

The Next Step in East Asian Economic Integration

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The year 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 reported their findings and recommendations to the region's respective economic ministers in August. The ministers have decided to submit their recommendations to their Leaders in the forthcoming ASEAN+3 and East Asian Summits in October. While no one can predict how the Leaders will decide, it seems likely that the region-wide integration initiatives will move to the next stage which finally involves discussions and consultations at the government-level. It is a significant step forward.

In 2009, despite the on-going global economic downturn, there have been a significant number of regional trade agreements among East Asian countries that have either been signed or implemented, or for which new negotiations have begun. If the Asian financial crisis of 1997-1998 was one of the driving forces of East Asian regionalism, the current global economic crisis seems to act as a catalyst for deepening the regional economic integration in East Asia.

The ASEAN plus One processes have now been completed with India, Australia, and New Zealand signing agreements with the ASEAN. Korea and India recently concluded a Comprehensive Economic Partnership Agreement (CEPA), and a number of other countries in East Asia are negotiating or planning new FTA initiatives with one another. 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. According to the ADB database, as of June 2009, there were 21 FTAs implemented, 11 agreements signed, and 8 FTAs that were under negotiations and 11 more FTAs that had been either proposed or under consultation or under study among the countries in the ASEAN+6 region.

The prospect underscores the urgency for consolidating the wide-ranging bilateral and multilateral trade agreements in the region. Some studies have shown that through the “noodle-bowl effect” of these complicated and overlapping agreements, they have the real danger of inhibiting trade and increasing transaction costs for the traders. Therefore, allowing these extensive and growing regional integration initiatives to remain without consolidating them into a coherent single framework would be undesirable from the point of view of furthering regional economic integration. So what needs to be done?

It appears that 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. The economic ministers have decided to recommend to their Leaders that the Senior Officials discuss the recommendations of the Joint Expert Groups and to submit their recommendations on when and how to establish working groups on the rules of origin, tariff nomenclature, custom-related issues and economic cooperation. Since these issues are core elements of any region-wide agreement, the deliberations of the working groups would be crucial.

However, it is unlikely that the working groups alone would be sufficient to drive the consolidation process. While the existing trade agreements provide a good basis for extending and consolidating them into a single region-wide agreement, the simple extension of these agreements would make it a status quo oriented, low quality agreement in terms of liberalizing trade and investment in the region. The Korea–ASEAN and the Korea-India agreements, for example, are substantially different from other FTAs concluded by Korea with other major trading partners, such as the U.S., European Union, or even Chile, which are characterized by high levels of trade and investment liberalization. On the other hand, Korea’s agreements with the two developing countries in the region, the ASEAN and India, are characterized by long exception lists and phase-out periods with limited WTO plus elements. Therefore, it would make sense for the regional countries to begin a strategic dialogue on the substance of a most desirable trade agreement encompassing the region. This dialogue could be undertaken either in conjunction with or independently from the working group activities being contemplated. A strong endorsement and a clear mandate from the Leaders would be required to begin such a process.

While the ASEAN should remain the anchor of any region-wide integration process, the three countries in Northeast Asia, namely China, Japan and Korea, are also key to this

process. Given their preponderant weight in the regional economy and trade, any region-wide arrangement without the cooperation and accommodation among these three countries in some fashion would be unthinkable. The missing link today among China, Japan and Korea in the East Asian network of trade agreements must be repaired either by the conclusion of a trilateral FTA among the three countries or by a series of bilateral FTAs among them. Their initiatives have so far been hampered by various historical and political economy considerations. The emergence of a new government in Japan appears to provide a fresh opportunity to reassess the positions of the three governments on this issue.

The possibilities of concluding bilateral FTAs among the three appear to be slimmer than the one of concluding a trilateral FTA. The latter has been under discussion at private level at least since 2003. As the EAFTA and CEPEA processes advance, I believe the time has also come for the three countries to take the next step by initiating a government level consultation on a trilateral FTA. This process could move in tandem with other initiatives in East Asia until a clearer picture emerges for the elements of any possible region-wide agreement.