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Building Blocs of Asian Regional Integration ROLES OF JAPAN: Comparison of JACIK with JCK, ASEAN and SAARC Masanori Kondo

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1. Japan's Bilateral Trade Negotiations in Asia

-- Japan is promoting EPAs in Asia, despite its agricultural protectionism. After ASEAN, Japan is working with India, Korea, and Australia.

- (1) Singapore
- (2) Philippines
- (3) Malaysia
- (4) Thailand
- (5) Korea
- (6) Indonesia
- (7) ASEAN
- (8) India
- (9) Australia

2. Comparison of Existing Regional in Asia

-- JCK has been always motivated by market forces, while ASEAN and SAARC started for more political reasons. However, the recent diplomatic problem between China/Korea and Japan has been a challenge for JCK.

- (1) ASEAN and SAARC, as compared to JCK (Japan, China, Korea)
- (2) Motives and Driving Forces
- (3) Strategies and Challenges

3. Japan's Roles for Future Integration of JACIK

• As China is emerging as a super power, India has become politically important for Japan as a counter power. However, what is more important for the future of JACIK is Japan's commitment in its business with India. ASEAN can play roles for Japan and India.

- (1) "JACIK", as compared to JCK
- (2) "JACIK", as compared to ASEAN+3
- (3) Motives and Driving Forces
- (4) Strategies and Challenges

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1. INTRODUCTION

This paper will examine the Japanese trade policy, focusing its recent development in EPA and its economics relationship between India as well as China. First, it will present status of Japanese FTA/EPA with other countries will be reviewed. Already, Japanese EPA has been effective with Singapore and Mexico, and some more negotiations are under progress with Asian countries. Third, this paper compares Japan-Korea-China economic bloc with other economic blocs, namely ASEAN and SAARC. Lastly, the paper will examine the future prospects for ASEAN+3+India or JACIK (Japan, ASEAN, China, India, and Korea), presenting some examples of such attempts, such as the Japanese investment into India via Singapore, or Indian investment into China via Singapore to explore the Japanese market.

2. JAPAN'S BILATERAL TRADE NEGOTIATIONS IN ASIA

These days, economic partnership agreement (EPA) is extremely important for Japanese policymakers, and rather than a mere FTA, the Japanese government has been actively negotiating with other countries. There are several reasons why they prefer EPA over FTA. As pointed out by Kinoshita (2005a), FTAs can help economic development but cannot solve income disparity problems. Proactive actions to correct such discrepancies are necessary for further economic integration. With this recognition in mind, the Japanese government has proposed EPAs to its neighboring countries, rather than FTAs.

In the past few years, quite a few EPAs have been under negotiation between Japan and other Asian countries. This reflects increased momentum for regional integration in Asia. So far, EPA with Singapore is in action, and EPA with Mexico has finished the negotiation stage. Trade liberalization for pork was one of the toughest issues till the last moment of the negotiation. The negotiations for EPAs with Philippines, Thailand, and Malaysia have been almost finished. Some more way to go for Korea and ASEAN, and a Joint Study Group has been set up for India. Following is an overview of Japanese EPA with other Asian nations.

(1) Singapore: Singapore was the first country with which Japan signed EPA, followed by Mexico. It was reasonably easy for Japan because Singapore does not export agricultural commodities.

(2) Philippines: General agreement was made between the two governments on November 29, 2004. One of the major issues was on the Visa for nurses from the Philippines. It was agreed that they have to pass Japanese language exams, while the numerical quota for nurses was not identified. Some doubt that if the nurses, who have an option to go to US, are really willing to study Japanese.

(3) Malaysia: General agreement was made between the two governments on May 25, 2005. Final negotiation is in progress to sign the EPA documents.

(4) Thailand: In principal, agreement has been made between the two countries. Trade matters on agriculture were agreed first, and then issues relating to steel, auto parts, service, and investment were discussed. After the progress made on the industrial goods in June, general agreement was made on September 1, 2005. Some Japanese argue that the benefits for Japan might be rather limited, as Thailand compromised about agricultural exports in the beginning, which made Japan's policy on industrial exports rather weaker.

(5) Korea: Japan is actively working for an FTA negotiation, but the Korean government is not keen to enhance the policy dialogue, at least to the eyes of Japanese. Six meetings have been already held, however, and it is expected to complete major part of the negotiations by the end of this year.

(6) Indonesia: A joint group was set up to study the impacts of FTA/EPA, just like the Joint Study Group between India and Japan. The first round of negotiation has started.

(7) ASEAN: The first meeting among all the countries was held in Tokyo in April. Since a (7) number of major gaps among countries have been identified, the next meeting is being scheduled to discuss the matters. Meanwhile, Japan has started bilateral negotiations with Cambodia, Laos, Myanmar, and Brunei independently.

(8) India: A joint study group to assess the impacts of FTA/EPA was set up, and the first meeting was successfully held in Delhi in July 2005. The group will submit a report to the two governments within a year.

(9) Australia: A feasibility study on the impacts of FTA/EPA has been initiated, as Japan has finally agreed with the study that includes agriculture.

3. COMPARISON OF EXISTING REGIONAL BLOCS IN ASIA

(1) ASEAN, SAARC, as Compared to JCK

In the previous section, I have reviewed the present status of Japanese EPAs with other Asian countries. In this section, the existing Asian multilateral blocs, namely ASEAN, SAARC, and what I call JCK, for the Japan-China-South Korea arrangement, will be compared with each other. Unlike ASEAN or SAARC, JCK is not a formal economic bloc, but is included here because, whilst there is no official regional institution between Japan, China and Korea, business interaction is perhaps more advanced than in other regional blocs. For this reason, such informal arrangements are compared alongside more formal Asian and African institutional arrangements.

(2) Motives and Driving Forces: SAARC was set up in response to an increasing sense of crisis in terms of economic stagnation and political instability in their respective regions. In contrast, ASEAN was initially formed to hold back the spread of communism from Vietnam into Southeast Asia. Also, the economic relationships within JCK stem from Japanese war reparations to China and Korea.

What are the driving forces that enable these institutions (formal or informal) to be successful? In the case of ASEAN, Japanese investment is recognized to have taken a major role for the economic development of the region and its economic integration. This is also the case of JCK. In both the ASEAN and the JCK, foreign investment by overseas Chinese also played a similar and crucial role.

In contrast, there is no strong driving force for any further integration within the SAARC organization. In the past, the diplomatic relationship between India and Pakistan has been a major issue for SAARC. It is also due to the fact that for India, doing business with other South Asian countries is less profitable compared to doing business with the developed countries and the Southeast Asian countries. However, recent improvement of diplomatic relationship between India and Pakistan will be a good sign for future development within SAARC.

(3) Strategies and Challenges: The strategic focus of ASEAN shifted from the initial international politics against communism to trade liberalization. The JCK countries (as there is no official institution, there is no official strategy) have continuously placed emphasis on business matters. The strategic focus of SAARC is not very clear - which is one of the weaknesses of the association.

What are the challenges? ASEAN faces obstacles to further regional integration in the shape of similar trade and industry structures (with the exception of Singapore) among member nations. This has made intra-regional trade less attractive for ASEAN countries. However, here again, Japanese investment in the manufacturing sector has contributed to overcoming these problems, creating new opportunities of intra-regional trade.

In the case of SAARC, the diplomatic relationship between India and Pakistan has been a major challenge. It is unfortunate that people in Pakistan drink tea imported from Kenya. Likewise, the JCK area has faced similar diplomatic challenges; Japanese import restrictions on agricultural commodities

have been one of the major obstacles for JCK integration. In addition, diplomatic rifts caused by war memories (of the Japanese invasion in China and Korea) appear to be widening in recent times.

4. JAPAN'S ROLES FOR FUTURE INTEGRATION OF JACIK

(1) JACIK, as Compared to JCK:

The recent emergence of India as an economic giant, along with China, in Asia has made Japanese aware of the importance of the country. Coincidentally Japan's political relationship between China (and also with South Korea) has become worse, and it is not surprising that Japan is now rethinking India as a new partner.

Meanwhile, the political as well as economic relationship between China and India has seen a dramatic improvement, and the India-China bilateral trade recorded US\$ 13.2 billion, more than twice of rather stagnating India-Japan trade. This has made Chinese and Indian policymakers aware of the importance of new economic bloc within Asia in the future.

Meanwhile Korea has heavily invested in India with great success. It is against that background that all the JCK countries (Japan, China, and Korea) have realized to include India in its economic partners.

(2) JACIK, as Compared to ASEAN+3:

In the past decade, ASEAN has been struggling to compete with China in its export market, say, US or Europe. Although the Chinese currency was revalued, it is still not enough for ASEAN to compete with China. Meanwhile the trade between ASEAN and India has also surged, and Indian policymakers shifted its focus more towards East Asia. It is not surprising that India is added to ASEAN+3 (ASEAN, plus JCK).

Among ASEAN countries, Singapore seems to be particularly active to work with India and China, trying to balance these two Asian superpowers. The importance of India for Singapore (and vice versa) can be confirmed by the recent agreement of CECA (Comprehensive Economic Cooperation Agreement). Under the agreement, Singapore intends to be a hub for a third party country, such as Japan, to invest in India. Already, several MNCs are considering to invest in India via Singapore.

Then, how sustainable the new JACIK is? In the following, I shall first compare JACIK with JCK as well as ASEAN+3, applying the same methodology that was used in the previous section. Then, I shall propose the roles of Japan for the future success of JACIK.

(3) Motives and Driving Forces:

The motivation to promote the JACIK is somehow more political and less economic than JCK. It is because, unlike JCK which grew without governmental initiatives until recently, the forthcoming East Asian Summit, which can be a good starting point for JACIK, is organized not by business people but political leaders. In this sense, JACIK is more similar to ASEAN or SAARC, although not as much political as the initial setting of ASEAN.

In Japan, many people want to include India as it can be a "counter-balance" to China. However, as the improvement of India-China economic relationship, this is less important for India. As we have seen in JCK, market forces will be more important than political considerations.

It seems, however, the driving force of JACIK is not yet clear. The objective of ASEAN was very clear in the beginning. The member countries shared the same goal to stand against Vietnam. In the case of JACIK, we have more countries, more different interests, different races and religions. There is little clear value within JCK. Japan and India can share democracy but certainly this is not for China.

Good aspect is that JACIK is less focused on war-time memory problems than JCK, as we have India.

(4) Strategies and Challenges:

Who decides the strategy of JACIK? So far it is difficult to find a clear strategy for JACIK. Many people are afraid that with so many countries and so little may be decided by JACIK.

Many Japanese consider to including ASEAN to JCK for economic reasons, but India for political reasons. However, if Japan thinks India more important in its business, this can be a strong driving force for JACIK, as Japan has already close tie with ASEAN+3.

Japan is expected to play a leading role to combine China, Korea, ASEAN and India, rather than considering only China, Korea and ASEAN as its economic partner. One of the good examples is Toyota, which has decided to make its Indian plants as a global export base of transmission to its factories in other countries. Another good example is Cannon, which invested in India not from Japan but from its subsidiary in Singapore. CECA between India and Singapore will bring more Japanese investment in India via Singapore, just like Cannon did.

Another example is TCS, which has invested in China via Singapore, partly considering to work from Japanese market from China. Korean engineer who speaks Japanese were employed. This is the perfect example of JACIK cooperation! The other example (though this is not JACIK but "JAI") is Sony exporting TVs from Thailand to India, after closing its TV factory in India. This may not be what India wants, however.

To sum up, the key role that Japan can play is clear. Japanese companies will need to have more global business strategies. Mostly the strategy was to manufacture either in ASEAN or China and export to Japan and other developed countries. Secondly, the paper will compare Japan-India economic relationship between Japan-China economic Relationships. Overall, both in trade and investment, the volume of Japanese economic relationship with India is merely 3% of that with China.

5. CONCLUSION

This paper has compared JCK with ASEAN and SAARC to draw general lessons for JACIK. The key prerequisite for the success of any regional organization is to carefully examine and develop its strategic value as an organization and what policy strategies should be pursued. In the case of ASEAN, it was an investor-friendly environment. ASEAN developed its strategic value by inviting both Japanese and Chinese investment. Without formal arrangement, JCK has undertaken similar efforts. Roles of foreign direct investment are critical, and these nations have tried their best to invite foreign capital by working together. Also, successful arrangements have come from the initiatives of individual member countries.

It is noteworthy that little emphasis is placed on poverty or governance in any of the arrangements in East Asia. The influence of leading countries in the region seems to be more important in such cases. Japan, for example, played a major role in shaping East Asian development. The creation of ASEAN originated in member countries sharing a similar political interest against Vietnam. While this was central to creating the initial success ASEAN experienced, the similar economic structures of ASEAN countries (except for Singapore) have retarded progress towards inter-regional economic cooperation.

In contrast, the political conflict between India and Pakistan made SAARC rather dormant for many years, although recently things have improved significantly. The similar economic structures of SAARC countries have made India less interested in trading with them. From this observation, we can conclude that political interests in the region do not conflict, but economic structures must become more different in order to maximize the benefits of trade

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