

# CEPEA: Is It Possible to Organize Asia-Oceanic Community?

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## Summary

The Japanese Government in April 2006 proposed a grand design of CEPEA, a plan of the comprehensive economic partnership in East Asia. This interim research paper is intended to examine the feasibility of this plan in accordance with the moving situation. However, we are not able to cover the whole dimension of economic, political and social issues of this plan, which are closely related together. Therefore the main focal points are limited in the paper to the following aspects:

1. What is the main concept of CEPEA?
2. What is the response by the members-to-be to this plan?

Through these aspects we just make a prospect of multilateral cooperation of the Pacific-rim countries under the new marketing wave.

## 1. Plan of CEPEA

### 1–1. Initiative of the Plan

Toshihiro Nikai, the Japanese Minister of Economy, Trade and Industry proposed the idea of CEPEA in April 2006 at the 38th Asean Economic Ministers (AEM) meeting in Kuala Lumpur. It is briefly called “Nikai initiative” named after the Minister.

The CEPEA (Comprehensive Economic Partnership in East Asia) is to involve all 16 countries in the East Asian Summit group. These are 10 member-countries of ASEAN, together with Japan, South Korea, China, India, Australia and New Zealand.

Its initial aim is virtually to organize multi-regional organization of East Asian, Indian Ocean and Southeast Asian countries so that it can enlarge and build up the multi-regional economic partnership. These areas currently comprehend approximately 3 billion-population and US\$ 9 trillion economic capacity, that is, more than 20 percent of the world’ economic output. According to the analyses of Malaysian economist “the CEPEA is an omnibus FTA for the entire region of some three billion consumers, of which more than 50 percent are youths.” (*BERMANI*, Malaysian National News Agency, 20 August 2006) If it functions effectively, the market becomes wider and more attractive not only to the Oceanic countries but also to ASEAN members than ever before.

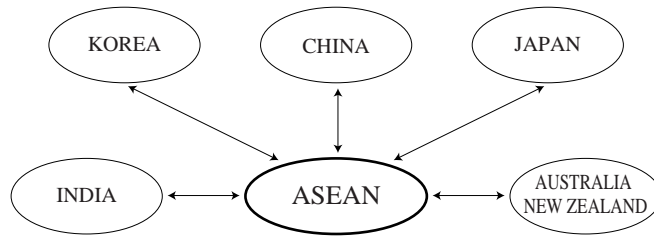


Figure 1 Bilateral Relations among ASEAN and Other Countries

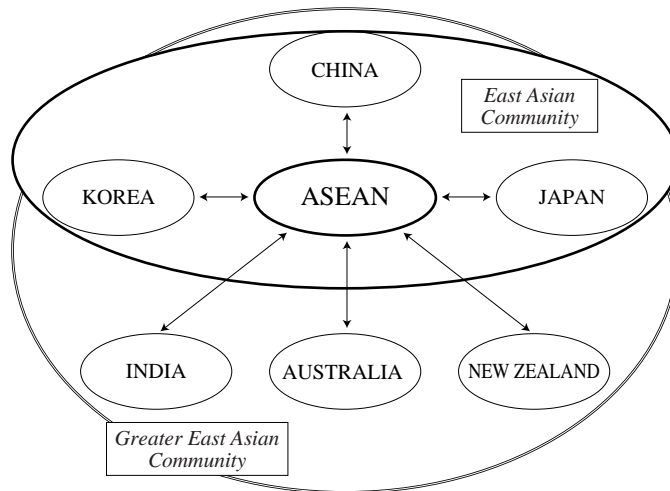


Figure 2 Multilateral Relations: Greater East Asian Community

The idea of CEPEA is rather different from the former organization in the aspect of the range to be covered and the areas to be enlarged. Original range of “East Asian community “ was ASEAN and East Asian countries, that is, Japan, China and South Korea. This concept is regarded as a narrow East Asian community (Figure 1). However, the new idea of CEPEA includes Oceanic countries of Australia and New Zealand, and South Asian country of India besides ASEAN plus 3 (Japan, China and South Korea). It can be regarded as a wider or “expanded” concept of East Asian Community”. It is virtually enclosing the whole Pacific-rim area (Figure 2).

There are currently 6 multi-lateral relations in the Asian region. Those are Japan-ASEAN, Korea-ASEAN, China-ASEAN, India-ASEAN, Australia and New Zealand-ASEAN, and intra-ASEAN groups.

There is no skepticism to the fact that ASEAN occupies the key position economically and politically. ASEAN at present and in future lies in the geo-economic vital location.

To make this position of ASEAN more effective, it is most important to make the characteristics of the plan more clearly.

The characteristics of the Nikai initiative are “rather more consultative than prescriptive in approach” according to a senior ASEAN official’s comment.

The Malaysian foreign policy analyst also noted that “the fund is considered small for Japan” (BERMANI, 20 August 2006). In this context, we shall overview that the members are not skeptical that the Japanese government and business communities are not intending to dominate the market in and around Southeast Asia and rather cooperative for constructing and vitalizing the economic situation.

We just try to analyze the target and objective that Japan is aiming to attain from original document announced in 2006 by the JACE, Japan.

## **1–2. Objective of the Plan-Japan’s Proposal**

The Keizai Doyukai (JACE=Japan Association of Corporate Executive), one of the representatives of Japanese business executives, presents a report on the ideas of CEPEA in more detail (JACE Report, 2006). In the report, we may read some implications of CERECA proposed by the Japanese government.

### **1–2–1. Need for Regional Cooperation and the Role of ASEAN**

Regarding the need for regional cooperation, the stance of Japan is explained in the paper (pp. 6–7, JACE Report) to stress the importance of institutionalization of economic integration in an East Asian community, making ASEAN as a hub:

“... *economic integration within East Asia* is making steady progresses in a practical sense, and, therefore, the institutionalization of such economic integration will carry great significance and contribute to an increased and sustainable economic development in East Asia overall. It is important, as a first step toward the realization of an East Asian community, to create a free trade zone within East Asia. In preparation for taking such step, a series of FTAs are currently being concluded *primarily with ASEAN serving as a hub*. As suggested earlier, any delay in the conclusion of economic partnership agreements (EPAs), including FTAs, between Japan and ASEAN countries, will not only be looked at as a lack of Japanese initiative with respect to an East Asia community, but it will also cause Japan a significant loss as it will miss out on the production network that is being created within the East Asian region.”

### **1–2–2. Sense of East Asian “Community”**

In terms of the sense of “community” Japan’s stance is explained pragmatically in seven points (p. 9, JACE Report):

“when the subject of an East Asian community is being debated, it is important that each involved country in the region agree to and share the vision of a “community” as the common goal. It is also necessary, while working towards the goal of creating a “community”, to adopt the approach of starting with those areas in which cooperation can be pursued at this point in

time. These areas include *the conclusions of FTAs between the various involved countries, the creation of a free trade zone within East Asia, the liberalization of the movement of people, currency and financial cooperation, energy and environmental cooperation, the integration of standard and certification systems, and the facilitation of intellectual property rights protection*. We should view securing cooperation in these areas, one area at a time, as the process of forming a “community”, which will ultimately result in the realization of an East Asian “community”.

### 1–2–3. Need for Expansion of Membership in the Plan

The Report insists on a realistic way of expansion of membership, making ASEAN as a center, and Japan, China and South Korea as principal members, and including the countries of Oceanic Zone as an outer circle (pp. 9–10, JACE Report):

“Since its establishment in 1967, ASEAN has accomplished the ASEAN Free Trade Agreement (AFTA) in 1992, sponsored the first ASEAN plus 3 meeting in 1997. and has consistently played a leading role in integrating the East Asian region. Given this background, it is quite realistic to pursue an East Asia regional integration that **centers on ASEAN**, while Japan, China, and South Korea, together with ASEAN, will act **as principal members** in promoting the realization of an East Asian community, and Australia, New Zealand and India will form an **outer circle** that will provide additional support. This is assumed to be a general consensus, which was reached on the above concept at the first East Asian summit that was held in December 2005.”

### 1–2–4. Pragmatic Proposal by Japan

In order to realize the East Asian Community, Japan is proposing four practical recommendations (pp. 11–12, JACE Report):

- “1. Early realization of heads of state summits between Japan and China/South Korea.
2. Japan’s drastic measure to open up the market for agricultural products, etc. for the facilitation of intra-regional FTAs/EPAs.
3. Establishment of an East Asian regional Development Fund (tentative name)
4. Launch of a Council on the Promotion of an East Asian Community (tentative name)

These “recommendations” and proposal for finalization of the plan are yet implemented at the present situation of January 2007, and we cannot clearly predict the results. However, the Second East Asia Summit (EAS) was successfully held at Cebu, the Philippines on 15, January 2007. The latest Editorial of the Asahi Shinbun reports on 17, January the success of the second EAS as follows:

“At the second East Asia Summit, held Monday (15, January) in the Philippine island of Cebu, leaders of the 16 Asia and Pacific countries agreed to start a joint study for economic integration within the region. The agreement appears to be a step toward creating the East Asia Community, a vision that has been championed by Japan.”

“The top officials of Japan, China and South Korea reconfirmed in their meeting before the 16-country summit that the 13-nation framework of ASEAN plus Japan, China and South Korea should be the major vehicle in efforts to build up the proposed East Asia Community. This was a diplomatic victory for China, which won South Korea’s support for its argument over the membership issue.”

## **2. Responses by the Member Countries**

In terms of the membership countries, Japan and China have generally agreed to expand. However, both countries have so far not agreed on which countries to include besides ASEAN plus 3. Japan expected to include India, Australia and New Zealand. However, China has not been willing to include them.

“At the meeting of the second EAS in Cebu, the Philippines, China has been trying to seize the initiative in this regional undertaking by pushing for a 13-nation membership. In an attempt to prevent Beijing from calling the shots, Japan has been lobbying hard for adding India, Australia and New Zealand to this list.” (Editorial by the Asahi Simbun, 17, January 2007).

We shall overview the feedback from the countries.

### **2-1. Response of Oceanic Group—Australia**

#### **2-1-1. Australian Government’ stance**

When the First East Asia Summit was held in Kuala Lumpur, the Australian Government primarily welcomed to be invited and to be a participant. We shall overview their stance expressed in the document of Australian Parliamentary Library (E-Brief: online document issued 17 January 2006).

The Australian Minister for Foreign Affairs, Alexander Downer says in a speech on 1, December 2005.

“This is just the first meeting and nothing is set in stone. And if there is to be an emergence of an East Asian community, it will not, in my view, be built around one institution or meeting. An East Asian Community will emerge for practical reasons, not for ideological reasons. APEC, the ASEAN Regional Forum, ASEAN plus three, and the East Asia Summit will all

contribute to an open but increasingly integrated region.”

The Prime Minister, John Howard, stated in his comments in Kuala Lumpur on 14 December 2005, just before the Summit:

“. . . although the meeting is a short one, it’s very important one not only for its symbolism but also for its substance because it will bring together for the first time, 16 countries of the East Asian region. We will have an opportunity to talk necessarily in general terms about the major issues confronting the region.”

It can be guessed that the Australia is positive in joining the meeting, but they are rather careful with the process and the characters of the community. They claim that the community would not be dominated by one power, the community should not be closed one, and the characters of the community should be practical.

According to the analysts of Australian foreign affairs, “the Summit is a significant development both for East Asia and for Australia. The 15 other countries taking part in the East Asia Summit together receive over 60 percent of Australia’s exports and Australia import focus for both political and economic cooperation.” However, the Australian government is seeking for a loose cooperative framework rather than the formalized organization. They understand the background history of the would-be Community that requires multilateral dialogue at different levels among member countries.

#### **2-1-2. Key Issues presented by Australian Government**

Although the Government is rather positive on the plan of new Community, they are skeptical in terms of 4 major issues.

First issue is the character and level of economic development among Summit participants. They doubt that an agreement on cooperation programs could be difficult to reach due to the wide gap of development.

Second issue is the leadership. Central leadership of the Summit is likely to be difficult while relations among key Northeast Asian participants remain politically distant (especially between China and Japan).

Third issue is the relationship between the new East Asia Summit (Second East Asia Summit at Cebu, 2007) and existing cooperation dialogues, particularly because ASEAN plus Three, remains to be clarified.

Fourth issue is membership of the East Asia Community.

The Second EAS held in January 2007 in Cebu Island, the Philippines sorted out some of the above issues. For example, the membership of Summit and Community are almost all 16 countries

of ASEAN plus Three, which include Australia, New Zealand and India. However, the first issue has yet to be sorted out. It is difficult to “level” the gap of development among member countries especially developing countries in ASEAN and developed countries. The second issue of the leadership of the Community is still remains undecided as stated in the Asahi Shinbun editorial. Both Japan and China from now on will play a tug-of-war for gaining leadership. And the third issue, the character and orientation of CEPEA and New Asian Community is to be the toughest problem.

Just before attending the EAS in the Phillipines, Mr. Alexander Downer, Foreign Minister of Australia stated that “Australia’s involvement as a founding member is a testament to the depth of our bilateral and regional ties.” (Associated Press, 8 December 2006).

## **2-2. Response of Oceanic Group-New Zealand**

Mr. Goff, Minister of Trade, New Zealand Government commented on the current state of trade in his speech in the government on 15 August 2006, and referred to the multilateral relation with Asian nations (text by *Scoop*, an independent News, 16 August 2006).

“The Asia-Pacific region is one of the most dynamic regions in the world. Intra-regional trade has been shown as a particularly effective mechanism for growth, so the benefits of enhanced regional integration are obvious.”

“New Zealand has sought deliberately to involve itself actively inside regional processes in the Asia-Pacific.”

“While we are *geographically located in Asia-Pacific*, we cannot take our position for granted. We must work hard to be seen as *a valued and contributing partner in the region*.”

From the above statement we shall briefly understand the stance of the New Zealand Government toward the new Asian bloc.

Firstly, they are re-realizing the importance of their geographical and economic location in the Asia-Pacific zone. New Zealand government already had repeatedly been stating that they were the members of the Asia-Pacific area. However, in the present comment, they stressed more clearly shifting their focus to the trade relations rather than political stance.

Secondly, they are expecting and confident to be more eagerly involved in intra-regional (Asia-Pacific or greater Asian) integration, though the sense of “integration”, “regional process” and “valued member” are not clear.

Just before participating in the EAS in Kuala Lumpur, the Foreign Minister Goff expressed the strong expectation for the new Asian Community or CEPEA and supported the idea as follows:

“Japan recently proposed an ASEAN plus 6 EAS-wide ‘comprehensive economic partnership’.

It is a very interesting idea, which may be discussed more in Kuala Lumpur. There are big challenges that would confront such a proposal, but the objective is the one that New Zealand fully embraces and *we will support moves to progress the concept.*”

### **Tentative Conclusion**

Not all issues presented at the First and Second EAS have been sorted out, and the debates are still progressing after the successful meeting at Cebu EAS. We can not forecast the outcome of negotiations among members regarding which way and for what objective the new Asian Community are forwarding. We shall not foretell over which countries either Japan or China holds leadership of greater Asian Community.

We cannot so far draw the vivid map of adjusting the imbalance of economic development and each nation's interest among the inter-group and intra-group, such as Southeast Asian group, East Asian group (China, South Korea and Japan), South Asian group and Oceanic group.

Furthermore, we do not so far have confident document regarding the stance and implication of India. We shall analyze these aspects in the following research paper.

(29 January 2007)