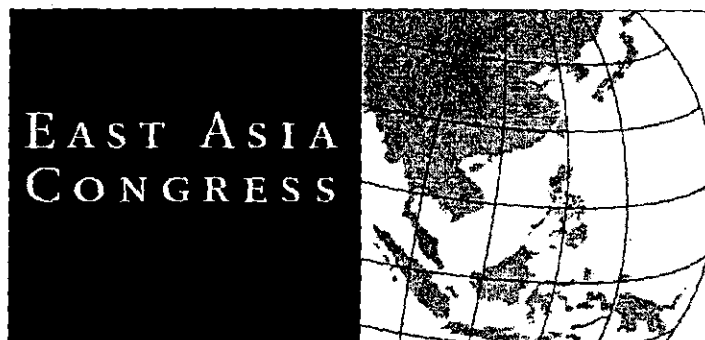


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SESSION SEVEN

“Positioning East Asia in the Post-Crisis
World”

by

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Economic integration as a Way out for the Post-crisis East Asia

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East Asian economy has experienced long-term rapid growth, but the crisis shows that we have to adjust our development strategy in the post-crisis world, because great changes have taken place in the western market which our growth depended heavily on. Just as president Obama remarked in Tokyo recently, America will learn to produce more and East Asian countries have to consume more. To tackle this issue, this paper argues that we should try our best to promote regional integration to help the world economy back to the balance track in the future. However, it's not easy to get any deep arrangement in East Asia for diversified reasons, and what I provide here is Chinese perspective to promote regional integration.

I. East Asia and world economy

1. Basic relations between East Asia and world economy

East Asian economy is known as a catching-up one and had depended heavily on western market under the export-oriented paradigm, but it seems that this kind of development strategy has never been safe, maybe that's why we experienced the 1997-98 crisis of our own, and seriously affected by crisis of others this time. Although regional endeavors had been made to change the situation of over-dependent to western market since last crisis, the achievement is not so exhilarating. The internal final demand was only about 32.5% till 2006, and East Asia is accused to be responsible for the imbalance of world economy.

2. The crisis influence on East Asian economy

From the point view of economy, the crisis means that the export-led paradigm will face new challenge because the world demand may decline in the post-crisis era. The crisis hit American Economy is now on the recover track. But what's next? Some observers argue that it's not easy for the United States to get rid of the over-consume habit, but evidences show that the American people do begin learning to save more. And according to Prof. Yu Yongding, former director of IWP, CASS, although America can not change so quick to be trade surplus by export more, but it may choose to be protective for the internal employment pressure, and this will lead to immediate slowdown of import. The contraction of consume caused will lead to the overall demand slowdown for world economy. For East Asia, this means difficulty in its export-oriented growth at least in short to middle term (5-10 years maybe).

3. Decoupling story seems impossible for East Asian countries

Now, we find ourselves depend on a contracting demand in our growth, while to world economy, the problem is how to get rebalance. What can we do? That is why we are here I think. We should define our position in the post-crisis world, should we going on what we had done during the last

decades or change our paradigm to be more inward looking. There are arguments about the decoupling since the crisis broke in 2008, for some observers, with the decline of the American economy, East Asian countries should and can keep long-run growth separately, and this may be proved possible by trade more within a more integrated East Asia. But it seems too early to get this conclusion for others. Study show that during last 10 years, emerging Asia's consumer spending was going down relative to its GDP, although it was going up compared to the US consumer spending. And this is true for China, research done by CASS show that about 58% of China's output growth fluctuation can be explained by the significant "common world factor" (Yuan, Wang and Zhang, 2009). While the financial linkage between china and world also support the same evaluation (Sun and Zhang, 2009).

II. East Asian cooperation: competing initiatives

It seems that we have agreed that should do something to make independent development, and integrating regional economy was always proved to be a rational choice. For example, the 1992 AFTA was the endeavor of Southeast Asian countries. And the "10+" arrangements were responses to the 1997 crisis. Today, East Asian cooperation is being promoted by different initiatives, aiming at creating a stable foundation for the long-run growth of the countries in this region. As we have seen, the "10+1", "10+3" cooperation became more and more institutionalized with ASEAN as a hub. But this economic dominated cooperation changed into leadership rival gradually with the recover of regional economy, when the crisis-driven cooperation in East Asia regain attention due to the subprime crisis, we already have such a initiatives that is far more than enough. We have "10+3", "10+6" and EAS, even APC from external initiative, and now, with the political changes within Japan, we have a new Japanese government with an EAC dream.

The emerging of so many initiatives shows a very important aspect in East Asia, that is most regional countries have realized that economic integration will be the way out for East Asia in the future, but they are far from arriving at agreement on how to make regional integration. That's why we have so many initiatives in promoting regional cooperation.

The consensus on cooperation make it easy for regional countries to sit down especially when crisis comes, but usually, after long talk or even signing some documents, they back to where they came, after evaluating what they talked about or signed, they found for their own interests, they need other arrangements, then they back with new initiatives. Why? The straight answer is interest rival, in other words, who will be dominant in the integration process. I don't want talk too much on this issue, but it's obvious that this kind of competition will be no good to the region, because when too much efforts was put on internal rival, the overall benefit of the cooperation to the region will be sacrificed or at least overlooked, although different initiatives have there advantages.

III. Promote economic cooperation in East Asia: Chinese perspective

1. "10+3" should be the main channel

How to deepen the economic integration in East Asia? We prefer to the “10+3” (APT) framework, which is incepted immediately after the 1997 crisis. Compared with other initiatives, APT is more suitable to East Asia in geo-economic meaning, at the same time, after nearly 10 year cooperation, the APT had made some substantial progress. ASEAN Community building is going well, and three “10+1” (ASEAN+China, ASEAN+Japan and ASEAN+Korea) FTA have all signed and will go into force. This is the one hand, and on the other hand, although an Economic arrangement include more member is economically preferred, but the bigger it is, the more difficult to achieve, that’s why the WTO Doha round fell into deadlock, I think. When talked about the future of East Asian cooperation, Prof. Lee Chang Jae said that “we already have enough problems even in an APT framework”. And his remark makes sense to me.

Another question may be whether it works, and to me the answer will be positive. Four or five years ago, the APT summit tasked a joint research team to study the possibility of an East Asian FTA, and now, the experts have finished two phases of research work, and have provide recommendations to the APT summit this year. According to the joint research, the APT integration can be promoted from some functional aspects, for example the unification of the different ROOs, to consolidate the three existing “10+1” FTAs. Guided by a gradual and realistic strategy, this may lead to somewhere that is nearer to a real economic community. After all, the requirement of global rebalance ask for a regional arrangement in East Asia that can work as soon as possible, not a perfect one that never be settled down. This is not say that we should stop other efforts to promote regional cooperation, it only means that regional countries should try to make a compromise to work together from one point, instead of make separate endeavors. At the same time, each part can try to find better way out for the region.

2. ASEAN’s role in the process

ASEAN has been the hub for East Asian cooperation from the very beginning, and the ASEAN Way was also copied by the APT process. In the next step, ASEAN should also be the hub for East Asian cooperation, especially in the APT framework. Both China and Japan should support ASEAN to play important role in the process of regional cooperation. On the one hand, all the northeast Asian countries should help ASEAN in its effort to achieve the ASEAN Community in 2015, and this will be a pivotal contribution to the regional integration. On the other hand, the Three should also support ASEAN as the driver during the process of regional integration.

As for ASEAN, although some observer within ASEAN treat the driver seat as nominal or even just a chauffeur, but ASEAN do gain from this kind of hub position, for example, with more and more countries choose to join the “10+” structure, ASEAN was endowed with more and more functional power as the Hub-Spoke structure getting stronger. Hope this can provide more confidence to play central role in the regional integration process.

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outline

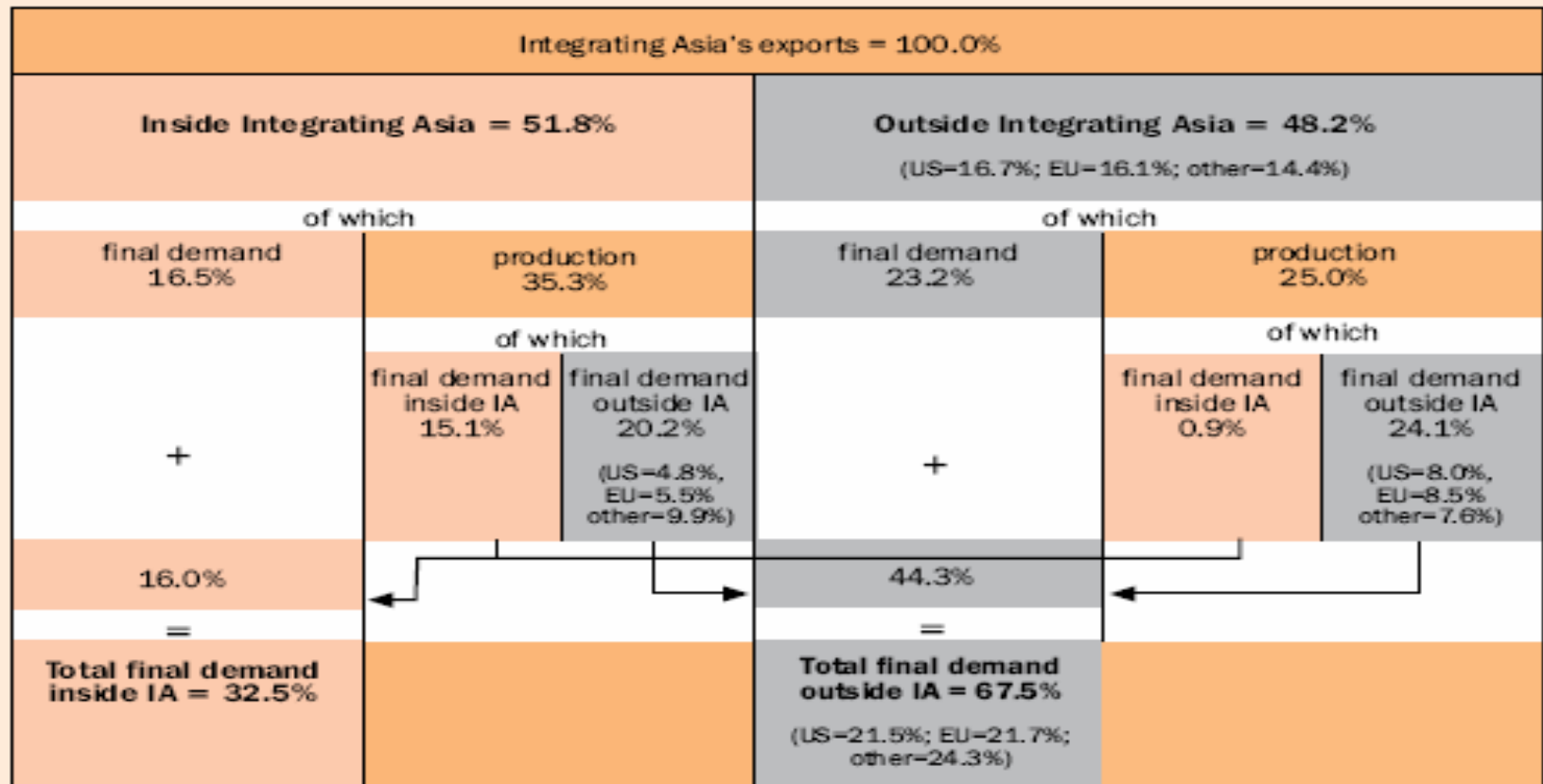
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- **East Asian cooperation: competing initiatives**
- **Promote economic cooperation in East Asia: Chinese perspective**

East Asia and world economy

- Basic relations between East Asia and world economy
- The crisis influence on East Asian economy
- Decoupling story seems impossible for East Asian countries

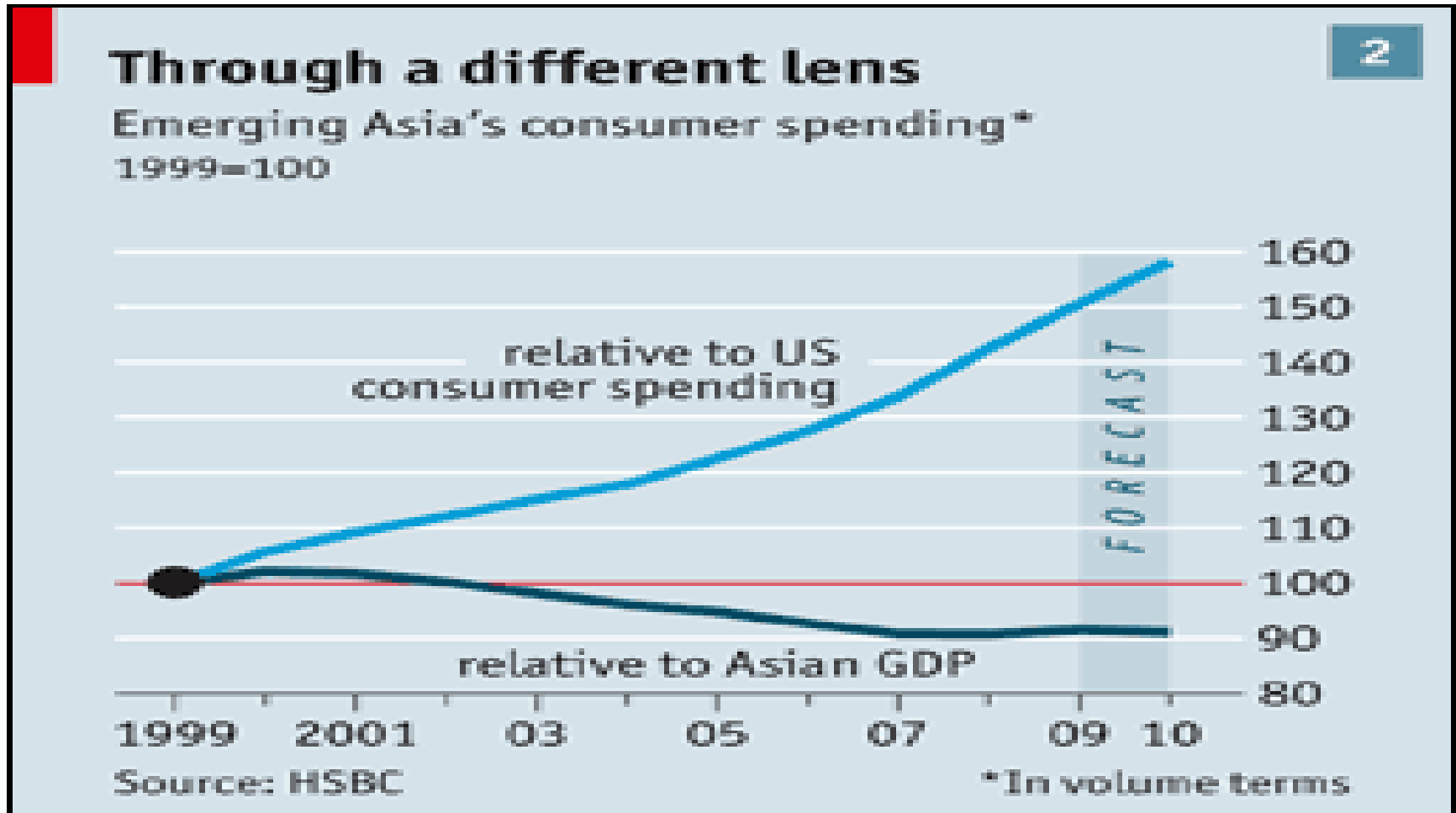
Depending on external market

Figure 3.5. Asia's exports depend significantly on non-Asian final demand
Direct and indirect links, 2006



EU = European Union, IA = Integrating Asia, US = United States.

Internal consume driven?



competing initiatives

- initiatives more than enough
- interest rival behind diversified initiatives

Promoting economic cooperation in East Asia

- “10+3” should be the main channel
- ASEAN’s role in the process