

## Anchor East Asian Free Trade in ASEAN

The hub of any successful regional trade agreement (RTA) tends to be a strong or developed economy. The United States serves this role, for example, in the North American Free Trade Agreement (NAFTA). For a similar, prospective East Asian agreement, Japan or China would be the natural hub. For the moment, though, these countries, preoccupied with their respective domestic economic reforms, have been receptive to anchoring the East Asia Free Trade Area (EAFTA) process in the weaker Association of Southeast Asian Nations (ASEAN), whose core members include Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Yet, this trend cannot be expected to persist in the long run. Once Japan consolidates its foreign trade policy or China becomes more settled with World Trade Organization (WTO) membership reforms, each can be expected to actively seek to drive the process. ASEAN's role would become marginalized, and an EAFTA centered in Northeast Asia will emerge.

The evolution of an EAFTA—potentially the world's largest RTA—will significantly impact the global trading system. If China or Japan emerges as its center, global trade at large and U.S. trade in particular will be gravely affected. Conversely, an EAFTA anchored in ASEAN through the ASEAN Free Trade Agreement (AFTA) will reinforce the principles of free trade and open markets—vital to U.S. interests—to such an extent that the United States should take an active role in ensuring such an outcome.

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## Development of a Free-Trade Area in East Asia

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East Asia was slow to embrace regionalism. Its first attempt came in Southeast Asia in 1977, when ASEAN concluded its Preferential Trading Agreement (PTA), which was subsequently developed into the ASEAN Free Trade Area in 1992. Northeast Asia, which is economically stronger, has no AFTA equivalent.

Japan, China, and Korea are cognizant of the potential benefits of strengthened economic relations. According to the Korean Institute for Economic Policy, a free-trade agreement (FTA) among just these three nations would boost Korea's gross domestic product (GDP) by 3.2 percent, China's by 1.3 percent, and Japan's by 0.2 percent—translating to \$12.7 billion for Korea, \$820 million for China, and \$12.3 billion for Japan.<sup>1</sup> It is unlikely for such a subregional FTA to materialize, however, because of deep historical mistrust, structural economic differences, Japanese and Korean reluctance to open their agricultural sectors, and Chinese insecurity about closer cooperation with more advanced economies.<sup>2</sup> A trade dispute in early 2002 between China and Japan over shiitake mushrooms and *igusa* rushes, used in making tatami mats, exemplifies the continued differences between the two Northeast Asian partners. Any effort to promote a Northeast Asian FTA would inevitably encounter similar impediments.

High tariff and nontariff barriers in sensitive sectors have traditionally constrained the ability of these countries to explore FTAs with countries outside Northeast Asia. Yet in recent years, four key developments have forced the Northeast Asian countries to review their existing foreign trade policies and reconsider the merits of expanding trade:

- *The 1997–1998 Asian financial crisis.* The shocking domino effect of the crisis revealed the high degree of interdependence and interconnectivity among Asian economies, causing these Asian nations to belatedly recognize the overwhelming impact of globalization.
- *The rapid development of FTAs in other parts of the world.* The Free Trade Area of the Americas (FTAA) talks, the European Union's expansion in Europe, and the proposed transatlantic FTA, in particular, have led these Asian countries to consider developing an Asian free-trade market to protect themselves.
- *Rapid trade expansion within Asia.* The regional Asian growth rate throughout the 1990s proved the fastest of all geographical regions; its total trade grew at an average rate of 12 percent between 1990 and 1997. During

this period, Asia emerged as the largest single market for its own exports, and that status remained largely unchanged after the Asian crisis.<sup>3</sup>

- *Uncertainty about the future of a multilateral framework.* Although the Doha round—the latest trade round of the WTO launched in December 2002—is now on track and making reasonable progress, many teething issues still need to be resolved. With the current surge in antiglobalism and protectionist tendencies in developed countries such as the EU and Japan, the future of the Doha round remains unclear. A Northeast Asian FTA would further serve as an insurance policy against any failure in the WTO.

Although pursuing an FTA among themselves remains politically difficult, Japan, China, and Korea each appear receptive to engaging one another through the ASEAN-plus-3 (the ASEAN countries plus Japan, China, and Korea) framework. Some Japanese officials have privately acknowledged that the framework provides a neutral and less controversial platform from which the three countries can float ideas and advance their individual agendas. The “plus-3” countries have thus predictably opted for the easier route by bilaterally negotiating with ASEAN, which would eventually form a de facto EAFTA, rather than embarking on any multilateral EAFTA negotiations. China is leading the initiative, with Japan following closely behind; Korea is expected to jump on board soon.

China aims to complete an ASEAN-Chinese FTA (ACFTA) within the next 10 years. Both sides have already agreed on its basic framework, with negotiations scheduled to start in 2003. China’s “early harvest” proposal—under which China agreed to phase out tariffs on selected imports from ASEAN’s six core members over three years beginning no later than January 1, 2004—is an example of its accommodating attitude in negotiations. This attitude is expected to help China sustain its lead in the FTA race with Japan.

Despite its years of engagement with ASEAN since the late 1970s, Japan’s FTA policy appears less savvy. Unlike its earlier overseas development assistance policy, which benefited both the recipient countries and Japanese industries, the Japanese government has yet to be able to convince its politically powerful farmers of the positive impact that FTAs can have on Japan’s agricultural sector. It was thus not surprising that there was no immediate follow-up to Prime Minister Junichiro Koizumi’s proposed ASEAN-

**All signs indicate that an EAFTA is inevitable.**

Japan Closer Economic Partnership (AJCEP) agreement in Singapore in January 2002. The substantial progress made in the ACFTA negotiations over the first half of 2002, however, pressured Japan to take baby steps in September toward a framework to realize the ASEAN-Japan agreement and even consider an FTA within 10 years.

The Japanese foreign ministry, *Gaimusho*, then released a document in October 2002 entitled “Japan’s FTA Strategy,” which set ASEAN as a priority FTA partner, along with Korea. Despite domestic sensitivity, this reflected Japan’s willingness to discuss agricultural trade with ASEAN for the first time. Japan was clearly interested in keeping up with China’s aggressive FTA campaign.

The ACFTA and the AJCEP are not merely political vehicles that China and Japan are using to compete for a leadership role in ASEAN. These trade agreements also offer clear economic benefits. A joint study by the ASEAN Experts Group has concluded that by 2020 an AJCEP will increase ASEAN’s exports to Japan by 44.2 percent and Japanese exports to Southeast Asia by 27.5 percent, compared to 1997.<sup>4</sup> A similar joint study by Chinese and ASEAN academics showed that the ACFTA will result in a 48 percent increase in ASEAN’s exports to China and would increase China’s GDP by 0.3 percent.<sup>5</sup>

## **Dangers of China or Japan Leading**

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The eventual emergence of an EAFTA—almost inevitable at this point—will heavily influence global trade as well as U.S. interests in East Asia. The Asia-Pacific region already accounts for almost 50 percent of world trade and for more than 50 percent of the world’s economic output. East Asia accounts for approximately one-third of U.S. trade, broadly comparable to U.S. NAFTA partners, and exceeds Western Europe’s share. In contrast, the United States conducts only about 5 percent of its trade with South America.<sup>6</sup> By 2040 the combined domestic production of China and Japan will exceed that of the United States, thereby shifting the world’s economic center of gravity from the Atlantic region to the Pacific region.<sup>7</sup>

Maintaining an open, stable, and predictable market in East Asia necessitates an EAFTA consistent with WTO agreements, that complements the FTAA’s and the EU’s current liberalization efforts, and that contributes to free trade globally. At present, the EAFTA process appears headed in this direction. In November 2002, the leaders of the ASEAN-plus-3 nations renewed their commitment to strengthening the rule-based multilateral system. In their respective FTAs, ASEAN and its Northeast Asian partners have also repeatedly expressed their intention to move beyond tariff reduc-

tion to include liberalization in nontraditional areas such as investment, movement of people, intellectual property rights, and certification standardization. No country has yet publicly challenged the open regionalism under the Asia Pacific Economic Cooperation (APEC) forum or the application of the WTO's most-favored-nation principle, where tariff concessions given to one country will have to be given to all other WTO members as well.

Whether these principles will continue to guide the direction of an EAFTA, however, is hardly carved in stone. According to Singapore's trade minister, George Yeo, given that Northeast Asia accounts for about 80–90 percent of East Asia's total economy, chances are that either China or Japan will come to dominate the process. Neither country is an established free trader or an experienced FTA partner.

**Neither China nor Japan is an established free trader or an experienced FTA partner.**

China is a new member of the WTO and is still adjusting to the obligations that membership entails. The country's two decades of high growth belies the serious, underlying problems in China's economic system. Balancing the drastic reforms required by WTO membership while preserving social stability requires deft economic and political leadership. In succeeding Premier Zhu Rongji—the economic czar responsible for securing China's WTO membership in December 2002—the yet untested, new Chinese leadership faces the formidable task of restructuring China's state-owned enterprises, eradicating corruption, introducing the rule of law in business, and coping with rising unemployment, especially in the country's urban areas—problems that most developing-nation members of the WTO also face.

China has explicitly stated that it wants to help protect developing-nation interests in the WTO. Its leadership has called for the creation of an international multilateral trading system in which developing countries are ensured unimpeded and indiscriminate access to the international market for their products and goods. Nicholas Lardy, a China scholar, predicted that China, as it gained ground in the organization, would demand changes in the informal governance structures that have previously allowed the developed economies to shape the WTO's agenda.<sup>8</sup> More concretely, a report published by the International Monetary Fund (IMF) assesses that China is likely to press for reform of WTO antidumping rules, to guard against attempts to use labor and environmental issues as disguises for protectionism, and possibly to push for a reduction of agricultural subsidies.<sup>9</sup> In sum, there is reason to believe that China may seek to change the established rules of international trade with the support of developing countries.

**China may seek to change the established rules of international trade.**

During the October 2002 East Asia economic summit held in Kuala Lumpur, China's vice minister of foreign trade, Long Yongtu, emphasized publicly the need for Asia to have a platform to "let our voice sound louder in the decisionmaking process" now dominated by the West. According to a *Straits Times* report, summit participants generally agreed that, even though the markets of these economic superpowers were technically open, entering them was costly for developing nations because of nontariff barriers and protectionist subsidies given to their domestic manufacturers. In the same

report, Vice Minister Long explicitly urged China and Southeast Asian nations to build a free-trade area to avoid becoming "victims" of Western trade protectionism and economic trade blocs.<sup>10</sup>

If China were to adopt such an attitude, it would inevitably lead to the creation of a tripartite world, a scenario which could potentially lead to destructive trade wars if each bloc aggressively seeks to enhance its own welfare at the expense of the others or if any two blocs form a coalition against the third. If an EAFTA driven by China chooses to discriminate against outsiders, the organization could disrupt the world trading system and undermine the WTO.<sup>11</sup>

Japan—traditionally a multilateralist nation—has its own problems with trade liberalization. Its reluctance to open its agricultural market and lift its various nontariff barriers that impede free trade is well known. The WTO's 2002 *Trade Policy Review* noted that Japan still has a significant number of high tariffs for agricultural products, such as rice and dairy products.<sup>12</sup> Japan's strong objection to the APEC Early Voluntary Sectoral Liberalization initiative in 1998—objections which eventually killed the process—is a reflection of how far Japan was prepared to go to protect its sensitive sectors. If given a choice, it is unlikely that Japan will allow the emerging EAFTA to include agriculture and other sensitive sectors.

Another potential danger of an EAFTA led by China and Japan is their potential competition for leadership in Southeast Asia. Given ASEAN's relative strategic and economic weaknesses, the two Northeast Asian economic powers could pressure ASEAN to take sides on various regional and international trade issues. This development could polarize Southeast Asian politics, which clearly is not in anyone else's interests. Nearly a quarter of the world's ocean freight and more than half of the world's merchant fleet capacity passes through the South China Sea and major Southeast Asian bottlenecks such as the Straits of Malacce, Sunda, and Lombok.<sup>13</sup> Ensuring

that Southeast Asia remains stable and neutral is thus crucial for everyone, including the United States.

### **Can ASEAN Carry the Load?**

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Can ASEAN realistically provide a hub for an EAFTA? Probably—albeit an imperfect one. ASEAN was the first organization in East Asia to embark on regional FTAs, first in the form of the PTA and then AFTA. Although the AFTA was established under the less stringent 1979 Enabling Clause of the WTO and the implementation of AFTA was based on voluntary commitments by the member countries, ASEAN has proven increasingly and steadily committed to free trade.

Undeniably, ASEAN neglected to do its homework in the early 1990s before taking bold liberalization measures through AFTA. Unlike the creation of the European single market, whose expected impact was calculated in advance, “no number crunching preceded the establishment of AFTA.”<sup>14</sup> Although substantially more comprehensive than the PTA, AFTA’s voluntary nature perpetuated the continued exclusion of politically sensitive sectors such as agriculture and automobiles. No concrete steps or goals were laid out to achieve AFTA’s 15-year time line. Compared with other regional FTAs, such as NAFTA’s 1,000-plus-page agreement, AFTA was a very limited 15 pages. Some critics initially doubted that this “Agree First, Talk After” (as the acronym has been sarcastically translated) approach would work.

Considering the minimal planning prior to its establishment, expectations for AFTA’s success were generally low. Over the last decade, however, AFTA has shown that, despite its lackluster start, it was able and willing to adapt to the ever-changing global economy as well as internal circumstances. AFTA first shifted gears following two key external developments: the 1993 conclusion of the General Agreement on Tariffs and Trade’s Uruguay Round negotiations and the 1994 Bogor declaration of APEC members’ commitment to liberalizing trade and investment by 2010 and 2020 for developed and developing economies, respectively. To keep up, therefore, ASEAN members accelerated the target date to establish AFTA from January 1, 2005, to January 1, 2003.

The next shift came in the wake of the 1997 Asian financial crisis. Despite strong political incentives to reverse its liberalization process, in 1998 the economically battered group instead adopted a series of bold measures, including an agreement by the original six AFTA signatories to accelerate many planned tariff cuts by one year, to 2002. ASEAN’s message to the world was deliberate and clear: it wanted free trade in good times and in bad.

The same philosophy also applied internally to ASEAN's new members. Determined not to be slowed down by ASEAN's expansion between 1995 and 1999, AFTA adopted a flexible approach that allowed a longer time frame for its newer, less-developed members—Vietnam, Laos, Myanmar, and Cambodia—to meet AFTA's tariff reduction obligations but maintained the original schedule for its original members. Making such concessions, although unconventional, was necessary in light of the great disparity between the old and new member countries' economies. ASEAN did not believe that

**If an EAFTA discriminates against outsiders, the organization could undermine the WTO.**

the EU's general approach—obliging aspiring members to meet the economic standards of the others before joining the union in order to avoid any developmental gap—would work in Southeast Asia. As aptly pointed out by former ASEAN Secretary General Rodolfo Severino, “[T]he only thing worse than a two-tier ASEAN is a two-tier Southeast Asia—one in ASEAN and the other outside it.”<sup>15</sup>

AFTA's approach has not only accelerated the economic development of its new members, it has also helped shape their trade policy in a way that enables smooth integration into the global trading system. Notably, these new members have since voluntarily shortened the time frame to liberalize their markets from 2010 to 2008. ASEAN's willingness to progressively add more teeth to AFTA by including more goods and services, such as the information technology and financial sectors, has produced significant results. Intra-ASEAN exports grew from \$44.2 billion in 1993 to \$97.8 billion in 2000. During this period, the average tariff rate among the ASEAN countries was lowered from 111.4 percent to 3.2 percent. In Severino's words, “ASEAN is now a free-trade area, or very close to becoming one,” with tariff reduction programs broadened and accelerated.<sup>16</sup>

A host of “AFTA-plus” measures have been initiated, including efforts to liberalize intra-ASEAN trade in services and to harmonize tariff nomenclatures and product standards. ASEAN members are also cooperating among themselves to streamline customs procedures and transport regimes. Investment flows within and into ASEAN nations are increasing, and plans are being laid for an integrated power grid as well as a network of gas pipelines to provide energy security for all.<sup>17</sup> In the long term, all ASEAN nations have agreed to enact zero tariff rates on virtually all imports, excluding those in the general exceptions category—that is, products that a state deems necessary for the protection of national security; public morals; hu-



man, animal, or plant life and health; and articles of artistic, historic, or archaeological value. (Only about 1 percent of ASEAN tariff lines currently fall into this category.) The target date for zero tariff rates is 2010 for the original signatories and 2015 for the four newer ASEAN members.

Despite some domestic opposition in the past few years, ASEAN members have remained committed to liberalization—with increasing enthusiasm, not less. Its members are keenly aware that the multilateral framework best serves their interests. They recognize regional trade agreements as a valid means to help achieve global free trade. AFTA's flexible but effective approach, notwithstanding earlier criticism, has thus far been strategically consistent and tactically nimble. The development of an FTA in East Asia requires just such an approach, as the region shares ASEAN's political, economic, and cultural diversity.

As it evolves, the EAFTA will face similar obstacles, such as great diversity among economic structures, cultures, levels of development, and political systems. Nevertheless, all East Asian countries understand—or have come to understand if they did not before—the long-term benefits of closer economic integration. If allowed to continue driving the process, one can imagine ASEAN getting all 13 East Asian countries to agree on a grand, initial, but vaguely worded vision for the EAFTA. Such an agreement might have a distant target date but establish a few concrete, facilitating benchmarks to allow decisionmakers to square new obligations with commitments to their personal business-interest networks at home.<sup>18</sup> Regular ASEAN-plus-3 meetings, as necessary, would be held among various working groups to modify the steps to achieve this vision. Such measures could include preferential treatment or development assistance to help slower members stay on track.

This approach is certainly not unique. The United States also has trade agreements with countries in sub-Saharan Africa and the Andean region, respectively, that grant those countries preferential access to U.S. markets. Although some ASEAN members may remain hesitant about liberalizing more sensitive sectors, such as Malaysia's automobile sector, there is no sign that the organization as a whole is deviating from its free-trade course. As long as an EAFTA might become a reality, ASEAN at least has the potential to drive it in the right direction.

## **Realizing an ASEAN-Centered EAFTA**

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Given the economic and strategic weaknesses of ASEAN nations as compared to Northeast Asian nations, an ASEAN-centered EAFTA will not happen by default. Rather, both ASEAN and the United States—the single

superpower, with vital interests in the region—will have to take deliberate steps to maintain the anchor for the process in Southeast Asia.

When ASEAN first invited the plus-3 leaders to its summit in 1997, it had no intention of institutionalizing the ASEAN-plus-3 framework. ASEAN was fully aware that making these three powerful Northeast Asian economies permanent members could only result in the process being dominated by them. The urgent need for closer regional cooperation after the Asian financial crisis, however, compelled ASEAN subsequently to regularize ASEAN-plus-3 summit meetings. Several useful initiatives evolved from these meetings, creating significant momentum toward a wider East Asia Community and, ultimately, a formal EAFTA. The success of such collaborative initiatives, however, did not ameliorate ASEAN's initial concerns about the plus-3 nations. In an effort to keep hold of the reins, ASEAN decided against establishing a separate ASEAN-plus-3 secretariat, as proposed during the July 2002 ASEAN-plus-3 foreign ministers meeting in Brunei. Keeping the ASEAN-plus-3 process within the ASEAN secretariat essentially allowed ASEAN to secure its power for now.

The extent of ASEAN influence on the EAFTA process in the long run will depend on two related factors: ASEAN's continued unity and the status of its economy. ASEAN lost a great deal of its earlier cohesion following its enlargement between 1995 and 1999. Recent disputes between Singapore and Malaysia over water and between the Philippines and Malaysia over illegal immigrants reflect the underlying tensions among ASEAN members. Such tensions not only undermine ASEAN's ability to speak with one voice but also weaken its negotiating position vis-à-vis the more homogeneous domestic economies in China, Japan, and Korea. No ASEAN country—not even Indonesia, its largest member—has sufficient strategic weight on its own to compete with initiatives taken by these countries. The only way ASEAN stands a chance of effectively checking the power of the plus-3 nations is if it is united.

As for ASEAN's economy, although leaders regularly promote the region as an attractive market of 500 million people, investors recognize that the 10 ASEAN markets remain fragmented and to a large extent undeveloped. The financial crisis shattered the myth of the ASEAN miracle, and reforms in most economies are far from complete. Economic activity has yet to reach its pre-crisis level, and since 1997, much of the foreign direct investment in Asia has been diverted to Northeast Asia. Thus, unless ASEAN's economy grows stronger while the integration process also becomes more intense, the center of the East Asian economy will rapidly move northward.

An ASEAN Economic Community was first proposed by Singapore's prime minister, Goh Chok Tong, in October 2002 during the East Asia economic

summit in Kuala Lumpur; this vision intends to transform ASEAN into a common market along the lines of the European Economic Community by 2020. The concept is ambitious but not beyond reach. If ASEAN members remain committed to making this vision a reality, a competitive region with a combined market of about half the size of China and four times that of Japan could emerge by 2020.

Until that time, the region's growth will continue to depend heavily on its key markets in Northeast Asia, Western Europe, and the United States. With China's economy currently roaring while the U.S. and European economies fail to rebound, the world's relative dependence on Northeast Asia for trade will increase. Already, during 1999–2000, bilateral trade between ASEAN countries and the three Northeast Asian countries grew from \$158.2 billion to \$201.7 billion. Some Southeast Asian observers have warned that increasing economic interdependence would force ASEAN to follow China's priorities and agenda when it comes to non-economic issues.<sup>19</sup>

**A U.S.-ASEAN FTA would help offset China's or Japan's potential leverage.**

The United States should not disregard these developments in East Asia, even as it is preoccupied with its own FTAA negotiations. As noted by U.S. Trade Representative Bob Zoellick, "Each agreement without us may set new rules for intellectual property, emerging high-tech sectors, agriculture standards, customs procedures or countless other areas of the modern, integrated global economy—rules that will be made without taking account of American interests."<sup>20</sup> In RTAs anywhere in the world that include a U.S. competitor, the United States has traditionally looked to other RTA members to check that competitor's influence by pressing for arrangements and rules consistent with U.S. interests and the WTO. In the European Common Market, the United States has counted on Germany as a counterweight to France. Within the Southern Cone Common Market (Mercosur), the United States encourages Argentina to check Brazil's protectionist tendencies.<sup>21</sup> Within East Asia, therefore, working with ASEAN—the established free trader—to balance the influence wielded by China and Japan in an emerging EAFTA would be a logical move—both consistent with U.S. trade policy and congruent with U.S. interests.

Being part of the process itself and ensuring that ASEAN remains neutral, as well as cohesive, are beneficial to the United States. If it were influential in an EAFTA's development, the United States would gain greater influence in shaping the founding principles of the organization. Even though the United States and Japan are strategic allies, Washington and To-

kyo do not see eye to eye on several trade issues, mitigating the U.S. ability to rely on Japan to fight for U.S. interests within an EAFTA. Furthermore, active U.S. involvement—pushing for power centralization in ASEAN and thereby working against a paramount Chinese or Japanese power—will help to minimize the likelihood of the kind of regional competition between these two Northeast powers sure to complicate Southeast Asian geopolitics.

Although China and Japan might be wary of the United States playing a larger role in Southeast Asia, they are not likely to react strongly; there are more pressing issues in their respective relations. With China in particular,

Southeast Asia has not traditionally been a major factor in Sino-U.S. relations, which are usually dominated by the Taiwan issue.

The United States could work with ASEAN in myriad ways, not all of which require significant resources, as most policymakers assume. ASEAN, unlike other developing regions, does not require substantial direct and comprehensive assistance from the United States. Instead, the United States can most productively help

ASEAN maintain its unity and economic potential by engaging in business with the region and taking steps to assure all East Asian countries that the United States will continue to maintain its presence in the region. More specifically, the United States can help maintain ASEAN as the center of an emerging EAFTA, in turn benefiting global trade, by (1) sustaining APEC, (2) strengthening U.S.-ASEAN economic linkages, and (3) supporting reforms in certain ASEAN countries.

**ASEAN's influence will depend on its continued unity and its economy.**

**SUSTAINING APEC**

Because APEC is the only organization that firmly links East Asia to the Western Hemisphere, its success can prevent the two regions from emerging as powerful competing economic blocs on either side of the Pacific. APEC member countries, including all the East Asian countries likely to be involved in an EAFTA, have made firm promises not to establish exclusive trade blocs under APEC's concept of open regionalism. APEC thus provides a legitimate and nonconfrontational platform for U.S. involvement in the EAFTA process. In addition to helping ensure a future central role for ASEAN in an EAFTA, U.S. support for APEC would also curtail the anti-U.S. voices heard in East Asia after perceived U.S. opposition to proposals for an East Asian Economic Community in 1990 and the Asia Monetary Fund in 1997. In both cases, the United States was perceived as a self-centered outsider.

There is no doubt that APEC's leadership in global free trade has faltered badly in recent years because of the organization's failure to make progress toward its own liberalization goals set at the 1994 Bogor meeting. Although APEC members clearly need to devise a new strategy to meet those goals, the organization has served, throughout the last decade, as an important forum for member countries from both sides of the Pacific to coordinate policies on trade as well as security-related issues such as terrorism and nuclear developments in North Korea. For example, at the 2002 APEC leaders meeting in Los Cabos, the United States successfully garnered the support of all 21 APEC members, including protectionist-minded Japan and South Korea, behind its proposal to eliminate all forms of agricultural export subsidies, a move that will help advance the comprehensive U.S. initiative in the agricultural sector of the WTO. In the absence of other Asia-Pacific links, APEC will continue to be an important vehicle through which the United States protects its trading interests in the region vis-à-vis China and Japan. ASEAN—in Asia, yet pro-American—will have a unique role in helping to advance U.S. interests.

### **STRENGTHENING THE U.S.-ASEAN ECONOMIC RELATIONSHIP**

Strengthening economic linkages between the United States and ASEAN, possibly through the establishment of a U.S.-ASEAN FTA, would give the United States more leverage in shaping an EAFTA. An ASEAN-U.S. FTA was supported by Ernest Bowers, president of the ASEAN-U.S. Business Council, in September 2002 when he stated that engaging ASEAN would allow the United States to play a strategic role “in helping to define the future environment for trade and investment in this region.”<sup>22</sup> The United States should build on the momentum started by the conclusion of the U.S.-Singapore FTA to seek agreements with other ASEAN countries under the Enterprise for ASEAN Initiatives launched by President George W. Bush in October 2002. Establishing a U.S.-ASEAN FTA over time would help offset the potential leverage that China or Japan might gain through their own bilateral agreements with ASEAN. In particular, such a U.S.-ASEAN agreement would give ASEAN good reason to continue to pursue an open, multilateral trading system and regional economic liberalization if—or rather, when—China or Japan pressures it to do otherwise.

Given the significant differences between ASEAN and U.S. trade policies, a U.S.-ASEAN FTA would necessarily be a long-term project, requiring U.S. commitment beyond that afforded by the current administration. U.S. policymakers must recognize that the potential economic gains for U.S. businesses in solidifying such ties will eventually offset the costs involved. Today, a fragmented and unstable ASEAN is the United States' third-largest

partner in trade and a key production base for a great number of U.S. multinational corporations. Imagine how lucrative a more predictable and integrated Southeast Asian market might prove for U.S. firms.

### **SUPPORTING ECONOMIC REFORMS IN SOUTHEAST ASIA**

U.S. involvement in Southeast Asian economic reform, in Indonesia in particular, may appear to be the kind of one-way economic assistance that U.S. policymakers dread because of its high costs and uncertain returns. Nevertheless, bringing about sustainable growth in the region requires such involvement. Although the outlook for the region has improved over the five years since the Asian financial crisis, progress in structural economic reform remains dismal.

Substantial political inertia currently stands in the way of reforming existing economic systems. AFTA's voluntary nature, coupled with the "ASEAN

way" of noninterference, limits its influence on changes in domestic economic structures. As a major trading partner of ASEAN, however, the United States is in the position to exert significant political and economic pressure on the region's governments to implement difficult reforms. As the ASEAN countries are still in the process of rebuilding their economies after the 1997–1998 financial crisis, the United States could help these countries lay a firm

**APEC can prevent East Asia and the West from competing as powerful economic blocs.**

foundation by providing expertise in areas such as corporate governance and financial supervision through its various agencies.

This type of involvement, of course, must be undertaken delicately—striking a fine balance between carrots and sticks—given the widespread regional perception that it was U.S. and IMF policies that largely contributed to the political upheaval in Indonesia. In the long run, an economically restructured Southeast Asia would be more able to serve as the center of an EAFTA and serve U.S. interests simultaneously.

Most restructuring efforts undertaken thus far have been complicated by the rise of terrorism and radical political Islam, injecting an even greater urgency for the United States to step in and help sustain the region's recovery. In the wake of the series of bombings in Indonesia and the Philippines, investors and tourists have been advised to stay away from the region, further delaying economic recovery in some ASEAN nations and promising in turn to yield even greater political instability. The United States can help by working closely with the region's governments, quietly encouraging and as-

sisting them to contain terrorism and radical political Islamic movements. This approach will augur well for a solid partnership between the United States and ASEAN—one with the potential not only to fight terrorism but also to balance the influence of a rising China or a nationalistic Japan in Southeast Asia's economic future.

## Conclusion

Regionalism is an irreversible trend. According to the WTO's 2002 annual trade report, RTAs could soon account for more than half of the world's trade.<sup>23</sup> All signs indicate that an EAFTA is inevitable. What remains negotiable is its nature—whether it will be centered in Northeast Asia or, with the assistance of the United States, in ASEAN. The former poses danger not only for current AFTA members but for the world at large, especially the United States, whose economy has thrived in a liberalized, free, world market in the past decades. An EAFTA may remain a distant vision, but its prospect will likely be felt years before its actual formation, as East Asian nations move to coordinate their trade policies. Even at this nascent stage, it is not too early for all who are interested in avoiding global trade blocs and in increasing global free trade to examine, debate, and take action to make sure that an inevitable EAFTA remains centered around an increasingly integrated ASEAN.

## Notes

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