

agreements in East Asia could have a much more active role in implementation, e.g. through mutual recognition, harmonization of standards and assistance, and eventually the sharing of resources and joint efforts to improve the trade supply chain.

In many cases, the FTAs appear to be the most suitable mechanism to achieve the benefits of trade facilitation in a region. Multilateral arrangement can also contribute to the delivery of the benefit of trade facilitation, and the solution may be best at first. But, as discussed above, a global agreement may take much longer negotiation time, and there may be much more complex conflicts/differences of interest among the members. In many cases, most of the benefit from trade facilitation remains within the region with large trade partners. Mutual recognition sometimes has this nature. Technical standards can be also harmonized most efficiently in a region.

Policy Recommendations

Progressing Region-wide Liberalization Initiatives

It would be worthwhile here to touch briefly on the present status of East Asian-wide trade liberalization initiatives, which have an important implication in the economic, political and diplomatic context with the CJK FTA. In East Asia, ASEAN tended to precede China, Japan or Korea in forming FTAs. As repeatedly pointed out, the trade liberalization initiatives between the three countries lag behind ASEAN. Three “ASEAN plus one” FTAs have been already formed. Two research studies on region-wide FTA, namely an East Asia Free Trade Agreement (EAFTA) among ASEAN+3 countries and a Comprehensive Economic Partnership for East Asia (CEPEA) among ASEAN+6 countries, have been finished and their final reports have been submitted to the AEM+3 Consultation and AEM+6 Working Lunch on August 15, 2009. On both occasions, the Ministers agreed to recommendations in the EAFTA and CEPEA Study and decided to establish four working groups and commence governmental discussions on rules of origin, tariff nomenclature, customs-related issues, and economic cooperation.

China, Japan and Korea, take dominant shares in East Asia, in terms of economic magnitude, population, and trade and investment. Huge amounts of direct investment have flowed from Japan and Korea toward ASEAN, as well as toward China. With the accumulation of external production assets, huge production networks have been established in East Asia. The networks in East Asia, however, will not work efficiently under the limited framework of “ASEAN plus ones”. Even at present, dominant share of trade and investment flows in the region are among China, Japan and Korea. The optimal formation of production network will be only possible when an FTA is achieved among China,

Japan and Korea. With this background, it is concerned that the trade liberalization initiative among the three countries lags behind any other region-wide initiatives in East Asia

It also deserves referring to the CJK Trilateral Investment Treaty, which is under negotiation. The free trade and investment are complementary to each other. In the region, once CJK FTA and CJK Investment Treaty are both established in place, the two agreements are expected to significantly make a solid foundation of economic growth and prosperity in the region.

Policy Recommendations

Recommendation 1: To Share the Common Policy Direction toward Further Liberalizing Regional Trade

The intra-regional trade has become the crucial element for China, Japan and Korea. As seen in the analytical part of this report above, the trade structure of the three countries at present has fragility to depend excessively on the final demand of the United States and Europe. Although most recently their economy and trade began to show signs of recovery, their production and trade volumes still remain markedly below the pre-crisis levels. Moreover, since it is expected that the recovery will be slower in the economies of the US and the EU, the difficulties that the three countries are facing in their trade are likely to last for a while. To compensate for the slowing demand in the US and the EU, a larger regional market will be needed. This is also desirable in the longer-term with shrinking global imbalances.

Ensuring a liberalized environment is one of the essential factors to expedite the economic recovery and sustain the economic growth in the region. A CJK FTA creating a larger market will certainly boost further the already-important intra-regional trade and investment, and raise efficiencies of their economies. The research teams recommend that the three countries should share the common policy direction toward further liberalizing regional trade policies. A CJK FTA will be an essential component to pursue the policy direction.

Recommendation 2: To Take Advantage of Trade Facilitation in a CJK FTA.

Trade facilitation has drawn increasing attention as an effective tool to reduce trade costs. The recent FTAs in the world tend to include trade facilitation measures with wider coverage. Trade facilitation has characteristics of international cooperation, as well as trade concession. Some of the trade facilitation measures, such as harmonizing various trade-related procedures and standards, have a nature of economies of scale and positive externality. A CJK FTA will provide a good opportunity to

materialize such benefits. Empirical studies found that some trade facilitation measures would create large economic benefits to all the parties.

The research teams recommend that a CJK FTA should take advantage of trade facilitation. A recommendable approach is “step-by-step”. The initial agreement of the CJK FTA would better include some effective trade facilitation measures, limited to cross-border issues. But others may be negotiated and implemented afterward as the matters of regional cooperation. To ensure that the approach functions properly, it is recommended that the initial agreement of the CJK FTA also stipulate institutional set-ups, such as periodical meetings, to review and negotiate the trade facilitation measures in the future.

Recommendation 3: To Upgrade Joint Research on the CJK FTA by Commencing Discussion among three government officials

The joint research teams reaffirm the importance of a regional FTA among China, Japan and Korea. In the future, the CJKFTA would ensure the liberalized trade environment in the region. The liberalized environment will greatly contribute to ensuring the economic recovery in East Asia, as well as developing a strong source of macroeconomic final demand in the region. With this understanding, the joint research teams recommend the leaders and governments of the three countries to support the formation of the CJK FTA.

In particular, it is recommended that discussion on the CJK FTA should be commenced among three government officials, by reforming the present mechanism to official discussion in government level from the next year. This will enable to start the discussion on a CJK FTA among the government officials, in addition to business and academia participants.

Recommendation 4: To Maintain and Further Utilize the Existing Mechanism of Academic Trilateral Joint Research.

The CJK Trilateral Joint Research started in 2001. The current mechanism enabled the joint research teams to conduct independent economic research on important trade and investment issues in the region. The present mechanism will be able to continue to serve the CJK leaders meeting to identify and review important issues in the region in the future. In addition to the above recommendation of upgrading the joint research on CJK FTA to government level, we recommend that the leaders and governments of the three countries maintain and further utilize the existing mechanism of academic trilateral joint research, aside from the separated and upgraded government level trilateral joint research on a CJK FTA.