

Asia's RTA: Two Alternative Models

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INTRODUCTION

It is often argued that regional free-trade arrangements can create synergetic effects that will eventually spill over to other economies, stimulating the free-trade system to expand so as to complete the multilateralism.¹ In other words, the role of regional economic unions/communities is becoming more and more important for the success of globalization. When we analyze the trade tendency of EU, NAFTA, ASEAN, MERCOSUR, and Andean Community, so called five major RTAs, one cannot find any tendency of increase or decrease in intra-trade and extra-regional trade shown. In 2004, for example, intra-trade of EU tended to stay behind its extra-regional exports and imports while intra-trade of NAFTA increased by 14 percent with the expansion of the total amount of trade in 2005. ASEAN's intra-trade grew faster than any other regional economies by expanding its intra-trade by 22 percent in 2004. Whether there is an increase or decrease in intra-trade and extra-regional trade, the important fact, however, is that the total amount of global trade has been gradually increased since RTA began.² From empirical evidence in the successful integration process of the EU, Dutta (2001), Kojima (2000), and Letiche (2000) especially asserted that economic integration in Asia should be promoted by adopting the lessons from the EU Model, so that the Asian regional economic integration will contribute to its own competitive position in the world market as well as to the paradigm of globalization.

On the same line of assertion, some economists suggested the 3+5 intra-regional economic integration model in Asia, including three East Asian economies-Japan, Korea, China- plus the original five members of Association of South East Asian Nations (ASEAN)-Singapore, Malaysia, Thailand, Indonesia and Philippines.

It is evident that a successful sub-regional economic integration can contribute not only to its own member nations' economic development but also to the success of globalism. However, several conditions exist for successful regional economic integration. It is therefore imperative to check on whether or not those conditions are truly met among those Asian countries.

Required Conditions for Regional Economic Integration

An economic integration is formed to promote the comparative advantages of the member economies, and share the equal opportunities among the nations which are geographically contiguous. Promoting the social and economic welfare of member economies as well as the integrated entity as a whole is also an ensuing effect of the trade arrangement. In order to maximize social and economic welfare by forming a multinational economic organization, a corresponding market extension is required, and it is considered as a necessary condition for improving economic efficiency in the region.

Generally, in order to improve the economic efficiency through competition among the member economies in the economic integration, each member should have similar, if not the same, level of technology, income, and economic development that could bring out competitiveness among those economies. The organizational development of such economic integration is possible when economic policies of member economies are well coordinated and unified into the policy of the community level. Most of the currently existing regional economic unions/communities, such as EU, satisfy those typical criteria to a certain extent. However, recently, regional economic agreements between developing and developed countries with cultural, social, political and economic differences are emerging, as seen in NAFTA and APEC. Thus, new understanding for the conditions needed for the continuous development of those economic organizations is required.

¹ For example, see OECD (1995), WTO (1995), Dutta (2001).

² For example, see WTO (2005)

1) Salient Objectives

Two post-WWII global economic trends are globalization and regionalization. Globalization of the world economy was led by the private sector mainly through foreign direct investment and global sourcing conducted by multinational corporations from developed countries, whereas regionalization was primarily initiated by the government sector as seen in the European Community (EC). Corresponding to the European regional economic union, countries in other regions began to organize their own regional economic communities such as AFTA in Southeast Asia and NAFTA in North America. EC had the objective of 'economic integration,' while AFTA and NAFTA had an objective of promoting 'intra-regional free trade.' The clear awareness of the organization's objective among the member countries is, therefore, necessary to form a regional economic cooperation and to develop it further.

At the beginning stage of a regional organization, it may not be easy for all the participating members to reach the common objective. However, through continuing negotiations, they may decide to choose the most common interests on a selective basis, which will be conducive to solidifying the organization so that it will move together in the same direction.

2) Binding Force

Binding force plays an important role in determining the coordinating relationships among the intra-regional nations. In the case of EU (EC's new name), member countries were in a similar level of economic development in terms of population and GDP, and this similarity was a strong force in binding the countries into one organization as seen in <Table1> for the EU case. These binding factors could be found in other regional integrations as well.

<Table 1> Likeness in EU Members (2005)

Country	Surface area (thousand sq. km)	Population (mil.)	GNI (\$ bil.)	GNI per capita (\$)
Belgium	33	10	373.8	35,700
France	552	60	2,177.7	34,810
Germany	357	82	2,852.3	34,580
Italy	301	57	1,724.9	30,010
Luxembourg	1	0.5	30.0	65,630
Netherlands	41	16	598.0	36,620
Denmark	43	5	256.8	47,390
Ireland	70	4	166.6	40,150
UK	245	60	2,263.7	37,600
Greece	132	11	218.1	19,670
Portugal	92	11	170.7	16,170
Spain	506	43	1,100.1	25,360
Austria	84	8	303.6	36,980
Finland	338	5	196.5	37,460
Sweden	450	9	370.5	41,060
Average	216.3	25.43	853.6	35,946

Source: World Bank, *World Development Indicators*, 2005

For instance in Southeast Asia, protection against threats from internal and external forces such as an unstable market structure of most of ASEAN member countries, threats from the regional economic blocks of other areas, and delayed multilateral agreements in GATT's Uruguay Round during the early 90's gave an important rationale for the establishment of AFTA. These common concerns made the Southeast Asian countries form a cohesive entity called AFTA.

3) Economic Size

The economic and social size in terms of GDP, trade volume, and population size is another necessary condition for successful development of regional agreement. A regional economic community should be big enough in an economic and social size to be able to draw attention from the global society and take initiative for deciding some of the major directions in the ever-changing global society.

Most of the existing regional trade arrangements do meet the size condition. The EU's fifteen member economies as of 2003 comprise more than 37% of the whole world's trade volume. Its total GDP and population are, respectively, US \$ 12.8 trillion and 381.5 million people. Their shares in the world are, respectively 29% and 5.9%. NAFTA's economic size is even larger than the EU, and AFTA's population is comparable to the EU. Thus, their voices in the international community are well heard whenever there are major conflicting issues to be discussed.

4) Stabilizing Mechanism

Lastly, a stabilizing mechanism is needed to establish a stable intra-regional cooperation for the successful development of regional economic integration. In the process of integrating various economies into one union, it is inevitable for various economies to make their own voices in economic policy making and in the implementing process for their own countries' interest. To collect those various voices into one unified opinion, it is necessary to designate one of the member economies as a stabilizing pole around which the concerned economies would trim away some minor differences among them. The internal stabilizing mechanism in EU, NAFTA, and China-ASEAN FTA are settled by nations like Germany, USA, and China, respectively.

Challenges in Asian 3+5 Model

Challenges in accomplishing a successful economic integration exist when considering the circumstances of countries involved in the 3+5 model of the three East Asian nations and five Southeast Asian nations.

1) Salient Objectives

If several Asian countries want to form a regional organization, such as the 3+5 model, its clear objectives must first be established. For example, the EU has clear objectives: ① free intra-regional flow of trade and investment, ② free movement of production factors including labor and capital, ③ adopting a common currency, ④ fiscal policy convergence, and ⑤ political integration that will eventually be the consequence of the economic unity.

What could then be the salient objectives of the Asian economic integration? One may think of a somewhat expanded version of AFTA. AFTA was launched by adopting the Common Effective Preferential Tariff (CEPT) in 1993. It aims for gradual reduction in tariff and non-tariff barriers, promotion of foreign direct investment to ASEAN region, effective distribution of production resources among member countries, realization of the economies of scale, and sustainable development through enhancing the region's competitiveness. It is notable that AFTA has never included, as its objectives, the concept of one common currency, convergence of monetary and fiscal policy, or political integration.

As such, the new Asian Economic Community, or the 3+5 model, could set its target to economic cooperation and trade liberalization, leaving aside the other non-economic and political objectives for the time being. The reason for this is clear. There are still quite a few sensitive non-economic issues among the 3+5 model. There are issues to be resolved in years to come, between China and Japan, between Japan and Korea, between Singapore and Malaysia. Thus, the EU-type integration could not be an objective in this region. Thus, one could argue that Asia's economic integration should be initiated by private firms or local institutions rather than being driven by central governments, unlike the way the EU was originally designed.

2) Binding Force

For successful regional economic integration, a binding force is imperative to draw various countries into one unity. One good binding force is a common interest, whether it be historical or

economical, throughout the region. In the case of EU, not only a similar level of economic development and a common historical and cultural background of the member countries exist, but also, a strong intention to form a unified entity to counter-balance the U.S. constituted a strong binding force.

The three East Asian countries and the five Southeast Asian countries do share a very important common historical interest among themselves. No one would deny the fact that the capitalistic market economy was simply transplanted from some of the major Western countries, such as the U.S., the U.K., Netherlands, and Spain at somewhat different points of time during the 20th century. Some have been forced to transform their economies to the capitalistic system, while others have adopted it voluntarily. Nevertheless, there has never been a unique "Asiatic" market economy that has emerged through the natural course of the region's economic development. The Western capitalism could have been modified and even improved by incorporating the region's rich and unique cultural idiosyncracies.³

That could be a binding force. The Asian countries could establish an organization though which a common "Asiatic" market economy is designed. An Asian free trade area will be only a ramification out of this grandiose design of the 21st Century Asian capitalism.⁴

<Table 2> Economic Indicators for 3+5 Countries (2005)

Member Country	Area (1000 Km ²)	Population	GDP (\$ bil.)
China	9,561	1,304.5	2,229
Indonesia	1,904	220.6	287
Japan	378	128.0	4,506
Korea	99	48.3	788
Malaysia	333	25.3	130
Philippines	300	83.1	98
Singapore	0.6	4.4	117
Thailand	1,513	64.2	177
Total	14,088.6	1,878.4	-

Source; World Bank, *World Development Indicators*, 2005

3) Economic Size

Another important factor for a successful regional economic integration is a sufficient economic size. As already mentioned above, the economic and social size of regional economic community should be large enough to make an influence in the global society. The 3+5 model seems to be sufficient in making an influence on the global society (Table 2). Moreover, the trade volume of member countries in the 3+5 model in the year 2005 comprised of 18.61% of the world trade volume. Its export takes 23.98% and import takes 18.43% of world volume. Although, it is somewhat behind the EU's export and import portion in the world trade, which are 14.49% and 13.61%, respectively, it is much bigger than AFTA or CER.

In addition, the synergy effect that would be created by the 3+5 model seems to be quite high, due to the notable complementarity for economic development of member countries. There is one advanced economy, Japan, followed by several developing economies, which are already interwoven in various industries either horizontally or vertically.

³ For example, corporate governance is quite different between the European region and the Western Hemisphere. The former takes a holding-company system, whereas, the latter is much based upon the share-holders' meeting. Also, the financial market structures are different between the U.S. and Japan with respect to the way they are supervised. As one traces back to the origins of the differences, there are many cultural and historical roots. Lee Krugman (1998), Lee (1998), Zakaria (1994).

⁴ Recently, there are quite a few important studies published by some political economists, emphasizing that Asian countries still maintain a tradition in which human relations and family values are more

important in building a balanced society than fierce competition for fulfilling self-interest. See Hahm (2000), Aikman (1986), Said (1996).

4) Stabilizing Mechanism

In the 3+5 model, it is not easy to find a leading country that could play a stabilizing force at the moment. One may think of Japan as the core economy that could use its influence to uphold the inside order. Considering Japan's economic potential and its technological leadership in the region, it could be compared to Germany in the EU. However, one required condition is that Japan becomes a fully opened economy, reforming its own domestic market structure. Thus, the region could have Japan as a leading country, as a stabilizing mechanism to unify these diverse countries.

5) Non-economic Factors

As indicated in Dutta (2001), "exclusivity of culture, religion, language, race, color have long been considered as the base for the identity of so many sovereign nation states, and in that sense, the EU is one of good examples that these factors are significant in defining the European civilization and identity that eventually lead to a unity in diversity."

In the Asian region, however, there seem to be more diversity factors than unity factors. Although the Chinese culture has long been very influential throughout the region, there are diverse religions (Islam, Christianity, Buddhism, Confucianism), different languages (some 112 languages including various dialects), and different races (Chinese, Korean, Japanese, Polynesian, Mongolian, etc.) with different colors.

In addition, historical background of the Asian region is extremely complex hardly comparable to the European region. The Asian region has a long history of war, hostility, and colonization. Especially, before and during the WWII, China and Korea had been under the control of Japan, and during that period, antagonistic feelings deepened among the three North East Asian countries. During the cold war period, Korea and Japan had a chance to resume their normal relationship, but the political and diplomatic relationship still remains fragile at best. The Sino-Japan relationship also remains anything but a normal one. For comparison, the member countries of EU solved all the major historical problems. Germany and France, or Germany and United Kingdom have almost recovered their distorted relationships through their continuous efforts since the end of WWII.

The differences in political ideology still could be an obstacle to bind the member countries in the 3+5 economic model. Even though China is opening its market to the world, it still maintains its communistic political system and planned economy, which is managed by the central government. Even though a harmonized policy among the member countries is required for a successful economic integration, there still are differences in many non-economic-dimensions in the region.

Possible Solutions

The Asian Economic Community is feasible if the community concentrates on a well defined objective, that is trade liberalization and economic/technical cooperation, and if it searches for a unique Asiatic value to help build an improved capitalistic market economy. This scenario is of course based upon the premise that Japan is willing to undertake a stabilizing force in the system.

Then, what should Asia do for the aforementioned non-economic factors? The first and the foremost important task to be completed is to build trust among the Asian countries.

The first step to overcome these challenges is to promote cooperation among the member countries. With the challenging factors in an economic model, it is not easy to open completely the market among member countries for complete free trade, which is a goal of the 3+5 economic grouping. Rather, it would be easier and more natural to start with promoting cooperation among the member countries economically and socially. Then they would evolve gradually and slowly to a free trade integration.

Moreover, considering the different economic development levels among the member countries, immediate market opening could be a threat to both the developed country, Japan, and remaining developing countries. However, if the system starts with cooperation, it would be welcomed by both developed and developing countries. Developing countries could take a model for their future development, and learn about technology, and economic management skill and strategies from developed countries, thus modernize their domestic market. Developed countries could utilize cheaper labor and other resources from developing

countries. Through these cooperative models, both developed and developing countries can enhance competitive ability, resulting in acceleration of their market integration process.

Another possible solution to overcoming the obstacles in the 3+5 economic model is to bring more countries into the economic integration. If it can take more developed countries into the integration for cooperation, it would be a good model for developing countries to initiate their technological and economic skills. Also, we need a third country that is not directly related to the historical antipathy among the North East Asian countries, to dilute ideological conflicts among the Asian countries.

Considering all the aforementioned objectives and conditions, current APEC appears to be one of the most appropriate organizations implementing strategies that could resolve those challenging factors.

APEC (Asia-Pacific Economic Cooperation)

APEC was established in 1989 in response to the growing interdependence among Asia-Pacific economies. The member countries' economic leaders agreed that the goal of APEC is "to advance economic dynamism and sense of community within the Asia-Pacific region" and "to promote open trade and practical economic and technical cooperation".

It is noteworthy that this economic organization is focusing on the cooperation among the member countries as implied in its name itself, Asia-Pacific Economic 'Cooperation'. It does not force the countries to open their domestic market immediately when they get involved in this economic community. It gives them room for preparing a way to cooperation in a gradual and slow pace. In 1994, in Bogor, APEC members made their vision of open trading system as "free and open trade investment in the Asia-Pacific by 2010 for developed member economies and 2020 for developing ones." In the Osaka meeting of 1995, they adopted Osaka Action Agenda (OAA), which established the three pillars of APEC activities; trade and investment liberalization, business facilitation, and economic and technical cooperation. Through the Manila Action Plan for APEC (MAPA), adopted in 1996, the member economies stressed six areas to be prioritized for economic and technical cooperation; developing human capital, fostering safe and efficient capital markets, strengthening economic infrastructure; harnessing technologies of the future, promoting environmentally sustainable growth, and encouraging the growth of small and medium-size enterprises. When the Asian countries were suffering from the severe financial crisis of 1998, the member economies agreed to pursue a cooperative growth strategy to end the crisis. They made action plans to strengthen the social safety net, financial systems, trade and investment flows, the scientific and technological base, human resource development, economic infrastructure, and business and commercial links. As such, the member economies in APEC made great efforts to promote cooperation among its members.

The member economies in APEC are more diverse than the members in the Asian 3+5 economic model. <Table 3> shows the major economic indicators of APEC member economies. As indicated in the table, the economies are quite different from each other. In population, there are countries like China, the US, Japan and Indonesia with more than 100 million people, and countries with less than 1 million people together. Not only in the size of countries, but also the gap in the level of economic development is huge, so that developed countries and developing countries are coexisting in this area. In spite of this diversity in the area, there are more developed economies than in the 3+5 model, thus there are more sources of wealth, resources, and technologies readily available.

< Table 3> Economic Indicators for APEC Member Economies (2005)

Member Country	Area (1000 Km ²)	Population (mil.)	GDP (\$ bil.)	GDP per capita (\$ mil.)	Exports (\$ mil.)	Imports (\$ mil.)
Australia	7,692	20.2	692.4	33,629	86,551	103,863
Brunei Darussalam	6	0.4	5.7	15,764	4,713	1,638
Canada	9,971	32.0	1,084.1	33,648	315,858	271,869
Chile	757	15.4	105.8	6,807	32,548	24,769
China	9,561	1,299.8	1,851.2	1,416	593,647	560,811

Hong Kong	1	6.9	174.0	25,006	265,763	273,361
Indonesia	1,905	223.8	280.9	1,237	71,585	46,525
Japan	378	127.3	4,6934.3	36,841	566,191	455,661
Korea	99	48.2	819.2	16,897	253,845	224,463
Malaysia	330	25.5	129.4	4,989	125,857	105,297
Mexico	1,958	105.0	734.9	6,920	177,095	171,714
New Zealand	271	4.1	108.7	26,373	20,334	21,716
Papua New Guinea	463	5.9	3.5	585	4,321	1,463
Peru	1,285	27.5	78.2	2,798	12,111	8,872
Philippines	300	86.2	95.6	1,088	39,588	40,297
Russia	17,075	144.0	719.2	5,015	171,431	86,593
Singapore	1	4.2	116.3	27,180	179,755	163,982
Chinese Taipei	36	22.5	335.2	14,857	174,350	168,715
Thailand	513	64.6	178.1	2,736	97,098	95,197
USA	9,364	293.0	12,365.9	41,815	818,775	1,469,704
Viet Nam	332	82.6	51.0	610	26,061	32,734

Source; *Economic Fact Sheets*, <http://www.dfat.gov.au/geo/fs>
The APEC Region Trade and Investment 2005

In APEC, the US is certainly the leading economy, acting as the role model in the system in many ways, in such areas as market liberalization, technical development, and restructuring the economy. As the world's strongest country, the US can also be influential as a mediator in an intra-regional relationship as well as in the global economic society. Moreover, the US is a good market for the other developing countries, especially for labor-intensive goods and services. Thus, the US could serve as a good stabilizing mechanism to the region as a whole.

In addition, with a broader regional coverage of the pan-Asia-Pacific region, each member's historical and social concerns could be diluted. The member economies would be more concerned with economic development than with past historical conflicts or territorial sensitivities among themselves.

APEC region takes more than a 43% share of the world GDP and the greatest portion in world trade as well. Moreover, since further growth of the member economies in the Asia-Pacific region is expected, this region, with its big share of world output and trade, would be a center for world economic dynamism. If you see <Table 4>, APEC takes the biggest portion of the world's trade. It is far greater than that of the EU.

<Table 4> APEC Shares in World GDP and Trade (2005)

	GDP (\$ bil.)	Export (\$ bil.)	Import (bil.)
APEC	19,254	4,037	4,329
	43.33%	44.37%	42.03%
Asian 3+5 model	8,332	2,182	1,899
	19.88%	23.98%	18.43%
EU	13,446	1,318	1,402
	30.26%	14.49%	13.61%
World	44,433	9,099	10,300
	100.00%	100.00%	100.00%

Source; Central Intelligence Agency

The World East Bank

Asian Development Bank; Bank of Thailand; ASEAN; CIA Fact book

The APEC Region Trade and Investment 2005

The rapid economic growth in the Asia-Pacific area came from its high level of economic interdependency with the rest of the world, which was based on increases in trade and investment for the last three decades. One can see this growing interdependency from the growing extra-trade with the rest of the world. If you look at <Table 5>, the share of extra-exports of APEC member economies has increased from 26.9% in 1995 to 27.4% in 2000 and 31.5% in 2004. The share of extra-imports of APEC member economies with the world also has increased from 28.3% in 1995 to 31.9% in 2000 and 35.1% in 2004. <Table 6> shows the interdependency of APEC member economies through main export shares of APEC member economies. You can see that the interdependency of developing economies is higher than that of developed economies which is apparent from looking at the "Asia APEC" column of the table. The growth of intra-regional foreign direct investment is also further evidence of high interdependency among the APEC member economies.

<Table 5> Share of Intra/Extra Export and Import of APEC Member Economies

	Value	Share in total exports/imports		
	2004	1995	2000	2004
Total exports	3858	100.0	100.0	100.0
Intra-exports	2643	73.1	72.6	68.5
Extra-exports	1215	26.9	27.4	31.5
Total imports	4288	100.0	100.0	100.0
Intra-imports	2784	71.7	68.1	64.9
Extra-imports	1504	28.3	31.9	35.1

Source; IMF, *Direction of Trade Statistics*, 2006

<Table 6> Main Export Shares of APEC Member Economies (2003, %)

	USA	Japan	America APEC	Asia APEC	EU	Rest of the world	Total
Western Hemisphere							
Canada	85.8	2.1	0.7	2.6	5.6	3.1	100.0
Chile	17.8	11.2	8.6	5.4	24.3	32.7	100.0
Mexico	88.9	0.4	1.9	0.6	3.4	4.8	100.0
Peru	26.5	4.5	7.5	10.3	25.4	25.8	100.0
United States		7.2	36.9	17.2	20.8	17.9	100.0
Northeast Asia							
China	21.1	13.6	2.0	28.8	16.5	18.0	100.0
Hong Kong	18.2	5.3	1.7	50.9	13.7	10.2	100.0
Japan	24.9		2.3	45.7	15.3	11.7	100.0
Korea	17.7	8.9	2.7	40.4	12.9	17.4	100.0
Chinese Taipei	18.0	8.3	0.0	35.5	8.6	29.6	100.0
Southeast Asia							
Brunei Darussalam	7.3	38.5	0.1	35.8	0.3	18.1	100.0
Indonesia	12.1	22.3	1.0	37.3	13.1	14.2	100.0
Malaysia	19.6	10.7	1.1	45.0	12.1	11.6	100.0
Philippines	20.1	15.9	1.2	44.7	16.3	1.8	100.0
Singapore	14.3	6.7	0.8	48.2	13.4	16.6	100.0
Thailand	17.0	14.2	1.7	36.5	14.7	15.8	100.0
Viet Nam	14.7	14.6	0.8	24.4	18.9	26.6	100.0

Oceania							
Australia	8.8	18.2	1.6	33.2	14.2	24.0	100.0
New Zealand	14.5	11.0	3.4	18.1	16.1	36.9	100.0
Papua New Guinea	2.6	4.3	0.0	7.1	11.0	75.0	100.0
Russia	2.3	1.7	0.0	6.8	25.9	63.3	100.0
Total	23.4	7.0	9.3	28.3	15.0	16.9	100.0

Source; UN, *International Trade Statistics*, 2003

The most important feature of APEC ---or its hallmark, so to speak--- is perhaps its strong willingness to adhere to the principle of open regionalism. To this end, APEC has included non-discrimination as a guiding principle in its Action Agenda.

In trade literature, many economist are skeptical about regional trading agreements because, by nature, they discriminate against natural and global interdependence. The underlying worry is that regionalism could deflect the world economy away from the path towards global free trade. These economists also argue that the Asia-Pacific region's current economic prosperity has come about without the formation of a trading bloc or any other arrangements which grant special economic benefits to members and discriminate against non-members. The prosperity in the region has simply been based on market forces. Therefore, they argue that Asia-Pacific economies should not stray from this successful path.

Their assertions may be true, however, Asia-Pacific economies have already realized that an inward-looking type of regionalism, or building a fortress, is damaging to the world trading system and is also detrimental to their own interest. In this regard, non-discrimination and non-preferential cooperative arrangements in the region could minimize the trade diversion effects and make the regional cooperation complementary to multilateralism.

This is probably the reason why the concept of open regionalism, as defined in the report of Eminent Persons Group (EPG), is widely accepted by APEC economies. Accordingly, open regionalism is a process of regional cooperation whose outcome is not simply the actual reduction of external barriers to economies that are not part of the regional arrangements. In this sense, open regionalism is consistent with, and fundamentally equivalent to, multilateralism and the WTO agreement. In fact, it has been suggested that liberalization agreed to by APEC economies must proceed in a manner that is consistent with the principle of open regionalism.

To pursue open regionalism, four key policies have been proposed by the EPG as a guide to APEC economies, namely:

- 1) APEC members should unilaterally reduce trade and investment barriers to the maximum extent possible.
- 2) While APEC liberalizes internal trade and investment barriers on a most favored nation (MFN) basis, it should also continue to reduce barrier to non-member economies.
- 3) APEC should extend the benefits of its regional liberalization to non-members who are willing to accept obligations similar to those of APEC membership.
- 4) Individual APEC members should be allowed to extend the benefits of its own APEC liberalization to non-members on either a conditional or an unconditional MFN basis.

From its foundation, APEC has strongly been opposed to the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade. Thus, it has been known that, in faithful compliance with open regionalism, APEC will be a building bloc for a freer global economy.

This argument is reinforced by an experiment conducted by a global CGE(Computable General Equilibrium) model. Table 7 shows the effects of tariff removals in terms of an increase in trade volumes of the concerned countries. Compared to the 3+5-country case, the APEC's free trade arrangement would result in a much greater increase in trade volume for each country. On the contrary, when the 3+5-country scenario is taken, the other APEC countries will end up with a decrease in trade volume.

<Table 7> Effects of Tariff Removals in Two Scenarios

	3+5-country FTA		APEC 21 Economies' FTA	
	%	mil. \$	%	mil. \$
China	11.63	87,574	18.17	136,820
Indonesia	4.00	2,727	5.70	3,886
Japan	5.45	24,690	8.78	39,775
Korea	7.58	13,410	9.10	16,099
Malaysia	2.98	3,738	3.69	4,629
Philippines	2.68	1,023	4.43	1,691
Singapore	1.82	2,025	1.35	1,502
Thailand	9.29	7,433	10.48	8,385
Australia	-0.60	-436	6.92	5,032
Canada	-0.02	-53	1.09	2,912
USA	-0.38	-3,378	4.07	36,177
Other APEC	-0.58	-2,715	4.62	21,623
ROW	-0.20	-7,537	-0.50	-18,842

Notes; (1) *Benchmark year*, 2001, (2) Model Used = Global CGE Model based upon the assumptions of perfect competition, full employment.

(3) The % figures indicate an increase in trade volume from current level as a free-trade regime is introduced to two different cases.

The fourth and final feature of APEC is that it already contains four subregional trading agreements within it, specifically, NAFTA, AFTA, CER, and Mexico-Chile FTA. Twelve of the eighteen APEC economies are therefore members of subregional trading agreements. Like APEC, the subregional trading agreements within APEC should also contribute to an open and free multilateral trading system. In other words, these agreements should promote open "subregionalism" by implementing their liberalization programs in a manner that is fully consistent with the WTO. To this end, it would be desirable for APEC to conduct reviews on the activities of subregional trade agreements within itself as the WTO does on regional trade agreements.

Conclusion

As argued by some economists recently, it is very important to set up an efficient and stable regional economic integration to promote and complete multilateralism. The Asian 3+5 economic model suggested by Dutta (2001) is therefore a very constructive idea. However, the model will become feasible if the Community identifies its objective more clearly: for example, it only concentrates on trade liberalization and economic/technical cooperation, leaving aside political and other non-economic objectives for the time being. As a binding force, the region may work together to reach for a unique Asiatic capitalistic market system. In this line of work, Japan's role will become very important, or even imperative, as a stabilizing force in the community.

In talking about forming a new Asian Economic Community, the existing APEC should be given another serious look at. APEC, which already involves all the 3+5 countries as member economies, has been settled and worked pretty well at resolving those challenging obstacles. Doubtlessly, current APEC is taking the world's biggest share of trade and GDP as well as of geographical size. By 2020, when APEC action plans would be completed, we would see the complete result of this economic integration.

For better results for the member economies and even for global economy, it would be better for the member economies to further the quest towards APEC's visions and the implementation of those visions.

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