

Student Recommendations

Formulating An East Asian Economic Community – Challenges And Opportunities

Harmony in Structure: Towards an East Asian Economy Community

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Abstract

This paper aims to present some legal and logistical ideas towards achieving “a more perfect union”: a working East Asian Economic Community (EAEC). In view of the fast proliferation of bilateral and multilateral FTAs within the wider East Asian region, we have identified some operational obstacles that can be overcome with concrete actions and mini steps, such as the provision and sharing of information via an online website. Economic liberalization, even if only regionally, is sure to bring about some collateral damage, especially to the transitional economies. As such, we recommend strengthening value chains of production, with an aim towards more distributed production networks, both regionally and locally. In this way, developing nations would be able to upgrade their labor force’s skills sets as well as take the initiative in procuring technology transfer.



Background

Economic growth, trade and investment, and technological progress are important not because they are ends in themselves, but because they are a powerful means to advance the common interests of the most number of people (UNDP, 2004). In East Asia, one way of enabling those means is greater regional economic cooperation, which should ultimately culminate in the creation of a single market with common policies.

Making a single market out of East Asia’s different economies requires the setting up and enforcement of standards in several key areas. The current accession and ratification process of the ASEAN Charter already provides a framework for cooperation. However, considering the development of economic integration in the region, there needs to be a more inclusive and comprehensive structure to promote East Asian economic cooperation.

On the other hand, while the proliferation of bilateral free trade agreements (FTAs) amongst East Asian nations has helped to create a network of intra-regional trade, it has resulted in a confusing mass of rules that undermines the gains made from opening up East Asian economies to the rest of the world.

Hence, toward the goal of economic integration, harmonization and institutionalization are concurrent steps being taken to ensure uniformity of rules: harmonization to close the development gap; institutionalization to ensure that standards are enforced fairly and consistently applied.

Towards Economic Integration

Leadership is the first question asked of any multi-sectoral effort, and, to that end, the Association of Southeast Asian Nations (ASEAN) is well-positioned to initiate progress in formalizing as well as implementing harmonized standards in East Asia. Keeping this in mind, the operative principle here is open regionalism—the East Asian integration process has to continue to engage powerful economies such as India, Australia, and New Zealand, to come to terms with or join a cohesive East Asian trade bloc. This involves both working within and moving past existing arrangements, such as the ASEAN Charter and the principle of non-interference. Specifically, phasing in enforcement clauses should add much-needed credibility to the Charter. As regards non-interference, it is about time ASEAN countries reviewed the usefulness and validity of non-interference as an idea, given the close policy coordination the economic integration process requires.



Issues and Challenges

Under-Utilization of FTAs

The East Asian dream is that the region's nations—which share geographical proximity, many historical experiences, challenges, and complementary resources—will one day fulfill the large potential for cooperation. In relation to that, multilateral FTAs are perceived to be the primary way of facilitating economic integration. The reality, however, is that bilateral FTAs dominate the region and are often complex. The proliferation of bilateral FTAs has created what is commonly called the “spaghetti bowl” effect, resulting in likely contradictory positions and needless procedural complications. Small and medium-sized enterprises (SMEs), in particular, do not have the expertise to deal with complicated terms and procedures to take advantage of the preferential treatments that FTAs afford.

Developing Economies Stuck With Middle Stream Industry

While enhancing the efficiency of FTAs may be the first step in harmonization for easier movement of goods among countries, truly meaningful harmonization can not be achieved if developing countries still find that the benefits they stand to gain are far outweighed by the costs.

Specifically, developed countries are focused on the more profitable upstream (R&D, design, main component manufacture) and downstream (supply chains, marketing) industries, while developing ones seem stuck with the middle stream (assembly, outsourcing produce). Therefore, building value chains of industry in East Asian countries' private sectors can be considered as the next step to integration, as these sectors are predisposed to innovating and taking risks. This can also serve as a long-term strategy to cope with imbalanced economic development in the region by linking industries and sectors regionally.

Recommendations

Optimizing ‘ASEAN+N’ FTAs

The signing and operationalization of FTAs is but only one of the foundational steps that can be taken toward regional economic integration. While recent trends have pointed towards an increase in the number

of intra-regional FTAs and EPAs (both bilateral and multilateral) being signed and effected, they do not automatically represent greater economic cooperation. Indeed, our above findings reveal that the complex rules and procedures of FTAs are often barriers to optimal utilization of the preferential benefits provided.

As such, we recommend that each East Asian nation take the initiative in fully promoting the effective use of FTAs through a public-private partnership, in educating firms and corporations on how to get around confusing terms and processes. Firms and corporations, especially SMEs that do not have expertise and experience in dealing with the complex rules of FTAs, should receive help in the form of awareness-increasing workshops and consultation services benefits to allow firms access to sustained networks of information.



In particular,

- Workshop sessions should be organized by relevant government agencies to market the optimal usage of FTAs in intra-regional trade. These workshops will help to raise awareness on the availability of trade opportunities and benefits available if firms were to enter FTA arrangements.
 - Consultation services should be outsourced by the government to private consultation agencies with relevant experience. The cost of this should be subsidized by the government so as to encourage private firms to utilize the consultation services.
- (See Appendix 1) Simple explanations of FTA rules and procedures should be provided on government agency websites to help firms with some basic terms and conditions ; the websites can also provide forums for corporations to network and share information with regards to FTAs.
 - The above would be a first step to creating an online database that can provide common answers and guidance to queries and difficulties that firms might face in dealing with FTAs. The cost of sustaining this online database would be subsidized by the government but also contributed to by firms that choose to utilize it.

More importantly, the cost of sustaining interest in and optimizing utilization of FTAs would be lessened if, even at the stage of drafting an FTA, negotiators keep in mind the importance of simplifying legal terms, rules, and procedures so that end users (i.e. trade sectors and industries) will not be deterred from getting the most out of trade arrangements. The resulting trade creation should, over time, offset any lost revenues from foregone tariffs.

In the long term, as economic integration converges further, multilateral FTA arrangements such as ASEAN+N FTAs should be harmonized to further facilitate convergence and integration.

Further Developing Regional and Local “Value Chains”

With transnational “value chains” usually related to manufacturing parts scattered around the region, endogenous firms in the developing economies of East Asia would be well advised to identify complementary or possibly synergistic domestic industries so that technology transfer need not depend solely on the initiatives of multinational companies or on foreign aid and assistance. Identifying and attracting specific foreign investments to provide a supporting industry is the key here. Making industry-specific contact information available across countries is needed, in this case. As such, an online and centralized database of business contacts should be made

available to various industries and sectors seeking to outsource and link up with others to make up a value chain.

Specifically,

- The database should contain information about each firm's industry type and also the type of industry link that each is looking for or open to. This will help to facilitate outsourcing and industry linkages.
- The database should be managed by the already existing ASEAN Business Advisory Council (BAC), although the costs should be jointly supported by both the intergovernmental body and the private sector and industries.

This will not only help transitioning economies gain enough confidence to develop their own "value chain" in their countries, and so be able to diversify their economic opportunities, but also push towards developing a higher-skilled labor force. Moreover, it is a way to encourage entrepreneurial attitudes. While it may be a small step, this could help to bring developing countries out of their mainly middle-stream industries.



Institutionalization of East Asian Countries

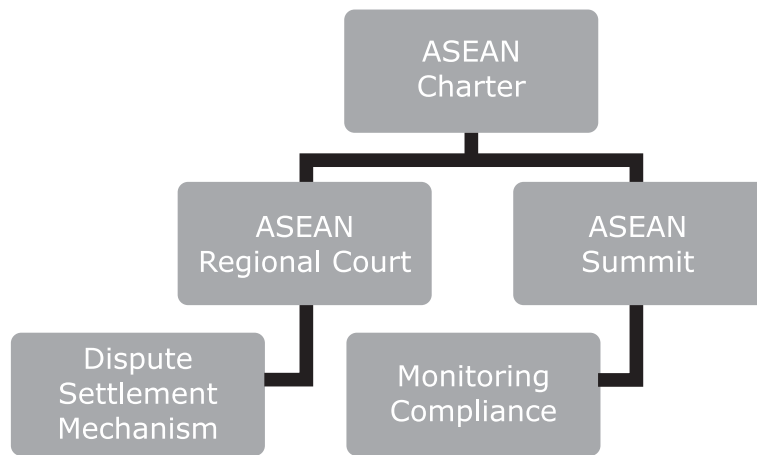
If East Asian countries want to achieve a sustainable economic development as well as a solid form of integration in the region, they must consider institutionalizing East Asian countries under one permanent body whose task it is to serve in policy-making and in a dispute settlement mechanism.

Admitting the fact that the integration process is already in place by the birth of the ASEAN Charter ("the Charter"), the number of member states participating in the accession and ratification of the Charter remains low. Hitherto, there are only six ratifications made by member states of ASEAN, namely, Singapore, Brunei, Malaysia, Lao PDR, Cambodia and Vietnam. It must be understood that for the Charter to be legally binding, it has been agreed upon that all ten member states must ratify the Charter before the next ASEAN Summit in December 2008.

Therefore, our first recommendation under this section is to urge the other four member states of ASEAN (i.e., Indonesia, Myanmar, Philippines and Thailand) to speed up the process of accession and ratification of the Charter as a first step toward building a solid form of integration in the region.

Furthermore, even if the Charter is fully implemented, we have identified several potential problems that might impede the integration process in the greater-ASEAN region. First, the ineffectiveness of the ASEAN Summit as a policy-making body under the framework of the ASEAN Charter; and second, the absence of a binding dispute settlement process.

As regards to the first issue, under the Charter it is stipulated that ASEAN's policy-making body will be the ASEAN Summit. This body consists of the heads of state or prime ministers of ASEAN countries. Further, this body is entitled to create a policy pertaining to intra-regional and extra-regional relations of ASEAN member states. However, there is no provision in the Charter concerning the legal effect of the policy made by the ASEAN Summit toward member states or what would be the sanctions for states violating its decision. Without this, it is hardly possible to monitor member states' compliance in implementing policies made by the ASEAN Summit and consequently will jeopardize its function. Therefore, even if the Charter has been fully implemented, the Charter will not facilitate the integration process significantly under the present circumstances because the Charter does not possess a strong legal character. Despite that, the need to have one permanent dispute settlement mechanism to compliment the integration process in the region is paramount. This is due to the fact that the more countries engage in intra-regional or extra-regional trading arrangement, the wider the possibility will be of dispute occurrences (biparty or multiparty disputes). In this situation, it is important for ASEAN to create an environment conducive to co-operation by ensuring full implementation of laws and regulations.



Hence, we further recommend that:

1. The establishment of the ASEAN Summit under the framework of an ASEAN Charter should be accompanied by a provision concerning the legal effect of the policy made by the ASEAN Summit. More specifically, all policies and decisions of the ASEAN Summit will be directly enforced by member states and in the event of non-compliance, the ASEAN Summit will be authorized to take appropriate steps to punish the violating state (e.g. by imposing trade sanctions such as an embargo).
2. Establish an ASEAN Regional Court which serves as a permanent dispute settlement mechanism. This Court will operate under the principle of equity and must be consensual in nature. The subject matter admissible before the Court shall be any matter in relation to ASEAN relations, specifically the economic sector (disputes concerning FDIs or implementations of intra-regional or extra-regional trading regulations). Further, the decision of the Court can directly bind the parties in dispute on the national level.

Engaging Interest in Integration at the Wider Social Level

Finally, if recent developments within the European Union (EU) can teach Asian policymakers anything, it is that winning broad, multi-sectoral support for an EAC is a must for the sustained viability of the idea. This entails actively promoting complementarities and commonalities among countries, in addition to the gains to be had from them. Non-government groups and civil society organizations could help in this cause by providing more visible avenues for cross-cultural understanding (i.e. the Hitachi Young Leaders Initiative).

Conclusions

The harmonization of standards constitutes an important component of successful economic integration. This harmonization, however, can only be achieved by emphasizing the role of ASEAN as an effective, institutional catalyst for greater information sharing and broader cultural understanding.

Appendix 1

Singapore's Official FTA Website

Singapore's Official FTA Website - Mozilla Firefox

http://www.iesingapore.gov.sg/wps/portal/!ut/p/!cx/ml/04_5j95Pykssy0xPLMnMz0vMDY_QjzKLN4g3Cw0CSY

Japan (JSEPA)

Print this

Steps to Obtain Tariff Concession

- 1. Find out the HS code of the good you wish to export to Japan.**
Search for your product HS code from the Singapore Tradexchange website
- 2. Determine whether your good qualifies as originating under the Rules of Origin.**
Refer to Annex IIA of the JSEPA Agreement
For more information on Product Specific Rules, see Guide to ROO under JSEPA
- 3. The exporter has to obtain a Certificate of Origin from Singapore Customs, together with a declaration form certifying the good originates from Singapore.**
For information on customs documentation, including 'Advance Ruling', click [here](#)

Yes

Not Sure

3. Visit Singapore Customs website to obtain the Manufacturing Cost Statement format to assess if your product satisfies the ROO. Contact IE Singapore or Singapore Customs Customer Service Hotline if you need further advise or clarification.

General

- About JSEPA
- Legal Text
- Info Kit
- Steps to Obtain Tariff Concession
- Services
- Other Information
- FAQs
- Protocol amending the Agreement Between Japan and the Republic of Singapore for a New-Age Economic Partnership

FTA Events Mailing List

FTA Tariff Calculator