The Regional Integration in East Asia:

A Chinese Perspective

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1, Introduction

In the last decade regionalism has become the most important trend in the global economy. The number of regional trade agreements (RTAs) has increased exponentially and their scope as well as their geographical reach have both broadened and expanded. By the data of WTO, as of March 2002, 250 RTAs had been notified to the GATT/ WTO, of which 168 are currently in force (WTO, 2002). But the geographical distribution of RTAs is uneven. The greatest concentration of RTAs is in Europe due to the EU and the EFTA. In the Western Hemisphere, the process of regional integration has been intensifying rapidly in recent years. In North Africa and the Middle East, most of countries are strengthening their ties with the EU through the negotiation of the second generation bilateral RTAs based on reciprocal exchange of preferences as part of the “Euro-Mediterranean Partnership” which is aimed at establishing a free-trade area by 2010. In Africa, the process is gaining depth. In Central Asia, the regional structures pertaining to the Soviet era have been replaced by RTAs among the countries of the former USSR, as well as with their neighbours. Compared with these regions, East Asia is a follower. The major powers in the region have been out of the regionalism.

However, they are currently undergoing significant changes with respect to their stance towards regional integration, with a number of countries shifting their long-term policy of MFN-only trade liberalization to actively consider the regional option. Japan has signed a FTA with Singapore, and initiated the negotiation with ASEAN, and is exploring the possibility of RTAs with Korea, Mexico and Chile. China has also signed a framework agreement in November 2002 that will commit them to nutting out a FTA with ASEAN within a decade. Following China and Japan,

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Korea is mulling a free trade area with ASEAN. More importantly, there has been a
ASEAN plus Three mechanism (ASEAN plus China, Korea and Japan), which
becomes a region-wide negotiation platform for the East Asia free trade area.

Regionalism is a new policy option for China. How to respond it will determine
its position in the regional economy, and to some extent, in the global economy. So,
China increasingly put emphasis on the regional integration in East Asia. In this paper,
we will discuss the strategies of other East Asian countries and China for the
region-wide integration. Our conclusion is that though there are many difficulties in
establishment of the FTA among China, Korea and Japan, it is a necessary step for the
East Asian FTA. Otherwise, East Asia will continue to lag behind other region in the
regional integration.

2. The positions of East Asian countries for regional integration

All of the East Asian countries have recognized the potential gains of regional
integration, they have different positions on how to participate the integration, which
result from their size of countries, economic development, industrial structure,
political system, trade partners, and so on. Among these, the great powers’ positions
are critical for the process of regional integration.

A. Japan’s Position

Japan is the sole developed country in East Asia, and should become a major
impetus to regional integration. Unfortunately, Japan hasn’t played the leading role. It
has only concluded a FTA with Singapore so far, because Singapore hasn’t
agricultural sector. In May of 2002, Japan and Australia agreed to begin talk on setting
up a free-trade agreement. After talked with Japanese Prime Minister, Australian
Prime Minister said that the two countries’ most senior foreign affairs would soon
meet to map out a framework for the talks. But the talk has been ruled out by Japan in
a move related to Japan’s sensitivity over agricultural products. It is expected to meet
same problem in the negotiation on the FTA between Japan and ASEAN. Australia’s experience suggested the process of negotiating an ASEAN-Japan FTA have a long way to go, despite of a comprehensive agreement including agricultural products (Dow Jones Business News, Sep.15, 2002). Thus, it has become a major barrier for Japan to participate the regional integration, because of the cultural and political issues surrounding agriculture.

The second barrier is the fear of hollowing out of Japanese Industries. It is evidently for Japan to conduct a FTA concerning with China. In fact, Even without a FTA between Japan and China, increasing FDI from Japan have been in China, due to rapid expansion of Chinese Market. Similarly, Korean firms have increased their FDI in China, but they haven’t such fears (Fukagawa, 2002).

The third barrier is to gain dominance of the regional integration in East Asia, which is an implicit incentive for Japan. While Japan is trying to negotiate with the ASEAN, it has concluded an agreement with Singapore as the member of the ASEAN. Japan is willing to conduct feasibility studies of FTA with Korea, but it isn’t willing to accept the Korea’s plan on the FTA among Korea, China and Japan. Of course, it is a natural requirement to be a dominator for Japan as a developed great power. However, we must recognize that it isn’t a common pattern for the regional integration. In the EU, Germany hasn’t asked to be a dominator or leader.

In seeking a FTA centered on Japan in East Asia, it manages to join global competition of RTAs with other great powers. In the last decade, it has been a global trend that the competition between the great powers has been becoming the competition between the RTAs. Thus, Japan is very fond of setting up the FTA with Mexico and Chile, which to some extent reduce its incentives to promote the regional integration in East Asia.

B. Korea’s Position

The Korea’s position for the regional integration can be summarized as a bridge between China and Japan. Though Korea have same barrier in the agriculture as Japan, it still more worry about the dependence on China or Japan, if it concludes a FTA with
either of both. As a result, Korea has been an active initiator for the framework of China-Korea-Japan FTA (the C-K-J Plan).

After the C-K-J Plan made no progress, and China and Japan decided to negotiate with ASEAN, Korea have to take the following strategy, exploring the possibility of similar negotiation with ASAEN. Moreover, the negotiation with Chile is on the way.

C. ASEAN’s position

ASEAN’s position is to become the “Hub” of the Hub-and-Spoke pattern in East Asia. The pattern entails joining the primary market “hub” with smaller “spoke” markets, each which remain unlinked from one another. With this approach, the hub benefits through increased access to new markets and the spoke economies benefit by establishing preferential access to the larger market. The competitive position of industries in each spoke country is undercut in other spoke economies due to the preferential position of industries in the hub country (since they can freely access each spoke as well as the hub), but the discrimination entailed by the addition of another spoke is often minor because intra-regional trade among the spokes is generally small (Hufbauer, Schott, 1994).

A large economy generally acts as the hub, such as EU, but it is not inevitable for a small economy to be a spoke. When the large economies compete in a region intensively, a small economy could become a hub, such as Chile and Mexico in America and ASEAN in East Asia.

In the process of the East-Asian regional integration, ASEAN, as a small economy, has worried about being marginalized. As Singapore Minister of Trade and Industry George Yeo said in Brunei meeting, ASEAN prefers to deal with the countries on separate basis. “If ASEAN agreed to a 10 plus three FTA, ASEAN will be marginalized”. “That’s why it has long been a position of ASEAN that we deal separately with China, with Japan, with Korea in order to secure a certain independent position for our ourselves.” (Dow Jones Business News, Sep.14, 2002).

Even within the ASEAN, there is a Hub-and-Spoke pattern. Singapore, as a
mirostate, is trying to become a Hub. It has signed FTAs with Japan, the United States, New Zealand, and is negotiating with the EU and India. This has resulted in fear of the other members of ASEAN. They are concerned about the so-called “Trojan Horse” effect, that is to say, that foreign companies will use Singapore as an assembly site or distribution center from which their products will be exported to their market duty free.

3, China’s strategy for the regionalism in the east Asia

In the ASEAN plus Three conference of 2000, China firstly suggested, to ASEAN, creating an economic expert group tasked with looking at the implications of China’s accession to the WTO and recommending measures to further enhance ASEAN-China economic cooperation and integration. Such measures would include the possibility of establishing an FTA between ASEAN and China. The suggestion came true in 2001, which indicated the shift of China’s position in the regional integration. In the last conference, China has put forward a similar suggestion to Japan, but Japan has made no positive response for it.

With regard to the regional integration, China’s incentives depend on its national conditions. Firstly, China is a large economy, which results in its domestic demands to be a major motive force of economic growth. It is unacceptable much to depend on one or two markets, especially on US and EU markets. So the East Asian is an alternative. Secondly, China has to keep a higher growth rate in order to complete its economic reform smoothly. Thus, it needs to build a better political environment, in particular a better peripheral environment for its economic growth. Empirical studies suggest that in addition static welfare, RTAs can generate dynamic welfare, of which is improvement of security for its member countries (Schiff and Winter, 1998). Thirdly, After accession to the WTO, China has to reduce the risks from the globalization. This is a major motive to participate RTAs for many developing countries. For one thing, RTAs provides a stable economic development environment that keep from the global shocks for its members. For another, RTAs gives its
members a stronger hand in future trade negotiations with the great powers. Moreover, it raises their abilities to influence the making-decision of international economic rules. Fourthly, RTAs have been used as an effective policy instrument to institutionalize and drive domestic reform for developing countries and the transitional countries, such as China.

Though China has negotiated with ASEAN on establishment of FTA, we don’t deny the fact that its potential gains are limited, comparing with the C-K-J FTA and the ASEAN plus Three FTA. The studies on RTAs have indicated that the welfare of South-South RTAs is less than of South-North RTAs. So the C-K-J FTA and the ASEAN plus Three FTA should become an imperative task for the East Asian countries. That China favors C-K-J FTA doesn’t mean it is a free rider of the plan. On the contrary, China will make an important contribution to it. Gilbert, et al (2001) recently employed two basic approaches (gravity model approach and computable general equilibrium, CGE) to assess regional trading arrangements in the Asia-Pacific. The results show that though two approaches have different simulation results, they have consistent results for East-Asian integration. Firstly, Japan-Korea agreement simulation alone results in relatively small welfare effects for the participants. Secondly, expansion to include China substantially increases the total welfare gains to the members of the preceding group. Thirdly, bringing in ASEAN to the group again results in greater estimated mean net welfare gains to all existing members, and further welfare gains to the new members.

In the process of the East-Asian regional integration, large countries should play an active role. The positions of large countries not only determine the direction of the East-Asian integration, but also affect their competitiveness in global economy. Without the regional integration, it is difficulty to get the expected gains of the cross-regional integration (such as cooperation between Japan and Chile, Mexico).

4, Conclusion
For the East-Asian regional integration, Global regional integration has brought
about great external pressures; The Asian financial crisis has offered internal incentives; and the ASEAN plus Three framework has provided a negotiation platform. All the countries in the area attempt to join the regional and cross-regional integration. However, to set up the East-Asian FTA has a long way to go. The key to the question depends on the different positions of large countries. The experiences in other areas have suggested that cooperation is the best solution to eliminate differences and misunderstandings. Otherwise, we would lose the opportunity to cooperate and develop.

Reference


WTO (2002) Regional Trade Integration under Transformation. Paper prepared for the seminar on Regionalism and the WTO.