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East Asia Summit: Streamlining the Regional Architecture?

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Synopsis

The 6th East Asia Summit may not come up with many economic initiatives. This, however, is not a bad thing as it would lead to a more streamlined and clearly-defined regional architecture in Asia.

Commentary

ON 19 NOVEMBER in the idyllic setting of Bali, the Leaders of 16 original members of the East Asia Summit (EAS) will welcome the presidents of the United States and Russia into their club. Since the Asia-Pacific Economic Cooperation (APEC) has lost much of its lustre on the economic front there is a keen interest in the EAS which is an alternate trans-pacific arrangement that is starting to evolve. Also India is a member of the EAS but not of the APEC.

New members will present both opportunities and challenges. At the Bali Summit, progress on old initiatives will be reviewed and new ones launched. But the EAS is not expected to come up with many economic initiatives. EAS' initiatives will continue to focus mainly on traditional and non-traditional security issues.

EAS initiatives

At the first summit in 2005, it had been agreed that the EAS would be a leaders-led dialogue process on security issues. Accordingly, EAS has come up with a number of initiatives in the area of non-traditional security such as its Clean Air Initiative, East Asia Climate Change Partnership, and promotion of low carbon society. Also the revival of Nalanda University in the Northern India state of Bihar is a flagship project of the EAS. Subsequently, EAS' agenda was expanded to include economic areas of trade and finance. But so far the group has not come up with any significant initiative in this area.

There is the Comprehensive Economic Partnership for East Asia (CEPEA) comprising the 16 original members but the likelihood of this initiative being implemented is low. A number of studies, including one that I led, have found that the welfare gains of the CEPEA will be higher than that of the China-favoured East Asia Free Trade Area (EAFTA) comprising the ASEAN + 3 (China, Japan, and Korea). But China sees CEPEA as a Japan-driven effort to undermine China's position in East Asia by bringing in India.

Also, in contrast to Europe where supranational institutions are the drivers, the Asian approach to economic integration is a pragmatic bottom-up one that supports sub-regional cooperation as the building blocks of an eventual broader, deeper, and more unified regional architecture. Many, therefore, are of the view that with the

ASEAN Free Trade Area (AFTA) on board since 1992, the focus of policymakers is now on the various ASEAN+1's and EAFTA. Only then will it be the turn of the CEPEA.

The situation is similar in the case of finance. Regional financial cooperation has shown greater progress in ASEAN+3 which has the US\$120 billion bailout facility under the Chiang Mai Initiative Multilateralism (CMIM), and more recently the ASEAN+3 Macroeconomic Research Office (AMRO). In addition, ASEAN has been actively negotiating various financial cooperation projects in relation to its ASEAN Economic Community (AEC) initiative.

At the Hanoi Summit last year, special attention was given to promoting financial cooperation within the EAS group. But the Summit did not come up with any concrete initiative aside from an agreement to provide capacity building support to several members on regulation of securities market. Australia's idea to establish an EAS Trade Finance Network was not supported.

Enhancing complementarities

In theory, the membership of the US, which is the richest country in the world, and Russia, which has an abundance of natural resources and is the world's largest oil producer, should enhance complementarities within the EAS and provide the potential for enhanced economic integration. CEPEA with 18 members should result in higher welfare gains than CEPEA with 16. But China's sensitivities vis-a-vis the CEPEA will surely have increased with the membership of the US and Russia.

Financial markets in Asia are more linked to markets in the US than within the region, again highlighting the added benefits to the region of US membership in the EAS. But reaping this benefit will also take time. This is because the US is still reeling from domestic financial problems in the wake of the global economic crisis of 2008-2009. The problem would exacerbate further if the single currency in the euro-zone were to collapse. The more recent political difficulties in raising the debt ceiling will also limit the US' financial engagement with other EAS members. Russia is relatively a peripheral player in the region and its financial linkages with the rest of EAS countries, although increasing, is still limited.

TPP, Bilateral FTAs, and ASEAN Connectivity

Three non-EAS initiatives could, however, get a significant boost from US membership in the EAS. The first is the Trans-Pacific Partnership (TPP) which was formed by Singapore, Brunei, New Zealand, and Chile in 2006. The TPP requires a high level of trade liberalisation – members are required to remove all tariffs on all products without exception within 10 years. Currently, five additional countries – US, Australia, Peru, Vietnam and Malaysia – have joined the original four in negotiating the TPP. Last week the Japanese Premier Noda announced that his country would also join the talks on the pact. Could other countries follow suit and could the TPP be the way to achieve APEC's stalled Free Trade Area of the Asia-Pacific (FTAAP)?

The second is the US' efforts to promote bilateral FTAs – a path that resulted in FTAs with Singapore and Australia. These bilateral efforts could also get a boost from US' membership in the EAS. In fact, earlier this month, the US congress ratified an FTA with South Korea and it awaits the last hurdle which is ratification by the Korean legislature.

Could we see the beginning of negotiations on an ASEAN-US FTA? The third initiative that could get a boost at the EAS could be the ASEAN Connectivity Master Plan which seeks to improve the competitiveness of ASEAN and to connect South Asia with East Asia for an eventual integrated Pan-Asia.

More clearly-defined architecture in Asia

EAS may not propose many initiatives for economic integration, but this is not necessarily a bad thing. Asia's regional architecture is broad, varied, and overlapping. It comprises an "alphabet soup" of groups with overlapping memberships and mandates. ASEAN is at the centre of groups such as ASEAN+3, EAS, and Asia-Europe Meeting (ASEM). Then there are the various subregional groups that have emerged very rapidly. This confusing architecture needs to be more streamlined and clearly-defined. EAS' focus on traditional and non-traditional security while leaving economic initiatives to other groups would certainly help.

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