



The 12th ASEAN ISIS-IIR Taiwan Dialogue

Post-Global and EU Financial Crisis: Opportunities and Challenges for East Asia
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Growth Strategies for East Asia following the Global and EU Financial Crisis

Session One saw **Dr. Hank Lim**, Senior Research Fellow speak on the topic of Growth Strategies for East Asia Following the Global and EU Financial Crisis, while **Kristy Hsu** of Chung Hua Institute for Economic Research, Taiwan, spoke on Taiwan's Perspective on the Trans Pacific Partnership (TPP): Exploring the Realization of Open Regionalism. **Veena Loh**, Senior ISIS Fellow, reports.

Background

Dr Hank Lim said that the global financial and economic crisis of 2008-09 and the current EU financial crisis have shifted the global economic centre of gravity to East Asia. This structural change has resulted in the establishment of G-20 to replace the G-7 as the world's premier economic forum to oversee and chart the global economic landscape. Among the G-20 members, six, namely China, Japan, Korea, Indonesia, India and Australia are East Asia Summit (EAS) members.

After two years of severe global economic crisis, the world economy is still experiencing instability and weak recovery due to massive public debt, severe unemployment, and structural imbalances in the US and the EU, exacerbated by exchange rate instability. On the other hand, rapid economic growth continues in China, India and the Asean economies.

But economic dynamism in East Asia is not sustainable unless this region re-balances its growth strategy through macroeconomic policy and structural reforms that will gradually unwind imbalances and raise potential output through inclusive growth, innovative growth, sustainable growth, and secure growth strategies.

East Asia's potential success in realizing the five growth strategies is critically dependent on its evolving regional economic cooperation and integration. Without widening and deepening its



Hank Lim and Thitinan Pongsudhirak

economic integration, sustainable high growth in the region and its consequent impact on the world economy would be more difficult and uncertain. Higher and dynamic growth provides opportunities for East Asia to fulfil its vast economic potential of being the engine of world economic growth and at the same time, to narrow the development gap in the region.

Though East Asia has initiated and completed regional, sub-regional and bilateral Free Trade Agreements (FTAs), the trade and investment impacts have not been positively large, mainly due to the overlapping and the duplication of FTAs of different levels and scopes, often referred to as the 'noodle-bowl' syndrome. How East Asia can meet the challenge of bringing together these overlapping regional, sub-regional and individual FTAs into a cohesive, integrated,

seamless and borderless market is the primary issue, and one of utmost importance to regional policy-makers.

The proliferation of FTAs in the region results not so much in trade creation as trade distortion. Further efforts taken by East Asian countries toward economic integration have resulted in the conclusion of 'Asean+1.' Asean has concluded FTAs with China, Japan, Korea, Australia, New Zealand and India (on Trade in Goods).

At the same time, Asean has implemented the Asean Economic Community (AEC) Blueprint, with the goal of turning Asean into the following: a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy – all within the time frame of 2015 for Asean-6, and later for Asean-4.

The severe global economic crisis of 2008-09 and its aftermath have adversely affected the region, especially economies that are export-dependent and externally-driven. Since late 2009, East Asia has steadily recovered, propelled by the continued rapid growth of China and India. East Asia has higher intra-regional trade than Nafta had in 2007 but mostly in intermediate inputs, rather than in final products. Therefore, East Asian countries must re-balance their development strategy by increasing aggregate regional final demand in goods and services, and promoting intra-regional investment.

East Asia is confronted with enormous opportunities and challenges in becoming an engine of growth for the world economy

In addition, the region has enormous savings and accumulated foreign exchange reserves which can be used to promote, in the region, investment opportunities, through more effective monetary and financial cooperation, as embodied in the Chiang Mai Initiative (CMI).

East Asia is confronted with enormous opportunities and challenges in becoming an engine of growth for the world economy. The future and evolving shape of East Asian integration would determine how much of that economic potential can become an economic reality.

Framework, Scope and Mechanism for Regional Integration

Theoretically, an effective Regional Trade Agreement (RTA) should create a significant enough positive welfare effect on all participating member countries, and should result in equitably distributed gains from free trade between members.

Next, what are the conditions needed for sustainability?

An RTA should create enough static and dynamic effects on world welfare to ensure non-discriminatory global free trade.

So far, quantitative studies on RTAs in East Asia have not examined whether the existing RTAs will be viable in the long run in a globalizing world.

At the 12th Consultation between Asean Economic Ministers and Ministers from China, Japan and Korea, in Bangkok on 15 August 2009, the ministers re-affirmed the importance of the contribution of these Asean+1 arrangements to the realization of the overall objective of integrating the economies of Southeast and Northeast Asia.

The Asean+3 Ministers agreed to recommend to the Leaders that senior officials discuss and

consider the recommendations of Phase I and Phase II of the East Asia Free Trade Area (EAFTA) Study and submit their recommendations on when and how to establish working groups on Rules of Origin (ROO), tariff nomenclature, customs-related issues and economic cooperation. Following this ministerial recommendation, four working groups have been established and discussions have started.

The ministers also agreed that the crisis should be turned into an opportunity for expanding intra-regional trade and investment by providing trade facilitation and liberalization among Asean+3 countries, thereby raising the competitiveness of the region as a whole, and providing strong support for the development of SMEs to instil vigour into the regional economy.

There has been a notable continuing progress in the implementation of economic cooperation projects covering a wide range of areas, including standards and quality conformity, information and communication technology (ICT) and customs cooperation.

The Track Two Study Group on Comprehensive Economic Partnership for East Asia (CEPEA) completed its study on 20 June 2008 and submitted the report to EAS Economic Ministers.

The objectives of CEPEA are the deepening of economic integration, the narrowing of development gaps and the achievement of sustainable development. Its structure consists of the three pillars: economic cooperation, facilitation of trade and investment, and liberalization of trade and investment.

Specific collective actions are in areas such as the environment, energy, logistics and facilitation issues covered by the AEC Blueprint. Institutions such as the Asean Secretariat, Economic Research Institutes for Asean and East Asia (ERIA) and the Asian Development Bank (ADB) should assume important roles in this process.

Further CEPEA Track Two study can include measures to narrow development gaps, a mechanism to enhance the opportunity for regional business leaders to contribute to the CEPEA realization process, and the establishment of an effective score card and monitoring mechanism. ERIA has completed a study on the Comprehensive Asian Development Plan (CADP) and an Asean Strategic Transportation Master Plan.

Regional integration in East Asia will continue to evolve on the multi-level framework and the parallel processes of Asean+3 and EAS.

Free Trade Area of the Asia Pacific Partnership (FTAAP) as advocated by Apec, the Apec Business Advisory Council (ABAC) and Trans-Pacific Partnership (TPP) will provide competitive liberalization and integration, and 'pathways' to wider regional integration.

The Asean Plus Three (APT) and EAS will propel regional dynamism, energizing and complementing different aspects of regional integration, but progressing towards the common goal. A gradual and realistic strategy should be pursued to achieve feasible EAFTA.

Towards this end, an important first step is to create a unified rules of origin (ROO) regime, to incorporate trade in services and investment, and to start the overall EAFTA negotiations by 2012. In this context, a China-Japan-Korea Trilateral FTA (CJK FTA) would greatly facilitate and accelerate EAFTA.

The APT and EAS will propel regional dynamism, energizing and complementing different aspects of regional integration

Taiwan's Perspective on the TPP: Exploring the Realization of Open Regionalism

The Taiwan-China Economic Cooperation Framework Agreement (ECFA)

The Taiwan-China ECFA was signed on 29 June 2010, by the Straits Exchange Foundation (SEF) and the Association for Relations across the Taiwan Straits (ARATS). The initial step towards institutionalizing relations and a Taiwan-China free trade area, in the long run, came into force on 12 September 2010 said **Ms Kristy Hsu**. This agreement may have far-reaching implications for the interpretation of the 'One China Policy' in the international community. On 5 August, Singapore and Taiwan announced the exploration of the feasibility of negotiating a bilateral Economic Cooperation Agreement (ECA) under the WTO framework.

Major Contents of ECFA

The ECFA comprised of an Early Harvest Scheme, a concept borrowed from the China-Asean Comprehensive Economic Cooperation Agreement, but further expanded to the services trade. Further negotiations are expected to start no later than six months from the ECFA enforcement (12 March 2011), and would include an FTA of trade in goods, an agreement of trade in services, an investment agreement, and a dispute settlement mechanism. The talk of a cross-strait investment agreement is included on the agenda of the 6th Chiang-Chen talk of the SEF-ARATS meetings.

Implications

One of the major goals of the ECFA is to overcome Taiwan's marginalization in regional economic integration. Taiwan has only four FTAs with five Latin American countries covering less than 0.2 per cent of total trade, due to the 'One China Policy.'

Beijing declared that it 'understands Taiwan's need to establish economic relations with other governments..' and that ECFA would 'help find a way to link the cross-strait economy to regional economic cooperation, and in the process, open expansion space for Taiwan's economy.' Following Singapore's announcement on August 5, some other countries also expressed interest, informally, on the possibility of a trade agreement with Taiwan.

Taiwan is in the process of mapping an FTA strategy that addresses the following aspects:

Bilateral: To seek potential partners for developing ECAs, including Asean countries, Japan, New Zealand, Australia, EU, etc., under the WTO framework; to resume US-Taiwan Trade and Investment Framework Agreement (TIFA) talks;

Plurilateral: To continue to promote Apec region-wide FTA; announce interest in the TPP Agreement

Multilateral: To demonstrate commitment to supporting the conclusion of the WTO Doha Negotiations; to promote open regionalism in the WTO.

One of the major goals of the ECFA is to overcome Taiwan's marginalization in regional economic integration

Promoting Open Regionalism in the WTO

In June 2005, a proposal was submitted during the Negotiating Group on Rules meeting, to add an accession clause to WTO agreements. An RTA shall be open for accession by other WTO Members, on terms to be agreed between the original parties of the RTA and interested WTO Members.

WTO Members not party to the RTA may indicate to the RTA parties, in writing, their intention to accede to such RTA. The parties of the RTA shall respond sympathetically to such requests, and in good faith, accord adequate opportunities for other interested WTO Members to negotiate the terms of their accession.

Requests, replies, progress and results of subsequent negotiations conducted in accordance with previous provisions shall be notified to the WTO.

The proposal did not receive positive responses. There were concerns about the feasibility and acceptability of allowing third countries to join RTAs, for the following reasons: possible political and other non-trade implications or considerations; implications in dispute settlement procedures arising from not implementing the mandatory clause; too many countries asking for accession and thus creating unexpected burdens and cost to original members; the 'China factor.'

Generally, most countries are hesitant about allowing accession to third countries; they support 'multilateralization of RTAs,' instead of open accession.

Open Regionalism in the Apec region

In November 2004, Apec endorsed RTAs related initiatives, including the 'Apec Best Practices for RTAs and FTAs' for promoting RTAs of high standard in the region. In June 2005, Apec agreed to forward the 'Best Practices' to the WTO Rules Negotiating Group for reference. One major principle in the Best Practices is to encourage RTAs concluded among Apec members to be 'open to the possibility of accession of third parties on negotiated terms and conditions.'

Some examples of RTAs/FTAs are:

- Closer Economic Partnership Agreement between Australia and New Zealand; NAFTA; the US-Australia FTA;

- An accession clause in FTAs with Latin American countries included by Taiwan;
- TPP: Art.20.6 stipulates TPP is open to accession by any Apec economy or other States, on terms to be agreed between the Parties.

Summary and Policy Implications

Despite an accession clause or principle in some RTAs, there have not been many accession applications by third countries. The fact indicates it is an extremely difficult exercise for a third country to negotiate with original parties, particularly in the area of product coverage and associated ROOs. It would be perhaps more cost-effective and efficient to negotiate a new FTA with the original parties. In addition to technical difficulties, there are political obstacles: Taiwan's experiences will not be unique.

The open accession concept, when applied in specific RTAs, may not be an effective design to realize open regionalism or multilateralization of RTAs: whether the parties act 'in good faith' and are open-minded enough is a critical factor for the realization of open regionalism.

The TPP should set up a good model for other RTAs to follow, yet the result remains to be tested. WTO and Apec have to propose more effective mechanisms to promote regional and global economic integration, and to minimize the impact of low-quality RTAs on regional and global trade and economic development.

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Economic Cooperation Framework Agreement (ECFA): Domestic Opportunities and Challenges

Session Two was moderated by **Associate Prof Simon Tay**, Chairman, Singapore Institute of International Affairs (SIIA), Singapore. The speakers were **Dr Yu-Ning Hwang**, Assistant Professor, Department of Economics, National Cheng-Chi University, Taiwan, and **Dr Chao-Jen Huang**, Director, Research Division of Southeast Asia, Taiwan Institute of Economic Research, Taiwan. **Dr Jorah Ramlan**, Senior Analyst at ISIS Malaysia, reports.

Dr Yu-Ning Hwang's presentation focused on Taiwan's position in relation to economic integration in East Asia before ECFA, as well as the ECFA and opportunities for China, Taiwan, and Asia. He also discussed cross-straits cooperation, and the importance of economic cooperation relationships beyond the ECFA.

Due to the nature of the political relationship across the Taiwan Straits, Taiwan has been excluded from the rising trend of Asean economic integration, thus facing the risk of marginalization. Asean, as a regional organization, is acknowledged as the core of economic integration among its member countries. Since the East Asian financial crisis of

1997, Asean has progressed in deepening integration through bilateral Free Trade Agreements (FTAs) with China, Korea, and Japan, and multilateral FTAs with Asean+3 and Asean+6 countries.

The FTA between Asean and China, Taiwan's largest trade partner, took effect early this year; it saw the almost complete removal of some products' tariffs (Table 1). There is concern that without any trade arrangement between Taiwan and China, Taiwanese exports will face severe competition in China and in other Asian countries.

Table 1: China's Tariffs for Taiwan and Asean

	Tariffs in Taiwan (Average nominal tariffs) %	Preferential Tariffs of Asean in China (Average nominal tariffs) %			
	2009	2005	2007	2009	2010
Plastics and Chemicals	6.49	6.01	5.53	0.98	0.25
Machinery	8.23	6.97	5.84	2.08	0.07
Vehicles and Accessories	14.92	14.92	11.42	7.04	4.31

On June 29, 2010, Taiwan signed an ECFA with China which, to some extent, reduced the concern over Taiwan's exports to East Asia. In addition, it is expected to precipitate further cooperation and bring about mutual benefits for Taiwan and China. For Taiwan, the ECFA may promote greater market opportunities and the possibility of signing FTAs with other countries. For China, the ECFA may contribute in eliminating economic imbalances caused by the rapid economic progress since China's reform and open-up policy in 1978.

Taiwan as a country that developed based on Chinese culture but with a Western style economic system can be a good blueprint for the economic development of China. Some aspects of this blueprint can be adapted by China for example in areas such as economic specialization.

The ECFA, framed under the spirit of the free market, in which production factors will move according to comparative advantages, will precipitate specialization in China and across the Straits. While industries with more advanced technologies will be located in coastal cities, those which are labour-intensive will move to the west where wages are low, so that the production chain can be consolidated. This will also help in the development of poor cities in the west, thereby reducing inequality between rural and urban areas, achieving macroeconomic balance, and thus improving social stability.

As for intangible benefits, the ECFA will contribute by creating a closer relationship between China and Taiwan, through social and cultural interaction, thus establishing mutual understanding and trust, the basis of peace across the Straits. This in turn will have wider positive implications for Asia.

Dr Hwang suggested that China should consider Taiwan as part of the East Asian integration process since Taiwan has maintained long-lasting and good relationships with East Asian countries. Taiwan has become one of the

essential parts of the highly specialized East Asia production chain. Removing it from the integration process will deteriorate the production chain, thereby lowering production capacity as well as reducing economic efficiency.

Prosperity in the region is the key to successful integration. The decline in the competitiveness of Taiwan will slow down the development of China, and also cause losses to East Asia and the global economy. Thus, Taiwan should be included in East Asian integration, and allowed to maintain normal and stable trade relationships with other countries.

It is believed that the importance of economic cooperation relationships beyond the ECFA is determined by the development and prosperity of the Greater China Circle. The Greater China Circle should be connected more closely with East Asia through vertical and horizontal integration. The vertical integration which is essentially the integration of economies with different levels of development can include:

- High-end integration consisting of Japan;
- High-to-medium integration of Chinese coastal cities, and Korea, Taiwan, Singapore;
- Medium-end integration consisting of the second-tier cities in China, and countries like Philippines and Malaysia;
- Lower-end integration of the Chinese western cities, and Myanmar and Vietnam.

By taking advantage of geographical proximity, the integration can be horizontal, involving: the southeast cities of Taiwan and Hong Kong; the northeast area including Tianjin, Japan and Korea; and the southwest with countries such as Myanmar and Vietnam. Horizontal integration is expected to facilitate market expansion.

For Taiwan, the ECFA is not without challenges. The primary concern involves the 'hollowing-out' of industries in Taiwan, or the possible over-dependence of Taiwan on China. In

addition, political concerns are unavoidable. Taiwan is sceptical that China will allow it to sign FTAs with other countries.

In conclusion, Dr Hwang emphasized that the opportunities created by ECFA are not limited to the cross-straits region but include the integration of East Asia. The inclusion of Taiwan in the integration process will contribute to the economic transformation of China and the less developed countries in East Asia, solidify the basis for East Asia integration, and create stability and prosperity specifically in the region, and in the world in general.

Dr Chao-Jen Huang discussed the economic impact of the ECFA on China and Taiwan based on a study using a Computable General Equilibrium (CGE) model of global trade. Four hypothetical scenarios were introduced, including Asean plus China, co-existence of Asean plus China and ECFA, Asean plus 3, and co-existence of Asean plus 3 and ECFA. The effects of ECFA on gross domestic product (GDP), investment, terms-of-trade, and welfare were analyzed for Taiwan, China, Asean, Japan, Korea, North American Free Trade Agreement (Nafta), European Union, and the rest of the world.

In the production sector, the co-existence of Asean, China, and ECFA will only benefit Taiwan's products like machinery and equipment, chemical and plastic products,

textiles, motor vehicles and parts, and leather products. However, sectors which are expected to lose in this arrangement are processed rice, paddy rice, electronic equipment, transport necessities, and meat products. In addition the ECFA appears to produce positive effects in the exports and imports performance of China and Taiwan (Table 2).

The co-existence of Asean, China and the ECFA embraces a positive economic momentum within members as the result of trade liberalization and the flow of goods. Thereby bilateral economic integration between individual members is further strengthened by economic factors. It is argued that the formation of ECFA FTA will stress the importance of the economic enmeshment of Taiwan, in response to economic regionalization and globalization, and to take the idea of developing Taiwan's economic security mechanism as a result of economic integration.

A hypothetical FTA assumption suggests that Taiwan may suffer negative economic effects on its GDP, terms-of-trade and welfare, due to its exclusion from regional economic integration. ECFA may carry positive economic benefits for Taiwan in production, and trade with Asean, China and Taiwan, which in turn may improve the economic performance and welfare of people in China and Taiwan. It has been suggested that Taiwan should implement a more aggressive economic policy to balance

Table 2: Taiwan: Possible Changes in Cross-Straits Trade Relations (USD million)

Scenario	Exports to China	Imports from China
Asean plus China	75,983.39 (-1,600.35)	17,906.91 (-293.07)
Asean plus China and ECFA	99,512.51 (21,928.77)	22,928.71 (4,728.73)
Asean plus 3	72,124.06 (-5,449.68)	18,288.40 (88.42)
Asean plus 3 and ECFA	94,481.94 (16,898.20)	23,167.30 (4,967.32)

challenges from regional integration. It is further suggested that the feasible approach is to show complementary attributions among Taiwan, China, and Asean. In addition, if Taiwan and regional countries integrate all sources together, then it will strengthen regional competitiveness toward the global market.

Signing an ECFA with China is one important option and one from which Taiwan may benefit economically. Nonetheless, the best recipe for Taiwan is to liberalize the business sector for the purpose of fostering industrial competitiveness in the global market. The question remains as to what other possible approaches Taiwan should consider in order to balance possible economic challenges from being excluded from different regional arrangements.

This session concluded that Taiwan is in a precarious position in its current relationship with China. Despite its economic progress, Taiwan is on a short leash as far as its economic integration with other East Asian countries is concerned. Most countries will be cautious when dealing with Taiwan so as not to step on China's toes. The existence of an element of mistrust between China and Taiwan, and the possibility of changes in Taiwan's ruling party created a sense of insecurity in other Asian countries. They were hesitant about including Taiwan in ECFA and regional economic integration.



Taipei 101, a symbol of the success of the Taiwanese economy

Regional Economic Architecture: Post Global Economic Crisis

Session Four of the 12th Asean ISIS-IIR Taiwan argued for greater economic integration among Asean and its East Asian neighbours. **Dato' Dr Mahani Zainal Abidin**, Chief Executive of ISIS Malaysia, presented the Asean view entitled 'Asean Centrality in East Asian Regional Economic Integration' while **Dr Alan Hao Yang** of The Institute of International Relations (IIR) Taiwan, presented 'Taiwan's Perspective on East Asia Regional Architecture,' which was based on a paper authored by him and **Dr Lee Chyungly**, Associate Research Fellow, Institute of International Relations (IIR), Taiwan. ISIS Researcher **Nor Izzatina** reports.



From Left: Mahani Zainal Abidin, Sakonhninhon and Alan Hao Yang

Dr Mahani Zainal Abidin pointed out that Asean is at the heart of regional architecture. It is among the oldest organizations in the region, and numerous regional architectures revolve around it. Based on this premise, she described three possible interpretations of Asean centrality:

- Asean drives key initiatives and makes the decisions concerning regional architecture;
- Asean countries set and control agendas, and host and chair meetings; and
- Asean's interests, views and preferences take

precedence over others (implicit interpretation).

However the interpretations of Asean centrality are not without contention. Asean as a group is often painted as being not proactive and unable to take bold initiatives or decisions. The appearance of the China-Japan-Korea Free Trade Area (CJKFTA), on the other hand, has put Asean's role in driving economic integration to the test. The composition of Asean's membership — some nations that are still underdeveloped, and some

developed members that are unable to show strong, positive leadership — results in it not having a collective voice on many issues, therefore making it difficult for the organisation to take action. Asean is thus deemed not to have the political or economic weight to be the centre of the regional architecture.

The setbacks faced by Asean as a group are balanced on the other hand by certain reasons why Asean centrality is needed. Asean has the widest and greatest number of existing formal agreements, and the most developed institutions at multiple levels to implement them. The absence of economic and political historical baggage has also helped Asean handle mutual distrust and suspicions among East Asia's largest economies — China, Japan and Korea. This means that Asean centrality is virtually awarded by default. With this understanding, Asean is seeking to 'add weight' by broadening and deepening

integration in the political, security as well as economic spheres through the Asean Charter, the Asean Economic Community and Asean Connectivity initiatives.

Economic Integration

The case for increasing economic integration among East Asian countries has never been stronger since the Global Financial Crisis of 2008-09. Recent trade data (Table 1) shows that total intra-East Asian trade has grown significantly; Asean+3 countries traded 51.7 per cent of their trade value with each other and Asean+6's share of intra-regional trade was 54.9 per cent in 2009. With growing intra-regional trade among East Asian countries, trade with the US and EU on the whole has declined commensurately, proving the Global Financial Crisis has shifted the region's trade pattern. Data also shows that intra-Asean trade is the lowest in

Table 1: Asean's Foreign Trade, 2002 and 2009 (percentage of total trade)

Year	Intra-Group Trade		Trade with the US		Trade with the EU		Intra-Group, US & EU Trade	
	2002	2009*	2002	2009*	2002	2009*	2002	2009*
Asean	23.8	26.0	15.6	9.6	13.0	10.9	52.2	46.4
Asean-China	30.2	36.8	17.3	12.4	15.4	14.2	62.8	63.5
Asean-Japan	38.2	36.2	19.6	11.3	13.7	11.2	71.5	58.7
Asean-Korea	28.3	31.6	16.2	9.7	13.0	10.8	57.5	52.1
Asean+3	49.1	51.7	19.5	12.4	14.8	13.3	83.3	77.4
Asean-Australia	26.2	29.0	15.3	9.4	13.7	11.4	55.3	49.8
Asean-NZ	25.2	28.5	15.3	9.5	13.1	11.0	53.6	49.0
Asean-India	24.1	26.4	15.5	9.6	14.0	12.3	53.7	48.3
Asean+6	51.7	54.9	18.9	12.0	15.3	13.6	85.8	80.6

* Data for Laos is not included

Source: IMF's Direction of Trade Statistics

Table 2: FDI net inflows to Asean, (value in US\$ Million)

Partner country/	FDI net inflows to Asean, value in US\$ million			
	2007	2008	2009	2007-2009
Asean (intra-regional)	9682 (13.0%)	10461.5 (21.1%)	4428.9 (11.2%)	24572.4 (15.0%)
China	1684.3 (2.3%)	2109.5 (4.3%)	1509.5 (3.8%)	5303.3 (3.2%)
Japan	8828.7 (11.9%)	4657.8 (9.4%)	5308.4 (13.4%)	18794.9 (11.5%)
Korea	2715.5 (3.7%)	1583.5 (3.2%)	1421.8 (3.6%)	5720.8 (3.5%)
Australia	1491.5 (2.0%)	919.7 (1.9%)	700.9 (1.8%)	3112.1 (1.9%)
India	1466.2 (2.0%)	698.6 (1.4%)	983.6 (2.5%)	3148.4 (1.9%)
New Zealand	100.7 (0.1%)	-165.1 (-0.3%)	239.9 (0.6%)	175.5 (0.1%)
Asean+3	22910.5 (30.8%)	18812.3 (38%)	12667.8 (32%)	54391.4 (33.2%)
Asean+6	25968.9 (34.9%)	20265.5 (41%)	14592.2 (36.9%)	60827.4 (37.1%)
US	8067.6 (10.8%)	5132.6 (10.4%)	3357.7 (8.5%)	16557.9 (10.1%)
EU	17765.5 (23.9%)	9520.1 (19.2%)	7297.2 (18.4%)	34582.8 (21.1%)

Source: Asean Secretariat

East Asia, but is rising with the 'Plus 1' countries, with the possible exception of Japan.

Dr Mahani also pointed out that trade between China, Japan and Korea is growing fast and much of it revolves around China. Increasingly important production networks and the rise in the parts and components trade are what drive intra-East Asian trade. Intra-Northeast Asian trade is more than twice that of Asean and has been growing rapidly, largely due to trade with China. On the other hand, China's trade with the US and the EU has risen sharply, and Korea's has remained relatively constant, while Japan's has dropped.

Data on investment however has painted a different picture of East Asian economic integration. As shown in Table 2 above, FDI

inflows are still dependent on both the United States and the European Union. Between 2007 and 2009, intra-Asean investment was half of what the US and the EU contributed. Only by including 'Plus 3' and 'Plus 6' countries does investment by Asean equal US and EU contributions.

Regional Architecture

Dr Mahani also discussed the way forward for East Asian Regional Architecture with Asean centrality remaining intact. On the economics aspect, intra-East Asian integration can be deepened and broadened in line with existing trends, and mutual benefits enhanced by:

- Striving for higher quality economic partnership agreements in the trade of goods;

- Accelerating liberalization of services, especially the movement of natural persons;
- Ensuring a level playing field for regional investments; and
- Improving intellectual property protection.

East Asia is home to several regional institutions like Asean, Asean+3, and the East Asia Summit. Thus, the way forward, towards stronger economic integration, is through the strengthening of these institutions while striving to be more inclusive, participative and responsive to all stakeholders at all levels. Mahani added that the strength of Asean lies in its consensual decision-making process and this should be maintained in the future. Non-consensual forms of decision-making, as well as the pressuring and posturing in negotiation processes should be avoided.

To improve Asean capacity in the region, the Asean Secretary-General, and central organizations like the Secretariat and the Committee of Permanent Representatives must have more resources at their disposal, and the accountability to use them effectively and wisely. This coupled with greater accountability in performance and achievement of outcomes will help the existing regional institutions command greater credibility, respect and support.

Dr Mahani concluded by reiterating that the perception should be that Asean's centrality in regional architecture must be earned rather than imposed by default. The role of Asean as a buffer to the outside world should move it to earn its place in regional integration. Its form must start to follow its function. At the same time, national interest in East Asia should be attenuated in order to create stronger regional identity and institutions.

The second speaker, **Dr Alan Hao Yang**, presented Taiwan's perspective on East Asian regional architecture. His presentation can be divided into three parts: the shifting paradigm of global politics, the essence of regional architecture, and scenarios for future development.

Dr Yang began by explaining the emerging picture in global politics involving a shift in paradigm from the West to the East. This non-Western-centred era began in Southeast Asia, through Asean, and will end in Global Asia. According to Dr Yang, Global Asia connotes a goal for the Asian Century that demonstrates an autonomous and solid Asia and its full integration into the global political economy. With this, a new regional architecture is bound to happen.

Dr Yang described regional architecture as an overarching regional arrangement with specific political, economic and strategic goals and components, within which the regional states can interact. An international social construct, it is shaped in two different ways: it is embodied by collective action among regional states, or it is imposed upon or influenced by external force. In examining regional architecture more closely, Dr Yang pointed out that regional architecture contains at least four dimensions: i) core actors ii) interests and goals iii) priority issue areas and iv) institutional settings. By laying down these dimensions of regional architecture, Dr Yang explored three possible scenarios in the making. These are: i) The New Cold War ii) Multiplicity and iii) Multilateralism.

The New Cold War

Yang defined the New Cold War in East Asia as the implicit and explicit conflict of interests between two great powers: the United States and the

People's Republic of China. As core actors they represent a chronic contest: a rising power and revisionist state from Asia Pacific versus a state that has currently global hegemony of Pacific Asia.

As for interest and goals, China's ambition as a regional power is related to its domestic economic development needs, while the strategic priority of Washington in Asia is to secure US national interest. The competing core actors then focused on several priority issues in East Asia to cement their influence in the region.

US engagement in the region will be supported by two pillars: the economic security arrangement and the political security arrangement. Under economic engagement, the US will champion FTA arrangements in the region while simultaneously securing the stability and peace of East Asia. US Secretary of State Hillary Clinton pointed out the following priority issues for US engagement in East Asian regional architecture:

- The US alliance relationships, especially the bilateral ones, are the cornerstone of its regional involvement and the US will commit to maintaining and enhancing multilateral Asian groupings by these bilateral relationships;
- Strategic relationships with key players such as China and India need strengthening;
- Commitments will be made in promoting effective institutions with concrete and pragmatic considerations, and results ;
- Maintaining and enhancing flexibility in sub-regional institutions like six party talks.

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With the rising engagement of the US in East Asia, China's role in the region needs to be examined as well. China's relationship with Asean has been established since 1991 and Asean has always been a close neighbour and strategic partner in China's national security. At the same time, Asean serves as an ideal platform for China's participation in East Asian politics. China on the other hand provides Asean states an option to hedge against their dependence on the United States and Japan. China's engagement in Asean can be divided into three dimensions:

- To establish solid political and fiscal connections with Southeast Asian governments via growing aid assistance;
- To explore a comprehensive cooperative framework through FTA-plus plans;
- To enhance cultural attractiveness and promote pro-China understanding among Asean states through quasi-governmental projects.

Under the New Cold War in East Asia scenario, the bipolar influence of China and the US will shape institutional settings in accordance with the national/core interests of both powers, and reshape regional architecture by implicit or explicit power rivalry.

Multiplicity of Power Politics

The second future scenario of regional architecture in East Asia is the multiplicity of power politics. Dr Yang questioned whether given the lack of highly institutionalized regional architecture, the struggle for regional leadership among states will lead to conflicts and rivalries in the region. Naturally, the bigger and wealthier Northeast Asian countries like China, Japan and Korea are seen as potential leaders, striving to secure national interests by expanding influence over their southeast neighbours.

However the Asian Financial crisis of 1997 proved that none of these countries could take the dominant position. This 'leadership deficit' in the region has given rise to a new architecture of collective leadership in East Asia — the Asean Plus Three (APT); the APT consists of ten Asean member states plus China, Japan and Korea.

Under the APT arrangement, the major powers (China, Japan, and Korea) appear to act as assiduous participants while allowing Asean states to profit under their patronage. However, this according to Dr Yang is a strategic attempt by the major powers to increase influence on Asean, and to advance their respective national interests in the region. Clashing national interests among the 'X' countries (China, Japan and Korea) is leading to a power struggle for leadership in the region.

Asean as the common denominator has helped keep the balance of power with the 'X' countries in East Asia. Asean's attempt to increase the 'X' numbers, for example Australia, New Zealand and India, may upset the balance of power achieved under the APT regime. Increasing the number of players may lead to multiplicity in the power politics of the region. This may create uncertainty,

which in turn may weaken regional architecture and result in power rivalries among the 'X' countries.

Multilateralism

The final stage is establishing the basis of a solid Asean-Plus project of multilateralism. Under this third scenario, Asean assumes the role of a driving force for effective nesting arrangements among regional institutions, and for the integration process. Asean also has to act as the core. Networking efforts with major states should be enhanced in order to sustain the legitimacy of the Asean-led grouping and to facilitate further cooperation.

Based on the multilateralism scenario, Yang suggested the establishment of a comprehensive economic partnership among authorities in Taiwan and neighbouring countries, that can help integrate the multiple existing businesses and private networks. To tackle transboundary issues in the region, he proposed more coalitions of like-minded groups, and lastly, more substantive exchanges between Asean and Taiwan, with less interference by Asean's one-China policy.

Yang concluded that it is important for Taiwan to contribute to regional economic development and he said it is the hope of the people of Taiwan that their contributions to the region and neighbouring countries will be recognized.

Cooperation in Energy Security between Taiwan and Asean

The Sixth Session of the Dialogue was on the topic of Cooperation on Energy Security between Taiwan and ASEAN. The speaker was **Mr Gin-Foo Huang**, Deputy CEO, CPC Corporation, Taiwan. The session was moderated by **Tan Sri Mohamed Jawhar Hassan**, Chairman, ISIS Malaysia and **Dr Chen-Shen Yen**, Acting Director, Institute of International Relations (IIR) Taiwan. ISIS Analyst **Zarina Zainuddin** reports.

Mr Gin-Foo Huang's presentation was divided into five parts: the energy security indicators of Taiwan (2009); the distribution of imported energy; CPC Corporation's overseas exploration projects; Taiping Island and South China Sea exploration activities, and finally, future cooperation between Taiwan and Asean.

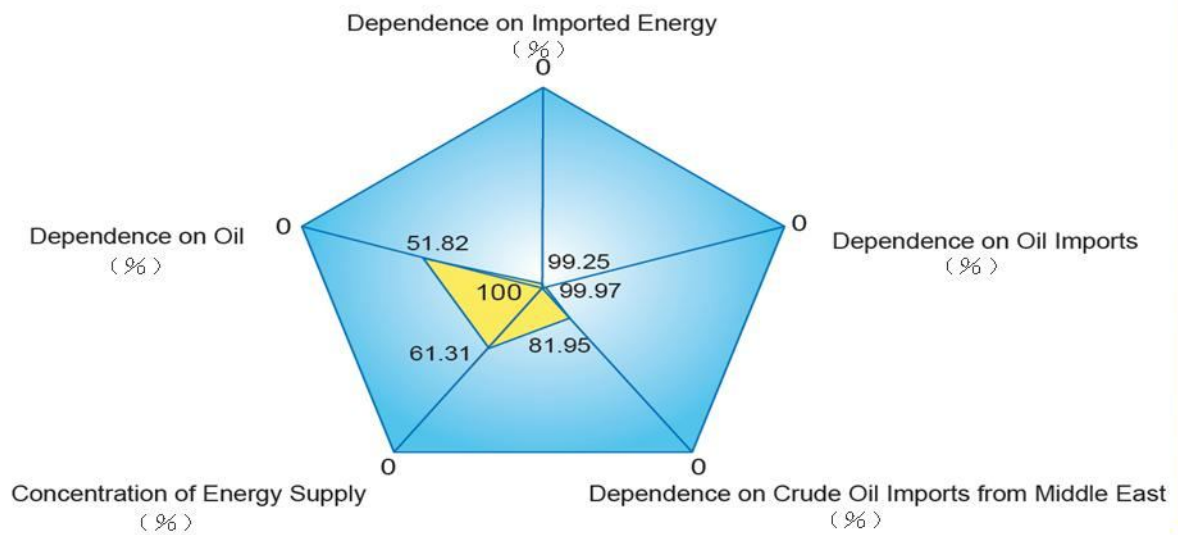
Huang began with energy indicators for Taiwan, specifically figures for the import of energy (2009). Taiwan uses oil, coal and liquefied natural gas (LNG) for its energy needs. It is highly dependent on the outside world, having to import 99.25 per cent of its energy!

Oil makes up about 52 per cent of its energy needs and the bulk of it (82 per cent) comes from the Middle Eastern countries. The remaining oil imports come from West African countries (10.6 per cent), Indonesia (1.2 per cent), and other countries (6.2 per cent). Taiwan's coal import comes primarily from three countries: Australia (38.8 per cent), Indonesia (36.7 per cent) and China (19.9 per cent). Indonesia and Qatar are Taiwan's top two suppliers of LNG at 34.2 per cent and 33 per cent respectively, followed by Malaysia at 25.5 per cent and Australia at 2.4 per cent. Huang noted that 61.2 per cent of Taiwan's energy suppliers are concentrated amongst these nations.

Taiwan's overseas exploration projects are located in eight countries and in a total of 20 blocks. The bulk of the exploration projects are located in two countries: Indonesia (six blocks) and USA (five blocks), while Australia is a distant third with two blocks. In all except one, Taiwan's involvement in the exploration is in the form of joint ventures, with shares ranging from 15 per cent to 70 per cent. Taiwan's participation in these ranges from being field operator to shareholder. In a number of these projects, Taiwan partnered Mainland China's major oil companies. Taiwan's sole, fully-owned exploration block is located in Libya's Murzuq 162 block.

While there are more than 200 basins in the area, the majority of the exploration activities are concentrated within the South China Sea basin. Known oil and gas discoveries are located in the South China coast of Borneo, the North Sea of Malaysia, the South Sea of China and the Pe basin of Indonesia. Huang also noted the disputes within the South China Sea, mainly due to overlapping claims based on the 200 kilometre Exclusive Economic Zone (EEZ) area.

Taiwan Energy Security Indicators of Taiwan (2009)



Taiiping Island & South China Sea Exploration Activity



The exploration activities are concentrated around the South China Sea basin.
(USGS 2010)





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