

East Asian Regional Economic Cooperation and FTA: Deepening of Intra-ASEAN Economic Cooperation and Expansion into East Asia*

Kazushi Shimizu**

As part of the structural changes in the world economy, ASEAN has further promoted intra-regional economic cooperation and has grown as an important axis in East Asian regional economic cooperation and set up a free trade agreement (FTA). This paper examined the achievements and prospects of East Asian regional economic cooperation and this FTA, mainly in terms of ASEAN. The deepening of the current intra-ASEAN economic cooperation, and its characteristics, and major impacts in the East Asian Economic Cooperation are discussed.

JEL Classifications: F02, F14, F15

Keywords: ASEAN, AFTA, AICO, AEC, APT, EAS, East Asian community, Economic Cooperation, Economic Integration, FTA

1. Introduction

Regional economic cooperation and integration have made rapid progress in the modern world economy, as seen in the European Union (EU). These types of economic cooperation and integration have promoted trade and factor movements (capital movement and labor movement) beyond national boundaries.

In East Asia, the Association of Southeast Asian Nations (ASEAN) has been the sole source of regional cooperation. ASEAN was founded in 1967 and has implemented intra-regional economic cooperation since 1976. ASEAN has promoted deepening and widening of its regional cooperation since its founding. ASEAN has deepened its political and economic cooperation as well as other types of cooperation. The original members in 1967 were five countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand, growing to include Brunei in 1984, Vietnam in 1995,

*This paper is based on Shimizu, K., "East Asian Regional Economic Cooperation and FTA: Deepening of Intra-ASEAN Economic Cooperation and Expansion into East Asia," in Takahara, A., Tamura, K. and Sato, Y.(eds.), *The Modern Asian Studies, Vol.1: Trans-border*, Keio University Press, Tokyo, 2007.

**Professor, Kyushu University, Graduate School of Economics, E-mail: shimizu@en.kyushu-u.ac.jp

Myanmar and Laos in 1997, and Cambodia in 1999. ASEAN covers the entire Southeast Asian region.

As part of the structural changes in the world economy, ASEAN has further promoted intra-regional economic cooperation. The ASEAN Free Trade Area (AFTA), which was approved at the 5th ASEAN Summit in 1992, was established by the 6 original member countries in 2003. Now, ASEAN's new goal is the ASEAN Economic Community (AEC).

ASEAN has grown as an important axis in regional economic cooperation and the free trade agreement (FTA) in East Asia. With the Asian economic crisis as a turning point, East Asian regional economic cooperation including ASEAN Plus Three (APT: ASEAN Plus Japan, China and Korea) has steadily increased. The East Asian Summit (EAS) has been held yearly since 2005. At the same time, the Free Trade Agreement (FTA) including the ASEAN-China Free Trade Agreement (ACFTA) and ASEAN-Japan Comprehensive Economic Partnership (AJCEP) have also been established. The advancement of East Asian regional economic cooperation and FTA will have a major impact on the East Asian economy as well as the world economy.

This paper examines the achievements and prospects of the East Asian regional economic cooperation and FTA. This topic will then be examined mainly in terms of ASEAN. We have analyzed intra-ASEAN Economic Cooperation on a unique and long-term basis (Shimizu, 1998a, 1998b, 1999a, 2002a, 2004a, 2005a and 2006a, etc.). This paper will address the deepening of the current intra-ASEAN economic cooperation and its characteristics, and major impacts in the East Asian Economic Cooperation.

Section 2 discusses the process of Intra-ASEAN Economic Cooperation from 1976 to 2003. Section 3 analyzes the new developments in intra-ASEAN Economic Cooperation at the beginning of the "ASEAN Concord II" in 2003. Section 4 discusses the East Asian regional economic cooperation and FTA. The concluding section examines these analyses, and also presents some important future issues relating to East Asian regional cooperation and FTA.

2. Intra-ASEAN Economic Cooperation from 1976 to 2003

2.1 Intra-ASEAN Economic Cooperation from 1976 to 2003

ASEAN, which was founded in 1967, began intra-ASEAN economic cooperation at the 1st ASEAN Summit in 1976. This economic cooperation, based upon a report formulated by a United Nations Team ("Economic Cooperation among Member Countries of the Association of Southeast Asian Nations"), was carried out according to "ASEAN's strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN's strategy for CISI)."¹⁾ This strategy was designed under restricted foreign direct investment (FDI), and conducted by collec-

¹⁾Shimizu (1998a: Chapter 1, 1998b).

tive self-reliance policies. However, this strategy suffered a setback due to failure in the implementation of the following three policies: the ASEAN Industrial Projects (AIP), the ASEAN Industrial Complementation (AIC) and the Preferential Trading Arrangement (PTA) (as well as, the ASEAN Industrial Joint Venture: AIJV also started in 1983), and also due to the failures in the creation of an interdependent market within ASEAN. These failures were caused by conflicts of economic interest among the ASEAN countries.²⁾

At the 3rd ASEAN Summit in 1987, this Strategy (“ASEAN’s strategy for CISI”) was switched to a new strategy “ASEAN’s strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN’s strategy for CFEI).”³⁾ This was because the former strategy ended in failure and there were some changes in economic conditions both inside and outside the ASEAN region. At the heart of this strategy was the Brand-to-Brand Complementation (BBC) Scheme.⁴⁾

ASEAN’s strategy for CFEI reached a significant turning point and new phase, along with historical structural changes surrounding ASEAN starting in 1991, due to changes in the cold war framework and the rapid economic growth in East Asia. These changes promoted the deepening and the widening of intra-ASEAN cooperation. In other words, AFTA, ASEAN Industrial Cooperation (AICO) and ASEAN Investment Area (AIA) were promoted as an extension of ASEAN’s strategy for CFEI, and the widening of ASEAN to include Indochina countries.⁵⁾

With the 1997 Asian economic crisis as a turning point, intra-ASEAN economic cooperation entered a new phase. This was because the structures of the world economy and East Asian economy, surrounding ASEAN,

²⁾Shimizu (1998a: Chapter 2-3, 1998b).

³⁾This was a new model strategy for intra-economic cooperation or economic integration among developing countries, which was the strategy to support ASEAN countries’ FDI-dependent and Export-oriented Industrialization collectively. Specifically, “ASEAN’s strategy for CFEI” has been trying to 1) invite foreign capital (especially, FDI) as a whole, instead of on an individual national basis, 2) promote economic activities supported by foreign capital, 3) form an integrated intra-regional market, and 4) create exportable industries within. Refer to Shimizu (1998a: Chapter 4, 1998b).

⁴⁾The BBC scheme is an arrangement whereby specified parts/components of a specific vehicle model are traded and used by the Brand-Owners (e.g. Mitsubishi Motor Corporation) and Brand Related Original Manufacturers (BR-OEMs) in their respective Original Equipment products, and there shall be two or more countries participating in respect of any specific BBC scheme. Participating countries shall be granted a) local contents accreditation, b) a minimum of 50% margin of tariff preference (MOP) to BBC products, if a BBC products is a component for the manufacture of any products in the participating countries (“Memorandum of Understanding, Brand to Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation,” ASEAN Secretariat, 1988, pp. 45-48). Mitsubishi Motors Corporation (MMC), Toyota Motor Corporation and Nissan Motor Co., Ltd., etc, had complemented auto parts in ASEAN under BBC. Refer to Shimizu (1998a: Chapter 5, 1999b).

⁵⁾Refer to Shimizu (1998a), Final Chapter.

had changed to a great extent. The first change was China's rapid growth and its expansion of influence. China maintained its rapid growth of over 7%, during and after the Asian economic crisis. This was in sharp contrast with ASEAN countries. Trade and investment which led to this rapid growth in China grew rapidly. China attracted much FDI and thus put great pressure on ASEAN countries. The second change was the stagnation of worldwide trade liberalization by the WTO and the evolution of FTA. The third change was the increase in interdependency in East Asia including China, and the developing of the foundation for East Asian-wide economic cooperation.⁶⁾

Some examples of Intra-ASEAN economic cooperation after the Asian economic crisis are discussed. AFTA⁷⁾ was almost established by the six ASEAN original member countries in January 1, 2003. The tariffs on 99.55% (44,160 tariff lines out of a total 44,361 tariff lines) of products in the 2003 Inclusion List (IL) of the six ASEAN original member countries were reduced to 0%-5% tariff range by the common effective preferential tariff (CEPT) scheme. The average tariff for the six ASEAN original member countries under the CEPT Scheme was down to 2.39% from 12.76% when the tariff-cutting exercise started in 1993.⁸⁾ The elimination of import duties will be complete by 2010 in the original six member countries and by 2015 (2018 for some sensitive items) in the other four countries.

AICO⁹⁾ was agreed upon at the informal ASEAN Economic Ministers

⁶⁾Refer to Shimizu (2004a, 2005b).

⁷⁾AFTA is the free trade area concept agreed upon at the 4th ASEAN Summit in January 1992. Under AFTA, as a major means of Common Effect Privileged Tariff (CEPT), tariffs for industrial products and processed agricultural products in the ASEAN region should be reduced by 0-5% by 2008. At the 6th ASEAN Economic Ministers Meeting, they agreed the implementation of tariff reduction would be moved up by 5 years to the year 2003, and this would be applied to non-processed agricultural products. At the 6th ASEAN Summit in December 1998, they agreed this implementation was moved up by another one year to the year 2002. A product shall be deemed to be originating from ASEAN Member States, if at least 40% of its content originates from any Member State ("Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area").

⁸⁾ASEAN Secretariat, *ASEAN Annual Report 2002-2003*, p.19. However, the efficacy of AFTA could not be overestimated. This was because, first, there were some excluded items, such as the auto industry in Malaysia and the petrochemical industry in the Philippines. Second, regional trade applied by AFTA and CEPT was extremely small. Third, the problems on procedures such as complicated procedures or non-tariff barriers hampered AFTA. Refer to Shimizu (2004a, 2005b).

⁹⁾BBC was integrated into AICO, which was agreed upon at the informal ASEAN Economic Ministers Meeting in April 1996 and came into effect in November 1996 in each ASEAN country. The approved AICO Products traded between Participating Companies shall enjoy preferential tariff rates of 0%-5%. The local content accreditation shall be accorded to the products manufactured by Participating Companies. The Companies wishing to benefit from the privileges of the AICO Scheme shall fulfill the following criteria: a. be incorporated and operating in an ASEAN Member Country; b. have a minimum of 30% national equity ("Basic Agreement on the ASEAN Industrial Cooperation Scheme," <http://www.aseansec.org/6385.htm>).

Meeting in April 1996 and came into effect in November 1996. No case was approved for more than one year. But, in 1998, some cases such as Sanden Corp., an auto-parts company, were approved in the background of the Asian economic crisis. As of February of 2003, 101 cases were approved. Of them, 90 are auto-related cases including 27 by Toyota Motor Corporation (Toyota), 26 by Honda Motor Co., Ltd.(Honda), 7 by Denso Corporation (Denso), 5 by Nissan Motor Co., Ltd.(Nissan), and 2 by Mitsubishi Motors Corporation (MMC).¹⁰⁾ AICO was centered upon the complementation of auto parts for Japanese automobile makers. For example, Toyota was producing main auto parts, such as, steering gears in Malaysia, transmissions in the Philippines, diesel engines in Thailand and gasoline engines in Indonesia, and complementing these parts since 1990, under BBC and AICO. Main auto parts of Toyota in ASEAN were complemented at a tariff of 0%-5%.¹¹⁾

At the same time, ASEAN had consistently had success in extra-regional economic cooperation (the External Economic Joint Approach). The extra-regional cooperation played a major role for ASEAN to unite as a whole. ASEAN was able to secure export markets and obtain foreign aid.¹²⁾

2.2 Centrifugal Forces of Intra-ASEAN Economic Cooperation

There were many problems and centrifugal forces for Intra-ASEAN economic cooperation.¹³⁾ These hampered the progress of intra-regional economic cooperation. Some of these centrifugal forces have been there since the beginning. First, there remained various factors that could cause conflicts of interest among ASEAN member countries.

Second, ASEAN did not have policies or organizations to solve these conflicts among member countries. For example, ASEAN has not had common policies: “methods for the redistribution of income or the reallocation of capital” for countries suffering disadvantages arising from economic cooperation (e.g. common policies, such as Common Agricultural Policy: CAP or Common Regional Policy in EC or EU).¹⁴⁾

Third, the interdependence in the ASEAN market had been low, while the dependence of trade and investment on major powers outside ASEAN had been high.

Fourth, the increasing interdependency in the East-Asian and the Asia-Pacific regions and some activities of multinational corporations (MNCs) were centrifugal forces for Intra-ASEAN Economic Cooperation. For example, some MNCs had plans to transfer their production base from

¹⁰⁾<http://www.aseansec.org/6398.htm>.

¹¹⁾Refer to Shimizu (1998a: Chapter 5, 2004a, 2005b).

¹²⁾Shimizu (1998a: Chapter 2).

¹³⁾Refer to Shimizu (1998a: Chapter 2, 2004a, 2005b) as for centrifugal forces for Intra-ASEAN economic cooperation.

¹⁴⁾Shimizu (1998a: Chapter 2, Supplementary Chapter: Deconstruction of Integration Theory).

ASEAN countries to China. Some MNCs expanded their parts complementing areas, in pursuit of efficient and rational production, thus extending beyond the ASEAN region. These activities undermined the foundation of intra-ASEAN economic cooperation.

Besides the above centrifugal forces, there were other centrifugal forces related to the structural changes of world economy after the Asian economic crisis. First, ASEAN widened its members into the Indochina countries. While containing wide income disparities and differences in industrial competitiveness, the widening enhanced the centrifugal force mainly in terms of intra-regional conflicts for interests between developed countries and developing countries.

Second, the positions towards intra-regional economic cooperation were unstable among ASEAN member countries. Particularly, with the evolution of FTA, member countries acted strategically for their own industries. For example, Singapore was strengthening the relationship with extra-ASEAN countries such as the U.S. Thailand was also active in forging FTA with countries outside the region; Thailand approached China about the early harvest program of the tariff reduction on agricultural goods. These were centrifugal forces for intra-regional cooperation.

The third centrifugal force was the creation of wider cooperative frameworks such as APT and the evolution of the FTA. These all increased the possibility for ASEAN to be absorbed by wider frameworks. Especially important was the creation of an East Asian-wide cooperative framework. This would probably undermine the initiative of ASEAN.

Fourth, the activities of MNCs in a wider area than ASEAN would strengthen the centrifugal force. For example, in automobile manufacturing in ASEAN countries by Japanese MNCs such as Toyota Motor Corporation, some important auto parts such as engine parts were exported from Japan. Thus, the wider region at least including ASEAN and Japan were more rational for production for Japanese automobile makers.¹⁵⁾ After the Asian economic crisis, the exports of cars and auto parts from ASEAN countries, particularly from Thailand, grew. The trade of cars and auto parts between ASEAN and China, and ASEAN and Japan were also expanded greatly.¹⁶⁾ The rational region for Toyota's automobile production needed a wider area.

ASEAN was led to further deepening of intra-ASEAN economic cooperation in the structural change of world economy, by resolving these centrifugal forces.

¹⁵⁾Refer to Shimizu (1998), Chapter 5.

¹⁶⁾Auto parts exports from the ASEAN 5 countries to the world increased from \$1.993 bill in 1999 to \$2.441 bill in 2002. Exports to Japan increased from \$245 million to \$520 million, and exports to China increased from \$24 million to \$40 million during the same period. Exports from China to the ASEAN 5 countries increased from \$32 million to \$120 million and those from China to the ASEAN 10 countries increased \$38 million to \$198 million (ITI, *International Trade Matrix, 2002, 2003*). "Auto parts" is classified as the HS Classification 8707-8708.

3. New Developments in Intra-ASEAN Economic Cooperation since 2003

3.1 The “Declaration of ASEAN Concord II” and the ASEAN Economic Community (AEC)

The 9th ASEAN Summit meeting in October 2003 and a series of meetings were great turning points for intra-ASEAN economic cooperation. The “Declaration of ASEAN Concord II” in the 9th Summit meeting in Bali, Indonesia in October of 2003 presented a plan to realize an ASEAN Community, which consisted of the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC) and the ASEAN Social and Cultural Community (ASCC). The “Declaration of ASEAN Concord II” stated “An ASEAN Community shall be established comprising three pillars, namely political and security cooperation, economic cooperation, and socio-cultural cooperation that are closely intertwined and mutually reinforcing for the purpose of ensuring durable peace, stability and shared prosperity in the region.”¹⁷⁾

As for the relationship with extra-regional countries, they verified that ASEAN and Japan, China, India, and South Korea would continue to strengthen their cooperation including FTA. At the same time, China and India joined the Treaty of Amity and Cooperation in Southeast Asia (TAC), which was signed in 1976 and urged the promotion of peace and stability in Southeast Asia through regional resilience.¹⁸⁾ This was the first time that a power outside Southeast Asia joined TAC.

The concept of AEC was first presented in the 8th ASEAN Summit in November 2002 and examined in the 35th AEM in September 2003. Then AEC was formalized in the “Declaration of ASEAN Concord II” in the 9th ASEAN Summit in October, 2003 as the pillar that would support the ASEAN Community.

The “Declaration of ASEAN Concord II” stated that “The ASEAN Economic Community is the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020.”¹⁹⁾

AEC was created so that “ASEAN would be a single market and production base, characterized by the free flow of goods, services, investment and skilled labor, freer flow of capital by year 2020.”²⁰⁾ The idea was to re-

¹⁷⁾“Declaration of ASEAN Concord,” <http://www.aseansec.org/15159.htm>.

¹⁸⁾“Treaty of Amity and Cooperation in Southeast Asia,” <http://www.aseansec.org/1217.htm>.

¹⁹⁾“Declaration of ASEAN Concord,” <http://www.aseansec.org/15159.htm>.

²⁰⁾“The Thirty-Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia,” <http://www.aseansec.org/15066.htm>. Refer to ASEAN Secretariat (2003), Hew and Soesastro (2003), ISEAS (2003), ASEAN ISIS (2003), Hew (2005), Severino (2006), as for AEC.

alize an EU-like single market or a common market that includes factor movement. Thus, this idea had the potential to strengthen intra-ASEAN economic cooperation or integration to a greater extent.

As for AEC, the High-Level Task Force (HLTF) on economic integration, which was set up by the AEM, compiled proposals and submitted them to the AEM. The AEM accepted two key proposals and adopted them in the "Declaration of ASEAN Concord II." One was to establish an effective dispute settlement system. The other was to give priority to integrating 11 sectors. The selected industries for priority integration and the coordinating countries were Indonesia in wood-based products and automotives, Malaysia in rubber-based products, textiles and apparels, Myanmar in agro-based products and fisheries, the Philippines in electronics, Singapore in e-ASEAN and healthcare and Thailand in air travel and tourism.²¹⁾

One more important point in this series of conferences was that they were trying to establish a new effective dispute settlement system. This new effective dispute settlement system comprises three mechanisms: a Legal Unit, an ASEAN Consultation to Solve Trade and Investment Issues (ACT) and an ASEAN Compliance Body (ACB).²²⁾ ASEAN were not able to resolve intra-regional conflicts of interest in the past. But these mechanisms would make it possible to resolve these conflicts and considerably strengthen intra-regional economic cooperation.

The attraction of FDI remained a very important factor for AEC. That is, the AEC concept had an aspect of "ASEAN's strategy for CFEL." The former Secretary-General of ASEAN Secretariat, Rodolfo C. Severino stated the followings:

"At the ASEAN Summit in Phnom Penh on 4 November 2002, Prime Minister Goh Chok Tong of Singapore had proposed that the next stage in regional economic integration be named the ASEAN Economic Community. He and a few other

²¹⁾ "The Thirty-Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia," "Recommendation of the High-Level Task Force on ASEAN Economic Integration," <http://www.aseansec.org/hltf.htm>. Members of the HLTF were Permanent Secretaries and Directors-General of Ministry of Trade and Industry. HLTF considered the AEC based on the ideas of two studies (ISEAS: 2003, *Concept Paper on the ASEAN Economic Community*, ASEAN ISIS: 2003, *Towards an ASEAN Economic Community*), "17th Asia Pacific Roundtable Speaking Notes for the presentation by ASEAN Secretary-General Ong Keng Yong on ASEAN Economic Community 9 August, 1 Kuala Lumpur, Malaysia," <http://www.aseansec.org/15333.htm>.

²²⁾ These new mechanisms were 1) a legal unit within the ASEAN Secretariat to provide legal advice on trade disputes (advisory mechanisms), 2) an ASEAN Consultation to Solve Trade and Investment Issues (ACT) modeled after the EU SOLVIT mechanisms to provide speedy resolution to operational problems in ASEAN economic agreements (consultative mechanisms) and 3) an ASEAN Compliance Body modeled after the WTO Textile Monitoring Body to make use of peer pressure to resolve trade disputes (adjudication mechanisms), "The Thirty-Fifth ASEAN Economic Ministers Meeting, 2 September 2003, Phnom Penh, Cambodia."

ASEAN leaders were deeply concerned over the weakened ability of the ASEAN countries to attract foreign direct investment, on which all of them depended for sustained economic growth. This development was a consequence of the changes wrought by the Asian financial crisis in investors' perceptions of Southeast Asia's economic prospects. Some of the proverbial "observers" attributed it also to the surge of China and, later India as competing destinations for investment. Those ASEAN leaders were convinced that the only way for Southeast Asia to meet these challenges was to deepen the integration of the ASEAN economy in a way that was credible to investors."²³⁾

For ASEAN member countries, FDI and export were still the keys to development. However, China and India had risen as major competitors. In these circumstances, ASEAN heads sought the deepening of intra-ASEAN economic cooperation and integration in order to attract further FDI.

In conclusion, Intra-ASEAN economic cooperation entered into a new stage, which had a goal of a single market or a common market based on the "Declaration of ASEAN Concord II" in October 2003 as an extension of "ASEAN's strategy for CFEL."

3.2 The "Vientiane Action Program (VAP)" and Narrowing the Development Gap in ASEAN

At the 10th ASEAN Summit in Vientiane, Laos, in November of 2004, following "the Declaration of ASEAN Concord II" in the 9th Summit of the previous year, an approach aimed at establishing an ASEAN community was discussed.²⁴⁾ At the summit, "the ASEAN Framework Agreement for the Integration of Priority Sectors" was signed and "the Vientiane Action Program (VAP)" was adopted. In addition, in relation to extra-regional foreign countries, the convening of the first East Asia Summit (EAS) in Malaysia in 2005 was agreed upon; progress was seen in the FTA negotiations between ASEAN and China, Japan and India.

As for the acceleration of integrating the eleven priority sectors, "the ASEAN Framework Agreement for the Integration of Priority Sectors" was signed. This agreement stipulated that ASEAN member countries should eliminate all CEPT for AFTA (CEPT-AFTA) in the eleven priority sectors by January 2007 for the six original member countries (by January 2012 for CLMV countries), three years earlier than the scheduled year of 2010 (2015 for CLMV countries).²⁵⁾

²³⁾ Severino (2006), pp. 342-343.

²⁴⁾ Refer to Shimizu (2005a), as for the 10th ASEAN Summit and VAP.

²⁵⁾ <http://www.aseansec.org/16660.htm>. Media Release reported that these selected sectors accounted for more than 50% of intra-ASEAN trade in 2003. In value terms, the priority sectors contributed US\$48.4 billion and US\$43.4 billion of intra-ASEAN exports and imports,

At this Summit, VAP, which was the second action program to realize “the ASEAN Vision 2020,”²⁶⁾ was adopted. VAP stated a more concrete goal than the first action program: the Hanoi Plan of Action (HPA). First, VAP stated that ASEAN heads agreed to pursue the comprehensive integration of ASEAN towards the realization of an ASEAN Community by 2020 as envisioned in the “Declaration of ASEAN Concord II.” Second, it addressed the development issues and special needs of the less developed ASEAN Member Countries: narrowing the development gap in ASEAN countries.²⁷⁾

As for narrowing the gap in ASEAN countries, VAP stated that “The practical goal of the VAP for narrowing the development gap is to reduce the large disparities in terms of per capita GDP as well as other human development dimensions” and “The development gap exists between the ASEAN-6 and the CLMV countries, and within the ASEAN-6 countries,” and stated that “To achieve the goal, technical and development cooperation among ASEAN Member Countries and with Dialogue Partners will be intensified as the main strategy to help less developed Member Countries accelerate the process of economic integration” in “4. Goals and Strategies for Narrowing the Development Gap” of “II. Goals and Strategies towards Realising the ASEAN Community.”²⁸⁾

respectively, in 2003 (“ASEAN Accelerates Integration of Priority Sectors,” <http://www.aseansec.org/16621.htm>). “ASEAN Framework Agreement for the Integration of Priority Sectors” stipulated “Liberalisation” shall be implemented in Trade in Goods, Trade in Services, Investment. This agreement stipulated Rules of Origin, Customs Procedures, Standards and Conformance, Logistics Services, Movement of Business Persons, Experts, Professionals, Skilled Labor and Talents and others, about “Trade and Investment facilitation” (“ASEAN Framework Agreement for the Integration of Priority Sectors Vientiane, 29th November 2004,” <http://www.aseansec.org/16660.htm>).

²⁶⁾The “ASEAN Vision 2020” adopted at the Second ASEAN Informal Summit in Kuala Lumpur in December 1997 set out a broad vision for ASEAN in the year 2020: an ASEAN as a concert of Southeast Asian Nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies. The “Hanoi Plan of Action (HPA)” was the first in a series of plans of action building up to the realisation of the goals of the Vision. HPA had a six-year timeframe covering the period from 1999 to 2004. HPA stated 10 items, in which “I. Strengthen Macroeconomic and Financial cooperation” and “II. Enhance Greater Economic Integration” were the central themes since it was in the Asian economic crisis. Refer to the “HPA” (<http://www.aseansec.org/8754.htm>).

²⁷⁾VAP stated that the “theme” was “Towards shared prosperity and destiny in an integrated, peaceful and caring ASEAN Community” in the “Preamble,” and declared, first, “1. We agree to pursue the comprehensive integration of ASEAN towards the realisation of an open, dynamic and resilient ASEAN Community by 2020” and second, “2. We shall address, by various ways and means, the development issues and special needs of the less developed ASEAN Member Countries and sub-regional areas of ASEAN (“Vientiane Action Program,” <http://www.aseansec.org/VAP-10th%20ASEAN%20Summit.pdf>).

²⁸⁾VAP stated that the Initiative for ASEAN Integration (IAI), which was agreed at the ASEAN Summit in November 2002, was a main instrument for narrowing the development gap and it would be strengthened to address development needs of the CLMV and other sub-regional areas (Ibid.)

Thus, VAP addressed the narrowing of the development gap in ASAEAN Countries. The establishment of those means was an important factor to deepen Intra-ASEAN economic cooperation. This was because ASEAN did not have policies or organizations to solve these conflicts among member countries. For example, ASEAN did not have common policies: “methods for the redistribution of income or the reallocation of capital” for countries suffering disadvantages arising from intra-regional economic cooperation. This was a centrifugal force for Intra-ASEAN economic cooperation.

This was also because there were large differences in income and industrial competitiveness between intra-regional developed countries and developing countries. The widening of ASEAN into Indochina further expanded these differences.

As for narrowing the development gap, however, VAP addressed not only the cooperation among ASEAN member countries but also cooperation with dialogue partners to achieve this goal. ASEAN often resolved a dilemma in intra-economic cooperation by utilizing outside powers in the past. This was characteristic of intra-ASEAN economic cooperation. This was also consistent with narrowing the gap in VAP.

3.3 The Establishment of the ASEAN Charter and the development of Intra-ASEAN Economic Cooperation

In the 11th ASEAN Summit in December 2005, ASEAN heads signed “the Kuala Lumpur Declaration on the Establishment of the ASEAN Charter.”²⁹⁾ In a series of ASEAN Summits, ASEAN succeeded in obtaining financial assistance towards further ASEAN cooperation and integration, including 7.5 billion-yen in financial assistance from Japan, as well as from China and Australia.

The 12th ASEAN Summit was postponed from December 2006, and was held in January 2007. At the summit, four declarations including the “Cebu Declaration on the Blueprint of the ASEAN Charter” and the “ASEAN Declaration on the 15-Year Foundation of the ASEAN Community” and “the ASEAN Anti-Terrorism Agreement” were signed.

As for the ASEAN Charter, ASEAN heads signed “the Cebu Declaration on the Blueprint of the ASEAN Charter” to endorse “the Report of the Eminent Persons Group (EPG) on the ASEAN Charter” and they directed the High Level Task Force to complete the drafting of the ASEAN Charter in time for the 13th Summit in Singapore in 2007.³⁰⁾

ASEAN has been based not on a charter and treaty, but on only a declaration (“the ASEAN Declaration: Bangkok Declaration” in 1967). The establishment of the ASEAN Charter will accelerate ASEAN cooperation

²⁹⁾“Kuala Lumpur Declaration on the Establishment of the ASEAN Charter Kuala Lumpur, 12 December 2005,” <http://www.aseansec.org/18030.htm>.

³⁰⁾“Chairperson’s Statement of the 12th ASEAN Summit,” <http://www.aseansec.org/19280.htm>. Refer to Severino (2005), EPG (2006) as for the ASEAN Charter.

and integration in the ASEAN Community. It is possible that the conventional rule by unanimous vote and non-intervention principle may be changed.

ASEAN heads affirmed the commitment to accelerate the establishment of an ASEAN Community as envisioned in the "ASEAN Concord II" by five years and agreed on the "Cebu Declaration on the Establishment of the ASEAN Community by 2015."³¹⁾

There were some concrete results of recent Intra-ASEAN Economic Cooperation. As for AFTA, as of August, 2006, 99.77% of the products in the CEPT Inclusion List (IL) of the original ASEAN member countries had been brought down to the 0-5% tariff range. The average tariff for the six ASEAN original member countries under the CEPT Scheme was down to 1.74% from 2.39% in 2003.³²⁾ The share of export by CEPT in intra-ASEAN export increased steadily in Thailand and Malaysia. For example, the share of export by CEPT to export for ASEAN countries in Thailand increased from 15.5% to 21.5% in 2005 (but, decreased to 20.6% in 2006). The share of export by CEPT to total export from Thailand to Indonesia reached 50.6% in 2006, due to increasing exports relating to automobiles. The reasons for not rapidly increasing the share of exports by CEPT included the duplications between CEPT and the various investment policies in ASEAN countries, and some procedural problems.³³⁾

As for AICO, as of April, 2005, 129 cases were approved. Of them, 115 cases were related to automobiles, including 32 cases for Toyota, 38 for Honda, 7 for Denso, 6 for Nissan, and 3 for MMC.³⁴⁾ As of July, 2006, 141 cases were approved and annual trade amounted to 1.7 billion dollars.³⁵⁾

In the automotive industry, which ASEAN countries had protected as an import-substituting industry and a strategic industry, the international division of labor by MNCs had been established with assistance from BBC and AICO. For instance, Toyota Motor Corporation, which enjoyed a large share of the ASEAN automotive market, had been complementing main auto parts in the ASEAN region under BBC and AICO.

As an extension of these complementations, Toyota began to produce a strategic world car: the Innovative International Multipurpose Vehicle (IMV) in Thailand for the first time in the world in August 2004. According to Toyota Motors, IMV was an integrated new model between the one ton pickup truck "Hilux" and the "TUV" ("Kijang" in Indonesia). It was a special model that hardly depended on Japan-made parts and did not depend on a Japan based model. Toyota produced a large number of auto parts in Thailand and ASEAN countries by widely expanding intra-

³¹⁾<http://www.aseansec.org/19260.htm>.

³²⁾"Joint Media Statement of the Twentieth Meeting of the ASEAN Free Trade Area (AFTA) Council Kuala Lumpur, 21 August 2006," <http://www.aseansec.org/18682.htm>.

³³⁾*Tsusho-Kouhou*, 18 May 2007.

³⁴⁾"Approved AICO Applications as of 21 April 2005," <http://www.aseansec.org/6398.htm>.

³⁵⁾"Media Release: 38th ASEAN Economic Ministers Meeting (AEM), 22-23 August 2006, Kuala Lumpur," by JETRO Kuala Lumpur Center.

regional complementation and local procurement.³⁶⁾ The world's largest production base of this IMV was in ASEAN, particularly in Thailand. This production and complementation of IMV was an extension and development of the Intra-ASEAN complementation.

Furthermore, a large share of the production was exported. Automobile production in Thailand rose 742,062 in 2003 to 1,193,903 in 2006, the export of which rapidly rose from 235,518 in 2003 to 539,202 in 2006. The share of export to production rose from 31.7% to 45.2%. Toyota had a big share in automobile production and export in Thailand. Toyota's production and export in Thailand rapidly rose, together with production and export of IMV. Toyota's production rose from 205,421 to 469,395. In particular, Toyota's exports increased over seven fold from 27,382 to 196,931. Toyota's production share relative to all production rose from 27.6% to 39.3%. Toyota's export share relative to all export rapidly rose from 15.8% to 36.5%.³⁷⁾

"ASEAN's Strategy of CFEI" was realized in one area over the long term. But, there were some problems. We will address two points. The first problem was a distributional problem in the automobile industry. The production of automobiles and auto parts were more centralized in Thailand. This led to a wider gap and distributional problems. In addition, MNCs would likely expand their parts complementing areas, in pursuit of efficient and rational production, thus passing over the ASEAN region. This was the second problem, which had been a consistent problem since the initial BBC. Though IMV procured almost no Japanese parts, IMV complemented manual transmission not only from the Philippines but also from India. The rational region for IMV production required a wider area. This was still a centrifugal force for Intra-ASEAN economic cooperation.

3.4 Key Characteristics of Intra-ASEAN Economic Cooperation

The experiences and new developments of intra-ASEAN economic cooperation have been analyzed. To discuss the recent East Asian regional cooperation and FTA, some key characteristics of intra-ASEAN economic cooperation will be examined. These key characteristics are: first, the request for external cooperation from intra-ASEAN economic cooperation, and, second, the request for intra-ASEAN cooperation from extra-regional cooperation.

The acquisition of foreign capital including FDI and financial assis-

³⁶⁾IMV was a strategic world car based on a one ton pickup truck by Toyota. They prepared five models including the three models of pickup trucks. They began to manufacture "Hilux Vigo" in Thailand on August 25. On September 1st, Indonesia followed Thailand by beginning the production of "Kijang Innova," the second model of IMV. They planed to annually produce 280,000 cars in Thailand and export 140,000 cars. IMV greatly expanded intra-regional complementation and local procurement. As for the complementation of manufacturing main auto parts, the diesel engine were made in Thailand, gasoline engine in Indonesia, and manual transmission in the Philippines and India. Refer to Shimizu (2005a).

³⁷⁾FOURIN, *Monthly Report on the Asian Automobile Industry*, No.3, March 2007, pp.16-17.

tance and the securing of export markets are still important factors in intra-ASEAN economic cooperation. In other words, it has aspects of the “ASEAN’s Strategy of CFEL.” The initial BBC and AICO, AFTA and AIA were also extensions of “ASEAN’s Strategy of CFEL.”

For the development of ASEAN countries, the acquisition of foreign capital and the securing of export markets remain very important matters, along with the securing of intra-regional capital and markets. As mentioned previously, AEC has aspects of “ASEAN’s Strategy of CFEL.” Furthermore, for example, Singaporean Prime Minister Lee said that “Although ASEAN is located at a crossroads in Asia, it should not disappear from the view of investors due to the rise of China and India” at the Business Investment Summit prior to the 11th ASEAN summit in 2005.³⁸⁾ Thus, since it remains inevitable for ASEAN to secure foreign capital and export markets, the formation of a wider framework including East Asian regional cooperation and the FTA are unavoidable for ASEAN.

Furthermore, external partner’s financial assistance was very important for intra-ASEAN economic cooperation. ASEAN had a history of resolving tensions among member countries over intra-regional economic cooperation using external partner’s assistance. In 1976, when the ASEAN Industrial Project (AIP) was launched, ASEAN had already cleared tensions among member countries by financial assistance from external partners (especially, Japan’s one billion dollars financial assistance for AIP).³⁹⁾ This factor was consistent with the current intra-ASEAN economic cooperation. This can be seen clearly in the securing of financing assistance in order to narrow the development gaps in ASEAN of the VAP. That is, it was vital for ASEAN to ensure financial assistance from external partners for their own cooperation.

In summary, it remains inevitable for ASEAN to secure capital and markets for development, and at the same time, it is also vital to secure financial assistance from external partners for their own cooperation. Thus, it is unavoidable to develop a wider framework including East Asian regional cooperation and FTA. However, establishing a wider cooperative framework may threaten the very existence of ASEAN. Therefore, it is imperative for ASEAN to secure the initiative in East Asian regional cooperation, and to strengthen its own cooperation and integration.

4. ASEAN and the Development of East Asian Regional Economic Cooperation and FTA

4.1 ASEAN Plus Three (APT) Cooperation and East Asia Summit (EAS)

East Asian regional cooperation has been implemented since the APT

³⁸⁾ December 10, 2005, *Nippon Keizai Shinbun*.

³⁹⁾ Refer to Shimizu (1998a: Chapter 2, 2004a, 2005b).

Summit meeting held in December 1997 during the Asian economic crisis (Refer to Figure 1 about East Asian regional cooperation). At the 2nd APT Summit in December 1998, they submitted several specific proposals on regional economic cooperation in East Asia. For instance, Japan proposed the “New Miyazawa Initiative,” China proposed the conference by the APT to discuss financial issues, and South Korea proposed the East Asia Vision Group (EAVG: an organization to study East Asian regional cooperation). In November 1999, the first APT joint communiqué was released.

Financial and monetary cooperation led to East Asian regional economic cooperation. In May 2000, the “Chiang Mai Initiative (CMI)” was agreed on at the APT Finance Ministers Meeting in Chiang Mai. CMI was an extension of the ASEAN Swap Arrangements (ASP) signed in 1977. Yet, it was a new development in monetary and financial cooperation not only for ASEAN but also for the East Asian region.⁴⁰⁾ By CMI, the member countries of ASP increased to 10 from the original 5 countries, simultaneously adding Japan, China and South Korea to the network.⁴¹⁾

In the 2001 APT Summit, the report of the East Asia Vision Group (EAVG): EAVG (2001) was submitted. This addressed the evolution of the

Figure 1. Regional Cooperation in East Asia



Note: ASEAN: Association of Southeast Asian Nations

APT: ASEAN Plus Three

EAS: East Asia Summit

ARF: ASEAN Regional Forum

APEC: Asia Pacific Economic Cooperation

⁴⁰⁾Refer to “The Joint Ministerial Statement of the ASEAN + 3 Finance Ministers Meeting,” 6 May 2000, Chiang Mai, Thailand,” and *Nippon Keizai Shinbun*, 7, 9, 10 May, 2000.

⁴¹⁾This purpose shall be to provide immediate short-term swap facilities to participating member countries with temporary international liquidity problems. Under the Arrangements U.S. dollars shall be exchanged against the domestic currency of a requesting participant. CMI was a groundbreaking measure of monetary and financial cooperation in East Asia. Refer to Shimizu (2002a), as for the expansion of ASP to CMI.

summit into the EAS as a measure to realize an East Asian community.⁴²⁾ Furthermore, the report by the East Asia Study Group (EASG): EASG (2002) submitted in the 2002 APT Summit proposed 17 short-term and 9 middle- and long-term measures.⁴³⁾ One of those middle- and long-term measures was to hold the EAS.⁴⁴⁾

A series of ASEAN summits in December 2005 were very important in the history of East Asian regional economic cooperation. In the 11th ASEAN Summit, ASEAN heads signed the “Kuala Lumpur Declaration on the Establishment of the ASEAN Charter.”⁴⁵⁾

In the 9th APT Summit, the heads declared the “Kuala Lumpur Declaration on the ASEAN Plus Three Summit.”⁴⁶⁾ First, they declared “reiterating our common resolve to realise an East Asian community as a long-term goal that would contribute to the maintenance of regional and global peace and security, prosperity and progress” and “convinced that the ASEAN Plus Three process will continue to be ‘the main vehicle’ in achieving that goal, with ASEAN as the driving force.”⁴⁷⁾

Second, they recognized the importance of ASEAN integration and the ASEAN Community towards community building in the region and the continued support of the Plus Three countries for ASEAN’s efforts. They stated that “they will continue to support ASEAN integration, particularly in narrowing the development gap in order to realise the ASEAN Community.”⁴⁸⁾

Third, they stated that “they will commence collaborative efforts to prepare a second Joint Statement on East Asia Cooperation on the tenth anniversary of the ASEAN Plus Three process in 2007 in order to consolidate existing cooperation and to set forth the future direction for the cooperation and East Asia community building.”⁴⁹⁾

After these Summits, the first EAS was held in 14 December, which was the most important Summit in a series of ASEAN summits in December 2005. The participating countries in the 1st EAS numbered 16, including 10 ASEAN countries, Japan, China, South Korea, India, Australia and New Zealand, after many negotiations. Russia initially participated as an observer.

⁴²⁾EAVG (2001), “Report of the East Asia Vision Group,” http://www.aseansec.org/pdf/east_asia_vision.pdf.

⁴³⁾EASG (2002), “Final Report of the East Asia Study Group,” <http://www.aseansec.org/viewpdf.asp?file=/pdf/easg.pdf>.

⁴⁴⁾EASG (2002), “Final Report of the East Asia Study Group,” <http://www.aseansec.org/viewpdf.asp?file=/pdf/easg.pdf>.

⁴⁵⁾“Kuala Lumpur Declaration on the Establishment of the ASEAN Charter Kuala Lumpur, 12 December 2005,” <http://www.aseansec.org/18030.htm>. Refer to Shimizu (2006a, b), as for the first EAS and a series of ASEAN Summits in 2005.

⁴⁶⁾“Kuala Lumpur Declaration on the ASEAN Plus Three Summit, Kuala Lumpur, 12 December 2005,” <http://www.aseansec.org/18036.htm>.

⁴⁷⁾Ibid.

⁴⁸⁾Ibid.

⁴⁹⁾Ibid.

In the 1st EAS, two declarations: the “Kuala Lumpur Declaration on the East Asia Summit”⁵⁰⁾ and the “East Asia Summit Declaration on Avian Influenza Prevention, Control and Response”⁵¹⁾ were made. Some important points of the “Kuala Lumpur Declaration on the East Asia Summit” were the following. First, the heads confirmed that EAS would play an important role together with APT meetings. The heads stated that “EAS could play ‘a significant role’ in community building in this region”⁵²⁾ in the “Preamble.”

Second, they insisted on the importance of the ASEAN cooperation or community for peace and prosperity in East Asia region or for the East Asian community. They declared that “the need to support efforts to build a strong ASEAN Community which will serve as a solid foundation for our common peace and prosperity” in the “Preamble” and “the efforts of the East Asia Summit to promote community building in this region will be consistent with and reinforce the realization of the ASEAN Community (Section 2).”⁵³⁾

Third, they confirmed that ASEAN would be “the driving force” of EAS. They stated that “with ASEAN as the driving force working in partnership with the other participants of the East Asia Summit (Section 3).”⁵⁴⁾ They confirmed that “Participation in EAS will be based on the criteria for participation established by ASEAN,” “EAS will be convened regularly;” “EAS will be hosted and chaired by an ASEAN Member Country that assumes the ASEAN Chairmanship and held back-to-back with the annual ASEAN Summit (Section 5).”⁵⁵⁾ ASEAN’s initiatives were stated in many points in this declaration.

In January, 2007, in the 10th APT Summit, the heads agreed on the expansion of APT cooperation to the following areas: women, poverty alleviation, disaster management and minerals.⁵⁶⁾ They welcomed the East Asia Free Trade Area (EAFTA) as a integration, and at the same time they noted that they should continue to examine other possible FTA configurations such as EAS.

In the second EAS, heads declared the “Cebu Declaration on East Asian Energy Security Cebu, Philippines, 15 January 2007,” and agreed to wider areas of EAS cooperation including energy, education, finance, avian

⁵⁰⁾ “Kuala Lumpur Declaration on the East Asia Summit, Kuala Lumpur, 14 December 2005,” <http://www.aseansec.org/18098.htm>.

⁵¹⁾ “East Asia Summit Declaration on Avian Influenza Prevention, Control and Response, Kuala Lumpur, 14 December 2005,” <http://www.aseansec.org/18101.htm>.

⁵²⁾ “Kuala Lumpur Declaration on the East Asia Summit, Kuala Lumpur, 14 December 2005,” <http://www.aseansec.org/18098.htm>.

⁵³⁾ Ibid.

⁵⁴⁾ “Kuala Lumpur Declaration on the East Asia Summit, Kuala Lumpur, 14 December 2005,” <http://www.aseansec.org/18098.htm>.

⁵⁵⁾ Ibid.

⁵⁶⁾ “Chairman’s Statement of the Tenth ASEAN Plus Three Summit Cebu, Philippines, 14 January 2007,” <http://www.aseansec.org/19315.htm>.

influenza, and natural disasters. Heads also agreed to launch a study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS participants.

With regard to the East Asian regional FTA concept, it was agreed that EAFTA including 13 members of APT and CEPEA including 16 members of EAS would be simultaneously studied. In every meeting, ASEAN initiatives were expressed.

With ASEAN as a crucial axis, East Asian regional cooperation has been implemented in a multilayered fashion.

4.2 FTA in East Asia: ACFTA

Lastly, we will discuss ACFTA, which has been leading FTA in East Asia.⁵⁷⁾ FTA and Economic Partnership Agreement (EPA) have been rapidly explored in East Asia. The important ones are ASEAN Plus One FTA such as ACFTA, AJCEP and ASEAN-Korea FTA (AKFTA). ACFTA has been the most important and influential ASEAN Plus One FTA: ACFTA was the first FTA for China, and was also the first ASEAN Plus One FTA. In contrast, FTA between Japan, China and South Korea has not been signed yet.

ACFTA began in November 2000, when Chinese Premier Zhu Rongji proposed to set up an expert group to study how economic cooperation and free trade relations between ASEAN and China could be deepened.⁵⁸⁾ In November 2001, at the 4th ASEAN-China Summit, they considered a study by the ASEAN-China Expert Group and endorsed a proposal for an Economic Framework and to establish ACFTA within 10 years.⁵⁹⁾

In November 2002, they signed the "Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China." This agreement stipulated an "Early Harvest Programme (Article 6)," and "all products not covered by the Early Harvest Programme" shall have "their respective applied MFN tariff rates gradually reduced or eliminated in accordance with specified schedules and rates over a period from 1 January 2005 to 2010 for ASEAN 6 and China, and in the case of the newer ASEAN Member States, the period shall be from 1 January 2005 to 2015 (Article 3)." This also expressed the "stimulated provision of special and differential treatment and flexibility to the newer ASEAN Member States (Article 2)" and many "other areas of Economic Co-operation (Article 7)."⁶⁰⁾

⁵⁷⁾Refer to Saw, Sheng and Chin (2005), Saw (2006), Onishi (2006), Kimura and Ishikawa (2007), Shimizu (2007) as for ACFTA.

⁵⁸⁾"Press Statement by Chairman, 4th ASEAN Informal Summit, Singapore, 25 Nov 2000," <http://www.aseansec.org/5310.htm>.

⁵⁹⁾"Press Statement by the Chairman of the 7th ASEAN Summit and the Three ASEAN + 1 Summits Brunei Darussalam, 6 November 2001," <http://www.aseansec.org/5316.htm>.

⁶⁰⁾"Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China," <http://www.aseansec.org/13196.htm>.

In October 2003, at the 6th ASEAN China Summit, they signed the “Joint Declaration of the Heads of State/Government of ASEAN and China on Strategic Partnership for Peace and Prosperity.”⁶¹⁾ Then, China and India joined TAC. This was the first time that a power outside Southeast Asia joined TAC.

In January 2004, an early harvest was actually implemented. In November 2004, the “Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People’s Republic of China” was signed.⁶²⁾ In July 2005, they began to reduce tariffs for products in the normal track under this agreement. The tariffs on 3,408 items (50% of all items) were reduced in 2005.⁶³⁾

Furthermore, the “Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China” was signed at the 10th ASEAN-China Summit in January 2007; it was agreed to gradually liberalize the services sectors from July 2007.⁶⁴⁾

Next, the factors for the conclusion of ACFTA will be discussed. There were two important economic factors for the conclusion of ACFTA. The promotion of trade and investment was important for both ASEAN and China. The economic cooperation and support from China was crucial to ASEAN.

The institutional characteristics of ACFTA were: ACFTA was a loosely controlled system, and in relation to this, it followed the rules of AFTA. First, the completion periods of tariff elimination for the original ASEAN members (2010) and new ASEAN members (2015) were the same as those of AFTA. Second, the method to gradually implement tariff reduction depending on the sector, for example, separating the original members and new members or dividing them into Normal and Sensitive Tracks, was similar to that of AFTA. Third, the rules of origin were similar to those of AFTA: the aggregate ACFTA content (full cumulation, applicable among all parties) on the final product was not less than 40%.⁶⁵⁾

⁶¹⁾ “Joint Declaration of the Heads of State/Government of ASEAN and China on Strategic Partnership for Peace and Prosperity,” <http://www.aseansec.org/15265.htm>.

⁶²⁾ “Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People’s Republic of China,” <http://www.aseansec.org/16646.htm>.

⁶³⁾ *Tsusho-Kouhou (JETRO)*, 21 July 2006. China’s exports to ASEAN in the one-year period from July, 2005 to June, 2006 increased by 23.1%; imports from ASEAN increased by 20.6% to reach 74.15 billion dollars (Ibid.).

⁶⁴⁾ “Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People’s Republic of China,” <http://www.aseansec.org/19346.htm>.

⁶⁵⁾ “Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People’s Republic of China,” “Annex 3: Rules of Origin for the ASEAN-China Free Trade Area,” <http://www.aseansec.org/16646.htm>.

Thus, ASEAN has the initiative in ASEAN Plus One FTA as seen in ACFTA, along with APT and EAS. ASEAN is now working to acquire more investment and support. ASEAN has an initiative to apply its rules in the institutionalization of FTA.

4.3 ASEAN and East Asian Regional Economic Cooperation: The Expansion of Intra-ASEAN economic cooperation to East Asian Regional Economic Cooperation

As mentioned in Section 3-4, ASEAN seeks a wider economic cooperation over an extensive region including East Asia, because of its characteristics of Intra-ASEAN economic cooperation. Furthermore, for ASEAN, intra-regional and extra-regional economic cooperation has been implemented simultaneously. ASEAN had consistently had results in extra-regional economic cooperation (the External Economic Joint Approach), which began in 1972. ASEAN was able to secure export markets and obtain financial assistance.

In recent years, extra-regional economic cooperation had important results in East Asian regional economic cooperation. ASEAN is maintaining its important role in the current East Asian regional cooperation. First, ASEAN has provided an arena for negotiations in East-Asia and the Asia-Pacific region, as seen in the ASEAN Post-Ministerial Conference (PMC), the ASEAN Regional Forum (ARF) and APT meetings, and taking initiatives in these negotiations. Second, this was observed in the establishment of CMI after the Asian financial crisis. In this case, part of intra-ASEAN economic cooperation, ASP expanded into East Asian regional cooperation. Third, the recent negotiations for FTA between ASEAN and China (ACFTA), ASEAN and Japan (AJCEP) as well as ASEAN and Korea (AKFTA), were held in the above meetings as the main stage, making ASEAN an important axis to FTA in East Asia.

This successful extra-regional cooperation, conversely, always requires ASEAN to strengthen intra-regional cooperation. For example, Foreign Minister of Singapore Rajaratnam said in the 7th Foreign Ministerial Meeting (FMM) in 1974, "If we do not unite ourselves through economic cooperation, it will be very difficult to convince others to take the ASEAN seriously."⁶⁶⁾ This point is still applicable.

Lastly, it should be noted that ASEAN's rules (or systems) are extending into the East Asian regional cooperation. First, for example, as mentioned above, ASP expanded into CMI. Second, the AFTA rule including the rules of origin is also expanding into East Asian FTA including ACFTA, with ASEAN as their axis. For instance, the AFTA rule including the rules of origin was adopted in ACFTA. Third, mutual recognition and harmonization of regulation are also initiated by ASEAN. "ASEAN Mutual Recognition Arrangement on Engineering Services," "Agreement on the ASEAN Harmonized Electrical and Electronic Equipment (EEE) Regulatory

⁶⁶⁾ ASEAN Secretariat (1987), p.178.

Regime,” and “Agreement to Establish and Implement the ASEAN Single Window” were signed in December 2005.⁶⁷⁾ Moreover, it was decided that the participation criteria for the EAS would be based on ASEAN criteria. It is also possible that the ASEAN Charter may lead the direction of the East Asian Cooperation. Thus, the deepening direction of intra-ASEAN economic cooperation will play a key role in East Asian regional cooperation.

5. Conclusion

With the major turning point of the “ASEAN Declaration of Concord II” in October, 2003, intra-ASEAN economic cooperation entered a new phase, in which its goals were set on establishing a single market or a common market. ASEAN is now working to strengthen intra-regional economic cooperation and integration by resolving the centrifugal forces. In other words, ASEAN is formulating new methods to resolve economic issues among member countries, actively seeking to narrow the development gaps among member countries and establishing the ASEAN Charter.

ASEAN seeks a wider economic cooperation over an extensive region including East Asia, due to the characteristics of intra-economic cooperation. For ASEAN, intra-regional and extra-regional economic cooperation have been implemented simultaneously. With regard to the extension of extra-regional economic cooperation, ASEAN is maintaining its important role in the current East Asian regional cooperation. ASEAN’s rules (or systems) are expanding into the East Asian regional cooperation. The deepening and direction of intra-ASEAN economic cooperation will play a key role in the East Asian regional cooperation.

Lastly, issues relating to ASEAN and East Asian regional cooperation will be presented. First, will ASEAN deepen the cooperation and integration of its own members, with the turning point being the “ASEAN Concord II”? Will ASEAN implement cooperation and integration over the nation-states system? Second, what role can intra-ASEAN economic cooperation play in the future? What international public goods will it provide? How can it contribute to the management of the world economy? Third, will ASEAN be able to maintain the initiative in East Asian regional cooperation? Will it be able to maintain bargaining power with extra-regional powers? Will it be able to further expand the ASEAN rules (or systems) to East Asia?

Next, issues about the future of East Asian regional cooperation will be presented. First, what role can East Asian regional economic cooperation play in the future? What international public goods will it provide?

⁶⁷⁾ “ASEAN Mutual Recognition Arrangement on Engineering Services Kuala Lumpur, 9 December 2005,” <http://www.aseansec.org/18009.htm>, “Agreement on the ASEAN Harmonized Electrical and Electronic Equipment (EEE) Regulatory Regime Kuala Lumpur, 9 December 2005,” <http://www.aseansec.org/18012.htm>, “Agreement to Establish and Implement the ASEAN Single Window Kuala Lumpur, 9 December 2005,” <http://www.aseansec.org/18005.htm>.

How can it contribute to the management of the world economy? Second, will some regional cooperation such as ASEAN, APT, EAS, ARF, and APEC continue in a multilayered manner? Will this eventually become a unique characteristic of East Asian regional cooperation? Third, what membership will the East Asian community be composed of? What will it aim to do? That is, “What is East Asia?” and “What is the community?”

These issues must be examined in the context of the world economy. This is because first, economic activities basically operate throughout the world economy. Second, the ASEAN and East Asian economies have become more global. Thus we must also consider the relations between the nation-states and the world economy. These issues regarding intra-economic cooperation must be examined in the total context with politics, economics and history. This is because economic cooperation or integration is one part of economic policy which also includes politics and history.

ASEAN must attract foreign capital and secure export markets for the development of ASEAN countries. ASEAN must maintain the initiative in East Asian regional cooperation in order to avoid being buried in the East Asian regional cooperation. Thus, ASEAN must strengthen the cooperation and integration of its own members. On the other hand, its direction will also dictate the direction of East Asian regional cooperation. It is ASEAN itself that plays the key role in East Asian regional cooperation including the East Asian community.

Professor, Kyushu University

References

[English]

- ASEAN Secretariat, *ASEAN Documents Series*, annually, Jakarta.
- ASEAN Secretariat, *ASEAN Annual Report*, annually, Jakarta.
- ASEAN Secretariat, *ASEAN One*, Jakarta.
- ASEAN Secretariat (1987), *Statement by the ASEAN Foreign Ministers at ASEAN Ministerial Meetings 1967-1987*.
- ASEAN Secretariat (1988), *Statement by the ASEAN Foreign Ministers at ASEAN Ministerial Meetings 1987-1988*.
- ASEAN Secretariat (2004), *ASEAN: Narrowing the Development Gap*, Jakarta.
- ASEAN Secretariat (2006), *ASEAN-China Documents Series 1991-2005*, Jakarta.
- ASEAN ISIS (2003), *Towards an ASEAN Economic Community*, Jakarta.
- ASEAN Secretariat (2003), *Towards a Single Economic Space*, Jakarta.
- EASG (2002), “Final Report of the East Asia Study Group,” Jakarta.
- EAVG (2001), “Report of the East Asia Vision Group,” Jakarta.
- EPG (2006), “Report of the Eminent Persons Group (EPG) on the ASEAN Charter,” Jakarta.
- Hew, D. (ed.) (2005), *Roadmap to an ASEAN Economic Community*, Institute of Southeast Asian Studies (ISEAS), Singapore.
- Hew, D. and Soesastro, H. (2003), “Realizing the ASEAN Economic

- Community by 2020: ISEAS and ASEAN-ISIS Approaches,” *ASEAN Economic Bulletin*, 20, 3, ISEAS.
- ISEAS (2003), *Concept Paper on the ASEAN Economic Community*, Singapore.
 - Saw, S., Sheng, L. and Chin, K. W. (eds.) (2005), *ASEAN-China Relations: Realities and Prospects*, ISEAS, Singapore.
 - Saw, S. (ed.) (2006), *ASEAN-China Economic Relations*, ISEAS, Singapore.
 - Severino, R. C. (ed.) (2005), *Framing the ASEAN Charter*, ISEAS, Singapore.
 - Severino, R. C. (2006), *Southeast Asia in Search of an ASEAN Community*, Singapore, ISEAS.
 - Shimizu, K., (1998b), “The Strategy and Its Results of Intra-ASEAN Economic Cooperation, 1976-1987,” *Economic Journal of Hokkaido University (Hokkaido University)*, 27.
 - Shimizu, K., (1999b), “The Proposal and Implementation of the Brand to Brand Complementation Scheme,” *Economic Journal of Hokkaido University*, 28.
 - Shimizu, K., (2000), “The Asian Economic Crisis and Intra-ASEAN Economic Cooperation,” *Economic Journal of Hokkaido University*, 29.
 - Shimizu, K., (2002b), “Intra-ASEAN Economic Cooperation and Monetary Cooperation,” *Journal of Asian-Pacific Studies*, Asian-Pacific Center (APC).
 - Shimizu, K. (2005b), “Intra-ASEAN Economic Cooperation: the New Tasks,” *Journal of Political Economy*, (Kyushu University), 71, 2-3.
 - Shimizu (2006b), The First East Asia Summit (EAS) and Intra-ASEAN Economic Cooperation, *Economic Journal of Hokkaido University*, 35.
 - United Nations (UN) (1974), “Economic Cooperation among Member Countries of the Association of Southeast Asian Nations,” *Journal of Development Planning*, 7, UN, New York.

[Japanese]

- FOURIN, *Monthly Report on the Asian Automobile Industry*, monthly, FOURIN, Nagoya.
- FOURIN (2006), *Asian Automobile Industry 2006*, FOURIN, Nagoya.
- Institute of International Trade and Investment (ITI), *International Trade Matrix*, annually, ITI, Tokyo.
- Kimura and Ishikawa (eds.) (2007), *Moving China to South and Its effects to ASEAN*, JETRO, Tokyo.
- Kuroyanagi, Y. (ed.) (2005), *Asian Regional Order and ASEAN*, Akashi-shoten.
- Onihi, Y. (ed.) (2006), *New Development of Economic Relations between China and ASEAN*, IDE, Tokyo.
- Sasaki, T. and Nakamura, K. (ed.) (1994), *Demystification of the European Integration*, Minerva Shobo, Kyoto.
- Shimizu, K. (1998a), *Political Economy of Intra-ASEAN Economic Cooperation*, Minerva Shobo, Kyoto.
- Shimizu, K. (1999), “The Asian Economic Crisis and Intra-ASEAN Economic

- Cooperation” *Sekai-Keizai-Hyoron (World Economic Review)*, 44, 5.
- Shimizu, K. (2002a), “From the Monetary and Financial Cooperation in ASEAN to the Monetary and Financial Cooperation in East Asia,” in Fukagawa, H. and Ishida, O. (ed.), *Globalization and Asian Economy*, Kyushu University Press, Fukuoka.
 - Shimizu, K. (2004a), “Intra-ASEAN Economic Cooperation: the New Tasks,” *Sekai-Keizai-Hyoron (World Economic Review)*, 48, 10.
 - Shimizu, K. (2005a), “New Development of Intra-ASEAN Economic Cooperation: 10th ASEAN Summit and VAP,” in ITI (2005), *The Research of Regional Cooperation and FDI*, Tokyo.
 - Shimizu (2006a), The Achievement and Prospects of the First East Asia Summit (EAS): From the Point of View of Intra-ASEAN Economic Cooperation, *The Journal of Korean Economic Studies*, 6.
 - Shimizu, K. (2007), “China and ASEAN: From the viewpoint of East Asian Regional Cooperation,” in Kawashima, S. (2007), *Diplomacy of China*, Yamakawa-Shuppansha, Tokyo.
 - Urata, S., Ishikawa, K. and Mizuno, R. (eds.) (2007), *FTA Guidebook*, JETRO, Tokyo.