

APEC's Development in the Rise of East Asian Regionalism

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Abstract

In the early 1990s, APEC can be seen as a significant departure in Asia-Pacific regionalism. Yet, as the Asia-Pacific regionalism is still vague, East Asian regionalism based on institutional economic integration such as “ASEAN plus N FTAs (ASEAN+1 and ASEAN+3)” has drawn plenty of attention since the late 1990s. More importantly, the development of East Asian economic integration has generated extensive impacts on APEC and its members as well as its relevance in the future architecture of the Asia-Pacific region.

Under this circumstance, various concerns about the relationship between Asia-Pacific and East Asian economic cooperation have increasingly surfaced. In addition to examining the development of regional integration schemes in both Asia-Pacific and East Asian regions, this paper aims to explore the response of APEC and its members towards the regional architecture by identifying some critical issues and perspectives in this regard.

Keywords: APEC, East Asian Regionalism, ASEAN, FTA, regional integration

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APEC 在東亞區域主義興起中的發展

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中文摘要

在 1990 年代初期，APEC 一度被視為是亞太區域主義發展的開端，但因為該組織之發展模糊，以制度性經濟整合為基礎發展而來的東亞區域主義，例如「東協加 N 自由貿易協定（包括東協加一與東協加三）」，自 1990 年代後期已引起廣大注意。更重要的是，東亞經濟整合的發展已對 APEC 及其成員產生延伸效應，同時影響 APEC 在未來亞太區域架構的重要性。

有鑑於此，各種對於亞太與東亞區域間經濟合作關係的關切正日趨增加。因此，除檢視區域整合計畫在亞太及東亞區域的發展外，本文主要目的在探討 APEC 及其成員對亞洲區域架構發展的回應及發展，並藉此探究 APEC 在此方面須面臨的重要問題與可能展望。

關鍵字：APEC、東亞區域主義、東協、自由貿易協定、區域整合

I. Introduction

The international political economy has moved into a new era since the dismantling of the Soviet Union and the introduction of the neoliberal economic model. In 1989, the first intergovernmental economic cooperation forum in the Pacific region, Asia-Pacific Economic Cooperation (APEC), was established under this changing global environment. Today, APEC has 21 member economies and accounts for nearly 60% of world economic output and almost half of the world trade.

APEC can be seen as a significant departure in Asia-Pacific regionalism (Heseltine 2003: 6) and it was formed initially as a trade discussion forum among the Asia-Pacific countries. It was composed of trade and foreign ministers from the member economies (Lincoln 2004: 127) holding annual meetings to discuss trade and investment issues (Tang 2003: 2). During the first four years between 1989 and 1992, APEC declared support for a GATT-consistent (General Agreement on Tariffs and Trade) free trade as well as for economic and technical cooperation (Choi 2006: 2). On one hand, APEC embraced “open regionalism” (Fawcett and Hurrell 1995); on the other hand, it followed a minimalist approach to institution-building and mutual understanding rather than formal organizational structure as its primary objectives (Avila 2000: 2). In 1993, APEC launched its first informal economic leaders’ meeting and has successfully put itself under the spotlight since then (Chiang 2006: 1).

In spite of having APEC, the Asia-Pacific region for many is still regarded as *a region without regionalism* (Capie 2004: 149). Although APEC is a government officials’ gathering, its integration has no comparison with such institutional arrangements as the EU (European Union), NAFTA (North American Free Trade

Agreement) and MERCOSUR (Mercado Comun del Sur), which have formal and institutionalized mechanism for regional integration. Certainly many factors¹ contribute to the difficulties of creating Asia-Pacific regionalism. Yet, as the Asia-Pacific regionalism is till vague, East Asian regionalism based on institutional economic integration such as “ASEAN plus N FTAs (ASEAN plus One and ASEAN plus Three)”² has drawn plenty of attention since the late 1990s. More importantly, the development of East Asian economic integration has generated extensive impacts on APEC and its members as well as its relevance in the future architecture of the Asia-Pacific region.

Under this circumstance, various concerns about the relationship between Asia-Pacific and East Asian economic cooperation have increasingly surfaced. Thus, in addition to examining the development of regional integration schemes in both Asia-Pacific and East Asian regions, this paper aims to explore the development of APEC in the rise of East Asian regionalism by identifying some critical issues and perspectives in this regard.

II. From PAFTA to APEC

The trend of regional integration has grown since the 60s. Trade and economic integration have accelerated due to the improvements and lower costs for technology,

¹ Such as the incredible size of the region, numerous members, huge gap in economic and political development, and social and cultural differences, etc.

² ASEAN, as a regional grouping, has been making tremendous efforts to establish free trade agreements (FTAs) with its major economic partners, including China, Japan, Korea, Australia, New Zealand, or even India. “ASEAN plus One” here refers to the FTAs between ASEAN and other individual partners, such as ASEAN+China, ASEAN+Japan, or ASEAN+Korea. “ASEAN plus Three” refers to the FTA among ASEAN, China, Japan, and Korea.

telecommunications, and transport have enabled this trend (Tay 2005: 194). One of the most outstanding examples is the case of the EU.

In Asia, regional integration can also be dated back as long. In 1963, professor of international economics at Hitotsubashi University, Kiyoshi Kojima, wrote a paper entitled 'Structures of Regional Economic Integration in Asia'. In the paper, he divided Asia into three sub-regions and advocated the creation of a common market in each region to take advantage of potential economies of scale.³ Kojima developed the Pacific Free Trade Area (PAFTA) proposal at a conference on Economic Cooperation for Trade and Development in the Pacific, which was held at the East-West Centre in Hawaii, in February 1964 (Kojima 1980). His proposal was supported by the famous economist Saburo Okita⁴ but neglected by others in the conference (Drysdale and Yamazawa 1984: 5).

Although the establishment of PAFTA failed to occur, the Post-War Pacific cooperation movement started to launch. In 1968, the Pacific Trade and Development Forum (PAFTAD) academic conference series originated. Since then, PAFTAD has been holding a series of conferences whereby leading economists from all over the region gathered together to develop a more comprehensive understanding of Asia Pacific economic growth. An important belief of PAFTAD is that business, government and academia can make major contributions to develop effective cooperation among Pacific nations. On the whole, PAFTAD had been able to

³ The sub-regions were: Indian continent (India, Pakistan, Ceylon and Burma), Southeast Asia (Thailand, Malaysia, Singapore, Indonesia and three Indochina countries) and East Asia (the Philippines, Hong Kong, Taiwan and Korea).

⁴ Okita was one of the most prominent economist and architects of Japan's economic growth, and one of the most influential advocates of taking some initiative for Pacific cooperation movement in the 1970s. He was the first Japan UN staff member at the Economic Commission for Asia and the Far East (ECAFE) Secretariat and the head of the economic cooperation section at the Economic Planning Agency (EPA). He also served as Japan's Foreign Minister in 1979 and early 1980.

demonstrate that the Asia Pacific was achieving its own degree of dynamism and coherence as well as to shape the agenda of Pacific economic cooperation.

The work of PAFTAD was complemented by the Pacific Basin Economic Council (PBEC), which was founded in 1967 by a network of business executives from Australia, Canada, Japan, New Zealand, and the United States. In 1975, the PBEC expanded to include and reflect the interests of the private sector in developing economies in the region. Through its prominent advocacy for constructive regional cooperation, PBEC had generated awareness that closer communications and cooperation among governments in the region could improve the commercial environment for trade and investment (Elek 2005a: xviii). In 1979, the concept of a “Pacific Economic Community” was introduced to PBEC’s members at its 12th General Meeting, which to some extent led to the emergence of the Pacific Economic Cooperation Council (PECC) (Borthwick 2005: 5).

In the late 1970s, while there was increasing enthusiasm for moving toward inter-governmental cooperation by creating some form of regional institution, skeptics, fears, and concerns were widespread and waited to be handled (Elek 2005b: 16).⁵ By 1980, these fears and concerns had not been overcome though ASEAN members had developed a strong sense of community. Meanwhile, “to hasten slowly” was perhaps the implicit consensus among Pacific members (Elek 2005b: 24). Under the circumstances, an unofficial, informal Pacific Community Seminar was accepted to hold in Canberra in September 1980, with experts from academia, the business community, and governments. To create a process to promote Pacific regional

⁵ Some were wary of the overshadowing of ASEAN; some feared big-power domination and imposed obligations on sovereign states; and many worried about the potential for any form of Pacific regionalism to damage the GATT-based non-discriminatory trading system.

cooperation, a process that was expected to involve governments, the Canberra Seminar recommended forming a standing committee, the Pacific Cooperation Committee (PCC). In 1982, the PCC ended up with the successful launch of the PECC in Bangkok. The meeting also decided that ongoing cooperation in the form of tripartite consultative meetings was necessary. The Canberra Seminar then took its place in history as PECC I.

During the next few years, the structure of PECC evolved rapidly and set out to influence the agenda and nature of Pacific economic cooperation. A small number of task forces were organized to initiate the research needed to facilitate Pacific regional cooperation and achieve the vision of Pacific Community. By undertaking information exchange, systemic consultation, and policy review in relevant areas, PECC contributed significantly to set the broad direction of the Pacific economic cooperation agenda and catalyze the formation of APEC (Elek 2005a: xx).

By 1989, the work of PAFTAD, the voice of PBEC, and the consultation of PECC had identified many opportunities where cooperation among Asia Pacific governments could further their shared interests. Those opportunities included the difficulty of making progress in the Uruguay Round launched in 1986, the deeper integration in Europe ratified by the 1986 Single European Act,⁶ and sustained increase of trade and investment among Pacific economies. These developments led Australian Prime Minister Bob Hawke to believe that the time had come to create a new intergovernmental vehicle of regional cooperation on economic affairs. In 1989,

⁶ The Single European Act (SEA) was the first major revision of the Treaty of Rome. The goal was to remove remaining barriers between countries, increase harmonization, thus increasing the competitiveness of European countries. An aim of a single market by 1992 was also set. The act was signed at Luxembourg on February 17, 1986, and at the Hague on February 28, 1986. It went into effect on July 1, 1987.

Hawke proposed to convene a “meeting of ministers from throughout the region” to look into the form such cooperation might take while he had a speech in Seoul (Elek 2005c: 66). After intensive consultations among the founding members,⁷ the first ministerial-level meeting opened in Canberra and APEC was thus created in 1989.

By committing to free and open trade and investment, nowadays APEC is still the only intergovernmental grouping with 21 member economies in the Asia Pacific. Despite involving governments, unlike the WTO (World Trade Organization) or other multilateral trade bodies, APEC operates with some unique features. The most distinctive one is that APEC functions as a governmental *voluntary* economic and trade forum. Different from treaty-based organizations, it is unique in eliminating trade barriers and increasing investments without requiring its members to enter into legally binding obligations. The forum succeeds by promoting dialogue and equal respect for the views of all participants and making decisions based on consensus. In this context, APEC member economies open their markets and promote economic growth mainly based on individual voluntary actions as well as peer pressure. This is so-called “concerted unilateralism,” which is not only APEC’s strength, but also weakness. This voluntary, informal approach makes all APEC members willing to participate, but has no effective compliance mechanisms (Patrick 2005: 150).

Apart from this, other uniqueness of APEC include an extraordinarily ambitious but vague goal, commitment to open regionalism, and leaders’ summit. For example, the Bogor Goals agreed in 1994 to achieve free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and 2020 for developing

⁷ APEC’s 12 founding members are Australia, Brunei Darussalam, Canada, Indonesia, Japan, Republic of Korea; Malaysia, New Zealand, The Republic of the Philippines, Singapore, Thailand and The United States of America.

economies is too ambiguous to achieve. The progress towards the Bogor Goals can thus only be left to the matter of interpretation. Stressing open regionalism prevents APEC from becoming another trade bloc, but indicates the importance of multilateral trading system. Leaders' summit, though not initially planned as part of the APEC process, has become important contribution of APEC (Patrick 2005: 150-1).

On the basis of its unique operation, Hugh Patrick points out that "APEC's record is mixed, but basically positive (Patrick 2005: 151). " Even though many have joked APEC as a talk shop or talkfest, APEC has made contributions to the Asia-Pacific region since its inception. Economically, by progressively reducing tariffs and other barriers to trade, APEC member economies have become more efficient and exports have expanded dramatically.⁸ Though it is generally recognized that APEC has difficulty in achieving the Bogor Goals, the APEC process has greatly contributed to increased Asia-Pacific cooperation in not only trade and investment liberalization but also such realms as business facilitation, capacity building, and human security. Nearly two decades after its formation in 1989, Richard Feinberg argues that rather than disappear, "APEC has become a permanent feature of regional economic and security diplomacy (Feinberg 2008: 67). "

⁸ According to APEC, here is a highlight of APEC's economic achievements: (1) When APEC was established in 1989 average trade barriers in the region stood at 16.9%; by 2004 barriers had been reduced by approximately 70% to 5.5%. (2) Intra-APEC merchandise trade (exports and imports) has grown from US\$1.7 trillion in 1989 to US\$8.44 trillion in 2007 - an average increase of 8.5% per year; and merchandise trade within the region accounted for 67% of APEC's total merchandise trade in 2007. (3) From 1989 to 2007, GDP (in purchasing power parity terms) in the APEC region has tripled, while GDP in the rest of the world has less than doubled. Please see "Achievements and Benefits." Website: http://www.apec.org/apec/about_apec/achievements_and_benefits.html

III. The Emergence of East Asian Regionalism

Compared to other regions like Western Europe and North America, East Asia is hardly defined as an economic region, not mentioning a region with regionalism. Nevertheless, East Asia has been experiencing “regionalization” or market-driven regional integration since the mid-1980s. As Peng points out, regional integration in East Asia has been achieved by “informal means such as regional production networks, ethnic business networks and subregional economic zones” (Peng 2000: 171). The private sector, technological changes, and market forces unleashed by policy initiatives in fact played a crucial role in the process of deepening integration. Particularly, most significant liberalization efforts in East Asia have been unilateral, which is contrasted to the formal institutionalization of regional cooperation (ADB 2006: 75). However, there are clear signs that this dynamism is changing. Increasingly institutional economic cooperation such as Free Trade Agreements (FTAs) are formed and proposed, which shape the future of the region.

In response to the first wave of regionalism after the Second World War, Korea ever proposed to form an *Asian Common Market* in 1970 and Japan also suggested the construction of an *Asian Network* in 1988 (Stubbs 2002: 441). Even so, East Asia did not achieve its own regionalism at that time. Only Southeast Asian countries jointly formed the ASEAN in 1967 to deal with the Cold War. With the end of the Cold War, the other wave of regionalism or regional integration became full of zip. In 1990, Malaysian Premier Mahathir Mohamad embarked East Asian economic cooperation by proposing an East Asian Economic Group (EAEG). Nevertheless, the idea was suppressed by the United States since it excluded the U.S. and overshadowed by the

rapid development of APEC (Chirathivat 2006: 85). Mahathir's idea eventually brought forth the East Asian Economic Caucus (EAEC), which later became a sub-grouping of APEC. Because of the unsuccessful campaign, ASEAN countries started to place a greater emphasis on trade and economic integration within the ASEAN. In 1992, ASEAN countries decided to push for an ASEAN Free Trade Area (AFTA) and ascertain the initiative of Common Effective Preferential Tariff (CEPT).⁹

A turning point of East Asian regionalism occurred during 1995 to 1996 when ASEAN invited Japan, China and Korea to plan the first Asia-Europe Meeting (ASEM) together. In 1996, leaders of ASEAN countries, Japan, China and Korea representing Asia took part in the first Asia-Europe Meeting, which indeed provided ASEAN plus Three a starting point. This turning point also transformed EAEC into ASEAN plus Three setting (Camroux and Lecherry 1996: 441-52; Webber 2001: 357). More importantly, the occurrence of 1997-1998 Asian Financial Crisis forced East Asian countries to realize the economic interdependence and vulnerabilities in the region. The idea of ASEAN plus Three economic cooperation was further enhanced and placed into concrete actions (Harris 2000: 495-516; Higgott 1998: 333-56). Since then, the summit of ASEAN plus Three has become a regular gathering and been named the "APT process."

The 1998 ASEAN plus Three Summit held in Viet Nam not only stressed on the dealt with financial crisis, but also on the promotion of regional economic cooperation. In the Summit, the idea to form an East Asia Vision Group (EAVG) was proposed as

⁹ To achieve AFTA, six founding members of ASEAN, Brunei, Thailand, the Philippines, Indonesia, Malaysia, and Singapore, all had nearly reached the goal of reducing all tariffs to below 5% by 2002. New members, Viet Nam, Laos, Burma, and Cambodia pledged to reach the goal by 2006, 2008, 2008, and 2010 respectively.

the roadmap for East Asian regional cooperation. In 1999, the ASEAN plus Three Summit declared a *Joint Statement on East Asia Cooperation* on areas such as: trade and investment, monetary and financial issues, human resource development, science and technology, socio-culture, politics and security. Likewise, a series of ministerial meetings in different areas were set to begin. Since the 1999 summit, Japan, China, and Korea have also begun to utilize the summit as a channel of dialogue and negotiation (ASEAN 1999).

To further enhance East Asian economic cooperation and to bring together Southeast Asia and Northeast Asia, the idea of forming a formal institution surfaced during the 2000 ASEAN plus Three Summit. The initiative of developing an East Asia Free Trade Area (EAFTA) was incorporated in the agenda, whereas financial cooperation issue received great attention from participants. The *Chiang Mai Initiative* (CMI) was then introduced to promote the cooperative mechanism of currency swap. The purpose of the Initiative was to prevent regional financial crisis from happening again and to craft a basis for Asian financial cooperation (Ravenhill 2002: 186-7). Based upon ASEAN Swap Arrangement and Bilateral Swap Arrangements (BSAs) among ASEAN plus Three members, the *Chiang Mai Initiative* has reached a total swap size of US\$84.0 billion by December 2008.¹⁰ To multilateralize the CMI, ASEAN plus Three members agreed to the establishment of a US\$120 billion regional foreign exchange reserve pool to enhance financial stability in 2009. In addition to the *Chiang Mai Initiative*, members of ASEAN plus Three

¹⁰ “Japan Ministry of Finance.” Website: http://www.mof.go.jp/english/if/regional_financial_cooperation.htm#CMI

extended financial cooperation by initiating Asian bond market to recycle Asian savings into Asian economies.

Following the idea proposed in 2000, the 2001 ASEAN plus Three Summit held in Brunei issued a report: *Towards an East Asian Community*, to call for the establishment of an East Asia Free Trade Area on the basis of ASEAN plus Three cooperation (EAVG 2001: 3). Rather than launching the negotiation of the ASEAN plus Three FTA, however, “ASEAN plus One” kind of FTAs began to evolve rapidly. In 2002, China and ASEAN formerly signed the “Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China,” and planned to create a free trade area that includes about US\$1.7 billion people and US\$2 trillion GDP. In order to implement this agreement, China implemented an *Early Harvest Programme* (EHP) in January 2004.¹¹ Furthermore, in 2004 China and ASEAN signed the Agreement on Trade in Goods (TIG) with the aim to reduce tariffs of normal goods below 5% by 2010.

Influenced by the ASEAN plus China agreement, Japan raised an idea of strengthening economic cooperation with ASEAN in 2002. In 2003, ASEAN and Japan signed the “Framework for Comprehensive Economic Partnership between ASEAN and Japan” as a start for a potential ASEAN-Japan FTA. In 2005, Japan and ASEAN initiated official negotiations on Japan-ASEAN Comprehensive Economic Partnership Agreement (EPA) and concluded the negotiations in April 2008. The Agreement has entered into force since December 2008.

¹¹ The purpose was to eliminate trade barriers for ASEAN’s exports of agricultural and industrial products before the effectiveness of FTA.

Reluctant to be left behind, the “Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Member Countries of the ASEAN and the Republic of Korea, ROK” was signed in the Ninth ASEAN-ROK Summit of December 2005 in Kuala Lumpur. In May 2006, the government of South Korea and the ASEAN signed an FTA on trade in goods and signed an agreement on the services sector in November 2007. Following three ASEAN-plus-one FTAs with China, Japan and Korea, in 2009 ASEAN also signed the other two: ASEAN-Australia-New Zealand FTA and ASEAN-India FTA.

Responding to the rise of formal economic cooperation in East Asia and moving toward the vision of East Asian Community, the 2004 ASEAN plus Three Summit decided to pursue the evolution of the ASEAN plus Three Summit into an EAS (East Asia Summit) as proposed by the EASG. In December 2005, the first EAS was held in Malaysia with the attendance of ASEAN plus Three members and the addition of Australia, India and New Zealand, the “Kuala Lumpur Declaration” was issued accordingly. The purpose of the EAS as defined in the Declaration is to strengthen cooperation among members so as to seek peace and prosperity and to play a major role in community building. In addition, the EAS will be an open, transparent and outward-looking forum, held on a regular basis. At the second EAS in January 2007, the 16 members’ leaders agreed on a study of a “Comprehensive Economic Partnership in East Asia (CEPEA, i.e., ASEAN plus Six FTA).” To tackle with many questions raised from evolving East Asian economic integration, the Economic Research Institute for ASEAN and East Asia (ERIA) was successively established in June 2008 in Jakarta.

With all the regional integration schemes, what differentiates ASEAN's regional institution to other Asian regional arrangements is that ASEAN wishes its own regionalism and its connection to a wide open East Asian cooperation (Chirathivat 2006: 86-7), as the ex- Malaysian Prime Minister Mahathir bin Mohammed called "Asia for the Asians (Gilson 2006: 225)." In achieving so, ASEAN members agreed to form an ASEAN Community consisting of political-security, economic and socio-cultural communities at the 2003 Bali Summit. Based on the December 1997 ASEAN Vision 2020 Proposal, ASEAN Economic Community (AEC) is designed to "create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and free flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020."¹² The deadline of the AEC has been advanced to 2015,¹³ showing the determination of ASEAN in moving beyond AFTA and toward an AEC.¹⁴

As a whole, there have been an increasing number of initiatives, arrangements, and projects on regional community and institutional building in East Asia. These include bilateral and sub-regional trade agreements, regional security dialogues (such as the ASEAN Regional Forum and Six-Party Talks), regional economic and business fora (such as the Boao Forum and the Asian Cooperation Dialogue), and regular meetings of East Asian leaders (for example, ASEAN plus Three and the EAS). Although some fora and arrangements are still at an embryonic stage, there should be no question that they will probably grow to be strong candidates for leadership in

¹² Please see <http://www.aseasec.org/15159.htm>.

¹³ Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015.

¹⁴ Press statement by the Chairperson of the ASEAN Plus China Summit, the ASEAN Plus Japan Summit, the SEAN Plus Republic of Korea Summit and the ASEAN Plus India Summit, Bali, October 8th, 2003.

regional schemes. It is difficult at this stage to forge a common vision about the structure and goal of future regional arrangement, but ASEAN plus Three and the EAS seem to have already offered more promise in addressing regional economic and governance issues in East Asia than APEC. More importantly, these developments are important variables in the calculus of the region affecting the face of East Asian regionalism and the future of APEC.

IV. The Response from APEC and Its Members

In response to the proliferation of FTAs/RTAs and to continue supporting WTO multilateral trading system, in 2002 for the first time APEC leaders “called for an exchange of views in APEC on regional and bilateral trade agreements, noting that these agreements need to be consistent with WTO rules and disciplines and APEC’s goals and principles (APEC 2002).” Since then, how APEC, as a regional economic forum with open regionalism in principle, could respond to the proliferation of FTAs/RTAs has been a major concern for member economies. For that, APEC began to hold a series of policy dialogues on the issue of increasing FTAs/RTAs from 2003. Through the dialogue, APEC sought to exchange views, make FTAs/RTAs information transparent, and pave the way for further cooperation. In 2004, APEC issued *APEC Best Practices for RTAs/FTAs* as a reference for APEC members when undertaking RTAs/FTAs negotiations.¹⁵ In 2005, APEC Leaders declared the promotion of high-quality RTAs and FTAs as an element of the Busan Roadmap

¹⁵ The best practices identifies by APEC encourage member economies involving FTAs/RTAs to follow the following norms: Consistency with APEC Principles and Goals; Consistency with the WTO; Go beyond WTO commitments; Comprehensiveness; Transparency; Trade Facilitation; Mechanisms for consultation and dispute settlement; Simple Rules of Origin that facilitate trade; Cooperation; Sustainable Development; Accession of Third Parties; Provision for periodic review.

towards the Bogor Goals; at the same time, APEC committed to developing model measures for as many commonly accepted FTA chapters as possible by 2008.

Since then, the notion of a Free Trade Area spanning the entire Asia-Pacific region has also been given renewed attention. In 2004, APEC Business Advisory Council (ABAC) firstly initiated the idea of establishing a Free Trade Area of the Asia-Pacific (FTAAP). The initiative attempted to present FTAAP as a trade and investment alternative to the spread of RTAs/FTAs. The U.S. was particularly interested in the proposal and concluded that the FTAAP idea “deserves serious consideration” (Feinberg 2007: 4). Based on a study carefully examined by Robert Scollay and supported by C. F. Bergsten, only an FTAAP will:

- (i) create positive gains from free trade induced by the largest single trade bloc,
- (ii) be a stepping stone from which free trade member and non-member economies alike can resume multilateral DDA negotiations,
- (iii) prevent competitive liberalizations in the Asia-Pacific region and mitigate the negative effects from proliferating hub-and-spoke type overlapping RTAs by consolidating the sub-regional trade blocs into one large umbrella,
- (iv) revitalize APEC,
- (v) mitigate the China-U.S. economic conflict mainly caused by the trade imbalance between the two nations, and
- (vi) maintain U.S. engagement in Asia.¹⁶

After two years of deliberation and with APEC concerned about the political implications, the United States and other APEC member economies decided in 2006 to announce that the formation of a FTAAP would become APEC’s “long term

¹⁶ See the Draft paper on “Further Analytical Study on the Likely economic Impact of an FTAAP,” 2009.

prospect¹⁷(APEC 2006). ” In line with this, Japan released its ‘New Growth Strategy’ (Basic Policies) in the end of December 2009, indicating that the establishment of an APEC FTAAP by 2020 is one of the main targets to be achieved (Japan National Policy Unit 2009: 11). Despite the support from the United States, Australia, Canada, Singapore, Chile and Taiwan, the FTAAP has gone nowhere due to the political and economic divergence (Sally 2009: 7). Instead, as a possible means to accelerate regional integration, FTAAP initiative has turned APEC to focus on the agenda of regional economic integration (REI) and begun to take agreed actions in areas such as: rationalizing rules of origin; studying convergences and divergences of FTAs; docking, merging and enlargement of FTAs; and analytical work on the economic impact of an FTAAP. In their 2009 report to Leaders, ABAC even suggests that commencing negotiations on the FTAAP is the logical next step for APEC to accelerate regional economic integration and urges APEC officials to define a framework by mid 2010. However, APEC Leaders simply reply by “We will continue to explore building blocks towards a possible FTAAP in the future (APEC 2009).”

While achieving FTAAP is still in the process of the exploration of a range of possible pathways and the FTAAP idea is facing an uncertain future, in 2006, the Trans-Pacific Strategic Economic Partnership Agreement (TPP) formed by Chile, Singapore, New Zealand, and Brunei Darussalam to establish a free trade area across the Pacific has surfaced to become a feasible building block for achieving FTAAP or Asia-Pacific regional integration. The TPP can be serve as the first trade pact to involve a group of Pacific Rim countries, and the first multi-party trade agreement to

¹⁷ In 2006 APEC Leaders’ Meeting, leaders instructed officials to “undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific as a long term prospect and to report to the 2007 APEC Economic Leaders’ Meeting in Australia.”

link Oceania, Asia and Latin America. It was specifically designed to permit other APEC countries to join and to serve as a pathway to broader Asia Pacific-wide trade liberalization and integration.

In March 2010, Melbourne hosted the first formal round of TPP negotiations, conducted by aspiring members of the bloc. In the meeting, the United States pursued membership actively, arguing that such an agreement would help to expand American exports and save and create good jobs in the U.S. (Newsahead 2010). With the U.S. willingness to be engaged with the TPP,¹⁸ other APEC economies have begun to consider about becoming TPP members as well. At the present, Australia, Peru, Vietnam, and Malaysia have demonstrated their desire to join TPP. Thus, TPP could soon become nine members, since the United States has signed bilateral FTAs with Chile, Singapore, Australia and Peru. Moreover, Canada and Mexico, both APEC members, are likely to link with TPP through their exiting NAFTA arrangement. The other members of CAFTA-DR (Dominican Republic-Central America–United States Free Trade Agreement) would have the possibility of linking with TPP. At the same time, the US is signing FTAs with Korea, Thailand and Malaysia respectively. In other words, Asia-Pacific countries signing FTAs with the U.S. might sooner or later enlarge TPP. In that case, the U.S. could become the center of TPP and strategically radiate throughout the Asia-Pacific region. The new platform would give birth to a new American economic circle that influences Asian regionalism.

¹⁸ Under the Bush administration, the U.S. in September 2008 announced that it would enter into negotiations to join the TPP. In November 2009, Obama in his Tokyo address states, “The United States will also be engaging with the Trans-Pacific Partnership countries with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21st century trade agreement.” see <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-suntory-hall>

Against the backdrop of evolving Asian regional architecture, in June 2008, Australian Prime Minister Kevin Rudd raised his proposal of an Asia Pacific community (APc) as there is no single institution in the Asia Pacific with a membership and mandate to address comprehensively both economic and strategic challenges (Rudd 2009). The purpose is to build a political and security framework beyond the framework of economic cooperation that the existing architecture “however incompletely helps to secure (Drysdale 2008).” The APc proposal was aimed at overcoming the compartmentalization of existing regional institutions by creating an effective leadership forum where major political, economic and security issues could be dealt in a whole (Thayer 2009). For example, APEC has focused mainly on trade liberalization and its membership is so wide as to be manageable. The ASEAN Regional Forum (ARF) has no leaders-level meeting, hence can only deal with confidence-building measures. The ASEAN plus Three and the EAS processes overlap in membership and their explicit roles have yet to be clearly defined (Woolcott 2009: 3). To overcome the compartmentalization, “managing major-power relations... particularly the relations between the United States, Japan, China, Indonesia and India...will be crucial for our collective future.” Rudd pointed out (Drysdale 2009a).

To put the APc into realization, Australia hosted a conference titled “The Asia Pacific: a community for the 21st century” in Sydney, Australia, from 3-5 December 2009. The main purpose of the conference was to explore the idea of a leaders’ level APc and it was a “1.5 track” gathering of participants from both non-government and government sectors. Although it did not attempt to reach any agreed conclusions, a clear message has been transmitted: APEC and ASEAN would have central roles to

play into the future, they could be potential building blocks for an Asia Pacific community (Australian Department of Foreign Affairs and Trade 2009: 5, 10). Hence, it is clear that the APc initiative was not about to supplant or diminish the roles of existing regional blocs but to complement insufficiency.

On the other hand, in 2009, after the Democratic Party of Japan (DPJ) was elected to office by a landslide in the 30 August election, the newly elected Prime Minister Yukio Hatoyama proposed the idea of an East Asian community (EAc) as one of his foreign policy initiatives. Indeed, similar idea of forming a community in East Asia was initiated by former Japanese Prime Minister Junichiro Koizumi in 2002, when he proposed a goal to create a “community that acts together and advances together (Koizumi 2002).” And this should be achieved “through expanding East Asia cooperation founded upon the Japan-ASEAN relationship.” In addition to making the best use of the framework of ASEAN plus Three, former Prime Minister Koizumi expected “that the countries of ASEAN, Japan, China, the Republic of Korea, Australia and New Zealand will be core members of such a community.” In other words, Koizumi’s idea of a community in East Asia is close to what has developed later by ASEAN plus Six cooperation.

As to Hatoyama, based on his translated op-ed article, “A New Path for Japan” published in *New York Times* (Hatoyama 2009), by returning to the idea of fraternity, he proposes the creation of an East Asian community and pushes for regional currency integration to establish common Asian currency. However, there is still no single Japanese government vision of how regional community building should proceed. Although Hatoyama has expressed his proposal to the leaders of this region

in meetings such as ASEAN plus Three, EAS and APEC, issues regarding membership, function, and mandates of EAc remain to be further clarified and defined. For instance, is the Hatoyama vision of an EAc some kind of multilateral security framework? Will the United States be included in this future EAc? In the short run, as such, to demonstrate Japan's foreign policy autonomy from the US and exercise Japanese diplomatic leadership in the region might be much more significant to Hatoyama in promoting the idea of EAc (George-Mulgan 2009).

Owing to the ambiguity of both Hatoyama's idea of EAc and Rudd's proposal of APc, the subsequent ASEAN Plus Three and EAS meetings in 2009 did not clarify what role or shape these two proposals of community would have. On the one hand, the Chairman's Statement for the ASEAN plus Three meeting stated:¹⁹

We reaffirmed our commitment to the ASEAN plus Three process as a main vehicle towards the long-term goal of building an EAc with ASEAN as the driving force. We noted Japan's aspiration to reinvigorate the discussion towards building an EAc based on the principle of openness, transparency and inclusiveness and functional cooperation.

Instead of endorsing any proposal or approach to form a community in East Asia, the Fourth EAS concluded by acknowledging the importance of regional discussions to investigate means to advance the stability and prosperity of the Asia Pacific region. In this connection, Leaders of EAS noted with appreciation the following:²⁰

¹⁹ See Chairman's Statement of the 12th ASEAN Plus Three Summit (Cha-am Hua Hin, Thailand, 24 October 2009), http://www.15thaseansummit-th.org/PDF/25-05_7.6Chairman's_Statement_of_the_12th_ASEAN_Plus_Three_Summit.pdf

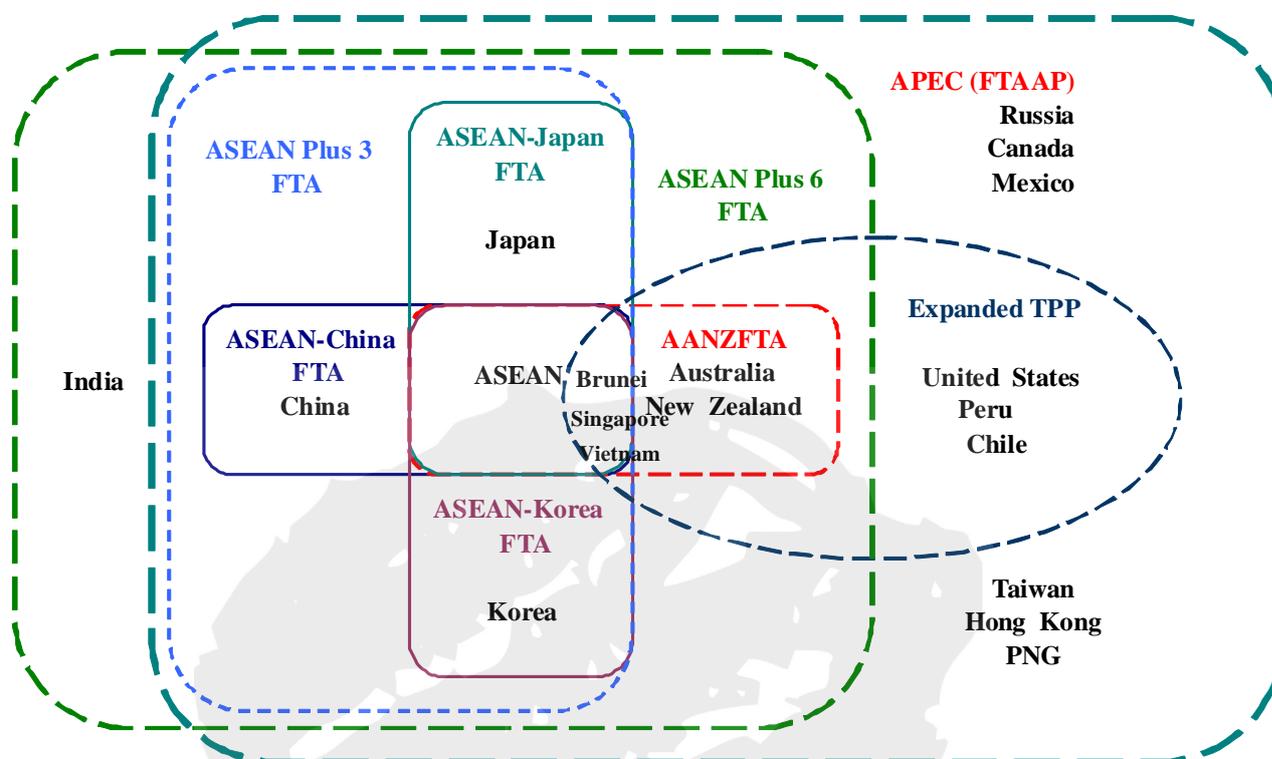
²⁰ See Chairman's Statement of the 4th EAS (Cha-am Hua Hin, Thailand, 25 October 2009), http://www.15thaseansummit-th.org/PDF/25-08_EAS%20Statement.pdf

Japan's new proposal to reinvigorate the discussion towards building, in the long run, an EAc based on the principle of openness, transparency and inclusiveness and functional cooperation. Australia's proposal on the APc in which ASEAN will be at its core, will be further discussed at a 1.5 track conference to be organized by Australia in December 2009.

V. The Role of APEC and the Rise of East Asian Regionalism

In response to the first wave of regionalism in the Western Europe, the Pacific region began to pursue regional economic cooperation and integration in the 1960s. Evolving through the academic PAFTAD conference, the business-based PBEC, and the tripartite PECC, the region took a quarter of century to create a regional intergovernmental cooperation mechanism: APEC. On the contrary, evolving after the 1997-1998 Asian financial crisis, regional economic cooperation among East Asian governments such as ASEAN plus Three, ASEAN plus One, and EAS has grown progressively and continued to move toward the creation of a single FTA as well as a regional community. In addition to these aforementioned existing and proposed regional institutions (see Figure 1) that are affecting the shape and configuration of Asian regionalism, both Rudd's proposal of creating APc and Hatoyama's idea of EAc are new variables to the future development.

Figure 1 Rising Asian Architecture



Source: Drawn by author.

From the perspective of regional architecture, certainly as yet there is no single institution to comprehensively address economic, political, and security issues in the region. Instead, current Asian regional arrangements are dynamic and based on a web of existing different groupings. As a result, while some proposals have suggested having a single institution like “community,” the future of Asian regional architecture may depend on “whether the diversity and balance of the region can be served by a single institution or by allowing a web or network of different groupings (Tay 2009).”

For instance, in comparison to Hatoyama’s EAc, Rudd’s APc has its merits as it is supposed to include all countries in the region, and the inclusive nature of the arrangement reduces the risk of division. However, the idea of building a region-wide

cooperative architecture, as many have pointed out, will be hard to put into practice. Firstly, as with other efforts to build a region-wide cooperation scheme in Asia, it may be difficult to decide which countries should be included in the “Asia Pacific” category. Secondly, the relationship between the APc and the existing bilateral and multilateral arrangements in the region is unclear. Thirdly, there is the question of leadership. Who should sit in the driver’s seat? Last but not the least, there is the problem of how to develop a decision-making mechanism that is both efficient and also receptive of the views of the smaller states. Rudd thinks that by bringing all the big powers together, the APc would more effectively address regional challenges. However, the smaller states may fear that they would be ignored, and therefore demand a voice.

That’s why Simon Tay argues that an Asia Pacific network of existing groupings can:

“(1) soften questions of who is ‘in’ or ‘out’ of the region; (2) better balance competition for influence and leadership among different powers; (3) complement and be complemented by bilateral strategic and security arrangements that already exist and allow for creative ad hoc arrangements to respond to specific needs; (4) better reflect and draw from the diversity in Asia and the Pacific; and (5) be sufficiently coordinated by governments and leaders at their national levels to meet their own particular emphases and needs (Tay 2009).”

Thailand’s Prime Minister, Abhisit Vejjajiva, therefore argues that the regional architecture should not be complacent, but for now the most realistic framework for

-serving the needs of our peoples and achieving regional peace and prosperity is not to tidy everything up into one regional institution, but to strengthen or build upon the arrangements that are already functioning and effective (Tay 2009; Vejjajiva 2009).

In this sense, if there is need for more, the existing regional arrangements might possibly evolve. In the case of APEC, as the U.S. will host the 2011 APEC meetings, it may be even more useful. Also, after the U.S. have initiated summit with ASEAN leaders in 2009, ASEAN-U.S. Summit will be another venue to use. More importantly, given the U.S. concluding the ASEAN Treaty of Amity and Cooperation (TAC), a condition for the participation of the EAS, and expressing anticipation to engaging with the EAS more formally,²¹ the EAS may invite the U.S. to join in the near future to address emerging regional challenges. Russia was previously invited as an observer to the 2005 inaugural meeting and has interest in joining the EAS. In this case, the EAS could likely restructure to become EAS plus Two, making the EAS 18 members, which will be very close to the size of Rudd's proposal of APc. Thus, the "EAS plus" approach might be more realistic to serve the needs of peoples and states in the region without creating a new institution.

No matter how Asian regionalism evolves, any new regional arrangement or institution needs to relate to the established regional schemes, namely the APEC and other East Asian arrangements. Particularly, while examining the evolution of proposed regional arrangements, the future of APEC has become another significant issue in understanding regional circumstances in both regions of Asia Pacific and East Asia. Indeed, APEC's future development has been concerned by member economies

²¹ Please see Obama's Tokyo address, <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-suntory-hall>

in different contexts since its inception. The recent emergence of East Asian economic cooperation further raises the issue by worrying about the role of APEC. In particular, once the creation of any Asian architecture draws a line down the middle of the Pacific, what will be the role of APEC then? Does this mean that APEC might be weakened as only a “trans-regional body” like the ASEM, rather than a “regional body” (Ravenhill 2000: 329)?

In response to the concern, the reform of APEC has been embarked since 2003 to strengthen as well as streamline the APEC process. As mentioned previously, the ABAC asked APEC leaders to endorse the idea of a FTAAP so as to further strengthen transpacific relations as well as to counter the development of East Asian regionalism. Especially with the creation of the EAS in 2005, APEC members are increasingly concerned about the future role of APEC.

The issue also has incurred different perspectives ranging from changing APEC’s operation system to dropping the Bogor Goals. Among others, in order to enhance APEC’s credibility and institution in the face of proliferating preferential trade agreements, Hadi Soesastro, the Chairman of PAFTAD’s International Steering Committee,²² suggests that APEC move away from a *voluntary* process (V-APEC) to become an organization with *binding* agreements (B-APEC) (Soesastro 2005: 3). He further argues that the more immediate task for APEC is to make V-APEC function more effectively while the issue of B-APEC remains to be settled (Soesastro 2005: 4).

In re-conceptualizing APEC and redefining its role, another perspective advocated by MacDuff and Wu proposes the idea of APEC as a Pacific Organization

²² Hadi Soesastro is also the Executive Director as well as a senior economist at the Centre for Strategic and International Studies (CSIS) in Jakarta.

for Economic Cooperation and Development (OECD). To coexist with emerging regional grouping, they argue that APEC better characterizes itself as a regional policy forum like OECD based on its traditional strength and focus on regional policy dialogue, coordination, and information sharing (Macduff and Wu 2005). This suggestion certainly would involve changes in both the conceptual underpinnings of APEC and the way in which APEC operates as an institution.

Rather than proposing any institutional change for APEC, Charles Morrison, the International Chair of PECC, believes that for the time being it would be more realistic for APEC to sketch out a viable trade agenda to achieve the Bogor vision. This is because should developed economies of APEC fail to deliver on their commitment in 2010, APEC will lose its own credibility and importance to be a regional economic forum. In Morrison's point of view, therefore, an APEC 2010 Trade Agenda might be needed to realistically revise the Bogor 2010, 2020 goals (Morrison 2007). This Agenda consisting of such possible elements as deepening the WTO, aligning regional PTAs, enhancing outreach, and undertaking APEC reform would help APEC achieve the Bogor vision and ensure its credibility accordingly.

Nonetheless, from some perspectives, the development of East Asian regionalism is like a two edged sword that can either harm or empower APEC. As aforementioned, the rise of East Asian economic integration may bring APEC not only such challenges as obstacles for the Bogor Goals and the contradiction between East Asia and Asia Pacific, but also opportunities like facilitating the Bogor Goals. Hence, some scholars started to question the necessity of the creation of a single institution since there are already many plurilateral fora in the region. As such, some still believe that as the

only official Asia-Pacific cooperative mechanism, APEC still has its own comparative advantages and attractions regardless of its many problems waiting to be resolved (Capie 2004: 164-5).

APEC has a broad Asia-Pacific membership that still serves as a useful role in promoting regional economic and technical cooperation (Heseltine 2009: 6) and the competency to deal with various regional issues (such as trade facilitation, economic and technical cooperation, and human security) that are beyond the mandate of single-purpose institutions. Second, APEC is able to conduct timely and high-level policy dialogue and coordination. Besides, APEC is unique, active, and experienced to integrate the private sector into intergovernmental cooperation. Similar perspectives thus believe that APEC has a special place among regional fora and any Asian regional architecture won't replace APEC in the foreseeable future. Even so, to some extent the future of APEC also depends on strong leadership of the US given the significant role of the US in both East Asian and Asia-Pacific regions.

VI. Conclusion and Prospects

To explore APEC's role in the rise of East Asian regionalism, this paper first reviews the evolution of regional schemes in East Asia; it then focuses on the response to the challenges posed by the emerging architecture such as the TPP and the proposal of an FTAAP. The proposal of EAc and APc are both future-oriented. Apparently some are not very satisfied with the existing cooperative mechanisms in the region, hence the desire for a region-wide cooperative mechanism similar to that of the EU emerge, namely Hatoyama's EAc and Rudd's APc. Both proposals are in their embryo stage so it may be too early to know for sure how future Asian

regionalism will evolve and how APEC will respond. However, the development of Asian regional scheme can either harm or empower APEC.

APEC is facing keen competition from other community building initiatives and projects in Asia, many of which are more active and dynamic. It is imperative for APEC to find its “market niche” in the future regional architecture. Based on its uniqueness and comparative advantages, APEC could further consolidate its niches and significance as a regional architecture by reforming or reconfiguring itself. As a result, it is indeed a great opportunity for APEC to rethink and redefine its role and status in the Asia-Pacific region. How to define its future role in an appropriate division of labor with other regional arrangements and organizations is a challenge that requires a forward-looking answer. In so doing, this paper finally provides following suggestions for enhancing APEC’s role in the rise of Asian regional architecture.

First of all, APEC needs to strengthen as well as to expand its role in facilitating business by reducing costs in the Asia Pacific region to reflect its spirit of “APEC means business.” This would further differentiate APEC from other regional bodies/groupings in terms of functions and characteristics. To do so, the foremost task for APEC now would be continuing to minimize the costs of FTAs by prioritizing areas, particularly under the circumstances of fast growing bilateral FTAs in the region. Although APEC has been making efforts to increase transparency and standardization across FTAs by promoting best practices and designing model measures for FTA negotiations, APEC needs to do more in this regard. To move toward more harmonized trade agreements, it would be necessary for APEC to ask its

key members by peer pressure to champion the task. In addition, to effectively remove behind-the-border hurdles would be another critical task for APEC in facilitating business. It's noted that APEC has initiated plans like structural reform and improving the condition of ease of doing business. In the future, this would be the realm that APEC could step up its comparative advantage as a regional body of economic cooperation.

Secondly, APEC-wide regional trade agreement like FTAAP has its strategic significance for APEC in competing with other regional existing or proposed arrangements. Certainly, the target will not be easy to achieve in the short run. Nevertheless, for the longer term, APEC has to move toward this end through the “building blocks” approach. To do so, multilateralizing FTAs in the region is an urgent task for APEC in addition to standardization. As we know, APEC has been making efforts to expand, link, or merge various bilateral and plurilateral FTAs in the region to accordingly multilateral FTAs in recent years. In view of that, it would be rather critical for APEC to not only watch but engage with such sub-regional economic integration as ASEAN plus One, Three, or Six, and TPP perhaps. Especially, when such building blocks as five ASEAN plus One FTAs (China, Japan, Korea, India and Australia-New Zealand) and TPP enlargement are either in force or launching, it is time for APEC to seriously assess which vehicle or pathway APEC could take to build its region-wide regional trade agreement like FTAAP.

Thirdly, in addition to the challenge from rising regional proposals like APc and EAc, the emergence and institutionalization of the Group of 20 (G-20) in addressing global economic issues would also affect the role of APEC. As yet, 9 of G-20

members are APEC members. To consolidate APEC's voice and representation in G-20 process would at same time enhance APEC's role in the region. As a consequence, in addition to supporting WTO system, APEC should also pay more attention to G-20 agenda and attempt to form an APEC position in G-20 meetings. This would not only help APEC engage with global economic policy making, but also elevate APEC's visibility and status as a regional body.

Last but not the least, today APEC's pre-eminence in the Asia-Pacific region persists despite emerging regional groupings in Asia. In particular, APEC has become a very efficient, high-level meeting venue to bridge the Pacific (Morrison 2009: 36). Non-member economies like India and Panama are queuing up to be permitted a place at APEC's table (Drysdale 2009b: 24). To add value to its dialogue function, embracing new heavy-weight members like India would likely raise APEC's status and influence in the global political economy. Based on the principle of concerted unilateralism and voluntary nature, incorporating new members like India will make APEC an unique regional forum with the presence of the US, China, Japan, India and Russia, all together conducting regular high-level dialogue and working plans. APEC may thus become an important catalyst to facilitate cooperation among those major powers in various issues by bridging different positions.

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