

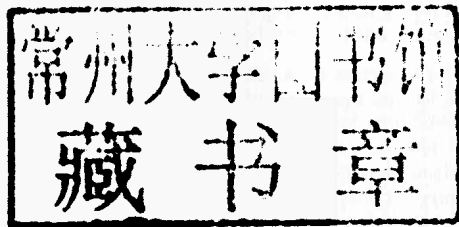
PAFTAD (PACIFIC TRADE AND DEVELOPMENT CONFERENCE
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The Politics and the Economics of Integration in Asia and the Pacific

Edited by
Shiro Armstrong

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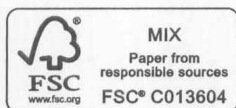
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The Politics and the Economics of Integration in Asia and the Pacific

The shape of economic integration in the global and regional economies – and the extent to which goods, services and factors of production move more or less freely across borders – depends not only upon underlying economic conditions but also importantly upon politics. Whether integration is market-led, as has been the case in Asia, or institution-led as in Europe, there are political elements that affect all forms of regional and international economic integration.

While geopolitics influences international economic integration, so too does domestic politics. Economic integration in Asia has been driven by rapid unilateral trade and investment liberalization and, while trade and investment patterns have been determined largely by comparative advantage, political forces have also affected patterns of economic interdependence. The form that regional institutions take, and their effectiveness, also depends on political relations between countries. The particular circumstances in Asia, and the relationships between regional economies, have profoundly shaped regional institutions and will continue to do so.

The chapters in this volume draw on papers originally presented to the 33rd Pacific Trade and Development Conference held in Taipei in 2009 to look in original ways in which politics shape economic integration and its various dimensions in Asia and the Pacific and globally.

Shiro Armstrong is a Research Fellow in the Crawford School of Economics and Government at the Australian National University, and is currently an Australian Government Endeavour Research Fellow and the Gary Saxonhouse Prize Visiting Fellow to the Center on Japanese Economy and Business at Columbia University. He is co-editor of the East Asia Forum.

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The Politics and the Economics of Integration in Asia and the Pacific

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**This volume is dedicated to the late Hadi Soesastro
(1945–2010) for his many contributions to PAFTAD
and Asia Pacific trade and development.**

Abbreviations

ACFTA	ASEAN–China Free Trade Area
ACIA	ASEAN Comprehensive Investment Agreement
ACU	Asian Currency Unit
ADB	Asian Development Bank
ADBI	ADB Institute
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	Asian Free Trade Area
AHTN	ASEAN Harmonized Trade Nomenclature
AIA	ASEAN Investment Area
AICO	ASEAN Industrial Cooperation
AIP	ASEAN Industrial Projects
ANU	Australian National University
APEC	Asia Pacific Economic Cooperation forum
APT	ASEAN Plus Three (FTA)
ASEAN	Association of Southeast Asian Nations
ATIGA	ASEAN Trade in Goods Agreement
AusAID	Australian Agency for International Development
BRIC	Brazil Russia India Indonesia China
CEPEA	Comprehensive Economic Partnership for East Asia
CEPT	Common Effective Preferential Tariff
CGE	computable general equilibrium [modelling]
CMI	Chiang Mai Initiative
CMIM	CMI Multilateralized
CPC	Central Product Classification (UN)
DRM	dispute resolution mechanism (World Bank)
DSM	dispute settlement mechanism (ASEAN)
DTS	Direction of Trade Statistics (International Monetary Fund)
EAFTA	East Asian Free Trade Area
ECFA	Economic Cooperation Framework Agreement (China–Taiwan)
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FDI	foreign direct investment

FTA/s	free trade agreement/s; free trade area/s
FTAAP	Free Trade Area of the Asia Pacific
G20	The Group of Twenty: the Finance Ministers and Central Bank Governors of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, the Republic of Korea, Turkey, the United Kingdom and the United States of America
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences (WTO)
HLTF	High-Level Task Force (AEC)
HS	Harmonized System [code]
ICT	information and communication technologies
IDRC	International Development Research Centre (Canada)
IEDB	International Economic and Trade Databank (ANU)
IIT	intra-industry trade
IMF	International Monetary Fund
IPE	international political economy [discipline]
ISCO	International Standard Classification of Occupations
ISIC	International Standard Industrial Classification
ITA	Information Technology Agreement (WTO)
JACIK	Japan, ASEAN, China, India and South Korea
KIIEP	Korean Institute of International Economic Policy
MAP	Mutual Assessment Process
Mercosur	<i>Mercado Común del Sur</i> , Common Market of the South (Argentina, Brazil, Paraguay and Uruguay)
MNC/s	multinational corporation/s
MNE/s	multinational enterprise/s
NAFTA	North American Free Trade Agreement
NIE/s	newly industrialized economy/ies
NTB/s	non-tariff barrier/s
PAFTAD	Pacific Trade and Development Conference
PTA	Preferential Tariff Arrangement (ASEAN)
RIS	Research and Information Systems for Developing Countries (India)
SAFTA	South Asian Free Trade Area
SEM	Single European Market
SITC	Standard International Trade Classification (UN)
SOE/s	state-owned enterprise/s
TIER	Taiwan Institute of Economic Research
UN	United Nations
UNCTAD	UN Conference for Trade and Development
VIIT	vertical intra-industry trade
WDI	World Development Indicator (World Bank)
WTO	World Trade Organization

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Preface

The Pacific Trade and Development (PAFTAD) conference series has been at the forefront of analyzing challenges facing the economies of East Asia and the Pacific since its first meeting in Tokyo, in January 1968. The theme of the thirty-third conference, hosted by the Taiwan Institute of Economic Research (TIER) on 5–8 October 2009, was ‘the politics and the economics of integration in Asia and the Pacific’. Papers presented at the conference are collected in this volume.

Dr David Hong, Dr Darson Chiu and their colleagues at TIER organized the conference that reviewed the original research and I am grateful to them for their help in hosting the first-class conference that led to this volume.

The papers in the volume investigate aspects of the interaction of politics and economics as they relate to the structure and scale of economic integration in Asia and the Pacific. Politics – whether domestic, regional or international – affect the integration of economies at various levels. East Asia, for example, is one of the most economically integrated regions in the world, whereas South Asia is one of the least integrated. Politics, and how they shape foreign economic policies, are the major reason for the disparity between East and South Asian integration into the global economy.

Economic reform promoting integration into the global economy has moved from border-barrier liberalization to other reforms such as removing behind-the-border barriers to trade. These are politically more complex. The experiences in East Asia, its subregions and individual economies are examined in the volume, with the aim of shedding light on some of the lessons for continued integration into the global economy for this and other regions, such as South Asia.

A distinguished group of economists from East Asia and the Pacific gathered in Taipei, Taiwan, to discuss these issues. In the rigorous tradition of PAFTAD, the presentation and discussion of papers was followed by their revision and extension for publication in this book.

The PAFTAD team is grateful to all the contributors – the paper writers, discussants and referees – who collaborated enthusiastically to bring this research to publication. Our debt to the authors in the volume is obvious. In addition, Hadi Soesastro, Hugh Patrick, Chyuan-Jeng Shiau, Wendy Dobson,

Miaojie Yu, Ippei Yamazawa, Rob Scollay, Mahani Zainal Abidin, Johnny C. Chiang, Narongchai Akrasanee, Juan Palacios, Philippa Dee, Joseph Yap, Shujiro Urata, Vo Tri Thanh, Chia Siow Yue, Yung-Chul Park, Alberto Posso and Nobuaki Yamashita made substantial contributions to clarifying issues and refining ideas at the conference and to preparing the papers for publication. Furthermore, without the specific help of the PAFTAD International Steering Committee this work would not have been completed.

PAFTAD 33 in Taipei was the late Hadi Soesastro's last PAFTAD and I, personally, shall forever be grateful for his warm support and encouragement in PAFTAD and related projects. Hadi was the Chair of the PAFTAD International Steering Committee, and his long involvement and dedication to PAFTAD helped to sustain its strong momentum and make it what it is today. Hadi will be sorely missed. This book is dedicated to his memory.

At all stages of the management of this project, Luke Hurst gave his usual excellent and devoted service through the PAFTAD International Secretariat.

As well as contributing to this volume, Peter Drysdale helped in editing the papers and a special debt of gratitude is owed to him.

The PAFTAD program, including PAFTAD 33, is supported by a consortium of international donors and serviced by the PAFTAD International Secretariat in the Crawford School of Economics and Government at the Australian National University.

I record here the gratitude of the PAFTAD International Steering Committee to the donors whose continuing support makes this work possible. They include the Ford Foundation, the Canadian International Development Research Centre (IDRC), the Korean Institute of International Economic Policy (KIEP), the Asia Foundation of Toronto University, the National University of Singapore, the Taiwan Institute of Economic Research (TIER), Columbia University, Sanaree Holdings and, last but not least, the Australian National University. Special thanks are due to the Australian Agency for International Development (AusAID) for support for PAFTAD 33, by hosting the second PAFTAD Emerging Scholars Conference.

I am indebted to Clarus Design for technical editing and typesetting. My thanks also goes to the team at Routledge, with whom it is always a pleasure to work.

This is an important collection of essays that analyzes the political elements that either foster or hamper economic integration. The papers seek to throw light on the experience of the interaction between economics and politics in the Asian region, and to answer some of the big questions about how, why and when politics helps or hinders economic integration across and within borders. The volume opens up a set of questions for further research and, it is hoped, will make a useful contribution to thinking about some of the issues that currently confront policy-makers in the region.

Shiro Armstrong

Canberra, January 2011

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