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# Regional Integration in East Asia

Challenges and Opportunities

Part I: History and Institutions

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## Abstract

Over the past decade, regional integration has become the focus of intense global interest and debate, and the regionalization of East Asia has figured prominently in that dialogue. East Asia can be described as a heterogeneous region that is both global and intraregional. Sakakibara and Yamakawa examine the motivating factors and underlying dynamics of the progression toward closer cooperation in the region beginning from a historical perspective, which sets the stage for an evaluation of the form that regional cooperation might take so as not to sacrifice the benefits of the region's already achieved openness. This examination includes a review of the lingering effects of the 1997–98 Asian crisis, the expanding role of China in the region, the prolonged slump in Japan's economy, and

the evolution of regional institutions such as the Asia-Pacific Economic cooperation and the Association of Southeast Asian Nations, among others. The authors focus on trade, direct investment, and the financial and monetary aspects of regional cooperation. In their analysis, they compare other regions, particularly the European Union and the North American Free Trade Agreement. Finally, the authors suggest cooperative steps the region might take over the next decade to promote the growth and stability of its member economies. In this regard, they look at the future role of regional institutions, the prospects for a regional role in promoting trade and foreign direct investment, and the possibilities for financial and monetary cooperation.

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This paper—a product of the Poverty Reduction and Economic Management Sector Unit, East Asia and Pacific Region—is part of a larger effort in the region to analyze integration through trade. Policy Research Working Paper 3079 on Trade, Finance, and Integration is part II of this paper. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Shahid Yusuf, room MC2-509, telephone 202-458-2339, fax 202-522-1150, email address [syusuf@worldbank.org](mailto:syusuf@worldbank.org). Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. Sharon Yamakawa may be contacted at [yamakawa@gsec.keio.ac.jp](mailto:yamakawa@gsec.keio.ac.jp). June 2003. (81 pages)

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**WORLD BANK EAST ASIA PROJECT**

**REGIONAL INTEGRATION IN EAST ASIA: CHALLENGES AND  
OPPORTUNITIES**

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**Part One: History and Institutions**

Chapter I – Asia: A Historical Perspective

Chapter II – East Asia Today

Chapter III – Regional Institutions in East Asia

*Note: part two of this report is presented as  
a separate working paper.*

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## Overview

The purpose of this study is to evaluate the pattern and gauge the progress of regional integration in East Asia from a political-economic viewpoint. The focus is on the trade, investment, and financial/monetary aspects of regional cooperation in projecting a viable framework for integration in the coming decade and assessing the prospects for its success in bringing prosperity to East Asia. The study examines the causal factors of regionalism in East Asia and the underlying dynamics of the movement. In this process, differences between Asia's type of regionalism and that of other regions of the world, in particular Europe and North America, will become apparent.

The extent of the region's heterogeneity is revealed and its implications for regionalism evaluated. The region's economic and financial diversity has particular implications for the formation of regional institutions in East Asia. The evolution of such institutions as the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) are examined from the perspective of their objectives and achievements in an effort to assess their contribution to the development of regionalism in East Asia. That examination will determine whether the economic cooperation they promote has brought the desired benefits to their individual members and to the region as a whole.

An analysis is made of the patterns of East Asia's trade and foreign direct investment (FDI) from a global/intraregional perspective, taking into consideration the importance of trade and FDI interlinkages. In this context, we will determine what, if any, role regionalism can play in the promotion of these two types of transactions, which are so essential to the growth and development of the region.

We evaluate the ramifications of the East Asian Crisis in the context of motivating factors for intraregional cooperation. Arising out of this crisis were some initiatives, e.g., the Chiang Mai Initiative of bilateral swap arrangements, that have intensified financial integration in the region. The study examines this aspect of the crisis and assesses the potential effectiveness of such initiatives in deterring another financial crisis in the region.

Other areas of concern that have arisen from the crisis are capital account liberalization and financial structure reform. In the case of the former, our discussion focuses on possible approaches to capital account liberalization that minimize its inherent risk. The latter, financial structure reform, is addressed from the perspective of a bank-based system versus a market-based system and how the region might progress from the former to the latter in the attempt to develop a sound and stable financial sector capable not only of forestalling another crisis, but also of promoting economic growth in the region. The alternatives of a national, regional and international approach to attaining this goal are presented.

The issue of monetary integration and exchange rate regimes for East Asia has been vigorously debated throughout the region, and even the world, but with no real consensus reached so far. This study presents the current arguments for and against the various regimes, including fixed, floating, and the intermediate regimes that fall between those two corner solutions. While the region may not yet be ready for an EU-type currency union, some type of foreign exchange policy coordination would be a pragmatic and feasible starting point for eventual full monetary integration.

Overall, the study assesses the progress that has been made in East Asian cooperation and suggests some possibilities for the future that would use regionalism to advantage in plotting steps for growth over the next decade. In particular, it will consider the future of regional institutions, the prospects for a regional role in promoting trade and FDI, and the possibilities for monetary and financial cooperation.

The paper is divided into two parts. Part One, "History and Institutions," sets the stage for the above discussion and includes Chapters I through III. Chapter I is a historical review of the development of trade in Asia from the pre-modern era. This review encompasses a wider area than just East Asia since the origins of trade in the region extended from China and Japan west to India and south to Southeast Asia. It is revealed that Asia's trade was at the same time intraregional and global, emphasizing the openness and prominence of the region even at that time. The role of precious metals, used as "money" in this trade, further reinforces this image.

Chapter II examines the heterogeneity and degree of openness of East Asia today. This is accomplished through a review of current economic and social indicators, which provide an overview of the region in terms of economic size and development. These reveal the high level of diversity among the nations within East Asia, particularly in comparison with other regions of the world. Other indicators show the degree to which East Asia remains open today and how well it is integrated into the global economy.

Chapter III looks at regionalism in East Asia from the perspective of the region's institutions or fora. Regional institutions have been slow to develop in East Asia and in fact are still evolving. Institution building has not played the prominent role in East Asia that it has in Europe. As cooperation among nations of the region becomes more of a priority, attention is increasingly focused on what type of institutions would best serve the interests of the region as a whole and of the individual countries therein. There are currently several institutions comprising different groupings of countries, which represent the region. The most prominent of these are ASEAN (and ASEAN-Plus-Three) and APEC. This chapter examines the rationale for their formation, objectives and achievements.

Part Two of the study, "Trade, Finance and Integration," includes Chapters IV through VII. A description of these chapters is included in the "Introduction to Part Two". Please note that Chapter VI includes the summary and conclusions for the entire study (Parts One and Two) and Chapter VII presents future prospects for East Asian regionalism.

## Chapter I – Asia: A Historical Perspective

In assessing the appropriate integrative strategy for any region striving to promote economic development, it is essential to look not only at relationships as they currently exist, but also as they existed historically. John Maynard Keynes advised economists to “examine the present in light of the past, for the purposes of the future.” Angus Maddison goes a step further to suggest that the *past* to be examined should cover periods prior to the 19<sup>th</sup> and 20<sup>th</sup> centuries (which is the period usually covered by quantitative research in economic history) even though earlier periods “involve the use of weaker evidence, and a greater reliance on clues and conjecture [...] because differences in the pace and pattern of change in major parts of the world economy have deep roots in the past.”<sup>1</sup>

A review of economic history will show that Asia has been an open region fully involved in the world economic system as far back as pre-modern times. Even when China and Japan, during the 15<sup>th</sup> and 17<sup>th</sup> centuries, respectively, ostensibly closed their borders to outsiders and external trade, evidence shows that the closure was not complete. It is clear that, over time, Asia had an instrumental role in the global division of labor and its conduct in the world economy was open and outreaching.

Historians have in recent years come to regard the world economy from other than a Eurocentric point of view. The Asia of previous centuries is now being recognized as not just a part of the globe *discovered* and *opened up* by Europeans but rather as having had an economic system of its own prior to their arrival. In fact, this system may have contributed as much to Europe’s economic growth as Europe did to Asia’s growth.

Abu-Lughod (1989) focuses on the period between 1250 and 1350 as the time when “an international trade economy was developing that stretched all the way from northwestern Europe to China; it involved merchants and producers in an extensive (worldwide) if narrow network of exchange.”<sup>2</sup> Frank (1998) claims there has existed a “single global world economy with a worldwide division of labor and multilateral trade from 1500 onward.”<sup>3</sup> He emphasizes the preponderant position of Asia in the world economy and system “not only in population and production, but also in productivity, competitiveness, trade, in a word, capital formation until 1750 or 1800.”<sup>4</sup>

Braudel (1984) describes the Far East as the “greatest of all the world-economies”.<sup>5</sup> Although he speaks of the Far East between the 15<sup>th</sup> and 18<sup>th</sup> centuries as a single world-economy, he says it in fact comprised three “gigantic world-economies: Islam, overlooking the Indian Ocean from the Red Sea and the Persian Gulf, and controlling the deserts stretching across Asia from Arabia to China; India, whose influence extended throughout the Indian Ocean, both east and west of Cape Comorin; and China, at once a great territorial power – striking deep into the heart of Asia – and a maritime force, controlling the seas and countries bordering the Pacific.”<sup>6</sup>

Braudel describes the relationship among these areas as “intermittent” since it was the result of a “series of pendulum movements of greater or lesser strength, either side of the centrally positioned Indian subcontinent.” These pendulum swings sometimes benefited the East (China) and other times the West (Islam) “redistributing functions, power and political or economic advance,” or sometimes ceased altogether leaving Asia divided into “autonomous fragments”.<sup>7</sup> This type of situation exists even today as evidenced by the variety of regional institutions, such as APEC, ASEAN, ASEAN Plus

Three, and others, that comprise different groupings of Asian and Pacific nations in an attempt to find one that works best economically and politically for the region.

Emergent from the historical economic literature is a picture of a gradually expanding world economy that included not only trade but also the institutions and systems that supported it. Of considerable significance in this world system and, from some perspectives the central focus of it, is Asia. While many of the territories, countries, nation-states and cities that make up Asia have changed over time, this region's importance in, and contribution to, the world economy cannot be denied. This chapter will show that throughout history Asia has functioned not only as an integrated region but also as an active and, sometimes leading, participant in the global economy.

## Size of the Asian Economy

One indication of the prominence of a country within a region, or a region within the world, is the size of its economy. The size of the global economy historically, and Asia's position therein, is reflected in the population and GDP statistics.<sup>8</sup> Population growth and share for periods between 1000 and 1800 are compared for Europe and Asia in the tables below using data from three sources; i.e., Bennett (1954), Clark (1977) and Maddison (2001). (See Tables H.2 through H.5 in Historical Appendix for details of population levels, growth rates, and shares as estimated by the three historians.)<sup>9</sup>

Table 1.1

Comparative Population Growth						
Region	1000-1500			1500-1600		
	Bennett	Clark	Maddison	Bennett	Clark	Maddison
Europe <sup>2</sup>	64.3%	74.4%	121.9%	29.0%	22.1%	28.1%
All Asia <sup>3</sup>	51.2%	30.5%	55.2%	15.0%	31.2%	33.4%
China	78.6%	66.7%	74.6%	12.0%	50.0%	55.3%
India	12.5%	12.9%	46.7%	25.9%	26.6%	22.7%
Japan	300.0%	60.0%	105.3%	25.0%	12.5%	20.1%
World	62.2%	52.5%	63.2%	9.0%	16.6%	27.0%
Region	1600-1700			1700-1800		
	Bennett	Clark	Maddison	Bennett	Clark	Maddison <sup>1</sup>
Europe <sup>2</sup>	29.2%	27.7%	10.7%	63.5%	63.2%	68.6%
All Asia	37.7%	38.6%	6.2%	52.2%	40.5%	76.8%
China	46.4%	0.0%	-13.8%	68.3%	110.0%	176.1%
India	47.1%	100.0%	22.2%	57.0%	-5.0%	26.7%
Japan	35.0%	44.4%	45.9%	3.7%	0.0%	14.8%
World	27.0%	28.7%	8.6%	48.9%	38.8%	72.5%

<sup>1</sup> Growth rate covers 1700-1820 for Maddison.  
<sup>2</sup> Includes both Eastern and Western Europe.  
<sup>3</sup> Includes East, West and South Asia.  
Source: Compiled from Maddison (2001), Frank (1998), Bennett (1954), and Clark (1977)



In Table 1.1 above, there are obvious differences in growth rate estimates among the three sources; however, there is consistency in some time periods and certain trends are apparent. The estimates of all three sources show Europe's population growing considerably faster than that of Asia from 1000 to 1500. In the next two centuries (16<sup>th</sup> and 17<sup>th</sup>), the growth rate worldwide slows considerably – most likely due to epidemics of infectious disease (primarily bubonic plague), war and urbanization. During this time, the difference between the two regions' growth rates narrows but for Europe the slowdown is greater so that Asia's growth exceeds that of Europe (according to two of the three sources). In the 18<sup>th</sup> century, Asia's growth rate jumps to between 40 percent and 77 percent, but only Maddison shows a faster rate for Asia than for Europe.

Table 1.2

Comparative Population Share of World Total									
Region	1000			1500			1600		
	Bennett	Clark	Maddison	Bennett	Clark	Maddison	Bennett	Clark	Maddison
Europe <sup>2</sup>	15%	14%	12%	15%	16%	16%	18%	17%	16%
All Asia <sup>3</sup>	61%	63%	68%	57%	54%	65%	60%	61%	68%
China	25%	21%	22%	28%	23%	24%	29%	30%	29%
India	17%	25%	28%	12%	19%	25%	14%	20%	24%
Japan	1%	4%	3%	4%	4%	2%	4%	4%	3%
World	100%	100%	100%	100%	100%	100%	100%	100%	100%

Region	1700			1800		
	Bennett	Clark	Maddison	Bennett	Clark	Maddison <sup>1</sup>
Europe <sup>2</sup>	19%	17%	17%	20%	19%	16%
All Asia	65%	66%	67%	67%	66%	68%
China	33%	23%	23%	38%	35%	37%
India	16%	31%	27%	17%	21%	20%
Japan	4%	4%	5%	3%	3%	3%
World	100%	100%	100%	100%	100%	100%

<sup>1</sup> Growth rate covers 1700-1820 for Maddison.  
<sup>2</sup> Includes both Eastern and Western Europe.  
<sup>3</sup> Includes East, West and South Asia.  
Source: Compiled from Maddison (2001), Frank (1998), Bennett (1954), and Clark (1977)

Asia's share of world population far exceeded that of Europe in all time periods. (See Table 1.2.) The estimates for population share from the three sources (Bennett, Clark and Maddison) are much more consistent than those for population growth.<sup>10</sup>

Asia's share of world population in the year 1000 was already four to five times greater than that of Europe so that although faster growth in later periods allowed Europe to increase its proportion, Asia retained the predominant share. In fact, Asia's population share has remained above 50 percent for 2,000 years and was, by most estimates, between 60 and 70 percent up to the end of the 19<sup>th</sup> century.

The major proportion of Asia's population has been located in China and India, which historically have had a combined 70 to 85 percent of the total population of Asia, or 40 to 60 percent of the world's population.<sup>11</sup> The speed of population growth in Asia is thus strongly affected by growth in these two countries, and secondarily by growth in Japan and Indonesia. For example, according to Maddison's estimates in Table H. 1 (Historical Appendix), in the 18<sup>th</sup> century, East Asia's phenomenal 80 percent rise in population was led by China's increase of 176 percent. Similarly, in the following

century (1820-70), the considerably smaller increase of 7 percent for East Asia reflects a decline of 6 percent in China's already large population partially offset by increases in the smaller populations of India, Indonesia, and Japan.

The significance of a region's population gains perspective when its relationship to economic development is considered. Maddison (2001) points to two possible causes of the accelerated population growth in the last millennium: increased fertility and reduced mortality, with the latter, in his opinion, being predominant. While acknowledging that increases in life expectation are not captured in GDP measures, he has found there to be "significant congruence, over time and between regions, in the patterns of improvement in per capita income and life expectation."<sup>12</sup> Improved economic development generally leads to longer life expectation, which in turn leads to increased population size.<sup>13</sup>

Frank (1998) is of the opinion that despite the lack of production and income estimates for the period he covers (1400-1800), "it stands to reason that this much faster population growth in Asia can have been possible only if its production also grew faster to support its population growth."<sup>14</sup> He cites the literature of other economic historians, including Ho Ping-ti (1959), Gilbert Rozman (1981), Immanuel Wallerstein (1989), and others, as confirmation that "Asia and various of its regional economies were far more productive and competitive and had far and away more weight and influence in the global economy than any or all of the 'West' put together until at least 1800."<sup>15</sup> He goes on to say that this was made possible in part because of Asia's technology and economic institutions. Although hard data for this period is difficult to obtain, he supports his argument by referring to GNP estimates for at least the end of the period (1750-1800) as cited by Braudel (1992), who in turn cites Bairoch (1981).<sup>16</sup> These are indicated in Table 1.3 below.<sup>17</sup>

Table 1.3

Levels of GNP				
(in 1960 US dollars and prices)				
	Total (billions of dollars)		Per capita (dollars)	
Year	Third World <sup>1</sup>	Developed countries <sup>2</sup>	Third World <sup>1</sup>	Developed countries <sup>2</sup>
1750	112	35	188	182
1800	137	47	188	198
1830	150	67	183	237
1860	159	118	174	324
1900	184	297	175	540
1913	217	430	192	662
1928	252	568	194	782
1938	293	678	202	856
1950	338	889	214	1,180

<sup>1</sup> Bairoch uses the term "Third World" and includes Asia and other countries currently referred to as "developing countries".

<sup>2</sup> Includes Europe, America, Japan and other industrialized countries of today.

Source: Compiled from Bairoch (1993: Table 8.2, p. 95)

According to the figures in the above table, from the mid-18<sup>th</sup> century through the mid-19<sup>th</sup> century total GNP was considerably higher (roughly one and a half to three times higher) in "Third World" countries (including Asia) than in developed countries. A reversal of this pattern began to occur around 1900 and is attributed to the long-term effects of the Industrial Revolution, which after a century and a half resulted in a "multiplication by more than five of the average standard of living" in developed countries.<sup>18</sup>

Bairoch's estimate of total GNP in 1750 was \$147 billion (in 1960 U.S. dollars), of which 76 percent was in "Third World" countries while only 24 percent was in developed countries. By 1860, these proportions had dropped to 57 percent for "Third World" countries and 43 percent for developed countries out of a total \$277 billion of GNP.

However, given the large population of Asia relative to that of Europe, per capita GNP follows a different pattern. While Bairoch estimates that per capita GNP in 1750 is also greater for "Third World" countries (\$188) than for developed countries (\$182), this does not continue and is reversed over the next 50 years so that by 1800 developed countries' GNP per capita exceeded (by \$10) that of "Third World" countries, for which the level remained the same (\$188). His estimate for China alone, however, is \$210, which exceeds that of both developed and "Third World" countries.<sup>19</sup>

By the end of the colonial period in 1950, the per capita income of "Third World" countries had reached only \$214 while that of developed countries was 5½ times greater. Braudel (1984) points to Bairoch's calculations as indicative that despite Europe's "dazzling triumphs all over the globe," its level of wealth was far from superior to that of the rest of the world. He supports this statement by referring to Bairoch's total GNP figures in Table 1.3, which shows that it was not until the late 19<sup>th</sup> century that the developed countries overtook the rest of the world in total GNP.<sup>20</sup>

While Maddison's (2001) GDP estimates are not directly comparable to those of Bairoch (because of differences in regional grouping and currency measurement), there are some consistencies between the two. (See Tables H.6 through H.9 in the Historical Appendix.) Table H.6 reveals that total GDP for Asia exceeded that for Western Europe in the periods up to the late 19<sup>th</sup> century – being two to four times greater in the periods between 1500 and 1820. This divergence is even more apparent in Table H.8, which shows Asia's share of world GDP at a remarkable 70 percent in the year 1000 versus about 9 percent for Western Europe. As Asia's share declines gradually to 59 percent in 1820 with a further drop to 38 percent over the next 50 years (to 1870), Europe's share increases at a slow, steady pace to reach 33.6 percent by that year. By 1913, however, Europe overtakes Asia and maintains that lead until the late 20<sup>th</sup> century.

Maddison's estimates of per capita GDP follow a different trajectory from those of Bairoch. His estimates in Table H.9 show that from 1500 onward, Europe's per capita GDP surpassed that of Asia. In the year 1000, per capita GDP was nearly the same for both regions (I\$400<sup>21</sup> for Europe and I\$449 for Asia). By 1870, that for Europe had risen fivefold, whereas that for Asia had increased only 23 percent. The gap only becomes greater throughout the 20<sup>th</sup> century with Europe's GDP per capita reaching a level five times that of Asia by the end of the century (based on Maddison's 1990 international Geary-Khamis dollars).

Maddison estimates that China's per capita GDP exceeded that of Europe from the 5<sup>th</sup> to the 14<sup>th</sup> centuries<sup>22</sup> (see Table 1.4 below) after which China (along with most of the rest of Asia) remained more or less stagnant in per capita terms until the second half of the 20<sup>th</sup> century. He credits the higher levels of income in the earlier periods to China's "technical precocity and meritocratic bureaucracy"<sup>23</sup> and attributes the stagnation in Asia initially to "indigenous institutions and policy, reinforced by colonial exploitation which derived from Western hegemony and was most marked from the eighteenth century onwards."<sup>24</sup>

Table 1.4

<b>"Guesstimated" Level of Chinese and European GDP Per Capita, 50-1700 AD</b>				
<b>(1990 \$)</b>				
	<b>Year</b>			
	<b>50</b>	<b>960</b>	<b>1280</b>	<b>1700</b>
<b>China</b>	450	450	600	600
<b>Europe<sup>a</sup></b>	450	400	500	870

<sup>a</sup> Excluding Turkey and USSR  
Source: Maddison (1998: Table 1.3, 25)

Based on Maddison's data, Japan was an exception as it did not experience this stagnation. Japan's per capita GDP remained lower than that of Asia as a whole until the early 19<sup>th</sup> century. Maddison believes that income levels in Japan were probably depressed in 1500 because of civil war but estimates a substantial increase in performance in certain sectors of the economy from 1600 to 1820. His estimate is that Japanese GDP per capita rose by a third from 1500 to 1820 and, thus, caught up with and surpassed that of China and most of the rest of Asia by the early 19<sup>th</sup> century. He

attributes this to the Meiji takeover in 1868, which involved massive institutional change with the goal of catching up with the West.<sup>25</sup>

Frank (1998) also finds that Japan's economic development was not stagnant from the second half of the 17<sup>th</sup> century through the 18<sup>th</sup> century. Despite stabilization of population growth, agricultural and other production continued to grow causing per capita income to increase during the 18<sup>th</sup> century.<sup>26</sup>

Maddison's findings reveal an Asia that has maintained throughout history the largest share of the world's population, and of world GDP (absolute value) until the 20<sup>th</sup> century, but that has been considerably less productive and worse off than Western Europe on a per capita basis since 1500. He claims his view is consistent with the mainstream view, which is reflected in Landes (1969, p. 13-14). Maddison labels Bairoch's (1981) view of China being well ahead of Western Europe (and the rest of Asia only 5 percent lower), as a "highly improbable scenario [that] was never documented in the case of Asia [...]"<sup>27</sup>

While he goes on to acknowledge that Bairoch has been influential, he rejects Bairoch's assessment that colonial exploitation was largely responsible for the slow development of the "Third World". Maddison agrees with Landes (1969) who states, "Western Europe was already rich before the Industrial Revolution [...]. This wealth was the product of centuries of slow accumulation, based in turn on investment, the appropriation of extra-European resources and labour, and substantial technological progress, not only in the production of material goods, but in the organisation and financing of their exchange and distribution [...] it seems clear that over the near-millennium from the year 1000 to the eighteenth century, income per head rose appreciably – perhaps tripled."<sup>28</sup> Maddison supports his view by referring to the "laborious efforts" he has made "to accumulate quantitative evidence on this topic." He claims that by rejecting the view of Bairoch he does not deny the role of colonial exploitation, but makes it better understood "by taking a more realistic view of Western strength and Asian weakness around 1800."<sup>29</sup>

In the final analysis, it is difficult to reach a high level of certainty as to who is correct in his assessment of economic development during this period, particularly in view of the lack of reliable data available (freely acknowledged by all) that makes estimates or, in the worst case "guesstimates", necessary for the earlier periods. There are also allegations of Eurocentrism, Asiacentrism and Sinophilia that are alleged by one or another to have prejudiced the findings presented in much of the previous literature.

Keeping this in mind, the best that can be concluded at this stage is that Asia did have the major share of world population, as well as world GDP in absolute amounts throughout most of the previous millennium. Furthermore, Asia most likely had higher per capita income than did Europe in the pre-modern era (or prior to about 1500) and possibly even up to 1800 (depending upon whose estimates are used). It is generally agreed that the Industrial Revolution in Europe and European colonization of Asia had decidedly negative consequences for Asian economic development in the 19<sup>th</sup> and 20<sup>th</sup> centuries. While Europe's technological superiority rapidly accelerated during this period, there is plenty of evidence that Asia was not lacking in this respect, particularly prior to 1500.<sup>30</sup> At the very least it can be said that historically Asia's share of the world economy was of such magnitude as to render it impossible to dismiss as irrelevant. In

fact Asia had large resources of primary materials and a significant technological base from which to produce goods that were highly desired in Europe.

## Asia's Historical Place in the Trading World

Trade between Asia and Europe began over 2,000 years ago (5,000 according to some) and increased after the 16<sup>th</sup> century with the establishment of direct maritime contact.<sup>31</sup> More precisely, the opening of the direct sea route around the Cape of Good Hope led to the integration of global trade generally between 1500 and 1800 with the Portuguese pioneering direct European maritime trade with Asia.<sup>32</sup> In the 16<sup>th</sup> century the Portuguese were a dominant presence in Euro-Asian trade. Their position, however, was successfully challenged in the 17<sup>th</sup> and 18<sup>th</sup> centuries by other Europeans, particularly the Dutch and the English who founded joint-stock companies specifically to trade with Asia (i.e., the Dutch Verenigde Oostindische Compagnie (VOC) and the English East India Company (EIC).) The shift in dominant European presence in Asia among these three countries from the 16<sup>th</sup> through the 18<sup>th</sup> centuries is demonstrated in Table 1.5.

Table 1.5

Number of Ships Sailing to Asia from Seven European Countries, 1500-1800			
	1500-99 <sup>a</sup>	1600-1700	1701-1800
Portugal	705	371	196
Netherlands	65	1,770	2,950
England		811	1,865
France		155	1,300
Other <sup>b</sup>		54	350
Total	770	3,161	6,661

<sup>a</sup> 1590s for the Netherlands  
<sup>b</sup> "Other" refers to ships of the Danish, Swedish trading companies, and the Ostend Company (Austria).  
Source: Maddison (2001: Table 2-6, 63) sourced originally from: Portugal 1500-1800 from Magalhães Godinho in Bruijn and Gaastra (1993: 7 and 17); otherwise from Bruijn and Gaastra (1993: 178 and 183).

While the English expanded their presence between the 17<sup>th</sup> and 18<sup>th</sup> centuries, the Dutch retained the largest maritime presence among Europeans in both centuries. The presence of the Portuguese declined to almost nothing in the 18<sup>th</sup> century.

From 1400 to 1800, Asia-related trade can be conceptually divided into two spheres: intra-Asian and global. The intra-Asian trading sphere can be further divided into two overlapping regions: the Indian Ocean region (encompassing the Middle East, Central Asia, India, and Southeast Asia) and the Asian region (encompassing Central Asia, India, and East Asia).<sup>33</sup> During the period under discussion, goods produced and traded by Asia included a wide variety of luxuries and commodities, with some of the most prominent being pepper, spices, sugar, silk and cotton textiles, rice, wheat, sugar, coffee, opium, precious stones, medicines, weapons, and horses. Another commodity that played a key role in Asia-related trade was precious metals (especially silver).

## Intra-Asian or “Country” Trade

Intra-Asian trade (also called “country” trade) was initially conducted by Asians with Asians. This trade developed long before Europeans arrived in Asia and, in the beginning, the ships and their owners, the merchants and the goods traded were all Asian. The nature of intra-Asian trade changed over the centuries. By 1500, there already existed “an old and wide network of maritime trade routes in Asia: routes between ports in East and Southeast Asia; routes between Malacca and ports on the coasts of India; and routes between India and ports in the Red Sea and the Persian Gulf [...]”<sup>34</sup> When the Europeans arrived in Asia, they became heavily involved in the country trade (particularly the Dutch) and influenced the way it was conducted. Nonetheless, intra-Asian trade involving exclusively Asians remained a large portion of this type of trade.

Europeans engaged in intra-Asian trade to “procure cargoes for the European market” and “to accumulate profit [...] for their King, for their company – and for themselves as private individuals.”<sup>35</sup> Among the European trading companies, the Dutch VOC<sup>36</sup> were the most active in intra-Asian trade. Towards the end of the 17<sup>th</sup> century and beginning of the 18<sup>th</sup> century, the VOC was carrying more (in volume and value) between Asian ports than all other Europeans (trading companies and private traders) combined.<sup>37</sup> The VOC started to participate in intra-Asian trade around the same time it began its Euro-Asian trade and before long, the VOC’s intra-Asian trade rivaled its trade between Europe and Asia. Although the VOC’s intra-Asian trade began to decline in the 18<sup>th</sup> century, this trade remained an integral part of the VOC’s overall trading strategy until it ended operation at the end of the 18<sup>th</sup> century.<sup>38</sup>

The VOC’s intra-Asian trade involved a complex pattern of multilateral trade. Femme Gaastra (1999) describes the VOC’s intra-Asian trade “as a ‘fan’ with Batavia [present-day Jakarta] as the ‘grip’ [...]”<sup>39</sup> According to Prakash (1999), the most important links in this pattern in the early 1630s included investing European precious metals, Japanese silver (obtained against Chinese silk), and Taiwan gold (obtained against Japanese silver and Indonesian pepper) in Indian textiles, which were exchanged for Indonesian pepper and other spices. Some of the textiles, and the bulk of the pepper and spices, were exported to Europe. Textiles were also sent to various Asian factories and some pepper and spices were used for investment in India, Persia, Taiwan and Japan. In this way, new links were forged among the various Asian markets and between the markets of Asia and Europe.<sup>40</sup>

Although trade was conducted under the direction of Europeans and goods were carried in European ships, in fact large numbers of Asians assisted with and were directly and indirectly involved. Braudel (1984) describes how thousands of local people manned the ships, served in the armies, and operated as merchants and bankers in the commercial centers. There were also ships owned and run by Asians that flew the Portuguese flag in order to benefit from lower customs duties accorded Portugal in certain ports.<sup>41</sup>

Another connection between the Europeans and local people was through marriage. Before the arrival of the Europeans, there already existed many prominent Asian trading families whose activities were essentially run by the women of the family.<sup>42</sup> The Portuguese were the first to intermarry with these women, doing so to establish profitable colonies. Later, the Dutch married the daughters of these earlier unions instead of importing Dutch women who were reluctant to live in the Far East

because of living conditions there. These unions benefited not only the Dutch in their intra-trade operations but also the local families.<sup>43</sup>

Steensgaard (1991), in discussing the pattern of Asian trade routes, refers to “increasing evidence of the viability of Asian merchant entrepreneurs and the practical partnership established by European powers and Asian merchants; partnerships explained by the fact that both sides still found more profit in co-operating than in fighting each other.”<sup>44</sup>

While there was indeed a strong *partnership* aspect to intra-Asian trade, there were also many ways in which the Europeans and Asians remained separate and competitive. Gaastra (1999), in his study of intra-Asian trade in the 17<sup>th</sup> century, determined that there was more competition than collaboration between the Dutch VOC and Indian merchants. Chaudhury and Morineau (1999) acknowledge that most historians characterize the pre-colonial period (16<sup>th</sup> to 18<sup>th</sup> centuries) as the ‘Age of Partnership’<sup>45</sup> but they believe there to have been more competition than collaboration between the European trading companies and Asian merchants during this period. Competition from Asian merchants was sufficiently strong to prevent the Europeans from driving the Asians out of trade in the area, except in the few cases where military and political power was applied (e.g., in the Moluccas, and Bantam). Van Leur (1955) emphasized that in the 16<sup>th</sup> century the maritime trade conducted by Asians had continued to be of vital importance. Most historians in recent years question the dominance of the Europeans in the Indian Ocean up to the mid-18<sup>th</sup> century emphasizing their limited role and marginal activities.<sup>46</sup>

While the Asian-only portion of intra-Asian trade was quite large and Asian merchants were respectable competitors, European involvement did over time have a significant impact on this intraregional trade. Feldbæk (1991) describes certain aspects of this impact as follows.<sup>47</sup>

- European settlements were established and thrived in South and Southeast Asia, e.g., Manila (Spain), Batavia (Netherlands), Pondicherry and Port Louis (France), and Bombay, Madras and Calcutta (Britain). By the end of the 18<sup>th</sup> century, these had developed into major commercial centers with extensive economic and financial interests.
- The Europeans promoted the development of their ports by attempting to “force” intra-Asian trade (by military, political and economic means) to become centered in these locations, particularly Portuguese Boa and Malacca, Dutch Batavia and English Madras.
- They opened up new routes and introduced new types of goods. For example, they exported large amounts of opium from English Calcutta to southern China.

Akita (1999) looks at intra-Asian trade in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries and cites several Japanese economic historians<sup>48</sup> who claim “the economic growth of Asian countries was led by intra-Asian trade, which had long historical origins but which began to grow rapidly around the turn of the century.”<sup>49</sup>

Sugihara (1990) argues that the economic success of Japan in the 1980s, as well as that of the NIEs (South Korea, Taiwan, Hong Kong and Singapore) in the late 1980s, originated in their pre-war intra-Asian trade where they developed skills in what she calls “culture neutralizing the Western commodity mix”. By this she means neutralizing



Western cultural elements to suit Asian domestic markets; e.g., making things “smaller and cheaper” or “neater and cleaner”.<sup>50</sup>

Table 1.6 below shows Sugihara’s estimates of the geographical distribution of Asian trade (including India, Southeast Asia, China and Japan) between 1883 and 1928.

Table 1.6

		Geographical Distribution of Asia's Trade (£ million)																							
		1883						1898						1913						1928					
		the West		Asia		Total	the West		Asia		Total	the West		Asia		Total	the West		Asia		Total				
India	Ex.	44.45	68%	17.02	26%	66.85	100%	42.71	63%	20.93	31%	68.15	100%	95.74	63%	41.70	27%	152.69	100%	136.41	58%	64.38	28%	233.86	100%
	Im.	34.69	85%	5.12	13%	40.97	100%	33.51	75%	6.37	14%	44.52	100%	91.80	75%	26.58	22%	122.25	100%	117.39	59%	64.33	32%	200.38	100%
SE Asia	Ex.	14.98	58%	6.70	26%	25.62	100%	15.19	39%	14.70	37%	39.25	100%	54.17	52%	42.93	41%	104.70	100%	139.69	53%	96.77	37%	261.46	100%
	Im.	13.54	57%	8.35	35%	23.66	100%	15.95	51%	14.17	46%	31.05	100%	46.56	56%	32.44	39%	82.98	100%	44.15	55%	58.04	34%	170.50	100%
China	Ex.	17.78	76%	3.96	17%	23.25	100%	15.47	60%	8.85	34%	25.80	100%	29.99	56%	30.42	49%	61.87	100%	61.79	43%	70.71	50%	142.56	100%
	Im.	8.55	47%	9.29	51%	18.02	100%	13.46	51%	12.51	47%	26.62	100%	48.59	56%	36.53	42%	86.14	100%	68.87	40%	96.16	56%	171.57	100%
Japan	Ex.	5.23	80%	1.20	18%	6.53	100%	8.54	51%	8.04	48%	16.90	100%	34.21	47%	36.56	50%	72.64	100%	97.11	42%	120.38	53%	228.74	100%
	Im.	3.70	71%	1.52	29%	5.23	100%	14.69	52%	13.53	48%	28.36	100%	35.00	44%	42.00	53%	78.82	100%	104.59	42%	138.35	53%	260.18	100%
Total	Ex.	82.44	66%	28.88	24%	121.25	100%	81.91	55%	52.52	35%	150.10	100%	214.11	55%	151.61	39%	391.80	100%	435.00	50%	352.44	41%	868.62	100%
	Im.	60.48	69%	24.28	28%	87.88	100%	77.61	59%	46.58	36%	130.55	100%	221.95	60%	137.55	37%	370.19	100%	385.00	48%	356.88	44%	802.63	100%

Note: Most of China's exports to Hong Kong were re-exported to other countries, and most of her imports from Hong Kong originally came from other countries.  
Source: Sugihara (1990: Table 1, 130); see original article for source details.

According to these estimates, the listed countries’ exports to and imports from the West between 1883 and 1928 increased by 4.3 percent and 5.4 percent, respectively. Intra-Asian trade between those years, however, experienced a greater rise of 11.2 percent (for exports) and 13.7 percent (for imports). This resulted in a jump in share of intra-Asian exports from 24 to 41 percent and imports from 28 to 44 percent, a significant rise over the 45-year period. Among the countries listed, the greatest increases in share of intra-Asian exports were for China (33 %) and Japan (35 %). For imports, the largest increases were for India (19 %) and Japan (24 pp). Southeast Asia’s intra-Asian export share increased by 11 percentage points while its import share dropped by 1 percentage point.

Sugihara (1985) points to the development of the modern cotton industry as key to the growth of intra-Asian trade because it promoted the cotton trade on many levels eventually leading to the emergence of an “Asian inter-regional division of labour with Japan and India as exporters of manufactured goods and importers of primary products on the one hand, and China and Southeast Asia as exporters of primary products and importers of manufactured goods on the other.”<sup>51</sup> This pattern is shown in the breakdown of Japan’s trade statistics in Table 1.7 below.

Table 1.7<sup>52</sup>

Japanese Trade with other Asian Countries										
	1892		1902		1912		1925		1935	
	£000	Share	£000	Share	£000	Share	£000	Share	£000	Share
<b>Exports</b>										
Primary Products	1,518	46%	3,701	33%	7,992	26%	20,186	18%	18,208	16%
Manufactured Goods:	1,550	47%	7,115	64%	21,638	71%	86,706	75%	91,288	81%
Textiles	211		3,631		13,560		57,791		45,354	
Other Light Industrial Goods	559		2,118		4,471		13,898		13,861	
Heavy Industrial Goods	780		1,366		3,607		13,017		32,093	
<b>Total</b>	<b>3,270</b>	<b>100%</b>	<b>11,051</b>	<b>100%</b>	<b>30,527</b>	<b>100%</b>	<b>115,240</b>	<b>100%</b>	<b>113,170</b>	<b>100%</b>
<b>Imports</b>										
Primary Products:	3,940	89%	11,660	94%	31,031	94%	138,636	95%	81,220	89%
Food	2,144		4,300		12,773		63,619		36,725	
Raw Material for Textiles	1,600		6,265		14,376		52,591		19,558	
Other Raw Material	196		1,095		3,882		22,426		24,937	
Manufactured Goods	480	11%	669	5%	1,579	5%	6,666	5%	9,764	11%
<b>Total</b>	<b>4,435</b>	<b>100%</b>	<b>12,418</b>	<b>100%</b>	<b>32,887</b>	<b>100%</b>	<b>146,184</b>	<b>100%</b>	<b>91,710</b>	<b>100%</b>

Source: Sugihara (1990: Table 3, 133); Yukizawa Kenzo and Maeda Shozo, *Nihon Boeki no Choki Tokei* (Japanese Trade Statistics Reaggregated by Commodity and by Basic and Major Region). Kyoto, Dohosha, 1978.

Notes: Total includes special category trade. Foreign Exchange Rate see Yamazawa Ippei and Yamamoto Yozo, *Boeki to Kokusai Shoji* (Foreign Trade and Balance of Payments), LETS Vol. 14, Tokyo, Toyo Keizai Shimposha, 1979.

Table 1.6 shows that Japan's trade in the early 1880s was primarily with the West, which was the case for other Asian countries as well. In Japan's case, this trade consisted of exports to the West of primary products and semi-manufactured goods and imports of manufactured goods from the West (Sugihara 1990). However, by the end of the 19<sup>th</sup> century this pattern had changed so that Japan's trade with Asia rose to make up about half its total trade. This proportion remained unchanged until the late 1930s when intra-Asian trade in general began to decline. The breakdown of Japan's trade with Asia also changed over that period. Table 1.7 above shows that in 1892 Japan was exporting an equal proportion of primary products and manufactured goods to Asian countries but by 1935 only 16 percent of its exports were primary products while 81 percent were manufactured goods. The proportion of imports to Japan from Asia remained about the same over that period, i.e., around 89 to 95 percent were primary products.

Sugihara (1990) argues that the rise in Japan's proportion of intra-Asian trade is evidence of its function as an "engine of growth of intra-Asian trade." She accounts for this by pointing out the following: (1) Chinese and Indian merchants carried most of Japan's trade with Asia via their intra-Asian network during the early 1900s, (2) Japan knew, better than the West, how to produce goods of a certain quality and price that were suitable for the Asian market (her previously mentioned "culture neutralization"), and (3) Japan adopted Western technology faster than other Asian countries which gave it an advantage in the production of manufactured goods for export to Asia.<sup>53</sup>

Akita emphasizes the importance to Japan and other Asian countries (except for China) of close contact with the West in developing Asia's interregional trade. He cites as evidence the fact that these countries adopted the gold standard by the end of the 19<sup>th</sup> century in order to facilitate the import of capital and manufactured goods from the West. Sugihara explains, "most of the manufactured goods which served for the development of an infrastructure such as railways, ports (communication system) and cities were imported from the West, without which the intra-Asian trade would have been confined to a centuries-old junk trade."<sup>54</sup>

After experiencing significant growth from the economic boom before World War I, the volume of intra-Asian trade began to decline in the late 1930s as the network became disrupted by the Japanese invasion and war. This was compounded in the late 1940s when China, India, North Korea and many Southeast Asian countries substantially withdrew from intraregional trade as they underwent serious political changes. The proportion of intra-Asian trade in world trade grew rapidly again in the 1970s and 1980s.<sup>55</sup>

The above discussion reveals that intra-Asian trade preceded the arrival of the Europeans in the 16<sup>th</sup> century and extends to the present day with periods throughout of more or less intensity. The importance of this type of trade in the economic development of Asia is widely acknowledged in the literature. It is also apparent, however, that this type of trade did not exist in a vacuum. In fact, its development was facilitated by contact with the West both in earlier periods as well as in the 20<sup>th</sup> century. In fact, a look at historical trade networks gives a clear indication of just how intertwined this intraregional trade was with global trade at the time; e.g., (1) goods produced and traded in Asia eventually found their way to Europe and America and (2) the nature of intra-Asian trade was characterized by both collaboration and competition between Europeans and Asians. While it is possible to assess the intensity of intraregional trade by tracking imports and exports between countries, the broader global view should be kept in mind since most goods circulated throughout the region and the world, as is explained further below.

## **Asia's Global Trade**

Although Asia-related trade can be divided conceptually into the two categories of intra-Asian trade and global trade, in actuality the latter is really an extension of the former. In other words, the two overlapped and interacted in such a way as to have functioned as one system. Frank (1998) observes that the "world market was really a series of interconnected regional markets dispersed and overlapping around the globe" implying that the regional, national, and many local economies of that time were part of a single global economy.<sup>56</sup> In his view, the identification of "regional units" is arbitrary and "intra-regional ties, no matter what their density, are no obstacle to having *inter-regional* ones as well."<sup>57</sup>

To give an example of this interaction: Although the Dutch traded in a self-contained circuit within Asia (i.e., intra-Asian trade), many of the goods obtained there found their way back to Europe through exportation (i.e., global trade). In fact, one of their objectives in participating in intraregional trade was to obtain goods for the European market. Although a large portion of the silver needed by the Europeans in their intra-Asian trade was obtained from Japan, some was obtained globally – from the

Americas via Europe. Furthermore, while maritime trade between Asia and the rest of the world was largely carried out by European ships, around 1800 there were also Asian-built ships, normally involved in intra-Asian trade, that often picked up cargo from various Asian ports and carried it to Europe.<sup>58</sup>

This interaction between intraregional and global trade is demonstrated by the trade patterns of the key Asian players during this period: China, India, Japan and Southeast Asia. The involvement of these nations/regions in Asian trade during the modern and pre-modern eras was complex and of considerable magnitude as described below.

### *China*<sup>59</sup>

From the 1100s to 1433, China was the “most dynamic force in Asian trade”<sup>60</sup>. After coming into power in 1279, the Yüan (Mongol) dynasty expanded shipbuilding (started under the Sung) for foreign trade, maritime commerce with Asia, and naval operations. The traditional trading area for China at that time was the “Eastern Oceans”. In the early 1400s, the Ming emperor Yung Lo (Yong Le) undertook naval operations outside this area to places in the Western Oceans (Indian Ocean to the east coast of Africa including Calicut, Cochin, Malacca, Hormuz, Red Sea, Maldives, Bengal, Mogadishu, East Africa, Ceylon, Aden, among others.) These naval ventures were carried out for the purpose of displaying China’s power and superiority. In furtherance of this goal, a system of tributary relationships<sup>61</sup> was implemented. Korea and Japan were members of this tributary system – the former, a permanent member, and the latter, a member between 1404 and 1549.

Between 1405 and 1433 Admiral Cheng Ho (Zheng He) led seven expeditions to the Western Oceans. The Chinese did not attempt to establish bases for trade there but had some interest in obtaining medicinal plants and exotic animals. Support for such voyages ended after the death of Cheng Ho (1435) as it became apparent that China’s security was not enhanced by extending the tributary system to the countries of the “Western Oceans” and that the exorbitant cost of the voyages had contributed to a fiscal and monetary crisis. Although the tributary arrangements with countries in the “Eastern Oceans” were continued, private trade continued to be banned. The natural reaction to this regime was illicit private trade and piracy. By 1567, the ban on private trade was lifted but trade with Japan was prohibited. This provided a favorable window of opportunity to the Portuguese who had established a base in Macao in 1557.

China was preeminent in the world also in terms of its production capability, particularly for silk, which was its largest export product traded primarily to other Asians, and for porcelain ceramics. Its great success in exporting these goods is evidenced by its having become a “sink” for the world’s silver, which was used to balance its trade surplus with the rest of the world.<sup>62</sup>

The question remains as to why China, which had huge “treasure ships” (much larger than European ships) that ventured as far as the Cape of Good Hope, ceased navigation beyond present-day Singapore and *appeared* to turn inward after 1433. While government-sponsored navigation was ended in order to concentrate on domestic affairs, the curtailing of private sector shipping was related to “market forces”. The price of timber (lots of which was required in the construction of the large “treasure ships” that were used in long trips to India and the Middle East) became prohibitively high due to its scarcity on the central China coast. Thus, the private traders resorted to building smaller

ships in Southeast Asia where timber was cheaper and where Chinese diasporas existed. The Chinese then focused on short-distance shipping using the entrepôts that existed in areas favored by the monsoon winds. So in fact, instead of China being completely closed to trade at that time, Chinese traders established a tighter network of trade closer to home in order to maximize their profits.<sup>63</sup>

### *India*<sup>64</sup>

As might be expected, the center of the Indian Ocean trading sphere in 1400 to 1800 was the Indian subcontinent where many port cities developed along the east and west coastlines. Important among these were Diu, Cambay, Surat, Goa, Calicut, Colombo, Madras, and Masulipatam, many of which served as entrepôts. India had an active inland trade as well – by water and overland. Almost all the port cities were connected to the caravan routes into and out of their respective interior areas.

Geneviève Bouchon notes that India played an essential role in intra-Asian (specifically Indian Ocean) trade after the departure of the Chinese in 1433. The large void left by the Chinese was filled by the Bengalis, Tamils and Gujaratis who brought products from India, Europe and the Arab world to the markets of Malacca.<sup>65</sup> She attributes the creation of new trade networks in the region to the Gujarati merchants.<sup>66</sup>

India tended to export more than it imported and ran a large trade surplus with Europe (and some with West Asia) that was settled in precious metals. This imbalance was primarily related to its more efficient production of cotton textiles and to the production of pepper. These were exported to Africa, West Asia, Europe, and from there to the Caribbean and the Americas. Additionally, India exported rice, pulses (peas, beans, lentils, etc.), and vegetable oil westward to the Persian Gulf and Red Sea and eastward to Malacca and Southeast Asia. In exchange, India received silver and some gold from the West – the former it re-exported or used for coins and the latter it used for coins, jewelry and hoarding (although this is disputed by some, as discussed below.)

India also exported cotton textiles to Southeast Asia and imported spices. It re-exported silver there, and to China, indicating a possible trade deficit with that region.

The Coromandel coast (facing the Bay of Bengal) served as an important entrepôt both in internal and worldwide trade. It was also used by the Dutch and other Europeans in their own Indian and worldwide operations.

### *Japan*

There is evidence that Japan's foreign trade began within Asia as early as the 13<sup>th</sup> century.<sup>67</sup> John Whitney Hall notes that in the 14<sup>th</sup> and 15<sup>th</sup> centuries Japan emerged "as a major maritime power in East Asia activated by a vigorous internal economic expansion."<sup>68</sup> Trade with China and Korea was important in the 13<sup>th</sup> century, and during the 15<sup>th</sup> and 16<sup>th</sup> centuries trade extended as far as the Straits of Malacca. Sanderson (1995) observes that Japan's involvement in vigorous Far Eastern trade seemingly occurred at the same time that China was withdrawing from world trade. He is of the opinion that these events were connected and that Japan took over where China left off.

Japan participated in China's tributary trade from 1404 to 1549.<sup>69</sup> Hall (1970) notes that during this time Japan's exports to China were mass commodities and artifacts (copper, sulfur, folding fans, screens, and primarily swords) and imports from China were strings of cash, raw silk, porcelain, paintings, medicines, and books. He states

unequivocally that Japan was “no longer an underdeveloped member of the Chinese world order.”<sup>70</sup>

Frank (1998) describes Japan’s trade after 1560 as follows: “Japan became a major producer and exporter of silver and then copper to China and Southeast Asia, but also of some gold and considerable sulfur, as well as such goods as camphor, iron, swords, lacquer, furniture, sake, tea, and high quality rice to as far away as India and West Asia. In return, Japan received Chinese silks and Indian cotton textiles, as well as a whole gamut of other producer and consumer goods like lead, tin, woods, dyes, sugar, skins, and quicksilver (used for smelting its own silver) from Korea, China, and Southeast Asia.”<sup>71</sup>

The silver that Japan produced in abundance from the mid-1500s, and that China strongly desired, created a dilemma as to how this trade could be arranged.<sup>72</sup> China had prohibited trade with Japan around that time so, according to Tarling (1992), the exchange of Japanese silver for Chinese silk and other goods took place through Southeast Asian ports, particularly Manila and Hoi An (Vietnam), until 1635 when it was suddenly stopped.<sup>73</sup> Maddison (2001) claims that Chinese pirates and the Portuguese became the primary carriers of Japanese silver to China.

Japan’s isolationist period began with the Tokugawa Shogunate.<sup>74</sup> Key events leading up to *total* isolation included the prohibition of Christianity in 1606, the departure/expulsion of the English and Spanish in 1623-1624, restrictions on foreign trade and travel in 1630, and banning of the Portuguese and restriction of the Dutch to a small area in 1639.<sup>75</sup> The traditional view is that Japan remained totally isolated and economically stagnant after this date until its reopening in the mid-19<sup>th</sup> century. However, more recent literature describes a process involving “large-scale urbanization, commercialization of agriculture, [...] growth in the wealth and economic importance of the merchant class, increased monetization of the economy, and beginnings of the factory system” as evidence of the economic vitality of this period.<sup>76</sup> Ikeda (1996) has found recent evidence from Japanese scholars showing that foreign trade did not in fact decline during the isolationist period. He reports that Chinese imports of silk actually increased after 1660 and continued until 1770. Also, trade continued with Southeast Asia including Burma, and even Japanese silver exports continued until the mid-18<sup>th</sup> century.<sup>77</sup>

### *Southeast Asia*<sup>78</sup>

Southeast Asia played a significant role in intra-Asian trade, as well as in world trade, particularly in the period from 1580 to 1630 when it benefited from the economic expansions in Japan, China, India, and Europe. Its “geographical location [...] made it a natural crossroads and meeting point for world trade.”<sup>79</sup> Southeast Asia’s trade patterns are representative of the integration of intraregional and global trade that existed in Asia at that time as aptly described by Frank: “The division of labor and pattern of trade in Indonesia and adjacent regions combined three interrelated axes of interisland and peninsular short-haul trade, regional trade with India and China/Japan/Ryukyu Islands, and world trade with West Asia, Europe, and the Americas.”<sup>80</sup> Southeast Asia imported “cloth from India, silver from the Americas and Japan and copper-cash, silk, ceramics and other manufactures from China, in exchange for its exports of pepper, spices, aromatic woods, resins, lacquer, tortoise shell, pearls, deerskin, and the sugar exported by

Vietnam and Cambodia.”<sup>81</sup> China was Southeast Asia’s “major customer, some eight times more than Europe.”<sup>82</sup>

Southeast Asia’s role was also vital in that a number of its ports served as important entrepôts in trade among China, Japan, other parts of Eurasia, and the Americas. Major among these was Malacca, founded in 1403, which served as a turnaround point for Chinese shipping (halted temporarily in 1433) and used by Gujaratis, Turks, Armenians, Arabs, Persians, and Africans as a trading center with Southeast and East Asia.<sup>83</sup> In support of this trading system Southeast Asia’s financial system included a “sophisticated and reliable money market” where money could be borrowed at an interest rate of about 2 percent a month, similar to that in Europe.<sup>84</sup>

As is evident in the above descriptions of the trade patterns and products of these four economies, there was a robust intra-Asian trade at the core of a broader global trade. Furthermore, although one or another of these players pulled back at certain points from the global arena, the gap was soon filled by other Asian traders so that the flow of goods continued unabated. The regional/global nature of trade at that time is further demonstrated by the flow of precious metals and their role in trade promotion.

## **The Monetary Side of Trade: Precious Metals**

Precious metals (as well as copper, coins, and shells<sup>85</sup>) were used as money to “settle the accounts’ of the trade deficit at each link of the chain by those who wanted to import from the next link but did not have enough to export in return.”<sup>86</sup> Most notable among those needing “money” to pay for their imports were the Europeans who, it has been claimed by some, had nothing to sell that was of interest to Asians, who in their turn produced a considerable quantity of goods desired by the Europeans. Consequently, Europe imported more from Asia than Asia did from Europe. This resulted in a significant balance of payments problem for the Europeans. In order to finance their purchases of the large amounts of goods they wanted from Asia, Europeans used precious metals.<sup>87</sup>

Attman (1991) found evidence of this in the actual export and import figures from port records of the 17<sup>th</sup> and 18<sup>th</sup> centuries. There were three markets that had high demand for bullion at that time: Asia, the Baltic, and the Levant (Eastern Mediterranean). Invoices from that period reflect the amounts various European countries owed to Asia and the Baltic for imports. He estimates payment in silver and gold from Europe was two-thirds the invoiced amount for Asia and between one-half and one-third for the Baltic. Table 1.8 shows Attman’s estimates for the export of precious metals from Europe to Asia and the Baltic.<sup>88</sup> Estimates for the Levant, for which there are no precise invoice values, are included based on the actual amounts of precious metals transported from European ports to the Levant.

Table 1.8

Estimated Annual Exports of Precious Metals from Europe to the East (in millions of rix-dollars)				
Year	1600	1650	1700	1750
The Levant (Eastern Mediterranean)	1.0	2.0	2.0	2.0
The Baltic region	1.7 - 2.0	2.3 - 3.0	2.3 - 3.0	2.3 - 3.0
The route round the Cape (Asia)	1.0	*1.7	3.3	5.7
<b>Total</b>	<b>3.7 - 4.0</b>	<b>6.0 - 6.7</b>	<b>7.6 - 8.3</b>	<b>10.0 - 10.7</b>

\* Includes silver from Japan used by VOC to meet demand from 1635 to 1668.  
Source: Attman (1991: Table 4, 17)

The need for precious metals increased markedly from the mid-16<sup>th</sup> century when Portuguese trade around the Cape increased, and even more so in the 17<sup>th</sup> century when the Dutch (VOC) and English (EIC) began their Euro-Asian trade. Attman's estimates reflect this. While exports to the Levant and Baltic regions remained unchanged from 1650 to 1750, those to Asia increased by 5 percent between 1600 and 1750 at which time they reached 5.7 million rix-dollars.

Table 1.9

Exports of Silver and Gold from Western Europe, 1601-1780 (tonnes of "silver equivalent")					
	To the Baltic	To Eastern Mediterranean	Dutch (VOC) to Asia	British (EIC) to Asia	Total
1601-1650	2,475	2,500	425	250	5,650
1651-1700	2,800	2,500	775	1,050	7,125
1701-1750	2,800	2,500	2,200	2,450	9,950
1751-1780	1,980	1,500	1,445	1,450	6,375
<b>Total 1601-1780</b>	<b>10,055</b>	<b>9,000</b>	<b>4,845</b>	<b>5,200</b>	<b>29,100</b>

Source: Maddison (2001: Table 2-10, 65);  
Barrett, in Tracy (1990: 251) (he does not show his equivalence conversion ratio for gold.)

As further evidence of the significant growth in precious metal exports from Europe to the East over the 17<sup>th</sup> and 18<sup>th</sup> centuries, Angus Maddison (2001) estimates export levels in tonnes of "silver equivalent". (See Table 1.9.) Although Tables 1.8 and 1.9 are not directly comparable,<sup>89</sup> a similar pattern can be observed in both tables. Table 1.9 shows the amount exported to Asia (by the VOC and EIC) increased 6 percent between 1601 and 1750 when it reached a total of 4,650 tonnes before declining by nearly 40 percent over the next thirty years. The estimates for the total shipped to Asia are over 10,000 tonnes for the two centuries, but the amount was almost certainly more than this since only the Dutch and British exports are shown here while other European countries (including Portugal, France, Denmark and Sweden) were also engaged in this activity, albeit to a lesser degree.



In addition to being the major importer of precious metals, Asia was also a producer of gold and silver. In fact, while the Europeans were major exporters of precious metals, they produced very little of it themselves and, thus, had to obtain it elsewhere. The major and minor producers worldwide of these metals are listed in Table 1.10.

Table 1.10

	<i>Major Producers</i>	<i>Minor Producers</i>
Silver	Mexico Peru <sup>1</sup> Japan	Northeast Europe Persia Central Asia Burma/Siam/Vietnam
Gold	West and Southeast Africa Spanish America (in 16 <sup>th</sup> c.) Brazil (in 18 <sup>th</sup> c., from 1690) Southeast Asia	Japan Persia China
Copper <sup>2</sup>	Japan Sweden	
Tin*	Malaya	

<sup>1</sup> In addition, Prakash (1986: 84) mentions Bolivia and Columbia as large South American silver producers.

<sup>2</sup> Copper and tin were sometimes alloyed; both were used for low-value coinage.

Source: Frank (1998: Table 3.1, 140)

Earlier on, copper was predominantly used in Asia as currency but silver eventually displaced copper (and also gold) as supplies increased. During this period, there was “at least a trimetallic world market, which however was predominantly on a de facto silver standard.”<sup>90</sup> For this reason (and because of limitations of time and space in this study), our focus will be primarily on silver.

## Silver

Rich deposits of silver discovered and mined in the Americas constituted the “most important component of the increased total availability” of precious metals in the 16<sup>th</sup> century.<sup>91</sup> This silver traveled to Asia via two main routes: (1) from South America via Spain to Europe and then on to Asia and (2) from Mexico across the Pacific to Manila.

Asia's producers included Japan as the major supplier in the region starting in the 16<sup>th</sup> century. Silver had become a very important commodity in Japan in the 16<sup>th</sup> and 17<sup>th</sup> centuries with only Spanish America being a larger producer and thus a major competitor in the global market at that time.<sup>92</sup> Estimates of Japan's production are 50 tons per year between 1560 and 1600, and 150 to 190 tons per year between 1600 and 1640.<sup>93</sup>

Frank (1998) averages the estimates of Barrett (1990)<sup>94</sup> and Attman (1986) to arrive at the amounts of silver production, trade routes and ultimate destinations that are shown in Table 1.11.

Table 1.11

<b>World Silver Production, Exports, and Receipts</b> (values in thousands of tons)			
<b>Time Period</b>	<b>Location and Amount Produced</b>	<b>Shipped to Europe</b>	<b>Shipped to Asia directly or on-shipped from Europe to Asia</b>
16 <sup>th</sup> century	Americas – 17	17	
	Japan – 2		2
17 <sup>th</sup> century	Americas – 37	27	13
	Japan – 7		7
18 <sup>th</sup> century	Americas – 75	54	26
1600-1800	Americas – 3 to 10 up to 25		All to Manila

Source: Frank (1998: Map 3.1, 148)

One notable feature of the silver trade is that China received a very large share of this metal from all sources and via all routes. According to Frank's estimates, China received nearly all the silver shipped to Asia via Europe and the Pacific in the 17<sup>th</sup> and 18<sup>th</sup> centuries. Additionally, Japan's 9,000 tons produced in the 16<sup>th</sup> and 17<sup>th</sup> centuries went to China. Thus, for over two and a half centuries up to 1800, a total of 48,000 tons of silver from Europe and Japan and another 10,000 tons via Manila, as well as other silver produced in continental Southeast and Central Asia and in China itself is estimated to have ended up in China. He estimates that this total of about 60,000 tons was approximately half the world's production during that time.<sup>95</sup>

More recent calculations by Von Glahn (1996a) result in lower estimates for the amount of silver that went to China. These are shown in Table 1.12.

Table 1.12

<b>Chinese Imports of Silver by Country of Origin, 1550-1700</b> (metric tons)				
	<b>Japan</b>	<b>Philippines</b>	<b>Portuguese shipments to Macao</b>	<b>Total</b>
1550-1600	1,280	584	380	2,244
1601-40	1,968	719	148	2,835
1641-85	1,586	108	0	1,694
1685-1700	41	137	0	178
<b>Total 1550-1700</b>	<b>4,875</b>	<b>1,548</b>	<b>528</b>	<b>6,951</b>

Source: Maddison (2001: Table 2-9, 64); Von Glahn (1996a: 140 and 232).

Frank (1998), however, finds von Glahn's estimation procedure to be "questionable" but calculates that even with these lower estimates, the total received by China from the mid-16<sup>th</sup> to mid-17<sup>th</sup> centuries was between one-fourth and one-third of total world silver production.<sup>96</sup>

Various historians claim that most of the silver that ended up in China never came out again causing China to be referred to as the "sink" for silver during this period. Much the same is said of precious metals (silver and gold) that went into India. The traditional theory is that China and India hoarded these metals and used them for decorative purposes rather than as money in commerce and investment. This resulted in these countries being labeled as financially unsophisticated and not interested in the expansion of investment and capitalism causing Asia to be viewed as "external to the European world-economy [...]."<sup>97</sup>

One historian (among several) who disagrees with this theory is Om Prakash who contends that the inflow of increasing quantities of money into India in the 17<sup>th</sup> century facilitated an increase in the degree of monetization in the economy, to which the rise of banking firms was in part related.<sup>98</sup> Chaudhuri (1986) also refutes the "hoarding" theory by saying, "the absorption of gold and silver by the Asian economies in the early modern period had little to do with a 'hoarding' social mentality but was grounded on an international pattern of economic specialization, on payments mechanism, and socially-determined demand which had existed for at least a millennium."<sup>99</sup> As stated by Frank (1998) "[...] the world-wide flow of money to Asia and Russia is evidence precisely that they *were* parts of the same world economy as Europe and the Americas."<sup>100</sup>

## **Asia's Soft and Hard Infrastructure: Merchants and Ports**

A major contributor to Asia's historically significant role in the world economy, and one that has been subject to some misconception, is that of the Asian merchant or trader. Traditionally, Asian traders were labeled as "peddlers" who hawked small amounts of high value merchandise such as spices, pepper, pearls, perfumes, drugs and diamonds. This view, however, has in recent times been replaced with a more accurate image of the Asian trader – one that is closer to that of a western trader; i.e., a true capitalist, wholesaler, or merchant selling both luxury goods and ordinary commodities on a large scale. While there were indeed many small traders with little capital in Asia, there were also many "wealthy magnates" who had large amounts of capital. Also, in addition to luxury goods, cheap and medium-quality textiles and staple food items (rice, wheat, and oil) were traded within Asia.<sup>101</sup>

It is now being acknowledged that the Asian merchant was not inferior to the European merchant "in terms of their commercial operations and business acumen."<sup>102</sup> In fact, Asian merchants could compete successfully against the Europeans in an open market because they required lower profit margins (10 to 15 percent) than the European Companies, which wanted 40 to 70 percent to cover their high overhead costs.<sup>103</sup> The only times the Europeans were able to succeed against the Asians was when they resorted to military might as did the VOC in Banda in 1621 in order to gain control of the spice trade.<sup>104</sup>

Morineau (1999) identifies a number of Asian merchants as “big-timers”, including the Muslim merchants from the Gulf of Cambay and Gujarat who “ascended to the level of kingmakers” in the 12<sup>th</sup>, 13<sup>th</sup> and 14<sup>th</sup> centuries. He states, “Vasco da Gama<sup>105</sup> did not come to an ocean that was void of shipping or to territories without markets or merchants.”<sup>106</sup> In the 17<sup>th</sup> and 18<sup>th</sup> centuries, there were the merchant princes of India who have been favorably compared with the Medicis, Fuggers and Tripps of Europe.<sup>107</sup>

China also had its share of merchants and entrepreneurs including private sea traders of the late Yüan period (many of whom continued trading illegally in the early Ming period), Ming<sup>108</sup> government traders on government ships (until the 1430s), and private Chinese traders based in overseas settlements (diasporas). These Chinese diasporas existed primarily in Southeast Asia and the émigrés tended to live together in self-contained Chinese communities. Most of them also had strong connections to the mainland because of a strong sense of family duty fostered by Confucianism and emotional attachment to their native villages. There were also reported to be a number of Chinese Muslims among the early overseas traders who have been credited with the spread of the Islamic religion in Indonesia.<sup>109</sup>

Trade diasporas existed in many locales in Asia and served to facilitate trade in the region. Besides the Chinese, there were also the Maharatshi merchants from Cambay and Surat in Malacca, and in other port cities in Southeast, South, and West Asia.<sup>110</sup>

Concerning ports in the region, the above discussion of trade routes gives a clear indication of the large number of ports established by both Asians and Europeans that were scattered throughout Asia to service the intra-Asian and Euro-Asian trade. Frank (1998) aptly describes these as “a sort of necklace of port-city emporia strung around Asia.”<sup>111</sup> Some of these functioned as entrepôts (i.e., ports or port cities that served as commercial centers where goods are brought for import and export.) Several existed on the west coast of India, including Diu, Cambay and Surat in Gujarat and the Portuguese entrepôt at Goa, where they functioned as ports of call for monsoon-driven ships from the Red Sea and Persian Gulf as well as turnaround points for the overland caravan trade with Persia, Russia, Central Asia, and others.<sup>112</sup> Some also existed in Southeast Asia (e.g., Manila and Malacca) and in West Asia (e.g., Aden and Hormuz) where their trade relations were greater with the rest of the world than with their own surrounding area.<sup>113</sup> The modern day Asian entrepôt is epitomized by Singapore, which has functioned as such since the early 19<sup>th</sup> century.

Petri (1993) distinguishes the “treaty port system” developed in the mid-19<sup>th</sup> century as a key contributor to Asian interdependence. Britain initiated this system when it abolished its monopoly through the EIC and moved to gain open access to ports through the Treaty of Nanking (ending the Opium War of 1840-42) and other treaties. Other nations followed Britain’s lead resulting in a rise in trade through the large ports that had been developed by the Europeans (i.e., Hong Kong, Manila, Shanghai, and Singapore). These entrepôts facilitated not only trade between the home country and its colonies, but also a large proportion of intraregional trade throughout Asia.

Most of these ports still exist, although perhaps with a different name and with more or less importance than in previous centuries. They constitute a “hard” infrastructure that serves the network of Asia’s modern day trade. Their continued importance is clearly demonstrated in the discussion of present-day trade patterns and

relationships in Chapter IV. And, while the merchants themselves, of course, no longer exist, the *merchant legacy* provides a “soft” infrastructure of knowledge and experience that continues to affect present-day trade in the region.

## The Impact of Colonialism

It could be said that in the early 20<sup>th</sup> century, nearly all the countries of the East, and over half the world’s population, were under some form of colonial rule. First the Europeans and later the Americans administered direct rule over the various countries and territories of Asia. The primary colonizers were: *Britain* – India, Malaysia, and Singapore [Burma (Myanmar) annexed in 1886]; *the Netherlands* – Indonesia; the *United States* – the Philippines (having earlier been under Spanish rule); and *France* – Indochina. Although China, Persia, Thailand and Turkey were not colonies, they signed treaties that “reduced their sovereignty in commercial matters, and granted extraterritorial rights to foreigners.”<sup>114</sup>

Although it was expected by some that these nations would descend into “barbarism” upon departure of the colonialists, this did not happen since many Asian nations had long traditions of high-level civilization that gave them a sense of identity and nationhood. That is not to say, however, that the region was unaffected by the experience and, in more ways than one, the effect was negative. Paul Bairoch, upon finding that the positive impact of colonization on the West’s economic development was limited, commented, “If the West did not gain much from colonialism, it does not mean that the Third World did not lose much.” In his opinion, “[...] a large number of negative structural features of the process of economic underdevelopment have historical roots going back to European colonization.”<sup>115</sup>

Two major negative consequences of colonialism are discussed below.

## De-industrialization

There is no doubt that de-industrialization (the disappearance of industries) occurred as a result of colonization even though the precise extent of that may be difficult to ascertain. India’s textile industry, for example, suffered under the British in two respects. Firstly, the British bureaucracy in India, as well as the Indians who worked under them, preferred European clothing, which led to the destruction of about three quarters of the domestic demand for luxury handicrafts (fine muslins, jewellery, luxury clothing and footwear, etc.)<sup>116</sup> Secondly, after 1813 English textiles began to flood India going from about 1 million square yards of cotton cloth in 1814 to 1,050 million in 1890.<sup>117</sup> Bairoch (1993) attributes this to the EIC’s loss of its trade monopoly (a monopoly that prevented imports of textile goods into India) and to the technological progress made by the English spinning industry which resulted in an English worker’s productivity by 1830 becoming ten to fourteen times higher (for an average yarn) than that of an Indian worker.<sup>118</sup> The result was cheap British textiles flowing freely into India.

Production costs in India were raised as a result of a large number of British workers being employed in the textile industry there. It is estimated that British employees made up 42 percent of the managerial and supervisory staff of the Bombay textile industry in 1895 (but dropped to 28 percent in 1925). Furthermore, the British did

not undertake to provide technical education or training and managerial experience to Indians, thus hampering Indian industrial efficiency.<sup>119</sup>

Under these circumstances it was obviously difficult for India to establish a modern textile industry. Bairoch suggests that by 1870-80 local industry and artisans provided 25-45 percent of local textile consumption (or a level of de-industrialization equal to 55-75 percent.)<sup>120</sup>

De-industrialization was not restricted to the textile industry of India. Other industries (e.g., iron), as well as other colonized countries, suffered the same fate. Bairoch claims that de-industrialization may have been even worse in other Asian countries. He cites China as an exception because its local industry was better able to survive due to a later start to the inflow of manufactured goods from the West, more local autonomy, and the large size of the country itself. In 1890, its local textiles might have supplied around 50-70 percent of local consumption.<sup>121</sup>

Table 1.13 below shows Bairoch's estimates of industrialization levels from 1750 to 1990 for the "Third World" (including Africa and Latin America in addition to Asia) and developed countries. The differences are immediately obvious. Until 1860, the "Third World's" level of industrialization exceeds that of developed countries. This, however, is reversed in 1860. Subsequently, the level for the "Third World" begins to decline (until 1928) while that in developed countries accelerates. On a per capita basis, the level was always lower in the Third World (from 1750, at least) than it was in developed countries but the difference widens considerably after 1860.

Table 1.13

Levels of Industrialization, 1750 - 1990 (United Kingdom in 1900 = 100)				
	Total		Per Capita	
	Third World	Developed Countries	Third World	Developed countries
1750	93	34	7	8
1800	99	47	6	8
1830	112	73	6	11
1860	83	143	4	16
1900	60	481	2	35
1913	70	863	2	55
1928	98	1,260	3	71
1938	122	1,560	4	81
1953	200	2,870	5	135
1973	927	8,430	14	315
1980	1,320	9,910	19	347
1990	2,480	12,090	29	412

Source: Bairoch (1993: Table 8.1, 91)

## Decline in Standard of Living

By 1950 (the end of the colonization period), the “Third World” economies had a much lower standard of living than did developed countries. Bairoch (1993) attributes this difference to a century and a half of Industrial Revolution experienced by the developed countries that boosted their standard of living fivefold. In his estimation, the average “Third World” country in the 1950s had nearly the same standard of living as it did in 1800, or at least no better than 10-20 percent higher. In terms of real income per capita<sup>122</sup> it was five to six times lower than that of developed countries. Labor productivity in the agricultural sector of “Third World” countries in 1950 was seven times lower than that in Western countries and 30-40 percent below that of developed countries in 1800.<sup>123</sup>

The patterns found by Bairoch are supported by data compiled by Maddison (2001) as shown in Table 1.14 below.

Table 1.14

Levels of GDP Per Capita in European Colonial Powers and Former Colonies, 1500-1998 (1990 International dollars)						
	1500	1700	1820	1913	1950	1998
Britain <sup>a</sup>	762	1,405	2,121	5,150	6,907	18,714
France	727	986	1,230	3,485	5,270	19,558
Italy	1,100	1,100	1,117	2,564	3,502	17,759
Netherlands	754	2,110	1,821	4,049	5,996	20,224
China	600	600	600	552	439	3,117
India	550	550	533	673	619	1,746
Indonesia	565	580	612	904	840	3,070

<sup>a</sup> Refers to England, Scotland and Wales for 1500-1913. Northern Ireland is included for 1950 and 1998.  
Source: Maddison (2001: Table 2-22a, 90)

This table shows that GDP per capita for India and Indonesia increased in the early colonial period but declined toward its end – between 1913 and 1950. China’s per capita GDP, on the other hand, dropped between 1820 and 1913.

Maddison also developed the following tables (1.15 and 1.16) for Indonesia and India, respectively, as “a crude measure of the burden of colonial rule and the colonialist gain.”<sup>124</sup>

Table 1.15

<b>The Dutch "Drain" on Indonesia, 1698-1930</b>		
	<b>Indonesian export surplus as percent of Indonesian net domestic product</b>	<b>Indonesian export surplus as percent of Dutch net domestic product</b>
1698-1700	0.7	1.1
1778-80	0.9	1.7
1868-72	7.4	5.5
1911-15	7.6	8.7
1926-30	10.3	8.9
Source: Maddison (2001: Table 2-21a, 87)		

According to the estimates in Table 1.15, the amount of Dutch income in Indonesia that was remitted out of the country jumped from 0.9 percent in the pre-colonial period (1778-80) to 7.4 percent in the early part of the colonial period (which started in 1815). This reached as high as 10.3 percent by 1926-30. This is despite the fact that the Dutch reduced the percentage of their Indonesian income remitted out of the country between 1870 and 1921 as the economy was opened up to private enterprise. Their income as a percentage of Indonesian domestic product had risen from about 1.4 percent in 1700 to about 17 percent in 1921-38.<sup>125</sup> It can also be seen in the right column of Table 1.15 that Indonesian income added significantly to the Netherlands' domestic product by the late 1920s (8.9 percent). According to Maddison (1989), from 1840 onwards, this income made up the preponderance of Dutch foreign income.

Table 1.16

<b>The British "Drain" on India, 1868-1930</b>		
	<b>Indian export surplus as percent of Indian net domestic product</b>	<b>Indian export surplus as percent of British net domestic product</b>
1868-72	1.0	1.3
1911-15	1.3	1.2
1926-30	0.9	0.9
Source: Maddison (2001: Table 2-21b, 87)		

Table 1.16 reveals that the "drain" on India was considerably less than that on Indonesia. British income in India was only about 5 percent in 1921-38 (versus 17 percent for the Dutch in Indonesia) and of this, only 1.7 percent was remitted.<sup>126</sup> Also, the addition of Indian income to Britain's domestic product was only 0.9 percent in 1926-30 compared to 8.9 percent for the Dutch (from Indonesia) in the same period.



## Other Effects of Colonialism

At first glance, Britain's rapid construction of railroads in India and the first mechanized textile mills in Asia might be perceived as positive outcomes of colonialism. Pomeranz and Topik (1999), however, point out that neither of these contributed to economic growth. Like the textile industry, the railways built in India used British equipment, engineers and coal, and thus did not result in the transfer of technology and skills. India's textile mills lacked sufficient resources and were unable to develop as well as did their counterparts in China and Japan, which had come under government protection prior to World War I.

Another legacy of colonialism in Asia is the diversity of traditions and influences that arose from having the region colonized by more than one foreign nation. While diversity can often bring richness and depth to a society, it can also make it difficult to reach consensus on important issues. This phenomenon has affected to some degree Asia's progress towards regional cooperation. For example, the political and legal systems in the Philippines (colonized by America), Indonesia (colonized by the Netherlands), and Malaysia and Singapore (colonized by Britain), as well as Thailand (not colonized), vary widely.<sup>127</sup>

Furthermore, as a result of having achieved much desired independence after colonization, some countries have gravitated more toward nationalism than toward regionalism. Also, the problems confronted in the post-colonialist period (e.g., the struggle for economic development) may foster a tendency to focus on national, as opposed to regional, issues.

The issue of free trade is often mentioned as a positive occurrence of the colonial period. However, this is not as clear as purported. While Britain ostensibly promoted open trading with its colonies, it protected its own textile industry (with around 100 percent tariffs) from inexpensive imports from India during the 17<sup>th</sup> and 18<sup>th</sup> centuries. In the late 19<sup>th</sup> century, during Britain's "free trade" period, it closed Indian industrial goods markets to the non-British.<sup>128</sup> The Dutch, on the other hand, did not espouse open trading in its colony of Indonesia as it did not perceive free trade there to be potentially profitable. The Dutch realized they would have been unable to compete successfully against the British and American traders who were more powerful at the time.<sup>129</sup>

Another legacy of colonialism is in the area of FDI. Until the early 1980s, FDI in Asia came primarily from Europe and America with the concentrations following traditional colonialist lines; i.e., U.S. investors dominating in the Philippines and European investors in other Southeast Asian countries.<sup>130</sup> It is questionable whether or not this inflow of capital from former colonialists was a good thing or not. According to Fan Gang (2000), "Most of the former colonial territories, which enjoyed a high (maybe the highest) degree of freedom of commodity trade, capital inflows and technology transfer, did not prosper and still remain in the category of the most backward countries."<sup>131</sup> He emphasizes that while open markets, or globalization can bring capital and technology to developing countries, other requirements, such as institutions and market management capability are just as necessary for a country to compete globally. These factors, however, are not "mobile" and thus do not come along with globalization because they are "national-specific and historically constrained."<sup>132</sup>

Examples have been provided herein of the colonizers' failure to train the local population in management skills, preferring to fill such positions themselves. Having

been “run” by the colonizers for a long period of time, the local populace was hindered in the development of its own institutions and management capability. Therefore, the capital and technology provided by the colonizing nations was only part of what these developing countries needed to compete globally. They were thus left handicapped upon the departure of their colonizers.

## **Concluding Remarks**

The review of Asian economic history in this chapter leads to a number of generalized observations concerning the trade patterns and economic development of the region over a period encompassing hundreds of years. Asia was the source of a wide variety of goods, both primary and manufactured, that were highly desired throughout the region itself and in other parts of the world. The production of these goods derived not only from the rich primary resources in the region but also from a large and highly civilized population whose skills were technologically sophisticated for the time. As a result, Asia maintained the major share of world GDP (in absolute amounts) throughout most of the previous millennium and even had higher per capita income than did Europe in the pre-modern era (prior to about 1500) and, depending upon which estimates are used, possibly even up to 1800.

Prior to the arrival of the Europeans, there was an active intra-Asian trade that covered a triangular area from India in the West, to China and Japan in the Northeast, to Southeast Asia. This intraregional trade was eventually joined by the Europeans for whom it became a valuable source of profits. Asia’s global trade was conducted in a complex pattern involving many routes: Asia to Africa, Asia to Europe, Asia to the Americas via Europe, and Asia directly to the Americas from Manila. While this trade was carried out primarily through the use of European ships, Asians were prominently involved, directly and indirectly, in its conduct. Asia’s intraregional trade and global trade were interactive and mutually promoting. Developing from this complex trading network were a port system (hard infrastructure) and a merchant class (soft infrastructure) that continue to serve the region well today.

On the monetary side, Asian trade was facilitated by the use of precious metals as a form of currency. The fact that Asia produced more goods desired by Europe than vice versa created a balance of payments problem for the Europeans, which they resolved by using precious metals (particularly silver) to pay for their Asian purchases. While much of this silver came from the Americas, Japan was a large producer within Asia.

In contrast to its strength and prominence in earlier periods, Asia’s economy weakened in the latter part of the millennium due in part to the effect of the Industrial Revolution in Europe and the colonization of a number of Asian nations. Colonialism had a largely negative impact on the region resulting in de-industrialization and a decline in the standard of living, among other things. Although the colonialists did bring capital and technology to their colonies, their failure to provide training and management experience to the local population meant that the colonies were poorly equipped to compete on a global level once independence was attained.

Economic history tells us that Asia has been an open region fully involved in the world economic system for much of the previous millennium and that it played a prominent role in worldwide trade and the global division of labor during that time. At the same time, the concept of intraregional trade is not a new one for the region although

the intensity of this trade has fluctuated from time to time throughout history. If it continues to exist today, this global/intraregional network has profound implications for regional integration in East Asia. We will follow this theme throughout the following chapters, where we will examine in the current period East Asia's trade and investment, as well as its financial and monetary systems as these relate to regional integration and cooperation.

## Chapter II –East Asia Today

The review of Asian economic history in Chapter I revealed two aspects of trade in the region (i.e., intraregional and global) that overlapped and interacted in such a way as to have effectively functioned as one system. This, in addition to the evidence of Asia's prominent role in the global economy at that time, supports the argument that Asian trade has been open and global for centuries.

In this chapter, we will take a look at the region in the current period and focus on two characteristics that have figured significantly in the development of East Asian regional cooperation; i.e., diversity and openness. Certain economic and social indicators will provide an overview of the region in terms of economic size and development, educational level, life expectancy, and ethnic and religious breakdown. These will reveal the heterogeneity of East Asia, particularly in comparison with other regions of the world; e.g., North America (herein represented by NAFTA) and Europe (represented by the EU).<sup>133</sup> Other indicators will reveal the degree of East Asia's openness and integration with the global economy. Relative to these indicators, the significance of the member composition of various regional institutions (e.g., ASEAN and APEC) will be explored.<sup>134</sup>

### A Diverse Region

If any single word can be used to describe East Asia, that word is “diverse”. Nearly every aspect of the region can be characterized as diverse whether it be country size, ethnicity, religion, language, politics, or economic development. Compared to Europe, for example, “[...] East Asia is characterized by greater diversity in terms of size, the level of economic development, industrial structures, the depth of financial markets, and broad institutional frameworks [...]”<sup>135</sup>

East Asia's ethnic, religious and political diversity is clearly demonstrated in Table S.1 in the Statistical Appendix,<sup>136</sup> which provides a breakdown in these areas for each country. With few exceptions, the countries of East Asia are home to varied populations that in the aggregate espouse nearly every religion in the world. Some ethnic groups (e.g., Chinese and Malay) are present in several countries – as a majority in some and a minority in others. The small country of Myanmar claims 135 ethnic groups within eight major races, whereas Japan and Korea each are home to only one ethnic group with just a small minority of one other. Systems of government include variations on constitutional monarchies, republics (independent and parliamentary), communist states, and military governments, among others.

Illiteracy and life expectancy data for these countries reveal further heterogeneity. For example, Table S.2 shows the illiteracy level in 1999 to be extremely low for Korea (1 percent and 4 percent for males and females, respectively), but very high for Cambodia (41 percent and 79 percent, respectively). The difference in life expectancy among countries is also wide – for Japan and Hong Kong it is above 80 years, while for Cambodia and Lao PDR it is only 54 years.

The heterogeneity reflected in these social indicators is in part related to the region's economic diversity. Table 2.1 below shows basic measures of economic size, including land area, population level and density, and gross national income (GNI).

Output or gross domestic product (GDP) is covered in a subsequent table.<sup>137</sup> Financial market size and degree of financial development will be dealt with in Chapter V.

Table 2.1

Size of the Asian Economy - 1999							
	Surface Area 1000 Km <sup>2</sup>	Population (millions)	Population Density (per Km <sup>2</sup> )	GNI (US\$ billions)	GNI Per Capita (US\$)	PPP GNI (US\$ billions)	PPP GNI Per Capita (US\$)
Brunel Darussalam	6	0.3	61	7.8	24,630		
Cambodia	181	12.0	67	3.0	260	16	1,350
Indonesia	1,905	207.0	114	125.0	600	550	2,660
Lao PDR	237	5.0	22	1.5	290	7	1,430
Malaysia	330	23.0	69	76.9	3,390	173	7,640
Myanmar	677	45.0	68				
Philippines	300	74.0	249	78.0	1,050	296	3,990
Singapore	1	4.0	6,384	95.4	24,150	88	22,310
Thailand	513	60.0	118	121.1	2,010	358	5,950
Vietnam	332	78.0	238	28.7	370	144	1,860
China	9,598	1,254.0	134	979.9	780	4,452	3,550
Hong Kong SA		7.0		165.1	24,570	152	22,570
Taiwan	36	22.0	611	290.5	13,235		
Japan	378	127.0	336	4,054.5	32,030	3,186	25,170
Korea	99	47.0	475	397.9	8,490	728	15,530
Australia	7,741	19.0	2	397.3	20,950	452	23,850
New Zealand	271	4.0	14	53.3	13,990	67	17,630
Canada	9,971	30.0	3	614.0	20,140	776	25,440
Chile	757	15.0	20	69.6	4,630	126	8,410
Mexico	1,958	97.0	51	428.9	4,440	780	8,070
Papua New Guinea	483	5.0	10	3.8	810	11	2,260
Peru	1,285	25.0	20	53.7	2,130	113	4,480
Russia	17,075	146.0	9	329.0	2,250	1,022	6,990
United States	9,364	278.0	30	8,879.5	31,910	8,878	31,910
ASEAN	4,476	508.0	113	529.6	1,043	1,632	3,213
ASEAN + 3	14,551	1,936.0	133	5,961.9	3,079	9,998	5,164
APEC	62,377	2,522.0	40	17,242.1	6,837	22,352	8,863
NAFTA	21,293	405.0	19	9,922.4	24,500	10,434	25,763
EU	3,247	376.4	116	8,434.4	22,408	8,296	22,040

GNI = gross national income; GNI per capita is calculated using the World Bank Atlas method; PPP is purchasing power parity.  
 Brunei Darussalam - GNI data is 1998.  
 Taiwan data not precisely comparable to others. Taken from Taiwan Government Natl. Stats. GNI data is "GNP at Current Prices".  
 Source: World Bank's World Development Indicators 2001

The first 10 countries listed in the above table are the member economies of the Association of Southeast Asian Nations (ASEAN).<sup>138</sup> This group comprises countries that range in size from only 1,000 sq. km. (Singapore, a city-state) to nearly 2 million sq. km. (Indonesia, a group of more than 17,000 islands). Population size ranges from the smallest of around 300 thousand (Brunei Darussalam) to 207 million (Indonesia).

The GNI per capita reveals wide differences in income levels for ASEAN members with Brunei Darussalam and Singapore reporting the highest and Cambodia, the lowest. The World Bank ranks Singapore 22<sup>nd</sup> worldwide for this measure<sup>139</sup> and Cambodia, 187<sup>th</sup>. The newest members of ASEAN (Cambodia, Lao PDR and Vietnam) have GNIs well below those of the original members. (Data for Myanmar are not available.)

The original ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand) was a fairly homogeneous group. Its enlargement with the addition of new

members (Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Vietnam) brought more diversity. Heterogeneity would increase even further with the addition of the “Plus-Three” (ASEAN-Plus-Three or APT) countries of China, Japan and South Korea. China’s enormous population of 1.3 billion people dwarfs that of every other APT country. Japan’s GNI per capita does the same for income, although on a PPP basis it is not far above that of Singapore (1999).

The effect of adding the Plus-Three countries to ASEAN is immediately visible in the comparison of regional groups at the bottom of Table 2.1. GNI in absolute terms is \$530 billion for ASEAN but jumps to \$5,962 billion for ASEAN+3, over ten times greater. Of course, this difference is primarily due to Japan’s enormous GNI level of \$4,055 billion. On a PPP basis, however, the GNI level of ASEAN+3 is six times that of ASEAN due more to China’s \$4,452 billion than to Japan’s lower \$3,186 billion. However, when China’s enormous population is taken into account (in the GNI per capita figures), its level drops far below that of Japan – even on a PPP basis.

Taking the analysis one step further to include all the countries in APEC, the level of diversity increases even more, particularly with the addition of the United States. In addition to the increased heterogeneity in the ethnic, religious and political mix of APEC, the overall economic developmental level of the group shifts considerably. With the exclusion of Cambodia, Lao PDR and Myanmar (not members of APEC) and the inclusion of Australia, New Zealand, Canada, Taiwan and Hong Kong, the pendulum swings towards the more economically developed side. Thus the shift from ASEAN+3 to APEC leaves behind the smaller economies of East Asia and includes some much larger economies outside the region.

Some perspective can be gained through comparisons with the EU nations. Indicators of the EU’s economic size for 1999 appear in Table 2.2 below.

Table 2.2

Size of the EU Economy 1999							
	Area 1000 Km <sup>2</sup>	Population (millions)	Population Density (per Km <sup>2</sup> )	GNI (US\$ billions)	GNI per capita (US\$)	PPP GNI (US\$ billions)	PPP GNI Per capita (US\$)
Austria	84	8.0	98	205.7	25,430	199	24,600
Belgium	33	10.0	312	252.1	24,650	263	25,710
Denmark	43	5.0	126	170.7	32,050	136	25,600
Finland	338	5.0	17	127.8	24,730	117	22,600
France	552	59.0	107	1,453.2	24,170	1,349	23,020
Germany	357	82.0	235	2,103.8	25,620	1,930	23,510
Greece	132	11.0	82	127.6	12,110	166	15,800
Ireland	70	4.0	54	80.6	21,470	84	22,460
Italy	301	58.0	196	1,162.9	20,170	1,268	22,000
Luxembourg	3	0.4	166	18.6	42,930	18	41,230
Netherlands	41	16.0	466	397.4	25,140	386	24,410
Portugal	92	10.0	109	110.2	11,030	158	15,860
Spain	506	39.0	79	583.1	14,800	704	17,850
Sweden	450	9.0	22	236.9	26,750	196	22,150
United Kingdom	245	60.0	246	1,403.8	23,590	1,322	22,220
Total EU	3,247	376.4	116	8,434.4	22,408	8,296	22,040

GNI = gross national income; GNI per capita is calculated using the World Bank Atlas method; PPP is purchasing power parity.  
Source: The World Bank, World Development Indicators 2001

For the EU, differences in population size among nations are not as wide as for Asia. Although Luxembourg's population is extremely small (400,000), the largest country in the EU (Germany) has only 82 million people, which is minuscule compared to China's 1.3 billion.

Two observations can be made from the GNI figures. Firstly, there is the difference in the aggregate level of economic development between the two regions – East Asia comprises ten developing economies, four NIEs and one developed economy. On the other hand, the EU comprises 15 exclusively developed economies.

Secondly, the uniform level of development among the EU countries is readily observable in the GNI per capita figures, which are mostly between \$20,000 and \$30,000 with a few exceptions at both the low and high ends. The lowest World Bank ranking for the EU economies is 49<sup>th</sup> place for Portugal, although most countries are among the top 30 nations in the world in this category. Comparatively, most of the East Asian economies ranked between 80<sup>th</sup> place and 200<sup>th</sup> place. (There are slightly over 200 countries in the ranking). Japan (7<sup>th</sup>), Korea (54<sup>th</sup>), Hong Kong (19<sup>th</sup>), and Singapore (22<sup>nd</sup>) are exceptions. (Taiwan is not ranked.)



Table 2.3

Gross Domestic Product - 1999						
	GDP	GDP Per Capita	Percent of World GDP	Percent of APEC GDP	Percent of ASEAN GDP	Percent of ASEAN +3 GDP
	(US\$ millions)	US\$	%	%	%	%
Brunei Darussalam						
Cambodia	3,117	260	0.01		0.58	0.05
Indonesia	142,511	688	0.46	0.79	26.36	2.27
Lao PDR	1,432	286	0.00		0.26	0.02
Malaysia	79,039	3,436	0.26	0.44	14.62	1.26
Myanmar						
Philippines	76,559	1,035	0.25	0.43	14.16	1.22
Singapore	84,945	21,236	0.28	0.47	15.71	1.35
Thailand	124,369	2,073	0.40	0.69	23.00	1.98
Vietnam	28,682	368	0.09	0.16	5.31	0.46
China	989,465	789	3.20	5.50		15.75
Hong Kong SAR	158,943	22,706	0.51	0.88		
Taiwan (1993 & 1999) <sup>1</sup>	287,881	13,086	0.93	1.60		
Japan	4,346,922	34,228	14.08	24.18		69.17
Korea	406,940	8,658	1.32	2.26		6.48
Australia	404,033	21,265	1.31	2.25		
New Zealand	54,651	13,663	0.18	0.30		
Canada	634,898	21,163	2.06	3.53		
Chile	67,469	4,498	0.22	0.38		
Mexico	483,737	4,987	1.57	2.69		
Papua New Guinea	3,586	717	0.01	0.02		
Peru	51,933	2,077	0.17	0.29		
Russia	401,442	2,750	1.30	2.23		
United States	9,152,098	32,921	29.64	50.90		
ASEAN	540,654	1,168	1.75	3.01	100.00	8.60
ASEAN + 3	6,283,981	3,323	20.35	34.95		100.00
APEC	17,980,103	7,129	58.23	100.00		
NAFTA	10,270,733	25,360	33.26			
EU	8,478,054	22,524	27.46			
World	30,876,254	5,165	100.00			

<sup>1</sup> Taiwan data from Taiwan Government National Statistics. May not be directly comparable to others.  
Source: World Bank's World Development Indicators 2001

GDP, another measure of economic size, is presented in Table 2.3 above. GDP tells a story that is consistent in terms of economic size and diversity with that of previously discussed measures. Among the ASEAN countries, Singapore's \$21,236 (1999) is over 80 times that of Cambodia's \$260. If the grouping is extended to include all ASEAN+3 countries, then Japan's per capita GDP (\$34,228) becomes the highest and is about a hundred times greater than that of the newest members of ASEAN.

The difference in economic development among countries is even more apparent if a country's share of global GDP is measured. None of the ASEAN countries' shares of global GDP is greater than 0.50 percent, and in the aggregate, ASEAN's GDP is only 1.75 percent of worldwide GDP. If China, Japan and Korea are included, the share rises

significantly to 20 percent. If the APEC grouping is considered, the aggregate share jumps to 58 percent but the range of individual country shares within the group is extremely wide – from a low of 0.09 percent for Vietnam to a high of nearly 30 percent for the U.S.

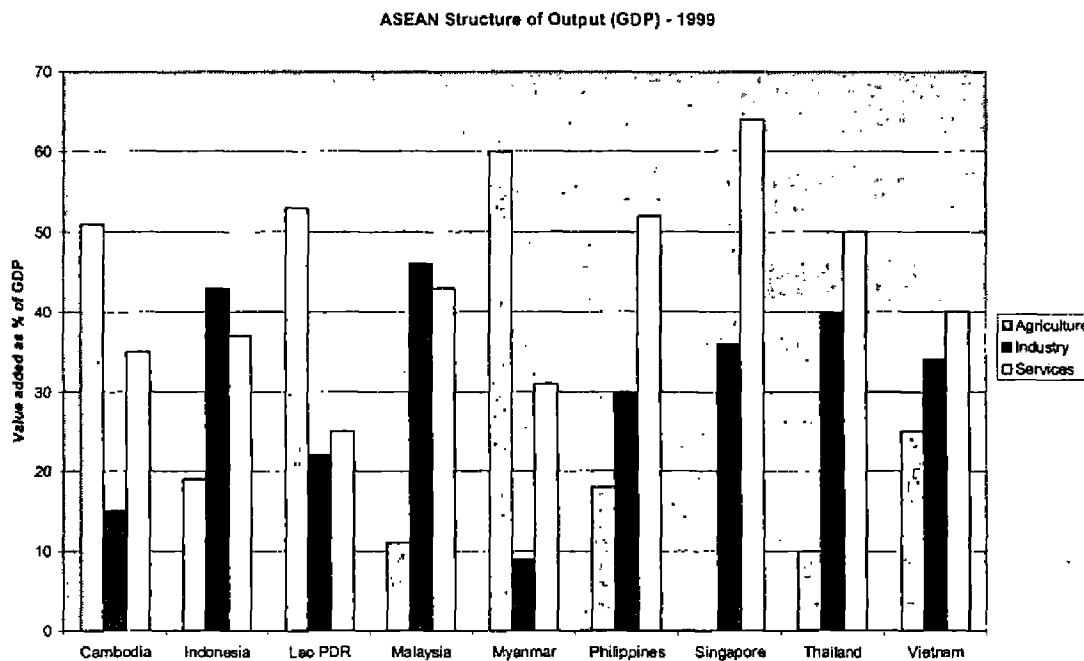
Of course, the presence of the smaller Asian countries in a group is more significant the smaller the grouping. This is readily apparent in the columns showing the percent of APEC GDP and the percent of ASEAN GDP. In APEC, the U.S. makes up 51 percent of the group GDP, while the ASEAN countries (those that are also members of APEC) make up only 3 percent on a combined basis. Within ASEAN-Plus-Three (APT), the share of the ASEAN countries in the group's aggregate GDP rises to 8.6 percent. Japan has by far the largest share at 69 percent while the shares of China and Korea are only 16 percent and 6 percent, respectively.

Comparing the GDP levels of the three East Asian groupings with those of NAFTA and the EU highlights differences in economic development more than in group size. In total GDP, APEC is the largest of all the regional groupings (\$18 trillion or 58 percent of world GDP) reflecting, of course, the \$9 trillion GDP of the U.S. The 20 percent global share of ASEAN-Plus-Three, however, is not a great deal less than the EU's 27 percent or even NAFTA's 33 percent. ASEAN's share, on the other hand, is very small (1.75 percent) when compared to these other regions.

Another important comparison is that with the Free Trade Area of the Americas (FTAA), which is a megaregional trade arrangement (MTA)<sup>140</sup> slated to ultimately (in 2005) include 34 countries in the Western Hemisphere. Table S.3 in the Statistical Appendix shows GDP and GNI of the countries included in this group. The FTAA's share of global GDP (1999) at 38 percent is greater than that of ASEAN-Plus-Three (20 percent), NAFTA (33 percent) and the EU (27 percent), although considerably smaller than that of APEC (58 percent). Here again, however, the major share belongs to the U.S., without which the FTAA's share would be only 8.5 percent compared to APEC's considerably higher 29 percent (excluding the U.S.). This reflects the inclusion in the FTAA of the many developing economies in Latin America and the Caribbean.

The heterogeneity of economic development within East Asia can also be seen in the structure of output (GDP), which for 1999 is shown in Figure 2.1 (value added as a percent of total GDP for agriculture, industry and services.) (Complete data for 1990 and 1999 are shown in Table S.4 in the Statistical Appendix.) As might be expected, the newer (and lesser developed) members of ASEAN, in particular Cambodia, Lao PDR and Myanmar, are more reliant on agricultural production.<sup>141</sup> For Singapore, the Philippines, Thailand and Vietnam, services provide the greatest contribution to output, while for Indonesia and Malaysia, the largest share comes from industrial production.

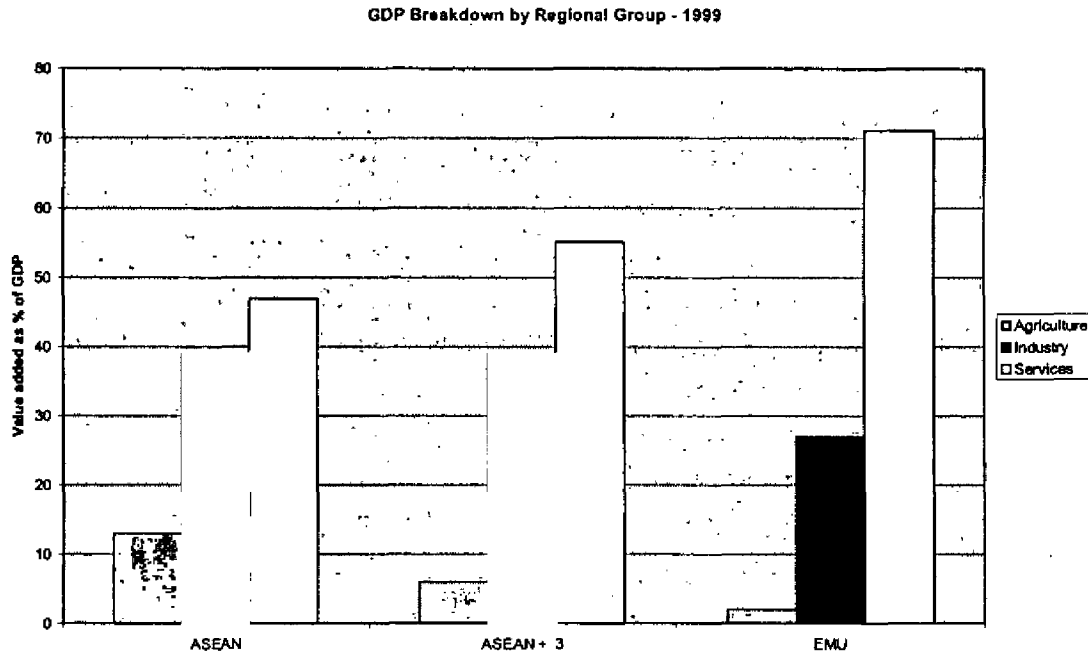
Figure 2.1



NOTE: Data for Brunei Darussalam not available  
 Source: The World Bank, World Development Indicators 2001

In the aggregate, the largest contribution to output for ASEAN is from services (47 percent of GDP), although industry is a close second at 39 percent with most of this being from manufacturing. (See Figure 2.2 below and Table S.4 in the Statistical Appendix.) In the European Monetary Union (EMU),<sup>142</sup> the contribution to output from services (71 percent of GDP) far exceeds that of industry (27 percent) and agriculture (2 percent). Again, this is a reflection of the wide difference in the overall development levels of East Asia and Europe.

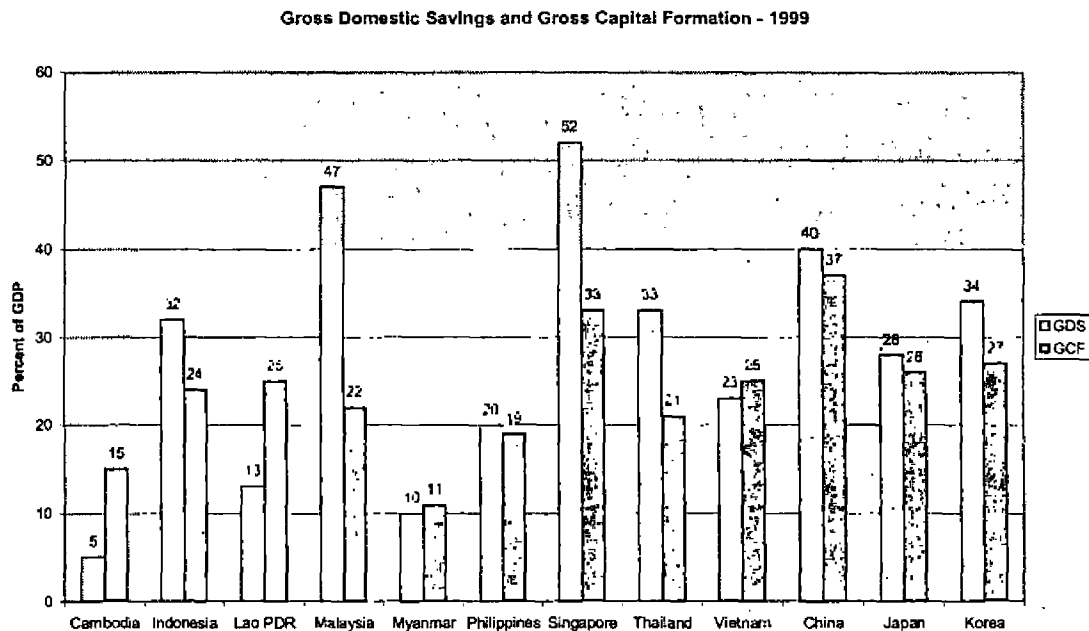
Figure 2.2



Brunei Darussalam and Myanmar not included.  
 Source: The World Bank, World Development Indicators 2001

East Asian economies have a very high savings rate. [See Figure 2.3 showing Gross Domestic Savings (GDS) and Gross Capital Formation (GCF)<sup>143</sup> as a percentage of GDP for East Asian countries. Data for 1990 and 1999 can be found in Table S.5 in the Statistical Appendix.] For 8 out of the 12 countries included in Figure 2.3, the savings rate is above the average (in most cases well above) for economies of their respective income level.<sup>144</sup> Also revealed in this figure is that most of these countries have a surplus of savings over investment. With few exceptions, the ratio of GDS to GCF is over 100 percent, which is near the average for high-income countries.<sup>145</sup> Although the overall savings rate for the region is very high, rates for individual countries vary considerably; e.g., Cambodia's savings rate (GDS/GDP) is only 5 percent and Singapore's is over 50 percent, a difference of 45 percentage points.

Figure 2.3

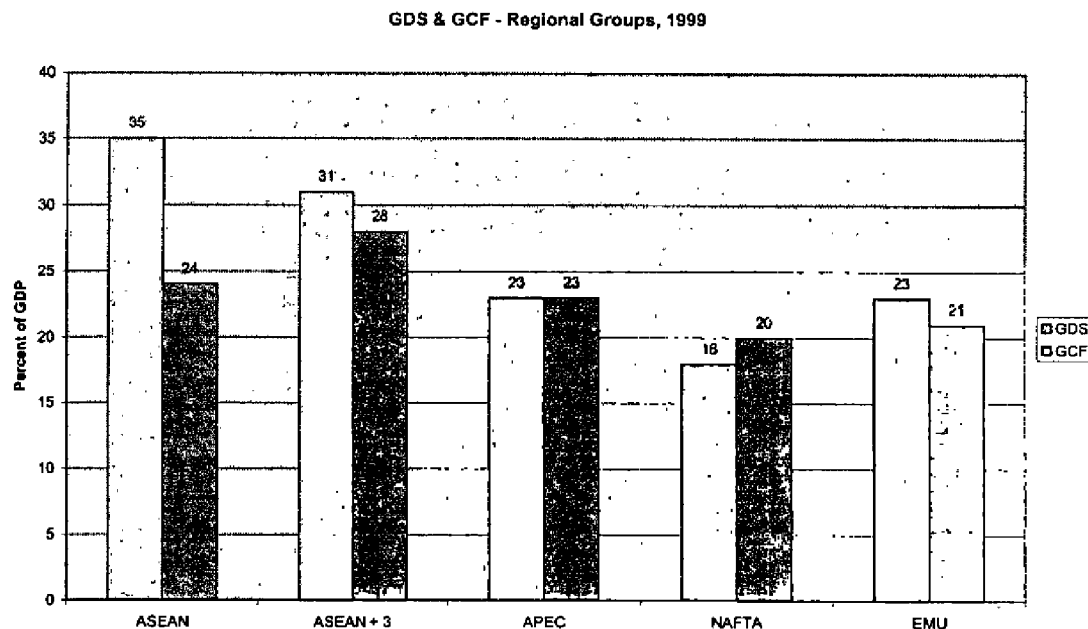


NOTE: Data for Brunei not available  
 Source: The World Bank, World Development Indicators 2001

Investment rates (GCF/GDP) are somewhat more consistent than savings rates among individual economies – generally in the range of 20 to 30 percent (except for Cambodia and Myanmar). China’s rate is remarkable at 37 percent, the highest among the countries included in Figure 2.3. While it can finance its current (1999) level of investment with domestic savings, it does not have a large savings surplus, as do Malaysia, Singapore, Thailand and Indonesia. For a poorer economy, even a high savings rate has little impact as it can raise only small amounts for investment so that these economies need to rely on other sources of funds, including development assistance.<sup>146</sup>

East Asia’s savings and investment rates are higher than those of other regions, as shown in Figure 2.4. In particular, ASEAN’s savings rate of 35 percent is nearly double that of NAFTA and one and a half times that of the EMU. Of course, this is not surprising given the low savings rates in western countries; for example 18 percent (GDS/GDP) in the U.S. (1999) and 16 percent in the U.K. The investment rate for ASEAN is more in line with that of NAFTA and the EMU but the rate for ASEAN+3 (28 percent) is pushed up by the inclusion of China in this grouping.

Figure 2.4



NOTE: Brunei Darussalam and Myanmar are not included.  
Source: The World Bank, World Development Indicators 2001

## An Open and Globally Integrated Region

Both trade and FDI have been significantly liberalized in what the World Bank refers to as the “third wave of integration (or globalization)” beginning in the 1980s and progressing since then by virtue of transportation and communications technology, declining tariffs and lower barriers to FDI.<sup>147</sup> The effect of this globalization on East Asia is evident in the data presented below.

Trade expansion is an indication of the level of openness of an economy measured by the ratio of its total trade (imports and exports) to GDP. (See Table 2.4.)

Table 2.4

Integration with the Global Economy						
	Trade in Goods <sup>1</sup>		Gross Private Capital Flows <sup>2</sup>		Gross FDI <sup>3</sup>	
	% of GDP		% of GDP		% of GDP	
	1990	2000	1990	2000	1990	2000
Cambodia	22.4	40.2	3.2	6.8	1.7	3.9
Indonesia	41.5	62.4	4.1	8.5	1.0	4.2
Lao PDR	32.3	52.7	3.7	8.7	0.7	5.4
Malaysia	133.3	201.3	10.3	16.8	5.3	2.0
Philippines	47.6	98.5	4.4	48.4	1.2	2.8
Singapore	309.9	295.3	54.6	48.5	20.7	11.6
Thailand	66.1	107.2	13.5	11.3	3.0	2.8
Vietnam	79.7	96.0	n.a.	10.8	n.a.	4.1
China	32.5	43.9	2.5	12.7	1.2	4.3
Hong Kong, China	223.5	256.2	n.a.	188.8	n.a.	89.2
Japan	17.1	17.7	5.4	10.3	1.7	0.9
Korea	53.4	72.8	6.2	11.5	0.7	3.2
Canada	43.8	75.8	8.1	30.0	2.7	16.1
Mexico	32.1	60.8	9.2	6.3	1.0	2.3
United States	15.8	20.7	5.7	16.9	2.8	5.1
East Asia & Pacific	48.8	65.6	5.3	13.3	1.5	3.9
Europe EMU	44.9	56.3	14.1	49.3	2.9	14.8

1. The sum of merchandise exports and imports measured in current U.S. dollars, divided by the value of GDP in U.S. dollars.

2. The sum of the absolute values of direct, portfolio, and other investment inflows and outflows recorded in the balance of payments financial account, excluding changes in the assets and liabilities of monetary authorities and general government.

3. The sum of absolute values of inflows and outflows of FDI recorded in the balance of payments financial account. This indicator differs from the standard measure of FDI, which captures only inward investment.

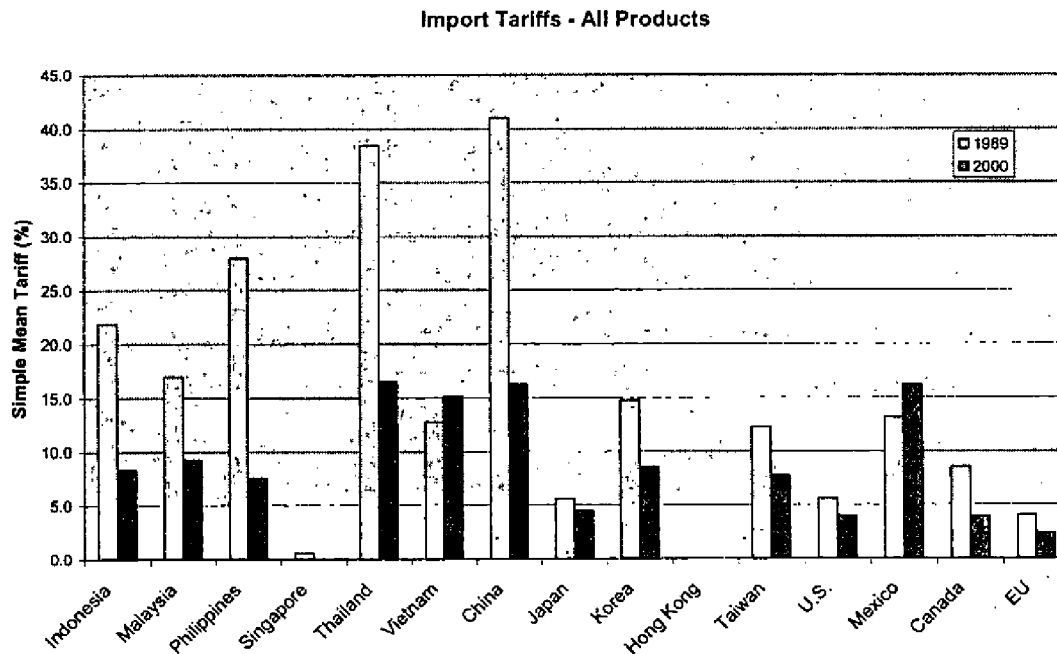
Note: Data not available for Brunei Darussalam, Myanmar, and Taiwan; data for some countries may be for a year different than indicated.

Source: The World Bank, World Development Indicators 2002, Table 6.1, pp 332-334.

The East Asia and Pacific region has a considerably higher trade/GDP ratio (66 percent in 2000) than that of the European Monetary Union (EMU) and NAFTA (i.e., Mexico, the U.S. and Canada shown separately in the above table). There is a significant difference in the level of this ratio among the individual East Asian economies with Singapore and Hong Kong at the higher end, reflecting their roles as entrepôts, and China and the smaller ASEAN countries at the lower end, reflecting the slower opening of their economies.

Another important indicator of the degree of openness in trade is the import tariff,<sup>148</sup> which has been reduced significantly over the last decade largely due to the effects of regional and global trade arrangements. (See Figure 2.5 below.)

Figure 2.5



NOTE: Early year, shown as 1989, actually varies by country between 1988 and 1994, and later year, shown as 2000, varies between 1995 and 2000. Data not available for countries not shown.

Source: The World Bank, World Development Indicators 2002, Table 6.6, pp 348-350.

In the early 1990s, import tariffs for East Asian economies<sup>149</sup> were much higher than those in NAFTA and the EU reflecting the region's developing-country status<sup>150</sup> and the EU and NAFTA's<sup>151</sup> earlier trade liberalization.<sup>152</sup> By 2000, however, average tariffs in East Asia had declined sharply, particularly in the ASEAN countries<sup>153</sup> partly due to progress under AFTA and APEC's Bogor Declaration. As a result of China's preparations for WTO accession, its average tariff dropped from 41 percent in 1992 to 16.3 percent in 2000 in all products (primary and manufactured.)

The level of private capital flows into a country indicates the strength of its investment climate and reflects the degree of liberalization of its financial markets. As seen in Table 1, this level as a percent of GDP for East Asia remains quite low (13.3 percent) compared to, for example, 49 percent for the EMU. This reflects the effect of the crisis and East Asia's comparatively lesser developed financial markets.

The most significant capital flows for developing countries, including East Asia, are foreign direct investment flows. But even these were very small (3.9 percent of GDP) for East Asia and the Pacific in 2000. However, in 2001, the Asia-Pacific region introduced the largest number of changes in FDI regimes designed to create a more favorable investment climate to attract more FDI. Out of 194 such favorable regulatory changes made worldwide, the region's share was 43 percent.<sup>154</sup>

East Asia's liberalized trade and FDI were instrumental in the region's growth in the 1980s and early 1990s. During that time, East Asia had opened up to other types of



private capital flows (non-FDI), which eventually led to the 1997-98 crisis as countries in the region were ill-prepared to cope with the volatility of these types of flows. The crisis brought to an abrupt end the earlier burst of super growth, discouraged foreign investment, and caused countries in the region to become wary of such investment. Yet the importance to economic growth of remaining open to trade and FDI is well recognized by the region's economies.

## Concluding Remarks

A look at East Asia's social, economic and political structures reveals a region of enormous diversity, particularly when compared with other regions of the world. While this undoubtedly presents challenges for regional cooperation in East Asia, it does not preclude it. As Tay and Estanislao (2000) point out, "diversity and cooperation are not, of course, opposites."<sup>155</sup> They go on to explain that if cooperation among countries is to succeed, it is more important that they have "central policies and directions that all agree on" than that they be identical. This, of course, raises the question of how East Asian economies should proceed in cultivating these "central policies and directions".

Volumes of data and extensive analysis are not needed to show that Japan, for example, is a large developed economy and Lao PDR is a small developing economy and the two must, therefore, follow widely divergent paths to achieve economic growth over the next decade. However, the analysis in this chapter goes beyond that to present a picture of the major regional groupings within East Asia comparing them to one another and to other regional groups globally across various indicators. From this analysis, several questions come to mind.

What level of economic diversity in a regional grouping would maximize the benefits of cooperation for the economies of East Asia? An economy the size and developmental status of Cambodia (GDP of \$3 billion) or Lao PDR (GDP of \$1 billion), for example, could be dwarfed by the economic power of a developed country such as Japan (GDP of \$4 trillion) or the U.S. (GDP of \$9 trillion), or by the huge potential of China with its enormous population of 1.3 billion people and GDP of \$989 billion, which is at the same time a potential market and a cheap labor source.

Is it reasonable to expect that the interests and economic well being of a small developing economy in Asia would receive the same consideration as that of a highly developed western economy if both were members of the same regional group, such as APEC? Is a single regional institution the only possibility or could multiple groups comprising different but sometimes overlapping memberships serve some purpose, at least initially?

As a group, how would ASEAN, which has only a 1.75 percent share of world GDP, fare in competition with the EU and NAFTA, which have 27 and 33 percent shares, respectively? Would a group such as ASEAN-Plus-Three, with a 20 percent share of world GDP, fare better? And, of course, APEC would be even larger and more competitive, but it is perceived by some countries as not being strictly "Asian" and, therefore, not fulfilling the requirements of a true regional forum.

It can be argued that a group comprising developmentally similar economies would be a more workable arrangement in which smaller members would have more influence, but perhaps more compelling is the argument in favor of agreements between industrial and developing economies in that they can bring significant benefits to the

developing partners in the form of enlarged export markets, accelerated FDI, and technology transfer.<sup>156</sup> While an East-West regional grouping is one possible type of *industrial country–developing country* arrangement, a North-South regional arrangement might be more beneficial and feasible as it would involve shared history, culture, and long-established trade relationships. Given the degree of openness and global integration of East Asia as a whole, one might even ask whether a regional arrangement is necessary or desirable at all, or whether multilateralism is preferable.

Chapter II raises more questions than it answers but does inform the discussion of how to pursue regional integration in East Asia. The following chapters will bring greater clarification to this issue through an examination of East Asia's regional institutions, trade and FDI, financial systems, and monetary regimes.

### **Chapter III – Regional Institutions in East Asia**

In the second half of the 20<sup>th</sup> century, regionalism in East Asia became more purposeful and structured as regional institutions (e.g., ASEAN and APEC) were established. This was prompted by the departure of colonialism from the region. In this environment, Asian nations were faced with the necessity of taking charge of their own economic development and solving their own political and security problems.

While there is ample evidence that Asian nations have engaged in intraregional trade for many centuries, this is not to say that Asia has followed a well-defined or purposeful strategy toward regional economic integration. Centuries ago, Asia's intraregional trade was driven by geographical proximity and the desire for profit. In the 20<sup>th</sup> century, regional cooperation took a more deliberate turn but the motivation behind it was more political than economic. Nevertheless, in the last ten years or so, economic and monetary cooperation within East Asia has made some progress. There is developing a strong desire, if not quite to the extent of complete commitment, to further regional cooperation among East Asian nations.

This chapter looks at regionalism in East Asia from the perspective of the region's institutions. Regional institutions have been slow to develop in East Asia and in fact are still evolving. As cooperation among the nations of the region becomes a higher priority, attention is increasingly directed toward forming the type of institution that would best serve the interests of the region and the individual countries therein. There are several regional groupings that currently represent the region in one respect or another, the most prominent of which are ASEAN (and its extensions) and APEC. This review will cover the motivation for the formation of these institutions, as well as their objectives and achievements.

East Asia's efforts to formalize regional cooperation into a workable arrangement for the promotion of trade, investment and security in the region have been varied but, until recently, not extensive. These efforts have been complicated by (1) the heterogeneity in many aspects of the region, (2) historical political tensions between certain countries, (3) the desire to protect national interests and specific industries (e.g., agriculture and automobiles), and (4) Asia's already established openness in trade and FDI and its long-standing relationships with the U.S. and the EU. This has led to the formation of a number of regional cooperative arrangements.

The most prominent of these institutions today are the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC). Some others that are perhaps less well known but currently operative are Asia-Europe Meeting (ASEM), Bangkok Agreement, and Australia-New Zealand Closer Economic Relations Trade Agreement (CER). There have, however, been other groups comprising East Asian nations, as well as countries outside the region, that no longer exist but that are relevant to the formation and development of currently existing institutions. Some of these are described in Table 3.1 below:

Table 3.1

<b>Early Efforts at Regional Cooperation</b>		
<b>Institution</b>	<b>Dates of Existence</b>	<b>Purpose</b>
Southeast Asian Treaty Organization (SEATO)	1954–1977	Started by the U.S. as part of its global anti-communist military and security alliance. Dominated by the West with only the Philippines and Thailand from SE Asia. Ended when U.S. withdrew from Vietnam.
Asian and Pacific Council (ASPAC)	1966–1973	Initiated by South Korea as a multi-regional organization against communism for security purposes and future cooperation. Includes only Malaysia, the Philippines, South Vietnam and Thailand from SE Asia. Indonesia refused to join. Dissolved in 1973.
Association of Southeast Asia (ASA)	1961–1963	First attempt by SE Asian nations at regional cooperation initiated by Malaya and including the Philippines and Thailand as well. Purpose was economic and cultural cooperation. Dissolved when the Federation of Malaysia was formed among Malaya, Sabah (North Borneo), Sarawak and Singapore. Brunei declined to join for fear of losing its oil revenues and because of leadership issues. The Philippines refused to recognize it because of its own claims on Sabah, and President Sukarno of Indonesia strongly objected to a Federation of Malaysia.
MAPHILINDO	July – Sept. 1963	Rival of ASA including Malaya, Philippines and Indonesia to promote economic, military, cultural and social cooperation. Focused on welfare of Melayu region so not supported by non-Malay members. Ended when Federation of Malaysia formed.

Source: Tongzon (1998: 3-4)

The success of these early groups was jeopardized by territorial disputes, the preference for nationalism over regionalism, racial tensions, ideological animosity, and mutual distrust. There was obviously a need for a regional grouping that would serve to unify Southeast Asian nations to deal with divisive issues and political tensions in the face of (1) the departure of the U.S. and Britain, which left a power vacuum in the region, and the closing of foreign military bases, (2) the rise of communism, (3) the increasing economic strength of Japan, and (4) various regional disputes among themselves.

## **ASEAN**

In August 1967, Indonesia, Malaysia, the Philippines, Singapore and Thailand signed the Bangkok Declaration thus forming the Association of Southeast Asian Nations (ASEAN).<sup>157</sup> Although ASEAN was officially open to all Southeast Asian nations from the very beginning, no other country joined until 1984 when membership began to expand with the admission of Brunei Darussalam. Thereafter, Vietnam joined in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999.

The first of seven aims and purposes of ASEAN as stated in the Bangkok Declaration is “to accelerate the economic growth, social progress and cultural development in the region [ . . .].”<sup>158</sup> (The other six aims are similar in context.) Nonetheless, it is widely acknowledged that the main impetus for ASEAN’s formation was political.<sup>159</sup> In fact, it fulfilled quite well the political needs at the time of all ASEAN members; e.g., it facilitated the restoration of amicable relations between Malaysia and Indonesia, fostered the alliance between Thailand (which was on the front line of the Vietnam war) and other non-communist members, provided a forum for possible resolution of the Philippines’ North Borneo (Sabah) claim, and ensured Singapore’s continued existence as an independent state.<sup>160</sup>

ASEAN has contributed significantly to stability in the region. Chia (1997) attributes ASEAN’s political success to the “ASEAN style of conducting regional relations, emphasising the principles of accommodation and consensus in decision making and non-interference in the domestic affairs of its members, and accommodating the needs of members at different levels of economic development.”<sup>161</sup> She goes on to acknowledge, however, that this “consensus building” has inhibited, rather than promoted, economic cooperation within ASEAN.

Southeast Asian nations had thus recognized that the political environment in the region was changing significantly and moved to align themselves so as to deal with it in a unified manner that would at the same time preserve their national interests. They also perceived the potential benefits of being aligned economically but, although this was included as a goal in the founding document, their economic plan was less clear and the outcome less successful than it was for their political aims.

ASEAN remained a primarily political organization for nearly ten years. Only in 1976, at the Bali Summit did it begin to focus on economic cooperation with the signing of the Declaration of ASEAN Concord. In addition to programs for action in the political, social, cultural and security areas, it devoted considerable attention to cooperative actions related to production and export of basic commodities (food and energy), industrial projects, and trade. The last of these (trade) included a provision for

the eventual “[...] establishment of preferential trading arrangements as a long term objective [...]”<sup>162</sup>

According to Tan (2000), the economic rationale for ASEAN lies in the eventual establishment of a free trade area similar to the customs union established by the European Economic Community (EEC). Mention of a common market as a goal occurred as early as 1971 at the Fourth ASEAN Ministerial Meeting. However, Hadi Soesastro emphasizes: “The founding fathers of ASEAN made it clear that regional economic integration is not the objective of ASEAN.”<sup>163</sup> This is supported by Simon SC Tay’s assertion that ASEAN has expressly distanced itself from “any idea of integration, such as in the European Union.”<sup>164</sup> While ASEAN spoke of regional economic “cooperation” it never mentioned regional economic “integration”. It was formally mentioned for the first time in the Hanoi Plan of Action (December 1998).<sup>165</sup>

In order to fulfill its stated objective of economic cooperation, ASEAN attempted to implement a number of economic initiatives (most of which were industrial cooperation initiatives). Through industrial cooperation ASEAN aspired to facilitate economic cooperation by developing regionwide industrial capacity as an alternative to national industrialization. While on a national scale individual ASEAN economies have small markets and limited skilled labor, on a regional scale the ASEAN market comprises around 500 million people.

The early (through 1988) economic plans initiated by ASEAN are described in Table 3.2. These early initiatives were considered extremely ineffective. Later economic initiatives, such as the ASEAN Free Trade Area, have more substance but have some inherent structural problems.

Table 3.2

Early ASEAN Economic Initiatives		
Initiative	Purpose	Degree of Success
ASEAN Industrial Projects (AIP) 1976	Established large-scale industrial projects utilizing raw materials from members and producing for the regional market.	Limited success because: <ul style="list-style-type: none"> <li>• Planned in haste resulting in choice of unprofitable projects.</li> <li>• Required consensus decisionmaking that led to delays and higher costs.</li> <li>• Difficulties in negotiating financing between governments.</li> <li>• Private sector, while important to development, was not sufficiently involved.</li> <li>• Lack of national commitment to market sharing.</li> <li>• Decentralized ASEAN bureaucracy hampered implementation.</li> </ul>
Preferential Trading Arrangement (PTA) 1977	Provided for preferential tariff rates [or margin of preferences (MOP)] on basic commodities – reduced most-favored-	Implementation was weak because: <ul style="list-style-type: none"> <li>• Many important products</li> </ul>

Early ASEAN Economic Initiatives		
Initiative	Purpose	Degree of Success
	nation tariff rates.	<p>with high trade values were excluded.</p> <ul style="list-style-type: none"> <li>• Countries offered irrelevant items such as snowplows or products not produced in any other ASEAN country.</li> <li>• High degree of similarity in items offered.</li> <li>• Most items offered were not major imports of member countries.</li> <li>• Verification process was costly and made the scheme unattractive to the business community.<sup>166</sup></li> <li>• Narrow commodity coverage and small margins of preference.</li> </ul>
ASEAN Industrial Complementation (AIC) 1981	Improved version of AIP. Scheme through which member countries were allocated complementary products in specific sectors for production and preferential trade among members. Promoted import-substitution industrialization. The concept was to pursue joint production of an ASEAN car by sharing production of various auto parts among countries.	<p>Unsuccessful because:</p> <ul style="list-style-type: none"> <li>• Only one project (automobile components) was approved.</li> <li>• Similar problems to those of AIP including long bureaucratic procedure. Was supposed to increase private sector involvement but failed to do so because planning and implementation guidelines drawn up without private sector input.</li> <li>• Allocation of products to members hampered by universal preference for high value-added components.</li> <li>• Thus each country, except Singapore, developed its own automobile industry with participation of MNCs.</li> </ul>

Early ASEAN Economic Initiatives		
Initiative	Purpose	Degree of Success
ASEAN Industrial Joint Venture (AIJV) 1983	A private sector version of AIPs. Same privileges as enjoyed under AIPs but has more flexibility. Investors can locate projects in any participating country. Open to non-ASEAN nations as long as majority ownership by at least one member. Emphasis on equity and market sharing, unlike AIC's reciprocity.	Very few projects that were proposed were ever implemented. Most had foreign equity participation and few were ASEAN-wide in coverage. Reasons for lack of success: <ul style="list-style-type: none"> <li>• Delays due to bureaucratic processes.</li> <li>• Members unwilling to participate in joint ventures with preferential tariffs because of threat to own industries.</li> <li>• Members unwilling to import products of projects unless own products were imported by other members.</li> </ul>
The Brand-to-Brand Complementation (BBC) 1988	Replaced AIC. Similar to the AIC scheme except that BBC encourages economies of scale in automotive production through exchange of component parts for specified brands. At this point, ASEAN economic strategy completely shifted from import substitution to export promotion with foreign capital investment.	ASEAN countries tried to protect their own strategic industries and economic interests and placed a ban or considerable impediments upon the importation of completed vehicles. Indonesia did not even participate in BBC scheme until 1995.
Sources: Tongzon (1998: 59-65), Thongpakde (2001: 50), and Tan (2000: 249-257).		

This industrial-type cooperative effort (which is a different approach from the PTA effort, also included in the above table) would involve resource pooling and market sharing and, thus, would allow ASEAN economies to take advantage of economies of scale and a large combined market. These schemes would enable individual countries to specialize in manufacturing specific components as a means of developing large-scale industries (e.g., automobiles). This should increase complementarity among regional economies and eventually increase intraregional trade and investment. Finally, industrial cooperation would shift the focus of industrialization from a national level to a regional level. As regional industrialization grows, regional cooperation should increase leading to further industrialization and so on.<sup>167</sup>

Theoretically, this plan should have worked, but in reality it did not. As outlined in the above table, the various industrial cooperative efforts were largely unsuccessful due to problems related to implementation, financing, and private sector involvement. ASEAN's early attempts at economic cooperation did not contribute to the remarkable economic performance of the ASEAN countries at the time. This was rather the result of ASEAN's trade and investment links with the rest of the world.

While ASEAN's early initiatives were rather ad hoc and piecemeal, they did give ASEAN members an introduction to economic cooperation. The next step was to embark on the path to forming a free trade area.



## **ASEAN Free Trade Area (AFTA)**

As revealed in the foregoing discussion, ASEAN was largely unsuccessful in its early attempts at economic cooperation. Therefore, it perceived itself to be in a disadvantageous position in the early 1990s when the world was experiencing a surge in regionalism, which eventually culminated in the formation of the following:<sup>168</sup>

- Asia-Pacific Economic Cooperation's (APEC) Free Trade Area (FTA) – 1989
- North American Free Trade Area (NAFTA) – 1994
- European Union (EU) – 1995
- MERCOSUR – 1991
- Others – 87 (out of a total of 194) agreements were notified to the GATT/WTO in the 1990s, including the aforementioned.<sup>169</sup>

This deepening and widening of trade blocs in North America and Europe caused ASEAN concern that its exports would face restricted access to the large markets of the EU and NAFTA. Additionally, investment funds from these two areas could be diverted away from ASEAN countries to their respective intraregional members. At the same time, there was considerable uncertainty as to the conclusion of the Uruguay Round of the GATT which was stalled at the time. Although ASEAN initially resisted joining broader regional fora, it did eventually agree to join APEC, reflecting a dawning realization that ASEAN was too narrow to succeed in an environment of increasing globalization. By that time, it also felt sufficiently consolidated so as not to be swallowed up by a larger APEC<sup>170</sup> but, on the other hand, felt the need to speed up the formation of AFTA to further ensure ASEAN's role in the region and the world.<sup>171</sup>

ASEAN's response to this environment of increasing regionalism and an uncertain multilateral trading system was to create the ASEAN Free Trade Area (AFTA) in 1992. AFTA initially was conceived as a regional tariff reduction program to be carried out in phases through 2008 (later moved forward to 2003). Subsequently, this program was gradually broadened to include other activities consisting of customs initiatives including harmonization of standards, an industrial cooperation scheme (AICO), a framework agreement for the intraregional liberalization of trade in services, and the endorsement in principle of the concept of an ASEAN Investment Area (AIA). The AFTA agreement was originally signed by six members (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) with Vietnam joining in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999.

The framework for AFTA's reduction of tariffs on goods traded within ASEAN (that meet a 40 percent ASEAN content requirement) is the Common Effective Preferential Tariff (CEPT), which originally stipulated that tariffs on all manufactured and processed agricultural products would be reduced to 0-5 percent within 15 years. However, with the completion of the Uruguay Round and APEC's formation of an FTA over the next two years, ASEAN decided in 1994 to shorten the timeframe to 10 years so that AFTA's goals would be achieved by 2003.<sup>172</sup> This deadline was for the ASEAN6 and was later changed to 2002 for all but a few products. The deadline for Vietnam is 2006, for Lao PDR and Myanmar it is 2008 and for Cambodia it is 2010.

The CEPT scheme contains four lists: the Inclusion List (IL), the Temporary Exclusion List (TEL), the Sensitive List (SL), and the General Exceptions List (GEL). The IL has two schedules – the normal track and the fast track. Tariffs for items on the normal track must be reduced to 0-5 percent by 2002, or 2003 for a small number of

products. Fast track goods were to have their tariffs reduced to the same level by 2000. By 2003, the average CEPT tariff rate for products in the IL will be about 2.7 percent, compared to 12.76 percent in 1993 when the reduction program was initiated.<sup>173</sup> Average CEPT tariff rates for the years from 1998 to 2003 are shown in Table 3.3.

Table 3.3

Average CEPT Tariff Rates						
	1998	1999	2000	2001	2002	2003
Brunei	1.35	1.29	1.00	0.97	0.94	0.87
Indonesia	7.04	5.85	4.97	4.63	4.20	3.71
Lao PDR	5.00	5.00	5.00	5.00	5.00	5.00
Malaysia	3.58	3.17	2.73	2.54	2.38	2.06
Myanmar	4.47	4.45	4.38	3.32	3.31	3.19
Philippines	7.96	7.00	5.59	5.07	4.80	3.75
Singapore	0.00	0.00	0.00	0.00	0.00	0.00
Thailand	10.56	9.75	7.40	7.36	6.02	4.64
Vietnam	6.06	3.78	3.30	2.90	2.89	2.02
ASEAN	5.37	4.77	3.87	3.65	3.25	2.68

NOTE: Cambodia not included in original table.  
Source: ASEAN Secretariat as cited at <<http://www.us-asean.org/afta.htm>>

Products can be excluded from the CEPT by placing them on one of the other three lists. The TEL is for items for which tariffs will eventually be reduced to 0-5 percent but are temporarily protected by delaying the reduction. Items on the SL are unprocessed agricultural products, which were added to the CEPT in 1994 and are due for tariff reduction by 2010. The addition of these products was considered a very important step, as it was an indication of liberalization in the area of agricultural trade, nearly always difficult to accomplish. Only the GEL items (which satisfy Article XX of the GATT) may be permanently excluded from tariff reductions for very specific reasons.

The 2001 package of tariff cuts under the CEPT includes 55,680 tariff lines in the IL (84.7 percent of total tariff lines), 8,660 lines in the TEL (13.4 percent of total), 829 lines in the GEL (1.3 percent of total), and 360 lines in the SL (0.6 percent of total). The long-term goal of ASEAN is to have zero tariff rates on nearly all imports by 2010 for the original signatories, and by 2015 for the four newer members.<sup>174</sup>

AFTA's CEPT scheme is considered a significant improvement over ASEAN's earlier PTAs. For example, in the CEPT, concessions are granted on a reciprocal product-by-product basis, meaning that a member country can receive concessions from partners only for items the country itself is liberalizing. Members are thus encouraged to maximize the number of tariff lines in their liberalization schemes.<sup>175</sup>

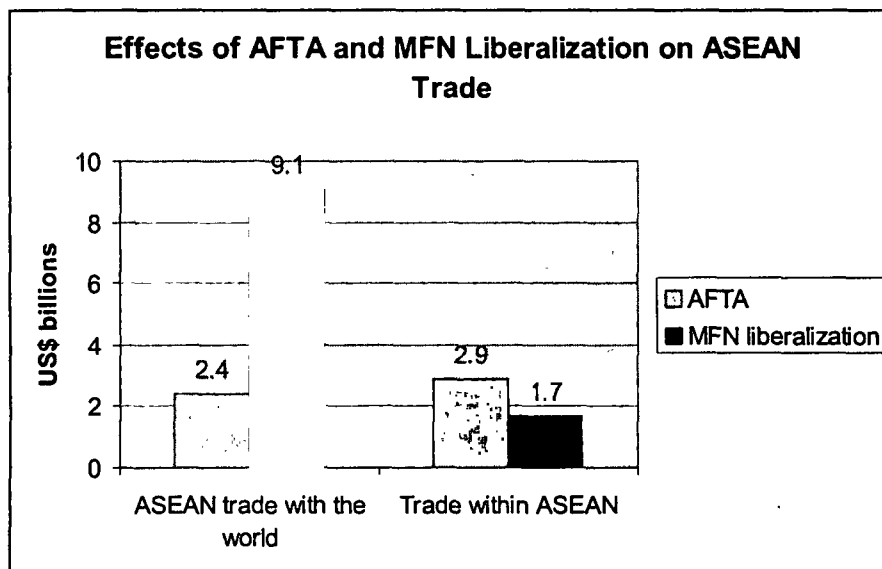
The PTAs were open-ended (no timeframe), the choice of preference items was voluntary with the designation of "sensitive" items left up to individual countries, and the reduction of non-tariff barriers (NTBs), although included, was not rigorously pursued. Contrarily, the CEPT has a definite timeframe for completion, SL and GEL items are subject to specific definitions and restrictions, and countries must eliminate all

quantitative restrictions on products for which they receive concessions and eliminate other NTBs on products within five years after receiving concessions on them.

Another problem with the earlier PTAs was the practice of “padding inclusion lists.” To prevent this, the CEPT products are defined on a sectoral basis but exclusions from the CEPT are defined at a more disaggregated level.<sup>176</sup> The question remains, however, whether AFTA will actually result in benefits accruing to the ASEAN member countries.

The potential benefits of AFTA have been assessed in several studies using a Computable General Equilibrium model (CGE).<sup>177</sup> A study by DeRosa (1995) used the model to determine the effects of AFTA on the original five ASEAN countries; i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand. (Brunei was a member of ASEAN at the time of the study but DeRosa did not include it because of its small size and poor data records.) The simulation results for trade are shown in Figure 3.1.

Figure 3.1



Source: DeRosa (1995: Figure 2, 3)

The figure shows that trade creation does occur under AFTA – at about the same level for both “trade within ASEAN” (by \$2.9 billion, or 19 percent) and “ASEAN trade with the world” (by \$2.4 billion). However, under the MFN liberalization scenario, trade creation within ASEAN is somewhat smaller (\$1.7 billion) and trade with the world is much greater (\$9.1 billion) than under the AFTA scenario. The enormous difference between the two scenarios in creation of trade with the world is attributed to the exploitation of the “wider differences in the sources of international comparative advantage between the ASEAN countries and their international trading partners, especially the major industrial countries.”<sup>178</sup> As for agriculture, Indonesia, Malaysia,

Philippines and Thailand would experience some rise in production under AFTA, but not nearly as much as under MFN liberalization.

The simulation also shows that the expansion of production and exports in various economic sectors is about the same under the AFTA and MFN liberalization scenarios. However, improvements to economic welfare (real expenditures on final demand, or real absorption) are much smaller for most countries under AFTA than under MFN liberalization. Only Singapore and (Malaysia to a lesser extent) show improved economic welfare under AFTA because of their relatively open economies, which would bring benefits to them from the creation of new trade and the diversion of trade away from the rest of the world.

Overall, the DeRosa (1995) study (supported by a 1996 study by Lewis and Robinson) finds that an MFN liberalization scenario yields significantly larger gains in trade and economic welfare than does an AFTA scenario for ASEAN5.

A recent study by Fukase and Martin (2001) assesses the effect of AFTA on the new ASEAN countries (Cambodia, Lao PDR, Myanmar, and Vietnam) also using a CGE model.<sup>179</sup> The authors look at benefits/costs on an AFTA-only basis and on an extended MFN liberalization basis. The authors decompose the sources of welfare change into (1) welfare gains from trade creation, (2) welfare losses from trade diversion, and (3) welfare gains from terms-of-trade improvements in a country's exports. Simultaneous changes in these three components determine the net effect of AFTA.<sup>180</sup> The findings of this study are summarized in Table 3.4.

Table 3.4

Impact of AFTA on ASEAN New Member Countries		
ASEAN Member Country	Overall Effect	Major Specific Effects
Cambodia	Somewhat beneficial	Trade diversion offsets benefits of trade creation. Terms-of-trade gains from improved access to partner markets are limited. Entry into AFTA important in stimulating development of new revenue sources, such as VAT.
Lao PDR	Economically beneficial	<i>Import side:</i> Trade creating, thus reflecting high share of ASEAN countries in Lao PDR's imports and slightly higher initial tariff rates levied on ASEAN goods. <i>Export side:</i> Positive effects on most important export commodities (wood products to ASEAN and garments to EU). AFTA also reduces vulnerability to shocks related to small number of exports, so likely to stimulate exports in processed foods, animal products and some labor-intensive industries.
Myanmar	Economically beneficial	Gains from trade creation (from tariff reductions) only partially offset by costs of trade diversion

Impact of AFTA on ASEAN New Member Countries		
ASEAN Member Country	Overall Effect	Major Specific Effects
		(from reductions in imports from partner countries). However, gains are small because Myanmar's tariff rates already low. Most gains are from improved terms-of-trade from tariff cuts in partner countries.
Vietnam	Somewhat beneficial	Benefit is small because Vietnam's share of trade with ASEAN is initially small. Also, gains from improved access to partner markets limited because exports to ASEAN are via Singapore where protection is nearly zero. AFTA benefits agricultural sector through better access to ASEAN markets.

Source: Fukase and Martin (2001)

Overall, the simulation results for the new member countries in Fukase and Martin (2001) are consistent with those for the ASEAN5 countries in DeRosa (1995) and in Lewis and Robinson (1996). All new member countries are positively affected by AFTA, although the effects are relatively small. Also in line with DeRosa's findings, Fukase and Martin report that benefits increase if AFTA commitments are extended on a non-discriminatory basis (MFN liberalization), which implies that "AFTA may be used as a useful stepping stone to further liberalization because it exposes domestic industry to greater competition, and creates a situation where there are substantial benefits from reducing the trade diversion associated with discriminatory liberalization."<sup>181</sup> The simulation shows that Vietnam especially stands to benefit in this way implying "that the sectoral protection currently given to capital-intensive and 'strategic' industries is costing Vietnam's economy as a whole, imposing substantial implicit taxes on the rest of the economy."<sup>182</sup>

The above quantitative analyses address the *static* benefits and costs of membership in AFTA. It is equally, if not more, important to examine the *dynamic* effects of an RTA. This would involve the assessment of any factor that would impact the economic growth rate of a member country over the medium- to long-term. While current literature does not support a theory that RTAs *always* lead to dynamic gains for developing countries,<sup>183</sup> the possibility that dynamic effects of regional integration might contribute to growth through AFTA is examined by Fukase and Martin (2001). The authors determine the degree of convergence (in this case, narrowing of the difference between national per capita income over time)<sup>184</sup> as the means to assess this growth. As far as developed countries are concerned, there exists some strong evidence that an RTA increases trade between members leading to the convergence of per capita incomes across countries. The EC, the European Free Trade Association (EFTA), and the U.S. and Canada are cited as examples of regional groupings that experienced this after signing RTAs.<sup>185</sup> However, there is little work in this area related to developing countries.

The authors' conclusions in this area lack strong conviction. In their assessment, they look at three possibilities through which dynamic effects of regional integration could contribute to growth for ASEAN members: (1) productivity growth through the accumulation of knowledge, (2) accumulation of physical and human capital, and (3) accelerated domestic reforms. Growth depends on changes in these variables and their rates of change can be affected by regional integration. While the authors find little direct correlation between regional integration and growth, they do find the possibility of an indirect effect through the accumulation of knowledge or of factors of production (physical and human capital), which in turn would lead to increased growth. They caution, however, that it is important to be "open to" the countries that have these things to begin with. In other words, it is possible that if a member of a regional group is open to an extra-group country having large "stocks of knowledge" but then switches to dealing instead with an intra-group country having lower stocks, this could have negative effects on a country's productivity level and, hence, its rate of growth.

In summary, it appears from the above assessment that AFTA would bring welfare gains to its members; however, the effect on non-members in the region needs to be examined as well. It is possible that a wider grouping would bring even more benefits to members.

### **Other ASEAN Activities**

While AFTA's primary activities relate to its tariff reduction program, it is engaged in other programs for intraregional cooperation. Some major programs include the following.

**ASEAN Industrial Cooperation Scheme (AICO)** – This program, initiated in 1996, replaced ASEAN's earlier unsuccessful industrial cooperation plans. AICO is designed to attract technology-based investments and is open to any company that is incorporated and operating in an ASEAN country and has a minimum of 30 percent ASEAN equity. It must also be engaged in resource sharing in areas such as technology, markets or raw material purchases. AICO proposes to attract investments by establishing simpler and faster approval procedures, offering the 0-5 percent AFTA tariff scheme and removing non-tariff barriers. However, the non-tariff incentives are to be determined by each country and have not been specified. Products must have ASEAN content of at least 40 percent and each project must have a minimum of two companies in two ASEAN countries. Although not much information is available on the success of AICO, there were at least 90 approved AICO applications as of April 2002. Thailand is involved in over half of the projects (two countries per project) while Indonesia, Malaysia and the Philippines are also heavily involved. Singapore and Vietnam are members of just a few projects. Most of the projects are in the automotive industry with a few in electronics, food processing, and others.<sup>186</sup>

**Service Liberalization** – In 1995, ASEAN adopted an agreement on trade in services. Negotiations to liberalize intraregional services cover seven sectors: financial services, tourism, telecommunications, maritime transport, air transport, construction and business services. ASEAN members must comply with the principles of the General Agreement on Trade in Services (GATS) to eliminate all market access limitations. ASEAN is trying to set a higher standard than provided for in the WTO's GATS. (Lao PDR, Myanmar and Cambodia are not WTO members.) So far, two rounds of

negotiations (including three packages of commitments) have been completed in the seven sectors with agreements from the first round having already been implemented. A third round of negotiations is scheduled to begin in 2002 and be completed in 2004.

**ASEAN Investment Area (AIA)** – The Framework Agreement on the ASEAN Investment Area was signed in October 1998 in Manila. Manufacturing, fisheries, mining, agriculture and forestry sectors are to eventually be covered by the AIA. The agreement calls for the immediate opening up of all industries for investment and the granting of national treatment, with some exceptions, to ASEAN investors by 2010 and to all investors by 2020. Some exceptions may be specified in a Temporary Exclusion List (TEL) and a Sensitive List (SL). The goal is to phase out the TEL for the manufacturing sector by 2003, except for Cambodia, Lao PDR and Vietnam, which will have until 2010 for the phase-out.

### **ASEAN Extensions – ASEAN Plus Three**

ASEAN has in recent years explored the possibility of expansion to include other East Asian countries. An early attempt was made in 1990 when Malaysia's Prime Minister Mahathir proposed the formation of an East Asian Economic Group (EAEG) including ASEAN6, China, Japan, Korea, Hong Kong, and Taiwan. The proposal was changed into a caucus that was to function within APEC and the name was changed to the East Asian Economic Caucus (EAEC). The caucus was not enthusiastically received in Asia, and was vehemently rejected by the U.S., which believed a broader forum like APEC would bring more benefits to the region. The caucus has therefore remained behind the scenes.

ASEAN Plus Three (APT) is probably the best known of the ASEAN extensions and comprises ASEAN members plus the Northeast Asian countries of China, Japan and Korea. It is an informal group whose formation was motivated by the East Asian crisis. It does not have its own secretariat but meets at the invitation of ASEAN. The first meeting of the group occurred in December 1997. The APT process has been driven by ASEAN; however, the Plus-Three countries have played a major role in influencing its agenda. The group's activities have expanded so they now include meetings of finance, economic, and foreign ministers, as well as of national leaders.

To date, APT's contribution to regional cooperation has been in the monetary/financial area, particularly through its efforts related to the Chiang Mai Initiative. There are signs recently, however, that APT is beginning to be viewed as more than a monetary forum. Recent literature and media reports allude to the possibility of APT becoming a more formalized group and even that it could be instrumental in the formation of an East Asian bloc. The advantage of this particular group, of course, is that it includes countries of both Northeast and Southeast Asia, bringing in three of the most powerful countries in the region. Of particular importance is the inclusion of China, whose competitive potential in the region is causing concern among ASEAN members and, consequently, whose cooperation is viewed as potentially valuable. Japan's inclusion is also seen as invaluable because of its long-standing prominence in the region in trade and investment. And, of course, Korea, as one of the newly industrializing economies, should not be excluded.

## ASEAN's Significance

Since the inception of ASEAN, Southeast Asia has enjoyed political stability (with a few exceptions) and relatively long periods of economic growth (interrupted by the 1997-98 crisis). How much of this is attributable to the effectiveness of ASEAN, however, is unclear. Those who credit the growth and stability of the recent past to ASEAN emphasize the important role of the "ASEAN Way" (consensus decisionmaking, sensitivity to the interests of others, and non-interference in the internal affairs of neighbors). Also perceived as a contributing factor to past successes is ASEAN's growth strategy of "regional integration within the global economic system." Soesastro and Morrison (2001) refer to these two success factors as the "ASEAN Formula".<sup>187</sup>

ASEAN's loosely knit or "soft" structure was necessary and well serving in the past when the emphasis was on keeping the organization together just to accomplish anything at all. While the "ASEAN Way" worked well at that time, the appropriateness of ASEAN's non-interfering and non-confrontational style is being questioned in view of today's complex and globalizing world.<sup>188</sup> ASEAN has been perceived as ineffectual and bureaucratic, indecisive and unable to deal with the problems of the region (e.g., the East Asian crisis and the haze problem in 1996-97). It has even been criticized by its own secretary-general, Rodolfo Severino, who claims that ASEAN has lost direction and does not know how to proceed beyond tariff reduction. In his words, "Regional integration seems to have become stuck in framework agreements, work programs and master plans."<sup>189</sup> A more structured and rules-based institution is seen by some to be necessary.<sup>190</sup>

Many are of the opinion that ASEAN needs to go beyond its current configuration. ASEAN's economic cooperative efforts have until recently been centered on trade. Increasing intraregional trade and investment is often a primary goal of regionalism and an indication of the success of a regional group. However, Ariff (2000) emphasizes that this is "not sufficient to bring about a greater regional economic integration."<sup>191</sup>

Our analysis of intraregional trade intensity in Chapter IV will show that intraregional trade in East Asia, although greater than that of the EU and NAFTA, has actually declined over the last 10 years. However, intraregional trade may not be the best measure to evaluate the effectiveness of ASEAN/AFTA. AFTA was intended to reduce tariffs and thus make the region borderless in order to lower production costs. In this sense, AFTA is different from conventional FTA agreements. ASEAN's intention for AFTA is explicitly stated as being not to increase intra-ASEAN trade but rather to make its products internationally competitive. "It is not in the interest of ASEAN countries to increase their trade with other ASEAN countries at the expense of third countries. Their extra-regional linkages are very valuable."<sup>192</sup> Therefore, if intraregional trade has not increased since AFTA was initiated, perhaps it cannot be claimed as a failing of AFTA since that was never its intention.

Recent analysis, however, suggests that ASEAN has also failed in this intention, i.e., to lower production costs in order to become more competitive. A November 2002 interim report of an independent study conducted by McKinsey & Co.<sup>193</sup> found that ASEAN is not attractive to investors because it is small, fragmented, and the cost of doing business there is higher than necessary because of varying product standards and excessively bureaucratic customs procedures. This is particularly true when compared to



doing business in China. The report advised ASEAN to develop more commitment to deeper integration and to free up the movement of goods, services, capital and labor suggesting that this would increase its power in international negotiations.<sup>194</sup>

Perhaps the time has come when continuing to guard national sovereignty at the expense of regional progress is no longer in the best interests of the region or of the nations therein. ASEAN has provided important regional leadership for over 30 years and has been a core group for APEC. Its extension to an ASEAN-Plus-Three (APT) configuration is seen as a positive move and if the APT group thrives and develops in line with the changing needs of the region, it could become a viable regional institution for East Asia.

## **APEC**

APEC began as a ministerial meeting in 1989 with twelve countries (Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States) attending. Since then, nine more countries have joined (China, Hong Kong, Taiwan, Mexico, Papua New Guinea, Chile, Peru, Russia and Vietnam) making a total of 21 countries. As is evident from the list of members, APEC is a multilateral forum encompassing the Pacific Rim as opposed to just East Asia. It is also atypical for a regional institution in that it is informal and loosely structured, unlike the EU.

The chairmanship of APEC rotates each year to a different country. All APEC members submit ideas and proposals to the chair for the agenda for the coming year. This is seen by many as one of APEC's strengths. No country can dominate the action agenda under this process and the agenda ends up being an amalgam of the best ideas submitted to the country chairing APEC.

APEC adopted ASEAN's consensus-style decisionmaking process as its mode of operation. The APEC leaders also agreed to alternate the annual meetings between ASEAN and non-ASEAN countries. Singapore, an ASEAN country, was selected for the ASEAN Secretariat. All these decisions elevated the importance of ASEAN in the APEC forum.

APEC has pioneered another unique feature, "open regionalism". This means that the countries adhere to GATT/WTO consistency. "'Open regional co-operation', or open regionalism, under which liberalization is applied without discrimination to non-members on a multilateral basis à la WTO, is a basic principle of APEC."<sup>195</sup>

Trade liberalization, trade facilitation and economic and technical cooperation (Ecotech), or capacity building, form the three main legs of APEC. A discussion of these follows.

### **APEC's Trade Liberalization and Facilitation**

In 1994, APEC leaders adopted the Bogor Declaration which commits members to achieve free trade and investment by 2010 for developed countries and by 2020 for developing countries. The following year, a guideline for reaching this target, the trade and investment liberalization and facilitation (TILF), was provided by the Osaka Action Agenda. The guideline calls upon APEC members to announce their intentions to reduce

tariffs or take other trade enhancing actions in Individual Action Plans (IAPs). Members then review other countries' IAPs and "watch" for implementation. In 1996, the APEC process developed one step further by asking countries to submit their Individual Action Plans for public viewing. Countries submitted their first IAPs in 1997, allowing leaders and the general public to better evaluate the APEC process. However, since IAPs are non-binding commitments to liberalization by individual economies, a rigorous review is necessary to see if countries actually implement their plans. The IAP mechanism for implementing liberalization makes analyses of country commitments a difficult task.

One recent study<sup>196</sup> has developed an in-depth scorecard for the IAP process. It scored 18 out of the 21 APEC countries in 13 areas including tariff and non-tariff measures, services, investment standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation and business mobility. It did not produce rankings for the three newest members (Peru, Russia and Vietnam) because of insufficient data.

The results are mixed. Countries committed themselves to liberalization in concrete terms only until 2000. The countries' commitments are characterized as Uruguay Round-plus-alpha ('a'). "However, 'a' turned out to be small in many economies and areas."<sup>197</sup> The Individual Action Plan annual revisions in 1997 and 1998 were minimal, reflecting countries' reluctance to commit themselves to more trade liberalization measures before what was supposed to be the beginning of the next World Trade Organization (WTO) round in Seattle in 2000. The findings of this study, as well those of a study by the PECC Trade Policy Forum, are shown in Table 3.5.

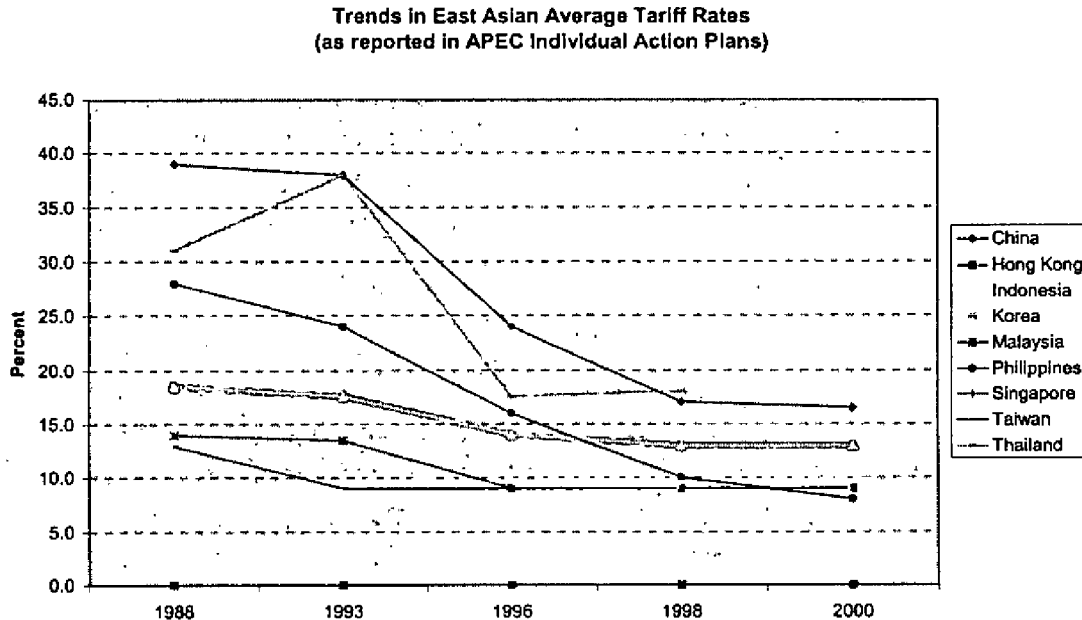
Table 3.5

STUDY	FINDINGS
Yamazawa/Urata (2000)	<p>Average Single Tariffs:</p> <ul style="list-style-type: none"> <li>• Reduced to below 5 percent in three economies.</li> <li>• Reduced to 5-10 percent in nine economies.</li> <li>• Will be reduced to 10 percent in the near future in three economies.</li> <li>• Tariffs of more than 20 percent remain on sensitive products in eight economies with no commitment to their gradual reduction.</li> </ul> <p>Non-Tariff Measures:</p> <ul style="list-style-type: none"> <li>• Industrialized members still impose NTMs of more than 20 percent frequency<sup>198</sup> on several sectors.</li> <li>• Some Asian developing members impose NTMs of high frequency on many sectors.</li> <li>• Papua New Guinea removed all NTMs in 1997.</li> <li>• The Philippines and Thailand currently have imposed high frequency NTMs but reported in their IAPs future plans that they will remove them.</li> </ul>

STUDY	FINDINGS
Trade Policy Forum, PECC <sup>199</sup>	<ul style="list-style-type: none"> <li>• Simple average tariffs for APEC have fallen in the 1995-98 period but experienced an increase in 1999. Tariffs declined from about 11 percent to about 7 percent during this time.</li> <li>• The increase in tariffs in 1999 represents a change in approach due to Uruguay Round commitments. Countries began applying tariffs to agricultural products. Before this time, agricultural products were listed under non-tariff measures. Therefore, the increase in tariffs in 1999 is not seen as an increase in protectionism.</li> <li>• High tariffs remain in the following areas: food, beverages and tobacco; agriculture and hunting; textiles; and fishing sectors. Peak tariffs are used in areas where a country does not have a comparative advantage.</li> <li>• The standard deviation in tariffs declined from nearly 30 percent to under 10 percent between 1995 and 1999. The report states, "lower dispersion imply less distortions and thus gains in welfare."</li> </ul>

Between 1995 and 2000, the average tariff rate for APEC members decreased from 12 percent to 8 percent.<sup>200</sup> Figure 3.2 shows a country-by-country picture of significant reductions in tariff levels.

Figure 3.2



Note: Figures are simple average tariff rates.  
Source: Japan, METI (2001: Fig. 1.2.1, 19)

This figure indicates that East Asian economies have liberalized trade. These tariff reductions, however, cannot be attributed solely to the effect of APEC's TILF program but also derive from the GATT/WTO framework as well from AFTA's CEPT process, as previously discussed.<sup>201</sup>

A 1999 APEC Economic Committee study (an update of the original 1997 study) estimated that APEC's trade liberalization and facilitation measures, committed to date (i.e., 1998), would "expand the region's annual income (GDP) by US\$75 billion (at 1997 prices), or 0.4% of the region's total GDP."<sup>202</sup> (This is in addition to annual income gains created from the remaining Uruguay Round commitments, which would be 0.7 percent of GDP or \$114 billion.) APEC members were shown to benefit more than non-APEC economies, and if dynamic effects are included, income gains would be \$90-105 billion.

The study also estimated greater gains in real income from trade facilitation measures than from the trade liberalization measures that were included in the model. Of the estimated 0.4 percent total increase in GDP, 0.25 percent was from trade facilitation and 0.16 percent from trade liberalization. Of the aforementioned \$75 billion gain to the region's annual income from both trade liberalization and facilitation, \$46 billion would be from facilitation alone. Trade facilitation refers to trade measures that reduce trade costs (except for trade liberalization measures such as tariff cuts). These include activities such as streamlining customs procedures, aligning domestic standards with international standards in certain sectors, establishing MRAs (mutual recognition arrangements) in the telecommunications sector, reducing paper document use, enhancing business mobility through use of a special travel card, and others.

On the other hand, if real income gains from “full” trade facilitation (i.e., beyond what is committed to date) are compared to gains from “total” tariff elimination (i.e., 100 percent tariff reductions extended by APEC members to both members and non-members), the gains from facilitation would be less than from tariff elimination. However, the study also emphasizes that “trade facilitation has a large undeveloped potential for the improvement of economic efficiency and productivity.”<sup>203</sup>

Non-tariff measures (NTMs) pose a significant problem for trade liberalization. NTMs for both industrialized and developing countries are in many cases of more than 20 percent frequency on several sectors and are not considered to be WTO consistent but rather are for the purpose of protecting domestic producers. Furthermore, while a few countries (e.g., the Philippines and Thailand) have future plans to remove their NTMs, many countries give no indication that they plan to reduce them.<sup>204</sup>

## **ECOTECH**

By most accounts, Economic and Technical Cooperation (Ecotech) has been the hardest element of APEC to define and agree upon. In 1994, Indonesia insisted that development cooperation should be the “third pillar” of APEC, in addition to trade liberalization and facilitation measures.<sup>205</sup> However, the proposal was very negatively received as a possible distraction from the liberalization program. Members could not agree upon a name, signifying resistance to the idea or signifying a misunderstanding of the real intent of the proposal. The developed countries seemed to see it as a request for development funds. The developing countries viewed it as a way of building capacity. The 1996 Manila Declaration attempted to clarify that Ecotech was not “foreign aid” and that the effort was intended to take advantage of the expertise, technology, experience, and information available in the APEC countries.

In the beginning, Ecotech had other problems as well. “A typical APEC Ecotech activity is a pet project proposed and coordinated by a member, financed mainly by the sponsor, and partly supported by APEC.”<sup>206</sup> In an attempt to extricate Ecotech from this “pet project” syndrome, the Manila Declaration attempted to build in some accountability by stating that the effort should be goal-oriented with measurable criteria. The following priority areas were identified.<sup>207</sup>

1. develop human capital
2. develop stable, safe and efficient capital markets
3. strengthen economic infrastructure
4. harness technologies for the future
5. safeguard the quality of life through environmentally sound growth
6. develop and strengthen the dynamism of small and medium enterprises

## **APEC’s Significance**

APEC has made a substantial contribution to the Asia-Pacific region’s economy. One estimate shows that the impact of APEC trade liberalization is “equivalent to one fourth of the full impact of implementation of the Uruguay Round (UR) trade liberalization.”<sup>208</sup> Given the magnitude of the coverage of issues in the Uruguay Round, not to mention that it took nine years to negotiate, the impact is large.

APEC brings a mix of economies that are complementary to the economies in ASEAN. In addition, countries at different stages of development with different factor endowments combine to produce better growth potential. As APEC's membership continued to grow, the loosely configured group began to look more global than regional. This has resulted in all the problems associated with being a larger forum (e.g., difficulty in reaching agreement and slow decisionmaking.) APEC contributed to the unfortunate results of the Seattle 1999 World Trade talks by not being able to agree on an agenda to bring to the negotiating table.

APEC is credited with fashioning a new model of economic cooperation that covers a broader array of issues than usual. Its work agenda includes improving competition policy and detailed facilitation issues, as well as other items. But the comprehensiveness of the approach has not been matched by the effectiveness of results. Non-binding Investment Principles are weak, competition policies have been discussed but no guidelines have been drafted, and involvement in WTO negotiations has not always been productive.<sup>209</sup>

The APEC International Assessment Network (APIAN)<sup>210</sup> issued its first policy report on APEC in 2001. The report acknowledged the many accomplishments that APEC has made but came up with twelve recommendations for improvement in the organization. Among these twelve, the following are the most concrete recommendations.<sup>211</sup>

- IAP commitments should be specific, concrete and measurable to the extent possible.
- APEC members should be accountable for their IAP commitments.
- The APEC secretariat should be strengthened, including the creation of longer-term professional positions and the designation of a Secretary-General with a multi-year term of office.
- APEC should better integrate finance and development.
- Academic engagement should be encouraged.

The APIAN report explains, "APEC's particular blend of idealism and realism has produced a "soft" or "weak" institution [ . . . ] that can neither 'bind' trade agreements nor authorize punitive actions against members whose trade policies are inconsistent with APEC norms."<sup>212</sup> It also reports that APEC lacks the internal capacity to monitor and evaluate the implementation of key programs.

In fact, at the end of 2001, APEC ministers came to the same conclusion and agreed that the IAP peer review process needed to be strengthened in order to increase "objectivity and transparency". In furtherance of this goal, new elements were added to the process including "the appointment of a formal review team for each peer review exercise and the commissioning of an expert to conduct independent in-country research and analysis together with presentation of a written analytical report."<sup>213</sup> Japan and Mexico were the first to volunteer for review under this new system and the results for these two countries were published on the APEC web site in August 2002. This is obviously an advancement for the APEC process but it remains to be seen how many member countries will volunteer to be reviewed in this way given that the results are made available to the public.

## Concluding Remarks

Although the development of regional institutions was not an initial goal of East Asian integration, most East Asians would now like to see a strong regional institution in place to lead the region toward closer cooperation and deeper integration. Regional cooperation has reached the stage in East Asia where more structure and leadership is needed. However, most find the current condition of regional institutions in East Asia to be discouraging. The ASEAN Secretariat is viewed as powerless, slow moving and directionless. APEC is seen to be weakening as an economic forum. In addition, there are numerous other fora, task forces, committees and working groups that are often referred to as “talk shops” and are attributed with little real accomplishment. Even with all the existing institutions to choose from, proposals for new groups continue to emerge. Two proposals have been made in recent months by Thailand and Singapore, both of which are reportedly seeking more zealous economic integrative efforts than those so far provided by currently existing institutions.<sup>214</sup>

While proposals for new fora are not unusual, the current proliferation of suggestions implies dissatisfaction with the region’s current institutions. It is apparent that the quest for a dynamic, effective regional institution is ongoing. This may not be entirely undesirable as East Asia is still at an early stage of regional integration and an experimental approach to institution building could have some advantages and may be preferable to locking into one forum from the outset and later finding it difficult to change or dismantle. Also, it is not a given that several institutions cannot coexist and be beneficial provided they do not work to the detriment of one another. However, along with an increase in the number of broadly similar institutions comes the risk that the region’s focus and energy will be diluted or dissipated. While the new and innovative are to be encouraged, there needs to be caution that the result is not simply more of the same, rather than a move closer to a vibrant, effective institution that serves the needs of the entire region.

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<sup>1</sup> Maddison (2001: 18)

<sup>2</sup> Abu-Lughod (1989: 8)

<sup>3</sup> Frank (1998: 52)

<sup>4</sup> Frank (1998: 166)

<sup>5</sup> Braudel defines a “world-economy” as a “fragment of the world, an economically autonomous section of the planet able to provide for most of its own needs, a section to which its internal links and exchanges give a certain organic unity” (Braudel 1984: 22).

<sup>6</sup> Braudel (1984: 484) Braudel comments that although lengthy, his discussion of this topic is not complete in that, among other things, he could have included Japan which constructed its own world-economy after 1638 encompassing Korea, the Ryukyu islands, and Formosa, and trade with the Chinese and Dutch (Braudel, 1984: 533).

<sup>7</sup> Braudel (1984: 484)

<sup>8</sup> Today, the basic measures of the size of an economy are population, land area, income (gross national income or GNI), and output (gross domestic product or GDP). These measures will be used later in the paper to give a picture of Asia’s current economic size; however, because of the limited availability of historical data, only population and GDP figures are presented in Chapter I.

<sup>9</sup> There are many sources of statistics available for early historical periods that are considered reliable, some compiled as far back as the early 1900s. It should be noted, however, that data on population and GDP prior to the 20<sup>th</sup> century are speculative and variable. Despite their sometimes significant differences, these statistics tell essentially the same story and are useful in determining trends. The population and GDP figures of Maddison (2001) are presented in the Historical Appendix in some detail because they embody the latest research, are comprehensive (include different types of statistics for many countries and regions) and are consistently derived and, therefore, are comparable. (See Notes on Statistics at the end of the Historical Appendix for details on the method of compilation and problems associated with the use of these data.) This is not to say that other data sources are unreliable and, in fact, other sources, in addition to Maddison, are used in the discussion throughout this chapter.

<sup>10</sup> While the territories/countries included in the population tally for a particular region (Europe and Asia) are broadly consistent among sources, some differences may occur.

<sup>11</sup> Based on all three sources (Bennett, Clark and Maddison).

<sup>12</sup> Maddison (2001: 29)

<sup>13</sup> The relationship between demography and economics is complex. Many studies have shown that as a country’s wealth increases its fertility and mortality decline on average, with reductions in mortality typically preceding reductions in fertility. However, there is also evidence that per capita GDP growth is negatively affected by a rapid growth in population and that the changing age structure of a population has an effect on economic growth as well. In fact, the relationship between population growth and economic development shifts over time. [See World Bank (2001c: Chapter 3), and referenced works therein, for further discussion on this topic.]

<sup>14</sup> Frank (1998: 171)

<sup>15</sup> Frank (1998: 174)

<sup>16</sup> Data on global production and income are difficult to obtain and that which is available varies significantly from one source to another.

<sup>17</sup> The estimates referred to are updated and revised in a more recent (1993) book by Bairoch from which this table is sourced. Bairoch cautions readers that GNP per capita data for the 18<sup>th</sup> century are not, and probably never will be, reliable. He explains the derivation of his estimates and, for comparison, presents the estimates of other historians in Chapter 9, pp. 101-110.

<sup>18</sup> Bairoch (1993: 95)

<sup>19</sup> Bairoch and Levy-Leboyer (1981: 14)

<sup>20</sup> Braudel (1984: 534)

<sup>21</sup> I\$ = international dollars – see Notes on Statistics at end of Historical Appendix for definition.

<sup>22</sup> Maddison (2001: 117)

<sup>23</sup> Maddison (2001: 117)

<sup>24</sup> Maddison (2001: 44)

<sup>25</sup> Maddison (2001: 44 and 258)



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- <sup>26</sup> Hanley and Yamamura (1977) and Howe (1996) as cited in Frank (1998: 106-107)
- <sup>27</sup> Maddison (2001: 47)
- <sup>28</sup> Landes (1969: 13-14) as cited in Maddison (2001: 47)
- <sup>29</sup> Maddison (2001: 47)
- <sup>30</sup> See Frank (1998) for a historical assessment of European and Asian technology including gun manufacturing, shipbuilding, printing, textile production, metallurgy, and transport. He provides convincing evidence of Asia's strengths in all these areas.
- <sup>31</sup> Bairoch (1993: 93)
- <sup>32</sup> Chaudhury and Morineau (1999: 1)
- <sup>33</sup> Historians divide the trading world in a variety of ways but the trade routes are essentially the same. These are based on trade maps appearing in Frank (1998). For detailed maps of trade routes and goods traded on each see Frank's Chapter 2.
- <sup>34</sup> Feldbæk (1991: 96)
- <sup>35</sup> Feldbæk (1991: 96)
- <sup>36</sup> Verenigde Oostindische Compagnie – Dutch trading company. See following section on 'Global Trade' for discussion of these companies.
- <sup>37</sup> The Portuguese made "limited beginnings" in intra-Asian trade but this trade was not part of their overall strategy for trade in the region, as it was with the Dutch (Prakash 1999: 181-182).
- <sup>38</sup> Prakash (1999: 181-183 and 187-188)
- <sup>39</sup> Gaastra (1999: 189)
- <sup>40</sup> Prakash (1999: 186)
- <sup>41</sup> Frank (1998: 179) from Barendse (1997: Chapter I)
- <sup>42</sup> At the time in Asia, commerce was considered an unacceptable occupation for upper-class men. Therefore, the women of the family conducted the business using their servants as liaisons for communicating with the outside world.
- <sup>43</sup> Pomeranz and Topik (1999: 28-31)
- <sup>44</sup> Steensgaard (1991: 6)
- <sup>45</sup> See footnote 35 of Chaudhury and Morineau (1999: 8) for the origin of this phrase and citations of its reference in other literature.
- <sup>46</sup> Chaudhury and Morineau (1999: 2-3)
- <sup>47</sup> Feldbæk (1991: 96-97)
- <sup>48</sup> Including Kaoru Sugihara (Osaka University), Heita Kawakatsu (Waseda University) and Takeshi Hamashita (Tokyo University).
- <sup>49</sup> Akita (1999: 143)
- <sup>50</sup> Sugihara (1990: 143)
- <sup>51</sup> Sugihara (1985: 146-147)
- <sup>52</sup> Japan's trade with Asia differs between the two tables (1.6 and 1.7), although both are sourced from Sugihara (1990). It is presumed, although not certain, that this is because the data is for different time periods and includes different countries in the "Asia" grouping.
- <sup>53</sup> Sugihara (1990: 135-136)
- <sup>54</sup> Sugihara (1985: 146) as cited in Akita (1999: 144)
- <sup>55</sup> Akita (1999) and Sugihara (1990)
- <sup>56</sup> Frank (1998: 138)
- <sup>57</sup> Frank (1998: 61)
- <sup>58</sup> Feldbæk (1991: 96)
- <sup>59</sup> The first two paragraphs of this section draw heavily from Maddison (2001: 66-69 and 117-118).
- <sup>60</sup> Maddison (2001: 66)
- <sup>61</sup> This system of trade can be defined as a type of ritualistic commerce that involved the exchange of "gifts" of specific quality between the Chinese rulers and those with whom they dealt, be it native chiefs and kings or foreign "barbarians". The relationship of each of these groups to the central authority of China was reflected in the type and quality of gifts given and received. Among these, silk was a strong status symbol and even came to be used as a form of currency. Although the tribute system was based on culture, politics and social status (as opposed to economic gain) it "helped define a vast common market, giving it its currencies, defining tastes that helped create markets worth producing for, and creating the standards (both of fashion and of behavior) by which its elites recognized in each other the people they could deal

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- with without either lowering themselves or running too much risk of default" (Pomeranz and Topik, 1999:14).
- <sup>62</sup> Frank (1998: 111)
- <sup>63</sup> Pomeranz and Topik (1999: 51-53)
- <sup>64</sup> This discussion is drawn primarily from Frank (1998: 84-92), except as noted.
- <sup>65</sup> Bouchon (1999: 43)
- <sup>66</sup> Bouchon (1999: 46-47)
- <sup>67</sup> Sanderson (1995: 153) Sanderson cites Sansom (1961), Reischauer (1956), J.W. Hall (1970) in support.
- <sup>68</sup> J.W. Hall (1970: 113) as cited in Sanderson (1995: 153)
- <sup>69</sup> Maddison (2001: 67)
- <sup>70</sup> Hall (1970: 121, 123, 126) as cited in Sanderson (1995: 153-154)
- <sup>71</sup> Frank (1998: 105)
- <sup>72</sup> Maddison (2001: 69)
- <sup>73</sup> Tarling (1992: 467-68) as cited in Frank (1998: 106)
- <sup>74</sup> There are various theories as to the motivation for this isolationism including fear of Christianity. However, Sanderson (1995: 148) believes economic and political factors played a greater role, such as Tokugawa's suspicion of the European desire for Japanese territory and their fear of the growing power of those daimyo involved in trade with Europeans.
- <sup>75</sup> Sanderson (1995: 148)
- <sup>76</sup> Sanderson (1995: 148-149)
- <sup>77</sup> Frank (1998: 107)
- <sup>78</sup> This discussion is drawn primarily from Frank (1998: 92-104).
- <sup>79</sup> Frank (1998: 96)
- <sup>80</sup> Frank (1998: 97)
- <sup>81</sup> Reid (1993: 23) as cited in Frank (1998: 98)
- <sup>82</sup> Frank (1998: 103)
- <sup>83</sup> Frank (1998: 99)
- <sup>84</sup> Reid (1990: 89) and Tarling (1992: 479) as cited in Frank (1998: 104)
- <sup>85</sup> Frank (1998) refers to the remarks of Perlin (1993: 143) when he says "even the lowly cowrie shell connected economic, political, and social processes and events in the Indian and Atlantic oceans and the lands and peoples adjoining them on all sides. For all of them were part and parcel of a single global marketplace, in which supply and demand regulated relative prices" (Frank 1998: 137).
- <sup>86</sup> Frank (1998: 133)
- <sup>87</sup> Of course, precious metals were also commodities in their own right and, thus, could generate a profit through their production and sale as long as the sale price remained below the cost of production and transport. See Frank (1998: 133-139) for a thorough discussion of this topic.
- <sup>88</sup> See definition of "rix-dollars" in "Notes on Statistics" in the Historical Appendix.
- <sup>89</sup> It would be possible to convert Attman's rix-dollars to tonnes of silver (and vice versa for Maddison's table) and an estimate made for a total amount in tonnes for each 50-year period, but this would be time-consuming and our interest here is more in determining patterns than comparing statistics.
- <sup>90</sup> Frank (1998: 135)
- <sup>91</sup> Prakash (1986: 84)
- <sup>92</sup> Sanderson (1995: 151)
- <sup>93</sup> Atwell (1982: 71) and Reid (1993:27) as cited in Frank (1998: 145). Frank also refers to research by Ikeda (1996) and Von Glahn (1996b) suggesting that Japan exported silver up to the mid-18<sup>th</sup> century.
- <sup>94</sup> Barrett (1990) reviews a number of previous estimates (by Alexander von Humboldt, Earl Hamilton, Adolf Soetbeer, Michel Morineau, B. H. Slichter van Bath, and others, including Nef, Attman, TePaske, Kobata, Yamamura and Kamiki) to arrive at his estimates (Frank 1998: 142).
- <sup>95</sup> Frank (1998: 147-149)
- <sup>96</sup> Frank (1998: 149)
- <sup>97</sup> Wallerstein (1980: 108-9) as cited in Frank (1998: 153)
- <sup>98</sup> Prakash (1986: 86)
- <sup>99</sup> Chaudhuri (1986: 64-65)
- <sup>100</sup> Frank (1998: 153)
- <sup>101</sup> Chaudhuri and Morineau (1999: 3-5)

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- <sup>102</sup> Chaudhury and Morineau (1999: 8)
- <sup>103</sup> Steensgaard (1987: 142)
- <sup>104</sup> Chaudhury and Morineau (1999: 8)
- <sup>105</sup> Portuguese explorer who discovered the route to India (end of 15<sup>th</sup> century) and opened the sea route around the Cape of Good Hope.
- <sup>106</sup> Morineau (1999: 125)
- <sup>107</sup> Chaudhury and Morineau (1999: 3-4)
- <sup>108</sup> The Yüan (Mongol) period extended from 1279 to 1368 and the Ming period, from 1368 to 1644.
- <sup>109</sup> Information in this paragraph based on Ptak (1994: 35-44).
- <sup>110</sup> Frank (1998: 62)
- <sup>111</sup> Frank (1998: 84)
- <sup>112</sup> Frank (1998: 91)
- <sup>113</sup> Frank (1998: 62)
- <sup>114</sup> Maddison (2001: 97)
- <sup>115</sup> Bairoch (1993: 88)
- <sup>116</sup> Maddison (2001: 115)
- <sup>117</sup> Desai (1971) as cited in Bairoch (1993: 89)
- <sup>118</sup> Bairoch (1993: 54)
- <sup>119</sup> Maddison (2001: 116)
- <sup>120</sup> Bairoch states that more recent research shows that in some remote regions industrial activity survived for a long period so that the lower level of de-industrialization is probably more accurate (Bairoch 1993: 89-90).
- <sup>121</sup> Bairoch (1993: 90)
- <sup>122</sup> For “real income” he adjusts the figures for the differences in the purchasing power of currencies. His estimates are in 1960 US dollars and prices.
- <sup>123</sup> Bairoch (1993: 95-96)
- <sup>124</sup> Maddison defines the “drain” as “the colonial burden as measured by the trade surplus of the colony.” In this way, he is attempting to “compare the colonial burden in the two countries as a share of their own national income, and the colonialist’s gain as a share of their respective national incomes” (Maddison 2001: 87).
- <sup>125</sup> Maddison (1989: 645-646)
- <sup>126</sup> Maddison (1989: 646)
- <sup>127</sup> Tongzou (1998)
- <sup>128</sup> Pomeranz and Topik (1999)
- <sup>129</sup> Maddison (2001: 86)
- <sup>130</sup> Chia Siow Yue (1997)
- <sup>131</sup> Fan Gang (2000: 27)
- <sup>132</sup> Fan Gang (2000: 28)
- <sup>133</sup> The choice of regions is based on trade and investment partner relationships and is restricted by the limitations of time and space in this paper.
- <sup>134</sup> See Table G.1 in the General Appendix for a list of regional fora worldwide including their membership and date of inception.
- <sup>135</sup> Kawai and Takagi (2000: 12)
- <sup>136</sup> Numbers of tables and figures that begin with “S” are in the Statistical Appendix, those beginning with “G” are in the General Appendix and those starting with “H” are in the Historical Appendix.
- <sup>137</sup> These are consistent with indicators of economic size used by the World Bank. GNI measures the total domestic and foreign value added claimed by residents. It comprises GDP plus net receipts of primary income (compensation of employees and property income) from nonresident sources. This was gross national product in previous editions of the World Development Indicators. GDP is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output. See World Bank (2001b: 15) for an explanation of calculation methods and data sources.
- <sup>138</sup> ASEAN, APEC and other “regional institutions” are discussed in detail in Chapter III.
- <sup>139</sup> Brunei’s ranking is not provided but is most likely a little higher than that of Singapore. The World Bank reports little data for Brunei and that which is reported is done so in a separate grouping (unranked) of small economies with populations between 30,000 and 1 million.

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- <sup>140</sup> See Table G.2 in General Appendix for description of various types of trading arrangements.
- <sup>141</sup> Agriculture's share of an economy generally declines as an economy develops.
- <sup>142</sup> The World Bank's World Development Indicators series provides a breakdown for the EMU as opposed to the EU.
- <sup>143</sup> Includes investment in fixed assets of the economy (such as land improvements; plant, machinery and equipment purchases; and construction of roads, railways, schools, offices, etc.) and net changes in inventories, per World Development Indicators 2001.
- <sup>144</sup> For low-income countries (Cambodia, Indonesia, Lao PDR, Myanmar, and Vietnam) the average GDS is 20%; for lower middle-income countries (Philippines, Thailand and China) the average is 30%; for upper middle-income countries (Malaysia and Korea) the average is 23%; and for high-income countries (Singapore and Japan) the average is 23%. World Bank (2001b): 189
- <sup>145</sup> As estimated by the World Bank.
- <sup>146</sup> World Bank (2001b: 189)
- <sup>147</sup> World Bank (2002: 326)
- <sup>148</sup> Import tariffs may also be imposed to obtain fiscal revenues as well as to protect certain domestic industries from foreign competition. Nontariff barriers, such as quotas, prohibitions, and licensing schemes, are also used for protection but they are not included in this data since they are difficult to combine into an aggregate indicator.
- <sup>149</sup> Singapore, Hong Kong, and Japan being notable exceptions.
- <sup>150</sup> Although tariffs were reduced significantly after the completion of the Uruguay Round in 1993, average import-weighted tariffs fell to about 2.6 percent for high-income countries but only to 13.3 percent for developing countries. World Bank (2001b: 316)
- <sup>151</sup> In Figure 1, Mexico's average tariff appears to have risen during the 1990s but, in fact, this rise is recent in that Mexico raised most of its MFN import tariffs by 3 to 10 percentage points in 1999 to generate additional revenue for the government and these surcharges were retained for 2000. These increases, however, did not apply to countries having FTAs with Mexico. USTR (2000a: 284).
- <sup>152</sup> Although officially established in 1995 and 1994, the EU and NAFTA, respectively, had been making efforts toward liberalizing trade long before that (particularly in the case of the EU), whereas Asia has been slower to liberalize.
- <sup>153</sup> Except for Vietnam, which as a new AFTA member is allowed a longer period of time than older members to reduce its tariffs.
- <sup>154</sup> UNCTAD (2002: 7)
- <sup>155</sup> Tay and Estanislao (2000: 9)
- <sup>156</sup> World Bank (2001a)
- <sup>157</sup> The organizational structure of ASEAN will not be discussed in this paper. This information (historical and current) is presented in detail in several works including Tan (2000: 22-31) and Tongzon (1998: 6-11).
- <sup>158</sup> The ASEAN Declaration (Bangkok Declaration), Thailand: 8 Aug. 1967, <<http://www.aseansec.org>>.
- <sup>159</sup> See Kartadjoemena (2001: 211) and references cited in Tan (2000: 21).
- <sup>160</sup> Tan (2000: 11)
- <sup>161</sup> Chia (1997: 8)
- <sup>162</sup> Declaration of ASEAN Concord, Indonesia: 24 Feb. 1976, <<http://www.aseansec.org>>.
- <sup>163</sup> Soesastro (2000a: 202)
- <sup>164</sup> Tay (2000: 160)
- <sup>165</sup> Ariff (2000: 46)
- <sup>166</sup> Thongpakde (2001)
- <sup>167</sup> Tongzon (1998: 58-59)
- <sup>168</sup> See Appendix for list of members in each organization.
- <sup>169</sup> Fukase and Martin (2001: 7)
- <sup>170</sup> Soesastro and Morrison (2001: 63)
- <sup>171</sup> Urata (1998: 37)
- <sup>172</sup> Toh (1996: 55)
- <sup>173</sup> US-ASEAN Business Council Web site <<http://www.us-asean.org/afta.htm>>.
- <sup>174</sup> US-ASEAN Business Council Web site <<http://www.us-asean.org/afta.htm>>.
- <sup>175</sup> Fukase and Martin (2001: 3)
- <sup>176</sup> Tan (2000: 270)

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- <sup>177</sup> The CGE model is possibly the “most important tool used to quantify the costs and benefits of RIAs.” (Fukase and Martin, 2001: 2). It is a simulation model that “measures how simultaneously reducing tariffs and nontariff barriers on either a preferential or a nondiscriminatory basis affects economywide variables, such as gross national expenditures and the exchange rate, and the prices and quantities of primary commodities and industrial goods produced, consumed, and traded.” (DeRosa, 1995)
- <sup>178</sup> DeRosa (1995: 4)
- <sup>179</sup> The authors note “application of CGE models to the new member countries has been seriously constrained by data availability.” They therefore use different types of CGE models for different countries: Vietnam – a standard multi-region and multi-sector GE model with data from GTAP (Global Trade Analysis Project) was used; Lao PDR and Cambodia – a small single-country model with only one production sector and highly disaggregated tradable sectors was created; Myanmar – a highly stylized EXCEL® spreadsheet model was used. [See Fukase and Martin (2001: 2) for further details.]
- <sup>180</sup> Key variables include: size, openness and factor endowments; trade patterns and protection structure of integrating and partner countries; and key parameter values such as the elasticity of substitution between domestic goods and imports and between imports from different sources (Fukase and Martin, 2001: 3).
- <sup>181</sup> Fukase and Martin (2001: 5)
- <sup>182</sup> Fukase and Martin (2001: 4)
- <sup>183</sup> Fukase and Martin (2001: 144)
- <sup>184</sup> Convergence generally has a broader meaning. For example, the EU (through the Maastricht Treaty) views convergence as the alignment of members’ economic and monetary policies with convergence criteria of price stability, low long-term interest rates, stable exchange rates, and sound public finances. (Carbaugh, 2002: 275)
- <sup>185</sup> Ben-David (1993)
- <sup>186</sup> ASEAN (2002)
- <sup>187</sup> Soesastro and Morrison (2001: 57-62)
- <sup>188</sup> Tay (2000: 164-165) claims that ASEAN’s principle of non-intervention has not entirely stopped it from becoming involved in its members’ internal affairs. He cites two examples: (1) ASEAN’s involvement in the resolution of the Cambodian conflict and (2) its “intervention” in Myanmar/Burma in the form of advice on the political situation and encouragement toward dialogue with the pro-democracy opposition.
- <sup>189</sup> Wain (2002)
- <sup>190</sup> Ariff (2000)
- <sup>191</sup> Ariff (2000: 57)
- <sup>192</sup> Ariff (1997: 86)
- <sup>193</sup> The study was commissioned by ASEAN to assess its competitiveness and was based on microeconomic analyses and sector studies, including interviews with over 100 investor executives. Comparisons were made with the EU, MERCOSUR and NAFTA.
- <sup>194</sup> Various publications, including The Asian Wall Street Journal and the Business Times (Singapore) via Dow Jones Interactive at <<http://www.djinteractive.com>>.
- <sup>195</sup> Urata (1998)
- <sup>196</sup> Yamazawa and Urata (2000)
- <sup>197</sup> Yamazawa and Urata (2000: 58)
- <sup>198</sup> “The NTM frequency of a product for each country is the percentage share of NTMs actually imposed on the product concerned. A 20% frequency means that a dozen core NTMs are imposed, which can include major effective NTMs and cannot be justified under any circumstances as WTO-consistent.” [Yamazawa and Urata (2000: 96)]
- <sup>199</sup> Trewin and Azis (2000)
- <sup>200</sup> Australia DFAT (2001: 3)
- <sup>201</sup> Also, in Indonesia’s case, tariffs were lowered on chemical, metal and agricultural products as part of its structural reform under the IMF’s financing program after the crisis. (Japan METI, 2001: 20)
- <sup>202</sup> APEC (1999: iii)
- <sup>203</sup> APEC (1999: 20)
- <sup>204</sup> Yamazawa and Urata (2000: 65-66)
- <sup>205</sup> Elek and Soesastro (2000: 220)
- <sup>206</sup> Yamazawa (1997: 143)

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<sup>207</sup> Elek and Soesastro (2000: 222)

<sup>208</sup> APEC (1999: 3)

<sup>209</sup> Petri (2000: 104)

<sup>210</sup> The APEC International Assessment Network is a collaborative, independent project among participating APEC Study Centres to track and assess the design and execution of select APEC initiatives.

<sup>211</sup> Feinberg and Ye (2001)

<sup>212</sup> Feinberg and Ye (2001: 9)

<sup>213</sup> APEC (2002)

<sup>214</sup> Prime Minister Thaksin Shinawatra has proposed an economic forum called the Asian Cooperation Dialogue (ACD) that would comprise countries in East Asia, South Asia and the Middle East. The first meeting of this group was held in June 2002 with 17 countries attending. Its precise goals are not known. Another forum recently proposed by Singapore is considerably more ambitious. It has been labeled the ASEAN Economic Community (AEC) and is mentioned in the same vein as the European Economic Community. <<http://www.djinteractive.com>>

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