

Japanese EPA Strategy: Geopolitics and Neo-liberalist Shift

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Introduction

Focusing on the Japan's East Asian strategy in the long view, we can see an alternation of '*Asianism*' and '*economism*'; the former is a kind of macro-regional communitarianism, arguing that Japan, as the core nation, should establish a regional order, based on 'Asian' identity, and countervail 'Anglo-Saxon' liberalization projects (Hara, 2002; 2005); the latter is a standpoint, from which Japan should internationally act based on national goals of economic development and prosperity rather than political, military and religious ambitions (Korhonen, 1998).

Historically, Japan tried to create an imperialistic politico-economic order against 'Anglo-Saxon' under the name of Asianism and the concept of '*Toa*' (the '*Greater East Asian Co-prosperity Sphere*'). Deeply reflecting on the failure of the forced order, the post-war policy had been made in terms of economism, interlocking its economic development with the regional growth. And Japan had put the most emphasis on multilateralism at the GATT/WTO, sticking with the negative stance for a free trade agreement (FTA). Especially, it had commonly been believed that

given diversity of development and outward-looking industrialization, a creation of any preferential relation among specific economies was inadequate in East Asia. Japan had also chosen to restrain itself from being a prominent political power owing to the imperialistic history, while not needing any regional trade agreement (RTA) or FTA, given its presence of production, trade and investment in the region and as far as it could maintain the status quo.

A materialization of the Japanese policy was the creation of the Asia-Pacific Economic Cooperation (APEC). It was organized as a loose consultative body, while its basic idea of *open regionalism* reflected unwillingness to promote European Union (EU) style institutionalization in the Asia-Pacific region. Particularly for Japan, the principle was set not only to ease East Asian nations' wariness of its political and economic dominance, but also to deter protectionist tendencies among the members, especially of the US, through emphasizing its openness (Krauss, 2003; MacIntyre and Naughton, 2005).

Faced with the intensified global competition and the prolonged recession of the Japanese economy, however, this policy stance has changed. Since

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the late 1990s, the Japan Ministry of Economy, Trade, and Industry (METI) has recognized the effectiveness of FTAs, eventually redefining the commercial policy as 'multi-layered'; it leverages bilateral FTAs as well as multilateral negotiations in the WTO and the regional forum of the APEC to achieve the 'national target of domestic economic revitalization' (Kraus, 2003; METI, 2001; Ogita, 2002). At last in October 2001, Japan entered in a FTA with Singapore (the Agreement between Japan and Singapore for a New-Age Economic Partnership: JSEPA)¹⁾.

The JSEPA was the first FTA involving only regional parties, excepting for the ASEAN Free Trade Agreement (AFTA). In this sense, the starter of East Asian bilateralism was indeed Japan. Since then, Japan has sought FTAs with the East Asian economies; it proposed the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) in January 2002 and officially launched negotiations with Thailand, Malaysia, and the Philippines in 2004 and with the ASEAN as a whole and Indonesia in 2005, while starting negotiation with South Korea in 2003. In parallel with the Japanese FTA movement, as shown by Table 1, bilateral FTAs are proliferating in the region and it is now believed that they will and could lead to a creation of an East Asian FTA (EAFTA) and ultimately to an East Asian Community (EAC).

In contrast to such expectation, however, we should distinguish between a Community building process and the FTA/EPA-based institutionaliza-

tion. The former is a series of political projects to construct a regional own framework based on common interests and East Asian identity, whereas the latter is a new version of economism based on national interests. Nevertheless, the difference is mostly not recognized and the latter is sometimes regarded even as a return to Asianism of Japan. This paper aims to smooth this tangle by focusing on the Japanese EPA strategy, and by exploring its motivations, influences on East Asian industrial development policy space, and implications for a future creation of an EAC. Through this, we could understand that the Japanese strategy is built on a kind of geopolitical thinking and that it implies a shift of its developmental strategy from developmentalism to neo-liberalism. First in next section, we will examine the underlining factors of the Japan's regionalist thinking in terms of region-wide production structure, changing economic geography and geopolitics. And in subsequent section, the implicit intents of the Japan's EPA strategy and its concomitant transformation of developmentalism will be suggested.

Japan's Regionalist Thinking: Continuity and Geopolitics

2.1 Japan's Vision for an East Asian EPA

As is generally known, it was a transformation of global and regional politico-economy that facilitated the change of the Japanese commercial poli-

1) Japanese FTAs cover service liberalization, investment rule, rule of origin, intellectual property, and trade facilitation, etc., ('WTO plus' issues), and Japan officially calls this new-type of FTA 'Economic Partnership Agreement (EPA)'. Hereafter we use this term in Japan's context.

Table 1 Main Bilateral FTA/EPA of the East Asian Nations (as of December 2005)

	Japan	China	South Korea	ASEAN	Singapore	Thailand	Malaysia	Indonesia	Philippines
Japan	Private study on a trilateral FTA/EPA			Negotiation	Effect	Agreed	Signed	Negotiation	Agreed
China	Study between China and South Korea			Effect	Negotiation	Effect of Early Harvest			
South Korea	Negotiation between Japan and South Korea			Negotiation	Signed		Study		
ASEAN	Negotiation	Effect	Negotiation	ASEAN Free Trade Agreement					
Singapore	Effect	Negotiation	Signed						
Thailand	Agreed								
Malaysia	Signed	Effect of	Study						
Indonesia	Negotiation	Early Harvest							
Philippines	Agreed								
Australia	Study	Negotiation		Negotiation	Effect	Effect	Negotiation		
New Zealand		Negotiation	Study	with CER	Effect	Effect	Negotiation		
India	Study	Consideration	Study	Negotiation	Effect	Negotiation	Negotiation		
US			Consideration	Consideration	Effect	Negotiation	Consideration	Consideration	Consideration
Canada		Negotiation	Negotiation		Negotiation				
EU				Study					
EFTA			Negotiation		Effect	Negotiation			
Mexico	Effect		Study		Negotiation				
Chile	Negotiation	Signed	Effect						

sources: JETRO homepage (<http://www.jetro.go.jp/indexj.html>).

cy. With the inception of the WTO, the multilateral liberalization and institutionalization have been bogged down due to proliferating issues and complicated negotiations. Against this, the US and the EU make the best use of FTAs to enclose markets and to create seamless environments for smoother operations of global production networks of their firms through liberalizing trades and disseminating their own rules and standards. If Japan lacked any FTA against these trends, its firms would be excluded or discriminated in global markets. In fact, Japanese firms were screwed in Mexico with the North American Free Trade Agreement (NAFTA) and a FTA with the EU²⁾, and therefore the business community, i.e. the Japan

Federation of Economic Organizations (*Keidanren*) strongly urged the government to adopt a FTA option (Manger, 2005; Munakata, 2006; Yoshimatsu, 2005). At least initially, Japan did not stand on any clear regional horizon but intended to reestablish its leverages and to avoid any exclusion of Japanese multinational corporations (MNCs) from the US- and the EU-led FTA networks.

The concept of an East Asian FTA (EAFTA) or an East Asian Community (EAC) was first and officially used in the report published by the East Asian Vision Group (EAVG) in 2001 (EAVG, 2001). But it was the regional political dynamics that made the idea appear on the actual political stage. The fact that Japan, the powerful advocate of open

2) After abolishing *maquiladora* in November 2000 through a five-year grace under the NAFTA, Japanese firms were discriminated relative to their rivals from the US and the EU in Mexico; the former had to pay 5 to 16 percent duties on key imports from Japan, e.g. auto parts and electrical appliances, whereas the latter paid no tariffs. Although the Program of Sectoral Promotion (PROSEC) was introduced as compensation, it did not cover finished products and was unstable because of government discretion. Consequently, some Japanese manufacturing firms were forced to shift parts procurement sites to the NAFTA countries (Yoshimatsu, 2005).

regionalism, began to be inclined to bilateralism drew an unexpected action from another regional power, China. In November 2000, just before the start of the JSEPA negotiation, China proposed an FTA to the ASEAN (ACFTA). The Chinese FTA strategy was initially motivated by a reactive factor, a response to the Japan's new commercial policy. Then, to discriminate itself against Japan, China offered an implementation of agricultural trade liberalization ahead of the schedule (Early-Harvest Program), cooperation in the Mekong River development project, and notably provision of most favored nation (MFN) status and debt reduction to non-WTO members, the CLMV (Cambodia, Laos, Myanmar, and Vietnam) (Ba, 2003, Terada, 2003). The approach of China to the ASEAN, in turn, led to the Japan's counter-proposals, the AJCEP and a greater East Asian community ('community that acts together and advances together' or the Koizumi Doctrine). Both the ACFTA and the AJCEP were accepted by the ASEAN and at this moment, the arguments for FTA/EPA-based institutional building turned to those for an EAFTA.

The Koizumi Doctrine ambiguously expressed a vision for creating a greater East Asian community; it would be 'founded upon the Japan-ASEAN relationship', 'making the best use of the framework of the APT(ASEAN plus three)' and 'extending it into Australia and NZ'³⁾. In 2006, the METI report, titled *Global Economic Strategy*, presented a more concrete plan to conclude an East Asian EPA (EAPEA) by 2010, the target year of trade and investment liberalization promised in

the Bogor Declaration in the APEC, setting five objectives and the road map as follows (METI, 2006b);

- Objectives: (1) Achieving an economic integration covering East Asia (seamless economic area)
- (2) Constructing an efficient, mature, and broader market economic zone (liberal, fair and rule-oriented economic zone)
- (3) Achieving balanced growth and development (sustainable economic zone)
- (4) Maintaining open dynamism (open economic zone)
- (5) Promoting functional and multi-layered cooperation

- Road Map: (1) Achieving an agreement of the AJCEP by March 2007, while during the process, reaching an agreement with Indonesia together with the already agreed countries (Thailand, Malaysia, and the Philippines) and initiating negotiations with Vietnam and Brunei at an early date.
- (2) Restarting the interrupted negotiation with South Korea as early as possible, while seeking a possibility of EPAs with Australia and India.
- (3) Starting negotiations for an EAPEA from 2008 based on those bilateral EPAs, and including NZ, and achieving an agreement by 2010.
- (4) Concluding a trilateral investment agreement with South Korea and China, and then

3) <http://www.mofa.go.jp/region/asia-paci/pmv0201/speech.html>

pursuing a trilateral EPA with them.
 (5) Establishing an East Asian version of

OECD as a think-tank to support the integra-
 tion process.

Figure 1 Japan's Road Map for an East Asian EPA

Date	ASEAN			South Korea and China		Australia	NZ	India	
	Bilateral EPA		Regional EPA	Trilateral					South Korea
Current Situation	Singapore	Effectuated	Negotiating	• Considering an Investment Treaty • Study on an EPA		Bilateral EPA	Interrupting negotiation	Study	Study
	Malaysia	Signed							
	Thailand	Agreed							
	Philippines	Agreed							
From 2006	Indonesia	Agreed	Investment Treaty	Starting negotiation	Restating negotiation		Considering an EPA	Considering an EPA	
	Vietnam	Start							
	Brunei	Start							
From 2007	Agreement of the AJCEP					Considering an EPA			
From 2008				Starting negotiation of an East Asian EPA					
				Considering an Trilateral EPA					
By 2010	Conclusion of an EAEPA								

Broadly speaking, this vision is that Japan integrates the regional economies into a seamless economic zone and into a single rule-based economic area gradually through bilateral EPAs. Then, what factors underlie it?

2.2 Continuity: Emphasis on Functional Linkages and Openness

Japan has put the most emphasis on openness of regionalism. The aforementioned vision is also partly formed on continuousness with the traditional view. The regionalist thinking comes from the production structure of East Asia.

As is commonly known, Japan and East Asia have created a highly interdependent economy. The intra-regional trade ratio of the region, comprising Japan, the NIEs (South Korea, Taiwan, Hong Kong, and Singapore), the ASEAN-4

(Thailand, Malaysia, Indonesia and the Philippines) and China, sharply rose from 33.6 percent in 1980 to 52.1 percent in 2003. This results from regional spread of production and distribution networks. Technical innovations enable to break a manufacturing process into small pieces of value-added activities and to relocate them, spatially and regionally, into optimal sites. Through this 'production sharing', East Asia now functions like a single production system.

This is illustrated by the fact that the intra-regional exports are driven by intermediate transactions. In fact, about 36 percent of them are materials, e.g. chemical products, textiles, and steel, while information technology (IT) related goods account for 44 percent, 77.2 percent of which are parts. In contrast, the extra-regional export ratios are prominently high in miscellaneous goods (86.9 percent), apparels (80.7 percent), and IT finished

goods (72.4 percent). Especially, the US and the EU absorb more than half of the exports of the third items (Table 2). These facts suggest that the regional production structure is characterized as the mutual procurement of intermediate goods within the region and the final market dependence

on the extra-region, meaning that an increase of final demands in the extra-region could expand intra-regional transactions with a multiplier effect, and vice versa. Assuring the stable extra-regional markets, therefore, is essential to the regional economic system. (Tachiki, 2005; Yun, 2005).

Table 2 Export Structure of East Asia (excluding Japan) in 2003 (percent)

	HS-Code	To World (Million dollars)	To Intra-Region		To Extra-Region				
			Ratio	Composition	Ratio	Composition	To Japan	To The U.S.	To The EU
Total	01-99	1,469,799.2	38.9	100.0	61.1	100.0	10.4	21.0	13.9
Machinery	84-91	790,944.8	42.1	58.1	57.9	51.1	8.7	18.7	15.1
IT-related Goods		516,866.6	48.7	44.0	51.3	29.5	9.1	19.7	15.6
Parts		308,560.7	63.0	34.0	37.0	12.7	9.3	13.1	11.9
Finished Goods		208,305.9	27.6	10.0	72.4	16.8	8.8	29.3	21.3
Chemical Products	28-40	131,789.0	45.2	10.4	54.8	8.0	7.8	13.0	12.5
Food Stuff	1-11,16-24	49,585.3	32.4	2.8	67.6	3.7	24.4	12.4	9.3
Miscellaneous Goods	64-67,92-97	83,906.2	13.1	1.9	86.9	8.1	9.4	40.8	20.1
Other Materials	25-27,41-63,68-83	391,288.5	37.6	25.7	62.4	27.2	13.4	14.6	11.2
Mineral Fuel	27	66,289.0	46.8	5.4	53.2	3.9	25.1	3.0	2.2
Textiles	50-63	156,007.0	31.6	8.6	68.4	11.9	11.6	17.6	12.8
Synthetic Fabric	54-55	23,402.5	45.9	1.9	54.1	1.4	2.4	3.8	8.2
Apparel	61-62	85,204.7	19.3	2.9	80.7	7.7	17.0	26.2	17.4
Iron and Steel	72-73	42,364.2	45.3	3.4	54.7	2.6	9.4	15.2	10.1

Note: ①East Asia consists of the NIEs, the ASEAN-4 and China

②HS-Codes of IT Parts: 8473, 8504, 8518, 8522-23, 8529,8532-36, 8540-42

IT Finished Goods : 8471, 8469-70, 8517,8519-20, 8521, 852510-40, 8526, 8528, 9006, 9009, 8543,9014-15, 9024-27, 9030, 9032

Source : Author's Calculation based on United Nation, Comtrade Database and Republic of China, Bureau of Foreign Trade Statistics.

The Japanese economy is deeply embedded in the structure. Take for instance IT-related goods. Japan's shares in the world exports decreased from 18.4 to 7 percent in PCs and peripherals and from 31.5 to 6.4 percent in telecommunication equipments between 1990 and 2001, while East Asian shares increased from 21.6 to 38 percent and from 16.6 to 26.4 percent respectively. Nevertheless, this does not mean a decline of Japan in the sector. The regional economies cannot complete manufacturing processes, or value-chains without sophisticated parts, materials (e.g. micro-

computer units, chip-condenser, and silicon wafer) and high-tech equipments supplied by Japanese firms (METI, 2006b; Munakata, 2006; Yun, 2005).

In terms of Japan, the export to the region is a lifeline. Particularly, IT parts account for 22.1 percent of Japan's exports to the region, an equivalent with 67.1 percent of its total exports of those products (JETRO Trade Database). Furthermore, Japanese MNCs have contributed to creating the production linkages. Since the mid 1980s, they have invested in the region, first the NIEs, then the ASEAN-4 and recently China, constructing

their own networks; they have established assembler-supplier clusters in the host through successive relocations of first assembly and then parts production, while connecting the regional production sites with one another and with their supply bases in Japan (Hatch, 2004; Hatch and Yamamura, 1996; Yun, 2005). Consequently, their operations are almost completed through linkages within East Asia including Japan. In fact, their manufacturing subsidiaries in the region procured 30.3 percent of inputs from Japan, 53.6 percent in the host, and 14.3 percent from intra-Asia (METI, 2006a).

Given these linkages, any dysfunction of the production structure could have a profound impact on the Japanese economy itself. Therefore, its regional policy has attached the most importance on maintaining well-functioning the regional system and openness.

2.3 Geopolitical Thinking: Forming Encirclement against China

As is mentioned above, the argument for an EAFTA started as the leadership struggle over the ASEAN between Japan and China. The first East Asian Summit (EAS) in December 2005 was also the place where they were sharply divided on membership of an EAC⁴⁾. Grouping among specific nations is, in any form, a highly political behavior. The Japan's EPA strategy is indeed founded on geopolitical thinking. What we can find from the road map at first glance is centrality of the ASEAN and disregard for China. Although

undoubtedly the tension over their border area and the historical issues (Prim Minister's visit to Yasukuni Shrine) aggravate their relationship, Japan purposely avoids a *bilateral* EPA with China. The Japanese vision (first to establish the AJCEP, then to extend EPAs into Australia and India, and to contain China along with South Korea in a trilateral framework) is to form encirclement against the rival.

Japan assigns top priority to the AJCEP, because the rise of the Chinese economy is likely to transform a regional power balance. The late-comer has achieved 8.7 percent of annual average growth between 1995 and 2004. As a result, its position in East Asia sharply increased from 9.3 to 20.2 percent in GDP and from 11.3 to 24.5 percent in exports. The surge of China led to a decline of Japan's position; its share decreased from 70.2 to 57.2 percent in GDP and from 33.7 to 24.2 percent in exports. However, this is not a straightforward determinant. The Chinese growth is partly attributable to Japanese firms' activities; they have rapidly increased their FDIs into the country since 2001, utilizing it as a production site for reverse imports to Japan. Increasing demands in China have accelerated Japanese exports to the country, providing one way out of the postponed deflationary recession.

Rather, significant is the impact on the ASEAN. The rapid catching-up of China intensifies competition with the ASEAN-4. During the 1990s, China and the ASEAN-4 interchanged their positions in the main export markets of the US and Japan,

4) Holding of an EAS is one of the long-term objectives proposed by the EAVG (EAVG, 2001). The APT decided the holding at its summit meeting in November 2004.

while China has won a victory over the ASEAN in the race to capture FDIs. FDI flows into China have exceeded those into the ASEAN-4 since 1992, now accounting for more than half of total flows in Asia (UNCTAD, FDI database). FDI is an essential source of competitiveness of the ASEAN-4, and therefore the FDI diversion to China is threatening the perspective of their growth path. More crucial is an increasing absorption capacity of China. The dependence ratio on China (export to the country as percentage of GDP) dramatically rose from 0.7 to 4.3 in Thailand, 0.5 to 7.2 in Malaysia, 0.3 to 6.3 in the Philippines and 0.1 to 2.4 in Indosnesia between 1985 and 2004. Certainly, given the regional production structure, the Chinese demands drive exports from the ASEAN-4, fueling the virtuous circle through supply linkages. Conversely, this implies that they could no longer sustain their growth without China, which, in turn, develops the Chinese politico-economic leverages over the region.

Southeast Asia has been a cornerstone for the Japanese post-war diplomacy (MOFA, 2002). And the Japanese government has strengthened economic ties with the region through the early conclusion of reparation agreements and subsequent provisions of official development aids (ODAs), whereby improving infrastructures and promoting Japanese firms' penetration. In fact, the ASEAN is persistently the most significant site, in which Japanese MNCs has agglomerated; it accounts for 14 percent of total trade of Japan, absorbing 54.3 percent of its total cumulative FDIs into East Asia

between 1995 and 2003. Therefore, whenever Japan considered and tried to make some regional framework, the first and essential partner has been the ASEAN⁵⁾ (Gilson, 2004; MacIntyre, 2004).

Any economic subsidence of the ASEAN owing to the intensified competition with China would put serious negative impacts on the Japanese economy and firms. Given the increasing gravity of China in East Asia, if regional integration should proceed on the Chinese initiative, Japanese political presence in the region would also be threatened. In fact, once an EAC was placed on the agenda, China ventured on capturing the leadership in the Community building arguments. It claimed that an EAC should be established with the APT its core. If the membership were confined to the APT, China would gain superiority because it goes ahead of Japan in creating bilateral FTAs. Actually, the Framework Agreement for the ACFTA, signed in December 2002, prescribes to put it into effect with the original ASEAN members by 2010 and with the CLMV by 2015, while the timetable in the framework for the AJCEP, signed in October 2003, lags 2 years behind that of the ACFTA.

Japan had to scramble to reinforce the tie with the ASEAN to prevent the possible shift of the regional power balance. The road map shows the political intention that Japan will regain the leadership within the APT by putting EPAs with the ASEAN and its members ahead of China. Moreover, Japan places the emphasis on 'liberty',

5) For instance, the Kojima Plan, the pioneering figure of the Japanese initiatives, proposed a creation of FTA among the US, Japan, Canada, Australia, and NZ, while envisaging associated membership of the Southeast Asian nations (Kojima, 1966).

'democracy', and 'market economism' as shared values of an EAC, and invited not only Australia and NZ but also even India in the EAS, checking China with authoritarian governance. Australia and NZ are the long-standing partners for the Japan-led Asia-Pacific cooperation, and India is another rising power in Asia. Japan intends to countervail the increasing political power of China by bringing these countries in the Community building process.

2.4 US Engagement and Meeting Interests

In considering East Asian regionalism, what we cannot ignore is the presence of the US. The hegemon has constructed bilateral relationships with the regional nations (so-called hub and spokes system), consistently opposing the efforts to strengthen regional coherence excluding itself (Terada, 2003). The US has no small effect on the Japanese EPA strategy. Indeed, the Japan's bilateralism shift was also a response to changes of the US liberalization strategy against the Asia-Pacific region.

Since the early 1990s, the US had pursued a NAFTA-style institutionalization of the APEC. However, after the Early Voluntary Sectoral Liberalization (EVSL) program was frustrated due to objection of Japan at the APEC Vancouver Summit in 1997, the US turned sour on the forum and set off so-called 'competitive liberalization' approach aiming to strengthen its engagement and political leverages through a creation of a bilateral FTA network. Specifically, during the Kuala Lumpur Summit in 1998, ex-USTR (US Trade Representative) Charlene Barshefsky proposed the

'Pacific Five (P5)', a pluralistic FTA network comprising Australia, Chile, NZ, Singapore and the US. Then, the Bush administration announced the 'Enterprise for ASEAN Initiative (EAI)' in October 2002, under which it proposed bilateral FTAs with the ASEAN countries on conditions of WTO membership and a Trade and Investment Framework Agreement (TIFA) with the US (Gilson, 2004; Krauss, 2003; Munakata, 2006; Naya and Plummer, 2005). The virtual disengagement of the US from the APEC process made the organization dysfunctional, which meant a loss of one of the significant policy channels of Japan. And the US shift to bilateralism and its extension into East Asia heightened the need for establishing countervailing measures.

More interestingly, the Japan's EPA candidates in the road map are similar to the possible partners of the P5 project and the EAI. Japanese and US FTA/EPAs geographically show parallel movement. Strengthening solidarity between Japan and the ASEAN has been the basic policy of the US since the Vietnam War (Singh, 2002). The US regards Australia as one of the essential military allies in Asia-Pacific and already concluded an FTA (AUSFTA) in February 2004. Though the military alliance with NZ (the ANZUS Treaty) had virtually been frozen since 1984, both nations exercised the right of collective self-defense since the 9/11, while a US-NZ FTA is under consideration. Notably, the US is economically and politically getting closer to India, whose membership in the EAS, an EAPEA and an EAC Japan strongly claims. At the leaders' meeting in March 2006, implicitly keeping the rise of China in mind, the

Bush administration situated India as a 'strategic partner sharing the value of democracy', and announced a comprehensive cooperative policy in trade, investment, and science and technology, offering unusual partnership including an approval of nuclear development. The US also regards India as a counter-power against China.

China is becoming an alarming power for the US. The Bush administration changed the position of China from a 'strategic partner' to a 'strategic competitor' (Mochizuki, 2004). The trade deficits against China reached 201.6 billion dollars in 2005, accounting for 26.3 percent of total deficits. In Congress, the claims for sanction against it and for appreciation of the Chinese yuan are put on stream. More critically, the Chinese energy strategy puts Middle East, Africa and Latin America in perspective, conflicting with the US interests. China is strengthening the relations with Central Asia with the world-largest oil reserves through the Shanghai Co-operation Organization, while going against the Iraq War and reinforcing cooperation for oil supply with Russia. Particularly, it moves to improve the relation with the anti-American governments in Venezuela and Iran. In this situation, a scenario to be avoided is any China-led Community building in East Asia, which would enhance the Chinese power and erode the US interests in the region. In this regard, Japan and the US have a meeting of interests.

Given the regional structure largely dependent on the extra-region, there might be good reasons for Japan to place the emphasis on openness and extending membership. And it might be necessary for a future East Asian growth to strength-

en the relationship with India, another growing Asian giant. Provided that the US is the indispensable ally for Japan in security, economy and politics, the Japan's East Asian strategy should be premised on the involvement of the US. But these prevent Japan from identifying itself as a genuine member of East Asia. The Japan's vision for an EAEPA or an EAC is, strictly speaking, a creation of a variety of the APEC, precisely, a mini-APEC plus India. The extending membership makes the boundary of East Asia increasingly ambiguous and the objectives of the Community building vague.

Japan's Strategic Intention and Changing Developmentalism

3.1 Double Standard and Strengthening Production Networks

As far as any institutional building is proceeding through EPAs, a next question is what institutionalization Japan pursues. In this regard, the Japan Council of Ministers on the Promotion of Economic Partnership clearly sets criteria for selecting EPA partners in December 2004 as follows; (1) to contribute to a creation of international environment favoring Japan, (2) to assure economic merits for the Japanese economy as a whole and (3) feasibility of the possible partners. Specifically, the EPAs should strengthen Japan's position in international negotiations such as in the WTO, improve business climate of Japanese MNCs and revolve disadvantages associated with a lack of an EPA⁶⁾. As far as an EPA is a

part of the national policy, it might be natural to pursue national interests. It should be noted, however, that there is much difference in industrial structure and economic development between Japan and the East Asian partners. Therefore, the actual negotiations contained conflicts of interests. In this part, taking the ASEAN members for instance, let us shed light on this aspect of the Japanese EPA strategy.

First, as for trade liberalization, Japan stressed a separate treatment between mining and manufacturing sectors and agricultural ones (including forestry and fisheries), whereas the ASEAN countries claimed for a uniform treatment but excepting specific manufacturing sectors, e.g. automobile and steel. This conflict was foreseeable, because they have an asymmetrical tariff structure; in fact, Japan already imports almost all of machinery on duty free, confining the high-tariff items to specific agricultural and leather products. In contrast, the partners maintain the high tariff rates even in the manufacturing sectors, with 15 percent over tariff rate lines concentrating in the transport equipment sector (Table 3). Given this asymmetry, lifting tariffs in mining and manufacturing sectors means unilateral liberalization of the ASEAN nations. In return for it, therefore, they required Japan to liberalize its agricultural product markets protected by high tariffs and non-tariff barriers (NTBs).

According to Munakata, the Japanese external policy has been constrained by a 'dual structure', a transfer of national wealth from competitive industries to protected and inefficient ones, and therefore based on the corresponding 'double standard' (Munakata, 2006). Certainly, Japan presented a direction to utilizing EPAs for the domestic structural reform, especially of the agricultural sector⁷⁾. Nevertheless, the basic agreements reflect its traditional 'double standard' (liberalization in manufacturing but protection in agriculture). Specifically, they agreed to eliminate almost all tariffs on mining and manufactured products including automobile parts and steel within 10 years. In contrast, they excluded or sent to future negotiations for sensitive agricultural items for Japan (rice, pork, sugar, plywood etc.), setting import quotas with zero or lowered tariffs for products of its domestic backward areas (banana, pineapples, molasses, amyllum etc.) and for other competing items, while abolishing tariffs on non-competing tropical fruits and preparations sourced in large by Japanese trading companies and retailers⁸⁾.

This implies that the Japanese EPAs aim at reinforcing the existing production networks in the ASEAN, but not achieving liberalized trade in its true sense. Though Japanese MNCs have established their own supplier cluster in each location and the ASEAN-wide procurement networks,

6) http://www.mofa.go.jp/mofai/gaiko/FTA/hoshin_0412.html

7) And the Ministry of Agriculture, Forestry and Fisheries announced the 'Green EPA strategy' aiming for heightening value added and promoting exports of agricultural products, and cooperation for agricultural technology and poverty reduction in rural areas of the EPA partners (http://www.maff.go.jp/www/press/cont2/20041112press_3b.pdf).

8) http://www.maff.go.jp/sogo_shokuryo/fta_kanren/fta-1.pdf

Table 3 Tariff Rates of Main East Asian Countries and Japan by Products in 2003 (percent)

		All Goods	Agriculture excluding Fish	Fish & Fish Products	Petroleum Oils	Wood, Pulp, Paper & Furniture	Textiles & Clothing	Leather, Rubber, Footwear & Travel Goods
Japan	Duty Free*	36.1	24.5	8.6	10.6	49.0	2.3	32.9
	(A)	7.5	21.5	6.0	3.5	1.7	7.0	20.5
	(B)	6.4	25.7	1.2	0.0	0.0	0.0	29.4
Thailand	(A)	13.8	27.4	5.4	3.3	14.7	21.4	19.5
	(B)	42.2	71.2	3.1	7.5	51.3	71.4	58.1
Malaysia	(A)	9.3	3.1	1.9	0.5	2.5	13.4	12.5
	(B)	22.7	4.9	1.4	0.0	9.6	40.4	41.1
Philippines	(A)	5.3	7.0	7.1	2.6	6.0	9.5	5.6
	(B)	1.4	7.4	0.0	0.0	0.0	0.0	0.0
Indonesia	(A)	7.2	8.6	5.0	5.0	4.1	10.5	6.6
	(B)	3.4	3.4	0.0	10.0	0.0	0.0	0.0
China	(A)	11.0	15.8	12.2	6.1	7.0	15.2	13.6
	(B)	25.6	48.1	28.7	0.0	7.5	62.4	37.3
South Korea	(A)	13.3	52.2	16.8	5.8	3.7	9.8	8.9
	(B)	8.9	48.5	67.4	0.0	0.0	0.0	6.2
		Metals	Chemical & Photographic Supplies	Transport Equipment	Non-Electric Machinery	Electric Machinery	Mineral Products & Metals	Manufactured Articles, n.e.s
Japan	Duty Free*	35.1	32.9	99.3	100.0	96.4	76.2	67.2
	(A)	1.0	2.5	0.1	0.0	0.2	0.9	1.3
	(B)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	(A)	12.2	5.6	26.0	1.0	11.5	7.4	14.4
	(B)	40.5	13.1	55.8	17.8	37.3	20.9	46.6
Malaysia	(A)	17.4	5.8	48.1	6.0	8.9	0.0	7.5
	(B)	41.4	18.2	63.0	19.7	22.5	25.7	23.1
Philippines	(A)	4.5	3.6	8.1	2.1	3.9	43.0	4.0
	(B)	0.0	0.0	15.5	0.0	0.0	0.0	0.0
Indonesia	(A)	8.1	5.5	17.0	2.3	6.1	4.6	7.7
	(B)	8.8	3.6	34.7	0.0	0.0	0.0	3.1
China	(A)	7.4	7.4	15.9	8.6	9.9	9.4	12.3
	(B)	7.1	2.4	37.2	5.4	17.2	21.1	29.9
South Korea	(A)	5.2	7.0	6.0	6.1	5.5	6.0	6.4
	(B)	0.0	0.2	0.0	0.0	0.0	0.0	0.0

Note: * The figures are duty free lines as percentages of total tariff lines.

(A) = Simple Average Applied Rate, (B) = 15 % over Tariff Rate Lines as Percentage of Total Lines of Each Item.

Source : APEC Individual Action Plan (<http://www.apec-iap.org>).

their subsidiaries still import a large percentage of their inputs from Japan. The ratios are especially high in transport equipment (39.6 percent), iron and steel (55.2 percent) and precision instruments (43.2 percent), on which the ASEAN countries impose high tariffs (METI 2006a). The tariff abolishment through the EPAs will undoubtedly contribute to cost reductions and smoother operations of Japanese MNCs (Manger, 2005). In this sense,

the EPAs could reinforce the MNC-dependent development of the ASEAN. But it means that they would narrow the room for industrial policies of the ASEAN to foster the supporting industries and indigenous firms.

Importantly in this context, Japan requires setting a cumulative rule of origin. Though a rule of origin is generally a way to cover loopholes of a FTA, the ASEAN has utilized it as a part of the

industrial policy. For example, to promote industrial agglomeration and upgrading, the AFTA imposes meeting 40 percent of ASEAN content in utilizing the Common Effective Preferential Tariff (CEPT) system. Thereby, foreign firms are encouraged to either relocate production sites of materials and parts or source them from local firms to enjoy the preferential tariffs (0 to 5 percent) in the scheme. If value added in Japan is permitted as a cumulative Japan-ASEAN origin, contrary, Japanese firms could freely utilize the CEPT without further relocating their supply sites. Therefore, this measure is likely to undermine the policy efforts to develop supporting industries at least in relation to Japanese MNCs.

3.2 Developmental Thinking toward Neo-liberalism

The METI's report defines an EPA as an effort to establish 'rule of law' in East Asia, through which Japan will 'construct a dynamics and mechanism for directing an environment arrangement of competition and investment, reflecting voices of Japanese investors'. The Japan's focus in this regard is on so-called Singapore Issues (investment rule, competition policy, trade facilitation, and transparency in government procurement), particularly, prohibition of pre- and post-establishment performance requirements, provision of national treatment (NT) and most-favored-nation (MFN) status in service sectors and government procurement, and assurance of standstill for a series of measures (METI, 2006b). They represent neo-liberalist institutional reform forced under the name of

globalization. The Japan's intention is to achieve bilaterally rulemaking on the issues, which has been faced with difficulty in the multilateral negotiations.

First, performance requirements refer to obligations imposed on foreign investors, e.g. local equity participation, technology transfer, employment target, local content or R&D requirements, minimum export shares, trade balancing, and protection from import competition. The WTO Agreement on Trade-related Investment Measures (TRIMs) prohibits some of them as trade-distorting measures (Brooks et al, 2003). In fact, Thailand lifted the local content and export requirements for automotive and milk industry, while Malaysia also phased out the local content requirement in the automotive industry in line with the TRIMs agreement at the end of 2003. However, the TRIMs agreement demonstrates just local content, trade balancing, import substitution, foreign exchange, and export limitation, and what requirement should be prohibited has not been undecided even in the WTO.

Therefore, the ASEAN nations maintain various restrictions, reflecting their specificities. For instance, Malaysia keeps the import licensing regulation favoring the local firms as a part of the Malay-first (bumiputra) policy. The Philippines imposes discriminative export performance requirement (50 percent on local firms, but 70 percent on foreign firms), and implicit trade balancing obligations on the firms utilizing the AFTA scheme. It is said that local content and export requirements are unofficially imposed on foreign firms in Indonesia. And all of these countries con-

fine employment of foreigners to technical personnel or those who cannot be recruited in the local labor markets.

With regard to service sectors, the General Agreement on Trade in Services (GATS) prohibits more performance requirements such as employment and foreign entry, whereas the liberalization way is based on the positive list each member offers. Accordingly, there remain various strict restrictions on foreign firms, for instance, for equity participation in Thai financial sectors; equity participation, entry, and minimum capital in Malaysian retailing sectors; equity participation and entry in Filipino telecommunication and financial sectors; and entry in Indonesian distribution sectors. On the other hand, these nations have not yet acceded to the WTO Agreement on Government Procurement. Therefore, Malaysia, Indonesia, and the Philippines apparently favor their local firms, while there still exist various unofficial discriminative treatments in Thailand.

Against this background, points of the Japan's FTA/EPA-based institutionalization are to expand the scope of prohibition of performance requirements, to shift the way to liberalize service sectors from the limited positive list approach in the GATS to a comprehensive negative list one, and to attain NT and MFN status in all sectors including government procurement beyond the WTO framework. These measures aim to 'level the playing field' between foreign and local firms, the

way for liberalization pursued by the US through the NAFTA and its bilateral investment treaties (BITs) (Brooks et al, 2003; Young and Tavares, 2004). The US prefers the relatively easy bilateral negotiations to the complicated and conflicting multilateral ones. Following the US, Japan has ever pursued this new type of investment treaties, already concluding with South Korea and Vietnam. The Japan's EPA is indeed a FTA plus the new-type of BIT. This implies that Japan launched the NAFTA-style of institutionalization, which it had once vetoed in the APEC process.

Traditionally, the Japan's regional approach had been called 'developmentalism', emphasizing the effectiveness of interventionist industrial policy (Wade, 1996). More precisely, most Japanese bureaucrats and economists had envisioned the perspective on the East Asian development based on the flying geese theory, according to which the regional economies sophisticated step-by-step their industrial structure with industrial upgrading in Japan, and the process was initiated first by the NIEs, and sequentially imitated by the ASEAN-4 and then China, creating a complementary regional economic order. Through the process, they emphasized the role of Japanese ODAs in supporting industrial policies of the regional states, and stressed spillover effects (e.g. technology transfers, expanding employment, and export promotion) of Japanese FDI's evolving from labor-intensive, to capital-intensive and then

9) Faced with the leapfrogging development of China, however, Japan discarded this vision and declared the breakdown of the flying geese order and an era of mega-competition in East Asia (METI, 2001). According to MacIntyre and Naughton (2005), the Japan-centered production networks goes into decline, while the greater Chinese networks is in the ascendance.

to technology- and knowledge-intensive and mostly in form of joint ventures⁹⁾ (Kojima, 2003; Yun, 2005).

Responding to it, the ASEAN regionalism could also be called 'developmentalist'. The ASEAN has pursued a collective development strategy through introducing FDI and by reinforcing MNCs' production networks spreading in the region. As a measure, it launched the ASEAN Investment Area (AIA) scheme in 1998 to provide MNCs with more favorable investment environments. The ASEAN has opened its economy to MNCs, because it expects them to drive export, expand local employment, and promote transfers of manufacturing technology or managerial skills to local firms. Performance requirements have been a part of industrial policy designed to promote these spillover effects of FDI. If they are prohibited as Japan claims, the development policy space will largely be narrowed. On the other hand, the AIA scheme discriminates between ASEAN and non-ASEAN investors to foster ASEAN firms (it will grant NT status to the former by 2010 and the latter by 2020). The non-discriminative treatments required in the Japanese EPAs, however, will water down the ASEAN developmentalist regionalism. When local firms inferior in capacity and competitiveness competed with foreign firms on the equal footing, which would be winners is apparent, and given the one-way flows of FDI from Japan to the ASEAN, the FTA/EPA-based institutionalization will force the latter to asymmetrically and unilaterally liberalize its market (Felker, 2004; Nesadurai, 2004; Young and Tavares, 2004). On these issues, therefore, the

ASEAN nations required Special and Differential (S&D) treatment as developing countries, as in the WTO.

As a result of the negotiations, Japan compromised by achieving standstill and negative list-type of investment liberalization in manufacturing sectors (excepting in case of Thailand), on the one hand, and by accepting positive list-type liberalization in service sectors, on the other. And conclusions on extensive prohibition of performance requirements were postponed excepting in case of the Philippines. But notably, Japan has given up the traditional developmentalism by placing the EPA at the center of its East Asian strategy. True, it held a meeting in August 2002 to review the development experience in East Asia and justify the roles of its ODA (the Initiative for Development in East Asia: IDEA) (METI, 2006b; Terada, 2003). And Japan indicated willingness to carry on ODAs and promised to cooperate in fostering small-and medium sized firms and technology development in the ASEAN. However, they are an expression of its desire to discriminate itself against China by accentuating its position as the largest donor.

Today's Asianists criticize the liberalization form of granting MFN and NT in the WTO as market fundamentalism or Western-style neo-liberalism, and expects East Asian integration to go against such anti-developmental pressures from 'Anglo-Saxon' (Hara, 2002; 2005). As opposed to such discourse, what is proceeding under the surface and being pursued by the Japan's EPAs is nothing more or less than the neo-liberalist institutionalization.

Conclusion

Japan had officially never used the concept of East Asia in its diplomacy, adhering to Asia-Pacific. In this sense, it may be an epoch-making to have set the external policy under the name. However, Japan still tries to avoid making objectives of an EAC clear, though recognizing it as a future goal. In the issue papers about an EAC published in 2004, it reserved a judgment about an EU-style institutionalization in East Asia, emphasizing the importance of functional cooperation based on the traditional principles of openness and flexibility (MOFA, 2004). In the words of Munakata (2002), Japan 'talks regionally but acts bilaterally'. The Japanese EPA politically aims for checking the leadership of China in regional integration and balancing against its growing political power, while economically pursuing the neo-liberal institutionalization based on its own national interests.

Given the regional structure dependent on the US market and its security presence, it might be difficult to create any regional framework excluding the hegemon. In the competitive global politico-economy, it might be necessary and justifiable for Japan to improve the environment for production networks organized by Japanese MNCs in their most important backyard and to extend EPAs into Australia, NZ, and India. Then, for what purpose does Japan try to create an EAC? The regional core nation has not yet identified itself as a member of 'East Asia'.

On the other hand, despite the enthusiasm for an EAC, the FTA/EPA dynamics is increasingly subject not to centripetal, but to centrifugal forces. Not to speak of Japan, the ASEAN considers FTAs with India and even the US as well as Australia and NZ. The hub of the possible regional FTA/EPA network accepted the FTA or EPA with China and Japan, whereas trying to check their growing political influence and keep geopolitical balance through diversifying FTA relations. Furthermore, South Korea agreed a FTA with the US and considers a FTA with the EU, while even a FTA between China and India is under consideration. These facts also suggest that a simple creation of a bilateral FTA/EPA network will not lead to an EAC. A Community building is a political project in which members find and enhance common interests. Contrary, today's proliferating bilateral FTAs/EPAs in the region, especially the Japanese ones, likely end with intensifying the race to capture the market and entrenching the asymmetrical and hierarchical structure. Japan and the regional nations 'may sleep in the same bed, but they have different dreams'.

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Postscript

After submitting this paper, Japan and Thailand signed the EPA (JTEPA) on April 3rd. In contrast to the analysis of this article, the agreement adopts positive-list type of liberalization both in manufacturing and service sectors, though including provisions of state versus investor dispute mechanism and right of establishment. More interestingly, it permits performance requirements unless they are prohibited in the commitment list. To analyze the reasons for the investment provisions different from those of the EAPs with other Southeast Asian nations will be a future interesting research subject.