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**Working Paper**

## Understanding the Political Motivations Behind Japan's Pursuit of an EPA with the Philippines: Considerations for the Philippine Side

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Philippine Institute for Development Studies  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

Understanding the Political Motivations  
Behind Japan's Pursuit of an EPA  
with the Philippines: Considerations  
for the Philippine Side

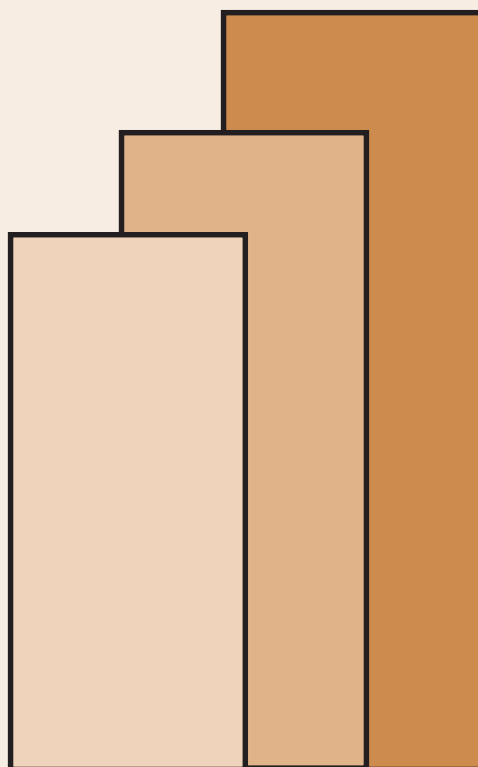
*Ronald A. Rodriguez*

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**Understanding the Political Motivations Behind Japan's Pursuit of an  
Economic Partnership Agreement (EPA) with the Philippines:  
Considerations for the Philippines Side**

Ronald A. Rodriguez

Prepared for the Philippine APEC Study Center Network (PASCN) and the  
Philippine Institute for Development Studies (PIDS) as an Input to the  
Japan-Philippines Economic Partnership Agreement Research Project  
Entitled *Toward a Philippines-Japan Economic Partnership*.

December 2003

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**Understanding the Political Motivations Behind Japan's Pursuit of an  
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Ronald A. Rodriguez

Abstract

This study examines the historical dimension of Japan's foray into regionalism and bilateralism—a radical shift from an exclusively multilateralist orientation to the more strategic and flexible “dual approach.” It explains that such policy change draws motivation from certain developments taking place both in and out of Japan, including but not limited to, the country's lingering economic decline, the unforeseen turn of events in the World Trade Organization (WTO), and the challenging ascent of China. The study clarifies that Japan's choice of the Philippines as one of the first countries to negotiate with for a possible EPA after Singapore does not necessarily reflect Japan's bilateral priorities in Asia. Nevertheless, Japan's EPA with a long-time ally like the Philippines figures as an important piece of Japan's strategic interest to forge a Closer Economic Partnership with a fully integrated Southeast Asian market. As a result of this realization, the study challenges Japan, Southeast Asia and the Philippines to prove the real depth of their relations with one another. In spite of the many difficulties that can be anticipated in the process of forging EPAs, this study is convinced that they will all benefit from any attempt to transform many painful realities into new opportunities.

## **Executive Summary**

This paper attempts to examine the historical and political dimension of Japan's foray into bilateralism (FTAs) and regionalism (RTAs), with a particular emphasis on the ramifications surrounding the proposed Japan-Philippines Economic Partnership Agreement (JPEPA). The study analyzes the JPEPA in the context of Japan's regional position and overall bilateral relations with the Philippines.

The research draws substance from the authoritative opinion of a number of experts and specialists on Japan's foreign policy and Philippines-Japan relations, Japanese and Philippine government officials, Japanese and Philippine business sector leaders, and scholars, among other primary sources of information. The research has been undertaken both in the Philippines and Japan, made possible with the auspicious financial support provided by the Philippine Institute of Development Studies (PIDS) and the Philippine APEC Study Center Network (PASCN).

The study takes off from a brief historical review of Japan's regional foreign policy thrusts starting from the pre-War (WWII) period. It then shifts its focus to the dynamics of Japan's relations with selected countries in East Asia, particularly with Southeast Asia, before it proceeds to the main task of examining the political motivations behind Japan's foray into bilateralism and regionalism. It concludes by attempting to provide a guide on how to analyze Japan's probable policy direction by way of its actions in the past, and also by presenting the challenges and opportunities that are likely to come the Philippines' way on the road to forging an EPA with Japan.

The research posits that it is important to underscore the need for the Philippines to always keep in mind that Japan's foreign policy direction is fundamentally shaped by the developments taking place both in the global and regional environment. Similarly, it also suggests that one should understand Japan's position as a major power whose search for equal recognition with its counterparts and efforts to play a role commensurate with expectations abroad are often bogged down by domestic concerns, issues of the past and the difficult task of balancing its relations with a host of countries.

The Japanese government's changing policy on FTAs, therefore, only demonstrates the point that Japan, just like any other country, may veer away from long-held policy positions either to react or respond to certain conditions unfolding at its doorstep. It is important to note that Japan had neither joined any regional agreement nor concluded a bilateral FTA with any country until it signed with Singapore an Economic Partnership Agreement in January 2002. Prior to its EPA with Singapore, Japan had always maintained that FTAs violate the spirit of the General Agreements on Tariffs and Trade (GATT) because they discriminate against non-members.

Japan's commitment to multilateralism as a key element of its foreign policy dates back to the end of the Second World War. According to the Japan Economic Foundation,

such policy line manifested the Japanese people's desire to see their country reintegrated back into the international community and achieve normalcy as a nation after the war. It was against this backdrop that Japan has opted to intentionally avoid, as a matter of international trade policy, engaging itself in FTA-like bilateral or multilateral agreements concluded by a small number of countries.

However, the shift in the Japanese policy framework from an "exclusively multilateralist" to the more pragmatic "dual approach" should neither be interpreted as an indication of Japan's discontent on the WTO nor should it be taken as a signal of Japan's veering away from multilateralism. Japanese officials argue that regionalism is in fact complementary to multilateralism, noting that regional trading agreements and FTAs actually reinforce the still immature multilateralism. This argument is consistent with the conclusion of the 1995 study of the WTO Secretariat which states: *"...To a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade."*

Japan's decision to complement its WTO commitments with regional and bilateral agreements can be attributed to many global, regional and domestic developments. But of all these factors, many believe that it was actually China's move to forge an FTA with ASEAN which radically changed Japan's reluctant position on FTAs. According to Ambassador Domingo L. Siazon, Jr., for instance, China's initiatives on FTA with ASEAN and the continuing rapid economic growth of China have started to worry Japan of the possibility of having its leadership role in East Asia eventually challenged by China. He argues that Japan would not have been as aggressive as it is now in forging FTAs without the new sense of insecurity generated by China's regional advances. Even Japanese observers themselves share this particular view.

As regards Japan's proposed EPA with the Philippines, it is important to note that for the Japanese, the greater value of a possible JPEPA rests on the larger objective of forging a Closer Economic Partnership with a single ASEAN market. Japan's objective is to inject in its bilateral EPA negotiations the need to accelerate the completion of AFTA to provide a core base for new investments in Southeast Asia. An EPA with the Philippines, therefore, is just but an important piece of the whole strategic puzzle.

But does Japan's choice of the Philippines as one of the first countries to negotiate with for a possible EPA after Singapore say something of Japan's priorities in Southeast Asia? Here the study uncovers a painful realization for the Philippines in terms of the real depth of the two countries relations. It cannot be denied that much needs to be done to reflect the fruits of good diplomatic relations in the way Japan values the Philippines.

On the larger context, Southeast Asia is also faced with the same daunting reality.

It is undeniable that Southeast Asia is a critical factor in determining Japan's position both in the regional and the international scene. We have at least seen in history how Japan had benefited from Southeast Asia's refuge in trying times. It turned to Southeast Asia when the West increasingly discriminated it against in the early 1920s; it



banked on the Southeast Asian market at a time when Japan's major trading partners, principally the U.S., deliberately erected barriers to Japanese exports; and it is turning to Southeast Asia anew now that the WTO framework seems unpromising and at the same time China is increasingly posing a challenge to Japan's regional interests.

But for all the assumptions that Southeast Asia has always been strategically important for Japan, little has been proven about the real depth of the relationship. It is even unfortunate that the Southeast Asian countries have failed miserably in taking advantage of Japan's value for its strategic interests in the region. Little has also prospered in whatever effort was pursued to consolidate Southeast Asia's collective interest and make an external stakeholder such as Japan treat the region as an "indispensable" global partner.

Over the years, Southeast Asian countries have been preoccupied with their own interests when it comes to dealing with Japan. Japan, for its part, has found greater ease and benefit in dealing with Southeast Asian countries bilaterally than approaching them collectively. In many cases, Japan has successfully played one Southeast Asian country with another to achieve Japan's own goals—a classic demonstration of how competition benefits whom and how. The same is bound to happen now as individual countries race to conclude bilateral EPAs with Japan if only to gain the upper hand in negotiating their wish lists with their Japanese counterparts.

Meanwhile, it is interesting to note that the Japanese had long regarded Southeast Asia as an alternative market to the China market. Such Japanese posture was in large part a result of Washington's conscious effort to dissuade the Japanese from being overly focused on its giant neighbor in the height of the Cold War. But today's Japanese stance is precipitated by its increasing wariness of the rise of China. Regardless of the U.S. position, Japan is watchful of the prospects of China's emergence becoming a prelude to an intense Sino-Japanese rivalry for regional leadership. This is why some analysts say that the China factor also determines the strategic value of Southeast Asia for Japan.

Ambassador Domingo L. Siazon, Jr. warns, however, against any imprudent attempt of either the ASEAN or the Philippines to play the China card with Japan. It is certainly not to the region's or the Philippines' advantage to antagonize the Japanese considering that Japan is by far still more important to both the ASEAN and the Philippine economies. Siazon advises the Philippines to negotiate with Japan objectively and emphasizes the need for Japan-Philippines solidarity in working for an East Asian Free Trade Area (EAFTA). Moreover, considering that Japan's main interest in the region lies on the completion of the AFTA, the Philippines could increase its lever with Japan not by flirting with China, but by playing a lead role in the region's pursuit of AFTA.

In closing, it is perhaps important to note how our examination of the possible EPA between Japan and the Philippines has led us to some painful realizations. If Southeast Asia were to fully draw Japan's attention, much needs to be done to consolidate the region's strengths and interests. Similarly, if the Philippines were to reap

maximum benefit from its harmonious diplomatic relations with Japan, much needs to be done domestically to make the Philippines an object of interest for the Japanese investors and businessmen. Clearly, we are now faced with the difficult challenge of making regionalism and bilateralism work for the region and the Philippines. But for all the difficulties we can anticipate in the process, one can only expect to benefit from any attempt to transform such painful realities into new opportunities.

# **Understanding the Political Motivations Behind Japan's Pursuit of an Economic Partnership Agreement (EPA) with the Philippines: Considerations for the Philippines Side**

Ronald A. Rodriguez<sup>1</sup>

## **I. Introduction**

Philippine President Gloria Macapagal-Arroyo's visit to Japan in 2002 resulted in the two countries' taking bold but pragmatic steps to jointly craft a partnership that goes beyond conventional free trade agreements (FTAs). Dubbed as the Japan-Philippines Economic Partnership Agreement (JPEPA), the initiative is distinguished from the usual FTAs by the sheer comprehensiveness of its scope. The proposed JPEPA includes other forms of cooperation covering services, investment and human resource development, among other areas, such that many officials in the Department of Trade and Industry (DTI) and the Department of Foreign Affairs (DFA) of the Philippines would often label the envisioned JPEPA as an "FTA plus."

This paper attempts to examine the implications of the JPEPA in the context of Japan's regional position and overall bilateral relations with the Philippines. It seeks to expose whatever value added the JPEPA can possibly offer to Japan's regional foreign policy interests, in general, and to Japan-Philippines relations, in particular. This paper posits that the greater value of the JPEPA can only be appreciated if the political ramifications surrounding Japan's foray into bilateral FTAs are clearly understood. It also asserts that a sound Philippine position in the JPEPA negotiations should be guided by an unambiguous understanding of the political motivations behind Japan's pursuit of an EPA with the Philippines.

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The author acknowledges the significant contributions of the members of the research team who have pooled their minds and research skills to come up with this research output: Ms. Leah Victoria T. Carada-Rodriguez, Ms. Jera Beah H. Lego, Ms. Roxana Paula F. Guevara and Ms. Aileen S. Caños.

The views and opinion expressed in this paper do not necessarily reflect the official position of the Foreign Service Institute (FSI), the Department of Foreign Affairs (DFA) or the Office of the Presidential Adviser for Special Concerns (OPASC).

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The rationale of the study pulls strength from the statement made by DTI Undersecretary Thomas Aquino during the opening session of the JPEP Forum Series on 29 August 2003 which states: “*The JPEPA is an economic exercise which will be decided in the political context.*” This statement encapsulates the significance and relevance of this timely research undertaking.

Meanwhile, it may also be essential to mention that this research is being undertaken alongside several other JPEP-related studies, which are mostly guided by economic analyses and impact assessments. In relation to the other studies, this paper simply offers an alternative starting point in understanding the historical and political dimension of the proposed JPEPA through the authoritative opinion of a number of sources both in the Philippines and Japan.

In the Philippines, our research team has interviewed Trade and Commercial Attaché Ken Saito and Political Attaché Hirotake Satoh of the Embassy of Japan in Manila, Director Kaoru Shiraishi of the JETRO Manila Office, Secretary-General Tetsuya Matsuoka of The Japanese Chamber of Commerce and Industry of the Philippines, Inc., Assistant Director Angelo Salvador M. Benedictos of the DTI’s Bureau of International Trade Relations, Senior Special Assistant Laura del Rosario of the DFA’s Office of the Undersecretary for International Economic Relations, and scholars like Dr. Gwendolyn Tecson of the University of the Philippines and Prof. Benito Lim of the Ateneo de Manila University. The team is also particularly grateful to renowned businessman and former Prime Minister of the Philippines Cesar E.A. Virata and Employers Confederation of the Philippines’ President Donald Dee for sharing their views on the envisioned JPEPA from the perspective of the Philippine business sector.

In Japan, the team has also benefited significantly from the inputs and insights of the Hon. Domingo L. Siazon, Jr., former Secretary of Foreign Affairs and currently Philippine Ambassador to Japan; Mr. Hidetaka Saeki, Vice-President and Senior Fellow of Japan’s Research Institute of Economy, Trade and Industry (RIETI); and Mr. Akira Kawaguchi, Manager of the Nippon Keidanren’s (Japan Business Federation) Asia and Oceania Group, International Economic Affairs Bureau.<sup>2</sup>

The study takes off from a brief historical review of Japan’s regional foreign policy thrusts starting from the pre-War (WWII) period. It then shifts its focus to the dynamics of Japan’s relations with selected countries in East Asia, particularly with Southeast Asia, before it proceeds to the main task of examining the political motivations behind Japan’s foray into bilateralism and Regional Trading Arrangements (RTAs). It concludes by attempting to provide a guide on how to analyze Japan’s probable policy direction by way of its actions in the past and by presenting the challenges and opportunities that are likely to come the Philippines’ way on the road to forging an EPA with Japan.

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<sup>2</sup> The author also acknowledges the assistance of Keidanren’s Mr. Kiyoshi Tanigawa especially in arranging the meetings with the officials of the Nippon Keidanren and the Nikkei in Tokyo. The author and Mr. Tanigawa were batch mates in the United Nations University Global Seminar Shonan Session in 1999.

## **II. The Evolution of Japan's Regional Interests: An Overview of Japan's Asian Policy**

According to Wolf Mendl, author of the book entitled *Japan's Asia Policy* (Routledge, 1995), the emergence of Japan as a modern nation went through at least three remarkable phases: (1) the years of struggle to ward off Western domination and at the same time assert its equality with the other imperial powers in Korea and China; (2) the period of expansionism and adventurism, which took place side by side with a protracted Japanese pursuit of international recognition as a world-class nation;<sup>3</sup> and (3) Japan's rise to global economic power status and its pragmatic recourse to multilateralism.<sup>4</sup> It is against this backdrop of three historical stages that this paper attempts to examine the evolution of Japan's interests in Asia.

### **(A) Pan-Asianism and the Rise of Japan**

The sensitivities that are seemingly attached to the infamous "Greater East Asia Co-Prosperity Sphere," espoused by Japan before the Second World War, discourage many scholars from even attempting to bring out the issue in front of any Japanese audience. This paper braves to depart from the norm if only to allow the readers a better appreciation of how Japan's rise to power, its subsequent decline, and reemergence into economic preeminence have molded Japan's image in the region across time.

Japan's rise to power has been emphatically associated by many Japanologists with the emergence of the Pan-Asianist Movement sometime between the late 19<sup>th</sup> and early 20<sup>th</sup> Centuries, following Japan's victories in the Sino-Japanese War of 1895 and the Russo-Japanese War of 1905. Advocates of the Movement saw Japan as a leader in Asia because of its status as the first non-Western country to modernize, do away with colonialism, and triumph over the then global power next door, Russia. Given that, pan-Asianists also believed that Japan was obligated to assist in the development of its poorer and less fortunate neighbors, and protect Asian cultural ideas against colonialism.<sup>5</sup>

But in spite of the seemingly noble message of Pan-Asianism, many in Asia did not look at the Movement as favorably as the Japanese would have desired. The apparent dissonance between the Movement's rhetorical fixation with "Asian Brotherhood," on the one hand, and its wanting to liberate their Asian brothers from their colonial masters, on the other, made Japan's neighbors more cautious and wary of the underlying intentions of

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<sup>3</sup> In his book, Mendel writes that this was carried out through the alliance with the United Kingdom (1902), particularly in the First World War on the allied side, membership of the "Big Five" in the Peace Settlement of Versailles, participation in the founding of the League of Nations, and later through association with the Axis Powers in the 1930s and 1940s.

<sup>4</sup> Wolf Mendl. *Japan's Asia Policy*. Routledge: London, 1995. pp. 37-38.

<sup>5</sup> Peter Duus, Ed. *The Cambridge History of Japan Vol. 6: The Twentieth Century*. Cambridge: Cambridge UP, 1988.

the pan-Asianists.<sup>6</sup> Historians say that even the Japanese government remained lukewarm to the ideas espoused by the Pan-Asianists. In fact, Pan-Asianism did not become a part of official Japanese government policy until the 1930s and 1940s, when Japan started to pursue Asia in a more aggressive manner.

Historians further argue that Japan's determined pursuit of gaining a leadership position in Asia in the early 20<sup>th</sup> century was but Japan's reaction to the unfavorable treatment it had been getting from the Western countries throughout the 1920s. Political analyst Bill Gordon, for instance, cites three particular instances of discriminate practices against the Japanese at that point in history: (1) the rejection of Japan's request for a racial equality clause in the Covenant of the League of Nations during the 1919 Paris Peace Conference; (2) the imposition of a 5:5:3 battleship ratios on the US, Britain and Japan—with Japan given the least of the three countries—in the naval treaties of the 1922 Washington Conference; and (3) the passage of the Japanese Exclusion Act in 1924, which literally “shut off” Japanese immigration into the US.<sup>7</sup> For many historians, it was this type of treatment that made the Japanese seriously consider looking towards the development of the Asian region, with Japan as the leader.

Further bolstered by its continued victories, especially in Manchuria in 1931, Japan began to see itself more and more as the true leader in Asia. “*The Asia for Asians*” theme, adopted into Japanese foreign policy in 1940, addressed “Asian brotherhood,” the liberation of other Asian countries from the Western colonizers and economic co-prosperity. In the same year, Japanese Prime Minister Yosuke Matsuoka announced plans for the establishment of the “*Greater East Asia Co-Prosperity Sphere*,” an organization made up of Asian countries that would act in accordance with the “*Asia for Asians*” principle. The organization was to be led, naturally, by Japan.

Historical accounts tell us that the *Greater East Asia Co-Prosperity Sphere* was established to serve mostly economic functions. In essence, it was a way for Japan to have access to the land and natural resources of its neighboring countries, including the Philippines. Bill Gordon explains that by allowing Japan to obtain raw materials from its neighboring countries, namely Indochina [for rubber] and the Dutch East Indies [for oil], the *Greater East Asia Co-Prosperity Sphere* was able to reduce the effects of a US oil and steel embargo on Japan at that time.

But Japan's political ambitions for the region eventually took precedence as the world would later on witness the local governments established by the Japanese become puppet governments and the *Greater East Asia Co-Prosperity Sphere* turn into nothing

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<sup>6</sup> Lydia N. Yu-Jose. “Philippines-Japan Relations: The Revolutionary Years and a Century Hence,” *Philippine External Relations: A Centennial Vista*, Ed. Aileen S.P. Baviera and Lydia N. Yu-Jose (Manila: FSI, 1998), p. 297.

<sup>7</sup> Bill Gordon. “Greater East Asia Co-Prosperity Sphere,” March 2000; available from <http://wgordon.web.wesleyan.edu/papers/coprospr.htm>.; Internet; accessed on 5 September 2003.

more than a tool for Japanese imperialism. Japan's imperial ambitions, however, perished in the aftermath of its defeat in the Second World War and its subsequent surrender to, and alliance with, the US by way of the San Francisco Peace Treaty in 1951.

### **(B) Japanese Post-War Regional Foreign Policy Interests**

It was long believed that as a consequence of its wartime defeat, Japan had had little room for maneuver in the conduct of its foreign policy from the end of the Second World War to the end of the Cold War. Wolf Mendl argues, however, that contrary to this long-held impression, Japan has actually managed to work quietly for its own regional policy—one that is based on its own national interests—towards Asia.<sup>8</sup> In other words, while it is true that much of Japan's re-integration in East Asia was largely due to Washington's prodding, Japan had always known what it wanted for itself in the region. Asia, particularly the Southeast, has long been strategically important for Japan.

In the pre-modern period, much of Japan's interest in the region lay in trade, piracy and the freedom of navigation.<sup>9</sup> Mendl traces how the ports of what are now known as the Ryukyu Islands (formerly Luchu) became gateways for sea-based trading among Japanese, Southeast and Northeast Asian merchants. He also notes the extensive operations of the Japanese pirates who preyed on ships traversing the seas to the south and the west. But what proves to be Mendl's most important observation is his point that the Japanese involvement in the Pacific War was essentially driven by its desire to buttress its primary interest of controlling the exploitation of the resources in the Southeast Asian region. Mendl even underscores how the then critics of the Japanese government blamed the Tokugawa regime for its failure to employ a forward policy in Asia amid increasing European presence and influence in the region.<sup>10</sup>

Japan's efforts to immediately rebuild its ties with the Southeast Asians after the War magnified the Japanese appreciation of the region's strategic value. But the Southeast Asians' lingering animosities for Japan's wartime atrocities made Japan's objective of reintegrating itself into the region too difficult that it had to call upon U.S. diplomatic intervention to make headway.

Clearly, Japan and the rest of the region have benefited from the solid US-Japan alliance over the years. Such alliance has significantly contributed to enabling Japan to regain access back into the region years after the Pacific War. As some of the countries in East Asia behaved negatively against Japanese overtures to resume diplomatic relations, the US played its part as Japan's guarantor and paved the way for Japan's gradual acceptance in the region.<sup>11</sup> Scholars recall, for instance, that the Philippines was one of

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<sup>8</sup> Wolf Mendl, see Introduction to his *"Japan's Asia Policy."*

<sup>9</sup> Ibid., p. 96.

<sup>10</sup> Ibid., p. 97.

<sup>11</sup> This indifference was but an expected consequence of Japan's wartime atrocities that resulted in widespread historical animosities against Japan in many parts of East Asia. For many Southeast Asians,

the first to resume trade with Japan in Southeast Asia in large part because of the persistent lobbying of US General Douglas McArthur in 1947.

Clearly, Japan used the negotiations for reparations, albeit protracted and arduous, as an entry point to Southeast Asia. Japan concluded reparation agreements with Burma (now known as Myanmar), the Philippines, Indonesia and South Viet Nam in 1954, 1956, 1958 and 1959 respectively.<sup>12</sup> Japan also gave cash grants to Laos and Cambodia in 1959 and signed agreements with Malaysia and Singapore in 1967, after the latter two nations declared independence from British colonial rule.<sup>13</sup>

Apart from enabling Japan to cultivate ties with its East Asian neighbors, the payment of reparations also laid the groundwork for subsequent aid programs and Japan's economic expansion in the region through investments. The Japanese Official Development Assistance (ODA) sustained Japan's presence and willfully increased its clout in the region, as it fast became an "Aid Superpower." In the 1970s, only ten developing countries recognized Japan as top aid donor, but the list grew to thirty in 1989 and at least fifty-five in 1995.<sup>14</sup> But as early as 1991, Japan's ODA disbursements have already amounted to more than US\$10 billion—roughly three times larger than it was in the early 80s—making Japan not only the region's but the world's leading aid donor.

As regards investments, one should note that the Japanese investments, which were originally designed to extract raw materials for Japan's domestic market in the late 1950s, eventually metamorphosed into an export strategy for Japan in the mid 1980s.<sup>15</sup> Three factors are said to have conspired to create a fresh wave of export oriented investments in Asia: "(1) the deliberate effort by a number of Southeast Asian states to jump-start their sluggish economies by adopting policies to attract foreign investments and stimulate exports; (2) the equally deliberate effort by some of Japan's most important trading partners, principally the U.S., to erect new barriers to Japanese exports;<sup>16</sup> and (3) the Plaza Accord, which triggered a chain reaction that ultimately led to an eruption of Japanese capital."<sup>17</sup>

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Japan's post-World War II gestures where nothing but a Japanese attempt to pursue its expansionist ambitions in the region anew.

<sup>12</sup> Wolf Mendl. pp. 97-98.

<sup>13</sup> Ibid.

<sup>14</sup> Ichiro Ozawa. *Blueprint for a New Japan: The Rethinking of a Nation*. Japan: Kodansha International Ltd., 1994. p.138. See also Japan's Official Development Assistance (ODA) Summary 1998. Japan: Ministry of Foreign Affairs, 1998. p. 50.

<sup>15</sup> Walter Hatch and Kozo Yamamura. *Asia in Japan's Embrace: Building a Regional Production Alliance*. Cambridge: Cambridge University Press, 1996. p. 20.

<sup>16</sup> Hatch and Yamamura noted that Japanese firms resorted to constructing export platforms in Asia apart from investing heavily in the U.S. and Europe to circumvent the barriers erected by the U.S.

<sup>17</sup> Hatch and Yamamura in Ibid. pp. 20-21.



Japan's Foreign Direct Investments (FDI) and ODA, which in many ways translated into provision of capital, technology, infrastructure and managerial know-how for Southeast Asia, paved the way for Japan's emergence as the lead goose in the so-called "*flying geese*" development model. Japan took advantage of its rise as a "technology superpower" and the popularity of the "flying geese" development concept to justify its aggressive industrial policy then. Japan found a way to underscore its assumption of a lead role in a synergetic pattern of economic development and regional integration at that point. In addition, Japan also showed to a handful of Southeast Asian countries the way to a state-led economic development—something that attracted widespread international attention to the region, in general, and to Japan, in particular. Japan and the rest of East Asia became the nucleus of economic activity from the mid 1980s to the early 1990s.

Japan's leadership role in the region (mainly by way of ODA and investments), however, was not without criticisms. For instance, many accused the Japanese government of conspiring with Japanese companies in using ODA to serve the latter's business interests abroad. Some regarded Japan's ODA program as a scheme designed to cause the recipients to develop a sense of reliance on Japan by way of tied loans.<sup>18</sup> A few others spoke strongly against the lack of transparency in Japan's ODA decision-making process. The most tightfisted would label Japan's ODA as "faceless" and a perfect makeup for a "milking cow."

But these criticisms were manifestations of Japan's diminishing luster and prestige, especially in the aftermath of the Asian Financial Crisis which swept the region in 1997. Efforts on the part of the Japanese government to help resuscitate the region's ailing economy did little to save Japan from whippings that radically eroded its regional image and standing.<sup>19</sup> To many observers, it is very unlikely for Japan to lead the region out of an economic malaise if it cannot even pull itself out of its own economic slump. What is worse for Japan is that its decline comes at a time when China's economy is growing very rapidly. Even Japanese companies are increasingly turning their attention to China and therefore Japan can't help it but express concern over the possibility of losing some of its long-held grounds to China. Hence the need for Japan to come up with a strategy to safeguard Japanese interests especially in Southeast Asian markets.<sup>20</sup>

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<sup>18</sup> Interview with Prof. Benito Lim on 4 September 2003 at the Ateneo de Manila University.

<sup>19</sup> In the height of the Asian financial crisis, Tokyo was poised to exercise leadership by proposing the establishment of an Asian Monetary Fund (AMF) to assist regional countries in distress. Tokyo, however, caved in to the objections of the U.S., as Washington was concerned that the AMF would undermine the International Monetary Fund (IMF) and the role of the U.S. dollar as the global currency, if a yen bloc were to emerge. Nevertheless, in May 1998, when then Foreign Minister Obuchi Keizo was in Singapore, he promised an unprecedented financial aid package of \$43 billion for East Asia. In October of the same year, then Finance Minister Miyazawa Kiichi unveiled another aid package of \$30 billion.

<sup>20</sup> Prof. Benito Lim.

### **(C) From Strict Multilateralism to “Dual Approach”: Japan’s Foray into FTAs and EPAs**

Another important feature of Japan’s post-war foreign policy was its conscious embrace of a generally multilateralist orientation. According to the Japan Economic Foundation, such policy line revealed the Japanese people’s desire to see their country reintegrated back into the international community and achieve normalcy as a nation after the Second World War. But others see Japan’s increasing involvement and participation in various multilateral institutions and frameworks as a strategic approach to cope with the threats and uncertainties in the post-Cold War era.

Consider that globally, Japan has consistently placed its external priorities within the ambit of the United Nations (UN) and the Group of Eight (G8) nations. It stands at the forefront of promoting multi-layered regional cooperation frameworks in the Asia-Pacific such as in the ASEAN+1, ASEAN+3, ASEAN Regional Forum (ARF), Asia Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM). Similarly, Japan has also positioned itself well within the General Agreements on Tariffs and Trade (GATT) and the Organization of Economic Cooperation and Development (OECD) as far as economic multilateralism is concerned.

Japan’s resort to a unilaterally low risk and low profile, but multilaterally proactive demeanor worked well both for Japan’s regional and international position. In Southeast Asia, for instance, many felt comfortable about the idea of having Japan play key regional and global roles so long as such Japanese leadership is pursued within the domain of multilateralism. This was why Japan has, over the years, popularly figured in various multilateral institutions, but lagged behind in terms of unilateral political and economic roles.

It was in fact against this same milieu that Japan opted to intentionally avoid, as a matter of international trade policy, engaging itself in FTA-like bilateral or multilateral agreements concluded by a small number of countries.<sup>21</sup> It is important to note that Japan had neither joined any regional agreement nor concluded a bilateral FTA with any country until it signed with Singapore an Economic Partnership Agreement in January 2002.<sup>22</sup> Before its EPA with Singapore, Japan had always maintained that FTAs violate the spirit of the General Agreement on Tariffs and Trade (GATT) since they discriminate against non-members.<sup>23</sup>

It was in October 1998, however, when Japan opted to change its exclusively *multilateralist* policy. As if inspired by the positive prospects brought about by the late

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<sup>21</sup> Ibid.

<sup>22</sup> See Japan-Singapore Economic Partnership Agreement (JSEPA).

<sup>23</sup> Hatakeyama Noboru. *Short History of Japan’s Movement to FTAs*. Japan Economic Foundation: Journal of Japanese Trade and Industry, Nov/Dec 2002. [http://www.jef.or.jp/en/jti/200211\\_007.html](http://www.jef.or.jp/en/jti/200211_007.html). Accessed on 30 August 2003.

Prime Minister Keizo Obuchi's successful bilateral summit with then South Korean President Kim Dae Jung, Japan subsequently embarked on a similar bilateral meeting with Singaporean Prime Minister Go Chok Tong and agreed to have their governments explore the possibility of concluding a bilateral FTA. Incidentally, the meeting between the Japanese and Singaporean premiers took place in December 1999 in Tokyo, shortly after the collapse of the World Trade Organization's (WTO) Ministerial Meeting in Seattle. As a result, many analysts are inclined to interpret Japan's move into regionalism as a manifestation of its lack of confidence in the WTO regime.

The Japanese Embassy in Manila, JETRO and the Japan Chamber of Commerce, however, have all clarified that Japan's move to regionalism should neither be interpreted as an indication of Japan's discontent on the WTO nor should it be taken as a signal of Japan's veering away from multilateralism.<sup>24</sup> On the issue of the timing of Japan and Singapore's mutual decision to study the prospects of bilateral free trade agreement, they clarified that talks of considering regionalism, including free trade agreements, had already been going on in the Japanese government, the business sector and academic circles even before the bilateral meeting was held in Tokyo.<sup>25</sup>

The same Japanese officials also pointed out that contrary to the lingering speculations, Japan has no plans of shelving its multilateralist orientation. They argue that regionalism is actually complementary to multilateralism, noting that regional trading agreements (RTAs) and FTAs in fact reinforce the still immature multilateralism. This argument is consistent with the conclusion of the 1995 study of the WTO Secretariat which states: "...To a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade."<sup>26</sup>

Hatakeyama Noburo, Chairman and CEO of the Japan Economic Foundation, attributes the change in Japan's policy posture to at least four major developments in the international situation from the early 1990s: (1) failure of the Ministerial negotiations to reach a conclusion at the GATT's Uruguay Round in December 1990; (2) the launching of the so-called "EC 92" in 1992 apparently to strengthen the then European Community's (EC, now European Union, EU) FTAs; (3) the formulation of the ASEAN Free Trade Area (AFTA) in 1992; and (4) the creation of the North America Free Trade Area (NAFTA) in 1994.<sup>27</sup> With these movements, Japan became increasingly anxious about the possibility of ending up in isolation since as of 1 October 2002, the WTO reported that only five of the top ten economies in the world were not members of FTAs.<sup>28</sup>

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<sup>24</sup> Interviews with Trade and Commercial Attaché Ken Saito, JETRO Manila Director for Research Kaoru Shiraishi and Japan Chamber of Commerce Secretary-General Tetsuya Matsuoka.

<sup>25</sup> See also *Free Trade Agreements as Constructive Regionalism*.

<sup>26</sup> Beyond the Agreements: Regionalism—Friends or Rivals? World Trade Organization (WTO). See WTO Official Website at <http://www.wto.org>.

<sup>27</sup> Ibid.

The WTO is of the observation that the surge in RTAs has continued unabated since the early 1990s, noting at least over 170 RTAs which are currently in force apart from approximately 70 other arrangements in operation but not yet notified to the GATT/WTO.<sup>29</sup> The WTO forecast further states that the total number of RTAs might increase from 170 to 300, if RTAs reportedly planned or already under negotiation are concluded by the end of 2005.<sup>30</sup>

In addition, the Japanese also realized that entering into FTAs may augur well for the country's structural reform agenda. For the Japanese government, they can use its FTA commitments to justify its pursuit of vigorous structural reforms and to pressure the relevant domestic sectors to carry out the needed reforms at the soonest time possible.<sup>31</sup> The Japanese government is also convinced that FTAs can produce results way faster than the WTO since it is easier to forge consensus with a country or two than with at least 144 parties as in the WTO.<sup>32</sup>

Finally, Japan has actually started feeling the disadvantage of not being a part of an FTA as exemplified by Japan's experience with Mexico relative to the latter's membership in NAFTA.<sup>33</sup> Japan finds it difficult to compete with the US and Canada for the Mexican market since the North American countries have the enormous advantage of exporting their produce to Mexico free of duties via NAFTA. Similarly, EU companies edge out Japan in the Mexican market since EU and Mexico have bilaterally signed an FTA in July 2000.

But many believe it was China's move to forge an FTA with ASEAN that somehow poured cold water on Japan's reluctant position on FTAs. According to Ambassador Domingo L. Siazon, Jr., for instance, China's initiatives on FTA with ASEAN and the continuing rapid economic growth of China have started to worry Japan

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<sup>28</sup> These five economies were Japan, China, Korea, Taiwan and Hong Kong.

<sup>29</sup> Regional Trade Agreements, WTO Regional Trade Agreements Gateway, see WTO's official website.

<sup>30</sup> The phenomenon of free trade areas can be traced to as early as the 1950s when the six-member European Economic Community began. But even with the conclusion of the General Agreement on Tariffs and Trade (GATT) in 1947, the trend towards regionalism has continued. Analysts say that this is largely because the founding members of the multilateral platform for free trade carved out an exception for free trade areas. Note "Article XXIV of the GATT allows customs union or free trade agreements between members, recognizing the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries which are parties to such agreements."<sup>30</sup>

<sup>31</sup> Author's interview with Mr. Hidetaka Saeki at the Ministry of Economics Trade and Industry (METI) in Tokyo, Japan, on 7 October 2003. Prior to Mr. Saeki's secondment to the Research Institute of Economy, Trade and Industry (RIETI), he was Deputy Director-General of the METI's Trade Policy Bureau. He has had an extensive involvement in negotiations within the ASEAN and APEC frameworks.

<sup>32</sup> Hidetaka Saeki.

<sup>33</sup> Hidetaka Saeki.

of the possibility of having its leadership role in East Asia eventually challenged by China.<sup>34</sup> He argues that Japan would not have been as aggressive as it is now in forging FTAs without the new sense of insecurity generated by China's regional advances. Even Japanese observers themselves share this particular view.<sup>35</sup>

For many Japanese businessmen, the China-ASEAN FTA came as a wake up call for the Japanese government, which has long been encouraged by the Japanese business circles to seriously consider FTAs. Japan's Federation of Economic Organizations, popularly known as the Keidanren, for instance, has consistently "*urged the Japanese government to strengthen its efforts toward a New Round of WTO Negotiations and to consider concrete ways to realize free trade agreements*" since July 2000.<sup>36</sup>

This is clearly why Japan is moving ahead on multiple fronts to explore with its trading partners the possibility of concluding bilateral economic partnerships or free trade agreements. Apart from the agreement concluded with Singapore, Japan is pursuing earnest negotiations with Thailand, Malaysia, South Korea, Mexico, the Philippines and the ASEAN. Except for Japan's FTA with Mexico, which concerns more of Japan's competing interests with North American and European countries, majority of Japan's EPA and FTA prospects are driven by Japan's recognition of the need to safeguard its interests in Asia that the Japanese could possibly lose to China.

Against the backdrop of a "China rising; Japan stagnating" scenario, Prime Minister Junichiro Koizumi's visit to the Philippines, Thailand, Malaysia, Indonesia, and Singapore in January 2002 came as a clear manifestation of Japan's perception not only of the need to preserve Japan's close ties with the original members of the ASEAN, but also to ensure Japan's leading position in the region. Note that Koizumi's visit took place amid declining Japanese capability to extend ODA to many receiving countries, let alone the mounting pressure from the Japanese agricultural sector against any form of agricultural liberalization.

In the meantime, Mr. Hidetaka Saeki, Vice-President and Senior Fellow of Japan's Research Institute of Economy, Trade and Industry (RIETI), identifies Japan's potential agreements with Mexico, ASEAN and the Republic of Korea as the three most important items in the Japanese Ministry of Economics Trade and Industry's (METI) FTA and RTA agenda.<sup>37</sup> He adds that although Japan is actively pursuing bilateral talks

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<sup>34</sup> See transcript of the author's interview with Ambassador Domingo L. Siazon, Jr. in Japan. (Transmitted from the Embassy of the Philippines in Tokyo on 8 October 2003.

<sup>35</sup> Hidetaka Saeki admits that when it comes to ASEAN, Japan is more on the defensive side compared to China's position.

<sup>36</sup> *Urgent Call for Active Promotion of Free Trade Agreements—Toward a New Dimension in Trade Policy*. KEIDANREN (Japan Federation of Economic Organizations), 18 July 2000. Courtesy of Mr. Akira Kawaguchi, Manager of the Nippon Keidanren's Asia and Oceania Group, International Economic Affairs Bureau.

<sup>37</sup> Hidetaka Saeki.

with a number of countries in Southeast Asia, **it is in a fully integrated ASEAN 10 where the real Japanese interest is really aimed at.**

Japan's own flurry of bilateralism, therefore, is both a response and a reaction. If viewed in the context of the "dual approach," it is a response to WTO's recommendation for economies to complement their multilateral efforts with regional or bilateral approaches. But it could also be seen as a reaction if seen in the light of Japan's increasing wariness of China's assertive regional positioning. But whatever the case may be, it doesn't change the fact that Japan has graduated from an "exclusively" multilateralist orientation by way of its "dual approach" policy.

### **III. Japan's FTA Strategy**

The Economic Affairs Bureau of the Japanese Ministry of Foreign Affairs (MOFA) came up with a summary of Japan's FTA strategy in October 2002. According to the summary, *"FTAs offer a means of strengthening partnerships in areas not covered by the WTO and achieving liberalization beyond levels attainable under the WTO."*<sup>38</sup> For Japan, therefore, FTAs may well provide a constructive way of broadening the scope of Japan's economic ties with other countries both in Asia and elsewhere.<sup>39</sup>

MOFA has identified specific political and economic advantages in engaging in FTAs. On the political and diplomatic front, Japan perceives that FTAs increase Japan's bargaining power in the WTO negotiations. It also believes that achievements in FTA negotiations may well provide precedents that could help influence and speed up negotiations within the WTO framework. The same FTAs could also open new opportunities for Japan to reassert its position in the region and in other parts of the world. As economic interdependence between and among countries deepens because of FTAs, Japan could seize the opportunity not only to expand its diplomatic influence but also to spread out its various interests.<sup>40</sup>

In the economic front, Japan banks on FTAs as a possible catalyst for domestic economic reform and a locomotive for greater regional economic activity. Specifically, Japan expects FTAs to perk up not only its own, but also its economic partners' economies as FTAs push for the expansion of import and export markets, the conversion to more efficient industrial structures, and the improvement of the competitive environment.

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<sup>38</sup> Japan's FTA Strategy. The Ministry of Foreign Affairs of Japan, October 2002. See MOFA website. Last accessed on 21 February 2003 at <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>

<sup>39</sup> Ibid.

<sup>40</sup> Philippine Ambassador to Japan Domingo L. Siazon, Jr. sees Japan's recent shift to FTAs and regionalism as due to its perception that FTAs and regionalism would serve Japan's commercial and security interests in the future.

Japan's position on FTA negotiations is particularly guided by the latter's need to adhere to WTO-established rules and consider the possible impact of any particular FTA on Japan's domestic industries.<sup>41</sup> Japan takes the view that some difficult decisions will have to be made inevitably and that Japan's position should yield to the long-term prospect of improving Japan's industrial structures and raising the industries' competitiveness. A responsible framework on Japan's FTA strategy, however, lies on Japan's cognizance of the need to always pay attention to securing political and economic stability within the larger context of a regional system.

#### **IV. Toward an EPA Between Japan and the Philippines**

In our interview with the officials of the Keidanren, the JCCIP, JETRO, METI and the Embassy of Japan in Manila, we asked them whether Japan's choice of the Philippines as one of the first countries to negotiate with for a possible EPA after Singapore is indicative of Japan's priorities in Southeast Asia. Here the interviewees had the common view that the decision was largely based on the enduring positive diplomatic ties between the two countries and the perception that negotiating with the Philippines would be less problematic. According to Mr. Ken Saito, Japan sees it fit to negotiate first with countries that have little issues to contend with Japan within a possible FTA or EPA framework. It was in this context, he said, that Japan has opted to deal with the Philippines ahead of the other Southeast Asian countries. *In other words, the answer is no.*

But are there more to these reasons that can better satisfy one's search for the motivations behind Japan's pursuit of an EPA with the Philippines? In order to answer this question, one has to examine the overall bilateral relations between Japan and the Philippines.

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<sup>41</sup>Summary of Japan's FTA Strategy. The Ministry of Foreign Affairs of Japan, October 2002.

### **(A) The State of Philippines-Japan Bilateral Relations**

Philippine Ambassador to Japan Domingo L. Siazon, Jr. describes the current state of bilateral relations between the Philippines and Japan as *excellent*.<sup>42</sup> His characterization of the Philippines-Japan relations was based on the following generalizations:<sup>43</sup>

- (1) Japan is a major ODA donor to the Philippines;
- (2) Japan is RP's second largest trading partner;
- (3) Japan is the Philippines' second largest investor and the biggest investor in the Philippine Special Economic Zones;
- (4) Japan is a significant single country source of tourists;
- (5) Japan is an important partner of the Philippines in cultural, educational, technical and other exchanges;
- (6) Japan and the Philippines are active partners in the multilateral arena;
- (7) Japan is increasingly becoming a major destination for Overseas Filipino Workers (OFWs), hence a significant source of foreign currency remittances;
- (8) Japan and the Philippines both adhere to a democratic form of government and are committed to the promotion of human rights and free market system;
- (9) The Philippines finds continuing usefulness of the US-Japan Security Alliance for deterrence of security threats in the region;
- (10) Both countries strongly support the international campaign against terrorism; and
- (11) There are no territorial disputes between Japan and the Philippines.

Similarly, the Philippine business sector also rates the Philippines-Japan relations as generally good and Filipino businessmen all share the common view that Japan still

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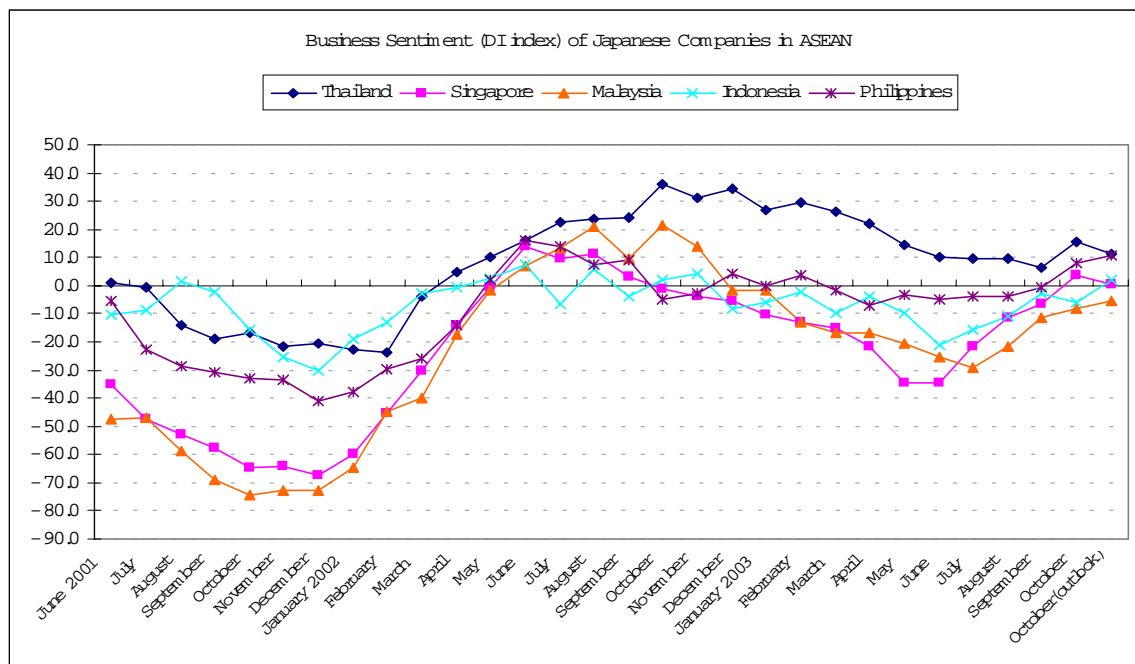
<sup>42</sup> Ambassador Siazon is of the view that the only problems that sometimes impact on relations between the two countries are the difficulties faced by Filipinos who are in Japan without valid documentation and the growing number of Filipino children born out of wedlock. Another problem that periodically comes up is the individual claims of some of the comfort women against the Japanese government.

<sup>43</sup> See also Ronald A. Rodriguez's *The State of RP-Japan Relations*. FSI Policy Papers on China, Japan and the United States, 13 July 2001.



has a very important role to play both regionally and globally. The Filipino businessmen, however, think that much still needs to be done to reflect the fruits of good diplomatic relations between the two countries in the way they do business or maintain confidence on each other. The same is true in bringing Japan's ODA down to specific sectors of the Philippine economy as many businessmen continue to believe that the Philippines is not utilizing Japan's ODA effectively. Mr. Donald Dee argues, for instance, that Japan's ODA should be used to unlock bottlenecks in the supply chain, spur economic activity and create jobs if it were to have concrete value added to, and impact on, the development prospects of the Philippines.

Meanwhile despite Japanese apprehensions over a host of constraints in doing business in the Philippines, many of them remain generally optimistic about the future business outlook of the country. In the October 2003 Business Sentiment Survey in Asia conducted by the Japan External Trade Organization (JETRO), for instance, the Japanese companies' business sentiment has moved into a positive figure for the first time in eight months. This positive rating comes as a surprise amid increasing perceptions of instability in the country of late.



| Q1: General business sentiment 【at present】 |        |      |       |      |
|---|--------|------|-------|------|
| Ratio (%)                                   | Better | Same | Worse | DI   |
| Thailand                                    | 38.1   | 39.2 | 22.7  | 15.4 |
| Singapore                                   | 29.4   | 45.0 | 25.6  | 3.8  |
| Malaysia                                    | 26.0   | 39.6 | 34.3  | -8.3 |
| Indonesia                                   | 24.2   | 45.6 | 30.2  | -6.0 |
| Philippines                                 | 29.1   | 50.0 | 20.9  | 8.2  |
| Q1: General business sentiment 【outlook】    |        |      |       |      |
| Ratio (%)                                   | Better | Same | Worse | DI   |
| Thailand                                    | 31.8   | 47.7 | 20.5  | 11.3 |
| Singapore                                   | 23.9   | 52.8 | 23.3  | 0.6  |
| Malaysia                                    | 23.1   | 48.5 | 28.4  | -5.3 |
| Indonesia                                   | 25.5   | 51.0 | 23.5  | 2.0  |
| Philippines                                 | 27.8   | 55.1 | 17.1  | 10.7 |

Data & Graph Courtesy of JETRO Manila Office

## **(B) Why an EPA with the Philippines?**

Preparations for the planned conclusion of an EPA between Japan and the Philippines officially kicked off when President Gloria Macapagal-Arroyo proposed the establishment of a working committee for the conclusion of an EPA during the bilateral summit talks when she visited Japan in May 2002. Her initiative was in response to Prime Minister Junichiro Koizumi's proposal to Asian nations that they study the prospects of forging a Closer Economic Partnership made during a session of the Japan-ASEAN summit talks held in Singapore in January 2002.

In November 2002, Japan has privately established the Japan-Philippines Economic Partnership Task Force under the Japan-Philippines Economic Cooperation Committee. The Task Force is composed of about twenty enterprises that have close relations with the Philippines. The members of the Task Force brainstormed on the priorities for the Japanese side's requests which will be submitted for the Philippine side's consideration. The Task Force identified important issues to discuss with the Philippines such as lowering of tariffs, trade facilitation, liberalization in the field of services and investment, improvement of the business environment and facilitation of the movement of people.<sup>44</sup>

In a speech made by Mr. Makoto Ebina, Chairman of the Japan-Philippines Economic Partnership Task Force, he said that the conclusion of an EPA with the Philippines will not be as difficult as the conclusion of an FTA with Mexico, ROK, or Thailand, all currently under consideration by Japan. He noted that the average tariff rate of the Philippines has already been lowered to 6.7%, and because the proportion of

<sup>44</sup> Proposals for the Japan-Philippines Economic Partnership Agreement—To the Fifth Meeting of the Working Group, prepared by The Japan-Philippines Economic Cooperation Committee on 4 July 2003.

agricultural produce in the country's total exports to Japan is currently 9.9%, a tariff reduction consistent with the WTO requirements may be considered to be relatively easy.

He noted, however, that difficulties may arise in the future when negotiations proceed beyond FTA items, especially since the Japanese requests are considerably different from those on the Philippine side. Japan strongly urges the Philippines to improve its business environment—with particular emphasis on improvements in the efficiency of customs procedures, speed of return of price added tax, relaxation of regulations on the entry of foreign capital, abolition of regulations on foreign capital enterprises' acquisition of land, maintenance of security, and the like. Meanwhile, the Philippines strongly requests that Japan ease regulations on the movement of natural persons such as allowing work permits for nursing staff and other healthcare personnel such as caregivers in Japan. But despite all the anticipated difficulties, Japan is poised to pursue with the Philippines the envisioned Japan-Philippines Economic partnership Agreement (JPEPA).

For Japan, the greater value of a possible JPEPA rests on the bigger objective of forging a Closer Economic Partnership with a single ASEAN market. Its objective is to inject in its bilateral EPA negotiations the need to accelerate the completion of the ASEAN Free Trade Area (AFTA) to provide a core base for new investments. Japan's EPA with a long-time ally like the Philippines is an important piece of the whole strategic puzzle.

## **V. CONCLUSION**

### **TURNING PAINFUL REALITIES INTO NEW OPPORTUNITIES**

It is undeniable that Southeast Asia is a critical factor in determining Japan's position both in the regional and the international scene. We have at least seen in history how Japan had benefited from Southeast Asia's refuge in trying times. It turned to Southeast Asia when the West increasingly discriminated it against in the early 1920s; it banked on the Southeast Asian market at a time when Japan's major trading partners, principally the U.S., deliberately erected barriers to Japanese exports; and it is turning to Southeast Asia anew now that the WTO framework seems unpromising and at the same time China is increasingly posing a challenge to Japan's regional interests.

But for all the assumptions that Southeast Asia has always been strategically important for Japan, little has been proven about the real depth of the relationship. It is even unfortunate that the Southeast Asian countries have failed miserably in taking advantage of Japan's value for its strategic interests in the region. Little has also prospered in whatever effort was pursued to consolidate Southeast Asia's collective interest and make an external stakeholder such as Japan treat the region as an "indispensable" global partner.

Over the years, Southeast Asian countries have been preoccupied with their own interests when it comes to dealing with Japan. Japan, for its part, has in many occasions found greater ease and benefit in dealing with Southeast Asian countries bilaterally than approaching them collectively. In many cases, Japan has successfully played one Southeast Asian country with another to achieve Japan's own goals—a classic demonstration of how competition benefits whom and how. The same is bound to happen now as individual countries race to conclude bilateral EPAs with Japan if only to gain the upper hand in negotiating their wish lists with their Japanese counterparts.

Meanwhile, it is interesting to note that the Japanese had long regarded Southeast Asia as an alternative market to the China market.<sup>45</sup> Such Japanese posture was in large part a result of Washington's conscious effort to dissuade the Japanese from being overly focused on its giant neighbor in the height of the Cold War. But today's Japanese stance is precipitated by its own increasing wariness of the rise of China. Regardless of the U.S. position, Japan is watchful of the prospects of China's emergence becoming a prelude to an intense Sino-Japanese rivalry for regional leadership. This is why some analysts say that the China factor also determines the strategic value of Southeast Asia for Japan.

Ambassador Domingo L. Siazon, Jr. warns, however, against any imprudent attempt of either the ASEAN or the Philippines to play the China card with Japan. It is certainly not to the region's or the Philippines' advantage to antagonize the Japanese considering that Japan is by far still more important to both the ASEAN and the Philippine economies. Siazon advises the Philippines to negotiate with Japan objectively and emphasizes the need for Japan-Philippines solidarity in working for an East Asian Free Trade Area (EAFTA). Moreover, considering that Japan's main interest in the region lies on the completion of the AFTA, *the Philippines could increase its lever with Japan not by flirting with China, but by playing a lead role in the region's pursuit of AFTA.*

On the question of whether the Philippines should enter into an EPA with Japan, there seems to be a consensus among our Filipino interviewees that there is no other way to go but work for the EPA's realization. From the standpoint of Philippine diplomacy, Filipino diplomats believe that the EPA offers an opportunity for the two countries to deepen their relationship. They are of the view that an EPA with the Philippines will also prove that Japan is serious in its proposal to have a Comprehensive Economic Partnership Agreement (CEPA) with ASEAN and that Japan is working closely with Southeast Asian countries, just like China, in establishing the foundation of an East Asian Free Trade Area (EAFTA). Japan's conclusion of an EPA with the Philippines will also encourage other ASEAN countries to conclude a similar agreement with Japan at the soonest time possible.

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<sup>45</sup> Recent reports suggest that the Asian market has become even more important for Japan's export-driven economic recovery. According to the Japanese Ministry of Finance, Japan's trade surplus with Asia surged 37.6% to 5.61 trillion yen (US\$52.9 billion) in 2003, as exports jumped 12.9% to a record 25.32 trillion yen (US\$238.6 billion). Exports to China alone soared 33.2% to 6.64 trillion yen (US\$62.5 billion). It is said that the positive outlook in Japan's dealings with its Asian neighbors was largely brought about by a general increase in Japan's trade surplus. See also 2003 JETRO White Paper on Trade and Foreign Direct Investments (Summary).

The Philippine business sector is equally supportive of the bilateral efforts, but these businessmen maintain a more cautious position than the Filipino diplomats. Although they are for the EPA between Japan and the Philippines, they also warn that the Philippines should be serious in consolidating its domestic industries and in preparing them for a bigger competition. For the Filipino businessmen, what is important is for the Philippine government to come up with a basic framework that is workable, realistic and promising—something that may even guide our position in similar FTAs or EPAs with other countries in the future. They opine that the long-term success of this EPA is contingent upon the ability of the Philippine government to ensure that the liberalization process will not kill our own industries and consequently awaken anti-Japanese sentiments that could ruin the prevailing amicable diplomatic ties between the two countries.

Finally, the businessmen also underscore the importance of knowing the interests behind Japan's pursuit of an EPA with the Philippines. They suggest that it is in knowing who will negotiate for Japan and what interests they have to advance or protect, that the Philippine negotiators could position themselves better *vis-à-vis* their Japanese counterparts. They also agree with this paper's view that much can be learned from looking back to the history of Japan's dealings with the region and that many of the same historical accounts could in fact still have bearing on the analysis of Japan's current behavior.

Corollary to this, the paper notes two significant features which stand out from Japan's foray into regionalism: (1) The considerable involvement of the big Japanese business interests in the negotiations; and (2) the audible linkage between the Japanese government-initiated reforms for national economic recovery and the direction of the FTAs and EPAs. These features are reminiscent of Japan's strategy during the period of reparations in the region.

In closing, it is perhaps important to note how our examination of the possible EPA between Japan and the Philippines has led us to some painful realizations. If Southeast Asia were to fully draw Japan's attention, much needs to be done to consolidate the region's strengths and interests. Similarly, if the Philippines were to reap maximum benefit from its harmonious diplomatic relations with Japan, much needs to be done domestically to make the Philippines an object of interest for the Japanese investors, businessmen and even tourists. Clearly, we are now faced with the daunting challenge of making regionalism and bilateralism work for the region and the Philippines. But for all the difficulties we can anticipate in the process, one can only expect to benefit from any attempt to transform such painful realities into new opportunities.

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*“Building a friendship is a process, like building blocks. Sometimes the pieces fall into place, sometimes they chip and fall away. Many have thought it significant that when Jose Rizal visited Japan for the first and last time in 1888, he mentioned in one of his letters: “we shall have much contact and relations with Japan in the future.”*

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