (Sub-)Regional Economic Blocs in Global Economic System.



(Source: METI 2004)

Fig.7: Japan's Trading Partners and Flows.



(Source: The Economist, 7 April 2004, online edition)

to 29.60 trillion yen, while imports increased 6.6% to 23.42 trillion yen -- both the highest levels since comparable data were made available in 1947. (*The Japanese Times*, 23 July 2004).

Trading partners, volume and trends with Japan have been changing in the last decade. In 2003, East Asian economies, the Greater Chinese economies in particular, have been replacing USA and EU as the main source of import -- this is in line with the Japanese exports, which targeted to East Asia and the share was as much as USA (see Fig.7). In other words, there is a sub-regionalization process at the Northeast Asian Economies.

In the first quarter of 2004, exports to China, excluding Hong Kong, climbed 24.2% to 3.8 trillion yen. Imports from the country, excluding Hong Kong, were also up 14.9% to 4.74 trillion yen. For record, China is Japan's second-largest export market after the United States, and Japan imports more from China than anywhere else (see Fig.8 and 9).

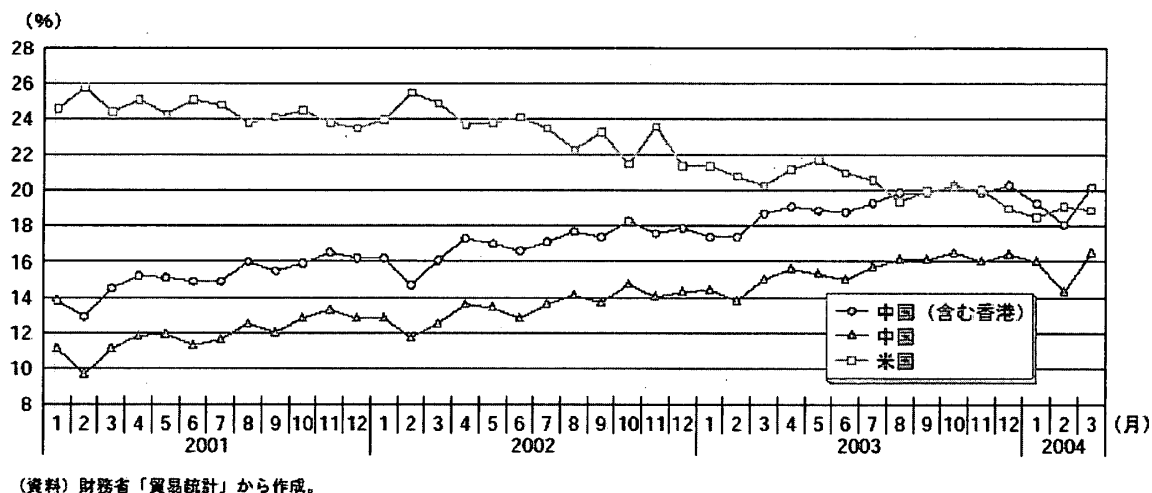
More specifically, the export-led recovery of Japanese economy in 2003-2004 is attributed to the growing demand in Asia, particularly from China. China's growth in demand for all forms of raw materials and input for further industrialization seems insatiable; it has had to import increasing quantities of energy and basic commodities for its fast-growing economy.

In short, growth in China is good for the development of the entire region, but particularly to those countries that are export-led. For instance, high overall demand in China for auto parts and machinery prompted manufacturers to expand output and pile up inventory, causing the government to announce an upward revision of Japan's January-March 2004 real gross domestic product growth, from 1.4% to 1.5%.

Retrospectively and not until recently, particularly during the depression era of 1990-2002, Japanese government tended to regenerating the economy by increasing local demands (through public work) and/or monetary policies -- but all efforts were not successful. The inward looking attitude of the economic bureaucracy and the too reliance on WTO regime for trading and investment shaped the inertia against regional cooperation, Japanese trading and export sectors are suffering disadvantages in terms of conditions for competition due to FTAs that already exist between third party countries. For instance, Mexico's average tariff rates are approximately 16% (APEC Individual Action Plan [IAP] 2002), Japanese companies are suffering disadvantages in terms of conditions for competition in comparison with the companies of the US and EU due to their existing FTAs with Mexico, whose process of the elimination of tariffs has been

Fig.8: Japan's Total Trading Volume: USA & China.

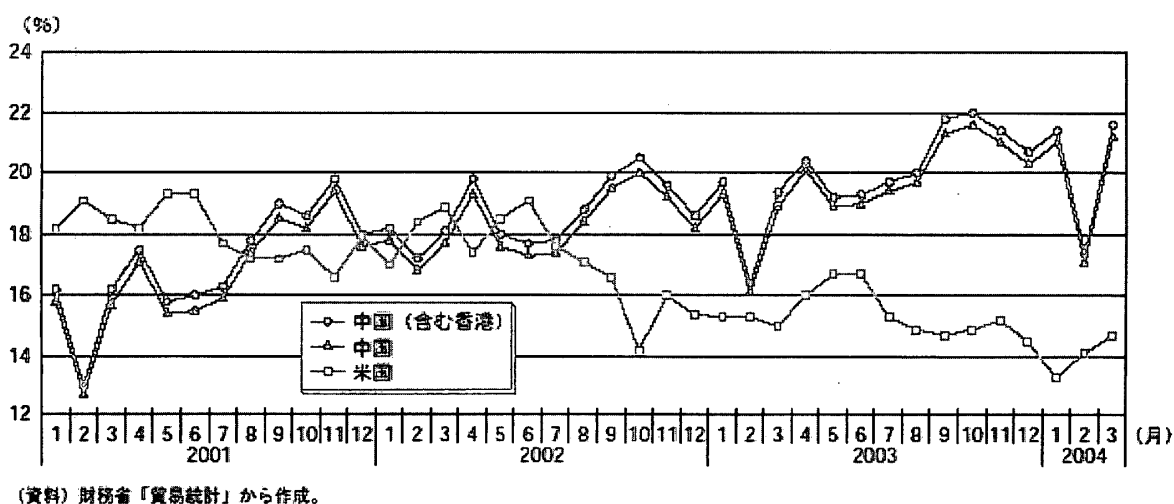
第1-4-33図 日本の貿易総額（輸出+輸入）シェアの推移



(Source: METI 2004)

Fig.9: Japan's Total Import – USA & China.

第1-4-34図 日本の輸入総額シェアの推移



(Source: METI 2004)

proceeding.

Since late 1990s, Japan has been feeling the threats of being too reliance on the global, multilateral framework of trade and investment regime, like the WTO, and missing the benefits of the FTA with the selective trading and investment partners. Because of the rediscovery of the disadvantages of not having strategic FTAs, this prompted the Japanese government to overhaul the trading policy in 2001-2 with a new flexible approach

to promoting both bi-lateral and mutli-lateral FTAs and/or economic partnership agreement, and the WTO negotiations. All FTA initiatives by Japanese government highlight that the rediscovery of FTA potential happened since late 2000, with initiating trading talk for FTA with Singapore, Mexico, South Korea, ASEAN and Australia.

Fig.10: Japan's Export by Geo-Regions.

地域別貿易の概況(2003年 通年)

輸出

(単位:100万円,1,000ドル)

地域コード	地域 地域名	円ベース			ドルベース		
		金額	前年比(%)	構成比(%)	金額	前年比(%)	構成比(%)
—	輸出総計	54,548,350	104.7	100.0	471,822,448	113.1	100.0
#001	アジア	25,318,319	112.8	46.4	219,186,992	121.9	46.5
#002	ASEAN	7,080,305	101.6	13.0	61,230,932	109.7	13.0
#013	NIEs	12,803,344	108.5	23.5	110,877,421	117.3	23.5
#003	中東	1,650,544	107.9	3.0	14,294,431	116.7	3.0
#005	西ヨーロッパ	8,767,668	108.8	16.1	75,785,088	117.6	16.1
#006	EU	8,351,394	109.0	15.3	72,188,487	117.8	15.3
#007	CIS・中欧・東欧	553,958	152.2	1.0	4,805,667	165.0	1.0
#008	北アメリカ	14,266,826	90.3	26.2	123,260,735	97.7	26.1
#010	中南米	1,929,589	94.8	3.5	16,656,470	102.6	3.5
#011	アフリカ	644,961	105.0	1.2	5,582,291	113.5	1.2
#012	大洋州	1,415,993	110.8	2.6	12,246,505	119.7	2.6

地域別貿易の概況(2002年 通年)

輸出

(単位:100万円,1,000ドル)

地域コード	地域 地域名	円ベース			ドルベース		
		金額	前年比(%)	構成比(%)	金額	前年比(%)	構成比(%)
—	輸出総計	52,108,956	106.4	100.0	417,014,716	103.4	100.0
#001	アジア	22,438,672	113.7	43.1	179,816,757	110.7	43.1
#002	ASEAN	6,969,814	105.7	13.4	55,795,670	102.8	13.4
#013	NIEs	11,804,521	111.1	22.7	94,550,305	108.1	22.7
#003	中東	1,529,201	111.9	2.9	12,253,991	109.1	2.9
#005	西ヨーロッパ	8,057,620	97.8	15.5	64,438,913	95.0	15.5
#006	EU	7,862,910	98.1	14.7	61,278,642	95.2	14.7
#007	CIS・中欧・東欧	364,004	122.7	0.7	2,912,499	119.3	0.7
#008	北アメリカ	15,791,213	101.8	30.3	126,206,585	98.8	30.3
#010	中南米	2,036,102	93.9	3.9	16,234,100	90.9	3.9
#011	アフリカ	614,113	114.1	1.2	4,917,881	111.0	1.2
#012	大洋州	1,278,021	113.0	2.5	10,233,925	109.9	2.5

(Source: METI 2004)

3.1 Dating with Regional Bilateralism

Since 1990s, Japan's trading within Asia region has been developing increasingly; this is particularly the case in last few years. The total share of trade value is more than two times of that with North America and EU (see Fig.10 and 11). And the key partners within Asia for Japanese trading are China, Newly Industrializing Economies (NIEs). This intra-regional trading expansion is without much trade liberalization regime and likely, but with more FTAs in the region, the growth will be substantial in the coming decade.

At present, among the 10-member ASEAN, Japan has concluded an FTA only with Singapore but will agree with Malaysia, Thailand and the Philippines to launch formal FTA negotiations during the Japan-ASEAN Summit. China – South Korea and Japan will work out some form of economic

partnership, though the latter two economies are likely come up with FTA earlier.

The WTO negotiations in Cancun broke down in September 2003 in the face of fierce opposition on new trade rules by developing nations of the G-22. It has postponed key decisions on trade liberalization talks until the end of 2004; this new development was strategic in shaping Japan's outlook for regional FTA. Paralleling the WTO DDA round of negotiation attempting to resolve with the indecisions and disagreements before the deadline at the end 2004, Japan will have no choice to accelerate attempts at regional and bilateral free trade agreements. This is the case that, even for the key members of the G-22 Group, in anti-liberalization moves at the WTO Doha round of negotiations, like, China and India, they have shown willingness to FTA talks with Japan on a bilateral basis.

The priority and timeline for Japan's FTA

Fig.11: Japan's Import by Geo-Regions.

2003:

輸入

(単位: 100万円, 1,000ドル)

地域		円ベース			ドルベース		
地域コード	地域名	金額	前年比(%)	構成比(%)	金額	前年比(%)	構成比(%)
—	輸入総計	44,362,023	105.1	100.0	383,303,922	113.5	100.0
#001	アジア	19,726,810	107.5	44.5	170,599,508	116.2	44.5
#002	ASEAN	6,780,446	104.9	15.3	58,575,014	113.3	15.3
#013	NIEs	4,511,519	101.8	10.2	39,033,312	110.0	10.2
#003	中東	5,952,563	116.4	13.4	51,346,773	125.3	13.4
#005	西ヨーロッパ	6,297,572	103.9	14.2	54,452,683	112.3	14.2
#006	EU	5,670,012	103.4	12.8	48,014,872	111.7	12.8
#007	CIS・中欧・東欧	653,051	114.6	1.5	5,647,881	123.5	1.5
#008	北アメリカ	7,704,232	94.6	17.4	66,514,082	102.3	17.4
#010	中南米	1,210,041	101.0	2.7	10,440,225	109.1	2.7
#011	アフリカ	749,293	105.5	1.7	6,446,933	113.1	1.7
#012	大洋州	2,068,139	99.7	4.7	17,853,069	107.6	4.7

(資料)経済産業省「貿易動向データベース」から作成。

2002:

輸入

(単位: 100万円, 1,000ドル)

地域		円ベース			ドルベース		
地域コード	地域名	金額	前年比(%)	構成比(%)	金額	前年比(%)	構成比(%)
—	輸入総計	42,227,506	99.6	100.0	337,833,289	96.7	100.0
#001	アジア	18,358,445	102.1	43.5	146,874,443	99.2	43.5
#002	ASEAN	6,464,983	97.9	15.3	51,707,725	95.1	15.3
#013	NIEs	4,440,466	95.7	10.5	35,499,791	92.8	10.5
#003	中東	5,115,762	94.7	12.1	40,982,462	92.1	12.1
#005	西ヨーロッパ	6,060,281	101.6	14.4	48,490,858	98.8	14.4
#006	EU	5,482,436	101.3	13.0	43,864,263	98.5	13.0
#007	CIS・中欧・東欧	569,983	91.6	1.3	4,572,240	89.3	1.4
#008	北アメリカ	8,139,884	94.4	19.3	65,049,214	91.6	19.3
#010	中南米	1,197,590	101.6	2.8	9,568,370	98.6	2.8
#011	アフリカ	710,394	128.8	1.7	5,698,106	125.4	1.7
#012	大洋州	2,074,023	99.3	4.9	16,588,189	96.5	4.9

(資料)経済産業省「貿易動向データベース」から作成。

(Source: METI 2004)

negotiations (concluded and in progress) are as follows:

- FTA with Singapore (with effective from 30 November 2002)
- FTA with Mexico (concluded in July, signed in August 2004 and be effective 2005)
- FTA with Korea (aimed to conclude in 2005)
- FTA with Indonesia, Thailand, Malaysia, the Philippines (aimed to partly conclude – sector-based: 2005)
- FTA with ASEAN as a whole (on sector-by-sector)
- FTA, tripartite with South Korea and China (feasibility studies stage)

3.2 Japan's Reactive Trade Policy: Between Politics, Administrative and Economic Interests

The case of the belatedly involvement in regional economic cooperation reflects that tendency that Japan significantly lags behind other Asian countries in FTA negotiations is due to, (a) the politics for protectionism, for agricultural sector in particular, (b) the lack of pro-active trading policy (or the lack of policy imagination) among ministerial and political groups, (c) the apparently lack of policy coordination, and (d) the administratively inter-ministerial fights, among the Foreign, Economy, Trade and Industry, and Agriculture, Forestry and Fisheries ministries.

In actuality, it is fair to say that in the area

of international trade, Japan is falling far behind many countries to using FTA framework to pursue its trading power supremacy. In Asia, it is behind Singapore and other Asian NIEs, as well as China. Japan started the move for possible FTA with a few ASEAN member countries (be)latedly in 2002, while China has tried to expand its influence in ASEAN through free trade agreements (in effect 2010).

The Japan – Mexico FTA case can highlight the problematic trading politics in Japan. Japan's FTA talk with Mexico was once collapsed in mid-2003, dealing a blow to Japanese auto exports on which Mexico imposes higher tariffs. Even for the history of Japan-Mexico FTA negotiations (June 2001 – July 2004), Japan initiated the FTA talks after realizing that its trading position was far less advantages than NAFTA and EU member countries.

More problematic, business and farm lobbies are thus divided over FTAs, with the government (the dog-fights between political parties, and their fraction within the party, as well as among ministries) torn between them. In the bilateral trade liberalization between Japan and Mexico (concluded in principle in July, signed in August 2004), Japanese government has recently decided to have the Cabinet Secretariat office, rather than relevant ministries, take the leadership in the talks in an effort to review Japan's overall negotiation strategy.

Meanwhile, the pro-trading groups like, the Japan Federation of Economic Organizations, they hope that FTAs will help Japan revitalize its moribund economy. The federation calls for a "dual approach" of pushing negotiations on FTAs with individual countries and ASEAN. In particular, Japan should speed up negotiations with Thailand, which accounts for 27% of Japan's investments in ASEAN.

3.3 Politics for Agricultural Protectionism

A major obstacle for trade liberalization between Japan and other countries is the politics-driven protectionism for agricultural sector.

Though the social cost and burden for farm protectionism is substantial in Japan but it has strong political support -- the power base of LDP at rural sector! Farm protection in Japan has been more than double that of the EU and eight times that of USA, according to OECD estimates in 1998.

Japan has often been criticized for failing to open its agricultural market, especially for rice, during WTO talks and in negotiations on bilateral free trade agreements with Mexico and other Asian countries. But the WTO's Doha Round unsuccessful

negotiations (or more precise, their impasse) are working for the benefits of Japanese political establishment.

In reality, FTA talks are likely to stall as Japan sticks to protectionism on farm trade; this partly explains the first FTA with Singapore and the exclusionary clauses for FTA with Mexico.

But on the other hand, Japan is working hard for structural reform. FTA is one of the best tools to create an external framework for structural reform. For instance, there is a school of thought (though highly debatable) that pushing agricultural reform through FTAs will lead to the recovery of the Japanese economy.

In preparation for possible impact of economic liberalization, the government lately adopted a policy of phasing out reductions in the amount of land dedicated to rice cultivation. To make Japanese agriculture more competitive, specialized farming households headed by person up to 60 years of age were to be encouraged and commercial corporations allowed to enter the agriculture market. Furthermore, the management of agricultural cooperatives should be improved. Niche marketing of exporting the high value-added agricultural products has been developing.

3.4 Japan's Critical Engagement in Asian Economies

Due to its reliance on the global and multi-lateral framework, as well as the traditional markets like USA and Western Europe, for trading and investment, Japan's trading performance has been developed at a stable rate but not impressive.

Not until recently, Japan has been slow in developing bi-lateral FTA: only one was signed with Singapore (effective in November 2002) because of economic complementary (not challenging its agricultural sector), and the most recent FTA negotiations with Mexico accomplished in July 2004 and be in effect in 2005 – given the economic disadvantages Japan suffers because of the North American Free Trade Agreement.

Refocusing on the Asia-Pacific with geo-political considerations (political and diplomatic factors and economic complementarity), not least the emerging role of China and ASEAN in regional affairs, the revitalizing robust South Korean economy, Japan is speeding up its engagement in promoting bi-lateral FTA. The FTA strategies and priorities are:

- Priority will be given to FTAs with South Korea and ASEAN.
- China should be watched carefully for the

time being regarding its adherence to WTO agreements and economic performance.

- Economic agreement with Russia is not promoted as it has yet to join the WTO.
- not to consider immediate negotiations concerning FTAs and economic partnership agreements with the United States, Canada and the European Union as the difficulties expected over farm and marine products.

It is within the consideration of the Ministry of Foreign Affairs (which is responsible and coordinates and the overall strategies for FTAs) that it needs to speed up the bi-lateral FTA agreements or the sector-by-sector economic agreements, with ASEAN countries, as

- given the fact that China has secured closer economic ties with ASEAN and announced plans in December 2001 to conclude an FTA with the association in 10 years (effective in 2010).
- ASEAN members Indonesia and Malaysia are less enthusiastic about an FTA with China, though China has reportedly offered to cut tariffs on lumber, palm oil and tropical fruits before concluding FTAs with them.

3.5 Trading Japan: Japanese Differential View(s) on Trade Liberalization

Undoubtedly, a high volume of trade is good for Japanese economy. For example, Japanese recent robust trade surplus (in 2003-04) was backed by China's continuing economic growth, along with Japanese firms' low-cost production bases in Asia, featuring high-tech components from Japan. In addition, the need for better infrastructure and home appliance in China propped up exports of the related products. Exports were also bolstered by an appetite for digital gadget components at Japanese manufacturing factories in China and other parts of Asia – Significantly, Japan's trade surplus with Asia grew 41.3% to a record high 790.3 billion yen, marking an eighth consecutive month of increase, as of March 2004 (*The Japan Times*, 26. March 2004).

But Japanese are somewhat differentiated, if not divided, regarding the further liberalization of trading and investment regime. According to a nationwide opinion survey commissioned by the Ministry of Foreign Affairs conducted in February 2003, the impact of economic liberalization in agricultural sector (reform) was the key concern / worry (37%), followed by service sector (20%); but with the acceptance of further liberalization of agriculture sector (47%).

In the same survey, it was found that respondents concerned about the speeding up of FTA negotiation with the following regions / countries: China (35%), USA (31%), S-Korea (21%), ASEAN (17.3%), and EU (16.6%).

But the overall concern on FTA and trade liberalization was for 20% of the population. Likewise, the move toward further trade liberalization was divided: 41% supported and 45% doubted about any further development.

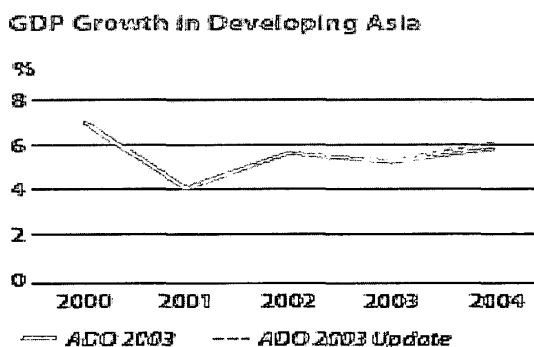
4. Asian Regionalization Processes: Economic Integration and/or Rivalry?

East Asia has been mostly recovered from the Asian Financial Crisis, with a renewal momentum for economic growth (see Fig.12 and Fig.13). This is juxtaposing the further regionalization of their economic activities – FTA agreements are one of the integral parts of such framework for development.

WTO rules require FTAs to include substantially all products. This is interpreted as meaning that such agreements should cover more than 90 percent of imports/exports. For instance, the FTA between Japan and Singapore covers 98% of the tradable goods and services. In general, it is assumed that eliminating industrial tariffs is easier than eliminating agricultural tariffs. It should be highlighted that the once impasse of the WTO Doha Round Negotiation reinforces the momentum for bilateralism and regional approaches to trade liberalization.

Yet, it should be pointed out that, not just tradable goods and services, but also the importance of foreign direct investment (FDI) and other forms regional cooperation, like the Growth Triangles in regional development (Fig.14). In other words, FTA not just stream-lines tradable goods and services

Fig.12: GDP Growth in Developing Asia.



Source: ADO database.

Fig.13: GDP Growth in Developing Asia.

Table A1 Growth Rate of GDP (% per year)

	1997	1998	1999	2000	2001	2002	2003	2004
East Asia	7.1	2.9	7.3	8.1	4.4	6.5	5.6	6.2
China, People's Rep. of	8.8	7.8	7.1	8.0	7.3	8.0	7.3	7.6
Hong Kong, China	5.1	-5.0	3.4	10.2	0.6	2.3	2.0	4.0
Korea, Rep. of	5.0	-6.7	10.9	9.3	3.1	6.3	4.0	5.3
Mongolia	4.0	3.5	3.2	1.1	1.1	3.9	5.0	5.2
Taipei, China	6.7	4.6	5.4	5.9	-2.2	3.5	3.7	3.9
Southeast Asia	4.4	-6.6	4.1	6.2	1.7	4.1	4.0	4.8
Cambodia	4.3	2.1	6.9	7.7	6.3	4.5	5.0	5.5
Indonesia	4.7	-13.1	0.8	4.8	3.3	3.7	3.4	4.0
Lao People's Dem. Rep.	6.5	3.0	6.8	5.9	5.7	5.8	6.0	6.5
Malaysia	7.3	-7.4	6.1	8.3	0.4	4.2	4.3	5.1
Myanmar	5.7	5.8	10.9	13.7	11.1	-	-	-
Philippines	5.2	-0.6	3.4	4.4	3.2	4.6	4.0	4.5
Singapore	8.5	-0.1	6.4	9.4	-2.4	2.2	2.3	4.2
Thailand	-1.4	-10.5	4.4	4.6	1.9	5.2	5.0	5.5
Viet Nam	8.2	4.4	4.7	6.1	5.8	6.4	6.9	7.1

(Source: Asian Development Bank)

Fig.14: Asia's Regionalization: Growth Triangles in Asia.

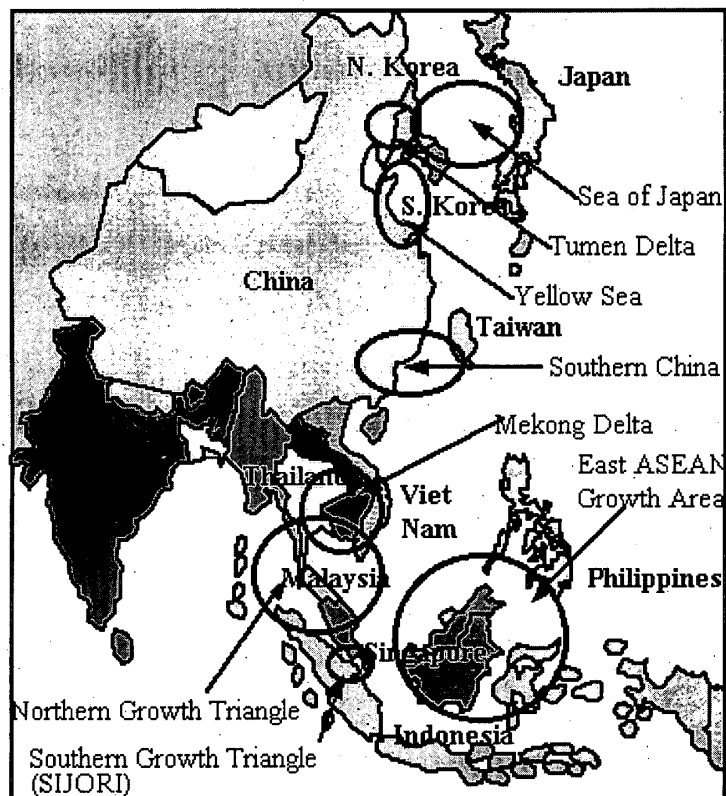


Fig.15: Intra-Regional Trade in Asia.

Intra-regional trade in East Asia has approximately doubled over the last decade.

Figure 3.1.2 Trends in intra-regional trade in East Asia

(Unit: US\$ billion, %)

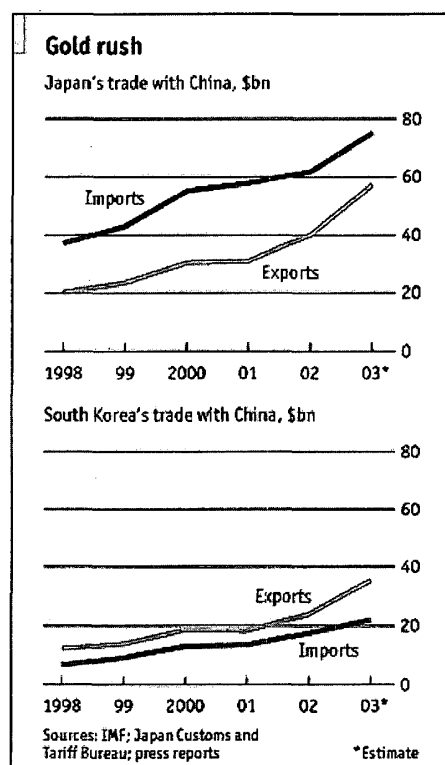
	Within East Asia			Within East Asia (excluding Japan)		
	1992	1997	2002	1992	1997	2002
Total exports	331.2 (40.0)	551.4 (43.5)	642.0 (43.3)	166.1 (20.1)	306.0 (24.1)	374.0 (25.2)
Iron and steel	17.5 (56.9)	25.4 (59.4)	23.5 (54.0)	6.1 (20.0)	11.2 (26.2)	9.1 (21.0)
Chemical and engineering equipment	15.1 (44.3)	26.7 (46.2)	33.0 (46.1)	7.3 (21.5)	14.5 (25.0)	18.1 (25.3)
Machinery	144.7 (32.6)	259.5 (37.8)	351.9 (41.3)	61.5 (13.9)	129.7 (18.9)	208.3 (24.5)
General machinery	44.8 (34.8)	81.4 (37.7)	106.7 (41.0)	17.3 (13.5)	39.4 (18.3)	62.3 (24.0)
Electrical machinery	68.2 (40.7)	136.7 (47.4)	199.7 (52.5)	32.4 (19.4)	74.6 (25.9)	127.1 (33.4)
Transport machinery	18.7 (16.9)	20.7 (16.4)	20.0 (13.1)	6.0 (5.4)	7.2 (5.7)	7.0 (4.6)
Precision machinery	13.0 (35.5)	20.6 (37.1)	25.5 (43.9)	5.7 (15.6)	8.4 (15.1)	11.9 (20.5)
Others	153.9 (48.1)	239.8 (49.8)	233.6 (45.3)	91.1 (28.5)	150.7 (31.3)	138.4 (26.8)

Notes:

1. The upper figure is the total of intra-regional exports, the lower figure is the intra-regional export ratio.
2. The data does not include Taiwan in "East Asia" due to lack of data availability.

Source: UN Comtrade (United Nations).

(Source: METI 2004)

Fig.16: Asian Economic Regionalization.

(Source: The Economist, online edition)

across borders, but also facilitates investments and labor mobility of the involving economies.

To recapitulate, despite the lack of regional framework to enhance trading regime, the intra-regional trade in East Asia has approximately doubled over the last decade (Fig.15). For China, the trading with Japan and South Korea has grown tremendously (Fig.16). This attributes to the economic dynamism driven by the market forces and local enterprises.

More importantly, the FTA talks in the region has been fully exploited by the non-farming city state of Singapore in the last few years, it has signed FTAs with Japan, Australia and America, and is talking to South Korea, India, Canada and Mexico about other FTAs. In response, many countries in the region take initiatives for the proliferation of FTA (*The Economist*, 26. February 2004, online edition).

4.1 JAPAN-ASEAN: New Regionalism?

Japan and the NIEs in ASEAN are important trading partners in the region, particularly in reinforcing the economic liberalization regime in Asia (Fig.17). Except the FTA with Singapore, Japanese government engagement in ASEAN for further FTA is somewhat symbolic. In other words, in contrast with the ASEAN-China (agreement), the ASEAN-Japan (partnership initiative) is at the initial stage and lacks details and a program of implementation. The challenge for Japan is how to break away from its conservative outlook for regional engagement, as it is traditionally preferred

a multilateral approach to trade liberalization. The conclusion of an economic partnership agreement (FTA) with Singapore in 2002 (effective 30 November 2002) was a major break from its policy – The Japan-Singapore FTA not only covers tariff cuts, but also movements of people, the rules of investment and a broad range of technical cooperation between the two countries. It seems that equally important is that (the agreement) sets a precedent in terms of trade policy posture and a model for economic partnership for Japan and ASEAN.

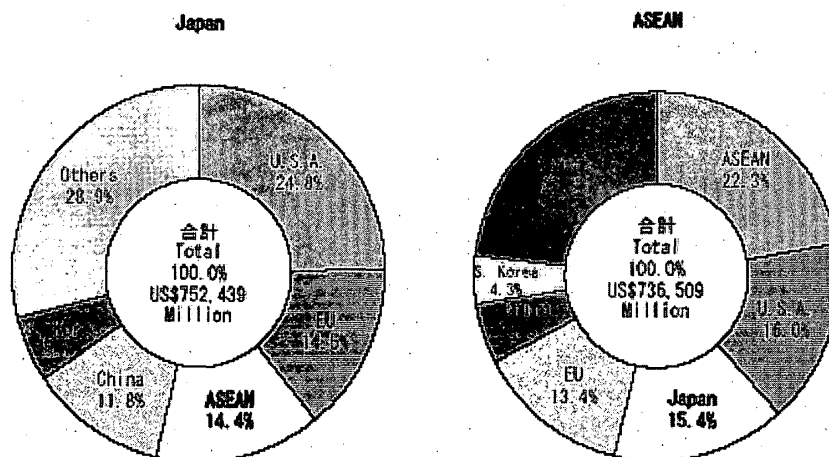
Yet, Japanese government's move for bilateral trading agreement, even with ASEAN individual state; it has to face differential, if not contradictory, demands for trade liberalization and protectionism. Hence, how far is the Japan-Singapore FTA model relevant for the next round of bilateral trade talks with individual ASEAN countries is highly questionable – it is highly difficult, if not impossible, to maintain the consistency with highly differentiated member countries of the ASEAN group as a whole.

It is rightly pointed out that

It is very important to ensure that the bilateral trade policy is consistent with the regional framework in order to minimize the 'spaghetti-bowl' syndrome in the East Asian regional economic cooperation pattern... The poorer members of ASEAN -- Cambodia, Laos, Myanmar and Vietnam -- will be very unhappy if Japan negotiates bilateral (FTAs) without having the overall, integrated regional framework. (*The Japan Times*, 25. April 2003)

Fig.17: Japan – ASEAN Trading Pattern.

日本とASEANの主要貿易相手国／地域 (2001年)
Japan and ASEAN's Major Trading Partners (2001)



(Source: METI 2004)

On the other front, Japan and Mexico has signed a bilateral free-trade agreement in August 2004. It is Japan's second such agreement, following a deal signed with Singapore in 2002. Both countries will seek parliamentary approval for the agreement after the signing ceremony, with the FTA expected to take effect April 2005. Japan's major import items from Mexico include crude oil, electric machinery, automobiles and pork, while Japan's major export items to Mexico include integrated circuits, generators and other machinery and automobile parts. It should be noted that the pact is the first comprehensive accord for Japan that covers the heavily protected and politically sensitive agricultural sector (*The Japan Times*, 3. July 2004).

4.2 Regional Bilateralism as Add-On to the Globalization Processes

Japan is currently in talks with South Korea, Indonesia, Malaysia, Thailand and the Philippines for FTA. Japan and South Korea aim to reach a free-trade agreement by the end of 2005. It will also launch talks with the 10-member Association of Southeast Asian Nations in 2005.

More specifically, Japan wants the Philippines to give greater investment and services trade opportunities to Japanese businesses in the proposed FTA, while the Philippines wants Japan's job market opened to Filipino nurses and lawyers. For Thailand, to lower tariffs on Japanese auto parts, and Bangkok's insistence that Japan open its markets to Thai rice, chicken and other agricultural products. In return, Thailand also wants Japan to ease its foreign labor rules so Thai physical therapists can work in Japan – such as trade in goods and services, investment, intellectual property rights and competition policy.

Other ASEAN member countries are courting with Japan too: Vietnam is interested in a free trade agreement to boost economic ties with Japan and has granted 15-day visa-free entry for Japanese in 2004, but it may be too early to talk about an FTA because Vietnam has yet to enter the World Trade Organization.

4.3 Sino-Japanese Trading Complementary

Despite historical and geo-political rivalry, Sino-Japanese cooperation in economic activities has been developing substantially in the last few years. There is obviously synergy between two economic giants. According to a March-April 2004 poll by Japan External Trade Organization

(JETRO), a record high of 74.4% China-based Japanese manufacturers have operating profits in 2003, compared to 72.7% recorded in 2000, 67.5% in 2002. In addition, the survey showed that Japanese manufacturers are eager to invest more in China, with 81.5% saying they will expand their operations there over the next one to two years, up 10.3% points from the previous year (*The Japan Times*, 14. July 2004).

Another other business survey indicates that some 70% of Japanese companies are considering establishing a presence in China, either for marketing or production purposes. Increasingly, Japanese companies have found southern China, especially the greater Pearl River Delta (PRD) attractive. Already some 3,000 Japanese businesses are operating in the PRD, and the numbers are increasing. Forty percent of those Japanese firms indicated that they chose the PRD because of its proximity to Hong Kong.

Japanese manufacturers are considering boosting business in China, viewing the world's most populous country more as a market and not just as a production base, according to a Japanese government report released in June 2004. Yet, the report advises manufacturers to take necessary steps to deal with problems that could hinder business in China, including energy shortages, rising raw material prices and the protection of intellectual property rights.

But there is a down side of the regional integration, as driven by recent Chinese economic boom and its global sourcing, a historic rise in soybean prices driven by soaring demand in China is dealing a heavy blow to Japanese makers of traditional staples such as tofu and soy sauce; even raw materials for recycled paper are increasingly priced because of the strong demand from China.

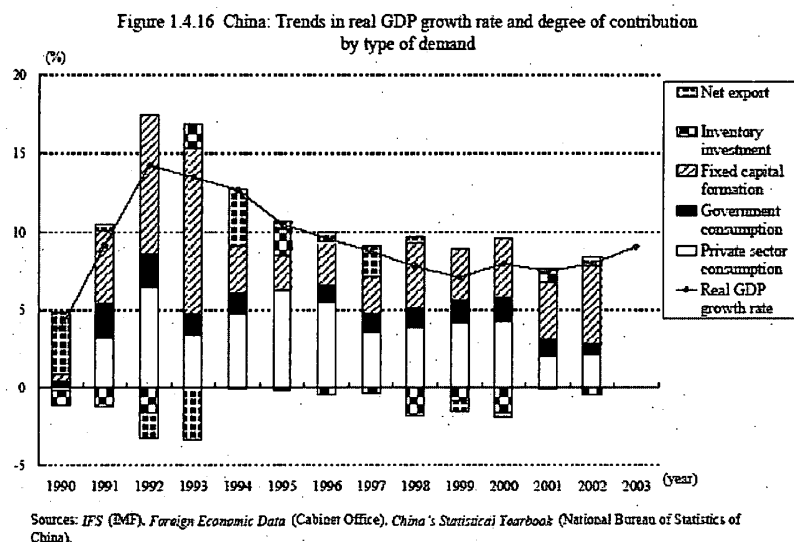
4.4 China's Asian Regional Project

Since the Open Door Policy in 1978, China's economic growth is very impressive – it is the powerhouse for East Asian regional integration (Wang 2004). In the last five years, it has maintained stable high growth, with an annual average real GDP growth rate of 7.9% (see Fig.18). This is partly reflected, as well fueled, by the upward trend of fixed asset investments (see Fig.19). On the whole, the trading trend and FDI inflows data suggest that China is undergoing the historical transformation towards more economic liberalization (see Fig.20 and 21).

But the high speed economic growth and its repercussions in the region have geo-political effects.

Fig.18: China's Real GDP Growth.

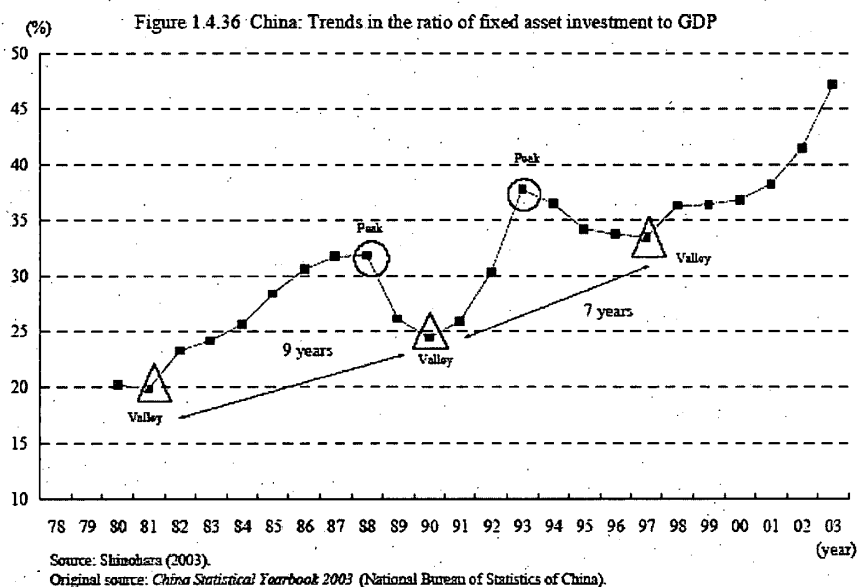
Over the last five years, China has maintained stable high growth, with an annual average real GDP growth rate of 7.9%.



(Source: METI 2004)

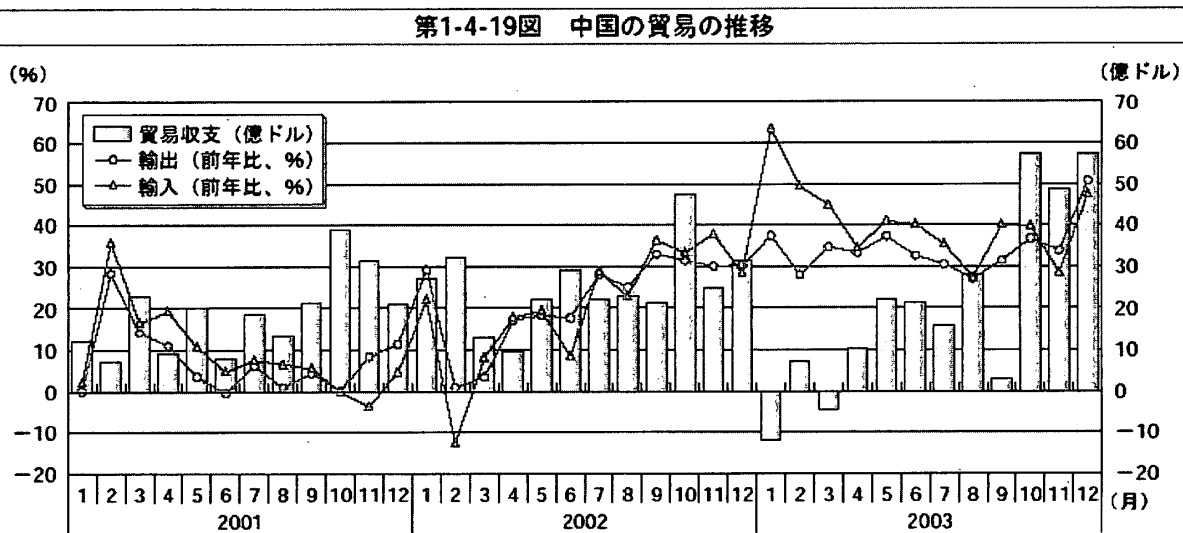
Fig.19: China's Fixed Investment to GDP.

It has been pointed out that medium-term economic cycle waves have also emerged in the Chinese economy.



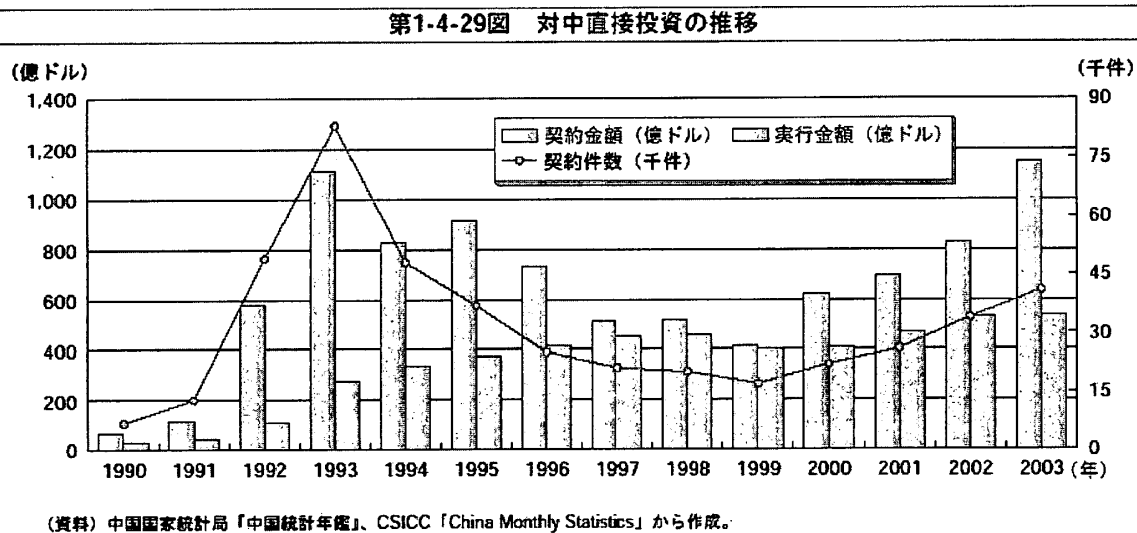
(Source: METI 2004)

Fig.20: China's Trading Trend.



(Source: METI 2004)

Fig.21: FDI to China 1990-2003.



(Source: METI 2004)

One of such is the belief that while China may not deliberately wish to replace the United States as the dominant power in the region, its emergence as an economic powerhouse inevitably forces its neighbors in Southeast Asia to sit up and take notice. Recent Japanese government attitude to China represents such complex case. Some Southeast Asian states still

see China as a rival for foreign domestic investment and overseas markets, and wish to see a stronger American presence as a counterweight. The tensions and potential rivalries go on. On the other hand, many others now see China's rise as offering new opportunities as Beijing imports raw materials from the Pacific-Asia and as Chinese businesses make

investments there. For instance, In mid-2004, China agreed to buy a 25-year supply of liquid natural gas from the Australian company Woodside energy for US\$25 billion – the richest trading agreement in Australian history.

China and the U.S. are not the only countries making overtures to Southeast Asia. Japan, South Korea and India are all courting the region. However, China is clearly ahead in the race. Beijing and the 10-member Association of Southeast Asian Nations have agreed to set up the world's largest free-trade area by 2010, one that will comprise almost 2 billion people with a total gross domestic product of almost \$3 trillion.

Retrospectively in October 2002, China also became the first country outside the region to sign ASEAN's Treaty of Amity and Cooperation, a sign of a stronger political bond between the two. The economic foundation of the ASEAN-China relationship should be stressed here. China's trade with ASEAN hit a record high of \$78.25 billion in 2003, up 42.8% from 2002, though it is still behind the \$120 billion logged by the U.S. Taking a medium term view, China and its East Asian neighbors is increasingly creating closer economic relations (see Fig.22), and the new trading regime becomes the growth engine for all trading partners (see Fig.23). In short, it is highly likely that before 2010, China could catch up with or surpass American trade with the region.

5. Uncertain Regional Economic Integration: Inconclusive Remarks

Geopolitics is driving Asian economies into FTA talks, with partial regional integration with various forms of alliance. Further economic liberalization and economic strategic alliance formation will be a long term process. But the social impact will be enormous and more importantly, the ideologically driven neo-liberal global project, i.e., the creation of global free market and the dominance of Anglo-American capitalism within the world's economic regions, has been cemented by the networks of Transnational Corporations (TNC). Hence, free market capitalism is reinforced within the frameworks of global economic institutions, like WTO, IMF, World Bank and G7, which enable the further deregulation, privatization, structural adjustment programs, and limited government. Here, this can be felt in the labor market restructuring (downsizing, sub-contracting and outsourcing, with redundancies and lay-offs) in the Greater Chinese Economies (Chang 2003, Chiu 2003, Chiu and Hung 2004, Chiu and Lui 2004, Chiu and So 2004). The social impacts of economic regionalization (like globalization) will have to be mitigated.

For the years to come, as the conflict position among G-22, G-90 and G8, coupled with the regional super-powers, the striking changes in the world trading system are not likely to flow from the World Trade Organization or the proposed "mega-regional"

Fig.22: East Asian Economies Exports to China.

Trade between China and its East Asian neighbors is increasingly creating close economic relations.

Figure 1.4.31 Share of exports to China and the China zone in the overall amount of exports of each East Asian country and region

(Unit: %)

		Japan	Hong Kong	Taiwan	Korea	Thailand	Singapore	(Reference) US	Germany
China	2000	6.3	34.5	2.9	10.7	4.1	3.9	2.1	1.6
	2001	7.7	36.8	3.9	12.1	4.4	4.4	2.6	1.9
	2002	9.6	39.1	7.6	14.6	5.2	5.5	3.2	2.2
	2003	12.2	41.7	14.8	18.1	7.1	7.0	3.9	2.7
China zone	2000	19.5	37.1	24.0	21.6	12.6	17.7	7.1	3.1
	2001	19.5	39.3	25.8	22.3	12.4	18.4	7.0	3.2
	2002	22.0	41.3	31.2	24.9	13.4	19.6	7.7	3.5
	2003	25.1	44.1	34.5	29.3	15.7	21.8	8.2	3.9

Note: China zone includes China, Hong Kong and Taiwan.

Source: Trade statistics of each country, *World Trade Atlas* (Global Trade Information Services).

(Source: METI 2004)

Fig.23: Ratios of Export Increase to China.

Ratios of Export Increase to China and the China Zone in the overall amount of Exports of East Asian Country and Region

第1-4-32表 東アジア各国・地域の輸出総額の増加に占める対中国及び中国圏向け輸出増の割合

(単位：%)									
		日本	香港	台湾	韓国	タイ	シンガポール	(参考)米国	ドイツ
中国	2002年	38.8	79.4	49.7	46.2	42.2	46.3	-8.2	19.3
	2003年	67.6	61.7	87.7	36.2	22.1	19.8	20.6	34.4
中国圏	2002年	60.8	78.0	92.0	58.6	60.5	63.0	-5.0	19.6
	2003年	92.4	65.5	67.5	51.9	33.7	40.3	20.8	27.8

(備考) 中国圏：中国、香港及び台湾。

(資料) 各国貿易統計、Global Trade Information Services「World Trade Atlas」から作成。

(Source: METI 2004)

arrangements, such as a Free-Trade Area of the Americas or the newly / further expanded European Union (15+10+?). Instead, they will probably come from the host of sub-regional trade agreements now being busily negotiated by Japan, South Korea, Singapore and other countries in Asia. It seems that, headed by China, Japan and ASEAN, East Asian countries are getting together to make their own economic arrangements. As a result, for the first time in history, the world is becoming a three-block configuration (EU, FTAA [NAFTA+MERCOSUR] and the ASEAN 10+3 FTAs). Obviously, these regional blocs are not just in terms of global-regional economic relationships, but political ones too; and this trend will turn on the direction these new agreements take – and on how the United States, and others outside the region, decides to respond to them. Lastly, the recent calling for more equitable and fair way (in terms of responsive global and regional governance framework) for globalization and regionalization should be responded by regional bodies too.

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