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Evolving Economic Architecture in East Asia*

Masahiro Kawai[1]

[1]*University of Tokyo and Asian Development Bank Institute. E-mail: mkawai@adbi.org*

This paper examines how East Asia's economic architecture has been evolving over the last ten years and how it will shape itself in the future. With the progress of market-driven economic integration, East Asian economies have developed various cooperative initiatives for trade and finance, including free trade agreements (FTAs), the Chiang Mai Initiative, the Economic Review and Policy Dialogue, and the Asian Bond Markets Initiative. The paper suggests policy directions for greater regional economic cooperation. First, trade authorities are advised to consolidate multiple, overlapping FTAs into a single East Asian agreement—particularly among the East Asia Summit (EAS, or ASEAN+6) countries—to minimize negative "noodle bowl" effects and achieve "deep, WTO-plus" integration. Second, financial authorities are encouraged to initiate exchange rate policy coordination—starting with the adoption of a regional currency-basket arrangement based on the US dollar, euro, and Asian Currency Unit. East Asia's economic architecture will be shaped around ASEAN+3 and EAS (or ASEAN+6), with ASEAN as the hub for economic cooperation and integration.

Keywords: free trade agreements (FTAs), financial cooperation, ASEAN, ASEAN+3, East Asia Summit (EAS), APEC, ASEM
JEL Classification Numbers: F02, F15, F21, F31, F33, F42

1. Introduction: Key Issues

The Asian financial crisis of 1997–98 devastated the economies of Thailand, Indonesia, Malaysia, and the Republic of Korea (hereafter Korea) and adversely affected several neighboring economies such as the Philippines and Hong Kong.

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The crisis was a combination of currency and banking crises. The currency crisis was a capital account crisis, driven by rapid inflows and outflows of short-term capital. The banking sector had played a critical role in intermediating excessively large amounts of domestic savings as well as foreign short-term funds for long-term domestic investment, often with dubious quality in such areas as real estate and property, thereby creating potential for bad loans that later led to a banking crisis. Essentially, the forces of financial globalization together with inadequately supervised domestic banks—and financial systems more broadly—generated the Asian financial crisis.

One of the most significant outcomes of the crisis has been the emergence of economic regionalism in East Asia. The crisis prompted the regional economies to realize the importance of strengthening regional self-help mechanisms in a concerted way. For example, the Association of Southeast Asian Nations (ASEAN)+3 countries—comprising the ten ASEAN member countries, the People's Republic of China, Japan, and Korea—have begun to undertake initiatives for regional economic surveillance, a regional liquidity support facility, and Asian bond market development. Regional financial cooperation has stimulated regional trade and investment cooperation in the form of free trade agreements (FTAs): Japan and Singapore implemented an economic partnership agreement (EPA), ASEAN+China and ASEAN+Korea each implemented an FTA on trade in goods, the ASEAN+Japan Comprehensive EPA has been agreed upon in principle, and many official negotiations for bilateral and plurilateral FTAs—such as a Japan and Korea EPA, an ASEAN+Closer Economic Relations (CER, i.e., Australia and New Zealand) FTA, and an ASEAN+India FTA—are currently underway.

Several groups have been set up to facilitate East Asian economic regionalism. In the financial and monetary area, the ASEAN+3 finance ministers are active in pursuing financial cooperation while the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) governors—comprising nine East Asian economies and two Oceanic countries—have played a critical role. In the trade and investment area, ASEAN has been the *de facto* hub while ASEAN+3 and the East Asia Summit (or ASEAN+6—including the ASEAN+3 countries, Australia, India, and New Zealand) are emerging as important larger groups. East Asia also works with North America through Asia Pacific Economic Cooperation (APEC) and with Europe through the Asia-Europe Meeting (ASEM) on economic and financial issues. Hence, it is important to explore how East Asian economic regionalism might evolve over time and how it might reshape the region's relationship with North America and Europe.

This paper first reviews the surprising extent of regional economic integration that has progressed through international trade, foreign direct investment (FDI), and finance and of regional macroeconomic interdependence. Next, it assesses the past and present economic cooperation initiatives in East Asia in the areas of trade and FDI and of money and finance. The paper then analyzes the issues and challenges for closer economic regionalism—or greater institutionalization of

regional economic integration—in East Asia that can potentially lead to the creation of an East Asian economic community. It is argued that deeper economic integration in trade, investment, and finance and further institutionalization of such integration are mutually reinforcing. East Asia can use its economic regionalism as an engine of deeper global integration.

2. Market-driven Economic Integration in East Asia

Economic integration in East Asia has been deepening through the market-driven forces of cross-border trade, FDI, and finance. Trade in goods and services and FDI activities have expanded rapidly over the past twenty years thanks to the multilateral and unilateral trade liberalization processes[1]. International portfolio investments and banking flows, together with cross-border financial services activities, have also grown in many economies due to financial market deregulation and opening, and progressive capital account liberalization. The removal of various types of cross-border barriers and the geographical proximity of East Asian economies have created natural economic linkages among them. In a sense, regional economic integration has been a natural outcome of economic globalization.

2.1. Economic Integration through Trade and FDI with Production Networks

The expansion of intraregional trade over the last several decades has been remarkable. The share of East Asia's intraregional trade in its total trade has risen from 37% in 1980 to 55% in 2006 (Table 1)[2]. This share is higher than the peak figure of 49% for the North American Free Trade Area (NAFTA), achieved in 2001, though still lower than the peak figure of 66% for the original 15 European Union countries (EU-15), achieved in 1990[3]. The intensity of regional trade in East Asia is also comparable to that in the EU or NAFTA[4]. While the rising intraregional trade share has been premised on the existence of American and European markets for finished products, its relative dependence on these outside markets has been declining and is expected to further decline as demand for final products within East Asia continues to grow.

Favorable economic environments and the abundant supply of high-quality,

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[1] The multilateral trade liberalization process has been governed by the World Trade Organization (WTO)—or its predecessor, the General Agreement on Tariffs and Trade (GATT)—and the unilateral trade and investment liberalization, based on "open regionalism," has been pursued within the APEC framework.

[2] Here, East Asia includes fifteen economies—four Asian newly industrialized economies (Hong Kong; Korea; Singapore; and Taipei,China), ten ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam), China, and Japan. Note that Singapore is an Asian NIE as well as an ASEAN member.

[3] The original EU-15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom.

[4] Petri (2006) has found a rising regional trade bias in East Asia since the 1980s after the secular decline in the post-WWII period.

Table 1 Intraregional trade share, 1980–2006 (%)[a]

Region	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
Asian NIEs (4)[b]	8.6	9.2	11.9	15.5	15.5	15.3	15.8	15.2	14.6	13.9	13.6
ASEAN (10)[c]	17.9	20.3	18.8	24.0	24.7	24.1	24.4	26.6	26.7	27.2	27.2
ASEAN+China+Korea+Hong Kong +Taipei,China (14)	22.7	27.2	33.0	39.1	40.6	41.1	43.4	44.7	45.2	45.5	45.8
ASEAN+3 (13)[d]	30.2	30.2	29.4	37.6	37.3	37.1	37.9	39.0	39.2	38.9	38.3
ASEAN+3+HK+Taipei,China (15)	36.8	39.0	43.1	51.9	52.1	51.9	53.8	55.4	55.9	55.4	54.5
ASEAN+6 (16)[e]	34.6	34.8	33.7	40.8	40.5	40.6	41.3	42.4	43.0	43.1	42.6
ASEAN+6+HK+Taipei,China (18)	40.5	42.7	46.3	54.5	54.6	54.5	56.3	57.7	58.5	58.4	57.6
NAFTA (3)	33.8	38.7	37.9	43.1	48.8	49.1	48.4	47.4	46.4	46.1	44.3
MERCOSUR	11.1	7.2	10.9	19.2	20.3	17.9	13.6	14.7	15.2	15.5	15.7
Old EU (15)	60.7	59.8	66.2	64.2	62.3	62.2	62.5	63.0	62.2	60.4	59.5
New EU (27)	61.5	60.0	66.8	66.9	66.3	66.7	67.4	68.1	67.6	66.2	65.8

Notes: (a) Intraregional trade share is computed as $X_{ii}/[(X_{iw} + X_{wi})/2]$, where X_{ii} is the value of intraregional exports, X_{iw} is the value of the region's total exports to the world, and X_{wi} is the value of the world's total exports to the region.
(b) Asian newly industrializing economies (NIEs) = Hong Kong (HK); Korea; Singapore; and Taipei,China.
(c) Association of Southeast Asian Nations (ASEAN) = Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
(d) ASEAN+3 = 10 ASEAN countries, China, Japan, and Korea.
(e) ASEAN+6 = 13 ASEAN+3 countries, Australia, New Zealand, and India.

Sources: IMF, *Direction of Trade Statistics*, CD-ROM (June 2007). Data for Taipei,China for 1989–2006 sourced from the Bureau of Foreign Trade website, and for 1980–1985 from the *Statistical Yearbook* published by the Directorate-General of Budget, Accounting and Statistics.

low-wage labor have also contributed to the expansion of FDI. FDI inflows to East Asia over the past several decades have grown rapidly, at a rate much faster than the region's growth in trade. FDI inflows into East Asia have risen from 7% of world total FDI inflows in 1980 to 13% in 2006. Over the same period, East Asia's sustained dynamism fueled an increase in FDI outflows from 5% to 12% of world total outflows. Notably, many of these flows have become intraregional—from Japan and the newly industrialized economies (NIEs, i.e., Hong Kong; Korea; Singapore; and Taipei,China) to ASEAN and China, and from ASEAN to ASEAN and to China.

The main driver behind economic integration through trade and FDI is the intraregional business activity of multinational manufacturing corporations—initially those from Japan, Europe, and the United States (US), followed by those from emerging East Asia. These multinational corporations (MNCs) have formed closely organized production networks and supply chains across East Asia, linked

with the global market. These arrangements have emerged as a result of each MNC's business strategy that attempts to divide its whole production process into several sub-processes, and locate these sub-processes in different countries according to their comparative advantage—factor proportions and technological capabilities. Such business arrangements have promoted vertical intra-industry trade within East Asia in capital equipment, parts and components, intermediate inputs, semi-finished goods, and finished manufactured products[5].

These trends accelerated in the wake of the Plaza Accord in 1985, when Japanese MNCs, compelled to reduce their domestic production activities due to the steep appreciation of the yen, began building regional production bases centering on emerging East Asia—initially in the Asian NIEs and later in middle-income ASEAN countries (such as Malaysia, Thailand, Philippines, and Indonesia)[6]. Facing rising domestic costs, the NIEs soon began also investing in middle-income ASEAN economies and later, in the 1990s, in China. More recently, not only global MNCs from developed economies (such as Japan, Europe, and the US), but also firms from the NIEs and advanced ASEAN countries (like Malaysia and Thailand) have also been providing FDI to other ASEAN members (including Cambodia, Lao PDR, and Viet Nam) and to China, contributing to the formation of a web of regional supply chains increasingly centered on China. The source country (area) breakdown of cumulative FDI inflows to East Asia over the period 1995–2005 deserves attention. Table 2 indicates that while global MNCs from the major industrialized countries remain important investors in several economies in emerging East Asia, the Asian NIEs' firms have become much more important, accounting for 35 percent of total FDI inflows to emerging East Asia—particularly in China and Viet Nam. The table also indicates ASEAN 9 (non-Singaporean) firms are becoming active in emerging East Asia.

China is the world's largest emerging-market recipient of FDI inflows. It has benefited significantly from joining the global trading system (by becoming a member of the World Trade Organization), participating in regional production networks, and transforming itself into an assembly platform for regional and global manufacturing producers. China imports capital equipment, industrial materials, and intermediate inputs from neighboring economies, and exports finished manufactured products. As a rise in China's exports tends to stimulate its imports from other East Asian economies, its overall trade surplus tends to be accompanied by trade deficits vis-à-vis many regional economies. In this sense, China is building a complementary relationship within East Asia, while at the

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[5] See Kawai and Urata (1998), Fukao, Ishido, and Ito (2003), Kawai (2005b), and Athukorala (2005).

[6] In the late 1980s, China was not considered as an attractive production base for many global MNCs, including Japanese corporations, due to the country's tight restrictions over foreign firms' activities. Hence, the Asian NIEs and middle-income ASEAN countries were chosen as natural options for relocating Japanese MNCs' production activities abroad. With growing attractiveness of China as an FDI host in the 1990s, however, global MNCs—including those from Japan—began to expand their investment and business activities in China.

same time competing against several other emerging East Asian economies—particularly middle-income ASEAN countries—in global markets. This situation implies that exchange rate movements between the yuan and other emerging East Asian currencies have become increasingly relevant to trade and FDI.

Table 2 Emerging East Asia's foreign direct investment inflows, 1995–2005 (%)

FDI Inflows to:	Source Regions/Countries of FDI Inflows to Emerging East Asia						
	United States %	European Union %	Japan %	Asian NIEs %	ASEAN 9 %	%	Total (US$Mill)
Asian NIEs	16.8	15.8	8.1	5.2	3.9	100.0	(437,999)
Hong Kong	5.1	7.4	5.7	5.3	1.8	100.0	(215,999)
Korea	22.4	40.1	13.3	4.1	7.4	100.0	(55,975)
Singapore	31.7	19.3	8.5	4.0	5.8	100.0	(142,748)
Taipei,China	19.9	13.1	15.5	14.2	2.5	100.0	(23,277)
ASEAN 9	18.4	29.1	19.1	29.2	4.2	100.0	(116,413)
Indonesia	5.7	50.9	3.3	15.0	9.3	100.0	(11,839)
Malaysia	27.4	23.4	13.6	22.0	2.1	100.0	(44,651)
Philippines	23.4	10.3	23.1	16.9	1.1	100.0	(13,709)
Thailand	10.5	10.5	25.1	27.6	0.9	100.0	(37,428)
Viet Nam	4.8	19.1	14.4	39.2	6.6	100.0	(18,225)
China	8.1	8.1	8.6	54.0	1.6	100.0	(537,163)
Total	13.9	14.7	10.5	34.9	3.1	100.0	(992,516)

Notes: (a) NIE = newly industrializing economy; FDI = foreign direct investment; ASEAN9 = ten ASEAN member countries excluding Singapore.
(b) FDI recipient data compiled by Institute for International Trade and Investment (IITI) are adjusted to make them consistent with BOP figures.

Sources: UNCTAD, *World Investment Report* 2006; IMF, *International Financial Statistics*; ASEAN Secretariat for Singapore and ASEAN 9 data; *China Statistical Yearbook* for China data; OECD publication for Korea data; IITI for Hong Kong and Taipei,China data.

2.2. Financial Integration

Financial markets are also integrating rapidly in East Asia due to the deregulation of domestic financial systems, opening of financial services, and progressive relaxation of capital and exchange controls. Foreign operations by developed country commercial banks and portfolio investment by institutional investors in developed markets have significantly strengthened linkages among the region's financial markets. Commercial banks in emerging East Asia have also been expanding their businesses in their neighbors. One result was a rising degree of cross-country correlations of regional interest rates and stock market returns across East Asia. The speed, scale, and extent of the contagion of the 1997–98 financial

crisis symbolically affirmed this growing financial linkage.

Data analysis shows that levels of cross-market differentials in interest rates and bond yields have been declining in recent years[7]. Although the cross-market differences of money market interest rates rose significantly during the 1997–98 crisis, these differentials have begun to decline since 1999. Such declines in cross-market differentials are observed in both money market rates and long-term bond yields. For example, the average absolute values of uncovered interest rate differentials, after surging to over 3,000 basis points (for 3-month interbank lending rates) at the height of the crisis, have declined substantially to about half the pre-crisis level. The average absolute distance of the beta coefficient from unity has also declined substantially, particularly for 3-month interbank lending rates (though the decline has been less pronounced for 2-year and 10-year bond yields)[8]. Simple correlation analysis of stock returns demonstrates a relatively high level of co-movements in East Asia's equity markets, even after eliminating the global common factor, in comparison to those in money and bond markets.

Compared with trade and FDI integration, however, regional financial integration in East Asia has been less pronounced. Table 3 indicates that cross-border portfolio investment flows—particularly equity investment flows—have been expanding among the East Asian economies, but the share of intraregional portfolio investment flows in East Asia is still low (a mere 6% in 2005) compared with those of EU-15 (62%) and NAFTA (16%). An important reason for the limited degree of financial integration is that, apart from Japan; Hong Kong, China; and Singapore, many economies in East Asia still impose significant capital and exchange restrictions and other barriers, which impede free flows of financial capital. In particular, China and low-income ASEAN countries apply heavy controls and regulations. Another reason is that the domestic financial systems of many emerging market economies are still underdeveloped and shallow and, thus, cannot attract regional investors. East Asian investors tend to direct their international portfolios in North America and Europe, rather than in East Asia.

2.3. Macroeconomic Interdependence

An important consequence of these growing real and financial linkages—although the latter is limited—is the heightened macroeconomic interdependence and business cycle co-movements within East Asia. Growth rates of real macroeconomic activities have become increasingly synchronized. Using annual data for 1980–2002, Kawai and Motonishi (2005) demonstrate that the real activity variables—such as growth rates of real GDP, real personal consumption, and real fixed investment—were highly correlated among major economies in East Asia, notably among Japan; Korea; Taipei,China; Singapore; Malaysia; and Thailand with Indonesia and the Philippines beginning to join this group. However, real

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[7] This part is drawn from ADB, *Asia Bond Monitor*, November 2005.

[8] The beta coefficient takes the value of unity for full co-movements of interest rates.

Table 3 Cross-border portfolio investment flows, 2005 (Billion USD, Percentage of total)

Investment from	Investment to				
	NAFTA	EU-15	East Asia	ROW	World Total
Total Portfolio Investment					
NAFTA	743 (15.6)	1,890 (39.6)	827 (17.2)	1,315 (27.5)	4,775 (100.0)
EU-15	2,127 (17.6)	7,592 (61.6)	661 (5.4)	1,937 (15.7)	12,316 (100.0)
East Asia	895 (33.2)	914 (33.9)	157 (5.8)	729 (27.1)	2,693 (100.0)
Rest of the World	1,716 (42.2)	1,505 (37.0)	146 (3.6)	697 (17.2)	4,064 (100.0)
World Total	5,480 (23.0)	11,901 (49.9)	1,790 (7.5)	4,677 (19.6)	23,848 (100.0)
Long-term Debt Securities Investment					
NAFTA	244 (22.4)	441 (40.4)	58 (5.3)	348 (31.9)	1,091 (100.0)
EU-15	1,100 (14.8)	5,008 (67.5)	151 (2.0)	1,157 (15.6)	7,415 (100.0)
East Asia	669 (33.9)	717 (36.4)	51 (2.6)	536 (27.2)	1,972 (100.0)
Rest of the World	1,432 (48.9)	1,041 (35.5)	73 (2.5)	386 (13.2)	2,931 (100.0)
World Total	3,444 (25.7)	7,207 (53.7)	332 (2.5)	2,427 (18.1)	13,409 (100.0)
Equity Securities Investment					
NAFTA	499 (13.5)	1,449 (39.3)	769 (20.9)	967 (26.2)	3,684 (100.0)
EU-15	1,027 (21.0)	2,584 (52.7)	510 (10.4)	780 (15.9)	4,901 (100.0)
East Asia	226 (31.3)	197 (27.3)	106 (14.7)	193 (26.8)	721 (100.0)
Rest of the World	284 (25.1)	464 (41.0)	73 (6.4)	311 (27.4)	1,133 (100.0)
World Total	2,036 (19.5)	4,694 (45.0)	1,458 (14.0)	2,250 (21.6)	10,439 (100.0)

Note: NAFTA = North American Free Trade Area; EU-15 = Old European Union-15 countries; East Asia = Japan, Korea, China, Hong Kong, Singapore, Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.
Source: International Monetary Fund, *Coordinated Portfolio Investment Survey*, December 2005.

activity variables of China and low-income ASEAN members were not highly correlated with those of other East Asian economies. Surprisingly, East Asia's real activity variables were not strongly correlated with US or European real activity variables.

Using annual GDP data for 11 of the ASEAN+3 countries, for which data are available (except Brunei Darussalam and Cambodia), Rana (2007) provides simple 10-year moving correlations between real GDP growth of individual ASEAN+3 members and the group as a whole (excluding the reference member) from 1989 to 2005. Figure 1 shows that correlations have been increasing, especially after the financial crisis, suggesting greater synchronization of business cycles among ASEAN+3[9]. Correlations have been converging towards 0.8–0.9 in the Philip-

[9] The only exception is Korea, where correlation appears to be falling somewhat after 1998.

Figure 1 Correlations between individual countries and ASEAN+3 (excluding own).

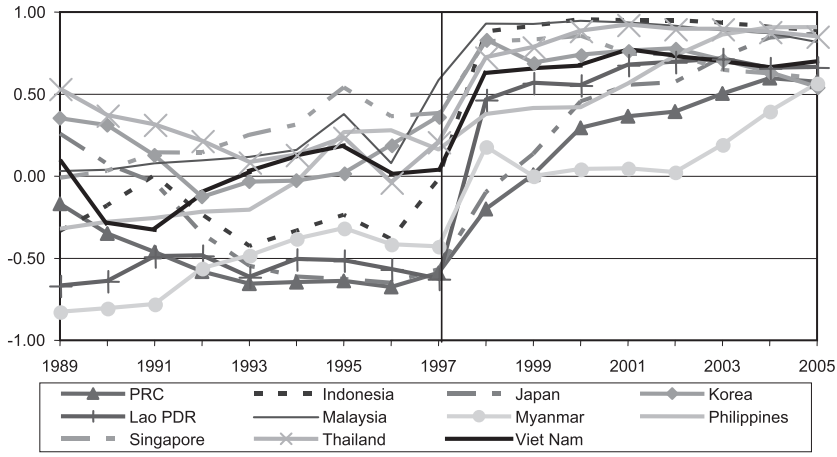
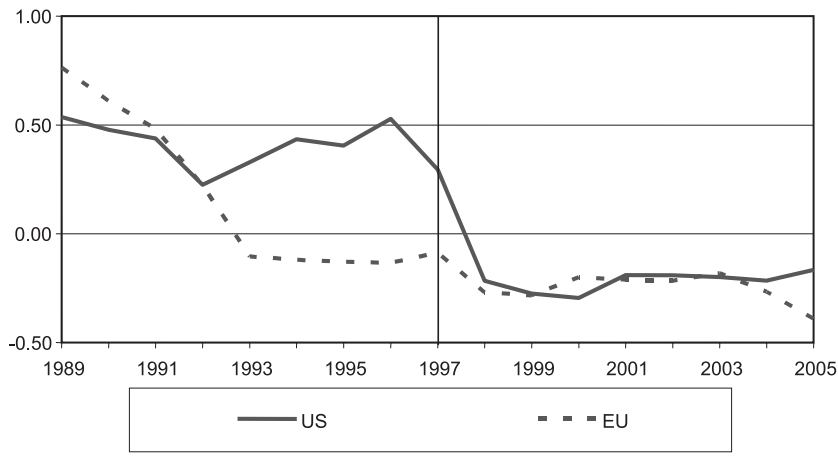


Figure 2 Correlations between ASEAN+3 and the US/EU



Note: EU = France, Germany, and Italy.
Source: Rana (2007).

pines, Indonesia, Japan, Malaysia, and Thailand. They are a bit lower (between 0.6 and 0.7) in Lao PDR, China, Singapore, and Viet Nam. On the other hand, correlations of business cycles of the ASEAN+3 group as a whole with those of the US and the EU countries (proxied by France, Germany, and Italy), however, are falling over time (Fig. 2).

These results suggest that emerging East Asia's real activity variables tend to be

more highly correlated with those of Japan than with those of the US and the EU. One interpretation for this is that major East Asian economies—including Japan and its emerging neighbors—are subject to common supply shocks, which are different from shocks hitting the US or the EU[10]. China did not exhibit strong business cycle co-movements with other East Asian economies in early years, largely due to its limited financial openness and linkages with these economies during those years. In more recent years, however, the country appears to show positive co-movements as its economy becomes more market-based, as it opens its financial markets, and as it becomes more integrated regionally and globally.

3. Regional FTA Initiatives

3.1. Proliferation of FTAs in East Asia

Despite its being a latecomer in the move towards FTAs compared to the Americas and Europe, East Asia has seen an unprecedented increase in bilateral and plurilateral FTA activities since the late 1990s. Multilateralism and most favored nations (MFN) principles through the General Agreement on Tariffs and Trade (GATT)/WTO framework and open regionalism and unilateral liberalization centered on APEC formed the bedrock of the region's approach to international trade for several decades. While the ASEAN Free Trade Area (AFTA) has been in effect since the early 1990s, many more governments in East Asia have recently embarked on preferential trade arrangements. In this sense, East Asia as a whole has changed its long-standing policy of pursuing trade liberalization only in a multilateral framework based on the WTO and APEC. The region has shifted its trade policy to a three-track approach based on global (WTO-based) cum trans-regional (APEC-based), regional (ASEAN+3 or ASEAN+6), and bilateral liberalization.

Japan implemented a bilateral EPA with Singapore[11], Mexico, Malaysia, and Chile, signed EPAs with Thailand, the Philippines, Indonesia, and Brunei, agreed on a comprehensive EPA in principle with ASEAN, and is negotiating on agreements with Korea, Viet Nam, Australia and India among others. China implemented an FTA on goods with ASEAN and is now negotiating on a services and investment agreement. Korea has also implemented an FTA with Chile and a goods agreement with ASEAN, signed an FTA with the US and a services agreement with ASEAN, and is negotiating an FTA with the EU. ASEAN is more aggressive in pursuing FTAs. While enacting FTAs with China and Korea, ASEAN is (or is considering) negotiating FTAs with India, Australia-New Zealand, and the EU. Some ASEAN members, like Singapore and Thailand, are

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[10] See Bayoumi and Eichengreen (1994) for evidence up to the early 1990s.

[11] More precisely, the Japan-Singapore agreement is called the "Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership (JSEPA)" and goes beyond a conventional free trade agreement.

actively pursuing bilateral FTAs. In this sense, there have been some bandwagon effects among Japan, China, and Korea in their drive for plurilateral FTAs/EPAs with ASEAN, which is acting as a regional hub for FTA moves. Recently, India, Australia, and New Zealand have joined this wave.

Table 4 summarizes three types of FTA activity in East Asia by status, during 1976–2007: (i) concluded FTAs (those signed or under implementation); (ii) FTAs under negotiation; and (iii) proposed FTAs (where parties issued joint statements with intention to negotiate an FTA, or established a joint study group or conducted a joint feasibility study to determine the desirability of establishing an FTA). Prior to 2000, only 3 FTAs had been concluded[12], 1 was under negotiation, and another 3 had been proposed. Within seven years, there was a ten-fold increase in FTAs concluded in East Asia and a larger increase in those under negotiation. By the end of June 2007, there were 36 FTAs concluded, 41 under negotiation, and 25 proposed. Today East Asia is at the forefront of FTA activity in Asia, with a total of 102 FTA initiatives at various stages (equivalent to more than half of Asia's total FTA initiatives)[13]. This trend seems set to increase in the future as East Asia makes up three-quarters of FTAs under negotiation in Asia.

3.2. Driving Factors behind FTA Initiatives

Three factors have led to the emergence of recent FTA moves in East Asia: (i) the deepening of market-driven economic integration; (ii) the success of European and North American economic integration initiatives; and (iii) the Asian financial crisis[14].

First, the most fundamental factor is the progress of market-driven regional economic linkages and interdependence. *De facto* economic integration requires policy measures to further deepen integration—i.e., coordination and harmonization of trade and FDI activities. Policymakers in East Asia are increasingly of the view that FTAs can support trade and FDI expansion through further elimination of cross-border impediments, facilitation of trade and FDI, and harmonization of various rules, standards, procedures, and regulations. In this way, FTAs can be regarded as part of a supporting policy framework for the deepening production networks and supply chains formed by global and, more recently, regional MNCs.

Second, economic regionalism in Europe and North America—including the successful launch of an economic and monetary union by the euro area countries and the expansion of the EU to the east, as well as the success of NAFTA and its incipient move to the Free Trade Area of the Americas (FTAA) in North, Central, and South America—has motivated the East Asian economies to pursue regional trade arrangements. Governments in East Asia fear that unless they coordinate

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[12] These were the Bangkok Treaty (1976), now known as the Asia-Pacific Trade Agreement (APTA), the Laos-Thailand Preferential Trading Arrangement (1991) and the ASEAN FTA (1992).

[13] As of June 2007, there were 198 FTAs in Asia as a whole. Of these, 90 were concluded, 61 were under negotiation, and 47 were proposed.

[14] More complete explanations can be found in Kawai (2005a).

Table 4 Free trade agreement initiatives in East Asia

Concluded	Under Official Negotiation	Under Consultation/Study
Asia-Pacific Trade Agreement (June 1976)	Hong Kong-New Zealand (Nov. 2000)	China-India
Laos-Thailand PTA (June 1991)	China-SACU (July 2004)	China-Korea
ASEAN FTA (Jan. 1993)	China-New Zealand (Dec. 2004)	China-Peru
Singapore-New Zealand CEP (Jan. 2001)	China-Australia (May 2005)	China-Japan-Korea
Japan-Singapore EPA (Nov. 2002)	China-GCC (Apr. 2005)	Japan-Canada
Singapore-EFTA FTA (Jan. 2003)	China-Singapore (Oct. 2006)	Korea-Australia
Singapore-Australia FTA (July 2003)	China-Iceland (2006)	Korea-New Zealand
China-Thailand FTA (Oct. 2003)*	Japan-Korea (Dec. 2003)	Korea-Malaysia
Singapore-USA FTA (Jan. 2004)	Japan-ASEAN CEPA (aip Nov. 2007)	Korea-Thailand
China-Hong Kong CEPA (Jan. 2004)	Japan-GCC (Sep. 2006)	Korea-MERCOSUR
China-Macao CEPA (Jan. 2004)	Japan-Viet Nam (Oct. 2006)	Korea-South Africa
Taipei,China-Panama FTA (Jan. 2004)	Japan-India EPA (Feb. 2007)	Taipei,China-USA
Korea-Chile FTA (April 2004)	Japan-Australia (Apr. 2007)	Taipei,China-Singapore
Thailand-India FTA (Sep. 2004)*	Japan-Switzerland (May 2007)	ASEAN-EU
Thailand-Australia FTA (Jan. 2005)	Korea-Canada (July 2005)	ASEAN+3
Japan-Mexico EPA (April 2005)	Korea-Mexico (Mar. 2006)	ASEAN+6 (EAS)
Thailand-New Zealand CEPA (July 2005)	Korea-India (Mar. 2006)	Brunei-USA
ASEAN-China FTA (Jan. 2005)**	Korea-EU (May 2007)	Indonesia-India
Singapore-India CECA (Aug. 2005)	Taipei,China-Paraguay (Aug. 2004)	Indonesia-USA
Singapore-Jordan FTA (Aug. 2005)	Taipei,China-Dominican Rep. (2006)	Indonesia-EFTA
China-Pakistan FTA (Jan. 2006)	ASEAN-India (Jan. 2004)	Malaysia-India
Korea-Singapore FTA (Mar. 2006)	ASEAN-CER (Feb. 2005)	Malaysia-EFTA
Trans-Pacific SEP (May 2006)	Indonesia-Pakistan (Nov. 2005)	Philippines-Pakistan
PTA-D8 (May 2006)**	Malaysia-Australia (May 2005)	Philippines-USA
BIMSTEC FTA (July 2006)*	Malaysia-New Zealand (May 2005)	Singapore-Sri Lanka
Taipei,China-Guatemala FTA (July 2006)	Malaysia-USA (Mar. 2006)	Singapore-Chile
ASEAN-Korea FTA (July 2006)**	Malaysia-Chile (2007)	Singapore-Egypt
Singapore-Panama FTA (July 2006)	Singapore-Mexico (July 2000)	Singapore-Morocco
Japan-Malaysia EPA (July 2006)	Singapore-Canada (Jan. 2002)	Singapore-SACU
Korea-EFTA FTA (Sep. 2006)	Singapore-Pakistan (Aug. 2005)	Thailand-Chile
Japan-Philippines EPA (signed Sep. 2006)	Singapore-Peru (Feb. 2006)	Thailand-MERCOSUR
China-Chile FTA (Oct. 2006)	Singapore-GCC (Nov. 2006)	Thailand-Pakistan
Taipei,China-El Salvador-Honduras (Nov. 2006)	Singapore-Ukraine (May 2007)	
Japan-Thailand EPA (signed Apr. 2007)	Thailand-Bahrain (signed Dec. 2002)	
Japan-Brunei EPA (signed June 2007)	Thailand-USA (June 2004)	
Korea-USA (signed June 2006)	Thailand-EFTA (Oct. 2005)	
Japan-Indonesia EPA (signed Aug. 2007)	Thailand-Peru (signed Nov. 2005)*	
Japan-Chile EPA (Sep. 2007)	TPS-OIC (Nov. 2005)	
Taipei,China-Nicaragua (Oct. 2007)		
Malaysia-Pakistan FTA (signed Nov. 2007)		

Notes: (a) The shaded arrangements are FTAs among the East Asian economies (ASEAN+3; Hong Kong; and Taipei,China).
(b) A single asterisk (*) indicates implementation of early harvest agreement and double asterisks (**) indicate implementation of Agreement on Trade in Goods.
(c) "aip" indicates "agreed in principle."
(d) ASEAN = Association of Southeast Asian Nations; BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; CER = Closer Economic Relations for Australia and New Zealand; EFTA = European Free Trade Association; GCC = Gulf Cooperation Council; MERCOSUR = Southern Cone Common Market; P3 = CER and Chile; PTA-D8 = Preferential Tariff Arrangement-Group of Eight Developing Countries, including Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey; TPS-OIC = Trade Preferential System-Organization of Islamic Conference, including Malaysia; Trans-Pacific SEP = Brunei, Chile, New Zealand, and Singapore Strategic Economic Partnership; SACU = South African Customs Union; SCO = Shanghai Cooperation Organization.

Source: Asian Development Bank, *Asian Regional Integration Center (ARIC) FTA Database.*

their own trade policies at the regional level, they will be disadvantaged in global competition and multilateral negotiations. Out of the concern that the two giant blocs, the EU and the US, might dominate the rule-setting in the global trading system while marginalizing the role and weight of East Asia, the region's policymakers have come to believe that they must step up their own process of integration and increase the region's voice in, and for, global trade issues. In addition, facing the slow progress of the WTO/Doha round and the perceived loss of steam of the APEC process, FTAs are considered as an insurance policy against the periodic difficulties with multilateral trade liberalization.

Third, the Asian financial crisis of 1997–98 has taught the important lesson that East Asia needs to strengthen regional economic cooperation in order to sustain dynamic economic growth and stability. The global initiative to strengthen the international economic system in this regard has been unsatisfactory, while the national efforts to strengthen individual economic fundamentals take time to bear fruit. Hence, the general sentiment in Asia has been that the region must establish its own "self-help" mechanism for economic management. The 1997–98 Asian financial crisis nurtured the sense of a "region" with a common set of challenges.

3.3. Salient Features of East Asian FTAs/EPAs

Many East Asian FTAs/EPAs are relatively new and, hence, summarizing their salient features is not an easy task, given the limited number of implemented FTAs/EPAs in place. Using the Asian Development Bank's Asian Regional Integration Center (ARIC) FTA Database, Kawai and Wignaraja (2007) have identified several key features of East Asian FTAs, focusing on configuration (bilateral vs. plurilateral), inward vs. outward orientation, scope (in terms of "WTO plus" elements), and rules of origin.

3.3.1. Bilateral vs. Plurilateral FTAs

The configuration of FTAs in East Asia can be divided into bilateral and plurilateral. Bilateral refers to agreements between two countries, while plurilateral refers to agreements among three or more countries. Plurilateral FTAs take several forms—agreements involving more than two countries, between one (or more than one) country and a trading bloc (like ASEAN), or between two trading blocs (e.g., ASEAN-EU)[15]. On the whole, countries are opting for simple bilateral FTA configurations rather than the more complex plurilateral ones as the bilateral agreements may be easier to negotiate. There were 31 bilateral FTAs among the 40 concluded FTAs as of November 2007 (i.e., 78% of total concluded FTAs), and there were 28 bilateral FTAs among the 38 FTAs under negotiation (making up 74%).

There are 9 plurilateral agreements among the concluded FTAs, and an

[15] There exist other definitions of bilateral and plurilateral FTAs, that is, a bilateral agreement is one reached by two negotiating parties where one of them may be a trading bloc itself (e.g., Thailand-EU FTA) while a plurilateral agreement refers to an FTA in which the number of negotiating parties exceeds two.

additional 10 plurilaterals under negotiation[16]. Among these, AFTA stands out in its economic importance in the region and as a natural hub for future FTA consolidation in East Asia. ASEAN has also become a focal point for the emergence of a new category of bloc-to-trading bloc agreements (e.g., an ASEAN+EU FTA under consideration for negotiation). The other concluded plurilateral agreements connect various East Asian countries with others outside the region.

3.3.2. Outward Orientation of FTAs

Looking at East Asian FTAs, the high degree of outward orientation is striking. Out of all (40) concluded FTAs, 26 are with countries or groups outside East Asia as of November 2007 (65% of total). The outward orientation of East Asian FTAs under negotiation is even higher at 89%.

Having commenced negotiations with Australia, India, and New Zealand, ASEAN as a group is considering negotiations with the European Union. Singapore has concluded 8 extra-regional agreements with a wide geographical spread from North and Latin America to the Middle East. China, Japan, Korea, and Thailand have concluded FTAs with some Latin American countries. China has concluded an FTA with Pakistan and is negotiating FTAs with the Gulf Cooperation Council and Iceland. Thus, East Asian economies have a strong tendency to maintain open trading relations with the rest of the world rather than becoming inward-looking (Kawai, 2005a).

3.3.3. "WTO-plus" Coverage

The WTO regulatory framework typically covers trade in goods, services, and a few other trade-related issues, while FTAs may cover issues beyond the WTO framework. So it is useful to examine the extent to which the recent East Asian agreements go beyond the WTO regulatory framework—by looking at provisions on a host of issues such as trade facilitation, investment, government procurement, competition policy, intellectual property rights, contingency protection, environmental protection, labor mobility, and dispute settlements. Such provisions are sometimes referred to as "WTO-plus" elements.

It is useful to break down concluded FTAs in East Asia into four types according to increasing scope: (i) goods only; (ii) goods and services; (iii) goods, services, and Singapore issues; and (iv) goods, services, Singapore issues, and cooperation enhancement measures. "Singapore issues" refers to trade facilitation, investment, government procurement, and competition policy. These were conditionally included in the work program for the Doha Round in November 2001 but were subsequently dropped at the WTO Ministerial Conference in Cancun in 2004. Cooperation enhancement measures refer to additional WTO-plus provisions—

[16] The Asia-Pacific Trade Agreement, AFTA, PTA-D8, Trans-Pacific SEPA, ASEAN+China FTA, ASEAN+Korea FTA, Korea & EFTA FTA, Singapore & EFTA FTA, and Taipei,China-El Salvador-Honduras FTA.

such as labor standards, small- and medium-sized enterprises (SMEs), and the environment—which are included in some agreements along with the Singapore issues. It is noteworthy that two thirds of concluded East Asian FTAs in 2007—a total of 23 (or 68%) out of 34 concluded FTAs for which data were available[17]—had "WTO-plus" provisions in addition to goods and services provisions. Of these, 9 had the Singapore issues only while another 14 were more comprehensive in scope with both the Singapore issues and cooperation enhancement provisions. This indicates that East Asian economies typically favor "WTO-plus" agreements rather than agreements in trade in goods and services.

3.3.4. Multiple Rules of Origin

Rules of origin (ROOs) exist to determine which goods will enjoy preferential bilateral tariffs and thus prevent trade deflection among FTA members. For manufactured goods, ROOs may have three types: (i) a change in tariff classification (CTC) rule defined at a detailed Harmonized System (HS) level; (ii) a local or regional value content (or value added, VA) rule requiring a product to satisfy a minimum local or regional value added in the exporting country or region of an FTA; and (iii) a specific process (SP) rule requiring a specific production process for an item.

Out of the 30 concluded FTAs in East Asia—for which data were available—strikingly, the majority (20) have adopted a combination of the three different ROO types rather than applying a single rule. Of the remaining FTAs, 3 use the VA rule only, another 3 use VA and/or CTC rules, and another 4 use VA and/or SP rules. The simplest ROO can be found in AFTA and the ASEAN+China FTA, both of which specify a 40 percent regional value content (VA) across all tariffs. Many agreements involving Japan, Korea, and Singapore tend to use a combination of rules. This suggests that room exists for coordination on ROOs across different, overlapping FTAs.

4. Regional Financial Cooperation

The regional economies have embarked on several initiatives to strengthen the regional financial architecture. These initiatives have three pillars: (i) regional economic surveillance; (ii) a liquidity support facility; and (iii) Asian bond market development.

4.1. Regional Economic Surveillance

Currently, the most prominent regional economic surveillance forum is that of the ASEAN+3 finance ministers' Economic Review and Policy Dialogue (ERPD) process, introduced in May 2000. There are other forums, such as the ASEAN

[17] As of November 2007, there were 40 concluded FTAs in East Asia. However, the texts for the Taipei,China and Nicaragua FTA and several recent FTAs were not available.

finance ministers' Surveillance Process, the ASEAN Central Bank Governors' Meeting, and the EMEAP process as well as forums for trans-regional policy dialogue under APEC and ASEM (see Table 5). The purpose of ASEAN+3 ERPD is to contribute to the prevention of financial crises through the early detection of irregularities and vulnerabilities and the swift implementation of remedial policy actions. For this purpose, the process facilitates information sharing, exchanges of views, assessments of economic conditions and policies, and potential for collaboration on financial, monetary, and fiscal issues of common interest.

The ERPD process encompasses: (i) assessing global, regional, and national economic conditions; (ii) monitoring regional capital flows and currency markets; (iii) identifying macroeconomic and financial risks as well as policies to reduce such risks; (iv) strengthening banking and financial system conditions; and (v) providing an Asian voice in the reform of the international financial system. Steps have been taken for cooperation in monitoring short-term capital flows through the exchange of consistent and timely data and information, establishing national surveillance units for economic and financial monitoring, and developing a regional early-warning system to assess regional financial vulnerabilities. Currently the ASEAN+3 ERPD process is in transition from the *information sharing* stage to *peer reviews*, and it will have to aim to achieve the next stage of *due diligence*—a more rigorous scrutiny of a potential debtor economy from a potential creditor's perspective (Kawai and Houser, 2007). As this evolution takes place, the ERPD is also being more closely linked to the Chiang Mai Initiative (CMI), which I would like to turn to below.

Central bank governors in the region have formed the ASEAN Central Bank Governors' Meeting and EMEAP, as completely separate forums from the ASEAN and ASEAN+3 finance ministers' processes. EMEAP was organized in February 1991 with the leadership of the Bank of Japan and the Reserve Bank of Australia. Its major objectives include exchanges of information and views, policy dialogue, and the promotion of financial market development. Its activities include annual meetings of EMEAP central bank governors, semi-annual meetings of the deputy governors, and three working groups concerned with bank supervision, financial markets, and payments and settlement systems[18]. Like the ASEAN+3 finance ministers' process, EMEAP has no secretariat; instead, the responsibility for organizational matters, along with the meetings themselves, is rotated among the participating central banks.

4.2. Regional Reserve Pooling—Chiang Mai Initiative

The hallmark liquidity support facility in East Asia is the CMI (introduced in May 2000), which was designed to address short-term liquidity needs in the event of a crisis or contagion, and to supplement the existing international financial

[18] While this forum is considered the most influential for regional central banks, it has its own weaknesses, such as irregularity of meeting schedules and lack of continuity. Eichengreen (2001) noted that each meeting had a different theme, and the themes ranged widely from social safety nets to capital flows.

Table 5 Regional forums for policy dialogues

	Finance Ministries and/or Central Banks					Central Banks		
	ASEAN (10)	ASEAN+3 (13)	EAS (16)	APEC (21)	ASEM (43)	SEANZA (20)	SEACEN (16)	EMEAP (11)
Year Established	1967.8	1999.4	2005.12	1994.3	1997. 9	1956	1966.2	1991.2
Japan		○	○	○	○	○		○
China		○	○	○	○	○		○
Korea		○	○	○	○	○	○	○
Hong Kong				○		○		○
Taipei,China				○			○	
Singapore	○	○	○	○	○	○	○	○
Brunei Darussalam	○	○	○	○	○		○	
Cambodia	○	○	○		○		○	
Indonesia	○	○	○	○	○	○	○	○
Lao PDR	○	○	○		○			
Malaysia	○	○	○	○	○	○	○	○
Myanmar	○	○	○		○		○	
Philippines	○	○	○	○	○	○	○	○
Thailand	○	○	○	○	○	○	○	○
Viet Nam	○	○	○	○	○		○	
Mongolia					○	○	○	
Macao						○		
Papua New Guinea				○		○	○	
Fiji							○	
Australia, New Zealand			○	○		○		○
India			○		○	○		
Pakistan					○	○		
Nepal, Sri Lanka						○	○	
Bangladesh, Iran						○		
USA, Canada				○				
Chile, Mexico, Peru				○				
Russia				○				
EU-27					○			

Notes: (a) ASEAN = Association of Southeast Asian Nations; EAS = East Asia Summit; APEC = Asia-Pacific Economic Cooperation; ASEM = Asia-Europe meeting; SEANZA = South East Asia, New Zealand, Australia; SEACEN = South East Asian Central Banks; EMEAP = Executives' Meeting of East Asia-Pacific Central Banks.

(b) ASEM includes the ASEAN Secretariat and the European Commission.

(c) EAS has yet to develop ministerial processes, particularly the finance ministers' process.

Source: Updated, Kawai and Houser (2007).

arrangements. The Asian financial crisis highlighted the importance of creating an effective financing facility so that governments in the region can prevent, or respond effectively to, currency crises in an increasingly connected global economy. The CMI consists of two elements: the enlarged ASEAN Swap Arrangement (ASA), presently with US$2 billion; and the network of sixteen bilateral swap arrangements (BSAs) among 8 ASEAN+3 members with US$83 billion as of July 2007 (Table 6)[19].

One of the important features of CMI BSAs is that members requesting liquidity support can immediately obtain short-term financial assistance for the first 20 percent of the committed amount. The remaining 80 percent is provided to the requesting member under an IMF program. Linking the CMI liquidity facility to an IMF program—and hence IMF conditionality—is designed to address the concern that the liquidity shortage of a requesting country may be due to fundamental problems, rather than mere panic and herd behavior by investors, and that the potential moral hazard problem could be non-negligible in the absence of rigorous IMF conditionality. The general view is that, with the region's currently limited capacity to produce and enforce effective adjustment programs in times of crisis, linking CMI to IMF programs is prudent, at least for the time being[20].

Continuous progress has been made to strengthen CMI since its launch. Some of the major developments over the last few years include:

- Integration and enhancement of ASEAN+3 ERPD into the CMI framework (May 2005);
- Increasing the ceiling for withdrawal without an IMF program in place from 10% to 20% of the total (May 2005);
- Adoption of the collective decision-making procedure for CMI swap activation, as a step toward multilateralizing the CMI (May 2006); and
- Agreement in principle on a self-managed reserve pooling arrangement governed by a single contractual agreement as an appropriate form of CMI multilateralization (May 2007).

Currently, ASEAN+3 finance and central bank deputies are studying some key elements of CMI multilateralization ("self-managed" reserve pooling)—including surveillance, reserve eligibility, commitment size, borrowing quota, and activation mechanisms.

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[19] The ASA, established in August 1977 by the central banks of the original five ASEAN countries, with a total facility of US$100 million, was augmented to a total of US$200 million in 1978. Under the CMI, ASA membership was extended to include all ASEAN members, and its facility was further augmented to US$1 billion. It was agreed in April 2005 to further augment ASA to US$2 billion. Note the ASA is a multilateral swap arrangement. The amount US$83 billion for CMI BSAs excludes Japan's commitment made for Malaysia under the New Miyazawa Initiative (NMI). In June and August of 1999, the Japanese Ministry of Finance committed to providing up to US$5 billion liquidity to the Bank of Korea and up to US$2.5 billion liquidity to Bank Negara Malaysia if and when necessary, through swap transactions between the US dollar and the respective local currencies. The NMI commitment to Korea was later included in a CMI BSA between Japan and Korea.

[20] Some ASEAN+3 members, such as Malaysia, believe that the CMI should not be linked to IMF programs.

Table 6 Progress on bilateral swap arrangements under the Chiang Mai Initiative (as of July 2007)

BSAs	Currencies	Effective/Expiration Dates	Size
Japan-China	Yen/Renminbi or Renminib/Yen	28 Mar 2002/27 Mar 2006	US$ 3.0 billion[a] (2-way)
Japan-Korea	USD/Won or USD/Yen	4 July 2001/3 July 2007; 24 Feb 2006/23 Feb 2009	US$ 10.0 billion (JPN-KOR) US$ 5.0 billion (KOR-JPN)
	Yen/Won or Won/Yen	27 May 2005/3 July 2007	US$ 3.0 billion[a] (2-way)
Japan-Indonesia	USD/Rupiah	17 Feb 2003/—; 31 Aug 2005/30 Aug 2008	US$ 6.0 billion (JPN-INO)
Japan-Malaysia	USD/Ringgit	5 Oct 2001/4 Oct 2007	US$ 1.0 billion[b] (JPN-MAL)
Japan-Philippines	USD/Peso or USD/Yen	27Aug 2001/26 Feb 2006; 4 May 2006/3 May 2009	US$ 6.0 billion (JPN-PHI) US$ 0.5 billion (PHI-JPN)
Japan-Singapore	USD/Singapore Dollar USD/Yen	10 Nov 2003/—; 8 Nov 2005/7 Nov 2008	US$ 3.0 billion (JPN-SIN) US$ 1.0 billion (SIN-JPN)
Japan-Thailand	USD/Baht or USD/Yen	30 July 2001/—; 7 Mar 2005/6 Mar 2007; 10 July 2007/—	US$ 6.0 billion (JPN-THA) US$ 3.0 billion (THA-JPN)
China-Korea	Renminbi/Won or Won/Renminbi	24 June 2002/—; 27 May 2005/23 June 2007	US$ 4.0 billion[a] (2-way)
China-Indonesia	USD/Rupiah	30 Dec 2003/17 Oct 2005; 17 Oct 2005/16 Oct 2008	US$ 4.0 billion (CHN-INO)
China-Malaysia	USD/Ringgit	9 Oct 2002/8 Oct 2005	US$ 1.5 billion (CHN-MAL)
China-Philippines	Renminbi/Peso	29 Aug 2003/28 Aug 2006; 30 Aug 2007/29 Aug 2010	US$ 2.0 billion[a] (CHN-PHI)
China-Thailand	USD/Baht	6 Dec 2001/5 Dec 2004	US$ 2.0 billion (CHN-THA)
Korea-Indonesia	USD/Rupiah or USD/Won	24 Dec 2003/23 Dec 2006; 27 Dec 2006/26 Dec 2009	US$ 2.0 billion (2-way)
Korea-Malaysia	USD/Ringgit or USD/Won	26 July 2002/—; 14 Oct 2005/13 Oct 2008	US$ 1.5 billion (2-way)
Korea-Philippines	USD/Peso or USD/Won	9 Aug 2002/—; 17 Oct 2005/16 Oct 2007	US$ 1.5 billion (2-way)
Korea-Thailand	USD/Baht or USD/Won	25 June 2002/24 June 2005; 12 Dec 2005/11 Dec 2007	US$ 1.0 billion (2-way)

Notes: (a) The amounts are US dollar equivalents.
(b) The amount excludes US$2.5 billion committed (on 18 August 1999) under the New Miyazawa Initiative.
Source: Kawai and Houser (2007).

4.3. Asian Bond Market Development

Since the 1997–98 financial crisis, there has been a strong recognition that East Asia needs to develop local currency bond markets as an alternative source of financing in view of the region's heavy dependence on banks. In particular, the development and deepening of local currency-denominated bonds is expected to

reduce the "double mismatch" problem, which was at the heart of the crisis, and overcome the so-called original sin problem[21]. The basic idea is to mobilize the region's vast pool of savings to be intermediated directly to the region's long-term investment, without going through financial centers outside the region. Regional financial intermediation through bond markets would diversify the modes of financing in the region and reduce the double mismatch.

This effort began first at the country level to strengthen national market infrastructure for the issuance and trading of sovereign and private bonds, and then at the regional level to encourage the development of regional bond markets. The regional efforts include the Asian Bond Fund (ABF) initiative under the aegis of EMEAP and the Asian Bond Markets Initiative (ABMI) under the auspices of the ASEAN+3 finance ministers. The APEC finance ministers' process and the Asia-Cooperation Dialogue (ACD) process have also been strongly supporting Asian bond market development.

The EMEAP group introduced the ABF initiative in June 2003. The idea was to help expand the bond market through demand-side stimulus from purchases by central banks of sovereign and quasi-sovereign bonds issued by 8 EMEAP emerging members (China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, and Thailand) using all eleven members' foreign exchange reserves. The initial attempt was to purchase US$1 billion of US dollar-denominated bonds (ABF-1). Given the recognition that local currency-denominated bonds needed to be promoted in order to address the "double mismatch" problem, the central bankers introduced ABF-2 in December 2004, involving purchases of US$2 billion equivalent of sovereign and quasi-sovereign local currency-denominated bonds. ABF-2 was designed to facilitate investment by public and private sector entities, through the listing of local currency exchange-traded bond funds (ETF)—already listed in Hong Kong, Malaysia, and Singapore.

The ASEAN+3 finance ministers' process launched the ABMI in August 2003. The ABMI aims to focus on facilitating market access to a diverse issuer and investor base and on enhancing a market infrastructure for bond market development, thereby creating robust primary and secondary markets in the region. The ABMI initially created 6 working groups and later reorganized these into 4 working groups and 2 support teams. The four working groups have been focusing on:

- Issuance of new securitized debt instruments;
- Study of several options and modalities to establish a regional credit guarantee and investment agency to help mitigate risks through credit enhancement;
- Exploration of possible establishment of a regional clearance and settlement system to facilitate cross-border bond transactions without facing the Herstatt

[21] "Original sin," as hypothesized by Eichengreen and Hausmann (1999), is a situation where emerging economy residents cannot borrow abroad in domestic currency nor borrow long term, even domestically. Hence domestic banks and corporations tend to face a currency or maturity mismatch or both, thus facing balance sheet vulnerabilities to sharp changes in exchange rates and/or interest rates.

risk (i.e., the risk of being in a different time zone); and
- Strengthening of regional rating agencies and harmonization of rating standards.

After careful examinations and discussions, the working groups have chosen a particular modality to establish a regional credit guarantee entity with the Asian Development Bank's support as well as decided to set up a regional clearance and settlement system.

4.4. Lack of Exchange Rate Policy Coordination

Despite close and rising interdependence of East Asian economies through trade, investment, and finance, no exchange rate policy coordination has been in place in East Asia. Moreover, the region's exchange rate regimes are in serious disarray. In contrast to the pre-crisis period, where many emerging market economies in East Asia maintained *de jure* or *de facto* US dollar pegged regimes, the post-crisis period exhibits a greater diversity in exchange rate regimes. The two giant economies in the region, Japan and China, adopt different exchange rate regimes—Japan a free float and China a heavily managed, crawling peg regime targeted at the US dollar.

Given the persistent global payments imbalance and rapid accumulation of foreign exchange reserves, abrupt changes in international investor tolerance (or expectations) could put downward pressure on the US dollar and upward pressure on many East Asian currencies. A loss of confidence in the US economy due to the worsening subprime loan problem or a possible economic recession could trigger a portfolio shift away from US dollar assets to other currencies. In addition, East Asia also faces the challenge of surges in short-term capital inflows and the consequent upward pressure on currency values. These inflows are often directed to asset markets—for investment in equities and real property—and hence, if not managed properly, can be a source of macroeconomic and financial sector vulnerabilities. Policy to allow currency appreciation is advisable in the presence of domestic inflationary pressure and incipient asset price bubbles, but it can also damage the country's international price competitiveness vis-à-vis neighboring countries. So these problems may not be resolved through individual national policies alone. One of the most reasonable policy options is to allow "collective" currency appreciation, which does not differentially affect individual countries' relative price competitiveness.

Collective currency appreciation would spread the adjustment cost across East Asia, thus minimizing individual country costs. Simple calculation would indicate that a 20% collective appreciation of East Asian currencies vis-à-vis the US dollar implies only a 9% effective (or trade-weighted) appreciation against trading partners—given the intra-regional trade share of 55%—even if all other non-East Asian currencies remain stable vis-à-vis the dollar. To the extent that other currencies also appreciate vis-à-vis the dollar, the degree of effective appreciation of the East Asian currencies would be more limited.

Joint currency appreciation requires a convergence of exchange rate regimes in

East Asia to ensure intraregional exchange rate stability. For this to happen, the existing policy dialogue processes among the region's finance ministers (such as ASEAN+3) and central bank governors (such as EMEAP) can play a critical role. Clearly the first step is to adopt a regime that allows greater currency flexibility vis-à-vis the US dollar. China's yuan revaluation in July 2005 and its shift to a managed crawling peg—followed by Malaysia's similar shift to a managed float—suggest the beginning of such coordination.

5. Shaping the New Economic Architecture in East Asia

5.1. Early Attempts

5.1.1. EAEG/EAEC Proposal

Following the unsatisfactory progress of the GATT Uruguay Round Ministerial meeting in December 1990, Malaysian Prime Minister Mohamad Mahathir proposed the formation of a regional trade grouping, comprised of major ASEAN countries, China, Hong Kong, Japan, and Korea. This group of economies was called the East Asian Economic Group (EAEG). Mahathir's objective was to establish a regional trade arrangement for the group, in response to the emergence of preferential regional trade arrangements elsewhere, including in North America, and to exercise a global impact on trade issues in the way, for example, the Cairns Group does. In October 1991, the ASEAN economic ministers considered Mahathir's proposal useful, and renamed the grouping "East Asian Economic Caucus" (EAEC).

The US objected to the EAEG/EAEC proposal on the grounds that it could divide the Asia-Pacific, by excluding the US, and reduce the effectiveness of the trade and investment liberalization process within APEC. Japan hesitated to support the proposal not only out of consideration for the US opposition—wishing to calm the trade conflicts at the time with the US and keep their bilateral relationship intact—but also because of the strategic priority it placed on the emerging APEC process. China also took a cautious approach. Interest in the EAEG/EAEC proposal eventually waned in the absence of support from key countries in Northeast Asia. But when the leaders of China, Japan, and Korea were invited to the informal ASEAN leaders' meeting in December 1997, in the midst of the Asian financial crisis, the *de facto* ASEAN+3 process began; it was formally launched in April 1999. Thus, the EAEG/EAEC proposal may be seen as a precursor to the ASEAN+3 process, as membership of the latter overlaps that of the former.

5.1.2. Asian Monetary Fund (AMF) Proposal

Soon after the outbreak of the Thai baht devaluation in July 1997, the Japanese government hosted a meeting in August to generate an agreement among the "Friends of Thailand" on a much-needed financial support package for crisis-affected Thailand[22]. Following this success, Japan, with support from Korea and

many ASEAN countries that participated in the Thai package, proposed in September to establish an Asian Monetary Fund (AMF), which was designed to supplement IMF resources for crisis prevention, management, and resolution. The aim was to pool foreign exchange reserves held by the East Asian authorities, both to deter currency speculation, and to contain a currency crisis and contagion in a member economy. It was said then that as much as US$100 billion would be mobilized. The United States and the IMF opposed this proposition on the grounds of moral hazard and duplication. They argued that an East Asian country hit by a currency crisis would bypass the tough conditionality of the IMF and receive easy money from the AMF, thereby creating the potential for moral hazard; they also reasoned that an AMF would be redundant in terms of its expected businesses and operations in the presence of an effective global crisis manager, the IMF. Without China's clear support, the idea was eventually shelved.

5.1.3. New Miyazawa Initiative

A highly successful example was the so-called New Miyazawa Initiative, which contributed to the resolution of the Asian financial crisis. In October 1998, Japan pledged US$30 billion to support the economic recovery of the crisis-affected countries. Half of the pledged amount was dedicated to short-term financial needs during the process of implementing economic restructuring and reform, while the rest was earmarked for medium- and long-term reforms. Part of short-term financial support was dedicated to currency swap arrangements with Korea (US$5 billion) and Malaysia (US$2.5 billion). Long-term support was extended to assist the crisis-affected countries in restructuring corporate debt, reforming financial sectors, strengthening social safety nets, generating employment, and addressing the credit crunch. A commitment to provide substantial financial resources helped stabilize the regional markets and economies, thereby facilitating the recovery process. Noteworthy is the fact that the short-term financial support provided to Korea and Malaysia became a model for bilateral currency swap arrangements under the Chiang Mai Initiative.

5.2. Multiple Groups: ASEAN, ASEAN+3, and EAS

Three key leaders' processes in East Asia—that is, ASEAN, ASEAN+3, and the East Asia Summit (EAS, or ASEAN+6)—are likely to shape the future economic architecture in the region.

5.2.1. ASEAN Economic Community

Until recently, ASEAN, established in August 1967[23], had been the only for-

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[22] The so-called "Friends of Thailand" were economies which extended financial assistance to Thailand in 1997 and included Australia, Brunei Darussalam, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, and Singapore.

[23] The Bangkok Declaration in 1967 stated that ASEAN aimed to accelerate economic growth, social progress, and cultural development in the region and promote regional peace and stability.

mal grouping that pursued regional economic integration in East Asia. The original five ASEAN central banks and monetary authorities—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—introduced the ASA, with the total facility of US$100 million, in 1977. The ASA has evolved since then in terms of both amount and membership and has eventually become one of the two elements of the CMI.

Box 1: ASEAN's Existing Initiatives for Economic Integration

- *ASEAN Free Trade Area (AFTA).* Launched in January 1992, AFTA was to be established within 15 years. The Common Effective Preferential Tariff (CEPT) Scheme was introduced as the main mechanism for lowering intra-ASEAN tariffs to the 0%–5% range*. Despite the slow pace of trade liberalization, the first six signatories—Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand—complied with the CEPT scheme in 2003. Viet Nam achieved its tariff elimination target in 2006, Lao PDR and Myanmar are expected to do so in 2008, and Cambodia in 2010. The six original signatories are expected to eliminate tariffs altogether by 2010 and Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) by 2015. By then ASEAN as a whole will become a tariff-free FTA.
- *ASEAN Framework Agreement on Services (AFAS).* Signed in December 1995, the AFAS aims to substantially eliminate intra-ASEAN restrictions to trade in services and facilitate free flow of services by 2015—by progressively improving market access and ensuring equal national treatment—and improve the efficiency and competitiveness of ASEAN services suppliers. The "ASEAN minus x" formula has been applied since September 2003 to allow member countries ready for liberalizing a certain service sector to proceed to do so without having to extend the concessions to non-participating members that may join at a later stage.
- *ASEAN Investment Area (AIA).* Adopted in October 1998, the AIA aims to make ASEAN a competitive, conducive, and freer investment area through liberalizing investment rules and policies in protected sectors and promote greater flows of capital, skilled labor, professional expertise, and technology within the region. The AIA agreement has expanded to cover manufacturing, agriculture, mining, forestry, and fishery sectors, and services incidental to these sectors. Member countries will have to reduce or eliminate investment barriers and grant national treatment to ASEAN investors by 2010 and to all investors by 2020.

* For products not covered by CEPT, the ASEAN Preferential Trading Arrangement (PTA) could be used.

ASEAN has embarked on several economic integration initiatives, including AFTA, the ASEAN Framework Agreement on Services (AFAS), and the ASEAN Investment Area (AIA) (see Box 1). In 1997, the ASEAN leaders adopted the "ASEAN Vision 2020," which envisioned ASEAN as outward looking, living in peace, stability, and prosperity, and bonded together in partnership in dynamic development and in a community of caring societies. To implement this long-term vision, the Hanoi Plan of Action (1999–2004) was drawn up as the first in a series of action plans. Following the launch of the "Initiative for ASEAN Integration" (IAI) in 2000, the ASEAN leaders in 2003 adopted the "Declaration of ASEAN Concord II" (Bali Concord II), whereby they agreed on the establishment by 2020

of an ASEAN Community comprising three pillars: an ASEAN Security Community, an ASEAN Economic Community, and an ASEAN Socio-Cultural Community. See the Appendix Table for major decisions made by leaders of ASEAN (as well as those of ASEAN+3 and the East Asia Summit [EAS]).

According to the "ASEAN Vision 2020" and "ASEAN Concord II," by 2020 ASEAN was expected to become a competitive economic region with a single market and production base, where there is a free flow of goods, services, and investment, a freer flow of capital, equitable economic development, and reduced poverty and socio-economic disparities[24]. In moving in this direction, it was considered necessary to strengthen the implementation of its existing economic initiatives including the AFTA, AFAS, and AIA; accelerate regional integration in 11 priority sectors[25]; facilitate movement of business persons, skilled labor, and talents; and improve the existing Dispute Settlement Mechanism. ASEAN leaders also considered the idea of adopting a "2 + x" approach to ASEAN economic integration in addition to the existing "ASEAN minus x" formula. In the "2 + x" approach, two countries ready to cooperate on a specific sector could work together first.

The ASEAN leaders in 2004 adopted the "Vientiane Action Program" (VAP), a six-year plan (2005–10), as the successor of the "Hanoi Plan of Action" to realize the end goal of the "ASEAN Vision 2020" and "ASEAN Concord II." The VAP focused on deepening regional integration and narrowing the development gap within ASEAN, particularly the least developed member countries of Cambodia, Lao PDR, Myanmar, and Viet Nam (called CLMV), and called for the establishment of an ASEAN Charter in order to make ASEAN mechanisms more effective. In 2005 they tasked an Eminent Persons Group (EPG) to provide practical recommendations on the future directions for ASEAN and the nature of the Charter. In January 2007, they endorsed the submitted EPG Report on the ASEAN Charter as one of the bases for drafting the Charter, and directed the High-level Task Force to complete the drafting of the ASEAN Charter. They also decided to advance the time frame of the ASEAN Community, including AEC, forward to 2015. In November 2007, the leaders signed the "ASEAN Charter" and adopted the "ASEAN Economic Community (AEC) Blueprint" for ASEAN economic integration[26].

5.2.2. ASEAN+3

Officially launched in 1999, the ASEAN+3 process contains many ministerial processes—for foreign affairs, economy, and trade; macroeconomic and finance;

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[24] See Hew and Soesastro (2003) and Hew (2007) for a number of ideas on deepening ASEAN economic integration.

[25] The ASEAN economic ministers' meeting in September 2003 agreed to accelerate integration of 11 priority sectors: electronics, e-ASEAN, health care, wood-based products, automotives, rubber-based products, textiles and apparel, agro-based products, fisheries, air travel, and tourism. These were officially endorsed by the ASEAN leaders in November 2004.

environment; energy; health; labor; science and technology; and social welfare, among others. China regards ASEAN+3 as a natural grouping for East Asia's trade and investment cooperation, and the ASEAN+3 economic ministers have focused on the feasibility of an East Asia Free Trade Area (EAFTA)[27]. In addition, the group's finance ministers have been particularly active for regional financial cooperation, including the launch of the regional liquidity support arrangement (Chiang Mai Initiative), the regional economic surveillance process (ERPD), and Asian bond market development (ABMI).

The ASEAN+3 leaders in 2004 agreed that the establishment of an "East Asian Community" was a long-term objective and affirmed the role of ASEAN+3 as the "main vehicle" for this eventual establishment. The idea of creating such a community had been proposed by the East Asia Vision Group (2001)[28]. The Vision Group had envisioned the progressive integration of the East Asian economies, ultimately leading to an "East Asian economic community;" the group held that once a region-wide FTA is formed, covering both trade and investment, and once institutions for other types of regional cooperation are established, the basic foundation for an East Asian economic community will have been prepared. But the leaders apparently considered some of these recommendations bold.

An East Asia Study Group (EASG), composed of government officials, was set up in 2000 essentially to respond to the Vision Group's recommendations. The ASEAN+3 leaders in 2002 received the EASG Final Report, which identified 17 concrete short-term measures and 9 medium- to long-term measures to move East Asian cooperation forward (see Box 2). The leaders endorsed in 2003 the implementation strategy of the short-term measures—to be implemented by 2007—and in 2004 encouraged a speedy implementation of the short-term

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[26] The ASEAN Charter establishes the group as a rules-based legal personality, creating permanent representation for members at its secretariat in Jakarta and committing leaders to meetings twice a year. The Charter reaffirms as its basic principle consultation and consensus for its decision-making, but where consensus cannot be reached, the ASEAN Summit may decide on how a specific decision can be made. The Charter permits flexible participation in the implementation of economic commitments in ASEAN, including the "ASEAN minus x" formula.

[27] Following the ASEAN+3 leaders' decision in 2003 and based on China's proposal, ASEAN+3 economic ministers set up an expert group to conduct a feasibility study on an EAFTA in 2004. The ministers were briefed in 2006 by the Chairman of the Joint Expert Group (JEG) for Feasibility Study on East Asia Free Trade Area on study outcomes. ASEAN+3 leaders in January 2007 welcomed the EAFTA as a fruitful avenue of integration, but at the same time they noted that they should examine other possible configurations such as an FTA for EAS countries. Leaders also welcomed Korea's proposal to conduct the Phase II study involving the in-depth sector-by-sector analysis of the EAFTA within ASEAN+3. At the same time, reflecting Japan's position, EAS leaders in January 2007 agreed to launch a track-2 study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS participants.

[28] The East Asia Vision Group was established in 1999 under the leadership of Korean President Kim Dae Jung, and the Group recommended: (a) economic cooperation, b) financial cooperation, (c) political and security cooperation, (d) environmental cooperation, (e) social and cultural cooperation, and (f) institutional cooperation.

measures and medium- and long-term measures proposed by the EASG. Most of the medium- to long-term recommendations have begun to be addressed, with a few exceptions—such as the pursuit of a more closely coordinated regional exchange rate mechanism.

Box 2: Concrete Recommendations by the East Asia Study Group

17 Short-term Measures

- Form an East Asia Business Council;
- Establish generalized system of preferences (GSP) status and preferential treatment for the least developed countries;
- Foster an attractive investment environment for increased foreign direct investment;
- Establish an East Asian Investment Information Network;
- Develop resources and infrastructure jointly for growth areas and expand financial resources for development with the active participation of the private sector;
- Provide assistance and cooperation in four priority areas: infrastructure, information technology, human resources development, and ASEAN regional economic integration;
- Cooperate through technology transfers and joint technology development;
- Develop information technology jointly to build telecommunications infrastructure and to provide greater access to the Internet;
- Build a network of East Asian think tanks;
- Establish an East Asia Forum;
- Implement a comprehensive human resources development program for East Asia;
- Establish poverty alleviation programs;
- Take concerted steps to provide access to primary health care for the people;
- Strengthen mechanisms for cooperation on non-traditional security issues;
- Work together with cultural and educational institutions to promote a strong sense of identity and an East Asian consciousness;
- Promote networking and exchanges of experts in the conservation of the arts, artifacts, and cultural heritage of East Asian countries; and
- Promote East Asian studies in the region.

9 Medium-term and Long-term Measures, and Those that Require Further Study

- Form an East Asian Free Trade Area;
- Promote investment by small- and medium-sized enterprises;
- Establish an East Asia Investment Area by expanding the ASEAN Investment Area;
- Establish a regional financing facility;
- Pursue a more closely coordinated regional exchange rate mechanism;
- Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit;
- Promote closer regional marine environmental cooperation for the entire region;
- Build a framework for energy policies, strategies, and action plans; and
- Work closely with NGOs in policy consultation and coordination to encourage civic participation and state-civil society partnerships in tackling social problems.

Source: East Asia Study Group (2002).

5.2.3. East Asia Summit (ASEAN+6)

One recent, significant development is the ASEAN leaders' agreement in 2004 agreement to convene an EAS. Creation of this new forum had been suggested by both the East Asia Vision Group and the EASG, but without a clear view of which countries should be included as its members. The first EAS meeting was held in Kuala Lumpur in 2005, with the participation of thirteen ASEAN+3 members as well as Australia, India, and New Zealand. In the second meeting in January 2007, this wider group decided to focus on five priority cooperation areas: energy, education, finance, avian influenza, and natural disaster mitigation. Japan regards the EAS (or ASEAN+6) as an appropriate grouping for East Asia's trade and investment cooperation.

Future economic cooperation in East Asia, leading to an East Asian economic community, is likely to evolve around the multiple agreements under ASEAN, ASEAN+1, ASEAN+3, and EAS processes[29]. Given the political economy dynamics in East Asia[30], it is likely that the "ASEAN Economic Community" to be created by 2015 will be the hub of East Asian economic cooperation. It is now understood that the core of East Asian cooperation lies in ASEAN as the major "driving force," with ASEAN+3 as the "main vehicle" for the realization of an eventual East Asian economic community, with the EAS as "an integral part of the overall evolving regional architecture." Nonetheless, how effective the EAS will become as a group remains to be seen.

5.2.4. APEC and ASEM as Trans-regional Forums

APEC, established in 1989, has played a useful role in encouraging trade and investment liberalization within the Asia-Pacific region, including the United States, Canada, and Australia as members. Australia played a major role in promoting APEC as a trans-regional forum with the basic principle of "open regionalism." One of its most important achievements was to encourage unilateral, voluntary trade liberalization of non-WTO members such as China and Taipei, China. In addition, the Bogor Declaration of 1994 set the goal of zero tariffs by 2010 for developed countries and by 2020 for developing countries. The modality of achieving the Bogor goals was clarified in the Osaka Action Agenda. Nonetheless, APEC's prominence appears to have declined since the Asian financial crisis because of its inability to effectively respond to the crisis and the recent proliferation of bilateral and sub-regional FTAs pursued by the member economies. In addition, its excessive diversity is often mentioned as a cause for its increasing ineffectiveness. But the basic principle of "open regionalism," set out by APEC,

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[29] The ASEAN+1 process includes ASEAN+China, ASEAN+Japan, ASEAN+Korea, ASEAN+India, and ASEAN+CER mainly in the form of FTAs or comprehensive economic partnership agreements (CEPAs).

[30] First, ASEAN does not seem to want to see a dominant Japan or China and, second, no close coordination has been developed among China, Japan, and Korea yet. Japan and China seem happy having ASEAN assume a leadership role in East Asian community building.

may remain important if APEC members take APEC—and WTO—principles as a liberalization infrastructure for their FTAs and attempt to go beyond such basic principles[31].

One recent notable development is that based on the US proposal to create an FTA for members: APEC leaders in 2006 and 2007 decided to examine options and prospects for a Free Trade Area of the Asia-Pacific (FTAAP) through a range of practical and incremental steps[32]. However, some members fear that this move can hamper APEC's "open regionalism" principle.

ASEM, organized in 1996, is a forum for Asia-European Union economic cooperation. Its membership initially covered the five original ASEAN members, China, Japan, Korea, and the EU members, but was later expanded to include all ASEAN members, and more recently key South Asian countries, like India and Pakistan. ASEM has not been so active a forum for trade and investment liberalization as in the case of APEC. There has been no official proposal to set up an ASEM FTA, at least for now.

5.3. Consolidation of Multiple FTAs into an EAFTA—ASEAN+3 or ASEAN+6?

If an East Asian economic community is to be created, the region must become a single market. A starting point for this would be the deepening of ASEAN economic integration and the creation of a single East Asian FTA, which could evolve into an East Asian customs union and/or a common market in the future.

5.3.1. Need for Consolidation

Since the late 1990s, East Asia has seen the rapid emergence, and negotiations, of a number of FTAs/EPAs, including ASEAN+1 FTAs—such as ASEAN+China, ASEAN+Korea, ASEAN+Japan, ASEAN+India, and ASEAN+CER. One of the problems with FTA proliferation in the region is that various provisions, standards, and rules—including ROOs, services, investment and other "WTO-plus" elements—in overlapping FTAs can raise administrative costs and become burdensome to business firms, giving rise to the famous Asian "noodle bowl" effect. Consolidation of multiple, overlapping FTAs into a single East Asian FTA will ensure consistency across different trade arrangements through identical rules, standards, and procedures. A practical approach to consolidation would be to build on ASEAN+1 FTAs, and then merge them into an ASEAN+3 FTA (China's proposal) or an ASEAN+6 FTA (or CEPEA, Japan's proposal). This ASEAN-centered approach requires deep integration of ASEAN, which is clearly a natural "hub" for an East Asian FTA as key production networks are rooted in ASEAN and all major economies in, or those trying to link with, East Asia are forming FTAs with ASEAN. It also requires the formation of FTAs among the Northeastern Asian countries, particularly an FTA between Japan and China. As the timeline for

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[31] In response to the proliferation of various FTAs in the Asia-Pacific region, APEC agreed to encourage its members to pursue a best-practice model of an FTA.

[32] See Bergsten (2007) for a proposed FTAAP.

Table 7 Liberalization timeframe among EAS countries

Agreements	For Developed Countries and Others	For Developing Countries	
		For Advanced Six Members	For Other Four Members
APEC	2010	2020	2020
ASEAN FTA	—	2003 (0% tariff by 2010)	2006–10 (0% tariff by 2015)
		ASEAN Economic Community to be launched by 2015	
ASEAN+China	2007 (China)	2007	2010
ASEAN+Korea	2008 (Korea)	2010 (excl. Thailand)	2015 (flexibility allowed)
ASEAN+Japan	2010 (Japan)	2012	2018
ASEAN+India	2011 (India)	2011 (excl. Philippines)	2016 (incl. Philippines)
ASEAN+CER	2010 (CER)	2017	2017

creating the ASEAN Economic Community has been brought forward to 2015 and all ASEAN+1 FTAs are expected to be completed by 2018 (Table 7), it is reasonable to assume that a single East Asian FTA could emerge well before 2020.

Kawai and Wignaraja (2007) reported computable general equilibrium (CGE) results that demonstrate a large gain from an ASEAN+3 FTA and an even larger gain from an ASEAN+6 FTA. Hence, East Asia is advised to aim for ASEAN+6 as the region's goal. However, sufficiently deep integration may not be achieved among the ASEAN+6 countries due to the diverse interests among the group, particularly given India's high degree of protection in trade and FDI. Then a realistic approach could be to take a sequenced move by starting with an ASEAN+3 FTA and then expanding it to an ASEAN+6 FTA. Essentially, any FTA must be designed with a view toward consolidation. A useful step in this direction would be to allow cumulation of VA ROOs among countries that have completed bilateral or plurilateral FTAs.

5.3.2. Connecting East Asia with North America and Europe

The CGE computation also indicates a negative impact of an ASEAN+3 or ASEAN+6 FTA on several countries in North America and Europe. These impacts, though small, need to be addressed by maintaining East Asia's openness. While consolidation of FTAs within East Asia is clearly important, the region's eventual connection with North America and Europe will have to be the next agenda. For many East Asian economies, the US is the crucial ally from a security perspective, particularly given the geopolitical concerns in the Korean Peninsula. APEC remains important for East Asia and the US because it is the only multilateral economic forum that connects East Asia with the US. A natural approach for East Asia is to strengthen economic ties with the US through the formation of an FTA between the EAS (i.e., ASEAN+6) and NAFTA—or an expanded version of

an FTAAP as APEC does not include all ASEAN members or India. While several East Asian countries have agreed on bilateral FTAs with the US and Mexico, some have reservations about a comprehensive agreement with the US.

The current political economy conditions in East Asia will require the key role of ASEAN intact in connecting East Asia with North America and/or Europe, that is, East Asian trade integration with the two major blocks in the world will need to proceed with ASEAN as its hub. Given that the EAS members are all signatories of the Treaty of Amity and Cooperation (TAC)[33], East Asia's trade integration process involving North America and Europe will be facilitated relatively smoothly if the US and the EU also sign TAC. Then the likely scenario is for ASEAN to complete an ASEAN+US (or ASEAN+NAFTA) FTA and an ASEAN+EU FTA and merge each of these into an ASEAN+6+NAFTA FTA or an ASEAN+6+EU FTA to form much wider FTAs that connect East Asia with North America and Europe. Of course a question remains as to whether the US is ready to agree an FTA with East Asia—that includes China—and whether the US trade promotion authority (which expired in June 2007) will be revived.

5.4. Three Steps toward Monetary and Financial Integration

The deepening regional economic integration and rising business cycle synchronization within East Asia suggest that the region would be better off by maintaining intraregionally stable exchange rates. But, currently, there exists no coordination of exchange rate or monetary policies across East Asia as each country wishes to pursue its own domestic objectives (see Kawai, 2008). To pursue policy coordination, a gradual, step-by-step approach is appropriate. The first step is to coordinate informally on exchange rate regimes by moving toward greater exchange rate flexibility vis-à-vis the US dollar. The second step is to initiate exchange rate policy coordination to ensure some intraregional rate stability without rigid coordination of monetary policy. The third step is to adopt tightly agreed exchange rate and monetary policy coordination (see Table 8).

5.4.1. Informal Coordination of Exchange Rate Regimes

The first step is the introduction of informal policies that attempt to achieve both greater exchange rate flexibility vis-à-vis the US dollar and some exchange rate stability within East Asia by using a basket of G3-plus currencies (the US dollar, the euro, the yen and emerging East Asian currencies) as a loose reference. This can be done by those economies under US dollar pegs to increase exchange rate flexibility and by all emerging East Asian economies to adopt managed floating

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[33] The TAC, signed in 1976, specifically and legally binds all its signatories to peaceful coexistence and respect for the principles of sovereignty, territorial integrity, non-interference in internal affairs, and non-use of force. In addition to all ten ASEAN members, 10 countries have signed the TAC: China (October 2003); India (October 2003); Japan (July 2004); Pakistan (July 2004); Korea (November 2004); Russia (November 2004); New Zealand (July 2005); Australia (December 2005); France (January 2007); and Timor-Leste (January 2007).

Table 8 Steps toward exchange rate and monetary policy coordination

Progress	Exchange Rate Policy	Institutions	Trade-Investment
Current State	Uncoordinated exchange rate arrangements	CMI; ASEAN+3 ERPD; EMEAP; Asian Bond Markets Initiative	Uncoordinated FTAs (Asian noodle bowl)
Informal Coordination (exchange rate regime coordination)	Move to greater rate flexibility vs. USD; G3-plus currency basket as a loose reference; Asian Currency Unit as a surveillance indicator	CMI multilateralization; effective ERPD by ASEAN+3 finance ministers & central bank governors; Forum for financial supervisors & capital market regulators	Coordination and harmonization among FTAs (cumulation of rules of origin within East Asia)
Formal, but Loose Coordination (exchange rate policy coordination)	G3-plus currency basket system with well-defined rules for intraregional rate stability	Independent secretariat for a multilateralized CMI & enhanced ERPD w/due diligence; Regional infrastructure for capital markets	East Asian FTA (ASEAN+3 or ASEAN+6)
Tight Coordination (monetary policy coordination)	"Asian Snake" or "Asian Exchange Rate Mechanism (ERM)"	Asian Monetary Fund; Regional financial supervisory & regulatory authority	Asian Customs Union
Complete Coordination	Asian Monetary Union	Asian Central Bank	Asian Common Market

targeted at a G3-plus currency basket—as is currently practiced by Singapore. The currency weights in the basket could vary across countries, at least initially. How strictly countries stabilize currencies to this basket could depend in each case on country conditions and preferences. National monetary authorities can maintain most of their autonomous policymaking by combining an appropriately defined inflation targeting policy and basket-based managed floating. At this stage, an Asian Currency Unit (ACU) index—as a weighted average of the yen and emerging East Asian currencies—can also be introduced as a tool for measuring the degree of joint movements of East Asian currencies and the degree of divergence of each currency movement from the regional average set by the ACU[34]. Once China moves to a more flexible exchange rate regime, ACU index movements and divergences of component currency movements can provide more meaningful information.

This informal currency coordination should be complemented by enhanced financial cooperation. This includes a multilateralized CMI and more effective regional economic surveillance (ERPD). ERPD should focus more intensively on frank discussions, with "peer review" elements, and on exchange rate issues by using an ACU index and divergence indicators[35]. ASEAN+3 finance ministers and central bank governors are encouraged to work closely to strengthen their policy dialogue. In addition, a regional forum for financial sector supervisors and capital market regulators may be established to facilitate information exchange, policy dialogue, and mutual cooperation among them.

5.4.2. Formal Exchange Rate Policy Coordination

The second step is the joint adoption of a formal policy of stabilizing intra-regional exchange rates using a common basket of G3-plus currencies (i.e., the US dollar, the euro, and the ACU) as a reference. The basket stabilization policy will have to be clearly defined with transparent rules on exchange rate parity against the common basket, a relatively wide exchange rate band (like ±10%) around the central rate, and adjustment of both the central rate and the band—along the lines proposed by Williamson (2005). The authorities would allow greater exchange rate flexibility vis-à-vis the US dollar while enjoying a lesser degree of national monetary policy autonomy. The ACU index should continue to serve as an important indicator in measuring joint movements and divergences of East Asian currencies,

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[34] The ACU could also be developed for invoicing trade-related transactions and serving as a denomination for local currency bond issues. See Kawai (2007).

[35] Interesting remarks have been made by Adams (2006), Under Secretary for International Affairs of the US Treasury at the time. He states: "With respect to an Asian Currency Unit (ACU), there has been some confusion about the US position on this topic. … We do not see the ACU as a competitor to the dollar. … We believe that greater exchange rate flexibility is desirable for the region, but are open-minded as to whether that involves currency cooperation within the region." On broader regional financial cooperation, while he wants to see more "clarity on the CMI" with regard to the amounts available absent IMF programs and the conditions imposed by CMI creditors, he states "we … support regional cooperation that is consistent with multilateral frameworks."

and its use in the financial markets should be encouraged.

Supporting institutional arrangements should be developed to a much greater extent. An independent secretariat will have to be created to support a fully multilateralized, enlarged CMI that is more independent of IMF programs, and much more enhanced ERPD, with advanced "peer review" and "due diligence" elements, for ASEAN+3 finance ministers and central bank governors. Various regional entities—including for credit guarantees and enhancements, and regional settlements and clearance—will become fully operational to support the development of local currency bond markets. Coordination of financial supervisors and capital market regulators will have to be strengthened for regional harmonization starting with mutual recognition of supervisory and regulatory practices with minimum standards.

5.4.3. Tight, Systematic Coordination of Exchange Rate and Monetary Policies

The third step is the launch of more systematic exchange rate and monetary policy coordination to create a regional monetary anchor. Here, two approaches are possible—the "European" approach and the "parallel currency" approach (Eichengreen, 2006). Under the "European" approach, a common basket peg similar to the snake or exchange rate mechanism (ERM) could be introduced. All currencies will become freely flexible vis-à-vis external currencies, such as the US dollar and the euro, but maintain intraregional stability through joint stabilization of individual currencies to the ACU. The mechanism should include well-defined monetary policy and intervention rules so as to provide a credible monetary anchor within East Asia as well as a fully elaborated short-term liquidity support arrangement, which is large and speedy enough for frequent interventions in the region's currency markets[36]. Fiscal policy rules may also be designed to lend credibility to the exchange rate stabilization scheme. The "parallel currency" approach could be considered in the absence of strong political will. This approach involves issuance of an ACU as a parallel legal tender together with national currencies, issuance of ACU-denominated bonds, and the establishment of a clearing and settlement system for ACU transactions. In the longer term, as the volume of ACU transactions increases, the ACU could develop into the sole legal tender within the region. The centralized reserve pool could then be converted into an Asian Central Bank[37].

A practical approach is to take a multi-track, multi-speed approach, whereby economies ready for deeper policy coordination begin the process while others prepare to join later. A group of economies that are sufficiently integrated—Japan and Korea; China and Hong Kong; or Singapore, Malaysia, and Brunei Darus-

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[36] Under the ERM of the European Monetary System, the deutschemark emerged as a *de facto* anchor currency despite the system having been designed as a symmetric exchange rate stabilization scheme. In Asia, it is also possible for the yen, the yuan, or another currency to play such an asymmetric, monetary anchor role, but the choice will be left to the natural evolution of non-inflationary policymaking and credibility of the region's central banks.

salam—and with sufficient political commitment, may wish at this stage to initiate subregional currency stabilization schemes. Each subregional group could intensify exchange rate and monetary policy coordination while allowing the possibility for others to join them subsequently. Over time these groups may start negotiations to integrate into a larger monetary zone.

6. Way Forward

Recovering from the 1997–98 financial crisis, East Asia is again the most dynamic growth center of the world economy. This paper has emphasized that the East Asian economies have achieved strong economic interdependence through market-driven integration with the global and regional economies. Expansion of foreign trade, direct investment, and financial flows has created a naturally integrated economic zone in East Asia. Reflecting rising economic interdependence and in response to the traumatic experience caused by the crisis, East Asia has embarked on various initiatives for economic regionalism, including bilateral and plurilateral free trade agreements and regional financial cooperation. These efforts are designed to complement the global frameworks governed by the World Trade Organization (WTO) and the International Monetary Fund (IMF).

The paper has outlined the major challenges for the region. First, regional trade authorities need to consolidate multiple, overlapping FTAs into a single East Asian agreement—particularly among the sixteen East Asia Summit (EAS, or ASEAN+6) countries—with the Association of Southeast Asian Nations (ASEAN) as the regional hub so that negative "noodle bowl" effects are minimized and "deep" integration, with many "WTO-plus" elements, can be achieved. This will be a basis for East Asia's global integration—i.e., achieving coherence of rules (including ROOs), standards, and procedures across countries in the region, maintaining consistency with the WTO framework, and eventually integrating with North America and Europe. Linkages with North America and Europe can be strengthened through the strategy of setting up ASEAN+1 FTAs with these two blocks and integrating them with the EAS (or ASEAN+6) process. This strategy clearly requires a substantial progress of ASEAN economic integration through ASEAN Economic Community building.

Second, the regional economies must make greater efforts to strengthen regional financial cooperation—the reserve pooling arrangement (Chiang Mai Initiative [CMI]), regional economic surveillance (Economic Review and Policy Dialogue

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[37] The appeal of the "parallel currency" approach is dictated more by economic forces (i.e., market forces) than by politics. This is consistent with the greater emphasis placed by East Asian countries on market-led rather than policy-led integration. It also accommodates the fact that the East Asian political context is very different compared with that of Europe. An underlying commitment to political solidarity drove the transition to a monetary union in Europe. Europe also considered the parallel currency approach, but it was abandoned in favor of the Maastricht process because of the strong political commitment that existed at the time.

[ERPD]), and Asian Bond Markets Initiative (ABMI) under ASEAN+3. Once the region achieves substantial enhancement of the CMI through further enlargement, full multilateralization, and meaningful reduction in its IMF linkages, and once the region strengthens its capacity to formulate independent adjustment policy—through its own secretariat—in the event of another liquidity crisis, East Asia will have effectively established its own monetary fund that can contribute to regional, as well as global, financial stability without creating fears of moral hazard. For this purpose greater collaboration between the region's finance ministers and central bank governors will be required. Greater coordination and harmonization will also be necessary among the region's financial supervisors and capital market regulators.

Third, the regional financial authorities need to strengthen exchange rate policy coordination—starting with the joint monitoring of regional exchange rates based on an Asian Currency Unit (ACU) index and the adoption of a currency basket arrangement based on the G3-plus currencies (US dollar, euro, and ACU). Greater political support for economic policy coordination could eventually lead to further institutional integration capable of supporting intraregional exchange rate stability. For this purpose substantial convergence will have to be achieved across countries in the region in terms of economic, financial, and structural conditions, performance, and policies.

Finally, various economic groups existing in East Asia—ASEAN, ASEAN+3, EAS (or ASEAN+6), Asia Pacific Economic Cooperation (APEC), and the Asia-Europe Meeting (ASEM)—will continue to play their own specific and complementary roles. But whatever regional economic architecture will emerge out of this complexity, the political economy dynamics in East Asia will continue to require an integrated ASEAN as a hub for East Asian economic cooperation. Not only could the East Asian integration process be multi-track and multi-speed, it will also utilize a pragmatic, step-by-step, and bottom-up approach, rather than focus on conceiving and implementing a comprehensive grand design, as was done in Europe. This "variable geometry, flexible borders" approach will eventually shape the form of a future East Asian economic architecture.

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Appendix Table

Major Decisions in Leaders' Processes for ASEAN, ASEAN+3, and the East Asia Summit (EAS)

Month & Year (Venue)	ASEAN	ASEAN+3	East Asia Summit (ASEAN+6)
August 1967 (Bangkok)	*ASEAN Declaration (Bangkok Declaration)* • Foreign affairs ministers of the original five members signed the *ASEAN Declaration* to launch ASEAN	—	—
February 1976 (Bali)	*Joint Communique, 1st Summit* • Signed the *Treaty of Amity and Cooperation in Southeast Asia (TAC)* • Signed the *Declaration of ASEAN Concord*, including the Agreement on the establishment of the ASEAN Secretariat	—	—
August 1977 (Kuala Lumpur)	*Joint Communique, 2nd Summit* • Reaffirmed commitment to the ASEAN Declaration and the *Declaration of ASEAN Concord* as the basis for ASEAN cooperation • Noted the ratification of the Agreement on ASEAN *Preferential Trading Arrangements (PTA)* signed in February 1977 as an overall framework for expanding intra-ASEAN trade • Commended the ASEAN central banks and monetary authorities for the establishment of an *ASEAN Swap Arrangement*	—	—
December 1987 (Manila)	*Joint Communique, 3rd Summit* • Issued the *Manila Declaration of 1987* • Noted the implementation of the Programme of Action embodied in the *Declaration of ASEAN Concord* and agreed on new initiatives to advance ASEAN cooperation • Noted the ASEAN membership of Brunei Darussalam since 1984 • Agreed to meet every three to five years, if necessary	—	—

Month & Year (Venue)	ASEAN	ASEAN+3	East Asia Summit (ASEAN+6)
January 1992 (Singapore)	*Singapore Declaration of 1992, 4th Summit* • Welcomed accession by all countries in Southeast Asia to the TAC • Agreed to establish the *ASEAN Free Trade Area (AFTA)* using the *Common Effective Preferential Tariff (CEPT)* Scheme as the main mechanism within 15 years beginning January 1993 with the ultimate effective tariffs ranging from 0% to 5% • Recognized the importance of strengthening cooperation with other countries, regional/multilateral economic organizations, as well as Asia-Pacific Economic Cooperation (APEC) and an East Asia Economic Caucus (EAEC)	—	—
December 1995 (Bangkok)	*Closing Statement by Prime Minister of Thailand, 5ih Summit* • Admitted Viet Nam as the 7th member of ASEAN • Signed the *Bangkok Summit Declaration* to set the direction and pace for ASEAN cooperation • Signed the *ASEAN Framework Agreement on Services (AFAS)*	—	—
November 1996 (Jakarta)	*Press Statement of 1st Informal Summit* • Requested the ministers to develop an ASEAN Vision toward 2020 and submit their report to the 2nd Informal Summit	—	—
December 1997 (Kuala Lumpur)	*Press Statement of 2nd Informal Summit* • Welcomed Laos and Myanmar as new members • Adopted the *ASEAN Vision 2020* to reflect the way forward for ASEAN in the 21st century • Directed officials to study possible establishment of appropriate ASEAN payments arrangements	*Japan's Unofficial Summary of 1st Summit* • Exchanged views on the region's challenges and future, centering on the financial issues • Confirmed that the Manila Framework will be the major forum for policy dialogue	—

Month & Year (Venue)	ASEAN	ASEAN+3	East Asia Summit (ASEAN+6)
December 1998 (Hanoi)	*Closing Remark by Prime Minister of Viet Nam, 6th Summit* • Signed the Hanoi Declaration, the *Hanoi Plan of Action (HPA)*, and the Statement on Bold Measures • Admitted Cambodia as the 10th member of ASEAN • Adopted the *HPA*, a 6-year plan covering the period 1999-2004, as the first plan of action for the realization of the long-term vision to promote: macroeconomic and financial cooperation; economic integration (AFTA, AIA, AFAS, etc); science and technology and IT infrastructure; social development; and human resource development • Agreed the six original signatories to the *AFTA CEPT Scheme* to advance the implementation of AFTA by one year from 2003 to 2002 • Under the Framework Agreement on the *ASEAN Investment Area (AIA)* signed in October 1998, national treatment will be made fully available within six months for ASEAN investors in manufacturing, subject to certain exclusions, which will be progressively phased out by the year 2003 instead of waiting for 2010 as initially agreed	*Japan's Unofficial Summary of 2nd Summit* • Exchanged views on cooperative measures for economic recovery • Expressed strong expectations of Japan's economic recovery and its contribution to the region's growth • Expressed sincere gratitude to Japan's financial assistance under the *New Miyazawa Initiative* • Agreed that the ASEAN+3 deputy finance ministers and deputy central bank governors should meet to discuss financial and macroeconomic matters of concern to the region • Welcomed the Korean proposal to set up an East Asia Vision Group to consider measures to overcome economic crisis and to enhance economic cooperation • Agreed to hold the ASEAN+3 Summit annually	—
November 1999 (Manila)	*Chairman's Press Statement of 3rd Informal Summit* • Committed to eliminate all import duties by 2010, ahead of the original schedule, for the first six members, and agreed in principle to advance the schedule from 2018 to 2015 for the new members, but allowing some sensitive products to follow the original date of 2018 • Pleased to note that the *Framework Agreement on the AIA* has entered into force • Welcomed the developments in the implementation of various finance programs listed in the *HPA* and recognized the launching of the *ASEAN Surveillance Process* in March 1999 as a major milestone in ASEAN financial and monetary cooperation • Pleased with progress in the implementation of ASEAN's Social Safety Net Programmes • Noted the convening of the Eminent Persons Group in June 1999 and welcomed its discussions	*Japan's Unofficial Summary of 3rd Summit* • Exchanged views on regional economic cooperation by drawing lessons from the currency and economic crisis • Adopted the *Joint Statement on East Asia Cooperation*, where leaders underscored their commitment to build upon existing consultative and cooperative processes in various fields and in various areas: economic cooperation; monetary and financial cooperation; social and human resource development; scientific and technical development; culture and information; development cooperation; political-security area; and transnational issues	—

Month & Year (Venue)	ASEAN	ASEAN+3	East Asia Summit (ASEAN+6)
November 2000 (Singapore)	*Chairman's Press Statement of 4th Informal Summit* • Agreed to launch an *Initiative for ASEAN Integration (IAI)* to narrow the divide within ASEAN and enhance ASEAN's competitiveness as a region • Stressed the importance of pushing ahead with existing initiatives such as *AFTA* and *AIA*	*Japan's Unofficial Summary of 4th Summit* • Exchanged views on East Asian cooperation and welcomed progress on the Chiang Mai Initiative • Supported the proposal by the Korean President for creating an *East Asia Study Group (EASG)* • Considered the possibility of holding an East Asia Summit to further enhance regional cooperation	—
November 2001 (Bander Seri Begawan)	*Chairman's Press Statement of 7th Summit* • Endorsed the Mid-term Review of the *HPA* • Welcomed economic ministers' decision in September 2001 to commission an ASEAN Competitiveness Study • Agreed on the need for a *Roadmap for Integration of ASEAN (RIA)* under the *ASEAN Vision 2020*, charting milestones—specific steps and timetables • Encouraged the private sector to convene a regular ASEAN Business Summit and to set up an *ASEAN Business Advisory Council* • Agreed to implement an ASEAN Integration System of Preferences for the four newer members	*Chairman's Press Statement of 5th Summit* • Considered the Report of the *East Asia Vision Group*, which contains key proposals and concrete measures to broaden East Asian cooperation • Looked forward to the Final Report by the *EASG* set up in 2000 to assess the Vision Group's report proposals	—
November 2002 (Phnom Penh)	*Chairperson's Press Statement of 8th Summit* • Reaffirmed commitment to strengthening solidarity and accelerating the implementation of the *IAI* • Considered the idea of an *ASEAN Economic Community* as an end goal for the *RIA* and the *ASEAN Vision 2020* • Commended an interim report of an ASEAN Competitiveness Study by McKinsey & Company	*Chairperson's Press Statement of 6th Summit* • Received the EASG Final Report, which identified 17 concrete short-term measures and 9 medium- to long-term measures for East Asian cooperation • Agreed with Korea's vision for ASEAN+3 summits to evolve in the long term into East Asian summits and eventually an East Asian Free Trade Area	—

Month & Year (Venue)	ASEAN	ASEAN+3	East Asia Summit (ASEAN+6)
October 2003 (Bali)	*Chairperson's Press Statement of 9th Summit* • Adopted the *Declaration of ASEAN Concord II (Bali Concord II)* to achieve an *ASEAN Community* by the year 2020, with the three pillars of ASEAN Security Community, *ASEAN Economic Community (AEC)*, and ASEAN Socio-cultural Community • Exchanged views on the possibility of advancing the end date of the AEC and the idea of adopting a "2+x" approach • Adopted a progressive approach as outlined in the *Recommendations of the High-Level Task Force on ASEAN Economic Integration*	*Chairperson's Press Statement of 7th Summit* • Endorsed the Implementation Strategy of the Short-term Measures of the *EASG* Final Report • Explored some new ideas such as to study the feasibility of an *East Asia Free Trade Area (EAFTA)*	—
November 2004 (Vientiane)	*Chairman's Statement of 10th Summit* • Signed the *Vientiane Action Programme (VAP)*, a 6-year plan, as the successor of the *HPA* to realize the end goal of the *ASEAN Vision 2020* and the *Declaration of ASEAN Concord II* • Signed the *ASEAN Framework Agreement for the Integration of Priority Sectors* to further deepen regional economic integration • Agreed to establish an ASEAN Development Fund • Directed ministers, senior officials, and the ASEAN Secretariat to continue the work of developing an *ASEAN Charter* and to review ASEAN mechanisms with a view to make them more effective	*Chairman's Statement of 8th Summit* • Encouraged a speedy implementation of the short- and long-term measures of the *EASG* Final Report • Welcomed the decision by economic ministers to set up an expert group to conduct its feasibility study • Supported ASEAN leaders' decision to convene the first *East Asia Summit* in 2005 • Agreed that the establishment of an *East Asian Community* is a long-term objective • Reaffirmed the role of ASEAN+3 as the main vehicle for the eventual establishment of an *East Asian Community* and ASEAN as the major driving force in East Asian cooperation	—
December 2005 (Kuala Lumpur)	*Chairman's Statement of 11th Summit* • Signed the Kuala Lumpur Declaration on the Establishment of the ASEAN Charter • Agreed to establish an Eminent Persons Group (EPG) from ASEAN member countries with a mandate to examine and provide practical recommendations on the directions for ASEAN and nature of the *ASEAN Charter* • Discussed the possibility of advancing the target date for the realization of the *ASEAN Community* from 2020 to 2015	*Chairman's Statement of 9th Summit* • Signed the *Kuala Lumpur Declaration on the ASEAN+3 Summit* to reaffirm commitment to ASEAN+3 cooperation • Agreed to take stock of ASEAN+3 cooperation since 1997 and issue a second Joint Statement on East Asia Cooperation and Work Plan in 2007 • Agreed to accelerate the implementation of all the short-term measures by 2007 as well as to expedite the carrying out of the medium- and long-term measures of the EASG Final Report	*Chairman's Statement of 1st Summit* • Signed the *Kuala Lumpur Declaration on the East Asia Summit* that outlined its principles and purposes, areas of cooperation, and primary modalities • Established the EAS as a forum for dialogue on broad strategic, political, and economic issues of common interest and concern with the aim of promoting peace, stability, and economic prosperity in East Asia • EAS is an integral part of the overall evolving regional architecture

Month & Year (Venue)	ASEAN	ASEAN+3	East Asia Summit (ASEAN+6)
January 2007 (Cebu)	*Chairperson's Statement of 12th Summit* • Endorsed the Report of the EPG on the *ASEAN Charter* • Directed the High-level Task Force to complete the drafting of the ASEAN Charter in time for the 13th Summit • Adopted the *Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015*	*Chairman's Statement of 10th Summit* • Welcomed the *EAFTA* as a fruitful avenue of integration • Welcomed the outcome of the feasibility study by the Expert Group on the EAFTA, led by China • Welcomed Japan's proposal to set up an Economic Research Institute for ASEAN and East Asia (ERIA) • Reiterated that ASEAN+3 is an essential part of the evolving regional architecture	*Chairman's Statement of 2nd Summit* • Identified five priority areas of EAS cooperation: energy, education, finance, avian influenza, and natural disaster mitigation • Signed the *Cebu Declaration on East Asian Energy Security* • Agreed to launch a track-2 study on a *Comprehensive Economic Partnership in East Asia (CEPEA)* among EAS participants
November 2007 (Singapore)	*Chairman's Statement of 13th Summit* • Celebrated the signing of the *ASEAN Charter* • Pledged to deepen cooperation through the ASEAN Declaration on Environmental Sustainability • Signed the *Declaration on the ASEAN Economic Community (AEC) Blueprint* and adopted the *AEC Blueprint* • Tasked ministers and officials to draft a Blueprint for the ASEAN Political Security Community (APSC), to be adopted at the 14th ASEAN Summit • Tasked ministers and officials to draft a Blueprint for the ASEAN Socio-Cultural Community (ASCC), to be adopted at the 14th ASEAN Summit	*Chairman's Statement of 11th Summit* • Adopted the *Second Joint Statement on East Asia Cooperation* • Reaffirmed that ASEAN+3 will remain as the main vehicle for the long-term goal of building an *East Asian Community*, with ASEAN as the driving force • Future scope of ASEAN+3 cooperation includes: political and security; economic and financial; energy, environment, climate change, and sustainable development; and socio-cultural and development • Agreed to implement priority activities and flagship projects as indicated in the *ASEAN+3 Cooperation Work Plan, 2007–2017*	*Chairman's Statement of 3rd Summit* • Signed the Singapore Declaration on Climate Change, Energy and the Environment • Welcomed the progress report of the study on a *CEPEA* • Welcomed closer cooperation among EAS participating countries

Note: No official statement for the ASEAN+3 Summit is available for the years 1997–2000, and the Japanese government's unofficial summary has been used.
Sources: ASEAN Secretariat, http://www.aseansec.org/4933.htm; Japanese Ministry of Foreign Affairs, http://www.mofa.go.jp/mofaj/area/asean/asean+3/syunou.html.