

# Growth Strategies for East Asia following the Global and EU Financial Crisis

**S**ession One saw **Dr. Hank Lim**, Senior Research Fellow speak on the topic of Growth Strategies for East Asia Following the Global and EU Financial Crisis, while **Kristy Hsu** of Chung Hua Institute for Economic Research, Taiwan, spoke on Taiwan's Perspective on the Trans Pacific Partnership (TPP): Exploring the Realization of Open Regionalism. **Veena Loh**, Senior ISIS Fellow, reports.

## Background

**Dr Hank Lim** said that the global financial and economic crisis of 2008-09 and the current EU financial crisis have shifted the global economic centre of gravity to East Asia. This structural change has resulted in the establishment of G-20 to replace the G-7 as the world's premier economic forum to oversee and chart the global economic landscape. Among the G-20 members, six, namely China, Japan, Korea, Indonesia, India and Australia are East Asia Summit (EAS) members.

After two years of severe global economic crisis, the world economy is still experiencing instability and weak recovery due to massive public debt, severe unemployment, and structural imbalances in the US and the EU, exacerbated by exchange rate instability. On the other hand, rapid economic growth continues in China, India and the Asean economies.

But economic dynamism in East Asia is not sustainable unless this region re-balances its growth strategy through macroeconomic policy and structural reforms that will gradually unwind imbalances and raise potential output through inclusive growth, innovative growth, sustainable growth, and secure growth strategies.

East Asia's potential success in realizing the five growth strategies is critically dependent on its evolving regional economic cooperation and integration. Without widening and deepening its



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economic integration, sustainable high growth in the region and its consequent impact on the world economy would be more difficult and uncertain. Higher and dynamic growth provides opportunities for East Asia to fulfil its vast economic potential of being the engine of world economic growth and at the same time, to narrow the development gap in the region.

Though East Asia has initiated and completed regional, sub-regional and bilateral Free Trade Agreements (FTAs), the trade and investment impacts have not been positively large, mainly due to the overlapping and the duplication of FTAs of different levels and scopes, often referred to as the 'noodle-bowl' syndrome. How East Asia can meet the challenge of bringing together these overlapping regional, sub-regional and individual FTAs into a cohesive, integrated,

seamless and borderless market is the primary issue, and one of utmost importance to regional policy-makers.

The proliferation of FTAs in the region results not so much in trade creation as trade distortion. Further efforts taken by East Asian countries toward economic integration have resulted in the conclusion of 'Asean+1.' Asean has concluded FTAs with China, Japan, Korea, Australia, New Zealand and India (on Trade in Goods).

At the same time, Asean has implemented the Asean Economic Community (AEC) Blueprint, with the goal of turning Asean into the following: a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy – all within the time frame of 2015 for Asean-6, and later for Asean-4.

The severe global economic crisis of 2008-09 and its aftermath have adversely affected the region, especially economies that are export-dependent and externally-driven. Since late 2009, East Asia has steadily recovered, propelled by the continued rapid growth of China and India. East Asia has higher intra-regional trade than Nafta had in 2007 but mostly in intermediate inputs, rather than in final products. Therefore, East Asian countries must re-balance their development strategy by increasing aggregate regional final demand in goods and services, and promoting intra-regional investment.

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In addition, the region has enormous savings and accumulated foreign exchange reserves which can be used to promote, in the region, investment opportunities, through more effective monetary and financial cooperation, as embodied in the Chiang Mai Initiative (CMI).

East Asia is confronted with enormous opportunities and challenges in becoming an engine of growth for the world economy. The future and evolving shape of East Asian integration would determine how much of that economic potential can become an economic reality.

### **Framework, Scope and Mechanism for Regional Integration**

Theoretically, an effective Regional Trade Agreement (RTA) should create a significant enough positive welfare effect on all participating member countries, and should result in equitably distributed gains from free trade between members.

Next, what are the conditions needed for sustainability?

An RTA should create enough static and dynamic effects on world welfare to ensure non-discriminatory global free trade.

So far, quantitative studies on RTAs in East Asia have not examined whether the existing RTAs will be viable in the long run in a globalizing world.

At the 12th Consultation between Asean Economic Ministers and Ministers from China, Japan and Korea, in Bangkok on 15 August 2009, the ministers re-affirmed the importance of the contribution of these Asean+1 arrangements to the realization of the overall objective of integrating the economies of Southeast and Northeast Asia.

The Asean+3 Ministers agreed to recommend to the Leaders that senior officials discuss and

consider the recommendations of Phase I and Phase II of the East Asia Free Trade Area (EAFTA) Study and submit their recommendations on when and how to establish working groups on Rules of Origin (ROO), tariff nomenclature, customs-related issues and economic cooperation. Following this ministerial recommendation, four working groups have been established and discussions have started.

The ministers also agreed that the crisis should be turned into an opportunity for expanding intra-regional trade and investment by providing trade facilitation and liberalization among Asean+3 countries, thereby raising the competitiveness of the region as a whole, and providing strong support for the development of SMEs to instil vigour into the regional economy.

There has been a notable continuing progress in the implementation of economic cooperation projects covering a wide range of areas, including standards and quality conformity, information and communication technology (ICT) and customs cooperation.

The Track Two Study Group on Comprehensive Economic Partnership for East Asia (CEPEA) completed its study on 20 June 2008 and submitted the report to EAS Economic Ministers.

The objectives of CEPEA are the deepening of economic integration, the narrowing of development gaps and the achievement of sustainable development. Its structure consists of the three pillars: economic cooperation, facilitation of trade and investment, and liberalization of trade and investment.

Specific collective actions are in areas such as the environment, energy, logistics and facilitation issues covered by the AEC Blueprint. Institutions such as the Asean Secretariat, Economic Research Institutes for Asean and East Asia (ERIA) and the Asian Development Bank (ADB) should assume important roles in this process.

Further CEPEA Track Two study can include measures to narrow development gaps, a mechanism to enhance the opportunity for regional business leaders to contribute to the CEPEA realization process, and the establishment of an effective score card and monitoring mechanism. ERIA has completed a study on the Comprehensive Asian Development Plan (CADP) and an Asean Strategic Transportation Master Plan.

Regional integration in East Asia will continue to evolve on the multi-level framework and the parallel processes of Asean+3 and EAS.

Free Trade Area of the Asia Pacific Partnership (FTAAP) as advocated by Apec, the Apec Business Advisory Council (ABAC) and Trans-Pacific Partnership (TPP) will provide competitive liberalization and integration, and 'pathways' to wider regional integration.

The Asean Plus Three (APT) and EAS will propel regional dynamism, energizing and complementing different aspects of regional integration, but progressing towards the common goal. A gradual and realistic strategy should be pursued to achieve feasible EAFTA.

Towards this end, an important first step is to create a unified rules of origin (ROO) regime, to incorporate trade in services and investment, and to start the overall EAFTA negotiations by 2012. In this context, a China-Japan-Korea Trilateral FTA (CJK FTA) would greatly facilitate and accelerate EAFTA.

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## Taiwan's Perspective on the TPP: Exploring the Realization of Open Regionalism

### *The Taiwan-China Economic Cooperation Framework Agreement (ECFA)*

The Taiwan-China ECFA was signed on 29 June 2010, by the Straits Exchange Foundation (SEF) and the Association for Relations across the Taiwan Straits (ARATS). The initial step towards institutionalizing relations and a Taiwan-China free trade area, in the long run, came into force on 12 September 2010 said **Ms Kristy Hsu**. This agreement may have far-reaching implications for the interpretation of the 'One China Policy' in the international community. On 5 August, Singapore and Taiwan announced the exploration of the feasibility of negotiating a bilateral Economic Cooperation Agreement (ECA) under the WTO framework.

#### **Major Contents of ECFA**

The ECFA comprised of an Early Harvest Scheme, a concept borrowed from the China-Asean Comprehensive Economic Cooperation Agreement, but further expanded to the services trade. Further negotiations are expected to start no later than six months from the ECFA enforcement (12 March 2011), and would include an FTA of trade in goods, an agreement of trade in services, an investment agreement, and a dispute settlement mechanism. The talk of a cross-strait investment agreement is included on the agenda of the 6th Chiang-Chen talk of the SEF-ARATS meetings.

#### **Implications**

One of the major goals of the ECFA is to overcome Taiwan's marginalization in regional economic integration. Taiwan has only four FTAs with five Latin American countries covering less than 0.2 per cent of total trade, due to the 'One China Policy.'

Beijing declared that it 'understands Taiwan's need to establish economic relations with other governments..' and that ECFA would 'help find a way to link the cross-strait economy to regional economic cooperation, and in the process, open expansion space for Taiwan's economy.' Following Singapore's announcement on August 5, some other countries also expressed interest, informally, on the possibility of a trade agreement with Taiwan.

Taiwan is in the process of mapping an FTA strategy that addresses the following aspects:

**Bilateral:** To seek potential partners for developing ECAs, including Asean countries, Japan, New Zealand, Australia, EU, etc., under the WTO framework; to resume US-Taiwan Trade and Investment Framework Agreement (TIFA) talks;

**Plurilateral:** To continue to promote Apec region-wide FTA; announce interest in the TPP Agreement

**Multilateral:** To demonstrate commitment to supporting the conclusion of the WTO Doha Negotiations; to promote open regionalism in the WTO.

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#### **Promoting Open Regionalism in the WTO**

In June 2005, a proposal was submitted during the Negotiating Group on Rules meeting, to add an accession clause to WTO agreements. An RTA shall be open for accession by other WTO Members, on terms to be agreed between the original parties of the RTA and interested WTO Members.

WTO Members not party to the RTA may indicate to the RTA parties, in writing, their intention to accede to such RTA. The parties of the RTA shall respond sympathetically to such requests, and in good faith, accord adequate opportunities for other interested WTO Members to negotiate the terms of their accession.

Requests, replies, progress and results of subsequent negotiations conducted in accordance with previous provisions shall be notified to the WTO.

The proposal did not receive positive responses. There were concerns about the feasibility and acceptability of allowing third countries to join RTAs, for the following reasons: possible political and other non-trade implications or considerations; implications in dispute settlement procedures arising from not implementing the mandatory clause; too many countries asking for accession and thus creating unexpected burdens and cost to original members; the 'China factor.'

Generally, most countries are hesitant about allowing accession to third countries; they support 'multilateralization of RTAs,' instead of open accession.

### ***Open Regionalism in the Apec region***

In November 2004, Apec endorsed RTAs related initiatives, including the 'Apec Best Practices for RTAs and FTAs' for promoting RTAs of high standard in the region. In June 2005, Apec agreed to forward the 'Best Practices' to the WTO Rules Negotiating Group for reference. One major principle in the Best Practices is to encourage RTAs concluded among Apec members to be 'open to the possibility of accession of third parties on negotiated terms and conditions.'

Some examples of RTAs/FTAs are:

- Closer Economic Partnership Agreement between Australia and New Zealand; NAFTA; the US-Australia FTA;

- An accession clause in FTAs with Latin American countries included by Taiwan;
- TPP: Art.20.6 stipulates TPP is open to accession by any Apec economy or other States, on terms to be agreed between the Parties.

### **Summary and Policy Implications**

Despite an accession clause or principle in some RTAs, there have not been many accession applications by third countries. The fact indicates it is an extremely difficult exercise for a third country to negotiate with original parties, particularly in the area of product coverage and associated ROOs. It would be perhaps more cost-effective and efficient to negotiate a new FTA with the original parties. In addition to technical difficulties, there are political obstacles: Taiwan's experiences will not be unique.

The open accession concept, when applied in specific RTAs, may not be an effective design to realize open regionalism or multilateralization of RTAs: whether the parties act 'in good faith' and are open-minded enough is a critical factor for the realization of open regionalism.

The TPP should set up a good model for other RTAs to follow, yet the result remains to be tested. WTO and Apec have to propose more effective mechanisms to promote regional and global economic integration, and to minimize the impact of low-quality RTAs on regional and global trade and economic development.

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