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## ASEAN and the Future of East Asia

*Summary: This article begins with a brief review of ASEAN's experience with regionalism over the past 40 years. The following section discusses the developments and challenges of establishing an ASEAN Community as this requires a radical departure from ASEAN's traditional style of regionalism. The subsequent section looks at the nature of the emerging regionalism in the wider East Asian (and Asia Pacific) region. ASEAN's role in the wider region will be discussed subsequently before this article concludes with some notes on ASEAN's role and challenges in promoting an East Asian Community.*

The East Asian region is now occupying a prominent place in the international political economy. It has gained (or regained) its economic clout, and gradually it has appeared on the international scene as an emerging voice. The rise of China is in large part responsible for this. In addition, the rapid recovery of its regional economies from the severe financial crisis a decade ago has restored East Asia's remarkable economic dynamism. An equally important factor is the critical role that ASEAN is playing in the building of an East Asian community.

ASEAN, the *Association of Southeast Asian Nations*, is the oldest regional cooperation arrangement in East Asia. It was established in August 1967, 40 years ago, and has since evolved as the prime regional institution in Southeast Asia and the wider East Asian region. It was founded on a two-page document, the Bangkok Declaration, which only contains some general principles of regional cooperation and international behavior.

ASEAN has come a long way. It has contributed to regional peace and stability, and has promoted economic cooperation towards regional economic

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integration. These were achieved through the 'ASEAN way' of informal processes, minimal institutions and decision making by consensus in the spirit of togetherness and mutual respect.

In the course of its evolution, ASEAN has entered into several agreements, but only a few of these are legally binding. The *Treaty of Amity and Cooperation* (TAC) lays down the principles governing the relations between states and sets out the procedures for facilitating the peaceful settlement of disputes. ASEAN members also made commitments relating to nuclear weapons under the *Southeast Asia Nuclear Weapons-Free Zone Treaty*.

In 1992, when ASEAN had only six members, it agreed to form an ASEAN Free Trade Area (AFTA) to bring down and remove tariff and non-tariff barriers to trade. When Vietnam (1994), Laos and Myanmar (1997) and Cambodia (1999) joined ASEAN they had to accede to AFTA and other existing agreements. ASEAN has separate agreements that commit its member-states to liberalization of trade in services (AFAS), promotion of intra-ASEAN investments (AIA), protection of intellectual property rights, harmonization of product standards, mutual recognition arrangements, and promotion of tourism. It has also concluded agreements on air cargo and the facilitation of goods in transit as well as on trans-boundary haze pollution. However, ASEAN does not have a central institution to call a member-state to account for non-compliance with these agreements. The role of the ASEAN Secretariat was strengthened in 1992, but it has not been given the mandate to undertake this task.

In short, agreements on transnational problems and regional economic integration have tended to be poorly implemented due to the absence of explicit legally binding provisions. ASEAN also lacks a central authority to speak on behalf of the association, conclude agreements and conduct relations with other organizations or states. All its agreements with external parties are signed by the ten member-states. Furthermore, ASEAN does not have judicial authority or legal standing under international law.

Since 2003, with the decision to finally move towards the creation of an ASEAN Community, the stage appears to be set for ASEAN to undergo a significant transformation. It is expected that at the ASEAN Summit in November 2007, celebrating ASEAN's 40<sup>th</sup> Anniversary, the ASEAN leaders will be able to sign an ASEAN Charter that will strengthen the organization

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in terms of mandate and institutional mechanism.<sup>1</sup> The leaders are also expected to sign an ASEAN Economic Community Blueprint that will bind the members to the steps, measures and specific targets to achieving 'a single market and production base' by 2015 to which they have committed. This document is quite far-reaching and requires members to undertake significant domestic reforms and enhanced implementation capacity in many areas as well as the setting up of regional monitoring mechanisms and enforcement processes.

This change has been driven by a sense of urgency for ASEAN to consolidate and accelerate its regional integration efforts. Firstly, the rise of China and India poses clear and real challenges for Southeast Asia that can be successfully responded to by a more unified ASEAN, economically and otherwise, and a stronger regional organization. Will ASEAN move in the direction of becoming more like the European Union or will it shape its own model of regional arrangement? Secondly, ASEAN is occupying a strategic role in the emerging regional architecture in East Asia as it is being placed in the so-called 'driver's seat' in the processes towards the creation of an East Asian Community. How will ASEAN steer these processes?

### ASEAN Style of Regionalism

ASEAN can be seen as an on-going experiment in 'community building.' It began in 1967 as a regional cooperation arrangement to promote welfare and peace in Southeast Asia. In that sense, it was based on some vision of regional order and regional community. Building this regional community began with some modesty as the regional arrangement sought to promote cooperation mainly in the economic and social fields. This was understandable as the region had just entered a new phase in its history. Having gained national independence (and sovereignty) only after World War II and having experienced continued internal turmoil for about the first two decades (or longer in some countries), and more importantly, having made an abrupt end to neighborly political animosities and mutual distrust (between Indonesia and Malaysia and Singapore), the five original members of ASEAN (Indonesia, Malaysia, Philippines, Singapore and Thailand) embarked on a

<sup>1</sup> As of the time of writing this article the draft of the ASEAN Charter has not been finalized, but if the final draft incorporates the main recommendations by the Eminent Persons Group on the ASEAN Charter a real transformation of the organization can be expected to happen. For the main recommendations, see *Report of the Eminent Persons Group on the ASEAN Charter* (December 2006).

path of community building by taking steps to learn more about each other and to learn to live together in harmony and peace.

It took these countries almost a decade to bring their leaders together for the first ASEAN Summit meeting. That happened in 1976 in Bali (Indonesia). From then on, several concrete cooperation programs were introduced. They included the *ASEAN Industrial Projects* (AIP), the *ASEAN Preferential Trading Arrangement* (PTA), *ASEAN Industrial Joint Venture* (AIJV), and *ASEAN Industrial Cooperation* (AICO), to name some of the more important programs. ASEAN members began to learn how to cooperate and work together to achieve some common objectives. However, they were ready to pool their resources, but they were not prepared to share their markets. Therefore, there were continuing tensions between 'resource pooling' and 'market sharing' in the implementation and up-grading of the various economic cooperation programs.

ASEAN's founding fathers did not envision the economic integration of the region. However, gradually the regional economies have become more integrated. It was the remarkable economic growth of regional countries and the economic reform and opening up, especially since the 1980s, that greatly increased their economic interactions. This was not a direct result of ASEAN economic cooperation programs. Rather, the region saw the working of 'market-driven' integration.

It can be said, however, that this market-driven integration could not have happened without favorable developments in the political field and the intensification of ASEAN cooperative endeavors. As the region turned into an ocean of stability and peace, thanks to the establishment of the regional organization, national governments were able to concentrate their efforts on national economic development. In the two decades until the middle of 1990, the region experienced an average growth rate of 7% or more. This made the region even more attractive to trade relations with and investment from other parts of the world. The wave of Japanese foreign direct investment following the *Plaza Accord* in 1985 further deepened the development of 'regional production networks' that brought the ASEAN economies closer together.

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ASEAN also established dialogues with its main trading partners since the late 1970s. These dialogues helped shape trade, aid and investment policies of ASEAN's main dialogue partners (the EU, the US, Japan, Australia and others) in enhancing cooperation with ASEAN. In turn they also contributed to ASEAN's increased diplomatic clout in the international arena.

Increased political cooperation amongst ASEAN members was a manifestation of the growing need amongst them to coordinate their views and policies in regard to international and regional strategic and political developments. The fall of Saigon changed the region's political map, but the wave of 'boat people' from Vietnam and the subsequent invasion of Cambodia by Vietnamese forces created potential sources of instability for Southeast Asia. ASEAN's determination to help resolve the conflict in Indochina provided the glue for ASEAN's cohesion. ASEAN's efforts were supported by the international community. Its international standing was at its height and signified its success.

By the late 1980s, it was felt that the region needed to step up its economic cooperation to be able to effectively respond to rapid process of economic globalization. There was much talk about the need for ASEAN to take 'bold' decisions in the economic field. Eventually these led to the decision in 1992 to form the *ASEAN Free Trade Area* (AFTA). The boldness of the agreement was in the acceptance that deepening of regional economic integration requires both resource pooling and market sharing. Subsequently, the ASEAN leaders began to appreciate the need to promote a different kind of community building, namely one that stresses on greater openness to each other, not only economically and socially but also politically. ASEAN, it was argued, already reached a state of maturity that allows them to be politically more open to each other. Due to growing interdependence, developments in one member country are likely to have a greater effect on the neighbors and the region as a whole. Thus, came about the calls for 'enhanced interaction' that allows for greater openness to comments and suggestions (in other words, 'constructive interference') by fellow members on each other's internal developments.

Another major move was the expansion of membership to finally complete the 'One Southeast Asia' project. It was remarkable that already in the middle of the 1990s ASEAN accepted the membership of Vietnam, its erstwhile 'enemy.' A few years later, Laos and Myanmar were also brought in. Cambodia's membership was delayed because ASEAN disapproved of its internal political developments. However, by the late 1990s, all Southeast Asian countries have become members of ASEAN, realizing the founding fathers' dream. But the broadening of ASEAN became a challenge to ASEAN's efforts to deepening cooperation in various fields. The new members do take

part in AFTA, and they are each given a longer time to implement the trade liberalization program. The widening of the development gap in ASEAN is a painful reality, and this has led to the emergence of a two-tier ASEAN. It was felt this should not be a problem so long as all members share a common goal.

The *ASEAN Vision 2020* was formulated to provide such a common goal. Its implementation was guided by the *Hanoi Action Plan* (HAP). At the mid-term review of the HAP, it was felt that ASEAN members must have stronger commitments to realize the Vision. This led to the proposal to deepen ASEAN economic integration towards an *ASEAN Economic Community* (AEC). By the time Indonesia hosted the Summit in Bali in 2003, ASEAN members agreed to create an *ASEAN Community* by 2020. As stated in the so-called *Bali Concord II*, the ASEAN Community consists of an *ASEAN Economic Community*, an *ASEAN Security Community*, and an *ASEAN Social and Cultural Community*. At the following Summit in Vientiane, leaders endorsed a *Vientiane Action Program* (VAP) to guide the process of community building in ASEAN for the following five years.

### **Towards an ASEAN Community**

It has taken ASEAN 40 years to come to the point where its members agree to form a Community (with capital C) and not simply a community (with a small c). They have since moved the target date for its achievement to 2015. This is a huge challenge for ASEAN. It is an ambitious project. The *ASEAN Economic Community*, for instance, aims at the creation of a single market and production base where there is free flow of goods, services and investment and freer flow of capital. It can be envisioned that this next phase in the integration process will be much more difficult to implement, as countries must move from removing border barriers to undertaking more complex behind-the-borders reforms.

The ASEAN model of community building, when contrasted with other experiences, has some distinct characteristics, namely its loose and open-ended process and its reliance on minimal institutional arrangements. These, plus the principle of consensus and the sanctity of national sovereignty, have characterized the so-called 'ASEAN way'. However, the ASEAN way has

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undergone a modification. ASEAN's mode of operation has evolved from one that was based on full consensus to one that allows for the emergence of the coalition of the willing (ASEAN-X principle). Several members also believe that the sanctity of national sovereignty can no longer be used as a protection against irresponsible actions. A 'new ASEAN way' may be necessary to realize the *ASEAN Community*.

This experiment will continue. To some extent the ASEAN experience and experiment have also inspired community building in the wider region.

The decision to create an ASEAN Community was enshrined in a declaration and not a treaty. There is great doubt that deepening of ASEAN integration can be achieved without transforming the way ASEAN is being managed. In December 2005 ASEAN leaders decided that it is time for ASEAN to have a formal charter as the basis for cooperation (and integration). An *ASEAN Charter* should not be seen merely as the basis for consolidating ASEAN's achievements but also to transform ASEAN in order to adapt to the changing environment and challenges. ASEAN must be able to respond more rapidly to the trends of globalization and regionalism in many parts of the world as well as the rise of China and India. It also must develop closer cohesion to effectively address the emergence of trans-boundary challenges and new security issues such as transnational crime, communicable diseases, and international terrorism.

The Charter would establish ASEAN as a juridical personality and a legal entity. It would clearly define the objectives and enshrine the values and principles that are adhered to by its members. It would envision the arrangements for further regional integration and define the institutions, mechanisms and processes for dealing with transnational problems. The *ASEAN Charter* would establish the organs of the association and clearly delineate their respective functions and responsibilities, rights and limitations, the relationships among the organs, and their decision-making processes. It would mark out the relationship between the association and the member-states.

An *Eminent Persons Group* (EPG) has been established by the ASEAN leaders to make recommendations on framing the *ASEAN Charter*. The EPG has presented its recommendations to the ASEAN Summit in Cebu, the Philippines, in January 2007. This is only the first step in the process of drafting the ASEAN Charter. The ASEAN leaders have assigned the task of drafting the Charter to a high-level task force of officials. The draft Charter is expected to be ready for adoption by the leaders at the 2007 Summit, which will mark the 40<sup>th</sup> anniversary of ASEAN.

### Regionalism in East Asia Today

There are multiple initiatives to form regional cooperation processes in East Asia. They can be found at the inter-governmental level as well as at the non-governmental level, and they involve different subsets of countries in the region.

These initiatives have different objectives and manifestations: they may be aimed at strengthening functional cooperation in a variety of areas, developing regional mechanisms and institutions, or promoting regional economic integration, and even establishing a regional community.

To be able to gauge the direction that regionalism in East Asia (and the wider Asia Pacific) will take, it can be instructive to take a stock take of the main principles for organizing the region that have emerged from the many discussions involving a wide range of regional stakeholders over the past several years. They have been clearly spelled out in the early years (1980s and 1990s), but in later years they have become blurred because of such political factors as the emerging rivalry between China and Japan or the weakening confidence in international regimes such as represented by the WTO.

The first principle is 'open regionalism'. It suggests that regionalism in East Asia should not be an inward looking and discriminatory type of arrangement. The East Asian economies are oriented towards global markets. When AFTA was formed it was never meant to create an inward-oriented regional market (an 'internal ASEAN' market). ASEAN's trade is predominantly with non-ASEAN countries. Its main objective was to create a competitive regional economy that becomes attractive to global investors that will use the region as a production and export platform for global markets. The principle of 'open regionalism' in action in ASEAN is manifested in the reduction of MFN tariffs in parallel to or in some instances faster than the AFTA (CEPT) preferential tariffs. In the wider region, the liberalization agenda in APEC (*Asia Pacific Economic Cooperation*) is also based on this principle.<sup>2</sup> Liberalization, i.e.

<sup>2</sup> It is critical to bring APEC into this discussion because APEC grew out of the style of regionalism that prevails in the region and its membership includes developing and industrialized countries and is very diverse. East Asia is equally diverse. APEC, formed in 1989, covers a wide geographic area and includes most countries bordering the Pacific Ocean. It is not a binding organization for economic cooperation. Its cooperation agenda rests on three pillars, trade and investment liberalization, trade and investment facilitation, and economic and technical cooperation. In APEC speak, the first two are known as TILF and the third is called ECOTECH. Today APEC has 21 members: Japan, China, Russia, South Korea, Hong Kong, Chinese Taipei (known as Taiwan), Philippines, Thailand, Vietnam, Malaysia, Singapore, Brunei Darussalam, Indonesia, Papua New Guinea, Australia, and New Zealand on the Western Pacific, and Canada, US, Mexico, Peru, and Chile on the Eastern Pacific.

removal of trade barriers, is undertaken unilaterally by each APEC economy but in a concerted manner. This modality is known as 'concerted unilateral liberalization'.

There are views questioning the efficacy of this modality. However, APEC is a non-binding process. As such, this modality is the only feasible one, and this process will work under an effective 'peer' process (pressure). There are views suggesting that APEC should move towards a Free Trade Area of the Asia Pacific (FTAAP). This is contrary to the principle of 'open regionalism,' and the political feasibility of this proposal is highly problematic.

It could well be that because a region-wide FTA is almost impossible, countries have resorted to sub-regional and even bilateral arrangements. These have proliferated lately, especially in East Asia and the Asia Pacific region.

The second principle is that regional community building is much more than trade liberalization. It is a comprehensive undertaking. In addition to the three pillars mentioned above, the APEC agenda has also included human security and governance issues. The focus, however, remains largely on trade liberalization. APEC's progress tends to be measured in terms of progress in its trade liberalization agenda. This is so because the goals of APEC community building have been narrowly defined as "achieving free and open trade and investment in the region by 2010 for developed economies and 2020 for developing economies," the so-called '*Bogor Goals*'.<sup>3</sup>

It is an unfortunate reality that FTAs have become seen as the main manifestation of regional community building. They are now being broadened to include other aspects such as investment, competition policy, and a number of behind-the-border issues. These more comprehensive agreements are sometimes called 'new age' agreements, EPAs (economic partnership agreements) or CEC (comprehensive economic cooperation) agreements.

The problem with them is that they involve hard-nosed negotiations amongst participating economies as they revolve around exchanges of concessions. The whole atmosphere of 'confidence and community building' is being reduced to a game of bargaining. The other aspects of cooperation tend to be overshadowed by this exercise in bargaining. This is not the idea of East Asian community building that is characterized by sharing, solidarity, and mutual support.

East Asia community building is in danger of falling into the same trap as other regional initiatives. It lacks innovative ideas to go beyond simply forming an FTA in developing its institutional identity.

<sup>3</sup> Bogor is the name of the town in Indonesia where the 1994 APEC Summit was held at which leaders signed on to the *Bogor Goals*.

This is the reality. ASEAN itself is much at the forefront in the development of comprehensive FTAs with a number of countries: China, Japan, Korea, India, and Australia and New Zealand. It also is exploring similar arrangements with the EU and EFTA. There is also the *Enterprise for the ASEAN Initiative* which consists of FTAs between the US and selected ASEAN countries. In addition, many East Asian countries are forming bilateral FTAs with other countries inside and outside the region, causing problems of 'managing an Asian noodle bowl'.<sup>4</sup>

In theory ASEAN could play a significant role in maintaining coherence and consistency in all these initiatives because it is placed at the center stage. This is the main challenge for ASEAN, but it still lacks a clear and firm strategy to perform this critical role.

### ASEAN and the Wider Region

ASEAN has definitely left a footprint in regional community building in East Asia and the Asia Pacific region because ASEAN has played a critical role in the development of cooperation processes in the wider region.

ASEAN's critical role has been due to two factors. First, its experience as the 'first mover' in the region influenced the modality of other regional processes in which it is involved. Second, ASEAN's dialogue process with major countries, which established the regular (annual) *ASEAN Post-Ministerial Conference* (PMC), provided the inspiration for these wider regional processes.<sup>5</sup>

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<sup>4</sup> See, R. Baldwin, "Managing the Noodles Bowl: The Fragility of East Asian Regionalism". *Centre for Policy Research (CEPR) Discussion Paper 5561* (London: CEPR, 2006).

<sup>5</sup> When the idea of an Asia Pacific cooperation process began to take hold, ASEAN proposed that the ASEAN PMC process be the basis for it. A proposal for an Asia Pacific Forum (APF) was adopted by ASEAN Foreign Ministers but was not endorsed by some ASEAN members. The ball was then taken by Australia, and the first Ministerial Meeting of APEC (Asia Pacific Economic Cooperation) was held in Canberra in 1989. Recognizing the fact that ASEAN had first come up with the initiative and the critical role ASEAN's participation has in any Asia Pacific process, an agreement was made that any other APEC meeting must be held in an ASEAN country. ASEAN has since become the co-pilot in the APEC community building process.

APEC was ahead of ASEAN in setting a clear target for its process when in 1994 leaders endorsed the *Bogor Goals*. However, there is the widespread view that the process will not be able to deliver on the leaders' commitment. APEC is in the process of some soul searching now. The other Asia Pacific process, the *ASEAN Regional Forum* (ARF), appears to have stagnated as well. Formed in the middle of the 1990s to promote cooperation in the political and security fields, in parallel to APEC's economic cooperation process, the ARF was to become the other important pillar of the Asia Pacific regional architecture.<sup>6</sup> The ARF has formulated a three-phased process, beginning with confidence building, then moving towards preventive diplomacy, and finally establishing conflict resolution mechanisms. However, the process lacks the political will and a clear mechanism to move from the first phase to the next, largely because the ARF is also a very loose process. It has been questioned whether ARF's stagnation could be overcome by ASEAN's willingness to release its driver's seat in the process. The ARF is by design ASEAN-driven. This was based on the recognition that this process would not have taken off at all if it is not driven by ASEAN. The proposal for a co-chairmanship with non-ASEAN participants has been aired, but there has been no decision on this.

In addition to APEC and ARF, ASEAN is involved in, and in fact also the initiator of, three other processes: ASEM (*Asia Europe Meeting*), FEALAC (*Forum of East Asian and Latin American Countries*), and most importantly the *ASEAN Plus Three* (ASEAN+3), and since 2005 it has also initiated the EAS (*East Asia Summit*). There have been regular meetings of ASEM and FEALAC, but these two processes failed to produce concrete programs or measures that can confidently be seen as creating bridges to connect East Asia with Europe and Latin America, respectively. In comparison, much more has been going on in the *ASEAN Plus Three* (ASEAN plus China, Japan and South Korea) process. A great deal has been written about this process. However, the region fails to develop a strategic plan for the *ASEAN Plus Three* process. This is in part due to the failure of ASEAN, who is in the driver's seat, to do so. Instead, governments agreed on holding an *East Asia Summit* (EAS) without having clearly visualized and articulated a strategic plan for EAS as well. As a result there are now two parallel tracks in East Asia to building an East Asian Community (EAC). To distinguish the two, Australia, India and New Zealand have been invited to join the EAS.

<sup>6</sup> The ARF's basic premise is that the region needs a regional, multilateral structure for promoting comprehensive and cooperative security to complement the existing bilateral defense treaties and military alliances (with the US) that has underwritten the region's security thus far, but will no longer suffice in the future.

The APT process started as an initiative for monetary and financial cooperation in the wake of the Asian financial crisis. The grouping adopted the *Chiang Mai Initiative* (CMI) in 2000, aimed at fostering regional financial stability and resilience and building on the earlier similar agreements among ASEAN economies. In addition to creating a network of bilateral swap and repurchase facilities to assist beleaguered central banks facing liquidity crunches, the grouping also created a regional monitoring and surveillance of macroeconomic and financial fundamentals and policies of member economies to pre-empt another currency attack. The more recent initiative is the development of the *Asian Bond Market*.

The APT agenda has become much broader than the initial focus on financial and monetary issues. Both the idea of an EAFTA (*East Asia Free Trade Area*) and the vision of an EAC have been placed on the agenda of the APT process. The vision of an EAC remains vaguely defined and the idea of an EAFTA has been explored through the work of the *Joint Expert Group* (JEG) for *Feasibility Study on EAFTA*. It has been suggested that moving towards a Community requires the members to surrender a rather substantial part of sovereignty.<sup>7</sup> As things stand now, this is still a tall order for the region. Moreover, members of a Community must share such common values as democracy, transparency, rule of law and respect for human rights. The region is now struggling to come up with a clear answer to the question of which process to rely on in building an *East Asian Community*, the APT (10 plus 3) or the more recently established EAS (10 plus 6)?

The first *East Asia Summit* was convened in Kuala Lumpur on December 14, 2005. The Summit was not supposed to take place when it did. A little background seems to be in order. The participants still have too diverse and conflicting views on what the group should and could accomplish. There was no common understanding even amongst the thirteen APT countries. Australia, India, and New Zealand were eager to be brought in, only to find out that their involvement is largely seen as counterbalancing China. This created the image that EAS is a process to contain China's ambitions in East Asia. In fact this is how Japan tends to view the EAS.

Japan appears to harbor concerns about China's growing role and became worried that it might dominate the process. Earlier on China has shown its forcefulness and resoluteness in proposing and swiftly negotiating an FTA with ASEAN, forcing Japan to limp behind. Indonesia, for instance, was of

<sup>7</sup> See N. Hatakeyama, "The Challenges Facing an East Asia Community", *Japan Spotlight*, January-February, (2005). p. 2; N. Hatakeyama, "Why a Community Rather Than an FTA?", *Japan Spotlight*, March/April, (2006), p. 2.



the view that ASEAN was not sufficiently consolidated to be effective in the driver's seat of APT. A premature launch of the EAS would further weaken ASEAN's role in the East Asian process.

In the immediate future not much can be expected from the EAS. Rather than demonstrating what leaders have asserted, namely that they have a lot in common, the EAS exposed the deep rift and the rivalries within the group. Serious efforts must now be made to overcome this problem. Leaders in China and Japan must show their statesmanship.

The Kuala Lumpur Declaration on EAS reflects the state of play in the region. It confirms the members' lowest common denominator. They are

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prepared to be engaged in a forum for dialogue, not only on economic issues but also on political and strategic issues. They want the Summit to be "an open, inclusive, transparent and outward-looking forum". They strive to strengthen global norms and universally recognized values, without mentioning democracy and human rights. Interestingly, they agree that ASEAN is "the driving force, working in partnership with the other participants of the East Asia Summit". The second EAS in Cebu (Philippines) in January 2007 further confirms the above conclusion.

The search for a clear vision for East Asia community building will continue. Senior Minister Goh Chok Tong of Singapore has elaborated his vision, which contains the following five main points.<sup>8</sup> First, East Asian integration must continue to be largely market-driven, namely driven by "the commercial logic of the market that sees in diversity, potentially profitable synergies." Because of this, the prime responsibility of all governments, irrespective of political system, is to create national conditions that will facilitate and not hinder market flows. Second, East Asian integration will necessarily require a more active role for states. This suggests that various other functional cooperation efforts will need leadership from governments. Third, since regional integration is a strategic imperative for the entire region, the way each state

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<sup>8</sup> C. T. Goh, "Towards and East Asian Renaissance," address at the opening session of the 4<sup>th</sup> Asia-Pacific Roundtable organized by the *Global Foundation*, the *World Bank* and the *Institute of Southeast Asian Studies*, Singapore, February 6, 2006.

orders its domestic policies can no longer be of purely domestic concern. This suggests that the concept of absolute sovereignty must be abandoned. Fourth, ASEAN's role in the driver's seat mandates it to reconcile and to assuage the tensions between the major players and their competing interests. Therefore, "ASEAN integration is a vital and irreplaceable part of the entire East Asian project." Fifth, the architecture of East Asian integration consists of flexible and multiple overlapping networks, rather than institutionalized bureaucracy (like the EU). It is "an architecture of variable geometry and flexible boundaries", suggesting that in some fashion he prefers to have some involvement of the US in it. Goh did not suggest how to reconcile the APT with the EAS. The two processes are likely going to co-exist for some time.

### ASEAN and East Asian Community Building

In the newly established EAS, ASEAN is again placed in the driver's seat. On the one hand it is in ASEAN's interests to be in the driver's seat in shaping the future of East Asia amidst great power rivalry in the region as well as the challenges it faces in realizing a stronger, more integrated ASEAN Economic Community.

ASEAN governments had to decide on what direction to take when they had to respond to the Report of the *Joint Expert Group (JEG) for Feasibility Study of EAFTA*, submitted in July 2006 for consideration by APT ministers and leaders. The Report made the following general observations:<sup>9</sup>

- East Asian cooperation under APT has achieved noticeable progress. With the progress achieved, it naturally leads to a higher level of institution building. An EAFTA would be a core part of this development.
- The rationale for EAFTA lies firmly in both economic and political interests of all East Asian countries. The economic benefits from EAFTA exceed those from AFTA, any ASEAN+1 FTA, or any other bilateral and sub-regional arrangement. An EAFTA would increase awareness of a common destiny, institutionalize dialogues and contacts and increase mutual understanding and cooperation.
- The initial conditions in East Asia form an important foundation for an EAFTA. As East Asian countries have been undergoing continuous trade and investment liberalization, an EAFTA with trade and investment as its core is highly desirable.

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<sup>9</sup> See Joint Expert Group (JEG) for Feasibility Study on EAFTA, *Towards an East Asia FTA: Modality and Road Map*. A Report by Joint Expert Group for Feasibility Study on EAFTA, July 22, 2006.

- Results of a simulation analysis show that East Asian countries will benefit from EAFTA, as they can expect an increase in both production and economic welfare. At a minimum, EAFTA would increase overall GDP of East Asian countries by 1.2% and increase economic welfare by US\$ 104.6 billion.

The Report further suggests the following principles to guide the formation of EAFTA:

- East Asia should strive for a high quality FTA by being comprehensive in scope, removing trade and investment barriers, strengthening capacity and fostering open regionalism. It will lead to further deepening of economic integration, enhancing the competitiveness of production networks, and progressively reduce development gaps among East Asian countries.
- An EAFTA must be beneficial to all its members. Maximum economic benefits can be gained by being comprehensive in scope with substantial liberalization in all sectors. Comprehensiveness also implies that liberalization measures are complemented by facilitation and development cooperation efforts.
- To achieve a high quality FTA, it is important that EAFTA should be negotiated and implemented as a single package. An EAFTA should go beyond existing East Asian FTAs. Within the framework of a single package, a gradual and progressive approach should be adopted.
- An EAFTA is to be negotiated among APT (10 plus 3) countries first. In view of the recent expansion of FTAs, membership will be open to other East Asian economies, as well as other members of EAS (Australia, India, and New Zealand).
- With a view to helping the less developed countries, economic development cooperation initiatives with specific action plans must be adopted as an integral component of the EAFTA.

JEG also considered the three different options to creating an EAFTA. One approach is through {3 x (ASEAN+1)}, namely by building on the separate free trade agreements between ASEAN and the Plus Three countries (China, Japan, Korea). The second is to first develop an arrangement in Northeast Asia (China, Japan, Korea), and subsequently link it to ASEAN. The third is an ASEAN+3 process. The JEG noted that it might be difficult to amalgamate or consolidate the three ASEAN+1 FTAs into an EAFTA. On the second option, it was of the view that the Northeast Asian countries (China, Japan and Korea) were not likely to pursue an FTA. APT leaders, therefore, should consider the third option, namely to launch an 'independent process' to form

an EAFTA. This independent process for the formation of an EAFTA could have the following sequence of actions:

- APT leaders declare the launch of this process.
- Working groups to be formed to prepare for the EAFTA negotiations and be given two years to undertake joint studies on the various elements of the agreement.
- EAFTA negotiations to follow the completion of the joint studies and be concluded within 2 years.
- EAFTA to be completed in 5 years.

ASEAN governments made it clear that they will consider to launch a region-wide FTA only after they have completed the ASEAN+1 agreements, either with the first three (China, Japan and South Korea) or with all six partners in the EAS. It remains unclear when these agreements will be completed. In the process ASEAN has gained a lot of experience and has adopted a clear plan to strive for consistency and coherence in negotiating the ASEAN+1 agreements. This has strengthened ASEAN role in the wider regional processes. However, ASEAN needs to enhance its capacity to play this role effectively.

The few years ahead will be the time for serious studies and capacity building in ASEAN and the wider region. It is in this light that Japan's proposal to establish an Economic Research Institute for ASEAN and East Asia (ERIA) has been welcomed. The premise for establishing this institute is to support ASEAN's critical role in community building in East Asia and that strengthening ASEAN's capacity and supporting its efforts to realizing the ASEAN Economic Community would contribute to East Asia community building. ERIA will be established as a regional institution. Japan has pledged to provide substantial finances for ERIA.

At this stage, ASEAN's main task is to consolidate its role in the region's community building processes. It must develop a strategic plan and implement it consistently.

China, Korea and Japan should stop with their quarrelling and must come to a final settlement of their historical burden. Governments must, once and for all, stand up above the public and not allow the relationship (China-Japan and Korea-Japan) to be used for domestic political purposes. ASEAN too must agree on a modality that ensures the effective functioning of its international diplomacy and not to allow the organization be held hostage to one of its members, whose regime remains illegitimate.

But most importantly, ASEAN must seriously pursue the efforts to deepen economic integration amongst its ten members.