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East Asian Economic Integration - finding a balance between regionalism and multilateralism

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Abstract.

This paper analyses the evolution of trade flows within the East Asian region, noting the steadily increasing intra-regional trade intensity within East Asia. The author argues that East Asia, despite the financial crisis, has the potential to become the locomotive of world economic growth in the 21st century. Strengthening inter-regional links between East Asia and the EU, such as through the ASEM process, will be of great mutual importance.

I. Introduction

Over the last fifteen years or so regionalism has become increasingly prevailing in the world economy. After the first wave of regionalist tendency during the 1970s, the number of regional integration agreements (RIAs) has again surged especially since the beginning of 1990s. And, especially since 1995, the year of the official launch of the WTO, regionalist tendency in the world economy has been extremely intense, thus leading to an increasing concern over its potential conflict with the multilateral trading system governed by the WTO. The WTO recently reported that of totally more than 220 RIAs notified to the GATT/WTO so far, 156 agreements are still in force.¹ There are only few member countries of the WTO that are currently not participating in any kind of regional integration agreements.

However, the region East Asia has so far been relatively immune from this increasing worldwide tendency towards regionalism:² The ASEAN Free Trade Area (AFTA) comprising 10 countries in Southeast Asia and the South Asian Association for Regional Cooperation (SAARC) comprising 7 countries in South Asia are the only two formal RIAs operating exclusively in the Asian region. Although many Asian countries are members of Asia Pacific Economic Cooperation (APEC), which also contains non-Asian, Pacific-basin countries, APEC still has to wait long to be developed into a free trade agreement or a customs union. In addition, such major Asian countries as China, Japan and Korea are not yet members of any RIAs. Therefore, compared to the long history, the diversity and the complexity of regional integration agreements in Europe and North and Latin America, economic integration in Asia is rather a new phenomenon.³

In contrast to this relatively belated consciousness on regional integration in Asia, a recent surge in Asian countries' interest in the formation of regional economic integration arrangements deserves a closer attention.⁴ For example, Korea started negotiations on free trade area (FTA) agreement with Chile in 1999, which was officially endorsed through the bilateral Summit meeting on the occasion of the 2001 Kuala Lumpur APEC Summit. Japan has also begun considering an FTA agreement with East Asian trading partners as a policy option for the 21st century, and

¹Of these 156 RIAs 123 are notified under GATT Article XXIV, 19 are notified under the Enabling Clause, and the remaining 14 are notified under GATS Article V. As concerns the form of notified RIAs, 114 agreements are concluded in the form of a Free Trade Agreement, and 14 take the form of Customs Union (CU), and the remaining 31 are in operation as services agreement or others. See WTO (2000, 2001).

²In a recent paper, Scollay (2001) characterizes Northeast Asia as an "empty box" in the world map of RIAs.

³In fact, Korea and Japan are the only two countries that have not been participating in any RIAs. However, these countries have also been negotiating such agreements with their trading partners since recently.

⁴Scollay (2001) identifies that currently more than 20 RIAs are under discussion and/or negotiation in the Asia-Pacific region.

reportedly completed an FTA agreement with Singapore recently. A bilateral and/or tripartite FTA agreement among Korea, Japan and China has also been being discussed within academic and political circles recently. In short, after a long period of abstinence Asia has now become more interested in its own regionalism.

The purpose of this paper is to investigate the characteristics of recent regionalist tendency in world economy, and to draw some policy implications for regional economic integration in East Asia. Considering that the relatively new inter-regional and inter-continental initiatives like APEC and Asia-Europe Meeting (ASEM) cover the region East Asia, the paper will also examine whether such schemes have potential to contribute to the integration process of East Asian economies. The remainder of the paper is organized as follows. Part II describes in the increasing regionalist tendency in the world economy, and discusses the relationship between regionalism and multilateralism. Part III is devoted to giving a relatively detailed idea of the market-driven nature of economic integration in East Asia, analysing the intra-regional trade intensity as well as the economic interdependence among countries in the region. This Part also provides the rationale and reasons for Asian countries to develop Asian regionalism. Part IV presents and discusses some major policy options available for East Asian countries in the 21st century, focusing on the institutional aspects of East Asian regionalism. Part V summarizes main findings of the paper and draws conclusions as policy recommendations.

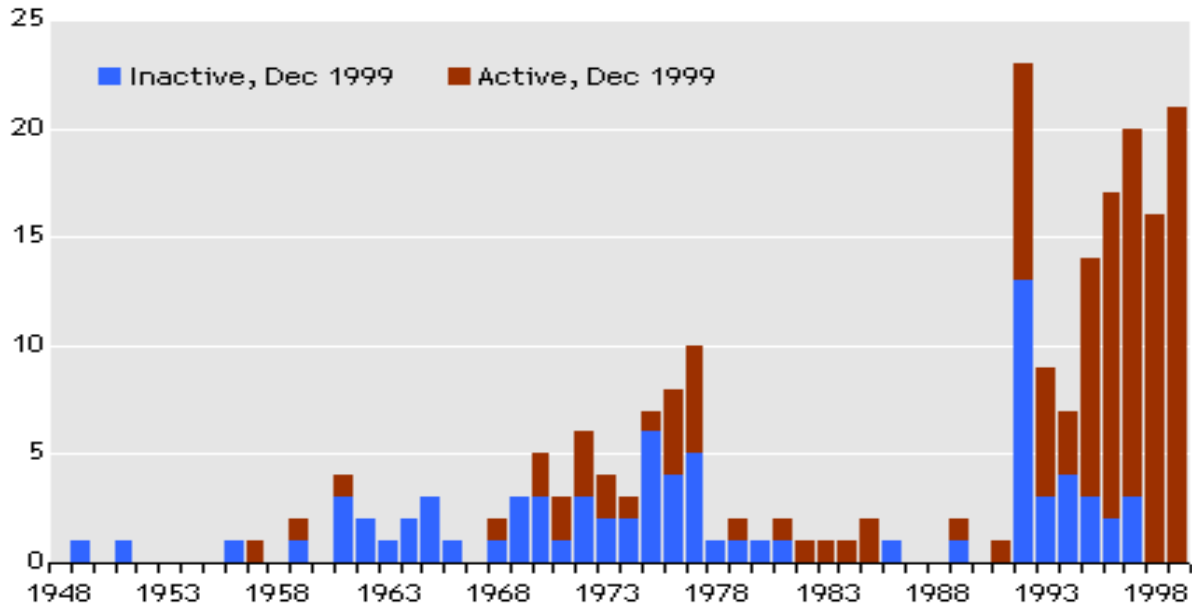
II. The post-war Regionalism in the World Economy and Its Characteristics

1. An Increasing Regionalist Tendency in the Post-war World Economy

We can identify several characteristics of regionalism during the post-war era. First, the post-war world economy has witnessed an up-and-down of regionalism over the last 50 years. In terms of the number of RIAs notified to GATT/WTO, the 1970s and then the 1990s can be regarded as the periods with the highest frequency of such notification. In contrast, during the 1960s and 1980s, the number of notified RIAs remained at very low level. Second, the number of notified RIAs has on average shown an increasing tendency, reflecting the fact that despite the successive strengthening of multilateral trading system under the GATT and the WTO, countries resorted increasingly to regional economic integration.⁵ Table 1 illustrates the general trends of regional integration agreements notified to GATT/WTO in the period since the official launch of GATT.

⁵For main reasons for such an increasing regionalism in the world economy see, *inter alia*, WTO (1995) and OECD (1995).

**Figure 1: Regionalist Tendency in the Post-war World Economy:
RIAs notified to GATT and the WTO (1948-1999)**



Note: 1) This number was projected by the author using the three sources listed below.
Source: WTO (1995, 2000, 2001).

The Figure 1, however, does not reflect the ‘real’ strength of regionalist tendency in each sub-period, because they have largely been distorted by unique events that were followed by many related bilateral agreements, which were then eventually notified to GATT/WTO: the European integration. Therefore, the figures tend to overstate the strength of regionalism for each period. During the 1970s, it was the formation within Europe of Customs Union in 1968, which led in 1970s to many related bilateral agreements among EC members and between EC members and non-members. During the period since the beginning of 1990s, it was the EC’s announcement to launch Single European Market by 1993 and the increasing outreach of the EC towards Eastern Europe in the form of Association Agreements that contributed to a worldwide surge in the number of RIAs. Despite these distorting effects of European integration, however, it appears true that regionalism has emerged as an additional force to multilateralism in the world economy, and the two have become equivalently important.

2. The Increase in Inter-regional and Inter-continental Cooperation and Integration

Another important phenomenon related to regionalism is the fact that recently many inter-regional and inter-continental cooperation and integration schemes have been formed, or are under discussion and/or negotiation. The first such significant inter-regional scheme was the formation in 1989 of Asia-Pacific Economic Cooperation (APEC).⁶ In the Americas, the heads of the states in Latin and North America agreed upon and recently reassured their commitment to establishing the Free Trade Area of Americas (FTAA) by 2005, which is now under serious negotiation involving 34 countries in North and South America.⁷ The European Union (EU) and the US, as well, reached an agreement to strengthen their economic cooperation based on an initiative called Transatlantic Economic Partnership (TEP), after the original idea of establishing Transatlantic Free Trade Agreement (TAFTA) was found to be implausible.⁸

Such inter-continental regionalism has been pursued for different purposes. For instance, the formation of APEC, for which the US has played a leading role, was motivated mainly by the intensification of European integration in the mid-1980s. The US wanted to use APEC as a leverage in negotiations with the EU on further liberalization of world trade during the Uruguay Round (UR) negotiations. The discussion on the establishment of TAFTA was started after the EU-US Summit Meeting in Madrid in December 1995, through which the two involved parties wanted to strengthen their already strong trade and investment ties through “deeper integration”.⁹ The formation of FTAA can be regarded as an extension of North American Free Trade Agreement (NAFTA) towards countries belonging to Central and Latin America, and here again, the US has been playing a crucial role. Although not yet in the stage of economic integration, the newly launched Asia-Europe Meeting (ASEM) has been functioning as an inter-continental cooperation scheme between Europe and Asia.

In this context, it is worth mentioning that the change in policy directions in the US around the mid 1980s - from a one-sided approach favoring multilateralism towards a two-track approach

⁶The terminology regionalism in the context of international law and economics is used usually for cases in which countries form free trade area and/or customs union, as specified in Article XXIV of GATT. APEC’s approach differs slightly from these notions, because it envisages to achieve “free trade in the region” by 2010 for developed member economies and 2020 for developing member economies. However, its basic idea is similar to FTA, so that it could be regarded as quasi-regionalism. See APEC Secretariat (1995)

⁷The 2001 Summit of the Americas, held in Quebec, Canada, in April, reassured the commitment of the involved countries to start the FTAA project by 2005. Bergsten (2001) warns of potential risks of US’ one-sided preference for the FTAA to multilateral process.

⁸The original idea was to establish TAFTA, which was initiated at the 1995 Madrid Summit between the US and the EU. The TAFTA project was discarded mainly due to potentially too big trade diversion effects against East Asian economies. For a same line of thoughts, see Bergsten (2001).

⁹Deeper integration differs from shallow integration in that the latter is concentrated on reducing tariff and non-tariff barriers, while the latter is focusing more on harmonizing domestic rules and procedures. The Mutual Recognition Agreements (MRA) and intensified business-to-business relations is major instrument used in the TAFTA approach. For the basic idea of deeper integration see, *inter alia*, Robson (1997) and OECD (1996).

regarding multilateralism and regionalism as equivalent policy alternatives - seems to have generated increasing cases of such inter-continental regionalism.¹⁰

3. The co-existence of Multilateralism and Regionalism: Background and Relationship

Especially since the mid-1980s the increasing tendency towards regionalism coincides with the strengthening of multilateral trading system, which has reached its triumphal moment in 1995, when the WTO was launched as a result of successfully completed UR negotiations. This seemingly contradictory development implies that countries were, on the one hand, making efforts to strengthen multilateral trading system under the auspices of GATT, and on the other hand, they were at the same time resorting increasingly to regional economic integration.¹¹ As a consequence, the co-existence of multilateralism and regionalism has become one of the main characteristics of the recent world economy. Even though such situation is expected to sustain for a while, a fundamental question arises as to whether or not regionalism has been and will be detrimental to the multilateral integration process of world economy, as Bergsten (2001) recently elaborated to make trade policy recommendations to the Bush administration.

Two conflicting views exist for the relationship between regionalism and multilateralism. One is the view that regionalism has been (and will continue to be) a stumbling block to multilateralism. The other contends that regionalism has been (and will continue to be) a building block to multilateralism.

The first view is well summarized by, *inter alia*, Bhagwati (1996) and Bhagwati and Panagariya (1996). They argue that regionalism is detrimental to the multilateral world trading order, and is thus an obstacle to the integration of the world economy, mainly for the following reasons. First, regionalism by definition implies preferential trading arrangements that basically discriminate between members and non-members, not only in enforcing tariff barriers but also by erecting non-tariff barriers like rules of origin, regional content requirements, etc. As such, regionalism therefore results in trade diversion. Even though they also expect some trade creation effects as well, they argue that trade diversion effect exceeds trade creation effect in almost all

¹⁰ The Asia-Europe Meeting (ASEM), which was launched as a bilateral cooperation channel among 25 countries located in Asia and Europe, can be regarded as a response by the EU to such US approaches, even though it is not expected to be developed into an FTA in the near future. For economic background and implication of ASEM for the multilateral trading system see Park (1997).

¹¹ This seemingly contradictory posture can be explained by the following two reasons. First, European countries started to establish Single European Market in mid-1980s, and it motivated countries in other regions to form their own regionalism. Second, as UR negotiations at that time were not progressing very well, some countries wanted to reap the benefits of liberalization earlier at regional level. See OECD (1995).

cases, and thus results in inefficient allocation of production factors in the world economy. Second, if regional integration is at work, then countries will focus more on regional integration efforts and less on the multilateral trading order which is more desirable.¹² Third, scholars who prefer multilateralism refer to historical experiences that the proliferation and strengthening of regionalism, in many cases, have resulted in a serious political or military conflict between regions or countries. Thus, they are concerned about an excessive proliferation or strengthening of regionalism potentially having negative geopolitical impact in the longer term.

It is interesting to note, however, that many scholars, such as Young (1993a) and Bergsten (1996 and 1997), etc. are of an opposing view, arguing that regionalism has had positive contribution towards multilateralism. First, they regard regionalism as a building block to multilateralism, because they believe regionalism will expand horizons of 'freer trade' and thus will inevitably lead to strengthening multilateralism. Second, as a consequence and in contrast to the former view, these scholars argue that there will be more trade creation than trade diversion. Third, it is also pointed out that regionalism contributes to economic development of the under-developed economies, in that they are able to gain access to external control mechanisms to continue their domestic reforms, which is necessary for the development process. Fourth, this group of analysts refers to many cases in which liberalization measures adopted in regional economic blocs have been successfully transmitted to the multilateral trade negotiations.¹³ Fifth, liberalization initiatives on the regional level may have a demonstration effect to economic agents of a nation like bureaucrats, government, consumers, and entrepreneurs, etc., so that an environment to facilitate liberalization is easily created. Sixth and finally, as can be inferred from regional integration arrangements such as the EC (Germany vs. France), MERCOSUR (Argentina vs. Brazil) and APEC (Japan vs. China and East Asia), many regional integration arrangements have been created to ease political or military tensions or have effectively generated such results. Thus, the scholars counter-argue against the concern that regionalism will increase geopolitical tensions.

It is too early to make a definite assessment in favor of one argument against the other. However, almost all scholars and policy-makers are of the same position that multilateralism is more beneficial to the world economy than regionalism which divides trade systems according to regions. Also, it is generally recognized that even those who argue for the positive effect of regionalism do have in mind the ultimate contribution of regionalism to the strengthening of

¹² This is usually called 'interest diversion.'

¹³ See also WTO (1995).

multilateralism.¹⁴

III. Characteristics of Economic Integration in East Asia

1. The Intra -regional Trade Intensity in East Asia¹⁵

The dynamics of export-led development in the East Asian economies and their increasing role in world trade have been extensively studied and commented by researchers, policy makers and multilateral economic institutions. One of the conclusions of these studies is that the East Asian countries' strengthened integration into the world economy was a success factor for their rapid economic development.¹⁶ In pursuing their economic development, the East Asian countries strongly relied upon developed countries' markets in Europe and North America, leading to a relatively weak regional economic integration. As stated before, there are until now no substantial RIAs covering the whole area of East Asia. Thus, the region was long believed to be a model of market-driven economic integration, contrary to the institutionalised or policy-induced ones like the EU or NAFTA. Nevertheless, especially since the mid-1980s there seem to have been several forces that contributed to strengthening economic integration in the region: liberalization of trade and investment regime of many Southeast Asian countries; increasing Japanese FDI into Southeast Asia; strengthening regional economic involvement of Asian NIEs (Newly Industrialized Countries); emergence of China as a new industrial location for many firms originating from the region, etc. As a result, East Asian economic integration, although not institutionalised, has been progressing continuously and reached a relatively high level, as Table 1 illustrates.

One distinguished feature can be identified in the relatively high intra-regional trade intensity within the East Asia group. The "intra-regional trade intensity", defined as the share of trade flows within the same region in total trade flows of countries in the region, appears particularly high within the "East Asia" group. At least 40% of total exports from 6 of these 9 countries is directed to countries within the region. Three countries showing a relatively low degree of intra-regional orientation of their trade, Korea, Japan, Philippines, also exported more than 30%

¹⁴ Studies conducted independently by the WTO (1995) and the OECD (1995) on the relationship between regionalism and multilateralism concludes also that regionalism has so far been complementary to multilateralism.

¹⁵ In this paper, we define the East Asian region as including Japan, Korea, China, Hong Kong and the five most active traders among ASEAN member countries, Singapore, Malaysia, Thailand, Indonesia and the Philippines .

¹⁶ See, for example, World Bank (1993).

to the region. The result is remarkable: the intra-regional export share for the region East Asia reached 41.5% in 2000.¹⁷

Table 1. Geographical distribution of East Asian countries' exports (2000)

Export Countries	Share in total exports (%)					
	Japan	China	Korea	Hong Kong	ASEAN 5	East Asia 9
Singapore	7.5	3.9	3.6	8.0	27.3	50.2
Malaysia	13.0	3.1	3.3	4.5	25.5	49.4
Thailand	15.7	4.3	1.9	5.3	17.3	44.6
Indonesia	23.2	4.5	7.0	2.5	16.7	53.8
Philippines	14.5	2.5	3.0	4.5	13.5	38.1
ASEAN 5 ²	13.3	3.7	3.7	5.5	22.1	48.4
ASEAN 4 ¹	16.3	3.6	3.8	4.2	19.6	47.5
Korea	11.0	11.8	-	5.9	9.1	37.8
Hong Kong	5.2	35.6	1.9	-	5.7	48.5
Japan	-	6.5	6.4	5.6	13.9	32.3
China	15.8	-	4.0	19.3	5.4	44.5
East Asia 9 ³	8.3	8.9	4.0	7.4	12.9	41.5

Notes : 1. ASEAN 4: Malaysia, Thailand, Indonesia, and Philippines

2. ASEAN 5: ASEAN (4) + Singapore

3. East Asia 9: ASEAN 5, Korea, Hong Kong, Japan, China

Source: IMF, Direction of Trade Statistics Yearbook, 2000.

From Table 1, several additional characteristics of Asian economic integration can be presented as follows. First, compared to Europe and North America, which have major RIAs such as EU and NAFTA already in operation and show corresponding figures of close to 63% and 46.7%, respectively, East Asian economic integration can be regarded as relatively intense. Second, compared with ASEAN, the intra-regional trade intensity for East Asia as a whole reveals an interesting feature of East Asian economic integration. For the five most active traders among ASEAN member countries, Singapore, Malaysia, Thailand, Indonesia and the Philippines, dispatches among the mselves represented 22. 1% of their total exports in 2000. The intra-regional trade intensity among the most active traders of ASEAN, which is the most ambitious economic cooperation organization in the Asian region since 30 years,¹⁸ is therefore significantly lower than that among the wider "East Asia" group. This is all the more remarkable, given the fact that the latter includes economies which did not yet put in place any preferential trading arrangements

¹⁷ This figure is lower than 47.5% reached in 1996, the year before the 1997 Asian financial crisis broke out. This was influenced by the fact that the crisis-affected East Asian countries directed more of their exports to Europe and North America, due to decreased purchasing power of the region. The prolonged recession in Japan also seems to have contributed to this development. See Annexed Table 1.

¹⁸ ASEAN was created in 1967 for the purpose of ensuring regional security cooperation. The transformation of ASEAN into AFTA was first initiated in the first half of 1990s.

among themselves and/or with other countries (Japan, Korea, China). This leads to the third characteristic of East Asian economic integration that the three Northeast Asian countries, Japan, Korea and China have been the engine of the high and increasing intra-regional trade intensity for the region East Asia. Also, it should be noted as a fourth characteristic that the intra-regional trade intensity for the sub-region “Northeast Asia”, which ranges 15-20%, is also relatively low and comparable to that of the sub-region “Southeast Asia”, with a very interesting implication that the sub-region Southeast Asia constitutes also very important trading partner for the Northeast Asian countries, as the latter does for the former. In addition, although not visible in Tables included in this paper, it should also be noted that the intra-regional trade intensity in East Asia has been ever increasing, especially since the beginning of 1980s. For instance, Rao (1995) identified that the intra-regional trade intensity¹⁹ in Asia increased from 32.0% in 1980 to 43.7% in 1993.

2. Economic Interdependence in East Asia

This relatively high intra-regional concentration of trade flows within East Asia implies strong interdependence among the economies of the "East Asia" group, which can be measured by the share of intra-regional exports (and/or imports) in the GDP of each country and in the aggregate GDP of the group as a whole (See Table 2).

**Table 2: Economic Interdependence in East Asia:
Intra-regional exports/GDP ratios (2000, %)**

Exporting Countries	Japan	China	ASEAN 5	NIEs	East Asia 9
Singapore	10.9	5.7	40.0	16.9	73.2
Malaysia	14.3	3.4	27.9	8.6	54.1
Thailand	8.4	2.3	9.2	3.9	23.8
Indonesia	9.4	1.8	6.7	3.8	21.8
Philippines	14.6	2.5	13.5	4.3	21.8
Korea	4.1	4.3	3.3	2.1	13.8
Hong Kong	6.3	12.3	6.9	2.3	20.9
Japan	-	0.7	1.4	1.2	3.3
China	4.1	-	1.4	6.0	11.4

Note: NIEs: Korea, Hong Kong

ASEAN 5, East Asia 9: see notes of table 1

Source: IMF, Direction of Trade Statistics Yearbook 1997.

¹⁹Rao (1995) calculated the intra-regional trade intensity based on import and export statistics for the whole region Asia, including South Asia.

The figures in Table 2 are to be termed “intra-regional export dependency”, which shows how much of one country’s GDP is generated by its export activities.²⁰ The figure is remarkably high for Singapore and Malaysia, and relatively low for the three Northeast Asian countries. The remaining Southeast Asian countries and Hong Kong show the contribution to the generation of GDP of intra-regional trade, which range between 20-25%. An implication, which can be drawn from these observations, is that intra-East Asia trade relations are substantially important especially for the ASEAN 5 countries in generating their GDP. This implies that when pursuing regional integration, ASEAN has to consider the inclusion of NEA countries if it wants to maximize the integration-related benefits.

The relatively strong economic interdependence through intense intra-regional trade relations in the "East Asia" group can be compared with equivalent indicators for regional economic cooperation organizations or free trade areas in other regions. Table 3 illustrates that the economic interdependence in 2000 of East Asia 9 as a whole²¹ stands at a relatively high level, compared to the EU and NAFTA.

Table 3. Economic Interdependence through Trade among East Asian Economies: Comparison with the EU and NAFTA (Intra-regional exports/GDP ratios, 2000, %)

EU	14.9 ¹⁾
NAFTA	10.6 ¹⁾
East Asia	9.1
East Asia less Japan	15.7
ASEAN 5	16.8

Note: 1) Figures are for the year 1996.

Source: IMF, Direction of Trade Statistics Yearbook 1997, 2001.
World Bank, World Development Report 2001.

When compared with the corresponding figure for 1996, the year before the outbreak of Asian financial crisis, a striking feature is found in the case of ASEAN 5: The economic interdependence of ASEAN 5 is the highest among the listed groupings, and it has increased substantially compared to the figure for 1996. This indicates that the Asian financial crisis has been functioning as a catalyst for the increasing economic interdependence for the crisis-affected ASEAN economies. Even though the trade relations have been diverted towards the EU and North

²⁰ A conventional wisdom about this figure is: the bigger the country, the lower the indicator.

²¹ This indicator is lower for the whole East Asia group as the inclusion of Japan, which is significantly less dependent on trade, in general, and more dependent on trade relations with non-East Asian countries, in particular, reduces the average figure.

America, due to the differential between the growth rates of exports and GDP, the intra-regional interdependence has increased.

3. The Role of Northeast Asian Countries in East Asian Economic Integration

Based on the observations made in the previous section, it seems extremely interesting and worthwhile to pay a special attention to the role of three Northeast Asian (NEA) countries, Japan, Korea and China, in the East Asian economic integration, both in terms of intra-regional trade and economic interdependence.

In terms of the importance of NEA as markets for the products originating from East Asia, the following four characteristics can be identified from the analysis of Table 1. First, it is interesting to note that the trade share of ASEAN 5 countries with the Northeast Asian countries, which accounts for approximately 20.7% of their total trade, is only slightly lower than their trade with each other. This implies that the intra-regional trade intensity within ASEAN is still relatively low, and the Northeast Asian countries have been functioning as very important trading partners for the ASEAN countries. Second, the trade dependence on NEA countries of the individual ASEAN member countries differ from country to country, with Indonesia being most dependent with 34.7% and Singapore being least dependent with 15.0%. Therefore, the average figure strongly distorts the individual countries' trade dependence on NEA. Third, Japanese markets appear to be the most important regional markets for the most of the East Asian countries, except for Hong Kong, which maintains special relationship with the Chinese markets, and Korea, which recently strengthened export activities towards China. Fourth, even though the importance of China for ASEAN 5 is relatively low with 3.7% in their trade dependence, the role of China should not be neglected, because, for the whole region East Asia, the role of China is with 8.9% higher than that of Japan.

In terms of generating GDP through trade relations within East Asia, the following additional roles of NEA can be discussed. First, the ratio of contribution of intra-regional trade relations to the GDP is widely dispersed within East Asia, ranging from 3.3% (Japan) to 73% (Singapore). This partly reflects the different trade orientation of individual East Asian countries. Second, for the three countries (Thailand, Indonesia and Philippines) of ASEAN 5, trade relations with Japan and China alone are contributing more to the generation of their GDP than their trade relations with other ASEAN 5 countries. Third, also in case of Malaysia, the role of trade relations with Japan, China and NIEs (Korea, Hong Kong, Singapore) is comparable with that of ASEAN 5 in generating GDP.

IV. Institutional Perspective of East Asian Economic Integration

1. Regional Integration and Cooperation Arrangements involving East Asia

AFTA and APEC, and since recently ASEM are major regional integration and cooperation arrangements that are currently in operation in East Asia. AFTA started originally as ASEAN, which had long been a security cooperation body in Southeast Asia, and have begun only recently to pursue economic integration programs. It comprises currently 10 member countries located in Southeast Asia, and envisages launching a full-fledged free trade area by 2003. In contrast, APEC was launched in 1989, and consists currently not only of East Asian countries, but also of countries in Pacific-basin, such as the US, Canada, New Zealand and Australia, as well as some countries in Central and Latin America. APEC adopted an ambitious goal of establishing “free trade in the region” at the latest by 2020, has however had enormous obstacles to achieve this goal. There seems to be a long way to go for APEC to become a regional integration arrangement, such as FTA or Customs Union. The Asia-Europe Meeting, which inaugurated in 1996, has not only economic, but also political and cultural cooperation in its cooperation agenda, and is far from the stage of economic integration. Compared to other regions, especially Europe and the Americas, regional integration arrangements in East Asia with AFTA, which is the only regional setting in East Asia pursuing economic integration, are relatively new and smaller-scaled.

Despite this rather discouraging feature of East Asia in terms of regionalism, it is not to be neglected that the region has been receiving increasing spotlight from the European and North American countries, especially since the beginning of the 1990s. First, when the US designated 17 countries in 1994 as big emerging markets (BEMs) in the world economy, with which the US companies and government would have to strengthen economic ties, 12 of them were Asian countries. Also, the European Union launched an ambitious New Asia Strategy in 1994, with the view of strengthening economic, political and cultural ties with primarily East Asian countries. Even though this enthusiasm has been weakened due to the 1997 Asian financial crisis, the potential of East Asia to become the locomotive of world economic growth in the 21st century appears still valid. One of the consequences of this increasing interest of the developed world in the East Asian region is the increasing complexity of economic cooperation and integration networks, as can be seen in the annexed Figure A-1.

A notable new development that deserves a near scrutiny is the increasing interest of East Asian economies in regionalism. Scollay (2001) reports that currently more than 25 regional trading agreements (RTAs) are under discussion and/or negotiation in the Asia-Pacific. Of these more than

25 new proposals, approximately 20 are involving East Asian countries. At the center of this increasing East Asian integration/cooperation network stand the Northeast Asian countries, as can be seen from Table 4.

Table 4. Inventory of Regional Trading Agreements under Negotiation and/or Discussion Involving East Asian Countries

Regional Characteristic	Involved Countries	Form of RTAs	Current Status
Individual NEA Countries + outside East Asia	Korea-Australia	FTA	Study announced
	Japan-Mexico	FTA	Study released July 2000
	Korea-Mexico	FTA	Discussion reported
	Japan-Canada	FTA	Studies commissioned
	Korea-Chile	FTA	Negotiations began
	Japan-Chile	FTA	Study reported
NEA-internal	Korea-Japan	FTA	Study completed
	Korea-Japan-China	FTA	Studies being done
NEA + SEA (individual/collective)	ASEAN + 3	FTA	Study to be done
	Singapore-Japan	FTA	Negotiation completed
	Singapore-Korea	FTA	Discussion reported
	China -ASEAN	FTA	Study to be done
	Japan-ASEAN	FTA	Study reported
SEA-related	Singapore-US	FTA	Talks began
	Singapore-Canada	FTA	Talks announced
	Singapore-Chile	FTA	Exploratory talks announced
	Singapore-New Zealand	FTA	Study completed
	P5 (US/AUS/Chile/NZ/SING)	FTA	Informal discussion
	New Zealand-Hong Kong	FTA	Talks began
	AFTA-CER	FTA	High-level task force established

Source: Rearranged and modified from Scollay (2001).

First, as stated in the previous sections, the Northeast Asian economies have been playing the role of locomotive in the East Asian economic growth and development, providing markets and investment capitals to the other part of the region. Second, the countries in Northeast Asia have been “white spots (empty boxes)” in the current geography of increasing regionalism. And, as they have very recently been pursuing several regional integration agreements with their trading partners

within and outside the region, their position in regionalism might change in the coming years. Third, in the inter-regional and inter-continental settings like APEC and ASEM, the NEA countries have been detecting deficiencies in the coordination of their interests and positions, leading to an increasing interest among themselves in intensified regional cooperation and integration. Fourth, the 1997 Asian financial crisis awakened their long-sleeping consciousness for their regional identity, which partly influenced them to more intensively consider the regional integration arrangements.

These developments inevitably led to the establishment of official consultation and research process of NEA-wide regionalism and/or East Asian regionalism, which has recently airing under the heading of “ASEAN + 3”, as Bergsten (2001) identifies and the recent Brunei “ASEAN + 3 Summit Meeting” signifies. It is also noteworthy that China recently announced her readiness to enter into an FTA agreement with ASEAN countries. The question to be answered in this context is whether and how the long-lasting barriers to regionalism in East Asia can be overcome.

2. Traditional Barriers to and Recent Initiatives for East Asian Regionalism

Several factors might have contributed to the relative belatedness and small scale of RIAs in East Asia. First, most of the East Asian countries were more dependent on trade with countries outside the region than within the region. In fact, the US and European countries have long been largest trade partners for Japan and Korea, which have been the largest traders in East Asia.²² Also for China, the US and European markets constitute lion’s share of her trade relations, leaving little room to seriously pursue East Asian regional economic integration. Second, East Asia has also been characterized by diversity of economic systems and relatively strong protectionist sentiments until recently. The region consists of China, Vietnam and India, which only recently have transformed their economic system from socialist to market economy, so that RIAs like FTA and CU have been extremely difficult to be established for the whole region. Third, the legacy of protectionism was prevalent until recently in many of major East Asian countries, thus forming inherent barriers to intra-regional trade liberalization in the form of FTA and CU. Fourth, there have also been several barriers to pursue political commitments and policy coordination in East Asia, mainly due to the historical reasons.

However, as slightly touched upon in the preceding section, some major countries in the region have begun considering regionalism as a policy option in their external economic strategies. For instance, Korea has become keen to experiment an FTA agreement with several countries,

²² Young (1993b) also notes that the availability of North American markets was a crucial factor for East Asia’s export success.

leading to a launch of official negotiations with Chile to establish FTA. The country has also conducted feasibility studies of Korea-Japan FTA and/or Korea-Japan-China FTA.²³ Japan also has begun regarding FTA with East Asian countries as a strategic alternative for the coming years and decades, as the JETRO's 1999 White Paper so identified.²⁴ It is reported recently that Japan-Singapore negotiation has come to a successful end, and awaits now an official announcement and launch. As stated before, China decided to adopt a progressive approach towards an FTA agreement with ASEAN countries.

These changes in Northeast Asian countries' attitude towards regionalism seem to have been influenced by several internal and external factors. First, as we have seen in the former tables the intra-regional trade intensity and economic interdependence in East Asia have proceeded at a relatively quick pace. East Asian countries have increasingly become keen to strengthen this tendency through an official and institutional back-up framework for intra-regional trade liberalization. Second, the countries in the region have become conscious of the challenges coming from the intensified integration in Europe and North America. The establishment of the Single European Market (SEM) by 1993, and its scheduled subsequent expansion towards Central and Eastern European Countries (CEECs), on the one side, and the launch of NAFTA in North America and its possibility to expand to Latin America in the form of FTAA, on the other, have prompted them to rethink about their regional strategies. Third, there was a substantial progress in deregulation and trade and investment liberalization in most East Asian countries, so that a regional integration agreement is deemed not to put substantial additional pressure on domestic economies. Fourth, major planned economies in the region have successfully transformed their economic system to a market economy, so that systemic homogeneity has been secured, which is a prerequisite for any RIAs. A further contribution towards the same direction might have been provided by the recent inter-regional and inter-continental cooperation schemes like APEC and ASEM. In fact, to make these schemes to work more effectively in favour of their interests, the East Asian and especially the Northeast Asian countries need to devise adequate internal coordination schemes, for which RTAs offer excellent opportunities. To summarize, it can be said that East Asian countries have been developing ideas to bridge the regionalism divide in the world economy for the previous few years. The logic might be: East Asia no longer should be left out in this increasing regionalist tendency in the world economy.

²³ In the case of Korea-Japan FTA, the Korea Institute for International Economic Policy (KIEP) and the Institute of Developing Economies (IDE) are representing Korea and Japan, respectively.

3. Possibilities of Institutional Settings for East Asian Regionalism

The idea to establish a formal agreement for East Asian regional economic integration is not new. After the formation of ASEAN in the late sixties some countries in Northeast Asia were pondering on the feasibility of joining ASEAN. In the wake of strengthening European and North American economic integration since the mid-1980s, more serious plans and proposals have been forwarded. The on-going Asian crisis also revived to some extent the discussion on whether and how Asian economic cooperation and integration could be strengthened.

Among the complexity of proposals concerning East Asian RIA, the idea to establish an East Asian Economic Caucus (EAEC), which was raised by the Malaysian Prime Minister Muhammad Mahathir, is one of the most prominent examples. The EAEC, if it were successfully launched, would have practically implied an extension of ASEAN (AFTA) to Northeast Asian countries, including Japan, Korea, China, and Taiwan. Although the idea was not yet officially discarded, it faced strong resistance from the side of the US.²⁵ It should be noted that based on our observation in Part III, an inclusion of Northeast Asian countries, in one form or another, into any kind of regional economic groupings in East Asia is expected to provide an additional stimulus for economic development in the region. Therefore, the proposal to establish EAEC or similar institutions is expected to revive on one occasion or another.²⁶

Another way to enhance regional economic integration in East Asia would be to provide Korea, Japan and China with an individual membership to AFTA. This approach differs from the idea of EAEC in that the membership is to be provided on an individual, and not on a collective basis, so that any of these three countries can join AFTA whenever they want to. This of course pre-requires the accordance of all the existing member countries of AFTA, which seems not so easy. The recent initiative of China raised last year stands seemingly along the line with this approach.

In the context of open regionalism pursued by APEC, a proposal has recently been forwarded to establish a Northeast Asian FTA (NEAFTA) among Japan, Korea and China. The idea

²⁴The JETRO suggested, for instance, that for Japan a bilateral trade agreement is not any more to be excluded as a policy option. See JETRO (1999).

²⁵The US opposition to the idea of EAEC can be summarized as follows. First, At the time when the idea was first raised, APEC was just to be launched, so that US feared of disintegration of APEC into several sub-regionalisms. Second, the US was unhappy because it would have led to a weakening of US influence on East Asia in economic as well as security affairs. However, the official launch of Asia-Europe Meeting (ASEM) in 1996 can be regarded as having practically established the EAEC within an intercontinental cooperation framework, as major potential members of EAEC are all included in ASEM, with the US remaining outside.

²⁶The newly launched initiative to institutionalize the so-called "ASEAN+3" Summit can be regarded as a variation of EAEC. The "2001 ASEAN+3 Summit Meeting" held in Brunei recently launched several significant studies on the feasibility of various forms of regional integration proposals.

goes as follows: If APEC continues to adhere to the concept of open regionalism, it does not have any other options than to liberalize unilaterally or to develop itself into an FTA. Considering the immense difficulties for APEC member countries to agree upon appropriate measures leading to unilateral liberalization,²⁷ developing APEC into an FTA seemed more plausible and practical. Although this approach will also face many institutional, economic and even political barriers, the idea seems to enjoy increasing acceptance. For example, Park (1998) suggests that the formation of NEAFTA will constitute a very important first step toward an APEC-wide FTA agreement. Notwithstanding which of those proposals is to be adopted, it is imperative that East Asia needs at least some kind of institutional framework for regional cooperation and integration. This is all the more true in the light of overcoming the on-going and preventing the new economic crisis in the region.²⁸

A one-sided approach by East Asian countries to intensify regional integration in the region, however, will run the risk of fragmenting the world economy into three large trading blocs, Europe, North America, and Asia. Therefore, East Asia needs to adopt a balanced approach between regional integration and inter-regional cooperation. For the latter, East Asia has already been involved in APEC and ASEM, which provide excellent opportunities for the world economy not to be further fragmented regionally, but to be further integrated globally.

V. Conclusions

The paper first reviewed the increasing worldwide tendency towards regionalism, and discussed the current status of economic integration in East Asia. It then analyzed the regionalism in East Asia, providing rationale and reasons for the belatedness and for the newly emerging interests in regionalism in East Asia. Main findings of the paper are as follows.

First, the world economy has been experiencing a co-existence of multilateralism and regionalism especially since the mid-1980s, and is expected to do so as long as multilateralism fails to provide enough incentives for the trading nations to refrain from regionalism. However, there seems to be no definite answer at the moment to the question whether or not the increasing regionalism will be detrimental to multilateral integration of world economy.

²⁷The difficulties could be observed in last year's APEC Summit in Kuala Lumpur, where the APEC-wide initiative of Early Voluntary Sectoral Liberalization (EVSL) could not reach any meaningful agreement, mainly due to hesitation of some member countries to unilaterally liberalize.

²⁸The fact that the major European currencies were largely not affected by the Russian crisis in the mid-1998, thanks to the strong commitment signaled by the upcoming launch of EURO, to help each other among the EU member countries, reaffirms the need for East Asian economic to more closely cooperate and, if possible, integrate in economic affairs.

Second, although East Asian countries have long been relatively immune from this increasing regionalist tendency, they begun to adopt regional integration agreements as a policy option next to multilateralism. This new development in East Asia, especially in Korea and Japan, may imply an additional burden onto the multilateral integration of the world economy.

Third, as the sub-region Northeast Asia plays a very crucial role in economic integration within East Asia, an inclusion of three big economic powers – Japan, Korea and China – seems imperative, in case any kind of economic groupings in the region are to be discussed or negotiated. An inclusion of these three countries, for example, into AFTA will provide an additional momentum for the economic development of the region.

Fourth, in the light of the important role of the Northeast Asian countries and in conjunction with the lacking appropriate coordination scheme among them within APEC and ASEM, the paper identified the formation of Northeast Asian FTA as a strategic alternative. This is also regarded as an excellent first step towards a more ambitious goal of establishing an APEC-wide FTA.

Fifth, notwithstanding the necessity for East Asia to form any kind of regional economic integration bodies, the paper argues against a one-sided regionalist approach, which will imply another large-scale regional bloc next to the EU in Europe and NAFTA in North America, and thus be detrimental to multilateralism and. A further regional fragmentation of world economy will not do any good to the outward-oriented East Asian economies. Therefore, the East Asian countries are rather encouraged to adopt an approach striking balances between regionalism and multilateralism. An active participation in such inter-regional (inter-continental) cooperation bodies as APEC and ASEM would provide excellent opportunities for this approach.

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Table A-1. Geographical distribution of East Asian countries' exports (1996)

Export countries	Share in total exports (%)						
	Japan	China	Korea	Hong Kong	Taiwan	ASEAN(5)	East Asia
Singapore	8.2	2.7	3	8.9	3.9	27.3	50.1
Malaysia	13.4	2.4	3	5.9	4.1	27.3	56.1
Thailand	16.8	3.3	1.8	5.8	2.5	18.3	48.5
Indonesia	28.8	4.3	7.6	3.1	3.6	11.4	58.8
Philippines	17.8	1.6	1.8	4.2	3.2	13.7	42.3
ASEAN 5 ²	14.5	2.9	3.4	6.5	3.6	22.6	52.0
ASEAN (4) ¹	18.4	3	3.6	5	3.4	19.3	52.7
Korea	12.2	8.8	(-)	8.6	3.1	14.1	46.8
Taiwan	12	0.3	2.2	12.8	(-)	12.9	39.9
Hong Kong	6.5	34.3	1.6	(-)	2.4	6.3	51.1
Japan	(-)	5.3	7.1	6.2	6.3	17.3	42.2
China	20.4	(-)	5	21.8 ⁴	1.8	5.7	54.7 ⁴
East Asia (10) ³	9.1	9.1	4	8	3.4	15.1	47.5

Notes : 1. ASEAN (4): Malaysia, Thailand, Indonesia, and Philippines

2. ASEAN 5: ASEAN (4) + Singapore

3. East Asia (10): ASEAN 5, Korea, Taiwan, Hong Kong, Japan, China

4. Trade with Hong Kong reflected in China's statistics includes trade with third countries passing through Hong Kong ports

Source: IMF, Direction of Trade Statistics Yearbook, 1997 .

**Table A-2: Economic Interdependence in East Asia:
Intra-regional exports/GDP ratios (1996, %)**

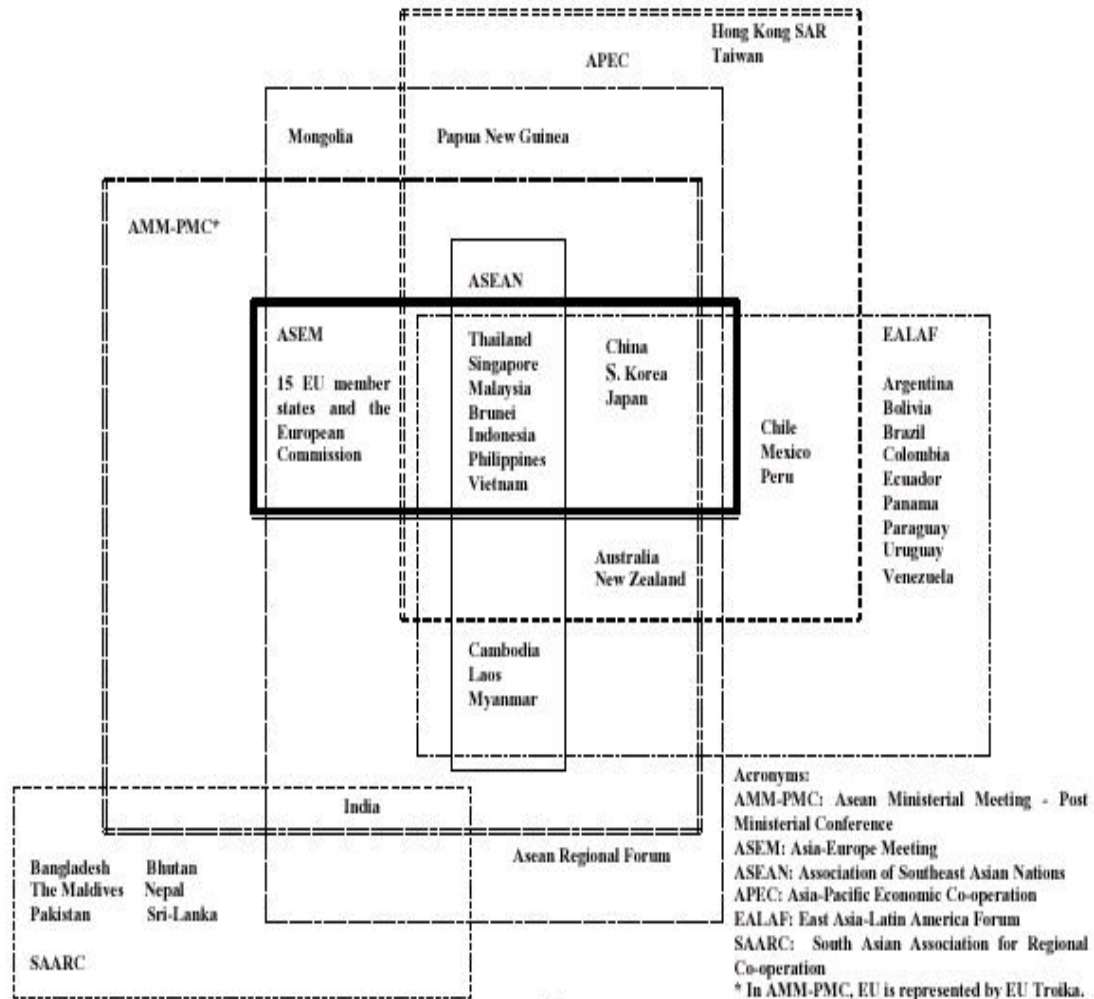
Exporting countries	Japan	China	ASEAN 5	NIE	East Asia
Singapore	12.7	3.3	39.4	12.6	68
Malaysia	10.7	2.3	22.3	13.8	49.1
Thailand	5.6	0.9	6.3	3	15.8
Indonesia	6.7	1	2.5	0.9	11.1
Philippines	4.3	0.3	3.6	2.9	11.1
Korea	3.7	2	3.6	3.2	12.5
Taiwan	5	0.1	5.4	10.9	21.4
Hong Kong	1	5.8	1.5	2.5	10.8
Japan	-	0.4	1.5	1.7	3.6
China	4.1	-	1.3	5.7	11.1

Note: NIE: Korea, Taiwan, Hong Kong

ASEAN 4, ASEAN 5: see notes of table 1

Source: IMF, Directory of Trade Statistics Yearbook 1997.

Figure A-1: Networks of Cooperation and Integration Arrangements involving East Asian Countries



Source: European Commission (2000).