

THE BROOKINGS INSTITUTION
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ECONOMIC INTEGRATION IN EAST ASIA
AND ITS IMPLICATIONS FOR JAPAN AND THE UNITED STATES

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the Center for Northeast Asian Policy Studies
and the Keizai Koho Center

Introductions and Keynote Addresses

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Opening Remarks:

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Keynote Speech I

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Keynote Speech II

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KATSUNORI KOBAYASHI: Good morning, ladies and gentlemen. We would like to start the symposium on “Economic Integration in East Asia and Its Implications for Japan and the United States.” Thank you very much for coming to the symposium, co-organized by Keizai Koho Center and the Brookings Institution’s Center for Northeast Asian Policy Studies. In spite of the busy schedule, I would like to serve as the Master of Ceremonies. I am Katsunori Kobayashi of the Keizai Koho Center.

Simultaneous interpretation between Japanese and English is available. The English channel is number 5, and the Japanese channel is number 6. Please adjust the channel to your liking.

Without further ado I would like to open the symposium. First of all, I will invite the organizers to make opening remarks. Let me call upon Mr. Hideaki Tanaka, Managing Director and Secretary General of the Keizai Koho Center.

HIDEAKI TANAKA: Good morning. In opening the symposium, allow me to say a few words on behalf of Keizai Koho Center. It is a great pleasure to welcome distinguished speakers and guests from the Brookings Institution to this symposium. I take this opportunity to express my heartfelt gratitude to them. Also I thank all other participants for taking the time to join us today. Keizai Koho Center has organized conferences with Brookings' researchers on various topics. It has been a while since we last held such a big symposium featuring discussions by experts. The last time was in October 2001, just after September 11th. There we focused on security issues, but this time we will mainly discuss economic and regional integration in Asia and foreign and trade policies of the United States.

Asia and East Asia in particular has been growing most dynamically in the world. Trade and investment among economies of the region are increasing and interregional relationships are growing closer by the day. In order to make this trend solid and robust so as to build a basis for stable growth in the future, Japan, China, Korea, and the Association of Southeast Asian Nations (ASEAN) are exploring ways toward regional economic integration through free trade agreements (FTAs) and economic partnership agreements (EPAs). The world is watching closely to see how such an endeavor will bear fruit. The Chinese economy, which has been driving growth in Asia, continues to expand with vigor. On the other hand, there are increasing disparities within the country and shortages of energy and other resources, and these challenges have become conspicuous. What trajectory China's economic growth will follow and what impact it will give to the regional and global economy is being debated from various perspectives. On the other hand, if we turn to the United States, this year the congressional leadership has shifted to the Democrats and next year a presidential election will take place. So the country is at a turning point, particularly on the political front.

The changes in the United States are sure to significantly affect the future of Asia. Therefore, we are strongly interested in how the United States’ foreign and trade policies will evolve.

It is from these perspectives that we invited well-informed speakers from the United States, Japan, and other countries in Asia, to contribute to a lively discussion from diverse viewpoints. We hope that the symposium will help us better understand the future of Asia.

Lastly, I would like to take this opportunity to express my appreciation to Strobe Talbott, President of the Brookings Institution; Richard Bush, Senior Fellow and Director of the Center for Northeast Asian Policy Studies, Mr. Kevin Scott; and Ms. Sarah Thompson for making this symposium a reality. I hope you will enjoy this symposium. Thank you very much.

I would like to call upon Mr. Talbott of the Brookings Institution to deliver his remarks.

STROBE TALBOTT: Thank you very much, and thank you, Mr. Tanaka, for not only those very warm words of welcome, but also for so succinctly and clearly laying out both the program for the conference and also the regional and global context.

It remains for me only to express gratitude on behalf of the entire Brookings team, which Mr. Tanaka has mentioned. The Brookings team is also joined by Carlos Pascual, the Vice President and Director of Foreign Policy Studies at Brookings; Mike O'Hanlon, a Senior Fellow in our Foreign Policy Studies Program; Wing Thye Woo, an economist who works particularly on economies in this region of the world; and Ms. Annie Davis of our Development Office. All of us are extremely grateful to the Keizai Koho Center for the hospitality that has already been extended to us, and also for the extraordinarily hard work that has gone into preparing for this meeting and guaranteeing that it is going to be such a success. In addition to being grateful to Mr. Tanaka, we are also grateful to his colleagues Mr. Katsunori Kobayashi and Ms. Akemi Handa. Mr. Kobayashi, of course, is going to be our master of ceremonies.

Let me say also that it is gratifying that Keidanren itself is so well represented here at the conference. Mr. Yonekura, we are extremely grateful to you and also for your willingness to participate in the dinner and discussion last night.

A final word of thanks is extended to whoever in the audience represents All Nippon Airways. ANA made it possible, or at least a lot easier, for your American friends to come to Tokyo for this meeting. On a personal note, I might say that getting on flight NH001 with my wife the other day was kind of a sentimental journey because 21 years ago when I was a reporter for *Time* magazine, I had the honor to fly on the inaugural flight of NH001 to Tokyo, and I have used it many times over the years since then, so thanks to ANA as well. Now I think it's time to get down to business. Thank you very much.

[Applause]

MR. TANAKA: Thank you very much. We would like to proceed to the keynote speech. The first keynote speech will be by Mr. Hiromasa Yonekura, Vice President of Nippon Keidanren and President of Sumitomo Chemical Company Limited. He will be talking on the topic of the Japanese community's views toward economic integration in East Asia. As far as Mr. Yonekura's background is concerned, I will only very briefly introduce him, as biographic materials have been distributed to you. Mr. Yonekura graduated from the Faculty of Law, University of Tokyo, in 1960. He joined Sumitomo Chemical Company in the same year, and in 2000 he became the President of the company. Since 2004 he has been serving as the Vice Chairman of Nippon Keidanren and is now currently the Chairman of the Committee on Europe and also the Chairman on the Committee on Promotion of EPAs. Mr. Yonekura, the floor is yours.

HIROMASA YONEKURA: Thank you very much for your kind introduction. Good morning, ladies and gentlemen. My name is Hiromasa Yonekura. I serve as the Vice President of Nippon Keidanren and the Chairman of the Nippon Keidanren Committee on Promotion of Economic Partnerships. First and foremost, it is indeed a great pleasure that this symposium is being held with the attendance of very distinguished speakers from within and outside of Japan and with such a large audience under the joint auspices of the Brookings Institution and Keizai Koho Center.

Currently the network of FTAs and EPAs is being formed and centered primarily in East Asia; it is indeed timely that this symposium is being held today. Also I am most grateful for this opportunity, at such an auspicious symposium, to share with you my thoughts about the business community's views on EPAs.

Japan is in the midst of a major trend of globalization and population decline. Amidst those circumstances, in order for Japan to achieve sustainable growth, it is necessary that we reflect on the dynamism of Asia, which is expected to be quite remarkable in terms of its growth, and it is indispensable that Japan share the affluence with Asia. One important tool for this is the EPA, and I believe that we should pursue economic integration based on the network of EPAs. Also with the rise in global demand for resources, energy, and food, one of the immediate challenges is to strengthen our ties with the supply nations and also to ensure smooth transactions with such nations. EPA is an effective tool to realize this. Based on such a basic philosophy, Nippon Keidanren in October 2006 compiled the recommendation that has been distributed to you entitled "Seeking Enlargement and Deepening of EPA." While focusing on East Asia, we believe we should encourage an expeditious pursuit of a multilateral EPA, such as the ones with ASEAN countries, and also the bilateral EPAs with strategically important countries in parallel.

We have also been encouraging the government, the ruling parties, and various concerned parties to realize a comprehensive EPA with high quality. As a result, substantial progress was seen from the end of last year until this year. As far as the bilateral EPA between respective ASEAN countries are concerned, in addition to the already signed agreement with Singapore, Malaysia, and the Philippines, we signed an EPA with Thailand in April. Regarding Indonesia in November, and regarding Brunei in

December, there was a general agreement. As far as Vietnam is concerned, negotiations were launched in January of this year. We can say that we have a well-developed bilateral base of EPA, primarily with ASEAN countries. When accounting for non-ASEAN countries, trade with countries with whom Japan signed an EPA or has come to a general agreement accounts for only 14 percent of the total. If we add countries with whom negotiation is in progress or about to begin, that accounts only for one-third of total trade. Bearing in mind such trends, we need to further encourage the government to pursue the signing of EPAs with other countries.

As far as the future development of Japan's EPA is concerned, we need to expand our bilateral EPA to a multilateral front as well, and we need to expand primarily with a focus on Asia. In order to realize an EPA that extends to East Asia as a whole, it is necessary that Japan sign the so-called Japan-ASEAN Comprehensive Economic Partnership (JACEP) with ASEAN, which is now the hub of the EPA in Asia. If JACEP were to be realized, it would mean that on top of ASEAN Plus Three, which adds Japan, China, and Korea to ASEAN, and also ASEAN Plus Six, which further adds India, Australia, and New Zealand, JACEP would actually pave the way for an eventual broad, multilateral EPA on top of those already existing frameworks. As FTAs and EPAs with respective ASEAN countries are progressing, we believe that we are now at a phase where ASEAN Plus Three or ASEAN Plus Six cannot be viable without a JACEP. On that note, we welcome the general agreement for trade and goods between Japan and ASEAN, which was reached in the beginning of this month. We sincerely hope that this agreement can be signed and would go into effect as soon as possible.

As you are aware, it is amidst these circumstances that, at the APEC summit in November 2006, the United States put forward a proposal for an Asia Pacific Free Trade Area. The foundation of Japan's foreign relations is U.S.-Japan relations; therefore, the development of the East Asian region cannot be conceived apart from its relationship with the United States. From that perspective, at Nippon Keidanren in November 2006 we compiled a recommendation seeking the launch of a joint study on the Japan-U.S. EPA. The signing of the U.S.-Japan EPA has the significance of bridging economic integration in East Asia with the United States. Also in January of this year, jointly with the Business Roundtable, which is a group of leading managers from the United States, we compiled a similar statement and published it. Now that the U.S.-Japan relationship is at its best, we should begin researching a framework to enhance our bilateral economic partnership as the foundation for maintaining the strong relationship into the future.

Going forward, the criteria for selecting countries and regions to sign an EPA would be the following: One, countries where we can expect expansion and facilitation of trade and investment of an EPA. Second, countries and regions with which there is need to solve or avoid economic disadvantages. Third, countries with which relations need to be maintained and strengthened out of political and security concerns. From those perspectives at Nippon Keidanren, we urge a joint study of EPAs with the U.S. and E.U. as soon as possible.

Recently, the conclusion of the U.S.-Korean FTA was achieved. We believe this reaffirms the fact that a network of bilateral FTAs is now a major global trend. Korea has begun its FTA negotiations with the E.U. Up until now, the so-called FTA and EPA competition was based primarily in the East Asian region. However, that competition has now spread to cover the United States and the E.U.

As far as Japan is concerned, we should not lag behind such trends and there is a need for us to expand the network of EPA. In order to achieve this, Japan needs to accelerate structural reform, which is being pursued right here in Japan. The greatest challenge will be to build a competitive and healthy domestic agricultural industry that is compatible with the EPA. As far as the business community is concerned, we will continue to support agricultural structural reform in Japan and we also intend to encourage its steadfast implementation. As far as this particular challenge is concerned, we believe that the one test would be the EPA with Australia, for which negotiations have begun last month. Nippon Keidanren dispatched a mission headed by Keidanren's Chairman, Mr. Fujio Mitarai, to Australia this February. On the topic of agricultural products, we conveyed to government leaders and also to Prime Minister Howard that the EPA should be signed as soon as possible in order to allow the domestic reform we just started in Japan to be effective while giving due consideration to its treatment. On the other hand, in order to make the building of a competitive agricultural industry and the EPA compatible, we need to expedite the EPA's structural reform here in Japan. At the Council for Economic and Fiscal Policy, they have been strengthening the discussion on the need for agricultural reform. I have shared with you my thoughts on Nippon Keidanren's philosophy and actions toward EPA. We very much appreciate your understanding on our position and on our activities in this area, and I would very much appreciate your kind cooperation.

Last but not least, I would like to conclude by expressing my sincere wish that the discussion in this symposium will contribute to the further development of East Asia. I thank you for your kind attention.

[Applause]

MR. TANAKA: Thank you very much, Mr. Yonekura. Next I would like to call upon Mr. Mitoji Yabunaka, Deputy Minister for Foreign Affairs. In 1969 Mr. Yabunaka joined the Ministry of Foreign Affairs (MOFA). In 1973 he graduated from Cornell University. In 1998 he became Consular General of Japan in Chicago. In 2002 he became Director General in charge of ASEAN Affairs. Since 2005 he has served in the position of Deputy Minister for Foreign Affairs. Today he will speak about Japan's foreign policy. Mr. Yabunaka, please take the floor.

MITOJI YABUNAKA: Thanks for the introductions. Mr. Tanaka, Mr. Talbott, and all distinguished participants, first I would like to thank Keizai Koho Center and the Brookings Institution for giving me this opportunity to address the audience of this very important symposium.

At the outset I must say that if I sound wrong and stupid, my excuse is that I was in Tokyo for only six days in the past month and I am suffering a lack of sleep—overnight trips to Tehran, then Washington, D.C., back to the Middle East, with my Prime Minister, and then back to Bahrain. Last week I went to Moscow, Beijing, and came back yesterday.

More seriously, at this juncture I would like to elaborate on Japanese foreign policy initiatives in East Asia. It is said that the 21st century will essentially belong to Asia. You have already seen very, very dynamic changes taking place in East Asia triggered by the very spectacular rise of China, and there is also a very impressive economic performance by India. It is no exaggeration to say that the world's focus is now on these two countries; in contrast, Japan, especially in the late 1990s, has been off the world's radar screen.

Today, thanks to the economic recovery of Japan, the world has rediscovered Japan, which is still the second largest economy in the world and by far the largest economy in the region of East Asia. So what will be the Japanese diplomatic initiatives? What sort of role should Japan play in this dynamic East Asia of the 21st century?

As we pose this question to ourselves, we should consider three characteristics Japan possesses that should be assets of our foreign policy. The first is that Japan is the sole major advanced democracy in the region, is a member of the G-8 Summit, and shares basic values like freedom, democracy, human rights, rule of law, with a number of industrialized countries. When East Asia develops—and it will develop—it certainly must also embrace these basic, universal values. Japan can and should play a very significant role in making a difference in this region.

The second point is that Japan is the world leader in many high-tech areas; in particular, energy-efficient technologies or environmentally-friendly technologies. For East Asia to develop, they must also face very daunting challenges to address the climate change and energy security matters. Once again, Japan can and should play a very significant role working together with many of the East Asian countries to combat the climate change questions and challenges for environmental protection.

Thirdly, of course it is a mere, simple fact of geography that Japan is situated in East Asia and, being the largest economy of that region, should play a very great role for the East Asian regional cooperation.

But in order for Japan to play a more vigorous and effective role in advancing East Asian regional cooperation, Japan must first mend its ties and reestablish mutual trust with neighboring countries. As you know, as soon as Prime Minister Abe assumed his Premiership he visited China and the ROK, and actually China was the first destination of his overseas visits. Since then, we have seen a marked improvement in the Japan-China relationship, and last month Chinese Premier Wen Jiabao visited Japan. We are in the process of developing a mutually beneficial, strategic relationship.

I would like to call your attention to our new approach, which is somewhat different from the old, traditional approach. The old approach focused on friendship, whereas the new approach should focus on common strategic interests of our two countries. We should pursue common interests in a mutually beneficial manner.

There are many, many issues and challenges before us, including of course the North Korean issue, as well as energy and environmental questions that we can work on together. Indeed, on the North Korean issue, with Japan and China working very closely under the framework of the Six Party Talks, China has shown the sympathy and understanding on [inaudible] issues and even showed its readiness to extend help in answering these very important questions, which we appreciate.

We have also registered concern about China on their lack of transparency in its military buildup. We are very straightforward with China on this issue, but Premier Wen Jiabao's visit to Japan was a very good beginning. There is agreement on the importance of transparency of the policies of our respective countries. What you are going to see are increased mutual visits, even among those in uniform. So that is a good beginning.

Of course, there are some pending issues between the two countries; the development of resources of the East China Sea is the most pressing. We will have a meeting this week in Beijing on this matter. Both countries agreed to very, very basic principles of the joint development of resources, and yet it is no easy task to find very, very specific resolutions on these questions. I hope sincerely that in the meeting this week, China responds positively to Japan's positions.

I am sure that this marked improvement of the Japan-China relationship is widely welcome in the region and it will be an important impetus in advancing East Asian regional cooperation. As a matter of fact, two days ago I spent more than 10 hours at the trilateral meeting among Japan, China, and the ROK. We discussed a range of issues and agreed to work together very closely on the advancement of East Asian regional cooperation.

Let me be a bit more specific with regard to East Asian regional cooperation, which is very closely related to today's theme of the symposium. Of course, the concept of the East Asian community is itself a long shot to be realized, but significant efforts have been underway in this East Asia regional cooperation. In the last ten years it has been carried out under the framework of ASEAN Plus Three, and there are more than fifty committees or working groups under this framework that cover huge areas such as trade and investment, finance, the environment, information technology, culture, tourism, as well as anti-terrorism and anti-piracy. Of course, ASEAN sits in the driving seat in promoting this East Asia regional cooperation, but Japan has been the most ardent, positive contributor in advancing East Asian regional cooperation over the years.

Japan has, in the last thirty years, nurtured relations with ASEAN countries. ASEAN countries are always in a prioritized region for diplomacy. We have extended

very significant assistance for national building efforts as well as for the regional integration of ASEAN.

ASEAN also has played a very significant role in expanding EPA-FTA networks, which is very important for East Asian economic and regional cooperation. Japan has also, as Mr. Yonekura just mentioned, placed great importance in the advancement of EPA-FTA networks. Economic Partnership Agreement is a much broader concept than FTA, the Free Trade Agreement. Broader in what ways? It covers not only the goods and services, but investment and many systems of each country that involve intellectual property rights or even government procurement. Also, when we do negotiate with many ASEAN countries, we emphasize the importance of cooperation under this EPA—cooperation in advancing and helping the capacity-building of many ASEAN countries so that we can work together within this framework.

When we talk about East Asian regional cooperation, we realize we have entered into a new stage, a new era, as we have also included India, Australia, and New Zealand in addition to ASEAN Plus Three. Plus Three, of course, means Japan, China, and the ROK. Now we are talking about sixteen countries under the framework of the East Asia Summit, which started just two years ago. Japan has been an advocate for inclusion of those three countries, as we share the basic values, and because they are already very important players in this region.

In this regard, I also would like to talk a bit about our relations with India. Our leaders of the two countries have already agreed to enhance Japan-India relations to the level of a strategic global partnership by strengthening and expanding our ties not only in economic fields, but also in political and security fields. Today, economic figures in trade and investment are still very modest, but the potential is tremendous and Japan will vigorously promote our cooperation with India. As we all know, India needs a lot of improvement in its infrastructure and they are asking us for cooperation. When you go to Delhi, India, there is a metro transit system, which many Indians are now enjoying; in this regard, Japan has extended its cooperation. We are committed to doing even more in India's improvement of infrastructure.

These are examples of East Asian regional cooperation, which we have identified as one of the major diplomatic initiatives of the Japanese government. Of course, the Japan-U.S. alliance remains the cornerstone of Japanese foreign policy. Prime Minister Abe just completed his successful visit to Washington, D.C., last month and the two leaders, Prime Minister Abe and President Bush, agreed and reconfirmed the critical importance of the Japan-U.S. security alliance for the security and peace of this region. Our two leaders agreed to work closely and even strengthen our ties—political, economic, and security. Also, when we say this economic field, we mean that this includes regional cooperation. And when we talk about regional cooperation with the United States, of course APEC is an important framework. Japan is very committed to working together with the United States to enhance our cooperation under this framework of APEC, and Japan is going to the 2010 APEC Summit; we are very much committed to these efforts as well.

Now let me touch briefly upon a new diplomatic initiative called the “Arc of Freedom and Prosperity,” which our Foreign Minister Taro Aso has been advocating. This initiative is one to which Japan will extend assistance, working together with countries in East Asia as well as many other countries in Eurasia. This concept has been very favorably and warmly received by a number of countries. We are invited to next month's GUAM Summit as an observer. This invitation from the GUAM Organization for Democracy and Economic Development, consisting of member states Georgia, Ukraine, Azerbaijan, Moldova, is another example of assurances that this idea has been pretty favorably received by those countries.

This morning I touched upon most of our diplomatic initiatives in East Asia, but of course our foreign policy horizon extends farther, as evidenced by the Prime Minister's recent visit to Middle East countries during the early part of this month. Prime Minister Abe visited Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Egypt, and we of course discussed the issues of Iraq, Iran, and the Middle East Peace Process. In view of the rather limited time this morning, I would like to very briefly touch upon our initiative with regard to the Middle East peace process. We have put forward an idea of a “corridor of peace and prosperity.” This is an initiative to develop an agricultural complex in the Jordan Valley, working together with Palestinians and Jordanians, with the support of Israel. These four countries, including Japan, share the goal of promoting this idea. When Prime Minister Abe visited those Middle Eastern countries, as I said, King Abdullah of Saudi Arabia showed great interest and asked what Saudi Arabia can do for the successful completion of this project. So this is one example that Japan is playing and trying to play a role in the Middle East peace process.

Of course, Russia is a very important country for Japan. Foreign Minister Aso visited Moscow during the beginning of this month. Actually, I was also in Moscow last week for the preparation of the upcoming summit between Prime Minister Abe and President Putin, which will take part next month at the juncture of the G-8 Summit in Germany. Afghanistan is another very important country for us. Prime Minister Abe made a very historic speech before the North Atlantic Council in January of this year and agreed with NATO that we are going to cooperate in Afghanistan for its reconstruction efforts. So the list goes on and on when it comes to Japanese diplomatic initiatives and policies, but in view of this rather lengthy time allotment, in conclusion I would also like to touch upon the importance of next year, the year 2008, for Japanese diplomacy.

There are two very important meetings next year in Japan. One is, of course, the G-8 Summit, named the Hokkaido Toya G-8 Summit. Prime Minister Abe already said that climate change is one of the major items on the agenda for that G-8 Summit. Another important meeting that Japan is going to host is the Tokyo International Conference for African Development (TICAD-4). As early as 1993, Japan started this undertaking with African countries and with other international organizations. Every five years we have had these meetings in Tokyo, and the next year, 2008, will be the fourth meeting, so we have named it TICAD-4. We are going to discuss many issues that Africa faces. Our idea

is that we respect the ownership of Africa in working with African countries, and try to find ways for their development.

As we pursue these proactive diplomacies in many areas, Japan also is firmly committed to seeking a permanent seat in the Security Council of the United Nations and will continue to work for U.N. reform with many other countries. I would like to talk more, but in view of the time allocated to me, this is rather the quick overview of Japanese foreign policy. Once again, let me thank the organizers for giving me an opportunity to speak in front of these very distinguished delegates. Thank you very much.

[Applause]