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## Second East Asia Congress

### An “Expanded” Europe and the Free Trade Area of the Americas: Impact and Responses for East Asia

*Regional economic blocs have become one of the most important trends in world development. Although the notion of a more integrated East Asia was launched at the same time as the European Union (EU) and the North American Free Trade Agreement (NAFTA), it is today lagging behind. Paper presenters from China, Thailand, Korea and Vietnam took a hard look at what ASEAN and East Asian countries must do to become an equally competitive regional entity. The ISIS Editorial Team reports on this session of the Second East Asia Congress.*

**Prof Zhang Yunling** in his paper “What East Asia can learn from EU and NAFTA in its Community-Building” said that regionalism is one of the most important trends of current world development. Prof Zhang, who is Director, Institute of Asia-Pacific, Chinese Academy of Social Sciences, China, said that compared with Europe and North America, East Asia is lagging behind in developing high-level regional institutions, and therefore should speed up its process of regional cooperation and community-building.

#### Learning from Europe and America

Prof Zhang said that peace and prosperity in the European Union has been secured through cooperation and integration and outlined three major lessons for East Asia.

The first is “**political reconciliation.**” The European cooperation process provided a single and genuine framework to bring together countries in Europe that had been divided by two world wars. Now they work for a shared and increasingly common interest.

The second is “**institutional building.**” Prof Zhang said the European style of gradual and steady institutional building, which took half a century, is what made Europe really integrated. He noted the progression of institutions, from the European Coal and Steel Union, to the European Common Market, to the European Community and finally to the European Union.

The third is “**balanced interests**” which took into consideration, through well-designed arrangements, the interests of less competitive sectors and less developed economies in the integration process. The significance of the European experience in regionalism, Prof Zhang said, is that all European countries were integrated into a “Grand Europe” by a single market, single currency, as well as a single super-political system, allowing them “to act as a single powerful group to gain and also defend their best interests.”

In the case of NAFTA, Prof Zhang said the market was integrated through comprehensive coverage of sectors and a clearly designed dispute settlement mechanism.

NAFTA provides a unique case of how a developed economy like the United States can integrate with a developing economy like Mexico. NAFTA's envisioned evolution into an FTAA would turn North, Central and Latin America into a single liberalised market, thereby significantly reshaping the structure of the world market.

Prof Zhang noted that although the idea of a more integrated East Asia was launched at the same time as EU and NAFTA, East Asian countries are still working on multi-layered bilateral arrangements and lacking the integrated approach of an East Asian FTA. Prof Zhang said that "determination, pragmatism and wisdom" are the key words to keep in mind when studying the experiences of EU and NAFTA.

### **Defining East Asia**

The real challenge is to define the "East Asian Community." East Asian countries have shared interests – economic and political. For long-term peace and prosperity, regional institutions are needed. The EU and NAFTA provide two models for regional integration, but East Asia has to find its own way. Prof Zhang noted that due to the great differences, East Asian institutional building can only occur gradually.

According to Prof Zhang four steps have to be taken in the near future to realise an East Asian Community.

First, it is necessary to coordinate all the multi-layered arrangements in the region into one. Second, regional institution building should be strengthened, by moving the current ASEAN+3 process (i.e. ASEAN + China, Japan and Korea) into an "East Asian Summit" no later than 2007, or alternatively by setting up a regional organisation. Third, steps should be taken to strengthen financial cooperation, advancing towards a common regional financial structure. Finally, non-traditional security cooperation must be institutionalised, and an East Asian education programme should be launched.

## **The EU and the Americas: bigger and bigger**

**Dr Narongchai Akrasanee**, Chairman, Seranee Holdings, Thailand, shared some statistics on the recent development of the EU and the Americas. In May 2004 the EU grew from 15 to 25 countries, with two more countries set to join in 2007. This, Dr Narongchai said, spelled an increase in population to 455 million accounting for 7.3 percent of the world's population, 29 percent of world GDP and about 20 percent of world trade.

The EU is also negotiating special economic relationships with South American and Gulf countries. The US is similarly expanding economic cooperation with Central and South American countries. The Free Trade Area of the Americas (FTAA) will go into operation in 2005. These developments, to East Asia, mean that the EU and US are becoming more regional economic blocs.

Dr Narongchai also observed that both the EU and the Americas share similar tariff structures, have signed bilateral cooperation agreements, and are in dialogue on major issues like technical barriers to trade, mutual recognition of goods, services, procurement, intellectual property, and early warning mechanisms. They have also had a lot of intra-regional trade and little extra-regional trade. This would definitely have an impact on East Asia.

## **Threats and opportunities for East Asia**

Dr Narongchai talked about the challenges to East Asia of a strengthened coalition and cooperation between the EU and the Americas. These include the intense competition in the US and EU markets from new members for agricultural products and East Asia's traditional export products (textiles, clothing, and others). The new members will also be seen as new investment destinations.

On the other hand, East Asia can now look at these regional blocs as larger markets as they represent 1.255 billion people (about 20 percent of the world's population). Thus, Dr Narongchai said that it was necessary for East Asian countries to foster economic cooperation among themselves in order to remain competitive. They must also increase intra-East Asia trade and investment, and at the same time overcome political obstacles.

## **From skepticism to reality**

Dr Chan-Hyun Sohn, Senior Fellow, Korea Institute for International Economic Policy, Korea, focused on the varying aspects of the two regional blocs. He said that the EU not only expanded its membership to 25 members but also deepened its integration after its single market process in 1991. He highlighted its single currency as a further step in integration, as well as the long historical process of its integration. Dr Sohn also emphasised that because the EU “prepared” its new members before they joined, no serious problems arose.

As for the FTAA, Dr Sohn said it is different from the EU as NAFTA started with skepticism, because its members consisted of countries diverse in income levels, and social and cultural backgrounds. Yet, he said, NAFTA has kept moving forward to achieve its objectives, and if all 34 countries eventually do form the FTAA, it would be a shock to the world economy. Although this would technically be a reality in 2005, Dr Sohn pointed out that this is just the beginning of the integration process for them. He noted, however, that their integration process would be shortened as the FTAA consists of a number of important sub-regional groupings, such as NAFTA, Mercosur, and Andean FTA. Thus, Dr Sohn said, the world would be seen in three parts: EU, FTAA and East Asia – but it would seem that East Asia has been “forgotten.”

## **What can East Asia learn from both the EU and FTAA?**

**Vision-making.** Dr Sohn said that East Asia should look at the EU when it comes to “vision-making.” East Asia has been slow and sluggish as there is no strong political leadership. He recommended integration in areas where East Asian countries share a common objective, for example the infrastructure sector where all countries are linked via rail or road. Such integration would boost the economy in the region. The EU started the process by having a common agricultural policy or energy policy.

**Speeding-up.** Dr Sohn said that East Asia must also learn to speed up the integration process. In this respect, the FTAA model offers two approaches. The first approach is to get together and to identify a framework agreement i.e. to agree on something collectively. The second approach is to emphasise the business sector as the driving force for integration as observed in the Americas. The business sector could play a vital role using the technology industry, for example in coming up with standards and certification, environmental protection technology, and intellectual property rights which can be shared in the region.

**Deepening.** Dr Sohn said that East Asia could learn from the EU in regard to deepening its integration. Here, he observed that simultaneous development in the areas of trade and finance would be required. He pointed out that the Chiang Mai process accelerated the monetary and currency integration in the region, and cited the Asian Financial Crisis as having brought about consensus and collective action in the area of monetary and finances.

To achieve all this, Dr Sohn said it is important for East Asian countries to develop a sense of community. On the regional bloc's name, he feels that it should be changed to reflect a single identity. He suggested that "East Asia Summit" or "East Asia Meeting" may be more suitable than the current ASEAN +3.

One way to accelerate the integration process is for research institutions to not only prepare reports for governments but also give the business sector initiatives in which to participate. This will generate and strengthen the engine of growth in the region, which can then be shared among nations.

### **A surge in regionalism**

Ms Le Linh Lan, Director, Euro-American Studies Centre, Institute of International Relations, Vietnam, focused the first part of her presentation on the internal and external driving forces for East Asia regionalism.

External forces include the expansion of EU and the FTAA, while the internal forces comprise the economic motives of East Asian countries, and the emergence of China as a strong economic power. The China factor has intensified competition and added weight in the region. Ms Le noted that ASEAN+3 has become a world force as it represents one third of the world's population, one quarter of world GDP, one fifth of world trade and is home to more than two thirds of international foreign reserves. The Asian Financial Crisis also served as a catalyst for the recent surge in East Asia regionalism.

### **More challenges than opportunities?**

Addressing the impact of EU and FTAA in the region, Ms Le said that the opportunities allow export-led countries in the region to avail themselves of a much larger export market. In addition, a standardised EU would ensure a freer circulation of goods and services.

As for challenges, Ms Le said that in terms of trade, the existence of new members may favour increased intra-EU trade at the expense of non-EU countries. She added that there is also the problem of agriculture, as the ten new members joining the EU export a substantial amount of agriculture products and receive support through the Common Agriculture Policy.

Discussing the FTAA challenges, Ms Le touched on the impact of the US preferring the FTAA over multilateral trade. Furthermore, the EA and FTAA, being such significant groups, would clearly benefit from their tremendous bargaining power in multilateral trading negotiations.

### **Responding to challenges**

Acknowledged that the big question is how to respond to these developments, Ms Le made three recommendations.

First, accelerate regional integration and community building; this could be done via a step-by-step approach toward an FTA and through financial cooperation.

Second, learn from the EU experience, i.e. take an eclectic approach to regionalism. Currently, the region is market-driven, but the political and strategic considerations are also very important. In this sense, Ms Le believes stronger leadership is needed from big players like China and Japan. ASEAN could take a leadership role but this is not enough; China and Japan must reconcile and adopt a joint leadership in the process.

Third, promote economic interaction with the US and Europe. This is important, what with the region's economies being very dependent on the US and EU as export markets.

Ms Le concluded by saying that East Asia should adhere to the principle of "open regionalism," and find a balance between regionalism and multilateralism. Ms Le reiterated that an increased sense of shared identity, vision and more political will are all needed to move forward. She is optimistic that with the continued expansion of the Chinese economy, the revival of the Japanese economy and the economic prospects of East Asia, successful regionalism would be a reality and lead not only to economic benefits but also security, peace and prosperity in the region.

### **US presence in East Asia**

Mr Jusuf Wanandi, the session Chair, also made available his paper, "Challenges to the East Asian Community and the Moves Forward." Jusuf, who is Co-Founder and Member, Board of Trustees, Centre for Strategic and International Studies, Indonesia, outlined two main strategic trends that would influence future peace and stability in the region, which in turn are key requirements for maintaining the region's economic dynamism and growth.

The first trend is the strategic presence of the US in East Asia, and adjustments that were made imperative by the Revolution of Military Affairs (RMA), as well as the restructuring of the Department of Defence in terms of its operating procedures. Jusuf said that the US (due to changes in strategy, structure and operations of the US military, and in its dealing with global terrorism and weapons of mass destruction) is now more than ever militarily present in the region. However, he said that the US should also

maintain its interest in the economic field, particularly as the developing part of East Asia is affected by globalisation.

### **Regional community-building**

The second strategic development in East Asia is regional community-building, driven mainly by economic integration that began with the second wave of Japanese investments into the region in the mid 1980s. He said that one major area of development was in the financial field, and self-help facilities that could help prevent and overcome financial crises in the region in the future. The FTAs being negotiated between ASEAN and China and between ASEAN and Japan, functional cooperation such as on SARS and the avian flu, and increased relations at the intellectual and individual level, are examples of dramatic strides made between all East Asian countries.

### **The vision of an East Asian Community**

Jusuf said that the vision of an East Asian Community was primarily about achieving peace, stability and progress in East Asia. It has three main strategic objectives.

First, to create a regional institution that could accommodate a rising China as a constructive member of the region and to enable her to develop to her full potential.

Second, to assist in the normalisation of relations between China and Japan, the two major powers in the region and potential leaders of the East Asian Community.

Third, to assist in minimising the possibility of future confrontation between US and China, when China becomes a superpower in the next few decades. In this matter, Jusuf said that Japan has a pivotal role to play in making the East Asian Community acceptable to the US.

Jusuf also noted that China and the US have begun to stabilise their relationship through cooperation in the economic field, in the fight against global terrorism, and in jointly seeking a diplomatic resolution to the question of nuclear proliferation of North Korea. Jusuf added that China-Taiwan relations are the most critical issue in the relationship between China and the US, and a concern for the East Asian region. He warned that Chen Shui Bian's pursuit for independence, and China's seriousness in using force if necessary, could result in a calamity for the region's stability and economic well-being.