

EUSA Asia-Pacific Conference

Seoul, June 11, 2015.

Keynote speech: How Can We Promote A More Market Integrative Multilateral FTA in Asia-Pacific Region?

- Some Lessons from Experience of European Economic Integration –

Cae One Kim

Professor eme., Seoul National University,

Chairman, World Economy Research Institute (WERI)

Distinguished guests,

Dear Colleagues,

Ladies and gentlemen,

It is my great pleasure and privilege to deliver the keynote speech at the EUSA Asia-Pacific Conference commemorating its 15th anniversary. As the Founding President of the EUSA Asia Pacific, today I feel extremely happy to report to you that during the 15 years of its history the EUSA Asia-Pacific has continuously grown and now has established as one of most influential academic associations in this region. More than sixty eminent international scholars have come to this conference from more than twenty countries all over the world. As an initiator in promoting European studies and also an academic who have longtime been dedicated to this area, I would like to take this gathering as an opportunity to congratulate and thank the hosts, organizers and sponsoring institutions of the Conference.

The topic I would like to discuss with you today is related to the conditions of the multilateral FTAs under negotiation for the Asia-Pacific region to progressively move towards market integration. In my presentation, I will mainly refer to some basic lessons drawn from the experience of economic integration in the EU.

Of course, the EU is an extremely unique example with a particular environment and conditions. It is also the most advanced economic union in the world. The fundamental

differences in the initial conditions for economic integration between Europe on the one hand and the Asia-Pacific region on the other are too big to be compared. Nonetheless, we can indirectly take useful implications from the European experience in order to apply them to the design of our vision for advancing our efforts towards market integration.

Developments of EU in economic integration seen through 'Supranationality'

Dear colleagues,

The EU has been, on many occasions, plunged into serious crises which it has fortunately been able to overcome throughout its history. Yet, I think there were two decisively critical moments for the EU, which even endangered the EU's existence itself. The first one was France's threat to secede from the EU (EEC) after dispute over the agricultural subsidy in 1967, well-known under the agenda Common Agricultural Policy. And the second was, as you remember vividly, the recent financial crisis of southern European countries originated due to excessive sovereign debts and current account imbalance. Reasons of these crisis are complex, but they are closely related to the transfer of sovereignty in economic policy areas. The former instance was because of a reaction against the unacceptable veto right of one member country – France - in the process of common policy. The latter instance was triggered by the inability of member countries to respect fiscal rules and to deal with macroeconomic imbalance in Monetary Union.

European integration has been developed between tangible, but constructive tension between *supranationalism* and *inter-governmentalism*. For instance, the functioning of well-known common policies such as the Common Agricultural Policy (CAP), Common Commercial Policy and Economic and Monetary Union(EMU) has yet been possible thanks to the fact that member countries partially accepted the renouncement of their sovereignty in favor of the collective interests of the EU. However, the last general election in the UK on last May and the discussion of UK's referendum on EU membership reflected British attachment to national sovereignty, which is a traditional keynote of its policy.

Namely, I will not repeat that all, the major achievements of the EU owe their success to the consent to member countries' partial renunciation of sovereignty related to economical restriction. It is noteworthy, however, even if member countries concede to the EU their

economic sovereignty, that there seems to be sufficient room for compromise on conflicting interests between member countries through the multi-layered organs of EU, which are complicated but well-structured organically.

On the whole, major decisions which have been needed to move towards a long-term economic union, have so far been taken by the EU. Apart from the above-mentioned 'unique' common policies, member countries are not entirely independent in all economic and social policy areas. Accordingly, they are obliged to cooperate, harmonize, coordinate or (and) approximate, depending on the sector, their policies with each other with the aim of not to produce market distortion of the functioning of 'internal-markets'. In other words, the EU will continue to 'deepen' market integration vertically and 'widen' horizontally according to the 'principle of proportionality' in the same sectors, if necessary in other sectors as well.

Then how far will the EU go in this integration process? The answer is that the EU will repeat this *sui generis* approach as long as there is a room for more advancement towards economic integration and as long as integration benefits exceed the costs mainly resulting from the abandonment of economic sovereignty. In light of such reasons, the actual state of the EU can be defined as a 'dynamic and partial economic federation'.

More often, many authors tend to mention well-designed 'institutionalization' and 'community spirit' as key factors contributing to the relatively smooth performance of the EU's economic integration. Of course, there is no doubt that those merits have rendered significant contributions in the history of EU.

However, what factors makes it workable and leads to a cooperative attitude amongst member countries?

I believe that the basic vehicle allowing the EU repeating this integrative process as scheduled is that member countries have accepted the restriction to their sovereignty. On the basis of this prerequisite condition, the EU could continuously find a way towards economic integration between Cartesian thinking and pragmatism, and take the route to advanced economic union with appropriate approaches.

And then, again, the fundamental question arises as to what is the backdrop for Europeans to agree upon, albeit partially, concessions in their sovereignty? It is my firm conviction that Europeans have wanted definitively to put an end to the past vicious cycle of

wars and confrontations in the history of Europe, and thus to construct 'one Europe' with durable peace and political and social stability. The EU was born in this historical context and is considered basically as an economic means pursuing such that goal. In this sense, the ideal of the EU is based on 'future-oriented pragmatism'.

A Multilateral FTA within the Asia-Pacific region and more realistic approach

Dear colleagues, now, turning to Asia-Pacific market integration, the EU's integration experience indirectly implies some fundamental lessons on how to design to promote it in the long-run. Above all, diverse and sometimes conflicting standpoints among countries in this region during the negotiations on the FTA lead us to choose a quite different path to follow that of European model. Without pan-regional integration framework, Asia-Pacific countries had been very active in creating in bilateral FTA networks from trade policy point of view since early 2000s and it is only last few years ago that there is a discussion to extend these bilateral FTAs into multilateral ones.

A policy, on the national level, can practically be achieved in general when 'reality', 'environment and conditions' and 'feasibility' are met altogether at the same time. In this region, taking these conditions into consideration as a starting point, I suggest that a preferable economic integration approach, in contrast to the European case, should be modeled on 'reciprocity-based functionalism'. In other words, according to this pragmatic approach, the countries with the maximum amount of respect for other countries' sovereignty should progressively move forward to advance the liberalization of inter-region transactions of common interest in the area.

Asia-Pacific countries began to plunge into international FTA race competition, but with ASEAN as an exception, multilateral FTAs are still under negotiation for the moment. As recent examples, there are the TPP negotiations, which have continued for the last 3 years, and the RCEP negotiation, which started in March of 2013. As far as the Northeastern Asia region is concerned, FTA between China, Japan and Korea has been under negotiation since March of 2013.

In the meantime, while hot issues of the TPP have been discussed during many rounds of negotiation among the participating countries and an agreement in this regard seems to be reached in the near future, the RCEP needs considerable time to be concluded. I will not dive into those topics in any great detail and only intend to present my personal views on some basic principles for these FTAs in order to become effective to contribute to the enlargement of intra-region trade in substance.

To begin with, we should, as often remarked, keep in mind the fact that there exist huge gaps among the countries composed of heterogeneous economies of the Asia-Pacific region in terms of economic size and degree of development. Especially, China has now emerged as one of the world's strongest economic powers and Japan's economy also enjoys predominant status compared to the rest of the countries in the region. Moreover, in this region industrial competitiveness following economic development can hardly be comparable between established, advanced economies on the one hand and developing ones on the other hand.

In the face of this conspicuous centrifugal situation in the region, it can hardly be possible, unlike in the case of the EU, to introduce a rational 'weighted voting system' aiming at supranational decision-making among member countries. Even though this system could be realized, decision-making might occur in an excessive asymmetrical way between member countries due to the exorbitant discrepancies in economic size. Furthermore, in East Asia's case, it is concerned with not only the hegemonic competition between China and Japan but also those unilateral influences on the other countries within the region. Hence, it is excluded that the region promotes the economic union through supranational decision-making in the medium to longer term. Rather, there is an elementary need to respect economic sovereignty on the condition that mutual interests should be pursued jointly.

Then, let me take this occasion to raise a fundamental question about an inherent attribute of an FTA: what is the purpose of an FTA by nature?

FTA is very often understood as a convenient instrument of the 'WTO plus (+)' to liberalize trade among a limited number of countries. This simplified thinking has mainly resulted from the disappointment of unsatisfactory performance of multilateral negotiations

organized by GATT/WTO and (has been) one of the main causes of world-wide proliferation of FTAs.

Of course, there is no doubt that the basic purpose of an FTA lies in removing trade barriers. However, more importantly, we should not forget that as the WTO stipulates (for ex., GATT Article XXIV), an FTA should be the first step toward gradually advanced economic integration at the same time.

Accepting this assumption, it is ceaselessly necessary to introduce a long-term plan in the FTA leading to vertically 'deepening' and horizontally 'widening' market integration amongst the member countries concerned. This means that a country can gradually develop towards a 'higher level' if there is a blueprint of the FTA, even though it started at the initial stage with a 'low level' FTA. The FTA should be developed running parallel with each country's structural adjustment program in a way that trade liberalization is influenced by how much the countries directly involved meet the degree of maturity of the market economy in each country. Therefore, in order to advance the FTA, it is necessary for the blueprint projecting long-range development not to be a one off.

In the past, even before the 1990s, numerous FTAs have been concluded, however, there are very few which have been functioning satisfactorily as scheduled. It is needless to say that most of them stay stagnant without any further development or have already disappeared. The main reason for this is that the FTAs in question chased short-sighted economic or/and diplomatic and security strategies too much. Following this reasoning, as theory of bicycle points to, the FTA should evolve ceaselessly toward a more integrative form. Otherwise, it can even hardly exist.

To successfully be sustainable, the FTA should contain a long-term market integration plan with 'political will' agreed upon by like-minded countries pursuing common values such as 'peace and prosperity'. In other words, the FTA is a means to achieve this long-term purpose.

So, in order to narrow down our subject to trade liberalization, what do we remove?

Tariff policy has almost lost its meaning as an effective tool to protect domestic markets thanks to the consecutive multilateral trade negotiations held under the auspices of GATT/WTO. Instead, non-tariff barriers (NTBs) have taken up its role by producing serious

market distortions in international trade and simultaneously proliferating rapidly out of the WTO's realm.

NTBs, diverse and complicated by nature, have so far not even been systematically defined by their scope and classified according to their function in the WTO. Hence, the possibility of a comprehensive multilateral negotiation plan to remove them seems to be far off. Moreover, as NTBs are mostly integrated in country's economic policy in the form of regulation, it appears to be sensitive to negotiate them on multilateral basis.

Consequently, NTBs have commonly become one of the major agenda points to be dealt with when negotiating an FTA amongst a limited number of countries profiting from the 'law of small numbers'. Accordingly, those countries negotiate the areas belonging to economic policy by 'removing' NTBs to trade or 'approximating' related regulations so as to minimize trade distortions.

In conclusion, by the same token, to effectively and substantially promote trade liberalization by multilateral FTA in this region, it is required for member countries to establish realistic and definite schedules both 'vertically' as well as 'horizontally'. If this overall approach is difficult due to the vast divergence in institutions and political reasons, we may start from sector level method. Encouraging business and industrial discussions on micro-level among Asia-Pacific countries will contribute to removing NTBs and creating step by step more trade-friendly environment.

In addition, if mega FTAs like the RCEP and the TPP are successfully concluded, together with the TTIP (Transatlantic Trade and Investment Partnership between EU and USA), it will exert huge effects incommensurable with existing small-size FTAs in the world trade order. In particular, they might produce harmful results, like trade diversion, affecting other WTO member countries. To avoid such a negative influence, I suggest that intensive consultation procedures should be organized, before these agreements are put into force, by a WTO initiative aiming to discuss an appropriate solution to these adverse effects.

Finally, I hope that this Asia-Pacific Conference will provide a good opportunity for all of you to share your academic interests in development in the EU and contribute to

deepening your research on it. More specifically, I wish you a great success in suggesting useful policy proposals in regards to Asia-Pacific market integration by taking lessons from the EU's experience.

Especially, I hope the foreign participants coming from Asia-Pacific countries to enjoy their stay in Korea.

Thank you for listening and enjoy the rest of the conference.