

Expectations for the APEC & Focus on the Movements of the TPP

—Conference on East Asian Economic Integration and U.S.-Japan Relations—

On March 3rd, JETRO together with the Center for Strategic and International Studies (CSIS) held a joint conference entitled “East Asian Economic Integration and U.S.-Japan Relations” in Washington, D.C. In addition to focus on the importance of U.S. contributions in order to realize economic integration in the East Asian region, there were also high expectations towards the role of APEC. Japan will serve as chair of APEC in 2010 and the U.S. will serve as chair in 2011. Furthermore, there were also many statements which placed attention on the movements of the Trans-Pacific Strategic Economic Partnership Agreement (TPP), which is positioned as a major trade agenda of the U.S.

Since 2004, JETRO has held a seminar every year in Washington, D.C. in relation to the East Asian economic region and this year was the 6th such seminar. At the seminar, a keynote speech (Japan and Economic Integration in East Asia) was given by Takashi Shiraishi, President of the Institute of Developing Economies-Japan External Trade Organization (IDE-JETRO). Afterwards, Yasuo Hayashi, Chairman and CEO of JETRO, served as moderator for a panel discussion regarding Regional Economic Integration and U.S.-Japan Relations. Members of the panel discussion were Hidehiko Nishiyama, Director-General for International Trade Policy of the Ministry of Economy, Trade and Industry of Japan (METI), A. Maria Toyoda, Associate Professor at Villanova University, Gempachiro Aihara, Counselor of Mitsui & Co., Ltd., and Stephen Biegun, Corporate Officer and Vice President of International Governmental Affairs of Ford Motor Company.

To continue, with Michael Green, Senior Adviser and Japan Chair of CSIS, as the moderator, Weiping Huang, Professor of School of Economics at Renmin University of China, and Jenny Corbett, Executive Director of the Australia-Japan Research Centre at Australian National University, participated as commentators to introduce the perspective of each country. In closing, Kurt Tong, Senior Official for APEC of the U.S. Department of State, expressed his hopes regarding the economic outlook in East

Asia and U.S.-Japan relations. An overview of the seminar is given below.

<U.S. contributions are essential in East Asia, where tension continues between the security and the trade system>

President Shiraishi of the Institute of Developing Economies pointed out 2 major trends confronting East Asia. From an economic perspective, he introduced the outlook that China, the U.S., the European Union and India will have reached an economic scale that is 2.2 to 5.3 times greater than Japan by 2030, thus composing 4 major economic forces. He also pointed out that a major disparity will arise in the rate of increase for the urban population of each country by 2030. This disparity will result in the possibility of an expanded economic gap between the middle-income group in urban areas and poor people in farming villages. Shiraishi acknowledged that economic growth is necessary in the future. However, at the same time, he asserted the necessity for new forms of economic order such as redistribution of wealth within the area in order to address the issue of economic gaps. Shiraishi also alluded to the fact that the monetary amount for imported consumer products in China is not equal to even one-tenth of the monetary amount in the U.S. In view of this fact, he called for expansion of the Free Trade Agreement (FTA) between the U.S. and East Asian countries.

From a security standpoint, Shiraishi emphasized that tension would continue to exist between security and economics in the future. The cause of this tension is the fact that, unlike Europe, communist countries continue to exist in the East Asian region. He stated that East Asian security based on a hub-and-spoke type alliance led by the U.S. will be essential in the future in order to smoothly promote the transition to a new economic order.

<Issues are strengthening ASEAN's international competitiveness and strategic utilization of APEC>

At the beginning of the panel discussion, JETRO Chairman Hayashi discussed the current state of East Asia's economic integration by indicating the increasing interdependence among the region's real economies, the region's growing presence in the global economy, and the growing necessity of shared cooperation and actions within the region. Regarding cooperation within the region, Hayashi particularly emphasized that problems need to be addressed by all, with a sense of community. Such regional issues include the promotion of the Economic Partnership Agreement

(EPA) and FTA, correcting economic disparities, developing and improving infrastructure, response to climate changes issues, measures for natural disasters and infectious diseases, and measures against maritime piracy.

To continue, Hayashi raised several challenges facing economic integration to serve as a backdrop for the panel discussion. The issues include (a) strengthening the international competitiveness of ASEAN countries which are facing a trade deficit with China, (b) securing the participation of the U.S. and other economies in developing a region that is “open to the world” and (c) strategic utilization of APEC as a method for responding to shared issues.

<Through U.S.-Japan cooperation, aim for seamless market construction>

METI Director-General Nishiyama alluded to how the current ratio of intraregional trade in East Asia has grown to the extent that it exceeds the North American Free Trade Agreement (NAFTA) and rivals the EU. He also explained how consideration is being given to expanding structures such as the Japan-Korea-China FTA, the East Asia Free Trade Area (EAFTA, ASEAN+3), and the Comprehensive Economic Partnership in East Asia (CEPEA, ASEAN+6).

Furthermore, Nishiyama introduced the Economic Research Institute for ASEAN and East Asia (ERIA) as a think-tank that conducts policy planning and advice. He also noted that ERIA performs analysis for regional issues including improvement of “hard” infrastructure such as roads and ports which are essential for development of the Asia region, as well as for “soft” infrastructure such as customs procedures and investment regulations. Nishiyama also made reference to the “Comprehensive Asian Development Plan” which is being coordinated by ERIA together with the Asian Development Bank and the ASEAN Secretariat.

Additionally, Nishiyama stated that the opportunity should be taken for cooperation between Japan, which will host APEC in 2010, and the U.S., which will host in 2011. This cooperation should focus on new visions of APEC, such as creation of a roadmap for construction of the Free Trade Area of the Asia-Pacific (FTAAP). Nishiyama also stated that Japan and the U.S. should use the opportunity to construct a seamless market in Asia. Finally, in regards to economic integration between East Asia and the Asia-Pacific region, Nishiyama expressed his hopes for a partnership between Japan’s efforts and TPP, which is positioned as a major trade agenda by the U.S.

<Expectations for Japan as a country which finances infrastructure development, etc.>

Regarding the financial aspect of East Asian economic integration, Associate Professor Toyoda of Villanova University expressed high expectations towards Japan's leadership for the Chiang Mai Initiative, which is a mechanism for financial cooperation such as financing within the Asian region.

Furthermore, Toyoda pointed out recent trends in the East Asian region, such as the large amount of foreign exchange reserves accumulated in recent years, as well as the flow of surplus funds to the U.S. Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). She also noted that there is a trend for the rise of sovereign wealth funds (SWF) to create high-risk investment on a global scale. Additionally, Toyoda expressed her private opinion regarding the dollar by stating that the relative position of the dollar will most likely fall, although it will probably maintain its position as the key currency in the future.

Also, Toyoda alluded to Japan's investment performance for geothermal energy in Indonesia, solar energy in the Philippines, and development of the Mekong Delta Region. She stated her expectations towards Japan's role as a country which conducts vital financing in recyclable energy, a field for which high demand is predicted in the future, as well as projects for infrastructure development.

<High interest in TPP from the position of ABAC Chair>

Counselor Aihara of Mitsui & Co., Ltd, introduced how the company is conducting active business expansion in the East Asian region, including ASEAN. He explained how an organic network is being constructed and business is being expanded through a combination of 14 interlinked yet independent headquarter business units and a region-based strategy of the 3 regional business units: Americas, EMEA (Europe, Middle East and Africa), and Asia Pacific. Furthermore, regarding fields which are the focus of new efforts, Aihara discussed the infrastructure business and environmental business, and also introduced plans to advance business in new energy forms such as bioethanol.

Also, from the position of APEC Business Advisory Council (ABAC) Chair, Aihara stated that he has high interest in TPP. He also expressed his desire to exchange opinions with the U.S. regarding the form of efficient and effective regional economic

integration in the East Asian region, a topic in which Japan and the U.S. play a vital role.

<Expectations for WTO development as a solution for the spaghetti bowl issue>

Biegun, Vice-President to Ford Motor Company, held a discussion from the perspective of his company's active business measures in the East Asian region. He raised Australia and Korea as examples of countries which actively participate in free trade. Biegun called special attention to the pro-activeness of Korea towards the free market, which he described as surpassing Japan. Regarding this point, he voiced concern that Japanese corporations would be at a disadvantage during international competition.

Biegun also stated that protectionism is somewhat strong in India, therefore preventing the country from fully enjoying the benefits of its own economic growth. In regards to China, he alluded to predictions which state that the market will not be broadly opened externally in the short term, and pointed out the possibility of a WTO conflict arising in the future.

Regarding TPP, Biegun described how contents are limited to items which can be agreed upon by different countries and how it is not possible to expect the enactment of ambitious measures. However, he also noted that the U.S. industry supports TPP and that positioning is possible as a new free trade initiative. Biegun also discussed the so-called "spaghetti bowl" condition in which a large number of differing FTA rules are intricately entangled. He described this condition as a problem due to how it forces difficult responses and rising costs on private corporations. In this respect, he expressed hope for the advancement of the WTO Doha Round.

<The Asian Triangular Trade will continue for 5 to 10 years>

Huang of the Renmin University of China emphasized the fact that the economic integration of East Asia is being promoted by a triangular trade in which China procures components from Japan and East Asian countries, assembles the components, and exports completed projects to Europe and the U.S. He also predicted that the triangular trade based on corporate supply chains would continue for the next 5 to 10 years.

Regarding the RMB, Huang introduced a perspective in which long-term

equilibrium exists for the value of currency; specifically, 1 dollar = 1 euro = 10 RMB = 100 yen. When assuming such long-term equilibrium, he explained how the possibility exists that the RMB is not undervalued but actually overvalued. In regards to criticism that Chinese exports are depriving other countries of employment opportunities, Huang used the export of shoes as an example to assert the major contributions made by Chinese exports to the GDP and employment of Europe.

<Increased U.S. involvement is necessary in East Asia>

Corbett of the Australia-Japan Research Centre pointed out the fact that Japan-Australia trade relations are extremely significant on a global scale. She stated that although China has become the largest trading partner for both countries examination of the production network shows many cases of increased exports destined for Japan via China, thus indicating the continued importance of Japan-Australia trade relation. In particular, Corbett stated that even as the importance of the service sector grows in each country, there is a low level of Australia's trade in services with Japan when compared to that with China and Korea. Corbett emphasized that there is great room for the expansion of trade in services.

Furthermore, Corbett stated that increased U.S. involvement is necessary to unify East Asian cooperative relationships in which multiple frameworks coexist. She also stated that Australia and Japan have vastly different perspectives in regards to the role expected of the U.S. in East Asia.

Responding to a question regarding foreign corporation investment in Australia's mineral resources, Corbett pointed out that although there is a great amount of opposition regarding investment by China's state-owned enterprises, investment by Japanese corporations is essential for securing the supply of resources. She predicted that there will be no major changes in Australia's investment framework for the time being.

In response to a question asserting that India has missed the opportunity for trade liberalization, Huang alluded to the differences in economic structure between China, which serves as the world's factory, and India, which serves as the world's office. He also expressed that differences in the political systems of each country are related to differences in the speed of response to trade liberalization. Huang pointed out that India has once again shown the difficulty of incorporating services into trade

agreements, yet has finally begun to consider trade and industrial policies together. He expressed the opinion that liberalization will occur in the future, although at a slow pace.

<Promoting liberalization through competition among frameworks>

CSIS Senior Adviser Green, responsible for summarizing the debate, stated that President Obama is somewhat negative towards the “East Asian community” and seems to be undecided towards the TPP in which the U.S. is involved. Green pointed out that a variety of frameworks had been introduced for the promotion of trade liberalization in East Asia, and also pointed out the aspect of promoting liberalization through competition among frameworks.

Regarding Shiraishi’s statement that tension remains between security and the economy in East Asia, Green pointed out that the same problem is also faced by countries such as Japan and Australia. Green also stated that significant movements have begun in security relationships due to the advance of democratization. He characterized the advances in security dialogues between Japan and countries such as Indonesia and Australia as an indication of such movement.

<The absence of a Japan-U.S. FTA should not be excessively viewed as a problem>

The seminar was closed by Kurt Tong, the Senior Official for APEC at the U.S. Department of State. Tong stated that not all trade policy throughout the entire of East Asia is oriented toward free trade. He explained the U.S. position as one of watching over the current situation in East Asia in order to ensure that no country is late in accomplishing sustainable green growth.

Regarding Japan-U.S. relations, Tong explained that the scale of trade remains extremely large. He also made reference to close relations in finances, currency policy, and the environmental field. Tong explained that the absence of a Japan-U.S. FTA should not be excessively viewed as a problem; instead, the situation should be viewed as one in which a variety of measures exist for further invigoration of trade between the two countries.

To continue, Tong raised the direction of postal reform as a source of concern within favorable Japan-U.S. trade relations. He stated that although the direction of reform is solely determined by decisions made on the Japanese side, the U.S. wants to secure

shared competitive conditions in any case. Tong also expressed his desire to place attention on the automotive field, a field which is not a major point of concern at the moment, but constantly holds the potential for a trade conflict. Tong also showed concern that a non-scientific approach continues to be used regarding the handling of U.S. beef.

Finally, Tong raised 4 trade agendas which are given priority by the U.S. in the Asia-Pacific Region. The 4 agendas are: a) TPP, b) U.S.-China economic relations, c) U.S.-Korea FTA, and d) APEC. Regarding APEC, he explained that although priority items cannot currently be announced for the 2011 meeting,, he hopes to strive to achieve specific results in various fields together with the 2010 meeting hosted by Japan.