

**Economic Regionalism in East Asia:
Strengthening Regional Economic Cooperation for
Economic Growth and Financial Stability**

Major Research Paper

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Abstract

Regionalism has emerged as an important world-wide feature of the global economy along with multilateralism. As EU and NAFTA have shown, the integration of economic activities within particular regions has been intensified. Compared to Europe and North America, East Asia has shown relatively slow progress towards the global trend of regionalism.

The Asian financial crisis of 1997-1998 was a strong impetus for initiating a trend toward regionalism in East Asia. In the aftermath of the financial crisis, East Asian countries have come to realize the necessity for regional economic cooperation mechanism for preventing, managing, and resolving economic crises, as well as for increasing trade and investment, and promoting sustainable economic growth and financial stability in the region.

This research paper assesses the current progress of regional economic cooperation in East Asia by focusing on the area of trade and finance. In addition, this paper provides policy suggestions and a road map to enhance the effectiveness of economic cooperation in East Asia.

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List of Abbreviations

ABMI	Asian Bond Markets Initiative
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AMF	Asian Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ASEAN+3	ASEAN plus China, Japan, and Korea
CETA	Comprehensive Economic and Trade Agreement
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralization
EAEC	East Asia Economic Caucus
EAEG	East Asia Economic Group
EAFTA	East Asia Free Trade Area
EASG	East Asia Study Group
EAVG	East Asia Vision Group
EU	European Union
FDI	Foreign Development Investment
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
NAFTA	North American Free Trade Agreement
OCA	Optimum Currency Area
ROO	Rules of Origin
RTAs	Regional Trade Agreements
TTIP	Transatlantic Trade and Investment Partnership
WTO	World Trade Organization

I. Introduction

Nowadays, East Asia's economy has emerged as an increasingly influential player in the global economy. East Asia is one of the most dynamic and fastest-growing regions in the world. Since the early 1990s, East Asia has achieved remarkable economic growth with increasing trade and foreign direct investment (FDI), as well as opening financial markets.

According to an Asian Development Bank (ADB) report, economic growth in East Asia remained robust during 2011–2012, with an annual growth rate for the region of nearly 7.5%, which is higher than any other region in the world.¹ While the U.S. and Europe have been suffering from crisis-induced recessions, the East Asian economy has been a consistent engine of world economic growth (see Table 1). Also, the region contributed to 40% of global GDP (in purchasing power parity [PPP] terms) in 2011 while Europe, North America, and the rest of the world accounted for 28%, 23%, and 14%, respectively.²

Table 1. East Asia: GDP Growth (%)
percent change from a year earlier

GDP Growth (%)	1990	1995	2000	2005	2008	2009	2010	2011	2012
Brunei Darussalam	3.2	4.5	2.8	0.4	-1.9	-1.8	2.6	2.2	N/A
Cambodia	N/A	6.5	8.4	13.0	6.7	0.1	6.1	7.1	6.4
China	3.8	10.1	8.4	11.3	9.6	9.2	11.0	9.3	7.8
Indonesia	N/A	N/A	N/A	17.0	6.0	4.6	15.3	13.7	6.2
Japan	N/A	N/A	1.2	2.2	-1.0	-5.5	4.6	-0.6	1.9
Korea	9.7	8.9	8.8	3.9	2.3	0.3	6.3	3.6	2.0
Lao PDR	6.7	7.0	5.8	6.8	7.2	7.7	8.1	8.0	7.9
Malaysia	N/A	N/A	N/A	5.3	4.8	-1.5	7.1	5.1	5.6
Myanmar	2.8	6.9	13.7	4.5	3.6	5.1	5.3	5.5	6.3

¹ Asian Development Bank. (2011). *Asia Economic Monitor: Emerging East Asia A Regional Economic Update*, p.35. Retrieved May 1, 2013, from http://aric.adb.org/pdf/aem/dec11/Dec_AEM_complete.pdf.

² Asian Development Bank. (2012). *Key Indicators for Asia and the Pacific 2012 Highlights*.

Retrieved May 1, 2013, from

<http://www.seachangeop.org/sites/default/files/documents/2012%2008%20ADB%20Key%20Indicators%20Asia%20Pacific%20-%20Highlights.pdf>.

Philippines	N/A	4.7	4.4	4.8	4.1	1.2	7.6	3.9	6.6
Singapore	6.5	7.3	9.0	7.4	1.8	-0.8	14.7	5.2	1.3
Thailand	N/A	9.2	4.8	4.6	2.5	-2.3	7.8	0.1	6.4
Vietnam	N/A	N/A	6.8	6.8	6.3	5.3	5.9	5.7	5.0

Source: Asian Development Bank.³

In addition, the share of the East Asian economy in world trade flows rose from 21 percent of total world trade exports in 1990 to about 40 percent in 2006.⁴ Its imports expanded from 15 percent of world total imports to 24 percent of world total imports during 1980–2006.⁵ As Table 2 shows, the East Asian region has shown robust real export growth in the last few years, which implies that East Asian countries are becoming an increasingly important influence on world trade flows.

Table 2. East Asia: Real Export Growth
(Year-on-year percent change; national accounts basis)

	2005	2006	2007	2008
China	23.6	23.9	16.5	13.3
Korea	8.5	12.4	12.0	10.5
Japan	7.0	9.6	6.7	3.4
Singapore	11.3	12.4	12.0	10.5
Indonesia	16.4	9.2	8.7	10.0
Malaysia	7.9	7.4	7.8	6.6
Philippines	4.8	11.2	9.1	6.3
Thailand	4.3	8.6	7.9	10.0
Vietnam	20.5	23.8	12.3	19.2

Source: International Monetary Fund.⁶

A large part of the increase in East Asian trade is the result of growing inter-regional trade flows. However, while trade flows with outside the region roughly tripled between 1990 and

³ Asia Regional Integration Center. (2013). *Economic and Financial Indicators*.

Retrieved May 3, 2013, from http://www.aric.adb.org/macro_indicators.php

⁴ International Monetary Fund. (2007). *Regional economic outlook: Asia and Pacific*. p.42.

Retrieved April 27, 2013, from <http://www.imf.org/external/pubs/ft/reo/2007/APD/ENG/areo0407.pdf>

⁵ Kawai, M., & Wignaraja, G. (2007). *ASEAN+3 or ASEAN+6: Which Way Forward?* (Discussion paper No. 77). Asian Development Bank., p.1.

⁶ International Monetary Fund. (2007). *Regional economic outlook: Asia and Pacific*. p.2.

Retrieved April 27, 2013, from <http://www.imf.org/external/pubs/ft/reo/2007/APD/ENG/areo0407.pdf>

2006, intra-regional trade within East Asia has increased 8.5 times.⁷

Plus, the large inflow of both short-term and long-term capital such as FDI, combined with increasing trade flows, including intra-regional concentration of trade activities, has contributed to rapid economic growth of the region. FDI inflows into East Asia rose from 5 percent of the world's total in 1980 to 14 percent in 2006, while East Asian FDI outflows increased from 5 percent to 11 percent of the world's total over the same period.⁸ Increasing FDI provides direct capital financing and helps to facilitate the transfer of advanced technology.

However, in the late 1990s, East Asian countries were hit hard by a financial crisis. It damaged the countries in the region enormously as it was followed by a depreciation of the value of the currencies, a substantial fall in asset prices, a loss of investor confidence, which led to significant withdrawals of capital from the region, and a fall in consumer confidence, as well as a decrease in incomes and economic growth in the region. The Asian financial crisis was a “wake-up call” for regional economic cooperation.⁹ East Asian countries came to realize the need for regional economic cooperation mechanism in the areas of trade, investment and most importantly, finance for preventing, managing, and resolving economic crises, as well as for sustainable economic growth in the region.

In addition, during the past two decades, regional economic integration has become a new trend in the world economy. The slow progress of WTO trade negotiations has caused increasing regional trade agreements (RTAs).¹⁰ The number of RTAs that have been proposed and signed

⁷ Ibid, p.42.

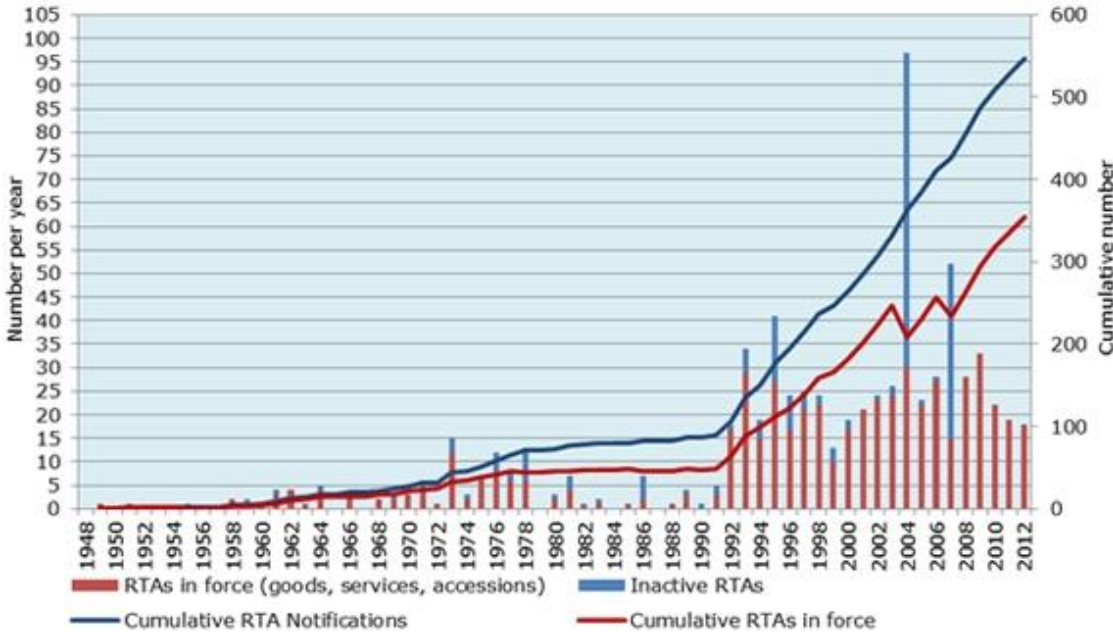
⁸ Kawai, M., & Wignaraja, G. (2007). *ASEAN+3 or ASEAN+6: Which Way Forward?* (Discussion paper No. 77). Asian Development Bank., p.1.

⁹ Winkler, A. (2010). *The Financial Crisis: A Wake-Up Call for Strengthening Regional Monitoring of Financial Markets and Regional Coordination of Financial Sector Policies* (Working paper No. 199). Asian Development Bank Institute.

¹⁰ Gupta, S. (2008). Changing Faces of International Trade: Multilateralism to Regionalism. *Journal of International Commercial Law and Technology*, 3(4), p.260

for the purpose of gaining broader market access, has expanded greatly. As of January 2013, 546 notifications of RTAs had been received by the GATT/WTO and among those, 354 are in force (See Figure 1).¹¹

Figure 1. RTAs Notified to the GATT/WTO (1948–2012) by Year of Entry into Force



Source: WTO Secretariat.¹²

In particular, in the Western hemisphere, two mega economic blocs, EU (European Union) and NAFTA (North American Free Trade Agreement) have been formed. EU was established as a result of deep political and economic integration, whereas NAFTA is a free trade area for creating one of the world’s largest free trade zones. However, both EU and NAFTA cooperate for their strong economic growth, and they share economic policies and economic interests with a set of binding measure and system to resolve various regional issues to produce economic

¹¹ World Trade Organization. (2013). *World Trade Organization RTA Database*. Retrieved June 6, 2013, from <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>
¹² World Trade Organization. (2013). *REGIONAL TRADE AGREEMENTS: Facts and Figures*. Retrieved June 6, 2013, from http://www.wto.org/english/tratop_e/region_e/regfac_e.htm

benefits to all members. In addition, they make use of the intra-regional trade and investment to create a huge regional market that makes them competitive in the global economy. Moreover, Canada and the EU have concluded negotiations on Comprehensive Economic and Trade Agreement (CETA), while the EU and the U.S. have just launched negotiations on a Transatlantic Trade and Investment Partnership (TTIP), which will be the most significant and the largest bilateral free trade agreement.

Munakata argues that regionalism in Europe and North America put pressure on East Asia to compensate for economic welfare losses.¹³ Even though preferential trade agreements do not always have negative effects on non-members, some groups within a regional bloc might discriminate against those in non-member economies. Baldwin argues that if the bloc enlarges, the cost to non-members increases.¹⁴ Because regional blocs have the capacity to exploit their great market power and implement an optimum tariff or a strategic trade policy for their own members, therefore, regional blocs can maximize the benefits of members but it can lead non-members to be placed at a disadvantaged position.

In fact, in response to the emergence of EU and NAFTA, East Asian countries have been gradually seeking regional cooperation in order to enhance their economic welfare, as well as their influence on the global economy.

The main purpose of this paper is to assess the progress of East Asian regionalism by focusing on the area of trade and finance. Moreover, this paper also discusses the complexities and possibilities in the paths of ongoing regional economic integration in East Asia.

The paper is organized as follows. The first chapter gives an overview of the global trend

¹³ Munakata, N. (2006). *Transforming East Asia: The evolution of regional economic integration*. Tokyo: Research Institute of Economy, Trade and Industry, p.27.

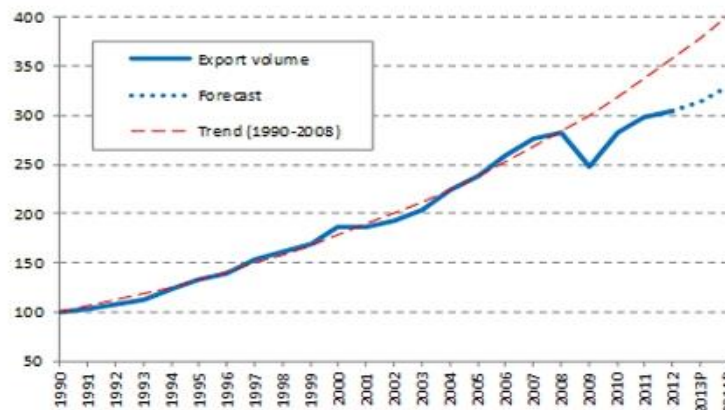
¹⁴ Baldwin, R. E. (1994). *A Domino Theory of Regionalism*. p.33 Retrieved June 8, 2013, from http://graduateinstitute.ch/webdav/site/ctei/shared/CTEI/Baldwin/Publications/Chapters/Regionalism/dom_old.pdf

towards multilateralism and regional integration, and expands on the rationales for regional economic cooperation in East Asia. The next chapter assesses the current progress of regionalism in East Asia after the Asian financial crisis (1997-1998). Finally, this paper discusses the future prospects of regional economic cooperation, as well as the challenging issues that must be addressed in order to achieve stronger regional economic cooperation. This paper also provides policy suggestions and a road map to enhance the effectiveness of economic integration in East Asia.

II. Multilateralism and Regionalism

The trend of today's world economy is towards both multilateralism and regionalism. Multilateralism is a form of global governance, which leads to the integration of economic, cultural, political and social systems across geographical boundaries.¹⁵ Since World War II, the world economy has evolved under the framework of General Agreement on Tariffs and Trade (GATT) and broadened by the formation of the World Trade Organization (WTO) in 1995, with aims of liberalizing and promoting international trade and investment. The WTO enhances free trade flows with concrete global rules of trade among all member countries. The WTO provides the institutional support to the multilateral trade agreements and the multilateral way of economic cooperation has contributed to the world economy by changing trade environment and increasing of global trade volume (see Figure 2).

Figure 2. Volume of World Merchandise Exports (1990-2014)
Indices, 1990=100



Source: World Trade Organization¹⁶

¹⁵ Tran, V. H., & Harvie, C. (2003). *New Asian regionalism: Responses to globalisation and crises*. New York: Palgrave Macmillan., p.40.

¹⁶ World Trade Organization. (2013, April 10). *Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle*. Retrieved May 15, 2013, from http://www.wto.org/english/news_e/pres13_e/pr688_e.htm

Currently, in East Asia, except for the Lao PDR, Cambodia, and Vietnam, all countries are members of the WTO. China joined the membership in 2001 after undergoing a prolonged process of WTO accession.¹⁷

However, efforts to liberalize global trade through the multilateral way have faced limitations since the Doha round of negotiations (Doha Development Agenda), which was launched in November 2001. In the WTO, all the decisions are taken by consensus but it is getting harder to reach agreements with regards to new issues because of the large number of member countries (159 members as of May 2013), the diversity of economic positions, and trade interests of the participating members. Also, it has become more difficult to monitor the implementation of existing rules as the number of participating member continues to increase. Thus, the trade and investment liberalization process under the WTO system has been slow and uncertain to obtain prompt results.¹⁸ Despite several arrangements and meetings, the members of the WTO have been failing to reach common agreements.¹⁹

While liberalizing multilateral trade under the WTO has faced challenges, member states find it attractive to create smaller, preferential and regional arrangements composed of states, geographically close or with common interests on trade policies.²⁰ Therefore, region-based economic processes have emerged as an effective system in parallel with multilateralism.

Economic regionalism refers to the “intensifying economic cooperation and

¹⁷ Chia, Y. S. (2010). *Trade and Investment Policies and Regional Economic Integration in East Asia*. ADBI Working Paper No. 210, p.2. Retrieved June 6, 2013, from <http://www.adbi.org/working-paper/2010/04/05/3652.trade.investment.policies.east.asia/>

¹⁸ *A Report by Joint Expert Group for Feasibility Study on EAFTA Towards an East Asia FTA: Modality and Road Map* (Rep.). (2006, July 22), p.14.

Retrieved May 1, 2013, from http://www.thaifta.com/thaifta/Portals/0/eafta_report.pdf

¹⁹ Shabir, H. M., & Lee, Y. (2008). Towards East Asian Economic Integration. *European Journal of Economics, Finance and Administrative Sciences Issue*, (12), p.116.

²⁰ Mansfield, E. D., & Reinhardt, E. (2003). Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements. *International Organization*, 57, p.839.

interdependence within particular geographic region as a result of increasing trade, investment and capital flows.”²¹ Neighboring countries gather their common economic interests and promote economic cooperation that can lead to facilitating trade and investments by harmonizing rules and economic policies. Economic regionalism also provides dispute resolution mechanisms in the areas of labor mobility, foreign investment, and intellectual property rights.

Regionalism, as a new form of economic governance, became a worldwide phenomenon in the 1990s and has continued to prosper until today. For example, the proliferation of regionalism has enhanced intra-regional trade at a large scale. Europe has the highest level of intra-regional trade, with 71 percent of its exports remaining within Europe in 2011.²² A total of 48 percent of North America’s exports are to members of NAFTA.²³ These two large regional economic blocs occupy over 40% of the world’s trade volumes, which means that they have such a great influence on the world economy.²⁴ The success of EU and NAFTA has shown regionalism as a very attractive option for economic governance.

Currently, most nations are taking both multilateral and regional steps at the same time. Most WTO members have joined one or more regional FTAs and multiple memberships have been increasing.²⁵ There has been a rapid growth in the number of regional trade agreements (RTAs) in recent years for the purpose of expanding market access. However, in fact, the relationship between multilateralism and regionalism has been debated among economists and policy makers in terms of whether or not these two are conflicted. Bhagwati mentions that

²¹ Griffiths, M. (2005). *Encyclopedia of international relations and global politics*. London: Routledge, p. 723.

²² World Trade Organization. (2011). *World Trade Organization International Trade Statistics Key development snapshot 2011*. Retrieved April 17, 2013, from http://www.wto.org/english/res_e/statis_e/its2012_e/its12_highlights1_e.pdf

²³ Ibid.

²⁴ World Trade Organization. (2012, October). *World Trade Organization International Trade Statistics*. Retrieved April 17, 2013, from http://www.wto.org/english/res_e/statis_e/world_commodity_profiles11_e.pdf

²⁵ Mansfield, E. D. (1998). The Proliferation of Preferential Trading Arrangements. *Journal of Conflict Resolution*, 42(5), p.523.

regionalism could be either a stumbling-block as a preferential trading arrangements or a building-block towards global trade liberalization.²⁶ Krugman explains that regional integration has prospered as an alternative to multilateralism, because it is difficult to cope with today's complex trade issues through multilateral approach.²⁷ The diverse members, differing interests and trade priorities complicate the negotiation process in a multilateral system; therefore, most countries find regionalism easier to deal with trade issues on a regional level.²⁸

On the other hand, Bhagwati and Panagariya argue that regional trade agreements are basically discriminatory and regional trade agreements cause serious harm to the multilateral trading system by leading to trade discrimination.²⁹ Krueger argues that an increase in regional trade agreements might divert policy makers' attention away from the multilateral trading system and they might be less inclined to liberalization in multilateral way.³⁰ It is also argued that because regional trade agreements give access only to certain states, it will cause a reduction in aggregate global economic welfare, if regional trade blocs compete too much with each other by raising tariffs against other blocs.³¹ Eventually, regionalism would undermine efforts of the WTO and block multilateral trade liberalization.

Since the empirical research has been limited, there is no clear empirical evidence whether regionalism has undermined multilateralism or has been a building-block for multilateralism. However, basically, both multilateralism and regionalism pursue common goals, which are getting economies of scale and larger markets, fostering trade and investment, and ultimately,

²⁶ Bhagwati, J. (1992). Regionalism versus Multilateralism. *The World Economy*, 15(5), 535-556.

²⁷ Krugman, P. (1993). Regionalism versus Multilateralism: Analytical Notes. In J. D. Melo & P. Arvind. (Eds.), *New Dimensions in Regional Integration* (pp. 58-79). Cambridge University Press.

²⁸ Ibid.

²⁹ Bhagwati, J., & Panagariya, A. (1996). *Preferential Trading Areas and Multilateralism: Strangers, Friends or Foes?* (Discussion paper No. 9596-04). Washington, DC: AEI Press

³⁰ Krueger, A. (1995). *Free Trade Agreements versus Customs Unions* (Working paper No. 5084). NBER, p.25.

³¹ Dijk, M. P., & Sideri, S. (1996). *Multilateralism versus regionalism: Trade issues after the Uruguay Round*. London: Routledge, p.6.

promoting prosperity and stability in the world economy. In addition, the experiences and lessons gained from agreements at the regional level, can be a valuable base for multilateral agreements. Therefore, the proliferation of regionalism should be seen as a complementary approach to multilateralism, not a contradiction to multilateralism.

Moreover, in multilateralism system, powerful countries, such as the U.S. and those of the EU have stronger negotiating power but their agendas and economic interests can be different with developing countries.³² Therefore, it might be difficult for developing countries to reflect their economic interests through the multilateral way when they first start to liberalize their economy in the global stage. Instead, regionalism can provide an alternative approach for developing countries to expand their market access and participate more effectively in the global market. Also, Dent argues that regional economic cooperation is linked to issues of economic development and he views regional economic cooperation as a positive effect on a region's economic development.³³ Therefore, the current trend of economic regionalism is an attractive strategy to enhance economic growth in the global economic environment.

Regionalism has emerged as an important world-wide feature of the global economy. As EU and NAFTA have shown, the integration of economic activities within particular regions has been intensified. Although there have been on-going debates about regionalism and its relationship towards the multilateral system, nowadays, regionalism is an inevitable trend in the global economy. However, among the world's major economic centers, East Asia has been relatively slow to respond to the global trend of regionalism.³⁴ Unlike Europe or North America,

³² Harvie, C., & Lee, H. (2003). *New regionalism in East Asia: How does it relate to the East Asian economic Development Mode*, p.5.

Retrieved June 10, 2013, from <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1055&context=commwkpapers>

³³ Dent, C. (2008). The Asian Development Bank and Developmental Regionalism in East Asia. *Third World Quarterly*, 29(4), p.767.

³⁴ Ba, A. D. (2009). Regionalism's multiple negotiations: ASEAN in East Asia. *Cambridge Review of International*

government policy and inter-governmental agreements have not been the main driving forces of regional economic cooperation in East Asia. Rather, a market-led cooperation process has been taking place, particularly, the intra-regional trade sector that went along with globalization.³⁵ Considering the growing interdependence in the region and the increasing importance of the East Asian economies, strengthening regional cooperation needs to be an essential policy objective in East Asia. Chapter 3 will expand on the rationales for economic regionalism in East Asia.

Affair, 22(3), p.347.

³⁵ Lee, K., & Moon, H. (2011). *The Implications of European Integration for East Asian Community Building* (pp. 73-107). IIAS Research Series 7, p.75.

III. Rationales for Regionalism in East Asia : Why Does East Asia Need to Pursue Regional Economic Cooperation?

Before the Asian financial crisis (1997-1998) occurred, regional economic cooperation has not been much discussed in East Asia because of a high level of difference in economic development, a lack of political will and historical experience in regional economic cooperation or political integration. However, the Asian financial crisis was a turning point that led to a collective recognition of the need for promoting economic cooperation in the region in order to resolve the crisis, minimize effects of future external shocks, and pursue stability in the region.

In general, the Asian financial crisis is characterized as a capital account crisis, which occurred with currency depreciation due to massive capital inflows, following sudden capital withdrawals, and financial panic.³⁶ In addition, structural weaknesses in financial systems—imprudent management of domestic financial institution, inadequate regulation and monitoring of financial sector, and poor economic governance at national level— are the main factors of the crisis.

Financial liberalization led a large inflow of volatile capital into some of the Asian countries, which had a lack of adequate systems of monitoring and managing capital flows. It caused an asset market boom and current account deficits, thereby making Asian countries more vulnerable to speculative attacks. The perception of vulnerability led foreign investors to start withdrawing their investments and it caused a sudden capital flight. Moreover, the financial crisis was highly contagious in the region. It started in Thailand but it spread to its neighboring countries such as Malaysia, Indonesia, Philippines, and Korea within a few months. It eventually affected almost the entire region and the crisis soon became a deep region-wide recession. Therefore, the Asian

³⁶ Radelet, S., & Sachs, J. (1998). *The East Asian Financial Crisis: Diagnosis, Remedies, Prospects*. Harvard Institute for International Development, p.2.

financial crisis gave an important lesson that the financial crisis in individual countries cannot be only matter of their own, but it can be a matter of other neighboring countries in the region because there is a spill-over effect. Since most economies in the region have become interdependent on each other, the macroeconomic situation in one country, such as the interest rate or currency movements can have significant impacts to neighboring countries in the region. For example, currency devaluation in one country triggers its neighbor trading partners or competitors to devalue their currency in order to avoid a loss in competitiveness.

In particular, most East Asian economies are export-oriented and since East Asian countries' exports such as automobiles and appliances often compete in global markets, East Asian countries' exports are greatly affected by the exchange rate of neighboring countries in the region. Moreover, exchange rate policies in each country have a significant impact on the economic prospects and macroeconomic stability of other countries within the region. Thus, coordination of macroeconomic policies, setting exchange rates, and strong financial cooperation should be carried out at the regional level in order to prevent competitive devaluations and achieve high degree of intra-regional exchange rate stability, minimize the impact of external shocks, maintain sustainable economic growth, and prevent future financial crisis in the face of an uncertain global economic environment.

Plus, during the Asian financial crisis, in order to recover from the crisis, crisis-hit countries entered the rescue programs of the IMF (International Monetary Fund), which were conventional policies of reform for countries that have experienced rapid loss of investor confidence and capital flight.³⁷ However, there have been negative perceptions that the IMF's monitoring and provision of liquidity support were inadequate and insufficient for East Asian countries to

³⁷ Beeson, M., & Rosser, A. (1998). *The East Asian Economic Crisis: A brief overview of the facts, the Issues and the future* (Working paper No. 86). Murdoch University Asia Research Center, p.9.

recover the crisis in a timely manner. IMF rescue programs were accompanied by stringent macroeconomic conditionality that included fiscal and monetary tightening and rapid structural reform measures without understanding of the specific socio-political circumstances of each crisis-hit country in the region.³⁸ Besides, ASEAN, which is the only formal organization that pursued regional economic integration, was criticized as it could not play any meaningful role in resolving the crisis. Thus, the experience made it clear that the region needs its own crisis and risk management abilities, instead of depending on support from international financial organizations, especially the IMF.

In fact, one country's financial difficulties can quite easily affect their neighbors' economies through strong trade linkages. Glick and Rose argue that financial crises tend to be more regional and spread along the lines of trade linkages, disrupting regional trade flows.³⁹ For example, if Thailand faces a severe crisis, demand for goods (Thailand's imports) will decrease. Then, those neighboring countries that export to Thailand will suffer from decreasing aggregate demand.

The World Bank (1993) also emphasized the necessity of East Asian economic integration, observing that East Asia has achieved rapid growth, due to the high growth of trade and investment within the region.⁴⁰ Deepening of regional economic linkages and growing market-driven interdependence call for building formal regional economic institutions such as an East Asia Free Trade Area (EAFTA) for facilitating further trade and investment and for increasing both productivity and international competitiveness. In recent years, the degree of regional

³⁸ Sussangkarn, C. (2011). *Institution Building for Macroeconomic and Financial Cooperation in East Asia*. Thailand Development Research Institute, p.2.

³⁹ Glick, R., & Rose, A. K. (1999). Contagion and trade: Why are currency crises regional? *Journal of International Money and Finance*, 18, p.605.

⁴⁰ World Bank. (1993). *The East Asian miracle: Economic growth and public policy*. New York, NY: Oxford University Press.

economic integration through intra-regional trade and investment has greatly accelerated in the region. Intra-regional trade as a share of East Asia's total trade has risen from 35 percent in 1980 to 52 percent in 2006. This share is lower than that in the EU (65 percent), but it exceeds that of the NAFTA (42 percent) (see Tables 3 and 4).

Table 3. Intra-Regional Trade Share, 1980-2010 (%)

	1980	1985	1990	1995	2000	2002	2004	2006	2010
ASEAN+3 (13)^a	29.0	29.2	28.6	37.0	37.4	38.4	39.5	39.0	42.2
ASEAN+3+HK,Taiwan,China	34.9	36.9	41.2	49.5	50.4	51.9	53.2	52.2	NA
NAFTA (3)	33.2	38.3	37.2	42.0	46.8	45.9	43.7	42.1	42.0
EU (25)	57.3	58.5	65.6	65.1	64.6	65.1	65.6	64.6	58

^a/a 10 ASEAN countries, China, Japan, and Korea.

Source: Asian Development Bank.⁴¹

Table 4. Intra-Regional Trade Share by Country

ASEAN+3	(%)	
Country	1990	2010
Brunei Darussalam	81.7	78.8
Cambodia	68.6	39.7
China	21.3	26.8
Indonesia	51.6	58.4
Japan	21.2	41.5
Korea	29.1	42.2
Lao PDR	85.7	84.2
Malaysia	49.6	54.6
Myanmar	58.7	81.4
Philippines	32.8	54.4
Singapore	39.5	48.9
Thailand	42.6	50.4
Vietnam	27.8	54.6

Source: Calculated from IMF.⁴²

⁴¹ Kawai, M., & Wignaraja, G. (2007). *ASEAN+3 or ASEAN+6: Which Way Forward?*(Discussion paper No. 77). Asian Development Bank, p.25.

⁴² Khee Giap, T., Pedrosa, E., & Aw, G. (Eds.). (2012, April). *APEC ECONOMIES: A PARADIGM SHIFT?*, p.12. Retrieved May 3, 2013, from http://www.pecc.org/resources/doc_view/1908-apec-economies-a-paradigm-shift

Lastly, as discussed in Chapter I, the world has been divided into several regional blocs and this trend of “regional grouping” around the world also provides a rationale and motivation for East Asian countries to promote strong regional economic cooperation so as to protect the region’s economic interests and enhance its economic influence in the global economy. The policy makers in East Asian countries have increasingly realized the importance of stepping up their own process of economic cooperation to strengthen their negotiation power against the existing two mega blocs in the global market.⁴³ Especially since export-led economic growth strategy has been a significant driving force of the region’s economic growth, East Asian regionalism can be considered as a “defensive mechanism” to secure and expand their markets.⁴⁴ East Asian economies strongly need to maintain and expand their markets in order to enhance their market demand and consumption, and to increase productivity and competitiveness.

In sum, the outbreak of a highly contagious Asian financial crisis significantly changed the views about regional economic cooperation among East Asia’s policy makers, and they realized the urgent need for establishing an East Asian cooperation framework for financial stability and sustainable economic growth in the region. In addition, EU and NAFTA have motivated the East Asian economies to strengthen regional economic cooperation. Nowadays, East Asian economies are increasingly connected through intra-regional trade in goods and services, financial transactions, investment, and technology transfer. Therefore, strengthening regional economic cooperation is more important than ever in East Asia.

⁴³ Kawai, M., & Wignaraja, G. (2007). *ASEAN+3 or ASEAN+6: Which Way Forward?*(Discussion paper No. 77). Asian Development Bank, p.3.

⁴⁴ Munakata, N. (2006). *Transforming East Asia: The evolution of regional economic integration*. Tokyo: Research Institute of Economy, Trade and Industry, p.27.

IV. The Evolution and Development of East Asian Regionalism

In East Asia, the first sign of regionalism was the institutionalized body of ASEAN among Southeast Asian countries in 1967. It is a formal institutional coordination, which involves the setting up of formal rules and procedures for collective economic governance that can deepen the process of regional integration. Other East Asian countries, particularly, three major Northeast Asian countries (China, Japan, and Korea) were more focused on multilateralism rather than on regionalism.⁴⁵

In addition, the Asia-Pacific Economic Cooperation (APEC) was established with the hope of playing the great role of trans-East Asian cooperation mechanism; however, APEC has been less effective than expected. Towards the end of the 20th century, there had been noticeable progress in East Asian economic cooperation by forming the ASEAN+3 framework, including ASEAN and three major Northeast Asian countries.

1. Origins: Mahathir's EAEG Proposal

In 1991, the East Asia Economic Group (EAEG) was proposed by Mahathir Mohammad, Malaysia's former Prime Minister. The idea of an EAEG was to create a regional grouping among ASEAN member countries and China, Japan, and Korea that have productive capacity, as well as capital and technology, at a time when the rest of the world appeared to create its own trade blocs.⁴⁶ However, this proposal did not receive any positive responses from the East Asian region. It got a negative feedback from Japan under the pressure of the U.S., while China hesitated to agree on it at first. Also, among ASEAN nations, Indonesia showed a particularly

⁴⁵ Kawai, M., & Wignaraja, G. (2008). Regionalism as an Engine of Multilateralism: A Case for a Single East Asian FTA. *Asian Development Bank*, p.4. Retrieved May 3, 2013, from <http://www.adb.org/publications/regionalism-engine-multilateralism-case-single-east-asian-fta>

⁴⁶ Ganesan, N. (2011). East Asian Regionalism: Policies and Priorities. In N. Ganesan & C. Dürkop (Eds.), *East Asia Regionalism*. Konrad Adenauer Stiftung, p.164.

ambivalent attitude toward Mahathir's proposal. Indonesia preferred to place EAEG under the umbrella of the Asia-Pacific Economic Cooperation (APEC), while Malaysia preferred to link EAEG only with Asian nations. Moreover, the proposed regional organization faced fierce opposition from the U.S. government.⁴⁷ The U.S. was concerned that EAEG might be an obstacle for the successful development of APEC. The U.S. was also concerned for losing its influence in East Asia; therefore, the U.S. government put considerable pressure on Japan and Korea to reject this proposal.

In response to the concerns that "Grouping" sounds too much like an attempt to form an exclusive Asian regional trade bloc, also because of strong opposition from the U.S., EAEG was renamed as the East Asia Economic Caucus (EAEC), "within the APEC" framework.⁴⁸

2. Asia-Pacific Economic Cooperation (APEC)

Beyond Asia's geographical scope, both the Asian and Pacific regions together aimed to establish an Asia-Pacific economic community, the Asia-Pacific Economic Cooperation (APEC).

APEC was established in 1989, under the changing economic environment resulting from globalization. It was formed initially as a trade discussion forum among Asia-Pacific countries to promote trans-Pacific economic cooperation and create a free trade area of the Asia-Pacific. APEC is strictly based on "open (i.e. non-preferential) regionalism"; therefore, APEC membership encompasses a range of countries with no common features beyond a Pacific coastline.⁴⁹ Its current membership of 21 economies represents diverse political and economic systems and different economic development levels.⁵⁰ It accounts for nearly 60% of world

⁴⁷ Stubbs, R. (2002). ASEAN Plus Three: Emerging East Asian Regionalism? *Asian Survey*, 42(3), p. 441.

⁴⁸ Ibid.

⁴⁹ Pomfret, R. (2009). Regionalism in the Asia-Pacific Region: How Wide, How Deep. *The Journal of the Korean Economy*, 10(3), p.289.

⁵⁰ It includes Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New

economic output and almost half of the world trade.⁵¹

In addition, APEC promotes the "harmonization of rules of origin", builds upon existing WTO commitments, as well as reduces "behind the border measures", in order to address the need for convergence of RTAs on the multilateral trading system.⁵² APEC members have continued to show a long-term commitment to opening up their markets to international trade and investment, which contributes to strengthening the multilateral trading system. At the same time, APEC focuses on trade and investment liberalization and business facilitation through regional cooperation. By June 2011, there are regional 42 RTAs in force among the APEC member economies.⁵³

However, APEC is only a government officials' voluntary economic and trade forum, and therefore, its integration has no comparison with regional institution such as the EU and NAFTA. Different from those regional institutions, APEC pursues eliminating trade barriers and increasing investment without legally binding obligations but based on individual voluntary actions and peer pressure.⁵⁴ APEC also promotes dialogue among all members and makes decisions based on consensus. This unique voluntary and informal approach makes it easier for all members to participate in the forum, however, it has no effective compliance mechanisms.⁵⁵

In addition, the Asian financial crisis was a window of opportunity for APEC to play an important role in coping with the crisis and show more concerted action as a regional institution.

Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the U.S, and Vietnam.

⁵¹ Chiang, J. C. (2010). APEC's Development in the Rise of East Asian Regionalism. *Taiwan Journal of Southeast Asian Studies*, 7(2), 111-147, p.11.

⁵² World Trade Organization Secretariat. (2010, May 26). *Trade policy reviews in selected APEC economies*. Retrieved June 11, 2013, from http://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits/~/_media/Files/AboutUs/AchievementsBenefits/2010/bogor_WTO-APEC-Bogor-May2010.ashx, p.1

⁵³ APEC. (2013). *Achievements and Benefits*. Retrieved June 11, 2013, from <http://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits.aspx>

⁵⁴ Ibid.

⁵⁵ Ibid.

However, APEC's response to the 1997 Asian crisis rather underlined its inability and limitation as a regional economic institution.⁵⁶

Nowadays, APEC is still active in promoting trade and remains one pillar of the region's economic architecture by providing a useful world leaders' annual meeting but it seems to have lost the significance that it had attained in the mid-1990s. Instead, the ASEAN+3 framework was proposed as a new driving force of intensifying East Asian economic integration.

3. Moving towards ASEAN Plus Three (ASEAN+3) Framework

Until now, ASEAN, which consists of ten South East Asian countries, plus the three major Northeast Asian nations (see Figure 3) have played central roles in promoting the regional economic cooperation project.

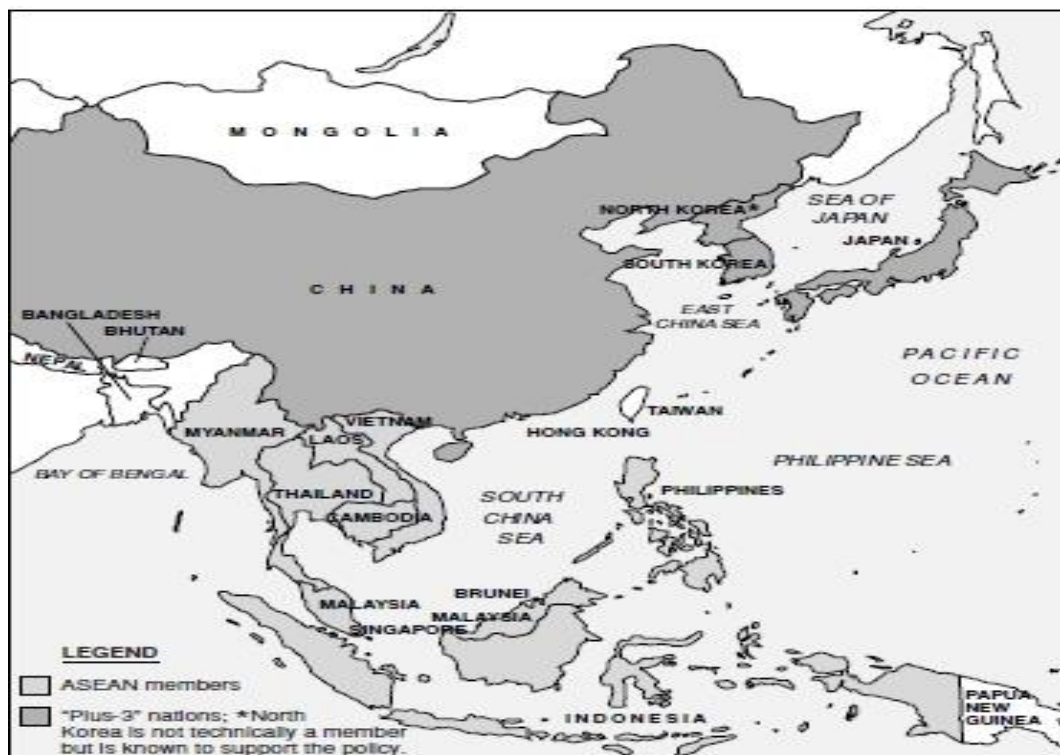
At present, the ASEAN+3 framework seems the most effective, manageable, and feasible shape for advancing regional cooperation in East Asia because it conforms to the geographical and cultural understanding of East Asia and encompasses the most significant nations in East Asia in terms of economic size, prosperity, and market competitiveness. In fact, ASEAN+3 countries have achieved several effective performances for regional cooperation, which will be discussed in the next chapter and thus, have gained some credibility in the region. Drysdale mentions that "ASEAN + 3 is not only a regional trading arrangement but rather seeks to provide a framework for demonstrating East Asian influence and leadership on regional and international affairs."⁵⁷ Also, the agenda of ASEAN + 3, which started from regional financial cooperation in the wake of the Asian financial crisis, has already extended beyond the issue of financial

⁵⁶ Pomfret, R. (2009). Regionalism in the Asia-Pacific Region: How Wide, How Deep. *The Journal of the Korean Economy*, 10(3), p.4.

⁵⁷ Drysdale, P. (2005). *Regional Cooperation in East Asia and FTA Strategies* (Working paper No. 344). Australia- Japan Research Center. p.9.

cooperation, to various regional economic issues, including the establishment of East Asia Free Trade Area (EAFTA), joint action in the provision of regional public goods, projecting East Asian influence in the global economy.⁵⁸

Figure. 3. Participating Nations in ASEAN+3 Framework



Source: Wolfe.⁵⁹

ASEAN+3 frameworks have gradually formed since the late 1990s. Especially, ASEAN's outward expansion to embrace the three Northeast Asian countries: China, Japan, and Korea – was inspired by the outbreak of the Asian financial crisis in 1997.⁶⁰ ASEAN invited the leaders

⁵⁸ Ibid, p.12

⁵⁹ Wolfe, K. (2000). ASEAN-Plus-3 Summit Opens Door to New Leadership. *EIR Economics*, 27(48), p.6.

⁶⁰ Ganesan, N. (2011). East Asian Regionalism: Policies and Priorities. In N. Ganesan & C. Dürkop (Eds.), *East Asia Regionalism*. Konrad Adenauer Stiftung, p.162.

of China, Japan, and Korea to an informal ASEAN leaders' meeting in December 1997, in the midst of the Asian financial crisis, which initiated the ASEAN+3 cooperation process. During the financial crisis in 1998, the first ASEAN+3 summit was held in Vietnam. Members discussed not only the ways to deal with the financial crisis, but also the promotion of regional economic cooperation, which reflected shared concerns about the slow progress in multilateral trade liberalization, as well as growing regionalism in Europe and North America. It was a big turning point for East Asian regionalism. Since then, ASEAN+3 meeting have been organized as a part of the regular annual ASEAN summit and in every summit for the past 15 years, several decisions and plans for East Asian regional cooperation have been made. Therefore, the annual ASEAN+3 summit has played a role as a channel of policy dialogue among leaders and it has opened the door for a regional cooperation process by discussing regional economic interests and sharing the ideas for building cooperative arrangement.

4. ASEAN Plus Three Countries' Stance on the East Asian Regionalism

a) ASEAN (Association of Southeast Asian Nations)

ASEAN is the most significant regional organization in East Asia. It was created in August 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand amidst an uncertain regional political environment. ASEAN was then expanded to include four new members: Vietnam (1995), Lao PDR and Myanmar (1997), and Cambodia (1999) to increase the diversity within the Association. ASEAN aims to accelerate economic prosperity, social progress, and cultural development, promote sustainable development, peace and stability, and reduce geopolitical tensions in Southeast Asia through its own cooperative activities.⁶¹

⁶¹ The ASEAN Charter Jakarta: ASEAN secretariat January 2008.
<http://www.asean.org/archive/publications/ASEAN-Charter.pdf>

ASEAN has preceded on several economic integration initiatives, including the ASEAN Free Trade Area (AFTA) in 1992 to eliminate barriers for trade and investment for deepening intra-regional market integration, attract more foreign investment and generate more exports. AFTA was the only RTA in East Asia in the second half of the twentieth century.⁶² In addition, in December 1997, ASEAN leaders adopted the “ASEAN Vision 2020” as a new mechanism to strengthen the implementation of its existing economic initiatives and accelerate regional integration by facilitating flow of capital and skilled labour movement.⁶³

In fact, ASEAN has been emerging as the economic integration hub in terms of trade liberalization through FTAs, while China, Japan, and Korea also have had deepening trade relations with ASEAN.⁶⁴ Until now, ASEAN has concluded separate FTAs with China, Japan, and Korea, which is a significant foundation for future economic integration in the region. However, ASEAN has been also criticized from beyond and within the region.⁶⁵

First of all, ASEAN has relied on its own unique governing order, based on informality, dialogue, cooperation, and intensive consultation that leads to consensus, which is called the “ASEAN way”. The decision-making in ASEAN has not involved any formal mechanisms but needs unanimous consent among the member countries. However, this ASEAN way brought about the lack of binding resolutions and enforcement of decisions.⁶⁶ Importantly, when the Asian financial crisis seriously damaged the economies of several regional nations, especially Thailand and Indonesia, ASEAN, as a regional organization, failed to act to resolve the crisis and

⁶² Pomfret, R. (2009). Regionalism in the Asia-Pacific Region: How Wide, How Deep. *The Journal of the Korean Economy*, 10(3), p.288.

⁶³ Kawai, M., & Wignaraja, G. (2007). *ASEAN+3 or ASEAN+6: Which Way Forward?*(Discussion paper No. 77). Asian Development Bank, p.6.

⁶⁴ Ibid, p.1.

⁶⁵ Milner, A. (2011). Analyzing Asian regionalism: What is an ‘architectural perspective’. *Australian Journal of International Affairs*, 65(1), p.111.

⁶⁶ Fjader, C. (2012). Regionalism in Asia and Europe in a Theoretical Perspective: ‘Rationalist’ and ‘Ideational’ Approaches. *Asia-Pacific Journal of EU Studies*, 10(1), p.81.

this failure revealed its institutional weaknesses.⁶⁷

In addition, the wider membership increases the diversity within ASEAN but at the same time, it poses a challenge to ASEAN to pursue deeper economic integration process because the economic development gap between the older and the newer members of ASEAN countries is quite large to promote further economic integration. For instance, Singapore is the most active East Asian economy and has the broadest geographical coverage of trade agreements. It has implemented or concluded agreements with the three major Northeast Asian economies, as well as outside the region, including the U.S., India, and Australia.⁶⁸ However, the relatively small and poor economies, notably, Cambodia, Lao PDR, Vietnam, Philippines, and Indonesia have weak institutional capacity and resources for undertaking FTA negotiations.⁶⁹

Nevertheless, overall, ASEAN has proved to be as an important vehicle for regional cooperation, through which Southeast Asian countries can manage and promote their specific economic interests and reduce tensions and conflicts in the region. Importantly, the ASEAN experience has shown the usefulness of economic cooperation through the elimination of tariffs, customs cooperation, the liberalization of services, and the creation of an investment zone for economic growth.⁷⁰ ASEAN will continue to be an important framework for steering East Asian regionalism.

⁶⁷ Webber, D. (2001). Two funerals and a wedding? The ups and downs of regionalism in East Asia and Asia-Pacific after the Asian crisis. *The Pacific Review*, 14(3), p.339.

⁶⁸ Kawai, M., & Wignaraja, G. (2007). *ASEAN+3 or ASEAN+6: Which Way Forward?*(Discussion paper No. 77). Asian Development Bank, p.9.

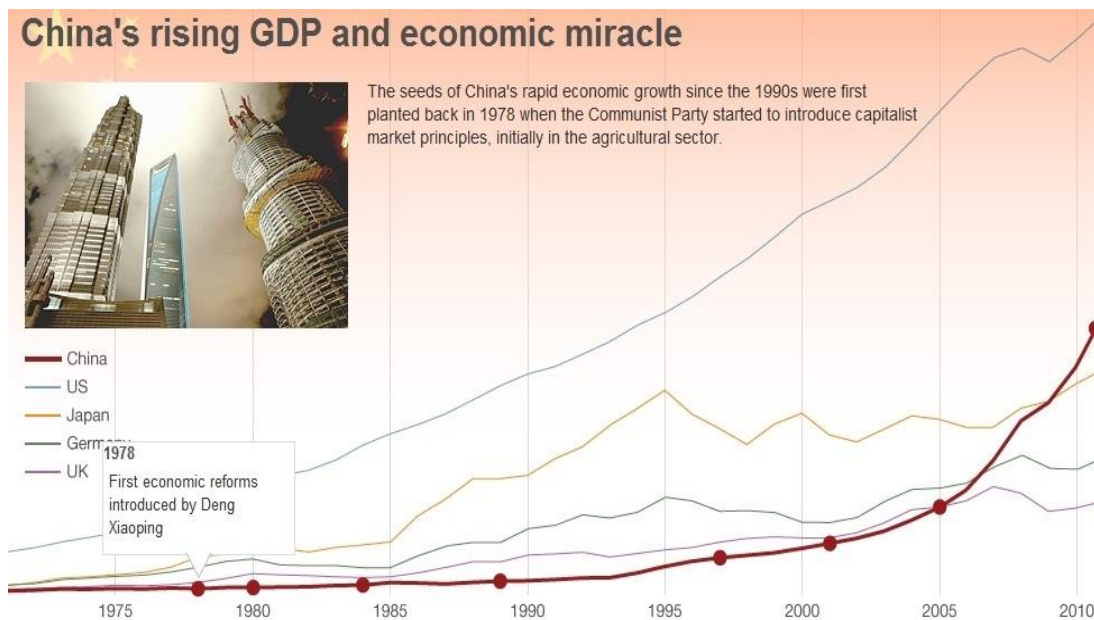
⁶⁹ Kawai, M., & Wignaraja, G. (2009). Asian FTAs: Trends, Prospects, and Challenges. In *ADB Economics Working Paper Series No. 226*. Asian Development Bank, p.8.

⁷⁰ Vandoren, P. (2005). Regional economic integration in South East Asia. *Asia Europe Journal*, 3(4), p.517.

b) China

Since its reform and opening-up in 1978, China has emerged as a major world economy with remarkable economic growth (see Figure 4) and has been at the centre of economic activities in East Asia.

Figure 4. China's Economic Miracle (1978-2010)



Source: World Bank⁷¹

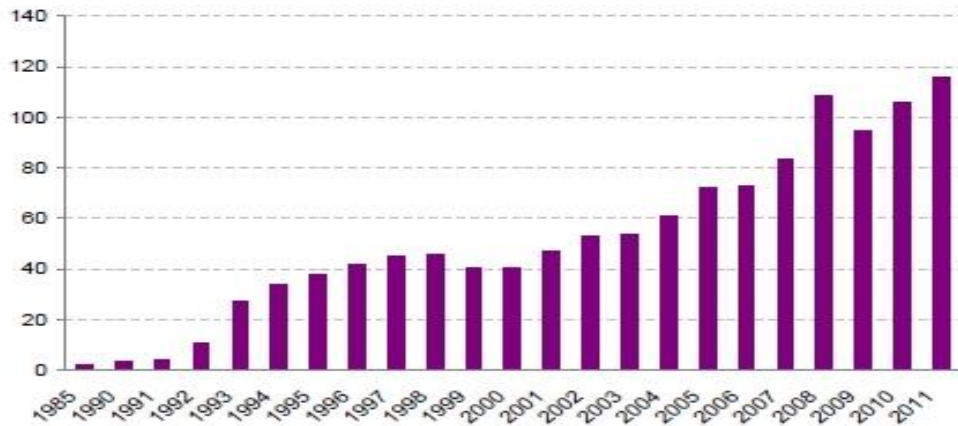
China now plays a role as a “world factory”, as well as a major export destination for other East Asian economies. China has benefited largely from massive FDI inflows (see Figure 5) and access to modern technology. Combining those with its low labour cost has made great productivity and incredible export-oriented economic development (see Figure 6).⁷²

⁷¹ China's Economic Miracle. (2012, October 24). *BBC News China*.

Retrieved June 10, 2013, from <http://www.bbc.co.uk/news/world-asia-china-20069627>

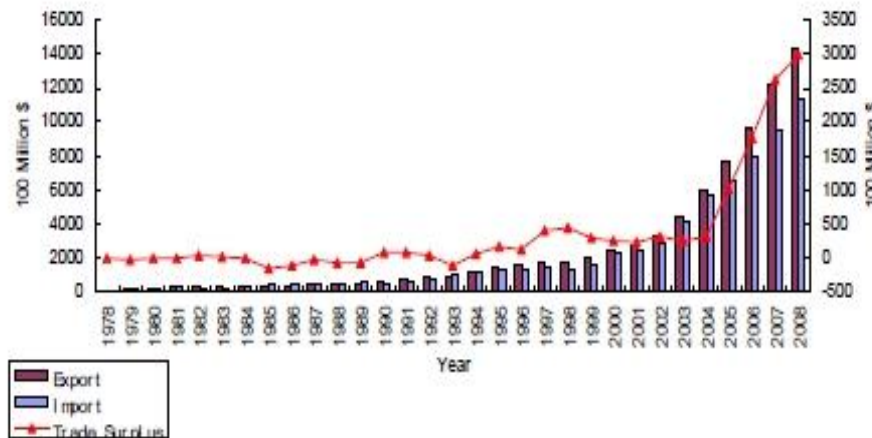
⁷² McKinnon, R. I. (2005). *Exchange rates under the East Asian dollar standard: Living with conflicted virtue*. Cambridge, MA: MIT Press, p.162.

Figure 5. Annual FDI Flows to China: 1985-2011
(\$ billion)



Source: CRS Report for Congress⁷³

Figure 6. China's Trade Performance (1978-2008)



Source: Chinese Ministry of Commerce⁷⁴

In fact, China has pursued a “two-track policy”, encouraging an open global trading system while also pursuing regional FTAs for its economic benefits.⁷⁵ Especially after China

⁷³ Ibid.

⁷⁴ Sun, P., & Heshmat, A. (2010). *International Trade and its Effects on Economic Growth in China*. IZA Discussion paper 5151, p.8.

⁷⁵ Calder, K. E., & Fukuyama, F. (2008). *East Asian multilateralism: Prospects for regional stability*. Johns Hopkins University Press, p.62.

successfully joined WTO in 2001, it has been showing a growing interest in regional economic cooperation with close neighbors through FTAs, most notably in its 2002 agreement with ASEAN.

The rise of China indeed contributes to the increasing trade expansion of East Asia and the deepening of intra-regional growth. China-Japan trade soared up from \$184 billion in 2005 to \$267 billion in 2008, up by approximately 13% average year-on-year growth. China-ASEAN trade rose and presented a net increase of over \$100 billion from 2005 to 2008. China-Korea trade also has increased from \$112 billion in 2005 to \$186 billion in 2008, with an average year-on-year growth rate as high as 20% (see Table 5).⁷⁶

Table 5. China's Trade with Japan, Korea and ASEAN (2005-2008)
(Unit: billion USD)

	Japan	Korea	ASEAN
Year	Value	Value	Value
2005	184	112	130
2006	207	134	160
2007	236	159	202
2008	267	186	231

Source: China Custom Statistics⁷⁷

China has stressed that East Asian regionalism should be focused on region's economic growth and has appealed especially to less developed economies among ASEAN+3, and has gained a favorable position as the regional leading power. At the second East Asia Summit held in January 2007, former Chinese Premier Wen Jiabao commented "We should ensure that East

⁷⁶ Ibid.

⁷⁷ Qin, Y. (2010). *Rebalancing Growth: Financial Crisis, China's Economic Adjustment and Intra-regional Trade*. Retrieved May 20, 2013, from http://www.jef.or.jp/PDF/2-P-1._Qin.Y_Rebalancing_Growth.pdf, p.5.

Asian cooperation brings benefits to all nations, through practical cooperation at bilateral and multilateral levels, build strong economic and trade linkages and put in place a cooperation framework based on mutual benefits and drawing on mutual strength.”⁷⁸ This comments shows China’s strong will towards promoting regional economic cooperation.

Based on its dynamic economic growth and undeniable economic influence in the region, China has a greatest potential to persuade and lead its neighbour countries towards economic regionalism.

c) Korea

Korea traditionally supported multilateralism through institutions like WTO and APEC. However, after the Asian financial crisis of 1997-1998, the Korean government started to change its stance towards East Asian economic regionalism and Korea has been a main actor in the context of the ASEAN+3 framework. For example, Korea’s former president DaeJung Kim proposed the establishment of the East Asia Vision Group (EAVG), which involved the promotion of regional FTAs, co-development of resources, infrastructures, enlargement of FDI, and financial cooperation among ASEAN+3. He also proposed at the fourth ASEAN+3 Summit in Singapore in 2000 to establish EASG (East Asia Study Group) to “explore practical ways and means to deepen and expand the existing cooperation among ASEAN+3, and to prepare concrete measures and action plans for closer cooperation in various areas.”⁷⁹

As the third-largest economy in East Asia in terms of GDP, and having a geopolitical advantage as a logistics hub, Korea’s active role in the ASEAN+3 framework is important to

⁷⁸ Wen Jiabao, “Work in Partnership to Promote Win-Win Cooperation,” address to the second East Asia Summit. (2007, January 15). Retrieved May 20, 2013, from <http://www.fmprc.gov.cn/eng/zxxx/t290183.htm>.

⁷⁹ *Final Report of the East Asian Study Group* (Rep.). (2002). Phnom Penh, Cambodia: ASEAN+3 Summit. Retrieved May 20, 2013, from <http://www.mofa.go.jp/region/asia-paci/asean/pmv0211/report.pdf>.p.58

pursue economic regionalism. Since Korea is in an intermediate position both in terms of geopolitical context and the level of economic development between China and Japan, it should be a mediator between these two powerful countries on a wide range of issues where they cannot easily compromise and find a balanced way to promote regionalism.

d). Japan

Tanaka and Liff argue that the Japanese government has had positive views towards East Asia regionalism because prosperity of the region through economic cooperation would directly contribute to Japan's security and its own prosperity in the future.⁸⁰ Former Japanese Prime Minister, Junichiro Koizumi urged countries in the region to "act together and advance together," in his January 2002 speech in Singapore to emphasize the necessity of regional economic cooperation.⁸¹ After the Asian financial crisis, Japan gradually strengthened its participation in East Asian regionalism. Japan suggested the Asian Monetary Fund (AMF) in the middle of the Asian financial crisis although the proposal was rejected a few months later because of strong opposition from the U.S. Also, Japan has actively participated in bilateral relations with several countries in the region. Especially, Japan concluded its bilateral FTA with Singapore in 2000, which symbolizes Japan's pursuit of trade liberalization at regional level. It was an attempt to achieve deeper integration with its neighbour trading partners.

However, even though Japan has continued to show a positive attitude toward regionalism in East Asia, it has also tended to pursue its own national interests much stronger than regional collective interests. For instance, Japan's hesitation to open its agricultural industry and labour

⁸⁰ Tanaka, H., & Liff, A. P. (2009). *Japan's Foreign Policy and East Asian Regionalism*. Council on Foreign Relations (CFR), p.3.

⁸¹ Terada, T. (2004). Creating an East Asian Regionalism The Institutionalization of ASEAN + 3 and China-Japan Directional Leadership. *The Japanese Economy*, 32(2), p.64.

market, which are one of the most sensitive sectors, has been a major obstacle on the road to regional FTAs, especially one with ASEAN. If Japan wants to take on a greater role in fostering regional cooperation, as one of the powerful economies in the region, the Japanese government should open Japan's domestic markets, including both agricultural and labour market eventually. In addition, considering Japan's large economic size and influence in the region, its strong involvement and support is essential for boosting East Asian regionalism.

As has been shown, the evolution and development of regionalism in East Asia has taken a number of steps. Especially, in the aftermath of the Asian financial crisis, the focus has shifted toward ASEAN+3 framework and it has emerged as a new driving force of successful and effective economic cooperation in the region. In the next chapter, a number of cooperative efforts and significant initiatives within the ASEAN+3 framework will be discussed.

V. Current Progress of East Asian Economic Regionalism

Following the Asian financial crisis and the emergence of ASEAN+3, East Asian regional economic cooperation has gradually progressed. East Asian economies started emphasizing FTAs as an effective trade policy instrument in the late 1990s and the region had become at the forefront of world FTA activity nowadays.⁸² In addition, ASEAN+3 successfully agreed on several regional cooperative development proposals such as the Chiang Mai Initiative (CMI) and the Asian Bond Markets Initiative (ABMI). This chapter explores the current progress of East Asian economic regionalism, with a particular focus on trade and finance.

1. Trade Integration: Proliferation of FTAs

Regional economic trade integration consists of agreements among countries in a geographic region to reduce and eventually eliminate tariff and non-tariff trade barriers to the free flow of goods, services, investment, and factors of production, including labour.⁸³

In the 1990s, with the intensification of globalization, East Asia went through a market-driven economic regional integration as the volume of intra-regional trade expanded greatly. At the same time, multilateralism through the WTO framework and so called “open regionalism”, supported by APEC underpinned East Asia’s approach to international trade policy.

Since the 2000s, realizing the economical benefits of institutionalized regional cooperation, East Asian economies have experienced increasing intra-regional trade integration through the proliferation of bilateral FTAs. As of January 2013, East Asia has been at the forefront of both global and regional FTA activity, with 109 signed and in effect FTAs, which is a half of the total

⁸² Kawai, M., & Wignaraja, G. (2009). Asian FTAs: Trends, Prospects, and Challenges. In *ADB Economics Working Paper Series No. 226*. Asian Development Bank, p.1.

⁸³ Yap, J. T. (2005). *Economic Integration and Regional Cooperation in East Asia: A Pragmatic View* (Working paper No. 32). Philippine Institute for Development Studies, p.3.

of 257 FTAs in the region (see Table 6 and Table 7).⁸⁴ At present, bilateral FTAs account for 76 percent of Asia's concluded FTAs, while multilateral FTAs comprise the remaining 24 percent.⁸⁵

Table 6. FTAs Growth
(FTAs by Status [cumulative])

Year	Proposed	Under negotiation			Signed and in effect	Total
		Framework Agreement Signed	Negotiations launched	Signed but not yet in effect		
1975	0	0	0	1	0	1
1980	0	0	0	1	1	2
1989	1	0	0	1	3	5
1991	1	0	0	2	5	8
1992	1	0	0	6	5	12
1993	1	0	0	2	14	17
1994	1	0	0	5	16	22
1995	1	0	0	12	19	32
1996	1	0	0	15	24	40
1997	2	0	0	17	25	44
1998	2	0	0	16	28	46
1999	4	0	1	16	29	50
2000	3	0	6	16	30	55
2001	2	0	8	15	33	58
2002	8	2	8	16	36	70
2003	18	4	9	22	41	94
2004	31	14	15	24	48	132
2005	43	18	28	24	56	169
2006	48	18	37	20	69	192
2007	46	18	42	23	75	204
2008	46	16	42	22	85	211
2009	53	16	45	22	91	227
2010	57	17	47	23	97	241
2011	60	17	47	23	104	251
2012	50	14	61	24	108	257
2013	50	14	61	23	109	257

Source: Asia Regional Integration Center

⁸⁴ Asia Regional Integration Center. (2013). *Free Trade Agreements*. Retrieved May 3, 2013, from <http://www.aric.adb.org/ftatrends.php>

⁸⁵ Kawai, M., & Wignaraja, G. (2013). Pattern of Free Trade Areas in Asia. In *Policy study No.65*. Honolulu: East-West center, p. 8.

Table 7. FTAs Growth
(FTA Status by Country, 2013)

Country	Proposed	Under negotiation		Signed but not yet in effect	Signed and in effect	Total
		Framework Agreement Signed	Negotiations launched			
Brunei Darussalam	5	2	2	0	8	17
Cambodia	3	0	2	0	6	11
China	6	2	7	0	12	27
Indonesia	5	1	6	2	7	21
Japan	5	0	8	0	13	26
Korea	11	0	10	2	9	32
Lao PDR	3	0	2	0	8	13
Malaysia	6	1	6	1	12	26
Myanmar	3	1	2	0	6	12
Philippines	6	0	2	0	7	15
Singapore	5	1	10	3	18	37
Thailand	6	3	5	0	12	26
Viet Nam	4	1	5	1	7	18

Source: Asia Regional Integration Center

ASEAN as a group and as individual members has been actively participating in FTA negotiations with other countries in recent times. It has been emerging as a “trade integration strategic hub” in East Asia. Some ASEAN members, such as Singapore and Thailand, are actively pursuing bilateral FTAs, even negotiating with Australia-New Zealand and India. In addition, the three major economies of Northeast Asia now put much effort in FTAs to pursue their regional and global trade strategies (see Table 8).

Within quite a short period of time, a number of bilateral trade agreements were concluded among East Asian countries. In particular, the ASEAN-China Free Trade Area is the largest free

trade area in terms of population, accounting for nearly 1.9 billion people.⁸⁶ Also, it is the second largest in terms of nominal GDP.⁸⁷ The agreement eliminates tariffs on 90% of imported goods and it is expected to expand cross border commerce among the participating countries. In addition, China opens up its agricultural market, which is a sensitive sector, including timber, palm oil, and tropical fruits, all key export products of Malaysia and Indonesia.⁸⁸ From the ASEAN perspective, it is anticipated that the FTA with China would open up the huge Chinese market to ASEAN and be utilized preferentially against other nations that have not signed FTAs with China yet.⁸⁹

Table 8. Bilateral FTAs in the Asia-Pacific region (Status by economy)

	ASEAN	China	Korea	Japan	India	Australia	New Zealand
ASEAN	●	●	●	●	●	●	●
China	●	-	▲	▲	▲	○	●
Korea	●	▲	-	○	●	○	○
Japan	●	▲	○	-	○	○	×
India	●	▲	●	○	-	▲	▲
Australia	●			○	▲	-	●
New Zealand	●	●		×	▲	●	-

●= FTA in place or FTA negotiation signed, ○=official negotiation under way, ▲=feasibility study of FTA under way, ×= no official move taken

Source: Asian Development Bank.⁹⁰

⁸⁶ Mu, Y., & Heng, S. (2010). Promoting China-ASEAN Economic Cooperation under CAFTA Framework. *International Journal of China Studies*, 1(3), p.667.

⁸⁷ Ibid.

⁸⁸ Terada, T. (2004). *Thorny Progress in the Institutionalization of ASEAN+3: Deficient China–Japan Leadership and the ASEAN Divide for Regional Governance* (Policy and Governance Working paper No. 49), p.23.

⁸⁹ Terada, T. (2004). Creating an East Asian Regionalism The Institutionalization of ASEAN + 3 and China-Japan Directional Leadership. *The Japanese Economy*, 32(2), p.80.

⁹⁰ Kawai, M., & Wignaraja, G. (2009). Asian FTAs: Trends, Prospects, and Challenges. In *ADB Economics Working Paper Series No. 226*. Asian Development Bank, p. 24.

In addition, the ASEAN-China Free Trade Area provides a great opportunity for both ASEAN and China to expand their business and investment activities. In 2007, China's investment in ASEAN was only around 1 percent of ASEAN's total FDI inflow, however, in 2008, China's investment in ASEAN was US\$2.2 billion, and in the first half of 2010, the amount of China's FDI into ASEAN countries was US\$1.2 billion, an increase of 125.7 percent over the same period of the previous year.⁹¹

Regional FTAs in East Asia are comprehensive, including services, investment, and non-tariff barriers, and expected that all products produced in one country can be freely sold in other neighboring countries within the region, which contributes to expanding market, increasing demand and supply in the region, and enhancing region's economic growth.

As has been shown, since 2000s, East Asia has achieved a rapid increase in total FTAs activity. A series of bilateral free trade agreements have been signed or are being negotiated by East Asian countries and these recent initiatives for regional FTAs are an important progress in regional economic linkages and interdependence. The reduction of barriers for trade in goods and services will facilitate the more efficient use of economic resources, foster trade and investment in the region.

With the proliferation of regional FTAs, the East Asian economies become more interdependent on each other. They keep looking for more opportunities to create synergies; therefore, regional FTAs should continue to increase in the coming years. Increasing regional FTAs will directly strengthen regional economic cooperation and it will be a powerful engine for economic growth in the region.

⁹¹ Ibid.

2. Monetary and Financial Cooperation

The Asian financial crisis (1997-1998) clearly revealed the vulnerabilities of the region's monetary and exchange rate arrangements and the lack of adequate monitoring system for rapid capital flows. The Asian financial crisis led East Asian countries to realize the necessity for collective arrangements to respond effectively to external shocks and building a strong regional financial architecture.

In the late 1997, Japan proposed the creation of the Asian Monetary Fund (AMF) as a framework for promoting financial cooperation and policy coordination in the region. However, this idea had not been accepted due to opposition from the U.S. and the IMF on the grounds that its regional fund would unnecessarily duplicate the IMF's activities and efforts.⁹² However, after that, the endeavors of regional financial cooperation in East Asia have taken place in the form of sharing information and improving of policy dialogue mechanisms by regular meetings between finance ministers and central bank governors, regional reserve pooling and sharing, and the development of a regional bond market.

A number of significant initiatives have been taken within the ASEAN + 3 framework in the area of finance and money over the past decade. The key initiatives were the Chiang Mai Initiative (CMI), with the objective of establishing a network of bilateral swap arrangements among ASEAN+3 countries as a regional emergency liquidity support mechanism and the Asian Bond Markets Initiative (ABMI), launched by the finance ministers of ASEAN+3 to develop efficient local currency bond markets in East Asia.

⁹² Amyx, J. (2005). *What Motivates Regional Financial Cooperation in East Asia Today* (Issue brief No. 76). Honolulu: East-West Center, p.2.

a) *Chiang Mai Initiative (CMI)*

In May 2000, the dropped Japanese proposal of an AMF in 1997 was revived at the ASEAN+3 Finance Ministers' Meeting (AFMM+3) held in Chiang Mai, Thailand, and CMI was finally agreed.⁹³ CMI is a plan to establish a network of bilateral currency swap agreement among China, Japan, Korea, and five original ASEAN countries: Thailand, Malaysia, Singapore, Indonesia, and Philippines. CMI offers emergency liquidity to member countries. CMI allows member countries to swap their own currencies for major international currencies for a period of up to six months when they experience currency crises and need foreign exchange reserves urgently. It is a landmark safety network and a liquidity support facility in East Asia, which is intended to address volatile capital flows and short-term liquidity difficulties, reduce the risk of currency crisis and manage speculation or contagion against currency crisis.⁹⁴

In fact, the recent global financial crisis was the first opportunity to examine CMI's effectiveness. However, CMI has shown its limitation to be an effective regional financial safety net.⁹⁵ For example, during the recent global crisis, because of a rapid drain in foreign reserves with currency depreciation, Korea had swap agreements through CMI totaling \$18.5 billion. However, only \$3.7 billion was useable since only limited percent of the swap amount through CMI could be available under IMF conditionality.⁹⁶ In the end, Korea got a swap from the U.S. Federal reserves of \$30 billion on October 2008.⁹⁷ As the Korean economy's experience has shown, CMI has an issue on working together with the IMF and it is unlikely that CMI can be

⁹³ Park, Y. (2012). *Financial Regionalism in East Asia and its Efficacy as Financial Safety Nets*. Korea Institute for International Economic Policy (KIEP), p.65.

⁹⁴ Jang, H. (2011). *Financial Integration and Cooperation in East Asia: Assessment of Recent Developments and Their Implications* (Discussion paper No. 2011-E-5). Institute for Monetary and Economic Studies (IMES) Bank of Japan, p.7.

⁹⁵ Ibid.

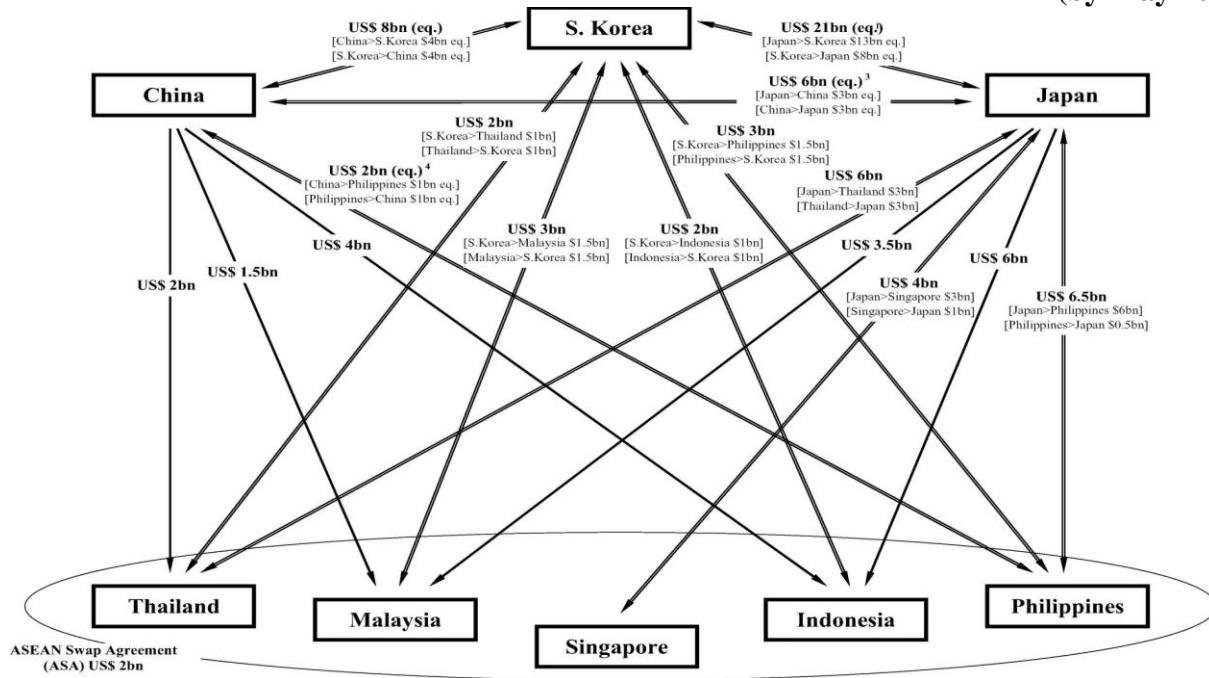
⁹⁶ Sussangkarn, C. (2011). *Institution Building for Macroeconomic and Financial Cooperation in East Asia*. Thailand Development Research Institute, p.4.

⁹⁷ Ibid.

efficient in the use of financial resources. Besides, since CMI consists of 15 bilateral currency swap arrangements, not a multilateral swap arrangement among all member nations in the region, the size of available fund is limited (see Figure 7).

Figure 7. Bilateral Currency Swap Agreements under the Chiang Mai Initiative

(by May 2007)



Source: Dent.⁹⁸

These issues have led to consensus among East Asian countries to develop a much stronger regional liquidity safety net and surveillance capacity. As a result, the ASEAN+3 Finance Ministers agreed to take the framework of the existing CMI and develop the Chiang Mai Initiative Multilateralization (CMIM) in 2009, which announced that any member country can utilize liquidity support from the total fund of \$120 billion under a common agreement.⁹⁹ CMIM is an upgraded version of the Chiang Mai swap mechanism from a bilateral system to a

⁹⁸ Dent, C. (2008). The Asian Development Bank and Developmental Regionalism in East Asia. *Third World Quarterly*, 29 (4), p.774

⁹⁹ Kim, H., Park, S., & Rudiger, F. (2012). Korea and East Asia in a Changing Regional and Global Environment. In *Conference Proceeding 12-04*. Seoul: Korea Institute For International Economic Policy (KIEP), p.65.

multilateral system. It is a significant move towards improving East Asia's financial stability and regional cooperation. The CMIM member countries have also agreed to a two-tier contribution scheme: 20% contribution by ASEAN countries and 80% by the three major countries (China 32%, Japan 32%, and Korea 16%) in funds.¹⁰⁰ This implies that if a crisis occurs, ASEAN countries can get larger amounts of funds than what they contributed.

However, the regional liquidity support mechanism to withstand pressures of contagion has brought concern on creating the problem of potential moral hazard.¹⁰¹ The regional safety net creates certainty that liquidity support within the region will be provided if a crisis happens. However, such certainty also reassures crisis-hit countries that they will be protected even if it is their own excessive risk-taking behavior or inadequate financial management that has made them vulnerable to a crisis, causing a situation of moral hazard. In fact, the moral hazard problem is commonly created in emergency liquidity support programs even in IMF rescue program.¹⁰² Therefore, the future phase of CMIM needs to progress in pursuing a way to minimize and resolve the problem of moral hazard. Economic policy dialogues, constant interactions, effective and credible regional surveillance, and a peer monitoring mechanism, (particularly, the further development of AMRO [ASEAN+3 Macroeconomic Research Office]) as an independent regional surveillance mechanism may provide a framework that can minimize the moral hazard problem. Yet fundamentally, sound macroeconomic management of each individual country is required in order to avoid a crisis in the first place. Also, how a regional mechanism and the international mechanism (IMF) coexist and work effectively together, whether CMIM only

¹⁰⁰ Park, Y., & Oh, Y. (2010). *East Asian Financial and Monetary Cooperation and Its Prospect: Beyond the CMI*. Korea Institute for International Economic Policy (KIEP), p.13.

¹⁰¹ Grimes, W. W. (2011). The future of regional liquidity arrangements in East Asia: Lessons from the global financial crisis. *The Pacific Review*, 24 (3), p.299.

¹⁰² Park, Y. (2012). *Financial Regionalism in East Asia and its Efficacy as Financial Safety Nets*. Korea Institute for International Economic Policy (KIEP), p.82.

remains as a “supplement” of the existing international financial arrangements or expands to be more an “independent” financial arrangement need to be further discussed among member economies. Either way, however, it should be emphasized again that a truly effective regional safety net mechanism should be a forward-looking crisis prevention mechanism rather than a post-crisis management mechanism. Thus, CMIM should progress along with both the enhancement of surveillance capabilities and individual countries’ sound financial structure and economic governance.

b) Asian Bond Markets Initiative (ABMI)

The other major pillar for the East Asian financial architecture is the development of local-currency bond markets.

In general, East Asia countries have large national savings, however, due to the lack of long-term bond markets in the region, these savings are largely invested in the international financial markets, in the U.S. and Europe, and then back into the region again as short-term foreign currency loans or speculative hedge funds. This two-way capital flow has brought about a problem: the so called, “double mismatch problem”, which is the mismatch between debt maturities (short-term borrowing for long-term investments), and currency risk (the bonds are denominated in foreign currencies rather than local currencies).¹⁰³ In addition, since surging capital flows within the region are highly dependent on foreign financial institutions and speculators, and the funds might flow out more quickly than they came in, East Asian countries face a high risk of liquidity crisis, regardless of their own macroeconomic situation. It continues to be a source of financial vulnerability in the region.

¹⁰³ Amyx, J. (2005). *What Motivates Regional Financial Cooperation in East Asia Today* (Issue brief No. 76). Honolulu: East-West Center, p.4.

In responding to this issue, in 2003, ASEAN+3 launched a new program, the Asian Bond Markets Initiative (ABMI).¹⁰⁴ ABMI is the creation of regional bond markets where bonds are denominated in regional currencies. Local currency bond markets help to increase long-term funding, while avoiding maturity and currency risks and utilizing the region's abundant savings directly for investment opportunities in the region. Therefore, ABMI contributes to addressing the "double mismatch problem", to maximizing the use of Asian savings for Asian regional investment, and to managing currency risk by increasing the issuance of bonds, particularly long-term bonds. Moreover it helps to enhance the efficiency of regional financial markets and to make Asian capital markets stronger and safer.

However, after 10 years after its launch, Asian bond markets still remain with several limitations, which include their insignificant size and liquidity, limits to capital mobility, the differences in the level of development of the individual domestic bond markets and financial infrastructure, and the lack of cross-border legal and regulatory frameworks. Therefore, to improve the effectiveness of Asian bond markets, ASEAN+3 countries need to harmonize their policies for building a regional financial market infrastructure and coordinate transaction rules. In addition, each country should make efforts to enhance government-driven domestic bond markets along with technological cooperation in order to reduce the disparities in the level of domestic bond market development and financial infrastructure among member countries. Also, ASEAN+3 countries should improve the regulatory framework at the national level, as well as enhance regional prudential surveillance for transparent and efficient capital mobilization and stability of the regional capital markets.

All in all, after the Asian financial crisis, there has been progress in building a strong

¹⁰⁴ Park, Y., & Song, C. (2011). *Prospects for Monetary Cooperation in East Asia* (Working paper No. 314). Asian Development Bank, p.3.

financial architecture in East Asia. The two major initiatives: CMI and ABMI, have developed as main pillars of the region's financial architecture. The CMI swap arrangement provides regional liquidity fund for the member countries to prevent subsequent regional crises through contagion crises. ABMI aims to develop East Asia's local-currency bond markets in order to use the region's excess savings efficiently and generate stability in regional financial markets. The implementation of CMI and ABMI is a major step towards intensifying financial and monetary cooperation in East Asia. However, the recent global financial crisis has shown that the East Asian economy has weaknesses related to financial regulation and supervision; also, it is still vulnerable to the high degree of capital flows and easily exposed to external economic shocks. Moreover, it has raised an issue that there are limitations on current regional liquidity support mechanisms. East Asian countries need to take more coordinated actions and strengthen financial and monetary cooperation, such as improving the effective monitoring system and policy dialogue mechanisms, coordinating the setting of exchange rate and macroeconomic policies to ensure that the region is in a better position to cope with further turmoil under an uncertain global economic environment.

VI. Prospects for Further Regional Cooperation in East Asia

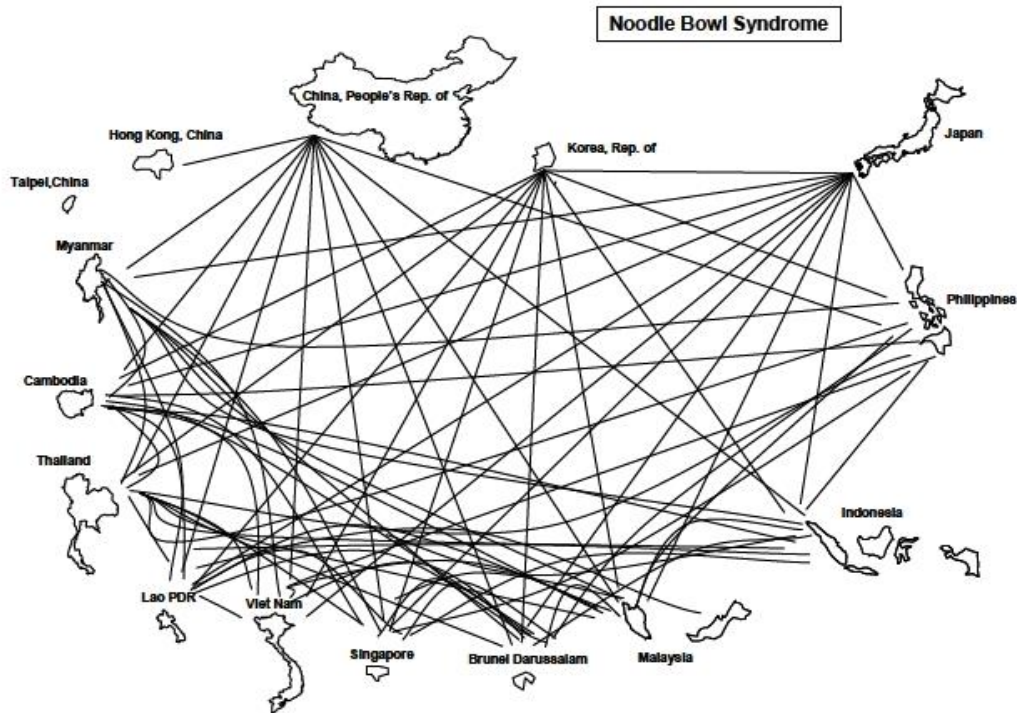
Recently, ASEAN+3 countries have discussed building an East Asia Free Trade Area (EAFTA) for energizing trade and investment flows. Furthermore, the bold idea of creating a single currency has emerged as a strong mechanism for the coordination of exchange rate policies. This chapter discusses the feasibility and desirability of EAFTA and the adoption of a single currency. In addition, this chapter draws some policy suggestions for fostering intra-regional trade and investment, and enhancing financial stability. Lastly, it points out various challenges and complexities that lie ahead in the way of achieving deeper economic integration in East Asia.

1. Formation of East Asia Free Trade Area (EAFTA)

The increasing intra-regional economic interdependence with growing number of regional trade agreements (RTAs) is a great incentive in initiating discussion for region-wide FTA.

In fact, as RTAs have increased, there seems to be an increasing risk that East Asian countries may face the “noodle bowl phenomenon”. The various bilateral or plurilateral FTAs in East Asia have their own agreed rules of origin (ROO), customs procedures, product and technical standards, timelines for tariff reductions. However, because of proliferation of these uncoordinated bilateral or plurilateral FTAs and overlapping with different ROO, intra-regional trade can be more difficult than anticipated. Figure 8 shows the web of complex rules of origin in East Asia. The complexity of bilateral FTA among East Asian countries adds transaction costs, requires more business information, and reduces the scope for economies of scale and the attractiveness of the region for FDI. Therefore, East Asia needs an integrated approach to coordinate the current multi-layered arrangements into an integrated one.

Figure 8. East Asia's Noodle Bowl Phenomenon



Source: Baldwin.¹⁰⁵

It is suggested that establishing a regional-wide FTA, East Asia Free Trade Area (EAFTA) would be more efficient and desirable instead of having various regional FTAs such as AFTA, any ASEAN+1 FTA, or any other bilateral regional agreement with a large number of different rules of origin because regional FTA can reduce the harmful noodle bowl effects of different rules, tariffs, and standards.

EAFTA can bring significant economic benefits and increase in both productivity and economic welfare in terms of reduction of the business cost in trade and investment in the region. Further elimination of cross-border barriers and harmonization of current complicated rules, procedures, and standards will lead to the expansion and enhancement of trade and FDI

¹⁰⁵ Baldwin, R. E. (2007). *Managing the Noodle Bowl: The Fragility of East Asian Regionalism*, p.5. Retrieved May 10, 2013, from http://aric.adb.org/pdf/workingpaper/WP07_Baldwin.pdf.

movement among East Asian economies. It is anticipated that at minimum, EAFTA would contribute to increase in overall GDP of East Asian countries by 1.2 percent and increase in economic welfare by 104.6 billion US dollars (see Table 9).¹⁰⁶

Table 9. Effects of EAFTA on East Asian Countries

Country	Increase in GDP (%)	Increase in economic welfare (\$ million)
China	1.7	18,230
Indonesia	1.7	4,498
Japan	0.4	29,844
Korea	3.5	18,845
Malaysia	5.8	10,420
Philippines	4.0	3,410
Singapore	4.2	7,509
Thailand	4.5	8,798
Vietnam	2.8	3,029
ASEAN	3.6	37,663
China, Korea and Japan	0.9	66,919
ASEAN+3	1.2	104,582

Source: Simulation results¹⁰⁷

In addition, in response to the emergence of two economic blocs in North America and Europe, East Asian economies need to secure a large market within their own region. Also, they need to enhance productivity and international competitiveness to compete in global markets. Moreover, after the global financial crisis and the subsequent euro crisis, the demand for East Asian exports from the U.S. and Europe has declined sharply.¹⁰⁸ Therefore, East Asian economies need to expand intra-regional trade to protect East Asia against external shocks and sustain regional economic growth. EAFTA will enable East Asian economies to address these challenges. Given the fact that the region has, collectively, one-third of the world's population

¹⁰⁶ Ibid, p.13.

¹⁰⁷ Ibid, p.36.

¹⁰⁸ Chia, Y. S. (2010). *Trade and Investment Policies and Regional Economic Integration in East Asia*. ADBI Working Paper No. 21, p.10. Retrieved June 6, 2013, from <http://www.adbi.org/workingpaper/2010/04/05/3652.trade.investment.policies.east.asia/>

and a GDP of US\$2 trillion, building the EAFTA will lead to the emergence of a huge regional market.¹⁰⁹

Plus, human capital is becoming an increasingly important factor for enhancing productivity, and competitiveness in this knowledge-based global economy. EAFTA can contribute to increasing the development and efficient use of human resources through labour mobility and it can provide better opportunities for firms that can benefit from broader choice in the labour force.

Furthermore, the process of building EAFTA among thirteen countries cannot be easy, however, it will be a worthwhile experience because by creating and pursuing shared economic benefits, East Asian countries can get great opportunities to increase mutual understanding and build trust with each other.

However, although discussion on creating EAFTA had been initiated and its economic benefits have been analyzed among leaders during ASEAN + 3 summits meetings, detailed discussions on how to build EAFTA have yet to take place. Therefore, now the key question is how to create strong inter-governmental regional organizations under the current circumstances, where nations have notably different economic levels and there are already ongoing negotiations for several different bilateral FTAs.

First of all, with regard to its starting membership, the road towards EAFTA does not need to start from a totally new base, rather, more realistically, it can involve the integration of an existing regional framework, ASEAN+3. However, in the long term, EAFTA needs to extend membership gradually to other East Asian economies, such as Hong Kong and Taiwan as well as Australia, New Zealand, and India in progressive years. By doing so, the East Asian economies can form a large economic market, which is comparable to the EU and NAFTA.

¹⁰⁹ Terada, T. (2004). Creating an East Asian Regionalism The Institutionalization of ASEAN + 3 and China-Japan Directional Leadership. *The Japanese Economy*, 32(2), p.70

Second, EAFTA should be designed to be beneficial to all members. In particular, it must be helpful in reducing the level of economic development gap in East Asia. In other words, EAFTA should bring the smaller and less developed economies into the mainstream of regional trade and investment. In fact, it is not easy to expect successful intra-trade liberalization if the economic development gap between the member countries is not addressed. Due to the lack of negotiating resources and the lack of the attraction of a sizeable market, the less developed East Asian countries might become marginalized, while the economic benefits of intra-trade liberalization lean towards countries with better economic development level.¹¹⁰ Therefore, unless there is a cooperative effort to reduce the big different economic gaps between East Asian countries, it will be hard to achieve a successful EAFTA. Thus, the process should be characterized by “step-by-step” gradual progress rather than every country trying to perform perfect free trade at once in order to minimize any economic welfare loss to the less developed economies. In addition, member countries need to foster a “community spirit” by showing their intention to help less developed countries’ economic challenges and by making efforts to ensure that they grow together. For example, when China concluded its FTA with ASEAN, China signed a pact with Lao PDR to build a modern highway and trade route; it also agreed to grant preferential tariff treatment for products from Cambodia, Myanmar, and Lao PDR.¹¹¹ These cooperative efforts need to be continued to build strong inter-governmental regional organizations and these efforts generate benefits to not only beneficiary countries but also supporting countries eventually.

Kawai and Wignaraja argue that the most important precondition for EAFTA is the creation

¹¹⁰ *A Report by Joint Expert Group for Feasibility Study on EAFTA Towards an East Asia FTA: Modality and Road Map* (Rep.). (2006, July 22). Retrieved May 1, 2013, from http://www.thaifta.com/thaifta/Portals/0/eafta_report.pdf p.16.

¹¹¹ Terada, T. (2004). *Thorny Progress in the Institutionalization of ASEAN+3: Deficient China–Japan Leadership and the ASEAN Divide for Regional Governance* (Policy and Governance Working paper No. 49), p.23.

of a China-Japan-Korea trilateral FTA.¹¹² It is too complex and difficult for all thirteen member countries to discuss East Asia FTA at once, not just because of different economic development levels, but also because of diverse priorities for their FTAs, due to their different industrial structures.¹¹³ It seems the feasible way to establish EAFTA is to form a triangle of Northeast Asian countries FTA and then to negotiate with ASEAN countries. This strategy will facilitate the formation of EAFTA.

Last but not least, it is very important for the East Asian economies to make EAFTA “multilateral-friendly”. East Asian countries should continue to embrace the idea of multilateralism under the WTO and make efforts to promote multilateral trade negotiations as well. To avoid EAFTA becoming a stumbling block for global free trade, establishing FTAs with countries outside East Asia is crucial. Besides, the rest of the world, in particular, North America and Europe, is the most important market for exports and capital; therefore, East Asia must keep expanding its connection to the global market, outside the region.

A well-designed region-wide FTA will eliminate cross-border trade barriers, expand trade and investment, and harmonize various trade-related rules, standards, and procedures. Ultimately, the successful creation of EAFTA, which would be a huge step towards deeper regional economic cooperation, will contribute to increasing the region’s prosperity and economic stability.

Thus, despite several constraints, EAFTA should be promoted and designed in the near future to strengthen the region’s market influence in the global economy and improve the economic growth of East Asia.

¹¹² Kawai, M., & Wignaraja, G. (2009). Asian FTAs: Trends, Prospects, and Challenges. In *ADB Economics Working Paper Series No. 226*. Asian Development Bank, p.24.

¹¹³ Terada, T. (2004). Creating an East Asian Regionalism The Institutionalization of ASEAN + 3 and China-Japan Directional Leadership. *The Japanese Economy*, 32(2), p.70.

2. Beyond the Crisis Solution and Prevention: East Asian Single Currency

Due to the growing interdependence in trade and finance, and the increasing importance of spill-over and contagion effects, intra-regional exchange rate stability within the region is an essential policy objective for East Asia. The strongest form of exchange rate coordination is adopting a single currency and building a monetary union.

In fact, there have been suggestions from several scholars that at the current level of trade and financial integration, adoption of a single currency and formation of a monetary union need to be a long-term objective. For instance, Mundell argues that Asia needs a common currency in the future, although the European model of single currency may not be a perfect role model for Asia.¹¹⁴ Also, the East Asian region is evaluated to be a more or less as plausible candidate for an Optimum Currency Area (OCA), where the benefit of currency union is greater than the cost. Eichengreen and Bayoumi have calculated an optimum currency index for East Asia, based on the speed of adjustment to shocks and the nature of disturbance, openness, cross-border investment and intra regional economic interdependence, similarity of policy objectives among countries, and labour mobility. They found that the index is not very different from what it was in Europe, before the launched of the Euro, although the index does not satisfy all the OCA criteria.¹¹⁵

The major benefit of monetary integration are the reduction in currency speculation and transaction costs, which can help expand intra-regional trade and financial investment, and the elimination of the risks from the uncertain future movement of exchange rate within the monetary union. The main cost, however, is the loss of sovereignty for the member nation's own

¹¹⁴ Mundell, R. (2002). Does Asia Need a Common Currency Market? *Pacific Economic Review*, 7(1), p.11.

¹¹⁵ Eichengreen, B., & Bayoumi, T. (1996). *Is Asia an Optimum Currency Area? Can It Become One? Regional, Global and Historical Perspectives on Asian Monetary Relations*, p.16.

Retrieved April 12, 2013, from <http://emlab.berkeley.edu/~eichengr/research/c96-81.pdf>

monetary and exchange rate policies. Also, one of the important points is that monetary integration can lead to expanding current account imbalances among the member countries. For example, in Eurozone, the trade imbalances between Germany and Spain grew rapidly after the introduction of Euro.

At present, there has been very slow progress towards a regional single currency because there has not been a clear consensus among ASEAN+3 countries about whether or not the region should promote the idea of establishing a common currency. But even if they reach a consensus on adopting a single currency, considering the current pace of financial cooperation and the unwillingness of East Asian countries to give up their autonomy over monetary policy, creating a single currency seems a very ambitious idea to be realized.

In order to promote monetary integration, harmonization of financial market structures such as well-functioning payment system, and legal frameworks as well as the coordination of macroeconomic policies are required. In reality, however, these are very difficult to achieve. For a direct example, Japan has a market-driven monetary policy while China implements government-regulated monetary policy, which seem very hard to be harmonized.¹¹⁶ Besides, unlike the EU case, East Asian economies differ widely in terms of market structure, financial regulations, and the stage of economic development to apply the same criteria of deepening monetary cooperation.¹¹⁷ These differences make it difficult for East Asian economies to start establishing a common financial architecture. Therefore, narrowing the development gap between each economy in the region should be the first step towards regional monetary integration.

¹¹⁶ Takahashi, W. (2011). *Financial Cooperation in East Asia: Its Future Directions*. Kobe University, p.4

¹¹⁷ Park, Y., & Oh, Y. (2010). *East Asian Financial and Monetary Cooperation and Its Prospect: Beyond the CMI*. Korea Institute for International Economic Policy (KIEP), p.5

Moreover, the biggest obstacle to promoting monetary integration is political. Whatever economic benefits monetary integration brings, it is ultimately a political decision among the countries in the region. However, compared to Europe, the political precondition for monetary integration in East Asia is far less favorable.¹¹⁸ There are still some political conflicts between East Asian countries. Also, the lack of political commitment, diverse political systems, and the lack of experience in political cooperation in the region are decisive factors against creation of a single currency area. Therefore, creating a single currency in East Asia is a highly challenging project and it is unlikely to be realized easily any time soon. It should be considered at best as only a long-term goal with much time, efforts and gradual approach. The gradual approach, starting with less demanding forms of financial policy coordination, can provide some preparing times to establish common values, build mutual trust, and gain experience with cooperation before going forward to the most advanced step of financial integration: adopting a single currency. It should be noted that the adoption of the Euro took fifty years to come true.

As discussed above, financial cooperation has ranged from short-term liquidity assistance with a mechanism of information exchange and surveillance to establishing a regional bond markets. Beyond CMI and ABMI, discussions have been under way to coordinate macroeconomic and exchange rate policies. However, there is no clear consensus among ASEAN+3 countries as to what extent monetary cooperation should be promoted on the long-term view. This has led to slow progress on regional financial and monetary integration process. Therefore, by far it is of the utmost importance to set the ultimate goal of financial and monetary cooperation; then, ASEAN+3 countries need to agree on the future direction and prepare a

¹¹⁸ *Study on Monetary and Financial Cooperation in East Asia (Summary Report)* (2002). Asian Development Bank, p.11.

detailed blueprint. A well-defined goal and a clear roadmap for financial cooperation in East Asia would provide consistent path and efforts, and it would accelerate financial cooperation. In addition, financial and monetary cooperation is a sensitive area that highly requires mutual trust and understanding; therefore, it is important to share common objectives and establish close communication links to achieve financial stability in the region.

In order to achieve stronger financial cooperation and build a regional financial architecture, improving domestic financial market systems so that they become more transparent and efficient is a top priority agenda to narrow differences in the stages of economic development and domestic financial infrastructures between individual countries. Also, each country should conduct sound macroeconomic policies and create prudential regulation and monitoring system of the huge international capital flows.

Following these efforts, at the regional level, it is suggested to reinforce the existing CMIM, expanding its size of liquidity support as a self-managed pooling scheme, making it concrete with institutional mechanisms in order to enhance its effectiveness and its enforcement, and minimize the moral hazard problem. Also, along with the CMIM, which is a crisis-resolution mechanism, it is necessary to develop a crisis-prevention facility, the AMRO, as another pillar of regional financial safety net. The roles of AMRO to monitor, assess, and analyze the regional economies and support the CMIM need to be strengthened. In addition to that, sharing information and improving technological cooperation in capacity building for regional financial infrastructures should proceed gradually to develop well-functioning Asian capital markets with resilient financial systems that can support stable economic growth in the region.

Plus, regular information exchange and opening policy dialogue are necessary for intensifying economic cooperation and preventing financial crises. The effective information

exchange within the region will play a role as a warning system to detect financial vulnerabilities and any external shocks at an early stage in order to take proper joint actions. In addition, the regional policy dialogue process will ensure each individual country to implement effective and sound macroeconomic policies through peer pressure or enforcement mechanisms.

Lastly, regarding the formation of a regional single currency, although it has drawn attention from policy makers and economists, it remains at a very early stage. Considering current financial situations and the level of cooperation in East Asia, creating a common currency seems premature. Besides, the recent Euro crisis has clearly shown that creating a single currency is not a “magic wand” for regional financial stability.¹¹⁹ Therefore, there are needs for more discussion and consideration of the benefits, costs and feasibility with the long-term perspective and it should proceed circumspectly and gradually as the last step toward a deeper regional financial and monetary integration.

3. Challenges Ahead of Ongoing Economic Cooperation

In spite of the growing regionalism and several cooperative efforts in recent years, there are multiple challenges that restrain deeper regional economic cooperation in East Asia, such as the large variance in economic development levels, the diversity of political systems and values, the lack of leadership, national rivalries between China and Japan, the legacy of history and conflicts, and U.S.’s powerful influence in the region.

First of all, East Asian economies are diverse and heterogeneous in terms of economic systems, size, per capita incomes, and the level of economic and institutional development.¹²⁰ The disparity in the stage of economic development implies that relatively less developed

¹¹⁹ Takahashi, W. (2011). *Financial Cooperation in East Asia: Its Future Directions*. Kobe University, p.6.

¹²⁰ Volz, U. (2011). *Regional integration, economic development and global governance*. Edward Elgar Publishing, p.51.

countries such as Cambodia, Lao PDR, Myanmar and Vietnam will be slow in joining regional coordinating activities, expanding trade and investment, and opening their financial markets because their economic governance systems and market infrastructures are insufficiently developed.¹²¹ Therefore, it will not be easy for them to integrate themselves quickly with the other more developed East Asian economies.

Second, although East Asian countries do share the common view that peace, security, and political and social stability are the fundamental foundations for economic growth, differences in political systems and ideological perspectives among the members without much experience of political integration will delay meaningful progress in regional economic cooperation. Deep mutual trust and strong political will for regional economic integration have not been fully built up in the region. East Asian countries need to deepen mutual understanding and increase awareness on the significance for enhancing regional-wide trade and strengthening financial and monetary cooperation.

Third, the current state of East Asian regionalism has been formed by many drivers. However, nobody actually has stepped up to take the leading role and to provide strategies and action plans for developing formal regional economic integration. In other words, the lack of leadership has posed a challenging impediment to the economic integration in East Asia. Strong regional leadership is necessary to achieve further economic cooperation.

In terms of its economic influence on regional and global economy, China and Japan should play leading roles in accelerating the process of integration. Their proactive roles with decisive decisions are essential to achieve regional integration ultimately, as we have seen the importance

¹²¹ Tambunan, T. (2009). *Financial Services Liberalization and Integration in a Developing Region: The Case of ASEAN* (Policy discussion paper No. 9), p.9. Retrieved June 25, 2013, from http://www.fe.trisakti.ac.id/pusatstudi_industri/pusat%20study%20tulus%20tambunan/pusat%20studi/policy%20discussion%20paper/pdf9.pdf.

of leadership role in the EU example—France and Germany, which were the key driving forces for the regionalism in Europe. Grimes argues that China and Japan, two dominant countries in East Asia, have deep interests in supporting the regional cooperation especially for financial stability of their neighboring economic partners.¹²² However, while both China and Japan have shown their interests and willingness to promote East Asian regionalism, they have not supported each other to promote economic regionalism. Rather, the rival relation between China and Japan has led to slow progress in economic regionalism. It seems that neither China nor Japan would approve the other to take a leadership role in East Asian regionalism. Webber argues that “Sino-Japanese relations have not been transformed in the way that Franco-German relations were transformed in Western Europe after World War II.”¹²³ But without China and Japan, it will be difficult to take any positive action for regional economic cooperation within ASEAN+3 framework.

In fact, China’s successful economic development and its huge growing economic influence in the region have triggered competition from Japan. For example, Japan announced its desire to promote an FTA with ASEAN in January 2002 right after China first proposed an FTA with ASEAN during the ASEAN + 3 Brunei summit in November 2001. It was seen as Japan’s attempt to compete with China rather than a pursuit of genuine economic benefits from free trade and the promotion of regional economic cooperation. A Vietnamese official mentioned that Japan’s FTA proposal seemed to be a “hastily-put-together affair”, that its intention was to counter the FTA proposal floated by China to ASEAN.¹²⁴ Stubbs also states that the “Japanese

¹²² Grimes, W. W. (2011). The Asian Monetary Fund Reborn? Implications of Chiang Mai Initiative Multilateralization. *Asia Policy*, (11),p.84.

¹²³ Webber, D. (2001).Two funerals and a wedding? The ups and downs of regionalism in East Asia and Asia-Pacific after the Asian crisis. *The Pacific Review*, 14(3), p.363.

¹²⁴ Terada, T. (2006). *The Making of Asia’s First Bilateral FTA: Origins and Regional Implications of the Japan–Singapore Economic Partnership Agreement*. Australia–Japan Research Centre, p. 24.

government could not let China gain an uncontested leadership position in the region.”¹²⁵

The rival relations between China and Japan and their deep-rooted distrust have their roots in history. Japan once colonized parts of China. The colonization is still remembered in China and it continues to be an issue in the bilateral relations of China and Japan. In recent years, the Senkaku and Diaoyu island dispute has escalated Chinese and Japanese relations to a worse situation, even a dangerous level.¹²⁶

Moreover, Drifte points out that there are negative concerns and reactions from neighboring Asian nations, due to Japan’s historical legacy. These prevent the Japanese government from taking a leading role in promoting regionalism.¹²⁷ Therefore, Japan needs to realize that it cannot easily get trust and play a leading role in the region without truly reflecting on its past wrongdoings.

Lastly, in East Asia cannot be fully examined in terms of political and economic dynamics without discussing the U.S.’s powerful influence. The U.S. has been a single most important external factor affecting Asian integration.¹²⁸ Although the U.S. is geographically located outside East Asia, the Cold War period has provided a chance for the U.S. to be engaged deeply in the region for the purpose of security surveillance. After that, East Asia has been largely dependent on the U.S. for its economic development. The U.S. has played a strategic partnership role in the overall economic development of East Asia, demonstrating its significant economic interests and influence in the region. In fact, as the external power, the U.S.’s attitude toward

¹²⁵ Stubbs, R. (2002). ASEAN Plus Three: Emerging East Asian Regionalism? *Asian Survey*, 42(3), p.443.

¹²⁶ Tisdall, S. (2012, September 17). China and Japan: A dangerous standoff over the Senkaku islands. *The Guardian*. Retrieved May 22, 2013, from <http://www.guardian.co.uk/commentisfree/2012/sep/17/china-japan-dangerous-standoff>

¹²⁷ Drifte, R. (1996). *Japan's foreign policy from economic superpower to what power?* New York: St. Martin's Press, p.143.

¹²⁸ Green, M. J., & Gill, B. (Eds.). (2009). *Asia's new multilateralism: Cooperation, competition, and the search for community*. New York: Columbia University Press, p. 64.

developing East Asian regionalism can largely affect ASEAN+3 cooperation. Clearly, the U.S. seems to prefer more open regionalism, including the Asian and Pacific regions over the more exclusive “Asian only” regionalism, such as ASEAN+3 framework. When the idea of an EAEG, the “East Asia group” that excluded the U.S., emerged, the U.S. quickly put pressure on Japan and Korea to reject the proposal. Lincoln expresses concerns that the U.S. will lose its powerful economic and political influence in the region if East Asia drift away from its Asia-Pacific economic ties and moves towards an “Asian only” regional economic cooperation, excluding the U.S.¹²⁹ He also argues that “narrow East Asian economic regionalism” is not beneficial for East Asia, rather it will threaten the region’s trade and investment ties with U.S.¹³⁰ It is expected that the U.S. will keep interfering and try to be involved in the process of East Asian regionalism both indirectly and directly. Therefore, from East Asia’s perspective, whether or not to let the U.S. be actively involved or excluded in the regionalization process will continue to be a complicated dilemma issue.

Besides, given the rise of China and the relative decline of U.S. economic power, there are U.S. concerns that China might take over its position as the leading global economic power; therefore, the relationship between the U.S. and China might appear to be one of the most important factors in shaping the future of regionalism in East Asia. In fact, it seems that the U.S. tacitly uses Japan as a means to check China’s rising influence in the region. It is also the case that Japan cannot fully devote itself to the process of regional cooperation in East Asia mainly because of its close relationship with the U.S. as part of a “global alliance.” For instance, Japan could not reject the U.S.’s strong voice when the U.S. asked Japan to give up its AMF initiative. At the same time, Japan tries to be more involved in the process of regional cooperation as a

¹²⁹ Lincoln, E. J. (2004). *East Asian Economic Regionalism*. Washington DC: Brookings Institution Press.

¹³⁰ Ibid.

reaction to China's growing influence in the region. Therefore, these complex dynamics impede the smooth development of East Asian economic cooperation.

Cooperative efforts for achieving stronger regional cooperation encounter several difficulties. Figuring out how to overcome these multiple challenges is one of the next steps for strengthening regional economic cooperation.

VII. Conclusion

There have been debates on regionalism and its relationship with the multilateral system among economists and policy makers: i.e. whether regional cooperation arrangements have positive or negative impacts on the multilateral system. However, admittedly, regionalism has emerged as an inevitable trend in the global economy and it is likely to intensify as an efficient strategy for economic growth.

Realizing the importance of strengthening regional economic cooperation, the ten ASEAN countries plus China, Japan, and Korea have shown strong interests in economic regionalism. They have achieved considerable progress in constructing regional cooperative arrangements in the area of trade and finance.

The ASEAN+3 framework has been the main vehicle for steering economic regionalism. Cooperative efforts have been made within ASEAN+3 framework in both the trade and finance sectors. At present, it is the most effective and feasible formation for working jointly towards deepening economic integration in the region. However, from long-term point of view, based on the successful ASEAN+3 framework, India, Taiwan, Hong Kong, and even Australia and New Zealand can gradually join economic activities associated with ASEAN + 3, especially, in the area of trade.

ASEAN+3 countries have actively formed and proposed FTAs to enhance regional trade flow and investment. As a result, East Asian economies have experienced increasing intra-regional trade, growing business activities and investment, and have become more interdependent on each other. The number of regional FTAs is expected to increase in the coming years to gain broader market access and facilitating more trade and investment in the region.

Plus, the next step towards economic regionalism, building EAFTA, which can address the noodle bowl phenomenon and has great potential to boost economic growth, has reached a consensus. Creating EAFTA will not be an easy process, however, with a number of players with different economic development levels but it will contribute to building mutual understanding and trust among East Asian countries, not to mention that it will energize trade and investment flows in the region and foster the region's prosperity. Importantly, in order to avoid EAFTA becomes a stumbling block to the multilateral trade system, East Asian countries should continue to promote multilateral trade negotiations as well.

In addition, ASEAN+3 countries have created several new initiatives to build a strong regional financial architecture. Several positive achievements have been made, including CMI as a regional liquidity support mechanism and ABMI for creating regional bond markets. Furthermore, the idea of creating a regional single currency has been discussed but it remains at the very early stage of process. There are needs for more discussion and consideration with the long-term perspective in mind and it should proceed gradually as the last step toward deeper regional financial and monetary cooperation.

From a long-term view, a well-designed regional financial architecture will increase intra-regional investment, enhance economic growth, prevent financial crisis and, therefore, ensure stability in the region. Moreover, considering the increasing influence of East Asian economies in the global economy, the success of building a regional financial architecture in East Asia will be beneficial not only for the regional economies, but also for the stability of the global economy. Successful and effective financial cooperation should include sound macroeconomic policy and adequate regulation and monitoring of capital flows at the national level plus the strengthening of regional surveillance mechanisms, policy dialogue and information exchanges, joint research

projects for coordinating exchange rate and macroeconomic policy at regional level.

To achieve deeper economic integration, it is important to overcome various challenges such as the economic development gaps between East Asian economies, the lack of leadership and the rivalry between China and Japan. In particular, it is widely acknowledged that closer and amicable relations between China and Japan are vital for realization of successful and effective economic cooperation in East Asia.

All in all, in the aftermath of the financial crisis, regional economic cooperation in East Asia has some positive progress within ASEAN+3 framework. From the experience of the Asian financial crisis, under sluggish current performance and uncertain global economy trend, and deepening economic interdependence in the region, stronger economic cooperation in East Asia should continue to be promoted. In addition, East Asia needs to increase its voice to match its economic influence in the global economy and it would be easier to do so if the countries in the region worked together and reached common positions. Therefore, strengthening East Asian economic regionalism will be a beneficial and credible path for prosperity and economic stability in East Asia.

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