

*Part One*

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## MAIN TOPICS



## Chapter 1

# FTAs in Asia: Full-scale Debate on the East Asian Community in 2005

AKIRA KAJITA

The year 2005 was one of continued activity in the signing of free trade agreements (FTAs) among major countries in Asia, such as Japan, China, South Korea, Thailand, and India. Major activity included the signing of the economic partnership agreement (EPA) between Japan and Malaysia, the start of negotiations on a comprehensive economic partnership (CEP) agreement between Japan and ASEAN, the effectuation of the agreement on trade in goods between China and ASEAN, and the signing of a framework agreement and agreement on trade in goods between South Korea and ASEAN.

In Kuala Lumpur, Malaysia, in December 2005, the East Asia Summit, the first in the region, was held with the participation of 16 countries including ASEAN Plus Three (Japan, China, and South Korea) and Australia, New Zealand, and India. In the joint statement of the East Asia Summit, the summit was positioned as an event that plays an important role in the formation of the East Asian Community, and it was decided to hold the summit every year thereafter with ASEAN member countries as the chairs.

### *Japan*

In December 2004 at a Cabinet meeting to promote economic partnerships, Japan announced its “basic policy to promote economic partnership agreements henceforth.” In this policy, the standard for the selection of negotiation partners and regions was whether they contributed to the efforts for formation of a community in East Asia and to whether they contributed to stability and prosperity. Thus, Japan further clarified its

previous policy for promotion of economic partnerships mainly in East Asia.

In East Asia, in continuation from the EPA effectuated with Singapore in November 2002, Japan is pursuing EPA negotiations with South Korea and ASEAN (with both individual member countries and the organization). The goal of the negotiations with South Korea was to reach agreement between December 2003 and the end of 2005, but negotiations broke off in November 2004, with no negotiation meetings being held in 2005. South Korea insists on deregulation of over 90 percent of Japanese agricultural sectors as a condition for resuming negotiations.

With ASEAN, Japan began CEP negotiations to come to terms within two years starting from April 2005. At negotiations which were held twice up to August 2005, discussion was conducted on how to proceed with negotiations on cumulative rules of origins and customs tax, but negotiations broke off after that. Thereupon, the negotiation method was thoroughly revised, including the establishment of a new mechanism for lower customs tax in all ASEAN member countries, and formal negotiations resumed in the spring of 2006.

In negotiations of individual EPAs with ASEAN member countries, overall agreement was reached with the Philippines in November 2004, Malaysia in May 2005, and Thailand in September. The outstanding feature of the agreement with the Philippines is that Japan agreed to accept workers in the nursing sector, and adjustments are underway with regard to the number that will be accepted. The EPA with Malaysia was signed at the summit meeting in December 2005, and henceforth it is anticipated that the EPA will be effectuated soon following ratification by the national assemblies of both countries. The overall agreement with Thailand promises that Thailand will lower customs tax on passenger vehicles with displacement over 3,000 cc to 60 percent (currently 80 percent) by 2010, that Thailand will abolish customs tax on automobile parts by 2011, and that customs tax will be abolished on certain steel products promptly when the agreement is effectuated or within 10 years. Moreover, in services (wholesale, retail, repair, etc.) related to the manufacturing industry, Thailand approved capital subscriptions with over 50 percent foreign investment by Japanese companies. Japan promised to allow entry by workers in the nursing sector and to ease visa requirements for Thai chefs. In July 2005, EPA negotiations began with Indonesia and were conducted three times up to February 2006. The fourth session is scheduled for April 2006, and the aim is to have a general agreement by summer. With regard

to other ASEAN member countries, negotiations are scheduled with Viet Nam and Brunei.

In addition to ASEAN, an EPA between Japan and Mexico took effect in April 2005. In Mexico, a number of Japanese companies, including auto companies, are setting up new operations to take advantage of the benefits of the EPA. Japan also began EPA negotiations with Chile in February 2006.

In addition, joint research, etc., is being conducted with India, Australia, and Switzerland. A policy dialogue was conducted with India starting from April 2005 with a view to concluding an EPA, and joint research began in July. It is thought that genuine negotiations will begin in the summer of 2006. Joint research began with Australia in November 2005 on the possibility of signing an EPA, and research meetings began with Switzerland in October 2005.

The joint statement of the ASEAN Plus Three Summit in December 2005 included the statements that the ASEAN Plus Three Summit is the major means of achieving an East Asian Community, that the future direction for the formation of the East Asian Community will be indicated by 2007, and that it will accelerate implementation of measures such as the establishment of an East Asian FTA proposed by the East Asia Study Group (EASG). Japan, China, and South Korea agreed at the summit talks in November 2004 to hold discussions among their governments concerning investment agreements, but no concrete progress was seen in 2005. Japan's ability will be on trial in the formation of the East Asian Community with regard to how Japan formulates plans to utilize the East Asia Summit, ASEAN Plus Three, and the framework of Japan, China, and South Korea.

### ***South Korea***

In 2005, South Korea surpassed other major Asian countries with the overwhelming speed with which it concluded FTAs. According to the report in March 2005 to Korean President Roh Moo-Hyun by the Office of the Minister for Trade in the Ministry of Foreign Affairs and Trade of the Republic of Korea, the Korean government will pursue FTAs with 30 to 50 countries up to 2007. Of those, South Korea aims to effectuate FTAs with approximately 15 countries, negotiate with 10 to 30 countries, and conduct joint research with approximately 5 countries.

In August 2005, South Korea signed an FTA with Singapore, South Korea's second FTA following the one with Chile. Agreement was also

reached in July 2005 with the European Free Trade Association (EFTA). For the FTA with ASEAN, on which negotiations began in February 2005, it is scheduled to sign an agreement on trade in goods in December, begin customs tax reductions from July 2006, and abolish 90 percent of customs taxes in 2010. Negotiations with Japan, as stated above, have been discontinued and are waiting for an opportunity to resume. Negotiations also began with Canada in July 2005. There are many cases of joint research between South Korea and other governments, including Mexico (from October 2004), India (from January 2005), China (from March 2005), and Mercado Comun del Sur (Mercosur) (April 2005). Of those, an economic complementary agreement, which is less restrictive than an FTA, was signed with Mexico in September 2005. South Korea decided in February 2006 to begin negotiations with India on a comprehensive economic partnership agreement (CEPA) with the goal of signing it by the end of 2007.

From May 2006, South Korea began FTA negotiations with the United States. The conditions for negotiations were settled with agreement to increase South Korea's screen quota for US movies and agreement to resume imports of US beef. However, there was a strong negative reaction from the movie industry and agricultural sectors within South Korea, and even the South Korean financial service sector feared being affected by inroads by US banks in South Korea. So, making the necessary domestic adjustments henceforth in South Korea is expected to be difficult. The expiration date of the United States' Trade Promotion Authority (TPA) is the end of June 2007, which means that the effective deadline for negotiations is March 2007 and, with such a short timeframe, no carelessness may be permitted in the pursuit of the negotiations.

### *China*

Up to this point, China has signed four FTAs and is currently negotiating another four FTAs. Following the Closer Economic Partnership Agreements with Hong Kong and Macao, China put into effect an agreement on trade in goods with ASEAN in July 2005. Customs tax reductions began in the mining and industrial products sector as well, in continuation from the preceding early customs tax reduction measures on agricultural products under the Framework Agreement on Comprehensive Economic Cooperation effectuated in July 2003. Customs tax will be abolished by 2010 (2015 for the four new members of ASEAN), excluding the sensitive items that require protection.

Some of China's major aims in signing FTAs are to secure natural resources and to achieve its geopolitical objectives. FTA negotiations with Chile which began in January 2005 led to the signing of the FTA in November that year, and it is expected that the FTA will be effectuated in mid-2006. China began negotiations with New Zealand in December 2004 and with Australia in May 2005. China has also been pursuing negotiations since April 2005 with Gulf Cooperation Council (GCC) which includes Saudi Arabia. Meanwhile, although China agreed in June 2004 to start FTA negotiation with the Southern Africa Custom Union (SACU), the start of negotiations has not yet been confirmed. In addition, while there was agreement in April 2005 to start negotiations with Pakistan, joint research began with India in January 2005, and China agreed in May 2005 with Iceland to set up a joint research group.

### ***Thailand***

Thailand effectuated FTAs with Australia in January and with New Zealand in July. Moreover, in addition to an agreement on trade in goods with China and overall agreement on EPA negotiations with Japan, Thailand began negotiations with the EFTA in October.

Based on a framework agreement, Thailand and India implemented early customs tax reduction measures starting in September 2004 on 82 items including tropical fruit, petrochemical products, household electrical appliances, and auto parts, etc. Overall abolishment of customs tax including on other items is scheduled to be completed by 2010. Thailand has also been negotiating with the United States since June 2004, there are those in Thailand who fear an impact on domestic industry in the agricultural and service sectors. In addition, Thailand has signed framework agreements with Bahrain and Peru.

As regional cooperation with neighboring countries, Thailand signed the framework agreement of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) (seven signatories: Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal, and Bhutan), and from July 2006 customs tax reductions are scheduled to begin.

### ***Singapore***

The 11 FTAs which Singapore has effectuated, signed, or agreed to negotiate up to this point are as follow. Those effectuated are New Zealand (January 2001), Japan (November 2002), EFTA (January 2003), Australia (July 2003), the United States (January 2004), India (August 2005), and

Jordan (August 2005). Those signed are the Trans-Pacific FTA (with Chile, New Zealand, and Brunei) (July–August 2005), and South Korea (August 2005). Negotiations have been completed with Panama (April 2005), and essential agreement has been reached with Qatar (June 2005).

FTAs currently under negotiation include Kuwait, Pakistan, Canada (no progress), and Mexico (suspended). Agreement has been reached to begin negotiations with China and Peru, and there are plans for negotiations with Sri Lanka, Bahrain, and Egypt. If all of the FTAs listed here are actualized, Singapore will have 19 FTAs, boosting its presence both in name and reality as an FTA hub country and enabling it to more effectively utilize its infrastructure including its port.

## **ASEAN**

ASEAN is aiming to actualize the ASEAN Economic Community (AEC) by 2020. Given this movement toward economic integration in the region, major countries one after the other are seeking to conclude FTAs with ASEAN. In addition to the above-mentioned Japan, China, and South Korea, there have been some sorts of approaches mentioning FTA negotiations from India, Australia, New Zealand, the United States, and the EU. ASEAN and India have signed a framework agreement on comprehensive economic cooperation, and from January 2004 began customs tax negotiations. These negotiations were still underway as of March 2006. FTA negotiations began with Australia and New Zealand in February 2005, with the goal set for completion within two years. Based on the Trans-Regional EU-ASEAN Trade Initiative (TREATI) agreed upon with the EU in April 2003, joint research began in July 2005. The European Commission plans to begin FTA negotiations with ASEAN after a conclusion is reached in the new round of the WTO. In the Enterprise for ASEAN Initiative (EAI) released by the United States in October 2002, a plan is announced to promote FTA negotiations between signatory countries to the Trade and Investment Framework Agreement (TIFA) and WTO member countries. As stated above, ASEAN is currently negotiating with Thailand, and as other candidates, Indonesia, the Philippines, and Malaysia have been mentioned.

Henceforth ASEAN will play an important role in the process of forming the East Asian Community. In the joint statement of the East Asia Summit, it is clearly stated that ASEAN is the propellant force of that summit. It is ASEAN that sets the criteria for participating in the summit; ASEAN chair countries host the summit and act as chairs of the summit.

In the formation of the East Asian Community, efforts by the major countries concerned to influence ASEAN are likely to continue.

### ***India***

As seen in the above-mentioned efforts for FTAs with Japan, South Korea, China, and ASEAN, India is displaying strong interest in the East Asian region. India's strategy is to ensure that it benefits from the marked economic growth of East Asia, by becoming a member of the East Asia Summit and strongly insisting on contributing in the East Asia Summit to the formation of the East Asian Community.

In addition to its interest in East Asia, India is also putting effort into regional economic exchanges in Southwest Asia. In January 2004, India signed an FTA framework agreement with South Asian Association for Regional Cooperation (SAARC), and in January 2006, effected the South Asia Free Trade Agreement (SAFTA).

Outside the Southwest Asia region, other than in East Asia, India signed a most-favored-nation trade agreement with Mercosur in January 2004 and has a framework agreement with GCC (August 2004) and SACU (September 2004), and India also agreed with Egypt to set up a working group on a most-favored-nation trade agreement. India is currently negotiating an FTA with SACU based on the framework agreement.

### ***Issues in 2006***

Issues in 2006 are Japan's resumption of EPA negotiations with South Korea, reaching of the signing stage of the EPA with Thailand and the Philippines on which general agreement has been reached, and the resumption and putting on track of the negotiations with ASEAN overall. Moreover, it is desirable to settle these matters while simultaneously beginning work on the next EPAs. The leading candidates are said to be India and the GCC. For South Korea, negotiations with the United States are important, on par with those with Japan. An issue for China, which is aiming for agreement in negotiations with New Zealand, Australia, and the GCC, will be the start of negotiations with SACU.

The issue in the Asian region overall is to advance toward a decision on the discussion which has gotten started on the East Asian Community. Consideration is also necessary concerning the bargaining between Japan and China, etc., over leadership, the degree of involvement by India and Australia, etc., and the involvement of the United States, which has been observing quietly. The WTO Doha Round is aiming to reach agreement by

the end of 2006. If it is successful, a new launch pad for trade deregulation will be available, and then it is anticipated that discussion on the East Asian Community will become even more specific in 2007. In 2006, in the sense of laying the groundwork for that, it is important to give the highest priority to preparation of FTAs currently in progress which are being negotiated by Asian countries.