Committee: Asia-Pacific Committee

Issue: The Question of Economic Integration in the Asia-Pacific

Student Officer: Ted Dennis

Position: Deputy President of the Asia-Pacific Committee

Introduction

With the advent of globalisation, many countries have been able to open up their borders for trade. In order to promote trading and be more efficient at it, nations have the choice of forming trading blocs where they adopt similar policies. The intended goal of trading blocs is to break down trade borders for ease of transactions. This means adopting lower tariffs or abolishing it as a whole. Though forming a trading bloc is always beneficial for countries, the degree of economic integration remains a hotly debated topic within every nation. This is because there are many tradeoffs as economies become more integrated with one another. Often countries have to give up their own sovereignty to be economically tied with the trade bloc. There are a few trading blocs in the Asia-Pacific. Two notable ones are the ASEAN Free Trade Agreement (AFTA) and the South Asian Free Trade Area. Both areas have low levels of integration, only adopting similar tariff policies. AFTA has recently opened their bloc to 6 countries. This is called the ASEAN + 3 including Japan, China and South Korea.. It also opened up to free trade with India in what is called the ASEAN-Indian Free Trade Area (AIFTA) and New Zealand and Australia in Asean-Australia-New-Zealand Free Trade Area (AANZFTA). This has sparked up debates on which countries should be included in the trade blocs and to which degree their economies should be integrated.

Definition of Key Terms

Trade Blocs

An agreement between governments with the goal to break down the trade barriers between nations to promote free trade. Often countries would adopt similar or shared policies to reduce/eliminate tariffs or reduce the amount of protectionism against one another.

Tariffs

A tax on imports or exports between nations. It is a form of protectionism which aims to limit trading between countries to protect domestic industries.

Economic Integration

The degree to which economic policies between countries are unified. Within trading blocs, this process usually starts off by adopting similar trade policies only to proceed on domestic policies.

Common Market

Also known as a single market is the adoption of free movement of factors of production (Labour, Capital), goods, enterprises and service within a trade bloc.

Background Information

Origins

Countries have made an attempt at promoting free trade ever since they found it more beneficial than being an autarky. The UN in 1990 made a resolution promoting the formation of trade blocs especially between developing countries. They claimed that now is the time for development and that by opening up to the outside world countries can strengthen their economic growth. Within Asia, South Korea had called for a pan-asian common market whereas Japan proposed deep economic integration within the East Asian countries. In southeast asia, AFTA was set up in 1992 between 6 countries with the other 4 joining in the next 7 years. Whereas in South Asia, SAFTA was an agreement reached in 2004 to reduce tariffs between the nations involved. AFTA had also enforced a common market between nations. SAFTA is still not entirely a free trade area as countries like Nepal and Bhutan have failed to meet their deadlines for reducing their tariff rates. AFTA on the other hand have opened up its trade bloc to 6 additional countries (China, India, Australia and New Zealand, South Korea and Japan) in their Free Trade Area. This decision has had backfire from business owners in the region. These additional countries have not been further integrated to the common market, they only have been included in the free trade area. AFTA currently has no plans of further integrating but may expand its Free Trade Area to include Russia.

Problems and Benefits

Benefits

The benefits received from Free Trade Agreements are straightforward. Due to the cut in taxes, imports would be cheaper. This means that consumers living in the region would have access to cheaper products abroad. In AFTA, tariffs for agricultural goods fall to 0. This means that it is much cheaper for governments to stockpile foreign goods in preparation for natural disasters in order to prevent a famine. It is also easier for already successful businesses to continue their growth internationally. Because tariffs are lower within the trade bloc, it is easier for these companies to penetrate other nation's markets and find profits there. The efficiency within that region would also increase. This is because companies that make products more efficiently will provide the same product at a lower price. They would outcompete other competitors within the trade bloc and force them to either become more efficient or leave the market entirely. This means there would no longer be inefficient producers in the market. Free Trade Areas allow countries to specialize. This means that they can focus on the products which they are efficient at producing because the other countries will provide the other products (I.e Vietnam specializes in cash crop and gets its manufacturing equipment from China and Thailand). Common markets allow for ease of transport of factors of production. Workers can move quite easily throughout ASEAN to find jobs. Transporting equipment would also be easier without barriers therefore it allows growth for transnational companies in the region.

Problems

The problems with free trade areas come stem from the high levels of competition created by tearing down trade barriers. Within SAFTA, Bhutan and Nepal are hesitant to lower their tariffs because this would make Indian products cheaper. India has much bigger industries and can provide the same goods at a lower price. If they were to compete with Nepalese or Bhutanese goods, consumers would surely buy them over their competitors running the other producers out of business. Because of this, Nepal and Bhutan purposely have tariffs up in order to protect their industries. When AFTA took them their trade barriers towards China, the Chinese industries began to quickly dominate the South-East Asian markets. Many garment suppliers from Cambodia and Vietnam ran out of business as people were more willing to buy the cheaper fabric provided by Chinese suppliers. Trade barriers allow countries to protect their smaller industries so that they can grow, be more efficient in order to compete in the international market. This is called the infant industry argument and it calls for the use of subsidies and tariffs to support the growth of smaller industries so that they can further compete. The common market also provides issues regarding immigration. Nations lose sovereignty over who they can accept into their nation. In many cases, they may not reject foreigners coming into their country and cannot make stricter border controls.

Future Economic Integration

Both trade blocs are at low stages of economic integration. Within the Asian-Pacific sphere there are talks of using the Asian Monetary Unit (AMU) proposed by Japan. This is a basket of currency aimed to stabilize the fluctuations in solidarity. This method was used within the EU. The European Currency Unit (ECU) was used to stabilize the currencies of countries that wished to have a common currency with member states. The ECU made the switch from a countries respective currency to the euro much more stable. By implementing the AMU this leads to the possibility of a common Asian currency. This would be a very high level of economic integration only one stage behind the highest level of economic integration. By having the same currency, the countries also have the same monetary policies controlled by an asian central bank. Though having the same currency means purchasing products become cheaper and travelling within those countries become easier, countries are subjected to the same policies even though they face drastically different economic situations. The discrepancy with these two factors would detriment a nation’s ability to stabilize its economy as is the case with the Greek debt crisis. The final stage of economic integration would be adopting a similar fiscal policy, meaning the countries give up there economic sovereignty to an Asian Union Parliament. In essence, the region becomes an Asian super-state that is a federation of smaller Asian states.

Asia-Pacific Economic Cooperation

The Asia-Pacific Economic Cooperation (APEC) was an economics forum set up in 1991 with the goal of promoting free trade among the nations involved. The pursuit for effective means of economic cooperation had lead to 21 nations around the Pacific ocean taking part. The negotiations has already resulted in a decrease of business costs throughout the Asia-Pacific. They also aim to work towards a massive FTA across the member nations. The criticisms against APEC include that it has not achieved much in its time of existence. Furthermore, it could bring damage to the nations in the region who are not involved due to the negative externalities that come along with facilitating economic growth. By bringing down trade barriers, it could also affect labour regulations which allow businesses to exploit cheap labour in LEDCs.

Timeline of Events

Date	Description of event
25/11/1991	The UN adopts a resolution on the Regional Economic Integration among developing countries calling for the breakdown of trade barriers
28/1/1992	AFTA is formed between Thailand, Brunei, Malaysia, Singapore, Indonesia and the Philippines
28/7/1995	Vietnam joins AFTA
23/7/1997	Laos and Myanmar joined AFTA

30/4/1999	Cambodia joins AFTA
1/1/2006	SAFTA is formed
1/1/2010	AFTA is expanded to include, India, China, New Zealand and Australia

UN Involvement, Relevant Resolutions, Treaties and Events

Economic integration is not a dire issue needed to be solved by the UN. However, the development of LEDCs are. The UN has historically consistently urged for trade blocs to be formed and non-isolationist policies to be adopted. :

- Regional Economic Integration among Developing Countries, 25 November 1991 (**A/C.2/46/l.15)**
- Implementation of the Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific. 13 June 2014 **(E/ESCAP/RES/70/1)**
- Guidelines on Integrated Economic Status, 2013 **(ST/ESA/STAT/SER.F/108)**

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