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**Regional Cooperation in APEC and ASEM:  
An Institutionalist Perspective**

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## EXECUTIVE SUMMARY

The Asia Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM) arrangements reflect the growing interdependence and greater economic cooperation involving Asian countries. APEC is a regional forum whose work is primarily in the area of economic cooperation. On the other hand, ASEM is an inter-regional arrangement with a broader, multi-dimensional focus aimed at promoting exchanges in economic, political and other fields. In large part, the economic dynamism of the East and Southeast Asian countries served as an impetus for these efforts. Phenomenal growth rates spurred by exports and foreign investment became the primary driving force for economic interdependence between Asian countries and the rest of the world. Indeed, the formation of APEC and ASEM is a manifestation of Asia's rise to economic prominence and international recognition.

However, institutional development of these cooperative arrangements lagged behind this primarily market-led integration process. APEC has consciously followed a path of informal and looser form of institutional structures and purposely avoided imitating the European experience of economic integration. Similarly, ASEM members have agreed to eschew formalism and move towards the "soft" kind of institutionalization. Both arrangements have steered away from the development of any form of supranationalism that could potentially undermine the sovereign prerogatives of its member-states.

Indeed, the level of institutional organization in APEC and ASEM falls short of the demands and expectations placed on them. The further development of their respective institutional frameworks would be desirable. This paper is premised on the idea that the institutional development of both APEC and ASEM will depend on the degree of social learning within and between international organizations. This concept emphasizes international economic cooperation as a political and social process involving factors other than economic variables. Social learning can occur at different levels. First, APEC and ASEM benefit from "nesting" itself with more developed institutions at the multilateral level particularly with the World Trade Organization (WTO). Second, this process is also facilitated by the two cooperative arrangements. While ASEM largely draws its inspiration from APEC, the latter can also learn from ASEM particularly in the area of political cooperation. Finally, the process also relies on the maturation of sub-regional institutions. Institutional reform in both APEC and ASEM can benefit from linkages of sub-regional organizations within each arrangement.

Existing literature on regionalism in Asia accentuates the two dominant schools of institutionalism. Liberal advocates argue that economic cooperation in APEC and ASEM has been largely market-driven and spurred by the decision of political leadership to provide some governance structure to manage the growing economic interdependence of its members. Much on this economic analysis center on efficiency issues and concerns about market distortions that hinder the realization of freer trade within the region. Others concentrate on the trade diversion and/or creation effects of regional trade cooperation and their impact on the multilateral trading order. On the other hand, realist explanations of institutional development in Asia focus on the structural changes caused by shifts in power distribution and inter-state bargaining

dynamics. Much of this analyses concentrates on the changes resulting from the end of the Cold War and the shifts in the relative power of the United States as determinants of regionalism in Asia.

Apart from viewing institutions exclusively as means to achieve certain ends, we can also examine the evolutionary process of institution-building in Asia. While it is important to look into rationalist considerations of cooperation, we should also highlight the importance of knowledge and social learning as contributing factors to regime formation and change. There was a sense that, while the main rationale for these institutions was economic, there was a fundamental need to develop a greater understanding and awareness of the nesting pattern of regional regimes between and across international organizations. Social learning in APEC and ASEM can help overcome differences between members and facilitate regime formation and cooperation.

A major rationale for both APEC and ASEM is to enhance the success of global institutions and norms. The agenda of both groupings direct its members to observe rules and practices of the WTO. Consistency with the GATT-WTO regime or institutional nesting has been the dominant theme of Asian regionalization. APEC's open regionalism and ASEM's open continentalism ensures that both arrangements continue to complement the multilateral trading order but, more importantly, allows either institution to rely on and benefit from the more established institutions of the international system in promoting cooperation among themselves. Nesting is probably the only feasible alternative for bridging sub-regions, particularly those with such differentiated characteristics and those that lack any history of cooperative relations such as in Asia. These would allow existing sub-regional institutions to be nested within a broader and looser framework while preserving their existence. At the same time, this positioning would ensure that sub-regional efforts were in accord with generally agreed region-wide principles and also that management of particular bilateral and sub-regional conflicts would not conflict or impinge upon one another.

Structural change caused by the Asian financial crisis provides new impetus for institutionalization in APEC and ASEM. However, differences in cultural beliefs, values, norms remain important obstacles in defining more formal institutions and processes. Policies and initiatives that will promote greater mutual learning and understanding will help address these concerns. There have been recent changes in cognitive understandings helped by social learning and epistemic communities that assist in ameliorating these differences. APEC and ASEM should really be viewed as an extended educational process, which does not preclude the creation of formal institutions at a later time. The question is how to hasten the process of social learning to build stronger community values and norms.

At the moment, it is not conceivable for both APEC and ASEM to neither replace nor substitute for the other bilateral, regional or multilateral forums particularly the World Trade Organization. It will have to continue to nest itself on to the WTO particularly in getting agreement in difficult areas, enforcing compliance, and dispute settlement. Sub-regional arrangements such as the NAFTA and EU will probably achieve more by way of liberalizing and integrating their economies. In that sense, APEC and ASEM may benefit from the disciplines adopted by these more advance economic arrangements.

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# **APEC AND ASEM: RECONCILING TWO REGIONAL AGENDAS\***

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## **Abstract**

This paper compares the institutional development of APEC and ASEM. The study makes a survey of the various theories and explanations of institutionalism characterizing regional economic cooperation in Asia. After reviewing realist and liberal approaches to the study of Asian regionalism, this study pursues the premise that institutionalization in Asia is a function of the degree of social learning within and between international organizations in the region. In particular, the discussion below focuses on the “nesting” behavior of APEC and ASEM. The paper analyzes how these associations nest themselves with more developed institutions such as the World Trade Organization. It likewise examines how the process of social learning is transpiring between the two cooperative arrangements. While ASEM largely draws its inspiration from APEC, the latter can also learn from ASEM particularly in the area of political cooperation. Finally, the study examines the learning process between APEC and ASEM and sub-regional institutions, particularly that of ASEAN. Institutional reform in both APEC and ASEM can benefit from linkages of sub-regional organizations within each arrangement. In the final section, the paper assesses the prospects of institutional development in both regimes and their implications to each other and for the multilateral trading order.

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## **1. Introduction**

Both the Asia Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM) arrangements reflect the growing interdependence and greater economic cooperation involving Asian countries. APEC is a regional forum whose work is primarily in the area of economic cooperation. On the other hand, ASEM is an inter-regional arrangement with a broader, multi-dimensional focus aimed at promoting exchanges in economic, political and other fields. In large part, the economic dynamism of the East and Southeast Asian countries served as an impetus for these efforts. Phenomenal growth rates spurred by exports and foreign investment became the primary driving force for economic interdependence between Asian countries and the rest of the world. Indeed, the formation of APEC and ASEM is a manifestation of Asia’s rise to economic prominence and international recognition.

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However, institutional development of these cooperative arrangements lagged behind this primarily market-led integration process. APEC has consciously followed a path of informal and looser form of institutional structures and purposely avoided imitating the European experience of economic integration. Similarly, ASEM members have agreed to eschew formalism and move towards the “soft” kind of institutionalization. Both arrangements have steered away from the development of any form of supranationalism that could potentially undermine the sovereign prerogatives of its member-states. Nevertheless, the achievements of both organizations remain significant and substantial.

Their initial successes have led to expectations that some degree of progression in their institutional framework should now take place. As transactions and exchanges among their members continue to increase, it would be reasonable to move towards a higher stage of institutional development. It might be expected that certain principles and more definite rules and procedures be formulated to guide inter-state commerce. There have been suggestions that as APEC enters its tenth year of existence, a maturation of its processes and structures would be the next logical step to take and its further institutionalization might be appropriate at this particular juncture. Moreover, critics have been quick to point out that the Asian financial crisis was in some sense a “crisis of institutions”. The surprise by which the Asian financial crisis was met and the rate that it spread throughout the region exposed organizational inadequacies in managing such downturns. According to this view, the regional crisis has demonstrated that the existing forms of regional cooperation are lacking in substance and are largely ineffective in dealing with region-wide problems.

Indeed, the level of institutional organization in APEC and ASEM falls short of the demands and expectations placed on them. The further development of their respective institutional frameworks would be desirable. But, given the aversion of its Asian members to formalism, what kind of institutions can be expected to develop within the region? What alternatives are available to the rule-based, contractual form of Western regionalism? How will these organizations move from this stage to the next level of institutionalization? To answer these questions, this paper looks into the unique experiences of APEC and ASEM as providing an alternative view to conventional frameworks of institutional development. The study will examine aspects of institution-building, decision-making processes and systems of agenda-setting of both arrangements and assess their contribution in building region-wide norms, values, and rules.

This paper is premised on the idea that the institutional development of both APEC and ASEM will depend on the degree of social learning within and between international organizations. This concept emphasizes international economic cooperation as a political and social process involving factors other than economic variables. Social learning can occur at different levels. First, APEC and ASEM benefit from “nesting” itself with more developed institutions at the multilateral level particularly with the World Trade Organization (WTO). Second, this process is also facilitated by the two cooperative arrangements. While ASEM largely draws its inspiration from APEC, the latter can also learn from ASEM particularly in the area of political cooperation. Finally, the process also relies on the maturation of sub-regional institutions. Institutional reform in both APEC and ASEM can benefit from linkages of sub-regional organizations within each arrangement.

The first section of this paper reviews the various theories and explanations of institutional development. The following section focuses on the unique character of regionalism in Asia and the rationale for the underdevelopment of its institutions. The third section analyses the specific forms and practices that these have taken in APEC and ASEM. The next section looks into the various factors that impinge on institutional development and change in both APEC and ASEM. It will look into incentives for and impediments to institutional formation in Asia. Finally, the paper assesses the prospects of institutional development in both regimes and their implications to each other and for the multilateral trading order. In the end, the study will assess the prospects for greater institutionalization in Asia.<sup>1</sup>

## ***2. Theories and Explanations***

There are different references to the term institution. Often, they are referred to in the structural sense of the term drawing mostly from Stephen Krasner's classic definition of regimes as "implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations".<sup>2</sup> Richard Higgott (1994a) defines institutions as organized rules, codes of conduct and structures that make gains from cooperation possible over time by solving collective action problems. Vinod Aggrawal (1994) makes the distinction between 'meta-regimes', which represent the principles and norms underlying international arrangements, and 'international regimes', which in turn refer specifically to rules and procedures.

The reference to regimes suggests formal organization or a more advanced stage of institution building. Haggard and Simmons (1987) argued the need to differentiate regimes from the larger concept of institutions. They also stressed that regimes aid the "institutionalization" of international behavior by regularizing expectations emphasizing the process aspect of institutions. This view presents a more dynamic interpretation of the concept compared to Krasner's rather static definition. The process view allows us to pay attention to its evolutionary or developmental aspects of the concept as well as on the non-formal aspects that engender institutionalization.

Traditional frameworks regarding the study of institutions in international relations assume a rationalistic approach. This view centers on the maximizing and utilitarian behavior of actors in the international system. This rationalist logic underpins both the realist and liberal perspectives of institutions (see Higgott, 1994b). The former perspective doubts whether cooperative institutions can overcome the self-interested behavior of states while the liberal school is more optimistic about the prospects as well as outcome of cooperation among nation-states.

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<sup>1</sup> This study refers to East Asia (Japan, South Korea and PRChina) and Southeast Asia (mainly the ASEAN countries, principally Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand). These countries form the core Asian members of both APEC and ASEM.

<sup>2</sup> Principles are defined as beliefs of fact, causation and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice (Krasner, 1983).

Borrowing from economics, the liberal school seeks to explain the process that leads to the creation of the most desirable structure of the international economy through the reduction or even elimination of artificial barriers to optimal market operations and the deliberate introduction of elements of coordination and harmonization. National economies cooperate with each other and move through clearly definable stages of integration toward uniform prices and free factor mobility. The movement from free trade areas to common markets and economic union is accompanied by the development of an institutional framework defining and implementing rules to facilitate market operations. The integration of economic activities takes place through the establishment of political communities defined in institutional terms. The liberal view of institutionalism lays stress on formal institutionalization or what Keohane and Nye (1977) referred to as “institutional integration”. Institutions are created to reduce costs of economic interdependence and create greater efficiency in the allocation of resources in the pursuit of common interests.

This approach is reflected in the theory of functionalism. Functionalism essentially adopts a utilitarian perspective of institutions, referring to them in terms of their satisfaction of welfare demands and their responsiveness to the needs of its member-states. Regimes or institutions facilitate cooperation by helping lower transaction costs and increase the flow of information between national economies. Later modifications to the liberal perspective examine political change and how emergent collaborative arrangements evolve toward a supranational body. The neo-functional approach, for instance, highlights the importance of the “spill-over” of functional tasks or how cooperation in one issue-area may lead to collaborative behavior in other areas.

In short, the liberal school looks at how institutions may be “supplied” when there is sufficient “demand” for the functions they perform (Haggard and Simmons, 1987). Critics of this perspective underline its limited focus on instrumental rationality and the underestimation of political and social factors that impinge on the process of integration. Liberal institutionalist framework focuses on interdependence and the efficient integration of national markets without directly addressing issues of sovereignty or conflicts that may arise from the distribution of costs and benefits. It pays almost exclusive attention on the growth of markets and market transactions and fails to recognize that institutions are also arenas of conflict and the exercise of power.

An alternative set of explanations can be found under the realist approach to institutionalism. This view takes a statist perspective of cooperation and emphasizes the central role of power and interests in international economic relations. Much attention is to importance of power maximization tendencies and power hierarchies in conditions of anarchy and their influence on organizational development and behavior. Power structures help mold state action consequently defining the possibilities of cooperation and regime formation (Haggard and Simmons, 1987; Crone, 1993). Realists look at international institutions principally as agencies of nation-states, which behave in a self-maximizing manner. Institutions per se have little influence on state behavior and are largely driven by national interests. Neo-realism sees some prospect to the role of institutions in fostering cooperation but highlights the need for leadership.



Specifically, the development of regimes or institutions is understood in the context of power asymmetries in the international system. For instance, realist thought stresses the role of hegemonic powers in fostering the development of institutions through both positive and negative incentives (Keohane, 1984). The success or failure of institutions is a function of the rise and decline of hegemonic powers. The central hypothesis being the presence of a hegemon or dominant power constitutes a necessary condition for the formation of effective institutional arrangements. Its decline means the consequent breakdown of institutions as members resort to conflict to protect their self-interests.

The realist approach also stresses the relative gains/absolute gains dichotomy between nation-states engaging in cooperative behavior. This approach largely relies on game theoretic models to preferences and how bargaining affects the structuring of preference orderings. These models rests heavily upon the specification of the payoff matrix or the distribution of costs and benefits for different outcomes (Milner, 1992). Moreover, game iteration or the institutionalization of cooperative relations results in greater opportunities and makes future collaborative behavior more likely. However, game-theoretic approaches fall short in determining whether regimes will actually arise, how they will be institutionalized, and, above all, the rules and norms which will comprise them (Haggard and Simmons, 1987).

Both realist and liberal schools are largely state-centered perspectives beginning from the assumption of rational actors and focused on the interplay of interests. Institutionalism then is a function of national preferences and dependent on the outcome of intergovernmental bargaining on the basis of their nationally determined preferences and power capabilities. However, the emphasis on rationality and interests ignores the importance of ideas and “identity formation” as increasingly salient variables in the theory and practice of institutions. There is growing recognition of the importance of ideas in the explanation of international cooperation. As Higgott (1994b) argued, “rationality is conditioned by the strength of ideas that constitute an actor’s understanding of interest. Rational action is not prior to the ideas that nourish it.” Realism and liberalism assumes identity as endogenously given but it is important to recognize how ideas can transform interests. Moreover, the two traditional perspectives basically take an ends-means approach to the study of institutions. These traditional approaches pay little attention to long-term considerations and are almost exclusively concerned with short-term welfare interests. There is need to understand the evolution of cooperative arrangements and factors that impinge on its development.

The significance of identity and the evolutionary perspective to institutionalization is considered under the cognitive school of thought. This approach offers a different perspective to the study of international institutions by focusing on cognitive variables as they impinge on institutional construction and innovation. Regimes or institutions are theorized to be conditioned by ideology, values, and the beliefs they hold about the interdependence of issues. In other words, institutions are created and maintained not only by self-interests but also by collective shared values and consensual knowledge. In contrast to the realist view, the cognitive approach underline the significance of consensual knowledge, ideas or cognitive interpretations of the environment and how this evolves as an actor goes through the learning curve (Haggard and Simmons, 1987). In this sense, actors within

organizations would not have fixed interests and institutions but rather interests evolve as ideas and values of its members' change. Cooperation here relies heavily on extensive shared interests and values such that communities sharing common values make regime formation easier and, conversely, value differentials make institution-building more difficult (Crone, 1993). Cognitive understandings may change as new knowledge and information are generated and processed. New knowledge and understandings may lead decision makers to calculate their interests differently and, consequently, make cooperative arrangements more attractive.

Keohane and Nye (1977) call this as attitudinal integration or the compatibility of attitudes at a given time. Others refer to it as social integration with emphasis on transnational relations or cross-boundary exchanges among non-state and sub-national actors. The cognitive approach is viewed as a process of social learning where interests and values evolve through experience and the generation of new knowledge allowing members of a given organization to develop trust and a habit of cooperation. Advocates of this view argue that learning affects international rules and cooperation by altering the range of incentives. Learning through increased economic and political exchanges contribute to the prospects of cooperation and reinforce institutions (Mack and Ravenhill, 1994). Cooperation is influenced by the capacity of social organizations to process and absorb information and the extent and duration of interaction of its members. By highlighting learning, cognitive theories characterize cooperation and institutionalization as a dynamic rather than a static activity.

What are the channels for social learning? The source of ideas can be found not simply in the interests identified by regional state policy making elites but in the influences of an emerging community of like-minded intellectuals and practitioners in the definition of regional identities (Higgott, 1994b). For instance, studies on "epistemic communities" or issue networks highlight the contribution of transnational coalitions. Epistemic communities refer to a professional group that believes in the same cause-and-effect relationships and shares common values and understanding of a problem and a commitment to seeing them translated into public policy (Haas, 1992; Milner, 1992; Ravenhill, 1998). These groups furnish government with expert information, which creates focal points that promote cooperation. Value differences are then somewhat ameliorated by information provided by the knowledge elite and help facilitate the integration process. These have also been referred to as "policy networks" which are non-hierarchical, decentralized and mostly informal interaction patterns among actors to solve collective action problems. Recent literature describes this as the "Track Two" process referring to forums and organizations that include intellectuals and practitioners sharing common understandings of problems and issues. This is distinguished from "policy communities" which are more formalized relationships or sets of institutions between non-governmental and governmental members of a policy network (Higgott, 1994b).

Another way to demonstrate social learning is in the "nesting" pattern of international regimes. This concept was first advanced by Vinod Aggrawal (1994) who observed that certain issue-specific arrangements in lower level regimes are brought into conformity with broader institutions. He terms this behavior as 'institutional nesting' which somewhat depicts the behavior of states to rely on higher level systems to advance cooperative behavior at a subsidiary level. This behavior suggests hierarchical, goal-oriented arrangements in contrast with the parallel form of

institutionalization (Aggrawal, 1998). Aggrawal also describes this behavior as an attempt at “institutional reconciliation” or efforts by regional institutions to be consistent with the principles of the multilateral trading system under the WTO. By having specific agreements ‘nested’ within a larger and more developed regime, sub-level initiatives at institution-building avoid controversial issues while at the same time benefit from the established processes and rules of the larger regime. Learning can also occur across regions. Camroux and Lechervy (1996) observed that the composition, structure and behavior of one region, not only impinge upon, but also serve to structure the evolving nature of other regions.

This concept of nesting can help us understand the relationship between regional institutions and the multilateral trading order under the WTO as well as between sub-regional free trade areas such as AFTA and NAFTA and their relations with APEC. This suggests that regionalization is also a process of social and economic interaction. This is especially relevant in this study as it is also suggested here that the process of regionalization in APEC and ASEM is both influenced and reinforced by the other.

There is a continuing debate between liberal, realist and cognitive approaches to the study of institutions (see Table 1). In general, the debate centers on the differing emphasis on power, interests, and knowledge in international political economy. Both the realist and liberal view stress on self-interest and statist rationality. The realist perspective focuses on situational and power considerations while the liberal view emphasizes institutional effectiveness and functional rationality. On the other hand, the cognitive approach centers on the role of knowledge and socialization as explanations of regime formation and change. Neo-realism underlines the importance of power hierarchies and the system-level changes while neo-liberalism highlights the importance of efficiency and market processes. Cognitive theories provide a historical or evolutionary perspective to institutionalization. It is not the task of this study to resolve this debate here. Suffice it to say that each approach contributes to a better understanding of how and why institutions develop. In this study, we center on the contribution of the cognitive approach, particularly the nesting behavior, in providing an alternative explanation to institutional development in Asia.

**Table 1: Three Schools of Thought**

	<b>Realist</b>	<b>Liberal</b>	<b>Cognitive</b>
Primary Value	Power Maximization and National Security	Growth and Efficiency	Ideas and Values
Institutional Structure	Power hierarchies	Administrative network and functionalism	Transnational linkage
Behavioral Dynamic	Inter-state bargaining	Cooperation through mutual want satisfaction	Social learning through communication and interaction
Institutional Outcome	Balance of power	Fit between structures and function	Community of values

Note: Derived from Pentland, 1973.

### ***3. The Structure of Asian Regionalism***

There is the widely held view that the present state of institutional development in Asia is poor and needs substantial improvement. John Ravenhill (1998) described it as “institutional deficit” noting that the region has been historically characterized by the absence of region-wide institutions for inter-governmental collaboration. Hadi Soesastro (1997) concurs pointing to the absence of a strong tradition of regionalism and the short experience in developing a sense of regional identity among Asia Pacific countries. Aggrawal (1993) likewise noted the absence of a strong and stable commitment to the institutionalization of cooperation in the region. What institutions that exist in the region are commonly described as weak. Both APEC and ASEM are very much in the early stages of institution building, though a growing sense of regional cooperation and adherence to common goals can be found. But it is apparent that the level of institutionalization on a region-wide scale involving Asian countries is no where near the institutional complexity found in North America and Europe.

Regionalization in Asia has been an “undirected phenomena” and not primarily policy-driven (Higgott, 1998b). Trade and investment transactions contracted mainly by private business and the unilateral liberalization of regulatory barriers are the main factors pushing economic integration of these countries. The process of foreign direct investment and export-oriented industrialization has contributed to the greater complementarity across the economies of East and Southeast Asia (Rudner, 1995 and Petri, 1993). But Asia’s rise to importance in the global economy has far outpaced their institutional convergence (Aggrawal and Morrison, 1998). Market integration has preceded the institutional integration of the region.

Governments across the region have come to recognize the necessity of constructing governance structures at the international level to manage their increasing economic interdependence and reduce the negative effects of this relationship (Ravenhill, 1998). However, institutionalization of regional inter-state cooperation involving Asian countries has been a rather slow and hesitant process.<sup>3</sup> Miles Kahler (1995) made similar observations noting that the region’s institutions displayed little characteristics of a formal organization, possessed few clear rules or injunctions, were narrow in scope, and have evolved over time from the bottom up rather than through episodes of constitution making. Hadi Soesastro (1994b) concluded that the region lacks strong regimes because common principles and norms are too narrowly defined and cultural traditions and fundamental interests along both North-South and East-West lines divide it.

Overall, the preference is for a “soft” type of regime. This model consciously resists the idea of formal institutions but instead relies on an evolutionary approach to cooperation. The so-called Asian approach to cooperation rejects the emphasis on legalism, formal agreements, contracts and institutions. Instead, Asian regionalism lays stress on informal consensus-building, ad-hoc problem solving diplomacy, confidence-building, elite-bonding, and peer pressure (Higgott, 1998b and Kahler,

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<sup>3</sup> For a brief history on Pacific regional economic cooperation, see Rieger (1989) and Soesastro (1994).

1994). As one analyst describes it, the Asian way is to set out the principle first and negotiate the details afterwards.

National interests remain the core of Asian regionalism where sovereignty issues are primordial concerns. In Asia, national interests are shaped by concerns about sovereignty and a desire to sustain domestic political stability and national unity. Regional economic cooperation is primarily state-driven where governments undertake actions on trade liberalization or other matters individually. International cooperation is conditional on sustaining, even enhancing national sovereignty and autonomy. Higgott observed that Asian regional organizations are geared more toward sovereignty enhancement and not sovereignty pooling. At no regional level in the Asia Pacific has there been any agreement to relinquish or 'pool' aspects of sovereignty of individual state economic policy making procedures and build supranational agencies without ceding national sovereignty to a regional authority (Higgott, 1998a).

The development of institutions of regional cooperation in Asia has been closely linked with the structural changes in the international system. American military and economic hegemony in Asia from the mid-1950s made institutionalization unnecessary (Grieco, 1998). Neither the US nor East Asian countries saw economic regime formation as being in their interest choosing instead to relate with each other on a bilateral basis. Most governments eschewed regional institution-building to avoid being drawn into a forum that would constrain national action and threaten their individual interests. As Crone (1993) concluded, Pacific institutionalization until the 1980s had been inhibited by power and value disparities, US indifference and by small state hesitation to engage with the United States beyond existing bilateral ties.

For much of the post-war period, economic relations were subordinated to security and defense concerns and a hub-and-spoke relationship existed centered on the United States. At the end of the Cold War, American policymakers sought to press its allies to share the burden of maintaining regional order. Moreover, the economic-driven confidence of Asian countries led them to seek a higher profile in the conduct of inter-state relations within the region and between the regions and other international actors in a range of different issue areas. For the US, the prospect of extensive erosion of security and economic positions in the Pacific induced new enthusiasm for regional cooperation. On the other hand, Asian governments desired some form of institutional framework to keep the US engaged in the region and to manage the acrimonious relationship between the United States and Japan.

According to Donald Crone, US predominance in the early post-war period inhibited early attempts at institutionalization and its decline from the 1980s led to regime formation in the region. Since the late 1980s, the prior dominance of bilateral system of inter-state relations has given way to multilateral or region-wide institutions. The end of the Cold War and changes in the security environment weakened the rationale for the underwriting economic growth in Asia. Strategic incentives did not favor institutional formation during the peak of hegemony but, with the narrowing of power differentials and the "leveling" changes in economic and power relations among countries in the Pacific rim, those incentives changed creating a greater convergence of interests in institutional formation (Crone, 1993). This view

departs from the theory of hegemonic stability, which credits the initiation and sustainability of international institutions to hegemonic leadership.

The slow progress in the Uruguay Round of multilateral trade negotiations, the formation of the European Single Market and the growing trend toward regionalism elsewhere also triggered moves towards regime formation in the Asia Pacific region. There were also fears of growing competition for trade and investment from the transition economies of Eastern Europe and China and from countries in Latin America that have recently adopted market-oriented reforms. Asian reactions to these developments were to strengthen regional arrangements and to establish umbrella regional organizations with other continents. Higgott (1998b) noted the growing recognition in Asia that their competitive advantage may be best served by an open, liberal international trade regime underwritten by adherence to a set of norms, principles, and codified rules arbitrated by a multilateral body such as the WTO. APEC and ASEM can be viewed as an Asian response to the deepening of Europe's integration and the formation of the North American Free Trade Area (NAFTA). In other words, the desire to create regional institutions stem from the common realization or appreciation among the region's national leaders of the need of some sort of regime to manage political and economic change in the post-Cold War system.

Some observers have attributed Asia's institutional deficit to the absence of commonality of values, norms and world views among East and Southeast Asian countries. Higgott (1994a) observed that there is no sense of community in a linguistic, religious, cultural, political or ideological sense nor is there much evidence of some form of regional consciousness. Kahler (1994) even went so far as to say that 'Asia' does not represent a common culture. Regional cooperation is also tempered by the 'style' of East Asian policymaking. For example, relationships among businesses and between businesses and government are often characterized by long-term collaboration, reciprocal favors, and continuous negotiations rather than market-mediated transactions and explicit contracts (Petri, 1993). Hanns Maull (1998) coined the term "foreign policy cultures" to highlight the role of national values and norms on the foreign policies of states. He argued that differing national policy perspectives impinge on the willingness of states to cooperate as well as on the preferred forms of cooperation. Moreover, the vast disparity between developed and developing countries are a fertile ground for conflicting interests and values.

In short, differing perceptions and expectations arising from diverse political and economic systems and divergent economic performance between developed and developing members inhibited institutional development in Asia. These differences in values and social understandings limit the congruence of economic objectives and understandings among region states (Harris, 1993). Disparity in views challenge the concept of 'shared norms' that are supposed to represent a necessary condition for the construction of regimes and institutions (Ostry, 1998).

However, it has been observed that there is now a greater degree of convergence of Asian values and perspectives that would allow the formation of institutions of regional economic cooperation. Higgott (1998b) support this view observing that there seems to be a growing desire on the part of a wide range of policy actors in East and Southeast Asia to establish a greater sense of regional cohesion. This has been brought about by years of economic growth and prosperity among the

populations of Asia. Increased intra-Asian exchange and areas of cooperation has brought about the development of common Asian consciousness and identity. Economic growth increased the awareness in Asian countries of their common traditions, cultures and mores such as their emphasis on work ethics, education and communal spirit (Funabashi, 1995). Funabashi (1993) terms this phenomenon as the “Asianization of Asia”. A number of government leaders in Asia have deliberately fostered a distinct “Asian way” of development, which places a premium on consensus and hierarchy as necessary conditions for sustained economic growth. This Asian brand of development rejects Western democratic standards. From an institutional standpoint, Asian preferences for consensus and evolution are often contrasted with the Western orientation toward formal contracts and negotiations. The growth of a notion of an Asian identity no matter how loose, Higgott argued, has significance to the extent that other countries might feel obliged to define their policies vis-à-vis East and Southeast Asian countries in regionalist terms. In the following two sections, we discuss how these changes have found expression in APEC and ASEM.

**Table 2: Asia in inter-regional arrangements**

	APEC	ASEM	ASEAN	EAEC
Japan	■	■		■
PR China	■	■		■
Hong Kong	■			
Taiwan	■			
South Korea	■	■		■
Brunei	■	■	■	■
Cambodia			■	
Indonesia	■	■	■	■
Laos			■	■
Malaysia	■	■	■	■
Myanmar			■	■
Philippines	■	■	■	■
Singapore	■	■	■	■
Thailand	■	■	■	■
Vietnam	■	■	■	■

### 3.1 Institution Building in APEC

In many respects, APEC is a unique association given its diverse membership comprising countries with different cultural and political make-ups at various levels of economic development. Likewise, the sheer size and membership of the regional organization makes it highly visible. APEC groups together the three largest economies in the world as well as the most dynamic developing countries under one roof. APEC’s members account for 67 percent of global output, 81 percent of world merchandise trade and 53 percent of world foreign direct investment. Since its inauguration in 1989, APEC’s activities have multiplied and broadened to include more Asia Pacific countries as its members.

Despite its almost ten years in existence, APEC is still very much in the formative phase of institution-building. Interestingly, this state of institutional

underdevelopment is entirely deliberate. In defining the grouping's vision, the APEC Eminent Persons Group (EPG) cautioned against "over-institutionalization and over-bureaucratization". From the very beginning, sentiments were clear as to what APEC should not be. The association was determined to avoid what it views as unnecessary bureaucratic structures of the European Union. Moreover, APEC was not meant to be neither a negotiating forum like the WTO nor a trading arrangement like the NAFTA.

What is it then? Higgott argued that APEC is neither an institution nor a regime. Rather, APEC has been commonly described as a process, evolving as a relatively loose form of cooperation (Elek, 1995). It is a voluntary association of sovereign governments that does not aim to have an organizational form (Hughes, 1991). Indeed, when APEC was established, there was no real consensus among the delegates attending the Canberra meeting on exactly what forms or objectives the institution should have. In its initial phases, APEC's goals were to lend support for worldwide trade liberalization and to assess trade, investment, and other common economic interests in the Asia-Pacific region. Only after three years of meetings did officials recognize the need to strengthen APEC's role and agreed to consider the possibility of establishing a mechanism on a permanent basis to support, finance and coordinate its various activities (Hirano, 1996).

Over the past ten years, however, APEC has come to have some elements of a regime or institutional framework (see Table 3). The APEC concept has unfolded incrementally, proceeding slowly toward the realization of long-term goals (Rudner, 1995). A sense of common principles, objectives, and a supporting organizational structure has gradually taken shape. The association is progressively evolving in a manner called the "APEC process" which means a step-by-step procedure for building consensus among all participants. It is a slow and deliberate process of decision-making placing no formal obligations for the participating countries. The APEC process, as it has come to be known, establishes mechanisms for a wide range of joint consultations, which is a significant shift from the prior bilateral system.

Since 1989, APEC has come to define a set of principles and norms of the regional institution, the central of which lies in the concept of open regionalism. Defined as "concerted unilateral MFN liberalization of trade", this principle resists the idea of the formation of a trading bloc and prefers openness in support of the multilateral trading system.<sup>4</sup> APEC conception of plurilateral regional economic cooperation is predicated upon an open, comprehensive, and non-discriminatory framework for international trade and investment (Rudner, 1995). One can find frequent references to this principle in all official statements since the inaugural Canberra meeting.<sup>5</sup>

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<sup>4</sup> For recent discussions on open regionalism, see Bergsten (1997), Garnaut (1996), Yamazawa (1994) and Drysdale, Elek and Soesastro (1998).

<sup>5</sup> The ministers at the Canberra meeting felt it "premature" to decide on organization structure of APEC. But they managed a consensus on the broad principles of APEC stating that cooperation should: (a) sustain growth and development of the region, (b) recognize the social and economic diversity of the region, (c) involve a commitment to open dialogue and consensus based on equal respect, (d) be based on non-formal consultative exchanges of views, (e) focus on those economic areas where there is scope to advance common interests and achieve mutual benefits, (f) directed at strengthening the open multilateral trading system and not involve the formation of a trading bloc, and (g) complement and draw upon, rather than detract from, existing organizations.



**Table 3: Institutional Milestones in APEC**

<b>Meeting</b>	<b>Outcome</b>
Canberra 1989	Set out basic principles of Asia Pacific economic cooperation; Identified specific elements of work program
Singapore 1990	Identified broad areas of cooperation to include economic studies, trade liberalization, investment, technology transfer and human resource development and sectoral cooperation.
Seoul 1991	Issued declaration laying down APEC's principles, objectives, scope of activity, and mode of operation.
Bangkok 1992	Established permanent secretariat based in Singapore; Appointment of Eminent Persons Group to chart vision for APEC;
Seattle-Blake Island 1993	Initiation of annual leaders' meeting and issued a vision statement; Approved trade and investment framework; Established Pacific Business Forum; Called for the convening of meeting of APEC finance ministers; Established a Budget and Administrative Committee.
Bogor 1994	Declared goal of free and open trade and investment in the Asia Pacific by 2010 for industrialized economies and 2020 for developing economies; Established three pillars of cooperation, namely: (1) trade and investment liberalization, (2) trade and investment facilitation, and (3) economic and technical cooperation (ECOTECH).
Osaka 1995	Defined Action Agenda; Defined fundamental principles of liberalization and facilitation; Identified specific areas of ECOTECH <sup>a</sup> Set up APEC Business Advisory Council replacing the EPG; Established voluntary consultative dispute mediation service.
Manila-Subic 1996	Laid down individual and collective initiatives under the Manila Action Plan for APEC; Defined framework of principles for economic cooperation and development
Vancouver 1997	Endorsed early voluntary liberalization in 15 sectors; ECOTECH Sub-committee established; Defined criteria on membership
Kuala Lumpur 1998	Begin review of APEC process

<sup>a</sup> These are human resources development, industrial science and technology, small and medium enterprises, economic infrastructure, transportation, energy, telecommunication and information-technology, tourism, trade and investment data, trade promotion, marine resource conservation, fisheries, and agricultural technology.

The Seoul Declaration, adopted in the 1991 APEC Ministers Meeting, set the general objectives and principles of the organization. The accord laid down the fundamental objectives of APEC: (a) to sustain the growth and development of the region and enhance positive gains, (b) to develop and strengthen the open multilateral trading system, and (c) to reduce barriers to trade in goods and services and investment in manner consistent with GATT principles. Other principles were also adopted such as cooperation based on mutual benefit, commitment to open dialogue and consensus-building, and consultation and exchange of views based on equal respect (Soesastro, 1994). Moreover, members agreed that the association should be economic in focus and political and security issues were explicitly left aside. The

document also defined the criteria for participating countries and formalized the holding annual ministerial meetings supported by senior official's meetings and working groups. The declaration is significant for being the first official document that prescribed the association's principles, objectives, scope of activity and mode of operation.

Subsequently, the grouping's vision of "deepening our spirit of community based on our shared vision of achieving stability, security, and prosperity for our peoples" was adopted in the first summit of APEC leaders in Blake Island. At the Bogor Summit in November 1994, the APEC leaders adopted a "Declaration of Common Resolve" pledging to dismantle virtually all barriers that have impeded trade and investment between the region's economies. APEC leaders committed themselves to the ambitious goal of free trade and investment in the region by 2010 for industrialized economies and 2020 for developed economies.

In discussing ways to implement this goal, APEC ministers came to define the fundamental principles to guide liberalization and facilitation of trade and investment in the following meeting in Osaka. These nine principles are comprehensiveness; WTO-consistency; comparability; non-discrimination; transparency; standstill; simultaneous start, continuous process, and differentiated timetables; flexibility; and cooperation. The Osaka principles guarantee the voluntary nature of cooperation and provide its members with enough leeway in their obligations to the organization. The Manila APEC meeting was significant for defining similar guiding principles governing economic and technical cooperation under the Declaration on an APEC Framework for Strengthening Economic Cooperation and Development.<sup>6</sup> Complementing the principles of the Seoul Declaration, the Manila accord laid down the principles of mutual respect and equality for the diversity and the different situations of members, mutual benefit and assistance, constructive and genuine partnership among industrialized and developing economies, and consensus building.

APEC's institutional structure revolves around annual ministerial meetings chaired by APEC members on a rotating basis. This is complemented by committees, a secretariat and by various ad hoc working groups. Formally, the highest decision-making body in APEC is the annual ministerial meeting. Supported by the senior officials' meetings (SOM) and several working groups, these ministers shape the direction and nature of the organization's activities. Over the years, these various meetings broadened its range of participation, from the sole involvement of trade and foreign ministries to include agencies with responsibilities for finance, transportation, the environment, science and technology, small and medium enterprises and, lately, even one on gender issues.

Since 1993, the heads of government have become the ultimate authority to decide on the direction of APEC (Hirano, 1996). The initiation of APEC summitry help developed a regularized means of high-level consultations that builds rapport,

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<sup>6</sup> The Manila Framework also identified priority areas of developmental cooperation namely, (1) to develop of human capital; (2) to develop stable, safe and efficient capital markets, (3) the strengthening of economic infrastructure; (4) the harnessing of technologies for the future; (5) safeguarding the quality of life through environmentally sound growth; and (6) to develop and strengthen the dynamism of small and medium enterprises.

mutual trust and confidence in the region.<sup>7</sup> These meetings also provide a significant boost to the otherwise slow process of economic cooperation that resulted from the ministers' meetings. Soesastro (1997) noted the benefits of having a "fast-track" political process as differentiated from the "normal" or bureaucratic track of APEC process to hasten cooperative initiatives of the association. While strengthening and accelerating agenda-setting in APEC, the involvement of leaders also helps resolve the institutional tension within APEC among foreign and economic ministries (Aggrawal and Morrison, 1998).

The leaders and ministers are supported by a small permanent secretariat whose function is to coordinate and assist in APEC's work projects and facilitate the flow of information among its members and between the association and the larger public. Established in 1992 and housed in Singapore, the APEC Secretariat is meant to be small in size and simple in structure composed mainly of personnel seconded from their member governments. The secretariat has, on occasion, been supported by other APEC bodies. In 1992, APEC ministers established the EPG to help define the institution's goals and objectives. The following year, the Pacific Business Forum (PBF) was created and later replaced by the APEC Business Advisory Council (ABAC) to act as a permanent advisory body to the APEC leaders.

APEC's modality is rooted in the idea of "concerted unilateralism," according to which each member economy prepares its own plan to liberalize trade and investment. Each individual plan is then subjected to peer review to help assure compliance in achieving the ultimate goal. The APEC process relies on "peer pressure" to ensure members' adherence to their commitments. This approach allows APEC members to take small but concrete steps and gain greater confidence among themselves as the process of liberalization moves forward.

The APEC process suffers from a number of limitations. For one, APEC is not a rule-making institution nor is it empowered to issue or enforce directives over its members (Elek, 1994).<sup>8</sup> The joint ministerial and leaders statements and declarations mentioned above are statements of intent rather than legally-binding contracts. None of these declarations and joint statements has binding force in international law (Hirano, 1996). For example, the Seoul charter appeared in the form of a declaration and is not a legally binding treaty (Ogita, 1997). Instead, decision-making is by consensus at all levels of the organization where policy determinations are made at the national level. In general, many observers have characterized the APEC process as an Asian approach to economic cooperation, which is voluntary in nature and decision-making facilitated by consensus. Simply, APEC's role then is limited to coordinating independent national decision-making processes in the direction that will facilitate economic cooperation. This structural feature recognizes that the diversity of member economies requires special consideration but inevitably allows the process to go ahead only as fast as the slowest member will allow it. Thus, consensus reflects

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<sup>7</sup> Much of the leaders' time is actually conducted in bilateral 'side meetings'. Generally, these bilateral meetings help complement the APEC process but discussions here are on a variety of political and security issues that are unconnected with formal APEC work program. In this sense, the leaders' meetings occur more for their value in international diplomacy and domestic political terms rather than for trade, investment or development cooperation.

<sup>8</sup> APEC's only significant venture so far into rules-making is the 1994 agreement on Non-Binding Investment Principles (NBIP), which remains voluntary in its implementation.

a low level of trust among APEC's members and limits the overall effectiveness of the organization.

APEC's organizational set-up is characterized by institutional ambiguity. The rotating mode of leadership impedes institutional continuity and inevitably creates unrealistic expectations for each meeting to produce 'action plans' or political deliverables. In addition, others have observed that APEC's specialized working groups develop largely their own agendas and often operate largely in an uncoordinated manner, and act quite independently of the broader APEC process (Aggrawal and Morrison, 1998; Rudner, 1995). Much of their work has been confined to information exchanges, inventories and surveys, and seminars for officials. In fact, the apparent result of this plethora of meetings is duplication, overlap, and over-bureaucratization. The structural concentration of APEC activities under Foreign and Trade agencies of government also bring about the narrow focus on trade and trade-related issues (at the expense of ECOTECH concerns). In addition, the APEC Secretariat is too small, underfunded, and its functions limited to cope with the number of activities of the association. Already, there are calls to strengthen the secretariat especially in connection with monitoring the implementation of the Osaka Action Agenda and Manila Action Plan.

More fundamentally, the emphasis on voluntary and non-binding principles creates doubts whether APEC can actually achieve anything substantial other than diplomatic niceties and nice-sounding grand visions. In Bogor and Osaka, Asian economies lobbied hard that goals remain voluntary targets and enough room be given to decide for themselves the pace at which they implement market-opening measures. Similarly, some members pressed these principles as condition for agreeing to the failed Early Voluntary Sectoral Liberalization (EVSL) scheme. While the APEC process avoids the tedious process of negotiation and ratification, it is difficult to guarantee compliance other than through peer pressure. Reliance on peer group pressure may not be sufficient to hold governments' to their commitments. Instead, the liberalization process depends heavily on an efficient secretariat and a monitoring and adjudication infrastructure. But APEC suffers from the absence of a strong central institution and lacks a monitoring and evaluating system to hold government's accountable to their commitments. Critics argue that APEC's core principles of voluntarism and flexibility in fact slows the pace of liberalization.

Nevertheless, APEC has had some achievement in the developing itself as a meta-regime though it has limited success in developing common rules and procedures. Most of its accomplishments are in the trade and investment areas but there is need to pay more serious attention to the ECOTECH aspect and, given the Asian crisis, to integrate macroeconomic and financial issues into the APEC agenda. In operational rules-making and implementation, enforcement and adjudication arenas, APEC facilitates the development of regimes by acting more to strengthen the operation of global regimes by pushing for its extensions rather than creating new alternative regimes at the regional level (Aggrawal and Morrison, 1998). In other words, APEC has largely "nested" itself within the broader institution of GATT-WTO. For example, APEC proposals for a trade dispute-settlement procedure focuses on mediation and relies on the final arbitration procedure under the WTO. Most recently, APEC members opted to conclude negotiations on nine sectors initially included under its EVSL scheme under the WTO after its failure to agree on its terms.

Even in efforts to deal with the aftermath of the regional financial crisis, the approach has been to support the initiatives of the International Monetary Fund, the Asian Development Bank, and other financial multilateral institutions. Rather than breaking new ground, the early efforts of APEC have been focused on understanding and relying on existing international regimes and global institutions.

*To summarize, APEC institutional structure is characterized by incremental, cumulative and self-sustaining liberalization (Drysdale et al, 1998). Current institutional form is state-centered where agenda-setting is largely nationally driven. This approach avoids the issue of formalizing the structure of the organization prior to the emergence of greater identification of, and consensus of its role (Higgott, 1993). Although 'community' building is the objective, there is no strong consensus on shared values and interests. Indeed, principles such as unilateral and non-binding commitments may actually engender disagreements (Grieco, 1998). There is no collective objective to which member-states can subscribe to ensure a 'deepening' of cooperation. Rather, the intent of APEC is to provide a "structure of certainty" for inter-governmental economic cooperation in the region (Dobson and Lee, 1994).*

### 3.2 Inter-regional Cooperation in ASEM

ASEM was the culmination of a need for Europe to re-discover Asia and for Asia to re-establish its economic links with Europe (Lee, 1997). Ruland (1996) referred to it as an attempt to rebuild a relationship that has been marred by clashes over human rights, democracy, environmental issues and trade. The declared aim of the ASEM has been to reinforce the weak link in the triangle of relations between Asia, North America, and Europe and fill in the "missing link" in the global triangle. Thus, shortly after the release of European Union's (EU) "New Strategy for Asia" and following a proposal from Singapore, a historic meeting between the heads of government from ten Asian countries and the fifteen member-states of the EU (including the president of the European Commission) took place in Bangkok in 1996 inaugurating ASEM.

ASEM as a whole accounts for over 65 percent of world gross national product, 61 percent of world merchandise trade and over half of world foreign direct investment almost comparable to APEC. Yet, inter-continental trade and investment is perceived to be relatively underdeveloped and not commensurate to trans-pacific economic exchange. Nevertheless, Europe is an important trading market and source of investment for many East Asian countries. Similarly, ASEM holds attraction for Europeans given its commercial potential.

Following APEC's lead, members encouraged concerted unilateral action in facilitation and liberalization of trade and investment between Asia and Europe. With the view of strengthening mutual trade and investment, there are initiatives aimed at eliminating trade obstacles through better application of rules already in existence, primarily those of the WTO. Both Europe and Asia share an interest in sustaining efforts towards continued liberalization under the multilateral trading system, ensuring open markets and maintaining transparency. Pelkmans and Fukusaku (1995) coined this principle as "open continentalism" which in essence similar to APEC's open regionalism and its nesting tendencies. ASEM has begun building on a program

of activities since its first meeting in Bangkok. Finance and economic ministers have had several meetings to discuss issues of common concern. These ministers have endorsed an ASEM Investment Promotion Action Plan (IPAP) and a Trade Facilitation Action Plan (TFAP) and are establishing common cause in WTO-related issues.

Relative to APEC, ASEM is quite informal in terms of institutional frameworks and member states' commitment. In fact, it has no institutional form to speak of – ASEM has no secretariat or other permanent structures. It has been referred to as a loose forum for dialogue and a network rather than an organization. The nature of ASEM can be most easily described by what it is not meant to be. ASEM does not intend to become a regional trade regime like the APEC (Ruland, 1996). ASEM does not aspire to create an inter-regional free trade area. The association does not have a timetable for trade and investment liberalization. Preferential trade with Asia is not on the agenda primarily because of the existence of other preferential arrangements like the Lome Convention. Europeans have also insisted that their external trade policy will continue to be conducted within WTO framework and not through preferential terms.

Unlike the APEC process, ASEM was a top down initiative (Lee, 1997). The association began straight away with a meeting with government leaders from both sides. The first ever meeting in Bangkok was largely an introductory 'getting-to-know-you' event with very meager results. The meeting was valued more for its symbolism rather than its substance (Soesastro and Wanandi, 1996). The agenda that emerged at the first ASEM was an amalgam of EU and Asian (largely ASEAN) preoccupations. But like APEC, ASEM was explicitly intended to be a start of an extended process although not the inception of a formal set of institutions.

Although the primary purpose of ASEM was to encourage trade and investment exchanges, the association has a broader and a more comprehensive agenda not limited to the economic issues. A substantive political dialogue has been commenced at both ministerial and official levels touching on global and regional issues of common concern. In Bangkok, participating countries agreed to foster political, dialogue, reinforce economic cooperation and promote cooperation in the social and cultural fields particularly in the fields of science, education and development, environment, the fight against crime, and cultural cooperation. APEC is more narrowly confined to regional trade and investment while discussions in ASEM include political and security issues are covered including such topics as UN reform, arms control and proliferation, and the like.

The next summit of European and Asian leaders in London produced more substantial results including an agreement on some guiding principles for the ASEM process. At the London Summit, ASEM leaders endorsed the Asia-Europe Cooperation Framework setting out the key objectives of the ASEM process, the key priorities and major areas of Asia-Europe cooperation, and a framework mechanism for the coordination and management of ASEM activities. The leaders agreed that the ASEM process should (a) be conducted on a basis of equal partnership, mutual respect and mutual benefit; (b) be an open and evolutionary process; (c) enlargement should be conducted on the basis of consensus by the Heads of State and Government; (d) enhance mutual understanding and awareness through a process of dialogue and

(e) cooperation on the basis of concerted and supportive action, particularly to carry forward political dialogue and economic cooperation.

The leaders also agreed that the ASEM process will be an informal process and that ASEM need not be institutionalized. Instead, they agreed to pursue multidimensional dialogue and encourage exchanges beyond governmental channels. This process is intended to stimulate and facilitate progress in other forums, particularly between the business/private sectors, think tanks and research groups and, no less importantly, between the peoples of the two regions. Unlike APEC, ASEM has been particularly conscious of promoting dialogue in a broader range of issues and involving a greater number of stakeholders. Prior to each summit, the European Commission has sponsored the Venice Forum (1996) and the Manila Forum (1997) involving various members of civil society (including very distinguished persons from academia, the arts, and media) in discussion aimed at promoting better mutual understanding between Asia and Europe. The business sector has its own on-going discussion through the Asia-Europe Business Forum to further enhance business cooperation between the two regions. In the cultural and social field, the Asia-Europe Foundation provides some initiative to promote mutual awareness by promoting intellectual and cultural exchanges between think-tanks, universities, peoples and cultural groups. Building inter-regional networks and information conduits is considered strategically important in institution-building in ASEM.

The London Summit also commissioned an Asia-Europe Vision Group to develop a medium to long term vision to help guide the ASEM process. A draft of the Vision Group report submitted to ASEM foreign ministers in 1999 called for the gradual integration of Asia and Europe “into an area of peace and shared development”. More concretely, they recommended “a five-fold expansion in student exchanges between the two regions by 2025 and the eventual goal of free flow of goods and services by the year 2025”. The draft report also recommended closer macroeconomic policy coordination and reform of the international financial system as well as coordination in political and security dialogue. Recognizing the need for an institutional point of coordination between its members and the need to ensure ASEM’s momentum, the Vision Group recommended the establishment of “a lean but effective secretariat”. It also recommended meetings of ministers responsible for environment, science and technology, and education in addition to the meetings of ASEM ministers of foreign affairs, trade, and finance. These recommendations have been submitted for endorsement at the next ASEM Summit.

These achievements are all significant given that no formal institutional mechanism on an inter-regional level previously existed between Asia and Europe. But there are immense obstacles to institution-building in ASEM. Mark Hong perhaps succinctly captured the difficulties that face ASEM by noting that, “ASEM is a bold and unique experiment which tries to promote cooperation between two regions with disparate levels of development, no common history except conflict, domination and exploitation, and very little in common in terms of values and systems – neither geography, ethnicity, politics or strategic interests” (cited in Maull, Segal and Wanandi, 1998). Indeed, ASEM should really be viewed as a long-term process of institution building.

For one, agenda-setting in ASEM is complicated by the decision-making process in both Europe and Asia (Yeo, 1997). There exists a sharp asymmetry in internal organization between the two regions. In addition, the composition of ASEM is unique as it includes a supranational entity – the European Commission. The Asian member-states have had to deal with the EC as an equal sovereign entity not present in other regional cooperation efforts.<sup>9</sup> While the EU could rely on a highly institutionalized mechanism for internal coordination and a long tradition of external relations with other groups of states, the Asian side had to start from nothing. Asian members of ASEM had to organize themselves on a regional basis by the fact that their counterpart was the most advanced regional grouping in terms of economic and political integration. The ten Asian countries had to come up with joint positions on a number of contentious issues to present a united front at the Bangkok and London meetings. More significantly, the inclusion of political cooperation in the ASEM agenda forces greater policy coordination between Asian governments on political and security issues.

The preparations of ASEM set off a hitherto unknown process of regional coordination in Asia. Prior to the Bangkok and London meetings, East Asian countries repeatedly met with each other at the ministerial and senior official level to coordinate their positions. As the ASEM process got underway, Asian countries are now caucusing on a regular basis.<sup>10</sup> Consequently, the emerging structure of the ASEM process increased the need for regional coordination on the Asian side. Helped by Europe's willingness to recognize East Asia as a distinct region, a *de facto* East Asian Economic Caucus (EAEC) has emerged. This was not possible in APEC due to opposition from the United States and Australia. But Asia-Europe inter-regionalism in the framework of ASEM facilitated an informal EAEC-like East Asian regional entity (Hanggi, 1998). This development has important implications for regional cooperation in Asia.

#### 4. Institutional Development in Asia

Comparing the two regional initiatives, Higgott (1998b) observed that APEC is more strongly institutionalized with a much more defined agenda than the ASEM process. ASEM is clearly different in scope and aspirations and presently has no strongly structured let alone institutionalized agenda. But there are significant similarities too. In contrast to the institutionally-driven integration efforts in Europe, both initiatives have had a bias against formal institutionalization from the beginning. By design, both arrangements have had minimal institutional structures. APEC and ASEM are both voluntary, non-binding consultative associations operating on the basis of consensus. The patterns of cooperation in both APEC and ASEM demonstrate a common distrust of bureaucratic structures and equal emphasis on

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<sup>9</sup> There is a division of competencies within the European Union with the Commission being responsible for trade matters, and the individual countries for political matters. But there have been fundamental problems dealing with how the EU and its member-states go about managing their external policy (see Rollo, 1998).

<sup>10</sup> Since 1994, foreign ministers of ASEAN countries have met regularly at the annual Post-Ministerial Conference (PMC) with their counterparts from China, Japan, and South Korea. In midst of the Asian crisis, the leaders of ASEAN and those of China, Japan, and South Korea met for the first time on their own in December 1997. Surprisingly enough, they discussed the issue of a free trade area covering Southeast Asia and Northeast Asia (see Hanggi, 1998).



informality, non-interference in each other's internal affairs, consensus-building, unilateral but coordinated decisions, dialogue among political leaders and tacit postponement of conflict-prone issues (Maull et al, 1998).

Existing literature on regionalism in Asia accentuates the two dominant schools of institutionalism. Liberal advocates argue that economic cooperation in APEC and ASEM has been largely market-driven and spurred by the decision of political leadership to provide some governance structure to manage the growing economic interdependence of its members. Much on this economic analysis center on efficiency issues and concerns about market distortions that hinder the realization of freer trade within the region. Others concentrate on the trade diversion and/or creation effects of regional trade cooperation and their impact on the multilateral trading order. On the other hand, realist explanations of institutional development in Asia focus on the structural changes caused by shifts in power distribution and inter-state bargaining dynamics. Much of this analyses concentrates on the changes resulting from the end of the Cold War and the shifts in the relative power of the United States as determinants of regionalism in Asia.

Both perspectives highlight the central role of interests in the analysis of regionalism in Asia. The liberal perspective underline the commonality of commercial interests of these economically interdependent states. Despite the increasing intra-Asian trade, Asian countries particularly recognize that a large proportion of their trade occurs with countries outside the region. Therefore, it is not in the interests of these countries to form an inward-looking trading bloc because the risks from trade diversion and retaliatory closure of export markets outside the region is great (Anderson and Snape, 1994). The constitutional framework to define the principles of the organization and the obligations of its members developed only after Asian countries began opening up their inward-looking economies to the outside world. North American and European decision to participation in Asian regionalism was more due to their desire to benefit from the growing prosperity of the region. The creation of ASEM was partly motivated by European concerns of being left out of APEC and Asian concerns of being dominated by the US and Japan in APEC. For Asians, regular consultations and closer relations would provide them with a forum to influence Europe to favor an open system and assuage fears of European protectionism. On the other hand, Europeans were conscious of the denial of economic opportunity by its exclusion from APEC. Recognizing its failure to develop a dialogue with Asia, the EU sought to give higher priority to economic relations with Asia and other forms of economic cooperation and in the overall improvement of the cooperative climate (Pelkmans and Fukasaku, 1995). Unlike the European-style of functional integration, these arrangements were not envisioned to be an exercise in integration but merely to facilitate international commerce.

On the other hand, realists would blame the region's institutional deficit on the deeper divergence of standpoints among the participating states (Rudner, 1995; Ogita, 1997, Hirano, 1996). Each actor has different interests and different expectations of the region's institutions. The linguistic, ethnic, cultural and historical differences between its members directly impinge on the definition of rules and rules systems and cooperative institutions (Harris, 1993 and Maull et al, 1998). The level of institutionalization can be attributed to the opposing views of its members of the nature of the regional cooperative arrangement. In general, developed economies

wish to see the strengthening of institutions and legal frameworks whereas developing members prefer to see regional economic cooperation more as a evolutionary process (Higgott, 1994). Specifically, ASEAN has been unwilling to see any form of supranational regime established in the region. This is reflective of the concern that the rapid institutionalization would produce an inflexible organization and would accelerate excessive liberalization of trade and investment without due consideration of the special circumstances of developing countries. On the other hand, developed members such as the United States have pushed for more legalistic approach and an adherence to timetables to economic cooperation in APEC. In general, US insistence on reciprocity and automaticity is contrasted with the Asian preference for concerted unilateralism or voluntary liberalization through peer group pressure.<sup>11</sup>

Realists argue that regime formation in Asia largely proceeded from strategic reasons. Both APEC and ASEM were attempts at engaging major powers in an institutional framework. It is often said that one reason why APEC was established was because of a fundamental strategic objective – to keep the US engaged in the region, economically, and militarily. US involvement is important for the reason that the region’s economic prosperity made over the last several decades is attributable in a large measure to the hegemonic presence of the US as provider of regional peace and stability. APEC became a means of maintaining beneficial ties between the US and Asia at a time when binding security ties had become less important. From a American standpoint, APEC was established to counter the prospect of a closed, Japan-dominated Asia and the philosophy of Japanese approach of more managed trade (Grieco, 1998). Ironically, APEC was also conceived to keep US hegemonic tendencies in check. Having Americans engaged in open dialogue will help limit its propensity to engage in unilateral actions that would be detrimental to the multilateral trading system.

Similarly, ASEM offers an opportunity to balance relationship with the US and particularly make sure that East Asian and EU voices can be used to reinforce continued liberalization in the multilateral trading system. As Gerald Segal (1997) puts it, the role of ASEM is to keep the Americans “honestly committed to multilateralism” and at a more general level, collectively oppose any other attempts at aggressive unilateralism. Much of the discussion on ASEM also depicts the inter-regional cooperative effort as a counterweight to APEC. More specifically, Asia-Europe collaboration is meant to guard against US hegemony in the global economy. Asian countries had an interest in encouraging a more extensive European economic presence in their region motivated in part by a desire to offset the degree of economic dependence on Japan and the US as sources of foreign investment and as trading partners. Another major strategic motivation of both APEC and ASEM was to include China as an emerging power in another multilateral framework of cooperation. China would be exposed to the views of others and involved in international rules and codes of conduct.

As mentioned earlier, ASEM also helped constitute an East Asian dialogue process between Japan, China, South Korea and the ASEAN countries (Hanggi, 1998). For ASEAN countries, ASEM offered an opportunity to increase their

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<sup>11</sup> US focus on reciprocity stems from the suspicion of potential free riding created by the unconditional MFN treatment. American policymakers were unwilling to see benefits of achieved through APEC to benefit non-members, particular the EU (see Rollo, 1998).

collective bargaining power by including the three Northeast Asia powers into their camp. No less significant, an East Asian dialogue process would also provide a forum for political dialogue and confidence-building between Japan, China and South Korea where nothing existed before. Greater policy coordination between these three East Asian countries and between this group and ASEAN will contribute to greater institutional cohesion in both APEC and ASEM.

Apart from viewing institutions exclusively as means to achieve certain ends, we can also examine the evolutionary process of institution-building in Asia. While it is important to look into rationalist considerations of cooperation, we should also highlight the importance of knowledge and social learning as contributing factors to regime formation and change. There was a sense that, while the main rationale for these institutions was economic, there was a fundamental need to develop a greater understanding and awareness of the nesting pattern of regional regimes between and across international organizations. Social learning in APEC and ASEM can help overcome differences between members and facilitate regime formation and cooperation.

A major rationale for both APEC and ASEM is to enhance the success of global institutions and norms. The agenda of both groupings direct its members to observe rules and practices of the WTO. Consistency with the GATT-WTO regime or institutional nesting has been the dominant theme of Asian regionalization (Aggrawal, 1993). APEC's open regionalism and ASEM's open continentalism ensures that both arrangements continue to complement the multilateral trading order but, more importantly, allows either institution to rely on and benefit from the more established institutions of the international system in promoting cooperation among themselves. Nesting is probably the only feasible alternative for bridging sub-regions, particularly those with such differentiated characteristics and those that lack any history of cooperative relations such as in Asia. These would allow existing sub-regional institutions to be nested within a broader and looser framework while preserving their existence. At the same time, this positioning would ensure that sub-regional efforts were in accord with generally agreed region-wide principles and also that management of particular bilateral and sub-regional conflicts would not conflict or impinge upon one another (Mack and Ravenhill, 1994).

For instance, to prevent the near collapse of the EVSL, APEC members referred their proposals to the WTO thereby allowing the initiative to continue and prevented it from being a stumbling bloc in the APEC process. Similarly, the inadequacy of both institutions in coping with the regional financial crisis was addressed by relying on the institutions of the IMF and the World Bank. ASEM established the ASEM Trust Fund, managed through the World Bank, to provide affected countries access to the additional technical know-how needed to solve the financial crisis. In both instances, both institutions were nested upward in larger multilateral economic order (Grieco, 1998). Financial instability and recession might have sparked pressures for increased protection among its members. But nesting behavior of APEC and ASEM made them resilient in the face of crisis and allowed them to move their respective liberalization agenda forward and maintain open markets.

While both associations are marked by significant asymmetries in terms of their political frameworks, economic development and value systems, there has been what has been called a “progressive realization” of the benefits of economic cooperation and the formation of common principles and norms. APEC and ASEM contributed to the development of a regional identity helping manage various aspects of regional and international relations (Higgott, 1998b). The emphasis on process rather than formal institutions in both APEC and ASEM facilitates social learning in its evolutionary approach to institutionalization and can promote greater mutual understanding especially in sensitive issue-areas. The gradual, pragmatic and voluntary nature of cooperation assists in building consensus.

Both associations helped to develop a consensus on the basic principles and norms that should govern international behavior and underline rules that define a meta-regime involving Asian countries (Aggrawal and Morrison, 1998). The creation of these consultative mechanisms facilitate cooperation through the development of a common vocabulary and more ambitiously, common understanding of basic challenges and objectives of issue-areas. Frequency and coverage of policy-oriented dialogue in these institutions increases awareness of each other’s concerns and motives (Elek, 1994). For instance, the leaders’ meetings in both forums also provide significant opportunities for confidence-building and mutual understanding. These summits and bilateral side meetings provide an opportunity for leaders to meet, become familiar with each other and develop mutual trust. Leaders’ meetings generate their own momentum as the host would invariably want the meeting to be successful, which would mean producing significant results. This desire for a successful outcome itself acts as a spur to the further progress of the grouping (Lee, 1997). In short, APEC and ASEM can become significant vehicles for ‘social learning’ and the consolidation of the norms of multilateral citizenship (Higgott, 1998b).

To some extent, learning also transpires between APEC and ASEM (Camroux and Lechervy, 1996). In its mode of operation and scope of work, ASEM has mimicked APEC.<sup>12</sup> Institutional structures and mechanism in ASEM have followed the APEC practice of SOM meetings, in defining trade and investment action plans, and in involving the business sector. But APEC can learn much from ASEM as well. The presence of political and security matters on the ASEM agenda can positively condition Asian receptiveness to cooperate on non-economic areas and foster the same level of discussion in APEC. Moreover, ASEM’s achievement in facilitating the participation of civil society into its process and fostering greater cultural and people-to-people exchanges can provide useful lessons for APEC. And, as discussed earlier, the formation of a de facto EAEC coordinating process in ASEM will inevitably foster greater solidarity among Asian countries in APEC as well.

*Critics, however, point to the limitations of the institutional nesting in developing more formal institutions in the region. Nesting, as expressed in the principle of “open regionalism” helps overcome or hides the tensions and differences within the association. But this does not foster the development of more reliable and sustainable institutions within APEC to support regional economic cooperation. Aggrawal and Morrison argued that open regionalism in fact retards the development*

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<sup>12</sup> Singapore PM Goh proposed that Asia established “Pacific-style” ties with Europe when he proposed the idea of ASEM in October 1994.

*of rule-formation, implementation and enforcement at the regional level. They contend that rigid adherence to this concept will make it very difficult for APEC to move toward deeper institutionalism. The reason, however, may be more to the influence of sub-regional organizations on the prospects of institutionalization in both APEC and ASEM.*

The style of economic cooperation in both APEC and ASEM have their foundation in the ASEAN model (Elek, 1994). As Michael Haas (1997) terms it, Asian regional cooperation has been “ASEANized”. ASEAN has been core of the process of regime formation in both associations helping define the principles and norms that guide economic cooperation. The integration of the so-called “ASEAN way” points to the centrality of ASEAN in both institutions and to institution-building in Asia.<sup>13</sup> The “ASEAN way” describes the slow deliberate manner in which this sub-regional organization moves. The essence of the ASEAN model was conflict avoidance rather than conflict resolution or dispute settlement, consensus decision-making, non-intervention in the internal affairs of other states, and the formal equality of member states. Adherence to these principles practically guarantees slow and time-consuming decision-making.

These principles can be found in ASEAN’s 1976 Treaty of Amity and Cooperation and the 1987 protocol amending the treaty. The accord states mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations; the right of states to be free from external interference or coercion; non-interference in the affairs of one another; settlement of disputes by peaceful means; renunciation of threats or force; and effective cooperation among its members. These have been enshrined as cardinal principles in both APEC and ASEM. The ASEAN way has found expression in the 1990 Kuching Consensus, which laid down the primary conditions for the participation of ASEAN countries in APEC. These conditions are: (1) that ASEAN’s identity and cohesion should not be eroded and all its cooperative efforts be preserved, (2) APEC should be based on the principle of equality, equity and mutual benefit, (3) APEC should not be an inward looking trade bloc but serve to strengthen multilateral trade and economic system, (4) APEC to be a forum for consultations and constructive discussion on economic issues through dialogue rather than unilateral or bilateral measures, (5) APEC to enhance individual and collective capacity of participants and articulate them in multilateral forums, and (6) a gradual and pragmatic approach with regard to its eventual institutional structure and membership problems (Tan et al, 1992).

ASEAN remains very much a loosely structured organization, which is basically inter-governmental in nature and with no supranational objectives. The grouping works by consensus-building which ensures that no decisions would be taken that will be detrimental to the national interests of its members. The consensus rule applies to all issues and levels. ASEAN’s ministerial meetings act as its governing bodies and a limited centralized administrative secretariat is maintained to monitor and coordinate its activities. The principal function of the association then is to coordinate inter-state relations rather than to forge a more integrated regional economic community. What you have then is a highly decentralized organization and

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<sup>13</sup> This has also been termed as the ‘Asian way’ which incorporates six major principles: (1) Asian solutions to Asian problems, (2) equality of cultures, (3) consensus decision-making, (4) informal incrementalism, (5) primacy of politics over administration, and (6) pan-Asian spirit. (See Haas, 1985).

structure where the primacy is on national control and sovereignty. In like manner, ASEAN officials have taken the position that 'APEC should essentially be a forum for consultations and constructive discussions on economic issues and that it "should proceed gradually and pragmatically, especially as regards its eventual institutional structure". In this sense, institution-building in APEC and ASEM will only go so far as ASEAN will allow it to go.

ASEAN governments are generally uneasy about efforts to strengthen institutions formally for fear that a wider regional organization might dilute ASEAN's international role and subordinate it. There are concerns that ASEAN might be eclipsed by APEC and ASEM (Haas, 1997; Hanggi, 1998). The reluctance of ASEAN to institutionalization precisely stems from this fear of dilution and large power domination. For instance, the ASEM process offers the prospect that a possible Asia-Europe cooperation framework might take the place of the EU-ASEAN dialogue mechanism. Michael Leifer argues that the very success of ASEM could mean a lessening of the Europe-ASEAN relationship (Maull et al, 1998). Similarly, a highly institutionalized APEC will be antithetical to the philosophical underpinnings of ASEAN (Ariff, 1994). At the moment, ASEAN states retain much of the initiative particularly from the Asian side. However, ASEAN has its limits as a model having proven less successful in promoting economic integration than in building regional confidence (Naya and Iboshi, 1994). The ASEAN approach also places a heavy burden on the socializing capabilities of APEC and ASEM (Ravenhill, 1998).

## 5. Implications for Policy

In the face of the Asian financial crisis, both ASEM and APEC have proved to be largely ineffective (see Sheridan, 1998). The Asian financial crisis has demonstrated that regional institutions are still rudimentary and ill-equipped to manage region-wide challenges. The crisis has led to questions about the need to strengthen the institutional framework of regional cooperation. Clearly, there is a need for institutional reform reviewing the organization's principles, structures and processes. A number of structural, procedural and operational limitations exists that hinder the effectiveness of both institutions to address future challenges. For APEC, there are questions how the association will realize the Bogor vision. ASEM still has to achieve coherence of its institutions and processes.

For ASEM, the crisis was especially significant. The Bangkok summit was supposed to mark Asia's new status in the world scene and a demonstration of Europe's recognition of this status. It was a key part of the rationale for the first ASEM that Asian economic success, and a European desire to be part of it, would be the main drivers of the relationship. But by the 1998 London meeting, conditions had change completely with growth giving way to recessions. The Asian crisis had the effect of altering mutual expectations associated with ASEM and exposed the narrowness of its agenda. On the other hand, APEC was conspicuously absent from any international response to the Asian crisis. During the Vancouver summit, APEC economic leaders eschewed any regional initiative to address the crisis resolving instead on relying on the International Monetary Fund. In fact, APEC seemed ill-equipped to carry out a financial-crisis management function. The event also revealed

the narrowness of APEC's agenda and the need to include macroeconomic and financial issues as part of its cooperation efforts.

However, the fact that these cooperative alliances have not completely disintegrated in the face of the crisis points to their resiliency. The rapid spread of the crisis throughout the region reflects the high level of economic interdependence and the enduring institutional systems that has so far been achieved in the region. Indeed, the crisis has heightened the need for greater cooperation and coordination of policies and the further development of the institutional framework of these arrangements. The Asian crisis has revealed that the need for greater institution-building that will help the system manage change.

One can argue that informality and institutional vagueness has its benefits. It allows for more flexibility and room for maneuver. It avoids strict application of rules that would constrain national prerogatives and helps overcome national reluctance and mutual suspicion through accommodation. There is virtue in structural ambiguity – most appropriate model seems to be the one that preserves country's decision making sovereignty. However, there are doubts as to the effectiveness and sustainability of this model. The crisis shows that the present of state of institutions in APEC and ASEM remain weak or underdeveloped. There is skepticism that members of both organizations will ever get such a high level of mutual trust to make rules and injunctions unnecessary. More importantly, their scope and agenda have expanded in such a way that it has entirely outgrown the lean and simple structure. These activities have increased the administrative demands pressed on both institutions. In short, it is difficult to see how economic cooperation under APEC or ASEM can proceed without the further development of their respective institutional frameworks.

Structural change caused by the Asian crisis provides new impetus for institutionalization in APEC and ASEM. However, differences in cultural beliefs, values, norms remain important obstacles in defining more formal institutions and processes. Policies and initiatives that will promote greater mutual learning and understanding will help address these concerns. There have been recent changes in cognitive understandings helped by social learning and epistemic communities that assist in ameliorating these differences. APEC and ASEM should really be viewed as an extended educational process, which does not preclude the creation of formal institutions at a later time. The question is how to hasten the process of social learning to build stronger community values and norms.

At the moment, it is not conceivable for both APEC and ASEM to neither replace nor substitute for the other bilateral, regional or multilateral forums particularly the World Trade Organization. It will have to continue to nest itself on to the WTO particularly in getting agreement in difficult areas, enforcing compliance, and dispute settlement. Sub-regional arrangements such as the NAFTA and EU will probably achieve more by way of liberalizing and integrating their economies. In that sense, APEC and ASEM may benefit from the disciplines adopted by these more advance economic arrangements.

Aggrawal and Morrison (1998) see Asian regionalism as having the following manifestations: firstly, the minimalist model stresses a community-building process rather than as an organizational structure with community-building and mutual

understanding as its primary objective. In this model, social learning and improvement in cognitive understandings will be important. The second model is patterned after the OECD, a model to provide a venue for identifying and discussing international economic issues where actual negotiations is transferred to another venue. The OECD style of operations is consultative, informal and communicative, issues being handled by special task forces initiated through high-level consultative mechanism (Ostry, 1998; Rieger, 1989). This model will provide a center for research and information-sharing, imposing few policy constraints on its members. Finally, there is the “trade agreement model” with trade liberalization as having the overriding purpose to be achieved through a formalized process similar to other regional trade regimes. As argued above, this may be difficult given the reluctance of the Asian members for formal institutions.

All these different forms of economic cooperation should be promoted in both APEC and ASEM to enable both institutions to achieve their lofty visions. However, the goal of community-building requires a common identification of a regional identity. Social learning highlights the importance of nurturing political dialogue and cultural exchange as the foundation of a more sustainable economic cooperation effort.

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### Comparative Shares of APEC and ASEM Economies (in percent)

Country/Region	Share of World GNP		Share of World Merchandise Trade		Share of World FDI	
	1990	1996	1990	1997	1990	1996
Japan	12.26	21.29	6.92	7.08	0.85	0.06
South Korea	1.40	2.00	1.78	2.62	0.34	0.66
China	2.55	3.75	1.53	3.03	1.68	12.11
Hong Kong	0.41	0.63	2.21	36.97	0.83	0.72
Taiwan	0.97	N/A	1.61	2.19	0.64	0.40
East Asia	23.12	27.67	14.06	51.89	4.34	13.95
Indonesia	0.60	0.88	0.63	0.85	0.53	2.28
Malaysia	0.25	0.37	0.78	1.42	1.12	1.52
Philippines	0.27	0.34	0.28	0.58	0.25	0.40
Singapore	0.20	0.38	0.78	2.40	2.53	2.70
Thailand	0.48	0.73	0.75	1.14	1.18	0.69
Vietnam	0.06	0.09	0.07	0.19	0.01	0.62
ASEAN	1.86	2.81	3.28	6.59	5.62	8.22
Asia-10	24.01	30.48	15.72	23.06	9.32	21.77
APEC	62.83	66.96	46.97	80.94	42.59	52.49
Canada	3.30	2.36	3.32	3.87	3.67	1.91
Mexico	N/A	1.41	1.08	2.08	1.27	2.16
United States	32.67	30.74	12.05	14.80	23.29	24.23
North America	35.97	34.51	16.44	20.75	28.23	28.30
Austria	0.94	0.94	1.20	1.12	0.31	1.09
Belgium	1.14	1.11	3.14	3.01	3.87	3.99
Denmark	0.74	0.70	0.93	0.83	0.54	0.22
Finland	0.80	0.49	0.53	0.67	0.39	0.35
France	7.13	6.34	4.30	5.17	6.34	5.96
Germany	9.01	9.78	6.04	8.88	4.30	1.10
Greece	0.39	0.50	1.33	0.13	0.48	0.29
Ireland	0.23	0.26	0.59	0.86	0.05	0.42
Italy	6.74	4.72	4.73	4.16	3.08	1.07
Luxemburg	0.07	0.08	--	--	--	--
Netherlands	1.68	1.66	N/a	3.45	5.75	1.80
Portugal	0.36	0.42	0.55	0.52	1.26	0.17
Spain	2.92	2.33	1.90	2.12	6.66	1.83
Sweden	1.33	0.94	1.48	1.38	0.95	1.57
United Kingdom	5.84	4.76	5.40	5.43	15.60	8.61
EU	39.06	35.02	32.11	37.72	49.59	28.47
ASEM	63.07	65.49	47.83	60.78	58.91	50.23

Note: (1) For trade and investment, data for Belgium includes Luxemburg. (2) 1990 data for APEC economies excludes Brunei, Chile and Papua New Guinea, 1997 except Brunei.

Sources: UNCTAD 1997 World Investment Report, ADB Key Indicators of Developing Asian and Pacific Countries, World Trade Organization, 1998 World Bank Development Indicators.