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TOWARDS A PACIFIC CENTURY: The East Asian capitalist model and Free Trade

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As the world sits on the cusp of a new age, a new Pacific century is dawning. The growth of the East Asian model of capitalism seems irreversible, driven by East Asian free trade. But can there be an East Asian Free Trade Area, leading eventually to a Pacific FTA?

WE ARE ON the cusp of a new age. The global impact of the looming American recession reminds us of the dramatic shifts in global power and influence which can be expected over the next two decades. While attention has focused on the rise of China and India, we are really at the beginning of the Pacific century.

The sharp recession in the United States has been a wake up call for proponents of unfettered financial liberalisation. It will ensure that there will be a greater willingness to recognise the benefits of alternative models of capitalism. This is likely to lead to greater acceptance of East Asia's openness to international trade amidst its continued regulation of financial markets.

East Asia's alternative model of capitalism

Over the next two decades, East Asia is likely to be the fastest growing region, outstripping Europe and the US. For the US, trans-Pacific trade and investments are already more significant than trans-Atlantic commerce. Although the Chinese economy is slowing with reduced American and European demand, China is likely to achieve 7-8 per cent growth next year, stimulating domestic demand as overseas markets shrink. China is moving up the value chain, with a capacity to handle labour intensive manufacturing as well as high end, high skills requirements.

There is increasing intra-East Asian trade resulting from the continuing trend towards distributed manufacturing, especially in the electronics sector. Parts and components are manufactured in several countries in East Asia before assembly often in low cost centres such as China and increasingly Vietnam.

Increasing intra-regional economic interactions led by the private sector have provided the impetus for a growing sense of regional solidarity. Nevertheless an emerging regional economic divide may be discerned between outward-looking economies operating in a globalised environment and autarkic economies such as North Korea which continue to be economic laggards and politically authoritarian. One risk is that such laggard states may see the promotion of regional and international conflict and confrontation as a means of distracting domestic malcontents and a source of securing foreign aid intended to buy their acquiescence.

This risk reminds us that the economic rise of China will lead to a commensurate increase in China's political influence. The holding of the six-party talks on Korea in Beijing reflects China's increasing influence in the region. While the US has been most vocal about the dangers posed by North Korea's nuclear capabilities, it is China that has had the greatest leverage on this hermit state.

The transformation of Chinese cities, the emergence of Chinese technocratic elites trained at leading universities in China and abroad, the increasing interest in learning Mandarin and the growing numbers from the region and beyond who are being educated or work in China will re-shape regional perceptions of China. Chinese 'soft' power will grow. As Chinese cultural influence expands, regional memories of conflict with China will decline.

Managed Competition and peace

This development is significant as the emergence of China as a major power could influence the prospects for peace or conflict in the region. Although the rise of new powers has historically been accompanied by conflict, current trends suggest that East Asia is likely to be a region of managed competition. While governments in the region have been closely aligned with the US since the end of the Cold War, a rising China will be increasingly influential in the region.

We are likely to see a stable relationship between the US and China, enabling states in the region to engage both major powers without the need to identify allies or enemies. While a Pax Americana facilitated economic growth, a Pax Pacifica could be the basis of regional economic development.

Small states like Singapore need not be passive onlookers as this process unfolds. Intellectual and organisational resources should be focused on the creation of an East Asian community. Such an attempt at regional multilateralism could provide the gel that would hold the region together. It could also be an effective constraint on the emergence of conflict in the region as power shifts occur in East Asia.

Just as the EU and North America (NAFTA) are embarking on expanded economic cooperation that underpins the increasing social, cultural and political integration in those regions, East Asia should move beyond the current structures for economic cooperation. The lattice framework of bilateral and regional free trade agreements (FTAs) could be used to establish an East Asian FTA (EAFTA), which could be the first stage of a programme leading to greater social, cultural and political integration in East Asia.

The diverse bilateral FTAs which have been concluded or are now being negotiated could lead to a bewildering multiplicity of rules of origin as well as risk increasing trade diversion instead of facilitating trade creation, the rationale for increased regional economic integration.

For an effective EAFTA, the approach taken should be one where concessions in any regional or bilateral FTA are multilateralised within the group, resulting in agreements which are conducive to trade expansion. This will overcome the criticism that many of the bilateral FTAs currently being negotiated in East Asia are 'trade light' and similar to the joint communiqués issued at the end of visits of heads of government.

Pacific FTA the way to go

Since an early conclusion to the Doha round of WTO negotiations is unlikely, governments in the region are seeking the early conclusion of bilateral and regional trading arrangements. An EAFTA would be a better outcome than the current diverse network of FTAs in the region. But such a narrow regionalism is insufficient.

We should take advantage of a new American administration, one with a president with direct exposure to the region from an early age, to encourage greater US integration with East Asia. It is timely to push for a Pacific FTA linking the East Asian FTA and NAFTA.

As President Barack Obama is scheduled to visit Singapore for the 2009 APEC Leaders' Meeting, the ground should be laid for the launch of negotiations for such a path-breaking FTA.

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