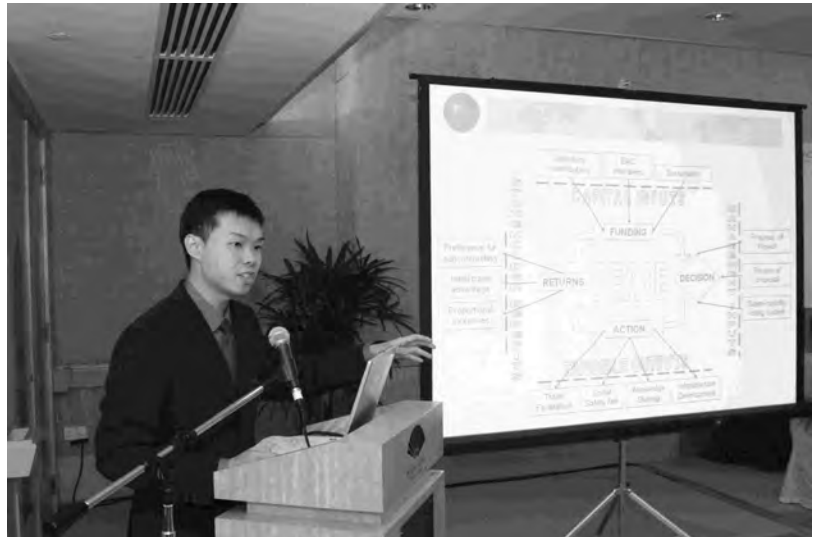


ASIAN ECONOMIC INTEGRATION: CHALLENGES & OPPORTUNITIES

East Asian Economic Integration Through PEACE

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ABSTRACT

Asian nations have been actively integrating their economies through various bilateral and multilateral agreements. These efforts are currently facing a gap whereby many countries are interested but incapable of participating in free trade. This paper proposes a new innovative economic cooperation mechanism, for East Asian countries called PEACE (Process for East Asian Common Economy) that will bridge this gap by creating incentives for all stakeholders to work towards market liberalization. These PEACE initiatives will be in the form of trade facilitation, social safety nets, infrastructure development and knowledge sharing. Contributors to the fund will in return be given advantages during bidding for PEACE development projects whereby companies from these countries will be granted the status of preferred trading companies aside from initial tariff reductions on the products of contributing countries. On the other hand, with the initiatives, all member countries will enjoy a better-integrated market for their products.



1.0 INTRODUCTION

Creating a two billion strong East Asian Community holds the promise of uplifting the condition of hundreds of millions of people in the developing nations of the region. Countries are facing a variety of obstacles both in joining and committing towards the regional economic integration process. These include the lack of political will to implement international commitments domestically, inadequate infrastructure, bureaucratic corruption, the overlapping bilateral and regional Free Trade Agreements (FTAs) which create a tangle of tariff-reduction commitments and trade rules among many of the countries, the disparity in economic development, and the lack of hard rules towards regional economic integration.

2.0 PROBLEM STATEMENT

A gap exists between countries which are interested in free trade but incapable of participating. Previous attempts, like the ASEAN Free Trade Area, have failed to maximize the possible gains because the organization has not provided a mechanism to aid countries in fulfilling their commitments and to create evident short-term benefits for the developed countries. This paper argues that the best solution lies in collective action by the East Asian Community to establish a strategy of assisted integration for its member-nations.

3.0 OBJECTIVES

The aim of this paper is to propose the implementation of a viable and sustainable mechanism called PEACE (Process for East Asian Common Economy) to achieve the following:

- 1) Overcome the main obstacles.
- 2) Accelerate the integration process.
- 3) Ensure that no country gets left behind.



4.0 RECOMMENDATIONS

The recommendations are as follows:

4.1. FORMATION OF THE EAST ASIAN COMMUNITY

The East Asian Community will have two components, which are:

4.1.1 Annual EAC Summit

At Annual EAC Summits heads of member-nations will be the main body driving policy initiatives and decision for the organization, where they will be the main vehicle driving for policy initiatives and decisions for the organization.



4.1.2. EAC Secretariat

An EAC Secretariat will be set up to support the programs agreed upon during the Summits, including the establishment of a regional free trade area to push for economic integration. The Secretariat will assemble career civil servants, academics and consultants to create a source of technocratic expertise for the Community.

4.2 PROCESS FOR EAST ASIAN COMMON ECONOMY (PEACE)

The Process for East Asian Common Economy will be the primary proposal of this paper. This mechanism will be initiated at the first EAC Summit to strengthen integration by assisting countries in implementing their free trade agreement obligations. The initiative will begin with the establishment of the PEACE Fund.

4.2.1 Creating the PEACE Fund

The purpose of the PEACE Fund will be to provide a collective pool of resources that can be made available to member-nations. These resources can be used to help these countries overcome the financial obstacles they face in fulfilling their FTA commitments and maximizing the benefits from economic integration. This can be accomplished through social safety nets, trade facilitation initiatives, infrastructure development and knowledge sharing.

The PEACE Fund will comprise of voluntary contributions from member-nations. In return, contributing countries will receive incentives through the PEACE initiatives in other member-countries. These incentives will be explored further later on in the paper.

The stakeholders of the Fund comprise of three distinct groups in the EAC. Firstly, there are the developed nations of Japan, South Korea and Singapore that are expected to provide the bulk of the contributions based on their economic status. Secondly, there are the middle-income countries of China, Indonesia, Malaysia, Thailand, the Philippines and Vietnam that may still need technical assistance in preparing their economies for integration but have the capacity to contribute significantly to the Fund. Finally there are the less developed economies of Cambodia, Laos and Myanmar that are likely to be receptive of the PEACE fund.

4.2.2 Management of the Fund

The three elements of managing the PEACE Fund are the application process, decision-making process, and the implementation process.

4.2.2.1 Application Process

To apply for funding, member-countries will be required to submit a detailed proposal on how they will achieve their commitment to enter the free trade area given the specific individual challenges faced by each country. It will include a timetable for implementation of policies at different phases and key deliverables for each phase to assess the effectiveness of the government's programmes. The applicant government also needs to provide a catalogue of available domestic resources for the programmes as well as the external financial and technical assistance they require from the PEACE Fund.

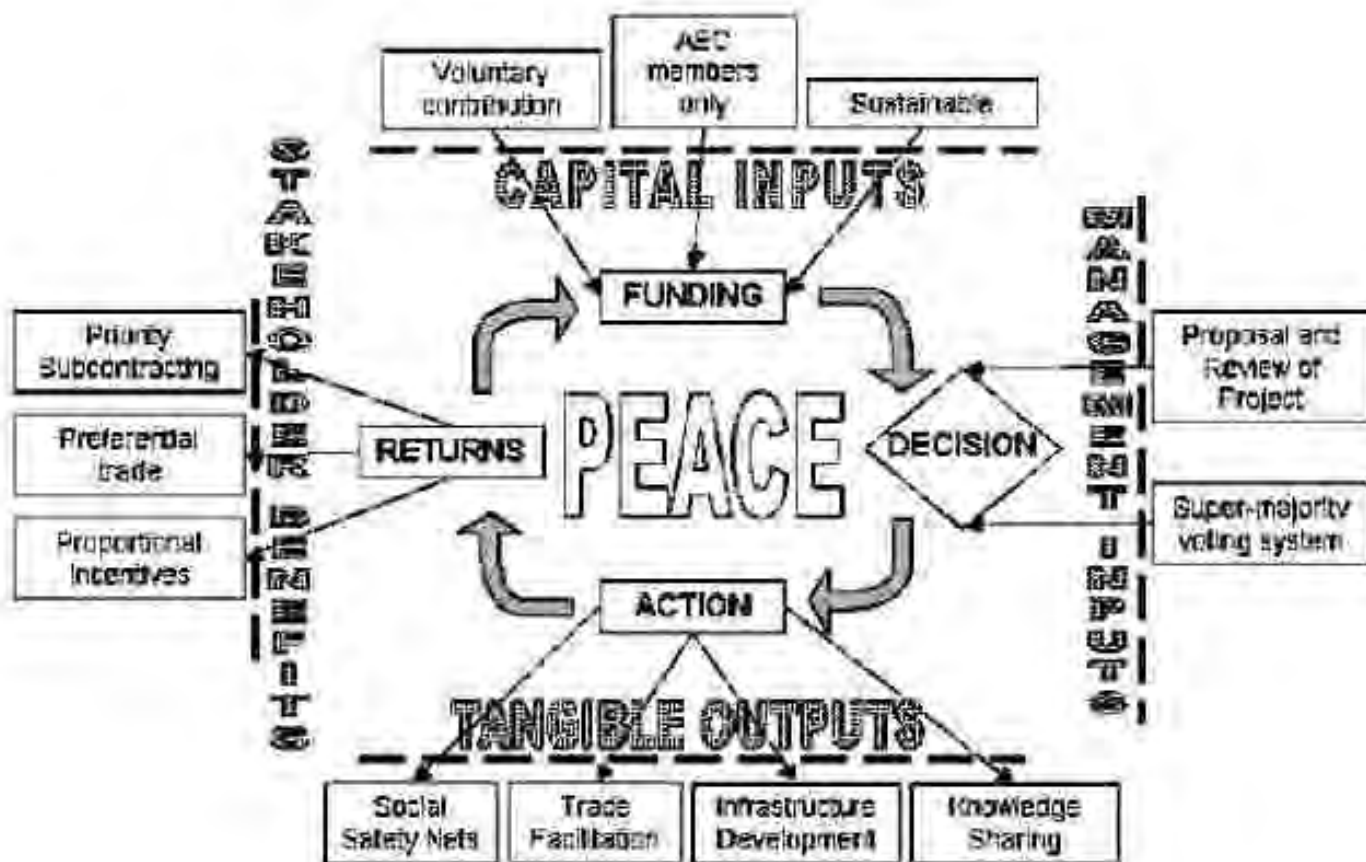


Fig 1. PEACE Process Diagram

4.2.2.2 Decision-Making Process

Review: Applicant governments can consult the EAC Secretariat in order to refine their proposals. The Secretariat, given its expertise, can assist in making the proposal more realistic and cost-effective to make approval plausible and to match the resources available from the Trust Fund.

Approval: The EAC Summit will be the venue for approval of the proposal by the assembled heads of state. Approval can only be obtained if an overwhelming majority of two-thirds of the EAC member-countries votes for it. This acts as a safeguard and ensures that only a quality proposal, which can gain broad support, will be passed under PEACE.

4.2.3 Implementation Process

Once approval has been given, the applicant country is required to begin initial implementation (e.g. setting up relevant departments and allocating funds for them) to showcase their commitment. Reimbursement from the Trust Fund will only be given after the Secretariat solicits feedback from local NGOs on program effectiveness and assesses whether the deliverables have been achieved. Every following additional infusion of funds will be based on finishing the next phase of their program. The end-goal will be the applicant country's removal of all its tariffs with the other member-states of the EAC, indicating their full participation in regional economic integration.

4.3 SPECIFIC PEACE INITIATIVES

Although governments will take the initiative in identifying and designing programmes to strengthen their ability to participate in regional economic integration, this paper has identified four priority initiatives, which can be implemented under the PEACE framework.

4.3.1 Social Safety Nets

We address the issues of lack of grassroots support by attacking the possible reasons for public protest. With funds obtained from the EAC trust fund, governments should:

- Subsidize or provide low-interest loans for local industries to be made available to engage private professional management consultants to implement reforms (e.g. business process reengineering, outsourcing) which will help them flourish in the EAC free trade area;
- Initiate heavily subsidized skills-upgrading courses for local workers to make them more flexible in their employment opportunities, mitigating any short-term economic dislocations caused by the removal of trade barriers for domestic industries.

4.3.2. Trade Facilitation Initiatives

With the availability of PEACE funds, assisted countries will be able to implement some essential changes:

- **Bottom-of-the-Pyramid Strategies:** This strategy is based on a tried, tested and proven model where companies can target the bottom-of-the-pyramid markets. This model gives incentives for the private sector to create sustainable investments in impoverished areas to expand their development opportunities. This is a win-win situation where both societal improvement and commercial success can be achieved. Companies are allowed to apply for interest-free loans from the PEACE fund to implement acceptable business plans.
- **Cross-border Entrepreneurship:** Establishing an EAC Trade Promotion Authority to actively promote and provide information on business opportunities in EAC countries through the organization of joint trade fairs and forums that can encourage cross-border entrepreneurship.

- **Simplification/Adoption of Common Customs Procedures:** Online custom procedures, e-commerce and electronic data interchange systems can be used to simplify existing complicated custom procedures to facilitate trade. All countries in EAC will have to adopt a common system based on shared best practices.

4.3.3. Infrastructure Development

Infrastructure Development consists of:

- **Regional Transportation Systems:** The construction of highways, ports and railways should be assisted and coordinated within the EAC to enable the efficient flow of goods between member-countries.
- **Regional Communication Systems:** Telephone and broadband networks need to be regionally compatible and integrated to lower the costs of doing business on a regional scale.

4.3.4. Knowledge-Sharing

Knowledge-sharing and the institutionalization of harmonized standards among the different governments of the EAC will accelerate regional free trade. These two processes will be resulting in the formation of Civil Service Harmonization. The PEACE Fund can be used by the Secretariat to initiate these processes by convening a working group of top-level civil servants, academics and consultants to study the various systems of administering the trade process in key departments such as trade ministry and customs. The working group will identify the key best practices and efficient systems, which can be implemented around the region, for endorsement of the heads of state at their summit. Harmonized procedures to trade within the EAC will lower the costs and difficulty for the participation of small and mid-sized enterprises in the free trade area. The EAC can also establish a Civil Service Academy to provide common training and a venue for future cooperation among national officials involved in trade.



4.3.5. Fair Trade Accelerator

Economic integration processes towards free trade should also function as an accelerator of trading a product at a fair price through the harmonization of intellectual property protection and the modernization of legal systems against unfair commercial exploitation by middlemen. This concept sharing in the EAC countries will be done through the Civil Service Academy.

4.3.4 Incentives for Voluntary Contribution

The Trust Fund's ability to make a difference lies in its ability to attract significant contributions sustainably from member-countries. To ensure that countries do not just give aid bilaterally, it is necessary to provide them meaningful incentives through the framework of PEACE.

4.3.4.1 Prioritization for Sub-contracting

Sub-contracts for infrastructure development and tender consultancy services are awarded proportionally based on the relative amount of contributions to the Fund (e.g. if Japan is the top contributor, their companies receive the most contracts awarded for development in the

applicant country; if Singapore is the second largest contributor, their firms will have the second-most contracts awarded, and so on). This would create healthy competition among the donors because their companies will be able to benefit from the process, resulting in significant contributions.

4.3.4.2 Preferential Tariffs for Top Contributors

The top three contributors will receive 2.5% tariff rates for trade in the manufacturing sector with the applicant country for a certain number of years while the rest of the EAC member-states will trade at five percent for at most three years before they eventually drop to zero.

5.0 CONCLUSION

Through implementation of PEACE, Asian countries will be able to overcome obstacles that stand in the way of free trade. As all stakeholders will be winners in this framework, PEACE will therefore be achievable as well as sustainable. As a result, East Asia will be able to move closer towards East Asian Economic Integration.

Appendix 1

Scenario illustration

This is a hypothetical example of how a less developed country, in this case Cambodia, can apply and receive funding. Included are also a timeline and the benefits to all the stakeholders involved.

- 2005** - Japan, Singapore and China, contribute US\$8 billion, US\$500 million and US\$2.5 billion, respectively. Other countries contribute various amounts.
- 2006** - Cambodia's proposal for infrastructure development of trading routes between Cambodia and Thailand, and social safety nets for the local textiles industry, is approved by the Secretariat. Social safety nets expected to be in place by 2011.
- 2006** - Japan would get the largest proportion of sub-contract work for infrastructure development that arises out of Cambodia's proposal, while Singapore, China and other countries will get their respective share of sub-contract work based on their Fund contributions.
- 2006** - Cambodia sets up a department for skill upgrading and contacts these Japan, Singapore and China for the initiation of these courses and gets reimbursed from the Fund.
- 2007** - Upgrading courses provided to 500 textile workers in Cambodia. EAC reviews progress with NGOs, and then reimburse Cambodia.
- 2011** - Cambodia reduces tariffs to 5% for all textile producers in the EAC. Japan gets preferential 2.5% tariff for 3 years.
- 2012** - China gets preferential 2.5% tariff for 2 years.
- 2013** - Singapore gets preferential 2.5% tariff for 1 year.
- 2014** - All countries in EAC get 2.5% tariff.

Stakeholders involved	Short run benefits	Long run benefits
Textile workers	Skills upgraded to create more value for the industry/ find better paying jobs	Move up the value chain due to better skills
Foreign Traders	Not Applicable	Increase export of products into Cambodia at low tariffs
Japan's Corporations	Subcontracts for infrastructure development and consultation. Cheaper labor in Cambodia	More exports into Cambodia at preferential 2.5% tariff for 3 years starting from 2011
Singapore's Corporations	Subcontract for infrastructure development and consultation	More exports into Cambodia at preferential 2.5% tariff for 1 year starting from 2013
China's Corporations	Subcontracts for infrastructure development and consultation	More exports into Cambodia at preferential 2.5% tariff for 2 years starting from 2012
Cambodia	Labor employed by subcontractors and foreign investors; Technology transfer to local textile industry to increase competitiveness through 0% loans/subsidies from the Fund	FDIs from foreign countries especially Thailand will create new industry and employment opportunity; Better infrastructure will increase trade volume
Foreign Investors	Can employ cheaper and more skilled labor and thus increase investment in alternative industries of Cambodia	Better trading routes will increase cross border trading with Thailand