The role of Customs in the economic integration of East Asia: Problems and proposals

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Overview

- Introduction
- Research background: the controversy between theory and reality in East Asia → ***Problems***
- Theoretical perspectives on Customs in the process of economic integration →***Theory***
- Proposed ways forward: the path towards an East Asian Customs Union →***Proposals***
- Conclusions

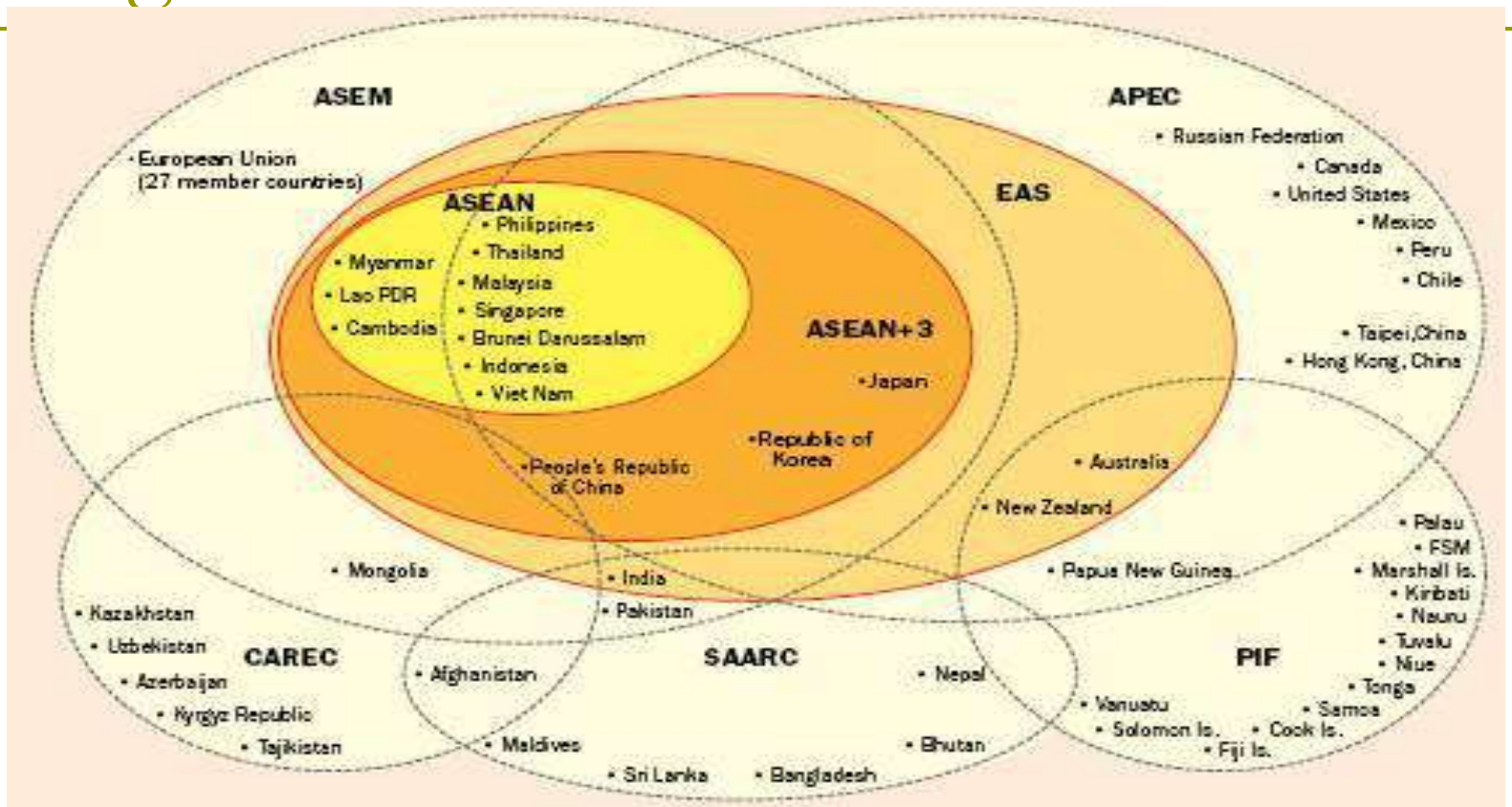
1. Introduction

- Focus of the paper:
  - Economic integration has spread around the world, from the EU to NAFTA, MERCOSUR and ASEAN (Frankel & Kahler 1993; Kahler 1995; Haggard 1997; Katzenstein 2005; Mansfield & Milner 1999).
  - The EU and NAFTA are often touted by international organizations and scholars as examples for promoting economic integration that should be emulated.
  - Why then has economic integration been much less successful in other areas, such as East Asia?

Why East Asia?

- East Asia accounts for
  - 50% of the world's population
  - 33% of world income
  - 25% of world exports
- And, more importantly, it is an area of future growth for the global economy.

Figure1: Architecture of economic integration in East Asia



APEC = Asia-Pacific Economic Cooperation; ASEAN+3 = ASEAN plus three countries, as shown; ASEAN = Association of Southeast Asian Nations; ASEM = Asia-Europe Meeting; EAS = East Asia Summit; CAREC = Central Asia Regional Economic Cooperation; FSM = Federated States of Micronesia; Lao PDR = Lao People's Democratic Republic; PIF = Pacific Islands Forum; PRC = People's Republic of China; SAARC = South Asian Association for Regional Cooperation.

Notes:

ASEM includes also the European Commission as a member.

For CAREC, the PRC's membership is focused on the Xinjiang Uygur Autonomous Region.

Source: Asian Development Bank.

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2. The controversy between theory and reality in East Asia

- Different levels of economic integration (Balassa 1961; Salvatore 2003)

  Free Trade Area: e.g. NAFTA

  ↓

  Customs Union: e.g. European Economic Community

  ↓

  Common Market: e.g. European Common Market

  ↓

  Economic Union: e.g. European Union

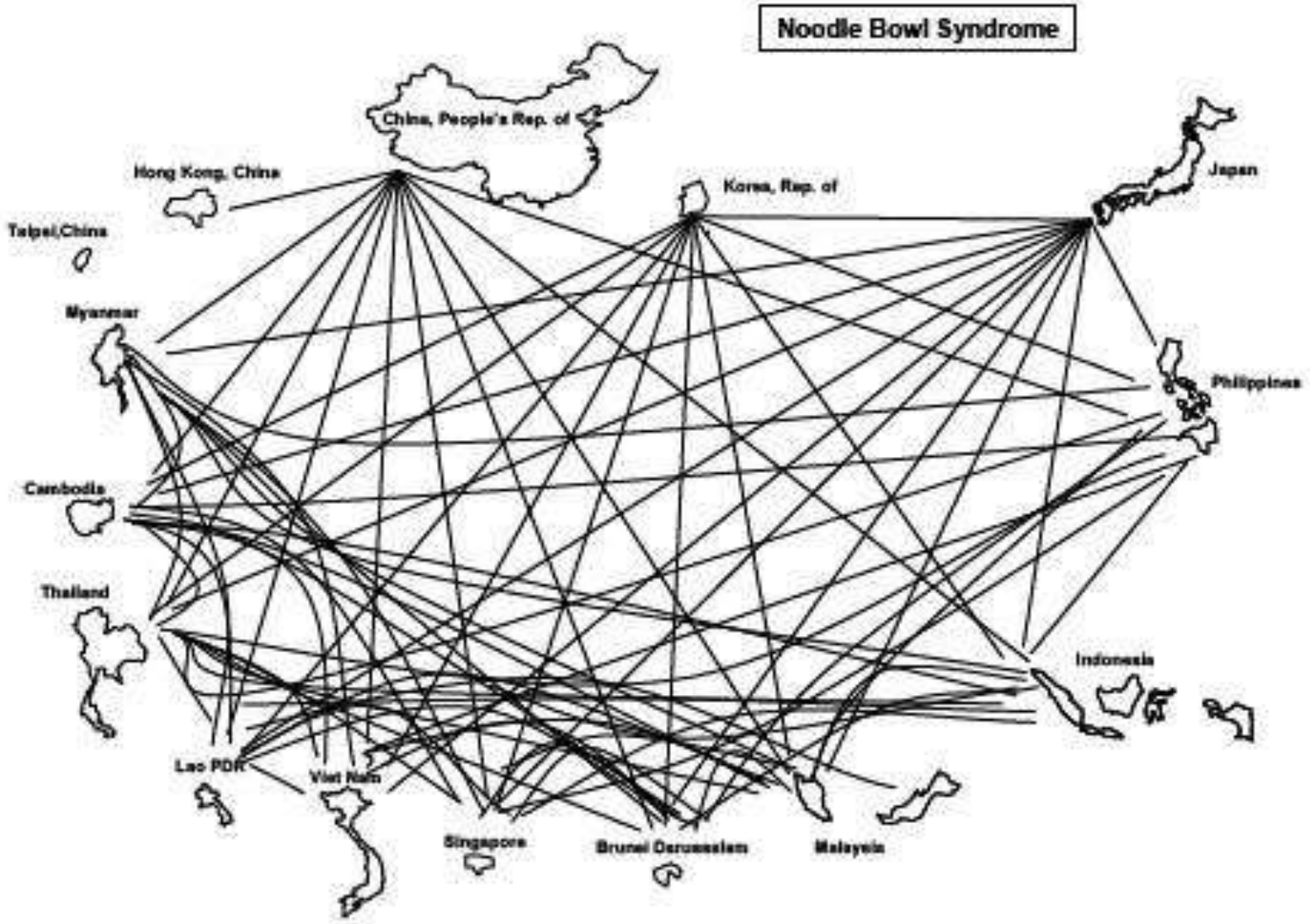
Figure 2: Levels of economic integration

	Removal of internal quotas and tariffs	Common external tariff	Free mobility of production factors	Harmonized monetary and fiscal policy
Free Trade Area	√			
Customs Union	√	√		
Common Market	√	√	√	
Economic Union	√	√	√	√

Economic integration in East Asia

- East Asian countries have entered into almost 81 regional trade agreements (RTAs) in total that are at different stages of negotiation/implementation.
- Apart from RTAs, there are many stand-alone Investment Protection Agreements, Double-Taxation Avoidance Agreements, Customs Cooperation Agreements, etc. between East Asian countries aimed at enhancing regional economic cooperation.
- The 16 East Asia Summit (EAS) countries have been integrating their production networks de facto and these RTAs are making them de jure!

Figure 3: Noodle bowl of East Asian economic integration



Source: Baldwin, E 2006. 'Managing the Noodle Bowl: The fragility of East Asian Regionalism', Centre for Economic Policy Research, Discussion Paper 5561.

The level of economic integration in East Asia

- The Asian Development Bank (2008) strongly advances the view that regional integration is important to build more resilient economies and argues that an Asian financing facility would be beneficial to provide more timely and better-tailored support.
- Financial cooperation in East Asia
  - Chiang Mai Initiative (CMI), a system of bilateral currency swap agreements
  - Asian Bond Market Initiative (ABMI)
  - Asian Currency Unit (ACU) initiative
  - East Asian foreign reserve pool
- East Asia is moving from a Free Trade Area to an Economic Union without first implementing a Customs Union and then establishing a Common Market.

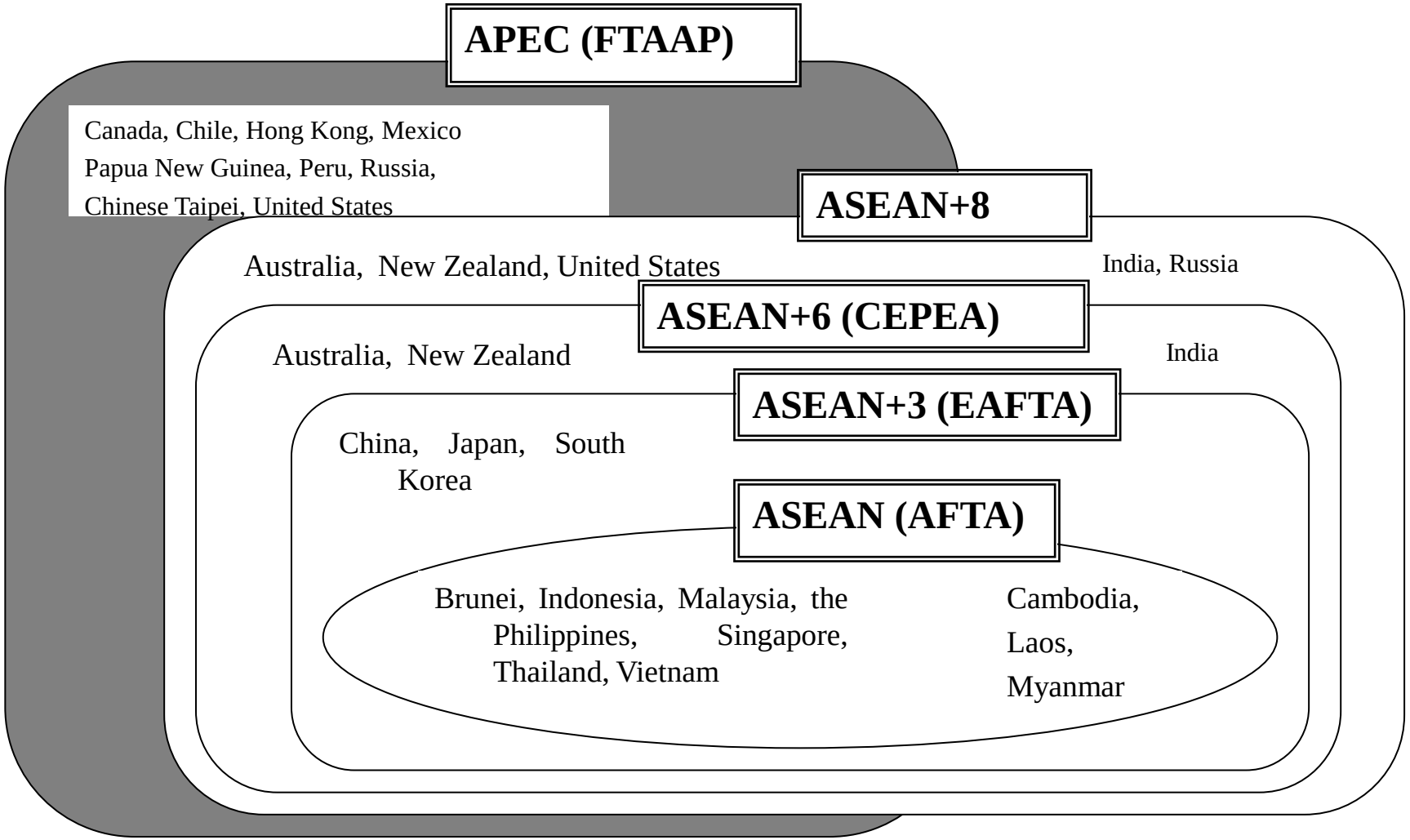
Characteristics of economic integration in East Asia

- Economic integration of leap development in East Asia.
- Will the integration of leap development succeed in the future?
- Economic integration of leap development can probably solve temporary crises, however it cannot build a stable regional cooperation mechanism.
- East Asia is still at the initial stage of economic integration, though it has already established the East Asian foreign reserve pool.

Problems of economic integration in East Asia

- Diversity issue: economic size, population, culture, religion and language.
- Membership enlargement
  - Open regionalism: Japan, Australia
  - Closed regionalism: Malaysia, China
- External common security conditions.
- United States impact: include or exclude?

Figure 4: Membership enlargement of East Asia



3. Theoretical perspectives on Customs in the process of economic integration

- The neo-functionalist perspective
  - Experience of the European Union
  - Spill-over effect (Keohane & Hoffman 1991)
- The regional public goods perspective
  - Robert Gilpin: international public goods
  - Regional public goods
- A third perspective: an integrated approach.

A third perspective: an integrated approach

- What is the relationship between functional cooperation, regional public goods and economic integration?
- Can Customs take the first step towards being the driving force in the process of functional cooperation in East Asia?
- How are all these discussions related and how should they be applied to the circumstances of East Asia?

East Asia's experience and implications

- Functional cooperation in East Asia: agriculture (2001), tourism (2002), environment (2002), energy (2004) and telecoms and IT (2004); however, the meetings have produced little in the way of concrete agreements (Yoshimatsu 2005, p.212).
- It is imperative for East Asia to create pivot points through functional spillover, provision and consumption of regional public goods.

The Role of Customs at regional level: FTAs as an example

- Most free trade agreements (FTAs) contain a chapter focusing on Customs procedures and trade facilitation.
- FTAs between ASEAN Member States comprise such a chapter, which mainly includes:
  - Customs procedures and supervision
  - Risk management
  - IT application
  - Post audit
  - Advance rulings

The Role of Customs at national level: China as an example

- Four traditional functions
  - Supervision, statistics, duty collection, anti-smuggling
- Other specific responsibilities
  - Supervision and management of bond operations
  - Audit-based controls
  - Customs intellectual property rights protection; port management, etc.
- Non-traditional functions
  - Safeguarding society
  - Anti-terrorism, etc.

Implications: Customs and the supply of regional public goods in East Asia

- Regional public goods: regional security
  - 9/11 attacks and non-traditional security
- Regional public goods: trade liberalization and FTAs.
- Regional public goods: public health and environmental protection
  - SARS, influenza pandemic (WHO)
- Regional public goods: disaster relief
  - Tsunami in Southeast Asia
- ……

4. Proposed ways forward: the idea of an East Asian Customs Union

- A standing body is essential to sustain economic integration
  - EU Commission
- The developmental process of economic integration in East Asia
  - FTAs: nearly finished
  - Customs Union: likely the most appropriate next step
- The unique role of Customs
  - To provide regional public goods
  - To promote functional cooperation

East Asian Customs Union policies

- ✓ Endorse the Customs Union as a vital aspect of protecting East Asia's external borders.
- ✓ Facilitate cross-border operations.
- ✓ Encourage changes in tax systems that support common objectives, competitiveness and development.
- ✓ Respond effectively to international challenges associated with Customs and tax policies.
- ✓ Foster better cooperation among member states in addressing illegal Customs and tax activities.
- ✓ Promote regular and open dialogue with stakeholders on policies and programmes.

5. Conclusions

- Functional cooperation should be commonly regarded as an essential approach and the main content of the deeper economic integration of East Asia.
- Considering the complex political, economic and social realities of East Asia, the provision of regional public goods serves as a fundamental method in terms of functional cooperation.
- Customs can and should play a key role in the provision of regional public goods to promote functional cooperation.

- Customs can provide regional public goods relating to regional security, trade liberalization, public health and environmental protection, as well as disaster relief, etc.
- The second level of economic integration, Customs Union, is likely the most appropriate next step for East Asia.
- A Commission or Secretariat is essential to ensure the proper functioning and development of the Customs Union at the supranational level.

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