East Asian Economic Cooperation: Retrospect and Prospect

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Introduction

East Asia is witnessing a new era in regional cooperation with the emergence of a new and growing body, ASEAN-10 Plus Japan, ROK and China (hereafter ASEAN Plus Three or APT). This occurs at about the same time when the principal regional organizations in East Asia and Asia-Pacific, ASEAN and APEC, are declining in importance (see Webber 2001, Ravenhill 2000). The change in the pattern of Asia-Pacific regionalism is propelled by a host of factors, of which the Asian financial crisis (AFC) appears to be the immediate cause. The AFC in particular has exposed the impotence of ASEAN and APEC in restoring their regional economic strength. No doubt that the Asia Pacific Economic Cooperation (APEC) deserves the merit of bringing together the APEC economies in many cooperative ways in the last decade or so through the so-called APEC process. But the actual impacts on policy have been limited.

The rise of APT is attributed to several factors, aside from...
the unprecedented onset of the AFC. For example, the statistical trend shows that merchandise trade between Southeast Asia and Northeast Asia has grown at a rate much faster than their trade with the rest of the world, pointing, *inter alia*, to the role of integration for these two geographical regions that made up of APT. Other factors propitious to the rise of APT include: the frustration of the regions with the slow pace of liberalization; resentments against the US as a leader and role model for the Asia-Pacific organization; the emergence of China as an economic power and the regional engine of growth; the changing role of Japan; the evolution of the European Union (EU), and the North American Free Trade Area (NAFTA) and Free Trade Areas of the Americas (FTAA) into bigger and stronger discriminatory trading blocs; the growing complementary relationship between Southeast and Northeast Asia (as opposed to their relations with the US for instance); emergence of unilateralism and bilateralism in East Asia; reduction in economic rivalry and the possibility of tension resolution in the region; and so on. These changing trends and developments in the region, which may foretell the prospect of East Asian regionalism, will be discussed in this paper.

APT is still at the early stage of development. It is currently fraught with some problems, which may impede the development of the organization and hence slow down the pace of integration to the detriment of East Asia. For example, the evolution of APT may be hampered by: the absence of a dominant leader state such as the US; the geopolitical tension (e.g. territorial dispute over the South Seas); and the economic rivalry among the APT members. There are possibly other obstacles, which remain to be identified and resolved. Given both the strengths and weaknesses inherent in the development of East Asian regionalism, should the regions proceed with their aspiration for more cooperation? What is the prospect of the APT de-
veloping into an effective regional cooperative organization capable of integrating and prospering the East Asian economies? We attempt to answer such questions by performing an analysis that may assist us in weighing and gauging all the possible factors that favor or disfavor the development of APT and upon which a reasonably sound judgment may be made. Our analytical framework is based on two premises. First, we gauge the prospect of the development against a set of criteria, which may be used to more objectively determine the probability of success and failure of such a development. Second, we gauge the prospect of the development by looking at the current trends or directions of the development that may extrapolate into the future. This is analogous to the theory of revealed preferences in economics.

This paper initially examines the historical developments and epochal events that had led to the birth of a regional integration concept and subsequently to the inception of a complex organization such as APEC. Attempts have been made to explain how APEC has "failed" in recent years and eventually paved a way for the evolution of the APT. Since the emergence of APT follows from past events, a retrospective analysis would be a useful starting point. We then provide a prospective analysis on the development of East Asian integration in light of (a) some of the important criteria that determine the success and failure of a regional organization and (b) the events that have been developing and potentially shaping into a particular or predictable form of regionalism. From a casual observance, APT hitherto is very different from APEC; notably it is smaller in size and in membership, less diverse, does not include US (and other advanced Pacific nations) as its core members, and currently at an infancy stage of development without proper organizational structure and a secretariat. Attempts have also been made in this paper to analyze how the weaknesses and strengths inherent in the APT may be ameliorated and fortified, respectively, in order to maximize
the benefits accruable from closer East Asian integration and cooperation. Our analysis has important policy implications for business in the region.

1. Progress of East Asian Integration

East Asian integration used to be as part of the process of Asia-Pacific integration, which has evolved slowly, and several milestones have been achieved over the last four decades or so. Interestingly, very few, if any, of the regional organizations that have evolved so far are uniquely East Asian (embodying only Southeast and Northeast Asian states). The pattern of the historical evolution of Asia-Pacific regionalism is depicted as follows:

PAFTA

The concept of Asia-Pacific cooperation was widely accepted to be the brainchild of Kojima (Kojima 2002). Kojima suggested the establishment of a Pacific Free Trade Area (PAFTA) in 1965, which consisted of five advanced countries, namely Japan, the US, Canada, Australia and New Zealand. Kojima proposed that these countries pooled the gains from their trade expansion into a monetary fund, which could be used to promote development of the developing countries of East Asia (Kojima 2002). The developing countries that eventually gained from PAFTA were then encouraged to join the organization accordingly.

PAFTAD

PAFTA did not materialize into a functional regional organization because of the predominance of developed countries, though the concept appeared to be plausible at that time. Never-
theless, it gave rise to the formation in 1968 of the Pacific Trade and Development Conference (PAFTAD) in Tokyo. PAFTAD, with its secretariat in Canberra, has since organized meetings on an annual basis in order to advance the cause of Asia Pacific cooperation by providing avenues for the presentation of the research findings. The close link between some academics and the business and government sectors had produced considerable impact on the official acceptance of the importance of regional cooperation. PAFTAD was a forerunner of PECC. Prior to the establishment of PAFTAD, it should be noted that the Association of Southeast Asian Nations (ASEAN) came into being in 1967, pointing to the need for a rigorous development of cooperation in the region at that time. However, at the earliest stage, ASEAN's objectives were primarily related to regional security rather than economic development.

PECC

The concept of Asia Pacific cooperation had evolved into a more advanced form of integration with the inauguration of the Pacific Economic Cooperation Conference (later Council) (PECC) in 1980. The Council is tripartite in nature, involving business, government as well as academics from different countries. PECC's activities were mainly research and discussion of policy proposals by several task forces under the jurisdiction of the Council. Trade policy in the Pacific region appeared to be the main focus of PECC. Studies have been conducted on trade liberalization and facilitation, agricultural products, energy, fisheries, livestock, grain, forestry, capital transfers, private direct investment, technological transfer, and so on (Kojima 2002). More recently, emphasis is also placed on eco-tech and capacity building. PECC has also encouraged more economic cooperation with other nations and regions, in line with the concept of open
The force of economic cooperation and the formation of an economic community within the Asia Pacific region were accelerated by the successful establishment of the Asia Pacific Economic Cooperation (APEC) in 1989. APEC is perceived to be primarily an Australian initiative. Japan has also contributed to the formation of APEC (Harris 2000). At first, APEC comprised the same members of PECC, but without China. The initial members of the 1989 APEC meeting include the ASEAN-6 (Malaysia, Singapore, Thailand, Indonesia, Philippines and Brunei), ROK, Japan, The US, Canada, Australia and New Zealand. China was later admitted together with Taiwan and Hong Kong. China accepted Taiwan as a member of APEC also because at that time China was anxious to rejoin the international community after the Tiananmen Square incident. APEC has hitherto been a development-oriented community, engaging mainly in capacity building as well as economic and technical cooperation. The attempts in trade and investment liberalization and facilitation were of limited success. It has not met the requirements of GATT Article 24, and therefore, has not been recognized as an institution of formal economic integration like the EU and NAFTA.

Areas of cooperation designed by APEC include human resource development, capital markets, economic infrastructure, technical development, environment, and small and medium enterprises. The November 2000 meeting of APEC Leaders in Brunei stressed the importance of capacity building, infrastructure, and the improvements of policies, institutions, skill, and technology (including information technology and the internet). It seems that liberalizing cross-border trade and investment in the pace and manner enshrined by the World Trade Organization...
(WTO) is not the major agenda for APEC. Rather than targeting zero tariffs across countries within the shortest possible period of time, APEC has pursued an integration that entails member economies to reform industrial structure, method and technology of production and management of firms, and even economic, political and social institutions of the nation states.

**ASEAN-10 Plus 3**

Since the formation of APEC, the idea of an East Asian bloc has been promulgated. Kojima (2002) has recently proposed the formation of a core group of the Asian Economic Community (AEC) consisting of all the ten members of ASEAN (the original Five plus Brunei, Cambodia, Laos, Myanmar and Vietnam) and three Northeast Asian economies (Japan, China and ROK). The above entity is essentially ASEAN-10 Plus Three (or APT), formed in 1997. Letiche (2000) proposed an East Asian Monetary Authority akin to the European Economic and Monetary Union (see also Dutta 2000). The above initiative appears to be directed at forming a pure East Asian replica of an Asian Pacific organization such as APEC or PECC. AEC or APT is similar to the concept of East Asia Economic Caucus (EAEC) proposed by Prime Minister Mahathir of Malaysia in 1990, though it was strongly objected by the US and therefore Japan at that time. Now, with NAFTA and FTAA in place, it is difficult for the US to take the same stance. Also with the rise of China as an economic power and potentially as a leader of APT, the US considerations have to be different.

In the third APT summit in November 1999, a joint statement on East Asian cooperation was released. On the basis of the previous agreements reached, the fourth summit held in Singapore in 2000 was hailed to be a significant step toward regional cooperation. The most notable development was the Chiang Mai
Agreement reached in May 2002 during the APT finance ministers meeting. It involves a network of swap arrangements among the ASEAN states, China, Japan and ROK. The APT initiative has since been promoted actively by China. Chinese leaders’ worry about the deterioration (or the possibility of it) in Sino-US relations, and the potential danger of the "containment" of China by Western countries has been an important motivation for their promotion of East Asian regionalism through the APT route (Cheng 2001).

**ASEAN-10 Plus 1.**

Some countries in the region, such as Japan, Singapore, Malaysia, ROK and even China seem to be frustrated with the slow pace of liberalization and the stagnancy of trade negotiation within APEC. Members opting for faster liberalization may choose to form regional free trade areas (FTAs) that are smaller, hence more tractable and flexible. A watershed in the history of East Asian regionalism is perhaps the establishment of the ASEAN-10 + 1 (APO) in November 2002. The initiative has been successfully implemented without vehement objections from the US and Japan.

**Bilateral Free Trade Agreement (FTA)**

As a consequence of the failure of the December 1999 Seattle WTO negotiations, bilateral free trade agreements (FTAs) and regional trading arrangements (RTAs) have proliferated. A quickest way for two or more countries to achieve trade liberalization together is via bilateral trade negotiations or free trade arrangements among two or more countries. Japan, for instance, has a large number of bilateral trade arrangements with other countries, reflecting among other things its aspiration for more
liberalization than what has been pursued via APEC. Japan signed an agreement with Singapore in January 2002. It has formed or proposed bilateral FTA with ROK, Chile, Mexico, Canada, Australia, New Zealand, and Thailand. ROK is also negotiating with Chile, New Zealand, Mexico, Thailand, as well as Japan. Singapore and New Zealand signed an agreement in November 2000. Singapore is negotiating with Australia, Canada, Mexico, and India. Even Hong Kong has an FTA with New Zealand, and now with Mainland China. Hence, in the East Asian region, Japan, Singapore and ROK are actively involved in bilateral negotiations (see Harvey and Lee 2002). Bilateral relations can provide a quicker liberalization since many difficult issues (particularly those related to agriculture and textile), as well as some bureaucratic red tapes, can be effectively averted or resolved. Bilateral agreements can focus on issues specific to the countries concerned that may be non-WTO and non-conventional. In addition, a deeper form of integration and cooperation may be achieved more efficiently. In the past few years, there was a proliferation of literature on FTA, RTA and their implications for the multilateral trading system advocated under the WTO.

Generalization and Implications

There are several lessons and implications that we could derive or observe from the historical development of the Asia Pacific regionalism. First, a full-fledged discriminatory trading bloc typical of the EC and NAFTA has never materialized. The process has also been a slow and evolutionary one. This is largely due to the fact that the Asia Pacific member countries are too diverse in nature. Also, they opt to operate on the principle of open regionalism, which implies that member countries are allowed to promote unilateral or bilateral arrangements inside the region while applying the same non-discriminative trade policies
and concessions to the third countries. However, the pace has become faster as a response to recent events.

Second, Asians are for a long time also more inclined to build informal rather than formal regional organizations. The cooperative efforts have never been formal (unlike the EU and NAFTA). Cooperation in East Asia is at the lower level of integration with EU presumably at the highest. The cooperation is often directed at providing a type of cooperation rather than integration involving mutual research, discussions and forums.

But, the cooperative efforts have recently become increasingly more sophisticated, from a regional cooperative concept PAFTA to the formation of APEC that bears a complicated structure encompassing a great range of members. However, since the formation of APEC, the cooperative efforts have somehow become less complex but more institutionalized with the subsequent formations of the APT and the bilateral FTA. Many East Asian countries now seem to prefer more unilateral and bilateral liberalization rather than being bound by the liberalization rules and requirements embodied in GATT/WTO or APEC. East Asian countries opt for more liberalization on the understanding that (a) any adverse contagion emanating from future crisis could be contained (for example in the form of currency swap arrangement) and (b) members can follow their own pace and level of liberalization (many countries in East Asia do not want to liberalize hurriedly in the same degree and speed of progress called for by the US and the WTO). With the formation of the APT and the APO, the ASEAN free-trade area (AFTA) cutting the tariffs to 5% or less, and the emergence of a host of bilateral trading arrangements involving the same countries in the region (for example between ASEAN and Northeast Asian countries), more liberalization would be achieved at a faster pace than the time frame stipulated by APEC.

Third, the US and other advanced Pacific countries have al-
ways been the partners of East Asia until the recent formations of the APT as well as the APO. In other words, the cooperation has recently become more and more uniquely East Asian. China appears currently to be a dominating member in the evolving East Asian regional organizations. This is in sharp contrast to the situation when China was initially excluded from APEC membership in 1989. China has even become a leader in some of the evolving cooperative arrangements (as in the case of the APO).

II. Prospect of East Asian Integration

The prospect for integration in East Asia and formation of a regional cooperative organization, for example the APT, is espoused in this paper using a framework which uses a set of established criteria for gauging and determining the success and failure of closer integration (the criteria for success approach). In addition to the criteria, we study the prospect of East Asian regionalism by examining (a) the past developments, which provide the implications for the future developments, and (b) the current developments, which may drive their existing trends of developments in particular directions into the future (the development trend approach). By examining both the past and the present developments, we are able to derive reasonable conclusions from the analysis. The extrapolation of a current trend into the future could be a subjective exercise. However, the observation of multiple developmental trends would provide a more objective measure for judging the size of the benefit that potentially drive or derail, naturally or coercively, a future development plan. This type of analysis may also enable us to examine how a particular trend may be offset or diluted in such a way as to maximize the net gains.

We aim to answer two fundamental questions. The first is:
Would the APT evolve into a more formal and closer regional cooperative organization given that it is currently not based on any treaty or formal binding agreement between the participating states, and has no central secretariat? The second is: How likely would East Asia or the APT develop into full-fledged discriminatory trading blocs exemplified by the EU or NAFTA? In the following analysis, we will gauge the prospect by using the framework elucidated above.

The Criteria for Success Approach

Prospect for Regional Integration

Mattli (1999) has identified two critical (economic and political) preconditions of successful integration: first, a strong market pressure for integration, which will arise if there is considerable economic gain accruable from the integration; and second, an undisputed leadership, which serves to coordinate rules, regulations and policies, and to resolve distributional conflicts of the participating countries. If these two strong criteria were sufficient for gauging the success of a regional integration outcome, as claimed by Mattli, then the outcome for East Asia would be ambiguous because the presence of strong market pressure for East Asian integration (since the economic gains accruable from East Asian integration seem to be huge, given the enormous increase in trade flow between the Southeast and Northeast Asian regions) appears to be offset by the lack of an undisputed leader (since it is not clear if China or Japan, or a coalition of states, should provide the necessary leadership). But economic complementarity in the Asian region should be understood with the following in mind. Before the emergence of China as a huge market, economic cooperation in this region has always been on the basis of pooling resources rather than sharing markets. Even to-
day the importance of East Asian exports to the rest of the world is still significant. This also explains why open regionalism is a guiding principle underlying East Asian economic cooperation. In future, the opening of the China market would make a difference. Also the economic complementarity cannot be fully revealed by an analysis at the one or two-digit SITC level. A study of intra-industry trade and intra-regional trade at a more disaggregated level shows that East Asian competition in production and trade is much less than commonly envisaged. This explains why export orientation in East Asia has for a long time not been a zero-sum game. This is of course an illustration of the flying geese pattern of industrialization in which a sophisticated sub-regional division of labour is practised.

Most observers judge East Asian economic integration or cooperation as a success since a number of economies, particularly the five ASEAN members (Malaysia, Singapore, Thailand, Indonesia and the Philippines) and the three Northeast Asian economies (Japan, China and ROK) grew very rapidly and prosperously subsequent to their cooperative endeavors. Economic growth of these countries has been spurred, among other things, by trade facilitation, cost reductions, shared resources, FDI flows, and the division of labor resulting from their cooperation. The benefits of economic growth in the forms of poverty reduction and enhanced living standards are enormous, especially before the onset of the AFC. Admittedly, the benefits had diminished somewhat as a result of the AFC. However, many economies like ROK, Thailand and Malaysia have since recovered from the downturn wrought by the AFC. The East Asian economies still have a large labor productivity gap with the leading OECD countries and substantial scope for further rapid catch-up growth (Crafts 1999).

It is expected that China will continue to provide ample room for its East Asian partners to reap the opportunity generat-
ed by China. The synergistic relationships between China and its regional neighbors and among the APT states will generate competition and substantial efficiency gains in terms of total factor productivity (TFP) growth. At present, many economists believe that TFP growth is small for most of the Asian economies and their economic growth was driven mostly by input accumulations (see the review by Voon and Chen 2003). If their findings are credible (see Felipe 1999), then the contribution of TFP growth attributable from East Asia integration will be important in sustaining the economic growth, which will in turn provide the incentive for more integration in East Asia.

However, Sino-Japanese rivalry could be an insidious obstacle to closer East Asian integration. For example, in China’s view, Japan has not apologized for the period of the Japanese invasion and occupation of China from 1937 to 1945. There remain at present some differences in political ideologies between China and Japan. The triangular relationship among China, Japan and the US is also delicate. On the one hand, according to some observers, Japan, being less threatening to the region now, possesses a-potential hegemonic power and means to mediate and resolve distributional conflicts in the region. On the other, a serious limitation on Japanese regional leadership is its own domestic economy: Japan has not been able to provide a domestic market for imports from the regions during periods of regional economic retraction, and if the present rates of economic growth (and the growth of military prowess) in China continue into the future, China will eclipse Japan in terms of the capacity for regional leadership in East Asia (Weber 2001). Another pertinent question is: Can ASEAN take over the leadership role? However, in view of political realities, both China and Japan would for the time being prefer to dodge the issue of leadership in as much as an unchallenged leadership has not yet emerged. Both countries understand that a working relationship has to be built up first.
Last but not least, how will the US react to the APT from which it is excluded? Will the US in due course oppose it as much as it did to the EAEC in 1990? It seems that the Clinton administration had displayed a more relaxed attitude to East Asian regional integration (Asia Week 2000). The Bush Administration seems to be preoccupied with the problems inherent in the domestic economy, the Middle East, the war on terrorism, and the process of promoting North/South American integration and its ties with Mexico. It has remained relatively quiet and not vied for leadership or membership within the APT thus far.

In the long run, governments in the region perhaps should make an attempt to resolve the leadership issue if cooperation and long-term integration are to continue smoothly. At present, it appears that the pressure from the economic gains outweighs the leadership dilemma, hence potentially driving the leaders to reconciliation and resolution in the foreseeable future.

Prospect for Trade Bloc

Of the set of established criteria for gauging the success/failure of EU-or-NAFTA-typed trading bloc (see Balassa and Noland 1994; Voon and Nguyen 1992), commonalities in institutions, culture, history, etc. appear to be the most critical criterion. Asia Pacific countries differ tremendously from each other in size, levels of development, political culture and institutions, domestic economic structure, and geographical location. These tend to limit them from developing into a full-fledged trading bloc envisaged by the EU or NAFTA, which entails a deeper form of political and economic union. Openness is another important criterion. This means that if the countries in the region adopt a common goal of pursuing outward-looking policies, they are unlikely to evolve into a discriminatory bloc, typical of EU or NAFTA. Most of the East Asian countries are open to
trade, investment and liberalization. They have continued to pursue a policy of open regionalism; for example, trade concessions are not confined to the members but also to "outsiders". Thus, East Asian countries are very unlikely to evolve into EU-style trade bloc. However, countries within the APT are fewer and perhaps not as diverse as those within APEC. This means that the APT will probably develop into a closer entity than that within APEC. East Asian regionalism depends to some extent on the development of ASEAN. The widening of the ASEAN from ASEAN-5 to ASEAN-10 for instance has broadened the diversity and hence lessened the possibility of a closer and formal East Asia bloc that bears the characteristics of EU. The widening has posed an obstacle to its deepening.

The Development Trend Approach

The past and current development trends can be used as yardsticks for gauging the shapes of the future development outcomes. A retrospective assessment of the past development trends in East Asia was provided in Section 2. In what follows, we provide a prospective assessment using the current trends.

Growth of Intra-regional Trade

The degree of regional integration is often measured by the growth in the level of intra-regional trade. Hence, East Asian integration is likely to continue in view of the growing importance of the intra-regional trade (as opposed to its trade with the EU and with NAFTA). For instance, intra-Asia trade constituted 53.1% in 1997 and has increased very rapidly since the recovery of the region from the AFC (Rugman 2001). A recent study shows that the major part of Asian trade (in absolute terms) is with Asia and is several times that with the US (Agarwala and
Prakash 2002), suggesting that greater attention should be given to improve trade facilitation within Asia than trade with the US. Another study showed that ASEAN integration did not increase intra-ASEAN trade, but an increase in trade occurred with members of a wider APEC group (Sharma and Chua 2000).

The growth trend of East Asia is confirmed by a recent study demonstrating that ASEAN trade with their Northeast Asian counterparts has expanded at a higher rate than intra-ASEAN trade (Tho 2002). Conversely, the Northeast Asian economies have expanded their manufactured exports to the ASEAN market at a faster rate than to the rest of the world. Tho (2002) conjectured that while AFTA is contributing to the stability of ASEAN, its effects on the development of these countries are not as important as the dynamic interdependence between ASEAN and other East Asian countries. This view is shared by Cheng (2001), reiterating that domestic difficulties in the ASEAN states in the wake of the AFC prompted their leaders to turn to Northeast Asia, and at the same time, the Northeast Asian countries were seeking ways to exploit the evolution of AFTA. The above studies point unequivocally to the need for more integration in East Asia.

**Growth in Threats from Other Regions**

East Asian countries have been discriminated against and threatened by the two giant regional trading blocs, namely the EC and NAFTA. The discrimination comes in the form of higher tariff and non-tariff barriers (e.g. export subsidies, agricultural protection, vested interests, etc). With the EC developing into a currency union and NAFTA predicting to expand successfully into Free Trade Areas of the Americas (FTAA), the threats posed by these discriminatory blocs have become more distinctive. This is because the economies of East Asia are now facing a prolifera-
tion of regionalism in both Europe and in the Americas, making the task of further expanding exports to these key markets increasingly difficult. This could continue to drive East Asia into developing its own geographical region demarcated for instance by the formation of the APT in order to counter the threats by becoming more competitive regionally and internationally. And one way to become more competitive regionally is by closer integration and cooperation.

Emergence of China

China has now become an increasingly important trading partner for nearly all the East Asian countries. The emergence of China, with its hyper-growth and its increasingly high domestic purchasing power, will definitely lead to more trade with the ASEAN countries, Japan and ROK. This again points to the growing regionalism in East Asia. China has already formed a closer partnership with ASEAN in terms of the formations of the APT as well as the APO. The growing importance of China over the next decade will continue to strengthen the growth of these regional organizations. It is likely that China will replace Japan and the US as the economic locomotive of Asia. China will also look increasingly to the Asian markets because of US and European protective trade policies.

Onsets of AFC and SARS

The onset of AFC has sent an important message to the community of East Asia that it could not withstand such abrupt and insidious forms of attack. This suggests that a stronger strain of cooperation involving integration of the financial markets would be essential for the region. To the extent that cross-border capital flows continue to increase as a result of the global-
ization of financial markets and given that East Asia now has huge official monetary reserves to protect itself against a financial crisis (Bergsten 2000), the incentives for closer regional monetary cooperation to combat currency instability are likely to rise. This will certainly enhance the prospect of closer East Asian integration.

The AFC has indeed exposed the weaknesses of the existing institutions like APEC and ASEAN, both of which are incapable of tackling the crisis. Neither APEC nor ASEAN is a financial institution and has access to funds that could be mobilized in the crisis, despite the region’s large exchange reserves. The inability to build on a Japanese proposal, in a way that, given the right circumstances, would have contributed constructively to ameliorating the problem, was especially unfortunate. The AFC has inadvertently led to the declining importance of APEC and, correspondingly, to the formation and rise of the APT at which the currency-swap facility for the region has been initiated at Chiang Mai in Thailand in May 2000. Since then, East Asian cooperation via the APT and the APO has gained considerable momentum in a relatively short time (Alatas 2001). China, despite the drastic devaluation of currencies in some Asian countries, upheld the RMB exchange rate, thus receiving applause from its neighbouring countries. On the contrary, the controversial IMF policies imposed on some Asian countries have raised serious concerns.

The recent onset of the sudden acute respiratory syndrome (SARS) and the fear of this recurring in the future will also lead to the strengthening of the regional organizations. China has already become more transparent and works ever more closely with countries in the region in order to avoid the pandemic and a huge economic loss resulting from the contagion.
Resentments Against the US

East Asian states have recently expressed their discontent with the US. There are a couple of reasons for this. First, the US has been accused of not living up to the leadership role in APEC. As mentioned already, there has been a concern with the failure of the International Monetary Fund (IMF), appointed by the US, to resolve the AFC. This is evident in Mahathir’s persistent efforts to reduce dependence upon the West (particularly the US), which were illustrated by Malaysia’s avoidance of IMF intervention in favor of alternative funding sources, notably Japan. Countries in East Asia felt that the Americans did not tackle the Asian crisis as much, and as readily, as they rushed in to assist in the Russian and Brazilian crises (cited in Weber 2001). A result of the resentment is the exclusion of the US from the APT and other regional bodies.

Second, a recent manifestation of the US’s protectionist stance seems to be in conflict with its multilateral aspiration: on the one hand, it strives rapid liberalization within APEC, but on the other, it imposes extensive protection policies in the forms of export subsidies and other non-tariff barriers. In fact, given the size of its bargaining power both in APEC and the WTO, East Asian nations believe that APEC’s targets of liberalization as well as reforms in the region could be manipulated by the US to the benefit of American business. Besides, negotiations within APEC or WTO have seen a movement of agendas toward issues that are of more interest to the US (Harvey and Lee 2002).

The above has led to the development of an exclusively East Asian organization such as the APT. The resentments would also have the effect of reducing East Asia’s dependence on the US as their export destination while enhancing East Asian trade with one another. It is of interest that the Chinese Authorities,
in view of the difficulties in Sino-American relations, now attach top priority to East Asian cooperation, following the formula of APT (Cheng 2001).

Emergence of RTA and Bilateral FTA

In response to the stagnation of global trade liberalization, epitomized by the collapse of the 1999 Seattle talks that intended to launch a new round of WTO trade negotiations, a number of bilateral trading arrangements within the East Asian region have recently emerged and proposed. For example, China has actively pursued bilateralism with ASEAN, as proposed by Premier Zhu Rongji in November 2001. Japan has also pursued a comprehensive economic partnership with ASEAN, as proposed by Prime Minister Koizumi in April 2002. Such a growth trend, depicted by the ubiquitous emergence of the bilateral FTA, is likely to promote freer trade and closer integration in East Asia. But the crucial question is still whether the current regionalism, sub-regionalism and bilateralism will eventually be a stepping-stone or a stumbling block to globalism and multilateralism.

The quest for more bilateralism may also be attributed to the inefficient functioning of APEC; the size of the institution (as opposed to a smaller regional body such as the APT) implies that it may be slow to respond to impending decisions, lack flexibility, and lack knowledge of the regional circumstances to make effective contribution to the problems at the regional level (Harris 2000). As East Asia aspires for more liberalization, one would expect the regional integration to grow stronger.

Infrastructure Developments:

1. East Asian regionalism will also be strongly promoted by road, rail, and water transport links between China and the
ASEAN states. A Lancang-Mekong development project is underway, paving the way for commercial navigation on the Mekong River from Thailand to China (cited in Cheng 2001). China, together with Thailand and the Asian Development Bank, is ready to build the Laos section of the proposed Kunming-Bangkok highway. In addition, ASEAN leaders have endorsed the US$ 2.5 billion Trans-Asian railway project joining Kunming and Singapore (Cheng 2001). Such infrastructure developments will certainly give rise to closer economic integration.

East Asian Rivalry

China, with its cheap labor resources, may pose as a rivalry for some of East Asian countries that export similar products to similar export destinations (Voon and Ren 2003; Ho 2001). Another element that adds to the contention is the increasing concentration of FDI in China. The rivalry may also be accentuated by the perceived under-valuation of the RMB, which may hurt exports by the other East Asian countries (Business Week, July 2003). The most serious type of rivalry or tension could be geopolitical in nature, such as the territorial disputes in the region. Such phenomena, or development trends, admittedly, may impede the cooperative efforts toward a closer regional integration.

Conclusion

This paper reveals that the pattern of regionalism in Asia and the Pacific has dramatically changed, with the emergence of several regional cooperative bodies concomitant with the decline of the roles of APEC and ASEAN. A model is developed for gauging the prospect for closer integration in East Asia in light
of the changing regionalism in East Asia. The model departs from the previous studies in that it employs two approaches for assessing the prospect for closer integration in East Asia. In addition to the "criteria for success" method, as in previous research, this paper identifies the changing development trends in the region that favor and disfavor the prospect for closer integration. Our model could give rise to a more comprehensive and a more objective analysis of East Asian regionalism.

Our study shows that closer East Asian integration could be impeded by the absence of undisputed leadership as well as the presence of geopolitical tension among the APT member states. However, the pressure for economic benefits is enormous in the region. This will potentially dilute the leadership polemic and drive the region into closer integration. Moreover, many other developments in the region have also provided credence and optimism to the changing regionalism in East Asia. The unprecedented growth in trade volume within East Asia rather than with other regions of the world implies that East Asia will become more closely integrated. The escalating threats by other regional blocs such as the EU and NAFTA have compelled the region to cooperate, and to remain competitive regionally and globally. The emergence of China as the economic and military power constitutes another powerful force driving ASEAN and other Northeast Asian states to trade and cooperate with China, hence coalescing East Asia into a more integrated region. With the onset of the AFC and SARS, East Asia is compelled to cooperate in order to counter the negative externality and the growth retrogression wrought by the contagion. The face of East Asian regionalism has also changed in favor of the development of the APT as a result of their resentments against the US. The region, aspiring for more liberalization, has also resorted to more bilateral trading arrangements, which would hopefully in the longer run engender freer regional and closer economic relations and integra-
Last but not least, the physical infrastructure linking the various member states has been improving. This will facilitate trade and the flows of production factors, and hence contribute to closer integration in the region. All the developments above have clearly pointed to a favorable prospect for closer integration in East Asia. Notwithstanding this, East Asia is unlikely to develop into a full-fledged discriminatory trading bloc bearing the characteristics of EU or NAFTA in view of the region's diversity as well as its aspiration for more trade liberalization and openness.

As a whole, we are quite optimistic that East Asia will grow to be increasingly integrated. The regional cooperative bodies represented for instance by the APT (ASEAN Plus Three) are likely to grow in stature, which would then act as a catalyst for closer integration in East Asia. Some of the inherent problems or obstacles have been identified in this paper. However, it is not an overstatement to say that the existing problems in the region that may hamper the growth of APT into a regional organization may well be overshadowed or preempted by the huge and growing benefits accruable from the cooperation in the region as well as by the trends and evidence that have collectively and strongly pointed to the development of a more integrated region. Moreover, most of the identified problems appear to be tractable. For example, the rivalry between China and ASEAN as a result of their export competition in the same market could have been overstated and can be ameliorated by reducing their over-dependence on exports to the US; this is already happening given the remarkable expansion of the intra-regional trade. The fear of the RMB under-valuation threatening the region may not be real and may be allayed in the foreseeable future because China would just revalue its RMB in China's own interest (Voon and Li 2003).

It is of interest to note that East Asian cooperation started with a narrow focus on trade and investment so as to avoid the
more controversial issues. But more recently, East Asian cooperation has extended from economics to much wider issues. Specifically, the following have increasingly become important items on the agenda of regional meetings.

First, the issue of cooperation in economic security has emerged after the Asian financial crisis. Economic security is not only confined to self-sufficiency in food and fuel but more importantly, extended to capital flows and financial stability.

Second, regional security is also very much on the agenda. The geopolitical tension has extended from territorial claims in the South China Sea to the Korean Peninsular question and the question of Mainland-Taiwan relationships. Geopolitical considerations could be important underlying factors for economic cooperation.

Third, after the September 11th incident, the importance of social and civil security issues has given rise to cooperative efforts in coping with the worldwide spread of terrorism. The Huntington hypothesis of the clash of civilizations and the dominance of local conflicts has taken a new dimension.

Lastly, the SARS outbreak in many parts of Asia Pacific has also raised the concern of health security. Globalization has caused the transmission of the virus very difficult to control. Such health hazard with devastating economic effects has to be contained at the regional or even international level. East Asian cooperation can no longer be confined to trade and investment. It is however too early to tell whether such widening of cooperation makes cooperation in this region easier or more difficult.

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