

Making East Asian Regionalism Work: Why there is a need for a China-Japan-Korea as well as an ASEAN+3 FTA

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In this new millennium, regionalism has begun to emerge in East Asia. East Asian Countries have been focusing on ways to expand intra regional trade that include: the establishment of Regional Trade Agreements (RTAs) in the form of Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs). The likes of China, Japan, and Korea (CJK) as the economic front runners are regarded to be the key actors in stimulating regional economic growth through some beneficial trade agreements. In this sense, the triangular trade agreement between CJK will become a significant ingredient that can cope with the necessary condition that is to create East Asian welfare. Unfortunately, with the absence of such agreements, the present intra regional trade scheme in CJK is not sufficient to meet the target. This paper uncovers the inefficiency of the present scheme through Engle-Granger Cointegration and the Error Correction Mechanism. Moreover, the paper underlines the importance of a triangular trade agreement for accelerating the phase of growth in the region. This agreement will then provide a major boost in the form of spillover effects for the ASEAN4 which represent the South East Asian Region. The paper argues that the spillover effect along with the convergence in terms of trade and the nexus between Revealed Comparative Advantage (RCA) and Intra Industry Trade (IIT) function as economic modalities for creating region-wide FTA. As for this reason, Two Stage Least Squares (2SLS) and static panel fixed effect models are employed. Furthermore, the paper also identifies a number of economic and political factors that can support the formation of East Asian Regionalism in the long run.

Biographical note: Fithra Faisal Hastiadi obtained his BA in Economics from the University of Indonesia. During his BA, he worked as a teaching assistant in the University of Indonesia at the Department of Economics before he continued his study to Keio University, Japan from where he got his MA degree. He specializes in development economics, monetary economics, as well as international trade. Currently, he is doing his PhD in International Economics at the Graduate School of Asia Pacific Studies (GSAPS) at Waseda University, Japan.

The Integration of East Asian Economies: towards specialization or diversification?

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The East Asian economic integration has been accelerating during the 1990s along with the declining trade barriers, increasing trade intensity and intra-industry trade, and a formation of production network. The classical trade theory suggests that when a country opens itself to trade with other countries through trade liberalization and integration, it will be compelled to specialize in products where it has comparative advantages vis-à-vis its trading partners. On the other hand, the Krugman model fundamentally argues that, as countries become economically more comparable, trade between them becomes more and more intra industry in nature. Under these circumstances, the study will examine whether or not the observed increasing trade integration in East Asia led the selected countries in the region towards increased or decreased specialization. Hence the study will use the Herfindahl index to measure the degree of export specialization, where the higher the index value (close to 1), the more specialized the industrial structure. For this reason, a fixed effect panel data model is constructed. The panel data consists of data from each of the countries under investigation, covering a period between 2000 and 2008. The study will show that, as countries in the East Asian region become increasingly integrated, some countries in the region are getting more specialized while others diversified their production structure as their trade patterns become more diversified. The study, thus, argues that whether regional integration leads to specialization or diversification of an economy, is yet to be determined. At the same time the study will investigate what factors are affecting trends to diversification.

Biography: Ferdous Farazi Binti obtained her BSS and MS in Economics from the University of Dhaka, Bangladesh. Later on she achieved an MA in International Relations from Waseda University, Tokyo, Japan. Her field of interest is development economics and international trade. Currently, she is doing her PhD in International Economics at the Graduate School of Asia Pacific Studies (GSAPS) at Waseda University, Japan. She is working as a research assistant at the Global Institute for Asian Regional Integration, Waseda University.