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EAST ASIAN INTEGRATION AND ITS COMPLEXITIES

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Contents

- Introduction
- EAFTA or CEPEA
- Driver for East Asian integration
- TPP's role in regional integration
- Challenges for Malaysia



Introduction

- Rising regionalism is a response to other economic integration initiatives that promise higher growth. Countries don't want to lose out in competition for market access and investments.
 - Some nations resort to regionalism to as a platform to leverage stature and for geopolitical influence.
- The idea: all members are equal partners and together towards sustainable growth for regional prosperity, peace and stability
- ASEAN and East Asian countries gained valuable lessons after the 1997 AFC. In addition, economic, political and cultural diversity/disparity makes sense to create a region with a more harmonised community
- Goals of East Asian Economic, Political-security and Social-cultural communities
- Proposals for regional integration are: EAFTA (ASEAN+3), CEPEA (ASEAN+6), FTAAP
- East Asian role in recovery after 2008/09 Global Financial Crisis makes regional integration more central

EAFTA or CEPEA

- EAFTA was born after the AFC
 - Has made good progress in financial cooperation and has established mechanisms
 - Efforts to create East Asian Economic, Political-security and Social-cultural communities not making much progress
 - Further progress is slow due to other regional integration initiatives – CEPEA, EAS (although this is not an economic integration)
- Major issues in accelerating greater regional integration:
 - lack of strong political leadership
 - East Asian countries are inking their own separate FTAs agreements
 - Proliferation of new initiatives on regional integration
- Even without formal integration agreement, China has become the hub for regional trade and investments
 - China is now among the top trading partner for most regional countries
 - China's investments in regional economies
- Second East Asia Vision Group Report which will be published soon may given new directions for furthering regional integration

Driver for East Asian Integration

- ASEAN is central to regional integration
 - ASEAN+1, ASEAN+3, ASEAN+6
- But can ASEAN continues to lead this process when the source of economic growth is elsewhere?
- Is CEPEA being overtaken by EAS?
- Can ASEAN+1 and ASEAN+3 be transformed into East Asian FTA
- Can C-J-K form a cohesive economic growth hub through the formation of FTA
 - will be the catalyst for the East Asian integration.
 - will CJK FTA prompt ASEAN towards closer region-wide integration
- Will Korea and China bilateral FTA be formed faster then CJK FTA?
 - Another possibility of a delayed/complicated East Asian integration process?



ASEAN+3 or North East Asian+10?

- Hub-and-spoke concept, ASEAN is currently the hub to China, Japan and Korea via various ASEAN Plus One agreements.
- If CJK FTA becomes a reality, ASEAN will be affected by trade diversion as a result of cheaper imports amongst the East Asian Countries.
- Coupled with East Asian resources and economic vibrancy, ASEAN may have to give deeper commitments than the existing ASEAN+1 agreements to the trilateral FTA.
- Does ASEAN needs to deliver its AEC by 2015 before being able to push the EAFTA .

Enter the TPP

- Can the US allow East Asian economic integration without its participation
 - Or its goal is to forward high quality economic integration since DDA is stalling
- US re-engaging in Asia Pacific
 - Complementing security involvement with closer economic relationships
 - Concerns about the rise of China as top economic/trade partner of regional countries?
- TPP is an plurilateral FTA initiative involving nine APEC-dominated countries.
- Initially aimed to conclude by end of 2011. But instead, all TPP countries agreed only the broad outline of the agreement with 23 Working Groups.
- Highly unlikely to conclude this year due to:
 - Presidential and Congressional elections in the US in November 2012; and
 - Expansion of TPP membership to other APEC countries.
- Mexico and Canada are expected to join the negotiations later in the year. However, new entrance:
 - must be collectively agreed by all TPP countries.
 - cannot reopen chapters of the agreement already concluded

TPP: Challenges in promoting regional integration

1. Conclude a high-quality plurilateral agreement with three different continents with countries at different stages of development.
 - Late comers would have less bargaining power to negotiate
 - Less developed and developing countries may have to commit to significant economic reforms. As such, these countries must be prepared to take radical steps in liberalising their domestic economies
 - Developed economies must understand the need for capacity building and carve outs that transcend specific development agendas (e.g. GP, services and *bumiputera* policies)
2. There seems to be a growing anxiety over the prospects of TPP
 - On 13 June 2012, the text of Investment Chapter was leaked. Revealing new corporate powers. Creating further pressure for greater disclosure.
 - US lawmakers want to be directly involved as observers in upcoming negotiations.

TPP: Challenges in promoting regional integration

3. As it aims to be the leading trade agreement for the Asia-Pacific region, negotiations will have to consider new membership from APEC-dominated countries.
 - Mexico and Canada will join negotiations in October. Others, including Japan, are still uncertain. China is not part of the agenda.
 - However, late comers would have less bargaining power to negotiate.
 - If text is too restrictive, the remaining APEC countries may not join.

4. Concluding TPP will weaken the East Asian integration process
 - EAFTA and CEPEA has no clear leader. East Asian countries are pursuing their own trade deals individually.
 - High priority to conclude China-Korea FTA, leaving the prospects of EAFTA, CJKFTA or CEPEA behind.
 - Not all ASEAN countries are negotiating TPP

Malaysia and the TPP

- AFTER the deadlocks in MUSFTA negotiations, Malaysia is now negotiating with the US via TPP.
- Malaysia has FTA agreements with all of the TPP members except US and Peru:
 - Bilateral : NZ, Chile, Australia and Japan
 - Plurilateral : AFTA and AANZFTA
- Malaysia is making good progress and keen in concluding the TPP. It represents a third of Malaysia's global trade and would increase Malaysia's share of global trade covered under preferential treatment to above 70 per cent.
- How Malaysia views TPP?:
 - All trade negotiators and senior officials are fully committed to TPP. Higher priority given to TPP
 - A key vehicle for advancing economic cooperation and investment liberalisation in the Asia Pacific region.
 - As positive step towards deeper integration within the Asia Pacific region; and
 - would allow Malaysia to continue engaging the US in trade and investment liberalisation process.

Challenges for Malaysia

1. Despite progressive liberalisation, Malaysia needs to be able to have full control of its economic policies
 - AFC 1997: strict capital control measures pulled us out of the crisis
 - TPP may not provide temporary safeguards on capital control : capital must be permitted to move “freely and without delay”
 - TPP must provide a breathing space for key development agendas

2. Stakeholders worry about the consequences of TPP to the industry
 - Strong IPR protections by developed countries will raise medicine prices at a time when subsidies are under pressure from the budget deficit.
 - Investor-state dispute mechanism will limit ability to regulate its own economy.
 - Opening up of sensitive sectors (negative-listing services coverage and Government Procurement projects) may jeopardise domestic development agenda.
 - Investment liberalization : could empower foreign firms to skirt domestic courts and sue the government in foreign tribunals

Thank You

