WHITHER ASEAN PLUS THREE?

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INTRODUCTION

ASEAN Plus Three (APT) could become the embryo of an East Asian regional organization. It refers to a regional process involving the ten ASEAN countries and *three* Northeast Asian countries (China, Japan, and Korea). As suggested by its name, this emerging regional process is driven by ASEAN. APT meetings take place around ASEAN meetings, initially by inviting the "three" to come to the venue of an ASEAN meeting and conduct a meeting with ASEAN. Some see this as an obstacle to the creation of a truly East Asian regional arrangement (Jayasuriya, 2000).

Yet, this process may not have come about had it not taken this route. An earlier proposal to establish an East Asian Economic Group (EAEG), subsequently modified into an East Asian Economic Caucus (EAEC), never took off. The ASEM (Asia Europe Meeting) process also brings together the East Asian participants into a *de facto* grouping. However, this grouping did not develop into a process that has a separate agenda from that of ASEM. The EAEG proposal came from within ASEAN (Malaysia), and the modified EAEC was adopted by ASEAN. The ASEM process was also initiated from within the ASEAN region (Singapore) with the support of all ASEAN members. The APT was also initiated by ASEAN. It began as a modest undertaking.

Foreign ministers from the three Northeast Asian countries initially came for an informal meeting over lunch during an ASEAN meeting. There was no specific agenda for those meetings. Soon enough, this process attracted the involvement of heads of state. The first APT Summit was held in December 1997 in Kuala Lumpur. The financial crisis in East Asia is regarded as having provided the impetus for this Summit. The APT process became a more serious one. While the process has been and is essentially driven by ASEAN, the agenda setting was not controlled by ASEAN.

In the second APT Summit in Hanoi in November 1998, Korea's President, Kim Dae-jung, made his mark by proposing the establishment of an East Asia Vision Group to present a mid- to long-term vision for the cooperation. The third APT Summit in Manila in November 1999 was held under the banner of "East Asian Cooperation". The

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meeting discussed various ways to promote cooperation and to cope with the new challenges of the 21st Century. APT heads of state adopted the "Joint Statement on East Asian Cooperation" suggesting cooperative measures in various areas including security, economy, culture and development strategy. This agreement led to the launching since 2000 of a series of APT meetings of finance and economic ministers, in addition to those of foreign ministers.

In the fourth APT Summit in Singapore in November 2000, Chinese Prime Minister Zhu Rongji suggested the main tasks for APT, which included cooperation in the development of Mekong River Basin transportation and communication infrastructure, cooperation in IT (information technology), human resources development, agriculture, and tourism. China also took the initiative to convene an APT meeting of agriculture and forestry ministers, and offered to host and agricultural technology and cooperation business forum. The Singapore Summit concluded with a public statement by Prime Minister Goh Chok Tong highlighting the "two big ideas" that emerged from the discussion. These were, namely the development of institutional links between Southeast Asia and Northeast Asia, and the setting up of a working group to study the merits of an East Asian free trade and investment area. He further stated: "I see no problem in ASEAN Plus Three evolving, if that's the desire of leaders, into some kind of East Asia Summit. But there are implications. I myself would not recommend a hasty evolution." (cited in Thayer, 2000).

In his statement, Goh seemed to suggest that what was important was that the leaders of the thirteen countries were starting to think as "East Asian." The key question is of course where will these developments lead to? While the Three have greatly influenced APT's agenda, ASEAN's role is likely to remain critical to APT's future development. The first section of this paper examines ASEAN's own developments that may have an influence on its emerging policies towards East Asian cooperation. This is followed by an examination of the various ideas and initiatives on regional cooperation in East Asia. Some tentative conclusions will be drawn in the final section.

DEVELOPMENTS OF ASEAN SINCE THE 1990S: DEEPENING, WIDENING AND LINKING

ASEAN is the oldest, and still the only formal, regional grouping in East Asia. Over the years since its inception in 1967, its development has been influenced by the internal dynamics of Southeast Asia as well as by developments in the wider regional and international environments. While the formation of ASEAN was motivated by political and security considerations, ASEAN cooperation was to be pursued mainly in the economic and social fields. Various schemes for economic cooperation were introduced and tried out over a period of 25 years, but their results have been rather disappointing. ASEAN was much more successful in its political cooperation. It became a diplomatic power by its ability to maintain and enhance peace and stability in the region and to organize itself into a cohesive group in the international arena. It has developed an extensive "dialogue" process with its major trading partners and major regional powers, which further enhanced its diplomatic standing. It was the "reaching out" by ASEAN and its diplomatic standing that paved the way for the development of Asia Pacific region-wide processes, APEC (Asia Pacific Economic Cooperation) and the ARF (ASEAN Regional Forum), capitalizing on the relations that have developed through the annual ASEAN Post Ministerial Conferences (ASEAN PMC).

The end of the Cold War and the growing pressures from globalization, have led to the transformation of ASEAN. In 1992, ASEAN heads of state formally endorsed the creation of an ASEAN Free Trade Area (AFTA). This symbolizes ASEAN's desire to strengthen the region through economic integration. This was not in the blueprint of ASEAN's founding fathers. AFTA is to lead to a deepening of regional economic cooperation to enhance the region's competitiveness in the face of globalization. At the same time that ASEAN pursued a deepening of its cooperation, it embarked on an effort to realize the dream of its founding fathers, namely to widen its membership to create a One Southeast Asia. This project was completed in 1998.

Progress Report on AFTA

ASEAN's "new" members also signed on to AFTA as a condition of entry. The "old" members, the original six signatories of AFTA (ASEAN-6), have accelerated the implementation of AFTA, from completion in 15 years to 10 years in 2003, and subsequently brought forward the target date to 2002. The last new member (Cambodia) will complete its AFTA commitments in 2010.

The Common Effective Preferential Tariff (CEPT) scheme for AFTA covers all manufactured and agricultural products, although the timetables for reducing tariffs and removing quantitative and other non-tariff barriers (NTBs) differ. Products in the *Inclusion List* (IL) are those that have to undergo immediate liberalization through reduction of tariffs to 0-5 percent, removal of quantitative restrictions and other NTBs. The deadline is 2002 for ASEAN-6, 2006 for Vietnam, 2008 for Laos and Myanmar, and 2010 for Cambodia. In 2001, a total of 56,082 tariff lines would be in the IL, representing about 84 percent of all tariff lines in ASEAN.

Products in the *Temporary Exclusion List* (TEL) are allowed to be excluded from liberalization only for a temporary period. All products in the TEL must be transferred into the IL and begin a process of tariff reduction to reach 0-5 percent. The transfer of products from the TEL to IL at annual installments began in 1996 for ASEAN-6, 1999 for Vietnam, 2001 for Laos and Myanmar, and 2003 for Cambodia. In 2001, there are 9,780 tariff lines in the TEL, representing 14.6 percent of all tariff lines in ASEAN.

Unprocessed agricultural products have been given a longer period to phase in liberalization. These products are contained in the *Sensitive List* (SL). ASEAN-6 have to reduce tariffs to 0-5 percent, remove quantitative restrictions and other NTBs by 2010. The deadline for the new members is 2013 for Vietnam, 2015 for Laos and Myanmar, and 2017 for Cambodia. In 2001 a total of 368 tariff lines, or 0.55 percent of all tariff lines in ASEAN, are in the SL. A total of 734 tariff lines are in the *General Exception* (GE) *List* 2001. These are items that are permanently excluded from liberalization for reasons of national security, protection of human, animal or plant life and health, and articles of artistic, historic and archeological value. Table 1 shows the number of tariff lines in each of these four lists for individual ASEAN members (as of May 2001).

Table 1: Number of Tariff Lines in the Tentative CEPT Product List for the Year 2001

Country	Inclusion List	Temporary Exclusion List	General Exception List	Sensitive List	Total
Brunei Darussalam	6,276	0	202	14	6,492
Indonesia	7,192	21	68	4	7,285
Malaysia 1)	10,025	218	53	83	10,379
Philippines	5,621	6	16	50	5,693
Singapore	5,859	0	0	0	5,859
Thailand	9,104	0	0	7	9,111
ASEAN-6 Total	44,077	245	339	158	44,819
Percentage	98.34	0.55	0.76	0.35	100.00
Cambodia	3,115	3,523	134	50	6,822
Laos	1,673	1,716	74	88	3,551
Myanmar	2,984	2,419	48	21	5,472
Vietnam	4,233	1,877	139	51	6,300
New member Total	12,005	9,535	395	210	22,145
Percentage	54.21	43.06	1.78	0.95	100.00
ASEAN TOTAL	**56,082**	**9,780**	**734**	**368**	**66,964**
Percentage	83.75	14.60	1.10	0.55	100.00

Data as of May 2001
1) Malaysia: including 1168 items of wood products which came from the extension of 11 items.

Contrary to popular perceptions, the financial crisis has not resulted in a slowing down of AFTA's implementation (Soesastro, 1999). Definite timetables were introduced in 1998 that resulted in an acceleration of implementation by ASEAN-6. The agreement was that by 2000, each country will have a minimum of 85 percent of the IL with tariffs of 0-5 percent. This would be increased to 90 percent in 2001, and 100 percent in 2002. As of May 2001, a total of 92.73 tariff lines in the IL have tariffs of 0-5 percent (see Table 2). The average CEPT tariff rate of ASEAN-6 would be reduced to 2.91 percent in 2002, from 12.76 percent in 1993 at the launch of AFTA (see Table 3).

Table 2: Number of Tariff Lines with Tariffs of 0-5 percent by the Year 2001

	Number of Tariff Lines				Percentage of IL			
Country	0-5%	>5%	Other	Total	0-5%	>5%	Other	Total
Brunei Darussalam	6,107	157	12	6,276	97.31	2.50	0.19	100.00
Indonesia	6,483	709	0	7,192	90.14	9.86	0	100.00
Malaysia	9,189	836	0	10,025	91.66	8.34	0	100.00
Philippines	5,040	530	51	5,621	89.66	9.43	0.91	100.00
Singapore	5,859	0	0	5,859	100.00	0	0	100.00
Thailand	8,195	908	1	9,104	90.02	9.97	0	100.00
ASEAN-6 Total	40,873	3,140	64	44,077	92.73	7.12	0.15	100.00
Cambodia	238	2,877	0	3,115	7.64	92.36	0	100.00
Laos	1,028	645	0	1,673	61.45	38.55	0	100.00
Myanmar	2,426	558	0	2,984	81.30	18.70	0	100.00
Vietnam	2,963	1,270	0	4,233	70.00	30.00	0	100.00
New member Total	6,654	5,342	0	11,996	55.47	44.53	0	100.00
ASEAN TOTAL	47,527	8,482	64	56,073	84.76	15.13	0.11	100.00

Note: 1) For the Philippines, among those items where the 2001 CEPT rate are not 0-5 percent, there are 87 items with the MFN rates are already 0-5 percent so that the percentage number of items with 0-5 percent in 2001 would be more than 91percent.
Data as of May 2001.

Table 3 Average CEPT Tariff Rates Year 1999 – 2003

Country	Year 1999		Year 2000		Year 2001		Year 2002		Year 2003	
	Tariff Lines	Ave.	Tariff Lines	Ave.	Tariff Lines	Ave.	Tariff Lines	Ave.	Tariff Lines	Ave.
Brunei Darussalam	6264	1.55	6264	1.26	6264	1.17	6264	0.96	6273	0.96
Indonesia	6931	5.36	7176	4.76	7192	4.27	7192	3.69	7192	2.17
Malaysia	8354	3.2	8864	3.32	10025	2.7	10025	2.58	10025	1.94
Philippines	5335	7.34	5550	5.18	5570	4.41	5570	4.3	5570	3.81
Singapore	5746	0	5821	0	5859	0	5859	0	5859	0
Thailand	9062	9.58	9103	6.12	9103	5.66	9103	5.01	9103	4.63
ASEAN-6	41692	4.79	42778	3.64	44013	3.21	44013	2.91	44022	2.37
Cambodia			3115	10.39	3115	10.39	3115	8.89	3115	7.93
Lao PDR	1247	7.54	1247	7.07	1673	7.08	1673	6.42	1673	5.6
Myanmar	2356	4.45	2386	4.43	2984	4.57	2984	4.56	2984	4.43
Vietnam	3487	7.11	4233	7.25						
ASEAN-4	7090	6.31	10981	7.51	7772	7.45	7772	6.7	7772	6.09
Total ASEAN - 10	48782	5.01	53759	4.43	51785	3.85	51785	3.48	51794	2.93

As of May 2001

It should be noted legal enactment processes in some ASEAN countries result in delays in implementation. As of May 2001, Indonesia, Laos and Myanmar have issued their legal enactment for the 2001 CEPT package (ASEAN Secretariat, interview). It should also be noted that the 2002 deadline for the 100 percent tariffs of 0-5 percent in the IL allows for some “flexibility”, namely an extension to 2003. Three of the ASEAN-6 members have submitted the list of products under this clause. In the case of Brunei Darussalam, it contains 16 items with a value of US$3 million in its intra-ASEAN imports. The products include petroleum oils (9 items), electric motors, lenses/optics, antiques goods and postal packages. Indonesia submitted a list of 66 products, having a value of intra-ASEAN imports of US$ 14.3 million, which includes petrochemicals (34 items), plastics/rubber (19 items), lamps for interior decoration, other electric conductors, works of arts, steel (leaf spring), and vegetable products. Philippines “flexibility” list includes 192 products, of which 113 are agricultural products and 45 are automotive parts. Other products are glass/glassware, plastics/rubber, iron/steel/base metal, and electric accumulators. The intra-ASEAN imports of these products was about US$ 180 million (from ASEAN Secretariat, interview).

In addition to this development, in can also be observed from Table 1, that of the 245 tariff lines still in the 2001 TEL of ASEAN-6, 218 are in Malaysia’s TEL, relating to the automotive sector. Malaysia has requested for deferment to 2005 and was allowed to do so with the provision that it provides compensation for potential losses of market to other ASEAN producers. Thailand is the first ASEAN member to seek compensation, but negotiations have yet to produce a decision, which has to be made within 6 months after Malaysia filed its formal request (19 January 2001). Malaysia seeks proof from Thailand that its cars meet the 40 percent rules of origin provision. It has been reported that on 28 May 2001 Indonesia also submitted a claim for compensation. Malaysia is said to have demanded that Indonesia must prove that it has the potential to supply cars to Malaysia (*The Jakarta Post*, 7 June 2001).

The remaining items in the TEL of ASEAN-6 are agricultural products (21 items in Indonesia’s TEL and 6 items in Philippines’ TEL). They will have to be transferred into the IL by 1 January 2003.

The above developments show that with some exceptions, by 2002 ASEAN-6 would have fulfilled their AFTA commitments.

New Ideas and Initiatives for Economic Co-operation

As AFTA is nearing completion (for ASEAN-6), new ideas and initiatives have begun to be considered by ASEAN. They are as follows:

Zero Tariffs. The target of “zero duties” has already been agreed upon. Firstly, 60 percent of the IL will have zero duties by 2003. Brunei Darussalam, Malaysia, and Singapore have already reached this target in 2001. Indonesia, the Philippines, and Thailand have pledged to comply with this target. Secondly, in the 1999 Summit, the ASEAN leaders agreed to eliminate all import duties by 2010 for ASEAN-6 and by 2015 for the new members, allowing for some flexibility for sensitive products. This is likely to be applied to rice and perhaps sugar. Some countries (Indonesia and Malaysia) have indicated that they may retain a 20 percent tariff for rice by 2010 (ASEAN Secretariat, interview).

ASEAN-GSP. At the most recent meeting of ASEAN economic ministers in Siem Reap (Cambodia) in early May 2001, an ASEAN General System of Preference (GSP) scheme was introduced. This idea was first proposed by the ASEAN Secretary General (ASEAN Secretariat, interview). This scheme, in which the ASEAN-6 would give trade preferences (zero duties) immediately to the new members. Implementation of this scheme will result from negotiations on a bilateral basis. The four new members will provide a list of products of their interests to be considered by each ASEAN-6 member. This scheme is aimed at reducing the wide economic disparity within ASEAN as well as at integrating the new members more closely with ASEAN-6. To achieve this, Singapore also pledged to provide financial assistance to the new members. Until recently there has been hesitation to provide one-way assistance from ASEAN-6 to the new members. It was thought to be politically unwise to do so for fear of creating a two-tier ASEAN. However, this is a reality, and unless it is recognized it will act as an obstacle to developing measures to help the new members, which is critical to maintaining ASEAN solidarity and solidity. It also needs to be recognized that the enlargement of ASEAN has complicated ASEAN's market integration process (Chia, 1998; Menon, 1998).

AFTA Plus. The idea of AFTA Plus dates back to the mid-1990s. It refers to initiatives that go beyond reducing tariff barriers and NTBs in goods trade under the CEPT to investment and services liberalization (Lee, 1994; Soesastro, 1995; Pangestu, 1995), and other non-border areas, such as intellectual property rights and competition laws. More recent suggestions have included the adoption of common trade facilitation measures and common standards and practices as well as capacity building initiatives (Estanislao, 2000). Many of these suggestions have been introduced into ASEAN's economic cooperation agenda. These include the AIA (ASEAN Investment Area), the ASEAN Framework Agreement on Intellectual Property Cooperation, and the ASEAN Framework Agreement on Services. Yet, these have been pursued separately from, and often not in parallel with, AFTA's implementation (Soesastro, 1997). The idea of AFTA Plus is to bring these other activities into a coherent framework so that each could re-inforce each other. AFTA Plus has not entered the vocabulary of the ASEAN officialdom. The AIA time frame, for example, is so out of line with that of AFTA (Soesastro, 2000; Ariff, 2000).

Developing a coherent AFTA Plus framework would further increase the region's gain from liberalization. Linking AFTA with AIA and other schemes will lead to a *one* Southeast Asian market, generating economies of scale. AFTA and AIA are instruments that should facilitate trade, investment and production linkages both within the region and with the world. The linkages will be strengthened by an increased involvement of MNCs (multinational corporations) networks.

AFTA was formed not with the aim of creating an internal, closed market for ASEAN. ASEAN members are aware that it is trade with the rest of the world and investments from the rest of the world that have brought ASEAN economies closer during the last three decades. ASEAN schemes have adopted the principle of "open regionalism", where deepening of economic integration in the region would be pursuit in parallel with opening of the ASEAN market to the world. This would ensure that non-members can contribute to and at the same time benefit from ASEAN's regional economic integration process (Ariff, 2000). AFTA's relative liberal rules of origin, effectively allowing for up to 76 percent non-ASEAN content to benefit from AFTA preferences have made it a very open regional trading arrangement. Unilateral liberalization by ASEAN members in parallel with their implementation of AFTA has resulted in small differentials between CEPT rates and MFN rates. In fact, in 1998, as much as 2/3 of the tariff lines in the IL have the same CEPT and MFN rates. It is no wonder that the utilization of AFTA preferences in intra-ASEAN trade remains very small. The utilization of these trade concessions may increase with an acceleration of the AFTA in the years ahead. However, this is not a major issue for ASEAN, as AFTA is not meant to increase intra-ASEAN trade *per se*.

A Monetary Union. Some rather far-fetched ideas for ASEAN's future development have been proposed even by leaders (e.g. Philippines former President Estrada) and from within the ASEAN officialdom. These include the proposal for a common ASEAN currency. A number of questions will need to be answered first before such ideas should be pursuit. This includes the reasons for adopting a common currency and a careful examination of what is the optimum currency area (Piei and Tan, 1999). Most importantly, however, is the fact that the move towards such deep integration requires a political will that cannot be taken granted.

Extra- and Inter-regional linkages. Over the years, ASEAN has proposed various cooperation arrangements beyond Southeast Asia. This has led to the establishment of ASEM and the more recent EALAF (East Asia Latin America Forum) in which ASEAN plus China, Japan, and Korea develop links with other regions (Europe and Latin America, respectively). The East Asian side in these processes is being strengthened by the development of ASEAN Plus Three (APT), which can be seen as linking Southeast Asia to Northeast Asia. As mentioned earlier, and will be discussed later, this linking could result into an integration of the two sub-regions into one East Asian regional structure of sorts. A study group is to examine this possibility and report on the deliberations to the APT Summit in November 2001 in Brunei Darussalam. Another group, the East Asia Vision Group will also present its report to this Summit on the medium- and long-term vision for East Asia. It may well turn into an inter-regional link between ASEAN (or AFTA) and a Northeast Asian entity, if the latter is being formed.

A similar link has developed between ASEAN and its neighbors in the South (Australia and New Zealand) in the form of AFTA-CER relations. Alternatively, ASEAN may become some kind of a "hub" in East Asia, in which separate relations are being developed between ASEAN (AFTA) with each of the three Northeast Asian countries (China, Japan, and Korea). Indeed, an ASEAN-China Expert Group on Economic Cooperation has been established to recommend measures to further enhance ASEAN-China economic cooperation and integration, including the possibility of establishing a free trade area (FTA) between ASEAN and China. A similar ASEAN-Japan Expert Group has been proposed, also to examine the possibility of an FTA between ASEAN and Japan (*Kyodo News Service*, 28 April 2001). These groups are supposed to report to the ASEAN-China Summit and ASEAN-Japan Summit, respectively, in November 2001 in Brunei Darussalam. In their recent meeting in Siem Reap (Cambodia) ASEAN economic ministers agreed to expand "free trade links" with China, Japan, Korea, as well as Australia and New Zealand (*Yahoo! India News*, 5 May 2001; http://in.news.yahoo.com/010503/ 6/tyz3.html). Probably, by November 2001 more concrete ideas may be presented to ASEAN leaders.

The AFTA-CER experiment. Thailand has been identified as the "engine" of this linkage (Smith, 1998). The idea was first aired by the Thai Deputy Prime Minister, Supachai, in 1993. Encouragement was received from Australia's Prime Minister, Keating, and Singapore's Goh Chok Tong. The first (informal) consultations between ASEAN Economic Ministers and Ministers from CER took place in 1995 in Brunei Darussalam and agreed "to establish region-to-region linkages between the free trade areas, reflecting the 'open regionalism' concept of AFTA and the CER." (Joint Press Statement, 9 September 1995). At this meeting, the list of activities put forward for future considerations has a comprehensive coverage of non-border issues. The list was further expanded, and by the third meeting in 1997 it covered 7 broad areas: customs, standards and conformance, human resources development, investment promotion, services, sanitary and phytosanitary, and others (e.g. linkage of trade and investment database between the two regions). From the perspective of Australia and New Zealand, the linkage could increase their trade access to ASEAN. As Australia and New Zealand already have low tariffs, ASEAN's market access to CER would not likely be increased dramatically. Smith (1998) lists a number of reasons why ASEAN chose to develop the linkage with CER: (a) to learn from the CER process; (b) CER's "non-discriminatory" trading practices; (c) CER provides ASEAN with both an affluent and complementary market; and (d) the linkage may help to somehow correct the imbalance of trade with Australia and New Zealand.

Follow-up ministerial meetings were held annually. In the fourth meeting in Singapore in October 1999, the ministers established a High Level Task Force to look into the feasibility of an AFTA-CER FTA. The task force, headed by Cesar Virata, former economic czar in the Philippines, proposed the architecture of an AFTA-CER FTA (ASEAN Secretariat, 2000). It is based on a set of principles, as follows:

a) the FTA would be comprehensive, but AFTA and CER would maintain their respective identities;
b) the FTA should be mutually beneficial;
c) the pace of liberalization should proceed faster than that of APEC;
d) the pace of liberalization would not normally go beyond that of AFTA;
e) the FTA would be open to inclusion of new issues not currently covered by the AFTA and CER Agreements;

f) the FTA should provide development assistance and the adoption of a longer time-frame for the new members of ASEAN;
g) the FTA would be open to accession by any other country or regional grouping that shares the common principles and underlying objectives;
h) elements of either CER or AFTA may be incorporated in the FTA agreement;
i) AFTA and CER will continue to exist as functioning agreements.

The modalities of the proposed FTA include the following provisions:

1. to cover trade in all goods, services (covering all modes of supply), investments, technical barriers to trade, and mutual recognition arrangements (MRAs);
2. some elements of the agreement can be achieved earlier than others;
3. the rules of origin threshold would be at 40 percent and should be simplified and standardized for the two regions;
4. the agreement need to cover areas such as anti-dumping, standards and conformance, price undertakings, import licensing, labelling, import quota, and SPS issues, and the rules must be simple and transparent and administered efficiently;
5. a separate agreement or protocol on services may need to be formulated and agreed upon;
6. the agreement should contain a framework of investment principles and rules;
7. the agreement would need provisions on technical assistance, particularly in relation to the new ASEAN members;
8. the work on trade facilitation should be continued;
9. the agreement must be WTO consistent;
10. the agreement should incorporate a dispute settlement and review mechanism;
11. the agreement should affirm commitment to implement the WTO-TRIPs Agreement.
12. the agreement should provide a framework to cover competition policy.

An agreement to begin the process of negotiating the FTA failed to emerge at the ministerial meeting in the following year. This may be caused by political factors (the state of relations between some ASEAN countries and Australia) or because some ASEAN officials were uncertain about the feasibility and desirability of the far-reaching scope of the proposed FTA. The ASEAN side has put some pre-conditions (in the area of development assistance) for the discussion / negotiation that may have been unacceptable to CER (ASEAN Secretariat, interview). Both sides did not abandon the efforts but decided to work towards a Closer Economic Partnership (CEP) rather than a FTA. It is not immediately clear what the elements or parameters of a CEP would be. The elements are being worked out by ASEAN senior officials and their CER counterparts. One interesting question is whether this CEP would develop into a "new age" FTA (Yamazawa, 2001). This type of FTA is being promoted by Japan and Singapore in crafting their Economic Partnership Agreement (EPA). This "new age"

FTA is aimed at developing a flexible and attractive business environment by promoting the trans-border flow of human resources, assets, capital and information (Regional Cooperation Division, METI, 2001).

ASEAN's policies on promoting regional economic cooperation in East Asia, has been influenced by these new developments in trade diplomacy. It may also be influenced by the emerging East Asian focus in the policies of regional countries. There is a growing sense in ASEAN that in many areas of economic cooperation it needs to involve other East Asian countries. Hence ASEAN Plus Three (APT). Could an East Asian structure of sorts reinvigorate ASEAN?

DEVELOPMENTS IN EAST ASIA: THE SEARCH FOR A REGIONAL IDENTITY

It seems that East Asia is rapidly being transformed from a geographic concept into an economic region. Economic interactions, largely through trade, have brought countries in the region much closer together. With the exception of Japan, all other East Asian countries rely on the region for more than half of their trade. For all of them Japan is an important, in many instances the most important, trading partner. Trade patterns are indeed an important factor in the emergence of economic regions. In addition, intra-regional investment and financial flows continue to intensify.

Should this development be strengthened through some kind of institutionalization? The first attempt to do so began about a decade ago with the proposal for the establishment of an East Asian Economic Group (EAEG). This idea, subsequently modified and endorsed by ASEAN, did not get off the ground. Since then, however, a series of events have led to intensified relations between the ASEAN countries and the three Northeast Asian countries, namely Japan, China and South Korea. ASEM has led to some degree of organization of the East Asian component of that process. It was thought that ASEM could provide a strong impetus for the East Asians to form a regional mechanism that would adopt an agenda to help strengthen East Asia's role in the ASEM process. However, this does not seem to be the case.

Perhaps, the impetus must come from within the region itself. The APT has become the main forum for the thirteen East Asian countries. It has been driven by a desire to express an (East) Asian view on many important regional and global issues. As reviewed earlier, APT's agenda has evolved rather rapidly. The region is not short of common problems and challenges. A regional effort to dealing with those problems can result in a rich and interesting agenda, ranging from the issue of appropriate forms of social safety nets to the development of common policies on various international economic issues, including the new architecture for global finance. The most ideal process for the region to dealing with those problems would be to establish an OECD-type of institution in the region that can mobilize and organize intellectual resources and formulate common policy proposals and responses. However, the search for an institutional identity in East Asia, as in other regions, tends to be dominated by ideas about regional trade structures, in particular FTAs. In a region as diverse as East Asia it will not be easy to establish a region-wide free trade arrangement. There are suggestions that perhaps such a regional arrangement can result from the development of bilateral or sub-regional trading arrangements as its building blocks. Recent initiatives to form bilateral FTAs may be inspired by that idea. Can they succeed?

Recent initiatives to develop bilateral FTAs cannot be generalized as each is driven by different motivations. One motivation is to use bilateral arrangements to provide new impetus for regional or global trade liberalization. The initiative by Bill Brock, the US Trade Representative, in the 1980s to develop bilateral FTAs between the US and a number of countries or regions was meant primarily as a means to force Europe to agree on embarking on a new round of multilateral trade negotiations. It was a dangerous game as it compromised US policy of promoting multilateral, non-discriminatory trade liberalization. The strategy was successful in forcing others to react as intended, largely because it was pursued by a superpower. The recently concluded Singapore-New Zealand bilateral “FTA initiative”, called Closer Economic Partnership (CEP), may have a number of objectives. One of these is to create a new stimulus towards further trade liberalization in the region. The argument that a Singapore-New Zealand FTA would have no significant effect on trade since both already have very low tariffs is certainly correct. However, exactly because this bilateral deal does not threaten anyone it cannot achieve its objective of stimulating trade liberalization efforts in the region.

A Japan-Korea initiative is potentially more influential. This initiative was driven largely by the desire on both sides to cement an improved bilateral relationship that has been marred for so long by deep mistrusts. This initiative appears to have led Japan to adopt a new policy that promotes regional and bilateral FTAs. Japan began to pursue bilateral agreements with other countries, including Singapore. There have been suggestions that the Japan-Korea initiative should logically be extended to include China because it otherwise would create serious political tensions in Northeast Asia. The inclusion of China would effectively transform the exercise in the direction of a bigger enterprise: the formation of a Northeast Asian sub-regional arrangement. This sub-regional arrangement could then be linked to the one already in existence in Southeast Asia (AFTA). A kind of East Asian regional architecture would emerge from this development. This is one route to developing an East Asian institutional identity. However, the Japan-Korea proposal appears to have lost some steam by now. In addition, AFTA, may be hesitant to provide leadership in crafting the link to a much larger economic entity. It appears that there are some concerns in ASEAN that it could be overwhelmed by the much larger Northeast Asian region. The combined GDP of the three Northeast Asian countries is currently about 13 times larger than ASEAN’s GDP

The other option is to develop an OECD-type institution. This will require large resources to establish and to maintain, and takes away much of the limelight from the political leaders. This option is a desirable one but not likely to be pursued in East Asia.

Yet another route is through financial cooperation. Higgott (2000) saw the emergence of a “new monetary regionalism” in East Asia resulting from the financial crisis

Various initiatives have been taken by regional countries. In the context of APT cooperation, the most important is the Chiang Mai Initiative (CMI) for a regional swap arrangement that builds on the ASEAN Swap Arrangement. ASEAN has also instituted a surveillance process. It may invite other East Asian countries to join in the exercise at a later stage. The creation of an Asian Monetary Fund could be part of a regional financial architecture. In addition, ideas of creating some kind of a common currency basket have been proposed. It remains to be seen how these ideas and initiatives could bring about institutional integration as they deeply impinge on sovereignty issues that are still regarded as highly sensitive in many regional countries. Ito (2000) is of the opinion that this route may take 50 years. He raised two fundamental questions. First, is there a sequencing in regional cooperation that require trade cooperation to be forged before financial cooperation could be undertaken, thus calling for the establishment of a FTA before the creation of a monetary pact? Second, is whether APT that is made up of the 13 East Asian countries constitutes the right grouping.

The route that is currently being taken, namely along the pragmatic, develop-as-you-go approach, is the only feasible one. Its manifestation today is the APT meetings, most importantly at the summit level. As mentioned before, in November 2000 the APT heads of state have agreed to explore the possibility of transforming the APT Summit into a formal East Asian Summit and the merits of an East Asian FTA. In addition it has requested the East Asia Vision Group to propose a vision for East Asia. These explorations may help the leaders to direct the process. They cannot just emulate the APEC process and apply it to East Asia, a smaller subset of APEC. They will have to go beyond and develop much faster than APEC.

The agenda for East Asian cooperation is likely to be a comprehensive one, to cover trade and investment facilitation and liberalization, technical cooperation, financial cooperation, and development cooperation (Lee, 1999). Tay (2000), proposed that an East Asian regionalism should have the following characteristics: (a) an open and flexible caucus, not an exclusive group or block; (b) functionality, not political fixity, in deciding on membership; (c) issue-led leadership; and (d) coalition of the willing. He also proposed that in addition to free trade, financial and economic cooperation, the agenda for East Asian cooperation should include the environment, and piracy.

It does appear that any economic cooperation arrangement today, be it bilateral, sub-regional or inter-regional, cannot have a narrow agenda. Any FTA initiative today will have to be of a “new age” type. It can be given any label, FTA, CEP (Closer Economic Partnership) or EPA (Economic Partnership Arrangement), but whatever it is called it is going to have a broad, comprehensive agenda that covers a host of non-border measures in addition to border liberalization efforts.

CONCLUSIONS

The answer to where APT is heading depends on where the "leadership" in the APT process will come from. Will it, as in the case of APEC, be issue-specific? And, can it adopt the principle of functionality, rather than political fixity, that can allow participation of other economies in the region such as Australia, New Zealand, and even Chinese Taipei? In view of the nature of the relationship between the two major Northeast Asian countries, Japan and China, would the leadership role fall on ASEAN by default?

ASEAN will soon have to decide whether it will (and has the capacity to) promote the development of a region-wide East Asian cooperation arrangement or whether it should opt for a set of bilateral arrangements with individual East Asian countries. It may go for the latter as it may will feel more comfortable to deal with individual Northeast Asian countries. However, to be able to play this role effectively, ASEAN has to put its home in order first. It has to formulate a comprehensive and coherent AFTA Plus as the basis for developing external, bilateral, and inter-regional linkages.

Its first attempt to develop such bilateral linkage, namely between AFTA and CER, has not been encouraging. It also is not likely that it can build its efforts on bilateral links that have been forged by only one of its member economy. Singapore's aggressiveness, and "go-it-alone strategy, in developing a series of bilateral FTAs has created a lot of misgivings amongst its ASEAN neighbors (Rajan et al, 2001). Estanislao (2000) argued that bilateral agreements entered into by any ASEAN economy would open ASEAN members "to be picked, one by one, to enter into separate agreements with one big economic neighbor and to weaken their ability to secure better terms." Malaysia's Prime Minister Mahathir has aired his suspicion that those FTAs will be used by other countries as a backdoor into ASEAN countries (*AFP*, 8 June 2001). Given AFTA's liberal rules of origin, one way for Singapore to overcome this problem is by negotiating a equally liberal rules of origin in its bilateral agreements.

The same "liberal rules of origin" must also guide ASEAN in the development of bilateral arrangements with other East Asian countries. This ensures that the regional environment continues to be characterized by open regionalism, which has been responsible for the region's economic dynamism. But this is only one of the elements that ASEAN must introduce in its endeavor.

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