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**ASEAN+3 Cooperation: Issues and prospects
(Hợp tác ASEAN+3: những vấn đề và triển vọng)**

**Quang Huyen Thi Ngoc, PH.D
Home Institution: Institute for Southeast Asian Studies**

Host Scholar: **Prof. Do Hyun Han**

Host Institution: **The Academy of Korean Studies**

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Abstract

Entering the final decade of the 20th Century, the movement of regionalism strongly increased in the world while Asia was slow but move in this way. However the Asian Financial Crisis in 1997-1998 had changed the awareness in many countries in the region, especially in those heavily impacted by the crisis. The ASEAN+3 (China, Japan and the Republic of Korea (Korea)) Summit Meeting held in 1997 with the aim of seeking a mutual cooperation and coordination to find measures for overcoming the financial crisis has officially opened up a new cooperation framework between ASEAN and the three East Asian countries called ASEAN+3 cooperation. The birth of ASEAN+3 has been considered as a strong development step in the trend of regional integration and movement towards a new East Asia regionalism. In this context, this paper aims at explore the process of the ASEAN+3 cooperation and prospects for the ASEAN+3 framework in future.

Tóm tắt

Bước vào thập kỷ cuối cùng của thế kỷ XX, khi trào lưu chủ nghĩa khu vực trên thế giới tăng lên mạnh mẽ thì châu Á vẫn thờ ơ với xu thế này. Tuy nhiên, cuộc khủng hoảng tài chính châu Á năm 1997-1998 đã làm thay đổi nhận thức của nhiều nước, nhất là những nước chịu ảnh hưởng nặng nề từ cuộc khủng hoảng. Cuộc gặp thượng đỉnh ASEAN+3 (China, Japan and Republic of Korea(Korea)) năm 1997 với mục đích cùng nhau phối hợp để tìm biện pháp thoát khỏi cuộc khủng hoảng tài chính đã chính thức mở ra một khuôn khổ hợp tác mới giữa các nước ASEAN và ba nước Đông Bắc Á, hợp tác ASEAN+3. Sự ra đời của ASEAN+3 được xem là bước phát triển mạnh mẽ trong xu thế hội nhập khu vực và thúc đẩy trào lưu hướng tới chủ nghĩa khu vực Đông Á mới. Mục đích của bài viết này là tìm hiểu tiến trình hợp tác ASEAN+3 và triển vọng của ASEAN+3 framework trong tương lai.

Introduction

Shortly after being born in 1997, the ASEAN+3 framework became one of the most important frameworks, which actively supported regionalism in East Asia. After 10 years of formation and development, ASEAN+3 became an important forum in the region. The framework is not merely the cooperation in socio-economy, politics, culture and security, etc. among the Southeast Asian countries with the three East Asian nations as China, Japan and Korea, but beyond that it showed the changes in the cognition of those countries such as Japan and Korea from the confrontational attitude towards the positive movement in promotion of regional integration.

Within the ASEAN+3 framework, the economic and financial cooperation has been ranked top. However, currently the ASEAN+1 channel within the ASEAN+3 framework worked more effectively. The movement of bilateral Free Trade Area (FTA) formation has been urgently pursued by the members of the ASEAN+3. All the three East Asian states were racing for early establishing FTA with ASEAN. For ASEAN, this organization was also improving its competitiveness and prestige in order to continue holding its core role in the ASEAN+3. Participation in ASEAN+3, each member has its own objectives and roles, especially the competition for the influences in the region by the two big powers as China and Japan. As the country that lies between the two big nations, Korea has proved its position of intermediary which had many initiatives contributed to the ASEAN+3. At present, ASEAN+3 is having many opportunities and is also facing many challenges. Thus, there is a need for ASEAN+3 to exert itself to continue holding its core role in the process of building the East Asia Community.

The paper is divided into three parts, and the organization of these parts is as follows. Forming and developing process of ASEAN+3 cooperation is organized in Part I. Part II is set aside for the roles of each Party in ASEAN+3 cooperation, which is followed by the Prospects of ASEAN+3 and East Asia Community in Part III.

I. Forming and Developing Processes of ASEAN+3 Cooperation

1. Forming Context of ASEAN+3

Proceeding into the 1990s, with the end of the cold war the main focus of the world was placed on the economic development. Regionalism together with the global integration became the most-featured tendency in the world economy. Europe and the North America actively stepped up the regional economic cooperation. The rapid increase of free trade agreements (FTAs) amongst countries have paved the way for the birth of EU and NAFTA, whereas the East Asia was virtually off track of this tendency. In 1992, only six nations of ASEAN (including Brunei, Malaysia, Indonesia, Singapore, Thailand and Philippines) declared to form a free trade area called AFTA (ASEAN Free Trade Area). Latter, other countries such as Vietnam, Laos, Cambodia, and Myanmar took their turns to join the agreement right after they became the member of the group. APEC had been formed in 1989, but in 1995 the organization's leaders passed its ambitious goals of forming the "free trade in Asia and Pacific" by no later than 2020.

From September 1990, the PM of Malaysia, Prof. M. Mohamed, however, has put forwards the idea upon the forming of the East Asia Economic Group (EAEG), which

covers ASEAN countries and other three nations: China, Japan and the Republic of Korea. After the discussion took place in 1991 between these partners, the grouping has changed its name into East Asia Economic Caucus (EAEC) comprising ASEAN countries and China, Japan, Republic of Korea and Taiwan. This has been considered as the tendency against the controlling role by the United States in East Asia. This idea has not come into practice due to severe oppositions from the US and Australia, and the lack of support from Japan as well. However, EAEC has always been considered as the initiation for the East Asian regionalism despite it was not successful. The East Asian regionalism has continually been nurtured through proposing of inviting other 3 nations outside ASEAN such as China, Japan and Republic of Korea to participate at the ASEAN Summit in 1995.

In the last years of the 20th Century, the East Asian integration and cooperation has actually changed towards the stronger development, especially after the 1997-1998 Asia Economic Crisis. The reasons are as followings:

First, the 1997-98 Asia Economic Crisis had profoundly changed the awareness of the region's nations. The crisis has initially taken place in Thailand, and then rampantly spread to other countries in the region such as Malaysia, Indonesia, Philippines and South Korea. The magic economic development for over more than two decades in the Asian countries has been cut off by the crisis. The crisis has also helped these countries exposing the weakness that need to be overcome if they want to continually sustain high and stable economic growth. The crisis had left behind the heavy consequences for these countries. Though each country had its own solutions to quickly recover the economy, but the lesson learned from the crisis was that today a single country was not able to independently develop its own economy. Under the effects from the globalization, the countries become more interdependent and mutually impacted, especially in the economic development.

Second, during the crisis these countries had not received any positive responses from the US and other international organizations, which could assist them to quickly recover their economy. APEC, the largest economic cooperation grouping in Asia and the Pacific, had played no role to lighten the crisis' consequences. At the APEC leaders meetings in Vancouver in November 1997, the crisis had not been put up as a main topic in the meeting's agenda for discussion. International organizations such as IMF and World Bank demanded these countries, which wanted to get financial support from the organizations, to follow measures imposed by them despite these measures were not appropriate for those crisis-affected countries. Thus, these countries realized the need for a regional economic integration in order not only to assist each other during the crisis but also more importantly to cooperate for development and prevention of similar catastrophe in future.

At the informal ASEAN Summit in Kuala Lumpur in December 1997, for the first time the leaders from the East Asian nations: China, Japan and South Korea had been invited to discuss and find solutions for the Asian Financial Crisis. This meeting had been the inception to mark the forming of ASEAN+3, the first cooperation form in East Asia, despite the fact that there were no Joint Statements.

2. Operation and structures of ASEAN+3

To date, from the first ever summit in 1997, ASEAN+3 had held a total of 10 summits for the last 10 years since its establishment (1997-2007). Evolution process of the

ASEAN+3 Cooperation had been improved after every meeting. The main contents of each summit were as follows:

The 2nd ASEAN+3 Summit took place during the 6th ASEAN summit on 16 December 1998 held in Hanoi, where the leaders of ASEAN countries and their counterparts from China, Japan and South Korea had decided to organize annual ASEAN+3 meetings during the time of the ASEAN summit. With this decision, the ASEAN+3 had officially come into operation. In this second meeting, the leaders of these countries had reached a consensus in forming a monetary mechanism for Asia initiated by Japan in order to avoid a financial crisis in future. The initiative of forming the East Asia Vision Group (EAVG) by the South Korean President Kim Dae Jung had been supported by the entire meeting.

At the 3rd ASEAN+3 Summit held on 28 November 1999 in Manila, the leaders of the ASEAN countries and of China, Japan and South Korea have made a joint statement on East Asia Cooperation, and have also agreed to organize the ministerial meeting within the ASEAN+3 framework. In the joint statement on East Asian Cooperation, all sides have reached a consensus to speed up the process of dialogue, cooperation, mutual assistance and efforts to strengthen the cooperation for the priority areas such as economic cooperation, monetary and financial cooperation, social and human resource development, scientific and technical development, culture and information area, development cooperation, and other political fields (political-security area, transnational issues). The leaders have agreed with the initiative of forming the ASEAN+3 Young Leaders Forum.

The 4th ASEAN+3 Summit held in Singapore on November 24, 2000, in which the leaders of ASEAN countries, China, Japan and South Korea have insisted on the importance of the closer cooperation within the East Asian countries. Also in this meeting, the leaders have supported the proposal by the President of South Korea: Kim Dae Jung for East Asia Study Group. They also supported the proposal by Chinese Premier Zhu Rongji to set up an expert group to study how economic cooperation and free trade relations between ASEAN and China can be deepened.

On November 5, 2001, the 5th ASEAN+3 Summit took place in Brunei. The report by the EAVG had been carefully studied by the leaders of these countries. EAVG had proposed key recommendations and concrete measures to broaden the East Asian Cooperation. The most remarkable proposal was the suggestion of forming East Asian Free Trade Area. Once again, the President Kim insisted on proposal of forming East Asian Forum and a possibility of an East Asian Summit. Most noticeably, ASEAN leaders agreed with the project on Framework on Economic Cooperation and establish an ASEAN-China Free Trade Area within 10 years with special and differential treatment and flexibility to the newer ASEAN members proposed by the ASEAN-China's expert group.

The 6th ASEAN+3 Summit was held in Phnom Penh, Cambodia on November 4, 2002. In its press statement, the meeting asserted that the ASEAN+3 processes were mature, and its agenda had been extended to issues on regional politics and security as fighting against terrorism and trans-national crime. The leaders who attended the meeting were ready to pursue the evolution of the ASEAN+3 Summit into East Asian Summit, and finally to the East Asian Free Trade Area as proposed by South Korea written in the Final Report of the East Asia Study Group. Also in this summit, the leaders of the ASEAN countries and China had signed a Framework Agreement on ASEAN-China Economic

Cooperation which will serve as the fulcrum for establishing the free-trade area by 2010 for the older ASEAN members and 2015 for the newer members with flexibility on sensitive commodities.

The main content of the 7th ASEAN+3 Summit which held in Bali, Indonesia on October 7, 2003, was discussions on the bright progress of the East Asian Development Initiatives within the framework of ASEAN+3 cooperation. The new ideas on establishing the East Asia Free Trade Area had been carefully examined by the leaders.

The 8th ASEAN+3 Summit had been held in Vientiane, Laos on 29 November 2004. The most remarkable issue in the summit was that the leaders of China, Japan and South Korea had shown their supports to the decision made by the leaders of ASEAN countries on convention of the first ever East Asia Summit in 2005 in Malaysia. The meeting also found the unanimity about forming the East Asian Community as a long term objective and affirmed the role of the ASEAN+3 progress as a main vehicle for establishing East Asia Community. The leaders also discussed the ideas which would be mentioned in the 2nd joint statement on the East Asia Cooperation.

In the statement by Mr. Chairman of the 9th ASEAN+3 Summit in Kuala Lumpur, Malaysia on December 12, 2005, the leaders were pleased with the progress made on the ASEAN+3 Cooperation in the past 8 years, and again asserted their same determination in implementation of the East Asia Community. All the members unanimously agreed that the East Asian Summit (EAS) would be convened annually, and believed EAS would play an important role in the region. These were the efforts from the ASEAN+3 for the success of the 1st EAS which had been held in Kuala Lumpur on December 14, 200.

The 10th ASEAN+3 Summit was held in Cebu, Philippines on January 14, 2007. The meeting concluded that for 10 years the ASEAN+3 Cooperation had many new progresses. Many new issues have been taken into the cooperation programs within ASEAN+3 as: women, poverty alleviation, disaster management and minerals. The socio-cultural cooperation within ASEAN+3 was getting more profound.

With the help of the efforts by the leaders in the ASEAN+3 Summits, ASEAN+3 Cooperation has been implemented in 20 different cooperation areas. Presently, 15 out of these 20 areas had been organized at the level of ASEAN+3 Ministerial Meeting (AMM+3)¹, and remaining 5 areas had been organized at the Senior Official Meeting

¹ The cooperation areas were as follows:

- Political/ Security Policy Coordination: ASEAN+3 Foreign Ministers' Meeting; Established in 2000
- Economic/Trade/Investment: ASEAN+3 Economic Ministers Consultation (AEM+3), 2000.
- Macroeconomics/Currency/ Finance: ASEAN+3 Finance Ministers' Meeting (AFMM+3), 1999.
- Agriculture/Fishery/Forestry: ASEAN+3 Ministers on Agriculture and Forestry (AMAF+3), 2000.
- Energy: ASEAN+3 Ministers on Energy Meeting (AMEM+3), 2004.
- Environment: ASEAN+3 Environment Ministers Meeting (EMM), 2002.
- Tourism: ASEAN+3 Tourism Ministers Meeting (TMM), 2002.
- Transnational Crime: ASEAN+3 Ministers' Meeting on Transnational Crime (AMMTC+3), 2004.
- Health: ASEAN+3 Health Ministers Meeting (ASEAN+3 HMM), 2004.
- Labor: ASEAN+3 Labor Ministers Meeting (ALMM+3), 2001.
- Culture/Arts: ASEAN+3 Meeting of Ministers of Culture and Arts (AMCA+3), 2003.
- Science and Technology: Informal ASEAN+3 Science and Technology Ministerial Meeting, 2006.
- ICT: ASEAN+3 Telecommunications and IT Ministers Meeting (TEMIN+3), 2004.

(SOM+3)² within the ASEAN+3 framework. The outcomes of these meetings had to be reported to the ASEAN+3 Summit.

To fully acknowledge the ASEAN+3 progresses, there could be a need to further examine the operation of the East Asia Vision Group (EAVG) and the East Asia Study Group (EASG), the Track-II in the operation of ASEAN+3. EAVG has been established in 1999 following the first proposal by the South Korean President Kim Dae Jung at the 2nd ASEAN+3 Summit in Hanoi in 1998. The participants at the EASG included researchers, high governmental officials and businessmen from ASEAN countries, China, Japan and South Korea.

After 2 years in existence, EAVG had held 5 meetings in order to study, discuss and find a path for future East Asia cooperation. At its 5th meeting in Seoul in May 2001, EAVG completed the final report namely: “Towards an east Asian Community: Region of Peace, Prosperity and Progress”, and later it was submitted to the 5th ASEAN+3 Summit in Brunei in the same year. The reports suggested 20 key recommendations in the fields of economic, financial, political/security, environmental/energy, social/cultural/educational and institutional cooperation for the realization of the East Asian Community. Together with these key recommendations, there were 57 concrete measures for implementation. The main aim of the EAVG reports was to provide a long-term vision, a roadmap for the process of building East Asian Community as a Region of Peace, Prosperity and Progress. Economic cooperation was considered as a decisive mean in this progress. At the summit in Brunei in 2001, leaders of ASEAN countries, China, Japan, and the Republic of Korea highly appreciated the report by the EAVG. The 6 key recommendations made by EAVG were as follows:

Economic Cooperation: EAVG suggested 15 concrete measures to improve the cooperation among East Asian countries. Out of these 15 measures, the focuses were laid on the 4 following issues: i, Establishment of the East Asia Free Trade Area (EAFTA); ii, Establishment of the East Asia Investment Area (EAIA); iii, Promotion of developmental and technological cooperation among regional countries, particularly to provide assistance to less developed countries; and iv, Realization of a knowledge-based economy and establishment of a future-oriented economic structure.

Financial Cooperation: EAVG proposed the main measures as: i, Establishment of a self-help regional facility for financial cooperation; ii, Pursue and more closely coordinated regional exchange rate mechanism consistent with financial stability and economic development; and iii, Strengthen regional monitoring and surveillance process.

Political and Security Cooperation: 13 recommendations by EAVG for implementation focused on following matters: i) Promotion of norms, procedures and mechanism for good management of intra-regional relations on the basis of neighborliness mutual trust and solidarity; ii) Establishing and strengthening of mechanisms for addressing threats to peace in the region; iii) Broadening of political cooperation with

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- Information: SEAN Ministers Responsible for Information (AMRT). It is being organized at the Ministerial Levels between ASEAN countries and China, Japan and South Korea in 2001.
 - Social Welfare: ASEAN+3 Ministerial Meeting of Social Welfare and Development, 2003.

² They were: Youth, Women, Rural Development and Poverty Reduction, Natural Disasters and Minerals.

respect to national governance issue; iv) Amplification of the East Asian voice in international affairs and expansion of the region's contribution to the process of creating and evolving a new global order.

Environmental and Energy Cooperation: i) Establish Office for East Asia Environmental Cooperation (air pollution, inter-borders pollution, soil erosion and deforestation, and sustainable environmental management); ii) Promote education on environment in schools and public places; iii, Management of water and fish resources; and iv, Reinforce development of new energy resources.

Social, Cultural, and Educational Cooperation: i) Establish poverty alleviation programs; ii) Expand and improve healthcare services for people; iii) Implement program for human resource development; iv) Impulse researches on East Asia and stronger awareness about East Asian identities; and v) Establish East Asia Education fund.

Institutional Cooperation: Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit; Establish an East Asia forum.

Following the proposals by the President of South Korea, the leaders of ASEAN member countries, China, Japan and South Korea agreed to establish East Asia Study Group (EASG) as a replacement for the EAVG. EASG was established in 17 March 2001 in Ho Chi Minh City, Vietnam. The EASG consisted of the Secretary- General of ASEAN, ASEAN SOM leaders and SOM leaders from China, Japan and South Korea. Assignments of the EASG were to assess the recommendations of the EAVG in order to suggest feasible measures. In addition, EASG was also responsible to study the ideas stated by the East Asia Summits and submit the final report to the ASEAN+3 Summit held in Phnom Penh, Cambodia in 2002.

From March 2001 to November 2002, ASG has organized 6 meetings. After carefully discussing the report by the EAVG, EASG asserted that the report has rather clearly outlined the future of East Asia cooperation, and has proposed measures for expanding areas of regional cooperation. The selection of East Asia Cooperation has not only confined to the economic and financial areas but also to carry out a comprehensive cooperation in politics, security, environment, energy, culture and education, etc in both medium and short terms. However, the EASG has analyzed concretely and decided to rule out 31 recommendations made by the EAVG in order to avoid overlapping with other regional cooperation forums those were being implemented during the processes of ASEAN+3 and ASEAN+1. Finally, EASG has selected to recommend 26 concrete measures to the ASEAN+3 Summits.

“Short-term Measures (17 concrete measures):

- *Form an East Asia Business Council;*
- *Establish GSP status and preferential treatment for the least developed countries;*
- *Foster an attractive investment environment for increased foreign direct investment;*
- *Establish an East Asian Investment Information Network;*
- *Develop resources and infrastructure jointly for growth areas and expand financial resources for development with the active participation of the private sector;*

- *Provide assistance and cooperation in four priority areas: infrastructure, information technology, human resources development, and ASEAN regional economic integration;*
- *Cooperate through technology transfers and joint technology development;*
- *Develop information technology jointly to build telecommunications infrastructure and to provide greater access to the Internet;*
- *Build a network of East Asian think-tanks;*
- *Establish an East Asia Forum;*
- *Implement a comprehensive human resources development program for East Asia;*
- *Establish poverty alleviation programs;*
- *Take concerted steps to provide access to primary healthcare for the people;*
- *Strengthen mechanism for cooperation on non-traditional security issues;*
- *Work together with cultural and educational institutions to promote a strong sense of identify and an East Asian consciousness;*
- *Promote networking and exchanges of experts in the conservation of the arts, artifacts, and cultural heritage of East Asian countries; and*
- *Promote East Asian studies in the region.*

Medium and Long-term Measures (9 concrete measures):

- *Form an East Asian Free Trade Area;*
- *Promote investment by small and medium enterprises;*
- *Establish an East Asia Investment Area by expanding the ASEAN Investment Area;*
- *Establish a regional financing facility;*
- *Pursue a more closely coordinated regional exchange rate mechanism;*
- *Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit;*
- *Promote closer regional marine environmental cooperation for the entire region;*
- *Build a framework for energy policies and strategies, and action plans; and*
- *Work closely with NGOs in policy consultation and coordination to encourage civic participation and state-civil society partnerships in tackling social problems”³*

Other issues that were very sensitive and attracted attention were the roles of ASEAN and ASEAN+3 in the process of East Asian Cooperation. Is whether ASEAN overshadowed? Is whether ASEAN broken up? Because of these issues, the EASG has discussed and provide backgrounds for a stronger evolution of an East Asia relation, which based on following principles:

- “ - *ASEAN should remain the driving force of East Asian cooperation;*
- *An EAS is a desirable long-term objective but it must be part of an evolutionary process that builds on the substantive comfort levels of the existing ASEAN+3 framework;*
- *How to avoid marginalization of ASEAN;*
- *Need for the ASEAN+3 framework to remain the vehicle in the East Asia process of integration; and*

³, Final Report of the East Asia Study Group, 4 November 2002, Phnom penh, Cambodia. pp.4
<http://www.mofa.go.jp/region/asia-paci/asean/pmv0211/report.pdf>

- *Participation issue in the ASEAN+3 context*⁴.

The last important issue was how to carry out the measures and recommendations selected by the EASG. Therefore, it needs to have the strongly political commitments from each country and it is implemented within the ASEAN+3 framework.

Characteristics of ASEAN+3:

For 10 years of establishment and operation, the structure of ASEAN+3 organization was still very simple. As we have known, ASEAN was formed in the context of an urgent need for cooperation amongst countries in order to look for measures for escaping from then East Asia currency and economic crisis. Therefore, China, Japan and South Korea have been invited to attend the ASEAN Summit in 1997. Since then, many other fields have been established within the ASEAN+3 framework. The ASEAN+3 Summit have had supreme power, and it took place at the same time with the ASEAN Summit. The agreements approved at the ASEAN+3 Summit have been declared as joint statements by the Chairman of the Summit. The Chairman of the ASEAN Summit was also assigned as the Chairman of the ASEAN+3 Summit. The official and un-official meetings at the ministerial and deputy-ministerial levels of ASEAN+3 have been organized since 2000. The official ASEAN+3 ministerial meetings have also been held at the same time with ASEAN ministerial meetings. The outcomes of the ministerial meetings had to be reported to the ASEAN+3 Summit. In addition, to assist other official meetings at different levels, ASEAN+3 organized Senior Official Meetings (SOME+3). However, till now SOM+3 has not elected its board of secretary.

Like ASEAN or Asia-Pacific Economic Cooperation (APEC), ASEAN+3 framework operates under the consensus principle. A loose structure of operation based on the conference diplomacy basis. The meetings have been fixed to be held at the regular time frames. The cooperation within ASEAN+3 based on the principles those approved at the meetings and had been concretized into Declarations after each meeting. This organization structure differs from that of other international organizations which were mainly built upon the legal agreements or treaties such as, for example, European Union (EU). With such a form of operation, the ASEAN+3 framework has been rated as an institution instead of an organization. Whether it is a Asian identity likes the integration within South East Asian countries (ASEAN), which has been in existence for 40 years but still as an “Association”.

3. Achievements within ASEAN+3 Framework

With initial aim as to cope with the currency and economic crisis, for 10 years the leaders of ASEAN+3 have agreed to expand the cooperation to politics, social-culture, environment and security, etc with economic cooperation as a core. To date, in its agenda the comprehensive cooperation has been deployed within ASEAN+3 including Political/Security and Policy coordination, Economic/Trade/ Investment, Macroeconomics/Currency/ Finance, Agriculture/Fishery/Forestry, Energy, Environment, Tourism, Transnational Crime, Health, Labor, Culture and Arts, Science and Technology,

⁴, Final Report of the East Asia Study Group, 4 November 2002, Phnom penh, Cabodia. pp.59,60.
<http://www.mofa.go.jp/region/asia-paci/asean/pmv0211/report.pdf>

ICT, Information, Social Welfare, Youth, Women, Rural Development and Poverty Eradication, Natural Disaster, Minerals.

3.1 Economic Cooperation

In the framework of ASEAN+3 cooperation, the implementation of economic cooperation projects and formation of Free Trade Agreements (FTAs) have been the key cooperation areas. To August 2006, the ASEAN+3 Economic Ministers Consultations (AEM+3) were held nine times. Economic cooperation among ASEAN+3 countries were closely followed by the AEM+3 to make it conformable to “Statement of Cooperation in East Asia” issued at the third ASEAN+3 Summit in November 1999. The leaders have approved cooperation fields as a priority including strengthening efforts in accelerating trade, investment and technology transfer; encouraging technical cooperation in information technology and e-commerce; and, strengthening small and medium sized enterprises (SMEs) and supporting industries. The Ministers agreed that the implementation of those projects should be relied on: the projects would be regional in nature and would bring benefits for all the countries; the projects would be implemented with the participation of the possible countries in the region; the projects should be implemented on the basis of cost sharing among the member countries. However, it is flexible in sharing the cost for the new members of ASEAN such as Vietnam, Laos, Cambodia and Myanmar.

Currently, some cooperation projects have been unanimously implemented by the AEM+3 as: two projects proposed by the Republic of Korea such as: ICT cooperation towards Co-prosperity in East Asia (2007-2011) and ASEAN Plus Three Website for Customs Information Exchange; two projects proposed by Japan: ASEAN+3 Logistics Cooperation for Future Trade Facilitation and ASEAN+3 Cooperation for Internationally Comparable Statistics. China also proposed one project: Agricultural Technology and Management Training Program for ASEAN Countries. The economic cooperation between ASEAN countries and the three North Eastern countries was carried out at two levels: ASEAN+3 and ASEAN+1. The most interested cooperation was the establishment of Free Trade Agreements. China became the pioneering country in signing the FTA with ASEAN. At the ASEAN-China Summit in 2000, China proposed to set up a working group to explore the possibilities of forming FTA between ASEAN and China. At the ASEAN-China Summit at November 4th, 2002 in Phnom Penh, Cambodia, the ASEAN members and China had signed to set up the ASEAN-China Free Trade Area (ASEAN-China FTA) during the period of 10 years with special and flexible treatment given to the new members of ASEAN such as Cambodia, Laos, Myanmar and Vietnam. Also at the same day, in order to foster the ASEAN-China FTA, the leaders of the both sides together signed a Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian nations and the People’s Republic of China. The Agreement pointed out the need “*to minimize barriers and deepen economic linkages between the Parties; lower costs; increase intra-regional trade and investment; increase economic efficiency; create a larger market with greater opportunities and larger economies of scale for the businesses of the Parties; and enhance the attractiveness of the*

*Parties to capital and talent;*⁵ The objectives of this Agreement are to: (a) strengthen and enhance economic, trade and investment co-operation between the Parties; (b) progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; (c) explore new areas and develop appropriate measures for closer economic co-operation between the Parties; and (d) facilitate the more effective economic integration of the newer ASEAN Member States and bridge the development gap among the Parties. The agreement also specified measures for comprehensive economic co-operation. The Parties agree to negotiate expeditiously in order to establish an ASEAN-China FTA within 10 years, and to strengthen and enhance economic co-operation through the following: trade in goods, trade in services, investment, and other areas of economic co-operation (agriculture, information and communications technology, human resources development, and Mekong River basin development). Within the framework of this agreement The Trade in Goods Agreement was signed by the Economic Ministers from ASEAN Member Countries and China in November 2004. Most recently, on 14 January 2007 at Cebu, Philippines ASEAN and China were signed Agreement on Trade services of the framework agreement on comprehensive economic co-operation between Association of the Southeast Asian nations and the People's Republic of China. This Agreement shall enter into force on 1 July 2007.

In the bilateral FTA negotiations between China and the member countries of ASEAN, Thailand and China decided to completely cut tariffs for 188 agricultural products by October 2003. Many bilateral agreements on tariff reduction for some types of products between the two countries have been implemented before the deals between China and other members of ASEAN.

The ASEAN-China FTA became a largest FTA in the world with the estimate of 1.7 billion population, and it would bring huge benefits to the both sides. The ASEAN-China has promoted the bilateral trade between China and ASEAN members, lowering the cost, higher economic effectiveness, creating a good investment environment for both China and the ASEAN countries, and more importantly enhancing the goal towards EAFTA.

Following China, Japan also considered to set up FTA with ASEAN. In January 2002, Prime Minister Junichiro Koizumi visited Singapore and signed the Japan-Singapore Economic Partnership Agreement. He went on to stress the need for strengthening a sincere and open partnership between Japan and ASEAN and proposed an Initiative for ASEAN-Japan Comprehensive Economic Partnership (AJCEP). In September 2002, ASEAN Economic Ministers and Japan's Minister of Economy, Trade, and Industry met in Brunei. The both sides were together unanimous with the implementation of measures for the realization of the partnership, including elements of a possible Free Trade Area(FTA), should be completed as soon as possible within ten years while according due consideration to the economic levels and sensitive sectors of each country. This objective has been unanimously approved in the Joint Statement at the ASEAN-Japan Summit held in Phnom Penh, Cambodia on November 2002. The joint statement also mentioned about the necessary to set up a Committee to consider and draft a framework for the realization of

⁵ Framework agreement on comprehensive economic co-operation between the Association of South East Asian nations and the People's Republic of China, at November 5, 2002 in Phnom Penh. <http://www.aseansec.org/13196.htm>

the Comprehensive Economic Partnership (CEP) between ASEAN and Japan. In the ASEAN-Japan Summit on 8 October 2003 in Bali, Indonesia the leaders of ASEAN countries and Japan have signed the Framework for the FTA between ASEAN and Japan. This framework guaranteed the determination of implementation of FTA between ASEAN and Japan, and the bilateral Free Trade Agreements (FTAs) between Japan and each member of ASEAN through so-called Bilateral Economic Partnerships Agreements (EPAs) as follows: “1) ASEAN and Japan will start the consultations on the ASEAN-Japan CEP on the liberalization of trade in goods, trade in services, and investment, from the beginning of 2004 by discussing the basic principles of ASEAN-Japan cumulative rules of origin and customs classification and collecting and analyzing trade and custom data; (2) ASEAN and Japan will initiate a negotiation on the CEP Agreement between ASEAN and Japan as a whole, taking into account the achievements of bilateral negotiations between each ASEAN Member State and Japan, and the further progress of the ASEAN integration process. Such Agreement should be consistent with the WTO Agreement; (3) during the negotiation, those ASEAN Member States that have not concluded bilateral Economic Partnership Agreement (“EPA”) with Japan will negotiate concessions bilaterally. Schedules of liberalization concessions between Japan and those ASEAN Member States that have concluded a bilateral EPA should not be renegotiated in the negotiation of the ASEAN-Japan CEP Agreement. All schedules of liberalization concessions will be annexed to the ASEAN-Japan CEP Agreement”⁶. At the end of 2003, ASEAN and three countries as Thailand, The Philippines and Malaysia declared to start FTAs negotiation. To speed up the ASEAN-Japan cooperation, at the statement made by the 10th ASEAN-Japan Summit held in Philippines on 14 January 2007, the leaders agreed to set up the ASEAN-Japan Eminent Person’s Group to elaborate the concept of the Joint Statement entitle “Deepening and Broadening of the Strategic Partnership” adopted by the leaders of 9th ASEAN-Japan Summit in Kuala Lumpur and to explore ways to translate the concept into action. The leaders of the ASEAN countries also agreed to support Japan’s proposals to set up Economic Research Institute for ASEAN and East Asia (ERIA). Many projects and the economic assistance from Japan for ASEAN were carried out through AJCEP such as the support for Mekong River Region’s Development; Japan’s fresh grant of US\$ 52 million to help bridge the development gap in ASEAN; Establish the Japan-ASEAN Integration Fund (JAIF) in March 2006. Through these efforts we could view the ASEAN-Japan cooperation has been strongly fostered by both the ASEAN and Japan.

For the Republic of Korea, despite at the first ever ASEAN-ROK Summit in 1997, the both sides have issued The Joint Statement on ASEAN-ROK Cooperation Towards the 21st century but the Republic of Korea was the low-spaced country in signing a comprehensive cooperation relation with ASEAN. Towards the establishment of ASEAN-ROK FTA, at the ASEAN-ROK Summit in Vientiane, Laos on 30 November 2004, the leaders issued The Joint Declaration on Comprehensive Cooperation Partnership between the Association of Southeast Asian Nations and the Republic of Korea. A joint Plan of Action for the Comprehensive Cooperation Partnership was: strengthen political and security cooperation; Promote close economic relation, narrow the developmental gap among ASEAN countries and between ASEAN and ROK; strengthen socio-cultural and

⁶ ASEAN-Japan Summit (at October 8, 2003 in Bali, Indonesia): Framework for comprehensive economic partnership between the Association of Southeast Asian Nations and Japan. <http://www.aseansec.org/15274.htm>

information technology cooperation; and deepen East Asia cooperation. On the basis of the joint statement, on 13 December 2005 in Malaysia the governments of ASEAN countries and ROK have signed Framework Agreement on Comprehensive Economic Cooperation. The objectives of this Framework Agreement are to: “(a) *strengthen and enhance economic, trade and investment cooperation among the Parties; (b) progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; (c) explore new areas and develop appropriate measures for closer economic cooperation and integration; (d) facilitate the more effective economic integration of the new ASEAN Member Countries and bridge the development gap among the Parties; and (e) establish a cooperative framework for further strengthening the economic relations among the Parties*”⁷. The goal of ROK was to carry out FTA with 6 old members of ASEAN by 2009 and consider the possibilities of implementing FTA with the new members such as Cambodia, Laos, Myanmar and Vietnam (CLMV). It is expected that there would be 5 years for these 4 countries to implement FTA.

3.2 Financial Cooperation

Most remarkable outcome within the framework of ASEAN+3 should be reckoned was the financial and monetary cooperation. After the Asian financial and currency crisis, East Asian countries were aware of necessary to speed up the financial cooperation in the region. At the ASEAN+3 Summit in November 1999, the leaders of ASEAN+3 agreed to strengthen “self help and support mechanism in East Asia” through the ASEAN+3 framework. Once per year, ASEAN+3 Finance Minister’s Meeting (AFMM+3) was held at the same time with the AFMM. The issues discussed at the meeting focused on the contents such as information sharing, policy dialogue, financial and currency policies of each country in the region, monitoring monetary activities, management of economic risks, promotion of financial and monetary cooperation based on the region’s common principles within ASEAN+3 framework, and establish ASEAN+3 Early Warning System. The efforts of ASEAN+3 were shown in the Chiang Mai Initiative (CMI) and the Asian Bond Markets Initiative (ABMI).

Chiang Mai Initiative (CMI)

At the ASEAN+3 Finance Ministers’ Meeting in May 2000 in Chiang Mai, Thailand, the finance ministers issued the Chiang Mai Initiative(CMI) with the objective as to set up networks of bilateral currency swap arrangements (BSA) among ASEAN+3 countries to address short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.

Since its establishment, CMI has achieved the following results:

(i) Collective decision-making procedure for the swap activation was adopted. All Swap Providing Countries can simultaneously and promptly provide liquidity support to any parties involved in bilateral swap arrangements (BSA) at times of emergency.

⁷ Framework Agreement on Comprehensive Economic Cooperation Among the Governments of the Member Countries of the Association of Southeast Asian Nations and the Republic of Korea Kuala Lumpur, 13 December 2005. <http://www.aseansec.org/18063.htm>.

(ii) To explore the ways for further strengthening surveillance capacity in East Asia, The Group of Experts (GOE) and the Technical Working Group on Economic and Financial Monitoring (ETWG) would be launched. The GOE, composed of several regional professional experts, would serve as an independent economic assessment vehicle for this region. The ETWG would play an important role in developing and spreading the Early Warning System to facilitate early detection of irregularities;

(iii) To May of 2006, there were 16 Bilateral Swap Arrangements (BSA) have been signed between East Asian countries. The total swap size has now reached US\$75.0 billion. Nine BSAs have been revised since last year to enhance the effectiveness of CMI reflecting the Istanbul Agreement. BSAs were concluded among: China, Indonesia, Japan, Malaysia, The Philippines, The Republic of Korea, Thailand, and Singapore. Recently, on 5 May 2007 the 10th ASEAN+10 Finance Minister's meeting was held in Kyoto, Japan. The ministers of these 13 countries agreed to strengthen more profound cooperation in trade and finance. In particular, the ministers were pleased to see that the Bilateral Swap Arrangement (BSA) network has increased to 80 billion U.S. dollars, consisting of 16 BSAs among 8 countries, and noted the substantial progress made in the activities of the new Taskforce on CMI Multilateralization, according to the statement.

The BSAs of the CMI allow each country to borrow money from the member countries of CMI from 1 to 3 billion US dollars whenever they face difficulties. This could help each country to be active to cope with bad currency turmoil.

Despite some limitations, but as the beginning of the financial-monetary cooperation in East Asia, CMI paved the ways for fostering trade and investment development among countries in the region. Other purpose of the CMI was to help these countries self-protecting in the field of financial security, which is anonymous with more stability and sustainability in economic growth of the East Asian countries. CMI also looks towards a close and potential cooperation for a long-term capital market in the region, and it was a background for forming Asian Monetary Fund. Even, this can be considered as a premise for a common Asian currency market like EU in future.

Asian Bond Markets Initiative (ANMI)

Another initiative in the financial cooperation within ASEAN+3 framework was to set up an Asian Bond Market (ABM). ABMI was approved at the meeting of ASEAN+3 Finance and Central Bank Officials in Chiang Mai in December 2002. One of the main causes of the 1997-98 Asian financial-currency crisis was the "maturity" and "currency" mismatches due to less-developed capital market while the Asian countries depended heavily on the short-term foreign capital flows. These created dangers and instability when short-term capital movements. Thus, to develop a main bond market is an effective way to tackle these problems. Furthermore, another purpose of the ABMI is to effectively exploit the movements of the Asian bond market and to allow using the saving moneys in Asia to best invest for the region's development. Therefore, At the ASEAN+3 Finance Ministers' Meeting in August 2003 (Manila, the Philippines), finance ministers agreed to promote the Asian Bond Markets Initiative: *"We agreed to intensify our efforts to develop regional bond markets. This will further strengthen our financial systems by better utilizing the aggregate savings in the region and minimizing the risk of maturity and currency mismatches. Voluntary working groups have been established to further discuss a range of key issues crucial to further development of the domestic and regional bond markets, such*

*as securitization, credit guarantee, promotion of local currency denominated bonds, credit rating, and foreign exchange transactions and settlement issues.”*⁸

With many efforts by many countries and international organizations, some bonds had been issued such as:

- Issuance of Korean Collateralized Bond Obligations (CBO) (“Pan-Asia Bond”) with guarantee by the Japan Bank for International Cooperation (JBIC) and the Industrial Bank of Korea (IBK).
- Issuance of baht-denominated bonds by Japanese subsidiaries in Thailand, Malaysia and Indonesia with a partial credit guarantee from the JBIC and Nippon Export and Investment Insurance (NEXI).
- Issuance of local currency-denominated bonds by the Japan Bank for International Cooperation (JBIC), World Bank, Asian Development Bank (ADB) and the International Finance Corporation (IFC) in Malaysia, Thailand, China, and the Philippines.

From such achievements, ABMI continued to expand and develop. At Joint Ministerial Statement of the 10th ASEAN+3 Finance Ministers’ Meeting (5 May 2007, Kyoto, Japan), the Finance Ministers asserted: *“We welcomed the diversification of issuers and types of local currency denominated bonds, and endorsed undertaking of the following new studies: Exploring New Debt Instruments for Infrastructure Financing, Promotion of Securitization of Loan Credits and Receivables, and Promotion of Asian Medium Term Note (MTN) Program. We also recognized noticeable progress of studies on regional credit guarantee and investment mechanism, settlement system, credit rating harmonization as well as technical assistance coordination.”*⁹

It is possible to say that ABMI has contributed to diversify the sources of assistances, to make the most of savings to help the countries in the region to minimize their dependence on banks as well as the short-term foreign capitals. In addition, ABMI also promoted the close linkage between financial reform and liberalization process of all economies in the region.

Obviously, ASEAN+3 has progressed far beyond its initial aim as to cope with the financial crisis. This proved that the regionalism tendency in East Asia was realized by the countries in the region. These countries were also aware of the mutual dependence among them. They understood that regional cooperation for development would guarantee fast and stable economic growth for each country. However, the degree of cooperation and how the cooperation is depend on each country and they will greatly affect the process of ASEAN+3 cooperation. Lying within the framework of ASEAN+3 cooperation, levels of the cooperation between ASEAN with each country: China or Japan or Republic of Korea were different. Despite taking economic cooperation as the key area of cooperation, and with the common objective was towards the establishment of the East Asian Free Trade Area, and further to an East Asia Community, there are many challenges that ASEAN+3 would face in the process of development. To more clearly identify the advantages and

⁸ Joint Ministerial Statement of the Sixth ASEAN+3 finance Ministers’ Meeting (August 7, 2003, Makati, Philippines). <http://www.aseansec.org/15032.htm>.

⁹ Joint Ministerial Statement of the 10th ASEAN+3 Finance Ministers’ Meeting (May 5, 2007, Kyoto, Japan). <http://www.aseansec.org/>

challenges in the process of ASEAN+3 cooperation, it is a need to know the roles and purposes of each interested party.

II. The Roles of each Party in ASEAN+3 Cooperation

To date, ASEAN+3 cooperation has not achieved much results. In contrast, the ASEAN+1 cooperation within the framework of ASEAN+3 has been being speeded up by the parties. All the three countries: China, Japan and South Korea want to set up bilateral free trade areas (FTA) with ASEAN and considered this as basis for fostering the ASEAN+3 Cooperation. Each party's roles and objectives from the participation into ASEAN+3 could be different, and many reasons that could make the ASEAN+3 Cooperation difficult, but all the participating parties agreed that the ASEAN+3 Cooperation would provide opportunities for building East Asia Community. The process of ASEAN+3 cooperation would be more intensively speeded up with strives by the members.

1. ASEAN and ASEAN+3 Cooperation

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967 in Bangkok by original 5 member countries including Indonesia, Malaysia, The Philippines, Singapore and Thailand. One after the other, the 5 remaining South East Asian countries has integrated into the organization: Brunei Darussalam on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. At present, the ASEAN region has a population of about 500 million, a total area of 4.5 million square kilometers, a combined gross domestic product of almost US\$ 700 billion, and a total trade of about US\$ 850 billion. After 40 years of operation, ASEAN has affirmed its important position in the region and the world. In his speech in Indonesia on 16 February 2000 the Secretary-General of the United Nations, Kofi Amman said: *"To day, ASEAN is not only a well-functioning, indispensable reality in the region. It is a real force to be reckoned with far beyond the region. It is also a trusted partner of the United Nations in the field of development..."*¹⁰

At the First ASEAN Summit in Bali in February 1976, the member countries signed the Treaty of Amity and cooperation (TAC) in Southeast Asia. To date, TAC still keeps its value as an official instrument in the principle of conduct in solving regional peace and stability. At present, all the 10 ASEAN countries have adopted the following fundamental principles in their relations with one another, as contained in the Treaty of Amity and Cooperation in Southeast Asia: mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations; the right of every State to lead its national existence free from external interference, subversion or coercion; non-interference in the internal affairs of one another; settlement of differences or disputes by peaceful manner; renunciation of the threat or use of force; and effective cooperation among themselves.

End of the cold war has changed the regional and international relations. The new environment has eased the tensions in the region through the multilateral negotiation. Mutual trust gradually replaces confrontation and prevention of conflicts. To build a long term stable and peaceful environment in the region, the ASEAN Regional Forum (ARF) has been established in 1994. ARF adopted two main objectives: first, to foster

¹⁰ Overview Association of Southeast Asian Nations. <http://www.aseansec.org/64.htm>

constructive dialogue and consultation on political and security issues of common interest and concern, and second, to contribute to efforts towards confidence building and preventive diplomacy in Asia-Pacific region. The formation of ARF has opened a new chapter in solving regional instabilities left on the negotiation tables by the history. This means the political and security issues in Southeast Asia have been better ensured. The political and security stabilities were a good condition for economic development for each country and for the whole region as well.

The real interests of the ASEAN in the first days of its establishment were politics and regional security. The ASEAN objectives, however, have changed since 1992 as it paid more attention to socio-economic issues. At the 1992 Singapore Summit, the ASEAN leaders declared that “*ASEAN shall move toward a higher plane of political and economic cooperation to secure regional peace and prosperity*”¹¹. In its objectives, ASEAN clearly declared the aims and purposes of the Association are: (1) to accelerate economic growth, social progress and cultural development in the region and (2) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter. To affirm a determination of building an ASEAN of peace and prosperity, in Kuala Lumpur on 15 December 1997 the ASEAN leaders issued “ASEAN Vision 2020”. The objectives of the “ASEAN Vision 2020” were to form a stable, prosperous and highly competitive economic zone for ASEAN, in which goods, services and investments were freely flowed, capital was also more freely mobile, economy was equally developed, and poverty and economic development gap between countries would be mitigated. To make “ASEAN Vision 2020” realistic, in 2003 the ASEAN Leaders resolved that an ASEAN Community shall be established comprising three pillars, namely, ASEAN Security Community (ASC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC).

Locating in an importantly geographic, geo-strategic and geo-economic position, and as a conditioning factor to balance benefits of each party on the diplomatic table, ASEAN more and more shows its role in sustaining regional peace and stability, as well as issuing initiatives and integrating international groupings to promote political security, economic development and mutual understanding through dialogues between regions as: Asia- Europe dialogue, South-South dialogue, etc. The ASEAN became an important and indispensable reality in regional strategy of the big countries. The role of ASEAN has been presented in: the Asia Pacific Economic Cooperation (APEC) which was formed in 1989, ASEAN Regional Forum (ARF) which was established in 1994 and The Asia-Europe Meeting (ASEM) started in 1996. As an initiator, ASEAN was successful as a decisive role in the ASEAN+3 framework, especially in the context that there were still many suspicions and differences existing in the three North Eastern countries.

Always being as the chairman at the ASEAN+3 Summits and at the Ministerial Meetings, ASEAN proved itself as a promoting factor in the ASEAN+3 Framework. Right after 1997, as a chairman of the meeting, Malaysia issued the idea of creating ASEAN+1 channel within ASEAN+3 framework, and organized the ASEAN+1 Summits after ASEAN+3 Summits. ASEAN+1 Summit issued a joint declaration, which was different

¹¹ Singapore Declaration of 1992 Singapore, 28 January 1992. <http://www.aseansec.org/5120.htm>

from that of the ASEAN+3 Summit. To broaden the cooperation fields in ASEAN+3 framework, in 1999 The Philippines proposed to form “East Asia Security Forum” in order to increase the countries’ concerns towards political and security issues. The Philippines proposal, however, did not get sufficient supports from the other member countries because they argued that the ASEAN Regional Forum was able to solve the region’s security issues, and all the members agreed that ASEAN+3 framework needs to pay more attention to the political and security cooperation. The forming Free Trade Areas between member countries within ASEAN+3 has been proposed by Thailand in 2000. In its role as a chairman to the summits, ASEAN has well prepared to assure successfulness of the ASEAN+3 Summits in the past time. In particular, the forming of the ASEAN+1 channel proved that ASEAN was very flexible and dynamic in its foreign policies. In the context of existing the differences in three East Asian countries, besides the cooperation within the ASEAN+3 framework, based on each country’s condition, ASEAN was active to sign ASEAN+1 agreements and bilateral cooperation agreements between ASEAN member countries with China, Japan and South Korea within the ASEAN+3 framework. The operations of ASEAN demonstrated that ASEAN was a driving force for the ASEAN+3 process. In the context that China and Japan competed for their influences in the region, ASEAN became the one to regulate interests for parties to assure the development of the ASEAN+3 process. However, to improve competitiveness and to sustain the leading role in the process of ASEAN cooperation, ASEAN needs to improve its inner economic cooperation. The tendency of international economic globalization placed a huge challenge for ASEAN in improving competitiveness of the ASEAN market and attractiveness to foreign investors. Recently, ASEAN therefore tried to promote the implementation of ASEAN Free Trade Area (AFTA). Because AEC was the last goal of the economic integration in “ASEAN Vision 2020”, and the implementation of AFTA was the very path to make AEC successful. A stable ASEAN in politics and strong in economy would remain it as a leader in the process of ASEAN+3, and it still was a core role in building East Asia Community.

FTA policies of ASEAN: The first ever program to liberalize and promote trade within ASEAN was the Preferential Trade Arrangement (PTA), which was brought into operation in 1977. This program has brought about limited results in promoting trade among ASEAN countries because it regulated tariff reduction instead of tax abolishment within the region. Subsequently, there were efforts for economic and industrial cooperation such as Basis Agreement on ASEAN Industrial Project in 1981, which has been concretized into the Agreement on ASEAN Industrial Complementation in 1983. However, all these agreements did not achieve desired goals. These programs had very little effects to inner ASEAN trade. It did not have enough influences to inner ASEAN investment. Thus, the ASEAN Industrial Cooperation Scheme (AICO) was formed in 1996.

The ASEAN economic cooperation entered new period after 4th ASEAN Summits in Singapore in January 1992. At the Summit, ASEAN leaders decided to form ASEAN Free Trade Area (AFTA) and signed two important documents, such as: i) Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA); ii) Framework Agreement on Enhancing ASEAN Economic cooperation. This was really an importantly turning point in the process of the ASEAN economic cooperation. Objective of AFTA was to abolish trade barrier to all goods in ASEAN, included tariff and non-tariff barriers. AFTA was implemented through the Common

Effective Preferential Tariff (CEPT) scheme. Under the association's regulation, the ASEAN member countries carried out the timetable of tariff reduction for imported goods down to 0-5% within 15 years, beginning from 1 January 1999 and end in 1 January 2008. However, in the tendency of global free trade and calling for speeding up regional economic integration, in the 6th ASEAN Summit in December 1998 in Hanoi, Vietnam, ASEAN has decided to speed up the process of trade liberalization in the region by shortening the duration of AFTA completion to 10 years, i.e. by the year 2003 for old members, 2006 for Vietnam and 2008 for Laos and Myanmar. ASEAN has had firm steps in the process of economic integration, and AFTA has been being implemented as its initial roadmap. From 1st March 2002, 95% product lines in the list of tariff reduction for 6 old members reduced to 0-5 %.

Speeding up the implementation of AFTA was very important to ASEAN. In the process of ASEAN+3 Cooperation, the economic cooperation plays the key role, particularly when ASEAN+1 cooperation has been being promoted by bilateral FTA agreements. Once ASEAN completely became free trade area, it would create an economic power and an attractive common market. The implementation of AFTA became more urgent because there were many challenges from the emerging economies such as China and India especially China because they were very attractive to international investors. Thus, the ASEAN leaders all agreed that if a common market was not quickly established ASEAN would lose its advantage as an important area for investment. Presently ASEAN is promoting AFTA with many partners such as China, Japan, South Korea, the US, Mexico, Chile, New Zealand and Australia. Some members of ASEAN initiatively negotiated to sign bilateral FTA with East Asian countries and some other countries those are FTA partners of ASEAN. For example, Singapore has signed bilateral FTA with Mexico, Korea and India. Thailand promoted FTA with big economies as the US, Japan Australia, Peru, India and Korea. When AFTA is implemented, it would be very advantageous for ASEAN in AFTA negotiations with other partners. At present, after the 1997-98 regional economic crisis ASEAN economy has strongly recovered and is on its development path. *"Total exports of ASEAN increased by 20.69%, from US\$ 456.71 billion in 2003 to US\$ 551.19 billion in 2004 and ASEAN total imports likewise increased by 26.77% from US\$ 388.79 billion in 2003 to US\$ 492.86% billion in 2004. For FDI, after a number of years of consecutive decline in foreign direct investment (FDI), the flow rebounded in 2004. ASEAN FDI flow for 2004 reached US\$25.1billion, a 22% year-on-year increase"*¹². Such good results help ASEAN having more favorable in the regional and international economic integration.

In the strongly international economic integration, ASEAN leaders agreed that if a common market was not quickly formed, ASEAN would lose its advantage as an attractive environment for investment, lose its central role in the region's structure. Thus, at the 12th ASEAN Summit Meeting on 13 January 2007 in Cebu, the Philippines, the leaders decided to push up the time of ASEAN community formation from 2020 to 2015: *"We affirmed our strong commitment to accelerate the establishment of an ASEAN Community by 2015 as envisioned in the ASEAN Vision 2020 and the ASEAN Concord II and agreed to sign the*

¹² Extracted from: Chairman's Statement of the 11th ASEAN Summit: "One Vision, One Identity, One Community", Kuala Lumpur, Malaysia, 12 December 2005. <http://www.aseansec.org/18039.htm>

Cebu Declaration on the Establishment of the ASEAN Community by 2015.”¹³ This decision created a driving force towards building a closely integrated, dynamic, effective and open ASEAN community. At present, ASEAN is promoting its inner cooperation. To promote implementing programs and cooperation plans towards the goal of building ASEAN community by effectively mobilizing and utilizing resources; to strengthen ability of monitoring the implementation of signed agreements; and then to coordinated ASEAN socio-economic cooperation programs with national development plans of each member country. ASEAN is striving for becoming a single market, a foundation for integration of Southeast Asia as a whole with the outside world.

At present, the ASEAN+3 Cooperation mainly focuses on economy, especially on ASEAN+1 cooperation. The main goal pursued by parties was the establishment of FTA. Therefore, efforts to implement AFTA and then ASEAN community proved that ASEAN was striving to strengthen its inner power to keep its central role in ASEAN+3 frameworks, and a core in building East Asia Community (EAC). In addition, within ASEAN+3 framework so far there was no any country that could replace ASEAN as an intermediary to harmonize relations amongst big nations such as China, Japan and South Korea. Thus, the advantage of ASEAN was that it was supported by these three countries as a leading role in the process of ASEAN+3 cooperation, and as a core in EAS. Presently, countries those want to participate into EAS have to abide requirements set by ASEAN by signing in the Treaty of Amity and Cooperation (TAC) or they desire to sign, or they have to be dialogue partners of ASEAN and have official relations with the association. ASEAN is also receiving economic, cultural and social assistants from countries, particularly from three nations: China, Japan and Korea. As the intermediary in harmonizing relations between big nations in the region, and it is considered as a most suitable entity to play a main role in the ASEAN+3 cooperation and formation of East Asia Community, ASEAN skillfully maintained interests of countries outside the region, coordinated the interests of each member with common interests of ASEAN and participated to assist in building ASEAN community.

Challenges to ASEAN:

Despite having many advantages, ASEAN countries are facing no less challenge. Apart from global issues as natural calamity, epidemics, environmental pollution, trans-nations crimes and terrorism in several countries, ASEAN is also facing social unrest and outside pressures placed on some member countries. In addition, ASEAN is facing severe competition in trade and investment in the process of globalization, developmental gaps between regions within a country and between countries in ASEAN as well. ASEAN would lose its prestige and the central role in the process of ASEAN+3 cooperation if the association does not determine to overcome these challenges.

Prior to the 1997 economic crisis, ASEAN has always been a successful and prestigious organization thanks to the implementation of non-interference principle and the preservation of national identities within diversity in development levels and political ideologies. However, the economic influences by ASEAN was insignificant with loose cooperation mechanism and too much of meeting (about 700 meetings per year) but its many tasks has not been implemented. The agreements and commitments made by the

¹³ Chairperson’s Statement of the 12th ASEAN Summit H.E. the President Gloria Macapagal-Arroyo: “Once caring and sharing Community”, Cebu, Philippines, 13 January 2007. <http://www.aseansec.org/19280.htm>

ASEAN leaders completely based on the concept of exerted effort without any legal binding. Basically, ASEAN +3 was still considered as an ASEAN's mechanism for cooperation with outsiders. All the agreements made by ASEAN+3 were based on the "consensus" principle. The implementation of the agreements made by ASEAN+3 was, therefore, limited due to lack of a monitoring mechanism.

Economically weak ASEAN due to the large gaps in the levels of economic development among member countries creates fragments that hard to integrate them together. To speed up the process of regional economic integration, ASEAN has to face challenge of a better integration for the new member countries (Cambodia, Laos, Myanmar and Vietnam-CLMV) into the region and the world economies. The gaps in economic development levels and the differences in political institutions are the big hindrances for the comprehensive integration in ASEAN. Thus, the ASEAN leaders issued the Initiative for ASEAN integration (IAI) and the timetable for ASEAN integration. Under this initiative, the benefits from the ASEAN integration would be shared by the members. From January 2002, ASEAN approved the ASEAN integration system for preferential program through which tariff preferences would be given to the new ASEAN members by its old members on the basis of voluntary and bilateral agreements for products from the new members. Despite of these efforts, narrowing the development gap within ASEAN is still a huge challenge. Presently, CLMV countries is getting development aids for the main priority areas such as construction of infrastructure, human resource development, information technology and telecommunication, speeding up regional integration in commodity trade and service, and custom, etc. the sources of aids for these development projects, apart from the contributions from the 6 old members, mainly come from Japan, China and Korea. Therefore, it is that through ASEAN+3 Cooperation, three North East Asian countries initiatively contribute to assist ASEAN in its development process.

Looking back to history, ASEAN is an organization that inclining more toward politics, an organization without charter, regulations, and non-law binding, etc. Therefore, to become an ASEAN community in the context of present regional and international development, ASEAN needs to have a closer integration and a suitable structure. For 40 years of existence and development, ASEAN is still a non-law binding organization. The organization now needs a charter to build up relation with the United Nations (UN) and other international organizations. Therefore, a demand of constructing an ASEAN Charter becomes a central subject in the ASEAN Summits in recent years. The construction of a charter would create a legal framework for ASEAN, through which the organization's apparatus and operational manner would be reformed and deepened in order to improve the effectiveness of the operation of ASEAN. ASEAN would remain as an organization of peace, stability, prosperity, mutual respects, equity, non-interference and respect for basic human rights, etc. However, structure of the organization will change to make ASEAN closer. According to 12th ASEAN Summit, the charter would consist of three main issues: mechanism, organizational structure and principle adjustment.

Right from the establishment ASEAN strictly follows the non-interference principle in each other's domestic affairs. Also, after the admission of the new members (CLMV), with diversity in levels of economic development and political institutions, ASEAN still wouldn't change this principle. In recent years, however, ASEAN loosens its standpoint towards this view as it expresses its increasing fear about the lack of efforts in Myanmar's political reform. Whether ASEAN changes its principle of "non-interference in each

other's domestic affairs" or not? If not, ASEAN would not be judged as a leading organization in resolving and issuing resolutions for the region's security problems. If it does so, how would ASEAN do to overcome oppositions from some countries those want to uphold this principle? This is really a tough problem for ASEAN, an organization that functions under the principle of "consensus". ASEAN is truly facing many challenges on its way towards successfully building a stable and prosperous ASEAN community.

While taking full advantages of favorable conditions and step by step overcoming difficulties to strengthen its own power, ASEAN still proves its decisive role in the region. Particularly, ASEAN was very successful in its foreign policies. Through regional cooperation mechanisms proposed by ASEAN such as ARF, ASEM and ASEAN+3, ASEAN drew outside countries to participate and constructively contribute to ensure peace, stability and development in South East Asia and in Asia-Pacific region.

For ASEAN+3, for 10 years of existence ASEAN became the intermediary to harmonize relations in the ASEAN+3 framework, a driving force for the development of ASEAN+3. Cooperation within the ASEAN+3 framework, however, is not many. This cooperation mainly focuses on bilateral cooperation under ASEAN+1 channel. ASEAN itself only play a role as a coordinator for cooperation. Areas of ASEAN+3 or ASEAN+1 cooperation are of economy and finance those are still weak in the organization. The first East Asia Summit Meeting event on December 2005 has put ASEAN +3 in challenge of not only affirming its role in the process of building an East Asia community but also a challenge to ASEAN as a central role of this process.

2. The roles and objectives of China in ASEAN+3

China is emerging to prove its position in the world. In the final decade of the 20th Century China's real GDP growth had averaged 10.1 per cent, the fastest rate of real GDP growth in the world. During the same period, "*China's exports grew threefold from US \$ 62.1 billion in 1990 to US \$ 249.2 billion in 2000, making China the seventh largest exporter in the world.*"¹⁴ China is initiatively emerging to play a big role in the economies of the region and the world. The cold war ended, the Chinese foreign policies focus on the modernization of the country. In its new foreign policies, China declare to be ready to build a friendship with all countries in the world, particularly the neighboring countries on the principle of equity, mutual interests, opening for trade, scientific and technical cooperation, cultural exchanges, fostering for co-development, active participation in multilateral diplomatic activities, and promoting China's role in the United Nations and in other international organizations. Implementation of the "Good Neighbor Policy" in the 1990s, China has established many diplomatic relations and opened trade cooperation with many countries. In South East Asia, China set up the diplomatic relation with Singapore and Brunei, and normalization of her relation with Vietnam and Indonesia. For North East Asia, China also set up the relation with the Republic of Korea and promoted its economic relation with Japan. In the new foreign policy, China considers South East Asia as a strategic region for foreign affairs, politics, economy and culture.

¹⁴ "Forging closer ASEAN-China Economic Relation in the Twenty first century", A Report submitted by the ASEAN-China Expert Group on Economic Cooperation, October 2001, pp. 4. http://www.aseansec.org/asean_chi.pdf

Following the common tendency of the world, entering the 21st Century China truly pays great attention to the establishment of FTA with many countries in the world, but a particular given to Asia. China considers FTAs as an institution ensuring for China and its partners to speed up more effective trade cooperation and bilateral investment. FTAs will also open up an export markets for participants. It would increase income from export making higher GDP and creating more employments for the labor market in China. The first ever FTA was the one China signed with ASEAN.

ASEAN-China relation started from 1991 in an unofficial meeting between then Foreign Ministers of China and the counterparts from the ASEAN countries. China became a full dialogue partner of ASEAN in 1996. The economic relation between China and ASEAN especially in trade, investment and tourism was flourishing since 1990s. *“These political initiatives laid a foundation for the expanding economic activities between China and Southeast Asia in the 1990s, including trade, investment, foreign aid, and tourism. In addition to improving relations with individual countries in the region, China also began to participate in the activities of ASEAN, the most important multilateral organization in the region”*¹⁵. Two-way trade between China and ASEAN is more and more evolving. *“In 2000, ASEAN-China trade totaled US \$39.5 billion growing by an average of 20.4 percent annually since 1991 when overall trade amounted to only US \$ 7.9 billion. China’s exports to ASEAN grew from US \$ 4.1 billion in 1991 to US \$ 17.3 billion in 2000 while its imports from ASEAN grew from US \$ 3.8 billion in 1991 to US \$ 22.2 in 2000”*¹⁶. Motivation for the trade relation between China and ASEAN rapidly increased were: i) the emergence of China as a global economic power and high GDP growth rate of the ASEAN countries are the factors to increase ASEAN-China trade; ii) Tariff are reducing in both sides; iii) for countries those share border with China as Laos, Vietnam and Myanmar, the cross-border trade becomes more and more favorable. Therefore, to the year 2000 ASEAN became the 5th largest trade partner of China, and China was the 6th largest trade partner of ASEAN. The emergence as a global economic power of China helps rapidly increasing ASEAN-China economic relations. It brought about a new motivation and a period of free trade for ASEAN countries. *“ASEAN-China economic relations have grown dramatically, benefiting from the dynamism of their economies, the liberalization of their trade regimes and the changes in their trade structure”*¹⁷. In addition, it is the china’s attitude in recent years. China always wants to prove itself as a trustful partner in the region, especially to the ASEAN countries. This is a reason for the ASEAN countries to feel safety penetrating into the China market. China’s the good neighbor policy became a factor that forces ASEAN not to ignore in their foreign and trade development policies. The policies that consider Asia as an important part in her strategy of foreign economic development, China is striving to be an important and trustful partner of ASEAN. ASEAN also wants to change China from an unrest factor into a motive for ASEAN development. The born of ASEAN+3 in 1997 paves the way for the new development stage in ASEAN-China

¹⁵ Samuel C.Y.Ku, “China’s changing political economy with Southeast Asia: starting a new page of accord”, Asian perspective, vol.30, No.4, 2006, pp113-140, pp119.

¹⁶ “Forging closer ASEAN-China Economic Relation in the Twenty first century”, A Report submitted by the ASEAN-China Expert Group on Economic Cooperation, October 2001, pp.7 http://www.aseansec.org/asean_chi.pdf

¹⁷ Forging closer ASEAN-China economic relations in the twenty-first century: A report submitted by the ASEAN-China expert Group on economic cooperation, October 2001. P.1. http://www.aseansec.org/asean_chi.pdf

relation. As not a initiative country but China has participated actively and had important contributions to the process of ASEAN+3 cooperation, especially ASEAN+China cooperation.

Within ASEAN+3 framework, China always supports ASEAN as a leading role, a decisive factor in the process of the ASEAN+3 cooperation. In the ASEAN-China Summit in 12 December 2005 in Kuala Lumpur, Malaysia, Chinese Premier Wen Jinbao said: “*ASEAN is the organizer of and main driving force for 10+3 cooperation...China will continue to support ASEAN in playing the leading role.*”¹⁸ China also affirmed that the ASEAN - China cooperation was very important in the process of ASEAN+3 cooperation. It is the fact that the ASEAN-China Cooperation most rapidly progresses, and the degree of the cooperation is broader and deeper than the ASEAN-Japan and ASEAN-Korea cooperation. China knows to exploit and speed up ASEAN-China cooperation (ASEAN+1) within the framework of ASEAN+3.

At the 3rd ASEAN-China Summit on November 2000 in Singapore, Chinese Premier Zhu Rongji proposed the idea of forming free trade areas with the aim of promoting economic cooperation between both sides and improving region's competitiveness in the world market. The both sides have set up an Expert Group in 2001 to conduct researches on ASEAN-China economic cooperation and to form the ASEAN-China free trade area. The economic recovery of the ASEAN countries from the Asian Crisis in 1997-1998 and the event of China officially became a member of WTO on December 2002 in Phnom Penh, Cambodia helped making the idea of forming China-ASEAN FTA realistic when both China and ASEAN agreed to sign the Agreement on Comprehensive Economic Cooperation between ASEAN and China. This framework created an importantly legal foundation for promoting comprehensive economic cooperation between ASEAN and China, of which the most important was the establishment of ASEAN-China Free Trade Area (ACFTA) by 2010 for the old members of ASEAN and by 2015 for the newer ASEAN member states. The establishment of a free trade area between China and ASEAN will create an economic region with 1.7 billion consumers, regional GDP of about US\$2 trillion and total trade estimated at US\$1.23 trillion. It will be the biggest FTA in the world in terms of population size. It will also be the largest FTA, made up of developing countries, in terms of population, GDP and trade.

The ACFTA was appraised ACFTA was an important event, a historical landmark to mark the change in the FTA policy of China. ACFTA was the first ever FTA of China. It began for the China's FTA policies with the region and the world. It only brought about the benefit of economic development for both China and the ASEAN but also contributed to fostering of economic development in the Asia and the world. The establishment of ASEAN-China free trade area has a very important significance to the East Asia economic integration. It would be a basis for the establishment of East Asia free trade area, to which the ASEAN+3 headed. China believed that ASEAN-China cooperation played a very important role in the process of ASEAN+3 cooperation.

The ACFTA became a driving force for the economic development of China and ASEAN. “*Trade between ASEAN and China has grown rapidly, reaching US\$78.2 billion in 2003, a 43% increase from the previous year, with China importing US\$47.3 billion*

¹⁸ “Wen Stresses China-ASEAN cooperation” (Monday, December 12, 2005), http://english.gov.cn/2005-12/12/content_124765.htm

from ASEAN, a 50 percent increase. Trade exceeded the US\$100 billion mark in 2004. Investment, too, have been growing both way, accumulating to US\$36 billion by the end of 2004”¹⁹

The formation of the ACFTA with the “Early Harvest Program” was an initiation (rapid reduction of tariff for some commodities and carrying out cooperation for some areas). ACTFA positively affected the trade relation between ASEAN countries and China. ASEAN became the 4th largest trading partner and the 5th largest export region of China.

Not only confining to trade, China also plays an important role to ASEAN in the areas of investment, tourism, and the cooperation for Mekong region development. China gave priority to giving assistances to the projects of Mekong sub-region development. At present the both sides step up the Mekong-basin development programs and projects within the framework of the Greater Mekong Sub-region cooperation (GMS), the ASEAN-Mekong Basin Development Cooperation (AMBDC) and the Mekong River Committee (MRC).

The signing of the framework puts ASEAN in a new position in the relation with the world’s big economic partners. The nations, those having political influence in the world, have a deeper view on the need to intensify the trade relation and economic cooperation with ASEAN in order both to not lose a market of 500 million population and to create a counterpoise with China. Right after the signing of the ASEAN-China framework agreement, ASEAN received many proposals from the potential economic partners such as India, Japan, EU, the Republic of Korea, the US and Australia to further tighten economic cooperation mechanism with ASEAN.

The dynamic and strong development in the ASEAN-China relation was the driving force to promote the two sides to pass the Joint Declaration on Strategic Partnership for Peace and Prosperity in the ASEAN-China Summit in 2003 in Indonesia. The entering of China into the Treaty of Amity and Cooperation in Southeast Asia (October 2003) consolidated the trust of small ASEAN countries in a large and powerful neighboring China.

At present, in the competition for the influences between China and Japan in the East Asia region, China is playing an important role in the region for her strong and high economic growth, and clever foreign policy. With its economic potential and increasing influences, China is truly playing a key role in the process of ASEAN+3 cooperation and East Asia cooperation.

3. The roles and objectives of Japan in ASEAN+3

In the last decade of the 20th century, after a long time of strongly economic growth, the Japanese economy, the number 1 economy in Asia, fell into the period of stagnation and declining. In contrast, at the same time Chinese economy rapidly grew with very high growth rate (over 10% per year), and more and more had an economic influence in the region and the world as well. The rapid growth of the Chinese economy not only stimulated the development of East Asia region’s economies but also created an insecure feeling for many other East Asian economies including Japan’s economy. Furthermore,

¹⁹ Report of the ASEAN-China Eminent persons Group, November, 2005, pp.7. <http://www.aseansec.org/17724.htm>

since the cold war ended, the geo-political and geo-economic relations in the world have changed. At such the context, Japan issued its new diplomatic policy. Besides continuing the allied relation with the US, Japan promoted its relation with neighboring states as China, ROK and Russia. Japan wanted to further enhance the East Asia region's cooperation. Due to many reasons, Japan could not have a broader and deeper cooperation with important partners such as China and Korea at this point of time. Therefore, Japan believed that promoting a closer relation with ASEAN would be a necessary step in the process of positive approach to speed up the regional integration. Entering the 21st century, despite that the US is still considered as a close ally the Japanese government still views Asia as a very important region. In the world common trend, Japan becomes more and more aware of tendency of regional integration.

Prior to the 1999, Japan did not have any bilateral or regional FTA because the Japanese government still maintained the concept of global-wide liberalization based on the GATT/WTO rule. To the mid 90s decade, when Mexico signed the FTA with the US (NAFTA) and with Europe (Mexico-EU FTA), the booming of the FTA in the world forced Japan to change its trading policy. To 1998, Japan bilaterally negotiated FTA with Mexico and South Korea. To profoundly learn about FTA, Japan formed an unofficial study group within then Ministry of International Trade and Industry (MITI) in July 1998. The policy makers of MITI finally followed the global trend towards FTA, actively negotiated the possibilities of FTA. The Japanese government recognized the benefits brought about by the FTA as: *“(1) Economic advantages: FTAs lead to the expansion of import and export markets, the conversion to more efficient industrial structures, and the improvement of the competitive environment. In addition, FTAs help reduce the likelihood of economic frictions becoming political issues, and help expand and harmonize existing trade-related regulations and systems;(2) Political and diplomatic advantages: FTAs increase Japan's bargaining power in WTO negotiations, and the results of FTA negotiations could influence and speed up WTO negotiations. The deepening of economic interdependence gives rise to a sense of political trust among countries that are parties to these agreements, expanding Japan's global diplomatic influence and interests”*²⁰.

Japan quickly built up priorities in her FTA strategies with the main trading partners such as East Asia, North America and Europe. These three regions make up 80% total trade of Japan. When Japan steps up FTA promotion, Japan would pay special attentions to ensuring political and economic stabilities within broad context of regional structure. Priority should be given to concluding FTAs with countries and regions where, despite close economic relationships, relatively high trade barriers exist that pose obstacles to the expansion of Japan's economy. From this standpoint, East Asia was chosen as an important counterpart for the Japan's first FTA negotiations. The counterpart that firstly chosen to form FTA was Singapore, a member state of the ASEAN and a country that was not obstructed by the heavy subsidy policy in the Japan's agriculture during the process of negotiation. According to Japan, FTA establishment with Singapore was a footing to continue signing FTA with ASEAN and with other countries in East Asia, including Republic of Korea, China and East Asia. Worrying about the possibility of being beaten by China, Japan makes greater efforts to sign FTA with ASEAN because Japan's trade volume would decline if tariff between China and ASEAN reduced due to the fact that the Japanese

²⁰ Japan's FTA strategy (summary), Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002: <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>

commodities would lose its competitive advantages because of higher costs. In order to come to the final target as ASEAN would become a strongly economic counterpart, Japan has chosen the solution of both trying to sign FTA with ASEAN and to quickly establish bilateral FTA with each member state of ASEAN at the same time, those having favorable conditions such as Singapore, Thailand, the Philippines, Malaysia and Indonesia. Therefore, at the ASEAN-Japan Summit in Phnom Penh, Cambodia in 5 November 2002, the leaders of ASEAN and Japan have issued “Joint declaration of the leaders of ASEAN and Japan on the Comprehensive Economic Partnership” (AJCEP). On this ground, on October 2003 in Bali, Indonesia the leaders of the both sides have signed a Framework for Comprehensive Economic Partnership between the Association of Southeast Asian Nations and Japan, in which the both sides agreed with the possibilities of setting up FTA within 10 years. The signing of the framework agreement between ASEAN and Japan proves the determinations of the leaders of the both sides in setting a newly broader and deeper framework not only in economic cooperation but also in many other areas between ASEAN and Japan on the basis of joint interests of the both sides. Also in 2002, Japan and Singapore have signed FTA called Japan-Singapore Economic Partnership Agreement (JSEPA). Following Singapore, other ASEAN members have been selected by Japan as partners for FTA negotiation.

At the ASEAN-Japan Summit held in Tokyo in 11-12 December 2003, Japan and the three ASEAN states: Thailand, Malaysia and the Philippines have agreed to start FTA negotiations from 2004. For Japan, these three nations were very attractive markets with total 165 million consumers and total GDP reached USD 300 billion per annum. In return, right after signing the FTA these three nations would easily penetrate into the Japanese market. Advantages in the present FTA negotiations between Japan and ASEAN countries were that Japan was still the traditional economic counterpart of ASEAN. Japanese commodities were very accustomed to and have gained the trust of the region’s consumers. The Japanese manufacturers and companies closely integrated with the region’s companies to produce cheap products due to low cost of inputs and worker’s salaries in the region in combination with the Japanese advanced technologies that not only used in Japan but also exported to Southeast Asian and East Asian countries. The main commodities were handicrafts and arts, pottery and porcelain, electronics and consumers goods. However, Japan now is facing many difficulties because the Chinese goods are severely competing with Japanese goods for their cheap prices. Due to heavy subsidy policy in agriculture in Japan, the FTA negotiation has faced many hindrances. Thailand was the very important counterpart of Japan but the both countries were facing barriers due to this subsidy policy in Japanese agriculture. Thus, to date Japan has only signed FTA with three nations as Singapore, Mexico and Malaysia.

For 30 years of relation, the cooperation between ASEAN and Japan has ever evolved in all areas as politics, economy culture and education that positively contributed to peace and stability in Southeast Asia and in Asia. At present, ASEAN become the second largest trading partner of Japan. Japan becomes the leading partner of many ASEAN members in trade, investment and official development aids and assistances. Most importantly, Japan was a close friend of ASEAN during the 1997 Asian Crisis. The timely and effective assistances from Japan helped ASEAN overcoming difficult times and quickly recovered to get back to high economic growth period.

Along with the positive, active and effective contribution from Japan to the IAI and the development of the Sub-Mekong region, Japanese ODA was an important driving force to contribute to speeding up economic growth in ASEAN. Particularly, it helps the member states narrowing the development gaps, stepping up the process of FTA formation. Together for cooperation, together for action and together for development, both sides contribute to build an ASEAN and an East Asian communities living in peace, stability and prosperity in the future, in which ASEAN-Japan counterparts cooperation is a very important factor. The achievements in the framework of ASEAN+3 cooperation and the ASEAN+1 mechanism promote ASEAN-Japan cooperation and not only bring about joint benefits for the both sides but also an important factor for the process of regional economic integration.

4. The roles and objectives of Korea in ASEAN+3

The Republic of Korea (South Korea) is known as the most successful country in economic development in Asia in the 20th century. In 1960, Korea is one of the poorest countries in the world with the GDP per capita was only USD 79. With endeavours and the right policy for the economic development, the South Korean government achieved huge successes in economic growth. *“To the 1996 before the onset of the economic crisis, GDP per capita in South Korea was USD 11385, with exports of more than \$129 billion dollars”*²¹. Currently, South Korea’s economy is in 11th position in the world. One of the reasons that made South Korea’s economy such a magically rapid growth was the help of the export-oriented economic policy. South Korea’s total foreign trade revenue made up 70% of the country’s GDP. However, the Korea’s economy could be impacted by the tendency of the increasing regional economic integration. The country would lose its competitive advantages as an export country if it does not participate at the international and regional economic integration. Despite, to the end years of the 20th century Korea, compared with other members of the WTO, was not so keen to participate in the FTA negotiations while the trend of FTA was wide-spread in Asia and in the world. Prior to the year 2004, Korea did not sign any FTA.

Recently, Korea has changes its standpoints, actively towards new trade policy and quickly adapted to the changes in the world economy’s environment. The final goal of the new trade policy in Korea’s economy was to head Korea become a country with the “open” trade relations as the world’s tendency. This is also a path, according to the Korea’s trade policy makers, to resolve the country’s economic difficulties. There were two main reasons that made changes in Korea attitudes towards FTA. Those were: i) after the born of the WTO in 1995, the quantity of the bilateral and regional FTA rapidly increased in the region and the world as well. The contents and the spheres of these FTA more and more broaden, which not only confined to the reduction of tariff and abolishment of non-tariff barriers, the current FTAs also focused on other areas as investment, services, intellectual property right, and competitive policies, etc. These proved that the contents of the FTAs more and more complete and comprehensive. The severe competition are currently taken place between large economies, and between neighboring East Asian countries as China and Japan on signing FTA forces Korea to change its trade policy; ii) another important reason that led to changes in Korea’s attitude from opposition to agreement to find possibilities for

²¹ Junsok Yang(2002), Update on Korean Economic Reform and Issues in Korea’s Future Economic Competitiveness, Korea Institute for International Economic policy, pp.1.

establishment of FTA were lessons learnt from the 1997-98 Asian economic and financial crisis. The Korea's economy was heavily impacted by the crisis. The crisis made the country recognized importance of regional cooperation, especially the East Asian region. Thus, The Asian crisis promoted the East Asian countries included Korea to head towards faster regional economic integration, particularly with the birth of the ASEAN+3 cooperation. With the constructively participating into the process of ASEAN+3 cooperation, Korea wants to affirm the tendency of integration dialogue not only for them Northeast Asian region but also for a large region of the East Asia; iii) in the ASEAN+3 Summit in 1998 in Hanoi, the Korea's president Kim Dae-jung issued the initiative of forming the East Asia Vision Group (EAVG) in order to set a long term plan for the region's cooperation. The establishment of EAVG represents the Korea's vision for the region's cooperation that Korea has important contributions in setting up ideas and programs, those could help forming reports for the group to submit to the ASEAN+3 summit. From the positive results brought about by the EAVG, the Korean President again issued the initiative of forming East Asia Study Group (EASG), and Korea together with the chairman of the ASEAN standing committee were the co-chairman of the EASG. Though EAVG and EASG were the intellectual concentration of the senior official of 10 ASEAN countries and three East Asia countries, but Korea has left in it many contributions about the ideas of economic cooperation in the region. The main issues of economic cooperation proposed by the EASG were the recommendation to form the East Asia Community (EAC) and East Asian Free Trade Area (EAFTA). According to EASG, to implement EAFTA the members of ASEAN+3 would have to implement bilateral FTA and regional FTA such as AFTA, FTA between ASEAN and each Northeast Asian country. With such a roadmap, AFTA would be implemented when all regional FTA and bilateral FTA implemented, and added up and combined. Thus, the basic objective that set up by the both sides was heading towards forming East Asia Community (EAC) and East Asian Free Trade Area (EAFTA). Therefore, it is that Korea has realized the importance of FTA in East Asia region, especially within the ASEAN+3 framework. In addition, the promotion of bilateral FTA by China and Japan with ASEAN within the ASEAN+1 mechanism forced Korea not to delay in participation into the FTA process.

As a country whose economy depends heavily on foreign trade, but until April 2004 Korea officially joined globally strong FTA trend by signing FTA with Chile after 3 years of negotiation. The satisfactory results attained from foreign trade compared with that before signing FTA with this South American nation have brought trusts in and abolished worries about the trade liberalization in Korea. At present, Korea is pursuing multilateral FTA with many countries but the country's FTA strategy is to choose counterparts on the basis of careful considerations. The Korean government wants to minimize losses caused by FTA for the sensitive areas such as agriculture or those could affect heavily the country's economic and industrial benefits. However, Korea also realized practical benefits brought about by the FTAs because "*FTAs can improve Korea's production structure and strengthen its exporting capabilities by enabling Korean companies to adopt advanced technology from foreign companies to integrate with Korean's production and marketing skills*"²².

²² Inkyo Cheong (2002), Korea's FTA policy: Focusing on Bilateral FTAs with Chile and Japan, Korea Institute for International Economic policy, pp.12-13.

After signing FTA with Chile, Korea considered ASEAN and Japan as the counterparts, with those Korea could quickly establish FTA. In Southeast Asian region, Korea views ASEAN as an important counterpart for economic cooperation. If they are combined to be a common market, population of both the ASEAN and Korea would be 600 million with GDP is of USD 1.29 trillion. Thus, during the ASEAN-Korea Summit in Bali in 2003, Korea issued a proposal, together with ASEAN, of exploring possibilities of forming free trade area between the two sides. The leaders of ASEAN and Korea agreed to set up an experts group to study possibility of pursuing ASEAN-Korea FTA. Based on the bilaterally close relation between ASEAN and Korea, the both sides set to immediately study to form ASEAN-Korea FTA. At the ASEAN-Korea high official meeting in 13 December 2004 in Vientiane, Laos, the both sides have signed a joint statement on an ASEAN-Korea comprehensive economic cooperation with a goal of establishing ASEAN-Korea Free Trade area (AFTA) for commodity and services trading, and investment. After one year of negotiation, in 13 December 2005 the leaders of ASEAN and Korea have signed Framework Agreement on ASEAN-Korea Comprehensive Economic Cooperation in order to create legal basis for the complete ASEAN-Korea economic cooperation as well as establishing ASEAN-Korea free trade area. The both sides agreed to reduce tariffs for 90% of imported goods by 2010. Under the mechanism applied for the AKFTA, there 8900 tariff lines were in the normal list, corresponding with 90% tariff lines those have been cut down from 1st June 2007. ASEAN countries reduced tariff down from 0 to 5 percent for 45 goods imported from Korea. With these conditions, it would create opportunities to increase prospects for exports from ASEAN to Korea, and to increase competitiveness of Korean goods in the ASEAN market. Therefore, with China, EU, the US and Japan, ASEAN presently is a one of five largest trading market of Korea.

The signing ASEAN-Korea framework agreement marked an important step in the process of building an ASEAN-Korea comprehensive economic relation, progressing to form FTA between the two sides.

Besides the role which was shown in the initiatives of regional trade cooperation, Korea constructively promoted cooperation within ASEAN+3 in general and between Korea and ASEAN in particular in many areas such as investment, finance, science and technology, human resource development, and infrastructure construction. Particularly, Korea is the country with very developed science and technology, so the country attached importance to cooperation in this field and considered it as a decisive factor to region's development and prosperity. Currently, Korea has a quite developed economy based on the knowledge-base economy with rather good scientific and technological backgrounds and a good capability in information technology. Because of these, Korea supported ASEAN+3 cooperation with priorities given to less-developing countries as Laos, Myanmar, Cambodia and Vietnam in three areas as infrastructural construction, informatics technology and human resource development. Korea paid important attention to giving ODA to less developing economies as Cambodia, Laos, Myanmar and Vietnam in order to narrow the development gaps and create conditions for ASEAN to soon implement AFTA.

One of the aims of China and Japan in pursuing FTA with ASEAN was to draw this organization into their influences. Both countries are competing and controlling each other for leading role in the region. Meanwhile, the changes in Korea's FTA policy with ASEAN were to cope with two counterparts in North East Asia. But, not only focus on economic benefits brought about by the ASEAN+3 cooperation, Korea also wants to affirm

indispensable tendency in the process of cooperation and dialogue in the region when participating into ASEAN+3. This trend is not only established in North East of Asia but also in entire East Asia. The implementation of new diplomatic policy, fostering dialogue and regional cooperation would reduce confrontation and tension in the Korean peninsula and North East Asia. A peaceful and stable environment will be the advantageous condition for economic development.

Within the ASEAN+3 cooperation framework, Korea shows it as a member that has many contributions to speeding up cooperation in the region. However, in the interrelation with China and Japan, Korea seems to be less favorable whereas these two big countries are competing for their influence role in the region. Standing between the two big and powerful nations as China and Japan, Korean President Roh Moo-Hyun wants Korea to become an intermediately country to resolve issues of security and cooperation in the region of North East of Asia. It is able to envision that Korea's role is more and more asserted in both the political and economic relation in the region. Korea successfully played an intermediately role in mitigating tension and confrontation between the US and North Korea as well as between the US and Japan in one side and China and North Korea in another in resolving nuclear issue on the Korean peninsula. Though, at present the US-Korea relation is cracking, but Korea carries out the friendship relation with China would establish a US-China strategic balance to create conditions for sustaining peace and resolving conflicts through dialogue in the North East Asia region. Ten years of participation into ASEAN+3 created a favorable condition for Korea to broaden its foreign policy and to carry out independent foreign relation, more self-reliant and controlled, and less dependent on its traditional relation with the US. ASEAN+3 cooperation helped making the relations of Korea with other North East Asian countries as well as with Southeast Asian region closer, building trust and fostering deeper economic cooperation.

III. Prospects of ASEAN+3 cooperation and East Asia Community

For 10 years of formation and operation, the importance and value of ASEAN+3 cooperation have been confirmed. Currently, cooperation within ASEAN+3 framework is still evaluated as having important significance in consolidation of peace, stability and prosperity in all areas in the region. Generally, the ASEAN+3 countries want to broaden mechanism of existing cooperation, to further intensify cooperation framework within ASEAN+3, and to wish the process to go deeper and bring about practical benefits. All the three East Asian countries agreed to support the leading role of ASEAN, and to give constructive contribution to the development of ASEAN+3. The first East Asian Summit held in 14 December 2005 in Kuala Lumpur, Malaysia included ASEAN countries and Australia, China, Korea, Japan, India and New Zealand has set many challenges for ASEAN+3. At current context, all countries generally believe that the process of ASEAN+3 would be a footing for moving towards the long-term objective of building the East Asian Community. Thus, whether ASEAN+3 would be able to undertake a key role, a core in the process of building East Asian Community? There are many standpoints those believed that certainly ASEAN+3 would take this role while others hold that ASEAN+3 would be overshadowed and lose its key role in building up East Asian Community. From the first East Asian high officials meeting held in 2005, the leaders determined to set up East Asia community as the long-term objective and considered the ASEAN+3 as a crucial foundation for gradually uniting East Asia. To date, these countries still considered ASEAN as a leading role in ASEAN+3 and East Asia cooperation.

Though as a fully dynamic region with great potential for development, ASEAN needs to further strengthen its competitiveness. At present, the economic cooperation within ASEAN block is not so developed and the gap in development levels between member states are still large. These lead to limitation in possibility of regional integration. If ASEAN does not quickly become an AFTA, it would lose opportunities to be an attractive market, lose its competitive advantages in the tendency of rapid development of FTA in East Asian region. At present, ASEAN are holding its leading role in the process of ASEAN+3 cooperation, but if this role be sustained for a long time it depends on the efforts of each member of ASEAN. All three North East Asian country have signed FTA with ASEAN, but the bilateral FTA between each of these countries with other countries and regions would create a more attractive market if AFTA would not quickly established. In the trend of emerging FTA in Asia, many new emerging economies have developed trade relations like China and India. China is currently the third largest market for export of India, and India is 10th largest trading partner of China. Despites the both countries did not signed any official document about establishment of FTA, but the possibilities of bilateral FTA between the two most crowded countries are possible. Thus, if economic integration within the block is not speeded up, ASEAN would lose its role as promoting the process of ASEAN+3 cooperation, and a driving force for the East Asian cooperation. At the time, China and India would become the bridge to connect East Asia to South Asia, and as catalyst for the process of East Asia community construction. Current context shows that speeding up economic integration within ASEAN is not an easy task due to large gap in economic development levels between old and new members of ASEAN. In addition, to make ASEAN+3 more powerful and more effective in the process of regional integration, ASEAN+3 needs to be institutionalized. The secretary board of ASEAN+3 needs to be soon set up, and further to promote cooperation in ASEAN+3. In fact, the current cooperation lies in the ASEAN+1 mechanism. Though ASEAN+3 has set up cooperation in many fields but results was just confined mainly to the filed of finance and monetary.

At present, the guiding role belongs to ASEAN, and all three North East Asian countries are supporting the leading role by ASEAN in the process of ASEAN+3 cooperation and East Asian integration. However, the competition for the influences from China and Japan would be the factor that strongly impacts ASEAN+3 as a core role towards East Asian community. If Japan is a number 1 economy in Asia, China is not only a country with a market with largest consumers in the world, but also it recently proves its huge and strongly economic potential that would challenge large economies in the world. North East Asian economies play a central role in Asia-Pacific region, making up 20% GNP of the world. ASEAN+3 cooperation and North East Asian regional integration would not be successful without the active participation of North East Asian countries. Thus, three nations: China, Japan and Korea would be considered as having a key role in the process of the region's free trade areas construction. The process of ASEAN+3 cooperation depends heavily on relations between these three countries. In economic relation, the three countries become important counterparts of each others. In recent years, Japan takes over the position of US to become the largest trading partner of and a main investor in Korea. China becomes the second largest trading partner of Japan behinds US, while Japan becomes the largest trading partner of China. In the fever of FTA in Asia, the bilateral FTA negotiations amongst North East Asian countries have been speeded up. It is that trade exchanges among North East Asian countries more and more develop despites

diplomatic relations sometimes become worst. It is clear that reinforcement of economic integration is advantageous condition to foster ASEAN+3 cooperation.

While many advantages in the economic relation, there are still many contradictions and conflicts existing in the relation between North East Asian countries that would not be resolved overnight, especially those left behind by the history that would affect the environment of the region's integration and slow down the process of the ASEAN+3 cooperation. That was the wave of protest from China and Korea against the text books on history published by Japan because the heart-breaking memories and the hatred feelings of the Korean and Chinese against Japanese. The visits to the Yasukuni Temple by the then Japanese Premier Koizumi sometimes made the relation between China and Japan very tense. Instability in the relation among three North East Asian countries was also caused by the sea border disputes. However, all sides chose the solution of preventive diplomacy to resolve conflicts. The tension on nuclear issues in the Korean peninsula also caused instability in relations amongst three North East Asian countries. The diplomatic efforts brought about a meeting between 6 sides including China, Russia, Japan, North Korea and US in order to unravel the nuclear issue. Until recently, the firm standpoint of US and North Korea has made the negotiation going into deadlock. Besides solving the nuclear issue, a series of differences and contradictions arisen in countries those participated in the negotiation and sponsored for this task. It was not only the contradiction between US with North Korea, between China and Russia with US, Japan and Korea, between North Korea with South Korea, but also differences in a method of resolving problems between allied countries as US, Japan, and South Korea. In recent years, Korea wanted to solve the problem of nuclear crisis by diplomacy while US and Japan prefer hard measures to economically punish and embargo, and even to use military attack. The allied block: US-Japan-Korea is, thus, cracking. This made the region of North East Asia increasingly tense. All these are the reasons to make the integration in this region more difficult, so these are factors to affect the process of ASEAN+3 cooperation.

It is able to recognize that East Asian countries approached to regionalism rather late compared with this trend in the world. The region's integration would also be a long process because many differences exist in this region. Those differences are a large gap in levels of economic development amongst countries, the differences in political institutions, contradictions and conflicts left behind by the history, etc. However, despite these obstacles the more and more dependence in economy amongst countries in the region stepped up these countries towards stronger regionalism. Towards East Asian Community became a long-term goal that was approved by all the leaders of ASEAN+3. With the initiative by Japan, the first East Asian Summit (EAS) held in 2005 with the participation of 16 countries included 10 members states of ASEAN and China, Japan, Korea, India, Australia and New Zealand. This was the event that marked a new cooperation level in the region. EAS would be a dialogue forum on strategic, political and economic issues that drew great attention from all the relevant parties those had the same objective of promoting peace, stability and economic prosperity in Asia. EAS is a beginning step towards building an East Asian Community in future.

For economy, EAS is a inception of a economic community that consists of many economies including some of the most potential economies of the world. EAS makes up half population of the world and around one fifth international trade activities. EAS is a forum with diversification in size, in levels of political development and in political

systems of the participated countries. Thus, developing a trustful cooperation in security is a huge challenge. However, at current trend, economy instead of politics would strongly rule over EAS. In the first EAS, all the members agreed the ASEAN played a key role in EAS, and ASEAN+3 was a backbone in the process of East Asian cooperation. *“We agreed that East Asia Summit with ASEAN as the driving force is an integral part of the overall evolving regional architecture. We also agreed that East Asian region had already advanced in its efforts to realize an East Asian community through ASEAN+3 process. In this context we believed that EAS together with ASEAN+3 and ASEAN+1 processes could play a significant role in community building in the region”*²³. These were again confirmed in the second EAS held in Cebu, Philippines in 15 January 2007. There was still dissimilarity between China and Japan on the matter that China wanted to keep the number of member of ASEAN+3 (ASEAN and China, Japan and Korea) unchanged and considered these countries as keys for East Asian integration whilst Japan proposed to expand the number of members of ASEAN+3 to including Australia, New Zealand and India. Despite this dissimilarity, both countries had a common goal in heading towards building EAC in the future.

Building EAC becomes a long-term goal. At present, EAS is holding a role of building a regional community. To date, the members of EAS are of 16 states but EAS would likely be further expanded whereas some other countries want to joint as official members such as, for example, Russia. Thus, there are some viewpoints which believe that EAS would cover the whole of ASEAN+3 and make ASEAN+3 losing its core role in EAC construction. But the main objective of building EAC is heading towards establishing East Asia Free Trade Area (EAFTA). This task depends heavily on bilateral FTAs amongst countries, and FTAs between countries and ASEAN, those are being implemented within ASEAN+3 framework. In addition, in the severe competition for influences by the large countries as China and Japan, the leading role held by ASEAN is still being supported by these countries. Particularly, ASEAN is striving to complete its organization structure to build power and position of the world. ASEAN also worries about losing its current position in the region. Thus, ASEAN+3 is still a main basis for building EAC in future.

Conclusion

The process of ASEAN+3 is the indispensable development of the tendency for cooperation in the region resulted by the increasingly regional integration and globalization processes. ASEAN+3 cooperation is the process of comprehensive cooperation among ASEAN and three nations such as China, Japan and Korea, in which the economic and political cooperation was considered as a focus. In the process of regional economic integration, the establishment of FTA is the central attention and as the main objective pursued by member states. Thus, all three East Asian nations have signed agreement for FTA establishment with ASEAN. On the footings of these bilateral FTAs, the countries are moving towards the establishment of the East Asia Free Trade Area. The formation of bilateral FTAs promoted development of foreign trade in each country and the whole region as well. Particularly, three Northeast Asian countries gave assistance to ASEAN countries to help these countries strengthening their competitive ability. In the context

²³ Chairman’s Statement of the First East Asia Summit, Kuala Lumpur, 14 December 2005. <http://www.aseansec.org/18104.htm>

whereas the two big nations as China and Japan are severely competing for leading role in the region, ASEAN proved its pillar role in the process of ASEAN+3.

The born and the rapid development of the process of ASEAN+3 cooperation proved that the East Asian countries were quickly moving towards regionalism. In the trend of rapid increase of regionalism recently of the world, the economic integration intensification and movement towards the establishment of a joint community by East Asian nations are the indispensable trends.

The process of ASEAN+3 cooperation is facing both the opportunities and challenges whereas this organization has been considered as a key base, and a core role for the process towards establishing East Asia community in future. Whether the ASEAN+3 overcome difficulties and obstacles such as large gaps in the levels of economic development, the diversification in political institutions, the hatred was deep-rooted left by history, etc. or not? These truly are huge challenges that require ASEAN+3 to exert itself in order to overcome if it wants to continue keeping its leading role in the process of East Asian integration.

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Appendix

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3.2 Medium-term and Long-term Measures, and Those that Require Further Studies

3.2.1 Form an EAFTA

120. The EASG recommends this measure as a long-term measure with high priority. FTAs are increasingly recognized as a means to expand trade and investment opportunities, promote economic growth and sustainable development, and catalyze other forms of cooperation among countries of the region. Now, there are growing numbers of bilateral and regional FTAs all over the world, with the belief that FTAs can accelerate the momentum of trade liberalization and strengthen the WTO-centered multilateral trading system. NAFTA and MERCOSUR have been successfully operating. Moreover, the introduction of the EURO has accelerated the integration of the EU. These trends have increased the need to enhance and deepen economic cooperation in the East Asian region through the efforts for an EAFTA. The realization of an EAFTA would boost intra-regional trade and investment with the creation of a huge market of almost 2 billion people, the largest in the world.

121. In the East Asian region, efforts for establishing FTAs are already underway. ASEAN has been continuing its efforts to implement the accelerated schedule of the ASEAN Free Trade Area (AFTA), as agreed by the Sixth ASEAN Summit in 1998. At the ASEAN+1 Summit in 2001, China and ASEAN agreed to form an FTA within 10 years with special and differential treatment and flexibility to the new ASEAN countries. Japan and ASEAN have been doing a joint study for Closer Economic Partnership (CEP). Korea and ASEAN are also considering the possibility of establishing an FTA. In addition to the efforts for the sub-regional FTAs, many countries in the region are involved in discussions on strengthening the economic partnerships at the bilateral level. In this regard, Japan and Singapore have already concluded the Agreement for a New- Age Economic partnership (JSEPA). Moreover, Japan has begun its work to build up economic partnerships in a bilateral framework with other ASEAN countries. Japan is ready for consultations on an economic partnership based upon the framework of JSEPA or for making that framework a reference. As the EAVG Report clearly stated, the establishment of an EAFTA could be achieved by adopting a building block approach, and consolidating the existing bilateral and sub-regional FTAs in the region. In this regard, the ongoing progress in the discussions of establishing many bilateral and subregional FTAs could pave the way for establishing an EAFTA.

122. The EASG recommends that the governments of East Asian countries consider the establishment of an EAFTA as a long-term goal, taking into account the variety of differences in developmental stages and the varied interests of the countries in the region. In this regard, it is desirable for the governments of East Asian countries to conduct a study on the impacts of an EAFTA on the region with the active participation of experts from academic and business circles as a process to establish an FTA covering the whole region. In addition, transparency in implementation processes of bilateral and sub-regional FTAs is

indispensable under the framework of ASEAN+3 consultations. Thus, the implications of an EAFTA and to recommend the appropriate architecture of the EAFTA. In order to realize the idea of an EAFTA, it is important that the feasibility and the influences of the EAFTA be discussed not only in the AEM+3 meetings but also in the ASEAN+3 Foreign Ministers Meeting.

123. East Asian countries should also encourage investment among themselves and dismantle trade barriers because trade and investment are virtually inseparable elements, crucial in the process of deepening and broadening regional economic cooperation. As two sides of the same coin, the promotion of the one may also help boost the other and vice versa. In this regard, the EASG recommends that the formation of an EAFTA go hand in hand with the establishment of an East Asian Investment Area.

3.2.2 Promote investment by SMEs

124. The EASG recommends this measure as a medium-term measure with high priority. Small and Medium Enterprises (SMEs) are indispensable for economic growth. As important providers of intermediate goods and services, the development of SMEs contributes to industrial growth and fosters competitiveness. SMEs also supply ideas, skills, and innovation. Strong SME sectors attract foreign investors and enable them to establish and expand domestic linkages. Moreover, SMEs play a key role in improving employment and welfare. The promotion of SMEs in labor-intensive industries will create more jobs and generate more household income. SMEs thus play a critical role in achieving equitable and sustainable growth.

125. However, SMEs need an appropriate administrative support system to maximize their potential because they are normally vulnerable due to their small size and low capability. They face many challenges that prevent them from achieving their full potential. These challenges are particularly significant in the areas of HRD and access to financing, markets, technology, and information. To promote investment by SMEs, governments should eliminate administrative impediments to SMEs' operations. In addition, governments should provide SMEs with better access to finance because SMEs tend to have difficulties accessing banks or capital market funds, due to lack of assets or track records. Moreover, SMEs need support from appropriate business development services in management, training, marketing, technology, and information.

126. As it is clearly stated in the Joint Statement on East Asia Cooperation issued in November 1999, the leaders of ASEAN countries, China, Japan, and Korea agreed to bolster efforts to strengthen SMEs. It must be noted that in ASEAN, SMEs account for about 90% of all manufacturing establishments, and they constitute the majority of industrial enterprises. Since East Asian countries attach great importance to the development of SMEs, they should cooperate to promote intra-regional investment by SMEs because closer regional cooperation would further widen the window of opportunity for SMEs. Through cooperation with each other, SMEs may reduce costs, share risks, and foster exchanges of information and know-how. Encouraging SMEs in the region to have joint ventures or linkages with other member countries' SMEs will contribute to the

promotion of intra-regional investment by SMEs. Establishing a database on investment policies and opportunities of East Asian countries will also facilitate intra-regional investment by SMEs because it will provide potential investors with information on foreign investment.

127. The EASG notes that the idea of establishing an ASEAN+3 SME network will facilitate intra-regional investment by SMEs in the East Asian region. The SME network will help disseminate information on markets for the SMEs, address and solve complaints in relation to the investment, and boost competitiveness of participating SMEs. The EASG recommends that the governments of ASEAN countries, China, Japan, and Korea participate actively in establishing the SME network.

3.2.3 Establish an East Asia Investment Area by expanding the AIA

128. The EASG recommends this measure as a long-term measure with high priority. The importance of FDI has been growing for the economic development of the newly industrializing and developing countries in East Asia. In the era of globalization, the developing countries in East Asia that are lacking capital for new entrepreneurial activities have been turning their eyes to foreign investors as a new source of capital. On the other hand, the region also has several countries that are rich in capital and have many enterprises seeking relocation of their companies or factories. Therefore, the establishment of an investment area in the region will greatly contribute to promoting intra-regional FDI because it will provide greater scope for division of labor and industrial activities across the region, creating opportunities for greater industrial efficiency and cost competitiveness. Moreover, it will encourage investors to think increasingly in regional terms and to adopt a regional investment strategy and network of operations.

129. The leaders of ASEAN countries, China, Japan, and Korea agreed, in the Joint Statement on East Asia Cooperation issued in November 1999, to strengthen efforts in accelerating investments. The progress of the implementation of the Joint Statement was made through various efforts of ASEAN countries, China, Japan, and Korea. As for the efforts made by ASEAN, the ASEAN Vision 2020 adopted in 1997 states that ASEAN will realize the AIA by 2010 and free flow of investments by 2020.

130. ASEAN has already been making efforts to establish an investment area, since the signing of the Framework Agreement on the AIA in Manila on 7 October 1998 by ASEAN ministers. Under the AIA arrangement, ASEAN countries are committed to opening up manufacturing, agriculture, forestry, fisheries and mining sectors, and to granting national treatment to ASEAN investors by 2010 and to all investors by 2020, with each country having some exceptions. In order to attract larger volumes of FDI, full realization of the AIA would be advanced from 2020 to 2010 for the first six member countries of ASEAN and to 2015 for the newer member countries. The ASEAN region is a leading recipient of FDI flows in the developing world. Among the components of resource flows into ASEAN countries, FDI constitutes a considerable share, indicating the importance of FDI as a major source of finance for economic development. Between 1990 and 1997, FDI represented an annual average of 40 % of the net resource flows to ASEAN countries. In Northeast Asia, meanwhile, Japan and Korea signed the Agreement for the Liberalization,

Promotion and Protection of Investment in March 2002. Under the Agreement, the two countries extend equal treatment to investors of the other country except in certain areas. Moreover, the process of strengthening the economic partnerships between Japan and ASEAN is underway.

131. The EASG recommends that East Asian countries review the possibility of establishing an EAIA with a view to fully utilizing the region's potential for economic growth. The establishment of an EAIA will not only help increase the foreign investment flows to the developing countries in the region but will also benefit the developed countries in the region by expanding the window of opportunity to invest. Any plans to establish an EAIA should be carefully studied, since the Framework Agreement has no provision to extend the membership to non-ASEAN countries. Moreover, the expansion may be construed as discrimination to other investors outside of this arrangement. In this regard, the EASG calls for the governments of the region to carefully review the possibility of establishing an EAIA over a longer period of time. To this end, a study could be carried out to examine how to bring about the EAIA.

3.2.4 Establish a regional financing facility

132. The EASG recommends further study of this measure with high priority. In the era of globalization of financial markets and worldwide liberalization of capital flows, even countries with sound and stable financial structures cannot be immune to the difficulties of neighboring countries. Having achieved impressive economic development, the East Asian region was startled by and unprepared for the devastating financial crisis in 1997. Unlike previous crises, such as the one during the oil shocks in the 1970s, the crisis in 1997 has revealed not only the vulnerability of East Asian countries to conditions arising from the globalization of financial markets and massive capital flows, but also the fragility of their financial structure. The crisis was a wake-up call for East Asian countries to establish measures to cooperate and to coordinate their financial policies to prevent the recurrence of such a crisis and minimize its effects, should another financial crisis erupt.

133. Since the Asian financial crisis, various efforts have been made to strengthen financial cooperation. At the global level, discussions have been made to reform the international financial architecture to better cope with the more integrated international financial market. At the various international forums, such as the IMF and G7, the focus has been on restructuring of international financial facilities, increasing the transparency of financial information, strengthening the prudential regulations on the financial market, and introducing a better exchange rate system. At the regional level, finance ministers of ASEAN countries, China, Japan, and Korea, in recognition of financial interdependence in East Asia, agreed to strengthen a regional financing arrangement to supplement existing international facilities in May 2000. The Initiative, called the "Chiang Mai Initiative," consists of two components: an expanded ASEAN Swap Arrangement and a network of Bilateral Swap Arrangements (BSAs) among ASEAN countries, China, Japan, and Korea. Now, eight BSAs between Japan-Korea, Japan-Thailand, Japan-the Philippines, Japan-Malaysia, China-Thailand, China-Japan, China-Korea, and Korea-Thailand, with a combined size of US\$ 22 billion, have been signed as a short-term liquidity support. Negotiations on several other BSAs are underway.

134. The Chiang Mai Initiative will assist member countries in need of funding and supplement the IMF program at a time of crisis. The Chiang Mai Initiative is very significant, since it is the first concrete agreement among ASEAN countries, China, Japan, and Korea to strengthen cooperation in the financial area. Starting from the Chiang Mai Initiative, East Asian countries will be able to broaden and deepen their cooperation and coordination to ensure financial stability for further economic development. In addition to the Chiang Mai Initiative, other appropriate mechanisms for regional financial arrangements should be explored in order to lessen the financial risks and contagion brought about by increasingly interdependent global financial systems. As an initial step, studies on regional self-help and liquidity support mechanisms should be conducted.

135. During the early days of the Asian financial crisis, Japan suggested that an Asian Monetary Fund (AMF) could help East Asian economies in trouble and check financial contagion in the region. Though there are pros and cons to the idea of establishing an AMF, a regional financing facility could provide financial resources to supplement IMF programs in the region. The IMF itself cannot fully provide enough funding for affected countries during a crisis as severe as the Asian financial crisis of 1997. Therefore, it is necessary to have supplementary funding available on a permanent and assured basis. In this regard, it is worthwhile to study the establishment of a regional financing facility. When studying it, East Asian countries need to be in harmony with the discussion on the reform of the financial system at the international level.

3.2.5 Pursue a more closely coordinated regional exchange rate mechanism consistent with both financial stability and economic development

136. The EASG recommends further study of this measure with high priority. While it is very difficult to spell out in comprehensive terms exactly what caused the recent Asian financial crisis, it is clear that the crisis was largely due to a rapid outflow of short-term capital, which had been a huge inflow in the first half of the 1990s. Moreover, the lack of coordination of the exchange rate mechanisms among East Asian countries worsened the crisis. The fact that many ASEAN countries pegged their currencies to the US dollar, worsened their economic situation and drained their foreign currency assets. The crisis increased and spread to Indonesia, Singapore, Malaysia, Hong Kong, and Korea, causing East Asian countries to fall into the spiral. Having been hit by the crisis, countries in the region have become aware of the need to coordinate the exchange rate mechanism in the region for both financial stabilization and economic development.

137. ASEAN countries, China, Japan, and Korea maintain different exchange rate systems given their different economic conditions and policies. First, there are some countries with a fixed exchange rate and selected capital controls or de-internationalization of the domestic currency. The second method uses a fixed exchange rate with a currency board. The third kind of exchange rate mechanism is a managed float of various kinds. Given the variety of exchange rate systems, together with deepening interdependence among East Asian countries, a more closely coordinated exchange rate mechanism is becoming essential for financial stability in the region.

138. Even though the adoption of a single currency for the region can be one possible option as the strongest form of coordination, differences in developmental stages and economic backgrounds among East Asian countries will remain major stumbling blocks to the creation of it, at least for the foreseeable future. Still, East Asian countries should pursue ways to coordinate their exchange rate mechanisms and keep their exchange rate mechanisms within reasonable ranges in order to maintain financial stability and accommodate some volatility of international capital movement in order that economic growth can be sustained without sudden external shock. Presently, it may not be possible for the financial authorities in the region to come up with firm rules, but frequent consultation among regional authorities and some coordinated actions in both monetary and foreign exchange areas can be sought. In ASEAN, a study to look at currency issues and exchange rate arrangements is already being implemented under the ASEAN Finance Work Program. ASEAN countries, China, Japan, and Korea need to extend the study in the East Asian region.

3.2.6 Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit

139. The EASG recommends this measure as a long-term measure with high priority. Growing interdependence and the recent financial crisis in East Asia have provided a strong impetus for institutionalizing cooperation in this region. As a way to institutionalize regional cooperation, the EAVG recommended that East Asian countries pursue the evolution of the ASEAN+3 Summit into an East Asian Summit. At the Singapore ASEAN+3 Summit in 2000, a number of leaders suggested the idea of an East Asian Summit (EAS). Following the initiation from the leaders, the EASG has been assigned the task of exploring the implications of an EAS.

140. Through in-depth study and discussions, the EASG has come to the conclusion that, as a long-term desirable objective of the ASEAN+3, the EAS will serve to strengthen regional cooperation in East Asia. The EASG is of the opinion that the ASEAN+3 framework remains the only credible and realistic vehicle to advance the form and substance of East Asian cooperation. The EASG also stresses that the EAS should be part of an evolutionary and step-by-step process. To ensure the broadest level of acceptance, there is a need to gradually build up a similar comfort level among ASEAN countries, China, Japan, and Korea.

141. As one of the two major tasks of the EASG, detailed study results on the implications of an East Asian Summit are in Part III of this Report.

3.2.7 Promote closer regional marine environmental cooperation for the entire region

142. The EASG recommends this measure as a long-term measure with high priority. With vast spanning coastline and major shipping sea-lanes, the East Asian region's rich marine resources have long been central to its development because the resources provide food, employment, and economic welfare. In many parts of the region, dynamic economic development has been made mostly in coastal areas but at the expense of the environment, from upstream pollution, domestic and industrial effluent, more areas of landfill, increased dredging, and the erosion of coastlines and coastal habitats. The rapid economic growth

has also put enormous pressures on the marine environmental situation of the region. Over-fishing, excessive exploitation of the coral reef, sea grass and mangrove, and expansion of aquaculture farms have further damaged the marine environment and resources in the region. Moreover, oil spills have become serious along major shipping routes in recent years.

143. Aware of the seriousness of marine environmental problems, the United Nations Environment Program (UNEP) introduced the Regional Seas Program in 1974, which has provided the most comprehensive institutional framework for regional cooperation in the seas and oceans. China, Japan, and Korea belong to the North-West Pacific Plan (NOWPAP). Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Viet Nam, China, and Korea are participating in the East Asian Seas Action Plan. The Action Plans draw the strategy and substance of the programs, based on the region's particular environmental challenges, as well as its socio-economic and political situation.

144. However, to preserve the marine environment in the East Asian region effectively, it may be insufficient that the governments of ASEAN countries, China, Japan, and Korea simply participate in the Work Plans of the UNEP regional programs. As economic relations are further expanding and deepening among East Asian countries, closer regional cooperation in protection and preservation of the marine environment becomes more important. To effectively deal with the marine pollution which may affect more than one country, what is required is the strengthening of regional cooperation to cover the entire region by transcending the geographical distinction between Northeast Asia and Southeast Asia, while consolidating collaboration with the relevant activities of other international organizations in the region.

145. East Asian countries have made great efforts to preserve the marine environment on a regional basis. The ASEAN Working Group on Coastal and Marine Environments has overseen ASEAN cooperation on the protection of the coastal and marine environment in Southeast Asia. The Working Group will focus on the promotion of regional policies and activities for prevention and control of marine pollution and management of ASEAN coastal zones as generally identified in the Ha Noi Plan of Action. Moreover, ASEAN will develop a Regional Action Plan for the Protection of the Marine Environment from Land-based and Sea-based Activities by 2004, according to the Ha Noi Plan of Action.

146. Northeast Asian countries have also accelerated their efforts to effectively preserve their marine environment. Since 1999, China, Japan, and Korea have held an annual Tripartite Environment Ministers Meeting (TEMM) to discuss issues of mutual concern, including land-based marine pollution prevention, and to further strengthen trilateral environmental cooperation. To prevent the degradation of the marine environment, Japan organized the Cooperative Marine Environmental Monitoring in the Asian Marginal Seas Meeting in 1998 and 2000, with the participation of environmental scientists from China, Korea, Malaysia, the Philippines, Singapore, and Viet Nam.

147. Regional cooperation will provide a useful vehicle for addressing environmental issues of common concern. Now, ASEAN countries, China, Japan, and Korea are moving towards strengthening and institutionalizing cooperation in the entire region. In this regard,

the EASG welcomes the launching of the ASEAN+3 Environment Ministers Meeting starting from 2002 because cooperation in marine pollution prevention will also be intensively discussed at the Meeting. The official mechanism to address environmental issues will have synergetic effects by combining the efforts of each subregion for marine environmental protection and will offer valuable opportunities to share information and technology related to the environment.

3.2.8 Build a framework for energy policies and strategies, and action plans, such as the trans-ASEAN energy network projects: special attention for electrification and energy needs of the rural population

148. The EASG recommends that this measure receive further study with high priority. Energy is playing a central role in achieving the goals of sustainable development, as well as improving the quality of people's lives. Energy consumption activities are closely linked with economic and social development. Therefore, an increase in demand for energy is inescapable in view of the high economic growth prospects in East Asian countries. With the recovery from the recent financial crisis, most countries in the region will face soaring energy demands. Sustainable energy development requires cooperation among countries because fossil fuels can be depleted and produce pollution. As the East Asian region includes both net energy exporting and importing countries, there is room for further cooperation in the field of energy. Because many people in the East Asian rural areas are not able to access electricity and depend heavily on traditional sources of energy, regional cooperation should also underscore electrification and energy needs of the rural population in the region.

149. Now, East Asia is experiencing a growth in the demand for energy that is outgrowing supply within the region and is thus becoming increasingly vulnerable in energy security. The strengthening of energy security in Asia has, therefore, become a pressing issue, and requires a joint effort involving the whole region. In this regard, it is important for the region to build a framework for energy policies and strategies, and action plans, such as the trans-ASEAN energy network projects. However, it is not easy to build a common East Asian framework for energy policies and strategies that will be supportive of sustainable energy development because there exists disparities in stages of economic development in the East Asian region, and the energy demand-supply situation varies widely by country. Therefore, it will be appropriate and realistic to take a step by step approach, starting with having common understanding on the direction of regional energy cooperation and gradually broadening the areas of cooperation. The EASG recognizes that the Seminar on Energy Security in Asia held in March 2002 in Japan was meaningful in fostering a common understanding on the direction of cooperation on energy among ASEAN countries, China, Japan, and Korea. It recognizes that the first SOME+3 Consultations held in July 2002 in Indonesia also contributed to the enhancement of closer policy discussions among ASEAN countries, China, Japan, and Korea.

150. East Asian countries are reviewing various energy network projects. Northeast Asian entities are exploring various proposals on large energy projects, such as the Energy Silk Route Project and the Irkutsk Gas Project. However, these proposals all face formidable political, economic, technical, and environmental obstacles that must be overcome before

being implemented. Energy has played a vital part in moving ASEAN countries towards economic integration. With the vast reserves of 22 billion barrels of oil, 227 trillion cubic feet of natural gas, 46 billion tons of coal, 234 gigawatts of hydropower, and 20 gigawatts of geothermal capacity, the countries have actively pursued cooperation for the full utilization of their energy potentials. The ASEAN Vision 2020 adopted in 1997 calls for cooperation to establish interconnecting arrangements for electricity and natural gas within ASEAN through the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline. Under the Ha Noi Plan of Action for the energy sector, ASEAN countries are to institute the policy framework and implementation modalities by 2004 for early realization of the Trans-ASEAN Gas Pipeline and the ASEAN Power Grid. The ASEAN Plan of Action for Energy Cooperation 1999-2004 reiterates the implementation of an integrated ASEAN energy network, consisting of the ASEAN Power Grid and Trans-ASEAN Gas Pipeline Projects.

151. The EASG appreciates the comprehensive efforts of ASEAN for intra-regional energy cooperation and suggests that China, Japan, and Korea actively support and participate in the efforts of ASEAN. The vast energy network projects cannot be realized without information-sharing, greater access to advanced technology, and mobilization of necessary financing. Closer regional cooperation in energy development will help realize the projects and contribute to strengthening the region's energy security. It is worthwhile to bear in mind that regional energy cooperation is also viable with close collaboration with countries outside the region, since East Asian countries alone are not able to secure a stable supply of energy. Close coordination with international organizations and multilateral frameworks is also instrumental in strengthening the region's energy security.

3.2.9 Work closely with NGOs in policy consultation and coordination to encourage civic participation and state-civil society partnerships

152. The EASG recommends further study of this measure with high priority. As the society becomes diversified and complicated, more and more new social problems are emerging, making it more and more difficult for governments, with their limited capacity, to respond effectively to the problems. With the development of democracy, the influence of non-governmental organizations (NGOs) has made it difficult for governments to implement their policies without the cooperation of NGOs. Therefore, governments have recognized the need to develop cooperation and coordination with NGOs for smooth implementation of their policies.

153. In most cases, the efficiency of social programs, especially in poverty reduction and social safety net programs, can be enhanced by improving transparency, enhancing the quality of information-reporting, increasing monitoring of leakage, strengthening the involvement of civil society, and disseminating more information on programs down to the grassroots level. NGOs are able to serve as watchdogs in ensuring effective delivery of social services to designated target groups, pointing out where governments need to improve their performance. In addition, NGOs often have the best knowledge of local communities and their needs, although they sometimes lack material resources. However, NGOs alone cannot ensure the success of social programs. A strategic partnership between governments and NGOs tends to increase the possibility of the success of social programs. With the recent financial crisis, many East Asian countries have faced growing needs to

strengthen social programs and improve their efficiency. In this regard, the EASG emphasizes the importance of the collaboration between government and NGOs, and government-social partnership in carrying out social programs, such as poverty alleviation and social safety net programs.

154. In order to enhance NGOs' contribution to the delivery of social services, the governments of East Asian countries need to promote their participation in the process of planning and implementing social programs, with special attention to NGOs' activities that are related with the welfare of disadvantaged and vulnerable people. The governments also need to establish legislative and regulatory frameworks, under which the NGOs can participate in social development programs and strategies. In addition, it is necessary for the governments to improve capacity-building for civil society and people's organizations. Finally, networking and exchanges of expertise and experience among the NGOs should also be strengthened.

155. East Asian countries can cooperate to improve capacity-building for civic participation and state-civil society partnerships in East Asia by fostering awareness and understanding of the importance of the civil society's participation in social programs. Sharing information and experiences on the best practices among the countries will also contribute to promoting collaboration between governments and NGOs in policy consultation and coordination on social programs. Enhanced collaboration between governments and NGOs will promote NGOs' activities and deepen intra-regional cooperation among NGOs in East Asia. Intra-regional cooperation among NGOs will not only contribute to closer partnerships between governments and civil society but will also promote a sense of identity among East Asian people.

156. It will also be necessary for East Asian countries to encourage NGOs to participate in the field of development assistance because NGOs, as grassroots organizations, have direct contact with beneficiaries of the assistance, and can provide such a service as building organizational structures for developmental projects in rural areas.