

'FTAs the way to go for E Asia'

Osamu Watanabe, chairman and CEO of the Japan External Trade Organisation (Jetro), talks to **VIKRAM KHANNA** about Japan's view of Asia's emerging economic landscape



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Mr Watanabe: 'East Asian integration has contributed to the recovery in Japan, and Japanese companies are accelerating this integration through their own strategies'

Q: How is Japan's recovery changing the behaviour of Japanese companies in terms of their operations in Asia?

A: Japan's economic recovery is mainly the result of domestic restructuring. However, the process of East Asian integration has contributed to the recovery. And Japanese companies are accelerating this integration through their own strategies.

About one-third of Japanese companies' total profits come from overseas operations. And among those operations, one-third comes from East Asia. This ratio will increase in the future. It's natural for Japanese companies to invest more in

East Asia because Japan's population is declining and companies — not only in labour-intensive industries, but even in other types of industries — will need to use the young labour force from Asia. A country like the United States can receive immigrants. But Japan is very small, so we have to expand in the region to use the labour force of Asian countries.

The thinking of Japanese companies is also becoming much more strategic. They are thinking of networks of production — their domestic network, their Asean network, their China network. They are also focusing on India now.

Q: How does the rise of China and India influence the Japanese view of Asean?

A: Emerging China and emerging India have very big populations and will have big economies in the future. Asean will face a lot of competition from them. But Asean can play a role of facilitator between the big economies of China, Japan and India. Also, Asean is negotiating, or planning to negotiate, FTAs with China, India and Oceania. Japan and India would take some time to reach such an agreement on trade. So Japanese companies can use Asean as a conduit to India. Jetro has already organised a joint seminar with IE Singapore, and Japanese companies are keen on using Singapore's comprehensive economic agreement with India as a way to enter India.

Q: The European Union was able to accelerate its

integration through the pooling of sovereignty. But East Asia might find that difficult. Will this be an obstacle to integration?

A: In East Asia, countries are at very different stages of economic development. It is a completely different situation from the European Union. Therefore, it's very difficult for East Asian countries to pool part of their sovereignty. For the time being, the way forward for East Asia is through free-trade agreements or economic partnership agreements. Depending on the areas — for example financial cooperation — countries can have discussions on the degree to which they are willing to cooperate and how comprehensive it should be. An Asian community — using a small c — would be built on FTAs on cooperation. Gradually, this community can expand areas for cooperation and in the long term, there can be some degree of pooling of sovereignty.

Q: In the Jetro seminar this morning you mentioned the need for an OECD-type institution for Asia. Why would such an institution be useful?

A: There are many approaches to Asian integration: using Asean plus three, Asean plus six, or proceeding item by item using other forums. We need to have studies on which forum is better for which purpose and why. Unfortunately, we have no think-tank or research institute dedicated to doing this. When we are looking at long-term cooperation for the future, we need more scientific re-

search. So we would like to establish a think-tank that can do this research, and Japan will contribute to it. Then we can coordinate with the Asean secretariat, and if other institutes wish to participate, they are welcome.

Q: There have been calls for Asian currencies to appreciate to help correct global economic imbalances. Does Japan support this?

A: China has a big trade surplus with the United States. But all of that surplus is not of China's making alone. The final assembly of goods exported from China to the United States may be done in China, but a lot of the parts and materials for those goods come from other Asian countries. What is needed is for all Asian countries to stimulate domestic consumption much more in the future, so that we can absorb the trade surplus within the region. This is the fundamental solution, but it takes time. We need a timetable for it based on joint understanding involving China, Asean and the United States. On the exchange rate issue, China should be more flexible and so should be Asean, but there should be this joint understanding.

Q: The IMF has called for increased quotas for Asian countries. Does Japan support this?

A: Yes. The relationship between Asian countries' economic size and their quotas should be balanced. Asian countries should have increased quotas and more voting power. It is common sense, I think.