

RELEVANCE OF EU MODEL
FOR THE EAST ASIAN REGIONAL INTEGRATION

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Regional Co-operation has now become a dominant feature around the world, particularly during the last decade. The European Union (EU) has been a prominent leading group in the promotion of regional co-operation, while such co-operation in our region, if I may call it as the East Asia, started only four years ago, and has just picked up momentum, though apparently far behind from the progress of the former. Moves towards regional co-operation in many parts of the world, are demonstrated by the sudden increase of births of free trade areas, particularly in 1990s. The end of the Cold War, which loosened the ties between each bloc leader and the countries under its protection, has been assumed to be one of the driving factors for regional co-operation, as there has emerged a growing need for countries in any region to help each other to settle problems among themselves. East Asia, however, only started to reveal this global trend late in 1990s, when it was hit by a serious financial crisis.

The East Asia Study Group report did not disregard the recommendation of its mother report, the East Asian Vision Group Report, and rather well honoured it, admitting, "East Asia has come to be regarded as one of the three major regions in the world. Since the Asian financial crisis in 1997, ASEAN countries, Japan, China and Korea now feel that they share a common destiny. "East Asia is our natural constituency, and Northeast Asia and Southeast Asia are inextricably intertwined economically, politically and socially. "East Asian co-operation is inevitable and necessary. "Deeper integration of an East Asian community is beneficial and desirable."

Some sceptics in our country have emphasised the distinctive character of this region, suggesting that countries and peoples in Asia are so diversified that it is impractical to follow the steps of the

European in our projects of pushing forward the regional integration in our region. Other critics have vehemently argued that it is inadequate for our region to seek community building of any kind like the EU, as some countries in this region are very much dependent upon, or closely linked to, the US, commercially as well as in security terms, and that the US should not be excluded from the East Asian community building. Nonetheless, the majority of views in this region, including those in our country, cite that this region should also explore more profound regional co-operation and even integration.

The integration is not intended to monopolise the benefits of our regional market for ourselves. Rather, any regional co-operation could provide favourable impacts upon the rest of the world, offering the spill-over benefits to the rest of the world. Economic partnerships in our region would, for instance, push up its total income, which could then enlarge its imports from the rest of the world, creating favourable circumstances for countries and peoples outside our region, too. Further, it is not intended, either, to seek the settlement of problems in the region solely by their members for the purpose of avoiding external interventions in matters inside the region. Rather, it is geared not to bother other parts of the world or international institutions on problems which our region could and should settle by its members with their own wisdom and will. This would serve to the reduction of problems which the world would need to tackle.

At any rate, as the top runner, leading the rest of the world in the creation of regional co-operation, the EU has provided with East Asians a number of insights for regional co-operation and integration with its attempts, products, methodologies, and successful and even unsuccessful experiences. This is a separate issue from the one whether, in light of sociological or ethnological context, East Asia resembles Europe or not, or whether East Asia is more diversified or less so than Europe. Also, the fact that some of the members of East Asia maintain large trade with countries outside the region does not in itself deny a rationale for seeking regional co-operation, as the intra-trade is far larger, knowing also that heavy trade links between the US and UK

do not urge the latter to leave the EU. East Asia will not and cannot become a crony of the EU. East Asia should create its own integration in its own way, making use of lessons of the EU.

This essay is to illustrate two of those insights, which have been useful for the East Asian regional integration: (a) methodologies and modalities for the economic integration; and (b) significance of expanding areas of regional co-operation beyond an economic sphere into a political domain.

First, the creation of free trade area plays a precursory role for the arrival of deeper and broader regional integration in the future. The European Union (EU) has steadily been expanding its free trade agreements (FTA) networks with Central and Eastern Europe. Countries in North America have also followed suit. They created the North American Free Trade Agreement (NAFTA), and are making further attempts to put Latin American countries under their FTA umbrella to create bigger free trade area by 2005. Meanwhile though, the Latin American economies are rather eager to form by themselves their own free trade area. Similar trends are evident in the Middle East, in South Asia, and in some parts of the African continent.

Such agreements are today fairly diverse in nature, and take various forms. In the academic circle, they are generally categorised in four major forms, i.e., free trade agreements, customs unions, common markets and economic unions. (a) Free trade agreements (FTAs) are, amongst these, the most elementary in form, simply eliminating tariffs of goods, and liberalising services and, in some, institutionalising better legal environment for accepting investment from the FTA partners. (b) Customs unions are, on top of the frameworks of the FTAs, setting common tariffs to imports from the free trade area, while eliminating tariffs inside the area. (c) Common markets, the third category, allow not just free trade and investment, but also freer movement of money and labour. (d) The economic union, the most advanced form, unifies even macro economic management of the parties with the establishment of the regional central bank, creating common currency unit, or issuing the common currency.

The EU has reached the most advanced form. When Japan for the first time started its FTA negotiations with Singapore, it studied EU model, and set its prime objective in seeking bilateral FTAs in not just promoting trade liberalisation, but also in strengthening economic resilience in Asia, bearing in mind the Asian financial crisis. Moreover, Japan has been exploring strengthening regional co-operation and even promoting regional integration.

Trade represents only one facet of the FTA universe. In recent times, economic integration schemes have come to be more encompassing, with their coverage broadening from border measures to include domestic regulations and internal measures. Also, financial experts have identified a number of important roles in FTAs if the agreements cover linkages in financial markets. Experts in information technology, education, science and technology development, have also emphasised a variety of meanings of creating such bilateral and regional legal frameworks from their respective interests and viewpoints.

The scope and the benefits of FTAs which countries in this region have either agreed, or are currently negotiating on, are very extensive. Average tariff rates remain relatively high in many countries in this region. Even if parties to an FTA have already successfully lowered and maintained relatively low tariff rates, FTAs would still bring about benefits through lowering of unnecessary non-tariff barriers to trade, such as shortening bureaucratic cumbersome procedures at borders, and freer movement of goods, services, investment, information and people.

Considerable trade expansion can be expected from bilateral liberalisation in a broad range of pivotal services sectors. Mobility of people and liberalisation of professional services would also contribute to significant benefits of the FTA partners. Investment is another area. The establishment of a legal framework governing the rights and obligations of governments and investors would further improve the investing environment and facilitate the flow of investment.

The harmonisation and convergence of rules, standards, procedures

and business practices through the creation of FTAs would afford greater convenience and certainty to the private sector, particularly in areas such as (a) e-commerce, (b) customs clearance, (c) product testing and certification, (d) settlement of commercial disputes, and (e) competition policy. Business sectors can enjoy the benefit of having similar business environment, wherever they do business in his region.

Establishing mutual recognition agreements would facilitate bilateral trade, through removing duplicative testing and certification procedures, and shortening the time needed for products to reach the markets of FTA partners. All these would translate into reduced business costs and increased consumer welfare.

FTAs could also include co-operation initiatives in many diverse areas such as information and communications technology, science and technology joint development, human capacity building, media and broadcasting, development of small and medium sized industries, tourism, postal services and transport. Co-operation for the joint development in science and technology field would, particularly, help to upgrade the entire quality of this region. FTAs could promote the human capital development, through linkages between educational institutions, professional bodies and government agencies, and through mutual recognition of degrees and credits. FTAs would further promote business partnerships, especially between the SMEs and start-ups, which are keen to expand into each other's markets and region.

Like the EU, FTAs in Asia should also cover even broader subjects than those above. The Asian financial crisis proved that assets accumulated in a country could suddenly become nil if financial markets collapse. Creating a larger and resilient financial market in this region by linking up financial markets would increase their stability when they face disturbances. Strengthening bilateral or regional financial systems would, therefore, be one of the critical pillars of FTAs created among countries in this region. The scope of FTAs is thus deeper and broader than a mere trade agreement, greater in caring the developmental stages of parties. Such an agreement is rather more

adequately called as an economic partnership agreement (EPA) than a free trade agreement (FTA).

Moreover, the monetary integration in Europe brought about the birth of a common currency in 1999. The development of monetary arrangements in the 1970s and 80s should be of particular interest to us in East Asia as we search a way towards a regional financial architecture. When the European Economic Community created a customs union, it needed to establish a system of stabilising the exchange rates among its members so as to apply a common tariff rates vis-à-vis outside trading partners. Stable exchange rates among the member countries were also indispensable to foster intra-regional trade. The system of narrowing the margins of fluctuation between the currencies of the EEC, so-called the Snake was introduced in 1972.

Through those years, the European Monetary Co-operation Fund was set up to provide member countries with short-term or long-term credit facilities for exchange rates adjustment, enabling them to meet the shortages of other member countries' currencies. This helped the EEC members to reduce heavy dependency upon the US dollar, which revealed instability. The fund was operated by the European Monetary Unit of Account (EMUA) as a denominator to define the bilateral central rates of the Snake exchange rate system, which developed into the European Currency Unit (ECU). This system was strengthened into a form of the European Monetary System in 1979, the three features of which were (a) the ECU, (b) the Exchange Rate Mechanism (ERM), and (c) the credit mechanism. The use of ECU was officially accepted as a means of settlement and for transactions between monetary authorities of member countries and the European Monetary Co-operation Fund, which later became the European Monetary Fund. Besides this official role of the ECU, it was widely accepted in the international private markets as a popular financial instrument, made available by commercial banks for transactions among private market participants.

The ERM is composed of (i) a bilateral intervention system and (ii) an early warning system around the ECU central rate. Under the ERM,

the use of EU currencies were allowed for bilateral interventions, though before the intervening central banks had to use US dollars had to be used. The early warning system made use of the ECU as an indicator to detect divergences among EC members' currencies. When one member's currency crosses a divergence threshold, the authorities of that member were expected to change its macro economic policies so as to correct the situations. When EC members faced balance of payment difficulties, various credit facilities were made available ranging from Short-Term Monetary Support to Medium-Term Financial Assistance. The former was granted without any condition, while the latter entailed conditions they themselves made. Although IMF credit facilities were also available, the EC members made exclusive use of the EC credit facilities, and never had recourse to the IMF facilities.

The above lessons of the European experiences are extremely insightful for Asia to create and manage successfully its regional financial architecture. Because the IMF now has a limited role in international lender of last resort, a regional financing facility should play a useful role in crisis prevention and management.

In Asia, the financial crisis highlighted the critical importance of establishing an effective regional financing facility so that the economies in this region can respond more effectively to the needs of the countries in Asia. This consideration led East Asian countries' monetary authorities to create the so-called Chiang Mai Initiative (CMI), the expansion of the already existent ASEAN swap agreement, and the creation of a new network of bilateral swap agreements among ASEAN, Japan, China and South Korea. Now any member of the CMI requesting liquidity support can immediately obtain short-term financial assistance for the first 10 percent of the bilateral swap facility, but the remaining 90 percent will have to be provided under the IMF conditionality. The latter was the reflection to the criticism in the light of moral hazard, voiced from outside this region. Currently, the CMI is under review for strengthening it in its available amounts, modalities and the IMF linkage. What should be necessary in Asia should be (a) frequent exchanges of views among Asian countries, and (b) economic surveillance

involving not only analyses of macroeconomic and financial policies of members, but also identification of vulnerability of their economic and financial systems.

What Asians should consider further would be to create feasible co-operative frameworks for the stable development of financial markets in Asia. From this viewpoint, the Asian bond market proposal is extremely important. The readiness of Asian countries to consider how to create a currency unit like ECU should help to stabilise the Asian countries' currency exchange rates. This would also help to reduce commissions fees needed for the exchanges of Asian currencies. In short, financial market harmonisation, co-operation for supervision and regulation should form part of Economic Partnership Agreements to be created one after another in this region. In fact, Japan-Singapore Economic Partnership Agreement contains all the abovementioned elements, including financial co-operation.

The way how East Asia can establish such broad ranged economic partnerships could also modelled after the EU. Just like its current expansion is based upon the acceptance by new members of Acquis Communautaire, a comprehensive legal structure which the EU considers ideal and proper as a minimum standard accepted by any member of the EU, Japan has sought a similar path for regional co-operation in East Asia. It managed to create a good EPA with Singapore, the highest but Japan in terms of GDP per capita, which would work as a pace setter for other such agreements, possibly modelled after it. Japan has made it clear that it is willing and ready to consult and negotiate with any ASEAN countries if they seek such an EPA modelled after one with Singapore. Thailand, the Philippines, Malaysia and Indonesia raised their hands indicating their eagerness. Negotiations are on-going with the former three, with the last perhaps soon in future. Once EPAs are created with levels and structures, they would then form a good core of regional economic integration, which then work as a core platform like Acquis Communautaire, helping East Asia to create a high level regional co-operation and to guide our region as one of the most developed and advanced in the future.

Secondly, the EU also provided a good lesson for the political co-operation in East Asia.

Aforementioned efforts to create economic partnerships in East Asia could work as strategic vehicles to promote regional political integration. The recognition of sharing common interests through EPAs could and would help the member countries to feel more convinced than before of the need for moving forward to the formulation of regional political co-operation. Like in Europe, where regional political co-operation has been driven by economic integration, Asian integration would pick up momentum, should its economic integration scheme succeed. EPAs, which would provide legal frameworks for economic integration, would catalyse shared institutional frameworks for regional co-operation in broader and more comprehensive fields.

One may question whether there is a need for reconciliation and building trust in East Asia before constructing regional political co-operation. Again, the EU experience seems to suggest that the two processes would go in parallel, assisting each other well. Our region might be required to overcome persistent economic, political, social, or even psychological differences and confrontations before the members of the community could reach out warm hands among one another for the creation of a real community. Truly, divergences, difficulties and even disputes still exist among East Asian countries, inside Southeast Asia, certainly in Northeast Asia, and between countries in Northeast and Southeast Asia. On top of a number of territorial disputes still lingering in this region, the Korean Peninsula, the heightening tensions between the China-Taiwan and the disputes over the Spratley Islands are some serious ones, just to name a few.

Over non-traditional security issues, such as anti-piracy co-operation, co-ordination to meet threats from terrorists, measures to suppress environmental degradation, interests and views among East Asian countries still differ, particularly as regards methodologies or mechanisms to counter them, and suppress them. Those differences and

divergences are very naturally derived out of prevailing circumstances and surroundings of member countries and their national interests. Threat perceptions might differ, depending upon, for instance, how close one country should be situated to the hotspots, and how far another located to them.

Nevertheless, the community building appears to be a process of how to overcome such differences of national interests for the sake of meeting such dangers and challenges in a group, collectively, with the mixture of self-help and mutual-help. Pessimism might occur in the minds of the East Asians who tend often to refer to several critical differences and confrontations in East Asia. But, the European Union, at least at the outset and to the eyes of many observers at its early days, seemed doomed to fail even with a single reminder of Franco-German historical adversary. Now, the EU has just enlarged into 25, and is still in a process of expanding its sphere and of deepening its integration through creating the EU constitution, which include the more unified common foreign and security policy making.

Notwithstanding such progress, a mere glance of the European map would tell us how their members have still been faced with diverging views over the EU Constitution Treaty draft, as well as over the next European Commission president. Some months ago the Financial Times carried an article referring to comments of EU diplomats, saying, "People are showing no respect to each other. "We are worried that if things carried on like this, we might as well go home. "There were people around that table who were furious. "It really looked like we are heading for a disaster." But this article summarised that "a club encompassing different views and titanic egos can still pull together". It also concluded that "Europe's leaders may not love each other, but in the final analysis they still seem prepared to step back from the brink".

The post World War II history of Europe has demonstrated how efforts to overcome such difficulties have made possible the pursuit of community building. Their history has provided evidence of how co-operative efforts could serve to bridge such diverging factors. The EU is still,

by no means, free from distrust among its members. Nevertheless, it is still progressing towards deepening regional institutions and expanding its sphere. The existence of divergences, differences and disputes in one region would not, by definition, deny the need for strengthening regional co-operation and even the establishment of a community in the region. To the contrary, the strengthened regional co-operation should help the disputing countries to soothe the antagonism, create a favourable environment, or provide even an institution or mechanisms to settle their conflicts, such as those for mediation or arbitration. The community builders should not be discouraged by the persisting disputes and differences, but should rather be inspired for the need to solve them through the community structures.

One of the challenges for the political integration in East Asia should be what common principles and values countries and peoples of the region can share, as stipulated in Acquis Communautaire of the EU. An attempt to seek them and to put them down to a document was made in December last year by the leaders of Japan and ASEAN countries, who agreed that "Japan and ASEAN will contribute to the creation of an East Asian region where countries and peoples can live ...in a just, democratic and harmonious environment", and "will forge common visions and principles, including respect for the rule of law and justice, ... promotion and protection of human rights and fundamental freedoms of all peoples..." Once these principles and visions are accepted by the whole region, East Asia could foster and create its own mini- Acquis Communautaire in future, a fundamental principles commonly shared by the existent and future members. The East Asian Vision Group, composed of high-powered academics and business leaders, produced a report in 2001 stating that disputes should be addressed through peaceful means and on the basis of mutual respect, and recommends that East Asian countries should adopt and implement a code of conduct governing their relations, and should develop and observe certain rules and procedures.

The above two specific areas, illustrating insights the EU has provided for us in East Asia in pressing forward its regional

co-operation and integration, are, in fact, only a pick of iceberg. The further the regional co-operation progresses in East Asia, the more it should need to find insights of the EU integration.