

---

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

Feiyi Wang<sup>1</sup>

## Abstract

---

The supply and consumption of regional public goods offers a new perspective from which to analyse economic integration. Further, functional cooperation should be generally acknowledged as constituting the main approach to and essential content of the deeper economic integration of East Asia. In this respect, the provision of regional public goods represents a fundamental element of functional cooperation.

This paper examines economic integration in East Asia and the role played by Customs. The study is largely theoretical but also refers to empirical data. The author argues that the various initiatives embarked on to date to promote economic integration represent only one aspect of this subject and attention should also be paid to the concept of an East Asian customs union. The foundation for establishing such a union lies in customs-related functional cooperation. Customs cooperation could provide the basis for deeper economic integration of East Asia in terms of providing regional public goods. This could then impact on other economic sectors such as the environment and finance as well as political and even institutional areas.

---

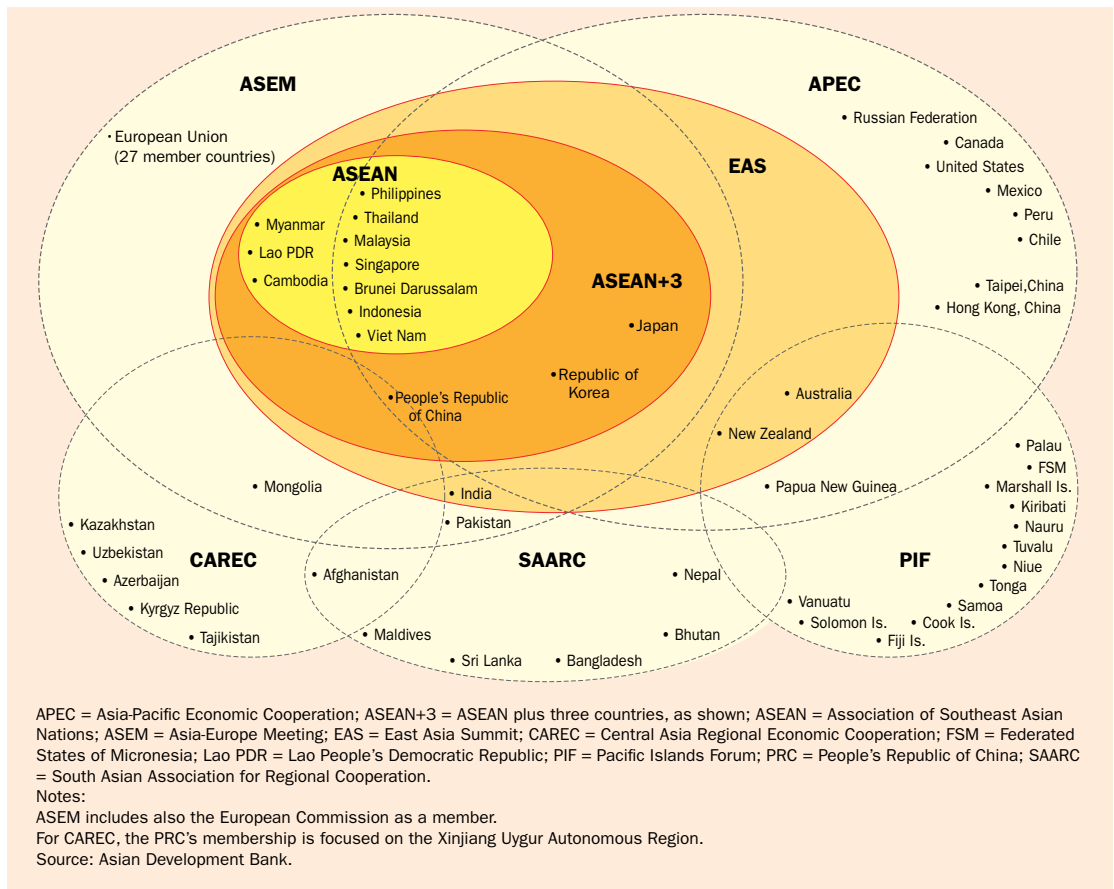
## 1. Introduction

Since the early 1990s, moves towards economic integration, particularly in the form of free trade agreements (FTAs), have progressed rapidly around the world. The process of European Union (EU) integration and the successful launch of the North American Free Trade Agreement (NAFTA) caused East Asian countries to fear that these two giant economic blocs might dominate rule-making within the global trading system while reducing the importance of East Asia in multilateral negotiations (Kawai & Wignaraja 2008, p. 6).

Whereas it is acknowledged that East Asia is not as economically powerful as its North American or European counterparts, there are nevertheless promising signs that further progress will propel the region to equally dominant status. Among the regions of the world, East Asia committed itself to economic integration after the 1997 financial crisis. According to the World Trade Organization (WTO), as of 15 January 2012, East Asian countries had entered into a total of 81 regional trade agreements (RTAs), albeit at different stages of negotiation/implementation.<sup>2</sup> The architecture of regional cooperation is broad in scope, with overlapping subjects (for example, macroeconomics, market access, security, culture) and involves a wide variety of partner countries.

Figure 1 provides an overview of regional integration in East Asia. The Association of Southeast Asian Nations (ASEAN) is involved in the core broader regional arrangements. Although FTAs and regional forums abound, none of them has yet evolved into a fully comprehensive FTA covering all goods, services and investment. Such arrangements have generally been loose, *ad hoc*, and informal. The author suggests that a basic FTA is insufficient to meet the rapidly growing needs of East Asia.

Figure 1: Economic architecture: regional and transregional forums - integration in East Asia



Source: Asian Development Bank 2008, p. 247.

Regional integration is an endeavour which can be extremely broad in scope as it affects a number of areas and involves a myriad of issues. Taking the long process of forming a European Union as an example, it is evident that the complete integration of East Asia is a highly ambitious project that is likely to take many years or decades to fully realise. The aim of this paper is to demonstrate that the supply of regional public goods by Customs will benefit regional integration and, further, that customs collaboration can effectively promote functional cooperation in East Asia. Once functional cooperation has been established in various areas, the next step in the process is likely to be the creation of a customs union (that is, as the second level of economic integration).

The paper is structured as follows. Section 2 introduces Balassa's four stages of economic integration and contrasts theory with the reality in East Asia. Section 3 presents the theoretical foundations needed for a complete understanding of the issues involved, and maintains that, in an era of globalisation and regionalisation, Customs must assume responsibilities other than revenue collection and safeguarding borders. It then describes the customs cooperation that East Asia has achieved within the process of economic integration and suggests ways forward (section 4). The study summarises the findings and provides proposals for increasing the economic and political significance of the proposed customs union (section 5).

## 2. The controversy between economic theory and reality in East Asia

The following is a candid assessment of the current state of economic integration in East Asia, from both a trade and financial/monetary perspective, and highlights the limitations of the formal regional integration initiatives in East Asia to date.

### 2.1 Different levels of economic integration

In general, international economic integration is concerned with the discriminatory removal of trade impediments between participating or member states and the establishment of some level of cooperation or coordination. The level of cooperation depends entirely upon the actual form of integration. According to Balassa (1961, p. 74), economic integration takes four forms that represent varying degrees of integration. These are:

- **Free trade area.** Member countries remove all trade barriers while retaining their own barriers with non-members (for example, NAFTA). This represents the first level of economic integration.
- **Customs union.** In addition to being a free trade area, a customs union harmonises members' trade policies with the rest of the world (for example, the then European Economic Community formed in 1957). In 2007, the Republic of Belarus, Russian Federation and Republic of Kazakhstan formed a customs union which entered into effect on 1 January 2010.
- **Common market.** This allows the free movement of labour and capital between member states (for example, the graduation of European Economic Community into European Common Market in 1993). A common market represents the third level of economic integration.
- **Economic union.** Members of a common market integrate further by unifying their monetary and fiscal policies (for example, Benelux countries, now absorbed into the EU). An economic union reflects a higher and increasingly complex level of regional cooperation. So far, only those EU countries which participate in a monetary union have attained this level (Balassa 1961; Robson 1998; Holden 2003; Salvatore 2003).

In brief, the levels of economic integration range from a free trade area, customs union, common market to an economic union. Table 1 shows an index outlining basic characteristics associated with different levels of economic integration. Note that the first two require only the removal of impediments on trade between participants or the elimination of restrictions in the process of trade liberalisation while the last two relate to the modification of existing institutions or creation of new ones to enable the markets of integrated members to function properly and promote potentially broader aims of the union.

Table 1: Levels of economic integration

Features Forms	Removal of internal quotas and tariffs	Common external tariff	Free mobility of factors of production	Harmonised monetary and fiscal policy
Free trade area	√			
Customs union	√	√		
Common market	√	√	√	
Economic union	√	√	√	√

Source: Compiled by author.

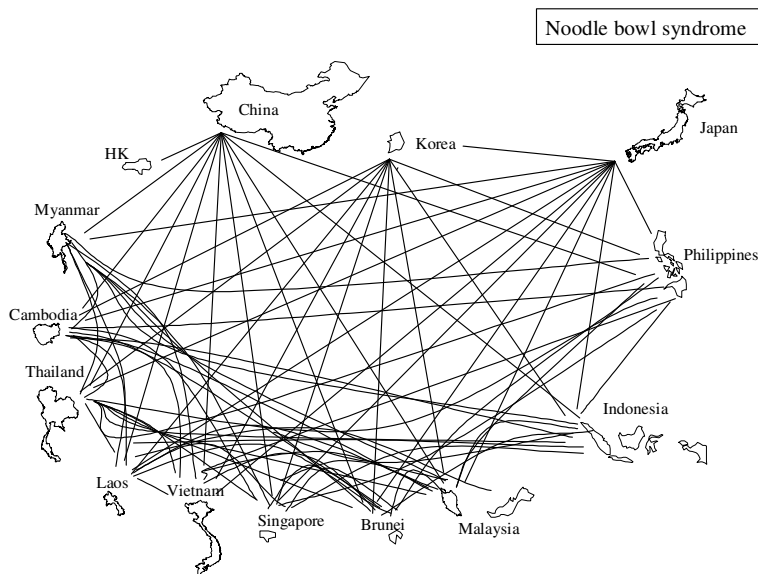
Analysing these stages within an East Asian context, the financial cooperation that is taking place in the region suggests that East Asia is attempting to move from a free trade area to an economic union without first implementing a customs union and then a common market.

## 2.2 Economic integration in East Asia: process and problems

Economic integration has spread around the world: from the EU to NAFTA, MERCOSUR (South American Common Market) and ASEAN (Frankel & Kahler 1993; Kahler 1995; Haggard 1997; Mansfield & Milner 1999; Katzenstein 2005). The EU and NAFTA are often touted by international organisations and scholars as examples of successful economic integration to emulate. Why then has economic integration been much less successful in other areas, such as East Asia?

East Asian countries have been actively pursuing FTAs for over a decade. In addition to regional initiatives, these countries have also formed partnerships with cross-regional states. This has led to a noodle bowl of overlapping rules of origin that can seriously impede trade liberalisation. Arguably, harmonising these rules represents one of the most important steps in deepening integration. As depicted in Figure 2, the trading landscape of East Asia resembles a noodle bowl of bilateral and multilateral trade agreements, coalitions, formal and informal cooperation efforts, forums, and dialogues. With each year that passes, the noodle strands multiply as countries enter into ever more agreements.

Figure 2: The noodle bowl of East Asian economic integration



Source: Baldwin 2006, p. 36.

**Economic integration in East Asia has been characterised as ‘leap development’.** It is difficult to use Balassa’s theory to explain the process of economic integration in East Asia because the region did not embark on economic integration step-by-step. Prior to the financial crisis of 1997, economic cooperation in East Asia was focused on trade and investment. The crisis led to increased calls for regional cooperation in the financial area. The Asian Development Bank has strongly argued that regional integration is important to build more resilient economies and that an Asian financing facility would provide more timely and better-tailored support (Asian Development Bank 2008, p. 33). Consequently, a number of financial arrangements and initiatives have emerged from the crisis, including the Chiang Mai Initiative (CMI), a system of bilateral currency swap agreements. In other words, the regional integration of East Asia began with monetary and financial cooperation rather than trade cooperation. This level of integration usually characterises an economic union and is considered to be an overly ambitious agenda for East Asia.

**Will integration through ‘leap development’ succeed in the future?** Or rather, will this kind of development finally succeed in East Asia? The experience of the EU may hold the answer. In the 1970s, when it appeared that the Bretton Woods Regime (which had sustained the global financial system) was going to collapse, the European Economic Community sought to leap-frog the common market phase and establish an economic union.<sup>3</sup> The European Monetary System, however, was experiencing many problems due to its lack of a fundamental common market. In 1992, the internal contradictions and limitations of the monetary system led to the outbreak of a currency crisis in Europe.

In 1985, the EU passed the Single European Act, which reinforced the goal of developing a common market as established by the Treaty of Rome. The Act set a clear timetable of establishing the European common market by 1992. The Single European Act had removed all obstacles in order to realise the free movement of goods, service, capital and labour.<sup>4</sup> We can conclude that the European Economic Community’s motivation to establish an economic union also originated from crises precipitated by the chaos caused by the collapse of the Bretton Woods System. In the event, the economic union was successfully realised after the Common Market had been established in 1993.

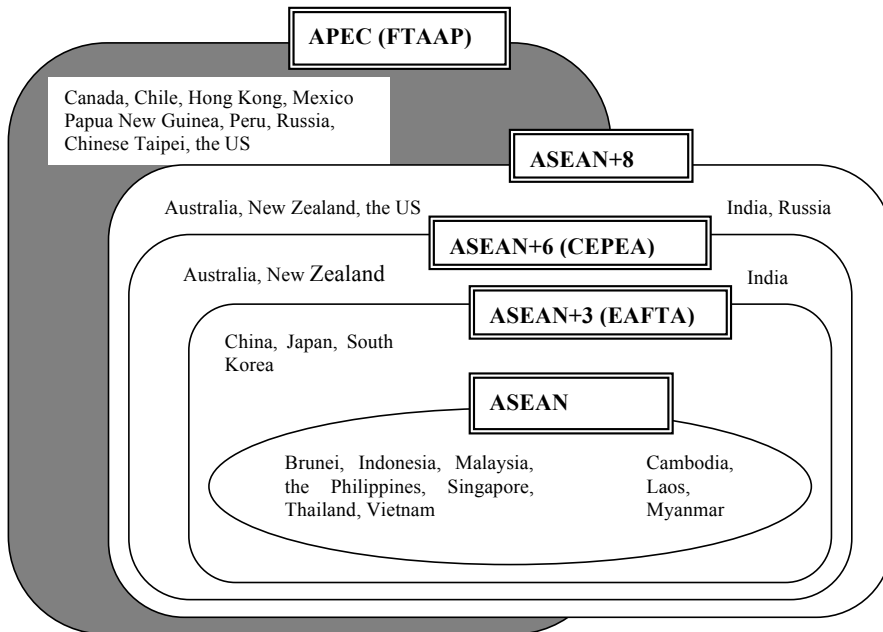
**Economic integration by ‘leap development’ can probably solve temporary crises, yet it cannot build a stable regional cooperation mechanism.** At present, East Asia has made some progress in financial cooperation but the motivation of East Asia is to deal with financial crises, avoiding the economic loss caused by a large fluctuation in member countries’ exchange rates. It is not currently realistic to create an Asian monetary union; without free trade or a common market in East Asia, there will be no demand for an exchange rate mechanism and single currency within the area. In theory, monetary and financial cooperation are based on trade cooperation. As a result, financial cooperation in East Asia cannot simply focus on avoiding financial crises but must also accelerate the process of establishing free trade areas and a customs union to promote financial cooperation. In other words, East Asia is still at the initial stage of economic integration despite the fact that it has already established a degree of financial cooperation.

As illustrated above, there is a pressing need for the deeper integration of East Asia. Despite this, **there are many challenges in the region that have the potential to impede its future development.** FTAs are proliferating in East Asia. This proliferation will become a foundation for the region’s economic integration on the one hand but will also lead to the ‘spaghetti (or noodle) bowl syndrome’, due to a mixture of different rules (for example, rules of origin), on the other. In addition, the need for many procedures and documents, as well as customs clearance at borders, will incur much time and expense, leading to high cooperation costs. Apart from the noodle bowl of overlapping rules of origin, there will be many other issues to address before further economic integration is achieved.

The first fundamental issue confronting East Asian countries is **diversity**, in terms of economic size, population, culture, religion, and language. This could represent both an advantage in that all kinds of different resources could be combined to promote deeper interdependent integration and a disadvantage in that each difference could present a potential barrier to regional economic integration. The most important element of the future integration process is to balance the various needs of the individual countries with those of the overall integration process.

Second, the **enlargement of membership** is an issue which is difficult to tackle considering the conditions pertaining in the various countries. It arises from the basic question: is East Asian economic integration ‘open’ or ‘closed’ regionalism? If it is ‘open’, the inefficiency of the Asia-Pacific Economic Cooperation (APEC) will be revealed in future. If ‘closed’, the standard for enlarging membership should be set up immediately. Establishing standards and criteria ensures that all members adhere to a common schedule, comply with their obligations and, moreover, prevents economic integration being dependent on voluntary action. Whereas Malaysia and China prefer an Asia-based arrangement based on political motivation, Japan and Australia prefer an arrangement based on United States (US) accession.

Figure 3: Enlarging the membership of East Asian economic integration



Source: Compiled by author.

Figure 3 provides a snapshot of the most significant initiatives undertaken to date. These efforts have been undertaken both contemporaneously and at other times which has led to a ‘multi-layered’ implementation of cooperative efforts (Shimizu 2009, p. 3). It also shows different versions of East Asian cooperation in terms of membership. Thus, the greater the consensus established among countries, the greater the chances of creating an East Asian arrangement.

Third, **external common security conditions** cannot become a unifier for East Asia. Rather, countries in this region have different national security concerns which depend upon their geographical position and circumstances. This contrasts with post-war western Europe which had a unifying core partnership (Germany and France), as well as external pressures (strategically, the Soviet Union, and later, economically, the US; see Keohane & Nye 1999). In East Asia, regional security networks had to be reconstructed after the Cold War era.

Finally, **the impact of the US** is a key political issue within the process of economic integration. The major question is whether to exclude US power in this region or not. The majority of East Asian leaders appear in favour of exclusion. The first East Asian Summit limited membership to countries in the East Asia region and the goal of economic integration to building an East Asia Community. The US, however, uses APEC as a platform for liberalising its preferred sectors in East Asian countries and increasing competition with China.<sup>5</sup> Whether to include or exclude US power remains the key issue among East Asian countries.

Based on the analysis above, the key point in negotiations for further economic integration is how to remove barriers between East Asian countries. No doubt, the integration process in East Asia is more difficult than in other regions around the world. Many of the obstacles hindering the development of East Asia are customs-related. Many parts of the region suffer from excessive control and inefficiencies in customs procedures combined with a monopoly of service providers at key entry points in importing countries. For example, the complexity of classification, valuation, clearance procedures and resultant

disputes are depressing monuments to the lack of trade facilitation in ASEAN countries (Chia 2010). Consequently, it must be clarified what Customs should do to remove the barriers among East Asian countries in order to promote the further economic development of East Asia.

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

This section explores the role of Customs in the economic integration of East Asia. Its aim is to (1) provide a coherent and systematic explanation of how Customs interplays with economic integration, and (2) propose a highly integrated regional arrangement that reflects the complicated diversity of East Asia.

#### 3.1 The neo-functional perspective

Neo-functionalism is a theory of regional integration, building on the works of Haas (1961, 1964) and Lindberg (1963). Neo-functionalists studied the development, evolution and experience of the EU and claimed that European integration (which aimed at integrating individual sectors in the hope of achieving spillover effects to further the process of integration), corresponded with their school of thought. The main views of neo-functionalism are:

- International cooperation should begin in the field of economics. This is because functional cooperation in the economic realm is largely characterised by a preoccupation with technical issues and absence of political disputes. As a result, cooperation is easy to achieve.
- This kind of economic cooperation has a spillover effect (Keohane & Hoffman 1991, p. 19). The ‘spillover effect’ refers to the notion that integration between states in one economic sector will promote integration in other sectors. The latter will be keen to integrate once they observe how integration has benefited the sector in which it started (Mitrany 1975, pp. 124-27).
- It follows from this core claim that European integration is self-sustaining, with the ‘spillover effect’ triggering the economic and political dynamics which drive further cooperation.

Neo-functionalism describes and explains the process of regional integration in terms of how the three causal factors interact: (a) growing economic interdependence between nations, (b) organisational capacity to resolve disputes and build international legal regimes, and (c) supranational market rules that replace national regulatory regimes (Haas 1961; Sandholtz & Sweet 1997). The process of EU integration may be regarded as the best practice of neo-functionalism.

#### 3.2 The regional public goods perspective

**Public goods** is a concept of economics which refers to the products and services provided by the government within a country (for example, public order, social security) to meet the common needs of all citizens. The realist school of international relations transfers this concept into international politics and argues that a certain number of international actors should take on the role of providing basic public goods in order to realise the stability and prosperity of the entire international community. Olsen (1971) first used the concept of **international public goods** to enquire how the incentive effect of international cooperation could be improved.

Generally, **regional public goods** refer to the international arrangement, mechanism and institutions which particularly serve local areas and whose costs are shared by the countries within the region. In general, regional public goods in the economic field include the stability of the financial system, open market, economic growth and stable development, and so on. Those forming part of the political field include regional security and political trust.

The initiative for providing regional public goods is based on the rationale that the countries of East Asia share both challenges and opportunities for development that can be acted on and realised more effectively and efficiently at a regional level through collective action and cooperation. Regional public goods, which involve several boundary authorities and regions, have a more complicated supply and management mechanism than common public goods. As the consumption of public goods is non-inclusive and non-competitive, it is possible to select areas of regional cooperation according to a comparatively objective standard. On the other hand, as regional public goods have a small area of coverage, their costs and benefits are clear to each country. To a certain extent, therefore, it is possible to decrease the phenomenon of 'free riders' and avoid the ubiquitous shortage of public goods.

### 3.3 A third perspective

Research on regional public goods in economics and the spillover approach of neo-functionalism has provided new analytical frameworks for the analysis of regional cooperation. The following section looks at both theories of customs cooperation in East Asia to see whether they support the idea of creating an East Asian customs union in order to promote the deeper integration of East Asia. It also suggests a third approach combining elements of both models, arguing that an East Asian customs union is a rational and realistic choice for promoting integration in East Asia.

The theory of regional public goods proves especially persuasive in relation to the issue of regional cooperation and integration. The regional public goods demanded by regional cooperation in East Asia are determined by the political, economic and cultural diversities of the member countries in this region. An internal task of East Asian countries is to overcome the development barriers by increasing the supply of regional public goods. Regional public goods and cooperation are mutually conducive: regional public goods can provide new momentum for regional cooperation. The effective supply of regional public goods is closely linked to the process of regional cooperation insofar as the constant improvement of regional cooperation increases their efficient supply. The theory of regional public goods addresses the following questions:

- What is the relationship between functional cooperation, regional public goods and economic integration? Will functional cooperation or regional public goods offer a practical approach to the question of promoting economic integration?
- Can Customs prove to be the initial driving force in the process of functional cooperation in East Asia? Does a customs union offer a possible and realistic approach to the question of overcoming obstacles to and difficulties in the economic integration of East Asia?
- Finally, how are all these discussions related and how should they be applied to the circumstances of East Asia? What policies have to be implemented in order to ensure that the role played by Customs serves to improve regional economic integration?

## 4. Proposed ways forward: the idea of an East Asia customs union

East Asia is not a stranger to the concept of economic integration; various calls in the past for broader cooperation have led to a variety of summits, economic partnerships, and initiatives. The following proposals are submitted for the future development of East Asia.

### 4.1 The role of Customs in the process of functional cooperation

East Asia can already boast a number of examples of functional cooperation in the fields of agriculture (2001), tourism (2002), environment (2002), energy (2004), telecommunications and IT (2004); however, there has been little in the way of actual agreements (Yoshimatsu 2005, p. 212).



However, within the context of this paper, the question is what should Customs do to promote functional cooperation in light of the special roles it performs at different levels? It is imperative for East Asia to create pivot points through the functional spillover, provision and consumption of regional public goods. The following explains the role of Customs in this respect at regional and national levels.

As far as the role of Customs at the regional level is concerned, FTAs provide an important example. Most FTAs contain a chapter which concerns customs procedures and trade facilitation. There is such a chapter in the FTAs concluded between ASEAN member states which includes customs procedures and supervision, risk management, use of IT, post audit, etc.

The role of Customs at the national level can be explained by the example of China Customs. This customs authority has four traditional functions: supervision, statistics, duty collection and anti-smuggling. In addition, other specific responsibilities of China Customs include the supervision and management of bond operations; audit-based control and the protection of intellectual property rights (IPR). What is more, China Customs also shoulders some non-traditional functions in the era of globalisation (for example, safeguarding social security and anti-terrorism).

Considering the multi-dimensional nature of customs' tasks, there has been a great deal of interagency cooperation between customs authorities in East Asian countries. For example, China-ASEAN customs cooperation was launched in 2003. The two sides have since established a regular consultation mechanism at ministerial level and a consultation mechanism of expert customs coordination committees. As of 2011, there had been nine consultative sessions of China-ASEAN customs directors.

China-Japan-Republic of Korea (ROK) Customs Heads Meeting (which was officially launched in 2007), has provided an important platform for the three customs authorities to strengthen their coordination and cooperation in regional affairs. The Fourth Customs Heads Meeting in November 2011 adopted the revised Action Plan of the Tripartite Customs Cooperation, which mapped out future trilateral customs cooperation. The Trilateral Customs Heads Meeting is supported by four working groups: IPR protection, customs enforcement and intelligence, authorised economic operator (AEO) and customs procedures.

In the area of **IPR protection**, the customs authorities of the three countries have adopted the IPR Action Plan (fake-zero project), and made progress in information exchange (both generally and in individual cases), sharing legislative and law enforcement practice, public awareness and cooperation with IPR holders.

Concerning **law enforcement cooperation**, the three countries have concluded the Action Plan on Intelligence Exchange and Law Enforcement Cooperation, improved the dissemination and utilisation of intelligence and information for combating commercial fraud and drug trafficking (in accordance with the provisions of the action plan), provided mutual support in case investigation and led effective joint campaigns against transnational smuggling activities.

The three countries have also taken effective steps to advance cooperation in **AEO mutual recognition**. The customs authorities of China and the ROK have signed the Action Plan for AEO Mutual Recognition, which was expected to lead to the formation of an arrangement for AEO mutual recognition between China and the ROK in 2013. The customs authorities of China and Japan have also drafted a roadmap for AEO mutual recognition and are now in the process of comparing their respective AEO regimes.

In relation to the **harmonisation of customs procedures**, the three countries have adopted the Work Plan for the Improvement of Customs Procedures and identified the priorities and goals of the customs procedures working group.

The customs authorities of the three countries have also achieved close and effective cooperation in **human resources development**. In particular, the General Administration of China Customs has signed the Memoranda of Co-operation in Human Resource Development with its counterparts in Japan and the ROK, thereby laying a solid foundation for promoting cooperation with these countries.

Overall, the customs authorities of these three countries have conducted in-depth exchange of views on regional trade security and facilitation, IPR protection, law-enforcement cooperation and human resources development at the Customs Heads Meeting. This has not only contributed to the healthy growth of their own economies (and the regional economy as a whole) but has also set a good example for customs cooperation in other parts of East Asia.

### 4.2 Customs and the supply of regional public goods in East Asia

As a result of the tremendous shock of the global financial crisis, customs cooperation among East Asian countries has made great progress and their close economic cooperation could play a role in providing regional public goods and driving regional integration. The following explains how customs cooperation can provide regional public goods in fields such as border security and transnational crime, trade liberalisation and free trade arrangements, revenue collection and cargo administration, public health and environment protection, natural disaster/response, IPR, etc.

- **Regional security.** Globalisation and terrorism are challenging the very notion of borders. Before the terrorist attack on 9/11, the overriding concern of world economists was to open up borders and facilitate trade. This terrorist attack significantly heightened awareness of the need for Customs to play a more meaningful role in protecting society from various threats (Widdowson 2007, p. 31). The border security requirements in today's international environment are emerging as a significant challenge for Customs. The need for enhancing global security in maritime and aviation transport means that Customs is likely to play a greater role in these areas than has traditionally been the case. In November 2002, China and ASEAN leaders signed the 'Joint Declaration on Co-operation in Non-traditional Security Areas to Safeguard Regional Security'.
- **Trade liberalisation and FTAs.** WTO Members are committed to the multilateral trading system and promoting the Doha Round of trade negotiations. At the same time, some are pursuing trade liberalisation through bilateral, multilateral and regional FTAs. Customs plays an important role in supporting the WTO negotiations on a Trade Facilitation Agreement, as well as developing national positions on FTA negotiations. Customs are best placed to comment on customs-related issues and prepare relevant drafts. However, the increasingly different ways of administering common issues under FTAs (for example, the application of rules of origin) may pose challenges for Customs in the future.
- **Public health and environmental protection.** The World Health Organization (WHO) believes the world is closer to an influenza pandemic than at any time since 1968. Events since January 2004 affecting both human and animal health (including avian influenza), have given the world an unprecedented warning of a potential pandemic. The WHO says it is prudent for all countries to take or intensify precautionary measures as a matter of urgency.<sup>6</sup> In many countries, Customs will be part of the 'frontline' in tackling the threats to national health.
- **Disaster relief.** The tsunami in Southeast Asia highlighted the importance of the customs clearance of relief consignments. As global warming and population growth continue, such events may occur ever more frequently. Improvements in the role Customs plays in disaster relief could be an important issue in the future.

In a word, Customs plays an important role in implementing a range of critically important government policies and contributes to achieving a number of development objectives. To that end, it must enhance its effectiveness and efficiency in monitoring compliance with trade regulations, protecting society, collecting revenue, facilitating trade and securing international trade. This would contribute to the economic and social well-being of nations and deeper economic integration in East Asia.<sup>7</sup>

### 4.3 Ways forward

**A standing body is needed to sustain economic integration.** A neo-functionalist approach emphasises the role of institutions in EU policymaking (Dysvik 1997). By making proposals, facilitating bargaining and providing organisational skills, the Commission can exercise task-orientated leadership and promote the spillover process (Lindberg & Scheingold 1970, p. 129). Consequently, a standing body must be established to guarantee the steady progress of economic cooperation in East Asia. The establishment of permanent institutions can be integrated into the main institutions of functional cooperation. Therefore, the regional Asian currency institutions, meteorological and disaster prevention agencies (as the transitional form of regional public goods), should play a more important role in East Asian regional cooperation in future.

The main focus of East Asian economic cooperation has been the advance of East Asia's financial regionalism. However, although East Asian economic integration is on track, there is still a long way to go: the current political challenges in the region are too broad and intense to contemplate much beyond the creation of a second-level form of integration. Accordingly, **the establishment of a customs union**, which abolishes internal barriers and establishes a common external tariff, is most likely to be the next step for East Asia. This does not rule out the creation of a common market for East Asia (similar to the EU) which could eventually evolve into a full-blown economic union. This view is supported by three important projects: the Chiang Mai Initiative, the Asian Bond Market Initiative (ABMI) and the Asian Currency Unit (ACU) initiative. However, these projects do not necessarily mean that East Asia has already attained the third level of economic integration and is in the process of forming an economic union.

There is no doubt that East Asia can learn from the experiences of NAFTA and the EU. As this region is unique in many ways, a customs union should be tailored to the particular needs of East Asia. From the author's point of view, the East Asian customs union is designed to increase the competitiveness of companies doing business in East Asia and abroad, reduce compliance costs and improve East Asia's regional security by providing a centralised customs service that underscores uniformity and modernisation.

**Possible functions of a future East Asian customs union.** The profile of Customs is being elevated within government circles and internationally. The World Customs Organization (WCO) has already noted that an efficient and ethical customs administration can make a major contribution to effective revenue mobilisation, assist governments facilitate trade and investment and increase confidence in the quality and integrity of government institutions. Increasingly, Customs is playing a leading role in economic integration and the focus on customs issues within international forums has increased general awareness of the importance of customs' function within government.

Given the actual process of regional cooperation in East Asia, Customs is responsible for the tasks of supplying regional public goods, ensuring customs cooperation as well as covering most fields of functional cooperation. Therefore, the establishment of a permanent committee of customs cooperation is urgently needed and this is exactly what the second phase of integration offers in the form of a customs union. Customs cooperation may be seen as a breakthrough point in East Asian regional cooperation, thereby uniting theory and practice.

There is no doubt that a properly designed and efficient customs union can make a major contribution to economic integration at a regional level. The functions of the future East Asia customs union would be designed to: (1) endorse the customs union as a vital part of protecting the external borders of East Asia; (2) facilitate trans-border operations; (3) encourage changes in the tax systems that support common objectives, competitiveness, and development; (4) effectively respond to the international challenges associated with customs and tax policies; (5) foster better collaboration among member states in tackling customs and tax offences; and (6) promote a regular and open dialogue with stakeholders on policies and programs in response to the pressure of global trade and globalisation.

## 5. Conclusions

The East Asian region has progressed rapidly over the last few decades and is now the most advanced region of developing countries in the world. The drive towards deeper integration in East Asia builds on the integrated production network ('Factory Asia') which has knitted together the East Asian region. This paper has argued that the next logical step for the East Asian region would be to enhance economic integration by consolidating the myriad of trade agreements into one comprehensive regional arrangement and establishing a customs union among East Asian countries that already have close and existing interdependencies.

Deeper economic integration in East Asia could and should start from areas of functional cooperation with the aim of providing regional public goods for East Asian countries. In the context of inadequate supplies of international public goods, it will become increasingly common for regional countries to supply, finance and manage supplementary public goods for the benefit of the region. The regional regime could solve the potential problem of 'free riders' by ensuring countries share the costs of supplying regional public goods. This strategy would also be attractive to East Asian countries.

The initiatives outlined above indicate that there is great interest in economic integration at a much more profound level. Unresolved questions relate to the form this should take and what would be the most beneficial arrangement for East Asian countries and the global community as a whole. The proposal for deeper integration in this paper anticipates the creation of a customs union. It is argued that East Asia is ready to move beyond an FTA, and must seek an alternative in order to achieve sustainable growth. By deepening trade and economic integration in a customs union, East Asia could benefit from enhanced efficiency and, at the same time, adopt a stronger negotiating position in multilateral talks.

The main findings of this paper are as follows:

- Functional cooperation should be commonly regarded as an essential approach and the main content of deeper economic integration in East Asia.
- Considering the complex political, economic and social realities of East Asia, the provision of regional public goods represents a fundamental method of functional cooperation.
- Given the special and important responsibilities of customs administrations, Customs can and should play a key role in the provision of regional public goods to promote functional cooperation with the aim of deepening economic integration.
- In East Asia, through regional customs cooperation, Customs can provide regional public goods in terms of regional security, trade liberalisation, public health and environment protection, as well as disaster relief, etc.
- The second level of economic integration, the customs union, appears the most appropriate next step for East Asia.
- A Commission or Secretariat is essential to ensure the proper functioning and development of a customs union at the supranational level. The proper design and implementation of a customs union can create trade and encourage the region's participation in multilateral liberalisation.

It is also argued that the East Asian region must make a concerted effort to work as a unified whole. The theory of regional public goods offers a new perspective in the study and interpretation of the trends towards economic integration. In areas of customs cooperation, supplying regional public goods can help eliminate barriers, reduce the costs of cooperation, promote functional cooperation and finally, pave the way for the economic integration of East Asia.

## References

- Asian Development Bank (ADB) 2008, *Emerging Asian regionalism: a partnership for shared prosperity*, ADB, Manila.
- Balassa, B 1961, *The theory of economic integration*, Richard D Irwin, Homewood, IL.
- Baldwin, R 2006, 'Managing the noodle bowl: the fragility of East Asian regionalism', CEPR Discussion Paper 5561, Centre for Economic Policy Research, London, [www.cepr.org/pubs/dps/DP5561.asp](http://www.cepr.org/pubs/dps/DP5561.asp).
- Chia, SY 2010, 'Accelerating ASEAN trade and investment co-operation and integration: progress and challenges', in P Gugler & J Chaisse (eds), *Competitiveness of the ASEAN countries: corporate and regulatory drivers*, Edward Elgar, UK, pp. 103-29.
- Dysvik, V 1997, 'The road to Maastricht', Arena Report No. 2, Arena Publications, Oslo.
- Fishlow, A & Haggard, S 1992, *The United States and the regionalization of the world economy*, OECD, Paris.
- Frankel, J & Kahler, M 1993, *Regionalism and rivalry: Japan and the United States in Pacific Asia*, University of Chicago Press, Chicago, IL.
- Fukasaku, K (ed.) 1995, *Regional integration and co-operation in Asia*, Asian Development Bank & OECD Development Centre, OECD, Paris.
- Haas, EB 1961, 'International integration: the European and the universal process', *International Organization*, vol. 15, no. 3, pp. 366-92.
- Haas, EB 1964, *Beyond the nation-state: functionalism and international organization*, Stanford University Press, Redwood City, CA.
- Haggard, S 1997, 'Regionalism in Asia and the Americas', in E Mansfield & H Milner (eds), *The political economy of regionalism*, Columbia University Press, New York, pp. 20-49.
- Holden, M 2003, *Stages of economic integration: from autarky to economic union*, viewed 29 March 2012, <http://publications.gc.ca/Collection-R/LoPBdP/inbrief/prb0249-e.htm>.
- Kahler, M 1995, *International institutions and the political economy of integration*, Brookings Institution Press, Washington, DC.
- Katzenstein, PJ 2005, *A world of regions: Asia and Europe in the American imperium*, Cornell University Press, Ithaca, NY.
- Kawai, M & Wignaraja, G 2008, 'Regionalism as an engine of multilateralism: a case for a single East Asian FTA', Working Paper Series on Regional Economic Integration, No. 14, Asian Development Bank, Manila.
- Keohane, RO & Hoffman, S 1991, *The new European Community: decision-making and institutional change*, Westview Press, Boulder, CO.
- Keohane, RO & Nye, JS 1999, *Power and interdependence*, Longman, New York.
- Lindberg, LN 1963, *The political dynamics of European economic integration*, Stanford University Press, Redwood City, CA.
- Lindberg, L & Scheingold, S 1970, *Europe's would-be polity: patterns of change in the European Community*, Prentice Hall, Englewood Cliffs, NJ.
- Mansfield, E & Milner, H 1999, 'The new wave of regionalism', *International Organization*, vol. 53, no. 3, pp. 589-627.
- Mitrany, D 1975, *The functional theory of politics*, London School of Economics and Political Science, London.
- Nye, JS 1970, 'Comparing common markets: a revised neo-functionalist model', *International Organization*, vol. 24, no. 4, pp. 796-835.
- Olson, M 1971, 'Increasing the incentives for international co-operation', *International Organization*, vol. 25, no. 4, pp. 866-74.
- Robson, P 1998, *The economics of international integration*, 4th edn, Routledge, London.

- Salvatore, D 2003, *International economics*, 8th edn, John Wiley & Sons, New York.
- Sandholtz, W & Sweet, AS 1997, 'European integration and supranational governance', *Journal of European Public Policy*, vol. 4, no. 3, pp. 297-317.
- Shimizu, K 2009, 'East Asian regional economic co-operation and FTA: deepening of intra-ASEAN economic cooperation and expansion throughout East Asia', in T Nakamura (ed.), *East Asian regionalism from a legal perspective: current features and a vision for the future*, Routledge, London, pp. 3-24.
- Solis, M & Katada, SN 2007, 'Understanding East Asian cross-regionalism: an analytical framework', *Pacific Affairs*, vol. 80, no. 2, pp. 229-57.
- Widdowson, D 2007, 'The changing role of Customs: evolution or revolution?', *World Customs Journal*, vol. 1, no. 1, pp. 31-7.
- Wollrad, K 2007, 'Regional public goods: promoting regional solutions for regional problems: conceptual framework of the RPG program', Integration and Regional Programs Department, Inter-American Development Bank (IDB), Bonn.
- World Customs Organization (WCO) 2003, *Customs capacity building strategy*, WCO, Brussels.
- Yoshimatsu, H 2005, 'Political leadership, informality, and regional integration in East Asia: the evolution of ASEAN Plus Three', *European Journal of East Asian Studies*, vol. 4, no. 2, pp. 205-32.
- Yoshimatsu, H 2008, *The political economy of regionalism in East Asia: integrative explanation for dynamics and challenges*, Palgrave Macmillan, New York, pp. 157-65.

## Notes

- 1 The author wishes to thank the Department of International Co-operation, General Administration of China Customs for the opportunity to write this paper at their offices. The author is also grateful to a number of individuals who encouraged the development of this paper and especially thanks Mr Xiaoying Chen, Director of the Department of International Co-operation, for his unlimited support and encouragement in conducting the research. Mistakes and misunderstandings should however be ascribed solely to the author.
- 2 World Trade Organization. In particular, negotiating RTAs, mostly the result of the formation of bilateral free trade areas, for example, a Singapore-Korea FTA, and some multilateral FTAs, for example, an ASEAN-China FTA, are very common in the region.
- 3 In January 1979, the European currency system was instituted, with the ruling that the proportion of currency of every member country be linked with the economic power of the country.
- 4 The effect of the Single European Act shows the determination of the EU to achieve the Economic Union. In June 1998, the 'Economic and Monetary Union Research Council' was established to decide the specific procedures of this union, and in April 1989 it published the Report on Economic and Monetary Union in the European Community. At the end of 1991, when the European Common Market was imminent, the establishment of a European Economic and Monetary Union was approved at a meeting in Maastricht. At the end of 1992, when Europe had achieved the aim of the Common Market, the Economic and Monetary Union came into being which established a single currency (the 'euro') on 1 January 1999.
- 5 Yongtu Long, 'China and Asian regional co-operation', in Kiichiro Fukasaku (ed.) 1995, pp. 53, 54-7.
- 6 World Health Organization, Executive Board, January 2005.
- 7 The WCO provides a broad vision for Customs in the 21st century, which is to support international development, security and peace by securing and facilitating international trade. While the core roles and responsibilities of Customs have remained essentially the same for many years, the manner in which customs administrations discharge these roles and responsibilities has changed in recent times. The WCO's 'Guidelines on the use of the Customs Capacity Diagnostic Framework' describe the drive for this change. See *WCO Customs Capacity Building Strategy 2003*.

**Feiyi Wang**



Dr Feiyi Wang is an Assistant Professor in the Department of Customs Administration at Shanghai Customs College. She is a post-doctoral fellow in the Public Administration group at Fudan University, China. She is also being funded by the National Science Foundation for Post-doctoral Scientists of China. Her research focuses on public administration and the international political economy. Feiyi has written extensively on the factors that facilitate and obstruct economic integration in East Asia. As a Chinese translator, she published the Chinese edition of *Power and Society* by Harold Lasswell and Abraham Kaplan. Feiyi received her degrees from Fudan University, including a BA, MA and PhD in Political Science.

