

# **On The Emerging East Asian Economic Community: Challenges and Opportunities**

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## I. Introduction

### I.1. Asia in the Context of Global Trade Flows

The growth of world trade is much faster than that of the total output of the world economy since the 18<sup>th</sup> century, except for the interruption of trade in the inter-war period during 1913-1950. In 2000-2007, the average growth rates of world export were 2.7% faster than the real GDP in the world economy, except for 2001 when the world trade declined marginally due to the dot.com bubbles. Figure 1 below showed the volume of world exports and GDP during 2000-2007 periods.

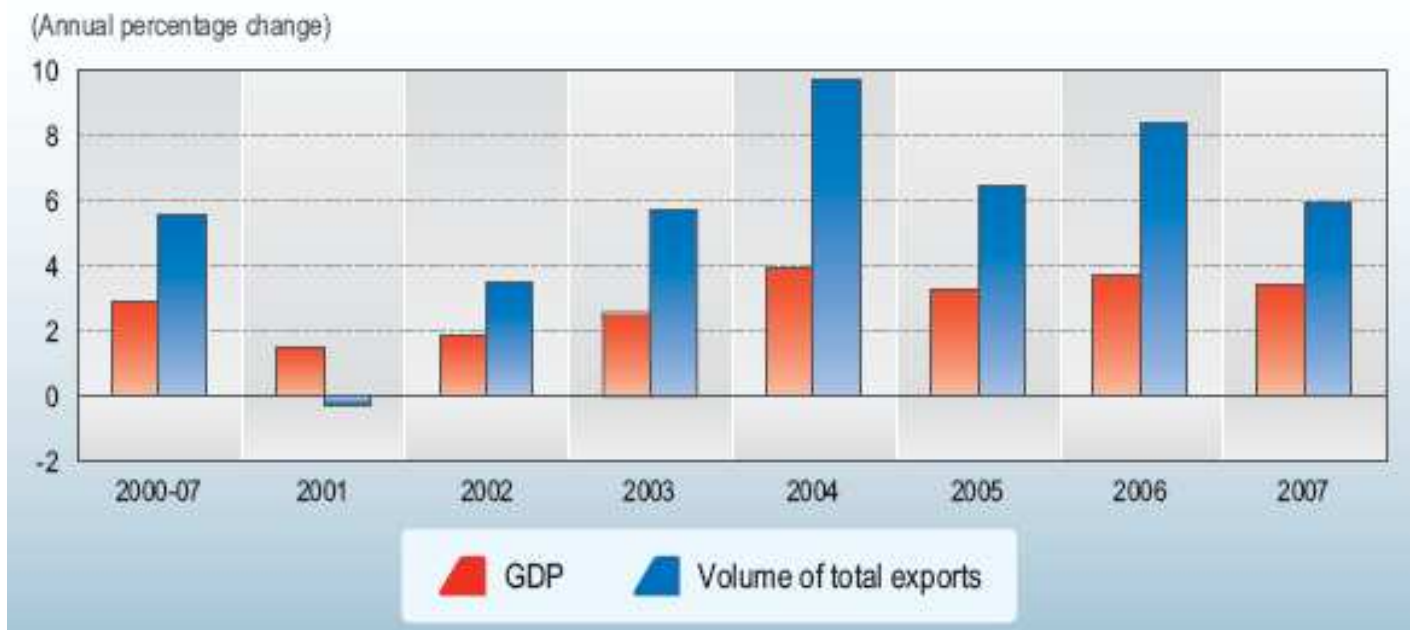


Figure 1: Growth of world GDP and Trade, 2000-2007  
Source WTO: 2008 World Trade Statistics

However, the global trade flows are highly concentrated in the top 20 trading partners in three major regions; in 2007, the top 20 trading countries accounted for 72.6% (71.8%) of world imports (exports). Among the three major regions in Asia, Europe and North America; the Europe accounted for 43.4% (42.4%) of world imports (exports),

followed by Asia with 25.3% (27.9%) shares of world import (export) and North America with 19.4% (13.6%) shares of world import (export) in 2007 (WTO, 2008 World Trade Statistics). In other word, the three major regions dominated the world trade flows by accounting for 88.1% (83.9%) of the world imports (exports) in 2007.

Meanwhile, intra-regional trade flows overrode that of inter-regional since the 1998's; Figure 2 below illustrates the intra and inter-regional merchandise trade in the three major regions in 2007;

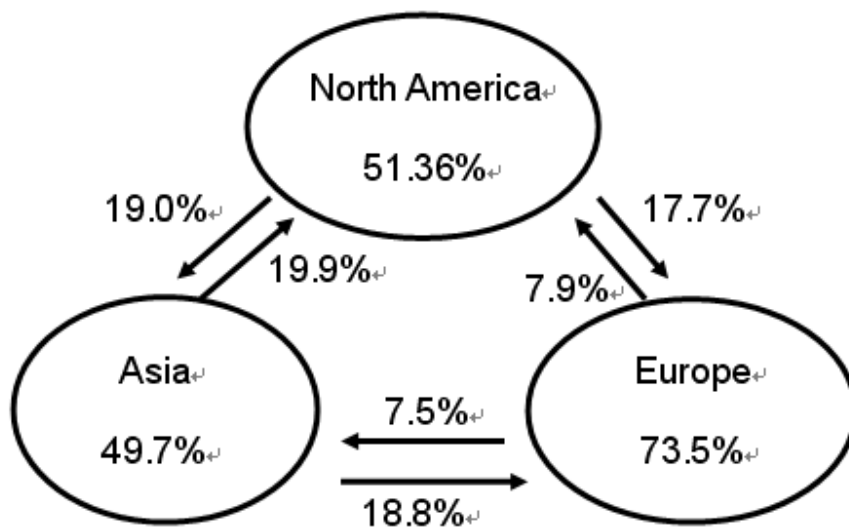


Figure 2: Percentage of inter-and intra-regional trade in total trade flows in three major trading regions in 2007.

One can find from Figure 2 above that, among the three major regions, intra-regional trade in Europe accounted for 73.5% of total trade in Europe, whereas those in North America and Asia is only 51.4% and 49.7% respectively in 2007. In other word, among the three major regions of world trade, Asian countries relied the most on the external market for their exports. The dependency for external market has important implication for the evolving economic integration in Asia Pacific region.

## I.2. Regional Trading Arrangements and Economic Integration in East Asia

Though many East Asia countries are trade dependent economies which accounted for a sizable share of world trade today, they adopted their export-promotion development strategies at different time periods, and penetrated in the world market with at various levels of product sophistication in accordance with their comparative advantages in the world market as well as their respective levels of economic developments and industrialization. Therefore, export commodities from Asia to the world market are composed of divergent different degrees of technologic and product sophistications.

As the industrialized leader in the region and pursued its export-led growth policy soon after its post-war reconstruction, Japan took the lead in the “flying geese” pattern of industrialization (Akamatsu, 1970) as early as the 1950’s. The two little geese, Korea and Taiwan, arguably adopted similar development trajectory as what Japan did after the mid-1960. ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand) started to engage in export-oriented development policy only after the first energy crisis of 1973-74, whereas China started its economic reform and openness only after 1978-79. For South Asia like India, much of its trade and investment policies were liberalized only until the mid-1990.

At the risk of oversimplification, one could conceptually derive the following diagram to illustrate the path of industrial development in Japan and its followers in the post war era:

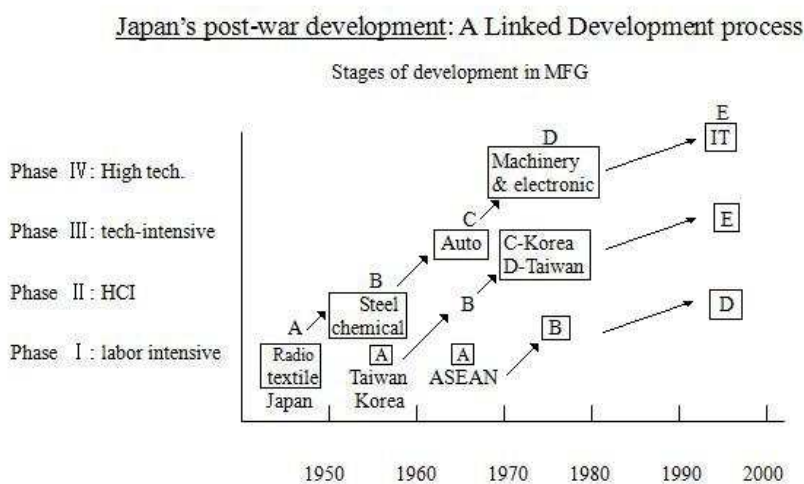


Figure 2: A Linked of East Asian Industrialization Process

Source: Chow (2010)

The sequential developments thesis described above is similar to the “stages approach of comparative advantage” a la Balassa (1979). The fact that Asian countries have had different concentrations in various industries and with divergent technological sophistications in their export commodities may provide them with strong incentive for industrial coordination and economic cooperation. However, economic integration within the region didn't occur until the trade-investment nexus gained its momentum after the Plaza Accord in 1985. For institutionalization of formal regional trading arrangements, East Asia engaged a series of bilateral and multilateral free trade agreements (FTAs) only lately in the 1990's, and the proliferation of FTAs occurred only after the 1997-98 financial crises. The bandwagon effect of signing FTAs in Asia generated 166 regional trading arrangements (RTAs) by June 2009. Among those regional trading arrangement (RTAs), the following are most important to the development of a broad East Asian Economic Community;

- i) ASEAN plus Japan (2007)
- ii) ASEAN Plus Korea (2008)
- iii) ASEAN Plus CER (Australia and New Zealand, 2009)
- iv) ASEAN plus China (2010)
- v) ASEAN plus India (2011)
- vi) ASEAN plus China, Japan and Korea (ASEAN plus 3)
- vii) ASEAN Plus Six: ASEAN plus 3, as well as Australia, India, and New Zealand

Nevertheless, economic integration in East Asia is very different from that in Europe or North America.

Basically, East Asian economies are heterogeneous in their levels of economic development with high disparities in per capita income and high dispersion of industrial developments. Secondly, among those trade dependent economies, the degrees of overlapping export commodities are relatively high; measured by the export similarity index, most East Asian countries have a “similarity index” of more than 0.5 in 2006. Among them, the similarity index between Korea and Taiwan ranked the highest with similarity index of 0.8, followed by 0.76 between China and Taiwan, and 0.73

between China and Korea, as well as between ASEAN and Taiwan (Hong, 2009). Thirdly, much of the final products from those trade dependent economies are destined toward the same market in the industrialized countries such as the U.S. and European Union. The high degree of overlapping export commodities destined to the markets in industrial countries may provide another reason for East Asia to adopt “open regionalism” in their drive of economic integration.

However, the above “stages of development” and the division of labor would need to be qualified by the development of the drive of globalization, especially the fragmentation of manufacturing production. Essentially, intra-industry trade, especially intra-firm trade between home countries and foreign subsidiaries has been dominating the trade flows after the 1980’s. To some extent, the division of labor and the resultant trade patterns in the region were generated by the trade-investment nexus and the regional production network generated by the multinational enterprises, especially since the Plaza Accord in 1985. Hence, one could argue that there was a “de facto” economic integration in East Asia even before the proliferations of the FTAs.

The trade-investment nexus and its consequential effect of “de facto” economic integration generated a regional production network and became a subset of the global supply chain to provide final consumer products, especially in information and communication technology (ICT), for the industrialized countries. Hence, economic integration in East Asia, other than trade and investment liberalization, requires substantial policy initiatives on structural re-adjustments in trade destinations, commodity structures, as well as coordination of industrial development.

## **II. Trends and Prospects of Community Building in East Asia**

What would be the likely outlook of the evolving East Asian “de facto” economic integration? To what extent would an evolutionary East Asian Community emerge as a result of the proliferation of regional trading arrangements? Those are the interesting questions and its developments deem carefully analysis.

In general, economic integration between small and large countries would lead to reallocations of factors of production and generate a lopsided distribution of “industrial clusters” in the large countries due to scale economies under free capital movements. After analyzing the effect of economic integration on the shift of industrial clusters, Krugman (1991) argued that a “hub- spoke “scenario between large and small economies would occur because the large economy ( the hub) with relatively large size of production bases would be benefited through trade liberalization, cost reduction and scale economies , whereas the smaller size economy ( the spoke) would suffer from it to become a periphery. As exemplified by the experience of the enlargement of the European Union, except for the immovable land, all other factors of production including capital, labor, and technology have been attracted to the hub.

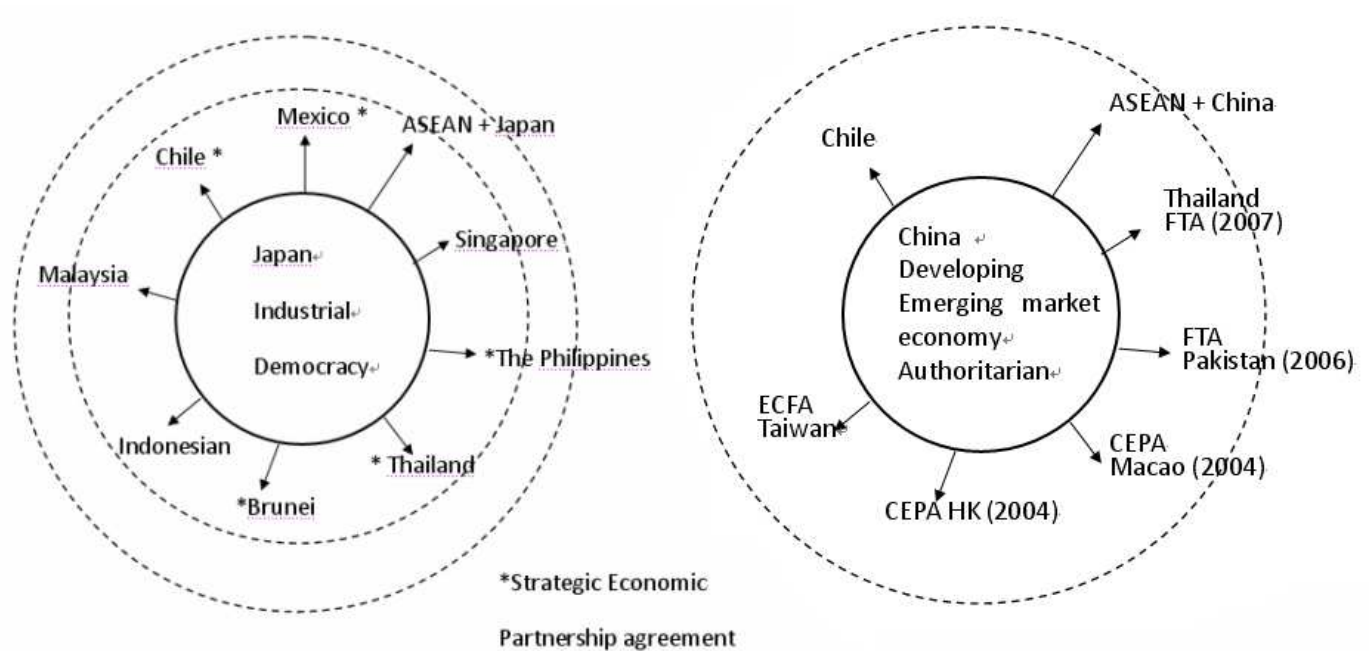
### **II.1. Baldwin’s Bicycle Model for East Asian Integration: Two Hubs, Many Spokes**

Based on econometric model of measurement of hub-ness in economic integration,<sup>1</sup> Baldwin ( 2004) conclude that a bilateralism of “ hub-and-spoke “ scenario in East Asia and schematically drew two natural hubs for an East Asian bicycle as a possible scenario ; **The Japan-centric and China- centric hubs with many spokes in the regions.** The following figure was modified by the author by incorporating the actual and the proposed preferential trading arrangements in Japan and China.<sup>2</sup>

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<sup>1</sup> Baldwin defined that “ A hub will be the nation for whom preferential access is highly valued by most, or all nations in the region” ( 2004. P. 27).

<sup>2</sup> By May 15, 2009, Japan signed 11 FTAs with Singapore, Malaysia, the Philippines, Thailand, Mexico, Chile, Indonesia, Brunei, ASEAN, Switzerland and Vietnam. China signed FTAs with ASEAN, Pakistan, Chile, New Zealand, Singapore, Peru, two CEPAs with Hong Kong and Macao and the Asia Pacific Trade Agreement which include Bangladesh, India, Korea, Laos and Sri Lanka.



**Figure 3: Baldwin's Bilateralism of FTA Pattern in East Asia**

Baldwin noted that the level of hub-ness in East Asia is not comparable to that of the U.S. in Western Hemisphere. He also argued that, "on average, Japan has twice the 'hub-ness' of China" for almost every East Asian nation under study except for Laos and Cambodia. The potential hub-ness for ASEAN as a group is significant only for Laos (54%), Singapore (21%) and Brunei (13%). Other potential hubs investigated by Baldwin was Japan-Korea FTA, which is over 10 % for all East Asian countries and over 20% for most others. Adding China to become Japan-China-Korea FTA does not increase the "hub-ness" for East Asian nations at all.

One can further argue that the Japan-centric hub is dominated by the industrial democracy of Japan, which is generally considered as the leader of East Asian industrialization (the "mother goose" in Akamatsu "flying geese model", 1971). Japan, which is well endowed with "oceanic civilization", has been developing its hub status through market forces of trade, investment and technological flows since the 1960's (Chow, 2009 a). In fact, a well-established global production and distribution network in East Asia has been built by



Japan's multination corporations (MNCs) even before the institutionalization of the ASEAN plus Japan FTA (Ando and Kimura, 2003). On the other hand, China has been and still is an authoritarian regime, and is traditionally tied with "continental civilization". The China -centric hub is, in addition to its leverage to Hong Kong and Macao, manipulated by China's "good neighborhood" policy to South East Asian countries.

Nevertheless, both the China-centric and Japan-centric hubs rely on external market to dispose their final products. By comparisons of the three RTAs in the three major trading blocs, intra-regional trade accounted for 68% in EU-27, 51% in NAFTA and only 25% in ASEAN in 2007. (WTO: World Trade Statistics, 2008). Hence, East Asian countries still rely on much of the U.S. and European markets which accounted nearly 40% of their exports. Moreover, much of the intra-regional trade in East Asia was closely tied with the final demand in the OECD countries. Therefore, East Asia has a long way to go to reach the status of integration as what the European Union or NAFTA has had. Unless China and Japan could restructures their economic structures from export-dependent economies to domestic demand-oriented so as to absorb a much, much greater shares of those final consumer goods, which won't occur in the near future, either the "China-centric hub" or the "Japan-centric hub" would be very vulnerable to external shock of export demand.

Economic slumps and other domestic politics such as unemployment and wage deterioration in western industrialized countries may lead to public scrutiny and even trade retaliation against their imports from the "China-centric hub" or the "Japan-centric hub". As it is well known, the Plaza Accord of currency appreciation was under the pressure from Washington. Recently, a bipartisan group of 130 members of the U.S. Congress urged the Obama Administration to take strong actions against the alleged currency manipulation by China and the U.S. Treasury Department is expected to publish its biannual report on currency arrangement of other countries. Moreover, U.S. Senator Arlen Specter ( D, Pa) remarked at a Senate conference by saying " we have lost 2.3 million jobs as a result of the trade imbalance with China between

2001 and 2007” ( Wall Street Journal, March 27, 2010. A2). Regardless of the validity of the allegation on exchange rates manipulations, the risk of dependency on external market for the trade dependent countries still need to be well hedged when formalizing any trade blocs in the region. Therefore, unless there is a vital alternative market for those trade-dependent economies in East Asia, the U.S. could possibly play an important and strategic role in East Asian economic integration and the formation of the East Asian Economic Community.

## **II.2. The U.S. Role in East Asian Economic Integration: A Tri-Cycle Model with Many More Spokes**

Baldwin’s bi-polarized model of East Asian economic integration highlighted the economic forces of hub-ness without considering the security and strategic factors in the region, where the U.S. has been playing a very important since the end of WWII. Since the 1980’s, U.S. trade flow across the Pacific Ocean exceeded that across the Atlantic Ocean. As a Pacific power with vest strategic and economic interest in the Asia Pacific region, the U.S. has been opening its market with a total of more than \$ 2 trillions imports from the rest of the world. In fact, many trade dependent economies have been considering that the U.S. as the “world consumer of the last resort”. In the past decades, the U.S. was not only the largest export market for many Asia-Pacific countries, but also one of the few importers which could afford to suffer persistent trade deficits for decades so as to provide the huge foreign exchange reserves for Asia Pacific countries.<sup>3</sup> Though the persistent “twin deficits” in the U.S. may not be sustainable and the restructuring the macroeconomic imbalances of global economy is under way, the U.S. is still an important market for those trade dependent economies in Asia in the foreseeable future. Will trade dependent economies in Asia rely less or more on the U.S. market in the

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<sup>3</sup> Of course, the persistence current account deficits in the U.S which is mainly financed through the sales of U.S. Treasury bonds to those countries with huge foreign exchange reserves in East Asian countries is another big issues in bilateral economic relations as well as in the global reserves system . U.S. trade deficits with China in 2008 were about one-third of U.S. total trade deficits with the world. By the end of 2009, China held about \$ 755 billion, about one fifth of total U.S. Treasury bonds held by all foreigners, is disliked by both the Chinese public and American politicians (Wall Street Journal, March 30, 2010. A15).

aftermath of the global financial crisis is an interesting development, which has strong implications on the evolving economic integration in the region.

It was estimated that 63 % of the international reserves in the world were held in East Asian countries. Most of these foreign reserves were generated from the U.S. trade deficits with those Asian countries. Moreover, many currencies in Asian countries “de facto” pegged with the U.S. dollar, which though has a declining role in world reserves, has been one of the most important currencies in international business transactions.<sup>4</sup> The technologic flows through foreign investments, manufactured sub-contracts and outsourcing by U.S. MNCs have been the key ingredients of economic development and technologic advancements for many Asian-Pacific countries.

If market force is the determining factor for economic integration, then it would be much more fruitful to review the hub-spoke scenario by first examining the degree of trade competitiveness and complementarity, and or to identify the “ natural trading partners ” before one conclude the perspective scenario of East Asian economic integration.

In an earlier study by Chow (1996), it was argued that any formulations of preferential trading arrangements and or economic integration must be measured by and based on the trade complementarities between and among trading partners. A group of countries can be identified as the natural **trading partners** if they have high degrees of trade complementarities. The complementarity index for country *i* with country *j* is to measure the extent to which the export specialization in country *i* matches the import specialization in country *j* as follows;

$$C^{ij} = (X^{ik} / X_i) \cdot (T / T_k) \cdot (M^{jk} / M_j) \dots (2)$$

Where  $k$  = individual commodities

$X^{ik}$  = country *i*'s export of *K* commodities

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<sup>4</sup> It was argued that China “ re-pegged” its currency 20 month ago in Roubini Global Economics March 31, 2010 ( [info@roubini.com](mailto:info@roubini.com)). Obviously, the “de facto” pegged exchange rates system is one of the controversial issues on the bilateral economic relations between China and the U.S.

$M^{jk}$  = country  $j$ 's imports of  $K$  commodities

$X_i$  = total exports in country  $i$

$M_j$  = total imports in country  $j$

$T$  = total world trade

If  $C_{ij} > 1$ , then country  $i$  and  $j$  are a pairs of “natural trade partners. Otherwise, it is not.

With time series data from 1965 to 1990, Chow (1996) found that for all manufactured products there is a trend of increasing complementarity in most Asian countries with the U.S. Chow( 1996) further differentiated all manufactured products into 3 product groups based on factor intensities and product characteristics, and found that for Ricardian goods and Heckscher-Ohlin goods ( resource-intensive goods and labor-intensive goods), China ( 1.09), Korea ( 1.02), Singapore ( 1.00) and Taiwan ( 1.04) have strong complementarity indices with the U.S. For product cycle goods (technological intensive goods), Korea (1.01), Singapore (1.03) and Taiwan (1.03) have strong complementarity indices with the U.S. Hence, except for Hong Kong, all the NICs have had trade complementarity with the U.S.

Table 1 below shows the selected years of trade complementarity indices between the 10 East Asian countries with the U.S. in selected years after 1985.

**Table 1 The Complementary Index of 10 Asian Countries to US Market**

Year	1980	1985	1990	1995	2000
Japan	1.24	1.24	1.15	1.06	1.01
Korea	1.36	1.15	1.15	0.99	0.91
Hong Kong	1.82	1.31	1.16	1.18	1.12
Taiwan	1.68	1.25	1.11	1.02	0.91
Singapore	1.26	1.03	1.11	1.20	0.95
China	0.98	1.06	1.26	1.23	1.22
Indonesia	1.07	0.91	0.94	1.08	1.09
Malaysia	1.33	1.11	1.22	1.23	1.02
Philippines	1.72	1.21	1.26	1.26	0.99

Thailand	1.24	1.11	1.22	1.17	1.05
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$X_{ik}$  = Country  $i$ 's export of  $k$  commodity to **World market**  
 $X_i$  = Country  $i$ 's total export of all commodities to **World market**  
 $M_{ik}$  = US import of  $k$  commodity from World market  
 $M_j$  = US total import of all commodities from World market  
 $T$  = Total world trade of all commodities  
 $T_k$  = Total world trade of  $k$  commodity

The complementarity index would be much greater as shown in Table 2 below if one defines that  $X_{ik}$  and  $X_i$  in the following way whereas all other variables remain the same as what are in Table 1;

$X_{ik}$  = Country  $i$ 's export of  $k$  commodity to **US market**

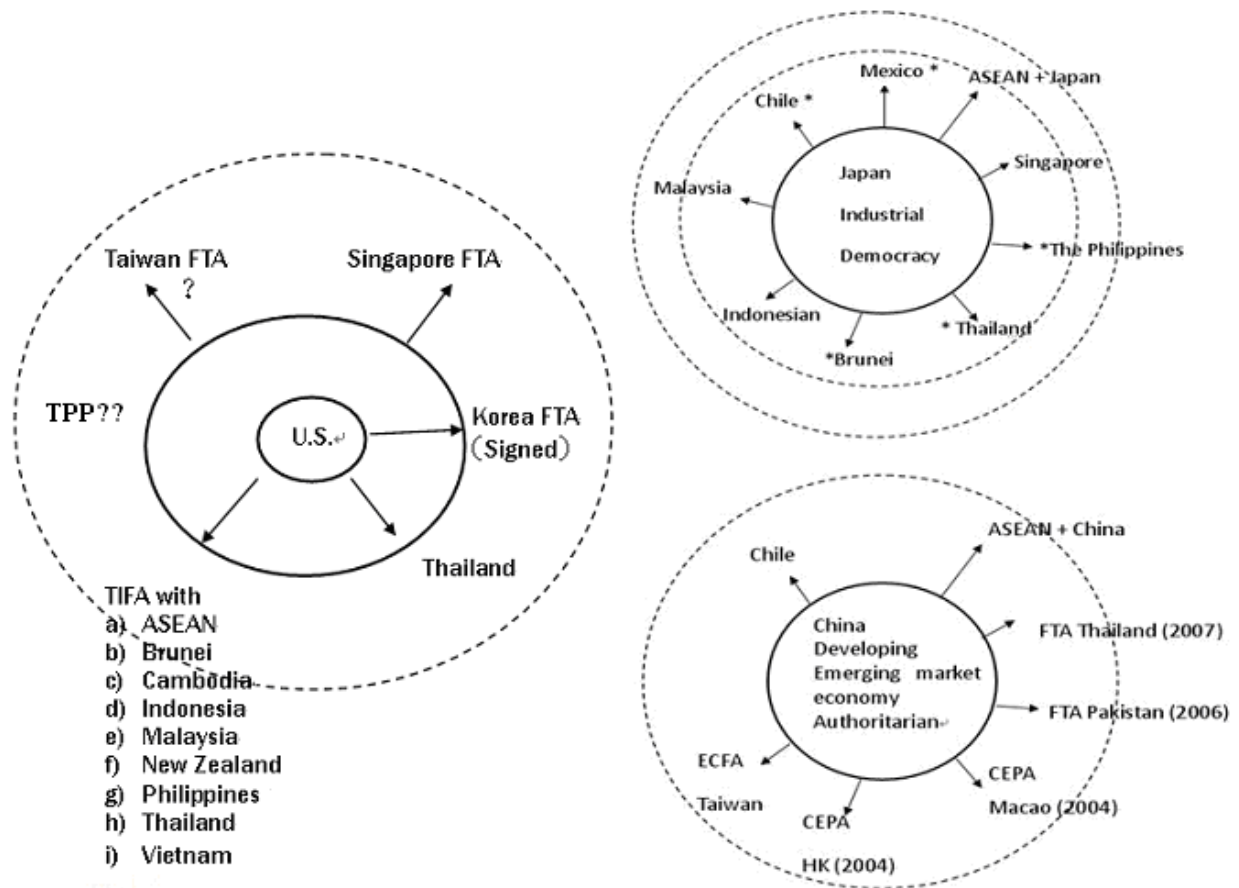
$X_i$  = Country  $i$ 's total export of all commodities to **US market**;

**Table 2 The Complementary Index of 10 Asian Countries to US Market**

Year	1980	1985	1990	1995	2000
Japan	1.80	1.53	1.33	1.25	1.20
Korea	2.63	1.42	1.44	1.29	1.12
Hong Kong	3.82	1.47	1.37	1.35	1.31
Taiwan	2.64	1.37	1.29	1.25	1.05
Singapore	2.14	1.23	1.27	1.42	1.11
China	3.20	1.41	1.51	1.39	1.32
Indonesia	1.86	1.24	1.33	1.42	1.36
Malaysia	1.92	1.28	1.37	1.40	1.14
Philippines	2.63	1.32	1.35	1.31	1.07
Thailand	2.65	1.29	1.41	1.35	1.23

One could argue that the high degree of complementarity between the U.S. and those Asian countries- notably Korea, Taiwan justifies that there is a strong potential for the U.S. to serve as another hub in East Asian economic integration. By including the U.S. role in East Asian integration, Baldwin's model could be re-structured as a tri-lateral model with the U.S., China and Japan as the third hubs.

Therefore, unless the U.S. becomes a totally isolationist in its foreign policy, there is a potential U.S.-centric hub to be developed once the Obama Administration starts to pay its due attention to the Asia Pacific region after President Obama is relieved from his pre-occupied attention on domestic economic recovery, health care and other foreign policy issues. The U.S.-centric hub could be nurtured by aggressively revitalizing U.S. trade, investment and technologic flows in the region. It could emerge as the third wheel in East Asian integration by multiple bilateral FTAs with Asian countries and multilateral trade liberalization discussed in Section III. Figure 4 below illustrates a probable U.S.-centric hub and a tri-cycle model for East Asian integration.



**Figure 4: A Tri-Cycle Model of East Asian Integration**

In spite of the declining influence after the global financial crisis, the U.S., as a Pacific power, could still revitalize its role in East Asia by actively engaging in the on- going economic integration. To maintain the global trading framework, it is necessary to homogenize economic and trade policy by appealing to the WTO principle of “open regionalism” in East Asia. But, before universal trade liberalization in the region, the U.S, would need to critically evaluate the evolution of the trade blocs in East Asia and to revitalize its role in the region by engaging in more active and more aggressive trade policy in the region. The economic recovery after the global financial crisis, the passage of the comprehensive health care reform bill which was signed by the President Obama on March 23, 2010 may provide President Obama an opportunity to pay his due attention to trade issues to revitalize U.S. trade policy initiatives and to pursue further trade pacts with its trading partners who are eagerly to join the U.S.-centric hub in the region.

### **III. Toward an Emerging East Asian Economic Community?**

Economic integration in Asia Pacific region is a typical “path dependency” problems. Too many constraints from the complicated interactions between / among political and economic factors have determined what Asian economic integration is today. There are different perceptions on the formation of the East Asian Economic Community<sup>5</sup>; for more comprehensive membership coverage of the regional economic integration, APEC is one of the most promising regional forums. in existence Within the 21 members of the APEC, one could divide into two groups. Nearly one-third of the APEC members are developed countries and the rest of the others are developing countries. After controlling other factors, one could find that the degree of interdependency among APEC members is much higher than with non-APCE members. Essentially, export dependency on APEC members are 2.8 times higher than that with non-APEC members, and import dependency on APEC members are 1.9 times higher than with non-members.

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<sup>5</sup> For example, Australian Prime Minister Kevin Rudd’s initiative was leaning toward an Asia Pacific Community where as what Japan ‘s Prime Minister Yukio Hatoyama proposed was an East Asian Community.

If one decompose the trade flows into three directions; a) within East Asia (Western Pacific) b) within the American states (Eastern Pacific) and c) between East Asia and American states, then one could find that trade flows within East Asia roughly accounted for 40% of total trade for the APEC countries, whereas within American State and between the eastern and western Pacific accounted for 30% respectively. This is because the trade destinations of final products for East Asian countries still rely on the markets in the industrialized countries, especially the U.S. and European Union as noted before.

Since the mid-1980's, trade –investment nexus has generated the intra-industry trade and intra-firm trade flows within multinational corporations under their regional/ regional production networks. Reliance on “external market” for final products has generated natural constraints on the exclusiveness of Asian regionalism. In other words, unless there is a substantial re-structure of the global imbalance in the aftermath of the 2008 financial crisis, East Asia could not exclude the U.S. from the emerging economic integration.

### **III.1.APEC-FTA**

So far, much of the initiatives undertaken by the APEC on economic integration are based on consensus of its members, and voluntary, not mandatory approach to achieve its goals. Moreover, its focus is more on trade facilitation, liberalization and deregulations on foreign investment, not much on coordination and re-adjustment of industrial structures.

To strengthen regional economic integration (REI), APEC took three major steps by a) enhancing liberalization of trade and investment at the border b) to improve the business environment behind the border and c) to strengthen the supply chain across the border.

On the other hand, APEC did push for sectoral liberalization in the Information and Technology Agreement (ITA) among its members. APEC may well move on to consider further sectoral liberalization such as transportation equipments and machineries. The other initiative is to expand liberalization in 5 major areas in



trade in services, investment, trade facilitation, rule of origin, standards and technical barriers to trade. All these efforts will be conducive to the long term goal of the APEC-FTA.

Other than the APEC, there are several paths to pursue the institutionalization of Asia-Pacific Regional Economic Integration. The following three on the on-going developments which could be speeded up to foster further institutionalization of economic integration in Asia Pacific region;

### **III.2. FTAAP**

To some extent, the initiative of Free Trade Area of the Asia-Pacific (FTAAP) represents the Asia-Pacific regionalism. FTAAP is a built-in agenda under the APEC. It has gained some strength after the 2008-2009 global financial crisis is an on-going path toward an emerging East Asian Economic Community. In fact, sectoral liberalization under the APEC structure and FTAAP could be complementary with each other and could be pushed simultaneously.

FTAAP is to negotiate trade liberalization under the current APEC membership structure. But, different from APEC-FTA, it will start first from a smaller of member economies within the APEC. It has following significant characteristics which are different from the proposed APEC-FTA in 2020.

- a. To start with the pathfinders' initiative from those like-minded countries rather than to call a large group of countries with less or no consensus to negotiate trade liberalization. Even though there is a scale economy for all APEC members as a whole to negotiate trade pacts with non-discriminatory principle of not excluding any member, a wholesale scale of trade negotiation is not fully consistent with the voluntary principle of the APEC.
- b. Bottom up rather than top down with existing regional cooperative framework; FTAAP is to expand the economic integration by enlargement, docking ( linking) with existing trade pacts, and merging two or more existing free trade agreements to possibly include all APEC members. By enlargement, it means to

include more members such as the expansion of ASEAN or what has been done with the European Union. By docking, it means to link two or more existing trade blocks such as the European Free Trade Association and Southern Cone countries. By merging, it means to combine two or more existing trade blocks to reduce the “spaghetti bowl” effects due to different rules of origins.

In fact, NAFTA and ASEAN-FTA and even TPP all went through enlargement to include more members in the respective trade blocs. Nevertheless, the criteria and expectation of trade liberalization under APFTA is much higher than ordinary FTAs. As noted above, two-thirds of APEC members are classified as developing economies and their attitudes toward trade liberalization are fairly conservative than those in the developed APEC members. Hence, FTAAP may start with “developed economies “within the APCE members first, then expand to include ‘developing countries’”. The development of APFTA is interesting and worthwhile for further in-depth analysis.

### **III.3. From TPP-4 to TPP-N.**

At present, TPP includes Brunei, Chile, Singapore and New Zealand (TPP-4, effective in 2006). Former U.S. Trade Representative, Susan Schwab, announced that the U.S. will join in the TPP in September 2008. In addition, Australia, Peru, and Vietnam also expressed their interests to join in to become P8. There is an “open accession” clause within the P4 to accept other APEC members with like-minded economies. TPP includes free trade in goods and services (zero tariffs among Chile, Singapore and New Zealand), eliminating non-tariff trade barriers, protection of intellectual property rights, quarantining agricultural products, and government procurement. Moreover, TPP is not to override the existing FTAs so as to avoid the “spaghetti bowl” phenomenon resulted from different rules of origin. For example, TPP-4 has rule of origin different from that of Singapore-New Zealand Closer Economic Partnership. But, firms in both countries have the discretions to apply which rule to execute in their trade practices.

From the hub-spoke analysis, one can understand that many small countries had tried to mitigate the “hub and spoke” effect on their economies by signing multiple FTAs with as many countries as possible. The typical example is Singapore which has signed as many FTAs as possible. Hence, there are both demand and supply of perspective members to join in the TPP+ N.

Regarding the open door policy of TPP, Ambassador Demetrios Marantis, deputy U.S. trade representative made a remark that “We will consider and welcome new negotiating partners based on their readiness and ability to bring commercial value, balance, and ambition to the negotiations. It is our aim for the TPP to create a platform for economic integration across the Asia-Pacific region. And it is our aim to advance U.S. economic interests with the fastest-growing economies in the world, expanding U.S. exports and creating new American jobs.” ( [www.ustr.gov](http://www.ustr.gov).) If the deadlock of the Doha Round is not resolved in the near future, TPP could become a vital alternative for Asia Pacific economic integration.<sup>6</sup> However, there are, at least three concerns in the U.S. which may become stumbling blocks for TPP + N;

1. It was the traditional for the Democratic Party in the U.S. to lean toward labor union and working class. The incumbent government of Obama Administration hasn't quite clearly disclosed its trade policy yet due to its pre-occupied in domestic agenda. In fact, as pointed by Barfield (2009), 42 newly elected Democratic members of the House of Representatives run on anti-global platforms in 2008 campaign. The Democratic majorities took steps to place a “Democratic stamp” on U.S. trade policy since January 2009.
2. So far, there is no renewal of the Trade Promotion Authority from the U.S. Congress. The Obama Administration has not been authorized the First Track Trade Act which authorizes his administration to negotiate free trade pacts.

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<sup>6</sup> . For the TPP negotiations, there are some concerns about human rights violations, intellectual property rights infringement, a state-controlled economy and low labor standards in Vietnam. The TPP could become a hot debate at the Capitol Hills when it is moved on in the U.S. Congress.

3. Some campaign promises made by Obama on trade related issues such as labor and environmental standards may delay future trade negotiations.

However, given the dynamics of democracy, the actors of political process could be changed periodically. The mid-term election in November 2010 will be a test of the Obama Administration. With the close votes on passing the comprehensive health reform bill in March 2010, it is generally anticipated that the components of the U.S. Congress, both at the Senate and the House, will be subject to change after November mid-term elections. Whether or not the Democratic stamp on trade policy will remain effective after the mid-term election in November 2010 is an interesting development in the near future.

In summary, the open regionalism principle of TPP may also well provide a clue for some economies in the outlier of Asian economic integration to breakthrough its tendency of being marginalized. It would also gradually lead to the principle of “open regionalism” in Asia.

#### **III.4. ASEAN + N;**

The enlargement of ASEAN-FTA is exemplified by the proliferation of multiple ASEAN + 1 and ASEAN + 3 or ASEAN + 6. Will ASEAN become the building block of Asian economic integration? From geopolitical perspectives, the prospect of ASEAN + N is less than the TPP + N which covers more economies across the Asia Pacific region. However, ASEAN could be contributive to regional economic integration by enlargement, docking (linking) and merging with existing FTAs, which could be more efficient than initiating large scale negotiations on a comprehensive regional economic integration.

It is worthwhile to point out that, among various scenarios, the prospect of ASEAN + 3 (China, Korea and Japan) is less promising than that of ASEAN + 6 (China, Korea, Japan, plus Australia, India, and New

Zealand). This is because Japan has strong preference for ASEAN + 6 than for ASEAN + 3. Moreover, ASEAN + 6 include a potential big player, India, in the region and covers more economies in Asia Pacific region than that of ASEAN + 3, which is less harmonious historically.

For ASEAN-FTA to expand as ASEAN + N and to play a constructive role in Asian Pacific economic integration, it is necessary to follow the market forces by evaluating the trade and investment nexus rather than to be dictated by political forces. Due to political factors, some major trading partners and large investors in the region such as the U.S. and Taiwan are being excluded from the proliferation of ASEAN + N. The historical legacy as well as sovereignty disputes in the region may be the underling factor for ASEAN + N to exclude these two economies. For a “ non zero sum game “ in economic integration, it is necessary to follow the market forces, rather than the narrow-mindedness of political consideration in deciding partnership of trade bloc. For a long term prosperity and sustainable development, the ASEAN + N must adopt an “ open regionalism” to include those major trading partners and investors in the region.

There are two different perceptions on the enlargement and merging of existing trade pacts ; On the one hand, if there are substantial divergences on the existing trade blocs, and the cost of harmonization in enlargement, docking and merging are relatively high, then it may well be better off to start a new round of trade liberalization negotiation. On the other hand, one could also try to reduce the divergences of the existing trade blocs by standardizing the “rule of origin” and simplification of trade facilitation procedures so as to minimize the coast of merging/ docking.

Further economic integration toward an East Asian Economic Community has significant economic, political and security implications for the regional as well for the global economic growth and development. For durable institutional structure and sustainable development in the region, all community member in the Asia Pacific region must reciprocally recognize the co-existence of individual differences while obey the common standard of global trading framework beyond the WTO. For a harmonious Asia Economic

Community in the long run, it must be based on the principle of non-discriminatory treatment, universal participation and” non-zero sum game “of mutual benefits of all community members to achieve a “Pareto Optimality” for the Asia Pacific region.

#### **IV. Conclusion:**

East Asian countries are at different levels of economic development and industrialization with divergent cultural, religious and colonial backgrounds by comparison with European Union (EU). Economic integration in East Asia is composed of a group of heterogeneous economies at a much lower levels of development than the European Union.

Theoretically, there is a scenario of Baldwin’s bilateralism of East Asian integration with the Japan-centric hub and the China-centric hub. Yet, both trade blocs highly rely on external market, especially the U.S. and other industrial economies. The high degree of trade complementarity between the U.S. and Asian countries-notably Korea, Taiwan justifies that there is a strong potential for the U.S. to serve as another hub in East Asian economic integration.

Unless the U.S. completely withdraws itself from the Asia-Pacific region, the U.S. will continue to pay its strategic roles in East Asian economic integration. If the U.S. take strong initiative to maintain its economic and security interests in East Asia by actively signing multiple FTAs with Asian countries and or expand the TPP + N, than a U.S.-centric super hub could change the Baldwin’s scenario into a tri-polar economic integration. Hence, before East Asian adopts an “open regionalism” or a custom union type of economic integration, the U.S. could fully exploit its trade, investment and technologic leverages to protect American strategic and economic interests in East Asia by speeding up its trade liberalization initiatives through signing multiple FTAs, bilateral and multilateral, and the expansion of TPP +N with Asia Pacific countries to become another hub in East Asian integration.

Based on the APEC forum, the pursuit of sectoral trade liberalization under the APEC could be complement with FTAAP. Meanwhile, the APP + N and ASEAN + N have both advantages in adopting the enlargement, docking and merging approach based on the existing framework. Moreover, efforts of standardization on trade facilitation and the rule of origin could be pursued to overcome the institutional barriers to free trade. The development of TPP + N which is moving on once the Obama Administration becomes more seriously on the U.S. trade initiatives in the near future.

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