

The TPP and East Asian Economic Community 2020: Integration or Disintegration? *

Min He**

Abstract

This paper discusses the impact of the TPP, which was finally agreed upon on October 5, 2015, to the East Asian Economic Community 2020 building process. The results are that, as a higher standard trade agreement, the TPP will contribute to the economic growth and domestic reform agenda of East Asian countries through freer trade and investment. However, it will disunite ASEAN countries, reduce China's influence and prevent exclusive regional cooperation in East Asia, and result in a "stumbling block" currently for the EAEC 2020 building process. Therefore, in order to re-rebalance both the economic and political powers in and across the East Asia, the CJKFTA and RCEP negotiation should be concluded as soon as possible, and the ASEAN centrality should be further substantiated. Furthermore, an EAEC 2020 blueprint is needed to strengthen the consensus of building an East Asia Community. It will be helpful to promote all-round functional cooperation to share more common interests and benefits in the region.

Keywords: EAEC 2020, TPP, EAC, CJKFTA, RCEP

JEL classification codes: F10, F15

1. Introduction

There are two free trade agreement (FTA) tracks in and around East Asia. One is the intra-Asia FTA track, such as China-Japan-Korea (CJK) FTA, ASEAN+1(10+1), ASEAN+3(10+3), and the Regional Comprehensive Economic Partnership (RCEP, 10+3+3), among others. These FTAs, in which ASEAN is the core and regional hub, are based on moderate trade liberalization. The other track is the across-Asia FTA track such as the Trans-Pacific Partnership (TPP) and FTAAP, which are based on comprehensive and high-level liberalization, see Table 1.

"Realizing an East Asia Economic Community by 2020" is expected to serve as the catalyst in the "East Asia Community" building process, which is a higher goal for the intra-Asia FTA track. The East Asia Community laid a solid groundwork for the future direction of East Asian regional cooperation, and specified the institutional cooperation not only in economic-financial but also in political-security, environment-energy, socio-cultural-educational realms.

In the across-Asia track, the TPP was finally agreed upon on October 5, 2015 and signed on February 4, 2016. The TPP is a mega-sized free trade agreement including East Asian countries such as Japan, Singapore, Malaysia, Vietnam and Brunei and other 7 countries outside of Asia¹. Other East Asia countries such as South Korea, Indonesia, Thailand, Philippines, and Cambodia have been considering participating in the TPP.

The TPP, which stretches across the Pacific connecting nations in East Asia with those in the Western Hemisphere, is one of the most significant emerging agreements among 300 or so trade agreements in the Asia-Pacific region. It is also considered as the centerpiece of the U.S. "rebalance" to the Asia-Pacific, which have made the "U.S. factor" a major external variable in East Asia cooperation. Though it is conceivable that it will not be ratified by the United States

according to the recent speech by the new US President-elect Trump, as the currently largest regional free agreement proposed, with a higher standard trade rules, the TPP will surely have great impact on the East Asia regional cooperation building process.

Table 1: Cooperation Mechanisms Status Quo In and Around East-Asia Region

	Asian Track	Asian-Pacific/Trans-Pacific Track
Scope	Asia, ASEAN as a core <ul style="list-style-type: none"> • CJK FTA • ASEAN+1 • ASEAN+3(EAFTA) • ASEAN+6 (RCEP, CEPEA) 	Asia-Pacific <ul style="list-style-type: none"> • EAS (Summit) • APEC (Forum) • TPP (12) • FTAAP
FTA Approach	<ul style="list-style-type: none"> • Moderate Trade Liberalization • Early Harvest/Step by Step to include Singapore issues • Low Legalization (emphasizing flexibilities, pragmatic, trust-building) 	<ul style="list-style-type: none"> • Comprehensive and rigorous/21st Quality • WTO-Plus trade rules • Aggressive Investment Liberalization • High Legalization on Trade Rules
Sources of Attraction	<ul style="list-style-type: none"> • Regional trade hub • Growing economy/rising power • State-led capitalism • Cultural proximity (to some Asian countries, “Confucian states”) • Regionalization 	<ul style="list-style-type: none"> • Regional security stabilizer • “Rebalancing” • Washington consensus • Value provider (democracy, human rights) • Globalization
Nature	Regional Multilateralism	Region-wide Bilateralism

Source: By author

This paper assesses these two FTA tracks, and discuss the impact of TPP to East Asian Integration and EAEC 2020 building process. Section 2 reviews the origins of the EAEC 2020 and characteristics of East Asian Integration. Section 3 analyses possible effects, positive and negative, of TPP to East-Asia countries and EAEC 2020 building process. Section 4 concludes and provides policy implications.

2. East Asian Integration and the EAEC 2020

2.1 From EAC to EAEC 2020: From an Institutional Approach to Functional Cooperation

The earliest proposal of East Asian regionalism was brought out by the Malaysian Prime Minister Mahathir Mohamad on December 1990 in order to confront and respond to the integration of Europe and North America, as well as the slow GATT negotiations at that time. This East Asian Economic Group (EAEG) proposal suggests East Asian countries including Japan, China, South Korea and the ASEAN countries should unite and cooperate, and remove American and Australian influence from regional cooperation framework. The U.S. and Australia were quick to declare themselves against this EAEG, because they were excluded. Japan and Korea were hesitant to support Mahathir’s proposal because of their longtime promotion of an Asia-Pacific region. The ASEAN countries discussed this proposal, but with no further substantive progress. Therefore, the idea of an EAEG never came to be realized in the early 1990s even though Mahathir later changed this proposal from EAEG to “East Asian Economic Caucus” (EAEC).

The idea for cooperation among East Asian Countries has been strongly spurred again since the outbreak of Asian Financial Crisis in the late 1990s. Leaders from ASEAN, China, Japan and South Korea held their 1st meeting in Kuala Lumpur to launch the cooperative mechanism “ASEAN+3” at the end of 1997. In 2001, a report titled “Towards an East Asia Community: Region of Peace, Prosperity and Progress” was submitted to the 5th ASEAN+3 meeting. This report, with 22 key recommendations including 57 specific measures, laid a solid groundwork for the future direction of East Asian regional cooperation, and specified the institutional cooperation not only in economic-financial but also in political-security, environment-energy, socio-cultural-educational realms in order to achieve the goal of building an East Asia Community.

In 2003, as the EAC mechanism was being developed, ASEAN Leaders declared the formation of an “ASEAN Economic Community”(AEC) by 2020.² This was the agreed upon goal of regional economic integration at the 9th ASEAN Summit, which aimed to transform ASEAN into a stable, prosperous and highly-competitive region with equitable economic development, reduced poverty, and socio-economic disparities. The AEC was to progress in tandem with the establishment of the ASEAN Political Security Community and the ASEAN Socio-Cultural Community.

In 2004 at the 8th ASEAN+3 meeting, the East Asian Community was officially announced as the long term goal of East Asian cooperation and the proposal of East Asia Summit (EAS) was agreed to be carried out in 2005. The meeting also reaffirmed that “ASEAN+3 process will continue to be the main vehicle.” Besides inspiring East Asian people and governments to work towards building an “East Asian Community”, the report stated that “the economic field, including trade, investment and finance, is expected to serve as the catalyst in this community-building process”.

At the ASEAN+3 Commemorative Summit in 2012 in Cambodia, another report titled “Realizing an East Asia Economic Community by 2020” took stock of all of the ASEAN+3 cooperation activities, evaluated their contributions, and recommended the realization of an East Asia Economic Community by 2020 as the main pillar of the new vision for East Asia regional cooperation and community building.

Looking back to East Asian integration, it seems as a shifting from a FTA-led integration building process to a regional functional cooperation building process, aimed at a region of shared interests featured by equitable, inclusive, balanced and sustainable development with freer movement of goods, services, investment and people. In terms of membership, the core will always fall within the ASEAN+3 countries.

2.2 Changes from the Global Financial Crisis: the TPP and the RCEP

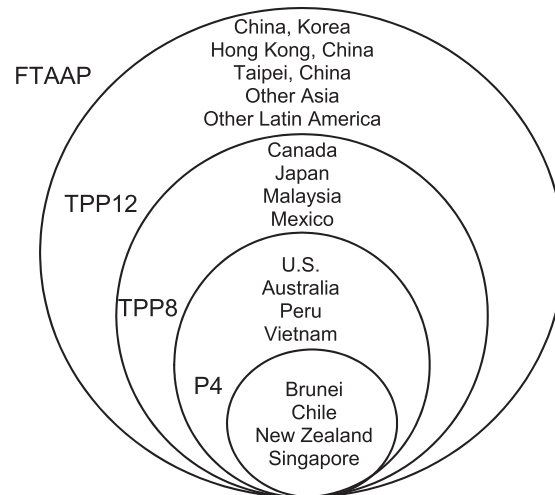
Amidst the structural changes following the global financial crisis from 2008, East Asia recovered more quickly than other regions. East Asia has been rising as a region of global significance linked not only by increasing economic interdependence, which is reflected by the rising intra-regional trade and investment, but also by multi-layered cooperation frameworks supported and involved by the governments as well. On one hand, East Asia has enhanced their competitiveness by promoting regional integration and sharpening regional production networks in manufacture goods. On the other hand, East Asia has gradually constituted a building block for a more open global economy by complying with current rules set by the multilateral trading system. This is the so-called “*Open Regionalism*” in East Asia.

As being the most important production base and market for intermediate goods, as well as a major market for final consumer goods in the current global economy, East Asia has become the main target for those who switched from domestic demand-led growth to export-led growth after the global financial crisis.

Accordingly, in 2010, the U.S President Obama set forth a plan to double exports and declared US participation in TPP, see Figure 1. In 2011 APEC meeting, Japan announced it would join the TPP negotiations. In the same month, ASEAN proposed a new East Asia FTA, the RCEP, whose first round discussion was held in May, 2013, 2 months after the first discussion of a China-Japan-Korea FTA.

However, no agreement was reached of the TPP, the RCEP and the CJK FTA in 2013 and 2014, until on October 5, 2015 the TPP agreement was finally concluded.

Figure 1: TPP Framework



3. The Impact of TPP to EAEC 2020 Building

The TPP is a mega-sized free trade agreement including 12 countries in the Asia Pacific region, which represents approximately 40% of the world's GDP. The key distinguishing features of the TPP are its higher level of trade liberalization and its new trade rules with higher standard covering broader issues. The TPP requires the elimination of tariffs, and covers not only tradition commodity goods, but also issues such as service trade, E-commerce, state-owned enterprises, intellectual property, and labor and environment.

As a representative of "US factor", the U.S.-led 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. Due to US active promotion, more of East Asian countries like the Republic of Korea, the Philippines, Thailand, Indonesia, and Cambodia were showing more interest in joining the TPP.

As a higher standard trade agreement, economically, the TPP will contribute to the economic growth of East Asia countries through trade and investment liberalization. The TPP will constitute an external justification for the East Asian countries to carry out its domestic

reform agenda.

Politically, however, the TPP “as another aircraft carrier” to “help U.S. promote a global order that reflects both our interests and our values” has become a device for the U.S to seek leadership in Asia-Pacific region. It will prevent exclusive regional cooperation and maintain the predominance of the U.S. in East Asian affairs, and result in a “stumbling block” instead of “building block” to both EAC and EAEC 2020 building.

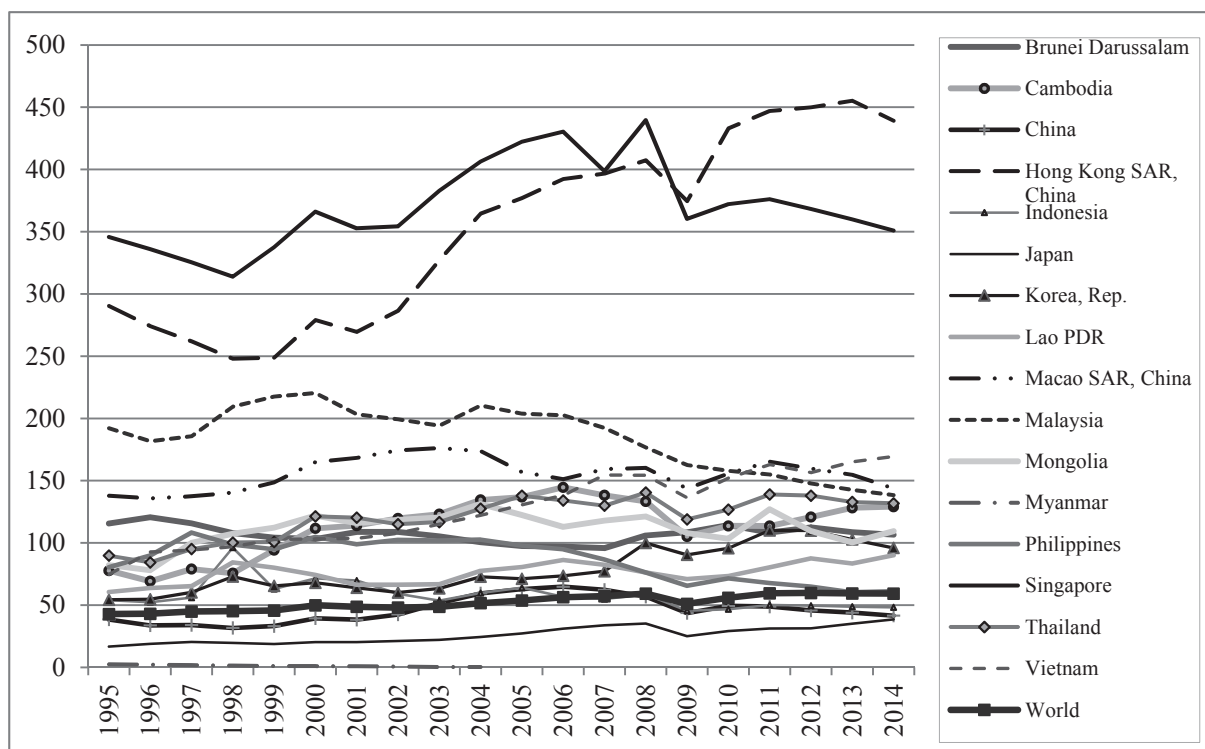
3.1 The TPP has a great impact on the economic growth of East Asian economies, thus back for EAEC building

Through the liberalization of trade and investments and the new rules, the TPP will have a great impact on the economy of East Asian countries. First of all, being a high level Free Trade Agreement, TPP will drive the trade between the U.S. and the East Asia Countries and contribute to economic growth of East Asia countries, most of which are export-led growth countries, as is shown in Table 2 and Figure 2. It is expected that the TPP will promote the further economic growth for participating countries, see Table 3. Furthermore, the high standard of the TPP, which requires a greater level of the market liberalization, coincides somewhat with the East Asian countries’ efforts to introduce market reforms into their economies, especially for the ones with high level of state intervention. From these aspects, the TPP therefore is good for the EAEC’s goals of building a single market and production base, and engagement with the world economy.

Table 2: The Ratio of Export to the U.S. in the total Export of Selected East Asian Economies, 2014 (Goods Export in Billion Dollars)

Export	Singapore	Malaysia	Indonesia	Philippines	China, HK	China, Taiwan	ASEAN	Korea	Japan	China
Total Export	409.8	234.1	176.0	61.8	524.1	311.9	1294.8	573.1	683.8	2342.3
to the U.S.	24.2	19.7	16.6	8.7	44.2	32.5	124.6	70.6	130.0	397.1
The Ratio%	6%	8%	9%	14%	8%	10%	10%	12%	19%	17%

Source: UNCTAD Statistics

Figure 2: Trade to GDP Ratio of East Asian Economies, 1995-2014 (% of GDP)

Source: WDI

Table 3: Impact of regional trade liberalization on real GDP (%)

	Worldwide	FTAAP	ASEAN+6	ASEAN+3	CJK FTA	TPP
Indonesia	4.71	3.64	3.69	3.00	-0.32	-0.36
Malaysia	12.34	9.43	8.27	7.53	-0.52	4.57
Philippines	6.00	6.07	4.60	4.42	-0.75	-0.39
Singapore	3.53	2.42	3.15	2.71	-0.42	0.97
Thailand	26.35	20.24	17.03	16.31	-1.19	-0.89
Vietnam	37.50	34.75	23.42	23.13	-0.50	12.81
China	7.35	5.83	3.43	3.16	2.27	-0.30
Japan	1.25	1.36	1.10	1.04	0.74	0.54
Korea	8.68	7.10	6.34	5.94	4.53	-0.33
Australia	2.46	2.08	2.44	-0.04	-0.11	1.16
India	8.39	-0.91	2.99	-0.29	-0.16	-0.22
New Zealand	4.86	3.80	2.29	-0.19	-0.24	2.15
U.S.	0.35	0.26	-0.07	-0.03	-0.05	0.09

Source: Kawasaki Kenichi, Determining Priority Among EPAs: Which trading partner has the greatest economic impact? Research Institute of Economy, Trade and Industry, 2011

3.2 The TPP provides a complementary mechanism for EAC building, therefore increasing the chance of EAEC achievement to some extent

Another contribution of TPP to EAC and EAEC building is the establishment of various rules covering not only traditional trade rules such as trade in goods, trade in services, invest-

ment, and intellectual property, but also E-commerce, government procurement, state-owned enterprises, labor and environment, and non-traditional issues that are not included in existing FTAs or RTAs. These TPP regulations provide complementary support and high-level direction for East Asia Integration, hence contribute to the EAC and EAEC building.

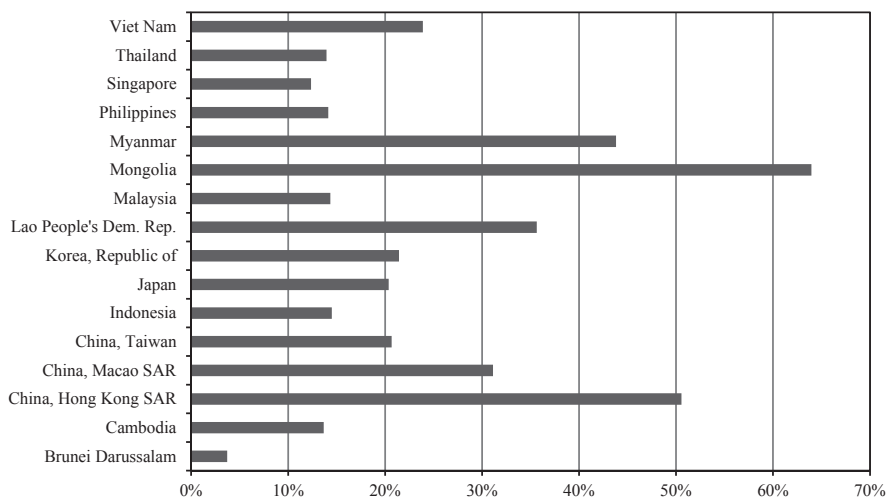
3.3 The TPP distracted the attention and resources of East Asia countries especially Japan and ASEAN countries from EAEC building

The TPP may lead to disunity within ASEAN because not all of them are included in the TPP and this will surely undermine ASEAN's centrality role in leading a regional integration process. The participation of the overlapping cooperation mechanisms of Japan and ASEAN countries both in intra-Asia cooperation mechanisms such as ASEAN+3, ASEAN+1, AEC, RCEP, EAC, EAEC etc., and across region (Asia-Pacific region) mechanism (like TPP) will distract the attention and resources of those countries. There is also a concern that now the TPP has come to a deal ahead of the RCEP, some of the dual members may have less desire to continue their efforts on the RCEP, which encompasses all the APT (ASEAN Plus Three) countries, and thus hindering the EAC and EAEC.

3.4 That the TPP excluded the most dynamic market in the region will reduce China's influence in East Asia, thus slow down EAEC building

China has experienced remarkable economic growth, and become the largest country in terms of value of world trade and second largest country in total output. China plays an important role driving the trade and economic growth in East Asia and the world. See Figure 3. Almost all the economic organizations in East Asia have leveraged China's growth to consolidate economic integration. However, the TPP excluded the most dynamic market in this region, and aimed to reorient the trade focus to the U.S. This TPP agreement will compete with China's economic interests therefore reduce China's influence in East Asia, and likely slow down EAEC construction.

Figure 3: East Asian Economies' trade with China as % of total trade, 2014, Merchandise Trade



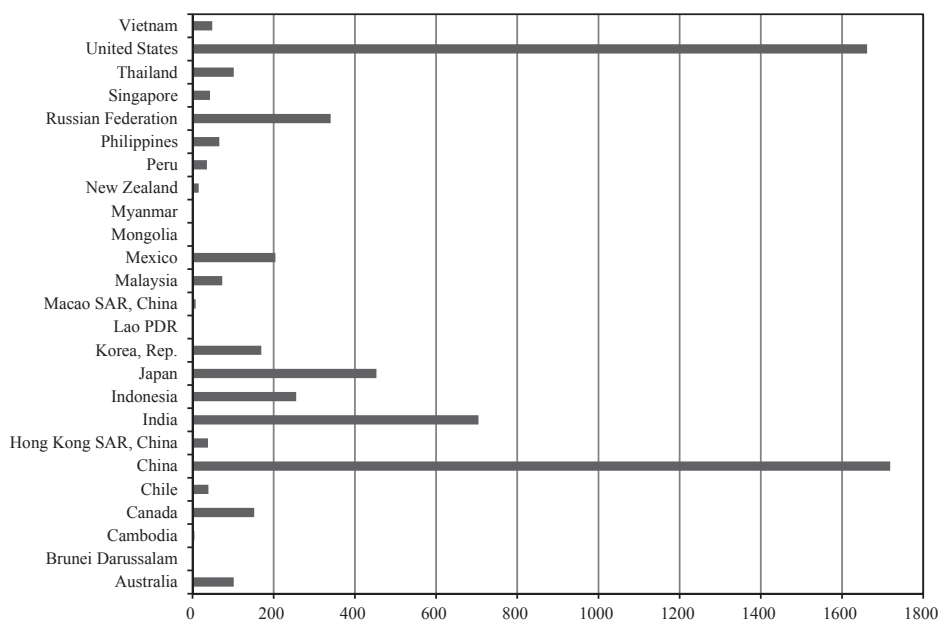
Source: UNCTAD Statistics

3.5 The US-led TPP with higher standard is supportive of U.S. economic goals but unrealistic currently in East Asia

The TPP has set its sight “behind the borders” of signatories to regulate investment, capital flows, intellectual property, and state-owned enterprises, which no prior multilateral proposal has attempted. Its wide-ranging implications for labor standards, social services, and freedom of on-line data portend a comprehensive blueprint for future agreements. And yet, the TPP’s assertive vision of Asia-Pacific integration may harbor the seeds of regional disintegration.

The TPP’s assertive vision is to seek to expand the role of markets in the delivery of health-care, housing, foreign investment, and services in a region where government programs have long underpinned social welfare, national development, and international cooperation. Vietnam, for instance, stands out among TPP members for its high level of state intervention. If the TPP were put into practice, these countries, most of which are developing countries, will call off government support. Faced with free market, these countries may experience strong shocks with no protection from the overseas countries especially from the developed countries. This is likely to increase economic instability, which may cause another round of economic crisis.

Table 4: GDP of East Asia and TPP economies, 2014
(constant 2011 international billion dollars)



Source: WDI. GDP, PPP

4. Conclusion and Policy Implication

We find the TPP is representative of the Asia-Pacific FTA track, and EAEC 2020 is representative of the intra-Asia track. These two tracks are viable and partly complementary pathways in and around this region. These tracks will compete with each other as well. It seems like East Asia integration is being Asia-Pacific Oriented because of the earlier conclusion of the TPP agreement. In order to Re-rebalance both the economic and political power in and across the East

Asia region, the policy implications are as follows:

4.1 To Conclude the CJKFTA and RCEP Negotiation ASAP

Compared with high level US-led TPP, the CJKFTA, involving the 3 largest economies in East Asia, is of greater importance to the East Asia integration process. While the RCEP, which places more importance on providing developing members with economic and technical cooperation to narrow the development gap, is more suitable in its current development stage for East-Asia countries. The conclusion of CJKFTA and the RCEP will provide an optimal platform for a regional integration scheme and additional flexibility to the least developed ASEAN Member States.

4.2 To Exert ASEAN Centrality

EAEC/EAC building takes time. East Asian countries should be patient and united, and strengthen coordination and cooperation through these overlapping cooperation mechanisms, both intra-Asia and across Asia-Pacific. As the driver and the regional hub, ASEAN will continue to play its dominant role in carrying out all the cooperation mechanisms, thus the centrality role of ASEAN should be further substantiated.

4.3 To Develop an EAEC/EAC Blueprint

EAEC/EAC is an idealist movement. Some scholars believe that EAEC/EAC will never come true. The reality is that EAEC/EAC has been weakened by realist politics, strategies and interests. However, this is just the reason why a blueprint is seriously needed for East Asia region countries. Only through the blueprint can the consensus of establishing an East Asia Community be built and strengthened. Just like European scholars and think-tanks preparing the idea and blueprint of European integration for political leaders to make decision, an ideal blueprint for East Asian integration is also in need as a spiritual and action guide to rally the cooperative collaboration to turn the vision to reality.

4.4 To Promote All-round Functional Cooperation

In order to achieve the goals of EAC/EAEC 2020, East Asia countries need to take actions and seize each opportunity to enhance efforts of cooperation. No matter EAEC could be established in 2020 or not, all East Asian countries should actively join in the functional cooperation in economic and social cultural areas to share more common interests and benefits. The Belt and Road Initiative (BRI), proposed by Chinese President Xi Jinping in 2013, and Asian Infrastructure Investment Bank (AIIB), for instance, mainly focuses on connectivity and cooperation among countries, could be one of the opportunities. Another example is to strengthen cooperation on reducing inequality between and within East Asia countries, such as deepen the agricultural poverty reduction cooperation.

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** Assistant Professor, School of International Economics, China Foreign Affairs University

¹ They are the U.S., Australia, Peru, Canada, Chile, Mexico, and New Zealand.

² In January 2007, at the 12th ASEAN Summit, ASEAN Leaders collectively agreed to accelerate the establishment of the ASEAN Community from 2020 to 2015, as formally articulated in the *Cebu Declaration on the Acceleration of the Establishment of ASEAN Community by 2015*.

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