

*East Asian economic integration:  
critical policy choices*

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**APEC Studies Centers Consortium**

**Phuket, Thailand**

**May 2003**

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## ***Motives for economic integration***

- **A political desire to ‘get closer’ to some other nation or region.**
- **Closer integration of economies is seen as a spur to greater efficiency and competitiveness.**
- **New partnerships can deal with new issues;**
  - **beyond those addressed by the WTO**
- **They can promote ‘competitive liberalisation’, which encourage a general trend of openness.**

# *Who are the players?*

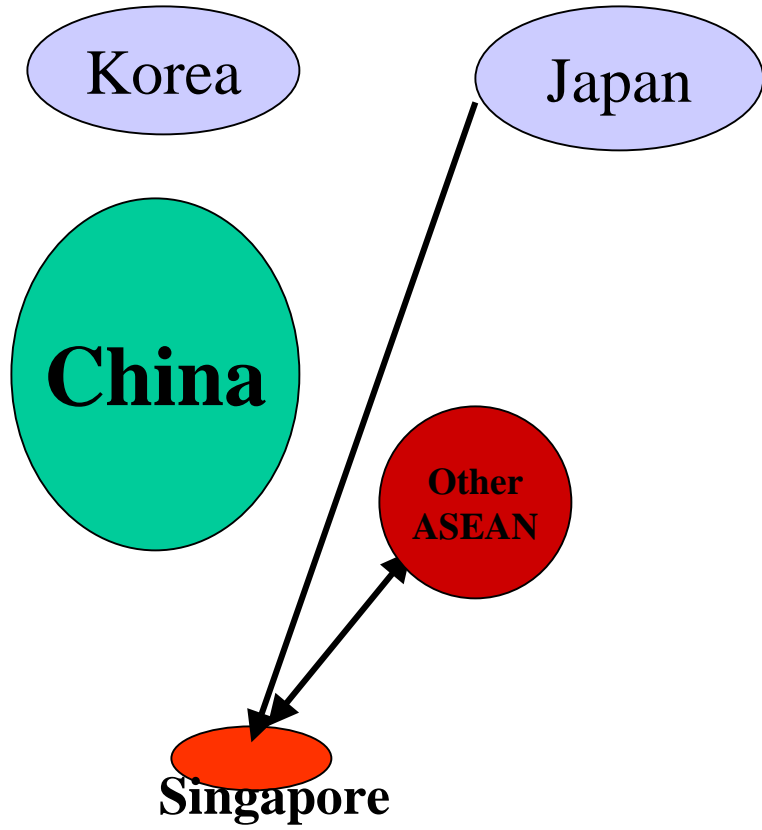
Many options have been considered, including:

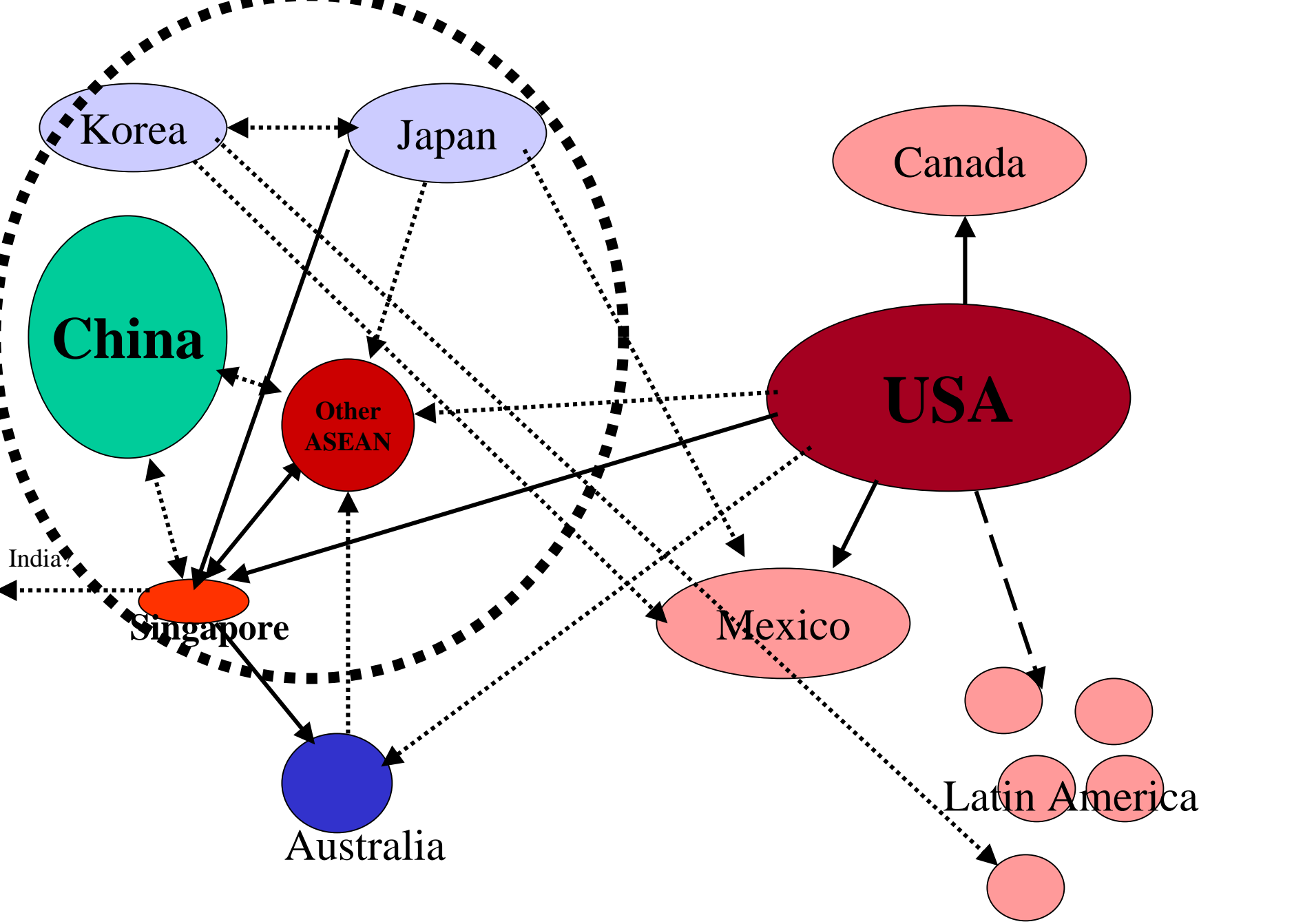
- An **ASEAN** Common Market;
  - which would follow up the completion of AFTA with co-operation on non-border issues, such as trade and investment facilitation.
- Options for co-operation among **China, Korea and Japan**.
- A potential **East Asian Economic Community** which would draw together both Northeast and Southeast Asian economies.
  - Such a community might then take its place along the European Union and a potential FTAA.

## *What kind of new partnerships?*

- Most new economic partnerships are built around a core of a Preferential Trading Arrangement (PTA)
- They also deal with matters such as customs procedures, contingent protection, dispute settlement, factor mobility, competition policy, e-commerce and more ...







# *Uncertainties*

- The proliferation of CEPs has introduced considerable uncertainty into the multilateral trading system;
- Setting off defensive reactions
  - leading to a mess
  - ‘spaghetti-bowl’ or ‘hub-and-spokes’

## *Systemic risks*

- **diversion of effort from the WTO and the Doha Round:**
- **possibly fragmenting the multilateral trading system into trading blocs:**
  - two blocs?
  - or three blocs?
- **risks of an East Asian bloc:**
  - is it desirable?
  - is it feasible?

## *Can PTAs be linked?*

- The preferential agreements being reached seldom tackle the really ‘sensitive sectors’
  - This tends to restrict the choice of partners as well as the sectoral coverage of agreements.
- More and more negotiations are starting for essentially defensive reasons.
  - Such new discriminatory deals will not coalesce smoothly into wider zones of free trade.

## *Towards a more coherent strategy*

- What are we seeking to achieve through economic integration?
- What policy instruments are available?
- **Match instruments to objectives.**

## **Promoting economic integration**

- **Identifying and reducing impediments which increase the costs of risks of international commerce among a group of economies.**
- **Finding effective ways of reducing these impediments**

## *Impediments to economic integration*

- **border barriers**
  - to trade in products and factors of production
- **uncertainty**
  - for example, contingent protection
- **divergence in**
  - standards
  - administrative procedures
- **physical impediments**
  - for example, transport and communications networks

# *Policy options for reducing impediments*

- **Unilateral policy reforms**
- **Voluntary co-operation among groups of economies**
  - Bilateral or sub-regional?
  - East Asia-wide?
  - APEC-wide?
- **Formal agreements among groups of economies**
  - Bilateral or sub-regional?
    - Including possible PTAs
  - East Asia-wide agreements?
- **Strengthening multilateral disciplines on policies which create impediments**
  - WTO

***policy options***

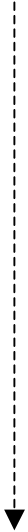
***Unilateral***

***Voluntary  
cooperation***

***Formal  
agreements***

***WTO***

**Issues**



**policy options**

**Unilateral**

**East Asia**

**Voluntary  
cooperation**

**APEC**

**Formal  
agreements**

**WTO**

**Issues**



**policy options**

**Unilateral**

**East Asia**

**Voluntary  
cooperation**

**APEC**

**CEPs**

**Formal  
agreements**

**East Asia**

**WTO**

**Issues**



## *Matching objectives and instruments*

### **Border barriers to:**

- **trade in products**
  - trade in goods
  - trade in services
- **movement of factors of production**
  - capital
  - labour
- **What are the policy options for reducing these barriers?**

## *Border barriers to trade:*

- Sensitive issues
  - Agriculture
  - Textiles and clothing
  - Motor vehicles
  - Long-term migration of unskilled labour
  - etc.
- Easy issues
  - Most other goods and services
  - Short-term travel for business
  - etc.

**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**CEPs**

**Formal agreements**

**East Asia**

**WTO**

**Issues**

**Border barriers**

Easy

Yes

Yes

Yes

Don't  
need

Don't  
need

Can  
bind

Hard

Can  
dodge

Can't  
link

Can  
negotiate  
some

**policy options**

**Unilateral**

**East Asia**

**Voluntary  
cooperation**

**APEC**

**CEPs**

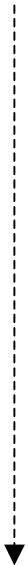
**Formal  
agreements**

**East Asia**

**WTO**

**Issues**

Facilitating  
trade and  
investment



**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**CEPs**

**Formal agreements**

**East Asia**

**WTO**

**Issues**

Facilitating trade and investment

- processing passports

Within limits

Could move ahead of APEC

Yes (may be pioneered among some)

Yes

???

Too many players

**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**Formal agreements**  
**CEPs**

**East Asia**

**WTO**

**Issues**

Facilitating trade and investment

- mutual recognition



- harmonisation of regulations and procedures



Within limits

and  
(can deal with issues one at a time)

Could move ahead of APEC  
and  
(can deal with issues one at a time)

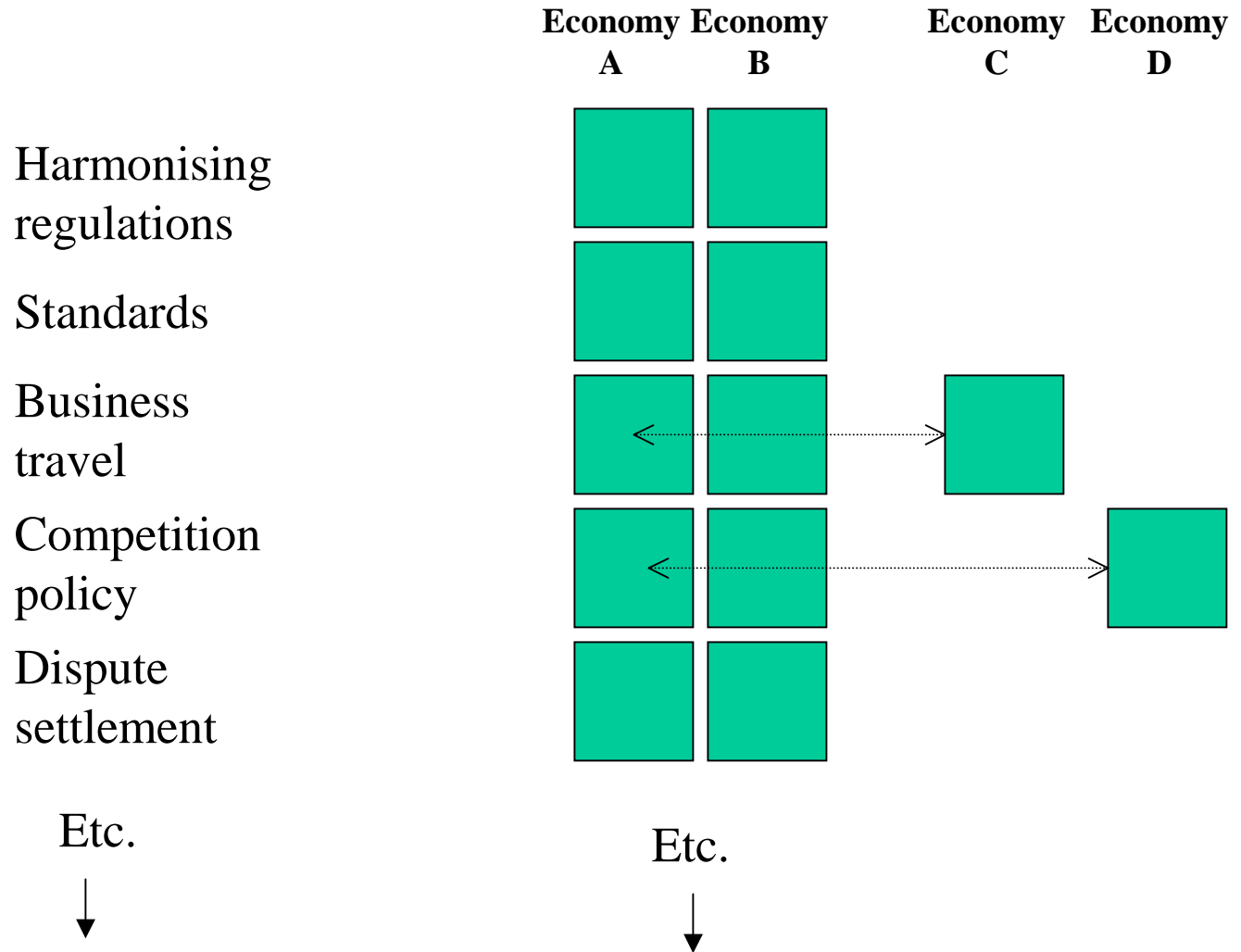
Yes  
(may be pioneered among some)  
and  
(can deal with issues one at a time)

Yes  
(but tend to deal with many issues at the same time)

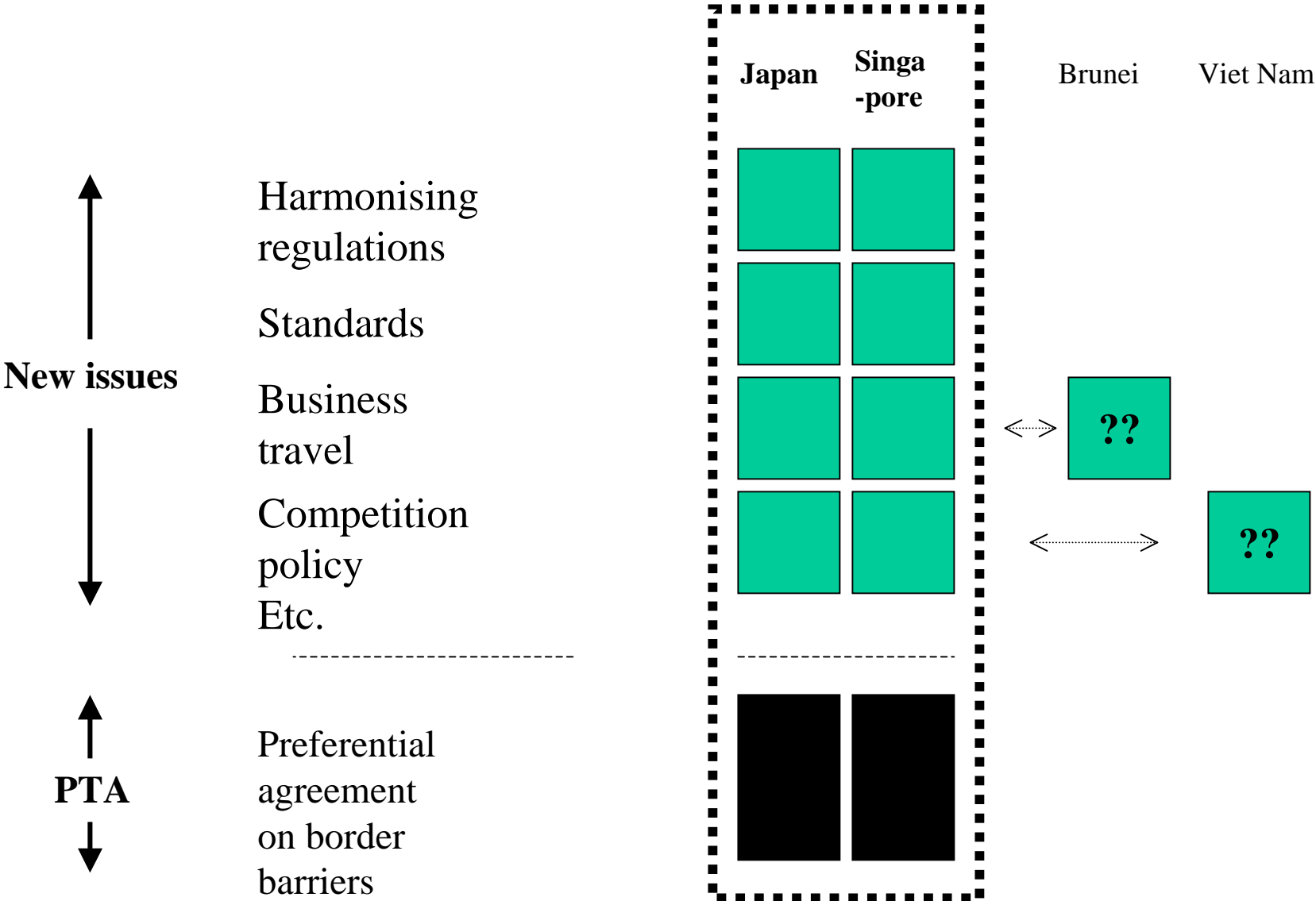
???

Too many players

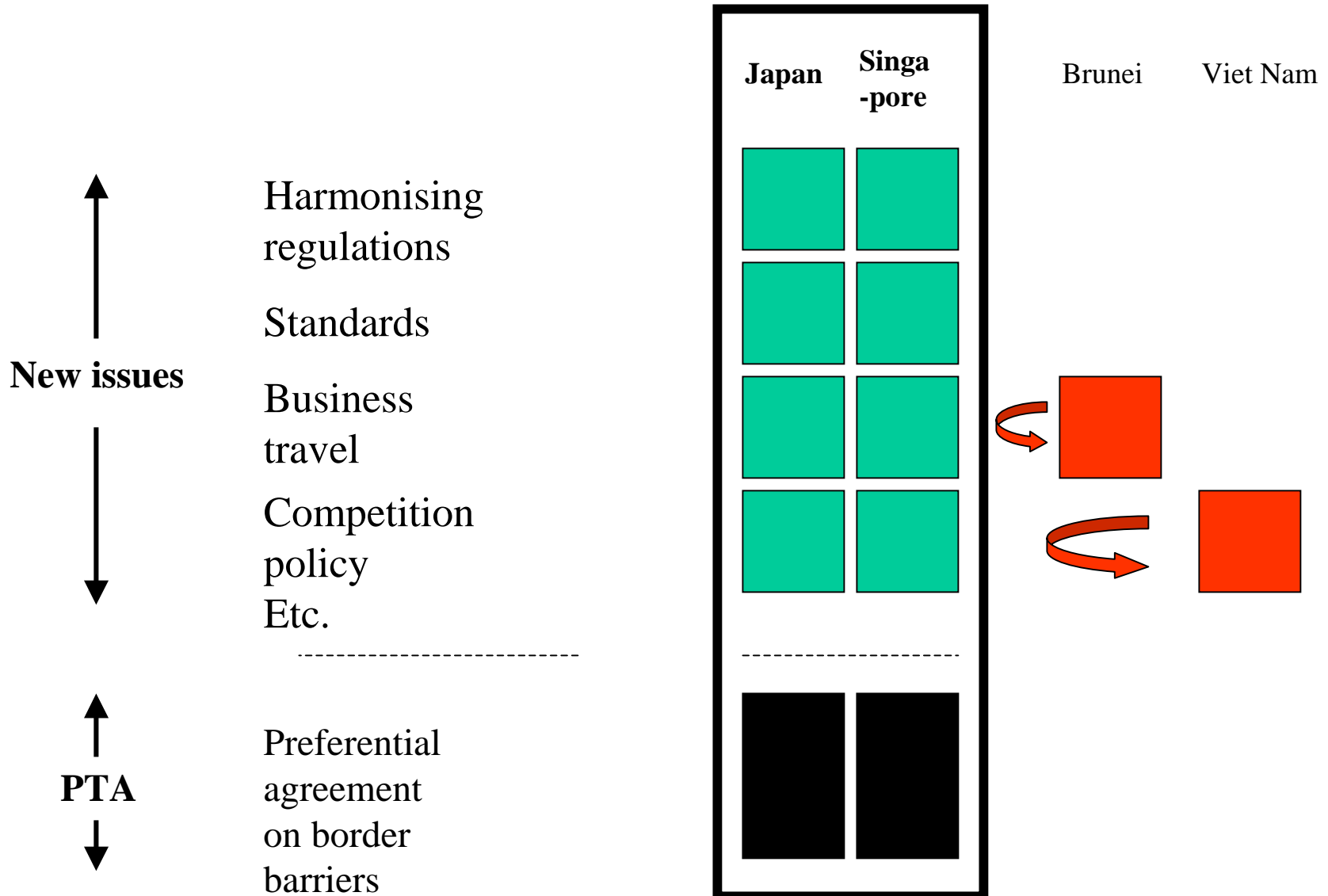
# *East Asia wide facilitation*



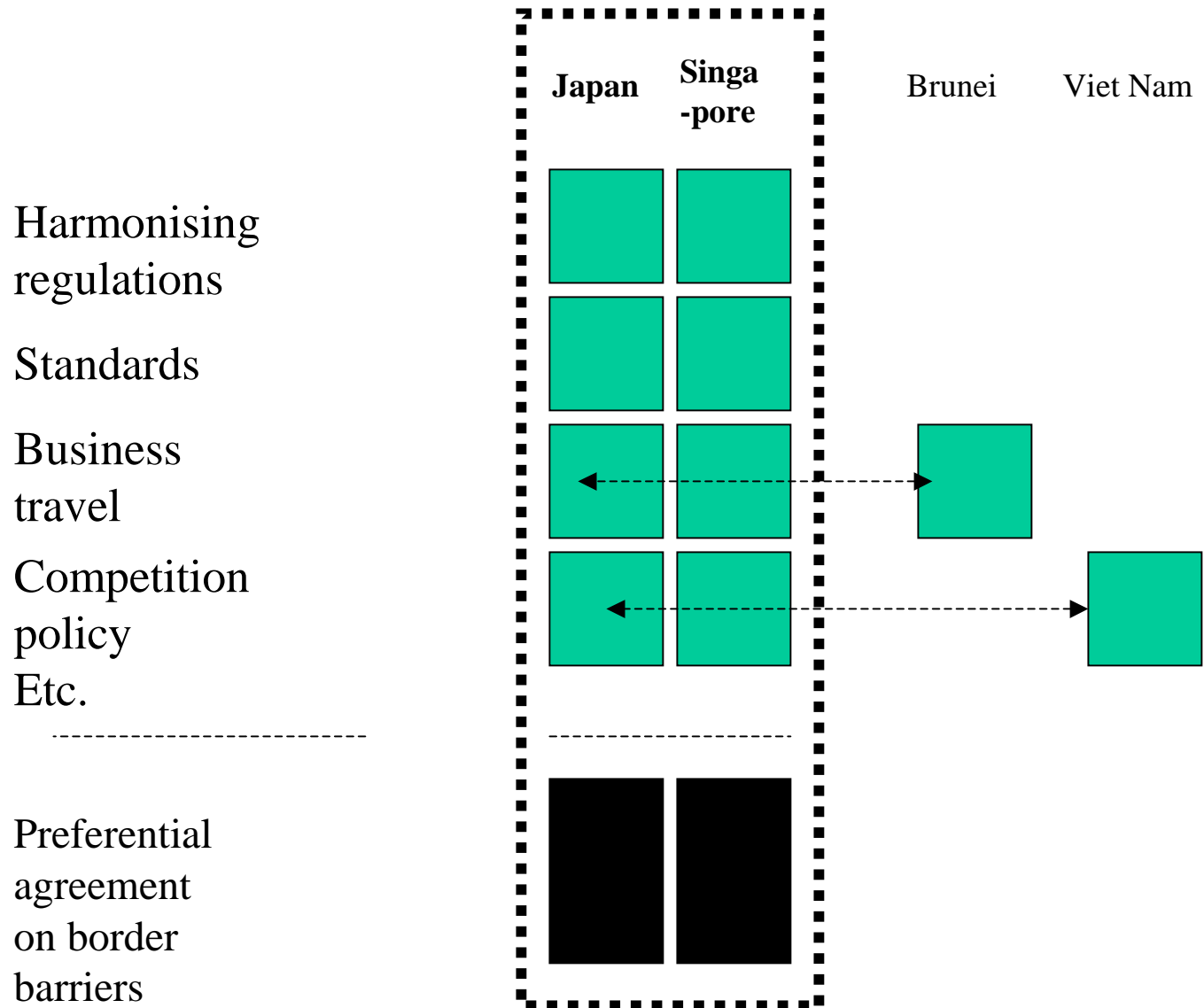
*CEP = PTA + arrangements for facilitation*



# An 'aquis communautaire'?



# East Asia wide facilitation



## *Designing better CEPs*

- will need to look at principles for PTAs
    - which may be embedded in CEPs
- and
- principles for the many co-operative arrangements to facilitate trade and investment
    - which also form part of CEPs

## *WTO-plus CEPs*

- Propose that PTAs
  - need to become comprehensive after some time;
  - and
  - benefits be extended to others after some time.
- Each cooperative arrangement for facilitation in any CEP should be open to wider accession.

**policy options**

**Unilateral**

**Voluntary  
cooperation**

**East Asia**

**APEC**

**CEPs**

**Formal  
agreements**

**East Asia**

**WTO**

**Issues**

WTO-plus  
principles  
for CEPs

Highly  
desirable  
and  
may be  
feasible

Probably  
too hard

Probably  
too hard

# *Next steps in East Asian integration?*

- **Adopt WTO-plus principles for CEPs?**
  - for liberalisation  
and
  - for accession to arrangements for facilitation
- **Business as usual?**
  - **Governments resist such principles**
    - **at least for now**
- **One step forward?**

**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**Formal agreements**  
**CEPs**

**East Asia**

**WTO**

**Issues**

**Border barriers**

Easy

Hard

Don't  
need

Don't  
need

Can  
dodge

Can't  
link

Principles  
for PTAs  
in CEPs

Only  
WTO  
consistent

**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**CEPs**

**Formal agreements**

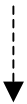
**East Asia**

**WTO**

**Issues**

Facilitating trade and investment

- mutual recognition



- harmonisation of regulations and procedures



Principles for facilitation in CEPs

Yes (but tend to deal with many issues at the same time)

Very hard to link CEPs

Need to join all facilitation arrangements and a PTA at same time

## *WTO-plus principles for CEPs*

- Agree that PTAs
  - will become comprehensive after some time;
  - and
  - benefits be extended to others after some time.
- Each cooperative arrangement for facilitation in any CEP is open to wider accession.

**policy options**

**Unilateral**

**Voluntary  
cooperation**

**East Asia**

**APEC**

**CEPs**

**Formal  
agreements**

**East Asia**

**WTO**

**Issues**

**Border barriers**

Easy

Hard

Don't  
need

Don't  
need

Dodge  
only  
briefly

Can  
link  
later

Principles  
for PTAs  
in CEPs

Adopt  
WTO-plus  
principles  
for CEPs

WTO-plus

**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**Formal agreements**  
**bilateral**

**East Asia**

**WTO**

**Issues**

**Border barriers**

Easy

Hard

Don't need

Don't need

Can bind

Can dodge

Can link later

Offer to abolish by 2010/20 if others do

**Contingent protection**  
(anti-dumping)

Demand tighter rules

**policy options**

**Unilateral**

**Voluntary cooperation**  
**East Asia**

**APEC**

**CEPs**

**Formal agreements**

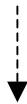
**East Asia**

**WTO**

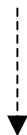
**Issues**

Facilitating trade and investment

- mutual recognition



- harmonisation of regulations and procedures



Could make East Asia wide progress

Yes (but tend to deal with many issues at the same time)

Easy to create links among CEPs

Principles for facilitation in CEPs

WTO-plus principles for CEPs

Others can join each arrangement when ready

# *Business as usual?*

- **Expect to see:**
  - lots more CEPs, built around discriminatory PTAs,
    - including partnerships outside East Asia;
  - a lot of progress on trade and investment facilitation in CEPs
- **Likely outcomes:**
  - a lot of PTAs which are tailor-made to suit the sensitivities of particular partners,
  - new arrangements for facilitation which are open only to those who join the PTAs
    - which then prove hard to link;
- **Risks:**
  - increasing resistance to WTO-plus principles for CEPs
  - no coherent effort towards East Asia wide economic integration
    - emergence of more hubs and more spokes, fragmenting ASEAN
  - limited interest in WTO negotiations
  - loss of any interest in concerted unilateral liberalisation in APEC
  - shift of emphasis away from APEC-wide facilitation

## *One step forward?*

- East Asian governments may not accept new principles for PTAs,
  - at least for now.
- But they may agree to open each arrangement for facilitation in CEPs involving East Asian economies,
- This would permit some East Asia wide cooperation on new issues,
  - while East Asia wide liberalisation awaits greater willingness to liberalise ‘sensitive sectors’.