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## East Asian integration: Towards an East Asian economic community

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**ADB Working Paper Series**

**EAST ASIAN INTEGRATION  
TOWARDS AN EAST ASIAN  
ECONOMIC COMMUNITY**

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**Abstract**

East Asia is a region of great global significance, currently accounting for around 30% of the global economy by most measures, e.g. production, trade, investment and finance. It has also become increasingly integrated in various ways. Integration at the micro-level has steadily progressed since the 1960s, as indicated by rising intraregional trade. Moreover, East Asia's economic regionalisation has become more *functionally integrative*, this broadly relating to the spread of transnational business and other technical systems where production, trade, and investment have become a function of each other within those systems. For example, as later explored, much of East Asia's regionalised trade concerns cross-border movement of parts and components within the international production networks of multinational enterprises. Since the 1990s, East Asian states have in addition looked to strengthen regional cooperation and integration intergovernmentally at the macro-level, i.e. involving whole country economies. This has been driven by the need to manage their growing regional economic interdependencies and address future challenges that confront them all, such as globalisation and climate change. As we will discuss, this has been part of regional economic community-building efforts in East Asia, both across the whole region and within it at various subregional levels. We examine the key dimensions of East Asia's integration, how they have developed over time, and what likely paths lie ahead in the endeavour to strengthen regional economic community-building.

**JEL Classification:**

F13, F15, F18, F36, F42, F53, F55, F64, N75, P18, Q27, Q37, Q42, R1, R11, R12

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## 1. INTRODUCTION

East Asia is a region of great global significance, currently accounting for around 30 percent of the global economy by most measures, e.g. production, trade, investment and finance. It is also a regional economy that has become increasingly integrated in various ways. Integration at the micro-level has steadily progressed since the 1960s, as indicated by rising intra-regional trade. Moreover, East Asia's economic regionalisation has become more *functionally integrative*, this broadly relating to the spread of transnational business and other technical systems where production, trade and investment have become a function of each other within those systems. For example, as later explored, much of East Asia's regionalised trade concerns cross-border movement of parts and components within the international production networks of multinational enterprises. Since the 1990s, East Asian states have in addition looked to strengthen regional co-operation and integration inter-governmentally at the macro-level, i.e. involving whole country economies. This has been driven by the need to manage their growing regional economic interdependencies and address future challenges that confront them all, such as globalisation and climate change. As we will discuss, this has been part of regional economic community-building efforts in East Asia, both across the whole region and within it at various sub-regional levels. This paper examines the key dimensions of East Asia's integration and how they have developed over time, and what future likely paths lie ahead in the endeavour to strengthen regional economic community-building.

## 2. UNDERSTANDINGS OF REGIONAL INTEGRATION AND COMMUNITY

Regional integration has been primarily studied in economic terms and from many different theoretical and conceptual perspectives. Early studies and understandings on the subject derived largely from scholars of European integration that date back from the 1950s (Balassa 1961, Gehrels 1956, Haas 1958, Lipsey 1970, Meade 1955, Michaely 1965, Viner 1950). Their models of regional integration could be said to have three key features:

- *Economistic, and primarily trade-focused*: at the time they were first conceived in the 1950s and 1960s, most international economic interactions among nations concerned conventional import/export trade in goods. European integration theories thus adopted what seems today a somewhat narrow and primarily economistic approach, being focused on trade, although they also incorporated political and institutional elements (see below) into their models.
- *Progressive linear integration*: this began with the simplest form of regional integration, a free trade agreement (FTA), where participating nations removed conventional trade barriers on goods and services among them. Building on this, the next integrational stage – a customs union – established a common external tariff on third country imports. Thereafter, a common market removed not only trade barriers on goods and services but also on cross-border flows of capital and labour. The fourth stage – economic and monetary union – created a common currency for the common or single market. Economic and political union thereafter essentially created a new state.

- *Institutional, treaty-driven*: the above progressive stages of integration are both in European theory and practice underpinned by international treaties (e.g. Rome, Maastricht, Lisbon) that embed wide-ranging new economic laws into domestic legislation, which are also governed by regional institutions (e.g. European Commission, European Parliament, European Central Bank) whose powers become stronger as integration deepens. European integration theories have proposed various models of regional institutional governance (functionalism, federalism, inter-governmentalism) that may be applied to manage integrational processes.

The relative success of European integration in the latter half of the 20<sup>th</sup> century, culminating in the introduction of the euro in 1999, provided inspiration to other regional groups around the world who looked to the European Union and its antecedent forms as a model. However, in the 1990s scholars began to develop ideas for what later became known as ‘new regionalism theory’, or NRT. Their main argument was regionalism was a highly *endogenous* phenomena, determined by a wide set of economic, political, socio-cultural, philosophical and historic path dependent factors that are local region specific. Furthermore, the post-Cold War world was undergoing a set of significant structural transformations, epitomised by economic globalisation, revolutionary advances in information and communications technology, and the formation of new complex transnational business systems. Thus, NRT scholars posited that a more multi-disciplinary and holistic understanding of regional integration was required, where Euro-centric technical economic models of integration had to share space with works from political science, international relations, sociology, geography, business studies, urban studies and other fields (Boas *et al* 2005, Fawcett and Hurrell 1995, Gamble and Payne 1996, Hameiri 2013, Hettne 2005, Hettne and Söderbaum 2000, Larner and Walters 2002, MacLeod 2001, Mansfield and Milner 1999, Poon 2001, Storper 1997).

East Asia’s regional integration has drawn upon elements of both ‘classic’ Euro-centric models and NRT thinking on regionalism. As we later discuss, there has been a proliferation of FTA activity across the region, and the wider Asia-Pacific ‘trans-region’ to which East Asia belongs. However, the vast majority of this activity to date has been *bilateral* rather than regional in nature. There is no active customs union in East Asia, nor plans to establish one. The region’s oldest active regional organisation – the Association of Southeast Asian Nations (ASEAN) formed in 1967 – has implemented an ASEAN Economic Community (AEC) that exhibits partial elements of a common market arrangement, and its institutional framework for promoting regional co-operation and integration is the most developed in East Asia. Nevertheless, it possesses no EU-style institutions with supranational governance powers and works firmly on an inter-governmental basis concerning regional dialogue, negotiation and co-ordination of activities. So long as ASEAN’s cardinal principle of non-interference in the national sovereignty of its member-states persists, inter-governmentalism will remain its *modus operandi*. It should be noted that ASEAN is not alone in this respect. Most other regional organisations are, like ASEAN, developing country based, and lack the institutional, technocratic and financial capacities to emulate the European Union – which itself should be considered unique in that it is a large, developed country-based grouping.

It could be argued that new regionalism theory more effectively explains East Asian regional integration in general by emphasising the importance of endogenous micro-level regionalism, different economic geographies of integration (e.g. sub-regional zones, inter-city networks, and regional production networks), different socio-cultural and socio-political influences on regional co-operation method

(e.g. the above outlined ‘ASEAN way’), and the relevance of non-trade focused regional agendas. Regarding this latter point, it has been, for example, finance rather than trade where truly regional co-operation has formed among the East Asian collective of states through the ASEAN Plus Three (APT) framework. In the Greater Mekong Subregion, the prime objective has been to strengthen cross-border infrastructural linkages to create a series of ‘economic corridors’ among its constituent nations. Like their southern counterparts, the Northeast Asian states of the People’s Republic of China (PRC), Japan, and the Republic of Korea have eschewed the institutional, treaty-driven approach towards regional integration yet like ASEAN have invested in expanding frameworks of inter-governmental co-operation both between themselves in a Northeast Asia Trilateral Co-operation (NATC) framework first formalised in the late 1990s, and with ASEAN in primarily APT diplomacy as well as the top-down, leader-driven East Asia Summit (EAS) process.

The spread of regionalism around the world after the receding of Cold War divisions among nations together with the growing influence of new regionalism theory led to new debates and definitions on the subject. Regionalism is a term often used synonymously with regional integration but it may be more broadly defined as the “structures, processes and arrangements that are working towards greater coherence within a specific international region in terms of economic, political, security, socio-cultural and other kinds of linkages” (Dent 2016, pg. 8). In this work, I theorise that this *coherence* can take three forms – associative, integrational and organisational – these being closely inter-related, and that regional integration involves higher levels of cohering a regional entity than lower level regional co-operation activities. Integration involves a fusing or joining together of entities to create new common entities, whereas co-operation involves entities simply interacting with each other to achieve common goals. Regional community-building can start with ‘co-operation’ but communities become more cohesive when ‘integration’ occurs. Table 1 outlines the key features of each coherence forms in terms of their conceptual basis (and underlying attributes) principal unifiers, main processes, and prime manifest examples (or empirical domain). Figure 1 meanwhile illustrates the shared or overlapping connections between the three forms, and that *regional community-building* is a shared outcome of all three.

Ideas on *regional community-building* have been long discussed by new regionalism theorists (Hurrell 1995, Hettne 2005), and may be broadly conceived as “fostering closer co-operative relations among a region’s constituent states, peoples, organisations and other agencies with the overarching aim of strengthening regional economic, political and social cohesion” (Dent 2016, pg. 13). Here I argue that community-building and cohesion are co-determinate terms, where “community members become increasingly beholden to each other: states become part of a regional whole, society or neighbourhood” (*ibid*). Regional communities tend to initially form from the identification of common regional interests around which courses of regional collective action follow. These interests can arise from cross-border linkages and interdependencies (e.g. trade, production, finance, infrastructures), shared transborder resources (e.g. large international rivers such as the Mekong) and types of connection, and the need to address common security threats, whether of a politico-military, economic, environmental, energy or other relevant matter. Regional communities of states come together to in some way mutually govern these shared interests, connections and threats. This can require investment in trust-building or confidence-building measures where persistent conflicts exist among neighbouring community members, in order to foster the co-operative and harmonious relations required to make the regional community function effectively. As most observers of the region acknowledge, this is especially relevant to East Asia where historic animosities still impact on its inter-state relations (e.g. in Japan-PRC diplomacy), and



other conflicts (e.g. territorial disputes) have recently intensified. Regional communities also require its members to invest in regional ‘public goods’ to help the community function, cohere and prosper. This often comprises the establishment of co-operation mechanisms, decision-making processes, joint projects and initiatives, these needing some forms of governance to ensure these work effectively. Community development also depends on leadership, the modalities of which can differ.

**Table 1: Regionalism as Coherence: Main Framework**

	REGIONALISM		
	Associative Coherence	Integrational Coherence	Organisational Coherence
<b>Conceptual Basis (and Underlying Attributes)</b>	Relational (people, actor group and society-centred, informal [network] structures)	Technical (policy instrument-based, operationalised practice-oriented)	Systemic (governance-based, formalised structures)
<b>Principal Unifiers</b>	Social, Cultural	Technological, Technocratic	Political, Corporate
<b>Main Processes</b>	Socialisation through economic, political, cultural and other forms of exchange Identification of common or inter-linked interests at the regional-level Regional identity and community formation Issue-determined forms of association, and association through issue-linkage	Regionalisation of business and other civil sector technical activities Transborder infrastructure link-ups ‘Passive integration’ – commercial policy liberalisation and deregulation ‘Proactive integration’ – policy co-operation, co-ordination, harmonisation (including on infrastructure)	Formation of regional organisations, frameworks, agreements, formalised network groups and networked systems
<b>Prime Manifest Examples (or empirical domain)</b>	Region-wide social movements and networks of social relations that are common interest or issue based (e.g. social justice, commercial affairs) Shared region-wide experiences and phenomena, (e.g. popular culture, ‘haze’ pollution) Transnational business communities Inter-governmental policy networks/communities Social media networked groups	National economies become more integrated through the creation of transborder and regional economic spaces. Technical development of IPNs/ RPNs, creation of region-wide business mechanisms and processes Deepening intra-regional economic relations that are becoming increasingly functionally integrative ‘Natural’ growth polygons, e.g. SCSGT Commercial liberalisation projects (e.g. AFTA, TPP), economic co-operation measures (e.g. APEC’s ecotech programmes), financial policy co-operation/co-ordination (e.g. CMIM, ABIM, AIIB), regional community-building programmes (e.g. AEC)	Governance of regionalised business systems, e.g. of IPNs/RPNs Regionalised governance of NGOs ‘Governed’ growth polygons, e.g. GMS, IMSGT, BIMP-EAGA, GTI Regional organisations, e.g. ASEAN, APEC, ADB, AMRO, SCO Regional frameworks, e.g. APT, NATC, EAS Regional network groups, e.g. ANMC21, EANET, LoCARNet, EALCGP, NEAC, NEAT Clean Air Asia initiative

**Figure 1: Regionalism as Coherence: Overlaps between Forms**



Notwithstanding the centripetal effects of these conflicts and tensions on East Asia's diplomatic relations, ever stronger centrifugal effects of economic and other interdependencies have compelled them into regional community-building. This was first formalised and articulated through the APT process in the early 2000s, when the then newly formed East Asia Vision Group published its *Towards an East Asian Community* report commissioned by APT member-states (EAVG 2001). Coming in the wake of the 1997/98 financial crisis and its aftermath, the EAVG report noted that "the economic field, including trade, investment and finance, was expected to serve as the catalyst of this community-building process" (pg. 2) but that this would be augmented by efforts in other fields such as security, environmental protection, good governance, social policies, development co-operation and regional identity-formation. Its key recommendations covered six areas of regional co-operation: economic; financial; political and security; environmental; social and cultural; and institutional. Various specific initiatives and governing frameworks were proposed under these themes. Around a decade later, and drawing on inspiration from the ASEAN Economic Community programme, a second EAVG II report published in 2012 proposed an AEC-styled 'East Asian Economic Community' to be established by 2020, founded on four main elements, namely:

- Single-market and production base
- Financial stability, food and energy security
- Equitable and sustainable development
- Constructive contribution to the global economy

Among the most important of the 59 specific recommendations made in the EAVG II's *Realising an East Asian Economic Community* report were negotiating a Regional Comprehensive Economic Partnership (RCEP) trade-centred agreement, strengthening existing regional financial governance mechanisms such as the Chiang Mai Initiative Multilateralised (CMIM), and the formation of an East Asian Monetary Fund and East Asia Infrastructural Investment Fund. While many of the ideas in the report have been acted upon – such as RCEP – the core proposal of creating an East Asian Economic Community (EAEC) in its entirety has not yet been formally adopted by APT countries. However, this is not necessarily problematic. Regional community-building involves work on multiple fronts and processes that inevitably run at different speeds. The principal inter-governmental mechanism for overseeing both the EAVG and EAEC is ASEAN Plus Three, which is not a regional organisation as such, rather a regional diplomacy framework anchored institutionally in ASEAN. Despite its institutional and governance limitations, APT has developed substantial structures of ministerial-level regional co-operation in around 20 policy domains, and in finance in particular has helped establish new forms of regional integration. As we later discuss, RCEP talks commenced in 2013 and additionally include India, Australia and New Zealand. Further regional community-building processes are advancing in other areas, although significant challenges and constraints persist. This paper will consider whether an AEC-style economic community for all East Asia – as envisioned in the EAVG II (2012) report is realisable in the foreseeable future.

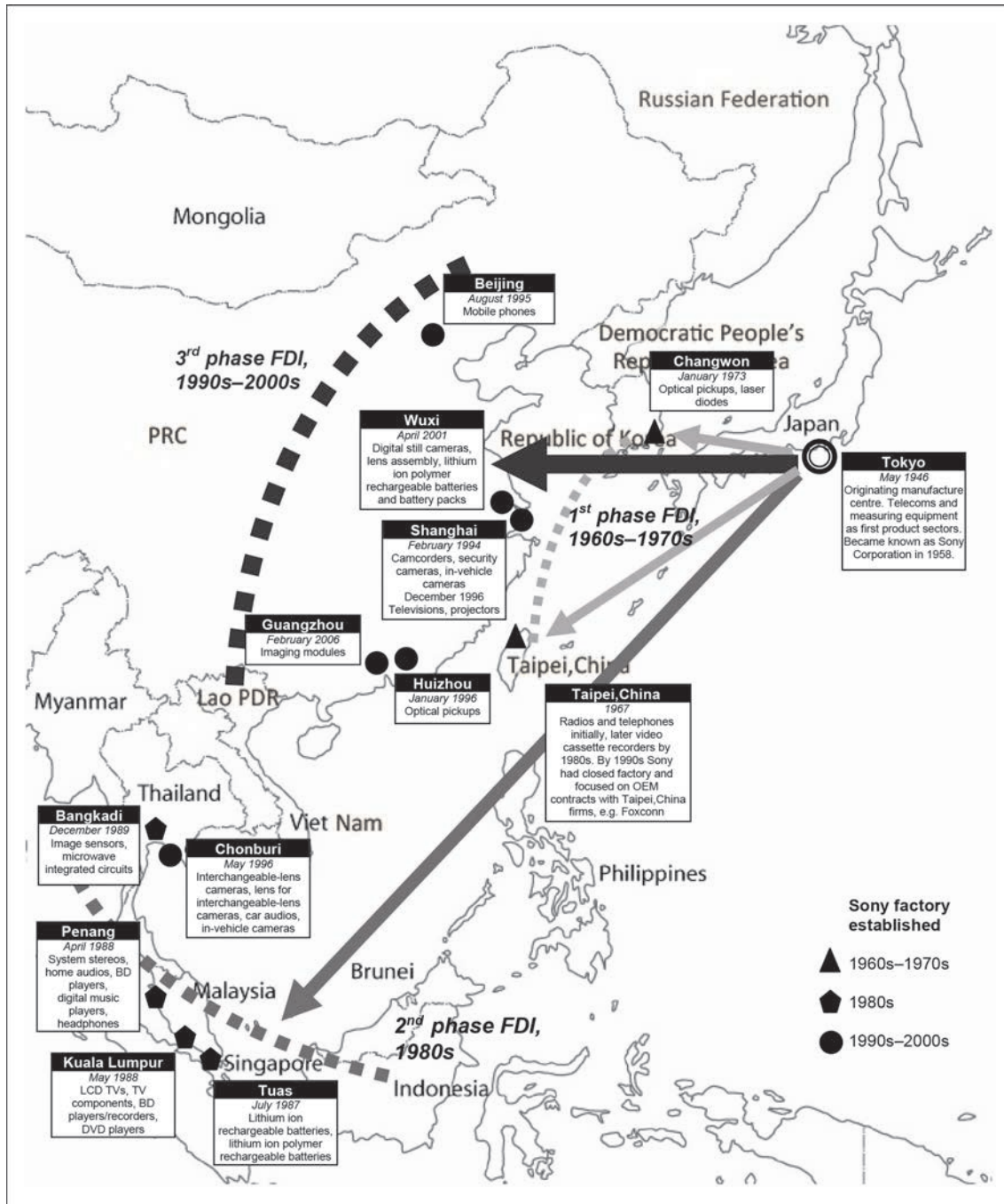
### 3. ECONOMIC GEOGRAPHY PERSPECTIVES: HUBS, NETWORKS AND CONNECTIVITY

East Asia has experienced many cycles of regional economic integration over time. For most of recorded human history, the PRC has been one of the world's largest trading hubs, and surrounded by other merchant powers with which it developed regional and inter-regional trade networks. These were far more developed than anything found in Europe up until the time when European merchant traders began to explore beyond their own regional borders. As Chanda (2006) comments, "the promotion of trade has been a leitmotif in the region. The desire to live better and earn profits has driven Asian traders to risk their lives crossing oceans and in the process created a common economic space from the very beginning of recorded history. Long-distance trading created a cosmopolitanism that laid the foundation for commercial prosperity" (pg. 61). Pan-Asian trading systems emerged in the first millennium based on a regional division of labour of sorts, where industry specialisation was evident (Fairbank 1968). Regionalised commerce has again become a defining feature of the East Asia economy, where transnational business networks play a vital role in economically binding the region together.

The so called 'Factory Asia' phenomenon refers to the deeper functional integration of trade, production, investment and technology linkages that have been forged over recent decades by multinational enterprises (MNEs) and other forms of transnational business activity. Japan was a key initial driver of this development from the 1960s onwards, when its MNEs began to internationalise their operations after the Second World War, primarily in East Asia (Hatch 2010). Figure 2 illustrates how for example the Japanese consumer electronics manufacturer Sony gradually expanded their production overseas, their 'first phase' foreign direct investment (FDI) targeting the newly industrialising economies of the Republic of Korea and Taipei, China in the 1960s and 1970s, then moving to Southeast Asia in the 'second phase' during the 1980s, and to the PRC in the 1990s and 2000s after the country's economic reform process accelerated. Sony's factories across East Asia made whole assembled products but also component parts that could be shipped to assembly plants in other parts of the company's burgeoning international production network (IPN).

Figure 3 shows how the same principle worked in another major global industry, automobiles, for another major Japanese company, Toyota, and the highly regionalised nature of IPNs in East Asia. Toyota began to develop its own overseas production around the same time as Sony, investing heavily in the Bangkok Metropolitan Region in Thailand from the early 1960s onwards, lured by the Thai government's industry policy measures aimed at developing the country into Southeast Asia's automobile production hub (Harwit 2013, Wad 2009). Over time, the company expanded its IPNs across East Asia and was extended to include India and Pakistan, operating a huge complex transnational business system of intra-firm trade and investment involving a large number of factories and countries, as well as various tiers of networked supplier firms across the whole region. Such configurations of regionalised production and trade is evident in all major manufacturing industries, and nowhere is this more comprehensively developed than in East Asia. It is estimated that trade in components and parts accounts for around a third to two-fifths of region's total volume of intra-regional trade: this compares to around a quarter for West Europe and North America (Athukorala 2013, Menon 2013). European, American and other Asian MNEs aside those from Japan have all heavily invested in 'Factory Asia', making it the world primary production hub by the beginning of the 21<sup>st</sup> century (Tachiki 2005, Yusuf *et al* 2004).

Figure 2: Sony's Expanding Major Manufacturing Operations in East Asia

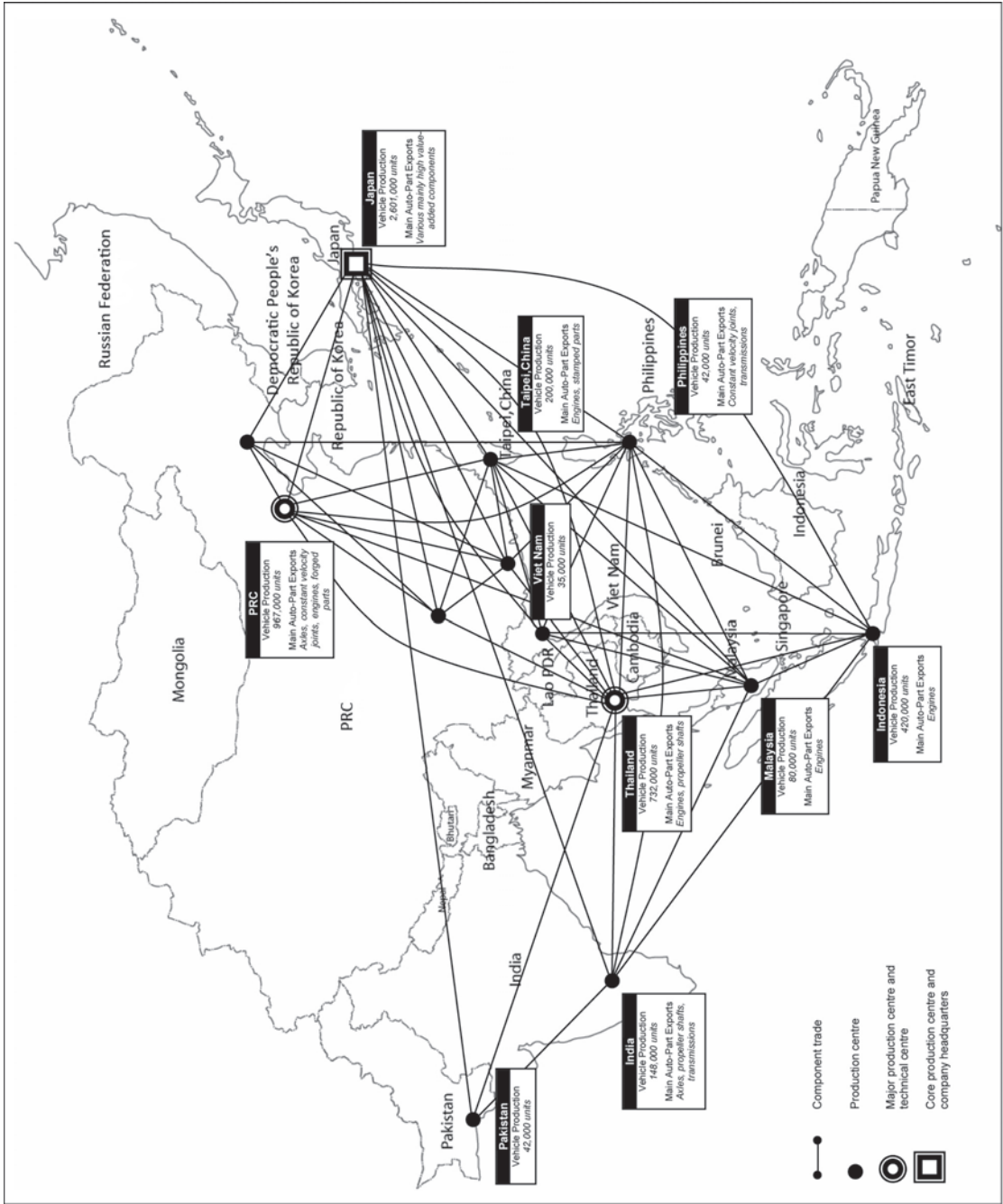


Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Notes: Denotes major final assembly plants in continuous operation since establishment in dates provided in FDI location boxes, with exception of Taipei, China plant as noted in figure. Each box indicates current Sony products made at its location by 2015.

Source: Sony Corp: [www.sony.net/pressroom/basic/products/base\\_asia\\_20150204E.pdf](http://www.sony.net/pressroom/basic/products/base_asia_20150204E.pdf) (accessed 4 June 2015).

Figure 3: Toyota's Asia International Production Network



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Notes: Vehicle production figures are for units produced by end of 2014.

Source: Toyota company data (<http://newsroom.toyota.co.jp/en/corporate/companyinformation/worldwide>) accessed 4 November 2016.

Much of Factory Asia's output is, though, destined for markets in Europe, North America and increasingly other parts of the world. In addition, its IPNs are becoming more integrated into global production networks (ADB 2014, Athukorala 2013, Kimura and Obashi 2011, Lam and Yetman 2013). Thus, East Asia's micro-level regional integration is to a large extent functionally dependent on the global economy. Nevertheless, dense patterns of IPN and other forms of supply chain activity have helped forge systemic economic interdependencies among East Asian national economies that have been further augmented by developments in financial markets and industries, and strengthening regional infrastructure networks. Rising levels of intra-regional trade – from around 25 percent in the 1960s to over 50 percent now – have been a commonly used measure to evidence deepening regional economic interdependence, which in turn has created significant imperatives for East Asian states to co-manage their shared regional economic spaces. Inter-governmental co-operation has involved various schemes and programmes to improve efficiencies and capacities regarding micro-level regionalisation. For example, the AEC's aim of creating a 'single production base' in Southeast Asia co-opts other initiatives into realising this, including a Master Plan on ASEAN Connectivity, Initiative for ASEAN Integration, ASEAN Comprehensive Investment Agreement, and ASEAN Power Grid scheme.

We also need to appreciate the role played by East Asia's major cities when understanding the nature of the region's economic integration. These are the key centres of the regional economy, and on which micro-level networks and connectivity are founded. Some of these cities are very dominant in their national contexts. The Bangkok Metropolitan Region and Seoul Metropolitan Area account for around half the GDPs of the Thai and the Republic of Korean economies respectively, while Ha Noi and Ho Chi Minh represent around 80 percent of Viet Nam's economy. East Asia is host to the world's five largest metropolitan areas by population: Greater Tokyo Area with 37.8 million, Jabodetabek-Jakarta 30.5 million, Seoul Capital Area 25.6 million, Shanghai Municipality 24.8 million and Metro Manila with 24.1 million. The region's largest cities are the hubs of regional infrastructure networks that facilitate much of East Asia's regionalised economic and social activities. Most of the world's largest seaports by both cargo traffic (8 out of top 10) and container traffic (all the world's top 8) are located in East Asia, while in air transportation cargo it holds 6 of the top 8 positions and 4 of the top 10 in international passenger traffic (Dent 2016). Improving infrastructure connectivity in the region generally has become increasingly prioritised in Asian and East Asian regional co-operation. Landmark reports on the subject were produced by the ADBI (2009) and ADB (2012) both recommending the establishment of an Asian Infrastructure Fund and Asian Infrastructure Financing Bank. In 2013, the PRC government launched its Asian Infrastructure Investment Bank (AIIB) initiative that would provide multilateralised finance for various kinds of development capacity-enhancing infrastructure projects in Asian countries, the aim being to eventually raise its authorised capital to US\$100 billion. By 2016, the AIIB had 57 'founding member' nations, including all East Asian countries with the exception of Japan. The AIIB was by 2017 operating with only a few billion dollars but in the longer-term is viewed as complementing the PRC's much larger 'One Belt, One Road' (OBOR) strategy of developing an 'Iron Silk Road' and 'Maritime Silk Route' involving international land and sea based infrastructure projects across the Eurasian land mass, organised mainly on a bilateral basis with the PRC's partners. For example, the planned US\$46 billion PRC-Pakistan Economic Corridor project will link the Arabian Sea port of Gwadar with northwest PRC. The targeted figure of US\$1.4 trillion of



investment finance for the OBOR is intended to come from the PRC's policy banks, such as the Export-Import Bank of China and the China Development Bank.<sup>1</sup>

For some decades, the region's major cities have worked together to forge closer ties with each other but this was mainly on a bilateral basis (e.g. twin or sister city partnerships, such as Yokohama-Shanghai and Kobe-Tianjin from the early 1970s onwards), and within small sub-regional locales (Jain 2005). In recent years, inter-city links and networks have become more regionalised, the most important example being the Asian Network of Major Cities 21 (ANMC21) formed in 2000.<sup>2</sup> The ANMC21's main activities focus on business networking, crisis management, art and culture, environmental issues, human resource development, industrial development and tourism. Other regional city groups centred on East Asia core membership have emerged in the environmental field as we later discuss. East Asian cities are also members in more powerful global networks, such as the C40 Climate Change Leadership Group.<sup>3</sup> These are still relatively low-level initiatives but we may expect cities and regionalised city networks to develop further based on the anticipated rise of 'global cities' in the 21<sup>st</sup> century. What is apparent for now is the formation of 'issue-specific communities' of regionally networked cities centred on an issue or issues of common concern and interest, and this is also evident in regional groupings of civil society organisations.

The emergence of sub-regional economic zones (SREZs) from the late 1980s onwards represent another important economic geography perspective on East Asian integration (Cruz-del Rosario 2014, Dent and Richter 2011, Menon 2013, Tan 2014, Than 1997, Thant *et al* 1995). These involve either internationally contiguous border areas (e.g. provinces, islands) of different nation-states, or less commonly sub-regional groupings of whole nation-states as applies in the Greater Mekong Subregion (GMS) programme. They tend to be formalised through inter-governmental agreements, often backed up by international organisations (e.g. ADB, United Nations), and have the general aim of promoting economic synergies within the sub-regional zone. East Asia's SREZ programmes can also centre co-managing common natural resources, most notably large international rivers. More informalised SREZs have been identified as zones where sub-regional aggregations of cross-border trade, investment and production networks are particularly strong. The fortunes of these zones have been mixed, and some have fallen into relative decline or been wound down. A brief summary of the region's SREZs follows:

- *Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)*: launched in 1994, comprising the territories of Brunei, Indonesia (Kalimantan, Maluku and Sulawesi provinces), Malaysia (Labuan, Sabah, Sarawak provinces), and the Philippines (Mindanao and Palawan island provinces). BIMP-EAGA have achieved relatively limited success at creating symbiotic development outcomes among its small peripherally-located local economies, and only quite recently received ADB funding support.
- *Greater Mekong Subregion (GMS)*: created in 1992 and the most successful SREZ and the best funded, with considerable ADB support. Constituent partners are Cambodia, the PRC (Yunnan Province and Guangxi Zhuang

<sup>1</sup> *Financial Times*, 9 May 2016, 'How the Silk Road Plans will be Financed', available at: <https://www.ft.com/content/e83ced94-0bd8-11e6-9456-444ab5211a2f> (accessed 30 January 2017).

<sup>2</sup> The group's members comprise Bangkok, Delhi, Ha Noi, Jakarta, Kuala Lumpur, Manila, Seoul, Singapore, Taipei, Tokyo, Tomsk, Ulaanbaatar and Yangan.

<sup>3</sup> The region's members are Tokyo; Seoul; Yokohama; Guangzhou; Hong Kong, China; Nanjing; Wuhan; Bangkok; Ha Noi; Ho Chi Minh City; Jakarta; and Quezon City.

Autonomous Region), the Lao People's Democratic Republic (PDR), Myanmar, Thailand and Viet Nam. ADB investment has been concentrated on developing a number of transport and economic 'corridors'. A GMS Regional Investment Framework Implementation Plan (2014-2018) comprises a series of 200 projects based on funding valued at US\$30 billion (ADB 2014b).

- *Greater Tumen Initiative (GTI)*: established in 1991, initially as the Tumen River Area Development Programme with United Nations Development Programme (UNDP) support, it was rebranded as the GTI in 2006. Partners comprise city and other local government actors from northeast PRC, Eastern Mongolia, the far eastern part of the Russian Federation, and the eastern part of the Republic of Korea. Like the GMS, a prime focus is co-managing a large international river, especially developing port cities and navigation along the Tumen to enable PRC trade access to maritime sea routes (Koo 2012).
- *Indonesia-Malaysia-Singapore Growth Triangle (IMSGT)*: established in 1989 between Singapore, Riau province (Indonesia) and Johor province (Malaysia), this achieved some initial success in 1990s but has since stagnated.
- *Indonesia-Malaysia-Thailand Growth Triangle (IMTGT)*: created in 1993 and formed around many constituent provinces from all three countries around the Straits of Malacca area. Also sponsored by the ADB but like BIMP-EAGA has achieved relatively limited success.
- *Yellow Sea Rim Sub-Region*: another informal zone, this one located in Northeast Asia, arising out of intensifying economic interactions between firms from northeast PRC, southern Japan, and the Republic of Korea in the Yellow Sea area.

In addition, small-scale cross border collaborative ventures have arisen on a bilateral basis (e.g. on the PRC's border with Viet Nam and Cambodia; Thailand and the Lao PDR) usually linking internationally neighbouring towns and cities (Dent and Richter 2011). To varying degrees, SREZs either help form sub-regional communities through promoting cross-border interactions in their formalised types, or are actually defining such communities where they have arisen informally, as with the last two cases listed.

In sum, there are important matters of economic geography to consider when analysing the dynamics of East Asia's integration and regional community-building in terms of micro-level activities, geo-spatial scales, the roles played by non-state (e.g. MNEs) and sub-national state actors (e.g. city governments), and infrastructure connectivity.

## 4. INSTITUTIONS, ORGANISATIONS AND GOVERNANCE

ASEAN remains East Asia's most developed regional institution and organisation promoting regional co-operation and integration, and until the 1990s it was the only one recognisably doing so at the macro-level in the region. This changed after the 1997/98 financial crisis, which catalysed new forms of regional community-building. The crisis – which began as a currency crisis in Thailand in July 1997 – exposed two important things. First, the crisis contagion into a full-blown regional financial crisis revealed the extent of economic interdependencies across East Asia. Second, the region's states lacked the adequate international co-operation mechanisms to address mutual shocks to East Asian economy. Additionally, they could not rely on global governance institutions like the International Monetary Fund to provide effectively and timely



assistance. While the new openness of the post-Cold War geopolitical order in the early 1990s led to an intensification of both regional organisation and FTA activity globally (Buzan and Waever 2003, Dent 2006, Katzenstein 2005), it was not until the late 1990s that this spread to East Asia.

The formation of the ASEAN Plus Three (APT) diplomacy framework did not constitute itself the creation of a new formal regional organisation but it did prove effective at initiating new forms of regional financial co-operation and integration. This centred on the aforementioned Chiang Mai Initiative Multilateralised (CMIM) and Asian Bond Market Initiative (ABMI), both of which were originally launched in the early 2000s. The ADB has played a particularly important supporting role on the ADBI, and the mid-2000s created a new Office of Regional Economic Integration (OREI) under the then new President, Haruhiko Kuroda, who when acting previously as Japan's Vice-Minister for Finance was a principal architect of the CMIM's antecedent, the New Miyazawa Initiative (Dent 2008a). The CMIM could be considered a 'reactive' emergency mechanism where pre-agreed formulas of releasing commonly pooled foreign exchange reserves was aimed at helping restore currency market instability experienced by APT member states. Upon its 'multilateralisation' in 2010 of its original dense network of bilateral currency swap agreements, a new regional organisation was formed – the APT Macroeconomic Research Office (AMRO) – to govern the CMIM system. AMRO performs various monitoring and analytical tasks on regional finance, and has been charged with helping govern any future activations of the CMIM's US\$240 billion of potential funds it can draw upon (Table 2). It is a small Singapore-based office, and has yet to be tested on CMIM operations but it does represent some advance at least regarding the demonstrated trust of APT countries to devise such a regional financial mechanism.

The ABMI may be thought of in more 'proactive' terms in that has been in full operation since it commenced, with the purpose of building investor confidence in purchasing developing Asian country bonds denominated in their local currencies. It introduced new guarantee mechanisms through the ADB and agencies to help instil investor confidence in what has become essentially a regional co-ordination programme involving many countries seeking to develop national markets in local currency bonds. This has created a form of financial market regionalisation in East Asia with the private sector playing a key role, backed up by the ADB that has managed the Asian Bonds Online and Monitor programmes, Asian Bond Market Summits and Asian Bond Fund launches (Amyx 2004, 2008). In 2015, it introduced a new cross-border bond issuance based on an APT multi-currency issue and using a region-wide standard documentation procedure (Dent 2016). Meanwhile, APT Finance Ministers created in 2008 an ABMI New Roadmap to improve credit guarantee and investment facilities, improving market information on bond markets, strengthening regulatory frameworks with APT countries on cross-border bond transactions, and improving related bond market infrastructures such as on settlement, credit rating and liquidity arrangements. Despite these various new technical mechanisms co-ordinated across the APT membership and the relatively impressive growth of Asia's local currency bonds (Table 3), the ABMI has not forged regional financial integration itself due to it being national financial market based. Nevertheless, like the CMIM it does represent some level of regional community-building through engaging East Asian nations in a regional co-ordinated effort to utilise the region's substantial financial resources towards better securing regional financial stability and promoting economic development within the region (Dent 2016).

**Table 2: Chiang Mai Initiative Multilateralised (CMIM)**

Members	Financial Contributions		Purchasing Multiple	Maximum Swap Amount (\$ billion)
	(\$ billion)	(%)		
<b>Plus Three</b>	<b>192.00</b>	<b>80.00</b>	–	<b>117.30</b>
PRC total	76.80	32.00	–	40.50
PRC	68.40	28.50	0.5	34.20
Hong Kong, China	8.40	3.50	2.5	6.30
Japan	76.80	32.00	0.5	38.40
Republic of Korea	38.40	16.00	1	38.40
<b>ASEAN</b>	<b>48.00</b>	<b>20.00</b>	–	<b>126.20</b>
Brunei Darussalam	0.06	0.025	5	0.30
Cambodia	0.24	0.100	5	1.20
Indonesia	9.104	3.793	2.5	22.76
Lao PDR	0.06	0.025	5	0.30
Malaysia	9.104	3.793	2.5	22.76
Myanmar	0.12	0.050	5	0.60
Philippines	9.104	3.793	2.5	22.76
Singapore	9.104	3.793	2.5	22.76
Thailand	9.104	3.793	2.5	22.76
Viet Nam	2.00	0.833	5	10.00
<b>ASEAN+3</b>	<b>240.00</b>	<b>100.00</b>	–	<b>243.50</b>

Members	Voting Powers (\$ billion)			
	Basic Votes	Votes Based on Contributions	Total Voting Powers	
			(\$ billion)	(%)
<b>Plus Three</b>	<b>9.60</b>	<b>192.00</b>	<b>201.60</b>	<b>71.59</b>
PRC total	3.20	76.80	80.00	28.41
PRC	3.20	68.40	71.60	25.43
Hong Kong, China	0.00	8.40	8.40	2.98
Japan	3.20	76.80	80.00	28.41
Republic of Korea	3.20	38.40	41.60	14.77
<b>ASEAN</b>	<b>3.20</b>	<b>48.00</b>	<b>80.00</b>	<b>28.47</b>
Brunei Darussalam	3.20	0.06	3.26	1.158
Cambodia	3.20	0.24	3.44	1.222
Indonesia	3.20	9.104	12.304	4.369
Lao PDR	3.20	0.06	3.26	1.158
Malaysia	3.20	9.104	12.304	4.369
Myanmar	3.20	0.12	3.32	1.179
Philippines	3.20	9.104	12.304	4.369
Singapore	3.20	9.104	12.304	4.369
Thailand	3.20	9.104	12.304	4.369
Viet Nam	3.20	2.00	5.200	1.847
<b>ASEAN+3</b>	<b>41.60</b>	<b>240.00</b>	<b>281.60</b>	<b>100.00</b>

ASEAN = Association of South East Asian Nations, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Japan Ministry of Finance ([www.mof.go.jp/english/international\\_policy/financial\\_cooperation\\_in\\_asia/cmi/betten\\_e2.pdf](http://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/cmi/betten_e2.pdf))

**Table 3: East Asia's Bond Market Development, 1997–2014**  
(\$ billion, outstanding bonds issued, exc. Japan)

Year	Local Currency (LCY) Denominated			G3 Currency Denominated	Total	LCY bonds % of Total
	Government Bonds	Corporate Bonds	Total			
1997	127.6	48.3	175.9	–	–	–
1998	247.0	57.2	304.2	–	–	–
1999	346.1	69.3	415.5	–	–	–
2000	493.4	342.6	835.9	7,078.9	7,914.8	10.6
2001	554.4	393.3	947.7	11,360.0	12,307.7	7.7
2002	710.8	456.0	1,166.8	12,774.6	13,941.4	8.4
2003	883.9	465.1	1,349.0	15,513.6	16,862.6	8.0
2004	1,181.5	518.9	1,700.4	11,499.0	13,199.4	12.9
2005	1,509.7	597.2	2,106.9	18,219.8	20,326.7	10.4
2006	1,910.0	756.6	2,666.6	17,774.9	20,441.5	13.0
2007	2,463.5	929.1	3,392.6	11,609.8	15,002.4	22.6
2008	2,749.4	948.7	3,698.1	2,771.3	6,469.4	57.2
2009	3,112.8	1,292.1	4,404.9	20,249.8	24,654.7	17.9
2010	3,590.5	1,612.7	5,203.2	30,790.9	35,994.1	14.5
2011	3,774.4	1,965.6	5,740.0	14,972.1	20,712.1	27.7
2012	4,199.2	2,602.5	6,801.7	32,503.2	39,304.9	17.3
2013	4,556.6	3,069.9	7,626.5	37,824.8	45,451.3	16.8
2014	4,920.7	3,275.0	8,195.7	55,319.3	63,515.0	12.9

Notes: G3 currencies: US dollar, euro and yen. Year figures are for combined outstanding bond values by 31 December, i.e. year end.

Source: Asian Development Bank, Asian Bond Monitor website: <http://asianbondsonline.adb.org>

In matters of post-crisis trade governance in East Asia, new *bilateral* rather than regional FTAs were the dominant method of strengthening ties and co-operation among the regions states as we discuss in the next section. The ASEAN Free Trade Area (AFTA) programme initiated in 1992/93 came into force in 2003, and laid the foundation of a more ambitious regional integration agenda in Southeast Asia. The 1997/98 crisis proved a catalyst in spurring ASEAN to deepen co-operation generally (Cuyvers *et al* 2005 Ferguson 2004, Kraft 2000, Mahani 2002, Ruland 2000, Soesastro 2003). For example, the 1998 Ha Noi Plan of Action outlined ASEAN's plans accelerate regional integration and narrow development gaps among its members. This later led to the Initiative for ASEAN Integration aimed at bring the group's newest members – the lesser developed countries of Cambodia, the Lao PDR, Myanmar and Viet Nam – into integrational processes through development capacity-building. Plans to establish an ASEAN Economic Community (AEC) were first tabled at the group's 2003 summit and incorporated into the new six-year Vientiane Action Programme. This proposed the AEC would create a form of single or common market, in turn producing “a stable, prosperous and highly competitive ASEAN economic region” based on the aims of achieving “equitable economic development, and reduced poverty and socio-economic disparities” in Southeast Asia (ASEAN Secretariat 2003: pg. 4). The emphasis on inclusive integration where efforts would be made to strengthen the ability of ASEAN's economic periphery to benefit from the AEC's implementation is crucially important from a regional community-building perspective. It was critical that prosperity generated from deeper integration be enjoyed not just by Southeast Asia's core economic areas best positioned to exploit new commercial opportunities but by weaker

developed constituencies within the ASEAN regional community. Furthermore, the complementary ASEAN Security and Socio-Cultural Community programmes launched soon thereafter helps augment AEC efforts on regional economic integration in a more holistic regional community-building process. Such integration is difficult to achieve in an unstable political or security environment, and when socio-cultural bonds are weak.

Meanwhile in Northeast Asia, the 'Plus Three' nations of APT – PRC, Japan, and the Republic of Korea – not only worked to build a stronger post-crisis East Asian regional economic community with their ASEAN partners but also in the own or trilateral-regional grouping. Notwithstanding high-level diplomatic and political tensions that have tended to dominate media coverage of PRC-Japan-Korea (CJK) relations in recent years, the three nations have been quietly and progressively advancing a Northeast Asia Trilateral Co-operation (NATC) regional diplomacy framework involving a broad range of state and non-state actors since the late 1990s. In 1999, the first of regular annual Trilateral Environmental Ministers Meeting was held. Since then, similar ministerial-level dialogues on functional co-operation now operate across 12 other policy domains (Table 4). The NATC works in a fashion to APT regional diplomacy, being a 'framework' rather than an organisation, although in 2011 the Trilateral Co-operation Secretariat (TCS) was created to administer and co-ordinate activities. Through the NATC, a Trilateral Investment Agreement was brokered and came into force in 2014. Negotiations on a Trilateral FTA commenced in 2012 and are currently ongoing. Formal CJK-hosted summits were initiated from 2008. NATC diplomacy has led to over a hundred new projects of trilateral co-operation and the socialisation of elite group decision-makers from all three countries covering a broad range of issues.

Regional institutional and organisational development in East Asia advanced significantly in the aftermath of the 1997/98 financial crisis with new forms of regional co-operation and governance being created. Although by international comparison it still appears that these institutional arrangements and organisations look weak and lack capacity – for example by the APT and NATC being essentially regional diplomacy frameworks – they have nevertheless proved relatively successful at exercising acts of regional economic community-building across a range of policy areas. However, from a governance perspective, stronger institutions would undoubtedly help develop stronger forms of regional integration (ADB 2011), although this would still depend on the willingness of member states to politically and financially commit to pushing forward new integrational projects, such as an AEC-style East Asian Economic Community. The size and diversity of country-based membership also matters. As East Asia's experience of belonging to the EAS group (including India, Australia, New Zealand, US, and the Russian Federation) and the Asia-Pacific Economic Co-operation (APEC) forum has clearly demonstrated, the larger the grouping and number of national interests to reconcile the more difficult it often proves at producing new regional public goods that are of mutual benefit to the collective. This raises fundamental existential questions concerning the purpose of regional institutions. Are they just there to maintain the peace and keep nations and peoples talking, or to work in partnership on ambitious projects that bind the interests of a regional community closer together?

**Table 4: Northeast Asia Trilateral Co-operation (NATC)**

Area of Co-operation	Meeting Structure	Year from	Mtgs by 2015
General	Northeast Asia Trilateral Forum (NATF)	2006	10
Politics	Leaders Summit (informal)	1999	6
	Leaders Summit (formal, CJK-hosted)	2008	6
Economy	Foreign Ministers	2007	7
	Senior Foreign Affairs Officials' Consultation	2007	10
	Economic and Trade Ministers	2002	10
	Trilateral Investment Agreement (TIA)	2007	13
	Trilateral Free Trade Agreement (TrFTA)	2012	8
	Yellow Sea Rim Economic and Technological Conference	2001	14
	ICT Ministers	2002	6
	Customs Heads	2007	5
	Trilateral Business Summit	2009	8
	Finance Ministers	2000	14
Finance	Tripartite Governors' Meeting of Central Banks	2009	7
Environment	Environment Ministers	1999	17
	Director-General Meeting on Environment	2009	7
	Directors-General Meeting on Dust and Sand Storms	2007	10
	Water Resources Ministerial	2012	4
Transport and Logistics	Transport and Logistics Ministers	2006	5
	Northeast Asia Port Symposium	2000	15
	Northeast Asia Port Director-General Meeting	2000	15
	Northeast Asia Logistics Information Service Network	2010	16
Science and Technology	Science and Technology Ministers	2007	4
	Science and Technology Director-Generals	2007	6
Intellectual Property	Policy Dialogue on Intellectual Property Offices	2001	15
	Intellectual Property Symposium	2013	3
Standards	Standards Co-operation Forum	2001	14
	Standards Co-operation on IT and Electronics	2007	9
	Standing Committee on Standards Co-operation	2010	5
Consumers	Consultative Meeting on Consumer Policy	2004	8
	Consumer Policy Forum	2004	3
Health	Health Ministers	2007	8
	Forum on Communicable Disease Control and Prevention	2007	9
	Director-General Meeting on Pharmaceutical Affairs	2008	7
Agriculture	Agriculture Ministers	2012	2
	Heads of Fisheries Institutes	2007	8
	Forum for Agricultural Policy Research	2003	11
Society and Culture	Culture Ministers	2007	7
	Cultural Industry Forum	2002	13
	Tourism Ministers	2006	7
	Director-General Meeting among the Education Ministries	2006	2
	Promoting Exchange and Co-operation among Universities	2010	5
	Youth Forum	2010	5

*continued on next page*

**Table 4** *continued*

Area of Co-operation	Agency Level	Mode of Co-operation	Details
General Politics	State, non-state, various	Dialogue forum, recommendations-making	Former political leaders led, media agency organised
	President, Prime Minister	Dialogue forum	ASEAN/APT hosted
	President, Prime Minister	Dialogue forum	No annual summit held in 2013 or 2014
Economy	Ministerial	Dialogue forum	
	Senior officials	Dialogue forum	
	Ministerial	Dialogue forum	ASEAN/APT hosted until 2009
	Senior officials	International treaty negotiations	Signed in May 2012, in force May 2014
	Deputy Director-General	International treaty negotiations	First proposed by the People's Republic of China in 2002. Talks ongoing
	State, non-state, various	Dialogue forum	Up to ministerial level. Various track 2 participants
	Ministerial	Dialogue forum	Oversees 7 different working projects in this field
	Governmental, various	Dialogue forum	Oversees various action plans and working groups
	Business association	Dialogue forum	
	Ministerial	Dialogue, regional financial governance	CMIM, ABMI, ERPD and AMRO with ASEAN and ADB
Finance	Central bank governors	Dialogue forum	Since 2012 participates in Finance Ministers meeting
Environment	Ministerial	Dialogue forum	Oversees various related regular activities, sub-groups
	Director-General	Dialogue forum	Supports work of Environment Ministers
	Director-General	Dialogue forum	Supports work of Environment Ministers
Transport and Logistics	Ministerial	Dialogue forum	
	Ministerial	Dialogue forum	
	State, non-state, various	Dialogue forum	Work in tandem with each other. Working Groups formed to address key issues
	Director-General	Dialogue forum	
	Governmental, various	Dialogue forum, systems info. sharing	Technical, workshop, steering committee meetings
	Ministerial	Dialogue forum, research collaboration	
	Director-General	Dialogue forum, research collaboration	
Intellectual Property	IP Offices	Dialogue forum	Oversees expert groups on automation and patents
Standards	State, non-state, various	Dialogue forum	
	Standards associations	Dialogue forum	
	Standards associations	Dialogue forum	
	Director-General	Dialogue forum	Co-ordinates with other two Standards meetings
Consumers	Governmental, various	Dialogue forum	
	Governmental, various	Dialogue forum, research collaboration	

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**Table 4** *continued*

Area of Co-operation	Agency Level	Mode of Co-operation	Details
Health	Ministerial	Dialogue forum	Oversees work of various co-operation projects
	National health institute	Dialogue forum, research collaboration	
Agriculture	Director-General	Dialogue forum	
	Ministerial	Dialogue forum	
	Fisheries Institutes	Dialogue forum, research collaboration	
	Research institutes	Dialogue forum, research collaboration	
Society and Culture	Ministerial	Dialogue forum	Connected to CAMPUS Asia's 10 pilot programmes
	State, non-state, various	Dialogue forum	
	Ministerial	Dialogue forum	
	Director-General	Dialogue forum	
	University	Exchange scheme, research collaboration	
	UN Association	Dialogue forum	

Notes: number of meetings held by December 2015.

Sources: Trilateral Co-operation Secretariat website: [www.tcs-asia.org/dnb/main/index.php](http://www.tcs-asia.org/dnb/main/index.php); various media sources.

## 5. TRADE AND EAST ASIAN INTEGRATION

As discussed earlier, trade has played an historic role in the creation of international business communities across East Asia, and binding the economic interests of its peoples together over time. East Asia's intra-regional trade ratio has risen from around 25 percent in the early 1960s to 35 percent by 1980, 43 percent by 1990, and 55 percent by 2005. It was previously noted that this has been used as an indicative measure of East Asia's deepening regionalisation, and how trade has become ever more functionally linked to international production networks and supply chains, FDI and expanding MNE activities generally in the region. However, since the mid-2000s, East Asia's intra-regional trade ratio has dipped, mainly due to the globalisation of the PRC's trade relationships and especially its import resource links developed over the last decade with nations from Africa, Middle East, Latin America, Oceania and Central Asia. As Table 5 shows, the PRC's intra-regional trade ratio was just 37.7 percent in 2013, bringing down East Asia's total ratio to 50.2 percent that year.

Nevertheless, managing trade interdependencies within East Asia remains a priority for the region's governments, and their first substantive efforts on this front date back to the 1990s: ASEAN in the early years of this decade with AFTA and later a wider regional collective of East Asian states in the aftermath of the 1997/98 financial crisis. Japan, the Republic of Korea, Singapore, and Thailand were early protagonists of FTA activity around time but, as with the global norm, their predilection was for *bilateral* FTAs rather than the promotion of regional agreements. Furthermore, this was the start of an Asia-Pacific rather than East Asian dynamic of proliferating bilateral FTA as shown in Figures 4 to 7 that gradually intensified. By 2015, there were 18 bilateral FTAs among East Asian states but they had signed 42 bilateral agreements with other Asia-Pacific trade partners. Across the Asia-Pacific as a whole there were 86 bilaterals in total, and an additional 6 regional and cross-regional agreements. The impact of this dense trade bilateralism on regional economic integration and community-building in East Asia was an early focus of academic debate (Dent 2006, 2010; Desker 2004,

Manger 2005, Ravenhill 2003). They could be viewed as fragmentary and divisive regarding regional trade orders, or laying the lattice-type foundations for future regional agreements. Bilateral FTAs are heterogeneous, being the product of bespoke political economic interaction between the two parties that negotiated them. Each embodies their own set of rules and regulations, trade sector coverages, varying depths and modes of commercial liberalisation, exemptions, phase-in schedules, connection to existing WTO agreements (e.g. on investment, intellectual property rights and government procurement), and 'trade plus' elements.

**Table 5: Intra-Regional Trade in East Asia, 2013**  
(US\$ million)

		Brunei	Cambodia	People's Republic of China	Hong Kong, China	Indonesia	Japan	Lao People's Democratic Republic
Brunei	exports		0	123	5	480	4,647	0
	imports		0	1,055	27	140	181	0
	total trade		0	1,178	32	620	4,828	0
Cambodia	exports	0		323	828	15	459	1
	imports	0		3,207	740	280	193	5
	total trade	0		3,530	1,568	295	652	6
People's Republic of China	exports	1,055	3,207		318,232	33,390	165,556	1,722
	imports	123	323		150,284	27,013	145,824	1,010
	total trade	1,178	3,530		468,516	60,403	311,380	2,732
Hong Kong, China	exports	27	740	150,284		2,390	10,086	25
	imports	5	828	318,232		2,712	39,884	3
	total trade	32	1,568	468,516		5,102	49,970	28
Indonesia	exports	140	280	27,013	2,712		27,984	6
	imports	480	15	33,390	2,390		18,159	8
	total trade	620	295	60,403	5,102		46,143	14
Japan	exports	181	193	145,824	39,884	18,159		121
	imports	4,647	459	165,556	10,086	27,984		107
	total trade	4,828	652	311,380	49,970	46,143		228
Lao People's Democratic Republic	exports	0	5	1,010	3	8	107	
	imports	0	1	1,722	25	6	121	
	total trade	0	6	2,732	28	14	228	
Macau, China	exports	0	5	250	534	4	16	0
	imports	0	0	3,036	2,877	18	416	0
	total trade	0	5	3,286	3,411	22	432	0
Malaysia	exports	807	189	45,469	10,355	11,918	27,532	23
	imports	388	162	39,853	3,626	9,776	16,577	1
	total trade	1,195	351	85,322	13,981	21,694	44,109	24
Mongolia	exports	0	0	3,605	5	2	15	0
	imports	0	0	2,143	31	18	372	0
	total trade	0	0	5,748	36	20	387	0
Myanmar	exports	1	0	2,857	47	73	759	0
	imports	0	0	7,339	85	556	1,057	0
	total trade	1	0	10,196	132	629	1,816	0

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**Table 5** *continued*

		Brunei	Cambodia	People's Republic of China	Hong Kong, China	Indonesia	Japan	Lao People's Democratic Republic
Democratic People's Republic of Korea	exports	0	0	2,928	6	14	0	0
	imports	0	0	3,630	57	3	0	0
	total trade	0	0	6,558	63	17	0	0
Philippines	exports	10	9	12,383	5,521	790	10,335	0
	imports	42	13	14,211	2,154	3,356	7,634	0
	total trade	52	22	26,594	7,675	4,146	17,969	0
Singapore	exports	1,448	728	39,218	40,222	40,547	12,539	26
	imports	278	488	44,761	5,547	33,065	20,684	6
	total trade	1,726	1,216	83,979	45,769	73,612	33,223	32
Republic of Korea	exports	113	493	164,472	24,604	11,581	35,242	187
	imports	1,901	121	87,108	5,032	12,306	58,271	12
	total trade	2,014	614	251,580	29,636	23,887	93,513	199
Taipei, China	exports	31	667	81,788	39,433	5,149	19,222	4
	imports	61	39	42,588	1,659	7,151	43,161	13
	total trade	92	706	124,376	41,092	12,300	62,383	17
Thailand	exports	173	2,677	32,881	11,904	10,788	22,138	2,958
	imports	514	296	35,223	3,858	7,068	38,514	1,360
	total trade	687	2,973	68,104	15,762	17,856	60,652	4,318
Viet Nam	exports	14	1,959	14,864	4,210	2,541	13,649	433
	imports	607	326	38,811	3,763	2,324	11,076	451
	total trade	621	2,285	53,675	7,973	4,865	24,725	884
<b>Total Trade</b>								
		Macau, China	Malaysia	Mongolia	Myanmar	Democratic People's Republic of Korea	Philippines	Singapore
Brunei	exports	0	388	0	0	0	42	278
	imports	0	807	0	1	0	10	1,448
	total trade	0	1,195	0	1	0	52	1,726
Cambodia	exports	0	162	0	0	0	13	488
	imports	5	189	0	0	0	9	728
	total trade	5	351	0	0	0	22	1,216
People's Republic of China	exports	3,036	39,853	2,143	7,339	3,630	14,211	44,761
	imports	250	45,469	3,605	2,857	2,928	12,383	39,218
	total trade	3,286	85,322	5,748	10,196	6,558	26,594	83,979
Hong Kong, China	exports	2,877	3,626	31	85	57	2,154	5,547
	imports	534	10,355	5	47	6	5,521	40,222
	total trade	3,411	13,981	36	132	63	7,675	45,769

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**Table 5** *continued*

		Macau, China	Malaysia	Mongolia	Myanmar	Democratic People's Republic of Korea	Philippines	Singapore
Indonesia	exports	18	9,776	18	556	3	3,356	17,953
	imports	4	11,918	2	73	14	790	33,065
	total trade	22	21,694	20	629	17	4,146	51,018
Japan	exports	416	16,577	372	1,057	0	7,634	20,684
	imports	16	27,532	15	759	0	10,335	12,539
	total trade	432	44,109	387	1,816	0	17,969	33,223
Lao People's Democratic Republic	exports	0	1	0	0	0	0	6
	imports	0	23	0	0	0	0	26
	total trade	0	24	0	0	0	0	32
Macau, China	exports		12	0	0	0	5	11
	imports		66	0	3	0	22	155
	total trade		78	0	3	0	27	166
Malaysia	exports	66		65	718	0	2,680	36,351
	imports	12		1	198	0	1,402	37,686
	total trade	78		66	916	0	4,082	74,037
Mongolia	exports	0	1		0	1	1	5
	imports	0	65		0	0	3	74
	total trade	0	66		0	1	4	79
Myanmar	exports	3	198	0		0	25	179
	imports	0	718	0		0	23	2,245
	total trade	3	916	0		0	48	2,424
Democratic People's Republic of Korea	exports	0	0	0	0		0	2
	imports	0	0	1	0		0	59
	total trade	0	0	1	0		0	61
Philippines	exports	22	1,402	3	23	0		4,551
	imports	5	2,680	1	25	0		5,553
	total trade	27	4,082	4	48	0		10,104
Singapore	exports	155	37,686	74	2,245	59	5,553	
	imports	11	36,351	5	179	2	4,551	
	total trade	166	74,037	79	2,424	61	10,104	
Republic of Korea	exports	121	9,174	453	705	532	6,905	23,160
	imports	3	9,688	20	488	617	3,416	13,495
	total trade	124	18,862	473	1,193	1,149	10,321	36,655
Taipei, China	exports	135	8,184	7	180	3	9,774	19,518
	imports	11	8,124	16	102	37	2,198	8,542
	total trade	146	16,308	23	282	40	11,972	28,060
Thailand	exports	70	12,655	30	3,789	100	4,303	10,256
	imports	5	12,961	0	4,033	14	2,282	11,699
	total trade	75	25,616	30	7,822	114	6,585	21,955
Viet Nam	exports	14	5,272	19	118	0	1,371	2,713
	imports	12	3,822	1	109	0	744	8,781
	total trade	26	9,094	20	227	0	2,115	11,494
<b>Total Trade</b>								

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**Table 5** *continued*

		Republic of Korea	Taipei, China	Thailand	Viet Nam	East Asia Total	Intra-regional Ratio (East Asia)	World
Brunei	exports	1,901	61	481	607	9,013		11,447
	imports	113	31	173	14	4,000		3,612
	total trade	2,014	92	654	621	13,013	86.4	15,059
Cambodia	exports	121	39	296	326	3,071		9,248
	imports	493	667	2,677	1,959	11,152		9,227
	total trade	614	706	2,973	2,285	14,223	77.0	18,475
People's Republic of China	exports	87,108	42,588	35,223	38,811	841,865		2,209,007
	imports	164,472	81,788	32,881	14,864	725,292		1,949,992
	total trade	251,580	124,376	68,104	53,675	1,567,157	37.7	4,158,999
Hong Kong, China	exports	5,032	1,659	3,858	3,763	192,241		492,908
	imports	24,604	39,433	11,904	4,210	498,505		553,486
	total trade	29,636	41,092	15,762	7,973	690,746	66.0	1,046,394
Indonesia	exports	12,306	7,151	7,068	2,324	118,664		182,552
	imports	11,581	5,149	10,788	2,541	130,367		186,629
	total trade	23,887	12,300	17,856	4,865	249,031	67.5	369,181
Japan	exports	58,271	43,161	38,514	11,076	402,124		715,097
	imports	35,242	19,222	22,138	13,649	350,286		883,166
	total trade	93,513	62,383	60,652	24,725	752,410	47.1	1,598,263
Lao People's Democratic Republic	exports	12	13	1,360	451	2,976		2 264
	imports	187	4	2,958	433	5,506		3,020
	total trade	199	17	4,318	884	8,482	—	3,020
Macau, China	exports	3	11	5	12	868		1,021
	imports	121	135	70	14	6,933		8,982
	total trade	124	146	75	26	7,801	78.0	10,003
Malaysia	exports	9,688	8,124	12,961	3,822	170,768		228,516
	imports	9,174	8,184	12,655	5,272	144,967		206,251
	total trade	18,862	16,308	25,616	9,094	315,735	72.6	434,767
Mongolia	exports	20	16	0	1	3,672		4,269
	imports	453	7	30	19	3,215		6,358
	total trade	473	23	30	20	6,887	64.8	10,627
Myanmar	exports	488	102	4,033	109	8,874		9,043
	imports	705	180	3,789	118	16,815		7,477
	total trade	1,193	282	7,822	227	25,689	—	16,520
Democratic People's Republic of Korea	exports	617	37	14	0	3,618		3,954
	imports	532	3	100	0	4,385		3,096
	total trade	1,149	40	114	0	8,003	—	7,050
Philippines	exports	3,416	9,774	2,282	744	51,265		53,978
	imports	6,905	2,198	4,303	1,371	50,451		65,097
	total trade	10,321	11,972	6,585	2,115	101,716	85.4	119,075
Singapore	exports	13,495	8,542	11,699	8,781	223,017		410,250
	imports	23,160	19,518	10,256	2,713	201,575		373,016
	total trade	36,655	28,060	21,955	11,494	424,592	54.2	783,266

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**Table 5** *continued*

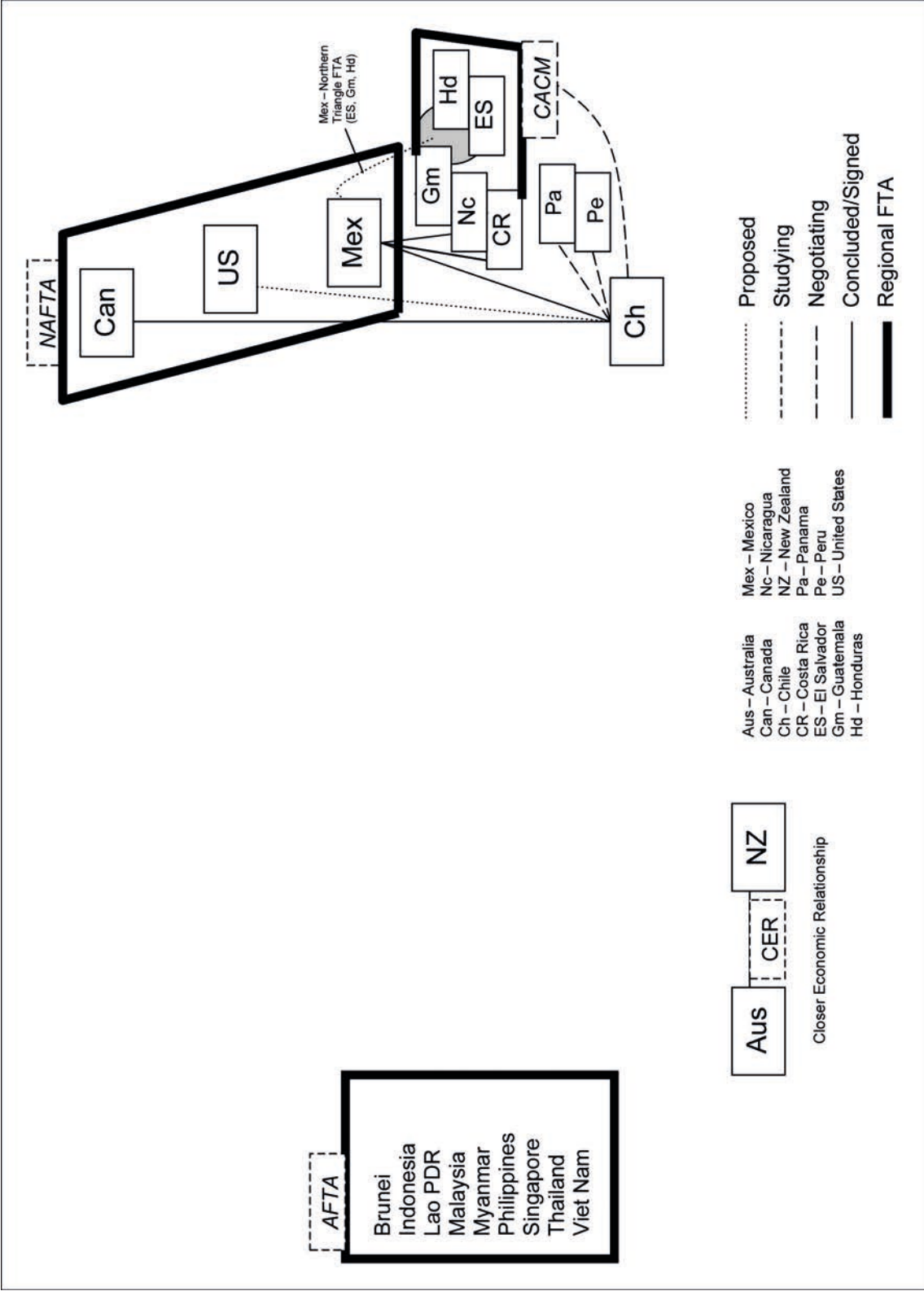
		Republic of Korea	Taipei, China	Thailand	Viet Nam	East Asia total	Intra-regional Ratio (East Asia)	World
Republic of Korea	exports		15,768	8,561	18,312	320,383		559,619
	imports		12,077	4,911	6,378	215,844		515,573
	total trade		27,845	13,472	24,690	536,227	49.9	1,075,192
Taipei, China	exports	12,077		6,336	8,926	211,434		305,437
	imports	15,768		3,752	2,623	135,845		269,893
	total trade	27,845		10,088	11,549	347,279	60.4	575,330
Thailand	exports	4,911	3,752		6,487	129,872		228,527
	imports	8,561	6,336		3,051	135,775		250,708
	total trade	13,472	10,088		9,538	265,647	55.4	479,235
Viet Nam	exports	6,378	2,623	3,051		59,229		114,529
	imports	18,312	8,926	6,487		104,552		113,780
	total trade	24,690	11,549	9,538		163,781	71.7	228,309
<b>Total Trade</b>						<b>5,498,419</b>	<b>50.2</b>	<b>10,948,765</b>

Notes: Due to discrepancies in the trade statistics published by bilateral trade partners concerning their bilateral trade flows, figures from both partners have been aggregated and then halved. \* 2012 figures.

Source: World Bank, World Integrated Trade Solution database (2015b), and <http://www.trade.gov.tw/english/Pages/List.aspx?nodeID=94> (accessed 14 February 2017).

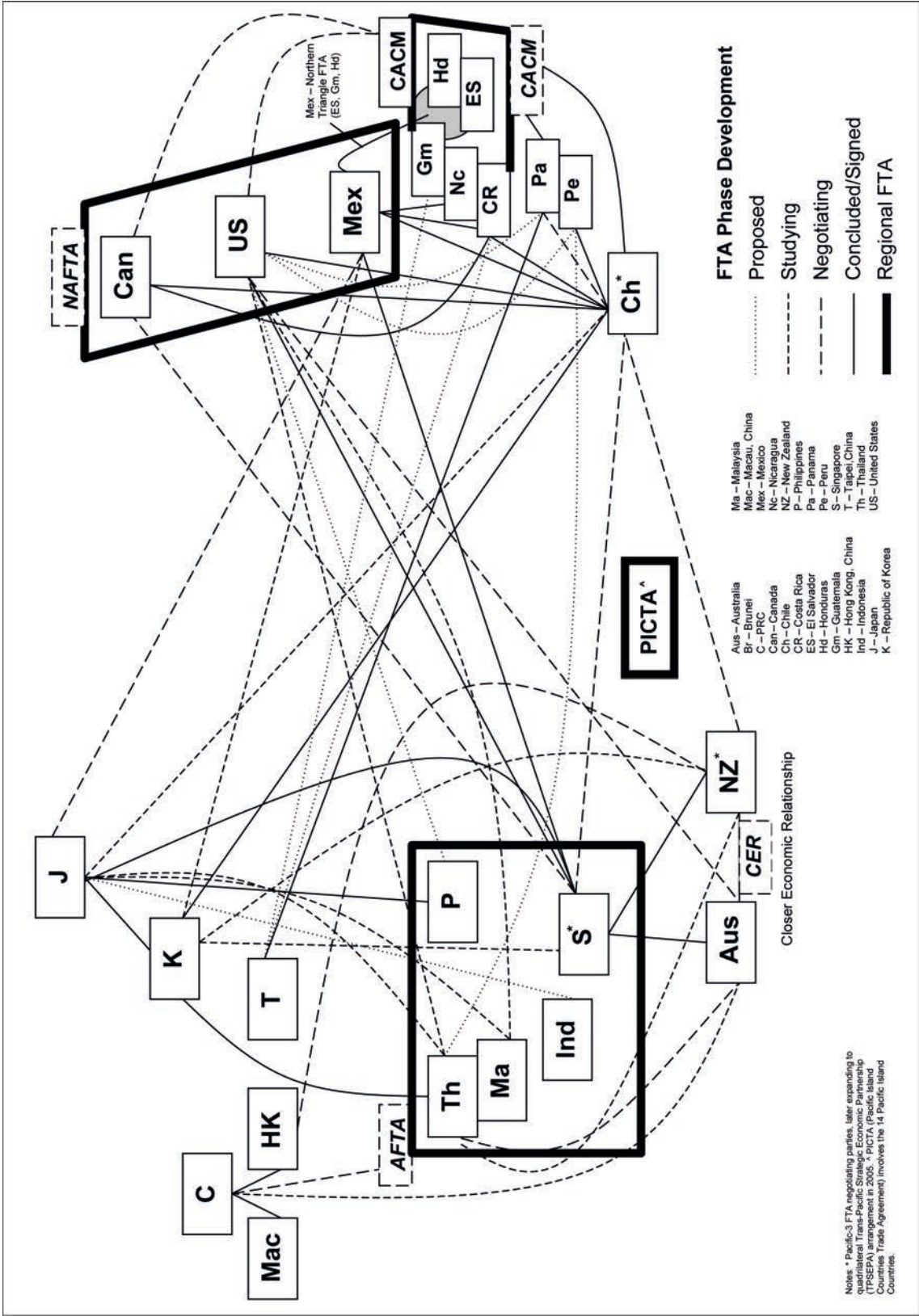
While FTA heterogeneity creates challenges for consolidating bilateral agreements into unified regional ones, a common feature of East Asian FTAs is inclusion of economic and development co-operation measures to complement trade and investment liberalisation (Dent 2010). This establishes important common political economic ground for a regional East Asia FTA, and is consistent with the ‘developmental’ approach to regional economic integration as earlier discussed under the ASEAN Economic Community. It is evident too in the currently framed negotiations on the East Asia centred Regional Comprehensive Economic Partnership (RCEP), to which we turn in a moment. The original idea for creating an East Asia Free Trade Area (EAFTA) was proposed in the EAVG’s (2001) first report, to be realised through the consolidation of incumbent bilateral and sub-regional (e.g. AFTA) agreements in the region. The following year, the East Asia Study Group (EASG 2002) recommended EAFTA be pursued as a long-term goal that should “take into account the variety of differences in developmental stages and the varied interests of the countries in the region” (pg. 44). A PRC-proposed EAFTA feasibility study was commissioned in 2005 through APT diplomacy and based on APT membership, and in 2006 Japan proposed an alternative and expanded regional FTA idea – the Comprehensive Economic Partnership for East Asia (CEPEA) – based on an ASEAN+6 grouping that additionally included India, Australia and New Zealand. Meanwhile around the same time the idea of creating a Free Trade Area of the Asia-Pacific (FTAAP) was being discussed within APEC. The EAFTA proposal never reached further than its feasibility report stage, and instead RCEP emerged a few years later as a reformulated CEPEA-based membership arrangement centred on ASEAN and its various FTA links with its ‘+6’ partners. While ‘ASEAN centrality’ is seen as key to understanding RCEP, it was arguably the joint vision for East Asian regional integration made by the PRC and Japan in August 2011, where this regional FTA was at the core, that ultimately made RCEP possible.

Figure 4: Free Trade Agreement Projects in Asia and the Pacific  
(by end of 1997)



Lao PDR = Lao People's Democratic Republic.

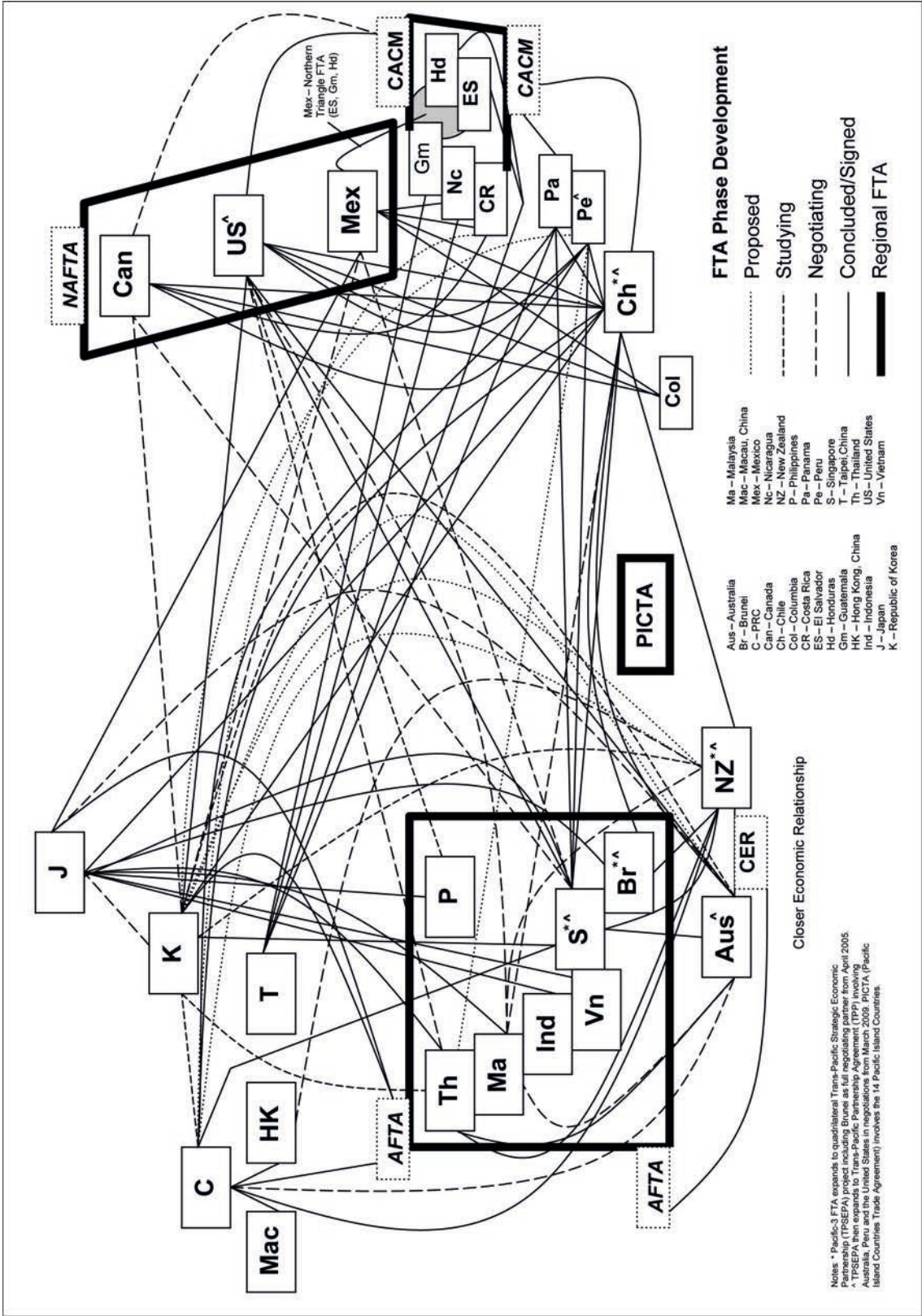
Figure 5: Free Trade Agreement Projects in Asia and the Pacific  
(by end of 2003)



PRC = People's Republic of China.

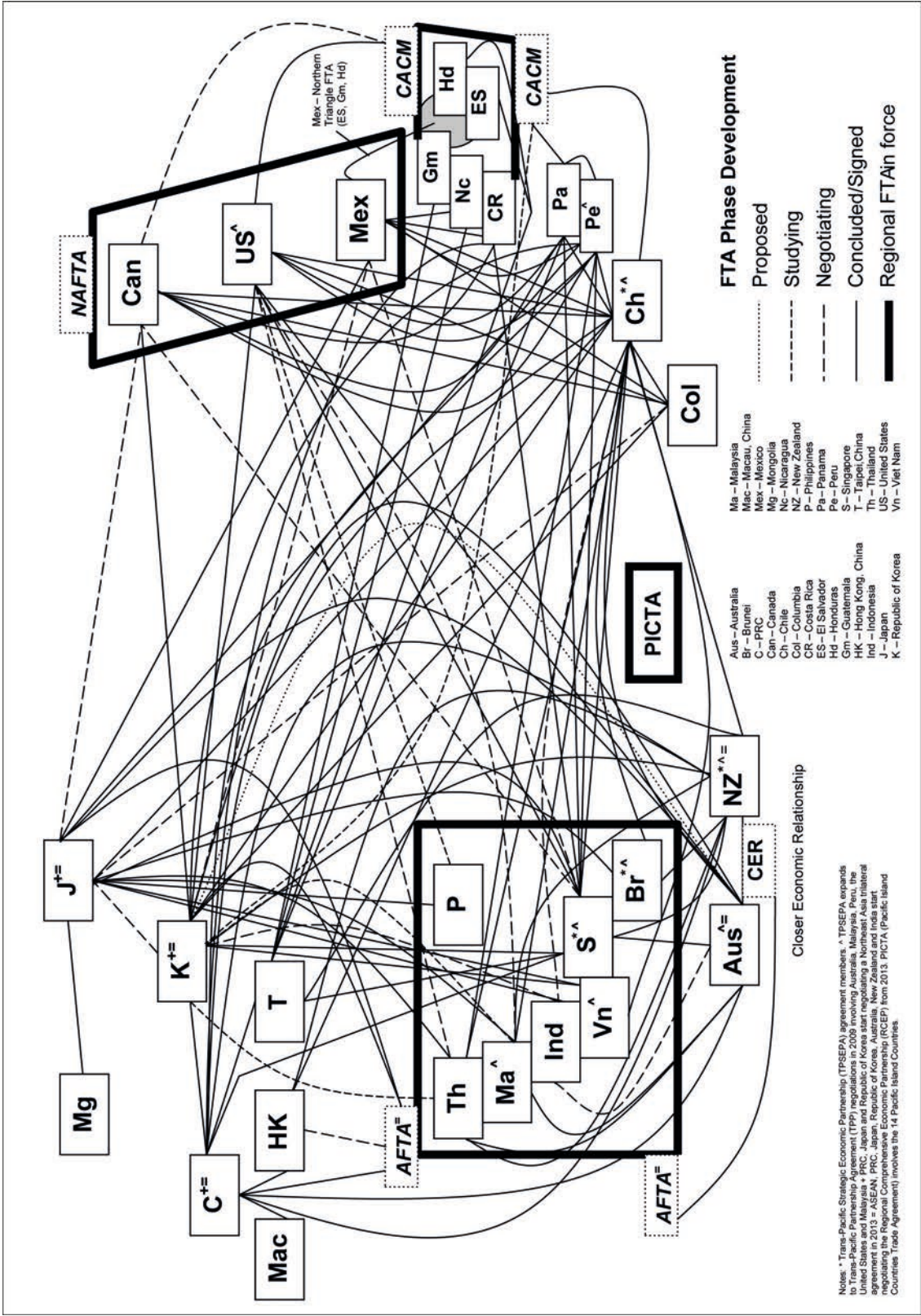


Figure 6: Free Trade Agreement Projects in Asia and the Pacific  
(by end of 2008)



PRC = People's Republic of China.

Figure 7: Free Trade Agreement Projects in Asia and the Pacific  
(by end of 2015)



PRC = People's Republic of China.



Meanwhile, the United States had been pushing its own Asia-Pacific ‘cross-regional’ FTA project, the Trans-Pacific Partnership (TPP), which grew out of an expanded quadrilateral FTA between Singapore, New Zealand, Brunei and Chile – the Trans-Pacific Strategic Economic Partnership (TPSEPA). Negotiations on the TPP began in 2010, and a concluded deal involving its 12 parties (including Japan, Brunei, Malaysia, Singapore and Viet Nam) was struck between their trade diplomats at the end of 2015. However, in January 2017 newly elected US President Donald Trump rescinded his country’s participation in the agreement, effectively killing the TPP as negotiated. The long-term future of any reformulated TPP now remains uncertain. Talks on RCEP commenced in May 2013. Its *Guiding Principles and Objectives* document states the goal of realising “a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN’s FTA Partners”, that would “cover trade in goods, trade in services, investment, economic and technical co-operation, intellectual property, competition, dispute settlement and other issues” (ASEAN Secretariat 2012: 1). The same document outlines equal priority afforded to economic and technical co-operation as trade liberalisation that takes into account development asymmetries of members, and narrowing development gaps through technical assistance and capacity-building provisions to be enshrined in an RCEP agreement. It further notes the need to “facilitate the participating countries’ engagement in global and regional supply chains”, and “ensure a comprehensive and balanced outcome” (*ibid*).

Thus, RCEP promotes regional economic community-building and commercial liberalisation as part of the same process. The TPP in contrast is primarily a market access deal aligned to developed economy (and particularly the United States’) ‘standards’, most notably on commercial regulatory matters. While ‘Development’, and ‘Co-operation and Capacity-Building’ is among the TPP’s 30 chapters, these were relatively very short – just 5 and 3 pages long respectively, compared to 74 alone for IPR. Table 6 gives a comparative overview of RCEP and TPP. Another key difference between both projects is that the former’s negotiating agenda is far less complex and regulatory, and aspires to be ‘WTO-consistent’ rather than ambitiously ‘WTO-plus’ (Wilson 2015). Indeed, RCEP’s agenda will need to be politically economically flexible if it is to bring its major economies of the PRC, Japan, the Republic of Korea, and India into a final brokered agreement. Even the two most closely aligned economies – Japan and the Republic of Korea – failed to conclude their bilateral FTA negotiations in the mid-2000s (Dent 2006). These two countries will have to make politically difficult concessions on agricultural trade liberalisation, and India may prove reluctant to extend goods sector liberalisation beyond 90 percent coverage. By the end of 2016, there had been 16 rounds of RCEP talks (n.b. TPP took 42 rounds over three eventual negotiating tracks) and at this point it was not clear if these will be concluded soon. Even if a final deal is struck among trade diplomats, the TPP experience demonstrates it is quite another challenge to domestically ratify and implement the agreement itself.

**Table 6: RCEP and TPP Compared**

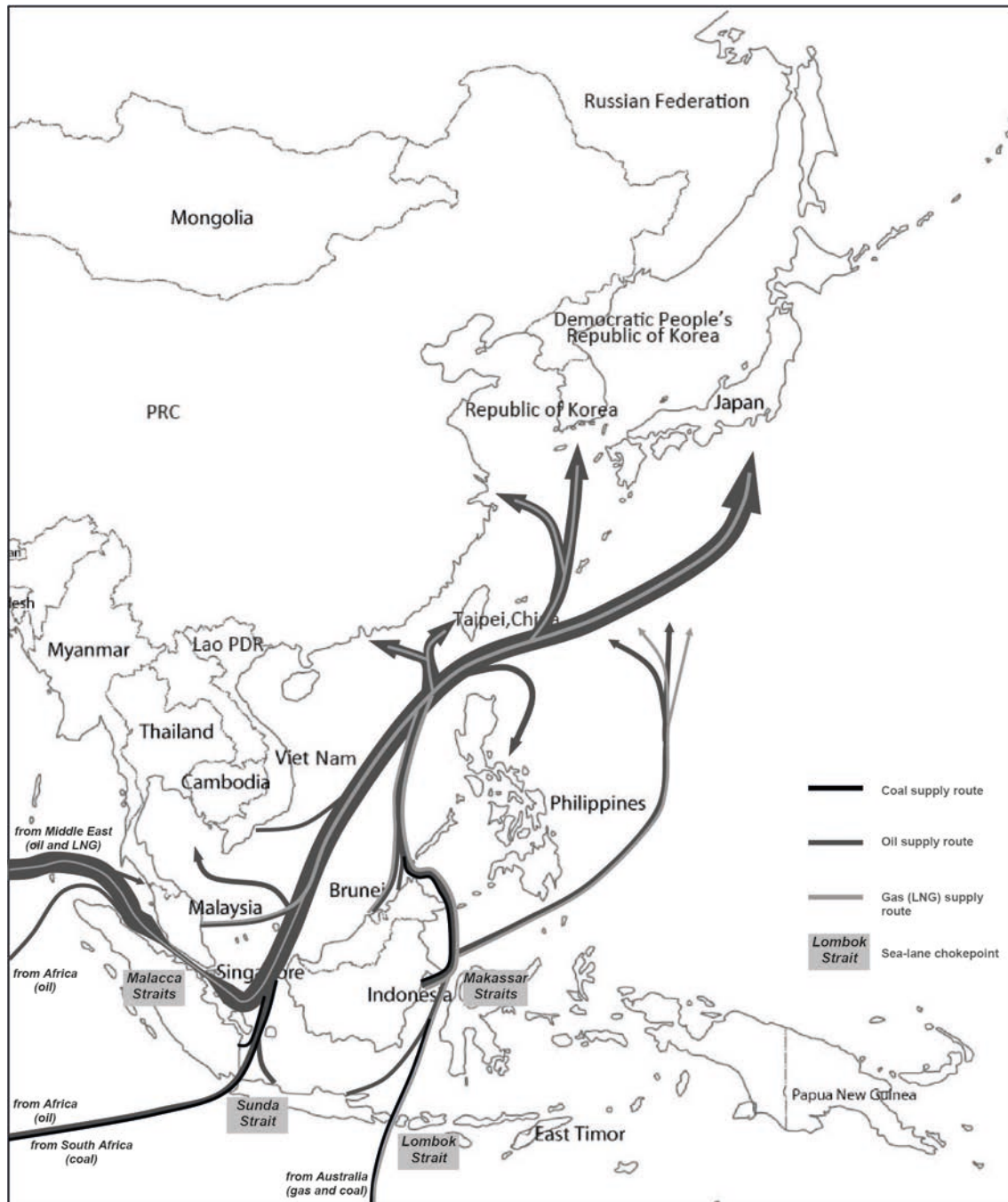
Feature(s)	RCEP	TPP
Geographic Basis	East Asia centred	Asia-Pacific cross-regional
Membership	16 nations: ASEAN-10, PRC, Japan, Republic of Korea, Australia, India, New Zealand	12 nations: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Viet Nam
Antecedents	EAFTA and CEPEA proposals	PAFTA, Pacific-5 and FTAAP proposals; TPSEPA cross-regional FTA
Start of Negotiations	May 2013	March 2010
Negotiation Rounds (by end 2015)	10	19 by August 2013, thereafter 10 rounds of Chief Negotiator Meetings and 13 Ministerial Meetings – 42 in overall total
Core Approach	<ul style="list-style-type: none"> <li>• Mainly market access on goods</li> <li>• Limited coverage of commercial regulatory areas</li> <li>• 'WTO consistent' approach that strengthens compliance only to existing global trade rules</li> <li>• Takes into account the development capacity asymmetries of members</li> <li>• Emphasis on consolidating ASEAN Plus FTAs into singular regional agreement</li> <li>• Positive list modality on sectoral and product-specific liberalisation likely to prevail.</li> </ul>	<ul style="list-style-type: none"> <li>• Deep market access on trade (goods and services) and investment liberalization</li> <li>• Comprehensive rules across multiple areas of commercial regulation</li> <li>• 'WTO plus' approach on setting new trade rules as aspirational global standards</li> <li>• Development, and Co-operation and Capacity-Building chapters included but very short (5 and 3 pages long respectively) and treated as subsidiary to other chapters that take precedence where inconsistencies identified</li> <li>• Negative list modality on sectoral and product-specific liberalisation being pushed mainly by the US and also possibly Australia and New Zealand.</li> </ul>
Leader	ASEAN ( <i>de jure</i> , following principle of 'ASEAN Centrality')	United States ( <i>de facto</i> )
Accession	ASEAN Plus X (must have FTA with ASEAN group beforehand)	All APEC member economies encouraged to join
Trade in Goods	Liberalisation of "substantially all trade in goods"	Implicit aim for 100 per cent coverage. US looking to incorporate its 'yarn forward' rules of origin provisions in a separate Textiles and Apparel chapter.
Services	"Comprehensive, of high quality and substantially eliminate restrictions and/or discriminatory measures with respect to trade in services" (RCEP Guiding Principles and Objectives)	Extensive US style FTA chapter on services trade plus sector-specific chapters on financial services, telecoms and e-commerce
Investment	Creating a liberal, facilitative, and competitive investment environment in the region... will cover the four pillars of promotion, protection, facilitation and liberalization" (RCEP Guiding Principles and Objectives)	Extensive US style FTA chapter on investment rights
Commercial Regulation (general)	Likely to be limited in both scope and depth, with low level legislative commitments involved.	Broad and deep coverage being pushed mainly by the US on intellectual property, government procurement (including state-owned enterprises), investment, competition policy, SPS and TBT
Other Areas	As yet undefined set of economic and technical co-operation provisions across a range of trade-related policy areas consistent with established East Asian 'economic partnership' FTA approach	Investor-State Disputes Settlement (ISDS) mechanism, labour, environment, trade remedies

## 6. NEW SECURITY ISSUES IN FOCUS

Security is an issue intimately bound with regional integration. Traditional politico-military security can be the key driver of integration – as was initially the case for both ASEAN and the EU – and provide the necessary public goods of a stable international environment for integration to flourish. Weak, unpredictable or unstable security environments can likewise constrain regional integration and community-building, and this applies very clearly to East Asia's case. The region has been long beset by historic animosities and periodic conflicts among peoples and nations. During the Cold War, United States led or supported security arrangements such as the Southeast Asian Treaty Organisation (1954–1977) and the Asian and Pacific Council (1966–1973) were pitted against the security alliances of communist states like the PRC, Viet Nam, and the Democratic People's Republic of Korea; with the Soviet Union then always present in the background of East Asia's security theatre. The US remains a crucial security player in East Asia, with military personnel permanently based in Japan and the Republic of Korea, close security partnerships maintained with a number of nations in the region, and the up to 70 vessels strong US Seventh Fleet patrolling the region's waters. Yet significant security tensions still simmer across East Asia—regarding various disputes over island and border territories, etc.—and issues of 'great power' rivalry involving the US, the PRC, the Russian Federation, and Japan have received increasing media and academic attention. This not only relates to the PRC's ascendancy but also due to belligerent leadership in the Russian Federation and now the United States. The persistent of such security tensions and rivalries in East Asia are a hindrance to necessary trust-building required to advance inter-governmental co-operation on regional integration and regional economic community-building generally.

In addition to traditional politico-military security issues, there are other deep structural security challenges facing East Asia stemming from different understandings and conceptions of "security" itself. So called 'new security' concepts or sectors include energy, environment, water, food, resources generally, economic and human security, with overlaps and interconnections (e.g. energy – economic – resources) between them. These arose from scholars such as risk society and Copenhagen School theorists (Beck 1986, Buzan *et al* 1998, Giddens 1990) seeking to better understand the new challenges facing humanity at the millennium's turn, and how to respond to them. Regional co-operation agendas in East Asia and elsewhere have increasingly reflected this evolving re-conceptualisation of security, and a similar impact is evident in the region's trade diplomacy also.

Of the new security sectors, energy and environment are most likely to have the most profound effects on future regional integration and community-building in East Asia, both positively and negatively. This is because energy and environmental predicaments both regionally and globally are becoming critically acute, and their magnitude for international impact is arguably the greatest. East Asia is the world's largest energy consumer (and importer), and emitter of greenhouse gases. Vital energy supply routes to the region pass through narrow maritime 'chokepoints' such as the Straits of Malacca—the world's second busiest sea-lane (Figure 8). East Asia's largest economic and population centres lie in large river deltas or coastal zones, and are therefore highly susceptible to climate change risks, especially rising sea levels. The region's cities are among the world's most polluted and freshwater-stressed.

**Figure 8: Main Energy Import Supply Routes in East Asia by Sea**

Notes: Flows show main supply routes for different imported energy fuels and arrow ends indicate main areas or countries of destination. For reasons of graphic simplicity, flows of imported coal have been drawn just up to main import stream points.

Sources: Based on various collected data.

Regional dialogue on energy security issues has primarily concentrated on attempts to defuse actual and potential conflict, for example concerning territorial claims for hydrocarbon resources lying in maritime waters, and nuclear proliferation on the Korean peninsula. This has achieved limited success to date. Most regional energy co-operation in East Asia at the macro-level has occurred within ASEAN. Early dialogue forums on petroleum were initiated in the 1970s, and a broader ASEAN Plan

of Action on Energy Co-operation was introduced in 1999, which thereafter led to the creation of the ASEAN Centre for Energy as well as introduction of the Trans-ASEAN Gas Pipeline (TAGP) and ASEAN Power Grid (APG) projects. Additional working programmes on being coal, energy efficiency and conservation, renewable energy, and regional energy policy and planning also followed. The TAGP and APG remain the highest profile forms of regional energy co-operation in East Asia but reveal the difficulties of advancing integration where national security interests prevail. Both programmes require not only significant financial commitments to connect up different national energy infrastructures (e.g. electricity grids running on different frequency cycles) but perhaps more important a commitment to share energy system resources (Sovacool 2011, Van de Graaf and Sovacool 2014). With fossil fuels depleting and energy import dependencies rising, energy supply risks in the region have heightened. East Asian nations have discussed these risks in APT, EAS and APEC meetings but little has been achieved concerning programmatic regional co-operation.

Compared to fossil fuels, green energy sectors provides far more opportunities for regional co-operation at multiple levels. Inter-city and bilateral energy co-operation in Northeast Asia dates back some decades, being the focus of aforementioned early twin-city partnerships between Japan, the PRC, and the Republic of Korea that emerged in the 1970s. In the mid-1990s, the Japanese government provided clean-coal technology transfers to the PRC in an attempt to mitigate acid rain and other transboundary pollutants, and in 1996 financed the establishment of the Sino-Japanese Friendship Centre for Environmental Protection in Beijing (Choi 2009, Jaffe and Lewis 2002). Japan has also led to other recent regional initiatives on promoting low carbon development. In 2012, it created the East Asia Low Carbon Growth Partnership (EALCGP) whose early work concentrated on networking together key policy decision-makers and other relevant stakeholders before progressing to support knowledge transfer capacity-building for developing countries. In the same year, the Low Carbon Asia Research Network (LoCARNet) was launched to complement EALCGP in a research-function capacity, with the similar objective of supporting low carbon policy-making in the region's developing countries.

Out of its APAEC framework, ASEAN devised a plan for its member states to introduce more effective policies and programmes on renewable energy commercialization, investment, markets and trade potential but this remained essentially an aspirational exercise with limited financial and institutional backing (Dent 2014b). Meanwhile, the ADB introduced its Promotion of Renewable Energy, Energy Efficiency, and Greenhouse Gas Abatement Project in the early 2000s that provided loan facilities for renewables investment in East Asia's developing countries. In 2009 the Bank's Energy Efficiency Initiative was superseded by the multi-billion dollar funded Clean Energy Programme, helping raise new investment in renewable energy installations and technology (ADB 2012). Furthermore, the ADB has operated sector-specific programmes (e.g. Asia Solar Energy Initiative, Quantum Leap in Wind, Small Wind Initiative) and a Climate Investment Funds programme financing a series of low carbon and climate-resilient development projects across the region. In addition, there has been a region-wide proliferation of bilateral green energy co-operation programmes set mainly in development co-operation contexts, such as the Japan International Co-operation Agency's renewable energy projects in remote zones of Southeast Asia (Dent 2014b). All these efforts help augment the broader endeavours on 'developmental' regional community-building in other areas, such as RCEP on trade and development, and ABMI on finance and development.

Regional environmental co-operation tends to fall into one or more of the following categories: (i) *preventative measures*, for example ending or mitigating ecological damaging activities like timber logging and polluting emissions; (ii) *damage repair and retrofitting measures*, for instance replanting forests, cleaning up oil spills, etc.; (iii) *science, technology and 'best practice' collaboration*, where international partners come together to find new common solutions to shared or linked environmental problems. While prevention is also better than cure, it is this first category of environmental co-operation that East Asian nations have found most difficulty advancing, primarily due to such actions compromising their material prosperity-oriented goals of economic development. Nevertheless, the region's states are now increasingly under socio-political as well as economic pressures to take environmental security risks more seriously, for the reasons outlined at the start of this section.

Southeast Asia again has the longest history of regional environmental co-operation in East Asia, this dating back to the 1970s, when the first ASEAN Environmental Programme was introduced in 1977. By the early 1990s, ASEAN's focus became preoccupied with the growing problem of transboundary forest fire 'haze' pollution. Various programmes and plans have since attempted to mitigate haze but seemingly intractable issues of transnational business ownership and culpability, Indonesia's weak domestic capacity to enforce forestry management legislation, and ASEAN's limited institutional capabilities to deal with transboundary problems generally have led to largely ineffective responses. The worst haze episode to date occurred as recently as 2015. However, after another previously bad episode in 1997/98, ASEAN began to incorporate environmental co-operation more systematically and integrally into wider regional community-building programmes. This included the 1998 Ha Noi Plan of Action and 2004 Vientiane Action Programme, where sustainable development themes (e.g. stronger protection of coastal zones, harmonising environmental standards, freshwater conservation) were made core elements. The latter was superseded in 2009 by the ASEAN Socio-Cultural Community (ASCC) programme, section 'D' of which was entitled 'Ensuring Environmental Sustainability', consisting 11 specific areas of environmental co-operation (ASEAN Secretariat 2009).

This planning on regional environmental co-operation has been spun out to connect with ASEAN's Northeast Asian partners bilaterally (e.g. the ASEAN-PRC Strategy on Environmental Protection Co-operation, 2009-2015) and in APT regional diplomacy up ministerial-level co-operation. Northeast Asia's own sub-regional environmental co-operation has strongly overlapped with its earlier noted efforts on the green energy front, where municipal governments rather than national governments led the way from the 1970s. Japanese cities such as Kitakyushu worked with their twin-city partners in the PRC and the Republic of Korea on transboundary pollution problems, and later in the 1980s and 1990s new track 1.5 and 2 regional frameworks emerged. The Northeast Asian Conference on Environmental Co-operation was based on a bilateral arrangement between Japan and the Republic of Korea created in 1988 that was later regionalised in 1992 to include the PRC, Mongolia, and the Russian Federation. A year later in 1993, the Northeast Asian Subregional Programme for Environmental Co-operation was inaugurated that included participation of the Democratic People's Republic of Korea in addition the five other nations. Later that decade, the trilateral CJK grouping launched the Joint Research Project on Long-Range Transboundary Air Pollutants in Northeast Asia (or LTP Project) to create new regional scientific research communities charged with the tasks of finding solutions to improve air quality in the region and provide better information public goods to aid environmental policy-making (Shapiro 2014). Indeed, collaboration on environmental issues was the most advanced form of Northeast Asian regional co-operation at time, and as mentioned previously became the first trilateral ministerial-level area of co-operation in the NATC framework.

Since then, trilateral environmental co-operation has developed on various fronts (e.g. water resources, environmental education, eco-cities and industries, chemical wastes, transboundary dust and sandstorms) involving a growing number of regionalised networks, projects, activities and stakeholder groups.

What is perhaps most interesting about these emergent new forms of regional environmental co-operation in East Asia is the relatively prominent role played by the scientific, civil society and city government communities. Examples of wider regional-level organisations involving such actor engagement include the Asian Cities Climate Change Resilience Network, Regional Climate Adaptation Knowledge Platform for Asia, East Asian Acid Deposition Monitoring Network and Clean Air Initiative for Asian Cities. The involvement of cities is not surprising given they are responsible globally for around 75 percent of all greenhouse gas emissions (UNEP 2015). As Elliott (2012), this broad stakeholder engagement has created horizontal modes of regional governance on environmental co-operation yet vertical structures of government elite decision-making ultimately remains the prominent force, at least for now. The key point is that, as for any regional community-building exercises, national governments need stronger civil society and other actor engagement to achieve their aims. This allows states to tap into wider intelligence and knowledge resources, and instil a broader sense of inclusivity among the East Asia region's societies and peoples themselves.

## **7. THE PEOPLE'S REPUBLIC OF CHINA, JAPAN, AND REGIONAL COMMUNITY**

The PRC and Japan dominate East Asia's regional political economy. Together they account for around 80 percent of the region's GDP and most other forms of economic activity. Both nations are well positioned and possess the capacity to exercise regional leadership (Dent 2008b). Their relationship is therefore key to East Asia's regional community-building future. If Japan-PRC relations are not functionally well it becomes difficult to be optimistic about a prospective East Asia Economic Community. Aside from high-level political tensions between the national governments of both nations, the bilateral relationship has had to deal with profound structural shifts related to the PRC's rapid economic rise and Japan's flat economic growth since the early 1990s. From the late 19<sup>th</sup> century to that decade, Japan had been the region's dominant economic power, as indicated in Table 7. The PRC was still the relatively minor economic player in 1990, with only 8.6 percent of East Asia's GDP compared to Japan's 74.5 percent. However by 2014, the PRC's share had increased multi-fold to 52.5 percent and Japan's fallen to just 23.3 percent. Table 7 provides detail of how this reversal of economic weight positions is evident across a wide range of fields: trade, energy, finance, transport and infrastructure, technology and innovation. The PRC is now the principal motor of regional economic activity and the main trade partner of most East Asian countries. Once its reform process enabled the PRC to unlock its significant 'critical mass' advantages over Japan regarding population and resource factors, it was perhaps inevitable it would rise again to its long-held historic position of economic hegemon. Yet we should still remember that Japan remains a strong economic power, both in East Asia and globally, as the world's third largest economy and host to many world leading and advanced companies. Indeed, the global reach of Japanese companies such as Toyota, Sony, Honda, Toshiba and Mitsubishi are still more expansive than the PRC's still emerging MNEs.

**Table 7: The People's Republic of China's Economic Rise in East Asia:  
Key Indicators**

	PRC	% of East Asia Total	Global Rank	Japan	% of East Asia Total	Global Rank	East Asia
<b>ECONOMY AND TRADE</b>							
<b>Gross domestic product (US\$ bn)</b>							
1990	356.9	8.6	11	3,103.7	74.5	2	4,165.7
2000	1,198.5	16.5	6	4,731.2	65.0	2	7,273.6
2014	10,360.1	52.5	2	4,601.5	23.3	3	19,729.7
<b>Exports (US\$ bn)</b>							
1990	28.1	9.9	9	110.8	39.2	2	282.9
2000	412.7	24.5	4	517.2	30.7	3	1,685.6
2014	2,342.7	40.7	1	683.8	11.9	4	5,750.6
<b>Imports (US\$ bn)</b>							
1990	16.3	6.2	21	78.9	30.1	4	262.0
2000	203.9	16.0	9	325.8	25.6	4	1,272.8
2014	1,960.3	36.6	2	822.3	15.4	4	5,353.9
<b>ENERGY AND ENVIRONMENT</b>							
<b>Electricity generation capacity (GW)</b>							
1990	137.9	32.0	4	194.0	45.0	3	431.5
2000	324.9	41.3	2	258.4	32.9	3	786.2
2012	1,174.3	64.4	1	293.3	16.1	3	1,824.1
<b>Energy use (mtoe)</b>							
1990	870.7	51.8	3	439.3	26.1	4	1,680.9
2000	1,161.4	50.8	2	519.0	22.7	4	2,284.1
2012	2,894.2	66.8	1	452.1	10.4	5	4,334.2
<b>CO<sub>2</sub> emissions (bn tonnes, annual)</b>							
1990	2,460.7	54.6	2	1,094.8	24.3	3	4,509.6
2000	3,405.2	57.0	2	1,219.6	20.4	4	5,972.5
2012	8,205.4	70.9	1	1,223.2	10.6	5	11,569.3
<b>FINANCE</b>							
<b>Foreign exchange reserves (US\$ bn)</b>							
1990	29.6	10.6	9	78.5	28.1	4	279.1
2000	168.3	16.5	2	354.9	34.8	1	1,020.9
2014	4,009.6	55.6	1	1,283.9	17.8	2	7,208.5
<b>Stock market capitalisation (US\$ bn)</b>							
1991	2.0	0.0	44	3,130.0	90.0	2	3,478.3
2000	580.1	11.9	11	3,157.2	64.6	2	4,885.3
2012	3,687.4	31.7	2	3,681.0	31.6	3	11,635.6
<b>TRANSPORT AND INFRASTRUCTURE</b>							
<b>Air transport, int. departures (000s)</b>							
1990	196.0	14.8	14	476.0	35.9	3	1,327.3
2000	572.9	26.7	8	645.1	30.0	6	2,147.3
2014	3,356.8	48.0	2	927.7	13.3	6	6,993.0

*continued on next page*



**Table 7** *continued*

	PRC	% of East Asia Total	Global Rank	Japan	% of East Asia Total	Global Rank	East Asia
<b>Container port traffic (million TEU)</b>							
2000	41.0	45.6	1	13.1	14.5	4	90.1
2013	174.1	53.3	1	19.7	6.0	7	326.5
<b>TECNOLOGY AND INNOVATION</b>							
<b>Patent applications (residents)</b>							
1990	5,832	1.7	7	332,952	95.6	1	348,257
2000	25,346	5.2	5	384,201	79.1	1	485,571
2013	704,936	61.7	1	271,731	23.8	3	1,142,251
<b>Trademark applications (residents)</b>							
1990	50,853	18.1	7	151,935	54.0	1	281,507
2000	181,717	41.3	3	124,361	28.2	2	440,257
2013	1,733,364	82.2	1	92,486	4.4	7	2,109,858
<b>High technology exports (US\$ bn)</b>							
1992	4.3	3.1	17	78.4	56.0	2	139.9
2000	41.7	10.4	10	128.9	32.2	2	400.1
2013	560.1	51.9	1	105.1	9.7	5	1,078.5

PRC = People's Republic of China.

Notes: Does not include Taipei, China in East Asia calculation, except for foreign exchange reserves figures. GW (gigawatt); bn (billion); mtoe (million tonnes of oil equivalent), TEU (twenty-foot equivalent units).

Sources: World Bank (2015a), International Energy Agency (2015), Energy Information Administration, United States (2015), IMF (2015), Taipei, China government statistics for its foreign exchange reserves.

In the aftermath of the 1997/98 financial crisis, Japan and the PRC worked relatively closely to push forward APT diplomacy and its new regional economic initiatives such as the CMIM and ABMI, although in the mid-2000s they did disagree about the formulation of a proposed Asian Currency Unit scheme and EAS membership. Northeast Asian trilateral diplomacy with the Republic of Korea progressed and expanded under the NATC framework, and as earlier noted in 2011 the PRC and Japanese governments agreed on a formula for RCEP and announced their joint vision for East Asia's future regional integration. Both nations are large complex political economic entities where simultaneous conflict and co-operation co-exist across multiple levels and fields of engagement. Thus it is possible for one of the world's largest bilateral trade and investment relationships to continue flourishing during periods when the high political leaderships of both nations clash, for trilateral FTA negotiations to carry on when territorial disputes flare up. Their bilateral economic interdependence and "mutual assured production" (Katz 2013) ties are such that Japan and the PRC are compelled to work together out of now closely interlocking commercial interests.

However, while the PRC's trade and other international economic ties remained quite regionalised up to the 2000s, in this current decade they have become increasingly globalised. As previously discussed, the burgeoning resource demands of the PRC's rapid economic development has led to its extra-regional import trade outpacing its intra-regional trade. The PRC's accession to the G20 and membership of other multilateral groupings has pulled the country more closely into matters of global

economic governance, not least because its international partners have encouraged it to take its growing global responsibilities more seriously, e.g. on climate change. In addition to trade, the PRC government has signed a number of international financial agreements with nations from every continent. For example, by 2015 it had signed over 30 yuan-based bilateral currency swap agreements with non-CMIM members as part of its strategy to internationalise the PRC's currency, promoting the yuan in trade and investment financing worldwide (Liao and McDowell 2014). This is not to say by being pulled into a more globalised economic diplomacy that the PRC will lose interest in East Asia regional community-building, rather that the various functions of the PRC government is becoming more actively engaged on ever wider international fronts – something the Japanese government has experienced for some decades already. Moreover, unlike any other East Asian nation, the PRC has to manage a large number of 'regional neighbourhoods' to which she belongs or lies adjacent to: Northeast Asia, Southeast Asia, Central Asia, South Asia and the Asia-Pacific. East Asia is still the primary regional community to which the PRC participates but the country is also central to many regional and global futures. It is also important to recognise that nurturing a strong functioning PRC-Japan partnership over the long-term will prove absolutely vital in determining the future development of any East Asia Economic Community.

## 8. CONCLUSION: TOWARDS A REGIONAL ECONOMIC COMMUNITY OR COMMUNITIES

This paper has examined the various dimensions of East Asia's regional integration and discussed how this connects to issues of regional economic community-building. Communities can take many forms, evolve in different ways, and have different objectives. There is no singular model or method of regional community-building, and it was shown that East Asian efforts on this front are occurring at multiple levels in certain parts of the region and regarding different sectors or issues, e.g. finance, environment-related. If we aggregate all these together – as covered in this paper – then we conclude that a multi-track process of regional economic community-building has already been well under way for some time now, albeit in a somewhat haphazard and mostly disjointed manner. The 2012 East Asian Economic Community (EAEC) proposal can be understood as an attempt to bring some key tracks together more coherently under an AEC-style programme of integration. Although the EAEC proposal has yet to be formally adopted by East Asian governments, it does raise questions regarding what a future EAEC might look like, and how it might develop other time. Below are four possible scenarios in general order of ambition:

1. *Regional institutionalisation*: where an East Asia Economic Community is established as a whole new regional organisation with a substantially functioning secretariat overseeing a range of regional co-operation and integration programmes, at the core the implementation of an AEC-modelled arrangement as initially envisioned. The EAEC would also incorporate the CMIM, ABIM and other ongoing East Asia-centred regional initiatives into its organisational remit. Membership based on either ASEAN +3 or +6.
2. *Regional programmatisation*: where the EAEC is simply adopted as an AEC-modelled programme only and managed through the APT framework or an ASEAN +6 arrangement. This would be most logically be developed on RCEP's foundations once established, and thus would require RCEP to be first implemented, just as the AEC was built on AFTA.

3. *Regional branding*: in which a small EAEC agency (e.g. located in the ADB) performing mainly analytical and public knowledge functions identifies the various strands of regional economic community-building across East Asia and their inter-connections, and brands these under an EAEC heading. This would publically promote the idea of at least an informalised EAEC already taking shape, and a stronger public space for formalising it in the future.
4. *Regional aggregation*: where the various multi-track endeavours outlined in this paper continue to build along their own largely separate paths with no inter-governmental efforts to promote any kind of EAEC entity, and hence an East Asian economic community exists purely as an aggregation of existing activities and ongoing developments.

Predictions on the likely chances of each above scenario – especially the more ambitious – are extremely difficult to make, and will naturally depend on future timescale criteria. The more ambitious will require deeper levels of inter-governmental commitment to create regional public goods that an EAEC will produce for the regional community. In this regard, RCEP is a litmus test. If negotiations are successfully concluded and an agreement effectively implemented then as suggested above it would be the logical foundation on which to build an EAEC as envisioned in 2012, extending an AEC-type arrangement into new security sectors such as energy and environment. While ASEAN has been placed in a position of operational centrality regarding RCEP talks, its success ultimately depends whether its three large economic powers – Japan, the PRC, and India – being able to find common ground for agreement. The PRC-Japan relationship more generally will be vital to the future of any formal East Asia Economic Community for reasons outlined in this paper. We may also see new innovative modes of regional community evolve and develop over the years to come, as cities, civil society organisations and other emergent international actors form closer associative, integrational and organisation bonds of coherence within East Asia's regional space. Many types of regional economic communities are developing in one of the world's most dynamic regions.

The above are general observations of how an East Asia Economic Community and regional economic communities *per se* may evolve over the longer term in accordance to key determining factors and themes discussed. In the meantime, this paper makes the following specific policy recommendations:

1. *Accelerate RCEP negotiations to a successful conclusion, and make it a substantive agreement*: with the negotiated TPP now effectively dead after US President Trump's withdrawal from the agreement, East Asian countries have the chance to establish the most important 'trade plus' agreement in the Asia-Pacific and arguably the world. Establishing a meaningful RCEP will not only enhance trade integration and relations in the region but lay the most important foundation stone to date for East Asian regional community-building.
2. *Employ the division of labour principle on regional leadership*: there should not be just one regional leader in East Asia, rather where possible leadership is exercised over a range of tasks and sectors, consistent with the multi-faceted nature of regional economic community-building. Allow those nations that have carved out a strong presence globally in those sectors to take a lead. This can involve singular nations or pairs of nations, or co-leadership. Thus, the Republic of Korea in green diplomacy, Japan and the PRC on finance, Japan on food security, the PRC on regional infrastructure development, etc.

3. *Strengthen existing institutions*: especially new ones such as AMRO on finance and regional economic monitoring, and NATC/TCS to help further promote Northeast Asia regional community-building. The latter is key to unlocking a wider East Asian regional community-building process for reasons discussed earlier. It will help fortify the vital Japan-PRC relationship.
4. *Look to strengthen and expand new security sector co-operation now*: these sectors will increasingly shape the future of East Asia as a region as the 21<sup>st</sup> century unfolds. It is recommended to lay down some firmer foundation stones for this now, preferably by creating new regional institutions or forms of governance in these areas. Biennial 'regional energy summits' and 'regional environmental summits' could be held through ASEAN Plus Three (APT), where national leaders and relevant ministerial heads are in attendance to discuss common areas of interests and establish new co-operation initiatives in these new security sector areas. It would also help revitalise the APT framework and provide it with new purpose.

Building new bridges among East Asian nations and peoples will be important over the next few years, especially at a time when the United States appears to be building walls around itself, and the 'House of Europe' is in danger of dismantling itself. Pushing ahead with East Asia's regional community-building on various fronts will remind those outside the region that even when tensions and conflicts persist in international society, isolationism and a withdrawal to 'national interests' is ultimately counter-productive in an increasingly inter-connected world, and that business and technological driven economic interdependence requires nations to work ever closer together regionally and globally. East Asia has a golden opportunity now to show the world how this can be done.

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