

ASIAN EXPECTATIONS TOWARD JAPAN'S ROLE IN THE CONSENSUAL PROCESS OF REGIONAL INTEGRATION: THE CASE OF THE EAST ASIAN ECONOMIC CAUCUS

Michio KIMURA

1 INTRODUCTION

In December 1990, the East Asian Economic Caucus (EAEC) was first proposed by the Prime Minister of Malaysia, Dr. Mahathir bin Mohamad, as a 'trade bloc' in order to promote a global free trade regime, which sounds paradoxical at first glance. The realization of the EAEC proposal has been pursued by the Association of Southeast Asian Nations (ASEAN) under the name of the East Asian Economic Grouping since 1991, and was renamed EAEC in 1993. At present, it is conceived to be a regional economic cooperation forum, or caucus, within the Asia Pacific Economic Cooperation (APEC) to discuss and seek consensus about a wide range of problems of common concern to the East Asian member economies of APEC. The forum is to be exclusively composed of the East Asian economies. While other regional cooperation arrangements existing in East Asia cover only a part of the region, the EAEC is aimed at representing all major countries within the region. The potential members of the EAEC are Brunei, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam – 6 of the so-called ASEAN 9 –, plus China, Japan and South Korea. Although the EAEC has yet to be officially launched as a caucus within APEC, it has reached the stage where its potential members hold informal talks at various levels. Meetings so far include meetings of heads of states which have been held three times, starting with the inaugural meeting of the Asia Europe Meeting (ASEM) in 1996.

Thus, it can be assumed that the story of EAEC will not only tell the nature and problems of economic and political integration in Asia. It will also shed light on the expected role of Japan in the region, since her membership and leadership is regarded as a major prerequisite for establishing this arrangement. This paper looks at the role that is expected of Japan by Asian countries in this process of regional integration, through examining the process of conceptualization and institutionalization of the EAEC. The EAEC concept is most relevant during times of sustained and rapid growth when strong fundamentals of East Asian economies lead their de-

velopment. Therefore, the pendulum of regionalism will swing to it again when the East Asian countries regain their growth momentum through the revitalization of its networks of production blocs.

This paper is structured as follows: first, the concepts of region, sub-region, and regionalism will be examined. Secondly, the economic background of the proliferation of sub-regional cooperation arrangements since the mid-1980s will be discussed. The focus of analysis will be the relationship between open regionalism and the networking of 'production blocs' among the East Asian economies. Thirdly, the evolution of the EAEC concept will be examined along with the formation of the development strategy of Malaysia. Fourthly, the transformation of the EAEC concept into a regional cooperation scheme promoted by ASEAN will be analyzed. Fifthly, the expected role of Japan as an essential member of EAEC will be discussed and statements of Malaysian and other ASEAN leaders will be examined. Finally, the prospects of further institution-building of the EAEC will be examined. Special emphasis will be given to the impact of the Asian financial crisis on this arrangement for regional cooperation.

2 CONCEPTS OF 'REGION'

One of the critical issues raised by the EAEC concept poses a constraining effect on the openness or non self-contained nature of East Asian economies and runs contrary to any efforts to build regional cooperation arrangements with East Asian only membership. The question is whether East Asia can be, in spite of its openness in terms of economic regimes, a true region, defined here as a group of three or more adjacent countries where political and/or economic integration can be attained. Scholarly literature by trade economists claims that – as the economic dynamism of East Asia relies highly on that of the wider Asia-Pacific Region – the benefit of economic interdependence will be maximized through unilateral and voluntary liberalization of trade and investment by APEC member economies (Ariff 1994; Ariff 1995).¹ While Ariff (1994, 115) emphasized the role of EAEC as a 'safety net' against possible Western domination at the APEC level, he did not answer the question of why the membership of the EAEC should exclude the non-Asian countries in the APEC region.

The issue seems to be better addressed from a wider perspective such as the one offered by international political economists. In attempting to define the term 'region', Mack and Ravenhill argued that 'the concept of

¹ Unilateral measures are defined as actions of a country that are directed towards another country, a group of countries or the world as a whole (Krueger 1995, 87).

“region” is a fluid one, ... and it tends to change according to the issue area in question and is perhaps most usefully self-determined by the participants in “regional” organizations’ (Mack and Ravenhill 1994, 7). From a similar point of view, Alagappa (1994, 158) defined regionalism ‘as sustained cooperation, formal or informal, among government, non-government organizations or the private sector in three or more contiguous countries for mutual gain’. Based on these definitions, they not only introduced the issues of regional political relations and security to their arguments, but also highlighted the primary roles of actors, especially those of states, in the process of regional integration.

International political economists deny categorically the existence of ‘natural regions’ based on political, cultural, and historical commonalities which will bring about regional integration (Mack and Ravenhill 1994, 6).² However, some political economists admit that there can be a type of regional integration driven by the sustained political will of states toward regional identity building. Higgott and Stubbs (1995), observing the fact that two very different understandings of ‘region’ are emerging through enhanced economic dialogue in Asia-Pacific, examined APEC and EAEC as two competing conceptions of regional economic cooperation. While the former regime advances market-led regional integration aiming at rational maximization of economic utility, the latter represents the state-interventionist approach seeking identity building not merely through economic regionalization but also through the conceptualization of political, historical and cultural commonalities of the region.

Taking into account these academic arguments over the subject, East Asia in this paper is defined as the region composed of those states which the EAEC concept assumes as its potential members. Geographically it is composed of Northeast Asia and Southeast Asia. An analysis of the EAEC issues will require the examination of several factors related to economics as well as politics in East Asia. The economic factors include the following: the open rather than self-contained structure of regional economies; the vigorous cross border production activities of multinational corporations which has propelled globalization in the region; and the transition of the Chinese economy toward marketization. The political factors are: ASEAN’s approach to regional cooperation through consensus building; the rapidly-progressing regional integration process initiated and driven by the developed West, such as the establishment of the European Union (EU), the North American Free Trade Area (NAFTA), and the restructur-

² What they reject about the concept of ‘natural regions’ is the idea that such regions are destined to integrate spontaneously because of the given commonalities in ethnicity, culture and history.

ing of APEC into a free-trade regime; the changing pattern of power distribution in the region among Japan emerging as an economic big power; China as a potential big power in the 21st century; the US as the sole hegemon in the post-Cold War era; and the strategies of the states in the region incorporating the above-mentioned factors.

The discussion above suggests that the term 'region' can designate APEC, EAEC, ASEAN, or SIJORI (Singapore-Johore-Riau Growth Triangle) respectively in different parts of this paper. In a place where ASEAN is described as a region, APEC or EAEC will be described as 'wider region' or 'supra-region', and SIJORI as 'sub-region'. However, it is worth noticing that the concepts of 'subregionalism' or 'subregional cooperation' differ from 'regionalism' because of specific characteristics that go beyond the mere size of the areas in question. Subregional cooperation is understood in this article as an arrangement by the governments of several neighboring countries through which they partially lift their respective sovereignty over certain parts of their territories to expand mutual interchange to an extent that regional arrangements between the governments concerned could not attain.

3 OPEN REGIONALISM IN EAST ASIA

In East Asia, there has been a proliferation of regional economic cooperation arrangements since the mid-1980s and especially in the early part of the 1990s. They include for example the Greater South China Economic Zone, the Yellow Sea Economic Zone, the Singapore-Johore-Riau Growth Triangle (SIJORI), the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), the East ASEAN Growth Area (EAGA), and the Golden Quadrangle (Northern Thailand, Yunnan province of China, West Laos, and East Myanmar). The following paragraph will show that the proliferation of these arrangements was led by open regionalism and supported by the expanding networks of 'production blocs' in the region.

The surge of sub-regional economic cooperation arrangements among the developing countries of East Asia is in response to the economic globalization caused by liberalization of trade and investment since the mid-1980s. These arrangements have a strong inclination toward 'open' regionalism in contrast to the discriminatory regionalism represented by the European Union and the North America Free Trade Agreement (NAFTA). Open regionalism is defined as a sustained cooperation among contiguous countries 'that would strengthen rather [than] weaken the members' extra-regional linkages' (Ariff 1994, 99).

The openness of the East Asian economies was a function of their deepening dependence on manufactured exports to external markets that became the basis of their robust economic growth. The list of these countries includes Japan since the mid-1950s, the Asian NIEs (Newly Industrializing Economies) since the early years of the 1970s, the ASEAN countries since the early 1980s, and China since the mid-1980s. The external dependency measured by the ratio of total trade to GNP of East Asian developing economies (excluding China) was quite high. This ratio ranged widely from 43.7% for the Philippines to 383.6% for Singapore in 1980. Since, it has increased in Malaysia, the Philippines, and Thailand. For the rest of the regional economies, it has slightly decreased or remained at a relatively high level (see Table 1). The ratio of China's external dependency almost tripled from 12.6% in 1980 to 35.7% in 1997.

Table 1: East Asian Economies – Ratio of Foreign Trade to GNP

Country	1980	1990	1997
Asian NIEs 3			
Korea	66,1	53,5	64,2
Hong Kong ^a	149,5	217,7	231,4
Taiwan	95,6	74,2	82,6
ASEAN			
Singapore	383,6	300,9	260,2
Indonesia	50,2	43,5	45,7
Malaysia	100,5	143,5	168,2
Philippines	43,7	48,2	73,3
Thailand	49	66,5	79,7
China	12,6	29,7	35,7 ^b

^a Calculation is based on the GDP at current market prices.

^b This number refers to 1996.

Source: ADB (1998, Table 32).

While exports from East Asian economies have been increasingly directed toward the markets in the region since the mid-1980s, the intra-regional proportion to their total exports is still limited (see Table 2). In 1996, the intra-regional export of the ASEAN 4 countries (Indonesia, Malaysia, the Philippines and Thailand)³ accounted for just 6.5% of its total exports, that

³ In the aggregation of intra-ASEAN exports, the exports from Singapore are not included because of the lack of statistical data regarding exports from Singapore to Indonesia, and because of the substantial share of the entrepot portion in the total trade of Singapore. Accounting for these problems, Legewie estimates the real intra-ASEAN trade ratio including Singapore at 15% (Legewie 1998, 218).

of the potential EAEC member states accounted for 48.4%, and that of APEC member economies for 72.5%. This high rate can be explained by the fact that the absorption of Asian manufactured goods by the US market has remained at a substantial level. At the same time, US exports to East Asia as well as to other APEC economies have been expanding.

Table 2: Intra-regional and Extra-regional Trade of East Asian Economies

Export from - to	ASEAN 4	ASEAN 5	3 Asian NIEs	China	Japan	EAEC	APEC	USA	Total	Share of world export
ASEAN 4										
1980	3,2	15,0	7,1	0,8	34,4	57,4	78,4	18,7	100,0	2,5
1988	3,7	15,0	9,8	2,3	24,6	51,7	74,6	19,7	100,0	2,4
1996	6,5	18,6	11,9	3,0	17,8	51,2	72,8	18,6	100,0	3,9
EAEC										
1980	6,9	11,1	10,3	2,6	10,3	34,3	61,4	22,3	100,0	14,4
1988	5,1	12,2	14,2	4,9	8,6	39,9	74,0	29,4	100,0	22,3
1996	9,8	14,8	16,7	7,9	9,0	48,4	73,7	21,8	100,0	24,9
APEC										
1980	4,4	8,8	6,9	2,1	9,9	25,9	56,9	19,1	100,0	31,8
1988	3,7	8,2	11,1	3,4	10,8	33,6	70,8	25,2	100,0	40,8
1996	7,1	10,8	12,8	5,3	9,1	37,9	72,5	23,3	100,0	43,7
3 Asian NIEs										
1980	5,7	8,6	5,8	2,2	10,7	27,3	60,9	29,0	100,0	3,0
1988	3,3	9,3	8,1	9,2	13,3	39,9	77,4	32,9	100,0	6,9
1996	6,7	10,4	12,2	17,4	9,7	49,5	72,9	20,4	100,0	8,1
China										
1980	4,3	6,6	24,0	0,0	22,2	52,8	60,5	5,4	100,0	1,0
1988	2,8	8,7	38,3	0,0	16,9	63,8	72,7	7,1	100,0	1,8
1996	3,4	5,8	28,6	0,0	20,4	54,9	75,1	17,7	100,0	2,9
Japan										
1980	7,0	10,0	11,5	3,9	0,0	25,4	55,9	24,5	100,0	6,9
1988	4,9	13,0	15,7	3,6	0,0	32,2	72,3	34,1	100,0	9,8
1996	12,4	17,5	19,6	5,3	0,0	42,4	74,3	27,5	100,0	7,8
USA										
1980	2,8	4,2	5,2	1,7	9,4	20,5	45,5	0,0	100,0	11,6
1988	2,2	4,0	9,1	1,6	11,8	26,4	57,1	0,0	100,0	11,9
1996	4,1	6,8	9,5	1,9	10,8	29,1	61,6	0,0	100,0	11,8

Sources: IMF (1980); IMF (1988); IMF (1996).

Notwithstanding the fact that economic interdependence measured by intra-regional export concentration in ASEAN and in the proposed EAEC grouping has been increasing rapidly since the mid-1980s, it justifies the establishment of a trade bloc or even a free trade area arrangement between these countries far less than in the Asia-Pacific region (Mack and Ravenhill 1994, 6–7). An inward looking and discriminatory trade regime

in East Asia would have resulted in a marginal increase of its intra-regional trade at the expense of the stagnation or the decrease of its extra-regional trade. This is especially the case when the retaliatory trade measures of the United States in the 1980s are taken into account. Thus, economic regionalism in East Asia has been conditioned by its openness. It has preferred to orient itself toward the supra-regional trade regime and eventually toward globalization.

But what does East Asian open regionalism aim for? The question is closely related to what has brought about increasing economic interdependence not only in East Asia but also in the Asia-Pacific region. The prime mover of economic interdependence is the rapidly increasing flow of foreign direct investment into China and the ASEAN region since 1985 (Table 3). Noticeable factors of this flow of foreign direct investment on an unprecedented scale will be summarized in four points as follows.

Table 3: Inflows of Foreign Direct Investment by Region or Economic Grouping, 1981–1998

	Annual average inflows (billion US\$)				Share of the world total (percentage)			
	1981– 1985	1986– 1990	1991– 1994	1995– 1998	1981– 1985	1986– 1990	1991– 1994	1995– 1998
World	54,5	149,9	180,4	449,0	100,0	100,0	100,0	100,0
Industrialized countries	36,7	126,9	109,1	288,3	67,3	84,7	60,5	64,2
Central and Eastern Europe including the former Soviet Union	--	0,1	6,1	15,7	--	0,1	3,4	3,5
Developing Countries	17,8	22,8	65,2	145,0	32,7	15,2	36,1	32,3
Africa and Western Asia	7,6	3,6	4,7	6,4	14,0	2,4	2,6	1,4
Asia	4,2	12,1	39,6	82,8	7,8	8,0	20,0	18,4
China	0,8	3,0	19,3	41,5	1,5	2,0	10,7	9,2
East and Southeast Asia	3,3	8,8	19,3	38,4	6,0	5,8	10,7	8,6
South Asia	0,1	0,3	1,0	2,9	0,3	0,2	0,6	0,6
Latin America and the Caribbean	6,0	7,3	17,8	54,8	11,0	4,8	9,9	12,2

Sources: UNIDO (1996, 49); United Nations (1999, 477–80).

First, the increase in foreign direct investment was triggered by the substantial appreciation of the yen resulting from the 1985 Plaza Accord and the following revaluation of Asian NIEs currencies. Japanese and Asian NIEs manufacturing export firms were facing a severe loss of internation-

al competitiveness due to the rise of business costs, especially that of labor and land at home in addition to the appreciation of their currencies. Therefore, they vied with each other to relocate their production activities in China and Southeast Asian countries where they could utilize cheap and abundant production factors, hence the rapid increase of intra-regional exports in East Asia as well as exports from East Asia to Asia Pacific (Table 2). '[The] synergy between trade and investment, one reinforcing the other' (Ariff 1994, 106) is clear, and the circle in which one investment induces another through manufacturing export expansion has supported the rapid economic growth in the region.

Secondly, unlike the former influx of foreign direct investment by Japanese big companies into Southeast Asian countries in the 1970s, those who advanced into China and Southeast Asia this time were mainly small and medium-sized firms from supporting industries. They were accompanied by cost-sensitive parts of the production process of bigger multinational manufacturers not only from Japan, but also from Asian NIEs and later ASEAN countries. Thus, intra-industry and intra-firm trade of parts and components among East Asian economies have increased rapidly through the expanding networks of parent companies and supporting industries (Ariff 1994, 110; Jomo *et al.* 1997, 32), as well as through the production and distribution networks of overseas Chinese (Higgott and Stubbs 1995, 524).

The third factor is the robust and sustained economic growth of China that was accompanied by a transitional process from a central commanding system toward an outward-looking market economy since the mid-1980s. The marketization and export-oriented industrialization policies of the Chinese government induced mass relocation from neighboring economies into the coastal area of China's labor intensive industries, first from Hong Kong, Taiwan, and Japan, and later from South Korea and even ASEAN countries mainly through overseas Chinese networks.

The Shenzhen Special Economic Zone and the Pearl River Delta Area attracted manufacturing export operations from Hong Kong and later from Taiwan and South Korea, combining their capital and technology with an enormous and cheap supply of labor from the surrounding rural areas. These two Special Economic Zones evolved into a sub-regional economic cooperation arrangement consisting of the coastal areas of South China, Hong Kong and Taiwan. Their success was not only followed by the development of many industrial areas along the coast such as Amoy, Shanghai, Tianjing, Dalian, to name a few, but also induced more foreign direct investment into inland areas to produce goods and services for the domestic consumption of China. In this way these Special Economic

Zones provided Southeast Asian countries with a model of sub-regional economic cooperation arrangements.

The fourth factor to be mentioned here is the pulling factor that was especially strong among the ASEAN countries. The expansion of the above-mentioned networks has changed the structure of the international division of labor in the region, from the traditional vertical one between primary industries in the developing countries and secondary industries in the developed countries to a more horizontal one among expanding manufacturing industries. It has provided the developing countries in the region with the chance of rapid economic growth through increasing technological sophistication and capital intensification in their manufacturing sector, which have been readily adopted by ASEAN countries.

Their readiness to host foreign direct investment was demonstrated by the market-friendly policy reforms adopted by individual member countries.⁴ As Ariff (1994, 106) put it, each of the member countries has implemented such policies outside the regional cooperation framework of ASEAN since the mid-1980s. They included the devaluation or depreciation of the currencies of Indonesia, Malaysia and Thailand; the introduction of a value-added tax in Indonesia; a substantial reduction in company and income tax rates in Singapore, Indonesia and Malaysia; fiscal austerity in Malaysia; financial deregulation in all ASEAN countries; liberalization of foreign investment rules, especially with regard to ownership and permissible investment area restrictions; the privatization of public enterprises in Malaysia, Singapore, and the Philippines or the management reform of state-owned corporations in Indonesia. One of the major policy reforms was the unilateral liberalization of trade through streamlining custom procedures and the relaxing of both tariff and non-tariff barriers in all ASEAN countries.

These market-friendly reform measures varied from country to country in their intensity, and in the focus and pace of their implementation. However, they had the common objective to allow the private sector, especially foreign companies, to expand their production activities. These activities were mainly directed to manufacturing goods for export to the markets in developed countries and, later, in the region. In this sense, policy reforms, especially unilateral liberalization measures, were primarily aimed at expanding the production capacity of each ASEAN country rather than to increase intra-regional trade itself.

These liberalization measures represented one of the two prongs of industrialization policies adopted by almost all ASEAN member states but that were implemented independently and individually by each state in

⁴ See for example Masuyama, Vandenbrink, and Chia (1997).

the latter half of the 1980s. The first prong was pointed to the incorporation of their economies into the horizontally oriented international division of labor propelled by the private sector in East Asia. The second was directed at nurturing infant industries to become the local counterpart of newly arriving foreign manufactures, or to act as a means to deepen and expand domestic industrial structures by creating linkages among existing local industries. It required protective trade and industrial policies to be applied to the targeted industries. Hence, liberalization measures were implemented by each ASEAN country as its own policy initiatives and independent from the regional cooperation of ASEAN.

It is worth noting that the implementation of unilateral liberalization measures by ASEAN member states was made possible because of the loose and non-binding nature of regional cooperation within the ASEAN. ASEAN has allowed each member to pursue its own development strategy with minimum constraints or intervention from the developed countries outside and even from the regional association itself. The 1975 ASEAN Summit in Bali established a consensus to create regional resilience through strengthening the national resilience of each member country. This is the framework of regional cooperation within ASEAN, which assures the full sovereignty of its respective member states over their planning and implementation of their respective socio-economic development policies.

The question is now, why these unilateral liberalization measures that were adopted independently by each of the ASEAN member states were finally regionalized. First, intra-regional causes will be analyzed.

In the latter part of the 1980s, many multinational companies, including Japanese companies, mainly from the automotive and electric and electronics industries, tried to expand and reorganize their production networks in the region. These corporations started to demand from ASEAN countries to lower tariff and non-tariff barriers that hindered the free movement of their parts and components. They claimed that a free-trade regime in the region would enable them to reorganize their production process in such a manner that they could enjoy scale merits deriving from concentrating the production of parts and components in one ASEAN country, while at the same time profit from the lower price of specific production elements abundantly available in other member countries. Such a scheme, it was argued, would also contribute to economic growth in the region as a whole.

Even before the late 1980s emergence of production networks, ASEAN responded to manufacturer demands by introducing various schemes like the ASEAN Industrial Project (AIP) in 1976, the ASEAN Industrial Complementation (AIC) in 1981, the ASEAN Industrial Joint Venture

(AIJV) in 1983, and the Brand-to-Brand Complementation (BBC) scheme in 1988. Some ASEAN member countries also launched sub-regional economic cooperation schemes. Through these measures, ASEAN started its regionalization of unilateral liberalization schemes that had so far been independent from its cooperation framework. The BBC scheme, for example, was implemented on an individual automotive maker basis to allow for the procurement of parts and components with preferential tariffs from its subsidiaries located in other ASEAN countries. Naturally, all four major Japanese automobile producers participated in the scheme (Ariff 1994, 110; see also Legewie in this volume). The development of sub-regional economic cooperation schemes within the ASEAN was further stimulated by the Greater South China Economic Zone. Among the several sub-regional cooperation schemes of ASEAN, the SIJORI (Growth Triangle, comprising of Singapore, Johore State of Malaysia, and the Riau Provinces of Indonesia) has been the most successful case. It was proposed by Singapore in 1989.

The basic structure of sub-regional cooperation schemes calls for the governments of two or more neighboring countries to designate certain parts of their territories and to lift or ease restrictions regarding the movement of production factors such as capital, labor and technology, as well as to establish an industrial infrastructure. Further, it calls for leaving the combination of these production factors and the selection of industries to be promoted to the private sector which mainly consists of multinational manufacturing exporters, in order to achieve a more efficient allocation of resources through market mechanisms (Kimura 1994, 4). Thus, 'the SIJORI triangle acts as a "production bloc" that would render its products internationally competitive' (Ariff 1994, 114).

The analysis of the intra-regional causes of the proliferation of sub-regional cooperation arrangements in East Asia since the mid-1980s confirmed that unilateral and independent liberalization measures of the East Asian economies were cumulated into region-wide measures (or 'open regionalism') in order to expand the networks of 'production blocs' as well as to address the horizontally oriented international division of labor brought about by foreign direct investment from Japan and Asian NIEs. The EAEC was proposed to promote open regionalism in East Asia. In the following section, the conceptualization process of the EAEC will be analyzed. The grouping will be examined as a part of the Malaysian development strategy and as a regional cooperation arrangement of ASEAN.⁵

⁵ Since the intra-regional discussion of the EAEC has not yet been examined in detail, and also with regard to the focus of this volume, the role of US firms and contractors will not be discussed here.

4 THE EAEC AND THE 'VISION 2020'

When the original idea of the EAEC was proposed by Malaysian Prime Minister Dr. Mahathir Mohamad at the occasion of a visit by Chinese Premier Li Peng to Malaysia in December 1990, it was presented in a somewhat misleading and paradoxical way. Its aim was reported to establish 'a bloc to countervail the others [which were already formed by the developed West with an inclination toward protectionism]' (*New Straits Times* 11 December 1990).

The concept later became clearer when the grouping was re-named the East Asian Economic Group (EAEG) after the Malaysian government had sounded out the responses from ASEAN member countries for about one month. The EAEG was defined, as Noordin Sopiee, a brain truster of Prime Minister Mahathir, put it in January 1991 as a group of East Asian economies to function as 'a pressure group ... that can act as a megaphone to magnify our voice in the current Uruguay Round, and in future arenas of multilateral economic diplomacy, ... in order to try counter the severe erosion of multilateralism ... and to head off, if possible, the creation of full-blooded trade blocs. It is consistent with GATT, enhances ASEAN's role, and is compatible with APEC. Its potential members assumed by Malaysia at that time were ASEAN 6, Japan, China, Taiwan, Hong Kong, South Korea and Vietnam' (Sopiee 1991). Sopiee continued: 'If we [the East Asian nations] wish to enrich ourselves with each other, ... [and] if there are already three groupings within APEC, ... in the East Pacific [an emerging NAFTA], in the South Pacific [Closer Economic Relation between Australia and New Zealand; CER] and in the West Pacific (ASEAN) – and we see nothing wrong in this, what is wrong with an East Asian grouping?' (Sopiee 1991).

His argument suggests that the proposal to form the EAEG, or, as it was later called, the EAEC, was derived from a common wish for economic development through rapidly deepening mutual interdependence among the East Asian countries. As for Malaysia, its ardent wish and strategy to achieve it were best demonstrated in the concept 'Vision 2020' that was explained in a policy speech by Prime Minister Mahathir in February 1991. This speech was prior to the publication of the Second Outline Perspective Plan 1991–2000 (which detailed the National Development Policy, the successor of the New Economic Policy (NEP) 1971–1990) in June 1991, and the Sixth Malaysia Plan 1991–1995 in July 1991.

In 'Vision 2020', Mahathir claims that Malaysia should be and can be a fully developed and united country in its own mold by the year 2020 (Mahathir 1991). This goal would be attained through achieving a real term economic growth rate of about seven percent per annum for the com-

ing 30 years, implementing a set of market friendly and outward looking policies,⁶ and through overcoming nine central strategic challenges⁷ in the realm of society. Mahathir claimed that the diversity unique to Malaysia in terms of ethnicity, culture and society, and the economic disparities among major ethnic groups (Malays, Chinese and Indians) required these societal challenges to be incorporated in this Vision. Mahathir declared these demands to be the outcome of his long political experience that led up to the establishment of a long-run supreme leadership over the United Malay National Organization (UMNO), the dominant party within the ruling coalition, the National Front. The UMNO was expected to serve the interests of a specific ethnic group, the *bumiputera* (Malay and other indigenous peoples), and the interests of the fellow ruling parties, many of which were organized along their respective ethnic lines.

The critical task of the Mahathir government in the latter half of the 1980s was to establish a new longterm development policy that could overcome the issues deriving from the implementation of the New Economic Policy (NEP, 1971–1990). While a consensus was established among the ruling coalition parties that achieving national unity as the ultimate aim of the NEP should be carried over to a new development pol-

⁶ These economic policies include privatization, deregulation, accelerated industrialization, diversification of exports, liberalization of the economy, fostering the inflow of foreign investment and domestic investment, massive provision of infrastructure, human resources development, research and development (R&D), modernization of agriculture and the service sector, creation of information society (Mahathir 1991, 10–21). All the policies had been tested by the Malaysian government since the mid-1980s and were recommended by the National Economic Consultative Council (NECC).

⁷ These challenges are as follows: a) establishing a united Malaysian nation, made up of the 'Bangsa Malaysia (Malaysian Race)' with political loyalty and dedication to the nation; b) creating a psychologically liberated, secure, and developed Malaysian society with faith and confidence in itself; c) fostering and developing a mature democratic society, practicing a form of mature consensual, community-oriented Malaysian democracy; d) establishing a fully moral and ethical society; e) establishing a mature liberal and tolerant society in which Malaysians of all colors and creeds are free to practice and profess their customs and religious beliefs, while yet feeling that they belong to one nation; f) establishing a scientific and progressive society; g) establishing a fully caring society in which society will come before self, in which the welfare of the people will revolve around a strong and resilient family system; h) ensuring an economically just society that ends all identifications of race with economic function and economic backwardness with race; i) establishing a prosperous society with an economy that is fully competitive, dynamic, robust and resilient (Mahathir 1991, 2–4).

icy, there were differences of opinion about the policy measures needed to bring about national unity.

Not only the multi-ethnic opposition parties, but also the Chinese and multi-ethnic parties in the ruling coalition demanded that the Malaysian people regardless of ethnicity should be dealt with equally in the post-NEP development policy. Under the NEP, state intervention with regards to the distribution of wealth or to employment and education opportunities was based on quota systems and discriminated in favor of *bumiputera*. This policy brought about the broad resistance of non-*bumiputera* (including Chinese and Indians) to the extent that it has resulted in a huge amount of capital flight overseas since the mid-1970s.⁸

Around the mid-1980s, the deepening frustration of non-*bumiputera* groups, especially among Chinese people, was demonstrated in a series of political gatherings that especially focused on national policies against Chinese education. These activities were joined even by the Chinese ruling party and were retaliated by counter-gatherings of the youth wing of UMNO. These intensified ethnic tensions were eventually silenced by the so-called 'Operation Lallang' in October 1987. More than one hundred political leaders, both of ruling and opposition parties, who were involved in the Chinese education movement or in other social reform movements, were alleged to stir up 'racial sentiment' and were detained without trial under the Internal Security Act.

It was not only through such political suppression and government maneuvers⁹, that the Mahathir government maintained its basic aim of raising the economic status of *bumiputera* to a level on par with that of the Chinese. The Malaysian government also had to introduce considerable modifications to its traditional policy. In the latter half of the 1980s, the Mahathir government had to a certain degree already assisted Chinese business groups to attain 'a fair balance'. On the one hand, it was allowing them to make overseas direct investments in China and later in Indochina through their own networks established since the mid-1970s. On the other

⁸ The Morgan Guarantee Trust Company estimated that capital flight from Malaysia totaled US\$ 12 billion between 1976–1985 (Jomo 1989, 82).

⁹ Mahathir withdrew the terms of reference for the National Economic Consultative Council which he had set up in 1988 to bring about a consensus about a new development in the post-NEP era and received a national mandate for his government to formulate its own post-NEP policy after winning a landslide victory in the 1990 general election. Finally, the government incorporated all the NECC recommendations into the 'Vision 2020', the National Development Policy and the Sixth Malaysia Plan 1991–1995. Only the suggestions to set up a Royal Commission to monitor policy implementation and critical discussions about the quota system was not included in any of these programs (Kimura 1993, 52).

hand, it acquired, in return of favor, their collaboration in fostering a *bumiputera* entrepreneur community as their business partners in Malaysia.¹⁰ Based on the experience of establishing a synergistic relationship among small factions (*i.e.* the entrepreneurs) of the respective ethnic groups, the Vision justifies affirmative action to ensure the development of a viable and competitive *bumiputera* commercial and industrial community. At the same time, it also tries to ensure equal opportunities of participation and contribution for all ethnic groups in Malaysia.

The longterm development strategy of Malaysia did not only address the country's domestic ethnic issues, but it was also related closely with its regional and international policy. The Vision included two factors that necessitated devising the EAEC.

First, when the Vision sought to build a new national identity, 'Bangsa Malaysia' (the Malaysian Race), it claimed to create this identity through the fostering of so-called 'Asian values' such as the predominance of society and community over individuals, the family system as a basis of society, and esteem to elders. It also adopted an 'Asian approach' to democracy based on consensus building. These 'Asian values' were increasingly promoted by Prime Minister Mahathir in his 'Look East Policy' that he pursued since the end of 1981. 'Asian values' had to be seen, according to Mahathir, as the cultural basis supporting rapid economic growth and political and social stability not merely in Japan but also in other East Asia countries. In this sense 'the "Look East Policy" and "Vision 2020" [were] essentially comprised of national objectives as defined by Mahathir's government and were used as the cutting edge of foreign relations and ventures' (Saravanamuttu 1996, 8). Consensual democracy has been the principle of decision making of the ASEAN, an organization that is composed of countries which have more diversity in culture, ethnicity, political regimes and levels of economic development than common elements which serve to unite them.

The concept of the EAEC is linked to the 'Vision 2020' in two ways. First, the EAEC is the materialization of the 'Vision' in the area of regional cooperation, and it also balances some of the shortcomings of the 'Vision'. Second, both concepts were drafted with the intention that they should play an active role in the promotion of 'Asian values'. The 'Vision' claims that the identity of the Malaysian people should be based on 'Asian values'. The definition the Malaysian government uses to explain 'Asian val-

¹⁰ The Malaysian government reversed its policy of capital movement from the traditional suppression of capital flight to the encouragement of overseas direct investment (the so-called 'reverse investment') with a series of tax incentives since 1991 (Malaysia 1995, 128).

ues', however, is a rather abstract one. The idea behind the concept of 'Asian values' is to promote the particular values of the various ethnic groups within the Malaysian population among all peoples in East Asia. The link between the EAEC concept and the 'Vision 2020' can be seen in its aim in achieving a regional identity in East Asia that is based on 'Asian values' and a consensual approach claimed to be common to the countries that constitute this region, despite their political, cultural and racial diversities. As Higgott and Stubbs claim, 'the search for some kind of "Asian" identity is becoming an increasingly forceful aspect of Malaysian policy [of advocating the EAEC]. This quest is replicated in other neighboring countries' (Higgott and Stubbs 1995, 530).

Secondly, the 'Vision 2020' required Malaysia to form coalitions in international economy and politics. The objective behind this is explained in the following statement by Malaysian Prime Minister Mahathir: '... In international relations, the emphasis should be less on politics but more on economic imperatives. Small though we may be, we must strive to influence the course of international trade. To grow we have to export ... The trend towards the formation of trading blocs will damage our progress and we must oppose it ... A country without adequate economic defense capabilities and the ability to marshal influence and create coalitions in the international economic arena is economically defenseless ... This Malaysia cannot afford to be' (Mahathir 1991, 21).

It can be argued that the EAEC is one of these coalitions mentioned above.¹¹ For Malaysia, it was very important to build such coalitions, partly because of the small scale and open nature of its economy in the days of globalization, and partly because of its cautious perception of the changing American position in international relations after the end of the Cold War. In his keynote address at an international conference on ASEAN and world economy that was held in Bali in March 1991, Mahathir advanced his perception as follows: 'We see a situation today of a dramatic rise in the political, diplomatic and military clout of the US and a severe erosion in its economic position and welfare ... We can expect the application of that enhanced political, diplomatic and military clout to

¹¹ Other than the EAEC, Mahathir's efforts to create coalitions include, among others, the setting up of the South-South Commission in 1985, the establishing of the so-called Group of Fifteen developing countries to counterbalance the G 7 in 1989, Malaysia's advocacy of the interests of Third World countries with regard to environmental issues at the Earth Summit in Rio de Janeiro in 1992, and the Malaysian return to the meeting of the Commonwealth Heads of Government in 1987 (Saravanamuttu 1996, 2-9).

shore up the economic position and to enhance the US economic welfare' (*The Straits Times* 5 March 1991).

While this perception was not unique to Mahathir but rather common to other ASEAN leaders, they differed in their responses to the changed position of the US. These differences have been reflected in the ambivalent acceptance by the other ASEAN countries of the Malaysian proposal to build the EAEC.

5 ASEAN RESPONSES TO THE EAEC CONCEPT

Responses to the EAEC concept among other ASEAN member states swung from a cautious and ambivalent attitude at the initial stage to a positive one in having an East Asian regional cooperation arrangement based on an Asian approach. The momentum of the swing was given by their common experiences of success in dealing with the American version of regionalism in Asia-Pacific, the Asia-Pacific Economic Cooperation (APEC). Another factor that contributed to the rather positive reaction of ASEAN toward the EAEC proposal was the rising self-confidence of ASEAN member states as a prime mover in East Asia's role in the an emerging tripolar order in the global economy.

The original proposal by Malaysia's Prime Minister Mahathir of what would later become the EAEC concept was aiming at a regional trade bloc and thus was met with a cautious response from China¹² and blunt rejection by Singapore and Indonesia. At the same time, leading government officials of these countries also were indignant about the lack of consultation prior to Mahathir's announcement (Saravanamuttu 1996, 10–11). The government of Singapore soon changed its stance to supporting the proposal on the condition that the grouping should be consistent with GATT, compatible with APEC and should also enhance ASEAN's role. Moreover, to avoid further misunderstandings and to dissolve all resemblances to a trade bloc, Singapore proposed to name the grouping the East Asian Economic Group (EAEG). Indonesia, however, remained doubtful about the idea. This was partly caused by suspicions about ambitions by Malaysian Prime Minister Mahathir to take on a leadership role in ASEAN (Shima 1993, 36). However, the main reason for the negative reaction of the In-

¹² Chinese Prime Minister Li Peng, who was present when Mahathir first proposed the grouping, commented at the end of his official visit to Malaysia in December 1990 that 'such an economic cooperation would be useful, [however] it should be developed in a looser form (than a trade bloc)' (*New Straits Times* 14 December 1990).

Indonesian government was its preference for a global free trade regime, or for regional liberalization in Asia-Pacific as the second best alternative to closer cooperation in Southeast Asia or East Asia (Ariff 1994, 114).

After strenuous diplomatic efforts by Malaysia, the 23rd ASEAN Economic Ministers Meeting in October 1991 agreed to accept the EAEC as an ASEAN scheme after changing its name again from 'East Asian Economic Group' to 'East Asian Economic Caucus'. The ministers also agreed to establish the EAEC as a forum to discuss issues of common concerns to East Asia. However in January 1992, the Fourth ASEAN Summit, the highest decision making apparatus of the regional cooperation organization, shelved up the EAEC's official launch. While principally approving to the EAEC concept, the delegates referred the proposal to a Joint Consultative Meeting for further discussion. The ASEAN Ministerial Meeting in July 1992 followed suit by referring the proposal for further study to the ASEAN Secretary General, hence the prolonged process of institution-building of the EAEC.¹³

More serious reasons for the ambivalent attitude of ASEAN toward the EAEC concept than competition for regional leadership or strong preferences for an open trade regime in a wider region was the persistent opposition of the United States against the idea and the resulting undecided stance of the Japanese government over the issue.

In order to break deadlock in the protracted Uruguay Round negotiation of the GATT, the United States under President Bush tried to convert its trade policy from a policy line solely based on bilateral arrangements¹⁴ to a policy line based on both bilateral and regional arrangements. In North America, the US engaged in the establishment of the North America Free Trade Agreement (NAFTA) to broaden the free trade area from what was covered by the US-Canada Free Trade Agreement to a wider area including Mexico. With regard to Asia-Pacific, in 1989, the US government suggested an initiative to build a new mechanism for multilateral cooperation among the Pacific Rim nations (Asano 1994, 108). Because of these regional cooperation initiatives, America bluntly rejected the EAEC proposal in March 1991, denouncing the EAEC concept as intended to exclude the United States and to divide the

¹³ The principal approval of the EAEC at the 1992 ASEAN Summit was widely believed to be a 'face-saving' compromise for Malaysian Prime Minister Mahathir (Shima 1993, 45; MacIntyre 1997, 226). The study by the ASEAN Secretary General about appropriate modalities for setting up the EAEC has not been officially submitted to ASEAN (Ghazali 1994, 328).

¹⁴ In this context, bilateral measures denote the trade policies or trading practices implemented by the US on a country-by-country basis (Krueger 1996, 85).

Pacific into two parts¹⁵. Then Secretary of State James Baker sent a letter prior to the APEC Ministerial Meeting in Seoul in November 1991 in which he requested that the Japanese government opposed the proposal.

Faced with strong opposition from the United States, the Japanese government, demonstrating an acceptance of a Post Cold War regional order in Asia-Pacific under the sole hegemony of the United States, deferred making a decision whether it should commit itself to the EAEC or not. Official Japanese government statements at that time only requested that ASEAN kept the membership of the EAEC open to other member economies of APEC, or asked for more clarification about the concept from ASEAN. These actions can be seen as intended earn time for Japan and ASEAN to transform the EAEC concept into a more accommodating one for an emerging hegemonic order fostering stability in the Asia-Pacific region. Thus, Indonesia led discussions at the Fourth ASEAN Summit in 1992 to shelve the EAEC concept (Shima 1993, 42). It was said that Indonesian President Suharto attempted to exclude the EAEC proposal from the Summit agenda, claiming that it did not make sense to discuss the security and political issues of ASEAN without the presence of the United States in the region (Kitamura 1992, 7).

At its Fourth Summit in Singapore in January 1992, ASEAN responded to the prospect of rising discriminatory regionalism in the West by launching the ASEAN Free Trade Area scheme. This scheme originally aimed at establishing a free trade area covering the ASEAN region. It was set into effect with the introduction of the so-called Common Effective Preferential Tariff (CEPT) system which was intended to bring down tariffs for manufactured goods produced in the region to 0–5% within 15 years, starting from 1 January 1993. The completion date of the scheme was moved up five years in 1994. Further, the scope of intra-regional trade that was to be liberalized was expanded to agricultural products in 1994 and to services in 1996.¹⁶ The emerging EU and NAFTA, together with the strong absorption capacity of China, were likely to steer away the flow of

¹⁵ At the above mentioned international seminar in Bali in March 1991, the US ambassador to Japan gave a comment in which he officially rejected the idea. This was the first official statement by the US government about the EAEC since Malaysian Prime Minister Mahathir proposed the grouping four months earlier (*Asahi Shinbun* 6 March 1991).

¹⁶ For more detailed information about the AFTA scheme, see for example Menon (1996). The ASEAN Secretariat also published a series of so-called 'AFTA Readers' (see for example ASEAN Secretariat 1996) that address current issues related with the AFTA scheme. Among the 15 product groups included in the fast track of the AFTA scheme, copper cathodes, for example, ended up to be included in one group with products such as vegetable oil or cement. This suggests that the

foreign direct investment from the ASEAN countries. The AFTA scheme was thus conceived to provide foreign direct investment with common incentives for the region such as scale merits of their production. As Ariff (1994, 113) put it, 'AFTA should not be seen as an instrument that will increase intra-regional trade but as a catalyst ... that would render the ASEAN region attractive for foreign investments'. The AFTA scheme can therefore be seen as a representation of the 'open regionalism' of the ASEAN. It was aiming at expanding production capacity, but it did not serve as an instrument to strengthen their voice in multilateral fora or within discussions about the global trade regime.

ASEAN member countries became concerned with the fact that the developed West was monopolizing the rule-making power in the prolonged Uruguay Round while at the same time the voices of developing countries were disregarded. Another matter of ASEAN concern was that ASEAN was too small in size to exert influence in matters of global trade and that its economic dynamism highly relied on the wider Asia-Pacific region (Ariff 1994, 114). In the eyes of at least some of the political leaders of ASEAN, a realization of the EAEC proposal would secure ASEAN a greater voice in international consultations¹⁷ and also provide it with 'a "safety net" in the event of any Western domination at the APEC level' (Ariff 1994, 114). Hence, the 1992 ASEAN Summit kept the EAEC concept alive (Shima 1993, 45–6) although it was overshadowed by the high profile of APEC (Higgott and Stubbs 1995, 522).

International attention was drawn again to the EAEC in July 1993, when the newly elected president of the United States, Bill Clinton, initiated the transformation of APEC from a loosely binding organization to a forum for regional trade negotiations. He called the first informal meeting of APEC economic leaders in Seattle in November 1993 and requested the preceding Ministerial Meeting to adopt a framework agreement on trade and investment within the region. Not only the governments of the ASEAN member states, but also political leaders of East Asian developing countries reacted with concern to the American version of 'open regionalism' brought forward in these meetings. The US claimed the same level

implementation of the scheme was decided without sufficient discussion among the ASEAN member countries (Azahari 1993, 52).

¹⁷ The Prime Minister of Singapore, Goh Chok Tong, said that 'by being part of a big team like the EAEC and APEC, ASEAN can play with other world class teams in the same league' (*New Straits Times* 5 March 1991). Malaysian Prime Minister Mahathir made a similar remark: 'If ASEAN is to have a bigger say in the trade negotiations internationally, then it must work together with the East Asian countries' (*The Straits Times* 8 October 1991).

of openness of markets and the same 'fairness' in terms of industrial policies, human rights, labor policies and environmental standards for APEC member states as those in the United States, but at the same time disregarded the disparities in the levels of development.

In response to the diplomatic offensive of the US to promote APEC, the ASEAN Ministerial Meeting in July 1993 agreed, on the one hand, to take the EAEC concept out of its stock of reserved schemes and to establish it as a caucus within APEC that should receive support and direction from ASEAN Economic Ministerial Meetings. It can be argued that taking this decision, the ASEAN member states had taken the potential role of the EAEC as a safety net within APEC in to account. On the other hand, the ASEAN Ministerial Meeting also decided to accelerate the AFTA scheme. In October 1993, the ASEAN Economic Ministerial Meeting agreed to establish the EAEC as a forum to be held when the need arises. It should discuss problems of common concern to all ASEAN member states, and its membership should consist only of the East Asian member countries of APEC, namely the ASEAN member states¹⁸ plus China, Japan and South Korea.

The efforts of ASEAN to create the EAEC as a caucus within the supra-regional regime for trade negotiation, APEC, brought about the so-called working lunch attended by the foreign ministers of the potential EAEC members. It was introduced in 1994 and has been held annually since 1994, when it started as an interlude between the ASEAN Regional Forum and the Post Ministerial Conference. However, even given such regular meetings, the institution-building of the EAEC was far behind that of APEC. Even after a decision about trade liberalization by the year 2010 (by the year 2020 for developing members) was reached at the 1994 APEC Summit in Jakarta, the ASEAN Economic Ministers failed to invite their counterparts from their potential EAEC colleagues China, Korea, and Japan to their following retreat meeting in Pattaya in April 1995.¹⁹ The ASEAN Economic Ministers Meeting only agreed that ASEAN should assume its role as the core of APEC in the preparatory process of the Action Agenda of the Ōsaka Summit in 1995.

¹⁸ At that time, ASEAN consisted of six member states, namely Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

¹⁹ The Japanese government had made the presence of the economic ministers from Australia and New Zealand a pre-condition for its participation in the meeting. This conditionality of Japan's presence at the ASEAN Economic Ministers Meeting (AEM) was protested by Malaysian Prime Minister Mahathir who criticized the Japanese position as giving an impression of great-power chauvinism (*Yomiuri Shinbun* 1 April 1995). As a consequence, Japan, China and South Korea were not invited to the AEM in Pattaya.

Since the very beginning of the APEC process, ASEAN had insisted on 'an Asian approach to regional cooperation built on consensus building and "hearts and minds" elite bonding at the expense of ... legalism, form and contractual obligation' (Higgott and Stubbs 1995, 522). Their approach was justified, as Ariff (1995, 185) put it after examining the ASEAN and NAFTA experiments; 'informal arrangements work better than formal ones ... institutionalization can cause rigidities of sorts, raise transaction costs, and entail increased budgetary allocations'. In this way ASEAN, together with other East Asian developing members of APEC, demanded that a unilateral and voluntary approach should be adopted in the trade and investment liberalization of APEC.²⁰ In response to their demand, Japan as the host country of the 1995 APEC Summit Meeting in Ōsaka, contrived a so-called 'concerted unilateral approach' that was supposed to persuade the United States which insisted on a more rigid and legally binding approach towards trade liberalization.

It might not be an exaggeration to say that the sustained efforts inside and outside of APEC that were taken by the East Asian APEC members produced substantial results at the APEC Summit in Ōsaka. Concerted unilateral actions as proposed by Japan were introduced in the APEC Ōsaka Action Agenda in line with collective actions (APEC 1995). The principles of 'flexibility' and 'non-discrimination' (not only among APEC economies, but also against non-APEC economies) were adopted as part of the nine general principles to guide the action plans for liberalization and facilitation. Among them, the principle of flexibility is intended to ensure that enough consideration will be given to issues arising from different levels of development and from practices unique to the respective developing member economies. The recognition of such uniqueness shall further lead to non-intervention by other APEC member economies, whether developed or developing, into the development management and practices of the respective members.

Based on these common experiences and achievements in the APEC process and further stimulated by the first, though informal, meeting of the ASEAN Economic Ministers with their counterparts of other potential EAEC members on the occasion of the 1995 APEC Ōsaka Summit, the institution-building of the EAEC gained momentum. The fifth ASEAN Summit in January 1995 agreed to hold the first informal ASEAN summit in 1996 and to discuss the ASEAN Mekong River Basin Development Co-

²⁰ Noordin Sopiee, the then representative of Malaysia in the APEC Eminent Persons' Group, claimed that trade liberalization within the region should be based on 'peer pressure' and should proceed on an open time table (*Far Eastern Economic Review* 15 September 1994).

operation scheme (AMDC) as one of the topics on its agenda. After the meeting, the Prime Minister of Singapore, Goh Chok Tong, who had proposed the scheme, suggested that the leaders of the non-ASEAN potential EAEC members should also be invited to exchange views about the AMDC at the following Non-Official Summit to be held December 1996.

Another important development that further helped realizing the EAEC was the make-up of the Asian delegation for the first Asia-Europe Meeting (ASEM) held in Bangkok in March 1996. The countries that represented Asia at this forum were identical to the potential EAEC members. For the purpose of this article, four implications of the ASEM meeting for the development of regionalism in East Asia have to be noted:

First, at the ASEM meeting, the heads of state of all potential EAEC members 'met together in the absence of the USA' for the first time (MacIntyre 1997, 233). It was not the United States, but the European Union that thus recognized East Asia as a regional entity. At that time, there did not exist any other relevant configuration of Asian states than the potential members of the EAEC that could represent an Asian voice in the inter-regional dialogue. The recognition of this fact by the EU provided the impetus for the launch of the EAEC or another regional grouping formed by the same member countries. Such an EAEC-like arrangement could be established under the guidance of ASEAN, outside of APEC, and did not need the recognition of the United States.

Second, the ASEM summit was held under the condition that politically sensitive issues like the situation in East Timor or the respect of human rights in Myanmar were excluded from its agenda. Referring to this strategy in his closing remarks as the Chairman of the meeting, Thai Prime Minister Banhan emphasized that the dialogue among the participating countries should be conducted on the basis of non-intervention, whether direct or indirect, in each other's internal affairs. The delegations present at the ASEM meeting also declared that follow up actions would have to be consensual. Thus, the Asian approach to regional cooperation that is based on utmost respect for the sovereignty of the member countries and on consensus building was recognized as a working principle of the inter-regional cooperation between Europe and Asia.

Third, Thai Premier Banhan referred in his opening address and again in his closing remarks to the emergence of a new tripolar order, including Europe, the US and Asia. He stated that 'we will create the linkage of the tripartite economic centers of Europe, America, and Asia so as to help promote economic development, peace, and stability in the world' (*Foreign Broadcast Information Service Daily Report: East Asia* 4 March 1996). These remarks and the success of the ASEM meeting generated a new feeling of self-confidence among ASEAN members. This new self-confidence was,

for example, expressed in the Seventh Malaysia Plan (1996–2000) which stated that ‘as a result of recent rapid growth of the East Asian countries of between 6.5 to 7.5% compared with the 2.5 to 3.0% growth in Europe and the US, the East Asian region has now reached parity with Western Europe and North America, leading to the emergence of a tripolar world’ (Malaysia 1996, 49). Although such statements had a strong bias toward the creation of a production bloc aimed at the world market,²¹ they led to further political integration in pursuing the enlargement of ASEAN to now ten member states (ASEAN 10).

Fourth, despite the fact that the above mentioned factors suggested the de facto establishment of an EAEC-like regional cooperation arrangement, the EAEC concept was never officially mentioned throughout the first ASEM meeting. As Malaysian Prime Minister Mahathir stated prior to the meeting, ‘although it is not an EAEC yet, we will be working closely with East Asian countries in the EU meeting’ (*The Star* 16 December 1995). It seemed that the lack of a positive labeling of the EAEC at the ASEM meeting was not only caused by the refusal of other APEC members to recognize the caucus. Another reason was certainly the lack of consensus among the member states of ASEAN over the prospect and direction of regional integration based on the EAEC concept.

While the pendulum of regionalism in East Asia swung from APEC to EAEC as a consequence of the ASEM meeting, the ASEAN members with the exception of Malaysia also became rather complacent about a regional cooperation arrangement that would lead to another kind of EAEC. They were aiming at a grouping through which they could not only ensure the consensual process of regional integration, but also accommodate diplomatic concerns of Japan and guarantee a future military presence of the United States.

6 THE EXPECTED ROLE OF JAPAN

The EAEC concept was not defined any better than the expected role of Japan contained therein. According to Noordin Sopiee (1991), and advisor to Malaysian Prime Minister Mahathir and former representative of Malaysia within the APEC Eminent Persons’ Group, the EAEC has three aims. These are to enhance the prospects of the successful conclusion of the Uruguay Round of the GATT, to marshal and magnify the voice of the intensely trade-dependent East Asian nations in international trade negotiations, and to promote a greater East Asian economic cooperation. As Ja-

²¹ See also section 3 of this paper.

pan has a critical interest in these three objectives as well, Sopheer seemed to suggest that it was only natural for Japan to play a leading role in EAEC. In 1994, Malaysian Prime Minister Mahathir further defined the objective of the EAEC as an enterprise to build an East Asian community of cooperative peace and prosperity 'in which the giants of our region – China, Japan, and Indonesia – shall have their rightful place, discharging their rightful responsibilities' (cited in Sopheer 1997).

The very idea of having Japan as an essential leader in initiating the EAEC process immediately aroused fear of Japanese economic dominance in East Asia not only among ASEAN member states, but also in the US. In order to dismiss such concerns, Malaysian Prime Minister Mahathir pointed out in 1992 that mutual checks among Japan, China, South Korea, and ASEAN would effectively reduce such a risk (Saravanamuttu 1996, 6). The politico-economic balance of power in East Asia required both Japan and China to participate in the EAEC. The promoters of the EAEC concept intended that Japan's role in the EAEC would be determined by a concentration on economic activities and that it would also counter-balance China which still keeps the option of both economic and military leadership in the region. In this sense, the Singapore Prime Minister Goh Chok Tong stated that an EAEC without Japan would be meaningless (*New Straits Times* 17 February 1995).

A more serious concern that was raised with regard to the EAEC proposal was the possibility that the EAEC might cause a political separation of East Asia from the United States and might result in the fact that the East Asian countries lose their sole guarantor and arbiter of peace, security and stability. Both Singapore and Indonesia seemingly held the perception that an American presence in the region is essential for the continuation of the international order in East Asia. Therefore, they claimed that the EAEC should be compatible with APEC. The above concerns also led to a view that 'the idea of an EAEC can only make sense if it is considered as part of the whole, namely as a caucus within the APEC' (Wanandi 1997, 47–8). Singapore and Indonesia thus expected that Japan would have remained a sub-leader under the sole hegemony of the United States in the region.

While Malaysia accepted the general idea that the EAEC should be compatible with and should be established as a caucus within APEC, Malaysian Prime Minister Mahathir expressed his doubts about whether US military presence in Asia would efficiently guarantee regional security. His view struck a rare sympathetic cord in his long-time critic, academic-social activist Chandra Muzaffar (1992, 8–12) who commented in the following way: 'The US is after territorial, economic, political and cultural hegemony ... the US has relentlessly opposed the EAEC, arrogantly not

allowing East Asians even to call themselves East Asian ... the security of East Asia should be looked after by East Asians, not by the American god-father ... The time has come to turn swords into plough shares by East Asians for East Asians ... [Mahathir's] EAEC proposal is worthy and timely of support by all East Asians'.

It is significant to note that a Japanese participation in the EAEC, if it materialized, could bring about a substantial change in its security alliance with the United States and make the American military presence in the region meaningless.²² This situation, however, could only develop if the governments of Malaysia's East Asian neighbors accepted Mahathir's repeated claim that economic cooperation alone was the best way to attain stability through prosperity in the region. In Mahathir's opinion, the costs to prevent war by building up military forces are so high that it was much more economical for East Asian nations to concentrate their resources on economic activities and to accumulate enough wealth to convince any militarist country to follow suit. This is especially true in the post-Cold War era (Mahathir 1996, 3–4).

In the scenario preferred by Mahathir, Japan is not expected to play the role of a full-fledged hegemon in the region. As an economic power, it is rather supposed to promote symmetric economic interdependence in the region²³ and to provide international public goods. The role of a leading economic power also involves that Japan takes the risks and burdens the costs arising from its leadership.

In doing so, as an economic power without the military clout to impose its will, Japan will have to rely on consensus building among the fellow states in the region. Hence the nature of Japanese leadership as it is defined in the EAEC proposal is best described as 'first among equals'. This type of leadership stands in sharp contrast to the sub-leadership role as a dependent on the hegemony of the United States that is expected from Japan by at least two ASEAN countries, *i.e.* Singapore and Indonesia. It also is the reason why China and Korea reacted warily to the EAEC concept (Heng 1995). These differences among East Asian states over the ex-

²² Malaysian Prime Minister Mahathir clearly expressed his doubts about the efficiency of US guarantees for regional and Malaysian security (*Yomiuri Shinbun* 1 April 1995). On the other hand, however, he also pointed out that Japan's special relationship with the US did not at all contradict the EAEC concept (*Yomiuri Shinbun* 5 April 1995).

²³ Given the disparity of economic development among Asian countries, the benefits from economic interdependence are spread asymmetrically and aggravate inequalities among them. The leading economic power in the region is thus expected to provide international public goods that help to make interdependence symmetrical (Kimura 1995).

pected role of Japan certainly hindered them from accepting the EAEC concept and from building a corresponding regional identity.

As analyzed in section four of this chapter, the EAEC concept was based on the political will of Malaysian Prime Minister Mahathir to establish a cooperative regional development path unique to East Asian societies. It was his intention to use evolving networks of Asian multinational corporations and also overseas Chinese networks, while at the same time providing a stable framework of politics and society that was based on Asian values and a consensual decision-making approach. In Mahathir's view, the predominance of society over individuals and consensus building are, among others, the core of so-called 'Asian values' and of a particular 'Asian way' of politics. Using these uniquely 'Asian' ways, his intention was to promote a specific Asian way of development that drew on his concept of a 'Look East Policy' and, in a wider perspective, on common historical experiences of the East Asian countries. Higgott and Stubbs (1995, 525) claim that the 'colonial aspirations of Japan' provided East Asian states with a model for 'state-directed development', and that the exercise of American hegemony and the imperatives of the Cold War created strong, centralized states. In their view, the dynamism of the Japanese economy brought about the economic success of the East Asian countries, and the Plaza Accord was accompanied with the benefit of Japanese foreign direct investment to them. Hence, they state that 'this common experience has tended to reinforce a perception of shared attitudes and values across these countries'. However, it has to be said that the argument of common experiences does not necessarily entail the demand for a Japanese leadership role in Asia.

At the time when the EAEC was proposed, the memory of Japanese war atrocities committed during the days of the so-called 'Greater East Asia Co-Prosperty Sphere' rather aroused suspicions about Japan's intentions. In December 1991, for example, Singaporean Senior Minister Lee Kuan Yew quipped in an interview that 'allowing Japan to once again send its force abroad is like giving chocolate liqueur to an alcoholic' (*New Straits Times* 15 December 1991). Lee further said that these concerns were the reason why the United States should keep their military presence in Asia. In his view, it was the role of the US to hold Japan within a security framework that let it concentrate on economic activities. This was the only way to ensure open global economic integration. Regarding his cautious view of Japanese leadership, it is worth noting that it was Lee who at the end of the 1970s, when he was still the Prime Minister of Singapore, initiated a campaign to 'learn from Japanese experiences' in order to utilize Japanese business practices and patterns of industrial relations for the economic development of Singapore. Through this campaign, Lee seems

to attribute both Japanese military failure and its economic success to a common root: its somewhat conformist value system.

The above mentioned cautious view about potential Japanese military ambitions over the region is still held by many political leaders in Asia, not only from Singapore, but from almost all potential EAEC members except Malaysia. Most regional political leaders rather prefer a Japanese sub-leadership role in the region that is checked by the United States. In other words, they are rather interested in preserving the current system of Japan–US security relations that has been built up since the 1960s and that was carried over into the post-Cold War era. The Japanese position within this system is best characterized with the term ‘leadership from behind’ (Rix 1995). It has best become visible in Japanese official development aid (ODA) policy which is subject to requests from recipients and emphasizes the need for them to take the initiative in solving their own problems. Based on this principle of request and assistance provided on a bilateral basis, Japans Ministry of International Trade and Industry (MITI) began in the mid-1980s to provide ASEAN countries with advice for their export orientated industrialization plans. In this context, the Japanese role as a moderator and consensus builder as it was shown in its self-presentation as host of the 1995 APEC Summit in Ōsaka was very important. It was this self-presentation that finally made the government of Singapore propose the EAEC-like arrangement that was examined in the preceding section.

Since the end of the 1980s, the expectations ASEAN member countries had towards the Japanese role in the region changed significantly. ASEAN countries closely watched the 1989–1990 Structural Impediments Initiative (SII) talks between Japan and the US. For ASEAN governments, but also for many Japanese observers, these talks constituted a hegemonic intervention from the United States into internal economic practices of Japan such as its high propensity for savings, the expensive land prices in Japan, its complex distribution system and so on. At the same time, the establishment of a discriminatory regional trade regime in the North American Free Trade Agreement (NAFTA), did not only cause cautious responses among ASEAN countries (as was shown in the preceding sections), but let to a rise of ‘neo-Asianism’ in Japan.²⁴ Given this background, the EAEC idea was met with a more positive echo in East Asia as a whole. Since this resonance to the EAEC concept is basically emotional in nature, to pursue the ideas of ‘neo-Asianism’, Japan would be required to clearly define its identity as an Asian state and to make the decision whether and how it would reduce its dependence on the security frame-

²⁴ See also the chapter by Blechinger in this volume.

work provided by the United States. In this sense, the EAEC idea is closely linked to the expectation that Japan, as an economic power, changes its leadership style from a 'leadership from behind' to a 'leadership from the front'.

In conclusion to this section, it has to be noted that there exist two types of roles expected from Japan. It can be said that the expectations of the Asian countries have swung between them. One is the role of Japan as a regional sub-leader under the sole hegemony of the United States. This role includes the strong possibility of US intervention into the internal affairs of the various Asian countries. On the other hand, there also is the role of Japan as an economic power in the region without military clout. The demands towards a possible leadership role for Japan in this scenario are based on a consensus building approach and on emotional resonance to Asian identity building. Fundamental to both, however, is the base line that Japan should concentrate on economic activities in order to promote regional integration.

7 CONCLUSION: WAS THE EAEC CONCEPT INEFFECTIVE IN THE ASIAN FINANCIAL CRISIS?

In December 1995, Malaysian Minister for International Trade and Industry Rafidah Aziz reportedly stated that while the EAEC had already started on an informal basis and could be launched without Japan, ASEAN would delay this launch out of a preference for a more formalized ministerial level that guaranteed an overall view (*The Star* 13 December 1995). In May 1996, two months after the first ASEM meeting, Malaysian Prime Minister Mahathir, in looking back at the history of the EAEC proposal, quoted Shakespeare's 'Romeo and Juliet': 'What's in a name? That which we call a rose/By any other name would smell as sweet.' With these words, Mahathir alluded to the fact that the EAEC or an EAEC-like regional arrangement was already in place, however, it did not explicitly refer to the original EAEC concept proposed by Mahathir in 1990.

In this context, it is worth noting that, over the last years, the way ASEAN member governments perceived the process of institutionalization of the EAEC has changed. The press statements of the annual ASEAN Ministerial Meetings between 1991 and 1997 show, in one small clause, that the EAEC concept came nearer to its realization year by year. In December 1997, the first de facto informal summit meeting of EAEC member states was held in the context of the second ASEAN Informal Summit Meeting hosted by Malaysia. However, the press statement about the meeting never mentioned the EAEC by name. Even the clause about the

ASEAN Mekong Basin Development Cooperation scheme, which seemed to imply that the EAEC was expected to play a critical role only referred to the fact that the nine heads of government present at the meeting discussed the status of the project. Finally, the press statement of the ASEAN Ministerial Meeting in July 1998 did not even in one clause refer to the EAEC concept. Henceforth, it is argued here that the EAEC has reached a stage of institutionalization that allowed *de facto* EAEC summit meetings to be held. However, the grouping is far away from achieving its objective of becoming a forum within APEC that discusses and seeks consensus about problems of common concern and that is called whenever the need arises. Before ASEAN could move to this next step, the Asian financial crisis forced a standstill in the institutionalization of the EAEC.

The Asian financial crisis could have provided an opportunity for the EAEC to become more legitimate and to address an urgent and most relevant task: solving the crisis that started in Thailand in May 1997 and spread all over East Asia in the following few months. But the EAEC never surfaced to play its role as a trouble shooter. Why did this standstill in the EAEC process take place? The reason might be related to the aborted Japanese plan to establish an Asian Monetary Fund (AMF). The proposal to set up the Asian Monetary Fund was made during a meeting of the finance ministers of the ASEAN 7 and Japan at the occasion of the first Finance Ministers Meeting of ASEM that took place on 18–19 September 1997.²⁵ Then Japanese Minister of Finance, Mitsuzuka Hiroshi, presented it to the Finance Ministers' Meeting of the G7 (involving the minister of finance and the heads of the central banks of all seven member countries) on 20 September 1997. The proposal aimed at the institutionalization of a currency stabilization fund directed only at Asian countries and financed by, among others, ASEAN, Japan, the US and Australia. Under conditions different from those of the IMF, the fund would have provided immediate financial relief to the East Asian economies perceived by Asian leaders as having fallen victim, through no fault of their own, to attacks by speculators. In addition to setting up a relief fund, it was intended to create a regional financial monitoring system on a mutual basis that was intended to prevent further financial crises. Looking at the countries mentioned in the proposal, and also at the character of the AMF as a fund that should work independently from the IMF and only give financial relief to Asian countries, one can say that the AMF proposal was conceived within the framework of a *de facto* EAEC, even if it was never explicitly stated.

²⁵ Laos and Myanmar were excluded from ASEM although they were admitted as new ASEAN members in 1997.

After a debate in which the Japanese government presented itself in a rather ambivalent way, the US and the IMF showed strong opposition while the ASEAN countries lingered and could not find a common path of action, the AMF proposal was finally aborted at high-level political and financial talks between the US, Southeast Asian countries and Japan in Manila on 18 November 1997. It is important to note that the Japanese Minister of Finance, Mitsuuzuka, had changed his position after the G7 Meeting on 20 September. While he had acted as a leading promoter of the AMF idea until then, he abandoned this position after the G7 meeting and resolved to non-committal statements. The Japanese government was torn between the questions of whether to follow the leadership of the IMF or whether to give priority to a prompt relief for the East Asian countries hit by the crisis. Internally split, it could not come to a unanimous decision and thus failed to show the leadership that the countries of Southeast Asia had expected (*The Asian Wall Street Journal* 6 November 1997).

After solving the 1995 Mexican financial crisis, a US Senate resolution on financial relief measures imposed severe restrictions on the US administration which had unilaterally intervened. Therefore, the US government feared that in a situation where it could not provide financial assistance itself, a realization of the AMF would lead to a decrease of its leadership in Asia while at the same time an economic bloc in Asia under Japanese leadership could develop. Moreover, from the perspective of the US government that was interested in the promotion of international financial liberalization, there also was the strong suspicion that the financial relief that the AMF was aiming to provide and that was based on looser standards than the IMF loans would increase the moral hazard on the side of the borrower. This could lead to a delay in the recovery from financial crises and at the same time weaken the international financial system under the control of the IMF (*Far Eastern Economic Review* 6 November 1997). Consequently, the US, represented by Finance Minister Robert Rubin and his deputy Lawrence Summers increased their persuasive efforts towards Japan and the Southeast Asian countries in late October 1997. They finally succeeded when an agreement was reached at the Manila meeting to abort the AMF proposal. The Manila Framework aimed at the creation of a mutual regional monitoring body under the leadership of the IMF that should prevent future financial crises. The AMF idea of a monetary fund for crisis relief was aborted, and instead, an agreement was reached to initiate talks about a credit mechanism that should be set up by the IMF in times of crisis.²⁶ This mechanism was accepted at the

²⁶ This mechanism should be a drawdown credit mechanism instead of a standing credit facility which required advance collection of funds from members.

APEC Summit in Vancouver on 24–25 November 1997 as an APEC framework for the recovery from financial crises.

On the other hand, among ASEAN member states, there was initially active support for the AMF idea. This support came from Thailand which distrusted the US government after it did not take part in the August 1997 relief measures of the IMF for Thailand. Support also came from the Philippines which asked for immediate financial relief, and from Malaysia that called for a prohibition of international currency speculation. However, Thailand and the Philippines gave in to US and IMF persuasion and took a position that opposed the AMF as an institution largely independent from the IMF. Moreover, from the beginning of the crisis, Malaysian Prime Minister Mahathir repeatedly criticized international currency speculation and demanded its prohibition. With these statements, he did not only invite criticism from the markets, but it could also be said that his provocations did not only threaten the Malaysian currency, but were also one factor that led directly to the depreciation of the currencies of Thailand, the Philippines, Singapore, and Indonesia. As a consequence, the majority of ASEAN countries decided to follow the Singaporean position to search recovery from the financial crisis through a thorough liberalization of their financial markets under the guidance of the IMF, and Malaysian Prime Minister Mahathir lost a lot of his influence within ASEAN.

Malaysia took part in the relief efforts for Thailand in August 1997 and for Indonesia in October 1997. By doing so, it intended to show that Asia had the power to recover from the Asian financial crisis on its own merits and with the help of regional cooperation. However, one can also argue that this was another strategy to get over the isolation resulting from the weak Japanese leadership role on the one hand and the criticism from fellow ASEAN countries about the public statements Mahathir had made. On the occasion of the G 15 meeting²⁷ that was hosted by Malaysia in November 1997, Prime Minister Mahathir reiterated his demand that regulation about speculation and a new mechanism for international currency stability should be introduced in international financial systems. Mahathir also made a similar proposal at the informal ASEAN Summit Meeting in Kuala Lumpur in December 1997 that was de facto an EAEC Summit. There, he proposed a regional trade plan that should not be settled in US dollars, but in Asian currencies. However, this plan failed to make

²⁷ The G 15 meeting is a brainchild of Malaysian Prime Minister Mahathir. It was established in 1989 as a group of developing countries to counterbalance the G 7. The members of the G 15 are Algeria, Argentina, Brazil, Chile, Egypt, Indonesia, India, Jamaica, Mexico, Nigeria, Peru, Senegal, Venezuela, Zimbabwe, and Kenya that was admitted in November 1997.

enough impact within ASEAN and could not receive active support from the organization.

If we assume that there was an EAEC scenario behind the AMF proposal, the failure of the AMF means that regionalism in East Asia swung again from an East Asian identity as it was contained in the EAEC proposal to an Asia-Pacific identity as promoted by the US and as represented by APEC. Interestingly, Malaysian Prime Minister Mahathir replied to a reporter's question in an interview that he preferred ASEAN cooperation for the solution of the Asian financial crisis to an EAEC framework, because it would not be easy to achieve an understanding among EAEC members as each country had its own stance (*The Star* 14 January 1998). The reality is that any consensus even among ASEAN member countries became difficult to attain. Most ASEAN governments were preoccupied with domestic affairs, and thus the organization was far from considering an Asian solution for the financial crisis or for the prevention of future similar scenarios.

In conclusion, the concept of the EAEC seems to have been most relevant for days of sustained and rapid economic growth in the region. The pendulum of regionalism in Asia is therefore likely to swing back to this idea and to the building of an Asia-only regional identity only when East Asian economies regain their growth momentum which is in turn likely to derive from the ever transforming networks of production blocs. For now, realization of the EAEC is difficult to develop further, and complicated by the continuation of the regional hegemony of the United States and persistent Japanese 'followership' in the region.

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