

East Asia Economic Community and Future Development of FTA Policies

Tatsuhiko Yoshizaki
Senior Economist
Nissho Iwai Research Institute

(0) Introduction

Five years have passed since the Asian currency crisis arose. It is China that has made the most remarkable progress in East Asia in these five years. Japan, a major economic power struggling with structural problems such as uncertainty in the domestic financial system, remains in slow economic growth. South Korea and Taiwan are on the way to assume their unique positions as the world supply bases for IT products. Left with serious damage caused by the economic crisis, the ASEAN countries seem to be losing their self-confidence.

As the influence of the United States, which showed its strong interest in the region until the first half of the 1990s, has become less visible, the countries that faced the currency crisis are left with a distrust of the country. In the circumstances, movements toward an East Asia economic community are becoming more active. We could call it an indication of this trend that the ASEAN +3 (Japan, China and South Korea) Summit Meeting has become regular. Recently, economic diplomacy is active enough to encourage conclusions of, or discussions on, free trade agreements (FTA) between various countries. It is notable that Japan and China have been competing for an FTA with ASEAN.

The advancement of the Chinese economy has also given rise to the China threat theory. There are 2 extreme views on a future China: China will be the economic superpower in East Asia; and it will become a factor to destabilize the region due to its vulnerable structure. In establishing regional order in East Asia, China's movement will be the main factor.

This paper will discuss the past development toward an East Asia economic community, and the present situation of FTA visions to take the leadership in building such a community. It will also discuss how likely China is to become the core in an East Asia economic community. In conclusion, the paper will propose to policymakers of Japan,

the United States, and Taiwan how to create regional order in East Asia.

(1) The Past Development toward an East Asia Economic Community

The East Asia, including Japan, the Newly Industrialized Economies (NIES), ASEAN and China, used to be the vacuum zone for regionalism where almost no attempt has been made at regional integration, except the Greater East Asia Co-Prosperity Sphere advocated in the 1940's. Now that the European Union (EU) is expanding eastward after the successful completion of the Economic and Monetary Union (EMU), and that the North American Free Trade Agreement (NAFTA) is aiming at building a Free Trade Area of the Americas (FTAA) with the MERCOSUR, however, it would be natural for East Asian countries to think that they should not be left behind in establishing an economic community.

It was Prime Minister Dr. Mahathir Mohamad of Malaysia calling for the East Asia Economic Caucus (EAEC) in December 1990 who first advocated an East Asia economic community. The EAEC was ultimately aborted due to the U.S. strong opposition and split opinions within ASEAN and the Government of Japan (GOJ). The U.S. Government at that time never tolerated any move to exclude the country in East Asia. Thus, it was the Asia-Pacific Economic Cooperation Conference (APEC), a broader framework covering the whole Asia-Pacific region, including the United States, that emerged in the first half of the 1990's.

Starting at the 1993 Seattle Meeting, the APEC has held summit meetings, and declared in the 1994 Bogor Meeting that "...the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020."

The APEC's highly motivated, idealistic objectives, however, faded out rapidly afterwards, and the ceremonial aspects of the summit meeting and the overgrowth of the organization caught people's attention in the latter half of the 1990's. The U.S. was clearly losing its interest in the APEC, and Japan, struggling with agricultural issues and forced to take a passive attitude, thwarted the APEC. The Japanese Diet members who act in the interests of the agricultural and fishery lobbies and experienced difficulties in persuading Japanese farmers to accept the Uruguay Round agreement seem to have learned a lesson and have determine to refuse trade liberalization under any FTA

although they are aware that a compromise under the WTO may sometimes be inevitable. In view of the Doha Round agreement due by 2005, it is likely that those politicians' honest position is that they want to preserve the liberalization of agricultural trade as the last resort as long as possible.

The APEC has 2 original objectives: trade liberalization and economic cooperation. The industrialized countries such as the U.S., Canada, Australia and New Zealand tended to give more importance to trade liberalization while the Asian developing economies to economic cooperation. As the industrialized countries had a louder voice in the latter half of the 1990's, the Asian countries came to expect less from the APEC.

Above all, the APEC could not take any effective measures against the Asian currency and financial crisis that started in July 1997. The U.S. Government was indifferent to the economic difficulties in Asia in marked contrast to its attitude toward the economic crisis that happened in the following year in Russia. In some countries, including Indonesia, the IMF-led structural reforms aggravated the economic crisis and turned it into a political crisis, and these countries felt that they are the victims of the currency crisis originally caused by hedge funds from Europe and the United States. The perception that "We can not rely on the U.S.," which was developed in this way, still lies deep in the mind of the Asian countries aiming to create an East Asia economic community.

The U.S. had economic reasons to lose its interest in Asia. In the first half of the 1990's, American investors could earn high returns in East Asia, the "emerging markets." However, Asia quickly became less attractive as an investment target as the U.S. economy boomed with the "New Economy" in the latter half of the 1990's. Particularly with the currency crisis, American investment money started flowing back home, avoiding "crony capitalism" in Asia. In this way, Asia's alienation from the U.S. coincided with the U.S. alienation from Asia.

In December 1997, born was "ASEAN +3," the summit meeting for the ASEAN countries and Japan, China and South Korea. The ASEAN +3 meeting originally started when the ASEAN Summit Meeting held at the end of each year invited to the meeting the leaders and ministers of Japan, China and South Korea. Faced with common threats, East Asian countries strongly felt it necessary to cooperate in making

regional policies.

For example, Japan proposed the “Asian Monetary Fund” immediately after the currency crisis although it did not come true due to the U.S. opposition, either. However, the second ASEAN +3 Financial Ministers’ Meeting held in May 2000 agreed the “Chiang Mai Initiative” that arranges financial cooperation in the region. The Initiative has provided the monetary authorities of the individual countries with support to stabilize their respective currencies. We could see the Initiative as a comeback of the aborted Asia Monetary Fund plan.

As discussed above, East Asia built the regional system piece by piece in the 1990’s, carefully dodging the U.S. oppositions. The ASEAN +3 meeting has become regular, and the leaders of Japan, China and South Korea have held a summit meeting since 1999. The regular Financial Ministers’ meeting started in 1999, and the Foreign Ministers’ and Economic Ministers’ meetings have been held on a regular basis since 2000. Some advocate that these meetings should be elevated in status to the East Asia Summit Meeting in the future.

In addition to these movements, some FTA plans are recently under discussion in East Asia. The most noteworthy issue is which will be the core of such an FTA, China or Japan.

(2) Japan vs. China – FTA Competition

In January 2002, Prime Minister Junichiro Koizumi visited 5 South East Asian countries. This visit, which had initially been scheduled in September 2001, was postponed for almost 6 months due to the 9/11 terrorist attacks. This 6-month delay of the visit, however, brought an unexpected consequence to Japan’s East Asia policy. During the deferment, the China-ASEAN Summit Meeting held on November 6, 2001, approved the proposal that the ASEAN-China Free Trade Area be created in 10 years.

The creation of the ASEAN-China Free Trade Area would generate a market with a 1.7 billion population, the 2 trillion dollar GDP, and the 1.23 trillion dollar trade: an economic community in Asia that could compete with the NAFTA and the EU. China had made some attractive proposals to the ASEAN countries, including its intention to give preferential treatment to Cambodia, Laos and Myanmar, the least developed, and to

lower its tariffs on tropical products at an early stage.

China seems to have 3 purposes. The first purpose is to seek markets for its goods in the ASEAN countries. A large volume of low-priced, made-in-China products, including smuggled ones, have already come to the ASEAN markets. Secondly, China has a strategic purpose of dodging the China threat theory that has been on the rise in recent years, and of making Asia a single economic community to compete with the Americas and Europe. It is not difficult to imagine that China has come to have this strategic intention because the fear of the U.S. actions taken after the 9/11 attacks has forced the country to feel it necessary to have its neighbors on its side. Thirdly, it is possible to understand that, having joined the WTO, China intends to use the Free Trade Area as a new card to accelerate its domestic reforms.

The ASEAN countries have made mixed responses to the China's Free Trade Area proposal. Singapore, having a higher ratio of entrepôt trade, and Thailand, expecting agricultural exports to China, are positive about the proposal. Malaysia, Vietnam and Indonesia that have strong anti-China sentiments are more cautious. The Philippines highly dependent on the U.S. for trade also seems to have responded negatively. As usual, all the ASEAN countries are not in agreement, and not a few members want to conclude an FTA with Japan rather than China.

In September 2001, preceding the China proposal, the ASEAN countries proposed to Japan an FTA feasibility study group in the ASEAN Economic Ministers and Ministry of Economy, Trade and Industry of Japan Consultations (AEM-METI)¹ meeting in Hanoi. Japan, which has the domestic agricultural problems, just showed an uninterested attitude to the proposal. The approval for the China-ASEAN Free Trade Area was effective to encourage an indecisive Japan to make a decision.

In this way, during his visit to South East Asia, Prime Minister Koizumi tried to roll China back not only by executing the Economic Agreement for a New Age Partnership (EPA) with Singapore but by presenting the "Initiative for Japan-ASEAN Comprehensive Economic Partnership" as a new vision for diplomatic relations in East Asia.

¹ A Japan-ASEAN Economic Ministers' meeting held almost every year since 1992.

The two actions show a good contrast with each other. If we use a beautiful expression, we could describe the contrast as the "Think Big, Act Small" principle. In fact, the details seem very incoherent.

We must say that the Japan-Singapore EPA is a very small first step although the EPA, which is Japan's first FTA, has a historical significance. An FTA with Singapore was the easiest for Japan to conclude because the country virtually has no primary industry. Nevertheless, Japan excluded nearly 2,000 items of agricultural products and ethylene products from the list of items exempted from tariffs. The FTA has not attained free trade in a strict sense even though it has made 94% of imports from Singapore free of duties in terms of value. It is also highly probable that the economic effects of the FTA will be limited as long as the FTA remains bilateral.

In contrast, the Initiative for Japan-ASEAN Comprehensive Economic Partnership provides a grand vision, which is rare for Japan's foreign policy. This is an ambitious initiative that will make use of the ASEAN +3 framework to form a non-exclusive community, including Australia and New Zealand. This is the first time Japan, which has traditionally relied on multilateral negotiations for the base of its trade policies, has turned to regionalism.

However, the initiative still remains very vague. Due to Japan's passive attitude toward an open agricultural market, the initiative sets no timeframe, gives no explanation as to whether the EPA includes the FTA, and has no reference to the ASEAN-China Free Trade Area. Ironically, the Koizumi proposal had higher marks in Oceania than in ASEAN, which was inevitable because Japan did not have much time to prepare the initiative, given the China proposal.

Nevertheless, the Japanese approach can be described as "having a magnificent grand design, an urgent necessity and a very political basic feature."² China enticed the ASEAN countries with material gains while Japan took an idealistic approach. On the other hand, ASEAN wants to be united to keep its bargaining power against the rising China, and wants to use Japan as a card for this purpose.

² "Aija no Chikakuhendo to Jiyuboekikyotei Teiketsu eno Ugoki (*Cataclysm and Movements toward a Free Trade Agreement in Asia*)," The "Economic and Financial Policies of the U.S. New Administration and Asia" Study Group, Japan Institute of International Affairs, March 2002.

In this way, a structure has been completed where Japan and China are competing with each other to conclude an FTA with ASEAN. Currently, many bilateral FTAs are also under discussion between, for example, Japan and South Korea, and Japan and Thailand.

(3) Is an East Asia FTA Possible?

The “Japan-ASEAN” and “China-ASEAN” FTAs could be extended to make a broader “East Asia FTA.” At the ASEAN +3 Summit Meeting this fall, the East Asia Study Group plans to submit a report on the feasibility of “the East Asia Free Trade Area.” Many of Japanese politicians and business leaders support such a broader plan.

However, the East Asia FTA has not a few problems. Below is a list of issues likely to be overlooked.

First of all, East Asia is unequivocally different from the EU or NAFTA. The EU countries have shared the cultural base since the era of the Roman Empire while the U.S. showed overwhelming presence in the NAFTA. Historically East Asia has never been unified and lacks regional solidarity.

The EU retains the “Eurocrats” who were the driving force for the European integration, and the U.S. lawyers led the complex negotiations toward the NAFTA arrangement. East Asia does not have a leader comparable to these bureaucrats or lawyers. On top of that, the government systems of the individual countries are very different: democracy, socialism, royalism, and virtual autocracy.

Given these different fundamentals, it is likely to be extremely difficult to promote an FTA covering all East Asia. It would be inevitable at least to take long time to implement such an FTA. With economic advantages and disadvantages as the only drive for an FTA, the energies to the FTA might be exhausted at some point. The EU and NAFTA had strong incentives: “Never go to war” for the EU and “Make the North America a single market” for the NAFTA. East Asia seems to lack the historical and philosophical support and the leadership in establishing its unique economic community.

Second, East Asian economies are as regionally interdependent as the economies in Europe and North America are.

The table below shows how the intra-regional trade ratio for each region has changed in these 10 years. It clearly indicates that the East Asian countries have become more interdependent in the region.

Changes of the Intra-Regional Trade Ratios (the ratio of intra-regional exports to the nominal GDP)

	Average 1985-87	Average 1995-98
NAFTA	3.1%	5.0%
EU	11.8%	11.3%
East Asia 9 Countries (NIES, ASEAN4 and China)	7.1%	13.7%
MERCOSUR	0.6%	1.7%

(Source: The Bank of Japan, “Analysis of East Asian Trade” 2002)

In fact, such an economic development as the World Bank once called “the Miracle of East Asia” was impossible without active intra-regional trade and investment. Starting in the latter half of the 1980’s, Japanese companies shifted their production bases to Asia due to the strong yen, and East Asia became the world production base for IT products in the middle of the 1990’s. These factors are the driving force for the economic integration in East Asia. The EU has attained the “de jure” integration while the “de facto” integration is taking place in East Asia.

Third, East Asia and the United States have been in a closer relationship in these few years as IT-related products make up a larger proportion of trade. In the 1990’s, East Asia secured its position as the world production base for IT products. In such a position, East Asia now exports many IT-related products to the U.S. market.

Regional Share of the World IT-Related Goods Production (%)

	1990	1995	1998
U.S.	29	28	22
EU	24	20	22
Japan	29	28	22
NIES	10	14	14
ASEAN	2	5	5
Others	5	4	4

(Source: The Bank of Japan, “Analysis of East Asian Trade” 2002)

It is now impossible to discuss East Asian trade issues with no reference to the U.S. market. The U.S. economy is also more dependent on imports from East Asia. In machinery trade with high profitability, particularly trade of IT-related products, East

Asia enjoys a very large share of the total U.S. imports.

East Asia's Share of the Total U.S. Imports, 2000 (%)

	Total Imports	Machinery	(Electric)	(General)	(IT)
Japan	11.7	19.6	16.3	17.7	12.7
China	4.3	3.4	5.0	4.0	4.8
NIES	11.8	15.1	21.4	20.0	28.2
ASEAN	4.5	5.4	10.2	6.3	12.1
Total	32.3	43.4	52.8	48.0	62.8

(Source: Takeshi Aoki, "Potential of East Asian Economy")

It would not be realistic to insist on an economic community covering only East Asia, ignoring these facts.

Fourth, the current approach in East Asia has a significant defect. The "ASEAN +3" framework totally ignores Taiwan, one of the most important players in the East Asian economy. Taiwan can participate in the APEC because the membership is granted to an "economy," not a "country." But, now that the status of the APEC has relatively fallen and ASEAN +3 is the major framework in East Asia, it has become really difficult to reflect Taiwan's views.

I will tell you 2 stories to show how reckless it is to discuss the East Asian economy without Taiwan.

One is that 11 Taiwanese companies were listed in the *Business Week's* "Information Technology 100" ranking announced in June 2002. Many of those Taiwanese companies, including Quanta Computer (ranked 2nd), Hon Hai Precision Ind. (3rd), Elitegroup Computer (8th), Benq (formerly Acer) (13th), and Asustek Computer (23rd), have grown through OEM to have become indispensable to the development of the world IT industries although their brand-names are not recognized very highly.

The other episode is that, according to statistics announced by the Taiwan Ministry of Economic Affairs, Taiwan had the largest share of 14 IT products in the world in terms of both volume and value in 2001. The IT products include basic goods such as notebook PCs (49%), CD-R discs (83.3%), DVD discs (74.5%) and ADSL modems (59.6%)³. It is a well-known fact that Taiwan, dubbed as the "Silicon Island," is the

³ The figures are in terms of volume. For only production in the Taiwan Island, not including

world-famous place where the IT industries are agglomerating.

A true East Asia economic community should require the “ASEAN +5” framework, including Taiwan and Hong Kong. It is regrettable that Prime Minister Koizumi’s “Initiative for Japan-ASEAN Comprehensive Economic Partnership” has given up discussions on this issue. Avoiding this issue, Prime Minister Koizumi addressed in his speech that “...I expect that the countries of ASEAN, Japan, China, the Republic of Korea, Australia and New Zealand will be core members of such a community.”

My conclusion is that the East Asia FTA is, at this point, like a rainbow. We can see it very vaguely in the distance. Different people see different numbers of colors in the rainbow. We can not get closer to the rainbow, nor can we use it in a practical manner. Nevertheless, all agree that it is a beautiful dream. As an objective in the distant future, it can attract sufficient support. It does not make much sense, however, to consider it as a specific policy target.

Nevertheless, it may not necessary to deliberately degrade the value of a rainbow. Suppose that the ASEAN +5 FTA will be attained in, say, the year 2100. Then, Prime Minister Koizumi might share the honor of “the great person(s) who first advocated this ideal” with Prime Minister Dr. Mahathir who proposed the EAEC.

(4) China’s Regional Hegemony?

It is not always evident what economic effects an FTA would have in specific terms as it does not have a long history. In fact, some point out that too many FTAs in the world might produce diverse sets of international trade rules to slow down worldwide trade liberalization⁴. On the contrary, it is certain that an FTA would encourage relevant countries to harmonize their domestic conditions and accelerate regional integration. If I may use extreme words, an FTA definitely has political effects although its economic effects are unknown.

In East Asia, it also seems that an FTA is used as a political tool to take the leadership to set regional order rather than to ensure economic prosperity in the region. If so, it is obviously China that is taking the lead at this point. As discussed above, Japan’s

overseas production.

⁴ Professor Jagdish Bhagwati of Columbia University calls it as the “Spaghetti Bowl Problem.”

approach to an FTA clearly has a limit. China, which has been growing so rapidly, seems to be more attractive as a market and to have stronger political bargaining power. We can not deny the possibility that China will play the leading part in the future East Asian economic community.

It is doubtful, however, that the Chinese economy has already gained such ability. Even in Japan, we now hear more about the China threat theory, and not a few people forecast that China will leap into a group of the developed economies, departing from the traditional “flying-geese pattern of economic development” in East Asia. However, I would say that the concern is exaggerated as China’s international competitiveness still mainly comes from the labor-intensive industries.

In his discussion paper published in June 2002, “Did the Rise of China and Development of IT Revolution Destroy the Flying-Geese Model?,” C. H. Kwan, Senior Fellow of the Research Institute of Economy, Trade and Industry, discusses the competitiveness of Chinese products in the U.S. market⁵. According to this study, Japanese and Chinese products that directly compete with each other in the U.S. markets account only for 16.3% of the total export items although the ratio has been increasing. Actual competition should be less intense in the U.S. as the target markets for Japanese and Chinese products are different although they belong to the same categories of goods: the high-end products from Japan and the low-end products from China. Items exported from China complement, rather than compete with, those from Japan.

Competition level between China and individual Asian countries (%)

	1990	1995	2000
Japan	3.0	8.3	16.3
South Korea	24.0	27.1	37.5
Taiwan	26.7	38.7	48.5
Hong Kong	42.5	50.5	55.9
Singapore	14.8	19.2	35.8
Indonesia	85.3	85.5	82.8
Malaysia	37.1	38.9	48.7
The Philippines	46.3	47.8	46.1
Thailand	42.2	56.3	65.4

⁵ <http://www.rieti.go.jp/jp/publications/dp/02j006.pdf>

On the other hand, the rise of the Chinese economy has serious impact on the other East Asian countries. Particularly, the competition level between China and Taiwan or Singapore has increased by 20 percentage points in these 10 years. The competition level between ASEAN and China is rather high.

The Chinese economy has the strength that the labor cost has not gone up despite the economic development since the country can mobilize a bulk of low-cost labor force from the hinterlands for a limited time. Consequently, direct investments from developed countries flow into China. It would not be easy for other countries to win cost competition with China.

If the “China-ASEAN” FTA is to be created early, it would be a horizontal integration with no complementary relationship between China and ASEAN. In this case, more price-competitive Chinese products would sweep over the ASEAN markets. In particular, Indonesia with more than 80% competition level with China would be seriously affected. Global corporations would also move their production bases from ASEAN to China. This might help “China take all” in East Asia, which would be an undesirable result not only for ASEAN but for many Japanese companies deeply committed to ASEAN.

There are various views on the growth of the Chinese economy in the future. Some of Japanese bureaucrats and business leaders argue that “Japan should aim at creating an FTA with China to obtain preferential access to the Chinese market,” while others insist that “countries surrounding China should enter into an FTA to control China because we are not sure about China’s future.” History will judge which is right. We must think about the future of East Asia on the assumption that both scenarios, China as the economic superpower in the 21st century and as the factor to make the region unstable, are possible.

(5) Proposals

Finally, I would like to propose to the policymakers of Japan, the United States and Taiwan how to deal with the current economic situation in East Asia.

Policy Proposal 1: Dialogue among Japanese, Korean and Taiwanese Business Leaders

It is important to prepare a system for checking China from outside whichever course, optimistic or pessimistic, China will take in the future. I believe that it will make sense to establish a regional mechanism for winning over China as the WTO is trying to have China comply with international rules in the multilateral sphere. In doing so, we should not tolerate a situation that China controls the whole area, and it is desirable for Japan, Korea, Taiwan, ASEAN and other East Asian countries to cooperate to envelop and check China.

For this purpose, policy cooperation is important among Japan, Korea and Taiwan. Particularly, it is very important for Japanese and Korean political and business leaders to have a better understanding of the Chinese economy, although most of the main topics of the Japan-Korea dialogue have been bilateral issues, especially backward-looking issues, and both countries have seldom exchanged views on the Chinese economy.

Policy Proposal 2: More Visible U.S. Presence through Strengthening the APEC's Roles

There seems to be an implicit understanding all over East Asia that "the U.S. would not complain if East Asian countries propose the EAEC now." At the moment, the Bush Administration has not shown caution against the East Asian movement to establish a regional framework excluding the U.S. However, we can not predict how long this situation will continue although it is not deniable that the U.S. has given lower diplomatic priority to East Asia.

The GOJ should play a greater role to have the U.S. involved more deeply in East Asia. The U.S.-Japan Summit Meeting held in the Camp David in June 2001 worked out a regular strategic dialogue between the subcabinet-level foreign policy officials of the two governments to strengthen the U.S.-Japan alliance. However, such a dialogue has never taken place due to the confusion of Japan's foreign policy afterwards. The most important issue would be "how to establish order in East Asia" if Japan and the U.S. have the strategic dialogue now.

As a specific measure, I also propose to revitalize the APEC. Recently, the APEC has few opportunities to be highlighted other than the annual summit meeting, and the Bogor Declaration proclaiming trade liberalization in the region as the target has almost turned out a dead letter. Nevertheless, it is wasteful to leave the framework low in

status since the APEC covers the whole Asia-Pacific region, it has the ASEAN Business Advisory Council (ABAC) activities joined by economic leaders in the area, and the APEC has a unique style of membership granted to an “economy,” not a “country.” Above all, we hope that the U.S. will become as active in the APEC as it was at the 1993 Seattle Meeting.

Policy Proposal 3: Promotion of Japan-ASEAN and Japan-Taiwan FTAs

It is the ASEAN countries where, in the past, Japanese companies made the most investment and engaged most deeply in economic cooperative activities such as human resource education, technical transfer and creation of supporting industries. The accumulated amount of Japan’s investments in ASEAN until now is 3.2 times as much as that in China⁶. It is a common sense among Japanese executives that “China for growth, and ASEAN for profit” in business in East Asia. ASEAN is the market Japan can not afford to overlook although the circumstances are recently against the ASEAN economies in favor of the Chinese economy that has been growing sharply.

In other words, Japan must keep their balance between China and ASEAN. ASEAN must also keep its balance between Japan and China. It should be noted that ASEAN’s expectation toward Japan is no more that simple. It now expects Japan to do more than “to import more and invest more.”

In this regard, Japan has no alternative but to quickly enter into a “Japan-ASEAN” FTA, meeting the ASEAN expectations. We can not deny that the Koizumi proposal last January looked ill-prepared, but Mr. Koizumi can not afford to claim that his proposal is only lip service and to close the file.

It is also essential to create an environment where Taiwan can exert its influence equal to its national power in the East Asian economic diplomacy. In specific terms, I would propose that Japan and Taiwan discuss a bilateral FTA as well as that their economic leaders have a closer relationship. An FTA is fully possible between the two countries because food products account only for 6.0% in Japan’s total imports from Taiwan. I see no problem in an EPA, of course, and believe that both countries should do what they can do, one by one.

⁶ For FY 1989-2000, Japan invested the total of 6.5691 trillion yen in 10 ASEAN countries, and 2.787 trillion yen in China.

The GOJ does not give the highest political priority to an FTA with Taiwan as it is currently having discussions to conclude bilateral FTAs with South Korea and Thailand. The economic effects of a Japan-Taiwan FTA should be no less than those of the Japan-Korea or Japan-Thailand FTA. Such an FTA would bring both Japan and Taiwan not only lower duties but a variety of other advantages by harmonizing the rules for investment and service trade, dispute resolution mechanisms, and policies on intellectual property rights, competition, environmental and labor issues.

Important is to bring the political reality close to the economic one. We have had enough of failed attempts to bring the economic reality close to the political one. Priority should be given to the reality of the economy, not of politics, in establishing order in East Asia.