

# **International Political Economy**

## **Case Study**

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**East Asian Regionalism-New architecture of Economic Cooperation**

**Research Paper**

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## Chapter 1: Introduction

In Europe there is European Union, in Africa there is African Union, and In South America there is MERCOSUR. Those three institutions are an economic and political agreement based on regionalism with purpose of regional integration. The idea of East Asian Regionalism is already existed since the end of Second World War but the process faced much turbulence and stalled for long time. In the midst of global economic turmoil, Asian region instead has enjoyed rapid development and booming of middle class society. The new middle class society that emerged from the poverty elevation has mainly the outcome of rapid economic development in East Asia. The idea of regionalism that was abandoned during Asian Financial crisis is not disappear. After the Asian Financial Crisis, the idea once again being promoted to support the sustainability of the economic growth and regional peace.

The initial development of regional cooperation started since the creation of Asia Pacific Economic Cooperation (APEC) in 1989 with main purpose to be a forum for Asian Pacific

countries to talk and institutionalized mainly economic cooperation<sup>1</sup>. After the creation of APEC, the momentum of Asian regionalism has gradually developed. Several years after the creation of APEC, former Prime Minister of Malaysia proposed the creation of free trade agreement inclusive only for Asian countries; he called the plan as East Asia Economic Caucus. However the plan was failed due to strong opposition from US and Australia. Using its hegemony, US did pressure Japan and South Korea to reject the proposal. Thus the proposal instantly failed to become a reality.

After the Asian Financial crisis, many Asian nations lose their faith to APEC for its incapability to solve the crisis. Instead, ASEAN countries tried to continue the previous idea by inviting China, South Korea, and Japan to form ASEAN+3. In 2001 meeting in Brunei, China and ASEAN formally establish free trade agreement. The FTA has dramatically increased the trade of goods and service within the region. According to ADB report Asia 2050: Realizing the Asian Century, By year 2050 Asia will doubling its share of Global GDP share to 52 percent. Asia will regain its dominant economic position it held 300 years ago. As Asia will reach Europe level in the future, creating regional institution will be necessary to promote sustainable growth<sup>2</sup>.

### **Definition of Regionalism:**

The definition of Regionalism is the construction and utilization of multilateral intergovernmental institutions to share information, to develop, enforce common rules and regulation and to settle disputes based on shared geographic space<sup>3</sup>. The initial form of regionalism in Europe was began from the creation of a series of economic cooperation.

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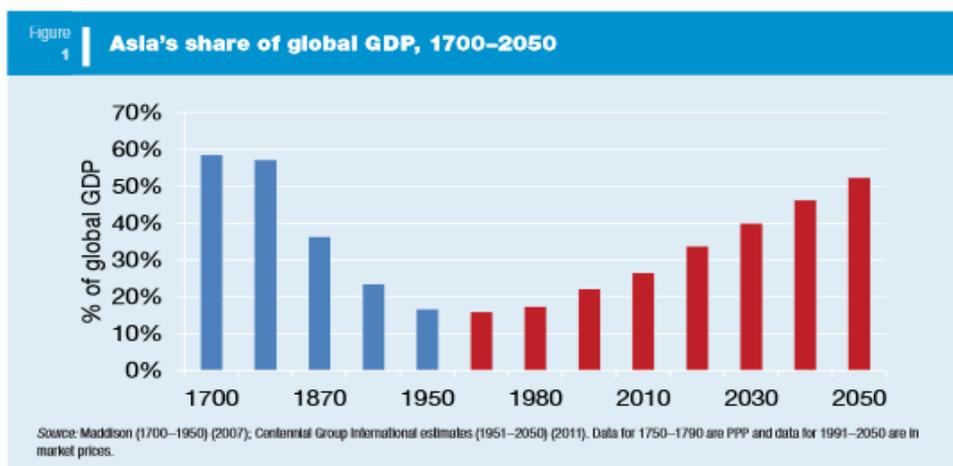
<sup>1</sup> Liu, Fu-Kuo. *Asian Regionalism, Strategic Evolution and US Foreign Policy in Asia: Some Prospects for Cross-Strait Development*. The Brooking Institutions Publication. June 2008.

<sup>2</sup> ADB Report: Realizing Asian Century, Asia 2050

<sup>3</sup> Liu, Fu-Kuo. *Asian Regionalism, Strategic Evolution and US Foreign Policy in Asia: Some Prospects for Cross-Strait Development*. The Brooking Institutions Publication. June 2008.

Historian saw the creation of European Coal and Steel Community as the earliest form of regional integration. Therefore to be able to achieve East Asia free trade region will lead to the creation of East Asia Community.

According to Paul Evans in “Remapping East Asia”, regionalism is the expression of common sense of identity and destiny combined with the creation of institutions that express that identity and shape collective action. On the other hand, regionalization is the expression of increased commercial and human transactions in a defined geographical space<sup>4</sup>. He describes regionalism as a reflection and amplifier of an underlying regional identity or consciousness. Regionalism is also a collective call to action for the increasingly important East Asian weight in the world.



<sup>4</sup> Evans, Paul. *Between REMAPPING EAST ASIA Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity*. Cornell University Press. New York:2005.

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**Research Question :**

1. Seeing European Union, Mercusor, African Union, why in East Asia several regional institutions coexisted. Those institutions were gained momentum and stalls without producing any binding institution?

**Hypothesis:**

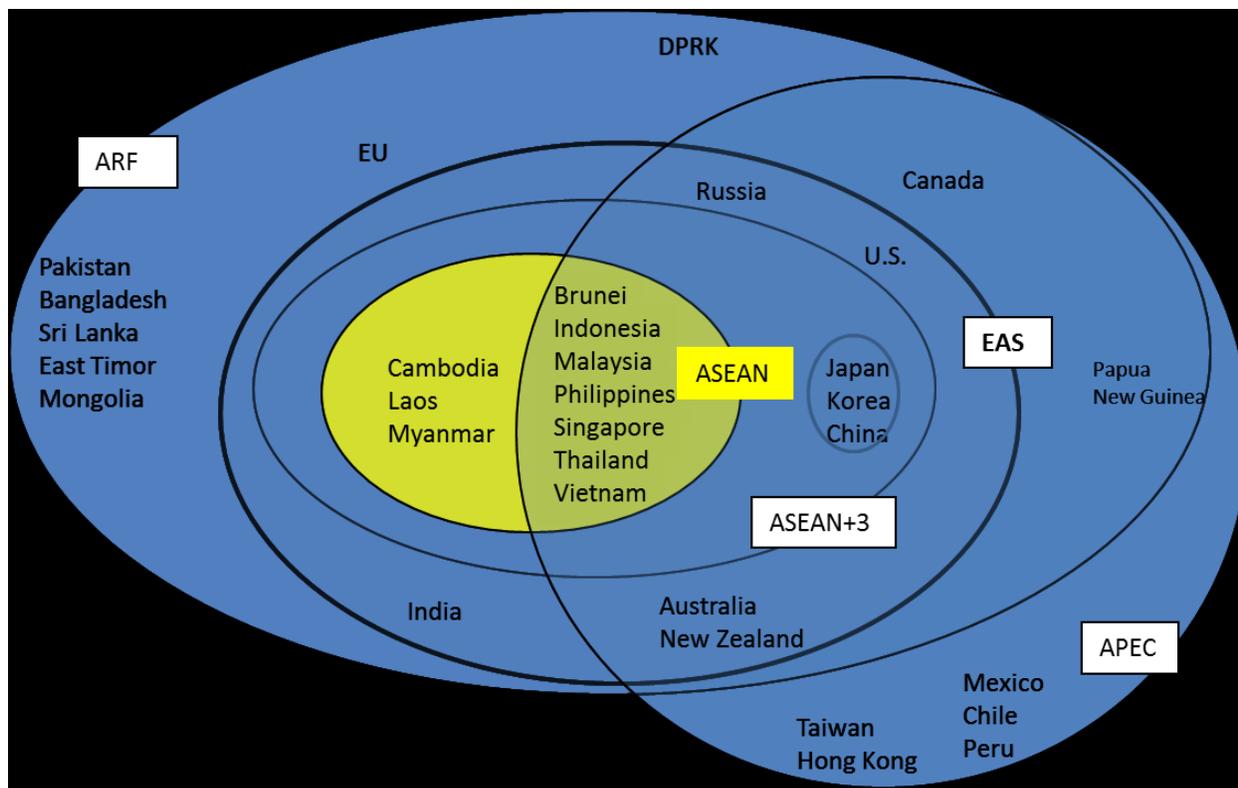
A powerful state judges that the functions or norms of an existing regional institution do not accord with its own interests and then commit itself to another institution which would serve its own interests better.<sup>5</sup>

**Approach :**

In this paper, the analysis will focus mainly in analyzing the development of APEC and ASEAN+3 and how great power influence the organization to fit their interest. The timeline will be categorized into three parts : Regionalism after the Second World War, Regionalism after the Asian Financial Crisis and Regionalism after the 2008 Global Financial Crisis. The study will analyze the factors that lead failure in APEC and the dynamic volatility of ASEAN plus Three.

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<sup>5</sup> Terada, Takeshi. *East Asian Regionalism: Power, Interest, and Institution Building*. Public Lecture in National University of Singapore. 25 October 2010.



## Methodology

The methodology used for this research paper is by analyzing both primary data and secondary data that has been researched by numbers of scholars in this field. The analysis uses different point of views by scholars' perspective about US, China, Japan.

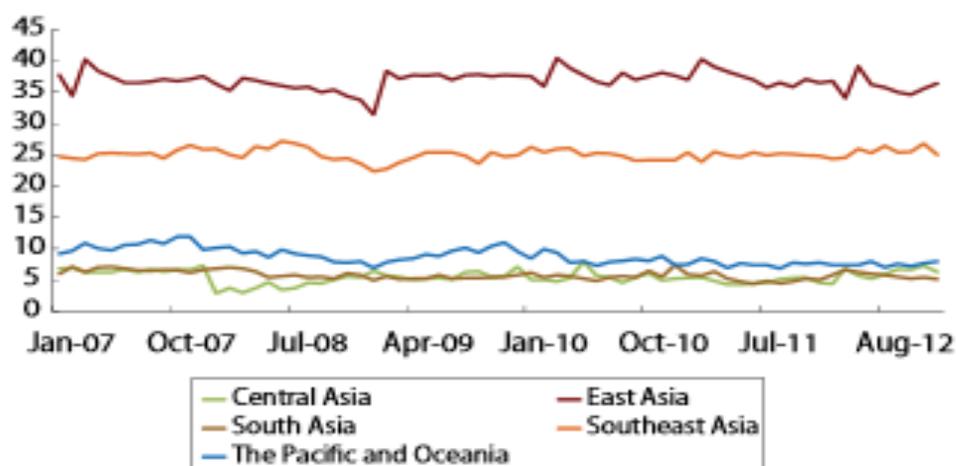
## Trends in East Asian Regionalism:

The concept of integrating East Asian country can be traced back to the ancient Chinese order of tributary states. During the Second World War, the idea of East Asia regionalism had become the slogan of Empire of Japan to create an Asian bloc with name "Greater East Asia Co-Prosperity Sphere". Although many people argues the slogan is only Empire of Japan propaganda for domination over Asia, but the Intention of regional integration was already exist since the era of imperialism.

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During the modern era, there was a popular view of “the flying geese pattern” which suggests Japanese economic success in 1960s as the leader in regional development followed by South Korea, Taiwan, Hong Kong, and Singapore as the four Asian tigers. The concept of flying geese pattern derived itself from the technology transfer from the most advanced country in the region to the least developed country. In this case is from Japan to newly industrialized four Asian tigers and on the bottom line is the ASEAN countries and also China. In 1967 the organization of South East Asian countries or ASEAN was formed. The organization was started from 5 members and continues growing until now the total of 10 member countries. The purpose of this organization is to promote regional cooperation and provide a forum for regional dispute. The later development of East Asian Regionalism will be mainly the expansion of ASEAN countries with other countries in Asia Pacific.

**Figure 17: Intra-subregional Trade Share<sup>1</sup>—Asia (%)**



<sup>1</sup>Intra-subregional trade share (INTS) of region  $i$  is defined as  $INTS_i = X_i/X_i$ ; where  $X_i$  = exports of region  $i$  to region  $i$  and  $X_i$  = total exports of region  $i$ .

Source: ADB calculations using data from *Direction of Trade Statistics*, International Monetary Fund; and CEIC for Taipei, China.

## Chapter 2 Building East Asia Regionalism:

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## Post Great War –Asia Pacific Economic Cooperation (APEC)

APEC is a forum for 21 members of Asia Pacific countries that have purpose for facilitating economic growth, cooperation, trade and investment between the member countries. APEC serve as intergovernmental grouping that has operated with basis of non-binding commitments, open dialogue and equality among all of the participants. The decision made is based on consensus and the commitment is undertaken on voluntary basis<sup>6</sup>.

According to Richard Stubbs, APEC has failed to live up to early expectations. Its initial success in combining diverse group of economies into a single organization proved to be ineffective. APEC itself contains the member of some of the richest countries and the poorest countries in the world. The division between Anglo-American members (US, Australia, New Zealand, and Canada) and Asian countries (China and Malaysia) has torn apart the cohesive voice in APEC forum. The agreed APEC goal of achieving trade liberalization has become difficult to achieve. In this matter, the Anglo-American bloc proposed more legally binding institutionalized trade liberalization<sup>7</sup>.

John Ravenhill in his book, *APEC and the Construction of Pacific Rim Regionalism*, mentions that the economic benefit that occurred in the Asia Pacific countries happened because of the effect of globalization. Ravenhill critics APEC as unable to progress in key areas, lacking an effective secretariat, and suffering from fatally flawed institutional design and insoluble conflicts of interests between member states and the economic interests they have to reconcile. Interestingly although Ravenhill is very critical of APEC performance, he is not pessimistic with

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<sup>6</sup> Definition of Asia Pacific Economic Cooperation derived from APEC website “about us”.

<sup>7</sup> Stubbs, Richard. *ASEAN Plus Three: Emerging Asian Regionalism?*. Asian Survey 42 (May/June). 440-55. University of California Press.2002.

trade liberalization in Asia Pacific. He also states that trade in Asia Pacific is highly influence by domestic politics and all the parties have incentives to defect<sup>8</sup>.

### **Post 1997 Asian Financial Crisis -ASEAN Plus Three (APT)**

According to Stubbs, some obstacles are still blocking the progress of creating East Asia Regionalism<sup>9</sup>. The first problem is there is a strong sentiment of anti-western power in many East Asian countries. Some people believes that Asian Financial Crisis was happened because western investors that ruin the stability of Asian financial stability. The rise of popular nationalism limits the ability of politicians in policy making process. Secondly, there are also domestic political problems that create political instability and constant changing leadership. For example, Japan under DPJ was having political turmoil with changing prime minister several times. The political situation in Indonesia is also not so stable with corruption scandals in the political leadership. Thirdly there is a conflicting interest among the ASEAN plus Three members. There is mistrust between China, Japan, and South Korea because of border conflicts and historical issues. Even some South East Asian nations are also distrust China and Japan leadership. Fourthly, although a series of free trade agreements are signed or currently negotiated among the countries but it might create distraction that divert the government's effort to focus in developing regionalism effort. Lastly, the United States endorsed Trans Pacific Partnership might be more appealing and thus distract the attention of ASEAN plus three countries to make a progress.

### **Financial Regionalism as a response to Asian Financial Crisis:**

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<sup>8</sup> Ravenhill, John. *APEC and the construction of Pacific Rim Regionalism*. New York: Cambridge University Press. 2002.

<sup>9</sup> Stubbs, Richard. *ASEAN Plus Three: Emerging Asian Regionalism?*. Asian Survey 42 (May/June). 440-55. University of California Press.2002.

William Grimes explains that the result of 1997 Asian Financial Crisis creates an incentive for East Asian Government to work to deepen regional financial integration. They tried to create institutions to handle the possible currency crises that might appear in the future. In fact East Asia is a region that becomes a top supplier of surplus savings. The region is also the largest owners of dollar assets and a major market for US financial institutions. The 1997 crises proved to be the vulnerability of East Asian Economies in facing globalization.

The Chiang Mai initiative is one of the financial regionalism efforts that were created with purpose to increase the monetary defense of East Asian countries. It was produced in year 2003 as the result of ASEAN+3 finance ministries meeting. The mechanism of Chiang Mai initiative is creating a fund to defense against speculative attack. It thus lowers the dependency to IMF in the event of crisis.

The second type of East Asian Financial regionalism is the formation of local currency bond market or Asian Bond Market Initiative. The purpose is to lower the vulnerability of Asian countries against the movement in the value of the dollar. Another purpose is to develop domestic bond market in East Asia.

### **Post 2008 Global Financial Crisis- Towards East Asian Community (EAC)**

The creation of European Economic Community (EEC) in 1957 had form a common market and bringing economic integration in European continent. EEC was later become the root of modern regionalism institution called European Union. While European Union (EU) has been praised as a successful model regional integration framework to follow, many other regionalisms

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got inspired by it. On the other hand the creation of East Asian Economic Community was said to be able to follow the path of more legally binding institutions for East Asian region.

East Asian Economic Community (EAEC) will not only be able to accelerate the economic liberalization of East Asian countries but also offer a promise of geopolitical stabilization. The integration will support the sustainability of economy growth. The first East Asia Summit (EAS) in 2005 was thought to be the initial step to create EAEC. Unfortunately in spite of great ambition in the summit agenda, there was less detail unveiled.

### **Chapter 3 Positions of Key Actors in East Asia:**

#### **The United States of America**

Lieberthal in *The American Pivot to Asia* (Brooking Institute) explains the new American pivot in Asia under Obama administration. He explains that Obama is committed to play a leadership role in Asia for decades and recognized the importance to ensure the balance power of players in Asia Pacific. In security issue, the United States tried to stay neutral over the border dispute in South China Sea. The reason is US do not want to hesitantly antagonized China and hurting both countries relation. In 2010, the United States joined the meeting of ASEAN Regional Forum in Hanoi and stated clearly about American vital interest in the South China Sea<sup>10</sup>.

Bergsten explains two fundamental issues regarding East Asia Regionalism building which is bilateral and systemic. The United States aware of bilateral issue here of the discriminatory impact of East Asia Regionalism. He made estimation that the United States

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<sup>10</sup> Lieberthal, Kenneth. *The American Pivot to Asia*. Brooking Institute Publication. Foreign Policy article. December 2011.

could lose around \$25 billion of annual exports as a result of the tariff discriminatory from the ASEAN+3 free trade model. The systemic issue is the potential clash between China-led Asia and US-led West for leadership of the global economy.

There is a significant difference between US attitude towards European integration and East Asia integration. The process of European Integration began when the United States was still dominant economy and top military power. In fact, Europe is already in the process of unification especially after the war many countries think unification is the best way to recover from the war. Meanwhile US feels skeptical towards the quality of Asian model of cooperation framework. The American feels the threat of substantial discrimination against US trade.

## **China**

1997 Asian Financial crisis and 2008 global financial crisis have greatly influence Chinas attitude and policy towards regionalism in Asia Pacific. According to Ming Wan, China has never considered the high value of Asian regionalism (Wan 2010). On the other hand, China has carefully stated their opinion and not openly opposes all the ongoing cooperation frame work regarding Asian Regionalism.

John Ravenhill states that East Asia regionalism is difficult to achieve if Japan-China rivalry for influence in the region is still the main motivation. After the 1997 Asian financial crisis, Japans proposal about the creation of Asian Monetary Fund was rejected by China.

China's image as communist sabotage and revolution champion is no more in South East Asia. Many South East Asia nations welcome China's rise and realized its economic benefit (Liu

2008). Throughout the years of China opening, Beijing already establishes position of dominance as similar to U.S relationship with Latin American states. The conclusion of ASEAN-China Free Trade Agreement has served not only the close relationship between the two regions. Although South China Sea border dispute is a real matter that deteriorate the political situation between China and some South East Asia nations but it proves to not disturbing the trade and economic relations.

China, not surprisingly, is worried about these new developments. They in many ways reinforce China's abiding suspicions about the United States. In Chinese eyes, the United States has always been concerned primarily with protecting its own global dominance -- which perforce means doing everything it can to retard or disrupt China's rise. That America lost its stride in the global financial crisis and the weak recovery since then while China in 2010 became the world's second-largest economy has only increased Beijing's concerns about Washington's determination to postpone the day when China inevitably surpasses the United States to become the world's most powerful country.<sup>11</sup>

## **Japan**

Former Prime Minister Hatoyama did mention the concept of East Asia Community (EAC) emphasizing the region collective effort to build a more efficient and effective system to manage trade cooperation or other issues like border conflict and security cooperation. Former Prime Minister Kan was also promoted same kind of idea. Former Prime Minister Noda was even emphasizing the right timing for East Asia Regionalism to come for real.

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<sup>11</sup> Lieberthal, Kenneth. *The American Pivot to Asia*. Brooking Institute Publication. Foreign Policy article. December 2011.

According to Yul Sohn, Japan interest in promoting Asian Regionalism is primarily to balance China's growing soft power (Sohn 2010). Tokyo's idea to create East Asian Community aims to create value based community with distinctive membership. Japan wants to bolster the ties with ASEAN countries and show to global community about Japan's influence in the region. The expanding East Asian market is obviously a great help for Japan to cure its chronic economic condition. Sohn argue that Japan new thinking on regionalism in 21<sup>st</sup> century is to counter China in the regional leadership<sup>12</sup>.

### **South Korea**

According to Chung Jin-young from Korea Economic Institute, South Korea is a key role in the future of East Asian regionalism. South Korea is the third largest economy in East Asia and its size is comparable with ASEAN in terms of GDP per capita. Over the years South Korea economy has grown closer to China, Japan, and ASEAN. In recent years, South Korea has played active role in ASEAN plus Three and support other regionalism building effort. Chung analysis can be summarized into two points. First of all, the momentum for closer regional cooperation has already taken off and can hardly hold back or reversed. As the East Asian region keeps growing, East Asian economic integration will be driven by market force and it will be deepened. Secondly, South Korea should work together with ASEAN and play as a facilitator or mediator role between the rivalry of China bloc and Japan bloc in regionalism process.<sup>13</sup>

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<sup>12</sup> Sohn, Yul. *Japan's New Regionalism: China Shock, Values, and the East Asian Community*. Asian Survey. Vol. 50, No. 3 (May/June 2010) (pp. 497-519). 2010.

<sup>13</sup> Chung, Jin-Young. *East Asian Regionalism: Moving Forward- South Korea and East Asian Regionalism: Which Path Ahead?*. The Korea Economic Institute. Washington DC: 2004.

## ASEAN

Although ASEAN is considered as weaker player in international politics but it has a significance importance in the effort to form regional grouping. According to Liu, ASEAN central role in regional multilateral cooperation is emerging again after its earlier peak in 1990s. After the recovery from terrible Asian Financial Crisis, South East Asian nations raised once more to be the center of growth and growing market. The new trend toward regionalism shows the repositions of ASEAN at the center of regional development. In spite of rivalry between China and Japan in the regional leadership, ASEAN proved able to launch ASEAN plus Three and East Asia Summit. ASEAN had successfully to infuse the ASEAN Way which is the value of reaching decision by consensus to the regional institution building process.<sup>14</sup>

### Chapter 4 Conclusion:

The hypothesis is proved that the reason there are so many institution created and the members keep jumping around is because powerful state lose interest in the functions or norms of the existing institution. Thus Regionalism in East Asia will not be achieved if the players keep jumping around and make a new grouping

With now the shifting regional architecture in East Asia, the great power previous strategy towards East Asia will be changed. As China is growing militarily and having one of the highest military expenditure in the world. Many scholars suggest containing and antagonizing China will not be a wise strategy for great power. Recent years, China have tried to throw its weight around especially regarding border dispute. In the future China might change its attitude

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<sup>14</sup> Liu, Fu-Kuo. *Asian Regionalism, Strategic Evolution and US Foreign Policy in Asia: Some Prospects for Cross-Strait Development*. The Brooking Institutions Publication. June 2008.

by start to make friends globally. Helping in creating regionalism institution will be one of the Chinese strategy to sustain growth.

One of the reason why trade liberalization difficult to achieve because East Asian Countries are still heavily protecting its market. Recent years, Japan was heavily guarded its agriculture industry. But now the current Prime Minister Abe administration states their commitment to liberalize Japanese agriculture sector. ASEAN country will have free trade agreement by 2015 and most likely to expand to include other East Asia countries.