

Asian Economic Integration: Perspectives from a Chinese Scholar (Lu Jianren 2006-5-10)

The Global Development of Regional Economic Integration

Since the 1990s, regional economic integration has become an unstoppable trend throughout the world. As the most telling feature of that, regional trade agreements (RTAs) have expanded explosively in the past fifteen years (see figure 1). According to the latest WTO data, the number of RTAs of all kinds (including those in implementation or to be signed) had reached almost 300 by the end of 2005. 250 of them have been notified to WTO, among which 130 were notified after January 1995, with most signed recently. So far, 173 RTAs have been notified to WTO and taken effect. It is assessed that there are still over 70 RTAs which haven't been notified to WTO but about to come into effect.^[1]

Figure 1

Notified RTAs to the GATT/WTO (1958-2004) by Entry into Force

Source: Crawford, Jo-Ann and Roberto V. Fiorentino (2005), <http://www.wto.org>

84% of the RTAs notified to WTO and in the force are free trade agreements (FTAs), and the remaining 16% are customs unions (CUs) or preferential trade agreements (PTAs).^[2] FTAs, CUs and PTAs are necessary organizational forms of regional economic integration. ^[3]

According to basic theories of regional economic integration, the process of integration usually takes the following several stages:

Figure 2

Organizational forms and stages of development of regional economic integration

PTA=Preferential Trading Area

Cu=Customs Union

EU=Economic Union

FTA=Free Trade Area

CM=Common Market

PEU=Political Economic Union

Source: adapted from Limda Law (2000), <http://www.fba.nus.sg>

The large-scale global expansion of RTAs has substantially changed the world trade structure. Although there still exists global multilateral trade system, the WTO, the trade through RTAs has taken over 40% of world trade (World Bank, 2000). Almost all countries, whether a WTO member or not, are party to at least one RTA/FTA (World Bank, 2004). The share of trade through RTAs will continue to increase.

The fast increase of RTAs reflects current accelerated development of economic regionalism. The new generation of RTAs/FTAs has broken through geographical limits.^[4] Some countries located at opposite ends of the globe, such as South Korea and Chile, can also sign a bilateral FTA. However, members of most RTAs/FTAs are still located within the same region or neighboring regions. This shows that regional economic integration still follows certain patterns.

As the primary stage of regional economic integration, the emergence of a large number of RTAs/FTAs has caused wide concern among supporters of the WTO system. They think that these agreements undermine the multilateralism of WTO and would be stumbling blocks of the WTO system. The global academia went through a debate whether RTAs/FTAs are building blocks or stumbling blocks for the world trade system.^[5] Currently the majority of scholars thinks as long as RTAs/FTAs are consistent with WTO rules, they would not be barriers to the world multilateral trade system but will promote the global trade liberalization and become supplementary to the multilateral system. APEC, which aims at promoting trade liberalization in the Asia-Pacific, used to dismiss sub-regional agreements because it thought these small trade groups would impede the realization of the Bogor Goals. However, faced with the increasing number of FTAs in the Asia-Pacific, APEC changed its attitude (Lu 2003), from acquiescence to encouragement from the Shanghai Meeting in 2001 to the Busan Meeting in 2005. In the Busan Declaration, APEC leaders stated that they would “promote high-quality regional trade agreements and free trade agreements among APEC members, which were important avenues to the Bogor Goals”(APEC , 2005).

So far, the new generation of RTAs/FTAs try to be consistent with the WTO rules, with many even surpassing the requirements of WTO in depth and width. In other words they are “WTO plus” (Lu, 2003). However, there are yet to be RTAs/FTAs with “open regionalism”.^[6] They are all exclusive and discriminatory against non-members, but they play an important role in promoting trade liberalization among members, and hence economic integration of the regions where the members belong to. With the back drop of unsuccessful negotiations of the Doha Round and many other difficulties with the WTO system, RTAs/FTAs have become the real force behind regional trade liberalization throughout the world. They signify the development of regional economic integration and to some extent accelerate economic globalization.

Regional economic integration can bring all kinds of benefits to the involved parties. It has been defined as the status or process that makes member economies to achieve economic benefits, which they cannot achieve alone, through cooperation or integration in pursuit of shared objectives utilizing their comparative advantages (Robson, 1990). Classic integration theories point out that economic integration brings about trade creation; enlarges the market capacity;

creates economies of scale; stimulates competition and investment, facilitates the flow of factors of production, promotes international division of labour; enhances productivity and reduces transaction costs, so that the resources are effectively allocated among the members. The total welfare of all members will increase after integration. The prospects of these benefits helped the emergence of regional organizations for economic integration. Moreover, the examples shown by the EU and NAFTA have great impacts on the regional integration process in other parts of the world.

Current Situation of Asian Economic Integration

Asia has been slow in responding to regional economic integration comparing with other regions in the world. The earliest such attempt might have been the Bangkok Agreement in 1975, with only five members: Bangladesh, India, Korea, Laos, and Sri Lanka. China entered the agreement in 2000. But the Bangkok Agreement was only a preferential tariff agreement. Because it has only a few members and covers a narrow area, it has only limited function in reducing tariff barriers among members.

Although ASEAN established in 1976 is an important regional organization in Asia, its real economic integration started only in the early 1990s. AFTA was established in 1992 as a passive response to the challenges from European and North American economic integration organizations EC and NAFTA, and did not look promising. However, AFTA has gradually developed into a standard sub-regional economic organization and propelled East Asian economic integration.

In South Asia, the South Asian Association for Regional Cooperation (SAARC) was set up in 1985, but its economic cooperation process is slow and at a low level. There was no substantial development in trade liberalization in South Asia until they signed the Agreement on SAARC Preferential Trading Arrangement (SAPTA) in 1995.

In West Asia, the Gulf Cooperation Council (GCC) was established in 1981, its members are six Middle East countries including Saudi Arabia (See table 1). It is a comprehensive sub-regional cooperation organization, however, only recently adopted regional economic integration as one of its objectives.

In East Asia, economic integration started even later than South Asia. Although the then Malaysian Prime Minister Mahathir called for the establishment of an East Asian Economic Group (EAEG) in 1990, it did not succeed because of opposition from the US. Then ASEAN tried to push forward East Asian economic integration in the name of EAEC (East Asian Economic Caucus), but because of opposition from the US and hesitation from Japan, this plan was not

realized. Before the Asian financial crisis broke out in 1997, there was only one regional economic integration organization, the AFTA, in East Asia (including Northeast Asia and Southeast Asia). None of the main economies, including Japan, South Korea, China, Taiwan and Hong Kong (their GDP ranked before 30th in the world in 1997), were party to any RTA/FTA, nor did they create their own.

There were several reasons why Asia responded slowly to economic integration. Briefly, they include:

First, Asia is greatly diversified. It has a wide landscape, a huge population with 49 countries/areas. It is the most heterogeneous in the world in social and economic systems, economic development level, religion, culture, ethnicity, and so on. Overall, such heterogeneity is not beneficial to economic integration.

Second, there was not enough momentum from within. Because of sustained economic backwardness in Asia, many underdeveloped agricultural countries were used to living a self-reliant life rather than developing foreign economic relations. There was no close economic relationship between both Asian countries and sub-regions either. East Asian economies with a lot of trade relations had most of their markets outside Asia. Such a situation made Asian countries lack momentum for regional economic integration.

Third, there were no core countries. There were no real developed countries in Asia except Japan, although there were many small wealthy countries in the Middle East. Although there are two most populous countries in the world in Asia, China and India did not pay much attention to regional economic integration before 1990s. As a world big economy, Japan had always cast its eyes globally and not Asia. The experiences of EU and NAFTA show that the role of core countries is indispensable to regional economic integration.

Fourth, there lacked a good security environment. Asia suffered war for long and there was still historical resentment between big powers. The conflict between India and Pakistan was an important factor in the slow development of South Asian integration. Historical problems between China and Japan also influenced East Asian integration. Moreover, regional integration was difficult without resolving the Middle East problems and achieving peace in West Asia.

However, with the changes in international and regional conditions, the external environment for Asian economic integration was gradually ameliorated, and the internal momentum increased. Asian regional economic integration has achieved great progress since 1997(See Table 1).

Table 1FTA/EPA in Asia

Region	Name of Agreement	Member	Status of Agreement
Southeast Asia	AFTA	Old: Brunei Indonesia Malaysia Philippines Singapore Thailand	Agreement in force since 1993, zero tariffs for old members:2015; new members:2018
		New: Cambodia Laos Myanmar Vietnam	
Southeast Asia and East Asia	ASEAN-China	ASEAN10 China	Agreement in force since 2004
	Singapore-China	Singapore China	Under Negotiation within ASEAN-China FTA
	Thailand-China	Thailand China	Under Negotiation within ASEAN-China FTA
	ASEAN-Japan	ASEAN 10 Japan	Agreement signed in 2003
	Japan-Singapore	Japan Singapore	Agreement in force since 2002
	Japan- Philippines	Japan the Philippines	Consultation concluded in 2004
	Japan- Thailand	Japan Thailand	Consultation concluded in 2005
	Japan-Malaysia	Japan Malaysia	Agreement signed in 2005

	Japan-Indonesia	Japan Indonesia	Agreement to be signed by the end of 2006
	Japan-Vietnam	Japan Vietnam	Start consultation since February 2006
	Japan-Brunei	Japan Brunei	Prepare official consultation in 2006
	ASEAN-Korea	ASEAN 10 Korea	Agreement signed in 2005
	Korea-Singapore	Korea Singapore	Under Negotiation
	Korea-Thailand	Korea Thailand	Under Negotiation
Northeast Asia	Japan-Korea	Japan Korea	Under Negotiation
	China-Japan-Korea	China, Japan, Korea	Under Study
South Asia	South Asian FTA(SAFTA)	Bhutan, Bangladesh India Maldives, Nepal Pakistan Sri Lanka	Agreement signed in 2004 and in force since 2006
South Asia and Southeast Asia	India-ASEAN	India ASEAN10	Agreement signed in 2003, now under negotiation
	India-Thailand	India Thailand	Agreement signed
	India-Singapore	India Singapore	Under Negotiation

	India-China	India China	Under Study
	BIMSTEC	Bangladesh India Myanmar Sri Lanka Thailand	Agreement signed in 2004, implemented within 10 years
	Pakistan-Singapore	Pakistan Singapore	Proposed
	Sri Lanka-Singapore	Sri Lanka Singapore	Under Negotiation
Central Asia	Central Asian Economic Community	Kazakhstan Azerbaijan Kyrgyzstan Uzbekistan	Agreement in force since 1999
Central Asia and East Asia	Shanghai Cooperation Organization (SCO)	China Russia Kazakhstan Azerbaijan Kyrgyzstan Uzbekistan	Established in 2001, the SCO Multilateral Economic and Trade Cooperation Program signed in 2004
West Asia	Gulf Cooperation Council (GCC)	Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates	Established in 1981, The Gulf Common Market to be established in 2007
West Asia and East Asia	GCC-China	GCC6 China	Agreement signed in 2004, now under negotiation

Source: gathered by the author.

First, the regional economic cooperation and integration has accelerated. In early 1990, East Asia conducted some functional regional cooperation, such as the joint development of the Tuman River valley. However, institutional regional cooperation started after the shock from the Asian financial crisis in 1997. Nevertheless, before that, most East Asian countries are already APEC members, and APEC can be regarded as a “quasi-institutional” form of regional cooperation (Lu, 2005). Some East Asian countries including China, Japan and Korea, had gained experiences from APEC. China had particularly benefited from learning in APEC before entering the WTO. This accumulated experience for East Asian economic integration later.

In December 1997, when East Asian was still suffering from the financial crisis, ASEAN, China, Japan and Korea held the first summit in Kuala Lumpur to discuss strategies to combat the crisis and regional cooperation. Since then East Asian leaders' meeting has been held every year, developed from an informal to formal mechanism and institutionalized into a 10+3 cooperation framework. Today, it has become a whole set of mechanism consisting of summits, ministerial meetings and high official meetings. Under the 10+3 framework, 17 areas for cooperation has been explored; 48 cooperation mechanism has been established, including 14 ministerial ones and over 100 cooperation projects. Members of 10+3 have made great achievements in areas of finance, agriculture, information, transportation and energy. The objective of 10+3 cooperation is to establish an East Asian Free Trade Area, and further an East Asian Community. Without doubt, 10+3 has become the main channel to promote East Asian economic integration.

At the same, there are 10+1 mechanism, that is, bilateral mechanisms of ASEAN+China, ASEAN+Japan, and ASEAN+Korea. So far, ASEAN has signed bilateral FTAs with each of the three countries. Besides, there is trilateral cooperation among China, Japan and Korea. In 2003, leaders of the three countries signed “The Joint Declaration of China, Japan and South Korea on Promoting Tripartite Cooperation”, which suggested establishing an FTA of the three countries in order to promote Northeast Asian economic integration.

Thus, four inter-connected mechanisms of regional cooperation and integration has been formed in East Asia: ASEAN; ASEAN+1 (ASEAN-China , ASEAN-Japan , ASEAN-Korea); China-Japan-Korea ; and, ASEAN+3. Furthermore, many bilateral FTAs have been signed or are under negotiation among the countries in East Asia. An unprecedented era of regional integration has come for East Asia.

Second, South Asian economic integration has made breakthrough developments. As mentioned above, South Asian countries signed SAPTA in 1995, and carried out some tariff reductions. The South Asian Summit in 1997 proposed to establish South Asian FTA in 2001.

Because of India-Pakistan conflicts, that plan was shelved. Some bilateral agreements, however, made some progress during this period. For example, India and Sri Lanka signed FTA in 1998, which came into force in 2002. India also signed FTA with Bangladesh. Besides, India unilaterally offered preferential tariffs to Bhutan and Maldives. In 2003, India-Pakistan relations were ameliorated and so were their bilateral economic relations. There was a good political environment for regional integration in South Asia. At the same time, the swift development of economic integration in East Asia stimulated South Asia. In such circumstances, SAARC signed the South Asia Free Trade Agreement (SAFTA) in January 2004, which was set to be effective from January 2006 and reduce tariffs to 0~5% in seven to ten years. (Lamberte, 2005). It is worth mentioning that SAFTA is a new generation of FTAs, which includes not only trade liberalization but also trade facilitation, balance of payment, industrial security protection, trade disputes mechanism and economic and technologic assistance. The implementation of SAFTA will definitely accelerate the pace of South Asian economic integration.

Third, Central Asia has made ground-breaking achievement in regional cooperation. In the early 1990s, five Central Asian countries, namely Kazakhstan, Azerbaijan, Kyrgyzstan, Uzbekistan and Turkmenistan, became independent from Soviet Union. The common features of the five countries are under-developed economy, in transition from centrally planned economy to market economy, close economic relations with Russia and the opposite with other Asian regions. In order to reduce their economic dependence on Russia and increase their economic independence, Kazakhstan, Azerbaijan, Kyrgyzstan, and Uzbekistan formed the Central Asian Economic Community (Turkmenistan would not join any international organization because of its commitment to remain neutral). The creation of Central Asian Economic Community started the process of Central Asian regional economic integration. In 2000, the four countries signed development strategies for the integration of Central Asian Economic Community countries, and decided upon its four stages, that is, a free trade area, a customs union, a monetary union and a single labour market. They have made important progress in the first stage so far.

It should be noted that while pushing forward their own economic integration, Central Asian countries are trying to expand relations with other parts of Asia, particularly with East Asia whose economy is developing fast. The Shanghai Cooperation Organization (SCO) founded in 2001 has become the bridge for the cooperation between Central Asia and China. SCO is composed of the four Central Asian states, Russia and China. It was a security cooperation organization at first, but is progressing toward economic cooperation as well recently. In September 2003, SCO adopted a plan for multilateral economic and trade cooperation, and identified its objectives. They include to realize goods trade, services trade and investment liberalization by 2020. In July 2005, India, Pakistan and Iran were accepted as observers. SCO is likely to become an important organization for Asian economic integration in the future.

Fourth, West Asia has begun economic integration. As early as 1981, six Arabian countries, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE), created the Gulf Cooperation Council (GCC). It is an important regional organization in Middle East, with the aim of strengthening coordination and cooperation between the member economies, and helping each country develop industries, agriculture, and technology, and conducting joint projects. However, economic integration was not in its agenda for a long time. With the accelerated global and regional economic integration especially that in East Asia, West Asia has made promising progress too. On January 1, 2003, the six countries of GCC launched customs union, which eliminates tariff between members and adopts 5% tariff to imports from non-members. GCC also decided upon a timeframe for Gulf economic integration, that is, to form a Gulf Common Market by the end of 2007, and to issue a common currency in January 2010.^[7] Because of their similar high levels of economic development, which is a sound basis for integration, the GCC is likely to develop fastest and deepest (in adopting a common currency) into a regional economic integration organization in Asia.

Finally, inter-sub-regional economic integration has emerged in Asia. Economic integration is not only accelerating within sub-regions of East Asia, South Asia and West Asia, but also seems expanding to cooperation between the sub-regions. The most noticeable is the gradual merge between East Asia and South Asia. The most active countries in the two regions, ASEAN and India, signed a bilateral FTA in 2003, which marked the beginning of the economic integration of East and South Asia. The two biggest Asian countries China and India has started talks over an FTA, which would be the most populous bilateral FTA in the world. Besides, India, Pakistan, Sri Lanka are talking about bilateral FTAs with Singapore and Thailand. (See Table 1) All these have promoted the economic integration of South, East and Southeast Asia, and of Asia as a whole.

The reasons why Asian economic integration has accumulated such momentum in recent years include external ones, such as the difficulties with the multilateral trade system and the burgeoning of regional organizations elsewhere. There are also two internal reasons. First, the share of intra-regional trade has been increasing in Asia with its fast economic development. The close economic relations make conditions increasingly mature for economic integration. Second, with its continuing fast economic development, China has become the engine for Asian economic growth, and propelled the increase of trade and investment in Asia. Many Asian countries hope to take the ride of China's economic growth and ask to expand economic cooperation with China. It was under such circumstances that China-ASEAN FTA (CAFTA) was initiated under the proposal from China. CAFTA is playing a positive role in promoting East Asian and Asian regional economic integration. It is a benchmark that Asia has entered a new era of economic integration.

Economic Integration Strategies of Asian Countries

Currently the most active proponents for Asian economic integration are ASEAN, China, Japan, Korea and India. The following section will briefly analyze their strategies in this regard.

1. ASEAN's "concentric" strategy

ASEAN are the earliest countries to practice regional economic integration in Asia. From the earliest AFTA, to today's ASEAN+3 and several ASEAN+1 mechanisms, ASEAN has been leading the process of East Asian economic integration. Fundamentally, ASEAN's momentum comes from their own needs. It is an association of middle to small or weak countries, and economic integration is their only choice to survive, develop, strengthen and combat external threats. It is the strong internal momentum that has pushed ASEAN in carrying out the AFTA plans and making it successful. At the same time, ASEAN has realized that AFTA is a kind of south-south integration, but theory and practice of economic integration have shown that such kind of cooperation cannot compete with north-south integration.^[8] Because in organizations of south-south integration, the internal markets are usually smaller than north-south ones and the share of intra-regional trade is not high. It is more difficult to form close division of labour and to coordinate integration policies. There is also severe trade diversion. Most of these "born defects" exist with AFTA. For instance, intra-regional trade lingers around 20% of total AFTA trade. In 2002, AFTA's intra-regional trade was 22.8% while NAFTA was 56% and EU 61%.

In order to overcome defects of south-south integration, ASEAN hopes its more developed neighbours would help with integration. They cast their eyes on Japan, China and Korea in Northeast Asia. Japan is the second largest economy in the world and the most developed country in Asia, and has long-term close economic relations with ASEAN. China is the fastest growing big economy in the world, and keeps good cooperative relations with ASEAN. Korea is a newly industrialized country, and is progressing toward a developed country. Of course ASEAN realized that it was unrealistic to ask the three countries to directly join AFTA. However, it was possible to expand the scope of cooperation and establish bilateral and multilateral FTAs with them with the core of AFTA. Only when the size was enlarged could ASEAN benefit from north-south integration.

With sophisticated and prudent strategies, ASEAN won the trust of big countries with its unthreatening position and experiences of integration, and obtained the leading power in East Asian economic integration (Lu, 2006a). At this stage, ASEAN adopts a "concentric" strategy. The core is the "ASEAN Community".^[9] The first circle consists of several 10+1 mechanisms including those with China, Japan, Korea, India, Russia and Australia. The second circle is 10+3. And the East Asia Summit (10+3+Australia, New Zealand, India and Russia) is the third circle. (See

Figure 3) Apparently, ASEAN wants to dominate not only East Asian economic integration, but also Asia and Asia Pacific integration.

This strategic map of ASEAN will probably become the blueprint for future “East Asia Community”, or even “Pan- Asia Community”.^[10] ASEAN has been pushed onto the chief driver’s seat of the wagon of East Asian and Asian regional economic integration, and will play a leading role for a long period. Considering the circumstances in East Asia and Asia, that is an appropriate choice in every aspect.

Figure 3

ASEAN’s “concentric” strategy

Source : Created by the author.

2. China’s “big periphery” regional cooperation policy

China is located in East Asia and Asia Pacific. Its foreign trade and economic relations are mainly in Asia Pacific, particularly China’s “big periphery” including Russia of North Asia, Japan and Korea of Northeast Asia, Hong Kong and Taiwan of East Asia, Southeast Asia, South Asia, Central Asia and Australia of South Pacific.

Take 2005 for example, seven of the top ten trade partners of China come from the big periphery, and occupy 50% of China’s total trade. (See Table 2) If India, five countries of Central Asia and New Zealand are added, they take almost 60%, and has kept this high level in the past five years. (See Table 3)

Table 2 China’s Top -Ten Trade Partners in 2005

(US\$ Billion)

Rank	Country/Area	Value	Share (%)
1	EU	217.3	15.3
2	USA	211.6	14.9
3	Japan	184.4	13.0
4	Hong Kong	136.7	9.6
5	ASEAN	130.4	9.2
6	Korea	111.9	7.9
7	Taiwan	91.2	6.4
8	Russia	29.1	2.0
9	Australia	27.3	1.9
10	Canada	19.2	1.3

	Top-ten Partners	1159.1	81.5
	7 of Top-ten*	711.0	50.0
	Others	263.0	18.5
	TOTAL	1422.1	100.0

*Japan, Hong Kong, ASEAN, Korea, Taiwan, Russia, Australia.

Source:Ministry of Commence, PRC

Table 3 Share of Asian and Selected Partners in China's Trade, 2001-2005

(%)

Partners	2001	2002	2003	2004	2005
Japan	17.2	16.4	16.0	14.5	13.0
ASEAN	8.2	8.8	9.2	9.2	9.2
Hong Kong	11.0	11.1	10.3	9.8	9.6
Korea	7.0	7.1	7.4	7.8	7.8
Taiwan Province	7.1	7.2	6.9	6.8	6.4
Russia	2.1	1.9	1.9	1.8	2.0
Australia	1.7	1.7	1.6	1.8	1.9
India	0.7	0.8	0.9	1.2	1.3
South Asia*	0.5	0.5	0.5	0.5	0.6
Central Asia	0.3	0.4	0.5	0.5	0.6
New Zealand	0.2	0.2	0.2	0.2	0.2
Asia	56.5	58.1	58.2	57.6	56.8
Asia+3**	60.6	61.9	61.9	61.4	60.9

* Excluding India

** AsiaPlus Russia, Australia, New Zealand

Source: The Ministry of Commence, PRC

In the past 20 years, the development of China's foreign trade has been mostly led by foreign direct investments (FDI), most of which has come from the big periphery, especially Japan, Korea, Hong Kong, Taiwan and Singapore. FDI from Europe and the US has increased substantially in recent years. With China's increasingly closer trade and economic relations with countries and regions in the big periphery, their economic interdependence has been deepened as well, which provides good conditions for China's economic integration with its big periphery. Naturally the "big periphery" strategy has become important in China's strategies to pursue regional economic integration.

Furthermore, because for a long time China was excluded from GATT/WTO and couldn't enjoy the benefits from the multilateral trade system, China puts emphasis on strengthening economic and trade cooperation with neighbouring countries and regions. Among economies in the big periphery, China has the closest economic relationship with East Asia. China has realized very early that only if the whole East Asia forms close integration can members of East Asia develop well and the Chinese economy have potential and foundation for developments in the future. Therefore, China has been supportive in East Asian regional economic integration. In end 1990 when Mahathir proposed to establish "East Asian Economic Group", China was supported this idea. However, China's focus was on the entry into WTO then, and lacked experience of regional economic cooperation. Until China joined APEC in 1991 did China started to accumulate such experience, which helped China prepare for participation in all kinds of regional economic integration.

Since the start of the 10+3 mechanism, China has been actively participating in East Asian cooperation. It has come up with dozens of suggestions which contributed to East Asian integration. China supports an East Asian Community as the long-term goal of 10+3, the initiative on "East Asian Summit" by ASEAN, and supports ASEAN's leading role in East Asian cooperation. The signing of FTA between China and ASEAN has directly propelled Japan, Korea, India, Australia and New Zealand to sign FTAs with it, which promoted the integration process of East Asia and pan-Asia.

Of course, besides the "big periphery" policy, China also considers other factors in its regional economic integration strategy. They include the need to expand international markets, obtaining resources and raw materials, and the coordination with its foreign policy. East Asia and the big periphery are China's traditional markets, but it also needs access to developed markets in Europe and the US, and to new markets in Africa and Latin America. This requires China to cooperate and integrate with them. The denial of EU and the US of China's market economy status has become a main obstacle in its access to European and American markets. Sooner or later, however, China would obtain the market economy status because the long-term costs of EU and the US would surpass short-term benefits if they did not cooperate with China as major trade economies in the world.

China is currently consulting with over twenty countries or regions about FTA, some of which have been signed. If we analyze the locations of the partners, there is a basic strategy of "approaching the big periphery, big or new markets, and energy and important resources". For instance, China's FTAs with Chile, South Africa Customs Union, and India show the strategy of approaching new markets, while the ones with the Gulf Cooperation Council (GCC), SCO, ASEAN, Australia and New Zealand are for energy and important resources. Most of these

countries are in geographical proximity with China, which shows China “approaching the big periphery” (See Table 4).

In summary, with the China-ASEAN FTA as a start point, China has entered a period of actively establishing FTAs with countries in Asia and the big periphery. China has become an enthusiastic proponent of East Asian and Asian regional economic integration.

Table 4 Overview of China’s participation in regional cooperation organizations

Category	Name	Information
Non-institutional organizations	Asia-Europe Meeting (ASEM), established in 1996. China is a founding member.	Members include 25 EU countries, 10 ASEAN countries, China, Japan, Korea, and the European Commission. It is mainly for political dialogues, but also for some economic and trade cooperation. The Summit is held once very two years.
	Shanghai Cooperation Organization, established in 2001.	Members include China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Its predecessor was the Shanghai Five Countries in 1996, now becoming a political, security and economic cooperation organization. The Summit is held once a year.
Quasi-institutional Organizations	Asia-Pacific Economic Cooperation (APEC) , established in 1989. China joined in 1991 together with Hong Kong, China and Chinese Taipei.	Members include the US, Canada, Australia, New Zealand, Mexico, Chile, Peru, China, Hong Kong, China, Chinese Taipei, Japan, Korea, Papua New Guinea, Malaysia, Thailand, the Philippines, Singapore, Brunei, Vietnam, and Russia. The Bogor Goals were set up in 1994, aimed at realizing trade and investment liberalization of developed/ developing members in 2010/2020. It holds annual Summits.
	10+3 (ASEAN plus 3), established in 1997. China is a founding member.	Members include 10 ASEAN countries, China, Japan and Korea. It holds annual Leaders’ Meetings. It promotes economic, political and security cooperation. The Summit is held once a year. In May 2000 the Chiang Mai Initiative was adopted.
	10+1 (ASEAN plus 1, started in 1997)	A bilateral cooperation mechanism between China and ASEAN. It adopted a Plan of Action in 2004, involving economic political and security aspects. It holds annual Summit at the same time of 10+3.
Institutional Organizations	The Bangkok Agreement, signed in 1975. China joined in 2001.	Members include India, Bangladesh, Sri Lanka, Laos, Korea, the Philippines, and China. It is a preferential trade agreement, which has increased the scope of tariff reduction since 2006.
	China-ASEAN Free Trade Area	The Framework Agreement on China-

	(CAFTA)	ASEAN Comprehensive Economic Cooperation was signed in November 2002. The Early Harvest Program came into force in January 2004, and comprehensive tariff reduction was started in July 2005. It will be realized in 2015 the latest.
	China-Thailand Zero Tariff Fruit and Vegetable Agreement	It was signed under the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation in June 2003, and took effect in October 2003.
	The Closer Economic Partnership Arrangement between China and Hong Kong (CEPA)	It was signed in 2003 and started implementation in January 2004, including trade of goods and services, and trade and investment liberalization.
	The Closer Economic Partnership Arrangement between China and Macao (CEPA)	It was signed in 2003 and started implementation in January 2004, including trade of goods and services, and trade and investment liberalization.
Institutional Organizations	Free Trade Area between China and the Southern African Customs Union (SACU)	Members include China, Botswana, Lesotho, Namibia, South Africa and Swaziland. Negotiations were launched in June 2004.
	China-Gulf Cooperation Council Free Trade Area	Members are China, Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates. The Framework Agreement on Economic, Trade, Investment and Technological Cooperation was signed in 2004 and is now under negotiation.
	China-Chile FTA	Negotiation was started in 2004.
	China-New Zealand FTA	Negotiation was started in 2004.
	China-Australia FTA	Negotiation was started in 2005.
	China-Pakistan FTA	It was signed in 2005 and started to implement the Early Harvest Program.
	China-India FTA	The feasibility study started in 2005.
	China-Japan-Korea FTA	The Joint Declaration to Promote Cooperation among China, Japan and Korea was signed in 2003 and started feasibility study.

Source: gathered by the author.

3. Japan's "Expanded East Asian Community" strategy

Although Japan was the first country in Asia to propose regional economic cooperation,^[11]the Japanese government has preferred the multilateral trade system and dismissed regional trade agreements.^[12]However, after Korea and Mexico proposed Japan to establish FTA in 1998, Japan's trade policy started to change from multilateralism to selective bilateralism. Singapore's proposal of an FTA in 1999 facilitated that change of Japan. The reasons had to do with the

obstacles faced by WTO and APEC, as well as Japan's adjustment of trade policies to get out of ten years' recession. (Lu, 2006b)

In January 2002, the signing of "Agreement between the Republic of Singapore and Japan for a New Age Economic Partnership" (JSEPA) signified the incipience of Japan's "selective bilateralism". Shortly afterwards, the Japanese government published the white paper of "Japan's FTA Strategy", which designed four stages of Japan's FTA strategy in Asia. First, it would sign bilateral FTAs with Korea, Thailand, Malaysia, the Philippines and Indonesia (four old members of ASEAN; Japan has signed with Singapore). Second, it would sign FTAs with new members of ASEAN to complete an FTA with ASEAN as a whole. Third, China would be accepted to the hubs of Japan-Korea FTA and Japan-ASEAN FTA. And finally, Taiwan Province and Hong Kong ,China would be accepted to "realize wider East Asian integration".[\[13\]](#)

The rapid development of China –ASEAN FTA process and its impact to the region put pressure on Japan to accelerate its own FTA process in East Asia. From the end of 2004 to the beginning of 2006, Japan has signed FTA with Malaysia, concluded consultations with the Philippines and Thailand, started consultation with Vietnam and Brunei and prepared to sign FTA with Indonesia (See table 1).A middle-turn program on FTA has been making by the Japanese government, that is to sign FTAs with 15 countries/areas in the world by 2010 and those who have rich resources or market potentials will be given priority in the program. [\[14\]](#)

Furthermore, Japan proposed a regional integration strategy of "expanded East Asia Community". As the long-term goal of East Asian cooperation, "East Asian Community" was first proposed by the East Asian Vision Group (EAVG) in 2001, but Japan responded to that very soon. In January 2002, the Japanese Prime Minister Koizumi proposed the Japanese version of East Asian Community. Its difference from the EAVG's version is that Australia and New Zealand were to be included besides 10+3. Japan's reasons to include them were, firstly, to appease the dissatisfaction of the US over East Asian integration because the two were American allies and could be its representatives; and secondly, to solidify Japan's leading position in East Asian integration. Japan thought that Australia and New Zealand shared common qualities with Japan, and could expand Japan's team in the Community.

On the East Asian Summit in December 2005, Japan attempted to discuss expanding East Asia Community, and proposed to adopt "freedom, democracy and human rights"as its value system. However, Japan's proposal was not realized. Both ASEAN and China wanted to build up East Asia Community within the 10+3 framework. Neither was Japan's proposed value system adopted.

As an overview of Japan's Asian regional integration strategy, there are several noticeable points. First, while choosing FTA partners, Japan puts Singapore first and China the last. The claimed reason is "first easy ones and then difficult ones", but the real motivation is to ensure Japan's leading position in East Asian economic integration, so that it would not fall into the hands of China. Second, Japan's agricultural liberalization is always a political difficulty, which would prohibit it from signing FTAs with other Asian countries. Even if FTAs were signed, they would not have a high quality if a lot of agricultural products were excluded. Besides, labor service market entry is another difficulty for Japan to implement its FTA strategy. Japan does not want to open its labor service market. That is the cause why Japan has not signed FTAs/CEPAs with the Philippines and Thailand until now. Third, Japan has a weak Asian consciousness, and rely heavily on the US in diplomacy and security, which makes its Asian integration policy hesitant and uncertain. Finally, how to deal with historic problems, and ameliorate relations with Asian countries especially with Korea and China, would directly influence the progress of East Asian economic integration.

4. Korea's "Era of Northeast Asia" strategy

Because of its small domestic market, Korea has been relying on international markets for economic development. The Asian financial crisis in 1997 hit Korean chaebols' global expansion and made them turn to East Asia. In fact, Korea was the first country to officially propose East Asian economic integration. On the 10+3 Summit in 2000, then Korean president Kim Dae-jung suggested for the first time to set up an "East Asian Economic Community". EAVG was formed under his proposal as well. Korea is also actively promoting Northeast Asian economic integration, aiming at a "Northeast Asian Economic Community" consisting of Korea, Japan and China.

After Roh Moo-hyun took presidency, he raised the idea of "Era of Northeast Asia" more explicitly. The core is that Korea is the center of Northeast Asia, with the world first-class information infrastructure, a lot of outstanding human resource, and distinguished creativity. Korea would become the logistics and financial center of Northeast Asia, which would be a "community of prosperity", and achieve the Era of Northeast Asia.

In order to realize that dream, Korea made "Northeast Asian strategies": first, to establish Korea-China-Japan FTA; second, to construct peace mechanisms in the Korean Peninsula; and third, to make Korea the "hub" of Northeast Asian economy, that is, the logistics and financial center.^[15]

It should be mentioned that when Korea made the judgment that the 21st century would become a Northeast Asian Era, it predicted China's role optimistically. It thought that China would

surpass the US in around 2020 to become the biggest economy in the world, and so then there would come East Asian Era. That would be a strong foundation for the Era of Northeast Asia.^[16]

Although Korea had the ambition of the Northeast Asian Era and strategies, it is very cautious in its actions in East Asian integration. Korea did not start negotiating FTA with ASEAN until January 2005, and that with Japan lags behind, not to mention it hasn't started negotiation with China. One reason the Korea-Japan-China FTA proposed by Korea has yet to enter negotiation stage is that it is difficult for Korea to liberalize its agricultural sector, in this aspect, Korea has the same problem as Japan.

5. India's "JACIK" strategy

In the early 1990s, India came up with a "Look East" policy, which was initially to expand India's space for economic development riding on East Asian economic boom, and to strengthen economic connection with East Asia so as to push forward domestic economic reforms. After the arrival of the 21st century, India was envious when East Asian integration and China's economy growth were making much progress. As a big Asian country, India did not participate in any regional cooperation except that of South Asia. Its request to join APEC has been turned down. This made India to put attention on East Asia, in the hope to be part of East Asian integration, and to form a wider "Asian Economic Community".

Former Indian Prime Minister Vajpayee was the first to propose an Asian Economic Community. Current Prime Minister Manmohan Singh specified this idea and raised it formally to East Asian countries. The idea of Asian Economic Community is actually to turn East Asian 10+3 into 10+4, adding India. Indian scholars made the acronym of the 14 countries: JACIK, i.e. Japan, ASEAN, China, India and Korea (Kumar,2005).

The population in JACIK is over 3 billion, half of the world population. Its trade volume is higher NAFTA, and foreign reserve is over the total of NAFTA and EU (See Table 5). It has definitely the power to balance EU and NAFTA. Because JACIK would be mainly made of developing countries, it would change the unfair international economic order dominated by developed countries.

Table 5 Size of Existing and Proposed Regional Economic Blocs, 2003

Parameter	EU	NAFTA	ASEAN	ASEAN+3	JACIK
GDP (\$trillion)	10.069	11.716	0.672	7.014	7.613
Percent to world total	(27.69)	(32.23)	(1.85)	(19.29)	(20.94)
GNI*(\$trillion)	10.132	11.855	2.095	13.030	16.098
Percent to world total	(19.75)	(23.10)	(4.08)	(25.39)	(31.37)

Exports (\$trillion)	2.603	0.996	0.447	1.552	1.607
Percent to world total	(34.80)	(13.32)	(5.98)	(20.75)	(21.48)
International reserves (\$trillion)	0.545	0.206	0.244	1.516	1.618
Population (billion)	0.418	0.323	0.537	2.001	3.065
Percent to world total	(6.66)	(5.15)	(8.56)	(31.91)	(48.87)

*GNI=gross national income

Sources: Lamberte,2005

In order to carry out the strategy of Asian Economic Community, India has been making efforts to strengthen economic and trade relations with East Asian countries. India actively approaches ASEAN and signed FTA with ASEAN in 2003. Its relationship with China has been enhanced, with bilateral trade growing fast and an FTA under discussion. Its trade and economic relations with Japan and Korea have been largely promoted, particularly with the increase of their investments into India.

India has three purposes to propel an Asian Economic Community: first, to change its disadvantaged position in the global wave of regional economic integration; second, to ride on the fast train of economic growth in East Asia and China and share its benefits ; and third, to march into the world from East Asia and turn itself from an Asian power into a global power.

Whatever India's purposes are, from an objective perspective, it would be mutually beneficial if India and East Asian integration join together. India is a big rising country in a stage of fast and continuing economic growth, and will become one of the biggest economies in the world. In JACIK, India has the youngest population and thus the biggest potential of labour resources. India's economic structure is complementary with East Asia. The advantages between India's software industry and China's manufacturing industry would enhance JACIK's share of world exports. Besides, although per capita income of India is low, the middle class is increasing and would provide a huge consumer market for East Asian economies. India could obtain more foreign direct investments, advanced technologies from East Asian economies and enhance its international competitiveness. According to studies by Indian scholars, the gains can reach a level equivalent to 3% of the combined GDP of JACIK economies if a regional trading arrangement is combined with investment liberalization and mobility in skilled labour (Lamberte,2005 and Kumar,2005). Apparently, all members of JACIK would benefit.

A Blueprint of Pan-Asian Economic Community

Soon after India advocated "Asian Economic Community", a wider blueprint of regional integration was revealed, which was a Pan-Asian Economic Community. In December 2005, 16

countries held the first East Asian Summit (EAS), including 13 East Asian countries, India, Australia and New Zealand. The decision to hold EAS was made at the 10+3 Summit in 2004. The original plan was to discuss establishing an East Asian Community. Immediately after they heard that news, India, Australia, New Zealand, Russia, Mongolia and Pakistan all requested to participate in EAS. ASEAN then accepted India, Australia and New Zealand to the Summit and Russia as an observer, based on three conditions: the country should be a dialogue partner of ASEAN, has signed the “Treaty of Amity and Cooperation in Southeast Asia”(TAC), and has substantial relations with ASEAN. Although the first EAS did not formally include East Asian Community as a topic for discussion, those new comers apparently entered in order to join East Asian integration. This shows the influence of East Asian economic integration has not only expanded to South Asia, but far beyond Asia. The name of East Asia Summit is already incompatible with its substance, and should probably be called “Pan-Asian Summit”. If the members in EAS form a community, its scale and global influence would be beyond those of JACIK, which would be a “Pan-Asian Economic Community”. (See Figure 4 and Table6)

Figure 4

A Blueprint of Pan-Asian Economic Community

Table 6 GDP Scale of East Asian Summit Members in 2003

Country	GDP (US\$ Billion)	Country	GDP (US\$ Billion)
Japan	4299.73	Philippines	79.27
China	1416.75	Viet Nam	39.02
Korea	605.54	Myanmar	9.61
India	570.76	Brunei	4.72
Australia	511.95	Cambodia	4.21
Russia	431.43	Laos	2.04
Indonesia	208.63	Total	8522.06
Thailand	143.30	EU	10069.00
Malaysia	103.74	USA	10971.20
Singapore	91.36	World	36327.44

Source: World Bank.

The imaging Pan-Asian Economic Community is an institutional arrangement, consisting of some neighbouring Asian countries and countries that have close economic, political, cultural and geographical relations with them: Russia, Australia and New Zealand. Besides current members of EAS, Mongolia, North Korea and Pakistan should be considered as well. Pan-Asian Economic Community is an expanded Asian Economic Community. Its short-term goal is to establish a Pan-Asian FTA, abolish tariff and quota among members, and then to establish a customs union. Its long-term goal is to establish an economic community of free mobility of capital and labour, and to make common trade and industrial policies.

The welfare brought by Pan-Asian Economic Community would be far higher than that of Asian Economic Community. The participation of Russia, Australia, and New Zealand would largely enhance the power and quality of the community. Russia is a big country of energy and resources, and Australia and New Zealand are developed countries. Their participation would increase the share of the North in the community, enhance the economic structure and factor complementarity among members. The Pan-Asian Economic Community has 2/3 of the world population, 1/3 of world geographical size. It would have more natural resources and economic scale than EU and NAFTA, to become the “incomparable” in regional economic integration in the world.

Indeed that is just a wishful blueprint. There is a long way to go before it is realized. Many obstacles stand in the way of integration, including uneven levels of development, diversity, weak Asian consciousness, rivalry and conflicts among big powers, and political disharmony. Although the degree of Asian economic integration cannot be expected to be as high as Europe, a low-level integration (for example, to establish a Pan-Asian FTA) is absolutely possible to realize. It would be a wonderful achievement. With the force of market and governments, Asian regional cooperation and economic integration is prospering, including the ASEAN Community, Northeast Asian Community, East Asian Community, Asian Economic Community, East Asian Summit and Pan-Asian Economic Community. The boom of regional cooperation mechanisms of all sorts and scopes is a prominent feature of Asian economic integration. The co-existence of various mechanisms would continue. It is not necessary to integrate them too early. Asian economic integration can be realized in more mature regions, and unsuccessful mechanism would naturally dismantle. When there is need for mature bilateral, trilateral and multilateral integration mechanisms to integrate, there would naturally be a more powerful regional integration mechanism which is more resistant to external impacts. Perhaps only then would Asia become a real polar in world economic development.

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[1]<http://www.wto.org>

[2]Calculated based on the list from WTO. See Regional Agreements Notified to the GATT/WTO and in the Force, <http://www.wto.org>

[3]Regional trade agreements (RTAs) are sometimes called Regional Integration Agreements (RIAs). RIAs include not only trade, but also investment and economic cooperation, economic policies, and even political fields (Schiff and Winters, 2002). RIAs apparently represents the development of the new wave of RTAs.

[4]The author has discussed the reasons why members of RTAs/FTAs are not limited to geographical limits. (Lu, 2003)

[5]Almost all studies on RTAs/FTAs mention this debate. For the latest work, see World Bank, 2004.

[6]No RTAs of 'open regionalism' can solve the problem of 'free riding' by non-members. Even APEC, which advocates open regionalism, would meet the same problem if it realize trade liberalization in the region. Therefore, RTAs are difficult to become global public goods. This leads to the emergence of more RTAs because non-members are afraid of being discriminated against in trade. They have to either join that RTA or create their own.

[7][http : //www.xinhuanet.com](http://www.xinhuanet.com)

[8]8. The rules of regionalization point out that North-South agreements are better than South-South agreements in that 'RIAs with high-income countries would bring more economic benefits than with poor countries'. (Schift and Winters, 2002).

[9]9. The 'ASEAN Community' is a grand objective raised by ASEAN in 2003, which would be made of three pillars: ASEAN Economic Community, ASEAN Security Community and ASEAN Social and Cultural Community. ASEAN would realize comprehensive integration in the form of community. The timeframe was set to be 2020, and later changed to 2015. But the Community is currently just a blueprint without details.

[10]'Pan' usually means the whole region. Here it refers to the wider region of Asia, including not only Asian countries but also Australia, New Zealand and Russia.

[11]As early as the 1960s, there was some non-governmental proposals from Japan of establishing an 'Organization of Asia Economic Cooperation' (OAEC), and a 'Pacific Free Trade Area' (PAFTA).

[12]For reasons of Japan to object to RTAs/FTAs, see Lu, 2006b.

[13]Japan's FTA Strategy , <http://www.mofa.go.jp>

[14]"Japan hopes to have 15 FTAs by 2010", <http://www.channelnewsasia.com>, Feb.5, 2006.

[15]See *Dynamic Korea*, No. 3 (weekly), 2003, Korean Embassy in China.

[16]14. See *National Economist Association*, No.3 2003, Seoul.