

# East Asian Economic Integration and US East Asia Trade Policy

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## 1. Developments in East Asian Economic Integration

Regarding the developments in economic integration in East Asia in recent years, there have been rapid cases both in the material sense of the strengthening of economic ties, and also in the institutional sense. Seen from the material perspective, the percentage of intraregional trade has already outshone that of NAFTA (the North American Free Trade Agreement) and is at a level approaching the EU (the European Union). Additionally the developments in the division of labor by process in manufacturing industry, including electronics, have greatly changed the intraregional trade structure that once had a vertical division of labor. The East Asian ties via trade and direct investment have been strengthening both quantitatively and qualitatively.

Meanwhile, with a background of such material changes, moves to try and promote institutional economic integration are also developing. Furthermore, the 1997 Asian Currency Crisis was a spur to the necessity being recognized of East Asian intraregional economic cooperation, and institutional initiatives were pushed among all the nations. Table 1 summarizes those moves.

In a format of inviting the leaders of Japan, China and the ROK to the ASEAN (Association of Southeast Asian Nations) Summit, the ASEAN Plus Three Summit, which has been held since 1997, has occupied a central role in debate on East Asian economic integration. Taking this arena as an opportunity for negotiating, three ASEAN-Plus-One FTAs (Free Trade Agreements) were formed between the three Northeast Asian countries and ASEAN. Additionally, as a concept, joint research has been ongoing from 2005 on an East Asian FTA to cover the whole of ASEAN Plus Three. Still further as a concept for the future, the “East Asian Community” concept, which the EAVG (East Asia Vision Group)—which was established as an advisory body of the ASEAN Plus Three Summit—proposed in 2001, is already in existence.

Meanwhile, from 2005 the East Asia Summit has been held, with the 16 nations of ASEAN Plus Three with India, Australia and New Zealand thrown in as its members.

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<sup>1</sup> This paper is a revised and amended version of the paper “East Asian Economic Integration and US East Asia Policy” presented at the 67th Annual Meeting of the Japan Society of International Economics (12 October 2008)

Also within this framework, via a Japanese proposal, joint EPA<sup>2</sup>-research has begun.

East Asian economic integration, which is continuing in such a fashion, is something that possesses the potential to bring about negative economic effects, including trade diversion effects,<sup>3</sup> for nations outside the region. Consequently, at present for the United States, with its close relations with the countries of East Asia as a trading partner and also as an investing country, it cannot necessary be called a favorable situation. Below, I will outline US strategy responding to such a situation, and survey the prospects for its direction in the future.

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<sup>2</sup> The Japanese government refers to a free-trade agreement that includes varied matters—such as investment, labor movement, intellectual property rights and standards' certification, and not only trade in commodities and services—as an Economic Partnership Agreement (EPA). However, as shown by NAFTA for example, many FTAs in recent years deal with items other than trade in commodities and services under that appellation. Consequently in this paper, other than for the proper names for individual agreements, the term FTA is used.

<sup>3</sup> In the case where an FTA is concluded and tariffs within its area are eliminated, the effects of the manufactures of a third country, undertaking more efficient production outside that area, being shut out of the FTA area via remaining tariffs.

Table 1 East Asian Economic Integration and the Main Developments involving the United States

Year	Month	
1997	Jul	Start of the Asian Currency Crisis
	Dec	Holding of the First ASEAN Plus Three (Japan, China and the ROK) Summit (held every year thereafter)
2000	May	Agreement of the ASEAN Plus Three Finance Minister Summit “Chiang Mai Initiative”
2001	Nov	East Asia Vision Group Report “Towards an East Asian Community” proposed at the ASEAN Plus Three Summit
	Dec	Start of China–ASEAN discussions toward an FTA China WTO entry
2002	Oct	Announcement of the Enterprise for ASEAN Initiative (EAI)
	Nov	Coming into effect of the Japan–Singapore Economic Partnership Agreement (EPA) (Japan’s first FTA) China’s proposal of the conclusion of a Japan–China–ROK FTA
2003	Jul	Coming into effect of the China–ASEAN FTA (framework agreement)
	Dec	Start of Japan–ROK intergovernmental FTA negotiations (suspended during negotiations)
2004	Jan	China eliminates tariffs for ASEAN on 188 agricultural products based on the framework agreement
	Jun	Coming into effect of the US–Singapore FTA Start of US–Thailand intergovernmental FTA negotiations (suspended during negotiations)
	Nov	Signing of China–ASEAN FTA (agreement on trade in goods)
2005	Jan	Start of ROK–ASEAN intergovernmental FTA negotiations
	Apr	Start of Japan–ASEAN intergovernmental FTA negotiations
	Jul	Start of joint research on an ASEAN Plus Three FTA (proposed by China)
	Dec	Start of China–ASEAN FTA lowering of tariffs on products other than agricultural products Holding of First East Asia Summit (ASEAN Plus Three and India, Australia and New Zealand)
2006	May	Signing of ROK–ASEAN FTA (not including Thailand)
	Jun	Start of US–Malaysia intergovernmental FTA negotiations
	Nov	FTAAP concept discussed on US initiative at the APEC summit
2007	Jan	Holding of Second East Asia Summit Agreement to start joint research into an ASEAN Plus Six EPA (proposed by Japan) Agreement on China–ASEAN FTA expansion into the services trade sector
	Jun	Signing of US–ROK FTA
2008	Apr	Signing of Japan–ASEAN Comprehensive Economic Partnership Agreement

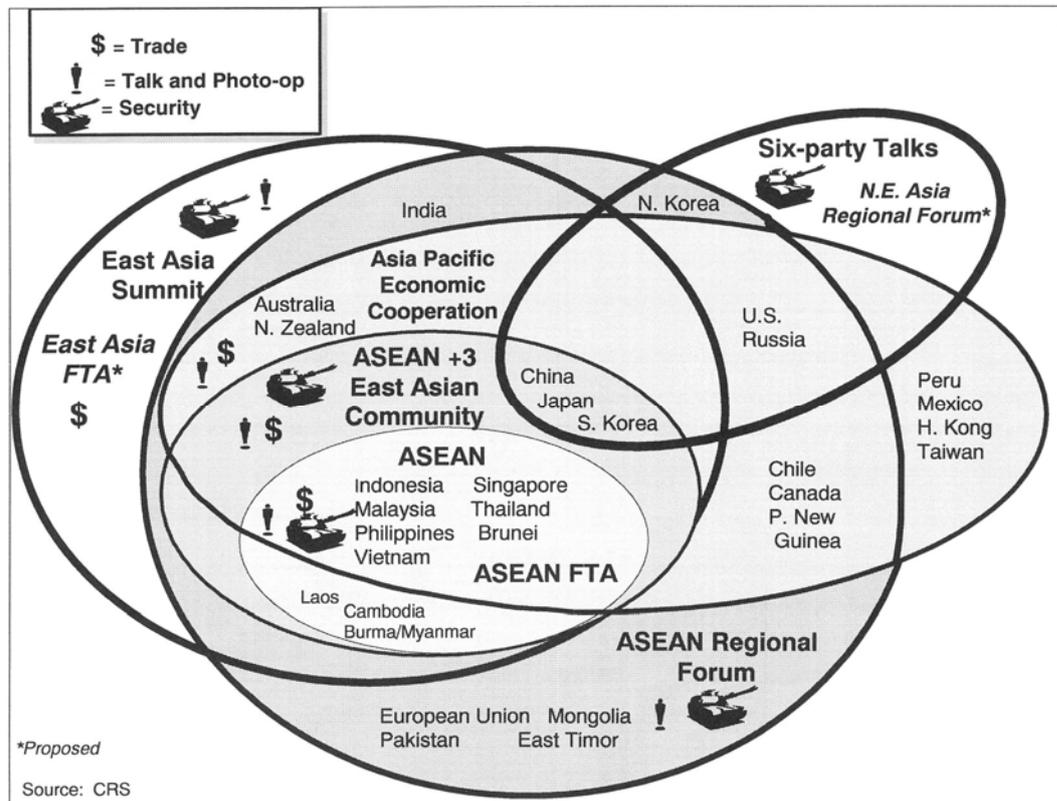
Source: Created by the author from a variety of materials

## 2. The US Response to East Asian Economic Integration

### 1) The US Position in East Asia

Figure 1 brings together the various kinds of arrangements in the region, including trade and security consultations centered on East Asia. In many of the arrangements, it can be that ASEAN has been added as the core member. In addition the three Northeast Asian countries of Japan, China and the ROK are members of most of the frameworks. At the same time it is evident that the United States, in the area of trade, remains in a peripheral position merely as a member of APEC (Asia-Pacific Economic Cooperation), and falling outside ASEAN Plus Three and ASEAN Plus Six (the East Asia Summit).

Figure 1 Regional Arrangements in East Asia (includes those in existence and proposed)



Source: Nanto (2006)

Regarding concepts for economic cooperation in East Asia, a concept once existed at the beginning of the 1990s of an EAEC (East Asia Economic Caucus) created by then Malaysian Prime Minister Mahathir. This concept, with the strong opposition of the United States, and thereby with the passive responses of Japan and others, ended up not seeing the light of day. Toward the movement on economic integration which is

currently underway, however, it would be difficult for the United States to take a similar stance as it did then.

As reasons for this, first of all there is the fact that the United States itself realized the regional economic integration of NAFTA in North America in 1994. After that it has additionally concluded several bilateral and regional FTAs with nations of Central and South America including Chile. Further, although currently negotiations have been suspended, it had also advanced an FTAA (Free Trade Area of the Americas) which would encompass the whole of the Western Hemisphere. The United States, through its own such trade policy, could be said to have lost its position of criticizing FTAs and the like, which are in a so-called gray zone with a principle of nondiscrimination based upon the former multilateral philosophy of GATT/WTO. Consequently in the case of today's United States, it can be said there is no logic to holding back the economic integration which the countries of East Asia are aiming at, if it falls within the FTA category.<sup>4</sup>

Secondly, the movements centered on the ASEAN Plus Three Summit as mentioned above can be said to have begun, gaining impetus from the Asian Currency Crisis of 1997. At the time of the crisis, the support from industrialized nations and international organizations outside the region was not necessarily sufficient, and it can be said that the common recognition of the countries of East Asia of the necessity of furthering intraregional cooperation was behind it. Consequently viewing things from the perspective of the countries of East Asia, in the first place for the United States it can be said that it was in no position to act critically toward such moves, and supposing a situation where it came out with a move to impede economic integration, then each country's strong opposition would be expected.

So taking it that the US was unable to stem diplomatically the moves toward economic integration by the countries of East Asia, it has come to only watch them from the sidelines. Of course that isn't the case. As Table 1 illustrates the United States has concluded a number of bilateral FTAs with East Asian countries, and negotiations on others are underway. Furthermore, within APEC, of which it is a member, it has advocated the promotion of an FTAAP (Free Trade Area of the Asia-Pacific) covering that region. That is, toward the economic integration which the countries of East Asia are striving to forward, it has adopted a strategy in opposition via the presenting of the counterproposal of a new economic integration.

## 2) Trade Strategy toward ASEAN

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<sup>4</sup> Lincoln (2004) pp. 259–260 raises FTAs as a form of East Asian economic integration which the United States ought to accept

Time-wise, the above strategy was actively created after the establishing of the Bush administration. Regarding the US–Singapore FTA which came into effect in 2004, as the first FTA with an East Asian country, the negotiations were inherited from the Clinton administration, yet the Bush administration didn't leave it at that, and announcing the Enterprise for ASEAN Initiative (EAI) in October 2002, specified the process for FTA negotiations with the countries of ASEAN, and made clear a willingness to actively advance negotiations.

Table 2 Outline of the Enterprise for ASEAN Initiative (EAI)

<p>1. Roadmap for the Conclusion of an FTA</p> <p>The United States is moving FTA negotiations forward with the countries with conditions in place among the ASEAN nations. Those conditions are: 1) having made a commitment to economic reform and opening of markets, and 2) having concluded a Trade and Investment Framework Agreement (TIFA) with the United States.*</p> <p>2. Aims of the EAI</p> <p>i) Via constructing a network of bilateral FTAs in ASEAN, to expand trade and investment</p> <p>ii) To promote liberalization at the bilateral and regional levels, and ultimately achieve the goals of the APEC Bogor Declaration</p>
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\* The United States concluded a TIFA with ASEAN as a whole in August 2006  
Source: Created by the author based on Sasaki (2007) and Sasaki (2008)

According to Sasaki (2008), pressure from US industry was behind such an initiative being created. In February 2002 the US–ASEAN Business Council, which has multinational companies as members, incorporated these points in a recommendation to the Bush administration: 1) the US should integrate and strengthen engagement with ASEAN; 2) they should start investigations to set up a US–ASEAN Free Trade Area; and 3) they should respond proactively to moves on the advancement of bilateral FTAs through ASEAN, and observe attentively so as not to harm US interests. Since the China–ASEAN FTA, etc., for which negotiations had been started at that time, concern has been shown for the harming of the interests of US companies.

Looking at the developments after the conclusion of FTAs with ASEAN nations, however, the negotiations with Thailand which were begun in 2004 were suspended because of the coup d'état, and for the negotiations with Malaysia which were begun in 2006, the Bush administration's compromise settlements while in office were seen as hurdles. The things aimed for with the Bush administration's presenting of the EAI can

be said to have not been fully realized.

### 3) The US–ROK FTA

The US–ROK FTA signed in June 2007 occupies an important position within US East Asia FTA strategy. The ROK, as a partner nation which has concluded an FTA with the United States, has both a large-scale economy and large trade volume. For the United States the US–ROK FTA ranks behind NAFTA in the scale of the FTA.

Additionally in the case of the US–ROK FTA, the degree of liberalization regarding trade in goods is high, and they are striving to eliminate tariffs within three years for 94% of trade products. Regarding the import of agricultural products on the ROK side also, which were a focus of the negotiations, they have agreed on the elimination of tariffs in principle, with rice as the exception, for all other items. Besides this, they reached agreement too on the contentious clauses of beef on the ROK side, drug pricing regimes, and automobiles on both the ROK and US sides. Furthermore, from before the commencement of negotiations, problems such as the movie screen-quota on the ROK side were raised, and regarding the service sector, where a rough passage was expected, in the event they realized a high level of liberalization.

Table 3 compares the degree of liberalization of the US–ROK FTA with other FTAs, and in the case where it is compared with the FTAs that Japan has concluded to date on a tariff-line basis (product-number basis) it is evident that that level is extremely high.

There are considered to be two routes for the impact that the US–ROK FTA has on East Asian economic integration. Firstly, it is thought that the tying up of an FTA, which has such a high level of liberalization and which possesses a replete comprehensive handling even of the service sector, brings great influence in a qualitative sense to the East Asian FTA network which has evolved in a form that permits the continued existence of many excepted products from the instances to date.<sup>5</sup>

Secondly, as one prong of ASEAN Plus Three to date, it is thought that the fact that an FTA was established with the ROK,<sup>6</sup> which has played an important role in moves on East Asian economic integration, has the great significance of the United States acting as a restraint on economic integration.

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<sup>5</sup> What is thought to receive a direct influence is probably the suspension of the Japan–ROK FTA negotiations. In the US–ROK FTA, if the ROK, which accepted liberalization of agricultural products virtually across the board, requested a similar response from Japan, then the Japanese side will be faced with a response more difficult than any to date.

<sup>6</sup> To give an example, the East Asia Vision Group, which proposed an East Asian FTA and an East Asian Community to the aforementioned ASEAN Plus Three Summit, was set up on the recommendation of the ROK's President Kim Dae-jung.

Table 3 Levels of Tariff Liberalization in the FTAs of Major East Asian Countries  
(Post Transition Period)

	FTA	Importer	Coverage of Tariff Elimination	
			Tariff Line	Trade Value
Japan	Japan–Singapore (before amendment)	Japan	76.2%	94.0%
		<i>Singapore</i>	<i>N/A</i>	<i>100.0%</i>
	Japan–Mexico	Japan	87.0%	87.0%
		<i>Mexico</i>	<i>N/A</i>	<i>98.0%</i>
	Japan–Malaysia	Japan	88.8%	94.0%
		<i>Malaysia</i>	<i>N/A</i>	<i>99.0%</i>
	Japan–Philippines	Japan	N/A	92.0%
		<i>Philippines</i>	<i>N/A</i>	<i>97.0%</i>
	Japan–Indonesia	Japan	N/A	93.0%
		<i>Indonesia</i>	<i>N/A</i>	<i>90.0%</i>
	Japan–Thailand	Japan	N/A	92.0%
		<i>Thailand</i>	<i>N/A</i>	<i>97.0%</i>
	Japan–Brunei	Japan	N/A	99.9%
	<i>Brunei</i>	<i>N/A</i>	<i>99.9%</i>	
Japan–Chile	Japan	N/A	90.1%	
	<i>Chile</i>	<i>N/A</i>	<i>99.8%</i>	
	(MFN Applied Tariff, Jan. 2007)	Japan	40.9%	N/A
ROK	ROK–Chile	ROK	96.3%	99.9%
		<i>Chile</i>	<i>98.8%</i>	<i>96.2%</i>
	ROK–Singapore	ROK	91.6%	N/A
		<i>Singapore</i>	<i>100.0%</i>	<i>100.0%</i>
	ROK–ASEAN	ROK	No less than 90%	No less than 90%
		<i>ASEAN6</i>	No less than 90%	No less than 90%
ROK–US	ROK	99.7%	N/A	
	<i>US</i>	<i>100.0%</i>	<i>N/A</i>	
China	China–ASEAN	China	95.0%	N/A
Australia	Australia–US	Australia	100.0%	100.0%
		<i>US</i>	<i>98.1%</i>	<i>99.2%</i>
	Australia–Thailand	Australia	100.0%	100.0%
		<i>Thailand</i>	<i>100.0%</i>	<i>100.0%</i>
	Australia–New Zealand	Australia	100.0%	100.0%
		<i>New Zealand</i>	<i>100.0%</i>	<i>100.0%</i>
	Australia–Singapore	Australia	100.0%	100.0%
	<i>Singapore</i>	<i>100.0%</i>	<i>100.0%</i>	
ASEAN	AFTA	ASEAN6	98.0%	N/A
		<i>CLMV</i>	<i>50.0%</i>	<i>N/A</i>

Source: Kuno and Kimura (2008)

#### 4) FTAAP

At the fourteenth APEC summit held in Hanoi, Vietnam, in November 2006 the concept was raised of an FTAAP (Free Trade Area of the Asia-Pacific)—an FTA covering APEC in its entirety—and the undertaking of examination thereof as a “long-term prospect” was incorporated in the declaration adopted. According to Sugawara (2006), in

the case of the FTAAP concept itself, at that time it wasn't first raised in an APEC arena. In the first place, ABAC (the APEC Business Advisory Council), an organization making proposals from the business world's standpoint to APEC, proposed it at the twelfth APEC summit held in Santiago, Chile, in 2004. At that forum, however, many objections were voiced, and it wasn't taken as a subject for active discussion. Furthermore, at the thirteenth APEC summit in Busan, ROK, as well, it got similar treatment.

Such a passive response, and to this concept, is thought to be because there are two big problems: the construction itself of an FTA covering all the territory of APEC, which constitutes approximately 60% of global GDP, is difficult; and an FTA which has discriminatory workings toward those outside the region will be fundamentally in contradiction with the APEC stance which has until now espoused "open regionalism."

The reason for the FTAAP concept being raised abruptly in 2006 as a subject of discussion is because the United States shifted its policy in the direction of promoting this concept.<sup>7</sup> I will below analyze the background behind why such a policy shift was undertaken.

C. Fred Bergstein of the Peterson Institute for International Economics, a Washington DC think tank, is known as a proponent of the FTAAP concept. The points expected as the aims of FTAAP, indicated in Bergsten (2007), are given below. In regard to these items, although not necessarily ones which represent the opinions of the Bush administration, the adding of their examination is considered useful as they summarize the benefits that FTAAP brings the United States, and further deciphers the reasons for the policy shift of the Bush administration.

- i) A catalyst for the success of the Doha Round<sup>8</sup>
- ii) A contingency plan (Plan B) for trade liberalization in the event of the failure of the Doha Round or its becoming stymied
- iii) Prevents the occurrence of discrimination or disharmony in new trade in the Asia-Pacific region, via the further proliferation of bilateral and regional FTAs
- iv) Avoids the risk of East Asia (or the Western Hemisphere) "drawing a line down the middle of the Pacific", splitting the Asia-Pacific region
- v) Improvement of US-China economic friction
- vi) The revitalizing of APEC itself
- vii) Forces a continuation in engagement in the US's trade problems in Asia and

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<sup>7</sup> President Bush, in a speech at a university he visited in Singapore prior to the Hanoi summit, called FTAAP a concept worthy of serious consideration.

<sup>8</sup> Formally, the Doha Development Agenda (DDA).

globally

Amongst these, what is strongly connected to the awareness of the issues in this paper is needless to say aim *iv*: “drawing a line down the middle of the Pacific.” If we were to consider the points that have been hammered out amid the heightening support for FTAAP from the Bush administration and the discussion of East Asian economic integration, considering such ideas to be behind policy formation would be impossible.

Concerning *i*, on the other hand, it could be called a way of thinking aimed at reenacting the case where APEC’s one-time moves toward the Bogor Goals<sup>9</sup> stimulated the then EC, and pushed forward the Uruguay Round which had been making little headway. As for the practical problems, however, regarding the realization of FTAAP, the difficulty overtaking consensus building at the Doha Round is something to be anticipated. In addition, only creating a concept like at the time of the Uruguay Round, that that would function as a draw for countries outside the region, such as Europe, is doubtful. It is thought that the current situation of APEC, with the virtual collapse of the Bogor Goals, will further reduce such an effect. Consequently, that the Bush administration attempted a policy shift with this as a major aim is something hard to contemplate.

Moreover *ii* may be called a way of thinking that complements *i*. Among the others, *iii*, *v*, *vi* and *vii* are respectively not so much the principal objectives of the formation of an FTAAP, but rather it may be said that thinking of them as effects that are to be hoped for secondarily is apt.

Consequently, considering these matters overall, behind the shift in policy of the Bush administration, it can be seen, as shown by *iv*, that there was an intention of curbing East Asian economic integration, the discussion of which has been promoted in the shape of ASEAN Plus Three and ASEAN Plus Six.

On the other hand, regarding the future of an FTAAP, the circumstances are not such that a clear vision cannot necessarily be made. In the declaration also at the Hanoi summit, they stopped at a designation as a “long-term prospect,” and at the summits from the following year on particular developments in the discussion have not been seen. For the consensus of APEC as a whole, in order for concrete initiatives to be begun, it could be said that the building of consensus entered into in the future is indispensable.

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<sup>9</sup> The matter of the liberalization of trade and investment among the member nations and economies of APEC, to 2010 for the developed nations and economies, and to 2020 for the developing nations and economies. This was put together at the second APEC summit held in Bogor in Indonesia in 1994.

### 3. The Future of US East Asia Trade Policy

Concerning the United States' response to East Asian economic integration to date, while it has been organized around trade policy, in the future then what sort of options are there likely to be in the United States? Below we would like to introduce the four scenarios Barfield (2007) presented, and make examination with reference thereto.

- i) Promote bilateral FTAs with the countries of East Asia in the future as well
- ii) Aim for voluntary FTAs among the member states and territories of APEC
- iii) Aim for the realization of FTAAP
- iv) Observe the situation for the foreseeable future, and in cooperation with allies such as Japan, the ROK and Singapore, respond in the event of some kind of move occurring.

Among the above, *i* has progressed among the countries of ASEAN, and the ROK, etc., and being matters which have continued the course of bilateral FTAs to date, as options they can be called conservative.

Next *iii*, as introduced earlier, while rated the most proactive option for the United States, at the same time it will probably be a long-term strategy with a presumed time span of ten years or more.

Further, *ii* is a compromise proposal between *i* and *iii*, and offers benefits combining the two strong points of a presentation of a global vision, and a stepwise approach. On this point, it is also considered that the possibility is high of its being chosen as a policy option.<sup>10</sup>

Bringing up the rear, *iv* appears passive on first glance, but if the institutional economic integration of East Asia were based upon the current situation which is proceeding at a snail's pace, thanks to the friction among the three Northeast Asian countries of Japan, China and the ROK, it might be said to be a realistic option.

### 4. The Potential Japan–US FTA

As one option examined in the preceding section, in the event of US East Asia trade policy in the future continuing to be promoted centered around bilateral FTAs, the

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<sup>10</sup> In September 2008 the United States declared its participation in the Trans-Pacific Strategic Economic Partnership Agreement (P4), an FTA by the four countries of Singapore, New Zealand, Chile, and Brunei. Australia and Peru have subsequently also declared their participation in this agreement, and it could be called something which has the potential to develop into what here is termed “an FTA of the willing.”

Japan–US FTA may be rated as one of the things having the greatest impact therein. If an FTA were realized between the two countries, which constitute approximately 40% of global GDP, the fact that it would probably have a major impact not just on East Asian economic integration, but on the global economy as a whole, is not difficult to imagine.

Between Japan and the United States in the past, deliberations relating to an official FTA have never been held. On the other hand, however, the concept to date has been discussed with a focus on the economic spheres of both countries. In recent years, Nippon Keidanren [the Japan Business Federation] issued a statement in November 2006 calling for the commencement of collaborative research on a Japan–US Economic Partnership Agreement. Furthermore, Nippon Keidanren made a joint declaration in January 2007 relating to the promotion of the Business Roundtable, which is a US business body, and a Japan–US Economic Partnership Agreement.

In response to such developments in the economic sphere, discussion concerning a Japan–US FTA has begun within the Japanese government too. At the 9 May 2007 Council on Economic and Fiscal Policy, the First Report was produced of the Expert Committee on Reforms Addressing Globalization established therein, and within the report was the necessity of making a start on collaborative research, raising as an item the Japan–US EPA which was ranked alongside the EPAs currently under negotiation. In addition, in the 2007 Trade White Paper it was specified for the first time that there will be ongoing examination of the future challenges of FTA negotiations with large-scale economies, such as the United States and the EU.<sup>11</sup>

In this manner, regarding the current status of a Japan–US FTA, while it may be said that the commencement of intergovernmental negotiations is still quite some way off, it can also be said that it is gradually becoming more likely as an option in trade policy. Below, in order to make reference to future developments, we would like to make a summary, with an analysis regarding the Japan–US FTA to date and offering some proposals.

Within the discussion on a Japan–US FTA leading up to the present, what is worthy of note has been raised by Stokes (2000). That paper is the result of the research of a study group<sup>12</sup> formed by legislative members, academics, business community members and former bureaucrats established at the Washington DC think tank, the Council on Foreign Relations, and was a proposal to the new administration<sup>13</sup> on

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<sup>11</sup> The signing of the US–ROK FTA in June 2007 has had a great influence on such positivity in the stance toward a Japan–US FTA within Japan.

<sup>12</sup> C. Fred Bergsten and Edward J. Lincoln, whose study we quoted in this paper, are both members of this study group.

<sup>13</sup> The year 2000 was a presidential election year

economic diplomacy toward Japan. Reflecting on the conditions of the Japanese economy, at a then economic nadir following the collapse of the Bubble, and of the US economy, in the middle of the IT boom, it advocated the revitalization of the Japanese economy via the creation of a Japan–US “open marketplace.” In concrete content, it became a call to Japan for trade liberalization, the enlargement of direct investment, the furthering of the relaxation of regulations, and the strengthening of competition policy, etc. These were undertaken from the end of the 1980s into the 1990s and the points targeted in the Japan–US Structural Impediments Initiative (SII) are basically identical to these, but regarding those proposals, the SII as a result, reflecting upon those matters which were unfinished, made it a necessity to systematize policy dialogue between the two countries as something permanent, with the outcome that they insisted on the creation of an open marketplace.

Fauver and Stewart (2003),<sup>14</sup> with a backdrop of the geopolitical necessity of Japan–US cooperation in East Asia, aimed at the revitalization of the Japanese economy in the same way as Stokes (2000), and proposed the conclusion of a Comprehensive Economic Partnership Agreement (CEPA) between Japan and the United States. They gave as matters that should be raised in an agreement: 1) the harmonization of areas including policy, regulations, corporate structure, and corporate governance; 2) Japan’s competition policy (antitrust policy); 3) the creation of systems for trade-conflict resolution; and 4) the creation of common standards in the IT sector, etc. In addition, touching on SII case examples, in order to continue institutionally promoting Japan’s structural reforms, they argued for the necessity of a framework with a legal backing like a CEPA.<sup>15</sup>

A common point in the content of the above two proposals is the logic of removing the economic barrier between Japan and the United States, via introducing structural reform policies, including regulatory reform and competition policy, and aiming for economic growth. This reflects a situation in which many economic effects cannot be expected via the traditional FTA elimination of tariffs, with the tariff rates between Japan and the United States, with the exception of agricultural products on the Japanese side, already being at quite a low level. Then again such content can also be said to have subsumed the form of a more advanced economic integration. In East Asian economic integration, which includes developing countries, after first realizing it

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<sup>14</sup> Robert Fauver, one of the authors, worked as the co-chair of SII in the Bush (Senior) administration. Subsequently in the Clinton administration, he worked as “Sherpa” [personal representative] to President Clinton at the Tokyo summit in 1993.

<sup>15</sup> In the same way Nippon Keidanren (2006) also advocated the necessity of concluding an EPA, with a framework for consultation between Japan and the United States that had a certain degree of legal force.

bilaterally between Japan and the United States for areas which are difficult to break into, it may also be possible to expect an effect that produces a new standard for economic integration in East Asia.

On the other hand, Armitage and Nye (2007), commonly known as the “Second Armitage Report”, and as is to be expected from the Center for Strategic and International Studies (CSIS), a Washington DC think tank, comprises policy proposals from the bipartisan standpoint<sup>16</sup> involved in the security issues between Japan and the United States. The policy proposals, with a target of 2020, deal with the reconstruction of the Japan–US alliance. Among them is proposed the conclusion of a Japan–US FTA in order to complement for the fall in Japan’s capacity for economic growth via the aging of the population and the reduction in the labor force.

Meanwhile, as a case study that qualitatively analyzed the economic effects of a Japan–US FTA, there is Urata et al. (2008). In the paper they estimated the economic effects of an FTA, employing the Global Trade Analysis Project (GTAP) model—a computable general equilibrium (CGE) model. Among the simulations with several differing suppositions, for the effect of the removal of the tariff barriers, etc., relating to trade in goods, Japan’s GDP increased 0.43%, and US GDP decreased 0.02%. In response, via the regulatory reform, etc., from an FTA, the total factor productivity of the industries of both countries rose, including the service sector, and in the case where a supposition of a 10% convergence with the levels of nations with a high level of productivity for the respective industries a greater effect was obtained, where Japan’s GDP increased 1.60%, and US GDP increased 0.28%. With respect to these results, it may be said that the direction of the proposals mentioned earlier, which pointed out the necessity of structural reform via FTAs, has been shown to have weight as a policy doctrine.

In this manner in the think tanks, etc., close to the formation of US policy, the advocacy for furthering a Japan–US FTA from both the economic and security aspects is developing in concrete form. Within the circumstances for the development of East Asian economic integration, it is thought that a Japan–US FTA will continue escaping its bounds as an idea in the area of policy alone.<sup>17</sup>

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<sup>16</sup> The author Richard L. Armitage worked as deputy secretary of state in the first term of the Bush (Junior) administration. In addition, Joseph S. Nye worked as assistant secretary of defense in the Clinton administration.

<sup>17</sup> On the Japanese side on the other hand, as in Tanaka (2007), negative attitudes can also be seen toward the carrying out of a Japan–US FTA ahead of the institutional economic integration of East Asia in an East Asian FTA, etc.

## 5. Conclusion

Barack Obama of the Democratic Party was elected in the US presidential election which took place in November 2008. The new administration, launched in the middle of the financial crisis originating in the United States, is confronted with many challenges in economic policy, and for its trade policy to appear in full view will probably take some time. Naturally outside parameters, such as progress on East Asian economic integration and developments in the Doha Round, will probably also have a major influence on the selection of US policy. Here, however, it is thought that the reviewing of the objective conditions which are placed by the coming administration in the selection of policy will be beneficial in the consideration of future US policy. Below I will attempt to summarize matters to some degree from this perspective.

Regarding the trade policy of the United States' two main political parties, it is generally held that the Republican Party, which receives the support of industry, is for free trade, and the Democratic Party, which receives the support of labor, is protectionist. In actuality, in this latest presidential election also, Mr. Obama adopted a protectionist stance, reconsidering the US–ROK FTA,<sup>18</sup> etc. The author, however, considers that in the Democrat administration too, there is the factor that an active East Asia trade policy will be continued as with the Republican Party.

First of all, today, where trade liberalization via FTAs has become something normal, it is easy for the so-called “FTA domino effect” to operate, and consequently the effects of protectionist policies are also limited. If one takes the US–ROK FTA as an example, even though there is the possibility that US jobs would be lost through its conclusion, in the event that it were not concluded also, an FTA<sup>19</sup> between the ROK and a third country would have the effect of changing trade vis-à-vis the United States, and the possibility would exist that employment in the US would be reduced. In the case where there was an FTA policy option for every nation, it can generally be considered that just passively enclosing one's own country would have as a consequence a situation where the safeguarding of jobs in one's own country cannot be achieved. If one took such a viewpoint, even with a Democrat administration which places emphasis on employment, there may be the possibility of choosing a proactive East Asia trade policy.

Secondly, the United States, regarding trade policy, has a peculiar system, based on the constitution, where Congress (the legislative branch of government) possesses a superior power over the President (the executive branch of government). The President,

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<sup>18</sup> Regarding this, in the United States there are many opinions which foresee a similar change of policy to the example of former president Clinton, who after his inauguration actively promoted a change of policy on NAFTA, which he had opposed during the election.

<sup>19</sup> Including both existing FTAs and ones to be concluded in the future.

through being granted Trade Promotion Authority (TPA) by Congress, is able to handle WTO and FTA negotiations with foreign nations with a virtually equal authority. At present, with a situation of the Democratic Party holding a majority in both the upper and lower houses, TPA has been invalid from July 2007, and this has been a great restraint on US trade policy. In the case of the debut of the Democrat administration, the possibility that TPA will be restored is high, and in that case will be a factor that gives a boost to an active East Asia trade policy.

If it were to consider such conditions, the possibility would be undeniable of the East Asia trade policy of the new Obama administration becoming active, in continuity with that to date.

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