

## ADB Working Paper Series on Regional Economic Integration



### Organizing the Wider East Asia Region

---

Christopher M. Dent

No. 62 | November 2010





ADB Working Paper Series on Regional Economic Integration

## Organizing the Wider East Asia Region

---

Christopher M. Dent\*

No. 62 | November 2010

This is a background paper prepared for the ADB flagship study “Institutions for Regionalism: Enhancing Cooperation and Integration in Asia and the Pacific,” under technical assistance project no. 7284.

\*Christopher M. Dent is Professor of East Asia’s International Political Economy, Department of East Asian Studies, and White Rose East Asia Centre (WREAC), Rm 116, 14-20 Cromer Terrace, University of Leeds, Leeds LS2 9JT, UK. Tel +44 113 343 6470, Fax +44 113 343 6808, [c.m.dent@leeds.ac.uk](mailto:c.m.dent@leeds.ac.uk)

Asian Development Bank

The ADB Working Paper Series on Regional Economic Integration focuses on topics relating to regional cooperation and integration in the areas of infrastructure and software, trade and investment, money and finance, and regional public goods. The Series is a quick-disseminating, informal publication that seeks to provide information, generate discussion, and elicit comments. Working papers published under this Series may subsequently be published elsewhere.

Disclaimer:

The views expressed in this paper are those of the author(s) and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.

By making any designation of or reference to a particular territory or geographic area, or by using the term “country” in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

Unless otherwise noted, \$ refers to US dollars

© 2010 by Asian Development Bank  
November 2010  
Publication Stock No.

## Contents

Abstract	v
1. Introduction: The East Asia Region, Vision and Aspiration	1
1.1 Idea of the East Asia Region	1
1.2 What is East Asia? Issues of Regional Membership and Variable Geography	2
1.3 Towards Visions of an East Asian Regional Community	3
1.3.1 The 1950s to 1980s	3
1.3.2 The 1990s and 2000s	5
2. ASEAN Plus Three (APT)	8
2.1 Origins and Early Development	8
2.2 Issue Coverage, Agenda Setting, and Instrumentalization	9
2.2.1 Towards Strengthening East Asia's Financial Co-operation and Integration	9
2.2.2 The Chiang Mai Initiative (CMI)	11
2.2.3 The Asian Bond Markets Initiative (ABMI)	15
2.2.4 East Asia Regional Financial Governance and the Global Financial Crisis	18
2.2.5 Other Aspects of APT Regional Co-operation	19
2.3 Organizational Structure and Institutional Processes	20
2.4 Impacts and Key Challenges for the Future	25
3. East Asia Summit (EAS)	26
3.1 Origins and Early Development	26
3.2 Issue Coverage, Agenda Setting and Instrumentalization	27
3.3 Organizational Structure and Institutional Processes	28
3.4 Impacts and Key Issues for the Future	28
4. Asia Europe Meeting (ASEM)	30
4.1 Origins and Early Development	30
4.2 Issue Coverage, Agenda Setting, and Instrumentalization	31
4.3 Organizational Structure and Institutional Processes	32
4.4 Impacts and Key Issues for the Future	35
5. Asia Pacific Economic Cooperation (APEC)	36
5.1 Origins and Early Development	36
5.2 Issue Coverage, Agenda Setting, and Instrumentalization	39

5.2.1	The Primacy of Commercial Liberalization	39
5.2.2	From IAPs to Early Voluntary Sectoral Liberalization (EVSL)	41
5.2.3	The New FTA Challenge	42
5.2.4	Problems of Balance in the APEC Agenda	45
5.3	Organizational Structure and Institutional Processes	47
5.4	Impacts and Key Issues for the Future	52
6.	Pacific Basin Economic Council (PBEC)	54
6.1	Origins and Development	54
6.2	Issue Coverage, Agenda Setting and Instrumentalization	55
6.3	Organizational Structure and Institutional Processes	56
6.4	Impacts and Key Issues for the Future	56
7.	Pacific Economic Co-operation Council (PECC)	57
7.1	Origins and Early Development	57
7.2	Issue Coverage, Agenda Setting, and Instrumentalization	57
7.3	Organizational Structure and Institutional Processes	57
7.4	Impacts and Key Issues for the Future	59
8.	Conclusion: Towards a New Regional Institutional Architecture?	59
	References	67
	ADB Working Paper Series on Regional Economic Integration	74
Figures		
1.	Bilateral Currency Swap Agreements under the Chiang Mai Initiative (by February 2009)	13
2.	APT's Institutional Structure	23
3.	ASEM's Institutional Structure	33
4.	APEC's Institutional Structure	49
5.	Future Possible Regional Institutional Architecture for the Wider East Asia Region	64
Table		
1.	East Asia Foreign Exchange Reserves	14

## **Abstract**

Regionalism and regional integration in East Asia has developed dynamically at various levels over the past two decades. In the world system, East Asia's degree of regional economic coherence is second only to the European Union's. In addition to deepening micro-level regionalisation, new regional frameworks and organisations have emerged, centred on an East Asian collective of nations and economies. This paper examines the development of new regional institutions involving the whole East Asia region, focusing on four 'supra-structure institutions': ASEAN Plus Three, East Asia Summit, Asia-Europe Meeting, and Asia-Pacific Economic Co-operation forum; and two 'supporting institutions': Pacific Basin Economic Council and Pacific Economic Cooperation Council. Particular attention is made to what likely future regional institutional architecture centred on East Asia may emerge over forthcoming years, and the following core arguments are made. Owing to issues of 'variable geography', the constituent membership of an East Asian region is open to contestation and East Asia's patterns of regional economic coherence are to some extent in a constant state of flux. The formation of an East Asian regional community will also depend on an alignment of national interests, development-related imperatives and ideological factors, and primacy will come to the regional institution that develops the most effective instruments of regional co-operation and integration. The paper argues that this will probably be ASEAN Plus Three, which has the most realistic prospects of advancing regional economic integration. Each regional institution should functionally specialise, the larger grouping of EAS, ASEM and APEC concentrating for example on developing their multilateral utility regarding global governance issues. Finally, fostering a more functionally effective partnership between Japan and People's Republic of China is vital to the future prospects of East Asia's regional community-building.

*Keywords:* East Asia, Asia-Pacific, regionalism, regional integration, regionalisation, variable geography

*JEL Classification:* F50, F53, F55





# 1. Introduction: The East Asia Region, Vision and Aspiration

## 1.1 Idea of the East Asia Region

For some time, references to an East Asia region have competed with various other alternative terms that refer to the eastern part of the Asian continent—the Far East, the Pacific Rim, and simply Asia. Increasingly though, East Asia has become the convention for generally referring to a grouping of Southeast and Northeast Asian countries or economies, normally thought of as comprising

- Southeast Asia—Brunei Darussalam, Cambodia, Democratic Republic of Timor-Leste, Indonesia, Lao People’s Democratic Republic (Lao PDR), Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- Northeast Asia—Japan; People’s Republic of China (PRC); Republic of Korea (henceforth Korea); Democratic People’s Republic of Korea (DPRK); Hong Kong, China; Macau, China; Mongolia; and Taipei, China.

Regionalized economic ties amongst East Asian countries have deepened since the 1960s, and it is this growing economic coherence that arguably more than anything else explains why East Asia is referred to as a distinct regional entity. Only Europe has a more developed level of regional economic interdependence and cohesion than East Asia in the international system. The main sources of this cohesion may be summarized as follows:

- **Deepening micro-level economic regionalization** resulting from the development of functionally integrated region-wide systems of business and infrastructural linkages (e.g., regional production networks) and regionalizing social relations. Japan’s ‘flying geese’ model of regionalized economic development is often cited as a key initial catalyst of this process in which Japan’s multinational enterprises (MNEs) constructed production plants across the region, linked together to other plants, both back in Japan and elsewhere thus creating regionalized business systems (Akamatsu 1935, Kojima 1977, Peng 2000, Tsui-Auch 1999, Furuoka 2005). This was later augmented by the regional transnational operations of investing European and American MNEs.
- **East Asia’s economic miracle**, which is usually thought of as based on the region’s generic development model—centered on the developmental state paradigm of state-business partnered capitalism and export-oriented industrialization—that could be in some way contrasted with Western counterparts (World Bank 1993). Closely related to this was how most East Asian countries have experienced a profound economic transformation in recent decades, albeit to varying levels of significance.
- **End of the Cold War**, which created more favorable geopolitical conditions for closer economic relationships to develop in the region.
- **Growing macro-level regional co-operation after the 1997/98 Asian financial crisis**, whereby East Asian governments have substantively increased their levels of

co-operation within the region on financial, monetary, trade, investment, and other economic affairs in an attempt to avoid another such regional crisis.

Various integrative forces continue to bind the region together at the economic, political, social, and other levels. These processes were also constituent to wider global-scale integrative developments, such as globalization. Furthermore, East Asia continues to have a growing impact on the international economic system, its ascendance having broadly restructured this system as something between a dominant tripolar (East Asia, Europe, North America) and multipolar (G8 powers and the BRICs<sup>1</sup>) structure.

## 1.2 What is East Asia? Issues of Regional Membership and Variable Geography

There will always be debates over which countries or societies belong to which particular regional groupings. Different international or regional organizations will often assign countries to different regions, but such classifications may of course vary from one organization to another. Like most other regions, definitions regarding what constitutes the East Asia region are subject to the principle of variable geography. Just as the concept of variable geometry explains how member states may enter into differentiated levels and arrangements of regional co-operation and integration, such as the Association of Southeast Asian Nations (ASEAN) and the implementation of the ASEAN Free Trade Area (AFTA), so the concept of variable geography applies where differentiated conceptions of which countries may or may not qualify for regional membership can co-exist. In other words, the geographic boundaries of regions are ultimately contestable. This explains why Japan's current vision of East Asia, which also includes India, Australia, and New Zealand, may vie with the PRC's more conventional view of the region, which includes only the economies of Northeast and Southeast Asia listed above. All regions are in some way socio-culturally or socio-politically constructed, whereby peoples from different nations within a defined geographic space commonly associate around a shared sense of region (Hettne 2005, Katzenstein 2000). A region's geographic definition is therefore open to interpretation and contestation, albeit within the bounds of basic geographic logic. Thus, one could make a case for India's eligibility for East Asia's regional membership but not Brazil's.

Determining specific regional memberships depends largely on the fundamentals that have shaped our understanding of regions as coherent entities. As it was argued at the start of this paper that economic factors were the most important fundamentals in East Asia's case, rather than social, cultural, or geopolitical factors—it would follow that if geographically proximate countries (e.g. India, Australia) became increasingly integral to the core East Asia regional economy then this would strengthen their claim for regional membership. Countries such as India and Pakistan (in recent times mostly considered as core elements of South Asia) could also claim closer socio-cultural linkages with a number of Southeast Asian countries than could Japan or Korea. Generally speaking, an important aspect of the variable geography principle is that the map of economic, social, cultural and geopolitical linkages that underpin regional coherence is constantly shifting, and that the natural state of these linkages is one of flux. Thus, present conventional

---

<sup>1</sup> The collective term for a group of rising powers: Brazil, Russia, India, and the PRC.

definitions of East Asia may look very different to those that prevail in 10, 20, or 30 years time, if indeed we are still talking about East Asia rather than another newly formulated regional concept.

Debates over country eligibility for East Asia regional membership have intensified of late, especially with respect to the East Asia Summit group. Geographic logic would dictate that the Russian Far East and Mongolia should be *de facto* included in any East Asian grouping, yet their hitherto marginal engagement in East Asia's regional economic dynamic and integration processes had mitigated such an inclusion. Many scholars and other analysts continue to refer to East Asia consisting of essentially Northeast Asian countries, thus disqualifying Southeast Asian countries. Furthermore, the distinction between East Asia and Asia has been increasingly used to specify where exactly on the vast continent the aforementioned profound economic transformation was actually occurring on a specific regional (rather than continental) scale.

At present, then, the definitional boundaries of East Asia are being pulled in different directions. In a geopolitical sense, Japan in particular has strongly advocated the inclusion of India and Oceania (Australia and New Zealand), and associated membership being conferred to the United States (US) in order to counterbalance the rising power of the PRC. From an economic perspective, India has become increasingly integral to the regionalized dynamics of the East Asian economy, as is evident in both micro-level regionalization (e.g. international production network trade and investment linkages) and macro-level regionalism (e.g., signed international economic agreements with ASEAN, the PRC, Japan and Korea). These points are discussed in further detail later.

### **1.3 Towards Visions of an East Asian Regional Community**

#### **1.3.1 The 1950s to 1980s**

The global geopolitics of the Cold War was marked by divisions, with East Asian countries mostly split along capitalist- and communist-oriented alignments. However, Indonesia's hosting of the 1955 Bandung Conference cut across this geopolitical divide by bringing together a collective of 29 mostly developing countries from Asia and Africa to discuss common development-related issues. This was the first time that leaders from East Asian countries had convened together after the Second World War, albeit with those from another region, to deliberate over shared economic, political, and cultural interests. The Asian countries present comprised Cambodia, the PRC, India, Indonesia, Japan, Lao PDR, Myanmar, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand, and Viet Nam (including representatives from what was then known as the Republic of Viet Nam). Conference members signed a Declaration on the Five Principles of Peaceful Co-Existence based on a prior understanding established between the PRC and India a year earlier. The declaration emphasized respect for national sovereignty, non-interference in the internal affairs of other nations, economic and technical co-operation, mutual benefit, the needs and rights of developing nations (including investment and the stabilization of primary product prices), and peaceful co-existence. As Mawdsley (2007) observed, this reflected the delegate countries' preferred vision for a multipolar world

order, and for moving beyond “European colonialism and US–USSR neo-imperialistic superpower rivalry.”

Notwithstanding the historic significance of the 1955 Bandung Conference, it did little to foster regional level cohesion amongst East Asian states, or lay out a vision for East Asian regional community building. Geopolitical divisions and conflict still largely characterized diplomatic relations between most countries in the region. Moreover, by the 1960s, the region’s emerging economic superpower, Japan, was more interested in promoting a Pacific community concept rather than an East Asian one. In 1965, the Japan Economic Research Center (JERC)—a government sponsored think tank—put forward a proposal for creating a Pacific Free Trade Area (PAFTA) comprising the Asia–Pacific’s five advanced economies: Japan, the US, Canada, Australia, and New Zealand (JERC 1966). The lynchpin of this trade alliance was Japan’s security relationship with the US, which oriented most aspects of Japanese foreign policy. In the PAFTA proposal, Asia–Pacific developing countries in the region would be conferred associative membership with a view to eventually graduating to full membership after meeting certain economic criteria. Japan’s Ministry of Foreign Affairs sponsored consultations on the PAFTA idea with other Asia–Pacific countries over the next few years, creating new dialogue networks on trade-related issues in the process (Kojima 1971, Korhonen 1994, Ravenhill 2001).

Although PAFTA never materialized, it created the momentum for elite network building between leading Asia–Pacific nations. Australia and Japan formed the key partnership that led this process, subsequently helping create Asia–Pacific regional organizations in which East Asian countries formed the majority membership (Morrison 2007). The Pacific Basin Economic Council (PBEC) was the first of these to be established in 1967, and was based on an existing Japan–Australia private sector forum that was initially extended to include other PAFTA-based representations from the US, New Zealand, and Canada. Its main function is to bring together business and economic leaders to forge closer commercial relationships across the Asia–Pacific. The Pacific Trade and Development (PAFTAD) conference was established soon afterwards in 1968, and since then has organized regular meetings between academics to discuss trade, development, and other economic policy issues relevant to the Asia–Pacific region. Its conferences have provided an important framework for early technical discussions on enhancing regional economic co-operation, including how a PAFTA could potentially be realized. These two organizations were later joined by the Pacific Economic Co-operation Conference (PECC),<sup>2</sup> which was created in 1980 to bring together key representatives from business, government, and academia to discuss the economic challenges facing Asia–Pacific nations. During the 1970s and 1980s, the PAFTAD–PBEC–PECC framework facilitated various levels of trans-regional dialogue on strengthening economic and business ties within the Asia–Pacific, culminating in the establishment of the Asia–Pacific Economic Co-operation (APEC) forum in 1989. The inaugural APEC summit was hosted by Australia in Canberra but substantially financed by Japan. As we later discuss, APEC showed much promise during the early 1990s for creating the conditions for East Asian countries to participate in an Asia–Pacific community building process.

---

<sup>2</sup> The word Conference was later replaced by Council.

In the meantime, the Association of Southeast Asian Nations (ASEAN) was formed in 1967. The five original members comprised Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The US had a conspicuous hand in helping establish the organization, motivated by its interest in having a group of ideologically compatible regimes in Southeast Asia coalesce to act as a bulwark against further communist advance in the region (Sum 1996, Yahuda 1996). The formation of ASEAN could also be construed as a reconciliation process between certain Southeast Asian countries whose relations had been marred by a series of territorial and sovereignty disputes during the early post-independence period. For some time, ASEAN remained East Asia's only major regional organization or grouping whose membership was exclusively East Asian. We discuss later how this special position and continuity have provided an important diplomatic and institutional platform on which larger-scale East Asian groupings (especially the ASEAN Plus Three [APT] framework) were able to build beginning in the mid-1990s. During the 1970s and 1980s however, ASEAN achieved relatively little in terms of advancing a vision for an East Asian community. Its member states adhered strongly to the organization's cardinal principle of non-interference in the affairs of other members, each proving generally reluctant to pool their sovereignty in co-operative regional ventures.

In sum, by the end of the 1980s, while East Asia was becoming a more coherent regional economy as micro-level linkages strengthened, there had been a negligible advancement of ideas pertaining specifically to regional community building. It remained a region largely fractured geopolitically by the prevalence of mistrust, conflict, and stunted diplomatic relations. There were, for example, only very few and relatively minor international economic agreements that had been signed amongst East Asian states at this time. Moreover, the main regional and other international alignments of these states lay outside the region, whether with particular security partner states (e.g. Japan and Korea with the US), trans-regional groupings (e.g., APEC), or in a global multilateral sense (e.g., Japan and the G7 and General Agreement on Tariffs and Trade (GATT); East Asia's developing countries and the Non-Aligned Movement). This was to change in the 1990s, particularly in the aftermath of the 1997/98 Asian financial crisis.

### **1.3.2 The 1990s and 2000s**

In the early 1990s, Malaysian Prime Minister Mahathir Mohammad—arguably the leading advocate of East Asian regional community building in his time—proposed the creation of an East Asian Economic Grouping (EAEG) that would exclusively comprise East Asian states. Mahathir contended that this would bring geopolitical and integrational balance to an emerging post-Cold War world in which Europe was implementing its single market and the US was moving closer to its regional partners in the North American Free Trade Agreement (NAFTA). Moreover, Mahathir suggested the EAEG would be a vehicle for championing East Asian interests on the global stage, and that this could not be as effectively achieved through APEC or any other organizational arrangement that included non-East Asian great powers such as the US. In addition, Mahathir was a key champion of so-called “Asian values”—group ethics, strong family and community ties, high kudos afforded to education and public service, social harmony—which he argued would serve as an important social and political binding force among the East Asian nations that decided to embark on an EAEG venture.

Malaysia's original EAEG blueprint was launched in December 1990, containing plans to form a preferential trading arrangement among East Asian countries. However, owing to US opposition to the proposal, as well as a circumspect response from most other East Asian states, Malaysia reformulated their EAEG plan into a more informal East Asian Economic Caucus (EAEC) arrangement, and presented this idea at the October 1991 ASEAN Economic Ministers Meeting.<sup>3</sup> The EAEC was conceived as a dialogue mechanism for discussing matters of international economic matters affecting the East Asian region, but its essential purpose was the same as the EAEG's: to offer some kind of vision or starting point for building a harmonious and integrated East Asian regional community. Despite Malaysia's efforts at tempering its original proposal, Washington again criticized the plan and applied diplomatic pressure on other East Asian states to reject it.<sup>4</sup> Amongst other things, the US was especially concerned that the EAEC would undermine APEC-led endeavors at the time of fostering closer trans-Pacific ties.

Although the Malaysian government made subsequent attempts to revive the EAEC proposal, it never materialized. It had nevertheless at least planted the idea of creating an exclusive East Asian regional community more firmly in the consciousness of the region's leaders and opinion-makers. Under Mahathir's premiership (1981–2003), Malaysia remained a staunch advocate of an East Asian Community. In 2002, it proposed the creation of an ASEAN Plus Three (APT) Secretariat, although this too failed to receive enough support from other group members. In August 2003, Malaysia also organized the First East Asia Congress, bringing together delegates from APT countries. Playing host, Prime Minister Mahathir's opening address was entitled "Building The East Asian Community: The Way Forward," in which he pointed out that the idea of East Asian regional co-operation and community building was no longer viewed with the same degree of disdain as before.

The thawing of the Cold War and parallel developments in globalization created more favorable conditions for both regionalism and inter-regionalism to flourish. Inter-regionalism concerns the establishment of relations between relatively distant regional groups of countries. This may be contrasted to trans-regionalism, which relates to a situation where adjacent or proximate regions form a larger regional entity or group (e.g., East Asia, Oceania, Pacific America, and the Asia-Pacific coming together to form APEC). In 1994, Singapore—arguably East Asia's most globally oriented state—proposed an inter-regional link with the European Union (EU). The consequent formation of the Asia-Europe Meeting (ASEM) framework in 1996 was an important development in East Asian regional community building because it further defined its constituent East Asian members as a regional group. ASEM's original Asian members were all from East

---

<sup>3</sup> Some years later, Mahathir (2006) remarked, "for reasons we could not understand, the US objected strongly to the EAEG. James Baker, who was then the US Secretary of State, visited Korea and Japan and told them to have nothing to do with the proposal. Certain ASEAN countries were also advised not to support EAEG. It would seem in the US view that while European countries could get together, and Canada, the US and Mexico could form NAFTA, East Asian countries were not even allowed to talk to each other."

<sup>4</sup> For example, when Korean Foreign Minister Lee Sang Ok suggested that his government might support the EAEC, then US Secretary of State James Baker reminded him that "it was Americans, not Malaysians, who had shed their blood for Korea forty years before," and that "all countries are not equal" (Baker 1995).

Asia—the PRC, Japan, Korea, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam—but the term “Asia” was chosen in the inter-regional framework title to present an opportunity to enlarge ASEM’s membership. In preparation for the inaugural summit, economic ministers from the region’s 10 participating states assembled for an informal meeting in November 1995 to discuss planned common agenda issues. A similar foreign ministers meeting and another economic ministers meeting followed in February 1996. Whereas with APEC, East Asia’s regional identity is bound up in a wider Asia–Pacific trans-regional identity formation process, with ASEM, East Asian countries were coalescing as a separate and more distinct regional group. Or as Gilson (2002) explained it, that is “we East Asians are meeting with *you* Europeans”; or as Japan’s Finance Minister Kiichi Miyazawa commented, “these talks with Europe are helping us build up our own Asian identity.”<sup>5</sup>

Furthermore, preparatory ASEM consultations amongst its East Asian member states led to a common expressed interest in establishing regularized summits between ASEAN and Northeast Asian countries, leading to the first ASEAN ‘Plus’ summits in December 1997—ASEAN Plus One meetings with Japan, the PRC, and Korea separately, and then a combined APT meeting. As we later discuss, the APT regional framework has made considerable contributions to regional community building in East Asia, at first through its various initiatives to address the 1997/98 financial crisis. Divisions amongst APEC member states on how best to tackle crisis-related issues (e.g., trade and investment), and ASEAN’s apparent incapacity to cope with the fallout from the crisis provided the APT with an opportunity to take the lead. New APT-led schemes to improve regional financial governance in East Asia—most notably the Chiang Mai Initiative and Asian Bond Market Initiative—broke new ground in institutionalized co-operation amongst the region’s states, subsequently helping to expand APT’s agenda to cover other key areas of regional affairs, such as energy and food security, into the 2000s. As a result, over the past decade East Asian countries have generally placed more faith in the APT process rather than APEC with respect to regional co-operation. APEC has never really recovered after the debacles of the 1997/98 crisis period. Its centerpiece project, the Bogor Goals of creating non-discriminatory free trade and investment relations in the trans-region by 2020, has been subverted by a proliferation of discriminatory bilateral free trade agreements (FTAs) (Dent 2006, Okamoto 2003, Ravenhill 2003).

This paper examines regional institutionalized developments involving the whole East Asia region. Six region-based frameworks and organizations will be examined, four of these being supra-structure institutions—APT, East Asia Summit (EAS), ASEM, and APEC—and the two supporting institutions of PBEC and PECC.

---

<sup>5</sup> *Financial Times*, 16 January 2001.

## **2. ASEAN Plus Three (APT)**

### **2.1 Origins and Early Development**

It was noted earlier how APT came about due to a combination of two related factors. The first was the decision of the original Asian ASEM member states to meet together prior to facing their EU partners at the Second ASEM meeting held in London in April 1998. This was the first time that government officials from East Asian countries had met exclusively to discuss regional economic and other affairs. The process demonstrated that East Asia had much to gain from regularly continuing such meetings and led to the idea of raising them to summit level arrangements soon thereafter. The inaugural APT summit was held in December 1997 and was hosted by the Malaysian government in Kuala Lumpur. The states in attendance comprised the 10 members of ASEAN plus the three Northeast Asian states of the PRC, Japan and Korea. This was of some historic importance as it was the first time the leaders of most East Asian countries had met together as an exclusive regional grouping (Stubbs 2002, Tanaka 2007, Terada 2003). In this sense, it was a realization of Mahathir Mohammed's vision for creating an EAEG–EAEC grouping. However, the APT was really an extension of ASEAN regional diplomacy and co-existed with separate ASEAN Plus One summits between ASEAN and individual Northeast Asian country partners, which in turn were convened right after ASEAN's own exclusive summit meeting. Thus, APT was part of a nested summit structure, rather than existing as a strictly independent regional arrangement.

Moreover, APT, and also the EAS, may be considered a regional framework rather than a regional organization such as ASEAN or APEC (Dent 2008a). All four organizations perform the following regional-level functions: (i) regularized meetings of political leaders, ministers, other government officials, business leaders, and civil society groups; (ii) co-operative and integrative activities and programs; (iii) improved socialization amongst participating agents in these meetings, activities, and programs; and (iv) the capacity for envisioning and strategizing future possible paths of regional community building. However, not only do ASEAN and APEC have more developed and formalized structures, in addition they also possess the following: (v) a secretariat, which although small in both cases nevertheless operate as a permanent coordinating agency for the organizations' activities; (vi) the features of a defined organizational identity (e.g., logo, website); and (vii) in ASEAN's case, an increasing capacity for unitary actions as an organization interacting with other regional organizations (e.g., the EU), countries, or other types of international partners. Both APT and EAS lack such attributes, and are essentially summit-driven diplomacy frameworks that facilitate regional co-operation and community building.

Notwithstanding these institutional limitations, APT has achieved some remarkable successes, especially on regional financial co-operation and governance. The 1997/98 Asian financial crisis peaked at the time of the inaugural APT summit held in late 1997, so inevitably its initial agenda was dominated by crisis-related issues. This state of affairs persisted for many years thereafter, while the 2008/09 global financial crisis re-affirmed the importance of continuing to work together at the regional level on economic issues. APT's key achievements have been the creation of the Chiang Mai Initiative



(CMI) and the Asian Bond Market Initiative (ABMI). APT has also gradually broadened its agenda to encompass other matters of regional affairs.

## **2.2 Issue Coverage, Agenda Setting, and Instrumentalization**

### **2.2.1 Towards Strengthening East Asia's Financial Co-operation and Integration**

Addressing the 1997/98 Asian financial crisis provided a critically important impetus to APT from the start. As is now well documented, the crisis was triggered by Thailand's decision to de-peg its currency from the US dollar in early July 1997. The ensuing mass selling of the Thai baht by currency speculators precipitated a general loss of confidence in other Southeast Asian currencies. The currency crisis thereafter spread across the wider East Asian region, and deepened into a full-blown financial East Asian economies. This chain of events exposed both the extent of regional financial market interdependence and also the relative weakness of existing regional co-operative mechanisms to deal with a crisis of this scale.

Japan initially led the way in proposing a regional-wide rescue package, the Asian Monetary Fund (AMF) that was proposed in September 1997 and conceived as a standby fund of US\$100 billion to offer emergency financial assistance to East Asian countries whose currencies were subject to disruptive speculative pressures. The AMF was intended to operate on the pooled foreign exchange reserves of Japan; the PRC; Hong Kong, China; Korea; Singapore; and Taipei, China; with Japan making the majority contribution. Japan felt partly culpable for the crisis as many of its banks had made substantial levels of bad loans that had contributed to the region's financial market problems. As the region's pre-eminent financial power, Japan also felt the onus of perceived or actual expectations from other East Asian countries to provide some kind of solution to the crisis. Its push behind the AMF proposal could also be construed as a test of its regional leadership. At the time, it was the most important regional economic initiative that Japan had ever made.

However, as with Malaysia's EAEC and EAEG proposals before it, the US was opposed to the AMF proposal, not just because of concern over being sidelined by such an important and exclusively East Asian regional initiative, but also due to how the AMF could potentially undermine the multilateral competence of the IMF, and hence weaken American structural power and influence over the international financial system (Higgott 1998, Rapkin 2001). Tokyo's counter-argument that the AMF would be a new facility to provide additional resources to supplement those of the IMF did nothing to persuade Washington to shift its position. The PRC was also concerned over Japan's idea to involve Taipei, China, which was then the world's third-largest retainer of foreign exchange reserves and home to one of Asia's most robust central banks, as Beijing expressed reservations with any initiative that conferred international status to Taipei, China. The PRC government was additionally circumspect over Japan's perceived hegemonic maneuvering within the East Asian regional political economy.

As a result of this opposition, Japan's AMF proposal was aborted by November 1997. Soon thereafter work commenced on a scaled-down alternative proposal, the New

Miyazawa Initiative (NMI), named after Japan's Finance Minister, which was launched in October 1998. One of the key architects of the new plan was Japanese Vice Minister for Finance, Haruhiko Kuroda, who later became President of the Asian Development Bank (ADB). The NMI was based on a US\$30 billion liquidity fund that could be offered to other East Asian countries on a bilateral basis. Half of this fund was dedicated to guaranteeing any government bonds issued by crisis-afflicted countries, and the other half was allocated to financing bilateral currency swap agreements with interested APT members. In simple terms, currency swaps are agreements between signatory parties to exchange one currency for another and to reverse the transaction at some later date; the idea being that Japan would swap its foreign exchange reserves (mainly held in US dollars) for local currencies that were under pressure in an attempt to avert a run on the swap partner's currency.

The NMI was later to provide the basis for APT's first substantive scheme on regional financial co-operation and governance, the Chiang Mai Initiative (CMI). Malaysia and Korea accepted Japan's invitation to become NMI parties, signing US\$2.5 billion and US\$5.0 billion swap agreements, respectively. These were progressively upgraded under the CMI. In addition, the NMI included a US\$3.0 billion Asian Currency Crisis Support Facility—administered through the ADB—to help APT countries raise funds through guarantees, interest subsidies, and other means.<sup>6</sup> The perceived failures and inadequacies of the IMF in dealing with the 1997/98 financial crisis, and arguably the US's own rather indifferent attitude towards East Asia's problems at the time, made APT nations more receptive to the NMI's aims and objectives when discussed at the Second APT Summit held in December 1998. Here, Japan tabled a proposal for an additional US\$5.0 billion Special Yen Loan Facility offering low interest, long-term loans for infrastructure development projects in crisis-afflicted economies. At this summit, East Asia's leaders, working under the ASEAN-based Hanoi Plan of Action (HPA), agreed to develop new methods for improving regional financial stability (Mahani 2002, Ruland 2000). The HPA was a broad regional recovery plan that connected ASEAN efforts to the wider East Asian community through a variety of trade-, finance-, and development-related measures. This was one of the first instances where ASEAN initiatives dovetailed with the APT framework. Also at the Second APT Summit, member states endorsed the PRC's proposal for regularized APT finance meetings at the vice-ministerial level, which came into effect in March 1999. This was upgraded to full ministerial level the following year at Chiang Mai. With the full extent and deep impact of the 1997/98 Asian financial crisis more clearly understood by this time, APT members developed a more firm appreciation of the APT as a regional co-operation mechanism. Hereafter, APT diplomacy began to gather momentum.

Japan's early leadership on financial co-operation through the AMF and NMI help lay an important foundation for APT-based schemes and agreements, and helped firmly establish regional co-operation on finance as the priority issue on the APT agenda (Hayashi 2006, Henning 2002, Hughes 2000, Katada 2002). Although this agenda was to expand to embrace a range of regional affairs—as will be later examined—the APT's

---

<sup>6</sup> In addition, the NMI framework included a US\$1.1 billion Trade Insurance Facility (offered to Malaysia and Thailand) and US\$1.2 billion of trade credit guarantees (offered by the Export-Import Bank of Japan to the Philippines and Malaysia).

main institutional and diplomatic efforts were focused on strengthening East Asia's regional financial governance.

### 2.2.2 The Chiang Mai Initiative (CMI)

The CMI was essentially an extension of the NMI, establishing a region-wide network of bilateral currency swap agreements (BCSAs) amongst most APT member states. The CMI's name derived from the location of the first APT Finance Ministers Meeting held in Chiang Mai, Thailand in May 2000. At this meeting, East Asian countries decided to raise their level of financial co-operation, with a view to creating new mechanisms to counter any future financial crisis arising in the region. An important factor here was the widely held view amongst East Asia's policy elites that the IMF had failed the region on many accounts, and some level of regional self-reliance was required, especially as East Asia possessed the world's largest financial reserves (Bird and Rajan 2002, Rana 2002).

The number of BCSAs gradually grew so that by May 2003 a total of 14 bilateral agreements had either been signed or concluded. These were joined by a revamped ASEAN Swap Agreement (ASA) facility, the lending facility of which was boosted from US\$200 million to US\$1.0 billion as part of the CMI. By this time, the CMI system consisted of agreements that amounted to a total of US\$36.0 billion committed funds. At the Eighth APT Finance Ministers Meeting held in May 2005, APT member states agreed to (i) double the total funds committed to the CMI, then standing at US\$39.5 billion; (ii) improve the integration of the scheme's surveillance mechanisms, and (iii) adopt a collective decision-making process on CMI operations (Hamilton-Hart 2007). (The month before the ASA fund had been increased to US\$2.0 billion.) This objective was achieved by May 2007 when the CMI system combined 16 agreements<sup>7</sup> amounting to US\$82.5 billion. By February 2009, this figure had risen to US\$93.0 billion (Figure 1).

The creation of the CMI was in many ways playing to East Asia's most fundamental economic strengths. At the CMI's inception, the region possessed around 60% –70% of the world's foreign exchange reserves (forex), the funds on which the system's BCSAs were ultimately derived from. Forex is essentially the foreign currency deposits held by central banks and other monetary authorities, with the main reserve currencies being the US dollar, euro, and yen. Governments may use these reserves to help stabilize the country's exchange rate by intervening in the currency markets; for example, buying their own currency with foreign reserves to counter downward pressures caused by mass selling of the local currency by speculators. The amount of forex committed to the CMI could from one perspective be interpreted as less than ambitious, given the levels of reserves that APT countries had accumulated after the 1997/98 Asian financial crisis. Table 1 shows that by the end of 2008 these reserves stood at over US\$3,822 billion (up from US\$620 billion in 1997), or around one half of the global total. Thus, the CMI system at this time operated on a mere fraction (just over 2%) of the combined forex of APT states. This cautious approach extended to their compliance to strict IMF

---

<sup>7</sup> Some of these CMI agreements evolved from one-way "donor–recipient" arrangements into two-way arrangements, whereby each BCSA partner offers to assist the other. Examples include the revised Japan–Korea agreement, in which Japan will swap up to US\$13 billion for Korean won and Korea will swap up to US\$8 billion for Japanese yen in the event of a crisis, and the Japan–Singapore agreement, in which Japan will offer up to US\$3 billion of assistance and Singapore US\$1 billion.

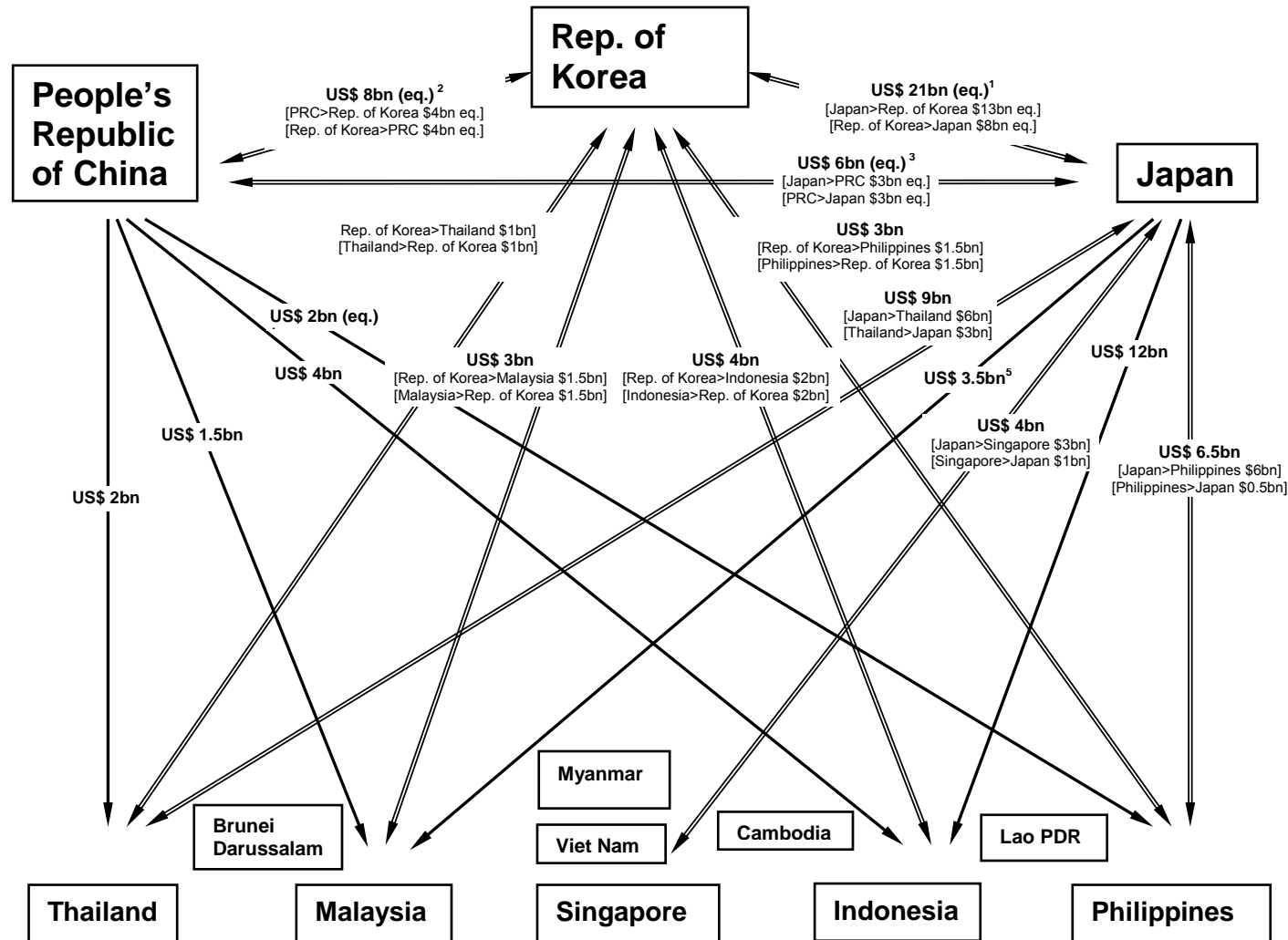
conditionality rules, whereby initially only 10% of CMI agreement funds could be operated without seeking permission from the IMF. This threshold was later raised to 20%.<sup>8</sup> Thus, from the start there was some uncertainty over whether the CMI could or would be allowed to have any effect if were ever utilized in a future crisis situation. The US\$200 million ASA was not even activated during the 1997/98 Asian financial crisis because it was considered too small to have any noticeable impact on the currency markets. Given that currency speculators have considerable amounts of currency at their disposal—more at least than most central banks—the CMI has always faced some kind of credibility problem (Kohlscheen and Taylor 2006).

Why then had APT countries only committed less than US\$100 billion to the CMI system by 2008? There are three main explanations for this. First, there are various competing demands on East Asia's foreign exchange reserves, and the majority shares of them are tied up in a range of assets, especially US Treasury Bills. This is to spread asset-holding risk and make the funds work for interest-yielding gains. Thus, only a proportion of APT countries' reserves are readily available for immediate counter-speculative actions in the currency markets. Moreover, in one sense East Asian governments are locked into keeping their forex tied in assets like US Treasury Bills as any substantial selling of their dollar-denominated assets for conversion purposes would lead to a downward market price effect, thus diminishing the value of their remaining dollar-denominated asset stocks. This situation especially applies to large scale dollar stock owners like the PRC and Japan. In sum, while APT countries may possess enormous amounts of forex, the level of reserves at their immediate disposal is much less. Secondly, the CMI may still be considered a relatively young arrangement involving nation-states with little prior experience of managing financial co-operation of this kind at either the bilateral or regional level. In this respect, the CMI was an important early confidence-building exercise in the aftermath of the region's 1997/98 financial crisis. Hence, it was politically expedient to begin with relatively small sums at the outset and then gradually progress from this base. Third, the AMF episode made Japan and other APT countries wary of any new regional initiative that was perceived to challenge the IMF's multilateral competence on international financial governance, thus the agreement to IMF conditionality noted earlier.

---

<sup>8</sup> This decision was taken at the Eighth APT Finance Ministers meeting held in May 2005.

Figure 1: Bilateral Currency Swap Agreements under the Chiang Mai Initiative (by February 2009)



ASEAN Swap Agreement (ASA) US\$ 2bn

Source: Japan's Ministry of Finance and author's own research.

Notes: All swaps denominated in US dollars except for: <sup>1</sup>Japanese yen – Korean won currency swap. <sup>2</sup>Chinese yuan – Korean won currency swap. <sup>3</sup>Japanese yen – Chinese yuan currency swap. <sup>4</sup>Chinese yuan – Philippine peso currency swap. These four agreements are denoted in US dollar equivalent (eq.) sums. <sup>5</sup>US\$2 billion of this arrangement is technically under the precursory New Miyazawa Initiative. Total sum of CMI agreements by this time was US\$93 billion.

**Table 1: East Asia Foreign Exchange Reserves**

	East Asia										Other Selected				
	People's Republic of China	Japan	Republic of Korea	Hong Kong, China	Singapore	Thailand	Malaysia	Indonesia	Philippines	Viet Nam	East Asia (total)	US	Germany	France	UK
2008	1,950,000	1,011,000	201,200	181,700	165,677	110,900	91,500	50,181	38,586	21,245	<b>3,821,989</b>	71,245	133,139	102,836	65,493
2007	1,534,000	973,365	262,224	152,702	162,957	87,455	101,345	56,920	33,751	19,740	<b>3,384,459</b>	70,684	136,235	115,726	97,255
2006	1,068,490	879,682	238,882	133,168	136,260	65,291	82,133	40,934	20,025	13,384	<b>2,678,249</b>	54,854	41,687	42,652	40,698
2005	821,514	834,275	210,317	124,244	115,794	50,691	70,172	32,989	15,926	9,051	<b>2,284,973</b>	54,084	45,140	27,753	43,531
2004	614,500	833,891	198,997	123,540	112,232	48,664	66,384	34,953	13,116	7,041	<b>2,053,318</b>	75,890	48,823	35,314	45,343
2003	408,151	663,289	155,284	118,360	95,746	41,077	44,515	34,962	13,655	6,224	<b>1,581,263</b>	74,894	50,694	30,187	41,850
2002	291,128	461,186	121,345	111,896	82,021	38,046	34,222	30,969	13,329	4,121	<b>1,188,263</b>	67,962	51,171	28,365	39,360
2001	215,605	395,155	102,753	111,155	75,375	32,355	30,474	27,246	13,476	3,675	<b>1,007,269</b>	57,634	51,404	31,749	37,284
2000	168,278	354,902	96,131	107,542	80,132	32,016	29,523	28,502	13,090	3,417	<b>913,533</b>	56,600	56,891	37,039	43,891
1999	157,728	286,916	73,987	96,236	76,843	34,063	30,588	26,445	13,230	3,326	<b>799,362</b>	60,500	61,039	39,702	35,870
1998	149,188	215,471	51,975	89,650	74,928	28,825	25,559	22,713	9,226	2,002	<b>669,537</b>	70,715	74,024	44,312	32,212
1997	142,762	219,648	20,368	92,804	71,289	26,180	20,788	16,587	7,266	1,986	<b>619,678</b>	58,907	77,587	30,928	32,317
1996	107,039	216,648	34,037	63,808	76,847	37,731	27,009	18,251	10,030	1,736	<b>593,136</b>	64,041	83,178	26,796	39,896
1995	75,377	183,250	32,678	55,398	68,695	35,982	23,774	13,708	6,372	1,324	<b>496,558</b>	74,782	85,005	26,853	42,016
1990	29,586	78,501	14,793	24,568	27,748	13,305	9,754	7,459	924	-	<b>206,638</b>	72,258	67,902	36,778	35,854
1985	12,728	26,719	2,869	-	12,847	2,190	4,912	4,974	615	-	<b>67,854</b>	32,096	44,380	26,589	12,859
1980	2,545	24,637	2,925	-	6,567	1,560	4,387	5,392	2,846	-	<b>50,859</b>	15,596	48,592	27,340	20,652

Source: IMF International Financial Statistics (IFS); Financial Statistics of the central bank of Taipei, China.

The experience of the 1997/98 financial crisis motivated East Asian governments to stockpile forex as a defense mechanism against future speculative attacks on their currency (Aizenman and Marion 2003). One could therefore argue that this stockpiling at the national level in East Asia has made the CMI seem increasingly redundant, especially to those countries with large forex stocks. However, Table 1 indicates that as a consequence of the current 2008/09 global financial crisis a number of East Asian countries have seen their forex levels fall (e.g., Korea, Malaysia, and Indonesia), while for others their rates of growth have dropped sharply (Singapore and Japan). Vulnerable countries such as Indonesia considered activating their CMI swap arrangements,<sup>10</sup> and if instability and uncertainty in global financial markets continues into 2010 and beyond then a number of other APT countries may also consider the same course of action. However, in October 2008 the central banks of Korea and Singapore (along with those of Mexico and Brazil) signed temporary US\$30 billion BCSAs with the US Federal Reserve, perhaps indicating the two East Asian countries lack of faith in the CMI.<sup>11</sup> Japan, Australia, and New Zealand had also previously signed BCSAs with the US. The decision of Korea and Singapore to choose this path rather than seek activation of its sizable BCSAs with the PRC and Japan through the CMI poses questions concerning the robustness of regional financial co-operation in East Asia. If no IMF conditionality clauses were attached to operating the CMI—as was the case with the US currency agreements—then perhaps a different decision would have been reached. The new agreements with the US were, as mentioned, temporary and expired in April 2009.

Partly in response to the current global financial crisis and partly as a result of longer-term plans to substantially develop the CMI, a key decision was made by APT finance officials at a meeting held in February 2009 to multilateralize the system of BCSAs into a regional liquidity fund. The initial decision to outline the basis for this plan was made at the May 2007 APT Finance Ministers Meeting. The new scheme—the Chiang Mai Initiative Multilateralized (CMIM)—will convert the 16 bilateral agreements into a common funding pool of forex (raised to US\$120 billion) from which members could draw upon in times of crisis. This plan will essentially create something very similar to the aforementioned AMF proposed by Japan in 1997 and supported at the time by Taipei, China. It was agreed that 80% of the CMIM fund would be provided by Japan, the PRC, and Korea. Depending on how substantially the new CMIM is developed, it could play a key role in establishing a regional exchange rate system, another idea that has been raised in APT meetings and studied by some East Asian governments, especially Japan. It is expected that the CMIM will become operational sometime in 2010.<sup>12</sup>

### **2.2.3 The Asian Bond Markets Initiative (ABMI)**

The Asian Bond Markets Initiative (ABMI) was the second new structure of regional financial co-operation to emerge from the APT framework. Like the CMI, the ABMI provides East Asia with the opportunity to utilize the region's huge financial resources for promoting its own regional financial stability and economic development, rather than

---

<sup>10</sup> *Reuters*. 17 March 2009.

<sup>11</sup> *US Federal Reserve News Release*. 29 October 2008.

<sup>12</sup> *Xinhua News*. 23 October 2009.

investing in or diverting these resources to other regions or countries. East Asia not only has huge foreign exchange reserves, but also has very high levels of domestic savings at around 30%–40% of gross domestic product (GDP). A large proportion of the region's financial resources have over time been invested in bonds and other securities originating outside the region, especially in advanced industrial countries like the US. East Asia's own capital markets have generally been slow to develop, with only higher income countries like Japan and Korea having established credible markets for bonds. Moreover, local-currency-denominated bonds were not internationalized. For example, in 2004 only 4% of Japanese government bonds were held outside the country.<sup>13</sup>

A bond is usually a fixed-interest, long-term security that can be issued by governments, firms, banks, or other institutions. The ABMI is designed to foster domestic and regional bond market development in East Asia, with a general view to better utilizing the region's substantial financial resources towards meeting the region's investment needs. In contrast to the CMI, which provides a mechanism for short-term counteractions to financial market instability, the ABMI forms a basis for gradually strengthening East Asia's long-term financial market development. In this sense, the ABMI may be considered more strategic in conception than the CMI, as it moves East Asia beyond measures simply aimed at crisis-aversion towards more substantive financial market integration. In further contrast, the ABMI is more a regional co-ordination project involving several countries initiating their own new local currency bond issues with the assistance of the ADB and other agencies, leading to a particular form of financial market regionalization in which the private sector plays a key role. The CMI, on the other hand, arguably involves greater levels of region-wide co-operation amongst East Asian states as the scheme's currency swaps are international agreements in which at least one partner is obligated to assist the other in times of financial difficulty. It is therefore more likely that the CMI will develop into a region-wide governance mechanism akin to financial regionalism than the ABMI (Grimes and Kimura 2005).

Like the CMI, the ABMI was conceived in crisis aversion terms. A key cause of the 1997/98 Asian financial crisis was the over reliance on short-term borrowing in foreign currencies by East Asian firms, banks, and other institutions. After East Asia's huge accumulation of savings had been initially deposited in local banks, much of it was then funneled to international financial centers and a significant amount was in turn invested back into the region but mostly in the form of short-term loans. Pempel (2000) usefully summarizes the situation: "Foreign capital was readily available at low interest rates. Meanwhile, rates on local debt were about double that for foreign debt. Consequently, local banks found it highly profitable to borrow overseas and lend locally: most domestic loans were short-term, with multiple roll-overs expected to complete long-term projects." This made the region prone to the maturity and currency "double mismatch" problem after sharp currency depreciations had significantly inflated the short-term foreign loan payments East Asian firms were obliged to make to overseas banks. Many of these firms did not have sufficient investment returns or other funds on stream to help meet these payments, leading to mass bankruptcies and a banking crisis. This was a key trigger of a wider financial crisis in the region. In addition, the region's local banking systems had developed an over-reliance on equity markets to fund the investment

---

<sup>13</sup> *Business Times Singapore*. 24 May 2004.



demands of East Asian companies, which were over-dependent on banks in raising finance. Investing in long-term, local currency bonds issued by governments and companies would help avoid these predicaments and make East Asia financially more self-sustainable as a region in the longer run (Plummer and Click 2005). Developing an Asian regional bond market would also enable wider currency diversification to take place, leading to East Asian countries becoming less dependent on US dollar-denominated assets in particular.

Although the ABMI has mainly developed through APT processes, these have worked in tandem with certain other related institutions and organizations. Discussions about the creation of the ABMI were first made at the APT Deputy Ministers Meeting held in Chiang Mai in December 2002. The scheme was further considered a few months later in June 2003 at an Executives Meeting of East Asian Central Banks (EMEAP) group meeting, where its eleven member state representatives agreed to establish an Asian Bond Fund with initial capital of US\$1.0 billion.<sup>14</sup> The ABMI plan was then formally endorsed at the APT Finance Ministers Meeting held in August 2003. In the following month the ADB gave grants to Indonesia, Malaysia, Philippines, and Thailand to help them develop domestic bond markets as part of the APT's new Guarantee Mechanism for the ABMI.<sup>15</sup> In April 2004, the EMEAP group gave its approval to launch a much larger Second Asian Bond Fund worth around US\$11 billion. As with the first Asian Bond Fund, this was to be managed on behalf of the central banks by the Bank for International Settlements' office in Hong Kong, China. Unlike the first fund, these new bonds were denominated in local Asian currencies rather than in US dollars. Also with the second fund, forex could be used for the first time to purchase these new local currency bonds.

The Second Asian Bond Fund was implemented beginning in May 2005 with the ADB playing an instrumental part in issuing the bonds in domestic markets. The ADB's role in developing the ABMI is indicative of the organization's growing involvement in promoting East Asian economic regionalism. ADB helped Japan establish its first domestic bond market in the early 1970s, and provided similar assistance in other East Asian economies up until the 1997/98 financial crisis, including in Hong Kong, China; Korea; Singapore; and Taipei, China. Since the ABMI's launch in 2003, ADB has provided new bond issue assistance to a wider range of East Asian countries, including the PRC, Malaysia, Philippines, Thailand, and Viet Nam. By the end of 2004, East Asian local currency bond markets had tripled in size since the 1997/98 financial crisis. ADB's Asia Bond Monitor reported at this time, however, that the region accounted for only 3% of the total amount of local currency bonds outstanding worldwide.<sup>16</sup> In November 2006, ADB reported that the volume of the region's outstanding local currency bonds had expanded from US\$2.0 trillion to US\$2.4 trillion over the first half of 2006.<sup>17</sup> Yet, this was

---

<sup>14</sup> The EMEAP group was first established in 1991 at the initiative of the Bank of Japan. Its membership comprises the central banks from Australia; the People's Republic of China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; New Zealand; the Philippines; Singapore; and Thailand.

<sup>15</sup> *INQ7 News (Philippines)*. 31 October 2003.

<sup>16</sup> *China View*. 23 November 2004.

<sup>17</sup> *ADB Press Release*. 15 November 2006.

still some way behind the dollar-denominated bond market valued at US\$16.8 trillion, of which about 30% are government issues.<sup>18</sup> In May 2008, a new ABMI road map was agreed upon at the Eleventh APT Finance Ministers Meeting to have member countries voluntarily develop local currency bond markets.

While the ABMI had made an important contribution to bond market growth in the region, ADB has also stated that there remains huge scope for further expansion. Surveys long indicated the significant potential demand for local currency bonds in East Asia. For example, ADB estimated that between 2005 and 2010, East Asia would require US\$180 billion (approximately 6%–7% of the region's annual GDP) in new physical infrastructure investments.<sup>19</sup> According to a Citigroup report, Asia's investment needs would be around US\$20 trillion between 2005 and 2015, and that the long-term and stable financing provided by bond markets was ideal for facilitating the region's strategic investments.<sup>20</sup>

#### **2.2.4 East Asia Regional Financial Governance and the Global Financial Crisis**

The CMI and ABMI were both launched in the early 2000s in response to the 1997/98 Asian financial crisis. Both schemes have made some level of substantive progress. A third scheme, the Asian Currency Unit (ACU) system proposed in 2006, while failing to take off owing to political difficulties and institutional constraints within the APT framework, could still be re-launched in the near future (Kawai 2008). So how have post-1997/98 developments in APT-led regional financial governance prepared East Asia in coping with the current global financial crisis?

Many have criticized these APT schemes for lacking ambition as well as both the APT and EAS frameworks for their inability to forge an effective and unified response to the global financial crisis (Drysdale 2008, 2009; Sheng 2009; Soesastro 2009; Yap 2008). Despite its recent upgrading, the CMI remains generally under-funded and plans for multilateralizing the system can be traced back at least to 2007, so this was not strictly a specific response to the financial turmoil of 2008/09. Moreover, the system's bilateral currency swaps have yet to be activated. The ABMI is an active scheme with laudable objectives, but it could have made considerably more progress under stronger leadership from APT member governments. More generally, the APT/EAS group has lacked a cohesive approach towards the current crisis at recent international and global level meetings. For example, Asian members of the G20 failed to consult with one another in preparation for the November 2008 meeting held in Washington DC (Yap 2008). The aforementioned decisions of Korea and Singapore to sign US\$30 billion currency swap deals with the US rather than seek activation of their agreements with CMI partners also showed a demonstrative lack of faith in East Asia's regional financial co-operation schemes.

---

<sup>18</sup> Ibid.

<sup>19</sup> ADB Press Release. 05 August 2004.

<sup>20</sup> Business Times. 24 May 2004.

Two new measures have been proposed at the track II level by a group of high-profile economists under the aegis of the Asian Development Bank Institute (ADBI) (ADBI 2009, Drydale 2009). The first of these was an Asian Financial Stability Dialogue (AFSD) that would essentially facilitate policy co-ordination for financial sector stability, reform, and development by bringing together finance ministry, central bank, and financial market regulatory and supervisory agencies across the region. According to Drydale (2009), the AFSD could “share information, harmonize prudential indicators, increase coordination on conducting early warning system analysis, and discuss more openly national and regional policy interventions,” as well as promote East Asia’s long-term financial market development and integration. Many of these functions are already supposed to be served by the APT’s Economic Review and Policy Dialogue (ERPD) mechanism, so this new proposal is essentially an ERPD upgrade. The second proposal is for creating an Asian Infrastructure Investment Fund (AIIF) as a mechanism for channeling funds towards meeting the region’s various infrastructural needs, which has been one of the key objectives of the ABMI, so any overlap between them would have to be managed accordingly. At the time of writing, these two proposed schemes had yet to be formally considered and endorsed by APT governments.

### 2.2.5 Other Aspects of APT Regional Co-operation

While improving regional financial governance remains a core task of the APT, its agenda has also expanded to embrace various other issues, including small business development, environmental technologies, infrastructure logistics, food and health security issues, human resource development, e-commerce, energy resource management, pollution abatement, international migration, maritime piracy, information communications technology (ICT) co-operation, customs information exchange, agricultural technology, and management training programs. In the early 2000s, the East Asia Vision Group (EAVG) and East Asia Study Group (EASG) provided ideas and subsequent impetus on where and how to advance regional co-operation in East Asia (EAVG 2001, EASG 2002). Examples of the 26 specific recommendations made by the EASG report, which were published for adoption at the 2002 summit, included:

- (i) *Short-term measures:* East Asia human resource development program, network of East Asia Think Tanks, East Asia Forum, East Asia Business Council, poverty alleviation programs, and regional identity-building exercises.
- (ii) *Medium- to long-term measures:* high-level conference on investment and SMEs; feasibility study on an East Asia Free Trade Area (EAFTA); East Asia Summit; regional financing facility; expansion of ASEAN Investment Area to an East Asia Investment Area arrangement; and a framework for energy policies, strategies, and action plans.

Plans to initiate or expand the study of the majority of the above measures have been undertaken. One EASG-recommended initiative that has been moved forward concerns the APT Workshops on Promoting East Asian Identity and Consciousness. The second such workshop was convened in November 2006 in Brunei Darussalam and is seen as

an essential part of the East Asia community building process.<sup>21</sup> In the same month, APT diplomacy led to Japan, the PRC, and Korea joining ASEAN's emergency rice reserve program, first set up in 1979, to create a new and much extended East Asia Emergency Rice Reserve (EAERR) system, boosting the original ASEAN system reserve from 87,000 tons to 500,000 tons.<sup>22</sup> The EAERR initially operated as a temporary arrangement over 3 years, expiring in early 2010 and essentially serving the ASEAN countries. The EAERR consisted of rice stocks held in each member state that were earmarked for emergency distribution within Southeast Asia should the need arise. This was set within the context of APT endeavors to improve regional food security and safeguard rural livelihoods in the region, as well as to put in place systems for meeting humanitarian needs during periods of emergencies or natural disasters. At the October 2009 APT summit, plans were discussed to make the EAERR a permanent system, although these were hampered by a dispute between Thailand and the Philippines over rice import tariffs in relation to implementing AFTA liberalization on agricultural products.<sup>23</sup> Although conventional security issues such as the Democratic People's Republic of Korea's nuclear program have been discussed at APT meetings, they have not become codified into the APT agenda or works program.

### 2.3 Organizational Structure and Institutional Processes

APT's organizational structure and institutionalized processes are closely entwined with ASEAN's, as APT summits are held at the conclusion of ASEAN summits and therefore only ASEAN countries are eligible to host them. APT has nevertheless developed a wide range of mechanisms for diplomatic interaction and dialogue, as well as a series of instruments for advancing regional co-operation and integration amongst East Asian countries. By 2009, the APT framework had over 50 consultative bodies working in around 20 different fields. The range of Ministerial Meetings has gradually expanded over time to cover 15 policy areas. The details of their initiation and regularity are given below.

- (i) *Annual*: Finance (1999), Economic (2000), Foreign (2000), Agriculture and Forestry (2000), Environment (2002), Tourism (2002), Energy (2004).
- (ii) *Biennial*: Labor (2001), Culture and Arts (2003), Public and Internal Security (Transnational Crime, 2004), Health (2004), Youth (2007).
- (iii) *Triennial*: Social Welfare (2003).
- (iv) *Irregular*: Telecommunications and Information Technology (2004), Science and Technology (2006).

The Ministerial Meeting process works in close co-ordination with APT's Senior Officials Meetings (SOM) process, which covers the 19 policy areas noted below.

- (i) *Annual*: Finance (1999), Economic (2000), Foreign (2000), Agriculture and Forestry (2001), Labor (2001), Energy (2002), Tourism (2002), Public and Internal Security (2003), Telecommunications and Information

<sup>21</sup> *Brunei Darussalam Darussalam Darussalam Times*. 09 November 2006.

<sup>22</sup> *Bloomberg News*. 22 November 2006.

<sup>23</sup> *Philippine Daily Inquirer*. 26 October 2009.

- Technology (2003), Health (2003), Social Welfare (2003), Environment (2004), Disaster Management (2006), Minerals (2006).
- (ii) *Biennial*: Culture and Arts (2003), Youth (2004), Rural Development and Poverty Eradication (2006).
- (iii) *Irregular*: Science and Technology (2006), Women (2006).

Below the SOM level of inter-governmental meetings are two underpinning sub-levels of meetings (Figure 2). The first sub-level is the Director–Generals Meetings (DGMs), established in 2003 and held twice a year, which work in the same policy areas as the SOMs. The DGMs are charged with the following tasks:

- (i) implementing the APT Co-operation Work Plan (2007–2017), reviewing its identified priority areas, and revising them biennially based on the urgency and current issues in the region; co-ordinating with the ASEAN Secretariat where necessary;
- (ii) co-ordinating and implementing the measures in the EASG Final Report;
- (iii) identifying regional priorities for East Asia co-operation;
- (iv) co-ordinating East Asia co-operation under the APT process generally;
- (v) promoting functional co-operation in East Asia; and
- (vi) reporting their work to the APT Foreign Ministers Meeting.

At the lower sub-level is the Director–Generals Working Group Meetings (DGWGM), established 2005 and held twice a year, which work under the DGM process. The DGWGM undertakes the following tasks:

- (i) assists in the preparation of relevant documents submitted for the DGMs;
- (ii) reviews the status of APT development co-operation activities and their implementation;
- (iii) makes recommendations to the DGMs for their approval, especially with regard to proposed co-operation activities, to ensure the smooth implementation of APT co-operative activities; and
- (iv) works closely with the External Relations Divisions of the ASEAN Secretariat in undertaking the above tasks.

A number of supporting institutions have arisen from APT diplomacy (Figure 2). The East Asia Business Council (EABC) was established April 2004 and comprises three members of the private sector from each of the APT countries who are appointed by their respective economic minister. The EABC's main purpose is to provide private-sector perspective and feedback into APT discussions on how to deepen regional economic co-operation and expand the region's economic growth. The EABC also works to strengthen co-operation among the private sectors in APT countries. The Network of East Asian Think Tanks (NEAT) was created in 2003 as a track II process to provide APT with collective research capacity and intellectual support for studying issues of East Asian regional co-operation and integration. The work of NEAT is largely derived from issues and initiatives identified by APT meetings, and feeds back to this process through policy recommendations. Further analytical capacity on AP- related matters is provided

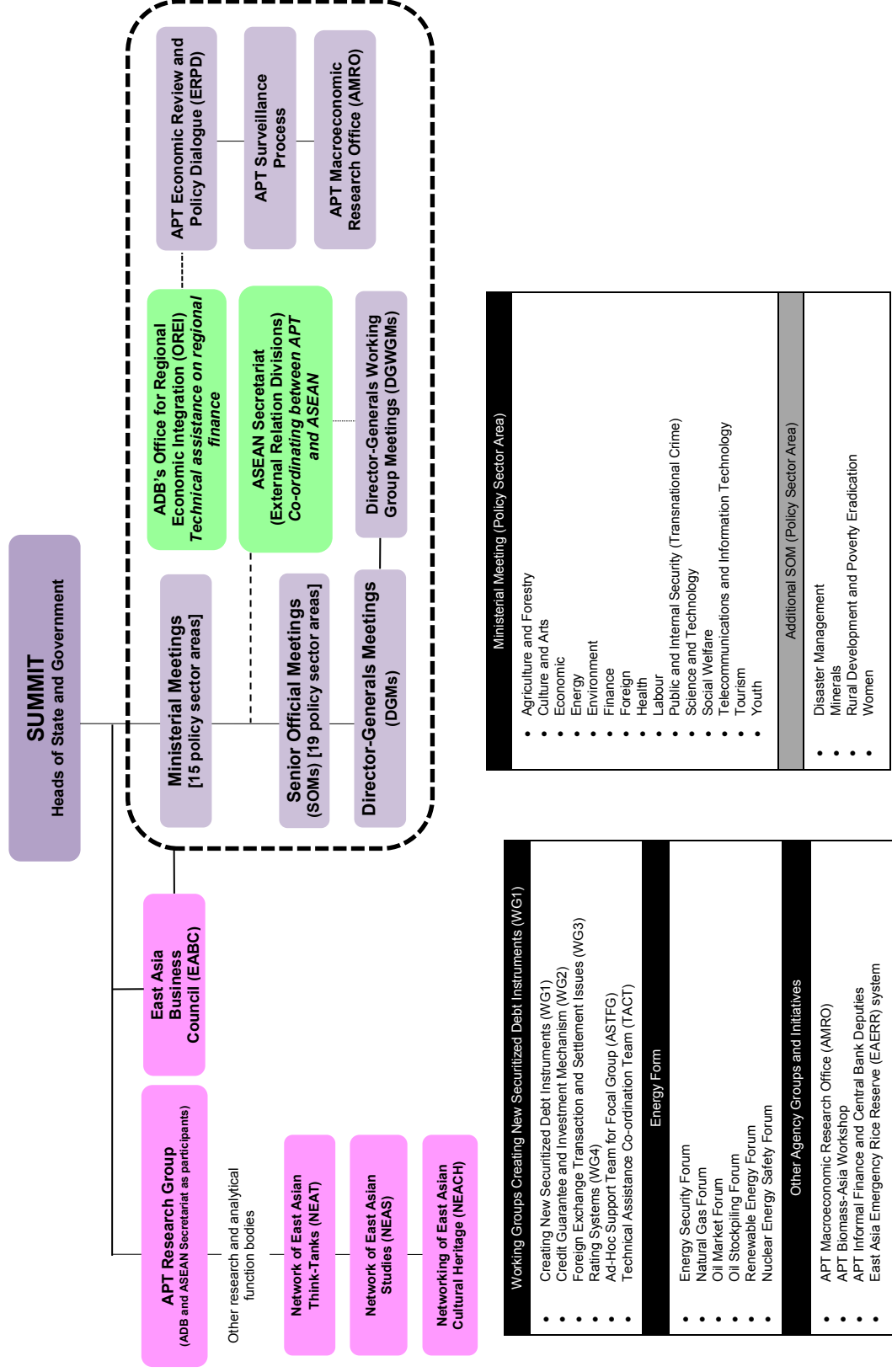
by an expert group set up in 2005 to conduct a feasibility study on an East Asia Free Trade Area, and also by the APT Research Group that was established in 2003 and focuses specifically on financial co-operation. Its participants consist of finance ministry and central bank officials that meet on an *ad hoc* basis and to discuss research topics endorsed at the APT Finance Ministerial Meeting. Research Group officials focus especially on medium- and long-term challenges for further regional financial co-operation facing East Asian countries, and work closely with the region's research institutions. Reports of their activities are presented at APT finance meetings.

Since 2002, the APT Informal Finance and Central Bank Deputies Meeting has convened twice a year as a policy dialogue arrangement between Finance Vice Ministers and Deputy Governors of Central Banks. The APT Biomass-Asia Workshop, created in 2005, holds annual meetings to examine key issues on biomass policies, technologies, and capacity building in East Asia, and bring together government officials, private sector representatives, and researchers working in this field. More recently, the APT Nuclear Energy Safety Forum and the APT Natural Gas Forum were established in 2007 with the purpose of strengthening policy dialogue and regional co-operation amongst East Asian countries in their respective energy policy areas.

A number of other APT energy fora have also been created (Figure 2). APT's work on promoting stronger East Asian socio-cultural unity has been carried out through the Networking of East Asian Cultural Heritage (NEACH) and the Network of East Asian Studies (NEAS). The work of these groups has been underpinned by a series of joint statements, accords, and initiatives aimed to commit APT countries to realizing deeper regional co-operation across a range of areas. These include the following:

- (i) Comprehensive Human Resources Development Program for East Asia (2003);
- (ii) Agricultural Technology and Management Training Program for ASEAN Countries (2003);
- (iii) APT Website for Customs Information Exchange (2004);
- (iv) Poverty Alleviation Programs (2005);
- (v) Cultural and Educational Institutions to Promote a Strong Sense of Identity and an East Asian Consciousness (2005);
- (vi) East Asian Studies in the Region (Network on East Asian Studies – NEAS, 2005);
- (vii) Networking and Exchanges of Experts in the Conservation of the Arts, Artifacts, and Cultural Heritage of East Asian Countries (NEACH, 2005);
- (viii) APT Logistics Co-operation for Future Trade Facilitation (2006);
- (ix) APT Co-operation for Internationally Comparable Statistics (2006);
- (x) Joint Declaration on Energy Security (2007); and
- (xi) Co-operation on Food Security and Bio-energy Development (2008).

**Figure 2: APT's Institutional Structure**



Source: Author.

Although APT may not strictly be considered a regional organization, it has nevertheless developed relatively extensive structures of networked relationships amongst East Asian government officials, private sector representatives, and research analysts that are almost comparable to APEC and much more substantive than the EAS. Furthermore, while finance remains the area where APT has made the most important advances in regional co-operation and integration, the regional framework has created a broad RCI agenda that has particularly focused on economic and technical co-operation issues. As we later examine, this is in contrast to APEC's prioritization of commercial liberalization and neo-liberal-oriented regulatory reform. The introduction of the APT Co-operation Work Plan (2007–2017), adopted at the 2007 APT Summit, is illustrative of APT's prime emphasis on economic and technical co-operation. This serves as the master plan to enhance APT relations and co-operation in a comprehensive and holistic framework, with a view to reinforcing efforts to create the ASEAN Economic, Socio-Cultural, and Security Communities by 2015.

Activities based on the APT Co-operation Work Plan were implemented with initial funding support from the PRC, Japan, and Korea. However, a new APT Co-operation Fund was introduced in 2009 to help finance Work Plan projects. Areas of co-operation parallel APT's meetings and dialogue structure, which lay out principles of good conduct across a range of broad thematic headings on (i) political and security co-operation; (ii) economic and financial co-operation; (iii) energy, environment, climate change, and sustainable development co-operation; and (iv) socio-cultural and development co-operation.

The institutional identity of APT is, of course, bound up with that of ASEAN and the two External Relations Divisions (one covering political and security relations, the other economic relations), with the ASEAN Secretariat performing certain co-ordinating functions between the two institutions. In one sense, APT provides an important level of support to ASEAN, for example, by working in unison to realize the organization's objectives on regional community building.

As outlined in the previous section, APT has developed close inter-institutional linkages with the ADB on financial co-operation regarding the CMI, ABMI, and other schemes. Regarding the APT Economic Review and Policy Dialogue, ADB supports regional policy dialogues to help East Asian countries in their collaborative efforts in promoting financial stability and growth. This has become even more critical in light of the 2008/09 global financial crisis, and these regional policy dialogues are intended to bring about better co-ordination of fiscal and monetary policy responses for regional financial stability and growth. With regard to the APT Surveillance Process, the ADB prepares biennial reports on regional macroeconomic performance, forecasts, and policy issues, which are presented and discussed at various APT Finance and Central Bank Deputies meetings. In May 2009, East Asia's Finance Ministers agreed to establish an APT Macroeconomic Research Office (AMRO) to support the CMIM. When formally created, AMRO will be an independent regional surveillance unit to monitor and analyze regional economies. In the meantime, ADB and the ASEAN Secretariat established an interim surveillance arrangement based on the existing surveillance processes. ADB is also expected to provide technical assistance to support the CMIM surveillance process, including capacity building in the early phase of the establishment of AMRO. With respect to the



ABMI, ADB worked with APT to establish the US\$700 million Credit Guarantee and Investment Facility (CGIF) in April 2010, which will provide credit guarantees for domestic bonds to meet financing needs and will help develop the region's local currency bond markets. ADB also supports a number of capacity building programs for APT officials and staff, for example, by providing technical assistance for the training of financial regulators and supervisors, and offering training on regional economic and financial monitoring.<sup>24</sup>

## 2.4 Impacts and Key Challenges for the Future

As APT was the first exclusively East Asian regional grouping of substance to be created, those with a strong interest or stake in East Asian regional community building have particularly high expectations for what APT can achieve. During the aftermath of the 1997/98 Asian financial crisis, APT was able to break new ground in regional financial co-operation and gradually expanded its agenda to embrace other important regional affairs. However, it is in the area of finance that APT has made the most notable advances in regional co-operation and integration. The CMIM could be the foundation for developing a future system of exchange rate co-operation or co-ordination that, in turn, could lead to deeper monetary integration. However, this is likely to take some time to progress given the region's economic asymmetries and uneasy political relationships, e.g. between the PRC and Japan. In the meantime, APT should look to develop new instruments, agreements, and other institutional mechanisms for regional co-operation in other areas. As we have seen, it has become increasingly focused on a number of "new security" issues (e.g. food security, energy security) and its activities and dialogues have especially centered on economic and technical assistance and development capacity building. This is consistent with the general principles on which East Asia regional community building has hitherto been broadly based, such as the kinds of quasi-regional FTAs being signed in the region (e.g. Japan–ASEAN). Thus, an APT-based regional trade agreement would be expected to combine liberalization with economic co-operation measures. Future APT regional agreements on new security issues will also most likely have a strong development capacity building dimension. East Asia's weaker and poorer nations can at the moment only make limited contributions to regional community building processes owing to various capacity deficiencies. The region's stronger powers (especially Japan and the PRC) are making a difference through bilateral channels of assistance, and it may be that variable geometry arrangements of regional co-operation, based on subset country participation, will arise in certain future agreements. However, advancing APT co-operation on new security issues will prove difficult in areas where competition between national interests is intense, such as securing energy supplies.

Another key challenge that faces both APT and the EAS is the question of regional leadership. This is a critical issue as leadership provides a vital source of strategic vision and initiative for co-operative ventures, and often the necessary public goods (e.g. technocratic resources) that enable co-operation to function effectively (Dent 2008b). If the PRC and Japan were to pursue strategies of trying to counter the other's exercises of regional leadership in East Asia, then this would seriously constrain regional

---

<sup>24</sup> This information was provided by ADB's Office of Regional Economic Integration (OREI).

community building. Alternative paths of action could include a Sino-Japanese agreement on what division of leadership tasks could be arranged between them, or a working formula for exercises of balanced co-leadership. However, such arrangements would need to be made across both the APT and EAS regional frameworks, especially because Beijing prefers the former and Tokyo the latter as the foundation for East Asian regional community building.

Unresolved issues between APT and the EAS are discussed in more detail at the end of the following EAS section. APT's head-start advantage over EAS largely explains why it may be considered a far more substantive regional framework, yet it still lacks a strong independent institutional identity and the capacity to realize its potential for advancing regional co-operation in East Asia. This will continue while it remains dependent on associate regional organizations, especially the ASEAN Secretariat and ADB. At the same time, both of these organizations have played an important intermediary and facilitating role in APT co-operation. A new name (non-ASEAN derived) and an independent Secretariat would be needed to strengthen APT's corporate identity and self-determined functionality as the representative body of regionally co-operating East Asian countries.

### **3. East Asia Summit (EAS)**

#### **3.1 Origins and Early Development**

The EAS framework may in one sense be considered a spin-off of the APT framework. The idea for establishing an EAS was first raised at the 2000 APT Summit in Singapore. Thereafter, the EAS Group was charged with examining the proposal and reporting back with its recommendations. These essentially focused on the desirability of transforming APT into a more coherent and developed regional framework in which any APT member could host a summit, not just an ASEAN country. The EAS also embodied a more holistic regional concept and not just an appendage arrangement to ASEAN. A further perceived advantage of the EAS over APT was that it would potentially confer the PRC, Japan, and Korea a greater sense of ownership over the East Asia regional community building process.

It was initially believed that APT would simply evolve into the EAS, subsuming all of its work programs and adopting its framework structure. This was the general understanding that prevailed up until the November 2004 APT Summit.<sup>25</sup> However, the EAS became neither a substitute for APT nor a distinctly separate mechanism in its own right during the latter half of the 2000s. The main underlying reason for this is that EAS membership not only comprises APT countries, but also—primarily at Japan and Indonesia's insistence—India, Australia, and New Zealand. The first EAS was held in December 2005 and hosted by Malaysia in Kuala Lumpur. Much of the discussion at the meeting revolved around membership issues and what value the EAS framework could

---

<sup>25</sup> *Associated Press*. 29 November 2004.

add to the regional community building process beyond what was already being achieved by APT.

### 3.2 Issue Coverage, Agenda Setting and Instrumentalization

The EAS framework is still a relatively institutional arrangement that possesses a rather limited degree of organizational substance. The issues covered at EAS gatherings are primarily driven by regional and global events, or by initiatives and proposals made by individual member states. EAS lacks the multi-structured and programmatic dialogue processes that can be found in APEC, ASEAN, and APT. Japan is the key advocate of the EAS and to help consolidate the new regional grouping it pushed the idea of an EAS-based free trade area through formal proposals made in April and August 2006. It is now a generally held view that Japan's strategic interest in broadening the membership of the EAS was to counterbalance an ascendant PRC in any emerging East Asian regional organization or framework. Japan's predilection for a broad East Asian grouping, however, pre-dates the EAS' inception (Hund 2003). In the mid-1990s, Tokyo had advocated the inclusion of Australia and New Zealand in the ASEM framework, partly as a legacy of Japan's earlier Pacific orientations in regional community building. However, the PRC, Malaysia and others have occasionally argued for a more conventional East Asian grouping.<sup>26</sup>

The PRC's stated opposition to a broad extra-regional EAS membership centered on how the regional body might become too unwieldy and incoherent if the interests of many disparate nations were to be accommodated. Moreover, Beijing argued that the greater the number of countries involved, the less integrated and coherent a future East Asian community would be.<sup>27</sup> Japan, though, lobbied other East Asian nations hard on the issue of EAS membership issue and managed to secure enough support for its own position. It was also agreed at a May 2006 meeting of ASEAN senior officials that EAS membership would be frozen for at least 2 years. This was in response to various countries expressing their interest in joining the group, namely Russia (observer status gained at the First East Asia Summit, full membership supported by the PRC); Pakistan and Mongolia (supported by Malaysia); Bangladesh (supported by Japan); and Papua New Guinea (supported by Australia). The EU has noted its wish to gain observer status, while the US has also sought involvement in the EAS at a level that has not been clarified.

As will be discussed below, the EAS agenda has been largely shaped by reactions to regional and global events rather than programmatic strategizing from within its rather thin institutional structure. In addition, energy and the environment have been two issue areas where the EAS has made the most apparent progress on regionalized co-operation and dialogue. The EAS can make important contributions to regional community building it were to specialize in a few issue areas and develop the institutional architecture to manage these accordingly. For as long as it remains a

<sup>26</sup> For example, Thailand and the Philippines, along with Malaysia, were more inclined to support the PRC's APT-based regional free trade area idea rather than Japan's EAS-based alternative.

<sup>27</sup> *Asahi Shimbun*. 04 November 2005; *The Yomiuri Shimbun*. 25 November 2005.

reactive forum to events, and its relationship with APT continues to be undefined, the EAS is likely to linger on as just another high-level dialogue framework.

### 3.3 Organizational Structure and Institutional Processes

In contrast to APT, the EAS has limited organizational substance. Aside from its summit meetings, annual EAS Foreign Minister informal consultations (as opposed to formal Ministerial Meetings) and EAS Environmental Ministers Meetings have been convened since 2008, EAS Energy Ministers Meetings since 2007, and EAS Economic Ministers Meetings since 2006. Senior Officials Meetings have also been held in these four policy areas and, like APT meetings, are tagged on to the end of corresponding ASEAN meetings. The EAS is seen as essentially a leaders-led forum with the aim of responding “promptly to any emerging challenges and adjust[ing] appropriately to the changing regional and international landscape.”<sup>28</sup>

A few additional groups and activities comprise the EAS’s institutional structure, especially in the work areas of energy and environment. The EAS Energy Cooperation Task Force (ECTF) was established in March 2007 and focuses on three areas for co-operation: (i) energy efficiency and conservation, (ii) energy market integration, and (iii) bio-fuels for transport and for other purposes. The ECTF has organized a number of workshops and seminars on these issues. The Cebu Declaration on East Asian Energy Security, signed at the Second East Asian Summit meeting in January 2007, underpins the ECTF’s work in the above areas. In addition, the PRC hosted the EAS Seminar on Capacity Building for Climate Change Adaptation in October 2008. An EAS Asia Pacific Regional Media Program has been created, and an EAS initiative led to the establishment of the Economic Research Institute for ASEAN and East Asia in 2008. The EAS is also responsible for overseeing the feasibility study process on the Comprehensive Economic Partnership of East Asia (CEPEA). Like APT, the External Relations Divisions of the ASEAN Secretariat play a co-ordinating role between ASEAN and East Asia Summit activities and meetings.

### 3.4 Impacts and Key Issues for the Future

The EAS was established some years after the APT regional framework and has not developed anywhere near the same level of institutional substance or regional co-operative mechanisms as APT. Evidence from the Asia–Pacific and elsewhere around the world suggests that bigger regional groups are better suited for promoting and developing dialogue (e.g. APEC, ASEM), while smaller regional groups are able to advance regional integration and co-operation at a deeper level. This is because the former have by their nature a wider range of diverse interests to reconcile, while the latter are more likely to establish a basis for common action based on a stronger likelihood of shared interests and more coherent linkages. In relation to APT, the EAS framework could therefore offer a broader and more outward-looking dialogue forum for discussing political, economic, and other foreign policy issues. In essence, then, the EAS would concentrate on being a dialogue process and APT would be an East Asian integration process, with each reinforcing the other by focusing on linked issues.

<sup>28</sup> Chair’s Statement, Second EAS Foreign Ministers Informal Consultations.

Some relatively lower-level regional co-operation agreements and declarations could be made amongst EAS member states as confidence-building measures. The EAS could more fundamentally model itself as a multilateral consultation mechanism involving East Asian countries and the region's principal stakeholders to discuss a broad range of key issues and challenges facing the East Asian community. Thus, it could discuss a number of new security issues and also include the US, EU, Russia, and perhaps others.

Certain incumbent EAS members may not agree with such a proposed role for the East Asia Summit, or with the suggested division of labor arrangement with APT. India has already signed or will sign FTAs with various East Asian countries and its micro-level regionalization links with East Asia continue to strengthen. Its case for being considered an integral member of an emerging East Asian community is expected to strengthen in forthcoming years, and India will therefore wish to be party to any substantive East Asian regional integration agreements that might arise in the future. For earlier-stated geopolitical reasons, Japan and other East Asian countries will support India's inclusion in this process to counterbalance an ascendant PRC. Australia and New Zealand, which also have a number of FTA links with East Asian countries, will also most likely try to make the same case as India for full inclusion in East Asia's regional community building endeavors. The division of labor arrangements between EAS and APT might therefore become problematic, and it may take a few years to determine an appropriate functional relationship between these two regional frameworks. Just as with APT, the EAS progress generally depends on the PRC and Japan agreeing on how to approach higher-order integration issues, such as participation in a regional FTA.

Another challenge for the EAS is how to reconcile Australia's proposal for creating an Asia-Pacific Community (APC) with a Japanese proposal for essentially converting the EAS into a formal East Asian Community (EAC). The APC was first proposed by Australian Prime Minister Kevin Rudd in June 2008 and its purpose thus far stated would be to rationalize existing Asia-Pacific level institutions rather than create a new one—thus at least implicitly suggesting it would supersede APEC and in doing so create a forum for discussing a wide range of regional issues. Japan's EAC proposal was made in 2009 and based on similar generalized conceptions as the APC. Both regional community initiatives were tabled for discussion at the October 2009 EAS summit, but there appeared to have been no prior co-ordination or communication between Japan and Australia regarding their respective proposals. This was somewhat odd given the aforementioned long history of the Japan–Australia partnership in Pacific community building, and moreover presents them as competing ideas in the future development of regional architecture (Acharya 2009). Certainly, any emergent EAC based on an expanded EAS stakeholder membership that included the US would present a distinct challenge to APEC's current position as the premier Asia-Pacific regional body.

## **4. Asia Europe Meeting (ASEM)**

### **4.1 Origins and Early Development**

The ASEAN group and the EU have been dialogue partners since 1972; this being one of the earliest inter-regional relationships formed in the modern era. The idea of creating ASEM conceived a broader kind of relationship and was proposed by Singapore's Prime Minister, Goh Chok Tong, in October 1994. By 1995, a date had been set for the inaugural summit, which took place at Bangkok in March 1996. ASEM is essentially an inter-regional dialogue framework between the EU and a core of East Asian states. The original Asian members of ASEM were the PRC, Japan, Korea and seven ASEAN countries (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam). Its work on fostering closer inter-regional relations between Europe and Asia rests on three pillars: economic, political and socio-cultural.

The creation of ASEM was part of a wider global trend of the emerging inter-regionalism of the post-Cold War world order of the 1990s. This order, though, was being generally reconstituted along tripolar-structured lines, and ASEM itself was a product of this (Bridges 1999, Dent 2001, Hanggi 1999). By the early 1990s, three prosperous regions—North America, East Asia, and Europe—had come to dominate the world economic system, marking a relative global shift from geopolitics to geo-economics, and from communist–capitalist bipolarity to inter-capitalist tripolarity. The extent of triadic economic dominance remains extreme: between them, the EU, East Asia, and North America account for 80%–95% of global production, trade, finance, foreign investment, and new technology development. As the 1990s progressed, tripolar relations moved beyond basic concerns regarding inter-triad power competition to focus more on co-operative initiatives.

The US more proactive approach towards APEC during the mid-1990s—especially the launch of the organization's Bogor Goals to establish free trade and investment in the Asia–Pacific by 2010/202—helped spur the EU into action to strengthen its triadic links. A year later, the US and EU established a new trans-Atlantic framework of relations under the New Transatlantic Agenda (NTA). Both of these sets of inter-regional ties were already quite strong and in the trans-Pacific case increasingly dynamic. The Eurasian link of the triangle by comparison was relatively weak. Thus, the perceived need for ASEM primarily arose within this global-tripolar context. More specifically, the EU's main motivations for promoting ASEM lay in its anxieties over the prospect of potential geo-economic marginalization in a trans-Pacific dominated world economy. The EU's introduction of its New Asia Strategy in 1994 signaled Europe's intentions to redress the triadic imbalance.

As a regional collective, East Asia's own motivations for promoting ASEM were mostly different, but still deemed equally critical for the region. First, the EU's more active engagement in East Asia would help counter-balance American influence in the region, in particular, and that of the other great powers—Japan, the PRC, Russia—in general. Second, ASEM would help East Asian states diversify their international relations in a globalizing world. This was especially a priority to those with perceived over-

dependencies upon the US and Japan, in terms of markets, capital, and technology, among others. Third, there was a general feeling that East Asian states and firms had under-explored the commercial opportunities that EU regional integration presented, especially after the creation of the Single European Market. There were, of course, common motivations shared by East Asia and the EU for promoting ASEM. The new inter-regional diplomacy mechanism could potentially act to counter the excessive hegemonic behavior of the US, and both had an ultimate interest in fortifying the “weakest link” in the tripolar structure of relations for the balance it would bring to international relations in general. To many, ASEM was also an important exercise in international community building in more general terms by the inter-regional linkage it forged between two large and populous regions.

The main thrust of the ASEM process comes from its biennial summits, starting with the inaugural ASEM 1 held in Bangkok in March 1996. Subsequent summits were organized in London (ASEM 2, 1998), Seoul (ASEM 3, 2000), Copenhagen (ASEM 4, 2002), Hanoi (ASEM 5, 2004), Helsinki (ASEM 6, 2006), and Beijing (ASEM 7, 2008). Over time, ASEM’s membership has expanded to from its original 25 member countries to 43 members. This has been the result of the EU’s own expansion from 15 to 27 member states over the period and the accession of Cambodia, Lao PDR, Myanmar, India, Pakistan, and Mongolia, as well as the ASEAN Secretariat and European Commission, as formal members.<sup>29</sup> The enlargement of ASEM is conducted on the basis of consensus by its incumbent members’ heads of state or government. Australia and Russia will become new ASEM members at the ASEM 8 summit in October 2010.

## 4.2 Issue Coverage, Agenda Setting, and Instrumentalization

ASEM’s agenda is broadly determined by its three thematic pillars of co-operation: economic, political and socio-cultural. Hence, it has a similar policy scope as APT and EAS, but formally extends beyond the primary economic focus of APEC. However, as ASEM is essentially an informal dialogue process, its capacity to make substantive progress on co-operation is rather limited. Nevertheless, it has increasingly taken on a number of global issues, including

- (i) arms control, disarmament, and weapons of mass destruction;
- (ii) welfare of women and children;
- (iii) human resources development and education;
- (iv) inter-faith dialogues;
- (v) health;
- (vi) food security;
- (vii) energy security;
- (viii) environment and sustainable development;
- (ix) migratory flows;
- (x) transnational crime and counter-terrorism;
- (xi) globalization; and,
- (xii) human rights.

---

<sup>29</sup> With the addition of these two organisations, ASEM technically has 45 members.

At the ASEM-6 Summit held in Helsinki in 2006, ASEM partners stated their firmer commitment to tackle global issues and make more substantive contributions to global multilateral co-operation. ASEM works alongside organizations such as the United Nations, WTO, IMF, and World Bank, as well as other regional and inter-regional organizations (e.g., APEC and the Forum for East Asia–Latin America Cooperation) that aim to make similar contributions. In order to help operationalize ASEM's agenda and work programs, the Asia–Europe Co-operation Framework (AECF) was first introduced at the 1998 ASEM 2 summit and then revised in 2000. The AECF states that the ASEM process should

- (i) promote dialogue that leads to co-operation on the identification of priorities for concerted and supportive action;
- (ii) pursue actions and dialogues under ASEM's three pillars with equal impetus in fostering political dialogue, reinforcing economic co-operation, and promoting co-operation in socio-cultural areas;
- (iii) stimulate and facilitate progress in other fora, although it need not be institutionalized; and,
- (iv) encourage dialogue and co-operation between the business sectors and peoples of Asia and Europe.

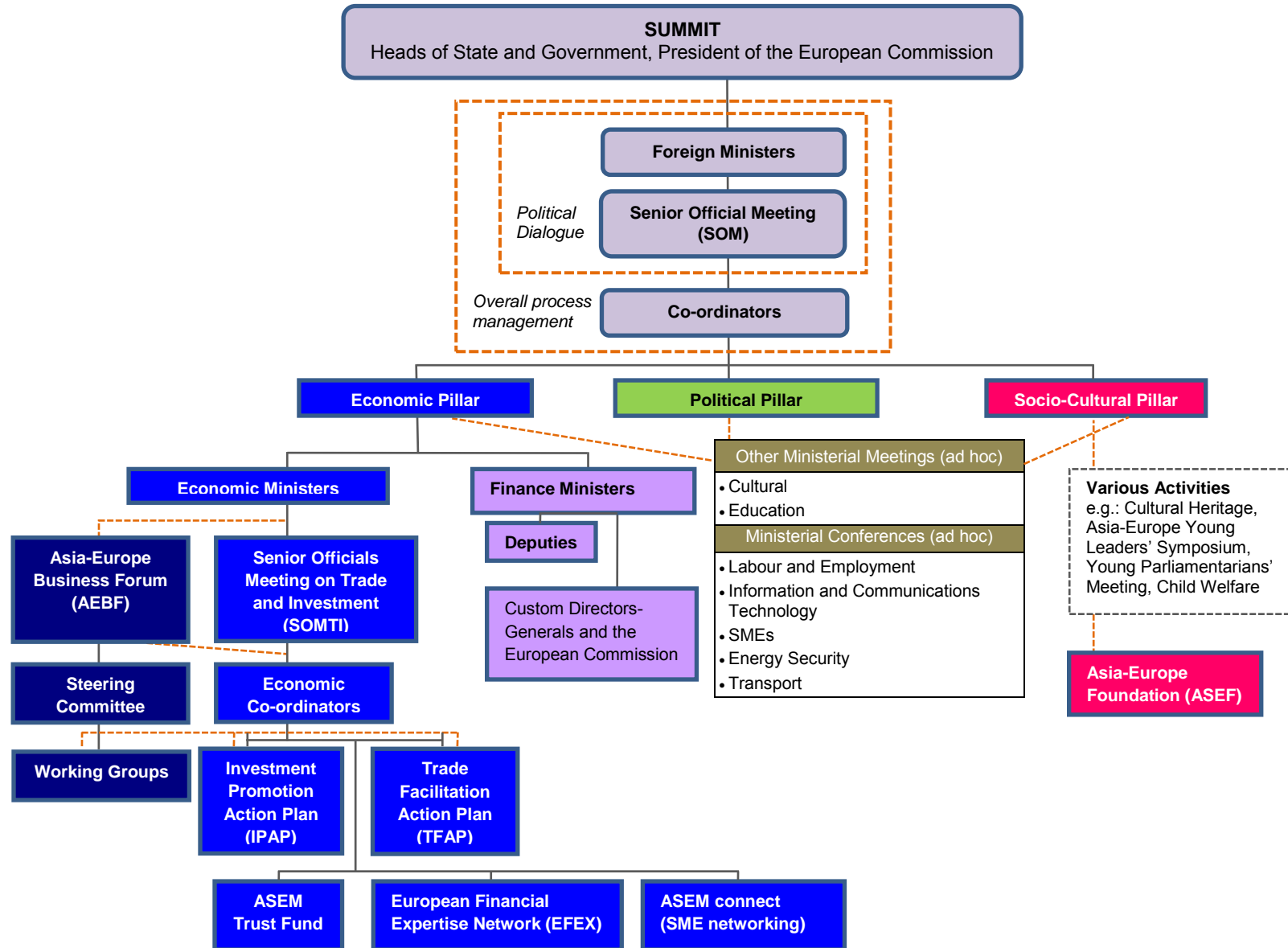
To date, ASEM has not launched any real grand-scale initiative or program on inter-regional co-operation or integration to capture the public's attention. It has maintained a relatively low level of institutionalized co-operation on certain technical programs. While the introduction of the AECF has established some basis for the underlying principles, objectives, and priorities of Asia–Europe inter-regional co-operation, ASEM lacks any rule-making capacity and generally possesses weak institutional capacity. While this remains the case, ASEM will continue to be an informal, consultative, and essentially non-binding process.

### **4.3 Organizational Structure and Institutional Processes**

To date, ASEM remains an informal process of multi-structured dialogue between a growing number of Asian states and the EU. The biennial summits represents the apex of ASEM's organizational structure, and Figure 3 illustrates the three pillars of ASEM that form the main sub-structural basis of the framework. The economic pillar is by far the most developed and substantive, given that economics forms the most significant lowest common denominator between the two regions. Establishing common positions and agreements on issues such as human rights has proved far more difficult.



**Figure 3: ASEM's Institutional Structure**



Source: European Commission with update amendments made by author.

There are Foreign, Economic, Financial, Cultural, Education, and Environment Ministerial Meetings that occur according to varying periods of regularity. Since 2006, a number of ASEM Ministerial Conferences have been held to discuss specific issues beyond regular ministerial meetings. Thus far, the following such conferences have been convened: Labor and Employment (September 2006), Information and Communications Technology (November/December 2006), SMEs (October 2007), Energy Security (June 2009), Transport (October 2009). These have served as *ad hoc* quasi-ministerial meetings, mirroring many of the new policy areas covered by APT, EAS, and APEC, suggesting that a cross-institutional learning process is taking place. Meetings at the ministerial level are similarly supported by those at a senior official level. The main Senior Officials Meeting (SOM) specifically supports the ASEM Foreign Ministers Meeting, while a Senior Officials Meeting on Trade and Investment (SOMTI) has operated since 1996 and reports to the ASEM Economic Ministers Meeting. Elsewhere, ASEM Officials Meetings are convened in the fields of finance and customs.

There is no ASEM Secretariat, as the foreign ministers and their senior officials perform the main co-ordinating role in the ASEM process. They are assisted by a rotating group of co-ordinators, or shepherds, with two countries from the Asian side and the EU Presidency and the European Commission representing the EU side. At the Helsinki 2006 summit, it was decided that an ASEM Virtual Secretariat would be created to operate as a closed intranet system to more effectively manage ASEM's agenda and work programs, as well as to enhance institutional memory within ASEM processes.

The Asia–Europe Foundation (ASEF) is ASEM's only formal institution. Based in Singapore with 45 staff,<sup>30</sup> its prime function is to promote and facilitate cultural, intellectual, and general people-to-people exchanges between Asia and Europe, and is a key socializing agent within the ASEM framework. ASEF's mandate is derived from the so-called Dublin Principles legal framework document, which was first established in December 1996 and last updated in October 2007 (ASEF 2007). ASEF (i) is financed through an operating fund and an endowment fund, (ii) has legal status as an incorporated company limited by guarantee under Singapore law, and (iii) is governed by a Board of Governors headed by alternating European and Asian chairpersons. Three ASEF Board meetings are held per year. Over the years, ASEM members have charged ASEF with developing a number of initiatives, including a dialogue program on Human Rights and Governance (from the 1<sup>st</sup> Foreign Ministers Meeting held in Singapore, 1997); an ASEM Education Hub (2<sup>nd</sup> ASEM summit, London 1998); a Culture360 (1<sup>st</sup> Cultures Ministers Meeting, Beijing 2003); and a Public Health Network Program (6<sup>th</sup> ASEM summit, Helsinki 2006). In return, ASEF makes a number of significant contributions to the ASEM process in terms of raising its public awareness through its various socialization programs and engaging with public media. The Foundation also channels the numerous policy recommendations arising out its social group activities to participants at ASEM's Senior Officials, Ministers, and Summit Meetings. One such recent example being the Connecting Civil Society initiative at ASEM-7 in Beijing in 2008, as well as the idea of creating an Education Ministers Meeting process and ASEM Inter-Faith Dialogue.

---

<sup>30</sup> Of these, 30 are permanent with staff coming from 17 countries.

The Asia–Europe Business Forum (AEBF) is a key element of ASEM’s organizational structure. AEBF was created at the inception of the summit process in 1996 and as with its equivalents in APT and APEC, it provides a forum for business dialogue, a mechanism for the business community’s views and recommendations to be channeled into the decision-making process, and a means for strengthening trade and investment relations amongst member countries. At the ASEM-3 summit in Seoul in 2000, the Trans-Eurasia Information Network (TEIN) was established to foster network linkages amongst the academic and research institute communities of Asia and Europe, thus promoting greater intellectual exchanges and collaborations between the two regions. An additional part of TEIN’s work is to expand and diversify speedier and more powerful inter-regional telecommunication connections.

The two main Working Groups of ASEM—both of which are positioned in its economic pillar—are the Trade Facilitation Action Plan (TFAP) and the Investment Promotion Action Plan (IPAP). The TFAP comprises trade officials and business representatives (mainly *via* the AEBF) that examine ways to promote mutual trade opportunities, while also considering bilateral and multilateral matters pertinent to Asia–Europe inter-regional relations. Thus far most its work has focused on industrial standards, testing, certification, accreditation and technical regulations, the mobility of business people, customs procedures, public procurement, intellectual property rights (IPR), quarantine, and sanitary/phyto-sanitary procedures. The IPAP meanwhile consists of public and private sector representatives to consider how to promote inter-regional FDI flows. Broad areas covered include investment policies and regulations, standards and certification, financial support, technology transfer and skills development, environmental issues. A third Working Group on Customs Co-operation undertakes work commissioned by the aforementioned ASEM Officials Meeting on customs matters, with particular attention given to simplifying and harmonizing customs procedures. All of these working groups were established in 1996 and their outcomes are overseen and reviewed by SOMTI. ASEM’s work is further augmented by a number of specific initiatives, including the ASEM Trust Fund (set up in 1998 to assist East Asia’s post-crisis restructuring), European Financial Expertise Network (established in 1998), ASEM Child Welfare, ASEM Connect (networking small firms from East Asia and the EU), and various seminars on literature, music, and the environment.

#### **4.4 Impacts and Key Issues for the Future**

The ASEM inter-regional framework was forged amid the emerging geopolitics of the post-Cold War period, when there was much debate on the global structural shift from bipolarity to tripolarity founded on the three dominant economic regions of East Asia, Europe, and North America. By cementing the inter-regional link between Europe and East Asia, ASEM was broadly seen as providing balance in this tripolar structure. As time has progressed, it has increasingly contributed to and focused on matters of global governance. In this sense, ASEM’s multilateral utility function has gradually strengthened (Dent 2004). However, as with other large regional-based arrangements involving East Asian countries (e.g., APEC, EAS), ASEM’s large number of member states means that it is difficult to conceive it producing any deep integrational agreements in the future as there are too many diverse national and societal interests to reconcile. This primarily explains why ASEM’s ambitions have remained to simply

expand its dialogue agenda and socialization mechanisms to cover an increasing number of global and inter-regional issues. In turn, this also explains why ASEM's institutional structure has been extended to manage new processes of dialogue, but not much beyond this since it was created in 1996.

The continued significance of Asia to Europe, and Europe to Asia, will mean that ASEM will continue to be valued as an important inter-regional dialogue process that deepens inter-regional understandings and occasionally yields some level of useful co-operation (e.g., ASEM Trust Fund). This value on these terms will increase the more that ASEM expands its membership, while at the same time being able to continue expanding effective dialogue processes. Yet, as with most such international dialogue frameworks, ASEM will also continue to attract criticism from some for emphasizing talk over substantive action on inter-regional co-operation. To counter this criticism, ASEM should further develop its multilateral utility potential by making increasingly valuable Asia–Europe contributions to the strengthening of global governance structures, and by more effectively addressing key global issues of the early 21<sup>st</sup> century.

## **5. Asia Pacific Economic Cooperation (APEC)**

### **5.1 Origins and Early Development**

As mentioned at the start of the paper, APEC arose from the culmination of Pacific regional community building endeavors that can be traced back to the 1960s. Its antecedent organizations—PAFTAD, PBEC, and PECC—laid the foundation for APEC's establishment in 1989 by sustaining various levels of trans-regional dialogue on strengthening economic and business ties within the Asia–Pacific. Japan and Australia were especially instrumental in this process as partner standard bearers of the Pacific community ideal. Although the US was showing more interest in Pacific community building ventures by the late 1970s and early 1980s, it still eschewed regionalism in strategic diplomacy terms, preferring instead multilateralism on the trade liberalization front through GATT negotiations in tandem with maintaining strong bilateral alliance relationships with key economic and security partners (Ravenhill 2001). The persistence of Cold War divisions during the 1980s meant that the PRC and other communist–socialist countries in East Asia (e.g., Viet Nam) were excluded from any Pacific regional community building process as led by the trans-region's capitalist states. Meanwhile, Korea and Taipei, China were still only newly industrializing economies in the close bilateral economic and security embrace of the US. Many East Asian nations were also highly circumspect of any Japan-led regional initiative given lingering memories of the country's aggressive imperialism exercised in the early 20<sup>th</sup> century.

Both Japan and the US had the problem of many other smaller states fearing that these two economic giants would dominate any trans-Pacific regional organization that emerged. With this in mind, it became politically more expedient for Australia to take a higher profile in new Pacific diplomacy initiatives relative to Japan. It was, therefore, Australia that officially proposed the creation of APEC in 1989, the inaugural ministerial meeting being held in Canberra in November of that year with significant financial and

technocratic support provided from Japan. By the late 1980s, various events and developments were conspiring to make other Asia–Pacific nations more interested in joining a Pacific regional organization. Ravenhill (2001) neatly summarized these as “a significant surge in US unilateralism, the agricultural trade war between Washington and Brussels, the conclusion of negotiations between the US and Canada to establish a free trade area, the move towards a single internal market in the European Community, and deadlock in the Uruguay Round of GATT talks.” In addition, the launch of APEC—the most substantial inter-governmental arrangement proposed at the time—was the culmination of 3 decades of discussions on how to better promote and organize closer regional economic relations in the Pacific (Garnaut 2000, Ravenhill 2002a).

At the inaugural Canberra Ministerial Meeting, the Australian Government’s proposal that APEC be modeled on the Organisation for Economic Co-operation and Development (OECD) was coolly received by East Asian member countries, most of which preferred a looser, less-institutionalized, consensus-building arrangement (Drysdale 1991, Garnaut 2000). It was this latter approach that prevailed in the organizational construction of APEC, and hence European-style, treaty-driven regional integration was also to be avoided. Rather, APEC would foster closer economic relations on a trans-regional scale through inter-governmental consultations and other non-binding mechanisms. East Asia’s developing economy members, in particular, had an obvious interest in APEC’s work on economic and technical co-operation (“ecotech”) programs. Japan also wanted the organization to have a substantive regional economic co-operation agenda, which it believed would complement the country’s own development aid strategy at work in East Asia. Some ASEAN countries were nevertheless concerned over APEC’s impact on Southeast Asian regionalist initiatives, especially AFTA. Subsequently, they agreed to participate subject to the “Three No’s”: APEC would (i) have *no* legal binding authority, (ii) have *no* negotiating rights, and (iii) pursue *no* regional agreements beyond those permitted under GATT and WTO trade rules.

There were 12 original member countries in attendance at the 1989 Canberra Ministerial Meeting: Japan, Korea, Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, the US, Canada, Australia, and New Zealand. It was Japan, rather than Australia, that insisted on the US being invited to the inaugural Canberra meeting. Japan’s motives lay in the desire to contain American unilateralism on trade affairs by incorporating the US in multilateral fora like APEC (Hayashi 2006, Krauss 2000). It was also a means of keeping the US engaged in the region as the Cold War appeared to be drawing to a close. At Canberra, attending foreign and economic ministers agreed that APEC’s basic objectives should be to promote regional economic growth and development, and uphold an open multilateral trading system. Thus, there would be no recourse to building a Pacific trade bloc, but rather to foster a constructive economic interdependence between members. Ministerial meetings were also to be held annually, while regular and intermediate SOMs would oversee and co-ordinate, with ministerial approval, APEC’s work in progress between Ministers Meetings. Key developments in the three subsequent APEC Ministerial Meetings were as follows:

- (i) **Second APEC Ministerial Meeting (Singapore, July 1990).** Seven Working Groups were created to enhance co-operation in trade promotion, technology transfer, human resource development, energy, telecommunications, marine resources, and the collection of regional economic data. Later on, three more Working Groups (transportation, tourism, and fisheries) were added to the framework.
- (ii) **Third APEC Ministerial Meeting (Seoul, November 1991).** The PRC; Hong Kong, China; and Taipei, China were admitted as new member economies. APEC's scope of activities and general objectives were further defined as the (a) exchange of information and consultation on policies relevant to common efforts to sustain growth, (b) adjustment and reduction of economic disparities, (c) development of strategies to reduce impediments to trade and investment, and (d) promotion of objectives specifically set within APEC's Working Groups.
- (iii) **Fourth APEC Ministerial Meeting (Bangkok, September 1992).** Participants agreed to establish a permanent APEC Secretariat, which was later implemented in January 1993 and based in Singapore. It was also decided to create an Eminent Persons Group (EPG) that would produce "future vision" reports on how APEC should progress, especially with respect to advancing regional trade liberalization.

Most observers agree that APEC made a reasonably solid start in its first four Ministerial Meetings (Garnaut 2000, Okamoto 2004, Ravenhill 2001, Ruland *et al* 2002). The profile of APEC was to be raised further still as a result of the more ambitious agenda that was set during the 1993/94 period of the organization's development. A number of critical factors converged to make the Fifth APEC Ministerial Meeting, convened in Seattle in November 1993, a landmark event. To start with, it was accompanied by the inaugural APEC Economic Leaders Meeting, held nearby at Blake Island that was the first of subsequent annually-held APEC summits to run parallel to the Ministerial Meeting process. Virtually all the member heads of state attended the first summit, helping raise APEC to a new level of politico– diplomatic significance. At both APEC meetings, the EPG's first report entitled *A Vision for APEC—Towards an Asia–Pacific Economic Community* was tabled for discussion. In the report, the EPG recommended that a program of trade and investment liberalization measures be collectively implemented by member economies (APEC 1993). This was a prelude for the more defined and ambitious EPG second report tabled at the following year's meetings. The first EPG report was accepted, but with reservations from many East Asian states who saw this as a departure from APEC's original aims of promoting informal economic co-operation rather than commercial liberalization. However, the US's strong advocacy for APEC to substantively adopt the latter as a key objective led to ambitious new targets being set at the following year's Ministerial Meeting and Leaders' Meeting hosted by Indonesia.

At the 1994 APEC summit in Bogor, Indonesia, leaders endorsed the proposals outlined in the EPG's second report for establishing free and open trade and investment within the Asia–Pacific by the two-stage deadlines of 2010 and 2020 (APEC 1994). Developed

member economies were to realize this objective by the former date, while the developing members were given until the latter. These became known as the Bogor Goals, which were named after the location of the Leaders' Meeting that year and were to be achieved in accordance with the principle of open regionalism. This implied that APEC members were to open up their economies in a unilateral and non-discriminatory manner, not just to each other but also to non-members, thus complying with the most favored nation (MFN) principles on which WTO liberalization was based. However, by late 2009 there was still no agreement or established understanding within APEC as to which member economies qualified as developed and which as developing, and thus which member economies were supposed to adhere for the 2010 target deadline as opposed to the 2020 deadline. No evaluation criteria had been established to judge whether developed member economies, which ever they may be, met the 2010 deadline target on trade and investment liberalization. By late 2009 there was also no clarification on whether a 1 January or 31 December date applied to the 2010 deadline. Although in the 2005 Bogor Goals Mid-Term Stocktake document (APEC 2005) Australia, Singapore, and Chile indicated their intentions to meet the 2010 deadline, APEC missed the opportunity provided by this stocktake to establish clarification on all of the above points. Given that the Bogor Goals have remained APEC's flagship project since their launch in 1994, it is highly problematic that these fundamental issues had not been resolved by the first deadline year of 2010.<sup>31</sup>

By the late 1990s, APEC's membership had grown to 21 economies from around the trans-region, with newer members including Russia, Peru, Chile, and Viet Nam. A moratorium was placed on membership expansion until the first Bogor Goal deadline of 2010. Prospective new members include Columbia, Ecuador, Mongolia, Lao PDR, Pakistan, Bangladesh, and India. It could be argued that the last five of these are ineligible for APEC membership as they lack both a Pacific coastline and any form or history of Pacific identity, even though they may be able to demonstrate close economic, socio-cultural, or political linkages with the Asia–Pacific trans-region core. This brings us back to the debate over variable geography. While membership eligibility criteria established in 1997 stated that prospective members must be located in the Asia–Pacific region, APEC has never defined this in any exact geographic terms.

## **5.2 Issue Coverage, Agenda Setting, and Instrumentalization**

### **5.2.1 The Primacy of Commercial Liberalization**

APEC's stated primary goal is to promote sustainable economic growth and prosperity in the Asia–Pacific. APEC aims to achieve this through "championing free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical co-operation, enhancing human security, and facilitating a favorable and sustainable business environment."<sup>32</sup> The organization's agenda is based on three broad areas or pillars: (i) trade and investment liberalization, (ii) business facilitation, and (iii) economic and technical co-operation (ecotech). As the organization's

<sup>31</sup> During a research interview in Singapore in September 2009, an APEC Secretariat official conceded that APEC has a credibility problem over this lack of clarity on implementing the Bogor Goals.

<sup>32</sup> Taken from the APEC website's ([http://www.apec.org/apec/about\\_apec/mission\\_statement.html](http://www.apec.org/apec/about_apec/mission_statement.html)).

principal objective is to realize free trade and investment in the Asia–Pacific by the split deadlines of 2010 and 2020, work areas (ii) and (iii) are ultimately subordinated to the aims of trade and investment (i.e., commercial) liberalization. Moreover, the proclaimed benefits that APEC is supposed to bring to its member economies are stated in terms of those normally associated with free trade, including cheaper products, wider consumer choice, and economic efficiency.

Although the Bogor Goals on trade and investment liberalization have remained the organization’s flagship project, from the very beginning there were apparent differences of opinion between East Asian countries on the one side and Anglo–Pacific countries on the other regarding APEC’s *modus operandi* of implementing the Bogor Goals. Firstly, considerable ambiguity existed over the exact meaning of open regionalism. After the dissolution of the EPG that he once chaired, Fred Bergsten (1996) argued that non-discriminatory free trade was neither practical nor desirable because it conferred APEC with no leverage in global trade negotiations. Bergsten (1994) had even earlier argued that pursuing a “temporary conditional” MFN approach, whereby APEC applies pressure to secure reciprocal tariff concessions from non-APEC trading partners, would serve as a solution to this problem. The specific reciprocity terms and modalities that Bergsten was advocating would also require APEC members to agree to more definitive commitments on implementing trade and investment liberalization. Ravenhill (2001) notes that East Asian countries were already arguing the counter-case for greater flexibility to apply, both in terms of what was implied by trade and investment liberalization, and the means by which it was to be realized. For example, many ASEAN member states believed that AFTA’s targets of reducing tariff rates to the 0%–5% range should be the benchmark for meeting their Bogor Goal objectives. At the ASEAN Economic Ministers Meeting held in Chiang Mai in September 1994, the general consensus was that the EPG’s second report recommendations on trade liberalization were too specific.

In the lead up to the 1995 Osaka APEC Summit, most East Asian members had become increasingly wary of the EPG’s advocacy of commercial liberalization becoming the core of APEC’s agenda. Many of the recommendations made in the EPG’s third and final report (APEC 1995a), such as on anti-dumping policies, were rejected largely due to opposition expressed by East Asian members. Nevertheless, it was agreed that trade and investment liberalization was to progress by each APEC member state preparing their own individual action plans (IAPs) on meeting Bogor Goal objectives. This was the core basis of the Osaka Action Plan (APEC 1995b). First, draft IAPs were to be submitted at the following year’s summit in Manila and implemented from the beginning of 1997.

Each IAP covers 15 issue areas,<sup>33</sup> with a principal emphasis on trade and investment (i.e., commercial) liberalization. Member economies were obliged to submit these IAPs on an annual basis. Every few years, a member’s IAP is peer reviewed by a panel of experts from other member economies. Although there were agreed-upon guidelines on

---

<sup>33</sup> Tariffs, non-tariff measures, services, investment, standards and conformance, customs procedures, intellectual property, competition policy, government procurement, deregulation–regulatory review, WTO obligations (including rules of origin), dispute mediation, mobility of business people, and information gathering and analysis.



the formulation of IAPs, these were very general and it was left up to each member state to determine the programmatic content of their plans. Moreover, the actions laid out in IAPs are undertaken in a voluntary and non-binding basis. The IAPs were to run in parallel with a series of collective action plans on commercial liberalization that together formed the basis of the overarching Manila Action Plan (MAPA), which consisted of six main areas of work: (i) greater market access in goods, (ii) enhanced market access in services, (iii) an open investment regime, (iv) reduced business costs, (v) an open and efficient infrastructure sector, and (vi) strengthened economic and technical co-operation. Many East Asian states were unhappy with the fact that ecotech appeared to be bolted on at the end of this list.

### 5.2.2 From IAPs to Early Voluntary Sectoral Liberalization (EVSL)

The IAP process was APEC's first *modus operandi* on trade liberalization, often referred to as concerted unilateral liberalization. However, in practice many East Asian member states had dragged their feet on either initiating their IAP commitments or incorporating substantive liberalization measures and targets in their plans (Soesastro 1999). Furthermore, Petri (1997) observed that the IAPs were generally speaking "vague on overall goals and short on specifics." Meanwhile, East Asian countries were pressing for a higher priority to be afforded to APEC's ecotech agenda. Some success was achieved here. The number of ecotech initiatives was growing and at the Osaka Summit it was agreed that ecotech should be conferred equal status with trade and investment liberalization. However, the actual substance of ecotech initiatives remained thin and in reality commercial liberalization continued to dominate the APEC agenda (Ravenhill 2001).

With slow progress being made on the IAP front, APEC's most ardent pro-liberalizing member states supported a new initiative tabled by the US at the 1997 APEC Summit held in Vancouver. This was the early voluntary sectoral liberalization (EVSL) scheme in which 15 specific industry sectors were targeted for accelerated, or fast track, liberalization that would, it was hoped, catalyze a broader trade liberalization process. Member governments were asked beforehand at the May 1997 APEC Trade Ministers Meeting to nominate sectors they wished to be included in the scheme, which was to also comprise various facilitation and ecotech measures. In some sectors (e.g., telecoms and automotive), emphasis was placed on the mutual recognition of standards rather than eliminating tariffs.

Of the 15 chosen sectors, nine were conferred high priority and placed in the first tier (chemicals, rubbers, and plastics; energy; environmental goods and services; forestry products; fisheries; gems and jewellery; medical equipment and instruments; telecoms; and toys), and the other seven (automotive, civil aircraft, fertilizers, food, natural and synthetic rubber, oilseeds and oilseed products) in the second tier. Essentially, first tier sectors were to liberalize at a more accelerated pace than second tier sectors. However, the EVSL was beset with disagreements arising over the perceived nature of the scheme and how it was to be operationalized. This especially related to interpretations of its voluntary aspect. For Anglo-Pacific member governments in particular, this implied that APEC members had voluntarily nominated sectors and had voluntarily decided to support the scheme as a whole. Some member governments, especially those from East

Asia, were of the understanding that the “V” in EVSL implied there was scope for concentrating on certain sectors or sector-specific elements (e.g., ecotech over liberalization) rather than others, or in how and when the scheme’s targets were to be realized.

It had become clear by the June 1998 APEC Trade Ministers Meeting hosted by Malaysia in Kuching that the planned official launch of the EVSL at the Kuala Lumpur summit later the year was going to be problematic. The Japanese government was refusing to accept the EVSL as a complete package, insisting upon an opt-out from liberalizing its fisheries and forestry sector. Agriculture was an extremely sensitive area in Japan’s domestic political economy, and the country’s trade negotiators enjoyed strong public and lobby group support back home on this matter. Japan came under considerable pressure from the US and other pro-liberalization member governments, but Tokyo refused to yield. Other East Asian member states—most notably the PRC; Korea; and Taipei, China—tacitly supported Japan’s veto, as agricultural trade liberalization was a politically sensitive issue for them also (Krauss 2004, Rapkin 2001, Ravenhill 2001). At the 1998 APEC Summit in Kuala Lumpur, Indonesia, Malaysia, and Thailand also chose not to support the EVSL scheme. Unable to broker a resolution within APEC, the matter was referred to the WTO for possible inclusion in the then-named New Millennium Round agenda for global trade talks, due to be launched at the WTO’s Seattle Ministerial Meeting in December 1999. As a result of largely East Asian opposition, this second APEC strategy of advancing towards the Bogor Goals had also failed. Furthermore, there was mounting frustration amongst East Asian countries concerning APEC’s failure as an organization to address the fallout from the region’s 1997/98 financial crisis (Okamoto 2004, Ruland *et al.* 2002).

### 5.2.3 The New FTA Challenge

After the EVSL debacle, APEC struggled to make substantive progress on advancing its own commercial liberalization agenda. At the September 1999 APEC Summit in Auckland, New Zealand, the host government tried in vain to salvage something from the EVSL package. By this time, a number of APEC members (mostly East Asian) had begun to initiate bilateral FTA projects with each other for the first time. The first wave of bilateral projects (Korea–Chile, Japan–Korea, Thailand–Korea) had been formally launched in November 1998, either at or around the same time of the previous year’s Kuala Lumpur summit (Dent 2006). A further four bilaterals were officially proposed at the Auckland 1999 summit (Singapore–New Zealand, Mexico–Singapore, Japan–Singapore, Japan–Mexico) and two other projects (Korea–New Zealand, Japan–Chile) were initiated throughout that year. This was the start of a rapid expansion of bilateral FTA activity in the Asia–Pacific. From 1997 to 2003, the number of initiated FTA projects in the trans-region had risen from 12 to 49. By the end of this period, no new post-EVSL trade liberalization initiative had been proposed at APEC summits and the IAP scheme continued to operate in the same generally ineffective manner. Member governments were content in this period simply to make vague pledges in APEC summit declarations “to continue and accelerate” movement towards the Bogor Goals, as was specifically stated at the 2002 APEC Los Cabos Summit declaration.

New initiatives on business facilitation and ecotech did little to provide APEC with new impetus. At the 2001 summit, the Shanghai Goal on Trade Facilitation was launched with its aim of reducing trade transaction costs by 5% by 2006 (APEC 2002). This was followed in 2004 by a similar trade-facilitating program, the Santiago Initiative for Expanded Trade, whereby APEC member states committed themselves to reduce business transaction costs “by cutting red tape, embracing automation, harmonizing standards, and eliminating unnecessary barriers to trade.”<sup>34</sup> The very generalized objectives of this program were typical of the non-specific, lowest common denominator approach that by this time had become the APEC norm for its new trans-regional initiatives. Furthermore, both the 2001 Shanghai plan and the 2004 Santiago initiative had no established baseline on the starting trade facilitation position of APEC member economies and no definitions of what was meant by trade facilitation or business transaction costs.<sup>35</sup> This relates to one of APEC’s main problems, namely that of disaggregation. That is, to what extent can APEC itself claim to have contributed to the commercial liberalization and facilitation efforts made by Asia–Pacific economies over the last 20 years? The disaggregation problem is discussed later in this section on APEC.

Countries such as the US and Australia that had been amongst the most proactive member states in APEC during the 1990s were gradually downgrading their view of the organization’s importance during the early 2000s (Beeson 2006, Dent 2008a). The US new preoccupation with the “war on terror” after the 11 September 2001 terrorist attacks switched its geopolitical attention to the Middle East and Central Asia. East Asian member states were meanwhile busy constructing new regional frameworks of co-operation through the APT arrangement. Like other APEC members, East Asian member states were further developing their FTA policies in this period.

It was at the 2002 APEC Summit held in Los Cabos, Mexico that Asia–Pacific leaders first officially acknowledged that APEC needed to more effectively address the impact of proliferating bilateral FTAs. The 2002 Leader’s Declaration expressed some concern over the variance of trade rules generated by these bilateral agreements and the need to establish some consistency between them. More specifically, the 2002 Leader’s Declaration called for “an exchange of views in APEC on regional and bilateral trade agreements, noting that these agreements need to be consistent with WTO rules and disciplines and APEC’s goals and principles.”<sup>36</sup> The following year, PECC’s Trade Forum section was commissioned to propose a code for FTA best practices, with their recommendations (PECC 2003) being forwarded to the 2004 APEC Ministerial Meeting where they were duly endorsed (APEC 2004). However, there were notable inconsistencies between most key areas of FTA best practices being proposed on the one hand and what kind of FTAs had been or were being negotiated on the other. For example, many FTAs concluded within the Asia–Pacific did not have comprehensive sectoral coverage as a number of FTAs exempted various agricultural and industrial sectors from the agreement. Many agreements also did not have simple rules of origin,

---

<sup>34</sup> Leader’s Declaration of the 2004 APEC Economic Leaders Summit.

<sup>35</sup> Research interview with APEC Secretariat official, Singapore, September 2009.

<sup>36</sup> Leader’s Declaration of the 2002 APEC Economic Leaders Summit.

but rather had complex sets of product-specific rules of origin that often took up hundreds of pages in the FTA text. A number of other agreements omitted accession clauses that would allow third parties to sign the agreement at some later date. Many also did not incorporate co-operation provisions in the text.

Furthermore, the best practice guidelines did not clarify exactly how FTAs were to achieve the overarching objective of being consistent with APEC principles and goals, meaning *inter alia* the realization of the Bogor Goals. Taking one technical policy example to illustrate the point, many FTAs that had been signed amongst APEC member economies carried very long tariff liberalization phase-in schedules that actually extended beyond the Bogor Goals' 2010/2020 deadlines.

At the same time the best FTA practice guidelines were being considered at the 2004 APEC Summit held in Santiago, a proposal originating from the APEC Business Advisory Council (ABAC) was tabled to create a Free Trade Area of the Asia-Pacific (FTAAP). This was essentially a revival of the old PAFTA idea, and hence could be conceived as bringing the whole Pacific regional community building project back to its original starting point. The FTAAP proposal was supported by a number of member economies, including Chile, Canada, Australia, New Zealand, the US, as well as Singapore and Taipei, China.<sup>37</sup> As it transpired, opposition from mostly East Asian countries (especially the PRC, Japan, Malaysia, and Indonesia) scuppered the FTAAP proposal at the 2004 APEC Summit, with the opposing countries again noting their preference for APEC to confer greater priority to its ecotech agenda. At the following 2005 APEC Summit convened in Busan, Korea, a mid-term review on progress towards the Bogor Goals was considered (but proposed no new substantive measures on how to realize the 2010/2020 commercial liberalization objectives) and the Leaders Declaration called for "the development of model measures for as many commonly accepted FTA chapters as possible by 2008."<sup>38</sup> The idea of creating an FTAAP re-emerged at the 2006 APEC Summit at Hanoi, this time being advocated by the US. Washington was concerned that East Asia was looking to develop its own regional FTA—the CEPEA—as had been earlier proposed by Japan in both April and August of that year. Additionally, the US hinted that the FTAAP could be a fall-back plan if the WTO Doha Round of global trade negotiations collapsed. Other pro-liberalizing member states of APEC also prescribed to this view, as did many ABAC representatives.<sup>39</sup> This coalition also saw the FTAAP initiative as a means to revive APEC's commercial liberalization program, especially keeping in mind the Bogor Goals' 2010 developed country deadline was fast approaching.

---

<sup>37</sup> Singapore has long been a strong advocate of trade liberalization owing to the core entrepôt function of its economy. Taipei, China's motives for supporting the FTAAP were more geopolitical as the trans-regional FTA would help circumvent the significant politic-diplomatic difficulties Taipei, China faced in developing its bilateral FTA policy because of its contested sovereignty predicament.

<sup>38</sup> APEC 2005 Leaders Declaration, or Busan Declaration. 18-19 November 2005.

<sup>39</sup> For example, Australia's ABAC representative Peter Charlton stated that "although the best position is to have a successful outcome to the WTO negotiations, the primary position is that if everything else fails and the WTO fails on the Doha Round, then the FTAAP is the secondary choice." (*Business Times*. 14 November 2006).

The main motive for the ABAC's support of the FTAAP was its potential to rationalize the trans-region's "complete chaos" of bilateral and sub-regional FTAs into one harmonized Asia-Pacific agreement.<sup>40</sup> However, as in 2004 when the FTAAP was first proposed, a number of East Asian countries were opposed to the idea, most notably the PRC, Japan, Thailand, Indonesia, Malaysia, and the Philippines. Japan stated its preference for its earlier proposed CEPEA, while the PRC was pushing an alternative APT-based East Asia Free Trade Agreement (EAFTA). Thailand's Director General of the Trade Negotiations, Chutima Bunyapraphasara, expressed the view that the FTAAP was both "unnecessary and impractical" owing to the diversity that existed amongst APEC member economies, and moreover that the initiative "was against APEC's original objective of voluntary economic co-operation."<sup>41</sup> At the 2006 APEC Summit, the Philippines Trade Secretary Peter Favila stated his government's position that "an FTAAP at this point will only distract us from the more important goal of restarting and concluding the [Doha Development Agenda] negotiations."<sup>42</sup>

As a compromise, it was agreed at the APEC 2006 Summit in Hanoi that an extensive feasibility study be undertaken on an FTAAP as a long-term prospect. A number of East Asian countries insisted that the 2006 Leaders Declaration include the following language: "We also reiterated the non-binding and voluntary nature of the model measures, bearing in mind that they will not prejudice the positions of APEC members in their existing and future RTAs/FTAs negotiations." As a senior Thai official, Virachai Plasai, commented at the time, "APEC is not a negotiating forum. It is designed for co-operation that is non-binding."<sup>43</sup>

Certainly the earlier IAP and EVSL episodes had demonstrated APEC's limitations in brokering new trade deals. As Yamazawa *et al.* (2000) contended that "with its diverse membership of developed and developing economies, APEC cannot function like the EU or other legally and institutional binding arrangements." Moreover, according to PECC's international chairman, Charles Morrison, "even before [FTAAP] negotiations could begin, they would require major and controversial changes in APEC's social contract."<sup>44</sup> Some discussion was held at the 2007 Summit at Sydney on reassessing APEC's organizational capacities and operational principles, including the possible enhancing of its Singapore-based Secretariat. However, many East Asian countries have remained opposed—as they have from the start—to conferring too much independence or any executive policy-making powers to APEC as an organizational entity.

#### 5.2.4 Problems of Balance in the APEC Agenda

The continued strong East Asian support for APEC's ecotech programs is due to its emphasis on development capacity building and development co-operation. Many have argued that given the development diversity within APEC's membership, far more action

---

<sup>40</sup> *Washington Post*. 20 November 2006.

<sup>41</sup> *Bangkok Post*. 10 November 2006.

<sup>42</sup> *Washington Post*. 20 November 2006.

<sup>43</sup> *Associated Press*. 14 November 2006.

<sup>44</sup> *Agence France-Presse*. 11 November 2006.

was required to assist lesser developed countries with their capacity building efforts, as best served by ecotech measures. Moreover, richer member states doing more to directly foster the development of weaker member states would better enhance the sense of regional solidarity within APEC compared to commercial liberalization. East Asian countries have also pushed for greater integration between APEC's ecotech and commercial liberalization programs, arguing that it would take more account of developing members' need for stronger institutional infrastructure and regulatory capacities to better equip them when meeting the competitive challenges posed by liberalization (Berger and Beeson 2005, Elek and Soesastro 2000). The US, though, has generally insisted on keeping these two programmatic strands of APEC separate. Nesadurai (2006) remarks how this typified the differences of approach that existed within APEC's membership concerning the state–market relationship, and therein how economies should be governed. East Asian members were generally more interested in APEC's developmental programs, while Anglo–Pacific members used the organization as a vehicle for market-liberal advocacy.

Although a large number of ecotech projects have been initiated—covering areas such as human capital, infrastructure development, new technology development, sustainable development, and small- and medium-sized (SME) growth—the whole ecotech framework has suffered from “a general lack of co-ordination and setting of priorities” (Ravenhill 2001), leading to an ineffective impact. Many projects were neither goal-oriented with explicit objectives or performance criteria to be matched, nor were they subject to rigorous external assessment of their outcomes. Ecotech programs have also suffered from under-funding. Up until the year 2000, the total annual budget for these programs never exceeded US\$2 million, and this situation has improved little since then.<sup>45</sup> In total, more than 1,200 ecotech projects had been initiated by 2008. In that same year, 212 projects were in operation worth a combined total of US\$13.5 million for an average of a mere US\$64,000 per project.

Like APT, though, APEC has broadened its agenda and operational ability to address a wider range of new regional issues, such as energy security and food security. Regarding the former, APEC's co-operation in this field has centered on its Energy Security Initiative (ESI), which was established in 2001 and developed out of the organization's Energy Working Group, consisting of various short-term measures to respond to temporary energy supply disruptions (e.g., oil price volatility, occasional security threats to sea-lanes supply routes), as well as longer-term policy measures aimed at addressing challenges concerning the region's energy supply security, such as technology and infrastructure co-operation. The following section details the now considerable breadth of APEC's coverage of trans-regional affairs in the Asia–Pacific. Compared with its response to the 1997/98 East Asian financial crisis, APEC has arguably taken the recent 2008/09 global financial crisis more seriously as virtually all of its membership, rather than just its East Asian contingent, has been severely affected. The 2008 and 2009 Finance Ministers Meetings put forward a number of initiatives to address the crisis, but these have been relatively low-level responses (e.g., seminars,

---

<sup>45</sup> Although the Japanese government continues to provide some generic funding for APEC's trade and investment facilitation projects, ecotech programs are usually funded by individual member states that have a strong interest in supporting particular projects.

workshops, small-scale capacity building programs) given the magnitude of the crisis events and impacts.

In light of the problems APEC has faced on commercial liberalization, its more market-liberal member economies have increasingly pushed structural reform onto the organization's agenda since the mid-2000s as an alternative path to opening up the trans-region's economies. This has mainly involved addressing issues of commercial regulation and is indicative of the diminishing importance of tariffs as barriers to trade. Commercial regulation primarily refers to competition policy, government procurement, intellectual property rights, investment rights, and rules of origin, these being policy areas where the most significant behind-the-border impediments to commercial liberalization exist. These areas have also become increasingly prominent areas of FTA negotiation and increasingly relevant to realizing the Bogor Goals.

### 5.3 Organizational Structure and Institutional Processes

Of all the institutions examined in this paper, APEC has the most developed and extensive organizational structure and institutionalized processes. However, this does not mean that it has produced the most effective mechanisms or instruments for advancing regional co-operation and integration in East Asia and the Asia–Pacific. The experience of APEC demonstrates that it can be very difficult to make substantive progress in this respect when there are so many diverse national interests to reconcile amongst a large number of member states or economies. Indeed, this was recognized in the APEC Ministerial Statement on Membership published at the November 1997 Foreign and Trade Ministerial Meeting held in Vancouver, which stated: “While APEC has not set a permanent ceiling on the number of members, it will remain limited in size both on account of its Asia–Pacific regional character and because of the need for the group to remain manageable and effective.” With this in mind, Asia–Pacific leaders agreed in the 1997 Statement to consider the admission of any new members in accordance to the following criteria:

- (i) be located in the Asia–Pacific region (although the 1997 Statement does not define the geographic boundaries or other basis of the region);
- (ii) have substantial and broad-based economic links with existing APEC members;
- (iii) be pursuing externally-oriented, market-driven economic policies;
- (iv) accept the existing basic objectives and principles of various APEC declarations; and
- (v) be able to produce IAPs and participate in the CAP process.

There are three observer members of APEC, all of which are regional organizations: PECC, ASEAN, and the Pacific Island Forum (PIF). In addition, there are a number of guest members, normally governments or international organizations, which participate in various APEC groups and initiatives (e.g., the Energy Business Network) on a needs-based basis. The high-level organizational structure of APEC is quite similar to APT's, with annual summit meetings (officially between Economic Leaders to accommodate Hong Kong, China and Taipei, China's diplomatic status), ministerial meetings, and senior officials meetings. As a regional organization rather than a regional framework,

APEC has a stronger corporate identity and institutional foundation. Its Secretariat is based in Singapore, with a staff of 64 personnel,<sup>46</sup> and is the organization's main co-ordinating and information management agency. Its legal status is that of an international organization based in Singapore that has no executive powers or any rule-making mechanisms as APEC essentially works on a non-binding basis where member economy peer pressure is the strongest force of influence with regard to complying with APEC objectives.

Figure 4 outlines the main elements of APEC's institutional structure. As Economic Leaders summits were only convened from 1993, APEC co-operation was initially a ministerial- and senior-official-driven process. The Ministerial Meeting element was substantially enhanced after 1993, with a number of new meeting arrangements (Finance, Trade, SMEs, Environment, Telecommunications and Information Technology, Transportation) introduced soon thereafter. The policy areas covered by APEC's SOMs closely mirror those of the associated Ministerial Meeting process. Four SOMs are held a year and they are a driving force behind the APEC process, consisting of representatives from the Economic and Foreign ministries of member economies. All groups below the SOM level report directly to these SOMs. In addition, there are *ad hoc* meetings between senior officials (but not formal SOMs) on various sector-specific issues. Furthermore, there exists a close similarity between the SOM and Ministerial Meeting policy areas covered by APEC and APT, although the latter has a deeper level of sub-SOM governmental meetings (e.g., at the director general level) in its organizational structure. This is perhaps due to APT being more of a government official driven process compared with APEC, owing to the greater influence that government bureaucrats have over the policy-making process in East Asian countries compared with Anglo-Pacific countries, where politicians and civil society have more influence.

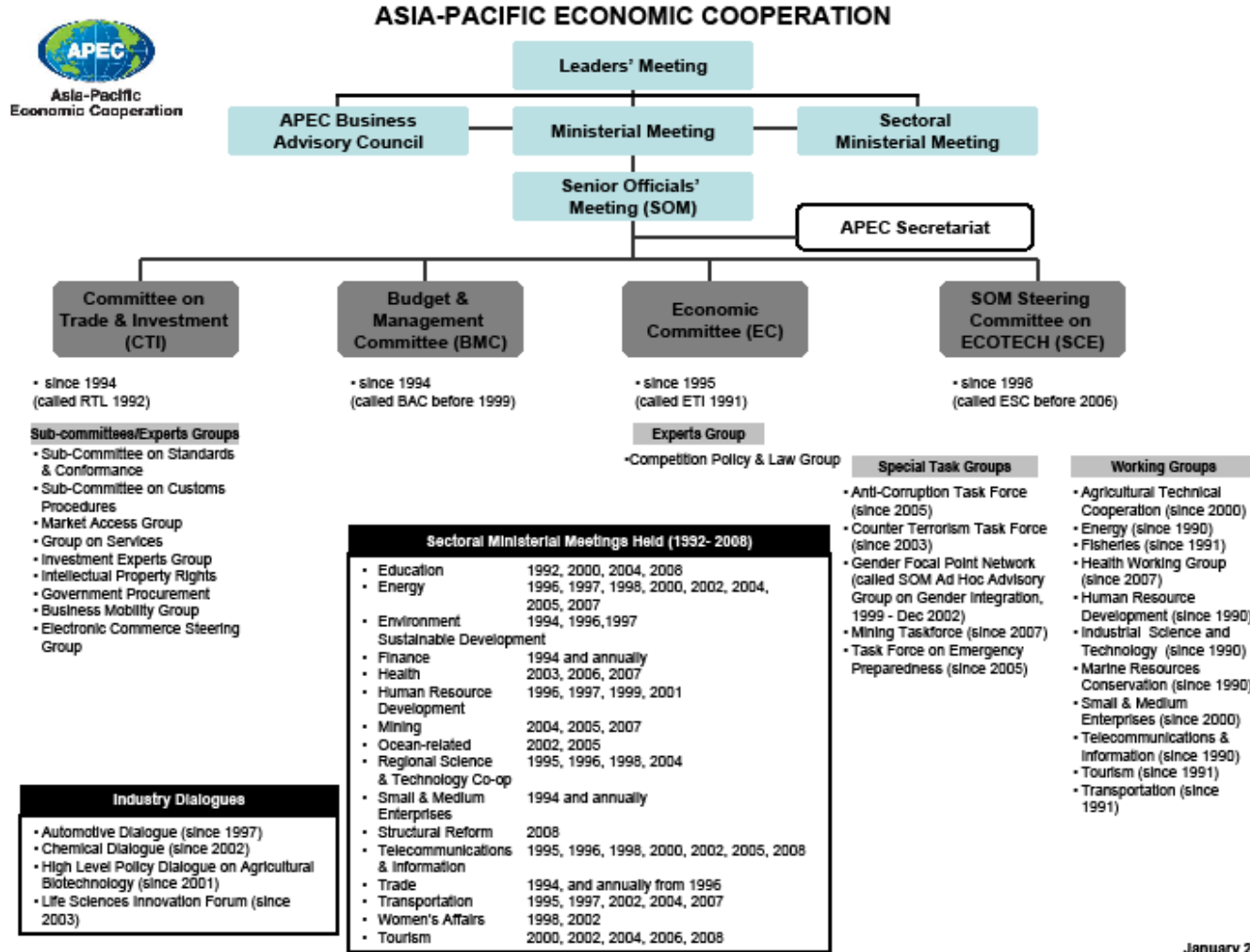
At the policy level, APEC's general direction is driven by the Economic Leaders meetings although this, in turn, is influenced primarily by SOM and Ministerial Meeting processes. Policy decisions and initiatives are additionally influenced by ideas from the APEC Business Advisory Council (ABAC), a representative from which attends relevant Ministerial Meetings. The annual Economic Leaders' Declarations outline the general policy priorities for APEC over the course of the year until the next summit meeting. At the working level, various SOM meetings—each normally held three or four times a year—play a key role in helping organize APEC's work programs, giving guidance to APEC Committees, Working Groups, and Task Forces, and developing recommendations for the Ministerial Meeting and Economic Leaders' Meeting. The Committee on Trade and Investment (CTI) is primarily responsible for co-ordinating APEC's work on trade and investment liberalization and business facilitation. Meanwhile, the SOM Committee on Ecotech (SCE) assists the SOM in co-ordinating and managing the organization's ecotech agenda, and identifies potential areas for economic and technical co-operation amongst APEC member economies.

---

<sup>46</sup> October 2009 figure, comprising 25 seconded professionals, 29 administrative support staff, and 10 staff in APEC's Policy Support Unit.



Figure 4: APEC's Institutional Structure



January 2009

Source: APEC Secretariat.

On budgetary and project funding matters, the Budget and Management Committee (BMC) advises the SOM on budgetary, administrative, and managerial issues, as well as monitors and evaluates the project outcomes of work undertaken by APEC's Committees and Working Groups. In addition, it makes recommendations to the SOM process on how to improve APEC's operational efficiency and effectiveness. Member economies make annual contributions to APEC's budget and also make *ad hoc* financial contributions to various projects that interest them, as noted earlier regarding ecotech initiatives. The organization has three funding schemes that finance various types of project-based work. The first is APEC's Operational Account (AOA) that funds projects in support of its ecotech agenda. The AOA derives from a share of members' contributions to the organization based on what one research interviewee from the APEC Secretariat referred to as an "esoteric formula."<sup>47</sup> In 2009 there was a 30% increase in the AOA budget, but the annual amount is still only a mere US\$2 million. The second funding scheme is the Trade and Investment Liberalization and Facilitation Special Account, which was devised to accommodate contributions that members wished to make in funding co-operative project initiatives in this aspect of APEC's work. The Trade and Investment Liberalization and Facilitation Special Account is run by the CTI and has been solely funded by Japan from its inception in the late 1990s. It works on an annual budget of US\$8 million and is weighted more towards funding trade and investment facilitation schemes. Finally, the APEC Support Fund began with an initial contribution from Australia, had an annual budget of US\$9.4 million in 2009, and helps provide financial assistance to capacity building programs for developing member economies, particularly for engaging in the organization's work programs, such as structural reform. Overall, the three funds are relatively small, amounting to just a few million US dollars, and therefore their impact of the projects they finance is quite limited.

The Economic Committee has existed for a number of years but has been most recently been charged with overseeing APEC's structural reform agenda through policy analysis and action-oriented tasks. The parameters of the Economic Committee's work is broadly determined by the Leaders' Agenda to Implement Structural Reform (LAISR), an ambitious work program that extends just beyond commercial regulatory matters and covers five stated areas of structural reform: (i) regulatory reform, (ii) competition policy, (iii) public sector governance, (iv) corporate governance, and (v) strengthening economic and legal infrastructure. The LAISR was launched in 2004 with target objectives set for 2010. A Good Practice Guide on Regulatory Reform has been produced to help members design and improve their regulatory frameworks. The first Structural Reform Ministerial Meeting was held in August 2008 at Melbourne and called upon APEC to extend the LAISR beyond 2010. The Economic Committee's 2008 APEC Economic Policy Report (AEPR) emphasized the importance of a strong competition policy in generating positive welfare outcomes. Its 2009 AEPR focused on the theme of regulatory reform. The Economic Committee's expert group on Competition Policy and Law has also produced a database on competition policy legislation across the APEC membership area and organized training courses and conferences, and the Economic Committee has organized a number of other workshops and seminars on structural reform issues. The Economic Committee and the CTI worked closely together, for

---

<sup>47</sup> Research interview with APEC Secretariat official, Singapore, September 2009. According to this research interviewee, this esoteric formula has been a bone of contention for a number of years.

instance, introducing the Supply Chain Connectivity Initiative on trade logistics, which arose out of the Joint EC–CTI Trade Policy Dialogue on Trade Logistics that took place in February 2009. The work of APEC’s Economic Committee is underpinned by Working Groups and Special Task Groups:

- (i) **Working Groups.** There are currently 11 of these sector-specific groups that specialize in various aspects of APEC’s agenda (Figure 4), most of which were established in 1990 and 1991.
- (ii) **Special Task Groups.** These groups have arisen in response to new key issues in APEC’s agenda over time, such as Counter Terrorism (2003) and Emergency Preparedness (2005). These groups, in effect, help fill gaps in APEC’s work program by addressing new topical and relevant challenges facing member economies.

The main purpose of the ABAC is to incorporate the views and perspectives of the business community into APEC decision-making processes. It meets four times a year and comprises up to three senior business representatives from each member economy and various sectors of the business community, including the SME sector. Recent themes of action have included the championing of regional economic integration, addressing protectionist measures, urging governments to conclude the WTO Doha Round, and supporting G20 commitments to countering the global financial crisis. In addition to the ABAC, annual APEC CEO Summits have been convened since 1996 to bring together high-level business executives to participate in the Leaders’ Meeting process, thus providing the opportunity for political and business leaders to exchange views on the state of Asia–Pacific’s regional economic and business affairs. A number of industry sector dialogues have also been created, such as the APEC Automotive Dialogue and the APEC Chemical Dialogue. There are apparently no plans to introduce a parallel summit arrangement for NGO leaders from APEC’s membership as many East Asian countries are not comfortable with such an idea.<sup>48</sup>

Stakeholder participation amongst the research and academic community is mainly organized around APEC Study Centers (ASCs) that were established from 1993 onwards and which seek to actively engage academics and research institute staff in intellectual exchanges and analysis on regional economic affairs affecting the Asia–Pacific. There are currently ASCs in 20 member economies that involve around 100 universities and research institutes from the trans-region. A more recent addition to the organizational structure is the APEC Policy Support Unit (PSU), established in 2008 as a result of a decision taken at the Sydney 2007 APEC Ministerial Meeting. The main purpose of the PSU is to provide analytical, research, and evaluation capacity on policy matters, as well as playing a co-ordinating role on ecotech issues. It also undertakes research on key aspects of the LAISR agenda on structural reform.

The aforementioned Action Plans of APEC have been established specifically to help the organization realize its Bogor Goals of free trade and investment in the Asia–Pacific. The 1995 Osaka Action Plan represents APEC’s original strategic roadmap and lays down a number of general principles on commercial liberalization that member economies are

---

<sup>48</sup> Research interview with APEC Secretariat official, September 2009.

supposed to comply with. One of these principles is non-discrimination, which is inherently problematic with the aforementioned FTA policies of most APEC member states. There is also the issue of whether APEC has produced too many plans in general, leading to credibility problems. Most APEC summits have produced a special plan or program ascribed to the summit-hosting city, but the lack of progress made by APEC on its centerpiece Bogor Goals project since the mid-1990s has created some confusion regarding how certain plans and programs relate to others. For example, proposals on feasibility studying the FTAAP and establishing the six model measures of FTA practice are embodied within the 2006 Hanoi Action Plan, which is not to be confused with ASEAN's Hanoi Plan of Action on regional economic integration. Does the Hanoi Action Plan make redundant the preceding 1995 Osaka Action Plan and 1996 Manila Action Plan on achieving the Bogor Goals? This has not been clarified. Furthermore, the official name of the 2006 plan is the Hanoi Action Plan to Implement the Busan Road Map to Achieve the Bogor Goals, which appears to be a clumsy attempt to establish some kind of bureaucratic consistency between three plans spanning more than a decade. One could argue that subsequent plans upgrade and augment the proposals embodied by preceding plans—for instance, 2006 Hanoi in relation to 2005 Busan—yet the impact of the Busan Road Map has nevertheless been somewhat diminished by this cannibalization process.

Each hosting country wishes to leave its mark on the development of APEC, but the organization's propensity to produce monumental-sounding plans of thin and easily recyclable substance only serves to undermine the organization's credibility and relevance. Indeed, at the 2006 Summit, leaders from Australia, the PRC, Malaysia, New Zealand, and Singapore told their audience that APEC was in danger of becoming increasingly irrelevant in Asia–Pacific affairs.<sup>49</sup> This was supported by evidence from a recent PECC survey conducted amongst 483 regional opinion leaders in which only 43% agreed with the following statement: “APEC is as important today as it was in 1989” (PECC 2008). The majority of those surveyed believed that APEC's biggest problem was the low level of commitment shown by its member economies to advance its main projects, and its lack of focus on new emerging issues such as energy security. Deepening regional integration in East Asia was also highlighted as another key challenge facing APEC.

The three APEC Official Observers—the ASEAN Secretariat, PECC, and the Pacific Islands Forum (PIF) Secretariat—are supposed to play a general partnership role in helping APEC realize its objectives. They are invited to relevant meetings and have full access to documents and information. APEC also maintains close inter-institutional linkages with PBEC and PECC, as will be discussed later in this paper.

#### **5.4 Impacts and Key Issues for the Future**

APEC has the most extensively developed organizational and institutional structure of the six regional institutions studied in this paper. To date, it appears to have had far greater success at advancing many small-scale regional co-operation initiatives rather than its larger-scale initiatives. In other words, although largely failing to make

---

<sup>49</sup> *New Straits Times*. 20 November 2006.

substantial and claimable progress with programs and initiatives—the IAP, EVSL, FTAAP—integral to its big flagship project, the Bogor Goals, it appears to have made some progress with a mass of smaller projects. These have dealt mostly with business facilitation, new regional issues, and to a lesser extent on ecotech, rather than commercial liberalization. APEC has also had an impact on capacity building and norm-setting amongst its member economies, such as ecotech projects (i) helping to improve the technocratic systems and skills of lesser developed economies' governments, and (ii) conditioning PRC and Vietnamese leaders to global trade norms and rules with regard to their WTO accession.

The significant diversity of APEC's membership has meant it has had to exercise considerable flexibility on many of its larger-scale initiatives. This has, however, caused certain credibility problems for the organization. The perhaps intentional neglect of establishing which Bogor Goal deadline—2010 or 2020—is supposed to apply to which member economy, as well as failing to establish clear evaluation criteria to judge whether member economies have realized the Bogor Goals on commercial liberalization, is highly problematic for APEC. The first of these deadlines is upon the organization, and at the time of writing it had no structure in place to properly assess whether the 2010 targets would be met or not. APEC's credibility is also being weakened by the disaggregation problem. By often having to rely on the principle of voluntary unilateralism, given the organization's lack of binding rules and enforcement mechanisms, it is difficult for APEC to claim exactly what actual difference it is making on commercial liberalization and economic policy reform in specific action terms. For example, regarding APEC's structural reform agenda, which concerns both domestic and international economic policy matters, how is it possible to disaggregate the impact made here by APEC from various other influences, such as the separately instigated unilateral actions of member governments, the effects of FTAs, and other international pressures on member economies to change their commercial regulation regimes accordingly?

One could argue that APEC has helped strengthen the policy culture for liberalization and economic reform in the Asia–Pacific, but the disaggregation problem is one faced by regional organizations that rely on the passive integration approach. In practice, this approach is primarily concerned with removing barriers to integration as opposed to proactive integration that involves creating new and distinct co-operative mechanisms, such as the CMIM and ABMI (Dent 2008a). The supposed achievements and benefits of APEC as highlighted on its website are indicative of this problem, claiming or at least implying that the organization has been responsible for (i) reducing trade barriers in the trans-region from an average of 16.9% in 1989 to 5.5% by 2004, (ii) reducing business transaction costs by 5.0% amongst its member economies between 2002 and 2006, and (iii) removing behind-the-border trade barriers through APEC's structural reform agenda.<sup>50</sup> On the same webpage, it is also claimed—at least by inference—that the now large number of FTAs signed in the Asia–Pacific is an APEC achievement. Even if this claim were legitimate, it would appear to be self-defeating given the structured preferentialism that these agreements have created in the region's trade relations

---

<sup>50</sup> [http://www.apec.org/apec/about\\_apec/achievements\\_and\\_benefits.html](http://www.apec.org/apec/about_apec/achievements_and_benefits.html).

(Bhagwati 2008, Dent 2006). While no doubt APEC has made some contribution to the above, other factors are far more likely to have made the substantial impact.

The above debate also relates to the question of which institution has, or will develop, the best instruments for advancing regional co-operation and integration in East Asia and the Asia–Pacific. APEC seems to have developed a number of relatively small instruments, making most progress on business facilitation, but these do not appear to have captured the public’s attention over the last decade or so in the same way as the launch of the Bogor Goals. Aside from the FTAAP, which does not have strong consensus support within APEC anyway, the organization has not really launched a new bold plan for regional co-operation and integration since the mid-1990s. With even the most market-liberal and developed APEC member economies looking likely to fail in meeting the 2010 Bogor Goal target on commercial liberalization, Japan as hosts of the 2010 APEC Summit will be under pressure to deliver a bold new initiative to revitalize the organization. In addition to suggesting that APEC should adopt a stronger variable geometry approach on future commercial liberalization, Yamazawa (2009) also proposes that the organization should do more to tackle new global challenges such as the environment, energy issues, and poverty alleviation. These ideas should be seriously considered as they take into account APEC’s diverse and large membership, and the need to more firmly embrace the emerging key issues of the 21<sup>st</sup> century.

## **6. Pacific Basin Economic Council (PBEC)**

### **6.1 Origins and Development**

PBEC was established in 1967, its origins deriving from an existing Japan–Australia private sector forum that was initially extended to include business representatives from the US, New Zealand, and Canada, and thereafter from other Asia–Pacific member states. At its inaugural meeting hosted by Japan in Tokyo in April 1967, around 60 officials were in attendance. Developments in European integration during this time reportedly provided inspiration for PBEC’s key protagonists to initiate some sort of regional integration and co-operation process in the Pacific.<sup>51</sup> In 1968, PBEC’s First General Meeting was convened in Sydney. An agreement to establish a permanent Secretariat was made at the Sixth PBEC Annual Meeting in 1973, this being originally based at the Stanford Research Institute (SRI) in the US. Energy and global recessions were key issues of debate from the 1970s to the early 1980s. The PBEC Secretariat was relocated to Honolulu in 1992, and by 1994 PBEC’s membership had expanded to 12 countries, including the PRC and Russia, which both joined that year. By the late 1990s, the PBEC Environmental Working Committee and PBEC Environmental Award had been established, as well as its Working Committee on Transparency that primarily sought to address corruption in business–government relationships. In 2004, the PBEC Secretariat was moved again, this time to Hong Kong, China.

In 2005, PBEC changed its membership model from one based on countries to that of companies, or so-called direct corporate members (DCMs). At first, the organization

---

<sup>51</sup> Research interview with PBEC official in Hong Kong, China in September 2009.

succeeded in attracting many hundreds of firms operating around the Asia–Pacific region, although the DCM model did not appeal to many Northeast Asian countries—Japan, the PRC, Russia, and Korea—as they preferred to have some level of government or national committee representation in PBEC. Most recently, intensifying competition from rival and better resourced regional business fora and networking events organized by Forbes Asia, The Economist, Business Week, and others have posed a significant challenge to PBEC. In addition, Asia–Pacific governments have gradually given more attention to the earlier discussed APEC Business Advisory Council (ABAC) when seeking views from the trans-region’s business community rather than from PBEC. The above problems have contributed to an approximate halving of the number of DCM members in PBEC over the last few years, and its budget has correspondingly fallen by roughly the same proportion from around US\$1 million in the mid-2000s to around US\$400,000 by 2009. In response, the organization adjusted its membership model in 2008 to a mixed formula of companies and governments to help bolster its financial position. To some extent, this partial reversion to including government representation has undermined PBEC’s earlier initiated attempts to promote itself as the independent voice of business, given that ABAC representatives are appointed by APEC member governments. Prior to ABAC’s creation, PBEC used to promote itself as the voice of business in the Asia–Pacific. These efforts by PBEC, though, appear not to be having that notable an effect. The organization, once the *de facto* representative agency for business in APEC diplomacy, is being increasingly eclipsed by ABAC and its APEC CEO Summit. PBEC’s Board of Directors have reportedly yet to produce a robust strategy to take the organization forward. The idea of a merger with PECC has allegedly been considered as one possible option.<sup>52</sup>

## 6.2 Issue Coverage, Agenda Setting and Instrumentalization

PBEC’s main function is to bring together business and economic leaders to forge closer commercial relationships across the Asia–Pacific. Its agenda and issue coverage are broadly determined by its principal objectives:

- (i) promote an open business environment and competitiveness in the Asia–Pacific, with a view to strengthening trade and investment relations in the trans-region;
- (ii) foster networking and other forms of collaboration (e.g., information exchange) amongst its membership;
- (iii) provide services to members that increase their business opportunities;
- (iv) support co-operative business activities that have positive welfare effects for citizens of the Asia–Pacific;
- (v) advise governments on improving the trans-region’s business environment;
- (vi) cultivate good corporate social responsibility practices amongst its members, including contributing towards sustainable development outcomes;
- (vii) promote foreign investment flows that support the economic development objectives of Asia–Pacific countries; and

---

<sup>52</sup> Research interview with PBEC official in Hong Kong, China in September 2009.

- (viii) stimulate the business environment for the development and implementation of new technologies.

The main services that PBEC provides to its members fall into the following four categories:

- (i) **Networking.** PBEC provides services through a variety of activities, including Annual Meetings, a Distinguished CEO Series, Regional Executive Meetings, retreats, workshops, and business matchmaking.
- (ii) **Business advocacy.** PBEC's leverages relationships among government, civil society, and the business community on various commercial policy matters, and maintains close relationships with important international organizations.
- (iii) **Business development.** PBEC's provides various advisory services, business expeditions, and web-based business intelligence resources.
- (iv) **Market intelligence and analysis.** PBEC offers its members PBEC Reports, PBEC News Alerts and Surveys, trade missions, and business matchmaking services.

### 6.3 Organizational Structure and Institutional Processes

The legal status of PBEC is that of a Hong Kong, China-registered, non-profit company founded on its own constitution. The organization is headed by a Chairman, who normally serves a 2-year term and leads PBEC's Board of Directors, including the President, who manages the Secretariat that is currently based in Hong Kong, China and comprises a staff of four personnel. The organization's Annual Meeting serves summit-like functions, bringing together key business leaders and a number of political leaders from around the trans-region to discuss topical and emerging issues facing the Asia-Pacific business community. PBEC works with officials from Asia-Pacific governments on emerging issues affecting the trans-region's development. The organization also works with other international organizations—APEC, ASEAN, ADB, WTO, OECD, and the World Bank—in presenting the Asia-Pacific's business community's viewpoints in important decision-making processes. An example of this collaboration is PBEC's work on the ADB-OECD Anti-Corruption Initiative.

### 6.4 Impacts and Key Issues for the Future

Of the six regional institutions studied in this paper, PBEC is by far the most at risk of becoming increasingly irrelevant, and even possibly becoming de-activated. The number of regional or international organizations in Asia and the Asia-Pacific has proliferated, and inevitably this intensifies some degree of competition amongst them as they vie for the interests and attention of both states and non-state actors. PBEC appears to be a victim of this competition, becoming increasingly marginalized by ABAC in particular. Furthermore, as PBEC straddles both the inter-state and international business sectors, its position is also being challenged by corporate networking firms such as Forbes Asia. Overall, PBEC needs fresh strategic impetus from its Board of Directors if it is to have an impact on future regional institution building in East Asia and the Asia-Pacific.



## 7. Pacific Economic Co-operation Council (PECC)

### 7.1 Origins and Early Development

PECC was created in 1980 as a tripartite partnership of key representatives from the government, business, and academic and research communities to discuss economic policy challenges facing Asia–Pacific nations. Its main focus is on trade, investment, and finance, serving as a forum for policy co-operation and co-ordination across the trans-region. It is the only non-government official observer of APEC, and one of its key functions is to provide economic intelligence and other forms of analytical support to APEC meetings and processes. Hence, PECC generally works in closer collaboration with APEC than does PBEC. Furthermore, PECC member economies (22 in 2010) very close match those of APEC's, having in addition Columbia, Ecuador, and the Pacific Islands Forum, but not Papua New Guinea or Russia.<sup>53</sup>

### 7.2 Issue Coverage, Agenda Setting, and Instrumentalization

PECC covers a wide agenda of economic issues pertinent to the Asia–Pacific. In many respects, its analytical work and dialogue mechanisms closely mirrors that of APEC's own agenda. PECC's work program and agenda is determined mainly by its Standing Committee and the task force study initiatives it sets in motion, as detailed in the following section. Past examples of task force study themes have included free trade agreements, human resources development, energy security, food security, sustainable cities, and eco-tourism.

### 7.3 Organizational Structure and Institutional Processes

The official legal status of PECC is relatively complicated as it is a recognized international organization in Singapore, but its official legal status (PECC Fund Ltd.) is as a registered company with charitable status in Hong Kong, China. Its Secretariat is staffed by five permanent personnel and is based in Singapore, indeed in the same location as ASEF and the APEC Secretariat on the campus of the National University of Singapore. PECC's charter has undergone a series of revisions since its creation. One such revision introduced the rule that any national committee that has not paid its membership contribution for 3 consecutive years had its membership automatically suspended. This rule has recently been applied to Russia for failing to pay its fees to the organization. PECC's annual budget is currently around US\$600,000 and contributions from member economies are based on a formula of GDP and GDP per capita levels, with a special rate applying for ASEAN members. Accession criteria for becoming a PECC member are based on whether an applicant

- (i) accepts the objectives of PECC and the principles set out in its Charter,
- (ii) demonstrates a commitment to economic co-operation in the Asia–Pacific based on free and open economic exchanges,
- (iii) has extensive economic activities in the Asia–Pacific,

---

<sup>53</sup> As later mentioned, Russia's membership has been suspended at this time, owing to it not paying membership fees for 3 consecutive years.

- (iv) establishes a viable PECC member committee in its own country or economy, and
- (v) makes a substantial contribution to a number of PECC work programs.

Associate membership may be granted to committees from other Asia–Pacific economies that have demonstrated sustained interest and involvement in PECC activities and programs, and as such may participate in all PECC activities and programs except meetings of the Standing Committee. France and its Pacific Territories are currently the only associate members of the organization. Mongolia was an associate member until it became a full member in 2008. Institutional membership has also been granted to PBEC and PAFTAD and may be granted to other organizations and institutions with common aims and objectives. Institutional members do not have voting rights within the Standing Committee. The Pacific Island Forum is considered a full member but does not have to pay a membership contribution.

PECC's main governing body is its Standing Committee, which meets annually and comprises all of the organization's 22 full Member Committees, 2 Institutional Members (PAFTAD and PBEC), and invited Associate Member (French Pacific Territories) Committees. Its Member Committees draw upon tripartite representation from the member economy or group in question that participate in PECC's various work program activities and their own activities at a more local level. The Standing Committee decides on a series of *ad hoc* task force initiatives on a 2-year cycle, which are the primary mechanisms of PECC's work program that undertake research on key emerging issues in the trans-region. Membership of these task forces is based on PECC tripartite principles, thus bringing together relevant experts from government, business, and academia. The number of task forces initiated has varied from time to time. For the 2008/09 period, four PECC task forces were created that covered the following themes:

- (i) **Regional Institutional Architecture.** Amongst other things, one aspect of this task force's study was to consider the reasons why APEC is viewed by some as losing its relevance, and why attention has generally shifted to more exclusively East Asian regional arrangements such as APT.
- (ii) **Asia–Pacific Education Market.** This task force examines growing competition and co-operation in the international education market, as well as investigating new developments in the education sector and their impact on regional economic integration in the Asia–Pacific.
- (iii) **International Labor Mobility in the Asia Pacific.** This task force studies the interplay between globalization, demographic change, and international migration in the trans-region.
- (iv) **State of the Region Report.** This task force is responsible for producing PECC's flagship annual report on the current state of Asia–Pacific affairs.

In some cases, task forces have established special policy forums (e.g., on trade, energy, and mining), and representatives from these fora are invited to their corresponding APEC working group meetings. Additional elements to PECC's work program include the organization's collaboration on certain international projects that

include freshwater security and management, financial centers in the Asia–Pacific, SMEs, and climate change. The Executive Committee of PECC is a subset of its Standing Committee that oversees the organization’s ongoing work and also performs a monitoring and evaluation function. The Secretariat is the administrative arm of PECC, facilitating meetings, and managing the website and the organization’s budget.

#### **7.4 Impacts and Key Issues for the Future**

There is a general view that PECC’s main purpose is to support the work of APEC by providing various forms of intellectual and analytical services. According to an interviewed official from the organization, PECC considers itself a progenitor of APEC, although the relationship has evolved over time. During the 1990s, APEC adopted a significant number of PECC recommendations on commercial policy issues, such as the Non-Binding Investment Principles in 1993/94, Competition Principles in 1999, Services Trade and Investment in 2000/03, Corporate Governance Guidelines in 2001, and Common Understanding on FTAs/RTAs in 2001/03 (PECC 2005). Although PECC operates independently of APEC, there was an attempt made between the mid-1990s and early-2000s to shadow the APEC agenda, but this proved too ambitious and time-consuming, and entailed PECC staff getting bogged down with extensive technical surveys and analyses on matters such as FTAs. The organization changed tack in 2005, focusing PECC’s efforts on thought leadership in relation to APEC and other Pacific community building processes. PECC is hoping to have a greater intellectual impact in the future concerning the aforementioned issues of labor mobility in the region, the development of the region’s education market, and the emerging regional institutional architecture of the Asia–Pacific. Regarding the last of these, PECC’s task force report on the Asia–Pacific’s regional institutional architecture recommended that it should expand its agenda beyond just economic issues to incorporate the “big political and security issues of the region and even the world” (PECC 2009: 11).

According to a research interviewed PECC official, probably the biggest difficulty in providing this thought leadership is distinguishing the demarcations between regional and global issues and challenges, and at what level to address them.<sup>54</sup> To conclude, although PECC’s operations and resources are relatively small-scale, the organization has a clearly defined purpose and retains a good working relationship with APEC, and therefore appears to have much stronger prospects than PBEC at this time.

### **8. Conclusion: Towards a New Regional Institutional Architecture?**

This paper has discussed regional institutional developments involving the whole of East Asia. Six region-based frameworks and organizations have been examined. Four of these were supra-structure institutions: (i) ASEAN Plus Three (APT), (ii) East Asia Summit (EAS), (iii) Asia–Europe Meeting (ASEM), and (iv) Asia–Pacific Economic Co-operation (APEC) forum. The other two were supporting institutions: (i) Pacific Basin

---

<sup>54</sup> Research interview with PECC official in Singapore in September 2009.

Economic Council (PBEC), and (ii) Pacific Economic Cooperation Council (PECC). The conclusion summarizes the different areas of debate raised and highlights key arguments. It particularly focuses on what likely future regional institutional architecture centered on East Asia may emerge in the coming years.

### *Variable Geography and What is East Asia?*

One of the key issues for the East Asian region has been which countries are eligible to be considered members of it, and therefore eligible to participate in East Asian regional community and regional institution building processes. As was discussed, this is particularly relevant to the EAS. It was argued that the variable geography principle applied to East Asia just as with other regional constructs, such as the Asia–Pacific, in that differentiated conceptions of which countries may or may not qualify for regional membership can co-exist. Hence, the geographic boundaries of regions are ultimately contestable, and moreover may shift over time in accordance to the changing dynamics of regionalized economic, socio-cultural, and political linkages. Furthermore, qualification for regional membership can depend on the fundamentals that have shaped our understanding of regions themselves as distinct coherent entities. In East Asia’s case, the region has been largely defined in terms of deepening regional economic interdependence and coherence. On this basis, geographically proximate countries (e.g. India, Australia) that became increasing integral to the core East Asia regional economy would therefore have a strong claim for regional membership. This is a key reason why Japan was able to argue a case for India, Australia, and New Zealand’s eligibility as original EAS member states. The economic field has also been the principal area of co-operation for all six regional bodies studied in this paper, and where most progress has been made on regional co-operation and integration in East Asia generally. Arguably, the most significant progress here has been achieved by APT, especially on regional financial governance.

### *Competing or Compatible Goals and Agendas*

While the variable geography principle explains how closely overlapping regional institutional arrangements (e.g., APT and EAS) can co-exist, this relationship will break down if they are working at competing or irreconcilable goals and agendas. Likewise, there is sometimes a fine line between the mutual reinforcing, rather than duplication, of institutional efforts. For example, APT, EAS, and APEC are all looking to establish firmer regional agreements on free trade and energy security. Notwithstanding their differences in regional membership, East Asian countries lie at the core of all three regional groups, and questions are already being asked whether a more explicit division-of-labor arrangement between them is preferable to undertaking very similar regional-level tasks. This especially applies to the APT and EAS regional frameworks. Where closely overlapping regional institutional arrangements are evident, then the matter of inter-institutional co-ordination becomes more important with regard to regional community building. It was noted that the ASEAN Secretariat has assigned a couple of its divisions to work on APT and EAS matters, which provides some level (albeit relatively minor) of co-ordinating services in this respect. A different kind of inter-institutional relationship exists among APEC, PECC, and PBEC, where PECC, in particular, continues to provide

key supporting functions (especially intellectual and analytical in nature) for various areas of APEC's work agenda.

### *ASEAN as Intermediary Facilitator*

The role that ASEAN plays in both the APT and EAS is an interesting and critical one, performing an intermediary function or facilitator role in relations between Northeast Asian countries. This is especially the case with APT. Although the PRC, Japan, and Korea have recently initiated trilateral summit, ministerial, and other types of meetings, many aspects of their relations at the bilateral and sub-regional level remain notably problematic. All three nations have sought closer and more comprehensive economic and security relations with ASEAN as strategically important elements of their respective regional foreign policies, each signing free trade agreements with Southeast Asia, as well as becoming signatories to ASEAN's Treaty of Amity. While ASEAN has limited geopolitical and geo-economic weight, it has become a vital fulcrum of East Asia's regional affairs. The taxi driver analogy is sometimes used to explain the relationship: ASEAN is in the driving seat and facilitates the ride but the taxi's Northeast Asian passengers have significant influence over the ultimate direction the vehicle takes. As East Asia's longest standing regional organization, ASEAN's own regional agenda and programs have useful demonstration effects for APT and EAS. Southeast Asia's current plans to create three inter-locking regional economic, security, and socio-cultural communities by 2015 could show East Asia a future path to take after any regional free trade or basic regional security agreement is implemented. This is another aspect of ASEAN's role as an intermediary facilitator of regional integration in East Asia. Furthermore, and as its name clearly indicates, the APT arrangement—ASEAN Plus Three—is essentially a spin-off of ASEAN's regional diplomacy. Similarly, the EAS derived from APT diplomacy, specifically the decision to hold the first East Asia Summit which was taken at the 2000 APT Summit.

### *Instruments and Ideologies*

Given that East Asian countries are core to many important regional institutional arrangements in Asia and the Asia-Pacific, there remains much debate concerning into which arrangement they will make the most important diplomatic and strategic investments in coming years, and therefore which one is most likely to prevail as the region's premier regional institution. Certain parallels can be drawn here with the European experience of the 1960s, when Western Europe was broadly divided into the European Economic Community (EEC) and the European Free Trade Association (EFTA) groupings. It was the EEC that eventually became predominant, primarily because it developed the more substantive and successful instruments for advancing regional co-operation and integration that in turn conferred the organization with greater leverage on the international stage. Applying the same principles to East Asia in the early 21<sup>st</sup> century, it is likely to be the regional framework or organization that develops the most useful instruments and mechanisms for regional co-operation and integration that will become predominant in the region. At present, APT has developed a clear advantage over the EAS in this respect, but this may still change. It will largely depend on whether the latter can deliver more than just summit-level declarations that state aspirational objectives on regional co-operation without putting in place substantive

instruments to realize them. Failing to move beyond this position will attract growing criticism, as ASEM has experienced, despite its stated low-level ambition to remain an inter-regional dialogue forum. Meanwhile, APEC has developed a number of instruments, but many of its most important ones, such as IAPs, have proved to be somewhat blunt.

Countries will also choose into which regional institution to make the most diplomatic and strategic investments depending on ideological, development, and geopolitical factors. It has been argued that East Asian countries are more likely to invest in APT (or EAS) over APEC because the former is focused more on financial, economic, and technical co-operation, while the latter has prioritized commercial liberalization and neo-liberal-oriented regulatory (i.e., structural) reform. Hence, APT is more aligned with East Asia's underlying development interests and developmentalist ideologies than APEC, whose agenda remains notably influenced by the market-liberal ideologies of Anglo-Pacific countries, particularly the US. If APEC had bestowed greater priority to its ecotech agenda, then East Asian countries would perhaps have made greater institutional investments in the organization.

#### *A Future Regional Institutional Architecture for the Wider East Asia Region*

So what do the above points suggest concerning the future development of regional institutional architecture in the wider East Asian region? To start, the creation of a stronger regional institutional architecture helps realize the following inter-related goals:

- (i) To foster more harmonious relations between the peoples of the region concerned, and engender a deeper and more coherent sense of regional community amongst the region's peoples;
- (ii) To more effectively address the economic, political, socio-cultural, environmental, and security challenges facing the region's peoples as a whole;
- (iii) To close development-divide gaps in the region to ensure that all the region's peoples are sufficiently empowered to both participate in and benefit from regional community building processes; and
- (iv) To contribute to broader global community building endeavors and the strengthening of global governance structures; in this sense, stronger regional societies provide a firmer foundation on which to build a stronger global society.

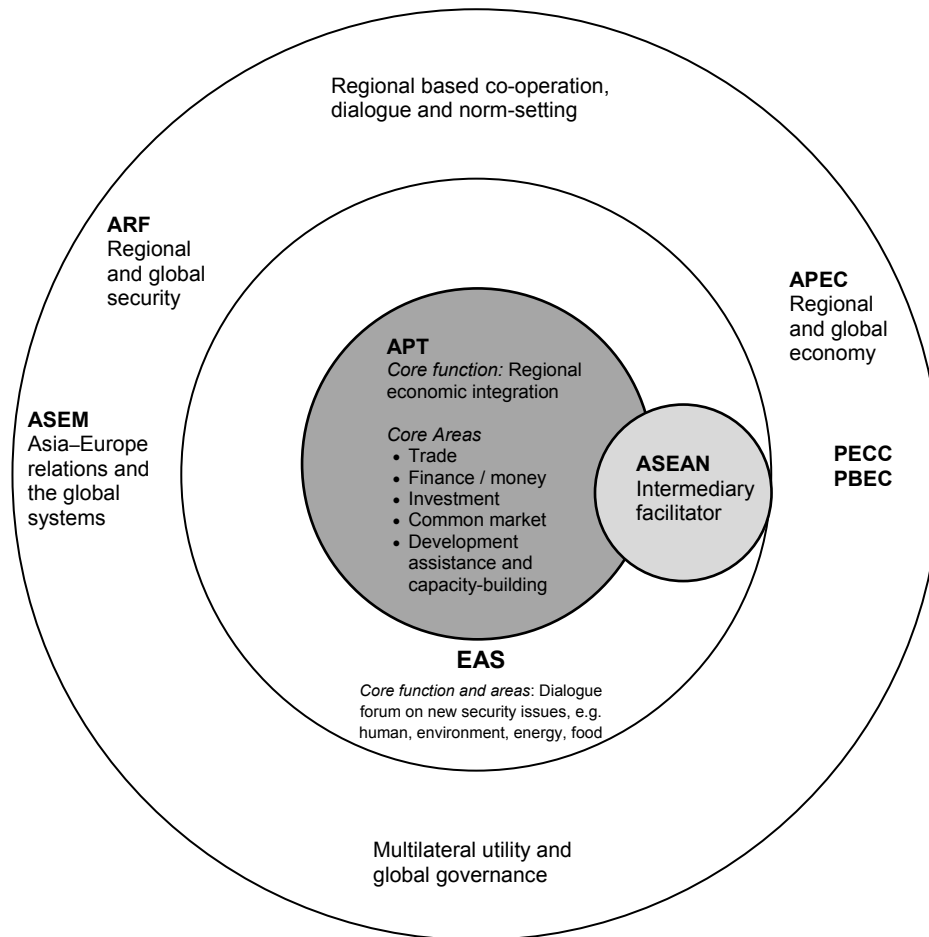
Figure 5 presents a possible formulation for a future East Asian-centered regional institutional architecture. At the integrative center is APT, with ASEAN working as an intermediary facilitator along the lines suggested earlier. For example, the ASEAN Economic Community initiative might provide some kind of pathway for APT to follow in the future on developing an East Asian common market. Of the six regional bodies studied in this paper, APT is the most viable grouping on which to achieve deeper regional economic integration involving East Asian countries based on two fundamentally important principles. The first is that APT has the highest levels of regional economic coherence of all six regional groupings, and thus the firmest basis of existing regionalized linkages on which to build deeper integration. Moreover, APT does

not have as disparate a range of political economic philosophies as the EAS group, which confers a relative advantage to the former when negotiating deeper integration. This point is linked also to the second principle, which is that regional groups with smaller memberships tend to have a smaller range of national interests to reconcile and are therefore better able to secure a basis for collective action on regional integration that requires deeper policy-related commitments than regional co-operation. While economists may argue that, for example, larger free trade areas generally yield larger trade creation gains, the reality is that larger agreements are more politically difficult to achieve, as APEC's experience with the FTAAP and the American hemisphere countries' experience of trying to negotiate a Free Trade Area of the Americas have also demonstrated. Thus, the APT-based EAFTA has advantages over the EAS-based CEPEA for this reason. APT has already made progress on regional financial co-operation and integration, and its core function should remain regional economic integration, while expanding more deeply into other areas outlined in Figure 5.

As Figure 5 indicates, APT is embedded within an EAS regional framework whose core function is to facilitate dialogue between its member countries, and possibly the wider East Asian region's principal stakeholders, such as the US, to discuss a range of key issues and challenges facing the wider East Asia community. This would help establish a much clearer division of labor between APT and EAS, and Japan's recent proposal for creating an East Asian Community (EAC) can be the basis for this reformulated and rebranded EAS. By helping foster more harmonious relations amongst East Asian nations through more focused dialogue and consultation on key regional issues, the EAS (or EAC) can make important contributions to APT's work on regional economic integration. For example, the EAS dialogue on new security issues would connect with discussions on how these might be incorporated into an APT-based regional trade agreement, e.g. its provision on environment, energy, and labor mobility.

In turn, the core functions of larger inter-regional and trans-regional groupings, as represented by ASEM and APEC, would be two-fold. The first is concerned with advancing region based co-operation, dialogue, and norm-setting amongst its memberships in their specialist functional areas. ASEM already works on the general region-based principle of bringing together Asia and Europe into a closer inter-regional partnership. This could over time be applied to APEC, depending on whether an increasingly coherent East Asian region would be able to act on a collective basis in certain areas of co-operation. As previously noted, APEC has achieved some success at fostering a co-operation culture, promoting the socialization of key decision makers in the Asia-Pacific, and strengthening norms of co-operation in the trans-region. This work should be valued, as should the mass of small-scale regional co-operation initiatives and projects that both APEC and ASEM have developed in recent years. For inter-regional and trans-regional groupings of this size and diversity, perhaps neither APEC nor ASEM should be expected to achieve too much in terms of regional co-operation, and certainly not with respect to regional integration agreements. The FTAAP is too ambitious a project and risks undermining APEC's credibility still further by becoming yet another failed initiative of the organization to advance commercial liberalization in the Asia-Pacific.

**Figure 5: Future Possible Regional Institutional Architecture for the Wider East Asia Region**



Source: Author.

Although APEC could expand its agenda to more firmly address new security issues, there is a risk of it increasingly competing with the EAS or its reformulated EAC equivalent in this regard, especially if EAS membership expands to include the US and other APEC members. It could, therefore, be better for APEC to remain focused on regional economic issues, especially in relation to interfaces between the Asia-Pacific economy and global economic governance. This leads to the second core function of APEC and ASEM: developing their potential for multilateral utility by making more fervent contributions to the strengthening of global governance structures and more effectively addressing key global issues of the early 21<sup>st</sup> century. APEC already has a history of exercising multilateral utility, including the WTO's Information Technology Agreement that was derived at least partly out of APEC trade diplomacy initiatives (Dent 2004). Both APEC and ASEM account for half of the G20 membership by different but overlapping configurations, and also account for very large shares of the global economy and population. They represent very significant constituencies in an emerging global



society and this fact needs to be more seriously acknowledged. Of course, exercises of multilateral utility would depend on the ability of APEC and ASEM to form a consensus among their respective membership or agree upon collective actions on how to best address key global issues (e.g., climate change), both of which may be very difficult to achieve. However, at least focusing more on developing multilateral utility functions would provide some much needed impetus for both APEC and ASEM.

This suggested configuration of an East Asia-centered regional institutional architecture is based on the principle of functional specialization. It is not being suggested that distinct demarcations be drawn between regional institutions in the functional division of labor, rather that more would be achieved if such specialization occurs. At present, there is much duplication of effort in similar functional areas (e.g., on regional FTAs) and what may be referred to as diffuse regionalism in East Asia and the Asia–Pacific, which is the presence of many competing yet similar ideas of (i) what type of core regional community should be formed, (ii) which direction (or directions) it should be heading, and (iii) what activities and issues should be the basis of regional community actions. Diffuse regionalism is largely the consequence of a number of countries looking to champion their own vision of (and interests in) the region, with each of these countries—Japan and EAS, the PRC and APT, Australia and APC, the US and APEC—not being prepared to back down.

#### *The Crucially Important Sino-Japanese Relationship*

The Sino–Japanese relationship will shape the future development of East Asia’s regional institutions and community building perhaps more than any other factor. Japan and the PRC’s contrasting positions on EAS membership are indicative of their rivalry concerning various matters of East Asian regional leadership. At the 2009 APT and EAS summits, it was still clear that Japan favored an EAS-based regional grouping and initiatives (e.g., CEPEA, EAC), while the PRC preferred APT-based (e.g., EAFTA) regional community building.<sup>55</sup> The PRC is the ascendant power, but Japan will for some time remain sufficiently powerful to cancel out bids the PRC makes for supreme regional hegemony. The PRC, of course, has the capacity to return the favor. The persistence of this regional hegemonic rivalry is, however, ultimately counter-productive to East Asia’s interests and will significantly hinder future regional community and regional institutional building. Japan and the PRC are nevertheless working together co-operatively at various bilateral, regional, and multilateral levels, and the degree of their economic (and other forms of) interdependence has deepened substantially in recent years (Dent 2008b). Developing a stronger Sino–Japanese partnership is crucial to the future institutional development of both APT and EAS, as well as other East Asian regional bodies. The PRC and Japan will continue to dominate the region for the foreseeable future as they together account for around 80% of East Asia’s GDP, even if India becomes a more integral part of East Asian affairs.

More generally, great power geopolitics will also significantly determine the future path and configuration of regional institutions involving East Asian countries. If India continues to develop closer economic, political, and security relations with the East Asia

---

<sup>55</sup> *Xinhua News, Japan Times*. 24 October 2009.

region, then this would strengthen its claim for regional membership on various fronts. It is already a member of the EAS and ASEM, and could well accede to APEC in the not-too-distant future. The influence of the US will continue to loom large, shaping many bilateral and multilateral contexts in which East Asian regional institution building processes occur. Russia's growing energy relations with the PRC, Japan, Korea and other East Asian states could also prove a significant factor. In sum, great power geopolitics is currently pushing and pulling East Asia's regional community and regional institution building in a number of directions, many of these competing to some extent with each other. Overall, a stronger Sino–Japanese partnership would help steer these twin processes more than any other factor towards less turbulent waters. A rationalized division of labor amongst the regional institutions studied in this paper, along the lines suggested above, is also required to achieve these ends.

## References

- A. Acharya. 2009. Competing Communities: What the Australian and Japanese Ideas Mean for Asia's Regional Architecture. *PacNet*. 70. 27 October.
- J. Aizenman and N. Marion. 2003. Foreign Exchange Reserves in East Asia: Why the High Demand? *FRBSF Economic Letter*. 2003-11. San Francisco, CA: Federal Reserve Bank of San Francisco.
- K. Akamatsu. 1935. Trend of Japanese Trade in Woollen Goods. *Journal of Nagoya Higher Commercial School*. 13. pp. 129–212.
- Asia–Europe Foundation (ASEF). 2007. *The Legal Framework*. Singapore.
- Asian Development Bank Institute (ADBI). 2009. *Recommendations of Policy Responses to the Global Financial and Economic Crisis for East Asian Leaders*. Tokyo.
- Asia–Pacific Economic Cooperation (APEC). 1993. *A Vision for APEC: Towards an Asia–Pacific Economic Community. First Report of the Eminent Persons Group (EPG) to APEC Ministers*. Singapore.
- . 1994. *Achieving the APEC Vision: Free and Open Trade in the Asia–Pacific. Second Report of the EPG to APEC Ministers*. Singapore.
- . 1995a. *Implementing the APEC Vision. Third Report of the EPG to APEC Ministers*. Singapore.
- . 1995b. *The Osaka Action Plan: Roadmap to Realising the APEC Vision. Report of the Pacific Business Forum (PBF)*. Singapore.
- . 2002. *Toward the Shanghai Goal: Implementing the APEC Trade Facilitation Action Plan*. Singapore.
- . 2004. *Best Practice for RTA/FTAs in APEC*. Submitted at the 16<sup>th</sup> APEC Ministerial Meeting. Santiago, Chile. 17–18 November.
- . 2005. *Bogor Goals Mid-Term Stocktake–Discussion Paper*. Singapore.
- J. Baker. 1995. *The Politics of Diplomacy: Revolution, War and Peace: 1989–1992*. New York: G.P. Putnam and Sons.
- M. Beeson, ed. 2006. *Bush and Asia: America's Evolving Relations with East Asia*. London: Routledge.
- M. Berger and M. Beeson. 2005. APEC, ASEAN+3 and American Power: The History and Limits of the New Regionalism in the Asia–Pacific. In M. Boas, M. H.

Marchand, and T. Shaw, eds. *The Political Economy of Regions and Regionalisms*. Basingstoke, UK: Palgrave Macmillan.

- S. M. Berger. 2006. The US Stake in Greater Asian Integration. *Global Asia*. 1 (1). pp. 25–27.
- C. F. Bergsten. 1994. Sunrise in Seattle. *International Economic Insights*. 5 (1). pp. 18–20.
- . 1996. Globalising Free Trade. *Foreign Affairs*. 75 (3). pp. 105–21.
- J. Bhagwati. 2008. *Termites in the Trade System: How Preferential Agreements Undermine Free Trade*. Oxford: Oxford University Press.
- G. Bird and R. S. Rajan. 2002. Regional Arrangements for Providing Liquidity in a Financial Crisis: Developments in East Asia. *The Pacific Review*. 15 (3). pp. 359–79.
- B. Bridges. 1999. *Europe and the Challenge of the Asia–Pacific*. Cheltenham: Edward Elgar.
- C. M. Dent. 2001. ASEM and the Cinderella Complex of EU–East Asia Economic Relations. *Pacific Affairs*. 74 (1). pp. 25–52.
- . 2004. The Asia–Europe Meeting (ASEM) and Inter-Regionalism: Towards a Theory of Multilateral Utility. *Asian Survey*. 44 (2). pp. 213–236.
- . 2006. *New Free Trade Agreements in the Asia–Pacific*. Basingstoke, UK: Palgrave Macmillan.
- . 2008a. *East Asia Regionalism*. London: Routledge.
- . 2008b. *China, Japan and Regional Leadership in East Asia*. Cheltenham, UK: Edward Elgar.
- P. Drysdale. 1991. Open Regionalism: A Key to East Asia’s Economic Future. *Pacific Economic Papers*. 197. Canberra: Australia–Japan Research Centre, Australian National University.
- . 2008. East Asia and the Global Financial Crisis. *East Asia Forum*. 25 December. <http://www.eastasiaforum.org/2008/12/25/east-asia-strategic-interests-in-fixing-the-global-financial-crisis/>.
- . 2009. Getting East Asia’s Act Together on the G20 Summit. *East Asia Forum*. 22 March. <http://www.eastasiaforum.org/2009/03/22/getting-east-asias-act-together-on-the-g20-summit/>.

- P. Drysdale and A. Elek, 1996. The APEC Experiment: An Open Economic Organisation in the Asia–Pacific. *International Journal of Social Economics*. 23 (4–6). pp. 164–87.
- East Asia Vision Group. 2001. *Towards an East Asian Community: Region of Peace, Prosperity and Progress*. <http://www.mofa.go.jp/region/asia-paci/report2001.pdf>.
- East Asia Study Group. 2002. *Final Report of the East Asia Study Group*. <http://www.mofa.go.jp/region/asia-paci/asean/pmv0211/report.pdf>.
- A. Elek and H. Soesastro. 2000. Ecotech at the Heart of APEC: Capacity-Building in the Asia–Pacific. In I. Yamazawa, ed. *Asia–Pacific Economic Co-operation (APEC): Challenges and Tasks for the Twenty-First Century*. London: Routledge.
- F. Furuoka. 2005. Japan and the Flying Geese Pattern of East Asian Integration. *eastasia.at (Online Journal of the Austrian Association of East Asian Studies)*. 4 (1). October.
- R. Garnaut. 2000. Introduction–APEC Ideas and Reality. In I. Yamazawa, ed. *Asia–Pacific Economic Co-operation (APEC): Challenges and Tasks for the Twenty-First Century*. London: Routledge.
- J. Gilson. 2002. *Asia Meets Europe: Inter-regionalism and the Asia–Europe Meeting*. Cheltenham, UK: Edwin Elgar.
- W. Grimes and S. Kimura. 2005. Japan, East Asia and the Limits to Financial Regionalism. *RIETI Seminar Paper*. 27 July. Tokyo.
- H. Hanggi. 1999. ASEM and the Construction of the New Triad. *Journal of the Asia Pacific Economy*. 4 (1). pp. 56–80.
- N. Hamilton-Hart. 2007. Financial Co-operation and Domestic Political Economy in East Asia. In M. G. Curley and N. Thomas, eds. *Advancing East Asian Regionalism*. London: Routledge.
- S. Hayashi. 2006. *Japan and East Asian Monetary Regionalism*. London: Routledge.
- C. R. Henning. 2002. *East Asian Financial Co-operation*. Washington DC: Institute for International Economics.
- B. Hettne. 2005. Beyond the New Regionalism. *New Political Economy*. 10 (4). pp. 543–71.
- R. Higgott. 1998. The Asian Economic Crisis: A Study in the Politics of Resentment. *New Political Economy*. 3 (3). pp. 333–56.
- C. W. Hughes. 2000. Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory? *Review of International Political Economy*. 7 (2). pp. 219–253.

- M. Hund. 2003. ASEAN Plus Three: Towards a New Age of Pan-East Asian Regionalism? A Sceptic's View. *The Pacific Review*. 16 (3). pp. 383–417.
- Japan Economic Research Centre (JERC). 1966. *Measures for Trade Expansion of Developing Countries*. Tokyo.
- S. N. Katada. 2002. Japan and Asian Monetary Regionalisation: Cultivating a New Regional Leadership after the Asian Financial Crisis. *Geopolitics*. 7 (1). pp. 85–112.
- P. J. Katzenstein. 2000. Regionalism and Asia. *New Political Economy*. 5 (3). pp. 353–68.
- M. Kawai. 2008. The Role of an Asian Currency Unit for Asian Monetary Integration. Paper presented at the Beyond Bretton Woods: The Transnational Economy in Search of New Institutions Conference. Instituto de Investigaciones Economicas, Universidad Nacional Autónoma de México (UNAM), Mexico City. 15–17 October.
- E. Kohlscheen and M. P. Taylor. 2006. International Liquidity Swaps: Is the Chiang Mai Initiative Pooling Reserves Efficiently? *Warwick Economic Research Papers*. 752. Coventry: University of Warwick.
- K. Kojima. 1971. *Japan and a Pacific Free Trade Area*. London: Macmillan.
- . 1977. *Japan and a New World Economic Order*. Boulder, US: Westview Press.
- P. Korhonen. 1994. *Japan and the Pacific Free Trade Area*. London: Routledge.
- E. S. Krauss. 2000. Japan, the US and the Emergence of Multilateralism in Asia. *The Pacific Review*. 13 (3). pp. 473–94.
- . 2004. The US and Japan in APEC's EVSL Negotiations: Regional Multilateralism and Trade. In E. S. Krauss and T. J. Pempel, eds. *Beyond Bilateralism: The US–Japan Relationship. In the New Asia–Pacific*. Stanford: Stanford University Press.
- Z. A. Mahani. 2002. ASEAN Integration: At Risk of Going in Different Directions. *The World Economy*. 25 (9). pp. 1263–77.
- M. Mahathir. 2006. Let Asians Build Their Own Future Regionalism. *Global Asia*. 1 (1). pp. 13–15.
- E. Mawdsley. 2007. People's Republic of China and Africa: Emerging Challenges to the Geographies of Power. *Geography Compass*. 1 (3). pp. 405–421.

- C. E. Morrison. 2007. An APEC Trade Agenda. In C. E. Morrison and E. Pedrosa, eds. *An APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia-Pacific*. Singapore: Institute of Southeast Asian Studies (ISEAS).
- H. Nesadurai. 2006. APEC and East Asia: The Challenge of Remaining Relevant. In L. Elliott, J. Ravenhill, H. Nesadurai and N. Bisley. *APEC and the Search for Relevance: 2007 and Beyond*. Canberra: Department of International Relations, Australian National University.
- J. Okamoto, ed. 2003. *Whither Free Trade Agreements? Proliferation, Evaluation and Multilateralisation*. Japan: Institute of Developing Economies–Japan External Trade Organization (IDE–JETRO).
- . 2004. *Trade Liberalisation and APEC*. London: Routledge Curzon.
- Pacific Economic Co-operation Council (PECC) Secretariat. 2003. *Proposals for an APEC Common Understanding on RTAs*. Singapore.
- . 2008. *State of the Region: 2008–2009*. Singapore.
- . 2008. *The Evolution of PECC: The First 25 Years*. Singapore.
- . 2009. *Report of the Task Force on Regional Institutional Architecture*. Singapore.
- T. J. Pempel. 2000. International Finance and Asian Regionalism. *Pacific Affairs*. 13 (1). pp. 57–72.
- D. Peng. 2000. The Changing Nature of East Asia as an Economic Region. *Pacific Affairs*. 73 (2). pp. 171–91.
- P. Petri. 1997. Measuring and Comparing Progress in APEC. *ASEAN Economic Bulletin*. 14 (1). pp. 1–13.
- M. G. Plummer and R. W. Click. 2005. Bond Market Development and Integration in ASEAN. *International Journal of Finance and Economics*. 10 (2). pp. 133–42.
- P. B. Rana. 2002. Monetary and Financial Co-operation in East Asia: The Chiang Mai Initiative and Beyond. *Economic and Research Department Working Paper Series*. 6. Manila: Asian Development Bank.
- D. Rapkin. 2001. The US, Japan, and the Power to Block: The APEC and AMF Cases. *The Pacific Review*. 14 (3). pp. 373–410.
- J. Ravenhill. 2000. APEC Adrift: Implications for Economic Regionalism in Asia and the Pacific. *The Pacific Review*. 13 (2). pp. 319–33.

- . 2001. *APEC and the Construction of Pacific Rim Regionalism*. Cambridge: Cambridge University Press.
- . 2002a. Institutional Evolution at the Trans-Regional Level: APEC and the Promotion of Liberalisation. In M. Beeson, ed. *Reconfiguring East Asia: Regional Institutions and Organisations After the Crisis*. London: Curzon Press.
- . 2002b. A Three Bloc World? The New East Asian Regionalism. *International Relations of the Asia-Pacific*. 2 (2). pp. 168–95.
- . 2003. The New Bilateralism in the Asia–Pacific. *Third World Quarterly*. 24 (3). pp. 299–318.
- . 2006. Mission Creep or Mission Impossible? APEC and Security. In A. Acharya and E. Goh, eds. *Reassessing Security Co-operation in the Asia–Pacific: Competition, Congruence and Transformation*. Cambridge, MA: MIT Press.
- J. Ruland. 2000. ASEAN and the Asian Crisis: Theoretical Implications and Practical Consequences for Southeast Asian Regionalism. *The Pacific Review*. 13 (3). pp. 421–452.
- J. Ruland, E. Manske, and W. Draguhn, eds. 2002. *Asia–Pacific Economic Co-operation: The First Decade*. London: Routledge Curzon.
- A. Sheng. 2009. Global Financial Crisis and Asian Responsibilities. *East Asia Forum*. 7 March. <http://www.eastasiaforum.org/2009/03/07/from-asian-to-global-financial-crisis-the-third-kb-lall-memorial-lecture/>.
- H. Soesastro. 1999. APEC After Ten Years. *Indonesian Quarterly*. 27 (2). pp. 146–70.
- . 2003. An ASEAN Economic Community and ASEAN+3: How Do They Fit Together? *Pacific Economic Paper*. 338. Canberra: Australia–Japan Research Centre, Australian National University.
- . 2009. East Asia, the G20 and Global Economic Governance. *East Asia Forum*. 8 March. <http://www.eastasiaforum.org/2009/03/08/east-asia-the-g20-and-global-economic-governance/>.
- R. Stubbs. 2002. ASEAN Plus Three: Emerging East Asian Regionalism? *Asian Survey*. 42 (3). pp. 440–455.
- N. L. Sum. 1996. The NICs and Competing Strategies for East Asian Regionalism. In A. Gamble and A. Payne, eds. *Regionalism and World Order*. London: MacMillan.
- A. Tanaka. 2007. The Development of the ASEAN Plus Three Framework. In M. G. Curley and N. Thomas, eds. *Advancing East Asian Regionalism*. London: Routledge.



- T. Terada. 1998. The Origins of Japan's APEC Policy: Foreign Minister Miki Takeo's Asia-Pacific Policy and Current Implications. *The Pacific Review*. 11 (3). pp. 337–63.
- . 2003. Constructing an East Asian Concept and Growing Regional Identity: From EAEC to ASEAN+3. *The Pacific Review*. 16 (2). pp. 251–277.
- L. S. Tsui-Auch. 1999. Regional Production Relationships and Developmental Impacts: A Comparative Study of Three Production Networks. *International Journal of Urban and Regional Research*. 23 (2). pp. 345–59.
- World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. Oxford: Oxford University Press.
- M. Yahuda. 1996. *The International Politics of the Asia-Pacific, 1945–1995*. London: Routledge.
- I. Yamazawa. 2009. APEC at 20: Assessment of Trade/Investment Liberalization, Facilitation and Ecotech Activities. In K. Kesavapany and H. Lim, eds. *APEC at 20: Recall, Reflect, Remake*. Singapore: Institute of Southeast Asian Studies.
- I. Yamazawa, P. Drysdale, and H. Soesastro. 2000. Summary and Recommendations. In I. Yamazawa, ed. *Asia Pacific Economic Co-operation (APEC): Challenges and Tasks for the Twenty-First Century*. London: Routledge.
- J. Yap. 2008. Whither East Asian Financial Co-operation? *East Asia Forum*. 24 December. <http://www.eastasiaforum.org/2008/12/24/whither-east-asian-financial-cooperation/>

## **ADB Working Paper Series on Regional Economic Integration\***

1. "The ASEAN Economic Community and the European Experience" by Michael G. Plummer
2. "Economic Integration in East Asia: Trends, Prospects, and a Possible Roadmap" by Pradumna B. Rana
3. "Central Asia after Fifteen Years of Transition: Growth, Regional Cooperation, and Policy Choices" by Malcolm Dowling and Ganeshan Wignaraja
4. "Global Imbalances and the Asian Economies: Implications for Regional Cooperation" by Barry Eichengreen
5. "Toward Win-Win Regionalism in Asia: Issues and Challenges in Forming Efficient Trade Agreements" by Michael G. Plummer
6. "Liberalizing Cross-Border Capital Flows: How Effective Are Institutional Arrangements against Crisis in Southeast Asia" by Alfred Steinherr, Alessandro Cisotta, Erik Klär, and Kenan Šehović
7. "Managing the Noodle Bowl: The Fragility of East Asian Regionalism" by Richard E. Baldwin
8. "Measuring Regional Market Integration in Developing Asia: a Dynamic Factor Error Correction Model (DF-ECM) Approach" by Duo Qin, Marie Anne Cagas, Geoffrey Ducanes, Nedelyn Magtibay-Ramos, and Pilipinas F. Quising
9. "The Post-Crisis Sequencing of Economic Integration in Asia: Trade as a Complement to a Monetary Future" by Michael G. Plummer and Ganeshan Wignaraja
10. "Trade Intensity and Business Cycle Synchronization: The Case of East Asia" by Pradumna B. Rana
11. "Inequality and Growth Revisited" by Robert J. Barro
12. "Securitization in East Asia" by Paul Lejot, Douglas Arner, and Lotte Schou-Zibell
13. "Patterns and Determinants of Cross-border Financial Asset Holdings in East Asia" by Jong-Wha Lee
14. "Regionalism as an Engine of Multilateralism: A Case for a Single East Asian FTA" by Masahiro Kawai and Ganeshan Wignaraja

15. "The Impact of Capital Inflows on Emerging East Asian Economies: Is Too Much Money Chasing Too Little Good?" by Soyoung Kim and Doo Yong Yang
16. "Emerging East Asian Banking Systems Ten Years after the 1997/98 Crisis" by Charles Adams
17. "Real and Financial Integration in East Asia" by Soyoung Kim and Jong-Wha Lee
18. "Global Financial Turmoil: Impact and Challenges for Asia's Financial Systems" by Jong-Wha Lee and Cyn-Young Park
19. "Cambodia's Persistent Dollarization: Causes and Policy Options" by Jayant Menon
20. "Welfare Implications of International Financial Integration" by Jong-Wha Lee and Kwanho Shin
21. "Is the ASEAN-Korea Free Trade Area (AKFTA) an Optimal Free Trade Area?" by Donghyun Park, Inwon Park, and Gemma Esther B. Estrada
22. "India's Bond Market—Developments and Challenges Ahead" by Stephen Wells and Lotte Schou- Zibell
23. "Commodity Prices and Monetary Policy in Emerging East Asia" by Hsiao Chink Tang
24. "Does Trade Integration Contribute to Peace?" by Jong-Wha Lee and Ju Hyun Pyun
25. "Aging in Asia: Trends, Impacts, and Responses" by Jayant Menon and Anna Melendez-Nakamura
26. "Re-considering Asian Financial Regionalism in the 1990s" by Shintaro Hamanaka
27. "Managing Success in Viet Nam: Macroeconomic Consequences of Large Capital Inflows with Limited Policy Tools" by Jayant Menon
28. "The Building Block versus Stumbling Block Debate of Regionalism: From the Perspective of Service Trade Liberalization in Asia" by Shintaro Hamanaka
29. "East Asian and European Economic Integration: A Comparative Analysis" by Giovanni Capannelli and Carlo Filippini
30. "Promoting Trade and Investment in India's Northeastern Region" by M. Govinda Rao

31. "Emerging Asia: Decoupling or Recoupling" by Soyoung Kim, Jong-Wha Lee, and Cyn-Young Park
32. "India's Role in South Asia Trade and Investment Integration" by Rajiv Kumar and Manjeeta Singh
33. "Developing Indicators for Regional Economic Integration and Cooperation" by Giovanni Capannelli, Jong-Wha Lee, and Peter Petri
34. "Beyond the Crisis: Financial Regulatory Reform in Emerging Asia" by Chee Sung Lee and Cyn-Young Park
35. "Regional Economic Impacts of Cross-Border Infrastructure: A General Equilibrium Application to Thailand and Lao PDR" by Peter Warr, Jayant Menon, and Arief Anshory Yusuf
36. "Exchange Rate Regimes in the Asia-Pacific Region and the Global Financial Crisis" by Warwick J. McKibbin and Waranya Pim Chanthapun
37. "Roads for Asian Integration: Measuring ADB's Contribution to the Asian Highway Network" by Srinivasa Madhur, Ganeshan Wignaraja, and Peter Darjes
38. "The Financial Crisis and Money Markets in Emerging Asia" by Robert Rigg and Lotte Schou-Zibell
39. "Complements or Substitutes? Preferential and Multilateral Trade Liberalization at the Sectoral Level" by Mitsuyo Ando, Antoni Esteveordal, and Christian Volpe Martincus
40. "Regulatory Reforms for Improving the Business Environment in Selected Asian Economies—How Monitoring and Comparative Benchmarking can Provide Incentive for Reform" by Lotte Schou-Zibell and Srinivasa Madhur
41. "Global Production Sharing, Trade Patterns, and Determinants of Trade Flows in East Asia" by Prema-Chandra Athukorala and Jayant Menon
42. "Regionalism Cycle in Asia (-Pacific): A Game Theory Approach to the Rise and Fall of Asian Regional Institutions" by Shintaro Hamanaka
43. "A Macroprudential Framework for Monitoring and Examining Financial Soundness" by Lotte Schou-Zibell, Jose Ramon Albert, and Lei Lei Song
44. "A Macroprudential Framework for the Early Detection of Banking Problems in Emerging Economies" by Claudio Loser, Miguel Kiguel, and David Mermelstein
45. "The 2008 Financial Crisis and Potential Output in Asia: Impact and Policy Implications" by Cyn-Young Park, Ruperto Majuca, and Josef Yap

46. "Do Hub-and-Spoke Free Trade Agreements Increase Trade? A Panel Data Analysis" by Jung Hur, Joseph Alba, and Donghyun Park
47. "Does a Leapfrogging Growth Strategy Raise Growth Rate? Some International Evidence" by Zhi Wang, Shang-Jin Wei, and Anna Wong
48. "Crises in Asia: Recovery and Policy Responses" by Kiseok Hong and Hsiao Chink Tang
49. "A New Multi-Dimensional Framework for Analyzing Regional Integration: Regional Integration Evaluation (RIE) Methodology" by Donghyun Park and Mario Arturo Ruiz Estrada
50. "Regional Surveillance for East Asia: How Can It Be Designed to Complement Global Surveillance?" by Shinji Takagi
51. "Poverty Impacts of Government Expenditure from Natural Resource Revenues" by Peter Warr, Jayant Menon, and Arief Anshory Yusuf
52. "Methods for Ex Ante Economic Evaluation of Free Trade Agreements" by David Cheong
53. "The Role of Membership Rules in Regional Organizations" by Judith Kelley
54. "The Political Economy of Regional Cooperation in South Asia" by V.V. Desai
55. "Trade Facilitation Measures under Free Trade Agreements: Are They Discriminatory against Non-Members?" by Shintaro Hamanaka, Aiken Tafgar, and Dorothea Lazaro
56. "Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?" by Prema-chandra Athukorala
57. "Global Financial Regulatory Reforms: Implications for Developing Asia" by Douglas W. Arner and Cyn-Young Park
58. "Asia's Contribution to Global Rebalancing" by Charles Adams, Hoe Yun Jeong, and Cyn-Young Park
59. "Methods for Ex Post Economic Evaluation of Free Trade Agreements" by David Cheong
60. "Responding to the Global Financial and Economic Crisis: Meeting the Challenges in Asia" by Douglas W. Arner and Lotte Schou-Zibell

61. "Shaping New Regionalism in the Pacific Islands: Back to the Future?" by Satish Chand

\* These papers can be downloaded from: (ARIC) <http://aric.adb.org/reipapers/> or (ADB) [www.adb.org/publications/category.asp?id=2805](http://www.adb.org/publications/category.asp?id=2805)



## **Organizing the Wider East Asia Region**

Regionalism and regional integration in East Asia have developed dynamically at various levels over the past two decades. In the world system, East Asia's degree of regional economic coherence is second only to the European Union's. This paper examines the development of new regional institutions involving the whole East Asia region: ASEAN Plus Three (APT), East Asia Summit (EAS), Asia-Europe Meeting (ASEM), Asia-Pacific Economic Co-operation (APEC) forum, Pacific Basin Economic Council (PBEC) and Pacific Economic Cooperation Council (PECC).

## **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.