

東アジア経済連携構想と日本・沖縄の経済戦略

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Economic Strategies of Japan and Okinawa in the Emerging East Asian Economic Partnership

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要 旨

David Ricardo の比較優位理論 (1817) 以来、自由で公正な国際貿易は「成長のエンジン」として理論的にも実証的にも確認されてきた。事実、ルールに沿った国際貿易は、それぞれの国・地域が比較優位性のある貿易商品に特化し、輸出することによって、先進工業国、発展途上国を問わず所得水準の向上と雇用の拡大に貢献してきた。自由で公正な貿易を促進する機関として世界貿易機構 (WTO) があるが、その加盟国の大半は発展途上国である。国際貿易の主役は、大西洋から太平洋に移り、今や中国を中心とするアジアに移っている。貿易で躍進するアジアの成長エネルギーを日本、特にアジアに近接する沖縄がいかに取り込んでいくかが今後の大きな課題となる。

本論は、国際貿易を促進する新たな動きとして活発に議論されている 2 国間 (EPA)、或いは多国間 (TPP) の経済連携協力の現状を活写し、日本及び沖縄の進路を示す。沖縄の場合は、TPP アプローチより、成長の三角地帯 (GT) アプローチの方がより明るい展望につながることを示す。

キーワード : WTO, 経済連携協定, TPP, アジア, 日本, 沖縄, GT

Abstract

Nobel laureate, Paul A. Samuelson took several years to find an answer to mathematical genius Stanislaw Ulam's challenging question, "Name me one proposition in all of the social sciences which is both true and non-trivial." Samuelson's answer was "comparative advantage." Since the doctrine was first expounded by David Ricardo in 1817, it became a gospel of both theoretical economists and practitioners. An open and trading system based upon multilaterally agreed rules is simple enough and rests largely on commercial common sense. According to the World Trade Organization (WTO), the system is also supported by the experience of world trade and economic growth since the Second World War. The weight of international trade, which has been an engine of growth, has shifted from the Atlantic to the Pacific where East Asia has become its main engine. Okinawa needs to capture trade-induced prosperity for its future development.

This paper discusses the latest developments of international trade focusing on economic partnership agreement (EPA) and trans-pacific partnership agreement (TPP) which have been hotly debated in Japan and Okinawa since mid-2011. For Okinawa, the growth triangle approach (GT) has more merits than the TPP approach.

Key words: WTO, EPA, TPP, Asia, Japan, Okinawa, GT

Introduction

International trade has been the engine of growth for Japan's post-war economic development. Therefore, open and multilateral trade policies have been a vital ingredient for Japan's domestic as well as foreign policies. Since Okinawa, as a prefecture of Japan, is subject to Japan's overall economic and trade policies, we need to examine the evolving environments of international trade, focusing on East Asia including Japan, in order to envisage Okinawa's future development.

The World Trade Organization (WTO) succeeded the General Agreement on Tariffs and Trade (GATT) in January 1995. The GATT was created in 1944 as one of the "Bretton Woods" institutions, together with the World Bank and the International Monetary Fund (IMF). The GATT was an ad hoc and provisional institution without ratification by its member countries, while the WTO is a solid international organization established on a sound legal basis ratified by its member countries. Although the WTO succeeded GATT and its principles and multilateral trading rules, the new organization has been given wider powers including not only trade in goods but also trade in services, intellectual property rights and dispute settlements.

The WTO is the only global organization dealing with the rules of trade between nations based on the multilateral trading system. WTO's founding principles are stipulated in its first article, namely "freer, orderly and nondiscriminatory" international trade on a multilateral basis. "Freer" trade means more competitive trade with fewer trade and non-trade barriers. "Orderly" trade means "fair" trade which discourages practices such as export subsidies and dumping products at below cost to gain market share. "Nondiscriminatory" trade means that a member country should not discriminate between its trading partners. This principle is best known as "most-favored nation (MFN)" treatment. The MFN status implies that a country should not discriminate between its own and foreign products, service trade or nationals all of which are to be given "national treatment." Under the MFN status, each member country has to give the same most beneficial or favored treatment to all the other WTO members so that they all remain "most-favored." Nevertheless,

the WTO also allows more beneficial or "preferential" treatments to less developed countries (LDCs) so that they can catch up with developed countries (see Kakazu, 2004).

In any workable international agreement, there are always exceptions or waivers. Thus, although freer trade is an important principle of the WTO, a WTO member country may restrict its imports of a particular product if its domestic industry is injured or threatened with a flood of imports; such a trade restrictive measure is granted under the name of "safeguard" in accordance with GATT Article 19. A recent safeguard action was taken by the Japanese government with regard to a surge in beef imports. Safeguard measures, however, have been used infrequently because most trade disputes have so far been resolved through bilateral negotiations outside the GATT/WTO framework.

The most frequently used exception arrangement is related to WTO's MFN principle and is called "preferential trade agreements (PTAs)." PTAs, narrowly defined, are agreements between two or more countries in which tariffs imposed goods produced in the member countries are lower than on goods produced outside (ADB, 2002). Article 24 of GATT allows PTAs as a special exception to the MFN principle, provided that the arrangements should help international trade flow more freely among the countries in the PTA group without trade barriers being raised on all trade with the non-PTA members. The scheme is also called "open regionalism" which is supposed to be compatible or complement with the WTO's multilateral trading system. Article 24 of GATT also stipulates that a PTA must be completed within 10 years.

PTAs include regional arrangements (RTAs) such as the ASEAN Free Trade Agreement (AFTA), the North American Free Trade Agreement (NAFTA), the Common Market of the Southern Cone (MERCOSUR), the European Union (EU), the Asia Pacific Economic Cooperation (APEC), and various other bilateral and multilateral free trade agreements (FTAs) under names such as free trade agreement (FTA), economic partnership agreement (EPA) and trans-pacific partnership agreement (TPP).

EPAs have been quite popular around the world in recent years. An EPA provides a framework for

cooperation between trading partners that is beyond FTA scope. In addition to free trade, an EPA intends to provide the free movement of people and includes provisions for government procurement, international competition and cooperation, customs procedures and international dispute resolution. EPAs can strengthen political ties in addition to economic connections, providing solid allies in times of political upheaval or military action. According to the WTO, EPA must provide reciprocity in order to qualify, which means that each EPA-based action taken to benefit a particular economy must be reciprocated by that economy.

There has been a hot debate about the Trans-Pacific Partnership (TPP) in Japan and Okinawa in recent months since mid-2011. The TPP is an advanced form of economic integration among a group of countries under the PTA scheme. The TPP began as a four-nation agreement between Brunei, Chile, New Zealand and Singapore, which are now negotiating an expanded TPP with Australia, Malaysia, Peru, the United States and Vietnam (see Appendix 1). The basic difference between TPP and FTA and EPA is that TPP can be concluded multilaterally, while the latter two require bilateral negotiations. Furthermore, the TPP is intended to require all member countries in principle to reduce all tariffs to zero within 10 years, while FTA can be concluded with exclusions of sensitive goods such as agricultural goods and some national security-related items. Amid a surge of PTAs in the Asia-Pacific, this paper intends to focus on Japanese as well as Okinawan perspectives and strategies for regional economic integration.

Recent Proliferation of PTAs

There are various types of PTAs and their developments as classified based on Balassa (1961, see Appendix 2.) FTAs such as AFTA and European Free Trade Association (EFTA) are a trading arrangement to eventually eliminate all tariffs among member countries but maintain different tariff rates against non-member countries. NAFTA is more advanced stage of FTA than AFTA because it includes not only trade flow of goods, but also liberalization of investment (capital flow) and service trade. Customs Union (CU) is a higher form of

regional economic integration than FTA adopting “common tariffs” against the outside trading partners. MERCOSUR, the Central African Common Market (CACM) and the Caribbean Common Market (CARICOM) are good examples of CU.

The most advanced form of PTA is EU which passed through the stages of CU and Common Market. The EU-12 had already achieved a common currency, called the Euro. EU aims at economic as well as political integration in the future, although various obstacles stand in the way.

FTAs have been proliferating among WTO members in recent years, particularly after the WTO Seattle meeting in 1999 when the meeting, being disrupted by anti-globalism activists, achieved nothing. According to WTO, about 300 FTAs had been “reported” to WTO, but not necessarily “implemented” by the end of 2008 (Fig.1). Most FTAs are under GATT Article 24, but there are also FTAs under the GATT provisions of “non-reciprocity” which allow developing countries “special and differential treatment.”

EU has been the most active initiator in forming FTAs, accounting for 37% of the total FTAs, followed by Middle East and CIS (33%), American states (12%), Asia (9%) and Africa (3%). PTAs have accelerated in recent years along with expansion of world trade which grew much faster than GDP, and for politico-economic reasons discussed below.

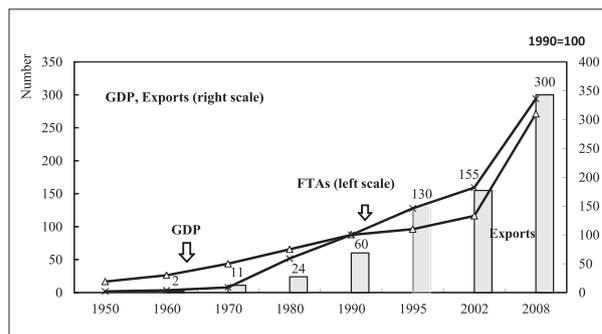


Fig.1 : World GDP, Merchandise Exports and Number of FTAs 1950-2008

Sources: IMF, International Trade Statistics and WTO Website

Although Asia is a late starter in FTAs, there are 28 agreements in force as of mid-2011 according to *WTO RTA Data Base* (Table 1). FTA between Singapore and Japan under the name of New Age Economic Partnership was the starter for Japan’s

Table 1: Regional Trade Agreements (RTAs) in Asia

RTA Name	Coverage	Type	Date of Notification	Notification	Date of entry into force	Status
<u>ASEAN - Australia - New Zealand</u>	Goods & Services	FTA & EIA	2010/4/8	GATT Art. XXIV & GATS V	2010/1/1	In Force
<u>ASEAN - China</u>	Goods & Services	PSA & EIA	21-Sep-2005(G) 26-Jun-2008(S)	Enabling Clause & GATS Art. V	01-Jan-2005(G) 01-Jul-2007(S)	In Force
<u>ASEAN - India</u>	Goods	FTA	2010/8/19	Enabling Clause	2010/1/1	In Force
<u>ASEAN - Japan</u>	Goods	FTA	2009/11/23	GATT Art. XXIV	2008/12/1	In Force
<u>ASEAN - Korea, Republic of</u>	Goods & Services	FTA & EIA			01-Jan-2010(G) 01-May-2009(S)	In Force
<u>ASEAN Free Trade Area (AFTA)</u>	Goods	FTA	1992/10/30	Enabling Clause	1992/1/28	In Force
<u>Asia Pacific Trade Agreement (APTA)</u>	Goods	PSA	1976/11/2	Enabling Clause	1976/6/17	In Force
<u>Chile - India</u>	Goods	PSA	2009/1/13	Enabling Clause	2007/8/17	In Force
<u>Chile - Japan</u>	Goods & Services	FTA & EIA	2007/8/24	GATT Art. XXIV & GATS V	2007/9/3	In Force
<u>Chile - Mexico</u>	Goods & Services	FTA & EIA	2001/2/27	GATT Art. XXIV & GATS V	1999/8/1	In Force
<u>China - Hong Kong, China</u>	Goods & Services	FTA & EIA	2003/12/27	GATT Art. XXIV & GATS V	2004/1/1	In Force
<u>China - Macao, China</u>	Goods & Services	FTA & EIA	2003/12/27	GATT Art. XXIV & GATS V	2004/1/1	In Force
<u>China - New Zealand</u>	Goods & Services	FTA & EIA	2009/4/21	GATT Art. XXIV & GATS V	2008/10/1	In Force
<u>China - Singapore</u>	Goods & Services	FTA & EIA	2009/3/2	GATT Art. XXIV & GATS V	2009/1/1	In Force
<u>EU - Korea, Republic of</u>	Goods & Services	FTA & EIA	2011/7/7	GATT Art. XXIV & GATS V	2011/7/1	In Force
<u>Hong Kong, China - New Zealand</u>	Goods & Services	FTA & EIA	2011/1/3	GATT Art. XXIV & GATS V	2011/1/1	In Force
<u>India - Singapore</u>	Goods & Services	FTA & EIA	2007/5/3	GATT Art. XXIV & GATS V	2005/8/1	In Force
<u>Japan - Indonesia</u>	Goods & Services	FTA & EIA	2008/6/27	GATT Art. XXIV & GATS V	2008/7/1	In Force
<u>Japan - Malaysia</u>	Goods & Services	FTA & EIA	2006/7/12	GATT Art. XXIV & GATS V	2006/7/13	In Force
<u>Japan - Mexico</u>	Goods & Services	FTA & EIA	2005/3/31	GATT Art. XXIV & GATS V	2005/4/1	In Force
<u>Japan - Philippines</u>	Goods & Services	FTA & EIA	2008/12/11	GATT Art. XXIV & GATS V	2008/12/11	In Force
<u>Japan - Singapore</u>	Goods & Services	FTA & EIA	2002/11/8	GATT Art. XXIV & GATS V	2002/11/30	In Force
<u>Japan - Switzerland</u>	Goods & Services	FTA & EIA	2009/9/1	GATT Art. XXIV & GATS V	2009/9/1	In Force
<u>Japan - Thailand</u>	Goods & Services	FTA & EIA	2007/10/25	GATT Art. XXIV & GATS V	2007/11/1	In Force
<u>Japan - Viet Nam</u>	Goods & Services	FTA & EIA	2009/10/1	GATT Art. XXIV & GATS V	2009/10/1	In Force
<u>Jordan - Singapore</u>	Goods & Services	FTA & EIA	2006/7/7	GATT Art. XXIV & GATS V	2005/8/22	In Force
<u>Korea, Republic of - Chile</u>	Goods & Services	FTA & EIA	2004/4/8	GATT Art. XXIV & GATS V	2004/4/1	In Force
<u>Korea, Republic of - India</u>	Goods & Services	FTA & EIA			2010/1/1	In Force
<u>Korea, Republic of - Singapore</u>	Goods & Services	FTA & EIA	2006/2/21	GATT Art. XXIV & GATS V	2006/3/2	In Force
<u>Pakistan - China</u>	Goods & Services	FTA & EIA	18-Jan-2008(G) 20-May-2010(S)	GATT Art. XXIV & GATS V	01-Jul-2007(G) 10-Oct-2009(S)	In Force
<u>Pakistan - Malaysia</u>	Goods & Services	FTA & EIA	2008/2/19	Enabling Clause & GATS Art. V	2008/1/1	In Force

Source: Compiled from WTO TRA Data Base

<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

FTAs in 2002. The most enthusiastic advocates of Asian FTAs are the ASEAN countries. China has also keen interest in the scheme.

Why are FTAs proliferating despite the fact

that they represent a second-best means of promoting trade liberalization against the WTO multilateral trading arrangement? One important reason is the style of GATT/WTO trade negotiations, which

involve long, tortuous, uncertain, and costly processes. “Since the Kennedy Round concluded in 1967, only two other comprehensive multilateral agreements have been reached—the Tokyo Round Agreement in 1979 and the Uruguay Round Agreement in 1994. And because of the need for consensus, it takes only one of the 146 nations in the WTO to scuttle a new agreement” (Griswold, 2003). The current Doha Round of trade negotiations, which started in 2001, has been facing a formidable task beyond its self-imposed deadline on achieving consensus on agricultural trade, investment and government procurement as seen in another Seattle-style debacle at the latest WTO Ministerial trade negotiations in Cancun, Mexico. The Cancun meeting was expected to be an important milestone on the way to reaching a new agreement which would generate, according to the World Bank, as much as \$520 billion in income by 2015 and 144 million people would be lifted out of poverty (*The New York Times*, 2003/09/15). The debacle of the Cancun meeting no doubt accelerated negotiations of bilateral and regional FTAs.

FTAs, on the other hand, can be easily concluded among partners who are willing to pursue trade liberalization on a mutually beneficial basis. FTAs are also useful schemes, particularly for small economies, to pursue regional economic integration through consolidation of production within the FTA and through increased economies of scale.

It is interesting to note that the United States has been negotiating FTAs and TTPs not only with the Western Hemisphere nations, but also with Middle East countries such as Egypt, Morocco, Bahrain and African countries such as South Africa, Botswana, Namibia, Lesotho and Swaziland. The U.S. intentions clearly demonstrate that it considers East Asia in the World Trading System FTAs to be an important strategic tool to achieve its economic as well as geo-political objectives. The main motives for negotiating FTAs are often based on non-economic considerations such as regional security and stability. Therefore measurement of gains from trade creation and losses from trade diversion, as Viner (1950) pioneered, is not as overwhelmingly important as many economists believed.

East Asia in the World Trading System

The East Asian Economic Caucus (EAEC), whose assumed members comprising “ASEAN+3 (Japan, Korea and China)” was initially proposed by Malaysian Prime Minister Dr. Mahathir Mohammad in 1990. However, the concept was totally forgotten in the early 1990 due largely to a rapid progress of globalization under the GATT/WTO regime. The concept of EAEC, has been revived recently stimulated by a surge of “open regionalism” represented by FTAs. The ASEAN Foreign Ministers meeting, held in Brunei in 1995, endorsed the concept as a framework to pursue economic cooperation in the East Asian region (see map below). It is interesting to note that the World Bank’s Development Indicators classify the world economy by regional blocs including EAEC, NAFTA, EU, etc. In this chapter I use EAFTA (East Asian Free Trade Area: Japan, ANICS and ASEAN-5) instead of EAEC to represent the East Asian region though EAFTA is still at a formative stage (Fig.2).

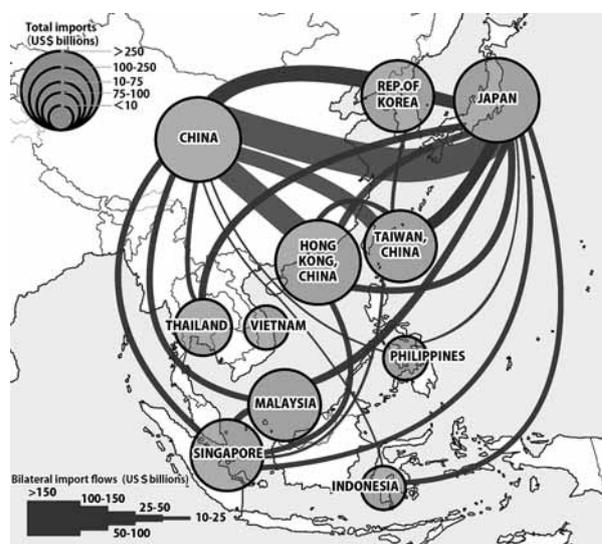


Fig.2: Bilateral Imports Flows among EAFTA, 2008

Source: World Bank, *World Development Report*, 2009, p196.

It will be useful to identify the changing status of EAFTA in comparison to NAFTA and EU (Fig.3). EAFTA accounts for more than 30% of world’s population compared with NAFTA (6.6%) and EU (4.9%) in 2008. If we think of the size of population as an important basis of economic

development in terms of market and production base, EAFTA has five times more economic potential than the two blocs.

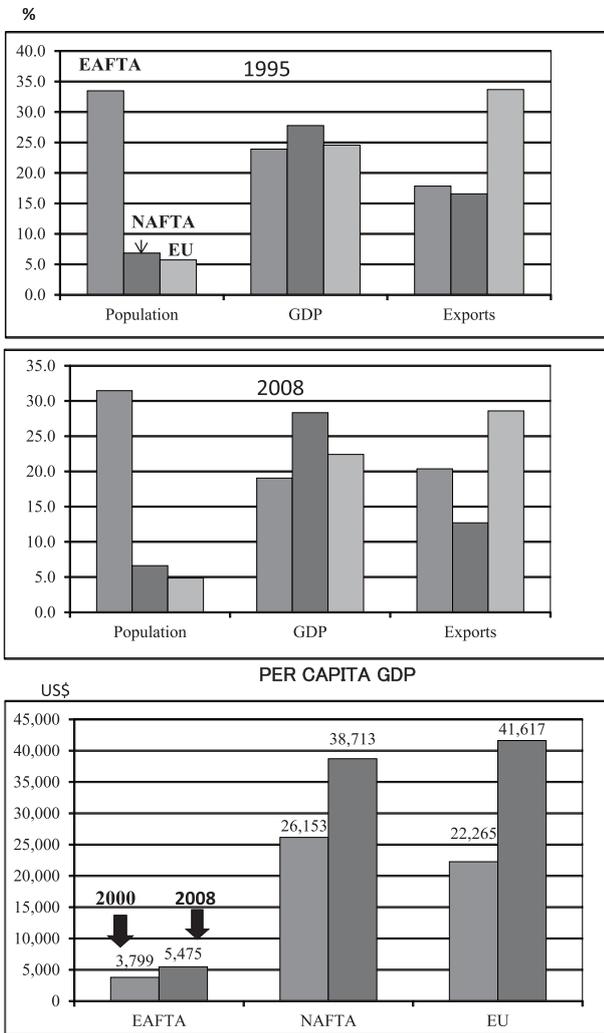


Fig.3: East Asia's Strengths in World Economy, 1995-2008

Note: Shares of world totals.

EAFTA=East Asian Free Trade Area includes Japan, ANIES and ASEAN5

NAFTA=North American Free Trade Area includes U.S., Canada and Mexico

EU=European Union 15 European nations

Sources: Compiled from World Bank, World Development Indicators

ADB, *Key Indicators*, various issues.

EAFTA's GDP declined relative to world GDP from 24% in 1995 to 19% in 2008 due to Japan's minus growth rate during the period. We should note, however, that EAFTA's GDP accounted for only 14% of the world total in 1980. It should also be noted that China's GDP surpassed that of Japan in 2010 to become the second largest economy in the world after the U.S. There is no doubt that EAFTA's GDP will soon catch up with EU and the U.S. if

the China-led growth continues in the future. If we measure world GDP in terms of purchasing power parity (PPP*), EAFTA's world share is the largest, accounting for 33% in 2008, followed by EU and NAFTA.

The economic dynamism of EAFTA can be more adequately represented in its export strengths, which increased from 17.8% of world total exports in 1995 to 20.4% in 2008, approaching to those of EU. These macro figures indicate that the economic power of EAFTA is now almost equivalent to those of NAFTA and EU. It will only be a matter of time before EAFTA will pull ahead of the other two most powerful blocs in the world.

Although current per capita GDP of EAFTA is about 14% of NAFTA and EU, due largely to China and Viet Nam whose populations account for more than 70% of the EAFTA total, EAFTA is rapidly catching up with the other two blocs (Fig.3). If we measure per capita income in terms of purchasing power parity (PPP), the gap will be substantially narrowed. Furthermore, if we include only China's coastal areas, whose population alone equals the population size of NAFTA, the per capita gap will be further substantially narrowed. There is no doubt that EAFTA is the most dynamic growth center in the world, and growth is the most important engine promoting regional cooperation.

Along with high performance of GDP and export growth, foreign direct investment (FDI) inflows to EAFTA have also steadily increased in the past decade. Although FDI inflows in EAFTA still lag behind EU and NAFTA due largely to investment risks arising from institutional factors such as governance, law and order, and uncertain foreign exchange policy, EAFTA's FDI environments are rapidly improving.

The shares of intra-bloc or intra-regional exports of NAFTA and EAFTA are almost the same level increasing by 16% and 13% respectively in the past three decades (Fig.4). However, the fact that EU is the most integrated economy in the world, its share of intra-regional trade remained almost unchanged during the last decade. This may demonstrate that EU's integration process is in line with the GATT/WTO principle of open regionalism. EAFTA's sharp increase of intra-regional trade indicates that ASEAN has a great deal of trade complementarities

with the region's non-ASEAN EAFTA countries because ASEAN's intra-regional trade has not significantly increased during the period reflecting its more or less similar trade structure.

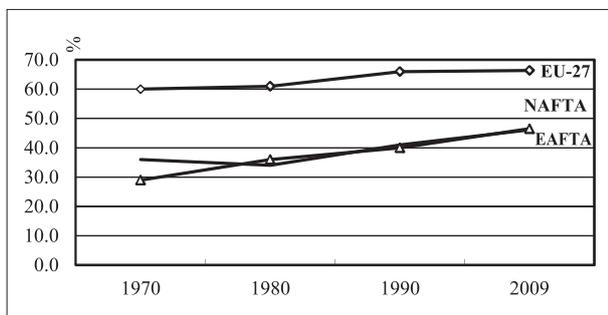


Fig.4 : Intra-Regional Exports Trade, 1970-2009 (% of total regional trade)

Notes: See the text for the members of NAFTA and EAFTA.
Source: Compiled from The World Bank, *World Development Indicators* and IMF, *Direction of Trade Statistics*, various issues.

EAFTA or East Asia has the ability to accept a greater role in helping correct global macroeconomic and structural imbalances which have been a focal issue in the region since the Asian financial crisis in the late 1990s. From the Asian perspective, rebalancing translates into two strategic goals: increasing intra-regional trade and stimulating domestic demand. With demand falling from the slow-growing industrial countries, particularly Japan, intra-regional trade in final goods is expected to increase. It is therefore important for the region to dismantle any barriers to intraregional trade. No less important is the stability of intra-regional exchange rates, with evidence pointing to its positive role in supporting intra-regional trade.

Evolution and Issues of Economic Integration within EAFTA

Economic integration is not a linear process. It took Western Europe nearly a half century of tedious negotiations and painstaking efforts to realize the European Union, the highest form of economic integration we can think of at the present time. If we think of the enormous diversity among the countries of East Asian region compared to Western Europe in terms of the stages of economic development, institution and capacity building, culture and geography, EAFTA has a formidable task ahead to

achieve an EU type of integration. Although the EU has been confronting a huge internal problem in recent years arising from un-integrated fiscal policies among its member countries, the integration process is expected to advance.

There are enormous gaps in the stages of economic development within the EAFTA region in terms of nominal as well as real (PPP) per capita income (Fig.5). Japan's per capita income is 88 times higher than Viet Nam's in nominal terms and 13 times higher in PPP terms. Diversity, however, can also mean complementarity, which is a positive factor for regional economic integration. Japan caught up with Western Europe in the 1980s, Asian NIES are almost at par with Japan, ASEAN is catching up with NIES, and big, dynamic China is rapidly overtaking ASEAN and advancing forward into world's most powerful economy. This dynamic catching-up process, or flying-geese pattern of development (Kojima, 2000) may still be a useful framework to portray the evolution of economic integration in East Asia; however, lower per capita income does not necessarily mean lower technological advancement in all products as is assumed by the conventional model.

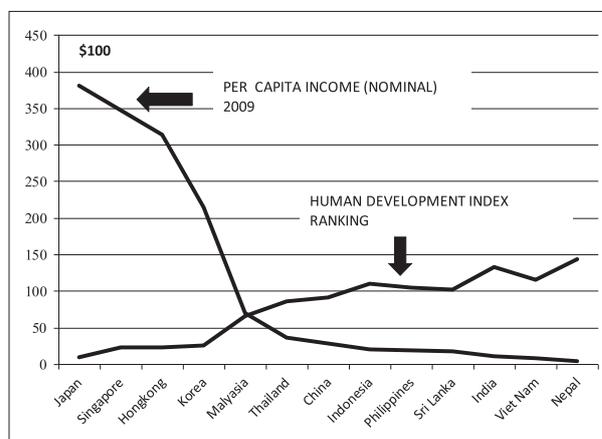


Fig.5 : East Asian Countries' Rankings in the Human Development Index and in Terms of Per Capita Income, 2009

Rank among the 182 countries classified in UNDP's *Human Development Report*, 2009.
Sources: UNDP, *Human Development Report*, 2009

As can be seen in Fig.4, the level of per capita income is positively related to overall "development" of a country, as indicated by the human development index (HDI) ranking, which includes income, life

expectancy, education and other socio-economic indicators. There are, however, huge gaps in both per capita income and HDI among the regional and within countries. Japan's per capita income, for example, is 88 times higher than Viet Nam's in nominal terms. Within China, the gap between per capita incomes in the richest and poorest provinces swelled to 13.1:1 (compared with 2.1:1 in the United States) in 2008 (World Bank, 2009). Although the income gaps among regional countries and within countries are major challenges in this region, the late comers are rapidly catching up with the front runners such as Japan, Singapore, Hong Kong and Korea.

As we have discussed intra-regional trade among EAFTA countries increased sharply in the last three decades. The increasing interdependence among the EAFTA countries can also be seen in their changing export markets. Although the U.S. is still the most important single market for all EAFTA countries, notably for China, regional shares have substantially increased for all countries in the past decade (Table 2). Although China exports 34% of its products to the EAFTA countries, it plays an almost dominant role in absorbing the region's exports. EAFTA now accounts for 52.8% of Japan's export market, a

jump from 29% a decade ago. EAFTA accounts for more than 60% of the export shares of the Asian NIES and the Philippines. Hong Kong and the Philippines import more than 90% from within the region. In view of anticipated dynamic economic growth, trade liberalization and complementarities in the EAFTA region, regional economic interdependence will accelerate in the future.

One important indicator of trade liberalization is the levels of tariff rates, which have been substantially reduced in the past decade. The average weighted mean tariff rates of the region are now as low as 6.1% compared to 16.3% two decades earlier (Fig.6). ASEAN's tariff rates, in particular, declined from 19.4% to 8.2% during the same period. The ASEAN-10 countries further agreed to reach zero tariffs by 2015 in order to complete its AFTA. Furthermore, at the Ninth ASEAN Summit in Bali (8 October 2003), ASEAN agreed to form a European-like economic community (AEC) by 2020.

Geographical proximity, deepening economic interdependence and economic dynamism are positive factors for forming EAFTA in this region. At the same time, however, institutional, cultural and political diversity, and differential economic dynamism in EAFTA may work against the

Table 2: Intra-trade among East Asian Countries, 2008

Export Shares within East Asia, 2008												
	China	Japan	South Korea	Hong Kong	Singapore	Taiwan	Malaysia	Thailand	Indonesia	Philippines	Viet Nam	Total
China		8.3	4.6	12.8	2.1	1.9	1.0	1.4	1.2	0.4	0.6	34.2
Japan	18.9		8.1	5.5	3.6	6.2	2.2	3.8	1.8	1.5	1.2	52.8
SouthKorea	23.1	5.8		3.5	3.7	5.3	1.6	1.6	2.3	0.8	1.8	49.5
HongKong	51.1	4.4	1.7		4.2	0.4	0.9	1.2	0.8	0.6	1.1	68.4
Singapore	9.7	4.5	4.6	11.5		1.8	11.4	3.7	9.6	2.0	4.9	63.9
Taiwan	26.6	7.1	3.6	14.5	4.2		2.0	1.4	2.4	2.2	2.9	66.9
Malaysia	10.2	9.1	3.8	4.7	14.9	2.8		4.9	4.3	1.3	1.3	57.3
Thailand	10.6	10.3	1.9	6.2	5.0	0.0	5.0		2.5	3.1	3.1	49.8
Indonesia	7.6	17.6	5.3	2.3	11.5	4.6	4.0	3.1		0.0	1.6	58.7
Philippines	13.2	14.2	5.2	9.0	9.4	3.7	3.3	3.8	0.9		0.9	63.6
VietNam	7.3	11.4	2.8	0.0	3.7	0.2	3.1	0.3	0.3	3.1	0.0	32.4
Import Shares within East Asia, 2008												
	China	Japan	South Korea	Hong Kong	Singapore	Taiwan	Malaysia	Thailand	Indonesia	Philippines	Viet Nam	
China		18.1	15.8	50.6	9.7	12.0	8.0	11.4	12.8	13.1	10.0	
Japan	9.1		13.0	10.0	7.7	17.9	8.2	14.8	8.8	22.5	9.0	
SouthKorea	6.6	3.5		3.8	4.8	9.0	3.6	3.6	6.8	7.0	7.8	
HongKong	13.6	2.4	1.5		4.2	2.0	0.7	1.8	2.6	5.3	4.5	
Singapore	2.2	2.1	3.5	9.8		0.0	2.4	19.7	6.7	22.4	14.0	16.5
Taiwan	4.5	2.5	2.0	9.2	3.2		0.0	2.6	1.9	4.2	11.5	7.5
Malaysia	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Thailand	1.4	2.6	1.7	2.5	9.1	2.2	0.0		5.4	6.1	5.4	2.7
Indonesia	1.3	2.7	0.8	3.0	2.8	0.0	4.9	2.5		4.0	8.4	5.8
Philippines	0.7	3.4	1.6	0.8	4.8	2.6	2.9	2.3	0.0		3.4	2.2
VietNam	0.5	1.0	0.6	1.2	1.4	1.5	0.9	1.0	0.3	0.0		0.5
Total	0.3	1.1	0.4	0.0	0.8	0.1	1.1	0.1	0.2	4.5	0.0	
	40.3	39.4	41.0	95.1	46.3	48.3	53.6	52.5	68.0	95.1	66.5	

Sources: ADB, *Key Indicators* and trade statistics of each country.

process of economic integration. China's full-fledged economic expansion, for example, defies the conventional development theories which predict economic diversion instead of diversion in the process of economic integration. The trends of competitive indices for both the textile industry and the machinery industry indicate that China has been rapidly and clearly gaining competitive strengths in both labor-intensive and capital-intensive products in the world markets. China is now a net exporter of all stages of manufactured products.

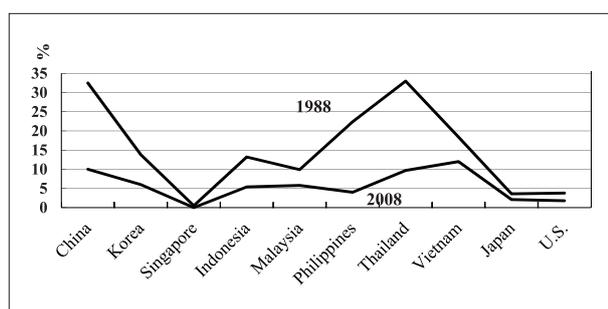


Fig.6 : Weighted Mean Tariff Rates in East Asian Economies 1988-2008

Note: All products
Source: World Bank (2010)

There is a lingering fear, particularly among the latecomer EAFTA countries that China may grab all stages of export markets thereby creating keen competition instead of complementarities among the regional countries. One conspicuous piece of evidence, which has been cited by some ASEAN countries, is a changing pattern of FDI inflows in the region: China's FDI inflows more than doubled in the past decade, while FDI inflows to ASEAN-5 declined substantially in the late 1990s although they recovered in recent years.

Despite a growing sentiment of "China threat," I strongly believe that the emerging China is a positive factor for East Asian economic integration. China is now recognized not only as a world-class exporter but also as an avid importer. China has also been moving positively to conclude FTAs with ASEAN and the other East Asian countries. Aside from economic and institutional factors, the process of economic integration in this region depends largely on political as well as security factors.

Japan's FTA and TPP Strategies

In the past, Japan took a persistent stance that it would stick to multilateral trade negotiation under the GATT/WTO rules. Japan has supported a loosely structured regional organization such as APEC which aims at "open regionalism." It was only quite recent that Japan has expressed positive appreciation of the merits of PTAs (FTA, EPA TPP) and has moved to take specific actions to establish them. There are two important reasons behind the policy change. One is the rapid move of the EU, the United States and East Asian countries – notably ASEAN, China and even India – to pursue regional trading agreements side by side with WTO negotiations. Japan is afraid of being left behind her trading partners in a global race to conclude bilateral FTA and EPA (See Appendix 3 for Japan's stance on the issue as of November 2010).

The second reason for the change is that Japan has also concluded that it is in her interest to pursue both regional as well as multinational negotiations to strengthen her economic as well as political relationships with other countries. Japan's Ministry of Foreign Affairs (MOFA) listed the following economic and political advantages of promoting FTAs (MOFA, 2001):

- (1) FTAs lead to the expansion of import and export markets, the conversion to more efficient industrial structures, and the improvement of the competitive environment.
- (2) FTAs help reduce the likelihood of economic frictions becoming political issues, and help expand and harmonize existing trade-related regulations and systems.
- (3) FTAs increase Japan's bargaining power in WTO negotiations, and the results of FTA negotiations could influence and speed up WTO negotiations.
- (4) FTAs expand Japan's global diplomatic influence and advance its interests through deepening of economic interdependence and political trust with its FTA partners.

Moreover, another Ministry of Economy, Trade and Industry (METI) report clearly reveals that Japan does not have much choice and in fact needs to follow the Asian trend:

Although economic cooperation, with a Free Trade Agreement (FTA) at its core will cause pain to some domestic industries and agriculture in Japan, there is no other way to significantly revitalize East Asia's regional economy. Moreover, without stronger economic ties with East Asia, there can be no revitalization of Japan's own economy. Thus, the establishment of international economic relations with the vision of "Japan in East Asia" best conforms to Japan's national interest. (METI, 2003)

Japan's prioritized area of FTA negotiation is East Asia, where Japanese exports account for the growing and highest percentage share comparing to EU and North America (Table 3).

Because East Asia's tariffs are 3-4 times higher than those of EU and North America, tariff reduction through FTA and EPA negotiations with the East Asian countries will benefit Japanese exports most. East Asia is also the region where Japanese FDI is growing faster than in any other regions. Trade liberalization with East Asia will help facilitate the activities of Japanese overseas corporations which have shifted their production bases to the region in order to strengthen their competitiveness in the changing international market. The number of Japan's overseas corporations

in the EAFTA region increased by 2-fold during the past decade, accounting for 46% of the total in 2008. The increase has accelerated in recent years reflecting EAFTA's strong economic recovery from the Asian financial crisis, its future growth potentials and the rapid appreciation of the Japanese yen.

The Agreement on Comprehensive Economic Partnership between Japan and Member States of the Association of Southeast Asian Nations (Japan-ASEAN Comprehensive Economic Partnership Agreement) entered into force on December 2008 (Table 3). FTA or EPA negotiations between Japan and the Republic of Korea (ROK) have been going on for some time. In view of Japanese economic as well as political interests, MOFA concluded a FTA with Mexico in 2008 because the country had already concluded the FTA agreements with North America through NAFTA and with EU which have been working against Japanese exports and investment to Mexico. As a matter of fact, trade relations between Japan and Mexico have apparently worsened since Mexico's admittance to NAFTA in 1994. Mexico's import share from Japan, for example, declined from 6 % in 1993-95 to 4 % in the 2000s, a clear evidence of "trade diversion" from a non-member of FTA to FTA members.

Table 3 : Japan's Moves of Preferential Trading Arrangements

Partners	Type of Arrangements	Status	Year
Japan-Singapore	New Age Partnership	Signed	2002
Japan-ASEAN	Comprehensive Economic Partnership	Signed	2008
Japan-Philippines	Closer Economic Partnership	Signed	2008
Japan-Indonesia	Closer Economic Partnership	Signed	2008
Japan-Mexico	FTA	Signed	2008
Japan-Cambodia	Closer Economic Partnership	Signed	2009
Japan-Malaysia	Closer Economic Partnership	Signed	2009
Japan-Thailand	Closer Economic Partnership	Signed	2009
Japan-South Korea	FTA	Official discussion	1998
Japan-South Korea-China	FTA	Official discussion/Study	1998
Japan-Canada	FTA	Proposal/Study	2000
Japan-Chile	FTA	Official discussion	2001
Japan-Australia	Economic Partnership Agreement (EPA)	Official discussion	2007
Japan-U.S.A.	Trans-Pacific Partnership (TPP)	Official discussion	2011

Source : Ministry of Foreign Affairs, <http://www.mofa.go.jp/policy/economy/fta/policy20101106.html>

As we have seen, Japan concluded EPAs with Singapore and ASEAN. Japan's highest priority country for FTA negotiations is the ROK, followed by China, Hong Kong and Taiwan. One MOFA document states that "in view of Korea's political importance, wide-ranging contacts between respective citizens, deep relationship of economic interdependence, and joint proposals by business leaders in both countries for a comprehensive economic partnership agreement or FTA, negotiations should begin as soon as possible." (MOFA, 2001)

With respect to China, MOFA is taking a cautious stance, saying that "we should continue to closely monitor China's fulfillment of WTO obligations, trends in China's economy, the status of overall relations between Japan and China, and progress in the new round of WTO negotiations as well as in negotiations on concluding FTAs among other countries in Asia before determining our (China) policy" (MOFA, *ibid.*). Although Japanese corporations have been shifting their production and marketing bases from ASEAN to China, there is an increasing awareness of the risks arising from business concentration in one country.

With regard to Australia and New Zealand, Japan's stance is clearer than those of her Asian partners. Because of a sensitive agricultural issue, MOFA suggests a practical approach which is to "proceed in two stages as jointly proposed by business circles of both countries, i.e. pursuing economic partnership in areas of mutual interest over the short term while attending to the longer-term task of concluding a comprehensive FTA." (MOFA, *ibid.*)

Japan's TPP Negotiations

South Korea, Japan's trade competitor, is one step or even two steps ahead of Japan in pursuing the TPP. If South Korea concludes the TPP with EU, for example, Samsung's LCD TV will be about 9 % cheaper than that of Japan in the EU market. Although the current Noda Cabinet wishes to accelerate its efforts to reduce trade barriers in the Asia Pacific region by joining the TPP, he faces a potential backlash from within his own government, already walking a tightrope between domestic economic revitalization and salvaging indispensable diplomatic ties with Japan's biggest trading

partner.

As in the case in various FTA and EPA negotiations, agriculture is a major stumbling block for Japan's TPP negotiations. In particular, rice, which is protected in Japan by about 800% prohibitive tariff barrier, has been a thorny issue for many years politically as well as economically. Although Japan's agriculture is among the most blessed, with ample water, rich soil and moderate weather, the industry suffers from an aging labor force and has long been on the wane, primarily because of the rigidity of the nation's agricultural policy and the way it has been implemented.

Japan's entry into the TPP has a much wider geo-political meaning beyond the merely economic aspect (see Ministry of Economy, Trade and Industry (METI), *White Paper on International Economy and Trade*, 2010). The true nature of the TPP may be to draw together, under the U.S. initiative, those nations adhering to open international order, democracy and other fundamental values, thereby ensuring a sustainable equilibrium that will stabilize peace in the Asia-Pacific region in the 21st century—more precisely, will safeguard the Pacific region from the rising Chinese power.

The Japanese government placed trade liberalization at the top of its agenda at APEC's Yokohama Summit in 2010. It argued that the TPP would help reverse Japan's inward-looking trend and initiate activity that could bring new trade opportunities abroad. Japanese business was also keen not to be left behind in the race to shape the bloc. The government has decided to participate in the TPP negotiations in parallel with an Agricultural Reform Basic Policy, and had proposed to formulate an action plan. However, because of the 2011 earthquake, the government's discussions of agricultural reform halted and the decision on whether to participate in the TPP was postponed. Its 'Policy Promotion Guidelines-Towards Japan's Regeneration,' issued in 2011, said only that the timing of a decision would be considered in a comprehensive manner, but it remains unclear when the decision will be made.

Japan needs strong political leadership to create the domestic conditions for joining the TPP. This, in turn, would need to be buttressed by institutional reforms that prevent the pro-liberalization METI

and the pro-protection Ministry of Agriculture, Forestry and Fisheries from cancelling each other out. If trade policy reform could be dealt with by a policy command center such as the National Strategy Office, progress might be made. Trade liberalization could also be assisted by having a separate government body with the power to negotiate trade agreements and to override the line ministries, as in South Korea.

The TPP and Okinawa

The TPP and Okinawa's Agriculture

There has been lively debate about the TPP in Okinawa as in mainland Japan. Although Okinawa seems to get more benefits from joining the TPP than mainland Japan because Okinawa's imports are five times of its exports. The TPP will be, no doubt, beneficial from the standpoint of consumers because they can import cheaper goods than protected domestic products. However, precisely because of this, domestic producers have to face keen competition with foreign exporters. According to the Okinawa Prefectural Government, the direct agricultural loss from joining the TPP is estimated as ¥58 billion which is more than 60% of total agricultural sales or 1.5% of Okinawa's GDP. Okinawa's sugarcane in particular, which accounted for about 50% of cultivated land and 20% of agricultural sales in 2010, has been the major issue for joining the TPP (Fig.7).

Sugarcane has been heavily subsidized by the Japanese government. Sugarcane farmers received ¥21,385 per ton in 2010, of which 76% are subsidized to protect the industry from international competition. Sugarcane cultivation, however, has declined rapidly from 178,000 hectares in 1989 to mere 82,000 hectares in 2010 due largely to the stagnation of price and aging cultivators (Fig.7). The yield per hectare is almost unchanged over past four decades. These indicators demonstrate that Okinawa's sugarcane cultivation will be diminished in the future even under heavy government subsidy. Sugarcane, however, is the only cash product in many small, remote islands. Therefore, some kind of compensation scheme, such as direct income provision, may be needed to obtain a consensus for pursuing the TPP.

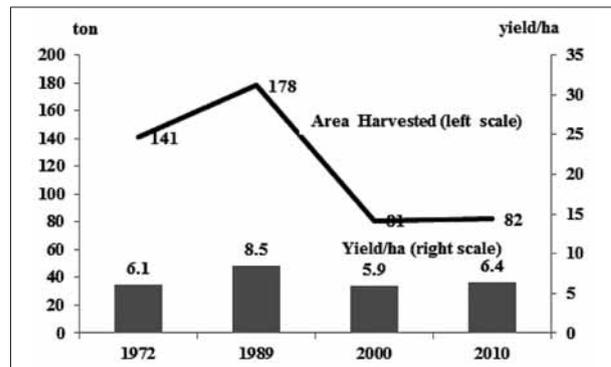
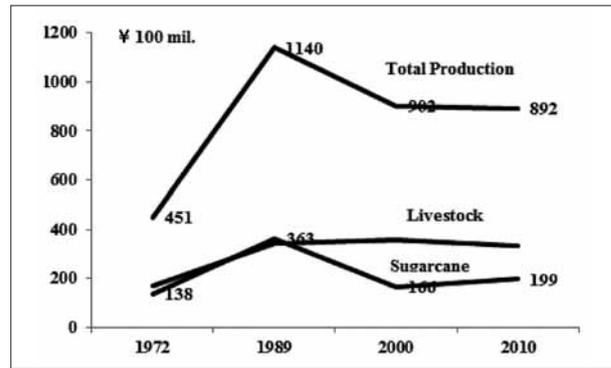


Fig.7 : Okinawa's Value of Agricultural Products, 1972-2010

Source : Okinawa Statistical Yearbook, various issues.

We should note here that Okinawa's traditional, declining sugarcane has been revalued in recent years because of its high-valued alternative use. As is shown in Fig.8, sugar-related inputs such as molasses and bagasse, which in turn can be transformed into urethane resins, particle boards, rum, wax, paper products, sweets and recently ethanol, have been pursued at many remote islands and local research institutes.

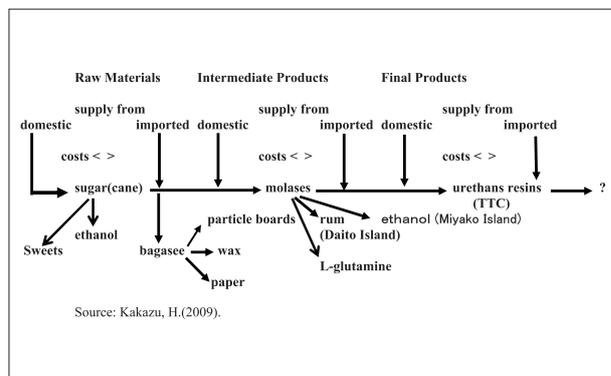


Fig.8: Diversification of Sugar (cane) Products

The urethane products, which were developed by the Tropical Technology Center (TTC) in Okinawa,

have an enormous potential for a wide-range of products from pet bottles to home and industrial appliances. These products are decomposable (biodegradable) and therefore can be substituted for environmentally hazardous plastic products if quality and prices are reasonably acceptable to users and consumers. Miyako Island, which is a major producer of sugarcane, has been designated by the national government to produce ethanol for fuel. Islanders are hoping to substitute this renewable and environmentally friendly fuel for gasoline in the future. L-glutamine can also be produced from sugar molasses. Dr. Yutaka Niihara, a hematologist and a former professor at the UCLA Medical School, patented L-glutamine therapy for the treatment of sickle cell disease. It is also used in dietary supplements and is claimed to be useful for a variety of different conditions such as depression, anxiety and insomnia.

For the successful development of these islands' resource-based products, several problems must be resolved. One important factor is the size of the market, which in turn, determines the cost of production. As can be typically seen in the case of integrated circuits, the initial unit cost of production is very high. But as the market expands, the cost is reduced approximately to one-half within a decade. Products such as urethane resins require a large segment of the market in order to compete with plastic products.

The second important consideration is cost escalation, which will quite often accompany when local resources are used as raw materials or intermediate inputs, as in the above illustration. The price of Okinawan sugar, for example, is about four times higher than the international price because of government protection. The high cost results in high costs for molasses and consequently for the production of urethane resins. Here the producers of urethane resins face a dilemma because they are obliged to import molasses in order to compete in the international market.

It is important to realize that in order to diversify local products toward more value-added products, domestically produced raw materials must be available at international prices. Unless there are incentives such as subsidies and taxes which will compensate for the cost disadvantage during the

initial stages of production, an Okinawan producer of urethane resins would always choose imported molasses over the costly local alternative. Okinawa's low-quality discarded molasses (by-product of sugar processing) have price competitiveness at the moment simply because there is not much demand for them.

Okinawa's agricultural land can also be utilized for producing high value-added agro-products such as health foods, spice, coffee, tropical fruits and flowers. Various healthy foods have been developed and marketed nationwide, including ukon (turmeric), bitter melon (well-known as *goya*) products, naturally processed salt, sea vegetable products (mozuku), dietary ostrich meat, and various deep-sea water products, just to name a few well-known examples. Bitter melon especially became popular and the bestselling healthy vegetable. Although production scales of these niche products are still small, they possess comparative advantages in uniqueness of resource use and technology. Furthermore, these products usually require more local inputs, including raw materials and labor, than conventional trading products.

Taiwan-Okinawa-Kyushu Growth Triangle (TOKGT)

The TPP is a national project which must be negotiated by the central governments. There are, however, an emerging trend of localized economic cooperation and integration called "growth triangles (GTs)" such as the "South China GT," consisting of Hong Kong, Guangdong, Fujian and Taiwan, and the "SIJORI GT," comprising Singapore, Malaysia's Johor State and Indonesia's Riau Province, and the "Tumen River Delta GT. Growth Triangle (GT) can be defined as "transnational economic zones spread over well-defined, geographically proximate areas covering three or more countries where differences in factor endowments are exploited to promote external trade and investment." (Kakazu, 1998, 1995, 1994b) Depending on the approaches, GTs are also referred to as subregional economic zones (Yamazawa, 1992), or natural economic territories (Scalapino, 1992).

The GT approach has many merits than the TPP approach for remote, peripheral areas like islands of Okinawa where economic complementarities and adequate infrastructure with neighboring regions

and nations exist. It is interesting to note that almost all GTs in Asia are located in nations' peripheral and crossborder areas where informal border trade and crossborder labor mobility have been actively taking place. Unlike the trading blocs such as EPA and TPP, which require sweeping, nationwide institutional and administrative changes, the growth triangle approach involves only contiguous parts of countries. Therefore, politico-economic risks associated with regional integration will be localized or minimized when it fails. On the other hand, if it succeeds, its benefits will be easily expanded to the contiguous region as can be seen in SIJORI and Southern China growth triangles. Here I have proposed Taiwan-Okinawa-Kyushu GT (TOKGT) as a concept of subregional economic cooperation (see Kakazu, 2011).

Okinawa and Taiwan are close enough to be within "whistle" distance. It takes only an hour by airplane from Naha to Taipei, and on a clear day we can see Taiwan's highest mountain "Gyokuzan" from Yonaguni, the westernmost island of Japan. It is natural to consider that there should be deeper socio-economic ties between our two peripheral regions in the East China Sea. Yonaguni, a "sister city" with Taiwan's Hualien, has proposed a "Yonaguni-Taiwan Cross-border Exchange Special Zone" to the Japanese Cabinet Minister (see Oshiro, 2007). The Special Zone aims at Yonaguni's sustainable development through direct socio-economic exchanges between Yonaguni and Taiwan, particularly through direct trade. Yonaguni prospered through direct trade with Taiwan until the early 1950s. In September 2010, the Yonaguni-Hualien Exchange Development Association (YHEDA) assisted Yonaguni farmers to import fertilizer from Taiwan which was 30-40% cheaper than imports from mainland Japan. The YHEDA is planning to import other basic goods as well from Taiwan.

Yonaguni's innovative idea should be extended beyond Yonaguni-Taiwan bilateral trade to form a Taiwan-Okinawa-Kyushu Economic Zone (TOKGT) (see Fig.9).

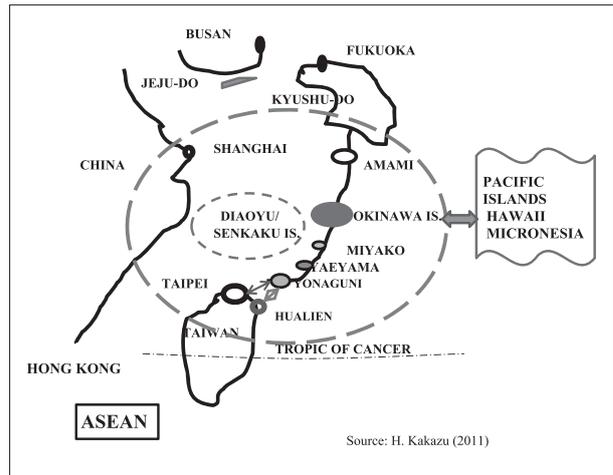


Fig.9: A Concept of Taiwan-Okinawa-Kyushu Growth Triangle (TOKGT)

As an initial step to realize the TOKGT, I would propose establishing an Okinawa-Taiwan Special Economic Zone (OTSEZ). Ideally the Okinawa side of the OTSEZ should be located in facilities within returned U.S. military bases such as the Naha Military Port or Camp Kinser which are expected to be returned in near future (Fig.8). The Taiwan Special Economic Zone in Subic Bay in the Philippines, which was successfully established on the returned naval U.S. bases in the 1990's, may be a good model for OTSEZ.

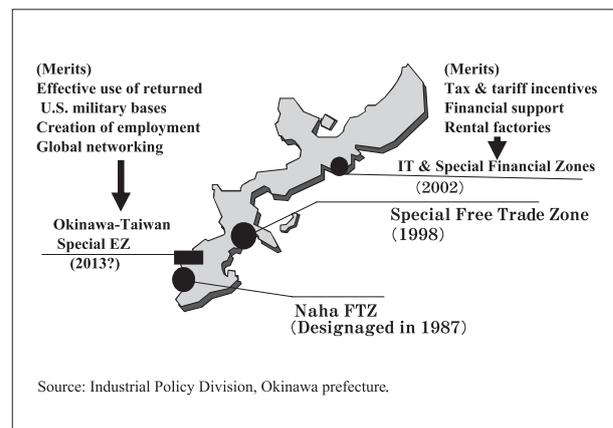


Fig.10: Okinawa-Taiwan Special Economic Zones

The OTSEZ will be used as a trade center, including a stockpoint for parts, exhibitions of new products, processing parts, data and information center (back-office), design center, R & D center, human resource development center, etc. Just as the existing Okinawa Special Economic Zone, the OTSEZ should have a special tax credit system as

well as duty-free imports for export purpose. In order to realize the OTSEZ and OTSEZ schemes there are a number of very thorny issues to be considered and/or resolved. These include U.S. military bases, regional security, territorial disputes, various regulations, the liberalization of Okinawa's economy and the problems and possibilities for the decentralization and autonomy of local governments which need to be discussed in a separate paper.

Okinawa: A Cargo Hub in Asia

There is an encouraging move to realize the concepts of TOKGT and OTSEZ since All Nippon Airways (ANA) established its cargo base in the Asia-Pacific on Okinawa in 2009. As is shown in Fig.11, cargos collected through ANA's nationwide network are brought from Narita, Haneda, Kansai and other airports to Naha. Cargoes are sorted according to destinations and loaded onto cargo planes, which take off again in the middle of the night. The cargoes are destined for Hong Kong, Seoul, Shanghai, Dalian, Teijian, Taipei and Bangkok as well as other nearby Asian cities. As is shown in Fig.11, Okinawa is located within 4 hours of flight time from Narita and Bangkok. In between East Asian major cities are located. Naha Airport moved to 24-hour operations in 2010 to accommodate ANA's cargo operations.

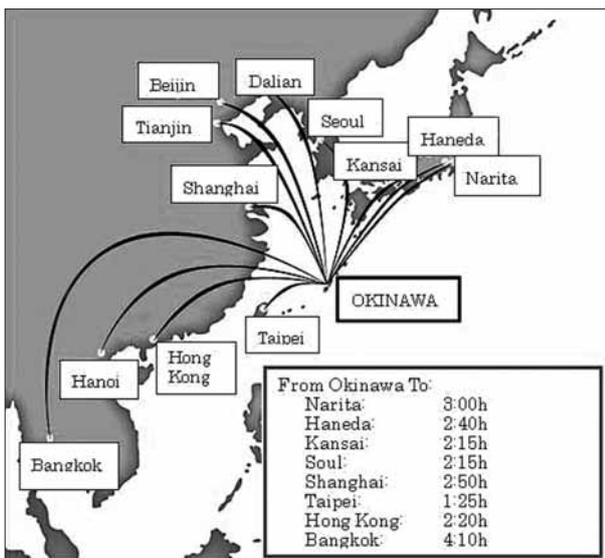


Fig.11: Okinawa's Cargo Hub in Asia

Source: All Nippon Airways (revised)

ANA's current seven cargo planes will be arriving and departing between midnight and sunrise each day in order for cargoes to arrive at Asian destinations early in one business day. Okinawa's huge advantages include its geographical superiority, flexible timetable to avoid congestion, and the shorter time required for cargo reshipment and customs clearing in this region. Delivery speed is also becoming more important for all industries. The internationalization of Haneda Airport in 2010 strengthened ANA's Okinawa cargo hub business which aims at delivering air cargos within a day in the region.

The cargo trade from Okinawa to the rest of Asia jumped from mere 18 tons in 2008 to 10,220 tons in 2009 and then 71, tons in 2010 (Fig.12). ANA envisions moving 420,000 tons of cargo annually through a Naha hub in the future.

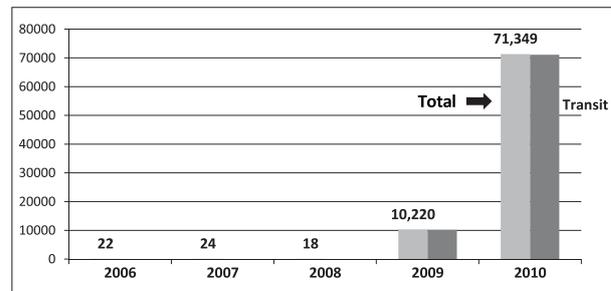


Fig.12: Air Cargo Shipments from Naha Airport 2006-2010

Note: Exports + Transit Cargoes for re-exports
Source: Okinawa Customs Office

The low cost carriers (LCCs) are now becoming a buzz word in international airline businesses. The LCCs or no-frills carriers are airlines with a lower operating cost structure than their competitors. To make up for revenue lost in decreased ticket prices, the LCCs charge for extras like food, priority boarding, seat allocating, and baggage etc. The LCCs have been flourishing in the Asia-Pacific in recent years including Malaysia's AirAsia, which is a pioneer of LCC in Asia and Asia's largest LCC, AirAsia X, Chinese Spring Airlines and Oasis Hong Kong Airlines. Air Next, Solaseed Air and Skymark Airlines are Japan's domestic LCCs.

Malaysia's AirAsia and Japan's All Nippon Airways (ANA) agreed to form a low-cost carrier based in Tokyo's Narita Airport in July 2011. The joint venture will be named AirAsia Japan, with AirAsia owning 33% voting shares and 16% non-

voting shares through its wholly owned subsidiary, AA International. AirAsia Japan will serve the domestic Japanese market and northeast Asian countries such as South Korea, Taiwan and China. In addition, AirAsia is planning to extend its services into southeast Asia through its existing network there.

Ailing Japan Airlines also announced that it will launch the LCC in 2012 in partnership with Jetstar Asia which is a subsidiary of Qantas. AirAsia Japan and Jetstar Japan are both intend to serve between Okinawa and mainland Japan and Asian ports in near future which will substantially reduce Okinawa's high transportation costs, thereby making Okinawa's cargo hub more attractive and competitive in the Asia-Pacific.

Although Okinawa has a golden opportunity in the age of locally based global economy to take advantage of its strategic location in the Asia-Pacific region as well as its historical legacy in promoting TOKGT, there are obviously many hurdles and problems to overcome. One of the most important issues in realizing the idea is local politico-economic initiatives. Despite enhanced local autonomy in recent legislation, Okinawa and Kyushu are not in a position to negotiate with Taiwan and China in concluding trade related agreements. These are mandates of the central government in Tokyo. Although Beijing and Taipei relationship has improved remarkably in recent years, the Japanese government is reluctant to encourage the local initiatives to better relations with Taiwan as long as the Beijing government regards it as a "renegade province." There are, however, encouraging signs that Taiwan businessmen in particular have shown keen interest in investing in Okinawa in response to Okinawa's private sector initiative. There are other important impediments to TOKGT formation such as "Cabotage regulation" which is synonymous with the "use one's own carrier policy," centralized commercial practices and distribution system.

Concluding Remarks

It is a well-known episode that Nobel laureate, Paul A. Samuelson took several years to find an answer to mathematical genius Stanislaw Ulam's

challenging question, "Name me one proposition in all of the social sciences which is both true and nontrivial." Samuelson's answer was "comparative advantage". Since the doctrine was first expounded by David Ricardo in 1817, it became a gospel of both theoretical economists and practitioners because the economic case for an open trading system based upon multilaterally agreed rules is simple enough and rests largely on commercial common sense. "But it is also supported by evidence: the experience of world trade and economic growth since the Second World War." (WTO, 2003)

Despite the various constraints and challenges of an open trading system, it is natural to predict that such a system will survive well into the future. The emerging FTAs should be viewed as complements rather than alternatives in the pursuit of more open trade. Good evidence for this view can be seen in the increasing number of developing countries which have found benefits in joining GATT/WTO in recent years.

East Asia is the region which will gain most from the open trading system, because of its dynamic growth, diversity, large population, and high trade dependency. China, in particular, will be a center of gravity in this region. The impact of China on the emerging East Asian FTA must be carefully assessed politically as well as economically.

Japan, which accounted for 40% of EAFTA's nominal GDP (or 30% in PPP) in 2008, is a declining economic giant. Japan's influence on regional economic growth has declined particularly since the late 1990s due largely to Japan's prolonged economic stagnation and the rising might of China. Japan's comparative contribution to world GDP growth rates has been almost zero in recent years (Fig.13). Japan's rapidly ageing population alone gives a structural pessimist enough evidence to paint a darker future for the rising sun. Japan does not have much choice: it must pursue a socio-economic integration process aiming at creating EAFTA in near future.

The fact that the United States now considers the TPP a priority matter, should bode well for Japan's eventual membership-but only if domestic opposition can be soothed. Japan needs to look beyond short term considerations such as reconstruction, and seriously decides what needs to be done for Japan

to initiate sustainable growth. Japan's economy has once again slipped into recession, while facing a national and global public debt crisis and a rapid appreciation of the yen. Japanese politicians and bureaucrats should seriously consider a long-term growth strategy that has free trade at its core.

I have demonstrated that GT approach has many merits than the TPP approach for Okinawa's future development because the GT approach is based on local initiative with evolutionary process, and it focuses on subregional, remote and peripheral areas where economic complementarities and adequate infrastructure with neighboring regions and nations exist.

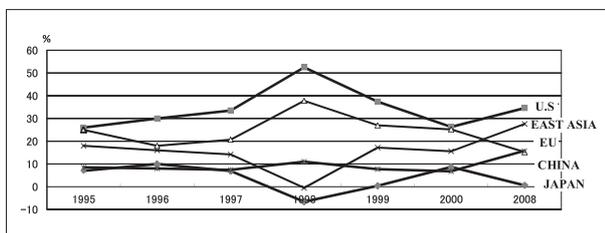


Fig.13: Japan's Comparative Contribution to World GDP Growth Rates, 1995-2008

Source: Constructed from World Bank Database.

*WHAT IS PURCHASNG POWER PARITIES (PPP)?

Purchasing power parities (PPPs) are currency exchange rates obtained by comparing the prices of identical goods and services in different countries. These price comparisons are made by dividing the price of a specific good or service in one country by the price of the same item in another country. For example, if a Mac hamburger costs Chinese Yuan Renminbi (CYN) 4 in China and ¥100 in Japan, a price relative can be calculated as ¥100/CYN4, or CYN1=¥25. This is the "Mac PPP" for China in terms of Yen. \$1=¥76=CYN6.4 (as of 3 September 2011). Therefore, CYN 1=¥11.9 (Market Exchange Rate). 25/11.9=2.1. The renminbi is undervalued about twice in its market exchange rate against the yen in terms of PPP.

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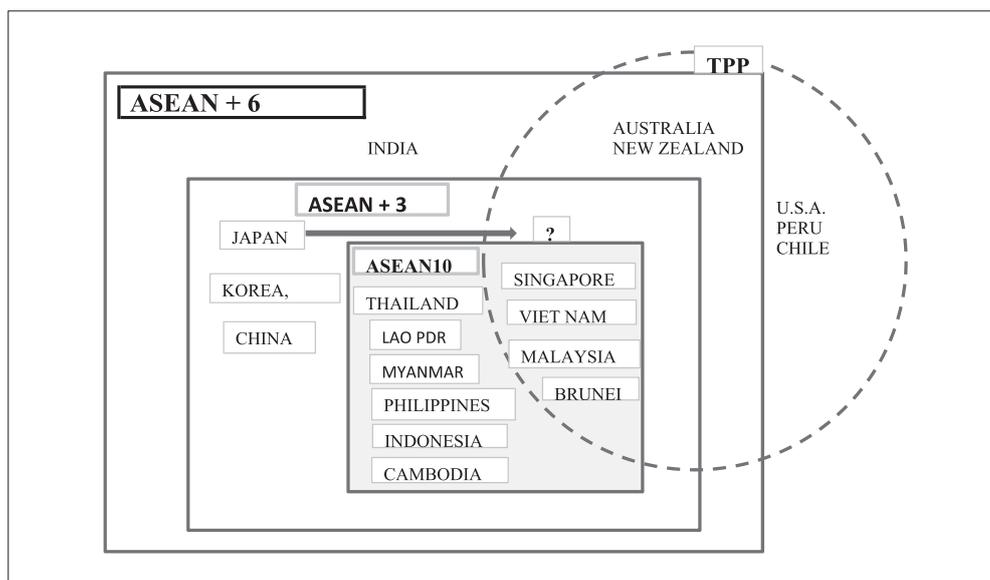
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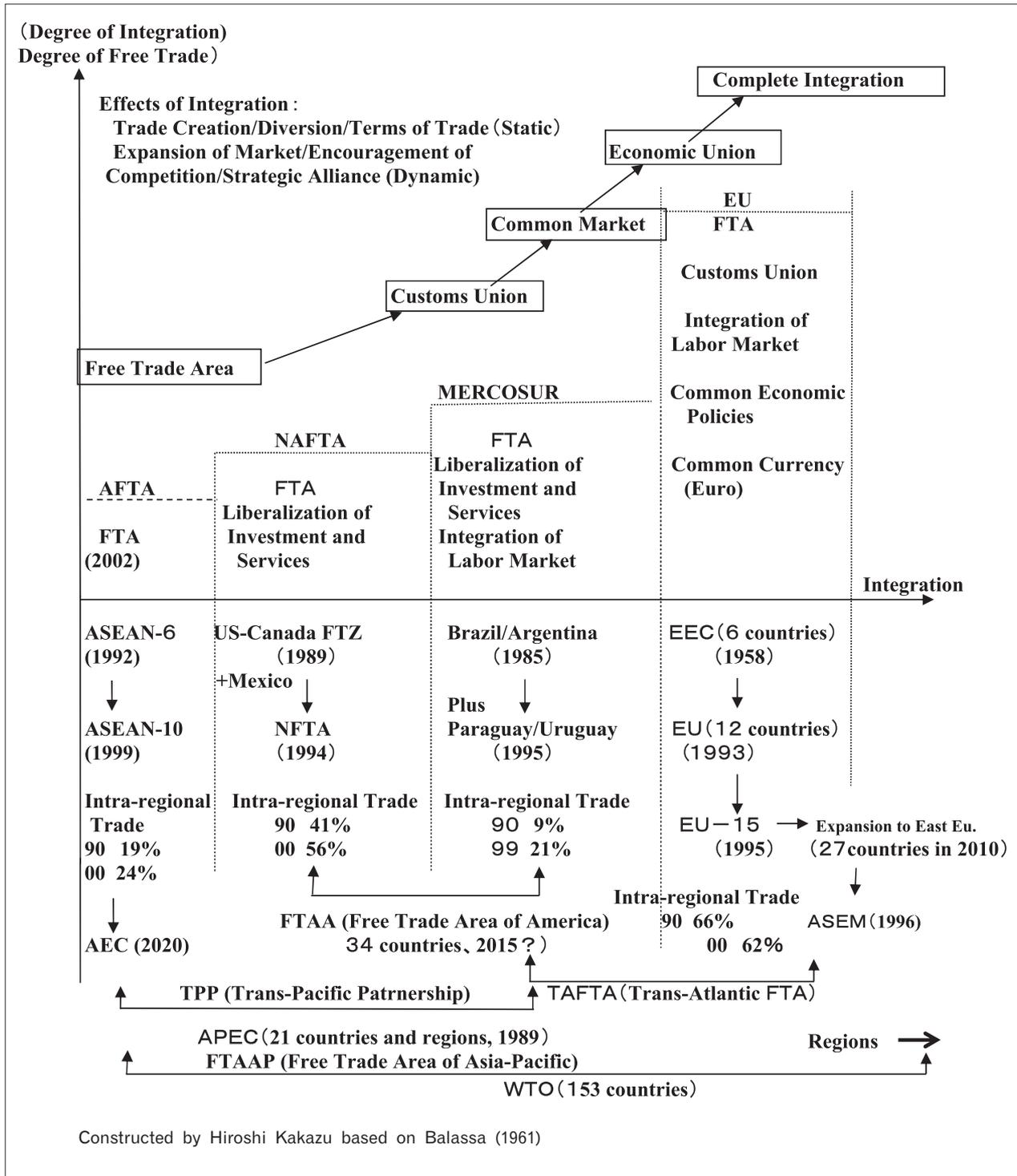
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Appendix 1 Economic Partnership in East Asia, 2011



Source: Revised from *Asahi Shimbun* (27 October 2011) data.

Appendix 2
Stages of Economic Integration



Appendix 3

Japan's Ministry of Foreign Affairs (November 6th, 2010)

<http://www.mofa.go.jp/policy/economy/fta/policy/20101106.html>

Basic Policy on Comprehensive Economic Partnerships

1. Environment surrounding Japan and promotion of high level economic partnerships

Today Japan faces major changes that could be regarded as a “watershed moment in history.” A structural transformation is taking place in the world economy in which Japan's status is gradually declining while the emerging economies are experiencing dramatic growth. While it continues to be important for international trade rules to be reinforced by concluding the negotiations at the WTO Doha Development Agenda, their fate remains uncertain and the networks of high-level EPA/FTAs formed by major trading countries are expanding. Despite these developments, Japan is falling behind.

Under the circumstances, if Japan's trade and investment environment becomes less attractive than the environment in other countries, there is a possibility that future employment opportunities will be lost. In order to achieve the “strong economy” described in Japan's New Growth Strategy (endorsed by the Cabinet on 18 June 2010), it is necessary to deepen economic relationships with Asian and emerging countries whose markets are expected to grow, and with Western and resource-rich countries. It is also necessary to rebuild the foundation for future growth and development in Japan.

Recognizing this, the Government of Japan is absolutely resolved to “open up the country” and “pioneer a new future.” It will take major steps forward from its present posture and promote high-level economic partnerships with major trading powers that will withstand comparison with the trend of other such relationships. At the same time, it will first press ahead with fundamental domestic

reforms in order to strengthen the competitiveness it will need for economic partnerships of this kind.

In particular, agriculture is the field most likely to be affected by trade liberalization. Moreover, considering Japan's aging farming population, the difficulty farmers have in finding people to take over their farms when they are ready to retire, and the low rate of profit, there is a risk that sustainable agriculture will not be possible in the future. Hence it is imperative to institute bold policies that will realize the full potential of Japan's agriculture, for example, by improving their competitiveness and exploring new demand overseas.

The Asia-Pacific region in particular is of importance for Japan, politically, economically, and with regard to security, and Japan has a vital interest in its being stable and prosperous. The Free Trade Area of the Asia-Pacific (FTAAP) is an important initiative that would enable Japan to help create a seamless Asia-Pacific region. Especially since it is serving as chair of the eighteenth APEC Economic Leader's Meeting this year, Japan has an obligation to demonstrate strong leadership so as to pave the way for the realization of the FTAAP.

To be more precise, Japan will play a leading role in actively promoting bilateral Economic Partnership Agreements (EPAs) within the Asia-Pacific region, broader regional economic partnerships, and sectoral approaches in the APEC, and will take initiatives to formulate trade and investment rules designed for the twenty-first century in the Asia-Pacific region.

2. Concrete action to strengthen comprehensive economic partnerships of Japan

On the basis of the international and regional environment surrounding Japan, the Government of Japan will take the following concrete steps to strengthen comprehensive economic partnerships with major trading partner countries and regions. With regard to EPAs or broader regional economic partnerships that are politically and economically important and will be of especially great benefit to Japan, the Government of Japan, while taking into consideration the sensitivity of trade in certain products, will subject all goods to negotiations for trade liberalization and, through such negotiations,

pursue high-level economic partnerships.

(1) Measures to be taken in the Asia-Pacific region

In the Asia-Pacific region, Japan will increase its efforts to conclude the ongoing EPA negotiations with Peru and Australia, and to resume the currently suspended Japan-Korea EPA negotiations. At the same time, Japan will work towards the realization of regional economic partnerships such as the China-Japan-Korea FTA, East Asian Free Trade Agreement (EAFTA) and Comprehensive Economic Partnership in East Asia (CEPEA), which are being studied at present, and commence EPA negotiations with Mongolia, with which it is now undertaking a joint study, as soon as possible.

In addition, in parallel with improving domestic environment, Japan will actively promote bilateral EPAs with major countries/regions in the Asia-Pacific region with which Japan has not yet started negotiations. Concerning the Trans-Pacific Partnership (TPP) Agreement, the only path to the FTAAP where negotiations have actually begun, it is necessary to act through gathering further information, and Japan, while moving expeditiously to improve domestic environment, will commence consultations with the TPP member countries.

In order to ensure that the above measures are steadily implemented, the Government will establish “the Ministerial Meeting for Realization of a Free Trade Area in the Asia Pacific (provisional title).” The entire government will work to address these issues through the new body.

(2) Measures to be taken with regard to major countries and regions outside the Asia-Pacific

Japan is currently conducting a joint examination with the European Union (EU), its largest trading partner outside the Asia-Pacific region, and it will expedite arrangements to enter into negotiations with the EU at an early date. For this purpose, the Government will accelerate efforts to reform its domestic non-tariff measures. In addition, it will make efforts to facilitate ongoing negotiations with the Gulf Cooperation Council (GCC).

(3) Measures to be taken with regard to other countries and regions

Taking into account of the progress in the

negotiations on the Doha Development Agenda, efforts for regional integration in the Asia-Pacific region, and efforts for the strengthening of economic partnerships with major countries, the Government of Japan will work actively to strengthen economic partnerships, including conclusion of EPAs, with other Asian countries, newly emerging powers, and resource-rich countries, based on a comprehensive assessment from economic as well as diplomatic and strategic viewpoint.

3. Integrated approach to EPA negotiations and domestic measures

In order to strengthen high-level economic partnerships with major countries and regions, the Government of Japan, with a view to “opening the country”, will first promote appropriate domestic reforms with respect to areas of the agricultural industry, movement of natural persons from abroad to Japan, and regulatory reforms.

(1) Agriculture

“The Headquarters for the Promotion of Agricultural Structural Reform (provisional title)” will be established, with the Prime Minister as its Chair and the Minister of State for National Policy and the Minister of Agriculture, Forestry and Fisheries as its Vice Chairs, in order to promote both high-level EPAs and improvement of Japan’s food self-sufficiency and revitalization of its agriculture industry and rural communities, and also in order to take measures aimed at fostering sustainable and strong agriculture. A basic policy will be developed under the leadership of the Headquarters at around June 2011. In addition, the Headquarters will consider the necessary and appropriate drastic domestic measures needed to improve competitiveness and other aspects of agriculture, and also the budgetary measures and financial resources they will require. The Headquarters will draw up an action plan with a medium and long-term perspective at around October 2011 and implement it forthwith. In the course of taking these steps, the Government of Japan will review border measures, such as tariffs, which have been put in place so that the burden of maintaining domestic production is borne by consumers. When it deems it appropriate to do so, it

also will consider transition to a more transparent system in which taxpayers will bear the burden by securing stable sources of revenue and shifting over from border measures to fiscal measures.

(2) Movement of natural persons

The Government of Japan will consider measures to address the issues relating to the movement of natural persons from abroad, such as nurses and certified careworkers, on the basis of its efforts to promote the “employment and human resources strategies” described in its New Growth Strategy, and it will do so with due attention to future domestic demographic trends, the possible effect of such movement on employment in Japan, requests from other countries, as well as securing Japan’s economic growth and social stabilization. A group to study the issue will be established under the Minister of State for National Policy, and by June 2011 it will develop a basic policy.

(3) Regulatory reform

While opening up the country and importing the best management resources in order to enhance its potential for growth, the Government of Japan, with a view to achieving active economic partnerships and eliminating non-tariff barriers, will decide on a concrete plan by March 2011 through the Government Revitalization Unit.