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**Philippine Institute for Development Studies**  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

## Regional Economic Integration in East Asia: Progress and Pathways

*Jenny D. Balboa and Erlinda M. Medalla*

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## **Regional Economic Integration in East Asia: Progress and Pathways**

### **Abstract**

The East Asian region is a major global economic player, given its economic size and potential. As such, Regional Economic Integration in East Asia could be considered as an important building bloc towards integration of the Asia Pacific region. East Asia has made significant progress in creating institutions for closer cooperation and integration. The next step would be how to strengthen support to these mechanisms such that they would effectively deliver the regional goals, as well as help the region overcome pressing issues. This short paper will discuss the state of economic integration in East Asia. It will also discuss the challenges in economic cooperation and integration in the region, as well as some policy strategies to overcome the challenge.

# **Regional Economic Integration in East Asia: Progress and Pathways**

Jenny D. Balboa and Erlinda M. Medalla<sup>1</sup>

## **I. Introduction**

After successfully establishing itself as an economic bloc to reckon, East Asia has moved towards closer economic cooperation. This is the lesson left by the Asian Financial Crisis when East Asian countries learned the importance of strengthening economic networks to overcome the crisis. Regional cooperation has become an important response in addressing emerging issues in the region. It has also led the region to explore regional economic integration and to create institutions that would facilitate synergy on trade and financial activities of the economies, while at the same time, create support institutions that will sustain the growth momentum of the region. These institutions reflect the profound changes taking place in the region and will continue to shape the regional architecture. Indeed, economic integration in East Asia could be considered as an important building bloc in consolidating the Asia Pacific region.

The next step would be how to strengthen institutional support to these mechanisms such that they would effectively deliver the regional goals, as well as help the region overcome pressing issues, particularly development divide, which is considered to be one of the main impediments towards closer cooperation in the region. This short paper will discuss the state of economic integration in East Asia. It will also discuss the challenges in economic cooperation and integration in the region, as well as some policy strategies to overcome the challenges and constraints for regional economic integration.

## **II. Regional Integration and Cooperation in East Asia**

Recently, there had been an increasing interest towards regional integration. Several studies had established the gains from regional integration, ranging from traditional economic gains to non-traditional gains. Traditional gains include increased trade, investments and increasing returns arising from competition. The non-traditional gains arising from regional integration arrangements are even more attractive, as it is seen as a mechanism to lock-in domestic reforms, signal policy orientation and economic stability, establish networks and links with other countries to collectively address regional issues, and to strengthen bargaining power in international negotiations, among others. (Niekerk, 2005).

Regional economic integration varies in depth and scope. In East Asia, regional economic integration started as a market-driven integration process, and later on evolved into a formal economic integration initiative, embodied by the rise of Free Trade Agreements in the region.

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<sup>1</sup> Supervising Research Specialist and Senior Research Fellow, respectively, of the Philippine Institute for Development Studies. The usual disclaimer applies.

Geographic scope had also widened, making the East Asian region the base of Asia-Pacific wide regional cooperation and integration efforts. The next section discusses the depth and scope of regional cooperation and integration in the region.

### **a. Depth of Integration<sup>2</sup>**

#### *Market-Driven Economic Integration*

The market-driven forces of cross-border trade, FDI, and finance pushed the initial phase of economic integration in East Asia. The simultaneous expansion and reinforcement between trade and FDI or the trade-FDI nexus (Urata 2001, Kawai 2005), was largely determined by the establishment of regional production networks and supply chain by multinational corporations, (MNCs) creating the “Factory Asia” (Soesastro 2006). By the end of 1990s, the intensity of regional trade in East Asia was already comparable to that of the EU and NAFTA. As East Asia became more affluent and demand for tertiary goods increased, dependence on the US and European markets is lessened, potentially creating a more self-sufficient market.

Meanwhile, rapid FDI inflows into East Asia are largely attributable to a relatively favorable economic environment and the abundant supply of high-quality, low-wage labor. FDI inflows to East Asia over the past decades had grown rapidly, even at a faster rate than the region’s growth in trade.

Many of these FDI movements were intraregional, from Japan and the NIEs to ASEAN and the People’s Republic of China (PRC), as well as from ASEAN and to China. MNCs specializing in manufacturing played an important role in enhancing economic integration. The increasing number of MNCs from Japan and later on from the NIEs, were key factors in linking East Asia to the global production chain since they tend to divide their production process into several sub-processes and relocate them in different countries in accordance with their comparative advantage. Such business arrangement promoted vertical intra-industry trade within East Asia for capital equipment, parts and components, intermediate inputs, semi-finished goods, and finished manufactured products (Kawai 2007).

China plays a key role in the international product fragmentation and the regional production network in general. China’s dynamic role in intra-regional trade has changed the structure of East Asia, and to a large extent created a positive, competitive boost for ASEAN. China will continue to exert more influence in the region as it becomes a main source and recipient of FDI, and as it increases its intra-industry and intraregional trade.

In addition to trade and investment integration, financial markets are also rapidly integrating as a result of the deregulation of domestic financial systems, the opening of financial services, and the progressive relaxation of capital and exchange controls. Commercial banks in developed countries have begun operating abroad and consequently portfolio investments have strengthened linkages among the region’s financial markets. At the same time, commercial banks in emerging economies have also expanded operations with their neighbors. However, compared to trade and FDI integration, financial integration in East Asia has been less pronounced because—apart from

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<sup>2</sup> This section is drawn from Medalla, E. and J. Balboa. Prospects for Cooperation Between East Asia and Latin America: Perspectives from East Asia. Asian Development Bank Institute. 2009

Japan, Hong Kong, China, and Singapore—most East Asian economies still impose capital and exchange restrictions and other barriers, which impede free flows of financial capital. Moreover, many of these emerging East Asian economies still have underdeveloped financial systems that are unable to attract investors (Kawai 2007).

### *Free Trade Agreements*

East Asia is a dynamic participant in FTAs. As of February 2010, 81 FTAs in the region were in effect, with an additional 45 currently being negotiated. In general, East Asia FTAs include cooperation, harmonization and integration components.

Several RTAs are under study in the region, most notably the East Asia Free Trade Agreement (EAFTA) and the Comprehensive Economic Partnership for East Asia (CEPEA). The former involves the ASEAN +3 countries (ASEAN plus PRC, Japan, and Republic of Korea, with the latter involving the ASEAN +3 and Australia, New Zealand, and India. Lately, there is also an on-going trend to seek partnership outside of the Asian region, particularly with India, EU, US, and South America. Japan, Korea, and PRC had been actively engaged in bilateral agreements and had become dynamic FTA movers in the world.

A significant development in FTA undertakings in the region is the signing of the Trans-Pacific Economic Partnership Agreement or otherwise known as the P4. The P4 is a free trade agreement between the four Pacific governments of Brunei Darussalam, Chile, New Zealand and Singapore which was signed on June 3, 2005 and came into force on January 1, 2006. The Trans-Pacific Agreement aims to create a free trade agreement that could serve as a model within the Asia-Pacific region. It is open to accession to any APEC economy or other state, subject to terms agreed among the parties. In September 2008, the US Trade Representative announced that the US will negotiate entry into the P4 agreement. Australia, Peru and Vietnam also announced that they want to be part of this FTA. There is also a strong support from Chile for Korea to join in this agreement. The P4 is seen as a possible pathway for the creation of a wider Free Trade Area in APEC (FTAAP), an issue which has been deliberated in APEC for some time.

Kawai (2007) characterizes the East Asian FTAs as either bilateral (between two countries) or plurilateral (agreement among three or more WTO member countries), outward-oriented (seeking partnership outside of the region), with WTO plus coverage or covering issues beyond trade and services liberalization, particularly trade facilitation, investment, government procurement, and competition, and consisting of multiple ROOs, as most FTAs in East Asia take on a combination of three types of ROO rather than applying a single rule. FTAs with ASEAN also has technical and economic cooperation component, such as Japan's Economic Partnership Agreement (EPA), and China's bilateral FTAs with individual ASEAN countries, with a more lenient schedule for tariff liberalization. This type of FTA aims to address the asymmetry in economic size and development between partner countries.

In East Asia, there is cautious approach and a deliberate effort to stay within WTO principles and open regionalism. East Asian countries appear to be mindful of the need for RTAs as building block for regional multilateralism. RTA initiatives in East Asia tend to work within a regional cooperation framework in order to seek solutions, opportunities, and institutions to address issues

beyond trade and investments, such as social and environmental issues in the region. (Medalla and Balboa, 2009)

## **b. Regional Forums for Cooperation**

Regional and subregional forums represent East Asia's diverse communities and interests. At the center of these groups is ASEAN. ASEAN + 3, which is composed of ASEAN plus Japan, China and Korea, and the East Asian Summit are organized around ASEAN. Meanwhile, interregional forums such as APEC and ASEM also provide a platform for dialogue and cooperation between and among economies of East Asia and other regions of the world. (Figure 1)

### **1. ASEAN**

The Association of Southeast Asian Nations or ASEAN was established in 1967 with five original members: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei joined in 1984, Vietnam in 1995, Laos and Burma in 1997, and Cambodia in 1999.

In 1992 ASEAN seriously pursued efforts to integrate the economies by creating the ASEAN Free Trade Area (AFTA), which is considered to be the heart of the ASEAN economic initiative. To supplement AFTA, it also launched other initiatives such as AFAS (ASEAN Framework Agreement on Services), and the ASEAN Investment Area (AIA). AFAS was signed in 1995 and aims to enhance trade in services within ASEAN by eliminating intra-ASEAN restrictions to trade and free flow of services by 2015, by improving market access and guaranteeing national treatment to ASEAN nationals. The AIA, on the other hand, was signed in 1998 and aims to make ASEAN a competitive region by eliminating investment restrictions and creating an environment more conducive for free flow of investments, capital, technology, professional expertise and skilled labor.

ASEAN has devoted efforts to solidify the region's goal of creating a peaceful, stable and prosperous community by issuing declarations and statements in support of these goals. In 2003, the ASEAN leaders adopted the "Declaration of ASEAN Concord II", whereby they agreed in creating an ASEAN Community by 2020 comprising of three pillars: an ASEAN Security Community, an ASEAN Economic Community and an ASEAN Socio-Cultural community. The ASEAN Economic Community Blueprint was created which will guide economies in establishing the ASEAN Economic Community by 2015. The AEC blueprint aims to create a single market and production base which will improve the competitiveness of the region.

## 2. ASEAN + 3.

Launched in 1999, ASEAN + 3 served as platform for a more interactive dialogue in various fields and sector of interest to the region, ranging from foreign affairs, economy and trade, health, science, social welfare issues and others. Originally, ASEAN + 3 came about as a result of Japanese proposal to create a regular summit process between ASEAN and Japan, with an agenda that included security. Concerned with the response of other countries in East Asia, ASEAN broadened it to include PRC and South Korea. Currently, the ASEAN + 3 members meet regularly after the ASEAN Summit to discuss issues pertaining to finance, economic and security. It also serves as a forum for finance ministers to discuss issues on financial cooperation. In 2004, the ASEAN + 3 leaders created the “East Asian Community” which was agreed to be the vehicle for a more progressive integration of the East Asian community.

## 3. East Asia Summit (ASEAN + 6).

The East Asia Summit was officially convened on December 14, 2005 in Malaysia and brought together the ten ASEAN nations, the “plus three” states of PRC, South Korea and Japan, and Australia, New Zealand and India. As of the 2007 meeting, ASEAN + 6 decided to focus on five priority cooperation areas, namely energy, education, finance, avian flu and natural disaster mitigation.

# B. Interregional economic forum in East Asia

## 1. APEC

Established in 1989, APEC provided the venue for East Asian countries to engage North America, South America, and Oceania in economic dialogue and to create a venue to discuss issues vital to economic development in the region. It has three main pillars, namely trade liberalization, trade facilitation and economic and technical cooperation. Though participation is voluntary, the Bogor goals<sup>3</sup> outline full liberalization of trade and FDI by 2010 for members with developed economies and by 2020 for member with developing economies—these goals have been well integrated in member countries’ economic agendas. To date, APEC’s member countries have made significant strides in liberalizing trade and FDI. (Medalla and Balboa, 2009) APEC is also involved in an array of other issues involving acceleration of Regional Economic Integration, Human Security (Counter Terrorism, Emergency Preparedness, Health Issues and Food Security).

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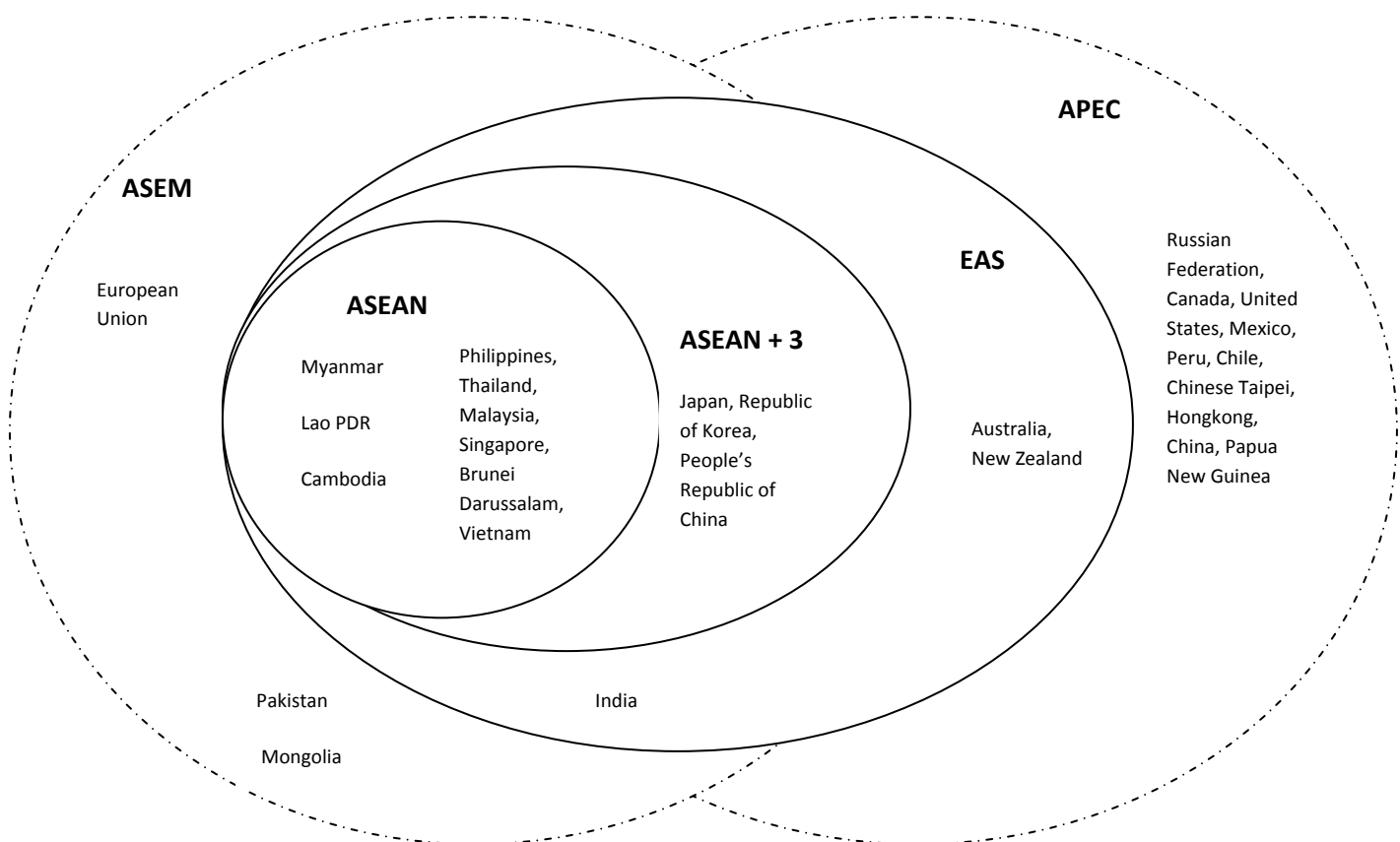
<sup>3</sup> The APEC Economic Leaders Declaration of Common Resolve signed in Bogor, Indonesia on November 15, 1994, or commonly known as Bogor Goals, commit to sustain free and open trade and investment in the Asia Pacific by reducing barriers to trade and investment and by promoting the free flow of goods, services and capital among economies. It sets the target of creating free and open trade and investment in the region no later than 2020, with industrialized countries achieving this goal in 2010, and developing economies no later than 2020.



## 2. ASEM

The Asia Europe Meeting (ASEM) could potentially be an important forum for Asia-European Union economic cooperation. Its membership covers all ASEAN members, the PRC, Japan, Korea, EU members, and more recently India, Pakistan and Mongolia. Since it was founded in 1996, ASEM has become a main multilateral channel for communication between Asia and Europe. ASEM has a membership of 45 countries, embracing almost the whole of Asia and Europe, which accounts for 60% of the world's population and 60% of global trade.

**Figure 1. The Asia Pacific Cooperation Configuration**



Adapted from ADB, 2008

### III. Key Constraints to Regional Economic Integration

#### 1. Development Divide

Despite the success achieved in regional integration, East Asia continues to be characterized by steep development divide, being home to rich countries, as well as least developed economies. Table 1 shows the income disparity of different regional groups. It can be noticed that East Asia and ASEAN have the largest disparity in terms of per capita income. The large income disparity would need to be addressed if East Asia is to hasten regional integration. Several studies had shown that large disparity in incomes and development will hinder efforts toward greater integration. (Balboa, Medalla and Yap, 2007) The succeeding section will show the extent of development gap in the region.

**Table 1. Summary Measures for Europe 34, East Asia 14, SEA 11 and Other Regions**

|  | Mean  | CV    |
|--|-------|-------|
| Per Capita GDP (PPP\$) SEA 11  | 6937  | 113.1 |
| Per Capita GDP (PPP\$) East Asia 14  | 9090  | 101.9 |
| Per Capita GDP (PPP\$) Europe 34   | 18286 | 71.3  |
| Per Capita GDP (PPP\$) Accession-12  | 13491 | 29.7  |
| Per Capita GDP (PPP\$) South Asia  | 2321  | 37.3  |
| Per Capita GDP (PPP\$) North Africa  | 5306  | 30.0  |
| Per Capita GDP (PPP\$) Latin America   | 8223  | 32.0  |
| <p>Notes:</p> <p>1) CV is the coefficient of variation. The higher the measure, the higher the disparity.</p> <p>2) SEA 11 are the ASEAN member countries plus Timor L'este. The East Asia 14 are the SEA 11 plus Japan, Korea and China. 2002 value was used for Myanmar.</p> <p>3) Europe 34 is composed of the 15 EU member countries and the 12 Accession countries and the so-called CIS-7 (Armenia, Azerbaijan, Georgia, Kyrgystan, Moldova, Tajikistan and Uzbekistan).</p> <p>4) South Asia covers India, Pakistan, Nepal, Bangladesh, Sri Lanka, Bhutan and Maldives.</p> <p>5) The North African countries are Algeria, Egypt, Morocco and Tunisia</p> <p>6) The Latin American Countries included are Argentina, Brazil, Chile Mexico</p> <p>Source: Balboa, Medalla and Yap: 2007 Basic data from 2005 UNDP Human Development Report</p> |       |       |

Table 2 shows the economic diversity of countries in East Asia. As of 2007, Japan, one of the richest economies in the world, has a GDP of US\$4.4 Trillion. Its economy is 1070 times larger than that of Lao PDR, which has a GDP of US\$4.1 Billion. Four countries qualify in the Very High Human Development Category of the Human Development Report's Human Development Index (HDI) Ranking, namely Japan, Singapore, Korea, Brunei Darussalam, with Japan ranking 10<sup>th</sup> in the global survey. Malaysia had moved up from Medium Human Development to High Human Development in the Index, while most of the medium sized economies had remained in

the Medium Human Development ranking, with Thailand showing a lot of promise of being able to climb a notch higher in the next few years. A recent positive development is that all countries in the region had climbed up to the Medium Human Development ladder based on HDI ranking. High growth rates in Lao PDR, Cambodia and Myanmar are good indicators of possibilities of easing the development divide in the future.

While absolute poverty is already eradicated in the high HDI countries, a huge percentage of the population is still living below the National Poverty Line. High poverty rates is exacerbated by inadequate investments in social infrastructure, as shown by poor access to good water source and health spending in some of the countries in Medium HDI ranking. The lowest performers are Lao PDR, which showed that 40% of the population is not using improved water source, and Myanmar, with has the smallest government expenditure on health at 1.8% of total government expenditure. As regard to income gaps, the Philippines showed the highest income inequality in the region, with a Gini Coefficient of 44.

Development gap is also manifested in other dimensions such as literacy rate and life expectancy. As a whole, East Asia showed strength in Adult Literacy Rate. Except for Lao PDR and Cambodia which has Adult Literacy Rate at 73% and 76% respectively, all of East Asia has commendable Adult Literacy levels of 90% or more.

In another survey conducted by the Global Competitiveness Report published in 2009<sup>4</sup>, East Asian countries ranked high overall in terms of Higher Education and Training. Cambodia is the lowest performer, falling below the Upper 100 Rank in Tertiary Enrolment, Quality of the Education System, Quality of Math and Science Education, Quality of Management Schools, Internet Access and Availability of Specialized Research and Training. Vietnam ranked poorly in Tertiary Enrolment and Quality of Management Schools, and so did Brunei in Local Availability of Specialized research and training. On the other hand, Singapore was ranked number 1 in the world in Quality of Education System and Math and Science. The survey was conducted to assess the performance of 133 countries in various categories that are indicative of the country's global competitiveness.

In terms of physical infrastructure, 8 out of the 13 economies in East Asia belong to the Top 50 countries in Quality of Overall Infrastructure. Cambodia, Vietnam and the Philippines are the lowest performers in this Category. In terms of Technological Readiness, East Asia's performance is highly regarded, with 6 countries on the Top 50 and the rest not falling below the Upper 100 Ranking.

ASEAN's effort to bring in the LDC members in the various economic and technical cooperation initiatives and providing them Special and Differential Treatment in free trade agreements was an important step in opening opportunities for developing countries to catch up and have a chance to climb the development ladder, and eventually reap the benefits of regional integration.

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<sup>4</sup> The survey did not include Myanmar and Lao PDR

## 2. Coping with the Changing Institutions and Policy Design

Related to the issue of development divide is the challenge of how to implement the regional goals in the member countries considering the political and economic diversity. Several questions still need to be answered, such as, *How much of these regional policies are integrated in the domestic legislation? Do the LDCs have enough technical and financial resources to implement and sustain the new laws, should they be integrated? To what extent has these improved their participation in regional cooperation endeavors and also contribute to their own national development agenda?* Ultimately, the main impetus for integration comes from individual member countries and their commitment to align domestic policies to regional goals. It is important that member economies and the larger population must be convinced of the merits of creating an East Asian Community.

## 3. Dealing with common risks associated with Regional Integration

Integrating the regional economies is also tantamount to opening the countries to various risks. Other than economic contagion, it also increases the number of human security risks entering the member economy resulting from freer movement of goods, capital and labor. There had been some initiatives to contain, or even eliminate these risks. APEC has programs to enhance Human Security in the region and includes programs associated with anti-terrorism, health security and food safety. The past years, however, the programs, had received little attention. Moreover, monetary and financial policy initiatives had been created in East Asia to prevent another Asian Financial Crisis. The Chang Mai Initiative, which is a direct response to the Asian Crisis of 1997, is a network of currency swap arrangements which intends to increase the availability of liquidity in the region. It has however, remained voluntary, uncoordinated, and lacked the appropriate policy tools to smoothly facilitate bilateral swaps (Nikerk, 2005; Sally, 2010).

4. Geopolitical obstacles – Geopolitical issues further complicate regional integration. While economic links contained some of the tensions, political tensions and conflict remain. The changing global landscape created multi-polar source of power in the region and toned down the role of US in regional stability. However, US remains a vital balancing power in the region due to its overwhelming military capability. Emerging regional powers should also be factored in, particularly in the context of competition for regional leadership and natural resources. (Sally, 2010)

| Table 2. Select Macroeconomic Indicators in East Asia |                                  |                                |                                     |                                      |   |   |   |  |  |   |   |                           |  |
|---|----------------------------------|--------------------------------|-------------------------------------|--------------------------------------|---|---|---|--|--|---|---|---------------------------|--|
|   |                                  | Revised<br>HDI<br>Rank<br>2006 | Total GDP<br>(US\$ Billion)<br>2007 | GDP per<br>capita (PPP<br>US\$) 2007 | Annual Growth<br>Rate of GDP<br>per capita (%)<br>1990-2007 | Population Living<br>Below \$2 a day (%)<br>2000-2007 | Population<br>Living Below<br>the National<br>Poverty Line<br>(%) 2000-2006 | Population<br>Not Using an<br>Improved<br>Water Source<br>(%) 2006 | Government<br>expenditure on<br>health as a<br>percentage of<br>total<br>government<br>expenditure | Health Life<br>Expectancy<br>at birth<br>(years) 2007 | Adult Literacy<br>Rate (% aged<br>15 and above)<br>2007 | Gini Index<br>(1992-2007) |  |
| Very High Human Development                           |                                  |                                |                                     |                                      |   |   |   |  |  |   |   |                           |  |
| 10  | Japan                            | 10                             | 4,384.30                            | 33,632                               | 1   | -   | -   | -  | 17.7   | 78  | -   | 24.9                      |  |
| 23  | Singapore                        | 24                             | 1613                                | 49,704                               | 3.8   | -   | -   | 0  | 5.4  | 75  | 94.4  | 42.5                      |  |
| 26  | Korea (Republic of)              | 26                             | 969.8                               | 24,801                               | 4.5   | <2  | -   | 8  | 11.9   | 74  | -   | 31.6                      |  |
| 30  | Brunei Darussalam                | 30                             | 115                                 | 50,200                               | -0.3  | -   | -   | -  | 5.1  | 67  | 94.9  | -                         |  |
| High Human Development                                |                                  |                                |                                     |                                      |   |   |   |  |  |   |   |                           |  |
| 66  | Malaysia                         | 66                             | 186.7                               | 13,518                               | 3.4   | 7.8   | -   | 1  | 7  | 66  | 91.9  | 37.9                      |  |
| Medium Human Development                              |                                  |                                |                                     |                                      |   |   |   |  |  |   |   |                           |  |
| 87  | Thailand                         | 86                             | 245.4                               | 8,135                                | 2.9   | 11.5  | 13.6  | 2  | 11.3   | 65  | 94.1  | 42.5                      |  |
| 92  | China                            | 99                             | 3,205.50                            | 5,383                                | 8.9   | 36.3  | 2.8   | 12   | 9.9  | 68  | 93.3  | 41.5                      |  |
| 105   | Philippines                      | 105                            | 144.1                               | 3,406                                | 1.7   | 4.5   | 25.1  | 7  | 6.4  | 64  | 93.4  | 44                        |  |
| 111   | Indonesia                        | 111                            | 432.8                               | 3,712                                | 2.3   | -   | 16.7  | 20   | 5.3  | 61  | 92  | 39.4                      |  |
| 116   | Viet Nam                         | 115                            | 68.6                                | 2,600                                | 6   | 48.4  | 28.9  | 8  |  |   | 90.3  | 37.8                      |  |
| 133   | Lao People's Democratic Republic | 132                            | 4.1                                 | 2,165                                | 4.2   | 76.8  | 33  | 40   | 4.1  | 54  | 72.7  | 32.6                      |  |
| 137   | Cambodia                         | 137                            | 8.3                                 | 1,802                                | 6.2   | 68.2  | 35  | 35   | 10.7   | 55  | 76.3  | 40.7                      |  |
| 138   | Myanmar                          | 138                            | -                                   | 904                                  | 6.8   | -   | -   | 20   | 18   | 52  | 89.9  | -                         |  |

Source: Human Development Report 2009

#### **IV. Conclusion: Pathways for Regional Economic Integration**

The East Asian region has changed remarkably in the past decade. The economic center of gravity—production, trade and finance--- is now centered in East Asia with the rise of China and emerging economies of East Asia. Regionalism had risen sharply in the form of Free Trade Agreements, with new agreements concluded and being negotiated each year. While it brought a lot of benefits, regional integration also highlighted economic asymmetries between countries in the region. Several studies had been devoted to respond to this issue and concrete recommendations were prescribed to address the development gap and help less development economies catch up with advanced countries in the region. (Salazar and Das, 2007 Green, 2007; Severino, 2007; Nandan 2006; Das, 2009)

East Asian economic integration is open and outward-oriented, with gradual and flexible systems to take into account the region's varying economic, political and cultural realities. The regional goals are also pragmatic and gradualist to reinforce trust and commitment among member economies. This is considered to be a fitting policy design to achieve regional economic integration in East Asia.

Given that it has successfully set the pre-conditions for successful integration, the next step would be for East Asia to create practical measures to move towards regional integration that will ensure participation of all member economies and integrate the larger Asia Pacific region. Concrete and well-defined targets are important in this regard which are mindful of the need for economic and technical cooperation for bridging development gaps. Enhancing cooperation on transportation, as well as social and economic infrastructure, are also critical. Political and social cooperation would be important to promote greater regional stability. Moreover, at the technical level, the region should devote more attention to harmonize the bilateral and plurilateral groups in the region and adopt simpler and consistent Rules of Origin in the various free trade agreements.

The need for domestic restructuring and strengthening of institutions at the national level are also very important. Implementation is guaranteed only if regional policies are integrated in national legislation of individual members. Governance reforms are necessary, particularly those which target the creation of a good investment climate and would enhance competitiveness. Individual economies should be able to make the necessary adjustment in national policies and legislation to adapt to the changing institutions, systems and processes.

Regional economic integration is an enormous goal that would need time and huge amount of resources to be accomplished. ASEAN addressed the implementation challenge by taking a sectoral approach to liberalization<sup>5</sup> and integrated the sectors which are expected to enhance the

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<sup>5</sup> ASEAN targets to integrate in 2010 the eleven priority sectors, namely, agro-based products, fisheries, information and communications technology, healthcare, tourism and air-travel. Additional sectors may be selected

competitiveness and attractiveness of ASEAN as investment destination. It has also crafted the ASEAN Economic Community Blueprint, which serves as a reference for member countries in harmonizing and coordinating policies based on regional goals of creating an Economic Community by 2015. This could serve as a good model to design economic integration initiatives in the East Asian region, and in the future, Asia-Pacific-wide integration initiatives.

Flexibility was given to less developed members in consideration of their capacity to implement the integration goals. While criticized by some analysts as a policy that slows down integration which could also lead to shallow integration, providing Special and Differential Treatment to Less Developed economies during trade liberalization could be the best (if not the only) way for poorer economies to participate in regional economic integration.

Furthermore, the region is facing the challenge of how to sustain growth and integration in the context of a changing global landscape, and potentially, a regional and global powershift with the rise of China. Alongside efforts to pursue regional economic integration, institutions and mechanisms that will reduce political tensions and conflicts between and among leading and emerging powers in the region should also be built and sustained.

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for accelerated integration. The initial target was to eliminate tariff in 2007 for ASEAN-6 and 2012 for new members. As discussed in previous section, this has been complied by member economies.

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# Annex 1. FTAs Involving East Asian Countries, as of February 2010

| East Asian Country<br>(ASEAN +3)                            | Signed/Implementation   | Under negotiation   | With Other<br>Countries (ROW)  |
|---|---|---|--|
| ASEAN   | AFTA<br>PRC ASEAN China<br>FTA(ACFTA)-Trade in<br>Goods (TIG), Trade in<br>Services (TIS),<br>Investments<br>ASEAN-Korea (AKFTA)<br>- TIG, TIS, and<br>Investment<br>ASEAN-Japan<br>Economic Partnership<br>Agreement(AJCEPA)<br>Australia and New<br>Zealand, Malaysia,<br>Philippines, Indonesia,<br>Viet Nam, Brunei,<br>Cambodia, Myanmar,<br>Lao PDR | e.g. Thailand**   | India (TIG, TIS,<br>and Investment)  |
| <ul style="list-style-type: none"> <li>Singapore</li> </ul> | Australia, New Zealand,<br>Korea, Japan, PRC,<br>ASEAN  | Comprehensive<br>Economic<br>Partnership for East<br>Asia (CEPEA) ****,<br>East Asia Free<br>Trade Area**** | US^, India^,<br>Jordan^,<br>Panama^, Peru^,<br>Canada***,<br>Mexico***,<br>Qatar***, Gulf<br>Cooperation<br>Council<br>(GCC)***,<br>Pakistan***<br>Ukraine***,<br>Kuwait***,<br>ASEAN -<br>European Union<br>(EU) ***,<br>European FTA<br>(EFTA) ^,<br>EU FTA****,<br>Egypt***,<br>Sri Lanka****,<br>Trans-Pacific<br>Strategic<br>Economic<br>Partnership<br>Agreement^,<br>Costa Rica*** |

|  |   |   |  |
|--|---|---|--|
|  |   |   | Bahrain**<br>Egypt***  |
| <ul style="list-style-type: none"> <li>Thailand</li> </ul> | ASEAN, New Zealand, Australia, Japan, China, Korea, Laos,   | Comprehensive Economic Partnership for East Asia (CEPEA)****, East Asia Free Trade Area (EAFTA)**** Korea FTA**** | ASEAN-India Regional Trade and Investment Area (RTIA)^, Peru***, US ***, Bahrain***, ASEAN - European FTA (EFTA)*** Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area ***, India FTA***, Pakistan****, Chile*** MERCOSUR**** (Mercado Comun del Cono Sur) or (Southern Cone Common Market), |
| <ul style="list-style-type: none"> <li>Malaysia</li> </ul> | Japan Economic Partnership Agreement (EPA), ASEAN-Japan Comprehensive Economic Partnership Agreement- (JCEPA), ASEAN, Australia, New Zealand, China, Korea Comprehensive Economic Cooperation Agreement (CECA), | Korea Free Trade Agreement (KFTA)****, CEPEA ****, EAFTA****, Australia FTA,                                      | Pakistan Closer Economic Partnership Agreement (CEPA)^, US***, Chile***, ASEAN-India Regional Trade Investment Area (RTIA)^, India Comprehensive Economic Cooperation Agreement (CECA)***, Preferential Tariff Arrangement- Group of Eight   |

|   |  |   |   |
|---|--|---|---|
|   |  |   | Developing Countries**, Trade Preferential System of the Organization of the Islamic ***  |
| <ul style="list-style-type: none"> <li>Indonesia</li> </ul>   | ASEAN, Japan (EPA), ASEAN-Japan (CEPA), China, Korea   | CEPEA****<br>EAFTA****<br>Australia**** | Pakistan***<br>ASEAN-EU FTA***, European Free Trade Association (EFTA) FTA****, Preferential Tariff Arrangement-Group of Eight Developing Countries**, United States****, India****<br>Comprehensive Economic Cooperation Arrangement ****, ASEAN-India Regional Trade and Investment Area^ |
| <ul style="list-style-type: none"> <li>Philippines</li> </ul> | ASEAN, Japan, China, Australia, Korea<br>New Zealand, Korea,   | CEPEA****<br>EAFTA****                  | ASEAN-EU***, Pakistan****, US****, India^   |
| <ul style="list-style-type: none"> <li>Viet Nam</li> </ul>    | ASEAN, China, Korea, Australia, New Zealand, ASEAN-Japan CEPA,   | CEPEA****<br>EAFTA****                  | Chile***, India^<br>ASEAN-EU***   |
| <ul style="list-style-type: none"> <li>Brunei</li> </ul>      | ASEAN, ASEAN-Japan CEPA, Australia, New Zealand, Korea, China, Japan Economic Partnership Agreement (EPA), | CEPEA****<br>EAFTA****                  | ASEAN-EU***, Pakistan ****, Trans-Pacific Strategic Economic Partnership Agreement ^, US****, India^  |

|  |   |   |  |
|--|---|---|--|
| <ul style="list-style-type: none"> <li>• Cambodia</li> <li>• Myanmar</li> <li>• Lao PDR</li> </ul> | <p>ASEAN, New Zealand, Australia, China, India Japan, Korea</p> <p>ASEAN, New Zealand, Australia, China, India Japan, Korea</p> <p>ASEAN, New Zealand, Australia, China, India Japan, Korea, Thailand</p> | <p>CEPEA****<br/>EAFTA****</p> <p>CEPEA****<br/>EAFTA****</p> <p>CEPEA****<br/>EAFTA****</p>                                      | <p>ASEAN- EU FTA***</p> <p>ASEAN-EU FTA***, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area***</p> <p>ASEAN-EU FTA***<br/>Asia-Pacific Trade Agreement (APTA)^</p>  |
| PRC  | ASEAN, New Zealand, Thailand, Singapore,  | Australia, CEPEA****, EAFTA****, Japan-Korea****, Korea****, Shanghai Cooperation Organization Free Trade Agreement (SCOFTA)****, | Hong Kong^, China^, Macao^, Chile^, Pakistan^, Asia-Pacific Trade Agreement (APTA)^, Chile^, Costa Rica***, Gulf Cooperation Council (GCC)***, Iceland***, India****, Peru** Norway***, South Africa****, South African Customs Union Free Trade Agreement (SACUFTA)***, Switzerland**** |
| Korea  | ASEAN, Singapore  | Japan, Australia, CEPEA****, EAFTA****, Thailand****  | Chile^, European Free Trade Area (EFTA)^, US**, Canada***,   |

|       |   |   |  |
|-------|---|---|--|
|       |   | New Zealand,<br>Malaysia****,<br>China-Japan****<br>China****                 | India^, EU***,<br>APTA^,<br>Colombia***,<br>Peru***, GCC***,<br>MERCOSUR –<br>(Mercado Comun<br>del Cono Sur) or<br>(Southern Cone<br>Common Market)<br>****,<br>Mexico Strategic<br>Economic<br>Complementation<br>Agreement***,<br>South Africa Free<br>Trade Agreement<br>(SAFTA) ****, |
| Japan | ASEAN, Singapore,<br>Thailand, Malaysia,<br>Philippines, Brunei,<br>Indonesia, Viet Nam | Australia<br>CEPEA****,<br>EAFTA****,<br>Korea EPA,<br>China-Korea<br>FTA**** | India***, Mexico^,<br>Chile^, GCC***,<br>Canada****,<br>India***, Peru***<br>Switzerland^,   |

Source: Medalla and Balboa, 2009. *Basic data from ADB-ARIC (accessed as of February 2010)*, ASEAN Secretariat, and Urata, 2008

Notes: ^In effect

\*Negotiation reached an agreement

\*\*Treaty signed for ratification

\*\*\* Under negotiation

\*\*\*\* Proposed, under consultation and study