

Regional Integration in East Asia: Progress & Forecast



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One of the most prominent features in the world economy since the 1990s is the widespread use of regional trade agreements (RTA). Such a rapid increase in RTAs could be due to globalization; as globalization has intensified, countries need to improve their competitiveness and one of the effective ways of enhancing it is to build a production network, utilizing comparative advantages in other countries. Also, the proliferation of RTAs during the 2000s can be seen as defensive motivation to get around the disadvantages which may come from a country's not having FTAs with trading partners, while its rival countries do. Whatever they were caused by, the increasing number of RTAs and regionalization are dominant trends in the world economy. As is shown in *Chart 1*, RTAs concluded since 1995 amount to 185 as of April 2010, which is more than twice the number of RTAs during 1947~1994, showing that the trend has been rapidly spreading in recent years. Given that the DDA negotiation has come to a standstill for the moment, RTAs are expected to increase further in the future.

Increase in Inter-Regional FTAs and Regional Integration in East Asia

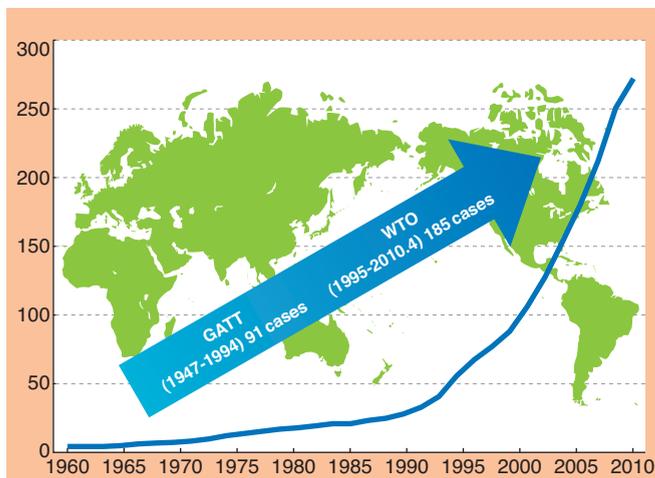
It is since the late 1990s that countries in the East Asian region have actively pursued RTAs. Most East Asian countries were conservative in opening their market bilaterally as well as multilaterally. The Asian financial crisis provided a turning point of moving from passive to active participation in bilateral trade liberalization. South Korea has completed eight FTAs and China has concluded nine. Japan has also signed 12 FTAs (EPAs) and many ASEAN Member countries have completed bilateral FTAs, participating as an individual country or as a member of ASEAN.

ASEAN is located at the center of an FTA web in East Asia. It has concluded five ASEAN+1 FTAs, with China, South Korea, Japan, India, and Australia and New Zealand (ASEAN-CER FTA). In addition to five ASEAN+1 FTAs in East Asia, other inter-regional FTAs have been concluded or are under negotiation or consideration; the Korea-

India CEPA and the China-New Zealand FTA have already been effectuated. The Korea-Australia FTA, Korea-New Zealand FTA, China-Australia FTA and Japan-Australia FTA are under negotiation and many other FTAs are under consideration, including the Korea-China FTA and Korea-Japan FTA. Virtually all possible combinations of inter-regional FTAs are at least under consideration, and some countries are considering having FTAs with some ASEAN Member countries bilaterally in addition to the existing FTAs with ASEAN.

As the number of FTAs among East Asian countries increases, a concern regarding an East Asia FTA (EAFTA) has also risen. The idea of EAFTA is not a new issue in the region. It was the Asian financial crisis of 1997 that prompted East Asians to seriously consider economic regionalism. The first ASEAN+3 Summit Meeting (ASEAN plus China, South Korea and Japan) was held in December 1997 and the East Asian Vision Group (EAVG), which was organized by agreement of the Leaders, recommended forming an East Asian Free Trade Area in 2001. Even though there have been debates and many years of feasibility studies, at this stage the EAFTA (or regional integration in the region) has failed to produce a meaningful result.

Expansion of RTAs in the World

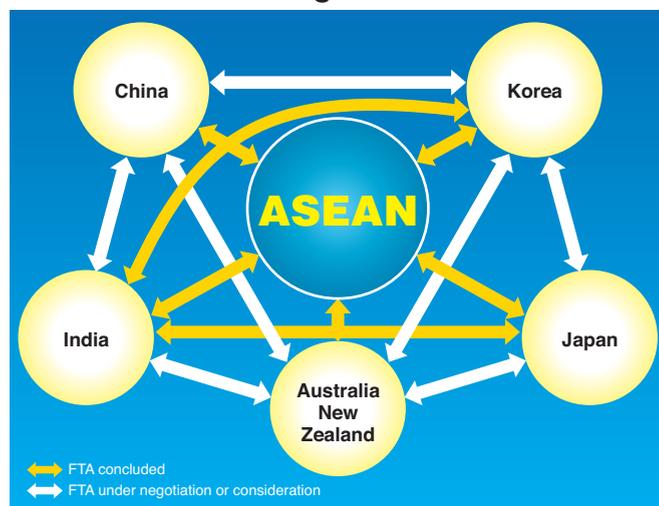


Source: Korea Ministry of Foreign Affairs & Trade (www.mofat.go.kr)

Rationale for Regional Integration

Why is there a rising interest in a region-wide FTA in East Asia while intra-regional bilateral FTAs between East Asian countries continue to proliferate? The worldwide rise of regionalism can be a rationale; facing the expansion of the EU, the success of NAFTA and pursuit of a Free Trade Area of the Americas (FTAA), and Mercosur in South America, building a regional economic bloc, East Asia remains the only region that does not have a region-wide RTA, and the early phases of East Asian regionalism were largely influenced by the rise of worldwide regionalism. Also, regional integration in East Asia can prevent the so-called 'spaghetti bowl effect.' Given the current trend of uncoordinated bilateral FTA proliferation, the complexity of rules of origin resulting from the increasing number of bilateral FTAs between East Asian countries may make intra-regional trade more difficult

Web of Free Trade Agreements in East Asia



rather than easier. Regional integration where East Asian countries can have single rules of origin can be an efficient way of getting around such a possibility. Lastly, increased economic interdependency among East Asian countries can be a basic economic rationale for regional integration. With the increasing global competition, a regional production network becomes an important factor for survival and results in increased economic interdependency among East Asian countries. Constructing a stable production network in the region has arisen as one of the top priorities and regional integration can be viewed as a regional endeavor to achieve a strong, stable regional market and production network.

Obstacles

Despite the fact that countries in the region in general agree on the need for regional integration, there are factors obstructing its formation. The rivalry between China and Japan is one major obstacle, although this rivalry has in fact played a positive role in the proliferation of bilateral FTAs in East Asia. For instance, China's early proposal to ASEAN to form an FTA prompted a swift and similar Japanese one toward the ASEAN countries. In the regional integration process, however, the rivalry had a negative impact. Fearing that the other could have hegemony in its formation, the two countries held each other in check. As a result, there is no common understanding as to the membership and/or coverage of such a region-wide FTA, which are very basic elements in the integration process. Diversity among East Asian countries is another major factor adding to the difficulty. Geographically it encompasses Northeast and Southeast Asia (and even Southwest Asia and some countries of Oceania) and covers a wide range of countries, from developed (such as Japan) to fast-developing (such as China, Vietnam and India) and least-developed countries (such as Laos PDR and Cambodia). In addition, East Asian countries differ significantly in terms of language, religion, and political systems. Given that countries have different backgrounds and economic, political and social situations, combining them into 'regional integration' causes practical difficulties. The more fundamental difficulty lies in the lack of community spirit in East Asia. In particular, the lack of community spirit is evident in the three Northeast Asian countries, which represent 90% of the East Asian economy. In Northeast Asia, there still exists little awareness of being a single region, let alone part of an East Asian community.

Breaking the Status Quo

There has been no significant improvement for regional integration since the initial proposal of EAFTA. One critical point is that there is no FTA among three Northeast countries (South Korea, China and Japan), as opposed to active adaptation of intra-regional FTAs between Northeast and Southeast Asian countries. Japan, China and South Korea are major players in the region, but they fail to have a trilateral FTA among themselves. It seems that discussion about regional integration is at a stalemate; countries keep on undertaking government-level and private-level feasibility studies/discussions, but none of the participating countries takes a leading role. In some sense, this may be due to a possible negative impact on countries' sensitive sectors and it seems that they want to maintain the status quo in the regional economy.

Recently, however, the region faces a possible turning point. One of the catalysts that has entered the region is the recent development of possible FTAs among Northeast Asian countries. The increased possibility of launching Korea-China FTA or Korea-Japan FTA negotiations could be a turning point for regional integration, injecting

and providing a new momentum in forming regional integration. South Korea and China completed the Korea-China FTA feasibility study in 2010 and this has been followed by government-level discussion for bilateral FTA negotiations. South Korea and Japan had six rounds of negotiations in 2004-2005, but failed to reach an agreement. The two governments also continue to discuss the resumption of these negotiations. Whichever negotiations start first, from South Korea's political and diplomatic perspective, the other should follow. This would provide a new momentum and a chance to break the status quo in the regional integration process. Once Northeast Asian countries reach (an) FTA(s), it makes it easy for them to go one step forward toward regional economic integration. Another catalyst that may break the regional status quo could be the development of a Free Trade Agreement in the Asia-Pacific (FTAAP) led by the APEC. Especially, the Trans-Pacific Partnership (TPP) negotiations in which nine Asia-Pacific countries are participating is capturing the region's attention as it can possibly be developed into an Asia-Pacific region-wide trade agreement, replacing FTAAP. In the regional agreements led by Pacific countries such as the US, Australia and New Zealand, some participating countries may have the intention of checking the fast-growing Chinese power and trying to keep an economic and political balance in the region. Ironically, this works as a factor that can shake or break the regional status quo, as it forces China to take an active policy. Unlike other region-wide regional integration debates, TPP is an ongoing negotiation and the region may face challenges and/or changes in the near future.

Conclusion

It is still vague as to when and how regional integration is going to be developed. Diversified perspectives and approaches by different countries in the region make it difficult to conjecture. One positive aspect of regional integration is that countries in the region share the understanding that it is needed for the regional economy. On the other hand, the existence of rivalry and sensitive sectors are negative factors deterring its formation. Having experienced the world financial turbulence in 2008 and facing the development of possible FTAs among Northeast Asian countries, regional integration is encountering a new phase in its development. The decision on regional integration, however, involves the political determination of regional leaders. Building a strong consensus among the leaders on the need for regional integration and ways to achieve it is a required first step for improvement. **JS**

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