Session II

Cooperation toward Regional Economic Order

SUMMARY OF PRESENTATIONS

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First we should survey the problems with the current international economic order, because they are the reasons why we are talking about the regional economic order. If the international economic order were so good, there would be no need for a regional economic order.

Concerning trade in goods, we have a relatively free trade, particularly in terms of tariff barriers. But we have a number of non-tariff barriers. The issue of agricultural subsidy refuses to go away. And as the trade in goods becomes freer, we encounter anti-dumping (AD) and countervailing duty (CVD) problems. In the case of trade in services, liberalization has been much more limited than trade in goods. The agreement on trade in services really has not gotten very far at all. And this principle of the so-called positive list is making the liberalization of trade in services practically impossible.

In the case of finance, the international economic order is dominated by the U.S. dollar in all senses of the word, i.e., for transactions and speculation. With the U.S. economy in a stage of imbalance, global finance is in a state of turbulence and instability.

Because of these factors, developed and developing countries alike have problems with the current international economic order both in trade and in finance. At the same time, the two camps have different kinds of problems. Developing countries are interested in the problems of agricultural subsidies, of AD and CVD, and in special and differential treatment. They are unhappy with the situation known as "more for less"—i.e., the more
they sell, the less they get because of subsidies, ADs, CVDs, and so on. Developed countries are unhappy because they are more interested in the further liberalization of trade in services. It was because of these differences in interest that it took from 1996 until 2001 to agree on the agenda for the new Doha Round. While the resultant agenda, the so-called Doha Development Agenda or DDA, was quite comprehensive because it covered all the issues of interest to developed countries and developing countries, the Doha Round negotiation was troubled until September 2003 when it finally collapsed in Cancun on 14 September. Because of this experience, developing and developed countries have concluded that getting a solution from the World Trade Organization (WTO) is difficult. It is simply not quick enough for them.

The situation is more or less the same in the case of finance. After the Asian financial crisis of 1997, talk on the international stage focused on new financial architecture. But discussions have not proceeded very far, and the U.S. dollar continues to dominate, enduring the instability in the financial system.

Next, we need to examine what is actually happening with the new order. In terms of trade, we have regional agreements. The European Union is organizing its own order, and Europeans are saying that that is not against anyone. The North American Free Trade Agreement (NAFTA) is a regional agreement that plans to expand to include other countries in the Americas. ASEAN also has been working on a regional or sub-regional order through the ASEAN Free Trade Area (AFTA), and it is expanding AFTA to include services. ASEAN has been working hard to create an ASEAN community encompassing an economic community, a security community, and a social community.

Another device that they have been working on in terms of economic order is the so-called free trade agreement, or FTA. It should be noted that FTAs are no longer just about trade in goods. An FTA is now a comprehensive trade and investment agreement. It is as if this agreement, between the United States and Thailand for instance, would allow Thailand to be a part of the United States in terms of commercial practices.

In the case of finance, there have been several efforts at financial cooperation. In the East Asian region, cooperation has occurred in the area of reserve currency swap arrangements and there has even been talk about exchange rate cooperation. But actually capital market development by way of Asian bonds is the quickest moving area.

Behind this movement of Asian bonds is the belief that we can use Asian bonds to drive capital market development so that our capital market will be more efficient. This is an attempt to attain a new order in our region in
the case of finance. Many parties are involved in the creation of this new order, and all of them intend to minimize the inherent risk in the global financial system so that Asian countries will not be so subject to the volatility of exchange rate fluctuations caused by the movement of the U.S. dollar vis-à-vis the yen and the euro. In that case, they will not be as subject to the capital flow as influenced by hedge fund managers.

We need to be aware, however, that we may run into the danger of divergences if we continue to create new FTAs without really being aware of existing FTAs. We need to try very hard to make all FTAs converge. Thailand, for instance, is trying to relate most of its eight FTA talks to AFTA and the Common Effective Preferential Tariff (CEPT) so that the tariff regime will converge. It is hoped that, this way, we could have more or less a movement toward most-favored nation (MFN) treatment, at least on a regional basis. And the same thing applies to rules of origin. Different rules of origin for different FTAs means that they will diverge; it is important that we make every effort for rules of origin to converge. This process may take time, but we must cooperate with each other to move in this direction.

Also in the case of finance, we all agree that we need a better and more efficient capital market because this will definitely be welfare enhancing. In retrospect, we recognize that the financial crisis of 1997 occurred because we had a bad capital market and a bad money market. We must create a better capital market by developing the bond market as well. In fact, the process toward this goal is already underway. And Thailand has set up an Asian bond secretariat in that country, which is committed to work out a plan for development of the capital market.

These are some of the examples of activities that East Asian countries can do together in order to make the regional economic order as welfare-enhancing as possible and the least market-distorting as possible.

_Jesus P. Estanislao, President and CEO, Institute of Corporate Directors, Philippines_

In community building, there is need for vision, dreams, a grand design or “architecture,” and therefore for macro-level rhetoric. But all these need to be complemented on the ground, at the micro level, with concrete and specific actions of sharing best practices with each other.

The need for such complementarity is illustrated in the area of trade and investments. As trade barriers are being brought down, and as flows
of goods and funds are becoming freer, East Asians also need to work more closely together in strengthening the corporations and enterprises that forge the vital trade and investment links between economies in the region. In this regard, corporate governance practices need to converge and improve. While these need to take into account the business realities and cultural dimensions within East Asia, they also need to be consistent with fundamental—and necessarily global—corporate governance principles.

In East Asia, as countries share best practices in corporate governance, it has been observed that in most economies much greater emphasis should be placed on banks rather than on capital markets. This is because in much of East Asia, the dependence on banks for external finance is much greater than on stock and bond markets. Professionalization of directors’ practices should also be stressed more, if we want directors to live up to their responsibilities to society and the economy more dutifully. This is because a single family or government agency may exercise predominance of control, and independence of directors is more likely through professionalization rather than through proliferation of regulations. Furthermore, more emphasis should be placed on corporate governance scorecards as monitoring tools for improvement in governance practices. This is because market pressure needs to be significantly complemented by reputational (loss of face) pressure in an environment that should become increasingly transparent. These are but a few examples of what can be done on the ground to pull our economies closer together through sharing of best practices in the corporate governance field.

In the area of monetary and financial flows, similar examples can be cited with a view to building an economic community in East Asia. Throughout the region, different economies face a similar challenge, although in varying degrees, of strengthening their banking system. Banks in East Asia do need to install modern risk management systems not only into their credit process but also into all other major facets of their operations. Global standards are in the process of being set for all these. In trying to meet those standards, banks in virtually all economies in East Asia need to put greater stress on capacity building, redesigning credit procedures, and tightening risk oversight checks and balances. In all these, special focus needs to be given to subjecting related party transactions to stress-tested procedures and practices. All this presents a very tall challenge, one that most economies in the region would be better placed to meet if they pull together and share best practices more openly with each other.
In the much broader challenge of speeding all up on the road toward comprehensive development, with people and their genuine welfare being put at the center of the process, there is much greater stress for public governance with more open participation from responsible citizens. Even the voices of the youth are increasingly being heard. Involvement of an emerging and more socially responsible civil society is given greater depth and wider scope. Outreach to the general public through the media, key sectors, and professions, imbued with ethics and social responsibility, has become much more of an imperative. Again, in responding to these emerging demands of a more open, more democratic governance, different societies in the region are taking different approaches appropriate to their internal circumstances. Precisely because the region is rich with different approaches in this regard, economies and societies in East Asia can compare notes, share best practices, and provide lessons that may be useful for others to learn from.

Therefore, even as many of us continue to work on a vision, on dreams, on grand designs and architecture for various important macroeconomic facets of a more integrated community of economies and societies in East Asia, we should also multiply work on microeconomic grounds. There are experiences in other economies we can draw from. There can be many opportunities for all our economies to reinforce each other, particularly in corporate governance, risk management systems of banks, and public governance. Tapping these opportunities in a systematic and more sustained manner would bring us much closer to giving flesh and substance to the East Asian community vision and dreams.

It is in this light of having to put in a systematic and sustained effort at exchanging notes, learning from each other, and sharing best practices that regional forums and mechanisms should work not as one-off initiatives but as continuing programs. East Asian community building is now way past the stage of merely talking. The region should move on to action with greater coordination, continuity, and commitment to getting things done on the ground, where a real difference must now be made.

**HIRONO RYOKICHI, Professor Emeritus, Seikei University Japan**

Is an East Asian community a dream or a reality? What are the barriers to attaining an East Asian community? An East Asian community is not and
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should not be a dream. It is something for which all East Asians could and should really work. Certainly it will not come so easily, but still East Asians should work hard toward this goal.

The European Union expanded its membership to 25 countries in May 2004 and it will possibly further expand to 29 members in 2007. In other words, the European Union is expanding to the East. In the Americas, people are talking about the possibility of having what they call a Free Trade Area of the Americas, initial preparations for which are already underway as of 2004. Thus, on two continents we are already witnessing some efforts to promote regional economic integration. Against this background, if East Asia is left without its own efforts for regional economic integration, it will end up as a place of harsh competition for free trade partnership between the Americas and Europe. Certainly East Asia will not become just a market for, and a target of economic colonization by, either one of them. Yet it is possible that the resultant closer linkage with the winner of this global competition between the Americas and Europe might go against the interests of the losing competitor.

But more importantly, there is the presence of internal pressure within the region. We all know that intra-regional trade has been expanding fast recently in East Asia, mainly because countries in the region come together to cooperate and find not only their markets, their suppliers, and their raw materials inside the region, but also the necessary human resources in the form of imported foreign workers. It has been repeatedly pointed out that the region is witnessing enhanced mutual cooperation and in particular a growing pace of intra-regional integration among its members in the areas of trade, investment, and finances. But even in the area of people movement, we have already begun to see a significant level of human resources movements in many parts of East Asia. This kind of foreign labor mobility will have an increasingly important impact on both importing as well as exporting countries.

Another very important area seems to be crisis management. As a result of the Asian financial crisis of 1997, East Asians have come to realize the importance of helping each other in the foreign exchange market, regional bond market, and many other areas, such as trade and investment, where further collaboration is called for. However, East Asia should also be prepared for other types of crises, such as, most typically, the crisis on the Korean peninsula. It is no longer possible for any single country in East Asia to deal with these issues single-handedly, and East Asian countries must act together. In order to effectively deal with these crisis issues and enhance
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crisis/risk management capacity in the region, we must have rules of the game. These rules of the game have to be discussed among the concerned parties affected by the crisis. All East Asian countries should participate in this consultation process for rule setting as equal partners. This rule-making process will force East Asian countries to look at each other squarely and see what they can do collectively.

Third, the importance of the question of environment must be emphasized, including the tremendously adverse impact of all kinds of pollution in China and many other countries in East Asia. We really must go much further in preventing our people from suffering from increasing air, water, and soil pollution in this part of the world. Environmental pollution, particularly air pollution, is a trans-boundary problem that does not respect national limits, causing tremendous economic damage and, more importantly, human damage throughout the region. Therefore, the environment is an area in which East Asia will need to have its own regional regime of rules and an enforcement mechanism. And this environmental regime is essential to sustaining economic, social, and political cooperation among East Asian countries.

The East Asian community is not a dream. It is something we should together strive for. In order to proceed in an orderly fashion, we need to identify some of the priority areas and work in those priority areas one by one rather than wishing for a big bang.

Summary of Discussions

Economics is where the clearest rationale exists for East Asian community building. Following the previous overview session, the majority of participants expressed their support of the proposed “functional approach” to community building in this region. But participants asked themselves what the next step would be after the functional approach, and they spent much of the time during the session discussing the need for institutions to facilitate community building.

Functional Approach

There was a clear consensus that the functional approach to community building would be effective in East Asia. An ASEAN senior economist
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stated that while it is good to have an East Asian vision, we must look at the nitty-gritty of how we can move that vision forward. She believes that moving forward will have to be a slow and step-by-step process rather than a big bang. She therefore supports the idea of a more functional type of cooperation that would welcome whoever is ready to come on board.

Another economist followed with the claim that through this functional approach East Asians can work very well among themselves, bringing together all those countries interested in a particular area. He agreed that an East Asian community can be built by adopting a like-minded-country approach—i.e., countries that want to join can join on certain issues, while others can join later—fostering an open-ended, rather than closed, community. However, appreciating the utility of a functional approach, this economist cautioned that East Asians should always have a long-term vision so that whatever they are doing functionally will contribute eventually to East Asian integration. One of the specific areas in which this speaker believed that the functional approach would be effective is the environment.

SARS, avian flu, and other infectious diseases were another area for which participants found the functional approach to be viable. A third economist participant observed that there is no disagreement about the desirability of regional cooperation in some areas, particularly based on the functional approach, and he pointed out that FTAs are one typical example.

Japan-ASEAN FTAs

During the second session, discussions on FTAs predominantly centered around Japan-ASEAN FTAs, particularly on the prospect of Japan shifting from bilateral negotiations with individual ASEAN countries to a multilateral Japan-ASEAN FTA arrangement. Concern was expressed by a number of participants over what looks like Japan's heavy inclination toward bilateral negotiations with individual ASEAN countries.

A Japanese economist predicted that, following the recently concluded Japan-Mexico FTA, the Japanese government would further promote bilateral FTA negotiations between South Korea, Thailand, the Philippines, and Malaysia. He predicted that bilateral FTAs will increase trade and investment in the region, but that they may not encourage private companies to conduct the large-scale investments that would have a dynamic impact on regional integration. Instead, he suggested that the region should have
a greater FTA, i.e., an FTA between Japan and an integrated ASEAN that will provide private companies with a variety of opportunities for profit, eventually leading to greater regional integration.

An ASEAN economist focused on the potentially negative effect of bilateral FTAs. Concerned about the possible impact of the proliferation of bilateral and trade arrangements on the rules of origin, which are already divergent in this region, he predicted that these bilateral as well as regional trade arrangements may actually become stumbling blocks rather than building blocks toward the end-goal of a greater East Asian FTA.

A Japanese participant, while agreeing that Japan has so far promoted bilateral FTAs, explained that the Japanese government is reviewing its policy toward FTAs because (1) it has to deal with requirements not only from developed member countries of ASEAN but also from all the member countries, and (2) it has to pay due attention and due consideration to the need for unity in ASEAN. He stated that the Japanese government has found the multilateral approach in the field of FTAs to be quite useful for Japan, and, in fact, that it had already made a political commitment both in Bali and in Tokyo in 2003 that it would exert maximum effort to start multilateral FTA negotiations early in 2004.

Another Japanese participant, while agreeing with the effectiveness of Japan-ASEAN FTAs, cautioned that it is rather difficult to envision a multilateral Japan-ASEAN FTA. Japan being a developed country, any free trade agreement has to cover almost all trade items. When ASEAN is composed of very divergent countries, including Cambodia, Laos, and Myanmar, this rule makes it difficult for Japan to conclude a Japan-ASEAN FTA. He concluded that more effort is needed to enhance the cohesiveness of ASEAN countries.

Another ASEAN economist genuinely welcomed the Japanese government’s decision to rethink the bilateral FTAs with individual ASEAN countries and to focus more on an FTA with ASEAN. He was concerned that bilateral deals would actually distract and weaken ASEAN. Moreover, he claimed that this would be one critical instance in which Japan can play an important role in lifting some of the malaise that ASEAN is suffering.

A Japanese participant agreed that, through FTA negotiations with a collective ASEAN, Japan may be able to secure the unity of ASEAN. Japan may be able to help the ASEAN countries harmonize their standards, increase their capacity for customs and immigration, and standardize their rules and procedures.
Next Steps to be Taken

While it was generally agreed that the functional approach would be an effective first step toward community building in East Asia, there seemed to be confusion about the next step(s) to be taken. A Japanese participant predicted that, if the functional approach continues in the region, the nature of the issues will tend toward the nuts-and-bolts. He wondered what the region would need next to further these kinds of efforts—perhaps a network of expert advice, a new civil society organization, or an umbrella of big ideas for the region.

There seemed to be a consensus on the need for political leadership, on one hand, and an institutional core, on the other. One participant pointed to the lack of clear political determination to move forward to create a community in this region, especially at the level of national leaders. A political scientist participant stated that, while there are clearly many factors that demand regional cooperation, a regional order is not achieved only by these “pull factors” (factors that pull the region together). He believed that it also requires leadership or “push factors.” Order, according to this speaker, does not come automatically and, as far as order building is concerned, there are roles to be played by nation-states, particularly the major powers, in making and enforcing the rules.

It has been generally recognized that ASEAN has always been a driving force in the movement toward regional integration in East Asia. An ASEAN economist confessed, however, that as leadership has been called for as a next step toward community building, she has become increasingly skeptical about the capacity of ASEAN to be in the driver’s seat of East Asian integration, because, she said, ASEAN cannot put its own house in order and therefore does not seem to have the capacity to promote wider integration, not only in economic terms but more importantly because of a lack of political will. She added that every time ASEAN comes up with a new program or new vision, it has always fallen down on the implementation side.

A Japanese participant emphasized that the East Asian regional community presupposes Japan, China, South Korea, and ASEAN as a unity. Unless ASEAN holds itself as a cohesive unit of 10 countries, he predicted, hopes for realizing the vision of an East Asian community were grim; he strongly hoped that efforts for further integration of ASEAN countries would continue.

From another ASEAN participant came a statement that ASEAN will not go away although it has its own current malaise. He hoped that friends of
ASEAN will not write off ASEAN as irrelevant and, therefore, something that cannot be counted upon. He urged Japan to treat ASEAN as a sub-regional association that needs to be built up.

Japan, however, may be able to exercise some leadership. A Japanese participant predicted that Japan, which has many stakes in East Asian community building, may be able to contribute substantially to moving the efforts forward. The minister of finance of Japan, for instance, is quite keen on contributing to an Asian bond market and the establishment of an Asian market. Other ministries are also very keen on FTAs. This participant claimed that there has been a shift in priorities within the Japanese government and that the government is now actually putting a lot more resources and energy into Asia than before.

An ASEAN economist summed up the discussion on the next step to be taken by stating that necessary steps really will not be implemented successfully unless the movement is endowed with some sort of effective enforcement mechanism. A lot of participants seemed to find the answer in building an institutional core in East Asia.

The Need for Institutions

A veteran of East Asian cooperation stressed the importance of new modalities in providing a structure for cooperation in various functional areas. History shows that official committee meetings alone are utterly inadequate no matter how many times they occur. He believed that the region needs to have a hard look at what kind of institutions should exist in order for these things to work because, otherwise, we are wasting a lot of energy and money.

Reviewing the same history, a Japanese participant stated that the region has no interest in repeating what was done in the past. Japan used to advocate institution building and actually it has contributed to some institution building attempts, a lot of which ended up defunct. Thus, he stressed that the region has to seriously think about how best it can establish new and functional institutions.

Before starting to discuss what kind of new institutions should be established, it seems only logical to review the problems that existing regional institutions exhibit and to explore whether they can be reformed. A senior Japanese economist found that there still remain a great many differences in rules, standards, and procedures among countries in East Asia, which
need to be identified and studied for effective harmonization. For this purpose, he proposed that we should take advantage of existing institutions, particularly APEC. APEC has been organizing more than 200 task forces, forums, and so forth on facilitation and economic technical cooperation, most of which are attended by nongovernmental organizations (NGOs), volunteers, and scholars, although APEC itself is an intergovernmental institution. APEC will also help keep the East Asian economic community open to the United States, Canada, and Australia.

A veteran ASEAN intellectual also agreed that, before we start promoting this East Asian cooperation into a more intense cooperation, we should look into the pitfalls, mistakes, concerns, and new challenges that the existing regional institutions have faced so far, and why there was, and is still, a malaise in these institutions. One of these institutions to be reviewed must be the Pacific Economic Cooperation Council (PECC)—the oldest of the Asia Pacific regional institutions. Experts inside PECC are themselves inclined to think that PECC has already fulfilled its historic role and, therefore, the region needs to look for a new type of cooperation. But PECC, with all of its past achievements and present networks, must be resurrected.

A somewhat cynical view was presented by an ASEAN economist who suggested the proposed regional institution should not be designed along the lines of the ASEAN Secretariat, which cannot satisfy all of the needs for a community partly because it is a foreign affairs ministry–based organization. He concluded that it would be more efficient to develop this new organization in terms of functions rather than organizational structure.

**An East Asian OECD**

In conjunction with the institutional needs of the region, quite a number of participants referred to the desirability of an East Asian version of the OECD. Again, the ASEAN veteran intellectual stated that East Asia probably should think about an OECD type of cooperation in this part of the world. OECD itself is an intergovernmental institution and, as such, it has been pointed out that it has its own inherent problems. Nevertheless, it is important, as a North American participant pointed out, that the community-building process is somehow connected to some clear-cut intergovernmental process and purpose.

Discussing exactly what they would expect most from the institution in the process of community building, a number of participants referred
to the function of intellectual leadership, which has been absent in the region. An ASEAN participant pointed out that the region needs to have an institution that can help implement initiatives and enforce rules, but, he continued, at this stage, the purpose is basically to give intellectual input so that the vision will not get lost.

Another ASEAN economist agreed that what is missing in the region is the intellectual leadership to go through and look at all of the issues and the challenges in an objective fashion that would be positive and beneficial for the region. He concluded that what is needed is an (East Asian) OECD that can help bring the different parties together to look at issues, not from the perspective of national interests but from the perspective of the community that is emerging in East Asia.

For this reason, another participant suggested that the region should look for the involvement of the state/government and the private sector, particularly think tanks. He believed that this type of an open OECD could be more useful and effective than a purely governmental institution, particularly from the viewpoint of avoiding the usual pitfalls for inter-governmental organizations. Another ASEAN participant agreed that an East Asian OECD should not be a purely governmental initiative. He believed that a purely governmental initiative would condemn the movement to severe ineffectiveness. Instead, the new institution should probably be closer to an expanded track two process that would be open, with official endorsement for funding, but with the involvement of as many responsible parties as possible. Yet another ASEAN expert stated that the region needs to make use of the networks of think tanks and intellectuals that already exist. Therefore in the design, from the beginning, nongovernment sectors must be an integral part of the institution rather than being brought in later simply as window-dressing.

Of course, there are many problems associated with an OECD-type of institution. For one thing, as a North American Asia Pacific expert pointed out, the OECD is a very large, expensive organization; more than US$100 million is being spent on the OECD yearly. And a Japanese participant questioned who would bear the cost. He wondered if leaders can convince Japanese taxpayers that this is worthwhile. A senior ASEAN economist, while strongly supporting an OECD type of institutional arrangement in East Asia, cautioned that an OECD type of organization with a lot of the research and intellectual aspects presupposes the ready availability of data. And it is well known that in ASEAN as well as some parts of East Asia, data is very tightly controlled by governments and not readily available.
Important Actors

Aside from the institutional core, several elements were identified as important actors for the further promotion of regional community building in East Asia. There was no disagreement on the importance of nongovernmental initiatives and track two activities, particularly in light of the fact that government officials simply do not have time to work out long-term strategies. It would be also up to the tack two experts to work out how to guide the various forms of regional integration toward one long-term target.

A former ASEAN finance minister stated that, instead of concentrating on governments alone, the existing networks and the networks of networks—track two, combined track two, mixed track two, and so on—could become much more effective. And what governments could do would be to endorse these track two initiatives and provide financial support from those economies that would be able to contribute.

Several participants underscored the need to get parliamentarians involved in the entire process but particularly in the vision making. In order to persuade taxpayers of the virtue of East Asian community building, for instance, policymakers can play an important role in convincing their taxpayers that this would in the long run be in the best interests of their communities. A Japanese veteran Asia Pacific observer also stressed that dialogues on the vision must involve parliamentarians because parliamentarians are in fact the policymakers. Parliamentarians are, according to this speaker, the people who listen to intellectuals and raise the questions in parliament which, eventually, lead to legislation.

Together with parliamentarians, the task of popularizing the concept of East Asian community so that it moves away from the business pages to the front pages of the region's papers can and should be shared by the media, especially the broadcast media, which has an extremely pervasive influence in all East Asian countries.

An ASEAN economist added to the list the importance of the private sector, particularly the chief executive officers (CEOs) of corporations. He believed that an opportunity must be provided, for instance, for Japanese CEOs to work together with CEOs from other economies so that they can be the driving force of East Asian community building.

At the end of the session, the moderator very effectively summarized the interactions that had taken place:

"In the creation of an East Asian community, we think it is useful to take this functional approach. But how do you organize yourselves so that the
ideas and initiatives that emanate through this functional approach will be implemented and rules and norms that also emerge from these interactions can be agreed upon and enforced? We do need to have organizations/institutions that can be effective, and I do like us all to remind ourselves of what we have experienced in ASEAN, the APEC process, and so on. That we do in fact want to institutionalize it, but the institutionalization, in the end, is manifested by what became regularized meetings. It is basically a process that has become regularized through a series of meetings. We are lucky if some of these get implemented. But if they do not, we will then come up with new initiatives in the next meeting. That is what has been going on. Therefore, part of the danger of this functional approach is that, if it does not accompany an effective organization, the vision gets lost in the process.

"Now, in terms of a modality of community building, there are initially three major typologies. One is the ASEAN Way. You have the EU model, which spends a lot of energy and time in building institutions and I do not think we can emulate a full-fledged organization like the EU in East Asia. And then there is NAFTA, which is all contracts. You have clear-cut contracts being enforced in NAFTA. In the end, I thought we will have a little bit of all of this in East Asia."