The Asian Economic Community in APEC: Catalyst or Diluent?*

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Some suggested that several East Asian economies should be integrated by adopting the lessons from the EU model. The integration then could contribute to the region's own competitive position as well as to the paradigm of globalization. The integration scenario, however, would only be feasible if the community follows a step wise process, that is, it first deepens economic and social cooperation among the countries in concern to build trust, and then they would evolve gradually and slowly to a free-trade integration. In doing so, current APEC appears to be one of the most appropriate organizations because, first, all the concerned countries in East Asia are already members of APEC, and second, its Bogor Declaration clearly aims for deepening cooperation first and then completion of market liberalization by 2020. An econometric study even demonstrates that APEC's free trade arrangement would result in a much greater increase in trade volume for each member than any other subregional arrangements.

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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. Empirical evidence from the successful integration process of the EU, Dutta (2001), Kojima (2000), and Letiche (2000) especially emphasized that economic integration in Asia should be promoted by adopting the lessons from the EU Model, so that the Asian regional economic integration could contribute to its own competitive position in the world market as well as to the paradigm of globalization.

On the same line of assertion, Dutta (2001) suggested the 3+5 intra-regional economic integration model in Asia, including three East Asian economies-Japan, Korea, and 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 could contribute not only to its own member nations' economic development but also to the success of globalization. However, several conditions exist for the successful regional economic integration. It is therefore imperative to peruse whether or not those conditions are fully 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 that are geographically contiguous. Furthermore promoting the social and economic welfare of member economies as well as the integrated entity as a whole is a subsequent effect of the trade arrangement. In order to maximize the 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 the 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 induce competitions among these economies. In order to achieve the organizational development of this economic integration, the economic policies of member economies should be well coordinated and unified into the policy of the community level.

Most of the currently existing regional economic unions/communities, such as EU,

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

satisfy these typical criteria to a certain extent. However, recently, regional economic agreements among the developing and developed countries with cultural, social, political and economic differences are emerging, as seen in North American Free Trade Agreement (NAFTA) and Asia-Pacific Economic Cooperation (APEC). Thus, new understanding of the conditions required for the continuous development of those economic organizations is necessary.

1) *Salient Objectives*

Two post-WWII global economic trends are globalization and regionalization. Globalization of the world economy was led by multinational corporations from the developed countries, and regionalization was primarily initiated by 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 ASEAN Free Trade Agreement (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 for the further development.

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 continuous negotiations, they may decide to choose the most common interests on a selective basis, which will be conducive to solidifying the organizations to move together in the same direction.

2) *Binding Force (Similarity)*

Binding force or similarity among the members plays an important role in determining the coordinating relationships among the intra-regional nations. In the case of the EU (EC's new name), the member countries were in a similar level of economic development in terms of population and GDP as shown in Table 1, and this similarity has been a strong force since 1954 when the EC initiative was first launched in binding the countries into one organization. These binding factors could work as a strong motivation, and be found in other regional integrations as well.

For instance in Southeast Asia, protection against threats from internal and external forces such as an unstable market structure of the most of ASEAN member countries, threats from the regional economic blocks of other areas, and delayed multilateral agreements in General Agreement on Tariffs and Trade (GATT)'s Uruguay Round during the early 90's played an important role in the establishment of AFTA. These common concerns encouraged the Southeast Asian countries to act as one sovereign entity.

TABLE 1. LIKENESS IN EU MEMBERS (1999)

Country	Surface Area (thousand sq. km)	Population (mil.)	GNI (\$ bil.)	GNI per capita (\$)
Belgium	33	10	252.1	24,650
France	552	59	1,453.2	24,170
Germany	357	82	2,105.8	25,620
Italy	301	58	1,162.9	20,170
Luxembourg	1	0.4	14	55,000
Netherlands	41	41	397.4	25,140
Denmark	43	5	170.7	32,050
Ireland	70	4	80.6	21,470
U.K.	245	60	1,403.8	23,590
Greece	132	11	127.6	12,110
Portugal	92	10	110.2	11,030
Spain	506	39	583.1	11,800
Austria	84	8	205.7	25,430
Finland	338	5	127.8	24,730
Sweden	450	9	236.9	26,750
Average	216.5	26.75	561.9	23,114

Source: World Bank, *World Development Indicators*, 2000.

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 substantial enough in terms of an economic and social size to be able to draw attention from the global society and take initiative in deciding the major directions in the ever-changing global society.²

Most of the existing regional trade arrangements do meet the size condition. The EU's fifteen member economies comprise more than 37% of the whole world's trade volume. Its total GDP and population are, respectively, US\$ 7.5 trillion and 380 million people. Their shares in the world are, respectively 29% and 7.4%. NAFTA's economic size is even larger than the EU, and AFTA's population is comparable to that of the EU. Thus, their voices in the international community are well heard whenever there are major conflicting issues to be discussed.

² There is no objective scale to measure and determine whether a regional arrangement is big enough. However, in many international fora, such as the UN and World Trade Organization (WTO), the world community tends to pay more attention to the voice from large-size regional organizations than that from smaller ones. For example, in the process of the Uruguay Round negotiations, most of the EU's arguments have been seriously received by all the members, but some of the requests made by smaller units have not been equally recognized. (For more details, See Yao 1993 (b), 79-87).

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' interests. To collect those various voices into one unified opinion, it would be 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 AFTA are settled by nations like Germany, the U.S., and Indonesia, 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 for 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, and 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 government, 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 the 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 interests among themselves. No one would deny the fact that the capitalistic market economy was simply transplanted from the major Western countries, such as the U.S., the U.K., Netherlands, and Spain at 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 regional economic development. The Western capitalism could have been modified and even improved by incorporating the region's rich and unique cultural idiosyncracies.³

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

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 the member countries in the 3+5 model in the year 2000 comprised of 19.97% of the world's total trade volume.

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-holder's 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. See Kragman (1998), Lee (1998), and 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 Hahn (2000), Aikman (1986), Said (1996).

Its export takes 20.76% and import takes 16.55% of the world volume. Although, it is somewhat behind the EU's export and import portion in the world trade, which are 35.37% and 35.41%, respectively, it is much bigger than AFTA or Close Economic Relations (CER).

TABLE 2. ECONOMIC INDICATORS FOR 3+5 COUNTRIES (2000)

Member Country	Area (1000 Km ²)	Population	GDP (\$ bil.)
China	9,561	1,249.6	991
Indonesia	1,904	207	141
Japan	378	126.5	4,347
Korea	99	46.8	517
Malaysia	333	22.7	79
Philippines	300	76.8	77
Singapore	0.6	1.2	85
Thailand	1,513	36.2	122
Total	14,088.6	1,766.8	-

Source: The Economist: *Pocket World in Figures*, 2002.

US Department of State, 2001.

APEC Region Trade and Investment, 2001.

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 the member countries. There is one advanced economy, Japan, followed by several developing economies, which are already interwoven in various industries either horizontally or vertically.

4) *Stabilizing Mechanism*

In the 3+5 model, it is not easy at the moment, to find a leading country that could play a stabilizing force. 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. Once such condition is fully met, 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, and Confucianism), different languages (approximately 112 languages including various dialects), and different races (Chinese, Korean, Japanese, Polynesian, Mongolian, and 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 most of the major historical problems. Germany and France, or Germany and United Kingdom have almost fully 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 many differences in certain 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 the market completely among the 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 agreeable to both developed and developing countries. Developing countries could model developed countries for their future development, and learn advanced technology, and economic management skill and strategies, 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 cooperative integration, 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. It is because, first, all the 3+5 countries are already members of APEC, and, second, APEC is working for deepening the cooperative relationship among its members first and evolving gradually toward a free trade system. It also includes the U.S. as one of the leading members that could dilute ideological conflicts among those 3+5 countries.

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 crises of 1998, the member economies agreed to pursue a cooperative growth strategy to end the crises. 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.

TABLE 3. ECONOMIC INDICATORS FOR APEC MEMBER ECONOMIES (2000)

Member Country	Area (1000 Km ²)	Population (mil.)	GDP (\$ bil.)	GDP per capita (\$ mil.)	Exports (\$ mil.)	Imports (\$ mil.)
Australia	7,682	19	365	19,906	63,615	74,494
Brunei Darussalam	5.8	0.34	4	13,705	2,997	1,394
Canada	9,971	30.6	656	23,087	275,183	262,721
Chile	757	15.0	68	4,641	18,310	16,693
China	9,561	1,249.6	991	871	276,242	224,688
Hong Kong	1.1	6.9	158	23,915	196,890	215,485
Indonesia	1,904	207	141	721	62,103	33,511
Japan	378	126.5	4,347	37,546	477,929	377,012
Korea	99	46.8	406	9,672	166,304	152,425
Malaysia	333	22.7	79	3,834	98,153	82,195
Mexico	1,973	97.4	480	5,797	166,455	191,904
New Zealand	271	3.8	55	12,974	12,712	13,971
Papua New Guinea	453	4.6	4	829	2,873	1,244
Peru	1,285	25.2	52	2,098	6,920	7,920
Philippines	300	76.8	77	959	42,799	44,966
Russia	17,075	146.5	185	1,729	102,998	33,853
Singapore	0.6	3.2	85	22,667	134,567	134,530
Chinese Taipei	36	21.9	288	13,906	147,583	139,769
Thailand	513	61.7	122	1,954	65,160	56,915
U.S.	9,373	272.9	9,299	36,151	771,991	1,238,200
Viet Nam	331	77.5	29	404	12,822	15,610

Source: The Economist: *Pocket World in Figures*, 2002.

US Department of State, 2001.

APEC Region Trade and Investment, 2001.

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 U.S., 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.

In APEC, the U.S. 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 U.S. can also be influential as a mediator in an intra-regional relationship as well as in the global economic society. Moreover, the U.S. is a good market for the other developing countries, especially for labor-intensive goods and services. Thus, the U.S. 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 56% 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 the center for world economic dynamism. As illustrated in Table 4, APEC holds 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 (2000)

	GDP (\$ bil.)	Export (\$ bil.)	Import (bil.)
APEC	17,891	2,931	3,137
	56.80%	46.06%	47.04%
Asian 3+5 Model	6,288	1,321	1,104
	19.97%	20.76%	16.56%
EU	6,048	2,251	2,362
	19.20%	35.37%	35.41%
World	31,193	6,364	6,669
	100.00%	100.00%	100.00%

Source: IMF, *Direction of Trade Statistics*, 2001.

The rapid economic growth in the Asia-Pacific area came from its high level of economic interdependency among the member economies, which was based on the increase in trade and investment for the last three decades. This growing interdependency

can be observed from the growing intra-trade among the member economies. If you look at Table 5, the share of intra-exports of APEC member economies has increased from 67.5% in 1990 to 73.1% in 1995 and 72.6% in 2000. The share of intra-imports of APEC member economies has also increased from 65.4% in 1990 to 71.7% in 1995 and 68.1% in 2000. 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. The growth of intra-regional foreign direct investment is a 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		
	2000	1990	1995	2000
Total Exports	2931	100.0	100.0	100.0
Intra-exports	2127	67.5	73.1	72.6
Extra-exports	804	32.5	26.9	27.4
Total Imports	3171	100.0	100.0	100.0
Intra-imports	2159	65.4	71.7	68.1
Extra-imports	1013	34.6	28.3	31.9

Source: IMF, *Direction of Trade Statistics*, 2001.

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.

TABLE 6. MAIN EXPORT SHARES OF APEC MEMBER ECONOMIES (1996, %)

	U.S.	Japan	America APEC	Asia APEC	EU	Rest of the world	Total
Western Hemisphere							
Canada	80.9	4.1	0.7	4.6	5.7	4.0	100.0
Chile	16.6	16.2	4.0	16.8	23.9	22.5	100.0
Mexico	83.8	1.4	3.2	1.2	3.7	6.8	100.0
Peru	19.7	6.6	6.4	17.0	26.6	23.7	100.0
United States		11.0	32.2	18.0	20.9	17.9	100.0
Northeast Asia							
China	17.2	19.9	1.6	35.3	15.4	10.7	100.0
Hong Kong	21.2	6.5	1.9	46.6	14.9	8.8	100.0
Japan	27.3		2.4	44.8	15.4	10.1	100.0
Korea	22.6	21.3	3.0	19.6	14.4	19.1	100.0
Chinese Taipei	23.0	11.7	1.9	41.5	13.5	8.4	100.0
Southeast Asia							
Brunei Darussalam	1.9	53.5	0.0	21.1	17.6	5.9	100.0
Indonesia	13.7	26.0	1.2	35.2	15.0	9.0	100.0
Malaysia	18.2	13.4	1.0	45.5	13.7	8.1	100.0
Philippines	33.9	17.9	1.4	26.2	17.9	2.7	100.0
Singapore	18.4	8.2	0.7	49.5	13.0	10.1	100.0
Thailand	18.0	16.8	1.3	34.4	15.9	13.5	100.0
Viet Nam	4.1	12.4	0.7	53.7	11.1	18.0	100.0
Oceania							
Australia	6.5	20.2	2.1	46.8	10.9	13.5	100.0
New Zealand	10.2	15.3	2.3	43.1	14.6	14.5	100.0
Papua New Guinea	6.8	15.0	0.0	51.0	16.7	10.5	100.0
Russia	7.6	3.5	0.2	8.7	32.4	47.7	100.0
Total	22.9	9.6	9.4	29.1	15.7	13.3	100.0

Source: UN, *International Trade Statistics*, 1999.

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. In this sense, we suspect that the 3+5-country model, if implemented, would dilute the quest for multilateral economic growth through trade liberalization in the region that was initiated by the APEC.

TABLE 7. EFFECTS OF TARIFF REMOVALS IN TWO SCENARIOS

	3+5-country FTA		APEC 21 Economies FTA	
	%	mil. \$	%	mil. \$
China	14.46	34,598	22.33	53,428
Indonesia	5.48	3,118	8.31	4,728
Japan	6.45	31,635	11.15	54,687
Korea	10.13	15,125	11.9	17,767
Malaysia	5.37	5,107	6.61	6,286
Philippines	5.96	2,443	11.85	4,858
Singapore	2.14	2,691	1.95	2,453
Thailand	11.53	8,153	13.18	9,319
Australia	1.03	-902	8.51	7,454
Canada	0.14	-323	2.15	4,966
U.S.	-0.68	-5,799	4.02	34,283
Other APEC	-1	-3,409	6.15	20,964
ROW	-0.31	-10,593	-0.54	-18,453

Notes: (1) Model Used = Global CGE Model based upon the assumptions of perfect competition, full employment.

(2) The % figures indicate an increase in trade volume from current level as a free-trade regime is introduced to two different cases. In the APEC's case, a simple free-trade assumption was used, apart from possible external and inter-regional effects of APEC's open regionalism.

Source: *Benchmark year, 1997.*

The fourth and final feature of APEC is that it already contains four sub-regional 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 be very important, or even imperative, as a stabilizing force in the community.

In discussing the formation of 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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