

Economic Integration in East Asia and the Possibility of Japanese Contribution

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1. Expansion of Intra-Regional Trade in East Asia

After the Plaza agreement in 1985, Japan's foreign direct investment into ASEAN countries increased rapidly. This increase enabled these countries to produce industrial products for exporting to developed countries and at the same time promoted technology transfer. As a result, ASEAN countries increased their exports to Japan, US and EU, and they achieved a rapid economic growth without incurring heavy trade deficits. After 1990, the direct investment from Japan and Asian NIEs gradually shifted to China from ASEAN countries and it promoted China to establish the status of "the Factory of the World". In the present East Asian economies, ASEAN countries, Japan, China and Asian NIEs are exporting to and importing from each other according to their economic needs, and the economic integration in East Asia is in steady progress.

Let us see the integration of East Asian economies by statistical data. Figure 1 shows the intra-regional trade of ASEAN + 3 for 1990 and 2000. Comparing the exports of 1990 and 2000, we can see that in every pairing of these regions, the volume of the exports in 2000 is more than twice as large as that in 1990. It should be noted that for the pairings of China and the other regions, the volume of the exports grew more than four times as large as that of 1990.

This tendency is also seen in the trade intensity indices. Figure 2 provides the trade intensity indices in 1990 and 2000. Here the trade intensity index is defined as (the value of the exports from country i to country j / the value of the total exports of country i) / (the value of the world's exports to country j / the value of the world's exports). Therefore, if the value is equal to 1, it means that the export from country i to country j is the average in the world, and if it is more than 1, it means that the trade relationship of the two countries is closer than the average.

Figure 1 Intra-Regional Exports in East Asia (ASEAN+3)

		Japan	Korea	China	ASEAN
Japan	1990		18,574	6,145	32,066
	2000		31,828	30,356	68,186
Korea	1990	12,638		585	5,215
	2000	20,466		18,455	20,033
China	1990	9,327	2,268		3,493
	2000	41,654	12,799		16,633
ASEAN	1990	27,000	5,122	2,268	27,500
	2000	55,945	18,171	16,179	93,075

Source: Kinoshita(2004, p.87) million US\$

Figure 2 Trade Intensity Indices in East Asia

		Japan	Korea	China	ASEAN
Japan	1990		3.08	1.29	2.33
	2000		2.64	1.91	2.52
Korea	1990	2.75		0.54	1.68
	2000	2.22		3.22	2.06
China	1990	1.99	1.62		1.10
	2000	3.13	2.04		1.18
ASEAN	1990	2.77	1.77	0.99	4.17
	2000	2.49	1.72	1.16	3.92

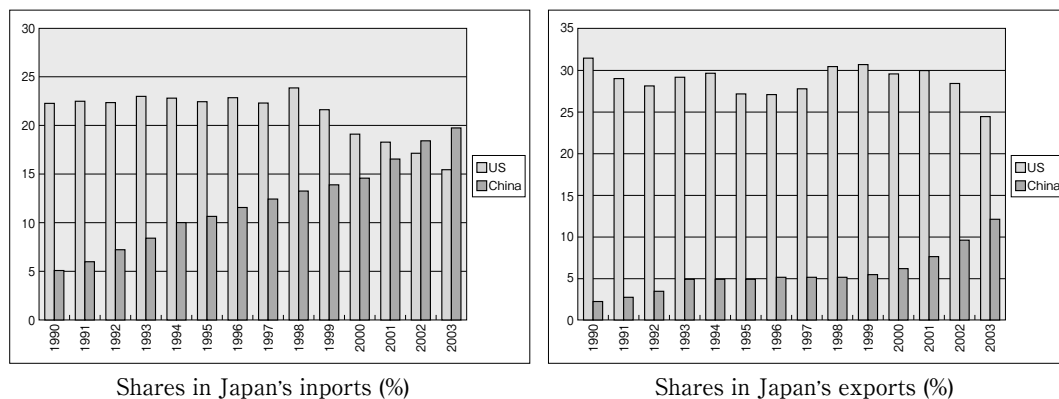
Source: Kinoshita(2004, p.87)

This table shows that in the only five pairings Japan/Korea, Korea/Japan, ASEAN/Japan, ASEAN/Korea and ASEAN/ASEAN, the trade intensity index decreased between 1990 and 2000. In the other pairings, on the contrary, the index increased. Here it should be noted again that in the every pairing with China the index increased.

The other important fact for the Japanese trade is that the export and the import share of US in Japan's trade is on the decrease and in contrast the share of China is increasing rapidly. Now China is becoming the biggest trade partner to Japan. Figure 3 shows that the share of China in Japan's exports became greater than that of US in 2002. For the share in the imports, US still has the biggest share but China is increasing its share.

The White Paper on International Economy and Trade 2004 compares the trade

Figure 3 The Share of the United States and China in Japan's Exports and Imports



Source: JETRO Trade Statistics (<http://www.jetro.go.jp/jpn/stats/trade/>)

Figure 4 Trade Complementarity Indices by Region

	Trade Complementarity index	Year of Establishment
EEC	53.4	1958
US/Canada	64.3	1989
NAFTA	56.3	1994
East Asia	68.0	2002

	Trade Complementarity index		
	1992	1997	2002
East Asia	62.5	66.8	68.0
EU	64.3	80.6	81.0
NAFTA	56.3	70.1	71.6

Source: *White Paper on International Economy and Trade Year 2004*

complementarity indices¹⁾. Figure 4 shows that the trade complementarity index of East Asia in 2002 is 68.0 and it is greater than that of EEC, US/Canada and NAFTA when these RTAs were established.

1) The trade complementarity index shows how well the export profile of one country or region matches the import profiles of others. If the value of the index equals to 0, it indicates that the objective country does not import the products of home country and in the case of higher values, it means that higher matches in the export profile of a country to the import profile of another.

2. FTA in East Asia

As we discussed in Section 1, East Asian economies are being integrated in substance, but their institutional framework for the economic integration has not been so firm so far.

However, the situation is changing rapidly. Japan concluded an FTA with Singapore for the first time on November 30, 2003. And Japan consequently concluded an FTA with Mexico in September, 2004 and with Philippines in November, 2004. Japan is now negotiating with Malaysia, Korea and Thailand.

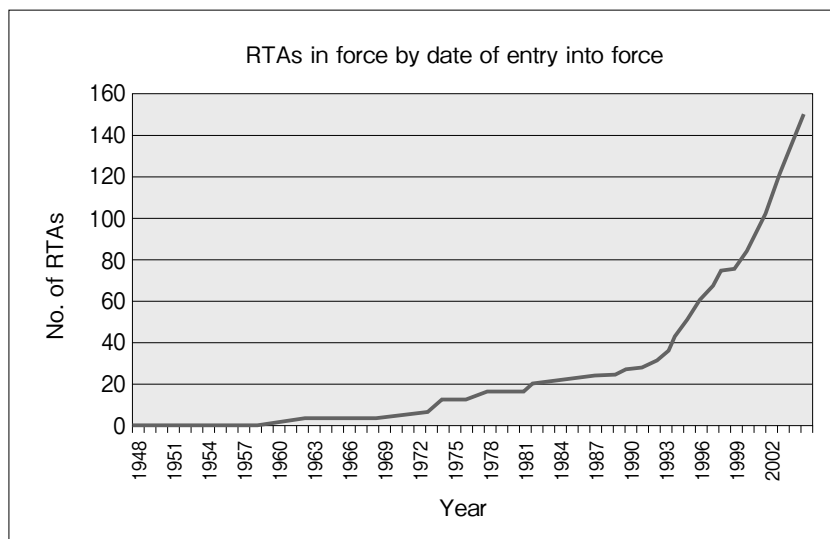
An Free Trade Agreement (FTA) is an agreement which enables countries and regions to trade freely by abolishing trade barriers such as tariffs. An FTA is defined in GATT Article No.24 and GATT Article No.5. To be precise, the agreements which Japan has concluded with those countries are not FTAs but EPAs. An Economic Partnership Agreement (EPA) is a comprehensive economic agreement including the transfer of money and the movement of labor between countries and regions.

Figure 5 shows the number of FTAs concluded in each year from 1948. In this Figure we use the definition of RTA (Regional Trade Agreement) which includes a tariff union like EU in addition to FTA. It is shown that the number of the FTAs began to increase rapidly from the end of 1990's.

Why are FTAs and RTAs increasing so rapidly? The world's trade after the World War II stuck to the rules of GATT and WTO, both of which held the discipline of non-discrimination, so defined in GATT Article No.24. Thus FTAs or RTAs are not compatible with the spirits of GATT and WTO, because those agreements have been concluded only among the particular countries and regions. However, in recent years, WTO has been faced with the strong anti-WTO movements and the conflicts between developed and developing countries. WTO is now in crisis after the breakup of the World Trade Organization conference in Cancun, Mexico in September 2003. Under that situation, every country and region is competing to conclude an FTA seeking for their own economic benefits.

Japan took a rather negative attitude toward FTAs before 2000 because it wanted to protect its farmers from competing with other importers of agricultural products. On

Figure 5 The Number of RTAs



Source: WTO's Web site (http://www.wto.org/english/tratop_e/region_e/regfac_e.htm)

the other hand, China has been positive to conclude FTAs with ASEAN countries. China accepted the terms of “Early Harvest Program” and concluded FTAs with ASEAN countries in November 29, 2004. In this way, the world’s biggest free trade area which has a population of 1.7 billion emerged in East Asia. China also made rather surprising proposals including the plan to hold the meeting of “Greater Mekong Sub-Regions” and to reduce the debts of Vietnam, Laos, Cambodia and Myanmar. And now China is taking the leadership in integrating the East Asian economies. In such a difficult situation, Japan was forced change its policy after 2000. For Japan the benefit of concluding FTAs in the manufacturing industries is much greater than the cost in agriculture²⁾.

3. What is Japan’s Role in the Integration of Economies in East Asia?

What role can Japan play in integrating the East Asia economies? When we consider

2) For example, if Japan did not conclude an FTA with Mexico, the loss in the Japanese industries would have been estimated 600 billion Japanese Yen. METI also estimates that Japan’s FTAs with ASEAN countries will increase GDP by 1.1 to 2 trillion yen and will also create 150 to 260 thousand jobs.

(http://www.meti.go.jp/policy/trade_policy/epa/data/higashiasia.pdf).

this issue, we should always remember the Asian Currency and Economic Crises which broke out in 1997. The crises started in Thailand and expanded to Indonesia, Malaysia and Korea. IMF intervened to control the crises. But they required the strong conditionalities including the tightened monetary policy, the reduction of government financial deficit, the liberalization of the financial and economic systems. As a result, those countries which accepted IMF's conditionalities suffered from the recession, the increase of unemployment. And the local financial institutions were dominated by the American financial companies. Professor Joseph Stiglitz pointed out this problem in his book *Globalization and Its Discontents*.

We learned two important lessons from this crisis. First of all, the crises could not be solved only by the ASEAN countries. Thus these countries should closely cooperate with other Asian countries such as Japan, China and Korea. The second lesson is that such a suspicion as "Never trust IMF and the United States" penetrated into the whole East Asia.

There were several attempts for the economic cooperation among East Asian countries. For example, Mahathir planned EAEC and Japanese government proposed the Asian Monetary Fund (Miyazawa Initiative), which is an Asian version of IMF. Although these attempts were demolished by the objection of the United States, it is still important to strengthen the economic cooperation of East Asia. For this purpose, Japan, which has the most advanced industrial technology financial system in East Asia, should contribute significantly to the benefit of the whole Asia.

Japan should conclude FTAs with all the ASEAN countries as soon as possible, although there are many problems in FTAs themselves. The bottleneck is the agricultural field. But Japan should compromise their principles if it seriously consider the long-term economic profits in East Asia.

There are many disputes over the issue of "the Establishment of the East Asian Community". From the standpoint of the pure economic theory, it is difficult to find the merit of the community. Rather, the benefit may exist in the political and sociological aspects. As EU has come to have the deterrent power against the gigantic power of "globalization," we can see the importance of the community. Let us expect the further development of the economies in East Asia through the cooperation of ASEAN+3.

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