



East Asia Economic Community

Prospects and Challenges



Outline

- Economic interdependence in East Asia
- From market driven to institution
- Obstacles to an institutional economic integration
- Road towards the development of EAEC
- Indonesia's role in EAEC



Economic Interdependence

- Regional integration between East Asian countries has been rapidly rising during the last two decades
- Table 1. presents intra-regional trade intensity index in the region, in compare to other major economic regions
- It shows that the level of integration through trade is comparable to EU's and NAFTA's
- While East Asian economies are diverse, from trade perspective it provides solid ground towards more intra-regional trade as the complementarity index shown in Table 2.



Table 1. Trade Intensity Index

	1980	1985	1990	1995	2000	2003
East Asia	1.9	2.1	2.3	2.3	2.3	2.5
EEC15	1.5	1.8	1.6	1.8	1.8	1.7
NAFTA	2.1	1.9	2.1	2.3	2.3	2.2

Calculated based on UN Comtrade



Table 2. Complementarity Index

	1980	1985	1990	1995	2000	2003
East Asia	53.6	50.1	62.8	61.9	63.8	64.3
EEC15	65.1	65.1	65.3	63.3	63.1	63.1
NAFTA	55.9	57.4	64.8	64.3	64.1	63.0

Calculated based on UN Comtrade



Economic Interdependence

- Economic interdependence can also be observed in the field of investment
- Japanese and Korean multinational corporation have been acting as the main driven of FDI in East Asia
- Around 28% of Japan's FDI outflow was directed to East Asian countries in 2004. A significant increase from 13% in 1985.
- Korean companies have always seen other East Asian countries, particularly China and ASEAN, as their main FDI destination. More than 60% of their FDI went to the region.



Economic Interdependence

- In financial and macroeconomic aspects, the region has become much stronger and interdependence to each other
- As a result of domestic financial system deregulation, liberalization of capital account and opening-up financial service sector, financial integration in the region has been underway
- Macroeconomic cycles and performance of countries in the region have also been affected one another. The 1997 economic crisis is a strong evidence on how this region become more interdependence



More Institutionalized Arrangement

- Some attempts have been made to set-up more formal institutional arrangement
- Several bilateral and regional trade agreements in East Asia have been established during the past few years, and still growing
- There are various motives behind the formation of FTAs in the region.
- These FTAs takes different approaches one another
- There are growing needs to set up more harmonized trade arrangement in the region



Obstacles

- Different levels of economic development
 - Make it difficult to harmonize the process
- Setting-up common goals for the formation of a community
- Political and historical issues
- Who is in charge in the driver's seat?
 - ASEAN can play an important role, but it lacks infrastructure and institution to lead the process
 - Other countries in the region do not have sufficient confidence to each other



Possible Ways Toward East Asian Community

- An East Asia Free Trade Area (EAFTA) might serve as a focal point for the EAEC
 - Harmonizing trade policy
- The current process of FTAs formation between ASEAN and three NEA countries is a possible route through the formation of EAFTA
 - The missing link is a North East Asia FTA
 - There is a need for stronger leadership



Possible Ways Toward East Asian Community

- A development cooperation institution, like the OECD, can be another possible option
 - Need larger resources
 - Members might not play the same level of role
- A more informal financial integration in the region might also serve as another possible route.
 - Need clearer vision and strategy
 - Politically more acceptable



Indonesia's Roles in EAEC

- Indonesia has started bilateral and regional FTA negotiations with other East Asian countries
- Progress of EAEC depends on ASEAN
 - Deeper integration of ASEAN is a necessity for the successful formation of EAEC
 - ASEAN should move beyond its current stage to become a driving force of such development
- Indonesia should play important role in shaping-up stronger and more integrated ASEAN to support the development EAEC



Conclusion

- There is a growing need to a more institutionalized economic arrangement in East Asia
- East Asia Economic Community might be an ideal form of such institution
- However, the road is still long and bumpy
- ASEAN should act as a catalyst, but needs to be stronger and more integrated
- Indonesia, as a founder of ASEAN, has an important role to shape and to stimulate ASEAN to be able to fit-in the EAEC development