

# ORGANIZING THE WIDER EAST ASIAN REGION

Christopher M. Dent  
University of Leeds  
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## 1. The East Asia Region: Vision and Aspiration

### 1.1 Idea of the 'East Asia' Region

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

- *Southeast Asia* – Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
- *Northeast Asia* – Japan, China, South Korea, North Korea, Hong Kong SAR, Macau SAR, Mongolia and Taiwan.

Regionalised 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 we refer to East Asia 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 summarised as follows:

- *Deepening micro-level economic regionalisation*, from the development of functionally integrated region-wide systems of business and infrastructural linkages (e.g. regional production networks) and regionalising social relations. Japan's 'flying geese' model of regionalised 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 regionalised 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'*, usually thought of as based on the region's generic development model – centred on the developmental state paradigm of state-business partnered capitalism and export-oriented industrialisation – that could be in some way contrasted with Western counterparts (World Bank 1993). Closely related to this was how most East Asian countries have commonly experienced a profound economic transformation over recent decades, albeit to varying levels of significance.
- *End of the Cold War*, which created more favourable geopolitical conditions for closer economic relationships to develop in the region.
- *Growing macro-level regional co-operation after the 1997/98 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 occurring again.

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, i.e. globalisation. Furthermore, East Asia continues to have a growing impact on the international economic system, its ascendancy broadly restructuring this system somewhere between a dominant tripolar (i.e. East Asia, Europe, North America) and multipolar (i.e. 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 grouping. Different international or regional organisations will often assign countries to different regions but such classifications may of course vary from one organisation 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 (e.g. ASEAN and the implementation of AFTA), so the concept of 'variable geography' applies where differentiated conceptions of which countries may or may not qualify for regional membership (e.g. to East Asia) can co-exist. In other words, the geographic boundaries of regions are ultimately contestable. This explains why Japan's current vision of East Asia (that includes India, Australia and New Zealand) may vie with China's more hitherto conventional view of the region that just includes Northeast and Southeast Asia. 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, we 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 understandings of regions themselves as coherent entities. As it was argued at the start of this chapter that economic factors were the most important fundamentals in East Asia's case – say 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 South 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 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 to 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 integrational processes had mitigated such an inclusion. Many scholars and other analysts furthermore

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

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 in order to counterbalance the rising power of China. From an economic perspective, India has as previously mentioned become increasingly integral to the regionalised dynamics of the East Asian economy, as is evident in both micro-level regionalisation (e.g. international production network trade and investment linkages) and macro-level regionalism, having signed international economic agreements with ASEAN, China, Japan and South 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 1950s-1980s period was marked by Cold War 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. Those Asian countries present comprised Cambodia, China, India, Indonesia, Japan, Laos, Myanmar, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand and Vietnam (South and North). Conference members signed a Declaration on the Five Principles of Peaceful Co-Existence based on a prior understanding established between China and India a year earlier. The Declaration emphasised the 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 stabilisation 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" (pg. 408).

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 characterised diplomatic relations between most countries in the region. Moreover by the 1960s, its 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 Centre (JERC) – a government sponsored think tank – put forward a proposal for creating a Pacific Free Trade Area (PAFTA) between the Asia-Pacific's five advanced economies, namely Japan, the US, Canada, Australia and New Zealand (JERC 1966). The lynchpin of this trade alliance was Japan's security relationship with the United States, 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 materialised, it created a 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 organisations 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 has since then organised regular meetings between academics to discuss trade, development and other economic policy issues relevant to the Asia-Pacific region. Its conferences provided an important framework for early technical discussions on enhancing regional economic co-operation, including how a future possible PAFTA could be realised. These two organisations were later joined by the Pacific Economic Co-operation Conference<sup>2</sup> (PECC), created in 1980 to bring together key representatives from business, government and academia to discuss the economic related challenges facing Asia-Pacific nations. Over time, the PAFTAD/PBEC/PECC framework facilitated various levels of trans-regional dialogue on strengthening economic and business ties within the Asia-Pacific during the 1970s and 1980s, 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 early promise during the early 1990s for creating the conditions for East Asian countries to participate in an Asia-Pacific community-building process.

In the meantime, the Association of Southeast Asian Nations (ASEAN) was formed in 1967 between the five original member nations of Indonesia, Malaysia, the Philippines, Singapore and Thailand. The United States had a conspicuous hand in helping establish the organisation, motivated by its interest of coalescing a group of ideologically compatible regimes in Southeast Asia 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 organisation or grouping whose membership was exclusively East Asian. We discuss later how this special position or continuity has provided an important diplomatic and institutional platform on which larger scale East Asian groupings (especially the ASEAN Plus Three framework) were able to build from the mid-1990s onwards. 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 organisation'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.

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

In sum, by the end of the 1980s, while East Asia was becoming a more coherent regional economy as micro-level regionalised linkages strengthened, there had been a negligible advancement of ideas pertaining specifically to East Asia 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 by 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 South Korea with the United States), trans-regional groupings (e.g. APEC) or in a global multilateral sense (e.g. Japan and 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 and in particular in the aftermath of East Asia's 1997/98 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 comprise exclusively of 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 United States and its closest regional partners the North American Free Trade Agreement. Moreover, Mahathir suggested the EAEG would be a vehicle for championing East Asia interests generally on the global stage, and that this could not be as effectively achieved through APEC or any other organisational arrangement that included non-East Asian great powers such as the United States. In addition, Mahathir was a key champion of 'Asian values' (e.g. group ethics, strong family and community ties, high kudos afforded to education and public service, social harmony, etc.) that he argued would serve as an important social and political binding force between 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 between 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, presenting this 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 criticised 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 endeavours at the time of fostering closer trans-Pacific ties.

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<sup>3</sup> Some years later, Mahathir (2006) remarked that, "for reasons we could not understand, the US objected strongly to the EAEG. James Baker, who was then the US Secretary of State, visited South 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" (pg. 13).

<sup>4</sup> For example, when South 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: p. 611).

Although the Malaysian government made subsequent attempts to revive the EAEC proposal, it never materialised. 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 amongst other group members. In August 2003, Malaysia also organised 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', and 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 globalisation created more favourable 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, i.e. East Asia, Oceania, Pacific America and the Asia-Pacific / APEC. In 1994, Singapore – arguably East Asia's most globally oriented state – proposed an inter-regional link with the EU. The consequent formation of the Asia-Europe Meeting (ASEM) framework in 1996 was an important development in East Asia 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 Asia – China, Japan, South Korea, Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam – 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 ten representing 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, that is 'we East Asians are meeting with *you* Europeans' (Gilson 2002). As Japan's Finance Minister Kiichi Miyazawa commented on ASEM, "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 regularised summits between ASEAN and Northeast Asian countries, leading to the first ASEAN 'Plus' summits (ASEAN Plus One meetings with Japan, China and South Korea separately, and then a combined ASEAN Plus Three meeting) in December 1997. 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 on addressing the 1997/98 financial crisis. Divisions amongst APEC member states on how best to tackle crisis-related issues (e.g. trade and investment) at the time, 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 institutionalised co-operation amongst the region's states, subsequently helping expand APT's

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<sup>5</sup> *Financial Times*, 16.01.2001.

agenda to cover other key areas of regional affairs (e.g. energy and food security) into the 2000s. As a result, East Asian countries have generally placed more faith in the APT process rather than APEC on regional co-operation during the past decade or so. APEC has never really recovered after the debacles of the 1997/98 crisis period. Its centrepiece project – the ‘Bogor Goals’ of creating non-discriminatory free trade and investment relations in the trans-region by 2020 – has been moreover subverted by a proliferation of discriminatory bilateral free trade agreements (FTAs) (Dent 2006, Okamoto 2003, Ravenhill 2003).

This chapter examines regional institutionalised developments involving the whole East Asia region. Six region-based frameworks and organisations will be examined, four of these being ‘supra-structure institutions’ – ASEAN Plus Three, East Asia Summit, Asia-Europe Meeting, and Asia-Pacific Economic Co-operation forum – and the two ‘supporting institutions’ of Pacific Basin Economic Council and Pacific Economic Co-operation Council.

## **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 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 Asian had much to gain from regularising 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 hosted by Kuala Lumpur. Member states comprised the ASEAN-10 nations plus the three Northeast Asian states of China, Japan and South 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 realisation 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 each individual Northeast Asian country partner, 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 regional ‘frameworks’ rather than a regional organisation such as ASEAN or APEC (Dent 2008a). This may be explained as follows. All four perform the regional-level functions of: (i) regularised meetings of political leaders, ministers, other government officials, business leaders and civil society groups; (ii) co-operative and integrative activities and programmes; (iii) improved socialisation amongst participating agents in these meetings, activities and programmes; (iv) the capacity for envisioning and strategising future possible paths of regional community-building. However, not only do ASEAN and APEC have more developed and formalised structures regarding the above but in addition they also possess the following: (v) a secretariat, which although are small in both cases nevertheless operate as a permanent co-ordinating agency for the organisation’s activities; (vi) the features of a defined organisational identity, e.g. with logo, website, etc.; (vii) in ASEAN’s case, an increasing capacity for unitary actions as an organisation interacting with other regional organisations (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 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 persisted for many years thereafter, and the 2008/09 global financial crisis re-affirmed the importance of continuing to work together at the regional level in this area of co-operation. As this section will examine, APT key achievements have been the creation of the Chiang Mai Initiative (CMI) and the Asian Bond Market Initiative (ABMI). We shall also see how APT has gradually broadened its agenda to encompass other matters of regional affairs.

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

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

Addressing the 1997/98 East 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 Asia region, and deepened into a full-blown financial crisis as stock markets, real estate markets and banking systems crashed in many East Asian economies. This chain of events exposed both the extent of regional financial market interdependence and also the relative weakness of existing international co-operative mechanisms in the region 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, China, Hong Kong, South Korea, Singapore and Taiwan, with Japan making the majority contribution. Japan felt partly culpable for 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 expectation 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 exclusively East Asian regional initiative but also due to how the AMF could potentially undermine the multilateral competence of the IMF, and hence the loss of 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. China was also concerned over Japan's idea to involve Taiwan (then the world's third largest retainer of foreign exchange reserves, and possessing one of Asia's most robust central banks) in the



arrangement, as Beijing was with any initiative that conferred international status to 'Chinese Taipei'. The Chinese government was additionally circumspect over the perceived hegemonic manoeuvring of Japan's within the East Asian regional political economy.

As a result of this opposition, Japan's AMF proposal was aborted by November 1997 but soon thereafter worked on a scaled down alternative proposal, the New Miyazawa Initiative (NMI, named after Japan's then finance minister) that 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 under pressure local currencies in an attempt to avert a run on the swap partner's currency.

The NMI was later to provide the basis of APT's first substantive scheme on regional financial co-operation and governance, the Chiang Mai Initiative (CMI). Malaysia and South Korea accepted Japan's invitation to become NMI parties, signing US\$2.5 billion and US\$5 billion swap agreements respectively. These were later progressively upgraded under the CMI. In addition, the NMI included a US\$3 billion Asian Currency Crisis Support Facility that administered through the ADB and 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 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 also tabled a proposal for an additional US\$5 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 also agreed under the ASEAN-based Hanoi Plan of Action (HPA) 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 level initiatives dovetailed with the APT framework. Also at the Second APT Summit, member states endorsed China's proposal for regularised 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 financial crisis more clearly understood by this time, all APT members developed firmer appreciations 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 moreover helped firmly establish regional co-operation on finance as the priority issue on the APT's agenda (Hayashi 2006, Henning 2002, Hughes 2000, Katada 2002). Although this agenda was to expand to

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<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.

embrace a range of regional affairs as is later examined, the APT's main institutional and diplomatic efforts were focused on strengthening East Asia's regional financial governance.

### *2.2.2 The Chiang Mai Initiative (CMI)*

The Chiang Mai Initiative (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 at Chiang Mai in May 2000, where East Asian countries decided to raise the level of financial co-operation to the next level, with a view to creating new mechanisms to counter any future financial crisis arising in the region again. 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).

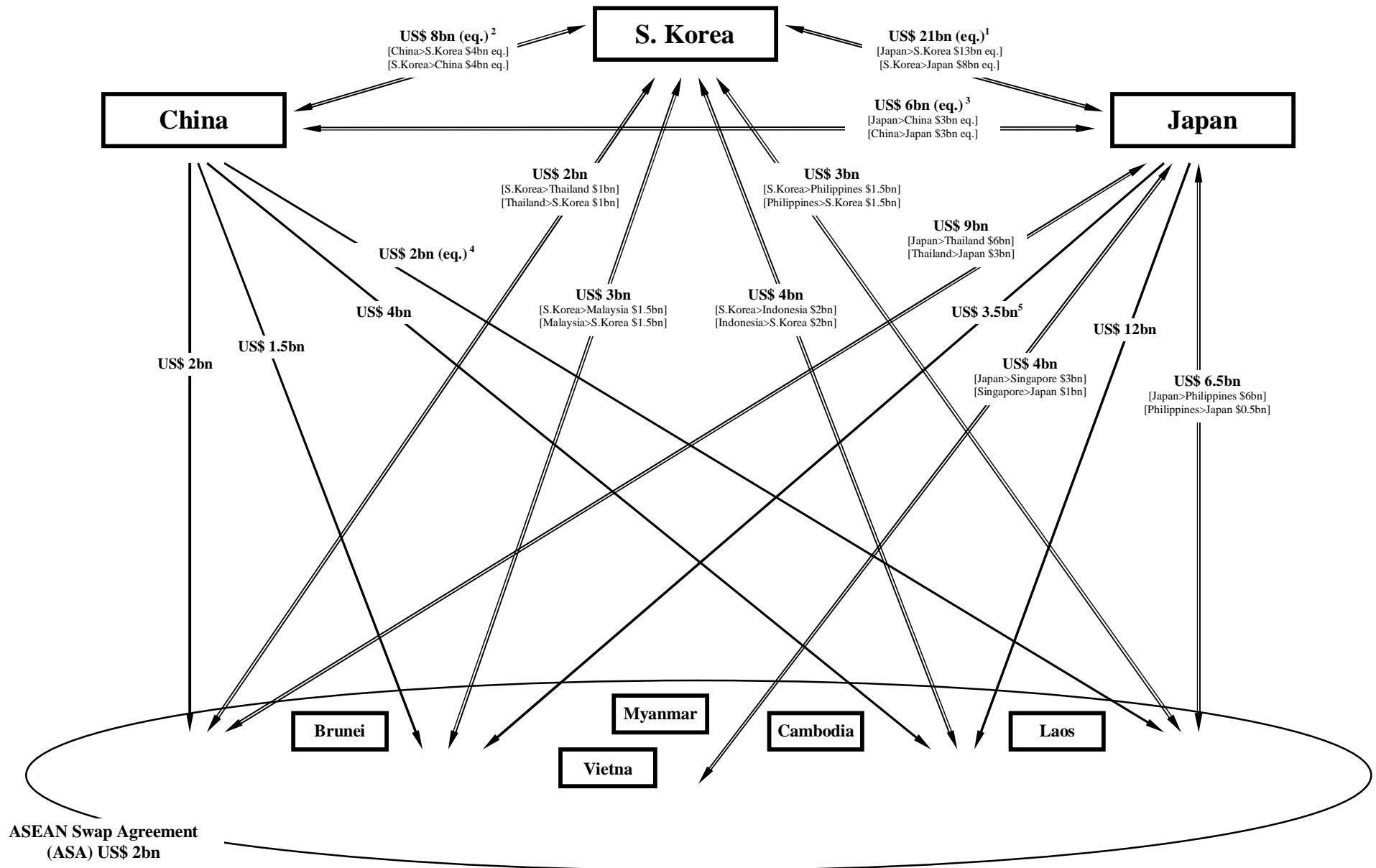
The number of BCSAs gradually grew so that by May 2003 a total of 14 bilateral agreements had either been signed or concluded. These were joined by a revamped ASEAN Swap Agreement (ASA) facility, the lending facility of which was boosted from US\$200 million to US\$1 billion as part of the CMI scheme. By this time the CMI system consisted of agreements that amounted to a total of US\$36 billion committed funds. At the Eighth APT Finance Ministers Meeting held in May 2005, APT member states agreed to double the total funds committed to the CMI, then standing at US\$39.5 billion, as well as improving the integration of the scheme's surveillance mechanisms, and adopting a collective decision-making process on CMI operations (Hamilton-Hart 2007). The month before the ASA fund had been increased to US\$2 billion. This objective was achieved by May 2007 when the CMI system combined 16 agreements<sup>7</sup> amounting to US\$82.5 billion in total. By February 2009 this figure had risen to US\$93 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 to 70 percent of the world's foreign exchange reserves ('forex'), the funds on which the system's BCSAs ultimately derived from. Forex is essentially the foreign currency deposits held by central banks and other monetary authorities, the main reserve currencies being US dollars, euro and yen. Governments may use these reserves to help stabilise 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 somewhat under ambitious given the levels of reserves that APT countries had accumulated after the 1997/98 financial crisis. Table 1 shows that by the end of 2008 these stood at over US\$3,822 billion (up from US\$620 billion in 1997), or around half the global total. Thus, the CMI system at this time

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

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



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

Notes: All swaps denominated in US dollars except for: 1. Japanese yen – Korean won currency swap. 2. Chinese yuan – Korean won currency swap. 3. Japanese yen – Chinese yuan currency swap. 4. Chinese yuan – Philippine peso currency swap. These four agreements are denoted in US dollar equivalent (eq.) sums. 5. 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			
	China	Japan	South Korea	Hong Kong	Singapore	Thailand	Malaysia	Indonesia	Philippines	Vietnam	East Asia (total)	US	Germany	France	UK
<b>2008</b>	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
<b>2007</b>	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
<b>2006</b>	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
<b>2005</b>	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
<b>2004</b>	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
<b>2003</b>	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
<b>2002</b>	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
<b>2001</b>	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
<b>2000</b>	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
<b>1999</b>	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
<b>1998</b>	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
<b>1997</b>	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
<b>1996</b>	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
<b>1995</b>	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
<b>1990</b>	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
<b>1985</b>	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
<b>1980</b>	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 China, Taiwan ([http://investintaiwan.nat.gov.tw/en/env/stats/foreign\\_exchange.html](http://investintaiwan.nat.gov.tw/en/env/stats/foreign_exchange.html)).

operated on a mere fraction (just over 2 percent) of the combined foreign exchange reserves of APT states. This apparently cautious approach extended to their compliance to strict IMF conditionality rules, whereby initially only 10 percent of CMI agreements funds could be operated without seeking permission from the International Monetary Fund, this threshold being later raised although only to 20 percent.<sup>8</sup> Thus, from the start there was some uncertainty whether the CMI could have, or would be allowed to have any effect if utilised in a future crisis situation. The then US\$200 million ASA was not even activated during the 1997/98 financial crisis because it was considered simply 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 normally 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 dominated assets for conversion purposes would lead to a downward market price effect, thus diminishing the value of their remaining dollar dominated asset stocks. This situation especially applies to large scale dollar stock owners like China and Japan. In sum, whilst APT countries may possess enormous amounts of forex, the levels of reserves at their immediate disposal are 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.

The experience of the 1997/98 financial crisis motivated East Asian governments to stockpile forex as a defence 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 (South 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>9</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. This being said, in October 2008 the central banks of both South Korea and Singapore (along with those of Mexico and Brazil) signed temporary US\$30 billion BCSAs with the US Federal Reserve, perhaps

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

<sup>9</sup> *Reuters*, 17.03.2009.

indicating the two East Asian countries lack of faith in the CMI for a US\$30 billion.<sup>10</sup> Japan, Australia and New Zealand had also previously signed BCSAs with the United States. The decision of South Korea and Singapore to choose this path rather than seek activation of its sizable BCSAs with China and Japan in the CMI does pose 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 be 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 multilateralise the system of bilateral currency swap arrangements 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 Multilateralised (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 Asian Monetary Fund proposed by Japan back in 1997 and supported by Taiwan. It was agreed that 80 percent of the CMIM fund would be provided by Japan, China and South 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>11</sup>

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

The Asian Bond Markets Initiative (ABMI) was the second main 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 utilise the region's huge financial resources for promoting its own regional financial stability and economic development, rather than investing in, or diverting these resources to other regions or countries. East Asia not only has huge foreign exchange reserves but also very high levels of domestic savings, at around 30 to 40 percent of 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 United States. East Asia's own capital markets have generally been slow to develop, with only higher income countries like Japan and South Korea having established credible markets for bonds. Moreover, Asian currency-denominated bonds were not internationalised. For example, by 2004 only 4 percent of Japanese government bonds were held outside the country.<sup>12</sup>

A bond is usually a fixed-interest, long-term security that can be issued by governments, firms, banks and other institutions. The ABMI is designed to foster domestic and regional bond market development in East Asia with a general view to better utilise the region's substantial financial resources more towards meeting the region's investment needs over the early 21<sup>st</sup> Century. In contrast to the CMI, which provides a mechanism for short-term counteractions to financial

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<sup>10</sup> *US Federal Reserve News Release*, 29.10.2008.

<sup>11</sup> *Xinhua News*, 23.10.2009.

<sup>12</sup> *Business Times Singapore*, 24.05.2004.

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 building more substantive financial market integration in the region. 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 regionalisation 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 regional inter-governmental governance mechanism (i.e. financial regionalism) than the ABMI (Grimes and Kimura 2005).

Like the CMI, the ABMI has too been conceived in crisis aversion terms. A key cause of the 1997/98 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 this was then funnelled to international financial centres and a significant amount in turn invested back into the region but mostly in the form of short-term loans. Pempel (2000) usefully summarises 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" (pg. 67). 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 demands of East Asian companies, which were over dependent on banks generally in raising finance. Investing in long-term, local currency bonds issued by governments and companies themselves would help avoid the above predicaments, and make East Asia financially more self-sustainable as a region generally 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-dominated assets in particular.

Although the ABMI has mainly developed through APT processes, these have worked in tandem with certain other related institutions and organisations. Discussions on 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, its eleven member state representatives agreeing to establish an Asian Bond Fund with initial capital of US\$1 billion.<sup>13</sup> The ABMI plan was then formally endorsed at the APT Finance Ministers Meeting held in August 2003, and 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

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<sup>13</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, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand.

ABMI.<sup>14</sup> In April 2004, the EMEAP group gave its approval to launching a much larger Second Asian Bond Fund worth around US\$11 billion. As with the first Fund, this was to be managed on behalf of the central banks by the Bank for International Settlements based in Hong Kong, but unlike the first Fund, these new bonds were denominated in Asian currencies rather than in US dollars. This time also, foreign exchange reserves could be used for the first time to purchase these new Asian-currency bonds.

The Second Asian Bond Fund was implemented from May 2005 onwards 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 organisation's growing involvement in promoting East Asian economic regionalism generally. It had helped Japan open up its first domestic bond market in the early 1970s, and in other East Asian economies up to the 1997/98 financial crisis, including in Hong Kong, South Korea, Singapore and Taiwan. Since the ABMI's launch, the ADB has provided new bond issue assistance to a wider range of East Asian countries, including China, Malaysia, Philippines, Thailand and Vietnam from 2003 onwards. By the end of 2004, East Asian local currency bond markets had tripled in size since the 1997/98 financial crisis. The ADB's first Asia Bond Monitor also reported at this time, however, that the region issued only 3 percent of local currency bonds outstanding worldwide.<sup>15</sup> By November 2006, the ADB reported that the volume of outstanding local currency bonds had expanded from US\$2 trillion to US\$2.4 trillion over the first half of 2006.<sup>16</sup> Yet this was still some way behind the US\$16.8 trillion US dollar bond market, of which about 30 percent are government issues.<sup>17</sup> In May 2008, a new ABMI road map was agreed upon at the 11<sup>th</sup> APT Finance Ministers Meeting to have member countries voluntarily develop local currency-denominated bond markets.

While, then, it was noted that the ABMI had made an important contribution to bond market growth in the region, the ADB also stated there remained huge scope for further expansion. Surveys had long indicated the significant potential demand for Asian currency-issued bonds. For example, the ADB itself estimated that between 2005 and 2010, East Asia would require US\$180 billion (approximately 6 to 7 percent of the region's annual GDP), in new physical infrastructure investments.<sup>18</sup> According to a Citigroup report, Asia's investment needs generally would be around US\$20 trillion over the 2005 to 2015, and moreover that the long-term and stable financing provided by bond markets was ideal for facilitating the region's strategic investments.<sup>19</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, and in response to the 1997/98 financial crisis. As we have seen, both schemes have made some level of substantive progress since then. A third scheme, the Asian Currency Unit (ACU) system proposed in 2006, failed to take off owing to political difficulties and institutional constraints within the APT framework but 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?

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<sup>14</sup> *INQ7 News (Philippines)*, 31.10.2003.

<sup>15</sup> *China View*, 23.11.2004.

<sup>16</sup> *ADB Press Release*, 15.11.2006.

<sup>17</sup> *Ibid.*

<sup>18</sup> *ADB Press Release*, 05.08.2004.

<sup>19</sup> *Business Times*, 24.05.2004.



Many have criticised these APT schemes for lacking ambition and both the APT and EAS's frameworks generally for their inability to forge an effective 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 multilateralising 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 meanwhile an active scheme with laudable objectives but 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 group failed to consult with one another in preparation for the November 2008 meeting held in Washington DC (Yap 2008). The aforementioned decisions of South Korea and Singapore to sign US\$30 billion currency swap deals with the United States rather than seek activation of their agreements with CMI partners was also showed a demonstrative lack of faith in East Asia's regional financial co-operation.

Two new measures have been proposed, however, at the track II level by a group of high-profile economists under the aegis of the Asian Development Bank Research Institute (ADBRI 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, bringing together finance ministry, central bank, and financial market regulatory and supervisory agencies across the region. According to Drysdale (2009), the AFSD could "share information, harmonise prudential indicators, increase coordination on conducting early warning system analysis, and discuss more openly national and regional policy interventions" (pg. 2), 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 channelling 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 new proposed schemes had yet to be formally considered 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, ICT co-operation, customs information exchange, agricultural technology, and management training programmes. 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, published for adoption at the 2002 summit, included:

- *Short-term measures:* East Asia human resource development programme, network of East Asia Think Tanks (NEAT), East Asia Forum, East Asia Business Council, poverty alleviation programmes, regional identity-building exercises.

- *Medium to long-term measures:* high-level conference on investment and SMEs; feasibility study on an East Asia Free Trade Area (EAFTA); convening of an East Asia Summit; create a regional financing facility; expand the ASEAN Investment Area to an East Asia Investment Area arrangement; establish a framework for energy policies, strategies and action plans.

As we later examine, plans to initiate or further study the good majority of the above have taken place. One EASG recommended initiative that has been taken forward concerns the APT Workshops on Promoting East Asian Identity and Consciousness. The second of these was convened in November 2006 at Brunei, and is seen as an essential part of the East Asia community-building process.<sup>20</sup> In the same month, APT diplomacy led to Japan, China and South Korea joining ASEAN's emergency rice reserve programme, 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>21</sup> The EAERR initially operated as a temporary arrangement over three years, expiring in early 2010, and would essentially serve the ASEAN countries, consisting of rice stocks held in each member state and earmarked for emergency distribution within Southeast Asia should the need arise. This was set within the context of APT endeavours to improve regional food security and safeguard rural livelihoods in the region, as well as putting 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 liberalisation on agricultural products.<sup>22</sup> Although conventional security issues, such as North Korea's nuclear programme, have been discussed at APT meetings, they have not become codified into the APT agenda or works programme.

### 2.3 Organizational Structure and Institutional Processes

APT's organisational structure and institutionalised processes are closely entwined with ASEAN's, with APT summits tagged onto the end of ASEAN summits and only ASEAN countries therefore being eligible to host them. ASEAN Plus Three 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:

- *Annual:* Finance (1999), Economic (2000), Foreign (2000), Agriculture and Forestry (2000), Environment (2002), Tourism (2002), Energy (2004)
- *Biennial:* Labour (2001), Culture and Arts (2003), Public and Internal Security (Transnational Crime, 2004), Health (2004), Youth (2007)
- *Triennial:* Social Welfare (2003)
- *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, covering 19 policy areas, and with similar details noted below:

<sup>20</sup> *Brunei Times*, 09.11.2006.

<sup>21</sup> *Bloomberg News*, 22.11.2006.

<sup>22</sup> *Philippine Daily Inquirer*, 26.10.2009

- *Annual*: Finance (1999), Economic (2000), Foreign (2000), Agriculture and Forestry (2001), Labour (2001), Energy (2002), Tourism (2002), Public and Internal Security (2003), Telecommunications and Information Technology (2003), Health (2003), Social Welfare (2003), Environment (2004), Disaster Management (2006), Minerals (2006)
- *Biennial*: Culture and Arts (2003), Youth (2004), Rural Development and Poverty Eradication (2006)
- *Irregular*: Science and Technology (2006), Women (2006)

Under 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, held twice a year, and that work in the same policy areas as the SOMs. The DGMs are charged with:

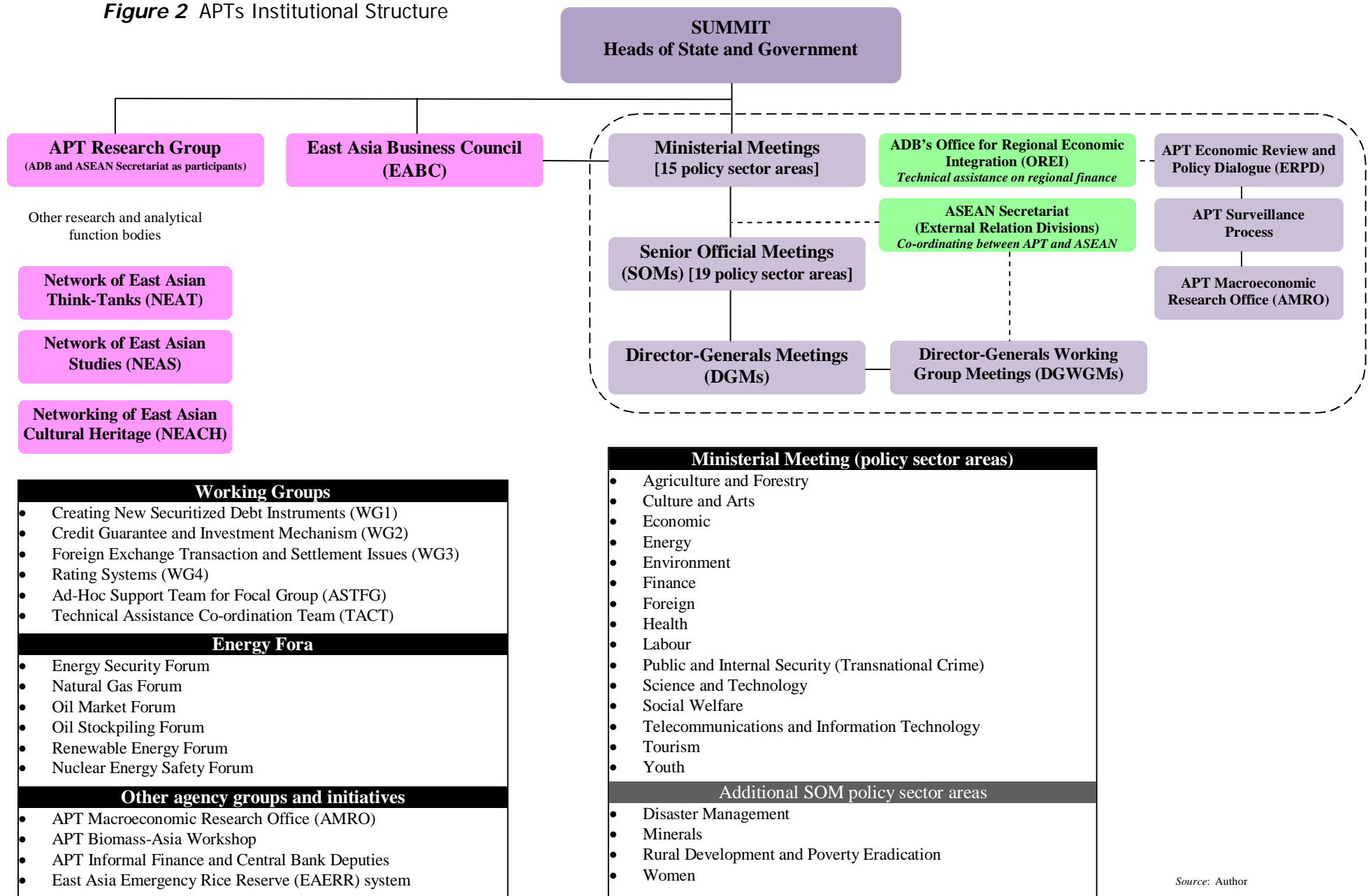
- Following up and implementing the later noted APT Co-operation Work Plan (2007 – 2017) through reviewing its identified priority areas and revising them biennially based on the urgency and current issues in the region, co-ordinating with the ASEAN Secretariat where necessary.
- Co-ordinating and implementing the measures in the EASG Final Report
- Identifying regional priorities for East Asia co-operation
- Co-ordinating East Asia co-operation under the APT process generally
- Promoting functional co-operation in East Asia
- Reporting their work to the APT Foreign Ministers Meeting

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

- Assists in the preparation of relevant documents submitted for the DGMs
- Reviews the status of APT development co-operation activities and their implementation
- Make 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
- Work closely with the External Relations Divisions of the ASEAN Secretariat in undertaking the above tasks.

A number of 'supporting institutions' have been produced 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, each appointed by the respective Economics Minister. Its main purpose is to provide private sector perspectives and feedback into APT discussions on how to deepen regional economic co-operation and to expand the region's economic growth. The EABC also works to strengthen co-operation among the private sectors within the APT group. The *Network of East Asian Think-Tanks* (NEAT) was created in 2003 as a track II process to provide a collective APT group 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 giving policy recommendations to these Meetings. Further analytical capacity on APT 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 which discuss and study research topics endorsed at the APT Finance Ministerial Meeting. Research Group officials especially discuss

**Figure 2** APTs Institutional Structure



Source: Author

medium and long-term challenges for further regional financial co-operation facing East Asian Countries and work closely with the region's research institutions in their study activities. Reports from these 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 that 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 groups have also been created (Figure 2). APT's work on promoting stronger East Asian socio-cultural unity has been carried 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 realising deeper regional co-operation across a range of areas. These include the following:

- Implement a Comprehensive Human Resources Development Programme for East Asia (2003)
- Agricultural Technology and Management Training Programme for ASEAN Countries (2003)
- APT Website for Customs Information Exchange (2004)
- Establish Poverty Alleviation Programmes (2005)
- Work together with Cultural and Educational Institutions to Promote a Strong Sense of Identity and an East Asian Consciousness (2005)
- Promote East Asian Studies in the Region (Network on East Asian Studies – NEAS, 2005)
- Promote Networking and Exchanges of Experts in the Conservation of the Arts, Artefacts, and Cultural Heritage of East Asian Countries (NEACH, 2005)
- APT Logistics Co-operation for Future Trade Facilitation (2006)
- APT Co-operation for Internationally Comparable Statistics (2006)
- Joint Declaration on Energy Security (2007)
- Co-operation on Food Security and Bio-energy Development (2008)

Although APT may not strictly be considered a regional organisation, it has nevertheless developed relatively extensive structures of networked relationships amongst East Asian government officials, private sector representatives and research analysts, these being 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 now broad RCI agenda that has particularly focused on economic and technical co-operation issues, which as we later examine is in some contrast to APEC's prioritisation of commercial liberalisation 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 also reinforcing efforts to create the ASEAN Communities (Economic, Socio-Cultural and Security) by 2015.

Activities based on the APT Co-operation Work Plan were implemented with initial direct funding support from China, Japan and South Korea. However, a new APT Co-operation Fund was

introduced in 2009 to help finance Work Plan projects. Areas of co-operation parallel the APT's meetings and dialogue structure, and lays 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; (iv) socio-cultural and development co-operation.

The institutional identity of APT is, of course, bound up with that of ASEAN, and the External Relations Divisions (one covering political and security relations, the other economic relations) within the ASEAN Secretariat perform certain co-ordinating functions between the two institutions. In one sense, APT provides an important level of support to ASEAN, working in unison for example in realising the organisation'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 Policy Dialogue*, the Bank has 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 *Chiang Mai Initiative Multilateralised*. When formally created, AMRO will be an independent regional surveillance unit to monitor and analyse regional economies. In the meantime, the ADB and ASEAN Secretariat established an interim surveillance arrangement based on the existing surveillance process. The ADB is additionally expected to provide technical assistance to support the CMIM surveillance process, including capacity-building in the early phase of the establishment of AMRO. On the Asian Bond Markets Initiative, the ADB has been working with APT to accelerate the establishment of a Credit Guarantee and Investment Mechanism (CGIM) that will provide credit guarantees for domestic bonds to meet financing needs and will help develop the region's local currency bond markets. The ADB also supports a number of capacity-building programmes for APT officials and staff, for example in providing technical assistance for training of financial regulators and supervisors, and training on regional economic and financial monitoring.<sup>23</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 and hope for what APT can achieve. During the aftermath of the 1997/98 financial crisis, it 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 still 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. This, though, is likely to take some time to make progress given the East Asia region's economic asymmetries and uneasy political relationships, e.g. between China and Japan. In the

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<sup>23</sup> This information was provided by the OREI division of the ADB.

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 centred on economic and technical assistance and development capacity-building issues. This is consistent with the general principles on which East Asia regional community-building has hitherto been broadly based, as for example seen in the kinds of quasi-regional FTAs (e.g. Japan – ASEAN) being signed in the region. Thus, we may expect an APT-based regional trade agreement to combine liberalisation 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 quite limited contributions to regional community-building processes owing to various capacity deficiencies. The region's stronger powers (especially Japan and China) are making a difference here through bilateral channels of assistance, and it may be that variable geometry arrangements of regional co-operation (i.e. 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, e.g. securing energy supplies.

Another key challenge that faces both APT and 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 China and Japan pursue strategies of trying to counter the other's exercises of regional leadership in East Asia then this will seriously constrain regional community-building *per se*. 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 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 'relationship' issues between APT and EAS are discussed in more detail at the end of the following East Asia Summit section. APT's heads start advantage over EAS to a large extent explains why it may be considered a far more substantive regional framework, yet it still lacks a strong independent institutional identity and capacity to realise its potential for advancing regional co-operation in East Asia. This will continue while it remains dependent on associate regional organisations, especially ASEAN (Secretariat) and the ADB. At the same time, both these organisations have played an important intermediary and facilitating role in APT co-operation. A new name (non-ASEAN derived) and independent Secretariat would be needed to strengthen the APT's corporate identity and self-determined functionality as the representative body of regionally co-operating East Asian nations.

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

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

The East Asia Summit 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, and thereafter the East Asia Study Group was charged with examining the proposal and reporting back with its recommendations. These essentially focused on the desirability of

transforming the 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 China, Japan and South Korea a greater sense of ownership over the East Asia regional community-building process.

It was initially believed that the APT would simply evolve into the EAS, subsuming all its work programmes and adopting its framework structure. This was the general understanding that prevailed right up until the November 2004 APT Summit.<sup>24</sup> However, what transpired was the EAS becoming neither a substitute for the 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 the APT group but also – at primarily Japan and Indonesia's insistence – India, Australia and New Zealand. The first East Asia Summit was held in December 2005, hosted by Malaysia at Kuala Lumpur, and much of the discussion at the meeting revolved around membership issues and what value the EAS framework could add to the regional community-building process beyond what was already being achieved by the APT.

### **3.2 Issue Coverage, Agenda Setting and Instrumentalisation**

The EAS framework is still a relatively institutional arrangement that possesses a rather limited degree of organisational substance. The issues covered at East Asia Summits are more driven by regional and global events, or by initiatives and proposals made by its individual member states. It lacks the multi-structured and programmatic dialogue processes that can be found in APEC, ASEAN and APT. Japan is the key advocate of the East Asia Summit, and to help consolidate the new regional grouping it pushed the idea of an EAS-based free trade area or agreement, and made formal proposals on this 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 add greater counterweight to an ascendant China in any emerging East Asian regional organisation or framework. Japan's predilection for a broad East Asian grouping, however, pre-dates the EAS's inception (Hund 2003). Back 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 on regional community-building. China, Malaysia and others on occasion, though, have argued for a more conventional East Asian grouping.<sup>25</sup>

China's stated opposition to a broad 'extra-regional' EAS membership centred on how the regional body could become too unwieldy and incoherent if the interests of many disparate nations were to be accommodated. Moreover, Beijing argued the greater the number of countries involved, the less integrated and coherent a future East Asian community will be.<sup>26</sup> Japan, though, lobbied other East Asian nations hard on the 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 two 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 China), Pakistan and Mongolia (supported by Malaysia), Bangladesh (supported by Japan) and Papua New Guinea (supported by Australia). The EU had in addition noted its wish to gain

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<sup>24</sup> *Associated Press*, 29.11.2004.

<sup>25</sup> For example, Thailand and the Philippines, along with Malaysia, were more inclined to support China's APT-based regional FTA idea than Japan's EAS-based alternative.

<sup>26</sup> *Asahi Shimbun*, 04.01.2005; *The Yomiuri Shimbun*, 25.11.2005.



observer status, and the United States to be involved somehow although this had not been clarified.

We explain below how the EAS agenda has been largely shaped by reactions to regional and global events rather than programmatic strategising from within its rather thin institutional structure. It is also later noted how energy and environment have been two issue areas where the EAS has made most apparent progress on regionalised co-operation and dialogue. The East Asia Summit can make important contributions to regional community-building if perhaps it specialises on a few issue areas and develops the institutional architecture to manage these accordingly. While, though, it remains a somewhat '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 organisational substance. Aside from its summit meetings, annual EAS Foreign Minister informal consultations (note, not 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 too been held in these four policy areas, and like the 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 appropriately to the changing regional and international landscape."<sup>27</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 that 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 organised 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, China hosted the EAS Seminar on Capacity Building for Climate Change Adaptation in October 2008. An EAS Asia Pacific Regional Media Programme has been created, and an EAS initiative led to the establishment of the Economic Research Institute for ASEAN and East Asia (ERIA) 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 ASEAN Plus Three. 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 to 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

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<sup>27</sup> Chair's Statement, Second EAS Foreign Ministers Informal Consultations.

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-related issues. In essence, then, the EAS would concentrate on being a dialogue process and APT an East Asian integration process, each reinforcing the other through focusing on linked issues as is later discussed in the Conclusion section. Some relatively lower-level regional co-operation agreements and declarations could be made amongst EAS member states as confidence-building measures. The EAS more fundamentally could 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 Asia community. Thus, it could discuss a number of new security issues and also include the United States, European Union, Russia and maybe others.

Certain incumbent EAS members may not agree with such a proposed role for the East Asia Summit, or with the suggested division of labour arrangement with ASEAN Plus Three. India has already signed or will sign FTAs with various East Asian countries and its micro-level regionalisation links with the East Asia region continue to strengthen. Its case for being considered an integral member of an emerging East Asian community is expected to strengthen over forthcoming years, and will therefore wish to be party to any substantive East Asian regional integration agreements that 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 China. Australia and New Zealand – who 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 endeavours. The division of labour arrangement between EAS and APT could therefore be problematic, and it may take a few years yet to determine an appropriate functional relationship between these two regional frameworks. Just as with APT, for the EAS's progress generally depends on China and Japan agreeing on how to approach higher-order integrational issues, for example participation in a regional free trade area.

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 rationalise existing Asia-Pacific level institutions rather than create a new one – thus at least implicitly suggesting its superseding of APEC – and in doing so create a forum for discussing a wide range of regional issues. Japan's EAC proposal was made later in 2009 and based on similar generalised 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 East Asia Community based on an expanded EAS 'stakeholder' membership that included the United States 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 European Union have been dialogue partners since 1972, this being one of the earliest inter-regional relationships formed in the modern era. The idea of creating the Asia-Europe Meeting (ASEM) conceives a broader kind of relationship, and was proposed by Singapore in October 1994, more specifically from its Prime Minister, Goh Chok Tong. By 1995, a date had been set for the inaugural summit, which took place at Bangkok in March 1996. It is essentially an inter-regional dialogue framework between the European Union and a core of East Asian states. The original Asian members of ASEM were China, Japan, South Korea and seven ASEAN countries: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Its work on fostering closer inter-regional relations between Europe and Asia rests on three 'pillars', these being *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-structuralised lines, and ASEM itself was a product of this (Bridges 1999, Dent 2001, Hanggi 1999). By the early 1990s, three prosperous 'triad' regions – North America, East Asia and Europe – had come to dominate the world economic system, and moreover marked a relative global shift from geo-politics 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 still account for around 80 to 95 percent 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 that of more co-operative focused ground.

The US's more proactive approach towards APEC during the mid-1990s – especially the launch of the organisation's 'Bogor Goals' to establish free trade and investment in the Asia-Pacific by 2010 / 2020 – 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 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 original 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 marginalisation in a trans-Pacific dominated world economy. The EU's introduction of its 'New Asia Strategy' in 1994 signalled Europe's intentions to redress the triadic imbalance.

As a regional collective, East Asia's own motivations for promoting the ASEM idea were mostly different but 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, and moreover that of the 'great powers' (i.e. the US, Japan, China, Russia) in general. Second, ASEM would help East Asian states diversify their international relations in a globalising world. This was especially a priority to those with perceived over-dependencies upon the US and Japan, e.g. in terms of markets, capital, technology, etc. 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 behaviour 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 at Bangkok in March 1996. Subsequent summits were organised 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, Laos, Myanmar, India, Pakistan and Mongolia, as well as the ASEAN Secretariat and European Commission as formal members.<sup>28</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 Instrumentalisation**

ASEM's agenda is broadly determined by its three thematic 'pillars' of co-operation: *economic*, *political* and *socio-cultural*. It hence has a similar policy scope of 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, these including:

- Arms control, disarmament and weapons of mass destruction
- Welfare of women and children
- Human resources development and education
- Inter-faith dialogues
- Health
- Food security
- Energy security
- Environment and sustainable development
- Migratory flows
- Transnational crime and counter-terrorism
- Globalisation
- Human rights

At the ASEM-6 Summit held in Helsinki, ASEM partners stated a firmer commitment to tackle global issues and make more substantive contributions to global multilateral co-operation. It therefore works alongside organisations such as the United Nations, WTO, IMF and World Bank, as well as other regional and inter-regional organisations (e.g. APEC and Forum for East Asia-Latin America Cooperation) the aiming to make similar contributions. In order to help operationalise ASEM's agenda and work programmes, 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:

- Promote dialogue that leads to co-operation on the identification of priorities for concerted and supportive action.

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<sup>28</sup> With the addition of these two organisations, ASEM technically has 45 members.

- Pursue actions and dialogues under ASEM's three pillars with equal impetus: fostering political dialogue, reinforcing economic co-operation, and promoting co-operation in socio-cultural areas.
- As an informal process, ASEM need not be institutionalised. It should also stimulate and facilitate progress in other fora.
- Encourage dialogue and co-operation between the business/private sectors and peoples of Asia and Europe.

To date, ASEM has not launched any real grand-scale initiative or programme on inter-regional co-operation or integration to capture the public's attention. It has maintained a relatively low level of institutionalised co-operation on certain technical programmes. 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 possesses weak institutional capacity generally. While this remains the case, ASEM will continue to be informal, consultative, and essentially non-binding process.

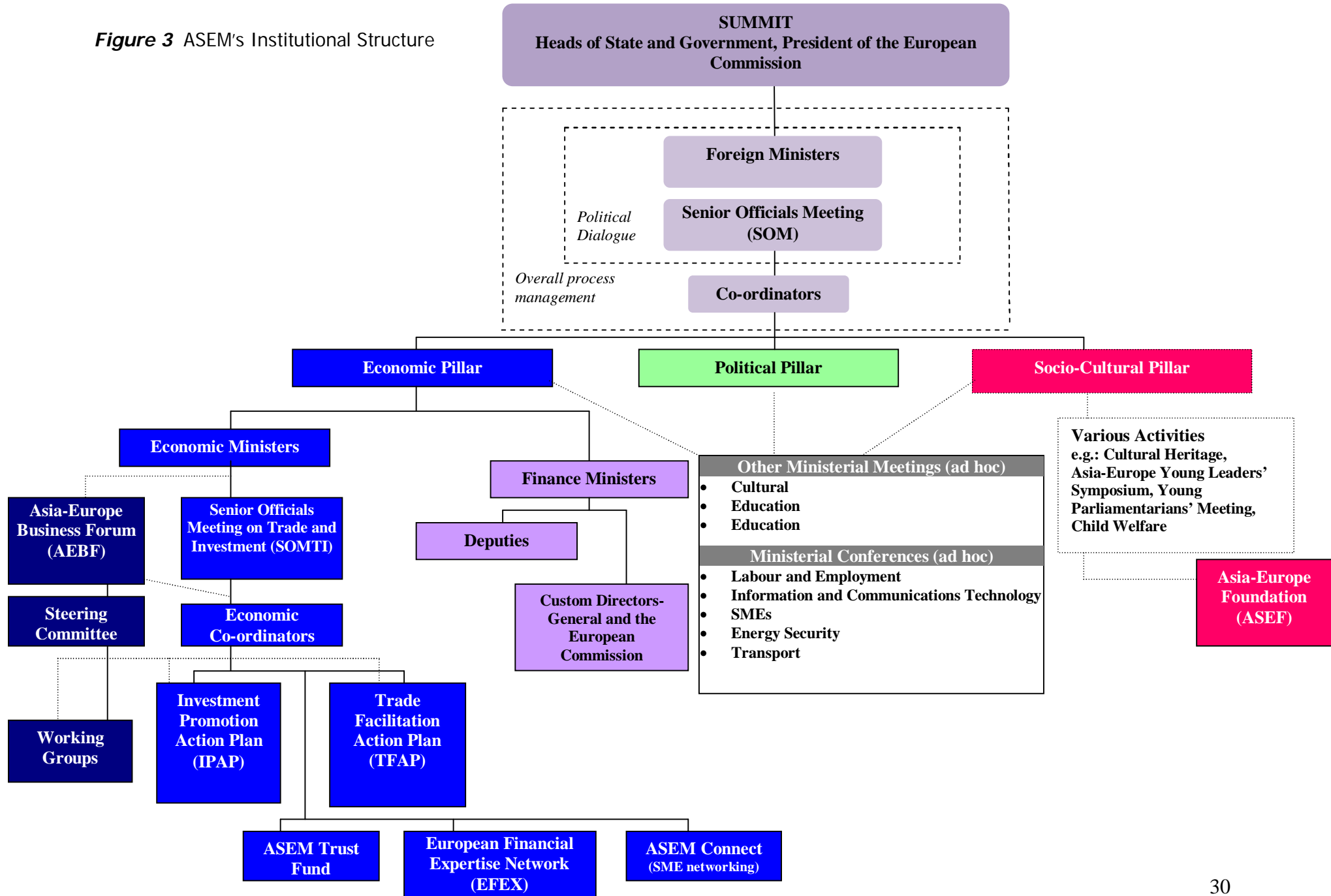
#### **4.3 Organizational Structure and Institutional Processes**

To date, ASEM remains an informal process of multi-structured dialogue between a growing number of Asian states and the European Union. The biennial summits represents the apex of ASEM's organisational structure, and Figure 3 illustrates the three pillars of ASEM that form the main sub-structural basis of the framework, and the economic pillar is by far the most developed and substantive. This may be generally explained that economics forming 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.

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: Labour 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 officials 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, and 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', two countries from the Asian side and the EU Presidency and the European Commission on the EU side. At the Helsinki 2006 summit, it was decided to create an ASEM Virtual Secretariat operating as a closed intranet system to more effectively manage ASEM's agenda and work programmes, as well as enhance institutional memory within ASEM processes.

**Figure 3** ASEM's Institutional Structure



The *Asia-Europe Foundation (ASEF)* is ASEM's only formal institution. Based in Singapore with 45 staff<sup>29</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 socialising agent within the ASEM framework. ASEF's mandate is derived from the so called 'Dublin Principles' legal framework document, first established in December 1996 and last updated in October 2007 (ASEF 2007). The Foundation is financed through an operating fund and an endowment fund, has the legal status as an incorporated company limited by guarantee under Singapore law, and is governed by a Board of Governors headed by alternating European and Asian chairpersons. Three ASEF Board meetings are held a year. Over the years, ASEM countries have charged ASEF with developing a number of initiatives, including a dialogue programme on Human Rights and Governance (from the 1<sup>st</sup> Foreign Ministers Meeting held in Singapore, 1997), ASEM Education Hub (2<sup>nd</sup> ASEM summit, London 1998), Culture360 (1<sup>st</sup> Cultures Ministers Meeting, Beijing 2003) and Public Health Network Programme (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 socialisation programmes and engaging with public media. The Foundation also channels the numerous policy recommendations arising out its social group activities into ASEM's Senior Officials, Ministers and Summit meetings, a recent example being the Connecting Civil Society initiative at ASEM-7 in Beijing, 2008, and in addition the idea of creating an Education Ministers Meeting process and ASEM Inter-Faith Dialogue.

The *Asia-Europe Business Forum (AEBF)* is a key element of ASEM's organisational structure, being created at the inception of the summit process in 1996. 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 channelled into the decision-making process, and a means for strengthening trade and investment relations amongst member countries. At the ASEM-3 summit in Seoul, 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 being 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, 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 harmonising customs procedures. All these working groups were established in 1996 and whose outcomes

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<sup>29</sup> Of these 30 are permanent, and staff come from 17 countries.

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 (EFEX, also established in 1998), ASEM Child Welfare, ASEM Connect (networking small firms from East Asia and the EU), and various seminars on literature, music, environment, etc.

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

The ASEM inter-regional framework was forged in the emerging post-Cold War geopolitics 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 but as time 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 (i.e. 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 at simply expanding its dialogue agenda and dialogue / socialisation mechanisms to cover an increasing number of global and inter-regional issues but no more really than this. 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) between both regional sides. This value on these terms will increase the further 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 emphasising 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 joint Asia – Europe contributions to the strengthening of global governance structures and 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 chapter, APEC arose from the culmination of Pacific regional community-building endeavours that can be traced back to the 1960s. Its antecedent organisations – 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 liberalisation front through GATT negotiations in tandem with maintaining strong bilateral alliance relationships with key economic and security partners in the trans-region (Ravenhill



2001). The persistence of Cold War divisions during the 1980s meant that China and other communist-socialist countries in East Asia (e.g. Vietnam) were excluded from any Pacific regional community-building process as led by the trans-region's capitalist states. Meanwhile, South Korea and Taiwan were still only emergent newly industrialising economies in the close bilateral economic and security embrace of the United States. Many East Asian nations were also highly circumspect of any Japan-led regional initiative given lingering memories of the country's aggressive imperialism it exercised in the early 20<sup>th</sup> Century.

Both Japan and the US also had the problem of many other states fearing these two economic giants would dominate any trans-Pacific regional organisation that emerged. With this in mind, it became politically more expedient for Australia to take a higher profile lead 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 at 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 organisation. Ravenhill (2001) neatly summarising these as being, "a significant surge in US unilateralism, the agricultural trade war between Washington and Brussels, the conclusion of negotiations between the United States 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" (pg. 88). We should also remember that the launch of APEC – the most substantial inter-governmental arrangement proposed by this time – was the culmination of three decades of discussions on to better promote and organise 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 modelled on an Organisation of Economic Co-operation and Development (OECD) style organisation was coolly received by East Asian member countries, most of which preferred a looser, less institutionalised, consensus-building arrangement (Drysdale 1991, Garnaut 2000). It was this latter approach that prevailed in the organisational 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, or 'ecotech' programmes. Japan too wanted the organisation 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 the ASEAN Free Trade Area (AFTA) project. Subsequently, they agreed to participate subject to "three no's", these being that APEC have *no* legal binding authority, *no* negotiating rights and pursue *no* regional agreements beyond those permitted under GATT / WTO trade rules.

There were 12 original member countries in attendance at the 1989 Canberra Ministerial Meeting, these being Japan, South Korea, Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, the United States, 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 at that time 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, to uphold an open multilateral trading system, and thus there was to 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 Senior Officials Meetings would oversee and co-ordinate, with ministerial approval, APEC's work in progress between Ministers Meetings. Key developments in the following three APEC Ministerial Meetings were as follows:

- *Second APEC Ministerial Meeting (Singapore, July 1990)*: seven Working Groups 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.
- *Third APEC Ministerial Meeting (Seoul, November 1991)*: China, Hong Kong and Taiwan were admitted as new member economies, with Taiwan being referred to as 'Chinese Taipei' at Beijing's insistence. APEC's scope of activities and general objectives were further defined, these being the: exchange of information and consultation on policies relevant to common efforts to sustain growth, promote adjustment and reduce economic disparities; development of strategies to reduce impediments to trade and investment; promotion of objectives specifically set within APEC's Working Groups.
- *Fourth APEC Ministerial Meeting (Bangkok, September 1992)*: agreement to establish a permanent APEC Secretariat, later implemented by 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 on advancing regional trade liberalisation.

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 higher level ambitions set during the 1993/94 period of the organisation's development. A number of critical factors converged to make the Fifth APEC Ministerial Meeting, convened at 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 premiers 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 programme of trade and investment liberalisation 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 liberalisation. 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, 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 realise this objective by the former date, while the developing members were to meet the latter. These became known as the 'Bogor Goals' (named after the location of the Leaders' Meeting that year held in Bogor, Indonesia), and these were to be achieved in accordance to 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 favoured nation' (MFN) principles on which WTO liberalisation 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', thus which member economies were supposed to aim for the 2010 target deadline and which the 2020 deadline. No evaluation criteria had either been established to judge whether developed member economies (which ever they may be) have met the 2010 deadline target on trade and investment liberalisation. By late 2009 there was also no clarification on whether a 1<sup>st</sup> January or 31<sup>st</sup> 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 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 the first deadline year of 2010.<sup>30</sup>

By the late 1990s, APEC's membership had grown to 21 economies from around the trans-region, newer members including Russia, Peru, Chile and Vietnam. A moratorium was placed on membership expansion until the first Bogor Goal deadline of 2010. Prospective new members include Columbia, Ecuador, Mongolia, Laos, Pakistan, Bangladesh and India. It could be argued that the last five of these are ineligible for APEC membership as 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 Asia-Pacific trans-region core. This thus brings us back to the debate over 'variable geography'. We later note how membership eligibility criteria established in 1997 stated that prospective members must be located in the 'Asia-Pacific region' but APEC has never defined this in any exact geographic terms.

## 5.2 Issue Coverage, Agenda Setting and Instrumentalisation

### 5.2.1 The Primacy of Commercial Liberalisation

APEC's stated primary goal is to promote sustainable economic growth and prosperity in the Asia-Pacific, and 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 favourable and sustainable business environment."<sup>31</sup> The organisation's agenda is based on three broad areas or pillars, namely (i) trade and investment liberalisation; (ii) business facilitation, and; (iii) economic and technical co-operation (ecotech). As the organisation's principal objective is to realise 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.

<sup>30</sup> A research interviewed APEC Secretariat official conceded that APEC has a credibility problem over this lack of clarity on implementing the Bogor Goals. Research interview, Singapore, September 2009.

<sup>31</sup> APEC website, 'Mission Statement' page ([http://www.apec.org/apec/about\\_apec/mission\\_statement.html](http://www.apec.org/apec/about_apec/mission_statement.html))

commercial) liberalisation. 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, e.g. cheaper products, wider consumer choice, and economic efficiency generally.

Although the Bogor Goals on trade and investment liberalisation has remained the organisation's flagship project, from the very beginning there were apparent differences of opinion between East Asian countries generally 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 he chaired, Fred Bergsten (1996) argued that the 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 liberalisation. 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 liberalisation and the means by which it was to be realised. For example, many ASEAN member states believed that AFTA's targets of reducing tariff rates to the 0-5 percent 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 liberalisation were too specific.

In the lead up to 1995 Osaka APEC Summit, most East Asian members had become increasingly wary of the EPG's advocacy of commercial liberalisation 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 liberalisation 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 at Manila and implemented from the beginning of 1997.

Each IAP covers 15 issue areas<sup>32</sup> with a principal emphasis on traded and investment (i.e. commercial) liberalisation, and member economies were obliged to submit these 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 guidelines on the formulation of IAPs these were very general, and it was left up each member state to determine the programmatic content of their Plans. Moreover, the actions laid out in members' 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 liberalisation 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; (vi) strengthened economic and

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<sup>32</sup> Namely 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.

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 the EVSL

The IAP process was APEC's first *modus operandi* on trade liberalisation, often referred to as 'concerted unilateral liberalisation'. However, in practice many East Asian member states had in particular dragged their feet on either initiating their IAP commitments or incorporating substantive liberalisation 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" (pg. 1). Meanwhile, East Asian countries were pressing for higher priority 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 liberalisation. However, the actual substance of ecotech initiatives remained thin and in reality commercial liberalisation continued to dominate the APEC agenda (Ravenhill 2001).

With slow progress being made on the IAP front, APEC's most ardent pro-liberalising member states supported a new initiative tabled by the United States at the 1997 APEC Summit held in Vancouver. This was the Early Voluntary Sectoral Liberalisation (EVSL) scheme in which 15 specific industry sectors were targeted for accelerated or 'fast track' liberalisation that would, it was hoped, catalyse a broader trade liberalisation 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, in which was to also comprise of various facilitation and ecotech measures. In some sectors (e.g. telecoms and automotive) emphasis was placed 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; toys) and the other seven (automotive; civil aircraft; fertilisers; food; natural and synthetic rubber; oilseeds and oilseed products) in the second tier. Essentially first tier sectors were to liberalise 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 operationalised. 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, and 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 liberalisation) rather than others, or in how and when the scheme's targets were to be realised.

It 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 that year was going to be problematic. The Japanese Government in particular was refusing to accept the EVSL as a complete package, insisting upon an opt-out from liberalising 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-liberalisation

member governments but Tokyo refused to yield. Other East Asian member states – most notably China, South Korea and Taiwan – tacitly supported Japan's veto, as agricultural trade liberalisation 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 in December 1999. As a result, then, of largely East Asian opposition, this second APEC strategy on advancing towards the Bogor Goals had too failed. Furthermore, there was mounting frustration amongst East Asian countries concerning APEC's failure as an organisation generally to address the fallout from the region's 1997/98 financial crisis that was raging at this time (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 liberalisation agenda. At the September 1999 APEC Summit in Auckland, the hosting New Zealand 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 (South Korea – Chile, Japan – South Korea, Thailand – South 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 itself (Singapore – New Zealand, Mexico – Singapore, Japan – Singapore, Japan – Mexico) and two other projects (South Korea – New Zealand, Japan – Chile) were initiated at other times 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 liberalisation initiative has 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 generally vague pledges in APEC summit declarations "to continue and accelerate" movement towards the Bogor Goals, as specifically here stated in 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 five percent by 2006 (APEC 2002). This was followed in 2004 by a similar trade-facilitating programme, the Santiago Initiative for Expanded Trade whereby APEC member states committed themselves further reduce business transaction costs "by cutting red tape, embracing automation, harmonizing standards and eliminating unnecessary barriers to trade."<sup>33</sup> The very generalised objectives of this programme were typical of the non-specific, lowest common denominator approach that by this time had become the APEC norm on 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>34</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

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<sup>33</sup> Leader's Declaration of the 2004 APEC Economic Leaders Summit.

<sup>34</sup> Research interview with APEC Secretariat official, Singapore, September 2009.

commercial liberalisation 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 the organisation's importance during the early 2000s (Beeson 2006, Dent 2008a). The US's 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>35</sup> The following year, PECC's Trade Forum section was commissioned to propose a code for FTA 'best practice', their recommendations (PECC 2003) being then forwarded to the 2004 APEC Ministerial Meeting where they were duly endorsed (APEC 2004). However, there were notable inconsistencies between most key areas of 'best FTA practice' 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 exempted various agricultural and industrial sectors from the agreement. Many agreements also did not have *simple rules of origin*, rather 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 realisation of the Bogor Goals specifically. Taking one technical policy example to illustrate the point, many FTAs that have been signed amongst APEC member economies carried very long tariff liberalisation 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 to its original starting point. The FTAAP proposal was supported by a number of member economies, namely Chile, Canada, Australia, New Zealand, the US and also two from East Asia, Singapore and Taiwan.<sup>36</sup> As it transpired, opposition from

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<sup>35</sup> Leader's Declaration of the 2002 APEC Economic Leaders Summit.

<sup>36</sup> Singapore has long been a strong advocate of trade liberalisation generally owing to the core entrepot function of its economy. Taiwan's motives for supporting the FTAAP were more geopolitical as the trans-regional FTA would help

mostly East Asian countries (especially from China, Japan, Malaysia and Indonesia) scuppered the FTAAP proposal at the 2004 APEC Summit, with them again noting their preference for APEC to confer greater priority to its ecotech agenda. At the following 2005 APEC Summit convened in Busan, a mid-term review on progress towards the Bogor Goals was considered (but proposed no new substantive measures on to realise the 2010 / 2020 commercial liberalisation objectives) and the Leaders Declaration called for “the development of model measures for as many commonly accepted FTA chapters as possible by 2008.”<sup>37</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, as had been just earlier proposed by Japan in both April and August that year, i.e. the CEPEA. Additionally, the US hinted that the FTAAP could be a fall-back plan if the WTO Doha Round of global trade negotiations collapsed, and other pro-liberalising member states of APEC also prescribed to this view, as did many ABAC representatives.<sup>38</sup> This coalition furthermore saw the FTAAP initiative as a means to revive APEC’s commercial liberalisation programme, especially keeping in mind the Bogor Goals’ 2010 developed country deadline was fast approaching.

The main motive for the ABAC’s support of the FTAAP was its potential to rationalise the trans-region’s “complete chaos” of bilateral and sub-regional FTAs into one harmonised Asia-Pacific agreement.<sup>39</sup> However, as in 2004 when the FTAAP was first proposed, a number of East Asian countries were opposed to the idea, most notably China, Japan, Thailand, Indonesia, Malaysia and the Philippines. Japan stated its preference for its earlier proposed CEPEA while China was pushing an alternative APT-based East Asia Free Trade Agreement (EAFTA). Thailand’s Director-General of the Trade Negotiations, Chutima Bunyapraphasara, meanwhile 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>40</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>41</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 particularly insisted the 2006 Leaders Declaration stated that, “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>42</sup> Certainly the earlier IAP and EVSL episodes had demonstrated APEC’s limitations in brokering new trade deals. As Yamazawa *et al*

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circumvent the significant politico-diplomatic difficulties Taiwan faced in developing its bilateral FTA policy because of its contested sovereignty predicament.

<sup>37</sup> APEC 2005 Leaders Declaration, or Busan Declaration, 18-19 November, pg. 2.

<sup>38</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*, 14.11.2006).

<sup>39</sup> *Washington Post*, 20.11.2006.

<sup>40</sup> *Bangkok Post*, November 10, 2006.

<sup>41</sup> *Washington Post*, 20.11.2006.

<sup>42</sup> *Associated Press*, November 14, 2006.



(2000) contended, “with its diverse membership of developed and developing economies, APEC cannot function like the European Union or other legally and institutional binding arrangements” (pg. 326). 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>43</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 organisational entity.

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

The continued strong East Asian support for APEC’s ecotech programmes 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 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 than commercial liberalisation. East Asian countries have also pushed for greater integration between APEC’s ecotech and commercial liberalisation programmes, 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 liberalisation (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’ programmes while Anglo-Pacific members used the organisation 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 SME growth – the whole ecotech framework has suffered from “a general lack of co-ordination and setting of priorities” (Ravenhill 2001: 193) leading to an ineffective impact overall. Many projects were not goal-oriented with explicit objectives or performance criteria to be matched, or subject to rigorous external assessment of their outcomes. Ecotech programmes have also suffered from under funding. Up to the year 2000 the total annual budget for these programmes never exceeded US\$2 million, and this situation has improved little.<sup>44</sup> In total, more than 1,200 ECOTECH projects had been initiated by 2008, and in this year a total of 212 projects were in operation worth a combined total of US\$13.5 million, thus on average 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 centred on its Energy Security Initiative (ESI), which was established in 2001 and developed out of the organisation’s Energy Working Group, consisting

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<sup>43</sup> *Agence France-Presse*, 11.11.2006.

<sup>44</sup> Although the Japanese government continues to provide some generic funding for APEC’s trade and investment facilitation projects, ecotech programmes are usually funded by individual member states that have a strong interest in supporting particular projects.

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 aiming to address challenges concerning the region's security of energy supply, 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 to the 1997/98 East Asian financial crisis, the organisation APEC has arguably taken the more recent 2008/09 global financial crisis more seriously as virtually all its membership, rather than just its East Asian contingent, has been severely affected. The 2008 and 2009 Finance Ministers Meetings has thus put forward a number of initiatives to address the crisis, but these again have been relatively low-level responses (e.g. seminars, workshops, small scale capacity-building programmes) given the magnitude of the crisis events and impacts.

In light of the problems APEC has faced on commercial liberalisation, its more market-liberal member economies have increasingly pushed 'structural reform' onto the organisation'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 liberalisation exist. These areas have also become increasingly prominent areas of FTA negotiation and increasingly relevant to realising the Bogor Goals.

### **5.3 Organizational Structure and Institutional Processes**

Of all the institutions examined in this chapter, APEC has the most developed and extensive organisational structure and institutionalised 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 recognised in the 'APEC Ministerial Statement on Membership' published at the November 1997 Foreign and Trade Ministerial Meeting held in Vancouver, which stated that, "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 this 1997 Statement to consider the admission of any new members in accordance to the following criteria:

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

There are three observer members of APEC, all being regional organisations: PECC, ASEAN and the Pacific Island Forum (PIF). In addition, there are a number of guest members, normally governments or international organisations, which participate in various APEC groups and initiatives (e.g. the Energy Business Network) on *ad hoc*, needs-based basis. The high-level organisational structure of APEC is quite similar to APT's, with annual summit meetings

(officially between 'Economic Leaders' to accommodate Hong Kong and Taiwan's diplomacy status), ministerial meetings and senior officials meetings. As a regional organisation 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>45</sup> and is the organisation's main co-ordinating and information management agency. Its legal status is that of an international organisation based in Singapore that has no executive powers nor resides over 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 officials driven process. The Ministerial Meeting (MM) 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 Senior Officials Meetings closely mirror those of the associated MM process. Four SOMs are held a year, and these are a main driving force of 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 MM policy areas covered by APEC and APT, although the latter has a deeper level of sub-SOM governmental meetings (e.g. director-general level) in its organisational structure. This is perhaps due to APT being more of a government official driven process compared to APEC, owing to the greater influence government bureaucrats has over the policy-making process in East Asian nations compared to Anglo-Pacific countries where politicians and civil society have more influence.

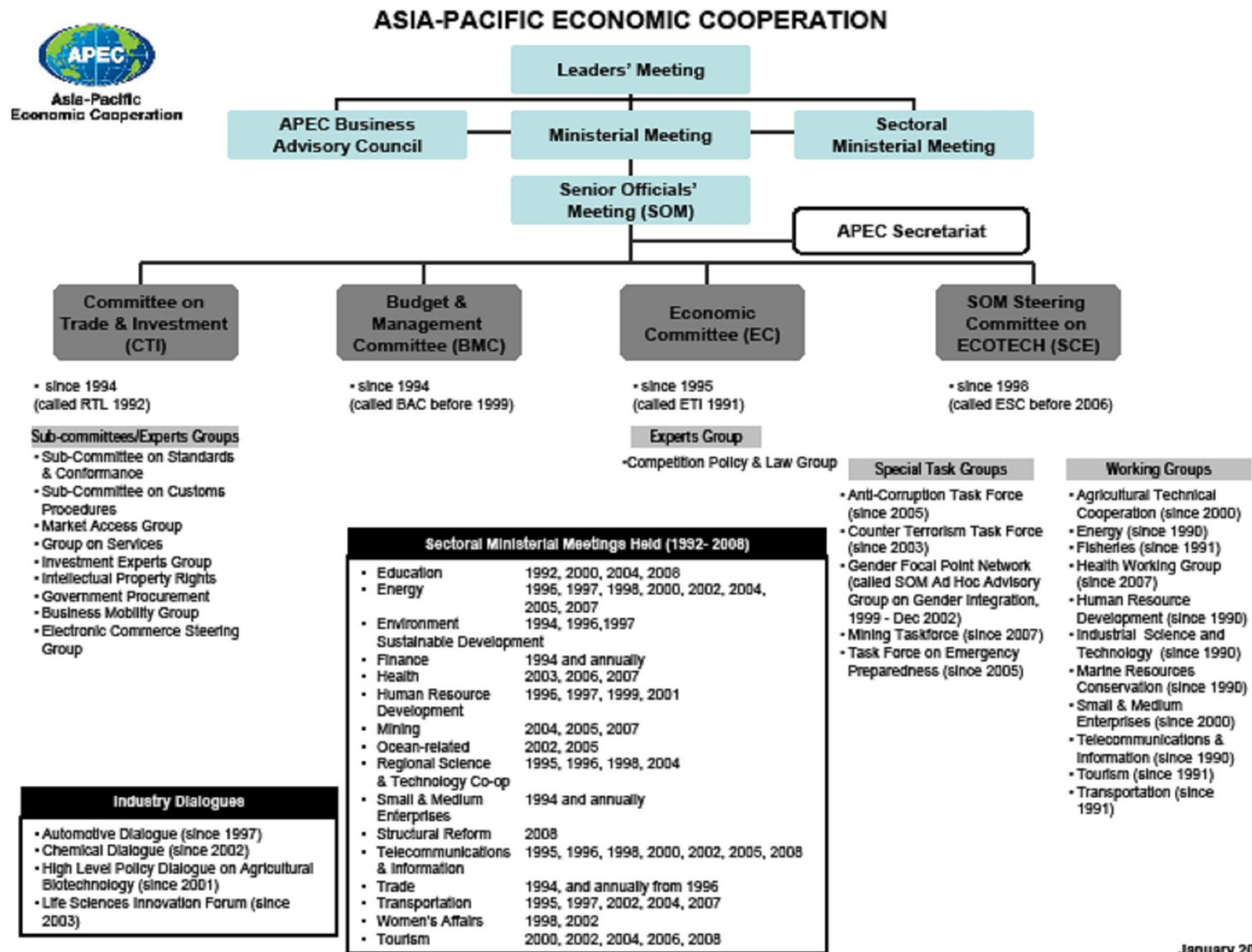
At the *policy level*, APEC's general direction is driven by the Economic Leaders meetings although this in turn is influenced primarily by SOM and MM processes. Policy decisions and initiatives are additionally influenced by ideas from the *APEC Business Advisory Council (ABAC)*, a representative from 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 organise APEC's work programmes, giving guidance to APEC Committees, Working Groups and Task Forces, and developing recommendations for the MM and Economic Leaders' Meeting. The *Committee on Trade and Investment (CTI)* is primarily responsible for co-ordinating APEC's work on trade and investment liberalisation and business facilitation. Meanwhile, the *SOM Committee on Ecotech (SCE)* assists the SOM in co-ordinating and managing the organisation's ecotech agenda, and identifies potential areas for economic and technical co-operation amongst APEC member economies.

On budgetary and project funding related matters, the *Budget and Management Committee (BMC)* advises the SOM on budgetary, administrative and managerial issues, as well as monitors

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<sup>45</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



and evaluates project outcomes of work undertaken by APEC's Committees and Working Groups. It in addition 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 organisation 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, this account deriving from a share of members' contributions to the organisation based on what one research interviewee from the APEC Secretariat referred to as an "esoteric formula".<sup>46</sup> In 2009 there was a 30 percent increase in the AOA budget but the annual amount is still around a mere US\$2 million. The second funding scheme is the Trade and Investment Liberalisation and Facilitation Special Account, devised to accommodate contributions that members wished to make in funding co-operative project initiatives in this aspect of APEC's work. This fund is run by the CTI and has been solely funded by Japan from its introduction 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 programmes for developing member economies, particularly for engaging in the organisation's work programmes, e.g. 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 charged with overseeing APEC's 'structural reform' agenda through undertaking 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 programme that extends just beyond commercial regulatory matters and covers five stated areas of 'structural reform': regulatory reform, competition policy, public sector governance, corporate governance, and 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 which called upon APEC to extend the LAISR beyond 2010. The Economic Committee's 2008 APEC Economic Policy Report (AEPR) emphasised the importance of a strong competition policy in generating positive welfare outcomes, and its 2009 AEPR focused on the theme of regulatory reform. The Economic Committee's expert group on Competition Policy and Law has also in addition produced a database on competition policy legislation across the APEC membership area and organised training courses and conferences, and the Economic Committee has organised a number of other workshops and seminars on structural reform issues. The Economic Committee and the CTI work closely together, for 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 a number of:

- *Working Groups*: there are currently 11 of these sector-specific groups that specialise in various aspects of APEC's agenda (see Figure 4) most of which were established in 1990 and 1991.

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<sup>46</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.

- *Special Task Groups*: which have arisen in response to new key issues arising 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 programme by addressing new topical and relevant challenges facing member economies.

The main purpose of the ABAC is to feed the views and perspectives of the business community to APEC decision-making processes. It meets four times a year and comprises up to three senior business representatives from each member economy and from various sectors of the business community, including from 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 that 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 the Asia-Pacific's regional economic and business affairs. A number of industry sector dialogues have too 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 particularly not comfortable with such as idea.<sup>47</sup>

Stakeholder participation amongst the research and academic community is mainly organised around *APEC Study Centres (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 organisational 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 related 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 organisation realise its Bogor Goals for free trade and investment in the Asia-Pacific. The 1995 Osaka Action Plan represents APEC's original strategic roadmap on this, and lays down a number of general principles on commercial liberalisation that member economies are 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 programme 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 programmes 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

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<sup>47</sup> Research interview with APEC Secretariat official, September 2009.

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 over 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 cannibalisation process.

Each hosting country of course wishes to leave its mark on the development of APEC, but the organisation's propensity to produce monumental-sounding plans of thin and easily recyclable substance only serves to undermine the organisation's credibility and relevance. Indeed, at the 2006 Summit, leaders from Australia, China, Malaysia, New Zealand and Singapore told their audience that APEC was in danger of becoming increasingly irrelevant in Asia-Pacific affairs.<sup>48</sup> This was supported by evidence from a recent PECC survey conducted amongst 483 regional opinion leaders in which only 43 percent agreed with the 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 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.

There are also *APEC Official Observers* that comprise three regional organisations – the ASEAN Secretariat, PECC and the Pacific Islands Forum (PIF) Secretariat – that are supposed to play a general partnership role in helping APEC realise 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 discussed later in this chapter.

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

APEC has the most extensively developed organisational and institutional structure of all the six regional institutions studied in this chapter. 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 substantial and claimable progress with programmes and initiatives (e.g. 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, mostly on business facilitation, new regional issues and a lesser extent on ecotech rather than concerning commercial liberalisation. APEC has also had an impact on capacity-building and norm-setting amongst its member economies, for example ecotech projects helping improve the technocratic systems and skills of lesser developed economies governments, and also conditioning Chinese 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 organisation. The perhaps intentional neglect of establishing which Bogor Goal deadline (i.e. 2010 or 2020) is supposed to apply to which member economy, as well as failing to establish clear evaluation criteria will be used to judge whether member economies have realised the Bogor Goals on commercial liberalisation is highly problematic for APEC. The first of these deadlines is upon the organisation, and at time of writing it had no structure in place to

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<sup>48</sup> *New Straits Times*, 20.11.2006.

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 organisation's lack of binding rules and enforcement mechanisms, it is difficult for APEC to claim exactly what actual difference it is making on commercial liberalisation 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 liberalisation and economic reform in the Asia-Pacific but the disaggregation problem is one faced by regional organisations generally that rely on the 'passive integration' approach, that is being 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 organisation has been, for example responsible for: (i) reducing trade barriers in the trans-region from an average of 16.9 percent in 1989 to 5.5 percent by 2004; (ii) reducing business transaction costs by 5 percent amongst its member economies from 2002 to 2006; (iii) the removal of behind-the-border trade barriers through APEC's structural reform agenda.<sup>49</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 as an APEC achievement, which even if was legitimate would appear to be self-defeating given the structured preferentialism that these agreements have created in the region's trade relations (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 organisation 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 liberalisation, Japan as hosts of the 2010 APEC Summit will be under pressure to deliver a bold new initiative to revitalise the organisation. In addition to suggesting that APEC should adopt a stronger variable geometry approach on future commercial liberalisation, Yamazawa (2009) also proposes that the organisation should do more on tackling 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 emerging key issues of the 21<sup>st</sup> Century.

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<sup>49</sup> [http://www.apec.org/apec/about\\_apec/achievements\\_and\\_benefits.html](http://www.apec.org/apec/about_apec/achievements_and_benefits.html)



## 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 representations from the US, New Zealand and Canada, and thereafter from other Asia-Pacific member states. At its inaugural meeting hosted by 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>50</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 United States. Energy related issues 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 China and Russia who 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.

In 2005, PBEC changed its membership model from one being based on countries to that of companies, or so called direct corporate members (DCMs). At first, the organisation 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, China, Russia and South 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 organised 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 organisation adjusted its membership model in 2008 to a mixed formula of companies and country 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 economy 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 organisation, once the *de facto* representative agency for business in APEC diplomacy, is being increasingly eclipsed by ABAC and its APEC CEO Summit event, and PBEC's Board of Directors have reportedly yet to produce a robust strategy to take the organisation forward. The idea of a merger with PECC has allegedly been considered as one possible option.<sup>51</sup>

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<sup>50</sup> Research interview with PBEC official, Hong Kong, September 2009.

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

## 6.2 Issue Coverage, Agenda Setting and Instrumentalisation

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, these being to:

- Promote an open business environment and competitiveness in the Asia-Pacific, with a view to strengthening trade and investment relations in the trans-region.
- Foster networking and other forms of collaboration (e.g. information exchange) amongst its membership
- Provide services to its members that increase their business opportunities
- Support co-operative business activities that have positive welfare effects for citizens of the Asia-Pacific
- Advise governments on improving the trans-region's business environment
- Cultivate good corporate social responsibility practice amongst its members, including contributing towards sustainable development outcomes
- Promote foreign investment flows that support the economic development objectives of Asia-Pacific countries
- Stimulate the business environment for the development and implementation of new technologies

The main 'services' that PBEC provides its membership fall into the following four categories:

- *Networking*: through a variety of activities, including Annual Meetings, Distinguished CEO Series, Regional Executive Meetings, retreats, workshops, and business matchmaking
- *Business advocacy*: PBEC's leveraging relationships between government, civil society and the business community on various commercial policy related matters, and its close relationships with important international organisations
- *Business development*: PBEC's various advisory services, business expeditions and web-based business intelligence resources
- *Market intelligence and analysis*: including PBEC Reports, PBEC News Alerts and Surveys, trade missions, and business matchmaking.

## 6.3 Organizational Structure and Institutional Processes

The legal status of PBEC is of Hong Kong registered non-profit company founded on its own constitution. The organisation is headed by a Chairman whom normally serves a two-year term and leads PBEC's Board of Directors that includes the President, who manages the Secretariat currently based in Hong Kong with a staff of four personnel. The organisation'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 organisation also works with other international organisations (including APEC, ASEAN, ADB, WTO, OECD and World Bank) in putting across the Asia-Pacific's business community's viewpoints in important decision-making processes. An example of this collaboration is PBEC work on the ADB/OECD Anti-Corruption Initiative.

## 6.4 Impacts and Key Issues for the Future

Of all the six regional institutions studied in this chapter, PBEC is by far the most at risk of becoming increasingly irrelevant, and even possibly becoming de-activated. The number of regional or international organisations 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 have become a victim of this competition, increasingly marginalised 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 / research communities to discuss mainly economic policy related challenges facing Asia-Pacific nations. Its main focus is thus on trade, investment and finance, serving as a forum for policy co-operation and co-ordination across the trans-region. It is furthermore 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. PECC hence generally works in closer collaboration with APEC than does PBEC. Furthermore, PECC member economies (22 in number by 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>52</sup>.

### **7.2 Issue Coverage, Agenda Setting and Instrumentalisation**

PECC covers a wide economic-related agenda of issues pertinent to the Asia-Pacific trans-region. In many respects, its analytical work and dialogue mechanisms closely mirrors that of APEC's own agenda. PECC's work programme 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 entity (PECC Fund Ltd) is as a registered company with charitable status in Hong Kong. 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 National University of Singapore campus. 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 three consecutive years had its membership automatically suspended. This has been recently applied to Russia for failing to pay its fees to the organisation. PECC's annual budget is currently around US\$600,000 and contributions from member economies are based in 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 is able to:

- accept the objectives of PECC and the principles set out in this Charter
- demonstrate a commitment to economic co-operation in the Asia-Pacific based on free and open economic exchanges

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<sup>52</sup> As later mentioned, Russia's membership was suspended at this time owing to it not paying its membership fees for at least three consecutive years.

- has extensive economic activities in the Asia-Pacific
- establish a viable PECC member committee in its own country or economy
- make a substantial contribution to a number of PECC work programmes

Associate membership may be granted to committees from other Asia-Pacific economies that have demonstrated sustained interest and involvement in PECC activities and programmes, and as such may participate in all PECC activities and programmes except meetings of the Standing Committee. France and its Pacific Territories are currently the only associate members of the organisation. 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 organisation's 22 full Member Committees, two 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 programme 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 two-year cycle, these being the primary mechanisms of PECC's work programme and 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:

- *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, e.g. APT.
- *Asia-Pacific Education Market*: that 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.
- *International Labour Mobility in the Asia Pacific*: studying the interplay between globalisation, demographic change and international migration in the trans-region.
- *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, certain task forces have established special policy forums, such as 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 programme include the organisation's collaboration on certain international projects that include freshwater security and management, financial centres in the Asia-Pacific, and SMEs and climate change. The Executive Committee of PECC is a subset of its Standing Committee that oversees the organisation's ongoing work and also performs a monitoring and evaluation function. The Secretariat is the administrative arm of PECC, facilitating meetings, managing the website and the organisation'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 through providing various forms of intellectual and analytical services. According to an interviewed official from the organisation, PECC considers itself a progenitor of APEC but 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 over 1993/94, Competition Principles in 1999, Services Trade and Investment during 2000/03, Corporate Governance Guidelines in 2001, and Common Understanding on FTAs/RTAs over 2001/03 (PECC 2005). Although PECC operates independently of APEC, there was an attempt made between the mid-1990s to early-2000s to shadow the APEC agenda but this proved too ambitious and time-consuming, entailing PECC staff getting bogged down with extensive technical surveys and analyses, e.g. on FTAs. The organisation 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 labour 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 the 'economic' to incorporate the "big political and security issues of the region and even the world" (PECC 2009: 11). This is relevant to the later debate on regional institutional architecture in the Conclusion section.

According to a research interviewed PECC official, probably the most important difficulty in providing this thought leadership is distinguishing the demarcations between regional and global issues and challenges, and therefore at what level to address them.<sup>53</sup> To conclude, although PECC's operations and resources are relatively small-scale, the organisation has a clearly defined purpose and retains a good working relationship with APEC, and therefore appears to have much stronger prospects than PBEC at the current time.

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

This chapter has discussed regional institutionalised developments involving the whole East Asia region. Six region-based frameworks and organisations have been examined. Four of these being 'supra-structure institutions': ASEAN Plus Three (APT), East Asia Summit (EAS), Asia-Europe Meeting (ASEM), and Asia-Pacific Economic Co-operation (APEC) forum; and the other two 'supporting institutions': Pacific Basin Economic Council (PBEC) and Pacific Economic Cooperation Council (PECC). This conclusion summarises the different areas of debate covered by this chapter and highlights its key arguments. It is particularly focuses on what likely future regional institutional architecture centred on East Asia may emerge over forthcoming 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

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<sup>53</sup> Research interview with PECC official, Singapore, September 2009.

countries may or may not qualify for regional membership (e.g. to East Asia) 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 regionalised economic, socio-cultural and political linkages. Furthermore, qualification for regional membership can depend on the fundamentals that have shaped our understandings 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 increasingly 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 too been the principal area of co-operation for all six regional bodies studied in this chapter, 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 to competing or irreconcilable goals and agendas. Likewise, there is sometimes a fine line between the mutual reinforcing of, and duplication of institutional effort. For example, APT, EAS and APT 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 more explicit 'division of labour' arrangements 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 the ASEAN Secretariat has assigned a couple of its divisions to work on APT and EAS matters which provides some albeit relatively minor level co-ordinating service in this respect. A different kind of inter-institutional relationship exists between 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 more generally in both the APT and EAS is an interesting and critical one, performing an intermediary function or facilitator in relations between the Northeast Asian countries, especially in APT. Although China, Japan and South 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 this decade free trade agreements with Southeast Asia, as well as becoming signatories to ASEAN's Treaty of Amity. While ASEAN has limited geopolitical and geoeconomic 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 organisation, ASEAN's own regional agenda and programmes 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 is essentially a spin-off of ASEAN's regional diplomacy. Similarly, the EAS derived out of APT diplomacy, the decision to hold the first East Asia Summit being first 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 investment over forthcoming 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, where West 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 organisation 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 organisation 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 change over the course of forthcoming years. This will largely depend on whether the latter can deliver more than just summit level declarations that state aspirational objectives on regional co-operation but without putting in place substantive instruments to realise 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 (e.g. IAPs) have proved somewhat blunt.

Countries will also choose into which regional institution to make the most diplomatic and strategic investment depending on ideological, development-related and geopolitical factors. It was argued in this chapter 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 prioritised commercial liberalisation and neo-liberal oriented regulatory (i.e. 'structural') reform. Hence, APT is more aligned or in tune 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, and the United States in particular. If APEC had bestowed greater priority to its ecotech agenda, then East Asian countries would perhaps have made greater institutional investment in the organisation.

### *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 Asia region? Before we discuss this in some detail, we should remember that the creation of a stronger regional institutional architecture helps realise the following inter-related goals:

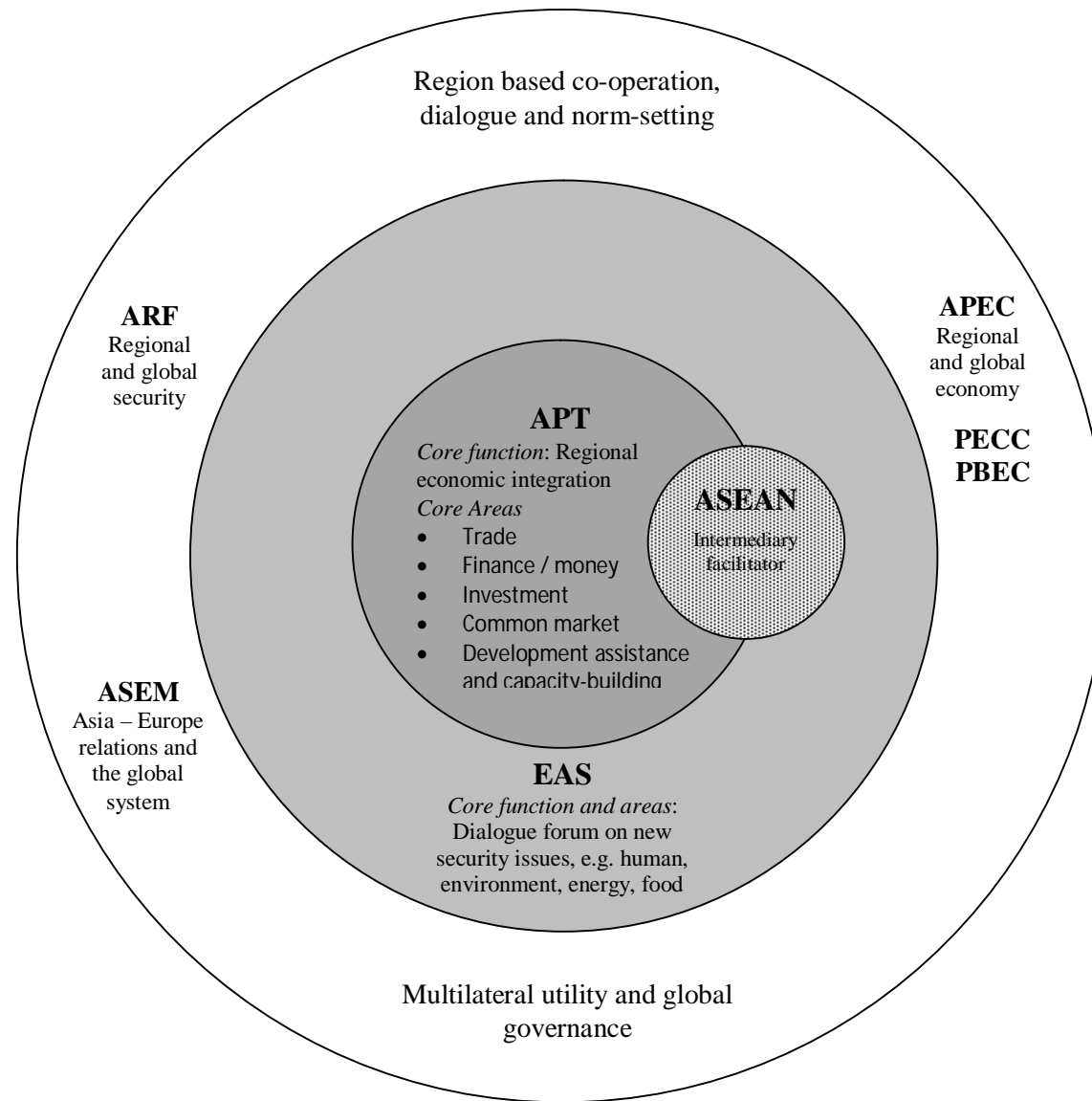
- To foster more harmonious relations between the peoples of the region concerned, and engendering a deeper and more coherent sense of regional community amongst the region's peoples.
- To more effectively address the regional-level economic, political, socio-cultural, environmental, and security related challenges facing the region's peoples as a whole.
- To close 'development-divide' gaps in the region so as to ensure that all the region's peoples are sufficiently empowered to both participate in and benefit from regional community-building processes.
- To contribute to broader global community-building endeavours 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.

Based on arguments made in this concluding section and also earlier in the chapter, Figure 5 presents a possible formulation for a future East Asia centred regional institutional architecture. At the integrative centre is APT, with ASEAN working as an intermediary facilitator along the lines suggested earlier, for instance its ASEAN Economic Community initiative providing some kind of pathway for APT to follow in the future on developing an East Asian common market. Of all the six regional bodies studied by the chapter, 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 group has the strongest levels of regional economic coherence of all the six regional groupings, and thus the firmest basis of existing regionalised linkages on which to build deeper integration. Moreover, the APT group does not have so disparate a range of political economic philosophies as the EAS group, which confers a relative advantage to the former when negotiating deeper integration in general. This point is linked also to the second principle, namely 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, which 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 has 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 on regional economic integration, expanding more deeply into other areas indicated in Figure 5.

As Figure 5 indicates, APT is embedded within an EAS regional framework which core function is to facilitate dialogue between its member countries and possibly in addition the wider East Asia region's principal stakeholders, such as the United States, to discuss a wide range of key issues and challenges facing the East Asia community, broadly conceived. This would help establish a much clear division of labour between APT and EAS, and Japan's recent proposal for creating an East Asian Community (EAC) could 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) could make important contributions to APT's work on regional economic integration. For example, EAS dialogue on new security issues will connect with discussions on how these will be incorporated



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



into an APT-based regional trade agreement, e.g. its provision on environment, energy, labour mobility, etc.

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 bring together Asia and Europe in co-operative 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 particularly achieved some success at fostering a co-operation culture and socialisation 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 over recent years. For inter-regional and trans-regional groupings of this size and diversity, we perhaps should not expect either APEC or ASEM 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 adding yet another failed initiative of the organisation to advance commercial liberalisation in the Asia-Pacific.

Although as mentioned earlier 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 United States and other APEC members. It could therefore be better for APEC to remain focused on regional economy related issues, especially in relation to interfaces between the Asia-Pacific economy and global economic governance. This leads us to the second core function of APEC and ASEM, that of developing their multilateral utility potential 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 some history of exercising multilateral utility, for example the WTO's Information Technology Agreement (ITA) 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 are therefore very significant constituencies in an emerging global society, and this perhaps needs to be more seriously acknowledged. Of course, exercises of multilateral utility can often depend on the ability of APEC and ASEM to form consensus from their membership or agreed collective actions on best address key global issues, such as climate change, and this may be very difficult to achieve. However, at least focusing more on developing multilateral utility functions will provide some much needed impetus for both APEC and ASEM.

This suggested configuration of an East Asia centred regional institutional architecture is based on the principle of functional specialisation. It is not being suggested that distinct demarcations be drawn between regional institutions in the functional division of labour, rather that more will be achieved if such specialisation 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, that is many competing similar ideas of what core regional community should be formed, which direction (or directions) it should be heading, and what activities and issues should be the basis of regional community actions. As we have seen,

diffuse regionalism is largely the consequence of a number of countries looking to champion their own vision of, and interests in the region, and each of these countries (i.e. Japan and EAS, China and APT, Australia and APC, United States and APEC) not being prepared to back down against the other.

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

The Sino-Japanese relationship will shape the future development of East Asia's regional institutions and regional community-building generally perhaps more than any other factor. Japan and China's contrasting positions on EAS membership was discussed, this being 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 favoured an EAS-based regional grouping and initiatives (e.g. CEPEA, EAC) while China prefers APT-based (e.g. EAFTA) regional community-building.<sup>54</sup> China is the ascendant power but Japan will for some time remain sufficiently powerful to cancel out bids China makes for supreme regional hegemony. China of course has the capacity to return the favour. The persistence of this regional hegemonic rivalry is, however, ultimately counter-productive to East Asia's interests and it will significantly hinder future regional community and regional institutional building. Japan and China 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 over 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. China and Japan will continue to dominate the region for the foreseeable future (e.g. together they account for around 80 percent 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 region then this will strengthen its claim for regional membership on various fronts. It is already a member of EAS and ASEM, and could well accede to APEC in the not too distant future. The influence of the United States will continue to loom large, shaping many bilateral and multilateral contexts in which East Asian regional institutional-building processes occur. Russia's growing energy relations with China, Japan, South Korea and other East Asian states could too prove a significant factor. In sum, great power geopolitics is currently pushing and pulling 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 rationalised division of labour amongst the regional institutions studied in this chapter, along the lines suggested above, is also required to achieve these ends.

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<sup>54</sup> *Xinhua News, Japan Times*, 24.10.2009.

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