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## Prospects for an East Asian trade pact

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IT has been slightly more than a decade since an East Asia Economic Group (EAEG) was mooted by Prime Minister Datuk Seri Dr Mahathir Mohamad. Originally it was conceived of as an informal regional forum where East Asian economies would consult each other on issues of common concern.

It was meant to serve as a defensive strategy to counter the creation of a single Europe and Nafta (North America Free Trade Area), as well as to lobby for Asean member interests in the then ongoing Uruguay Round of the multilateral trade negotiations.

But the proposal met with severe criticism and turned controversial. Critics argued that the EAEG proposal threatened to "divide the Pacific region in half", and that politically and economically, it was not feasible.

Supporters, on the other hand, argued that the EAEG would "counter-balance emerging organisations in Europe and North America and improve the bargaining positions of Asian countries".

Many Japanese business leaders also criticised the sharp repudiation of the EAEG idea, especially by the United States, by pointing out that "the US was, in fact, drawing a line down the Pacific by signing the Nafta".

It was only after a lengthy debate and intense exchanges that the proposal was accepted, albeit after it was substantially reshaped, diluted and renamed the East Asian Economic Caucus (EAEC). The EAEC, later accepted as a caucus within Apec (Asia-Pacific Economic Co-operation), was in effect put on the back burner.

The re-emergence of the idea of some form of regional economic co-operation among East Asian economies came about in the aftermath of the Asian financial crisis. The EAEC idea began to be taken more seriously.

First, there was the Chiang Mai Initiative of Asean+3 which mainly involved regional financial co-operation between and among members of Asean, China, Japan and South Korea. To date, several bilateral swap arrangements (BSAs) between individual Asean members and China, Japan and South Korea have been concluded and signed.

Following this, there was an offer from China's Premier Zhu Rongji of a free trade agreement between China and Asean (Asean-China FTA) to be effective in 10 years time.

The agreement was signed at the recent Asean Summit in Phnom Penh, Cambodia. This initiative is of great historical significance, an unprecedented political signal by China of its desire for a long-term friendship and economic co-operation with Asean.

China's offer has sparked off a round of similar offers by other major East Asian economies. For example, there was intense discussion in Japan on ways to strengthen its own links with Asean, which led to a new initiative for an Asean-Japan Comprehensive Economic Partnership (Aseancep-Japan).

South Korea has also signalled interest in closer links with Asean. At the Asean Summit in Brunei, President Kim Dae-jung agreed to set up a study group to review a possible Asean-Rok FTA.

The report of the East Asian Vision Group, an initiative launched by President Kim, recommended several "key proposals and concrete measures to broaden East Asia co-operation.

These include the proposal for the establishment of the East Asia Free Trade Area (Eafta), and the liberalisation of trade well ahead of the Apec

goals".

To promote this initiative further, a proposal was made at the 5th Asean+3 Summit to establish an Asean+3 secretariat. What is more, Malaysia offered to host the secretariat in Kuala Lumpur, and to meet its expenses for the first three years of its operation.

Against this background, some questions immediately come to mind.

First, exactly what triggered off this new interest in the East Asia economic co-operation, something that was deemed not feasible in 1990 but that suddenly became a matter of significant concern to countries in the region?

Second, what are the new circumstances and challenges that caused this turnaround?

Third, what would be the most appropriate architecture, principles and modalities of the proposed Eafta?

An attempt is made here to address very briefly the possible modalities of the Eafta from the perspectives of Asean.

In the event that Asean and the three East Asia economies, China, South Korea and Japan agree to establish a Free Trade Area, there are several modalities to choose from. These include:

- \* A region-wide FTA involving all the thirteen countries concerned.
- \* An Eafta comprising a network of FTAs: Asean-China, Asean-Japan, Asean-Korea, Japan-China, Japan-Korea and China-Korea.
- \* An Eafta between Asean on the one side and a North-East Asia FTA on the other.

The first is the best option, as it would involve region-wide economic integration of 13 separate entities into a single and unified market. The gains from such a comprehensive liberalisation to the region and to individual member countries are expected to be large, with the adjustment process being easier and less costly.

Though this choice of regional integration is the most difficult to achieve, it represents the ultimate goal in the long run.

The second is to "weave a web of free trade agreements and areas together across the 13 economies to finally form a huge East Asia Free Trade Area". Altogether, it would involve six FTAs.

To start with, there is already a strong commitment to create an Asean-China FTA by 2010 for Asean-6 and China and by 2015 for the new members of Asean, and the prospects of an Asean-Korea FTA to follow look good.

The signing of a bilateral free trade agreement (BFTA) between Japan and Singapore may act as catalyst for the other Asean countries to negotiate an Asean-Japan FTA. That may neutralise whatever advantages and preferences Singapore may enjoy in Japan's market, thereby eliminating the bias against them.

That will leave another three FTAs to be carved out among the three North East Asian economies. The first one is a Japan-Korea FTA. This initiative is potentially the most influential of the three possible bilateral FTAs among North-East Asian economies. The timing is most opportune, given the improvement in the bilateral relationship between the two economies.

There have been suggestions that the Japan-Korea FTA "should logically be extended to include China as well, because it otherwise would create serious political tensions".

The inclusion of China would effectively rule out the need to create two other bilateral FTAs (China-Japan, China-Korea).

This would transform the exercise in the direction of a bigger undertaking, that is, the formation of a North-East Asian sub-regional arrangement that would eventually be linked to the one already in existence, namely Afta. This represents the third route that may be

pursued.

Irrespective of the modality to be preferred, Eafta would be more than what Dr Mahathir had hoped to achieve when he first proposed the EAEG. The Eafta would be much more than just "an informal regional organisation to serve as a loose consultative forum for the East Asian economies".

Besides, it would be more formal, organised and institutionalised, while its coverage would also be more comprehensive than that envisaged in the EAEG.

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