

# Paths ahead for East Asia and Asia–Pacific regionalism

CHRISTOPHER M. DENT

The growing global significance of East Asia lies not just in the region being home to some of the world's most important and dynamic economies—China, Indonesia, Japan, Korea, Vietnam—but also in its strengthening regional economic coherence in an emerging world of regions. As is now increasingly recognized, the East Asia region comprises two subregional elements: South-East Asia—Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam; and North-East Asia—China, Hong Kong SAR, Japan, Macau SAR, Mongolia, North Korea, South Korea and Taiwan. As a whole, it has achieved one of the most profound economic transformations in recorded history. In 1960, East Asia accounted for only 4 per cent of world gross domestic product (GDP). By the 1990s, it had become one of three core economic regions (along with Europe and North America) that together dominated the world economy, accounting for a quarter of world GDP. Today, East Asia is still the world's fastest-growing regional economy, its GDP expanding at over 7 per cent per annum in the early 2010s.<sup>1</sup> East Asia is core to a wider Asia–Pacific transregional area that also includes Oceania (Australia, New Zealand and the Pacific Island countries) and Pacific America (the United States, Canada, Mexico and other American continental nations with a Pacific coastline). Most countries from these three regions are members of the Asia–Pacific Economic Cooperation (APEC) forum, the world's largest regional economic grouping representing around 60 per cent of the global economy. In the 1990s for the first time the volume of transpacific flows of trade and investment overtook transatlantic flows, making the Asia–Pacific the main centre of economic gravity in the international system. Until the mid-1990s, the regional economic ties that bound East Asia and Asia–Pacific countries together had been forged primarily by business interests. However, after the East Asian financial crisis of 1997–1998, governments from the region began to develop a more substantial regional economic diplomacy, leading to the creation of new international agreements, frameworks and organizations. By the early 2010s, regionalism in East Asia and the Asia–Pacific had developed on various fronts. Nevertheless, significant challenges to the further advance of regionalism in this part of the world lie ahead.

<sup>1</sup> L. Dittmer, 'Asia in 2011: transition?', *Asian Survey* 52: 1, 2012, pp. 1–5; L. Dittmer, 'Asia in 2012: the best of a bad year?', *Asian Survey* 53: 1, 2013, pp. 1–11.

## Regionalism in the international system

Since the end of the Cold War in the early 1990s, regionalism has become a key defining feature of the international system. We increasingly talk of 'East Asia', 'Europe', 'Latin America' and so on as distinctive regions or regional communities that are elemental parts of world society. Indeed, it has been argued that we now live in a world of regions and in an international system increasingly defined by interactions between regions and regional powers.<sup>2</sup> We may broadly define regionalism 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'.<sup>3</sup> It may take two generalized forms. The first of these, comprising micro-level processes that stem from regional concentrations of interconnecting private or civil sector activities, may be specifically referred to as *regionalization*, as distinct from the second, which comprises public policy initiatives, such as a free trade agreement or other state-led projects of economic cooperation and integration that originate from intergovernmental dialogues and treaties, which may be specifically referred to as *regionalism*. According to this more strictly defined terminology, regionalism is a policy-driven, top-down process while regionalization is more of a business or societally driven, bottom-up process.

Regionalism (including regionalization) is also closely linked to globalization. If globalization can be thought about fundamentally as increasing levels of connectivity, integration and interdependence between different parts of the world economy and society occurring on a worldwide scale, then regionalism is a manifestation of very similar processes occurring on a regional scale.<sup>4</sup> Furthermore, when appearing to lack the independent or autonomous resources to sufficiently address the opportunities and threats posed by globalization, nation-states have worked together in regional associations and groups to pool strengths and resources in order to mount a more effective collective response to globalization.

While regionalism may be viewed as a building bloc of globalization, it has also, conversely, been perceived at times as fragmenting the international system into separate competing regional blocs championed by their respective 'regional powers', such as Brazil in Latin America, India in South Asia and China in East Asia. This was particularly a concern in the post-Cold War international order of the early 1990s when there was much speculation regarding which of the three economic superpowers (the United States, the European Union and Japan/East Asia) would come to dominate the twenty-first century. In the event, what transpired was a general thickening of regionalism worldwide accompanied by other new layers of international and global governance, and, most recently, multipolar structural changes centring on the rise of new powers, most of which are large

<sup>2</sup> B. Buzan, and O. Waever, *Regions and powers: the structure of international security* (Cambridge: Cambridge University Press, 2003); P. J. Katzenstein, *A world of regions: Asia and Europe in the American imperium* (Ithaca, NY: Cornell University Press, 2005).

<sup>3</sup> C. M. Dent, *East Asian regionalism* (London: Routledge, 2008).

<sup>4</sup> B. Hettne, 'Beyond the new regionalism', *New Political Economy* 10: 4, 2005, pp. 543–71.

developing nations at the forefront of what is collectively often referred to as the ‘global South’.

The primary basis of regionalism worldwide has been economic. Cooperation and integration through trade, foreign investment, international finance and various cross-border development projects have been the main foundations on which regional groupings have cohered. Different regions have taken different approaches to fostering economic regionalism, and the pattern of achievement has been asymmetric. Notwithstanding its recent problems in managing the eurozone, the European Union is by far the world’s most integrated regional economic entity. It operates a dense and complex regional governance structure that most other regions are not able to emulate owing to their much lower levels of technocratic, institutional and general development capacity. Nevertheless, the EU is still seen as providing a benchmark for advanced regional economic integration to which other regions aspire, most notably in Latin America, Africa and many parts of Asia.

## **Developments in East Asia and Asia–Pacific regionalism**

### *Regionalization in East Asia*

In terms of *regionalization*, only the EU is more economically integrated than East Asia. Micro-level business linkages within East Asia have gradually built up over time, leading to high levels of regionalized trade, investment, production and infrastructural connectivity. By the late 2000s, East Asia’s intraregional trade ratio was 55 per cent (up from 25 per cent in the early 1960s, and 35 per cent by 1980), compared to the EU’s 65 per cent, North America’s 43 per cent and South Asia’s 12 per cent.<sup>5</sup> What particularly distinguishes East Asia is the level and sophistication of its *functional economic integration*, based on dense patterns of international production networks (IPNs) and supply chains that are even more comprehensive and internationally dispersed than Europe’s. Multinational enterprises from inside and outside the region in most of the world’s main industries have used East Asia as their main global production centre and organized their business systems on a transnational basis involving multi-country international divisions of labour. This phenomenon is often referred to as ‘Factory Asia’.<sup>6</sup> Thus East Asia’s regional economic integration is not just a matter of rising levels of intraregional trade and investment: deepening IPN and supply chain development has brought qualitative changes to East Asia’s regional economic integration and strengthened systemic interdependencies among the region’s economies.

<sup>5</sup> C. M. Dent, *Organising the wider East Asia region*, Asian Development Bank series on regional economic integration, no. 62 (Manila: Asian Development Bank, Nov. 2010).

<sup>6</sup> J. Henderson, P. Dicken, M. Hess, N. Coe and H. W. C. Yeung, ‘Global production networks and the analysis of economic development’, *Review of International Political Economy* 9: 3, 2002, pp. 436–64; F. Kimura and M. Ando, ‘The economic analysis of international production/distribution networks in East Asia and Latin America: the implications of regional trade arrangements’, *Business and Politics* 7: 1, 2005, article 2; S. Yusuf, M. A. Altaf and K. Nabeshima, eds, *Global production networking and technological change in East Asia* (Oxford: World Bank and Oxford University Press, 2004).

## *The long road to state-led regionalism*

While business-led regionalization at the micro level in East Asia deepened steadily from the 1950s and 1960s onwards, spearheaded mainly by the IPN-building of Japanese multinationals, early interstate efforts on regionalism were focused almost entirely within South-East Asia, with additional initiatives led by Japan and Australia to foster a nascent Pacific community. During the Cold War period (1950s to 1980s) both East Asia and the Asia–Pacific were splintered by capitalist and communist alignments. The formation of the Association of South-East Asian Nations (ASEAN) in 1967—its five original members being Indonesia, Malaysia, the Philippines, Singapore and Thailand—itsself came about with the conspicuous helping hand of the United States as a geopolitical blocking move against the further advance of communism in South-East Asia.<sup>7</sup> It remained a largely ineffectual organization with a strong political and security orientation and a limited economic agenda until the early 1990s. Meanwhile, Japan started to promote the idea of a Pacific community from the mid-1960s onwards, allying itself with Australia to develop initiatives including the Pacific Basin Economic Council (PBEC, established in 1967), Pacific Trade and Development (PAFTAD, established in 1967) and the Pacific Economic Cooperation Conference<sup>8</sup> (PECC, created in 1980). These were, though, track 2 (civil society) or 1.5 (civil society and government) regional frameworks rather than track 1 intergovernmental regional organizations.<sup>9</sup> However, the culmination of these Japanese–Australian endeavours on Pacific community-building led to the establishment in 1989 of APEC, which started with a relatively limited agenda on regional economic cooperation among its twelve original member economies.<sup>10</sup>

Both ASEAN and APEC raised their ambitions in the new international order of the early 1990s. The ASEAN Free Trade Area (AFTA) project, launched in 1992, aimed to implement a regional free trade agreement within ten years. In 1994, APEC member governments agreed to create a ‘free trade and investment zone’ across the Asia–Pacific by the split deadlines of 2010 for developed economy members and 2020 for developing economies. Meanwhile, in the east Pacific the North America Free Trade Agreement (NAFTA) concluded between the United States, Canada and Mexico also came into force in 1994. In addition, a number of other smaller free trade agreements (FTAs) were being negotiated among Pacific American countries, for example between Mexico and Chile, and between Colombia and Mexico. However, the East Asia region remained deeply fractured geopolitically

<sup>7</sup> N. L. Sum, ‘The NICs and competing strategies for East Asian regionalism’, in A. Gamble and A. Payne, eds, *Regionalism and world order* (Basingstoke: Macmillan, 1996); M. Yahuda, *The international politics of the Asia–Pacific, 1945–1995* (London: Routledge, 1996).

<sup>8</sup> The word ‘Conference’ was later replaced by ‘Council’.

<sup>9</sup> K. Kojima, *Japan and a Pacific free trade area* (London: Macmillan, 1971); P. Korhonen, *Japan and the Pacific free trade area* (London: Routledge, 1994); C. E. Morrison, ‘An APEC trade agenda’, in C. E. Morrison and E. Pedrosa, eds, *An APEC trade agenda? The political economy of a free trade area of the Asia–Pacific* (Singapore: Institute of Southeast Asian Studies, 2007); J. Ravenhill, *APEC and the construction of Pacific Rim regionalism* (Cambridge: Cambridge University Press, 2001).

<sup>10</sup> Australia, Brunei, Canada, Japan, Indonesia, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, the United States.

by the prevalence of mistrust, conflict and stunted diplomatic relations. Only very few and relatively minor international economic agreements (e.g. bilateral investment treaties and some low-level ASEAN accords) had been signed among East Asian states by this time. The main regional and other international alignments of these states lay outside the region, whether with particular security partner states (e.g. the United States for Japan and South Korea), in transregional groupings (e.g. APEC) or in global multilateral contexts, such as Japan's membership of the G7. Attempts by Malaysia to establish an exclusively East Asian regional grouping in the early 1990s—the East Asian Economic Grouping and Caucus initiatives—failed owing to lack of international support.

### *What a difference a crisis makes ...*

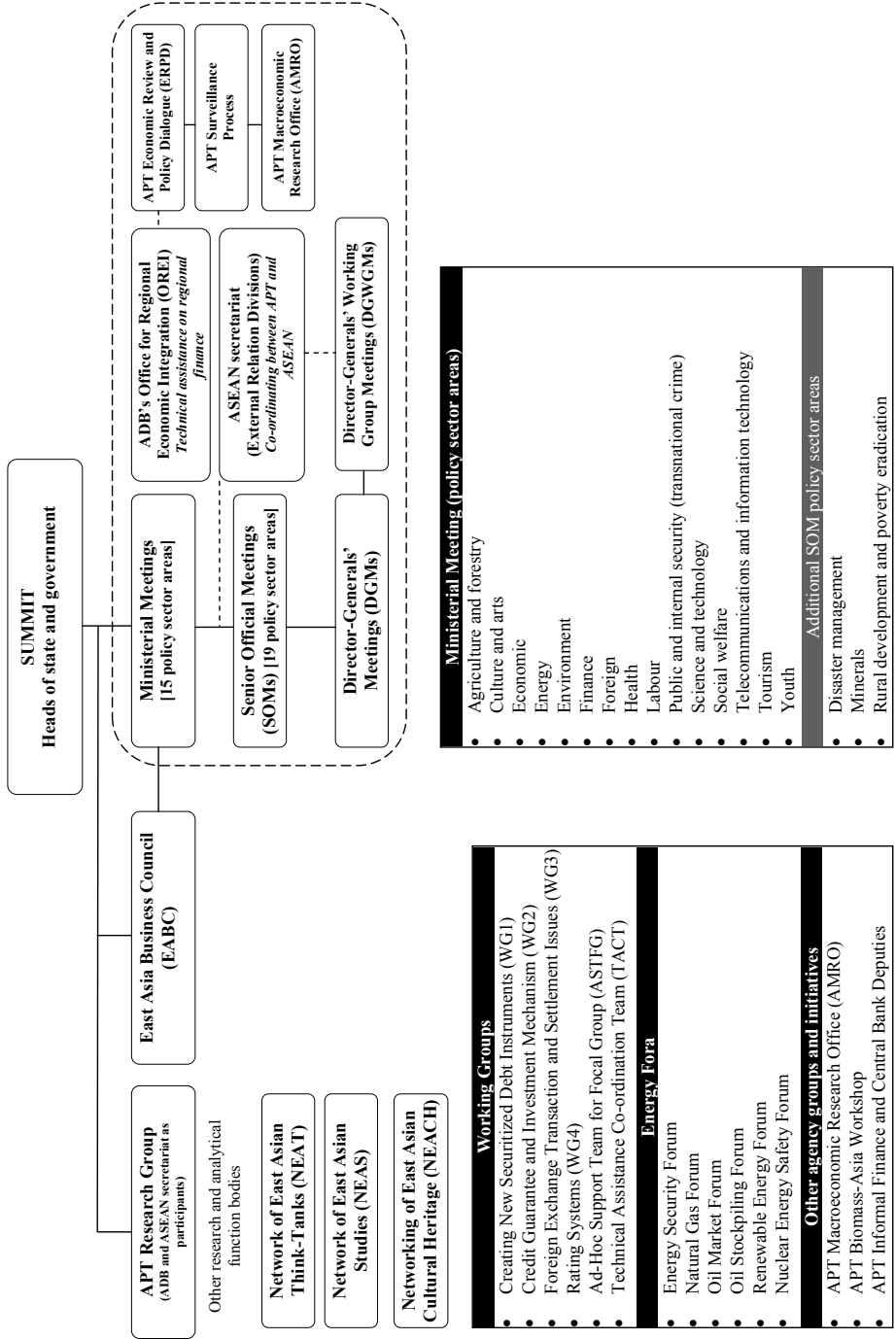
The East Asian financial crisis of 1997–1998 dramatically changed the calculus of international relations in both East Asia and the Asia–Pacific. Triggered by a currency crisis in Thailand in July 1997, it quickly escalated into a region-wide and multisector financial crisis by the end of the year. It was arguably the most profound shock to the region since the Second World War, throwing many of the world's fastest-growing economies into reverse and causing very significant economic, political and social turmoil. The crisis also exposed two key features of the region's condition. First, the rapidity with which it spread revealed the extent of regional economic interdependence and interlinkages (i.e. regionalization) that bound East Asian countries together. Second, the crisis showed the lack of effective international and regional coping mechanisms in East Asia to deal with a situation of this gravity. Fortunately, the governments from the ten-country ASEAN group and their North-East Asian neighbours of China, Japan and South Korea had already agreed before the crisis broke to hold a summit meeting among themselves in preparation for the second Asia–Europe Meeting (ASEM).<sup>11</sup> This historic summit, being the first time East Asian leaders had met exclusively, took place in December 1997 in what became known as the ASEAN Plus Three (APT) group. Unsurprisingly, the prime focus of its discussions was on improving East Asia's regional financial cooperation and governance at the inaugural APT summit. As figure 1 shows, APT has subsequently developed into a regional framework of diplomacy for promoting cooperation in around 20 policy areas, including emerging areas of regional diplomacy such as energy and food security.

New APT-led schemes to improve regional financial governance in East Asia—most notably the Chiang Mai Initiative (CMI) and Asian Bond Market Initiative (ABMI)—broke new ground in institutionalized cooperation among the region's states.<sup>12</sup> The CMI was created in 2000 as a region-wide network of bilateral currency swap agreements (BCSAs) among most APT member states. The number

<sup>11</sup> This was to be held in London in April 1998.

<sup>12</sup> Dent, *Organising the wider East Asia region*; M. Hund, 'ASEAN Plus Three: towards a new age of pan-East Asian regionalism? A sceptic's view', *Pacific Review* 16: 3, 2003, pp. 383–417; R. Stubbs, 'ASEAN Plus Three: emerging East Asian regionalism?', *Asian Survey* 42: 3, 2002, pp. 440–55.

Figure 1: The institutional structure of APT



Source: The author.

of BCAs gradually grew to the point where by 2009 they combined 16 agreements worth a total of US\$93 billion. Each agreement was a standby mechanism, remaining inactive until called upon in times of emergency. Overall, the CMI played to East Asia's fundamental economic strengths in that the region collectively possessed the majority of the world's foreign exchange reserves ('forex'), the funds on which the system was based. Forex comprises essentially the foreign currency deposits held by central banks and other monetary authorities, the main reserve currencies being the US dollar, euro and yen. Governments use forex to help stabilize their countries' exchange rates by intervening in the currency markets, for example buying their own currency with foreign reserves to counter downward pressures caused by mass selling of the local currency by speculators. The amount of forex committed to the CMI could be interpreted as rather under-ambitious given the levels of reserves that APT countries had at their command, which in 2009 stood at around US\$4 trillion (up from US\$620 billion in 1997). At this time the CMI system operated on a mere fraction (just over 2 per cent) of the combined foreign exchange reserves of APT states.

During the global financial crisis of 2008–2009, vulnerable countries such as Indonesia considered activating their CMI swap arrangements but never actually did so. Furthermore, in October 2008 the central banks of both South Korea and Singapore (along with those of Mexico and Brazil) signed and activated new temporary US\$30 billion BCAs with the US Federal Reserve, indicating a lack of faith in the CMI system and East Asian regional cooperation generally.<sup>13</sup> Japan, Australia and New Zealand had also previously signed BCAs with the United States. The decision of South Korea and Singapore to choose this alternative path rather than using their sizeable BCAs with China and Japan in the CMI significantly undermined confidence in East Asia's regional financial cooperation.

In response to this episode and the 2008–2009 global financial crisis generally, APT finance ministers agreed in February 2009 to multilateralize the system of BCAs into a regional liquidity fund. The new scheme—the Chiang Mai Initiative Multilateralized (CMIM)—became operative in 2010 and converted the 16 bilateral agreements into a common funding forex pool of initially US\$120 billion, doubled to US\$240 billion in 2012. Depending on how substantially the CMIM is developed, it could play a key role in establishing a regional exchange rate system in the much longer term, another idea that has been raised in APT meetings and studied by Japan and other East Asian countries. The CMIM system is overseen by the ASEAN Plus Three Macroeconomic Research Office (AMRO), a new East Asian regional institution created in 2011 and based in Singapore that also provides financial analytical services for APT generally.

The Asian Bond Markets Initiative (ABMI) has been the APT's second main structure of regional financial cooperation. Like the CMI, the ABMI provides East Asia with the opportunity to use the region's huge financial resources for

<sup>13</sup> M. Beeson, 'Crisis dynamics and regionalism: East Asia in comparative perspective', *Pacific Review* 24: 3, 2011, pp. 357–74; W. W. Grimes, 'The future of regional liquidity arrangements in East Asia: lessons from the global financial crisis', *Pacific Review* 24: 3, 2011, pp. 291–310.

promoting its own regional financial stability and economic development, rather than investing in, or diverting these resources to, other regions or countries as had hitherto been the case. East Asia has not only huge foreign exchange reserves but also very high levels of domestic savings, at around 30–40 per cent of GDP. A large proportion of the region's financial resources have over time been invested in bonds and other securities originating outside the region, especially in advanced industrial countries such as the United States. East Asia's own capital markets have generally been slow to develop, with only higher-income countries like Japan and South Korea having established credible markets for bonds.<sup>14</sup> The ABMI is designed to foster domestic and regional bond market development in East Asia with a general view to making better use of the region's substantial financial resources, particularly in respect of meeting the region's investment needs. Although the ABMI has mainly developed through APT processes, these have worked in tandem with certain other related institutions and organizations, especially the Asian Development Bank (ADB), the Executives Meeting of East Asian Central Banks (EMEAP) and the Bank for International Settlements (BIS). Since the ABMI's launch in 2003, the ADB has helped provide new bond issue assistance to a wide range of East Asian countries, including China, Malaysia, the Philippines, Thailand and Vietnam. By mid-2011, the level of outstanding bond issues in East Asia (Japan excluded) denominated in local currencies had risen to US\$5.3 trillion, up from around US\$0.4 trillion in 1997; the majority of this increase (around US\$3 trillion) was accounted for by China, with South Korea contributing around US\$1 trillion.<sup>15</sup> The ABMI may be considered a regional initiative for coordinating efforts at national level on financial governance that works in tandem with the aforementioned regional institutions and organizations but in itself lacks the regional systemic substance of the CMIM/AMRO.

Another key development in interstate economic diplomacy partly sparked by the 1997–1998 financial crisis was the proliferation of mostly bilateral FTA activity among East Asian and Asia–Pacific states. As previously noted, Pacific American countries had already started to sign these agreements some years before, and an Australia–New Zealand FTA (the Closer Economic Relations treaty, or CER) had been in force since 1983. However, East Asia's only FTA project at the time the crisis broke was AFTA, and this was some years from being implemented. By late 1998, though, East Asia's first bilateral FTA projects had been proposed. The first and most important of these, the proposed Japan–South Korea FTA, set out to respond to the region's financial crisis by strengthening international economic cooperation and governance between two of its largest and most powerful economies. New FTAs were also viewed as increasingly important for East Asia's export-dependent countries during a period of significant domestic economic turmoil, as well as during a time when the World Trade Organization

<sup>14</sup> A bond is a fixed-interest, long-term security that can be issued by governments, firms, banks and other institutions.

<sup>15</sup> T. Kurihara, 'Achievements of Asian Bond Markets Initiative (ABMI) in the last decade and future challenges', paper presented at the OECD–ADBI 12th Roundtable on Capital Market Reform in Asia, Tokyo, 7 Feb. 2012.



(WTO) and the multilateral trade system itself were under severe pressure and failing to make progress on global trade liberalization.

### *The United States, East Asia and the Asia–Pacific*

The relationship between the United States and East Asia has always been strategically significant. Ever since gaining ascendancy in the international system the US has sought a hegemonic position in the Pacific and Asia–Pacific. American military dominance in this part of the globe remains undiminished, and Washington maintains strong security partnerships with key countries such as Japan, South Korea and Australia. By helping to maintain a balance of power in East Asia—a region where historic animosities run deep—one could argue that the US military presence has provided important security public goods that have enabled East Asian regionalism to advance over the years. The United States' relations with East Asian and Asia–Pacific states are further augmented by considerable soft power influence (through, for example, popular culture, education and values), close elite group socialization, and still high levels of economic engagement. Although relations between the US and East Asian countries were damaged by the fallout from the 1997–1998 financial crisis,<sup>16</sup> and went through a difficult period during the Bush administration in the 2000s,<sup>17</sup> under President Obama these relationships have gradually improved since the early 2010s. This trend owes much to the general reorientation of US foreign policy away from its overt primary focus on the 'war on terror' (and hence on the Middle East and western Asia) and more towards the Asia–Pacific, where America's main economic interests lie, and also arguably its most important emerging strategic interests, especially regarding the rise of China.

This adjustment in US foreign policy was signalled by Secretary of State Hillary Clinton's announcement in October 2011 of the intended 'pivot' to Asia, based on six key lines of action: 'strengthening bilateral security alliances; deepening our working relationships with emerging powers, including with China; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights'.<sup>18</sup> In the same year, the United States and Russia became the newest members of the East Asia Summit (EAS) regional framework. Established in 2005 as a spin-off of the APT, its original membership comprising the APT nations, Australia, India and New Zealand, the EAS is essentially a leader-driven diplomatic process that addresses key regional and global events but has no real organizational substance. Japan has been the principal advocate of the EAS process; the recent accession of

<sup>16</sup> R. Higgott, 'The Asian economic crisis: a study in the politics of resentment', *New Political Economy* 3: 3, 1998, pp. 333–56.

<sup>17</sup> M. Beeson, ed., *Bush and Asia: America's evolving relations with East Asia* (London: Routledge, 2006); M. Beeson and A. Broome, 'Hegemonic instability and East Asia: contradictions, crises and US power', *Globalizations* 7: 4, 2010, pp. 479–95.

<sup>18</sup> H. Clinton, 'America's Pacific century', *Foreign Policy*, 11 Oct. 2011, <http://www.state.gov/secretary/rm/2011/10/175215.htm>, accessed 23 June 2013.

the United States to the group raises important questions concerning the social construction of regions, how they are represented, and how a region's affairs and interests are 'managed'. The fact that the EAS is more of a summit-driven process than a regional organization with structured programmes and layers of regional cooperation (such as, for instance, APEC or even APT) means that it is more of a broad forum in which extraregional powers like the United States can express their interests in the affairs of East Asia, as well as an interface between the regional and global arenas from an East Asian perspective: for example, like APEC, the EAS provides Washington with the opportunity to discuss East Asia's contribution to global governance issues. By any stretch of the geographic imagination, it is difficult to make a case for considering the United States an East Asian nation. However, such are the webs of economic, security and other forms of interdependence that East Asia needs the United States (and also arguably other key partners like the European Union) when addressing key issues and challenges facing the region. Examples include maritime security in the South China Sea, energy security, environmental issues and climate change.

While US membership of the EAS regional framework and also its leadership of the Trans-Pacific Partnership FTA negotiations (discussed below) provide greater geopolitical opportunity for the United States to exercise stronger leadership in East Asia and Asia-Pacific regionalism, it is by no means certain that its reinvigorated hegemonic endeavours will succeed. Both regions are highly diverse, and many American values and interests are not entirely compatible with those of East Asian states, as has been revealed in recent Trans-Pacific Partnership (TPP) negotiations. Furthermore, notwithstanding the Obama administration's attempts at positive engagement with China, the TPP and reassertion of US hegemonic influence in East Asia are inevitably perceived by many as a means to contain China.<sup>19</sup> At the same 2011 APEC summit where President Obama himself formally announced the new US pivot to Asia, on the sidelines he was bluntly critical of China's currency manipulation and state trading practices, while Secretary of State Clinton also publicly defended the Philippines' right to stand up to Chinese counter-sovereignty claims in the South China Sea.<sup>20</sup>

## Free trade agreements and regionalism

### *FTA activity in East Asia and the Asia-Pacific: a largely bilateral trend*

In recent years, East Asia and the Asia-Pacific have been the most dynamic zones of FTA activity anywhere in the world. In 1998, the region was largely devoid of such agreements compared to other regions,<sup>21</sup> but by the early 2000s an increasing

<sup>19</sup> D. Paal, 'The United States and Asia in 2011: Obama determined to bring America "back" to Asia', *Asian Survey* 52: 1, 2012, pp. 6–14; D. Paal, 'The United States and Asia in 2012: domestic politics takes charge', *Asian Survey* 53: 1, 2013, pp. 12–21.

<sup>20</sup> H. de Santis, 'The China threat and the "pivot" to Asia', *Current History*, no. 111, Sept. 2012, pp. 209–15.

<sup>21</sup> V. Aggarwal and S. Urata, eds, *Bilateral trade agreements in the Asia-Pacific* (London: Routledge, 2005); C. M. Dent, *New free trade agreements in the Asia-Pacific* (Basingstoke: Palgrave Macmillan, 2006); S. N. Katada and M. Solis, eds, *Cross regional trade agreements: understanding permeated regionalism* (Berlin: Springer, 2008).

number of Asia–Pacific countries had active FTA policies. By mid-2013, the Asia–Pacific was host to 107 free trade agreement projects, 75 of which had been signed or were already in force. Of these, only four were strictly regional FTAs (AFTA, NAFTA, the Central America Common Market [CACM] and Pacific Island Countries Trade Agreement [PICTA]), and a small number of others, mostly ASEAN’s separate pacts with Japan, China, South Korea, Australia and New Zealand, were ‘quasi-regional’ arrangements where a regional group has an agreement with a third party country. Thus the great majority of FTA activity in the Asia–Pacific (over 90 per cent of all agreements concluded to date) has been bilateral. We can also observe that East Asian countries have a higher number of agreements with countries in other parts of the Asia–Pacific (33 in total by mid-2013) than among themselves (15 in total), although this can be largely explained by the fact that ASEAN accounts for many from the East Asian group, and has negotiated on a collective basis of sorts.

The proliferation of FTAs has become a key defining feature of the regional political economies of East Asia and the Asia–Pacific for the following reasons. First, these agreements have recast the macro-structure of these regions’ international economic relations, as well as the trade policies of all major countries, towards a specific preferential approach and away from multilateralism. A growing preoccupation with FTAs has, for example, inevitably meant that less time and fewer resources in trade diplomacy have been spent on WTO negotiations at a time when the future of the global multilateral trade system is in the balance. Second, FTAs have the potential to significantly affect regional trade and investment flows through the reduction of conventional barriers (e.g. import tariffs and quotas) and changes to commercial regulatory environments, such as rules on intellectual property rights (IPR), investment and government procurement. Third, the hitherto dense pattern of bilateral FTAs has more recently prompted many countries in East Asia and the Asia–Pacific to advocate harmonizing or merging these agreements into consolidated regional FTAs. As discussed below, there are currently two major ‘grand regional’ FTAs in negotiation—the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership—which have become the main focal points for regional economic relations in East Asia and the Asia–Pacific. The future implementation of any such regional pact could have significant implications for regionalism.

It is critically important to understand that FTAs are notably heterogeneous, varying greatly in terms of their technical policy content, ideational conception and other factors.<sup>22</sup> The preferred FTA model adopted by developed liberal countries such as the United States, Canada and Australia include complex and lengthy provisions on commercial regulatory areas such as IPR, the individual chapters on which can be longer than the entire text of one of the simpler FTAs preferred by China and all ASEAN countries with the exception of Singapore.<sup>23</sup>

<sup>22</sup> C. M. Dent, ‘Free trade agreements in the Asia–Pacific a decade on: evaluating the past, looking to the future’, *International Relations of the Asia–Pacific* 10: 2, 2010, pp. 201–245; M. Kawai and G. Wignaraja, *Asian FTAs: trends, prospects, and challenges* (Manila: Asian Development Bank, 2010).

<sup>23</sup> C. M. Dent, ‘Freer trade, more regulation? Commercial regulatory provisions in Asia–Pacific free trade

The ideational conception and underlying philosophies of FTAs in the Asia–Pacific can also be very different. For developed liberal countries these arrangements are perceived essentially as behind-the-border market access deals and are promoted politically as ‘platinum-standard’ or ‘high-quality’ agreements that extend beyond current WTO accords on international trade and investment regulation. In marked contrast, East Asian countries generally—including Japan—conceive of FTAs as not simply about market access but more broadly about fostering closer international ‘economic partnerships’, with provisions on economic cooperation and development capacity-building incorporated into the agreement text.<sup>24</sup> Generally speaking, FTAs centred on East Asia tend to emphasize *regulatory cooperation* compared to the Anglo-Pacific preference for *regulatory rights*. Thus, for most East Asian states, ‘free trade’ is embedded in a broader international economic pact or bargain, which owes something to East Asia’s developmentalist political economic tradition, although the actual substance behind cooperation provisions such as the region’s economic partnership agreements (EPAs) can be lacking.<sup>25</sup>

More technically, FTAs can vary enormously at the level of individual articles, relating to the specific measures, provisions and rules covering the 10,000-plus harmonized tariff schedule (HTS) product lines, phase-in liberalization periods, exemptions, rules of origin, percentage thresholds and formulas, modes of liberalization, adherence to certain technical standards, and so on. The article-level structure and content of FTAs is largely determined by what is politically and economically feasible or aspired to in the negotiation process, taking into account lobbying from various interests. All governments face a particular set of constraints when dealing with their own domestic constituency groups (e.g. business, farmers, labour, various civil society organizations) and domestic legislatures. Lower-income countries in East Asia and the Asia–Pacific also face certain development capacity constraints arising in technocratic, institutional, regulatory and industrial contexts. For example, most ASEAN countries would find it extremely difficult, if not impossible, to implement the legislative commitments encoded within the standard IPR chapter found in a US FTA. With these points in mind, FTAs are essentially the bespoke outcomes of political and economic interactions between negotiating parties, and the diverse nature of the East Asia and Asia–Pacific regions fundamentally explains the high level of heterogeneity among FTAs concluded here as compared to most other regions.

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agreements’, *Competition and Change* 14: 1, 2010, pp. 48–79; J. D. K. Boutin, ‘Balancing act: competition and co-operation in US Asia–Pacific regionalism’, *Japanese Journal of Political Science* 12: 2, 2011, pp. 179–94; R. E. Feinberg, ‘The political economy of United States free trade arrangements’, *World Economy* 26: 7, 2003, pp. 1019–1040; E. S. Krauss, ‘The US, Japan, and trade liberalization: from bilateralism to regional multilateralism’, *Pacific Review* 16: 3, 2003, pp. 307–329; J. J. Schott, ed., *Free trade agreements: US strategies and priorities* (Washington DC: Institute for International Economics, 2004).

<sup>24</sup> V. K. Aggarwal and M. G. Koo, ‘Beyond network power? The dynamics of formal economic integration in Northeast Asia’, *Pacific Review* 18: 2, 2005, pp. 189–216; Krauss, ‘The US, Japan, and trade liberalization’; Japanese Ministry of Economy, Trade and Industry, *What is an economic partnership agreement?* (Tokyo, 2005); Japanese Ministry of Foreign Affairs, *Japan’s efforts on economic partnership agreements (EPA)* (Tokyo, 2006); G. W. Noble, ‘Japanese and American perspectives on East Asian regionalism’, *International Relations of the Asia–Pacific* 8: 2, 2008, pp. 247–62; S. Urata, ‘Japan’s strategy towards free trade agreements’, in Y. Kim and C. J. Lee, eds, *Northeast Asian economic integration* (Seoul: Korea Institute for International Economic Policy, 2003).

<sup>25</sup> Dent, ‘Free trade agreements in the Asia–Pacific a decade on’.

In sum, what has developed in East Asia and the Asia–Pacific so far is a dense region-wide pattern of heterogeneous bilateral FTAs. Many observers make the mistake of equating this trend with regionalism *per se*. In fact, a case can be made that FTA bilateralism has fractured trade relations in both regions into a complex array of preferential trade relationships that actually work against the development of regionalism and regional community-building.<sup>26</sup> Compliance with the various trade and investment rules embodied in these bilateral agreements constitutes what is often referred to as the ‘spaghetti’ or ‘noodle bowl’ problem for firms.<sup>27</sup> Businesses have long complained about the tangled mess of rules caused by bilateral trade deals, and governments from the region have sought to address it through proposed regional FTAs that aim to harmonize sets of bilateral deals into unified singular agreements.

### *The quest for regional FTAs*

*Original proposals* The idea of establishing a regional FTA in East Asia and the Asia–Pacific is not new. Japan’s early initiatives on Pacific community-building in the 1960s included a proposal to create a Pacific Free Trade Area (PAFTA), although this never made progress.<sup>28</sup> As noted above, AFTA, NAFTA, CACM and PICTA were to follow in the 1990s, yet these were either established on a small, subregional scale or involved just a small number of nations. Proposals for grander-scale regional FTAs arose on the crest of the new bilateral FTA wave, and in the mid-2000s APT and EAS diplomacy led to proposals centred on East Asia as a whole. The East Asia Free Trade Area (EAFTA) project was based on the membership of APT and championed by China, whereas the Comprehensive Economic Partnership of East Asia (CEPEA) was championed by Japan and comprised the original membership of the East Asia Summit group, that is, APT plus India, Australia and New Zealand. Meanwhile, a Free Trade Area of the Asia–Pacific (FTAAP) project based on the APEC membership was initially suggested by the APEC Business Advisory Council group in 2004; this was later championed by the United States from 2006 onwards under the Bush administration, at a time when intensifying bilateral FTA activity was undermining APEC in terms of its value-adding purpose, its agenda and its own flagship ‘Bogor Goals’ project for regional trade and investment liberalization between 2010 and 2020. Prior to this, the organization had made unsuccessful attempts at establishing regionalized ‘best FTA practice’, in an endeavour to mitigate the ‘spaghetti bowl’ effect and harmonize bilateral accords.<sup>29</sup>

<sup>26</sup> J. Bhagwati, *Termites in the trading system: how preferential agreements undermine free trade* (Oxford: Oxford University Press, 2008); Dent, *East Asian regionalism*.

<sup>27</sup> M. Kawai and G. Wignaraja, eds, *Asia’s free trade agreements: how is business responding?* (Manila: Asian Development Bank, 2011).

<sup>28</sup> C. M. Dent, ‘Full circle? Ideas and ordeals of creating a free trade area of the Asia–Pacific’, *Pacific Review* 20: 4, 2007, pp. 447–74; Kojima, *Japan and a Pacific free trade area*; Korhonen, *Japan and the Pacific free trade area*.

<sup>29</sup> APEC forum, ‘Best practice for RTA/FTAs in APEC’, paper presented to 16th APEC Ministerial Meeting, Santiago, Chile, 17–18 Nov. 2004; Dent, ‘Full circle?’.

US-led diplomatic efforts to push the FTAAP proposal failed owing to resistance from many East Asian states that were more interested in the EAFTA and CEPEA proposals, and were at the time wary of entering into negotiations on a regional FTA that would be primarily driven and shaped by the US commercial regulatory interests. Washington's aborted bilateral FTA projects with three South-East Asian nations around this time (Malaysia, Philippines and Thailand) owing to irreconcilable differences over certain areas of commercial regulation were instructive to other East Asian states on the challenges of negotiating with the United States. To date, the only Asian nations with which Washington has successfully brokered FTAs have been the advanced economies of Singapore and South Korea. It is also worth noting that the US's parallel proposal on creating a Free Trade Area of the Americas (FTAA) with Latin American countries had similarly faltered because of frictions arising between the United States and Brazil, with each championing its own preferred FTA model.<sup>30</sup>

*The push for a Trans-Pacific Partnership* With the FTAAP proposal foundering, the Bush administration took a different tack and in 2007 announced that the United States would be joining the expanded negotiations of the Trans-Pacific Strategic Economic Partnership Agreement (TPSEPA), a unique quadrilateral FTA signed by Singapore, New Zealand, Chile and Brunei that had been in force since 2006. Negotiations on financial services and investment, omitted from the original agreement, commenced in March 2008, with the United States joining as a fifth negotiating party on these sectors. The arrangement was then recast in November 2008 to negotiations on a TPP agreement that in addition to the original four Pacific nations and the United States also included Australia, Peru and Vietnam. In the same month, Australian trade minister Simon Crean remarked: 'We need to start "knitting together" bilateral trading arrangements if we are to make progress towards our goal of ensuring FTAs are truly consistent with the multilateral system. We need to start harmonising the rules in these various FTAs—for the benefit of our business communities.'<sup>31</sup> At the outset of the talks, then, harmonizing bilateral FTAs was a primary aim of the TPP.

Malaysia joined the TPP talks in October 2010, followed by Canada and Mexico in October 2012, making eleven participating countries in total. Successive Japanese governments had long dithered about whether or not to join the TPP, but in March 2013 Tokyo announced its intention finally to join the negotiations, bringing the number of TPP parties to twelve. However, the deep political complications associated with opening up the country's highly protected agricultural industry to foreign competition alone mean that Japan's prospects of signing any final TPP deal are relatively slim. Moreover, Japan's inclusion adds considerably greater complexity to an already difficult negotiation process and dynamic. South Korea has also been asked to join the TPP talks but has so far declined the offer mainly owing to concerns over the potential adverse effects of a US-led

<sup>30</sup> Dent, 'Free trade agreements in the Asia-Pacific a decade on'.

<sup>31</sup> DFAT ministerial statement, 26 Nov. 2008, [http://www.trademinister.gov.au/speeches/2008/081126\\_tpp.html](http://www.trademinister.gov.au/speeches/2008/081126_tpp.html), accessed 23 June 2013.

Table 1: Matrix of FTA Links in the Asia-Pacific, mid-2013

|                  | South East Asia |          |           |      |          |         |             |           | North East Asia |         |                  |       |       | Other Asia-Pacific |               |           |          |        |           |             |       |          |        |      |            |             |           |          |           |        |        |               |   |
|------------------|-----------------|----------|-----------|------|----------|---------|-------------|-----------|-----------------|---------|------------------|-------|-------|--------------------|---------------|-----------|----------|--------|-----------|-------------|-------|----------|--------|------|------------|-------------|-----------|----------|-----------|--------|--------|---------------|---|
|                  | ASEAN (AFTA)    |          |           |      |          |         |             |           | NEA-3           |         |                  |       |       | Other              |               |           | CACM     |        |           | NAFTA       |       |          |        |      |            |             |           |          |           |        |        |               |   |
|                  | Brunei          | Cambodia | Indonesia | Laos | Malaysia | Myanmar | Philippines | Singapore | Thailand        | Vietnam | ASEAN (as group) | China | Japan | South Korea        | Hong Kong SAR | Macau SAR | Mongolia | Taiwan | Australia | New Zealand | Chile | Colombia | Panama | Peru | Costa Rica | El Salvador | Guatemala | Honduras | Nicaragua | Canada | Mexico | United States |   |
| Brunei           | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  |       |       |                    |               |           |          | •      | •         | •           |       |          |        |      |            |             |           |          |           |        |        |               |   |
| Cambodia         | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  |       |       |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Indonesia        | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Laos             | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  |       |       |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Malaysia         | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Myanmar          | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  |       |       |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Philippines      | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  |       |       |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Singapore        | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Thailand         | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Vietnam          | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| ASEAN (as group) |                 |          |           |      |          |         |             |           |                 | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| China            |                 |          |           |      |          |         |             |           |                 |         | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Japan            | •               | •        | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     |                    |               |           |          |        | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| South Korea      |                 |          | •         | •    | •        | •       | •           | •         | •               |         |                  | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Hong Kong SAR    |                 |          |           |      |          |         |             |           |                 |         |                  |       |       | •                  | •             | •         | •        | •      | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Macau SAR        |                 |          |           |      |          |         |             |           |                 |         |                  |       |       | •                  | •             | •         | •        | •      | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Mongolia         |                 |          |           |      |          |         |             |           |                 |         |                  |       |       |                    |               |           | •        | •      | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Taiwan           |                 |          |           |      |          |         |             |           |                 |         |                  |       |       |                    |               |           |          | •      | •         | •           | •     |          |        |      |            |             |           |          |           |        |        |               |   |
| Australia        | •               |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| New Zealand      | •               |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Chile            | •               |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Colombia         |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Panama           |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Peru             | •               |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Costa Rica       |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| El Salvador      |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Guatemala        |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Honduras         |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Nicaragua        |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Canada           | •               |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| Mexico           |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |
| United States    |                 |          |           |      | •        |         |             | •         | •               | •       | •                | •     | •     | •                  | •             | •         | •        | •      | •         | •           | •     | •        | •      | •    | •          | •           | •         | •        | •         | •      | •      | •             | • |

Key

- FTA project in development (proposed, studied or in negotiation)
- FTA negotiations concluded or agreement in force
- TPP party in negotiation with new FTA partner
- TPP parties that already have an existing bilateral or regional (e.g. AFTA, NAFTA) FTA in force

Regional FTA

Sources: WTO, ADB Asia Regional Integration Centre database, various government and media sources.

regional trade pact on China. Other countries or economies that have expressed an interest in joining TPP negotiations include the already proactive FTA players of Chile, Costa Rica and Colombia.

While the TPP had progressed to full negotiations by 2010, both the EAFTA and CEPEA proposals were stuck at the feasibility study stage. However, TPP negotiations have been long, difficult and complex.<sup>32</sup> The 17th round of talks was held in May 2013, bringing the sequence to well above the average number of rounds that FTAs in the Asia–Pacific have normally taken to negotiate;<sup>33</sup> however, this can be simply explained not just by the number of parties involved but also by the diversity of politico-economic interests to reconcile. Of the bilateral FTAs already concluded among the TPP membership (table 1) there is significant heterogeneity in terms of underlying conception and approach, policy area structure and technical policy content.

The indications from TPP talks to date suggest that the most likely outcome of any concluded deal will be a matrix of new separate bilateral deals packaged within a very generic TPP agreement comprising some common non-legally binding provisions (e.g. a review process), basic principles of trade policy adherence and statements of future intent to build a truly harmonized agreement in years to come. If this transpires, then what value-added benefits will a final negotiated TPP actually bring in addition to the 38 bilateral FTA links<sup>34</sup> (out of a possible 66) already in place? The remaining 28 bilateral links do include some important trade partnerships (e.g. US–Vietnam, US–Malaysia), but the outcome from the regional perspective—if the ultimate goal is to forge a completely harmonized and converged regional FTA—depends on the substance of the deal(s) brokered and how coherent the package of bilateral deals is. For those countries that already have a high proportion of agreement links with fellow TPP members in operation (e.g. Chile 100 per cent, Singapore 82 per cent), the motive for engagement lies in upgrading existing bilaterals and any generic TPP ‘package’ arrangement successively negotiated. There is also the question of how these two types of agreement—the bilateral and the generic regional—will work alongside each other, if indeed there is any significant overlap in terms of provisions, rules and standards of compliance. Where such overlaps exist, Japan’s separate bilateral FTAs and quasi-regional agreement with ASEAN countries may be instructive. The final Japan–ASEAN Comprehensive Economic Partnership (JACEP) deal allowed parties the choice of compliance with the provisions either of JACEP or of the relevant bilateral agreement, for example that between Thailand and Japan. Thus firms could choose to apply FTA measures of their preference, for example on

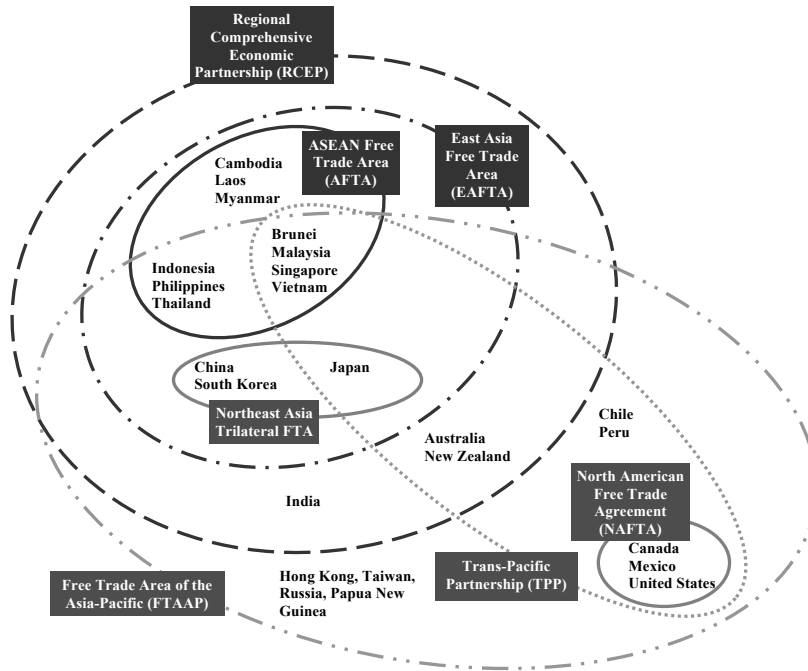
<sup>32</sup> A. Capling and J. Ravenhill, ‘Multilateralising regionalism: what role for the Trans-Pacific Partnership?’, *Pacific Review* 24: 5, 2011, pp. 553–75; B. Gordon, ‘Trading up in Asia: why the United States needs the Trans-Pacific Partnership’, *Foreign Affairs* 91: 4, 2012, pp. 17–22; M. Kolsky-Lewis, ‘The Trans-Pacific Partnership: new paradigm or wolf in sheep’s clothing?’, *Boston College International and Comparative Law Review* 34: 1, 2011, pp. 27–52; M. Solis, ‘The Trans-Pacific Partnership: can the United States lead the way in Asia–Pacific integration?’, *Pacific Focus* 27: 3, 2012, pp. 319–41.

<sup>33</sup> Dent, ‘Free trade agreements in the Asia–Pacific a decade on’.

<sup>34</sup> This includes bilateral links through existing subregional FTAs such as AFTA, NAFTA and CACM but not through quasi-regional FTAs such as ASEAN–Australia.



**Figure 2: Regional FTA Projects in East Asia and the Asia-Pacific**



Source: The author.

rules of origin.<sup>35</sup> The tariff liberalization schedules agreed in the bilateral deals were in effect annexed to JACEP, and the quasi-regional agreement’s commercial regulatory provisions were of a lowest common denominator nature, thus accommodating the lack of development capacity evident in many South-East Asian countries.

If any TPP deal is eventually achieved, then what kind of ‘regional’ agreement will it create? As figure 2 shows, in comparison to other regional FTAs and groupings, the pattern of TPP membership involves a geographically dispersed network of countries across East Asia, Oceania and Pacific America rather than a contiguous regional community. From an Asia–Pacific perspective, it would provide a firmer foundation on which a Pacific economic community could further build, and possibly constitute the initial first stage for realizing the APEC-based FTAAP some years in the future. However, that would mean the Asia–Pacific’s second largest economy, China, acceding to a free trade agreement largely shaped by US politico-economic interests. Given current realities, such an outcome is unlikely. Furthermore, APEC’s fourth (Russia), seventh (South Korea), eighth (Indonesia), ninth (Taiwan) and tenth (Thailand) largest economies are not TPP parties; this means that, along with China, six of the Asia–Pacific region’s top ten economies

<sup>35</sup> G. Corning, ‘Japan and the consolidation of East Asian regionalism: the ASEAN–Japan Closer Economic Partnership Agreement’, paper presented at the Annual Conference of the International Studies Association, San Francisco, 26 March 2008.

would be left outside any final agreement as things presently stand. South Korea, Taiwan and also Japan would find it difficult to sign any future TPP deal that required them to open up their agricultural sectors in any significant way. Russia, Indonesia and Thailand would be averse to signing up to any rigorous commercial regulatory commitments on areas such as IPR, should the US manage to succeed in substantially incorporating these into any final agreement.

*An East Asia-centred Regional Comprehensive Economic Partnership* Attention on future regional FTAs has most recently swung back to an East Asia-centred arrangement. Japan's CEPEA proposal was rebranded in late 2012 as the Regional Comprehensive Economic Partnership (RCEP), comprising the original 16-nation East Asia Summit membership, with the first round of talks being held in May 2013. The ASEAN group is the hub of this newest regional project, which is based on its separate existing radial FTA links with China, Japan, South Korea, Australia, New Zealand and India. These are relatively simple, conventional FTAs that by and large reflect interests of developing countries. While this tighter regional grouping of countries with a much stronger set of lowest common denominator interests and politico-economic backgrounds arguably has a much better chance of reaching a final agreement than the TPP's disparate membership, similar problems are likely to be encountered in forthcoming negotiations. The main problem lies with forging a deal between the 'plus six' countries outside the ASEAN collective. Notwithstanding parallel efforts to negotiate a North-East Asia trilateral FTA, the first round of talks on which took place in March 2013, Japan and South Korea's bilateral FTA talks have been stalled since 2005, regular high-level diplomatic spats between China and Japan make it difficult to foresee the two nations ever signing a common FTA, and separate bilateral talks between South Korea and China—in their fifth round by April 2013—have made slow progress, hindered by differences over agriculture and labour-intensive manufacturing sectors.<sup>36</sup>

Australia's bilateral talks with each of the three North-East Asian countries (NEA-3) have experienced similar challenges. Although by 2013 it was close to signing a deal with Japan, by April that year negotiations with China were running into difficulties over unresolved issues on agriculture, investment and other areas of commercial regulation. Consequently, Canberra had to scale back its ambitions for signing a 'comprehensive' market access deal with Beijing.<sup>37</sup> The Australian government's talks with South Korea had also hit a wall around the same time over negotiations on liberalizing politically sensitive farm products such as beef.<sup>38</sup> New Zealand signed a relatively basic bilateral FTA with China in 2008, but a similar long-standing project with South Korea has been floundering for a considerable time, and a deal with Japan has been informally discussed but never

<sup>36</sup> Press TV News, 13 Nov. 2012, <http://www.presstv.com/detail/2012/11/13/272061/south-koreachina-fta-gains-no-new-ground/>, 23 June 2013.

<sup>37</sup> *The Australian*, 19 April 2013, <http://www.theaustralian.com.au/business/in-depth/china-trade-deal-scaled-back-as-beijing-seeks-1bn-investment-approval-threshold/story-fni2wt8c-1226623910001>, accessed 23 June 2013.

<sup>38</sup> *International Business Times*, 13 Nov. 2012, <http://au.ibtimes.com/articles/404245/20121113/korea-u-s-australia-free-trade.htm#.UYjPj6I3t2B>, accessed 23 June 2013.

officially proposed. India, meanwhile, has managed to sign ASEAN-level FTAs with ASEAN itself, South Korea and Japan, and is negotiating with Australia and New Zealand but not with China.

Difficulties in bilateral FTA negotiations among the ‘plus six’ RCEP countries will inevitably reappear at regional-level talks if the same problematic sectors are on the agenda. Realistically speaking, then, any final RCEP deal would have to substantially exclude agriculture and include only rudimentary coverage of commercial regulation. This would be especially hard for Australia and New Zealand to sell to their domestic constituencies, but politically feasible. Such an arrangement would, however, be unacceptable to the US Congress and American lobby interests. At the same time, if an RCEP agreement is signed it will most likely incorporate a range of measures on enhancing economic cooperation and a broader economic partnership, this being consistent with the generic East Asia FTA model. It remains to be seen whether provisions on such areas, if included, will lead to substantive regional-level cooperation and integration; yet this could be a vitally important contribution of the RCEP to East Asia-centred regionalism.

In this context, it is useful to see regionalism as a combination of two integrative processes or types, namely the *proactive* integration of policy cooperation, coordination and harmonization, and the *passive* integration of economic liberalization and deregulation.<sup>39</sup> Passive integration measures essentially involve the removal or reduction of barriers impeding economic exchange. Thus, FTAs are primarily a form of passive integration. In contrast, the formation of common, congruent or coordinated technical policy elements associated with proactive integration provides a firmer basis for regional community-building, especially if these measures are aimed at cooperation on development capacity-building. Notwithstanding its recent troubles, the EU experience has demonstrated over the last three decades that comprehensive regionalism can be truly achieved only when the peripheral or weaker economies are empowered to participate in regional economic integration processes. By emphasizing a proactive integration approach rather than just the passive integration of a market access deal, the RCEP is more likely to engage East Asian states especially in building a stronger, more inclusive regional economic community.

However, the future prospects of the RCEP ultimately depend on the maintenance of good diplomatic relations among its negotiating parties. In recent years, these relations have been notably tested by various bilateral counter-sovereignty disputes over certain territorial zones in East Asia. Many of these concern China’s claims in the South China Sea and East China Sea. For example, in April 2012 there was a naval stand-off between the Philippines and China over the Scarborough Shoal. China and Vietnam became embroiled in a similar dispute in the Paracel Islands in March 2013, while China and Japan have also recently been at loggerheads over the Senkaku/Diaoyu Islands further north.<sup>40</sup> Japan has been accused

<sup>39</sup> C. M. Dent and P. Richter, ‘Sub-regional cooperation and developmental regionalism: the case of BIMP-EAGA’, *Contemporary South-East Asia* 33: 1, 2011, pp. 29–55.

<sup>40</sup> Paal, ‘The United States and Asia in 2012’.

of acting in an aggressive manner towards South Korea over sovereignty of the Dokdo/Takeshima islands, and towards Russia over the Southern Kurile Islands.<sup>41</sup> Meanwhile, Malaysia has objected to the Philippines' reactivation of its historic sovereignty claim over Sabah on the island of Borneo. Interestingly, these spats all compelled the Philippines, Vietnam, Japan and South Korea to reaffirm the importance of their security ties with the United States, apparently offering some justification for the Obama administration's new 'pivot to Asia' strategy.

China's more assertive foreign policy in the region has been attributed primarily to domestic politics in the run-up to both installing and consolidating the new leadership during 2012–2013.<sup>42</sup> East Asia is also generally a region where historic animosities among many of its constituent nations have persisted for some time, and given such long-standing conflicts and tensions it is quite remarkable that interstate regionalism has progressed to its current stage. What essentially holds the East Asian region together is economics, and in particular economic interdependence. It is revealing that through the turbulent intraregional diplomacy of the early 2010s trade ties between East Asian nations nevertheless continued to thrive, notwithstanding the Chinese consumer boycott on Japanese goods over the Senkaku/Diaoyu Islands dispute and its adverse effect on Sino-Japanese trade.<sup>43</sup> The fact that RCEP member nations still agreed to proceed with talks on forming a regional FTA to bind them closer together economically (and also thereby diplomatically) while these territorial disputes continued to rumble on was testament to the importance accorded to managing their regional economic interdependence. Yet the flaring up of serious diplomatic disputes could still jeopardize future RCEP talks, just as it has at the bilateral FTA level (for example, between Japan and South Korea).

*FTA transformation?* Almost all FTAs have inbuilt review and revision processes that provide a mechanism for them to evolve and develop over time. For example, the Asia–Pacific's longest-standing agreement, between Australia and New Zealand, has gradually expanded into a relatively deep bilateral economic integration pact. Given the inherent challenges of forming regional FTAs in the Asia–Pacific, bilateral free trade agreements are likely to persist and remain significant for many years to come. This raises the question over the longer term of whether we may expect bilaterals to transform themselves into deeper and broader agreements. From the perspective of deeper integration, this could simply involve the EU model of progression to customs unions and common markets, and the associated incorporation of a wider range of commercial regulatory provisions. They may also become broader pacts in the sense of embracing key challenge issues presently facing humankind, such as energy security, environmental issues, international migration and demographic change, and poverty alleviation. The generic East Asian 'economic partnership' FTA model has an inherent bias towards this approach. However, empirical evidence on FTA review and revision processes

<sup>41</sup> Dittmer, 'Asia in 2012'.

<sup>42</sup> Y. Zheng, 'China in 2012: troubled elite, frustrated society', *Asian Survey* 53: 1, 2013, pp. 162–75.

<sup>43</sup> Dittmer, 'Asia in 2012'.

would suggest that the substantive transformation of many existing FTAs may take some considerable time.<sup>44</sup> Furthermore, some countries, such as the United States, may prefer to maintain a marked separation between free trade deals and broad economic cooperation. In addition, regional organizations, frameworks and agreements are arguably better mechanisms for addressing ‘global challenge’ issues, given their multilateral scale and nature. Bilateral FTAs can augment or reinforce efforts at the regional level—for example, Japan’s FTA with Indonesia helps ASEAN endeavours on curbing the illegal timber trade, promoting sustainable forestry practices and tackling forest fire ‘haze’ pollution—but cannot ultimately be an effective substitute for such efforts.

### **Conclusion: paths ahead for East Asia and Asia–Pacific regionalism**

At the micro level, East Asia especially continues to be meshed together into a more integrated regional economy by advancing developments in transnational business systems, the diffusion of new technologies, denser regional infrastructure networks and increasing cross-border flows of people. The economic regionalization of East Asia serves as an important binding force among the region’s countries, as do the substantial cross-regional economic ties between the same states and other Asia–Pacific countries such as the United States and Australia. In the matter of state-led regionalism, the last two decades have seen important developments on the trade and finance fronts: on the former, in the proliferation of FTAs across the Asia–Pacific region, and on the latter, in APT-led efforts to strengthen regional financial governance in East Asia. In addition, regional cooperation is emerging in new sectors such as energy.

After a promising start, both APEC and APT seem to have lost momentum in terms of advancing their respective Asia–Pacific and East Asia regional integration agendas. APEC has never really recovered from the pressures and tensions arising from the 1997–1998 East Asian financial crisis, which caused deep divisions among its membership. In addition, its trade and investment liberalization programmes have been overshadowed by the push for bilateral FTAs since the late 1990s. Although the TPP’s objectives are aligned with APEC’s trade agenda, it is APEC that serves the TPP rather than vice versa, the regional organization providing the opportunity for participating members to discuss negotiation issues on the sidelines of its regional-level meetings. Meanwhile, APT’s *raison d’être* was similarly tested by the 2008–2009 global financial crisis, its flagship regional project—the CMI—remaining inactive at a crucial time, with some East Asian countries opting for alternative currency swap agreements. The multilateralization and other enhancements made to the CMI, the steady progress made by the ABMI, and the expansion of the regional cooperation dialogue are, though, marks of achievement for the APT. Like APEC, it has also helped to socialize regional elites and has initiated clusters of small-scale regional cooperation projects. In addition, the United States’ accession to the East Asia Summit group provided it with an opportunity

<sup>44</sup> Dent, ‘Free trade agreements in the Asia–Pacific a decade on’.

to exercise its new 'pivot to Asia' strategy, but this too depends on how effective the EAS will become at advancing East Asian regionalism.

Neither APT nor APEC has launched any new large-scale flagship project or strategy for advancing future regional integration in East Asia and the Asia–Pacific for some considerable time, and the EAS has yet to launch any significant regional initiative. This hiatus can be largely attributed to competitive interests or visions on future regional community-building among each grouping's leading members. Another problem for the APT is that its regional leader countries, Japan and China, have become increasingly preoccupied with developing their global diplomacy agendas and engagement with global governance issues through the G20 and other forums.<sup>45</sup> The same applies also to APT middle powers like South Korea and Indonesia. Since the late 2000s it has often been left to the ASEAN group to take the lead on East Asian regionalism,<sup>46</sup> as manifested most recently in the advocacy of the RCEP, based on existing ASEAN radial FTA links with other APT members. In sum, over recent years, most attention has been directed to competing regional FTA projects as the main vehicles for further advancing East Asian and Asia–Pacific regionalism. This trend seems set to continue for the foreseeable future. At the moment, the main regional FTA projects in play are the TPP and the RCEP.

The TPP has already been in negotiation for many years and is likely to be heading for its 20th round of talks in late 2013. The prospects for concluding an agreement very much depend on what level and type of deal (including a 'package' matrix of existing and new bilateral FTAs) prove feasible. The most likely outcome seems to be an elementary generic deal. The United States and other developed country parties have stated that it will offer some level of technical assistance to their developing country partners, such as Vietnam, to help them to meet any negotiated commitments on commercial regulation and standards. Nevertheless, the principal thrust of the TPP is securing behind-the-border market opening, especially in alignment with the corporate interests of developed country firms in the service sector (e.g. banking) and high-tech manufacturing (e.g. pharmaceuticals), as might be expected from any FTA project led by the United States. Countries seeking future accession to either TPP negotiations or a final agreement will be small nations espousing free trade such as Colombia, Costa Rica and Panama, while many of the Asia–Pacific's larger economies, such as China and Indonesia, will remain outside. Given its geographically disparate membership, the TPP is arguably more regionally divisive than the RCEP and less likely to contribute to regional community-building. Several countries are now simultaneously involved in both TPP and RCEP negotiations (see figure 2), and the extent to which competition will arise between the two regional FTA projects depends on the nature of any final deals brokered and what trade-diplomatic priority is afforded to each, both in negotiations and in prospective implementation. At present, it is too early to make any confident predictions on either point.

<sup>45</sup> Beeson, 'Crisis dynamics and regionalism'; S. N. Katada, 'Seeking a place for East Asian regionalism: challenges and opportunities under the global financial crisis', *Pacific Review* 24: 3, 2011, pp. 273–90.

<sup>46</sup> M. H. Kim, 'Why does a small power lead? ASEAN leadership in Asia–Pacific regionalism', *Pacific Focus* 27: 1, 2012, pp. 111–34.

The first round of formal RCEP negotiations took place as recently as May 2013, and hence its future is more difficult to predict, especially given the various simmering territorial disputes that have recently arisen among East Asian states. We may nevertheless anticipate that it will experience similar difficulties to the TPP when negotiations touch on politically sensitive issues such as agriculture, IPR, government procurement and foreign investment rights. As with the TPP, the negotiation process will be protracted, given the diversity of politico-economic profiles and development capacity levels among its membership. However, the RCEP has the advantage of being based on the generic East Asia economic partnership FTA model, which is more flexible and accommodating to developing country interests. As argued above, depending on how substantive and binding the economic cooperation measures in its final agreement are, the RCEP may be better positioned to make a broader and more meaningful contribution to East Asian and (partial) Asia–Pacific regionalism and regional community-building. This too will be contingent on how the RCEP, or any other regional FTA, works in tandem with East Asian and Asia–Pacific regional organizations or frameworks (e.g. ASEAN, APT, APEC, ADB) on their agendas for deepening regional cooperation and integration. This will be increasingly important as trade becomes ever more inextricably linked to new sectors of regional cooperation and diplomacy that themselves intersect with global-level challenges facing humanity in the twenty-first century, such as climate change, low-carbon development, energy security, resource competition and poverty alleviation.

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