

# Formulating An East Asian Economic Community – Challenges And Opportunities

## Formulating an East Asian Economic Community: Reducing the Economic Gap towards Economic Integration

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## Introduction

The concept of an East Asian Region is not a new one. It has been discussed several times in the past, but the movement toward it has recently intensified in an increasingly globalised world. It was first proposed by then PM Mahathir Mohammed in 1990. ASEAN + 3 and the East Asian Summit are other attempts at regionalism. 18 years after that first idea, we see that we are closer to the realization of that concept. In this paper, we examine the diverse challenges and opportunities that economic integration faces and offers. After this, we relate a long-term sustainable plan that aims to achieve economic integration.

## Facing the Challenges of an East Asian Economic Community

The road towards a cohesive and practical community is fraught with many potential pitfalls that must be dealt with if economic integration is to occur. These issues include:

### • Cultural, Social and Political Differences among Nations

Together with the varying cultures and social institutions, diverse political systems and structures ranging from the stable democracies of Singapore and Malaysia to the military junta in Myanmar are considered a major stumbling block to any form of integration. Although such a gap may be difficult to overcome, it is crucial to note that economic integration does not necessarily require the formation of a political union but the presence of a strong political will to participate in such an economic community.

### • Complexity in Trade Agreements

The existence of 183 regional agreements has meant overlapping members of many countries. This “spaghetti bowl effect” has resulted in complex rules of origin that make it difficult for multinational organizations to manage business across East Asian borders. It is crucial to harmonize these agreements by reaching informal, common understanding on adopting the same or similar rules of origin.

### • Disparity in Levels of Technology

Minimal support for technology in developing countries compared to developed countries could make it more difficult to integrate economically. Therefore, it is imperative that the more advanced nations provide leadership and take on a mentoring role in this collaborating activity to develop new technologies by strengthening institutions like the Asian Institute of Technology.



## • Trans-Boundary Environmental Issues

China and Vietnam's contribution to the region's growth that has outpaced the rest of the world through increased manufacturing of goods does not come for free. Growing global concern for sustainable development poses the challenge of having to provide for environmental sustainability alongside economic growth in the region. Critical steps in addressing this include higher levels of commitment to implement existing agreements on common environmental standards and possibly the establishment of enforcement mechanisms to monitor any departure from the agreed standards.

## • Growing Economic Gap across East Asia

Singaporean GDP is at \$30,000 per person as against \$208 in Myanmar. Such diversity in development stages across East Asia raises a major mindset obstacle faced by the idea of economic integration. Citizens from developing countries like Indonesia and the Philippines view these attempts as exploitative. Overcoming this mindset is therefore critical in moving towards economic integration.



## Identifying the Potential Benefits of an East Asian Economic Community

However, in viewing the challenges, we must also keep the tremendous opportunities in mind. The rise of Asia is a reality; a strong Asia is part of the new world order. We will seek to examine what the opportunities are in an integrated East Asian economy.

- **MORE VOICE:** Gaining Increased Leverage in the International Arena. If East Asia can successfully integrate into a regional body, such a bloc may give East Asia the necessary leverage to pry open the NAFTA and EU blocs to outsiders through multilateral liberalization.

- **MORE AUTONOMY and WEALTH:** Decreasing Reliance on the US and EU through Increasing Intra-Regional Trading. The rapid growth of China's economy has altered the landscape of global and regional economies. With many East Asian economies' exports to China rising by double digit percentages in recent years, that country has consolidated its position as the leading market for Asian traders. The result is that Asian countries are becoming less dependent on the North American and EU markets.



**Figure 1. Inter-Regional Trade Share of Selected Regions**

Region	1980	1985	1990	1995	2000	2001	2002	2003
<b>East Asia, including Japan</b>	<b>34.7</b>	<b>40.2</b>	<b>45.6</b>	<b>55.5</b>	<b>54</b>	<b>55.4</b>	<b>57.3</b>	<b>54</b>
<b>Developing East Asia</b>	21.6	29.1	36.4	43.7	43.4	45.6	47.5	44.1
NIEs	7.7	10.7	14.3	18.1	16.4	17.5	17.1	16.1
<b>ASEAN</b>	18	20.3	18.9	24.1	25.7	24.1	24.4	24
NAFTA	33.8	38.7	37.9	43.2	48.7	49	48.3	46
European Union 15	52.4	52.5	58.6	56.8	62.2	62.1	62.4	64.4

Clearly, if we can further the development of an East Asian community, we can be less reliant on Western economies and more interdependent among ourselves as a strong integrated economy.

## Problem Statement

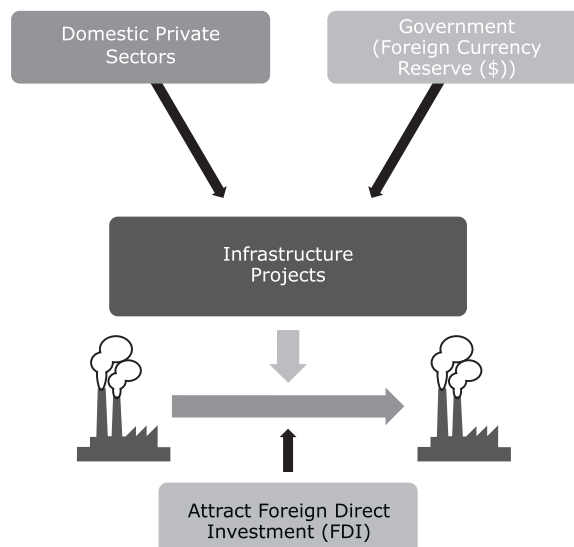
Although there are many obstacles to be overcome in creating an economic community, the current trends of regionalization provide numerous opportunities for integrating the East Asian economy. Perhaps, one of the largest gaps that prevent economic integration is the gap in the development levels amongst East Asian nations. This paper, therefore, seeks to reduce the economic gap through a long-term sustainable plan towards economic integration.

## Strategy

This plan presents three clear steps in moving along the road towards economic integration: heavy investment in both intra- and inter-regional infrastructure, promotion of foreign direct investment (FDI) and then, decreasing tariffs.

### STAGE 1: Heavy Investment in Infrastructure

**Figure 2. The Framework for Infrastructure Projects**



Before any successful economic integration can occur, East Asian nations must first invest in infrastructure that facilitates the physical flow of goods and services between and within nations. This includes roads, ports, bridges, power, and telecommunication networks.

One example of this is the Greater Mekong Sub-region Program (GMS). Involving Cambodia, China, Laos, Myanmar, Thailand, and Vietnam, the GMS is a perfect example of the ability of East Asian nations to construct an inter-regional infrastructure to enable the development and sharing of the resource base, and promote the freer flow of goods and people in the sub-region.

Funding for such infrastructure could be obtained through the proper utilization of foreign currency reserves that have been consistently growing up to March 2008. Foreign currency reserves are managed mainly on US Treasury Bonds that support US demand for financing instead of our own economic growth.

**Figure 3. East Asian Exchange Reserves**

Countries	March 31 2008 (\$1,000,000,000)	2007 Year-End (\$1,000,000,000)	Rate of Change (%)
China	1682.2	1528.2	10.08
Japan	1015.59	973.37	4.34
Taiwan	286.86	270.31	6.12
South Korea	264.25	262.22	0.77
Singapore	177.63	162.95	9.01
Hong Kong	160.7	152.7	5.24
Malaysia	120.3	101.3	18.76
Thailand	109.7	87.6	25.23
Indonesia	58.99	57.04	3.42
Philippines	36.5	33.75	8.15

If these funds are insufficient, loans could also be obtained from the Asian Development Bank or the Official Development Assistance from developed nations like Japan and South Korea.

Both developed and developing East Asian countries are expected to benefit from this as both countries will experience increased intra-regional trade that means higher state revenues. It also makes it more convenient and speedy for businesses to move goods across different regions, thus allowing for better management of supply chain and distribution networks.

For instance, the East-West corridor constructed from Bangkok to Hanoi has reduced transportation time and costs. What took two weeks to ship before now takes three to four days via this new land route.

**STAGE 2: Promoting Foreign Direct Investments (FDI)**

Though infrastructure is expected to increase foreign direct investment, other measures must be undertaken in order to promote such available routes.

One specific measure currently done by the Japan External Trade Organization (JETRO) has been to publish an issue called “ASEAN Distribution Network Map” in 2007. This aims to increase the awareness of the Southeast Asian private sector to plan routes in transferring their products and parts. This provides a follow-through for investment in infrastructure to be effective in channeling foreign direct investment.

However, the JETRO plan has not been properly disseminated among the concerned businesses and individuals that might benefit from it. Therefore, aside from investment in infrastructure, East Asian nations must constantly update concerned businesses of the available routes for transporting goods in the fastest, cheapest manner.

This is expected to increase foreign direct investment among East Asian nations as businesses continually seek to increase the efficiency of their business processes and expand their regional markets ahead of their Western counterparts. After all, they want to minimize the cost of production and distribution of goods by locating manufacturing plants and factories where it is cheapest to source these goods.

Such trends in the business sector are expected to increase mutual dependency among nations as cross-border supply chains proliferate in the region.

**Figure 5. Index of East Asia Mutual Dependency in Trade**

2000		B			
		Japan	China	Korea	ASEAN
A	Japan		1.91	2.82	2.49
	China	3.14		1.99	1.21
	Korea	2.23	3.23		2.03
	ASEAN	2.53	1.16	1.61	

2005		B			
		Japan	China	Korea	ASEAN
A	Japan		2.30	3.35	2.46
	China	2.45		1.97	1.40
	Korea	1.87	3.73		1.85
	ASEAN	2.50	1.61	1.70	

\*Index Calculation:  $[\text{Export from B to A} / \text{Total Export of B}]$   
 $[\text{Export from the World to A} / \text{Total Export to the World}]$

**STAGE 3: Decreasing Tariffs**

Now that all the necessary tools have been provided for increased mutual dependency, we expect governments to decrease tariffs as the private sectors clamor for lower tariffs with their dependence on foreign supply.

Such a reduction of tariffs is in fact similar to provisions agreed upon in the ASEAN Free Trade Agreement and many other bilateral agreements between East Asian nations, only the policies on tariff reduction shall now be contained in a multilateral agreement between countries across East Asia.

**Conclusion**

The East Asian Economic Community is now no longer regarded merely as a concept or a castle in the sky. It is no longer a matter of “if” but “when”. With all its benefits (improvement of medium to long term economic outlook, increased resilience to external shocks, expansion of trade, greater cross border connectivity), the answer to the question “when”, must and can only be – NOW. By considering the critical factors in facing the challenges of an economic community and undergoing the three-step plan, we are able to reduce the economic gap towards economic integration. The cost of being late is far too great to imagine. Let East Asia arise and take on the challenge and seize the opportunities.