

The Quest of Economic Community in East Asia: Thailand's Perspective

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**A presentation at the Asian International
Forum in Fukuoka, Japan**

31 August - 1 September 2004



Objectives

- **The progress of economic cooperation in East Asia**
 - **Motivations**
 - **Costs**
- **Looking towards a deeper economic community**
 - **Benefits**
 - **Conditions for successful customs union**
 - **Major Constraints**
- **Recommendations**

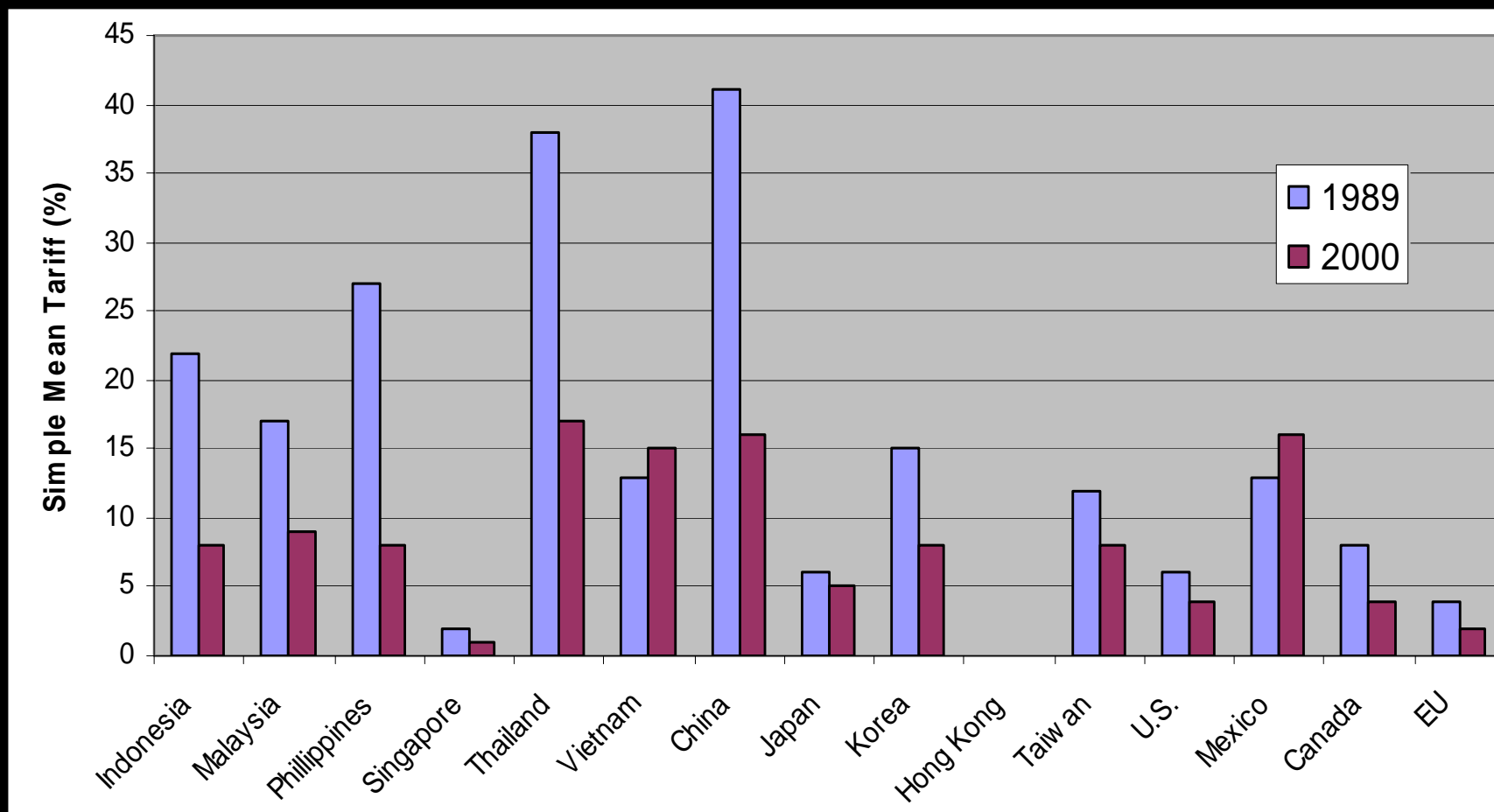
1. The progress of economic cooperation in East Asia

1.1 Increasing economic interdependence of the East Asian Economies

- **Historically, Asian countries have extensively engaged in intra-regional trade for centuries**
 - **The major driver is geographical proximity and the religious influence along the silk road, particularly Buddhism and Islam**

- **The third wave of globalization, ignited by transportation and communication technology has made East Asia more open and become a globally integrated region**

(1) Towards a Freer Trade: Imports Tariff are declining in many East Asian countries as a result of unilateral liberalization and the Uruguay Round agreements.



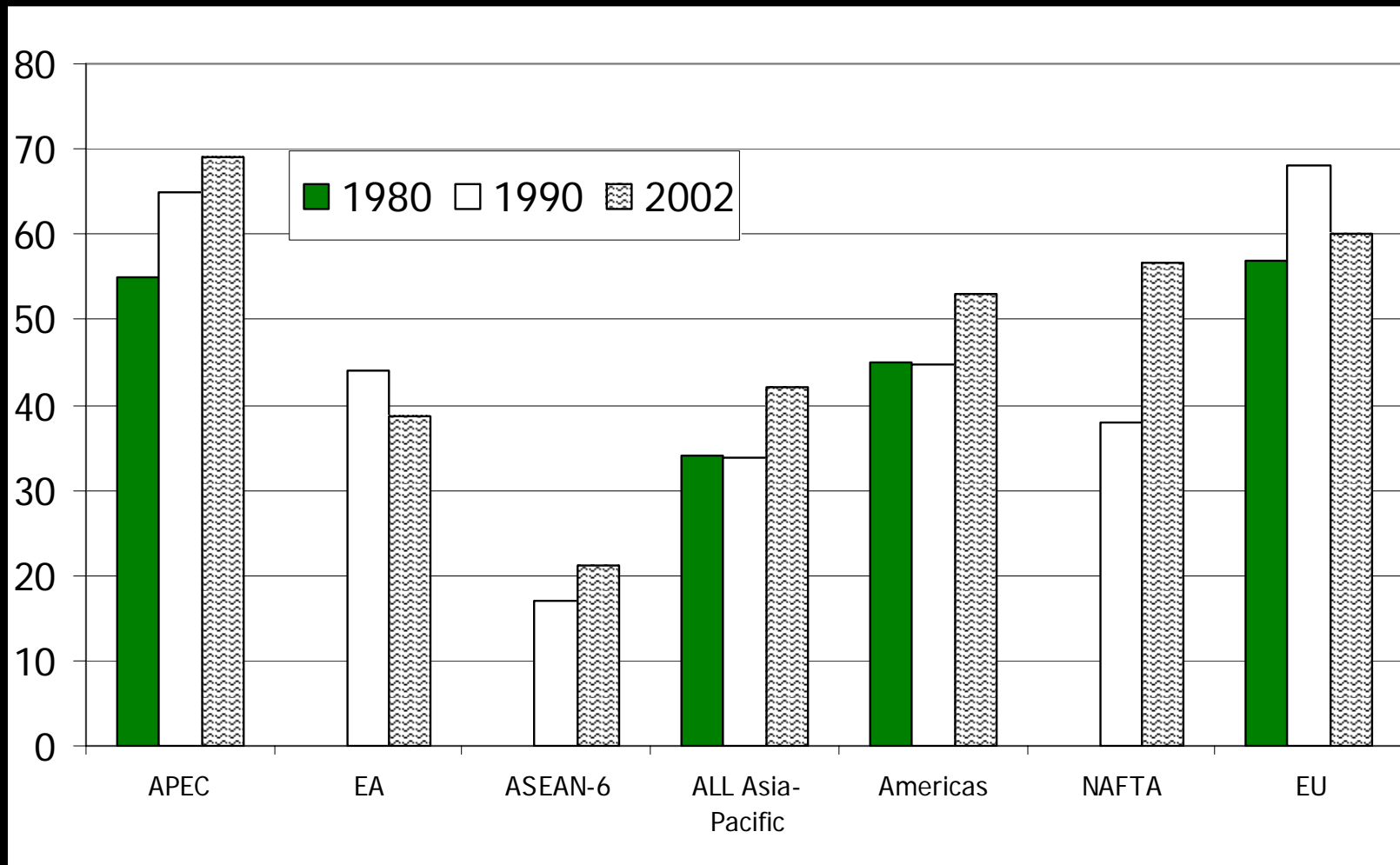
(2) EA economies have become more open

**- trade to GDP in EA increased from
49% in 1990 to almost 66% in 2000**

(3) Intra regional trade also jumped

from 3.5% in 1980 to 54% in 2003

Gaining interdependence in East Asia: Increased intra-regional trade in ASEAN and APEC



Source: International monetary Fund, *Direction of Trade Statistics: Yearbook 2003*.

(4) Gross private capital flows were more than doubled

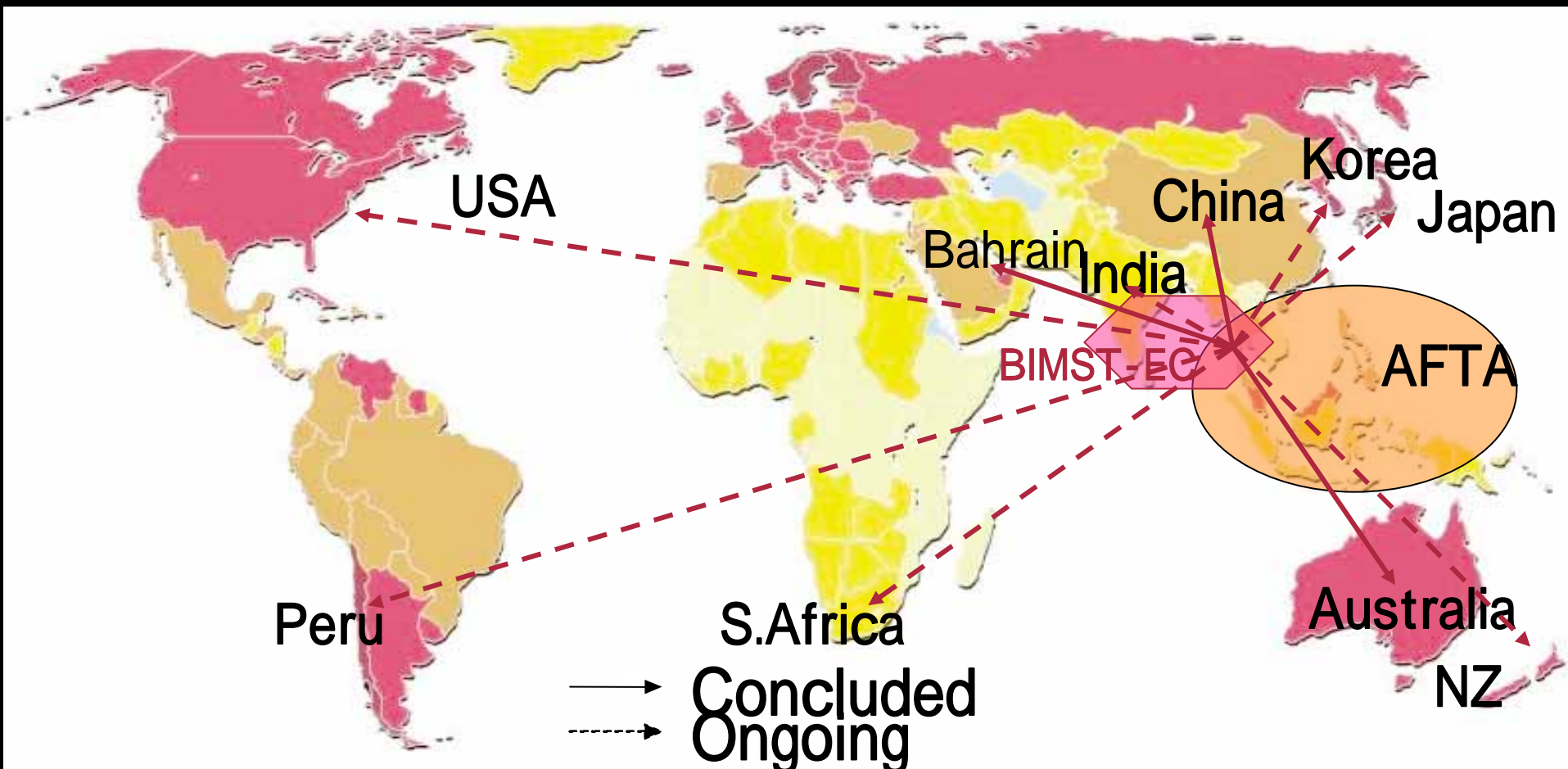
(5) Between 1990 and 2002, most FDI in ASEAN and China came from East Asian firms

- Therefore, East Asian economies have practically become more integrated

1.2 The motivation for the proliferation of bilateral FTAs in East Asia

- **Despite high intra-regional trade, the East Asian countries had not developed a strategy to build a formal institution of regional economic integration until the late 1980's**
- **After a short period of attempts to form the regional economic groupings such as ASEAN, APEC, the East Asian countries have redirected their trade negotiation efforts toward bilateral free trade areas (FTAs)**

- It is estimated that EA have engaged in more than 100 “Regional Trade Agreements” RTAs
- For example, Thailand has finished or has been negotiating more than 10 bilateral FTAs and RTAs



APEC

ASEM

ASEAN

Singapore
Philippines
Indonesia
Brunei
Malaysia
Vietnam

Thailand

+
1

China

+
3

Japan

Korea

Canada

Chile

Mexico

Papua New
Guinea

Peru

USA

CER

New Zealand

Australia

AFTA+CER

Pakistan

Bahrain

EU

BIMSTEC

Bangladesh
India
Sri Lanka

Myanmar
Cambodia
Laos

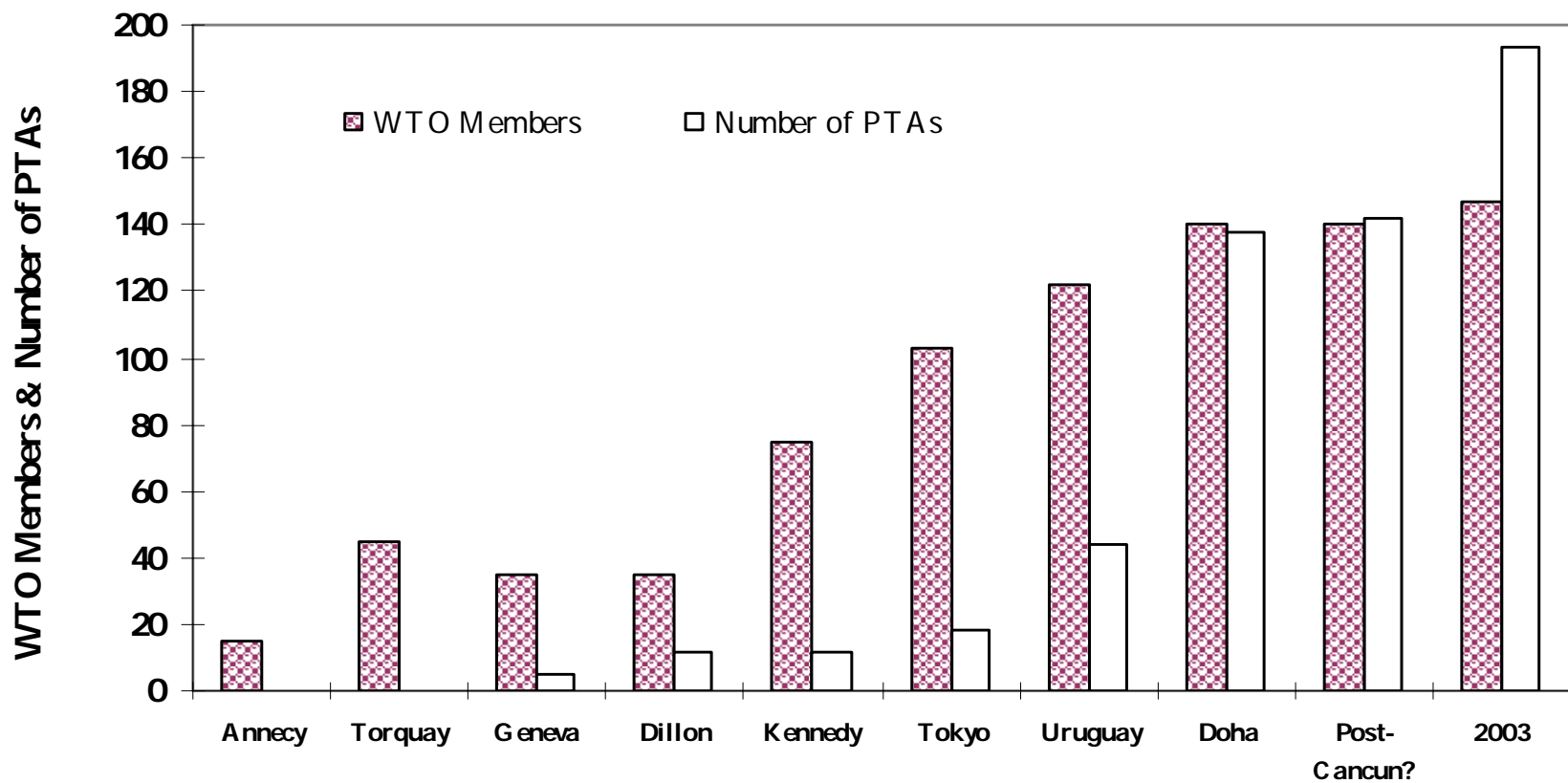
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Source: adapt from TRDI

- **Proliferation of FTAs world - wide**
 - **In addition, the Number of RTA notified with WTO has also jumped from 64 RTAs to 193 RTAs since the Uruguay Round**

Figure 1 :The Rise of Regionalism : Regionalism and Multilateralism



- **Reasons for the proliferation of bilateral FTA's**
 - **Market access**
 - **Defensive reasons: non-members are affected by trade diversion and a decline in terms of trade**
 - **Overcoming the convoy problem: pace of integration (e.g. AFTA) is held back by the least willing members**
 - **To capitalize on being a hub of overlapping arrangements**
 - **Political reasons, e.g., security**

- **Additional motivations in the recent years**
 - **The rise of China:**
 - (1) **China threat : competition for FDI, the Chinese government supports the China-country x FTAs to reduce regional anxieties and fears**
 - (2) **China opportunity: a destination for regional exports of East Asias**
 - **The progress of blocs In Europe and America**
 - **Competitive liberalization**
 - **The snail-paced progress of the Doha Round**

1.3 But there are high costs of FTAs

- **FTA means “preferential” or discriminate against non-members**
- **Rules of origin & Spaghetti Bowl**
- **Inconsistencies in FTA requirements**
- **Scarce negotiating resources, especially Thailand which has been negotiating with more than 10 partners in the last two years**
- **Small EA countries have less bargaining power than the larger countries**
- **Some negotiating issues will create unfair non-level playing field for companies in small EA economies and extract economic rent from the south to the North**
- **Therefore, FTA may be a stumbling block**

2. A need to further deepen economic integration: e.g. a customs union or a monetary union

Question : Is there a case for a deeper level of integration? A Customs Union and a Monetary Union

- **Rationale**
- **Feasibility of the customs union and monetary unions**
- **Constraints**

2.1 Rationale

**(a) Reduction/elimination of costs generated
by the FTAs**

**(b) More members in the regional arrangement
would minimize the trade diversion effect**

**(c) Larger increases in welfare and GDP
from larger regional groupings**

- Reasons for larger gain from trade :
reduced trade barriers, lower cost
of doing business**

Economic welfare increases with the increase in members of trade agreements

	ASEAN- China	ASEAN- Japan	ASEAN+3 FTA	FTAAP	APEC MFN	Global MFN
China	209.5	-861.5	514.1	3275.1	1846.6	5180.0
Japan	-1628.5	528.1	6612.4	14931.7	12437.4	14578.4
Korea	-491.3	-706.9	5028.2	5658.1	4885.2	7764.8
Malaysia	1128.0	504.9	805.9	771.6	515.5	1305.9
Singapore	2688.6	1947.1	2438.6	1933.0	1569.4	2585.5
Thailand	691.7	2983.2	2933.8	2497.1	1908.9	2963.3
Vietnam	429.8	877.8	1092.5	1278.8	489.9	1646.1
Europe	-1255.3	-2055.9	-3282.5	-9178.3	4505.7	-1450.6

Source: Model simulations by John Gilbert

(d) More bargaining power of the group

- Reducing risk of being bullied by the superpowers**
- Higher terms of trade**

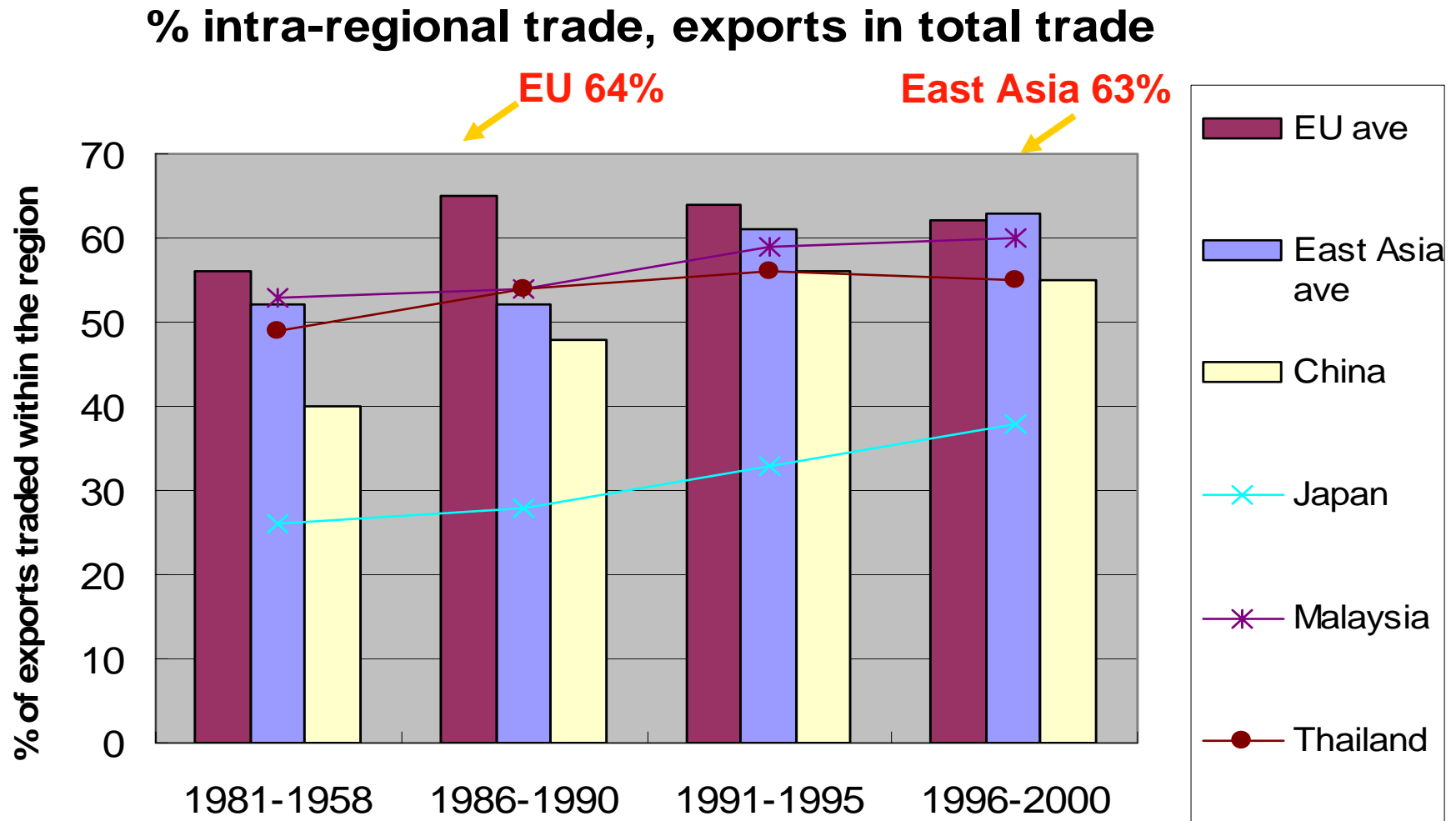
(e) Other benefits : regional security, and greater efficiency from diversifying the industrial base and more efficient allocation of resource, would not only benefit each regional member but also the region as a whole (1+1>2)

2.2 Is it feasible for the East Asian countries to form a customs union?

- **Andresen (2004) proposes two criteria and compares the proportions of trade for East Asia today with the EU when it formed the customs union in 1968**
 - **Intra-regional trade**
 - **Structure of regional trade**

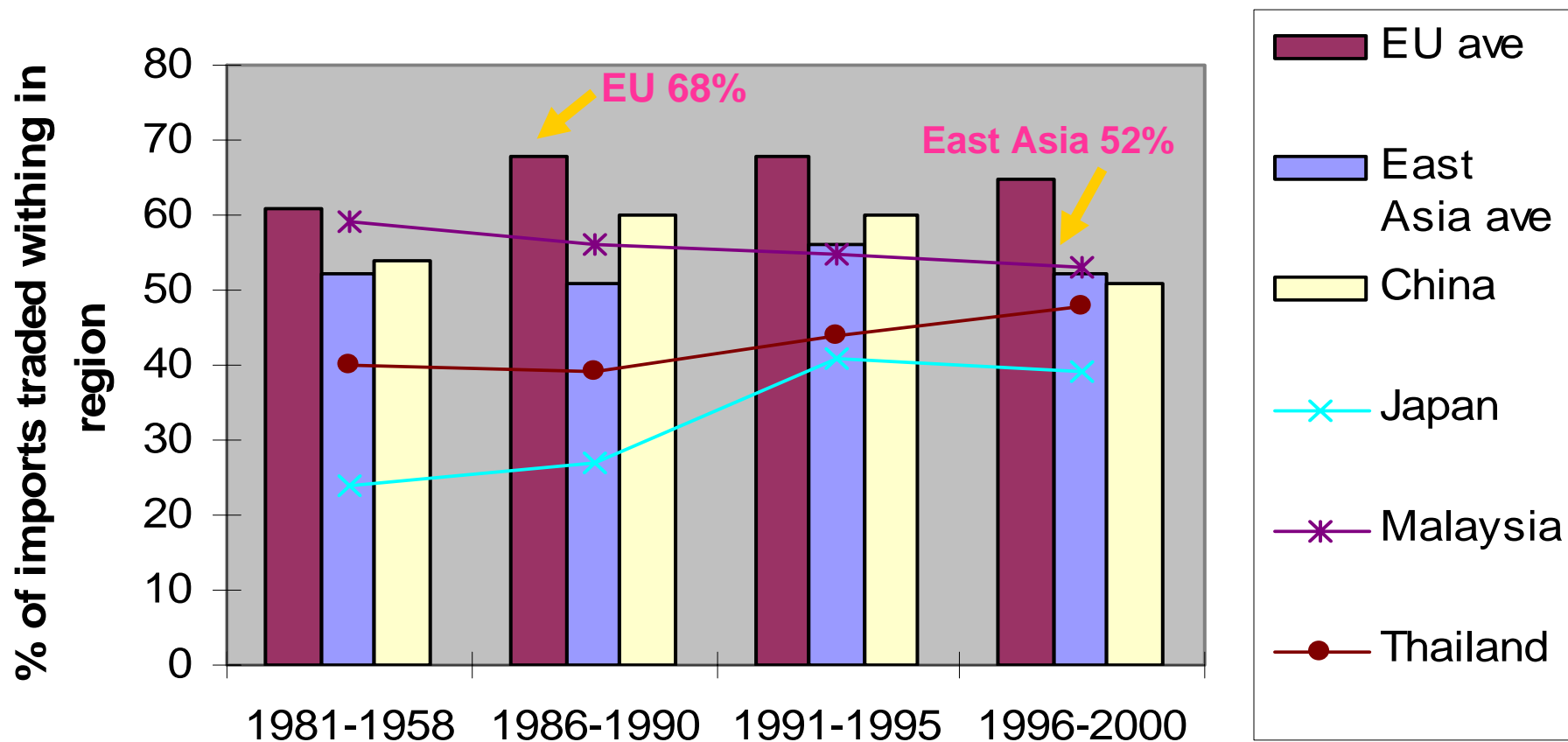
- **Criteria 1A: Comparing Intra-regional exports of EA with those of EU in 1963-67 period before the completion of EU customs union**

In 1996-2000, *intra-East Asian exports* are comparable to *intra-EU exports* in 1986-1990, the period just before the completion of the single market.



Criteria 1-B: Intra-regional *imports* of EA (52%) in 1986-2000 are also very closed to EU (58%) in 1963-67

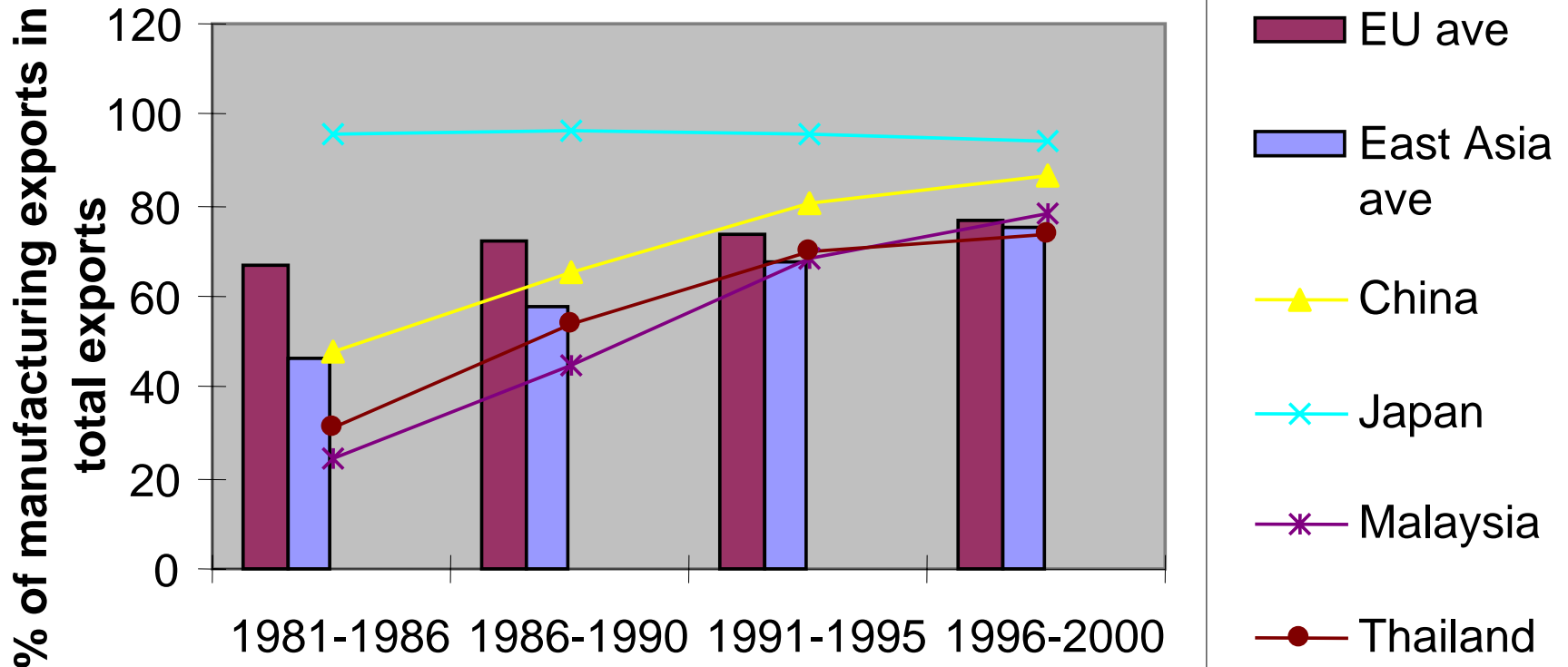
Intra-regional trade, imports



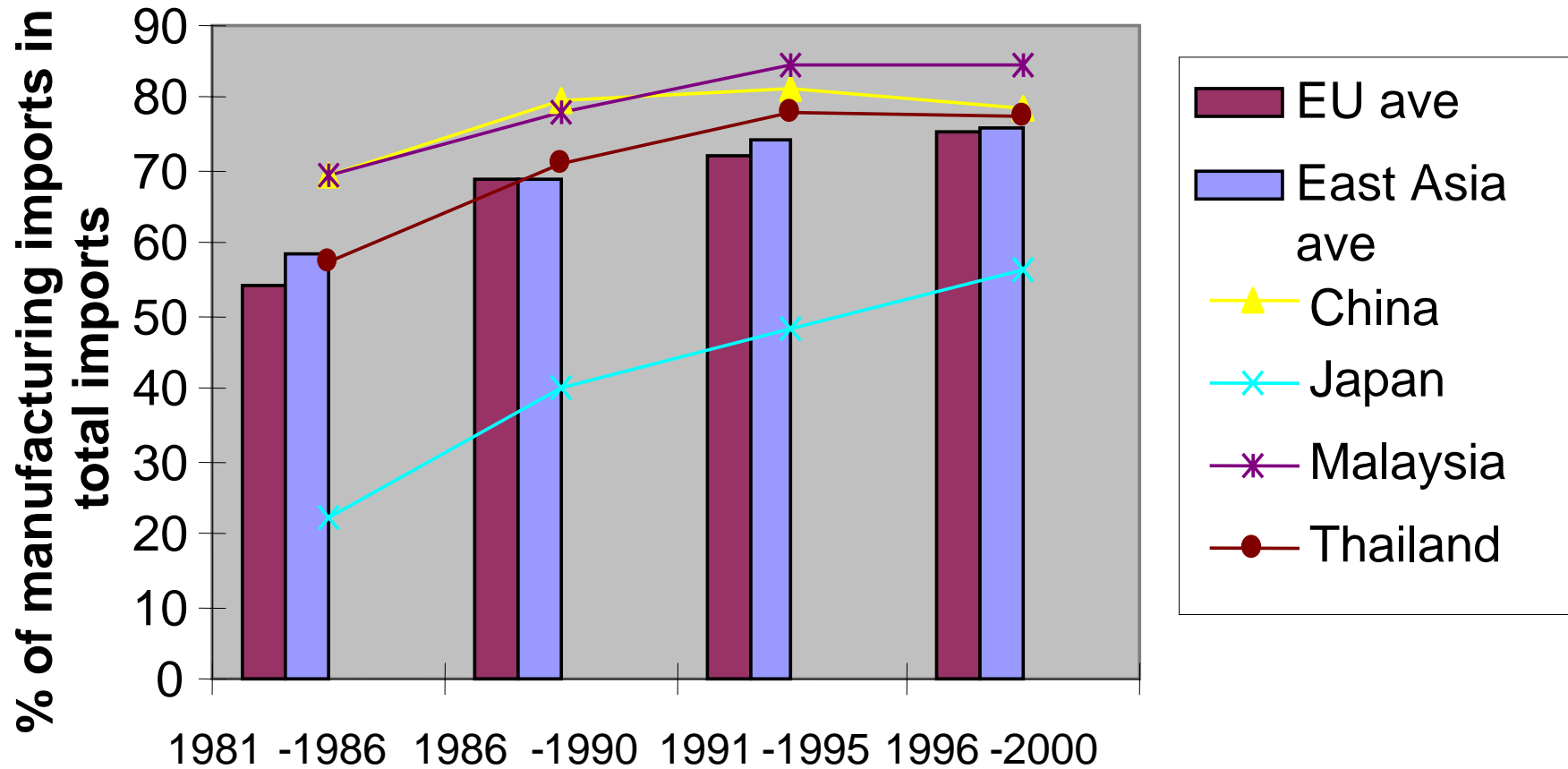
- **The EA customs unions will also help enhancing its bargaining power against other major blocs, NAFTA and EU**
 - **About 70% of EA's remaining trade are with NAFTA and EU**
- **Criteria 2A: higher proportion of intra-industry trade has greater potential for increased trade (than inter-industry trade) once trade barriers are removed**
 - **Proportion of manufacturing products for intra-EA trade is almost as high as that for intra-EU trade**

With East Asia's levels of manufacturing trade on par with the EU, we can infer that there is a high degree of intra-industry trade operating in East Asia

% of manufacturing exports in total exports



% of Manufacturing imports in total imports



- **Criteria 2B: intra-industry trade index for Thailand with EA is also very high for some manufacturing products**

Intra-Industry Trade Index (IIT index) :

Thailand and some of its trading partners

	ISIC1	ISIC2	ISIC31	ISIC32	ISIC33	ISIC34	ISIC35	ISIC36	ISIC37	ISIC38	ISIC39
China	0.26	0.06	0.15	0.87	0.04	0.11	0.93	0.07	0.18	18.94	0.06
Indo	0.12	1.69	0.15	0.60	0.04	0.49	3.90	0.13	0.10	4.80	0.03
Korea	0.05	0.00	0.10	0.32	0.01	0.06	1.48	0.09	0.17	11.49	0.06
Malay	0.09	0.02	0.34	0.28	0.09	0.13	2.14	0.11	0.35	27.46	0.14
Mex	0.00	0.00	0.00	0.01	0.00	0.00	0.43	0.00	0.00	43.88	0.05
Philip	0.04	0.00	0.23	0.14	0.01	0.10	1.79	0.05	0.06	28.68	0.01
India	0.09	0.02	0.18	0.36	0.00	0.06	2.64	0.03	0.14	1.76	0.95

Source: calculated from PC-TAS, UN, 2002

0 : export/ import only
100 : export value = import value

High IIT in ISIC38 (Manufacture of Fabricated Metal Products, Machinery and Equipment

- **Conclusion : level of integration in EA is now at least as high as EU at the time of the completion of the EU customs union**

- It's time for EA leaders to initiate a customs unions

2.3 Is it feasible to form the monetary union?

- **Rationale: the higher degree of economic integration, the more vulnerable an economy is to policy decisions from its principal trading partners**
- **so there is a need for coordination of national policies in a form of a monetary union**

- **But evidence on macro-economic variables still reveals that EA has not yet reached the level of synchronization of the EU**
 - **Average inflation rates in EU and EA are similar but the variance in EA is higher**
 - **Exchange rates across EA countries also have wide variation**
- **Conclusion: not enough evidence to support the idea of EA monetary union**

3. Major Constraints barring a deeper and wider integration

- **Historical Tensions, and Cultural Biases**
 - **Diversity: economic, cultural, languages and religious**
 - **Lack of political will**

3.1 Constraint # 1 Historical Tensions and Cultural bias

a) Historical tensions

- Common argument: Japan, China, Korea and some ASEAN countries had experienced serious confrontations in the past. Thus, cooperation among these countries is not likely to happen.**
- But today these formerly-adverse countries started to see the need to cooperate e.g. ASEAN Plus Three, Bilateral Swap, etc.**
- European scenario: European nations especially France and Germany had also encountered political tensions. However, they have used cooperation as a means to gain peace.**

b) How much cultural biases affect trade?

A study by Luigi Guiso, P.Sapienza and

L.Zingalis (2005) finds that

- Cultural bias drives wide variations in trust among EU members, e.g., Germans trust the British more than the French do.**
- Trust, in turn, affects trade and investment**
- An increase in trust by one standard deviation will boost trade between 2 countries by 30% and investment by 75%**

3.2 Constraint # 2 Diversity: (a) Economic Disparities among East Asian nations

- **It is true that the economic structures of EA economies reveal enormous diversity comparing to those of the EU**

Size of the Asian Economy: 1999

	Surface Area (1000 km ²)	Population (millions)	Population density (per km ²)	GNI (US\$billions)	GNI Per Capita (US\$)	PPP GNI (US\$ billions)	PPP GNI Per Capita (US\$)
Lao PDR	237	5.0	22	1.5	290	7	1430
Singapore	1	4.0	8384	85.4	24150	88	22310
Thailand	513	60.0	118	121.1	2010	358	5950
Vietnam	332	78.0	238	28.7	370	144	1860
China	9698	1254.0	134	979.9	780	4452	3550
Taiwan	36	22.0	611	290.5	13235	N/A	N/A
Japan	378	127.0	335	4051.5	32035	3186	25170
ASEAN	4476	508.0	113	529.6	1043	1632	3213
APEC	62377	2522.0	40	17242.12	8837	22352	8863
EU	3247	375.4	116	8434.4	22408	8296	22040

Source: The World Bank, World Development Indicators 2001

Size of the European Economy: 1999

	Surface Area (1000 km ²)	Population (millions)	Population density (per km ²)	GNI (US\$billions)	GNI Per Capita (US\$)	PPP GNI (US\$ billions)	PPP GNI Per Capita (US\$)
Finland	338	5.0	17	127.8	24730	117	22600
France	552	59.0	107	1453.2	24170	1349	23020
Germany	357	82.0	235	2103.6	25620	1930	23510
Spain	506	39.0	79	683.1	14800	704	17850
UK	245	50.0	246	1403.8	23690	1322	22220
Total EU	2347	378.4	116	8434.4	22408	8296	22040

- **Though it is much easier for a group comprising developmentally similar economies to negotiate a regional trade arrangement in which the small economies would have more bargaining power**
- **But more compelling is the argument in favor of agreements between developed (North) and developing economies: such integration can bring more significant benefits to small economies in the form of enlarged export markets, increased FDI and technology transfer**

(b) Non-economic Diversity: cultures, languages and religions



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ดีใจ
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3.3 How Much non-economic Diversity Matter?

- **Common argument: Asian countries are too diverse to establish a effective regional institution. Only developmentally similar countries like those in Europe can form a workable group.**
- **But diversity and cooperation are not the opposites**
- **Actually, diversity offers a unique opportunity to maximize comparative advantages.**
- **Moreover, the concept of a successful community is common principles, shared goals and consensus rather than economic/non-economic similarities of its members.**
- **In addition, most entrepreneurs in EA are Chinese ethnics, sharing the same chopstick culture**
- **Thus, although diversity could generate some difficulties in the process of integration, it does not totally hamper the cooperation and is not insuperable.**

3.4 Constraint # 3 The Lack of Political Will

- **Common Argument:** The lack of political will makes the progress towards a deeper integration in East Asia stumbled.
- **Evidence:** Sensitive sectors in certain countries cannot be liberalized because vested interest groups have enough political power to lobby politicians.

Example of vested interest in Japan-Thailand JTEPA (1) Japanese opposes the liberalization of rice, sugar and shoes, while Thailand does not want to open the steel sector and larger than 3000 CBU cars (2) The existing tentative agreement is very limited. Although both sides claim they've reached agreements on 22 issues, there are only detailed agreement on a limited number of agricultural products, steel and automobile. Too many conditions and exceptions still can be found in the agreement on services. Investment issues are very disappointing.

- **Since, East Asian leaders are unwilling/ unable to tackle the problem, there are not enough concerted efforts to mobilize the establishment of a effective regional cooperation.**
- **This argument is the most convincing of all.**

4. Recommendations

Specific suggestion :

- **FTAs should not be the end of economic cooperation in Asia. Instead, the consolidation of FTAs to form a Customs Union ought to be the next step.**
- **The establishment of a Customs Union in East Asia will**
 - **Reduce/ eliminate costs generated by disentangled FTAs.**
 - **Increase the members' bargaining power, generate positive externalities (e.g. regional security, reduce tensions)**
 - **Enhance welfare (see figure)**
 - **Serve as a complement of WTO sluggish movements**

- **Other suggestions**

- **Lessening cultural bias and misconceptions about unfamiliar culture in other countries and impacts of integration by providing education and more information**
- **Developmentally similar economies such as some core members of the ASEAN and East Asian nations should initially work together towards deeper economic integration before expanding the union, i.e., “*Deepening before widening*”.**

- **Conclusion : To make the Customs Union in East Asia happen, what is needed the most now are *political will and concerted efforts*.**