

# 1. INTRODUCTION

## 1.1. East Asian economic integration and the role of ERIA

The Economic Research Institute for ASEAN and East Asia (ERIA) aims to make intellectual inputs in response to regional policy research needs for economic integration by conducting policy studies and capacity-building activities. This “Test-run” Roadmap Project is intended to support the initiative of the ASEAN Economic Community (AEC) and beyond by identifying research agendas to address various challenges in the region.

For decades, ASEAN and East Asia have achieved remarkable economic growth and have been one of the world’s leading growth centers. A notable feature of the East Asian economic growth is its effective utilization of globalizing forces. Corporate activities are conducted beyond national borders, international division of labor in terms of production processes has been extensively developed, and East Asia has created massive vertical intra-industry trade<sup>1</sup>.

Although the development literature often claims that globalization would aggravate internal and external income disparity, it is not necessarily the case in East Asia. Rather, the East Asian experience tells us that two objectives — the deepening of economic integration and the narrowing of development gaps — can be pursued at the same time. We have often observed that the economic dynamism that comes from utilizing differences in location advantages and avoiding congestion in agglomeration has resulted in numerous economic activities being shifted to relatively undeveloped regions or countries in East Asia, which has resulted in relatively equitable socioeconomic conditions.

Recent academic studies have analyzed the entangled mechanism of such favorable links of economic integration to development. Newly developed fields of research, such as the fragmentation trade theory and the New Economic Geography (NEG), seem to work as powerful analytical tools for investigating the mechanism. To draw concrete policy recommendations for deepening economic integration and narrowing

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<sup>1</sup> In this report, “East Asia” is defined as the region of East Asian Summit (EAS).

development gaps, a robust analytical foundation must be established.

In addition, as an essential prerequisite, conditions for sustainable economic growth must also be realized. There are increasing concerns in the region about issues relating to energy and the environment, as well as macroeconomic stability and the need for structural reforms; these matters should be subjected to rigorous policy studies.

There have been a number of efforts made to foster economic integration in East Asia. Notably, the AEC and some bilateral/plurilateral free trade agreements (FTAs) have proposed a policy framework for deeper economic integration with concrete time schedules. These efforts at the policy level, however, have not yet been fully supported by academic input. For steady and effective implementation, rigorous policy studies are urgently required, the topics of which include the evaluation of the current status of integration, economic justification and prioritization of various policy modes, the streamlining of multiple integration efforts, etc.

East Asian economic integration is no doubt very challenging since the countries have large differences in terms of economic development, political system, and historical and cultural background. However, we would like to turn these differences into a source of dynamism and pursue economic integration for a more prosperous future of the region.

## **1.2. Organization of ERIA research projects and this report**

This project entitled “Developing a Roadmap toward East Asian Economic Integration” was launched as a test-run project in the ERIA Expert Group Meeting (EEGM) on April 1, 2007, in Manila, aiming to establish a strategic framework for constructing a comprehensive roadmap toward the AEC and beyond that meets three objectives: a) deepening economic integration, b) narrowing development gaps, and c) sustainable economic growth<sup>2</sup>.

Under the umbrella of this project, five research projects were launched in the subsequent EEGM in Kuala Lumpur in May 2007, to conduct in-depth research on

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<sup>2</sup> Another test-run project on “Energy Security in East Asia” was launched in the meeting as well. This test-run project comprises of three specific research projects, namely, (1) *Analysis on Energy Saving Potential in East Asia Region*, (2) *Investigation on Sustainable Biomass Utilisation Vision in East Asia*, and (3) *Standardization of Biodiesel Fuel for Vehicles in East Asia*. Reports from these projects are being published separately.

specific issues:

- (1) *Deepening Economic Integration*, led by Dr. Hadi Soesastro, Executive Director, Centre for Strategic and International Studies (CSIS), Indonesia;
- (2) *Infrastructure Development in East Asia: Towards Balanced Regional Development and Integration*, led by Dr. Nagesh Kumar, Director General, Research and Information System for Developing Countries (RIS), India;
- (3) *Analyses of Industrial Agglomeration, Production Networks and FDI Promotion: Developing Practical Strategies for Industrial Clustering*, led by Dr. Mohamed Ariff, Executive Director, Malaysian Institute of Economic Research (MIER), Malaysia;
- (4) *Development Strategy for CLMV in the Age of Economic Integration*, led by Dr. Chap Sotharith, Executive Director, Cambodian Institute for Cooperation and Peace (CICP), Cambodia; and
- (5) *Asian SMEs and Globalization*, led by Dr. Hank Lim, Research Director, Singapore Institute of International Affairs (SIIA), Singapore.

Part I of this report is organized as follows: Chapter 2 provides overviews on the nature and characteristics of the East Asian economy. Chapter 3 investigates links among the three objectives using the framework of the fragmentation trade theory and New Economic Geography. The required policy environment is also discussed in this chapter. Chapters 4 to 9 are devoted to demonstrating the findings and policy recommendations of the five other ERIA research projects.

Part II comprises perspectives on East Asian economic integration from the 16 countries in the ERIA initiative.