

## —SUMMARY—

International Symposium hosted by Japan Economic Foundation (JEF) & Research Information System for Developing Countries (RIS)

**“Under economic crises,  
how should Asia promote further economic integration?”**

23 – 25 September 2009, New Delhi, INDIA

*[The following summary is an edited version of the symposium transcript.]*

### **OPENING**

**Dr. Biswajit Dhar:** We are currently going through the most severe economic downturn since the Great Depression of the 1930s. Indeed, countries the world over are developing strategies to overcome this crisis despite seeing how their own economies and the global community as a whole have perhaps not been affected to the extent anticipated.

This event brings together thinkers and policymakers from the entire Asian/East Asian region with whom India has had very beneficial relations. We have also strengthened our mutual economic relations through a number of initiatives, including free-trade and comprehensive economic partnership agreements with most of our neighbours, and have recently concluded the ASEAN Free-trade agreement on goods. The FTA with Korea has been concluded, and our efforts to reach an FTA with Japan are likely to come to fruition very soon. The stage is therefore finally set for India’s vision—a Pan-Asian economic community to which we are all very strongly committed.

This meeting will look at ways in which Pan-Asian integration can help us to forge deeper relationships in the longer term, what measures can be taken in the short term to mitigate this crisis and how we move forward during it. We are all looking forward to extremely fruitful deliberations and, as we are expecting a large number of delegates, we hope that these discussions will help us to move forward in this respect.

This is one of the first events that the RIS has organized and we hope to maintain the links that we have established through this event with all the different organizations and institutions present. We also hope to take the process of Asian integration that RIS has been working on alongside the Ministry of External Affairs, the Department of Commerce and other Indian Government Ministries, and our partner institutions in the Asian region, further.

## OPENING SPEECH

**Mr. Noboru Hatakeyama:** In March 2003, JEF, together with the SIIA, organized the first international symposium on an East Asian free trade area in Singapore. This symposium has since been held annually in Bangkok, Manila, Seoul, Jakarta, Beijing and Kuala Lumpur, although the theme has remained the same. This year, the JEF has chosen this historical city as host and has asked the RIS to be the co-organizer. I would like to express my heartfelt gratitude to the RIS for accepting this role.

Today's symposium is particularly significant in several ways. First, it is our first meeting since the global financial and economic crisis hit last year. To recover from this crisis, every country must expand both domestic and external demand. Most countries in this region have been implementing economic stimulus packages to achieve the former, and for the latter I had originally thought that it would be a good idea to establish an AFTA in this region. However, the issue is not now so clear cut. I asked my colleagues at the JEF to compare exports to member countries with exports to non-member countries, and we found that exports from AFTA member countries to non-member countries have dropped less than those to member countries during the economic crisis. For example, Thai exports to non-ASEAN countries decreased by 22.6% year on year during the first half of this year whereas those to ASEAN countries dropped by 33.5%. A similar trend was found for Germany, France and the UK. Likewise, exports from the US and Canada to non-NAFTA members dropped less than those to members.

Although further study is required to clarify this situation, I suspect one of the reasons is that China and India are outside the AFTA, the EU and NAFTA. Exports to China and India are therefore counted as exports to non-members, so if we can include both these countries in our regional integration, we will share the benefits of their economic growth.

The current economic crisis has proven that high-value-added export items such as automobiles and electronics are not necessarily more immune from export market recession, although the damage to Japan's GDP through export channels seems to be more serious than China's. This is due to differences in export strategy: China's major export items are daily necessities whereas Japan's are not, and high value items have been more vulnerable to the sudden decline in export market demand than necessities. ASEAN member countries include more high value items among their major exports than China, therefore the sudden contraction of the US market had a direct impact on ASEAN exports.

Finally, the first phase of studies on the EAFTA and the CEPEA were completed in the summer of this year. These two independent studies, one for ASEAN+3 and the other for ASEAN+6, were conducted by experts, and both studies have now entered the second

phase, which will be conducted at the governmental level. Today's symposium is therefore a good opportunity for us all to provide suggestions, especially regarding an APEC member FTA.

## **KEYNOTE ADDRESS**

**Dr. Shashi Tharoor:** RIS has played a significant role in exploring the future directions of our foreign economic policy, and today's symposium is yet another significant contribution to that effort. I welcome the collaboration of our Japanese friends in this RIS endeavor. Since 1981, the JEF has worked hard to build links with its counterparts in Asia and elsewhere, therefore this partnership between RIS and the JEF is both timely and important.

Developing a perspective on the future of Asia during and after this global financial and economic crisis is a daunting task, although the professional background of both the RIS and the JEF means that these two organizations are eminently qualified to do so as the current crisis has questioned the very assumptions on which global economic order has been based since the end of the Second World War. Even before the current crisis, the non-sustainability of the global macroeconomic imbalances was increasingly evident, especially pressure on the dollar, the low savings rates and high consumption in Western markets, a shift of the manufacturing sector and some services to developing, especially Asian economies, and high agricultural subsidies in Western economies.

Volatile food and oil prices and the challenges created by global warming ensured that the dimensions of this crisis were different. The challenge of coping with its diverse manifestations was compounded by the perceived need to strengthen international financial institutions. We all remember that the G-20 Summit in London agreed to mobilize additional financial resources for these financial institutions, largely to sustain growth in emerging markets.

The sudden financial and economic meltdown in the West was the result of the failure of global regulatory and supervisory mechanisms, excessive speculation and greed, "casino capitalism", the ideological preconceptions of the most powerful actors and policymakers, and market fundamentalism, almost exclusively in developed countries. The toxic assets originating in the US sub-prime sector were exported to Europe and the rest of the world.

The crisis spread to emerging economies through the balance of payments. The effect of the financial crisis in emerging economies was mainly through the reversal of portfolio flows, due to the unwinding of stock positions by foreign institutional investors to replenish cash balances. It therefore often had nothing to do with market conditions but with the need to offset losses, although the consequences were felt by the countries from which the

withdrawals took place. Together with slackening global demand and declining commodity prices, it also led to a drop in exports, thereby transmitting the financial crisis to the real economy. Countries with export-led growth models and those dependent on commodity exports were more severely affected, and job losses in Asia have been enormous.

The crisis also brought an abrupt end to the surge in private capital flows to developing countries. In 2008, total net international flows of private capital to the developing world fell to US\$707 billion, about 4.4% of developing country GDP, from the previous record high level of US\$1.2 trillion. This downturn affected all developing regions to some degree, with the exception of the Middle East and North Africa. Emerging Europe and Central Asia were the hardest hit, accounting for half of the \$451 billion drop.

The Indian economy was not significantly affected by the global financial crisis early on. Indeed, the initial effect of the global financial crisis was positive for India. In its most intense phase, the global financial crisis spread to India through the balance of payments. Monthly export growth became negative after July 2008 and import growth became negative after August 2008. The overall balance of payments, however, remained resilient. India's GDP growth in 2008/2009 was 6.7%, with the first half of 2008/2009 recording a growth of 7.8% despite the increasing uncertainty in the international commodity and financial markets. Amongst the domestic growth drivers, gross fixed capital formation retained some of its momentum, growing by nearly 11%. In the second half of 2008/2009, GDP growth dropped to only 5.8%, with a further decline in private consumption growth to 2.5% and a significant moderation in the growth rate of gross fixed capital formation to about 6% compared to the corresponding period of the previous fiscal year.

The Government of India adopted a proactive fiscal policy in response, rolling out fiscal stimulus packages. Growth in government consumption expenditure increased dramatically to nearly 36%. Overall GDP growth for 2008/2009 (6.7%) surpassed all international forecasts, which averaged around 5.5%.

Prospects remain uncertain, although emerging and developing economies are projected to regain growth during the second half of 2009. Growth projections in emerging Asia have been revised upward, mainly due to improved prospects in China and India and the faster than expected turnaround in capital flows. Industrial production has either stabilized or is expanding, global trade is picking up, and financial market stress has reduced, although significant downside risks remain.

The path and timing of exit strategies will be crucial, and cohesive and well coordinated international action is an urgent requirement as the massive stimuli packages have the potential to create inflationary pressures if they are not handled properly.

The pace of recovery is crucially dependent on repairing the balance sheets of financial institutions in the developed world, especially as regards toxic assets. Structural reforms in the financial sector, financial inclusion and completing the financial reforms outlined at the London G-20 Summit will be crucial, as will monitoring the global economy and the development of forward-looking forecast tools.

The continuing resilience of Asia will depend on how well it manages the regional integration process. Asia's export-led growth model centered on US and European markets can no longer be relied upon to sustain the region's economic growth. Consumer spending in the US will remain sluggish for many years, and this will be a structural phenomenon, not a temporary one. Asia will therefore need to shift its current export-led production structure away from advanced economies to regional markets. A fundamental rebalancing towards domestic demand is needed if Asia wants to preserve the high growth rates of its recent past. This requires forethought, considerable planning and technical expertise, although I believe that Asia has the intellectual and financial wherewithal to do this.

To promote further economic integration, Asia clearly needs to go beyond the ASEAN free trade and investment area. We have recently concluded an FTA with ASEAN and we have another with Korea. Similar arrangements have been negotiated with other ASEAN and East Asian countries, and India is also negotiating a services and investments agreement with ASEAN. The current array of overlapping bilateral and plurilateral free-trade agreements in the region could be taken to a higher level of economic integration. Asian leaders envisage an Asia-wide economic partnership agreement, and at the forthcoming East Asia Summit in Thailand they will be presenting a blueprint for realizing a comprehensive economic partnership in East Asia.

Financial cooperation and integration is another area for swift action. The Chiang Mai initiative has been welcomed as it creates a framework for multi-lateralized currency swaps between ASEAN+3 and ASEAN, Republic of Korea, Japan and China. Trade integration and facilitation, especially encouragement for the small- and medium-sized firms, is another area whose potential is being recognized.

Sustained economic growth with national emphasis on poverty alleviation needs to be a priority for all ASEAN countries. This is also necessary for creating national demand in times of weak external demand. We need to make considerable collective effort for skills development especially involving the less advantaged sections of the local community in both urban and rural areas.

Infrastructure development is again a major area for Pan-Asian cooperation and the work currently being carried out needs to be scaled up. India too needs to be far more active and it goes without saying that our collective Pan-Asian effort should ensure that the competitiveness of Asian products and services remains strong.

Given the magnitude of current problems, the Government of India believes that Asian countries need to fast-track these processes. Our leaders welcome the decision of the Economic Research Institute for ASEAN and East Asia, the ADB and the ASEAN secretariat to work together to prepare a coherent master plan for upgrading sub-regional development initiatives.

**Dr. Arjun Sengupta:** Thank you very much. I think the possibility of boosting external and domestic demand is the major area of concern here.

## **SESSION 1**

*The Financial and Economic Crisis and FTAs - How Can Intra-regional Export Growth Through FTA Help Tackle the Crisis?*

Moderator: Dr Hank Lim

**Dr. Djisman Simandjuntak:** The last 30 years or so have been a remarkable period for the world economy. This was a period of deregulation, liberalization of cross- and behind-border restrictions, mega-mergers and acquisitions, and privatization. It also witnessed the metamorphosis of former centrally planned economies into market economies. During the same period, East Asia emerged as the world's growth center.

This region's desire to integrate is strong, and attempts are being made to define clearer geographical boundaries, to agree on how best to ensure deeper integration and how the major powers in the region (China, Japan and India) resolve the fact that ASEAN's current leadership is inadequate to move the region forward.

The severity of a financial crisis differs across economies depending on their respective financial depths, the extent to which a bubble is carried from past cycles into the present, and the seriousness with which their financial systems suffer from bad governance. The crisis has been felt differently even among East Asian countries, with China and India maintaining steady strong economic growth and Indonesia growing moderately but Japan suffering a very steep fall in output. Trade, however, has shrunk at a worrying pace, with Indonesia, Japan, Republic of Korea, Chinese Taipei and Thailand being hardest hit.

Following the financial crisis of 1997-98, East Asia embarked on a number of major financial integration initiatives. The call for an East Asian stability pact is not new, and the idea of an East Asian currency has been with us for a very long time. Indeed, the ADB suggested the convening of an East Asia financial stability dialogue last year.

Given the challenges of integration and cooperation, East Asian leaders are exploring comprehensive approaches such as one where China, Japan, Republic of Korea and new participants including India can cooperate directly rather than indirectly under the ASEAN umbrella. This will reduce the centrality of ASEAN, although it can still retain a leading role provided its integration progresses faster than that of the rest of East Asia. ASEAN centrality will also remain indispensable for non-economic issues.

**Mr. Noriyuki Mita:** Asian economies are not exposed to excessive leveraging or a risky financial setup like the US or Europe. However, Asian economies were seriously affected by the crisis, although the degree of seriousness and speed of recovery vary from country to country. India and Indonesia were not hit hard thanks to the steady growth of domestic demand, whereas China was very seriously damaged but is showing signs of a relatively rapid recovery mainly due to the stimulus packages.

A rapid decline in exports appears to be the main cause of serious damage. Most Asian economies have been suffering from negative export growth. The first risk factor is a high dependence on external markets. The Asian economy is still dependent on exports to the US and Europe, and even though intra-regional trade within East Asia has increased, this mainly involves intermediate goods. Secondly, each country's industry concentrates on a few sectors such chemicals, electronics, automobiles, and textiles, which means that the regional economy as a whole is easily affected.

We overcome structural vulnerabilities and create trust in a regional economic structure by expanding domestic demand, enhancing economic efficiency and developing infrastructure. Deeper integration and narrowing gaps between countries is therefore needed to promote healthy development in East Asia.

Expanding demand is easy to say but difficult to achieve. In the short and immediate terms, governmental expenditure and investment can be drivers, but consumption should be the real driver in the long run. We have great growth potential as the middle-class population in Asia has increased sixfold since 1990, therefore a policy to encourage consumption should be considered. Regional FTAs can also contribute to balanced intra-regional trade as exports can be reassigned from the external to the growing regional market.

Developing an optimal production network is a key to the competitiveness of East Asia as a

whole. We need strategic and effective allocation or reallocation of resources and investment strategies. Rational production specialization to eliminate duplication may also be required. FTAs can play a role here. Finally, there is a need to develop infrastructure which would form the basis for industrial development and an efficient production network.

**Dr. Thomas Aquino:** Global trade continues to be concentrated in a few countries, notably the United States, Europe and Japan, whereas production is increasingly fragmented, with many countries providing inputs to the global supply chains. China is, however, considered to be the world's manufacturing hub.

The limits to trade include logistical costs related to the fuel price increases of recent times. Domestic industries are now part of production chains, supplying parts and components but not producing any finished product.

Regional trade, especially among Asian countries, allows optimal balancing of benefits and the cost of trade, and I feel that Asia is already a large enough market in terms of population and income to allow substantial economies of scale as it hosts diverse countries in terms of socio-economic, cultural and political conditions.

Trade occurs because of enabling elements such as the business environment, hard and soft infrastructure, availability of financing and international promotional or marketing programs. Likewise, trade alone is not enough to bring about development nor to make development more inclusive.

We should promote greater opportunities for interaction among aspiring regional businesses, including face-to-face meetings, on-the-ground regional market promotion activities and continuous exchange of relevant business information. We should also remove barriers to doing business in the region. Likewise, we should initiate studies on the creation of a regional institution to champion regional trade. The economic research institute for ASEAN and East Asia was designed precisely for this purpose.

**Dr. Mignonne Man-Jung Chan:** I will supplement the above three presentations with some additional observations concerning the financial crisis and its impact and pose some questions. The crisis has caused numerous effects around the globe. Due to lack of a prudent financial monitoring system and weak corporate governance, the international financial markets are under siege and the free market capitalist model is under scrutiny.

Are Asians saving too much and spending too little? Why is protectionism rampant despite the collective pledges against it? Do we need to rethink a new model for development? Instead of measuring economic production and stimulating consumption of conventional



goods, how do we promote health, education and household income as human development index measures in the region? Likewise, how should we move ahead with regional integration?

## **OPEN DISCUSSION**

**Dr. Thomas Aquino:** I have seen the difficulties that governments, principally in ASEAN, have encountered in trying to determine which parts of infrastructure projects should be started first. Some regions will benefit immediately, whereas others will benefit much later on as there is no such thing as simultaneous benefit.

As for an ASEAN currency, finance ministers in ASEAN have started to go beyond discussing closer collaboration on financial policies.

Trade promotion requires that certain regulatory barriers that inhibit trade and services to be addressed. Likewise, some FTAs have adverse effects, and what governments have tried to do is address those difficulties in the best way they can.

As for ASEAN +3 or ASEAN +6, ministers and leaders must take on board issues other than economic ones when the situation calls for it.

**Mr. Noriyuki Mita:** It is very difficult to raise domestic demand. Indeed, Japan has been struggling to increase domestic demand for more than two decades.

You can do several things from the supply side. In Japan, we have been discussing so-called structural reform of the supply side to make industry more efficient so that it can provide cheaper goods and services. As for the liberalization of FTAs, this could cause problems for domestic industry. However, look at the example of Korea, which has taken a very aggressive attitude towards the FTA but one accompanied by structural assessment.

Finally, I think the FTA is not an attempt to raise barriers like a block; rather, many regional FTAs or integration attempts can coexist. For example, ASEAN +3 could be a good place for financial cooperation, whereas ASEAN +6 could be more suitable for regional infrastructure development and FTA.

**Dr. Djisman Simandjuntak:** The extent to which lack of domestic demand is attributable to the exclusive growth of patterns is an interesting question. The most pragmatic approach is to invest more in health, education and entrepreneurship

Also, perhaps East Asia should explore an exchange rate mechanism for Asia now that the ASEAN currency unit has been in discussion for decades.

We should somehow push national governments to invest more in infrastructure through better financing schemes but also through more friendly policies towards participation of the private sector.

The best mechanism for pushing the services trade is mechanization. We should try to push this forward.

**Dr. Mignonne Man-Jung Chan:** Politics and economics are intertwined in this region. In the APEC framework, for example, we have the so-called STAR initiative, which focuses on cyber security, maritime security, aviation safety, and cross border health-related issues.

**Dr. Hank Lim:** Increasing domestic and regional consumption doesn't involve just consumers. The quality of FTAs, the deepening of economic integration in the FTA and fostering infrastructure developments are also important. I personally support more investment in social and physical infrastructures to provide economic connectivity in the region.

**Dr. Djisman Simandjuntak:** I have seen a number of articles doubting the ability of ASEAN to lead East Asia into a deep integration. I think some people in Japan, Korea, and China doubt the ability of ASEAN to really serve as an effective leader for East Asia while East Asia is moving towards a deep rather than a shallow integration, although I still see the merit of deploying the ASEAN +3 mechanism in this attempt.

**Dr. Hank Lim:** Some liken the crisis here to being on life support—the patient is out of the intensive care unit but it is not cured. It is as politically more unacceptable to have long-term unemployment now as it was in the 1930s.

## **SESSION 2**

*Asian FTAs in Progress – An Introduction to EAFTA, CEPEA, and TPP*

Moderator: Mr. Naoyuki Haraoka

**Prof. Zhang Yunling (given by Mr. Haraoka due to professor's absence):** Prof. Zhang introduces us to the essential points of the EAFTA and CEPEA reports. In Phase I, EAFTA should be comprehensive, high level and single package agreement and EAFTA progress should start with "10 + 3" and then be open to other EAS members later. Phase II should involve a gradual and realistic approach, including unified rules of origin, service and

investment agreements and trade and investment facilitation arrangements. We should take action now and launch negotiations from 2012.

According to Prof. Zhang's interpretation, CEPEA Phase I helps EAS to promote economic integration and development by enhancing economic cooperation, facilitation and liberalization. Phase II stresses that study groups should be set up to discuss practical issues such as harmonization of rules of origin and setting a timeframe for negotiations and implementation of economic cooperation, facilitation and liberalization.

Prof. Zhang suggests three options for combining these reports. Option 1 involves setting up expert groups on rules of origin and facilitation first, then setting up an official expert group on EAFTA in 2011 with negotiation starting in 2012, whereas CEPEA starts with economic cooperation and facilitation programs first and then the EAS FTA, maybe by joining EAFTA. The second option is to set up both expert groups on rules of origin and facilitation and an EAFTA official study group based on "10 + 3", with other EAS members being invited to join. Those groups may be chaired by ASEAN. In option 3, the China, Japan, Korea FTA should start before EAFTA and CEPEA. If this FTA were to move ahead, it could give a strong push to a larger regional FTA.

Finally, he thinks that China will not reject CEPEA since larger regional integration meets its interest but considers EAS FTA less feasible now and in the near future.

**Dr. Shujiro Urata:** EAFTA is an FTA consisting of the 10 ASEAN countries plus China, Japan and Korea, whereas CEPEA includes the 10 ASEAN countries plus China, Japan, Korea, India, Australia and New Zealand. The contents of these two initiatives are very similar and both include trade and investment liberalization, trade and investment facilitation and economic cooperation.

The idea of ASEAN + 3 FTA came about as one of the recommendations from the East Asia Vision Group. It was decided to set up an expert group to conduct a feasibility study in November 2004 and China took the initiative. This feasibility study had two phases. Phase I submitted a report entitled "Towards an East Asia FTA: Modality and Road Map", and this was followed by a Phase II study entitled "Is an East Asia FTA a Desirable and Feasible Option?".

The Phase II study recommends a gradual and realistic strategy to construct the East Asia FTA involving consolidation of the existing three ASEAN+1 FTAs (ASEAN + China, ASEAN + Korea, ASEAN + Japan). One of the important tasks is to create unified rules of origin based on two working groups: one to design a unified ROOs regime and the other to look into tariff nomenclature and other customer-related issues in order to harmonize tariff

commitments. The overall EAFTA negotiation should be launched at the latest by 2012.

The objective of CEPEA is to deepen economic integration, narrow development gaps and achieve sustainable development.

Discussion of CEPEA's objectives should include the following: stocktaking and streamlining of cooperation measures, streamlining procedures, harmonization of rules of origin and a concrete timeframe for governmental negotiations.

This assessment is based on a simulation analysis using a so-called GTAP model and is likely to be an underestimate of the likely impact as this simulation does not include liberalization in investment or movement of people.

The East Asia FTA focuses on formulation of an FTA, whereas CPEA emphasizes the importance of institutional development. I think both these can go forward in tandem, with East Asia FTA focusing on the FTA and CEPEA emphasizing institutional building and economic cooperation. Both initiatives recognize the importance of facilitation and that joint activities should be conducted in this area.

**Prof. Gary Hawke:** I see forming a region-wide FTA as one of the ways of addressing the problem of promoting comprehensive coverage, especially agriculture, by increasing the WTO plus elements.

It is worth remembering that the early GATT rounds, which were concerned with tariffs alone, involved about 20 participants – that is more or less the size of APEC now – and the negotiators were accommodated in a few modest hotels in a single city. Now, we are talking of around 200 delegations and the Doha Round involves new complexities, especially in environmental goods and services, the distinction between green, blue and amber subsidies and so on, therefore the agenda is even more complex than the Uruguay Round. In some ways even more important, the negotiators in those earlier rounds were more or less isolated in an individual setting in charge with reaching an agreement, whereas now the negotiators are simply agents tied by modern communications to a number of agencies and the negotiations are really among all the national capitals involved, which means the complexity of multilateral negotiations has increased very, very substantially.

I think it is very easy to get fixated on tariffs and to end up in a situation something like the current one. In saying that, however, I want to acknowledge that I recognize the enormous complexities involved in dealing with what are now the major challenges of international economic integration rather than traditional trade negotiations.

When thinking about a region-wide FTA, I think it is unwise to think in terms of a single agreement which everybody signs up to at the same time. I think we should rather be looking for a set of linked agreements covering a very wide agenda with variable memberships but with clear criteria for new accessions.

I do not underestimate the difficulties of dealing with a new world. The whole notion of the “most favored nation” concept, the multilateralization of agreements among countries, is something which is well worth preserving and must be thought about carefully as we move from specific agreements to a much larger range of agreements among sets of economies.

The specific region-wide FTAs under consideration at the moment are the Trans-Pacific partnerships sometimes known as the Trans-Pacific Special Economic Partnership, Strategic Economic Partnership and until quite recently known as P4, the Pacific 4. At the moment it is a high quality comprehensive agreement among Brunei, Chile, New Zealand and Singapore. Four other countries – Australia, Peru, the United States and Vietnam – have indicated interest in talks about accession and such talks are, in fact, taking place. The notion of an agreement among even that set of eight countries does not, however, actually make a great deal of sense.

As for CEPEA and EAFTA, I agree with what Mr. Urata said about there not being any need to choose among them and if you gives up the idea that you are aiming at a single document then in fact you will not be able to tell whether you are negotiating a CEPEA or an EAFTA.

**Dr. Ram Upendra Das:** I think we need to go back to basics, the whole logic of FTA, which actually strengthens the case for ASEAN+6. If X and Y in Asia sign an FTA, then all other members of Asia would be at a disadvantage in both X and Y and therefore there would be a rush for other countries to sign an FTA with X and Y. This is a self-propelling force because as more countries sign FTAs with each other, more countries would begin to sign FTAs with those countries who have already signed to recover their edge in those markets.

In the wake of the global economic meltdown, the imperative of having larger countries moving ahead with regional economic integration is paramount because we are trying to source internal demand from within the region. The larger the set of countries, the better would be our regional dependence on internal sources of demand.

**Mr. Hidetoshi Nishimura:** I would like to make just one point: what about ERIA? Sixteen countries’ presidents and prime ministers, including Wen Jiabao and Prime Minister Shin have requested ERIA to deepen economic integration in this region in their joint press statement. Although ERIA’s resources are limited, it must consider four areas as the

important issues: the rules of origin, tariff nomenclature, custom-related issues and economic cooperation. This is a common issue. Under the philosophy of ASEAN centrality, ERIA is willing to support ASEAN's initiative.

**H. E. Amb. Ong Keng Yong:** When you look at the FTA in the region, whether it is ASEAN+1, ASEAN+3 or now ASEAN+6, we must not forget that FTA is not the ultimate goal: what we want to have is an open and inclusive region that will help to generate activities, economic growth, national progress and development and will ensure peace and prosperity for everybody.

To get to this open and inclusive region we must use many strategies, including FTAs. These will have four benefits: they will speed up domestic reform, help to entrench multinational corporations and productions network in our region, help to build up new markets, and give us more policy options. We must not rely solely on the WTO, as the ongoing difficulties in concluding the Doha Round testify.

ASEAN has a role to play in this respect as it has the experience and the mechanisms to help us get to where we want to go. I do not think ASEAN wants to be the leader—we are too small to be the leader—but as a small group of countries, we can be a great facilitator and honest broker.

## **OPEN DISCUSSION**

**Dr. Shujiro Urata:** My guess is that four working groups will be set up to discuss issues before they embark on negotiations concerning EAFTA and CEPEA. I suppose that APT ASEAN + 3 may be ready first, possibly with Australia and New Zealand. India has little room for trade liberalization so they may come later.

**Prof. Gary Hawke:** I agree entirely with Mr. Urata on how CEPEA and EAFTA are likely to develop. I think we will end up with quite a variety of groupings of countries which proceed. It is worth noting that the New Zealand-China bilateral trade agreement actually has provisions about the movement of labor from China to New Zealand.

The existing TPP is proceeding very smoothly among those four countries. The specific reason why there have not been problems with the TPP owes a great deal to a provision that ensures the compatibility of TPP with bilateral agreements between peers of member countries. If there is a New Zealand-Singapore free-trade agreement, it is also a TPP. If there is a difference between the texts of those agreements, each individual firm is entitled to choose which set of provisions they want to prevail in dealing with their business.

As far as the talks about expanding P4 into the future are concerned, the initial rounds of talks went well, although the issue of accession and renegotiation will eventually become a significant element. The most significant event in the future is President Obama's visit to Singapore for the APEC Summit conference in November.

**Dr. Shujiro Urata:** When it comes to cooperation, institution building and so on, I think the ASEAN+6 countries can go ahead and do it.

**Mr. Hidetoshi Nishimura:** ERIA is a common asset for 16 countries, so to facilitate any negotiation that needs some research or has some difficult matters to resolve, please farm this task out to ERIA.

**H. E. Amb. Ong Keng Yong:** The ASEAN economic blueprint is an achievement which will require collective action by all 10 ASEAN countries. However, the scorecard system requires somebody to actually examine the progress and performance of each individual ASEAN member country.

By 2015, we will not have 100% identical tariffs, although 70–80% will be in place. Some of the ASEAN member countries, particularly Cambodia, Laos, Myanmar and Vietnam, will need a few more years.

The blueprint includes some provision to deal with non-compliance and non-action, although if a country does not comply it may not be punished

**Dr. Shujiro Urata:** Sixteen countries can participate in the discussions concerning rules of origin, tariff nomenclature, custom-related issues and economic cooperation, and these discussions will show which countries are ready for negotiations. India may lag behind other countries, and Australia and New Zealand may be included from the start.

Utilization rates for FTAs are rather low to begin with but tends to increase with time.

**Mr. Hidetoshi Nishimura:** ERIA is an international organization and a supreme decision-making organization with ASEAN at its core, although ASEAN+6 is currently the maximum.

**Prof. Gary Hawke:** We should not be thinking in terms of when negotiations will start. The moment you have free-trade agreements linking a number of countries, you start to get into discussions regarding the compatibility of those free-trade agreements. How we evolve a free-trade agreement for the region as a whole is a going to be a matter of organizing the

compatibility of these existing sub-regional units.

We are not creating connections between governments—we are trying to provide a means for facilitating what is actually happening in the business community.

Most economies have a pattern of specialization within their industrial structure, but there is much more complementarity among the industrial structures of the economies of the East Asian region than is commonly realized.

**Dr. Ram Upendra Das:** The CEPEA or ASEAN+6 process is going to yield greater welfare, trade and economic gains for the 16 member countries of EAS but also to the rest of the world.

Although India has come to the regional integration process a little late, we have always believed in the multilateral system of trade rules. We are integrating with both ASEAN as a group and individual ASEAN countries, and also outside ASEAN with Japan, South Korea, Australia and New Zealand.

**H. E. Amb. Ong Keng Yong:** The FTA strategy is not just for FTA's sake: it is meant to bring as many countries in the region together to inculcate the habits of consultation and cooperation. The 16 countries in the East Asia Summit are, in one way or another, connected by existing FTAs or FTAs to be developed. The FTAs that we are implementing must bring about some form of restructuring of the market and production networks in the countries covered by the FTA as their aim is to try to diversify the market on which all countries in this region seem to be dependent.

**Mr. Naoyuki Haraoka:** I think that the important thing is to make unified rules of origin among different FTAs as soon as possible. Maybe that should be one of the core areas which the experts should work on from now.

### **SESSION 3**

*What Would be the Future Shape for Regional Economic Integration in East Asia?*

Moderator: Mr. Noboru Hatakeyama

**Mr. P. K. Dash:** The Prime Minister said before leaving for the June 20 Summit that he would like to see a strong message to emerge from Pittsburgh against protectionism in all its forms, whether trading goods, services, investment or financial flows. On 7 August 2009 we signed a trade deal with Korea, a comprehensive economic partnership agreement including goods, services and investment, and a week later on 13 August 2009, we signed a trading



goods deal with ASEAN. In light of the current financial crisis, India wanted to reaffirm its commitment to trade and economic liberalization.

India is a very recent entrant in the FTA scenario. Our earliest, a very limited one, was with Sri Lanka in 1998. Thereafter, we reached framework agreements with ASEAN and Thailand, although we really started our FTA deals with the CECA with Singapore in August 2005. We are currently pursuing a few important trade negotiations. We have done a deal with Singapore, a partial deal with Thailand—the Early Harvest Scheme—which means that nearly one third of our trade is already liberalized. ASEAN trading goods will roll from 1 January 2010. We are also negotiating with Malaysia, and next in the pipeline are Indonesia, New Zealand and Australia.

There is very strong apprehension in the minds of the large economies or economic powers, particularly China, Japan, India. Are they afraid of engaging? The centrality of ASEAN to the East Asia process is the best way to proceed so that nobody feels threatened.

What model should we follow? We have had experience of export-led growth in East Asian countries. Do we want to accumulate huge savings and finance the consumer-led economies of other countries, or do we want to put our domestic savings towards infrastructure and create resources here? We need to remember that 50% of the world's population is here. The poverty alleviation which is a critical concern for both China and Japan requires huge investments in both human and capital infrastructure and that creates new economic opportunities for the entire area.

**Dr. Chulsu Kim:** 2009 marks a significant year from the point of view of East Asian economic integration. The Joint Expert Groups of the two competing regional initiatives, the EAFTA and the CEPEA, have completed their deliberations, and recommendations will be submitted at the forthcoming ASEAN+3 and East Asian Summits in October.

Despite the ongoing global economic downturn, a significant number of regional trade agreements among East Asian countries have either been signed or implemented or for which new negotiations have begun. If the Asian financial crisis of the 1997-1998 was one of the driving forces for East Asian regionalism, the current global economic crisis seems to be acting as a catalyst for strengthening regional economic integration in East Asia.

The ASEAN+1 processes have now been completed, with India, Australia and New Zealand signing agreements. Korea and India recently concluded a comprehensive economic partnership agreement and a number of other countries in East Asia are negotiating or planning new FTA initiatives. As a result, it is expected that many countries in the ASEAN+6 region will soon be linked to one another in an elaborate network of FTAs. This underscores

the urgent need to consolidate the wide-ranging bilateral and plurilateral trade agreements in the region as there is a real danger of inhibiting trade and increasing transaction costs for traders.

The competing proposals for an EAFTA or CEPEA will move in parallel for the time being in the context of ASEAN+3 and ASEAN+6. Senior officials will discuss the recommendations of the Joint Expert Groups and submit their recommendations on when and how to establish working groups on the rules of origin, tariff nomenclature, custom related issues and economic cooperation.

Although the existing trade agreements provide a good basis for extending and consolidating them into a single region-wide agreement, the simple extension or harmonization of these agreements would make it a status quo oriented and low quality agreement in terms of liberalizing trade and investment in the region.

While ASEAN should remain the anchor of any region-wide integration process, China, Japan and Korea are also key to the process. Any region-wide arrangement without the cooperation and accommodation among these three countries would be unthinkable. The missing link today among China, Japan and Korea in the East Asian network of trade agreements must be forged either by the conclusion of a trilateral FTA among the three countries or by a series of bilateral FTAs.

A trilateral FTA between these countries has been under discussion at private level since at least 2003. As the EAFTA and CEPEA processes advance, I believe the time has also come for these three countries to take the next step by initiating a government-level consultation on a trilateral FTA.

**Dr. Hank Lim:** I will address the future shape of regional economic integrations in East Asia. An effective RTA should create a significant enough positive welfare effect on all participating member countries and should result in equitably distributed gains from free trade between members. The gains from this regional trade arrangement should benefit both our region and the world at large. It should create non-static and dynamic effects to ensure non-discriminatory global free trade, and it should be non-discriminatory, therefore it is closer to the first optimal WTO multilateral regime.

Regional integration in East Asia should continue to evolve on a multilevel framework and a parallel process of ASEAN+3 and EAS. Both APT and EAS would propel regional dynamism, energizing and complementing different aspects of regional integration but progressing towards a common goal. A gradual and realistic strategy should be pursued to achieve

feasible EAFTA. Furthermore, a unified ROO regime that incorporates trading services and investment should be created and the overall EAFTA negotiation should be started by 2012.

The main issue that we have to think about is the possibility of the multilateral system being completed, first the Doha Development rounds and then the US joining the EAS, and the possibility of Japan and the US joining the P4.

**Mr. J. Jayasiri:** Economic integration theory and experience have shown us that regional integration requires liberalization and the breaking down of barriers. FTAs are one of the roads that we are taking to achieve this economic integration.

We have to be pragmatic and realistic rather than utopian and idealistic. I have sat through several FTA negotiations and negotiators do not think regional but on the basis of a zero-sum game—they always want to take back the best and leave their adversaries with nothing. This is why you will find that discussions or negotiations become very protracted and what you get at the end of the day is not a high level FTA but something that is, at best, the lowest common denominator.

It has been said that an effective RTA should involve equitable distribution of gains and be non-discriminatory. The very fact that we are negotiating preferential arrangements cannot be non-discriminatory in nature unless you open it up to all WTO members.

In addition to the initiatives discussed, we should not discount the TPP, which is actually a dark horse that may actually precede both the major ASEAN initiatives if things go the way the US wants.

## **OPEN DISCUSSION**

**Mr. P. K. Dash:** Ever since India committed itself to a look-East policy, we have made it very clear that we are looking for tariff liberalization without waiting for an FTA. We have promised to bring tariff levels down to an ASEAN level and we have done that. We visualize all East Asia becoming a market where opportunities are available for every player and there is space for everyone. This is a process to which India is committed and we do not see any reason why A+3 should take precedence over A+6. We are aware of the EAFTA process and the earlier proposal to launch a negotiation but we also find wide divergence in tariff levels, in protectionism and in trade flows. It will be advisable to look at the A+6 and CEPEA process parallel to any FTA engagement.

**Dr. Kim Chulsu:** As the EAFTA process has been ongoing at the private level for much longer than the CEPEA process, I think the Korean government was originally thinking in

terms of the EAFTA process more than the CEPEA process. However, Korea has concluded an agreement with India and is currently negotiating bilateral FTAs with Australia and New Zealand, therefore the position within the Korean government is evolving.

**Dr Hank Lim:** EAS has become a forum for leaders to discuss broad strategic issues. The United States is not in East Asia, but neither are Australia or New Zealand, so the concept of East Asia is geoeconomic rather than geographic. For example, Russia is also very interested in joining.

**Mr. P. K Dash:** India's views regarding RTAs are quite clear—we visualize them as building blocks to a multilateral system. If China, Japan and Korea reach a trilateral agreement, that would be a very powerful building block for the East Asian economic community. India's trading goods deal with ASEAN has pushed India to liberalize far more than it would have otherwise done. Indeed, India is unilaterally reducing tariffs, mostly in the manufacturing sector, and we have liberalized agriculture.

**Dr. Hank Lim:** I am very convinced of the benefits of such a multi-level and diversified development of regional FTAs, as long as ASEAN is the default hub.

**Dr. Chulsu Kim:** It will be very difficult for China and Japan to conclude a bilateral FTA. It has been difficult for Korea to conclude an FTA with Japan but there will be many more issues between China and Japan.

**Mr. J. Jayasiri:** Labor movement per se is not found in most of the FTA negotiations as it is a very difficult topic. Even in the WTO services negotiations you will find some countries are really pushing for movement of natural persons, whereas most countries want to control immigration for security reasons.

**Mr. J. Jayasiri:** The zero-sum nature of the game is something common to most negotiators. They do not want to be seen to have yielded everything and taken back nothing but only to show that we now have an ASEAN+FTA which is good for the region.

**Dr. Chulsu Kim:** Cooperation between East Asian countries began in non-trade and investment-related fields. The Chang Mai Initiative was taken after the Asian financial crisis in 1997/98 and that could be one of the areas where East Asian countries go beyond trade and investment and advance their cooperation in the monetary field.

**Dr. Hank Lim:** A working group has to be set up to tighten and harmonize, to standardize tariff nomenclatures, customs-related issues and other economic cooperation. The scorecard, for example, also needs to be tightened, harmonized and standardized.

Service and investment issues are actually much more important than trade in goods, so if the FTA is only involved in trade in goods, I think we will lag behind market forces. This trade in goods and agreements at the borders cannot be done unless service and investment measures are also taken care of.

The Economic Research Institute for ASEAN and East Asia is issue-driven in the sense that there are already opinions regarding how to increase deepening economic integration.

The very fact that Southeast Asia in particular is a very open region with ideas, technologies, trade investment, and so such an environment would facilitate changes.

## **CLOSING REMARKS**

**Mr. Noboru Hatakeyama:** I would like to express my heartfelt gratitude to each panelist and the audience for participating in this symposium. My impression to this symposium has been very positive and I would like to highlight the most impressive points.

Initially I referred to the fact that exports from FTA-member countries to non-member countries declined less than exports to member countries. This is a very interesting factor which I did not expect to find. The tentative reason I felt was the fact that the outsiders include India and China, which are growing and so a demand effect rather than a price effect is prevailing in this case.

As regards the future shape of the Asian FTA, discussion has concerned a trilateral FTA among Korea, China and Japan. I feel that as South Korea's trade balance with Japan is very large but it runs a rather large trade surplus with China, it may be in the interest of South Korea to have a deficit country on one hand and surplus country on the other, therefore a trilateral mechanism might be better.

As for US participation in this area, Dr. Lim pointed out that since New Zealand, Australia and India are also not involved in, or not included in, the category of East Asia, my argument for excluding the US just because it is a non-East Asia country is not convincing. He is right, but, as Dr. Hawke pointed out, New Zealand lies between Asia and Latin America, whereas the US does not; Australia and India are also in between.

Finally, I would like to express my gratitude to the RIS for co-hosting this symposium and, in

particular, Dr. Dhar and his staff.

**Dr. Biswajit Dhar:** I think you will all agree that we have been treated to a veritable feast of intellectual discourse today. India has time and again shown its commitment to further economic partnership with East Asian countries, and as Mr. Dash has mentioned to you, India has taken a number of initiatives to further our economic partnership with East Asian countries.

Importantly from an Indian perspective, the trade dynamic support is promoting interest in East Asia and East Asian integration. There is a lot to be gained in facilitating the whole process by formalizing or legalizing, as Mr. Dash was mentioning, the entire process through free-trade agreements. I am, of course, not going to comment on the kind of combinations and permutation that we have discussed for Asia—the very variable geometry as it has often been called. On our part, we see FTAs as building blocks towards a trade liberalization process, and the India-ASEAN process clearly took our trade liberalization agenda to a new high as that is when the break from the past really took place.

If you look at the recent performance of India in terms of trade liberalization, it does not compare at all with what we have been seeing previously. We are pushing the frontiers of liberalization further by engaging with more partners from the Southeast Asia region, therefore we are not satisfied with only an umbrella agreement with ASEAN. We have already started negotiations with Malaysia and will be initiating negotiations with Indonesia. We are also going to begin negotiations with Australia and New Zealand very soon and we hope that our longstanding process of doing a deal with Japan will receive a further impetus now that the political situation is more conducive.

My colleagues and I would like thank JEF for having chosen RIS as a partner institution and giving us the opportunity to host this symposium. The only small regret I have is that the seven-minute time slot allocated to each speaker was perhaps too short. I therefore propose publishing a symposium proceeding to provide a more in-depth summary.

Finally, I would like to thank my colleagues, particularly Ram Upendra Das, who have worked tirelessly to make this event a success. I would also like to thank our administrative officer, Col. Bharat Panwar, for taking care of the logistical aspects. There are many more people who I cannot mention individually, but my thanks nevertheless go to all of them.

**Ms. L. K. Ponappa:** I have a deep understanding of FTAs, having been very closely involved with the India-Sri Lanka FTA in 1998 and then the framework FTA with Thailand, which operated in parallel with the India-ASEAN FTA. It is clear that India's engagement with ASEAN, Southeast Asia and East Asia is part of a very clear commitment by successive

governments.

A study of Europe shows that despite over half a century of the European process there are still huge impediments to services and the movement of services between countries. The kind of integration that Asia should seek for itself needs to go beyond trade to issues of investment and services.

As regards growth of protectionism, why are the participants reluctant to implement the law? What is our commitment to rules-based trading? These are very complicated and difficult questions. The overall commitment of India to partnering the rest of Asia as an insider rather than an outsider is irreversible.

An FTA is not designed as an instrument for a crisis but as an instrument to see how an existing relationship can be strengthened. We are here because we have a common commitment to making FTAs work as they have more than demonstrated their role in the growth of trade and goods and, increasingly, trade and services.

Mr. Hatakeyama mentioned his surprise at seeing that there was less trade growth with FTA partners than with non-partners during the crisis. That in itself demonstrates the point that perhaps we are looking at two different things and that we should try to use one as an instrument to support the other.

Thank you very much and congratulations once again to RIS.