



Viet Nam-New Zealand Track 1.5 Bilateral Dialogue Hanoi 9-10 June 2008

*This paper was presented at the inaugural bilateral dialogue in Hanoi.
The New Zealand delegation was led by Asia:NZ.*

Session II: East Asia Economic Cooperation *The Motivations and Challenges*

**Dr. Phạm Thị Thanh Bình
Institute of World Economics and Politics**

East Asia consists of the five Northeast Asian countries (Japan, China, Republic of Korea, Mongolia, North Korea) and the ten members of the Association of Southeast Asia Nations (ASEAN). But as a concept of East Asian economic cooperation, it only includes China, Japan, Korea and the ten ASEAN countries. This paper will review the process of East Asian cooperation and its motivations, mentioning the challenges as well as some advantageous opportunities of East Asian economic cooperation. Finally, some remarks and conclusions will be given.

East Asian economic cooperation: the motivations

Over the past three decades, East Asia has economically been the fastest-growing region in the world, with one-third of the planet's population and one-fifth of its gross domestic product (GDP). Its annual average growth rate has been twice the global average. The phenomenal success of East Asian economies has been anchored on *two key platforms: the first is strong and pragmatic economic policies; the second is the determination to integrate with the global economy*. These two platforms – national pragmatism and global integration – have produced an East Asian economy that is inherently the most dynamic in the world. Now East Asian economies are exploring a third platform, very promising for sustainable growth, that is *regional cooperation and integration*.

Since 2000, Japan, China and Korea took the initiative to join with ASEAN to establish the ASEAN+3 Finance Ministers' Meetings. The May 2000 meeting in Chiang Mai (Thailand) marked the beginning of meaningful East Asian regional economic cooperation. East Asian cooperation is rising because of some reasons lying outside as well as inside the region.

The reasons outside the region include: Firstly, world trade liberalization under a multilateral trade institution such as WTO becomes more and more difficult, while the regional trade liberalization in the form of FTA and RTA is comparatively easy; Secondly, economic integration in Europe and North America makes East Asia feel left out. Thirdly, the financial crisis of 1997 pushed East Asian economies towards greater cooperation within the region in order to prevent future crises.

The reasons inside the region are lying in East Asia's great changes and new developments in recent times.

Firstly, the most important change has been the extraordinarily successful development of every economy in the region. The average annual economic growth in East Asia has been 8.5 percent from 1973 up to now, more than twice the global average of 3.5 percent, despite the US recession. Ten years after the crisis of 1997, the East Asian region grew almost by 10 percent. If the current growth trends prevail, by 2030 East Asia will account for about 40 percent of the world economy. The region is clearly re-emerging.

Secondly, ASEAN, being the initiator of East Asia cooperation, welcomes participation of the advanced countries so as to develop the South-to-North cooperation which will benefit ASEAN a lot. Moreover, due to limited economic strength (the combined GDP of China, Japan and Korea accounts for more than 90 percent of the GDP of East Asia, while the total GDP of the ASEAN 10 is only less than 10 percent), ASEAN has to rely on its cooperation with China, Korea and Japan to better develop itself. ASEAN always plays the leading role in East Asian cooperation based on its political and security position in the region.

Thirdly, the emergence of China as a regional and global economic giant has brought about unprecedented opportunities for East Asia. China has a great role in keeping the overall situation stable and enhancing coherence in the region. Since its accession to the WTO, China has been sincerely implementing its commitment of opening up the domestic market, which paved the way for East Asian economies to

expand their exports to China. China's rapid development will be beneficial to promoting East Asian cooperation.

Fourthly, Korea has always kept a positive attitude towards East Asian cooperation. Given Korea's narrow territory, small population as well as limited domestic market, Korea's economic growth is pushed by its international activities on the world market and its national competitiveness must be based on regional competitiveness. Moreover, Korea is geographically located between Japan, the second largest economy in the world, and China, an emerging economic power in East Asia. So, Korea will take its geo-political advantage to coordinate and facilitate participation by the two countries in the East Asian cooperative process.

Lastly, since the 1997 financial crisis, Japan has taken a great interest in regional cooperation through its economic assistance and preferential loans to the crisis-stricken countries. In the process of East Asian cooperation, Japan has consolidated its leading position through inflow of investments and official assistance to ASEAN in order to increase its influence upon the region. All of these motivations indicate that Japan has laid a foundation for a dominant role in future East Asian cooperation.

Challenges for sustained economic growth in East Asia cooperation

East Asia in particular as well as Asia in general are facing some key challenges as follows:

First and foremost, there is the ongoing challenge of poverty reduction. East Asia still has some 750 million people living on less than \$2 a day, including 220 million on less than \$1 a day. The gaps between rich and poor – both across countries and within each country – are growing. Asia is home to 12 of the world's 15 tallest buildings, but is also home to some of the world's largest slums.

Secondly, East Asia has huge infrastructure gaps and bottlenecks – in electricity, telecommunications, water and sanitation, and transport networks. Asia needs a total of \$3 trillion for infrastructure over the next 10 years, or \$300 billion per annum. Asia's foreign exchange reserves are approaching \$3 trillion, (two-thirds of global reserves). However, these infrastructure needs are not being adequately met.

Thirdly, there is environmental damage. Asia's rapid growth has not come without a cost. While several World Heritage Sites are located in the region, millions of peoples, especially the poor, are robbed of their lives and livelihoods by air, water,

and soil pollution. The promotion of energy efficiency and clean energy development is needed to protect the environment.

Fourthly, there remain other common threats, like communicable diseases, cross-border crimes, and natural disasters – problems that no single country can manage by itself. These require collective regional actions.

Finally, drawing on the lessons from the 1997 financial crisis, there is the need to bolster financial stability and economic competitiveness that will allow East Asia to sustain its economic growth.

East Asia should take note of the above challenges and consider the suitable strategy to effectively tackle them. This will help countries to successfully forge regional cooperation and integration.

Opportunities for deeper regional cooperation and integration in East Asia

In order to foster regional cooperation and integration and sustain its impressive socio-economic performance, East Asia should take the following advantageous opportunities:

Firstly, it should take the best advantages of the sources of dynamism within East Asia. The cross-border movement of goods, services, capital and people, the transport and infrastructure system as well as logistics services should be improved or the region may lose its competitive edge.

Secondly, trade and investment cooperation is a key element of regional integration. In order to maximize the potential benefits of free trade agreements (FTAs), a clear roadmap towards a region-wide FTA should be established. The ASEAN+1 FTAs pave the way for the establishment of an East Asia FTA.

Thirdly, the monetary and financial cooperation in East Asia would secure financial stability and reduce the risks of future crises. The development of robust bond markets can provide massive savings to the needed investment for infrastructure.

Fourthly, the cooperation in areas such as management of environmental degradation, communicable diseases and natural disasters should be fostered in order to strengthen the provision of regional public goods.

Evaluation and conclusion

East Asian cooperation contributes greatly to the regional economic growth. The United States recession in recent times has negatively impacted on the region's economy. However, thanks to its economic development experiences as well as effective structural reforms, East Asia has enough power to sustain current economic growth over the next two years (as shown in the table below).

East Asian Economic Growth (%)

Economies	2007	2008*	2009*
Japan	2.1	1.5	2.0
China	11.4	9.4	9.2
Korea	4.9	4.6	5.0
Singapore	7.7	5.2	5.9
Indonesia	6.3	6.0	6.4
Malaysia	6.3	5.5	5.9
Philippines	7.3	5.9	6.1
Thailand	4.8	5.0	5.4
Vietnam	8.5	8.0	8.5
Other small economies	6.6	6.4	6.1

Source: World Bank Report 2007.

* Estimated

East Asia will continue to register the fastest economic growth in the world over the next 30 years, with its annual growth rate expected to be two percentage points higher than the global average. With its developmental potential, East Asia could overwhelm the power of the North American Free Trade Area and the European Union, and will continue to be the world's most dynamic, rapidly growing economic region for the foreseeable future. As the economic development gap among East Asia countries further narrows, the harmony and inclusiveness between them increase. The World Bank estimated that East Asian economic growth rate could be around 8.5% in 2008, decreasing by 1-2% from the 2007 growth rate. East Asia cooperation will have a better future so that it could promote prosperity and the development of the whole region.

Main References

1. Austria, M (2003), "East Asian Regional Cooperation: Approaches and Processes", Philippine Institute for Development Studies, Discussion Paper, March.
2. Brouwer, G.J and T. Ito (2003), "Financial, Monetary and Economic Cooperation in East Asia: Where we are, Where we want to be and How to get there from here". Paper presented at the PECC Finance Forum Meeting at Hua Hin Thailand, 8-9 July. <http://apseg.anu.edu.au/staff/gdebrower.php>
3. Dick K. Nanto (2006), "East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy". Report for Congress.
4. Grenville, S.A. (2004), "Policy Dialogue in East Asia: Principles for Success", chapter 2 in Gordon de Brouwer and Yunjong Wang (eds), "Financial Governance in East Asia: Policy Dialogue, Surveillance, and Financial Cooperation", Routledge, London, 16-37.
5. Krumm, Kathie and Homi Kharas (2004), "East Asia Integrates: A Trade Policy Agenda for Shared Growth" , World Bank and Oxford University Press.
6. Haruhiko Kuroda (2007), "East Asian Economic Outlook and Regional Cooperation and Integration", Speech at Second East Asian Summit, Cebu, Philippines.
7. Ruan Zangze (2006), "China's Role in a Northeast Asian Community", Asian Perspective, Vol 30, No 3, PP 149-157.
8. Viet Nam Economic Times, 6-7 May 2008.
9. Nhan Dan Newspaper, 26 April 2008.

Views expressed in this paper are personal to the author and are not to be taken as representing the full delegation or the Asia New Zealand Foundation