Comprehensive Economic Partnership Agreements

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This paper examines the extent to which Japan has entered into comprehensive economic partnership agreements (CEPAs) to enhance its international trade position. Facing challenges from the creation of other major trading blocs such as the European Union (EU) and the North American Free Trade Agreement (NAFTA) and the ubiquitous presence of protectionist provisions in the World Trade Organization system, Japan and other countries have tilted toward pursuing their own regional integration. This study confirms an increasing degree of regional trade agreements (RTAs) being made globally. Despite Japan's late start in this policy, its ongoing successes and challenges are highlighted here.

INTRODUCTION

The 1990s witnessed a resurgence of regionalism. Major trading blocs in Western Europe and North America became a concern and a reality check for those countries such as Japan that had no arrangement of economic integration whatsoever. In the Asia-Pacific region there are many obstacles to overcome for the formation of a regional trade bloc. In addition to cultural differences and historic animosities, there is the problem of no or weak political leadership in the region. An effective trading bloc requires a major structural adjustment of the region as a whole, to include reforms of domestic industrial policy and external trade policy (Park & Gaidai, 2005).

Despite Japan's leadership in the region over the years, the so-called "flying geese pattern" of economic and technological development, many now question the capabilities for Japan to lead going forward, given the economic troubles of the world's second largest economy for over a decade, its changing political leadership, and the concurrent rapid rise of China. In this shifting geopolitical world free trade agreements (FTAs) have been proliferating (Kong, 2006; Pomfret, 2006).

Japan's trade policy historically centered on multilateral negotiations (and dispute settlement mechanisms) and has shied away from bilateral and regional free trade agreements that eliminate or reduce tariffs and other barriers on trade in goods and services among the agreeing partners. During the past five years, however, Japan has shifted course somewhat by seeking out such agreements. Now Japan is trying to further energize its economy as well as further compete with China for influence and leadership in Asia and throughout the world (Ahearn, 2005; Asia's never-closer union, 2010; Burgschweiger, 2009; Sutton, 2005). Regional trade agreements are an integral part of the international trade system and have been rapidly rising in numbers and complexity (Collinson & Rugman, 2008; Corning, 2008; Fratianni & Oh, 2009).

This paper, focusing on the role that Japanese CEPAs play with the accelerating process of regional integration, is organized as follows: Starting with distinctions between CEPAs and FTAs, another clear distinction is made between multilateralism versus regionalism. In the next section the impact of globalization is discussed in the context of the rise of China and the fact that Japan's export-based economy is trading more with China. This is followed by an examination of the newly formulated China-ASEAN (Association of Southeast Asian Nations) pact; the expansion of ASEAN and Japan's discussions with South Korea and China for an eventual free trade agreement. All of the foregoing sections are summarized in a discussion section and conclusions.

ECONOMIC PARTNERSHIP OR FREE TRADE AGREEMENT

A region is typically made up of a limited number of countries that are geographically close but the definition of a region isn't straightforward, considering the various types of groupings being formed today. Some scholars have defined regions based on geographical distance, others according to institutional similarities, trade agreements, and so forth. In this paper we consider regions that certainly involve a greater geographic size and diversity than a country and our interest is most predominately involved in international trading arrangements (Arregle, Beamish, & Hebert, 2009).

Among the developing regions, East Asia and the Pacific appear to be the region that possesses the most favorable location-specific advantages. According to the World Bank, the average growth of gross domestic product, external trade, personal consumption, and domestic investment in this particular region are the highest in the world and inflation and external debt remain the lowest (Qian, Li, Li, & Qian, 2008).

Japanese CEPAs go substantially beyond liberalization of trade in goods and services. They are supposed to be asymmetrical trade agreements that foster sustainable economic and social development and promote the trading partners smooth and gradual integration into the world economy. While the objectives of economic partnership agreements are clear, the tools for achieving these objectives are often disputed between the negotiating parties (Meyn, 2008). The Japanese government uses the term CEPA because it includes an economic cooperation chapter in the FTA with its trading partners (Curran, Nilsson, & Brew, 2008).

Unlike a FTA, which is focused on tariffs, a CEPA is a more comprehensive trade pact, including the elimination of restrictions on foreign investment, incorporating a dispute-resolution mechanism, and protection of intellectual property rights, as well as all the usual free trade agreement terms. The Japanese government decided in March 2006 to modify its multilateral trade policy by concluding CEPAs (Japan proposes, 2006). Japan's preference to steer away from using the term FTA which connotes an outright market opening towards the usage of the term CEPA, a seemingly more user-friendly designation where domestic protectionist groups are concerned. Additionally, it is more likely that economic partnership agreements will avoid subjection to the WTO Article 24, which stipulates that any FTA involving a developing nation needs to cover substantially all trade. By and large however, the two terms are synonymous (Hakim, 2002; Ministry of Foreign Affairs, 2008a; Prasirtsuk, 2006).

Regional integration is a key element in CEPAs. In theory, regional integration reduces transaction costs and monopolistic behavior, enhances efficiency through increased competition and creates new opportunities for exploiting economies of scale. Larger markets can reduce the economic and political risk premium, offering the opportunity to attract more foreign direct investment. In this way, regional integration encourages the formation of an interdependent relationship between economic and political groups, leading to the maximization of welfare (Meyn, 2008).

Although FTAs are by no means perfect because of their trade diversion effects, they do carry with them profound political consequences. Nevertheless, economists insist that RTAs are second-best solutions. Economists argue that smaller agreements risk diverting trade from the most optimal relationships to those "artificially" favored by the preferential terms of a particular deal. Global trade deals should be preferred but the slow and difficult process of multilateralism is elaborated upon in the next section (More trade noodles, 2010).

MULTILATERALISM VERSUS REGIONALISM

The WTO process of multilateral negotiations is arduously slow (e.g., seven years for the Uruguay round) and with a large group of nation-states consensus and agreement is difficult to achieve (Chia, 2003). In December 2008, the director-general of the WTO, Mr. Pascal Lamy, announced that he would not convene a ministerial meeting in December to conclude the Doha round of multilateral trade negotiations. The announcement came after efforts to build consensus for a competitive agreement were held hostage to a handful of controversial trade issues, as well as changing political leadership in many of the member countries (Markheim, 2008).

The risk of delaying progress is twofold: first, countries will increasingly look to bilateral and regional free trade arrangements to more quickly reap the benefits of lower trade barriers. Second, the pressure to implement protectionist measures in response to the current global economic downturn will be immense. FTAs can help reduce trade restrictions globally by demonstrating solutions to difficult trade problems. However, they can also discriminate against countries not party to the agreements and their differing rules can add to the cost of trade. FTAs are thus not a perfect substitute for multilateral trade liberalization, and member-nations need to ensure that concluding the ongoing Doha round takes priority over free trade agreements (Markheim, 2008; More trade noodles, 2010).

At the G-20 meeting in London during April 2009, the leader's of the world's largest economies agreed to make a renewed push to conclude the Doha round of negotiations. Success here would be a signal to open markets and an approach to globalization that is inclusive and sustainable (Brown, 2009). The members of the WTO are holding intensive talks to reach a deal after G-20 leaders pledged to conclude an agreement by 2010 (Take a look, 2010).

Up until recently, Japan has been committed to multilateralism, however, rising regionalism together with a decade of economic stagnation, have eroded Japan's economic power, competitiveness, and confidence in relying on multilateralism to attain its economic goals. Even without the successful conclusion of the Doha round there was hope that the Asia-Pacific Economic Cooperation (APEC) forum would become a free trade and investment zone. APEC was formed in 1989 to promote multilateral economic cooperation in trade and investment in the Pacific Rim. It consists of 21 countries that border the Pacific Rim – both in Asia as well as the Americas. By the mid-1990s, there was some optimism that an APEC trading zone could be established by 2010 in the case of industrialized countries (which generate 85 percent of the regional trade) and 2020 in the case of developing economies. However, progress has been too slow despite tumbling political barriers, paving the way for improved economic relations (Chia, 2003).

The difference between APEC and other regional trade groups is that there are no binding treaties (or forfeiture of sovereignty in the case of the European Union). Although APEC is vast, accounting for 41 percent of the world's population (2.6 billion people), 56 percent of world gross domestic product ($19,254 billion), and about 49 percent of world trade, it operates by consensus and does not have the same rigor as the RTAs recognized by the WTO.

Since the 1980s, the idea of a U.S. – Japan free trade agreement has been proposed every two years or so, only to be defeated by protectionists and pessimists. Now, however, a new set of geopolitical as well as economic circumstances make such an agreement not only desirable but necessary if both countries wish to advance their common stake in the future of East Asia (Fauver & Stewart, 2003; Ingersoll, 1983; MacEachron, 1982/1983; U.S. Department of State, 1993; Urata, 2009; World's most important, 1989).

In recent years there have been Japanese proposals for greater integration of economic activities in Asia. However, the initial response to a proposal known as CEPEA (Comprehensive Economic Partnership in East Asia) was tepid, partly due to the proliferation of free trade and economic partnership agreements in Asia, but also because of doubts over Japan's ability to lead regional economic integration in Asia. Nevertheless, the Japanese proposal for CEPEA is viewed as both forward-looking and outward-looking and this approach, if adopted, could have a positive effect on the Japanese economy (Katz & Stewart, 2006; Katz & Stewart, 2007; Kitajima, 1998; MOFA Japan, 2009; Tamura, 2007).

For Japan, the accompanying "noodle bowl" phenomenon of individual agreements with exclusive character and various rules poses one of the central future challenges for the country since its economy is heavily dependent on intra-regional trade. Japan's desperate economic situation calls for a strong response in order to successfully steer its economy toward sustained recovery. Looking for a roadmap that succeeds in boosting both business and consumer confidence, Japan has started forging bilateral economic partnerships, reflecting a philosophical change in its country's economic policy. Japan's economy has been in the doldrums for over a decade but there are now geopolitical incentives to change as the world's second largest economy becomes overshadowed by the rise of China (Stewart, 2003).

Regionalism is not dissimilar to globalization. The current proliferation of RTAs has fueled fears of a world economy divided into major trading blocs: in Europe, the Western hemisphere, and East Asia. Even within East Asia, there could be a further division between Northeast and Southeast Asia (Beng, 2001; Ulman, 1976). Increasingly, countries are simultaneously participating in several and often-overlapping regional, sub-regional, and bilateral trade agreements, giving rise to the spaghetti-bowl and hub and spoke effects. The spaghetti-bowl effect arises when various agreements contain inconsistent and varying rules relating to origin, technical standards, and conformity requirements as well as varying treatments of sensitive sectors. The information costs of businesses that export multiple products to multiple regional trade areas are thus increasing (Chia, 2003). Overall, there are more than 200 regional trade agreements in operation worldwide and the share of world trade accounted for by members of these agreements increased from 37 percent in 1980 to 60 percent in 1990, and to more than 70 percent by 2005.

The Trans-Pacific Partnership bloc – made up of Singapore, Chile, New Zealand, and Brunei – are entering talks in 2010 to accept other candidate nations, to include the United States that already has free trade agreements with Singapore and Chile. The U.S. has already participated together with Australia and Peru to negotiate the potential expansion of the bloc. The Trans-Pacific Partnership is to serve as a model for the Asia-Pacific region, one that will remain open to new members committed to freer trade. The expanding bloc could very well one day provide a solid foundation for a wider Free Trade Area of the Asia pacific (FTAAP). The Asia-Pacific region is expected to grow more than twice as fast as the global economy in 2009 (Fergusson & Vaughn, 2009; Markheim, 2008; Markheim, 2009; Wright, Weisman, & Fritsch, 2009).

GLOBALIZATION: THE RISE OF CHINA

China's emergence as a regional great power is creating significant new uncertainties for Japan that includes concerns about Japan's place and leadership role in the Asia-Pacific region. At the same time, China is challenging Japan's position as the largest economic power in Asia and the biggest trading partner for several Asia-Pacific states including Australia (Mulgan, 2008). China, by virtue of geography and economy, dominates any "Asian community." This worries many regional government officials and has encouraged them to reach out to Australia, New Zealand, and India in an attempt to balance this giant (More trade noodles, 2010). Regionalization in Asia has been a new trial for Japan to re-define its position in the region (Uyar, 2009).

There is a need to manage globalization and the emergence of China and India as economic powerhouses. The economic rise of China is forcing ASEAN to become more competitive in terms of production, exports, and attracting foreign direct investment. The shifting landscape is forcing the smaller regional economies to undergo major structural adjustments (Chia, 2003). China is the second largest economy in East Asia after Japan. India's very credible economic performance has, to a degree, been elliptical to the Chinese success story. Japan's Center for Economic Research forecasts that the size of the Chinese economy will surpass that of the United States during the 2020-2040 period and will be almost seven times that of the Japanese economy by 2050 (Walton, 2008). Already in 2009, China has displaced the United States as the largest overall buyer of Japanese goods and it now accounts for nearly one-fifth of Japan's exports by value. Being more closely tied to fast-growing China is a welcome development for Japan's export-reliant economy, which has shrunk back to 2004 levels during the recent economic downturn.

In the shadow of an increasingly competitive China, Japan has been revamping its regional trade strategies as well as devising new economic security and regional integration strategies. Japan has sought to build closer ties with states who it shares common political and strategic interests as a means of a counterbalance to China. CEPAs are seen as the centerpiece to the execution of the Japanese strategy (Mulgan, 2008). The structural changes in Asia and movements towards a new regional architecture provides stimulus for Japan to seek-out better relations with Australia (Hosono, 2006; Yew, 2004).

Much of this scurrying about by Japanese leaders signing trade deals is a way that may help Japan counter China's growing influence in the region (Yamanura & Soeriaatmaalya, 2007). The Japanese are now working closely with Prime Minister Manmohan Singh of India to complete the negotiations begun in 2007 so a pact can be agreed upon in 2010 (India, Japan propose, 2009).This is the first time in history when there have been three powerful countries in Asia, all at the same time: China, India, and Japan (Emmott, 2008). And one must not ever consider that the United States is no longer exercising its power and influence in the Asia-Pacific region.

Japan has announced plans to organize an Asian free trade zone. The 16-nation proposal would include China and India, the world's two fastest growing economies, along with the ten-member ASEAN alliance plus Australia, Japan, New Zealand, and South Korea. This would include at least one-third of the world's population and rival the 27-member EU market and the NAFTA market consisting of Canada, Mexico, and the United States. The combined economic output would be $9.1 trillion, one-quarter of the world figure, based on 2004 data. Japan proposed starting negotiations by 2008 with a 2010 target date to conclude the pact. As a concession to China, the Japanese plan does not include Taiwan (Japan proposes, 2006).

Of course, both Taiwan and China are members of the WTO and Taiwan, although moving closer to the mainland in the conduct of business and trade, as well as politically, still remains independent of the People's Republic of China. Recent talks between China and Taiwan over a planned "Economic Cooperation Framework Agreement," could bind Taiwan to its giant neighbor to an unprecedented degree (Zaho, Malauche, & Newfarmer, 2008). Indeed, this bilateral trade pact was put in place in 2010.

President Ma Ying-leou recently greeted the new Japanese representative to Taiwan, Mr. Tadashi Imai, and expressed hopes that Taipei and Tokyo could sign a free trade agreement. Mr. Imai, prior ambassador to Malaysia and to Israel, acknowledged that Taiwan is Japan's fourth largest trading partner and Japan is Taiwan's second largest trading partner (Ko, 2010). Taiwan, one of the four Newly Industrialized States together with South Korea, Singapore and Hong Kong, is now one of the leading trade dynamos in Asia. How in the future Taiwan will fit into the spaghetti- bowl of expanding regional trade agreements is an important geopolitical issue that will require careful consideration.

Concern about China is now a central feature of Japanese politics and policy. Since the concern is only likely to grow as China's strength and regional interests grow, too, more and more of Japanese policy will be shaped by China. It certainly explains Japan's eagerness to involve India in regional affairs. Further, China will no doubt be one of the spurs that will keep the Japanese on their toes seeking ways to bolster economic growth, introduce more productivity reforms, and encourage Japanese industry to maintain a clear technological lead (Emmott, 2008).

ASEAN PLUS THREE PLUS THREE

Regionalism in Southeast Asia began in 1967 with the formation of ASEAN more as political cooperation then a trade bloc, originally between five countries: Indonesia, Malaysia, Singapore, Thailand, and the Philippines. The other five members were added later with Brunei in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. These ten countries gave ASEAN a larger population (569 million) than the European Union's twenty-seven countries (490 million). Although trade barriers between ASEAN members have been lowered substantially over the years, there is no customs union and the members are quite scattered geographically and have a mix of government structures, to include communist Vietnam and tyrannical Myanmar. Nevertheless, there has been talk of extended free trade to an entity dubbed "ASEAN plus Three," the three being Japan, China and South Korea. The three have been sending representatives to ASEAN meetings for some time (Emmott, 2008).

ASEAN has committed itself to making the most of its collective strength by achieving an integrated, liberal market. The trade bloc launched ASEAN Vision 2020 over a decade ago, which called for creating a stable, prosperous and highly competitive AEAN Economic Region (Lohman & Kim, 2008). At the East Asia Summit formation in 2005, the original group meeting in Kuala Lumpur was simply ASEAN Plus Three, Plus Three, i.e., the ten members of ASEAN plus Australia, New Zealand and India, along with China, Japan, and South Korea (Emmott, 2008).

At this East Asia Summit, an attempt was made to design a structured framework to cover both existing and potential flows of trade and investment (Tamura, 2007). Most observers agree that it is premature to see this large, geographically distant formation of countries come together as a distinct region. But the creation of this new entity is telling about the concerns for more mutual security, shared economic policy, and the growing rivalries and ambitions across the whole of Asia (Emmott, 2008).

CHINA-ASEAN FREE TRADE AGREEMENT (CAFTA)

At the beginning of 2010 additional regional trade agreements were being considered in the Asia-Pacific region. For example, South Korea hosted a meeting in Seoul on January 26, 2010 to upgrade a joint study panel's recommendations on concluding a three-way free trade agreement with Japan and China. The three countries will upgrade this private sector study group to a forthcoming meeting at the Director-General level for the trio of country officials (Prep meet set, 2010). At the same time, actual implementation of two pacts with ASEAN – by China and by Australia / New Zealand – made headlines.

Without a doubt, the biggest integration of trade partners was the inauguration of the China-ASEAN Free Trade Area. When ranked by size, this new entity encompasses 1.9 billion people, making it the world's largest free trade area. Its $6 trillion in combined gross domestic product makes it the world's third largest, trailing Japan and the European Union. This deal was negotiated and agreed upon in 2003, giving the membership an ample seven years to prepare. During that time, China has become ASEAN's third largest trade partner, surpassing the United States and trailing only Japan and the European Union. Trade between China and ASEAN has reached $193 billion, a fourfold increase since the deal was agreed upon back in 2003. In the same time frame, China's share of ASEAN's total commerce has increased as well, expanding from 4 to 11 percent. Trade among the entire membership has swelled to $4.5 trillion. This is over 13 percent of global trade and half the total trade in Asia in 2008 (More trade noodles, 2010).

At the beginning of 2010 the ASEAN-Australian-New Zealand free trade agreement was also enacted, representing 600 million people that have a combined gross domestic product of $2.8 trillion. It supplements the Australian-New Zealand trade pact that has been in effect for decades. ASEAN accounts for 15 percent of Australia's trade – roughly equal to the country's trade with China. The agreement covers some 70 percent of Australian trade with ASEAN and will eliminate tariffs on 96 percent of Australia's exports to ASEAN by 2020. For New Zealand, ASEAN collectively is the country's fifth-largest export market and fifth largest source of imports so the tariff reductions will be beneficial to this small country as well (More trade noodles, 2010).

JAPAN'S ECONOMY AND TRADING PARTNERS

The fledgling new administration implementing the policies of the Democratic Party of Japan, appear, to at least one credit agency as moving toward fiscal consolidation at a slow pace. The government debt, estimated to have reached the size of Japan's entire economic output for the year ending in March 2009 (680 trillion yen or $6,136 trillion) – is the highest level in the industrialized world. The public debt to gross domestic product ratio is at 180 percent (Brown, Tudor & McCallum, 2010; Tachikawa & Nakamichi, 2009).

Despite the debt numbers, Tokyo remains a long way from default and the credit agency even acknowledges that the country's finances retain considerable strengths. Nevertheless, the warning about downgrading the rating for Japan highlights the dilemma that hangs over Japan's economy – the danger of falling back into recession and a new deflationary period. Policy-makers are struggling to come to grips with options to address such problems, and the fiscal picture may be bleak enough to eventually force painful tradeoffs. The Bank of Japan's short-term interest rates are already at 0.1 percent, and the central bank recently ended a two-day policy session without offering any fresh ideas for the economy (Brown, Tudor & McCallum, 2010).

The credit-ratings firm issued a warning to Japan about the country's borrowing, threatening to downgrade the nation's sovereign debt a notch below its current double-A rating unless policy makers find a way to pull the economy out of its deflationary spiral while curbing public spending. The warning sent a sort of no confidence vote to the four-month reign of the Hatoyama administration. In winning the election amid high hopes of reforming Japan's long-stagnant economy, critics have already become impatient as the government still struggles to articulate a path to recovery (Brown, Tudor, & McCallum, 2010). By June 2, 2010 Yukio Hatoyama tendered his resignation as chairman of the Democratic Party of Japan and Prime Minister of Japan. Two days later Finance Minister Naoto Kan replaced him.

The Japanese administration intended to finalize its growth strategy by June 2010. Japan's draft economic expansion strategy targets an average annual growth rate of more than two percent over the next ten years, an ambitious goal for an economy beset by deflation and a weak domestic outlook. The cabinet approved the blueprint that policy makers say should focus on six major areas that are expected to stimulate additional economic growth: environment, health care, increased trade and business with other Asian countries, tourism and revitalizing Japan's regional economies, science and technology, plus more job training as well as increased employment opportunities for groups such as the newly retired. The plan, however, doesn't say how it will finance measures necessary to generate growth and as duly noted, Tokyo's ability to spend on new steps is limited by its already huge debt (Tachikawa & Nakamichi, 2009).

Tokyo expects only 1.4 percent real gross domestic product growth in the year starting April 2010. Deflation has been reducing corporate profits, which in turn reduces private demand. Consequently, the core consumer price index, which excludes volatile fresh food prices, fell for the ninth consecutive month in November 2009, dropping 1.7 percent from a year earlier (Tachikawa & Nakamichi, 2009). World merchandise trade volume fell by roughly 33 percent from the second quarter of 2008 to June 2009. Reviving trade flows is crucial to restoring global growth (A protectionist president, 2009). Indeed, trade is the most serious casualty of the global financial crisis. The countries hardest hit are those most reliant on exports. Japan has lost nearly half of its export market over the first quarter of 2009 compared to a year earlier. The World Trade Organization forecast global trade to fall by 9 percent in 2009 (Brown, 2009).

The standard response to recessionary times is to cut interest rates but Japan was slow to cut interest rates after the bubble burst before now bring the rate to nearly zero. Keynesian economics steers the ship of state to borrow money and use the funds to "prime the pump" since the private sector refuses to spend enough to maintain full employment. Japan's economy began to show some signs of recovery around 2003. The turnaround is attributed to exports. The United States ran huge trade deficits, importing vast quantities of goods. Some of these imports came from Japan, although the biggest growth came in imports from China and other emerging economies. But Japan benefited from Chinese growth too, because many Chinese manufactured goods contain components made in Japan (Krugman, 2009).

As can be seen by these recent events, Japan needs to continue to augment its international trade capabilities in order to continue to compete successfully and sustain its export-based economy. As highlighted below, Japan has negotiated many important trade agreements, both within the Asia-Pacific region, as well as far away from Asia, to include bilateral trade pacts implemented in Western Europe and the Western hemisphere.

CEPAs completed by Japan with its various trading partners to include: Brunei, Chile, Indonesia, Malaysia, Mexico, Peru, the Philippines, Singapore, Switzerland, Thailand, and Vietnam. There are many more currently under negotiations – Canada, Chile, EU, Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), India, New Zealand, and South Korea. Japan is also in preliminary talks with the Republic of Uzbekistan.

In Asia, the Japanese talks with South Korea have stalled over some auto issues but the relationships with Australia have been good. After resolving bilateral trade disputes over beef and sugar in the 1970s, the two countries worked together creating regional economic institutions, such as the Pacific Economic Co-operation Council (PECC) in 1980 and the Asia-Pacific Economic Co-operation (APEC) forum in 1989 (Terada, 2000). Since the late 1980s, Australia and Japan have worked on developing closer cooperation on regional matters. Cooperation has included leading roles in the formation of APEC, peace-keeping in Cambodia (1992-1993) and joint efforts to assist countries affected severely by the Asian financial crisis in the late 1990s (Walton, 2008).

DISCUSSION

While there is no single Asian free trade area, those nations have been forging closer economic ties for nearly two decades. This reflects business reality – companies have gone multinational to exploit comparative advantages regardless of borders – as well as recognition that Asian economies are inter-twined and economies of scale are crucial to the region's prospects.

Thus far in 2010, the ASEAN-China partnership agreement has been implemented as well as the Australian-New Zealand- ASEAN partnership agreement. The political ramifications of these agreements can be enormous. In the past, one country has always been dominant either in the region as a whole or in its own part of it. Since the end of World War II, the United States has dominated Asia because of its military presence, its importance as a market, and a source of foreign investment. Its alliance with Japan has held for over fifty years but there have been many speed bumps along the way.

Asia's richest country and hitherto its only candidate for global power is now being challenged by the rise of China, giving rise to a belief that by mid-century China could eventually emerge to even challenge America for global leadership. And, not to be left out of this scenario, India is another rapidly developing country that may have something to contribute to the equation of the shifting balance of power in Asia.

Among the benefits to Japan of the CEPAs, perhaps the most noteworthy ones are (1) expanding export opportunities, (2) promoting structural reforms, and (3) closer ties with other countries. According to the Ministry of Foreign Affairs (MOFA) Japan (2008a, 2008b, 2008c) among the twelve criteria for identifying partners, Japan's basic trade policy on CEPAs is as follows:

- Creation of an international environment beneficial to Japan
- Community building, stability and prosperity in East Asia
- Strengthen Japan's economic power, tackle political/diplomatic challenges
- Reinforce Japan's position at multilateral negotiations (e.g., Doha round)
- Attainment of economic interests of Japan as a whole
- Expand and facilitate exports of industrial/agricultural goods, trade in services and investments, improve the business environment for Japanese companies operating in partner countries, facilitate movement of natural persons, etc.
- Eliminate economic disadvantages caused by absence of CEPA/FTA
- Contribute to stable imports of resources, safe and reliable food
- Promote Japan's economic and social structural reforms
- Situation of the partner countries/regions and feasibility to realize CEPA

CONCLUSIONS

Certainly Japan is achieving many of the country's trade policy objectives through the persistent and careful application of CEPAs throughout the world. However, on the surface, it appears that the advancement of various configurations of trade arrangements may be inspired as much by geopolitical factors as they are by driving economic factors.

U.S. interests in Asia begin with a stable, secure, geopolitical and economic order that is friendly to free commerce. Central to all of this is Japan's continuous leadership capabilities, particularly in the face of China's and India's incredible economic growth and both being potential challengers for leading the Asian theater with a new voice.

This paper portrays the role Japanese CEPAs play with the accelerating process of regional integration throughout Asia, which has been a comparatively white spot on the map of bilateral and regional trade liberalization until the last few decades. It contributes to and underlines the importance of this sector of the world to international trade and development.

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