

From Wide-Area FTA To Community Building In East Asia

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East Asia is currently the scene of brisk moves toward regional cooperation, the signing of free trade agreements (FTA) and other developments. Behind these trends lie the need to mount common approaches to energy, information technology (IT), human resources and other issues that demand resolution to ensure stable economic growth for the countries of the region, together with calls from the corporate sector for the forging of a free business environment. The very future of East Asia is riding on the success or failure in effectively addressing such themes.

The Japan Center for Economic Research is analyzing the latest developments in the East Asia economy, and will soon compile and publish its opinions on the approaches viewed most feasible to achieve regional cooperation and the FTA needed to bring economic prosperity to the area.

The high-paced economic growth in East Asia has been supported by expanded trade and direct investment, with the region coming to be characterized by its high level of intra-regional interdependence. Of the aggregate exports from East Asia, the share accounted for by shipments within the region rose from the 34 percent level in 1980 to 51 percent in 2003.

Another regional trait is the expansion in machine industries, the focus on electronics and electrical machinery, with a particularly conspicuous increase in components trade. The top 20 leading import items in Japan, China, South Korea, and the five countries of the Association of South-East Asian Nations (ASEAN) in 2002 (including partial figures for 2001) all include six specific items (among them thermionic tubes, semiconductors, automatic data processing machines, communication equipment, etc.) for which the intra-regional procurement rates are high at 40 to just under 80 percent. This is a reflection of the establishment of intra-regional production networks based on process specialization, in which parts are procured and the finished goods are turned out within the region.

Private companies continue to demand further liberalization of trade and investment in order to strengthen these networks, and are throwing their support

behind intra-regional FTA talks.

As a result of the advance in intra-regional division of labor and the expanding supply-demand gap for workers by occupation, the migration of people within the region is also picking up steam. There are some 50 million foreign residents in Asia, with around 2.6 million of these people moving each year since the latter half of the 1990s. It is also estimated that illegal movements also account for about 600,000 persons yearly. The migration of company-employed workers from Northeast Asia to Southeast Asia continues to grow, as does the number of maids, workers in health care, nursing services and other areas moving in the opposite direction (from Southeast to Northeast Asia).

The expanding migration of such persons has also fueled increased pressure to simplify immigration controls and other procedures, and is functioning to support the cause of FTA. As the competition to land human resources heats up throughout the world, the capable people of East Asia are being attracted to the United States and Europe. Personnel shortages have emerged within the region as a result, a situation that increasingly poses limitations for economic growth. Within the FTA talks, while the issue of migration is being discussed from the perspective of the acceptance of foreign workers, this topic needs to be debated from the outlook of strengthened development of human resources within the region.

In the case of Japan as well, in order to weather the nation's declining birthrate and aging population, there is a need to develop health care workers on an intra-regional basis. To ensure the efficient utilization of human resources, it will be important to move toward smoother patterns of migration, while preparing for the orderly acceptance of foreign workers through enactment of a so-called "foreign worker employment law" – legislation that sets forth corporate responsibilities and ensures worker protections.

Within a broad range of industries, it is cooperation in the IT sector that promises to have a truly large impact on economic growth in the region over the years to come. In East Asia, the gaps are wide between Japan, China and South Korea, countries that have grown advanced in IT fields, and the ASEAN countries that are still developing in that sector. Even compared to the four countries and regions that comprise the newly industrializing economies (NIES), the ASEAN4 nations have achieved only one-sixth to one-tenth the proliferation of conventional fixed-line telephones, cellular phones, the Internet and personal computers. The ownership rate of such equipment is even lower in the "CLMV" countries of Cambodia, Laos, Myanmar and Vietnam – namely, only 1/20th to 1/100th compared to that in the NIES.

To shrink this “digital divide,” support with the focus on Japan, China and South Korea will grow increasingly important. The Official Development Assistance (ODA) projects of the Japanese government normally require about five years from original request through implementation – far too slow to keep up with the swift pace of technical advances in the IT field. Efforts are currently underway by the Ministry of Foreign Affairs and others to improve the state of ODA, and every possible effort should be made to make progress in that direction.

However, even if the liberalization of trade and investment advances and economic collaboration deepens, an instable foreign exchange market could be expected to seriously undermine the fruits of collaboration. In East Asia, the currency crisis was seized as an opportunity to advance regional cooperation on the monetary front in various different forms. To deal with the foreign currency shortage that triggered that monetary crisis in the first place, ASEAN, Japan, China and South Korea joined to establish the Chiang Mai Initiative as a scheme to enable the mutual circulation of foreign currency. As a result, 16 bilateral swap agreements worth a total of 36.5 billion dollars were closed by the end of 2003.

Meanwhile, based on the awareness that the root cause of the crisis was the fact that large sums of capital were raised from overseas sources in spite of the reality that ample investment funds were available within the region, teamwork is being advanced to cultivate the Asian bond market to stimulate use of such intra-regional capital.

In addition, in gearing up for the formation of a regional currency sphere, besides beefing up the Chiang Mai Initiative it will also be necessary to achieve surveillance and policy dialogues to mutually monitor the economic conditions in each country, and extend this to the establishment of a common currency system. To create such a system, it will be key for each participating country to come to possess currency convertibility, hand in hand with the fostering of sound money and capital markets. While it is vital for Japan and China, as the regional powers, to collaborate and manifest leadership, to add the Chinese Yuan to the common currency system will require steps to instill that unit with convertibility, put the monetary system on solid footing and make other progress.

The securing of a stable energy supply is also essential for economic growth in East Asia. Offshore energy dependence runs high among the countries of East Asia, with a particular case in point being the extremely heavy reliance on Middle East oil. The primary energy demand increase for ASEAN + Japan, China and South Korea in 2002 accounted for 71.3 percent of the global rise, while in 2003 that figure was tracked at 59.9 percent. In this relation, East Asia is also burdened with the problem of

its low energy use efficiency.

To resolve these issues, Japan, China and South Korea must play the central roles in collaboration aimed at stockpiling crude oil reserves, maintaining the safety of crude shipment routes from the Middle East and diversifying energy sources. Japan, in addition to nuclear power, also has a proven track record in wind power generation, photovoltaic power generation and the use of other renewable energy. The role to be played by the Japanese with such technology, on the capital front or in other ways is definitely large.

One factor behind the trend of accelerating regional collaboration in East Asia is the positive stance taken by China. In addition to the Chinese recognition that solid economic relations with the countries of East Asia are indispensable for their own nation's economic prosperity, China is also promoting FTAs and other cooperation from the strategic concept of using economic integration to seize the leadership in this region. For the FTAs with ASEAN countries, attempts are being made to strengthen relations by accelerating the deregulation of farming goods in which ASEAN enjoys competitive strength, advancing economic cooperation with the developing ASEAN states and through other avenues.

Though ASEAN feels menaced by China on both the economic and political fronts, those countries nevertheless take a positive approach to strengthening ties with the Middle Kingdom because they know that this will lead to economic development. In order to stand up to China, meanwhile, there is also the view that the timing to realize an ASEAN economic community, now slated for 2020, should be moved up. The importance of cooperative ties with Japan is also being stressed as a means of providing a balance against China, a factor that supports the desire to enter into FTAs at the earliest possible point in time.

For its part, while Japan faces demands to open up its markets for farm produce, labor and other goods and services, it must mount a forward-looking stance on partnerships with ASEAN in the interest of maintaining balanced development throughout East Asia. As this comes to pass, out of consideration for the economic gaps existing within ASEAN, Japan will face demands to actively advance technology transfer, industrial cooperation and other support for Cambodia, Laos, Myanmar and the other lesser developed member countries

In East Asia today, FTA negotiations are underway between Japan and South Korea, Japan and ASEAN, China and ASEAN and other combinations. These FTA will be expanded to the wide-area FTA of Japan, China and South Korea + ASEAN, leading to the idea of creating an East Asia economic community. An East Asia summit

conference will be held at the end of this year. Chinese researchers view this forum as a chance to advance concrete discussion of the community concept, and are proposing the establishment of an "Organization for East Asian Cooperation" sometime between 2007 and 2010 as a means of coordinating talks on energy, resources, the environment, human migration and other issues.

Besides this, Japan, China and South Korea, the countries that must assume the leadership in the economic integration of East Asia, have entered into a framework agreement for investment and trade as the preliminary stage leading up to a trilateral FTA, with ideas also emerging for collaboration in infrastructure, communications, energy and other fields.

Japan should advance cooperation by establishing forums to thrash out these areas with China and South Korea, and waste no time in indicating the methods to be used to move from a wide-area FTA to an economic community. While collaboration with China will be essential in this process, the prospects of smooth cooperation are dim under the current state of strained bilateral relations, which have been described as being "politically chilled and economically hot." Improving the ties between these powers will require composed approaches to the problems at hand, together with joint research on historical issues and the accumulation of other steady efforts.

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