

## **Executive Summary**

### **Chapter 1: Regional integration in ASEAN, with a focus on progress toward an ASEAN Economic Community (AEC)**

ASEAN has been pursuing economic cooperation since 1976 in the midst of structural changes in the world economy, and it is now aiming to complete the formation of an ASEAN Economic Community (AEC) in 2015. ASEAN regional economic cooperation has steadily produced results and supported the construction of production networks. At the same time, ASEAN has become a central player in both East Asian regional cooperation and FTAs. The changes that followed in the wake of the global financial crisis increased the importance of ASEAN in the world economy and pushed it toward forming the AEC. All the while, ASEAN has been called on to continue serving as the core of regional cooperation in East Asia.

The ASEAN region is also one hosting production networks built up by Japanese companies and serving as an important production base and market. Maintaining and expanding these existing production networks to prosper alongside the ASEAN region is a key issue for Japan and Japanese companies. To this end, Japan needs to offer its cooperation in achieving the AEC's objectives of "deepening integration" and "rectifying intra-regional disparities." Relations with ASEAN will also be important in the context of future international relations in East Asia as a means of maintaining a balance in relations with China. Japan needs to assume a cooperative role in realizing the RCEP proposed and advanced by ASEAN and step up its level of cooperation. Japan should also give thought to strengthening its relations with ASEAN and to tying together the RCEP, an FTA for East Asia, with TPP, an FTA for the Asia-Pacific region.

### **Chapter 2: The present and future of South Asian regional integration**

SAARC was created for the purpose of pursuing regional integration and cooperative development. The two key agreements are SAPTA and SAFTA, both of which promote intra-regional trade and economic cooperation. Many agreements have been concluded under SAARC and admirable objectives set, but few tangible results have been forthcoming. The degree of integration in South Asia is still inadequate compared with regional cooperation elsewhere. This is perhaps not surprising, though, given the region's unbalanced structure and political difficulties. Even so, SAARC undoubtedly offers a valuable forum for dialogue and discussions among the leaders of South Asia.

Japan already provides wide-ranging assistance to SAARC through the Japan-SAARC Special Fund to support regional development and stability. Assistance exceeding US\$15 billion has been provided or planned across a broad spectrum of sectors, with money from the Fund going primarily to the transport and energy sectors. This paper focuses in particular on assistance in the area of water resources, and proposes establishing independent targets for that area. Water resource management is extremely important for regional economic development, maintenance of the regional economy, and human development. Promoting measures to facilitate trade, including projects pertaining to logistics and border infrastructure, as well as supporting efforts to improve the efficiency of tariff procedures through projects relating to information provision and standardization would be effective aid approaches for Japan to take in future.

### **Chapter 3: FTAs in East Asia – Present Status and Issues**

The ASEAN Free Trade Agreement (AFTA) was East Asia's only FTA at the end of the 20<sup>th</sup> century, giving the region a reputation as an FTA vacuum. At present, however, numerous FTAs have been concluded on a bilateral basis or between ASEAN and partner countries such as Australia, New Zealand and India. By January 2010, AFTA, ACFTA (ASEAN and China), and AKFTA (ASEAN and South Korea) had for the most part been realized. AIFTA (ASEAN and India) and AANZFTA (ASEAN, Australia, and New Zealand) came into effect about that time, creating a network of five FTAs – including AJCEP (ASEAN and Japan) – with ASEAN at the hub. This represents major progress during the first decade of the 21<sup>st</sup> century. Three broad-area FTA schemes – EAFTA, CEPEA, and FTAAP – had been conceived, but all of these were still at the research stage. A sudden turnaround in circumstances came about with the start of TPP negotiations in 2010. As a consequence of the “TPP effect” generated by the commencement of TPP talks and the expansion of participating countries, talks are slated to begin in 2013 on the RCEP, which consolidates EAFTA and CEPEA, and the Japan-China-South Korea FTA under consideration since 2003. Of the FTAs concluded with parties outside the region, the FTA with the EU is of particular importance. Both the TPP and the ASEAN-EU FTA advocate high rates of liberalization, breaking through the restrictions of existing FTAs in East Asia by emphasizing rule formation (TPP) and lifting non-tariff barriers (ASEAN-EU FTA), and creating a strong possibility of qualitatively changing FTAs in East Asia.

### **Chapter 4: Convolutional Asia-Pacific integration and Japan**

With the involvement of Europe, bilateral FTAs in the Asia-Pacific region have been signed one after the other in domino fashion. Regional integration is being

advanced in an effort to take these FTAs to a new dimension. The US' promotion of TPP and Japan's declared willingness to participate therein have also had a significant domino-like impact on regional economic collaboration in East Asia centered on RCEP and on regional integration in Northeast Asia symbolized by the Japan-China-South Korea FTA. The largest factor giving rise to this era of competing regional integration is that the world's two largest economic powers, the US and China, are each intent on expanding their influence and are competitively advancing regional integration concepts that they respectively favor. Given that the question of which side Japan as the world's third largest economy will join or will join first will result in an expansion of the scale of integration, Japan has been placed in the role of balancer, one that will have an impact on the outcome of competing regional integration efforts. In other words, the clash of national interests between the world's largest economies and their efforts to pursue regional integration to their own advantage can be blamed in part for creating confusion in Asia-Pacific regional integration. The conflict between the US and China over regional integration will increase the importance of Japan's role as it decides which framework to join, and it could well be said that Japan's commercial diplomacy is moving into a critical phase. Japan would be well-advised to move forward with participation in the TPP and deepen its involvement in RCEP and the Japan-China-South Korea FTA to qualitatively improve these frameworks.

## **Chapter 5: Regional integration in the Middle East: issues facing GCC integration**

The Gulf Cooperation Council (GCC) is a framework for regional integration formed in 1981 by the six Gulf states (Saudi Arabia, Kuwait, Bahrain, Qatar, the UAE and Oman) to collectively counter the threat posed by Iran and Iraq. The background to the GCC's formation clearly distinguishes it from other frameworks in the region. Despite progress made in various processes in the economic and commercial realm toward forming a single market, the GCC is unique in that its starting point was essentially the construction of a collective security regime.

The GCC launched a customs union in 2003 and sought by creating a common market to complete currency integration by 2010 as its next target. Political rivalries within the GCC could not be fully dispelled, however, and the UAE in 2009 announced its withdrawal from the single currency concept in opposition to the unipolar concentration in powerful Saudi Arabia. Oman and Kuwait followed suit, and currency unification is now stalled. The widening impact of the recent euro crisis, too, may have provided an opportunity for the countries constituting the GCC to reconsider currency integration at some point in the near future.

Having already achieved a common market, the GCC will place its primary focus on dealing with security matters, as the uncertainties that would be created by

rushing into any further economic integration are quite high at the moment. Once development as a political alliance has been achieved by strengthening relations of trust among the member countries through successes in the area of security, they may once again undertake greater economic integration, including currency unification.

### **Chapter 6: The ideals and realities of Eurasian integration – the conflict between nationalism and regionalism amidst a mixture of ulterior motives**

Regional integration in the former Soviet Union is greatly dependent on Russia's policies. It is clear that President Putin, who made a comeback as president in 2012, is emphasizing diplomacy with "nearby countries" and, as suggested by his pre-inauguration proposal for a "Eurasian Union," is seeking to deepen regional integration. However, numerous obstacles prevent integration in this region from moving ahead smoothly. Covering an extensive territory, the region is extremely diverse in its historical, cultural and ethnic background and features significant economic disparities. Above all, the region's possession of resources and its geopolitical location have had a great impact. Cold War-like circumstances still cast a shadow over this region, caught between the West and Russia, whose foreign policy agendas could give rise to conflict and place the region in a dilemma.

It might be possible for Russia by wielding its power to get countries to participate in and maintain the move toward integration but, unless the regional integration framework enables each country to feel that it gains from membership, future progress will be unlikely. To make regional integration a success, the countries of the former Soviet Union must make improvements and must voluntarily participate in integration with a sense of benefiting from the arrangement. There have been many attempts at regional integration in the former Soviet Union, and they are not mutually exclusive. Regional integration can be netted in multiple layers by implementing localized projects and re-networking overlapping projects to achieve deeper integration. Giving these attempts at regional integration a boost will likely lead to success for broader regional integration. Japan has the potential to help these countries improve and to supporting regional integration in small units, and it can thus cooperate indirectly in the progress of regional integration.

### **Chapter 7: Prospects for FTAs between the European Union (EU) and extra-regional countries, and the Japan-EU FTA**

The European Union (EU) can be considered the most evolved format of regional economic integration. Originating in the creation of the European Coal and Steel Community (ECSC) in 1952, the European Economic Community (EEC) born in 1958 started as a customs union and presented the world with a model for

economic integration. Thereafter a single market was constructed from 1993 on the legal basis of the “Single European Act” that went into effect in 1987, which encouraged not only removing tariffs on trade in goods but only harmonizing standards and certification, removing technical barriers to trade and promoting trade in services.

The EU has thus far sought to both deepen and broaden regional integration, and free trade agreements (FTAs) with extra-regional countries have always played an important role within that process. In March 2013 it was officially decided to begin negotiations on a Japan-EU FTA, and the first round of talks was held in Brussels in April. As an EIA had been proposed during BDRT talks in June 2007, it in fact had taken more than six years for negotiations to get underway.

At a time when the US and the EU are making a start on TTIP and Japan is seeking through the TPP to form with the US a high-level free trade zone in the Asia-Pacific region, Japan concluding an FTA with the EU would make it possible for the inter-regional Japan-US, Japan-EU and US-EU FTAs to link up the regions of Asia, the Americas and Europe. This has particularly important implications given that the WTO Doha Round has stalled, as the simultaneous establishment of broad-area FTAs between these regions, i.e., the “multilateralization of regional integration,” could be expected to strengthen new multilateral regimes.

## **Chapter 8: Regional integration in Africa: present status and issues**

Regional integration has long been an important objective of African countries since the creation of the Organization for African Unity (OAU) in 1963, and political integration has been the underlying premise. In June 1991, the leaders of African nations signed the Abuja Treaty and committed to the formation of an African Economic Community (AEC), a single currency (the Afro) and an African central bank by 2028. The countries of Africa decided to cooperate by bolstering Regional Economic Communities (RECs) to make possible the economic integration of 54 countries, currency integration and the free movement of people, goods, services and capital within 34 years.

The creation of the AEC is an enormous project, and the path ahead is steep. The largest issue facing the integration process is the sheer number of countries, presenting above all the problem of overlapping membership in RECs. As of 2013 these RECs are in the third stage of integration as prescribed in the Abuja Treaty. The RECs must realize free trade zones and customs unions within their respective regions by 2017 at the latest, but the approaches of RECs to free trade zones and customs unions vary widely. Notable differences are also apparent in the progress they have each made.

Nevertheless, numerous and persistent efforts by RECs since the Abuja Treaty have steadily paid off, and the initial stage, the embryonic stage, has now been passed. Should this grandiose project be realized, the political and economic impact would be incalculable. It is unclear whether this project can in fact be realized by 2034, but Japan and the rest of the international community must offer active support so that this largest project in human history can be completed.

### **Chapter 9: Overview and future prospects of regional integration in Latin America: Latin America shifting its central focus to Asia**

Frameworks for integration have long been evident in Latin America. The Latin America Free Trade Alliance (LAFTA), featuring the participation of the major countries of the region, as well as frameworks for regional integration in the Andes, Central American and Caribbean regions began to be formed in the 1960s, and these have continued despite changes in form. The framework for Mercosur established at the start of the 1990s is particularly important among these for its core role in regional integration. It was impacted by the Argentinean currency crisis at the end of the 1990s, though, and during the next decade the Mercosur movement stagnated.

On the other hand, as the regional economy stabilized in the latter half of the 2000s, countries of investment quality began dynamically down the path of opening up to the outside, with a vivid emphasis on Asia as evidenced by the Pacific Alliance established in 2012 by Mexico, Chile, Peru and Colombia.

The backdrop to this was the fact that Asia and Latin America deepened their relations through the 2000s while taking advantage of the relative advantages of both regions. The abundant labor resources that are Asia's strength and forecasts for future population growth raise the distinct possibility of food and resource restrictions, meaning that Latin America's resources will take on even greater importance. Latin America had previously been regarded as lagging behind Asia, but Asia as a whole, including Japan, must adopt a perspective of mutually complementing and co-existing with Latin America. This viewpoint will be extremely critical for Japan in considering participation in TPP as well. Bearing in mind moves such as the formation of CELAC designed to boost the region's political independence and the possibility of rising resource nationalism, Japan must also consider its diplomatic options.

### **Conclusion: The WTO regime and regional integration in the Asia-Pacific**

East Asia has achieved a great leap ahead by invigorating trade and investment both inside and outside the region, resulting in de facto integration and leading to

the development of systemic frameworks such as FTAs and EPAs. Vigorous moves centered on ASEAN have been made toward economic integration in East Asia, expanding from the ASEAN+1 FTA network to ASEAN+3 and ASEAN+6. The FTA among the three countries of Northeast Asia, a region often termed an FTA vacuum, is of great significance in accelerating this economic integration within East Asia. All three are FTA partners with ASEAN, and the formation of a Japan-China-South Korea FTA as a core presence within the East Asia trading sphere must be pursued without hesitation.

Turning to the Asia-Pacific region, there is FTAAP, an FTA among APEC member states, and the TPP aiming to become just such a framework. Japan's economic involvement in the region is considerable, and there can be no other choice but to participate in this TPP in the interest of sustained growth and prosperity. As a developed country with universal values and the world's third-largest economy, Japan also has a responsibility to participate in developing new trade rules under the TPP and in forming the international economic order. TPP is not a panacea, but TPP negotiations can be used to restructure society and the economy, including agriculture, and open domestic markets to the outside, and the TPP provides a catalyst for boldly taking on the challenge of overseas markets. Herein lie the historical significance of the TPP and the role of Japan in driving the economic integration of East Asia.