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Improving the Architecture Towards a Harmonious Asia-Pacific Community

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Towards A Harmonious Asia-Pacific Community

Summary

The East Asian integration is a process to the East Asian Community (EAC) as indicated in the "Final Report of the East Asia Study Group"(2002).¹ The process has been central to the study of regional integration inside and outside China due to the fact that the process has just been coincidental with the rises of East Asia and China. Over the last five or six years, there have been initiatives by the East Asian governments to sign free trade agreements with others both within and outside East Asia. The recent suspension of Doha Round might stimulate some economies to turn for the strategy of "competitive liberalization" and thus more bilateral or trilateral free trade agreements will be pursued at the regional level. The implications of this trend will be profound for China as well as East Asia. Do Chinese perspectives on regional co-operation remain as China has done? Or, will China adjust its policies with a new situation that China seems confronting somewhat a fence erected with the 2005 East Asia Summit in Kuala Lumpur?

To address the above questions, I try in this paper to review past work on the East Asian integration process or regionalism, old and new, political and economic, and its interaction with and impacts on the APEC. An issue correlated with the above question is whether there is some possibility that new regionalism evolves into an institution in East Asia during which what kind of role China has been playing in shaping the behavior of important actors in process of regional integration such as in ASEAN Plus Three, APEC, ARF. I will also examine Chinese perceptions of how the entire process of regional integration should proceed, including how to deal with the outer factor like the United States.

This article is organized into three major sections. The first one provides an analytical review of the development of East Asia regionalism and China's policy shift at the background of changing environments of regional political economy.

The second section addresses a theme on China's approaches to new regionalism. This is to analyze the correlation between China's rise and East Asia integration process.

The third one turns to examine the prospects and problems of East Asia integration and impacts on Asia Pacific, particularly the APEC's future. European way will be touched on and the author's argument is that EU's experience could be a reference but unable for East Asia to adopt. FTAAP seems an alternative approach despite the fact the proposal has been in debate whether it is really a way towards a harmonious Asia-Pacific Community. Some problems including political, economic will be analyzed.

Keywords: Asia integration China APEC AFTAAP

I. An Analytical Review of New Regionalism Studies

The East Asian integration has been regarded in Chinese academic circles as a term almost synonymous with new regionalism for a long time until the later has been accepted in the middle of the 1990s, particularly after the 1997 financial crises (Fu, Xin, 2004, p68). Some economic studies link East Asia integration process with Regional Trade Arrangements (RTAs) and Free Trade Agreements (FTAs), a response to Asian financial crisis, other regional groupings outside Asia. East Asia integration has also drawn close attention of political studies in China (Xiao, Huanrong, 2003; Gen, Xiefeng, 2003). Can the multiple East Asia featuring with diversified political and economic systems move economic integration process forward or outside the realm of trade and economic integration to explore other types of cooperation agreements? Some political studies in China have been enthusiastic on a wider range of issue areas of international cooperation, such as trade and politics, trade and security. Neo-liberal, functionalist, and constructivist strands of international relations theory have been borrowed to analyze inter-state cooperation in the region (Su, Changhe,2001; Yuan Ye, 2006).

Prior to the 1990s, the market-oriented economic integration process had been challenging China's passive posture because China had been reluctant to participating in regional cooperation organizations or institutions. China's hesitation resulted from its previous unsuccessful experiences in forming an alliance with the former Soviet Union and the United States separately notwithstanding a weak cooperation with the United States. Theoretical exploration has shown that the roles of markets were strong and the new regionalism as an institution building in the process had not attracted Asian economies until the second part of the 1990s. Much of research on regionalism has been centering on trade but few on politics and security. Some have found that the policy-makers of East Asian governments have been enthusiastic in seeking for new tactics to participate in the wave, but they, if not all, have their internal political purposes (Sheng, Bin, 2004). It seems plausible that some important theoretical and empirical issues could be addressed with traditional integration model, which emphasized on trade integration with phases moving from a free trade agreement to a custom union and on to a common market. The East Asian experiences, however, have given us some path different. We need an approach of international political economy to examine the integration process.

New regionalism in East Asia integration process has, therefore, not only economic but political implications as well. As an economic policy, new regionalism came forth in 1982 with the change of the United States' attitude into a two-track approach, multilateralism and "GATT-plus" arrangements (APEC Economic Committee, 2000, p23). This initial new regionalism, particularly based upon "GATT-plus" arrangement approach, has catalyzed regionalization in Asia Pacific as well as world. The gradual effect on the region could be seen with the 1989 formation of Asia Pacific Economic Cooperation (APEC) and the ASEAN Free Trade Area (AFTA) launched in 1992. The process of regional economic cooperation in the early 1990s, however, did not bring about thinking in the way that the integration process was conceptualized by the exact American approach to a binding or institutional-oriented arrangement. In the late 1980s, an American unofficial proposal of an ASEAN-US FTA was not considered because ASEAN was not ready and other considerations in the U.S. policy circles to establish bilateral FTAs with Japan, Korea aroused concerns possibly because of American unilateral trade behavior (Munkata, Naoko,2004). My judgment is that those suggestions were set aside mainly because of some various political interest groups inside some countries

and different opinions about institutional construction between the US and Asian developing economies. The divergent expectations stated by some APEC member economies reflecting their internal interest groups led to APEC from its momentum flourishing turned downward since 1997, coincident with Southeast Asia severely hit by financial crisis, but a wave of government-pushed cooperation toward an institutional-oriented integration process through free trade agreements (FTAs) and other forms. This initial institutional integration process has been closely overlapped with the market-oriented regionalization started earlier.

The regionalization has thus been in the ascendant for most time since the early 1980s and effectively carried forward Asia integration process. This market-oriented integration with some positive outcomes has been backed up by Asian governments with several steps. The tariff reduction is the first action including liberalizing measures such as non-tariff barriers and non-discriminate treatments, which had been implemented by Asian newly industrial economies like four dragons, other Southeast Asian countries and then China in the 1980s and the early 1990s.

The East Asian trade shares have risen from 10.0% to 17.5% in World trade. Meanwhile, some East Asian countries have been main targets of FDI and the influx of foreign investments has been grown from the amount of \$6.5b in 1986 up to \$77.0b in 1997 and their share from 8.3% in 1986 to 20.3% in 1996 (Stiglitz, Joseph E. 2000). Second, the fluidity of foreign investment into East Asia has been sped up. The growth of trade and investment has been the key to strengthening regional economic interdependence and integration. Third, sub-regional cooperation process in Southeast Asia and China's rise was the main drivers of East Asian trade and investment liberalization before and after the middle of the 1990s. Fourth, APEC cooperation process gave a fresh impetus to the East Asian integration before the 1997 financial crisis. Over the process within last twenty years, the total amount of East Asian exports has been grown from \$205.4 billions in 1986 to \$968.2 billions in 1997 and \$1336 billions in 2005(Stiglitz, Joseph E. 2000; WTO, 2006, P9).²

With East Asia's regionalization and regionalism giving impetus to Asian growth of trade and investment, a dynamic regional division of labor emerged. What a new term came into existence was "geese-flying pattern", which referred to the newly emerged economy Japan as a head leading a group of small and middle developing economies. The new geese-flying pattern should be a prominent path in the process of regional cooperation in East Asia in the 1970's and 1980's but hard to describe it as a sustainable way of regionalism. The term geese-flying was brought out by Kaname Akamatsu in 1962 but it was not taken up until the second half of the 1980s. The term does not have a good reputation mainly because of its historic legacy that the original term created in the 1930s as some propaganda for Japan's militarism to *The Great East Asia Co-Prosperty Sphere*. It was known that Akamatsu's version derived from the research relative to a product-cycle approach but not been an exploration to set up an analytical framework for explaining regional integration.³ It was after a former Japanese Foreign Minister's speech in 1985 that the geese-flying pattern rapidly gained popularity in the East Asian region, and has been thought to symbolize the Asian way of development and integration.⁴ The minister had a considerate policy view, trying to use it as a pattern to create an East Asian bloc to counter the rising North American bloc and European Union. It is presumable that Japan could serve as a leader while other Asian developing economies were still following Japan for development.

Although it was seemingly admitted that with Japanese official aids like ODA and transnational companies Japan played some role in advancing the process of industrialization in East Asia,⁵ it is not a sustainable pattern for two factors. One is its feature, which encourages and enhances foreign firms, particularly the Japanese firms to be export-oriented, rather than local market-oriented. The vertical characteristic of industrial divisions in the region constructed an unequal dependence and those less developed economies in the chain would not have a chance to change their status from raw materials supplying or low developing level.⁶ The other is to create a bloc for Japan as a leader playing a central role to antagonize the NAFTA and EU but the geese-flying chain failed because of Japanese bubbled economy, China's rise and financial crisis. Thus, the 1990s' new regionalism in East Asia was not triggered with the geese-flying pattern but the proximate cause is the establishment of WTO and the 1997 East Asian financial crisis. Most of agreements have been signed and negotiated in the last five and six years but the ASEAN Free Trade Area (AFTA) created in 1992 is the exception.

The main features in East Asia integration process are as follows. First, Asian regionalism can be separated into two stages consisting of market oriented regionalization and institutional directed integration process. It is used as a tool by some countries to hedge against external regionalism. The stimulus comes down directly from GATT/WTO establishing process and globalization.⁷ It is theoretically accepted that economic interdependence has been generated by globalization and created opportunities for both developed and developing economies. But globalization arouses concerns for East Asia because of external unilateralism and increasing trade protectionism with NAFTA and EU creating some visible and potential pressures. The atmosphere has been stimulating some economies to get together to take defensive measures against possibly negative effects in East Asia (Munakata, Naoko, 2004). There are some possibilities for Asia to incline to follow the similar trend exposing in external region but the possible results may not be protectionist because of the strong US political and economic ties with the region and rapidly growing China market and China's opening policies pursuing multilateral liberalization.

Second, institution-oriented integration process was obviously catalyzed with the 1997 Asian financial crisis, which forced the crisis-afflicted economies particularly Malaysia, Thailand, Indonesia, and others to scrutinize international institutions like International Monetary Fund, World Bank and even APEC because they were dissatisfied with the level of assistance from those international institutions. Some resentment catalyzed them to seek for some temporary solutions and possible institutions to prepare for all contingencies in the future. The first year after the end of financial crisis saw ASEAN+3 emerging and then Chiang Mai Initiative (CMI), reflected a region-wide defense against possible future disasters. As of December 2003, 16 BSAs (bilateral swap arrangements) among ASEAN+3 members had already been concluded, amounting to \$36.5 billion (Lamberte, Mario B.2005, p25).

Third, the legacy of financial crisis required continuous structural reforms within those heavily afflicted countries. ASEAN member countries actively adjusted themselves to a new and challenging environment through ASEAN-extra strategy to look for new opportunities beyond the region. Currently, there are more than fifty FTAs/EPAs between an East Asian country and a country outside the region. It may be not greatly significant as a geographical effect because the participants are external members instead of their neighbors. But they do mean a lot because they are primarily initiated or participated by the small countries, not by the large.

Fourth, new regionalism in East Asia has been moved forward with the economic rise of China. It is widely noticed that China has replaced Japan as Asia's main engine of growth in the last decade. China's initiatives for regional cooperation and integration contributed a lot to the regional and countries' development and therefore China attracted regional as well as

global attention. China's positive and open attitudes and new image are welcome although we still have some problems to solve.

Fifth, some issues are primarily connected with whether there is a competition between newly emerged China pattern and Japan's geese-flying pattern. Some scholar has written that it seems there is not an explicit Chinese FTA strategy to reach its own goal through new regionalist approach but its rapid growth and success have attracted some Asian neighbors.⁸ But we remember a logion "groping for stones to cross the river" and this is maybe a response with Chinese characteristics to the confusion about China's FTA strategy. The Deng Xiaoping's strategic and tactical wording expresses pragmatic philosophy and can be utilized as a basis to analyze China's role in East Asia integration process. The next section, therefore, is to address a theme on regionalism and China and analyze China's pursuit of regional cooperation on its own way.

II. China's Approach to Regional Integration

The rise of China and its ascendancy to global and regional significance with an average annual rate of 9.6% over the past 27 years has been relative to the matter of East Asia integration process. In 2004, China's GDP reached US\$2 trillion, making China the sixth-largest economy in the world in 2004.⁹ Since the time China launched reform and open-up programs at the end of the 1970s, the number of poor rural population has dropped to 26 million from 250 million, an extraordinary achievement in poverty reduction. The value of foreign trade has been from USD 20.6 billion in 1978 up to USD1.1547 trillion in 2004. The dependent rate of China GDP on export has been from 2% in 1978 up to 40.2% in 2004.¹⁰

The rapid growth has been in pace with regional integration process as well as an uneven path transiting from the rigid economic structures under a centralized system to a market economy with Chinese socialist characteristics.¹¹ The transition and developmental path is of China pattern but the external force such as regionalism and globalization has been some impacts on China particularly through foreign investment. China assimilated FDI from USD 0.916 billion in 1983 up to USD 60.63 billion in 2004. By the end of December 2004, the accumulation of the established foreign-invested enterprises of the country reached the number of 508,941 with contracted foreign investment of USD 1096.608 billion and actual use of foreign investment of USD 562.101 billion.¹² Those figures and resources have shown that China benefits from its opening policy and the rapid growth is closely connected with regional cooperation because over 60% of external resources have been invested by APEC member economies. This, in fact, has been the main rationale for promoting Chinese economic cooperation and integration in East Asia and expansion to Asia Pacific region.

It seems that China started to amend and shift its policy to new regionalism with the end of bipolar world pattern, a good timing or an opportunity for China to ponder how to make policy shift to emerging regionalism as well as globalization for the purpose of domestic modernization program. Some factors have been responsible for the policy shift: the first is that American two-track policy with new regionalism seems a revelation to China, particularly in the process negotiating with the US for China's access to World Trade Organization. While the US-China negotiation on China's WTO membership ended in 1999, China suddenly found it impossible to easily enter North American market because of a main challenge from NAFTA, with which China's commodities were fended off. This reminded China to find a feasible and multilateral strategy to safeguard its own economic interests. The second is to maintain a stable relationship with its peripheral countries at an essential period when the Chinese economic development program was emphasized as irreversible. Meanwhile, the 1999 US-Sino agreement on China's WTO membership caused Southeast Asian countries worrisome. Some ASEAN countries expressed concerns about possible damage to their trade and investment, fearing that foreign direct investment would be diverted to China. It is necessary, therefore, for China to do more to alleviate their concerns. The obvious breakthrough was Premier Zhu Rongji's proposal about the possibility of an

FTA with ASEAN at the Singapore ASEAN-China Summit in November 2000. The third is the China's political will to be an accountable actor in the international arena, trying to be contributive to building international institutions regionally and globally. This will not only cover the economic realm but political security to dispel "China threat".

What are the main approaches lending an impetus to China's participating in East Asia integration process? In terms of processes, the gradual movement from open regionalism to a binding FTA regime has been the essential to strengthen and keep Chinese economy open to East Asia as well as other regions and thus made China interdependent with East Asia economically and politically. Some important moves taken by China have shown some historical steps.

First, China access to APEC in 1991 was a primary trial to establish regional cooperation with a governmental-based regional organization and it was also a political byproduct for China breaking a sanction by Western countries because of the Incident occurred on 4 June 1989. This trial was significant to China because of strategic reform transition from inside to outside, the almost fulfilled domestic adjustment in the 1980s needed some external forces supportive for further reform. Its reiterated non-alliance policy allows China to seek a multilateral cooperation with APEC member economies and "open regionalism" with its non discriminatory trade liberalization modality known as concerted unilateral liberalism. This feature fits to China mainly because China was just seeking outward-oriented strategy not only for a specific region but other regions as well. APEC with its not inward-oriented nature seems a just response to China's seeking regional arrangement without a strict limitation. It seems that China had a very good opportunity to rehearse how to seek benefits from basic regional cooperation with tariff reductions, non-tariff reductions, increasing transparency of non-tariff barriers, opening service market and etc. APEC is an arena important for China to participate in subsequent bilateral or multilateral cooperation.

Second, China's accession of the Bangkok Agreement (BA) in 2001 heralded a new step of China shifting forward to a protectionist bilateral FTA policy. As a preferential tariff agreement under the Economic and Social Commission for Asia and the Pacific of United Nations, BA is a longest existed PTA institution in Asia but mainly serves as a platform for the exchange of tariff concessions on goods among developing countries and this sort of a government-organized institution is comfortable for China because no serious conflicts exist between China and most BA members. Harish Iyer (2003/04,p25) has written that China entered the Bangkok Agreement with an offer of 739 items for general concession and an additional 18 items for special concession to least developed member countries. This has a breakthrough and historical significance for the accession is a first event in China's tariff history. According to BA, China's offer is given a return with a preferential tariff rate and this is a first time China obtains a preferential tariff rate through tariff reduction talks. China's accession satisfied some special interest groups inside China who has been advocates supporting to strengthen China's relations with its traditional friends in the third world. Harish Iyer presented his comments that China's entry into the Agreement has brought with it several interesting possibilities and could have profound implications for trade in the region.

Third, China initiated an ASEAN –China Free Trade Area. As mentioned earlier, China put forward a proposal to establish an FTA with ASEAN in order to allay ASEAN's concerns over China's growing competitive threat for foreign investments after its WTO accession. With that initiative, China proposed tariff reductions on 600 agricultural items for ASEAN countries and soon both sides decided to prepare for signing a Framework of Agreement on Comprehensive Economic Cooperation(CEC) including an FTA at the Phnom Penh ASEAN-China Summit and completed the signature at Vientiane Summit by the end of 2004. The procedure of tariff reduction officially kicked off from July 2005 and over 7000 items have been on the list, starting a formal process for FTA between China and ASEAN. The more important is that both sides also signed an Agreement on Dispute Settlement mechanism of

the Framework Agreement on CEC, which will be followed by an agreement on services. The mechanism seems very straightforward and functional but this is an initial step for China to pursue a new regionalism-oriented policy.

Fourth, the pursuit of economic regionalism cannot be pretty much fulfilled without good political environment. The relationship between China and most ASEAN members has been since the early 1950s experiencing some stages through rival against each other in the time of the Cold War, engagement, resuming diplomatic relations and gradually getting together for a vision of East Asia Community. The improvement of relations has generated an appropriate climate helpful for East Asia integration process. China and ASEAN separately and jointly made every effort to push the movement smoothly forward. The interactive actions had been conducted in the 1980s including former China's Foreign Minister Wu Xueqian's visit to Indonesia with a low profile in 1985 and the 1989 Tokyo meeting between former Chinese Foreign Minister Qian Qichen and former President Suharto, opening the door to resume the diplomatic relations between China and Indonesia. Singapore initiated a proposal in 1990 that China be accepted as an APEC member, which was regarded by China as a breakthrough to the June Fourth sanction. Soon China's foreign minister was invited to attend ASEAN ministerial conference in 1991 and China supported the ASEAN-initiated ASEAN Regional Forum and accepted the concept of security interdependence declared in the statement of that conference, indicating that China's diplomacy thinking was in transition. China tried to play some role beginning with 1996 ASEAN Regional Forum (ARF) annual conference when China put forward a new security concept, whose core thinking is to solve regional disputes and maintain peace through methods such as dialogue, consultation and negotiation, which are also requested for by ASEAN. China was not only to support ARF but to build confidence with ASEAN for a stable and peaceful East Asia. In 1997, China fully supported ASEAN's suggestion to set up a new mechanism "ASEAN Plus Three" and accepted ASEAN as a leading role to play in East Asia integration process. China has no longer looked at ASEAN as a part of western rival force. Therefore, stable peripheral regions, particularly in the region bordering with small and middle countries in Southeast Asia, will be clearly contributive to China's internal economic development program, counteracting political and security threats from the US and its allies. China obviously felt anxious about its security environment in the aftermath of the bombing of the Chinese embassy in Belgrade in 1999. The swap of the US presidency in 2000 prompted China to take precautions against possible U.S. attempts to encircle and contain China because the first Bush administration clearly treated China as a strategic competitor. This alert still exists even today as QDR (Department of Defense, the US, 2006) further regarded China as a most potential rival and the Asian version of NATO has been in the grouping process.

The China's participation in and promoting regional integration process has therefore not been involved the geese flying pattern despite there has been somewhat relative with the factor of production chain. My argument is the international product cycle as one of external forces emphasized here does not mean that the function of geese-flying pattern has performed in the process of China's development. The international product chains with each cycle do play important roles because China's reform and open-up happened to be carried out with globalization. China's assimilation of international capitals is an approach for China to enter international market and take part in production activities with international product cycle but not exactly the East Asian product cycle in the line of geese-flying pattern. This is mainly because of the fact that the period was completely different from that of rise of Japan and transferring of its sunset industries into Southeast Asian countries. The constraints of political relations between Japan and China and the recession and adjustment of Japan's economy in the 1990s could not allow China to be a new one into that Japan's product cycle although it seemed that China should have followed those four Asian dragons in the early 1990s. It was obvious that China prepared to borrow some external force as some impetus to its internal economic reform after making structural reform almost a whole

decade in the 1980s as a preparation for a new leap in the process of reform from internal system to seeking external force to impel a reform furthermore in its structural system. It is well understood that Chinese village and township enterprises had been regarded as the engine of growth in the 1980s. It was overseas Chinese with their capitals, networks that spurred the development of village and township enterprises. Although those overseas Chinese did not have very deep expertise, they did have unique Chinese language skill, international marketing channels and more important their understanding of Chinese political culture. Remember please in the 1980s when the world was still under bipolar system, China could not easily enter a network weaved and controlled by the US and comprised of Japan and ASEAN group. With that backdrop of Cold War, I prefer to regard geese-flying form as a part of product cycle and production chain led by the US because the Japanese geese-flying pattern was not able to work without the American role immediately after the WWII. In the 1990s, the contemporary geese-flying pattern version or theory with the efforts by Japanese scholars gave the position that economic interdependence in East Asia would lead to an economic bloc to counter Europe and North America but Japan will be as a leader.¹³ But bubble economy made Japan uneasy in the 1990s to go on bearing some economic burden it had in the previous decade, and China needs to further undertake economic reform and comprehensively opening to the world. With double digital growth in the 1990s and its large size, it is unable for China to be a new team-mate in the geese-flying pattern.

With the above explanation, one could summarize the characteristics of China's way towards East Asia integration process as follows. First, the international background in the 1990s is unique and different from the previous time. China envisioned during this post cold war period at least until 2030 that there is almost a possibility of neither a global sized war nor an all out military attack on China to happen. Although China upholds a multi-polar world, China does not want to challenge the United States as a dominant superpower and recognizes the fact that the United States can maintain its status over a long term (Jiang, Zemin, 2006, pp196-8). Some argues that China can take a free ride offered by the US to push Chinese modernization without bearing much more costs in dealing with international affairs. China's regionalism policy has thus been considered to take up in a new international situation, in which no direct confrontation between China and the current superpower the US has been regarded as a good opportunity for China to utilize as a pretty much rare time in its economic development even in its history. Second, China has chosen a gradual approach to enter into regional cooperation from open regionalism to a free trade area policy based upon multilateralism. This does not mean that China will go a narrow way to deal with international community or taking a protectionism and but China will try to pursue WTO multilateralism. At the same time China will be very cautious of protectionist regionalism, which will be harm to Chinese interests. Also a very sensitive concept is about Chinese core interest, which has been closely connected with its sovereignty particularly about Taiwan and other territorial issues. Therefore, the gradual approach has been beneficial for China to transiting from struggle policy to engaging into and contributing to integration process in East Asia without damaging Chinese interests. Third, it is a very unique way from governmental dominated to marketized. China's regionalism has been a governmental dominated way without strictly following the track from the East Asian regionalization referred as a market oriented integration in its earlier period to an institutional integration. One can see this happened early 1990s with China's accession to APEC through China's FTA within and outside East Asia until the present time or even in the future. Meanwhile, Chinese government has also encouraged state-owned companies to go beyond border and invest in Southeast Asia and other regions. This could be explained as market-oriented policy for Chinese firms to go out for markets in a regional-integrating process. Fourth, the Chinese regionalism's implications have carried some political security. Stabilizing periphery and seeking a neighborly relationship with Chinese bordering countries have been a motif to shift its passive posture. The political consideration has been higher and my opinion is that China is willing to pay

some price for the stability because the opportunity cost cannot surpass the actual political gains.

China's way of gradualism can be best explained with Deng Xiaoping's remark "groping for stones to cross the river". The approach was not only been used in the 1980s, the first stage China drove the momentum of economic reform, but the second since the early 1990s. China has been using the approach to expand the reform from internal to outside, suggesting bilateral FTA with neighboring countries and even those across the Pacific Ocean. The approach can be very pragmatic to secure and keep China's economic development process uninterrupted. China's FTA policy, therefore, has been quite flexible without strict preconditions to ASEAN but benefits, particularly to sub-regional ASEAN members. It is probably because of this that it seems China's FTA strategy is full of ambiguities. China needs to design and give a clear policy to clear away any suspicion, particularly at this time the East Asian integration has been drawn to a dilemma whether East Asia Summit or ASEAN Plus Three (APT) is more effective for the regional integration process.

In summary, it is logical that China stands in the side of ASEAN Plus Three. Suffice it to say that without China's backup to APT initiative and China's proposal about ASEAN-China FTA there has been no today's momentum of East Asia integration process. China's positive posture and action has actually stimulated competitive impulses in East Asia, not only improving China's image but probably a new role China may play in East Asia integration process as well.

China must have not had any sense of the tension its own FTA proposal brought out should Japan have not taken action so quickly to change its old trade and regionalist policy to counteract China's influence in ASEAN. Immediately after China's proposal in 2000 and the completion of the joint feasibility study for an FTA by China and ASEAN, Japanese Prime Minister Koizumi Junichiro made a trip to ASEAN countries in January 2002, signed the Economic Partnership Agreement with Singapore and proposed an Initiative for Japan-ASEAN Comprehensive Economic Partnership (JACEP) probably including FTA scheme. JACEP was signed in October 2003, suggesting the planning CEP involve all ASEAN members and cover a broad range of sectors, be consistent with rules and WTO disciplines and emphasize technical cooperation and capacity building and etc. The negotiation started in April 2005 but how to treat new members in the sub-region such as Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) has been unclear. It is obviously difficult for Japan to solve the problems such as agricultural products and tariff reductions. More than that, Japan announced a new plan in April 2006 to form an East Asia FTA, an economic unity among the East Asian and Oceanian countries, including the 10 members of the Association of Southeast Asian Nations, China, South Korea, Japan, Australia, India, New Zealand.¹⁴ It seems this is a pretty confusing initiative because Japan-ASEAN FTA has still been in the process of negotiation. This new Mega-Trade group proposal was submitted to and discussed at APT Ministerial

Talks on August 24th 2006 but was not comprehensively accepted. APT Economic Ministers took note of the Japan's proposal and requested Japan to discuss this proposal further with the ASEAN Secretariat.¹⁵ On a bilateral level, Japan has concluded Economic Partnership Agreements (EPAs), a Japanese FTA form, with Singapore, Mexico, the Philippines, and kept FTA negotiations going on with Thailand, Malaysia and Indonesia. Actually, Japan has now adopted a multi-track strategy in regard to negotiating Economic Partnership Agreements with individual ASEAN countries, a group ASEAN and selected countries across the Pacific Ocean, all in a sense plausibly to complement the WTO. With those in mind, Japan has actually a feeling of fierce competition against China and tries to play a leading role in the integration process. This feeling state emerged at the end of the year 2001 and

has been mounted up to an unimaginable level, which raises a common concern over the approach “hub and spoke” it tries to utilize for its political purpose although we are still unclear about the real concept of normal nation Japan upholds. It seems that Japan did not want to see the process of East Asia integration proceed under the framework of East Asia Community program notwithstanding that document has also been inked by Japan. The modality ASEAN Plus Three has been expanded to ASEAN Plus Three and Three shown on 2005 East Asia Summit does not demonstrate a victory for Japan but unfortunately a frustration for East Asia integration process.

III. Prospects and Problems

This section is to examine the prospects and some barriers to East Asia integration. What will East Asia and even the whole Asia Pacific go from this situation?

To answer those questions, we have to understand at first what East Asia is like or the definition of East Asia is. Despite numerous discussions on it, no clear definition of East Asia has been widely accepted. Recent books and media reports have referred China as a Northeast Asian country, seemingly China has been no longer a country that it used to be understood located in East Asia. But no matter what it might be, East Asia should be a geographic indication denoting a special region including Japan, Korean Peninsula, Mongolia, China and Southeast Asian countries. The APT Vision Group kept their focus on this region with those countries in the region and considered the formation of an East Asia FTA within that circle. This is a natural, economic and even cultural concept that has been in common sense. Meanwhile, it seems that East Asia is a broad concept that includes a number of notions such as geographical East Asia, historical East Asia, Economic East Asia, political and security East Asia and others but ASEAN and other Asian entities have no accepted definition of East Asia that has expanded to Oceanian region in any specific documents ASEAN have issued. ASEAN, however, hosted East Asia Summit, which expanded the membership to include India, Australia and New Zealand and that would have some impacts on integration process in East Asia from now on. What will East Asia go from here? Some options can be explained.

First, the European way cannot be copied for Asia. The East Asian new regionalism is a simmering or a nascent one but different from the process the European Union has practiced. One example is Chiang Mai Initiative (CMI), from which a financial scheme was proposed, an Asian case through issue to design a possible regionalism. This is clearly differed from the process of European integration—first from a free trade agreement, then to a custom union and further to a common market. East Asia still has the issue of various ideologies but in Europe integration process no reference has been to ideology after the Treaty of Rome. But one thing necessary to remember from the European integration is that geography and economies produced political economy forces driving deeper and wider European integration.

Second, it is the external factor, particularly the US and the possibility of a hub dominated by the US. The FTA policy is part of the U.S. strategy of “competitive liberalization”, in which global, regional and bilateral trade negotiations complementing and reinforcing each other.¹⁷ The US has its interests in the East Asia as well as in other regions and thus it has been watching special objects as partners for FTA candidates to realize its global strategy. Thus with the FTA or other bilateral method the US can put pressure on non-members of individual trade agreements either to join the group itself or to conclude broader agreements. The US issued a principle document the *Enterprise for ASEAN Initiative (EAI)* to enhance close U.S. ties with ASEAN, particularly to spur bilateral free trade agreements (FTAs) between the United States and ASEAN countries.¹⁸ The roadmap is ASEAN member countries should be committed to economic reforms and openness and then there is some possibility to establish bilateral free trade agreements (FTAs) with the United States. It is not an old-fashioned regionalism but the United States wanted “to create a network of bilateral

FTAs” and use such a network to become a hub in Asia. The US uses the FTA as an instrument of its foreign policy to promote global free trade and this “can have political implications”.¹⁹ The US influence has had some effects on East Asian Summit held in Malaysia on December 14, 2005 and the EAS became an extensive forum geographically expanding beyond East Asia. It was said that to prevent China from being a leader the US from behind the scenes gave a strong support to include India, Australia and New Zealand. According to a Singaporean scholar, it is however some ASEAN members like Malaysia, Vietnam that did not agree to let the US to join in EAS.²⁰ China did not want to be isolated and had to accept the reality but gloomy. China, therefore, did not make any exposition that the US should be fended off (Wen, Jiabao, 2005). Therefore, a big power like the US outside the region may have the opportunity to be a leader.

Third, the prospect can be one through a new APEC way. APEC, established in 1989, has a vision to build a community and is a bridge connecting two coasts of the Pacific Ocean and providing a platform for its member economies to exchange for the vision through cooperation and integration. The process has been slowed down and even sidelined with a new trend by a new wave and rise of bilateral FTAs and East Asia’s 10+3 and 10+1 since the failure of EVSL initiative (Early Voluntary Sectoral Liberalization). Some of APEC characteristics include consensus-building and non-binding principles. Actually APEC approach had been practiced in ASEAN, which had carried out the policies such as concerted consensus, flexibility for sub-regional integration. Historically, ASEAN had a Kuching Consensus as a united position to respond to the rise of APEC, rejecting any possible proposal that APEC would be an economic group. Meanwhile, ASEAN made its efforts to build its own free trade area, and the AFTA was officially implemented in 2002, from which ASEAN itself has abandoned its non-binding principle but tried to form itself a regional group going towards legalist integration within a given region of Asia Pacific. The APEC approach non-binding principle has been debated within the academic circle for years. We understand that APEC approach had played some active role but its disadvantage is clear. Firstly, conflict resolution depends on WTO. Whether there is a perfect or imperfect conflict resolution regime is a basic standard to weigh up some efficiency of an organization. APEC, however, lacks such a sufficient regime. For instance, APEC had to seek WTO for review after internal conflict over the issue EVSL. Secondly, APEC’s open regionalism is somewhat ambiguous but what is clear is its liberalized level transcended WTO and is called WTO plus because some of its measures are more liberal and beyond a basic principle of reciprocity. APEC is unable to open its door and supply free public goods to the world without reciprocity because APEC bears almost no resources to do so. The above dysfunctioning made APEC to be soft. It is clear that there might be some free ride phenomena inside APEC. Member economies could be easy to take any opportunist method to cope with any cooperative agenda or measure for the purpose of their own national interests. A question was made that if ASEAN itself has been allowed legally and institutionally, why should APEC keep on the old ASEAN track? APEC should go towards a direction of legalist cooperation. A new proposal was submitted in 2004 to set up an FTAAP (Free Trade Area of Asia Pacific),²¹ and repeated to 2006 AELM but required to submit a report to this year’s AELM in 2006 APEC Leaders’ Declaration, which is surely a breakthrough not only in reforming a non-binding institution of APEC but a new and bold suggestion as well. The most initiative and creative is that FTAAP not only possibly addresses the issue of insufficient capability other ways or weak methods could perform but also serves as a new way out for weakening APEC so that the grouping can go beyond unilateral liberalization. East Asia cannot live alone but should live with APEC members in the other side of the Pacific and will have to continue its trade, investment and financial transactions with outside. APEC helps East Asia to keep its “open regionalism”.²² An already solution “Pathfinder”²³ could be used to realize FTAAP without designing new way. It is normal to have different ideas but one or two years will need for review but my judgment is that political willingness is crucial to establish FTAAP. Although there are divergent points, non-binding approach is a basic reason for APEC unable to catch up with European region in the process of integration.

Since 1998 failure because of EVSL, bilateral FTAs and sub-regional integration activities have been increasingly an obstacle to realize Bogor goal. APEC is now on the way critical to its goal.

Fourth, East Asian regional integration has been this time developing into a very complicated status quo, which it has no longer been an economic matter but seemingly a political one. The suggestion to expand APT membership at the very inception for EAS to a region beyond a geographical common sense can justify the procedure as a new trial to set up a platform besetting round China. Some Chinese scholar even regarded the expansion as an evildoing conducted by Japan on the front platform and actually propped up by the United States hiding behind. This is absolutely political oriented.

Notwithstanding the potential gains from a larger FTA, there are still some concerns. First, East Asian geopolitical environment is unstable. Although the regional relations have been improved with the end of the Cold War, we have seen there are ideological divisions, historical legacy, which let to some Asian political dynamics, particularly between South Korea and Japan, China and Japan. The US and Japan tried to use realism approach as in international politics to address the issues of China's rise. Although liberalism approach has been proposed many times, it is still hard to be utilized to persuade decision makers. Second, government organizations in East Asia that lack domestic regulatory capacity have been poorly equipped to participate in some regional initiatives such as bilateral FTAs and multilateral cooperation. A wide phenomenon is that divergent level in economic development and other non-political factors have been explored and on and on, but politically, different government organizational forms and their capacities have not been touched so much. Actually, government capacity and different decision making processes influence cooperation. A problem is whether new regionalism as a type of regional mechanism can be spurred prior to adjusting and harmonize those government organizations (Hamilton-Har, Natasha, 2003). Third, China is rising and how can China be smoothly accepted in the process and even play some role for integration?

IV. Conclusion

Most of East Asian FTAs and RTAs have emerged since 1997 and there are now almost 100 FTAs including those in effect or in negotiation. The trend is not interrupted with recent case Korea-US FTA. Asian regionalism is currently led by a group composed by several small sized countries. But these small countries want to pursue a tie with a Northeast Asian large country or both. This signals some chances for big countries to play some role. In East Asia, there are geese-flying pattern, newly emerging China pattern and APEC way as basic model for hub candidates of regionalism. Besides, we have the external players particularly the US and its possible role to play in the process of new regionalism in East Asia. The geese-flying pattern has been in wane and ASEAN way or APEC way may still have some sense but APEC way should be reformed with the method "Pathfinder" for the purpose to the establishment of FTA-Asia Pacific to a harmonious community.

China's position to East Asia integration has been changing since the 1980s with the background of globalization. One consequence of economic globalization is that some countries including the US and APEC member economies pursue regionalist policy to protect their national interests mainly because of an increase in friction over trade issues. Since the 1990s, China has been a transitional economy, during which China gradually changed its only multilateral policy and tried FTA and other type regionalist policies. East Asia integration process is usually a political one because there is no straight way to a regional integration. It seems that there is no way for China to reverse its pursuit of economic and political cooperation in East Asia. Perhaps WTO needs to extend its influence and become more efficient in negotiations. Many people are pessimistic about the role of the WTO. China seems very optimistic but regional and bilateral agreements are still its targets to focus. The basic policy is to support ASEAN to play a leading role but the ASEAN + 3 + 3

is unnecessarily a best way for China to seek. In comparison, FTAAP seems an alternative approach despite the fact the suggestion has been in debate.

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Notes

¹ See "Final Report of the East Asia Study Group"(2002) and **ASEAN Secretariat: PRESS STATEMENT BY THE CHAIRMAN OF THE 8TH ASEAN SUMMIT, THE 6TH ASEAN + 3 SUMMIT AND THE ASEAN-CHINA SUMMIT**, Phnom Penh, Cambodia, 4 November, 2002, <http://www.aseansec.org/13188.htm>.

² Figures for 1986 and 1997 cover those of China, NIEs, Indonesia, Malaysia, the Philippines and Thailand and the figures for 2005 cover those of China, Chinese Taipei, Hong Kong, China, Republic of Korea and Singapore.

³ Shigehisa Kasahara, *The Flying Geese Paradigm: A Critical Study Of Its Application To East Asian Regional Development*, Discussion Papers, No. 169, April 2004, United Nations Conference On Trade and Development. (UNCTAD/OSG/DP/2004/3).

⁴ Ibid, Shigehisa Kasahara.

⁵ In terms of Katzenstein's view that Japanese government was directly involved in the flow of trade, investment and aid. See Peter J. Katzenstein: "Regionalism and Asia", *New Political Economy*, Vol. 5, No. 3, 2000, P.357.

⁶ Hu Junwen, An Analysis on the nature of "geese-flying theory" and its limitation, in *Contemporary Economy in Japan*, No 2, Vol.10, 2000, P. 4.

⁷ Yeo Lay Hwee, *Realism and Reactive Regionalism: Where is East Asian Regionalism Heading?* In UNISCI DISCUSSION PAPERS, Mayo de 2005.

⁸ Joseph S. Nye, Jr., *The Rise of China's Soft Power*, in *Wall Street Journal*, December 29, 2005.

⁹ China's top statistician Li Deshui: China's revised 2004 GDP figure, in *People's Daily*, Tuesday, December 20, 2005. That announcement shows that China's gross domestic product for the year of 2004 is estimated at RMB15.9878 trillion (nearly \$2 trillion), up RMB2.3 trillion (\$1.65 trillion). That translates into an adjusted increase of 16.8%, making China the sixth-largest economy in the world in 2004.

¹⁰ <http://devdata.worldbank.org/external/CPProfile.asp?PTYPE=CP&CCODE=CHN>. Also refer to <http://gcs.mofcom.gov.cn/aarticle/Nocategory/200501/20050100331192.html>, and http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20020331_15372.htm.

¹¹ The undergoing transition has been first from a backward agricultural society to an industrial society, second from a socialist planning economy to a market economy and third from a non-WTO country to a WTO country. What is the impressive is that the transition did not cause some grave consequences like the former Soviet Union, which was desintegrated.

¹² In 2004, China assimilated the contracted foreign investment reached USD153.479b, a growth of 33.38% as compared with that of the same period last year; and the actual use of foreign investment reached USD60.630b. Origin: the Foreign Investment Department of the Ministry of Commerce, PRC.

¹³ Shigehisa Kasahara, *The Flying Geese Paradigm: A Critical Study Of Its Application To East Asian Regional Development*, Discussion Papers, No.169, April 2004, UN Conference On Trade and Development.

¹⁴ Please see the report: "Government to Push Asian EPA Talks", in *The Yomiuri Shimbun*, April 5th, 2006 (www.yomiuri.co.jp/dy/business/2006-4-5TDY08008.htm).

¹⁵ Please see "Joint Media Statement of the Ninth Consultations between the ASEAN Economic Ministers and the Ministers of People's Republic of China, Japan and Republic of Korea (AEM Plus Three)", Kuala Lumpur, 24 August 2006, (<http://www.aseansec.org/18711.htm>).

¹⁶ Richard E. Baldwin: **Sequencing and Depth of Regional Economic Integration: Lessons for the Americas from Europe**, a presented to a regionalism conference held in *Graduate Institute of International Studies*, September 2005.

¹⁷ Hadi Soesastro, Region sees waning economic interdependence, *The Jakarta Post*, December 31, 2003.

¹⁸ Office of International Information Programs, U.S. Department of State: Fact Sheet: Enterprise for ASEAN Initiative (EAI)(October 26, 2002 fact sheet, (Web site: <http://usinfo.state.gov>).

¹⁹ Hadi Soesastro, Region sees waning economic interdependence, *The Jakarta Post*, December 31, 2003.

²⁰ Eric Leo made the remark at "Dialogue Program" with an interview by a reporter of Chinese Central Television Station in Beijing on November 30, 2005.

²¹ Robert Scollay, Preliminary Assessment of the Proposal for a Free Trade Area of the Asia-Pacific (FTAAP), An Issues Paper for the APEC Business Advisory Council (ABAC), 2004.

²² Ippei Yamazawa, Asia-Pacific Region Strengthens Cooperation, *Korea Times*, 11-21-2005.

²³ The Shanghai Declaration by the 2001 APEC Leaders Meeting in Shanghai.

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Improving The Bridge Architecture: Towards A Harmonious Asia- Pacific Community

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DRAFT OPINIONS EXPRESSED HERE ARE SOLELY THOSE OF THE AUTHOR

Agenda

- Development of regionalism in Asia Pacific.
- East Asia FTA Challenges APEC.
- **FTAAP—— A Bridge Architecture?**
- FTAAP Triggers Further APEC Reform.
- **Policy Suggestions**
- Conclusion

Regionalism in Asia Pacific

- FTAs/EPAs: spaghetti bowl effect
- Evaluating the big power factor in the process of East Asia integration

East Asia Challenges APEC

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- EAST ASIA FTA and APEC
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FTAAP Triggers APEC Reform

- A new trigger for APEC reform
- Internal management reform
- Reforming the theory 'Open Regionalism' but keeping APEC spirit?

Policy Suggestions

- Four scenarios
- APEC reform suggestions.

Conclusion

- Most of East Asian FTAs and RTAs have been emerged since 1997 and have impacts on APEC.
- FTAAP is a new scenario for APEC out of current dilemma.
- APEC should be reformed into an efficient and effective institution to bridge the Pacific as a harmonious community.

End

Thank you!

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