

The Regional Economic Integration

Introduction:

Regional economic integration has existed in most geographical regions since the early days of the multilateral trade system. For example, the European Union was first established as the European Economic Community through the Treaty of Rome in 1957. Latin America and Central America followed soon after with the formation of the Latin American Free Trade Association and the Central American Common Market in 1960. By 1965, regional integration had also begun to take root in North America with the conclusion of the Automobile Products Trade Agreement between Canada and the United States. Regional economic integration is both a process and a state of affairs. Regional economic integration basically approaches a hierarchical model.

Free trade area involves the elimination of tariffs and quotas on goods. This is followed by a customs union, in which members of a free trade area also adopt a common external tariff. A common market is the next step and involves creating a single market, with common policies on product regulation and the free movement of goods, services and factors of production.

To benefit from regional integration, there are various conditions which has to be fulfilled, they are political commitment of all countries, to higher forms of integration; mutual economic dependence; disparities between countries of the region or narrow economic gaps; similarities at the policy level basically in human development and social policies; lastly, good governance and institutions in order to maximize the benefits of economic integration. Regional economic integration generally leads to greater foreign direct investment (FDI), financial and capital account liberalization, trade liberalization and migration of labour. A region made be regional integration mainly attracts foreign investment and it also reduce the rivalry between the neighbouring regions.

Regional Economic Integration in East Asia:

In the last two decades, the East Asian economies have achieved substantial liberalisation in Foreign Direct investment (FDI) under the frameworks of WTO and APEC. The result of the expansion of trade and FDI has become the main reason for development and economic growth in East Asia. Trade and FDI openness has also encouraged domestic institutional and governance reforms, which has further promoted trade and investment. Since early 1990s, emerging East Asia has also experienced increasing financial openness. Financial openness helps in rapid economic growth by attracting short term capital and long term capital with trade and FDI openness, with deepened market driven economic interdependence in East Asia. It has been applied as valuable comparative parameters due to a number of its significant characteristics:

1. East Asia is the world largest regional market of 2 billion populations, which is much bigger than the 27 countries of European Union contributing 495 million and NAFTA contributing 405 million populations.
2. After 1960 East Asia has been recorded as the fastest growing region of the world. The region has recorded average annual economic growth rates of around 7%, which is much higher than that of the average 5% growth in the rest of the world.
3. East Asia contains almost half of the world's foreign exchange reserves and in which China alone recorded a world largest foreign exchange reserve which passed \$1.4 trillion in 2007.
4. Along with the European Union and the NAFTA (North American Free Trade Agreement), East Asia is one of the world's three largest economically integrated regions.

East Asia has been characterized by extensive economic integration at both regional and global level. Commercial enterprises based in East Asian states - particularly Japan, but increasingly also emerging industrial states such as Singapore, South Korea and Taiwan - have been at the forefront of processes of regional economic integration, and are increasingly important contributors to global transnational research and development (R&D) and production networks. China, a relative latecomer to transnational economic collaboration, is an increasingly prominent participant both regionally and global as well, as it undergoes a transition from a site for low value added assembly and production to advanced production. Regional economic integration in East Asia is notable not only for its extent, but also for the degree to which it transcends the economic and politico military rivalries of the states concerned. The pattern of East Asian economic integration reflects relatively little concern over economic objectives stemming from the perceived requirements of national security or intra regional economic competition. The most striking example of this is provided by China and Taiwan, which have managed to develop an extensive and mutually beneficial economic relationship, despite their long standing rivalry.

Achievements of Regional Economic Integration in East Asia

The prospect of regional economic integration plays a positive role in East Asia after initiating in United States and other western countries. Following are the some of the achievements of regional economic integration in East Asia which can be the proof that East Asia is gathering pace.

(i) ASIAN Free Trade Area

ASIAN is the important foundation for regional integration in East Asia. This was the first ever regional economic integration of East Asia. It does not affect the intra ASEAN trade and also the region's overall trade with world. The change came in 1992 when ASEAN achieved establish agreement on free trade area in order to help its neighbouring economies to achieve growth in trade. The main aim of ASEAN is to attract investors

from foreign and regional as well. Multinational corporations locating in ASEAN would be able to exploit economies of scale and to rationalize production by allocating different segments of production processes among the ASEAN countries according to their respective competitive advantage. The tariff is reduced to 0-5% till 2008 for ASEAN. ASEAN also conducts various agreements focused on enhancing regional integration in transport and communications, trade facilitation, investment, e-commerce and intellectual property rights.

(ii) Free Trade Agreement

Regional Economic Integration in the form of Free Trade Areas has come into existence in the Asia Pacific region. Growing number of bilateral and plurilateral FTAs involving such countries as Japan, China, Singapore, Korea, Canada, New Zealand, Mexico and Chile are currently being negotiated. Significantly, this trend is gathering momentum not much because of a change of sentiments in some of the countries in the region like Japan, China and Korea, which have been strongly opposed to preferential arrangements in the past.

In the various Asian countries an important breakthrough was achieved when Japan and Singapore agreed in October 2000 to begin negotiations on a bilateral FTA with a view to concluding the talks by the end of 2001. These results to be gained a little by both countries which already have open investment region, minimum tariff and little trade in the area of agriculture. The important features of Japan and Singapore free Trade Area are establishing the harmonisation of legal frameworks, mutual recognition of certification authorities for digital signature and coordinated corporate privacy standard. With the help of FTA many Japanese firms find it easier to run their operations in Singapore. This FTA will not only benefit these two signatories but will also have positive effect on various other countries of East Asia. Japan - Singapore FTA is also important because it is the first institutionalized link between North East Asian economies and South East Asian economies. It is therefore has a potentially positive demonstration effect that could catalyse closer economic integration in East Asia as a whole. Many times the idea of East Asia FTA was failed few years back. But later East Asia Free Trade Area showed a great pace and attributed not only Japan - Singapore FTA but also change the position of other East Asian countries like China. With the successful launch of Japan - Singapore FTA, China also decided either creates a free trade zone between China and ASEAN to set up link with the ASEAN Free Trade Area.

(iii) ASEAN plus three

Unlike other more established regional groupings, cooperation among the ASEAN+3 (i.e. ASEAN plus China, Japan and Korea) thus far has been proceeding more rapidly on financial issues than on trade matters. So for this purpose it is decided to call for a summit on an annual basis which can be a kind of informal meeting. The aim of these summits is to set up the vision to explore ideas for cooperation and has also been holding regular meetings of its Finance Ministers. Trade agreements in East Asia are

basically slow to organize as in other regions partly and politically difficult to reach because of the diversity in approaches to trade liberalization. Financial cooperation can proceed more quickly to some extent without discrimination against outsiders. For this purpose, the financial crisis in 1997 provided a strong impetus for East Asia to push ahead with financial cooperation. ASEAN+3 have also implemented a region wide system of currency swaps to help countries in the region which are dealing with possible future financial crises. This currency swap system will help in the surveillance mechanism that ASEAN has created to anticipate and head off future crises through sophisticated early warning indicators. These achievements are the positive sign that shows the further growth in the region of East Asia after facing financial crisis in 1997.

Impact of Regional Economic Integration: Case from China

Since ancient China has the hegemonic power in the East Asian region with good relation with neighbouring countries. East Asian region was also influenced by Chinese traditional culture including language and philosophies. Till mid 9th century China has still the largest economy in the world but after mid 19th century till early 20th century China was overwhelmed by static decay, civil instability, famines, military defeats and foreign occupation. During the Cold War period, China's social experiments achieved some progresses but suffered serious setbacks due to the internal and external constraints. Since China started the economic reform in late 1970s, the world witnesses the return of China's emergence as a regional and global political and economic power.

China attracted various large foreign firms when it adopted the open door policy and large amount of foreign currency inflows into China this was not enough after this many industries with latest technology and better infrastructure have established in China. Taking the example of Hong Kong, it has moved almost all of its manufacturing industries to China while. In recent years Taiwan and Mainland China are also came into economic relation after China open doors for foreign investments. Due to the shift of these firms the growth of country as well as firm are coming into existence. In terms of intra regional economic relations in East Asia, since the 1990s there has been a shift away from the previous Japan led "flying geese" model of vertical economic integration structured on the basis of the Japanese investment, technological transfer and supply of manufacturing parts in line with a hierarchical market exchange and regional division of labour and production networks to a new horizontal intra regional economic integration. Economic integration helps China to grow in positive way in terms of economy and trade which makes Asia to make stand in the competition with developed nations of EU and NAFTA. The new engine of regional economic growth in China is basically by foreign direct investment which becomes the reason for the developments in the region. It generated networks between domestic firms and other firms in the other countries. This network based exchange of trade and capital has profound impact to East Asian economic integration. One of the key actors in generating dynamic intra regional industrial and economic integrations is the overseas Chinese business communities. Economic integration not only contributing China's economy to grow by the sources of foreign direct investment but also contributes to be a network connector which becomes

link between Chinese market with rest of the region. With this link many of the developed economies in the region are using China as low cost manufacturing and export base instead of directly exporting finished goods to the Western markets. For this purpose they moved their production in China which results in enhancing the China's integration in the regional economy in East Asia. Main factors of these firms in regards to regional integration with China because China act as a source of technology and expertise, Capital and it also brings close business relation between China and rest of the region.

The rise of China has met different responses from different corners of the world. With the rapid economic growth due to the regional integration has transformed the Asia in many ways. Talking in economical and political terms China's energy and commercial ties with all major regions of the world are expanding. China is one of the main driving forces proliferating regional and bilateral trade agreements and politically, it is often interpreted that China seeks to shape the region's emerging political institutional contours and to encourage movement toward an East Asian community in order to balance the declining influence of the United States.

Growth prospects and challenges of China Japan Business Alliance While Japan poses a formidable competitive threat, it also provides a vast opportunity. As the latter aspect of China's rise became increasingly apparent around 2002, China's perception of Japan became more realistic and balanced. Japan's investment in China has been increasing rapidly in recent years: between 1999 and 2004 it grew by 3.5 times. And trade between the two countries has risen steadily over the last six years. Japan China business alliances have begun to cover broader aspects of business activities, from joint ventures and technology tie ups, to contracting aspects of production and consignment arrangements. Although there have been a limited number of examples, Japanese firms have even established comprehensive strategic partnerships with Chinese firms. With major and big Japanese firm small manufacturing firms are also looking towards China as locating their business and with better opportunities with future expansion. But for the successful business alliance between China and Japan, these countries have to work together for several challenges which can become the issue in their alliances

1). There must a rule passed to secure the safety of Japanese firms operating in China and concluding a bilateral investment agreement. The large scale anti Japan demonstrations in China this past April damaged the facilities of some Japanese firms. And while the movement was promptly cooled by the Chinese government, a survey conducted in May following the April disturbances revealed that more than a third (or 36.5%) of respondent firms anticipate the negative impact on their business activities in this fiscal year. For further Japanese FDI in China in future, a bilateral investment agreement needs to be put in place. There is some cautious concern on the Chinese side about concluding such an agreement, but thinking of future technological cooperation between both countries should take a forward looking approach.

2). Another issue between both countries can be regarding the credit. Both China and Japan have to work together to build more credit based business culture. For urban economies to achieve healthy growth, the safety of business transactions must be guaranteed. Various business models can only be fostered in an economy where business transactions are secured and mutual trust is well established. A large number of foreign companies operating in China, however, face difficulties in collecting monies owed to them. This is also a looming issue for Chinese companies, because such problems can hinder future stable economic growth in urban areas, where many of these companies operate. China can resolve this problem by swiftly establishing an antitrust law and also enhancing law enforcement, clamping down on illegal transactions and improving corporate transparency. Japan also faced these issues during its high economic growth in the 1960s.

3). With getting the tough competition and being a rival for some years China and Japan are now understand the importance of come into alliance for the future growth, so for this purpose now Japanese and Chinese firms are coming into collaboration. Some local Chinese companies have recently begun to actively seek business partnerships with Japanese counterparts. In January 2002, Japan's Sanyo Electric Co. Ltd. (Sanyo) and China's Haier Group Company (Haier) agreed on a comprehensive collaboration deal some local Chinese companies have recently begun to actively seek business partnerships with Japanese counterparts. In January 2002, Japan's Sanyo Electric Co. Ltd. (Sanyo) and China's Haier Group Company (Haier) agreed on a comprehensive collaboration deal that included the sale of Sanyo products under either the Sanyo or the Haier brand names. In July 2003, a major Chinese pharmaceutical company announced an agreement with a medium sized Japanese manufacturer of Chinese medicines to purchase the latter, the first case ever for a Chinese company to buy a Japanese one. These are the few example which shows that Chinese companies provides Japanese company with distribution channel to sell their products in Chinese market and grow their business.

Conclusion

East Asia will enter the "second stage" of economic integration by around 2008, when the whole region will aspire to become a free business zone, encompassing all regional FTAs and EPAs, including the FTA/EPA between China and Japan. However, in order to make talks for such an agreement go smoothly, China and Japan must build a firm mutual trust, both on political and private levels. Recent developments and achievements suggest that East Asia is finally coming around to giving more serious consideration to regional economic integration either as a complement or an alternative to the multilateral trading system. As discussed above, the economic grounds for closer economic integration among the East Asian countries have existed for many years. Rapid economic development over the past few decades, reinforced by changes in the global economic environment and an uncertain outlook for the international trading system, appears to have convinced the East Asian countries that potential benefits of closer regional economic cooperation outweigh the costs at least for now.

