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# The Global Financial Crisis in 2008 and the Economic Integrations in the East Asia

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Key words(중심용어): 동아시아(East Asia), 세계 금융/경제위기(Global Financial Crisis), 지역경제통합(Regional Economic Integration)), 자유무역시대(FTA), 아세안(ASEAN)

## 국 문 요 약

2008년 미국에서 시작된 세계 금융/경제위기는 동아시아 국가들을 포함한 전 세계 경제에 부정적인 영향을 주었다. 전 세계적인 금융/경제위기를 극복하기 위하여 많은 국가들이 정책을 통한 다양한 노력을 해오고 있다. 동아시아 국가들은 이번 금융/경제 위기를 극복하기 위한 한 가지 방법으로써 이제까지 그들이 노력해 왔던 경제통합의 노력을 한층 더 강화하고 있다. 동아시아 국가들이 그들 간에 FTA와 같은 지역경제통합을 이루고자 노력하는 구체적인 3가지 이유는 다음과 같다. 첫째, 2008년 세계 금융/경제위기는 동아시아 국가들에게 이 지역에 있는 좀 더 많은 국가들과 무역관계를 다양화 할 수 있는 좋은 기회를 제공하였다. 둘째, 다자주의를 근본으로 하는 WTO체제가 제대로 작동하지 못함과 그 적용 범위가 제한되어 있는 WTO 규정 때문이다. 셋째, 동아시아 국가들이 FTA와 같은 경제통합정책을 이 지역에서 가장 중요한 지역 정책이라고 생각하고 있다. 이런 상황에서 동아시아 국가들간의 경제통합(FTA)를 이루기 위한 구체적인 방법은 다양하다. 많은 방법 중에서 저자는 한중일 간에 경제통합(FTA)가 우선적으로 이루어져야 하고 이를 토대로 ASEAN 10개국들과 한-중-일 3개국간의 그룹 대 그룹 차원의 경제통합

(FTA)을 확대/발전시키는 가설이 가장 현실적이라고 주장하고 있다. 저자는 이런 과정에서의 한국의 역할이 ‘중재자’의 역할이라는 사실도 강조하고 있다.

## I. Introduction

Global financial and economic crisis, which was triggered by the Lehman shock September 2008, has had huge negative impacts on the global economy.\* Global GDP growth rate became negative in the fourth quarter of 2008. This trend was continued through the third quarter of 2009. In fact, most countries even including the US, the major Western European countries, are now facing recession. In order to vitalize the depressed economy, governments of the countries use standard macroeconomic policy such as reducing interest rates, reducing taxes, increasing borrowings and spending on public works (infrastructure).\*\*

On the other hand global trade in goods and services recorded -12.3 percent in 2009(IMF 2010). The magnitude of the decline in economic activities was so huge that this crisis has been characterized as “once in a century” crisis, comparable only to the Great Depression in the 1930s.

The East Asian countries except for China have been also hit by the global financial crisis. In some sense, East Asian countries, which many of them are not strong economies, got severe damages from the global financial crisis directly or indirectly.

In this study, firstly, the impacts of the global financial crisis on the East Asian countries\*\*\* are fully analyzed. And the reasons why the countries in the region have such difficulties in the middle of the global financial crisis are also examined. Finally the solutions to the questions how the East Asian countries can overcome the facing difficulties are suggested based on the findings at this study. The role of Korea in solving the common problems in the region is also examined.

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\* The UNCTAD explains the causes for the financial and economic crisis as follows: “The global economy is teetering on the brink of recession. The downturn after four years of relatively fast growth is due to a number of factors: the global fallout from the financial crisis in the United States, the bursting of the housing bubbles in the US and in other large economies, soaring commodity prices, increasingly restrictive monetary policies in a number of countries, and stock market volatility.(Trade Development Report 2008)

\*\* <http://www.globalissues.org/article/768/global-crisis>, pp. 30 and 31

\*\*\* The East Asian Countries mean 10 ASEAN member countries, Korea, China and Japan.

## II. The Impacts of the Global Financial Crisis on the East Asian Countries

The global financial crisis gave enormous negative impact on the global economy. Firstly the financial crisis started in the US directly hit the big economies in the West. Uncertainty and instability in international financial, currency, and commodity markets, coupled with doubts about the direction of monetary policy in some major developed countries such as the USA and the UK, are contributing to a gloomy outlook for the world economy. This could also present considerable risks for the developing countries in the world(UNCTAD 2008).

This crisis spread to the rest of the world including the East Asian countries mainly through two channels. The first one is the financial market, where supply of financial resources declined, which affect the value of currencies. This, in fact, resulted in slowing down of economic activities in many countries including big economies such as the US and the West European countries. The slowdown of economic activities in these countries eventually affected the economies of the developing countries including the East Asian countries. For example, China has experienced a sharp slowdown and its growth recorded about 8 percent of economic growth in 2008, which was still a good growth figure in normal conditions). Japan, which has suffered its own crisis in the 1990s also faces difficulties now. While their banks seem more secure compared with their Western counterparts, it is very dependent on exports. Japan is so exposed that in January alone in 2009, Japan's industrial production fell by 10%, which was the biggest monthly drop since their records began. (Refer to <Table 3>) Japan's output for the first 3 months of 2009 also plunged at its quickest pace since records began in 1955, mostly due to falling exports. With high unemployment and general lack of confidence, optimism for recovery of the Japanese economy has been dampened.

The second one is international trade. During the first half of 2009 many nations had substantial year-on-year reductions in their exports. For example, Japanese exports and imports reduced by half during the period(Evenett 2009, 3). Korean exports and imports also recorded about -30 percent during the period.

The impacts of the global financial crisis on the East Asian countries are fully analyzed in this session.

## 1. The Impacts on the Financial Market in the Region

Many believed Asia including the East Asia was sufficiently decoupled from the Western financial systems. Asia has not had a subprime mortgage crisis as much as many advanced countries such as the US and several West European countries. Many Asian nations have witnessed rapid economic growth and wealth creation in recent years. And this made Asian countries make enormous investments in Western countries. In addition there was also increased foreign investment in Asia, mostly from the West.

However, this crisis has shown that Asia has had more exposure to problems stemming from the developed countries in the West. Many Asian countries including the East Asian countries have seen the serious reduction of financial resources and currency values going on a downward trend. (Refer to <Table 1>)

The global financial crisis made foreign investors withdraw their investment from the financial markets in the countries. As of the end of 2007 the inward FDIs in those countries were larger about \$100 billion than their outward FDIs. However the inward FDIs in the countries showed smaller than the outward FDIs about \$ 86.2 billion after the crisis(World Bank 2009). From the first half of 2008 the amount of foreign capital withdrawn from East Asian countries started to be reduced. The foreign capitals except for the capitals in the form of FDI in the region started to be withdrawn from the second half of 2008 because of the crisis triggered by the collapse of Lemman brothers in the U.S. Thus, at the end of 2008, the net capital flow in East Asia was minus \$171.9 billion. As a result of leaving of huge foreign capital from the region, the stock markets in those countries were in difficulties. The indexes in the stock markets of the countries also recorded about 50% decrease on average basis for 1 year from 2007 and 2008. For example in the Korean stock market, the index at the end of 2008 reduced by 36% in comparison to the end of 2007(World Bank 2009).

**<Table 1> The Exchange Rates against US\$**

(after the several major happenings in the international financial market)

(Unit: each country's currency against USD, %)

	2, Jan, 08	19, Feb, 08	16, Sep, 08	27, Oct, 08	2, Mar, 09	8, Apr, 09
Korea Won	936.9	943.9 (-0.7%)	1160 (-23.8%)	1442.5 (54.0%)	1570.3 (67.6%)	1354.5 (44.6%)
China Yuan	7.2981	7.155 (-2.0%)	6.8425 (-6.2%)	6.8511 (-6.1%)	6.8428 (-6.2%)	6.8361 (-6.3%)
Japan Yen	109.67	107.77 (-1.7%)	105.66 (-3.7%)	92.79 (-15.4%)	97.45 (-11.1%)	99.76 (-9.0%)

Malaysia Ringgit	3.3095	3.2182 (-2.8%)	3.4438 (4.1%)	3.58 (8.2%)	3.732 (12.8%)	3.6293 (9.7%)
Indonesia Rupiah	9390	9161 (-2.4%)	9440 (0.5%)	11024.5 (17.4%)	12080 (28.6%)	11390.5 (21.3%)
Thailand Baht	30	31.69 (5.6%)	34.58 (15.3%)	34.82 (16.1%)	36.26 (20.9%)	35.493 (18.3%)
Philippine Peso	41.16	40.64 (-1.3%)	47.0965 (14.4%)	49.37 (19.9%)	49.24 (19.6%)	47.981 (16.6%)

Resource: Korea Center for International Finance

Note: the figure in ( ) means the increasing rate in comparison to the beginning of the year, 2008

Along with these results explained above, most East Asian countries also experienced another crisis in keeping the value of their currencies against US dollar. As <Table 4> shows, Many East Asian countries except for China have suffered a lot because of the dramatic devaluation of their currencies against US dollars. For example, the Korean currency, Won, has been devalued against the US \$ in the range from 0.7percent to 67.6percent in comparison to the beginning of 2008 One of the main reasons for the huge devaluation of the currencies of the East Asian countries is the huge reduction of net incoming capitals in the region(Song 2009).

## 2. The Impacts on the International Trade in the Region

During the first half of 2009 many nations in the world had substantial year-on-year reductions in their exports and imports. The East Asian countries also experienced huge reductions in their exports and imports. For example, Japanese exports reduced by half during the period(Evenett 2009, 3). (Refer to <Table 2>) Korean exports and imports recorded about 20 percent and 30 percent reduction during this period, respectively. (Refer to <Table 2> and <Table 4>)

<Table 2> Export Increasing/Decreasing Rates in East Asia before and after the Financial Crisis (Unit: %)

	2008				2009		
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Korea	27.6	7.8	-19.5	-17.9	-34.2	-18.5	-22.0
China	21.5	19.2	-2.2	-2.8	-17.6	-25.8	-17.3

Japan	1.5	-7.8	-26.7	-35.0	-45.7	-49.4	-45.5
Taiwan	-1.6	-8.3	-23.3	-41.9	-44.1	-28.6	-35.7
Hong Kong	3.5	9.4	-4.9	-10.8	-21.3	-22.6	-21.5
Philippine	1.1	-14.8	-11.4	-40.3	-40.6	-39.1	-30.9
Malaysia	15.9	-6.8	-10.9	-20.1	-34.0	-15.9	-15.6
Singapore	17.7	-5.1	-15.5	-21.9	-40.4	-29.1	-32.7
Indonesia	28.5	4.9	-2.4	-20.6	-36.1	-32.9	-32.1
Thailand	20.7	3.8	-21.0	-12.8	-28.3	-13.7	-20.6
USA	7.6	4.1	-3.7	-13.8	-21.1	-23.8	N/A
EU	10.0	0.1	-13.3	-8.3	-24.8	N/A	N/A

Source : IMF, ADB, Bank of Korea, KITA

<Table 3> Rate of Industrial Production after the global Financial Crisis

(Unit: %)

	2008		2009		
	Nov.	Dec.	Jan.	Feb.	Mar.
Korea	-12.5	-21.2	-21.1	-15.2	-11.5
China	5.4	5.7	3.8	3.8	8.3
Japan	-15.0	-24.4	-30.2	-36.6	-34.2
Taiwan	-49.0	-50.2	-43.3	-27.2	-26.0
Singapore	-6.7	-13.3	-27.6	-15.1	-33.8
Philippine	-7.1	-15.4	-19.9	-21.1	N/A
Malaysia	-8.2	-15.6	-19.8	-14.6	-14.4
Indonesia	0.5	-3.9	-4.6	-2.4	N/A
Thailand	-7.7	-18.5	-21.1	-20.3	-15.4

Source : IMF, ABD, Bank of Korea, Finance Ministry of Japan

<Table 4> Import Increasing/Decreasing Rates in East Asia before and after the Financial Crisis

(Unit: %)

	2008				2009		
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Korea	42.8	29.6	11.3	-8.9	-22.9	-28.1	-32.9
China	25.7	19.8	5.5	-9.1	-27.5	-29.7	-30.9
Japan	32.6	28.8	19.3	6.0	-8.1	-18.6	-29.3
Taiwan	19.7	13.4	-3.5	-22.9	-39.6	-45.3	-47.2

Hong Kong	6.9	5.6	2.5	-3.9	-16.5	-19.9	-22.4
Philippine	7.1	2.5	-13.5	-25.4	-33.3	-33.5	N/A
Malaysia	14.4	3.7	-4.4	-17.3	-26.3	-33.0	N/A
Singapore	32.9	19.3	6.9	-9.1	-22.8	-27.1	-32.5
Indonesia	50.5	41.5	22.9	7.6	-13.9	-26.1	-34.1
Thailand	39.8	28.8	20.2	6.1	-15.2	-29.2	-37.6

Source : IMF, ADB, Bank of Korea

Like this the East Asian countries except for China have been hit by the global financial crisis. The global financial crisis brought two forms of economic impacts on the countries in East Asia. Firstly, as <Table 3> shows, industrial productions in the countries have been reduced a lot because of the dramatically decreased exports resulted by the dramatic decrease of demand for the products in the global market. Even China also showed huge decrease in its production after the outbreak of the global financial crisis. The production volume in China grew by 10% in the 3<sup>rd</sup> quarter of 2008. However after the financial crisis the production volume in China also reduced to the average increasing rate of 3.8% during two months from January to February 2010. Korea and Japan and ASEAN countries also recorded huge decrease in their industrial production volume after the global financial crisis.

### 3. The Results of the Global Financial Crisis in the East Asian Countries

The global financial crisis has influenced on the East Asian countries directly and indirectly in various forms. One of the distinct results of the financial crisis on the countries is the increase of interests and physical number of FTAs in the East Asian countries.

As explained above, as the results of the global financial crisis, economic activities of the USA and west European countries have been slowing down, which eventually dampen the economic activities of many developing countries including many East Asian countries.

In response to these economic situations around the world, leaders' meeting of the G-20 was convened in November 2008, in order to discuss the ways to deal with the crisis and to find the way to overcome the crisis. They called for joint actions on expansionary macroeconomic policy as well as appropriate financial regulation measures. Furthermore, the leaders confirmed that countries around the world should not take protectionist trade policies.

Responding to the expansionary fiscal and monetary policies, many countries, especially those in the East Asia, started to recover in 2009. The situation on protectionist policies is

quite different. Although most measures do not violate WTO rules, many countries, even including the G-20 countries, have adopted a variety of protectionist trade measures. The measures include the increase in applied tariff rates to the level below the bound rates, and provision of government subsidy to troubled companies.

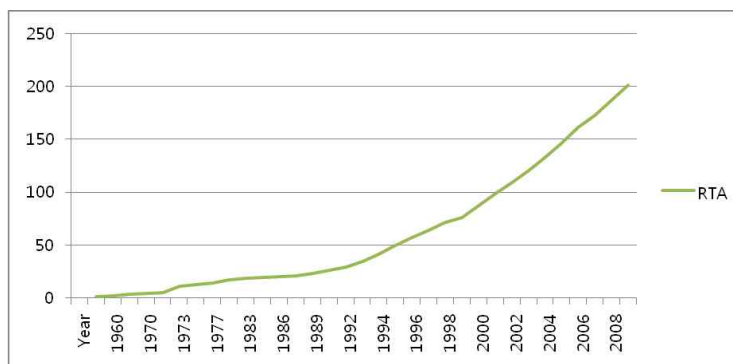
Because of these mentioned above, the pace of the increase of FTAs in the East Asia appears to have accelerated, even though FTAs in the region started to increase already in the 1990s. It is expected that this trend is likely to continue if the DDA does not get restarted.\*

### III. The Reasons for the Increase of Regional Economic Integrations in the East Asia.

As a result of the global financial crisis, the countries in East Asia got more interests on FTAs and the actual pace of the increase of FTAs in the region has been accelerated. The detail on this is as follows.

#### 1. The Current Economic Integration in South Asia

The number of regional trade agreements (RTAs) in the world began to increase notably in the 1990s, as <Figure 1> shows. As of October 2009, the cumulative number of FTAs in force reported to the WTO was 197.



<Figure 1> FTAs in the World (Unit" number of cases)

\* Some observers argue that proliferation of FTAs undermines the global trade system under the WTO system, while some others argue that the stalemate of the WTO's Doha Round negotiations is a contributing factor to the proliferation of FTAs.

In East Asia, the number of RTAs also increased in 1990s. As <Table 5> shows, many countries in East Asia began to form FTAs with the countries not only in the region but also outside the regions. Until very recently East Asian countries were not active in the formation of FTAs.

However since 2002 when Japan and Singapore enacted Japan–Singapore FTA (formally named a New Age Japan–Singapore Economic Partnership Agreement, JSEPA), the situation has changed dramatically. Many East Asian countries have established many bilateral FTAs not only with their neighboring countries but also with the countries located very far since 2002.(refer to <Table 5>. For example Korea–Chile FTA was established in 2004. Korea–Singapore FTA was also established in 2006. China–New Zealand FTA was established in 2008.

East Asia was not active in the formation of FTAs until the turn of the century as <Table 5> shows.

**<Table 5> Major FTAs involving East Asian Economies** (as of October 2009)

Year	1976	1991	1992	2001	2002	2003	2004	2005	2006	2007	2008	2009
RTAs	1	1	1	1	2	3	4	5	5	4	6	3

Source: <http://rtaos.wto.org/print/printSummaryTable.aspx>

Note: WTO statistics on RTAs, as contained in the tables above, are based on notification requirements rather than on physical numbers of RTAs. Thus, for an RTA that includes both goods and services, we count two notifications (one for goods and the other services), even though it is physically one RTA.

However, there was a change in the pattern of FTAs in the region after China established a FTA with ASEAN in 2003.\* After China, many countries in the region such as Japan (2008), Korea (2007)\*\*, India, and Australia–New Zealand tried to form a FTA with ASEAN. It means that ASEAN has become a hub of FTAs in East Asia as an FTA involving China, Japan and Korea, the three largest economies in the East Asian region.

There are two initiatives for establishing a region-wide FTA in the East Asian countries. They are ‘ASEAN +3\*\*\*’ and ‘ASEAN + 6\*\*\*\*’ Among these two initiatives ‘ASEAN+3’ is

\* The China–ASEAN FTA for goods was established in 2003, while the FTA for services was made in 2007.

\*\* The Korea–ASEAN FTA for goods was established in 2007, while the FTA for services was signed in 2009)

\*\*\* The names of three countries are Korea, China and Japan.

\*\*\*\* The other name of the initiative is Comprehensive Economic Partnership in East Asia, CEPEA. The names of 6 countries are Korea, China, Japan, India, Australia and New Zealand.

deeply discussed in this study simply because the initiative for ‘ASEAN+3’ was firstly made and has drawn more interests from the countries in the region than the other.

<Table 6> FTAs Involving East Asian Economies (as of February 2010)

RTA Name	Date of entry into force
Asia Pacific Trade Agreement (APTA)	1976
Lao People’s Democratic Republic – Thailand	1991
ASEAN Free Trade Area (AFTA)	1992
New Zealand – Singapore	2001
Asia Pacific Trade Agreement (APTA) – Accession of China	2002
Japan – Singapore	2002
ASEAN – China	2003
EFTA – Singapore	2003
Singapore – Australia	2003
China – Hong Kong, China	2004
China – Macao, China	2004
Korea, Republic of – Chile	2004
US – Singapore	2004
India – Singapore	2005
Japan – Mexico	2005
Jordan – Singapore	2005
Thailand – Australia	2005
Thailand – New Zealand	2005
Chile – China	2006
EFTA – Korea, Republic of	2006
Japan – Malaysia	2006
Korea, Republic of – Singapore	2006
Panama – Singapore	2006
ASEAN – China (S)	2007
Chile – Japan	2007
Japan – Thailand	2007
Pakistan – China	2007
ASEAN – Japan	2008
Brunei Darussalam – Japan	2008
China – New Zealand	2008
Japan – Indonesia	2008
Japan – Philippines	2008
Pakistan – Malaysia	2008
China – Singapore	2009
Japan – Switzerland	2009
Japan – Viet Nam	2009

Source: <http://rtaos.wto.org/print/printSummaryTable.aspx>

Note: WTO statistics on RTAs, as contained in the tables above, are based on notification requirements rather than on physical numbers of RTAs. Thus, for an RTA that includes both goods and services, we count two notifications (one for goods and the other services), even though it is physically one RTA.

## 2. The Reasons for the Increase of RTAs in East Asia

Several reasons can be identified behind rapid expansion of FTAs in recent years in the world. Firstly, this global financial crisis was a good opportunity for the East Asian countries to recognize how dangerous it is to have excessive trade relations with only several big countries such as the USA and Europe. This means the countries recognize the needs to diversify their trading relations with more trading partner in other regions, in particular the East Asia through regional trading agreements. In other words, the East Asian countries have more interest in region-wide FTAs after the global financial crisis. This is because the East Asian countries realized the importance of reducing their dependence on the US and several major European countries in avoiding the negative impacts of another crisis.

**<Table 7 > The Rate of Trade with countries in the same region out of the total Trade volume**

(Unit: %)

	1995	2000	2001	2002	2003	2004	2005	2006
Korea, Japan, China	15.9	14.9	15.1	15.7	15.1	15.1	14.2	13.3
ASEAN	21.1	22.5	22.2	22.7	24.4	24.4	24.9	25.7
ASEAN+3	28.6	37.0	37.4	38.4	39.5	39.5	39.1	39.0
NAFTA	42.0	46.8	46.5	45.9	44.8	43.7	43.0	42.1
EU	65.1	64.6	64.5	65.1	66.1	65.6	64.2	64.6

Source: Cheong, Inkyo, Choue JungRan (2008)

As <Table 7> shows, the countries in the East Asia do less trade among themselves than the EU and NAFTA. As of the end of 2006 the intra-trade volume of the EU was 64.6 percent of their total trade volume, while ASEAN had only 25.7 percent of intra-trade rate out of their total trade volume.

The East Asian countries except for Japan relied very highly on the external economic relations. As <Table 8> shows the average trade dependent rate of the world was 45.5 percent, while that of the East Asian countries was 53.3 percent. Korea and China also showed 71.4 percent and 65.1 percent of trade reliance rate, respectively.

&lt;Table 8&gt; Trade Dependent rate of the East Asian Countries

(as of the end of 2006)

(Unit: %)

	World	East Asia	ASEAN	ASEAN+6	CLMV	Japan	Korea	China
Trade Dependence	45.5	53.3	127.1	128.8	108.2	26.4	71.4	65.1

Source: Cheong, Inkyo (2008)

Considering all these explained above, the real economies of the East Asian countries are easily influenced by the USA and European economies. The countries in the region, which do not have well balanced economic structure, have more interest in region-wide trading agreement because of the global financial crisis.

Secondly, like other countries, the East Asian countries have become unsatisfied with the WTO mainly because of slow progress in multilateral trade liberalization and of the limited coverage of WTO rules.

Multilateral trade liberalization has become increasingly difficult to be carried out because of disagreement among the GATT/WTO members. 153, the number of WTO member countries\*seems to make member countries be more difficult in reaching to agreements on many issues such as trade liberalization\*\*among themselves. Considering that the decision making in the WTO negotiations requires consensus, the large number of WTO member countries can be certainly an obstacle in the negotiations.

There are many examples showing how difficult it is to reach to agreements among member countries. The Uruguay Round can be a good example. It took 8 years which was 4 years more than the schedule, to complete the Uruguay Round, the 8th round of the GATT negotiations. Doha Development Agenda is another example. Because of the disagreements among member countries, in particular, between advanced member countries and less developed countries, Doha Development Agenda (DDA), the new round, could not be launched until the end of 2001.\*\*\* Even after the launching of DDA, there was very little progress and indeed it was stopped in July 2008. The direct cause of the suspension of the DDA was the disagreement on agricultural liberalization between the U.S and India. But there are other reasons such as dissatisfaction of many member countries about the DDA. Faced with the

\* This is the number of WTO member countries as of 23 July 2008. (www.WTO.org)

\*\* Many countries experienced the benefits of trade liberalization since it has brought them economic growth after the World War II.

\*\*\* In fact, developed member countries wanted to launch the Doha Round just after the establishment of WTO in 1995.

deadlock in the DDA, many countries have turned to free trade agreements (FTAs) with a like-mind country concerning trade liberalization. Through FTAs member countries can eliminate trade barriers between and among them. Some WTO member countries think that WTO should include such important areas as environment, e-commerce and labor standard. They do insist that these areas should be included on the agenda of negotiations among member countries since they think these areas are important in the international trade.

Thirdly, East Asian countries have regarded FTAs as an important regional policy instrument. For example, China and Japan wanted to establish a FTA with the ASEAN in order to deepen their economic and non-economic relationship with the ASEAN. Through a FTA with ASEAN, China and Japan seem to increase their influence in the region. Non-economic motives can also be found for active FTA policy for the ASEAN, Korea, India, Australia and New Zealand (Urata 2009).

## IV. Conclusion

Global financial and economic crisis, which was sparked by the Lehman shock September 2008, has had huge negative impacts on the global economy. In fact, global trade in goods and services recorded -12.3 percent in 2009. The magnitude of the decline in economic activities was so huge that this crisis has been characterized as “once in a century” crisis, comparable only to the Great Depression in the 1930s.

The East Asian countries have been also hit by the global financial crisis. In some sense, the East Asian countries, which many of them are not strong economies, got severe damages from the global financial crisis directly or indirectly.

This crisis spread to the rest of the world including the East Asian countries mainly through two channels. The first one is the financial market, where supply of financial resources declined. This, in fact, resulted in slowing down of economic activities in many countries including big economies such as the US and the West European countries. The slowdown of economic activities in these countries eventually affected the economies of the developing countries including the East Asian countries. The second one is international trade. During the first half of 2009 many nations had substantial year-on-year reductions in their exports.

This global financial crisis, eventually, has accelerated the pace of the increase of FTAs in the East Asian countries even though FTAs started to increase rapidly in the region before the crisis.

Several reasons can be identified behind rapid expansion of FTAs in recent years in the East Asian countries. Firstly, this global financial crisis was a good opportunity for the East Asian countries to recognize the needs to diversify their trading relations with more trading

partners in other regions. This is because the East Asian countries realized the importance of reducing their dependence on the US and several major European countries in avoiding the negative impacts of another crisis. Secondly, like other countries, the East Asian countries have become unsatisfied with the WTO mainly because of slow progress in multilateral trade liberalization and of the limited coverage of WTO rules. Thus this trend is likely to continue if the DDA does not get restarted. Thirdly, the East Asian countries have regarded FTAs as an important regional policy instrument.

There are two initiatives for establishing a region-wide FTA in the East Asian countries. They are 'ASEAN +3' and 'ASEAN + 6.' Among these two initiatives 'ASEAN+3' has more likely to be established simply because the initiative for 'ASEAN+3' was firstly made and has drawn more interests from the countries in the region.

As a way to the economic integration among the East Asian countries, many possible ideas have been introduced.\* Among these the most possible one is this: firstly FTAs among Korea, China and Japan should be established and EAFTA including 10 ASEAN member countries and Korea, China and Japan should be formed. And the three countries should form a FTA with high level of trade liberalization.\*\*

In this path, the question which requires an answer is how the FTA among the three countries will be formed. This is not easy to achieve considering the following facts. The first one is that China and Japan are competing with each other very seriously in order to get the hegemonic power in the region. And the second one is that the recent uncomfortable relations among Korea, China and Japan have been an obstacle in building the mutual trust among themselves, in particular between Korea and Japan, and between China and Japan. The third reason is the wide diversity in the level of economic development among the countries. In such a region reducing the development gap is important for achieving economic growth as well as social and political stability. Because of the big gap in their economic development level, it has been said that benefits created by a FTA of the three countries will go to only one or two countries, not all three countries.

In terms of the way how to build FTAs among the three countries, I fully agreed with the suggestions insisting that Korea, as a mediator, should act very aggressively in order to form a FTA among the three countries. And Korea and Japan should form a FTA between them simply because the two countries have relatively similar economic structure and

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\* For more details on this, please refer to Don Moon , *A Perspective on the Free Trade System in the East Asia: Possibility, Limits and the Role of Korea*, a paper at a conference organized by Jeju Peace Institute and the Korean Association of Politics, 2009.

\*\* Two distinct features of implemented and proposed FTAs in the East Asian countries are the inclusion of economic cooperation as an important component and the low level of trade liberalization (Urata, 2008)

economic development than China. After forming the FTA between the two, they should invite China as another participant for the FTA. By doing like this, the FTA among Korea, China, and Japan will be able to form a FTA among themselves.

Even in the relationship on group to group basis between the three countries and ASEAN, the suggestions insist that Korea should also play the mediating role between ASEAN and the three countries.

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Abstract

## The Global Financial Crisis in 2008 and the Economic Integrations in the East Asia

Sang-Hyup Shin\*\*

Global financial and economic crisis, which was started in USA in September 2008, has had huge negative impacts on the global economy. The East Asian countries have been also hit by the global financial crisis directly or indirectly. As a way to overcome the financial crisis, eventually the East Asian countries have accelerated the pace of the increase of FTAs in the region even though FTAs started to increase rapidly in the region even before the crisis. There are three reasons for the rapid expansion of FTAs in recent years in the East Asian countries. Firstly, the global financial crisis was a good opportunity for the East Asian countries to recognize the needs to diversify their trading relations with more trading partners in the region. Secondly, the countries have become unsatisfied with the WTO mainly because of slow progress in multilateral trade liberalization and of the limited coverage of WTO rules. Thirdly, the East Asian countries have regarded FTAs as an important regional policy instrument. As a way to the economic integration among the East Asian countries, many possible ideas have been introduced. Among these the most possible one is this: firstly FTAs among Korea, China and Japan should be established and EAFTA including 10 ASEAN member countries and Korea, China and Japan should be formed. And the three countries should form a FTA with high level of trade liberalization. In terms of the way how to build FTAs among the three countries, Korea should play the mediating role very aggressively in order to form a FTA among the three countries.

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