

East Asian Cooperation. Progress and Challenges. A View from Europe

by

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I. The Issue

For many years, East Asia¹ had been a champion of multilateralism. Countries maintained non-preferential MFN-based relations to countries outside the region and inside East Asia regional integration schemes never reached the magnitude and depth of comparable non-OECD countries such as Latin America. To confront the two leading sub-regional schemes outside the OECD region, Mercosur and ASEAN, Mercosur's *acquis communautaire* (institutionalised achievements) is officially more advanced than that of ASEAN if one compares an uncompleted customs union with an uncompleted free trade area.

This latecoming position has been drastically revised since the turn of the decade. The region today accounts for the largest share in incremental regional integration agreements (RIAs) in the world, that is, schemes newly made known to the WTO since the year 2000 (notification).

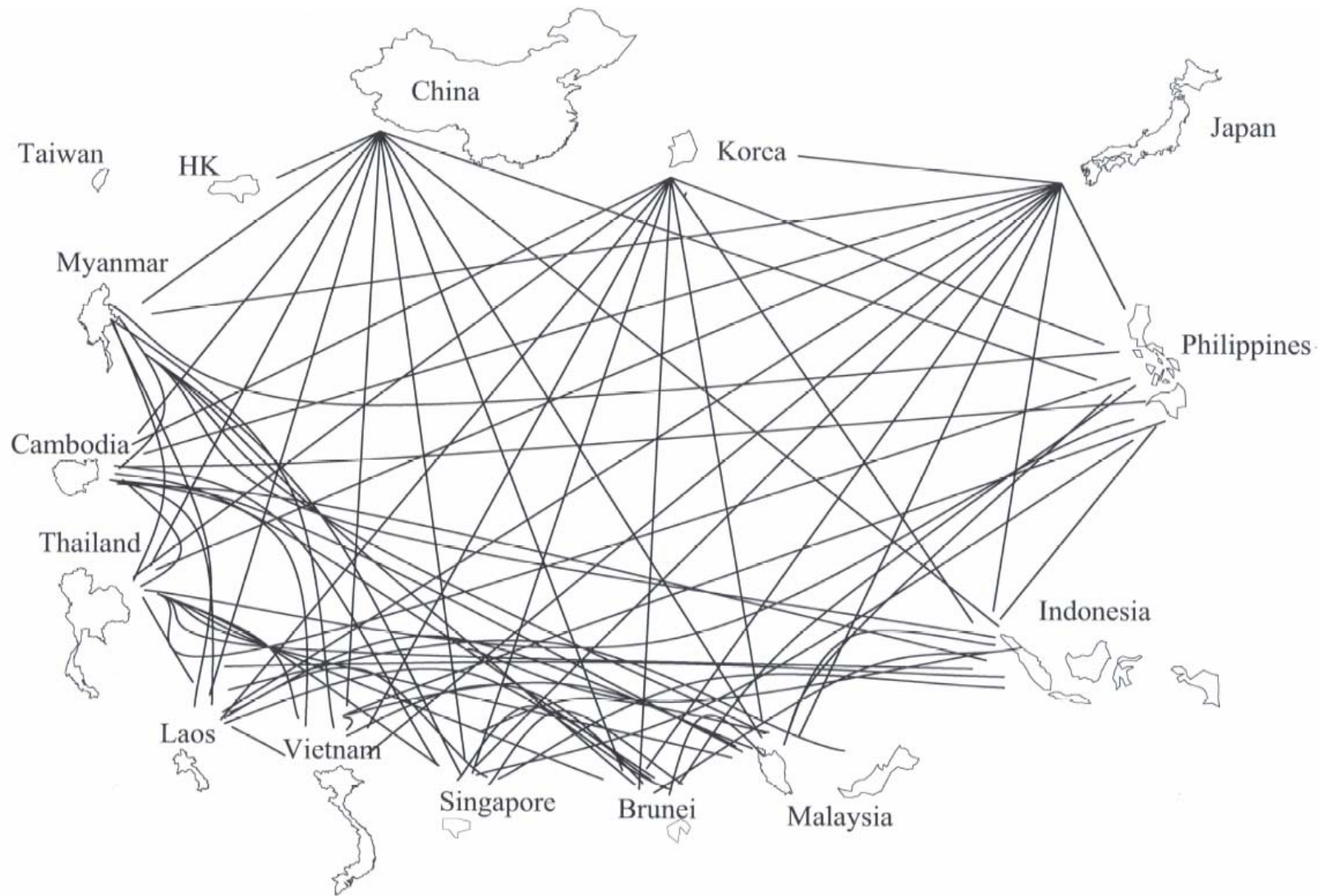
All agreements concluded or under negotiations are bilateral with no supra-national institution responsible for concluding negotiations with third parties and implementing them. That means that the group of ten ASEAN countries alone leads to a maximum of 45 different bilateral arrangements if each ASEAN country negotiates different product lists and different conditions of conceding preferences with another ASEAN country (Baldwin 2006a, see also Dieter 2006). Adding China, Rep. of Korea and Japan to the group, lets the number of bilateral agreements jump to 78. This has raised concerns about the effectiveness of such "noodle bowl" type of RIAs. (See figure 1 taken from Baldwin 2006a).

In assessing this issue, one has to take to account of five characteristics of East Asian RIAs. First, they are all "shallow". That means that they neither include common policies such as common trade policies in a customs union nor policy harmonisation (economic union) or free mobility of factors of production (common market). For the time being, they are confined to the lowest level of integration, free trade areas (FTA).

Second, they are all under negotiations or implementation. So, they are still incomplete even at the FTA level. This is important because the dynamics of East Asian economic growth and structural change can lead to a permanent revision of initial targets, means, procedures, and timetables. Shooting at a moving target is a characteristic description of East Asian regional integration.

¹ East Asia excludes the South Asian countries such as India, Bangladesh, Sri Lanka and Pakistan. This dividing line is increasingly questioned. See for the debate of an Asian community including India Lim (2006).

Figure 1 The Asian “Noodle Bowl”



Source: Baldwin 2006a

Third, achievements reached in the past such as the ongoing implementation of the common effective preferential tariff scheme (CEPT) of ASEAN are discounted with respect to their effective use. Very low one-digit utilisation rates reported in the nineties for the ASEAN CEPT have not been revised upwards in the first years of this decade (JETRO 2003). Obviously, companies are not attracted by the red tape to apply for preferences and thus are prepared to pay the applied MFN tariff which in many East Asian countries is known to be significantly lower than the WTO bound rate (overhang). So is there much ado about nothing?

Fourth, RIAs in East Asia are embedded into strong market-driven regionalisation and economic growth. Costs of bridging distances have greatly declined thanks to new networks of surface, air and sea transport links within the region. Intra-area trade has risen strongly for instance due to famous “flying geese” patterns of Japanese multinationals which again lower costs of transactions if trade is party-related. This leads to the question whether strong growth of intra-regional trade is due to regionalism (institution building on a preferential base) or to regionalisation as transaction costs have declined faster within the region than with the rest of the world.

Fifth, the strong bilateral focus in East Asian integration is mirrored by bilateral approaches from abroad, basically by the US and its “competitive regionalism” and very likely followed soon by the EU after the disappointing suspension of the Doha Round.

Based on these characteristics, the paper first tries to conceptualise the possible approaches to RIAs if relationships are asymmetric, either due to the existence of hegemons or due to uneven intensities of initial economic interdependencies between the partners (Section II). The paper will then discuss in more detail constraints inherent in East Asian RIAs and how these constraints are responsible for the current noodle bowl syndromes and asymmetries (Section III). Section IV will turn to a topical debate in East Asia on the sequencing of real sector integration (trade) and monetary integration. This has particular relevance for explaining the efforts which East Asian countries were making to avoid a second Asian financial crisis and building a regional “insurance scheme” against speculative attacks of financial markets against individual countries (Belaisch, Zanello, 2006). Section V will associate lessons from section III and IV with the enormous body of experience of EU integration with stalemate situations, crises and policy sequencing. Section VI concludes.

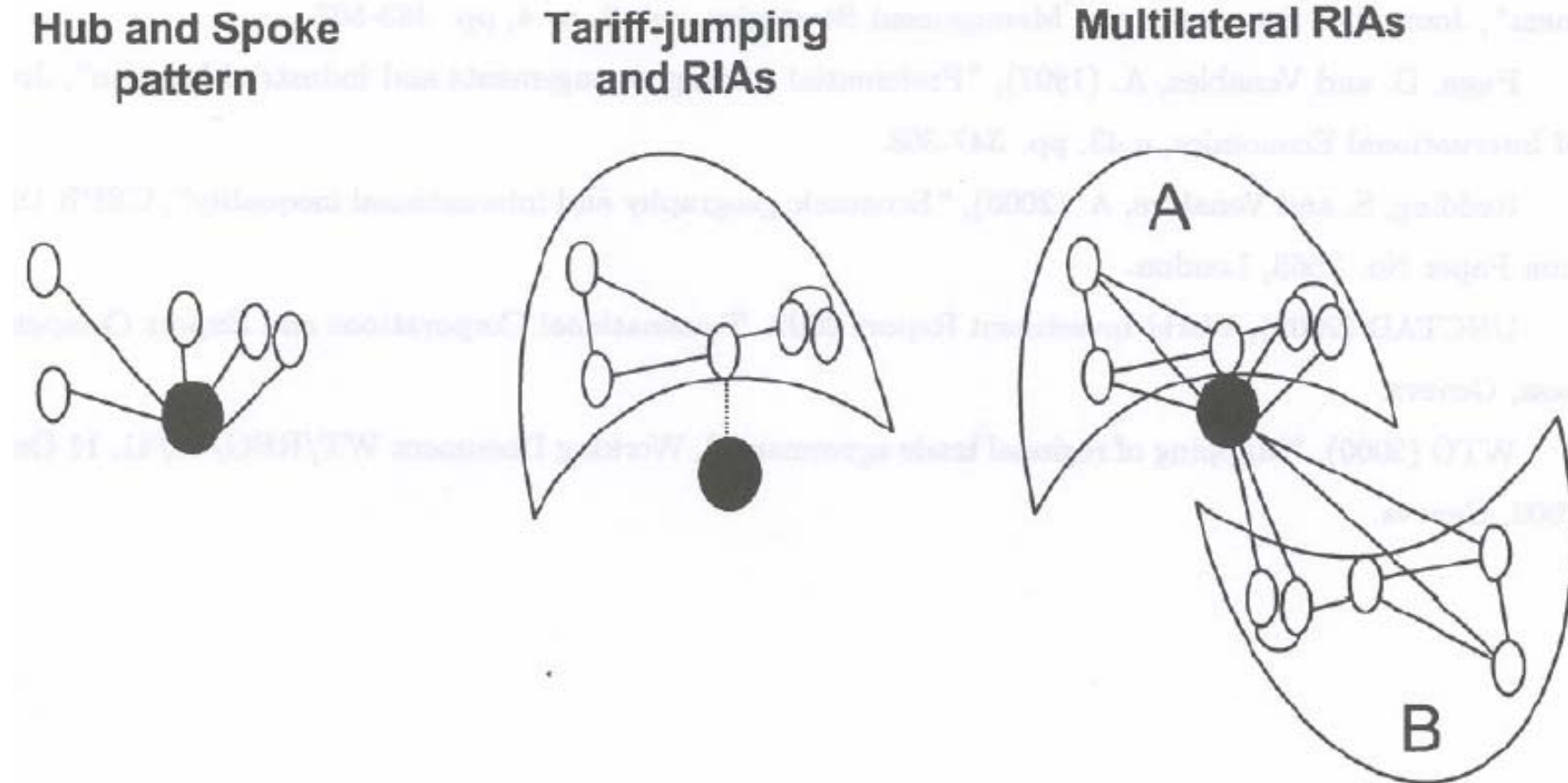
II. Some Conceptual Underpinnings: From “Noodle Bowls” via “Hubs and Spokes” to “Multilateral RIAs”

The Asian Noodle Bowl phenomenon has been transcribed by Baldwin (2006a) from Jagdish Bhagwati's et al. famous Spaghetti Bowl picture². The latter highlights the EU as a hub which maintains preferential relations at different levels (free trade areas, customs union, associations agreements, non-reciprocal agreements) with spokes (European, African, Caribbean and Pacific countries) while these are linked to each other sometimes but not always by bilateral free trade agreements, in few cases by customs unions like Switzerland and Liechtenstein. Hub and spoke (H&S) relations (see Figure 2 taken from Altomonte, 2003) are characterized by bilateral contracts between a hub and several spokes. H&S relations are asymmetrical as they give the hub a privileged stance over the spokes.

Agreements between spokes eventually are transformed into a RIA and thus contribute to erode asymmetries. In Figure 2 this is called Tariff-jumping and RIAs. The background is that the hub can circumvent tariff hurdles imposed by individual spokes (tariff jumping) against third countries unless rules of origin fix conditions of eligibility of the hub's exports to a partner country via another partner country. This is why rules of origin are the most important (and most heatedly debated) policy instrument in tariff-jumping schemes with a hub, for instance in EU negotiations with Mercosur, or in transforming the H&S relations in Central and Eastern Europe into this second stage when the Central European Free Trade Area among the spokes was founded. This second stage as described in the Figure may characteristically be incomplete on the spoke's side in the sense that not all the spokes share the same relations among each other as with the hub. As it is often the hub which is the driving force in pushing for the first into the second stage, it is also the hub which can provide the incentives by setting the rules for defining the “origin of goods”. These rules take into account the hub's content (export from the hub to the spokes followed by value added processing in different spokes and re-export to the hub) by including the hub's value added in the cumulative value added content of hub plus spokes. A third stage in Figure 2 multilateralises the RIAs by eroding the asymmetries between many spokes and forming various complete RIAs (A & B) with the hub. The EU enlargement, an EU agreement with a Mediterranean FTA, or the US-Latin America pending Free Trade Agreement of the Americas are examples for this stage.

² See Bhagwati 1995, Snape (1996), Bhagwati et al. 1998.

Figure 2 Patterns of Regional Integration Agreements



Source: Altomonte (2003)

It is important to note that the three stages were not the model pursued by the EEC in the fifties since Germany at that time would have not been accepted as a hub but only as an (important) partner among equals. Yet, the three stages today are typical for any RIA initiated by either the US or the EU in their relationship with third countries. They are the more important the more economic relations are ruled by asymmetries such as market size differences, growth differentials, differences in income levels and differences in the capability of the partners to produce goods and services which impact upon third countries without obliging these countries to pay for them (collective international goods).

How relevant are these conceptual underpinnings for East Asian integration? They provide criteria to explain why East Asian integration developed the way as it is seen today and what would have to be changed if impediments should be avoided and if regionalism should complement rather than substitute for multilateralisation.

Apart from the economic determinants of goods and factor trade such as size, economic distance and policy differences, a critical issue is the role of explicit or implicit hubs. This includes their role in the production of cross-border collective goods, the relation between spokes, the importance of the non-Asian environment (EU and particularly the US), the potential for supranational institutions and the attractiveness of multilateral non-discriminatory relations.

III. East Asian Constraints in Regional Integration Agreements

1. Heterogeneity and asymmetry in economic size, income and trade structure

One of the reasons why in recent years RIAs have increasingly become an attractive alternative to multilateral trading arrangements and to a WTO with its 150 member states is the lower heterogeneity of RIA partners. Lower heterogeneity helps to identify common interests, accelerates decision-making and lowers the cost of enforcement, implementation and compliance. This is not a new argument. The success of the EEC to implement the FTA and customs union stages between 1958 and 1968 has been widely explained by the relatively high economic and political homogeneity of the six founding countries.

Yet, the term “homogeneity” hides more than it discloses. One has to assess what homogeneity means and how it possibly impacts upon regional integration in East Asia. One aspect of homogeneity is the economic size of economies measured in GDP or population. Sharply unequal size can make trade policy negotiations difficult if the larger partner sees the opening of its market to the smaller party as a “concession” in a mercantilist sense with no relevant reciprocity gain as the smaller market is not attractive as an export market for the larger partner. As the MFN principle necessarily applies in RIAs, there is the risk that two equally large partners dominate the negotiations to maximise the value of own concessions in ex-

change to concessions of the partner. They would leave smaller partners aside thus driving a wedge into level playing field. This so-called “principle supplier” syndrome is known from multilateral negotiations and threatens to burden RIAs too.

In East Asia, unequal size is unrivalled relative to the rest of the world. This holds even if we disregard China on the one hand and the two small and low-income Indochinese economies of Lao and Cambodia. The 2004 PPP gross national income ratio between Japan (the largest country next to China) and Singapore, the smallest country, is 33:1, Including China, the ratio to Singapore is 66. For the EU-15 less Luxembourg(EU-14) it is 17:1(Germany v Ireland).

Second, even more important indicators of heterogeneity are the level of income and factor endowment differentials. This is derived from the Heckscher-Ohlin trade theory and the Vinerian customs union theory from which one can derive that in a South-South integration scheme, it is the country with the lowest level of income and highest proportion of unskilled labour endowment which bears the cost of trade diversion (Venables 2003). In a RIA, it imports from more expensive partner countries what it used to import from the formerly cheaper rest of the world. South-South RIA experiences are rich in terms of these trade flows (Uganda and Tanzania bearing costs of trade diversion versus Kenya being the winner; Bolivia and Paraguay versus Brazil, Honduras versus Costa Rica, Mali and Burkina Faso versus Senegal and Ivory Coast). The richer country usually benefits from its more advanced and diversified production structure and thus penetrates into the neighbouring less diversified markets after forming the RIA. In 2004, per capita PPP income levels reveal ratios between Japan (the richest) and Cambodia (the poorest) of 106:1, and even if we exclude Japan and the two low-income Indochinese countries, the ratio does not fall below 45 (Singapore v Vietnam). For comparison, for the EU-14, the ratio is 2.8 (Denmark v Portugal³). Thus it is very likely that income differentials reflect differentials in the resource endowment and thus trigger trade diversion effects to the detriment of countries like Lao and Cambodia in the ASEAN context but potentially also to the detriment of Malaysia, the Philippines and Thailand should they open their markets to China by means of a complete FTA between China and ASEAN. Even if one can assume ASEAN countries to substantially benefit from access to the buoyant Chinese market, experiences with the sequencing of changes in export and import flows after integration suggest that the more advanced country will be faster in expanding its exports than the less advanced partner country. Politically, such lags can become stumbling blocks for the sustainability of a medium-term integration agenda if less advanced countries see a causality between deteriorating bilateral trade balances with the more advanced partner countries and the formation of FTAs.

³ After the Eastern enlargement, this ratio has risen to 7 (Denmark v Latvia) but is still significantly lower than in East Asia.

A third element of heterogeneity are differences in the sectoral composition of production and trade. Whether this heterogeneity, however, impedes regional integration, is not straightforwardly evident since heterogeneity or homogeneity as a stumbling block or stepping stone also depends on the income level. Countries may be homogenous in their structure of production at a very low level of income but then try to protect their production facilities against the competition of the neighbouring countries. At that level, there is little intra-industry specialisation which could help to contain protectionist tendencies. Homogeneity of production structures at a high level of income usually includes a high level of intra-industry trade with rising economies of scale, differentiated consumer preferences and often cross-border party-related trade within a multinational company. High heterogeneity can mean inter-industry specialisation with one-way trade and strong protectionist tendencies. How relevant are these issues for East Asia?

Table 1 presents calculations of so-called trade similarity or overlap indices showing how much trade of a country is “matched” by similar trade of another country. Thus, we compare sectoral structures of trade (in this case exports of East Asian countries to the world in the ten most important 3-digit SITC categories). While accounting for the core of exports of these countries, they do not cover the entire export pattern⁴. The index ranges between 100 (totally identical trade structure) and 0 (totally dissimilar trade structure). The comparison for bilateral pairs of nine East Asian countries (the five founding member states of ASEAN plus Vietnam, China, Japan and Korea Rep.) for 1991/92 and 2001/2002 show rising similarity over time especially both between the two high income countries Japan and Korea and between the low-income countries (Indonesia, Vietnam). This reflects converging trends in the supply pattern of East Asian countries in labour-intensive as well as human capital-intensive industries caused (among other explanatory factors) by rising vertical integration of cross-border value added chains in so-called “Asian factory”. On average, China’s export structure has become more similar with that of most Asian countries. Yet, the overlap level for the ten categories is still relatively low. Levels of similarity are much higher in the ASEAN region than outside ASEAN especially if Singapore is involved. This can be explained by the importance of the electronic industry and its processing stages which is common to Singapore, Malaysia and the Philippines. It is in the ASEAN region where the “Asian factory” phenomenon is most widely spread. Based on these indices, there is still little ground for concern of East Asian economies to compete with Chinese export supply in standardised manufactures in which price differentiation is not possible and where Chinese export expansion is feared to lead to terms of trade losses for other East Asian countries as their export prices tend to fall. South Asian countries such as Bangladesh and India which have

⁴ Doing the same exercise for the EU countries, leads to much lower indices than in East Asia due to the much larger degree of sectoral diversification in Europe.

their export strongholds in textiles and clothing seem to have been more affected by rising overlaps with the Chinese supply.

Table 1—Indices of Similarity^a of the Export Supply^b Between Selected Asian Countries

	1991-1992								
	China	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Thailand	Viet Nam
China	0.0	11.3	15.5	3.5	5.0	22.6	9.8	7.0	0.0
Indonesia		0.0	10.8	8.3	10.4	12.3	6.3	7.1	7.2
Japan			0.0	19.5	18.1	13.5	5.6	12.7	12.4
Korea				0.0	11.6	0.0	2.0	16.1	20.4
Malaysia					0.0	9.3	7.1	12.7	8.3
Philippines						0.0	11.8	0.0	0.0
Singapore							0.0	4.4	2.9
Thailand								0.0	16.1
Viet Nam									0.0

	2001-2002								
	China	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Thailand	Viet Nam
China	0.0	4.7	13.5	16.9	17.5	18.4	17.9	11.6	8.4
Indonesia		0.0	2.4	2.4	12.8	2.4	2.4	2.4	14.3
Japan			0.0	24.6	18.9	20.9	24.6	21.8	2.6
Korea				0.0	25.3	22.0	28.0	19.4	2.6
Malaysia					0.0	41.5	42.7	24.4	6.0
Philippines						0.0	49.0	23.0	3.9
Singapore							0.0	26.8	2.6
Thailand								0.0	7.5
Viet Nam									0.0

Source: UNCTAD (1994), Handbook of International Trade and Development Statistics, UNCTAD (2004), Handbook of Statistics, own calculations

^a Finger-Kreinin trade similarity index. The index of export similarity is defined by the formula $S(ab,c) = \sum_i \text{Minimum} [Xi(ac), Xi(bc)] \times 100$, which measures the similarity of the export patterns of countries *a* and *b* to market *c*. $Xi(ac)$ is the share of commodity *i* in *a*'s exports to *c*. If the commodity distribution of *a*'s and *b*'s exports are identical ($Xi(ac) = Xi(bc)$ for each *i*), the index will take on a value of 100. If *a*'s and *b*'s export patterns are totally dissimilar (for each $Xi(ac) > 0, Xi(bc) = 0$, and vice versa) the index will take on a value of 0.

^b Based on the ten most important SITC-three digit export categories.

In the short run, price effects of regional integration could contribute to strengthen specialisation structures thus promoting more dissimilarity in intra-regional trade while in the medium run, income effects could trigger a trend towards more intra-industry trade.

2. Trade barrier discrepancies

Trade policy harmonisation and the removal of intra-regional barriers to trade is at the heart of RIAs. The ASEAN Free Trade Area with its CEPT scheme is advanced but - as mentioned earlier - is not very much used probably because of the small amount of tariff savings compared to the red tape bureaucracy to comply with rules of origin and other regulations. Table 2 tries to portray the tariff profile of East Asian countries in order to find out

whether preference margins are meaningful to be applied for. What matters in this context is the applied tariff not the WTO-bound tariff. The difference stands for the binding overhang or “the water in the tariff” problem being one of the basic trouble issues in the NAMA (non-agricultural market access) negotiations of the Doha Round. The high discrepancy between bound and applied rate stands for the ineffectiveness of even high cuts in bound tariffs if the final tariff is still above the applied rate⁵. Various findings emerge. First, the binding overhang is significant, especially in the ASEAN countries, less in the Big Three. Second, inter-country differences in applied tariffs are particularly large in agricultural products. This holds for intra-ASEAN relations as well as for relations between the Big Three, and between these countries and the ASEAN group. RIAs usually handle this problem by keeping agricultural products out of the negotiations and by finding special regulations for these “sensitive products”. Third, in relevant export items such electrical and non-electrical machinery, applied tariffs are often at the one-digit tariff level. Here, the incentives to apply for preferences and to bear the costs of red tape are relatively small. Fourth, the three Indochinese economies impose higher tariffs on average and thus will claim for infant-industry protection. Fifth, an average ASEAN+3 applied tariff in manufacturing ranges between 5 and 14 per cent and should not pose an insurmountable barrier to negotiations (unlike negotiations in the agricultural sector). However, this excludes non-tariff barriers such as technical standards.

⁵ In some cases, applied tariffs are higher than bound tariffs. This is due to the fact that the tariff figures in Table 2 are unweighted averages constructed from six-digit HS individual products (tariff lines).

Table 2 Tariff Profiles of East Asian Countries by Products, 2005

	Indonesia		Malaysia		Philippines		Singapore		Thailand	
	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty
Agriculture										
Sugar	9.5	58.3	2.8	X	15.2	44.7	0.0	10.0	26.6	48.9
Grains	2.6	68.4	0.0	10.8	15.7	36.7	0.0	10.0	X	35.7
Oil seeds	3.8	39.9	1.7	6.0	5.6	36.6	0.0	10.0	21.1	X
Beverages, spirits	67.9	98.1	X	X	8.5	44.8	0.0	X	57.1	X
Dairy products	5.0	74.0	3.6	X	3.9	26.4	0.0	7.0	23.9	34.0
Manufacturing										
Wood, pulp, paper, furniture	5.2	39.4	12.5	18.7	7.2	24.2	0.0	3.0	14.7	X
Textiles	10.5	28.7	13.2	19.5	10.8	28.0	0.0	10.0	22.0	X
Leather, rubber, footwear, travel goods	7.7	39.8	15.1	21.5	6.7	32.7	0.0	10.0	21.6	29.9
Metals	7.3	38.4	8.8	19.7	4.6	25.7	0.0	5.4	11.7	23.9
Chemicals, photographic supplies	5.4	38.1	3.8	11.9	3.8	19.6	0.0	5.1	6.7	29.4
Transport equipment	12.2	38.9	19.6	14.2	8.8	19.1	0.0	6.0	27.7	48.3
Non-electric machinery	2.2	34.9	3.7	9.1	2.3	19.0	0.0	6.3	8.4	20.2
Electric machinery	6.0	30.3	8.1	13.8	3.7	18.1	0.0	5.4	12.8	18.2
Mineral products, precious stones, metals	5.1	39.6	9.9	15.3	4.9	23.0	0.0	7.9	10.7	25.4
Manufactured articles not specified	7.5	35.7	6.2	9.9	4.9	24.9	0.0	3.1	12.8	24.9
Fish, fish products	4.9	40.0	6.4	7.8	8.0	31.0	0.0	10.0	10.1	8.8
Petroleum	2.1	40.0	X	5.0	2.9	...	0.0	...	15.1	...

Table 2 continued	Average ASEAN 5		Lao		Cambodia		Viet Nam		Average ASEAN 8	
	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty
Agriculture										
Sugar	10.8	40.5	12.7	-	12.3	27.8	17.7	-	12.1	38.4
Grains	4.6	32.3	5.0	-	11.9	18.6	14.7	-	7.1	30.4
Oil seeds	6.4	23.1	11.8	-	9.5	22.8	13.4	-	8.4	23.1
Beverages, spirits	33.4	71.5	31.7	-	42.3	43.7	70.0	-	39.6	64.5
Dairy products	7.3	35.4	8.3	-	30.8	36.5	X	-	10.8	35.5
Manufacturing										
Wood, pulp, paper, furniture	7.9	21.3	13.4	-	16.9	24.8	17.2	-	10.9	21.9
Textiles	11.3	21.6	9.2	-	19.8	12.2	35.6	-	15.1	20.0
Leather, rubber, footwear, travel goods	10.2	26.8	10.8	-	24.1	28.3	19.0	-	13.1	27.0
Metals	6.5	22.6	6.0	-	11.5	19.8	8.3	-	7.3	22.2
Chemicals, photographic supplies	3.9	20.8	6.8	-	10.1	9.3	5.1	-	5.2	19.2
Transport equipment	13.7	25.3	13.7	-	19.4	24.3	22.2	-	15.5	25.2
Non-electric machinery	3.3	17.9	6.0	-	14.5	15.3	5.4	-	5.3	17.5
Electric machinery	6.1	17.2	6.6	-	24.7	26.6	12.8	-	9.3	18.5
Mineral products, precious stones, metals	6.1	22.2	5.6	-	15.9	21.6	13.9	-	8.3	22.1
Manufactured articles not specified	6.3	19.7	10.4	-	17.2	24.9	15.2	-	9.3	20.4
Fish, fish products	5.9	19.5	16.6	-	19.3	23.5	31.3	-	12.1	20.1
Petroleum	5.0	22.5	7.3	-	15.1	22.7	17.5	-	8.6	22.6

Table 2 continued	China		Japan		Korea		Average ASEAN +3	
	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty	Average applied duty	Average bound duty
Agriculture								
Sugar	27.4	27.4	X	X	19.0	24.6	13.8	35.6
Grains	30.5	27.1	1.0	1.5	186.3	249.8	23.3	47.4
Oil seeds	13.3	11.6	2.2	2.0	13.7	22.2	8.5	19.7
Beverages, spirits	23.3	21.4	13.7	15.6	31.4	37.4	34.9	49.6
Dairy products	13.8	12.2	28.0	X	67.5	69.8	16.9	36.8
Manufacturing								
Wood, pulp, paper, furniture	5.7	5.0	0.9	0.9	2.4	2.8	8.8	16.2
Textiles	12.9	11.5	6.7	6.7	10.1	19.4	13.6	17.8
Leather, rubber, footwear, travel goods	13.7	13.7	6.4	6.6	7.9	12.2	12.0	22.6
Metals	7.0	7.1	1.0	1.0	4.3	7.0	6.5	17.5
Chemicals, photographic supplies	6.8	6.7	2.5	2.0	5.8	5.8	5.1	15.3
Transport equipment	13.1	11.5	0.0	0.0	5.4	8.2	13.2	20.1
Non-electric machinery	8.5	8.4	0.0	0.0	6.0	9.5	5.0	14.4
Electric machinery	9.0	8.8	0.2	0.2	6.0	9.0	8.1	15.1
Mineral products, precious stones, metals	9.6	9.7	0.8	0.8	5.7	8.8	7.4	17.9
Manufactured articles not specified	12.3	12.3	1.1	1.0	6.4	10.0	8.4	17.0
Fish, fish products	11.5	11.0	5.7	5.0	16.1	15.0	11.4	17.4

Petroleum	5.1	3.3	X	3.5	5.1	12.3	7.6	16.5
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Source: World Trade Report (2005), Geneva: WTO Publications; own calculations

3. Preferences for national sovereignty

FTAs are common today but with declining MFN tariffs, their effectiveness will erode as much as the preference margins do. Shallow integration does no longer make the difference today. It is true that the “new age” generation of FTAs in East Asia between the advanced countries like Japan and Singapore includes new issues like e-trade provisions, customs automatisations, and collaboration in media, broadcasting, tourism, education, training and other public and private services (Hertel et al. 2001)⁶. These provisions help to cut delivery and reduce transaction costs. Yet, there is one overriding issue which sets the upper limit to the prospects of regional and bilateral agreements in Asia. This is national sovereignty and strong resistance so far against transferring competence to a common institution which takes responsibility in “common policies”. Neither is the ASEAN Secretariat such an institution nor do bilateral agreements have such provisions. One can even argue that the preference for bilateralism over regionalism in East Asia mirrors the failure of deep integration with common policies and policy harmonisation.. This has implications for agreements concluded by “ASEAN” with third parties. As concerns the substance of agreements such as detailed tariff preference schedules (Baldwin 2006a), these are basically bilateral agreements of ASEAN countries put together by a common umbrella framework. Yet, the ASEAN Secretariat has no mandate to negotiate trade policies on behalf of the member states as the EU Commission does.

Reasons for the failure of common policies in the East Asian region are probably rooted in historical legacies (or heritage) of colonialism, intra-regional imperialism, a still unfinished agenda to correctly describe and acknowledge the atrocities during wartime, a lack of full political and societal reconciliation, the still ongoing process in some of the countries toward stateness and nation-building and, finally, a missing public debate and common understanding on the future role of the East Asian region in global politics and economic affairs. It is the latter which is of primary interest to economists. Departing from the assumption that East Asia is defined in a geographic term but not as a cultural, political or economic entity, the pressure to act jointly in regional cooperation basically comes from outside challenges or shocks and is subject to ad hoc decisions. There is no own blueprint of which role the region should play globally. Nor are they authentic driving forces to reconciliation and cooperation in East Asia in the Robert Schuman tradition of post-war Europe. To cite a few of these shocks, the Asian financial crisis of 1997 has been a wake-up call to negotiate genuine Asian early warning systems, stand-by agreements and to develop regional bond markets. Other external challenges followed by regional or sub-regional measures include natural disaster

⁶ This is also stressed by Dee (2006) with respect to service trade but she also argues that East Asian FTAs remain second-best as they continue to discriminate against non-members.

relief like the 2004 tsunami catastrophe, ecological precaution (for instance in river commissions) and common measures against maritime piracy and terrorism. But as in trade policy, these cooperation projects are still shallow and often only of sub-regional relevance. Mostly, they are not binding and thus non-compliance cannot become subject to litigation, court decisions and sanctions.

4. Potential hegemons yes but internationally relevant collective goods no

Hegemons can be important catalysts of regional integration. Due to their political and economic leverage and their self-interest in completing integration, they shoulder more costs than they should if seen from a purely national cost-benefit-analysis and they provide more goods and services for partner countries than these have to pay for. Their visible balance of payments may be in deficit but this may just indicate that partner countries are prepared to be a lender for hegemons in exchange for the invisible part of their balance of payments which is in a surplus. The empirical post-war history of hegemons and their collective goods focuses basically on the US post-war role in the multilateral trading system as well as in the old Bretton Woods system which collapsed in the early seventies (Fratini, Pattison, 1982; Keohane 1982, Krasner 1982, Yarbrough, Yarbrough 1985). Examples for collective international goods were the US pressure for the most-favoured national treatment principle in trade (at that time), the role of the US-\$ as an international currency, and its role as a military super-power. The theory of international organisation applies to regional integration as a special form of international coordination if it allows for the implementation of the exclusion principle to restrict concessions to members of a club. Apart from decreasing returns of net benefits of membership in a regional scheme when membership rises by numbers, the theory predicts that to agree on common issues absorbs more costs when membership rises. Net benefits can even become negative. Appeasing or even excluding a marginal member with a negative net benefit for the integration scheme and compensating this member for its benefits foregone can be a prime task for a hegemon. Such compensation usually takes the form of financial flows as these flows are much more easily accessible to public demonstration of a government's role in an integration scheme.

Who from the region in East Asia is principally prepared to act as a widely accepted hegemon? In terms of a donor, Japan had a leading role in the Asian Development Bank has been leading for many years but never it has been politically accepted as a hegemon nor has it produced collective international goods at a level which other countries would miss. Its market is still not yet as open and dynamic as that of the US or in recent years as that of China. Its currency is a regional but not an international currency and even domestic traders still hesitate to use the Japanese currency as an invoice currency. Its banking system went

through a number of serious adjustment problems and for more than a decade its economic growth was stalled.

China's position while strongly improving has not yet proven to be sufficiently consolidated to master adjustment shocks and help trickling down effects for neighbouring countries to materialise. It causes terms of trade deteriorations for countries with similar production structures because its massive export expansion puts world market prices in specific manufactured goods under pressure. Net importers of Chinese products among the more advanced countries in the region, however, benefit from such expansion. China's financial system is still intransparent as concerns the true exposure of domestic banks to potentially non-performing loans of state-owned companies. Other risks for a sustained 9-10 per cent economic growth rate (environment, human capital, institution building) linger around the corner. Yet, the main mortgage of a Chinese economic hegemon role is its exposure to a balance of payments driven consolidation crisis in the US. While it is acknowledged that the transfer mechanism from a US crisis to a Chinese crisis is no longer as linear as it used to be when China rigidly fixed the exchange rate to the dollar, it is still intact unless more exchange rate flexibility is allowed for. This is not to say that China should follow this course but the longer cross-Pacific exchange rate flexibility is constrained the more it becomes evident that the true hegemon with positive and negative externalities for East Asia is located outside the region.⁷ It is still the US. Other possible candidates from the region are either too small though economically potent (Singapore) or too fragile and poor (Indonesia).

5. Lack of enforcement capacities of regional institutions

Institutional advancement is one of the main pillars for RIAs which strive for reputation and credibility. It is rated by its capability to reduce transaction costs and to stabilise expectations. Deep integration requires such institutional progress at the supranational level (Langhammer 2004)⁸. After the 1997 Asian financial crisis, East Asian integration had the chance to catch up in terms of institutional progress. Yet, even at the subregional level of ASEAN with its long tradition and long list of institutional bodies such as the regular Heads of State meetings, the Post-Ministerial meetings, and the ASEAN Dialogue Partner system, progress has stalled. In a Financial Times article (FT, September 2, 2004) by Yasheng Huang and Bernard Yeung, ASEAN's institutions were rated "still in poor shape" .

Given the large number of sub-regional and – increasingly – also regional committees and working parties (ASEAN plus Three), it does not seem the lack of regional institutions per se

⁷ See Kaplan (2006) for a recent debate from a political economy angle on the issue whether or not the Chinese exchange rate is undervalued .

⁸ Langhammer (2004) discusses this issue for the most difficult integration efforts between China, Japan and Rep. of Korea.

but the lack of enforcement capacities of these institutions which prevents progress. Enforcement competences are firmly anchored at the national level in East Asia. This is not only the result of the lack of common policies but it is also a consequence of lowly perceived interdependencies between the countries. River institutions like that of the Mekong are the closest to interdependencies seen as an issue to be solved regionally or sub-regionally.

The most straightforward approach to complement technocratic advisory committees by decision-taking institutions could be to empower a group of outstanding “elder statesmen”, one from each country, to set up a master plan of supranational institution building based on an understanding which challenges of regional relevance East Asia would have to master in the years ahead. Simultaneously, sub-regional cooperation schemes with narrowly defined tasks such as river commissions or coastal surveillance should be encouraged to deepen their programs.

However, there is the argument that there is no need to institutionalise regionalism if the economic dynamism in the region itself promotes regionalisation driven by the decline of all transaction costs (transport, tariffs and non-tariff barriers and costs of uncertainty). So why doing what comes naturally? The argument is specially relevant for East Asia where informal ties through kinship, families, clans etc often substitute for formal institutions and thus develop and advance differently from the Western tradition. Furthermore, given the inertia and delays in the process of institution building especially in developing supranational institutions, this process is feared not to keep pace with the economic dynamics of the private sector. Yet, in trade policies which are at the core of RIAs, it is less the gap between public policy inertia and private sector dynamics that matters. It is the issue whether economies of scales could be realised if instead of diverse and numerous national public policies (suffering from inertia as much as supranational institutions do) a single supranational institution takes responsibility. In East Asia as much as in other regions, rules for trading beyond borders are ideal candidates for such gains in economies of scale. This is witnessed by the superiority of multilateral MFN-based rules over both national and regional rules of trading, with the latter clearly being the second-best alternative.

IV. Heterodox Sequencing: Can East Asia Promote Monetary Integration First?

The successful launch of a common currency among 12 member countries of the EU has raised much attention in East Asia where for many years integration only concentrated on liberalising trade and capital movements among each other. Especially after the Asian crisis of 1997, governments of these countries have started to analyse whether the entry into monetary cooperation by stand-by agreements or exchange-rate coordination could protect their currencies against speculative attacks from financial markets. Furthermore, regional or

bilateral stand-by agreements have been concluded and implemented as a first step towards creating a regional firewall against such attacks (Chiang Mai Initiative see below). Early experiences in the EU such as an implicit signal of the German Bundesbank to defend the French Franc/Deutsch Mark exchange rate against attacks against the Franc in the early nineties (the credibility of which was never proven) are thought to give support for similar endeavours in East Asia even it is well-known that the state of real sector integration by forming free trade areas or customs unions is rudimentary compared to Europe.

Therefore, the debate centres around the question whether one needs a sufficiently high level of real sector integration to make the entry into monetary cooperation credible and sustainable or whether an early entry into monetary cooperation can even give an impulse to further real sector integration and thus even create conditions for what is called in the literature an optimum currency area. Technically, the question focuses on the so-called exogeneity or endogeneity of an optimum currency area (OCA).

The ruling view on sequencing regional trade integration and monetary cooperation has been recently labelled Mundell-I by McKinnon (2004). Mundell in his earlier works argues that in a situation where

- economic structures of potential partner countries are diverse,
- labour markets are segmented,
- expectations are stationary,

exogenous shocks hitting the countries are asymmetric as they affect one country only. Therefore, a flexible exchange rate is needed to adjust to such shocks. OCA conditions are not given and they cannot be created by an early entry into monetary cooperation through fixing exchange rates. In more popular terms, this view has been called also Coronation Theory in the sense that after deep real sector integration by liberalising trade and factor movements economic structures of countries would converge, shocks would become symmetric and at the very end the entry into monetary cooperation up to the creation of a single currency would be the coronation of this long-term process.

In recent years, also stimulated by Mundell, there has been the competing theory (Mundell-II) saying that expectations are not stationary. Therefore, a common currency across countries could mitigate asymmetric shocks by better reserve pooling and portfolio diversification. In simple terms, a common currency would force trading partners to share the adjustment costs of an adverse shock. Under flexible exchange rates, costs of adjustment would have to be borne entirely by the country hit by the shock and that would have also negative implications for real sector integration. It could even put achievements of real sector integration reached in the past at risk. In popular terms, this view has been labelled Vehicle Theory in the sense that monetary cooperation would be instrumental to promote real sector integration

or prevent real sector integration from disintegration. Proponents of this view often point to the situation of Italy when it became evident that the country would be among the first round members of EMU. Interest rates on Lira-denominated bonds declined to a level of the other qualifiers and that “free lunch” helped Italy to stimulate growth and to be prepared for further deepening of real sector integration.

The question is whether East Asian conditions reflect at least some of these European experiences.

It is obvious that Asia defined as Southeast and Northeast Asia is far from fulfilling these conditions even if one could argue that neither the US nor the EU meet conditions of a complete optimum currency area; there is no doubt that conditions in Asia are far less fulfilled than in any of the other areas. As discussed in the previous chapter, economic structures are diverse between commodity producing countries and non-commodity producing countries. Income levels differ highly between advanced countries and the Indochinese countries. Institutions such as the common external trade policy of a customs union do not exist, capital markets are segmented and labour cannot move freely across borders of individual countries. But what matters more is that currency blocs, trading blocs and capital blocs do not overlap. In Asian countries (except for Japan), external debt is basically Dollarised and not denominated in one of the regional currencies. This is in essence the “original sin” problem. The development of regional bond markets is still in its infancy. The countries have preferred to use different sorts of pegs to the Dollar. Trade is rarely invoiced in regional currencies. Even the Yen does not play a major role as an invoicing currency in Japanese trade. Trade has been larger with the US and Europe than with neighbouring Asian countries though with the emergence of China in international trade this could now change, at least with respect to incremental trade. Capital transactions, as well as the reserve currencies and anchor currencies basically rely on non-regional currencies. No currency in the region qualifies for serving as an international currency (see Section III above on the role of hegemons).

Weaknesses of an institutionalised regionalism have already been discussed with respect to the not-yet-completed ASEAN FTA but can be extended to the open regionalism model of the Asia-Pacific Economic Cooperation (APEC). APEC which includes countries of the Western Pacific Rim is not based on a formal agreement but reflects the very limited possibilities of regional coherence by hoping that peer-driven competition between the neighbouring countries would bring the region towards free trade by the year 2020 at the latest. Ways to achieve this are left to the discretion of the individual countries.

In recent years, in spite of their low level of institutionalised relations, Asian countries have tried to establish some instruments of monetary cooperation. The Chiang-Mai Initiative of

“ASEAN plus Three” introduced bilateral explicit stand-by agreements. Yet, unless these agreements can convince financial markets that in cases of emergency financial support would be unlimited, they are unlikely to impress markets. Implicit bail-out signals have not yet been sent. And, given the low state of real sector integration and political will, promises would probably face the so-called Groucho Marx problem: One should never become a member of a club which accepts you as a member, or bluntly, joining a club with bad reputation can or definitely will damage the reputation of a joining member.

Yet, there are small technical steps possible, one being propagated by Williamson (1999) and others claiming that the countries could jointly peg to a common basket of currencies instead of only to the US-Dollar. The countries could also agree on common weights of currencies in their joint basket. The problem of this approach is two-fold. First, countries are not symmetrically linked to the same non-regional trading partners. The Philippines, for instance, are much more oriented in trade towards the US than Thailand, which is more oriented in trade towards Europe. Strong fluctuations between the Euro and the Dollar could drive a wedge into a common basket peg making common weights unsustainable. The second problem is that countries are known to manipulate their exchange rates for different reasons. For example, Singapore has manipulated its exchange rate in the past often in an upward direction in order to decouple the country from international inflation or it has used its exchange rate policy to put pressure upon the domestic industries towards upgrading and relocating labour-intensive manufacturing abroad. Commodity-producing countries like Indonesia could suffer from ‘Dutch disease’ problems or real appreciation and thus could be tempted to manipulate exchange rates toward depreciation in order to lower the burden for exports of non-commodity sectors. Such asymmetries could make a common basket peg very difficult to sustain.⁹

Clear proposals come from Mundell (2003) to either introduce a parallel currency in the region supported by reserves of an “Asian Monetary Fund” to compete against the national currencies or to convince the Japanese government to irreversibly fix the exchange rate between the Yen and the US-Dollar. The latter step in fact would be the first credible internal anchor of further monetary integration. It is very likely that other countries would join this peg and also fix their national currencies to the Yen/Dollar peg. Yet, it would place a heavy burden of adjustment pressure on the Japanese economy (and especially its labour market) and on countries linked to the Japanese market since an autonomous national monetary policy would then be no longer possible and the prices of the relatively immobile factor labour would have to substitute for the buffer role against the transmission of international shocks. Given the differences in the economic structures in the US and the Japanese economy with the

⁹ See also Langhammer (2005).

Japanese economy being more manufacturing-oriented against the US economy being much more service-oriented, especially the not-yet-fully recovered Japanese financial system (banking and insurance) would have to master the adjustment burden. Japanese trade would also be exposed to the volatilities of the US/Euro exchange rate. In view of the strong exposure of the Japanese industry on the European market, any appreciation of the US-Dollar against the Euro would immediately impede the competitiveness of the Japanese manufacturing export supply in Europe.

Outside the real sector, there is the so-called “original sin” problem of emerging markets in Asia where a regional bond market does not yet exist. Unless there is genuine demand for intra-regional trading in bonds denominated in the national currencies, it seems very difficult to establish such a market which then would become also attractive to institutional investors outside the region.

Summarising the issue of sequencing trade integration v monetary integration, it seems that East Asia will not be able (or at least encounter major difficulties) to promote the process of monetary integration without succeeding in regional integration and to start dialogues on coordinating macroeconomic conditions. Political commitments are of utmost importance. Any attempt to accelerate monetary integration which lacks such commitments may induce macroeconomic instability and endanger the stability of real exchange rates (Langhammer, Schweickert, 2006b:73).

Lessons from EU monetary integration (Langhammer, Schweickert 2006a) suggest that the effects of monetary integration on promoting intra-regional trade are stronger if trade barriers are lower, i.e., the more integrated the partner countries are. This does not necessarily imply that a monetary union has to be preceded by institutionalised regionalism if de facto regionalisation of trade is strong. This may hold especially for East Asia where the motivation for monetary integration after 1997 has primarily been ruled by non-regional issues, such as rationalising on foreign exchange reserves, avoiding currency crises, and establishing a regional capital market (Click & Plummer 2005; Kwack 2005). Yet, agreeing on common policies such as in a customs union on trade policies, would very likely facilitate any attempt toward monetary integration since such agreement would demonstrate political commitment in favour of deep integration.

V. Gradualism, Cooling Down Periods and Multilateralisation of Preferences: Where Europe Can Offer Valuable Experiences

Where can East Asia meet Europe concerning lessons from integration?

At first glance, very little overlap between the two regions seems to exist, basically because of the much larger heterogeneity of Asian countries and their domestic institutions, the lack of

a joint common tradition of stateness (with bad as well as good political historical legacies) and the obvious reluctance of policy-makers to develop a regional political and economic master plan for East Asia and its role in global political and economic affairs. Unlike in Europe with the French-German partnership, history has hindered East Asia to develop a single economic and political gravity centre with strong own interests in regional integration and positive spread effects to partner countries.

For the time being, East Asia will still derive its motivation for regional integration primarily from two objectives: the economic rationale of finding export markets in neighbouring countries on a mutual basis and second, to avoid further financial crises with massive negative repercussions for the entire region.

Assumed political motivation in East Asia is not yet sufficient to give sustainable impulses to economic integration, lessons from Europe should concentrate on the economic rationale of integration and its implementation.

a) Economic rationale

in the early period of EU integration including the stage of the Single Market Programme the rationale of integration was that of unifying diverse national markets. More recently, however, globalisation pressure and the fear of Eurosclerosis in its various facets (aging, decline in innovation, R&D spending) shifted the rationale of integration to the issue of "Europe's role in the World Economy". It is the external dimension which gains in importance. The Lisbon strategy of promoting Europe as the world's leading knowledge-based region, Europe's concern about its competitiveness in the Triad with Asia and the Americas, and, finally, the role which Europe could play in G-8 issues like an own contribution to reduce global macroeconomic imbalances, are today important engines of economic integration. Deepening and widening the EU market is seen more and more as an instrumental variable to improve Europe's position in global competition for mobile resources rather than as a target in itself.

This is largely the same discussion which came up in Asian political circles after the financial crisis of 1997. For the first time, East Asia as a region and not an individual country felt stigmatised since the crisis swept over Asian countries only. How the EU tried to separate itself from the Eurosclerosis stigma by balancing domestic policy tasks and Europe-wide initiatives conducted by the EU Commission is something where Asia could draw lessons from with respect to avoiding a new crisis. This includes the setting of milestones, reviews, progress reports and peer reviews.

b) Targets

Many policy issues today spread over borders and cannot be dealt with satisfactorily at the national level by national measures only. The list of issues gets longer with cross-border ef-

fects of national events and developments mushrooming, such as environmental precaution, terrorism, consumer protection or infrastructural planning and financing. In recent years, EU policy makers have tacitly begun to coordinate policies even if these efforts were not legally based on a clear EU mandate such as in common policies. It is evident that East Asian countries will become increasingly victims of negative cross-border effects of national policies unless these policies are subject to at least a minimum of supranational coordination. Furthermore, many events, by definition, spread over borders and/or cannot be blocked at national borders because of being invisibles, particularly in environmental, health and security issues. The scope of joint measures ranges from early warning systems to damage control and rehabilitation.

c) Implementation

From the very beginning of its history, the EU has set priorities and milestones in implementing programmes in order to remain credible when stressing the so-called “costs of non-Europe”, that is, the gains foregone if integration programmes were not implemented. Examples for such milestones can be found in all periods of EU history, from the implementation of the free trade area and customs union era in five sub-stages (1958-68) via the Single Market Programme 1985-1992 to the Lisbon Strategy until 2010. Timetables were negotiated and became subject to mid-term reviews, revisions and post-date monitoring. While the shortcomings of a purely legal or institutional fulfilment of commitments cannot be neglected, publishing data on the distance of achievements from the target created both pressure for compliance among the member states and some sort of competition for good results. This is something where any East Asian RIA could improve its international standing significantly, or, respectively, could lose if milestones were not kept without sanctions. Non-compliance without costs would stigmatise East Asian RIAs as paper tigers and would never impact on financial markets’ assessments. Ideally, commitments on implementation should be based on fundamental rules like self-binding, accountability, predictability, protection against time inconsistencies and against “short-term passions” as well as “suicide” prevention (with ex ante fixed cooling-down periods) to be ensured by a constitution (Elster 1994). This is a state which even the EU has not yet achieved as the failure of the Constitutional Treaty to find acceptance in France and the Netherlands has witnessed. Yet, at lower levels, the European Court can monitor and set sanctions against non-compliance.

Any sort of sanctions against non-compliance in East Asian RIAs (provided commitments are binding) would be helpful just because this is the major lacuna.

d) Multilateralisation of bilateral arrangements

East Asian RIAs are essentially bilateral and differ from each other. Due to the fact that they are all still at the FTA level and that member states maintain different levels of import duties against third countries, rules of origin (RoO) matter much. They are especially sensitive in

sectors with a large offshore assembly potential such as the automobile industry which simultaneously is sensitive for partner countries like the EU. There are a number of EU-originating companies which produce cars in East Asia based on CKD (completely knocked down) plants. EU countries' governments try hard in negotiations to avoid disadvantages for these plants from bilateral FTAs of East Asian countries with Japan as an important car exporters bear witness to this point. To minimise the trade costs arising from a protectionist enforcement of such rules, bilateral RoO could be integrated into an umbrella agreement with so-called cumulative and diagonal RoO (the latter comprising non-member states of a FTA such as in the EU Generalised System of Preferences with cumulative RoO for ASEAN member states)¹⁰. Baldwin (2006b) recommends the EU procedure of multilateralising RoO (so-called Pan-European Cumulation System PECS) as a second-best alternative for East Asian countries which do not want to abandon bilateral or sub-regional RIAs in favour of MFN-based multilateral agreements.

e) *Supra-national company laws*

East Asian regional integration and cooperation has always been accompanied (perhaps also influenced) by private sector initiatives. Each public scheme has a companion organisation on the private sector's side consisting of senior business leaders such as the Pacific Basin Economic Council (PBEC) for APEC or the ASEAN-CCI (ASEAN Chambers of Commerce and Industry) at the ASEAN level, for instance.

The EU offers an even more far reaching alternative for the private sector: a European Company Law used recently by the German insurance company Allianz. Submitting companies to a supra-national company law signals both the scope of business of a multinational company and its legal anchoring in the major region of business activity. It may be widely premature for East Asia to think of an East Asian company law. However, the private sector could establish working parties to propose elements and procedures needed to initiate a process of harmonising national company laws in the region.

Similar endeavours could be started with respect to national tax laws again departing from the (difficult) process of indirect tax harmonisation in the EU.

VI. Concluding Remarks

Extending East Asian attempts of regional integration from the sub-regional to the region-wide level has widely increased heterogeneity of potential member states. "True" regional integration has not become easier compared to the Southeast Asian early starters in ASEAN.

¹⁰ For a description of EU different rules of origin see [http://www.ecdpm.org/Web_ECDPM/Web/Content/Navigation.nsf/index2?readform&http://www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/0/F58ABF0BDF233FEAC12570DC0049AC9F? Open Document](http://www.ecdpm.org/Web_ECDPM/Web/Content/Navigation.nsf/index2?readform&http://www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/0/F58ABF0BDF233FEAC12570DC0049AC9F?OpenDocument).

This explains the “noodle bowl” syndrome of sophisticated and intransparent rules which, however, seem to be ignored by the private sector just by not applying for preferences. Costs of “non-use” seem low but this should not give rise to complacency on the East Asian side. Benign neglect of preferences or even explicit “non-use” is a strong signal for international financial markets that a minimum level of institutionalised regionalism including the political will to surrender national sovereignty has not yet been reached. This is critical as the major impulse toward RIAs in East Asia still seems to come from external pressure, primarily from the financial sector.

As a second-best alternative to the unlikely success of multilateralism after the disappointing suspension of the Doha Round in mid-2006, the current state of RIAs in East Asia can be improved. Even if European institutionalised regionalism rooted in the Western tradition of stateness will never be taken as a blue print for East Asia’s integration, some general lessons from Europe can be considered. The paper has discussed a few and - given the very uneven stages on integration in Europe and East Asia – has concentrated on more general rules and procedures rather than on detailed sector specifics. The more these rules are accepted, the more sector specifics will arise on the agenda (but not vice versa).

Finally, while Europe also offers lessons for disappointments and delays, especially in recent years, it is one of the most encouraging experiences that EU regional integration has been an irreversible process. This is something which in East Asia where gradualism and patience is widely recognised will be seen as a genuine European asset.

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