tentative goal and deeper economic integration like the EU as a long-term goal. The motive behind these policies is potential economic and non-economic benefits from these arrangements. However, various obstacles do exist as was discussed in the previous section. In this section some possible ways to overcome these obstacles will be presented.

One of the obstacles has to do with structural adjustment that is required from the formation of FTAs. More specifically, non-competitive sectors have to face increased competitive pressure from FTA partners. One possible way to deal with the needed structural adjustment is to implement scheduled trade liberalization in sensitive sectors as a part of FTA agreement. GATT/WTO allows the members of FTA to take ten years to complete FTA. East Asian countries should use this breathing space to facilitate structural adjustment through appropriate adjustment policies. For example, impacted workers should be given financial, technical and other types of assistance so that they can improve their quality of human resources, in order to be able to obtain more productive jobs. If such program is successful, trade liberalization through FTA can be pursued smoothly to result in the benefits for all the countries. Indeed, the needed assistance should be provided by the members as a part of economic assistance programs under new types of FTAs. For example, in the case of educating and training workers for upgrading their skills, more developed members such as Japan, Korea, Taiwan, and Singapore can provide useful assistance to other countries. In the case of developing competitive small and medium-sized enterprises (SMEs), which would ease the transition process, Japan can provide assistance to other countries. Furthermore, it is very important to analyze the economic and other issues jointly to learn important policy lessons, which may be applicable to the countries. The need for establishing new types of FTAs should be stressed.

As repeatedly noted, East Asian countries need to deepen mutual understanding at all levels, from top leaders to young people, to increase the awareness of the importance of integrated regional market and regional political and social stability. Leaders' meetings should be held at least annually to increase their mutual understanding. Frequent television-conferences can be used to supplement face-to-face meetings. Policy makers, who are responsible to formulate policies, should establish close communication links. Bureaucrats, business people, academics, students, and others should also increase their exchange. In order to facilitate such exchange, the establishment of frameworks such as student exchange programs is effective. Such programs can be set up independently but they would be more effective if they are coordinated under FTAs. Having discussed the need for deepening mutual understanding for the implementation of FTAs in East Asia, it should be emphasized that strong political leadership is a crucial factor that would realize new and drastic policies such as FTAs.

Finally, East Asian countries should not regard completing integration of regional market in East Asia under an FTA as a goal, and they should regard it as a step toward achieving global free trade under the WTO. This is very important not only because an East Asian FTA has negative impacts on non-members such as the U.S., the EU and other countries, but also because East Asian countries benefit most from global free trade. To avoid an East Asia FTA becoming a stumbling bloc for global free trade, East Asian countries should make every effort to promote multilateral trade negotiations under the WTO and establish FTAs with countries outside East Asia.

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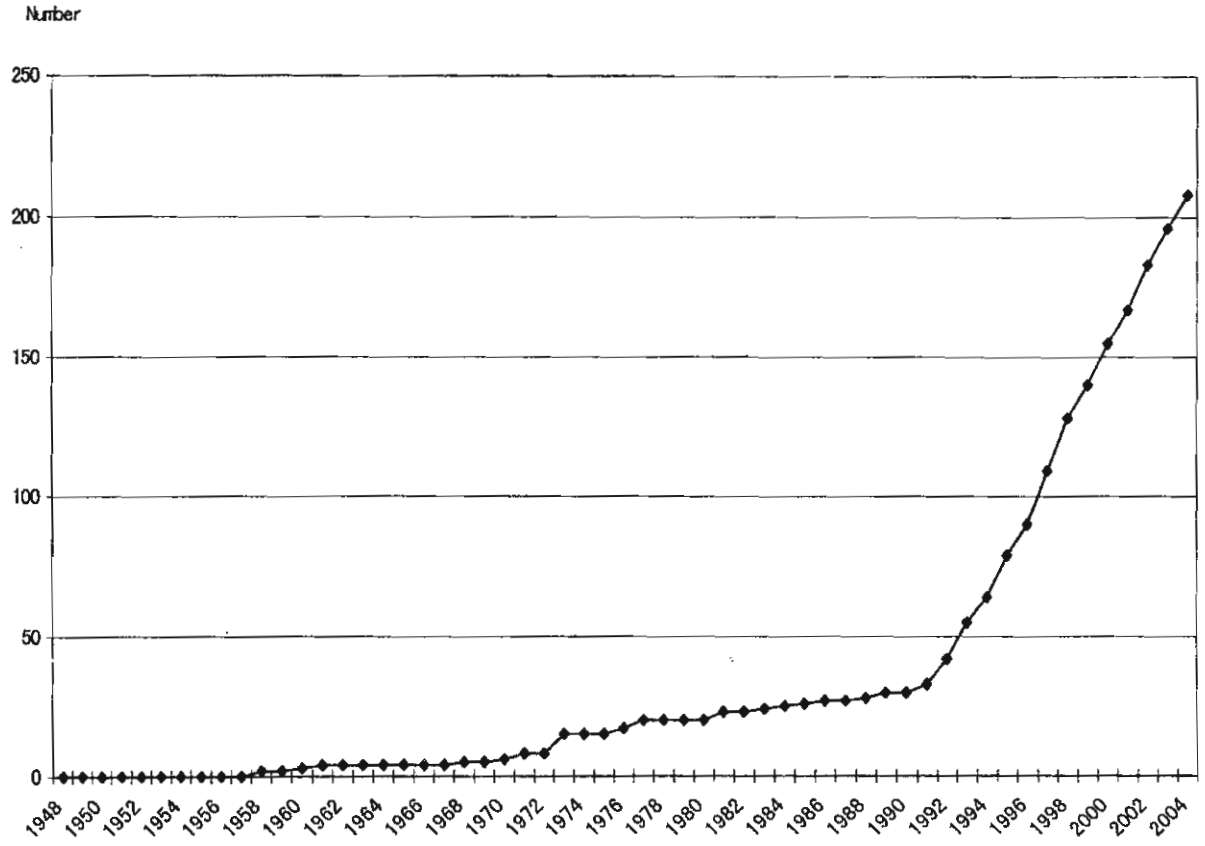
Figure 1 RTA in the World
(Cumulative Number of RTAs Reported to GATT/WTO as of May 1, 2004)



	RTA
1948	0
1949	0
1950	0
1951	0
1952	0
1953	0
1954	0
1955	0
1956	0
1957	0
1958	2
1959	2
1960	3
1961	4
1962	4
1963	4
1964	4
1965	4
1966	4
1967	4
1968	5
1969	5
1970	6
1971	8
1972	8
1973	15
1974	15
1975	15
1976	17
1977	20
1978	20
1979	20
1980	20
1981	23
1982	23
1983	24
1984	25
1985	26
1986	27
1987	27
1988	28
1989	30
1990	30
1991	33
1992	42
1993	55
1994	64
1995	79
1996	90
1997	109
1998	128
1999	140
2000	155
2001	167
2002	183
2003	196
2004	208

Table 1 Selected FTAs in East Asia (as of June 2004)

Action	Negotiation	Study
Bangkok Treaty(1976)	China-ASEAN	Japan-ASEAN
AFTA(1992)	Hong Kong-New Zealand	Korea-ASEAN
Singapore-New Zealand(2001)	Japan-Mexico	Korea-Australia
Japan-Singapore(2002)	Japan-Korea	Korea-New Zealand
Singapore-EFTA (2003)	Japan-Thailand	Singapore-Chile
Singapore-Australia (2003)	Japan-Philippines	Singpore-Taiwan
China-Hong Kong (2004)	Japan-Malaysia	Thailand-Peru
Singapore-US (2004)	Korea-Singapore	ASEAN-India
Korea-Chile (2004)	Singapore-Canada	ASEAN-US
	Singapore-Mexico	
	Singapore-India	
	Taiwan-Panama (concluded)	
	Thailand-Baharain (concluded)	
	Thailand-India (concluded)	
	Thailand-US	
	Thailand-Australia	

Source: Author's compilation from national sources.

Table 2 Effects of East Asia FTA on Real GDP and Equivalent Variation

	GDP	Equivalent Variation	
	(Changes from basedata, %)	(Changes from basedata, US$ million)	(Changes divided by GDP in 1997, %)
Australia/New Zealand	-0.23	-1,342	-0.29
China	1.27	5,485	0.64
Hong Kong	1.41	3,389	2.42
Japan	0.05	8,199	0.19
Korea	1.71	7,805	1.75
Taiwan	1.51	5,597	1.87
Indonesia	5.61	10,209	4.89
Malaysia	2.83	2,279	2.15
Philippines	2.02	602	0.77
Singapore	2.26	2,944	3.69
Thailand	15.90	19,790	12.54
Vietnam	8.42	1,446	6.61
Other Asia	-0.31	-1,803	-0.34
United States	-0.06	-7,059	-0.09
EU	-0.01	-1,807	-0.02
Notes: The figures indicate the changes from the base data			
Source: Urata and Kiyoto (2003)			

Table 3 Effects of East Asia FTA on Production by Sectors (% change)

Sector	China	Japan	Korea	Hong Kong	Singapore	Taiwan	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Agriculture	4.5	-3.9	-11.9	0.3	4.7	1.6	1.3	0.4	2.0	5.2	0.4
Forestry	-0.2	-1.8	-3.6	1.7	-7.4	3.2	8.6	2.1	2.1	16.3	11.4
Fishing	0.9	-2.8	7.6	-2.6	7.8	-1.0	3.9	2.5	1.3	12.6	6.1
Mining	-0.2	-0.7	-2.1	3.8	4.1	-0.9	1.4	1.7	4.1	19.2	-8.3
Food products and beverages	1.6	-3.4	30.1	19.3	36.7	6.9	5.3	15.3	-1.3	23.5	8.9
Textiles	-0.2	-2.3	17.4	3.2	1.9	17.1	3.7	7.7	13.9	8.4	174.8
Pulp, paper and paper products	-1.1	-0.4	1.9	3.3	3.7	1.6	8.9	4.3	0.8	16.1	16.9
Chemicals	-1.6	1.1	3.4	5.5	11.1	7.1	1.4	4.4	2.0	10.6	-2.0
Iron, steel and metal products	-1.5	2.2	-1.4	4.7	7.7	0.0	2.9	1.4	6.7	20.1	-18.3
Transportation machinery	-16.2	5.2	1.0	-7.9	-14.3	-6.9	-47.8	-24.0	29.3	-11.0	-55.1
Electronic equipment	6.9	-0.7	-1.9	0.9	1.9	-2.5	17.4	5.7	8.9	29.2	-0.9
General machinery	-1.6	2.2	-4.8	7.4	5.5	1.7	22.8	7.4	12.7	26.8	-3.7
Other manufacturing	1.6	-0.5	0.9	8.1	5.0	2.5	7.3	1.2	5.8	18.1	12.9

Notes: The figures indicate the changes from the base data
Source: Urata and Kiyoto (2003)

THE RISE OF CHINA: IMPLICATIONS FOR THE EAST ASIAN ECONOMIC INTEGRATION

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THE RISE OF CHINA: IMPLICATIONS FOR THE EAST ASIAN ECONOMIC INTEGRATION

John WONG

Introduction

The structure and pattern of China's economic relations with countries in Southeast Asia that now constitute the Association of Southeast Asian Nations (ASEAN) have been shaped by many complicated factors and have undergone significant changes.

Since the early 1980s, China's economy has experienced spectacular growth as a result of its successful economic reform and open-door policy. In the process, China's economy has also become more closely integrated with its neighbouring economies, including ASEAN. China's dynamic economic growth and its integration process carry both positive and negative spillover effects on the region.

As China continues to press ahead with its export-oriented development strategies, it starts to cast a large shadow on the ASEAN economies, which have to compete with China in attracting FDI (foreign direct investment) and in exporting manufactured products to the same third-country markets. The rise of China is therefore considered a disruptive force to ASEAN's economic growth, at least in the short run.

To allay ASEAN's growing apprehension of China, Beijing took a bold step in arranging a FTA (free trade agreement) with ASEAN to increase the region's trade and investment to the benefit of both sides. Signed in November 2002, this landmark FTA deal has exerted tremendous pressures on Japan and Korea to follow suit and to intensify their economic relations with ASEAN under the general regional cooperation umbrella of the "ASEAN + Three" (ASEAN with China, Japan and Korea) scheme. With China as a rising regional political and economic power, its FTA initiative with ASEAN has thus sparked off a process of what may be called the New-Age economic integration in East Asia.

Over the longer run, the economic rise of China can be seen not only as a new engine for the region's economic growth, but also as a powerful force for the economic integration of East Asia. The rise of China may rekindle new hopes of making 21st century the Pacific Century.

The Economic Rise of China

The Chinese economy has displayed spectacular performance since it embarked on economic reform and open-door policy some 25 years ago. The average rate of growth for the period 1978-2003 was 9.4%. In 2003, despite disruptions caused by SARS and global economic recession, China's economy still chalked up a hefty 9.1% growth.

China's exports have also been growing very rapidly, averaging at 16% for over two decades, rising from US$9.8 billion in 1978 to US$438 billion in 2003. China is now the world's 4th largest exporter after USA, EU and Japan. For FDI, China has since the early 1990s become the world's most favoured destination in comparison with all other developing countries. By the end of 2003, China had attracted a total of US$677 billion in FDI. In fact, China in recent years has consistently captured more than half of all FDI in Asia. Not surprisingly, over 80% of the world's 500 largest companies have set up businesses in

China.[1] Above all, on account of its strong external balance, China's foreign exchange reserves recently soared to US$400 billion to become the world's second largest. This has led to mounting international pressures on China to revalue its *Renminbi*.[2]

In 2003, China's total GDP reached 11.7 trillion yuan (US$1.24 trillion) [3] -- or more than twice the combined GDP of Indonesia, Malaysia, the Philippines, Singapore and Thailand. China's per-capita GDP in 2003, at US$1,000, is about the same as that in the Philippines but higher than that of Indonesia. In nominal terms, China is the world's 5th largest economy. In terms of purchasing power parity (PPP), the Chinese economy today is already the world's second largest after the USA—one needs, of course, to be aware of the problem of overstating China's real GDP by the PPP measure.[4] (Table 1).

Indeed, as a result of its rapid industrialisation progress, China is fast becoming the world's foremost manufacturing base. In 2003, China produced 222 million tons of steel, 65 million sets of colour TV, 50 million air-conditioners, 22 million refrigerators, and 32 million PCs.[5] In 2003, China became the world's third largest automobile manufacturer, with a total output of 4.4 million units, after USA and Japan.[6] By 2003, China surpassed the USA as the world's largest telephone market (263 million fixed lines plus 269 million mobile phones).[7] Also by mid-2003, China's registered Internet users reached 68 million to form the world's second largest "Web population".[8] When a huge country like China is industrialising so rapidly, every item of its economic activities inevitably turns out to be a jumbo number due to the combined effect of scale and speed.

Accordingly, the meteoric rise of China's economy has become a "hot" topic in international and regional media.[9] Many Asian economies are concerned about the potential displacement effect of China becoming the world's factory. Others even point fingers at China for their own economic woes, including the accusation of China exporting deflation to them. Even the Japanese were worried by China's recent dynamic industrial expansion. The noted Japanese economist Kenichi Ohmae even used a sensational title "Asia's next crisis:

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[1] "China trade surplus adds up to US$13.3 billion", *The Standard* (Hong Kong), July 12, 2002.
[2] See Lu Ding, "Why and How China Maintains RMB's Stability", *EAI Background Brief No. 178,* (16 January 2004).
[3] "GDP growth last year at 9.1%", *Renmin Ribao* (People's Daily), (January 21, 2004).
[4] *World Bank, World Development Report 2000/2001* (New York: Oxford University Press). Also, *Mingpao* (Hong Kong), September 20, 2000.
[5] National Bureau of Statistics, "Statistical Communique of the People's Republic of China on National Economic and Social development in 2003", February 26, 2004. *China Daily* (Feb. 27, 2004).
[6] "Slowdown in vehicle output pace expected", *China Daily* (January 16, 2004).
[7] National Bureau of Statistics, op cit.
[8] "China's netizens see rapid growth", *China Daily* (July 22, 2003).
[9] Recently at the World Economic Forum in Davos, "everything is China, China, China", according to one observer. ("The Talk of the Town at Davos: China", *International Herald Tribune* (January 26, 2004).
China's emergence as the world's manufacturing powerhouse after two decades of dynamic growth has invited prominent worldwide attention. The international media have recently portrayed China's economic resurgence as an economic threat. David Roche, a famous Wall Street economist, commented on China being a source of current global recession with its mass production of a wide range of low-priced manufactured products for the world market. In early 2003, Japan's *Nikkei Weekly* reported about China setting pace in markets for commodities around the world. The Chinese media and academia have since come out to defend China's position.

"Made in China" to talk alarmingly about the rise of China.[10] Not surprisingly, many Asian economies, especially the smaller ASEAN countries, are watching the rise of China with apprehension.

East Asian Growth and Interdependence

China's economic performance in the past two decades has indeed been breathtaking. Viewed in the overall East Asian context, however, China's high economic growth is actually not so exceptional. Nor is it unprecedented, as many other Asian economies have experienced such rapid growth before the emergence of China.

East Asia (EA) is commonly defined as comprising Japan, China, the four Newly Industrialized Economies (NIEs) of South Korea, Taiwan, Hong Kong and Singapore, and the four Association of Southeast Asian Nations (ASEAN) of Indonesia, Malaysia, the Philippines, and Thailand—the original ASEAN members.[11] Situated on the western rim of the Pacific, many of these East Asian economies (EAEs) have displayed dynamic growth for a sustained period until 1997 when they were hit, in varying degrees, by the regional financial crisis. The World Bank in its well-known study referred to this high growth phenomenon as the "East Asian Miracle".[12]

Why have the EAEs been able to sustain high growth for so long? The EAEs have generally committed a high proportion of their GDP (at around 30%) to domestic investment during their critical periods of industrial take-off. Furthermore, their high levels of gross domestic investment were largely matched by their equally high levels of domestic savings.[13] In short, high investment, as the single most important neo-classical explanation of high growth, has worked on these EAEs much like a "virtuous circle": high rates of investment induce high export growth, and corresponding high GDP growth, high savings and finally high investment again. Other explanations include intensive human resource development for certain EAEs which are resource poor. In terms of policy, the EAEs share the salient common feature of operating effective export-oriented development strategies, as reflected in their generally high export-GDP ratios and their relative high shares in the world export markets. Their export orientation has propelled them to high growth through reaping the gains from international trade and specialisation.[14]

Historically speaking, the EA growth process is marked by three waves. Japan was the first non-Western country to become industrialised. Its high growth dated back to the 1950s after it had achieved its rapid post-war recovery, and carried the growth momentum over to the 1960s and much of the 1970s. Japan's economic growth engine was initially based

[10] "Asia's next crisis: 'Made in China'", *The Straits Times* (Singapore, August 2, 2001).
[11] Singapore is historically and geographically an integral part of Southeast Asia, and politically a member of ASEAN. However, economically and socially, Singapore is more akin to the other East Asian NIEs, and hence commonly labelled as one of the four East Asian NIEs.
[12] *The East Asian Miracle* (New York, Oxford University Press, 1994).
[13] See World Bank, *World Development Report* (various years) and Asia Development Bank, *Asian Development Outlook* (various years), which provide data on investment and savings rates of the EAEs for various years.
[14] For further discussion of this topic, see John Wong, "The East Asian Phenomenon and the Implications for Economic Development", in Basant K. Kapur etc. (eds), *Development, Trade and the Asia-Pacific*, Essays in honour of Professor Lim Chong Yah, (Singapore, Prentice Hall, 1996).

on the export of labour-intensive manufactured products; but it was soon forced by rising wages and increasing costs to shed its comparative advantage for labour-intensive manufacturing in favour of the four NIEs, which started their industrial take-off in the 1960s. These four NIEs, once dubbed "Asia's Four Little Dragons", were arguably the most dynamic economies in Asia, as they had sustained near double-digit rates of growth for three decades, from the early 1960s to the 1980s. The rise of the NIEs constituted the second wave of the region's growth and integration.

By the early 1980s, high costs and high wages had also caught up with these four NIEs, which had to restructure their economies towards more capital-intensive and higher value-added activities by passing their comparative advantage in labour-intensive products to the late-comers of China and the four ASEAN economies and thereby spreading economic growth to the latter. In this way, China and some ASEAN economies were able to register high growth through the 1980s and the 1990s. Many Japanese scholars like to depict this pattern of development in Asia as the "Flying Geese" model.[15] (See Table 1).

During the past two decades, the Chinese economy on account of its successful market reform has consistently chalked up near double-digit rates of growth while many ASEAN economies due to a number of institutional and structural constraints were losing growth dynamism. The rise of China promises to usher in the third wave of growth and integration for the region, with even greater geo-political and geo-economic implications than the previous two because of China's vast size and diversity.

In other words, the rise of China will ensure that the EA region as a whole will not lose its economic dynamism. As the EAEs keep on growing, they will also increase their economic interaction with each other. Thus, an important feature of these EAEs is their growing economic interdependence. The EAEs, despite their inherent political, social and economic divergences, can actually economically integrate quite well as an informal and loosely constituted regional grouping. This is essentially the underlying meaning of the "flying geese" principle. To start with, Japan is the natural economic leader of the group and has in fact been the prime source of capital and technology for other EAEs, first the NIEs followed by China and ASEAN. The resource-based ASEAN-four complement well with the manufacturing-based NIEs while both are also complementary with the more developed Japanese economy. Then the huge potential of China, with its vast resource base and diverse needs, offers additional opportunities for all.

Accordingly, the EA region has already developed a fairly high level of intra-regional trade. As shown in Table 2, the EA region in 2001, despite its economic slowdown, still absorbed 41% of China's total exports; 43% of Korea's, 49% of Taiwan's, 52% of Hong Kong's, 54% of Singapore's, and 44% of the average of the ASEAN-4, though only 39% of Japan's—still unusually high for Japan as a global trading power.
Table 2 also describes the process of EA's growing export dependence over the past two decades. It shows Japan's highly remarkable shift in export orientation over the years towards greater regional focus, with its export share to the EA region increasing from 22% in 1980 to 39% in 2001. The four NIEs have similarly made significant shifts in the same period by re-

[15] The "flying geese" concept of development was coined by a Japanese economist, Kaname Akamatzu. ("A Historical Pattern of Economic Growth in Developing Countries", *Developing Economies*, Vol. No.1, March/August, 1962).

orienting their exports towards the region, mainly as a result of the opening up of China: Korea from 24% to 43%, Taiwan from 41% (1992) to 49%, Hong Kong from 23% to 52%, and Singapore from 40% to 54%. China, on the other hand, has moved in the opposite direction, slightly reducing its export dependence on the region to one which is, in recent years, geared more to the US and EU markets. Likewise, the ASEAN-4 has also shown a slight reduction of export dependence on the EA region, from 51% in 1980 to 44% in 2001.

Apart from intra-regional trade, intra-regional FDI flows have also operated as a powerful integrating force for the EA region, especially since a great deal of regional FDI is trade-related in nature. The EAEs, as essentially open and outward-looking economies, are highly dependent on foreign trade and foreign investment for their economic growth. Both China and ASEAN have devised various incentive schemes to vie for FDI, which is generally treated not just as an additional source of capital supply but, more importantly, as a means of technology transfer and export market development.

In particular, China in recent years has become the most favoured destination of all developing economies for FDI. As can be seen from Table 3, the EA region, especially Hong Kong, Taiwan, Japan, Singapore and South Korea, accounted for an overwhelming share of FDI inflow to China. Such regional predominance has been declining in recent years, as China has made efforts to attract more technology-intensive FDI from North America and the EU. By 2001, the East Asian share of FDI in China declined to 57%, down from 88% in 1992. Suffice it to say that the rise of China has completely altered the FDI landscape of East Asia.

A Source for Growth and a Catalyst for Integration

It is thus clear that China's economic growth fits in quite well with the overall EA growth patterns. Since the EA region absorbs about 50% of China's exports and supplies three-quarters of China's FDI, it is not hard to see that China's rapidly growing economy since 1978 has impacted significantly on many EAEs to each other's advantage. On the one hand, China has been able to harness the region's vast trade and investment opportunities to facilitate its own economic growth. At the same time, China's economic growth and increasing integration with the region also provide new opportunities to enhance the region's overall growth potential and new impetus for regionalism.

However, the actual impact of the fast-growing Chinese economy on the EAEs is quite uneven. China's dynamic economic growth has produced both positive and negative effects for the individual EAEs in the region. By and large, Japan and the four NIEs have been able to benefit from China's open-door policy by exporting more high-tech products, and by investing in China, as shown in Table 3.

Indeed, for the past two decades, as shown in the trade matrix of Table 2, Japan's share of exports to China almost doubled from 3.9% in 1980 to 7.7% in 2001; Korea's share from no direct trade in the 1980s to 12% in 2001; Taiwan's share also soared from zero direct trade in the early 1980s to 18% in 2001; Hong Kong's share from 6% in 1980 to a stunning 37% in 2001; and Singapore's share from 1.6% to 4.4%. In time to come, these five economies, which are inherently complementary with China, are set to be even more closely

integrated with China. Hong Kong today, and to some extent Taiwan, has already become highly dependent on China for its economic growth.

Table 4, using "trade intensity index" to measure the actual strength of trade relationship between two countries relative to all their respective trade partners, brings out a clearer picture of East Asian intra-regional trade than that indicated by simple trade share analysis. When the index exceeds "one", it means that these countries are trading with each other above the "normal" level. Thus, for the period of 1998-2000, Japan's trade with ASEAN was more intensive than with China while Japan was trading more intensively with China than with USA. Korea and Hong Kong (which embody Taiwan's indirect trade with China) have a very intense trade relationship with China, more than with ASEAN. The ASEAN countries, on the other hand, are trading far more intensively with each other than with China, even though Singapore, Indonesia and Thailand are still trading with China above their "normal" levels. In short, China has become a strong trade partner with Japan and the three Asian NIEs of Korea, Taiwan and Hong Kong, which are economically complementary with China.

Pressures on ASEAN-China Relations

China's fast growing economy has inevitably produced significant impact on its neighbouring economies in the Asia-Pacific region, which absorb 50% of China's exports and supply about three-quarters of China's FDI. Broadly speaking, the spillovers of China's economic growth will produce both positive and negative effects on the region. For Japan and other East Asian NIEs of Korea, Taiwan and Hong Kong, they may lose their comparative advantage for many of their manufactured exports. But they can also capture the benefits of the growing Chinese economy by exporting high-tech products and by investing in China. The East Asian economies have since become more closely integrated with China.

However, the economies of China and ASEAN (minus Singapore) at their present stages of development tend to be more competitive than complementary with each other. In many ways, China's dynamic economic growth has exerted strong competitive pressures on the ASEAN economies, which are vying for FDI with China as well as competing head-on with China's manufactured exports in the developed country markets.[16]

Initially, China's success in economic reform and development had produced very little impact on the ASEAN countries to its south. Sino-ASEAN trade was very small -- in fact, only a small fraction of each other's total trade and with a large part being centred in Singapore. (Chart 1). Even by the early 1990s, when massive FDI began to flow into China, there was no evidence that China had "sucked" in a lot of capital from the ethnic Chinese in Southeast Asia.[17]

However, it was a different scenario towards the end of the 1990s. While many ASEAN countries were plagued by persistent economic crises and domestic political instability, China has been intent on its single-minded pursuit of economic modernisation.

[16] For further discussion of this topic, see Prakash Loungani, "Comrades or Competitors? Trade Links between China and Other East Asian Economies", *Finance & Development* (June 2000).
[17] See John Wong, *Southeast Asian Ethnic Chinese Investing In China* (EAI Working Paper No. 15, October 23 1998).

This has resulted in the further narrowing of development gaps between ASEAN and China. In fact, the ASEAN region risks being left behind by China's relentless economic growth. Not surprisingly, many ASEAN economies are watching the recent economic rise of China with apprehension.

China's Bold FTA Initiative

Mindful of ASEAN's worries over the possible disruptive effects of its rapid economic growth, China in recent years has been under mounting pressures to dispel the "China threat" fears by improving its overall relations with its ASEAN neigbhours. During the 1997 Asian financial crisis, Beijing's steadfast refusal to devalue its *Renminbi* was much appreciated by ASEAN as such a move would have aggravated the region's economic crisis. But the single most important step ever undertaken by China in recent years to upgrade its long-term political and economic relations with the ASEAN region is China's bold FTA scheme.

At the ASEAN-China Summit in November 2001, former Chinese Premier Zhu Rongji proposed the creation of a free trade area between China and ASEAN within 10 years. On November 4, 2002, China and the ASEAN countries formally signed a landmark framework agreement in Cambodia to establish a FTA by 2010.[18] The formation of the China-ASEAN FTA signifies the creation of an economic region of 1.7 billion consumers with a combined GDP of US$2 trillion. It offers an effective means for smaller ASEAN states to overcome its disadvantage of smallness by pooling resources and combining markets. This will in time lead to greater economic integration between China and ASEAN, clearly a win-win situation for both sides.[19]

In the short run, however, ASEAN has to deal with the initial risks of a potential trade diversion effect and related structural adjustment.[20] In general, the FTA scheme will give rise to an uneven distribution of costs and benefit different industries, different sectors, and even different ASEAN countries. After the initial process of adjustment, individual ASEAN economies will then develop their own niches in their economic relations with China.

With China continuing its dynamic economic growth, opportunities will arise for the ASEAN countries to exploit China's growing market. Apart from its primary commodities, ASEAN's resource-based products will be in great demand in China. China is such a vast and disparate market that East China, South China and Southwest China can individually offer different opportunities to different ASEAN producers. Beyond merchandise trade, FTA also

[18] The framework agreement signed by the eleven nation states sets out a road map for trade liberalisation in goods and services for most countries by 2010 and for the less developed ASEAN nations (namely Cambodia, Laos, Myanmar and Vietnam) by 2015.

[19] For further discussion of this topic, see John Wong and Sarah Chan, "China-ASEAN Free Trade Agreement: Shaping Future Economic Relations", *Asian Survey* (Vol. XLIII, No.3, May/June 2003).

[20] Trade diversion occurs when members of a free trade grouping trade more among themselves than with other non-member countries, due to a lowering of tariffs or non-tariff barriers within the FTA. Structural adjustments occur because when intra-regional barriers are dismantled, industries will expand in some countries and contract in others as industries relocate in response to differences in factor endowments. The costs of adjustment resulting from such relocation of economic activity can be asymmetrical since some economies will incur higher costs in the short run than others.

promotes trade in services, including tourism. China may generally have strong comparative advantage in manufacturing because it enjoys the economies of scale, which, however, may not apply to many service activities. In fact, a lot of China's service activities, on account of their socialist legacies, are known to be more backward than those in ASEAN.[21]

Many Asia-Pacific economies have started to experience the positive spillovers of China's economic growth. Apart from the surge in Chinese tourists to other Asian countries, in recent years China's imports from Japan, Korea, Taiwan, Singapore, Indonesia, Malaysia, the Philippines, Thailand, India and Australia had exceeded its exports to these economies, thereby incurring trade deficits with them, which were offset by China's trade surplus with USA and EU. (Chart 2) This means that these Asian economies are tapping China's vast domestic market and its growing demand for consumer goods, capital equipment and raw materials.

Over the years as the FTA scheme is gradually phased in, multinationals in the region will gradually restructure their supply chains and rationalise their production networks by taking China and ASEAN together as a single market. This will eventually lead to a reshuffle of regional production networks and hence a redistribution of FDI inflow. The new regional production patterns will be based on a bigger and more diverse market. In short, both trade and FDI in the region should continue to grow under the impact of the ASEAN-China FTA. This will certainly be a boon to both ASEAN and China.

New Impetus for ASEAN + 3

Besides creating a new source of economic growth for the region, China is also seen as a new force for revitalising the region's economic integration process. China's FTA with ASEAN had exerted tremendous pressures on Japan and Korea to follow suit, prompting similar responses from them. Indeed, in the wake of China-ASEAN FTA, Japan signed a joint declaration with ASEAN to draw up a general framework for a FTA in ten years, which would comprise Japan's bilateral FTA arrangements with individual ASEAN member countries.

In June 2003, China signed the Closer Economic Partnership Arrangement (CEPA) with Hong Kong (and subsequently with Macau). CEPA is obviously aimed at the eventual integration of these Greater China economies after the inclusion of Taiwan in future.[22] Prior to this, China had agreed to initiate a joint study with Japan and Korea on possible Northeast Asian economic cooperation. In October 2003, Premier Wen Jiabao attended the 9th ASEAN Summit in Bali, where he signed with the heads of government from Japan and Korea the Joint Declaration on the Promotion of Tripartite Cooperation among these three Northeast Asian countries. This tripartite cooperation is not just for the promotion of economic cooperation and peace dialogue in Northeast Asia, but also aimed at strengthening the process of ASEAN economic integration with other EAEs, i.e. a more concrete way of accelerating the realisation of the ASEAN + 3. At the Summit, Premier Wen also signed the Treaty of

[21] See John Wong & Ruobing Liang, "China's Service Industry (II): Gearing Up for WTO Challenges", *EAI Background Brief No. 163* (Singapore, 28 July 2003).
[22] See John Wong & Sarah Chan, "China's Closer Economic Partnership Arrangement (CEPA) with Hong Kong: A Gift from Beijing?" *EAI Background Brief No. 177* (12 December, 2003).

Amity and Cooperation (TAC) with ASEAN. In concluding this historic treaty, China has signaled to the ASEAN countries of its acceptance of ASEAN's norms and values. But this move once again pressurises Japan into considering its accession to a similar TAC.

Viewed in a larger context, China's FTA initiative with ASEAN not only marks the most important first step in the "ASEAN + 3" scheme, but in fact also plays a crucial catalytic role in galvanising what may be called the New-Age economic integration process for the East Asian region as a whole. As long as China's economy could sustain its dynamic growth, its regional integration initiatives would remain effective. In short, the spate of new cooperation initiatives in recent years has shown that such an economic integration scheme for East Asia is no longer an abstract notion, but something that is achievable once major players like China and Japan are serious about it.

Broader Geo-Political Implications

As a rising regional political and economic power, China is destined to play an important role in the growth and development of the ASEAN region. However, there is still a great deal of uncertainty as to: (1) How will China play out its geo-political role in the region? (2) What kind of new security architecture will the region develop? and (3) Will China push for a greater leadership role in the region in order to counter Western (American) influences?

It is commonly assumed that as China grows stronger, it will also become more assertive in its dealings with neighbouring countries. On the other hand, if China were able to manage its rise as a gradual process of its "peaceful ascendancy" (*heping jueqi)*, the total spillover effect on the region would be much less disruptive.[23] On balance, ASEAN should have no problem adjusting to the rise of China particularly when China's economy is operating as another engine of economic growth. China, on its part, is likely to continue its warm relations with ASEAN so long as the latter subscribes to the One-China principle over the Taiwan issue.

In the meanwhile, both China and ASEAN still need to step up the process of consensus building and continuing dialogues. For this, Singapore should be able to play an important role. First, Singapore plays a pivotal role in the growing China-ASEAN economic relations as Singapore accounts for a significant proportion of China-ASEAN trade and their two-way FDI flows. Secondly, Singapore's political relations with China are maturing and ready to move forward, thereby providing potentially useful guideposts for some ASEAN countries over their burgeoning relations with China. Thirdly, Singapore can provide China with useful Southeast Asian perspectives, helping China to forge consensus with ASEAN.

[23] Yoichi Funabashi, "China is preparing a 'peaceful ascendancy'", *International Herald Tribune* (December 30, 2003). See also, Bruce Klingner, "'Peace rising' seeks to allay 'China threat'", (www.atimes.com).

TABLE 1 CHINA AND ASEAN-5'S PERFORMANCE INDICATORS

	Population (Mn)	GNP per-capita (US$)	PPP estimates of GNP per-capita (US$)	Growth of GDP (%)								Gross Domestic Investment as % of GDP	Annual Export Growth (%)	Mfg Exports as % of total exports	Exports as % of GDP
	2002	2002	2001	Total GDP (US$ bn), 2002	1980-90	1990-2001	1998	1999	2001	2002	2003	2001	1990-2000	2001	2001
China	1,285	952	3,950	1,266	10.3	10.0	7.8	7.1	7.3	8.0	9.1	39	14.5	89	26
ASEAN-5															
Indonesia	211	780	2,830	173	6.1	3.8	-14.2	0.8	3.3	3.7	4.1	22	8.1	56	41
Malaysia	25	3,609	7,910	95	5.3	6.5	-7.4	6.1	0.4	4.2	4.7	24	12.2	80	116
Philippines	82	1,034	4,070	78	1.0	3.3	-0.6	3.4	3.2	4.6	4.3	18	18.8	91	49
Singapore	4	20,613	22,850	87	6.7	7.4	-0.1	6.9	-2.0	2.2	0.8	24	9.9	85	174
Thailand	63	1,960	6,230	126	7.6	3.8	-10.5	4.4	1.8	5.0	6.2	24	10.5	74	66
Japan	127	33,550	25,550	3,973	4.1	1.3	-1.1	0.8	0.4	-0.3	2.1	26	4.1	93	10
NIEs															
South Korea	48	10,014	15,060	476	8.9	5.7	-6.7	10.9	3.0	6.3	2.7	27	10.1	91	43
Taiwan	23	12,900	n.a.	282	7.9	5.7	4.6	5.4	-2.2	3.6	3.2	17	7.9	n.a.	51
Hong Kong	7	24,532	25,560	162	6.9	3.8	-5.3	3.0	-0.2	2.3	3.0	27	8.3	95	144

Notes: (1) 2003 GDP growth figures for China and Singapore are official figures; the rest are real GDP growth estimates from EIU.
(2) 1998-2001 GDP growth rates extracted from *Regional Outlook: Southeast Asia*, 2003-2004.
(3) Per capital GNP figure for Taiwan extracted from *Taiwan Statistical Data Book*, 2001.
(4) 1996-2002 GDP growth rates for Japan represent real GDP growth rates.
(5) Figures for Gross Domestic Investment (% of GDP) derived from *Asian Development Outlook* 2003.

Sources: *World Development Report 1995; World Development Report 2000/2001; World Development Report 2002; World Development Indicators* 2003; World Bank website; ISEAS, *Regional Outlook: Southeast Asia* 2003-04; Taiwan Ministry of Economic Affairs, www.moea.gov.tw; *EIU* DataServices; *Taiwan Statistical Data Book*, 2002.

TABLE 2(A) INTRA-REGIONAL TRADE IN EAST ASIA

East Asian Economy	Year	Total Exports (US$ Million)	Share of Total Exports Destined For (%)									
			USA	EU	Japan	China	Korea	Taiwan	Hong Kong	Singapore	ASEAN-4	East Asia
Japan	**1980**	**130,441**	24.5	14.6		3.9	4.1	-	3.7	3.0	7.0	21.7
	1988	**264,856**	34.1	19.7		3.6	5.8	5.4	4.4	3.1	4.9	27.2
	1992	**339,885**	28.5	19.7		3.5	5.2	6.2	6.1	3.8	8.1	32.9
	1996	**410,901**	27.5	14.3		5.3	7.1	6.3	6.2	5.1	12.4	42.4
	2000	**479,249**	30.0	16.4		6.3	6.5	7.5	5.7	4.3	9.5	39.8
	2001	**403,496**	30.4	16.0		7.7	6.3	6.0	5.8	3.6	9.3	38.7
China	**1980**	**18,099**	5.4	13.7	22.3		-	-	24.1	2.3	4.3	53.0
	1988	**47,540**	7.1	10.4	16.9		-	-	38.4	3.1	2.8	61.2
	1992	**80,517**	10.7	10.8	13.8		2.9	0.8	44.2	2.5	2.8	67.0
	1996	**151,197**	17.7	13.1	20.4		5.0	1.9	21.8	2.5	3.4	55.0
	2000	**249,297**	20.9	15.3	16.7		4.5	2.0	17.9	2.3	3.7	47.1
	2001	**266,620**	20.4	15.3	11.0		4.7	1.9	17.5	2.2	3.8	41.1
Korea	**1980**	**17,505**	26.4	16.3	17.4	-		-	-	1.5	4.6	23.5
	1988	**60,696**	35.4	14.7	19.8	-		1.6	5.9	2.2	2.8	32.3
	1992	**76,632**	23.7	12.8	15.1	3.5		3.0	7.7	4.2	7.0	40.5
	1996	**129,715**	16.9	11.4	12.2	8.8		3.1	8.6	5.0	9.3	47.0
	2000	**172,268**	21.9	13.6	11.9	10.7		2.0	6.2	3.3	7.2	41.3
	2001	**150,439**	20.8	13.1	11.0	12.1		3.9	6.3	2.7	6.8	42.8
Taiwan	**1980**	**-**	-	-	-	-	-		-	-	-	-
	1988	**60,667**	-	-	-	3.7	-		-	-	-	-
	1992	**81,470**	28.9	17.7	10.9	12.9	1.4		18.9	3.1	6.9	41.2
	1996	**115,942**	23.2	13.6	11.8	17.9	2.3		23.1	4.0	8.3	50.1
	2000	**148,321**	23.5	14.8	11.2	16.9	2.6		21.1	3.7	7.4	48.8
	2001	**122,866**	22.5	14.8	10.4	17.9	2.7		21.9	3.3	7.2	49.4

TABLE 2(B) INTRA-REGIONAL TRADE IN EAST ASIA

East Asian Economy	Year	Total Exports (US$ Million)	Share of Total Exports Destined For (%)									
			USA	EU	Japan	China	Korea	Taiwan	Hong Kong	Singapore	ASEAN-4	East Asia
Hong Kong	**1980**	**19,730**	26.1	24.5	4.6	6.3	1.2	-		4.4	6.8	23.3
	1988	**63,163**	24.8	16.9	5.9	27.0	2.6	3.6		2.8	3.2	41.9
	1992	**119,512**	23.1	17.1	5.2	29.6	1.6	3.5		2.6	3.1	45.6
	1996	**180,750**	21.2	12.7	6.5	34.3	1.6	2.4		2.7	3.7	51.2
	2000	**201,860**	23.3	15.3	5.5	34.6	1.9	2.5		2.3	3.3	50.1
	2001	**189,894**	22.3	14.5	5.9	36.9	1.8	2.4		2.0	3.3	52.3
Singapore	**1980**	**19,375**	12.5	12.5	8.1	1.6	1.5	-	7.7		20.8	39.7
	1988	**39,306**	23.6	13.5	8.6	3.0	2.0	2.8	6.2		20.3	42.9
	1992	**63,483**	16.6	11.9	4.4	1.8	2.6	2.4	7.2		14.3	32.7
	1996	**125,014**	18.4	12.7	8.2	2.7	3.8	3.9	8.2		25.5	52.3
	2000	**137,804**	17.3	13.2	7.5	3.9	3.6	6.0	7.9		24.9	53.8
	2001	**121,751**	15.4	13.4	7.7	4.4	3.9	5.1	8.9		24.2	54.2
ASEAN-4	**1980**	**47,100**	18.8	13.8	34.5	1.1	1.7	-	1.9	11.8		51.0
	1988	**80,080**	16.4	12.6	19.5	2.2	2.8	2.0	2.9	9.0		38.4
	1992	**112,788**	21.0	17.6	21.9	2.6	2.9	3.1	3.9	13.6		48.0
	1996	**204,270**	18.6	13.7	17.8	3.3	3.5	3.4	5.1	14.0		47.1
	2000	**269,099**	20.4	14.8	16.0	3.4	3.7	4.2	4.2	12.5		44.0
	2001	**250,656**	20.0	14.7	16.1	4.4	3.7	3.8	4.1	11.8		43.9

Note: ASEAN-4 refers to Malaysia, Indonesia, Thailand and the Philippines.
Taiwan's indirect trade with China is calculated from data available at www.seftb.org.

Source: IMF, *Direction of Trade Statistics Yearbook*, (1993, 1987 and 2002 issues).

TABLE 3 FOREIGN DIRECT INVESTMENT IN CHINA (US$ MILLION)

	1992		1993		1997		1998		2001		2002		2003	
	Actual sum of capital	**%**	**Actual sum of capital**	**%**	**Actual sum of capital**	**%**	**Actual sum of capital**	**%**	**Actual sum of capital**	**%**	**Actual sum of capital**	**%**	**Actual sum of capital**	**%**
Total	11292	100	27771	100	45257	100	45463	100	45984	100	51585	100	51493	100
Asia Pacific	9900	88	23333	84	30389	67.2	26626	58.6	26197	57.1	28744	55.7	30620	59.5
HK	7706	68	17445	63	20632	45.6	18508	40.7	16717	36.4	17861	34.6	17700	34.4
Taiwan	1053	9	3139	11	3289	7.3	2915	6.4	2980	6.5	3971	7.7	3377	6.6
Japan	748	7	1361	4.9	4326	9.6	3400	7.5	4348	9.5	4191	8.1	5054	9.8
South Korea	120	1	382	1.4	2142	4.7	1803	4.0	2152	4.7	2721	5.3	4489	8.7
ASEAN	271.6	2.4	1006	3.6	3418	7.6	4197	9.2	2970	6.5	3201	6.2	2853	5.5
Indonesia	20.2	0.2	65.8	0.2	80	0.2	69	0.2	160	0.3	122	0.2	150	0.3
Malaysia	24.7	0.2	91.4	0.3	382	0.8	340	0.7	263	0.6	368	0.7	251	0.5
Philippines	16.6	0.2	122.5	0.4	156	0.3	179	0.3	209	0.5	186	0.4	220	0.4
Singapore	125.9	1.1	491.8	1.8	2606	5.8	3404	7.5	2144	4.7	2337	4.5	2058	4.0
Thailand	84.3	0.8	234.4	0.8	194	0.4	205	0.5	194	0.4	188	0.4	174	0.3
USA	519	5	2068	7.4	3239	7.2	3898	8.6	4433	9.6	5424	11	4199	8.2
Others	873	8	2370	8.5	8192	18	10729	23.6	12062	26.2	19642	38	13821	26.8

Note: Percentages may not be exact due to rounding up or down.

Sources: *Statistical Yearbook of China (various issues); China Monthly Statistics*.

TABLE 4 INTRA-TRADE INTENSITY INDEX FOR THE EAST ASIAN REGION, 1998-2000

	Japan	China	Korea	Taiwan	Hong Kong	Singapore	Indonesia	Malaysia	Philippines	Thailand	ASEAN	USA
Japan	-	1.8	2.5	3.5	1.6	2.0	2.3	2.2	3.6	3.0	2.3	1.6
China	2.8	-	1.7	0.8	6.2	1.1	1.5	0.7	1.1	0.7	1.0	1.3
Korea	1.9	3.2	-	2.3	1.9	1.5	3.2	2.1	3.9	1.3	2.3	1.1
Taiwan	1.8	-	1.0	-	6.6	1.7	2.0	1.9	3.6	2.0	2.1	1.4
Hong Kong	1.0	11.1	0.7	1.0	-	1.2	0.8	0.7	1.8	1.0	1.1	1.2
Singapore	1.3	1.2	1.5	2.1	1.8	-	4.3	14.0	4.4	4.8	8.1	1.0
Indonesia	3.8	1.6	3.0	2.0	0.9	5.7	-	2.5	2.4	2.0	3.7	0.8
Malaysia	2.1	0.9	1.4	2.3	1.4	8.9	2.9	-	2.9	3.7	5.9	1.2
Philippines	2.6	0.5	1.3	4.0	1.5	3.6	0.7	3.5	-	2.8	2.9	1.8
Thailand	2.7	1.2	0.8	1.9	1.6	4.6	3.7	3.2	2.9	-	4.1	1.2

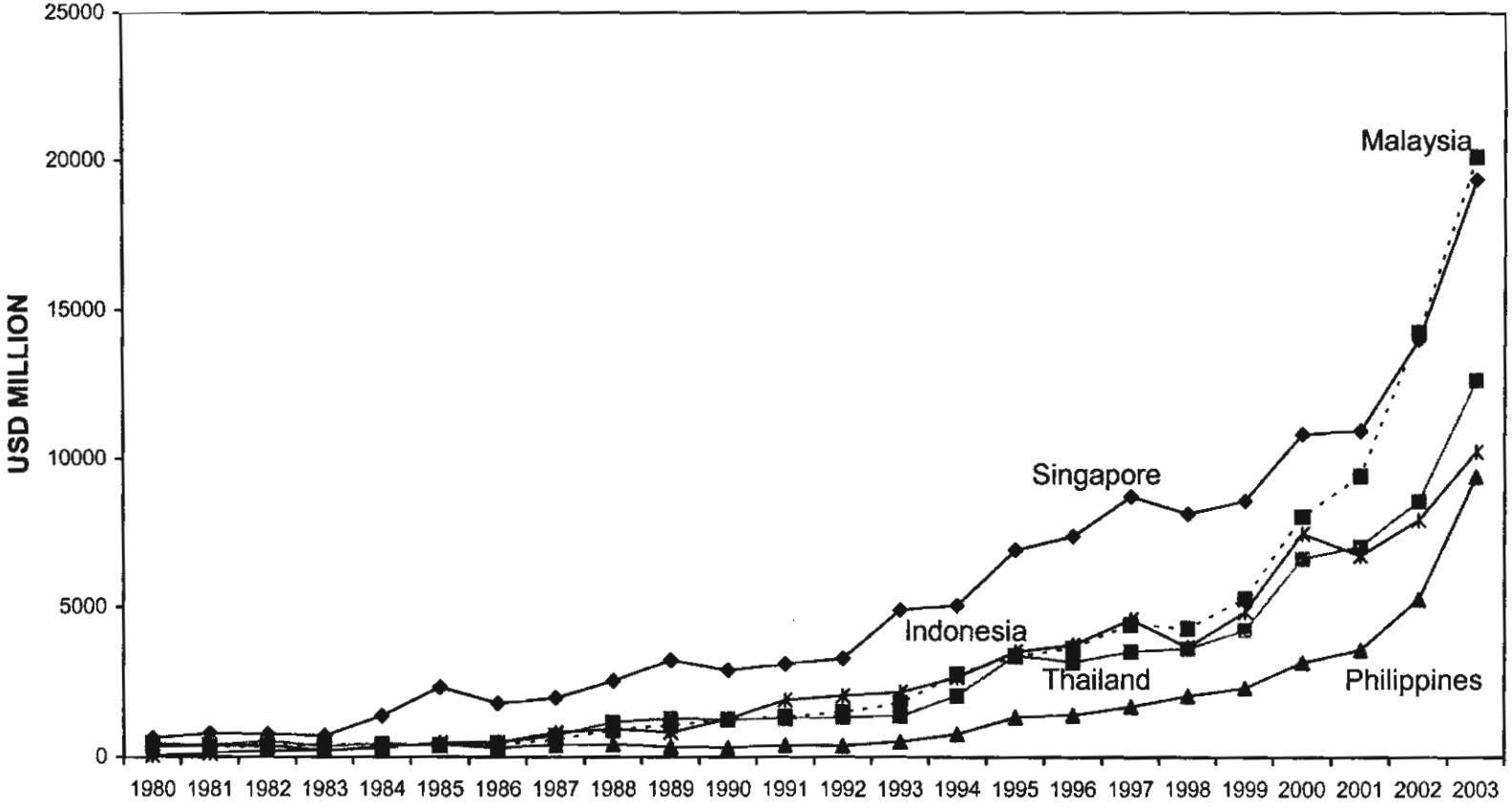
Source: Computed from data in IMF, *Direction of Trade Statistics* (various issues).

Note: The trade intensity index is defined as:

$$T_{ij} = [x_{ij} / X_{it}] / [x_{wj} / X_{wt}]$$

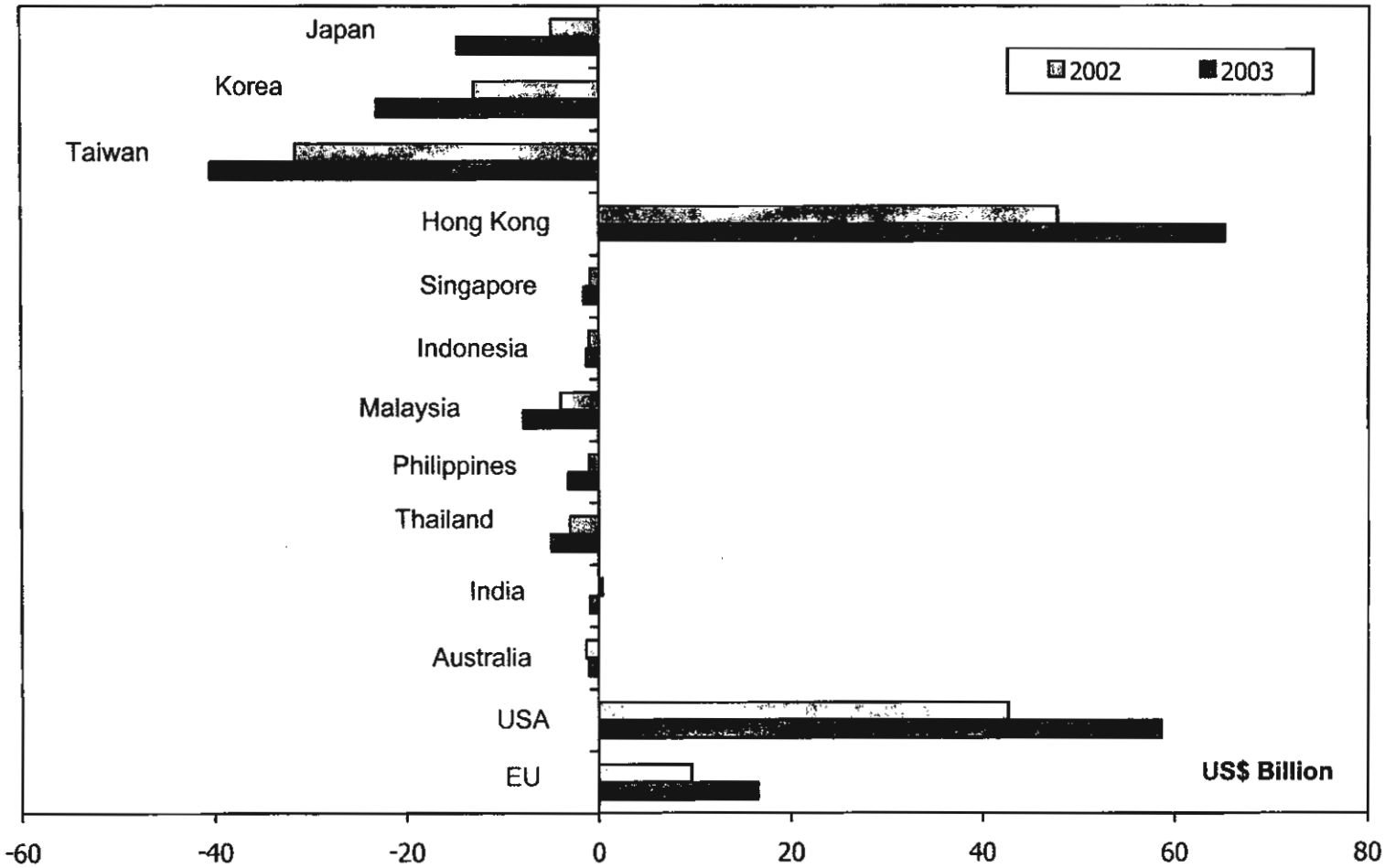
where x_{ij} and X_{wj} are the values of i's exports and world exports to j, X_{it} is *i*'s total exports and X_{wt} are total world exports. As such, the index reflects the ratio of the share of country *i*'s exports going to country *j*, relative to the share of world trade destined for country *j*.

CHART 1 CHINA'S TRADE WITH ASEAN-5, 1980-2003



Sources: United Nations, *Statistical Yearbook for Asia and the Pacific*, 1991 and 2000; *China Statistical Yearbook* (various issues).

CHART 2 CHINA'S TRADE BALANCE WITH SELECTED COUNTRIES



Source: *China Monthly Customs Statistics* (December 2002); Ministry of Commerce website, *www.mofcom.gov.cn.*

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Career

1967-69 - 2nd Lt/Lt, Platoon Commander, No.(58) Myanmar Regiment
1969-77 - Capt, Company Commander/ Adjutant No.(4) Kachin Rifle Regiment
1977-79 - Capt, Group Testing Officer, Officer Testing Team.
1979-81 - Capt, Company Commander, No.(5) Light Infantry Regiment.
1981-84 - Maj, Company Commander, No.(89) Myanmar Regiment.
1984-85 - Maj, Company Commander, No.(42) Myanmar Regiment
1985-86 - Maj, G.S.O (II), Inspectorate General's Department, Ministry of Defence.
1986-87 - Maj, 2IC, No. (103) Myanmar Regiment.
1987-90 - Maj, / Lt.Col, C.O., No.(119) Light Infantry Regiment.
1990-91 - Lt, Co., G.S.O.,(I), South East Command HQS.
1991-93 - Lt. Col./Col, Tactical Operation Commander, No.(88) Light Infantry Division.
1993-95 - Col, Commandant, Command and General Staff College.
1995-98 - Republic of Korea , Military Attache. Office of the military, Naval and Air Attache, Seoul.
1998 Dec to May 2000 - Col,/ D.G. Department of Basic Education No.(3), Yangon Division, Ministry of Education.
2000 May to Sep 2000 - Ambassador, Ministry of Foreign Affairs.
Oct 2000 to Oct 2003 - Ambassador Extraordinary and Plenipotentiary to the Arab Republic of Egypt.

Delegation and Conference Experiences :

1994 - People's Republic of China, Member of Military delegation for Exploration of Training Schools.
19-5-2001 to 8-6-2001 - Republic of Iraq. Presentation of the Credentials Letter.
23-6-2001 to 25-6-2001 - State of Bahrain. Special Envoy of the Government of Myanmar.
2-8-2001 to 8-8-2001 - Republic of Iraq. Member of Myanmar Trade Delegation.
8-9-2001 to 18-9-2001 - Republic of Turkey. Presentation of the Credentials Letter.
29-10-2001 to 4-11-2001 - Republic of Iraq. Leader of Myanmar Delegation to The Baghdad International Trade Fair.
25-12-2001 to 29-12-2001 - Republic of Iraq. Official Mission.
1-3-2002 to 8-3-2002 - Republic of Iraq. Member of Myanmar-Iraq Joint Committee Meeting.
9-4-2002 to 13-4-2002 - Kingdom of Morocco. Presentation of Credentials Letter.
22-6-2003 to 27-6-2003 - Kingdom of Morocco. Leader of Myanmar Delegation to the Extraordinary Ministerial Conference of the Least Developed Countries.
4-3-2004 to 5-3-2004 - India. Leader of Myanmar Delegation to the workshop of ASEAN-India vision 2020: Working Together for a Shared Prosperity.

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2) In February 1995: A short course on "Applying social sciences concepts and methods in studying the effects of economic changes in Vietnamese society", organized by the National Center for Social Sciences and Humanities, Vietnam, and sponsored by the Social Science Research Council, USA.
3) From August 1995 to May 1996: Attended in the *Market Economy Program* at the National Economic University, Hanoi, sponsored by the Ford Foundation, organized by the American Academic Associate, affiliated with the University of Colorado, USA.
4) From 1995-2001: Ph.D. student in the Institute of World Economy, Hanoi, Vietnam. The dissertation topic is "Trade Liberalization in ASEAN – Lessons for Vietnam".
5) May 2003: Joint WTO/IDLO Training Workshop on Trade Training Capacity Building in Sydney, Australia.

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List of major publications from 1999 up to now:

1.Published articles:

No.	Title of articles	Name of journals	Year of publishing
1	International Trade in the 1990s	World Economic Problems Review	No. 4, April 2003
2	Development trends of ASEAN in the first 2 decades of the 21st century	World Economic Problems Review	No. 6, Dec. 2002
3	Measures to adjust the company sector in Asia crisis-hit countries and initial results	World Economic Problems Review	No. 4, Aug. 2002
4	Developing countries in facing with challenges to follow GATT/WTO regulations	World Economic Problems Review	No. 5. Oct. 2001
5	Labour markets in the context of liberalized economy	Asia Pacific Economic Review	No. 5. Oct. 2001
9	Reforms of Some Related Policies in the Implementation of AFTA in ASEAN Countries	World Economic Problems Review	No. 5, Oct. 2000
10	A possible delay in fulfilling AFTA agenda in ASEAN members: Some causes	Asia Pacific Economic Review	No. 4, Dec. 2000
11	Theoretical and practical foundations of the trade liberalization trend in developing countries	World Economic Problems Review	No. 2 April 2000
12	Realizing AFTA and its effects on ASEAN countries	Southeast Asian Studies Review	No. 6, 1999
13	Trade liberalization: An urgent need for Vietnam's economic development	Asia Pacific Economic Review	No. 4, Dec. 1999
14	Trade liberalization in ASEAN countries – A process of development	World Economic Problems Review	No. 5, Oct. 1999
15	American actions to the promotion of trade liberalization in service sector in Asia-Pacific region	Asia Pacific Economic Review	No. 3, Sep. 1999
16	Some strategic fundamentals of the US in service trade with the Asia-Pacific region	Asia Pacific Economic Review	No. 2, June 1999
17	Vietnam with the ASEAN process of trade liberalization	World Economic Problems Review	No. 1, Feb. 1999

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2. Chapters of book

No.	Title of chapters	Title of books	Name of publisher
1	Economic security problem in Indonesia	Economic security of ASEAN and role of Japan	National political publishing house, Hanoi 2001
2	International economic integration 2000-2001	World economy 2000-2001 – Features and prospects	National political publishing house, Hanoi 2001
2	American strategy in service trade with Asia – Pacific region	American economic policy for Asia – Pacific region after the Cold war	Social sciences publishing house, Hanoi 2000
3	International economic integration on the threshold of the new millenium	World economy 1999-2000 – Features and prospects	National political publishing house, Hanoi 2000

3) Books:

1) "Trade Liberalization in ASEAN", The Social Sciences Publishing House, Hanoi, 2003

2) "Economic Restructuring in Korea, Malaysia and Thailand – 1998-2002" (Co-authors), The National Political Publishing House, Hanoi, 2003

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Professional Career

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• Visiting Scholar to Advanced Technology Research Center, the University of Tokyo	2003-present
• Dean Asian Development Bank(ADB)Institute	1999-2003
• Visiting Excutive Professor,the Wharton School, the Prnnsylvania and Chairman of US-JAPAN Management Studies Center	1993-2002
• Vice-Chairman, Research Institute of The Long-Term Credit of Japan	1993-1998
• Director General, the Coordination Bureau,the Economic Planning Planning Agency(EPA)	1991-1992
• Director General, the Research Institute Economic Institute, the EPA	1987-1991
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Shujiro Urata is Professor of Economics at School of Social Sciences, Waseda University, Research Fellow at Japan Center for Economic Research, and Faculty Fellow at Research Institute of Economy, Trade and Industry in Tokyo. He is a graduate of Keio University, and holds MA and Ph.D in economics from Stanford University. He was formerly a Research Associate at the Brookings Institution and an Economist at the World Bank. He specializes in international economics and economics of development. He has held a number of research and advisory positions including senior adviser to the Government of Indonesia, consultant to the World Bank, OECD, the Asian Development Bank, and the Government of Japan. He is an author or coauthor of numerous articles in professional journals including The Review of Economics and Statistics, The Journal of Development Economics, The Journal of Comparative Economics, and The Mathematical Programming Study. He has also published and edited a number of books on international economic issues in English and Japanese, including Measuring the Costs of Protection in Japan (1995, Institute for International Economics) and Asia & Europe: Beyond Competing Regionalism (1998, Sussex Academic Press), Small Firm Dynamism in East Asia (2002, Kluwer Academic Publishers), Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success (2002, Palgrave), Competitiveness, FDI and Technological Activity in East Asia (2003, Edward Elgar)

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- 1994 - 95 : Deputy Director-General of the Press Department, Ministry of Foreign Affairs
- 1995 - 98 : Deputy Director-General of the Institute of Foreign Affairs, Ministry of Foreign Affairs
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Professor Wong was formerly Director of the Institute of East Asian Political Economy, (1990-96). He taught Economics at the National University of Singapore (1971-90), and at the University of Hong Kong (1966-71). He has also taught at Florida State University briefly as a Fulbright Visiting Professor. He has held visiting appointments with Harvard's Fairbank Center, Yale's Economic Growth Center and Oxford's St. Anthony College; and he has also been an Academic Visitor at the University of Toronto and Stanford University.

He has been a consultant to many international organisations, including UN ESCAP, UNIDO, ILO, Asian Productivity Organisation, Asian Development Bank, and the International Chamber of Commerce in Paris.

Books written include: *Land Reform in the People's Republic of China* (New York, Praeger, 1973); *ASEAN Economies in Perspective* (London, Macmillan, 1979); *The Political Economy of China's Changing Relations with Southeast Asia* (London, Macmillan, 1986); *Understanding China's Socialist Market Economy* (Singapore, Times Academic, 1993) and *China's Rural Entrepreneurs - Ten Case Studies* (Singapore, Times Academic Press, 1995). Books edited include: *China's Political Economy*, ed. with WANG Gungwu (Singapore, World Scientific & Singapore University Press, 1998), *Hong Kong in China: Challenges of Transition*, ed. with WANG Gungwu (Singapore, Times Academic Press, 1999), *China: Two Decades of Reform and Change*, ed. with WANG Gungwu (Singapore, World Scientific & Singapore University Press, 1999), *The Nanxun Legacy And China's Development in the Post-Deng Era*, ed. with ZHENG Yongnian (Singapore, World Scientific & Singapore University Press, 2001), *China's Economy Into The New Century: Structural Issues And Problems*, ed. with LU Ding (Singapore, World Scientific Publishing Co. & Singapore University Press, 2001), and *China's Post-Jiang Leadership Succession: Problems And Perspectives*, ed. with ZHENG Yongnian (Singapore, World Scientific Publishing Co. & Singapore University Press, 2002).

In addition, he has written over 300 papers and articles on the economic development of China, ASEAN, Asian NIEs, and on other economic issues of the Asia-Pacific.

The international journals which published his articles include: *Developing Economies*, *World Development*, *Food Policy*, *Asia Development Review*, *China Quarterly*, *World Economy*, *Asian Survey*, *Malayan Economic Review*, *Revue Tiers-Monde*, *Journal of Southeast Asian Studies*, *Kyoto's Southeast Asian Studies*, *JETRO China Newsletter*, *Asia-Pacific Review*, *Pacific Review*, *Asian Economic Journal*, *ASEAN Economic Bulletin*, *Journal of Contemporary China* and *Asia-Pacific Business Review*.

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EXPERIENCE

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Aug. 1996 to the present	Executive Secretary-General & Board Member Korean Council on Latin America and the Caribbean
Sep. 2001 to the present	Co-Chair, Section for Latin America and the Pacific Rim Latin American Studies Association, USA
June 1996 to the present	Vice-President for International Programs (2002-) Director for International Exchange (1996-2001) Latin American Studies Association of Korea
Nov. 2000 to Dec. 2001	Visiting Professor, Univ. of North Carolina at Chapel Hill
May 2000	Decorated 'Ordem de Rio Branco,' Government of Brazil
Aug. 1990-Dec. 1992	Professor, Department of International Studies Universidad de las Americas-Mexico
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Future Prospect of Security Cooperation in East Asia

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Future Prospect of Security Cooperation in East Asia

Akihiko Tanaka

Preserving and enhancing security require comprehensive approaches. Each country has its own self defense. Some countries form formal alliances and others have more informal alignment. Ad hoc coalitions of the willing are formulated to conduct joint security activities. Various international institutions are set up for the purposes of increasing security dialogues and implementing security cooperation. More legal and normative behaviors are regulated by various international regimes of arms control and other issues. The United Nations, among others, was the most authoritative international organization to preserve and enhance international peace. By combining various aspects of these multi-level activities, each country tries to preserve its security. Security cooperation among regional countries is likewise based on such multi-level activities.

If, as the East Asia Vision Group argues, we are to "envision a peaceful, stable and cooperative East Asian community free from armed conflict, violence and hostilities, whether internal and external," we need to combine such various multi-level approaches. Our goal, in other words, is to combine various approaches to realize a "pluralistic security community" in East Asia. A pluralistic security community is a group of states whose members share dependable expectation of peaceful change in their mutual relations. In other words, the community creates an environment in which states do not presume that they will engage in wars to ensure their security and in which the citizens of these states do not presume that conflicts and disagreements among them will be resolved through the use of military force[1].

There is no panacea to achieve a pluralistic security community[2]. Only by combining various approaches discussed above as well as cooperation in other areas which are generally not considered security cooperation, a group of countries can create an expectation of non-violence among themselves.

Because East Asia has various security issues of quite diverse origins, a greatest care should be to taken to apply proper approaches to each issue. For example, the North Korean nuclear issue requires the involvement of the United States and Russia, it is proper to pursue the current six-party talks among North and South Koreas, China, Japan, Russia, and the United States. Given the sensitivities of the Chinese, it does not seem to be productive to hastily internationalize the Taiwan issue in a formal fashion. Because of theie danger and importance, North Korea and Taiwan require special sets of measures. However, even on these particularly sensitive issues, there are roles for non-governmental dialogues. The NEAT process should not exclude possibilities to explore non-governmental security dialogues over the Korean Peninsula and over the Taiwan Strait.

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[1] The Japan Forum on International Relations, *Building a System of Security and Cooperation in East Asia* (Tokyo: The Japan Forum on International Relations, Inc., 2002), p.9.

[2] Karl Deutsch argues that the following three conditions be required:

1. Compatibility of major political values
2. Capacity of the governments and politically relevant strata of the participating countries to respond to one another's messages, needs, and actions quickly, adequately, and without resort to violence.
3. Mutual predictability of the relevant aspects of one another's political, economic and social behavior...

(Karl W. Deutsch, *The Analysis of International Relations*, Second Edition (Englewood Cliffs: Prentice-Hall, 1978), pp.244-5.) On all three accounts, East Asia is still distant from a pluralistic security community.

Although the East Asian community is often talked about in terms of ASEAN+3, for the purpose of security cooperation, limiting the discussion only to the ASEAN+3 frameworks is unnecessarily narrow. As EAVG report argues, the governments in the region need to "strengthen the ASEAN regional Forum so that it can serve as a more effective mechanism of cooperative security." Concrete ways to strengthen ARF should include: "(1) hosting the Defense Ministers' Forum during the ARF session and expanding the involvement of defense officials among the ARF member states; (2) organizing the Northeast Asia subcommittee, formed by Japan, the US., China, Russia, South Korea, and North Korea as members within the ARF framework; (3) establishing regional training center for peacekeeping operations (PKOs) that is open to the participation of the ARF member states; (4) transforming the ARF chairmanship to a joint chair of ASEAN and non-ASEAN, thereby enhancing the 'shared ownership' among the participating countries; (5) establishing an ARF Secretariat to provide administrative support to the ARF Chairman, experts and member states; (6) establishing a Risk Reduction Center (RRC) within the ARF to provide early warning information to the ARF chairman, experts and member states; (7) introducing a "consensus minus one" formula for decision making in the ARF; and (8) deepening the coordination between the ARF and the Track II organizations such as CSCAP, and working to ensure that the ideas from the private sector are reflected in the official process."[3]

The above recommendations to strengthen the ARF were made in December 2002 and the existence of the current six-party talks over the North Korean nuclear issue may have made the second recommendation rather redundant. But once the current nuclear issue is resolved, a more permanent mechanism to preserve peace in Northeast Asia should be created. One way is still to create a subcommittee within the ARF, although transforming the current six-party talks into a more permanent forum could also serve a similar purpose. The third recommendation referred to only "peacekeeping operations" but more wide ranging activities such as peace-building and humanitarian reconstruction should be included in the training center's activities.

There are many items of security cooperation in the ASEAN+3 framework on the non-traditional security threats. Counter-terrorism is one of the most pressing area of cooperation among the countries of ASEAN+3. In addition to declarations and other promises of cooperation, actual cooperation among relevant police organizations and intelligence organizations should be implemented and further promoted.

One broad category of security cooperation for ASEAN+3 would be maritime security cooperation. Almost one-third of the attacks by pirates in the world took place near the Malacca Strait in 2003[4]. From January 2000 to September 2003, 126 cases of pirate attacks took place near the Malacca Strait, 378 cases in the other Indonesian Seas, 96 cases in the South China Sea[5]. One of the difficulties in controlling piracy in Southeast Asia is the fact that most of piracy takes place in the territorial seas of the coastal states. In this sense, most cases of piracy are matter of internal sovereignty of the coastal states. However, as long as the coastal states are incapable of controlling piracy, piracy continues to threat international sea-borne traffic. Worse, international terrorists could use this environment to destabilize the

[3] *Ibid.*, p.11.
[4] International Institute of Strategic Studies, *Strategic Survey 2003/4* (Oxford: Oxford University Press, 2004), p.261.
[5] The National institute of Defense Studies, *Higashi Ajia senryaku gaikan 2004* (East Asian Strategic Review 2004), p.32.

region by targeting vulnerable points in the Sea Lines of Communications. Also, to the extent the coastal countries cannot control piracy, control of proliferation of weapons should become more difficult.

On the other hand, a number of East Asian countries are increasing their energy dependency on the Middle East and hence the security of the Sea Lanes going from the Middle East to East Asia, especially by way to the Strait of Malacca. Therefore, it is the interest of all East Asian countries to explore ways to preserve the safety of sea lanes and control the piracy and criminal activities on the high seas and territorial waters. Currently, there are a number of bilateral agreements in Southeast Asia about piracy control but no effective multilateral regimes exist. ASEAN+3 countries should explore measures of cooperation to realize a more effective regime of maritime security in general and piracy control in particular. In the meantime, coast guards and navies of the regional countries should not be hesitant to conduct various joint exercises regarding piracy control.

Cyber terrorism is increasingly a matter of serious concern. As the functions of society in East Asia depend very much on internet and other cyber communication networks, a large-scale attack on them could paralyze the societies in East Asia. ASEAN+3 countries also establish a working relationship among experts in this area.

Transnational crimes also threaten the health of each domestic society. Police cooperation is essential to prevent such crimes and to arrest the perpetrators who could escape the domain of national territories quite easily. As these transnational crimes often are connected with illegal trafficking of drugs, they could have a devastating societal effect unless they are under effective control.

These non-traditional threats to security genuinely call for cooperation among the regional countries. But East Asia still needs traditional methods of lowering the security tensions between states. Confidence building measures such as mutual notification of exercises, exchanges of observers, security dialogues among military personnel, publication of defense related documents are continue to be important. Basic statistics and figures such as defense expenditures and the number of important military equipment are not sufficiently transparent in East Asia. ASEAN+3 countries should increase such transparency of military-related data.

Finally, it is important to recognize that non-security measures could be critical in order to preserve peace. Promotion of free trade, increase of direct investment, and prevention of a financial crisis are all important security measures. Economic interdependence and stable financial system alone may not preserve peace. But without them, it is more difficult to maintain peace and strive for the establishment of a pluralistic security community. Furthermore, societal cooperation is increasingly more important. The rise of nationalism with strong xenophobic content can be a source of international tensions. Call for mutual understanding of other societies in East Asia is not a mere platitude; it becomes an essential component of security cooperation.

POLITICS AND MULTILATERAL SECURITY COOPERATION IN EAST ASIA: TOWARD A WEB OF BILATERAL CONFIDENCE BUILDING MEASURES

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Paper for Presentation at the 2nd Annual Conference of the Network of East Asian Think-Tanks
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POLITICS AND MULTILATERAL SECURITY COOPERATION IN EAST ASIA: TOWARD A WEB OF BILATERAL CONFIDENCE BUILDING MEASURES

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Abstract

The research is to critically review the current efforts and to propose pragmatic measures for multilateral security cooperation in East Asia. Existing studies show inclination to be overwhelmed by normative orientation. They propose institutional measures turning deaf ears to insuperable structural obstacles. Lesson from the European experience of CSCE/OSCE is that three factors are inevitable for the success of multilateral security cooperation: (1) structural changes exogenous to the region, (2) political efforts by the member countries, and (3) existence of institution. The conclusion is that we should be prepared for the arrival of structural change, by maintaining the institutional framework (e.g., ARF). Meanwhile, we should focus our effort on priming the political willingness for cooperation. The political efforts should focus on developing the overlapping grid of bilateral CBMs that would bring about local political change, until the genuine structural upheaval arrives.

*Word Count: 6162

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POLITICS AND MULTILATERAL SECURITY COOPERATION IN EAST ASIA: TOWARD A WEB OF BILATERALCONFIDENCE BUILDING MEASURES

The end of the Cold War invited the contention of two theoretical perspectives on the future of the international order, especially the European world order. The major source of threat for the realist school was the disintegration of the Soviet Union and the Warsaw Pact, which could possibly lead to an isolationist stance of the U.S. and the dissolution of NATO. It has been argued that pluralistic distribution of power complicates relationships between members and brings instability and frequent conflicts. Eventually, it is expected that this situation will be stabilized through a balance of power.[1]

On the other hand, the liberalist school, which emphasizes the process of communication and interaction in the international system, expected that economic integrations and multilateral security institutions would produce a more stable security regime and even create a security community.[2] After 10 years, it seems clear that cooperation and coordination, features emphasized by the liberalist school, are characterizing the current security system in Europe.

In East Asia, however, the realist view has dominated in predicting the regional order. According to this view, East Asia lacks the conditions for stability and peace, such as economic integration and security multilateralism, which has been present in Europe. The proponents argue that this region will not be able to bypass power conflicts that arise from the complexity of multipolarity. The future of Asia will, therefore, repeat the past of Europe.[3]

According to the realists, the historical legacies of suspicion and antagonism, prevalent in this region, have the potential to turn the high level of economic interdependence among the countries of the region into a momentum of conflict, rather than cooperation. Backwardness in the development of institutions and organizations, which can funnel economic interdependence into security cooperation, is the key feature of the region, and the lack of experiences and memories of cooperation and collaboration was indicated as the most crucial factor of the problem.[4]

East Asia in the latter part of the 1990s, however, has presented a quite different picture from the above. Confidence, multilateralism, talks and meetings, cooperation and conference, which have been the talks of the liberalist camps, are the words often used to describe the security environment of this region, mixed with the concepts of the realist camps, such as alliance, deterrence, balance of power, and sanction. While the realist arguments dominate the rhetoric of regional security, government policies and scholastic arguments pursuing the liberalist approaches to regional stability are increasing and accumulating rapidly.

The purpose of this research is to propose pragmatic measures for constructing "cooperative security" in East Asian. First, lessons from the European experience of

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[1] John J. Mearsheimer, "Back to the Future: Instability in Europe After the Cold War," *International Security*, Vol. 15, No. 1 (Summer 1990), pp. 5-56. John J. Mearsheimer, "Correspondence: Back to the Future, Part II: International Relations Theory and Post-Cold War Europe," *International Security*, Vol. 15, No. 2, (Fall 1990), pp. 194-199. John J. Mearsheimer, "Correspondence: Back to the Future, Part III: Realism and the Realities of European Security," *International Security*, Vol. 15, No. 3 (Winter 1990/1991), pp. 219-222.

[2] Stephen Van Evera, "Primed for Peace: Europe After the Cold War," *International Security*, Vol. 15, No. 3. (Winter 1990/91), pp. 7-57.

[3] Aaron Friedberg, 'Ripe for Rivalry: Prospects for Peace in a Multipolar Asia', *International Security*, 18:3, (Winter 1993/94), pp. 5-33.

[4] Barry Buzan and Gerald Segal, 'Rethinking East Asian Security', *Survival* 36:2, (Summer 1994), pp. 3-21.

Conference on Security and Cooperation in Europe (CSCE/OSCE) are applied to the Asian situation. Many existing studies show inclination to be overwhelmed by normative orientation in analyzing and proposing answers to the insoluble regional obstacles in forging the multilateral security community. Second, briefly surveying current developments in multilateral interactions, the conceptual nexus of multilateralism, bilateralism, and confidence building measures are explicated. This turns our attention to the bilateral confidence-building measures among the three countries of Northeast Asia. Recognizing the inherent structural limitations in the advancement of multilateral security cooperation helps to identify the objective utility of the existing multilateral institutions. Then, bilateral confidence-building, and the development of overlapping grid of relationships may be a breakthrough that facilitates local political change until genuine political upheaval brings about multilateralism and cooperative security in the region.

LITERATURE REVIEW

Existing research on security multilateralism in East Asia can be grouped into two categories according to their main topics: studies on multilateralism[5] and studies on confidence-building measures (CBMs).[6] Works in each category approach their own topics from the framework of "cooperative security," which conceptualizes the international security in the post-Cold War situation (Inoguchi 1997).[7] The former focuses on the foundation and development of multilateral institutions, and the latter centers on specific measures adopted or to be adopted to promote peace in the region.

Many of the works on multilateralism, however, share a few of these items to make the analyses unidimensional. First, they introduce various multilateral security institutions in East Asia on their establishment and expansion of membership: ASEAN Regional Forum (ASEAN), Northeast Asian Security Dialogue (NEASeD), Singapore "Shangri-La Dialogue," Conference on Interactions and Confidence Building Measures in Asia (CICA) at the official

[5] On the conceptual definition of multilateralism, see Robert Keohane, 'Multilateralism: An Agenda for Research,' *International Journal*, 45:4, (Autumn 1990), pp. 731-764. John G. Ruggie, 'Multilateralism: The Anatomy of An Institution', *International Organization*, 46:2, (Summer 1992), pp. 561-598, and James A. Caporado, 'International Relations Theory and Multilateralism: The Search for Foundations', in John G. Ruggie, (ed), *Multilateralism Matters* (New York: Columbia University Press, 1996), pp. 51-89. Especially, under the concept of multilateral security cooperation, there are four different arrangements of collective security, common security, cooperative security, and security alliance.

[6] Confidence building is a key word for cooperative security. The concept of confidence building is nicely introduced in Chung In Moon, 'The Kim Dae Jung Government and the Establishment of a Peaceful System on the Korean Peninsula', *National Strategy (Kukga Junryak)*, 5:2, (Summer 1999), pp. 139-170. The goals of confidence building are acquiring (1) reassurance, (2) transparency, and (3) predictability for the security of the region. Among the four categories of confidence building – political, economic, socio-cultural, and military – the military confidence building, which is our concern, is composed of four different measures of (1) notification and observation, (2) information exchange, (3) confidence building in communication, and (4) confidence building in military deployment. Another typology of military confidence building is suggested by Susan M. Pederson and Stanley Weeks, 'A Survey of Confidence and Security Building Measures', in Ralph A. Cossa, (ed.), *Asia Pacific Confidence and Security Building Measures* (Washington DC: CSIS, 1995), pp. 81-100: (1) declaratory measures, (2) transparency measures, and (3) constraint measures. Moon, 'The Kim Dae Jung Government', also explicates the concept by comparing with the concept of arms control. There are two categories of controls: operational arms control and structural arms control. In the sense that there is a consultation of military deployment, the former can be a part of military confidence building measures.

[7] Cooperative security is a system of finding peaceful solutions for the conflict through dialogue and cooperation and the efforts to remove the military and non-military threat by the activities such as confidence building and preventive diplomacy. It works only when there is no specific source of threat that is assigned as a potential enemy. See Takashi Inoguch, 'Reisengo no Nichi-Bei kankei', in Takashi Inoguchi, Peter Gourevich and Courtney Purrington, (eds.), *Reisengo no Nichi-Bei kankei: Kokusai seido no seijikeisaigaku* (U.S.-Japan Relations in the Post-Cold War Era: The Political Economy of International Institutions), (Tokyo: NTT Shupan, 1997), pp. 1-26. Besides cooperative security, we need to figure out other concepts on regional security. See Oran R. Young, 'International Regime: Problems of Concept Formation', *World Politics*, 32, (April 1980), pp. 331-356, and Stephen D. Krasner, 'Structure Causes and Regime Consequence: Regime as Intervening Variables', in Stephen D. Krasner, (ed.), *International Regime*, (Ithaca: Cornell University Press, 1983), pp. 1-21 on the concept of security regime, and see Karl Deutsch, *et al.*, *Political Community and the North-Atlantic Area*, (Princeton: Princeton University Press, 1957) on security community.

level (Track I), Council for Security Cooperation in the Asia-Pacific (CSCAP), Northeast Asia Cooperation Dialogue (NEACD), Boao Forum, and Asia Cooperation Dialogue (ACD) at the unofficial level (Track II).[8] On CBMs, characteristics of each specific confidence-building policy applied in Europe and Asia are introduced according to the three categories of measures: declaratory measures, transparency measures, and constraint measures.[9]

Second, they contribute a large part of their research to country surveys. Policies and attitudes of the major countries in the region toward institutions are introduced, based on their foreign policy doctrines and speeches of the high-level officials.[10] Many works on CBMs also can be grouped as country surveys .[11]

Third, for the purpose of comparison and suggestion for successful performance of Asian multilateralism, the European experience of CSCE is analyzed along two categories of topics. Histories of the evolution in the policy tools of CBMs and in the institutional arrangement of CSCE are described, and lessons are induced from them. Many of the works simply display socio-political factors that are considered to be contributing to the success of CSCE and CBMs without differentiating and evaluating causal significance. They are also contrasted with the socio-political background of multilateralism in East Asia.[12] The comparison of European and the East Asian cases eventually results in the argument of uniqueness of East Asian way in multilateralism and CMBs.[13]

From the works mentioned above, we can point out three problems that can be reflected into the analysis of this paper. First, when the institutional developments and various measures of CSCE are arrayed in the form of menu for choice and compared with the ones in this region, contextual, procedural and political factors are not seriously considered. In other words, despite detailed analyses of the European experience, they were not developed into hypotheses or perspectives, applicable to Asian situation.

Second, the studies approached the question of multilateralism and CBMs from normative perspectives. They viewed multilateral cooperation and CBMs as something good to be pursued. They assumed that the progress of cooperative security is a linear process and there is no chance of a backward flow: the more and sooner the better. This is also because the works did not try to learn hard lessons from the European history.

The third one is that the works try to find solutions for the development of multilateralism only in the multilateral framework. All the analyses on CBMs assume that

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[8] Ralph A. Cossa, 'Asian Multilateralism Takes on New Energy', The Korea Times, 29 July 2002. http://www.hankooki.com/kt_op/t20020729170820481l0.htm (searched on 08 Sep. 2002). Ralph A. Cossa, 'Asia Pacific Confidence and Security Building Measures', in Ralph A. Cossa, (eds.), *Asia Pacific Confidence and Security Building Measures*, (Washington DC: CSIS, 1995), pp. 1-18. Youngmin Kwon, *Regional Community-Building in East Asia*, (Seoul: Yonsei University Press, 2002). Ralph A. Cossa, 'Multilateralism and National Strategy in Northeast Asia', *NBR Analysis*, 7:5, (Seattle: The National Bureau of Asian Research, 1996), pp. 25-38.

[9] Michael Krepon, "Conflict Avoidance, Confidence Building, and Peacemaking', in Michael Krepon, Michael Newbill, Khurshid Khoja, Jenny S. Drezin, (eds.), *Global Confidence Building: New Tools for Troubled Regions*, (Scranton: MACMILLAN, 2000). Moon, 'The Kim Dae Jung Government'. Pederson and Weeks, 'A Survey of Confidence and Security Building Measures'.

[10] See Cossa, *Asia Pacific Confidence and Security Building Measures*, Jungho Bae, *21 Segi Hangukui Kukga Junryakgua Anbo Junryak: Kukga Junryak•Pogualjuk Anbo Junryak•Dongbookah Dajagan Anbo Hyupryun Junryak*, (Seoul: Korean Institute of National Unification, 2000), and Kun Park, 'The Reality and the Prospect of Multilateral Security Cooperation in Northeast Asia', *Korea and World Politics* 16:2. 2000. pp. 39-90. Hyunik Hong and Daewoo Lee, *Dongbookah Daja Anbo Hyubryukgua Jobyun 4 Gangk*, (Sungnam: Sejong Institute, 2001).

[11] See Cossa, *Asia Pacific Confidence and Security Building Measures*, Krepon *et al. Global Confidence Building*, and Cossa, 'Multilateralism and National Strategy'.

[12] See Huaqiu Liu, 'Step-by-Step Confidence and Security Building for the Asian Region: A Chinese Perspective', pp. 119-136. and Brad Roberts and Robert Ross, 'Confidence and Security Building Measures: A USCSCAP Task Force Report', pp. 137-160, in Cossa, *Asia Pacific Confidence*, Bae, *21 Segi Hangukui Kukga Junryak*, Cathleen S. Fisher, 'The Preconditions of Confidence Building: Lessons from the European Experience', in Krepon et. al. *Global Confidence Building*, pp, 275-290, and Hong and Lee, *Dongbookah Daja Anbo Hyubryuk*.

[13] Amitav Acharya, 'Multilateralism: Is There An Asia-Pacific Way?' *NBR Analysis*, 8:2, (1997), pp. 5-18.

the measures can contribute to cooperative security only when agreed and applied in multilateral structure. However, CBMs can be arranged for bilateral relationships. We need to remember that the definition of security regime includes agreements between two or more parties.

LESSONS FROM EUROPEAN EXPERIENCE: IMPORTANCE OF POLITICAL FACTORS

To evaluate current multilateral security cooperation in East Asia and to provide policy suggestions for its development, we need to revisit the European experience of CSCE. We can group the regionally unique obstacles indicated in the previous studies into two categories of structural factors and non-structural factors. After that, selected lessons can be applied to East Asian efforts. As a latecomer in multilateral security cooperation, learning from predecessors would be the best way to reap the "advantage of backwardness."

History in Europe

The history of CSCE is generally presented divided into five different periods, corresponding to the development of CBMs and institutional arrangements.[14]

The First Phase: U.S.-Soviet Agreements

The Cuban missile crisis of 1962 was a watershed in the history of CBMs. The U.S. and the Soviet Union became aware of the danger of mutual destruction and began to accept the necessity of cooperative measures. They reached two agreements to establish hotlines and to ban nuclear testing in the atmosphere. The former came to be known as the first confidence-building measure. In the early 1970s, they produced more advanced agreements to ease tensions between the two. In 1972, they reached Strategic Arms Limitation Talks (SALT I) accord as an arms control, and they also established Incidents at Sea Agreement.[15]

The Second Phase: The Helsinki Final Act of 1975

In 1970, Billy Brandt began to negotiate with the communist bloc under the name of Ostpolitik, ending the stagnation in the East-West relationship under the Halstein Doctrine. West Germany reached an agreement with the Soviet Union to accept the existing European borders: Renunciation-of-Force Treaty. It also agreed on non-aggression treaty with Poland in December 1970, recognizing the Oder-Neisse line as Poland's western boundary. These treaties are followed by succeeding agreements, such as the Big Four agreement on the status of Berlin in September 1971, and treaties between West Germany and other WTO countries.

In 1975, CSCE was officially founded by the agreement among the 35 countries, after three years of working-level preparatory meetings. Helsinki Final Act specified principles of the conference, such as equal sovereignty, self-restraint on the use and the threat of force, inviolability of boundaries, non-interference, and respect of basic freedoms. Besides the formal recognition of status quo of Europe, it also facilitated CBMs promoting transparencies: notification of major military maneuvers and observation of military exercise on voluntary basis.

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[14] Fisher, 'The Preconditions of Confidence Building' and Richard E. Darilek, 'East-West Confidence Building: Defusing the Cold War in Europe', pp. 275-290 in Krepon *et al.* (eds.), *Global Confidence Building.* Bohyuk Seo, 'Dongbookah Anbo Hyubryuk Cheje Guchuk Bangahn: CSCE/OSCE ui Gyunghumeul Batangeuro', http://www.peacekorea.org/databank /bohyuk.html (searched on 15 Feb. 2003).

[15] Darilek, 'East-West Confidence Building'.

The Third Phase: Stockholm Accord of 1986

After the Helsinki Final Act, there were two other meetings: the Beograd Meeting of CSCE (1977-1979) and the Madrid Meeting of CSCE (1980-1983). During this period, international environment due to the Carter administration's emphasis on human rights and the Soviet Invasion of Afghanistan of 1979 made negative impact on those two processes, and they could not reach any agreement. However, Stockholm Accord of 1986, which had taken almost 6 years for negotiation and became an only agreement out of 7 agendas, made an important progress from the Helsinki Act. It expanded the category of CBMs to "Confidence and Security Building Measures (CSBMs)" by adding "security." The accord mandated inspection on military exercises and required the report of annual calendar on notifiable military exercises. It not only required greater openness but also relied more heavily on access measures.

The Fourth Phase: Vienna Accord of 1990

Gorbachev became Soviet President in 1985. Beginning in 1986, Soviet society opened itself to "criticism" and debate through a policy known as "Glasnost," and a process was started known as "perestroika" to revitalize and restructure the Soviet economy. This change in international environment made the path-breaking provisions contained in the 1990 Vienna agreement possible. The process put conventional arms control high on the agenda and established a new generation of CBMs. The accord decided to initiate the Conventional Armed Forces in Europe (CFE), setting limits or constraint on conventional military forces more tightly and more directly than previous measures. The accord also adopted a process for comprehensive inspection of human rights, called "Vienna Mechanism."

The Fifth Phase: Renaming CSCE to OSCE

While the collapse of the Cold War system was under progress, CSCE Paris Summit Meeting was held. Charter of the Paris for a New Europe declared the end of the Cold War and made a statement that CSCE pursues common defense of Europe. The summit meeting proposed specific process reaching the institutionalization of the conference. Going through two more processes of meetings held at Helsinki in 1992 and Budapest in 1994, the conference promised to dedicate itself to the demanding issues of European integration, and the word "conference" in the CSCE's title was changed to "Organization" in 1995.

Lessons from the European Experience: Structure and Politics

From this brief history of CSCE, we can tell that there occurred two different kinds of dramatic changes prior to the conspicuous progress in cooperation and CBMs: one is the structural change and the other is political willingness. The détente following U.S.-Soviet bilateral agreements, and the resolutions on the boundary questions paved the road to multilateral agreement of Helsinki Final Act. Gorbachev's inauguration, Glasnost and Perestroika made significant progress of Vienna Accord possible and the arrival of Post-Cold War order provided momentum to the process after the Paris summit. The other side of the coin is that when the international environment turned negative, CSCE could not make any significant achievements. Soviet invasion of Afghanistan militated against the progress of the CSCE.

These structural factors contributing to the success of CSCE were preceded by unilateral and bilateral political willingness of the major powers. Agreement of the U.S. and the Soviet Union to establish hot lines and Incidents at Sea Agreement were the harbingers of the advent of détente. The active pursuit of Ostpolitik by Brandt prepared the new political

mood among the European countries in the two opposing camps that made the Helsinki Accord 1972 possible. The second wave of the Cold War was the result of the Soviet decision to invade Afghanistan and the U.S. response to it. Whether it was caused by Gorbachev's miscalculation or deliberate strategy of the U.S.,[16] the dissolution of the Soviet Union marked the full-blown navigation of the CSCE towards the establishment of peace throughout Europe.

For the factor occurred outside the system of concern, we call it an exogenous variable in the causality context. To explicate factors for success and failure in the development of CSCE, all the variables related with the institution should be listed. Strategies and initiatives of the institution based upon the agreement of the members, and willingness of each participant country are the primary factors for the fate of the institution. These factors are domestic to the logical network of causality for the destiny of CSCE. However, factors that belong to the environment and cannot be controlled by the agreement or willingness of the participant are also critical in explaining behavior of the institution. Those factors are outside of the logical system of the object.

Among the above-mentioned structural and political factors, all but Billy Brandt's Ostpolitik belong to the external factors, and the political factors were important because they induced the structural changes.

Besides these external factors, there existed other factors that also contributed to the development of CSCE. Fisher divided them into two groups of contextual factors and procedural factors. <Box 1> summarizes the factors that belong to each category.[17]

We can see that the three contextual factors are unique to the European experience. Currently, East Asia is in a multi-polar situation under U.S. dominance. Each country of the region does not experience the same degree of nuclear and non-nuclear threat that is comparable to the threat perception of Europeans due to the contention between the two camps. There are several local disputes but none of them are prevalent over the whole area. Member countries in this region show more asymmetries than similarities in the level of economic, social, and political development. These factors contextual to the European experience cannot be learned nor imitated in the East Asian context.

<Box 1>

Factors Contributing to the Development of CSCE in Europe (Fisher 2000)

1. Contextual factors
   1) Ripening of conflict under the bipolar system
   2) Presence of mutually assured destruction
   3) Commonalities: stable system of states, modern infrastructure of communication, and civilian control over military
2. Procedural factors
   1) Comprehensive CBMs, trade-off among the three baskets of activities
   2) Less politicization of CBMs compared with arms control
   3) Gradual and evolutionary process

In the case of procedural factors, some of them can be applied to this region. Multilateral organizations cannot take CBMs comprehensive enough to make trade-off in the process of negotiation. The lack of commonality among the member states militates against the comprehensive approach from the beginning. Next, less politicization of CBMs is the

[16] Charles W. Kegley and Eugine R. Wittkopf, *American Foreign Policy,* (New York: St. Martins, 1996) attribute the collapse of the Soviet Union to the two potential factors: 1) arms race initiated by President Reagan, 2) failure of Communism as a social system. On the other hand, Chen Jian argued that it was due to the miscalculation of Secretary Gorbachev, at the Interview with Korean Broadcasting Station, held at New Millennium Hall of Yonsei University, Korea.

[17] Fisher, 'The Preconditions of Confidence Building'.

point that is very useful in this regional context. Considering the historical legacies of antagonism and suspicion, CBMs are necessary to improve the relationship. However, they should be pursued under different names, not to remind the existence of conflict. Also they need to be steered by the consultation within the specialist group in each measure. Finally, the gradual and evolutionary approach is inevitable in East Asia, where the experience of the multilateral cooperation and the existence of multilateral institutions are rare.

In sum, among the three categories of factors contributed to the success of CSCE, only the two procedural factors of less politicization and evolutionary approach are the factors that can be learned and applied to the development of East Asian multilateral security cooperation. Also, structural ingredients at contextual and procedural levels are necessary but not sufficient conditions. On the other hand, political leadership at the regional level and applicable strategies are sufficient conditions for multilateral cooperation.

OBSTACLES FOR MULTILATERAL SECURITY COOPERATION AND CBMS IN EAST ASIA

Existing multilateral institutions for security cooperation in this region at both Track I and Track II levels stop at the level of consultation at best. Even ARF, the most advanced body in security dialogue, is evaluated as only a "limited security regime" for its low level of solidarity and consensus-based decision making among unequal participants. Acharya argues that the cooperative bodies in East Asia are far short of formal institutionalization and says that "APEC is described as a 'consultative mechanism,' while the ARF is likened to a 'dialogue forum.' "[18] Acharya also quotes Singapore's former defense minister's statement: "The ARF is not a multilateral security mechanism but a forum where Asia/Pacific countries can talk with one another so as to better understand each other's security concerns."[19]

Recent works by Roberts and Ross (1995), Park (2000), and Hong and Lee (2001) point out the obstacles to multilateral security cooperation in this region. Many of them are already mentioned in the discussion of success factors in the European case. Box 2 lists the factors not discussed in the previous section.

<Box 2>

Factor 1) in Box 2, i.e., lack of leadership, is a structural variable in a sense. The unipolar power of the U.S. is expected to take a leadership. The Clinton administration showed positive attitude toward multilateral economic cooperation through active participation in the Asia-Pacific Economic Cooperation (APEC). However, in the security

[18] Acharya, 'Multilateralism', p. 11.
[19] This is reported in *Jane's Defense Weekly*, February 19, 1994, p. 52, but recited from Acharya, 'Multilateralism', p. 11.

arena, the U.S. provided only limited support to multilateral security cooperation as a complementary mechanism to existing bilateral alliance relationships.[20] The current Bush administration, which exhibits unilateralism in its foreign policy, is far short of our expectation in its leadership role. Among the regional powers, China is reluctant to take full participation in regional security cooperation and prefers a bilateral approach, although it has been showing greater interest in multilateralism in recent years. Japan, which is most willing to expand its role in multilateralism, is constrained by the U.S.-Japan relationship and its relations with its neighbors. Russia has been trying to take initiative in security dialogue, but it simply does not have enough capability for leadership.[21]

Factor 2), lack of agreement on the causes of instability, may be the most serious contextual obstacle in this region, compared to the European experience. Right before advancing toward the Helsinki process between 1972 and 1975, West Germany resolved the fears of German question by series of border treaties with its neighboring powers. All they agreed was to accept the existing borders and not to disturb the status quo in the future. In East Asia, however, there exists many flash points that can develop into military disputes: China-Taiwan relationship, Korean Peninsula, Tokdo (Takeshima) between Korea and Japan, Northern territories between Japan and Russia, Diaoyu (Senkaku Island) between Japan and China, Spratly Islands between China and Vietnam, Indonesia, Philippines, etc. If status quo is a necessary condition for the security dialogue, it is a hurdle almost impossible to come over before we find resolution on those questions.

Antagonism from history (Factor 3) is another contextual factor, but it can be removed only by frequent contacts and interdependence. It is not an insuperable obstacle for multilateral cooperation. CBMs are necessary to come over the hindrance of animosity and discord. Consensus rule (Factor 4) also must be a serious obstacle but not insurmountable either. Even though it had been pointed out as one of the organizational limitations,[22] CSCE/OSCE still maintains the unanimity rule in its decision-making process. Factor 5), the non-interference principle, may be a part of the regional culture that shares the experience of colonization and ensuing resistance to external intervention,[23] but it also may stem from the varying stages of development among the countries in the region. China argues that each country has its own definition of human rights, and China's violation of human rights is also a part of its sovereignty. The gaps among the members will be narrowed through the catch-up process in the future, and then this obstacle will be improved.

Factor 6), the preference of unofficial decision-making, if it is real and true, is also interpreted as one aspect of regional culture and is blamed because it delays decision-making process and constrains the construction of an official forum of dialogue. This obstacle also can be understood as this region's cultural preference for "soft regionalism." Acharya argues that this region had an inclination to resort to informal and non-legalistic procedures for conflicts and disputes.[24] People in this region are more familiar with evolutionary

[20] Nye places more weight on the bilateral alliances and military preparedness than on the multilateral cooperation for the U.S. strategy of the East Asia in the Post-Cold War era. See Joseph S. Nye Jr., 'The Case for Deep Engagement', *Foreign Affairs* 74 (July-August 1996), pp. 90-102. DOD, *The United States Security Strategy for the East Asia Pacific Region*, (1998) states clearly that U.S. is pursuing cooperative security relationships bilateral and 'minilateral' at most.

[21] Sung-yoon Ko and Minyoung Lee, (eds.), *Daja Anbo Hyubryukui Mosaek*, (Seoul, Korea: Institute of Defense Analysis, 1999).

[22] Because of the unanimity rule, it has been usually taking almost three years to reach an accord. Furthermore, it failed in coping efficiently with the dispute in Yugoslavia. To fix this problem, it decided to adopt "unanimity-1" rule to adopt appropriate measures without the consent of the country concerned when the country violated clearly and conspicuously the requirements of CSCE. However, it has been applied to very exceptional cases only.

[23] Huaqiu Liu, 'Step-by-Step Confidence and Security Building for the Asian Region: A Chinese Perspective', pp. 119-136 in Cossa, *Asia Pacific Confidence*.

[24] Acharya, 'Multilateralism', p. 12.

development of institutions and commitment than the American way of legalistic approaches to the resolution of disputes.

From the list above, we can tell that Factor 1) is a structural obstacle that can be improved only when the distribution of power and the basic security order of the region are altered. Factors 2) and 3) are contextual factors, but they can be improved by political will of the member countries. Factor 4) is not a serious problem and rather natural for the sovereign countries in contemporary international order. Factors 5) and 6) will be improved in the process of modernization.

Through the analysis of the lessons from Europe and the obstacles in East Asia, we can reach the conclusion that all those factors for success and failure can be grouped into three categories: structural, contextual, and cultural factors. If the problem is structural, the solution should be found from outside of the regional effort for multilateralism. This means that the problem is given to this region as a condition for regional security cooperation. If the problem is cultural, it can be improved only through long-term environmental changes and ceaseless effort. Finally, if the problem is contextual, it is partially structural and partially political. The solutions can be found in a relatively short-term adjustment and appropriate political maneuvering. This is where we should find the answers for the development of multilateral security cooperation.

EFFORTS FOR INSTITUTIONAL DEVELOPMENT: ARF & PREVENTIVE DIPLOMACY

The last level of factors to be analyzed for the multilateral cooperation is the institutional arrangement. Institutions as an organism can adapt to its environment, but it also can lead its own life to affect and change its environment. Without preconditions at the above-mentioned factors, it is certain that the effects of the efforts at the institutional level should be limited. East Asian regional security cooperation, especially the ARF, is facing resistance against the demand for the establishment of collective bureaucratic apparatus and its institutionalization. One opposition reflects the recent difficulties encountered by the OSCE. Without adequate resources and mechanisms, it cannot carry out its organizational commitment. The Conflict Prevention Center could not perform its promised functions, and the Valletta Mechanism, which is the official process for peaceful resolution of dispute, could not function efficiently because of its procedural complexity. People in this camp warn against "the pitfalls of rapid institutionalization of nascent regional multilateral institutions".[25]

The difficulties and the problems demonstrated at the institution level are well illustrated in the recent discussions of preventive diplomacy (PD) as a new activity of the ARF. CSCAP is performing the research for the ARF for the better understanding and the possible application of PD in the region.[26] First, without considering the feasibility of the East Asian reality, the discussion focuses only on the logic of the institution. In the CSCAP CSBM International Working Group Report of 2002, Cossa suggests these institutional arrangements are necessary for PD: to form an ARF eminent person's group, to enlarge the

[25] *Ibid.*, p. 10.

[26] For comprehensive discussion on the roles of Track II organizations in general and the contributions of CSCAP in specific, see Desmond Ball, 'A New Era in Confidence-Building: the Second Track Process in the Asia-Pacific Region', *Security Dialogue*, 25:2, (1994), pp. 157-76. and Desmond Ball, *The Council for Security Cooperation in the Asia-Pacific: its Record and Prospects.* Canberra Papers on Strategy and Defense, 139, (2000).