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Economic Integration in East Asia: Issues and Tasks in the Post World Financial Crisis Era*

Kazushi Shimizu**

The world financial crisis demanded a change to ASEAN and East Asian economic integration. In the structural change of the world economy, new worldwide economic management and regional economic management are required. This paper will examine the issues and tasks of economic integration in East Asia in the post world financial crisis era.

First, this paper will discuss Intra-ASEAN economic cooperation and AEC. Next, this analyzes the Asian economic crisis and East Asian economic cooperation and discusses ASEAN and East Asia in the post-world financial crisis era. Last, the concluding section summarizes these analyses.

JEL Classification: F02, F13, F14, F15, F53

Keywords: World Economy, ASEAN, AFTA, AEC, APT, EAS, TPP, RCEP, Economic Cooperation, Economic Integration, FTA

1. Introduction

The world financial crisis demanded a change to the Association of Southeast Asian Nations (ASEAN) and East Asian economic integration. In the structural change of the world economy, new worldwide economic management and regional economic management are required. This paper will examine the issues and tasks of economic integration in East Asia in the post-world financial crisis era.

“The 2011 West-Japan Convention of the Japan Association for Asian Studies (JAAS)” was held in Kyushu University, Fukuoka. The main session was “Economic Integration in East Asia.” A special issue of Asian Studies (JAAS) in Japanese, based on this session was published. This paper is based on Shimizu, K. (2012) “Economic Integration in East Asia: Issues and Tasks in the Post World Financial Crisis Era” in this special issue: Asian Studies (Vol.57, No.3). Intra-ASEAN economic cooperation within the structural changes of the world economy has been analyzed on a specific and long-term basis (Shimizu, 1998a, 1998b, 2008, 2009a and 2011a, etc.). This paper will build upon these past papers.

Section 2 discusses Intra-ASEAN economic cooperation and the ASEAN Economic Community (AEC). Next, Section 3 analyzes the Asian economic crisis and East Asian economic cooperation. Section 4 discusses ASEAN and East Asia in the post-world financial crisis era. The concluding section summarizes these analyses.

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2. Intra-ASEAN Economic Cooperation and ASEAN Economic Community (AEC)

In East Asia, ASEAN has been the sole source of regional cooperation. Founded in 1967, ASEAN began intra-ASEAN economic cooperation at the 1st ASEAN Summit in 1976. This economic cooperation was carried out according to “ASEAN’s Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN’s strategy for CISI).” However, the strategy suffered a setback from failures, resulting from conflicts of economic interests among the ASEAN countries. At the 3rd ASEAN Summit in 1987, that strategy (“ASEAN’s strategy for CISI”) was switched to a new strategy “ASEAN’s strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN’s strategy for CFEI).” This was because the base of intra-ASEAN economic cooperation was changed in accordance with the structural changes of the world economy. A decisive turning point came in the form of the Plaza Accord in September 1985. After the Plaza Accord, the international division of labor by MNCs began to take place at an increasingly faster pace with the high yen and cheap dollar. The FDI from Japan to Asian NIES and ASEAN countries increased rapidly. In addition, there was another change that had occurred inside ASEAN. ASEAN countries switched foreign capital policies drastically, from FDI-regulated policies to FDI-attractive policies, in the mid-1980s. These fundamental changes in the conditions of intra-ASEAN economic cooperation forced a switch from the previous strategy (“ASEAN’s strategy for CSIS”) to a new strategy.1

ASEAN’s strategy for CFEI reached a significant turning point and a new phase, along with historical structural changes surrounding ASEAN starting in 1991, resulting from changes in the cold war framework and the rapid economic growth in East Asia. These changes promoted the deepening and widening of intra-ASEAN cooperation. In other words, the ASEAN Free Trade Area (AFTA) was promoted as extensions of ASEAN’s strategy for CFEI, and the enlargement of ASEAN to include the countries of Indochina.

This change of cold war structure was the decisive factor of globalization in East Asia. This change led to expansion of market and economic space for ASEAN. Furthermore, Indochina countries joined ASEAN: Vietnam joined in 1995, Myanmar and Laos in 1997, and Cambodia in 1999. Consequently, ASEAN extended throughout Southeast Asia.

However, ASEAN countries were hurt by the Asian economic crisis. This crisis began in Thailand with its currency crisis in 1997, which immediately had a great impact on other ASEAN countries. ASEAN countries faced serious problems including negative economic growth, demand decline and stagnant FDI.

With the 1997 Asian economic crisis as a turning point, intra-ASEAN economic cooperation entered a new phase because the structures of the world economy and the East Asian economy surrounding ASEAN had changed to a great extent. The first change was China’s rapid growth and its expanding influence. China maintained its rapid growth of over 7% during and after the Asian economic

crisis, which contrasted starkly with conditions in ASEAN countries. Trade and investment, which led to this rapid Chinese growth, grew rapidly. China came to attract FDI and consequently put great pressure on ASEAN countries. The second change was the stagnation of worldwide trade liberalization by the WTO and the evolution of FTAs. The third change was the increased interdependency throughout East Asia including China, and the development of the foundation for economic cooperation throughout East Asia.

The structural change after the Asian economic crisis demanded the deepening of intra-ASEAN economic cooperation for ASEAN. In January 2003, AFTA (its tariff was under 5%) was established by ASEAN-6 countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand).

The 9th ASEAN Summit meeting in Bali, Indonesia in October 2003 was a great turning point for intra-ASEAN economic cooperation.2) The “Declaration of ASEAN Concord II” in the 9th Summit meeting presented a plan to realize an ASEAN Community, which consisted of the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC) and the ASEAN Social and Cultural Community (ASCC).

AEC was stated as the core of these three Communities. The “Declaration of ASEAN Concord II” stated that “the ASEAN Economic Community is the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020.”3) The goal was to realize a single market or a common market that includes factor movement. For that reason, this idea had the potential to strengthen intra-ASEAN economic cooperation or integration.

The attraction of FDI remained a very important factor for AEC. That is, the AEC concept had an aspect of “ASEAN’s strategy for CFEI.” The former Secretary-General of ASEAN Secretariat, Rodolfo C. Severino stated that ASEAN leaders were deeply concerned over the weakened ability of the ASEAN countries to attract foreign direct investment, and that ASEAN leaders were convinced that the only way for Southeast Asia to meet these challenges was to deepen the integration of the ASEAN economy in a way that was credible to investors.4)

For ASEAN member countries, FDI and exports remained the keys to development. However, China and India had emerged as major competitors. In these circumstances, ASEAN heads sought the deepening of intra-ASEAN economic cooperation and integration to attract additional FDI.

At the 12th ASEAN Summit in 2007, the ASEAN heads affirmed the commitment to accelerate the establishment of an ASEAN Community, as envisioned in the “ASEAN Concord II,” by five years and agreed on the “Cebu Declaration on the

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2) Refer to Shimizu (2008, 2009c), about new developments in Intra-ASEAN economic cooperation.
Establishment of the ASEAN Community by 2015. At the 13th ASEAN Summit in November 2007, first, ASEAN heads signed the “ASEAN Charter.” This was the first time that ASEAN signed a charter. Second, ASEAN leaders announced the “Declaration on the ASEAN Economic Community Blueprint” and adopted the “ASEAN Economic Community Blueprint (AEC Blueprint).” The AEC Blueprint was a roadmap in which each ASEAN member country should abide by and implement the AEC by 2015.

ASEAN is establishing AEC by 2015. The monitoring of the AEC using the scorecard mechanism started since 2008, and was reported regularly to the ASEAN Leaders. This publication provides an assessment of the AEC implementation. AFTA (its tariff was almost 0%) was fully established for ASEAN-6 countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) in January 2010. The ASEAN Trade in Goods Agreement (ATIGA) entered into force in May 2010. At the 17th ASEAN Summit in October 2010, the ASEAN heads adopted the Master Plan on ASEAN Connectivity. The vision of ASEAN Leaders to build an ASEAN Community by 2015 called for a well-connected ASEAN. An enhanced ASEAN Connectivity is essential to achieve the ASEAN Community.

3. The Asian Economic Crisis and East Asian Regional Economic Cooperation

East Asian regional cooperation has been implemented since the ASEAN Plus Three (APT: ASEAN Plus Japan, China, and Korea) Summit meeting held in December 1997 during the Asian economic crisis (refer to Figure 1 for the East Asian regional cooperation and Free Trade Area Concept). At the 2nd APT Summit in December 1998, several specific proposals were submitted in relation to regional economic cooperation in East Asia. For instance, Japan proposed the “New Miyazawa Initiative,” China proposed a conference by the APT to discuss financial issues, and South Korea proposed the East Asia Vision Group (EAVG: an organization to study East Asian regional cooperation). In November 1999, the first APT joint communiqué was released.

Financial and monetary cooperation engendered East Asian regional economic cooperation. In May 2000, the “Chiang Mai Initiative (CMI)” was agreed upon at the APT Finance Ministers Meeting in Chiang Mai. Although CMI was an extension of the ASEAN Swap Arrangements (ASA) signed in 1977, it was a new development in monetary and financial cooperation not only for ASEAN but also for the East Asian region. With CMI, the member countries of ASA increased to 10 from the original 5 countries, adding Japan, China, and South Korea to the network in

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7) Refer to Ishikawa (2009).
8) ASEAN Secretariat (2012).
9) ASEAN Secretariat (2010).
one stroke. In March 2010, the “Chiang Mai Initiative Multilateralization (CMIM)” agreement went into effect, when CMI became a multilateral agreement from bilateral agreements.

APT was cooperating in the 19 fields including financial and monetary cooperation. With regard to the wider regional FTA, East Asia Free Trade Area (EAFTA) including 13 members of APT was agreed on and studied.

In a series of ASEAN summits in December 2005, the first East Asia Summit (EAS) was held on December 14. There were sixteen participating countries in the first EAS, including 10 ASEAN countries and Japan, China, South Korea, India, Australia, and New Zealand. In the 1st EAS, two declarations: the “Kuala Lumpur Declaration on the East Asia Summit” and the “East Asia Summit Declaration on Avian Influenza Prevention, Control and Response” were made.

EAS was convened annually and cooperation in the fields including energy security, education, avian influenza prevention and financial stability was carried out. With regard to the wider regional FTA, Comprehensive Economic Partnership in East Asia (CEPEA) including 16 members of EAS was agreed on and studied.

Throughout East Asia, FTA and Economic Partnership Agreements (EPAs) had been rapidly explored. The important ones are ASEAN Plus One FTAs such as the ASEAN-China FTA (ACFTA), ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), and ASEAN-Korea FTA (AKFTA). ACFTA was the first FTA for China, and was also the first ASEAN Plus One FTA.

The ACFTA began in November 2000, when Chinese Premier Zhu Rongji proposed to set up an expert group to study how economic cooperation and free trade relations between ASEAN and China could be deepened. In November 2002, they signed the “Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China.” Trade in Goods (TIG) Agreement, Trade in Service Agreement and the Investment Agreement under the Framework Agreement of Comprehensive Economic Cooperation were concluded and signed in November 2004, in January 2007 and August 2009, respectively.

AJCEP was agreed on at the ASEAN-Japan economic ministers’ meeting in August 2007. ASEAN and Japan signed AJCEP in April 2008. ASEAN-Korea FTA: the Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Member Countries of the Association of Southeast Asian Nations and the Republic of Korea was signed on December 13, 2005. The agreement establishing the ASEAN-Australia-New Zealand Free Trade Area (AAN-ZFTA) was signed by the Economic Ministers of ASEAN, Australia and New Zealand in February 2009. ASEAN and India signed the ASEAN-India Trade in Goods (TIG) Agreement in August 2009.

With ASEAN as a crucial axis, East Asian regional cooperation was implemented in a multilayered fashion (refer to Figure 1). ASEAN has the initiative in ASEAN Plus One FTAs, along with APT and EAS. ASEAN seeks a wider economic cooperation over an extensive region including East Asia, because of its characteristics of intra-ASEAN economic cooperation. Furthermore, for ASEAN, intra-

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regional and extra-regional economic cooperation have been implemented simultaneously. Actually, ASEAN had consistently shown results in extra-regional economic cooperation (the External Economic Joint Approach), which began in 1972. Moreover, ASEAN was able to secure export markets and obtain financial assistance.

In recent years, extra-regional economic cooperation yielded important results in East Asian regional economic cooperation. ASEAN is maintaining its important role in the current East Asian regional cooperation. For example, ASEAN has provided an arena for negotiations in East Asia and the Asia-Pacific region, as underscored in the ASEAN Post-Ministerial Conference (PMC), the ASEAN Regional Forum (ARF) and APT meetings, and has taken the initiative in these negotiations. As an important axis of regional economic cooperation and FTA in East Asia, ASEAN has continued to expand. Some bilateral FTAs between each ASEAN

The acquisition of foreign capital, including FDI and financial assistance, and the securing of export markets remain as important factors affecting intra-ASEAN economic cooperation. In other words, it shares characteristics of “ASEAN’s Strategy for CFEI.” Therefore, because it remains inevitable for ASEAN to secure foreign capital and export markets, the formation of a wider framework including East Asian regional cooperation and the FTA is unavoidable for ASEAN (Shimizu 2008, 2009c).
country and Japan, and AJCEP between ASEAN and Japan have been established. Lastly, it is noteworthy that ASEAN’s rules are extending into East Asian regional cooperation\(^{13}\). For those reasons, the deepening direction of intra-ASEAN economic cooperation will play a key role in East Asian regional cooperation.

4. ASEAN and East Asia in the Post-World Financial Crisis Era

The world financial crisis from 2008 demanded a change to the ASEAN and East Asian economic cooperation. The world financial crisis hurt ASEAN and East Asian economies. The decreasing US demand damaged the exports of ASEAN and East Asian countries which have pursued export oriented industrialization.

The world economy entered a new stage. Now, it is impossible for East Asia to grow relying on US financial growth and over-consumption. The structure of the world economy based on Neo-liberalism in the quarter century since 1982 must change. In the structural change of the world economy, new worldwide economic management and regional economic management are required. In other words, new international public goods are required in the world.\(^{14}\) Recently, trade liberalization and economic management by WTO has become impossible. Therefore, regional trade liberalization and economic management are inevitable.

In the post world financial crisis era, ASEAN and East Asia must secure not only external markets but also regional markets, and assist regional development. Furthermore ASEAN and East Asia must establish additional FTA and regional economic cooperation, and further regional trade liberalization and trade facilitation. East Asia is recovering more rapidly than other areas including America and Europe in the post world financial crisis era. East Asia is the main production base and the main market for intermediate goods in the world economy, and is becoming the main growth market for finished goods in the world economy due to rising incomes and large population.

ASEAN and East Asia must improve monetary and financial cooperation including adequate amounts of international capital movement. The growth of the international capital movement has been the base of development for ASEAN countries since the mid-1980s. However, this led to the Asian economic crisis in 1997 and has also helped create the global imbalances, the subprime loan problem, and the world financial crisis.

The US has changed its growth policy. US demand based on financial growth and over-consumption is decreasing. The US required not only internal demand but also external demand. The important export market for the US became East Asia, which was recovering from the financial crisis and growing rapidly. Presi-\(^{13}\) First, for example, ASA expanded into CMI. Second, the AFTA rules including the rules of origin are also expanding into East Asian FTAs including ACFTA, with ASEAN as their axis. For instance, the AFTA rules related to rules of origin were adopted in ACFTA. Third, mutual recognition and harmonization of regulation are also initiated by ASEAN. Moreover, it was decided that the criteria for EAS participation would be based on ASEAN criteria. It is also possible that the ASEAN Charter might suggest the direction of the East Asian Cooperation (Shimizu 2008, 2009c).

\(^{14}\) Refer to Sasaki (2010).
dent Obama announced the National Export Initiative in his 2010 State of the Union address and set the ambitious goal of doubling US exports by the end of 2014. President Obama decided that the US should join the Trans-Pacific Partnership (TPP) to support US exports to East Asia.

These US policy changes effected East Asian economic cooperation and development policy. It became very competitive for East Asia and US to establish FTA and secure East Asian demand. ASEAN and East Asia required further FTA and regional economic cooperation.

The year 2010 was a great milestone for ASEAN and East Asian economic cooperation. On January 1, 2010, AFTA was realized with ASEAN-6 removing 99.65% of all tariff lines under the Common Effective Preferential Tariff Scheme (CEPT) for AFTA, while Cambodia, Laos, Myanmar and Viet Nam have reduced 98.96% of total tariff lines to the 0-5% range. The ASEAN Trade in Goods Agreement (ATIGA) came into effect in May. ACFTA and AKFTA were realized on January 1, 2010. AJCEP has also been established. AANZFTA and the ASEAN-India Trade in Goods Agreement came into force on January 1. China and Taiwan signed the Economic Cooperation Framework Agreement (ECFA) in June 2010.

There were two important meetings to influence ASEAN and East Asian cooperation in November 2011. These were the Asia-Pacific Economic Cooperation (APEC) and ASEAN Summits. The leaders of the nine countries of TPP met at the APEC summit in Hawaii and agreed on the broad outlines of a free trade agreement.

In his remarks at the TPP Meeting, President Obama said that the TPP would boost our economies, lowering barriers to trade and investment, increasing exports, and creating more jobs, and TPP would also help achieve the goal of doubling US exports.

In Hawaii, Japan stated its intention to begin consultations with TPP countries toward joining TPP negotiations. Following Japan, Canada and Mexico also stated their intentions to join TPP negotiations. Japan’s access to TPP gave East Asian and Asia-Pacific FTA a real boost.

There were a series of ASEAN Summits in Bali in November. In the 19th ASEAN Summit, ASEAN heads agreed to accelerate and ensure significant progress in achieving the ASEAN Community. ASEAN heads expressed “the ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP)” that establishes an ASEAN-led process by setting out principles under which ASEAN will broaden and deepen its engagement with FTA/CEP partners.

In these Summits, ASEAN partners stated their support for the implementation of the “Master Plan on ASEAN Connectivity.” They announced the adoption of the ASEAN Framework for RCEP and the importance of “ASEAN centrality” in the regional economic integration process. The 6th EAS welcomed Russia and the US. The participating countries in EAS became 18, including Russia and the US. The

6th EAS stated the importance of economic integration, including CEPEA and the ASEAN Framework for RCEP and the importance of promoting maritime cooperation including maritime security.

US President Obama stated the importance of growing East Asian economies for the US. China came to promote the East Asian regional cooperation positively and stated the acceleration of the Northeast Asian FTA including Japan, China and Korea. These were influenced by Japan’s access to TPP. Japan began to promote not only East Asian economic cooperation but also Asian Pacific economic cooperation including TPP. In these situations, East Asian economic integration was greatly required.

5. Concluding Remarks

The world financial crisis demanded a change to the ASEAN and East Asian economic cooperation. The world economy entered a new stage. It became very competitive for East Asia and US to establish FTA and secure East Asian demand. ASEAN and East Asia required further FTA and regional economic cooperation. In the structural change of the world economy, regional economic management was required.

In the post world financial crisis era, ASEAN must establish the AEC by 2015. ASEAN must maintain the initiative in East Asian regional cooperation, and take the initiative in the Asia-Pacific regional cooperation.

ASEAN and East Asia must secure not only external markets but also regional markets, and assist regional development. ASEAN and East Asia must establish additional FTA and regional economic cooperation, and must establish further regional trade liberalization and trade facilitation. ASEAN and East Asia must improve monetary and financial cooperation including adequate amounts of international capital movement. In the post world financial crisis era, East Asian economic integration was greatly required.

Lastly, issues relating to ASEAN and East Asian economic integration will be presented. First, will ASEAN establish AEC by 2015 with the structural change of the world economy? Second, how will ASEAN deepen integration after AEC? For example, will ASEAN implement integration over the nation-states system? Third, will ASEAN be able to maintain the initiative in East Asian regional cooperation?

What role can ASEAN and East Asian regional economic integration play in the future? How can it contribute to the management of the world economy? Will some regional cooperation such as ASEAN, APT, EAS and APEC continue in a multilayered manner? What role can TPP play in the future?

These issues must be examined in the context of the world economy, because first, economic activities fundamentally operate throughout the world economy. Second, the ASEAN and East Asian economies have become more global. Consequently, we must also consider the relations between nation-states and the world economy. These issues related to regional economic cooperation must be examined in the widest possible context with politics, economics and history, because economic cooperation or integration is only one part of economic policy that also includes politics and history. Not only economics but also comprehensive social sci-
ence will be inevitable to examine these issues.

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