

Asia-Pacific Forum 2015

Panel Session 1: A Decade of the East Asia Summit and Economic Regionalism:
How Can We Pursue Our Growth Strategy and Achieve Structural Reform?

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East Asian Miracle and Asian Paradox

1. In the past three decades under the GATT led by the U.S. and WTO, East Asia (ASEAN plus CJK), especially the four dragon economies, achieved the *East Asian economic miracle* (The World Bank 1993) by adopting an export-oriented development strategy. They enjoyed “unlimited” access to the U.S. market first after WWII and later took advantage of their own geographical proximity to become more functionally interdependent.
2. Since the Asian financial crisis in 1998, East Asian economies have developed a sense of an “East Asian Identity.” Self-help mechanisms among East Asian economies, such as the CMI and ABMI, have been launched to avoid the recurrence of the financial contagion triggered by extra-regional shocks.
3. Despite being immediate neighbors, the leaders of China, Japan and Korea (CJK) met for the first time in history after the Asian financial crisis in 1998. The memories of devastating wars fought against each other, colonial occupation, ideological confrontations during the Cold War and subsequent accumulated mistrust are vivid for all three countries.
4. As China’s PPP-based GDP overtook that of the U.S. in 2015, according to the IMF, the regional hegemonic leadership competition between China’s “Chinese Dream” and the U.S.’ “Pivot to Asia” policy appears to increasingly be on a collision course, causing a new wave of nationalism and heightened hegemonic rivalry, including maritime territorial disputes. Indeed, this phenomenon caused the “Asian Paradox,” asserting the discrepancy between

growing intra-regional economic interdependence on the one hand and backward political and security cooperation on the other.

TPP, AIIB, RCEP, and Domestic Reform as Regional Integration Tools

5. Recently, two great institutional mechanisms have been established to alter the economic and diplomatic landscape of the Asia-Pacific rim. One is the U.S.-anchored TPP and the other is the China-anchored AIIB. Will they counterbalance each other for hegemonic leadership in the Asia-Pacific region?

6. The TPP without China has benchmarked, in many respects, the degree and scope of liberalization contained in the already effective KORUS FTA but upgraded or added some additional trade rules, such as TRIP protection, labor standards, environmental protection, and management of state-owned companies.

7. On the intra-regional trade side, East Asia, as a global manufacturing powerhouse, has not fully used its inborn regional supply chain potential compared to other regional integration efforts observed in the EU.

8. Another mega-economic bloc, RCEP without the U.S., has also been in negotiations by China and the ASEAN leadership. Although less liberalized than the TPP, RCEP nearly equals the GDP and trade volume of the TPP. Both mega deals are viewed as check and balance acts between the U.S. and China.

9. Given the ongoing slow growth, underemployment as the “new normal” and rising economic interdependence between the U.S. and China, both the TPP and RCEP need to be converged down the road as a building bloc toward the early realization of the Free Trade Area of the Asia-Pacific (FTAAP) through trade and investment.

10. China rolled out the AIIB to link the countries that were on the ancient Silk Road routes – those based on land and ocean – through transportation and infrastructure networks. Again, is this initiative also intended to counterbalance the U.S.-led IMF, World Bank, and Japan-led ADB? The AIIB reflects China’s newfound international clout by having 57 prospective members. The UN has addressed the launch of the AIIB as “scaling up for sustainable development” for the concern of Global Economic Governance. For the AIIB to foster

economic connectivity and a new-type of industrialization in Asia, the AIIB should meet global best practices with high standards, particularly related to governance, and environmental and social safeguards.

11. A variety of free trade deals and multilateral funding schemes in Asia requires each country to upgrade its economic system to meet high global standards. Membership for free trade deals and related financing schemes serve as effective external pressure for a country to carry out economic reforms toward more open, competitive, and transparent systems.

12. Korea has concluded the Korea-China FTA, awaiting the National Assembly's approval for effectuation. It is China's first FTA with an OECD economy. Even in the medium term, many experts claim that a TPP without China is half-baked given the increasingly interdependent economic linkages between the U.S. and China. In this context, Korea's joining the TPP is likely to contribute to bringing the TPP and RCEP together. In this regard, Korea needs to carry out another round of comprehensive reforms in the labor sector, finance, education and public enterprises, as it did during the Asian financial crisis to draw the IMF's standby credit under stringent conditions.

13. Though very slow to make progress, negotiations for the China-Japan-Korea FTA need to be accelerated to provide new momentum for Asia-Pacific economic integration. East Asia needs to pursue open regionalism for sustainable global growth.

14. ASEAN is strategically significant because of its size and dynamism, and for being in the Asian economic and security architectures. South Korea, as the fourth largest economy in Asia, is located in the middle of four global powers. ASEAN and Korea together can play a critical role in combining the TPP and

RCEP down the road and in mitigating ongoing political tensions among big powers.

14. Given the complexity and time-consuming process of formulating a formal top-down integration architecture, stronger and effective measures for trade facilitation, such as e-customs services, rule of origin verification, IPR protection, SPS and port-centric management, effective aftercare services for FDI must be pursued at APEC or other multi-lateral fora.

15. The promotion of intra-regional tourism, including student exchanges, could be very effective for job creation and enhancing mutual understanding and cultural exchange. The increasingly prosperous East Asian population should be viewed as a good source for regional tourism development. An early version of an open-sky agreement for low-cost carriers needs to be explored.

16. An intra-regional coordinated mechanism needs to be developed to prevent natural disasters and to handle them once they have occurred due to weather anomalies. East Asian economies should begin more effective collaborations on non-traditional security issues, including nuclear safety, energy security and cyberspace.

Asian Values and a Bottom-Up Approach to Build Mutual Trust

17. Respect for elders and neighbors, harmony in community life, and mutual learning has been at the core of Asian values and prevailed throughout the long history of Confucian cultures in East Asia.

18. Mutual trust cultivated in the Confucian culture in East Asia is a valuable cornerstone for cooperation and public infrastructure and indispensable for peace. The trust-building process requires a consistent approach and the objective recognition of accurate history so that the next generation can move forward. Major regional powers need to be non-aggressive, non-assertive and non-coercive to deepen mutual trust.