

# **The Road towards the East Asia Economic Community**

## **(EAEC) 2020**

### **Report of the NEAT Working Group**

**July 2016, Beijing**

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The idea of an “East Asia Economic Community” (EAEC) originates from the proposal of building an “East Asia community” (EAc) by the East Asia Vision Group (EAVG I) in 2001. The EAVG I expected that “the economic field, including trade, investment and finance, is to serve as the catalyst in this community-building process”. Ten years later, the second East Asian Vision Group (EAVG II) proposed “Realizing an East Asia Economic Community (EAEC) by 2020” as a main pillar for regional cooperation and community building. The proposal was adopted by the APT Commemorative Summit in Cambodia in 2012.

Since then, significant progress has been made towards such a goal, including, for example, the establishment of the ASEAN Economic Community (AEC), the launching of the Chiang Mai Initiative Multilateralization (CMIM) and the transition of the APT Macroeconomic Research Office (AMRO) to an international organization, the launch of the Regional Comprehensive Economic Partnership (RCEP) negotiations, etc. However, despite such progress and political will, the EAEC building still seems to lack momentum. Unlike the AEC, the EAEC so far has not yet developed any master plan or work plan. With only four years to go, skepticism and pessimism arises on the realization of the goal.

In order to assess the EAEC process, identify the major opportunities and challenges on its way, and produce action-oriented policy recommendations in the hope of turning the vision into reality, NEAT China hosted a Working Group Meeting on “The Road towards the EAEC 2020” in Beijing on July 1, 2016. About 30 participants from the APT countries attended the Meeting and contributed their wisdom based on solid academic research. The Working Group Report is produced on the basis of their papers, presentations and discussions. It consists of five sections. Section 1 is a brief review of East Asia’s experience in regional economic integration and cooperation. Section 2 reflects on the conception of the EAEC. Section 3 and Section 4 respectively discusses the main opportunities and challenges for the progress and realization of the EAEC. Section 5 highlights major policy recommendations for the EAEC building proposed at the Meeting.

## **1. Past Experience in East Asian Economic Integration**

East Asian integration has been driven by both market force and state efforts, and by both globalization and regionalization. The ASEAN Plus Three (APT) has been the main vehicle of East Asian cooperation. ASEAN Centrality and ASEAN Way has been practiced as basic principles.

### **1.1 East Asian Integration: Market Force and State Efforts**

In retrospect, 1997 has been a dividing line in East Asian economic integration. Before that, only ASEAN pioneered in forging the regional framework for cooperation, East Asia as a region only existed in the market framework webbed by business community. The eruption of 1997 Asian financial crisis made East Asian countries realize that no one is a single island who can mitigate single-handedly the economic and financial risks in the context of globalization and that only through enhancing intra-regional cooperation can they consolidate their economic resilience in facing up to external economic and financial shocks. Since then, East Asian countries has witnessed increasing economic interdependence and the region unprecedented integration in its recent history, demonstrated by rising intra-regional trade and investment, and multi-layered

functional cooperation in a broad range strongly supported by governments.

### **1.2 East Asian Integration: Globalization and Regionalization**

Integrating into global production networking has been an integral part of East Asia's economic landscape since the end of Cold War. The development of regional production networks has contributed to the rise of successive waves of "newly industrialized economies", especially the emergence of the latest wave (e.g. Thailand, Malaysia, Philippines, then China and Vietnam). This production regionalization has also resulted in high intra-regional trade shares with rapidly growing trade in components. This has not, however, reduced the region's dependence on global economy. On the contrary, the region's outstanding growth based on vertical specialization depends largely on its extra-regional trade in final goods, especially with the US and EU. Therefore, this growth pattern of "we produce, they consume" dictates the principle of **open regionalism** in East Asia, which means that policies should be welcomed as long as they are conducive to liberalizing and facilitating trade and investment, no matter globally or regionally, East Asia's successful practice in the past shows that open regionalism has indeed helped enhance the competitiveness of the countries in the region by promoting regional integration and shaping regional production networks, while at the same time constitute a building block for a more open global economy by complying with current rules set by the multilateral trading system under the WTO/GATT and further supporting the WTO's new efforts in speeding up global trade, such as the forthcoming Trade Facilitation Agreement (TFA).

### **1.3 ASEAN Plus Three (APT): the Main Vehicle of East Asian Cooperation**

Regionalism requires that one state, or a group of states, provides a sense of direction as well as common ground around which the others can gather<sup>1</sup>. Regional cooperation should also have geographical scope as its priority because the closer in distance, the easier it is to succeed in reaching an agreement and larger economic benefit. As typical gravity models estimate, a 1 percent increase in the distance between two countries is associated with a fall of 0.7 to 1 percent in the trade between them. That's why the United States does markedly more trade with its neighbors than it does with European economies of the same size. The pathway practiced by EU and NAFTA proves that it is convenient to unite, cooperate and develop when regional cooperation is implemented among neighboring countries, especially at the beginning stage. Therefore, geographic proximity does matter in the process of East Asia's economic integration.

The APT came into being in the midst of the Asian financial crisis. Having stood the test of the international financial crisis, and covering both Northeast and Southeast Asia with 57% of Asia's population, 88% of Asia's GDP and 50% of Asia's total trade, APT has grown into one of the most mature mechanisms for regional cooperation in East Asia. Now the APT cooperation has reached an unprecedented level of cooperation and partnership with more than 60 different mechanisms at various levels, covering 24 areas. Since 2014, about 230 cooperation projects have been carried out among member states, producing positive outcomes in finance, food, connectivity, economy and trade, energy, maritime and cultural fields. The APT has lived up to its role as the main vehicle of East Asia cooperation.

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<sup>1</sup> Nick Bisley, East Asia's Changing Regional Architecture: Towards an East Asian Economic Community? *Pacific Affairs*, Volume 80, No. 4, Winter 2007-2008, pp.603-625.

## 2. Rethinking of the EAEC 2020

When the EAVGI called upon East Asian countries for the first time to take steps for building an East Asian community (EAc) of peace, prosperity and progress as a long-term goal, an East Asia Free Trade Area (10+3) was one of the key proposals in terms of economic cooperation. Whereas in the EAVGII report, it is suggested that the East Asia Economic Community seek to create a single-market and production base through the establishment of the RCEP, which includes 16 members (10+3+3). Moreover, the recent Brexit and even the previous Euro crisis also make people rethink about the conception of the EAEC. What should an EAEC be like by nature? Who should be included? What are the pathways to realize its goals? The answers to these critical questions must be based upon a basic fact and understanding that East Asia's integration has been quite unique, following an “**East Asian Way**”.

### 2.1 From the EAC to the EAEC 2020

Both EAVGI and EAVGII reports include economic, political-security and socio-cultural cooperation as the main pillars for East Asia community building. However, until the EAVGII report recommended the realization of the East Asia Economic Community by 2020, the EAC building has been apparently floundering and directionless as no timeline was set, let alone a blueprint. **A feasible way to realize the EAc is to start from the creation of the EAEC.** Potential gains from implementing the EAEC are enormous, such as leading East Asia to a path of stable and sustainable growth, reducing vulnerability and volatility, and leveraging diversity through integration and reducing the development gap existing both within and between member states, and so on.

### 2.2 An EAEC to Be Desired

Today, regionalism is a central part of the international relations of East Asia and further cooperation is desired in trade, investment, finance and macroeconomic policy for growth and tangible benefits. Indeed, it is increasingly seen as a necessary means to cope with the dynamics of the global economy. However, geopolitical and geo-economic considerations have complicated the process of regional integration. Various institutional efforts reflect competing visions of and strategies for an regional economic community. Therefore, to build consensus, it is quite necessary to discuss and clarify what is to be desired in an EAEC.

**In terms of the ultimate goal, like the AEC, the EAEC aims to realize a region of shared interests featuring equitable, inclusive, balanced and sustainable development with freer movement of goods, services, investment, and people as well.** Though a single market and production base is stressed, the EAEC won't take a customs union as the vision because it requires higher degree of political cooperation and some pooling of sovereignty. These requirements are palpably out of reach at present and even in a very long future for East Asian countries. Instead, an FTA which aims at trade and investment liberalization and facilitation together with a moderate consideration of rule-making in some areas like competition, intellectual property rights, economic and technical cooperation, E-commerce etc., would be a best fit at the moment for East Asia's institutional architecture in its process of community building.

**In terms of membership,** the core part of the EAEC will be the APT countries due to three considerations. **Firstly,** an economic community is commonly considered a group of people who share common economic interests and, as the empirical gravity model shows, these interests can

be easier to achieve for those situated in a given geographical area. **Secondly**, as above-mentioned, the APT has lived up to its role as the main vehicle of East Asia cooperation and laid solid foundation for the EAEC building with substantial achievements in widely-ranging areas. **Thirdly**, open regionalism has demonstrated that not only cooperation among regional members can benefit regional integration and community building, but partnership with external members can also facilitate regional integration. An extreme example is the WTO which provides multilateral rules for all the APT countries and has brought about East Asia's fast integration in the past and at present. Another example is the RCEP, though including non-East Asian members, the successful conclusion and implementation of which will certainly help build up a highly liberalized and larger common market for the region. And all these will directly serve the realization of the EAEC. Therefore, all regional cooperative frameworks are part of East Asian integration, and constructive to EAEC building.

### **3. Opportunities for the EAEC 2020**

#### **3.1 Rise of Asia in World Economy**

Since 1980s, many developing countries, typically BRICS, have witnessed rapid growth, and their economic strengths have been greatly promoted especially in the 21st century. On the contrary, developed countries, typically G7, have experienced economic slowdown. Since Asia is home to the majority of the world's emerging economies, this process can be termed as the rise of Asia or the rise of an Asian century. If measured in PPP, the developed economies accounted for 63.7% of the global GDP in 1980, while the developing economies accounted for 36.3% and the developing Asian economies only 9.0%. After entering the 21st century, the developing economies, especially those in Asia, began to grow faster than ever. By the year 2014, the share of developed economies in global GDP dropped to 42.9%, while that of the developing economies rose to 57.1% and the developing Asian economies to 29.6%. According to IMF's estimate, the developing Asia will account for 35.0% of the global GDP in 2020.<sup>1</sup> If measured in current USD, though the developed economies as a whole retain their advantages in GDP shares, the declining trend is the same.

This shifting of world economic activity from west to east has also been accompanied by trade and investment movement. Asia has now grown from an almost negligible player in world's trade and investment into a major player, with 37.5% of the global trade, more than 40% of the global FDI inflows and outflows in 2014.<sup>2</sup>

"An Asian Century" is also gaining reputation from another proof. With half of the global population, Asia is becoming a fast-growing world consumption market because of the increasing middle class. According to a study by OECD, the size of the middle class could increase from 1.8 billion people in 2009 to 3.2 billion by 2020 and to 4.9 billion by 2030, and the majority of this growth (85 %) comes from Asia. Demand from the middle class may grow from 2009's USD21 trillion to USD56 trillion by 2030. Again, over 80 % of the growth in demand comes from Asia. Before the year 2050, India and China will have more than half of world's middle class consumption.<sup>3</sup> In this sense, Asia is now rising and transitioning from traditional production base

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<sup>1</sup> Source: IMF, World Economic Outlook Database, April 2016.

<sup>2</sup> Source: UNCTAD stats, <http://unctadstat.unctad.org/EN/>

<sup>3</sup> Homi Kharas, The Emerging Middle Class in Developing Countries, OECD Development Centre Working Paper

to both production and consumption bases. The formation of consumption base is a most noteworthy trend to expect in Asia and will have significant and far-reaching impact on international trade and investment. At least, with the growing importance of this consumption market, final-goods trade fueled by consumption needs will be gradually on a par with intra-regional components trade derived from regional production networks, and the region will be even more deeply integrated.

At the same time, the slow pace of world economic recovery has increased the necessity of regional cooperation. Currently, most East Asian economies still maintain a higher-than-average growth rate, which is also quite conducive to regional cooperation.

### **3.2 Political Consensus**

Since the adoption of the EAEC 2020 by the APT Summit in 2012, the vision has been mentioned and emphasized for many times by leaders. The annual Chairman's Statements of APT Summits show that political consensus on the EAEC 2020 still exist with some follow-up study being adopted. However, this consensus seems to have waned recently because so far all the work since 2012 has not resulted in an EAEC blueprint.

### **3.3 Existing Cooperative Mechanisms**

Up to now, East Asia has various cooperative frameworks and mechanisms including the AEC, "10+1"s, "10+3", EAS, and so on. Due to these mechanisms, East Asia's integration has speeded up, with intra-regional trade rising from 38% in 1990 to over 50% today.

#### **The AEC: the Core of the East Asian "Noodle Bowl" of Agreements**

ASEAN enjoys a centrality role in East Asian integration. This is because (i) several other regional groupings have been built around it, and (ii) it has succeeded in developing the concept of "ASEAN Way" of conducting regional cooperation based on consultation and consensus. To date, ASEAN as a region is a signatory to five FTAs/CEPAs with China, Korea, Japan, India, Australia and New Zealand, respectively. In addition, there are 50 bilateral FTAs (between one ASEAN country and non-ASEAN country), and 11 plurilateral agreements (between one ASEAN country and two or more non-ASEAN countries) or 23 multilateral agreements (between two or more ASEAN countries and one or more non-ASEAN countries).<sup>1</sup>

ASEAN is now working towards elevating its centrality role in the regional economic architecture. The measures stipulated in the AEC Blueprint cover much broader issues than ASEAN+1 FTAs and RCEP. As an integration "project," its breadth and scope are perhaps second only to that of the EU.<sup>2</sup> ASEAN has already begun the process of crafting the post-2015 agenda, a key priority of which is strengthening implementation of the Economic Blueprint to close remaining gaps.<sup>3</sup> A significant milestone of the AEC is the substantial progress in tariff liberalization. Since 2010, ASEAN6 has applied zero tariff to nearly 100% of the agreed commodity list. In the CLMV countries, tariff duties have been eliminated for more than 90% of the agreed commodity list in 2015, compared to 72.5% in 2014.<sup>4</sup>

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No.285.

<sup>1</sup> Based on information from ADB's Asia Regional Integration Center FTA database, accessed May 2015 (<http://aric.adb.org/fta-comparative>).

<sup>2</sup> ADB: "ASEAN 2030: Towards a borderless economic community", 2012.

<sup>3</sup> ASEAN. 2014. Key Outcomes of the 12th AEC Council Meeting, 46th ASEAN Economic Ministers' (AEM) Meeting and Related Meetings. Nay Pyi Taw, Myanmar. 25-28 August.

<sup>4</sup> The ASEAN Secretariat. ASEAN Economic Community Chartbook, 2015

### **The “10+1”s : Bilateral Cooperation between ASEAN and Its FTA Partners in East Asia**

ASEAN centrality has played a key role in shaping East Asia’s regional cooperation framework, with ASEAN at the center and a variety of mechanisms mutually reinforcing for the purpose of common development. By 2010, ASEAN had completed the ASEAN+1 FTAs with its six FTA partners, namely China (2005), South Korea (2007), Japan (2008), India (2010), and Australia and New Zealand (2010), covering trade in goods, services, investment and provisions on trade facilitation. Over time, the substance of these ASEAN+1 FTAs has also deepened. For example, the upgrade of China-ASEAN FTA (CAFTA), which was nailed down in November 2015, covers a wide range of areas including goods, services, investment, and economic and technological cooperation. The upgrade of CAFTA provides fresh momentum for economic development of both China and ASEAN and improves both sides’ ability to participate in trade arrangement with higher standards. These cooperation efforts have also been rewarded by the strengthened trade tie. China has become ASEAN’s largest external trading partner, up from 2001’s 5% to 2014’s 15% of ASEAN’s foreign trade; ASEAN has become China’s third largest trading partner, up from 2001’s 7.4% to 2014’s 8.9% of China’s foreign trade. A strengthened centrality role through bilateral cooperation, not only in trade and investment, but also in capacity building and other areas, can make ASEAN more capable of driving the region’s integration.

### **The APT: a Region-wide Cooperative Mechanism**

The prime focus of the ATP process was initially on improving East Asia’s regional financial cooperation and governance. So far, the most notable schemes led by the APT have been the Chiang Mai Initiative Multilateralization (CMIM) and Asian Bond Market Initiative (ABMI).

The CMIM became operative in 2010 and converted the 16 bilateral agreements into a common funding forex pool of initially US\$120 billion. In 2014, the size was doubled to US\$240 billion and the de-linked portion from IMF loan plan was lifted to 30% from 20%. The CMIM system is overseen by the APT Macroeconomic Research Office (AMRO), whose purposes are to monitor and analyze regional economies and to contribute to early detection of risks, swift implementation of remedial actions and effective decision-making of the CMIM. AMRO has commemorated its successful transition to an international organization by member authorities on February 19, 2016.

The ABMI established in 2003 provides East Asia with the opportunity to use the region’s huge financial resources for promoting its own regional financial stability and economic development, rather than investing in bonds and other securities originating outside the region, especially in advanced industrial countries. Furthermore, a Credit Guarantee and Investment Facility (CGIF) was established in 2010 by the APT and Asian Development Bank (ADB) with about US\$700 million joint capital. It is a key component of the ABMI, aiming to help companies that otherwise would have difficulty tapping local bond markets to secure longer-term financing, reduce their dependency on short-term foreign currency borrowing to mitigate currency and maturity mismatches.

### **The EAS: a Regional Forum for Strategic Dialogue and Cooperation**

The East Asia Summit (EAS), comprising the ten ASEAN countries, Australia, China, India, Japan, New Zealand, the Republic of Korea, the United States and Russia, is a regional leaders’ forum for strategic dialogue and cooperation on key issues and challenges such as security, environmental issues and climate change, etc. The EAS is a broad forum in which ASEAN’s

partners outside the region can participate in East Asian cooperation, as well as an interface between the regional and global arenas from an East Asian perspective.

### **3.4 New Initiatives**

In addition to the above-mentioned mechanisms, East Asian cooperation is also expecting the RCEP and CJKFTA, both of which are quite crucial to the EAEC building. The Belt and Road Initiative (BRI) proposed by China will also provide new impetus for regional cooperation and integration.

The RCEP aims to consolidate the current five “10+1” FTAs and form a region-wide FTA in East Asia with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries. The potential benefits of the RCEP are obvious in terms of both economic and political interest for all the participating members. One study shows that the RCEP boosts more GDP growth than the TPP, even for countries participating in both. For instance, Vietnam will have an increase of 23.42% of real GDP from the success of the RCEP, while only 12.81% from the TPP.<sup>1</sup>

As major economies accounting for more than 85% of the region’s GDP, CJK cooperation is crucial to constructing the EAEC. In the past few years, despite political difficulties, CJK cooperation has also made great achievements in many areas. For example, Trilateral Cooperation Secretariat was established in 2010; Trilateral Agreement for the Promotion, Facilitation and Protection of Investment was signed in 2012; and the CJKFTA negotiation was launched in 2013. It is expected that CJKFTA will not only bring massive economic benefits to the three countries in terms of trade, production and economic welfare, but also contribute to introducing suitable agreements that will accelerate trade and investment in the region. In this sense, solid groundwork of CJKFTA will give both economic and political impetus for East Asian integration.

The Belt and Road Initiative (BRI) refers to the Silk Road Economic Belt that links Asia and Europe by inland routes, and the 21st-Century Maritime Silk Road connecting China with other Asian countries, Africa and Europe by sea routes. It is a development strategy and framework that focuses on connectivity and cooperation among countries along the two routes, which will certainly serve the region’s connectivity and integration. In support of infrastructure connectivity, the China-proposed Asia infrastructure Investment Bank (AIIB) has been put into operation and collaborating with other international financial institutions such as the World Bank, the ADB and the EBRD to provide financial support for the region’s connectivity and sustainable growth.

## **4. Challenges for the EAEC 2020**

So far, not a single or coherent plan has been developed that can help progress step by step towards the final goal of the EAEC, let alone the monitoring process which tracks the implementation progress. This actually reflects that the EAEC building faces a lot of challenges and uncertainties.

### **4.1 Geopolitical Challenges**

Mutual trust is the base for regional cooperation. However, it is very hard to build up mutual trust in East Asia due to increasingly complicated geopolitical context. The rise of China, the

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<sup>1</sup> Kawasaki Kenichi(2011), Determining Priority Among EPAs: Which trading partner has the greatest economic impact? Research Institute of Economy, Trade and Industry.

shifts in the region's balance of power and the U.S. rebalance towards Asia have increased complexities and geopolitical challenges for regional cooperation. In the past, ASEAN succeeded in balancing its relations with dialog partners to maintain ASEAN Centrality and in socializing regional players onto the ASEAN Way for regional cooperation despite differences and diversity. In the future, a major challenge is whether countries in the region can improve mutual trust to mitigate risks and manage disputes from power competition or even rivalry, and whether ASEAN can build up its capacity to remain central in institutionalization of regional cooperation.

#### **4.2 ASEAN Centrality Not in Full Play**

ASEAN Centrality in the evolving regional architecture will depend to a large extent on the successful completion of the AEC. Thus, a full ASEAN integration is the most important task before we move towards the EAEC. However, this centrality might be eroded from both internal and external dimensions.

From internal dimension, ASEAN's internal integration has not lived up to expectations. So far as internal integration is concerned, there has been much progress on the AEC, but the project has not yet met its 2015 timetable. According to the ASEAN Secretariat's report, as of 31 October 2015, the implementation rate of the full AEC Scorecard stood at 79.5%, or 486 out of 611 measures. Undoubtedly, the remaining 20% of measures will be more challenging. The delayed issues, such as agriculture, integration of the less-developed CLMV members remain to be worked out. In addition, complete liberalization of capital flows and ASEAN capital market integration, as well as opening up financial markets within ASEAN are all areas which need to be addressed. This prospect of ASEAN's internal integration will inevitably make the EAEC a mist, whose progress is highly dependent on the full completion of the AEC.

From external dimension, ASEAN is hard to form common external positions due to the fact that internal and external integration are less clearly sequenced but proceeding in parallel. For globally competitive economies like Singapore, regional markets will not be big enough, and ASEAN style agreements with outside partners will not produce sufficient market access abroad. For less advanced ASEAN economies, in contrast, rapid liberalization may conflict with development objectives. At the same time, middle-ground regional agreements are unlikely to satisfy anyone. Thus, ASEAN faces challenges: it has to develop external relationships even though its ability to make common policy is limited. As a result, the external policies of ASEAN members are not closely integrated because as an FTA rather than a customs union, ASEAN cannot set common tariffs, let alone other common economic policies. For international credibility, the region will have to demonstrate its ability to create common markets and to function as an integrated economy entity.

#### **4.3 Impact of the TPP**

The TPP, enlisting seven of the RCEP members (four ASEAN members—Brunei Darussalam, Malaysia, Singapore and Vietnam, and three non-ASEAN countries—Japan, Australia and New Zealand), has become a major external variable in East Asian cooperation and integration. And now a few more East Asian countries like the Republic of Korea, the Philippines, Thailand, Indonesia and even Cambodia are now showing increasing interest in joining the TPP. The impacts of the TPP on East Asia's regional integration are as follows:

**Firstly**, the TPP may lead to disunity within ASEAN because not all AMSs are included in the TPP and this will undermine ASEAN's centrality role in leading regional integration process.

**Secondly**, exclusion of China by the TPP will reduce China's influence in East Asia and thus

slow down the EAEC building process. Over the past decades, China has experienced remarkable economic growth and played an important role not only in driving trade and economic growth in East Asia region. Almost all the mechanisms in East Asia have leveraged China's growth to consolidate different layers of economic integration. East Asia's regional integration without China will encounter a big setback.

**Thirdly**, the TPP's higher standards and new rules serve the advanced economies' goals best but are unrealistic currently for many East Asian countries. The key point of the TPP's vision is to seek to expand the role of markets in the delivery of healthcare, housing, foreign investment, and services into a region like East Asia where government programs have long underpinned social welfare, national development and international cooperation. Though the final text of the TPP is actually a compromise with certain concessions from its original ambitions, its broad coverage and high standard is still a challenge for many developing economies in East Asia.

## **5. Policy recommendations**

The EAEC won't come true by itself, but requires closer collaboration among APT countries to take concrete actions.. The new round of world economic restructuring characterized with the transfer of manufacturing industries presents a good opportunity for the region. EAEC-building is vital to help upgrade each member's position in the region's production network and better integrate them into the region's consumption loop for a more balanced, inclusive and economically resilient region. To this end, **the APT process and cooperation as a main vehicle in realizing the long-term goal of an EAC with ASEAN as the driving force in the evolving regional architecture should be strengthened.** Therefore, the recommendations are as follows.

### **5.1 To Develop an EAEC Blueprint**

EAEC-building is an evolving process. It is therefore important to chart the future direction and turn vision into reality through concrete actions. Specific follow-up work plans need to be developed, not only by 2020, but also beyond 2020. In consideration of ASEAN Centrality in regional cooperation and ASEAN experience in the AEC building, it is sensible to refer to both AEC Blueprint 2015 and 2025 and develop an EAEC Blueprint 2025.

A pressing matter of the moment is **to designate a High Level Task Force (HLTF)**, comprising thirteen high-level representatives from all the APT countries to develop a robust and feasible EAEC Blueprint specifying the outcomes to be achieved by 2020 or 2025 (or a two-phase arrangement) to guide the region's integration efforts. And due monitoring process also needs to be in place to track the implementation. In this regard, maybe the function of the AMRO as an international organization can be expanded and strengthened.

### **5.2 To Substantiate ASEAN Centrality**

Regional cooperation and integration is a complex, expensive and slow-moving process that requires not only convergence of interests and values, but also momentum and leadership. ASEAN Centrality means that ASEAN is in the center of regional integration, facilitating the process and enriching its substance. Hence, it is important for ASEAN to improve its competence, credibility and capacity to substantiate RTA negotiations (such as the RCEP) for further regional integration.

**Firstly, ASEAN needs to fulfill its promise to transform itself into a rules-based organization and build a credible AEC.** During the process of the AEC building, an effective

monitoring mechanism plays a critical role in inducing timely implementation of the ASEAN commitments. However, with limited human resources and overloaded responsibilities, ASEAN Integration Monitoring Office (AIMO) has not been competent enough. Thus, the ASEAN Secretariat may as well introduce more human and technical resources from third parties like regional research institutions with rich expertise in key policy areas through some partnership arrangements. Such collaboration in monitoring will be more effective when actual policies implemented by members could be examined to ensure the full implementation of regional commitments.

**Secondly**, in order to maintain credibility in creating common markets in the region, and bring real gains for ASEAN countries, as the driver, **ASEAN should set a clear goal of higher level of commitments for the RCEP negotiations** while leaving enough flexibility to the least-developed members. This may involve (1) aiming at a higher level than that of the current ASEAN+1 FTAs in terms of tariff, ROOs, trade facilitation, services, investment and economic cooperation; (2) introducing as many convergent rules as possible to all the chapters: common concessions in tariff structure; clear definition and approach in non-tariff barriers (NTBs); a general rule in ROOs; a region-wide approach in trade facilitation and economic cooperation; and fewer types of limitations in services regulation; and (3) making the new framework more attractive than others to maintain “ASEAN Centrality”.

**Third, the Plus Three countries should stand and work together to provide strong support** for the realization of the AEC and ASEAN capacity-building, especially human resources development in the least-developed AMSs. The two most important areas shall be infrastructure connectivity and narrowing of the development gap.

### **5.3 To Better Exploit the Existing Cooperative Frameworks and Mechanisms**

In order to make concerted efforts for the EAEC building, all cooperation for regional economic integration should be encouraged and supported. For example, the AEC can play a centrality role in guiding East Asia’s economic integration and cooperation; the upgrading of ASEAN’s FTAs with its partners (such as the CAFTA) can strengthen their bilateral economic ties and especially improve ASEAN’s competence in shaping the region’s economic architecture; and subregional cooperation frameworks in the region (e.g. Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area—BIMP-EAGA; Indonesia, Malaysia, Thailand Growth Triangle—IMTGT; Greater Mekong Sub-region—GMS, Lancang-Mekong Cooperation—LMC) can also contribute to regional connectivity, narrow the development gap, help CLMV countries augment their capacity to implement regional agreements and accelerate the regional integration process as a whole.

### **5.4 To Conclude the CJKFTA and RCEP Negotiations as Soon as Possible**

The CJKFTA, involving the three largest economies in the region, can provide the region with main market potentials. The conclusion of CJKFTA is not only good for the Plus Three countries themselves, but also crucial for the integration of a larger East Asia. Therefore, the Plus Three countries should prioritize economic collaboration.

The RCEP should be prompted not only as an economic integration process but also as a process towards a regional community in the long run. However, the road ahead is expected to be fraught with economic and political obstacles. Here, two things need to be highlighted.

One is the importance of the APT cooperation. As the main pillar of the RCEP, the APT

countries should continue their virtuous tradition in cooperation and work together to achieve more ambitious common goals under the RCEP based on both political and economic advantages. Politically, ASEAN centrality is supported by all the other six members of the RCEP. Economically, APT cooperation has already made much practical progress in many areas such as financial cooperation. Therefore, the APT process can be seen as a good foundation for the RCEP process. What we need is even stronger political will and commitments to the RCEP.

The other is the relationship between the RCEP and the TPP. Competition is actually not the whole story. Most believe these two arrangements offer different approaches towards deepening economic integration in the Asia-Pacific region. The TPP requires much deeper economic liberalization from its members and contains provisions to protect labor rights, environment and intellectual property, reform state-owned enterprises and boldly eliminate tariff, while the RCEP places more importance on providing developing members with economic and technical cooperation to narrow the development gap. Because of these differences, the RCEP and the TPP should complement each other rather than substitute one another. Furthermore, for the most part, the TPP and the RCEP offer benefits that are largely complementary—one focuses on deeper integration with the Americas, and the other on improved access to Asian markets. Indeed, these two frameworks can be considered as two different stages. Developing countries that cannot meet high requirements for the TPP membership may achieve economic development under the RCEP, and then may later join the TPP when they can meet the membership requirements. Therefore, RCEP and TPP can just be two complementary building blocks for the realization of the long-term objective of a Free Trade Area of the Asia-Pacific (FTAAP).

### **5.5 To Promote All-round Functional Cooperation**

Apart from efforts on institutionalization of regional integration (such as the RCEP and the CJKFTA), East Asia should still give high priority to functional cooperation focusing on the following areas.

**First, improve regional connectivity.** In this regard, the development assistance from the Plus Three countries, the ADB, the AIIB as well as the Silk Road Fund, will provide much needed financial support for the execution of the Master Plan on ASEAN Connectivity (MPAC). Especially, the “Belt and Road Initiative” shares striking similarities with the MPAC in envisaging transport connectivity as a way to bring participating countries closer to one another and to facilitate better access to trade, investment and people-to-people exchanges. Hence, the two can complement one another very well and produce effective and efficient cooperation in both hard and soft connectivity.

**Second, promote the ramification and implementation of the WTO’s TFA as soon as possible.** As the first multilateral trade agreement adopted since the conclusion of Uruguay Round in 1994, the Trade Facilitation Agreement (TFA) represents a landmark achievement for the WTO. According to World Trade Report 2015, full implementation of the TFA will reduce global trade costs by an average of 14.3 per cent and is expected to add around 2.7 per cent per year to world export growth and more than half a per cent per year to world GDP growth. Developing countries have the most to gain from swift and full implementation of the TFA, as both their exports and GDP growth will increase at higher rates than those of developed countries. Taking open regionalism as its doctrine, East Asia welcomes any achievement in the WTO. What’s more, trade facilitation provisions in the WTO and in the AEC and even the EAEC almost converge.

**Third, deepen regional financial cooperation.** In order to **make the CMIM a more**

**effectively-functioning financial safety net** within Asia's regional financial architecture, it is quite necessary to further eliminate IMF conditionality by further raising the de-linked portion to 40% or even higher. In the area of **regional development finance**, more channels for financing development projects should be encouraged. At the same time, collaboration between the existing institutions such as the WB, the ADB, the AIIB as well as the BRICSDB, should also be encouraged to contribute to the region's development projects, especially infrastructure and environmental projects. In the area of **regional financial system stability**, the AMRO, as a regional macroeconomic surveillance unit of the CMIM, urgently needs to be strengthened in interior governance structure and its regional supervision function.

**Fourth, narrow the development gap.** Equitable economic development and the narrowing down of the development gap in East Asia are necessary for regional peace, stability, and the long-term goal of an East Asia community. In order to achieve a balanced growth, APT countries need to further cooperate in poverty reduction, industrial capacity improvement and human resources development in less-developed countries by sharing expertise and technical know-how and promoting investment in a responsible manner. In order to ensure the stability of the supply of food in the region, the EAVG II's proposal on expanding the coverage of the APT Emergency Rice Reserve (APTERR) to include other staple food in times of emergency in the region should also be supported.