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Going Beyond the Free Trade Agreements and Establishing a New East Asian Economic Order

In early April of 2012, the 20th ASEAN (Association of Southeast Asian Nations) summit was held in the Cambodian capital Phnom Penh. According to a report by Nikkei, the Japanese economic news, during this summit, ASEAN will actively propose the establishment of a new large area FTA (free trade association), which will strongly counter the TPP (Trans-Pacific Partnership Agreement). The large area FTA is officially the framework of the "Regional Comprehensive Economic Partnership", RCEP in short. Through this agreement, ASEAN hopes that the commodity trade, the service trade and the investment arrangements under the FTA framework could be expanded to the six East Asia Summit dialogue partners, which include China, Japan, South Korea, India, Australia and New Zealand.

The concept of the RCEP was officially put forward in 2011 during the 19th ASEAN summit. At that time, according to a report from the Japanese newspaper Asahi Shimbun, ASEAN was stimulated to establish a large area FTA by Japan's announcement that it was joining the TPP negotiations. It hopes to co-lead in the establishment of a new economic framework by working together with China.

The prototype for the TPP was the free trade agreement established by Singapore, Brunei, New Zealand and Chile. In November 2011, the United States officially launched the TPP framework agreement by hosting the APEC summit. It changed the original nature of the TPP and dominated the negotiations by establishing the rules of the game. The United States intends to construct the TPP under the 21st century standard for Free Trade Agreements, which includes the protection of intellectual property rights, labor standards, environment standards, safety standards, technical barriers to trade, sanitation quarantines of animals and plants, promoting the development of small and medium-sized enterprises, competition policy, government subsidies, fighting corruption, limiting state-owned enterprises and other points. The standard of the TPP is higher and the area it covers is broader than for the average free trade agreements. Since the United States focused on "Returning to Asia" at an economic level through dominating the TPP negotiations, the cooperation path for the East Asian countries faces the risks of being distorted. Differences have not only come to light between ASEAN and its dialogue partners, but also exist within the ASEAN. Of the 10

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ASEAN countries, Vietnam, Malaysia, Singapore and Brunei announced they would take part in the TPP negotiations. Although the United States makes it clear that the TPP is open to all the APEC members, apparently most of the ASEAN countries find it hard to reach the threshold set up by the United States. Even in ASEAN countries which claim to have joined the TPP agreement like Vietnam, the policies on protective tariffs and supporting state-owned enterprises are not up to the requirements of the TPP. Also, there exist obstacles in the aspect of environmental and labor standards for both Vietnam and Malaysia. Therefore, differences will inevitably exist between those who take part in the TPP and those who don't, and between those who join earlier and later. These differences will not only destroy decades of hard-won community feeling for ASEAN, but also make the existing "spaghetti bowl phenomenon" more complex. This term indicates the phenomenon of overlapping rules of origin and preferential measures of many FTA agreements canceling or lowering the benefits brought to commodity trade, service trade and free investment by those FTA agreements.

That Japan announced to take part in TPP increases ASEAN's anxiety over marginalization in regional economic cooperation. In the existing East Asian economic cooperation framework, whether it is seen as 10+1(ASEAN + either Korea, China, Japan), 10+3 (ASEAN + Korea + China + Japan) or 10+6 (ASEAN + Korea + China + Japan + India + Australia + New Zealand), ASEAN is still placed in the "driving" or leading position. Because of the competition of great powers in this region, a number of states have made it their objective to conclude regional trade agreements with ASEAN. This has made ASEAN the "axle state" in the regional economic cooperation, while China, Japan and Korea become the "spoke states", since there are no corresponding regional trade agreements among them. This structure of cooperation has brought many specific benefits to ASEAN, the "axle state". For instance, its products can enter all the markets of the "spoke states" through regional trade agreements, while products from the "spoke states" are not able to enter each other's markets due to the restriction on the rules of origin. In terms of investment, the special status of the "axle state" helps to attract outside capital (even including those from "spoke states"). However, once Japan enters the TPP, the pattern of East Asian cooperation will be rewritten. In a broader Asia Pacific Economic Cooperation Framework, Japan will take the place of ASEAN to become a new "axle state" in a larger regional cooperative structure, while ASEAN as a whole would be reduced to the situation of "spoke state". For ASEAN proposing the large area FTA is not necessarily a direct way to counter the TPP, but it indeed considers reducing the negative influence the TPP exerts on ASEAN. For the alliance with ASEAN at its center, TPP is both the pressure and the centrifugal force. If tackled properly, it will promote further market integration

and policy coordination. If not, ASEAN and all the other East Asian economies will lose the power to lead on issues of regional cooperation.

For Japan, joining the TPP has greatly expanded its strategic freedom in the field of cooperation in the Asian Pacific region. Like a senior government official in Japan said, if the strategy of the U.S. "Returning to Asia-Pacific" achieves substantial results, Japan entering the TPP could "change the pattern of economic cooperative rules in the Asian region led by China to a future one decided jointly by Japan and the U.S." Even if the U.S. strategy of "Returning to Asia-Pacific" is just a "political gesture" with no real effects on economic cooperation, which rather becomes the driving force of the establishment of a large area FTA in ASEAN, this wide cooperative framework (10+6) is still a satisfying way for Japan to replace the framework (10+3) initiated by China. Whichever the situation, the relative power of Japan in the East Asian Region will be guaranteed.

China is also under strategic pressure from the TPP just like ASEAN. In essence, the return of the U.S to Asia is a proactive strategy for the present hegemon to suppress the rising powers. The U.S has used the ideological and military "Offshore Balancing" strategy to maintain its decreasing supremacy. In this strategy, three parts of the world, namely Europe, Northeast Asia and the Persian Gulf, are very important for the U.S. The U.S must ensure that no other countries can dominate affairs in these three regions in the way that it controls the Western Hemisphere. As a result, its competitors in other regions would concentrate their national powers on domestic matters without affecting the development of the U.S. The best way to achieve this goal is depending on countries in the region to check the rising powers. And if it doesn't work, the American overseas army will assist and eventually suppress the rising powers. In Europe and the Persian Gulf, the U.S can rely on the different countries to check each other. "But to suppress China, the U.S have to play the main role as no neighboring Asian countries are strong enough to complete this task. And if the U.S was no longer weakened by unnecessary overseas interventions, it would be more powerful in suppressing China's ambition. Therefore, the size of the marines and troops should be decreased in places like Afghanistan and Iraq. And the future budget for the air and sea forces should be increased as they would be the main force in suppressing China's rising." This security strategy is also used to suppress China's economic rise. In the America's Pacific Century in last November's Foreign Policy Magazine, one of the six policies published by the US Secretary of State Hillary Clinton is to expand its trade and investment. And the TPP has become the means for the U.S to directly intervene in the reconstruction of Asia's economic and trade rules, as well as the weapon to suppress the potential supremacy.

How should China deal with this situation? From the

perspective of passive defense strategy, on the one hand, instead of directly opposing the U.S in the FTA talk among the Northeast Asia members, China should hold a strongly supportive attitude on topics like the new framework (10+6) and the China-Japan-Korea FTA. It can even apply to participate in the talks as an observer and acquire information or even influence the talk. On the other hand, China should further develop the present ASEAN-China FTA (also known as ACFTA) by integrating all the supply chains through the trade and investment network among large enterprises. As long as achievements are made in the integration of ACFTA, it would be no worry that other free trade agreements might weaken East Asian cooperation.

More importantly, from the perspective of an active defense strategy, with full exploration of the potential of present free trade agreements, China can jump out of the set pattern of promoting East Asian cooperation only through free trade agreements. China could be devoted to providing public goods which are complementary to the agreements, in order to build up a new economic order in East Asia. To be more specific, China should promote the construction of the East Asian financial rules through East Asia's foreign exchange reserves. In the long run, just like the ultimate goal of the U.S in promoting the TPP, China should also promote East Asian financial rules as the prototype for the global financial rules.

Firstly, the differentiated public goods China provides to East Asia will not be a direct component of the public goods within the trade rules which are provided by the U.S. On the contrary, the two are complementary to each other. Thus it would not be a tough choice for the regional members when choosing public goods, making it possible for them to participate in the process of building a regional financial rule lead by China. This complementarity largely decreases the possibility of the U.S confronting China on providing public goods to East Asia. In fact, a report from the RAND Cooperation, the important think tank of the U.S, also suggested that the cooperation between the U.S and the East Asian countries should not put these countries in a tough position of choosing between China and the U.S.

Secondly, international financial rules are exactly the scarce yet urgently needed public goods for the international communities. This gives China the moral advantage in initiating this public good. The repeated financial crises indicate that without a set of effective global financial public goods, the current world financial system is nearly in a state of anarchy. And if China could make some substantive contributions in providing regional financial public goods, it would definitely gain approval from the international communities.

Thirdly, as the corresponding ideologies to the regional financial rules should accord with the Asian culture, China's efforts in the construction of such rules can promote the regional identity. And some other members in the area may share the

costs of the construction. The core of the global financial rules are strengthening regulation, a concept recognized by the Asian countries yet excluded from the western free market ethics. As Kishore Mahbubani, dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore, wrote in his article Time to visit Asian factories for capitalist lessons, "Alan Greenspan was probably the greatest victim of this ideological conviction that markets always know best. The former chairman of the Federal Reserve fully agreed with the Reagan-Thatcher thesis that governments should step aside and let the markets roll. This has wreaked havoc on the world. But no Asian society, not even Japan, fell prey to this ideological conviction. Instead, Asians believe that no society can prosper without good governance." In fact, it is too optimistic for Kishore Mahbubani to believe that no Asian society fell prey to the lack of financial regulation. Asian countries used to be the main victims of lack of regulation in international financial activities. As these countries can do nothing about their domestic regulation, a set of global, or at least regional, financial public goods would be very attractive.

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