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Globalization and the Growth in Free Trade Agreements

SHUJIRO URATA

In this article, Professor Shujiro Urata of the School of Social Sciences at Waseda University and of the Research Institute for Economy, Trade and Industry, gives an overview of the various types of regional trade agreements (RTAs), and examines the background to the growing trend towards regionalism in the 1990s. Focussing on the surge in free trade agreements (FTA), he explains why FTAs have become more popular than multilateral trade liberalization under the WTO. He describes the different types and characteristics of RTAs, the economic effects of FTAs including the static and dynamic effects, and their significance for the global and Japanese economies. He concludes that if Japan does not actively participate in FTAs, and instead chooses to "cherry pick" from the full range of agenda items, there is a danger that it will not be considered by other countries as a worthwhile FTA partner. If so, Japan will suffer the consequences of being excluded from other FTAs.

Since World War II, the globalization of the world economy has developed at a rapid pace. This was made possible by the increase in economic activities, in particular, in international trade and foreign direct investment (FDI). In 1960, for example, the year in which the turmoil of the postwar years could be finally put to rest and the world began on its path of exponential growth, the total ratio of foreign trade to gross domestic product (GDP) stood at 25 percent. Excluding periods of global recession, this figure has continued to climb, and by 1999 it had soared to 52 percent.[1] The ratio of FDI to GDP in 1980 was a mere 11 percent but by 1998, had leapt to 34 percent.[2] The rapid pace of globalization is confirmed by the statistics for international trade and investment. Although it is more difficult to keep track of the international flow of capital, information and human resources, there has clearly been an increase which also contributed to the pace of globalization.

In the postwar years, the pace of globalization was quickened by the multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT); the liberalization of trade and investment; deregulation and privatization of national industries; and increasingly cheaper cost of foreign trade from technological developments in telecommunications and transportation.

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In parallel with this move towards globalization was the trend towards regionalism; the earliest and most remarkable development of which was the regionalism in Western Europe, manifest in the creation of the European Economic Community (EEC) in 1958. Other similar moves were also seen in Central and South America and Africa, but most of these were in name only and few were of any real substance. This changed in the 1990s, when regionalism became almost a craze in the sedate world of economics, springing up here, there and everywhere. Free trade agreements (FTAs) have played a central role in this trend towards regional integration.[3] By the end of September 2001, 239 regional trade agreements (RTAs) had been notified to GATT, or its successor the World Trade Organization (WTO). Of those agreements, 100 have been notified since the creation of the WTO in 1995 after the Uruguay rRound of negotiations.[4] A considerable number of these RTAs did not last long, however, and as of 31 January 2002, 162 agreements remained in force.

Types of regional integration

A free trade agreement is an agreement between the countries party to that agreement to remove trade barriers such as tariffs and import quotas. FTAs are recognized by the WTO in GATT Article 24 and Article 5 of the General Agreement on Trade in Services (GATS) and are exempt from the most favored nation (MFN) rule. MFN is the fundamental principle of non-discrimination of all members. Regional trade agreements (RTAs) is the collective term used by the WTO to refer to FTAs and other regional preferential trading arrangements such as customs unions, which will be discussed later.[5]

One well-recognized method for classifying the different types of regional integration is to categorize them by their stage of development, a method which focuses on the degree of integration,[6] which is the one adopted here. From order of looser to stronger integration, there are:

1. FTAs, which remove tariffs and quotas within the group;
2. Customs unions, which establish common tariffs for countries outside the group;
3. Common markets, which lift restrictions on the movements of factors of production within the region; and
4. Economic unions, in which common macroeconomic policies are adopted.

Some examples of FTAs include the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), which was established in 1992, and the North American Free Trade Agreement (NAFTA), which came into effect in 1994. The agreement between Japan and Singapore, which was the first RTA to be concluded by Japan, is also an FTA.[7] The European Economic Community (EEC), and the Southern Common Market (MERCOSUR), which comprises four South American countries, are examples of customs unions. The EEC developed into a common market, and has subsequently come close to being an economic union in its current incarnation as the European Union (EU), with the introduction of the common currency, the euro, in 1999. On 1 January 2002, the euro became legal tender in many of the countries of the EU.

The importance of regionalism for world trade

Table 1 shows the level of trade in the major RTAs and East Asia. This table shows that trade by the countries belonging to the world's two greatest examples of regionalism—the EU and NAFTA—accounts for around 60 percent of global trade. If we consider that Japan, China, South Korea and Taiwan were the only major trading nations that did not yet belong to any regional integration arrangement, and that these nations combined had only a 15 percent share of world trade in 2000, it is clear that the overwhelming majority of world trade (the remaining 85 percent) took place involving countries that are party to some kind of RTA. These figures indicate that, in comparison to other regions, East Asia has been slower to embrace regionalism.[8]

Table 1 Share of RTAs and other regions in world trade

	Exports		Imports	
	1990	2000	1990	2000
EU	44.1	35.5	43.8	35.2
NAFTA	16.2	18.9	19.1	24.7
AFTA	4.3	6.8	4.3	5.7
APEC	38.8	49.0	38.3	48.8
East Asia	21.0	26.9	17.7	21.9
Japan	8.5	7.6	6.1	5.4
China	1.9	4.4	1.5	3.6
Republic of Korea	1.9	2.7	1.8	2.2
Taiwan	2.0	2.4	1.6	2.2
World	100.0	100.0	100.0	100.0

Nb. World trade not total of regions shown in table
Source: calculations based on figures from JETRO International Trade Database

As discussed below, one of the objectives of regional integration is to stimulate trade between the countries party to the agreement (intra-regional trade) by removing trade barriers between them. The question is whether intra-regional trade has been affected by the various RTAs in the 1990s. Table 2 shows that, although intra-regional trade as a percentage of global trade fell in the EU, there was a significant increase in NAFTA and AFTA. Although not strictly RTAs, the Asia Pacific Economic Cooperation (APEC) framework and the East Asian region have also witnessed a rise in their share of intra-regional trade. These figures reflect the large-scale expansion of the North American economies, including the US, and the East Asian economies, including China, in the 1990s. It is worth noting that intra-regional trade in APEC and East Asia grew despite the fact that they do not belong to a formal institutional framework like NAFTA.[9] Furthermore, as illustrated by table 2, an examination of the change in the percentage of intra-regional trade reveals that this type of trade has become more important in all regions except the EU.

Table 2
Percentage of intra-regional trade in RTAs and other regions in world trade

	Intra-regional trade as a percentage of global trade		percentage of intra-regional exports		percentage of intra-regional imports	
	1990	2000	1990	2000	1990	2000
EU	29.1	21.6	66.0	60.8	66.6	61.3
NAFTA	6.7	10.4	41.4	54.9	35.0	42.1
AFTA	0.9	1.6	20.2	23.4	19.8	27.8
APEC	26.6	36.0	68.6	73.5	69.4	73.8
East Asia	8.4	12.8	40.1	47.7	47.5	58.6

Source: calculations based on figures from JETRO International Trade Database

Characteristics of the growth in FTAs

The sharp rise in the number of FTAs since the mid-1990s has already been mentioned. It should be noted that these regional arrangements have specific characteristics. First, they are getting bigger. The EU is a good example, as the original 6 members (of the EEC) has been joined by others and membership currently stands at 15. The 3 newest members joined in 1995, but as 13 countries have applied for EU membership, mainly from Eastern Europe, the EU will expand even further. Negotiations will soon begin on the Free Trade Agreement of the Americas (FTAA), which will combine NAFTA and MERCOSUR, covering the whole of the American continent, which is expected to be launched in 2005. This is an example of the trend toward expansion by existing RTAs. In Asia, AFTA has expanded from its original membership of 6 in 1992, to 10 at the time of writing.[10]

As a result of these expansions, many of these groupings, have diverse members in terms of their economic development and economic systems. For example, within NAFTA, the per capita GDPs of the US and Canada in 2000 were US$34,260 and

US$21,050 respectively, whereas Mexico's figure was a mere US$5080. In AFTA, Singapore had the highest per capita GDP at US$24,740, while that of Cambodia, the lowest, was only US$260, almost exactly one-hundredth that of Singapore's per capita GDP. AFTA also includes countries with market economies as well as socialist regimes such as Vietnam and Burma.

The second characteristic is the increasing depth of these agreements. The EU is a typical example of this trend. As mentioned above, the EU began as a customs union and evolved into an economic integration. Although this evolution took more than forty years to achieve, the transition from a common market to an economic union has taken place at a rapid pace since the 1990s. Even FTAs, which are a looser union, are showing signs of this growing depth. In addition to the more traditional objective of removing trade barriers, many of these agreements are moving to include liberalization and facilitation of service trade and foreign investment, and agreements on dispute settlement. The Japan-Singapore FTA is a very deep agreement that not only includes the liberalization and facilitation of goods and services, trade and the liberalization of foreign investment, but also common rules in a wide range of areas, including labor mobility, intellectual property, competition policy, science and technology, broadcasting and tourism.

The third characteristic is the increase in agreements between countries that are not necessarily in close proximity. Traditionally, RTAs were between countries geographically close such as the members of the EU and NAFTA. More recently, however, geographically distant countries, such as the US and Jordan, Chile and Canada, and Singapore and New Zealand, have entered into integration arrangements. Also relevant to this trend is the growing interaction between different RTAs. Typical examples of this trend are the FTA concluded between the EU and Mexico, which is a member of NAFTA, and the inter-regional economic cooperation agreement between the EU and MERCOSUR. The fact that Chile and Singapore have followed the Mexican example and concluded FTAs with multiple nations is also an indication of the growing ties between RTAs.

The fourth characteristic is the willingness of countries that have previously not participated in RTAs to do so. Japan completed negotiations on an FTA with Singapore at the end of 2001, and its first ever FTA will come into force in April 2002. In addition to this agreement, a workshop to research the viability of an FTA with Mexico has been formed made up of representatives of industry, government and academia from both countries. Their findings are due by the summer of 2002. Japan is also exploring the possibility of RTAs with several other countries, including South Korea, Canada and Australia. Other new players considering RTAs include South Korea, China and Taiwan. South Korea began negotiations for an FTA with Chile in December 1999. These talks were originally scheduled to be completed by the end of 2000, but delays in coordinating the liberalization of agricultural, forestry and fisheries imports have hindered the negotiations. As mentioned above, South Korea also has a proposal to conclude an FTA with Japan. In early 2001, China proposed an FTA with ASEAN and an agreement has been reached to establish an FTA in the next 10 years. Taiwan has also agreed to discuss the possibility of an FTA with Japan.

The fifth characteristic is the trend towards the informal regional frameworks which defy classification according to the above mentioned criteria. The most notable example of this is the Asia Pacific Economic Cooperation (APEC).[11] In 1989, APEC began as a conference on economic cooperation among Asia-Pacific nations, and was later upgraded to a summit meeting, albeit an unofficial one. APEC's objectives are the liberalization and facilitation of foreign trade and investment and economic and technical cooperation. Because the liberalization and facilitation of trade and investment objective is also extended to nonmembers, APEC is not classified as an RTA under the GATT and WTO provisions. Given, however, that in the Bogor Declaration, APEC's industrial nations pledged to achieve liberalization of foreign trade and investment by 2010, and the developing members by 2020, APEC has the characteristics of an RTA. Nevertheless, because liberalization is not a requirement but dependent on each country's volition, the question remains as to whether APEC's goals are truly attainable. In reality, rather than forcefully pursuing liberalization of foreign trade and investment, APEC's activities are geared more towards the pursuit of various economic issues and cooperation, with the participation of the private sector, government and academia. Although not as well-established as APEC, the Asia Europe Meeting (ASEM) was established in 1998, to conduct various activities, including biennial summit meetings.

Reasons for the surge in FTAs

A complex mix of external and internal factors, as well as economic, political and security-related factors is behind the expansion, intensification and diversification of RTAs.[12] External factors include securing markets and providing export opportunities for domestic companies by dismantling the trade barriers between participating nations. The expansion of production that results from increased export opportunities enables companies to reap the benefits of economies of scale, which in turn leads to more efficient production. Access to markets and the expansion of export opportunities are particularly important for companies from smaller country. For example, it was very important for companies in Canada and Mexico to gain access to the US market as part of NAFTA. Similarly, companies in Eastern and Central Europe hope that entry to the EU will provide them with access to markets in the EU.

The importance of securing markets as a motive for participating in RTAs has become even greater as regionalism has expanded. This is because the greater tendency towards regionalism means the potential loss of market opportunity as a result of being excluded from a regional agreement has become an increasingly serious issue. Thus, in order to avoid such a scenario, countries will try to join an RTA or two. The reason behind the calls for a Japan-Mexico FTA was the recognition by Japanese companies that they were at a distinct disadvantage in comparison to their European counterparts in the Mexican and NAFTA markets because of the enforcement of the EU-Mexico FTA.

Internal factors include economic growth from increased efficiency due to greater competition as a result of the markets being opened. Since the 1970s, policymakers have come to recognize the benefits of liberalization of foreign trade and investment, deregulation and the removal of domestic regulations have facilitated high economic growth in the developing countries of East Asia, as well as industrial nations such as the US and the UK. In other words, strengthening competition pushes inefficient companies out of the market, while at the same time creating the opportunity for companies with latent competitive strengths to realize their potential. Thus, many countries throughout the world have forged ahead with the liberalization of foreign trade and investment and regulatory reforms. In many cases, however, liberalization is difficult to achieve through domestic measures because of domestic politics. As a result, some governments have come to the conclusion that the "external pressure" of an FTA could be used to push through regulatory reform.

Up to now, access to overseas markets and domestic regulatory reform through liberalization have been discussed as motivations for FTAs, but regionalism is not the only means of attaining these goals. They can also be achieved through the liberalization of multilateral trade under the WTO, but there are several reasons why countries prefer FTAs. First, FTAs are faster, as FTA agreements require less time than trade liberalization under the WTO. The Uruguay round, which was the last round of multilateral trade negotiations held under GATT, was initially scheduled to be completed in four years, but it actually took nearly eight years, almost twice as long as projected. One reason why the talks became so protracted was the sheer volume of items to be negotiated, but in addition, the expansion in the number of participating nations also had a major impact. The WTO was established in 1 January 1995, but it took until the November 2001 Doha Ministerial Conference to agree to a new round due to disagreement over the areas that should be negotiated. With membership at 144 countries as of 1 January 2002, consensus on liberalization will not be easy, by any stretch of the imagination and is certainly time-consuming.

Second, another problem for the WTO is the growing strength of anti-global protestors who perceive trade liberalization under the WTO as the detrimental effect of globalization. The WTO Ministerial Conference in Seattle in 1999, which was convened in order to formulate an agreement for the launch of a new round of negotiations, ended in failure, due in no small part to violent demonstrations by environmental groups, trade unions, nongovernmental organizations and other protesters. Since then, radical opposition campaigns have been staged at meetings of any organizations seen to be contributing to the advancement of globalization, including the World Bank, International Monetary Fund General Assembly and Group of Seven (G7) meetings. Under these circumstances, with multilateral trade negotiations under the WTO proving so difficult, nations keen to liberalize trade are turning to FTAs as an alternative way to achieve this goal.

Third, another reason why countries are opting for FTAs is related to the size of membership as FTAs involve fewer participants. It is also much easier under an FTA to establish rules for new issues that are not yet under discussion in the WTO. For example, opposition, particularly from developing countries, is making it difficult to establish rules for environmental and labor issues under the WTO. By contrast, the US-Jordan FTA was able to establish rules covering these areas. Also, the Japan-Singapore FTA will include a framework on competition policy, for which rules have yet to be established under the WTO.

Fourth, another reason why countries wish to participate in RTAs is their desire to strengthen their political and economic influence in the international arena. This motive is particularly important for small countries. One of the motivations behind regional integration in Europe after World War II was for the European countries to strengthen their economic influence against the US and to reinforce their political and military power against the Communist bloc of the Soviet Union and Eastern Europe. ASEAN, which was originally created as a political and security forum, established an FTA in 1992 because of the decline of its importance after the end of the Cold War on the one hand, and a sense of impending crisis in the face of the rapid growth of the Chinese economy on the other. With China attracting foreign direct investment (FDI) on a massive scale by companies drawn by the prospect of sales in a huge market and a source of cheap labor, the members of ASEAN realized that FDI was crucial to their own economic growth. Therefore, in order to attract FDI to their own countries, ASEAN chose to establish an FTA, which would create a large market, and a free and competitive environment. In 1998, agreement was also reached to form an ASEAN Investment Area (AIA), with the aim of the liberalizing intra-regional direct investment to attract FDI.

Economic effects of FTAs

Here, the effects of FTAs on members and nonmembers is reviewed.[13] The effects on trade are often divided into static and dynamic effects. Static effects include:

- The trade creation effect—the effect whereby trade is created between the members of a group by lifting the trade barriers between them;
- The trade diversion effect—after the establishment of an FTA, imports are diverted away from more efficient nonmembers towards members that may be less efficient; and
- The terms of trade effect—the terms of trade of members are improved due to their increased influence over nonmembers as a result of the greater volume of trade between member nations.

Dynamic effects include:

- The market expansion effect—the achievement of economies of scale and the ability to choose the best locations for production and distribution as trade barriers are removed and markets expand; and
- The competition enhancement effect—the facilitation of efficient production because companies with oligopolies in the region are made more competitive by market integration.

For members, while four of the effects may be positive developments, the trade diversion effect may have an adverse impact. On the other hand, for nonmembers, the trade diversion effect and terms of trade effect are negative, whereas the remainder are beneficial. If FTAs can expand markets, enhance competition, and promote growth by members, the benefits will not be limited to those countries party to the FTAs but to nonmembers also. Thus, a major reason behind the surge of FTAs in recent years is from the anticipation of these kinds of movements. If, however, exclusive economic blocs similar to those built in the years between the first and second World Wars are formed in a bid to counteract the trade diversion effect, the impact on the global economy will be dangerous.

Up to this point, this article has concentrated on the effects of FTAs on trade, but FTAs also have an impact on FDI. If a large intra-regional market is created as a result of lifting barriers through an FTA, FDI aimed at sales in that intra-regional market will flow in. Also, if the introduction of an FTA means a more efficient production process, the region will attract FDI aimed at exports outside the region. FTAs also have the effect—called the "investment diversion effect"—of diverting FDI away from nonmembers towards members. In fact, the destination of FDI in the textiles and electronics industries moved away from Southeast Asia to Mexico as a result of NAFTA.

FTA and the WTO

Regional trade agreements such as FTAs and customs unions are a system that discriminates against nations outside the region and gives preferential treatment to nations within the region. They are, however, allowed by the WTO as an exception to the general most favored nation (MFN) treatment prescribed in GATT Article 1, as long as the following three criteria are met:

1. Trade barriers must not be raised higher than they were before integration;
2. Trade barriers are to be abolished for substantially all trade; and
3. Regional integration must be completed within a reasonable length of time.

These conditions are problematic, however, because their content is ambiguous. Issues related to regional integration in the GATT context were discussed in the

1984 Uruguay round. Some progress was made on the first condition—in that standards were set for the assessment of tariff rates, which are a major trade barrier—but not on the other two criteria. Specifically, it was clearly stated that weighted averages, which takes trade volumes into account, and not arithmetical averages, which the EU had adopted, were to be applied in general tariff standards. Meanwhile, a proposal on the second condition was made to the effect that the exclusion of major products would not be allowed, but no agreement was reached on this point.

In February 1996, the WTO General Council established the Committee on Regional Trade Agreements (CRTA) This was in anticipation of the rise in RTAs needing examination in direct proportion to the increase in such arrangements. It was agreed that the CRTA will not only examine RTAs but also analyze their impact on the WTO system. The major issues to be dealt by the CRTA included a clarification of the meaning of "substantially all trade," and the assessment and monitoring of non-tariff barriers, including safeguards and antidumping measures, under regional integration.

Many believe that multilateral free trade under the WTO is the best way to achieve economic growth through the expansion of global trade. Thus, the question of whether FTAs help or hinder the liberalization of multilateral trade under the WTO is very important, but one on which a conclusion has yet to be reached.[14] Based on the experience of the economic blocs prior to World War II, some have argued that FTAs are an impediment to multilateral trade liberalization because they form exclusive trade regimes. Others suggest that the recent increase in FTAs may complicate the global trade system and hinder trade. Moreover, there is another school of thought who suggest that progress in WTO negotiations will be difficult because the time and energy of trade policymakers will be occupied in the pursuit of FTAs.

On the other hand, there is the view that, as FTAs promote liberalization, the expansion of FTAs will actually facilitate trade liberalization on a global scale. Under the current circumstances, in which WTO efforts at multilateral trade liberalization are proving more and more difficult, many observers now believe that it would be difficult to achieve world-wide trade liberalization if it were not supplemented by RTAs. Furthermore, some contend that multilateral trade liberalization talks will be accelerated because RTAs will reinforce the importance of trade liberalization. This view is based on the notion that after the Uruguay round was delayed in the early 1990s, agreement was finally reached after the EU and other regions became aware of the importance of multilateral trade liberalization from the trend towards regionalism of NAFTA and APEC.[15]

One contribution that FTAs have made to the WTO process has been the establishment of rules in new areas. As mentioned above, NAFTA included rules on the environment and trade, which have not yet been established in WTO, and the Japan-Singapore FTA includes rules on competition and mutual recognition of systems. Such rules for new areas under FTAs will pave the way for establishing similar rules in the WTO.

If FTAs are to contribute to trade liberalization on a global scale, the debate on the merits of the WTO and FTAs raises several important challenges for the members of the WTO. The first is to allow the participation of nations outside the agreed FTA, to expand the membership of those areas. To join an already existing FTA, a country must satisfy the above mentioned criteria for regional integration, but to encourage new memberships, the ambiguous CRT conditions required for RTA should be clarified immediately. The second challenge is to maintain the momentum of multilateral trade negotiations under the WTO. The agreement reached at the WTO ministerial conference in Qatar to commence the new round of negotiations, the Doha Development Agenda, in January 2002 was a major achievement. For these talks to succeed, however, all members need to realize that the expansion of global trade through multilateral trade liberalization will benefit all countries. After such a recognition, the concerns of each country must be coordinated accordingly.

The significance of FTAs for Japan and the challenges ahead

To conclude, the significance of FTAs for Japan and the future challenges facing Japan will be examined. In the past, Japan has pursued multilateral trade liberalization under the GATT and WTO systems. As amply demonstrated by the disaster of the ministerial conference in Seattle, however, trade liberalization under the WTO has become an increasingly contentious issue. For this reason, bilateral trade liberalization has become one option for Japan's foreign trade policy as can be seen by the FTA with Singapore and talks on the possibility of FTAs with South Korea, Mexico and Chile.

The economic effects of FTAs have already been discussed, and they are expected to provide a variety of benefits for Japan: Because of their competitive edge, business opportunities for Japanese companies will increase as it will be relatively easy for them to enter the markets of their counterparts to these agreements. On the other hand, competitive foreign companies will also be able to enter the Japanese market. Consumers will benefit from lower costs and increased choice of products.

Whilst it is patently obvious that greater competition through deregulation is necessary to revitalize the Japanese economy, vested interests has meant dragging of political feet. Under these circumstances, as deregulation will not be brought about by domestic pressure alone, the government will be forced to rely on gaiatsu or "external pressures." In the past, gaiatsu from the US government had been used to good effect to bring about domestic deregulation, and FTAs are seen as another effective form of gaiatsu. In addition, FTAs can be expected to make non-economic contributions as well as economic ones. In an increasingly international world Japan lags behind, but FTAs could provide a useful way to promote international concepts such as overseas aid and international exchange. In fact, the Japan-Singapore FTA includes cooperation in areas such as joint research and development and human resources development.

Japan would be able to contribute to global trade liberalization by forming FTAs that served as a model when other FTAs and the WTO were drafting their rules. For example, by incorporating issues for which rules have yet to be established under the WTO into its FTAs, Japan could contribute to the establishment of such rules in the WTO. As has been mentioned several times, rules on competition policy, which have not yet been established in the WTO, are under consideration for the Japan-Singapore FTA, and these rules would be a worthwhile contribution to the WTO.

The fact that the ambiguity of the three criteria for establishing FTAs in the WTO context is a problem has been mentioned before. For this reason, many FTAs exclude certain products that are subject to liberalization, especially agricultural products. In Japan also, many lobbyists argue that agricultural products should be excluded from Japan's FTAs, given the lack of competitiveness of its agricultural, forestry and fishery industries. In fact, despite the fact that Japan's agricultural imports from Singapore are minimal, agricultural products are not included in the Japan-Singapore FTA. Some people argue that sacrifices, such as some exemptions, is unavoidable if the many positive benefits of FTAs are to be realized. While making no exceptions would be ideal, if exceptions are made for whatever reason, the signatories must commit themselves to removing those exceptions after a certain length of time, to contribute to global trade liberalization. If it continues to insist on excluding agricultural products from trade liberalization in future FTAs, not many countries will be interested in concluding an FTA agreement with Japan. Japan will find itself excluded from other FTAs, and suffer the consequences.

Notes

1. The ratio of trade to GDP is the ratio of total exports and imports of goods and services to GDP. These statistics are from the World Bank, *World Development Indicators 2001*.
2. The ratio of foreign direct investment to GDP is the total of outward and inward foreign direct investment stock to GDP. Statistics are from the United Nations, *World Investment Report 2001*.
3. The terms free trade agreement and free trade area, both of which are abbreviated by FTA, are used interchangeably in general practice.
4. WTO documents, WT/REG/10, (10 October 2001).
5. See the WTO website <http://www.wto.org> for details of how the WTO handles regional trade agreements.
6. See Peter H. Lindert, *International Economics*, 9th edition, (Irwin: Homewood, Il., 1991), Chapter 9, for an example.
7. This FTA between Japan and Singapore, however, is a wide-ranging agreement that is not limited to trade liberalization but also covers the liberalization and facilitation of investment, services trade and other areas, and as such, is known as an "Economic

Partnership Agreement (EPA)." The report of the study group of representatives of Japan's and Singapore's private sector , academia and government, which became the basis of the Japan-Singapore Free Trade Agreement, appears on the websites of the Ministry of Foreign Affairs <http://mofa.go.jp/region/asia-paci/Singapore/econo_b.html> and of the Ministry of Economy, Trade and Industry, <http://meti.go.jp/english/information/data/cJ-SFTA/e.pdf>.

8. For useful articles on the regionalization of the Asia-Pacific region, see Ross Garnaut and Peter Drysdale eds., A*sia Pacific Regionalism: Readings in International Economic Relations* (Harper Educational Publishers: Sydney, 1994).
9. For comparisons of regionalization in Europe, North America and Asia, see Shujiro Urata, "Regionalization and the Formation of Regional Institutions in East Asia," in Kiichiro Fukasaku, Fukunari Kimura, and Shujiro Urata eds., *Asia & Europe: Beyond Competing Regionalism* (Sussex Academic Press: Brighton, 1998), pp.13–44
10. Chia Siow Yue, "Regional Economic Integration in East Asia: Developments, Issues, and Challenges," in Koichi Hamada, Mitsuo Matsushita, and Chikara Komura, eds., *Dreams and Dilemmas: Economic Friction and Dispute Resolution in the Asia-Pacific* (Center for Asian and Pacific Studies, Seikei University, Japan, and Institute of Southeast Asian Studies, Singapore 2000), pp.19–50.
11. See APEC Secretariat <http://www.apecsec.org.sg>; Vinod K. Aggarwal and Charles E. Morrison, eds. *Asia-Pacific Crossroads: Regime Creation and the Future of APEC* (St. Martin's Press: New York, 1998) and Ippei Yamazawa, ed., *Asia Pacific Economic Cooperation (APEC): Challenges and Tasks for the Twenty-first century*, Proceedings of the 25th Pacific Trade and Development Conference in Osaka June 1999, (Routledge: London and New York, 2000).
12. Whalley provides an interesting discussion of the various motives behind each country's pursuit of RTAs. John Whalley, "Why Do Countries Seek Regional Trade Agreements?" Jeffery A. Frankel ed., *The Regionalization of the World Economy*, (University of Chicago Press: Chicago and London, 1998), pp.63–83.
13. For the economic effects of regional integrations such as FTAs, see L. Alan Winters, *International Economics*, 4th edition, (HarperCollins Academic: London, 1991).
14. Frankel provides a concise overview of the debate on these issues. It also examines the validity of each argument based on empirical analysis, and indicates that regional trade liberalization will be very effective in promoting world trade liberalization. Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Institute for International Economics: Washington, D.C. 1997).
15. See C. Fred Bergsten, "Globalizing Free Trade: A Vision for the Early 21st Century," *Foreign Affairs*, Vol. 71, No. 3 (May/June 1996), pp.105–20.