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**ASEM: Moving from an economic to a political dialogue ?**

by

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**ABSTRACT**

This paper focuses on the recent development of regional relations between the European Union and Asia, which found visible expression in 1996 when the Asia Europe Meeting (ASEM) process was launched. ASEM brings together 26 European and Asian partners in a dialogue which covers political, economic and cultural affairs. The origins of the process are traced, as are the reasons why both sides were committed to launching an inter-regional dialogue.

The theoretical framework underlying this analysis of ASEM is regionalism and regional integration, with particular attention focussing on the economic foundation which belies regional arrangements.

In order to critically assess the evolution of the process, each of the three pillars – political, economic and cultural - are evaluated in turn and their progress is assessed. It is argued that ASEM has been particularly successful in the economic field and to a lesser extent in the political and cultural pillars. This is to be expected, when one evaluates the process against the backdrop of the theory of regionalism, which would expect the economic relationship to be the foundation of any regional relationship, with the political dimension developing at a slower pace. The political dimension is identified as the strand wherein lies the greatest potential for deepening the ASEM process. However, this will entail a firm commitment on the part of both regional groups.

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# **ASEM: Moving from an economic to a political dialogue ?**

## **Nicholas O'Brien<sup>?</sup>**

### **I. Development of the ASEM Process**

#### **1.1 Introduction**

The Asia Europe Meeting (ASEM) process has been central to the recent development of regional relations between Europe and Asia. This inter-regional dialogue brings together 26 European and Asian partners. The process is relatively new, having begun in 1996 when the first summit was held in Bangkok. The initial euphoria surrounding the launch of this new inter-regional dialogue dissipated with the onset of the Asian financial crisis and the second summit in 1998 was held in an altogether different environment. The focus of the third summit in 2000 was on the means and modalities that would facilitate a deepening of the process.

The value in studying the ASEM relationship can be gauged by the importance of both regions. While the US is the pre-dominant world player in diplomatic and military terms, the EU is the largest single economic market. The Asian economies may have fallen from the pinnacle of the 'tiger era', but they are slowly re-building and restructuring their economies. In terms of global statistics, ASEM partners account for 38% of the world's population and 48% of world GDP. Therefore the dialogue between these two powerful regions is important in terms of global regional relations.

This paper will focus on the development of ASEM as an inter-regional dialogue and the centrality of the economic relationship to the process. This first section will outline the rationale behind the establishment of ASEM and give a brief history of the process to date. Section II will set out the theoretical under-pinning to this critical evaluation, in which the theory of regionalism and regional integration will be examined. Building on this theoretical framework, the effectiveness of the process in establishing an inter-regional dialogue will be examined in section III. The level of progress in each of ASEM's three pillars – political, economic and cultural - will be critically assessed. The final section will provide an overall assessment of the effectiveness of the process and the prospects for achieving a deeper level of political dialogue.

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<sup>?</sup> The author has worked in the European Commission on the ASEM process for the past three years. The views expressed reflect the opinion of the author and do not necessarily reflect the views of the European Commission. His paper is based on research conducted for a MA thesis which was submitted to the Institute of Public Administration, Dublin in April 2001.

It will be argued that the rationale behind regionalism and inter-regional relationships is firmly rooted in the development of closer economic ties. While there are three equal pillars within the process, covering political, economic and cultural issues, the economic pillar has been the most active to date, thereby supporting the theory of regionalism.

## **1.2 Definitions**

ASEM has 26 partners. On the European side the membership includes the European Commission and the 15 Member States of the European Union – Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. The Asian side has ten partners, seven from south east Asia - Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam and three from east Asia – China, Japan and the Republic of Korea.

From a definitional point of view, the term “Asia” will be used throughout. This term refers to the ten Asian ASEM partners even though it excludes significant portions of the continent, notably Russia, India, Pakistan, the Middle East, Australia and New Zealand. Also, in ASEM parlance, it is normal to use the term “partners” when describing the 26 participants, rather than countries or members.

## **1.3 The Development of the Process**

The Asia Europe Meeting (ASEM) refers to the biannual meeting of Heads of State or Government (HOSG) of the fifteen European Union (EU) Member States and the President of the European Commission with HOSG of ten Asian countries (see list above). Between meetings of Heads of State or Government, meetings are held at ministerial and official level. It is a multi-dimensional process covering political, economic and cultural matters.

In order to facilitate an assessment of the process to date, it is important that one has an appreciation of the rationale behind its creation and the expectations of both European and Asian partners at its time of inception. This will provide a benchmark against which progress can be measured.

### **1.3.1 Increasing European interest in Asia**

The early 1990s was the era of the Asian tiger economies, which were experiencing double digit economic growth levels. Within the EU, an awareness was developing of the need to intensify and deepen its relationship with this economically powerful region. These developments, *inter alia*, resulted in the European Commission submitting a communication to the Council of Ministers on the need for a new Asian strategy. The strategy paper argued that ‘the European Union ... needs to accord Asia

a higher priority than is at present the case.’<sup>1</sup> Furthermore, it stated that the Union needs to strengthen its economic presence in Asia in order to maintain Europe’s leading role in the world economy. In analysing the content of the European Commission’s communication, it is clear that the focus is firmly on the development of both an economic and political relationship, with an emphasis on the former. ‘The main thrust of the present and future [EU] policy in Asia is related to economic matters.’<sup>2</sup> This is not surprising, as Asia is one of the EU’s largest trading partners, accounting for around a quarter of its total external trade. There was also a realisation that the high levels of growth in the Asian economies would inevitably lead to pressure for a greater political role in international relations. The European Commission argued that the EU should seek to develop its relationship with Asia and ‘prepare for the growing role of Asian powers in world affairs’.<sup>3</sup> The Commission’s strategy was endorsed at the Essen European Council in December 1994.

At the same time there was a developing awareness within individual EU Member States of the need to develop a stronger relationship with Asia. Some countries such as Britain and France had former colonial links with particular Asian countries and were in the process of redefining their outlook on Asia. Other Member States also began to realise the importance of developing stronger links with the Asian economic powerhouse. In 1993, the German government published a policy paper on developing an Asia strategy.<sup>4</sup> The paper argued that Germany, and Europe in general, had to critically examine and respond to the thriving Asian economy. It called for the Asian economic success to be viewed as an opportunity rather than a threat. At the same time, major German business associations agreed to establish the Asia-Pacific Committee as a means of increasing the presence of German firms in the region.

Hwee narrows down the reasons behind the establishment of ASEM to the ‘increasing economic dynamism of East Asia [together with] ... the trend towards regionalism in the world political economy and the commercial race into Asian markets by western countries’.<sup>5</sup> While East Asia was steaming along at breakneck speed, European and North American economies were slowing down.

The emergence of the Asia Pacific Economic Co-operation forum (APEC) was also a catalyst in the founding of ASEM. When APEC was first launched in 1989 it was, by

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<sup>1</sup> European Commission (1994), *Towards a New Asia Strategy*, COM(94) 314 final, Luxembourg: Office for Official Publications, p 1

<sup>2</sup> European Commission (1994), op cit, p 3

<sup>3</sup> European Commission (1994), op cit, p 16

<sup>4</sup> German Federal Government (1993), *The Federal Government’s Concept on Asia*, Bonn: German Federal Government Press and Information Office

<sup>5</sup> Hwee, Yeo Lay (2000a), ASEM: Looking Back, Looking Forward, *Contemporary Southeast Asia*, Volume 22, Number 1, Singapore: Institute of Southeast Asian Studies

and large, ignored by Europe. However, the first APEC Summit in Seattle in 1993 brought together world leaders without any European presence, the first such occasion since the Second World War. The European Commission sought to have the European Union represented in some form, but this was refused.

### **1.3.2 Asian Interest in deepening relations**

The increasing level of European interest in Asian affairs was recognised by Chok Tong, Singaporean Prime Minister, as an opportunity to develop deeper links between the two regions. He expressed this desire during his official visits to Germany and Britain in April 1994 and again at the World Economic Forum Business Conference in September 1994. Following positive reactions, he formally proposed the establishment of a dialogue at the highest level between Asia and Europe to French Prime Minister Balladur in October 1994, to which he received a positive response.

The purpose behind the Singaporean proposal was to establish a dialogue between Asia and Europe, in parallel to that which already existed with the US through the APEC framework. The Prime Minister spoke of the “missing link” between Europe and Asia. While the emphasis of Singapore’s proposal was on the development of economic co-operation, a number of other factors also lay behind it. Europe was becoming increasingly pre-occupied with post Cold War issues. Given the proximity of former USSR states to the EU, this was inevitable. However, Singapore considered that if nothing was done to attract the attention of Europe, it would fail to look to the new Asia that was emerging. Singapore also recognised the importance and key role of China and the need to engage her positively. China was emerging as the key regional economic player and it was in the interests of both Asia and Europe that it became a supporter of the status quo.

Given the strength of the Asian economies, Chok Tong recognised that it would be relatively easy to establish an economic dialogue at official level. If the economic situation were to deteriorate (as occurred in 1997), there was a need for ties of a more enduring nature which would allow Europeans to realise the significance and importance of the Asian economies, both in the region and on the wider world stage. By doing so, he hoped that there would be a move towards greater levels of inward investment, particularly in technology.

### **1.3.3 Launching the Process**

The timing of the Singaporean initiative was propitious, following closely on the European Commission’s Asia strategy communication. On 6 March 1995, the EU General Affairs Council (Foreign Ministers) formally agreed to such a meeting and mandated the President of the Council and the European Commission to make formal preparations. This was followed by a formal endorsement at European Council level in June 1995. These decisions were a formal recognition that relations between the two regions needed to be strengthened, to reflect the increased importance of Asia on the world stage, and to move away from the “aid and trade” relationship of the past towards a more balanced relationship.

## 1.4 Structure of the process

The ASEM process is designed around four central characteristics. Firstly, it is intended that discussions should be conducted in an informal manner, so as to promote open dialogue. Partners are free to raise any issue of concern. Underpinning this informality is a tacit agreement that the emphasis should be on complementing rather than duplicating work already carried out in other bilateral and multilateral fora. Secondly, it is a multi-dimensional process with three pillars covering political, economic and cultural affairs. Thirdly, the emphasis is on equality and mutual respect, which eschews any aid-based relationship. Finally, it has a high-level focus, stemming from the Summits themselves.

Pou points out that the process ‘was conceived by the Asians as a means to improve mutual understanding between European and Asian leaders through the establishment of frank and open dialogue.’<sup>6</sup> Accordingly, an informal list of topics, rather than a formal agenda is used at Summit meetings. This approach also facilitates some Asian partners who are uncomfortable with the specific mention of vexed issues such as human rights and “good governance”. Instead these items are covered under the general term “political dialogue”.

It was agreed at the first Summit to inaugurate an on-going process involving summit-level meetings every second year. In order to advance the partnership, it was also agreed that ministers should meet in three specific compositions - foreign, economic and finance. These ministerial level meetings would be held in the intervening years between summits. More frequent meetings would be held at senior official and working level. At the third summit in 2000, leaders requested ministers to meet annually, rather than bi-annually as heretofore.

Overall co-ordination of the ASEM process is in the hands of Foreign Ministers and their senior officials. They are assisted by an informal co-ordinators meeting, which brings together two co-ordinators from each side (the Presidency and European Commission for the EU and one each from East and South East Asia - currently China and Vietnam).

While ASEM remains an informal dialogue-based process, there are nevertheless a small number of specific institutions and programmes, which have been created in response to specific Summit decisions. These include the Asia-Europe Foundation, the Asia-Europe Environment Technology Centre and the ASEM Trust Fund.

## 1.5 Objectives of the Process

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<sup>6</sup> Pou, Victor Serradell(1996), *The Asia-Europe Meeting: A Historical Turning Point in Relations between the Two Regions*, *European Foreign Affairs Review*, Number 2, 1996, p 195

The objectives of the process are spelt out in the Asia Europe Co-operation Framework (AECF) and the up-dated Asia Europe Co-operation Framework 2000 (AECF 2000), which were agreed by leaders at the London and Seoul summits respectively. While the AECF 2000 in no sense seeks to be an international binding legal agreements, it sets out an agreed framework within which the process operates. It lists the key objectives, priorities and procedures for the process and outlines the vision that ASEM seeks to achieve:

‘... to create a new Asia-Europe partnership, to build a greater understanding between the people of the two regions and to establish a strengthened dialogue among equals....ASEM partners have agreed to strive for a common goal of maintaining and enhancing peace and stability as well as promoting conditions conducive to sustainable economic and social development.’<sup>7</sup>

## **1.6 Conclusion**

The launching of the ASEM process five years ago was a new departure in the evolution of relations between the EU and Asia. Prior to this, there was a duality in the EU’s approach to the region. On the one hand, the focus was firmly on EU-Japan relations, as Japan was a key global economic player. It was essentially a highly developed economic relationship, with both sides eager to exploit advantages in the other’s market. While there was no highly visible relationship with Korea and Singapore, the focus would also have been on the development of stronger economic links. On the other hand, the relationship with the rest of the region, including China, was based on an “aid and trade” relationship. While the Asian tiger economies had been developing strongly for three decades, they were still not viewed as developed economies. This changed in the late 1980s when the level of economic development accelerated in key Asian countries, notably China, Indonesia and Malaysia. In response to these developments, ASEM reflected the evolution from the “aid and trade” relationship to the current attempt to develop a partnership of equals.

The development of ASEM is rooted in the growth of regionalism, which has grown in importance since the end of the Second World War. As regionalism is central to the emergence of ASEM, its role in modern global relations will be developed in detail in the next section.

## **II. The Theory of Regionalism and Regional Integration**

### **2.1 Regional Integration and Co-operation**

Three criteria are often used to characterise the new world order. Firstly, economic globalisation, which points to the shrinking size of the world in terms of communications and the growing importance of non-military factors. Secondly, a

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<sup>7</sup> *Asia Europe Co-operation Framework 2000*, agreed at ASEM III, Seoul, para 5

multi-polarisation of power, which is premised on the comparative weakening of US hegemony and thirdly, multilateralism as the means of settling international conflict and promoting co-operation. To cope with these new trends, new approaches are suggested. These include expansion of free trade based on multilateralism, broadening of multilateral security co-operation to resolve regional conflicts through negotiation and promotion of open regionalism which allows inter-regional co-operation to be pursued for mutual benefit.

Lee defines regional integration as ‘a phenomenon resulting from a national strategy of expanding the political and economic interests of individual nations within a particular region.’<sup>8</sup> He contends that regional integration will be motivated by various factors such as culture, religion or ideology. He sees APEC and ASEM as forms of regionalism which are designed to maximise national interests, rather than natural regional integration *per se*. Here, Lee sees ASEM as a form of Asian regionalism rather than the creation of inter-regional dialogue, which is the core objective of ASEM. Even if ASEM had such an objective, a country would only join a regional arrangement if it perceives that some benefit can be derived. While the level of benefit may vary greatly (from the avoidance of war in the case of the creation of the EU), to free trade in the case of the North Atlantic Free Trade Area (NAFTA) there is always some benefit to be derived by participants. This incentive could also be of a negative nature e.g. a country may decide to join a regional free trade agreement because its key trading partners are already members.

Steiner identifies two different models of inter-regional co-operation, which he labels as “old” and “new” practices. He contends that in the old model, inter-regional co-operation began in the 1970s and centred on the European Communities’ (now EU) relations with other regional institutions. This inter-governmental co-operation was conducted within the framework of European Political Co-operation, which was weak from an institutional point of view. Steiner’s “new” model of regional co-operation ‘brings to the fore the geostrategic logic of inter-regional co-operation.’<sup>9</sup> International political economic theory in the 1970s and 1980s focused on three blocs – the US, Europe and Japan. In the 1980s, as a result of its remarkable economic growth, East Asia also became a separate identifiable economic region. ‘This trilateral image did not escape the political leaders of both Europe and Asia. The image had been further reinforced by various signs that the hegemon, the United States, no longer met the expectations of what theoretical literature calls the “benign hegemon”.’<sup>10</sup> Lee reinforces Steiner’s argument when he writes that ‘the world today is experiencing transitional instability as a result of structural transformation: from a simplistic structure of bipolar stability based on Cold War ideologies to a more complex

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<sup>8</sup> Lee, Sahng-gyoun (1999), *ASEM and a New World Order: Challenges and Prospects*, Seoul: *Korea Focus*, Vol 7, Number 5, September-October 1999, p 21

<sup>9</sup> Steiner, Thomas (2000), *Europe meets Asia: Old Vs New Inter -regional Co-operation and ASEM’s prospects*, Working paper 22/2000, Hebrew University of Jerusalem: Department of International Relations, p 13

<sup>10</sup> Steiner (2000), *op cit*, p 14

character involving flexible multi-polarity related to pragmatic national interests... with nationalism and regionalism [emerging] as self-centred preferences.’<sup>11</sup>

In contrast to Lee and Steiner, Bhagwati<sup>12</sup> explains the current revival of regionalism as a direct result of the conversion of the United States to regional arrangements. He argues that during the first General Agreement of Tariffs and Trade (GATT) round, the United States was firmly committed to the multilateral approach and did not endorse a regional approach, except in the case of the European Union. De Melo points out that the US was prepared to formally facilitate the EU, as there was a perception that ‘an organised Western Europe, under the leadership of the European Community facilitated the GATT-led multilateral negotiations.’<sup>13</sup> However, when disappointed at the lack of progress at the GATT negotiations, the US decided to switch course and went on to conclude the Canada-US Free Trade Agreement and then the North American Free Trade Agreement (NAFTA). This tilted the balance from multilateralism in favour of regionalism. In response to these developments, De Melo argues that East Asia began to fear that a regional bloc may be the only way to meet the challenge posed by regional developments in Europe and America.

While different commentators ascribe different motivations to the increasing number of regional arrangements, one can surmise that more and more countries see the benefit of involving themselves in some form of regional co-operation. This is particularly important for small open economies as it gives them a disproportionate voice in a powerful bloc. Ireland’s experience in the EU is a good example. Even in less developed regional fora, countries are interested in co-operating, sometimes despite long held enmities. The example of Singapore and Japan comes to mind, who are currently negotiating a free trade agreement. If present trends continue, one will see increasing levels of interest in regional co-operation in the coming years. Indeed, this is evidenced by the queue of EU applicants, who wish to join a highly developed regional structure with both political and economic dimensions.

## 2.2 Economic Foundation of Regionalism

Most studies of regionalism locate themselves within international trade theory. Krugman<sup>14</sup>, in his seminal work on regionalism, developed a model of regional trading blocs. He directly attributes the rise of regionalism to the desire to create regional trading blocs that economically favour those who participate. In his model, he considers a symmetric world in which there are a large number of identical countries. Individual countries consume a differentiated good with many potential varieties. Each nation specialises in only one variety and imports all other varieties. At one extreme, with each country defined as a bloc, each bloc is too small to have

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<sup>11</sup> Lee (1999), op cit, p 20

<sup>12</sup> Bhagwati, J, (1993) Regionalism and Multilateralism : An Overview in De Melo J & Panagariya A (Eds), (1993), *New Dimensions in Regional Integration*, Cambridge: University of Cambridge

<sup>13</sup> De Melo in De Melo Jaime & Panagariya Arvind (Eds), (1993), op cit, p 5

<sup>14</sup> Krugman, Paul (1989), *Is Bilateralism Bad ?*, Working paper no 2972, Cambridge: National Bureau of Economic Research

any market power. Therefore, tariffs are set at zero and competitive behaviour maximises world welfare. At the other extreme, with one trading bloc, the situation is replicated, with no tariffs and a maximisation of world welfare. Between these two models, welfare is lower. If we start with two trading blocs, each bloc exercises monopoly power over its products and imposes a tariff on imports from its rival. This results in a loss of welfare. Next, suppose that there are three trading blocs. This leads to only one-third, rather than half of the goods being subject to free trade and there is further trade diversion and loss of welfare. But the reduced size of each bloc also reduces its market power and the tariff declines. This generates a trade creation effect. With trade diversion and trade creation both taking place simultaneously, welfare may now rise or fall. As the number of blocs rises, the tariff continues to decline and at some point becomes sufficiently small to yield a larger trade-creation than trade-diversion effect. The critical question is the number of blocs at which this turning point occurs.

Krugman's model has been criticised by Srinivasan as a 'model without reality',<sup>15</sup> particularly his assumption of a strong symmetry. Srinivasan offers an alternative model that allows for both symmetric and asymmetric blocs and shows that in general, there is no necessary relationship between the number of blocs and welfare. In response, Krugman admits that the real world is not symmetric and that, in practice, countries engaging in free trade agreements have more in common with one another than with other countries.

Bhagwati sees regionalism purely in economic terms and defines it as 'preferential trade agreements among a subset of nations.'<sup>16</sup> He disagrees with Krugman's contention that geographically proximate countries trade more intensely than distant countries. He cites the example of Africa and south Asia who export the vast majority of their goods outside the region. Bhagwati notes that larger countries often tend to be more inward looking than smaller countries. Therefore, once a bloc is large enough, the need to be open to extra-bloc countries is reduced. In general, he is sceptical of the argument made by regionalists, that the regional approach is a quicker and more certain route to increasing welfare. Depending on the relative power of different interest groups, trading blocs may turn inward over time. Interest groups within the bloc may take the view that the blocs' markets should be protected and resist extra-bloc liberalisation.

Gilpin<sup>17</sup> portrays a picture of the gradual segmentation of the world into what he describes as "loose regional blocs". The growing struggle for world markets, increasing protectionism, clashes over debt issues, as well as changing security

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<sup>15</sup> De Melo & Panagariya (1993), op cit, p 8

<sup>16</sup> De Melo & Panagariya (1993), op cit, p 22

<sup>17</sup> Gilpin, R (1987), *The Political Economy of International Relations*, Princeton: Princeton University Press

concerns will, in his view, bring about further dissolution of the unity of the liberal international economic order and a tendency towards greater regionalisation. He envisages three regional blocs. Firstly, an enlarged European Union and peripheral European countries. It will have close ties to Eastern Europe and some Middle East countries. The US will be the focus of the second bloc, which will include Canada, and large parts of central and southern America. The third bloc, Asia Pacific, will be the most amorphous. While Gilpin's views are interesting, he does not accept the need for regional free trade agreements for regional integration to be effective.

In contrast to these views, Panagariya<sup>18</sup> points out that East Asia has benefited greatly from an open world trading system as it exports over two-thirds of its output to the rest of the world. Given the importance of open markets to East Asia's economic performance, he argues that the case for an East Asia trading bloc should be evaluated primarily in terms of the impact such a bloc would have on the world trading system and that the region's future interests would be best served by a strategy that promotes an open world trading system. El-Agraa poses the question as to whether there is a role for an alternative form of regionalism in East Asia. He believes that 'an approach that encourages regionwide trade liberalisation on a non-discriminatory basis may hold some promise since, in the long run, it could serve as a stepping stone for Japan and China to assume a leadership role in promoting global free trade similar to that played by England in the nineteenth century and the US in the post-war era.'<sup>19</sup>

The common theme that emerges from commentators is the increasing emphasis on regional blocs in recent decades. The catalyst and motivation behind the formation of these blocs is an awareness of the need to encourage and promote free trade and increased levels of economic co-operation, which has resulted in the creation of several regional trading agreements.

### **2.3 Regionalism and Multilateralism**

Regionalism has not developed in isolation. It is important to locate regionalism within the wider context of the move away from bilateralism in favour of multilateralism.

Winters (1999) defines regionalism loosely as 'any policy designed to reduce trade barriers between a subset of countries, regardless of whether those countries are actually contiguous or even close to each other.'<sup>20</sup> He acknowledges a difficulty in

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<sup>18</sup> Panagariya, A, Quibria M and Rao N (eds), (1997), *The Global Trading system and Developing Asia*, Hong Kong: Oxford University Press (China) Ltd

<sup>19</sup> El-Agraa A (1999), *Regional Integration – Experience, Theory and Measurement*, London: Macmillan Press, p 164

<sup>20</sup> Winters, L (1999), Regionalism Vs Multilateralism, in Baldwin, Cohen, Sapir and Venables (Eds),

defining multilateralism, but settles on ‘the degree to which discrimination is absent; perhaps the proportion of trade partners that receive identical treatment and the extent to which the country’s trading regime approximates free trade.’<sup>21</sup> While the development of regionalism is firmly based in economics, and trade policy in particular, Winters does acknowledge that political objectives rather than economics *per se* can be equally important in the development of regional co-operation. He considers the question of whether Regional Trading Agreements (RTAs) are good or bad for the multilateral trading system and if regionalism sets up forces that encourage or discourage evolution towards globally freer trade. He argues that the European Union is the only RTA that is both large enough and in existence a sufficiently long time to observe the consequences of RTAs. He concludes that the jury is still out on the advantages of RTAs, but based on the observable evidence of the EU, one can ‘reject the hypothesis that one act of regionalism necessarily leads to the collapse of the multilateral system.’<sup>22</sup> He acknowledges that it is difficult to go further beyond this as one does not know to what extent the EU is a special case. However, he does acknowledge that ‘the majority view is ... that the advent of the European Union aided multilateralism.’<sup>23</sup>

## 2.4 Regionalism in Europe

‘Whatever triggered the move towards European integration, the subsequent development has been truly remarkable.’<sup>24</sup> Indeed, the European Union is the most successful example of regional integration to date. The founding fathers of the EU (then European Communities) had witnessed the harrowing cruelty of two world wars within a twenty five year period and were adamant that it should never be allowed to happen again. The institutional mechanism they chose to achieve this was the European Coal and Steel Community which controlled the raw materials of warfare – coal and steel. By combining the production of the sources of armaments, they sought to build an economic and political union. Today, the emphasis continues to be on increasing economic inter-dependence and the development of a political union.

Won describes the EU as ‘the strongest regional integration body in the world economy.’<sup>25</sup> He argues that the most important feature of EU regionalism is best represented in the EU’s single market project, which has removed fiscal, physical and technical barriers to trade. He identifies clear signs of regional integration that are

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*Market Integration, Regionalism and the Global Economy*, Cambridge: Cambridge University Press, p8

<sup>21</sup> Winters (1999), *op cit*, p 8

<sup>22</sup> Winters (1999), *op cit*, p 7

<sup>23</sup> Winters (1999), *op cit*, p 7

<sup>24</sup> Blondel, J (2000), *Regionalism and Institution Building*, lecture delivered at Asia-Europe Roundtable: Regions in Transition, August 2000, Singapore: ASEF, p 2

<sup>25</sup> Won, Chong-Keun (1998), Comparative Analysis of Regionalism in Asia and Europe and the ASEM framework, in Kim, C and Won, C (eds), *ASEM – The Asia Europe Meeting*, Seoul: European Union Studies Association of Korea, p 58

represented by increased competition, accelerated industrial restructuring and a mobile workforce. The EU goes beyond all other international organisations by virtue not only of its ambitious economic aims (EMU) but also the extensive law-making authority of its institutions and ultimately its political aspirations.

### 2.4.1 Typology of the EU's Inter-regional Relations

The level of development of inter-regional relations can normally be categorised in terms of trade and/or aid. The following two tables indicate the EU's levels of trade and aid with other regions.

**Table 1: Distribution of EC External Assistance by Region 1996–1997<sup>26</sup>**

	Annual disbursements \$m	% Share of total EC aid
ACP	2417	36.1
CEECs & CIS	1349	20.2
Mediterranean	901	13.5
Asia (all)	824	12.3
Latin America & Caribbean	640	9.6
Un-allocateable	552	8.3

**Table 2: The EU's Regional Trading Partners 2000<sup>27</sup>**

	Imports+Exports €m	Share of EU market %
NAFTA	488,719	24.9
Mercosur	42,273	2.4
EU Candidate Countries	267,914	13.6
ASEAN	110,558	5.6
Mediterranean	95,946	4.9

While the above regional definitions are quite similar, they are not identical. Nevertheless, the definitions are similar enough to allow valid comparisons to be made. As can be seen from the above tables, the EU's relations with Asia are mainly based on trade, with minor levels of aid.

### 2.4.2 EU/US Regional Relationship

<sup>26</sup> Source: Cox, Aidan & Chapman, Jenny (1999), *The European Community External Cooperation Programmes: Policies, Management and Distribution*, London: Overseas Development Institute

<sup>27</sup> Source: Eurostat

From a comparative perspective, it is also worth noting the existing strong relationship which the EU enjoys with the US. At a political level, the US and the EU have biennial summit meetings. In 1995 both parties agreed to establish a “New Transatlantic Marketplace”. While institutional mechanisms have been slow to develop, the EU/US relationship is by far the most developed and multi-dimensional of the EU’s external relations.

On the basis of comparative levels of trade, the EU’s relationship with Asia could best be compared to that of the US. However, the political relationship between the EU and US is different to that of the EU/Asia relationship. There is an existing strong relationship between Western Europe and the US, firmly rooted in the NATO framework. In addition, there are shared political fundamental philosophies based on liberal democratic principles and a common Judea-Christian heritage. Such a common bond does not exist between the EU and Asia.

## 2.5 Regionalism in Asia

Won (1998) points out that, in contrast to the European Union, Asian countries are heterogeneous. There are no common bonds on the basis of language, religion, culture or ideology. There are wide variations in economic structures and importantly, there is no effective consciousness of a region. Within the Asian ASEM countries GDP per capita ranges from \$34,000 in Japan to \$396 in Vietnam. Table 3 shows the extent of this variation.

**Table 3: Economic Structure of Asian ASEM Countries<sup>28</sup>**

	<b>Population in millions (1999)</b>	<b>GDP in \$ billion (2000)</b>	<b>GDP per capita (2000)</b>
Indonesia	209,3	153,3	723
Malaysia	21,8	89,3	4,016
Philippines	74,5	75,2	990
Singapore	3,5	92,3	25,864
Thailand	60,9	121,9	1,986
Vietnam	78,7	31,6	396
Brunei	0,3	4,6	14,094
Korea	47,3 *	457,2	8,910**
Japan	126,8 *	4700	34,210**
China	1285 *	1100	840**

Steiner (2000) is not quite so dismissive of Asian regionalism as Won. He looks to the creation of the Association of South East Asian Nations (ASEAN) as a catalyst for regional co-operation. ASEAN was established in 1967 with five original members.

<sup>28</sup> Sources: *Asian Development Outlook 2001*; *ASEAN Secretariat*; *World Bank Development Indicators 2001*

\* year 2000; \*\* Gross National Income per capita, Atlas Method, current US \$.

Today membership has grown to ten. Steiner argues that ASEAN succeeded in becoming ‘a diplomatic community by maintaining a common position towards the Vietnamese invasion of Cambodia.’<sup>29</sup> This is a bold statement on the part of Steiner, given the relatively loose ties which link ASEAN members. In practice, it is fair to say that it has not yet become a cohesive economic force, let alone a political entity.

ASEAN practises a unique set of regional inter-state diplomatic norms of conduct. These were presented as ‘the ASEAN way’<sup>30</sup> and were characterised by their informal nature, which played down the western legalistic and organisational features of multilateral co-operation. Malay-style consultation (*musyawarah*) and consensus adapted from traditional village life politics (*mufakat*) were employed. Also, the principle of non-intervention in the internal affairs of other partners is respected.

‘ASEAN members ... regarded [high levels of economic growth] as indicating international recognition of East Asia’s place in the emerging international order.’<sup>31</sup> This opened the way for a political debate among ASEAN members who wanted to champion the “Asian way” as a representation of east Asian societal values and culture which could be pitted against western liberal ideology. This “Asian way” reflected the Confucian/Asian ethic concerning the balance of rights and duties between the individual and the wider community, with the balance in favour of the latter. This is an on-going debate in East Asia at a time when issues such as the universality of human rights is under discussion.

Wanandi (2000) argues that the idea of east Asia regionalism emerged due to increased economic interdependence between the east Asian states which was caused by investment, trade and technology transfers from Japan following the so-called ‘flying geese pattern’ of economic development in the region.

De Melo (1993) notes US opposition to the development of East Asian regionalism as shown when attempts were made to form the East Asian Economic Group. He suggests that regional integration might be more successful on a pacific-wide basis. In contrast, Saxonhouse<sup>32</sup> concludes that the rapid growth in inter-regional Asian trade suggests that there could be trade-creating effects from region-wide liberalisation. Saxonhouse’s argument is more convincing as there exists a strong potential for Asian regionalism, probably based on the ASEAN+3 format i.e. the ten Asian ASEM partners plus Laos, Cambodia and Burma. ASEAN would provide a cohesive geographic bloc, with Japan, China and Korea providing the required economic strength. Any attempt to develop a pacific-wide regionalism, as espoused by De Melo would be difficult, given the geographic spread and diversity of the countries involved. Wanandi acknowledges that ‘there is no vision at this stage...to aim at the deep integration achieved in Europe because of the recognition of the diversities and

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<sup>29</sup> Steiner (2000), *op cit*, p 4

<sup>30</sup> Steiner (2000), *op cit*, p 5

<sup>31</sup> Steiner (2000), *op cit*, p 6

<sup>32</sup> Saxonhouse, G.R., (1993) *Trading Blocs and East Asia* in De Melo Jaime & Panagariya Arvind (Eds), (1993), *op cit*

different political history and circumstance in East Asia.<sup>33</sup>

In the context of EU-Asia regional dialogue, EU-ASEAN relations should also be briefly examined. Relations have essentially been in abeyance since Burma joined ASEAN in 1997. In line with the EU policy of refusing to enter into dialogue with the Burmese military regime, the EU refused to hold any ministerial level ASEAN meetings. There was an attempt to re-start the dialogue in December 2000 with the holding of a foreign minister's meeting. However, only a small number of European ministers travelled to the meeting in Laos. At the meeting, the ASEAN side took a strident view on the participation of Burma and called for the inclusion of Burma, Cambodia and Laos in ASEM. It would appear that there is no immediate prospect of a meaningful engagement between the two sides.

## 2.6 ASEM as a Response to Regionalism

Lee sees the first ASEM summit as providing an opportunity to develop regional co-operation between Asia and Europe. He contends that 'ASEM is regarded as historically significant in that it helps the two regions to discard their unequal relations of the past and establish ties based on an equal partnership, thus creating a foundation for regional co-operation.'<sup>34</sup> He further argues that ASEM was established with the goal of replacing closed regional relations with open regional co-operation, which would also facilitate regional integration within each region.

One of the most important reasons behind this move towards regional co-operation was the changing world balance of power, together with the political and economic objectives of the participants. Lee argues that ASEM came into being when the political and economic interests of European and Asian countries coincided with a comparative weakening of US influence. He contends that, while European and Asian countries are from different cultural backgrounds, the two regions share common interests in the post cold-war era. European countries realised that they had been pre-occupied with their eastern borders and had paid insufficient interest to the Asian region. He sees the 1994 European Commission strategy paper as a response to this deficiency. 'Behind the creation of ASEM lies the EU's market access strategy of inducing further market opening of the Asian region through bilateral and multilateral policies, while more actively participating in Asia's economic development process as a means of achieving market penetration.'<sup>35</sup> Lee also sees a corollary effect in Asia, as the EU's strategy to seek expanded market access in Asia was also welcomed by Asian countries which had sought improved access to the EU market since the establishment of the EU single market in 1993. He surmises that both sides had a vested economic interest in improving their mutual trading environment, thus creating the necessary momentum for the launch of ASEM.

Steiner (2000) states that 'as the two players [Europe and Asia] constituted two of the three major regions of the world in terms of political, economic and military

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<sup>33</sup> Wanandi, Jusuf, (2000), *Regional Institutionalism in East Asia*, , lecture delivered at Asia-Europe Roundtable: Regions in Transition, August 2000, Singapore, p 7

<sup>34</sup> Lee (1999), *op cit*, p 21

<sup>35</sup> Lee (1999), *op cit*, p 22

power, they related directly the purpose of this exercise to the political governance of the post-cold war international order. ASEM was not destined to be an enlarged equivalent of the pre-existing EU-ASEAN relationship, but something of much greater magnitude.<sup>36</sup> His “new” model of inter-regional co-operation provides the context in which both Asia and Europe saw the political and economic incentives of institutionalising a co-operative framework. He identifies two dimensions upon which this new relationship was based. Firstly, the development of a concerted relationship in shaping the international order. The image of the “missing link” was to the forefront. A document drafted by senior officials of the ten Asian ASEM countries sets out their vision. ‘Europe is well linked to North America through history and a rich network of trans-Atlantic institutions. East Asia and North America are linked by APEC....The missing link is the one between Asia and Europe. The first and foremost purpose of the Asia-Europe Meeting (ASEM) is to bridge the missing link.’<sup>37</sup> Secondly, this new relationship allows the EU to reinforce its international identity. In addition, the ten Asian partners had no experience of representing themselves as a regional bloc. Therefore, the process was important to them as a building block in the creation of a regional identity.

## 2.7 Conclusion

The past 50 years have been characterised by the development of regional arrangements. These are founded on economic relationships and often involve preferential trade agreements. This move towards regionalism is best epitomised by the European Union, the most successful experience in regional integration to date. Several factors explain the high level of motivation that ensured this successful integration – the preservation of peace on the continent and the high level of trade between the member states. Today, the emphasis has moved to the development of its political dimension.

This high level of trade between the member states of the EU is not to be found in Asian ASEM countries, where the vast majority of exports leave the region. Therefore, their motivation in establishing a regional trading bloc is quite different than that of European countries. Asian economies want to trade with major economies, not other less developed countries. This partly explains the slow rate of regional development in South East Asia. Other factors have also contributed to the slow pace of regional development e.g. emerging from a colonial past, lack of shared cultural or religious identity.

This new found interest in inter-regional co-operation and dialogue has been identified by Steiner as a move away from the bi-polarity of the cold war era, which allowed Europe to emerge from its protective relationship with the US. The EU was keen to be seen on the world stage as an actor in its own right. This general movement away from bilateralism in favour of multilateralism and regionalism facilitated the development of ASEM. It fits well into this new regional perspective and is often referred to as the “missing link” in the triad linking the EU, Asia and US.

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<sup>36</sup> Steiner (2000), *op cit*, p 13

<sup>37</sup> Asian ASEM Senior Officials (1995), *ASEM: An Asian Discussion Paper*, p 1

In examining the various ASEM programmes in section three, the predominance of the economic pillar becomes evident. Its success is a direct result of the Asian sides commitment to the development of economic relations. In contrast, they tend to limit their involvement in political issues. As the cultural pillar is non-threatening to both sides, it has universal support, but with a relatively limited programme.

### III. ASEM's Three Pillars – A Critical Assessment

#### 3.1 Introduction

In order to critically assess the development of the political, economic and cultural pillars it is preferable if an analytical tool can be employed. However, there is an inherent difficulty in seeking to assess ASEM as it is a process, rather than a project or programme which tend to have clearly defined outputs. This difficulty is not unique to ASEM. It is encountered when one attempts to assess the effectiveness of any policy process. Cost benefit analysis is the most widely used analytical tool in the assessment of public sector policy, but it is of limited use in assessing inter-regional dialogue, which is inherently intangible and policy driven. Therefore, this assessment will be of a qualitative rather than a quantitative nature.

#### 3.2 Assessment of Progress in the Economic Pillar

Over a thirty year period, from 1967 to 1997, East Asian economies grew at an average rate of eight per cent per annum. Real incomes per head increased seven-fold. This was an unprecedented level of prolonged economic growth. These high rates of growth were sustained by foreign investment, initially from Japan, then from the US and the EU. This phenomenal growth led directly to a desire on the part of the EU to develop closer ties with East Asia. It is not an unimportant fact that these countries account for about 28% of world trade and this is predicted to increase to around a third by 2010. Accordingly, the economic pillar of ASEM posed no threat to Asian partners and they were quite keen to embrace it. On the European side, economies were sluggish and the Asian markets offered potential to increase their exports. In addition, as described in section one, the Asian authorities were also keen to develop closer economic ties in case an economic downturn occurred and as a means of increasing their political influence.

**Table 4: The EU's Main Trading Partners – 2000<sup>38</sup>**

<i>Imports</i>	%	<i>Exports</i>	%
<b>Asia ASEM</b>	<b>24.2</b>	USA	24.7
USA	19.3	<b>Asia ASEM</b>	<b>19.1</b>
Switzerland	5.7	Switzerland	7.5
Norway	4.5	Poland	3.6
Russia	4.4	Turkey	3.2

<sup>38</sup> Source: Eurostat

**Table 5: Asian ASEM's Main Trading Partners (excluding intra ASEM)-  
2000<sup>39</sup>**

<i>Imports</i>	%	<i>Exports</i>	%
USA	15.5	USA	25.2
<b>EU</b>	<b>11.6</b>	<b>EU</b>	<b>15.2</b>
Australia	2.8	Australia	1.9
Saudi Arabia	2.5	Canada	1.6
Un.Arab Emirates	1.9	India	0.9

The above tables show the importance of the trade relationship between the two regions. Asian ASEM countries are the main importer into the EU and the second largest recipient of EU exports. The EU is the second largest market for both imports and exports of Asian ASEM countries.

In terms of regionalism, ASEM is not an inter-regional trading arrangement. 'ASEM's main contribution in the economic field lies in information, the transfer of knowledge and the development of infrastructure. These are areas where tangible results have been obtained and where collaboration between the two regions is most noticeable.'<sup>40</sup> The economic pillar focuses on trade, investment and business networking. These three aspects have found expression through the Trade Facilitation Action Plan (TFAP), the Investment Promotion Action Plan (IPAP) and the Asia Europe Business Forum (AEBF). Financial matters also come within the remit of the economic pillar and are dealt with by finance ministers and their deputies.

These areas will now be examined in turn. The WTO and the financial crisis will also be briefly touched upon, as they have an on-going impact on the development of inter-regional dialogue.

### **3.2.1 Trade Facilitation Action Plan**

Economic theory acknowledges that increasing trade will lead to an increase in Gross Domestic Product through a process of dynamic growth. More particularly, the benefits of removing non-tariff barriers have been well documented, notably in Cecchini's landmark report<sup>41</sup> on the European single market project.

As tariff issues are dealt with in the WTO context, it was decided that ASEM should

<sup>39</sup> Source: Eurostat

<sup>40</sup> Council for Europe Asia Co-operation Task Force (1997a), *The Rationale and Common Agenda for Asia-Europe Co-operation*, London: Council for Europe Asia Co-operation, p 72

<sup>41</sup> Cecchini, Paolo (1988), *The European Challenge 1992*, Aldershot: Wildwood House

focus its attention on non-tariff barriers. Leaders adopted the Trade Facilitation Action Plan (TFAP) at the second summit in 1998. Its aim is to reduce non-tariff barriers and promote trade between the two regions. At the second meeting of economic ministers in October 1999, ministers adopted seven priority areas which the TFAP should concentrate on: customs, standards and conformity assessment, public procurement, sanitary and phyto-sanitary controls, intellectual property rights, mobility of business people, and other trade activities. As a follow-up, Senior Officials on Trade and Investment (SOMTI) adopted a Consolidated and Prioritised List of the Major Generic Barriers to Trade with a view to removing these barriers between ASEM partners. This list was compiled with the assistance of the business sector.

The sixth meeting of senior officials on trade and investment (SOMTI VI) in May 2000 carried out an evaluation of TFAP. Overall, it was considered to be quite successful and partners expressed their desire to continue with the process. SOMTI VI also compiled a list of targets that TFAP will seek to achieve over the period 2000-2002. In doing so, an eighth priority area, e-commerce, was added to the existing list of priorities. At the third summit, leaders 'expressed satisfaction with the progress made in relation to the Trade Facilitation Action Plan, particularly the concrete goals achieved since ASEM II as reflected in the report of the overall evaluation of TFAP.'<sup>42</sup>

SOMTI's evaluation notes that, to date, the TFAP has concentrated on seminars and symposia, which seek to reconcile the differing approaches in the priority areas. It points to the importance of these seminars as 'providing an effective response to business sector concerns.'<sup>43</sup> Indeed, greater participation by the business sector is called for. The paper assesses all seven areas in turn. Judged against its objectives, the TFAP has been relatively successful in reducing non-tariff barriers, notably through seeking common interpretations and promoting transparency. Perhaps the most important achievement of TFAP is that it brings together the officials who are implementing these non-tariff barriers. Through this networking, they can seek to achieve consensus and resolve difficulties experienced by their own business people. The holding of ASEM meetings on sanitary and phyto-sanitary issues on the margins of meetings of relevant international organisations is a positive development and a model that ASEM should seek to develop in the other priority areas.

It was agreed in 2000 that partners should be invited to report annually, on a voluntary basis, on measures which they have taken to remove obstacles to trade. SOMTI 7, meeting in July 2001, undertook this exercise for the first time. The late receipt of reports hampered the debate at the meeting, but it is fair to say that partners engaged in a positive and open discussion. What was particularly important was the

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<sup>42</sup> ASEM III Chair's Statement (2000), Seoul, para 11

<sup>43</sup> Senior Officials Meeting on Trade and Investment VI (2000), Seoul, para 2

willingness of partners to enter into this process which involved annual reporting on what they have done to remove obstacles. As this process gathers pace, it is bound to yield results. The reports will now be studied by the Asia Europe Business Forum and relevant national trade ministries.

### **3.2.2 Investment Promotion Action Plan**

The EU is the world's largest supplier of foreign direct investment. In 1998 total outward EU member state investment accounted for 44% of global stocks, with the US and Japan accounting for 25% and 10% respectively. However, when outward investment by EU member states in other EU member states is discounted, EU investment in third countries is slightly behind the US. Excluding Japan, the other nine Asian ASEM countries receive approximately 4% of total inward investment. Given this relatively low figure, Asian ASEM partners are keen to increase their share of EU outward investment. Conversely, European partners are keen to exploit investment opportunities, provided the climate for investment is favourable.

In response to this situation, the second summit adopted the Investment Promotion Action Plan (IPAP). The objective of IPAP is to generate greater investment flows through enhancing the investment climate between and within the two regions. In order to achieve this objective, several secondary objectives have also been developed. These include, a strengthening of co-ordination between business and government, enhancing business-to-business contacts between the two regions, raising the investment profile of each region in the other and improving information sharing and exchange.

To give effect to IPAP, economic ministers established the Investment Experts Group, which is entrusted with identifying concrete measures to promote investment. At official level, efforts have concentrated on increasing the level of transparency and certainty. As a first step in improving the investment climate, ASEM partners submitted a list of what they regard as the most effective measures in terms of attracting foreign direct investment. At the fifth meeting of the Investment Experts Group (IEG 5) in July 2001, partners reported annually on the progress that they have made to improve the investment climate and remove obstacles to investment. The advantage of the reporting mechanism is that, through peer pressure, partners will ensure that their own business people can invest safely in the economy of another ASEM partner. However, as in the case of the trade reports, most of the investment reports were received too late to allow for meaningful debate. However, partners did challenge each other on particular aspects and this is a good omen for the future. This form of annual reporting and peer pressure may well become the central focus of the economic pillar.

### **3.2.3 Asia Europe Business Forum (AEBF)**

The business community is represented in the process through annual meetings of the Asia Europe Business Forum. It has been described as being in a 'state of mild

crisis.’<sup>44</sup> It is fair to say that it is not one of the more effective components of the process. It suffers from a lack of continuity. It cannot be favourably compared to the Transatlantic Business Dialogue whose secretariat ensures that consistency is maintained between meetings. The AEBF is aimed at business people who are involved in small and medium sized enterprises, rather than large multinationals which is the focus of the Transatlantic dialogue.

### **3.2.4 World Trade Organisation**

‘As with APEC, an intended purpose of ASEM is to pre-discuss WTO ministerial meeting issues so as to establish preliminary negotiating positions and possibly resolve anticipated conflicts prior to multilateral talks.’<sup>45</sup> This is consistent with ASEM’s model of open regionalism and is compatible with the WTO principles of non-discrimination and open markets.

While both sides have agreed that trade liberalisation should be pursued through the WTO, on each occasion when SOMTI, economic ministers or leaders have met in recent times, there has always been a reference to the launching of a new WTO round in the chair’s statement. Most recently, at the Seoul summit, leaders reiterated the importance of a rules-based multilateral trading system and agreed to work together to promote further liberalisation and to strengthen and develop rules through a new round of multilateral trade negotiations. After the Seattle WTO debacle, this was a strong message from two of the three economic blocs, primarily aimed at the US, of the need to re-start the process at the earliest possible opportunity, with a much wider agenda than that proposed for Seattle. It was possible to agree this text, notwithstanding the very different demands of both regions. These agreed statements are a visible expression of inter-regional dialogue. In the absence of ASEM, it is highly unlikely that the EU and East Asia would have found a mechanism to jointly express their desire for an early round.

### **3.2.5 The Financial Crisis**

Initially, EU leaders were dismissive of the effect of the 1997 Asian financial crisis on the EU’s economy. This was despite the fact that European banks had the largest exposure of any foreign banks in the region. Only by the beginning of 1998 was there a public acknowledgement of the potential gravity of the crisis for European markets. It was realised that the effective depreciation of Asian currencies offered these countries a competitive price advantage for their exports. European leaders were well aware of this when they met at the second Summit in April 1998. Nevertheless, they committed themselves to a trade pledge, which involved a commitment that the EU

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<sup>44</sup> Reiterer, Michael (2001), *ASEM – The Third Summit in Seoul: A roadmap to consolidate the partnership between Asia and Europe*, European Foreign Affairs Review, Vol 6 No 1 Spring 2001, Kluwer Law International, p 30

<sup>45</sup> Dent (1999), *The European Union and East Asia – An Economic relationship*, London: Routledge, p

would not close its markets or seek to increase tariffs, if the trade imbalance between the two regions deteriorated. ‘The crucial achievement of ASEM II was that Europe recognised the importance of continuing co-operation with Asia and the role it could play in Asia’s economic recovery by keeping its market open to Asian exports.’<sup>46</sup> While some commentators give little credit to European leaders for this decision, it is the single most important response that they made in response to the crisis. In 1997 the EU had a trade deficit of €4 billion with Asian ASEM countries. They were aware that, as a result of the depreciation of Asian currencies, Asian exporters would exploit their comparative advantage. By 1999, the trade deficit had more than doubled to €9 billion.

At the London summit, European leaders also agreed to establish the ASEM Trust Fund to provide expertise to assist in financial and social sector reform. Allied to this, the European Commission established the European Financial Expertise Network, which assists Asian ASEM governments in locating financial experts who can assist with structural reform of the financial sector. It was agreed at the third Summit to extend the ASEM Trust Fund into a second phase and Finance Ministers were asked to consider the modalities of such an extension. At their meeting in January 2001, they agreed that the scope and focus on the second trust fund should be along similar lines to that agreed for the first fund.

In terms of regionalism, the financial crisis accelerated co-operative efforts in the region. In May 2000, ASEAN+3 finance ministers (which is equivalent to Asian ASEM partners plus Laos, Cambodia and Burma), meeting in Chiang Mai, agreed on a currency swap plan. The Chiang Mai 2000 agreement foresees a network of short-term swaps of currency reserves in case of speculative attacks on a currency. Details have yet to be finalised, but it is likely the Chiang Mai initiative will have implications for future crisis prevention in the region.

At the ASEM Finance Ministers’ Meeting in 1999, Japan suggested that emerging Asian economies anchor their currencies to an appropriate basket of the dollar, euro and yen. Although the proposal has not developed further, it aims to stabilise the effective exchange rates of regional currencies. Pooling the reserves of Asian partners would grant them the degree of autonomy from the IMF that they are looking for and would, politically speaking, contribute to the forging of an East Asian identity through closer co-operation of central banks.

### **3.3 ASEM Finance Ministers**

Finance ministers from the 26 partners have met on three occasions, most recently in Japan in January 2001. Dialogue between finance ministers has tended to focus on discussions of a macro-economic nature, where they review the global economic situation and developments in both regions. They have also considered the appropriate exchange rate regime for Asian partners.

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<sup>46</sup> Hwee (2000a), *op cit*, p 3

Compared to the economic ministers and SOMTI, finance ministers do not pursue a policy of peer review. They have commissioned papers in the areas of the Basel core banking principles and the opening up of financial markets. Their meetings tend to have a well-defined agenda and clearly focused discussions.

As a means of ensuring greater follow-up to their discussions, consideration should be given to the co-ordination mechanism which they employ. There is no co-ordinator mechanism in the financial field, as happens in the economic and political area. Instead there is a core group which is comprised of all ten Asian partners and the troika on the EU side. This group meets on the margin of the spring and autumn World Bank/IMF meetings. However, it is an unwieldy group. It would be a considerable advantage if the financial area also moved to the co-ordinator system, whereby four co-ordinators are responsible for driving the agenda forward and organising forthcoming meetings.

### **3.4 Development of the Political Pillar**

‘Establishing the essential importance of the political pillar within the ASEM process [is] vital. We are convinced that countries that treat their citizens properly also tend to be the best international political and trade partners. In the long run, economic development cannot prosper without democracy.’<sup>47</sup> From the initial stage, the European side insisted that the ASEM process should extend beyond an economic relationship and include a political dimension. However, the ASEAN senior officials paper of March 1995, which launched the preparatory work for the first summit, foresaw an informal gathering of economic leaders with a “partnership for growth” theme. In reply the European senior officials paper added as a topic for discussion “political and security issues in the social and human sphere.” While nervous about this suggestion, the Asian side was reluctant to refuse the European request. They were particularly anxious that the European side might use the opportunity to raise delicate human rights issues.

European governments felt that they had no choice but to press for the inclusion of a political dimension. In any event, they would have come under pressure from domestic lobby groups, if they had deliberately excluded the possibility of raising human rights issues with their Asian partners, notably China. In addition, and perhaps more importantly, the inclusion of a political element in dialogue with third countries was becoming the norm for the EU as a result of the Maastricht Treaty, which provided for consistency of foreign policy across political and economic matters.

Nuttall argues that this inherent tension about the inclusion of a political dimension was real and not perceived. ‘One deliberate result was the exclusion of Hong Kong

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<sup>47</sup> Reiterer, Michael (2000), The Seoul 2000 Summit: Review of ASEM Results, *Bulletin*, European Institute for Asian Studies, Brussels, Vol 4, December 2000, p 6

and Taiwan from the process, whereas a formula had been found to allow them participate in APEC. While China may well have opposed their inclusion in any event, the inclusion of political dialogue made it impossible for China to agree to their inclusion.’<sup>48</sup>

### 3.4.1 Consideration of Political Issues

Political issues are considered at three levels - Heads of State or Government, foreign ministers and senior officials (SOM), the latter comprising foreign ministry representatives. There is no set agenda for political dialogue and topics are agreed in advance by consensus. The agenda is normally sufficiently broad to allow participants to raise any issue. Neither region has strategic military interests in the other region, which means that there are no pre-existing conditions that must be respected.

The Chair’s statements of all three Summits, as well as Foreign Ministers meetings, clearly point to the political and security dimensions of ASEM. At the first summit in 1996, leaders set out the political agenda, which includes human rights, good governance, reform of the UN, disarmament, regional conflicts and global security issues. At the first Foreign Ministers meeting in Singapore there was agreement that global problems like terrorism, drug trafficking and environmental degradation required global responses. Accordingly regional approaches to economic and security issues would be required.

The best example of a successful political dialogue was at the third summit in Seoul, where European and Asian leaders freely engaged in dialogue and discussed developments on the Korean peninsula, the Balkans, East Timor, problems in the South China Sea (which had caused a major embarrassment at the Foreign Minister’s meeting in 1999) and human rights. The explicit references to human rights, democracy and the rule of law in the Chair’s Statement, and particularly in AECF 2000, were a major milestone in the process. Leaders agreed to focus on ‘issues of common interest, proceeding step-by-step in a process of consensus building, with a view to enhancing mutual awareness and understanding between partners... and not excluding any issue beforehand, but exercising wisdom and judiciousness in selecting topics for discussion.’<sup>49</sup> This carefully worded text may facilitate an expansion of the boundaries of political dialogue. Each side has the ‘capacity to engage the other side in dialogue and co-operation about issues of national and global governance [that] both requires and helps good governance at home.’<sup>50</sup>

This new dimension, achieved through difficult negotiations and counterbalanced

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<sup>48</sup> Nutall, Simon (2000), ASEM and Political Dialogue, Lee, Chong-wha (ed), *The Way Ahead for the Asia-Europe Partnership*, Seoul: Korean Institute for International, page 156

<sup>49</sup> Asia Europe Co-operation Framework 2000, para 12

<sup>50</sup> Maull, Hans (2000), Governance in the Age of Globalisation: Implications for the ASEM Agenda, *CAEC Task Force Report*, Paris: IFRI, p.62

by references to ‘mutual respect, equality, promotion of fundamental rights and, in accordance with the rules of international law and obligations, non intervention, whether direct or indirect, in each other’s internal affairs’<sup>51</sup> is an important step in overcoming suspicions on the Asian side that Europe could use the process to revert to neo-colonial postures and lecture Asian partners. It will be essential that the future political dialogue is conducted discretely to broaden the established common ground and a non-country specific approach could be a useful confidence building measure in this regard.

Objectively, while the level of progress has been slow in this pillar, some progress has been recorded. In the early stages, several Asian participants refused to discuss human rights, merely referring to different cultural perceptions. The agreement reached at the third summit will be important in terms of developing the dialogue. While participants do not always agree, the process of dialogue is important in its own right. Building trust is essential for political dialogue and the process is still at an early stage of development. There is also a broader dimension. Behind the economic origin of ASEM, there is a deeper geopolitical concern, shared by both Europeans and Asians, that the predominant role of the United States in the post-cold war era exposed both sides to a potentially damaging loss of influence. This was expressed in terms of creating the third link, which argues that trans-atlantic and trans-pacific relations are strong, but European-Asian links were practically non-existent.

There are also region specific nuances. The role which China intends to play in the East Asian region, was one of the reasons behind the Singaporean initiative to launch ASEM. It was considered that to involve China in as many multilateral arrangements as possible would make a contribution to regional security. ‘The acceptance by China of multilateralism as a guiding principle could be one of the most important political achievements of the ASEM process.’<sup>52</sup>

Nuttall contends that the political dimension has always been overshadowed by the economic pillar, partly because of Asian disinclination to run the risk of confrontation, but also because of European institutional weakness in this field. The EU’s Common Foreign and Security Policy (CFSP) was only introduced in the Maastricht Treaty and it is only in the past two years that it has begun to develop its European Security and Defence Policy (ESDP). He also identifies the lack of ‘permanent and exclusive structures for political dialogue in the ASEM process’<sup>53</sup> as an issue that should be addressed.

ASEM’s ability to deepen may well depend on the willingness of its members to see ASEM play a greater role in the political and security sphere. It would seem that

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<sup>51</sup> Asia Europe Co-operation Framework 2000, para 12

<sup>52</sup> Nuttall (2000), *op cit*, p 160

<sup>53</sup> Nuttall (2000), *op cit*, p 156

some partners prefer to see the process move slowly and cautiously. However, ‘ASEM should maintain a forward momentum, preceding in incremental steps and taking into account the dissimilarities between European and Asian perspectives. Through the process of frequent consultation and consensus building, ASEM should be able to arrive at basic understandings ...which will serve as the foundation for its work.’<sup>54</sup> However, the third meeting of Foreign Ministers in Beijing in May 2001 focused more on process issues rather than substantive political dialogue. One can but hope that ministers move away from this model and engage each other actively and constructively, which would be in accordance with the views of Leaders as enunciated at the third summit.

### 3.5 Assessment of Progress in the Cultural Pillar

Chaibong<sup>55</sup> comments that it has become almost routine to start any discourse on cultural understanding between the two regions with a comment on the lack of understanding of each other’s culture, precisely because it is true. In validating his argument he points to Europe’s pre-occupation with the cold war until the early 1990s. Over the same period, Asian countries were trying to shake off their colonial past and were busily engaged in nation building. ‘Europe figured very little, if at all, in the scheme of [Asian] thinking.’<sup>56</sup> With the end of the cold war, Europe and Asia could work outside the former bi-polar world and both were keen to exploit the economic advantages of co-operation. Chaibong notes that, it soon became evident that economic links alone were not sufficient. Cultural differences began to cause difficulties in trade negotiations and business partnerships. Soon “specialists” of the other region were called in to provide lessons on doing business in the other’s cultural environment. It also became evident, particularly for Europeans seeking to do business in Asia, that it is essential to build up personal ties and networks which would provide a basis of trust. The term “Asian values” emerged, as a way of describing the different cultural nuances and customs e.g. Asian business people seek to reach a consensus in their business dealings, but they are defensive whenever they have to negotiate a contract with westerners. This goes to the premise of a contract, which is to guard against the mistrust of your counterpart. The Asians share the Confucian *guanxi* or *ningen kankei* that is based on trust, confidence, and a gentleman's agreement in a long-term relationship. In this view, one does not require a legal contract to protect the contractors.<sup>57</sup>

At the launch of ASEM there was an appreciation of the need to address these

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<sup>54</sup> Sukontasap D and Santipitaks B (2000), ASEM: A Political and Security Agenda, *Strengthening the International Order*, London: Council for Asia-Europe Co-operation, p 101

<sup>55</sup> Chaibong, Hahm (1998), *Beyond Economic Co-operation: Prospects for Mutual Cultural Ties*, Seoul: Paper delivered at Yonsei-Warwick Conference on ASEM

<sup>56</sup> Chaibong, Hahm (1998), *op cit*, p 1

<sup>57</sup> Lim, Paul (2000), *Beyond Economic Co-operation: Prospects for Mutual Social, Cultural and Educational Ties*, in the Journal of Contemporary European Studies, Vol. 12, Winter 2000, p 245.

cultural differences. There was also a recognition that this strengthening of relations should extend beyond the business sector. Leaders agreed that ‘an important goal of this [ASEM] partnership is for both Asia and Europe to share the responsibilities in building greater understanding between the peoples of both regions.’<sup>58</sup> In an effort to achieve this goal, the Asia Europe Foundation (ASEF) was established.

However, if one examines ASEF’s calendar of activities, it is clear that cultural activities such as art exhibitions, film festivals, folk and music festivals dominate. This is aimed primarily at a particular audience, which will have a limited impact on bridging cultural differences. ‘A lot of its activities have been seen as too highbrow involving a very small target audience. Another common criticism is that the activities seemed to be targeted at the converted – people who are already plugged into the ASEM process and appreciated the importance of Asia-Europe relations – instead of reaching out to wider segments of society whose knowledge of each other might be coloured by stereotypes.’<sup>59</sup> Its role in reaching out to the public at large needs to be strengthened, not only financially but also by adapting its work programme, if it is to have a broader appeal.

Lim correctly argues that the growing economic, trade and investment ties will not, of itself, bring the peoples of Europe and Asia together or deepen their understanding of each other. ‘It is harder to write about and promote culture in terms of understanding ways of thinking, ways of doing things, in a word, ways of living. But culture in ASEM has to be dealt with. We are, after all, all human beings, not just economic commodities. We require conscious decision-making and the political will to promote Asia-Europe cultural relations.’<sup>60</sup>

One of the most effective means of reducing the cultural gap is by encouraging people from one region to spend time in the other. This was the *raison d’etre* behind the establishment in 1999 of the ASEM initiative entitled Europe Asia Business Internship Programme which brought 200 final year third level students from Asia to work in European firms and 200 Europeans in the opposite direction. It was well received by both students and firms alike and is perceived as having fulfilled its objective. It was a pilot programme of one year’s duration. Given its success, it should become a permanent feature of the ASEM process. There are a number of more specific European Commission programmes which seeks to promote Asia-European ties e.g. the EU/Japan Executive Training Programme, a host of programmes bringing Chinese lawyers, academics, students, civil servants for training and study to Europe and also European academics and young managers to China. The common objective of these programmes is to create “goodwill ambassadors”. The

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<sup>58</sup> ASEM I Chair’s Statement (1996), para 4

<sup>59</sup> Hwee Yeo Lay (2000b), *ASEM 3: More Talk or Move Forward*, Working Paper 2000/10, Copenhagen: Danish Institute of International Affairs, p 6

<sup>60</sup> Lim, Paul (2000), *op cit*, p 262

effectiveness of these kinds of programmes is always difficult to evaluate from a quantitative point of view. However, from a qualitative point of view, they would appear to be successful in increasing levels of awareness of the different cultures and business practices in both regions.

‘An Asian educated in a European university will keep his ties to Europe in mind during his working life, but statistically, more Asians go to study in the US than in Europe.’<sup>61</sup> In fact, for every one Asian that goes to Europe to study, four go to universities in the US. Also, one should not forget that more Europeans study in the US than in Asia. As a means of addressing these imbalances, the third summit agreed to launch the DUO student exchange scheme. Its aim is to establish a five year programme for two-way exchanges of 4,500 students and staff. However, in order to be effective, other issues will also have to be examined, such as credit for semesters undertaken in the other region or should there be a concentration on postgraduate courses. It must also be borne in mind that European and Asian students want to study in American universities, often because of the excellence and prestige of the establishment. Asian universities have not yet succeeded in establishing high profile universities in sufficient numbers.

In summary, progress in the cultural pillar has been limited. However, in fairness, it is an enormous task to seek to educate people in both regions as to the cultural diversity of the other. Perhaps the greatest potential lies in the field of educational exchanges. While it will be difficult to greatly increase the level of participation by European students in Asian universities, if the programme is attractively presented, it can be successful.

### **3.6 Conclusion**

The first two summits provided a firm foundation for the three pillars, but particularly the economic dimension. Indeed, the economic pillar has been the most successful with a concentration on the reduction of non-tariff trade barriers and the promotion of inward investment. ‘The prominence of ASEM’s economic aspect over its political and cultural equivalents can be largely explained by the fact that trade, investment and technological co-operation all constitute broad common denominators of interest, and hence offer the scope for collaboration between the two regions.’<sup>62</sup>

Most Asian partners, who were reluctant to engage in substantive political dialogue initially, viewed this dimension with extreme caution. Fortunately, the third summit appears to have been a turning point, with leaders engaging in dialogue on issues where their views diverge. The inclusion of issues such as human rights in the AECF 2000 augurs well for the future. It remains to be seen whether this challenge will be grasped. If the political dialogue aspect deepens, the prospects for the process are

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<sup>61</sup> Lim (2000), *op cit*, p 23

<sup>62</sup> Dent (1999), *op cit*, p 242

particularly good. However, if the Asian side seeks to frustrate this deepening or the European side uses the opportunity to lecture their Asian partners on abuse of civil rights etc, there is an inherent danger that the process will revert to an economic relationship, with lip service paid to the political and cultural components.

The cultural pillar has tended to centre on the activities of the Asia Europe Foundation, which has done a good job in organising particular events. However, if this pillar is to expand, it requires significant financial resources and must seek to reach a broader audience than heretofore. Hopefully, the DUO educational exchange programme will be an indication of commitment to this pillar.

## IV. Conclusion

Assessed against its central objective of developing a new partnership and strengthening regional dialogue, the process can be deemed to be relatively successful. While accepting that ASEM is still at an early stage of development, it has been effective in establishing an inter-regional dialogue between Europe and Asian and has been central to the evolution of relations between the two regions. 'ASEM for now is a high-level multilateral diplomatic forum comparable to all other regular multilateral summits, such as the G8 and the Commonwealth Heads of Government Meeting.'<sup>63</sup>

In terms of providing an overall critique of the process, it must be recognised that ASEM has succeeded in developing an inter-regional dialogue between two of the three strongest economic blocs in the world. It is a multi-dimensional regional dialogue in that it encompasses three ostensibly equal aspects – political, economic and cultural. However, this does not mean that all three pillars have achieved equal levels of success. As can be seen from the review of the three pillars above, it seems clear that the economic dimension is by far the most effective with its concentration on trade and investment issues. This is a somewhat natural development when one takes account of Krugman's model of regionalism, which sees the development of regionalism primarily in economic terms. Likewise, in the case of ASEM, the economic factor was the catalytic motivator under-pinning the establishment of the relationship. As set out above, the Asian side focused on the economic dimension in particular. This view is understandable when assessed against Panagariya's theory of the importance of world export markets for Asia as compared to other regions, with over two-thirds of its output exported outside the region. At this point in the development of ASEM, the Asian side would be content to keep the relationship at the economic level. However, European partners continue to push for the development of the political pillar. While the Asian side accepts this, they are not enthusiastic partners.

While the Asian focus is primarily on the economic dimension, it must also be

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<sup>63</sup> Hwee (2000b), *op cit*, p 16

acknowledged that the European side has a keen interest in strengthening economic relations with Asia. After all, Asia is Europe's second largest trading partner with a trade deficit of €4 billion in favour of Asia. It is more likely that there will be further emphasis on economic relations in the years to come, with China joining the WTO and ever-increasing levels of trade and investment. This emphasis on the economic dimension is clear evidence of the validity of the theoretical framework of regionalism as set out in section two. Nation states engage in regionalism because of the economic advantage to be gained. If the regional relationship is to develop beyond this, there must be a mutual acceptance on both sides of the parameters of the enlarged relationship. This dimension would appear to be missing from ASEM as the Asian side does not share the European enthusiasm for political dialogue.

However, the political pillar is precisely where the greatest challenge lies today. It can be expected that the European side will not be reluctant in attempting to continually push out the boundaries when raising sensitive political issues. Only if the Asian side is prepared to enter into this debate constructively will this aspect have the potential to equal the economic pillar. If this were to happen, it would lead to ASEM gaining a greater public visibility than heretofore and indeed, a greater recognition on the global political stage. Today, the process operates at a relatively low-key level in the overall context of international relations. It can certainly continue to make slow but steady progress, particularly in the economic pillar. If the protagonists wish to advance at a more rapid pace and seek to have ASEM recognised internationally as an important regional dialogue, then the process needs to consolidate and deepen. Such a deepening will bring benefits to both regions. For the EU, it could help to enhance its foreign policy dimension. The EU's Common Foreign and Security Policy (CFSP) is still at an early stage of development. While the EU's economic strength is recognised in the international arena, its foreign policy role is less visible. There are competing tensions between the development of CFSP and the desire of individual EU member states to retain control over their own international relations. In the longer term it is difficult to see how CFSP can develop without a significant shift in power away from member states in favour of the EU. ASEM does not pose a threat to the traditional diplomatic role of EU member states as its focus is on the development of inter-regional dialogue with Asia. Accordingly, there should be little resistance to a deepening of the process. Indeed, some European partners, notably the Nordic countries, are keen to develop the political pillar by seeking a greater focus on human rights. ASEM, therefore, could facilitate a greater visibility for the EU in the international diplomatic arena.

Within ASEM also lies the unfulfilled promise of assisting the East Asian region to develop as a cohesive regional bloc. ASEM is the only forum in which these ten countries speak as a region. In terms of further regional integration, ASEM may well be a key factor in the development of a regional identity for the East Asian region.

Closing the missing link in the triad has been the conventional wisdom which lies

behind the region's engagement in ASEM, but engaging China and Japan in a regional grouping is becoming even more strategically important. An economically and politically strengthened China will become more assertive in its foreign policy. The same applies to Japan, once it has recovered from its decade long economic crisis, and more importantly, comes to terms with its World War II legacy *viz á viz* its south East Asian neighbours. A regional institutional framework, be it ASEM, ASEAN +3 or an East Asian Community will play an important role in building a forum for economic and political development in the region. This is another important function that justifies the political nature of ASEM, an aspect that APEC does not offer, given its exclusive economic competence.

ASEM has facilitated the gradual evolution of inter-regional dialogue between Asia and Europe. It has achieved this by taking account of the differing historical backgrounds and the different paths of development taken by Asian and European partners, which naturally result in different perceptions of the world order and vital interests. At the same time, there is enough shared interest to provide the basis for co-operation. Both regions share the mutual interest of ensuring a multi-polar world and upholding the multilateral trading system. ASEM provides a forum and channel for discussion and making the necessary adjustments to ensure the optimal outcome for both regions.