

Institutionalization of Regional Economic Integration in East Asia

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I. Introduction

- Background: Advances in regional economic integration in the world, particularly in Western Europe, North America, and East Asia. Two types of drivers of regional economic integration, market forces and regional institution through free trade agreements (FTAs).
- The Objectives of the Paper:
In absence of region-wide FTA in East Asia, examine the prospects of establishing a region-wide FTA in East Asia

II. Market-Driven Regionalization in East Asia

Empirical Observations

- Expansion of intra-regional Trade
- Expansion of machinery trade, in particular electronics trade
- Expansion of trade in parts and components
- Establishment of regional production networks by multinational corporations: formation of foreign trade-foreign direct investment (FDI) nexus

Intra-regional Trade in Total Trade (%)

	Exports		Imports	
	1995	2005	1995	2005
East Asia	47.4	49.9	54.7	59.1
NAFTA	46.2	55.1	40.5	38.3
EU25	66.1	66.3	68.9	66.1

Commodity Composition of East Asian Trade (% of total exports/imports)

	Exports		Imports	
	1990-94	2000-04	1990-94	2000-04
Machinery	46.6	53.6	34.3	41.8
Power gntr	1.9	1.7	2.1	1.8
Indstral & metal wrki	6.8	6.3	9	6.8
Electronic	15.9	19.4	7.5	11.6
Electrical	11.1	16.8	9.7	18.1
Autos	9.0	7.7	3.7	2.3
Oth. transpt	1.8	1.7	2.3	1.2

Share of Parts in Electronics Trade: 2002 (%)

Exporting Regions	Importing Regions			
	East Asia	NAFTA	EU	World
East Asia	77.9	42.8	48.3	62.0
NAFTA	72.1	45.2	47.7	51.7
EU	64.0	48.9	40.7	43.6
World	75.9	44.4	43.1	54.3

Drivers of Regional Economic Integration in East Asia before the late 1990s

- Market forces: Unlike the days of developmental states
- Unilateral Trade and FDI Liberalization

Trade Liberalization in East Asia

(tariff rate %, simple averages)

		All products	Primary	Manufactures
China	1992	40.4	36.1	40.6
	2004	9.8	10.0	9.7
Indonesia	1989	19.2	18.2	19.2
	2003	6.4	8.0	6.1
Korea	1988	18.6	19.3	18.6
	2002	15.5	20.9	7.8
Malaysia	1988	14.5	10.9	14.9
	2003	7.3	4.5	7.8
Phillipines	1988	28.3	29.9	27.9
	2003	4.5	5.7	4.2
Thailand	1989	38.5	30.0	39.0
	2003	14.0	16.4	13.5

III Institution-Driven Regionalization in East Asia

Drivers of Regional Economic Integration in East Asian shifted from market forces to institutions since the late 1990s

- Proliferation of bilateral and plurilateral FTAs
- Expansion of regional cooperation: e.g. Financial arrangements such as Chiangmai Initiative (Currency swap)
- Region-wide FTAs Proposals: East Asia FTA (ASEAN+CJK), CEPEA (ASEAN+CJK+India+Australia+NZ)

Major FTAs Involving East Asian Economies (as of August 2009)

In effect		In negotiation	
Bangkok Treaty(1976)	Singapore-India(2005)	Japan-Korea	China-Singapore
AFTA(1992)	China-Chile (2006)	Japan-GCC	Malaysia-Australia
Singapore-NZ (2001)	Korea-Singapore(2006)	Japan-Vietnam	Malaysia-NZ
Japan-Singapore (2002)	Japan-Malaysia(2006)	Japan-India	Malaysia-Pakistan
Singapore-Australia (2003)	Korea-EFTA(2006)	Japan-Australia	Malaysia-US
Singapore-EFTA (2003)	Korea-ASEAN(2006)	Korea-US*	Singapore-Canada
Singapore-US (2004)	Singapore-Panama(2006)	Korea-Canada	Singapore-Mexico
Korea-Chile (2004)	Japan-Chile (2007)	Korea-India	Singapore-Egypt
China-Hong Kong (2004)	Japan-Thailand (2007)	Korea-Mexico	Sigapore-Qatar
China-Macao(2004)	China-Pakistan (2007)	Korea-EU	Singapore-Peru
Singapore-Jordan(2004)	Japan-Philippines(2008)	China-Australia	Thailand-EFTA
Japan-Mexico (2005)	Japan-ASEAN(2008)	China-NZ	Thailand-India*
China-ASEAN(2005)	Japan-Indonesia(2008)	China-GCC	Thailand-US
Thailand-Australia(2005)	Japan-Brunei(2008)	China-Pakistan	ASEAN-CER*
Thailand-NZ(2005)		China-SACUFTA	ASEAN-India*

Notes: * indicates that treaty has been signed and waiting for the ratification by the legislative bodies.

Source: WTO website and respective government sources.

Characteristics of FTAs in East Asia

Comprehensive contents: Three pillars of APEC

- Trade and FDI liberalization
- Trade and FDI facilitation
- Economic cooperation

Motives behind FTAs in East Asia

- Increase market access: expansion of FTAs in the rest of the world
- Promote domestic reform
- Rivalry between and among the countries (China and Japan) for gaining a leadership role in the region
- Promote regional cooperation
- Improve business environment for MNCs
- Secure energy

Economic Impacts of Comprehensive Region-wide FTAs: Simulation Analysis

- Scenario: East Asia FTA, ASEAN+1 FTAs, CEPEA
- Simulation 1: Trade liberalization
- Simulation 2: Trade liberalization and facilitation
- Simulation 3: Trade liberalization and facilitation and economic cooperation

Tariff Protection in East Asian Countries (%)

	Japan	China	Korea	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Other Southeast Asia	Australia	New Zealand	India
Agriculture and food	30.2	37.6	81.7	13.9	5.0	17.1	9.5	0.4	29.4	36.6	20.4	2.8	2.0	50.2
Fishery and forestry	1.8	0.7	6.9	2.7	0.6	0.2	0.5	0.0	10.3	3.9	1.0	0.1	0.0	6.8
Mining	0.0	0.3	3.7	0.7	0.3	1.6	3.2	0.0	0.2	3.8	2.6	4.9	0.0	16.2
Textile and apparel	9.0	20.5	10.0	11.1	8.6	12.3	6.5	0.0	18.5	31.3	10.1	17.0	6.0	26.6
Wood and paper	1.1	9.0	4.0	5.4	3.4	6.6	4.7	0.0	11.0	14.7	5.3	3.6	1.1	22.0
Mineral products	1.1	13.0	6.7	5.2	4.4	5.9	4.5	0.0	11.7	7.8	5.4	3.0	1.3	28.8
Iron and steel	0.5	7.5	3.8	5.6	5.9	8.5	3.9	0.0	9.3	5.1	3.5	3.6	1.4	33.6
General machinery	0.1	13.1	6.1	3.3	3.0	3.9	2.3	0.0	8.2	8.0	6.0	3.5	2.1	25.4
Electronic machinery	0.0	10.1	1.1	0.8	2.1	0.4	0.1	0.0	4.7	8.8	8.8	0.8	1.2	15.1
Transport equipment	0.0	20.5	3.9	14.6	9.6	31.7	11.5	0.0	24.0	46.9	25.0	12.9	3.5	27.4
Other manufacturing	5.3	13.9	8.5	6.1	6.5	6.8	6.1	0.0	7.1	20.2	13.7	5.2	3.8	33.8
Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport and communication	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All	4.1	11.6	8.5	4.0	3.6	4.7	2.8	0.0	8.8	10.3	9.0	4.3	1.7	21.8

Impacts on GDP (%)

	EAFTA (ASEAN+3)			(ASEAN+1)x5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	0.01	0.44	0.44	-0.01	0.10	0.05	0.54	0.54
China	0.13	1.66	4.72	0.01	0.20	0.14	1.77	4.84
Korea	1.13	3.56	3.55	-0.04	0.20	1.15	3.72	3.71
Indonesia	0.07	1.74	3.94	0.07	1.00	0.07	1.94	4.14
Malaysia	0.39	5.83	8.62	0.51	3.30	0.50	6.21	9.00
Philippines	0.21	3.94	6.28	0.20	2.20	0.25	4.18	6.52
Singapore	0.06	4.22	4.24	0.10	2.30	0.05	4.40	4.42
Thailand	0.68	4.49	7.02	0.80	2.80	0.74	4.78	7.32
Vietnam	2.21	7.08	9.67	2.33	5.00	2.25	7.33	9.92
Other Souteast Asi	0.09	0.88	2.91	0.11	0.50	0.10	0.92	2.95
Australia	-0.03	-0.09	-0.09	0.01	0.20	0.16	1.35	1.35
New Zealand	-0.03	-0.06	-0.06	0.00	0.10	0.10	1.87	1.87
India	-0.04	-0.10	-0.10	0.31	0.50	0.41	1.30	3.45
Hong Kong	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
Taiwan	-0.06	-0.09	-0.08	-0.03	0.00	-0.07	-0.10	-0.10
NAFTA	0.00	-0.01	-0.01	0.00	0.00	0.00	-0.01	-0.01
EU15	0.00	-0.01	-0.01	0.00	0.00	-0.01	-0.01	-0.01
Rest of the World	-0.03	-0.06	-0.06	-0.02	0.00	-0.03	-0.08	-0.08
ASEAN	0.36	3.60	5.67	0.41	2.14	0.39	3.83	5.89
ASEAN+3	0.14	1.18	1.93	0.04	0.30	0.17	1.30	2.05
ASEAN+6	0.12	1.02	1.68	0.05	0.31	0.19	1.30	2.11

Impacts on Welfare (\$million)

	EAFTA (ASEAN+3)			(ASEAN+1)x5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	6,436	29,554	29,336	-903	1,935	7,048	32,656	32,363
China	624	17,952	54,233	-1,457	-301	634	18,964	55,270
Korea	5,945	18,819	18,719	-267	631	6,264	19,787	19,690
Indonesia	693	4,527	7,906	1,733	4,139	1,165	5,270	8,661
Malaysia	1,466	10,443	13,393	3,400	8,717	2,523	12,029	15,040
Philippines	139	3,367	5,054	422	2,334	122	3,457	5,142
Singapore	1,802	7,610	7,765	2,822	6,391	2,046	8,236	8,389
Thailand	2,851	8,815	11,872	3,878	7,421	2,645	8,829	11,888
Vietnam	633	2,723	3,488	942	2,243	645	2,813	3,578
Other Souteast As	-27	691	2,338	12	404	-1	729	2,379
Australia	-723	-1,684	-1,694	-152	359	4,832	11,669	11,682
New Zealand	-146	-230	-224	-10	82	267	1,655	1,669
India	-510	-1,049	-1,077	-602	-79	-885	2,744	13,124
Hong Kong	-460	-691	-487	-69	-40	-515	-798	-589
Taiwan	-1,522	-3,228	-3,250	-753	-1,290	-1,773	-3,637	-3,659
NAFTA	-4,526	-11,843	-12,476	-2,541	-5,016	-5,893	-14,282	-15,022
EU15	-3,154	-7,263	-7,710	-2,267	-4,048	-4,112	-8,942	-9,502
Rest of the World	-2,971	-9,606	-10,038	-1,721	-3,787	-4,311	-13,410	-13,933
ASEAN	7,557	38,174	51,816	13,209	31,648	9,145	41,364	55,078
ASEAN+3	20,562	104,500	154,104	10,581	33,913	23,091	112,771	162,401
ASEAN+6	19,183	101,536	151,110	9,818	34,276	27,305	128,839	188,875

IV. Future Prospects of Region-wide FTAs in East Asia

- * Deal with opposition to trade and FDI liberalization: Formulate medium-level FTA and pursue further trade liberalization following the agreed and committed schedule. Provide adjustment assistance.
- * Sequential approach: economic assistance first, and then trade and FDI facilitation, and finally trade and FDI liberalization.
- * Promote a variety of cooperation including energy and environment, financial, others
- * Strong political leadership and public support