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## SHORT FEATURE

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# The Game of Regionalism in the Rising East Asia

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**T**HE ASCENT OF EAST Asia out of the world's poverty drama to the growth center of strongest resilience is largely the fruit of an open trade and investment based on non-discrimination which as principles is anchored in the WTO. China's miraculous growth and that of Japan and South Korea before it predated their engagement in regional trade agreements (RTAs). Even ASEAN countries, the earliest adopter of economic regionalism in East Asia, have climbed up the lower part of the development ladder before the establishment into force of ASEAN Free Trade Area (AFTA) in 1992. Empirical studies suggest that the various RTAs that have branched out of ASEAN have produced only limited impacts on the region's trade, output and employment. Yet, East Asia has mutated into the world's most active arena of regionalism.

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Saying that the proliferation of RTAs is an unexpected consequence of a losing momentum in multilateral approach as reflected in the endless hibernation of the Doha Round, is highly fallacious. Perhaps the best explanation for the current crescendo of regionalism in East Asia is a random walk of a kind. Given the long dialogue relations between ASEAN on the one hand, and China, Japan, South Korea (CJK), Australia, New Zealand and India on the other, the extension of AFTA to the six dialogue partners is simply irresistible. The positive net benefits found in feasibility studies do amplify the reason, but do not constitute the decisive consideration. The intriguing question arises as to how regionalism can help sustain East Asian economic growth in a world where the occidental world of West Europe and North America are afflicted with the enormous problems of fiscal imbalance, strained monetary policy, labyrinthine financialization, dilemmatic structural reforms and population ageing which increasingly stretches social policy to its limits. We all have heard the promising songs about the progression of Malaysia, Thailand, China, Indonesia and India into the club of developed countries by 2050. Some East Asian leaders may have taken the songs for truth just because they are replayed again and again.

Notwithstanding a lasting strong performance East Asia has not turned into a paradise. Nor has it passed all the critical tests of economic development. In fact countries of East Asia are scattered throughout the logistic curve. Myanmar, Cambodia, People's Democratic Republic of Lao are struggling on the curve's bottom. The population giants of India, Indonesia and China occupy the the difficult range in the middle. On the upper part Thailand and Malaysia are yet to prove their ability to avoid the middle-income trap. At the Northeastern end of the curve near the steady state point Australia, New Zealand, Japan and Singapore engage in continuous policy adjustments to prevent per capita income from falling. Seen from the perspective of economic growth the sixteen East Asian countries are faced with different policy challenges. The countries in the low range of the logistic curve have little but to rely on the depletion of natural resources and human muscle works in their quest for positive catching up. The countries in the middle have to shift increasingly to knowledge-driven productivity improvement to sustain high growth as long as possible. The most developed economies have to originate new technologies to stay on a positive territory of growth or even just to endure the "Red Queen's race." Under such complexity designing a regional agenda which can make a difference to the participating countries

in already a herculean challenge.

Outside East Asia the world is also undergoing probabilistic changes. As mentioned earlier, the Doha Round is on a state of hibernation, although expectation is raised in the run-up the ninth Ministerial Conference in Bali early December 2013. From the other side of the Pacific the United States is pressuring some countries of East Asia to participate in the Trans-Pacific Partnership (TPP) which is dubbed “Twenty-first Century regionalism” for reason related to its unmatched ambition as regards for instance the depth of liberalization and the level of intellectual property protection. The TPP confronts governments in EA with difficult choice. Participation of Malaysia and Vietnam makes non-participation of Indonesia, the Philippines and Thailand a self-afflicted punishment in regard to access to the more developed participants of the TPP. As China’s economy diversifies into higher knowledge and skill intensity staying outside the TPP is likely to cost it a great deal in terms of future trade and investment. The political development in the U.S. part a big question mark to us in East Asia, whether with the decline of his popularity and the trust of the American people due to “Obama Care,” he still can get fast track authority for the TPP. At the same time a similarly huge regional agreement is under negotiation between the European Union (EU) and the United States: the Trans-Atlantic Trade and Investment Partnership (TTIP), raising the question to East Asian countries on how fast to respond to it with a view to avoiding being discriminated in the EU market.

Needless to say, a myriad of other challenges emerge simultaneously. The technology frontier moves ceaselessly at accelerating pace in some cases. Countries in East Asia will have to acquire advances in information and communication technologies (ICT), renewable energies, transportation technologies, nano technology and the complex bioeconomy. Being the world’s largest “factory,” East Asia is struggling with green-house gases emission, air pollution, fresh water scarcity, deforestation and illegal logging, overfishing, endangered biodiversity and diseconomies of mega-scale of metropolitan cities, to name just a few. Addressing many of these issues in a meaningful way requires international collaboration, scientifically and politically. Some of these environmental stresses can be alleviated through a “smarter growth”; however, over a longer time, horizon growth will exacerbate most of them, making the growth preoccupation of East Asia (and the rest of the world for that matter) questionable and the search of alternative development paradigms such as the one on “good life” intellectually compelling.

Like their fellow humans elsewhere East Asians are unlikely to find panacea to the complex problems they are currently faced with. Incompleteness and imperfections are in the nature of human-made things. While judging how regionalism has evolved in East Asia a few pre-notes are in order. First, East Asia is not confined to ASEAN countries and the six dialogue partners in East Asia. Country coverage of regionalism in East Asia is bound to extend in the course of time in a similar way the spatial coverage of the European Union keeps widening. Secondly, like the nation state regional association of nations states is of alien origin to East Asia. Nonetheless, important the internalization of things that are “uniquely” East Asian is into regional architecture in East Asia the fact remains that regional association among nation states was already shaped long before East Asia got enthusiastic about it. Third, regionalism in East Asia is unique in one sense that it is supposed to be driven by ASEAN forward because of the enigmatic rivalry between China and South Korea on the one hand and Japan on the other, in spite of the recognition that ASEAN is an association which can have ten different voices on certain issues. Fourth, ASEAN defusing potentially divisive issues rather than confronting them is a long practice in ASEAN diplomacy as it has been the wider East Asia. Finally, pragmatism rather than idealism is the preferred way among East Asians to approach development issues. Pre-commitment to a grand ideas such as East Asia Community or East Asia Union is avoided. Regional programs are agreed on an incremental basis to be upscaled or deepened when conducive circumstances arise.

ASEAN has progressed to the ASEAN Economic Community (AEC) 2015 around three-fourth of the distance (according to some assessment). Through ASEAN a network of FTAs or comprehensive economic partnerships or CEPAs has been established. However, intra-CJK agreements are conspicuously lacking in this network. The negotiation of CK and CJK agreements are underway but is not expected to be completed soon, particularly when it comes to CJK. Hence, an East Asia-wide agreement cannot solely rely on pre-existing agreements. Time will tell whether or not an EA-wide agreement can bind CJK in the same way as it binds the rest of East Asia.

For reasons related to the difficulties involved in the relations between China and SouthKorea on the one hand and Japan on the other as well as the gathering momentum in the negotiation on TPP on the other, two rounds of negotiation have been staged on the Regional Comprehensive Economic Partnership (RCEP) and the third round is scheduled to be held

in the second week of January 2014 with the stated target of completing it by 2015. To make RCEP a success as a tailwind to the economic development of EA a number of features are indispensable.

First of all, a political vision is imperative to hold the sixteen countries together notwithstanding the wide gap that separates them from one another. This is one area where EA can learn a great deal from Europe where economic integration and cooperation are designed as derivative of political vision which in centres around regional peace and stability. Secondly, the issue coverage of RCEP should go far beyond trade and investment liberalization, putting the CJK aside. As far as goods are concerned a great deal has been liberalized through AEC and ASEAN Plus FTAs or partnerships. Spending limited resources on dealing protractedly with issues of sensitive and exclusion lists is bound to erode the attractiveness of RCEP. What is much more urgent is services liberalization. Thirdly, cooperation in the sense of resource pooling is critical. It is needed to enable the production of new tradables, particularly in low-income members but also where the challenges of new technologies are beyond the reach of one member to deal with. What is more, cooperation should be translated into measurable commitments rather than clouded in statements on good intents. Fourthly, different members should be allowed different speeds under one condition that a date of completion is agreed to bind all members. Fifth, creative ways must be found to strengthen the institutional setting during and after negotiation. While the centrality of ASEAN may still be necessary it will have to be put in the context of an East Asia-wide institution where the six countries from outside ASEAN participate actively. Finally, time is of the essence. To sustain an increasingly inclusive growth in East Asia new impulses are needed immediately rather than in the future.

RCEP is too important to be left to negotiators exclusively who are overburdened in many cases and are not inclined to search for difficult creative approaches. Beyond the “Guiding Principles and Objectives” a clearer tasking of officials by leaders is needed. Otherwise negotiation may be trapped in technical details that are of little value as game changer in East Asian regionalism.