Northeast Asia and FTAs: Issues and Perspectives[1]

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Abstract

While East Asia has now become one of the most active regions in constructing FTA (free trade agreement) networks, FTA negotiations among Northeast Asian countries, particularly Japan, the Republic of Korea (ROK) and China, have not made significant progress despite their mutual trade dependency. At the same time, there is concern that the level of liberalization for trade in goods under the existing FTAs concluded by Japan is relatively low compared with other FTAs such as the US-ROK FTA and the ASEAN Free Trade Area (AFTA), and that this would hamper the realization of a "new open regionalism."

This paper first provides an overview of FTAs in East Asia and the Asia-Pacific and discusses some issues relating to the liberalization indices of FTAs. It is followed by an examination of the FTAs signed by Japan, particularly concerning the detailed commitment to the removal of barriers to trade in goods, in order to identify the pattern of protection by product and to assess the feasibility of Northeast Asian FTAs from the Japanese perspective. One important finding is that the level of protection in Japan is not monotonic at all, even in the agricultural sector, and only a small number of agricultural products, most of which are produced in very limited geographical areas in Japan, are heavily protected in every trade agreement. Although creating clean FTAs in Northeast Asia is not an easy task politically, we should conclude them in order to not only garner the direct economic benefits but also to lead a "new open regionalism," after the Doha Development Agenda ends in a small-scale deal.

1. Sluggish Northeast Asian Integration amid Fast-Evolving Economic Diplomacy

East Asia[2] has been a significant world growth center for decades, and most notably, the unprecedented development of production/distribution networks in the manufacturing sector has been progressing since the beginning of the 1990s.[3] East Asian economies, particularly China and the older members of ASEAN, have adopted aggressive trade and investment-related policies to effectively utilize globalizing market forces. These policies, however, were not well-organized and coordinated from the beginning; rather, piecemeal, trouble-shooting measures were built up in a haphazard fashion. There was also barely any international collective action. Intensive effort toward *de jure* economic integration has developed only since the Asian economic crisis. In addition East Asia has now become one of the most active regions in constructing FTA networks, and *de jure* economic integration is quickly catching up with *de facto* economic integration in this region. As presented in Table 1, at least in terms of trade in goods, to date 76 out of the 78 possible combinations of bilaterals in East Asia are already covered by FTAs, have FTAs under negotiation, or have an agreement to negotiate FTAs. Moreover, East Asia, with its growth, is without doubt attracting the interest of countries outside the region, and a number of FTAs with non-East-Asian countries have also been negotiated and concluded.

We observe, however, a notable anomaly in the formation of FTA networks in East Asia: Japan, the Republic of Korea (hereinafter the ROK), and China have not been linked by FTAs yet. These three countries are large in size and are major players in production/distribution networks extending throughout East Asia. In particular, it has been pointed out that the supply of capital goods and intermediate goods from Japan is essential to manufacturing activities in the ROK and China. This implies that tariff elimination on Japan's exports of these products would enhance the competitiveness of manufactured goods in the ROK and China.[4] The links between the three are no doubt essential, both economically and politically, to East Asian integration. However, FTA negotiations between and among Japan, the ROK and China have not made significant progress. As a consequence, ASEAN has taken the driver's seat in integration initiatives and has become a "hub" for the FTA networks in East Asia.

In any case, since the ASEAN countries are small in size and consist mostly of developing countries, they cannot offer real leadership in drawing up a clear roadmap

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[2] "East Asia" primarily means the 10 ASEAN nations plus 3 (Japan, the ROK and China) in this paper, as well as the surrounding economies in some contexts.
[3] As for the formation of international production/distribution networks, see Kimura (2006).
[4] Kimura and Ando (2003).

Table 1 Status of FTAs in the Asia-Pacific Region (as of April 2008)

	Russia	Mongolia	Japan	Rep of Korea	China	Philippines	Indonesia	Malaysia	Thailand	Singapore	Brunei	Vietnam	Laos	Cambodia	Myanmar	India	Australia	New Zealand	Taiwan	United States	Canada	Mexico	Peru	Chile
Russia	■			△												△								
Mongolia		■																						
Japan			■	○	△	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	○	○				△	◎		◎
Republic of Korea	△		○	■	△	◎	◎	◎	○	◎	◎	◎	◎	◎	◎	○	△	△		◎	○	○	△	◎
China			△	△	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	△	○	◎						◎
Philippines			◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	◎	○	□	□						
Indonesia			◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	○	□	□						
Malaysia			◎	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	○	○	○		○				○
Thailand			◎	○	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	◎		○			◎	
Singapore			◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	◎	◎	◎	◎	◎	△	◎	○	○	○	◎
Brunei			◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	◎	○	□	◎						◎
Vietnam			◎	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	◎	○	□	□						
Laos			◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	◎	○	□	□						
Cambodia			◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	■	◎	○	□	□						
Myanmar			◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	■	○	□	□						
India	△		○	○	△	○	○	○	◎	◎	○	○	○	○	○	■	△	△						△
Australia			○	△	○	□	□	○	◎	◎	□	□	□	□	□	△	■	◎		◎				○
New Zealand				△	◎	□	□	○	◎	◎	◎	□	□	□	□	△	◎	■						◎
Taiwan										△									■	△				
United States				◎				○	○	◎							◎		△	■	◎	◎	◎	◎
Canada			△	○						○										◎	■	◎	○	◎
Mexico			◎	○						○										◎	◎	■	○	◎
Peru				△					◎	○										◎	○	○	■	◎
Chile			◎	◎	◎			○		◎	◎					△	○	◎		◎	◎	◎	◎	■

Note: ◎: Entered into force / signed
○: Under negotiation / agreed to negotiate (bilateral)
□: Under negotiation / agreed to negotiate (plurilateral)
△: Under consideration (intergovernmental basis) / feasibility study initiated
Sources: Authors' compilation from the following Websites. World Trade Organization (http://www.wto.org), Organization of American States (http://www.sice.oas.org/), Asian Development Bank (http://aric.adb.org/regionalcooperation/), Ministry of Foreign Affairs, Japan (in Japanese) (http://www.mofa.go.jp), Ministry of Foreign Affairs and Trade, Republic of Korea (http://www.mofat.go.kr), Ministry of International Trade and Industry, Malaysia (http://www.miti.gov.my), Department of Trade Negotiation, Thailand (http://www.thaifta.com), Ministry of Trade and Industry, Singapore (http://app.fta.gov.sg), Ministry of Commerce and Industry, India (http://commerce.nic.in), Department of Foreign Affairs and Trade, Australia (http://www.dfat.gov.au), Ministry of Foreign Affairs and Trade, New Zealand (http://www.mfat.govt.nz), Office of the United States Trade Representative (http://www.ustr.gov), Foreign Affairs and International Trade Canada (http://www.dfait-maeci.gc.ca), Ministry of the Economy, Mexico (http://www.economia.gob.mx), Ministerio de Comercio Exterior y Turismo, Peru (in Spanish) (http://www.mincetur.gob.pe), Ministry of Foreign Affairs, Chile (http://www.direcon.cl).

for deeper integration for the whole of East Asia.

While East Asia struggled in establishing its own identity, a new wave of integration initiatives was born in the Asia-Pacific: the emergence of bilateral FTAs with extremely high liberalization coverage for trade in goods. FTAs recently concluded by Singapore, Australia, and the United States—most notably the ROK-US FTA—commit to the removal of tariffs and other trade impediments with almost no exclusions. The ASEAN Free Trade Area (AFTA) is also completing a clean FTA with few exclusions among its six oldest members, although FTAs between ASEAN member countries and outsiders still tend to have a substantial number of commodities excluded from the liberalization list.

The authors believe that the implications of clean FTAs are profound. Concluding clean FTAs with all major trading partners virtually means a new type of "open regionalism." FTAs are often regarded as a "dirty" policy tool because (i) trade liberalization is applied in a discriminatory manner (trade is liberalized only among member countries), which may create trade diversion effects,[5] and (ii) a certain proportion of commodities can

legally be excluded from trade liberalization even within an FTA ("substantially all the trade" under GATT Article XXIV does not mean "all the trade"). These claims are accompanied by possible complications due to confusing rules of origin in overlapping bilateral/plurilateral FTAs (the spaghetti bowl phenomenon[6]). However, if a country concluded FTAs covering all commodities with every country, none of the criticisms above would continue to apply. A country with complete FTAs with all trading partners would ultimately not care about the rules of origin, and such FTAs would not create any trade diversion effect.

The concept of "region" would become substantially weakened here; rather, any country could be a counterpart with respect to sharing a solid commitment to trade liberalization. The "new open regionalism" is something akin to old-fashioned unilateral liberalization or multilateral liberalization under the WTO, but there is one crucial difference; it is accompanied by a strong "domino effect," where FTA negotiations stimulate and accelerate trade liberalization in other countries.[7] Some may claim that the importance of "open regionalism" has already been acknowledged and pursued by APEC-member economies. However, the importance of the level of liberalization within an FTA was not sufficiently emphasized in the APEC arena.

Because scholars and policymakers are still obsessed with the old concept of dirty regionalism, the potential of "new open regionalism" has not been explicitly argued for yet. When, however, the Doha Development Agenda ends with a small-scale deal and countries start seeking new trade liberalization agendas, the "new open regionalism" may become a driving force for seeking a new international economic order. Countries sharing the concept of "new open regionalism" would lead the process not only on liberalization of trade in goods, but also on constructing a new international economic order for the era of globalization.

The purpose of this paper is to review some of the FTAs signed by Japan, in order to identify the pattern of trade protection by product and to assess the political feasibility of Northeast Asian FTAs from a Japanese perspective. To do so, we pay particular attention to Japan's commitment to tariff elimination on trade in goods, by using detailed information from Japan's tariff schedule, and investigate what is consistently and heavily protected in trade agreements signed by Japan.

The remainder of the paper is organized as follows: Section 2 reviews the profile of FTAs concluded by Japan, the ROK and China. Section 3 discusses issues such as how to measure the degree of liberalization under an FTA. Section 4 investigates the pattern of trade protection in Japan in greater detail and briefly assesses the possible political impacts of FTA negotiations for the three countries. Section 5 discusses, from Japan's perspective, the necessity of integrating the Northeast Asian economy. A short conclusion follows in Section 6.

2. Review of FTAs Concluded by Japan, the ROK and China

As mentioned in the previous section, the countries of East Asia are now actively engaged in FTA negotiations. The government of Japan has also acknowledged the importance of FTAs. In 2004, the Council of Ministers on the Promotion of Economic Partnership confirmed that FTAs contribute to the attaining of Japan's economic interests as a mechanism to complement the multilateral free trade system overseen by the World Trade Organization (WTO), and clearly stated that "The government shall do its utmost to conclude these EPAs as soon as possible."[8] Japan, to date, has signed FTAs with Singapore (2002), Mexico (2004), Malaysia (2005), the Philippines (2006), Chile (2007), Thailand (2007), Brunei (2007), Indonesia (2007) and ASEAN (2008)(Table2). Japan's series of negotiations with ASEAN countries have clearly accelerated after the tariff reductions under the China-ASEAN FTA came into effect in 2005 and the ROK signed an FTA with ASEAN in 2006, just as the "domino effect" theory predicted.

Table 2 Status of Japan's FTA Negotiations

Counterpart	Negotiation started	Agreement signed	Entry into force
Singapore	01/2001	01/2002	11/2002
Mexico	11/2002	09/2004	04/2005
Malaysia	01/2004	12/2005	07/2006
Chile	02/2006	03/2007	09/2007
Thailand	02/2004	04/2007	11/2007
Philippines	02/2004	09/2006	
Brunei	06/2006	06/2007	
Indonesia	07/2005	08/2007	
ASEAN	04/2005	04/2008	
GCC	09/2006		
India	01/2007		
Vietnam	01/2007		
Australia	04/2007		
Switzerland	05/2007		
(Republic of Korea)	12/2003	(11/2004: negotiation suspended.)	

Source: MOFA Website (http://www.mofa.go.jp).

[5] Viner (1950)-a classic article presenting a theoretical case in which both member and non-member countries could suffer due to trade diversion effects.

[6] The spaghetti bowl phenomenon was first pointed out by Bhagwati (1995) and further clarified by Bhagwati *et al*. (1998).

[7] Using a political economy framework, Baldwin (1995) shows that the participation of a country in an RTA induces pro-participation lobbying activities by exporters in other non-member countries who face greater cost disadvantage in the market. This induces further expansion of the RTA, which he calls the domino effect.

[8] Council of Ministers on the Promotion of Economic Partnership, "Basic Policy toward Further Promotion of Economic Partnership Agreements" (21 Dec 2004), available at http://kantei.go.jp/jp/singi/keizairenkei/kettei/041221kettei.html.

Table 3 presents the basic profiles of the current FTA partners of Japan, the ROK and China. It should be stressed that Japan's export dependency on its existing FTA partners amounts to a mere 13.4% , which is well below those of the ROK (22.9%) and China (24.5%). While Japan's current FTA partners, particularly those of ASEAN countries, are playing an essential role in the production networks of East Asia, Japanese exporters are still dependent to a great extent on the US (22.8%), Chinese (14.3%) and ROK (7.8%) markets. This implies that some Japanese exporters are still facing tariffs and cost disadvantages as a non-FTA partner in these major markets. Japan and China have so far been reluctant to initiate negotiations with countries with a large market size. The market size of Japan's FTA partners is relatively small in terms of GDP (4.2% of the world total), as well as in population (10.4% of the world total).
Concluding FTAs with major trading partners and countries with large market size is essential in pursuing a new open regionalism. In this sense, the ROK has made a significant step toward the realization of this concept by signing the ROK-US FTA as well as starting negotiations with the EU in 2007.

3. Issues Relating to the Liberalization Indices of FTAs

Before assessing the quality of Japan's FTAs, we will investigate the properties of the indices measuring the degree of liberalization in an FTA from the viewpoint of welfare, as using indices without knowing what is being measured would be meaningless. The level of liberalization under an FTA is usually assessed by the "trade value" index or the "tariff line" index. In the trade value approach, the index (*LL_TV*) is defined as the sum of the duty-free import values from a partner country divided by the total import values from the same country, which is:

$$LL\_TV \equiv \frac{M_j^F}{M_j} = \frac{\sum_{i=1}^{l} m_{ji}^F}{\sum_{i=1}^{l} m_{ji}^F + \sum_{k=1}^{n} m_{jk}^T}, \quad (1)$$

where M_j is the *current* (or *a given past year's*) total import value from an FTA partner country *j*, M_j^F is the sum of duty-free import values from *j* when applying an *ex-post* FTA tariff structure[9] to the *current* (or *a given past year's*) import values, m_{ji}^F is the *current* import value of *ex-post* duty-free product *i* from *j*, and m_{jk}^T is the *current* import value of product *k* from *j* to be excluded from the tariff elimination list under the FTA.

This *LL_TV* index tells us the share of duty-free imports from an FTA partner when applying an *ex-post* tariff structure to the *current* import values. This index, however, neither precisely represents the possible level of social welfare in the importing country after the conclusion of the FTA nor the degree of effort toward liberalization during the negotiations. The denominator, the total import value from a partner, might be understated (thus the index becomes overstated if the numerator is constant) when compared with the possible total import value under free trade, if some products are exempted from the liberalization schedule under the FTA.[10] Consider the extreme example

Table 3 Profile of FTA Partner Countries

	Japan	ROK	China	Australia
FTA partner countries	ASEAN, Mexico, Chile	ASEAN (ex. Thailand), US, Chile, EFTA	ASEAN Chile, Pakistan, Hong Kong, Macao, New Zealand	US, Singapore, Thailand, New Zealand
Trade dependency on partner countries				
Export (2006)	13.4%	22.9%	24.5%	17.0%
Import (2006)	15.5%	21.4%	13.7%	26.8%
Market size of partner countries				
Population (% of world total, 2006)	10.4%	12.6%	11.4%	5.7%
GDP (% of world total, 2006)	4.2%	30.7%	3.4%	28.1%
Top 3 export markets and export dependency (2006)	US (22.8%) China (14.3%) ROK (7.8%)	China (21.3%) US (13.3%) Japan (8.2%)	US (21.0%) HK (16.0%) Japan (9.5%)	Japan (19.8%) China (12.5%) ROK (7.5%)

Sources: World Bank "WDI Online"; United Nations "Comtrade".

[9] Tariff structure after the transitional period of an FTA.
[10] This problem is similar to that of measuring trade policy restrictiveness by the trade-weighted average tariff, pointed out by Anderson and Neary (2005).

of a two-good partial-equilibrium setting, where country *A* has been importing good *i* from a partner country *B* without imposing any tariff, whereas it has never imported good *k* from *B* at all due to a prohibitive tariff. One can recognize that *LL_TV* becomes 100%, when *A* concludes a dirty FTA with *B* without reducing the prohibitive tariff against good *k*. In this case, both numerator and denominator are the import value of good *i*, and therefore *LL_TV* becomes 100%, which has nothing to do with the degree of effort toward liberalization by *A* during the negotiations. Furthermore, as shown in Figure 1 in a setting with five goods on which prohibitive tariffs are initially imposed, *LL_TV* fluctuates when a country gradually liberalizes tariffs from one product to the next, and it correlates with neither the welfare level nor the effort toward liberalization by the importing countries. These properties become especially problematic in assessing the quality of FTAs concluded by a country like Japan, where most industrial products have already been liberalized, whereas a small number of agricultural products are heavily protected and tariffs would be gradually liberalized through conclusion of a series of FTAs.

On the other hand, in the tariff line approach, the index *LL_TL* is simply defined as the share of *ex-post* duty-free tariff lines against an FTA partner out of the total number of tariff lines in the importing country:

$$LL\_TL \equiv \frac{TL_j^F}{TL} = \frac{\sum_{i=1}^{l} tl_i^F}{\sum_{i=1}^{l} tl_{ji}^F + \sum_{k=1}^{n} tl_{jk}^T}, \qquad (2)$$

where *TL* is the total number of tariff lines (usually 6-digit or more detailed HS code) in the importing country, TL_j^F is the *ex-post* total number of duty-free tariff lines vis-à-vis a partner country *j*, tl_{ji}^F is an *ex-post* duty-free product *i* from *j*, and tl_{jk}^T is product *k* from *j* exempted from tariff elimination under the FTA.

The index *LL_TL* also doesn't tell us about the absolute impact of liberalization on bilateral trade, because the weighting for each tariff line is treated equally regardless of its actual import value. As shown in Figure 1, however, this index doesn't fluctuate unless tariffs are raised, which is unlikely in the case of FTA negotiations, and thus it is useful in giving a brief assessment of the effort toward tariff elimination by a country, by comparing shares of *ex-ante* and *ex-post* duty-free tariff lines.

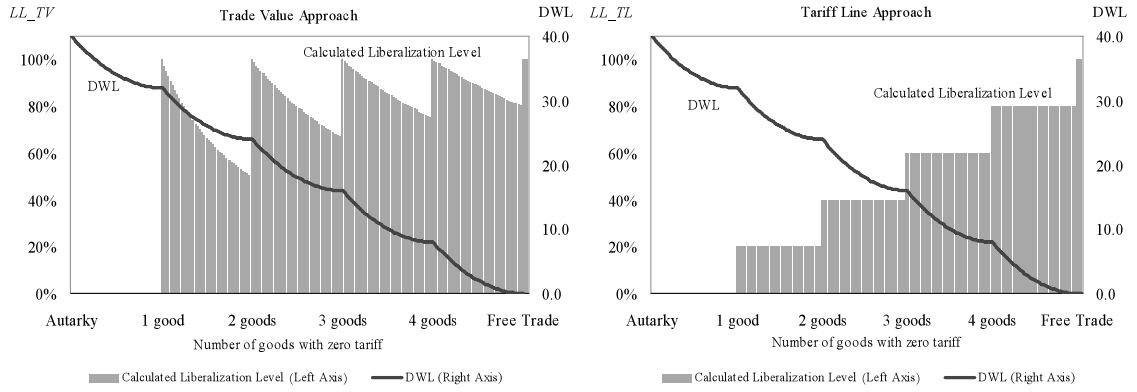
As presented in Table 4, most of Japan's FTAs eliminate tariffs for over 90% of its current "import values," whereas they realize tariff elimination of less than 90% of Japan's "tariff lines" under the Japan-Singapore, Japan-Mexico, and Japan-Malaysia FTAs. The levels of commitment to free trade under these FTAs are rather low compared with other FTAs concluded by developed countries in East Asia that realize tariff elimination with almost no exclusion in terms of tariff lines. Most notably, Singapore and Australia have been trying to completely eliminate their tariffs under their FTAs. The ROK also realized tariff elimination for 99.7% of its tariff lines under the ROK-US FTA.

4. The Pattern of Protection under Japan's FTAs and the WTO

In the previous section, we briefly reviewed the FTAs concluded by Japan and other major East Asian countries and found that Japan was relatively behind in its coverage of tariff elimination. In this section, we narrow our focus to Japan's FTAs, particularly the Japan-Singapore, Japan-Mexico and Japan-Malaysia FTAs, and we investigate the levels of liberalization by sector, industry, product group, and product.

This aims to examine the pattern of protection under Japan's FTAs as well as to identify consistently and heavily protected products in each agreement.[11] We only use the

Figure 1: Impact of Gradual Tariff Reduction on Liberalization Indices and Deadweight Loss



Note: Indices (*LL_TV* and *LL_TL*) and DWL (Deadweight Loss) are calculated by assuming a linear import demand function, *q=a-bp* (a=5, b=1), in a partial equilibrium, five-goods setting. For ease of exposition, we also assume that the import demand function is unique for individual goods, and world prices for respective goods are normalized at unity.
Source: Authors' simulation.

[11] Among the few papers assessing the level and pattern of liberalization/protectionunder the Japan's FTAs, Ueno (2007) compares the aggregated level of liberalization under Japan's FTAs with a number of other FTAs. Although Cheong (2006) compares the level of liberalization for the agricultural sector under a number of FTAs, the paper doesn't investigate in detail the pattern of protection by product in Japan's FTAs.

"tariff line" index (*TT_LT*) in order to avoid the problems that stem from using the "trade value" index (*TT_LV*) as mentioned above.

In this section, we do not regard products protected by non-tariff barriers (import quotas and state trading mechanisms) as "liberalized products", even if the products' tariff rates are zero. Despite the facts that (i) both import quotas and state trading mechanisms can be more severe impediments than tariffs, and (ii) GATT Article XXIV, 8(b) states that upon conclusion of an FTA not only should tariffs alone be eliminated from "substantially all the trade" but "tariffs and other restrictive regulations" as well, these measures have often been ignored in previous studies and government publications. [12]

Table 5 shows the level of liberalization by sector and industry under the three FTAs, as well as under

Table 4 Coverage of Within-Ten-Year Tariff Elimination under Major FTAs in East Asia

	FTA	Importer	Coverage of Tariff Elimination		Source
			Tariff Line	Trade Value	
Japan	Japan—Singapore	Japan	76.2% (*)	94.0%	1
	(before amendment)	*Singapore*	*NA*	*100.0%*	
	Japan—Mexico	Japan	87.0% (*)	87.0%	3
		Mexico	*NA*	*98.0%*	
	Japan—Malaysia	Japan	88.8% (*)	94.0%	1
		Malaysia	*NA*	*99.0%*	
	Japan—Philippines	Japan	NA	92.0%	1
		Philippines	*NA*	*97.0%*	
	Japan—Indonesia	Japan	NA	93.0%	1
		Indonesia	*NA*	*90.0%*	
	Japan—Thailand	Japan	NA	92.0%	1
		Thailand	*NA*	*97.0%*	
	Japan—Brunei	Japan	NA	99.9%	1
		Brunei	*NA*	*99.9%*	
	Japan—Chile	Japan	NA	90.1%	2
		Chile	*NA*	*99.8%*	
	(MFN Applied Tariff, Jan. 2007)	Japan	40.9% (*)	NA	
ROK	ROK—Chile	ROK	96.3%	99.9%	4
		Chile	*98.8%*	*96.2%*	
	ROK—Singapore	ROK	91.6%	NA	5
		Singapore	*100.0%*	*100.0%*	
	ROK—ASEAN	ROK	No less than 90%	No less than 90%	7
		ASEAN6	No less than *90%*	No less than *90%*	
	ROK—US	ROK	99.7%	NA	5
		US	*100.0%*	*NA*	
China	China—ASEAN	China	95.0%	NA	4
Australia	Australia—US	Australia	100.0%	100.0%	4
		US	*98.1%*	*99.2%*	
	Australia—Thailand	Australia	100.0%	100.0%	4
		Thailand	*100.0%*	*100.0%*	
	Australia—New Zealand	Australia	100.0%	100.0%	4
		New Zealand	*100.0%*	*100.0%*	
	Australia—Singapore	Australia	100.0%	100.0%	6
		Singapore	*100.0%*	*100.0%*	
ASEAN	AFTA	ASEAN6	98.0%	NA	4
		CLMV	*50.0%*	*NA*	

Sources: 1) MOFA "On Economic Partnership Agreements (EPA)" (Paper presented at the Council on Economic and Fiscal Policy (CEFP) on Feb. 7th, 2007. available at: http://www.keizai-shimon.go.jp/special/global/epa/02/item1.pdf.
2) METI Website, available at: http://www.meti.go.jp/policy/trade_policy/index.html.
3) METI (2007), p. 502.4) Ueno (2007) pp. 17-19.
4) Ueno (2007) pp. 17-19.
5) Chae, Wook (2007) "Korea's FTA Policy: Achievement and Policy Agenda"- available at: http://www.kiep.go.kr/kiepNews/seminar_data_view.asp?num=180085
6) WTO (2007) p. 22.
7) JETRO Tsuusyou-kouhou (June 16, 2006)
(*) Authors' calculation from Japan's tariff schedule published by Japan Customs, and the original texts of FTAs.

[12] For example, neither status of import quota nor state trading mechanism under Japan's FTAs is mentioned in METI (2007).

Table 5: Levels of Liberalization by Sector and Industry

	Industry (HS section)	Current Levels of Liberalization			
		JPN-SIN	JPN-MEX	JPN-MAS	MFN
	Total	**75.8**%	**85.4**%	**88.3**%	**40.6**%
	Agricultural Sector (Sec. 1-4)	18.8%	41.7%	54.0%	18.8%
	Manufacturing Sector (Sec. 5-21)	92.4%	98.0%	98.3%	46.9%
1	Live Animals, Animal Products	19.9%	46.2%	38.5%	19.9%
2	Vegetable Products	29.2%	50.0%	76.0%	29.2%
3	Animal or Vegetable Fats and Oils, etc.	23.0%	36.8%	57.5%	23.0%
4	Prepared Foodstuffs, Beverages, Tobacco	10.1%	33.1%	49.6%	10.1%
5	Mineral Products	91.7%	100.0%	99.5%	75.5%
6	Products of Chemical or Allied Industries	94.7%	96.6%	99.1%	38.0%
7	Plastics, Rubber and Articles Thereof	93.9%	100.0%	100.0%	34.8%
8	Hides and Skins, Leather and Bags, etc.	29.3%	88.9%	88.0%	28.9%
9	Wood, Cork and Articles Thereof, etc.	36.3%	80.9%	82.8%	36.3%
10	Pulp, Paper or Paperboard, etc.	100.0%	100.0%	100.0%	100.0%
11	Textiles and Textile Articles	99.5%	99.5%	99.5%	4.1%
12	Footwear, Headgear, Umbrellas, etc.	22.0%	86.6%	78.0%	4.7%
13	Articles of Stone, Ceramic, Glass, etc.	100.0%	100.0%	100.0%	60.4%
14	Pearls, Precious Stones and Metals, etc.	98.8%	100.0%	100.0%	72.5%
15	Base Metals and Articles of Base Metal	100.0%	100.0%	100.0%	71.9%
16	Machinery and Electrical Machinery	100.0%	100.0%	100.0%	98.5%
17	Transport Machinery	100.0%	100.0%	100.0%	99.3%
18	Optical & Precision Instruments, etc.	98.9%	100.0%	100.0%	96.8%
19	Arms and Ammunition	100.0%	100.0%	100.0%	0.0%
20	Miscellaneous Manufactured Articles	98.4%	100.0%	100.0%	56.3%
21	Works of Art, Antiques	100.0%	100.0%	100.0%	100.0%

Note: The figures are the zero tariff lines' shares of the total number of tariff lines for the respective sectors and industries (and agriculture) (HS sections).
Source: Authors' calculation.

the most-favored nation (MFN) tariff regime for WTO member countries. Under the FTAs, both agricultural and manufacturing sectors have made significant progress in eliminating trade barriers, compared with the commitments within the WTO framework. Even in the agricultural sector, liberalized products account for 41.7% and 54.0% in the Japan-Mexico and Japan-Malaysia FTAs, respectively, whereas they account for only 18.8% under the WTO regime. Yet, the level of liberalization in the agricultural sector is still notably low when we consider the fact that 98% or over of tariff lines are liberalized in the manufacturing sector under the two newer FTAs and that quite a few manufacturing industries, of which some are still protected under the WTO regime, realized a 100% level of liberalization under the three FTAs.

The fact that the level of liberalization in the agricultural and manufacturing sectors widely differ doesn't necessarily mean that the level of liberalization within the agricultural sector is flat.

Table 6 provides further disaggregated information on the agricultural sector. It clearly shows heterogeneous levels of liberalization across agricultural product groups. Product groups such as "Live Trees and Other Plants, Cut Flowers (HS06)" and "Vegetable Plaiting Materials, Vegetable Products n.e.s. (HS14)" have already reached complete liberalization in some agreements, and product groups such as "Edible Vegetables (HS07)", "Edible Fruits and Nuts (HS08)" and "Preparations of Vegetables, Fruits, Nuts (HS20)" under the two newer agreements have made significant progress when compared to the first agreement with Singapore and to the WTO regime. On the other hand, there are some product groups, such as "Dairy Products, Birds' Eggs, Natural Honey (HS04)", "Cereals (HS10)", "Products of Milling Industry, Malt, Starches, Insulin, Wheat Gluten (HS11)", "Sugars and Sugar Confectionery (HS17)", and "Preparations of Cereals, Flour, Starch or Milk, Pastry Cooks' Products (HS19)" that are consistently and heavily protected across the trade agreements.

We constructed an index, called the "achievement index" (*ACHV*), to identify consistently and heavily protected products using a more disaggregated classification (4-digit HS codes). This index is defined as the number of tariff lines that have been liberalized by one of the FTAs ($\sum tl_{i\in n}^{SIN\tau=0\%} \cup \sum tl_{i\in n}^{MEX\tau=0\%} \cup \sum tl_{i\in n}^{MYS\tau=0\%}$) or tariff lines of which either the MFN tariff rates or the unilateral preferential tariff rates for the least developed countries (offered by Japan under the Generalized System of Preferences (GSP) scheme) are 10% or less ($\sum tl_{i\in n}^{WTO\tau\le 10\%} \cup \sum tl_{i\in n}^{GSP\tau\le 10\%}$), divided by the total number of tariff lines in the HS4 classification n.[13]

[13] MFN tariff rates and tariff rates for LDCs under the GSP scheme are from Japan's Tariff Schedule as of Jan. 1st 2007. Note that the number of products with a zero tariff under the GSP has since expanded.

Table 6: Levels of Liberalization by Agricultural Product Group

	Products (2-digit HS Code)	Current Coverage			
		JPN-SIN	JPN-MEX	JPN-MAS	MFN
1	Live Animals	84.6%	84.6%	84.6%	84.6%
2	Meat and Edible Meat Offal	24.8%	30.1%	42.5%	24.8%
3	Fish and Crustaceans, Molluscs, etc.	4.0%	61.5%	36.0%	4.0%
4	Dairy Products, Birds' Eggs, Natural Honey	5.6%	8.3%	9.7%	5.6%
5	Products of Animal Origin, n.e.s.	87.1%	93.5%	100.0%	87.1%
6	Live Trees and Other Plants, Cut Flowers	85.7%	100.0%	100.0%	85.7%
7	Edible Vegetables	10.9%	62.2%	85.7%	10.9%
8	Edible Fruits and Nuts	10.9%	55.4%	92.1%	10.9%
9	Coffee, Tea, Mate and Spices	48.6%	54.2%	97.2%	48.6%
10	Cereals	26.7%	26.7%	40.0%	26.7%
11	Products of Milling Industry, Malt, Starches, Inulin, Wheat Gluten	10.8%	10.8%	31.2%	10.8%
12	Oil seeds, Misc. Grains and Seeds, Industrial or Medical Plants	59.5%	63.5%	81.1%	59.5%
13	Lac, Gums, Resins, etc.	66.7%	71.4%	85.7%	66.7%
14	Vegetable Plaiting Materials, Vegetable Products n.e.s.	43.8%	43.8%	100.0%	43.8%
15	Animal or Vegetable Fats and Oils	23.0%	36.8%	57.5%	23.0%
16	Preps. of Meat and Fish	6.0%	52.0%	28.0%	6.0%
17	Sugars and Sugar Confectionery	10.2%	10.2%	24.5%	10.2%
18	Cocoa and Cocoa Preparations	13.3%	16.7%	30.0%	13.3%
19	Preps. of Cereals, Flour, Starch or Milk, Pastry Cooks' Products	0.0%	0.0%	4.9%	0.0%
20	Preps. of Vegetables, Fruits, Nuts	1.5%	36.9%	85.8%	1.5%
21	Misc. Edible Preparations	1.9%	20.8%	34.9%	1.9%
22	Beverages, Spirits and Vinegar	40.7%	81.5%	66.7%	40.7%
23	Residues and Waste from Food Industries	83.3%	85.7%	95.2%	83.3%
24	Tobacco and its Substitutes	18.2%	27.3%	18.2%	18.2%

Note: The figures are the zero tariff lines' shares of the total number of tariff lines for the respective agricultural product groups (2-digit HS codes). HS codes that have reached over 80% liberalization in at least one of the agreements are highlighted.
Source: Authors' calculation.

$$ACHV_n \equiv \frac{\sum tl_{i \in n}^{SIN\tau=0\%} \cup \sum tl_{i \in n}^{MEX\tau=0\%} \cup \sum tl_{i \in n}^{MAS\tau=0\%} \cup \sum tl_{i \in n}^{WTO\tau \le 10\%} \cup \sum tl_{i \in n}^{GSP\tau \le 10\%}}{\sum tl_{i \in n}} \quad (3)$$

Note that tariff lines that are protected by either non-tariff barriers (import quotas or state trading mechanisms) or specific tariffs are excluded from the numerator. The smaller this index is, the more consistent and heavy the protection a product enjoys.

Surprisingly, out of 196 agricultural products, there are only 17 products of which the achievement of liberalization is zero, whereas for 139 products it is more than 80% (Figure 2). In other words, more than 80% of the tariff lines related to these 139 products have already been either liberalized in one of the FTAs or are being protected by *ad valorem* tariffs of 10% or less without any non-tariff barrier.

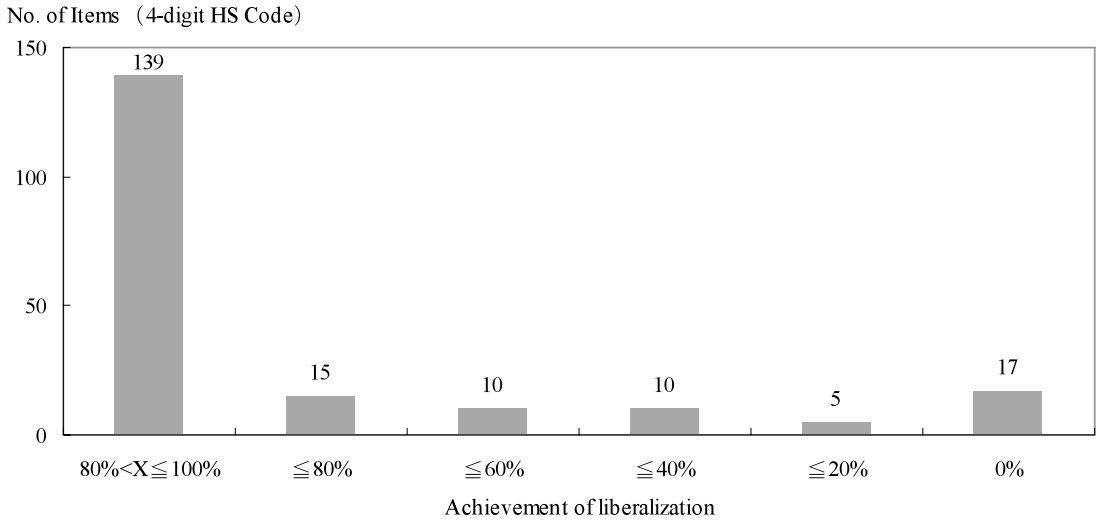
The 17 consistently and heavily protected products are mostly concentrated in beef, dairy products, sugar, cereals (wheat, barley, and rice), products/substitutes of wheat flour and honey, tobacco, and certain vegetable oils, and do not include, for example, any fruit or fisheries' products. In addition to tariffs, these 17 products tend to be protected by state trading mechanisms (certain dairy products, cereals, certain sugars, and tobacco), price stabilizing mechanisms (beef), and special safeguard (SSG) mechanisms under the WTO (certain dairy products, cereals, and wheat flour). [14]

The reason for consistent and heavy protection for these 17 products is clearly explained by the politico-economic framework. That is, commodity producers that are geographically concentrated are more effective in garnering and maintaining protectionist measures due to the smaller cost of organizing an interest group. [15]

Table 7 presents several indices representing degrees of geographic concentration of production by product. Although product classification for production statistics does not perfectly correspond to that of the tariff schedule, abovementioned heavily-protected products or their upstream products are produced, except for rice, in very

[14] For the status of the protectionist measures for beef, dairy products, wheat and sugar, see Kimura, *et al* (2007).
[15] There are several empirical studies indicating that commodity producers that are geographically concentrated are more likely to receive protection or support. See for example, Caves (1976), Gardner (1987), and Metcalfe and Goodwin (1999).

Figure 2: Distribution of the Achievement of Liberalization, and Products at Zero



	17 Products with Zero Achievement of Liberalization
Beef-related products	Fresh or Chilled Beef (HS0201, TL=6), Frozen Beef (HS0202, TL=6),
Dairy-related products	Milk and Cream, not Concentrated or Containing Added Sugar (HS0401, TL=11), Buttermilk, Curdled Milk and Cream, Yogurt, Kephir and other Fermented or Acidified Milk or Cream (HS0403, TL=25), Butter and Other Fats and Oils Derived from Milk, Dairy Spreads & Butter (HS0405, TL=13), Ice Cream and Other Edible Ice (HS2105, TL=8)
Sugar-related products	Cane or Beet Sugar (HS1701, TL=8), Natural Honey (HS0409, TL=1),
Cereal-related products	Wheat and Meslin (HS1001, TL=8), Barley (HS1003, TL=4), Rice (HS1006, TL=8), Wheat or Meslin Flour (HS1101, TL=3), Wheat Gluten (HS1109, TL=1)
Tobacco	Unmanufactured Tobacco, Tobacco Refuse (HS2401, TL=3)
Vegetable Oils	Soybean Oil (HS1507, TL=3), Peanut Oil (HS1508, TL=3), Rapeseed, Colza or Mustard Oil (HS1514, TL=6),

Source: Authors' calculation.
Note: Numbers in parentheses represent the 4-digit HS codes of the respective products and the number of tariff lines (9-digit HS codes) within the 4-digit HS code.

limited geographical areas of Japan. Among others, the Herfindahl-Hirschman Index for sugar beet (HHI=10,000) and sugar cane (5,073), brown cattle (4,693), wheat (3,916), dairy cattle (2,027), and raw milk (1,872) are extremely high when compared to, for example, vegetables (385), fruits and nuts (462) and flowering plants (555). When Japan started FTA negotiations with Australia, which is one of the major global exporters of wheat, beef, dairy products, and sugar, Japanese farmers producing these four products, supported by several local governments including Hokkaido and those in Kyushu, waged an all-out negative campaign against it.[16]

If we look closely at the total export values of wheat, beef, and dairy products from the ROK and China to the world, their export capacities for these products are relatively limited compared with those of Australia (Table 8). On the other hand, China exports more rice, wheat flour, honey, various vegetable oils and tobacco to the world, and the ROK more sugar, than does Australia. Therefore, we might encounter a strong anti-FTA campaign by the producers of these products and their substitutes, if Japan negotiates FTAs with China and the ROK.

The number of tariff lines for the 17 products actually accounts for only 1.3% (117 lines) of the 9-digit HS codes and 0.8% (40 lines) of the 6-digit HS codes, although some of these products may have sizeable trade share values. This would imply that narrowing down the number of protected products (tariff lines) would be one negotiating strategy,

[16] Ministry of Agriculture, Forestry and Fisheries (MAFF) and the Hokkaido Government have issued reports stating that four products will be wiped out because of tariff elimination. International Div., Ministry of Agriculture, Forestry and Fisheries (MAFF) 2007 "Japan-Australia EPA/FTA Negotiations." at: http://www.maff.go.jp/sogo_shokuryo/fta_kanren/au_epa/fta.html. Agricultural Div., Hokkaido Government (2006) "The Affects on Japan of a Japan-Australia EPA." at: http://www.pref.hokkaido.lg.jp/ns/nsi/nouseihp/EPA% E4% BA% A4% E6% B8% 89.

Table 7: Geographic Concentration of Agricultural Production

	HHI	CR1	CR3	(Top 3 Prefectures)
Rice	385.2	9.7%	21.8%	Niigata, Hokkaido, Akita
Wheat and barley	3,425.7	57.0%	72.6%	Hokkaido, Fukuoka, Saga
Wheat*	3,916.0	61.4%	74.9%	Hokkaido, Fukuoka, Saga
Two-row Barley*	1,872.4	28.7%	66.7%	Saga, Tochigi, Fukuoka
Six-row Barley*	1,460.7	29.2%	53.5%	Fukui, Ibaraki, Tochigi
Miscellaneous cereals	1,518.9	34.3%	52.5%	Hokkaido, Ibaraki, Tochigi
Pulses	1,685.1	38.8%	50.4%	Hokkaido, Chiba, Hyogo
Potatoes and sweet potatoes	1,455.8	32.0%	55.5%	Hokkaido, Kagoshima, Chiba
Vegetables	384.9	8.4%	23.5%	Hokkaido, Chiba, Ibaraki
Fruits and nuts	461.7	10.0%	25.7%	Aomori, Wakayama, Nagano
Flowering plants	554.9	17.7%	28.2%	Aichi, Fukuoka, Chiba
Industrial crops	1,134.1	23.9%	53.0%	Hokkaido, Shizuoka, Kagoshima
Sugar beet**	10,000.0	100.0%	100.0%	Hokkaido
Sugar cane**	5,073.2	58.8%	100.0%	Okinawa, Kagoshima
Elephant-foot yam (Konnyaku-imo) **	8,701.4	93.1%	99.8%	Gunma, Tochigi, Ibaraki
Leaf tobacco **	1,416.1	22.5%	54.3%	Miyazaki, Kumamoto, Kagoshima
Seeds, seedlings and others	438.0	11.2%	25.1%	Fukuoka, Ehime, Aichi
Beef cattle	633.1	14.4%	37.5%	Kagoshima, Hokkaido, Miyazaki
Japanese black cattle***	785.6	19.4%	40.5%	Kagoshima, Miyazaki, Hokkaido
Japanese brown cattle***	4,693.1	67.1%	85.0%	Kumamoto, Kochi, Hokkaido
Others***	954.1	19.1%	43.0%	Miyazaki, Hokkaido, Fukuoka
Dairy cattle	2,027.7	43.7%	51.8%	Hokkaido, Tochigi, Gunma
Raw milk	1,872.6	41.8%	50.0%	Hokkaido, Tochigi, Chiba
Pigs	544.8	13.5%	30.1%	Kagoshima, Miyazaki, Ibaraki
Chickens	436.3	10.2%	27.3%	Kagoshima, Iwate, Miyazaki
Hens' eggs	343.9	6.5%	17.3%	Chiba, Ibaraki, Aichi
Broilers	1,014.0	18.0%	51.7%	Miyazaki, Kagoshima, Iwate
Other livestock products	4,283.4	64.8%	74.8%	Hokkaido, Aichi, Kumamoto
Processed agricultural products	1,103.8	25.2%	48.8%	Shizuoka, Kagoshima, Ibaraki
TOTAL	382.2	12.2%	21.6%	Hokkaido, Chiba, Kagoshima

Note 1: Figures are calculated using output-value data (100 million yen) in 2006 in *Agricultural Output 2006: Municipality Estimates*. *: Calculated using production data (tons) in 2006 in *Production of Wheat and Barley* 2006. **: Calculated using production data (tons) in 2005 in *Data on Agriculture, Forestry and Fisheries by City 2005*. *: Calculated using production data (by head) as of Feb. 2007 in *Statistical Survey on Livestock*.**
Note 2: The Herfindahl-Hirschman Index (HHI) is calculated by adding the squares of the market shares of each prefecture. The Concentration Ratio (CR*n*) is defined as the market share of the top *n* prefectures. HHIs relating to the 17 products are highlighted.
Source: Authors' calculation based on MAFF website (http://www.maff.go.jp)

both politically feasible and internationally acceptable, which Japan can pursue toward an FTA network.

5. Why is Northeast Asian Integration Needed?

The lack of integration of Japan, the ROK and China, and of FTAs in particular, forms an intolerable gulf. Northeast Asia has occasionally suffered from political tension between Japan and the region's other nations for long periods, and the mismatch between politics and economic matters has been huge. A large part of the problem is still mostly due to a lack of communication at various levels of society. In this regard, anything done cooperatively is still crucially important. Negotiations on —as well as the conclusion of—FTAs will thus doubtless provide great opportunities for the three countries to communicate with one other and even to ease unnecessary political tension.

In addition to political motivations, FTAs between the three countries will carry a lot of economic value. In the previous sections we highlighted agricultural protection. It is of course important for food security and safety in Northeast Asia to remove inefficient protection in the agricultural sector and construct tighter economic relationships. The economic effects, however, of liberalizing the agricultural sector in Japan may not be huge in magnitude from the viewpoint of the whole economy. The larger effects of FTAs would instead be expected in key industries, including the manufacturing sector and the modern services sector. FTAs can actually work strongly if we fully utilize their flexibility as policy tools.

First, a Northeast Asian FTA can further activate international production/distribution networks. The development of these networks in Northeast Asia as well as in East Asia is without precedent, in that the efficient international division of labor in terms of production processes is being aggressively pursued through combining both intra-firm and arm's-length (inter-firm) transactions in a sophisticated manner. Fragmentation of production

Table 8: Current Imports of Sensitive Products from China and the ROK

(US$ million, 2006)		Japan, imports					China, exports	ROK, exports	(Australia)
	HS	from the world	from China	(share)	from the ROK	(share)	to the world	to the world	to the world
Beef (Chilled)	HS0201	1,267.0	0.0	0.0%	0.0	0.0%	31.6	0.0	1,713.1
Beef (Frozen)	HS0202	675.0	0.0	0.0%	0.0	0.0%	32.6	0.8	1,952.0
Dairy	HS0401	0.1	0.1	75.3%	0.0	0.0%	23.9	0.0	73.1
Dairy	HS0403	0.1	0.0	0.0%	0.0	0.0%	0.8	6.4	35.1
Dairy	HS0405	12.9	0.0	0.0%	0.0	0.0%	0.2	0.0	149.5
Honey	HS0409	62.1	50.0	80.4%	0.0	0.0%	105.3	0.0	21.7
Wheat	HS1001	1,280.5	1.1	0.1%	0.0	0.0%	161.2	0.0	2,542.2
Barley	HS1003	260.5	0.0	0.0%	0.0	0.0%	1.0	0.0	699.5
Rice	HS1006	302.6	53.9	17.8%	0.0	0.0%	408.7	0.0	164.1
Wheat Flour	HS1101	1.5	0.0	0.2%	0.0	0.0%	97.0	6.5	64.1
Wheat Gluten	HS1109	21.9	0.1	0.5%	1.0	4.8%	4.0	0.8	51.0
Veg. Oil	HS1507	52.5	32.6	62.1%	0.3	0.5%	72.1	3.3	0.6
Veg. Oil	HS1508	1.4	0.6	40.7%	0.0	0.0%	15.4	0.0	0.8
Veg. Oil	HS1514	13.8	1.5	10.6%	0.0	0.0%	90.5	0.0	23.1
Sugar	HS1701	493.3	4.5	0.9%	0.6	0.1%	60.8	125.3	83.2
Ice Cream	HS2105	54.6	0.1	0.2%	0.6	1.1%	16.6	10.2	35.3
Tobacco	HS2401	212.3	18.3	8.6%	0.0	0.0%	287.9	14.0	5.9

Source: United Nations "Comtrade".

processes at the firm level leads to the formation of agglomeration in developing countries, which provides a precious opportunity for local firms and entrepreneurs to break through into production networking. Transactions among industrial agglomerations rapidly grow, so expanding South-South trade. International production/ distribution networks are no doubt essential components of Asian economic dynamism.

The development of international production/ distribution networks primarily derives from the initiatives of private sector and market forces, but they cannot move forward without coordinated policy support. FTAs can actually contribute to establishing a better environment for policy to further activate private sector forces. Removal of redundant tariffs and other trade impediments is certainly essential; we still have substantial trade protection even in the manufacturing sector in the ROK and China. In addition, FTAs can include various policy modes to improve the business environment. Examples are various measures for trade and FDI facilitation, the building of institutions in the context of investment regulation and intellectual property rights protection, the establishment of business-government dialogue channels for trouble-shooting, and coordination with other policy modes, such as; technical/ economic cooperation; energy and environmental policies; and international monetary/financial policies. In this regard, FTAs between Japan and ASEAN member countries may provide useful references.

Second, Japan, the ROK and China are at the stage of development in which the frontier competitive industries, beyond the traditional manufacturing sector, should be pursued. Northeast Asia has been extremely successful in industrialization, but other parts of the world have been catching up quickly. Upgrading industrial structure beyond relatively simple labor-intensive manufacturing fragmentation is an immediate issue to be dealt with. We actually have a somewhat uneven policy environment, biased to date toward the traditional manufacturing sector. It would not be a good idea to regulate or control industrial structure. Rather, we should prepare a favorable environment for private sector dynamism. In this sense, FTAs could contribute to the acceleration of policy reform in areas such as services, investment, government procurement and intellectual property rights. It is worthwhile examining the existing FTAs with advanced features, including the US-ROK FTA, to see what sort of measures would be effective.

Third, if we can come together, Japan, the ROK and China have the great potential to be able to take the initiative in constructing a new international economic order. Because we have been successful in our industrialization, we have always been forced to respond to various protective pressures from other parts of the world. On this front, we have largely been passive and purely reactive in the arena of trade disputes, rather than taking a pro-active stance in constructing international policy disciplines. Because we have the most vigorous economies, we can also lead policy discussion in East Asia, the Asia-Pacific, and the world as a whole. We have a strong tradition of the functional approach, rather than the rule-making approach. We always listen to private-sector policy demands and think much of market dynamism. We prefer pragmatic trouble-shooting, rather than confrontation in the formal settlement of disputes. This virtue of Northeast

Asia should be disseminated across the Asia-Pacific, and eventually the world. We can utilize the framework of APEC much more effectively to these ends.

6. Concluding Remarks

As reviewed in this paper, the levels of liberalization for each product are not monotonic at all, even in the Japanese agricultural sector. Only a small number of agricultural products, most of which are produced in very limited geographical areas in Japan, are consistently and heavily protected in every trade agreement. Therefore, the claim that Japan's agricultural sector as a whole is heavily protected by trade barriers is no longer correct. It is even harmful to simplify the FTA negotiations as being zero-sum games between the manufacturing and agricultural sectors, as it closes people's eyes to the truth. Rather than emotionally responding to the unwarranted claims of the protectionists, Japan should face the economic and politico-economic realities of agricultural protection and pursue an internationally acceptable solution in FTA negotiations.

From the viewpoint of the strategic concerns of Japan, the ROK and China, it is extremely important to understand the open architecture of the on-going integration in East Asia, rather than pursuing a closed integration by limiting its membership and depth. Neither a Northeast Asian FTA nor an East Asian FTA (ASEAN Plus Three)—let alone an enlarged East Asian FTA (ASEAN Plus Six)—can be the final objective of integration efforts. We should definitely work on overlapping FTAs which compete with one another both within and beyond East Asia. Japan, the ROK and China should start preparing for a forthcoming new economic order. In that sense, as stated earlier, the ROK has recently made a significant step in signing the ROK-US FTA as well as starting negotiations with the EU. Japan and China, on the other hand, still need to do some work to gain the necessary degrees of freedom in their policy spaces. Although creating a clean FTA in Northeast Asia is not politically an easy task, we should conclude it in order to not only garner the direct economic benefits but also to lead a "new open regionalism," after the Doha Development Agenda ends in a small-scale deal.

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