

Creating the EAFTA

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Session 3: Key Questions

- (1) Timing of the creation of EAFTA and an Integrated Road-map to achieving it; and
 - (2) Members of the EAFTA
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I. Introduction

There is no doubt on the eventuality of an East Asian Free Trade Area (EAFTA). This confidence is buoyed by the promised benefits arising from a unified market for goods and services equivalent to almost $\frac{1}{4}$ of total global production; and almost $\frac{1}{2}$ of the total global population.

SIZE OF THE PROPOSED EAFTA		
2004	GDP	Population
	in M US\$	in '000
ASEAN*	784,374	544,000
Japan	4,623,398	127,764
China (inc. HK & Macau)	1,819,099	1,303,794
Korea, Rep.	679,674	48,142
Australia & New Zealand	730,943	24,181
India	691,876	1,079,721
TOTAL	9,329,364	3,127,602
* no GDP data for Brunei & Myanmar; no population data for Brunei		
World	40,887,837	6,345,127
High Income Economies	32,715,777	1,000,814
European Monetary Union	9,370,924	307,446
United States of America	11,667,515	293,507

Source: World Development Indicators, World Bank (2005)

In a global economic environment characterized by sluggish current performance and uncertain future, the EAFTA has the potential to catalyze sustainable growth.

Asia is no stranger to this role. It is home to countries which have defined the pace and trajectory of global economic progress over the last three decades: Japan in the 1970s, Korea and Taiwan in the 1980s, the Southeast Asian Newly Industrializing Countries in the 1990s, and China at the turn of

the Century. With the impasse over multilateral trade negotiations and the demographic winter in Europe and North America, a successful EAFTA could inject dynamism to the global economy.

The need for an economic catalyst is critical in the short- to medium-term, in order to provide a positive development to a world that is continually being engulfed by a rapidly escalating security problem. With the attention of Western economic and military powers drawn to issues elsewhere in the globe, Asia will rise up to the challenge of economic integration.

II. Likely Path to EAFTA and Its Members

The East Asia Free Trade Area (EAFTA) involves the integration of an existing regional block—the ten members of the ASEAN; the three large East Asian countries—Japan, China and Korea; another large economy, India; long-standing Asian partners, Australia and New Zealand; and the possible inclusion of North Korea and Taiwan.

Unfortunately, the mere promise of a vibrant unified market—even with the whole world cheering on its creation—is not enough to actually realize its eventuality. The most basic requirement would still be the confluence of internal factors and motivations—among East Asian economies—that would push the region to integrate.

Paradoxically, the same factors that push for integration, could also prove to be the very same impediments that could slow its progress. These critical factors include shared histories and cultural affinities. Close geographical proximity, while working positively for integration, has also been a key reason for historically-rooted conflicts. In certain economies, this has led to generations-old tradition of difficulty in trusting foreign influence—including those of proximate neighbors.

In this context, the Association of Southeast Asian Nations (ASEAN) will have to play a pivotal role in any integration of East Asian economies. Even if ASEAN's own integration is fraught with challenges and is seen by some as quite slow, there is at least certainty on its final outcome. ASEAN, as the most cohesive grouping in the region, will most likely serve as the structural platform for attaining the EAFTA.

This is stated without implying that, especially with their size, Japan, China and Korea are less capable of initiating from their side the move towards an EAFTA. Indeed, they are already moving towards this. However, the very size and prosperity of these larger countries—together with their shared histories—necessarily paints them, from a certain perspective, as competitors for economic and political influence in the region.

With ASEAN as the key binding element, the EAFTA will most likely progress via the ASEAN plus 1 path, cumulatively leading to the integration of the whole region. While the efficiency of the negotiation process and the potential economic benefits may be maximized when negotiating for integration among larger groupings (e.g., ASEAN plus

3), the diversity of economic and political interests point to ASEAN plus 1 as the most viable approach.

Considering the pace of existing negotiations, among the three largest East Asian economies (Japan, China and Korea), ASEAN—as a group—will most likely integrate first China, then with Japan, and with Korea. Bilaterally, however, certain ASEAN member countries will integrate faster and deeper (in terms of coverage) with Japan.

ASEAN's integration with China will likely proceed at a faster pace as this could create complementarities that would rationalize their increasingly intensifying trade relations. China also shares a common development dilemma with ASEAN—wide internal disparities in the economic conditions of its citizenry.

Though integration with Australia and New Zealand will proceed independently from ASEAN's negotiations with Japan, China and Korea, it will most likely not pre-date any ASEAN-China agreement.

Should the ASEAN path prove to be the major route for the EAFTA, India will most likely be the last major economy to be integrated. The formal inclusion of Taiwan will be dependent on how its relations with China progresses—though ASEAN will welcome positive developments in this area. Lastly, the inclusion of North Korea will be dependent on the progress of talks between Seoul and Pyongyang.

III. The Timing of the EAFTA

The ASEAN will serve as both the catalyst for East Asia to integrate and, at the same time, provide critical limits to how fast it can proceed.

First, the bureaucratic resources needed to sustain trade negotiations are quite significant—and which, to smaller ASEAN economies, may prove to be overwhelming. As an implication, EAFTA will have to start with a settled ASEAN-China, ASEAN-Japan, probably an ASEAN-Korea agreement and including other economies similarly situated in the region. There has to be some discernible outcome of existing negotiations before talks on the EAFTA will start.

Second, in addition to bureaucratic resource limitations, for certain forms of government, domestic consensus will have to be formed through often contentious and long-winding processes. As these processes happen simultaneously while the domestic market faces challenges pressed by ASEAN's own integration, constituencies advocating slower trade integration may form.

And third, a sufficient level of confidence springing from an understanding of the workings of each others' economic system is critical in triggering a formal sitting-down and commencement of work towards an EAFTA. While the region's experience in the

various arrangements currently being discussed will accelerate the attainment of this level of familiarization, this will still nonetheless require time.

The formation of an EAFTA may still proceed at a pace faster than ASEAN's integration with the individual countries of China, Japan and Korea. However, there will have to be an external factor that will force the three large countries to come together. This, however, remains at the level of pure speculation.

In the end, while the common experience of ASEAN countries in a regional set-up will provide the integrating element for the EAFTA; their diversity will also be one of the region's greatest challenges as it proceeds on the path towards integration.