

EAST ASIAN **COOPERATION:** PROGRESS AND FUTURE

Edited
by
Zhang Yunling

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EAST ASIAN COOPERATION: PROGRESS AND FUTURE

东亚合作的发展与前景

**Edited by
Zhang Yunling**

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Forward

I have been working on East Asian cooperation for years both through my own research and, in recent years, through direct involvement of the work of "East Asian Vision Group" (EAVG) and "Joint Research Team" (JRT) of "China—ASEAN Official Expert Group for Cooperation". To some extent, the concept of East Asian cooperation is still new to many people. What is the nature of East Asian cooperation? Where does it go? Is there real East Asian regionalism? All these questions seem difficult to answer easily. On 22—23 August 2002, I invited 20 experts from China and other East Asian countries to attend a conference on the progress and future of East Asian Cooperation. This conference is part of a project sponsored by The Ford Foundation on East Asian regionalism, of which I am the project leader. All participants agreed that East Asian regionalism is emerging, though the destination of the train is still not clear and the road toward a regional identity is still very long.

Regionalization is currently an important trend around the world. Trade and investment preferential arrangements are most popular. There are more than 200 regional trading arrangements (RTAs), among them about half were concluded after 1990 and half of those during 1995 to 2000. ASEAN took the leading role in forming an RTA in East Asia. Six members of ASEAN formed the ASEAN Free Trade Agreement (AFTA) in 1992. As an aftermath of the financial crisis in 1997, there emerged a new push for larger regional cooperation, which led to the first "ASEAN plus three" (APT) leaders' meeting in Kuala Lumpur in November of 1997. This was a significant step since it opened

the way for a process of regional cooperation based on a newly defined regional identity, i. e. East Asia. Since then notable achievements have been made: an institutional framework for regional cooperation has been set up through annual leaders' meetings, ministers' meetings and senior officials meetings; real progress has been made in financial cooperation through the Chiang Mai Initiative (CMI); and there has been the growth of preferential trade arrangements (PTA), like AFTA, the China — ASEAN FTA initiative, and the Japan — Singapore closer economic partnership (CEP), as well as sub-regional development projects.

The economic integration in East Asia is the fundamental factor that encourages the countries in the region to forge together. The regional economic integration process has been resulted mainly from market forces reflecting spontaneous trade, investment and people flows within the region. Trade within East Asia has grown faster than the region's trade with the rest of the world. Factors behind the remarkable increase of intra-regional trade and investment include: opening markets by lowering barriers, economic dynamism, and FDI friendly policies. However, institutionalized preferential trade arrangements (PTAs) become popular in East Asia only in recent years.

Importantly, the process of East Asian cooperation goes beyond PTAs. It is developing alongside an emerging regionalism. There are four tracks of leaders' meetings: aside from the major track of "APT", there are also "ASEAN ten", "ASEAN plus one" (China, Japan and ROK separately), and "three" (China, Japan and ROK). Each group identifies its own priorities for discussion and cooperation. So far, there are several tracks of ministers under the framework of APT. These meetings play the role of preparing the agendas for leaders' meeting and discussing concerned issues of regional affairs. Senior officials' meetings are at the working level to prepare and discuss the related arrange-

ments and programs. More importantly, the leaders have also started to consider the long-term vision for regional cooperation with the agreement to set up "East Asian Vision Group" (EAVG) and "East Asian Study Group" (EASG). The vision recommended by the EAVG is to develop an "East Asian FTA and East Asian community (EAC)" as a long-term goal.

Of course, to form an EAC is not an easy thing as the region is highly heterogeneous and deeply divided in economic levels, as well as ethnic, cultural, religious and language lines. The diversity of economies, as well as diversity of development objectives and strategies, sets the different priorities of each party.

Japan has long been the leading economic power in the region. As the forerunner in economic modernization, it has greatly influenced industrial development in the region using its "flying geese" pattern. However, the decade-long economic stagnation starting from 1990 has weakened Japan's position as a regional leader in economic growth and market liberalization. Although Japan began to move to a regional approach in the mid-1990s by initiating bilateral FTAs, a comprehensive arrangement is not possible because of its agriculture protectionism, which meant Japan could only choose Singapore as its first partner in negotiating an FTA (in the name of "close economic partnership"). Japan has shown its increasing interest in engaging in the East Asian cooperation process. However, it seems that Japan still needs some time to be ready to have a clear strategy on the East Asian FTA and especially on a clearly defined East Asian identity.

The Republic of Korea (ROK) has taken PTA as an important strategy. But due to its agricultural protection, its major efforts are on bilateral arrangements with carefully chosen partners. It has played an active role in moving toward an East Asian identity by proposing EAVG, EASG, but itself is in fact not ready to accept a comprehensive FTA on a regional level yet.

China's motivations behind regional initiatives are based on its increasing interests in the region (actually regions, since it has more than 20 countries as neighbors in different parts of Asia). This involves both geo-economic and geo-political considerations. China has become active in joining regional arrangement after its accession to WTO. The first initiative is to establish a China—ASEAN FTA, which can play an important role in strengthening the China—ASEAN relationship. Besides, it may also provide China an active role in facilitating East Asian cooperation and integration.

ASEAN is the pathfinder of FTA in East Asia by initiating AFTA. Nevertheless, the financial crisis in 1997 changed greatly the situation of ASEAN in its economic growth and market liberalization. Confined by its internal market and investment, ASEAN has to look for outside partners, especially in the East Asian region. ASEAN feels competition from China. But China has also become attractive to it since China's economy is booming and the market provided for ASEAN is expanding. This encourages ASEAN to form a closer relationship with China. However, ASEAN is not ready to accept a single identity of East Asia since it may lose its special leverage as an initiator or leader in regional affairs. As a result, an EAVG proposal on turning APT leaders' meeting into an "East Asian Summit" (EAS) seems too advanced to ASEAN.

However, what is important is that the process of East Asian cooperation is already irreversible. Due to its great diversity, this process can only follow a pragmatic approach. It should encourage multi-layered arrangements and gradually move to a single regional framework. A multi-layered model favors the arrangements for trade and investment liberalization. It must be done at different speeds and in different ways. Considering the current complex situation, it may also be appropriate to separate economic cooperation from political and security cooperation,

which does not mean that the latter are not important and necessary.

East Asian cooperation as a process of regional institutional building is still new. It has a long way to go before realizing a real community. It is too naive to think the road is all that smooth.

This book contains papers written by scholars from ten East Asian countries for the conference on East Asian cooperation held in August 2002. I hope this book will provide valuable intellectual inputs to the process of East Asian cooperation.

My acknowledgement should go to the authors who have timely contributed their papers. I owe Mrs. Maggie Watson a debt of gratitude for what she has done in accepting my request to read through the papers and help some editing work. Let me also thank my colleagues who have done so much in the management work of the project. Finally, I am grateful to The Ford Foundation for its financial support to the research work and the publication of this book.

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January 8, 2003
Beijing

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East Asian Cooperation and Integration: Where to Go?

Zhang Yunling^①

East Asia cooperation and integration, currently 10 plus 3, namely the 10 ASEAN countries plus China, Japan and the Republic of Korea (ROK), has received increasing attention, not just in East Asia but also in other parts of the world. The formal process started only from 1997, and notable achievements have been made: an institutional framework for regional cooperation has been set up through annual leaders' meetings, ministers' meetings and senior officials, meetings; real progress has been made in financial cooperation through the Chiang Mai Initiative; and there has been the growth of preferential trade arrangements (PTA), like AFTA, the China — ASEAN FTA initiative, and the Japan — Singapore closer economic partnership (CEP), as well as sub-regional development projects.

However, the progress of East Asian cooperation is still considered to be limited. The real question is: how far can it go and what kind of model will it follow?

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I. From Division to Convergence

From the historical perspective, there was no universally accepted culture or civilization for the East Asian region after the collapse of the "Middle Kingdom order" as early as in 14th century. The later colonization of Southeast Asia and the wars in Northeast Asia created long disorder in East Asia. Starting from the early 20th century, Japan, as a rising power, intended to create its own order under the so-called "Great East Asian Commonwealth" by force, but failed. The end of World War II again divided the East Asian region into two separated blocs and markets. China played a unique role in breaking this regional division when it decided to move away from the Soviet bloc and to conduct reform of its economic system and opened to the West in the late 1970s. In a gradual transition, the East Asian division has been largely bridged by the end of the Cold War and also by regional economic dynamism and closer economic interconnection.

Economic convergence has emerged mainly through the "flying geese model" led by Japan and followed by the "four dragons" (ROK, Singapore, Hong Kong, and Taiwan), as well as some Southeast Asian countries and China starting from the 1960s. This model helped to build a "vertical" chain through capital flow, technology transfer and the supply of manufacturing parts, thus formulating a high level of intra-regional integration based on market exchange. By the mid-1990s, intra-regional trade in East Asia was as high as more than 50%.

Unfortunately, during that period of time, Japan failed to take the lead to promote a regional preferential trade arrangement. ASEAN started its AFTA as early as in 1992, but its role as a leader in facilitating FTA in the whole of East Asia has been marginal.

The 1997 financial crisis was an important turning point, since it changed both the environment and structure of East Asian economic growth and integration.

Firstly, due to a decade long stagnation of its economy and also the serious financial crisis, Japan is no longer the "locomotive" of East Asian economies, and this has brought an end to the "flying geese model".

Secondly, the South East Asian region was plunged into a serious recession and economic difficulties because of financial crisis and political instability.

Thirdly, China appears as a positive factor in stabilizing and revitalizing the regional economy, since it avoided financial crisis itself and managed to keep its currency stable.

Not surprisingly, as an aftermath of the financial crisis, there emerged a new push for regional cooperation, which led to the first ASEAN plus three (China, Japan and ROK) (APT) leaders' meeting in Kuala Lumpur in November, 1997. The aim of the meeting was clear: achieving early economic recovery and preventing another new crisis. This was a very important historical event since it opened the way for a real regional cooperation process based on regional interests and a newly defined regional identity, i. e. East Asia.

This East Asian convergence goes beyond market integration by requiring governmental cooperation and institutional building.^① As a matter of fact, regionalism finds its rationale not just in economic benefits, but also in political interests. Europe is a pioneer in forging high level regional integration. North America turned to a regional free trade arrangement (RTA) from the early 1990s and achieved great success by concluding

^① Shujiro Urata argued that there was "a shift from market-led to institutional-led regional economic integration in East Asia" in a paper prepared for the conference on Asian economic integration organized by the Research Institute of Economy, Trade and Industry, Japan, April 22-23, 2002, Tokyo, p. 1.

the North American Free Trade Agreement (NAFTA) in 1994, and now determines to move forward to a Free Trade Agreement of the Americas (FTAA). Comparing with other regions, East Asia is thus late in forging regional RTA and other institutional arrangements. Aside from the intra-regional desire for a closer partnership, new East Asian regionalism is also considered to be a rational response to the progress of other regions, especially to the establishment of NAFTA.^① By definition, East Asian economic integration started as early as the 1960s based on regional economic growth and market approach, while the process of regional cooperation through regional institutional arrangement or formation through governmental efforts began only from late 1990s. East Asian market-based integration is vulnerable. Thus, this new initiative for regional cooperation will certainly help to enhance and facilitate further integration of the East Asian region.

However, as a process of regional cooperation and integration, there are still many unfavorable factors. Political disarray makes many countries hold back and lack trust. For example, there is still a long way to go before China and Japan can become real partners. At the same time, confrontation and tension existing in the Korean Peninsula and the Taiwan Strait leave the East Asia region in a situation of uncertainty and instability. To some extent, for regional security, East Asia is still divided. Economic convergence will surely help to bridge the gap and create new trust, but political distrust and security concerns create divisions. Without special effort, this may slow down or even obstruct the cooperation process.

^① It is considered that Prime Minister Mahathir's proposal of forming an East Asian Economic Caucus (EAEC) was a direct response to NAFTA. Peter Drysdale & Kenichi Ishigaki editors, *East Asian Trade and Financial Integration: New Issues*, Asia-Pacific Press, Canberra, 2002, p. 6.

II. Progress in East Asian Cooperation

East Asian cooperation process started formally from 1997 when the first meeting of the leaders of APT was held in Kuala Lumpur, the capital of Malaysia, on December 15 of that year. The background of that meeting was clear: breaking out of financial crisis. The aim of the dialogue naturally was focused on how to overcome the current crisis and to promote economic recovery through regional cooperation. Since then, the annual leaders' meeting has been continued and noticeable achievements have been made in many areas.

"Ten plus three" (TPT), i. e. ASEAN 10 plus the 3 countries of China, Japan and ROK, has now become the major mechanism for the East Asian cooperation process. Thus, an integrated framework for East Asian cooperation is emerging. This framework can be summarized as having the following structure:

1. Annual leaders' meetings for official dialogues and consultation on regional immediate and long-term issues ranging from the economic situation, macro-economic policy, and sub-regional development to political stability, as well as security. There are four tracks of leaders' meetings, i. e. ASEAN 10, ASEAN to 1 (China, Japan and South Korea separately), the 3 (China, Japan and ROK) and ASEAN plus 3. Each group identifies its own priorities for discussion. For example, China, Japan and ROK leaders' meetings are now formalized, which never happened in the past. Their role is to coordinate and support the TPT process and to discuss important issues relating to their own interests. Aside from three leaders' meetings, economic and trade ministers' meetings were also recommended in 2001. A China – ASEAN FTA was discussed by leaders in 2000 and agreed on in 2001 in the track of ASEAN – China dialogue. Importantly, the TPT track becomes a unique mechanism for East

Asian leaders to exchange views on regional issues and also to reach the consensus on crucial policy coordination.

2. Ministers' meetings including foreign ministers, trade ministers, and finance ministers' meetings have two major functions: one is to prepare the agendas for leaders' meetings; another is to discuss relevant regional affairs. Macro-economic policy dialogue is one of the most important areas for ministers' meetings. It helps to exchange information and consolidate policies among East Asian countries. Financial cooperation based on the Chiang Mai Initiative (CMI) was also first discussed and agreed by financial ministers during their meeting in Chiang Mai, Thailand, in 2000 and then submitted to the leaders' meeting.

3. Aside from senior officials' meetings at a working level, aimed at preparing both ministers' and leaders' meetings, there are also task forces and functional forums, like the "East Asian Vision Group" (EAVG), the "East Asian Study Group" (EASG), and the "Industrial and Business Forum" etc. More task forces may be set up in accordance with regional desires in the future.

The significance of the above framework is that all activities are consolidated into the TPT process.^① This process moves beyond simple policy consultations, since some real institutional arrangements were developed. Among them, the CMI, i. e. swap arrangements among East Asian countries, is the most significant. It may lead further to a higher level financial and monetary integration for East Asia.

However, TPT is still an "ASEAN plus" process, a cooperative framework, forged by multi-layered processes conducted by different countries, or different groups of countries in the re-

^① This of course does not prevent any country or a group of countries at the same time developing cooperation or signing FTA agreements with other countries within or without of the TPT.

gion. The involved partners have different aims, ways, means, and directions.

ASEAN is a pathfinder in promoting regional integration and cooperation and has a unique role in bridging East Asian countries into an East Asian cooperative process. But it is not ready to accept a single identity for East Asia since it may end its special leverage as an initiator or leader in regional affairs. So that, an EAVG proposal for the early turning of the TPT leaders' meeting into an "East Asian Summit" seems too advanced to ASEAN.

Japan as the largest economy in the region is a key factor in any regional arrangement. Japan has moved in a new direction by initiating and concluding bilateral FTAs, but "a comprehensive deal is not on with Japan because of agriculture",^① neither a bilateral deal, nor a regional deal. Prime Minister Koizumi's proposal on a regional FTA including TPT members, Australia and New Zealand was only considered as a political response to the China-ASEAN FTA initiative, rather than a well prepared policy. It is clear that Japan is not yet ready to move to an East Asian strategy on FTA.

China has become active in joining the regional arrangement after its accession of WTO. A surprising move is its initiative to forge an FTA with ASEAN. This shows its new interest and confidence in regionalism. Nevertheless, China's regionalism is mixed with enthusiasm in some areas and conservatism in other areas. China is probably confident in negotiating a comprehensive deal with ASEAN, but not so with Japan or ROK, nor an East Asian regional one yet. Due to its own political concerns and the complexity of the Taiwan issue, China is even more reluctant to encourage the regional institutional establishment in political and security areas.

① Peter Drysdale & Kenichi Ishigaki, 2001, p. 5.