

Towards an East Asian Free Trade Area: Progress and Challenges

By *Simon SC Tay*

Introduction: Asia Changes Its Mind

Discussions about free trade in Asia and a possible East Asian Free Trade Area (EAFTA) have changed almost entirely in the last four years. When these initiatives in Asia first arose in 2000, in the wake of the World Trade Organization's (WTO) failure at Seattle, they were controversial and widely criticized.

Many "WTO purists" argued that such efforts were either inconsistent with the world trade rules or unnecessarily distracted from progress at the global level. In the ASEAN FTA, others strongly and unfairly criticized countries like Singapore when they first took this unorthodox step for somehow betraying the group. Participating in the study and negotiation of the Japan-Singapore Economic Partnership Agreement (JSEPA), I remember being greeted with a mixture of skepticism and criticism even from my fellow Asians.

Yet now, in 2004, almost every country in Asia from the giants of China and Japan to the mid-sized ASEAN economies like Thailand, the Philippines and Malaysia are actively pursuing FTAs. The JSEPA is now recognized as the first effort to link North and South East Asian countries, and offers something of a template for further links.

In other regions too, the United States, India, Mexico, Chile and the European Union (EU) are among the many countries also pursuing ways to promote greater trade and market integration.

The lack of progress at the global level has been frustrating, especially after the difficult Cancún meeting in 2003, but there is no desire to abandon the WTO. There is instead some hope that these bilateral and regional efforts can be consistent with world trade rules and indeed can be linked to broader initiatives. Trade initiatives in Asia and a possible future EAFTA should not be seen as aiming to create a "fortress Asia." What is

happening is more benign as countries are acting at different levels and in different circles, at the same time.

Singapore, for example, has a bilateral agreement with Japan, within East Asia, but this has not precluded agreements with non-Asian partners like the United States, New Zealand, Australia, and even the European FTA countries or talks with Mexico and Chile. Additionally, the country is presently negotiating arrangements with India, which is within Asia but not within the ASEAN Plus Three arrangements of East Asia.

Bilateral arrangements have also not been the sole focus, with Singapore actively participating and encouraging wider efforts. The JSEPA has been a trigger and something of a template for Japanese efforts with ASEAN as a whole and individual member states like Malaysia, the Philippines and Thailand, who have begun negotiations with Japan. Singapore has also been strongly supportive of the FTA between ASEAN and China and, within ASEAN itself, an early advocate for the need to widen, deepen and strengthen integration among member states by creating an ASEAN economic community. Similarly, Singapore has pursued not just its bilateral treaty with India but has also encouraged a wider agreement between this South Asian giant and ASEAN as a group.

Similar efforts have been undertaken by other Asian countries like Thailand, South Korea and Japan, to have not only FTAs among Asians but also with significant trading partners across the Pacific and indeed even further afield. These contemporaneous efforts demonstrate, in my view, a practical application of "open regionalism" that the Asia-Pacific Economic Cooperation (APEC) process adopted in principle.

Given these many developments and the underlying change of mind among most governments in the region, what then are the prospects and challenges for a region-wide EAFTA?

EAFTA: Leadership, Power and the Less Powerful

There are technical challenges in concluding an FTA. Consistency with WTO provisions is a necessity, and is becoming more complex. Article XXIV of the GATT (General Agreement on Tariffs and Trade) rules allows regional trade arrangements so long as they include substantially all trade, but there are questions about what precisely this means.

A rule of thumb instead has arisen, requiring a high percentage of the total trade and major sectors to be covered, without large carveouts. Yet there are "grey" areas, and some agreements have been subject to scrutiny and criticism, including those signed by some developed nations, like the members of the EU.

Yet while FTAs include technical issues, they are much more than mere technicalities. Politics guides them. There are considerations of domestic politics as freer trade increases competition, and often affects jobs and livelihoods in sectors that are not competitive. Among a number of Asian countries, including Japan, agriculture is such a sector, with sensitive products like rice.

There are also geopolitical considerations. FTAs in Asia should be considered for their wider political implications. Perhaps the prime example of this has been the ASEAN-China FTA. This has been an important marker of the improved relations between China and its ASEAN neighbors. A relationship that faced strain from economic competition and security concerns like the South China Sea has now taken on a more cooperative and stable character. This is especially as ASEAN member states will benefit from China's offer of an "early harvest" to allow them a preference in entering Chinese markets. The ASEAN-China FTA, initially proposed by China, has been part of what commentators have called China's "charm" (and not

Photo: AP/WWP



Delegates attending the inauguration ceremony of the WTO meeting in Cancún, Mexico

armed) offensive.

In this light, we should see that promoting an EAFTA must be linked to thinking about Asia's regional order in broader terms, as well as about the international order.

The ASEAN Plus Three process that has brought ASEAN together with three North East Asian countries (China, Japan and South Korea) has made progress in fostering cooperation in a number of areas, such as arrangements to prevent financial crisis and to address the spread of public health threats like severe acute respiratory syndrome (SARS). The ASEAN Plus Three will evolve to an East Asian summit and, while the steps are modest, it is the central effort at regionalism in East Asia today.

Despite this progress, East Asia faces a lack of leadership, although there are the obvious potential roles of China and Japan. There are past, present and potential tensions in their relationship, both directly and in relation to the rest of the region. Without a rapprochement and partnership between these two East Asian giants, the region lacks strong and accepted leadership.

In this gap, a form of leadership has, by default, fallen to the small to medium-sized countries of ASEAN. Free trade negotiations by ASEAN with China, on one hand, and with Japan, on

the other, have placed ASEAN at the center of regional FTA efforts. It is for a similar reason that the leadership of the less powerful ASEAN, rather than a North East Asian leader, has been accepted in the present process of the ASEAN Plus Three.

This may not be sufficient for an EAFTA and broader questions of East Asian regionalism in the medium to longer term. ASEAN leadership is, however, all that may be acceptable at present and can help pave the way to greater exchange and confidence among all countries.

Yet while ASEAN offers a form of leadership, the association itself is not monolithic. Differences exist between ASEAN member states, including their will and ability to conclude FTAs. These differences often reflect their diversity in politics, economic structures and social development as well as more temporary events, like the elections and political transitions that are due in several member states, especially Indonesia and the Philippines.

For ASEAN to continue to play its part in promoting a wider East Asian regionalism and an EAFTA, it is essential that the member states of the association proceed to broaden, deepen and quicken their own economic integration. It is therefore significant that the ASEAN

leaders proclaimed, at their 2003 summit, their ambition to form an ASEAN economic community (AEC).

These efforts to create an AEC can and should be pursued in tandem with the pursuit of ASEAN agreements with China and with Japan. Rather than ASEAN disintegrating as East Asia regionalism grows, medium-term efforts would be best served if ASEAN coalesces and serves as a more tighter knit core for the wider regional efforts.

In this effort, one of the most important issues that must be addressed is the place and pace for the newer and less developed ASEAN member states, especially Cambodia, Laos and Myanmar. The developmental needs and priorities for these countries must be addressed in tandem with efforts at market opening and integration, so that all ASEAN member states can see and reap the promise of benefits from freer trade and closer economic cooperation.

In this regard, whether it is ASEAN who leads by default or China and/or Japan, it is essential to emphasize the need for benevolence in leadership. This benevolence must take great effort to include and ensure benefit to all in the region. The long term good for all, rather than the short term calculations of narrow national interest must guide those who would lead East Asia. In terms of a potential EAFTA, this would mean a willingness of a country to open up those sectors that matter most to its regional partners, and not just those that would benefit its exporters.

■ Visions and Models

In seeking a path towards an EAFTA, some call for visions to be clearly articulated and agreed. Some also look to existing efforts in the EU as models to be emulated. It was for these purposes that an East Asia Vision Group (EAVG) was formed in 2000 and has already reported to the ASEAN Plus Three leaders. There are many interesting and potentially useful recommendations in their report; some of which have already begun to be considered and put into place. The rec-

ommendations in the report were, however, perhaps too many and too varied to constitute a clear and enduring vision.

I am among those who wish for such visions and who are open to adaptive thinking from other regions. Yet I would caution against easy assumptions in setting visions and adopting models. Therefore, allow me to make some broader comments about a vision for East Asia before turning to an important point of difference that I believe the region and EAFTA must navigate.

There are many reasons to hope for a more coherent framework for cooperation and a greater sense of institutional identity in East Asia. Many relate to the inability of the region to sufficiently respond to regional problems, whether it was the Asian financial crisis that began in 1997, the spread of SARS in 2003, or other challenges relating to politics and security, or the environment.

There has been a growth in regional interdependence, but regional institutions and arrangements have not kept pace. An increase in regionalism could create appropriate mechanisms to better handle the many interdependencies that arise from regionalism as well as the negative effects of globalization.

Countries in the region otherwise may fail to cooperate and synergize, and tend to depend upon and be dominated by the United States and international institutions. While this has been reassuring for many, as a pattern they have grown up with since the end of World War II, this American primacy and predominance chafes at other times. This especially felt when American imperatives may run counter to Asian sentiments or where international institutions call for remedies that may not fit regional circumstances, as the International Monetary Fund was felt to do during the Asian crisis.

The visions for East Asia regionalism in this context run towards three possible paths. The first of these is that the countries of the region will fail to cohere more closely and will continue to be dominated by the United States. The second path is that East Asians will

cohere but with a more closed, exclusionary sense of identity and ambition to actively counter American influence. The Asian values debate and statements by some Asian leaders, like Malaysia's long time premier, Dr. Mahathir Mohamad, tend in this direction. A third path is for East Asians to work and identify more closely with each other, but remain more open to partners in the West and elsewhere, and more international in their outlook and practices.

This third path, which I hope will prevail, can be described as a search for Asian identity without exceptionalism, open to what is universal. On this path, the predominance of the United States in the region may recede but at a pace that is comfortable to all, in tandem with a growing confidence, unity and equity among Asians, rather than the rise of a regional and perhaps less benevolent power.

The EU has been the most ambitious experiment in regional integration and the pooling of sovereignty. Earlier architects and observers of the Asian way expressly rejected European modes of cooperation in seeking their own regionalism, for ASEAN, East Asia and even APEC. Others, including myself, are open to considering how the European enterprise could hold out lessons for the modes of East Asian regionalism. Imitation and blind adoption are not, however, useful principles.

There are, at first glance at least, areas in which ASEAN and East Asia will continue to differ from Europe. These include the large transfers of funding that Germany and the larger European economies have used to ease the process of membership and harmonization with the poorer countries of the South. At present there is no political will in Asia to replicate this. It may also not be feasible, at least with the ASEAN economic community, given that it is the smaller countries like Singapore and Brunei that have a higher per capita income (rather than the larger) and the total size of their economies are therefore limited. But most of all perhaps it is that our concepts of development and how we

should foster development have changed to recognize that funding is not of itself a solution and can often breed longer term and unintended negative effects, including dependency.

Other areas of difference that the region must navigate will be in the movement of people and the harmonization of tariffs towards a customs union. The great differences between one country and another in the region preclude uniform rules. This challenge is not insurmountable. One innovation may be to band countries in two or three tiers to deal with these sensitive areas to limit their divergence but allow necessary differences. Significantly, this approach was adopted in a report from the ASEAN Institutes of Strategic and International Studies (including the Singapore Institute of International Affairs), in supporting the creation of an AEC. Similar approaches in harmonization have been used in the EU, even where the range of difference is not as wide as in East Asia.

A further and pressing item on the agenda of ASEAN and East Asia is to consider how to innovatively address the developmental gaps between the rich and poor in the region as we proceed with FTAs and deeper economic integration. If we do not address these issues, the pace and depth of participation by the poorer and weaker countries will, understandably, be slower. We should do all we can to ensure that as hope, rather than fear, pressure or the hope of easy funding, guide the actions in bringing East Asia together.

Helping constitute an institutional identity for East Asia will perhaps be the most important undertaking for East Asians for the next generation. In this, the EAFTA is both an important part of the process and a potential benefit not only for the governments of the region but for our peoples and societies. **JS**

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