

IS THERE A CASE FOR AN EAST ASIAN ECONOMIC COMMUNITY?

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The paper undertakes a preliminary economic analysis of the recently proposed East Asian Economic Community. The proposal envisages that the core of the Economic Community would include the ten member countries of the ASEAN free trade area (AFTA) and the three North-East Asian economies, namely, Japan, Korea, and China. The Community is also expected to include subsidiary institutions relating to security and other regional concerns. A major motivation behind the proposal seems to be not only to increase mutual trade but also to construct a regional group of its own in a trading world increasingly dominated by large economic entities. The large volume of intra-trade in the Community can certainly sustain a free trade area. Currently, the region is in the grip of a trading agreement frenzy which can be curbed only by moving rapidly toward a unified trading community. The region's substantial two-way trade with the West, however, raises some concerns about trade diversion but they do not seem insurmountable.

At the end of 2003, there were over 100 active preferential trading areas (PTAs) in different parts of the world that covered a significant proportion of world trade. Today, their coverage and scope is far greater than at any time in the history of world trade, and is likely to increase as many more of such arrangements are contemplated. But in Asia, the largest of the continents with three-fourths of the world's population, there is only one fledgling PTA, the ASEAN Free Trade Area (AFTA) between the ten member states of the Association of South-East Asian Nations (ASEAN). The AFTA was created by an "enabling" clause of the WTO and, accordingly, had no liberalization targets or a negotiating strategy. Nevertheless, AFTA has made some halting progress in trade liberalization between its member

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countries. Intra-AFTA exports doubled in value between 1993 and 2000 from US\$ 44 billion to US\$ 98 billion, although the proportion of this increase that can be ascribed to AFTA tariff liberalization is rather small. AFTA coexists with a number of *bilateral* trading arrangements either already in existence or in the process of being negotiated between countries of the East Asian region, as well as with countries outside the region. Paradoxically, the proliferation of bilateral arrangements constitutes a major bottleneck toward the emergence of a unified East Asia – wide economic union, as we discuss later in this paper.

It seems that the situation could change in the not too distant future if the recent ASEAN proposal for the creation of an enlarged and consolidated trading space in East Asia begins to take concrete shape. There appears to be a gathering momentum toward the creation of what is dubbed, in its preliminary version, the East Asian Economic Community. The recent ASEAN meeting held in Tokyo in 2004 has emphasized the creation of the East Asian Economic Community as the official agenda for the region.

The community is envisaged to include, in addition to the 10 ASEAN countries, the three “powerhouse” economies of North-East Asia, namely, Japan, China and Republic of Korea. China has already signed in December 2004 an accord for trade liberalization with the 10-member ASEAN, and Japan is negotiating free trade agreements with individual members of the AFTA. The Community could also include Australia and New Zealand as the idea begins to take shape. The designation of the Community appears to be a rebottling of what has been known for some time in the literature as ASEAN + 3. But there are some novel elements in the preliminary blueprint. Its distinguishing feature is the sharp new image of Asia’s future economic direction as a unified trading entity. The current proposal clearly reflects a growing trend toward a multi-polar configuration of world trade within the broader framework of the World Trade Organization (WTO).

This paper makes a preliminary analysis of the economic factors and their policy implications, especially those that have a bearing on the viability of the proposed economic community, as well as the risks that it faces. A brief description of some aspects of the Community is given in section I. East Asia’s current trading patterns are also described in Section II, while section III discusses the salient features of East Asia’s *intra-regional* trade. Section IV draws attention to the proliferation of bilateral trading arrangements in the region. Questions concerning the relevance of the model of the European Union (EU) to the East Asian Community, as claimed in the ASEAN proclamation, are raised in section V. Section VI contains some concluding comments.

I. THE PROPOSED COMMUNITY

The East Asian Economic Community, excluding Australia and New Zealand, would have a population of over two billion, roughly a third of the world's population, and a combined GDP of a little over US\$ 7 trillion at market prices, roughly one-fifth of the world's GDP. Largely as a result of aggregation of a few large and rich economies with some very small and poor ones, the proposed community exhibits vast disparities in per capita incomes, ranging from a high of US\$ 32,580 in Japan to a low of US\$ 350 (according to one estimate) in Myanmar. The Community would rival the European Union (EU) and the North American Free Trade Association (NAFTA) in several aspects. East Asia's share in world trade in 2001 was estimated by the IMF to be 18.7 per cent, compared to NAFTA's 19 per cent, and that of the European Union (of 15 countries) as 34.3 per cent (Zebregge, 2004). The East Asian region is at present the most dynamic part of the world economy and its share in world trade is likely to increase much faster than that of NAFTA or the EU. Over the period 1985-2000, the share of exports going to other East Asian countries rose by over 11 percentage points from 23.7 to 35 per cent of the total, according to data contained in ICSEAD (2004).

II. EAST ASIA'S TRADING PATTERN

East Asia's intra-regional trade has grown at an annual rate of 16.4 per cent between 1975 and 2001 while, by comparison, intra-NAFTA trade grew at a more modest 9.9 per cent per year (Ng and Yeats, 2003). It is inevitable that in a region as disparate as East Asia there would be significant differences in the size of intra-regional trade flows of different countries. During the period 1985-2001, the share of the current five largest countries in intra-regional trade rose by almost 10 percentage points, accounted for largely by the rising share of China and the Republic of Korea, while that of Japan remained constant. At the other end of the spectrum, the five smallest regional exporters, namely Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Mongolia and Viet Nam have a combined share of under 2 per cent. (ICSEAD, 2004)

All countries in the proposed community are, with the exception of a few, fairly transparent economies with largely democratic traditions, and open to trade and foreign investment. The intra-regional trade between members of the community is already close to 50 to 60 per cent of their total trade, which compares well with the current figure of 70 per cent in the European Union. The individual countries in the Community also trade extensively with the rest of the world, in particular with the United States and the European Union. Indeed, their strong trading relations

with the rest of the world raise concerns about possible trade diversion following the formation of the Community, which need to be carefully assessed.

The East Asian Economic Community is an alluring prospect, although its contours and methods of realization remain far from clear. Nonetheless, most observers believe that a preferential trade area, similar to the Common Market in the EU but without a common external tariff, would almost certainly form the central core of the Economic Community, around which other subsidiary institutions may be built under the rubric of "regional cooperation." The latter is expected to include mutual security (which was the original purpose behind ASEAN), joint action against piracy on the sea, drug trafficking, transportation networks, diffusion of information technology, and the resolution of regional conflicts. It is clear that the emergence of China as a major trading entity has fundamentally changed the equation, greatly enlarging the appeal of a formal, treaty-based regional trading arrangement, since every country in the region has an eye on the large and lucrative market of over a billion people whose incomes are rapidly growing.

III. EAST ASIA'S INTRA-REGIONAL TRADE

Until recently, most Asian policymakers were skeptical about the feasibility of an East Asian trading community, in part because of anticipated opposition from the United States, but largely due to the fixation of East Asia on exporting to the West. The reasons for the shift toward the desirability of an economic community are varied and complex. But the most obvious is the region's growing intra-regional trade and the resulting interdependence between countries – a fact that has greatly enlarged the realm of possibilities. Two-way trade between China and ASEAN alone is growing at a rate of 20 per cent per annum even before the two parties entered into new tariff cuts agreed last year.

Largely as a result of its prowess in trade, the region has also become a magnet for foreign direct investment (FDI), both from within the region as well as from outside. Intra-regional FDI in 2001 soared to \$70 billion in 1997, a 20-fold increase from about \$4 billion in 1985 (Bonapace, 2005). The unprecedented rise in the level of FDI flows from outside the region has gravitated mostly to China because of its above-average growth prospects. Growing mutual trade has increased the prospects for economic growth in the region which has become a magnet for FDI from within as well as from outside the region. Capital movements in the contemporary world economy have acquired a decidedly "regional" character. Witness the surge in FDI in the East European countries (notably Poland) in the wake of their membership in the European Union.

Nevertheless, most observers believe that the East Asian region's intra-regional trade, though substantial, is still short of its full potential, when compared with that in the EU and NAFTA, and could increase further with a free trade area in place. This generalization is based on the existence of considerable overlap and duplication in production activities across the region. It should be pointed out, however, that arguments that rely on magnitudes of current trade are deceptive. They have two parallel interpretations. Large volumes of existing trade may signify a low potential for expansion, but at the same time may also signify the preconditions for future expansion. By the same token, low volumes of current trade can serve as a powerful argument for enlarging it, while in less favorable circumstances may suggest the opposite.

What is noteworthy about the surge in intra-regional trade in the East Asian region, is its self-propelling character, having been fostered by spontaneous market forces and being remarkably free of policy initiatives, such as mutual tariff preferences. In this respect, the East Asian Community has perhaps a more enviable record than that of the EU itself where tariff discrimination has been the hallmark of integration for the past fifty years. In fact, the spontaneous character of the growth of intra-regional trade in East Asia has prompted many observers to question the need for trade preferences. Nonetheless, the swapping of trade preferences among member countries, as envisaged in the proposal for an economic community, holds the promise of a continuing increase in intra-regional trade, especially if the three North-East Asian economies are brought on board. The swapping of trade preferences are perhaps a powerful antidote to protectionist tendencies which are all too common. Another major reason for moving ahead with the formation of the Community is the search for a credible mechanism for dealing with non-tariff barriers which hamper trade in the region to a greater extent than existing tariffs. The removal of non-tariff barriers can perhaps be undertaken on a unilateral basis, but an economic union provides a more cohesive environment. Moreover, inspired by the experience of the EU, trade preferences have come to be seen as a strategic symbol of economic cooperation, even though they frequently give rise to economic losses from trade diversion.

A major World Bank study of East Asia's trade (Ng and Yeats, 2003) concludes that *intra-regional trade* in East Asia has been growing since the early 1990s at a rate roughly double that of world trade and is higher than the corresponding figures for intra-regional trade of NAFTA and the EU. As noted by the authors (p. 37), East Asia's intra-regional trade is dominated by 30 four-digit Standard International Trade Classification (SITC) products that accounted for over one half of this trade in 2001. Within this group, electronic products are of major importance, as are several SITC categories that are components of manufactured

products. The latter phenomenon reflects the rapid expansion of “production sharing” operations, or “vertical integration” in which various stages of the manufacturing process are undertaken in different geographical locations.

The World Bank study underscores the fact that the recent surge in mutual trade is due almost exclusively to the above-average growth of *intra-industry trade*, or trade within similar industry categories, which has witnessed unprecedented growth for at least a decade. Based on the data contained in Ng and Yeats (2003), the proportion of intra-industry trade within the proposed community lies between 70 to 80 per cent of total trade. This proportion is in fact higher than in the EU, and close to the average figure for trade between the United States and Canada in NAFTA, two countries known for highly integrated manufacturing industries. A high proportion of intra-industry trade in total trade is widely believed to be a positive indicator of the potential for a trading community (Feenstra, 1998).

AFTA, the first ever attempt at regional trading in East Asia, was established under the less stringent “enabling” clause of the WTO, which exempted it from adherence to the Article 24 requirement that a preferential trading area (PTA) should result in the liberalization of the bulk of intra-trade to qualify for an exemption from Article 1 of the WTO. Accordingly, AFTA came into being without any concrete liberalization targets or a negotiating strategy. The implementation of mutual trade concessions was based largely on voluntary commitments on an *ad hoc* basis. As a result, the process of tariff cuts has largely been *spotty and fitful*, and has left large volumes of trade outside of its scope. It is likely that the formation of an economic community in the region with clear targets and negotiating strategies would lead to a substantially higher growth in intra-industry trade as the centre of gravity shifts toward the larger countries of North-East Asia with large and rapidly growing manufacturing sectors. The three North-East Asian economies, Japan, China and Republic of Korea, contain between themselves a vast and varied assortment of industrial capacity – an auspicious circumstance for the growth of intra-industry trade.

At the same time, the three countries harbour widespread non-tariff protection among themselves, particularly quota restrictions (QRs) and subsidies, particularly in agriculture and automobile production whose removal would pose a major challenge. Major industrial sectors, such as automobiles, electronics and consumer goods, are protected by QRs, in addition to tariffs, removal of which is expected to be contentious. But a PTA with its built-in system of “carrots and sticks” through swapping of trade concessions may turn out to be a particularly effective antidote to domestic lobbies and vested interests in the larger countries of the Community. By the same token, a frontal assault on QRs and other

non-tariff barriers, certain to be included in the agenda of the Community, promises large gains in mutual trade, possibly even larger than the one afforded by tariff-cutting alone. Tariff-cutting strategies are not relevant in dealing with QRs. More detailed protocols based on peculiar circumstances in different industries, such as the ones employed in Tokyo Rounds under the then GATT, will be required.

A more proximate reason for the rapid pace of the preliminary agreement on the creation of an East Asian Economic Community is the proliferation of PTAs elsewhere. Asian policymakers may feel that in a trading world increasingly dominated by large PTAs, such as the EU, the NAFTA, the MERCOSUR and the FTAA (Free Trade Area of the Americas), they would be left out in the increasingly regional trading world without a regional grouping of their own. An increasingly large part of world trade is now conducted within preferential trading arrangements. The World Trade Organization (WTO, 2001) has estimated that close to 50 per cent of world trade in the year 2000 was conducted within a network of tariff preferences. This proportion is likely to be higher today and is expected to grow larger as fresh initiatives for regional trade groups materialize. The EU enlarged itself in May 2004 by admitting 10 new members and is currently pursuing active negotiations with several others. The process of regionalism in the conduct of world trade is accompanied by a growing number of bilateral arrangements. In the past few years, the United States alone has signed bilateral free trade agreements with half a dozen countries, some as far-flung as Australia. The “domino” effect of these developments has undoubtedly helped to convince policymakers in East Asia to seek a closer economic union among themselves.

IV. AN ANTIDOTE TO BILATERALISM?

In a deeper sense, the most important reason for moving quickly toward an East Asian trading community appears to be the proliferation of bilateral and regional trading arrangements themselves in the East Asian region. The rampant growth of regionalism in East Asia is documented in Scollay and Gilbert (2001), Scollay (2003) and a number of others. Between January 2002 and January 2005 alone, 37 bilateral arrangements involving East Asian countries were reported to the WTO (Bonapace, 2005, table 1, p. 5-12). This crisscrossing web of trade flows has turned the region into what Bhagwati (2002), in a different context, has termed a “spaghetti bowl” of trade arrangements. Superficially, these bilateral arrangements may appear to be advancing the cause of trade liberalization in the region. In reality, they are a major source of instability and are a stumbling block to the emergence of a unified trading area in East Asia. One reason for the growth of bilateral trade agreements is that some non-Asian trading partners seek to maintain

their market shares in that region. A major problem with the bilateral trade arrangements is their proclivity to multiply “rules of origin”, as a necessary complement to bilateral arrangements. These “rules” predictably differ from one bilateral agreement to the other and their net effect may well have been to make the region more restrictive of trade rather than less. Cross-country membership in different bilateral and regional arrangements has led to an inherent indeterminacy, since it is difficult to determine which rules apply to which trade flow from which country. The rules of origin themselves are hidden protective devices and impose cascading levels of inefficiency and welfare losses. As these rules proliferate, they tend to entrench vested interests in individual countries where they have political support, making their eventual elimination all but impossible. Furthermore, bilateral arrangements are a sinister attempt by hegemonic countries to retain a foothold in the trading scene of East Asia. An East Asian Economic Community holds the promise of cleaning the “kitchen-sink” of bilateral arrangements, and thus coalescing the innumerable trade pacts into a unified, seamless zone of trade and investment.

Another reason closer to home is the widespread dissatisfaction in East Asia with the workings of APEC (Asia Pacific Economic Cooperation). APEC is a venerable inter-governmental “consultative” group, although it has some limited trade-enhancing mechanisms. According to the Article 24 of the WTO, APEC cannot be considered a free trade area. It is now being increasingly seen as a mere “talking shop”. The dissatisfaction with APEC grew in the aftermath of the Asian financial crisis of 1997-1998 and its widespread contagion effect across the region. APEC was remarkably ineffective in the wake of this crisis as it was unable to provide either a diagnosis or a solution. The perception that APEC policies are dominated by its rich members, with little understanding of the development needs of the less developed countries has grown.

V. IS THE EUROPEAN MODEL RELEVANT?

The recent ASEAN resolution provides few details of the contours of the East Asian Economic Community, only stating that its model would be that of the EU. Nonetheless, the EU model does not seem to be entirely fitting. Apart from the existence of vast disparities in incomes and economic structure, unlike the EU, it is clearly unrealistic to envisage a trading community in Asia where member countries would be willing to hand over a significant part of economic decision-making to a supra-national body, such as the European Community Commission and the European Parliament.

Such cohesion in East Asia is unlikely to materialize even in the long run. The prospects of graduating to a customs union (with a common external tariff) are

equally daunting. The East Asian Economic Community whenever it emerges would probably be conceptually closer to NAFTA where the agreement extends only to matters of trade and foreign investment, with a few “side agreements” on such issues as environment and labour standards, rather than to the EU with its numerous “protocols” designed to “harmonize” the legal and institutional framework of member countries. In its initial stages, a simpler framework with a parsimony of rules governing trade and investment (such as “national treatment”) and an agreement to curtail the reckless proliferation of quota restrictions and other non-tariff barriers would be preferable until more cohesive forces gather momentum. Capital movements in the region are already relatively free, but freedom of movement for people, except of those connected with trade in services, and a common currency would remain only distant goal.

The potential of trade enhancement in the East Asian Economic Community lies primarily in the fact that the region is quite varied and disparate in its resources and production capabilities, much more so than in the European continent. When economic structures among potential members differ significantly, a PTA or a customs union is a potent device for creating conditions for specialization in narrower lines of production for each of the countries in question. This is of particular relevance to smaller AFTA countries where limited resources are a constraint on large scale industrial activity, though not necessarily to Japan and China, whose large size is expected to foster specialization based on economies of scale.

The inclusion of Japan, China and the Republic of Korea in an East Asian Economic Community dramatically changes the parameters of economic integration in the region. In particular, China’s large internal market, its vast resources of trained labour and growing industrial infrastructure will prove useful in creating prosperous economic community. In a similar vein, Japan’s technologically advanced industrial know-how is likely to serve as an invaluable fulcrum for learning and growth in the rest of the region.

The diversity of economic structures in East Asian countries and their different stages of economic development are powerful arguments for the formation of the community. The structural differences provide an economic rationale for PTAs since preferential trading offers the potential of industrial “complementarity” in production where significant areas of overlap now exist. The coordination of national production within the region, which is implicit in an economic community, increases the scope for specialization in narrower lines of production and in fostering mutual intra-industry trade. The European experience is quite relevant in this regard.

The proposal for an East Asian Economic Community comes at a time when the region is in the grip of a bilateral frenzy, as noted earlier in this paper. A recent study (Scollay and Gilbert, 2001) enumerates at least twenty-five different proposals for bilateral and regional trade arrangements between ASEAN and the three North-East Asian countries, as well as between them and many other countries outside the region. Both China and Japan are eager to sign free trade agreements with AFTA or with individual ASEAN countries. Japan has already signed such an agreement with Singapore and is negotiating similar arrangements with Thailand, Malaysia and the Philippines. China has been pursuing negotiations with individual AFTA countries for bilateral trade treaties, but has now entered into an accord collectively with the ASEAN. Singapore is in the process of concluding a bilateral treaty with the United States.

These and a host of similar proposals, if implemented, are likely to blanket the region in a confusing network of bilateral trade relationships, turning the region's trade into a patchwork of relationships, often contradicting each other. If nothing else, the East Asian Community with a unified structure of preferences would be preferable to a confusing and contradictory web of bilateral arrangements. It would be nearly impossible to reconcile the bewildering array of bilateral arrangements and the "rules of origin" they have spawned. Even if it can be done it would resemble, under the best of circumstances, a patchwork quilt without an overriding motif or design. It would be preferable to start afresh with a treaty drawn at the highest political level, inspired by the Treaty of Rome that established the European Economic Community

Perhaps, the greatest weakness of the East Asian region is its disparate political systems with few common threads to bind the region into a cohesive entity. This is another reason why the EU model is not quite relevant. There will continue to remain doubts as to how united East Asia can be considering its political discord and territorial conflicts. The region is saddled with a painful legacy of conflict between major countries which have not been put to rest. Accordingly, the planners of the Community face staggering political difficulties. On the other hand, this may itself be enough of a reason to try to strengthen economic ties which may in time engender political cohesion. Witness the historical rivalries and minor skirmishes in Europe following the two World Wars. These persisted throughout half a century before the Treaty of Rome in 1958 established the European Economic Community (EEC), now the EU.

There is no doubt that the formation of the EEC in the 1960s was the catalyst for a gradual "entente" between Germany and France, the two rivals for hegemony in the continent. Perhaps the proposed East Asian Economic Community offers a similar promise to countries of East Asia, particularly those in the

North-East region, to reconfigure their attitudes and policies toward a greater understanding of each other. An economic community can also strengthen broadly progressive forces that may lead to openness in trade and investment in partially “closed” economies such as Myanmar, Cambodia, Lao People’s Democratic Republic and Viet Nam, thereby fostering democratization and the rule of law. These wider potential benefits of an economic union may far outweigh the purely trade-enhancing aspects.

The primary focus of the East Asian economies, indeed of all Asia, has traditionally been on increasing their exports to the West as a growth – promoting strategy. This strategy that turned East Asia virtually into an exporting “machine” has enabled a number of small countries (most notably the “Asian tigers”) to carve out an enviable niche in the markets of the industrial countries of the West. But this preoccupation with exporting to the West has not only undermined the more “natural” trading possibilities within the region but has also precluded attention to other pressing problems, such as the unequal distribution of income and the persistence of poverty even in relatively richer countries. This export led growth strategy is beginning to falter because the markets of rich countries are not growing fast enough. East Asia needs new initiatives to build its own internal dynamics and to solidify its economic gains into more lasting social progress.

One danger of the PTAs, and economic unions in general, is that they tend to divert the trade of member countries toward each other and away from the most efficient suppliers of goods elsewhere in the world. There is some concern that recent PTAs in different parts of the world have diverted more trade than they created. These results appear to be more negative than those of earlier studies, as shown in Adams, Dee, Gali and McGuire (2003). The extreme case is that of MERCOSUR where almost all trade gains are estimated to have arisen largely from trade diversion rather than from new trade (Yeats, 1999; Preusse, 2001).

The extent of trade diversion depends on the design of the “preferential” tariff structure that emerges as a result of reciprocity and bargaining. In principle, the post-PTA tariff structure can be designed so that possibilities of trade diversion are greatly diminished, if not altogether eliminated. A liberal PTA tariff structure can attempt to liberalize trade with outside countries while preserving preferential margins for partner countries. After an initial phase of looking “inwards”, PTAs start to liberalize vis-à-vis the rest of the world in a manner reminiscent of multilateral liberalization. Witness the current dialogs between the EU and MERCOSUR aimed at liberalizing trade between the two blocs. It is quite possible that the East Asian Community as a cohesive group may eventually open the door a little wider in its trading relationships than some of the large countries within the Community do today.

One question that is on everybody's mind is as to how the proposal would be seen in official circles in the United States. In the past, the United States has opposed similar initiatives in East Asia. Most recently, the ill-fated proposal for an East Asian Economic Group (EAEG) floated by Malaysia in the early 1990s was stalled by strong opposition from the United States. Initially Japan was quite enthusiastic about the proposal but withdrew its support when it became clear that the United States had serious reservations. Similarly, a Japan-led initiative for a regional financial institution after the Asian financial crisis collapsed due to lack of support from the United States, even though this proposal was designed to be temporary. However, any presumption that the United States would now oppose the new initiative for the East Asian Community is not a foregone conclusion. The trend toward regionalism in world trade is here to stay despite opposition from some influential quarters (Bhagwati, 2000). Regionalism is being seen increasingly as a parallel route to the same destination – that of a liberal trading order. More significant is the fact that the United States has effectively accepted the principle of “two-tier” liberalization of trade, through the multilateral channels of the WTO on the one hand and through a number of regional arrangements, most notably NAFTA, on the other. It is actively pursuing a hemispheric trade arrangement involving a large number of countries in North and South America called the Free Trade Area of the Americas (FTAA), in addition to a number of bilateral arrangements mentioned earlier. It would appear hollow if the United States were to oppose similar attempts in East Asia. In fact, the United States might find that its trade relations with East Asia graduate to a more rational and cooperative level with an economic community in place. On political and strategic levels, the United States might find it easier to deal with a multilateral body such as the one envisaged in the East Asian Community rather than to continually wrangle trade agreements with 13 countries in East Asia.

With the East Asian Economic Community in place, the trading world may indeed end up becoming tri-polar, as Paul Krugman (1991) had predicted quite a few years ago. But his concern that the three big trade blocs would take turns in putting tariffs on each other in order to improve their own terms-of-trade may not be justified. On the contrary, the possibilities of cooperation among the trade blocs seem more likely. The current talks between the EU and the MERCOSUR are a case in point. It is shown by Frankel and Wei (1998) that in a world of simultaneous continental trade blocs, “open regionalism” in which trade blocs undertake relatively modest external liberalization are more likely. This inter-bloc trade liberalization can usually produce welfare improvements that in a technical sense are “pareto-optimal”, meaning that they leave everyone better off without anyone worse off. If correctly designed and implemented, the East Asian Economic

Community can be a stepping stone to a world of liberalized multilateral trading rather than a hindrance.

VI. CONCLUSION

This paper has analysed a number of different propositions concerning the putative East Asian Community, attempting to clarify its *raison d'être* and, at the same time, highlighting some of its weaknesses and potential problems. On balance, the proposal looks worth pursuing. Perhaps the most crucial reason for moving forward with it is to curb the bilateral trading agreement frenzy which is sweeping the region and, if unchecked, would prove to be a destabilizing and disruptive force in the region.

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