

## Scenarios of Asian Economic Integration from the Northeast Asian Situation

Wing Thye Woo

Brookings Institution, University of California at Davis, and Central University of Finance and Economics (Zhongyang Caizhen Jingji Daxue)

*CORE conference "Emerging Developments in East Asia FTA/EPAs" at Doshisha University, Kyoto, 27-28 October 2006*

### European Economic Integration (1/2)

- Norm is not EU but slowly-integrating customs union e.g. Mercusor, ASEAN
- Desire to prevent future European wars
  - Falsification of Norman Angell "The Great Illusion" (1910)
  - Dialectical materialism: customs union (base structure) will enable political union (superstructure)
  - *caveat: ahistorical*
- Greater wealth with greater division of labor
  - *caveat: why second best response?*

### European Economic Integration (2/2)

- Especially initially, strengthen ties within NATO coalition
- Subsequently, restrain the scope for unilateral actions by growing West Germany and then of united Germany
- Enabling factors
  - Biggest countries wish to integrate
  - Common political system (democracy) and cultural heritage (Ukraine preferred to Turkey)
  - Similar economic structure – *caveat: political*

### The Northeast Asian Situation

- Divisive factors
  - Historical factors e.g. Yasukuni
  - Different international camps (Japan and ROK are US security partners)
  - Dissimilar economic structure
- Cohesive factors
  - Establishment of EU and NAFTA
  - Experience of Asian financial crisis
  - Explosive growth of fragmentation trade
- Fundamentally, only the world market is big market enough for China and Japan

### Asian Economic Integration Scenarios

- Insufficient incentives within group to develop a tight regional group *a la* EU
  - Mahathir: A Caucus without Caucasians, ASEAN+3 versus East Asian Summit
  - Reaction of US, APEC-style initiative
  - Outcome on Korean Peninsula
- "Involuntary" tight integration as response to protectionism outside of Asia:
  - Asian integration from the effective end of WTO multilateralism
  - integration as bargaining chip to preserve WTO multilateralism

### Richard Freeman, "Doubling the Global Work Force: The Challenge of Integrating China, India, and the Former Soviet Bloc into the World Economy," November 8, 2004

Millions of Employed	Global	Advanced	LDC	New
1990 Before	1,080	403	680	---
1990 After	2,315	403	680	1,232*
2000 Before	1,389	438	851	---
2000 After	2,930	438	851	1,383**

- \* China, 687; India, 332; Ex-Soviet, 213
- \*\* China, 764; India, 405; Ex-Soviet, 214

Source: tabulated from Penn World Tables, using data on GDP per capita, GDP per employee and population. Ex-Soviet data are sparse; most 1990 based on population extrapolations.

### **Changes in International Situation**

- Size of adjustment unprecedented, the Richard Freeman 100 pct shock, outsourcing via internet makes services tradeable
- Speed of adjustment: fast movement up value-added ladder
- Decline in US political tolerance toward trade adjustment in post-Cold War
- Unraveling of intellectual consensus in USA? Paul Samuelson's bombshell
- Post-September 11 syndrome in USA
- Europe's likely response