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Institutional Mix Key to Building East Asia community

By SHIRAISHI Takashi

This December, Malaysia will host the East Asia Summit with leaders from 16 countries, namely, ASEAN (the Association Southeast Asian Nations) members+3 (Japan, China and South Korea) as well as India, Australia and New Zealand participating.

Partly due to the upcoming summit, the idea of establishing an East Asia community has recently become a topic of lively debate.

Both the Liberal Democratic Party and the Democratic Party of Japan in their election manifestos have called for the building of an East Asia community.

But there is mounting concern in the United States about the formation of a China-led regional order.

In Japan, questions are also being asked about the compatibility of such a community with the Japan-U.S. alliance. In view of recent anti-Japanese sentiment in China, skepticism exists over the ability of two countries with different economic and political systems and a history of mutual distrust to create a community.

Concept of community differs from that of EU

These anxieties are understandable.

To avoid any misconception, however, it is important to remember that the concept of “community” envisaged in the East Asia community is markedly different from that in the European Union.

The EU was formed by a group of states which shared the commitment to never again go to war, with each participant country agreeing to surrender part of its sovereignty to the union.

In contrast, moves to form an East Asia community are based on the ongoing de facto integration of the region's economies and on lessons learned from the 1997 Asian financial crisis. Based on these experiences, the idea of an East Asia community has evolved as a framework of

regional cooperation, mainly economic, under the principles of mutual respect for sovereignty as well as amity and cooperation.

What institutional architectures are now being created in the name of East Asia community-building?

The first ASEAN+3 summit meeting was held in 1997 in the midst of the economic crisis to address the region's common problems. The summit in 1999 agreed on a Joint Statement on East Asian Cooperation. The upcoming East Asia Summit is an outcome of these meetings.

Accordingly, East Asian cooperation over the past eight years has evolved within the framework of ASEAN+3. In the currency and financial fields, the ASEAN+3 summit in 2000 reached an agreement known as the Chiangmai Initiative, which formulated a system for fiscal cooperation in the event of a financial crisis. On the basis of the accord, a bundle of bilateral currency swap agreements was created as the major mechanism of crisis management.

An Asian bond market within the framework of ASEAN+3 is now in the making.

In the sphere of trade and investment, economic partnership agreements (EPAs) are being forged as a bundle of ASEAN+1 (for example, ASEAN+China and ASEAN+Japan) in the name of the East Asia community.

In 2002, Prime Minister Junichiro Koizumi proposed a Japan-ASEAN Comprehensive Economic Partnership initiative, which envisioned not just the liberalization of trade in goods and services, but also promotion of trade and investment, protection of intellectual property rights, development of human resources and nurturing of small and medium-sized enterprises. All these are not usually covered by free trade agreements (FTAs).

ASEAN driving cooperation

Based on Koizumi's proposal, Japan has already reached broad agreements on EPAs with the Philippines, Thailand and Malaysia, while negotiations for a Japan-South Korea EPA are ongoing. In addition, talks on concluding EPAs with Indonesia and ASEAN as a whole started earlier this year.

China, for its part, proposed an FTA with ASEAN in 2000, leading to an agreement on the liberalization of trade in goods in 2004. ASEAN is also expected to notch up FTAs with Australia and New Zealand, India, and South Korea over the next two years.

As we can see, trade cooperation is progressing with ASEAN as a hub. Ever since the 1992 pact on the ASEAN Free Trade Area, or AFTA, trade within the area has expanded thanks to reduced

tariffs and the elimination of nontariff barriers. This means that AFTA will be extended through ASEAN+1 agreements into East Asia and beyond.

Economic partnership will progress in the future in currency and finance, as well as trade and investment. Trade volume within the region is rocketing: imports from East Asian neighbors jumped from 34 percent of total imports in 1980 to 51 percent in 2003, while exports among neighbors expanded to 60 percent from 35 percent during the same period.

At the heart of this astounding growth is the expansion and deepening of across-the-border networks of production and distribution. Nurturing the industrial hubs of these networks is vital to the economic development of any country in the region. Therefore, it is in the interest of these countries to promote regional economic partnership.

Institutional architectures for regional cooperation can be created as a bundle of bilateral agreements, as in the case of currency and finance cooperation, or as a bundle of ASEAN+1, for example in trade and investment cooperation.

In either case, it is clear that ASEAN has been pivotal in enhancing cooperation. ASEAN has also acted as the hub in larger regional cooperation mechanisms such the Asia-Pacific Economic Cooperation (APEC) forum in the area of trade cooperation, the ASEAN Regional Forum (ARF) in the area of confidence-building, and the forthcoming East Asia Summit. The driving force in regional cooperation in East Asia is not China or Japan, but ASEAN.

This might not be a bad thing for Japan, simply because cooperation in East Asia cannot work if the prime mover is either Japan or China. In addition, Japan, ASEAN and South Korea would prefer to deal with a China that is a member of a regional framework and acting in accordance with global and regional rules instead of unilaterally.

Perfecting a balancing act

Pragmatism will be needed to ensure compatibility between a future East Asia community and the US-led regional security system.

There are some regional problems that are better solved without direct U.S. involvement. For instance, preventing another Asian currency crisis should be dealt with by East Asian countries. The Chiangmai Initiative in 2000 is for this purpose, and has the support of the United States. The United States can also join the network of economic partnerships now emerging with the ASEAN as the hub.

But issues such as security and cooperation involving energy that affect both the stability and prosperity of East Asia will have to be addressed in cooperation with the United States.

Community building in East Asia is different from that in Europe.

Institutional architectures are now being created in the form of networks in finance, trade, confidence-building, and other fields with the ASEAN as the hub. The most crucial issue is what kind of institutional mix or combination of the different institutional architectures will effectively promote regional cooperation in East Asia.

In this sense, it is hoped that the December summit will address non-traditional security issues such as terrorism, piracy, weapons smuggling, and drug and human trafficking in addition to trade and investment issues because these issues are important for the region. But the summit should show as well that regional cooperation in security matters without American involvement is not necessarily inimical to U.S. interests.

(This is the text of an article by Prof. SHIRAISHI Takashi, Vice President of the National Graduate Institute for Policy Studies and Member of the Council on East Asian Community, which originally appeared in the "Insights into the World" column of the "Daily Yomiuri" on September 4, 2005 and was posted on this website with some revisions made by the author.)