

# Chapter 11

## Role of Regional Institutions in East Asia

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## CHAPTER 11

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*Institutional building in East Asia has played an important role in nurturing the regional cooperation spirit, promoting the economic integration and cooperation. ASEAN has developed highest level of the institutional building in East Asia, there are other regional institutions, like 5 “10+1” FTAs, CJK cooperation framework with the secretariat, East Asia Summit including 18 members, Chang Mai Initiative framework with AMRO, newly initiated RCEP, as well as the research institution ERIA. In order to enhance the regional governance and meet new challenges, East Asia needs make more efforts on facilitating the process of the institutional building and strengthen the role of the regional institutions, not just for economic development, but also for making the new regional relations.*

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## **1. Introduction**

One significant area of progress in East Asia has been in building regional institutions. Southeast Asian countries have played a pioneering role in nurturing the regional institutions from a dialogue framework to community building. Moreover, ASEAN has also played an active role in developing regional institutions in East Asia, such as “ASEAN +1”, “ASEAN +3” and the East Asia Summit group. China, Japan and the Republic of Korea (ROK) initiated an independent cooperation framework from 2008. The roles of these institutions are varied, from community building to economic integration and cooperation, as well as political dialogue and cooperation.

ASEAN started as a political forum in the late 1960s and focused more on economic integration in the early 1990s. ASEAN now has a clear agenda for establishing the ASEAN Community (ASEAN Economic Community (AEC), ASEAN Security Community (ASC), and ASEAN Social and Cultural Community, ASCC) by 2015. Although the features of the institutional building for the ASEAN Community are different from those of the European Union (EU), regional governance through the ASEAN Community will be greatly enhanced.

In East Asia, an East Asia community has also been proposed and widely discussed but has not been put on the agenda in the regional cooperation process. The “ASEAN+” frameworks focus mainly on economic integration and cooperation, as well as political dialogue and policy coordination. The five “ASEAN +1” (China, Japan, ROK, India, Australia and New Zealand) frameworks are Free Trade Area (FTA)/Closer Economic Partnership (CEP) in nature, but also have comprehensive economic and political cooperation agendas. The main function of ASEAN +3 (China, Japan and ROK), is to promote economic integration and cooperation, while the East Asia Summit (EAS), starting from “ASEAN +6” (China, Japan, ROK, India, Australia and New Zealand) and now with the US and Russia as members, serves as

a strategic dialogue forum.<sup>1</sup> The agenda of the trilateral framework in Northeast Asia (China, Japan and ROK) covers both economic and political issues, with the former as its priority. There are also some functional institutions, such as the CMI (Chiang Mai Initiative), the Greater Mekong Sub-region (GMS), Regional Comprehensive Economic Partnership (RCEP) and the research-based Economic Research Institute for ASEAN and East Asia (ERIA) etc., which have played vital roles in promoting cooperation and capacity building in the related areas.

There are some other regional institutions, including the Asia-Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARF), the Asia-Europe Meeting (ASEM) that were initiated by ASEAN and other East Asia countries. APEC is more institutionalized than others, and includes 21 members from both sides of the Pacific and aims at realizing the goal of free trade and investment in the Asia-Pacific area. APEC follows the principle of “concerted individualism and open regionalism”, which means that liberalization does not require negotiation, and the region does not seek to become an exclusive bloc. However, this principle has been challenged by the launch of the Trans Pacific Partnership (TPP) which intends to negotiate a high level FTA agreement, led by the United States.

East Asia has benefited from these regional institutions. Take ASEAN as an example; by establishing this regional organization, the Southeast Asian region has achieved peace, stability and economic progress. In the East Asia area, the regional institutional building has helped to improve regional relations and peacemaking through high level dialogue and cooperation. It has also helped to reduce the barriers to trade, investment and services by establishing FTAs, to strengthen market confidence and security by developing the regional financial and monetary cooperation regime and to generate economic dynamism through capacity building for less developed economies and through connectivity initiatives, especially for the regional infrastructure network.

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<sup>1</sup> EAS also discusses issues of strategic importance, such as energy, the environment, climate change and global governance.

Institutional building in East Asia is, however, still in its early stages, and its role in managing regional relations, regional integration and cooperation and providing effective public goods seems limited. There remain many challenges and difficulties that need to be dealt with and overcome.

The new challenges to East Asia are not just results of the global economic crisis, but also include internally generated problems, ranging from the export led growth model in the region to the imbalance of social-economic structure to sustainable development. East Asia needs to do more in moving toward a new model of economic and social development, for example towards domestic-demand-led, rather than export-led growth. It must also move to a green and sustainable development model, and away from its traditional “catching up model” of development. To succeed, it is vital that each individual country puts the new strategy at the top of its national agenda, and that the regional cooperation mechanisms make joint efforts to move towards a new East Asia.

Integration of the East Asian market has made significant progress by establishing FTAs. However, the current multilateral FTA frameworks have also made new barriers to business, since the overlapping of different FTAs creates the “noodle bowl effect”. The countries of East Asia have not yet achieved consensus on a concerted approach to integrating all these FTAs into one framework, and competition between the TPP and the East Asian Free Trade Area (EAFTA) or the Closer Economic Partnership of East Asian (CEPEA) seems to be making East Asia more divided than before in its views and strategy. As for the other functional institutions, such as the GMS, connectivity, the Chiang Mai Initiative (CMI), a real input of resources (for example, funding) is still limited.

In its regional relations East Asia is experiencing a new transition in the light of the forthcoming ASEAN Community, the rise of China and India, as well as with the US and Russia as new members of the EAS. Institutional building is becoming more complex than before, and it seems that power competition and emerging

disputes ranging from nationalism to marine resources and islands are making the achievement of an international consensus more difficult (Zhang, 2010). The multilayered frameworks in the region provide a flexible environment for different players, but at the same reduce efficiency and sometimes may create ambiguity, even conflict.

In the past, two fundamental factors ensured the economic success of East Asia. These were the market liberalization and integration leading to development of regional production networks, and official dialogue and cooperation leading to peace and stability. In future both restructuring the regional production networks and moving toward a sustainable model of development require further liberalization and integration and stronger institutional building.

Real progress in institutional building in East Asia is becoming crucial for ensuring economic dynamism, political stability and peace. East Asia's institutional building should not be inward looking, however, since the regional economies are highly integrated into the world economy and they should play a strong and active role in global governance.

## **2. Progress of Institutional Building**

There is no single and integrated regional institution in East Asia, and many kinds of institutions with different backgrounds and roles in the region have been developed. East Asia has this unique diversified feature due to its complex historical, cultural and religious heritage, security relations, and political systems. In the past decades, market-led economic integration has created close economic connections and shared interests among East Asian economies. As its production networks expand to more economies, East Asia is forming an identical economic region networked by multinational corporations and supported by government business

friendly policies on cross border trade, investment and service. The building of regional institutions has emerged onto the agenda gradually, led by the regional members, though in a multilayered structure with different interests, concerns and initiatives.

## **2.1. ASEAN and the ASEAN Community**

ASEAN was initiated by some Southeast Asian countries in 1967 and was gradually enlarged to include all 10 countries in the region. A big step was made when ASEAN decided to establish the ASEAN FTA (AFTA) in 1992, since it started to take concrete steps to liberalize and integrate the region, which have been crucial for regional dynamism. To build the ASEAN Community will be another big step for ASEAN that aims at creating a united region with strong institutional governance.<sup>2</sup> By establishing AFTA, the Southeast Asia region became an open market area that can facilitate the mobility of production factors within the region and also attract an outside capital flow into the ASEAN region. Benefiting from the integration process, Southeast Asian economies have realized high economic growth and rapid expansion. Although the 1997 financial crisis caused serious damage to the ASEAN economies, regional integration and cooperation helped the economies moved out of the crisis quickly. ASEAN Community building, based on three identities, i.e. the ASEAN Economic Community, the ASEAN Security Community and the ASEAN Social and Cultural Community, intends to make Southeast Asia into a more open and cooperative region with comprehensive and higher level institutions for governance and management. Guided by its Charter, the ASEAN Community building becomes a vehicle to develop the regional institutions and enhancing the role of regional cooperation and governance (ASEAN Study Center, 2008). ASEAN Community building follows its own way, i.e. the ASEAN way, which is different

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<sup>2</sup> The idea to build ASEAN Community was put forward in 1997 by calling on a concert of Southeast Asia nations. In 2003, ASEAN members adopted a new document to build ASEAN Community by 2020, and in 2007 the ASEAN Charter was adopted and the time of ASEAN Community was advanced to 2015.

from the European approach (Soesastro, 2003).

Importantly, ASEAN has become an active initiator and a center for broader regional cooperation in the East Asian region, for example the “ASEAN+” frameworks, the EAS, CMI, ARF, ASEM etc. By bridging the networks for dialogue and cooperation, the role of ASEAN is central since it unites 10 countries together in Southeast Asia and shares its experience and spirit of cooperation with other countries in East Asia. (Frost, 2008).

## **2.2. The “ASEAN +” Frameworks**

ASEAN, as a pioneer in developing regional institutions and building a Community, has also played a leading role in networking the regional cooperation in East Asia. ASEAN, with 10 members together, stands in the center of the extended regional cooperative frameworks on the one hand and plays a leading role in forming the cooperative agenda in the region on the other hand. Under ASEAN’s initiative, there are several regional frameworks which nurture the spirit of cooperation and pave the way for institution-building in East Asia.

### *ASEAN plus Three (APT)*

The 1997 financial crisis brought about the cooperation framework of “ASEAN+” starting with APT (ASEAN plus China, Japan and ROK).<sup>3</sup> APT serves as a platform to develop cooperative mechanisms, for example, the APT Summit, APT Ministers’ Meetings and APT Senior Officials’ Meeting (SOM). Since it began in 1997, APT cooperation has achieved progress ranging from the economic areas of trade facilitation, financial cooperation, food and energy security, narrowing the development gaps, environmental protection and sustainable development, to the non-traditional security areas of human trafficking, transnational crime and

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<sup>3</sup> The separate “ASEAN +1” frameworks are also conducted at the same time during the leaders’ meeting and other high official meetings. Actually, some major progress has been made at the ASEAN+1 levels, for example, ASEAN+1 FTAs (with China, Japan, ROK, India, Australia and New Zealand), special funds, regular consultation mechanisms.



counter-terrorism. In 2007 a new 10 year Work Plan was adopted that provides strategic guidance for the future direction of APT cooperation, and an APT cooperation Fund (APTCF) was established in 2008 to facilitate the implementation of the Work Plan. To date APT has established 57 dialogue and cooperation schemes covering more than 20 areas. (ASEAN Secretariat).

The East Asia Vision Group (EAVG) recommended that the long term goal for APT should be to build an East Asian community supported by economic, financial and political cooperative institutions. The feasibility study on an integrated APT FTA (EAFTA) was conducted in 2004 and the policy report was presented to APT leaders in 2006. No real progress has yet been made on EAFTA, however, due to differences on approach and strategy.<sup>4</sup> Upon the decision of the APT leaders, EAVG II was set up in early 2012 and a new vision report will be submitted to the APT leaders in which the experts will recommend establishing a higher level institution for economic integration and policy coordination.

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

The EAS, which grew out of the APT +3 (India, Australia, New Zealand) in 2005 and expanded to 18 members (plus the United States and Russia) in 2011, is a forum for dialogue on broad issues of strategic, political and economic significance. The EAS is designed to be a strategic forum based on members' shared interests and concerns, and aims to promote dialogue and cooperation for peace, stability and economic prosperity in the region. The EAS, as an open, transparent and outward-looking forum, and a platform for leaders to meet together, intends to discuss important issues of mutual concern, and to promote cooperation. The issues discussed by EAS members range through trade, finance, energy, education, public health, disaster management, climate change, the environment, marine security and

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Japan proposed a different approach. This was CEPEA, (closer economic partnership of East Asia), based on EAS 16 members, rather than 13 APT members. The study group for CEPEA was set up in 2006 and a report on CEPEA was presented in 2008 to the EAS leaders.

regional relations. Several functional ministers' meetings, including foreign affairs, trade, energy and the environment, have been held regularly to progress leaders' initiatives. The EAS is perceived as the most balanced of the regional structures, because it is ASEAN based and includes all the major regional powers. It could be the most capable structure for achieving the goal of accommodating the ambitions of major powers, building trust and transparency in key areas including security, politics, finance, and trade, and binding all by a common set of rules.(Ernest Z. Bower). From viewing all documents created by the EAS, real progress on cooperation still seems limited, though great potential is expected due to the group's size and structure.

### **2.3. Cooperation of the Northeast Asia Three**

China, Japan and the ROK (CJK) began their cooperative dialogue in 1999 under the APT summit framework. Significant progress was made in December 2008 when a trilateral summit was held, formally separating itself from the APT process and acquiring its own identity (Joel Rathus, 2010). CJK cooperation, led by the annual meeting of states and supported by 18 ministers' meetings, covers more than 20 areas. These include the nations' economic integration, their environments, energy, finance, science and technology, education and culture. Also included are security and global issues such as financial reform, the G20 and so on. In September 2011, the Trilateral Cooperation Secretariat (TCS) was established in Seoul with the aim of providing support for trilateral cooperation.

CJK initiated the academic feasibility study for a trilateral FTA in 2003, and an official joint study was launched in May 2010 and concluded at the end of 2011. This set up the basic principles for the negotiation of the trilateral FTA. During the CJK Summit in May 2012 a trilateral investment agreement was signed, and later on the trade ministers announced that the negotiation of a CJK FTA would start by the end of 2012. Due to the structural differences among the three, the negotiation of

such an FTA will not be easy. However, the launch of the negotiations for the CJK FTA could facilitate the process creating a broad FTA in East Asia, since it would bring pressure on ASEAN to take active steps to keep its centrality. ASEAN initiated a new agenda for the Regional Comprehensive Economic Partnership (RCEP) during the Summit meeting in 2012, which was supported by all 16 countries (ASEAN+6). The preparation for negotiation started in early 2013. However, it is still not clear how to make the plan into practice within the time table.<sup>5</sup>

#### **2.4. Asia-Pacific Economic Cooperation (APEC)**

APEC is one of the important regional institutions that the East Asian economies have participated in, and in which they have played active roles. APEC was established in 1989 and started its first informal leaders' meeting in 1993. It is a unique regional grouping, which brought together developing, newly industrializing and advanced industrial economies into one process of regional integration and cooperation in the vast Asia-Pacific region. . APEC members committed to reducing barriers to trade and investment and enhancing their economic and technical cooperation following the approach of concerted unilateral and collective actions.

At the top level, APEC is directed by the 21 APEC leaders through the informal leaders meeting. Recommendations are provided by APEC Ministers, as well as the APEC Business Advisory Council (ABAC).<sup>6</sup> At the working level, APEC's activities and projects are guided by APEC Senior Official Meetings (SOM). Several high level committees have also been established at the working level. APEC is supported by a permanent Secretariat based in Singapore, though it is still limited in size and functional activities.<sup>7</sup>

APEC is a regional forum without management power, but with real agendas, clearly defined goals and action-oriented programs. The 'Bogor Goals' is a key

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<sup>5</sup> The negotiation of RCEP intends to conclude within 2 years.

<sup>6</sup> ABAC, formed by business leaders, is considered as an important part of the APEC process.

<sup>7</sup> Currently, there are 6 task forces under the SOM, 15 groups under the CTI, 11 working groups and another 3 groups or initiatives.

agenda of APEC's activities which was designed to achieve free and open trade and investment in the Asia-Pacific within a defined time-table.<sup>8</sup> In order to achieve the agreed goals, APEC worked out agendas and action plans, for example the Osaka Action Agenda (OAA,1994), the Manila Action Plan for APEC (MAPA,1995), the Busan Roadmap (2005), the Ha Noi Action Plan (2006), the APEC Trade Facilitation Action Plan (TFAP I,2001), the Investment Facilitation Action Plan (IFAP, 2008) etc. However, APEC finds itself restrained in setting goals and realizable agendas since its voluntary nature gives it no enforcement power to turn voluntary commitments into real actions.

Due to its 'soft' approach, real progress in liberalization and economic cooperation seems limited. This is considered to be part of the explanation for the great efforts put in by APEC members to negotiate their FTA/EPAs outside the APEC framework. Most APEC member economies are involved in the negotiation of FTAs. The United States announced that it would lead the negotiation of the Transpacific Partnership Agreement (TPP), with 9 initial members.<sup>9</sup> Actually, the Asia-Pacific market is now divided by different FTAs and it is not clear how the region can move to an integrated approach lead to an FTAAP as proposed in the past, since the TPP's model, with high standards of internal policy consolidation, has been questioned by some economies, and the East Asian economies are also managing to negotiate their FTA/CEP in the region<sup>10</sup> (Simon S. C. Tay, 2010).

## **2.5.Greater Mekong Sub-regional Economic Cooperation (GMS)**

The GMS was initiated by the Asian Development Bank (ADB) in 1992. It aims to promote sub-regional economic cooperation for economic prosperity. Six

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<sup>8</sup> For developed members, by 2010, for developing members, by 2020.

<sup>9</sup> The nine members comprise the four initial TPP members (Singapore, Chile, New Zealand and Brunei), the US, Malaysia, Vietnam, Peru and Australia. Japan applied to participate in the consultation process in 2012, and Canada and Mexico announced its intention join TPP negotiations in 2012.

<sup>10</sup> Simon Tay argued that the United States and other major economies have ceased to regard APEC as being sufficiently important to be used as a mechanism for enabling and managing economic cooperation and integration between APEC members.

initial members (China, Myanmar, Laos, Thailand, Cambodia and Vietnam) agreed to hold an annual ministers' meeting, and a summit meeting has been held every three years since 2002. The main areas for cooperation are infrastructure, cross border trade and investment (facilitation arrangements), human resources, environment and natural resources, tourism, agriculture and telecommunications. Several hundred projects have been jointly designed and financed. One of the GMS's achievements has been cooperation on Mekong River navigation since 2001, which makes the river as a convenient water route for trade between China and other Mekong basin countries. Japan has also been an active participant in the GMS cooperation, and organized a Japan-ASEAN-GMS members' meeting. India is also very active in promoting cooperation with ASEAN's GMS members. In 2000, India and 5 ASEAN GMS countries established the Ganges-Mekong Cooperation Committee and a Ganges-Mekong Action Plan was issued. Even the United States has shown its strong interest in developing cooperation with the ASEAN GMS countries through institutional arrangements. For example, the United States and ASEAN GMS countries began a "Lower Mekong Action Plan" in 2009 and a virtual secretariat was also established. The cooperation programs cover broad areas, ranging from the environment and infrastructure to education and public health. The main problem of the GMS is still under-development. The GMS seems to be an open framework involving 'inside' and 'outside' regional countries. One of the problems is that among different players and schemes, there is a lack of close coordination. Although the ADB initiated the GMS as the main mechanism for sub-regional cooperation, the other players and initiatives or institutional arrangements have become very active (Shen Minghui, 2012)<sup>11</sup>. More coordination among GMS institutions is necessary and would be beneficial (Qing Yaqing, 2010).

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<sup>11</sup> Some argued that this competitive structure makes GMS complex and may create negative effects on regional development.

## **2.6. Research Institutions**

The Economic Research Institute for ASEAN and East Asia (ERIA) was established in 2007 based on the EAS framework at the initiative of the Japanese government. Its objective is to improve the research capacity of the region, and to provide intellectual knowledge for regional integration, cooperation and sustainable development. It also creates a network in cooperation with other research institutions and organizations in East Asia. Its main activities include undertaking research, policy analyses, strategic planning and providing policy recommendations. It offers a tripartite-type forum for policy dialogue and interactions among researchers, policymakers and civil society.<sup>12</sup> ERIA works closely with the ASEAN Secretariat and plays an important role in carrying out policy oriented research on East Asian economic development and economic integration.

Another regional cooperative research institution is NEAT (the Network of East Asia Think-tanks) which was set up in 2003 as a coordinating research institution under APT. It aims at providing intellectual support to APT process by integrating the research resources in the region and promoting academic exchanges. It intends to study the key issues related to East Asian cooperation, to work out strategic ideas, to make concrete policy suggestions for the regional integration and submit research reports.<sup>13</sup>

## **3. Role of Regional Institutions**

The success of East Asian economies in the past has relied on an open and liberalized market environment. The integration of the East Asian economies has been gradually achieved as more and more economies followed the trend, and thus

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<sup>12</sup> ERIA history, [www.eria.org](http://www.eria.org)

<sup>13</sup> About NEAT, see [www.neat.org.cn](http://www.neat.org.cn)

the chains of production networks have been extended. Along with economic integration, the process of institution building has also been carried forward. The role of the institutions in the region is summarized as in the following four aspects.

### **3.1. Promoting Market Liberalization**

FTAs are the major institutional building blocks in East Asia. In general, they provide rule-based arrangements for market liberalization. Modern FTAs include not only reductions of tariff and non-tariff barriers, but also new issues relating to facilitation arrangements, IPR, standards, the environment, labor and competition policy, as well as economic cooperation. However, the key role of an FTA is to promote market liberalization through institutional building by signing legally binding agreements. (Masahiro Kawai and Ganeshan Wignaraja, 2011)

ASEAN initiated the ASEAN FTA agenda in 1992. This was the first institutional effort to bring about comprehensive market liberalization in the region. The primary mechanism for achieving this target is the Common Effective Preferential Tariff (CEPT) scheme, for goods originating within ASEAN, with a zero tariff rate by 2010 (for the new members by 2015). The goal of AFTA is to increase ASEAN's competitive edge as a production base. In order to improve customs coordination, ASEAN also adopted the 'single window' project that allows importers to submit all information related to a transaction to be entered electronically, once only. Additionally, ASEAN adopted an agenda on ASEAN Investment Area (AIA) in 1998 for implementing coordinated ASEAN investment cooperation and facilitation programs, granting immediate national treatment, eliminating investment barriers and liberalizing investment rules and policies in the sectors.

The role of AFTA is significant since it helps to create an integrated ASEAN market and improves the economic development environment. For example, intra-ASEAN trade increased from a very low base to currently 1/4 of the regional trade, and investment within the region has also increased remarkably. ASEAN

institutional building will be further enhanced by establishing the ASEAN Community, since this will create a higher level harmonization of laws and regulations, closer coordination of policies and more effective implementation of agreements. The establishment of the political and security community will provide a solid foundation for ensuring shared prosperity, peace and stability.

The role of ASEAN Community building could be summarized as the following:

- Establishing institutions and frameworks for regional cooperation, bringing together leaders, administrators, the business community and civil society
- Making rules for opening up markets and economic integration, relating to trade, investment, services, competition policy, standards, labor mobility etc.
- Taking initiatives for regional cooperation agendas and programs, aiming at promoting regional economic development, for example a Master Plan for ASEAN connectivity, an ASEAN strategic transport plan etc.
- Nurturing the Community spirit for regional cooperation, prosperity and peace, based on the principles of democracy, the rule of law and good governance.<sup>14</sup>

Aside from its internal integration efforts, ASEAN is also playing an active role in developing the “ASEAN +” FTAs. These FTAs develop the links between ASEAN and its partners through negotiated agreements covering the liberalization of trade in goods, service and investments. This facilitates trade and investment between ASEAN and its partners. Take the ASEAN - China FTA as an example. This has promoted bilateral trade significantly between the two sides since more than 90% of the traded goods are tariff free. China is becoming the largest market for ASEAN, and the investment from China to ASEAN has increased quickly, moving from being resource-oriented to manufacturing and service areas. Following the conclusion of FTAs between ASEAN and Japan, ROK, India, Australia and New Zealand, their trade is also benefiting remarkably from tariff and non-tariff barrier

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<sup>14</sup> See The ASEAN Charter, [www.asean.org](http://www.asean.org)



reduction, and their other economic cooperation agendas are also being promoted intensively. East Asia, as a result of lowering cost, has seen intra-regional trade and investment increase sharply. For example, the share of intra-regional trade increased from about 1/3 in 1980s to more than 1/2 in 2010 ( Daisuke Hiratsuka, 2006)<sup>15</sup>.

Turning now to APEC's role, we can see that over the past 20 years APEC has become an important framework within which members can project and initiate cooperation programs. However, APEC's voluntary approach seems not to have worked well. The failure of implementation of the Bogor Goals revealed that concerted actions based on voluntarism were difficult to organize, despite the goals of free trade and investment in the region. APEC is now in a transitional period, and there has been debate on its role and direction. 12 APEC members have now participated in the TPP project, led by the United States, which has changed the nature of APEC as a forum based on non-binding voluntary commitments<sup>16</sup>. The future of an integrated Asia-Pacific FTA is not clear. Faced with diverse efforts on FTAs in the Asia-Pacific region, the challenge for APEC is to restructure itself to give emphasis to its role as an intergovernmental dialogue and co-operation mechanism, since it is argued that APEC should play an important role in handling regional as well as global issues, and that it is the only organization that could fulfill such a role." (Andrew Elek )

### **3.2. Promoting Economic Cooperation**

Promoting economic cooperation has been one of the most important areas for East Asia's institutional building. As distinct from bilateral economic assistance, economic cooperation, under regional frameworks, covers broader programs. Almost all FTAs/CEPs have intensive economic cooperation content, ranging from market access, financing, technology, infrastructure to capacity building. For example, in

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<sup>15</sup> It is considered that Asia's FTAs provide flexible policy tools in terms of speed, scope and sequencing, and can be designed with large degrees of freedom so as accommodate the policy issues of participating economies.

<sup>16</sup> *Associated Press*, November 14, 2006.

the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China, several priority sectors were listed for cooperation. These included agriculture, information and communication technology, human resources development, investment and Mekong River basin development (MRBD), banking, finance, tourism, industrial co-operation, transport, telecommunications, intellectual property rights (IPR), small and medium enterprises (SME), the environment, bio-technology, fishery, forestry and forestry products, mining, energy and sub-regional development.<sup>17</sup> They have been implemented gradually by specific projects with joint planning and funding. The ASEAN-China EXPO (CAEXPO) that has been organized on an annual basis in Nanning, China since 2004 is a good example of the progress of economic cooperation. It has played an active role in bridging the business gaps between China and ASEAN, as well as other partners in the region and world. Moreover, the cooperation programs in agriculture through training and technological transfer, transport infrastructure by joint design and investment, and sub-regional projects, have been significant in improving the agricultural production of less developed ASEAN members, and the connectivity between two sides.( Do Tien Sam edited,2008)<sup>18</sup>

In the Japan-ASEAN Framework for Comprehensive Economic Partnership signed in 2003, economic development cooperation covers substantial areas, including IPR (intellectual property rights), ICT (information, communication technology), HRD (human resource development), SMEs (small and medium enterprises), energy ( in oil stockpiling, natural gas utilization and promotion of energy efficiency), transportation and logistics ( for efficient cargo transport systems, safe and sustainable shipping and safe and efficient air transport), standards and conformance and mutual recognition arrangements. Other areas covered include the environment, the automobile industry, bio-technology, science and technology,

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<sup>17</sup> Framework Agreement on Comprehensive Economic Co-Operation Between ASEAN and the People's Republic of China Phnom Penh, 4 November 2002.

<sup>18</sup> The cooperation under the GMS and PBGS (Pan Beibu Gulf sub-region) projects has also been promoted, and progress has been achieved.

sustainable forest management, competition policy, food security and financial services co-operation.<sup>19</sup> Development of “economic corridors”, such as the East-West corridor, the Southern economic corridor and a maritime economic corridor with more than 30 flagship projects, shows that economic cooperation among the participants is working.

Under the APT framework, many economic cooperation programs have been initiated and well implemented. The most significant progress has been made in financial cooperation through the Chiang Mai Initiative (CMI) of 2003, which began with a series of bilateral currency swaps for mutual financial assistance. CMI multilateralization (CMIM) was achieved based on completion of the bilateral swaps, and can provide financial support through multiple currency swap transactions among APT countries in time of liquidity need. The CMIM is monitored by the APT Macroeconomic Research Office (AMRO). With the double-sized CMIM (\$US240 billion) agreed in Manila in 2012, and improvement of AMRO, it is expected that this institutional building will help East Asia to enhance its capacity to prevent another such financial crisis as that in 1997. The Asian Bond Market Initiative (ABMI) was also implemented. Under the ABMI framework, the Credit Guarantee and Investment Facility (CGIF) and the APT Bond Market Forum (ABMF) have helped to contribute to the development of efficient and liquid bond markets in the region. Since the start of its activities in 2003, the ABMI has pushed for the better utilization of the large savings in the region and an increase in investments<sup>20</sup>.

In other areas, the APT has developed food and energy security cooperation, supported by the APT Emergency Rice Reserve Agreement (APTERR) signed in 2011. This serves as a permanent scheme (with a Secretariat in Bangkok) for meeting emergency requirements and achieving humanitarian purposes. At the same time,

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<sup>19</sup> Framework for Comprehensive Economic Partnership between the Association of Southeast Asian Nations and Japan, Bali, Indonesia, 8 October 2003, Summary of the Third Executive Report on Progress of Implementation of the ASEAN-Japan Plan of Action, 2005.

<sup>20</sup> [www.asean.org/20164.htm](http://www.asean.org/20164.htm)

an APT comprehensive strategy on food security and bio-energy development was also endorsed. This provides an umbrella for multi-sectoral cooperation among APT countries in ensuring long-term food security and bio-energy development. In the social and cultural areas, many cooperation programs have been initiated, including for example, the APT Emerging Infectious Diseases (EID) Programs. An APT education cooperation meeting was held in 2011 in Bali, Indonesia, in which the future direction of APT cooperation in education was discussed and projected.

Cooperation in the GMS has made significant progress in the areas of infrastructure, agriculture, trade facilitation and investment promotion, tourism and human resource development.<sup>21</sup> A new 10-year cooperation framework was signed by GMS members in 2011, which identified 8 priority areas for cooperation, ranging from the GMS economic corridor, connectivity and a single tourism area, to sustainable agriculture.

Development cooperation is one of the key agendas for APEC, which hopes to reduce the gaps in development in the region. The main scheme directed at this objective is APEC's economic and technical cooperation program (ECOTECH). ECOTECH does not follow the traditional Official Development Assistance (ODA) approach, operating instead by promoting capacity building for less developed economies along with the Trade and Investment Liberalization and Facilitation Account (TILF).<sup>22</sup> ECOTECH, however, aiming at helping the developing economies to enhance their capacity to achieve economic development, seems not to be functioning well, since the economic gaps among APEC members seem to be becoming wider.<sup>23</sup>

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<sup>21</sup> For example, by the end of 2010, there were more than 200 projects underway with investment capital as large as 14 billion US Dollars, most of them focused on improving infrastructure. East Asia Reports, No. 2, 2012, P.2.

<sup>22</sup> TILF and ECOTECH are considered as two pillars of APEC.

<sup>23</sup> APEC actually plays a valuable role as a learning place for developing economies by participating in the discussions, policy dialogues and programming. It also acts as a mechanism for business networking.

### 3.3. Promoting Policy Dialogue and Cooperation

The multi-layered cooperation frameworks in East Asia have provided important opportunities for leaders, ministers and other officials to meet together to initiate the cooperation agenda and discuss economic policies. ASEAN itself has moved to a higher stage of policy coordination by establishing the ASEAN Community. Currently, the ASEAN Summit is a policy making body providing policy guidance and taking decisions on key issues. For Community building, and in order to establish a single market and production base in ASEAN, high levels of policy consolidation, harmonization and effective governance will be required.<sup>24</sup>

The policy dialogues on regional and global issues are conducted during the summit meetings of ASEAN +1s, APT and EAS, and the relating ministers' meetings. The policy dialogues and cooperation have played the following roles:

- Reflecting promptly on changes in the economic development environment, especially in crisis management, avoiding protectionism and contagion of the crisis by showing confidence to the market;
- Initiating a cooperative agenda for enhancing regional economic cooperation and sustaining the economic development;
- Coordinating concerns and actions on global issues, especially on governance relating to the reform of the global economic system and sustainable development.

East Asia could well keep its economic dynamics due to policy coordination and cooperation. However, the structure of multi-layered frameworks in the region restrains the role of policy coordination (Yang Xuan, 2011).

Looking to the future, economic power is continuing to shift to East Asia, which means that regional integration and cooperation need to be further enhanced. It will thus become more important to enhance institution-building in the region, in order that the region can have more effective coordination, cooperation and governance.

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<sup>24</sup> In order to strengthen policy consolidation and implementation, an ASEAN Coordinating Council and sectoral ministers bodies have been set up.

Take FTAs as an example. The East Asian economies have negotiated FTAs with economies both in and outside the region, and the numbers of the latter are actually greater than the former. The multi-layered structure of FTAs creates the “noodle bowl” effect due to overlapping FTAs with different tariffs, tariff reduction modalities and rules of origins (ROOs). This actually increase business costs in production networks. For example, different ROO criteria have been used in different FTAs, including RVC (regional value content) and CTC (change in tariff classifications). This makes it difficult for the companies to manage their business, when operating in different markets, crossing different agreements, if they want to use the FTAs. (Masahiro Kawai and Ganeshan Wignaraja, 2011, p. 10-11)

Moreover, the role of the regional institutions seems focused mainly on enhancing the current economic growth model, i.e. expanding the current production networks linking to export to outside markets, and extending the industrializing networks to more economies. The institutions may not be helpful in movement to a new development model.

East Asian institutional building does not yet meet the demands of the new regional development strategy. The region needs to make a more concerted effort to harmonize overlapping arrangements, engage in a more effective policy dialogue and create a stronger role for regional governance.

Turning to the Asia-Pacific region, it is clearly very necessary to strengthen the policy dialogue and improve cooperation because of the financial /economic crisis (economic recovery, anti-protectionism), the challenge of Regional Trade Agreements (RTA)s, especially the TPP, as well as cooperation on global issues ( global economic recovery, financial reform and governance, climate change etc.). For East Asian economies, it is in their interests to continue the engagement of APEC and to support any efforts moving towards an integrated and liberalized market in the Asia-Pacific region.

## **4. The Future Perspective**

East Asia economic development is facing new challenges, which require new strategies and policies. (Indermit Gill and Homi Kharas, 2007) Generally speaking, the following two aspects are of vital importance.

First, moving towards a new inclusive development strategy and generating internal demand by reducing the imbalance between economic and social development. For many developing economies, the “growth priority policy” makes social policy incompatible with economic development, which leads to weak domestic demand. It is highly desirable to build up a basic social safety net system in each economy, thus enhancing the strength of internal demand and largely reducing dependency on the external market for economic growth.

Secondly, searching for a new development model, different from the traditional industrial one. East Asia has a very large population, and the simple “catching up strategy” has met and will further meet the resource constraints of energy and the environment. If East Asian countries are to continue their dynamic growth, they must determine to change and move toward a new model that is energy saving, environment friendly and green in nature.

Aside from the efforts of every individual country, East Asia as a region needs to further enhance its regional institutional building. East Asia’s economies are integrated together closely, and no single country could meet the challenges alone. The regional institutions should be more effective in designing, positioning and implementing a cooperative agenda aimed at achieving a genuinely sustainable model for development.

### **4.1. Moving toward an East Asia Economic Community (EAEC)**

As the first step, East Asia needs to integrate its multilayered FTAs. Efforts towards developing a region-wide FTA has been on-going since 2004, when the

expert group on the feasibility study of an East Asia FTA (EAFTA) for ASEAN +3 was established. The group's report recommended that the EAFTA should be negotiated as early as possible, since it could overcome the negative "noodle bowl effect" created by the existing overlapping arrangements (rules of origin in particular). Due to differences in approach and strategy, an integrated regional FTA framework has not been achieved. ASEAN+6 countries have started the RCEP negotiation, which is intended to integrate 5 ASEAN+ 1 FTAs into one framework. Considering the great need for restructuring the current economic development model, however, it is really necessary to go beyond an FTA/CEP to an Economic Community. This seems possible since ASEAN will inaugurate its Community by 2015 and the negotiations on a broad regionally based FTA/CEP will be also completed. The EAEC will be helpful for policy coordination and cooperation on stimulating regional demand, while moving toward a social-economic balanced development structure. Under EAEC, the various institutions of the community could be more effective in regional economic governance.

It seems that it is still not possible to make a major step toward an integrated approach on EAEC. As a practical step, the CJK FTA may go ahead, since the trilateral investment agreement has already been signed and further negotiation on trade in goods and services was launched by the end of 2012. The CJK economies are highly interconnected by a sub-regional production network, and the higher level liberalization of the CJK markets through FTA arrangements will surely help to develop a close economic area among the three countries. Additionally, progress with the CJK FTA will facilitate the process of a FTA/CEP in East Asia. Moreover, as CJK accounts for 80% of East Asia's economic size, their cooperation and role in redirecting regional trade, investment and demand is vital for the whole of East Asia.

The process of forming the EAEC has to find its own approach and model. One of the possible approaches is the ASEAN Community way, which means that the institutional building does not involve creating a super-regional body for



management, but seeking to develop the most effective possible coordinating scheme.

#### **4.2.Enhancing Financial and Monetary Institutions**

With the enlargement of the CMIM and establishment of AMRO, financial and monetary cooperation in East Asia has entered into a second stage in moving towards an integrated and effective regional institution. This institution should play three major roles:

- Defending market security by creating a large reserve fund in case the financial market shows weakness or any member in the region falls into crisis;
- Helping the region to recycle capital through developing the regional capital market; the region has large reserves of foreign exchange, but held in markets outside East Asia;
- Improving regional governance of financial markets and macro-economic activity.

In order to achieve the above goal, it is necessary to go a step further beyond the current CMIM mechanism to a regional fund framework combining the above three major roles. The size of the CMIM was doubled to \$US240 billion recently, and it could be doubled again in the near future. It should become more independent of the IMF in its operations, and put more effort into developing the regional capital market through the Asian bond market. For example, East Asia needs to mobilize a large amount of capital to finance its huge infrastructure needs in developing connectivity within and across its economies. Infrastructure projects are usually long-term in nature. Given this huge requirement, one of the possible ways to bridge the financial gaps is to tap Asia's large savings and international reserves, and to channel them to infrastructure investment. At present, a large portion of these savings is invested in the markets of developed economies. This huge financial resource may provide an effective solution to the financial gap problem, enabling

local and regional capital to be channeled towards long-term infrastructure projects and other productive investments through the bond markets (Biswa N. Bhattacharyay, 2011). AMRO's role in monitoring regional financial and macro-economic development should be strengthened, and it should become an integrated unit of the fund.

#### **4.3. Institution for Facilitating East Asia Connectivity**

Connectivity has a broad and comprehensive dimension, including physical, institutional, and people-to-people connectivity. For physical connectivity land, air and marine linkages need to be developed, while for institutional connectivity, legal, regulatory and technological frameworks are needed and for people-to-people connectivity the key is facilitation of business travel and labor flows. Deepening connectivity has been taken as an essential step for ASEAN in creating the ASEAN Community and also to its position of centrality and role of leading regional integration and cooperation. In fact the connectivity has two tiers: connectivity within ASEAN and connectivity between ASEAN and its dialogue partners. The Master Plan adopted in 2010 provides a clear guideline and roadmap for developing the connectivity in all areas.

To secure success, two factors are crucial: the right mechanism and the necessary resource. Although ASEAN has set up a connectivity cooperation fund and a coordinating council to support and coordinate the connectivity master plan, there is still a challenge due to limited capital resource. It is important to establish an East Asia-based coordinating framework to plan the regional infrastructure network, mobilize funds, consolidate regulations and facilitate progress. For example, the China-ASEAN FTA has set up a solid foundation for comprehensively developing and further deepening the relations between the two sides. But large gaps in connectivity, in both physical and institutional fields, present many constraints. Enhancing connectivity by focusing on developing transport infrastructure, seaport

systems, maritime transport, aviation, information technology and people-to-people exchange is therefore of special significance (ADB, JBIC, World Bank, 2005).

In order to help develop connectivity, it is necessary to link all committed funds under “ASEAN+1s”, “ASEAN+3” and EAS, and to use the existing sub-regional cooperation mechanisms, like GMS. Under GMS, progress has been made in both physical and institutional infrastructure development, albeit still at a low level. Special efforts should be made in the area of people to people exchanges, easy business travel and business working visa arrangements, as well as tourism networks.

Due to the great regional diversity, and to features of the “East Asia model”, the institutional building should follow an “East Asia way”, and the “ASEAN way” may provide valuable experience here (Frost, 2008, p.16). The core of the ASEAN way is to follow an approach of gradual progress, using the soft management power of the regional institutions. The aim of the institutional building is to create an integrated market by reducing all kinds of barriers, and to share resources for common welfare. For East Asia, as for ASEAN, institutional building in the political area is also crucial, since both confidence building and the peaceful settlement of disputes require close political consultation and cooperation. The purpose of regional institutional building is to provide a framework for policy makers, especially top leaders, to meet together and share commitments. EAS, by bringing major powers and other regional members together, should play a stronger role in improving the political environment for regional peace and sustainable development.

## **5. Policy Recommendations**

Institutional building is perhaps the most important part of the process of regional integration and cooperation. Progress has been achieved in this area in East Asia, and it has played a positive role in facilitating integration and cooperation

in the region. However, due to the multilayered structure of the regional cooperation frameworks, the role of the institutions in the East Asian region is still limited. In the past the major efforts on regional cooperation seemed to focus on promoting market liberalization, which is of course most important in the context of the developing regional production networks. Future efforts need to be more directed at restructuring and rebalancing the economies, and moving towards an inclusive and sustainable model. Since no single country could do this individually, collective efforts are absolutely required, based on the cooperative institutions in East Asia. On the foundation of the above evaluation and analysis, I would like to make the following policy recommendations:

1. East Asian economies are facing new challenges both from the changing international environment and from internal vulnerability and imbalance. As they are highly interdependent, both individual and regional efforts are necessary in restructuring the economies internally and in promoting reforms of the international system globally. From this perspective, regional institutions need to play more active and important roles in these areas.
2. Although the institutional building should follow a gradual, step by step approach, there seems to be a new feeling that the steps should be bigger and that the speed of movement needs to be quicker in integrating a market currently fragmented by the multiple FTAs into a “noodle bowl”. Priority should be given to an integrated framework of FTAs in East Asia, moving towards an EAEC.
3. Although further liberalization and integration of the regional market is important, the role of regional institutions in coordinating development strategy and policy, as well as searching out a new development model, should be emphasized more, and better reflected in all regional cooperation agendas. It would be of great significance to the world if East Asia could restructure its economies and build on a new sustainable development model( Simon Tay, 2010).<sup>25</sup>

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<sup>25</sup> As Simon Tay emphasized correctly; “Time, however, is not an infinite resource in Asia. The

4. The institutional building process in East Asia is not exclusive; i.e. it is not intended to create an inward-looking identity. The success of East Asian economic development has been facilitated by an open, liberalized and cooperative global system. Thus, the institutional building in East Asia needs to strengthen regional governance on the one hand and improve global governance on the other.
  
5. A strong process of institution-building in East Asia will call for a favorable political environment and a cooperative spirit. The currently emerging nationalism, land and marine disputes, competitive power relations etc., may all have increasingly negative effects on the progress of regional institutions. The various current political and security issues should be put on the agendas of all regional summit meetings.

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crisis has placed a premium on it, as governments have to cooperate and coordinate more closely to address fast-moving events under tremendous pressure”.

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