
East Asian Trade and Financial Integration: New Issues. Edited by Peter Drysdale and Kenichi Ishigaki. Canberra: Asia-Pacific Press, Australian National University, 2002. Pp. xv + 240.

The volume under review presents a collection of essays on new issues in trade and financial integration in East Asia from an Australian and Japanese perspective. The major conclusions of each of these essays were drawn through a joint research project conducted by the Research Institute for Economics and Business Administration (RIEBA), Kobe University, Japan and the Australia-Japan Research Centre (AJRC) at the Asia Pacific School of Economics and Management at the Australian National University, Canberra. The book has ten chapters divided into five sections, each on a different theme related to the overall objective of analysing the emergence of regionalism in East Asia, the role of the Asia-Pacific Economic Co-operation (APEC) and its future and current efforts at financial integration.

Section I of the book provides an Introduction and Overview of the other chapters in the book and analyses the agenda for regional trade and financial integration in East Asia. The editors observe that traditional preferential Free Trade Agreements (FTAs) do not facilitate deeper market integration, and with a new World Trade Organization (WTO) round being started, there exists scope for enhancing multilateralism, that can also help these economies achieve a goal of free trade by 2010 according to the Bogor Declaration. Closer bilateral economic partnerships currently being considered in some economies, viz. Singapore and Japan, that go well beyond tariff reduction and address issues of investment and services liberalization, as well as trade facilitation measures, may be useful towards attaining this goal, as it does not constrain the countries within the traditional framework of FTAs. The editors contend that the best approach to regional trade liberalization is APEC-wide. Deepening of policy dialogues on financial and monetary co-operation and encouragement for

evolving of forums for discussing these issues would be essential prerequisites for financial and monetary integration in East Asia.

Section II on Regionalism and Regional Integration consists of two chapters. Chapter 2 on "Old Issues in New Regionalism" by Findlay explores the pros and cons of regionalism using theoretical and empirical evidence in the existing literature, in the context of new wave of regionalism in East Asia. He analyses the issues involved in negotiating regional trade agreements and its impact on multilateralism. He observes from the literature that net welfare effects for an economy engaging in regionalism are uncertain, and that existing regional trading arrangements should promote, not impede, multilateral efforts at liberalizing world trade under the auspices of the WTO. Chapter 3 on "Regional Integration in Asia and Latin America" by Hosono and Nishijima attempts to analyse the forces behind the proliferation of inter-regional and intra-regional FTAs in Latin American economies and the prospects for bilateral FTAs between Asia and Latin America. In this context, the chapter analyses the significance of the proposed Japan-Mexico FTA and the Japan-Chile FTA. The chapter highlights that the experience of Latin American countries, especially Mexico and Chile in forming bilateral FTAs, can provide important lessons for similar initiatives being contemplated in East Asia.

Section III of the book focuses on APEC and subregional trading arrangements, and also consists of two chapters. Chapter 4 on "Sub-regional Trading Arrangements: Managing Diversity" by Elek focuses on the role of subregional fora, such as APEC, in managing the diversity of its members and its moves to form regional trading arrangements. He details the policy issues involved in the proliferation of subregional trade agreements in Asia. The author asserts correctly that in order to minimize the strain on the APEC process and to help it to focus on options for creating new economic partnership, it is indeed desirable to have a set of guiding principles for the upcoming subregional trading arrangements. These arrangements could be

compatible with and could set useful precedents for achieving a vision of open trade and investment within APEC as observed in the Bogor Declaration. Chapter 5 by Lee analyses the welfare implications of regional free trade agreements through a “general equilibrium evaluation of the Japan-Singapore free trade agreement”, which recently came into force in November 2002. This agreement, also dubbed as a “New-Age FTA”, goes beyond the traditional FTA framework and includes issues such as services and investment liberalization, trade facilitation, and co-operation in information and communications technology. It is the first of such agreement within East Asia and is also viewed as a precursor to an East Asia-wide FTA, with Japan proposing a similar framework agreement for closer economic partnership with ASEAN (Rajan and Sen 2002, 2003). The author examines the effects of this agreement through an eighteen-region and fifteen-sector dynamic computable general equilibrium (CGE) model of the global economy. He observes that in the event of bilateral liberalization of all goods and services other than agricultural products (that is not negotiated in this FTA), and with the reduction in customs costs, the Japan-Singapore FTA is unlikely to have a significant impact on the two economies in the absence of positive total factor productivity (TFP) spillovers relative to the baseline year in the model, which is chosen as 2005. However, if TFP increases by about 0.1 per cent in all the liberalized sectors and this leads to efficiency improvements and increased competition, then Japan and Singapore are expected to experience an increase of 1.4 per cent and 1.8 per cent respectively in their real GDP by 2020, relative to the baseline projections. This confirms Findlay’s assertion in Chapter 2 that CGE models by and large predict positive welfare implications for preferential trading arrangements, but these may not necessarily be very large.

Section IV titled “Where is APEC headed?” tackles the answers through two interesting chapters. The first one, Chapter 6 on “China, the WTO and East Asian Economic Diplomacy” by Drysdale analyses the effects of China’s accession

to the WTO, the role of APEC in the development of China’s foreign economic policy interests, and its resultant impact on the global markets and on its economic linkages with East Asia in particular. The chapter ends by discussing the emergence of the ASEAN+3 grouping and the concerns in ASEAN and East Asian economies with respect to being crowded out by China’s rapid growth. His chapter makes an important observation that open non-discriminatory trading arrangements between China and the rest of the world are the best insurance for smaller East Asian economies of securing opportunities provided by China’s rapid economic growth. Chapter 7, authored by Yamazawa, analyses APEC’s achievements and the tasks ahead through a Japanese perspective. It details the importance, development, and capacity-building potential of the APEC agenda through Ecotech issues discussed in the Manila Declaration.

Section V, comprising the last three chapters of the book, focuses on East Asian currency arrangements and prospects for financial co-operation and monetary integration in East Asia. These three chapters from Chapter 8 through Chapter 10 by Ogawa, Goto and Hamada, and deBrouwer respectively focus on the issue of appropriateness of a monetary regime in the region that can reduce the risks of currency crisis and facilitate the management of deeper monetary integration among the East Asian economies. In this context, the authors argue for the shifting from fixed dollar pegging regime for regional currencies towards an alternative exchange rate regime, with Goto and Hamada favouring a regional currency basket arrangement. However, deBrouwer is sceptical about this proposition, given the differences in economic structures and trading patterns across East Asia and favours the option of a flexible or individual basket peg exchange rate regime.

The scope of this book is thus quite diverse in nature as it covers a plethora of topics related to two different aspects of economic integration in East Asia. However, it is a very useful volume in terms of the policy suggestions offered and would be valuable for economists and government policy-makers in East Asia who are currently

engaged in debating on these issues. The book is also an excellent reference for students interested in doing research on this subject.

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