

# **THE PROSPECT OF AN EAST ASIA FREE TRADE AREA AGREEMENT**

## **MIERSCOPE**

**by Mohd Haflah Piei**

It has been slightly more than a decade since the concept of the East Asia Economic Group (EAEG) was first mooted by Malaysia's Prime Minister Dato' Seri Dr Mahathir Mohamed. It was originally conceived of as an informal regional organisation to serve as a loose consultative forum where East Asian economies would consult each other on issues of common concern as and when the need arises. It was also meant to serve as a defensive strategy to counter the creation of a single Europe and NAFTA (North America Free Trade Area), as well as to lobby for ASEAN interests in the then ongoing Uruguay Round of the multilateral trade negotiations.

However, the proposal was met with intense objections and severe criticism, and turned out to be extremely controversial. Critics of the initiative argued that the EAEG proposal threatened to "divide the Pacific region in half," and that politically and economically, it was not feasible. Supporters of the proposal which included former Japanese foreign minister, on the other hand, argued that EAEG would "counter balance emerging organisations in Europe and North America and improve the bargaining positions of Asian countries". Many Japanese business leaders also criticised the sharp repudiation of the EAEG idea, especially by the US, by pointing out that "the United States was in fact drawing a line down the Pacific by signing the NAFTA".

It was only after a lengthy debate and intense exchanges between the opposing sides that the proposal was later accepted, albeit after being substantially reshaped, diluted and renamed as the East Asian Economic Caucus (EAEC). The EAEC, later accepted as a caucus within APEC (Asia-Pacific Economic Cooperation), had in effect been kept in the back burner.

The re-emergence of the idea of creating some form of regional economic co-operation among East Asian economies, came about in the aftermath of the Asian financial crisis. It was only after this that the EAEC idea began to be taken more

seriously. First, there was the Chiang-Mai Initiative of ASEAN+3 which mainly involved regional financial co-operation between and among members of ASEAN, China, Japan and Korea. As a result, to date, several bilateral swap arrangements (BSAs) between individual ASEAN member countries and China, Japan and Korea have been concluded and signed.

Following this, there was an offer from China's Premier Zu Rongji of a Free Trade Agreement between China and ASEAN (ASEAN-China FTA) to be effective in 10 years time which was finally concluded and signed at the recent ASEAN Summit in Phnom Penh, Cambodia. This initiative is of great historical significance and importance, as well as an unprecedented political move by China to signal its desire for a long-term friendship and economic co-operation with ASEAN.

China's offer has sparked off a round of similar offers by other major East Asian economies. For example, the ASEAN-China FTA has provoked intense discussion in Japan on ways to strengthen its own links with ASEAN, and not to be left behind, leading to a new initiative for a ASEAN-Japan Comprehensive Economic Partnership (ASEAN-CEP -Japan).

South Korea has also signalled an interest in establishing closer links with ASEAN. At the ASEAN Summit in Brunei, President Kim Dae-Jung agreed to set up a study group to review a possible ASEAN-ROK FTA. The Report of the East Asian Vision Group, an initiative launched by President Kim recommended several "key proposals and concrete measures to broaden East Asia co-operation. These include the proposal for the establishment of the East Asia Free Trade Area (EAFTA), and the liberalisation of trade well ahead of the APEC goals".

In order to promote this initiative further, a proposal was made at the 5<sup>th</sup> ASEAN+3 Summit to establish an ASEAN+3 secretariat. What is more, Malaysia has offered to host the secretariat in Kuala Lumpur, and to meet its expenses for the first three years of its operation.

Against this background, some questions immediately come to mind. First, what exactly triggered-off this new interest in the East Asia economic co-operation, something that was deemed not feasible in 1990, but that suddenly became a matter of significant concern to countries in the region? Second, what are the new circumstances and challenges that caused this turnaround in policy stance and direction? Third, what would be the most appropriate architecture, principles and modalities of the proposed EAFTA? An attempt is made here to address very briefly the possible modalities of the EAFTA from the perspectives of the ASEAN member countries.

In the event that ASEAN and the three East Asia economies, China, Korea and Japan agree to establish a Free Trade Area, there are several modalities to choose from. These include:

- ❑ A region-wide FTA involving all the thirteen countries concerned
- ❑ An EAFTA comprising a network of FTAs: ASEAN-China FTA, ASEAN-Japan FTA, ASEAN-Korea FTA, Japan-China FTA, Japan-Korea PTA, and China-Korea FTA
- ❑ An EAFTA between ASEAN on the one side and North East Asia FTA on the other.

Needless to say, the first modality is the first best option as it would involve region-wide economic integration of thirteen separate entities into a single and unified market. The gains from such a comprehensive liberalisation, to the region as well as to individual member countries, are expected to be large, with the adjustment process being easier, and less costly. Though this choice of regional integration is the most difficult to achieve at the moment, it represents the ultimate modality to strive for in the long run.

The second modality is to “weave a web of free trade agreements and areas together across the thirteen economies to finally form a huge East Asia Free Trade Area”. Altogether, it would involve six FTAs. To start with, there is already a strong commitment to create an ASEAN-China FTA by 2010 for ASEAN-6 and China and by 2015 for the new members of ASEAN, and the prospects of an

ASEAN-Korea FTA following soon look good. The signing of a bilateral free trade agreement (BFTA) between Japan and Singapore may act as catalyst for the other ASEAN countries to negotiate an ASEAN-Japan FTA. By doing so, it may neutralise whatever advantages and preferences Singapore may be enjoying in Japan's market, thereby eliminating the bias against them.

That will leave another three more FTAs to be carved out among the three North East Asian economies. The first one is a Japan-Korea FTA. This initiative which has already been announced is potentially the most influential one of the three possible bilateral FTAs among the North East Asian economies. The timing is most opportune, given the current improvement in the bilateral relationship between the two economies.

There have been suggestions that the Japan-Korea FTA "should logically be extended to include China as well, because it otherwise would create serious political tensions". The inclusion of China would effectively rule out the need to create two other bilateral FTAs (the China-Japan FTA and China-Korea FTA). Indeed, this would transform the exercise in the direction of a bigger undertaking, that is, the formation of a North East Asian sub-regional arrangement that would eventually be linked to the one already in existence, namely AFTA. This represents the third route that may be pursued.

Irrespective of the modality to be preferred, the EAFTA would be more than what the Prime Minister at Malaysia had hoped to achieve when he first proposed the EAEG. The EAFTA would be much more than just "an informal regional organisation to serve as a loose consultative forum for the East Asian economies".

Besides, it would be more formal, organised and institutionalised, while its coverage would also be more comprehensive than that envisaged in the EAEG.

The writer is Deputy Director of the Malaysian Institute of Economic Research.