

Regional economic cooperation and architecture

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JIIA-NZIIA Track Two Tokyo, 1 August 2012

Context

At a time when stability of the global economy is threatened by enduring crisis in Europe, and much uncertainty elsewhere, the economy of East Asia led by China, constitutes a linch pin upon which global recovery vitally depends. Nonetheless no country can alone determine the future for world, or regional, prosperity. Although it remains the world's largest economy, the US is just one of several major centres of economic power that now seek to cope with great complexity in global economic affairs. American credentials for economic leadership are diminished by massive insolvency, regulatory shortcomings and a complex federal government system affecting US negotiation and ratification of international agreements. Meanwhile European leadership is crippled by the nature and extent to which economic integration has spread the contagion of economic disorder inside the European Union.

At the global level, financial and economic management, remedial and otherwise, needs now to be shared equitably between traditional economic powers and successful newly emergent economies, notably China but also other so-called BRIC economies. The reform process in IMF and elsewhere is proceeding but only bit by bit. The speed and extent of international reform has a direct bearing for China and others on the atmosphere, commitment and degree of regional economic cooperation inside Asia Pacific. The two are inextricably connected.

Trade Agenda and Economic Integration

While government intervention has been summoned inside major and other economies to bail out banks and drive fiscal stimulation, there is stated resolve on all sides to resist trade protection as a response to crisis. At the same time the world and regional trade agendas are being focussed less upon traditional border access issues (tariffs, rules of origin etc.) and more upon supply chain integration issues that reflect the transformation in global and regional trade, whereby production processes (for cars, computers, phones, and multiple consumables) are increasingly spread across many economies.

Greater attention in trade negotiations is now paid therefore to integrating supply chains for best advantage in each component economy along the chain. Compatibility, standardisation, interoperability, issues of ownership and governments' protection of intellectual property and foreign investment as well as the role of state owned enterprises now figure much larger than previously in trade bargaining. All this adds much complexity because it seeks integration of

economic policy “behind the border” and not just trade liberalisation at the frontier. Robust domestic political support has become indispensable for negotiations that implicate domestic economic and social law making particularly in times of economic hardship.

A second caution concerns the “unfinished business” of existing trade liberalisation agendas - particularly the freeing up of agricultural trade access from longstanding restrictions and protection. There is abiding temptation amongst eager advocates for new generation economic integration to set aside old intractable difficulties that are perceived to unnecessarily impede progress towards new horizons of opportunity.

The Regional Context

These complexities now directly influence further trade and economic cooperation in Asia Pacific – whether under the various ASEAN led processes that operate in profusion, or under the newer US led Trans Pacific Partnership (TPP) which, even before negotiations are complete, is branded as setting “the gold standard” for new generation trade/economic integration and eventual Asia Pacific wide agreement. The traditional APEC focus was also deliberately set on economic integration (e.g. trade and investment facilitation) but unlike ASEAN or TPP, APEC is not a negotiating forum. All three processes can however co-exist. But any successful attempt to meld them into one overarching process with a view to achieving Asia Pacific wide integration, seems pretty remote.

(a)TPP

The idea for TPP emerged from modest beginnings – a four government agreement (NZ, Singapore, Brunei and Chile) that, with encouragement, the US decided to embrace. Washington’s application signalled in effect American assertion of ‘ownership’ of the process with the concept now to be driven by a more ambitious agenda for integration than envisaged by the original founders. TPP comprises the number one trade policy initiative for the Obama Administration. Other countries signalled their intention to negotiate entry.¹ Negotiation formally began in 2010 and at the time of this writing, 14 rounds had been held. It has been characterised by notable secrecy which has prompted public misgiving from both the pro- and anti- free trade fraternity; as well as from lawmakers in the US, NZ and elsewhere.

The process is obviously complex. The countries involved are disparate in size, influence and levels of development. Some already have FTA with one another, others do not. Moreover only 4 Asian governments are, so far, involved - their number does not include any of East Asia’s G20 major economies. It is not certain whether the final TPP will in fact be one overarching agreement, or an umbrella under which individual bilateral agreements will be struck; nor is it clear just how far commitments in sensitive areas (like intellectual property or trade in services) will exceed what has already been agreed elsewhere by relevant international institutions (e.g. WTO). Political factors like the 2012 US

¹ As of August 2012 there are 11 negotiating governments – NZ, Brunei, Singapore, Chile, US, Malaysia, Vietnam, Peru, Australia, Canada and Mexico

Presidential and Congressional elections will moreover dictate pace and content.

But two principal factors distinguish TPP. First, there is the geopolitical dimension whereby TPP is closely connected to American rebalancing towards Asia (President Obama's "pivot") which is intended to refurbish US leadership credentials regionally and globally, and which bears a strong military imprint involving extended alliances and force projection. This lends background competitive edge to the trade and economic process. Second, and directly connected, the exclusion of China from TPP heightens the risk that competing tracks for regional economic integration will head off in irreconcilable directions. The claim that TPP membership is, or would always be, open to China misses the essential point that it is really no longer possible to define or extend international (or regional) rules as they concern economy and trade, without providing for Chinese participation in the actual process of rulemaking. Put another way, while China and the US need each other for multiple political, economic and security reasons, it is improbable that China would ever accept TPP provisions on the basis of "take them or leave them" when they had been devised principally through negotiation fashioned on the basis of US preferences.

(b) ASEAN

ASEAN's central place in East Asia's regional future is underpinned, internally, by the architecture of 'the ASEAN Plus' formula; and, externally, by its status with the wider world through the well-established ASEAN Dialogue process that now attracts significant non regional involvement. ASEAN's conspicuous institutional durability and its role underpinning a successful East Asia, means that for NZ it offers an indispensable threshold to wider East Asia. The important rebalancing of US foreign policy to reinforce American regional leadership however poses a challenge to ASEAN's hard earned foremanship, and more generally to the overall viability of East Asian led processes of regional economic integration.

Integration of East Asian regional production and supply chain networks lies behind the Japanese ideas, launched in 2007, for a Comprehensive Economic Partnership in East Asia (CEPEA) together with the establishment of the Economic Research Institute for ASEAN and East Asia (ERIA) as a source of research and policy advice. The CEPEA proposal is grounded inside the ASEAN Plus Six framework which of course, includes NZ and means therefore this country has a foot in two economic integration negotiating camps - the TPP and the CEPEA. The Japanese initiative predates the commencement of the US inspired 2010 TPP enlargement negotiation; and as things stand, the cast of actors involved is substantially different because it confers negotiating responsibility upon ASEAN Plus Six. Japan has not itself, as yet, decided to join the TPP negotiation although the Japanese Prime Minister has indicated a disposition in favour. Although the tenure of government remains endemically fragile in Tokyo, Japanese priorities will have influence on the relevance and outcome of negotiations in both TPP and CEPEA.

The trade relations landscape of East Asia has in any event been transformed by rapid expansion in the number of FTA forged by ASEAN - with China, with Korea, with Japan, with India and with Australia/NZ. The provisions of such agreements vary, and the task of amalgamating them into one overarching free trade framework would be prodigious. In addition other FTA, already negotiated or in prospect, between individual regional countries have a direct bearing too on attitudes, progress and prospects for negotiation of greater economic integration. The successful NZ-China FTA is one particular influential factor for NZ (as the only Western economy to enjoy such agreement). Beijing has questioned the TPP as a device to forestall China and criticised the US military upsurge in the region. For Japan, the May 2012 announcement of negotiations with ROK and China for a trilateral FTA as well as signature of a trilateral investment agreement, is obviously relevant to the prospects for negotiation anywhere of wider regional economic integration. Japan has stated that it does not consider the pursuit of a North East Asia FTA to be incompatible with TPP, although a NEA FTA must have implications for future regional financial integration, and in particular for the role of the Chinese Yuan as the anchor currency for trade between North East Asia, as well as in the region more widely. Already the Japanese Ministry of Finance works closely with counterparts in Beijing and Seoul, and the Chiang Mai Initiative(CMI) originated by Tokyo as a currency swap arrangement to cope with regional emergencies has been enlarged and provides another foundation for greater (financial) regional integration. TPP envisages no equivalent provision.

Conclusion

The complexity behind East Asian regionalism, the competing and complementary nature of agreements already in place or in planning, and the motives of individual governments, are not easily fathomable or necessarily compatible. . Who leads and in which areas will remain critical issues. The idea that the ultimate goal of an overall free trade area for Asia Pacific (FTAAP) proposed by the US at the 2006 APEC leaders meeting, might emerge from an orderly sequence of extensions of the ASEAN Plus Three (involving PRC, ROK, Japan), the ASEAN Plus Six (including India, Australia, NZ) and ASEAN Plus Eight (including the US and Russia - which is effectively the East Asia Summit), remains improbable. Those forums are, each in their respective way, important especially in political terms. Impetus for further economic cooperation now depends however upon different contexts - the TPP and the CEPEA. But issues of compatibility and coherence between the two are likely to endure and will tax the policy priorities of regional governments and their sense of strategic direction - NZ included.