

The Seoul 2000 Summit: The Way Ahead for the Asia-Europe Partnership

August 2000

Edited by
Chong-wha Lee

Published by
The Korea Institute for International
Economic Policy



Conference Proceeding 00-03

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PREFACE

ASEM (Asia-Europe Meeting) can be viewed from a variety of perspectives. One perspective is the need to strengthen the third leg in the emerging triangle of economic power centres. A balanced triangular relationship is seen as a guarantee for the maintenance and promotion of global peace, stability and prosperity. Since its inception, ASEM has emphasised the mutual inter-dependence of our two regions, and enhanced Asia-Europe dialogue and co-operation. Building on the decisions made at the Bangkok and London Summits, ASEM process has already achieved a considerable success, with an active constructive dialogue in the three pillars of political, economic and socio-cultural issues. The third ASEM Summit in Seoul, October 2000, will play a critical role in moving this process forward, setting its broad direction for the coming decade.

With these in mind, the Korea Institute for International Economic Policy (KIEP) co-hosted, in collaboration with the Asia-Europe Foundation (ASEF), an international conference on “The Seoul 2000 Summit: The Way Ahead for the Asia-Europe Partnership.” 10-11 July 2000 in Seoul. This book is a compilation of the papers, comments and discussions from the conference.

In the first session, Mr. Pote Videt outlines 4 discussion points in his paper “Reform Process: Asia’s Lesson”: traditional objectives and correct objective of reform; barriers to reform and its long-term benefits and short-term costs; implementing effective reforms; and signals of success in new reformed world in terms of private sector and country respectively.

Mr. Philippe Trainar discusses, in “Schedule for Reform in Contemporary States.” the relations between the conception of reform and State during the twentieth century, with particular view on crisis of the welfare State. He also underlines the main features of reform in a modern State.

In the second session, Dr. Jean-Pierre Lehmann points out in his paper “ASEM and Trade Issues.” that the unguided American trade policy and the Japan’s economic stagnation are great threats to both the stability of global economy and the whole process of globalization. He argues that one of the main rationales for ASEM is to engage the US in a more positive trade direction, and also suggests that key priority of

ASEM in the 21st century must be the global trade and investment agenda.

In “Testing the ‘Subsidiarity question’ for ASEM.” Dr. Chong-Wha Lee seeks to conjecture the future navigation of ASEM in regards to Gerald Segal’s subsidiarity question by questioning what can best be done at the ASEM level. While discussing the issue of multilateralism versus regionalism and the current status of economic dialogue, 3 broad scenarios for the future of ASEM are examined: status quo; APEC type evolution; and hybrid scenario. The author argues a more plausible scenario to be found somewhere in between the Status quo and Hybrid scenarios.

In session three, with the title of “ASEM Political Dialogue- Now and in the future.” H. E. Sukhumbhand Paribatra reviews the rationale of ASEM and its unique characteristics. Concerning political dialogue, he argues that despite a positive start, discussions on political issues gradually became confrontational as disagreements increased. Therefore, after explaining the causes of such a tension, he provides a possible solution: ‘triple-non’ of non-exclusivistic, non-country specific and non-confrontational.

In “ASEM and Political Dialogue.” Prof. Simon Nuttall examines the origins of ASEM and the political dialogue and argues the ASEM process as a political action. He argues that behind primarily economic motivation lay a deeper geopolitical concern, expressed in terms of ‘strengthening the weak side of the triangle’. Unlike APEC, ASEM is a true region-to-region dialogue between the Europeans and Asians, although the problem of Asian identity is recognised. It is a long-term process and immediate results are neither to be expected nor artificially achieved. Indeed, it is not necessary for ASEM to achieve anything in particular; it is sufficient for it to exist in the international structure.

Mr. Michael Reiterer, in “ASEM: Deepening and Broadening the Political Dialogue.” explains the usefulness of political dialogue which, while respecting differences, should be broadly based not to deny the ASEM dialogue one of its strengths its informality. He argues that it must be deepened and enlarged in the interest of the whole process. Furthermore, as the EU has been a uniquely successful experiment in regional integration, Europe could contribute in sharing experiences with Asian ASEM partners to help foster regional co-operation leading to ‘soft institution building’. He asserts that ASEM already has an important ‘security acquis’ on which future work

could be built.

We would like to thank all the participants for their invaluable contributions. It is our hope that this volume will provide readers with an informative survey of ASEM and its role in the new world economic order.

August 2000

Seoul

Dr. Kyung-Tae Lee

President

Korea Institute for International

Economic Policy

Prof. Tommy Koh

Executive Director

Asia-Europe Foundation

EXECUTIVE SUMMARY

1. ASEM has, in regularly bringing together East Asian countries and a consolidated group of European partners, contributed to the emergence of a new voice on the global scene, the voice of East Asia. This has important geo-strategic implications as it will permit Asia's position to be strengthened through a partnership with Europe in accordance with a new model of equal partnership.
2. ASEM was not originally conceived as a bloc-to-bloc dialogue process, but it has taken on, more and more, an inter-regional character.
3. Hence, while ASEM should by nature be open to Asia as a whole, and Europe might in future be enlarged, there might be some value in consolidating ASEM first as a Western Europe-East Asia forum, at least for the time being. Nevertheless, ASEM could consider opening further dialogue avenues with countries which might become partners in the future.
4. ASEM should remain an informal process where no decisions have to be taken, nor treaties negotiated. It can be a useful forum to build consensus between East Asia and Western Europe on political dialogues and global issues such as the New Trade Round, international financial architecture, drug trafficking, money laundering, and the environment.
5. Non-institutionalisation in the form of a loose and informal process does not necessarily mean an absence of organisation. The function of a lean and effective secretariat along the lines suggested in the Asia-Europe Vision Group's report, in addition to existing political co-ordination mechanisms, might not be inconsistent with the principles of adding value and avoiding duplication of initiatives. Initiatives such as the ASEM Trust Fund or ASEM Educational Hubs should be given due recognition, and it can be seen that through this loose and informal process, Track I may give birth to various institutions and build infrastructure to promote exchanges between Europe and Asia.
6. A common agenda is not given, but must be built through a continuous effort.

Issues such as the challenges of globalisation, the necessity of state and corporate reform, human rights, good governance, and the role of civil society should be discussed. An annual ASEM Roundtable on Globalisation was proposed as a useful vehicle to promote such discussion.

7. Parliamentarians, the media, and NGOs should be more actively associated with the ASEM process, whether through Asia-Europe Foundation (ASEF) or other initiatives. The role of the ASEF should generally be fully acknowledged at ASEM III, and its mandate should be renewed, backed by the necessary financial commitment.
8. In the economic sphere, ASEM does not yet have any binding obligations. However, it is evolving through peer pressure and discussions on trade and investment liberalisation help to build an Asian-European consensus in support of free trade and open economies, as well as international cooperation and globalisation with a human face.
9. Political issues should not be conceptualised too narrowly. Despite initial difficulties and confrontations, it is hoped that ASEM III will forge a new equilibrium for political dialogue based upon mutual respect.

Drafted by KIEP and ASEF

**INTRODUCTORY SESSION –
ASEM: AN OVERVIEW**

ASEM AND THE EVOLVING GLOBAL ORDER

Richard HIGGOTT¹

Professor and Director

UK ESRC Centre for the Study of Globalisation and Regionalisation,

University of Warwick

Editor

The Pacific Review

Principal Policy Adviser

The Royal Institute of International Affairs

1. Introduction: Context is All

'Context', as it is often said, 'is all'. ASEM was born in the heady days of the pre-financial crises that beset East Asia from mid 1997 on. Prior to then, it was widely assumed that the global balance of economic power was becoming more triangular in shape. While Europe, North America and the Asia Pacific did not make three distinct 'trade blocs', distinct regional economies were identified. In Asia, a strong process of economic consolidation was taking place that would lead to the development of the Asian region as the third global economic force (Hatch and Yamamura, 1996; Katzenstein, 1986). ASEM would, to use the now well worn metaphor, form the 'third leg' (or side) of the global economic triangle. This was all happening because of the happy coalescence of views on the unalloyed benefits of this thing called 'globalisation' (notably via trade liberalisation, financial deregulation and asset privatisation).

However, since those momentous times in East Asia, practitioners and scholars alike have begun to question the fundamentals of the global economic order. The belief that we were on track towards convergence in the global economy- here two other tired metaphors can be dragged out-towards the 'once size fits all' and 'Washington Consensus' style arguments of how states should adjust their economies to best integrate into the globalising world, have taken a considerable battering (see Higgott, 2000). As is widely known, following the Asian (and subsequent Latin American, Central

¹ Contact: <Richard.Higgott@warwick.ac.uk>

European and Russian) financial crises, the defeat of the MAI and the 'Battle of Seattle' that closed the twentieth century, there is now a more protracted and more heavily contested debate taking place over the virtues of globalisation than at any time since Francis Fukayama (1992) declared the triumph of liberalism and the end of history at the end of the cold war.

The argument of this paper is that the growing resistance to globalisation that characterised the end of the twentieth century and, indeed the beginning of this one, is the essential context within which any analysis of the utility of ASEM should be judged. In this regard, the Asian financial crisis represented a watershed for ASEM almost before it got started. The conclusion of the paper is that this context, contested and volatile as it will often be, will ensure that a meaningful and functioning triangular regional relationship will become more, rather than less important in the management of the global economic order. A strong Europe and a readily identifiable East Asia will be important economic and political prerequisites for a stable functioning global system in the coming decades. To-date regionalism has not been at the expense of the multilateral system but it may well be in the future if ways are not found to manage these relationships in a global order exhibiting a backlash against global economic liberalisation.

For a continued progression towards both regional and global openness to continue the system needs to be managed. For that to happen, the institutional development of all three regions needs to have some symmetry. This in turn, requires the evolution of shared inter-regional expectations. Difficult within regions, the development of such expectations is doubly difficult across regions. Indeed, this difficulty is recognised in both Europe and Asia. In a sentiment certainly echoed in some of the foreign ministries of Asia, a recent European Commission document asked how momentum might be maintained in order to match the initial enthusiasm for ASEM (Directorate General of Trade, 1999).

As is well understood, the institutional organisation of the regional economies of East Asia and the Pacific do not match the institutional complexity of North America and Europe (Higgott, 1997b). Yet enhanced economic cooperation within East Asia and the Asia Pacific (note I use the two terms to mean two different understandings of region) is as important as ever. Serious cooperation had been 'on hold' in the closing years of the century within both understandings of region following their failure to

provide any effective response to the events of the late 1990s. The development of the Asia Pacific Economic Cooperation Forum (APEC) and attempts to develop a political and economic dialogue between East Asia and Europe via the Asia-Europe Meeting (the ASEM process) were clearly put under strain by these events. How they cope in the new century will be the ultimate test of their utility.

An important dimension of this test for ASEM (even more so for the ailing APEC) will be not only the specific dynamics of the bilateral relationship between Asia and Europe but how the relationship is able to accommodate to, and enhance, the wider global agendas for reform that must be put in place if the liberalisation process of the last several decades is not to contain within itself the seeds of its own demise. If ASEM is to be something more than simply but another strand of Jagdish Bhagwati's spaghetti (see figure 1) it needs to participate in the wider global debate of contemporary moment. Broadly speaking this can be called 'the future of globalisation debate' of which there are several, although related, strands. The first strand pertains to a need to secure reform of the international economic architecture in such a way as to secure a newfound and much needed legitimacy for it. As is well understood, the credibility of the international financial institutions (IMF and World Bank) was badly damaged by their less than adequate responses to the financial volatility of the late 1990s. Similarly, the WTO is currently languishing following the aborted attempt to launch a new MTN round in Seattle in November 1999.

Both issues, along with the aborted MAI, have been interpreted in many parts of the developing world as reflecting an unacceptable disregard for globalisation's dark side; namely its failure to take seriously the interests and concerns of those large sections of the developing world that have not participated in its massive wealth generation. Globalisation's ability to generate aggregate overall wealth quicker than any previous form of economic organisation is not in doubt. Neither is it probably inaccurate to suggest that globalisation benefits more people than it disadvantages. But it is also true to say that inequality has increased dramatically as a consequence of globalisation. An agenda for justice and development is a more important aspect of the global agenda now, more than at any time since the post-colonial demands for a New International Economic Order in the 1970s (see Higgott and Devetak, 1999).

The failure to develop a justice agenda, as is now understood in a wide variety of quarters, including the principal international economic policy making institutions,

poses great threats to the stability of the system as a norm driven, rule governed global economic system rather than the return to some kind of an archo-realist system in which the rich do what they want and the poor do what they can. It is also reflected in the recent writings of some world's major economists and policy makers (See inter alia, Sen, 1999; Krugman, 1999; Stiglitz, 1998 and 1999).

Regional and inter-regional institutions must find ways of contributing to the global debate if they are to have wider relevance. This is particularly important for the policy elites of East Asia who have to do more than their American or European counterparts to make their voices heard in the major international policy fora. Bodies like ASEM (and APEC) have different, even conflicting, agendas, but both represent attempts by East Asian policymaking elites to consolidate economic and political communication with North America via APEC and the EU via ASEM. APEC superficially seems more advanced than ASEM and its non Asian members have more ambitious agendas for it than do the European members of ASEM. But, seen through an Asian lens, it is possible that this ranking may not remain the case.

The degree to which ASEM might represent a prospectively serious contribution to the post-Cold War multilateral international economic architecture-rather than just another exercise in meaningless summitry-is the crucial question for this workshop and the Seoul Summit. ASEM has made some progress in fostering links between Europe and Asia since its inception. But it has not reached what we might call a point at which 'take-off into self sustained growth' (to borrow a metaphor from another area and era) as an exercise in international institutional cooperation can be guaranteed. The next steps, as For a Better Tomorrow, the ASEM Vision Group Report (1999) rightly notes, are crucial. As other sections of this paper will argue, the degree to which ASEM can actually foster stronger regional cooperation within East Asia will be an important dimension for fostering stronger relations between the two regions. While such enhanced relationships may be important in their own right, it is (in my humble opinion at least) the degree to which this relationship leads to an enhanced ability to influence the larger global agenda that will be the litmus test of ASEM.

An initial word of caution is required. There are limits to the pace and scope of enhanced institutional cooperation in the region that are often lost within the rhetoric of summitry and the bonhomie that is generated when Heads of Governments and Senior Ministers meet. The first ASEM meeting generated a substantial store of good will in

most quarters. It was '...adjudged a surprising success...those Heads of Government who found an excuse to stay at home must now be regretting their absence' (Nuttall and Yamamoto, 1996). Perhaps one unanticipated, but nevertheless beneficial side effect of the crisis in the region is that the windy rhetoric that often pervades the diplomacy of Asia-Europe and APEC relations has been toned down on the alter of stark economic reality. Indeed, I will try to suggest that what is emerging is a more realistic sense of region in East Asia, reflected in what, following Heribert Dieter (2000) I shall call the 'new monetary regionalism'.

It is in this context that this paper tries to demonstrate the limits to institutional cooperation as a secondary, facilitative, consultative, trust enhancing and mediating role that accompanies material, integrative development at the level of economic investment, production and exchange. *Market driven* economic integration brought about change before the economic crisis. It will be the motor of change after the crisis. *State driven* institutional cooperation only provides a framework-with varying degrees of success-for the management of change (see Higgott, 1997a). In this context, the origins of ASEM needs to be seen as an outcome of (i) the dialectic of globalisation and regionalisation; (ii) the post Cold war search for a workable set of structures of global management; (iii) the new regional diplomacy being practised in East Asia at the end of the twentieth century. A characteristics of this diplomacy, both before and after the crises of the late 1990s, I would argue, has been the growing importance of the 'politics of identity' to foreign policy making in East Asia.

If consolidation of the relationship in the new century is to occur, it will need to reflect these drivers in the context of the post crisis relationship between globalisation and regionalisation and the current search for an international architecture appropriate to the changed circumstances and heightened expectations of a wider group of actors. Should ASEM prove capable of developing beyond this initial phase, then it may well have the potential to play a role, along with other institutions, in keeping the multilateral economic regime open and stable in a difficult era. In a period when the USA seems geared to a stronger unilateralism and specific and lacking in less political will to underwrite the international system than at anytime the post world war two era, then alternative sources of strength are required to guarantee the public good of openness. ASEM cannot substitute for US leadership-the international order would not function efficiently without it playing a role commensurate with its economic and politico/military strength-but it could complement it.

The US alone can no longer manage the system unilaterally and the economic crisis of the latter part of the 1990s has demonstrated that its views of how best to manage that system-if accepted reluctantly in the short run as a matter of necessity-may not well be accepted as intellectually valid in the long run by other actors. One of the major post crisis political problems in the Asia-US relationship will be how to manage the 'politics of resentment' that developed in the region in the wake of US style 'judgements' on the causes of the crisis and US led institutional arrangements for the resolution of the crisis (see Higgott, 1998). But the US as an actor within in the region in its own right and also within APEC remains central to understanding the future role of ASEM. This was the case before the crisis, it remains so since.

ASEM, nurtured properly can be a vehicle for 'social learning' and the consolidation of the norms of multilateral citizenship. But ASEM cannot be 'force fed'. For it to flourish East Asia (but no less Europe) needs to define the parameters of the post Cold War global order into which they fit. This process is multi-dimensional, but there has been a recognition in Europe and East Asia that a meaningful inter-regional dialogue was missing and that an ASEM style process could play a part in the inter-regional architecture. In theory this dialogue should become more important in a post-economic crisis context. In practice, it may not do so.

The paper is in three sections. Section one briefly examines the origins of ASEM including a look at the influence of the US on the process. Section two looks at the impact of the financial crises on regionalism in Asia between 1997-2000. It identifies the emergence of 'the new monetary regionalism'. Section three traces the development of the New Monetary Regionalism and Section four assesses the relationship between the new monetary regionalism and ASEM.

2. The Origins and Rationale of ASEM Prior to 1997

Frameworks for dialogue between the EC (now EU) and various states of East Asia have existed for much of the post-colonial era. In addition to bilateral relationships between the colonial powers and their former colonies a Cooperation Framework Agreement between the EC and ASEAN was introduced in 1980. There have also long standing EU-Japan and EU-Korea dialogues. But it was clear by the mid-1990s, that the institutional framework for discussion of a whole raft of issues between two of the three

most dynamic regions of the world were inadequate. It was in this context that the initiative for a dialogue, (mooted at the World Economic Forum's 'Europe East Asia Summit' by Singapore PM Goh Chok Tong 1995) emerged. Goh's proposal for a bilateral meeting between two regions was driven by both negative and positive East Asian sentiments towards Europe.

Asian leaders, despite guarantees in the Single Integrated Market (SIM) and the formation of the WTO were concerned that Europe exhibited 'fortress' like qualities. This East Asians feared the prospect of Europe free riding on Asian accessibility (Financial Times 18 February 1996: p. 3 and 2 March 1996: p.3). More positively, Asian leaders recognised that strengthened ties with Europe could offset the economic and political influence of the 'Caucasians' (especially the USA) within APEC. For this to happen new links needed to be forged. European and Asian policy community links were not as strong as between the East Asian and American policy communities. Especially in the corporate community, but also in the political, bureaucratic and intellectual communities, Europeans and Asians do not have that sense of mutual trust deemed so important in Asia. 'Class mate relationships', developed via the education of East Asians in America, had not occurred to the same degree with Europe.

European leaders were initially sceptical at the prospect of a Summit, but they too came to see its potential. After all, the SIM was in part aimed at strengthening the Community in the face of the so-called 'Asian challenge'. It was also felt, that Asian misperception of the 'European project' was in need of correction if the European private sector was to take greater advantage of the emerging markets of East Asia. Moreover, the development of APEC from the time of the Seattle summit caused some in Europe to assume it was 'missing the boat'. Clinton had used APEC to bludgeon an agreement out of Europe at the close of the Uruguay Round. ASEM thus offered European leaders a prospect of off-setting their fear of exclusion from APEC. In identifying each other as partners for dialogue, the EU and East Asia were also enhancing their own identities in quasi institutional form. ASEM as a product of social learning was an extension of 'Asian way' diplomacy (see Mahbubani, 1994; Acharya, 1997). ASEM membership is part of an East Asian socialisation process brought about by *systemic interaction*.

The previous paragraph is plausible. It is part of the 'atmospherics' of ASEM's evolution, but is only educated speculation. It must be posed as questions rather than

empirical observations. Does the multiplication of activities contribute to identity creation? Does "ASEMness" come from doing things together? (Nuttall, 1997a: 2) In a number of ways, the evolution of ASEM looks not dissimilar to the early years of APEC. As an inter-regional dialogue it is the product of conscious decision making on the part of significant regional leaders in East Asia and Europe. It is an act of political will. 'Europe' and 'East Asia' are constructs. Moreover, by the nature of its membership ASEM flagged which voice of Asian region will talk to Europe. Asian membership of ASEM is not random; identity is an important in defining membership. As Jusuf Wanandi noted (1996, p. 8) 'Asia means basically East Asia'.

For obvious historical reasons, relationships between the Southeast Asian states and the Northeast Asian ones (especially Japan) are not close. In this regard, the Asian membership of ASEM has had the effect of providing a *de facto* legitimacy to the initial understanding of the EAEC (Sopiee, 1996; Higgott and Stubbs, 1995). In this context the 'politics of otherness'-who is excluded from a group rather than who is included-is important in understanding the formation of ASEM. In theory, regional policy coordination within East Asia is strengthened by the region to region nature of the ASEM dialogue. ASEM enhances contact not simply between Asia and the EU, but also within, especially between ASEAN and Northeast Asia.

In addition to overcoming historical distrust of Japan, the intra-regional interaction of ASEM, like the ARF and APEC, gives the smaller states of East Asia the opportunity to engage with the PRC. The Asian coordination process in ASEM-carried on by one Northeast Asian and one Southeast Asian state-is an interesting development in the international relations of East Asia. Moreover, if *de-facto* economic regional integration is taking place in the space defined as East Asia, then it makes sense that dialogue at this level should be institutionalised. ASEM, along with the ASEAN Regional Forum and APEC, for all their limitations, constitute that growing basket of fora for enhanced policy intercourse and coordination in the region and between the region and the rest of the world.

Moreover, in ASEM, both the European and the Asian states take part on an equal footing. This was a not unimportant milestone in the developing status of East Asia in international affairs. Not only does ASEM provide a legitimization of the East Asian Grouping the dialogue with Europe also accords a standing and symmetry equally sought after by the policy elites of the region. In so doing, ASEM offers the smaller East

Asian states a symbolic equality not so readily found in their dealings with the USA, especially during the financial crises and since when, the US rode roughshod over Asian readings of the crises and how to respond to them.

Yet ASEM is also, clearly grounded in the deeper structural change in train in the global order. Specifically, it is built on a recognition of the relationship between globalisation and regionalisation that makes such a dialogue necessary. The most basic reason, certainly the most initially publicly professed, for enhanced dialogue was to counter the under-developed state of economic relations between Asia and Europe. As the EU's policy paper Towards a New Asia Strategy (1994) notes, failure to develop a dialogue with Asia assists those in Europe who see Asia as an economic threat rather than as a potential partner. Although Asian economies had grown very quickly it was often forgotten that they start from a low base. The pre-1997 GNP of ASEAN- with a population of well over 300 million- was about that of the Benelux countries (Luxembourg, Belgium and Netherlands) with less than 50 million people.

The economic attraction of ASEM for the Europeans arose from their exclusion from the APEC process, notwithstanding that Asia as a whole is the EU's largest trading partner. In 1994, Asia (including the sub-continent) took 23 percent of the EU's foreign trade compared to 20 percent with the rest of Europe and 17 percent to the USA. Also, EU trade with Asia until 1997 had grown faster than trans-Atlantic trade-trebling between 1985 and 1992. If pre-1997 growth rates had continued, it would have been more than 50% larger than trade with the US by 2010. While this is now unlikely, it does not diminish the importance of the dialogue.

ASEM and the USA Before the East Asian Crisis

Invariably identified in the early discourse on ASEM was the prospect of providing a counterweight to the influence of the US in global affairs. The US- even in its absence- has been a central player in ASEM from the outset. 'The ghost at the feast', as Michael Leifer called it. 'The invisible third party at the table' as the European leaders of the Council for Asia European Cooperation called it (Godement, Maull, Nuttall and Segal, IHT, November 19, 1996, 8). There was much hyperbole of the kind expressed by Sadahiro Takashi (1997:11) 'Asia and Europe will score successes at ASEM if they...succeed in making the US become jealous,' and at its most pronounced, in Noordin Sopiee's (1996) assertion that it was a 'quiet earthquake' that would make it so much 'harder for anyone to kick Western Europe ... and ... East Asia around. Sopiee was

speaking at the height of that wave of 'emerging market euphoria' and Asian hubris and prior to any serious concern about the sustainability of the Asian miracle economies. Events since that time have done much to undermine these kinds of arguments. As Dave Bobrow points out:

Neither then, nor since has either political Washington or economic New York paid much obvious attention to ASEM ... The hegemon, to borrow a phrase ... has chosen not to bark' (Bobrow, 1998, 2).

US indifference was explained by timing. ASEM was initiated at a time of rapid liberalising agreements in APEC, an improving security context in the region, a declining threat from Japan in the economic domain and an intellectual commitment among US political elites towards enhanced multilateralism. If anything ASEM emerged at a time when policy elites in the USA felt it would enhance rather than impede US foreign policy goals. For ASEM to represent a threat to the US its agenda would have needed to advance policy that ran counter to US interests. Any such issues- in the security and the economic domain-were absent from the ASEM agenda. Even if there were policies- human rights or hostility to continued liberalisation, say-that could have formed bargaining chips at the time, they did not exist in a strong enough form to threaten the US. Notwithstanding ASEMphoria, prospects for collective action capabilities on major policy issues of concern to the US by ASEM were not present.

By contrast, although neither like their junior partner status, the relationship with the USA is one that neither Asia nor Europe can do without. In a post-Cold War era, thinking in policy circles in both Europe and Asia in the mid 1990s was of the mind that it was time to balance out the relationship with the US more than when they were subject to the disciplines of the Cold War era. In the then well worn cliché, ASEM offered the opportunity to close the third side of the US-Europe-Asia triangle. For Europeans, it was also meant to offset what- at the time- also seemed to be the rapid development of APEC in economic matters and, for some, to constrain US unilateralist tendencies in the security domain too (Shinand Segal, 1997). A more positive reading of the advantages of ASEM for the EU and East Asian at the time can also be made. It was thought to offer the chance for Asian and EU voices to reinforce continued multilateral trade liberalisation as a counter weight to recurrent bouts of US economic nationalism in the international trading system. While still the world's major and most open market there is evidence that the USA has moved away from a diffuse, to a more specific

reciprocity in its trading relations (Bhagwati, 1996).

The preceding discussion represents a reading of the relationship prior to the onset of the crises in 1997 a growing assertion on the part of the majority of the Asian policy making community that their competitive advantage might be best served by a liberal trade regime adhering to multilaterally (WTO) arbitrated norms, principles and codified rules that offer protection from US desires to make bilateral deals. In addition, WTO disciplines could also be tools with which to curtail domestic rent-seeking groups. At the level of the trading regime, the regional economic crises of 1997 makes this argument more rather than less important. The major exercises in adjustment that must take place in Asia requires an even greater adherence to sets of established principles and rules. However, when crisis struck it came about in the deregulated financial sector rather than the traded goods sector.

Prior to the crisis, however, the working assumption of Asian policy elites was that Europe's support would be important in these developments and it was expected that it would become more normal to see Europeans and Asians acting collectively to confront the US--directly and jointly--over transgressions of multilateralism, such as the Helms-Burton Act and other such attempts to punish third parties trading with Cuba, Libya and Iran, or other states to which the US took dislike. ASEM it was argued could collectively oppose these and other attempts at aggressive unilateralism and keep the USA committed to multilateralism. It would do the US no harm to recognise that it could not always sit at the apex of an isosceles triangle. It needed to think rather of East Asia, the EU and North America as the three corners of an equilateral triangle with APEC, ASEM and the Trans-Atlantic relationship as its sides. If it had been underwritten by a commitment to open multilateralism- and not posited in zero-sum terms for American observers- then US policy makers, in theory, could not take exception to this kind of diplomacy. After all had used it itself when the Clinton Administration used APEC as the Uruguay Round became bogged in 1993 to apply Asia-US pressure on the EU.

If the APEC strategy--based on the 'two beats one' principle in international negotiations concerning the US, Europe and Asia--succeeded in securing concessions from the EU to close the Round (and trade folklore says that it did) then, logically, it made sense for other actors to repeat the formula as part of a triangular system of checks and balances. Unlike European states, who can respond via the EU, East

Asians had no serious vehicle for a coordinated response to the more overt bouts of US economic nationalism. History tells us that Europeans do not take to US bullying as easily as individual Asian states had to during the Cold War. Throwing in their lot with the Europeans on some issues was thought to offer the prospect of enhancing Asian negotiating positions. From a European position, it was felt that it would undermine the possibility of APEC negotiating with Europe as a bloc. The danger that the effect on the US of the development of collective ASEM positions to keep the US genuinely multilateral might encourage the opposite result was given little consideration. Rather, it was assumed at the time that US intransigence might indeed enhance the ASEM relationship.

It was always assumed that the US would remain preeminent in the context of the regional security dialogue. For some, the major questions for the Asia Pacific in the coming decade, notwithstanding the economic crisis, are still primarily security ones. There are as yet unresolved issues in the region-across the Taiwan Straits, in the South China Sea and on the Korean Peninsula-that have the capability of tearing the region apart. It is not necessary to expect these things to happen to recognise that they could. Inter-regional dialogue, across the security and economic domains is thus important. As a consequence a key question for ASEM that has yet to be resolved, pertains to the manner in which it might, or might not, assist in the development of a stable security environment. But a security agenda- beyond a shared interest in peace and stability- and the delineation of a role for ASEM on that agenda is hard to define.

Advocates argue that ASEM needs to discuss the international security environment- global as well as regional (Dong-Ik Shin and Segal, 1997). That way the prospect of East Asian learning from European experience-especially about the utility and limitations of Confidence Building Measures (CBMs) and 'preventive diplomacy'- can be enhanced. But there are limits to how far the security dialogue may be advanced. The basic problem in a security dialogue between East Asia and Europe is that it is the United States, not Europe, that is the major external actor in the security domain. Indeed, as in the economic domain, in any deliberations between East Asia and Europe, the USA is going to be Leifer's 'ghost at the feast'. No regional security problems in East Asia look manageable without the presence of the USA.

Thus ASEM, according to Shin and Segal, could encourage US commitment to the region (1997: 153). Europe can best do this by looking after its own security

environment in a comprehensive manner that frees up the US to focus more on East Asia. What strategies ASEM might adopt to secure such ends have still to be developed. But it is unlikely that ASEM will flourish without a full agenda and, in one way or another, a security dialogue has to be part of that process. It will be the most difficult part of the agenda to develop given the sensitivities of major Asian players in ASEM. It is, however, a secondary matter in the face of change that emanated from the deteriorating economic conditions of the late 1990s.

3. Asian Regionalism After the Economic Crisis

It is quite clear that the regional economic order that appeared to be emerging throughout the 1990s were thrown into reverse in July 1997. The antecedents of this crisis are now well known, as are the contested explanations as to their causes. What is important for this paper is the implications for regionalism in East Asia and for the development of Asian relations with other actors. In this context APEC and ASEM are the two key players. The argument that I develop in this section is threefold.

- (i) the crisis dealt a major blow to regionalism in the Asia Pacific as delimited by APEC.
- (ii) future regional development will be more East Asia (as opposed to Asia Pacific) focussed; with implications for the US role in the region.
- (iii) ASEM will not be a major source of inter-regional cooperation although its potential, if handled properly and under the right conditions, could still be as significant as its initial pre-crisis era aspirations.

The crisis in East Asia altered the fortunes (economic and political) of several states; moreover, it was a set back for the inexorable process of international economic liberalisation known as 'globalisation'. The end of the twentieth century saw the first serious challenges to the hegemony of neo-liberalism as the dominant form of economic organisation since the end of the Cold War. Resistance has not been not uniform, nor restricted to one site or group of actors. Moreover, in many instances, resistance was more often to practice as to principle. Events in Asia represented less the final ideological triumph of liberalism rather than a context for rethinking aspects- especially continued capital de-regulation- of the neo-liberal project.

Events in Asia should be seen not only as an economic crisis, but as an 'ideas battle' battle. Having 'won' the Cold War against Soviet style collectivism, no sooner was one bout of triumphalism over than liberalism was, often gleefully, protesting its superiority over the 'developmental statist' approach towards capitalist economic development (see Zuckerman, 1998). The speeches of senior US policy makers and opinion formers throughout the late 1990s were peppered with references to the need to jettison the remaining vestiges of the developmental statist model. Federal Reserve Bank Chairman, Alan Greenspan (1988) publicly argued that the crisis in East Asia's currency markets would have the effect of moving East Asian economic practice closer to that associated with the US model. For the US, those socio-political practices of the so-called Asian model that were acceptable for security reasons during the Cold War-exclusionary politics, nepotism and the blurred lines of authority between political and economic power-now clashed with the interests of private capital in search of greater market share and profit in an era of deregulation.

One does not have to accept the cruder versions of this analysis- which suggest that the IMF was merely an instrument of US policy to bring Asian economic policy making into line with the its preferred, neo-liberal, approach- to recognise a test of intellectual will in train. The divisions remain greater than even seasoned regional observers, using European tinted lenses seem to accept. Some indeed see 'convergence' as the desired and inevitable way forward. As the CAEC Task Force to look at Asia Europe-Cooperation Beyond the Financial Crisis noted:

'All participants agreed that the essential policy lesson from the crisis and its aftermath is the convergence of systems and policies towards global norms ...There is no longer an Asian economic model or paradigm. Instead, the major issue today is to create a reasonable degree of global harmonisation on basic business standards, instruments and ethics on the one hand on the one hand, *while respecting cultural divergences and preferred priorities on the other* (CAEC, 2000: 11) (My emphasis).

One is tempted to say, of the first part of the quote 'Well they would say that wouldn't they'. More significant, I would argue is the qualifying italicised last sentence of the quotation. It, naively in my judgement, assumes that culture is somehow separate from economics and politics rather than recognising the salience of political culture and

economic culture. If the US were to have its way, then a western model of liberalisation would finally replace the developmental state. This does not happen without cultural acquiescence, and such acquiescence is not readily forthcoming I would argue. Indeed, this ideological assertiveness has not played well in East Asia in either the short or longer term.

This issue also raises a number of important questions more directly germane to the development of regionalism in Asia and by extension for the inter-regional relationship between the East Asians and the Europeans. The financial crises, the inability of the regional institutions to address them in meaningful fashion, the role of the US as the major regional economic power in responding to the crisis and the role of the international institutions that, if not directly singing to the tune of the American conductor were at least singing from the same musical score have led to a rethink on the future of regionalism in East Asia.

Specifically, the regional policy community have slowly turned their attention towards a 'regionalisation of thinking' on how to mitigate the economic problems visited on Asia since 1997. Nowhere is this better illustrated than in discussions on regional monetary cooperation which have developed since that time. The evolution of the regional debate demonstrates the first two tendencies outlined at the beginning of this section--(i) the East Asianisation of the regional 'discourse' and (ii) the weakening of APEC and the effects of these processes on the role of the USA. The debate over the new monetary regionalism has unfolded gradually, but there are really two key periods. The first is the discussion over the creation of an Asian Monetary Fund in late 1997. The second started in March 2000 when the ten ASEAN countries, China, Japan and South Korea reached an agreement in Chaing Mai and in May at the Annual Meeting of the Asian Development Bank in Thailand when Japan suggested to other East Asian finance ministers that Asian countries should be able to borrow from each other through short-term swaps of currency reserves. The first story is well known.

4. From the AMF to the 'New Monetary Regionalism'

The potential significance of the second story has yet to register with extra-regional observers of East Asian regionalism. While this development seems to be a technical arrangement between the region's central banks to create a network of currency swaps it effectively represents the beginning of a new era of regionalism. Whereas in the

past, trade was the economic driver of supranational co-operation, money now matters more. East Asia may well be the first region that builds a grouping based on monetary and financial co-operation rather than increased inter-regional trade concentration.

Thus these seemingly technical developments have to be seen in a wider historical context. Via the unexpected route of the creation of a regional liquidity fund (for that is what it is) the notion of an 'East Asian Economic Grouping'--much derided outside of the region throughout the 1990s--may come to have meaning after all. Whilst the policy makers in the USA and Europe have been preoccupied with their own battles over the future of the IMF and the World Bank over the last several years, East Asians have quietly started to prepare themselves for a future less dependent on the multilateral institutions. How can this be the case? I explain why briefly below.

The abortive exercise, led by Japan in late 1997, to set up an Asian Monetary Fund (AMF) is instructive for the argument of this paper. The AMF proposal was given impetus by the US refusal to participate in the initial \$17b fund for Thailand. Contrasting its support for Mexico in 1994, Asian leaders were critical of US policy. They argued that US reluctance to support Thailand made the spread of the crisis to other countries all the more likely (The Business Times of Malaysia, 3 October, 1997). Moreover, not only did the US refuse to support the package, it also opposed calls to set up a regional fund to do so.

To be capitalised initially at \$100 billion, the aim of the AMF was to provide emergency support in a regional way and avoid what many leaders saw as the humiliation of the IMF telling them how to readjust to the new circumstance. The initiative was always a long shot but with an initial Japanese agreement to underwrite it, it even led to talk of a permanent regional fund. The proposal for an AMF made up only of East Asian states was in many ways an exercise in 'thinking East Asian' not dissimilar to the setting up of the East Asian Economic Caucus (EAEC) within APEC (see Higgott and Stubbs, 1995). According to the Japanese plan, the AMF would have been more flexible and perhaps less strict in its disbursements of funds (See Altbach, 1997: 8-9).

The proposal was, however, insufficiently thought out, naive and, with the benefit of hindsight, destined to fail. It was underwritten by, and verbally accompanied by, a large dose of 'Asian way' hubris, especially amongst its ASEAN supporters. The

proposal, in the minds of some regional leaders at least, was also underwritten by an assumption that the existing international institutions did not necessarily know what best suited Asians and that they could produce regional solutions to the management of their own financial affairs. In this regard, they had still not at the time of the initial crises, understood the power of the global financial markets. This is no longer the case, the Asian policy community is now fully sensitised- in a way that it was not prior to 1997- to the degree to which small open economies are vulnerable to the global financial markets and the need to guard against this vulnerability.

But the proposal's most naive failing was to underestimate the strength of the opposition from the USA and IMF, the full force of which was felt in September 1997 at the inaugural joint IMF-World Bank meeting in Hong Kong. The proposal was seen by US policy makers and senior figures in the two international financial institutions not only as likely to undermine their ability to impose tough conditionality on loans, but as a veritable threat to US interests and influence in Asia. The US, as Chalmers Johnson notes:

'...correctly sensed that the Japan was about to try its hand at long promised, but never delivered, leadership. If the Japanese had succeeded, they would have slipped the leash of the US cold war system. Moreover, they would have started using their capital to help countries in Asia rather than continuing to send it to the world's number one debtor nation, the United States (Johnson, 1998).

Other factors, such as Japanese financial problems were also salient in explaining its failure (see Haggard and Mac Intyre, 1998). In the end, Japan also conceded US and IMF assertions that the AMF might duplicate the activities of the existing international institutions and that there was a danger that any adjustment funds not under the direct or indirect control of the IMF might not be 'properly used' (South China Morning Post, 16 November, 1997). By November 1997, the proposal was aborted. The US desire for the IMF to control adjustment funding prevailed and its dominant role in the process was endorsed at the Vancouver APEC in late 1997. Thus APEC backed an IMF led response to Asia's problems. Any idea of a special (regional) assistance programme was scotched by the US. In effect APEC endorsed a standard model of macro-economic policy reform--with all the accompanying implications of painful restructuring processes for most countries of the region.

This may, however, prove to have been a turning point for the organisation. By opposing the proposal (more) seeds of polarisation in the relationship between the Asian and Caucasian members of APEC were sown. Subsequent arguments about the role that the IMF should play in the rescues in the region, especially in Indonesia and South Korea, were only resolved in favour of the IMF taking the lead after considerable argument. The exhortatory liberalisation rhetoric of the Vancouver APEC only superficially concealed a deeper schism between the two edges of the Pacific. The economic turmoil reinforced the notion of the Asia Pacific as an artificial construction of region, the long terms alliance of which may well have been affected by the economic downturn, or more specifically by the prospect of longer term regional resentment at the US and IMF led responses to the crisis.

It is now clear that the euphoric expectation of the 1993-6 period that APEC would provide firm institutional ties to mitigate inter-regional tensions between Asia and the US was wishful thinking of a high order. Advocates of APEC, concentrating on the liberalisation of the trade regime, championed 'open liberalism' in the region, assuming that it was benign, beneficial and its enhancement largely uncontested. Much of the discussion on APEC throughout the first half of the 1990s saw only the benefits and none of the pitfalls of dramatic increases in deregulated, unrestricted capital mobility. But APEC had always found its strongest intellectual and political support amongst the American, Australian and Canadian members. During the heyday of Asia Pacific growth, the Asian members were willing to go along with its emerging programme, although not necessarily at the pace the Caucasian members wished (Gallant and Stubbs, 1996). The 1997 crises have changed things considerably. APEC- rather than being a potential instrument for trade liberalisation at the Asia Pacific level in which a harmony of interest developed between the member states- came to be seen in some parts of East Asia as but an additional site at which the US could hammer home the claim for further capital market liberalisation.

A New Monetary Regionalism?

The crises left two open questions for East Asian regionalism. Was it more or less likely that there would be further initiatives to (i) provide some kind of regional economic cooperation in general and (ii) financial policy coordination in particular? The answer is two fold. In the short run, no grand regional strategies emerged. In the longer run, however, the regional responses to the Asian crises appear to have made the

prospect of the greater management of East Asian (as opposed to Asia Pacific) financial affairs all the more likely. Indeed, both short-term practical and longer-term conceptual avenues of regional financial cooperation were explored in the closing years of the decade.

For example, ASEAN finance ministers (meeting in Manila 1-2/12/1997) agreed a framework whereby member states would engage in the mutual surveillance of each others economies. Such an agreement, unthinkable prior to the crisis, demonstrated an emerging desire to enhance regional policy making capabilities. This, I would argue, was a significant exercise in the recognition of the 'East Asianness' of the region. The crisis was a spur to it. While it was anchored within the existing international financial institutional context, the Manila Agreement, as per its full title, was intended to 'Enhance Asian Regional Cooperation to Promote Financial Stability'. The Manila Framework was very much part of the wider exercise of soul searching that took place both within ASEAN and between ASEAN and its other East Asian partners. ASEAN was facing an identity crisis which saw it concede that it might be necessary to reconsider some aspects of the ASEAN way of 'non-interference' in the affairs of member states.

The formula adopted at Manila was portrayed in certain sections of the US media as a defeat of Japanese attempts to establish a fund without IMF style conditionality. While at one level this is certainly the case, it is also an incomplete reading of Japanese behaviour. The offer came as a response to widespread regional disappointment at the US failure to support the IMF package for Thailand (Asian Wall Street Journal, 12-13 December 1997,6).

At a more exploratory and conceptual level, proposals to enhance monetary cooperation resurfaced through the closing years of the decade. Following a Malaysian proposal for local currency based settlement of trade within ASEAN, a South Korean delegate to the Asia Neighbours Forum in Tokyo (April 1998) raised again the idea that Asian countries needed to think about an AMF, led by Japan, to maintain currency stability in the region. Similarly, the Head of the Asian Development Bank Institute, Jesus Estanislao, suggested that a system not unlike the EMS-in which Asian currencies might move against a basket consisting of the Dollar, the Yen and the Euro-was not impossible in Asia (see Fujii, 1998: 23). The Japanese Institute for International Monetary Affairs, along with Thai and Korean research organisations, also conducted a

feasibility study for a single currency system for Asia (The Nikkei Weekly, 25 May, 1998, 23).

The crucial point of these initial avenues of exploration was not their immediate significance; or to under-estimate the difficulties of such policy coordination in the region. Rather these explorations reflected, amongst other things, a dramatic change in the views of regional policy elites to the relationship between globalisation and regionalisation. Whereas in the past, especially during the Cold War, regional policy elites seemed relatively contented to look to the West for leadership on matters of global economic management, this came less to be the case throughout the 1990s and especially so since 1997. The bitterness at the humiliations metered out to East Asia has not been weakened by the seeming rapid economic recovery.

Indeed, recovery such as South Korea's spectacular growth in 1999 (at 10.7 per cent beating the most optimistic forecasts) seems only to fuel the anger about the policies of the West in general and the IMF in particular in the post crisis period. The IFIs were found wanting in both theory and practice by the events in East Asia. Policy advice on structural reform to the financial system was inadequate, intrusive, often wrong and raised questions about the legitimate role of the international institutions. Their dilemma was caught by Martin Wolf of the Financial Times, (1998: 8) when he asked,

‘...is the IMF and the international community it represents entitled to demand of a sovereign government?’ Providing advice is one thing, insistence that presidential candidates all sign the agreement with their country in blood, before an election ...[as in Korea] ... is surely another.

Ironically, the financial crisis appears to have improved the conditions for regionalism in East Asia. Most importantly, the two major regional powers, China and Japan have come out strongly in favour of East Asian regionalism. The shape of this regionalism, however, will differ distinctly from traditional trade-based regional integration. Policy makers in East Asia writ large (as opposed to Southeast Asia writ small) are not very interested in the creation of a free trade area, customs union or common market of the more traditional route that has been followed in the evolution of the EU for example. In a world of rapid global trade liberalisation, these old-fashioned measures of regional integration generate limited economic returns for the successful

exporters of East Asia. National economies participating in a trade-based integration project gain additional stability only at very high levels of integration, at the level of economic and monetary union, the route followed by the EU. It is the classic misunderstanding in the West to expect East Asia to follow the European or North American (NAFTA) example. East Asia is going down a different path.

One further important lesson that Asian's learned from the financial crisis is that conventional, trade-based regionalism (APEC style) did not offer any additional protection against financial volatility; and it is financial volatility that is now recognised as the most potentially de-stabilising factor in Asia. Monetary regionalism aims at enhancing the region's ability to weather financial crises. The first step appears to be the creation of a regional liquidity fund. Participating central banks will gain access to a part of their regional partners' foreign reserves. This will enable them to function as serious lenders of last resort. The creation of a regional liquidity fund will also provide the functional basis for further co-operation. Participating countries will have to create institutions to constantly monitor economic developments in the region. The nascent intra-regional policy networks that have developed over the last decade can form the basis of this consolidation. By introducing the ability to mobilise liquidity in the region rather than having to go to the IMF, East Asia will have secured the main aim of monetary regionalism. In the event of a financial crisis neighbours, not the IMF, will help out.

True, there is no longer talk of an AMF per se. In a crisis, the central banks of the participating countries are to have speedy access to the currency reserves of the other states. In May 2000, Japan suggested a network of currency swaps, in effect a regional liquidity fund, to Asian finance ministers attending the annual meeting of the Asian Development Bank in Thailand. The idea is that Asian countries should be able to borrow from each other through short-term swaps of currency reserves. That Japan is trying to take the lead in this initiative invites two conclusions.

Firstly, Japanese policy makers have learned from the missed opportunity to create an Asian Monetary Fund in 1997 and do not want to be passive bystanders again. Japanese unwillingness to push the AMF in the face of US opposition represented a failure to break the 'occupation psychology' (Bello, 1998) in its relationship with the US and, as a consequence, left other regional governments no alternative but to acquiesce in the conditions imposed by the IMF programmes. The continuing frustration with both

the IMF's performance during the crisis and the lack of progress in the reform of the international financial architecture has opened a second opportunity for Japan to raise its profile as a regional leader.

Even the traditionally difficult relationship with South Korea appears to be giving way to a more constructive approach. As Il Sakong, chairman of the Korean Institute for Global Economics (and ASEM Vision Group) noted in Chiang Mai: 'We need to have some kind of defense mechanism. Since not much is expected to be done at the global level, something should be done at the regional level' (Financial Times, 6/7 May 2000: 9). Secondly, Japanese policy makers may also have felt a need to counter China's increasingly positive profile in the region. Although China continues to have its own economic problems, its overall good regional citizenship during the Asian crisis, and its pending accession to the WTO have lifted its image in East Asia.

Although major elements of the proposal still have to be finalised, the very fact that these countries are focusing on the generation of greater financial stability marks a new era of regionalism in East Asia. The forward looking and inclusive character of the project is underlined by China's participation. Today, China has no need for additional liquidity from the region. Together with Hong Kong's monetary authority, China's central bank has reserves of US\$ 250 billion; more than enough for an economy that enjoys the additional safety net of comprehensive capital controls. Xiang Huajcheng, China's finance minister, in his statement in Chiang Mai did not emphasise the relevance of the project for China, but rather for the region. If we wanted to push this discussion one stage further still, monetary regionalism in East Asia gains additional appeal through the potential inclusion of Taiwan. Since this project, at least at the current level, could be considered to be economic cooperation rather than supranational political cooperation, Beijing and Taipeh could work together without having to give up their political positions.

The currently existing level of reserves in East Asia makes the creation of a regional liquidity fund a plausible exercise. The region has more foreign reserves than any other. Even without Taiwan, which alone enjoys reserves of more than US\$100 billion, the central banks of East Asia together have more than US\$800 billion at their disposal. The European Central Bank, by comparison, even after the recent doubling of reserves only has foreign reserves of about \$90 billion. The entire reserves of the Euro zone, including the reserves of the national central banks, stood at about \$345 billion in

February 2000. Even if only 20 per cent of East Asia's reserves would be used in a financial crisis, the amount of money available is sufficient to enable central banks to act as lenders of last resort. If, say, Thailand would be faced with a new financial crisis, it could draw upon almost US\$190 billion: its own reserves of US\$ 34.1 billion plus additional US\$155.4 billion from the regional liquidity fund. The money available to the Thai central bank would exceed the total IMF led lending to Thailand, Korea and Indonesia during the crisis by about US\$50 billion.

Of course, the proposal is not without its problems and critics. Non Asian observers immediately criticised the Chiang Mai agreement. The agreement would, it was argued, tempt Asian policy makers to delay reform, thereby missing the opportunity to provide real safety against speculative attacks on their currencies. Sound policies, strong banks and well-run corporations have been suggested as better medicine against financial crises (Financial Times, 10 May 2000: 22). Maybe, but the criticism misses the wider point. The creation of the regional liquidity fund does not necessarily imply that Asian governments must use the additional financial means to return to fixed exchange rates, at least not immediately.

The initial purpose of the regional fund may well be limited to providing sufficient liquidity for banks and corporation that may be confronted with an inability to rollover existing debt denominated in foreign currency if there is a sudden swing in market sentiment. The absence of comprehensive capital controls in most economies of East Asia has made the task of central banks much more complicated. It might thus be helpful to remember the influential roles that central banks play in other OECD economies when financial crises hit. Consider the role of the German Bundesbank played in solving the bankruptcy of the Herstatt Bank in 1974 or the US Federal Reserve's role in solving the Savings & Loans debacle of the 1980s. Therefore, the creation of a network of strong central banks can be considered to be a pre-condition for stability in the financial sectors of East Asia.

Observers in the West, who have not been on the receiving end of such a process also tend to forget how much the markets overshot in the Asian crisis. Nothing will convince Asian leaders that the market punishments did not far outweigh the crimes. A primary concern of Asian finance ministers is therefore to avoid any repetition of the negative consequences of this 'dark side' of market processes, as the Bank for International Settlement has called it. This is a legitimate and significant function of

governments; and the high level of foreign reserves is making East Asia the most likely region for monetary regionalism. Reserves are not only high, but they are also quite well distributed in the region. The two largest economies, Japan and China, also have the largest reserves. In the event of a crisis, those two economies could make the highest contribution. Also, considering the high level of reserves, a regional liquidity fund is plausible even without using too high a percentage of the reserves of the participating central banks.

The creation of a regional liquidity fund is not, of course, without risks. The most problematic economic aspect of such a scheme is that it might fuel moral hazard. Lenders and borrowers alike might neglect risk because of the potential to be bailed out in the event of a crisis by the regional liquidity fund. Effectively, this would result in a socialisation of risk, a side effect as unwanted as the moral hazard generated prior to the 1997 crisis. Therefore, the implementation of a regional liquidity fund ought to be accompanied by measures that automatically bail-in lenders. Rollover options with an agreed upon price for the exercise of the option would both force lenders and borrowers to consider risk before striking a deal and would be a powerful instrument to avoid moral hazard: Lenders would automatically be bailed-in if a financial crisis emerges (Blinder, 1999).

An added advantage of monetary regionalism is that it does not require potentially de-stabilising socio-political measures that accompany more traditional forms of regionalism. For instance, the free movement of labour that has characterised the introduction of Europe's common market does not have to be contemplated. Nor does it have the implications for sovereignty pooling implicit in the model of the EU, at least not at a nearly level (see Dieter 2000).

The development of the currency swap arrangements is but a first step on a long road, but it provides support for the view that it would be naive not to think that at some stage Asians might introduce greater regional institutional mechanisms for the common management of financial questions. Those willing to deny the possibility of a common currency in Asia would do well to remember the fate of those similar analyses that emanated from the US in the 1980s that ridiculed the idea of a common European currency.

The New Regionalism in Wider Context

The impotence of regional institutions (writ small as ASEAN or writ large as APEC) during the financial crises of 1997-8 hit home. It focused policymakers on what was the most meaningful voice of region- *East Asia*, a meso level between the more local and the global. It is in this context that we must understand the emergence of monetary regionalism. It may mark both a regional and global watershed. If this project is successfully implemented and- a positive mood notwithstanding- a big 'if' must remain, East Asia will have put itself at one step removed from the traditional dominance of Western institutions.

Given the slowness of global financial reform this is important. Current US policy towards the reform of the international economic order (and policy that would be unlikely to change in a direction more favourable to East Asia if George Bush Jr. is elected) is still committed to liberalisation and has consistently denounced plans for any form of re-regulation in general and the creation of regional policy responses in East Asia in particular. US antipathy towards incipient 'AMF' style reforms reflects a private sector desire for continued financial liberalisation on the one hand and apolitical/bureaucratic (both domestic and international) institutional desire not to cede the power of the international financial institutions- in which the US is dominant- to regional institutions over which they would certainly have less ideological and practical control, on the other. The US is the dominant actor in the IMF. The development of viable alternative organisations would diminish its influence.

Specifically, the US concern was that an AMF style organisation would slowdown the liberalisation of Asian financial markets. The US response towards the crises, inherent in IMF policy, has been to liberalise trade, deregulate financial markets and enhance disclosure rules. All, by happy coincidence, coincide with the broader aims- both before and after the crises- of US economic diplomacy in the region. As Jeffrey Garten (Secretary of Commerce in the first Clinton Administration) noted in an article entitled 'Worsening financial flu lowers immunity to US business', Asian economies were passing through a 'dark tunnel...[b]ut on the other end there is going to be a significantly different Asia in which American firms have achieved much deeper market penetration, much greater access' (New York Times, 14 January, 1998).

Moreover, US policy throughout the 1990s, in both economic and security domains, saw a shift from hub-and-spoke relationships towards a greater multilateralisation of its Asian regional relationships. Initially resisted by the US

regional multilateralism came to be accepted in the context of a broad definition of region as the Asia Pacific; APEC, in the economic domain, became acceptable as a vehicle for US interest. The narrower definition of East Asia that is the core of the new monetary regionalism proposals is much less appealing. Viewed through American eyes it is not consistent with overall American interests. It would reinforce the trend, from the time of the Plaza Accord through to the first half of the 1990s, by which the Japanese have replaced the US as the major source of FDI, the major force for production and the principal aid donor in the region (see Hatch and Yamamura, 1996 and Rix, 1993).

East Asia has been on a rapid learning curve since 1997 and is not waiting for a solution on the global level. It is now looking to put in place mechanisms to solve its own financial and monetary problems. The fact that China and Japan have both agreed to participate underlines the importance of this proposal. Indeed, the future of the region after the crisis is now more firmly tied to the role of the two indigenous Asian superpowers than at any time in the past. Specifically, the future of the region is dependent not only on Japanese economic reform, but also on a willingness of the PRC to continue the new found regional economic role that it has been so keen to consolidate since the return of Hong Kong and advent of the economic crisis in 1997. Similarly, such is the desire for enhanced financial policy autonomy in East Asia- and such is the perversity of politics- that US opposition to the initial AMF proposal might actually advanced the current cause of monetary cooperation.

The US response to the proposed currency swap plans has been considerably more muted than its initial objections to the AMF. It, and the IMF, is confronted with a difficult choice. They may choose to support monetary regionalism, which would result in a smaller role for the Fund. Or they can oppose the project, but given that East Asians seem to have learned from recent history, they might not as easily be intimidated as in 1997. America (and to a lesser extent, Europe) may continue to shape the international financial markets and control the International Monetary Fund and East Asia will continue to participate in the discourse of Washington multilateralism, but it will also practice the 'new monetary regionalism'.

Whether Western analysts like it or not, Asian explanations of the crises of the late 1990s did not privilege the same factors. Asians appreciate that there are flaws in their economic system that do not serve it well under contemporary capitalism. But

continued violent movements of capital cause more and more members of the Asian public and private sector policy making elite to resent the ineffectiveness and the inability of any existing international institutions to offer solutions other than to demand dramatic domestic structural adjustment within Asia. Liberal economic internationalism is on trial in Asia at the beginning of the early twenty-first century.

Whether endeavours to secure greater regional financial policy coordination is contested or supported by the global financial markets will depend on the nature of the institutional architecture envisaged. It will require a continued major Japanese leadership role, both intellectually and by the internationalisation of the Yen. This, in turn, will be dependent on the successful restructuring of the Japanese financial system. It will still need support from the US, which is not currently forthcoming; and, as discussed in the next section, from Europe which, while less important, is more likely if the Asia-Europe Meeting Process (ASEM) can develop and the Euro can become an important international currency. Whether the Asians will be successful or not in their endeavours, there can be little doubt that the exploration of some form new monetary regionalism as a way to combat vulnerability is and will continue to be an item on the regional policy agenda in the twenty first century. Positive support and encouragement for the new monetary regionalism could be fruitful role ASEM. These discussions are important for this conference

5. Where To Now? The New Monetary Regionalism and ASEM

The regional economic meltdown showed Asian observers what they believe to be the darker side of globalisation. This has intellectual-cum-ideological implications and specific policy implications for Asia's relation to the global economic order. The key lesson to be learned is that the Asian crisis, contrary to triumphalist arguments, has not vindicated the convergence hypothesis that much neo-classical economic analysis would like to assume. The crisis confirms the differences in systemic capitalist organisation rather than refute them (see Higgott and Phillips, 2000 and Higgott and Rhodes, 2000). Asian leaders may parrot the language of neo-liberalism at APEC gatherings, but much of it is still opposed in practice. Asian political leaders have always been more instrumental than cognitive in their commitment to neo-liberalism. This general assertion has specific political implications.

For many Asians the feeling that there was an exploitative element in the

Pacific economic relationship was never eradicated from fora such as APEC over the last decade of the twentieth century. The nature of the IMF reform packages, and especially the overt 'power politics' manner in which they have been imposed, has brought a north-south divide back into the open in the relationship between the Caucasian and East Asian members of APEC. Indeed, the down sizing of the economic status of the Asian states has rendered redundant the discourse of the 'miracle NICs' and re-constituted in some quarters an 'us-them', 'haves- haves not', dependency discourse not too dissimilar to that which prevailed in the 1970s when a call for a New International Economic Order dominated north-south relations.

At the global level, regulatory complexity and the problems of the management of international financial markets, monetary relations and trade policy remain key questions for all governments at the dawn of the new century. Capital markets (domestic political explanations of the crises notwithstanding) have been a major cause of the problems in East Asia. In this context, we must expect not only Asians but others to ask what good openness to global capital markets might serve.

Is the unfettered movement of capital (especially short-term lending) axiomatically a good thing. This is no radical question. As even the Financial Times (16January, 1998: 18) noted '...the wisdom of over-hasty integration of emerging economies into global financial markets must be reconsidered.' Similarly, research by scholars and even in-house at the IMF has also pointed to the de-stabilising effect of early capital account liberalisation (Eichengreen, 1999). Globalisation requires the development of institutional capability for prudential regulation in these areas. While most policy analysts recognise regulation- or more appropriately, re-regulation- is best pursued at the global level, Asian policy elites- those on the way out and those on the way in- will have learned that they must look to self help at the regional level as much as to the institutional resolution of these issues at the global level.

The events of 1997/8 have been the most traumatic experienced in Asia since de-colonisation and the Cold War confrontations of the 1950s and 1960s. They have triggered a fundamental rethink on a range of issues. They have also side-tracked policy elites from the pre-crisis regional dialogue activities-trade liberalisation and security-popular throughout the first half of the 1990s. In this context, while ASEAN as the leader of many wider Asian regional dialogues, lost its way in the initial wake of the crisis, regional policy elites have begun to think again more constructively about the

regional cooperative agenda. But the crisis has brought about some interesting changes of heart. The notion of constructive engagement, while formally rejected at the 1998 ASEAN Summit, has in fact crept in via the back door. The ASEAN regional surveillance process (ASP), discussed earlier, monitors financial stability within members states and allows for peer pressure to encourage policy reform (see Soesastro, 1999).

The ASP might not represent institutionalisation in a way it would be understood in Europe, but this process represents a significant milestone in the evolution of ASEAN. More importantly, it represented a recognition of the need for collective problem solving at the regional level of the kind that has led towards the new monetary regionalism. I have spelt out the significance of this process for regional identity building at the East Asian level in general. Its significance for ASEM may not yet be fully understood. Maybe ASEM has a more important role to play in this process than has yet been articulated by either Asian or European leaders.

Certainly the European leaders have, since ASEM II, made the correct supportive noises. The London Summit saw the establishment of the ASEM Trust Fund of 41 million Euro, not a little ironically established under the management of the World Bank! The EU contributed 20 percent of total support funds to Asia during the crisis through the IMF and the European Commission also organised the provision of technical assistance on financial sector reform (see Bridges, 1999: 466). The agenda for financial reform advanced by the technical assistance group was in keeping with the 'Washington Consensus' style reforms emanating from the IMF (Williamson, 1990) but the language was less sanctimoniously neo-liberal and more reflective of the European social democratic tradition than that which emanated from Washington. Since that time, but without spelling out how, the Vision Group Report (1999: 16) has in effect committed itself to a 'co-ordinated response' to rapid financial globalisation. Were the Europeans to indicate how this response might be consolidated then it is possible to speculate, in theory at least, that ASEM could become a more important partner for East Asia than APEC over the next few years.

APEC, given the influence of the Caucasian Pacific powers is more wedded to the neo-liberal agenda than the Asian members, still smarting from their treatment at the hands of neo-liberal policies. Europeans, rhetorically at least, and especially continental Europeans if not necessarily the UK, are more committed to a social democratic, etatiste,

position than the US. Enhanced cooperation is mooted in a range of areas and the range of contacts between officials has increased; but serious dialogue and cooperation on political and security matters, for a range of reasons-notably, strong Asian objections to going down that route and the desire of the British and the French to pursue these relationships bilaterally-seem unlikely.

Moreover, the idea of a formal FTA that would take in the member states of ASEM is extremely problematic. Setting aside the political implausibility of the proposal, the mind boggles at the complexity of the negotiating process and the prospect of being WTO Article XXIV consistent. Indeed, the Vision Group's option for '... the eventual goal of free trade in goods and services by the year 2025 by adopting a strategic framework for the progressive freeing of trade in goods and services among themselves' (APEC Vision Group, 1999: 16) appears to be ignored in the Working Document for ASEM III (European Commission, 2000). Its economic role is more likely to be a voice supportive of the more general regional economic sloganeering such as 'keeping regionalism open'.

Keeping 'regionalism open'- the rhetorical leitmotif of APEC- is about keeping the world economic system open. This means not just the development of financial stability but also keeping state trade policies WTO consistent if not WTO enhancing. This is, however, at least a two level game (Putnam, 1998). The unbridled advocacy of global liberalisation is not simply an international economic process it also has serious domestic political implications. It cannot remain sufficient for just the regional trans-national policy community in East Asia to be committed (more or less) to liberalisation. While elite support is a prerequisite, the position needs legitimating within civil society. As we saw at Seattle and, more topically as can be seen by reading the web pages of a range of regional NGOS such as the Bangkok based Focus on the South, some of the most articulate critics of the WTO reside in the region.

While neither APEC nor ASEM have deep rooted support in the wider reaches of the civil societies of their respective member states, APEC at least has intellectual antecedents in the track two world of PECC, PAFTAD and PBEC prior to its formation 1989 (see Woods, 1993 and Higgott, 1994b). ASEM was a top-down process, kick started by a Summit. ASEM is run by regional coordinators and sits somewhat uncomfortably between anarchy and institutionalisation. It lacks the intellectual infrastructural support that APEC's longer standing track two bodies provide for it.

The CAEC also lacks the capacity of PECC and a similarly large group of intellectual-cum-research brokers willing to champion its cause inside the policy communities of the member states. More importantly, it lacks formal standing. To be fair, the Asia Europe Foundation, with its academic, educational and people to people exchange programmes, is now playing an increasingly important role in building inter-regional dialogue where little such contact previously existed.

Like APEC, however, there are limits to what ASEM can and should aspire to achieve. That they may well both endure is not to say that they will be crucial international venues for enhanced cooperation or conflict resolution in given policy domains. In periods of uncertainty-of the kind present in the global economy at the beginning of the twenty first century-policy makers, both public and private, search for coping mechanisms. Interdependence, for better or worse depending on the issue area, is a fact of life for policy makers. They are unlikely to discard any mechanism that might offer some advantage in hedging bets or mitigating lost policy autonomy. Thus organisations survive. Regional and inter-regional arrangements may only be supplemental to wider multilateral, or narrower bilateral priorities, but that does not mean they are not salient. In the current context, one should think of ASEM (and especially APEC) pursuing strategies to allow them to endure (Bobrow, 1998a) rather than exit the panoply of inter-governmental activity.

So where does the potential longer-term utility of ASEM, if any, lie as a vehicle for inter-regional dialogue? In this regard it is reflective of the multi-dimensional nature of contemporary geo-governance. It provides fora in which an increasing number of actors, with a heterogeneity of interests, in a growing complexity of policy fields, may at least attempt to reach some form of policy consensus. But it needs to go beyond the elite level it currently occupies. Specifically, Asian political elites need to address the question of how to generate wide spread support for multilateral diplomatic agendas embodied in the activities of ASEM (and/or ASEAN, APEC and the like) and other international organisations. This continues to prove, difficult in the wake of the 1997 economic crisis. The 'official' status of these organisations needs embedding within the emerging civil societies of the member states.

ASEM, at the very least, can be an important exercise in 'social learning' in the international relations of East Asia. Members of ASEM are developing mechanisms for coordination- a form of 'soft' or 'nascent' inter-regional institutionalisation- that was also

being refined in ARF and APEC prior to the crisis. That this soft institutionalisation was found wanting in the face of the most severe economic storm to hit the region since world war two has not been seen as a reason to jettison it. The evolution of ASEM, in a manner not dissimilar to that of APEC, may reflect a norm driven approach to cooperation- preferred by its Asian members- than a rules based approach more in keeping with the European/ Cartesian tradition.

ASEM's has identified the basis for enhanced interaction and dialogue between the policy-making communities of East Asia and the EU. This basis is still not consolidated. The Seoul Summit will need to show value added either directly in the bilateral regional relationship, or indirectly in ASEM's relationship with third parties if it is to play a role in the emerging architecture of global geo-governance. It will need to be done without duplication of the activities of existing organisations. Moreover, if ASEM is to have a future, it will need to operate across the agenda of inter-regional relations in economic, politico-security, cultural and technological domains. As with other international institutions, it will take time before we can begin to make serious judgements about its significance.

Whether social learning will take place within ASEM depends on a number of factors, none more pressing than the role China plays in the region and the organisation in the current era. China's policies in the politico-strategic domain reflect a clear preference for traditional realist understandings of international politics, but in its attempts to join the WTO (see Harris, 1996) in its behaviour during and after the currency crisis there is evidence that it has undergone a socialisation process of sorts. Its regional role is becoming increasingly important. There is no reason why it should not do so in other fora. If ASEM is used as a site to 'engage China' then China can come to value its membership because it is a body in which the US is not present. If, however, China thinks its partners see ASEM as a fora to 'civilise' or 'constrain' it, then it will look differently upon ASEM.

At the most basic level therefore, the initial utility of ASEM for its Asian members is that it helps consolidate other trends towards dialogue and cooperation between them. Even the symbolic and practical utility of coordinating positions prior to an ASEM meeting is not unimportant- as was the case at the Bangkok and London summits. Such activities, and the nomination of states to lead the agenda setting process from Southeast Asia and Northeast Asia, are important exercises in social learning in

the new regional diplomacy of the post Cold War era. Moreover, if ASEM brings predictability to Asian-EU relations then it will justify its existence.

We should not underestimate the importance of learning in international relations (see Breslauer and Tetlock, 1991). But nor should we over estimate the level of knowledge of each other by the political leadership of the ASEM states. Politicians invariably think locally, not globally. ASEM has come into being at a time when the market place of multilateralism is crowded and when, because of the nature of the economic crisis, the 'local' commands attention at the expense of the 'global'. ASEM is not high on the policy makers agenda. In order for mission fatigue not to occur ASEM will need to be specific in carving out its role if it is not to become just another talking shop.

The late Gerry Segal's (1996) subsidiarity question for ASEM is as relevant in 2000 as when he first raised it in the mid-1990s. There is a strong variant- 'what is best done at the ASEM level'? and a soft variant- 'what can *also* be done at the ASEM level'. There has to be more hard activity than soft if 'ASEMness' is to develop. This will require time, commitment and energy. These are resources that are very often in short supply in international diplomacy. If ASEM is only an ancillary organisation then it has little future. If it can address important issues that cannot be addressed in as satisfactory a manner in other fora then it has a role to play. ASEM would indeed appear to have primary tasks of its own to address, but in addition it offers the prospect of fulfilling a range of secondary supportive tasks of a non-trivial nature. Nowhere could this be better developed than in European support for the new monetary regionalism in Asia.

Globalisation and regionalisation are at times complementary, at times conflictual. But regionalisation and inter-regional cooperation projects play a role in a nascent meso-levels of authority between the global economy and the sovereign state. *De jure* processes of institutionalisation are often attempts to manage *de facto* processes of economic activity. ASEM is but one minor manifestation of nascent *de jure* cooperation that will over time enhance, or detract from, or even be irrelevant to *de facto* integration. It is simply too early to know. But it is, as Bhagwati's spaghetti demonstrates, part of the variable geometry of international economic management.

6. Conclusion

As I have tried to suggest, problems in the international economy can be tackled at both global and regional levels simultaneously. This has been recognised by ASEM members in their desire to secure an inter-regional agreement on investment. Cross investment from one region needs regulation, not to hinder growth, but to minimise friction between foreign investors and host countries. Such issues take on heightened importance in the wake of the economic crisis, but it is unlikely that they will get the attention they deserve until the regional economy is better sorted.

Indeed, the economic troubles have caused many Asian political leaders to rediscover the rhetoric of popular nationalism as a way of deflecting domestic criticism. Across the most affected states a discourse of 'robbery', or a 'new imperialism'- not heard since the years of the immediate post-colonial era- is strong. This is not only in Malaysia, where Prime Minister Mahathir has gone as far as to argue that western governments and financiers have deliberately punished Asia for its arrogance and refusal to converge more quickly towards Anglo American, liberal, approaches to democracy, market opening, labour standards and human rights. Similar themes have been, indeed are still, heard in Thailand, the Philippines, South Korea and Indonesia.

The implications of this for the global economy maybe precisely the opposite of what a neo-liberal(iser) would wish. Western political elites have under-estimated the influence of scape-goat explanations of the crisis within the region. Asians were coming to understand and accept the workings of markets, but this understanding is only slightly more than one generation deep. There is no strong cognitive belief in the market. Most Asians have only an instrumental feeling for it. The treatment of East Asia by the financial markets in 1997-8 has had ambiguous results. While it may have made Asian states more responsive to 'market disciplines' in the short run, it may also in the longer run make them more suspicious of them. At the very least it will lead Asians to prefer tighter, rather than looser, market regulation.

There is, however, a paradox at work. Because globalisation weakens national policy autonomy, collective action problem solving- with regard to issues demanding trans-national management solutions- is becoming more attractive. It is within a region that things seem more politically manageable. Thus there should be a greater consciousness of agency in regionalisation than in globalisation. The governing elites of Asia's major states might not have thought of each other as natural partners in many domains, but one effect of globalisation, especially in the wake of the economic crisis,

has been the evolution of a stronger more specifically defined- that is East Asian- regional multi-dimensional dialogue about economic cooperation. Entering into agreements with regional neighbours offers the opportunity to present a united face to actors exogenous to the region. And this will become more, not less important in the twenty-first century. The economic crisis has demonstrated to Asian states, individually and collectively, their weakness in the face of capital liberalisation.

In this regard, the crises of 1997-9 in the long run may turn out to be more important for their symbolic legacy rather than their economic one. A new thinking about regionalism has emerged. This new thinking reflects the fears and resentments that exposure to the volatility of the global financial markets has embedded in the minds not only of the regional public and private policy making elites, but also their wider populations. Two characteristics of this regionalism are appear to be consolidating: (i) There is now a much clearer understanding of which 'voice' of regionalism is likely to consolidate over the next few years- that is the voice of East Asia, rather than the voice of the Asia Pacific. (ii) A key activity of regionalism will be, first and foremost, to create monetary stability for the states of East Asia. If the Europeans, recognising that there is more than one way to build regionalism, come out strongly in support of this agenda then the prospects for ASEM may be better than one might expect given the events of the last few years.

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ASEM: TOWARDS AN EXCITING INTER-REGIONAL JOURNEY

Hadi SOEASTRO

Director

Centre for Strategic and International Studies (CSIS)

1. Introduction

ASEM is a journey. It is a means to an end. When the leaders from the two regions, Asia and Europe, had their first close encounter in Bangkok in March 1996, they committed themselves to forging a new comprehensive Asia-Europe Partnership for Greater Growth. As suggested in the Statement by the Chairman of that first Summit, an important goal of this partnership is for both Asia and Europe to share the responsibilities in building greater understanding between the peoples of both regions through *closer people-to-people contacts*. Furthermore, they pledged to develop a partnership that would enhance mutual understanding and benefit both regions and that would also help ensure that developments in both regions *benefit the international community as a whole*.

This commitment defines the nature of the journey. It is a journey that no one has embarked on before. In this sense it is a new and novel undertaking. But it is also an ambitious process. This promises to make the journey an exciting one. The challenge is to make ASEM an exciting journey and to maintain that excitement. There already are concerns that the process has stalled and that the momentum may have been lost because the initial enthusiasm and the high political profile of the process are not matched by the meager results. Indeed, it needs to be recognized that ASEM's ambitious goals cannot be attained by modest means.

How then, can this journey be made an exciting one? That is the question today for which an answer should have been given yesterday.

Critics have pointed to the inability of the participants to 'concretize' the process. The issue is not the lack of a vision. It is the poor appreciation of the need to build many bridges to bring the peoples together. It is not the building of physical bridges, such as the trans-Eurasian railway project, that is to be promoted. Rather, it is institutional development and linkages that should be the focus of this new enterprise.

As an enterprise that began from a top-down process, this task is an enormous one. It cannot be undertaken successfully without strong political, intellectual, and financial commitments.

2. The ‘New’ Partnership

Let us first begin with an examination of why this ASEM inter-regional journey is a new undertaking and a novel approach. It is a new form of inter-regional cooperation. It is ‘new’ because of the multidimensionality of the cooperation framework that goes far beyond cooperation in functional areas that characterizes ‘old’ inter-regional cooperation.

On the European side, inter-regional cooperation began in the 1970s and centered on EC’s relations with regional cooperation institutions in various parts of the world. As described in Steiner (2000), EC’s inter-regional cooperation was developed within the limited institutional framework of the European Political Cooperation (EPC) process. The issues involved were non-controversial and related primarily to regional cooperation and integration schemes in the developing world and usually did not deal directly with major political and strategic issues. EC’s inter-regional cooperation has dealt with aid programs provided by the EC and with trade relations, although this has been motivated by political rather than economic interests.

EC is ASEAN’s first ‘dialogue partner’. It is a significant dialogue partner because it is ASEAN’s only high-level (ministerial-level) inter-regional cooperation. It has contributed to raising ASEAN’s political and diplomatic clout in the international arena. Similarly, development of the inter-regional relationship was believed to offer the Europeans the chance to reassert their position within the competitive Triad relationship. However, from the European perspective, the substance of this relationship has not been regarded as politically significant.

ASEM is not an enlarged equivalent of the pre-existing ASEAN-EU relations, but is something of much greater magnitude. ASEM is meant to bring to the fore the geostrategic logic of inter-regional cooperation (Steiner, 2000). Europe and Asia are two of the three major regions of the world in terms of political, economic and military power. The development of Asia-Europe partnership can have a significant influence upon the political governance of the post-Cold War international order. As stated by the former Foreign Minister of the Netherlands, van Mierlo (1996), ‘a meaningful Euro-Asian partnership can become a major element of global management’.

Inter-regional trade and economic interactions have grown substantially as a result of the rise of Asia. However, this growing link lacks an institutional framework. Hence ASEM, the journey that our leaders have committed to make. This ‘new’ inter-regional journey is based on two aspects (Steiner, 2000). The first is to realize and develop a concerted relationship in shaping the international order. As outlined in the ASEAN concept paper in preparation for ASEM, the development of this inter-regional relations is meant to strengthen the weakest link in the trilateral international power structure. The second aspect deals with the ‘up-grading’ of the form of inter-regional cooperation, namely towards a more balanced power distribution between the two groups and away from the old North-South divide.

The modality for developing the process has been outlined in the Asia-Europe Cooperation Framework. But this seems to be far from adequate to help ASEM undertake its dual purpose of developing ‘concerted’ relationship in shaping the international order and ‘up-grading’ the cooperation. This may be the reason for the large discrepancy between the grand ambitions of the ASEM process as a ‘new’ form of inter-regional cooperation and its rather modest practice (Steiner, 2000). This discrepancy has been attributed to the following factors:

a) the divergent approaches to inter-state cooperation and policy coordination; this is caused by the very different institutional history of regional cooperation in the respective regions; as a result of this divergence, the parties come to this process with different expectations;

b) the process is complicated by the power distribution among the regions and within them;

c) unexpected regional and international fluctuations, such as the recent Asian financial crisis, have cast doubt on the basic rationale of the enterprise.

Europeans should identify problems within their own region, including the organization of the European part of the process, that are not conducive to the development of a comprehensive, coherent, and concrete ASEM agenda. On the Asian side there are a host of such problems, but foremost amongst these is the lack of East Asian institutional infrastructure. This could prove to be a most serious deficiency for the ASEM process.

3. The Challenge for East Asia

At this juncture, it is perhaps useful to briefly describe East Asia's current search for a regional institutional identity. East Asia is, indeed, being transformed from a geographic concept into an institutional arrangement. Economic interactions, largely through trade, have brought countries in the region much closer together. With the exception of Japan, all other East Asian countries rely on the region for more than half of their trade. For all of them Japan is an important, in many instances the most important, trading partner. Trade patterns are indeed an important factor in the emergence of economic regions. In addition, intra-regional investment and financial flows continue to intensify. Should this development be strengthened through some kind of institutionalization? The first attempt to do so began about a decade ago with the proposal for the establishment of an East Asian Economic Group (EAEG). This proposal was modified by ASEAN into an East Asian Economic Caucus (EAEC), with the understanding that it will function as a caucus within APEC. EAEC remains an arrangement on paper.

However, the ASEAN countries and the three Northeast Asian countries, namely Japan, China and South Korea, have been brought together by a series of events. One of such event is ASEM. ASEM has led to some degree of organization of the East Asian component of that process. Initially, it was expected that ASEM could provide a strong impetus for the East Asians to form a regional mechanism that would adopt an agenda which strengthens East Asia's role in the ASEM process. However, this does not seem to be the case.

It appears that the impetus must come from within the region itself. ASEAN heads of governments and the ASEAN foreign ministers have now made it a tradition to invite their counterparts from Japan, China and South Korea for informal meetings at the occasion of the annual ASEAN Summits and the ASEAN Ministerial Meetings (AMM).

These so-called ASEAN Plus Three meetings have now become the main forum for the thirteen East Asian countries. This forum is still at the very early stage of moving to become an institutional arrangement. This process has great symbolic significance, but it still is an empty process as it lacks substance.

The region is not short of common problems. A regional effort to dealing with those problems can have a rich and interesting agenda, ranging from the issue of

appropriate forms of social safety nets to the development of common policies on various international economic issues such as on the global financial architecture. Most ideal for East Asia is the establishment of an OECD-type of institution in the region that can develop the agenda for the region **and** provide the substance for discussions and deliberation by policy makers. Short of this most countries in the region rely on the work undertaken within the international, multilateral institutions such as the World Bank and the International Monetary Fund. It is almost certain that at present the region does not have the ability to create an OECD-type institution for itself.

In the region's search for an institutional identity there has always been a strong tendency to embark on the development of regional trade structures. In a region as diverse as East Asia it will not be easy to establish a regional trading arrangement. There have been suggestions that perhaps such a regional trading arrangement can result from the development of bilateral or sub-regional trading arrangements as its building blocks. Recent initiatives to develop bilateral free trade arrangements (FTAs), such as between Korea and Japan, and between Singapore and Japan, may be inspired by that idea. Can this succeed?

More than 10 years ago, before the Asia Pacific region-wide process that is now known as APEC was invented, various subregional and bilateral trade structures -- most notably in the form of FTAs-- were being contemplated or actually being developed. It was noted then that certain agreements of a bilateral or subregional type threaten to undermine efforts to restore a general applicable system through the Uruguay Round. It was considered important, therefore, to examine how the various sub-regional structures can be linked into an integrated Asia Pacific trade structure (Soesastro, 1988).

Three conclusions were drawn from that examination. First, the subregional arrangements that were being seriously pursued and developed reflected the different stages of economic development among countries of the region as well as the uncertainty of the international trading system. In other words, countries that are economically rather similar to each other seek to join hands in order to strengthen their position in the global economy. In view of uncertain developments in the global trading system, such regional, subregional or bilateral trade structures are being formed as an insurance policy. Second, the various subregional trade structures did recognize the need to maintain an outward orientation and related themselves to the broader Asia Pacific region. However, integration did not seem en route. Perhaps only a restoration of the international trading system could provide a framework to bring those

subregional arrangements into a more integrated regional structure. Third, a subregional structure involving Japan was conspicuously missing. This could suggest that perhaps Japan was in the best position to facilitate the development of more integrated regional structures.

Today, at the beginning of the new millennium new proposals for subregional and bilateral trade structures again abound in the Asia Pacific region, including East Asia. They may have been motivated by concerns about the uncertainty in the global trading system, particularly with the failure of the WTO ministerial meeting in Seattle in November 1999 to launch a 'Millennium Round' of multilateral trade negotiations.

Recent initiatives to develop bilateral FTAs cannot be generalized as each of them is being driven by different motivations. One motivation is to use bilateral arrangements to provide new impetus to regional or global trade liberalization. The initiative by Bill Brock, the US Trade Representative, in the 1980s to develop bilateral FTAs involving the US was meant primarily as a means to force Europe to agree on a new round of multilateral trade negotiations. It was a dangerous game as it compromised US policy of promoting multilateral, non-discriminatory trade liberalization. The strategy has had an effect, largely because it is pursued by a superpower. Today in the region, a similar initiative is being undertaken by two of the smaller countries, Singapore and New Zealand. The Singapore-New Zealand FTA initiative is meant to provide a new stimulus to trade liberalization in the region. It was announced at the time New Zealand hosted the APEC ministerial and summit meetings and as such raised a lot of eyebrows. The argument that a Singapore-New Zealand FTA would not cause any trade diversion since both already have very low tariffs is certainly correct. However, exactly because this FTA does not threaten anyone it may not be able to achieve the objective of stimulating trade liberalization efforts in the region.

A Japan-Korea initiative is potentially more influential. In fact, when it was first announced it was ignored because it was doubtful whether they will be able to go far enough. If they do, however, it is important that the arrangement should not be discriminatory in nature, which could be perceived by the region as amounting to a 'declaration of war' on the rest of the region. The primary objective of the Japan-Korea initiative is perhaps to cement the bilateral relationship that have greatly improved since last year. Even if so, its design will have to be consistent with the concept of open regionalism. As such it cannot be an arrangement that is exclusively in the area of trade but will be comprehensive in nature.

Having abandoned its policy of not engaging itself in bilateral FTAs, Japan could not refuse to entertain the approaches by Singapore to develop a Singapore- Japan FTA.

Singapore may have felt that its initiative with New Zealand may not achieve its purpose and having observed the change in Japan's policy, it is only logical to approach Japan. Japan, thus, is drawn into a set of bilateral arrangements that eventually could produce a hub and spoke architecture with Japan as the hub. It is not known whether Japan has such ambitions. There have been suggestions that this initiative should logically be extended to include China because it otherwise would create serious political tensions. The inclusion of China would effectively transform the exercise in the direction of a bigger enterprise: the formation of a Northeast Asian subregional arrangement (a NEAFTA?) that eventually will be linked to the one already in existence in Southeast Asia (AFTA).

A kind of East Asian regional architecture could emerge from this development. Indeed, it does seem that East Asia is in search of an institutional identity that would give it an institutional autonomy. Fred Bergsten (2000), perhaps rather surprisingly, has articulated most persuasively the need for East Asia to have its own regional economic structure.

Perhaps it is this motivation, more so than that of providing new impetus to regional and global trade liberalization, that will drive East Asia to form its own regional structure. What then is the role of an East Asian FTA?

Let us first examine developments in the regional and global trading environment. The failure in Seattle, during the sleepless nights last November, to launch a new round of multilateral trade negotiations has aroused great anxieties about the future of the global trading system. This may be a temporary setback. WTO ministers must go back to the drawing board in order to restart the launch of a new round. They will understand the great stake they face if progress in the WTO stalls. There is no reason for complacency but equally there is no reason for becoming too alarmist. The new round needs to be planned well. The WTO should listen to the warning by Bhagwati (1999) to not overload the agenda with issues that do not relate to trade. The issue of linkage must be settled once and for all. There should be a recognition that 'both birds will be missed when a single stone is used.' The social agenda is to be taken seriously and it should be dealt with in their own right through international organizations such as the ILO and UNEP.

The threat of ‘new’ protectionism, which uses trade sanctions to enforce labor, environmental, and health standards, is indeed much more complex than the ‘old’ protectionism that protects the narrow economic interests of one industry at the expense of another. Stokes (1999) argued that this change reflects the successful deepening of global economic integration. He further suggested that in order to effectively deal with it would require an appreciation of the new complexity and the necessary give-and-take of real life, where ‘political compromises and strategic backsliding are needed to achieve progress’ (p.89). This new complexity will have to be dealt with globally. But the WTO must be given a specific agenda. It should not be overloaded. As stated above, other important global issues must be dealt with in other international fora.

There is a clear understanding that there is no alternative to global rules to govern trade. This becomes even more true today with the emergence of *e-commerce* and the controversy over genetically modified organisms (GMOs). These issues cannot be resolved regionally through regional trading arrangements (RTAs). Regional efforts can help develop an understanding of the issues and develop capacity to deal with them. But to do so would not require the formation of an RTA.

Ultimately, the success of regional arrangements that have a trade agenda, including a RTA, should be judged by their effects on whether it promotes unilateral trade liberalization. This is the wisdom emanating from the Asia Pacific region. The ability of regional countries, such as Indonesia, to sustain their unilateral trade liberalization, partly by locking themselves in through their international and regional commitments, is the combined and cumulative result of many factors. It cannot be attributed to either AFTA or APEC or any other regional arrangement. The theory is that these various arrangements should reinforce each other. By design, AFTA and APEC are essentially a means for community building. They are not a RTA in the conventional sense.

It should be clear by now that an East Asian RTA cannot be relied upon to stimulate unilateral, regional and global trade liberalization. It is also not the logical forum to solve the new trade problems (*e-commerce*, GMOs, etc.). At best it is complementary to other regional and international trading arrangements. But an East Asian RTA can have a role in the development of an East Asian institutional identity.

There are many routes to developing an East Asian institutional identity. As suggested at the outset, the best for the region is to develop an OECD-type institution.

This is costly and takes away much of the limelight from the political leaders. Hence, this option is not likely to be pursued. One other route, namely the one that is currently being taken, is along the pragmatic, develop-as-you-go approach. There is nothing dramatic in this approach and thus far it is the one that is familiar to countries in the region and perhaps the one that they are most comfortable with. Its manifestation today is the ASEAN Plus Three meetings, most importantly at the summit level. Not much substance has been instilled into this process. As it is it meets the current psychological need of the region to have a regional forum. But this will not go far enough. At best it will become a better, stronger caucus in APEC.

Another route, perhaps accidental in its outcome, is a quasi East Asian RTA, that results from the linking of AFTA to a Northeast Asian free trade area. As discussed earlier, the Japan-Korea initiative may draw in China to result in a Northeast Asian regional structure of sorts. But AFTA, the older party in the twinning cannot provide leadership in crafting the link. In addition, having Japan in would require the group to comply with GATT Article XXIV. The new members of ASEAN cannot possibly participate in a full-fledged FTA with Japan.

Yet another route that appears to be rather promising is through cooperation in non-trade sectors, such as in the financial field. Various initiatives have been taken in this direction. A surveillance exercise is one of its manifestation. ASEAN has instituted a surveillance process. It may invite other East Asian countries to join in the exercise at a later stage. The creation of an Asian Monetary Fund could be part of the institutional setting, and some kind of a common currency basket has been proposed. But it is difficult to see how these efforts could bring about institutional integration as they will deeply impinge on sovereignty issues.

There is the option of making a radical departure from the other models. This will be based on a blueprint, similar to the process that has taken place in Europe. It will have to have a long term time horizon, but the important feature is that the steps to achieving the ultimate goal are formulated explicitly. It is most likely that the first step will be the creation of some kind of free trade and investment arrangement that will define the institutional identity of the enterprise. A number of countries will constitute its core. Others that are not yet ready to do so can opt for a slower pace, to proceed along another tier, and still others will be linked through an association agreement, much the same way as in the European experience. Perhaps, the start of the new millennium provides the region with an opportunity to develop a new vision.

ASEM's prospects depend to a large extent upon developments in East Asia and the region's success in developing an institutional identity. This is particularly the case with regard to ASEM's agenda of realizing and developing concerted cooperation in shaping the international order. At the same time, ASEM's design will need to be improved. In particular, it needs to promote greater engagement of society, the peoples of both regions, in the ASEM process. Unless this is done, the inter-regional cooperation cannot be upgraded.

4. A Concluding Note

The ASEM Vision Group was very modest in its recommendation on the development of the ASEM process and its institutional dimension. It recommended the establishment of a lean but effective secretariat. This is a first step in the direction of strengthening the process, but it will not be sufficient to ensure the sustainability of the process. The Vision Group did point to the importance of the process to move beyond government circles and the need to engage the society, above all, the peoples of the two regions. The Asia Europe Foundation (ASEF) is perhaps the only success in institution building in the ASEM process thus far. Its task is to promote relations at the societal level. It is perhaps its very task that is responsible for its success. If this is the case, a strong argument can be made to develop the 'people's track' in the ASEM process as has been suggested by the Council for Asia-Europe Cooperation (CAEC) some time ago (CAEC, 1997).

The following passages are taken from that CAEC report:

The ASEM process not only should be multi-faceted but will have to be multi-tracked. To be sure, governments do have an important role to play in this process. Track One is indispensable, but it should not try to dominate the process. It should also not try to 'govern' the process. Its task is to provide and create the infrastructure for the process to develop in the various areas of interactions -- social, cultural, economic, political, etc.-- as well as among the many tracks.

A critical infrastructure that governments can create that will help encourage and support the building of links, contacts and cooperative structures between the peoples of the two regions, which should become one of the most important elements of ASEM's institutional framework, is a kind of central fund to finance building of those links and networks. The business community should be invited to participate in raising the funds as those links will be directly and indirectly beneficial to their own activities. [ASEF] could become the embryo of an ASEM Central Fund. If the

current mandate of ASEF does not allow it to take up this function, either the mandate should be modified or an ASEM Central Fund should be established from scratch.

ASEM's institutional framework which emerges from the above ideas would consist of three sets of activities, namely (a) the intergovernmental process (Track One), the main task of which is the provision of infrastructure for promoting relations and cooperation; (b) a parallel 'people's track' (Track Two, Three,...), which is where the actions, based on people-to-people contacts, links and networks, should be; and (c) the ASEM Central Fund which will provide the connection between Track One and the people's track. The Central Fund should be managed by representatives from governments and individuals who participate actively in Track Two, Three, etc., including corporate leaders.

ASEM's current two-year cycle is well-suited to the development of constructive interactions between Track One and the people's track. [In] the intervening years between the two Leaders' Meetings a general assembly meeting organized by the people's track can be held. This can also take the form of separate meetings organized by the different groups. ... This annual event will have as its main purpose the development of channels of communication between Track One and the people's track. They can be followed up by regular exchanges or working relations on a continuing basis as well as ad hoc meetings between the two groups in each specific area of concern.

Both Track One and the people's track will have to develop their own institutional structures. By nature, the people's track is not going to have a coherent structure and will be somewhat diffuse. However, the annual events will give some structure to their activities. But the distinguishing feature between the two tracks is that in the people's track there is going to be much less of a group-to-group (Asian vs. European) mentality as well as in operational terms than there is in Track One.

The ASEM process in Track One is likely to be a region-to-region dialogue. This cannot be avoided. All the more reason why the ASEM process must develop beyond just the activities of Track One.

To make the ASEM inter-regional journey an exciting one, this proposal needs to be reconsidered.

SESSION I –

**THE REFORM PROCESS IN ASIA AND
EUROPE**

THE REFORM PROCESS: ASIA'S LESSONS

Pote VIDET
Managing Director
Credit Suisse First Boston

1. Outline of Discussion Points

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Objectives of Reform

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Barriers to Reform

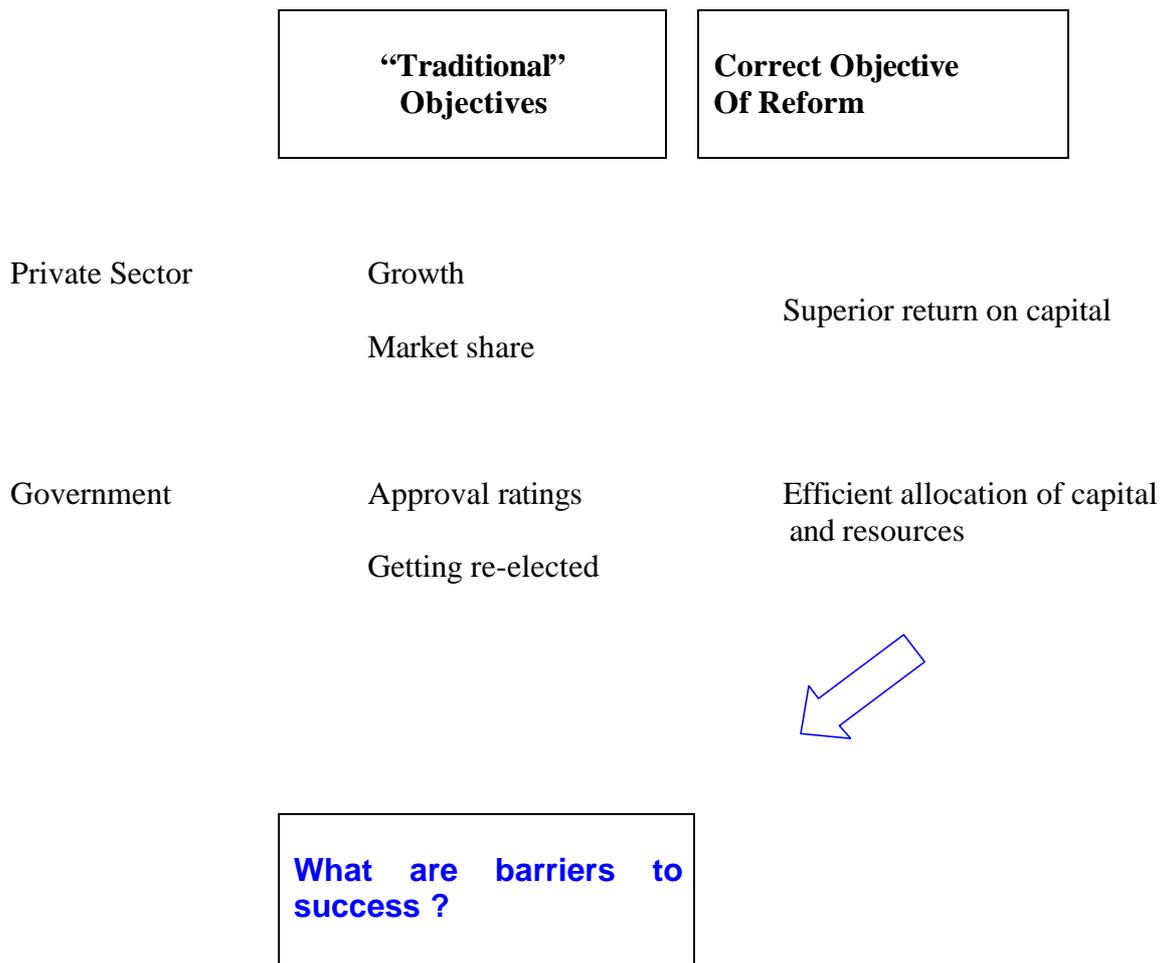
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Implementation of Reform

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Signals of Success

2. Objective of Reforms : Need to Re-define “Success”



3. Barriers to Efficient Resource Allocation

**Political
Obstacles**

- Corruption
- Cronyism
- Money politics

**Inadequate Economic
“Infrastructure”**

Need for :

- Forward-looking and independent regulators
- Effective legal and enforcement system
- Expanded social safety net and re-training capabilities
- Well-functioning banking sector

**Limited
Competition**

- Oligopolistic structures
- Hidden barriers to entry
- Corporate governance and disclosure issues

4. Obstacles to Reform

**Beneficiaries of
"Status Quo"**

- Certain government participants
- Politically-connected businesses
- "Protected" employees

Underlying Politics

- Rich vs. poor
- Unemployment
- Nationalism

**Clear short-term pains for
uncertain long-term gains**



5. Political/Economic Will to See Through Long-Term Gains

Long-term Benefits

- Increasing size of economic pie
 - Greater efficiencies
 - Broader markets
 - Capital
 - Technologies & expertise

Short-term "Costs"

- Facing hard realities of :
 - Being subject to tough competition
 - Cutting costs/firing employees
 - Losing businesses
 - Changing management

6. Who Bears Short-Term Costs of Reforms ?

KEY ISSUES

Government

- Government debt levels
- Taxing ability and "will"

Private Sector

- Shareholders
- Management
- Employees

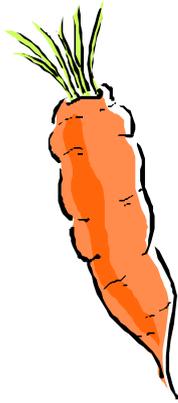
- First loss to shareholders
- Management as "bad guy"
- Political/social implications of lay-offs

Lenders/Borrowers

- Resolving stalemate

7. Implementing Effective Reforms : Human Nature Factor

The Carrot



The Stick



8. Implementing Effective Reforms: Thailand's Framework of “Checks & Balances”

Disclosures

- Constitutionally required
- SEC and market-induced

“Watchdogs”

- Press, academics and NGO's
- Fear of "getting caught"

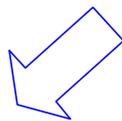
Enforcement

- Sharpening the “stick”
- Penalties must be real

9. Signals of Private Sector Success in New (Reformed) World

Old Success Formula

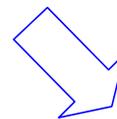
- Low-cost labor
- Cheap and abundant capital
- Cosy government relationships



**Past Wealth Creation :
Making money the "easy way"**

New Success Formula

- Total cost efficiency
- Discriminating capital favors effective disclosures, controls and governance
- Competitive marketing and technology



**Harder to make money, but
harder to lose wealth created**

10. Signals of Country Success in New "Reformed" World : Long-Term Competitiveness

Focus of Market-Watchers

- Export growth
- Attracting new capital
 - Banking sector
 - Accompanying technology and expertise
- Ultimately, stock markets and currencies

Fundamental Analysis

- "Real" Corporate Restructuring
 - Cost, efficiencies
 - Cutting losses : sales of non-core businesses
 - Management change and governance
 - Treatment of minority shareholders
- Appropriate Government Actions
 - Sector priorities
 - Education
 - Privatisation (efficiency)
 - Corruption
 - Effective regulation

SCHEDULE FOR REFORM IN CONTEMPORARY STATES

Philippe TRAINAR¹

Economist

Fédération Française des Sociétés d' Assurance

I suggest to analyse this question from synthetic point of view that combine economic, social and administrative approaches. The experiences I have in mind are primarily related to the French situation, in particular to the reform of the French pension system and of the French minimum wage. They are also heavily influenced by the successes and failures of Asia and Latin America. In order to be better prepared to the future, we have given a special emphasis to the Asian crisis and to the well known failures of Venezuela and some Central American countries. From these experiences, I want to extract propositions and lessons with a sufficient level of generality to be of value for different kind of countries, European as much as Asian, industrialised as much as developing, with or without strong State's traditions. I insist on the fact that the critics I am addressing to the State's economic and social interventions should not be mixed up with a bias in favour of economic liberalism. Moreover, what I would like to illustrate is the growing ineffectiveness of the traditional means of public interventions and the urgency to adapt them to a more active and responsive civil society. I suggest beginning my reflection with some considerations on the relations between the conception of reform and the conception of State during the twentieth century, with particular view on the crisis of the welfare State. Thereafter, I will underline what appears to be the main features of reform in a modern States, in my opinion.

1. The current conception of State and the relevance of reform.

It is may be somehow surprising to speak of reform without specifying what reform. May be the main reason could be found in the fact that everyone is aware that the one and only one great reform to deal with at this time is the reform of the State, not only in one specific country but everywhere in the world, particularly in Europe and in Asia. In itself, this obviousness reveals how large countries are converging as a consequence of globalisation and despite fears of "clash of civilisation". It seems to me that the crisis of the welfare State, which I define broadly in order to cover all kinds of

¹ Mail: philippe.trainar@ffsa.fr. Fax: +33142479368. Tel: +33142479358.

interventionism, opens a new era that is better understood if we refer to reform.

1.1. The crisis of the welfare State.

1.1.1. The welfare State is a product of socialism at large and reformism, which dominated the world during most part of the twentieth century, in the communist regimes so as in the social-democrat ones, and all capitalist countries were little or much social democrat. At the origin of the welfare State, we find a typical belief in three capacities with which State unlike individuals was assumed to be gifted²:

- benevolence: when democratic, State always wants the well-being of its citizens;
- information: State is perfectly informed, having a long term view of the well-being and sometimes knowing better than people themselves what is good for them;
- rationality: State defines rational targets and uses optimally its information so as to adjust perfectly its means to its targets.

All these three capacities were understood to give full efficiency to the welfare State. Until the seventies, this seemed to be the case. The welfare State grew fast. But little time after having reached its zenith, its crisis began: its efficiency started to fall more or less quickly; its margin of manoeuvre substantially decreased owing to the explosion of taxation and public debts and deficits; inequalities expanded in the form of either wage discrepancies or unemployment; quite surprisingly, deep poverty, criminality and insecurity started to expand at the core of the most interventionist societies in continental Europe; communist economies collapsed in a severe crisis; informal economy has been expanding fast everywhere. Globalisation has accelerated these evolutions, imposing a double strain on the welfare State: at the same time as it majors the need of people for broad safety net, it renders more difficulty to tax competitive activities and to finance a broadening safety net.

1.1.2. Despite superficial connections, the crisis of the welfare State can not be imputed to globalisation nor to deregulation. There are no robust statistical relations between slowing growth or expanding inequalities on one part, and opening to foreign competition, deregulation or reduction of the State's weight in the economy on the other

² Jean-Jacques Laffont (1999a) : "Etapas vers un Etat moderne." Conseil d'Analyse Economique, Gouvernement Français.

part³. In fact, the crisis of the welfare State is something endogenous, probably linked to the fact that the efficiency of interventionism is decreasing with time and economic development, owing to three factors of obsolescence:

- Capture of State⁴. It is something intrinsic and not incidental. Welfare benefits, whichever their forms, are of high value for potential beneficiaries. People are incited to influence the definition of benefits using their private information or the corruption of the administration in order to enlarge their rents. So, there are moral hazard risks and adverse selection risks, that are growing with time. These risks are all the more difficult to control since the interventions are numerous and generous, covering large fractions of citizens. Civil servants, especially if they are numerous, could become a strong, when not the strongest, source of capture of State because of their privileged position. See how difficult it is to reform administration and reduce the number of civil servants.
- Adaptation of private behaviours. In order to benefit from public interventions people are incited to adapt their behaviour, even if it is costly, as long as in so doing they increase their net marginal income. Indeed, it is the target of the State, to induce a modification of your behaviour. But, experience tell us that, with time, this adaptation goes beyond the initial target and modifies, often substantially, the nature of the intervention. Economic distortions are all the more greater and the corresponding public interventions all the more difficult to repeal since the rent initially promised is high. It is the question of powerful vested interest.
- Inability of State to manage efficiently risks. We are not discussing here the role of the State in limiting the social consequences of a materialised risk, as a lender of last resort for example, but its role as a manager playing its game with economic risks. State incarnate stability and permanency in contradiction with the changing face of civil society and markets. Its interventions, by nature, introduce a break in the functioning of the market and fall out with it: because a government thinks that a market has failed, it feels itself legitimate to intervene in order to partially or completely immunise the corresponding part of the economy from the law of market. Moreover, State interventions lack flexibility because of the very deep nature of bureaucracy. So, State can only be a good manager when economic risks are limited: to boost a catching up process

³ David Dollar and Aart Kraay (2000): "Growth is Good for the Poor." World Bank working papers, march.

⁴ Jean-Jacques Laffont (1999a) and (1999b) : "Incentives and Political Economy." Oxford University Press, Oxford..

should or to take advantage of large potential externalities at the take off of an economy, for example. But, in the long term, when interventions are no more justified by large non market advantages and when at the same time the other factors of obsolescence are going their way, State becomes less efficient than private sector in managing risks.

Since the end of world war II, time has passed and these State's failures have ripen, limiting the scope of efficiently compensating market's failures thanks to public interventions. Moreover, it appears that market's failures were exaggerated: they are not so numerous and predominant as initially thought. A lot of supposed market's failures can be easily eliminated by medium term market adjustments.

1.2. From the reform of society to the reform of State.

1.2.1. I wonder if welfare State's crisis is not opening a new era, characterised by a new conception of State, a more relativist and limited one⁵. As we have seen it, in some respect the crisis of the welfare State is no more and no less than its failure, the failure of its self-confidence and the failure of its most absolute ambitions. Europe is going through this crisis since the beginning of the nineties. The break seems to me important in that it probably means the death of this chimerical State, half theocratic and half secularised, the welfare State that gave rise to the famous debate between Hans Blumenberg and Carl Schmitt about the political theology, the secularisation and the legitimacy of modernity⁶. It means at the same time, the birth of a new kind of State, which I suggest to call "reform State" and which I do not know if it is the first really "modern State" in Europe or a "post-modern State." by reference to the end of the great legitimization narration analysed by Jean-François Lyotard⁷.

The death of traditional States, where the source of power was sacral, made room for democratic and totalitarian States, where the source of power is secularised. It could be surprising to place democratic States and totalitarian States on the same level. But, for one aspect, that differentiates them from the traditional States, they are very similar: "people." with largely different meaning in both kind of States, have been substituted to "divine law." to "heavens mandate" according the Chinese expression, as

⁵ Gianni Vattimo (1985 et 1989): "La fine della modernità" et "La società trasparente." Garzanti Editore.

⁶ Hans Blumenberg (1966): "Die Legitimität der Neuzeit." Suhrkamp Verlag and Carl Schmitt (1984 et 1985): "Politische Theologie" and "Politische Theologie II." Duncker und Humblot.

⁷ Jean-François Lyotard (1979): "La condition postmoderne." Les éditions de minuit.

only source of legitimacy. During the twentieth century, both kind of States have also shared a second characteristic: a tendency to be absolutist, what I see as a secularised residual of the former theocratic conception of State. Totalitarian regimes have magnified absolutism until bloody caricature. Jacobinism during the French Revolution is the first illustration of this deviation. At the beginning of the nineteenth century, Hegel, inferred from the French Revolution and from the philosophy of Jean-Jacques Rousseau, rational foundations for this new absolutism. His lesson was attentively red by Karl Marx, Lenin and Mao Tse Toung. During the nineteenth century, Alexis Tocqueville made obvious the continuity between the Ancient Regime and the Revolution in France, continuity that is the one of the French powerful administration. In practice, we have seen during the twentieth century a surprising apotheosis of State: no traditional State has had as much power as any one of the contemporaneous States.

Indeed, I do not claim that there are no differences between democratic regimes and totalitarian ones. For totalitarian regimes, such as jacobinism, nazism and communism, the “identity of people with themselves” results from the unilateral power of an active minority that see itself as “avant-garde” in charge to materialise people destiny on the basis of an ideology of nation, race or social class⁸. For democratic regimes, this identity, results from multipartism, decentralisation and individual freedom of expression and critics. Nevertheless, during the twentieth century, democratic and totalitarian regimes shared the conviction that State was the only place from which it was possible to transform individuals and societies according to rational preconceived ideals. State was thought as this magic agent who is able to transmute a hope first in a general will then in facts. Inside the democratic regimes, this “Weltanschauung” found its best expression in the social-democratic ideology, that was little or much shared by all political parties, from left to right, since the end of world war II and that gave birth to the welfare State, .

The welfare State has been perceived as legitimate because it was understood as an active instrument of social transformation. This conception of the welfare State rests on the belief that, if filled with the good ideology, State can only be benevolent and rational in addition to be well informed⁹. For the totalitarian conception, State transforms society thanks to revolution. For the social-democratic conception, it transforms society thanks to reform. In such context, the concept of reform is associated with the idea of a third way that retains some of the socialist ideals on equity but

⁸ See the work of Gramsci or Ernst Bloch, for example.

⁹ At an early stage, Karl Mannheim has underlined the relations between ideology and power.

recognise individual freedom and initiative. It is also associated with the idea of progressivity that focuses on a subtle dialectic between the civil society and the political system, working through polls, tripartite negotiations and decentralised democracy. But, in this conception, State remains the engine, the immobile centre from which reform transforms society. It can not be itself object of reform. From the welfare State's philosophy standpoint, reform can be only one-way, from state to civil society.

1.2.2. The welfare State's crisis is the expression of an intellectual and moral break in the hegelian conception of State. That reform of State is becoming a topical subject in quite all countries, largely ahead of other reforms, gives evidence of this break. All around the world, brilliant reports emphasizing the need for State's reforms have been recently published, so as the French Picq report of 1995¹⁰ or the World Bank report of 1997¹¹ for the most famous. Everywhere, the current conviction is that the State, even with the best intentions, is no more necessarily benevolent, rational or well informed, particularly when confronted with the civil society. So, in order to maximise well being, interventions must be justified not only on the basis of unquestionable market's failures but also after having duly taken account of government's failures. The traditional standpoint of the welfare State is not defended any longer outside the public administration.

This changing point of view is not only of technical value but also of political value. It calls into question the role of State as an instrument of social transformation. Currently, more attention is given to the needs of civil society, to micro decentralised projects, to NGO's ways of collaborating with local populations. Indeed, the unique role of State in the management of progressive social compromises, is not contested. But, the legitimacy of civil society's aspirations and intersubjectivity¹² are more largely recognised and taken into account, beyond short term electoral and political contingencies. In this context, the goals of State's reform are twofold: to focus on missions for which State possesses, by nature or by accident, comparative advantages and to improve State's efficiency. On the background of declining political ideologies and messianisms, reform should promote a more efficient public management of State's interventions in the same way as an adult and autonomous civil society, whose frontiers with State should be able to move, and some times to move quickly so as in the field of

¹⁰ Jean Picq (1995 et 1999): "L'Etat et la France: servir une nation ouverte sur le monde." documentation française, Paris et "Un autre Etat pour une nation qui change." revue Commentaire n°86

¹¹ World Bank (1997): "The State in a changing world." World Bank report n° 16376

¹² The importance of intersubjectivity was emphasised by Juergen Habermas (1985): "Der philosophische Diskurs der Moderne." Suhrkamp, Frankfurt

financial or food regulations for example.

But, State's reform is not limited to the renewal of State's relations with society. It is also aimed at renewing its internal way of functioning. Reform should become a method and way of government, where the old "transcendental" conception of the secularised State should be replaced by an "immanentist" and "relativist" one. Modernity is synonym of curiosity, novelty, unforeseen. Technical, economic and social progress develops always in unpredictable ways. Society can benefit from it only if they are open to it, if they let it become, as stressed by Karl Popper¹³. Commenting the fable of Jean de La Fontaine, "The labourer and his children." Jon Elster has made clear that wealth does not necessarily result from rational economic behaviour, so much the more from State's rationality¹⁴. Sources and ways of economic success are not predictable. Heterotely, i.e. heterogeneity between goals and results, is intrinsic to human action. A modern society, if it wants to incorporate the benefits of progress, should adapt to progress's content. In such a society, State must be able to permanently reform itself and to define new social compromises in the face of a changing environment. It must be able to redesign its goals and instruments in order to remain efficient and avoid moral hazard or adverse selection. This is all the more important as State can only be efficient when it surprises markets, not when it is predictable. Central bankers know well this principle. So, governments must favour temporary interventions versus permanent ones. Because States do not have at their disposal automatic long lasting means of regulation preserving their efficiency, such as market discipline, the process of permanent reform should play this role. For that purpose, States must be equipped with efficient internal controls (i.e. internal centralised and decentralised audits) and external ones (independent supervisors and private consultants).

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I do not suggest that all public interventions are bad in themselves and that all interventions implemented since world war II failed. State in Korea so as in other Asian countries, was probably right to promote investment, owing to the highly positive externalities of this intervention during the first phase of the takeoff¹⁵. Similarly, public sectors played a crucial role in the catching up process of the European countries after

¹³ Karl Popper : "The open society and its enemies."

¹⁴ Jon Elster (1983): "Sour Grapes." Cambridge University Press

¹⁵ cf. Dani Rodrick (1999): "The New Global Economy and Developing Countries: Making Openness Work." Overseas Development Council, Washington DC

world war II. Europeans were also just right to implement a universal social safety net. The problem of the welfare State lies in not having sufficiently early become aware of the growing distortions induced by its interventions and in having waited until these distortions do appear no more manageable. But, suggesting that the time of welfare State is over, does not mean that all its ambitions, especially its social ambition of solidarity, are dead and can not survive. There are diversified models of capitalism¹⁶.

2. Goals and methods for the reform of States.

Goals and methods are the content of this schedule. Reform should take for granted the lessons of recent economic history that demonstrate that improvement of living standard presents a good correlation with economic growth and openness, but no correlation with magnitude of social transfers, public expenditures and economic regulation¹⁷. Reform should constitute a way to promote pragmatism inside States. First, pragmatism of goals, with aim at effective welfare of all people. Second, pragmatism of methods, that should be built on flexibility of State and discussion with civil society.

2.1. Goals of reform : increasing contestability and adaptability of public action.

2.1.1. If States were benevolent, rational and informed agents, there would be no need for internal incentives, as generally argued by civil servants unions. And the current absence of any incentives inside the public sector would be logical. But, this is not the case: as we have seen, States are not such ideal agents and the low level of internal incentives constitutes a main source of State's inefficiency such as corruption or collusion with environment, weakening assiduity, inability to subscribe long term commitment, low contestability of interventions and so long and so forth. It is an illustration of State's capture, by civil servants in this case. So, the first goal of reform is to restore incentives inside the State thanks to four main kinds of reforms :

- Enhancing efficiency in civil service. An efficient State can not be hostage of its civil servants. Civil servants have to be of high quality, recruited on basis of meritocracy, independent of political and electoral influences, financially independent, i.e. well paid. It is also necessary to restore incentives, thanks to earnings linked to results and effective sanctions, notably in case of professional

¹⁶ Richard B. Freeman (2000): "Single Peaked vs Diversified Capitalism." NBER working paper n° 7556.

¹⁷ Robert Barro (1997): "Determinants of Economic Growth." MIT press and David Dollar and Aart Kraay (2000): supra

or performance insufficiency. States have to trade off between high wage and high job stability for their civil servants. But, they should be aware that the more they favour job stability the less they are able to intervene with efficiency, because of the lack of quick efficient sanctions. In order to reduce risks of capture by civil servants, it is useful to split them up in different independent professions and to decentralise budget responsibilities and wage negotiations.

- Developing competition inside public administration¹⁸. In private sector, Having two services in charge of the same mission would probably be considered as a proof of organisational inefficiency. In the case of public sector, things can not be so entrenched. Absent market pressures, performances are difficult to measure and comparative competition remains as an helpful way to detect inefficiencies or systemic collusion. The principle of “Checks and Balances” should be more largely applied. But, even if good, the recipe should not be pursued too far. First, it is costly so there is probably an optimal financial level of administrative competition beyond which it could be better to accept more inefficiencies. Second, it does not fully immunise from risks of collusion between offices in competition, aimed at organising the specialisation of each one in a subsector. One form of such derive appears particularly pernicious: it is when the withdrawal of the most efficient office from an obsolescent activity, gives way for the less efficient ones to resume this activity and present the take over as a proof of success and efficiency. Such behaviour is especially to fear in the current context of diminishing interventionism, as we have experimented in France in the fields of education and labour market regulation.
- Developing ability to subscribe public intertemporal commitments. Intertemporal commitments are difficult to subscribe credibly by governments, because of adverse short term incentives coming from economic fluctuations associated with electoral cycle. Repudiation of former commitments is always optimal in the short term. Should we abandon any hope of getting credible commitments from States ? Not at all. First because such commitments are absolutely needed in some circumstances where they could help reduce costs dramatically. Second, because some kind of institutional arrangements which reform should promote are able to circumvent the obstacle. These arrangements are based on the principle of independent agency. Independent justice is the best known example. Independent central bank is also a well documented one.

¹⁸ The economic rational of administrative competition is analysed in Jean-Jacques Laffont et Jean Tirole (1993): “The Theory of Incentives in Procurement and Regulation.” MIT press. See also Joseph Stiglitz (1994): “Whither Socialism.” MIT press.

Independent financial supervisor or independent regulation authority, in networks and media sectors, are more recent examples. When designing such agencies, attention should focus on the strict definition of the mission and its term, in order to avoid risks of excessive bureaucratic drift. These risks are higher in independent agencies, because of their low contestability, than in other public administrations. Strict definition of mission compensate for low contestability.

- Promoting transparency of government. Because of the difficulty to assess government's efficiency when government is large and powerful, transparency is all the more crucial for promoting contestability¹⁹. For this purpose, fully independent internal supervision and external assessment are essentials so as demanding disclosure standards. All fiscal measures, laws and regulations should be periodically evaluated with special attention to long run economic and social consequences. It is the only mean to avoid hidden future costs and to get an assessment of the correlation between targets and results, that is a first and objective approximation of efficiency. Also essential is the implementation of a rigorous fiscal procedure and a constraining medium term fiscal planing, including social security. Fiscal planing is strategic for assessment of fiscal results beyond short term macro-economic fluctuations. Budgetary authorities are generally reluctant toward fiscal planing and this for bad reasons: they always dislike committing themselves, preferring to leave open the possibility of higher than initially planned short term savings. But experience tells us that this possibility is purely theoretical and of no help to control public expenditures in the long run, on the contrary. Another key element of success lies in a powerful ministry of finances, able to regulate fiscal claims according to political priorities and enforce former commitments of the spendthrift ministries. Free disposal of social, economic and financial data is also crucial for transparency.

2.1.2. The changing conception of State impacts not only its functioning but also its relations with its environment. State interventions always introduce distortions in the functioning of market and civil society. Beside intentionally targeted distortions, we find non targeted distortions, that are side effects of government action, most of them in the form of negative externalities or incentives with regard to private activity and wealth creation. Welfare State was inclined first to ignore these effects, latter to deny them,

¹⁹ For an agenda of transparency after the Asian crisis, see Barry Eichengreen (1999): "Toward International Financial Architecture." Institute for International Economics

sometimes in spite of all clear evidences. Still today, many politicians and civil servants are foolishly convinced that their “good intentions” are enough to avoid most of the negative externalities of public interventions. The reduction of these negative external incentives and the promotion of positive ones, first of all incentives to work, should be the second goal of reform with four main purposes.

- Setting more pragmatic government targets. Of course, ambitious targets are not bad in themselves. And it is a natural and good inclination of State to look for lower unemployment, dampened economic fluctuations, less poverty, equality of rights and respect of minorities. It is its role. However, to set job stability, suppression of poverty, disappearance of economic fluctuations and strict effective equality as absolute targets would be merely foolish. Such targets do not fit with societies aiming at living standard growth and based on movement, contestability of all kind of certitudes or granted positions. Unemployment, poverty, crisis and inequalities until a certain reasonable level are expression of a moving society and their eradication is no more than an utopia, unless economic and social progress becomes of no value. Modern State's efficiency can not be evaluated and reformed on the basis of such unrealistic goals in relation to which government's failures can always be justified, so that public interventions become practically incontestable.
- Calling into question industrial policies. State's subsidies and industrial protections presents three flaws: they undermine self-sufficiency of concerned sectors; at the same time, they induce expensive misallocation of productive resources (labour as well as human and physical capital); and they generate a vicious circle because of their diminishing efficiency that urge once again more State's interventions in order to throw back crisis at short term. So, industrial policies have progressively trapped States and companies in costly relations, with the famous example of French public sector or of Korean chaebols. Reduction of public expenditures and deficits, privatisation, deregulation of public monopolies, commercial and financial openness and competition policy are efficient means to break this vicious circle. But, reformers should not underestimate reactions of concerned sectors, that are all the more powerful as time is going. It is not sufficient to identify your target, you must also skillfully manage the political and social implementation of your reform. Examples abound of recent setbacks because of successful reactions, first of all in France.
- Defining an efficient social compromise. The social compromise constitutes a key element of the political process because it defines its costs, that is the compensations losers of a reform are justified to ask²⁰. Fit up the best conditions

²⁰ Avinash K. Dixit (1998): “The Making of Economic Policy.” MIT press

for an efficient social compromise to happen is State's responsibility. At the same time governments must be aware that this compromise, whichever it is, introduce many kinds of economic distortions hurting the labour market and boosting moral hazard. The high level of unemployment and the mismanagement of social expenditures in continental Europe is probably a by-product of the Rhineland compromise, that is built on the social legitimacy of State and on enterprise as the first circle of social solidarity after family. In this field, reforms should aim at: first proportionate social development to economic development; second enhance social efficiency on the basis of rigorous cost/advantage analysis of social policies; third limit incentives in favour of non working, that are all the more great as benefits are impersonal and strictly financial; fourth improve control and supervision of recipients in order to fight against voluntary dependency; fifth change at regular intervals the design of social instruments that are often subject to quite rapid obsolescence and deviations.

- Regulating systemic risks²¹. Systemic risks are particularly dangerous because of embedded moral hazard. Systemic risks are risks that severely impact the whole economy and society. When they materialise, they constraint States to act as insurer of last resorts that is: equitably sharing the burden of such risks and bailing out some of those who were excessively gambling on risk and taking advantage from it before, in order to avoid a liquidity crisis. Therefore, States are not able to commit not to intervene when such systemic risks materialise, even if they are aware that the predictability of their intervention is a source of moral hazard. However, in order to limit this moral hazard, States are legitimate to regulate potentially beneficiary sectors, such as the financial one, before materialisation of the systemic risk. Regulations are aimed at impeding excessive risk taking from their part. After the materialisation of systemic risk, States can bail in those who were heavily gambling or whose behaviour is the most volatile. But, bail out should be costly for managers and shareholders benefiting from it. It should also be short lived in order to avoid onerous nationalisation.

2.2. *Method of reform : crisis or progressivity?*

2.2.1. Crisis is not an exceptional method of reform, in particular when societies are

²¹ Morris Goldstein (1997): "The case for an international banking standard." Institute for International Economics and Barry Eichengreen (1999): *supra*

frozen, hostages of their former choices, unable to analyse themselves with sufficient objectivity and to decide reforms. I fear that Europe, as well as Asia, could be in this situation due to the strength of State's history. One reason is probably the fact that a lot of households, some experts estimate their proportion at 60 % in France, are directly dependent on public money, through different ways such as public employment, welfare benefits, minimum wage and so on. These households are rightly fearing, they could be loser of reforms, at least at short term. But the same reason that explains such behaviour, justify deep reforms in order to avoid risks of economic decline and of harder crisis.

To Wait until a crisis imposes reform presents some advantages. Urgency's feeling is favourable to reform. When a society is under strain, it is more open to self regulation. The most rigid institutions are suddenly becoming flexible. But, reform is difficult to control and manage with efficiency during a crisis: risks are higher than ever and social as well as economic equilibrium is harder to find. Fairness criteria are contested, prices become highly unstable and it is more difficult to discern erratic fluctuations from long term tendencies. Asian crisis illustrated how difficult it is, in such circumstances, to find stable references for the definition of a new social consensus on which it could be possible to built successful reforms. There is always the threat to be confined to a sub-optimal equilibrium where transformations are going too far or remain insufficient. The first alternative that gives way to ideology is probably more dangerous than the second one that remains, at least theoretically, consensual and open to further evolution. Except for the fall of the former communist regimes of Russia and Eastern Europe, recent history mainly illustrates the second alternative. However, this alternative has a drawback: when a crisis is over, vested interest comes back and halts or even reverses the process, so that you get all the negative aspects of a crisis method and a progressive one.

2.2.2. The progressive method is a pragmatic and consensual one. Therefore, it seems better equipped for success. It is why it benefits from a general theoretical preference. But this preference is not in itself a proof of efficiency. Often, progressivity masks setbacks, to the great satisfaction of vested interest. France illustrates this risk: the reform of public enterprises, that wanted to be very progressive and that was aimed at limiting the deficits, began in 1967 and is still not achieved at this time, some enterprises such as our railroad company registering much dramatically higher deficits today than before. Thanks to endless consultations, negotiations and contradictory reports the pension reform has been completely stalling since the first step of 1993. Moreover, progressive reform, because of its length, can be time consuming and costly with the risk of reform fatigue, we have seen developing in European countries during

the nineties. Nevertheless, progressive reform seems to be better adapted to this process of permanent reform that is a key element of success for modern States. From this point of view, the five following best practices seem to me essential in the process of progressive reform.

- Developing a discussion's ethics²². Means of reform should be in accordance with its aims. As we have seen, social inter-subjectivity has replaced social "salvation" as the main background for legitimation of modern State. Governments have the duty not only to arbitrate between different points of view but also to bring these points of view closer. Jean Picq calls this process "interdependency apprenticeship". Therefore, reform needs a solid ethic of discussion between State and civil society and between the different social groups. This need is all the more important as civil society is emancipated from the State and has acquired its own legitimacy.
- Implementing benchmarking practices. Despite the general opinion of civil servants, absence of market does not mean that it is impossible to evaluate efficiency inside administration. As illustrated by the OECD, international comparisons and benchmarking are in this circumstance helpful, and certainly better than nothing. OECD member States share many similar structures whose performances could be compared on the basis of common, even sophisticated, indicators. For example, thanks to elementary benchmarking, we discovered in France that our tax administration was particularly inefficient, fifty percent more costly than in the mean European country and two hundred percent more costly than in the United States. But from such observation to successful reform, the path is not easy and a first try failed. Besides, international benchmarking one can use also national ones in comparing performances of similar services inside the same administration (hospital or school X versus hospital or school Y). This preoccupation meets the one, we have seen, of promoting competition inside public administrations.
- Imposing the principle of periodical and contradictory assessment. All civil services and policies, without exceptions, must be periodically evaluated with help of performance indicators (the sophistication of such indicators depends on the nature of the mission and on the benevolence of the managers). Assessors should be in competition: internal (within the framework of auditing services) as well as external (by resorting to external consultants and independent supervisors), contradictory. The complexity of the matter should not be an excuse for set aside this principle. On the contrary, assessment is as more

²² Juergen Habermas (1991): "Erl?terung zur Diskussionsethik." Suhrkamp, Frankfurt

needed as the sector is complex and difficult to evaluate because it is in such circumstances that risks of inefficiencies and abuses are highest. Moreover, experience is part of an efficient assessment process. So, even if instruments for measuring performance appear imperfect at the start, and must therefore be used with caution, they can be further improved only if applied.

- Using prior experimentation. Reforms that are pure products of civil services are most of the time, experience tells us, irrelevant and unable to successfully last long. Some methodological doubt and skepticism fit well for reform. Experimentation in limited geographical zone or professional sectors is always useful to detect problems and improve the quality of the project before extending it to the overall target population. But, in some countries, such experimentation are not allowed either because it could too largely open governments to political critics, with the consequence of making the reform more difficult to adopt, or because magistrates have a comprehensive interpretation of equality, which is the case in France for example. In the former case, the solution relate to political skills; in the latter one, the solution is probably to be found in a constitutional reform.
- Making interventions more flexible. Because of risks of capture and obsolescence, instruments for public interventions should be able to evolve and continuously adapt. Or better one should be able to change them without altering the purposes of the initial political program.

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A key question concerns the future of the State in relation to the civil society. In many countries, one can see an expanding civil society, that gains a growing role in traditional influence area of State. As a typical example of this evolution, one can mentions the French “social refoundation.” i.e. the current attempt by the French employers to emancipate from the traditional tripartite social dialogue, where the State played until now a dominant role, and to redesign the social compromise. But, when going further in the future, the more fundamental question is the one of the State’s rejuvenation or decay. This last alternative could be understood as an overreaction to the State’s excessive rise of the twentieth century. It should be interpreted as a risk rather than a prophecy, a surprising way to materialise Marx’s prophecy concerning the utopian “Finland station” of a society without State.

COMMENTS

(on “The Reform Process: Asia’s Lessons”
Presented by Pote Videt)

Donal DONOVAN

Director

IMF Regional Training Institute

My task of commenting on both papers, especially Mr. Videt’s paper, is made quite easy by the fact that I agree with almost everything both speakers said. I think Mr. Videt’s paper provided an excellent comprehensive summary of differences between the Old World and the desired New World.

But, I will pick with one or two points. For example, I think that getting re-elected is not inconsistent with government achieving an efficient allocation of resources. What’s needed is that the electorate be an informed electorate as regards what the government is really doing. Especially, the last part of his presentation where he tries to juxtapose the New World and the Old World was illuminating.

Looking at that, however, it made me think clearly that the Asian economies are some way along the direction of achieving that reformed world, but still have quite some way to go. And this also led me to think that this kind of thinking, that both speakers have outlined, has its intellectual routes in Reagan-Thatcher ideological revolution, for good or bad, that started some 20 years ago, and during which period, spread to much of Europe. This also led me to ask the question, inconsistent perhaps with the theme of this conference: what can be learned from the experience over the last 20 years where such ideas, modified as they went along, had a profound impact on economic policy-making. What are the lessons, in particular, that might be relevant for the Asian economies as they, especially in the last period, move in that direction? I thought it might be useful to just briefly try to reorganize what constitute the main elements of this ideological type of revolutionary thinking.

The first strand is the direct role of government and here, generally, for a less direct role. Increased emphasis on privatization, quite a degree of autonomy, and so on

for productive activities remaining in public sector. The second strand concerns the indirect role of the government, which can be divided into two sub-strands. The first sub-strand is a less indirect government involvement in the economy via a diminution of the so-called cozy government relations with the business and a more arms-lengths approach to official oversight of the banking in the financial sector. The second sub-strand concerns works in the opposite direction, which has not been emphasized enough, but is increasingly so, an increased indirect government involvement via the provision of public goods, concentration on non-environmental issues, the kind of establishment of social contracts to ensure social safety net measures and so on. The third strand, perhaps the most important point, is the enhanced transparency, disclosure and accountability of those government operations, be they direct or indirect role that are remaining under this kind of New World.

So far, I have only been talking about the domestic reforms and I have deliberately not referred to international monetary system, architectural type issues such as raised by Mr. Higgott's paper. That is not because they are not very important or interesting. In fact, as I am from the IMF, I have a particular interest in such issues. But, I am sure that they can be covered at other points later in discussion. Europe has clearly tended to move in this direction over the last 10 to 20 years. The question is why has it taken the lead.

One reason, I suppose, is the fact that somehow the U.K. and the U.S. thinking has traditionally more direct impact on Europe than perhaps on Asia. I would make a small observation on that when I see Europe, there has often been quite a lot of resistance to what might be American ideology, and sometimes, U.K. ideology which was seen as a kind of "step-son of American influence". That may have been the case in the beginning. But my impression is that over the last decade, many continental European countries themselves have tended to embrace many of the strands of this thinking. So, it has become a very "broadish" type of consensus. I am simplifying it because obviously there are some differences.

The second explanation is that the convergence process within the EU, which is relevant for looking ahead, has actually forced, or put a lot of pressures, on countries throughout the EU to follow the same kinds of approaches and standards once these were pushed and were seen to be pushed relatively successfully by the major countries. During this period, Asia was much less integrated than Europe was, so the same kinds

of pressures did not exist in Asia. I don't want to be pejorative, and am trying to be as non-normative as possible. But Asia tended to, in some sense, lag behind other parts of the world in putting forward these approaches.

The second question I would offer is what can be learned from the European experience over these 10 to 20 years. In my view, the last strand of this thinking, namely, transparency, disclosure, and accountability, is an absolutely essential aspect for the other two parts, lessened direct government involvement and so on to work successfully. I believe that this is the case, because if the government is to do less explicitly, in terms of direct role than it used to, then in terms of the social contract it has with the population, the population must be quite sure what it is doing. We all know what it is doing: that it is doing effectively, that it is disclosing its operations, and that it is accountable.

In the early stages of privatization in Europe, there were some difficulties in that respect. The most striking example would be the case of the former Soviet Union where the privatization removing state from economic activities was done very hurried in the early 1990s. But it was not completed by any serious efforts at transparency and accountability. Quite the opposite, in fact. I believe the consequence of cynicism and lack of faith of the population in the role of the governments to have contributed a great deal to the failure of much of the overall structural reform in the Soviet Union, and, in particular, Russia during that period.

Finally, the government under this model may take more arms-length approaches to certain sectors in terms of its oversight. It is important that this is not seen as a kind of benign neglect and disinterest by government in what is going on. As a *quid pro quo*, it is very important that the government's role in ensuring an appropriate competitive environment, stability of financial system, the provision of public goods be very clearly spelled out in a way that the electorate can have faith.

Now, how relevant are these reforms for Asia? Again, it is a very big issue. Until very recently, the issues of transparency, accountability and some other concepts have not been assigned high degree of importance. At the moment, there are different points and spectrum on this. One might suggest, what might be called, the Singapore model.

Basically, I think it's true to say that transparency and mass dissemination of information about the government activities, and economic policy tended to take a second place to, what one might call, a need-to-know approach. Every state is very different and Singapore's characteristics explain partly why this approach has been undertaken, and these are maybe some unique features. The recent example of the Singapore telephone company's desire to buy into other companies in Asia led some people to think that the perception of the government's role in 'Sing Tel' was high and continued to be so. Therefore, some parts of the region were concerned that mergers would involve an excess of government involvement.

Now, this brings me to my final point, which, not irrelevant to the Singapore type of example is: will the forces of globalization, for good or bad, end up permeating Asia in much the same way, as they now represent and are dominant trend in Europe? My feeling on this is a predictive, not a normative statement. Even if we have measures to control and to regulate the excess and damages of globalization, the elements pushing for globalization producing this kind of reform model will continue to work in that direction. These pressures are difficult to control even if Asia wanted to. Communication revolution, continued growth of living standard, and rapid and extensive cross-boarder labor mobility will inevitably be accompanied by more demand for advanced information about the precise role of government, and greater accountability on the part of public office holders. Attractive policies of possibilities offered by ever-expanding private sector, globalized private sector will probably reinforce the calls for leaner but more efficient and perhaps better-paid official sector. Such cause will require the government, in a greater degree, to discharge the kind of key regulatory functions that have been described by the papers in a fair and even handed manner.

My conclusion is perhaps a provocative personal comment. I think that it will be rather difficult for Asian economies not to end up going very much in the same direction that, for good or bad, Europe and North America have gone over the last 10 to 20 years.

COMMENTS

(on “Schedule for Reform in Contemporary States”

Presented by Philippe Trainar)

Paul LIM

Senior Research Fellow

European Institute for Asian Studies

Before I came here, I read Mr. Trainar’s paper about the reform of State. But when I saw the folder of this paper, I found that this session was about good governance. And I think that the paper should have been centered more on what constitute a good governance. Secondly, having read the paper last week, I still don’t have a clear idea of what the features of this reform of State are.

The paper talks about the need of reform of State in both Europe and Asia. But, in which direction? I had a feeling that Mr. Trainar was talking about the welfare State in France, in particular, whereas we are talking about welfare State in Asia. Furthermore, it is questionable if there is such a thing as welfare State in Asia. It seems that there are two different points, one of which is ‘where is the common ground that we’re talking about’ and the other, about people. The people stress very much about the endogenous factors of the crisis of the welfare state. But if I agree with Ying & Yang thinking reflected in the Korean flag, both exogenous and endogenous factors are involved when looking from the angle of exogenous factors.

To what extent, globalization and technological changes affected the State? People do not seem to give a clear answer, because in this context of globalization, it is obvious that the State must mediate and balance pressures emerging from domestic society and from the international system. Because on the one hand, in this period, individual citizens, industries and regions seek new forms of perfection from global competition. On the other hand, globalization and technological change simultaneously weaken the capacity of States.

Also I felt the whole question of the EU context was missing concerning the social charter, the issues of convergence, harmonization in social expenditures, etc. at

the European level. Furthermore, the new liberal ideology is reinforcing such a context. So it is important to consider to what extent it is purely an ideological matter.

And now, I'm raising a question of the role of the State in the globalized world. Already from a long time ago, early academic works have questioned the role of the State. In a new age of multinationals and transnationals, should the State disappear or not? So, my question is what is the State you're talking about? What is the minimalist form you're talking about.

Mr. Trainar spoke about the civil society and the NGOs. It seems that he was saying that the traditional role of the State, as an instrument of social transformation, should be taken over by civil society. He should have talked legitimation. In the past, legitimation depended on the people. Now, what is this new legitimation of state? It is important to underline that the time of the welfare State is over. However, that does not mean that its ambition, especially its social ambitions of solidarity, is dead and cannot survive. How should it be envisaged then? How will the pragmatic government targets and methods in social policies bring about changes? These are some of the points to reconsider.

RESPONSES

Pote VIDET

I would like to respond to what Professor Lehmann said with regard to reform out of position of strength and weakness. I would say that there is no question that it is easier to reform when you are not down in the slumps. Let me explain. The reform that is going on in a lot of countries in Asia is occurring out of necessity. They are not going to get the capital unless they do it. What is a much more difficult thing to do is to reform out of vision. For example, when things were booming in Thailand, the central bank reduced reserve requirements for bad loans. When things were booming, Singapore increased their capital requirements. I remember when, in boom years, we were all scratching our heads to find out why the Singaporean banks had the 18% BIS ratio? I think clearly what we would like to strive towards is reform out of vision, reform out of forward-looking policies and framework.

The second point was having private networks or private solutions as a strength in Asia. But, I would actually argue that it is not a strength. With a very simple example, a lot of the leaders of business communities in Asia own a bank. There is obviously a tendency to support your own group of companies at the detriment of other stakeholders, in particular, deposit, depositors and minority shareholders. With regard to Professor Higgott's comments about increasing the shareholder value, I see two key roles of government. One being a catalyst and the other being an initiator of ideas, a prioritizer of what is important in the country. Let me just give you an example. In Thailand, more than half of the people are involved in the agricultural sector. But it is a very small percentage of GNP is not efficient. There are a lot of things that, I think, can be done in terms of improving the logistics, the marketing, and tourism. Tourism in Thailand, when you look at value added, is more than the top five categories of exports. Should the role of government be to really think about the issues, we cannot be all things to all people. We have to focus on only the areas where we have a strong competitive advantage. I see that is one in terms of "maximizing value to state governance" in the country.

And the other is catalyst's or prioritizer's role of a coach in regulation. It is lacking in many countries throughout the Asia region. It is matter of having trained staff, forward-looking regulators, non-politicized regulators, which are the two major roles of government in terms of adding shareholder value.

The last comment concerns transparency in terms of the national, multinational and global sector. One comment that I would make is that transparency of governments comes about when there are checks and balances. I am not an expert in this area, but I would say that one of things in the globalization arena is that the U.S. government has become very powerful in every single category whether it be politics, economics, military, business, or culture. And, I think you need more checks and balances vis-à-vis what is good for the U.S. and what is good for the global economy.

RESPONSES

Philippe TRAINAR

I think that good governance and reform of State are linked. We are talking about reform of State because we are talking about good governance. I must underline that the objective in the reform of State is not the minimalist type of State but well governed type. With the reform of State, we are getting a more pessimistic view on the capacities of State because we have no experience of a very interventionist State and of its weaknesses and strengths. We know that we can reduce its weaknesses only through a good governance process.

Secondly, what is in common between France and Asia, between Europe and Asia when we are talking about the reform: it is too difficult a question to answer. So I have left this question a little aside. But, it seems that there are many similarities between Asia and Europe in the strong role of State, the role of the good bureaucracy and meritocracy. I think that there are many experiences that could be shared between Europe and Asia. Despite different stages of development, I don't think that the experience of Europe should not be useful for Asia, and vice-versa. I recall that before the Asian crisis, one of the great debates in the Finance Ministry in France was how good the current Chaebols are and that they should become a model for some public enterprises in France. Although the debate withdrew after the Asian crisis, I think we have experiences on the actions. All the experiences are needed and are useful.

It is not fostering a new liberal ideology, but I am putting forward a skeptical view on the interventions of State. We must be aware that interventions which were designed during the second half of the 20th century were "not well designed." and had many bad incentives. We must reconsider the design first. I am not sure if we have to reconsider intervention but we certainly should reconsider the design.

Concerning cronyism in Asian countries, I think its negative aspects are beginning to appear, and if there is no reform in Asia, they will only become worse which will eventually impede growth. So, I think that the Asia crisis was only a new opportunity to see what kind of negative externalities are present in this model. This model is not ineffective. It could be effective in the years to come. But without reform, I think it will become more and more inefficient, just as in Europe. So it is more a question of time and obsolescence.

SESSION II –

ASEM AND TRADE ISSUES

ASEM AND TRADE ISSUES

Jean-Pierre LEHMANN

Professor of International Political Economy

International Institute for Management Development (IMD)

Director

The Evian Group

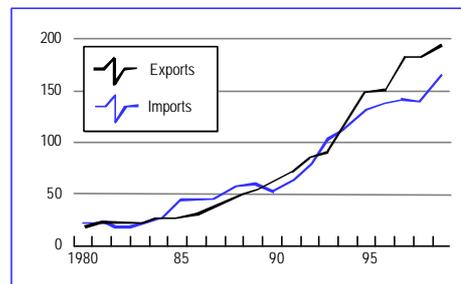
1. The Great Prospect

In the course of the 1990s, the world economy experienced the biggest upheaval ever. As a result of reforms enacted in developing economies pretty much across the globe, the number of persons living in open market economies increased from roughly 1 to roughly 5½ billions! Not only does Asia account for a very large proportion of that number, but it is also in Asia that the pace and models were set for the global “contagion” of liberalisation that subsequently ensued.

Whatever happens in the future, the 1990s will be remembered as the decade that witnessed the most spectacular entry of China on to the global economy. The country

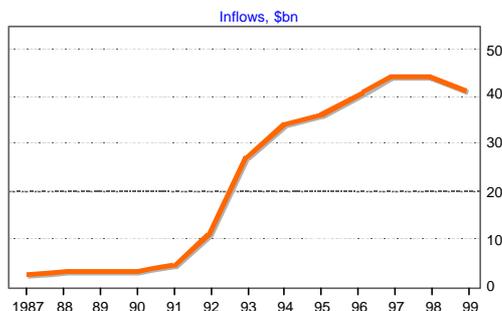
registered unprecedented exponential growth in trade (see chart 1) and in investments

Chart 1 China trade with the world (\$bn)



Source: Financial Times, May 26, 2000

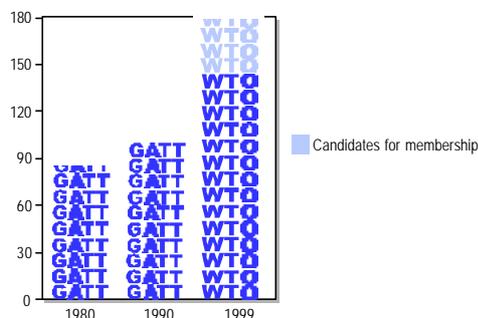
Chart 2 Annual Foreign Direct Investment in China



The probable imminent entry of China into the WTO is a historic event in itself, as well as the prominent embodiment of a larger global trend. Whereas the GATT was perceived as an exclusive club for the rich nations and/or an ineffectual talking shop, the WTO has enjoyed that most flattering of distinctions: everybody

wants to join. As protectionist import substitution policies driven by central state controlled economies have fallen like proverbial dominoes, today the number of

Chart 3 Admission to WTO



Source: The World Paper, February 2000

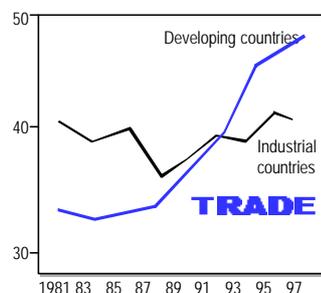
countries that are neither members nor candidates of the WTO is infinitesimal. The WTO (see chart 3) is genuinely “W” (ie “world”). The WTO has become the international trade and investment club the rules of which all members (in principle!) subscribe to!

The role of developing economies in international trade has greatly expanded (see chart 4). As economies have opened, growth has accelerated, thus lifting tens of millions of people out of poverty and thereby creating a far vaster pool of consumers.

The great 90s should, in principle, be just a minor preface to a far more glorious several decades ahead.

More and more countries are adopting sound and solid macroeconomic policies, thereby reducing inflation and foreign exchange volatilities; greater scope is being given to entrepreneurship; levels of education are increasing; remarkable developments in information and communications technologies open up all sorts of fantastic new horizons.

Chart 4 Trade as % of GDP

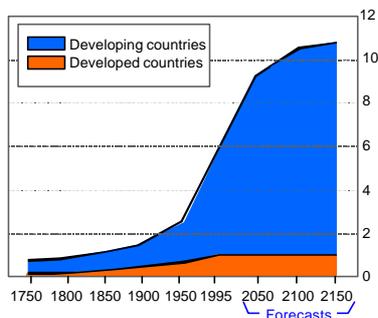


Source: The World Paper, February 2000

The world also offers a far better political map. The number of dictatorships has greatly decreased in the last decade. Even in many of those that still exist, there is a greater degree of pluralism. Civil society has obtained greater space and voice in an ever increasing range of societies. Ultimately liberal economics and liberal politics converge. It is not, in the long term, possible to maintain an open economy and a closed political system. Since open economies produce growth, the political agenda would seem to be clear.

With 140 countries in the WTO and another 35 or so applying to join, the framework for a truly dynamic rules based open world economy appears in place.

Chart 5 World Population, bn



Source: UN

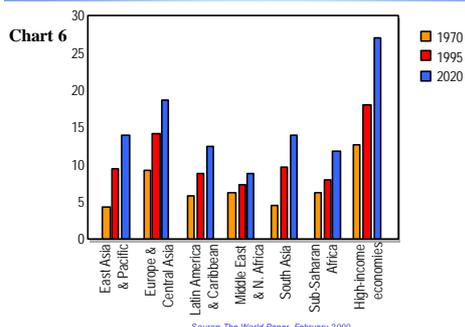
The greatest cause for daring to believe that the next quarter-of-a-century or so may be the most prosperous and dynamic the world has ever witnessed – and may witness again in the coming century or more – arises from demographics. Though the industrialised countries are rapidly aging and by 2020 will be truly geriatric, the developing countries are growing at a remarkable pace (see chart

5). The ageing process will also occur in developing economies (see chart 6), but the effects will not be felt for another half-century or so.

The reason for great cheer in the medium term is that over the next quarter of a century the world will benefit from a “demographic bulge”. Indeed in the course of this decade (2000-2010), some 700 million young people will be entering the labour market in the developing economies. This is more than the entire current labour force of the industrialised countries. With proper education and jobs provided for these young

people, the global gains to be derived in terms of vitality, productivity and wealth creation are truly remarkable.

Population aged 60 and above as percent of total



Source: The World Paper, February 2000

The prospects are magnificent.

2.or Great Illusion?

As is becoming increasingly clear from the literature, economic growth is natural. Human nature is genetically inclined to innovation and also to self-improvement. People want better standards of living for themselves and for their children. When the basic conditions are in place – rule of law, security, an institutional framework, macroeconomic stability – growth should occur. The puzzle therefore is not why certain economies grow, but why those that do not do not.

Apart obviously from instances of institutional and societal implosion (as has occurred in many countries of sub-Saharan Africa), countries in which there is no or low growth are ones where detrimental political interference occurs. In other words, actions are taken that prevent growth.

Those actions are in most cases taken to protect and bolster the interests of specific groups (oligopolists, political patrons, labour unions, etc) at the expense of the greater collective good.

That is what is taking place now. Governments are devising trade policies aimed at protecting narrow sectoral interests. That is what risks catapulting the world from harbouring dreams of great prospects to seeing them disintegrate into ephemeral illusions.

With the momentum generated by the destruction of the Berlin Wall in 1989, the collapse of the Soviet Empire in 1992, the completion of the Uruguay Round in 1993, the signing of the Marrakech Agreement in 1994, the establishment of the WTO in 1995, the buy-in of open trade and investment policies by an ever growing number of developing economies, surely there could only be one direction to go in: creating a more liberal global economy.

The fact that the East Asian economies were able quickly to recover from the devastating effects of the 1997 financial crisis thanks to their ability to export underlines the point all the more.

Yet what to make of the cacophony of Seattle?

If the image of the world economy in the early and mid 90s was one of deep, intensive and accelerating centripetal forces, Seattle 1999 projected an image of centrifugal forces, of the world economic policy process shifting from integrating to disintegrating. The protesting NGOs were no more than the cockling geese of a trade empire in conflagration.

The US was pitted against the EU, and vice versa; the US, the EU and Japan were pitted against the developing economies; the WTO rapidly gained the image of impotence.

At present the global trade engine is stalled.

In the meantime, the WTO has become primarily a forum for trade conflict resolution rather than trade negotiation.

3. The Great Threats and the ASEM Agenda

1) *The Unguided American Trade Policy Missile*

American trade policy has always been quirky, veering from isolationism and protectionism to a greater free trade orientation. Trade policy is generally conceived however as a win-lose proposition, especially as in the US it is dominated by lawyers. The American propinquity to litigation in the domestic environment is transferred onto the international arena. Hence the current American litigious scene in Geneva.

There is every reason to be more worried about the future. Though Clinton lacked principles and courage, at least there could be little doubt that both intellectually and emotionally he was strongly committed to open trade policies. This is not necessarily true of either of his possible successors. It remains to be seen what the outcome will be, but the trends are not entirely encouraging. Left alone, the more likely Washington trade policy scenarios are ones of either back-peddling protectionism or stonewalling. Precisely at a time when the world needs to move the trade liberalisation agenda forward, the world's leader, the US, is dithering.

As one of the main rationales for ASEM is to “keep the Americans on the straight and narrow.” engaging the US on to a more positive trade direction must clearly be a priority. Doing so by simply urging for a new round – comprehensive or otherwise – is however insufficient. First, there are matters that ASEM needs to address. Second, ASEM can really only effectively pressure the US if its own house is in order.

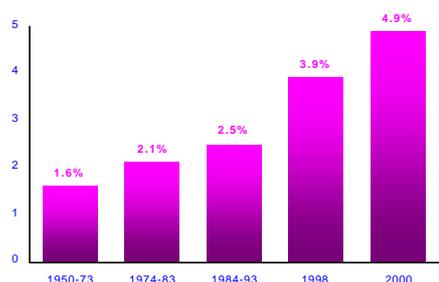
2) *The Japanese Cancer*

The most serious threat to the global economy and to the whole process of globalisation is Japan. Japan is the world's second largest economy. A sinking Japan is a potential regional and global cataclysm.



Though Japan has practiced a double standard “compete out/protect in” trade policy for half-a-century, until a decade or so ago the economy’s growth generated regional and global positive spill-over effects. Since 1991, however, the Japanese economy is stagnant (see chart 7 & 8). Economic stagnation has caused policy paralysis; and policy paralysis causes further economic stagnation. Japan is the sick-man, the “Ottoman Empire.” of the 21st century world economy. Its failure to act as a regional engine can only augur very serious problems ahead¹.

Unemployment Trends



Source: IMF, OECD

Chart 8

While Japan has been the country that has been the greatest beneficiary of the post-war open trading system, it has miserably failed to become a benefactor.

As Ronnie Chan, the Hong Kong entrepreneur, forcefully argued in a recent article:

“Japan’s foreign investment (in Asia) is of limited benefit. Unlike the US and Europe, Japanese companies are widely known to be reluctant to transfer technology and management know-how.

“The situation with management know-how is similar. Rigorous management localisation plans, so common in most western companies, are almost unheard of in Japanese companies. Few Japanese foreign operations are headed by a native person. Local personnel is rare, even in the next layer of management.”

As Japan has a huge trade surplus with most Asian countries, “besides structural impediments to foreign trade and investment, Japan is also notorious for its social and cultural barriers. Contrast Japanese and western department stores and one sees that the former carries far fewer Chinese, Thai or Malaysian products.”²

¹ I have drawn attention to this danger in numerous forums and instances, most recently in “Why Asia needs a Japanese engine.” Financial Times, 8 March 2000.

² Ronnie Chan, “The Asian Myths.” Financial Times, 24 June 1999.

The contrast between Japan's position, policy and attitudes in respect to Asia with Germany's position, policy and attitudes in respect to Europe is glaring.

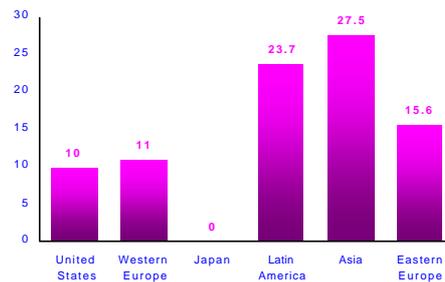
What can ASEM do?

All American initiatives during the 1980s in seeking to open the Japanese market – a good number of which were not particularly wise or effective – ultimately failed. Japanese policy makers have become immune to US trade policy badgering.

The ASEM framework could prove more effective – and certainly it should try – in getting the Japanese government to commit to genuine and solid policies of opening the market and society, of assuming its regional responsibilities, and of reverting the economy to the kind of growth track that it should be achieving, ie of at least 2.5-3%.

These are the necessary elements to bring about a dynamic convergence of forces. A good deal of Japan's economic sclerosis has been caused by its claustrophobic nature (see chart 9). The country's corporations are in desperate need of new blood, new energy, new ideas and a more global outlook. By opening its market, typically, the Japanese would not only be providing wealth and job creation prospects to its neighbours, but accruing significant benefits to its own enterprises and society.

FDI Flows Relative to Market Size **Chart 9**
Inflows per \$1000 GDP, 1996



Source: UNCTAD

This is the message and pressure that the Asian members of ASEM can bring to Japan.

It is also within an ASEM framework that Germany could undertake a tuition role in teaching Japan how to become a good continental citizen and neighbour.

An example can be drawn from the automotive industry. Although Germany has one of the most competitive automobile industries in the world, the import market share is 36%! Thus the German market provides an important impetus and lucrative returns to automotive manufacturers in France, Italy, Spain, Central and Eastern Europe, as well as to Japan and Korea.

This is one of the many illustrations of the glaring contrast between Germany and Japan. Indeed there are far more Daewoo or Hyundai cars on the streets of Germany (and everywhere else in Europe) than in Japan. Even though the Malaysian national car, the Proton Saga, was initially established as a joint venture with a Japanese partner (Mitsubishi) and philosophically conceived as part of Mahathir's "Look East Policy." it is not exported to Japan, but can be found in the UK!

Unless the Japanese economic cancer is healed, Japan's sickness will prove contagious. ASEM should be a proper framework for effective surgery to be applied.

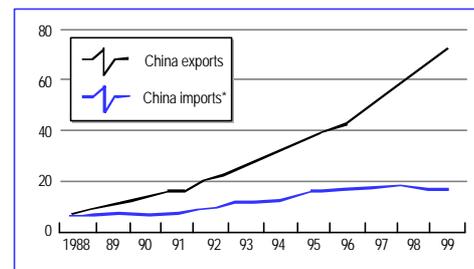
3) *The Chinese Bull in the WTO Shop*

Business executives often assume that the difficult part is the negotiation of a joint venture, merger, acquisition, etc. In fact, as is almost invariably borne out, that is the easy part. True difficulties begin once the project is consummated.

The same is likely to be true of China's entry into the WTO. Certainly the negotiations have gone on for fourteen long and painful years. Certainly frustrations and disappointments have punctuated the process. It would be a very, very critical error to assume however that once China is in the WTO everything will be honky-dory.

For one thing, as has been noted above, in light of the US's current trade aggression mood and probable future mood, on the one hand, and its large and growing trade deficit with China (see chart 10), on the other, the prospect of the WTO serving as the "Not-so-Ok Corral" of Sino-American trade confrontational show-downs is a very real one.

China trade with US (\$bn) Chart 10



* Includes re-exports via Hong Kong

Source: Financial Times May 26, 2000

In any case, the process of adjustment of China to the WTO and of the WTO to China will be difficult. This is a potential minefield of misunderstandings, tensions, and eruptions.

What can ASEM do?

ASEM can assume a prominent posture as a guarantor of China's insertion into the global trading system. Regular and frequent roundtables on China and the WTO are, for example, one concrete illustrative means to that end. It can also position itself as a quasi-institutional shield from American irascible trade uncertainty and inscrutability.

4. An ASEM Question: What Kind of 21st Century Trade Environment?

Globalisation at the turn of the former century was followed by de-globalisation, the effects of which lasted almost 75 years – from the outbreak of World War I to the fall of the Berlin Wall. The economic policies and practices of integration gave way to disintegration, fragmentation and confrontation.

This could happen again.

What the world economy in its post Seattle haze needs are bold and inspirational steps. The pussy-footing over interminable petty trade wrangles (did someone say “bananas”?) is undermining the credibility of the system. The incremental approach favoured by Geneva-based self-styled “trade policy realists” is counter-productive. The incessant visceral resort to anti-dumping measures betrays the spirit of global trade.

Most fundamentally, however, the problem and peril are that while the industrialised countries have succeeded in persuading developing economies to buy into the world open market economy and carry out the necessary structural adjustments, they have not reciprocated. All three of the world's large industrial leaders, the EU, Japan and the US, have measures in place that are detrimental to the trade and economic interests of the developing economies. Developing economies are finding market access to industrialised countries very difficult. Barriers are erected.

Trade increasingly appears in the perspectives of developing economies to be neither free nor fair.

The most egregious case of protectionism is of course agriculture. Agricultural protection, especially in Japan and the European Union, is causing gross distortions and injury to the global economic system and is especially detrimental to agricultural goods exporting developing countries.

What can ASEM do?

ASEM should unequivocally commit all its members to agricultural trade liberalisation. Of course local political sparks will fly. The benefits to the world trading system however will in the long run far outweigh the short-term political fall out. The key point on which to focus is that it is simply impossible for the industrial countries to expect the developing economies to remain committed to the global open trading system if the system continues to be so flagrantly violated as they are currently doing in agriculture.

Agricultural liberalisation policies can easily be placed in a context of enlightened self-interest. The Japanese and EU economies will benefit considerably. Among many other things, funds hitherto misallocated by massive agriculture subsidies will be able instead to flow into building up skills, resources and infrastructures in profitable new future technologies.

It is also a key criterion for ensuring that the great demographic bulge referred to earlier will be optimised. As the century progresses, the growing dependence of the industrial countries on the developing economies needs to be clearly recognised as an imperative in determining economic policies.

Sorting out the agricultural issue is the *sine qua non* for any further meaningful steps in the global economic agenda.

The EU's proposed "comprehensive trade round" has, understandably, been met with considerable scepticism in many quarters as a cloak by which to discuss virtually everything and anything except agriculture.

Accepting that the industrial economies need to carry out the structural adjustments to meet the legitimate trade expectations of developing economies, especially in respect to agriculture, but also in regard to labour-intensive and smoke-stack industries, such as textiles and steel, is a necessary condition for ASEM to advocate a new trade round.

ASEM should also address itself to another serious matter on the trade agenda. One area on which the EU and the US seem to have gained agreement, indeed formed an unholy alliance, is that of including labour and environmental standards on the trade agenda. This is a stance that has clearly and once again justifiably caused annoyance and alienation among the developing economies. It is seen as little more than hidden protectionism.

Raising labour and environmental standards is obviously a noble objective that all right-minded persons should support. It is clearly not within the terms of reference of the WTO, however, nor should it be on a trade agenda.

ASEM can serve as the appropriate forum for making this point unambiguously clear.

The timing of the next ASEM summit (October 2000) will be excellent for promoting a dynamic trade-and-investment-issue focused new WTO round. An articulate, bold, forceful and inspirational advocacy of such a course of action will have an impact. By including agriculture and excluding extraneous issues, the ASEM trade initiative will also contribute to ensuring the clarity and purposefulness of the agenda.

5. Conclusion: ASEM ?

The first ASEM summit in Bangkok in March 1996 generated much rhetoric and high expectations. It very rapidly subsequently flopped. The London summit was a non-event. If ASEM were to fail, it would hardly be noticed. It would not however be an encouraging omen for the global environment in the decade ahead. So ideally ASEM should succeed and indeed should generate broad interest and support.

The key priority of ASEM must be the global trade and investment agenda.

If, however, the ASEM position amounts to little more than platitudes and/or regurgitations of conventional wisdom, not only will the impact be nil, but also the rationale for ASEM will then really be called into question.

By adopting a bold agenda for a wealth creating open global trade and investment environment, ASEM will secure a better future for the planet. By securing a better future for the planet, ASEM will secure a future for itself.

TESTING THE ‘ SUBSIDIARITY QUESTION’ FOR ASEM

Chong Wha LEE

Research Fellow

Korea Institute for International Economic Policy

Abstract

This paper seeks to conjecture the future navigation of ASEM with an emphasis on testing Gerald Segal’s ‘subsidiarity question’ —which is to ask, “what can best be done for ASEM?” —taking account of the recent development of ASEM’s economic dialogues. The progress achieved at ASEM does not yet meet the requirement dictated by the subsidiarity question. As for the future of ASEM process, there seem to be three broad scenarios: ‘Status quo scenario’, ‘APEC type evolution scenario’, and ‘Hybrid scenario.’ Under ‘Status quo scenario’, its agenda will be aimed primarily at facilitating information networks. However, its contribution to open multilateralism appears to be restrictive. Concerning the second, a more forward-looking strategy for ASEM would be aimed at achieving a goal where trade liberalization measures are matched with a non-binding regional investment initiative such as those in place in APEC. This scenario, especially with regard to trade liberalization, not only brightens ASEM navigation but also provides a decisive momentum to multilateral liberalisation. Under ‘Hybrid scenario’, ASEM can be used as a useful vehicle to facilitate information networks and to reinforce open multilateralism. A more plausible scenario for ASEM may well be somewhere in between the ‘Status quo scenario’ and ‘Hybrid scenario’. However, in the longer term, the future of ASEM process will be somewhere in between the ‘Hybrid scenario’ and ‘APEC type evolution scenario’.

1. Introduction

The issue of multilateralism versus regionalism has been widely discussed in recent years. In the post-war trading system since its inception, the multilateral trading system has succeeded significantly in reducing border barriers to trade in goods. The succession of GATT “rounds” throughout the last fifty years has made a major

contribution to freeing global trade.¹ While the multilateral approach maximizes the number of foreign markets involved by reducing border barriers on a non-discriminatory MFN (Most Favoured Nation) basis, it has often taken too long to reach an agreement, as seen by the protracted negotiations of the Uruguay Round, and has been too complex with the membership of well over 100 countries. Consequently, countries could also turn to their respective geographic region to form a regional trade arrangement.²

The proliferation of regional trading arrangements (henceforth RTAs), such as free trade areas and customs unions, have become increasingly central to the global trading system in the last decade or so. A frequently posed question is whether these RTAs help or hinder the multilateral trading system of the WTO. Proponents of RTAs argue that RTAs serve as stepping stones toward MFN liberalization.³ Skeptics view RTAs as detours, if not roadblocks, in the pursuit of more open global markets.⁴

The diversity of postwar regional integration agreements makes it difficult to analyze their impact on trade and trade relations. For example, few of the regional agreements concluded among developing countries met their original timetables. This limits the amount of relevant empirical evidence, and complicates the analysis by making it necessary to look beyond the formal content of individual agreements to the details of their implementation and the results achieved. One important dimension, in the regionalism debate, is the political objective of the RTA. That is to say, an ultimate verdict is possible only when one considers the political economy of interactions of the regionalization process with the process determining trade policies between blocks. In

¹ The result of Uruguay Round, for example, includes commitments to a 40% cut in tariffs of developed countries on industrial products, from an average of 6.3% to 3.8% and to increase the percentage of bound product lines from 78 to 99% for developed countries and 21 to 73% for developing countries (WTO, 1998, p. 16).

² Some unilateral liberalization has taken place especially in East Asia and Latin America in order to adopt adjustment programs under the auspices of IMF or World Bank.

³ Its proponents argue that: first, the formation of RTAs is consistent with the multilateral trading system as the exposure to the more limited competition with the other members of the RTAs would help develop confidence and prepare Members for tougher competition resulting from MFN liberalization. Second, some of the RTAs have also liberalized on a MFN basis at the same time as they have proceeded with intra-RTA liberalization. Third, the RTAs, being smaller in terms of membership, can achieve agreement faster than the protracted negotiations of the multilateral trading system.

⁴ They are concerned that the formation of RTAs could result in a fragmented world and is, thus, contrary to the basic tenet of non-discrimination of the multilateral trading system. For a detailed explanation of the two categories of political economy arguments, see Frankel (1997, chap. 10).

the terminology coined by Jagdish Bhagwati, RTAs can act either as stumbling blocks, undermining political support for more widespread dismantling of trade barriers, or as building blocks, helping to build political momentum for global liberalization. (Frankel, 1997, p. 230)

However, in most cases RTAs serve as building rather than stumbling blocks. According to the WTO (1995, p.62), it is clear that to a much greater extent than is often acknowledged, regional and multilateral integration initiatives complement rather than slow down the pursuit of more open international trade. In addition, the report observes that regional agreements have allowed groups of countries to negotiate rules and commitments that go beyond what was possible when the agreements were made multilaterally. In turn, some of these rules, especially with regard to services and intellectual property protection, helped lay the foundation for progress in the Uruguay Round.

ASEM, like APEC, is not a formal RTA. While the scope of APEC is exclusively one of economic cooperation, ASEM strives to encompass economic, political and cultural objectives. Its economic cooperation has focused on three areas: the Trade Facilitation Action Plan (TFAP), the Investment Promotion Action Plan (IPAP) and the enhancement of business networking through the Asia-Europe Business Forum (AEBF).

ASEM, still under probation in a sense that its action plans have not yet been transformed into real action, needs to consolidate its goals and agenda. If this is not done, the danger of ASEM degenerating into nothing more than a talk shop can not be dismissed out of hand. (Rüland 1999) In light of this, the purpose of this paper is to evaluate what have been done at the ASEM level, viewed from economic perspective, and to show how ASEM will evolve in the future. In addressing this topic, the focus will be made on testing the so-called ‘subsidiarity question’ for ASEM, which is to ask what can *best be* done at the ASEM level, based upon the recent development of ASEM’s economic dialogues.

This paper begins with a brief overview of ASEM. This section discusses the rationale for ASEM and also offers an assessment of the outcome of the 1st and 2nd ASEM conferences. Section touches upon what can best be done at the ASEM level. Concerning this point, three arguments will be noted, *i.e.*, establishing information networks between Asia and Europe, reinforcing open multilateralism, and providing development aid to the rest of the world. Section summarizes the recent

development of economic dialogues, with an emphasis on the progress achieved at the EMM (Economic Ministers' Meeting) and the SOMTI (Senior Officials Meeting on Trade and Investment). Section seeks to test the 'subsidiarity question,' which is deemed to be highly relevant in shaping the agenda for ASEM. Based upon the background established in the previous section, this section proposes three different directions ASEM can take in terms of its main agenda. Section concludes.

2. ASEM: A Retrospective

The security-dominated bipolar system of the Cold War period was followed by an economic-driven tripolar international order, comprising the Triad regions of North America, Western Europe and East Asia. The most popular rationale for the ASEM initiative was to complete the missing link between East Asia and Western Europe. (Hänggi 1999) ASEM was originally designed to meet the needs of both Asia and Europe. The EU, concerned about being excluded from APEC, was keen to counter the growing US economic influence in East Asia. Asians, most already running sustained trade surpluses with the EU, clearly had an interest, in the face of the Single Market and prospective common currency, to use ASEM as a useful vehicle to persuade the EU to follow the APEC model of open regionalism. In this respect, ASEM was a European and Asian answer to the rapid progress of APEC, or a European version of APEC to put it simply.

ASEM was originally intended to build an equal partnership between the two regions, covering economic links, political dialogue and cultural exchanges. However, political and civil society issues were at a standstill because of the EU's unease with Myanmar's human rights record.⁵ While the East Timor issue was finessed at the Bangkok summit, it recurred with sufficient intensity to derail another part of the EU's Asian agenda and introduced an element of stress into relations with the ASEAN states central to ASEM. (Bobrow 1999) Evidently, the economic dimension has been one of the major areas of focus and remains high on the overall agenda of ASEM, as expressed in the Chairman's Statement of the Bangkok ASEM conference, "the meeting recognized the growing economic links between the two regions form the basis for a strong partnership between Asia and Europe."⁶

⁵ Despite having been a member of ASEAN, the EU has insisted that Myanmar be excluded from all joint meetings by refusing to grant a visa to the Myanmar Foreign Minister or its other senior officials. ASEAN has taken a strong exception to this demand by the EU. (Business Times 1999a, 1999b)

⁶ Paragraph 10 of the Chairman's Statement of 1st ASEM.

Outcomes from the Bangkok ASEM summit were far more specific and of greater substance than had generally been anticipated. (Dent 1997-1998) In the economic area, the topics discussed at the 1st meeting of ASEM, summarized succinctly as follows, constitutes the core of ASEM's objectives and show the future direction of ASEM navigation:

- (1) *Strengthening of multilateralism focusing on the WTO and promotion of open regionalism*
- (2) Enhancement of economic exchanges between Asia and Europe, in particular facilitation of trade and investment, and exchanges of technology
- (3) Increased cooperation among the business and private sectors of the two.

Its initial agenda, often referred to as a 'laundry list', became more structured due to follow-up measures where the SOMTI played a pivotal role. The ASEM summit in London adopted the consolidated initiatives, endorsed by the Ministers at the 1st ASEM-EMM, which include, *inter alia*, the Trade Facilitation Action Plan (TFAP), the Investment Promotion Action Plan (IPAP) and the Asia-Europe Business Forum (AEBF).

The financial turmoil in East Asia, during 1997-1998, diverted attention away from the trade and investment liberalization initiatives towards arrangements for monetary and fiscal stabilization. In contrast to the 1st ASEM summit, the 2nd summit, held in London, seemed to be a relatively subdued affair. Asians who sought to lead the ASEM process have, through economic failure, lost their right to lead it. (Segal 1998a) East Asian leaders focused mainly on their region's economic recovery, whereas their EU counterparts were preoccupied with preparations for the launch of the Euro and with their own intra-regional agenda of membership enlargement. Consequently, the London ASEM summit produced few substantial achievements in terms of liberalization efforts. However, this does not necessarily mean that it aggravated motivation for the ASEM process. In fact, at the London summit, leaders made an important pledge to alleviate the crisis by maintaining an open trading system in the teeth of the new protectionist pressures.⁷ This "ASEM Trade and Investment Pledge" set the tone for the rest of the

⁷ "They expressed their common resolve to resist any protectionist pressures and at least to maintain the current level of market access while pursuing further multilateral liberalization, ..They undertook not to take any restrictive measures in the legitimate exercise of their WTO rights ..Leaders also invited trading partners outside ASEM to join in this pledge". (Paragraph 14 of the "Financial and Economic Situation in Asia" addendum statement to the Chairman's Statement of 2nd ASEM)

world as it responded to the crisis, for example, for the G7 and the WTO. (Brittan 1999)

Following the summit, two specific initiatives were implemented to help overcome the crisis. The ASEM Trust Fund was established at the World Bank and has been operational since June 1998. The Fund will provide Asian ASEM partners with technical assistance and advice on restructuring their financial sectors and measures to deal with the growing social problems caused by the crisis. Of the US\$47 million pledged and contributed to the fund, US\$20 million had already been earmarked for projects in both the financial and social sectors by the end of 1998.⁸ In addition, the EU decided to create the Clearing House for the European Financial Expertise Network (EFEX).⁹ This network will facilitate access to European expertise for Asian partners involved in reforming their financial sectors. Indeed, from the beginning of the crisis, the EU has made important contributions to assist Asia overcome it, which may not have been sufficiently perceived by the Asian public. Several EU Member States have provided bilateral technical assistance in the areas of banking supervision and financial restructuring to countries affected by the crisis. European private banks, by far the most exposed in the region, have played a key role in the rollover of short-term credits.

However, the EU seems to have missed an important opportunity to show its drive and determination. If one merely remembers that the true value of a friend is best judged in times of crisis, the EU's image in Asia was unlikely to have been enhanced because the Asian press depicted the Europeans as fair-weather friends. Overall assessment of ASEM's contributions to crisis management were, in fact, disappointing. Consequently, the London ASEM summit was a dud. (Lehmann 1998)

3. What can best be done at the ASEM level?

In considering the shape of the agenda for the next ASEM summit, the notion of subsidiarity is, as Gerald Segal suggests, in fact appropriate (Segal 1997). In the EU, subsidiarity means that issues should be dealt with at the 'most effective' level (Higgott 1996). Thus, Segal's subsidiarity question for ASEM is twofold: 'what is best done at the ASEM level?' and 'what can also be usefully done at the ASEM level?' If there are good answers to the first question, there is a good basis on which to engage in the ASEM. If there are good answers to only the second question, then ASEM agenda will be less ambitious and have little possibility for a serious future. According to Segal,

⁸ Paragraph 23 of the Co-Chairmen's Summary of SOMTI , Singapore, 11-13 February 1999.

⁹ *Ibid.*, paragraph 23.

there are positive answers to both questions. However, we will focus only on the first question, putting the second aside.¹⁰ As for the arguments answering to ‘what is best done at the ASEM level’, the first one is that the governments should take the leading role in enhancing trade and investment flows. (Segal 1997) There can be no doubt that, in considering the driving force of the Euro-Asia inter-regional economic relationship, it is private sector market power, not state sponsored institutional direction that is the determinant factor. Given that most countries in ASEM possess a market economy, which is thought to be the best means by which to trade and encourage investment flows, what can ASEM best do that is not done by these markets? The answer lies in the area of information networks.

‘Markets function best with perfect information and understanding. It is clear that knowledge about the two parts of the world is not as substantial as is often assumed. Networks are not as strong between Asia and Europe as they are either across the Atlantic or across the Pacific. Governments can facilitate this process at relatively little cost. This is a primary role for ASEM - building inter-regional networks and information conduit... ASEM’s role should be one of providing infrastructural assistance to the relationship - such as data gathering and assistance in the creation of networks and inter-regional policy learning.’ (Higgott 1996)

If more information circulate between the two regions, there will be more opportunities for inter-regional trade and investment flows. ASEM can serve as a useful vehicle in this respect. This is one of the most important ASEM’s *raison d’être*.

The second point is that by adopting ‘open regionalism’ as one of the central themes of its deliberations,¹¹ ASEM can and should be required to reinforce the open multilateral trading system. Open regionalism often denotes ‘concerted unilateral MFN liberalisation of trade’. It is *concerted* in the sense that participants’ collective action in trade liberalisation may assist in overcoming domestic obstacles to reform. More liberalisation may be achieved if it is known that other countries are liberalising simultaneously, which in turn will increase market access available in partner countries.

¹⁰ Concerning the second question, Segal (1997) enumerates, in economic sphere, several issues crucial to future growth of Asia and Europe, reinforcing educational efforts that contributes to the creation of knowledge-based industries, developing better management skills in an information age economy, coping with the challenges stemming from an age of globalisation, etc.

¹¹ “Such a partnership should be based on the common commitment to market economy, open multilateral system, non-discriminatory liberalisation and open regionalism.” (Paragraph 10 of the Chairman’s Statement of the first Bangkok ASEM)

It is *unilateral* in the sense that it provides freedom of action for participants to proceed in their own way, at their own pace, without reference to formal international treaties. Liberalisation on an *MFN basis* means that increased access to domestic markets benefits all trading partners, not only those in the region, but also in the rest of the world. Provided that all liberalization measures are carried out on an MFN basis, absolutely no pressure is made on WTO principles. Therefore, it is safe to say that keeping regionalism open is about keeping the world trading system open. It is for that reason that APEC and ASEM need to remain not only WTO consistent, but also WTO enhancing. (Higgott 1996)

In this regard, one of the most important strategies for ASEM is to maximize Asian and European relations with the US, and to ‘keep the Americas honestly committed to multilateralism.’ (Segal 1997) It will be fair to say that APEC is intended to keep the EU honestly committed to open regionalism. The APEC strategy works, and now ASEM will be helping to keep the US honestly committed to open multilateralism by helping to ensure that ASEM members do not seek ways to opt out of the global economy (Segal 1997, 1998a).

Segal’s third argument for the subsidiarity question for ASEM concerns Euro-Asia cooperation on aid to the rest of the world. Given the rapid accumulation of wealth in East Asia, it is noted that it would be appropriate time for Asia to play new roles in international aid and development. Europeans have a lot of experiences in this field. Therefore, there is much expertise to be shared around ASEM on how to make aid and development projects work better, both in Asia and in third countries in Africa or Latin America. (Segal 1997).

4. Current Status of ASEM Economic Dialogues

1) EMM

Economic Ministers, gathered in Berlin in October 1999, voicing their faith in Asia’s improving economic climate, patted themselves on their backs for having kept their markets open as they had promised in the aforementioned “ASEM Trade and Investment Pledge.”¹² Participants at the EMM pointed out that “following the phasing out of the financial and economic crisis in East Asia and the introduction of the

¹² Paragraph 4 and Paragraph 7 of the Chair Statement of 2nd ASEM Economic Ministers’ Meeting, Berlin, 9-10 October 1999.

Euro, the conditions were in place for a dynamic new chapter in the further development of economic and commercial relations between the two regions”.¹³

Regarding trade and investment, the decision taken at the EMM represents a step forward, albeit not ambitious enough. As for trade, the ministers decided to consolidate the TFAP, whereby the ASEM SOMTI was charged with elaborating upon, by the 3rd ASEM summit in Seoul in October 2000, a list of the most important non-tariff barriers encountered by their ASEM partners.¹⁴

Concerning investment, the mandate of the Investment Experts Group (IEG) has been extended for another two year period until EMM . The group has been entrusted with the task of identifying a list of positive measures for promoting investment based upon questionnaire responses from ASEM partners regarding what they judge to have been the most effective practices that they have utilized in order to attract FDI. These measures have been grouped into 9 categories.¹⁵ The ASEM partners will voluntarily report to SOMTI each year on the progress they have achieved with respect to these measures, as well as on other relevant activities they have undertaken to improve the investment climate in their countries.¹⁶ In addition, the Ministers launched the Virtual Information Exchange (VIE), an Internet device which should provide valuable data on business conditions.¹⁷

Nevertheless, proposals by the Asia Europe Vision Group for the free trade of goods and services among ASEM members, apparently the most ambitious ‘vision’ to date, have been abandoned. Instead, with the help of the report submitted by the Vision

¹³ *Ibid.*, paragraph 3 and paragraph 7.

¹⁴ *Ibid.*, paragraph 9.

¹⁵ The nine measures, annexed to the Co-Chairs’ Statement of the Third Investment Experts Group Meeting, 5-6 July 1999, Brussels, are as follows; Investment Promotion Agencies for both attracting and facilitating Consistent implementation of FDI-liberalizing measures Measures aimed at non-discriminatory treatment for FDI Opening of investment regimes and removal or reduction of burdensome requirements and obstacles Incentives Enhancement of the transparency and predictability of the investment climate International investment agreements at the bilateral, regional and multilateral levels Enhancement of the efficiency of national administration Accompanying improvements of the domestic economic environment and infrastructure.

¹⁶ Paragraph 11 of the Chair Statement of 2nd ASEM Economic Ministers’ Meeting, Berlin, 9-10 October 1999.

¹⁷ *Ibid.*, paragraph 11.

Group, four principle themes have been defined as follows: trade liberalization and investment promotion between Asia and Europe; strengthening the dialogue with the private sector, especially with the AEBF; cooperation in priority industrial sectors such as those involving new technologies; and a dialogue on socio-economic issues. The ASEM SOMTI group will further examine these four key themes so as to identify the main economic priorities for inclusion in an updated Asia-Europe Co-operation Framework.¹⁸

On the WTO issue, the participants managed to agree that the new WTO talks should conclude within three years with the principle of a single undertaking. However, the EU and Asian ministers failed to narrow their differences over what to include in the agenda. The differences between the two sides centered on anti-dumping policies and labor standards. Calling for a WTO discussion on anti-dumping, the Asian countries are concerned that the EU's anti-dumping rules are being used as a protectionist instrument. The EU, meanwhile, is proposing to raise trade and labor standards, but Asian members fear such a move could lead to protectionism to keep out their products. The Chairman stated that "support was expressed for the need to address some aspects of the existing anti-dumping agreement."¹⁹ On labor standards, it was said that "some ministers proposed the need for further analytical work in conjunction with the ILO." But "a number of ministers expressed real difficulties with the issues."²⁰

For the Asian ASEM members, inclusion of "anti-dumping" is certainly a step forward from the APEC held in September 1999, since this could never have happened if Washington was participating in the conference.

2) SOMTI

Following the EMM , SOMTI held in Seoul in May 2000 focused on the preparation of the economic areas to be discussed at ASEM as well as the achievements made in respect of the TFAP and IPAP. As for TFAP, e-commerce was added as an additional priority area to TFAP, and the list of the major trade barriers was reviewed as shown in Table 1.

¹⁸ *Ibid.*, paragraph 14.

¹⁹ Paragraph 20 of the Chair Statement of 2nd ASEM Economic Ministers' Meeting, Berlin, 9-10 October 1999.

²⁰ *Ibid.*

Table 1: Extract of ‘ Consolidated and Prioritised List of the Major Generic Trade Barriers Among ASEM Partners’

Priority Areas of TFAP	Major Generic Trade Barriers
Customs Procedures	<ul style="list-style-type: none"> - Lack of transparency - Complex and/or costly regulations - Problems with customs valuation and customs reclassification
Standards and Conformity Assessment	<ul style="list-style-type: none"> - Existence of double standards in regulations - Differences in national standards among ASEM partners - Lack of transparency in regulations
Public Procurement	<ul style="list-style-type: none"> - Bidding restrictions - Short notice of tenders - Requirements of technology transfer and counter trade
Quarantine and SPS Procedures	<ul style="list-style-type: none"> - Discrepancy between national and international standards and lack of harmonisation - Restrictive, non-transparent, costly and/or complex import licensing systems - Non-recognition of competent authority - Restrictive labeling rules
Intellectual Property Rights	<ul style="list-style-type: none"> - Widespread infringement of IPR - Insufficient or unequal enforcement of existing IPR legislation
Mobility of Business People	<ul style="list-style-type: none"> - Complex, time-consuming and rigid procedures for the issuance of visas - Lengthy and/ or restrictive work and residence permit procedures
Distribution	<ul style="list-style-type: none"> - Limitations on foreign ownership - Ambiguity and lack of transparency in legislation and its implementation - Restrictive licensing terms and requirements for foreign companies
Others	<ul style="list-style-type: none"> - General lack of transparency and legal certainty - Measures which may cause trade distortionary effects such as production support and export subsidies - Excessive requirement of documentation, long delays, and discrimination against foreign companies and products

ASEM partners are expected to report to SOMTI, once a year, on the measures each partner takes to address these barriers. Coordination will then be set in place to resolve these obstacles. These lists, however, are generic and do not designate any specific country, which, at a glance, does not seem to be ideal with regard to resolving specific problems. However, this should not be detrimental to the effectiveness of the system, as everyone will know which country is being referred to and, thus, arouse peer pressure.

With regard to IPAP, progress reports of the Most Effective Measures was reviewed. In addition, Korea proposed several new economic initiatives for ASEM which is summarized in the following Table.²¹

Table 2: Main Elements of New Economic Initiatives for ASEM

Initiatives proposed	Principle objective	Measures to be taken
Trans-Eurasia Information Network Project	Facilitate speedier exchanges of knowledge and information	Connect research networks in the region as well as future experts meetings
ASEM Framework for Economic and Technical Cooperation (Ecotech)	Make ASEM's work on Ecotech and trade and investment liberalization mutually reinforcing	Identify target areas such as SMEs, infotech, human resource development etc.
Initiative to Address Gaps in Development	Underscore and showcase ASEM as a benchmark in development cooperation by reducing the digital divide and the technology gap	Establish a separate ASEM Development Fund in cooperation with the World Bank
ASEM Roundtable on Globalization	Stimulate discussions and set policy priority among ASEM members in order to maximize the benefits of globalization	An ASEM partner to hold roundtable every year starting from 2001
Outreach Programs Aimed at Promoting Awareness of the Benefits of Liberalized Trade and Investment	Promote public awareness of the benefits of trade and investment liberalization	Report and publish the reports and research results setting out the benefits of liberalisation

²¹ Establishment of E-commerce Working Group was also proposed in Korean concept papers. However, as the e-commerce was added as an additional priority area to TFAP, this proposal is excluded.

Cooperation Center for SMEs	Establish the Center as the primary body to provide overall assistance to the work of promoting cooperation between SMEs	Identify priority projects, exchange of expertise
ASEM Trade and Investment Week (ATIW)	Organize a trade fair supplemented by business symposia and business counsels to enhance mutual understanding of inter-regional business practices	Hold ATIW biennially in alternating locations between Asia and Europe starting from 2002

5. Prospects for ASEM: Three scenarios

Building on the results of the previous session, one is now in a position to test those three ‘subsidiarity’ criteria, taking account of what has already been achieved by ASEM. Testing the first criterion is to question whether ASEM really provides a framework that allows market forces to operate. In this regard, the handful of joint projects agreed upon at EMM , including the aforementioned non-binding study of the TFAP, the voluntary report and review mechanism conducive to FDI and the launch of the Virtual Information Exchange (VIE), can certainly provide a useful vehicle for developing information networks. No doubt, these discussions can contribute to promote Euro-Asian inter-regional trade and investment one day. Nevertheless, at the moment these are just a series of ideas, and have yet to be transformed into real action. The outcome from EMM does not seem to be very significant in this regard. Consequently, the general consensus of public opinion, assessed right after EMM , was that the gathering in Berlin produced few results.

Testing the second criterion is the same as asking whether ASEM is really strengthening the multilateral trading system to the extent that it keeps the US honestly committed to open multilateralism. In this respect, ASEM has failed at EMM in reaching a consensus in support for the WTO New Round, not to mention that it does not yet act as a force to counter American unilateralism. Concerning the latter, there are several excellent explanations.

‘First, ties to the US have been so established or are on such a strong upward path that the ASEM participants would be unable or, unwilling to endanger them. Second, ASEM participants were and are too divided to take meaningful collective action to

further those potential threats in a policy-relevant future. Their different national priorities, policy convictions, and domestic pressures block substantial joint challenges to the US ...Third, threats of joint action by East Asia or by Europeans and Asians might pose had been recognized and absorbed into the thinking of the attentive elements of the American public and private sectors. ASEM failed the ‘additionality’ test’ (Bobrow 1999)

The Asia-Europe disagreements over the future course of world trade are further proof that the WTO New Round will be a very difficult one. It is also a potent indication of the hard road both Europe and Asia will have to travel before they can become real “partners”. To pave the way for this objective, ASEM will have to become more than a venue for verbal exchanges, spirited and animated as they may seem.

Testing Segal’s third argument for subsidiarity question for ASEM concerns Asia-Euro cooperation on development aid to the rest of the world. However, it seems to be premature to test this criterion considering that there has not been much discussion on this issue to date²² except the ‘Initiative to Address Gaps in Development’ which was proposed as a new initiative for ASEM . It appears, therefore, reasonable to conjecture how this issue can be taken seriously in the future.

There seem to be three broad and plausible scenarios when considering the future of ASEM viewed from the economic sphere.

1) Status quo scenario

Under this scenario, ASEM’s first and foremost *raison d’être* is to reinforce infrastructural assistance to facilitate information networks. The on-going progress report and review mechanism on TFAP and IPAP will enhance understanding of related inter-regional policy learning and will be sufficient enough to arouse peer pressure stemming from ASEM partners. Therefore, trade and investment flow between the two regions will be enhanced. ASEM may be able to act as a catalyst for open multilateral trading system. However, under this scenario, its contribution to open multilateralism appears to be restrictive, except a few diplomatic rhetoric. It is questionable whether

²² In fact, at ASEM II in London, Leaders supported International Development Cooperation Targets including those agreed in various UN conferences, in particular the target to reduce by a half the proportion of people living in extreme poverty by the year 2015, as the basis for a collaborative international effort to eliminate poverty and to improve the living conditions of poor people.

ASEM will truly be meaningful in the sense that it helps to keep the US committed to global multilateralism. It can be a watchdog for multilateral openness but would hardly bark.

This scenario can be referred to as a *status quo* scenario. In this case, it seems that ASEM's main areas for a common agenda in the economic sphere merely follow-up measures of on-going issues. ASEM would still remain an inter-regional consultative forum keeping its informal character. One practical way to facilitate inter-regional information exchange would be to launch an Trans-Eurasia Information Network Project and ASEM Trade and Investment Week (ATIW) both of which are proposed as new economic initiative for ASEM .

2) APEC type evolution scenario

The fate of longer-term efforts to realise ASEM's potential may be decided by its ability to evolve beyond a purely consultative framework. Unlike APEC, which is primarily a trade forum, ASEM has no agenda to achieve a common market, as the EU and ASEAN that already have their own exclusive trading agreements. Therefore, a more forward-looking strategy for ASEM would be aimed at achieving a goal matching the trade liberalization measures and a non-binding regional investment initiative such as agreed upon in APEC²³

In both cases, the differing development stages of the ASEM members should be taken into account in order to establish an appropriate time-frame, as is often the case in open regionalism. This option can be called the 'APEC type evolution scenario.' In fact, as for trade and investment, the EU has long been concerned about lagging behind in FDI in Asia, when compared to the US and Japan, whereas Asia is more interested in trade liberalization. Concerning trade liberalisation, shortly before the Bangkok summit, the Asians called for a dismantling of tariffs in the trade between Europe and Asia in a process analogous to the APEC deadlines for trade liberalisation, 2010 and 2020. (Chirathivat and Keefer 1998)

The EU, concerned about exclusion from APEC, fears the world to be split into two large trading blocks where APEC would set the pace. These fears were nurtured by the US call for discrimination against the EU if the Europeans did not follow APEC

²³ At their 1994 meetings in Bogor, the APEC Leaders set a goal of achieving free and open trade and investment in the region by 2010 for industrialized economies and 2020 for developing ones.

liberalization but instead enjoyed the benefits of being free riders. (Hänggi 1999) Under this scenario, the ASEM process will develop in tandem with that of APEC, thus, avoiding the European free-rider problem. As all of the East Asian ASEM members are also APEC members, it would not be difficult for them to commit to APEC-like liberalisation measures based on a MFN basis in ASEM. In any case, it would help to alleviate Asian concerns over a 'fortress Europe' mentality.

Indeed, the East Asian, heavily dependent on the markets of the EU and the US, are interested in keeping them committed to strengthen an open multilateral trade framework. Under this scenario, it not only brightens ASEM navigation but also provides a decisive momentum to multilateral liberalisation. In recent years there has been a dynamic interaction towards trade liberalization between regional and multilateral initiatives.²⁴ There is a constant need to ensure that regionalism reinforces multilateral trade liberalization on a supportive course. Likewise, both ASEM and APEC are expected to be positive forces contributing to continued multilateral openness. As the momentum towards such liberalization under APEC has been side-tracked by the failure of its Early Voluntary Sectoral Liberalization (EVSL), this has heightened the importance of ASEM's ability to play a substantive role in supporting further liberalization of the multilateral trading system.

One can argue that this scenario seems much too ambitious to be achieved in the current development stage of ASEM. If, however, one merely remembers that it took only 6 years for APEC to set such a goal, it does not seem to be too early to articulate these ideas in ASEM. The problem lies in ASEM's low level of follow-up action on identified trade and investment problems. While APEC holds four high-level problem-solving sessions each year, ASEM holds only two on average. This needs to be changed if ASEM really wants to step forward toward a meaningful objective, beyond its current stage of merely being a consultative forum.

3) *Hybrid scenario*

ASEM can evolve in its own pace with its own figure. ASEM can not be a forum where targets for the establishment of free trade between Asia and Europe would

²⁴ For example, the Bogor and Osaka summits committed APEC to a leadership role in the WTO system by agreeing to accelerate the implementation of Uruguay Round liberalization and to pursue its regional initiatives in a manner that conforms to and reinforces WTO disciplines. (Schott, 1996, p. 305)

be set. Keeping its informal character, ASEM can be served as useful vehicle for both facilitating information networks and strengthening open multilateral trading system. This scenario can be referred to as a ‘Hybrid scenario’. Under this scenario, it differs from the APEC type evolution scenario in that setting target year for trade liberalisation and establishing regional investment initiative are excluded. This scenario could partly result from the sceptics on APEC, who criticise its performance in trade liberalization and promoting investment.

Individual Action Plans (IAPs), the major vehicle for trade liberalization in APEC, are being criticized for not including anything new beyond UR commitment in many cases. Therefore, it is true that the role of IAP is under suspicion at the moment. APEC Non-Binding Investment Principles only call for the member’s best efforts and thus nothing more than discretionary application. There is no evidence that investment in developing APEC economies has increased following the announcement of the Principles.

This scenario differs from the ‘Status quo scenario’ in that the scope of cooperation will be extended to the extent that ASEM includes new activities that can be helpful for its own sake. Several new initiatives for ASEM , such as cooperation on development aid and Economic and Technical Cooperation, could be included as their values may appear to be more inspirational and motivational for the ASEM process than APEC-like *de jure* trade liberalisation measures and regional investment initiative.

If ASEM succeeds in adding an economic and technical cooperation dimension to ASEM’s agenda, it could make ASEM’s work on economic and technical cooperation and its work in relation to trade and investment liberalisation mutually reinforcing. In this case, ASEM’s ability to further strengthen multilateral trading system can be enhanced, although its ability will remain less than that of the ‘APEC type evolution scenario’. If ASEM succeeds in making development and aid projects, it could underline ASEM as a benchmark in development cooperation, which will send a resounding message to other regional fora.

The table below summarizes the extent to which the three different scenarios contribute to the subsidiarity question for ASEM.

Table 3: Conjectural assessment of the scenarios on three subsidiarity criteria

	Assistance to information networks	Reinforcement of multilateral openness	Cooperation for development aid
Status quo scenario	Modest	Weak	Weak
Hybrid scenario	Modest	Modest	Modest
APEC type evolution scenario	Strong	Strong	Weak

Which one will be the more plausible scenario at ASEM ? Taking into account the new initiatives for ASEM , including a non-binding study of the TFAP and a voluntary report and review mechanism conducive to FDI, a more plausible scenario may well be somewhere in between the ‘Status quo scenario’ and ‘Hybrid scenario’. However, in the longer term, the future of ASEM navigation can be somewhere in between the ‘Hybrid scenario’ and ‘APEC type evolution scenario’.

While the Europeans, with a result-oriented negotiation style, pursue a deductive approach which rests on voluminous treaties precisely prescribing what cooperation should be achieved and how the stated objectives are to be attained, the Asian concept is more inductive as it settles for incremental cooperation without a detailed road map for implementation.(Rüland 1999) Taking these conceptual differences of the two parts as a matter of course, it is not likely that they will easily be able to reach a consensus. The difficulty seems to arise also from the heterogeneity of the member countries, especially in the level of development and consequent differences in interest. It needs to be noted that only the ASEM members’ keen perception of self-interest motivates and inspires them to take further steps and to continue the process.

6. Concluding Remarks

Throughout this paper, prospects for ASEM was discussed by testing the ‘subsidiarity question.’ Several features deserve review. First of all, as we can see from the level, or even lack, of progress achieved by ASEM, it becomes quite clear that the

requirements dictated by the subsidiarity question have not yet been met. Obviously, ASEM will have to step beyond its current status of being nothing more than a forum, limited to verbal exchange, if it wishes to prove itself in this new and challenging millennium. Secondly, the 'APEC type evolution scenario,' which would strategically pull ASEM in a more forward-looking direction and would focus on achieving the APEC-like objective of matching trade liberalization measures with non-binding regional investment initiatives. This scenario greatly contributes to the trade liberalization process due not only to its inherent multilateral momentum but also because it clarifies and focuses future ASEM navigation. Thirdly, 'Status quo scenario' provides for a program whereby the development of inter-regional information networks becomes the primary goal. In effect, this would leave most of the economic agenda to the market forces and preserve ASEM's role as a forum for dialogue and interaction. With this scenario as a point of reference, ASEM's ability to further the strengthening multilateral trading system can truly be brought into question. Fourthly, taking into account the new initiatives for ASEM, including a non-binding study of the TFAP and a voluntary report and review mechanism conducive to FDI, a more plausible scenario may well be found somewhere in between the 'Status quo scenario' and 'Hybrid scenario'. Lastly, what is certain is that out of the current crisis comes a new opportunity and now, the time has come to build a much stronger, more varied and longer-lasting Asia-Europe relationship. Following the recovery from financial turmoil in East Asia and the successful launch of the Euro, the conditions are improving and the stage is being set allowing ASEM to take a quantum leap forward in the new millennium. For more than just symbolic reasons, the year 2000 provides an excellent occasion for building a more grandiose vision of ASEM which can serve as the foundation for a solid international economic order for the twenty-first century.

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COMMENTS

(On “ASEM and Trade Issues”
Presented by Prof. Jean-Pierre Lehmann)

Suthiphand CHIRATHIVAT
Dean of Faculty of Economics
Chulalongkorn University

I am not puzzled by his class nor similar surveys in London and Bangkok, where not many people know ASEM. Observing from ASEM I to ASEM III, we need to address the changes that have taken place in the new international environment we are in now. The trade issues must be considered in a broad context of the globalised world. I have no real disagreement with Prof. Lehmann's presentation, but I will add some views from the Asian perspective.

Asia and Europe were connected formerly to produce the last leg of the triangle. What is the most important issue, in particular, concerning trade between Asia and Europe? I recommend that priorities need to be identified for attention and action by leaders.

In global setting of the presentation, the context of the regional relationship must be underlined. Firstly, it is important to look at each other in the ASEM process and not to forget the relationship since the end of the cold war between Asia and Europe which has become more dynamic than over with huge potentials for development. On the eve of the 21st Century, when searching for the agenda relating to both continents, it is important to note how East Asia has become a major strategic, economic and political partner. The case of China was given as an example by Prof. Lehmann, but it can be extended to the whole of the East Asian region which is calmer and more integrated.

Also, the scale/size dimension has been raised. The sheer size of population and the need for further progress induce Asia to look outward to EC directly. Further contact is to be extended with Europe, forward and far beyond the actual integration process and will remain a major global affair in the new century.

Secondly, trade interests and opportunities are increasing in trade and investment aspects. It has been growing strongly for almost 2 decades and continues to perform even with the economic and financial crisis. The two-way trade has been helpful in trade liberalisation and Asia is catching up on export with Europe, which is a high-income market.

Other areas of interest are environmental standards; banking and finance; retail and wholesales; Merger & Acquisition; as well as manufacturing infrastructure. It may also be possible for European SMEs to be organised to be present in emerging economies of Asia. Reciprocally, fast emerging Asian economies will remain an important export market for European products.

Main issues that need to be addressed as a set of proposals for ASEM are as follows. Firstly, multilateral framework, WTO, needs to be made to function again after the breakdown in Seattle. New proposals are made but the US and other developed countries must not impose these views on the Less Developed Countries (LDC). Prof. Lehmann's view forecasts a pessimistic outlook of post-Seattle, also concerning the role of civil society. But, a proposal for a complete agricultural liberalisation is a big challenge, which is a highly contentious area as seen in the Uruguay Rounds. It is questionable how agricultural issues could be addressed as it is very sensitive, for example rice for Japan and Korea.

Furthermore, there is a difficulty for EU and US to include labour and environmental standards in the trade agenda. These have clearly caused a disturbance among LDC who see them as a hidden protectionism. Asia and Europe must be more constructive on agenda, focussing on trade and investment issues in the new WTO Round.

Secondly, if Asia and Europe are to be useful and constructive, problems of emerging Asian markets must be addressed. Some financial issues such as the creation of trust fund has been addressed, but Asia still remains fragile from the recovery. Trade is one of the few encouraging signs that need to be kept alive in the region.

Slower growth in the world in 2001-2 and possibly beyond, especially that of US, could slow down the export. Indeed, Prof. Lehmann presented a clouded picture of Japan and therefore, Asia needs Europe for the market of the products where export can

be used as one of the indicators of recovery. Export is needed to supply about 4-5% of economic growth, which in turn can serve its debt at the same time for companies contracting with non-performing loans and production. ASEM process of co-operation such as Working Group on Trade should make proposals to Asia Europe Business Forum and ASEM should precise the need for these kinds of initiatives.

Thirdly, North East Asia, especially Japan, Korea, Taiwan and China, is moving fast and do not want to be left behind in globalisation. They are more open and integrated as much in the region as in the world as the case of China's preparation for accession to WTO has shown.

Lastly, there is a rising concern on trade and sustainable development. Globalisation is teaching us valuable lessons in the pre- and post-crisis but one must not follow blindly. Rather, one has to evaluate and adapt to globalisation as appropriate. As an example, not all group of civil society can adapt quickly to the phase of globalisation.

Opening a few more doors, other topics to take into consideration are the new currency, Euro, and its impact on Asian and European trade, which still is not yet known fully; trade and investment within the region which are important agenda for the ASEM III in Seoul.

COMMENTS

(On “Testing ‘Subsidiarity Questions’ for ASEM
Presented By Dr. Chong-wha LEE)

Willem Van Der GEEST
Director

European Institute for Asian Studies

My first point is that Dr. Lee is a very courageous man by taking a title of this sort combining three concepts which people have different connotations and interpretations: “Testing.” “Subsidiarity” and “ASEM”. So I would like to comment on his courage to put these together but obviously this will lead to some trouble unless he changes the title. However, this is an extremely good paper and, I will comment on some of the very strong points of the paper which he did not fully elaborate.

My second starting point, like Dr. Lehmann, is to try to think how to save ASEM from the status quo scenario and to invigorate it. Now one thing we need to think about in that process, in that context, is what kind of global scenario we really have in front of us. The scenario which I would go for is the scenario for much greater instability and volatility in the economies as we have seen, up to 1997. To put it very bluntly, we need to think in terms of the probability that there will be another crisis in the region. And the role for ASEM would be to try to prevent or to deal with such crisis. So we must perhaps move away from a very naïve V-shaped, growth curve scenario. 50 years of industrial growth certainly has a blip and may go down to the V and up again. Although it is a very oversimplified picture, it’s not impossible and it’s not necessarily the only scenario to think about. We should look out for Ws and other crises that are perhaps smaller or different and also in terms of zigzag future growth path, especially in the Asian region. If that is the context of your thinking, there would be a much clearer focus for ASEM to try to do something about it. This is a wake up call for myself perhaps to defend this point of view. But, I think that it is one of the useful ways to think about ASEM III and initiatives within ASEM III towards ASEM IV and an active role for ASEM.

Concerning Dr. Lee’s paper, I am not going over the ‘Retrospective of ASEM’, as we all know and understand it well. Essentially the second part of his title ‘subsidiarity’ works with the framework or the list of questions of the late Gerald Segal.

I think that's very interesting to do, but there is one central problem which is that Gerald developed his agenda in the period of 1996~97, where myself and others were present, when he gave his presentation at the Wilton Park Conference. I think today we should define his questions or agenda as somewhat too narrow. In particular, he did not anticipate in any sense the occurrence of a very significant financial crisis. He did not take that into account which we can now. With the benefit of knowing the past, we can now improve on that question. A pre-crisis agenda may be different from a post-crisis agenda, and in particular, I would add this question of responding to financial instability and financial crisis.

The fourth part of Dr. Lee's paper deals with the current status of the economic dialogue. This is a very good and useful part of the paper, which he went over very quickly in his presentation. There are two excellent tables in that part. I'll just say a few things about them. The first table: 'Consolidated and Prioritised List of Major Generic Trade Barriers Among ASEM Partners' is entirely about Non-Tariff Barriers(NTBs) and I think it is fair to say that NTBs are much more difficult to address at a purely multilateral WTO type level than tariff barriers.

The tariff liberalization is on-going. There is no real justification for ASEM trying to do the same once more because it will only be duplication and not necessarily be addition. But in the areas of NTBs, the list here is very useful like visa applications for people to come from Asia to Europe or simplifying complex customs regulations. These are genuinely important barriers and it might be easier to reach agreements in an inter-regional context at a lower level of participants around the table. It might move ahead, and then if WTO members also want it, they can bring that into the next round at an appropriate time to address them. There is a scope for subsidiarity to use the term. I am not saying that it is necessarily best done in ASEM but I am saying that there is at least a scope for making more progress in ASEM context than waiting for the full MFN WTO level. So I think that table is very useful and that is one area where subsidiarity is to be gained.

Another extremely useful part of Dr. Lee's paper refers to the proposal Korea has for the next ASEM III meeting here in Seoul. There are 7 proposals in the paper and we should perhaps think about them in this meeting and try to prioritise the most important ones. Maybe by making A and B categories or the key ones and other ones. In my view, in that list of 7, some have already been taken care of in other forums, for example 'Outreach Programs Aimed at Promoting Awareness of the Benefits of Liberalized Trade and Investment'. I think it's not so useful and maybe it's a B category.

One is extremely important and in view of the current discussions and in view of my point about the probability, I can't give you a figure, but the possibility of other crises in the region is about, for example 'ASEM Roundtable on Globalization' seems to be a very good umbrella to bring in the discussions on financial stability. The proposals on financial stability forums are generated at the moment in Basle in the context of a forum which is essentially supported by the BIS. It links up to the discussion about regional monetary cooperation agreement and systems as mentioned by Prof. Richard Higgott. It can bring in discussions about highly leveraged institutions or hedge funds that may create instability in financial traffic etc. So that could well be fitted in very conveniently in ASEM Roundtable on Globalisation.

Taking the last point of Professor Lehmann that nobody seems to know what ASEM stands for, we should sell it as a crisis prevention mechanism and perhaps also as a warning mechanism. This point is fairly consistent with the recommendations of the ASEM Vision Group on financial stability. They also talked about more supervision, more surveillance, more information sharing and etc. and that's the kind of way forward. On that table, main elements for new economic initiatives for ASEM, we need to concentrate on one, two or three. One I would pick out and certainly recommend and appreciate is a Roundtable on globalisation.

Then, we have 3 scenarios here and Dr. Lee in his most sensitive spot as he tests against the future. I agree with him that the status quo is relatively weak which we need to enhance, bringing in new things as already mentioned by Professor Lehmann. But, we need to think more clearly in that section, not only about the desirability and feasibility of the scenarios but also about probability and, in particular, the need to introduce elements of key uncertainties. There are major and key uncertainties facing the region at this point in time. There is the question of what is described as a Japanese Cancer where the Japanese economy acts as a locomotive economy in the region. Slow growth or negative growth on certain parameters will lead to a sharp fall in the demand across the region that might lead to reduced investment into China, etc. This is one trouble spot that has potential implications of instability. Another point I would like to mention is the fact that Chinese Economy, although it is still doing very well, is not free from problems. In particular, not external but internal shocks may generate from the fact that their State banking sector has a very bad underlining performance record. There are big debts, and unwinding these debts may indeed mean a number of years of low growth in the Chinese economy. It would certainly have a major impact across the region if it is to work out in the form of devaluation although it will have a competitive impact on Indonesia, Thailand or Vietnam. But if it were to work out in terms of slow

growth, it would also have an impact on internal social stability. So there is a very optimistic outlook but there are clouds in the horizon as well, and addressing these under the ASEM umbrella might be the way forward.

RESPONSES

Jean-Pierre LEHMANN

Many comments have been made about Seattle where NGOs are as much symbols as substances. It illustrates unease and backlash, which we will see more of in the future. There have been very well orchestrated campaigns against globalisation. Some institutions have very good intentions and ideas while others have their *raison-d'être*. What is important is to listen to their arguments and to be aware of such orchestrations.

I would like to make 4 points to engage in the debate. Firstly, one has to separate facts from fiction. One can never do so totally. But certain debates are possible such as discussing what trade liberalisation is as opposed to technological change. Also it is important to note that such debates have to be engaged at a level which is comprehensible and not merely use jargons.

Secondly, one has to address and concentrate on real issues.

The third issue is to mobilise key players. For example, in the corporate sector, the obsession with shareholder value is having a negative impact at least on its image. There has to be a balance in terms of confidence. It is extraordinary to see, over the course of last decade, how the image of multinationals (MNCs) has degenerated. MNCs are among the key players who have not sufficiently been engaged in discussions as they have been too preoccupied with shareholder value. Education and outreach must play a more significant role in this process of globalisation. The globalisation must not be seen only as an economic process but also as a political process. It is not only about economic well-being, which is unevenly distributed, but it is also about freedom. Freedom for consumers or the impact of the technological change.

Concerning China's entry into the WTO, there is no question about the entry itself. But, there is a great deal of both excitement and concern at the same time as the impact is uncertain. This issue needs to be seen from a pragmatic point of view and one has to realise that confidence building is essential. Also, one has to be conscious that the Chinese economy is not in a particularly healthy condition to face the impact of competition. There are divisions of opinion, even in China.

ASEM as an informal process, one has to ask a question: what value does it bring as a reason for engaging in energy and effort, intellectual or otherwise? In this context, there is no problem. Rather, there is a great advantage where there are all the more reason to engage in discussions in various issues and to create other informal institutions. As an example, one has to ask what ASEM can do about the WTO. Indeed, there is no ASEM-type consultative body in Geneva. Although the origins of ASEM is often skipped by many, one has to come back to the origins of ASEM which brings together 2 critical players of the global economy, representing about 13 and 25% of the global GDP. During the Uruguay Rounds, there was no communication between the two, which is the reason why the Evian group was created. Indeed, this provides an absolute justification for ASEM to exist. Discussion on trade and investment and finance related matters, between the two should evolve to tackle concrete issues. A new consultative, ASEM-type body could be established, meeting about once a month and made to be implementable. Another possibility is to give mandate for ASEM to evaluate certain issues. As an example, the Japanese economy is not doing too well while currently the Japanese government is preoccupied with other issues related to survival from aging agricultural constituencies. Therefore, an 'economic revival committee' could be convened to analyse the problem in Japan. This is possible because of its very informal and not negotiating nature. Another option is to give such a mandate to ASEF.

Most people are shocked and afraid to open discussion about agricultural issue. But, it must be discussed and one has to be aware that it is possible only because of the informal nature of ASEM. One has to talk about it! Open discussion must be made while taking into account 2 concerns: relationship between developed and developing economies; and the harm caused by agricultural protectionism not just to developed economies, but also to agricultural sector of the developed economies.

RESPONSES

Chong Wha LEE

Let me categorise 3 arguments.

The first concerns 2025 trade liberalisation. There has been a dynamic interaction between regional and multilateral initiatives to promote trade liberalisation. For example, APEC Bogor declaration, 1996, had a positive influence at concluding Uruguay Rounds, while there have also been sectoral liberalisation initiatives such as in the financial sector. What is important is that liberalisation momentum must be kept alive. Indeed, following the failure of early voluntary sectoral liberalisation of APEC and break down from Seattle, there has been a stronger demand for liberalisation measures. ASEM should take a leadership role in liberalisation measures.

The second issue concerns a comparison between ASEM and APEC, especially when APEC does not seem to have much progressed since 1998. It is important to note that neither APEC nor ASEM are formal, regional trade agreements. Comparison is made only to help think of the future of ASEM, which necessitates either to think of it from a scratch or to use bench marking from APEC.

The third issue concerns optimal allocation of topics on the ASEM. Ideal inter-regional forum, benchmarked from APEC, can follow 3 tracks: trade and investment liberalisation; trade and investment facilitation; and economic and technical co-operation. It is, at the present stage, difficult for ASEM to adapt to such tracks. However, recent developments of Trade Facilitation Action Plan (TFAP) and Investment Promotion Action Plan (IPAP) are sufficient enough to raise peer pressure and are regarded as a good bottom line.

Finally, I would argue that ASEM needs to be consolidated more if it is to survive as a meaningful inter-regional forum in the new millenium. For the time being, it seems to be a mere talk shop. It is crucial for ASEM to be more consolidated in terms of its goals and agenda.

SESSION III –

ASEM AND POLITICAL DIALOGUE

ASEM POLITICAL DIALOGUE - NOW AND IN THE FUTURE

Sukhumbhand PARIBATRA

Deputy Minister of Foreign Affairs

It is an honour and a pleasure to be invited by the Korea Institute for International Economic Policy (KIEP) and the Asia-Europe Foundation (ASEF) to be a lead speaker on the issue of political dialogue between Asia and Europe at this conference.

In keeping with the spirit of this meeting, ideally, I would prefer to speak in my personal capacity rather than as Deputy Minister of Foreign Affairs of the Kingdom of Thailand. But life is not always about what is ideal. The reality is that the dividing line between the two is often less than clear. So I will leave it to your good judgement to determine how my remarks are to be interpreted.

I would like to congratulate the organizers for their wisdom and energy in convening this distinguished gathering. For the timing, venue and subjects for discussion could not be more appropriate. We are but a mere three months from the Third Asia-Europe Meeting (ASEM 3) to be held here in Seoul, at the heart of a region which still bears the wounds and scars of the twentieth century's Cold War, but which now, at the dawning of the new century, holds forth strong prospects for permanent healing and renewed hopes for lasting reconciliation and peace. To all those individuals involved in promoting peaceful reunification on the Korean Peninsula, and to countless millions both south and north of the 38th parallel who stand to benefit from this historic process, I wish all of you the very best.

Jean Jacques Rousseau once said that "all problems can find their solution on the plane of politics."

Oh! If only the eminent philosopher was always right.

In 1996, when twenty-six Asian and European Leaders launched the ASEM process in Thailand, there were intended to be three dimension of interactions. One was economic cooperation; the second was cooperation in other areas such as culture; and the third was political dialogue. In the four years since then, most uncertainty seems to

be revolving around the political, rather than the economic or social, dimensions of these interactions. Nor should this be surprising. For by nature politics—with due respect to M. Rousseau—can generate problems as well as solutions, and in the case of ASEM, it has never been made clear what ASEM political dialogue would encompass.

It would be useful at this juncture to recall why ASEM was created and review the unique characteristics of the ASEM process within which political dialogue between the two regions has evolved.

ASEM was established to promote enhanced linkages at the region-to-region level following centuries of formal and informal contacts between Asia and Europe. ASEM was created as, and still remains, an informal gathering of Asian and European countries. It is thus a consultative forum, not a decision-making body. Furthermore, ASEM operates on the principle of consensus, practises pragmatism, and avoids institutionalism. These characteristics have important implications for the nature of political dialogue within ASEM as well as people's expectations of this dialogue.

Political dialogue was recognised from the very beginning as one of the primary means to promote such linkages between Asia and Europe, and begin the process of “re-discovery” between the two regions. In view of the past history of relations between many Asian and European countries, and the great diversity between and within the two regions, political dialogue was seen as one of the most direct ways to build greater trust and mutual understanding between Asians and Europeans. It was also perceived as the foundation stone for the other two dimensions of ASEM cooperation, namely, economic cooperation and cooperation in other areas. For without political will and mutual trust, it would be difficult to promote full-fledged economic interaction or enduring cultural and people-to-people ties.

But because of the novelty of the ASEM concept then, the fledging political dialogue cannot but be taken in small steps. After all, in many cases, there were countries of misunderstanding and residual distrust to overcome. The informality of ASEM was beneficial, for it allowed the political dialogue to take place and develop in an informal manner. The fact that ASEM was not a decision-making institution meant that political dialogue within ASEM context had to take the form of an exchange of views and a sharing of experiences, not a joint attempt to find common solutions to political and security problems.

In sum, the minimalist approach was adopted with regard to political

dialogue—and for very good reasons at that time. Great care was taken in the early stages of the ASEM process to ensure that the issues selected for discussion would be conducive to bringing the two regions closer together rather than driving them apart. In other words, there were strong attempts to focus on issues of common concern and common interest of all twenty-six Asian and Europe Partners.

Political discussions in the first few years of the ASEM process reflected this common understanding. At the First ASEM Foreign Ministers' Meeting in Singapore, ASEM Partners focused on defining the principles of political dialogue within ASEM, setting up the “rules of the game” so to speak. In subsequent meetings of ASEM officials, Foreign Ministers and Leaders between 1996 to 1998, political dialogue focused on regional and global issues for which there were common concerns and mutual interests in seeking different views and perspectives. The issues covered included important regional developments (the Korean Peninsula, KEDO, Cambodia, EU enlargement, the EURO, Bosnia-Herzegovina/Kosovo, ASEAN expansion, and developments in Russia); developments in other regions such as the situation in Iraq; and important global issues, such as anti-personnel landmines (APL) and the environment.

It is interesting to note that during these years, political dialogue within ASEM was very constructive and generated much interest in the ASEM process from its Partners. Discussions were free-flowing and fresh perspectives on many issues were presented and well received. There was a growing sense amongst the participants that the ASEM was a forum where representatives at all levels from Asian and European countries could express freely their concerns and opinions on important regional and global issues to which a region or a country attached particular importance.

Thus, Asian countries were able to use this forum to express their concerns regarding developments in the Balkans, while European countries were able to raise their concerns regarding the situation in Myanmar to Asian countries. The comfort level became quite comfortable indeed, probably reaching its peak during the ASEM Senior Officials' Meeting in Bangkok in October 1998, when ASEM Partners spontaneously engaged in four and a half hours of political discussions—something that senior officials would seldom do in any meeting.

It was therefore unfortunate that after such a positive start, political dialogue then took a downward turn. Beginning with the 2nd ASEM Foreign Ministers' Meeting in Berlin in March 1999, discussions on political issues began to adopt a more

confrontational tone. There was increasing disagreement over the suitable topics for discussion. Doubts were raised over Partners' commitment to ASEM political dialogue. And there was growing suspicion of Partners' motives behind discussions on political issues. Political dialogue became one of the focal points of frictions and differences amongst Asian and European countries at ASEM meetings. If this cycle of differences, distrust, and discontent is not arrested, there could be important long-term consequences for political dialogue within ASEM.

What went wrong?

I believe that one of the causes for the tension in political dialogue is the divergent views of ASEM Partners as to what issues or themes should or should not be discussed within ASEM, and more fundamentally, whether or not issues can be excluded *a priori* from the dialogue. As the ASEM dialogue broadened to include more and more issues, there was a move by some countries to initiate dialogue on issues of a more sensitive nature which for some countries include human rights and good governance. Those countries that wish to expand the scope of the dialogue claim that a dialogue is meaningful only if difficult and sensitive issues can be raised, and that this approach is in keeping with a liberal interpretation of the ASEM "rules of the game."

This perhaps inevitably caused concerns among others that such discussions could lead to debates on matters which are viewed as being within the domestic jurisdiction of a state. Fears arose that if the topics for political dialogue were not carefully circumscribed, a Pandora's Box would be opened and that all possible issues would be subject to discussion, leaving the way open for intervention in domestic affairs.

Such concerns, if not addressed, can create uncertainty which would not serve the cause of ASEM. They perhaps constitute the biggest challenge to ASEM 3. Failure to generate a constructive and fruitful political dialogue would set back the ASEM process many years, by resurrecting walls of distrust and misunderstanding. On the other hand, the rewards for successful political dialogue are potentially very high, for such success may have a "multiplier effect," encouraging a vibrant, vigorous partnership between the two regions, which in turn can serve as a foundation for shared progress and prosperity for many years to come.

What should be done?

I am a person with a positive outlook on life and, as a rule, do not like to frame

my thoughts in a non-positive manner. But rules are there to be broken. I believe that the best approach for ASEM to take with regards to political dialogue is a “triple-non” one, that is one which is non-exclusivistic, non-country specific and non-confrontational.

Let me explain.

First of all, I am of the opinion that, as a matter of principle, no issue should be excluded *a priori* from political dialogue. ASEM was founded to promote greater understanding between Asian and European countries. Such understanding cannot be fully attained until and unless there is a free exchange of views on issues, to which ASEM leaders and their representatives attach importance.

Some of these issues may be of great global importance, such as the environment, human rights, good governance and the rule of law. Others may be of great regional relevance, such as transnational crimes, drugs, diseases, irregular migration, and trade in women and children. There should be opportunities for the two regions to express and to exchange opinions candidly and openly within the ASEM framework.

There should also be opportunities for Asia and Europe to address certain specific issues which traditionally are perceived as being within the domestic jurisdiction of a state.

All of us know that we are living in a world of rapid and far-reaching changes.

All of us know that we are living in a world of rapidly expanding interdependence and rapidly shrinking physical separation.

All of us know that we are living in a world where developments in one corner of the globe can affect directly and deeply those in another corner.

In such a world, the dividing line between purely domestic issues, on the one hand, and domestic issues which have transnational, regional or international consequences, on the other, is becoming increasingly difficult to discern.

Non-intervention is a cardinal principal of the conduct of relations among states. So is sovereignty. Thailand's record in diplomacy reflects our commitment to these principles. But we also believe that the days of blind adherence to them are over,

that because the world is changing we need to change and bring about more flexibility to their application in real life.

We believe that, on certain issues which are, or are perceived to be, primarily domestic in nature, there should be room for discussion and debate, with a view towards closer consultation and cooperation, if these issues have trans-national, regional or international consequences detrimental to the security and well-being of neighbours and friends.

This is the reason and logic behind the principle of “enhanced interactions.” which Thailand had a role in initiating within the ASEAN framework. We believe that engaging in dialogue in such issues should not be seen as an infringement or violation of national sovereignty. On the contrary, in these issues dialogue can serve to promote greater international understanding and collaboration.

I believe that there should be this type of dialogue within the ASEM framework. This is why I believe that ASEM’s approach should be non-exclusivistic.

But I also believe that discretion is the better part of valour. Because the objective of political dialogue within the ASEM process is to promote greater trust and mutual understanding between Asians and Europeans, there can not be unbridled non-exclusivism.

ASEM’s approach should also be what I term non-country specific. This means that discussions should focus on issues, rather than specific countries.

Unbridled non-exclusivism can only lead to ASEM’s being used as a forum for addressing bilateral problems or for only articulating individual member-governments’ responses to the concerns, demands, and aspirations of their respective domestic constituencies.

This can only bring disaster for the ASEM process.

To avoid this disaster, political dialogue should focus upon problems of transnational, regional or international significance, rather than upon the roles, policies or predispositions of the individual countries, which conceivably may have given rise to these problems. Non-country specificity may provide opportunities for raising issues in a way that does not provoke strong countervailing responses from individual member-

countries and hence also opportunities for bringing about the kind of bilateral, regional, or international understanding that can help effectively address these problems.

Moreover, the principle of non-exclusivism should not be interpreted as a license to be confrontational.

On the contrary, member-countries should not forget the ultimate objective of the ASEM political dialogue, that is the promotion of greater trust and mutual understanding. Nor should they forget that ASEM is ultimately a forum of diplomacy, where the parameters of appropriateness have long been established.

This means that, while there should be opportunities for raising a wide range of different issues within the context of the ASEM process, these issues should be discussed in a constructive, non-confrontational manner, with a view towards creating the kind of exchanges and understanding which ultimately may help to manage, reduce or resolve problems arising therefrom.

It is for these reasons that I advocate the “triple-non” approach, that is an approach which is non-exclusivistic, yet at the same time non-country specific and non-confrontational, so that the overall objective of building trust and mutual understanding can be resolved.

It will not be easy to take up this approach and make it work. It will require a certain amount of trust and understanding among Partners to begin with. It will require enormous political will, patience and diplomatic skills throughout the process of dialogue.

In order to help create conditions for successful political dialogue, I believe that ASEM 3 should consider the organisation of “Track Two” activities on various political issues, especially those which are considered sensitive by many Partners. Informal seminars, workshops and group discussions involving academia and NGOs, as well as government officials in their private capacities, should be extremely useful in soliciting a wide range of ideas and information and in bringing about the kind of psychological environment conducive to political dialogue at the “Track One” level. One possible issue for discussion in “Track Two” activities is human rights. Another is the concept of good governance. The third is globalisation and its implications for countries and communities with different levels of social and economic development.

“Track Two” proved an enormous success in the case of the ASEAN Regional Forum, or the ARF, an international gathering which brings together an equally diverse group of nations to discuss equally sensitive issues. There is no reason why it should not work for ASEM.

Furthermore, ASEM 3 should also consider the possibility of organising activities in the political arena over and above political dialogue, which not only would counter accusation that ASEM is a mere talk-shop, but would also help build trust and confidence among Partners. One series of activities, for example, may be related to international peace-keeping, another disaster relief, and the third combating transnational crimes, with training courses, seminars and exchanges of visits and study tours among officials concerned.

One cannot deny that the question of political dialogue has become a major problem, perhaps even the greatest challenge, that ASEM 3 has to address. But I truly believe that the present difficulties are only temporary manifestations of growing pains, rather than symptoms of permanent disabilities. I believe that it is perfectly possible to overcome these difficulties, if there is sufficient political will on the part of everyone concerned. I believe that these difficulties can be resolved by ASEM's taking an approach which would make its political dialogue comprehensive in scope but which would also ensure that this political dialogue is conducted in a manner responsive to individual Partners' sensitivities and needs.

Success will open up many possibilities for the future. As mutual trust and confidence in one another grow and as ASEM is increasingly recognised as a forum where mutual interests are served, it is not inconceivable that the Partners could use ASEM to develop joint positions on many political and security issues of common concern, for pursuit and implementation in other fora such as the United Nations. The attainment of such synergy will strengthen the foundations of peace and prosperity, not only in Asia and Europe, but also throughout the global arena.

ASEM AND POLITICAL DIALOGUE

Simon NUTTALL
Visiting Professor
College of Europe

1. Introduction

ASEM was not originally supposed to have a political dialogue. Its origins were primarily economic, on both the Asian and the European sides. It was only at the later insistence of the Europeans that the process came to have a political dimension. This has not taken a very developed institutional form, and has always been overshadowed by the economic dimension, partly because of Asian disinclination to run the risk of confrontation, but partly also because of European institutional weaknesses in this field.

This paper argues that the relative eclipse of Asia-Europe political dialogue in ASEM is not a tragedy. The very nature of the ASEM relationship is highly political, and if strengthened can play an important part in ensuring regional and global stability. This should be the agenda for the short term. In the medium term, once the process has stabilised, ASEM could consider launching some more striking political initiatives.

2. The origins of ASEM and the political dialogue

The idea of a meeting at the highest level of Asian and European leaders evolved in the summer of 1994 in a predominantly economic context.¹ It was first mooted at the World Economic Forum in September 1994, and proposed by the Prime Minister of Singapore, Goh Chok Tong, on his visit to Paris the following month, with predominantly economic consideration in mind. The Asian countries still firmly believed in “Fortress Europe”- a myth which European leaders denied, but whose persistence European commercial activities, in particular anti-dumping actions, did little to check. Furthermore, Asians feared that the collapse of the communist regimes in Central and Eastern Europe would distract the attention of EC governments from other parts of the world, and would

¹ Much of the historical material in this paper is drawn from Victor Pou Serradell, *The Asia-Europe Meeting(ASEM): A Historical Turning Point in Relations Between the Two Regions*, EFAR 2:195-210, 1996.

in particular divert capital investment from Asia. Finally, the Asians were anxious not to be trapped in an exclusive economic relationship with the United States, as exemplified by APEC, itself an exclusively economic forum. The Singapore initiative was designed to meet all these concerns.

The Singapore government was encouraged to take this action by developments in the European Union in the previous months, which it had been observing closely. These culminated in the publication in July 1994 of the European Commission's proposals for a "New Asia Strategy." subsequently endorsed by the European Council at Essen at the end of the year. The Commission, too, had been concerned at the relative neglect of what still at the time seemed the most economically dynamic part of the world, on whose continued growth the global economy would depend. This had led to the production of a national *Asienkonzept*, for which Germany was anxious to secure European endorsement during its Presidency of the EU in the second part of 1994. Finally, the Europeans had been made nervous by the refusal of their request to be associated in some appropriate way with APEC, which they believed was preparing to engage in substantial economic co-operation among its members, to the disadvantage of those excluded from the process. For all these reasons - and also because it would have been diplomatically awkward to do otherwise - the Europeans welcomed without hesitation the Asian initiative, and the idea of a meeting at the level of the heads of government was officially endorsed by the EU council in March 1995.

The injection of a political dimension into what had originally been conceived as an economic relationship was the work of the Europeans. The first ASEAN paper of March 1995 which launched the preparatory work for the Bangkok meeting foresaw an informal gathering of economic leaders with "partnership for greater growth" as theme. The European paper in reply added as a topic for discussion "political and security issues and in the social and human sphere". The Asians felt obliged to accept the European suggestion, although they were nervous about the implications. They especially feared that the European would take the opportunity to raise delicate human rights issues and spoil the harmonious atmosphere of the meeting.

The Europeans insisted on a political dimension because they had no choice, both politically and existentially. Governments would not have been able to resist the pressures they would inevitably have faced from domestic lobbies if they had deliberately excluded the possibility of raising human rights and governance issues with their Asian partners. But perhaps more important, the inclusion of a political element in dialogue with third countries was becoming axiomatic for the European Union. This was in the logic of the

Maastricht Treaty, which provided for “consistency” of foreign policy across the political and economic fields, and which had come into force in November 1993. But hidden behind the commitment to “consistency” there were also administrative considerations internal to the Union: if the subject matter of the dialogue was to be solely economic, then the principal if not the exclusive responsibility for speaking on behalf of the Union would lie with the European Commission. This was unwelcome to Member States. To use technical language only comprehensible to devotees of EU institutional arrangements, the bureaucratic participants in Pillar Two wanted an equal share of the action with their opposite numbers in Pillar One.

Agile diplomacy on the part of both Asian and European participants ensured that the matter was handled smoothly at the Bangkok meeting. A form of words for the Chairman’s Statement was agreed by officials in advance, and the cordial atmosphere at Bangkok smoothed over any potential difficulties. The way the question of East Timor was handled was particularly successful: President Soeharto was not confronted with the issue in the plenary meeting, but unlooked for progress was made in a bilateral meeting with the Portuguese Prime Minister.

The inherent tension between the European and the Asian positions cannot be ignored, however. One side-effect was the exclusion of Hong Kong and Taiwan from ASEM, whereas a formula had been found for their participation in APEC. It may be that China would have opposed their inclusion anyway, but the extension of the dialogue from economic to political made it impossible for the Chinese to agree to their inclusion. Whatever arrangements might be made on the economic side. Only the government of the People’s Republic could speak for China on political questions. The resulting structure of ASEM remains a permanent weakness in the process.

Another side-effect is the absence of permanent and exclusive structures for political dialogue in the ASEM process. Apart from the summit meeting itself, the only bodies which handle political questions are the Foreign Ministers and the SOM. The history of the Foreign Ministers’ meetings has been chequered, as we shall see; the SOM suffers from being less a forum for debate in its own right than as a preparatory body for other instances and the organ for the management of the process as a whole. For a political dialogue to take off, there would need to be a permanent body devoted to it, meeting more frequently. Whatever the substantive merits of ARF, that process at least has institutionally the correct form to be a success. It has no counterpart in ASEM.

The only specific arrangement for political dialogue decided at the Bangkok

meeting was the dialogue in New York on reform of the United Nations. This took place on only one occasion, in June 1996 (Troika/co-ordinators), and by all accounts was not an overwhelming success. The development of the meetings of Foreign Ministers has also been uneven. With the exception of meetings held in the margins of the summit itself, the Foreign Ministers have met only twice, in Singapore in 1997 and in Berlin in 1999. The first meeting is reported to have been a success. Stimulated by the atmosphere of *première*, the Foreign Ministers engaged in discussions with an élan which recalled the ambience of the heads of government at Bangkok. Discussions included a political and security dialogue, and the Chairman issued a statement deploring the terrorist act in Lima. The second meeting unfortunately coincided with the NATO attack on Yugoslavia. European Foreign Ministers, including the EU chair Mr. Fisher, were understandably preoccupied, and the Asian participants felt neglected.

3. The ASEM process as a political action

The record of the political dialogue in ASEM is therefore not glorious. Fortunately, ASEM does not need to rely on a political dialogue in this limited sense for its political importance at the global level. That is assured by the role it is enabled, by its very structure, to play in the international system.

It has been argued above that ASEM was primarily economic in origin. That should not, however, conceal the fact that behind the economic motivation lay a deeper geopolitical concern, shared by both Asians and Europeans, that the predominant role of the United States in the post-Cold War world exposed both sides to potentially damaging loss of influence. This was expressed in terms of “strengthening the weak side of the triangle” – the familiar argument that while transatlantic relations and transpacific relations were in good repair, the relationship between Europe and Asia was so weak as to be practically non-existent. Bilateral relationships between some European countries and some Asian countries were not enough, and the region-to-region relationship between the EU and ASEAN was marking time, and in any case did not include the crucial countries of East Asia. The ASEM process is geopolitically important because it creates, by giving expression to it, relationship which makes it easier for the two regions which take part in it to express their views about how the affairs of the world should be run.

The important thing here is that, unlike APEC, ASEM is made up of two regional partners, the Europeans and the Asians. APEC is composed of separate countries, and the are not divided into regional groups; ASEM is also composed of separate countries (and the European commission, which is the EU spokesman for certain matters), but they are

indeed divided into two regional groups. The composition of the European group was self-evident: the European Union not only has legal powers with regard to many of the subjects under discussion, but its Member States have over the decades acquired such familiar habits of working together on foreign policy issues, confirmed and strengthened by the Maastricht Treaty, that any other formation for the European side of ASEM was quite literally unthinkable. The EU framework provides extensive machinery for preparing positions in advance, which enables the Europeans to take part in ASEM meetings, not indeed as a bloc, on the basis of co-ordinated and consistent positions.

The same cannot be said of the Asian partners. Indeed, the composition of the Asian side was a novelty: it corresponded (at the time) with no existing regional grouping, with the exception of the EAEC, which was an idea rather than a reality. And yet the Asian side had to organize itself collectively if it was not to be at a disadvantage in discussions with its European partners. This was a phenomenon frequently observed in dialogues between the EU and third countries collectively, and one which the EU, itself a regional grouping, deliberately encouraged. Good examples are the agreement with ASEAN, and the countries of Central America in the San José process.² The way the Asian participants in ASEM chose to organize themselves was by setting up a dual co-ordinator with one representative of the ASEAN countries and one of the East Asian countries.³ It is the responsibility of these officials to encourage advance co-ordination on the Asian side, which is then confirmed in an Asian meeting before the ASEM meeting proper with the Europeans. The co-ordinators also have the important task of representing the Asian side in negotiations with the European co-ordinators on matters such as agendas, a delegation of responsibility which implies a degree of trust. This, and the creation of a feeling of “Asianness” produced, through the process of socialisation, by taking part in meetings as a group, constitute the beginning of a sense of regional identity which is essential if Asia is to play an effective part in the structure of international affairs. Indeed, it can be argued that the weakness of the US-Asia-Europe triangle lies less in the weakness of the Asia-Europe link than in the fact that Asia has hitherto not been organized as a regional dialogue partner on the same scale as the other two corners of the triangle.⁴

On this analysis, it is not necessary for ASEM to achieve anything in particular; it

² See Geoffrey Edwards and Elfriede Regelsberger (eds), *Europe's Global Links* (London, 1990)

³ It is regrettable that these arrangements seem not to apply in the field of finance.

⁴ For a fuller examination of this question, see Hadi Soesastro and Simon Nuttall, *The Institutional Dimension*, in *The Rationale and common Agenda for Asia-Europe Cooperation* (CAEC Task Force Reports)(Tokyo and London, 1997), 75-86.

is sufficient for it to exist. The process of meeting to discuss issues is itself the best and indeed the only way to create an identity. Unfortunately, although this may be good enough for academics and even for officials, it is not good enough for politicians, whose participation is indispensable for the survival of the process. Politicians are only interested in a meeting if it gives them a headline or a concrete achievement. In this respect, the ASEM participants were fortunate in their first two meetings. Bangkok had all the advantages of a *première*, and the heads of government could congratulate themselves on having through inspired improvisation constructed an agenda which was both relevant and imaginative. London coincided with the height of the global financial crisis, and though that complicated the situation, at least it secured the headlines.

At Seoul, ASEM will have to cope with the difficulties of coming of age at a time relatively lacking in excitement. It will need to find a language around which to construct an agenda - what the incoming French Presidency of the EU has recently called a "roadmap". This could be based first of all on frank recognition that ASEM is a long-term process, and that immediate results are to neither expected nor artificially achieved. The leaders could then construct an operational agenda around declared support for multilateralism as the preferred process in international relations. It is self-evidently in the interest of regional groupings based on nation states to promote multilateralism as the guiding principle in the conduct of world affairs. This means the gradual weakening of power relations ultimately built on a correlation of forces and its replacement by rules, norms, and procedures.

The multilateral approach has sometimes been condemned – or approved – as targeting the United States. This is a caricature. The world's last superpower has as great an interest as anyone else in securing an international environment based on agreed rules, norms, and procedures, and this is recognised by successive US administrations of whatever political colour. But it must be admitted that the capability of acting bilaterally, which means unilaterally, is one which few other countries enjoy, and is a constant temptation to political forces in America outside the Administration. For the Asians and the Europeans to make multilateralism the foundation of their relationship and consistently act on its principles would bring welcome assistance to its supporters in the United States.

It would provide similar succour to the supporters of multilateralism in the People's Republic of China. Uncertainty about the role China intends to play in the region was one of the unspoken reasons behind the Singapore/ASEAN initiative. It was felt that to involve China in as many multilateral networks as possible would make a significant

contribution to regional security. It was not that China was more likely to go it alone than any other country in the region, although the Chinese state tradition reaching back over millennia certainly pointed in that direction, but rather that, like the United States, the country was on a scale that made its national decisions more significant both regionally and globally. The acceptance by China of multilateralism as a guiding principle could be one of the most important political achievements of the ASEM process. It is already encouraging that China has taken an active part in the process, and has hosted meetings in Beijing. It would be particularly significant if China were to host an ASEM summit meeting. Unfortunately, the first opportunity will not arise until 2008. It would be constructive if the ASEAN group was prepared to forego its turn in 2004.

Acceptance of a principle is all very well, but politicians need some practical applications if their interest is to be maintained. The following are some ideas about what might be done, given as examples rather than as an exhaustive agenda. Not all are in the field of classic high politics, but all serve the political purpose of demonstrating support for multilateralism.

1) WTO

There have been many calls for ASEM to support the early convening of a broad-based WTO round, and this is no doubt a laudable objective. But there is no point in ignoring the fact that there is considerable variation in views and positions, on both the Asian and the European sides. ASEM is not well suited to be a forum for negotiations or pre-negotiations, and it is in any case probably too late to try to use it to that end. But it could still serve a useful purpose if it were to engage in an objective discussion of the causes and merits of calls to extend the WTO's agenda to subjects like labour conditions and the environment. There is a danger, if the dialogue is conducted at the level of officials, that the developed and the developing countries will simply talk past each other, especially as the officials concerned will no doubt soon be engaged in negotiating with each other in a wider setting. But there is room here for useful work on Track II.

2) Non-proliferation and disarmament

ASEM should reiterate its support for KEDO, co-operate over nuclear questions in the CIS, and actively support the MTCR and other export control regimes. After all, three of the five permanent members of the Security Council are members of ASEM; this should count for something.

3) Environment

It is all too easy, in the area of the environment, to express uplifting sentiments and general willingness in co-operation, without being clear as to the precise aim. ASEM should avoid this trap. Instead, it should concentrate on strengthening the international order in the interface between energy and the environment, in particular:

- long-term questions of energy supply with the prospect of a shift to cleaner technologies and fuels, including relations with Central Asian suppliers and the provision of transport networks;

- exchange of best practice with a view to early implementation of the Kyoto Protocol and development of the Clean Air Mechanism;

- generalisation of energy efficiency procedures and technology and new and renewable energy technology

4. Prospects for the medium term

It is always hazardous, and usually embarrassing, to predict the future. But if ASEM is to continue to be a dynamic process, it is necessary to look a little way down the track, beyond the immediate horizon of ASEM 2000 in Seoul. The four ideas which follow are bold and speculative, but may stimulate discussion about the nature of ASEM and its objectives.

Two things seem certain to have happened by the time ASEM next meets in Asia in 2004 – the European Union will have acquired a military and police capacity to intervene in crisis situations, and the enlargement of the EU to countries of Central and Europe will be imminent or will already have begun. These developments will modify, if not basically change, the nature of the Asia-Europe relationship, and will require an answer to be given to the question of membership of the group.

It has hitherto been accepted by all but the most fervent observers of the ASEM process that the possibility of military co-operation between the Europeans and the Asians was so slight as to be non-existent. The European contribution to hard security in Asia, even on the part of the former colonial powers, has been negligible. This may well change, once the EU is in a position to deploy a military force of 60,000 men and a police force trained to handle situations of disturbance and unrest. The defence capability will of course not extend to strategic power: Europe will have neither the will nor the capacity to displace or rival the United States in its role as guarantor of security in the Asia-Pacific region, the indispensable nature of which is recognised, openly or implicitly, by all ASEM participants. And it will be some time before the European force will feel able to raise its sights beyond the limited European horizon. But it should

not and will not be confined as a matter of principle to a regional role. Indeed, if opportunities in Europe fail to arise, it may well be tempted to seek to participate in interventions “out of area”. We cannot exclude, and should welcome, the intervention of the European force in the East Timors of the future. Similarly Asian intervention in the Bosnias and the Kossovos of the future would also be welcome as a sign of solidarity. The participation of no ASEM member should be excluded in principle. ASEM may not be the most appropriate forum for the management of such interventions, but it could certainly provide the opportunity for discussing the political ground-rules. A start could be made now by beginning an exchange of experiences on intra-regional conflict management.

The question of membership of ASEM has already been raised, and must be settled by the time the EU expands. It is all too likely that it will be handled in the worst possible way, by ill-considered ad hoc decisions which will incrementally lead to a misshapen and irreversible result. The original principle adopted for Bangkok was a good one: each side would decide its own membership. This principle was amended, not for the better, by the Foreign Ministers meeting in Singapore. The rule is now one of universal consensus, the specific case at issue being that of Myanmar, which caused great problems for the London ASEM.

The overriding objective, which should determine both the principles for extending membership and also individual decisions, is to preserve and strengthen the region-to-region nature of the ASEM dialogue through a process which affirms regional identity. This is of less concern to the Europeans than to the Asians. The coherence of the European grouping is secured by the legal foundations of the European Union, but the Asian side will follow a different path. Asian coherence will depend on acquiring habits of working together, and this will take time. The process will be complicated and made more lengthy if the composition of the Asian side is altered piecemeal and at irregular intervals. It would be better to allow more time to go by in order that this fragile plant may take root.

To implement these principles two rules should be adopted:

- membership should be frozen until 2004;
- each side should once again be responsible for deciding its own membership.

Once the relationship has become stabilised, applications for membership can be considered. But admittance should carry a price, that of acceptance of the multilateralism which by then should have become the banner of ASEM. In particular, it

should depend on accession to the Comprehensive Test Ban Treaty. This third rule clearly looks towards India and Pakistan, but also towards North Korea, which by then may well be knocking at the door.

There remains the question of Russia. The Russian Federation has an obvious interest in the Asia-Europe relationship, and it is by no means excluded that it could one day apply to join ASEM. Yet it still views itself as a great power, and nevertheless is struggling to find a foreign policy identity. Above all, it has a foot in both Europe and Asia, and would not fit easily into either the European or the Asian group. ASEM cannot ignore its neighbour; a developed ASEM cannot refuse to enter into some sort of relationship with it. But to accept Russia as a member would destroy ASEM's *raison d'être* as a region-to-region dialogue, and thus remove a large part of its geopolitical usefulness. The answer may be, in the fulness of time, and when the regional identities of the European and Asian sides are sufficiently well established, to set up a triangular dialogue Russia-Asia-Europe, linked to, but not part of, the ASEM process.

ASEM: DEEPENING AND BROADENING THE POLITICAL DIALOGUE

Michael REITERER¹

Counsellor ASEM

European Commission

Directorate General External Relations

1. Introduction

Since the inauguration of the ASEM process in Bangkok 1996, the European Commission has constantly and consistently held the position, that all three pillars of ASEM, the political, the economic and the cultural ones, have to be developed in parallel. In fact this feature distinguishes the ASEM process from other forms of regional co-operation, such as APEC, which concentrates primarily on economic issues, and the ASEAN Regional Forum (ARF), an evolving regional security dialogue.

I am perfectly aware, that some of our Asian partners may have a preference for the two other pillars – economic and cultural - claiming that differences in history, values and state of development render political dialogue difficult. However, not only because of globalisation, but also because of our common desire to ensure peace and security in our two regions, we can no longer afford to compartmentalise foreign relations. A wider and open political dialogue on issues of concern to any partner will help us, not only to enhance our mutual understanding, but also to foster the much needed co-operation in global matters. I would also like to stress from the outset, that in my mind, the political dialogue is a clear expression of one of the basic principles of ASEM – the dialogue among equal partners. During the four years of dialogue we have found means to address equally difficult issues, such as human rights, through a very successful informal Human Rights Seminar process. Furthermore, we are convinced that promoting human rights and democratic values is a sensible investment, both economically and strategically. Free societies tend to avoid fighting with one another and are generally good neighbours. Countries that treat their citizens properly also tend to be the best international political and trade partners. In the long run, economic development cannot prosper without democracy.

¹ In the context of this conference the speaker expresses his own views and not necessarily those of the European Commission.

Concerning crises management, political dialogue is essential to prevent, manage and learn from crisis situations. More than 50 years ago, the European Union embarked on a unique experiment of institution building to assure peace on a continent which was exhausted by decades of war, caused by mutual suspicion, prejudice and hatred. Today's Union was built in various stages and we are still witnessing an ongoing process as the journey has not yet ended. I would like to refer to one important new feature which has a direct bearing on my topic - the development of a Common Foreign and Security Policy (CFSP)² and the European Security and Defence Policy (ESDP)³.

These policies are designed to give effect to our common goals and convictions, and our collective ambitions *viz á viz* third countries. These collective interests lie not only in the enhancement of the European economy, but equally in the political field, where we have a commitment to encourage the spread of the universal values of human rights, freedom and democracy, that Europe came close to losing in the first half of this century, but whose vitality has sustained European success in the second half.

These values underpin our foreign policy, but we do not limit our political dialogue to these issues, important as they are. The rising density of financial, trade and economic connections between states and regions has expanded the potential vulnerability of most states to crises in distant parts of the globe. Thus, we have to care about the developments in other regions, being especially sensitive to strategically critical regions, to which many parts of Asia belong – not least the Korean Peninsula, the tensions between Beijing and Taipei, the development in and around Indonesia, the importance of free access to shipping lanes, the reoccurrence of piracy, to name but a few. On the other side, I know that our Asian partners follow with great interest and commitment issues like the emergence of new states in Europe, the development on the Balkans in general, and the aftermath of the war in Kosovo in particular, the enlargement of the Union and the political implications of the introduction of the euro.

Furthermore, we are all aware, that threats to national security are no longer limited to military aspects but they are becoming more diffuse. The proliferation or

² See: Chris, Patten. „A European Foreign Policy: Ambition and Reality“. Paris, June 15, 2000. http://www.europa.eu.int/comm/external_relations/news/patten/speech_00_219_en.htm. Fraser, Cameron. The Foreign and Security Policy of the European Union, Past, Present and Future. Sheffield Academic Press Ltd., 1999; 158 p.

³ See: Chris, Patten. „The Future of the European Security and Defence Policy (ESDP) and the role of the European Commission“. Berlin, Dec. 16, 2000. http://www.europa.eu.int/comm/external_relations/news/patten/speech_99_215_en.htm

concentration of arms of mass destruction is of concern not only for neighbours, but for the international community – collective action is required. Similarly, economic, cultural, environmental, criminal, terrorist, drug trafficking and other threats demand regional or global mechanisms for dialogue, co-ordination and co-operation in order to find viable solutions.

I will therefore argue in this presentation, that

- We have to deepen and enlarge our political dialogue in ASEM, in the interest of the whole process, because of the changing nature of international relations.
- We have to highlight areas where I think the European Union can apply its experience of multilateral co-operation to ASEM.
- We will also have to learn to discuss together the political lessons learnt from recent financial crisis
- I will then deal briefly with some of the instruments available for non-military intervention action
- I would also like to offer a brief analysis of some of the most important ASEM documents as regards their security content, which will then lead me to
- Conclusions and policy recommendations for ASEM III.

Before expanding on these issues, necessarily from a European perspective, I would like to ask you to reflect on what Asian partners want from this dialogue. We might return to this after I have finished.

2. The Usefulness of the Political dialogue

Political relations between states today cover not just traditional diplomacy but also trade, aid programmes and measures of security assistance in civil and political, as well as military crisis situations. Thus, while respecting differences, any political dialogue has to be broadly based in order to be meaningful. A selective approach which neglects either the foundations of a political system, the complex reality of today's interconnected and global world or issues of key importance to a partner, will diminish the value of this exercise greatly and would ultimately deny the ASEM dialogue one of its strength - its informality.

I am conscious that the use of the term “informality” sometimes causes some confusion, because some ASEM events have become rather formal, and ongoing efforts

to update the Asia Europe Co-operation Framework (AECF) add- unfortunately- to this formalisation process. However, to me “informality” means that we address political issues without any formal agenda, in a frank and open way, without negotiating a chair’s statement, a communiqué or a press release. This allows all participants to comfortably address all issues. Based on my experience of attending such meetings, I would draw the conclusion that there has been a substantial political dialogue in ASEM at all levels, based on one golden rule: the less you write about the political dialogue and the more you actually dialogue, the better the result!

Let me use the discussion of the situation on the Korean peninsula as an example for a successful informal dialogue: an open and frank discussion of the issue, led by Korea, has always been on the list of subjects for discussion at ASEM, irrespective of the, then prevailing good or bad mood or state of tension on the peninsula. ASEM partners engaged in this dialogue and the readiness of Korea to engage in dialogue, reflected in the Sunshine Policy, which recently culminated in the successful inter Korean Summit, has certainly been a main ingredient for success. We will continue this tradition again at ASEM III, which will benefit greatly from developments here in Korea, which has strategic repercussions far beyond the region.

3. Examples of Multilateral Co-operation:

1) The Integrative Approach in Europe and Integrative Tendencies in Asia

In addressing the next area, where I feel that Europe could contribute in sharing experiences with our Asian ASEM partners, I will attempt no to fall into the trap of arguing that everybody should follow the European ideal or advocate any superiority of Western ideas, rightly criticised by Kishore Mahbubani⁴. However, I dare to argue, that the EU has been a unique, and a uniquely successful, experiment in regional integration. It seeks to preserve what is best about its members: their separate cultures, languages, traditions, and historical identities- while overcoming what has been worst: nationalism, xenophobia, religious conflicts, mutually destructive trade and monetary policies, and (ultimately) their tendency to go to war with one another. Thus, the EU has been a force for stability and prosperity in Europe- and a pole of attraction for countries emerging from their dark experience under Soviet rule.

Our experience, not only in the EU but also in the Organisation for Security

⁴ Kishore, Mahbubani. „The Pacific Impulse“. Survival, vol. 37/1, 1995; p. 110.

and Co-operation in Europe (OSCE), sets a challenge for the European Union's external relations. The skills we are developing to manage our own affairs are relevant to a world that is still struggling to evolve an economic, legal and political framework which can contain the passions of states, help manage relations between them, and channel globalisation in a positive direction. Our efforts to contribute to improve international frameworks, in the UN or the multilateral trading system of the WTO, which we have traditionally discussed in ASEM, are concrete expressions of these efforts.

While the European approach may be more individualistic, the goals set may be similar, the instruments to realise them will be different and the pace will be much slower, but efforts to foster regional co-operation in Asia are clearly discernible which will lead to "soft institution building." in addition to the existing ones.

Soft institution building also seems to have gained some momentum in Asia, not least as a reaction towards globalisation. I am thinking in particular of the latest developments, the ASEAN + 3 meetings, which follow very closely the ASEM pattern on the Asian side. Their Joint Statement on East Asia Co-operation issued at the Manila Summit in November 1999 as well as their recent decision in March 2000 to set up a regional support facility are vigorous signs of "increased regional support for Asian solutions."⁵ ASEAN set up the ASEAN Surveillance Process in conjunction with the Asian Development Bank in 1998. Furthermore, in addition to the ASEAN Free Trade Area (AFTA) project, more and more countries engage in negotiations or studies of free trade arrangements. I am thinking of the study group set up between Korea and Japan, the ongoing negotiations between Singapore, New Zealand and Chile. The already mentioned OSCE where Korea and Japan are participating already as observers, also seems to have some attractiveness for the region. Being inside or outside such arrangements becomes more and more important so that participation in these arrangements, as well as in the ASEM process itself becomes a political question.

As ASEM is part of this evolving architecture in Asia, a deepened dialogue in ASEM could contribute to sharing of experience and finding mutually acceptable solutions.

2) The Multilateral Trading System

⁵ Thomas Steiner. Europe Meets Asia: „Old“ vs. „New“ Inter-Regional Cooperation and ASEM's Prospects. Working Paper 22/2000, May 2000; Konrad Adenauer Stiftung; p.23.

Let me turn now from the general to the particular and mention just two examples:

We are aware that it is our internal responsibility to help create a dynamic European economy which can fuel a serious foreign policy. In turn this can play an important role in the Commission's external trade policy which in turn is also a crucial aspect of European foreign policy:

The EU wishes to contribute to open, rule-based international trade which can be a force for good, not only for the economic benefits which trade can bring to the poorest countries, but also because it serves to promote open societies and liberal ideas. Let me reiterate in this context that through our commitment to human rights we can explode the absurd notion that there is a tension between commercial interests and active support for freedom. Let me refer here to the recently published UNDP Report on Human Rights and Human Development: "Human rights are not, as has sometimes been argued, a reward of development. Rather they are critical in achieving it". According to the UNDP this can be achieved in giving the poor a political voice which will lead to a greater share of the national income and resources, including access to basic health and education services. Furthermore, still according to the UNDP, "having a stake in society- backed by transparent, accountable and effective systems of institutions and laws- motivates peoples to work for development and thus increases national wealth."⁶

The ASEM trade and investment pledge made at the London Summit was based on this conviction that the open trading system helps to overcome problems when accompanied by sound policies.

But globalisation is not some force of nature beyond our control. For example, we must address the risk of polarisation between the winners and the losers. Liberal trade and advanced technology are making people better off, but not everywhere and not in every country.

I welcome therefore the proposal tabled by Korea for the Summit to start an outreach programme, addressing the effects of globalisation in the ASEM context.

4. The Financial Crisis: Lessons Learnt

⁶ „Democracy: Vital human development“. Financial Times, June 30, 2000; p. 6.

I believe that ASEM offers an excellent forum and opportunity to take up the recent crisis in a forward looking manner, i.e. in the sense of lessons learnt, measures to be taken to prevent a recurrence. While such a discussion could take place from an economic and political point of view, I will limit myself to the latter and pose only some questions:

- Has the development of the crisis lead to tensions between countries in the region or rather to efforts to enhance co-operation among them?
- Did the political system of countries hit by the crisis influence how the crisis was handled?
- What are the effects of the crisis on the social cohesion and social systems in the countries concerned?
- Is the Asian perception that Europe did not care about Asia during the crisis still valid? What were the reasons for this misconception?

Based on the answers given, an interesting discussion could lead to devising ways and means for the future management of Asian economies.

5. Security

1) Non-military Aspects of Security Policy

Peace, stability and security are prime goals in both of our regions. While recognising that military means can play an important role to achieve these goals, I would like to limit myself to some non-military means. While issues of preventive diplomacy are also discussed in the context of the ARF, ASEM could be supportive of this process in offering additional views.

Addressing the underlying causes of conflict in devising policies for long-term structural prevention could be an area where an intensive exchange of recent experience of ASEM partners could bring the discussion forward. Such policies "may include promoting democracy, good governance and human rights. They can take the form of supporting economic development and provision of basic needs (health, welfare, housing, and so on), or of encouraging regional political and economic co-operation, creating ties through trade and other forms of cross border exchanges. They may involve encouraging the reform of judicial systems and security forces, or environmental protection to achieve sustainable economic policies."⁷

⁷ Patten. Future of ESDP, op.cit.

Let me give a few practical examples:

- You might also be aware that the pooling of emergency and rescue services as well as the mutual granting of humanitarian assistance during recent earthquakes in Turkey and Greece, contributed to an improvement in the political climate between these two states which could in turn contribute to deblocking talks on the divided island of Cyprus- a lesson learnt and to be applied.
- Paramilitary and policing capacity also has to be developed, as it is urgently required in post crisis situations like in Kosovo or East Timor.
- Mine clearance and de-mining operations have to start immediately when armed conflicts cease, to avoid additional loss of civilian life. Kosovo and Cambodia are just two examples.

In general, post-conflict rehabilitation and reconstruction are essential to reintegrate people into civilian life and to give them a new perspective. I am speaking here not just of physical rehabilitation or reconstruction, but also of actions to promote de-militarisation, 'micro-disarmament', collection of small arms and support for civil society. Rebuilding or building democratic structures, working for respect for human rights needs an infrastructure which can be mobilised in times of need. Training human rights monitors, electoral observers, media advisers, exchange of officials involved in policy formulation and institution-builders with various backgrounds is essential. In situations where there is scope for mediation, arbitration, fact-finding or specific confidence-building missions, we should have the right persons and the required back up services at hand.

I am not attempting to be exhaustive, but these examples offer ASEM partners the possibility to work together, exchange experience and ideas and contribute thereby to security in Asia and Europe as our future security is becoming increasingly inter-linked, as I have demonstrated earlier.

2) The ASEM Security Acquis

In analysing the Chair's statements of both ASEM Summits as well as the two ASEM Foreign Ministers Meetings it becomes clear, that ASEM already has an important "security acquis." to use our EU-jargon, on which we could usefully build our

future work. The Report of the ASEM Vision Group⁸ supports this direction and adds some policy recommendations to intensify work already started.

At ASEM I, Heads of State and Government (HOSG) reviewed political and security situations in both regions and underlined the importance of support for international initiatives to solve outstanding problems. They agreed on the importance of enhancing the already existing dialogues between Asia and Europe on general security issues, and, in particular, on confidence building measures.

At the first Foreign Ministers Meeting in Singapore, Asia-Europe co-operation in the context of emerging global and regional challenges was discussed. Agreeing that global problems like terrorism, drug trafficking and environmental degradation require global responses, Ministers also noted that regional integration is progressing rapidly in many parts of the world and prompting regional approaches to economic and security issues. Ministers also exchanged views on the nature of the political and security dialogue that should be undertaken by ASEM. They agreed that the dialogue should begin by discussing issues of common interest and broaden the topics of the dialogue, in due course, on a gradual basis.

At ASEM II, HOSG noted, with approval, the expansion of the Asia-Europe dialogues on general security issues. They also noted that the ASEAN Regional Forum (ARF) has carved an important role for itself in the discussion of regional security issues, and leaders welcomed the substantial work already accomplished on confidence building measures. They welcomed the positive developments in the spheres of arms control, disarmament and non-proliferation, including the entry into force of the Chemical Weapons Convention and the opening for signature of the Comprehensive Test Ban Treaty. They underlined the importance of strengthening global initiatives on arms control, disarmament and non-proliferation of weapons of mass destruction and their determination to deepen ASEM co-operation in these fields. Leaders reaffirmed their support for the negotiations on measures to strengthen the Biological and Toxin Weapons Convention and an early start to negotiations in the Conference on Disarmament on fissile material cut-off, on the basis of the agreed mandate.

At the second meeting of Foreign Ministers in Berlin, in 1999, it was noted that nuclear tests in South Asia have affected security in the region and were a setback to efforts towards nuclear non-proliferation and disarmament. However, they welcomed

⁸ Full text in: <http://www.mofat.go.kr/aevg>

the positive steps taken by the countries concerned in the region such as the resumption of their bilateral dialogue, their intention to adhere to the Comprehensive Nuclear Test-Ban Treaty and other international non-proliferation regimes and their political commitment to strict export controls. Ministers expressed their hope that the countries concerned would avoid a nuclear arms race by refraining from weaponisation, and adhere to all international nuclear non-proliferation norms. Ministers welcomed the continued development of the ARF as an important channel for dialogue on regional political and security issues, and ASEAN's role as its primary driving force supported by substantial contributions of ASEAN dialogue partners represented in ASEM, namely the EU, China, Japan and the Republic of Korea.

The Vision Group Report has also considered the security issue and argues that, given the importance of political and security issues, ASEM should lend itself as a vehicle for political and security dialogue between Asia and Europe at different levels, and encourage, co-ordinate and support the involvement of both governmental and non-governmental organisations in political security dialogue. The Report cites as an example, the exploration of ways and means to promote co-operation between ARF and OSCE. Security problems do not discriminate between national or regional boundaries. Developments in other areas also have both direct and indirect bearing on the security and stability of all the ASEM partners.

In the area of peacekeeping, the Vision Group notes that ASEM partners could provide training centres and facilities where Asian, European and other peace-keepers could be jointly trained. Where possible, existing military and civilian facilities both in Europe and Asia should be managed with flexibility to serve also as peace-keeping training centres. It also calls on ASEM to promote greater transparency between partners on a broad spectrum of international confidence and security building measures. In particular, the Vision Group recommends that ASEM partners commit themselves to determined action to stem proliferation of weapons of mass destruction and their means of delivery, encouraging universal compliance with the Nuclear Non-Proliferation Treaty, the Comprehensive Test Ban Treaty, the Chemical Weapons Convention and the Biological Weapons Convention.

6. Conclusions²

⁹ Based on Working Document of the Commission: Perspectives and Priorities for the ASEM Process (Asia-Europe Meeting) into the New Decade. COM 2000 (241), 18 April 2000

The essential importance of Asia for Europe, and of Europe for Asia, is incontrovertible. Asian countries, or groupings such as China, India, Japan, Korea and ASEAN, are major players on the global and regional stage, while the region also includes some of the world's important potential flashpoints including the situation on the divided Korean Peninsula, Kashmir and the South China Sea. The recurring tensions between Beijing and Taipei warrant continuing international attention. Indonesia, an important factor for regional stability had democratic elections, but is still facing the challenge of transition and structural change. The European Union is a global power, certainly economically, and with increasing political will to participate actively in world politics. Following the Amsterdam Treaty and the Cologne European Council Declaration, European leaders have decided at the recent Helsinki Summit to meet the challenge of reflecting economic accomplishments and the success of stable democracies in the foreign policy of the European Union. At the same time the EU recognises that the margins of the European continent have their own potential flashpoints which are of interest to Asia.

Accordingly ASEM partners have to follow closely what happens in each other's region. Politically, and from a security standpoint, the world is becoming a smaller place- crises in one region have potential repercussions far afield. Therefore, it is incumbent upon us to further develop political dialogue and co-operation on issues of mutual interest. The argument for such co-operation and dialogue is reinforced when global threats are considered (for example, terrorism, organised crime and proliferation). These concerns can be more effectively addressed by acting in concert. To this end a comprehensive approach, mobilising political, economic, social and humanitarian co-operation at various levels is required to ensure conflict prevention and peace. The exchange, at ASEM level, of regional experiences in dealing with security issues could contribute to stability in the respective regions.

The importance of Europe and Asia in the world economy, and the ongoing process of globalisation, means that the prosperity of our two regions is inseparably linked. Asia's long record of dynamic growth, and rapid recovery from the recent crisis (not ignoring the ongoing challenges of reform), makes it an essential partner for Europe. Europe's own weight in the international economy, as the largest single market, the largest source of FDI, and the largest global donor, in addition to its experiences in regional economic and monetary co-operation, makes it an essential partner for Asia.

The economic prosperity of Europe and of Asia may be jeopardised not only by financial crises, but also by political instability in a distant region. Europe's political

commitment to Asia reflects not merely economic interests, but also in a shared interest in stability and many shared values. This has been illustrated by the concerted international response to the humanitarian needs in political crises such as East Timor and the Democratic People's Republic of Korea. The attention which Europe is paying to problems in Asia has been mirrored by Japan's considerable financial support for international relief, reconstruction and peace in the Balkans which has been complemented by contributions by other Asian countries like South Korea and Malaysia.

The third Summit in Seoul will set out the key directions for the Asia-Europe partnership for the coming decade. I would suggest that within the political field, these directions include an enhanced exchange of views on security issues. Other priorities in the non-political area include an enhanced dialogue on trade, social policy and economic issues, intensified educational exchanges, co-operation on consumer protection and possible enlargement of the ASEM process. It is important that the Summit confirms and deepens the relationship between Asia and Europe and that we provide future direction to the process. In achieving this, a continuing emphasis should be placed on the informality of the ASEM process from which its comparative advantage is derived.

COMMENTS

Juergen RUELAND

Professor

University of Freiburg

I will focus on the topic of political dialogue, linking to ASEM institutional framework. Previous discussions in the conference have argued that ASEM will never go beyond an informal forum. However, I will attempt to provide a theoretical and empirical analysis arguing that if ASEM is to be sustainable, it is “condemned to go gradually beyond the forum type”. Otherwise, many of us will be writing articles not in the far future about the “obsolescence” of inter-regional dialogue.

As the economic rationale was at core of ASEM (Nuttall), political dialogue, intellectual exchange, cultural co-operation and peoples-to-peoples contacts have all been subordinated to it. Also, the geographical distance and the absence of direct mutual military force have meant that the political dialogue ranks lower by nature. But, there are increasing repercussions because of rising interdependence e.g. non-conventional arms, international crime, migration, trafficking, good governance, democracy, rule of law, human rights etc.

I am more cautious than Prof. Nuttall on European involvement on security issue in Asia, which had already been argued by Segal for a more visible role 3 years ago. But, in my opinion, it should not go beyond what individual European countries have contributed to Cambodia and East Timor. A more extended European security role is neither acceptable to Europeans because of the cost, nor would the Indonesian reaction have been different if other Australian would have led the mission.

But, or perhaps because of the abundant list of topics, political dialogue is limited in scope, depth, intensity and direction, as statements have already been made earlier. Beyond geographical factor and the priority of economic issues, this must also be attributed to dialogue format.

As ASEM brings together a set highly diverse players, confidence building through exclusion of sensitive issues have been praised as a rightful pragmatic approach

toward institution building in the infancy of the forum. Consultation thus follows consensual, informal, non-binding lines as aforementioned by H.E. Paribatra and Mr. Reiterer. The forum style reflects major straits of ASEAN way: “haute assortment of project in the realm of low politics” comparable to the early European functionalism or the ‘tale of two cultures of co-operation’, like the APEC which has a propensity to block bolder and more substantial political dialogue.

This kind of ‘soft institution building’, as incurred by Mr. Reiterer, has created a momentum for ASEM and the Asian financial crisis has acted as a watershed for regionalism. Beyond financial, economic and political turmoil, it led to a crisis of regionalism in Asia Pacific and underlining principle of co-operation.

Neither ASEAN nor APEC nor ASEM have meaningfully contributed to crisis management. As a result, most unresolved issues were pushed upward to a global institutions such as IMF, UN, WTO, G7, which themselves have come under heavy criticism by the way they handled the crisis (Higgott). This has resulted in an atrophy of functionally and spatially differentiated system of global governance which evolved in the 1980s and 90s, driven by economic globalisation and multilayered system of international relations which had evolved prior to the Asian crisis. In addition to already existing global and regional organisations, the numerical growth of regional actors and increasing complexity of inter- and trans-national interactions have favoured a genesis of intermediaries between regional and global and downstream, regional and national levels of decision-making. Hence, the emergence of inter- and trans-regional forum as a novelty of international relations.

In such an increasingly complex international system, trans-regional fora such as ASEM may perform several major functions: balancers, institution builders, rationalisers, agenda setters, and identity builders. Rationalisation is necessary because of increasing number of actors and the proliferation of interests which leads to a complexity of policy matters and decision-making processes which congests and over burdens global, international organisations. Therefore, transregional organisations serve as brokers and reduce the number of positions that would be discussed at international, global organisations.

From this angle, ASEM has served mainly as a balancer vis-à-vis other components of the triad. Directly and indirectly, it has facilitated to its modest

institution building: by densifying the institutional web of global governance, through its sheer existence; by accrediting the shallow institutionalisation of ASEM itself; by stimulating regional co-operation in Asia; and mainly by its Asian identity building.

It has been mentioned several times that ASEM has shaped Asia as a regional actor. But, ASEM has contributed little at the global, multilateral level and even less at rationalising over-stretched international organisations and regimes. The WTO ministerial conference which ended in a fiasco shows that existing trans-regional forums were paralysed in the aftermath of the financial crisis. None was able to serve as a clearing house for the diverse interest groups surrounding proposed millennium trade liberalisation.

ASEM, which has worked mainly as a balancing mechanism, may not be sustainable. It is closely related to temporary power configuration which they seek to preserve or change. But, once the power equation changes, the forum loses its *raison d'être*. It degenerates into a moribund paralysis. Members seek to keep cost and commitment low, and thus consciously avoid deep institutionalisation.

In order for ASEM to develop into a sustainable forum, it needs to improve its performance markedly as an agenda setter and rationaliser of global organisations. While agenda setting is crucial to protect regional interest, rationalisation helps to translate common, transregional interests to a globally accepted rules and agreement in a reasonable period of time.

The topics of political dialogue are particularly suited to agenda setting and rationalisation. As Mr. Reiterer, ASEM must intensify political dialogue. But, it will only be possible with an institutional change. It presupposes a gradual process, a shift from a forum approach to a more focussed, negotiation style of co-operation. The prime objective of global governance is to increase predictability of decision-making in potentially anarchical interstate relations and ASEM must adopt a more achievement-oriented and binding character. One of the most important lessons of Asian financial crisis is vulnerability of informal co-operation agreement to external shocks. Loosely structured organisations invite exit behaviour of panicking members who resort to unilateral self-help strategy, Malaysian case is a good example. If pragmatism, informality, and flexibility are the principles of co-operation, non-compliance with prior agreement, by definition, is hardly subject to moral pressure and peer group pressure

does not work at this stage.

Soft institution building is a strategy to maximise national autonomy under conditions of multilateralism when it limits national sovereignty for a larger, common good. The weak performance of APEC, ASEAN and ASEM in crisis situation reminds us of early neo-functional theorising. Ideologically and culturally diverse regional organisations are more vulnerable to break up in decay than more homogeneous organisation. Thus without a co-operate identity with more legalistic and contractualist norms, it is likely to be faced with increasing problems of acceptance in result-oriented, at least European, societies.

Without binding agreements and persistent pre-occupation with low politics in ASEM, European publics may increasingly questioned ASEM's legitimacy, even more so as informal dialogues lack transparency. ASEM will easily be depicted as a "boring and inefficient talk shop". This brings me to my most controversial point.

A multilayered and increasingly differentiated international system is increasingly confronted with a widening democracy gap. Highly specialised circles of bureaucrats tend to dominate, directly or indirectly, the outcomes of the international negotiations - in the area of trade, security, environment, energy- the agreements become increasingly technical and hardly understandable for the public of the member countries. Parliaments are neither involved in the negotiation processes as such nor are they in a position to exert any meaningful control of the outcome of the negotiations. They depend on the information given to them by the Executive, and even worse, major themes of our society such as workers' rights, human rights, good governance and pathologies of rapid modernisation tend to be bypassed or glossed over in official political dialogue. This has given rise to the emergence of NGO-parallel summits and Asia-Europe peoples forum. Integrating them to the ASEM institutional framework, even in medium-term, has been achieved far too little. The NGOs and parliamentarians as representatives of civil society must be more visibly and centrally integrated into ASEM. An ASEM assembly composed of government representatives, NGOs and business representatives might be a better venue to discuss a wide-ranging political issue. "Parliamentarisation" of international organisations is a major challenge ahead of us. If the challenge in the 19th Century was to extend democratic rules of governance from small states or units to larger territorial states, now, the challenge is from nation states level to governance beyond the nation states.

Lastly, I agree with Prof. Nuttall that enlargement should be postponed further. ASEM has not yet consolidated as an institution as mentioned by Higgott. Even worse, financial crisis has weakened the forum. Bringing in South Asians is the last thing that already highly delicate political dialogue can digest. It would only burden it with an additional set of problems, further eroding ASEM's cohesion. While Prof. Nuttall argues that political dialogue is dispensable at least for the time being, Mr. Reiterer argues that it is not only indispensable, but that the political dialogue must be broadened and deepened. But, personally, I think it should be deepened first. It is not at odds with triple-non's of H.E. Paribatra, as long as non-exclusivistic is not the same as prolific. I also agree with non-country specific and non-confrontational. Broadening the dialogue first runs the risk of nurturing a shallow exercise. Indeed, so far, the political dialogue has hardly gone beyond low politics. Where high politics were concerned, consultations remained informal, yet at the same time contingent and inconclusive.

If the ASEM is not to succumb to a mere talk shop, it must produce tangible results. Therefore, concerning the political dialogue, ASEM should follow a leitmotif: bolder, more focussed, more institutionalised and democratic.

COMMENTS

Chengxu YANG

President

China Institute of International Studies

Thank you Mr. Chairman. It is the first time for me to discuss the ASEM problem. Political dialogue is a very important issue for ASEM. I think as long as we abide by the principles of mutual respect, seeking common grounds, while preserving differences and proceeding in a proper way step by step, we will make a contribution to increase mutual understanding and to strengthen cooperation. I would like to make 3 short remarks to the speeches made by the speakers, namely:

- 1) Principle of political dialogue;
- 2) Issue of Taiwan;
- 3) Issue of democracy;

- 1) For the first remark concerning political dialogue, today I have listened to the speech made by the foreign minister of Thailand where he laid down three principles of political dialogue. I fully agree with him that political dialogue should promote trust and understanding between us. But I don't think that the China Government will accept the first principle, namely the principle of non-exclusivity. Because there are some issues that China considers as internal affairs which are very complicated and talking about will only lead to confrontation.

There's a saying in China that if you are willing to solve problems with your partner, you have to grasp the easier one first. If you grasp the easier one, by solving the easier problem, trust could be built up. I hope that we can follow the same approach in the political dialogue in ASEM.

- 2) The second remark is related to the issue of Taiwan. When we talk about international issues, it is unavoidable to talk about Taiwan Issue. However, the Taiwan issue is an issue left-over from the civil war in China. In China, we consider it as an internal affair. It is not an issue within the agenda of ASEM. But I found that it is natural that people would express concerns on issues that might stir up regional

stability. Concerns of this kind are quite understandable. Now, since the issue of Taiwan has been brought up in this meeting, not only verbally but also in writing, I would like to offer some off-hand comments.

The basic position of the Chinese government regarding the settlement of the Taiwan issue is still that of peaceful reunification: one country, two systems. To put it briefly, it is to realize the unification of the two countries by peaceful means and, inside the reunified country to have two different social systems. In fact, one country, two systems is the realistic way to preserve the status quo. Adherence to the principle of one China is the basis and the premise for peaceful reunification. The Chinese government over the years has endeavored to encourage Taiwan to come to negotiations table, to work out a peaceful solution. China still continues to pursue these efforts.

When the new leader of Taiwan, Mr. Shen Shui-Bian took power in Taiwan, he announced that he would not go on the road of independence of Taiwan. He argued that both sides should get together to negotiate. But what topics should we talk about if he still denies to accept “One China principle.” an agreement which had already been reached between the mainland China and Taiwan in 1992. It is unfortunate that after Mr. Shen Shui-Bian took power, he has denied this principle. On a press conference, journalists asked: “Who are you? Are you Chinese?” He kept silent for a while and he answered “I was born in Taiwan”. If he still goes on this way, he cannot be said to be Chinese. What should we talk with him? Shall we talk about separation of Taiwan, or shall we talk about reunification of our father land? That’s a very serious problem for us.

As you know, the program of his party, PBC, still states that the party will lead his people of Taiwan on the road of independence. So we are very suspicious of him. Our policy is to wait and see. In the meantime, we will try hard to invite more and more people to come to China, to talk with us to find a way out to unify us peacefully. If some countries do not stop selling weapons to Taiwan, it will make the issue more complicated. It will encourage some people in Taiwan not to talk with us nor to negotiate. So we always consider that this is an internal issue not to be discussed, not to be put in the agenda of ASEM.

3) My third remark is democracy. With regard to the issue of democracy, today everyone would agree that in the long run, economic development cannot prosper without democracy, as Mr. Reiterer wrote in his paper. I fully agree with his opinion.

The problem is that how to realize this democracy? People may have different opinions concerning this issue. The Chinese experience is that: “you have political stability under good governors, then you can develop economy, and raise the people’s living standards which will lead more people to enjoy the rights of education. Well-educated people are the basis for promoting democracy. There are a lot of differences between Asian and European countries. While most Asian countries are developing countries, European countries are developed countries. In some sense, as an Asian, Asian countries can learn a lot from European countries, but it does not mean that European countries cannot learn anything from Asian countries.

Since China has adopted the policy of reforms, in opening to the outside in 1979, China has attached a great importance to build the country on the rule of law. In the past 100 years, China has initially made use of laws, and regulations of Germany and other European countries from reference of Japan. During the past 20 years, in the process of enacting new laws, China has made use of laws with Europe as a reference for the formalities of law. The Germans at our foundation in China has organized many international seminars about law and justice in Beijing and other cities in China. We found out that in the past 20 years, China has learnt a lot. We found more and more consensus in building our legal systems.

In the 70’ s and 80’ s, when I worked in Germany as a diplomat, I studied Social economic market system in Germany and social security system. I think that the political dialogue between Asian and European countries will have substantial contents and I believe that the relationship between Asian and Europe in the process of political dialogue is not like that of pupils and teachers. The political dialogue which would make its contribution in promoting the relation between Asian and European countries is based on the spirit of mutual respect and learning from each other.

Thank you for your attention.

RESPONSES

Michael REITERER

Let me address a few issues.

There is no doubt about the one-China policy. I often hear from Chinese representatives that there is a suspicion that there could be an effort to bring in Taiwan as a member into ASEM. First of all, it is not possible as it would be an Asian enlargement and I do not see any agreement being made on the Asian side. On the European side, the One China policy is recognised and I don't see any danger. I think it is important for China to understand and see this point which would take away one of the main problems. The same goes to the situation from the tensions between Beijing and Taipei, which is left over from the civil war. The important point to recognise is that we do care about the tension. Whether it is an internal affair or a civil war, when there is an effect on neighbours, one is legitimate to talk about it. If we get the nuances right, there should be less suspicion on either side as there is no hidden agenda.

The idea of everybody to follow the European ideal or to advocate any superiority of Western idea was rightly criticised. It is not the purpose of the exercise and nobody is trying to do that. I would not propose that there should be an Asian Union just as there is an European Union. The former simply will not work. It took us 50 years and it was very difficult for us to do it and we are somewhere in the middle of the process. Our process has accelerated and we are just about to engage on Common Foreign and Security Policy, which has been made possible only after 50 years. Nobody is advocating that Asia should adopt an European model. However, you might be inspired by some ideas and we could discuss together how such ideas could be made to work. This is a big difference. There may be differences about the understanding of human rights, but this is a good reason to discuss it and it will not end up in confrontation. I quote from a recent UNDP study which said that "human rights are not a reward of development, as they are sometimes argued, rather they are critical in achieving that development" (Financial Times, 30th June 2000). If somebody doesn't agree with the concept why should we not discuss it? Should we only discuss when 1 plus 1 equals 2? The discussion need not necessarily be confrontational. It is a part of culture and diplomacy that it is possible to discuss in a non- confrontational manner. Informal ASEM process must not exclude discussion to be carried out in a civilised,

friendly and non-confrontational manner.

Secondly, I would like to talk about the civil society. An attempt to define it is bound to lead to failure. But, in the European Union, it may be comparable to Economic and Social Council, which brings together all strata of society: entrepreneurs, trade unions, liberal professions, farmers, NGOs etc. It should be a larger concept in order to provide a forum where a serious social policy dialogue could be started e.g. Consumer organisations could take part in this dialogue.

Lastly, is Track I infringing on Track II? I am not very convinced with the separation of Track I and II in the ASEM context. I think it is a concept which has been taken out from other fora and used in the ASEM context. I would not say that there are any issues that Track I would impose or prohibit Track II to discuss. There will be limit on the extent to which Track I would accept proposals from Track II. But I don't see any attempt on the side of officials to limit the room of maneuver or freedom of gatherings such as this. Proposals are being made in the EC Working Papers on ASEM to enlarge discussion in order to get positive feed back as a way to build more confidence and trust. There has also been a proposal suggesting that foreign ministers should meet in retreats to discuss various issues in their personal capacity. There are lots of possible issues and as an example, one may deal with a fundamental question on after-effects of the financial crisis. Which societies, States or civil structure were effected? Which coped better? Why were some better equipped? These are very interesting topics from a political point of view which could be discussed extensively. It might then transpire to official meetings. I don't see any attempt to limit discussions and, on the contrary, I would encourage them wherever possible.

In the political dialogue, one may want to avoid headlines. Many politicians prefer comfort and go for window dressing. But, ASEM III may agree to create scholarship initiatives for student exchanges between Asia and Europe, as currently, over 80% of Asian students study in the USA. Encouraging such an initiative will have effects on improving understanding between the regions and medium- and long-term economic effects as personal contacts are developed. That is the type of headline which is necessary. We must make a choice of what we would like to have on the headlines.

RESPONSES

Simon NUTTALL

I would like to make 3 points.

The first concerns security and refers to what Prof. Rueland said in his comment. When I mentioned about security, I was trying to forecast likely events over the next few years, given the development in the European Union. It should not mean that I approve of this course of development. In fact, I personally strongly disapprove of it. However, the reason why it is so important in the Asia-Europe relationship is because if Europe does not have a military dimension, there can be no reason for misapprehension on the Asian side that we are trying to re-import power relationships which belong to the past. But, there will be more ambiguity in the future about this question. The concept of the Europe as a civilian power died on 1st August 1990 when Saddam Hussein invaded Kuwait. What does have to be done though is to look for a likely difficult situation in the Asia-Europe relationship. There are 2 possibilities. Either the Europeans will be led to intervene militarily in the Asian region, in which case we will be even more unpopular than ever. Or else, we won't, in which case we will be denying the military dimension of our personality. Either way, there is a potentially difficult situation which has to be managed by the ASEM relationship.

Secondly about Asian identity. It has been suggested in the discussion that Asians both co-ordinate and pretend to co-ordinate. For the purpose of identity building, each is as good as the other. Provided that you accept the obligation to co-ordinate, it doesn't matter whether you succeed or not. Pretending is just as good. Furthermore, it has been suggested that Asian identity building will not take the same route as the European identity and community building. Indeed, Asians will have to find their own identity and their way of organising that. Whatever the case, the point is that they will have to do it and it is not an option for them to stay as they currently are in a splintered manner.

Could the Asian identity, when completed, be useful for other grouping? I think not because the way an identity develops is a function of the dynamics of the grouping you belong to. But on the other hand, building Asian identity is important from the point

of view of the triangle and in overall geo-strategic terms. It is important that Asia should be organised in its own way in order to play an effective part in a trilateral relationship of international relations.

Thirdly about credibility. The ASEM process, if lucky, will be credible with the elites. It is not going to be popular among public opinion. It will never be a crowd mover. But, it does not mean that attempts should not be made to achieve some sort of legitimacy. It is best done, as Mr. Reiterer said, through the new channels of civil society. Two areas are particularly interesting. One is the gathering of NGOs which has become somewhat traditional in the context of the ASEM summit. The other is bringing together young parliamentarians. In both the forums, no artificial categorisation of high and low politics is made. But the reason why the governmental Track I still makes the distinction is because of the rigid governmental structure. It will be a problem in the European Union and probably the only fact which impels the distinction between Pillar I and II. ASEF has an important role to play and its funds should be increased.

APPENDICES

PROGRAMME

July 9, 2000 (Sunday)

18:00-20:00 Welcoming dinner hosted by Asia - Europe Foundation
Venue: Emerald Room (Yeong Bin Gwan)

July 10, 2000 (Monday)

08:30-09:00 Registration

09:00-09:30 Opening Ceremony:

- Opening Speech by **Kyung-Tae Lee**, President of the Korea Institute for International Economic Policy (KIEP)
- Opening Speech by **Pierre Barroux**, Deputy Executive Director of Asia Europe Foundation (ASEF)

Congratulatory Speeches:

- **Duck-Soo Han**, Korean Minister of Trade
- **Frank Hesske**, Head of Delegation to the EU

09:30- 10:30 **Introductory Session: ASEM : An overview**

Keynote Speakers:

1. "ASEM and the Evolving Global Order"

Richard Higgott

Professor, University of Warwick, United Kingdom

2. "ASEM: Towards an Exciting Inter-Regional Journey"

Hadi Soesastro

*Director, Centre for Strategic and International Studies (CSIS),
Indonesia*

10:30- 11:00

Coffee Break

11:00- 13:00

Session 1: The Reform Process in Asia and Europe

Chairperson: Il Sakong

Chairman, Asia-Europe Vision Group, Korea

Paper 1: “The Reform Process: Asia’s Lessons”

Pote Videt

Managing Director, Credit Suisse First Boston, Singapore

Paper 2: “Schedule for Reform in Contemporary States”

Philippe Trainar

Manager, French Federation of Insurance Companies, France

Discussant 1: Donal J. Donovan

Director, IMF Regional Training Institute, Singapore

Discussant 2: Paul Lim

*Senior Research Fellow, European Institute for Asian Studies,
Belgium*

13:00 – 14:30

Lunch

Venue: Ruby Room (Yeong Bin Gwan)

14:30 – 15:30

Session 2: ASEM and Trade Issues

Chairperson: Kyung-Tae Lee

*President, Korea Institute for International Economic Policy
(KIEP), Korea*

Paper 1: “ASEM and Trade Issues”

Jean-Pierre Lehmann

*Professor, International Institute for Management Development
(IMD), Switzerland*

Paper 2: “Testing ‘Subsidiarity Questions’ for ASEM”

Chong Wha Lee

Research Fellow, Korea Institute for International Economic Policy (KIEP), Korea

Discussant 1: Suthiphand Chirathivat

Dean, Faculty of Economics, Chulalongkorn University, Thailand

Discussant 2: Willem van der Geest

Director, European Institute for Asian Studies, Belgium

15:30 –16:00	Coffee Break
16:00 – 17:00	<u>Session continued</u>
	Discussion
17:00	Close
19:00	Cocktail
19:30	Dinner hosted by the Ministry of Foreign Affairs and Trade of Korea <i>Venue: Emerald Room (Yeong Bin Gwan)</i>

July 11, 2000 (Tuesday)

09:00 – 10:30 **Session 3: ASEM and Political Dialogue**

Chairperson:

Pierre Barroux

Deputy Executive Director, Asia-Europe Foundation (ASEF), Singapore

Paper 1: “ASEM and Political Dialogue”

Sukhumbhand Paribatra

Deputy Foreign Minister of Thailand

Paper 2: “ASEM and Political Dialogue”

Simon Nuttall

Visiting Professor, College of Europe, Belgium

Paper 3: “Deepening and Broadening the Political Dialogue”

Michael Reiterer

Counselor-ASEM, Directorate General for External Relations, European Commission

10:30 – 11:00

Coffee Break

11:00 – 12:30

Session Continued

Discussant 1: Juergen Rueland

Professor, University of Freiburg, Germany

Discussant 2: Chengxu Yang

President, China Institute of International Studies, China

12:30 – 14:00

Lunch

Venue: Ruby Room (Yeong Bin Gwan)

14:00 – 15:30

Wrap-up session presided by Keynote Speakers

1. Richard Higgott

Professor, University of Warwick, United Kingdom

2. Hadi Soesastro

Director, Centre for Strategic and International Studies (CSIS), Indonesia

OPENING SPEECH

Kyung-Tae LEE

President

Korea Institute for International Economic Policy (KIEP)

Excellencies, honourable guests, distinguished participants, ladies and gentlemen!

It gives me a great pleasure to welcome you all to this joint international conference co-organized by the Asia-Europe Foundation and the Korea Institute for International Economic Policy.

The subject of the conference is 'The Seoul 2000 Summit: The Way Ahead for the Asia-Europe Partnership'. The ASEM was a watershed event in the annals of regional economic relations. The most popular rationale for the ASEM initiatives was to complete the missing link between East Asia and Western Europe. Spurred by Asia's economic renaissance, the emergence of a triadic economic world holds forth the promise of rich opportunities for all.

I feel confident that ASEM will become a highly useful vehicle for the promotion of Asia-Europe relations. The growing importance of relations between the two is mainly due to irrefutable economic realities. However, it is also true to say that the economic relations across the Pacific and the Atlantic are relatively stronger than that of Asia and Europe. In an economic-driven tripolar international order, we can not afford to let one of the legs in this triangle become weaker than the others. The need to reinforce the weak side of the triad regions is not only for reasons for their own sake. The new global trading system will simply be much healthier if there is a balance of players keeping an appropriate checks and balances in both the economic and political area.

Now, the time has come to meet this challenge. Following the recovery from the financial turmoil in East Asia and sustained economic performance in the EU, conditions have improved for ASEM, allowing it to make great strides in the new millennium. As the title already implies, the year 2000 provides ASEM with an

excellent occasion for both retrospect and prospect, allowing it to pursue a revision of its agenda and thereby articulate its goals.

We are here today to discuss on such issues. I am confident that through this seminar, many valuable suggestions and recommendations can be generated and delivered to the official circles, thereby contributing to the preparations for the Seoul ASEM summit which are already stepping into a high gear. I would like to take this opportunity to extend my sincere thanks to the co-organizer of this conference, the Asia-Europe Foundation represented here by its Deputy Executive Director, honorable Pierre Barroux for bringing together such distinguished participants from all over the ASEM partners. It has been a great pleasure to work with ASEF on this task. We are also grateful to the Korean Ministry of Foreign Affairs and Trade for their co-sponsorship. Lastly I would like to thank once again the prominent guests who made a distant trip to Korea, to present papers, to chair sessions and to participate in the discussion rounds. I sincerely hope that this seminar can contribute a lot not only to the Seoul ASEM summit, but also to the promotion of academic exchanges between Asia and Europe. Thank you for your attention!

OPENING SPEECH

Pierre BARROUX
Deputy Executive Director
Asia-Europe Foundation

President Kyung-Tae Lee,
Minister of Trade Duck-Soo Han,
Ambassador Frank Hesske,
ASEF Chairman Amb Jay Hee Oh,
My distinguished co-Chair Dr. Il SaKong,
Excellencies,
Ladies and gentlemen,

I would like to thank everybody whose efforts have made this event possible -- our partners, the Korea Institute for International Economic Policy (KIEP), specifically President Lee Kyung-Tae, Vice-President Ro Jae-Bong, Dr Lee Chong-Wha and his excellent team, as well as my colleagues from ASEF, Ms Peggy Kek and Sharon Ong.

I would like also to convey the apologies of Professor Tommy Koh, our Executive Director, who just returned to Singapore from Berlin over the weekend and is unable to be here today. He has asked me convey his best wishes for a successful meeting to all of you.

Finally, I would like to underline the importance of this meeting, which takes place in Seoul slightly over three months before the next ASEM Summit. I would like to convey to you three very simple ideas before the opening of the proceedings.

First, it was the vision of our Leaders in Bangkok that the ASEM process should not involve only the official track. Although this process relies very much on the Ministers, and the Senior Officials, the Leaders also wanted the ASEM process to engage the peoples of the 25 countries. Hence the ASEM process has, from the start, always stressed the importance of linking the civil societies of the ASEM countries. This was the very reason why the Leaders established the Asia-Europe Foundation, ASEF, in Singapore in February 1997. I would like to underline this unique feature of the ASEM process, which is different from other processes because it engages not only governments, but also people.

Second, I would like to offer a positive response to the critical debate concerning the philosophy of ASEM, and what it has achieved. This is a personal viewpoint. I believe that one great achievement of ASEM has been that, through so many meetings between Asians and Europeans, our Asian friends have acquired over the last three or four years a better understanding of the European integration process. I also believe that the process of regional cooperation which is beginning to take place in East Asia today would not be the same without the ASEM process and the closer understanding which it has built between Asians and Europeans. That is not to say that ASEM has been the cause of an emerging East Asian cooperation process, but it is certainly the case that this process has been accelerated by ASEM, even after taking into account the many other important factors, such as the effects of the Asian Crisis. This is my firm belief after being involved in ASEM for the past three and a half years. This process of regionalism in Asia is very pertinent to the building of the multipolar world that we would all like to see tomorrow.

Third, I would like to convey to you a message of optimism about the forthcoming ASEM III Summit. ASEM III will be a success. I think that all the coordinators, be they the Korean hosts, the French Presidency of the EU, Thailand, or the European Commission, have an equal commitment to its success. Here I would like to give one concrete example of such success. Carrying out the recommendations of the Asia-Europe Vision Group (AEVG) in the field of education, ASEM organised a meeting to promote the concept of ASEM Educational Hubs last November at INSEAD, in Fontainebleau. The 200 over new scholarships offered at this first meeting have brought us very close to fulfilling a key recommendation of the Vision Group even before ASEM III.

So I strongly believe that ASEM III will be a success. Naturally, much still remains to be. I would like to give just two examples of what I think we should try to achieve in Seoul. First, it will be very important for the Asia-Europe Foundation, particularly the new management team that will take over in November, to receive a renewed mandate at the time of the Summit, one which is backed by an appropriate financial commitment. Second, I believe there is some necessity to ensure better coordination between Track One and Track Two of the ASEM process. As I had mentioned, a strong Track Two element is a unique feature of the ASEM process, and I believe that Track Two should be better coordinated with Track One, and better understood by the Track One officials.

Finally, I wish you every success in this meeting. Due to the quality of the participants gathered here today, I am confident that this meeting will provide new and interesting input which officials of our governments, some of whom are present here today, can highlight for the attention of our Leaders. I believe that the three topics of this meeting – Reform, Trade, and Political Dialogue – are all particularly relevant to the success of the next Summit.

Thank you very much.

CONGRATULATORY SPEECH

Duck-Soo HAN

Minister for Trade of Korea

Greetings - Recognition of the Contributions made by KIEP and ASEF

President Kyung-Tae Lee, Deputy Executive Director of ASEF Pierre Barroux, Chairman of Asia-Europe Vision Group Il Sakong, distinguished participants and guests!

It is my pleasure and honor to be here today and I would like to thank the Korea Institute for International Economic Policy (KIEP) and the Asia-Europe Foundation (ASEF) for sponsoring and organising this important conference.

As you know, since ASEF was launched as an ASEM initiative in February 1997, it has worked to promote better mutual understanding between Asia and Europe through greater intellectual, cultural and people-to-people exchanges.

The co-sponsor of this event, KIEP also has been recognized for providing critical insight and advice on Korea's role in the international economy. With its advocacy of greater cooperation and sharing of resources in the field of economic research, it has been striving to be a part of a much expanded and closer network of research institutes in Asia and elsewhere.

With such broad-based, forward-looking mandates, ASEF and KIEP are the perfect partners for working together to bring us this comprehensive conference that will touch upon topics ranging from reform in Asia and Europe to trade and political dialogue between the two regions.

The third ASEM Summit is now only a little over three months away. That makes this conference particularly timely. The substantive discussions generated today and tomorrow on key issues concerning Asia-Europe relations will greatly contribute to shaping dialogue in the months to come.

Significance of ASEM III in the New Millenium

As host of ASEM III, Korea views the upcoming Summit as an opportunity not only to participate in charting the future course of the Asia-Europe partnership into the 21st century, but also to highlight our recovery from the economic and financial crisis two years ago, and to discuss with our partners ways of preventing future crises.

In stark contrast to the situation in 1997 and 1998, most Asian countries affected by the crisis, including Korea, are expected to show strong performance in the year 2000. In fact, Korean economy has been revitalized, in large part, through our reform efforts, economic stabilization policies, and international support in restoring confidence in our economy.

For the recovery, European members of ASEM played critical roles. They pledged support behind IMF's rescue package for Korea. And, during the period following crisis, our European partners kept their markets open for Asia's exports and helped our efforts to recover. I believe that ASEM should be the forum where all the members re-affirm the commitment to the promotion of global economic openness. In this context, I recognize that the trade and investment facilitation efforts within ASEM are the most important elements for this cooperation mechanism. I hope that at ASEM we will continue to strengthen our support behind the launching of comprehensive new round of WTO negotiations.

In addition, in the future, ASEM is expected to play a substantial role in preventing the recurrence of similar crises, through the promotion of cooperation in the economic and financial spheres with such initiatives as the ASEM Trust Fund.

For us, one important result of the crisis was that it has taught an unequivocal lesson to all Koreans—the lesson that our economic and financial well-being is closely linked to the state of the international system. The current global economic system is characterized by decreasing importance of national borders and real time sharing of information and technology. In order to guarantee that we move forward, we should embrace these changes wholeheartedly and make sure that we become a reliable and respected members of the global economic community.

Based on the mutual interest in working together and our determination to do so, Asia and Europe can offer quite a lot to one another. The Asian economies are now on an upswing and Europe is experiencing continued economic dynamism. ASEM is well positioned to set a strong foundation to allow the two regions to more actively participate and thrive in the global and knowledge-based economy of the 21st century.

I believe that an excellent starting point for our future work is the updated comprehensive Asia-Europe Cooperation Framework (AECF) to be adopted at ASEM III in Seoul.

Korea's Contributions through New Initiatives

Korea, for its part, hopes to be able to contribute to this process through its proposed new initiatives for ASEM III.

Korea has proposed the establishment of a Trans-Eurasia Information Network to provide a direct inter-connection of research and information networks between Asia and Europe, as well as increased efforts aimed at the facilitation of e-commerce. We firmly believe that it is through such concerted actions that our two regions can more closely work together to be on the cutting-edge of this revolution.

In addition, Korea is concerned of socio-economic disparities within and between Asia and Europe in this age of rapidly progressing globalization. With that in mind, we have proposed an initiative to address this digital divide as well as an ASEM Roundtable on Globalisation.

As we prepare ourselves for the new global economy, we know that the most successful countries will be those that continuously promote economic openness. And it is in this context that we hope to see our proposal for outreach programmes aimed at promoting awareness of the benefits of liberalised trade and investment endorsed at the Seoul Summit as a new ASEM initiative.

We are in the process of consultations with our ASEM partners with a view to developing these and other proposals made by Korea such as an ASEM Fellowship Programme, and I am sure that you will be hearing more about them in the coming months.

[As the last point before closing, I would like to briefly touch upon the recent inter-Korean summit held in Pyongyang on June 13th to 15th. The undeniable success of this historic event is an important achievement of our Government's "sunshine" policy towards North Korea and a critical first step towards sustained peace and security on the Korean peninsula. However, we have much to do in the near future and we trust that we have the support of everyone who wishes to see reconciliation, peaceful co-existence and prosperity in East Asia as well as beyond. I understand that these recent

developments on the Korean peninsula are to be duly addressed at ASEM III.]

Closing

Ladies and gentlemen. If ASEM cooperation and dialogue is to achieve their full potential in the 21st century, we must cover the full range of shared concerns and make sure that the process is an inclusive and balanced one.

I have outlined some of the issues that must be addressed within the ASEM process. However, I realize that we have much to learn from one another, and it is through occasions such as this conference organised by KIEP and ASEF that will further mutual understanding on issues of key concern to both regions. I am sure that the results of the discussions here today and tomorrow will be both illuminating and instructive and, it is for this reason that I look forward to the exchanges ahead.

Thank you.

CONGRATULATORY SPEECH

Frank HESSKE

Head of Delegation to the EU

I am happy to be able to address you all at this conference devoted to one of the most important world events of this autumn: the third ASEM Summit, to be held here in Seoul, I would particularly like to thank the organisers, KIEP and ASEF to give us all this opportunity to reflect upon the outcome of the Summit and upon the catalyst force that this summit will have for our Asian-European relations.

In seeking solutions to the different challenges for Asia and Europe, we will participate in suggesting the future direction of the ASEM process. In other words, it is not an easy, but indeed a very interesting and challenging task that is lying in front of us!

We are all preparing for the Summit and the EU is committed as ever to its relationship with Asian countries, both individually and collectively. I am glad, that also the ASEAN process was put back on track recently. In the ASEM context it is important for the European side that process is heading forward in all three pillars: the political, economic and social-cultural pillars. If one pillar is weaker than the other two, how could you make your temple stand steady?

Before going further into our ideas within these three areas or pillars, let us have a look in the rear mirror. The ASEM process began as an answer to the mutual recognition that times were ripe to re-think the way the two regions were dealing with each other, to devise ways and means to come closer and to elevate their relationship to a level commensurate to global challenges, their increased responsibilities at worldwide level and to be commensurate with the economic strength of the two regions. The result was the first ASEM Summit, back in March in 1996, regrouping heads of state and government from ten Asian states, the 15 Member States of the EU, plus the President of the European Commission. This initial Asia-Europe Summit engendered an ongoing process involving summit-level meetings every second year, ministerial meetings (Foreign, Economic and Finance) in each intervening year, and follow-up actions in a wide range of areas within three different fields, political, economic and people-to-people/cultural. The process has the merit of informality, even on the very highest levels, and is based on the principle of a partnership of equals.

Let us also spend some instants on what ASEM is not ASEM is NOT an international institutionalised organisation. Nor is it a negotiating forum – but rather a catalyst to spur action, which would then be carried out either in the context of ASEM or in other fora, whether bilateral or multilateral.

With this as a background, what are the European thoughts on the upcoming Summit? Well, it is hard to overstate the importance of this meeting for the Asia-Europe relations. We want to ensure that it becomes a major success, because while we certainly think that ASEM has had an excellent start, the momentum must be maintained in all three pillars, and the summit must address all relevant issues. This would be a fitting sign of the maturity of the process.

In order to make the summit as resounding a success as it is worth, it will also be important for the Heads of State and Government to draw up a map of ASEM's way forward and confirm that the process has relevance both for political decision-makers but, perhaps even more importantly, also for the broader public. In my personal view, this goal will be easier if there is a future-oriented agenda, concentrating perhaps on the following key themes:

First, within the political pillar, there is further scope to enhance mutual understanding on regional and global security matters, drawing upon the informality which is the main quality of ASEM. My colleague Mr. Reiterer will address this issue specifically later on in the seminar.

Second, in the economic and financial dialogue, there is still useful work which can be done on trade and investment issues, socio-economic policy issues and regional macro-economic co-operation.

Third, we need to reflect in our dialogue the fact that consumers' concerns are increasingly global, and their interests should somehow be integrated in a process of this kind.

Fourth, as proposed by the Asia-Europe Vision Group we should give particular emphasis to education, boosting student exchanges between the two regions and building up greater awareness of each others' cultural, social and scientific traditions among the young people who will lead our societies in future years.

Fifth, ASEM III should take up the enlargement challenge expressed at previous summits in Bangkok and London, thus providing for a comprehensive partnership bringing Europe closer to Asia as a whole.

The long-term credibility of the ASEM process demands that we reach some practical conclusions on this issue at Seoul. But however the agenda is defined, I am convinced that our discussions at this seminar will help making the summit a fruitful one.

DINNER SPEECH

(July 10th)

Young-Jin CHOI

Deputy Minister of Foreign Affairs and Trade of Korea

1. Dr. Kyung-Tae Lee, President of the Korea Institute for International Economic Policy, ASEF representative, Deputy foreign Minister of Thailand, Sukhumbhand Paribatra, Friends and colleague, Introduction of Oh and Lee.
2. ASEM is only three months away ..Three topics for this conference: the Reform Process in Asia and Europe, ASEM and Trade Issues, and ASEM and Political Dialogue. All this is pointing to October, ASEM III. ASEM embodies the links between Asia and Europe. This trans-Eurasian link is weaker than that of the trans-Atlantic or trans-Pacific links. The mobility the ocean provides us with has been far greater than that of the Silk Road.
3. But the trans-Eurasian link is older than the other two. Would you believe it if someone told you that ASEM was conceived not six years ago in Bangkok but some 4 centuries ago by a German philosopher.

“It is in my view a unique disposition of fate which has placed the highest civilizations the human race has achieved, as it were, at the two extremities of our Eurasian continent ...while they reach out their arms to one another, everything that lies between them is gradually brought to a higher way of life.”

(quote from the German philosopher Gottfried Leibniz)

4. Now, we are trying to fulfill this prophesy, thus completing the creation of a global village. Come October 21, the AECF, the chair's Statement along with Photographs will remain. Senior Officials from 26 countries are struggling to strike a balance on a balance on a number of issues contained in those two documents.
5. Korea, as host of ASEM III, has taken on the responsibilities of broker and mediate or to reach a compromise between two sets of seemingly opposing concepts. Currently there are 5 to 6 issues in brackets. I would not bother you with all the details of those issues under negotiation. But what I can say is that most of them reflect as much political reality as cultural differences. Thus, ASEM has a strong

cultural underpinning. Because the problem arises from culture, the solution should also be found in culture. Let me explain why.

6. ASEM has three pillars of cooperation, political, economic and socio-cultural. Among them, the political pillar differentiates ASEM from APEC, which is a purely economic entity. Consequently some issues in the political pillar stand out, project cultural contrasts between our two civilizations, East and West. To make a long story short, the issue of human rights vs. non-intervention epitomizes those contrasts.
7. Their attitude and approach reflect not so much their respective political and economic reality as deeply rooted cultural traits. Indeed, “culture is prior to politics and economics.” The knowledge based economy and E-commerce notwithstanding, we, each of us in Asia and Europe, still demonstrate very contrasting cultural traits. Absolute, fractional, exclusive, assertive, active, extroverted, intellectual and analytic are some Western cultural traits. Relative, integral, inclusive, receptive, passive, introverted, intuitive and synthetic are some Asian cultural traits. Through the ASEM process, it is fascination to witness these traits unfold through various issues, in their presentation and in the arguments in defense of them.
8. Westerners and Asians have different golden rules in human relationships. Europe’s golden rule reads: “Do unto others as thou would have them do unto thee.” Thus, for them, the inclusion of the concept of human rights, good governance and civil society in the ASEM process is very important. Asia’s golden rule reads: “Do not do unto others what thou do not want do unto thee.” Thus, for them, the inclusion of the concept of non-interference in internal affairs is nothing unusual.
9. When they get together to explain their positions, their arguments are reinforced by their respective cultural traits: Western thoughts holds that “You are the light of the world. You give light to everyone in the house.” It becomes a duty for them to propagate human rights. Asian thoughts holds that “Mud is used to make vases, but it is the emptiness of the vase that becomes useful. And doors and windows are used to make rooms, but it is the emptiness of the room that becomes useful.” Thus, the assertiveness of Western of Western evangelism appears unproductive to Asian eyes.
10. How do we find solutions to these questions emanating from culture? The answer can also be found in culture. If we cannot accept the view that “do unto other what thou do not want others to do unto thee.” we cannot put the concept of non-intervention alone in ASEM document, either. Thus, the compromise in ASEM

should be accepting two golden rules as they are. In other words, there may be no other solution than to accept both human rights and non-intervention. We may find suitable expressions and arrangements for them. Both Asia and Europe can explain this solution according to the “spear and shield” theory.

11. Conclusion

In ancient China, more than 25 centuries ago, there were merchants in the bazaar. A merchant sold spears and claimed that one of the spears he was selling was so good that no shield would stand it. At the other side of the bazaar, another merchant sold shields and claimed that one of the shields he was selling was so good that no spear in the world would pierce it. A wise man assembled and asked them what would happen if he tried the particular spear against the particular shield. The two merchants, realizing a contradiction in their claims, separated and tried not to sell their stuffs in the same place again.

LIST OF PARTICIPANTS

- Myrna S. AUSTRIA** *Senior Research Fellow, Philippine Institute for Development Studies
Project Director, Philippine APEC Study Centre
Network Secretariat
Philippines*
- Pierre BARROUX** *Deputy Executive Director, Asia-Europe Foundation
Singapore*
- David CAMROUX** *Director, The Sciences Po Asia-Europe Programme
France*
- Suthiphand CHIRATHIVAT** *Associate Professor of Economics and Dean,
Chulalongkorn University
Thailand*
- Arnaud d' ANDURAIN** *Chargé de Mission, Centre d' Analyse et de
Prévision, Ministry of Foreign Affairs
France*
- Helene DA COSTA** *Foreign Correspondent, Radio France International
France*
- Teofilo C. DAQUILA** *Senior Lecturer, Graduate School of Arts and Social
Sciences, National University of Singapore
Associate Fellow, Institute of Southeast Asian
Studies
Singapore*
- Donal J. DONOVAN** *Director, IMF Singapore Regional Training Institute
Singapore*
- Joern DOSCH** *Fulbright Scholar, Asia Pacific Research
Programme, Stanford University
Institute of Political Science, University of Mainz,
USA*
- Robert G. FAHS** *Assistant Professor, European Studies Programme,
National University of Singapore
Singapore*

- Gianni FODELLA** *Professor, University of Milan
Director, Center of Economy and Technology for
East Asia
Italy*
- Julie GILSON** *Lecturer, Department of Politics, The University of
Birmingham
Deputy Director, Asian Studies Programme, The
University of Birmingham
United Kingdom*
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Juergen RUELAND	<i>Professor, Political Science, University of Freiburg Chairman, Advisory Council on Southeast Asia, German Society of Asian Affairs Germany</i>
Il SAKONG	<i>Chairman and CEO, Institute for Global Economics Chairman, Asia-Europe Vision Group Korea</i>
Giuseppe SCHIAVONE	<i>President, Institute of European Studies "A. De Gasperi" Professor of International Organization, School of Public Administration Italy</i>
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Juergen A.R. STAKS	<i>Director, Southeast Asia, Australia, New Zealand, Pacific, ASEM/ASEAN/APEC Division, German Foreign Office Germany</i>
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Manh Hung TRAN	<i>Commercial Counsellor, Embassy of Vietnam Korea</i>

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Senior Economist, The Vienna Institute for International Economic Studies
Austria*

Willem VAN DER GEEST *Director, European Institute for Asian Studies
Belgium*

Pote VIDET *Managing Director, Credit Suisse First Boston
Thailand*

Ian WRIGHT *ASEM Desk Officer, South-East Asian Department,
Foreign and Commonwealth Office
United Kingdom*

Jingge XIA *Third Secretary, ASEM Division, Foreign Ministry
of China
China*

Chengxu YANG *President, China Institute of International Studies
China*

Lay Hwee YEO *Research Fellow, Singapore Institute of International
Affairs
Singapore*

Hyungsoo ZANG *Research Fellow, Korea Institute for International
Economic Policy
Korea*

SPEAKERS AND DISCUSSANTS' PROFILES

Pierre BARROUX is the Deputy Executive Director of the Asia-Europe Foundation. Mr. Barroux is a French Literature and Chinese studies graduate from the Sorbonne and the University of Paris VII, and is also a graduate of the Institute of Political Studies (International Relations) and the School for Oriental Studies (Chinese) in Paris. Mr. Barroux has held academic positions as Lecturer of French at the University of Singapore and Nanyang University (1972-74), as well as head of International Relations at the President's Office at the University of Paris VII. After graduating from the renowned National School of Administration in Paris (1981), Mr. Barroux's diplomatic career began as First Secretary for Economics and Middle East at the French Embassy in Japan (1981-83) and then Press Counsellor (1983-85). He has also been the Coordinator for Asia and Oceania at the General Directorate for Cultural, Scientific and Technical Relations with the Ministry of Foreign Affairs in Paris (1985-87). Mr. Barroux has also been the French Consul General in Shanghai (1987-91), the Cultural and Scientific Counsellor at the French Embassy in India (1991-94) and the Minister-Counsellor at the French Embassy in Peking (1994-97).

Suthiphand CHIRATHIVAT is currently Associate Professor of Economics and Dean of Faculty of Economics at the Chulalongkorn University European Studies Programme. He was also the former Director of the same programme. After completing the high school education at Assumption College, Bangkok, he went to France and received both his Bachelor and Master in Economics from the University Aix-Marseille, then continued his further studies for the Doctorat de 3^e cycle des Sciences Economiques from the University of Paris I - Pantheon - Sorbonne. Among professional positions held, Dr. Suthiphand was an instructor and assistant professor at Kasetsart University, and also a consultant to a number of public and private international institutions. He is executive member of the Economic Society of Thailand, and Thai University Research Association. He is also attached as an associate editor to the Journal of Asian Economics since 1995. He is actively involved in the Thai policy formulation in the areas of international trade and investment. He has participated as well in a number of academic projects and fora in ASEAN, Asia-Pacific region as well as Europe. Having many publications to his credit, Dr. Suthiphand's more recent publications included ASEAN-EU Economic Relations: The Long-term Potential beyond the Recent Turmoil (co-eds with Carlo Filippini, Corrado Molteni), EG-EA, Milano, 1999, Asia-Pacific Economic Community? (co-eds with Dutta, Green and Paitoon), Jai Press, 1995, "ASEAN Prospects for Regional Integration and the Implications for the ASEAN Legislative and Institutional

Framework” with Chumporn Pachusanond and Patcharawalai Wongboonsin in ASEAN Economic Bulletin, Vol. 16, No. 1, April 1999.

Donal J. DONOVAN, a national of Ireland, received his undergraduate training in economics from Trinity College, University of Dublin and a Ph.D in Economics from the University of British Columbia, Vancouver, Canada. Mr. Donovan joined the IMF in 1977 and worked initially in the African and Exchange and Trade Relations departments. Since 1986, he has held a series of senior positions in the African, Statistics, and European II departments (the department responsible for the IMF's relations with the former Soviet Union and where he was appointed Senior Advisor in 1996). Since 1998, he has been Director of the IMF-Singapore Regional Training Institute. Mr. Donovan has published several papers dealing IMF conditionality, the external debt crisis of the early 80s and the recent Asian crisis. He speaks French, Spanish, and Russian.

Richard HIGGOTT is Director of the Economic and Social Research Council Centre for the Study of Globalisation and Regionalisation and Professor of International Political Economy at the University of Warwick and Principal Adviser to the Royal Institute of International Affairs at Chatham House. Previous appointments include Chairs in Government at the University of Manchester and International Relations and Public Policy at the Australian National University where he was also Director of the Graduate Programme in Foreign Affairs and Trade and Director of the Australian Institute of International Affairs. He is currently the Editor of The Pacific Review and author/editor of some 15 books, monographs and anthologies and a hundred or so refereed articles and book chapters in international political economy, development studies and the political economy of the Asia Pacific. Non State Actors and Authority in the Global System (co-editor) was published by Routledge in January 2000 and The New Political Economy of Globalisation (2 vols. co-editor) in December 2000.

Chong Wha LEE is a Research Fellow of the Korea Institute for International Economic Policy (KIEP). He began his career with the Daewoo Economic Research Institute in 1996 after earning his Ph.D in Economics from the University of Paris I. In 1997, he joined KIEP as a Research Fellow. In 1998 he was appointed Advisor to the Chairman of Asia Europe Vision Group. Since 1998, Dr. Chong Wha Lee has been active in the field of ASEM and European Union research. His publications include ‘Tariff versus Export Subsidy: An Endogenous Growth Perspective’ (The Korean Economic Association Vol. 13, No. 2, Winter 1997)’ and several working papers on ASEM.

Dr. Kyung Tae LEE is the President of Korea Institute for International Economic

Policy (KIEP). He started his career at the Ministry of Finance, prior to receiving his Ph.D in Economics from George Washington University. Subsequently, he served as a Research Fellow and Vice-President of the Korea Institute for Industrial Economics and Trade (KIET), having played a crucial role in shaping Korea's economic policy in his capacity as a member of various economic advisory and planning committee to the government. He currently serves as a member of the Industrial Development Committee, an advisory committee to the Minister of Trade and Industry, and is a member of the East Asia Vision Group.

Since January 1997, **Jean-Pierre LEHMANN** has been Professor of International Political Economy at the International Institute for Management Development (IMD) in Lausanne. Jean-Pierre Lehmann has had both an academic and a business career which over the years has encompassed activities on virtually all East Asian and Western European countries, as well as North America. More recently he has been engaged in working on projects also in Brazil, Argentina, Venezuela, Egypt, and South Africa. In 1995, he launched a series of high level annual meetings of senior officials, business leaders, and academic experts from Europe, East Asia and North America, in Evian, France, on the theme of *International Economic Organisation in the Post-Uruguay Round Era: Agenda for Europe and East Asia*. It has now been constituted as "the Evian Group." the primary mission of which is to promote a global open rules based multilateral economic system by fostering dialogue across continents (Asia and Europe), across constituencies - the public and private sectors - and between policy makers and policy thinkers. Jean-Pierre Lehmann was born in 1945, of French nationality, he obtained his undergraduate degree from Georgetown University, Washington DC, and his doctorate from Oxford University. He is the author of several books, numerous articles and reports on modern East Asian history and political economy.

Dr. **Paul LIM** is presently Senior Research Fellow at the European Institute for Asian Studies and was one of its Co-Founders. He obtained his doctorate in sociology at the Catholic University of Louvain-la-Neuve and had been a Maitre de Conference invited there. Until recently he was Political Adviser on Asian matters at the European Parliament. He has written extensively on subjects related to EU-Asia relations, for example, ASEM and EU-ASEAN relations and co-edited and published a book on "Asian Values: Encounter with Diversity" in 1998.

Simon NUTTALL is Visiting Professor at the College of Europe, Bruges, where he teaches a course on European foreign policy. He is also Task-Force Co-ordinator of the Council for Asia-Europe Co-operation (CAEC). After a period in the British Diplomatic Service and the Council of Europe, Strasbourg, he joined the European Commission,

where his last position before retirement was Director, Far East. He is the author of *European Political Co-operation* (Oxford, 1992), and of *European Foreign Policy*, an account of the origins of the common foreign and security policy of the EU, which will be published this summer.

M.R. Sukhumbhand PARIBATRA has been Deputy Foreign Minister of Thailand and a Member of Parliament since November 1997. His academic career includes positions as Associate Professor at the Department of International Relations, Faculty of Political Science, Chulalongkorn University (1980-1996) and Director of the Institute of Security and International Studies (1987-1993). He was an advisor to the House of Representatives Standing Committee for Foreign Affairs (1986-1988 and 1989-1991) and for House Affairs (1989-1991) as well as a policy advisor to Prime Minister General Chatichai Choonhavan (1988-1989). He was Chairman of the Ministry of Commerce's Advisory Committee on International Commerce (1992-1993) and president of the Social Sciences Association (1991-1993). He has also been very active internationally as a member of the International Institute for Strategic Studies, London, and of the International Council of Asia Society, New York. Indeed, he was selected in 1994 for Time Magazine's "Global 100," a list of potential leaders for the twenty-first century.

Dr. Michael REITERER, Counselor-ASEM, European Commission, Brussels, holds a JD from the University of Innsbruck and Diplomas in international relations from the Johns Hopkins University- School of Advanced International Studies/Bologna Center and the Graduate Institute of International Studies in Geneva. He began his career in the Austrian foreign trade representations, serving in Abidjan/Cote d'Ivoire (1982-85) and Tokyo/Japan (1985-89). As counselor at the Austrian Permanent Representation to the GATT in Geneva he negotiated in the GATT Uruguay Round (1990-92). Before joining the European Commission in 1998 he served as Minister-Counselor at the Austrian Permanent Representation to the EU. From 1996-98 he was also Co-chair/trade of the OECD Joint Session of Trade and Environment Experts. Dr. Reiterer has a long teaching record at institutions of higher learning and as speaker in many international conferences on international relations and law. He has published a monograph on international refugee law and contributed more than 50 articles to national and international journals, specialising in international economic relations and law.

Dr. Juergen RUELAND is Professor of Political Science at the University of Freiburg, Germany. He began his career with the Arnold-Bergstraesser-Institute at Freiburg, where he worked as a research fellow from 1978 until 1991. In 1991 he was appointed acting professor at the University of Passau. From 1993-1998 he held a professorship at

the University of Rostock. Professor Rueland spent several years as a research fellow and visiting lecturer at the University of the Philippines, Manila and Iloilo City, Chiang Mai University, Asian Institute of Technology, Bangkok, Universiti Sains Malaysia, Penang, and Universitas Indonesia, Jakarta. Since 1995 he is the Chairman of the Advisory Council on Southeast Asia of the German Association of Southeast Asian Studies. In 1999 he was appointed external examiner by the University of Malaya, Kuala Lumpur. Among his more recent publications are "*Political Systems in Southeast Asia*." Landsberg 1998 (in German) and "*The Dynamics of Metropolitan Government in Southeast Asia*." Singapore: ISEAS, 1997. Professor Rueland has also written numerous articles on regional and interregional cooperation with a focus on Europe and Asia.

Dr. **II SAKONG** (Republic of Korea) is currently Chairman and CEO of the Institute for Global Economics. He chairs the ASEM Vision Group, eminent persons group for ASEM. Dr. SaKong served in the Government of the Republic of Korea as Minister of Finance (1987-88) and Chief Economic Secretary to the President (1983-87). He also was Senior Counsellor to the Minister of Economic Planning (1982), and Senior Economist of the Presidential Council on Economic and Scientific Affairs (1979-80). Before joining the Korean Government, Dr. SaKong held the positions of Senior Fellow, Research Director and then Vice President of the Korea Development Institute (KDI) (1973-1982). Since 1989, he has been Special Consultant to the International Monetary Fund in Washington D.C. Dr. SaKong has written/edited numerous books and articles on the Korean economy, on economic development, international finance and trade policy issues.

Hadi SOESASTRO is the Executive Director of the Centre for Strategic and International Studies (CSIS). Currently he is also a member of the National Economic Council, and Advisory Council of President Abdurrahman Wahid. He is a lecturer at the University of Indonesia (Jakarta) and Atma Jaya University (Yogyakarta) and has taught at Columbia University (New York), the Australian National University (Canberra), and University of Colima (Mexico). He is a member of the International Advisory Boards of various international institutions and organizations, including The Asia Society (New York), and is a member of the Editorial Board of a number of international journals, including the ASEAN Economic Bulletin (Singapore) and the Bulletin of Indonesian Economic Studies (Canberra). He has been active in PECC (Pacific Economic Cooperation Council) since its inception and is also a member of the International Steering Committee of PAFTAD (Pacific Trade and Development). He is also involved in other "track Two" activities through CSCAP (Council for Security Cooperation in Asia Pacific) and CAEC (Council for Asia Europe Cooperation). He has written extensively on energy issues, international trade, regional cooperation (ASEAN, APEC),

the relationship between economy and security, and the role of technology in development.

Philippe TRAINAR is director at the French Federation of Insurance Companies (Fédération Française des Sociétés d'Assurance; FFSA) since November 1999. Economist and civil servant by training, he has been personal economic advisor of a former French prime minister (1993-1995), supervisor of the French public company France Télécom (1998-1999), deputy director in charge of international affairs at the French ministry of finances where he began his career in 1981. He has been active in the fields of economic forecasts, labour market regulation, social security, public finances, international affairs, telecommunication and insurance. He has published academic and more general articles, including on the Asian crisis.

Dr. Willem Van Der GEEST is the Director of the *European Institute for Asian Studies (EIAS)* as of April 1999, after having served two years as its Research Director. Willem van der Geest has worked in leading international academic institutions analysing issues of economic development: during 1980-83 he was a research officer at the Institute of Social Studies as well as a lecturer in economics at the University of Leiden (NL). From 1987-92, he was a Senior Research Economist at the Queen Elizabeth House, University of Oxford, working on research assignments involving the modeling of policy interventions in markets in the context of economic reforms. He has much experience of policy-oriented work as an advisor in various Asian and African countries on behalf of UNDP and World Bank. He was Macroeconomic Advisor to the Ministry of Finance, Government of Bangladesh (1984-86), and also worked with UNCTAD, Geneva (1992) and ILO, Geneva (1995-1997). He published several books, including *Negotiating Structural Adjustment, Trade Diversification in the Least Developed Countries, Adjustment and Employment* and numerous articles applying economic analysis to the evaluation of public policies. Educated at the Universities of Leiden, Stockholm and Cambridge, he holds a M. Phil and Ph.D in Economics from the Faculty of Economics and Politics of the University of Cambridge; his Ph.D thesis was entitled *Distribution-Improving Development Policies*. He has worked closely with leading scholars including Professors David Newbery (Cambridge), Robert Cassen (London School of Economics) and Frances Stewart (Oxford).

Mr. Pote VIDET has worked in investment banking for nearly 25 years and is currently Managing Director of Credit Suisse First Boston. In its first world-wide survey, *Global Finance* magazine selected Mr. Videt as one of the top bankers in the emerging markets. Mr. Videt served briefly in 1997 as Deputy Minister of Commerce of the Thai Government. Mr. Videt graduated *summa cum laude*, Phi Beta Kappa from Yale

University with an A.B. degree in economics and holds an MBA degree with distinction from Harvard Business School. He currently serves on the Boards of Vinythai PLC and the Asia Society.

Chengxu YANG was born in Qingdao, Shandong Province in 1930, and graduated from Shanghai Fu Dan University in 1952. He once worked in the China Journalists' Association for years. He joined the Foreign Ministry in 1972 and worked as secretary, counsellor and minister-counsellor successively in the Chinese Embassies in West and East Germanies. He was appointed the Chinese Ambassador to Austria in 1985. After returning to China in 1989, he worked as deputy director-general of the West European Department and then the director-general of the Policy Planning Department in the Foreign Ministry. In mid-1993, he was appointed president of China Institute of International Studies.



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ISBN 89-322-3027-7

89-322-3020-X(세트)

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Price USD 15