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Session III: Prospect for East Asian Integration

East Asia Emerges as Hub of World Economy

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1. Over the years, East Asia has achieved quantitative growth in regional cooperation. Not only that; summit talks, such as the ASEAN+3 summit and the East Asia Summit (EAS), as well as issues-based working-level dialogue and cooperation, have proceeded with vigor. These developments will allow for a sustained broadening of consensus on security cooperation in East Asia.

The key issues now are how East Asia can transcend the abstract and declaratory aspects of regional cooperation and give it a concrete shape, and how to define the relationships among the quantitatively increasing multilateral forums. The debate surrounding these issues will focus on the simultaneous advancement of the format, system, and constitution and the content of regional cooperation. In this process, multilateral dialogue or regional cooperation mechanisms themselves will surface as targets of competition among major countries. Regional countries will find themselves in a crisscross of rivalries, checks, differences of opinion, and cooperation as they confront the issue of not so much whether to choose between bilateral and multilateral cooperation but what kind of regional cooperation arrangement to build, and the question of what a desirable regional security structure might be.

2. The precipitous rise in China's resource and energy consumption owing to the country's economic growth and industrialization has intensified the competition for resources and energy, a phenomenon that has spilled over East Asian borders and is now spreading throughout the world. As a response, East Asian nations are stepping

up efforts at diverse levels to get their foot in the door of emerging markets and at the same time forge intra-regional or inter-regional market integration by, for example, concluding FTAs. In this light, the foreign policies of East Asian countries are likely to shift more weight to obtaining actual profits, such as energy, resources, and markets. Further consultations on economic integration will generate full-scale discussions and negotiations on FTAs, which in turn will likely accelerate the conclusion of Japan-Korea and China-Korea FTAs as well as inter-regional FTAs.

In contrast to the deadlocked WTO-led efforts toward multilateralism for trade liberalization, the recently soaring number of regional trade agreements (RTAs), mainly FTAs, is further deepening the regionalization of the global trading system. This trend will only grow with the passage of time.

FTAs, a common affair since the mid-1990s, have mushroomed since 2000. As of July 2007, a total of 205 RTAs have been registered with the WTO as effective. Of those 205 RTAs, 74 percent, or 152, took effect after the mid-1990s. FTAs make up the majority of those RTAs, numbering 126. East Asia, too, has come under the domino effect of FTA proliferation recently, given a further boost by China's forward-leaning FTA policy. China's attempt to conclude an FTA with the Association of Southeast Asian Nations (ASEAN) set off a series of competitive moves to forge bilateral FTAs in East Asia. Lying at the root of FTA proliferation in East Asia is the intensifying China-Japan rivalry over FTAs with ASEAN and Korea, and ASEAN's and Korea's drive for FTAs as a countermove.

In short, when China sought to conclude an FTA with the ASEAN, Japan responded by attempting to forge FTAs with Korea and ASEAN. Korea attempted an approach similar to Japan's. The FTA domino effect in East Asia reflects a global boom for more FTAs. Worth noting is that intra-regional FTAs are leading the way to inter-regional FTAs now, and this recent trend will likely gain force.

3. People-to-people and cultural exchanges have come to life and population movements have rapidly increased among ASEAN, China, Japan and Korea. In addition, supranational human security issues, such as the environment, climate change, diseases, and natural disasters and calamities, have begun to emerge as outstanding security issues, hence raising the need for inter-state cooperation.

Terrorism and the proliferation of WMD continue to be core challenges to security, and the woes of nontraditional, supranational security problems, to include natural disasters, environmental pollution, epidemics, narcotics, illegal migration, cyber terrorism, and violations of intellectual property rights, are growing. To respond to these threats, East Asian countries will likely broaden issues-based inter-state cooperation that goes beyond the region or existing alliances.

4. East Asia, along with the North American trade bloc of the North American Free Trade Agreement (NAFTA), and the EU, which has surfaced as a single economic zone, represents one of the three main pillars of the global economy. Having worked toward rapid economic integration in trade and investment lately, East Asia is projected to surface as the focal point of the world economy.

Due to the highly intensified division of labor among East Asian countries and the rapid expansion of intra-regional trade in capital goods and parts, East Asia is emerging as one great production network on the global economic scene. Since its switchover to the reform and opening up policy in 1978, China has achieved sustained high economic growth of more than 10 percent a year on average for more than two decades, surfacing as an economic power with the world's fourth largest GDP and third largest trading volume as of 2005.

China's exports have soared since 2001, increasing by an average of more than 20 percent per year. China's trade surpluses have skyrocketed as a result, exceeding US\$100 billion in 2005. In addition, a yearly influx of approximately US\$60 billion in foreign direct investments has brought about a surge in China's foreign reserves, and as of 2006, China's foreign exchange holdings have exceeded US\$940 billion, allowing the country to overtake Japan as the world's largest holder of foreign exchange reserves.

China's economic growth is projected to continue for the time being. China plunged into world markets since its accession to the World Trade Organization (WTO) in 2001, functioning as the "world's factory" based on low production costs and progressively increasing its role in the international division of labor. Having achieved phenomenal growth since the 1990s, China has emerged as the hub of production networks in East Asia. In the China-centered production network, the enormous numbers of foreign capital firms that have made inroads into China import intermediary goods and semi-finished products from regional countries and, after

putting these goods through processing and assembly processes, export them to China's domestic markets and regions outside of East Asia.

Despite their rapid progress toward becoming one production network based on the functional integration of markets, it is unlikely that the East Asian economies will evolve into a single economic bloc based on political consensus, as Europe did. However, East Asia is expected to attain fuller economic integration through the spread of bilateral FTAs and broadened economic cooperation in the region. Accordingly, the East Asian economies will likely surface as the central pillar of trade and investment in the global economy.

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