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An Appraisal of ASEM Economic Dialogues and Future Prospects

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**KOREA INSTITUTE FOR
INTERNATIONAL ECONOMIC POLICY**

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Executive Summary

This paper seeks to conjecture the future navigation of ASEM with an emphasis on Gerald Segal's "subsidiarity question" taking account of the recent development of trade and investment relations in ASEM. The progress achieved in ASEM does not yet meet the requirement dictated by the subsidiarity question. As for the future of the ASEM process, there seem to be three broad scenarios: the status quo scenario, APEC-type evolution scenario and hybrid scenario. Under the status quo scenario, its agenda will be aimed primarily at facilitating information networks. 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. Under the hybrid scenario, ASEM can be used as a useful vehicle to facilitate information networks and to reinforce open multilateralism at the same time. A more plausible scenario to date may well be somewhere in between the status quo scenario and hybrid scenario taking into account the new initiatives for ASEM, including a non-binding study of TFAP. Finally, it is to be noted that a substantive agenda, if not agreement, has to be paralleled with the launch of the Doha Development Agenda(DDA) negotiations. Actually, with regard to the DDA negotiations, it could be said that the main conflict arises from discrepancy between the EU and ASEAN, especially for those Singapore issues. In addition, if the EU takes the initiative vis-à-vis the US in advancing the DDA, it would be from ASEM that the EU seeks support during the negotiations. Therefore, if ASEM provides a useful vehicle for the success of the DDA negotiations, for example during the fourth ASEM Summit Meeting, it turns out to be really WTO-enhancing. If this is the case, ASEM would give a decisive momentum to multilateral liberalization and the ASEM process as well, which would allow it to be found either somewhere between the hybrid scenario and APEC-type evolution scenario or even beyond that level.

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Contents

I. Introduction	4
II. ASEM: A Retrospective	6
III. Recent Development of ASEM Economic Dialogues	9
1. The Third ASEM Summit	9
2. The Second Economic Ministers' Meeting	10
3. The Sixth Senior Officials' Meeting on Trade and Investment	12
IV. An Assessment of ASEM's Achievements	16
V. Prospects for ASEM: Three Scenarios	19
1. Status Quo Scenario	20
2. APEC-type Evolution Scenario	20
3. Hybrid Scenario	22
VI. Concluding Remarks	24
References	26
國文要約	30

I. 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

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

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 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

trading system. For a detailed explanation of the two categories of political economy arguments, see Frankel (1997, chap. 10).

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 first and second ASEM, focusing on trade and investment relations. Section touches upon the recent development of economic dialogues, with an emphasis on the progress achieved at the third ASEM Summit Meeting, the second Economic Ministers’ Meeting (EMM), and the sixth Senior Officials’ Meeting on Trade and Investment (SOMTI). Section investigates whether ASEM’s recent development satisfies the requirements dictated by the “subsidiarity question,” which is deemed to be highly relevant in shaping the agenda for ASEM. For this purpose, three arguments will be noted: establishing information networks between Asia and Europe, reinforcing open multilateralism and providing development aid to the rest of the world. Based on the background established in the previous section, Section proposes three different directions ASEM can take in terms of its trade and investment agenda. Section offers conclusions.

II. ASEM: A Retrospective

The ASEM process emerged from a realization in both Europe and East Asia that they lacked an inter-regional framework for relations. The EU, concerned about being excluded from APEC, was keen to counter the growing U.S. 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. Therefore it would be safe to argue that ASEM was a European and Asian answer to the rapid progress of APEC, or put simply, a European version of APEC.

The inaugural first ASEM was convened in Bangkok in March 1996 based on the formative agenda promoting economic, political and social links between East Asia and Europe. Outcomes from the Bangkok ASEM summit were of greater success than had generally been anticipated. The wide range of initiatives was generated, involving ministerial and senior officials’ meetings, and experts’ meetings in various fields of

cooperation. The plethora of activities reflected the initial enthusiasm and optimism. However, political and civil society issues were at a standstill because of the EU's unease with the East Timor issue, followed by Myanmar's human rights record.⁵ Evidently, the economic dimension has been one of the major areas of focus and remains high on the overall ASEM agenda as expressed in the Chairman's Statement at 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

Below are explicit objectives which constitute the future direction of ASEM:

- (1) Reinforcement of open multilateralism focusing on the WTO and promotion of open regionalism⁷
- (2) Enhancement of economic exchanges between Asia and Europe, in particular, facilitation of trade and investment⁸
- (3) Increased cooperation among the business and private sectors of the two regions⁹

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 first ASEM summit, the second 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 do so (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

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 other senior officials. ASEAN has taken strong exception to this demand by the EU. (*Business Times* 1999a, 1999b)

⁶ Para. 10 of the Chairman's Statement of First ASEM.

⁷ "Such a partnership should be based on the common commitment to market economy, open multilateral trading system, non-discriminatory liberalisation and open regionalism." (*Ibid.*, para. 10) " ..ASEM process should complement and reinforce efforts to strengthen the open and rule-based trading system embodied in the WTO." (*Ibid.*, para. 11)

⁸ "To promote greater trade and investment between Asia and Europe, the meeting agreed to undertake facilitation and liberalisation measures .." (*Ibid.*, para. 12)

⁹ "The Meeting agreed to encourage the business and private sectors ..to strengthen their cooperation with one another and contribute towards increasing trade and investment between Asia and Europe." (*Ibid.*, para. 12)

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.¹⁰ The ASEM Trade and Investment Pledge set the tone for the rest of the 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 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 1998.¹¹ In addition, the EU decided to create the Clearing House for the European Financial Expertise Network (EFEX).¹² This network will facilitate access to European expertise for Asian partners involved in reforming their financial sectors.

Between the first and second ASEM summits, the ASEM process was maintained by a series of working groups, action plans and ministerial meetings, including:

- Senior Officials' Meeting on Trade and Investment, which plays a pivotal role in overseeing the economic aspects of ASEM
- Trade Facilitation Action Plan (TFAP) and Investment Promotion Action Plan (IPAP), which explore ways to promote inter-regional trade and investment

¹⁰ "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." (Para. 14 of the "Financial and Economic Situation in Asia," addendum statement to the Chairman's Statement of Second ASEM)

¹¹ Para. 23 of the Co-Chairmen's Summary of SOMTI (Senior Officials' Meeting on Trade and Investment) , Singapore, February 11-13, 1999.

¹² *Ibid.*

flows, covering numerous regulatory and networking issues

- Asia-Europe Business Forum (AEBF), consisting of private business leaders to foster business links between the two regions
- foreign, economic and finance ministerial meetings convened every 12-18 months to discuss macro-issues

III. Recent Development of ASEM Economic Dialogues

1. The Third ASEM Summit

The third ASEM summit in Seoul in October 2000 apparently laid a solid foundation for moving the ASEM process forward, adopting a number of new initiatives, with the political and security dimension undoubtedly the strongest example. In the economic session, leaders discussed globalization, the Asian financial crisis and new financial architecture, the WTO and the early launch of a new round, the digital divide and how to combat high oil prices. The three documents adopted by the leaders were the Chairman's Statement, covering more immediate issues of dialogue, the Asia-Europe Cooperation Framework 2000(AECF 2000), overall guidance and coordination of ASEM activities for longer term, and the Seoul Declaration for Peace on the Korean Peninsula.

The AECF 2000 sets out the economic and financial priorities for the future and notably includes a commitment to intensifying dialogue in high technology sectors of common interest such as agro-technology, e-commerce, transport, energy and environmental engineering (para. 16). The meeting also yielded several new initiatives for forging ahead towards the information age including the Trans-Eurasia Information Network, tackling the digital divide between rich and poor countries and convening a conference on e-commerce and logistics. These are summarized in the following table.

**Table 1: Main Elements of Initiatives Adopted at the Third ASEM Summit
(economic issues)**

Initiatives adopted	Principle objective
Trans – Eurasia Information Network	Facilitate speedier exchange of knowledge and information
Initiatives to Address the Digital Divide	Develop cooperation projects to reduce the digital divide and technology gap
ASEM Roundtable on Globalization	Stimulate discussions and set policy priority in order to maximize the benefits of globalization
Conference on E-Commerce and Logistics	Examine relevant measures to facilitate e-commerce in the region
Seminar on Asia-Europe Cooperation on SMEs	Build up contacts and exchanges of information and views among existing SME associations and institutions in the region
Seminar on IT Technology	Provide an opportunity to identify future collaboration on IT development

However, when the actual achievements of the meeting are examined, they do not seem to constitute a radical departure from previous ASEM work. Indeed, these can be considered low-level cooperative initiatives, containing rather limited and vague details to achieve these objectives.¹³ Leaders also agreed to work for the early launch of a new “inclusive” WTO round of which the negotiating agenda should reflect an overall balance, responding to the interests of all WTO Members.¹⁴ However, everyone knows that this is in fact merely an aspiration without a substantive agenda for achieving that goal.

2. The Second Economic Ministers’ Meeting

Participants at the second Economic Ministers’ Meeting (EMM) in Berlin in October 1999 pointed out that “following the phasing out of the financial and

¹³ It is to be noted that right after the third ASEM summit, German Chancellor Gerhard Schroeder said that ASEM needs “to focus more concrete topics if it is to be a success.” (Bangkok Post, October 23, 2000)

¹⁴ Para.11 of the Chairman’ s Statement of the third ASEM, Seoul, October 20-21, 2000.

economic crisis in East Asia and the introduction of the euro, the conditions were in place for a dynamic new chapter in the further development of economic and commercial relations between the two regions.”¹⁵

Regarding trade and investment, the decision made at 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 a list of the most important non-tariff barriers encountered by their ASEM partners, adopted at the 3rd ASEM summit in Seoul in October 2000. ¹⁶

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 they have utilized in order to attract FDI. These measures have been grouped into 9 categories.

The nine measures, annexed to the Co-chairs’ Statement of the Third Investment Experts Group Meeting, July 5-6, 1999, Brussels, are as follows:

- Investment Promotion Agencies for both attraction and facilitation
- 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

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

¹⁵ *Ibid.*, para. 3 and para. 7.

¹⁶ *Ibid.*, para. 9

activities they have undertaken to improve the investment climate in their countries.¹⁷ In addition, the Ministers launched the Virtual Information Exchange (VIE), an Internet device which should provide valuable data on business conditions.¹⁸

However, potentially substantive proposals such as the ASEM Vision Group's suggestions for a Eurasian free trade zone by 2025 have received little support from either Asian or EU leaders. EU leaders in particular have cited their preference for pursuing trade liberalization through multilateral channels.

On the WTO issue, 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 that such a move could lead to protectionism of the EU to keep their products out. 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, however, inclusion of "anti-dumping" is certainly a step forward from the APEC meeting held in September 1999, since this could never have happened if the U.S. was participating in the conference.

3. The Sixth Senior Officials' Meeting on Trade and Investment

Following EMM , SOMTI was held in Seoul in May 2000 which focused on preparation of economic areas to be discussed at ASEM , as well as the achievements made in respect to TFAP and IPAP. As for TFAP, e-commerce was added as an additional priority area, and the list of the major trade barriers was reviewed as shown in Table 2.

¹⁷ Para. 11 of the Chair Statement of Second ASEM Economic Ministers' Meeting, Berlin, October 9-10, 1999.

¹⁸ *Ibid.*, para. 11.

¹⁹ Para. 20 of the Chair Statement of second ASEM Economic Ministers' Meeting, Berlin, October 9-10, 1999.

ASEM partners are expected to report to SOMTI once a year on the measures each takes to address these barriers. Coordination will then be set in place to resolve these obstacles. The list, however, is generic and does not designate any specific country, which, at a glance, does not seem to be ideal with regard to resolving specific problems. However, this generic feature of the list 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.

Table 2: Extract of “Consolidated and Prioritised List of the Major Generic Trade Barriers Among ASEM Partners”

TFAP Priority Areas	Major Generic Trade Barriers
Customs Procedures	-Lack of transparency -Complex and/or costly regulations -Problems with customs valuation and customs reclassification
Standards and Conformity Assessment	-Existence of double standards in regulations -Differences in national standards among ASEM partners -Lack of transparency in regulations
Public Procurement	-Bidding restrictions -Short notice of tenders -Requirements of technology transfer and counter-trade
Quarantine and SPS Procedures	-Discrepancy between national and international standards and lack of harmonization -Restrictive, non-transparent, costly and/or complex import licensing systems -Non-recognition of competent authority -Restrictive labeling rules
Intellectual Property Rights	-Widespread infringement of IPR -Insufficient or unequal enforcement of existing IPR legislation
Mobility of Business People	-Complex, time-consuming and rigid procedures for the issuance of visas -Lengthy and/ or restrictive work and residence permit procedures
Distribution	-Limitations on foreign ownership -Ambiguity and lack of transparency in legislation and its implementation -Restrictive licensing terms and requirements for foreign companies

²⁰ *Ibid.*

Others	<ul style="list-style-type: none"> -General lack of transparency and legal certainty -Measures which may cause trade distortion effects such as production support and export subsidies -Excessive requirements for documentation, long delays, and discrimination against foreign companies and products
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It is difficult to quantify what influence the existence of ASEM has had on developing Asia-Europe linkages, given the process' s lack of substantive objectives. In its first four years, the ASEM process has been largely concerned with socialization, i.e., fostering network links between policymakers, business people, societal representatives and other professional elites. Critics have described these measures as being diplomatic rhetoric rather than substantive progress. However, in the initial years of ASEM, it was necessary to build confidence between the two regions. Nevertheless, as mentioned above, ASEM is now expected to be more consolidated in terms of its goals and agenda if it is to survive in the new millenium.

Table 3: Comparison of ASEM with Other Large RTAs

			ASEM	APEC	ASEAN	EU	NAFTA
Degree of Integration	Trade	Trade facilitation	O				
		FTA ¹⁾		O	O		
		Above FTA				O	O
	Investment	Declaration of FDI promotion	O				
		Non-binding investment principle		O			
		Binding investment principle			O	O	O
Regional Relationship	Inter-regional						
	Intra-regional			O	O	O	O
	Trans-regional		O				

1) Including the case where RTAs set a target year for liberalization

Before we go to the next section, it would be highly worth to examine ASEM's characteristics compared with other main RTAs, focusing on the degree of economic integration on one hand and regional relationship on the other. Concerning the latter, an interesting academic question is whether ASEM should be treated as an inter-regional dialogue, or viewed as a dialogue among twenty-six actors. No doubt, APEC is a form of intra-regional cooperation within the Asia-Pacific region, while ASEM is about cooperation between two distinct regions, i.e. Asia and the EU. According to Yeo (2000), ASEM is in fact a new form of interaction between regions which should be termed trans-regional rather than inter-regional cooperation. The reason for this distinction is that the great institutional gap between a well defined regional entity like the EU and a loose coalition of ten East Asian countries just seems too wide to treat ASEM as an inter-regional dialogue. By calling ASEM a trans-regional dialogue, it is meant that "both regions do not come together as two cohesive regional actors but rather as regional groupings comprised of individual members with their individual agenda and individual voices" (Köllner 2000).

This distinction between inter-regional and trans-regional dialogue might be academic, but it does have practical implications on the limits of Asia-Europe cooperation. The difference was highlighted in the economic sphere, for example, at the second ASEM Economic Ministers' Meeting especially with regard to so-called new issues for the new WTO round. While the EU had almost one voice, the Asian side had divergent positions: some members of ASEAN were reluctant to include any new issues which are not strictly trade-related; on the contrary, Korea, Japan and Singapore were favorable to including some new issues.

Next, as for the degree of economic integration, unlike other inter-regional or intra-regional dialogues, ASEM has not established any formal trade or investment liberalization target. There seem to be various reasons for this. Among others, two deserve attention. First of all, the recent development, i. e., voluntary progress report and review mechanism of two action plans could be regarded as a good starting point to enhance the economic relationship between the two regions if implemented effectively by making use of peer pressure. The upgrading measures of the two action plans can be regarded as the main instruments for trade and investment liberalization, as Individual Action Plans (IAPs) are in APEC. Therefore, there would be no need to include formally the "eventual goal of free trade in goods and services by the year 2025", as advocated by the ASEM Vision Group in its Major Recommendation No. 1.

Secondly, as Köllner (2000) has argued, trade and investment related matters can be tackled more successfully either at the bilateral level where country-specific

issues can be dealt with or at the WTO level where broader package deals linking different issues can be achieved in a better manner. In short, ASEM does not need to emulate APEC's trade liberalization agenda.

This is true to some extent. However, when we look back over the years, a spate of sub-regional trade agreements (SRTAs) are now being pursued throughout the Asian region. Let's look at a few examples. Japan, after relying solely on the multilateral trading system throughout the post-war period, has now begun to negotiate bilateral FTAs, starting with Singapore and Korea. Korea has made a similar step, negotiating actively with Chile as well as Japan. China, in addition to joining the WTO, proposed an FTA with ASEAN during the ASEAN + 3 summit in Singapore in November 2000. The proposal was quickly converted into a study of a full-fledged East Asia Free Trade Area that would include Japan and Korea as well (Bergsten 2001).

The mushrooming of SRTAs, according to Bergsten (2001) and Lee and Cheong (2001), is in fact the best route to free and open trade in the APEC region. If this is true for APEC, it is also true for ASEM. Given the difficulties in launching a new round in the aftermath of Seattle, ASEM partners will have to continue to press for the further development of the multilateral trading system by pursuing SRTAs.²¹ Having this in mind, we will assess rigorously the outcome of ASEM.

IV. An Assessment of ASEM's Achievements

The results of ASEM are likely more intangible and hence difficult to measure. Supporters of ASEM tend to point out that ASEM is an overarching, all-purpose forum for dialogue and exchange of views to rebuild the foundations for a long-lasting relationship (Yeo 2000). ASEM's detractors, on the other hand, look for short-term concrete results. According to them, it is questionable whether the ASEM process deserves to be sustained without substantive and concrete results.

For an objective and realistic appraisal of ASEM's achievements, it would be very useful to consider the notion of subsidiarity for ASEM, suggested by Gerald Segal (Segal 1997). In the EU, subsidiarity means that issues should be dealt with at the "most

²¹ A Similar development took place during the stalled negotiations of the Uruguay Round in the early 1990s: the US embarked on a FTA with Canada and NAFTA negotiations at that time.

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 ASEM. If there are good answers only to the second question the ASEM agenda will be less ambitious and have little possibility of a serious future.

According to Segal, there are positive answers to both questions. However, we will focus only on the first question, putting the second aside.²² The first argument answering the question of what is best done at the ASEM level is that governments should take the leading role in enhancing trade and investment flows (Segal 1997). There can be no doubt that when considering the driving force of the Asia-Europe inter-regional economic relationship it is private sector market power, not state sponsored institutional direction that is the determinant. Given that most countries in ASEM possess a market economy, which is thought to be the best means 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 conduits ... 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 rationales for ASEM.

The second point is that by adopting open regionalism as one of the central themes of its deliberations,²³ ASEM can and should be required to reinforce the open

²² Concerning the second question, Segal (1997) enumerates in the economic sphere several issues crucial to the future growth of Asia and Europe: reinforcing educational efforts that contribute to the creation of knowledge-based industries, developing better management skills in an information age economy, coping with the challenges stemming from the age of globalization, etc.

²³ “Such a partnership should be based on the common commitment to market economy, open multilateral system, non-discriminatory liberalization and open regionalism.”

multilateral trading system. Open regionalism means that trade liberalization measures taken in a trading bloc are extended to every other trading partner on a non-discriminatory, unconditional MFN (most favored nation) basis. Open regionalism often denotes “concerted unilateral MFN liberalization of trade.” It is *concerted* in the sense that participants’ collective action in trade liberalization may assist in overcoming domestic obstacles to reform. More liberalization may be achieved if it is known that other countries are liberalizing simultaneously, which in turn will increase market access available in partner countries. 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. Liberalization 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 liberalisation measures are carried out on an MFN basis, no pressure is put 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 U.S., and to “keep the Americas honestly committed to multilateralism” (Segal 1997). It would 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 U.S. 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).

The above-mentioned TFAP and IPAP and other measures taken to reach some sort of agreement on WTO matters can be considered to be a counterweight to any unilateral U.S. moves.

Segal’s third argument for the subsidiarity question for ASEM concerns Asia-Europe cooperation on development 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 much of experience 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).

(Para. 10 of the Chairman’s Statement of the First ASEM)

Building on this backdrop, one is now in a position to tackle the 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 aforementioned non-binding study of TFAP can certainly provide a useful vehicle to develop information networks. No doubt, these discussions can contribute to promote inter-regional trade one day. Nevertheless, at the current time, these are just a series of ideas, and have yet to be transformed into real action. The outcome of the third ASEM summit does not seem to be very significant in this regard. Consequently, the general consensus right after the third ASEM summit was that ASEM needed to focus on more concrete topics if it was to be a success.²⁴

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 U.S. honestly committed to open multilateralism. In this respect, ASEM has failed to reach a consensus in support of the WTO New Round, not to mention that it does not yet act as a force to counter American unilateralism. The third ASEM summit did little to advance multilateral and/or regional trade liberalization.

The Asia-Europe disagreements over the future course of world trade are further proof that the WTO New Round will be very difficult. 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 to this objective, ASEM will have to become more than a venue for verbal exchanges, as spirited and animated as they may seem.

Testing Segal’s third argument for the subsidiarity question for ASEM concerns Asia-Europe cooperation on development aid to the rest of the world. However, it seems premature to test this criterion, considering that there has not been much discussion of this issue to date except the aforementioned initiative to address digital divide, adopted at the third ASEM summit. It appears, therefore, reasonable to conjecture how this issue can be taken seriously in the future.

²⁴ Bangkok Post, October 23, 2000.

. Prospects for ASEM: Three Scenarios

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 Trans-Eurasia Information Network Project, adopted at the third ASEM summit, can be a good example to facilitate inter-regional information exchange.

The ongoing 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 pressure 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 the open multilateral trading system. However, under this scenario, its contribution to open multilateralism appears to be restricted to diplomatic rhetoric. It is questionable whether ASEM will truly be meaningful in the sense that it helps to keep the U.S. committed to global multilateralism. It can be a watchdog for multilateral openness but will 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 are merely follow-up measures on ongoing issues. ASEM would still remain an inter-regional consultative forum, keeping its informal character.

2. APEC-type Evolution Scenario

The fate of longer-term efforts to realize 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, like the EU and ASEAN, which 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 those agreed upon in APEC²⁵

In both cases, the differing development stages of the ASEM members should be taken into account in order to establish an appropriate time frame, allowing the less prepared to follow later. 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 liberalization, shortly before the Bangkok summit, the Asians called for dismantling tariffs on the trade between Europe and Asia in a process analogous to the APEC deadlines for trade liberalization, 2010 and 2020 (Chirathivat and Keefer 1998)

The EU, concerned about exclusion from APEC, fears the world to be split into two large trading blocs 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 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 liberalization 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 Asians, heavily dependent on the markets of the EU and the U.S., are interested in keeping them committed to strengthening an open multilateral trade framework. Under this scenario, it not only brightens ASEM navigation but also provides a decisive momentum to multilateral liberalization. In recent years there has been dynamic interaction towards trade liberalization between regional and multilateral initiatives.²⁶ 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 slowed by the failure of its Early Voluntary Sectoral Liberalization (EVSL), this has heightened the importance of

²⁵ At their 1994 meeting 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.

²⁶ 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).

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 at ASEM's current stage of development. If, however, one merely remembers that it took only six 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 move forward toward a meaningful objective, beyond its current stage of merely being a consultative forum.

3. Hybrid Scenario

ASEM can evolve at its own pace. ASEM cannot be a forum where targets for the establishment of free trade between Asia and Europe are set. Keeping its informal character, ASEM can act as a useful vehicle for both facilitating information networks and strengthening open multilateral trading system. This scenario can be referred to as a hybrid scenario. It differs from the APEC-type evolution scenario in that setting target year for trade liberalization and establishing regional investment initiatives are excluded. This scenario could partly result from the skeptics on APEC, who criticize its performance in trade liberalization and promoting investment.

Individual action plans (IAPs), the major vehicle for trade liberalization in APEC, are criticized for not including anything new beyond UR commitment in many cases. Therefore, it is true that the role of IAPs is under doubt 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 to its self. New initiatives such as cooperation on development aid and economic and technical cooperation could be included as its values may appear to be more inspirational and motivational for the ASEM process than APEC-like *de jure* trade liberalization measures and regional investment initiatives.

If ASEM succeeds in adding an economic and technical cooperation dimension

to its agenda, it could make its work on economic and technical cooperation and its work in relation to trade and investment liberalization 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 under the APEC-type evolution scenario. The table below summarizes the extent to which the three different scenarios contribute to the subsidiarity question for ASEM.

Table 4: Conjectural Assessment of the Scenarios on Three Subsidiarity Criteria

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

Source: Lee (2000a)

Which is the most plausible scenario for ASEM to date? Taking into account several new initiatives adopted at ASEM , including a non-binding study of TFAP, the most plausible scenario may well be somewhere between the status quo scenario and the hybrid scenario. How about the future? It is to be noted that a substantive agenda, if not agreement, has to be paralleled with the launch of the Doha Development Ahenda(DDA) negotiations. Actually, with regard to the DDA negotiations, it could be said that the main conflict arises from a discrepancy between the EU and ASEAN, especially for those Singapore issues. In addition, if the EU takes the initiative vis-à-vis the US in advancing the DDA negotiations, it would be from ASEM that the EU seeks support before the launch of the new round and during the negotiations.²⁷

²⁷ Of course, considering the differing negotiating styles and their positions thus far, it will not be an easy task to form a united ASEM front facing new WTO talks. While the Europeans, with a result-oriented negotiation style, pursue a deductive approach which rests on voluminous treaties precisely prescribing how 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 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 must be noted that only the ASEM members' keen perception of self-interest motivates and inspires them to take further steps and continue the process.

Therefore, it goes without saying that if ASEM provides a useful vehicle for the success of the DDA negotiations, for example during the fourth ASEM Summit Meeting, ASEM will turn out to be really WTO-enhancing. If this is the case, ASEM would give a decisive momentum to multilateral liberalization and the ASEM process as well, which would allow ASEM to be found either somewhere between the hybrid scenario and the APEC-type evolution scenario or even beyond that level.

VI. Concluding Remarks

Throughout this paper, prospects for ASEM were discussed after an objective assessment by considering the subsidiarity question for ASEM. 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 move beyond its current status of being nothing more than a forum, limited to a verbal exchange, if it wishes to prove itself in this new millennium.

Secondly, the APEC-type evolution scenario, would strategically pull ASEM in a more forward-looking direction and focus on achieving the APEC-like objective of matching trade liberalization measures with non-binding regional investment initiatives. This scenario contributes greatly to the trade liberalization process due not only to its inherent multilateral momentum but also because it clarifies and focuses future ASEM navigation.

Thirdly, the 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 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 strengthen the multilateral trading system can truly be brought into question.

Fourthly, taking into account the new initiatives for ASEM, including a non-binding study of TFAP, a more plausible scenario may well be found somewhere in between the status quo scenario and hybrid scenario.

Lastly, the real challenge facing ASEM is to show a decisive momentum to the success of the DDA negotiations. If this is the case, ASEM turns out to be really WTO-enhancing, which in turn contributes to enhance Asia and Europe partnership.

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