

# NEW REGIONALISM IN EAST ASIA: LESSONS FOR PAKISTAN

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## Abstract

*Until 1997, the only preferential trading arrangement which existed in East Asia was ASEAN Free Trade Area (AFTA). AFTA was established in 1992, as a replacement to Preferential Trading Arrangements (PTA) which was formed in 1978. AFTA had managed to generate about 20 percent of intra-ASEAN trade. However, the increment of intra-trade, as well as intra-investment in the region had remained small even though the number of members increased from six to ten in the late 1990s. Former Prime Minister of Malaysia, Tun Dr Mahathir had realised earlier the deficiency of the small regional economic integration, such as AFTA, in terms of stimulating economic growth and development significantly. In 1990, he proposed to ASEAN members to form a bigger economic group in the East Asia region, i.e the East Asian Economic Group (EAEG). Due to the regional political factor his proposal was turned down and replaced with a forum called the East Asian Economic Caucus (EAEC) in 1992. However, in 1997 at the ASEAN summit in Kuala Lumpur, again he proposed that ASEAN needed to establish a large economic co-operation with other countries in East Asia, i.e China, South Korea and Japan. The rationale was to generate economic growth as well as to reflate countries that were hit by the financial crisis and to develop monetary cooperation among the countries to ward-off financial crisis in the future. His suggestion had been warmly responded by the members of East Asian countries. At the ASEAN summit in Manila 1999 ASEAN Plus 3 was created. Members of East Asian countries, ASEAN, China, Japan and South Korea had agreed and reached a joint statement to form a free trade area by the year 2020. In November 2002 at the ASEAN ministerial meeting, ASEAN and China*

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*signed an agreement to form a free trade area (FTA) by the year 2010. The ASEAN-China FTA is the first phase of the East Asian FTA. During the East Asia Summit in December 2005 at Kuala Lumpur, ASEAN and South Korea signed the Framework Agreement on Asean-Korea Economic Cooperation whereby to start on FTA agreement negotiations in the year 2006. ASEAN had started to negotiate the FTA agreement with Japan in 2005 and hopefully the agreement will be finalised this year, 2007. These three agreements will indirectly create an East Asia Free Trade Area (EAFTA). Some economic think-tanks and economists have estimated that the FTA will engender benefits to the members of East Asia countries.*

*The establishment of ASEAN Plus Three (APT) was timely, since most of countries in the world are moving towards establishing a wider or a large economic bloc due to the failure of multilateralism of WTO in creating fair trade. Besides the failure of multilateralism of WTO, uncertainty in world economy as well as the unfavourable impact of globalisation, other major factors behind the ASEAN move towards this kind of "new regionalism" are related to (i) to face and tackle future instability in financial markets at the regional level, (ii) the dramatic economic expansion in China which has worried particularly members of ASEAN, (iii) Japanese firms have dislocated their firms fully or partly to China and also to Viet Nam, and (iv) the growing influence of the Korean economy in East Asia. By establishing a large economic group between ASEAN and the mentioned countries it would in some ways benefit the ASEAN members. This paper will discuss regional economic integration in East Asia and the role of ASEAN. Also, this paper will deal with the lessons which Pakistan or South Asian countries (SAARC) can learn from through the experiences of countries in East Asia (ASEAN) in forming a large economic integration.*

### **Regionalism: Old versus New**

Regionalism is defined as a number of countries in certain areas or regions of a sub-continent establishing a bloc for motives either politically or economically. Most of the regional groupings in the world started through political inference and then later on economic

matters. Basically, the motivation of building a regional group comes from a country that has a vision, mission and is forward looking either for economic development and welfare in the particular country as well as for a region as a whole, countering the effect of external pressure politically and economically particularly from advanced countries, or the failure of international organisations in liberalising international trade through multilateralism channels.

In general, all regional groupings started with economic co-operation. Regional co-operation among countries is subject to economic costs and benefits, either through effects on price competition or on patterns of trade mainly manufactures or industrial (dis)location or investment diversion. These economic aspects are crucial in influencing the survival of any economic integration. Most countries that are engaged in a regional grouping certainly have calculated costs and benefits before entering the group. Also, countries often form a regional integration for non-economic reasons, such as national security, peace, engaging in social and cultural matters and any thing about international political matters that are pertinent to the countries<sup>1</sup>.

Broadly, there are two versions of regionalism<sup>2</sup>, the old and the new. Table 1, describes and differentiates the old and new version of regionalism. The "old regionalism" is usually associated to the advanced European countries in integrating their countries into one group called European Economic Community (EEC) in 1957<sup>3</sup>. The development of a regional integration in the early 1950s up to 1970s fall into the old version of regionalism. The development of the integration during the period links to the Cold War, and hence it is related to political reasons rather than expanding intra-trade in the region. Nonetheless, the establishment of the EEC had set up a platform and guidance to other countries especially for developing countries in forming a regional economic integration or a trade bloc.

**Table 1: Features of “old” and “new” regionalism**

	<b>Old Regionalism</b>	<b>New Regionalism</b>
Theoretical approach	'Classic' theories of integration: Federalism, Functionalism, Communications theory	Wide range of different frameworks of analysis
Concept of 'region'	In general narrow and static geographic proximity and features of cultural homogeneity and shared values are inevitable definition criteria	In general wide and dynamic: ranges from the traditional definition as a "geopolitical unit" to the notion that regions are "socially constructed"
Fundamental research questions	(a) Why and under what conditions do political communities emerge among nations? (b) Why and under what conditions do elites of different states seek to make joint decisions and to shift their loyalty to a new centre of decision making?	(a) What are the advantages of regional co-operation and integration over other forms and strategies of international interactions? (b) When and why do actors decide to participate in regional co-operation schemes.
Central assumption	(a) The growing complexity of governmental systems, the increasing importance of technical issues in the 20th century and flourishing transaction between states and their people will inevitably generate new arrangements of political organization beyond the nation-state. (b) Integration is sooner or later the quasi-automatic result of regionalism	(a) regional co-operation can be a choice by policymakers to increase absolute or relative gains and/or the results of different international forces. (b) integration is a possible but not inevitable result of regionalism: regional co-operation can be terminated without having reached the stage of political and/or economic integration
Empirical basis	European integration process	Various phenomena of co-

	as a model	operation in different areas.
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Source: Excerpted from Dosch, Jorn (2003). *"The post-cold war development of regionalism in East Asia"*, in **Regionalism in East Asia. Paradigm shifting?** (eds) Fu-Kuo Liu and Philippe Regnier, Routledge Curzon, London, pp:30-51. (Table 2.1, page 32)

Since the 1960s, many developing countries of Latin America, Africa and Asia have established a regional economic group. In the case of Southeast Asia (or East Asia), prior to ASEAN Plus Three (ASEAN+3) in 1997, only ASEAN was established in 1967 as an active regional group<sup>4</sup>.

"New regionalism" emerged in the early 1990s. The development of North American Free Trade Area (NAFTA) in 1991, with extraordinary liberalisation of trade and investment spurred the new type of regional development (Table 1). Also, the new regionalism related to "open regionalism". The Asia Pacific Economic Cooperation (APEC) organisation that was created in 1989 adopted open regionalism as a fundamental principle of the organisation. The adoption of the open regionalism principle was decided at the APEC Summit at Bogor (Indonesia) in November 1994, in which to achieve a "free and open trade and investment in the region" by 2010 for its industrialised members, and by 2020 for the rest; in light of APEC's size, this is potentially the most far-reaching trade agreement in history<sup>5</sup>. Furthermore, the espousal of open regionalism acts as a means to avoid new conflicts between regional and global process in liberalising the international economy. APEC which comprises of 18 nations including three largest economies in the world – the United States, Japan and China along with ASEAN, account for about one half of world output and world trade. Since APEC embraces "open regionalism" it has been assumed to be a major factor and a driving force in liberalising the world trading system. The United States has become an anchor in forging institutional links between Latin American, and countries in East Asia and Pacific.

Generally, Asia has been lacking regional trading arrangements. China, Hong Kong, Japan, South Korea and Taiwan which are amongst the world's largest traders have not participated in any regional agreements, prior to the establishment of APEC. As mentioned earlier, ASEAN with its sub-regional economic co-operation, i.e ASEAN Free Trade Area (AFTA), was the only active regional grouping in East Asia. Before the establishment of ASEAN Plus Three in 1997, Japan and South Korea put a great emphasis on the global trading system under the auspices of World Trade Organisation (WTO) and APEC for trade and investment liberalisation.

Some of the regional groups that were based on the "old version" have shifted to the "new version" of economic integration. In the case of ASEAN, it has expanded the scope of regional economic integration by widening the cooperation to be very much liberalised under the ASEAN Economic Community. Furthermore, ASEAN has increased bilateral free trade area with other East Asia countries which is currently known as ASEAN Plus Three. Some politicians and economists argue that the current development of regional economic cooperation in East Asia is a new regionalism (this will be discussed in the following sub-section).

Based on Table 1 and 2, elements of new regionalism found in the deepest level of integration, or the achievement of full economic union. In short, the elements are (i) towards a full liberalisation of financial and foreign direct investment flows; (ii) a liberal policy on labour mobility; (iii) harmonising tax and subsidy policies related to trade and production; (iv) coordinating macro policies, fiscal and monetary policies, including exchange rate policy; (v) developing and improving communications and transportation infrastructure mainly to facilitating increased regional trade and economic factor movements; (vi) establish a secretariat to manage and facilitate integration process and to handle any disputes emerge in the region; (vii) harmonising legal procedures and regulations related to

product and factor markets such as commercial law, labor relations, financial institutions; and (viii) plan towards establishing a common currency or currency area.

### **Theory of Economic Integration: An Overview**

The theory of custom union and free trade areas are the basic tools in the study of regional economic integration even though the analysis is basically static. The theory of economic integration was pioneered by Viner<sup>6</sup> in which he developed the theory of customs union. Regional economic integration is a process whereby various economies of a regional economic pact undertake a progressive removal of international trade barriers to allow for the free movement of goods, services, capital and labour. Theoretically, facilitating the flow of goods by reducing or abolishing tariffs and non-tariff barriers among the economies of the regional economic pact will promote economic integration within the region. In addition, restrictions and controls on the international flow of services, capital and labor should be removed or reduced to reinforce regional economic integration. In the case of the European Union (EU), under the Maastricht Treaty of 1992, it suggests in principle, for a completely free movement of goods, services, capital and labour in Western Europe. European Union is the only regional economic integration in the world which has reached the most advanced stage of regional (international) integration.

There are different types and stages of economic integration. Usually, countries start off with economic integration at a lower level and move on to higher levels of integration if and when economic and political conditions become more promising. For instance, let's take ASEAN as a case. ASEAN started economic integration by establishing and implementing the Preferential Trading Arrangements (PTA) in 1978. When the industrial countries began dividing the world economy into trade blocs such as NAFTA and the EU, economic growth of the ASEAN region was on average 8

percent per year for the period of 1988-92 and members of ASEAN maintained a stable political environment. With the failure of the WTO to put a liberal trade regime in the world economy through multilateralism, ASEAN agreed to shift from PTA to deeper economic integration by establishing a free trade area in 1992 (known as the ASEAN Free Trade Area or AFTA). Lately at the ASEAN Ministerial Meeting in Bali, the ASEAN government proposed to develop an economic community by 2020 (known as the ASEAN Economic Community or AEC).

A free trade area is an agreement among countries whereby tariffs and non-tariff barriers (NTBs) such as quotas, licensing and product safety regulations are abolished among members. However, each member retains its external tariffs and other regulations for trade with non-member countries. While in a customs union, member states abolish all tariffs and quantitative restrictions on trade among member states. At the same time, they impose a common set of tariffs for trade with non-member states.

The above mentioned types and stages of economic integration are a guideline to governments in forming economic integration entities. There are many factors involved before two countries or a group of countries decide in developing a trade bloc. Factors such as "infant" domestic manufacturing industries, influence of transnational corporations (TNCs) and benefits that will be gained by TNCs, competitiveness of tradable goods, political factors, customs procedures, and the forego of government revenue in terms of export and import duties will determine a successful formation of regional integration.

What has happened in the world today is that most of the RTAs whether in the form of PTAs, FTAs or Custom Unions (CU) follow "hybrid approach". That is besides deciding on the level of tariffs and non-tariff barriers, also covers or includes other aspects of the economy such as a very much liberal foreign direct investment policy and foreign ownership, liberalisation of the financial sector,



opening government procurement for foreign traders, and other issues relevant to the parties involved in the discussion of forming an RTA.

Theoretically, there are two impacts of an RTA; static and dynamic effects. The static effect basically relates to trade creation, trade diversion and terms of trade. While, dynamic effects are market expansion and competition promotion. The trade creation effect corresponds to the elimination of trade barriers among FTA members. Therefore, new trade will be created among the members. However, it should be stressed that not every member will gain in terms of trade creation. The trade diversion effect relates to the replacement of imports from less efficient sources with more efficient sources. The terms-of-trade (TOT) effect represents the expansion of trade volume among the members of an FTA and the strengthening of members in influencing non-members in international trade that increases their TOT. The market expansion effect involves the expansion in market size to meet an efficient production or distribution of goods and to achieve economies of scale. Finally, the competition effect is linked to market integration in which creating regional oligopolistic industry types are likely to be more competitive, hence achieving higher productivity through the introduction of competitive pressures.

### **The Political Economy of East Asia Economic Integration**

Economic cooperation in ASEAN started with the establishment of Preferential Trading Arrangement (PTA) in 1978. Also, members of ASEAN had engaged in joint-investment, joint-industrial development, trade facilitation (customs matter), immigration, education, culture, and other matters related to regional political stability. The PTA was replaced with the ASEAN Free Trade Area (AFTA) in 1992. Coverage of goods and tariff reductions under AFTA are much larger than those of under the PTA. The development of AFTA is based on the old type of regionalism.

The development of “new regionalism” in East Asia started since the financial crises. The new regionalism in East Asia is quite distinct to new regionalism as in case of NAFTA and European Union. The differences in terms of labour mobilities, a very liberal regime of foreign direct investment, trade facilitation and reducing costs of international trade, financial liberalisation including capital market, government procurement open to foreign participation, intellectual property rights and including some provisions under the Uruguay Round agreement. Whereas in the case of ASEAN and East Asia the cooperation has developed and would be based entirely on economic reasons. The development of regional integration in East Asia since 1997 was provoked by several factors. Firstly, the need to reduce the risks of financial contagion and unpredictability of exchange rate movements, as experienced in the country affected by the financial crises. Secondly, the emergence of China as an economic power house not only in East Asia but in the world. China has been proclaimed as a workshop or factory of the world’s economy. The Greater China policy emerged since Deng Xiao Peng became President of People’s Republic of China (PRC) including the Open Economic Policy. These developments brought uneasiness to other countries in the regions particularly ASEAN. ASEAN knew the burgeoning of Chinese economy would affect their economy significantly. The expansion of China’s economy would distort the economic progress that ASEAN countries had gained tremendously since the early 1970s.

As stated earlier, the earlier plan for development of East Asia Economic Integration (EAEI) refers to the proposal by Malaysia’s former Prime Minister Tun Dr Mahathir Mohamed in December 1990. Dr Mahathir had proposed the formation of an East Asian Economic Grouping (hereafter, EAEG-1990). The intention of EAEG-1990 was not for the establishment of an economic bloc but rather a “loose” trading bloc<sup>7</sup>. The proposal of EAEG-1990 included members of ASEAN, China, South Korea, Taiwan, Japan and Vietnam<sup>8</sup>. The idea of EAEG-1990 was basically to coordinate the East Asian

position in the waning Uruguay Round of multilateral trade negotiations<sup>9</sup>. Secondly, the grouping was suggestive of retaliation to the formation of North-America Free Trade Area (NAFTA-comprises of US, Canada and Mexico) and European Union (EU). The group was exclusively for Asian countries, as Mahathir was looking or stressing a need to integrate countries in the East Asia region with Asian ways. The motto, Asia for Asian and revitalize Asian values emerged in the early 1990s. However, since this idea of grouping excluded the United States as well as Australia and New Zealand, these countries, particularly the US, strongly opposed it<sup>10</sup>. Japan was also not "keen" to get involved or participate in EAEG-1990<sup>11</sup>. Japan's move was unexpected to those who supported the idea of EAEG-1990. Without Japan's participation, the EAEG would not have been able to materialize since Japan is a main contributor of capital formation and export growth in the East Asian (EA) region and one of the strongest economies in the world. The main factor why Japan was reluctant to get involved in EAEG-1990 was because of its trade conflict with the US. In the early 1990s, disputes in bilateral trade between the two nations reached a critical level. Disputes largely related to the Japanese protectionist practices mainly in the sectors of automobile, farming and services. Due to the threat of punitive trade barriers that would be imposed by the US government, it had resulted in Japan saying "no" to EAEG-1990. The objection of the US could also be seen as not "allowing" Japan to lead the East Asian region. This was also the main reason why the proposal to form the Asia Monetary Fund (AMF) by the Japanese government was immediately shot down by the US in 1997. Since there was an intense objection from the US and little support from members of ASEAN, the establishment of EAEG-1990 was unsuccessful<sup>12</sup>. At the ASEAN finance minister summit in 1991, ASEAN agreed to accept the idea of EAEG in principle but in a

**Table 2: Phases of East Asian Regionalism**

<b>Phases/time-frames</b>	<b>Representing Arrangements</b>	<b>Main features</b>	<b>Paradigms</b>
The old regionalism (1950s-1970s)	SEATO, ECAPE and ASEAN 1	a) Politico-military motivation b) Superpowers and alliance relationships c) Motivated by the UN and USA	Cold war paradigm,  Realist approach
The new regionalism (1980s onwards)	PECC, APEC, CSCAP, ARF, ASEM, ASEAN II	a) openness b) Industrial cooperation/division of labour c) networking d) regional institutions e) inter-regionalism/sub-regionalism	Flying geese model, Liberalist approach  Market integration Trade competition Corporate integration
The new new regionalism (since 1997)	ASEAN + 3	a) intra-regional link/ inter-regionalism or sub-regionalism b) the early stage of regional integration c) regional convergence	Security-economic Nexus  Regional management

Source: Fu-Kuo Liu, (2003). "Conclusion. The renewal of regionalism and East Asian new order", in **Regionalism in East Asia. Paradigm shifting?** (eds) Fu-Kuo Liu and Philippe Regnier, RoutledgeCurzon, London, pp:220-230 (Table 12.1, pp 224)

different form, i.e. the group was only meant for discussion on economic matters rather than a trading bloc. ASEAN realised that it needs to have solid cooperation with major East Asian (EA) countries in economic relations. Since the EAEG was declined by the members of ASEAN except Malaysia, the only possible platform to bring members of ASEAN and EA countries for discussion was the East Asian Economic Caucus (EAEC), which was established at the ASEAN summit in 1992<sup>13</sup>. Even in this modified version, the idea of forming a large regional integrated area comprising of ASEAN and the rest of East Asian countries did not disappear<sup>14</sup>. The EAEC meeting involved ASEAN members and countries from Northeast Asia namely Japan, South Korea and China. The first meeting on the EAEC was in December 1995. Japan remained reluctant to get involved in the proposed EAEC. However, when China and South Korea agreed to join the caucus, the Japanese government decided to participate in the EAEC. Japan believed that if the relationship between ASEAN and China got closer it would be a nightmare for Japan and the US. The other reason was that the Japanese government could not afford to lose its voice in ASEAN. Economically, Japan's presence in the region is substantial. Thus, Japan needed to join the group for political and economic reasons. The "new version" of the EAEC was not a trade bloc but merely a discussion group on economic matters.

In the early stages of the EAEC development, as mentioned above, Japan was less interested in the EAEC. Besides the reason which was stated earlier, i.e. due to the factor of trade friction with the US, a second reason was the Asia Pacific Economic Cooperation (APEC). Japan had been more concerned and interested in APEC since the group is large and covers most of East Asia, Asia Pacific and North American countries<sup>15</sup>. If APEC materialises as a free trade area<sup>16</sup>, it will benefit Japan, and the gain from APEC is expected to be enormous. Nevertheless, APEC still remains as an economic forum. Since Mr. Bush Jr. became the US President, APEC seems to be dying

slowly. The initiative to start or launch a trade arrangement is far from reality. The re-emergence of the EAEG idea in late 1997 implicitly eroded APEC's moves (or agendas).

Prior to the development of ASEAN+3, APEC was the main table for discussing liberalisation of trade and investment. However, APEC is not looking primarily at East Asian economic integration with interest per se in the countries of the region. Moreover, the forum is dominated by the US and other strong economies, particularly Japan and Australia. The establishment of APT indirectly has "killed the mood" of East Asian countries in realising a free trade area under the APEC umbrella. Since 1998, East Asian countries are more concerned with the realisation of the ASEAN Plus Three than APEC. In late 1997 during the ASEAN summit in Kuala Lumpur, Malaysia's former Prime Minister Dr Mahathir again proposed the establishment of a regional economic integration arrangement within the East Asian region. The main reasons for the proposal were to increase co-operation among countries of the region and to reduce the impact of the economic crises on the four affected countries (i.e. Indonesia, Malaysia, Thailand and South Korea). The proposal received warm response from EA delegates. The overwhelming response of the ASEAN members was of growing importance to have good cooperation in trade, finance and politics for ameliorating any future regional currency or financial crises. Since the Asian crises, they realised that their major economic partner, the US, would not help the affected countries in stabilising their economies. Also, they realized that to rely on the International Monetary Fund (IMF) was actually too painful for them. Finally, the ASEAN leaders realised the rationale of Mahathir's proposal of EAEG and admitted that the organisation needed "a strategic approach" in materialising a Greater East Asia so that the FTA could be established. In 1999 at the third ministerial summit in Manila, ASEAN, Japan, China and South Korea agreed to form an economic co-operation, i.e. to form the East Asian Economic Group within 20 years. At the summit, EAEG was renamed as the ASEAN+3 (China, Japan and South Korea), and it's

also referred to as the East Asia Economic Integration (EAEI). EAEI is not only facilitating intra-trade in the region but is also engaged in a monetary arrangement. East Asian countries have created the Chiang Mai Initiative in 1999, which is actually the expansion of the existing ASEAN swap agreement by expanding the network of bilateral swap agreements among ASEAN, Japan, China and South Korea. Furthermore, the so-called Asian bond market has been proposed and developed. The Asian bond market is extremely important for mobilising savings or capital in East Asia and reducing dependence on Western capital markets for funds.

The ASEAN+3 (APT) has been recognised as an established institution. Since 1999 the APT summit has been held annually. One of the main outcomes of the third summit was the formation of ministerial meetings in foreign affairs, economics and finance by 2002. The newly established ministerial meetings are permanent and regarded as crucial in terms of organizing and providing a forum for regional issues and cooperation in joint-programs. In the fourth summit in Singapore in 2000, the members of the APT agreed to develop closer economic cooperation in East Asia. Integration of countries in East Asia is primarily driven by trade, investment and financial linkage motives. Political cooperation among East Asian countries has so far been confined to the ASEAN+3 framework<sup>17</sup>.

Japan's role in East Asia regionalism is quite uncertain. As mentioned earlier in the case of the EAEG, she declined to join because of the opposition by US and her main focus was on APEC. Even when an East Asian Community including EAFTA was proposed by the Chinese leaders, the Japanese declined to participate. It seemed that Japan was more concerned with economic matters or monetary matters rather than establishing a solid and bold economic arrangement with other countries in East Asia. Finally, at the fourth APT meeting, Japan gave recognition to EAEI<sup>18</sup>. At the ASEAN+3 meeting in 2001 in Brunei, former Prime Minister of Japan, Junichiro Koizumi, recommended to the members of the

group to go beyond the APT that is the establishment of East Asian Community (EAC). The move by the Japanese leader showed that they now getting enthusiastic in the East Asian regional cooperation compared to the EAEG-1990 which was proposed by Dr Mahathir<sup>19</sup>. The main reasons for Japan's involvement in the EAEI are the full participation of China in the group and China's admission to the WTO. While Japan is nervous of China's role in the ASEAN+3, she may gain from economic liberalization of China. Another reason why Japan began to be more involved in regional economic cooperation is the US's move in establishing the Central America FTA (CAFTA) and proposing to develop a bigger FTA including NAFTA, CAFTA and the rest of Latin American countries called the Free Trade Area of the Americas (FTAA)<sup>20</sup>. Such moves may have an impact on Japan's trade and investment. South Korea has also shown great interest in developing economic cooperation in the region. In 1998, South Korean delegates suggested the establishment of an East Asia Vision Group (EAVG) and later an East Asia Study Group in 2000. Their suggestion was fully agreed upon by the members of the APT. The main task of the two suggested groups is to look at the opportunities and implications of the establishment of ASEAN+3 to its members.

It should be emphasized here that the process of forming a regional economic integration in East Asia was largely due to ASEAN. The development of APT is attributed to the views and vision of the members of ASEAN. ASEAN actively promoted the APT by bringing together four major economies of Asia – Japan, China, South Korea and India – to its annual summit-level meetings. The ASEAN-China FTA was the initial path to the establishment of EAFTA. The FTA between ASEAN and South Korea has been realised and signed during the East Asia Summit in November 2005. The FTA between ASEAN and Japan may be realised in the near future. ASEAN is a small organization with a total of 10 members. Therefore, the organization is unsuccessful in voicing their concerns at the international economic and political arenas. The only means to



increase participation in world economic forums and to raise their voices is through promoting a bigger organisation by bringing in the three main countries from Northeast Asia, i.e. China, Japan and South Korea.

China too has played a significant role in moving towards integrating or developing a bigger economic cooperation within the East Asian region. The involvement of China in an earlier forum, the EAEC, was regarded as a platform to increase and expand relationships, interests and long-term objectives in the region. ACFTA was suggested by China. The ASEAN role in East Asian economic integration was appreciated by China<sup>21</sup>, as Chinese Premier Wen Jiabao on 29<sup>th</sup> November 2004 at the 8<sup>th</sup> ASEAN+3 Summit in Vientiane expressed that China supports ASEAN as the leading role in the process of East Asia cooperation and the tripartite cooperation among China, Japan and South Korea<sup>22</sup>. The Premier further proposed to push for the establishment of EAFTA, to deepen financial and investment cooperation, and to enhance further cooperation in the field of non-traditional security within the framework of the APT. The idea of EAFTA is to ensure that the East Asian Economic Community formation, as suggested by the EAVG, becomes a reality.

APT now 10<sup>th</sup> years old and ASEAN turned to 40<sup>th</sup> year of its existence. In realisation of APT and the development of a single FTA in East Asia region, the APT leaders formed East Asia Summit (EAS)<sup>23</sup> as an annual meeting of the members and the first meeting was held in November 2005 at Kuala Lumpur. The EAS held its second summit in Cebu (the Philippines) on January 15, 2007. The summit discussed various issues from political visions to economic goals and specific targets for FTA in the region.

The EAS actually is a forum, the APT remains the institution that drives the formation of FTA in East Asia. The APT has become the main vehicle in accomplishing the long-term goal of the members, i.e. the establishment of an East Asia community. Even ASEAN was the

main driver for the APT development, and since China, Japan and South Korea were greater economic strength and political weight than that of ASEAN, they now have become the main players in East Asian regionalism. China, Japan and South Korea acknowledged that the proposal of ASEAN Community<sup>24</sup> will remain "at the centre of our long-term pursuit of an East Asia community". The APT is actually an important component of evolving regional cooperation architecture and as a complementary to the East Asia Summit and other regional congress or meeting. What had spelled out at the first EAS, ASEAN wished the process of EAS will be speeded up but slowly. ASEAN Secretary-General Ong Keng Yong mentioned that it would be better to firm up the EAS process through "functional cooperation" since the "geographical and ideological issues" of community-building through the EAS process may take time to be realised. Looking at the members, EAS seems to become irrelevant in guiding realisation of EAFTA or APT. This is so since other countries of non-East Asian were invited in the summit such as Australia, New Zealand and India. If non-East Asian countries dictating and interfering direction of APT, then the APT will become meaningless and fragmented into few group. Eventually future of APT will be cloudy.

### **East Asia Free Trade Area and Challenges**

Due to the failure of multilateralism of WTO in creating a fair trade, and the emergence of China in world economy, ASEAN noticed that there is no alternative way to increase trade, the only to establish bilateral trade agreement with countries in East Asia, as mentioned, namely China, Korea and Japan. Building a free trade in East Asia is possible since most of the countries in the region including Japan has been integrated through network production linkage. This regionalisation created as a result from massive movement of FDI particularly from Japanese firms. Most of the Japanese firms constructed, developed and structured production in the region to suit their ultimate goal, i.e creating a network production to generate

more profit through transfer pricing<sup>25</sup>. The firm fragmented production of goods (intermediate and investment) into few factories and located in the whole region.

As mentioned earlier, prior to 1997, Northeast Asian countries particularly China, South Korea and Japan did not show much interest in forming any preferential trade arrangements with East Asian neighbours. The 1997 Asian Crisis and the open economy policies as well as the growing Chinese economy with an average of 9 percent per annum from 1995 to 2000 has changed the landscape of intra regional economic cooperation in some ways. In addition, the Japanese economy has hardly shown an upward trend, which has mooted doubts within the government which is looking for a presence in the region. The changes in the Japanese government's policy in regional economic integration are due to the promotion and establishment of regional trade agreement (RTA) by countries around the world. The World Trade Organization (WTO) has informed that more than 260 RTAs have been established up to 2005. The increasing number of RTAs reflects the failure of WTO or multilateralism in establishing a liberal trade regime. The economic bilateralism appears to divide the world into economic blocs and some of the blocs are anchored in the industrialized economies such as US in NAFTA, and the enlargement of the European Union.

**Table 3 East Asian countries: FTA Agreements including Economic Partnership (EPA) and Early Harvest Programme (EHP)**

<b>Signed/Implementing</b>	<b>Under Negotiation</b>	<b>Under Study</b>
ASEAN FTA (AFTA)	ASEAN-Japan	ASEAN Economic
ASEAN-China	ASEAN-India	Community
ASEAN-South Korea	ASEAN-Australia	ASEAN-Chile
China-Hong Kong	ASEAN-New Zealand	ASEAN-Pakistan
Japan-Indonesia	China-New Zealand	ASEAN-Turkey
Japan-Malaysia	Japan-Brunei	ASEAN-USA
Japan-Mexico	Japan-South Korea	ASEAN-EU

Japan-Singapore	Japan-Philippines	Brunei-Pakistan
Malaysia-Pakistan	Japan-Thailand	China-Australia
South Korea-Chile	Malaysia-USA	Japan-Chile
Singapore-Australia	Singapore-Bahrain	Japan-India
Singapore-EFTA	Singapore-Canada	Japan-Vietnam
Singapore-India	Singapore-China	Malaysia-Bahrain
Singapore-Jordan	Singapore-Egypt	Malaysia-Chile
Singapore-New Zealand	Singapore-Mexico	Malaysia-Australia
Singapore-Panama	Singapore-Pakistan	Malaysia-New Zealand
Singapore-South Korea	Singapore-Panama	Malaysia-Saudi Arabia
Singapore-USA	Singapore-Peru	South Korea-Mexico
Singapore-TPSEPA*	Singapore-Qatar	
Taiwan-Panama	Singapore-Sri Lanka	
Thailand-Australia	Singapore-Thailand	
Thailand-USA	Singapore-	
South Korea-USA	UArabEmir	
	Singapore-Vietnam	
	Thailand-New	
	Zealand	

Notes: \*Trans-Pacific Strategic Economic Partnership Agreement (with Brunei, New Zealand and Chile).

Source: Ravenhill, John (2006). "The Political Economy of the New Asia-Pacific Bilateralism: Benign, Banal, or Simply Bad?", in *Bilateral Trade Agreements in the Asia-Pacific. Origins, evolution, and implications*, (eds) Vinod K. Aggarwal and Shujiro Urata, Routledge, London, pp: 27-49.

(Table 2.1) and from various newspapers.

EAFTA shall cover three bilateral free trade arrangements between ASEAN and China, South Korea and Japan (APT). ASEAN and China have signed an FTA which is scheduled to materialise by 2010. In November 2005, during the first EAS summit, ASEAN and South Korea agreed to establish an FTA by 2015. FTA between ASEAN and Japan is on negotiation. Recently at ASEAN Ministerial Meeting at Manila in August 2007, the FTA between ASEAN and Japan hopefully to be concluded by the end of 2007. At the meeting

ASEAN planned to finalise three more FTA agreements that are with Australia, New Zealand, and India. At the meeting, again members of ASEAN pledged to form the ASEAN Community as agreed at Bali Concorde II. As stated, ASEAN Community as an acid test for the establishment East Asia Community. In future, there is a possibility that ASEAN, Northeast Asia and South Asia (India) will be combined in the form of a regional FTA.

Even though the EAFTA plan is possible and on the move, countries in the region are actively engaging in bilateral FTAs either among themselves or with non-East Asian countries. Such acts implicitly overlap the objective and mission of developing EAFTA. This is clearly described in Table 3. Table 3 shows bilateral preferential trade agreements and free trade agreements that have been signed, implemented, under negotiation or still on the table by countries or regional groups in the region. At least one country in East Asia engages in the FTA. Most of the East Asian states are engaged among themselves. The table indicates six arguments:

(1) There is competition between China and Japan in East Asia. As mentioned earlier, when EAEC was formed, Japan was reluctant to join the group but China eagerly participated in it. The reluctance of Japan in forming an FTA with ASEAN or members of ASEAN before 1999 provided a platform for China to build deeper economic partnership or integration with ASEAN. The conclusion of ASEAN-China FTA in November 2002 delivered a strong signal to Japan that China is on the path of “dominating” ASEAN. This move by China may indirectly have influenced Japan’s economic presence in ASEAN. In addition, South Korea has also established an FTA with ASEAN. Japan has established production and trade networks in the region for the purpose of Japan’s economic growth and dominance. The willingness of Japan to start engaging in an FTA with ASEAN as a group or among members of ASEAN was mainly an attempt to curtail the China threat and to ensure Japan-US presence is preserved in Southeast Asia particularly, as well as in East Asia.

With the Northeast Asian countries engaging with ASEAN, this will eventually and certainly create ASEAN+3 as proposed at the ASEAN Ministerial summit in Manila in 1999. The realization of ASEAN+3 also means that EAFTA could materialize in the near future.

(2) Some of the non-ASEAN members of APEC are present in the East Asia economic integration. The members are US, Australia, New Zealand, Mexico and Chile. Even though APEC has yet to 'materialise', these countries engaged with East Asian countries through bilateral FTAs. One of the long-term objectives of APEC is to build a trade bloc. It seems that this objective will be realized not under the APEC umbrella but through the dominant member of APEC. One of the reasons why Japan remains reluctant in establishing deeper trade integration with ASEAN and joining EAEC is because of the APEC factor. The Japanese government strongly emphasizes on APEC since APEC produces potential short-term and long-term gains. The recent move by the Japanese government to form an FTA with the members of ASEAN, as mentioned in (2), is to indirectly realize the APEC objectives through countries that are members of APEC.

(3) In relation to (2), a few members of APEC have moved towards closer economic cooperation. At the APEC summit in Hanoi, Vietnam in November 2006, the US had proposed for an Asia Pacific Free Trade Area (APFTA). US proposed the APFTA because the APEC economies account for nearly half of world trade and generate 70 percent of global economic growth. The deadlock of the Doha Round talks, which has failed a few times (four times including talks in Geneva in June 2006), has prompted the proposal of APFTA. However, the proposal has been received less warmly by the APEC members, particularly ASEAN. As mentioned in (3), a long term objective of APEC is to create a trade bloc by the year 2010. However, based on the moods of APEC members particularly ASEAN and China, it seems that realization of the objective is "far, far away", as APEC itself has until now failed to achieve closer

cooperation since its establishment. Furthermore, the vision of APFTA has lost considerable momentum due to a plethora of bilateral FTA deals; at least 50 FTAs have been agreed upon or are under discussion among members of APEC.

(4) The table suggests that there is a complex web of FTAs. Even though there is a plan to create an EAFTA, there is an increasing trend in bilateralism between members of ASEAN and other East Asian as well as non-East Asian countries. These bilateral or sub-regional FTAs do not allow for the full exploitation of regional economic integration potentials that exist in the region<sup>26</sup>.

(5) AFTA seems to have become less meaningful since members of AFTA established bilateral FTAs with non-ASEAN members. The former Prime Minister of Malaysia Tun Dr Mahathir Mohamed has criticised other ASEAN members for their willingness to enter into bilateral agreements with non-ASEAN countries, arguing that these arrangements inevitably distract from ASEAN cooperation and complicate the establishment and enforcement of its own free trade area. Singapore's activism in proposing and negotiating bilateral agreements with non-ASEAN countries has been seen, both inside and outside of ASEAN, as a clear signal of its frustration with ASEAN's own efforts in forging deeper integration and the lack of commitment to its Southeast Asian neighbors<sup>27</sup>. Even though there is no strong objection from the ASEAN member, eventually certain members began to engage in some kinds of economic partnership either in form of EPA or FTA or CEP, thereafter. They also do not want to be left out in participating and creating an "Asia noodles bowl" or "Asia spaghetti bowl". Indirectly, the development is "killing" the objective of AFTA that is by allowing goods from non-ASEAN entering from the "backdoor" into the ASEAN market. In FTA agreements there are regulations, areas of inclusion and exclusion of goods and 'rules of origin' governing what constitutes as a locally-made product that qualifies for tariff reductions. As described in Table 3, we can conclude the rule of origin under AFTA is going to

be violated.

(6) Not only members of ASEAN developed economic linkages with other countries, but ASEAN itself also jumped on the bandwagon. However, some people argued that ASEAN is not creating a spaghetti bowl but is hedging against China. Instead of being dominated by China, ASEAN needs to develop ties with other strong regional economic powers, such as Japan, India or Australia or US, in order to construct a regional balance. ASEAN has decided on economic relationship with China through FTA. On the other hand, without undermining ASEAN or the networks created by it, China established the Shanghai Cooperation Organisation (SCO)<sup>28</sup> which comprises Russia, China, Uzbekistan, Tajikistan, Kazakhstan, and Kyrgyzstan in June 2001.

### **EAFTA: Impact and Opportunity**

If EAFTA is materialised, it is perhaps comparable to the EU in terms of size<sup>29</sup>. In terms of market size, the combined population of EAFTA is over 1.5 billion people and the total aggregate gross domestic product (GDP) is about US\$6 trillion. Based on 2000 data, EAFTA represents about 21.3 percent of world's exports and about one fifth of the world's total imports<sup>30</sup>. The region accounts for nearly half of the world's high-tech exports and two-fifths of the world's exports of textiles and clothing. An EAFTA may well become the world's second largest trading group after the EU<sup>31</sup>. Therefore, EAFTA would provide a platform to the members in creating trade opportunities and gains in trading through intra-trade.

EAFTA expected to increase economic welfare (Table 4)<sup>32</sup>. ASEAN-China FTA (ACFTA) does not only cover free mobility of goods across border, but the framework goes beyond the removal of tariffs and non-tariff barriers (NTB) in goods to include trade facilitation measures such as conformity of standards and procedures across national boundaries and trade in services. As indicated in Table 4, ASEAN will receive a higher economic welfare than China. If the



bloc expands to include South Korea and Japan, the economic welfare to be received by ASEAN will be higher than Japan and South Korea. Scollay and Gilbert showed that the countries in the group could reap worthwhile economic benefits by removing border barriers<sup>33</sup>. According to them, the lower and middle-income countries of ASEAN are likely to benefit less from China's WTO accession than newly industrializing countries. However greater regionalism in East Asia can help spread the gains across a wider set

**Table 4: Effects on Economic Welfare of Various Regional Trade Proposals**

Proposal	% of GDP (% of GDP excluding agricultural liberalization)				
	ASEAN	China	Korea, RP	Japan	USA
China+Korea+Japan	-0.26 (-0.16)	+0.1 (-0.2)	+1.0 (+0.6)	+0.1 (+0.2)	+0.0 (+0.0)
ASEAN-China	+0.9 (+0.5)	+0.0 (+0.1)	-0.1 (-0.1)	+0.0 (+0.0)	+0.0 (+0.0)
ASEAN-Japan	+1.1 (+0.2)	-0.1 (-0.1)	-0.2 (-0.1)	+0.0 (+0.1)	+0.0 (+0.0)
ASEAN+3	+1.5 (+0.6)	+0.1 (-0.2)	+1.1 (+0.8)	+0.2 (+0.2)	-0.1 (+0.0)
ASEAN+3+CER	+1.3 (+0.6)	+0.0 (-0.1)	+1.1 (+0.9)	+0.2 (+0.2)	-0.1 (+0.0)
APEC liberalisation (MFN)	+0.7	+0.5	+0.7	+0.4	-0.0
APEC preferential Liberalisation	+0.8	+0.6	+0.9	+0.4	+0.0

Note: calculation for ASEAN include only Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. CER (Australia-New Zealand Closer Economics Relations Trade Agreement) includes Australia and New Zealand. Figures in parentheses refer to net welfare effects when agriculture is excluded.

Sources: Scollay and Gilbert (2003) for free trade agreement proposals and Scollay and Gilbert (2001) for APEC liberalisation proposals.

Adopted from Krumm and Kharas (2004). "Overview", in *East Asia Integrates*, (eds)

Kathie Krumm and Homi Kharas, Oxford University Press (for World Bank), Table 1, pp:xxiv.

of economies. Some economic models suggest that if agriculture is included in the ASEAN-China or ASEAN+3 proposal, the estimated welfare gains for ASEAN countries would roughly double as pointed out in Table 4<sup>34</sup>.

The Asian Development Bank (ADB)<sup>35</sup> has conducted a study on regional integration. The results were published in the Asian Development Outlook 2006. The general results on Asian free trade in accordance to the ADB study show that Asian countries will benefit and no country or region will lose. According to the studies, if comparing trade liberalisation at the global level, Asian countries will gain the most at the regional level. Intra-regional trade within the region, for instance in the case of ASEAN, tends to have large intra-regional trade shares, so the gains should be large too. However, not all countries will gain in huge amounts. The main reason is the differences of commodity structure of exports in one country with another in the region. One main point from the ADB studies is that China and India will gain less from the Asian free trade area and this may be due to their strong trading links with markets outside the region.

There is one interesting feature on the analysis of FTA or bilateral free trade agreement in the Asian region offered by ADB. The study divided Asian countries into two groups which were called regional cooperation or RC hub and ASEAN bilateral agreement with other regions or ASEAN hub. It's called "hub and spoke" configuration. The first hub is the "PRC hub" configuration which assumes that China is the hub of Asian bilateral FTAs, and that all other Asian countries (including Japan) are the spokes. The second hub is the "ASEAN hub" configuration which assumes that ASEAN is the hub and that ASEAN establishes its own free trade area and negotiates bilateral FTAs with other Asian countries as a whole. This also means that if ASEAN becomes a platform for bilateral agreements, it would connect some of the spokes that remain separated in the other bilateral hub configuration. In doing the analysis, all bilateral

distortions—including tariff, tariff-equivalent non-tariff barriers, and export subsidies—are phased out between hub and spokes over the period of 2007–2025, but trade barriers are retained between spokes. The study has indicated that the Asian hub-and-spoke scenario generates about one fifth to one quarter of the global gains. A PRC hub generates about 50 percent of the benefits of Asian free trade for Asian developing countries, while the ASEAN hub generates about 70 percent of the benefits. For South Asian countries, they gain less. According to ADB<sup>36</sup>, this happens because of a high level of import protection in the countries of South Asia and their limited trade linkages with East Asia and Southeast Asia. From the same table, South Korea will receive huge benefits from a bilateral agreement with China. The main reasons are that China is one of South Korea's most important export markets and their trade structures are largely complementary<sup>37</sup>.

### **ASEAN-China FTA**

Since the Open Policy was launched two decades ago, China's economy has grown rapidly. The economy has been very significantly integrated into the world economy. Based on nominal figures for Gross Domestic Products (GDP), Chinese trade has consistently averaged at about 40 percent of GDP each year since the mid-1990s compared to 13 percent during the early 1980s<sup>38</sup>. Since 1980s, the growth of international trade averaged at about 16 percent annually. Among the world traders the Chinese economy was ranked in top then from thirtieth place in 1990s. With a liberal economic regime, it has successfully driven economic and exports growth above international standard and has thereby attracted a huge inflow of foreign direct investments. The growth of exports and a heavy inflow of FDIs have contributed to the piling up of international reserves of more than US\$700 billion since 2005.

The Chinese government believes that the only better solution to increase economic performance is by participating and integrating in

the regional as well as world economy. The admission into the WTO has accelerated China's economic profile to world traders and multinational companies<sup>39</sup>. As noted in Moore<sup>40</sup> "*.....the Chinese leadership genuinely believes that the country's companies—and the Chinese economy more generally—will become stronger only through greater exposure to international competition*" (pp: 169).

Globalization has implicitly empowered China's position in the world economy. As China realises that the world economy is getting more globalised than before, she has to internationalise her country and economy into the world economic system. This is the main reason why China was determined to join the WTO, actively promoting economic relations with developing countries and industrial nations and is interested in participating in regional groupings. When the idea of an EAEG and EAEC emerged in the 1990s, the Chinese leaders deliberately supported and engaged itself in the APT. The establishment of the APT in 1998 was a great opportunity for China to increase its economic linkages with ASEAN.

Zhu Rongji, the former Prime Minister of China, had raised the idea of an ASEAN-China FTA during the ASEAN-China Economic Cooperation Meeting in August 2001 and at the ASEAN+3 meeting in Singapore in November 2000<sup>41</sup>. The proposal was also suggested and promoted by Singapore. Other ASEAN members were quite reluctant about the ASEAN-China FTA. They favored a bigger FTA that is the EAFTA. However, at that moment Japan and South Korea were not ready for it. For China, the formation of ASEAN-China FTA in November 2002 was a landmark in deepening their economic position in the ASEAN region.

After six rounds of negotiations, the heads of government of China and the 10 ASEAN members signed an accord in Phnom Penh on November 2002 to proceed the first phase of a planned ASEAN-China Free Trade Area (ACFTA) that would go into operation by 2009. Under the Framework Agreement on China-ASEAN

Comprehensive Economic Cooperation, China will cut import tariffs on ASEAN products a few years ahead before these countries will reciprocate and open their own markets to China's exports. This is intended to give ASEAN an export advantage over Chinese products, and to allow time for Southeast Asian manufacturers to become more efficient and productive. For the newer ASEAN member states such as Cambodia, Laos, Myanmar and Vietnam, special and differential treatment and flexibility are given. By 2015, tariffs on more than 600 products will be lowered between 0-5 percent. Agricultural items, comprising about 10 percent of all items traded between the two regions are supposed to drop at zero. ASEAN officials have anticipated China to become a significant importer of ASEAN primary products. ASEAN's former Secretary General, Rodolfo Severino, had asserted that "the overall impact of (free trade) on China and ASEAN would be beneficial. When the planned liberalization of trade in goods and services between them is completed by 2015, it will be the largest free-trade zone in the world".

The establishment of a free trade area (FTA) between ASEAN and China will create an economic region of 1.7 billion consumers, a regional GDP of about US\$2 trillion and with a total trade estimated at US\$1.23 trillion<sup>42</sup>. With the magnitude and size of the population and the GDP from the trade between them, it will be the biggest FTA in the world. Moreover, the removal of trade barriers between ASEAN and China, as suggested, will lower costs, increase intra-regional trade, and increase economic efficiency. The FTA will lead to greater specialization in production based on comparative advantages. Trade creation occurs when some domestic products in one FTA member is replaced by lower-cost imports from another member. This will boost real income in both regions as resources flow to sectors where they can be more efficiently and productively utilized. It is estimated that an ASEAN-China FTA will increase ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55.1 percent. The FTA should increase ASEAN's GDP by

0.9 percent or by US\$5.4 billion while China's real GDP should expand by 0.3 percent or by US\$2.2 billion in absolute terms. Such an initiative to have an ASEAN-China Free Trade Area within the next ten years seems most likely to pose a significant impact on other non-economic sectors.

The main question arising from the ASEAN-China FTA (ACFTA) is whether ASEAN members will gain in the FTA as projected. The figures which are presented above are estimations. We do not know what will be the real outcome of the FTA, i.e. the impact of the FTA on ASEAN and China. Below is a discussion which provides some rough views as to what would be the ex-post picture of the FTA, especially for the members of ASEAN.

The Chinese economy has grown rapidly since the 1990s. The country's real GDP growth during the last decade averaged at 10.1 percent, the fastest rate of real GDP growth in the world. Furthermore, the total trade of China in the world economy increased from 1 percent in 1980 to 1.70 percent in 1990 to 4.3 percent in 2004. In the 1990s, both China and ASEAN achieved high growth rates in foreign trade. From 1991 to 2004, China's foreign trade grew at an average annual rate of 15 percent. China's exports grew three fold from US\$62.1 billion in 1990 to about US\$300 billion in 2004, making China the seventh largest exporter in the world. On the other hand, international trade in ASEAN grew at an average of 11 percent from 1991 to 2000.

China's exports to the US increased from 16.6 percent in 1995 to 21.1 percent in 2004, while its imports decreased from 12.2 percent to 8.0 percent, respectively. China's exports to Japan in 1995 were 19.1 percent and 12.8 percent in 2004, while its imports decreased from 22.0 percent in 1995 to 16.8 percent in 2004. With ASEAN, China's exports from 1995-2004 were about 7 percent, increasing very marginally. However, China's imports from ASEAN countries increased from 7.5 percent in 1995 to 11.2 percent in 2004. The foreign trade value between China and ASEAN in 2004 was about

US\$40 billion, which accounted for about 38 percent of the total trade between the two regions. As mentioned earlier, a joint study by ASEAN and China have found that China's exports to ASEAN will increase by US\$10.6 billion, or 55 percent, while its imports from ASEAN will rise by US\$13 billion, or 48 percent. By one estimate, the FTA will add one percentage point to the annual economic growth of ASEAN countries and 0.3 percent to China<sup>43</sup>. The trade pattern in China-ASEAN is quite similar to China-South Korea where exports hardly increased while imports grew by about 4 percent from 1995-2004.

Will there be East Asia Free Trade Area in future? Based on Table 3, at this juncture it is quite difficult to arrive at a solid justification that there will be a single East Asian trade bloc consisting of East Asian countries. Even though ASEAN has positioned itself in "the driver's seat" to form a regional grouping among themselves and is the force behind developing ASEAN Plus 3, but unsurprisingly ASEAN has extended to include non-East Asian countries the U.S. and India, Australia and New Zealand, Russia in EAS.

### **Lessons for Pakistan**

The South Asian Association for Regional Cooperation (SAARC) which was formed in 1985 in Dhaka consists of Bangladesh, Bhutan, India, Nepal and Pakistan. Based on Dhaka declaration, the establishment of SAARC is the first step towards promoting and developing economic and social sectors in harmonious ways. At the 1987 Summit in Kathmandu members of SAARC decided to expand activities of the group by expanding economic cooperation through the formation of an economic bloc. In 1993, the SAARC has established South Asia Preferential Trading Arrangement (SAPTA). At the SAARC summit, held in New Delhi in 1995, all members had ratified SAPTA agreement. However, until now implicitly the SAARC has failed in contributing economic development through increasing regional intra-trade. As quoted by Agarwal<sup>44</sup>, "*....despite*

*periodic hope that SAARC is progressing, it remains more dead than alive”.*

Members of SAARC, particularly India seems enthusiastic in forming regional economic cooperation. At the SAARC Summit held in Male in 1997, members of SAARC decided to advance economic co-operation from SAPTA to a South Asia Free Trade Area (SAFTA). At the Colombo Summit in 1998, members of SAARC agreed in creating a free trade area by 2010 (2008 for India, Pakistan and Sri Lanka), a South Asia Customs Union by 2015, and a South Asia Economic Union by 2020. Despite political disputes between India-Pakistan, even Pakistan has signed SAFTA agreement, but the realisation of the FTA may be far from the goals. This may be one of the reasons that India has established economic cooperation with other countries or a bloc of countries. India is a member of Bangladesh, Indonesia, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC). India is also now discussing possibilities in establishing an economic cooperation with ASEAN, China and Japan. Based on records, India has been very much successful than Pakistan in engaging its regional or bilateral trading arrangements.

ASEAN members are eager and cooperative with one another in forming economic cooperation. Possibilities of good collaboration among members of ASEAN in economic cooperation achieved due to the installation policies such as non-intervention in internal matters; political, economic affairs and issues that are sensitive to the members would not be brought into the negotiations. Any discussion or negotiation on economic matters in ASEAN is purely “business”. The experience of ASEAN, including Malaysia shows that there is no easy way in achieving an agreement in forming and driving to materialise economic cooperation. This paper does not deny that ASEAN is not facing any obstacles in creating economic cooperation among its members, however members are willing to compromise in “ASEAN ways” and reach upon agreements to embark on economic cooperation<sup>45</sup>. As mentioned earlier, i.e PTA, AFTA and the latest economic cooperation, ASEAN Community are



results of the ASEAN member compromises.

In the case of SAARC, the major problem is the reluctance of the members to compromise in trade and investment liberalisation. Political issues were brought into the discussion. In relation to Pakistan and India the Kashmir issue arose and the negotiation suspended. How will South Asia Preferential Trading Arrangement (SAPTA) and South Asia Free Trade Agreement (SAFTA) be able to materialise and enhance intra-regional trade within the group if the political affairs are distorting the economic relations? How can Pakistan gain?

In the 13th SAARC Summit in Dhaka, it was expected that members of the group would endorse the South Asian Free Trade Area (SAFTA) which would start by 1 January 2006. However, Pakistan ratified and signed the agreement on 16 February 2006. The delay was due to the Pakistani government's insistence to link the progress of SAFTA to the Kashmir issue. Even though the agreement has been signed the government restricts imports from India. At the 14th SAARC summit in New Delhi on April 3 and 4, 2007, India had offered "zero duty" access to goods from Bangladesh, Afghanistan, Nepal, the Maldives and Bhutan before the end of 2007. Trade issues with Pakistan, however, remained unresolved. Pakistan is the only SAARC country that does not have a free trade agreement with India. Pakistani delegations have stressed that outstanding political issues should be sorted out first before free trade agreement signed between the two countries. At the SAARC summit in New Delhi in April 2007, Pakistan's Prime Minister Shaukat Aziz told that SAARC had not been able to leverage its full potential. How to grasp opportunities that offered by the group if Pakistani Govt. maintains disputes on political matters to be included in the discussion before talk on economic matters.

We believe that Pakistan was in a dilemma whether to join or disassociate itself from the SAARC in 1985. The Pakistani government suspected that India would certainly dominate and

influence the direction of the organisation. This thought is related to the belief that India is moving towards and determined to become a superpower, eventually it will dominate regional cooperation<sup>46</sup>. Since India has been regarded as a new “giant” economy after China in Asia, this paper is quite pessimistic that India would become a military power in the near future in contrast to China and Russia. India is on the route to further developing and increasing economic progress alongside enhancing economic cooperation with other countries in the region including China and ASEAN<sup>47</sup>. Now days, economic progress in terms of high degree of industrialisation achievements, high growth of income (national and per capita), outstanding achievements in research and development (R&D) i.e creating technology, new products, and innovation, creating an international brand, produce huge skilled-labour and has a market power in international commodity or capital market are factors that enable a particular country to turn into an economic power. In global economy, generally, most countries approaching to be an outstanding economy in the world, and India is moving to that direction. In terms of economic growth and progress, poor states such as Bangladesh, Bhutan, Nepal and Sri Lanka including Pakistan remain lagging behind India.

Performance of SAARC in terms of intra-trade is quite depressing. In the year 2006, the intra-regional trade was about four percent of world trade, whereas the intra-trade of ASEAN countries stood at 26 percent and European Union at 60 percent. Pakistan’s trade deficit with SAARC member states rose by 77 percent to \$87.1 million. During the period total exports of Pakistan to SAARC member countries increased by 47 percent to \$393.4 million, while its imports increased by 100.5 percent to \$480.5 million. Pakistan’s intra-regional trade of SAARC before year 2000 recorded less than 3.6 percent and in 2004 the percentage increased marginally to 5 percent. India’s trade among the SAARC members is also less than 3.0 percent from the period of 1985-2004 (Table 5).

**Table 5: Intra-regional Trade Share of South Asia's Total Trade, 1985-2004(%)**

<b>Country</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2004</b>
Afghanistan	11.4	14.5	11.1	29.7	35.3
Bangladesh	4.7	6.0	12.8	7.9	10.5
Bhutan	n.a	n.a	n.a	n.a	n.a
India	1.7	1.6	2.7	2.5	3.0
Maldives	12.5	12.7	14.3	22.2	19.8
Nepal	34.3	11.9	14.8	22.3	47.2
<i>Pakistan</i>	3.1	2.7	2.3	3.6	5.0
Sri Lanka	5.5	5.6	7.8	7.4	15.1
<b>South Asia</b>	<b>3.0</b>	<b>2.7</b>	<b>4.2</b>	<b>4.0</b>	<b>5.3</b>

Note: n.a – not available

Source: Asian Development Bank, statistical database system

**Table 6: ASEAN: Exports and Imports**

	<b>Exports</b>				<b>Imports</b>			
<b>Year</b>	<b>1993</b>	<b>1995</b>	<b>2000</b>	<b>2003</b>	<b>1993</b>	<b>1995</b>	<b>2000</b>	<b>2003</b>
<b>Total US\$bil</b>	206.6	296.7	410.1	430.4	223.3	318.6	345.9	359.3
<b>Exports Destination (%)</b>					<b>Import from (%)</b>			
<b>ASEAN</b>	21.1	23.7	22.6	23.2	17.4	16.8	21.2	20.8
<b>US</b>	20.3	18.5	18.0	14.3	15.1	14.6	14.0	13.9
<b>EU(15)</b>	15.2	14.9	15.3	13.2	14.3	14.6	11.3	11.9
<b>Japan</b>	15.0	14.4	12.3	11.7	24.9	24.7	19.0	16.1
<b>China</b>	2.2	2.1	3.5	6.3	1.9	2.2	5.2	7.9

Source: Asian Development Bank Statistical Database.

The main difference between SAARC and ASEAN is intra-regional trade growth. In case of ASEAN the average share of intra-regional trade is more than 22 per cent in exports and 19 per cent in imports (Table 6). The ASEAN Free Trade Area (AFTA) entered into force in year 2003 with almost all the goods traded within the region at tariffs level 0-5 per cent. In SAARC how much the tariff cuts and amount of traded goods subject to the trade liberalisation, maybe the amount of goods or percentage of goods traded less than 0, even in case of

India. The market size of SAARC or SAFTA, i.e the total population about 1.33 billion (over one-fifths of world population) in 2000, whereas 516 million population in the ASEAN countries (or 1.7 billion if include China). Size of the market, SAARC larger than ASEAN and if includes China the size the differences about 0.36 billion. Total income in ASEAN about \$6.8 trillion including China the figure jumped to \$11.77 trillion in year 2005. While income generated for the same period in SAARC about \$3 trillion. ASEAN's economies highly open in terms of trade and tariffs, a large inflow of FDI, in addition experiencing high rate of savings and investment, productivity of labour and capital, and over 30 per cent share of manufacturing in GDP. A liberal trade and foreign direct investment policies are precondition to gain significant economic progress and certainly in some ways it could reduce poverty and unemployment as experienced in Malaysia and other members of ASEAN. Economic cooperation should encompass transportation, customs regulation and administration to facilitate trade flows, cross-border investment and financial cooperation to ensure exchange rate and financial stability. Tariff reduction and non-tariffs liberalisation or tariffication of NTB should be considered in deepening international trade in the region. In case of SAARC, as shown in Table 5, implicitly indicates that commitments given by the members of SAARC are insignificant and it seems that South Asia is not ready for the SAFTA or any economic integration beyond the FTA.

Regional trade agenda that is distorting by political factors is unlikely to generate the benefits for the South Asian people. Till today, the agenda of SAARC economic cooperation continues as discussion between government officials, researchers (universities or think-tank or NGOs). If economic matter dominates political factor no doubt, people of SAARC greatly will benefit. Unfortunately this is missing in SAARC a shown in case of the SAPTA. Pakistan needs to be serious in developing its economy and increasing external linkages. Pakistan needs to improve trade relations with India. Political issues with India including Afghanistan, China and Iran

undoubtedly are very crucial but the issues should be settled bilaterally at another venue or forum.

Pakistan should adopt an approach based on consensus rather unilaterally in developing or realising FTA in the South Asia. Since Pakistan is incompetent in high-technology manufacturing industries compared to India, and the country's economic growth relies on primary commodities, Pakistan seems to be not in a position to demand and dominate the SAARC or SAFTA. Trade liberalisation within the group entirely must rely on "business" purposes. Besides engaging within the SAARC, Pakistan should also build economic relationships with other neighbour countries or potential trade partners to enhance trade and investment. As mentioned economic performance between Pakistan and India has become very much different. Pakistan is very much lagging behind. Pakistan's low economic profile does not make it an attractive trading partner, as was the case with India a decade ago. India's growth in recent years has enabled it to get linked to ASEAN, the message clearly being that ASEAN finally perceives gains in having India as its trading partner. Pakistan is now under immense pressure to re-focus its foreign trade policy. The 12th SAARC Summit has provided the two countries an excellent opportunity to exchange trade concessions. The signing of the SAFTA can be regarded as a landmark in the evolution of SAARC.

## **Conclusion**

The idea and proposal by former Prime Minister of Malaysia, Tun Dr. Mahathir to form an East Asia Economic Integration materialized in 1998 with the formation of ASEAN Plus Three (APT). Since then enthusiasm among the East Asian leaders in developing closer economic ties within the members has been growing. This is clearly indicated by the establishment of bilateral FTAs between ASEAN and China in 2002 and ASEAN and South Korea in 2005. The realization of an EAFTA is on the move. The establishment of the

EAFTA is expected to increase intra-trade in the region. However, based on a few empirical works on the subject, some of the countries in the region may not gain much or may experience trade diversions. Nevertheless, since the analysis uses either extrapolated or calibrated data, the results may not lead to a solid conclusion of the impact of EAFTA on its members. Certainly, the growing Chinese economy is a matter of concern to most of East Asian countries. China has been denoted as the *workshop and manufactures of the world*. This label and the very much impressive economic growth and development of China have imposed a threat to the other EA countries on future exports, economic growths and FDI inflows.

The establishment of ASEAN-China FTA is a part of EAFTA and the ACFTA is almost welcomed by East Asian communities. The ACFTA sounds very impressive but we do not know what the cost is to the members who are unable to compete with China. Beforehand, a feasibility study should be done thoroughly to inspect the cost of trade diversion and competitiveness. Definitely, there are members of the pact who will gain and also those who will lose. If there is a high cost of an FTA to some members, the FTA committee should construct a mechanism to compensate for the losses of affected members. This is vital to ensure stability and harmonization of the group. The ASEAN-China FTA could become a large free trade arrangement in the world, but if some members of the pact experience losses, it will dent the pact.

In general, all members of the ASEAN-China FTA are developing countries. FTAs which integrate industrialised and developing countries such as NAFTA and EU are different from those that only consist of developing countries. The patterns of trade, investment, employment or income distribution of both types would look different. Usually, developing countries compete among themselves in trade and tend to struggle to get a bigger bite of the international market besides attracting foreign capital. Foreign capital and the international goods market are the major sources of economic

growth for a developing country including ASEAN and the East Asian countries. Until now, since the ASEAN-China FTA was launched in November 2002, there has been no explicit effect of the pact to its members. However, based on rough anticipations, some members may stand to lose from the game.

South Asia including Pakistan is a latecomer in regional integration. Regional cooperation began in late 1985 when the South Asian Association for Regional Cooperation (SAARC) was established. Only in 1995 economic cooperation in trade and investment was took off after the establishment of the South Asian Preferential Trading Arrangement (SAPTA). SAPTA had failed in nurturing and increasing intra-trade in the region. Even after more than 22 years after the SAARC's establishment, member countries have not agreed to facilitate international trade and FDI flows. Nor have they agreed to any scheme of cooperation to restore common transport infrastructure<sup>48</sup>. Cooperation has hardly moved not due to the lack of ideas and vision, in fact there were many proposals and ideas from experts, think-tanks, members of government or foreign or international organisations to increase economic collaboration in the region but the only deficient is the political will, subsequently this political matter had expunged economic cooperation. Almost 10 years now members of SAARC have been wasting time in negotiations for tariffs reductions under SAPTA and now the proposal for South Asian Free Trade Agreement (SAFTA) which was signed in 2006 as uncertain. Since members of SAARC show less bold commitment on SAPTA, there is a doubt that SAFTA may be realised under the time-frame agreed upon. Even though there is commitment in reducing tariff rates as offered by India, but there is no commitment to eliminate non-tariff barriers. Goods under the exclusion lists (negative lists) are too large. For example, India's negative list is larger than that of some of its bilateral free trade agreements, and almost four times as large as its latest offer in the negotiations for a free trade agreement with the Association of Southeast Asian Nations<sup>49</sup>. On the other hand, Pakistan has refused

to apply the SAFTA provisions to its trade with India.

The problem of SAARC including in SAPTA and SAFTA relies on major countries or anchor countries. Since India and Pakistan are supposed to be dominant countries, commitment given by the two countries in realising an FTA in the region has fallen short. Poor countries such as Nepal, Bhutan and Bangladesh including Sri Lanka depend on “stronger” nations to push regional economic cooperation for the benefits of the region as a whole but they are hopeless in this regard.

## References

<sup>1</sup> Regional grouping regarded as an exclusive clubs.

<sup>2</sup> Article 24 of the GATT (now the WTO) directly permits regional agreements but the countries involved in the regional agreement have to acknowledge their compatibility with the multilateral trading system. Under WTO, agreements of regional economic integration must meet three criteria: they must cover “substantially all” trade of member countries, they must avoid raising new barriers to non-members, and they must achieve free trade among members by a certain date (normally not to exceed ten years from the date start).

<sup>3</sup> Maurice Schiff and L Alan Winters, *Regional Integration and Development*, The World Bank, 2003. Schiff and Winters argued that regionalism in world economy started even before the establishment of the EEC: page 5.

<sup>4</sup> Members of ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, and Timor Leste may join in near future.

<sup>5</sup> C. Fred Bergsten. . “APEC: The Bogor Declaration and the Path Ahead.” Asia Pacific Working Paper Series No. 95-1. Washington: Institute for International Economics, 1995.

<sup>6</sup> Jacob Viner, *The Customs Union Issue*. Stevens, London, 1950.

<sup>7</sup> Also includes an economic forum or discussion on economic relations in the region.



<sup>8</sup> The basic concept of EAEG is an “Asia for Asians only”. This was the main factor why US strongly opposed it.

<sup>9</sup> Agreement on Uruguay Round negotiation was reached in December 1993 and signed in April 1994 at Marrakesh.

<sup>10</sup> US opposed the formation of EAEG on two grounds. First, it was afraid that the EAEG-1990 would turn into a trade bloc. Secondly, the US did not wish for the group be led by Japan while she is being neglected.

<sup>11</sup> Terada, Takashi (2003). “Constructing an ‘East Asian’ Concept and Growing Regional Identity: From EAEC to ASEAN+3”, *The Pacific Review*, vol. 16 (2): 251-277. As quoted in Terada, “.....Secretary of State James Baker (1995:610) wrote, ‘in private, I did my best to kill [EAEC]’. Baker (1995:611) writes, ‘without strong Japanese backing, [EAEC] represented less of a threat to America’s economic interests in East Asia’, implying the United States placed strong pressure on Japan not to participate in EAEC” (page 258).

<sup>12</sup> Some of the ASEAN members (Singapore particularly) also declined to accept the idea since it was not consulted about it at the ministerial level. Also they said that Mahathir’s proposal was too early to be considered and approved.

<sup>13</sup> East Asian Economic Caucus (EAEC) was suggested by Indonesia in 1991 at the ASEAN finance minister summit. The scope of EAEC is more narrow and limited than EAEG.

<sup>14</sup> Wiryono Sastrohandoyo. “ASEAN+3: The Prospects”, 15<sup>th</sup> Asia-Pacific Roundtable: Confidence Building and Conflict Reduction. ASEAN Plus Three: Problems, Progress And Prospects, Institute of Strategic and International Studies, Kuala Lumpur, 4-7 June, 2001.

<sup>15</sup> Japan and Australia are mainly involved in the establishment of APEC in 1989.

<sup>16</sup> APEC members came out with “Bogor Goals” to establish free trade and investment within the region by 2020. Based on current development on regionalism in East Asia, it seems the Bogor Goal will evaporate.

<sup>17</sup> Hoang Anh Tuan. “Security Issues: Perspectives from ASEAN Plus Three Countries”, in *The Emerging East Asian Community. Security & Economic Issues*, (eds) Lee Poh Ping, Tham Siew Yean and George T. Yu, Penerbit UKM, Bangi, Malaysia, 2006: 111-124.

<sup>18</sup> In contrast to EAEG, until now US has not shown any strong objection to the APT and the involvement of Japan in the regional group.

<sup>19</sup> Terada (2003), op.cit. At the APT meeting in Brunei, 2001 Dr Mahathir responded that the idea of EAC was too early.

<sup>20</sup> Gordon, Bernard K. (2005). "Asia's Trade Blocs Imperil the WTO", *Far Eastern Economic Review*, vol. 168, no. 10 (November, 2005): 5-10. As cited in Gordon "When Mr. Kissinger asked whether Tokyo would be influenced by American plans to extend NAFTA to South and Central America, Mr Hashimoto answered....Yes, that is what will happen. As a member of the cabinet I do not highly regard the Mahathir plan. But if the United States strengthens its posture towards forming a protectionist bloc by extending NAFTA and closing off South America and North America, then Japan will have to emphasize its position as an Asia-Pacific country. This will inevitably alter the Japan-U.S relationship... so please do not force into such a corner" (page 8).

<sup>21</sup> One of the main reasons why China, South Korea and Japan accept ASEAN role and initiative in moving EAEI is that only ASEAN is the sub-regional cooperation in East Asia and ASEAN is quite successful in developing coherent regional cooperation.

<sup>22</sup> Marion Chyun-Yang Wang. "Greater China: Powerhouse of East Asian Regional Cooperation", *EAST ASIA*, vol. 21 (4), 2004: 38-63.

<sup>23</sup> The 16 EAS participants - China, Japan, India, South Korea, Australia, New Zealand and the 10-member Association of South East Asian Nations (ASEAN).

<sup>24</sup> ASEAN vision remains that to unite the member-states into "one ASEAN Community". The successful of ASEAN turning to ASEAN Community as acid test for the development of East Asia Community.

<sup>25</sup> In general, industrialisation expansion in most of Southeast Asian and East Asian countries constructed by Japanese capital through this mode of production, i.e also known as "flying-geese model".

<sup>26</sup> Avila, John Lawrence Avila. "EU Enlargement and the Rise of Asian FTAs: Implications for Asia-Europe Relations", *Asia Europe Journal* (1), 2003: 213-222.

<sup>27</sup> John Ravenhill. "The Political Economy of the New Asia-Pacific Bilateralism: Benign, Banal, or Simply Bad?", in *Bilateral Trade Agreements in the Asia-Pacific. Origins, evolution, and implications*, (eds) Vinod K. Aggarwal

and Shujiro Urata, Routledge, London, 2006, pp: 27-49.

<sup>28</sup> The SCO is a restructure of the Shanghai Five (SF) that was formed in 1996, a group that comprised every current SCO member except Uzbekistan. The Shanghai Five was a loose security group. During the summer of 2001, Russian President Vladimir Putin and Chinese President Jiang Zemin, renamed SF as the SCO and declared the SCO as a political regional forum politically and provides a collective security of Central Asia.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> ibid, and Nagesh Kumar (2005). "A Broader Asian Economic Community. A Possible Road Map", *Economic and Political Weekly*, September 3, 2005: 3926-3931.

<sup>32</sup> Krumm and Kharas . "Overview", in *East Asia Integrates*, (eds) Kathie Krumm and Homi Kharas, Oxford University Press (for World Bank), Washington DC, 2004.

<sup>33</sup> Robert Scollay and John Gilbert. *New Subregional Trading Arrangements in the Asia-Pacific*, Institute for International Economics, Washington DC, 2001.

<sup>34</sup> Krumm and Kharas (2004). op.cit

<sup>35</sup> It should be stressed that the results of the studies, Krumm and Kharas (2004) and ADB (2006), are speculative or anticipative. It is suspected that the data used in the analysis are calibrated and could not be trusted.

<sup>36</sup> Asian Development Bank (2006). *Asian Development Outlook 2006*, Manila, Philippines.

<sup>37</sup> Ibid.

<sup>38</sup> Mike Moore, Reflections on the global trading system, Global economic integration: opportunities and challenges ; a symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August, 24-26, 2000, page 163-169.

<sup>39</sup> Wang (2004), op.cit, provides a clear view on China's motives in East Asian regionalism.

<sup>40</sup> Moore, op.cit.

<sup>41</sup> Buszynski, Leszek (2001). "ASEAN and the Future of Southeast Asian Regionalism", *The Indonesian Quarterly*, vol. xx1x (3): 277-285.

<sup>42</sup> Subianto, Landry Haryo (2001). "ASEAN after Brunei Summit: Re-

inventing Regional Commitments?", *The Indonesian Quarterly*, vol. xx1x (4): 324-333.

<sup>43</sup> Glosserman, Brad and Vivian Brailey Fritschi. "Trade pact could trap ASEAN into state of irrelevance", *The Japan Times*, November 15, 2002.

<sup>44</sup> Agarwal, Manmohan. "Regional Trading Arrangements in the Era of Globalization: An Indian Perspective", *International Studies*, vol. 41 (4), 2004: 411-423.

<sup>45</sup> Since 1967 there is no arm confrontation among members of ASEAN, even there were (minor) problems at borders, Thailand-Myanmar, Malaysia-Singapore (bilateral disputes) and Malaysia-Thailand, however those matters controllable and settled bilaterally and it retarded an economic cooperation in the region. These issues that were that ASEAN members facing difficulties in handling its such as failed to persuade the junta of Myanmar to become democratic, powerless in resolving severe air pollution in Southeast Asian skies caused by Indonesia's forest fires, settling maritime territorial dispute through adjudication by the International Court of Justice rather than through ASEAN's own High Council of Foreign Ministers (Malaysia-Indonesia and Malaysia-Singapore) (, a body that was designed to play such a role. The Spratly Islands dispute with China has been set aside, but this is mainly because Beijing is focusing on economic self-empowerment and its problems with Taiwan and hence needs to keep its quarrels with ASEAN to a minimum as part of its new "charm offensive."

<sup>46</sup> Sumita Kumar. Pakistan and Regionalism, *Strategic Analysis*, Vol. 30, No. 1, Jan-Mar 2006, pp:122-137.

<sup>47</sup> Some of the SAARC countries are keen that China be admitted as a full-fledged member. The countries believe China-SAARC cooperation will improve economic development of the region. This is possible since China shares borders with four of the SAARC states.

<sup>48</sup> Dubey, Muchkund (2007). "SAARC and South Asian Economic Integration", *Economic and Political Weekly*, April 7, pp: 1238-1240.

<sup>49</sup> Ibid.