

**Thinking outside the
negotiating square**



**East Asian integration
in a global context**

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East Asian success and challenges

- East Asia has become a very influential part of the global economy:
 - the region now has global responsibilities;
 - to sustain global economic growth; and
 - to defend an open international trading system.
- East Asia's strategy for economic integration needs to take account of the potential reaction by the rest of the world.

Production networks – supply chains

- International production networks were largely invented in East Asia:
 - they are the main drivers of economic integration in this region.
- Most products moving along supply chains do not face significant traditional border barriers.
- The main constraints to economic integration these days are:
 - problems of trade logistics; and
 - different economic regulations among trading partners.

Beyond 'free trade'

The time has come to complement an environment of low border barriers with:

- smoother movement of business people and capital;
- transparency, best practice, and consistency of regulations, including:
 - competition policy,
 - regulations on government procurement.
 - mutual recognition of standards and qualifications;
- efficient communications, including e-commerce;
- best practice logistics.

The ASEAN Economic Community

The vision of an ASEAN Economic Community is far more ambitious than an FTA.

ASEAN is setting a good example of practical, outward-looking economic integration.

- focused on the most important dimensions of economic integration in the 21st century.

The ASEAN Master Plan on Connectivity sets out practical options for capacity-building to:

- improve logistics, communications;
- create regional power and gas grids;
- streamlining and harmonizing regulations.

Work on these new issues is proceeding in a flexible way,

- some economies can set examples for others, and
- cooperation on new issues is not held back by political resistance to trade liberalization.

Investing in connectivity

- Investment in economic infrastructure to promote regional integration will lead to huge economic gains:
 - these potential gains dwarf the gains available from marginal liberalization of remaining traditional border barriers.
- Asia should be spending up to US\$750 billion on regional infrastructure 2020.
 - can we make these investments happen?

Constraints to investment for integration: *(1) financing problems*

- To accelerate investment in economic infrastructure
 - we need to fix a serious financial market failure.
- Most of Asia's savings are intermediated in London and New York,
 - with much of them lent to already deeply indebted governments.
- We can put these savings to better use:
 - multilateral development banks can scale up their activities; or
 - we could create new funds, controlled by emerging economies, to invest in economic infrastructure.

Constraints to investment for integration:

(1) regulatory problems

- Investment to improve connectivity will also need closer cooperation on sectoral institutions and regulations.
- For example, a regional gas pipeline grid will require:
synchronising national technical and security regulation requirements, and differences in the supply, distribution, and management procedures of natural gas across the countries (ASEAN Master Plan on Connectivity)
- These are capacity-building challenges:
 - and capacity cannot be created by negotiations.
- East Asian officials and business leaders can create the necessary capacity by sharing:
 - information;
 - experience;
 - expertise; and
 - technology.

Preferential trade deals

- FTAs, are based on international business models of the mid-20th century;
 - when it was easy to know the origin of products.
- People managing international commerce (Victor Fung) and trade policy specialists (Pascal Lamy) tell us:
 - the world has moved on;
 - the nature of international trade and investment has become much more sophisticated;
 - it is no longer useful or feasible to determine the origin of products.

Are FTAs useful?

- There are very many FTAs around the world,
 - but the private sector is not taking much notice.
- Only 16 per cent of global trade is preferential;
 - and less than 2% of world imports enjoy preferences over 10 percentage points.
- Recent FTAs have chapters on new issues,
 - but rules and statements of good intentions are not enough to make trade and investment cheaper, easier or faster.

An East Asian FTA?

- **An East Asian FTA would be very difficult to negotiate: negotiations will either:**
 - fail (like the attempted Free Trade Area of the Americas)
 - or lead to a lowest common denominator deal, with no significant liberalization.
- **With such limited potential gain, it may be useful to consider the potential costs:**
 - there would be a very sharp negative reaction from the rest of the world.
 - the prospect of a trade war would be upgraded from probable to certain.

Conclusion

- There is no need to hold progress on new issues hostage to negotiations about border barriers;
 - these only affect a few agricultural products and low-technology manufactures.
- The time has come to focus on practical ways to deal with far more significant logistic and regulatory constraints on economic integration.
- ASEAN is setting a good example:
 - others in East Asia and in APEC can learn from and follow that example.