

The Race to Connect East Asia: An Unending Steeplechase

T. J. PEMPELT

University of California, Berkeley

East Asia has become more integrated as a region over the past quarter century. In looking ahead, this article identifies five central obstacles to further regionalism. Three address the composition of any future East Asian region: the arenas in which cooperation is sought, the geographic scope of any future region, and the extent to which regional ties are formalized. The other two variables will influence the future regardless of how the first three are resolved: the structure and balance of domestic political forces, and leadership. The complex interactions of these five are then examined in the recent moves toward preferential trade pacts, increased regional monetary and financial cooperation, and security.

Key words East Asia, East Asia Summit, free trade area, network, regionalism, security

1. Introduction

On December 14, 2005, a highly anticipated East Asia Summit was held in the tightly guarded Kuala Lumpur Convention Center. In attendance were leaders from 16 countries: the 10 Association of South-East Asian Nations (ASEAN) members, the additional “three” from the ASEAN Plus Three (APT) – China, Japan, and South Korea – plus Australia, New Zealand, and India. The final announcement was sweeping and upbeat: “We have established the East Asia Summit as a forum for dialogue on broad strategic, political and economic issues of common interest and concern with the aim of promoting peace, stability and economic prosperity in East Asia” (ASEAN Secretariat, 2005; Cody, 2005; A25).

The summit was, in numerous ways, a metaphorical manifestation of many of the struggles involved in creating a more cohesive East Asian region. The attendees reflected East Asia’s breadth and diversity – a concatenation of dissimilar religions, social systems, cultural and historical traditions, political systems, and levels of economic development. Yet, all advocated further pursuit of additional community-building. At the same time, reflective of the ambiguous nature of many existing East Asian linkages, it was not clear, beyond the photo-op and the final communiqué, how much substantive cooperation would result from the summit. Certainly, no painful commitments, no explicit rules, and no particular institutions were agreed to, nor were any officially anticipated.

Equally interesting, of the 16 nations represented, three – Australia, New Zealand, and India – were relatively late additions not usually a part of conventional definitions of “East Asia.” Conversely, both Taiwan and the North Korea, undeniably visible on any East Asian map, were not in attendance, whereas Russia, which spans 11 time zones across Europe and Asia, attended

†Correspondence: T. J. Pempel, Institute of East Asian Studies, University of California, Berkeley, 2223 Fulton St., Berkeley, CA 94720, USA. Email: pempel@berkeley.edu

as an observer. Perhaps most tellingly, the USA, although not geographically in East Asia but arguably the strongest shaper of economic and strategic developments in the region, as well as a member of previously established Asia–Pacific groupings such as Asia–Pacific Economic Cooperation (APEC) and the ASEAN Regional Forum (ARF), had not been invited to attend.

Different shards of evidence from the summit could be assembled to create competing cases for either side in the long-running debate about whether East Asia is “ripe for rivalry” or “ripe for cooperation” (Pempel, 2005; pp. 1–3). Present ambiguities simply underscore the fact that East Asia’s future course is neither obvious nor obstacle free. And this is the theme of this paper: if East Asia is in a race toward regionalism, that race is more akin to a steeplechase, complete with recurring hurdles and water jumps, than to a hundred yard dash.

This paper proceeds in three steps. First, there is a brief reprise of recent moves toward regional integration in East Asia. Without a doubt far more regional networks and institutional connections have been put in place during the last decade or so than were present during the preceding 150 years. Yet, whether such enhanced ties prefigure inexorably deeper and more comprehensive East Asian regionalism, or whether future linkages will be stymied and stalled, will depend greatly on one’s standards for “regionalism.” If one thinks of the progress toward East Asian regionalism in the metaphor of a race, the most important thing to agree on is the location of the finish line. If East Asian “regionalism” is defined primarily in terms of increasing cooperation across the region through informal networks in the specific sphere of economics, then the regionalism “race” involves a finish line that is closer to where today’s entrants find themselves. If the ultimate goal is the development of more widely shared values and a deeply institutionalized regional strategic community in which shooting wars among the members are unimaginable, then the finish line is further away and will probably confront numerous obstacles. Analysis of this mixture of goals and obstacles forms the core of the second section of the paper. Finally, the third section examines the complex interplay of hurdles and incentives in three different areas: trade, investment, and security. It then offers tentative conclusions about the probable direction and the obstacles to be overcome in East Asia’s near future.

2. Increasing Linkages Across East Asia

The growing linkages of regional integration in East Asia have been well explored (Hatch & Yamamura, 1996; Katzenstein & Shiraishi, 1997, 2006; Breslin *et al.*, 2002; Katzenstein, 2005; Pempel, 2005, among others). As I have suggested, two rather distinct processes have been at work: *regionalization* is largely bottom-up, corporate or society-driven, informal, and predominantly independent of official governmental actions. Regionalization occurs as the forces of globalization play out within a particular geographic context (Katzenstein, 2005; pp. 13–19). Its primary manifestations are multinational production networks, foreign direct investment, export free zones, trade, enhanced communication and transportation links, track II dialogues, and the like. Such ties result in multiple informal networks each with different boundaries, usually operating independently of one another (Katzenstein & Shiraishi, 1997, 2006). Although official governmental action is hardly irrelevant to such ties, the key energizers are corporations, financial institutions, and other nonstate actors.

Quite different is the process of regionalism that involves top-down, governmentally driven, and formally institutionalized connections. ASEAN, Asian Development Bank, APEC, ARF, APT, and the like are familiar examples. Part of the same process but typically less comprehensive in membership and scope are unilateral, problem-specific agreements among governments aimed at cooperation on specific problems such as immigration, environmental pollution, drug smuggling, piracy, and health pandemics. But in all such cases, problems are addressed by governments through formal, institutionalized agreements. Unlike the European Union, however, with its clearly demarcated and fixed membership, the membership lists for East Asia's various institutions rarely overlap. ASEAN's membership involves 10 South-East Asian governments; APEC has 21 Asia-Pacific "economies," and so forth.

Over the past several decades, both processes have made East Asia a far more cohesive region. Enhanced regional ties have displaced the legacy of brittle fragmentation that grew out of a century of western empire, Cold War divisions, and the inward-focused processes of nation-building. By hurdling over these historical obstacles, the East Asian region has become significantly more integrated in many ways. But clearly numerous obstacles confront the formation of deeper and more comprehensive regional linkages.

3. Obstacles to Enhanced Regional Ties

East Asia remains far from an integrated, legally bound community where military actions among its members is "unthinkable" – the desired end-point for many (e.g. Lake & Morgan, 1997; Acharya, 2001). But numerous obstacles confront further East Asian regional ties. Three of these are directly related to regional goals one envisions:

- 1 What *arena* of regional ties is being considered? Production and trade ties in East Asia, for example, are far deeper and more complex than security ties. Linkages in other areas, such as monetary and financial matters, environmental cooperation, and anti-pandemic health coordination, fall at varying distances in between. Regional arrangements to resolve certain kinds of problems will be easier than others. The more comprehensive the cooperation that is sought, the more numerous the obstacles that will need to be overcome.
- 2 What is the *scope* of membership? In general, the wider the geographic area across which coordination is sought, the more complicated it becomes to generate comprehensive and meaningful agreement. Is the scope of proposed cooperation limited to South-East Asia? To both South-East and North-East Asia? To both of those subregions as well as the USA, Australia, Russia, or India? To some mixture in between? The answer to that question will determine many of the future obstacles that regionalism will face.
- 3 What level of *institutionalization* is sought? Informal meetings to share information confront far fewer barriers than do formalized, legalized, and codified organizations designed to redirect the behavior of its members. Generally speaking, the more formalized and extensive the institutional infrastructure that one seeks, the more obstacles that will impede regionalism.

Two additional variables will also shape the future. These depend less on the particular definition of any eventual regionalism; instead they suggest more generic influences:

- 4 How powerful are the domestic *political forces* pressing for regional cooperation or competition? Regionalism (as opposed to regionalization) requires governmental agreement. How do different governments perceive the benefits or debilities of regional ties? What are the relative weights and powers of the domestic political groups critical to a nation's political agenda? And how do these differ, if at all, by issue? Certain regional actors favor enhanced national openness and regional exchange; others aim to circle the nationalist wagons against expanded regional or global integration.
- 5 Are there committed *leaders* pushing regional arrangements? Strong levels of commitment and energy by advocates of regionalism can overcome many structural impediments to regional cooperation. The absence of such leadership will impede regional cooperation

Finally, and most importantly, how do these features interconnect? Each of the above five variables has its own internal dynamic, encouraging greater or lesser levels of regional cooperation. But collectively they function as a complex ecosystem. They compete with, or reinforce, one another in complex mixtures of causality, making it difficult to isolate any of the five factors as more critical than another. The various incentives or impediments confronting regional cooperation occur, in most real life situations, in myriad interactions, whereas actual regional developments rarely move in a linear direction. Nevertheless, the subsequent sections explore each of the five dimensions so as to underscore how each may provide greater or lesser impediments. This section is followed then by three cases showing the complex interactions of these factors in recent regional experiences.

3.1 The arenas of possible regional ties

To date, East Asia has achieved its greatest connections in production, trade, and investment. There has been far less regional cooperation in diplomacy, foreign policy, and military security. In between have been regional ties in arenas such as finance, environment, health, and illicit drugs.

For our purposes two aspects of East Asia's "economic miracle" are vital. First, East Asia's high rates of annual growth enabled ever larger portions of the regional population to adopt relatively common middle-class and urban lifestyles. These softened the divisive rigidity of hitherto more important cultural, social, and religious differences allowing for greater cross-border cooperation (McNichol, 2005). Shiraishi (2006; pp. 237–38) sums the situation up well:

Successive waves of regional economic development . . . have nurtured sizeable middle classes that have a lot in common in their professional lives and their lifestyles, in fashion, leisure, and entertainment, in their aspirations and dreams. They are the main engine of hybridization . . . [In turn] the regional market of which the middle classes are the main consumers mediates new forms of national and regional identities that can potentially advance regional integration.

Second, the East Asian pursuit of economic improvement took on an increasingly regional character. The early economic successes of Japan, for example, spurred political and

economic policy imitation in South Korea, Taiwan, and later in parts of South-East Asia and China. Similarly, Chinese successes spurred imitation in Vietnam and, apparently, in North Korea. Regionalization of economic progress was also fostered by outgoing foreign direct investments from Japan, South Korea, Taiwan, Singapore, Hong Kong, and elsewhere, as well as subnational projects designed to deepen links in “natural markets” (e.g. Rozman, 2004). The cumulative result has been complex production networks, investment corridors, growth triangles, and export processing zones that criss-cross national borders, engendering ever more dense networks of economic interdependence, intraregional trade and investment.

Various barriers and impediments still militate against complete and open movement of goods and services throughout the region. Some are clearly political. North Korea and Myanmar, for example, have regimes that conspicuously resist panregional economic ties. Taiwanese businesses rush to invest in China, but the island’s governmental leaders work to prevent economic ties that might hollow out their small island economy and constrain their political options. Additionally, individual industries from South Korean film and Malaysian finance to agriculture and forestry in numerous countries press vigorously for governmental protection from completely open markets. And many East Asian governments are openly skeptical of the untrammelled benefits of comprehensive economic liberalization particularly when liberalization’s benefits challenge a government’s capacity to shape national economic outcomes.

Regional cooperation in non-economic areas faces even greater obstacles. On environmental issues, for example, governments are often unable or unwilling to move toward region-wide (or even unilateral) solutions, particularly when such solutions threaten national economic growth. Thus, Indonesia has been slow to deal with the regional haze generated by large logging companies despite the ASEAN adoption of the “Regional Haze Action Plan.” And China has been slow to address transboundary acid rain problems despite its regional impact (Campbell, 2005). Cross-border migration also shows few examples of regionally cooperative solutions (Akaha & Vassilieva, 2005).

By far, the area where regional cooperation has been least evident is in military security. In stark contrast to Western Europe facing the Soviet Union and its allies for the first 45 years after World War II, or the perception of many Arab countries in the Middle East concerning Israel, East Asia faces no commonly perceived external threat. Rather, as Yahuda (2004; p. 229) points out: “The defenses of most East Asian countries are directed against one another.” Moreover, many countries such as the Philippines, Indonesia, Thailand, and even China, have legitimate concerns about internal, territorially rooted separatist movements driven by ethnic or religious differences and potentially underwritten from abroad.

Still, diplomatic relations across the region have recently improved leading to a denser network of political ties. In 1990, Indonesia and Singapore normalized relations with China; in 1992 South Korea did the same. Democratization in several countries has also reduced hostilities among some countries. The ASEAN countries have achieved some measure of security accord through the Treaty of Amity and Cooperation. The ARF was also created to overcome regional security problems, even though to date ARF has restricted its activities primarily to informal confidence building measures.

Nonetheless, the ASEAN countries remain less than confident about the security intentions of their North-East Asian neighbors. Meanwhile, throughout North-East Asia, cooperative relations are impeded by security hot spots such as the Taiwan Straits and the Korean Peninsula; a host of unresolved territorial claims; and rising nationalist rivalries. There are also considerably different views across the region concerning the powerful security presence of the USA. The combination will severely constrain any moves toward regional cooperation in security matters.

The implication is clear: East Asian regional ties are moving forward at different paces depending on the particular issues being faced. Functional spillovers occur and these may increase over time. Cooperation in trade and investment has probably contributed to and benefited from the absence of shooting wars in Asia since 1979. Enhanced cooperation on areas such as regional health problems may well facilitate cooperation on more politically difficult areas such as immigration or environmental pollution. But equally plausibly interactions across issues can be negative: sudden security problems might well unravel cooperative efforts in economics or cross-border crime; the failure to resolve cross-border environmental issues might generate diplomatic breakdowns.

3.2 Who's in "the region"?

East Asia has been in a continual debate about the membership of "the region." Debates about an East Asian Economic Caucus versus APEC highlighted two key viewpoints. The inescapable reality of East Asia's dependency for export markets on the USA made APEC and the Asia-Pacific a logical choice. Nonetheless, the impetus toward a less pan-Pacific and explicitly East Asian grouping remains strong, most recently evidenced by the APT (and the East Asia Summit). The APT format began in mid-1995. In the effort to enter into joint Asian-European regional meetings through what became ASEM, ASEAN joined with China, Japan, and South Korea to create a meaningful regional counterpart to the European Union. Since then, APT has gained increased salience in finance, as will be explored below.

Yet, China's improved relations with Russia and their joint efforts to deal with security issues in Central Asia stimulated the formation of the Shanghai Cooperation Organization, creating still a different regional body.

Overlapping such groupings are longstanding bilateral security alliances between the USA and several Asian countries, linking East Asia inexorably to a key power outside normal geographic definitions. The ARF institutionalizes regional security ties that are also Asia-Pacific in character. The US security presence and the fluidity of regional security institutions take still another form in the Six-Party Talks. Problematic as this forum has been, some now suggest that it could provide still another mechanism for institutionalizing security cooperation on issues beyond the North Korean nuclear program.

Fukuyama (2005; p. 76) sums up the regional membership question as follows:

ASEAN does not include China or the other major players in Northeast Asia, and APEC is no more than a consultative body. Asian security is ensured not by multilateral treaties, but by a series of bilateral relationships centering on Washington.

Finally, cutting across such diverse governmental bodies are the various investment corridors, production networks and the like, few of which adhere to any political boundaries.

For the foreseeable future, East Asia will remain a subsystem with multiple connections to the broader global system of state relations and global processes (Alagappa, 2003; p. 179). Internal regional cohesion might well increase but East Asia is unlikely to wall itself off from the broader global arena. Increased cohesion might well develop, enhancing East Asia's ability to shape international and global pressures more to its collective liking. But the extraregional world will remain an unmistakable and powerful influence.

East Asia is unlikely to "resolve" its membership question in some fixed and final way. Clearly different organizations, institutions, and networks have coexisted reasonably well, despite quite different central hubs and outer boundaries. Instead of idealizing some improbable single set of fixed boundaries such those shaping the European Union, it may be best to acknowledge that competing concerns face East Asia and these may be best served by overlapping bodies with different memberships. In the long run porosity may trump rigidity.

3.3 Formal versus informal organizations

For weaker countries, formal rules in any organization offer the great advantage that they bind more powerful members to behaviors that they might not otherwise be predisposed to undertake. Yet in the words of Haas (1968; p. 16), regional political integration also involves "the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states." This is obviously a tall order when sovereign national states remain the primary drivers of international relations.

Europe and the European Union have moved toward ever deeper institutionalization and legalization. Thousands of pages of rules and regulations spell out the terms of intra-regional interactions. In contrast, Asia has relied almost exclusively on informal networks of collaboration. Existing Asia organizations are characterized by thin institutions and few requirements. That the legalized and formalized European situation is unusual must be acknowledged (Kahler, 2000). The disparity in expectations and goals of member states makes it unsurprising that East Asia has opted for vastly less formality.

ASEAN has set the organizational tone. Begun in 1967 as a non-communist effort to enhance the security of its five original members, it was deeply sensitive to their concerns that national sovereignty not be challenged by ASEAN membership. The result was a minimalist secretariat, few formal rules but an ongoing commitment to dialogue and the search for consensual solutions to a sequence of problems involving rolling coalitions of ever-changing members, a process dubbed the "ASEAN way."

APEC, ARE, and APT have all been structured around similarly minimalist frameworks and secretariats. Instead, in the phrasing of Solingen (2005; p. 32): "Three core characteristics – informality, consensus, and 'open' regionalism – capture the emphasis of East Asian institutions on process rather than outcome."

Informality is likely to continue in the near future. There is little probability to create formal, rule-bound institutions. Although informality has the drawback of fuzzy ambiguity, it offers the flexibility that encourages wider participation. And if East Asian regionalism is to advance, the first requirement is that the countries of the region show up for organizational activities.

3.4 Domestic political pressures

Domestic politics will be critical in aiding or impeding East Asian regionalism. Despite the importance of technology, revolutions in communications and transportation, and breakthroughs in trade and investment patterns, Katzenstein has argued correctly that “. . . for the foreseeable future, states will remain the main guarantors of national security and the basic building blocks of international order. . . . For good or ill, states remain the ultimate repository of power” (2005; p. 105). Certainly, this is true for those regional linkages requiring government support.

At least three important dimensions of domestic politics are relevant. First, do particular governments wish to enter regional agreements? Second, are they structured to be able to enter into convincing regional bargains? Third, what domestic socioeconomic coalitions hold greatest political sway and how do they position themselves on issues of regional ties?

On the first point it is obvious that not all governments across Asia are equally committed to regionalism. The South-East Asian countries have generally been more enthusiastic, for various reasons, than those in North-East Asia. Myanmar and North Korea have also been reluctant regionalists. Japan has favored regional ties in economics, environment, and antipiracy among other issues, but has resisted regionalization of security that did not include the USA. China has only recently become a regional convert but it does its best to keep Taiwan out of regional forums and off any regional agendas. Government commitment is tied to the second and third points. And here there is tension, as MacIntyre (2003) analyzes very well, between highly authoritarian political systems and deeply pluralistic systems. Authoritarian systems, such as that of Indonesia under Suharto, for example, are quite capable of committing the national government to a particular course of (potentially regional) action. But because decisions are subject to authoritarian whim, they can be made or unmade rather easily and decisions may well lack credibility among neighbors desirous of long-term and consistent commitments. Equally problematic, however, are highly pluralistic systems, such as that in Thailand. When multiple social groups can vote, government decisions are difficult to finalize and often pockmarked by compromise. Neighbors anxious to move forward can be frustrated by the seeming inability of the pluralistic system to reach a decision.

Important too is the socioeconomic composition of the dominant coalition supporting any government (Solingen, 1998, 2005). On the one hand, certain dominant coalitions crystallize around interests that are likely to benefit from greater economic openness of the domestic economy, exports, and closer ties to larger regional (and global) markets. On the other hand, some governments find themselves in thrall to powerful domestic forces demanding closed domestic markets, import substitution, and often, xenophobic and militaristic interactions with their geographic neighbors.

The salience of domestic politics is transparently obvious with every negotiation on trade. Powerful sectoral or firm interests battle over proposed market openings. Many parts of Asia are also still under the sway of developmental statism and mercantilist policies creating strong biases across greater economic regionalization. Relatedly, China and Vietnam have moved toward increased regional and global economic integration, but their domestic political systems remain heavily shaped by state-run enterprises, and the ideological appeals of socialism. And aside from any legitimate security concerns, North Korea remains

economically isolated from most of the region as a result of its *juje* ideology and the overweening obsession of the country's rulers with retaining their tight political control.

Xenophobia can also impede regional ties, as is clear from the recent outbursts pitting China, South Korea, and Japan against one another. The Asian Barometer surveys underscore the widespread mutual distrust among the general populations of these three countries (see Inoguchi *et al.*, 2006; pp. 482–485, for detailed data). Such attitudes make it extremely problematic for governmental leaders in such countries to initiate cooperative contacts. Naturally enough, mass opinions are subject to some shaping by elites. In this regard leadership can be a powerful activator or impediment to regionalism.

3.5 Leadership

Karl Marx, in his famous aphorism in the Eighteenth Brumaire, declared that “[m]en make their own history, but they do not make it under circumstances of their own choosing.” Yet, there is no denying the importance of committed leadership in moving forward any regional agenda in East Asia.

Leadership may come from individuals, countries, or groups of countries. Malaysia's Mahathir, for example, along with Singapore's Lee Kuan Yew, and South Korea's Kim Dae Jung, were outspoken proponents of a variety of regional approaches to problems in East Asia. A shift in Indonesian policies toward regional cooperation by President Suharto was a vital spur to the development of ASEAN. Japan's proposal for an Asia Monetary Fund was pushed extremely hard, although ultimately ineffectively, by Sakakibara Eisuke from the Ministry of Finance. South Korea's former foreign minister and ambassador to the USA, Han Sung Joo, chaired the East Asia Vision Group (EAVG) that embraced an extensive regional agenda in its 2002 report (<http://www.mofa.go.jp/region/asia-paci/asean/pmv0211/report.pdf>).

In addition, a number of middle powers in the region including Australia, South Korea, and Canada have consistently fostered regional approaches. Japanese and Australian leadership was pivotal in the creation of APEC. And in recent years, ASEAN has taken the lead in pressing for greater regional cooperation in the form of ASEM, ARF, and APT, among others. “Leading from behind” was once thought to be a Japanese technique; increasingly it is being adopted by various medium-sized powers and by ASEAN as an entity.

The networked nature of East Asian regionalism also gives considerable leadership potential to the nodes or hubs from which the region's many networks progress. Thus, ASEAN has been one general organizational hub; economically, Japan, and increasingly, China, have been hubs; the USA remains a key, although hardly unchallenged, security hub. And the Six-Party talks have shown China as the major hub. But it is also not clear that all the hubs share a common agenda concerning regional ties.

Finally, a measure of regional leadership has resulted from so-called Track II dialogues such as the Council for Security Cooperation in the Asia Pacific (CSCAP) and the Northeast Asia Cooperation Dialogue (NEACD). Typically involving both private individuals and government officials in their private capacity, such dialogues have sought regionally acceptable solutions to various specific problems facing East Asia. Evans (2005; p. 204, n. 8) counts almost 600 such meetings between 1994 and 2002. The result has been an explosion in the number of epistemic communities of regional leaders and an increased acceptance

of regional approaches. The “relentless conversations” of such bodies has transformed the “ASEAN way” into the “Asian way.”

To many the ambiguous outcome of the 2005 East Asia Summit was the result of a lack of leadership. Clearly, leadership and commitment will be central to overcoming the many structural impediments to regional cooperation (e.g. Samuels, 2003). As Daniel Defoe put it: “It is better to have a lion at the head of an army of sheep than a sheep at the head of an army of lions” (Andrews, 1987; p. 107).

4. From the Recent Past to the Near Future

The complex, and sometimes contradictory, manner in which the above five variables play out can be concretely grasped by examining developments in three different arenas: preferential free trade agreements, financial cooperation, and security. Each reveals how the assessment of East Asia’s regional development depends on the particular facets of regional interaction that one explores and how these variables interact.

4.1 Preferential free trade agreements

Economists are quick to criticize preferential trade pacts as “second best” arrangements that impede more comprehensive reductions of trade barriers (Bhagwati, 1992; Bhagwati & Panagariya, 1996, among others). And indeed, given that the world consists of nearly 200 separate countries, over 19 000 bilateral Preferential Trade Agreements (PTAs) or Free Trade Agreements (FTAs) would be needed to achieve comprehensive global free trade. Still, such agreements have increased rapidly since the 1990s.

East Asian countries were slow to embrace FTAs, relying instead on global trade agreements negotiated in conjunction with the World Trade Organization (WTO). Still, as early as the Fourth ASEAN Summit in Singapore in January 1992, ASEAN initiated the ASEAN Free Trade Area (AFTA), which laid out a comprehensive program of regional tariff reduction to be carried out through the year 2008. ASEAN later signed framework agreements for the intraregional liberalization of trade in services, and for regional cooperation on intellectual property rights. In the wake of the financial crisis of 1997–1998, ASEAN reaffirmed its commitment to AFTA, with the original six AFTA signatories promising to accelerate many planned tariff cuts by 1 year, to 2002 from 2003 (<http://www.us-asean.org/afta.asp>).

Elsewhere in Asia, however, such pacts were non-existent. As of October 1, 2002, of the 30 top economies in the world, only five were not members of any such FTAs: Japan, China, South Korea, Taiwan, and Hong Kong (Pempel & Urata, 2006). Since then, and particularly since the collapse of the Doha Round in Seattle and Cancun, an explosion of bilateral, regional, and other preferential free trade pacts involving East Asian nations have been concluded or explored.

Serious proposals for pacts have involved China and ASEAN, Japan and ASEAN, and Korea–Japan–China, as well as a host of additional mixes of trade partners. Singapore has been very much in the lead, but Korea, Japan, Thailand, and the Philippines have been active proponents. Most of these pacts go beyond the usual lowering of formal tariff barriers, committing the partners to various steps to encourage foreign direct investment, distribution networks, technology sharing, immigration, and other items (Dent, 2003).

Although a number of these FTAs have involved two or more partners from within East Asia, there has been equal interest in securing extraregional partners. Thus, Japan's second FTA (following that with Singapore) was with Mexico. New Zealand, Australia, and Chile have been frequent partners for Asian FTAs. South Korea is in discussions for an FTA with the USA, while the USA has been in discussions with select ASEAN members. In short, the FTA phenomenon is playing out in East Asia through multiple bilateral or minilateral arrangements, but is doing nothing to create a closed regional trading bloc. East Asia's economic boundaries remain highly porous and regional trading arrangements remain part of a broader global trade regime.

As Aggarwal (2006; p. 12) argues, many East Asian free traders became frustrated by the combination of slow progress in WTO meetings in Seattle and Cancun, by a possible reduction in access to US markets, and the desire to develop enhanced regional trade outlets that would reduce their dependence on the US market. For others FTAs represented defensive or catch up actions against what were perceived to be anti-Asian trade barriers erected by the North American Free Trade Agreement and the European Union. Finally, particularly in the cases of South Korea and Japan, FTAs were used by liberalizers to overcome domestic resistance to greater economic openness.

If one breaks free of the temptation to criticize the good as the enemy of the best, the recent rise in FTAs among Asian countries is boosting already substantial intra-Asian trade and reducing domestic trade barriers among the economies of East Asia. FTAs are vastly easier to conclude than multilateral agreements and recent experience suggests that they may well become the proverbial building blocks rather than stumbling blocks toward regional cohesion as well as global liberalization.

4.2 Monetary and financial cooperation

Recent developments in East Asian trade have deepened intra-Asian exchanges while keeping open the links between Asia and the rest of the globe. Recent developments in financial and monetary cooperation suggest a more closed regional approach.

The short-term results of the Asian economic crisis of 1997–1998 were disastrous. Hundreds of billions of dollars of hard currency reserves that had taken decades to accumulate were eliminated in a matter of months. Ownership of banks, factories, utilities, and natural resources were transferred to foreign ownership at fire sale prices. Ethnic, social, and political unrest exploded in the affected countries (Pempel, 1999).

Hindsight revealed that collective Asian foreign reserves, had they been mobilized, could have obviated the eventual International Monetary Fund (IMF) bailouts. In 1998, for example, the collective foreign reserves of the 10 richest countries in Asia totaled \$US742 billion – well beyond the total for the three main IMF packages. Today, the reserves of the APT countries have ballooned to nearly \$US2.5 trillion, roughly two-thirds of the world total and up from about \$US1 trillion in 2001. The People's Bank of China and the Hong Kong Monetary Authority lead the way with \$US833 billion as of June 2005, with Japan a close second at \$US830 billion (*Economist*, 2005, 80). Even a small amount of these resources, if mobilized collectively, would be greater for many countries than what they could receive through multilateral financial institutions (Henning, 2002; p. 13) Yet, USA and IMF

opposition to Japan's proposed Asian Monetary Fund left many participants sensitive to the need to avoid direct challenges to existing global monetary arrangements.

One collective response to this mix of incentives came with the Chiang Mai Initiative (CMI) of May 6, 2000. CMI created an expanded ASEAN currency swap arrangement (ASA) among the 10 ASEAN countries and a network of bilateral swap arrangements (BSA) among the ASEAN countries, China, Japan, and South Korea.

When the CMI originally went into effect, considerable stress was placed on the limited amounts of money involved in the swaps, as well as on the requirement that most swaps be congruent with IMF regulations. Yet, by early 2005, some 16 bilateral swap agreements had been organized under CMI totaling \$US39 billion. Then at the 8th meeting of Finance Ministers of the APT in Kuala Lumpur on May 5, 2005, the APT agreed to double the amounts in existing swap arrangements, raising the total to \$US80 billion.

Leadership was important in these arrangements. A particularly strong advocate of the increases was Kuroda Haruhiko, head of the Asian Development Bank and an original proponent of the 1997 Japanese proposal for an Asian Monetary Fund. In April 2005, Kuroda created the Office for Regional Economic Integration and appointed Kawai Masahiro, a well-known proponent of regional monetary union, as its head. Kuroda's actions were in keeping with Japanese efforts to foster a yen-denominated version of the Asian Monetary Fund (ASEAN Secretariat, 2005). Kuroda, Kawai, and the Asian Development Bank, as well as many Asian governments, continue to push for greater Asian financial cohesion. China too has supported the CMI in recognition of how Chinese global influence could be enhanced by a more cohesive Asian region, particularly one in which China played a growing leadership role.

The most advanced economies in Asia have also moved to develop an Asian bond market as an additional mechanism of regional financial stability and reduced dependence on the US dollar for financial reserves, currency baskets, and international transactions. On June 2, 2003, the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) announced the establishment of a \$US1 billion Asia Bond Fund. This first Asia Bond Fund involved a group of 11 Asian central banks and an initial size of \$US1 billion. The APT Finance Ministers' Meeting subsequently moved to develop a local-currency bond market, including a regional clearing and settlement system, a bond rating agency, a trading system and so forth.

At the heart of the problem is the effort to mobilize regional savings for intra-Asian investment and to reduce the dependency of the region on the US dollar. A bond market denominated in local currencies will allow Asian borrowers to avoid the "double mismatch" problem that arose in 1997–1998; that is, borrowing short in foreign currency (mostly dollars) and lending long in domestic currencies. It would also free many Asian borrowers from their longstanding dependence on bank borrowing. The Asian Development Bank, for example, estimates that between 2005 and 2010 East Asia will require \$US180 billion, or 6–7% of regional gross domestic product annually in gross investment in physical infrastructure alone. Using Asian capital directly to meet such expenditures makes considerable intraregional sense.

Substantial impediments to comprehensive Asian financial integration remain, however. Monitoring and surveillance mechanisms are still not in place for the BSAs. Information

sharing and coordination as well as structural and policy reforms in many countries remain problems. An independent regional monitoring and surveillance unit is needed. Similarly, many problems remain to be ironed out in an Asian bond market. To date, there is more agreement on the desirability of monetary cooperation than there is actual utilization of the needed provisions. But to the extent that the swap agreements and the bond market work out these internal glitches, financial arrangements in East Asia could have a far more regionally integrated character than they have to date. How these regional agreements would interface with the global financial system is not yet clear. But undoubtedly, such intraregional cohesion is likely to enhance the overall global bargaining power of East Asia's richest members, presumably drawing on regional, rather than a national, strengths.

4.3 Security problems

The end of the Cold War, the collapse of the Soviet Union, and China's tentative embrace of quasi-capitalist economics, along with the increased importance of so-called rogue regimes, failed states, and non-state terrorist networks, have combined to redefine the broad configuration of regional security issues in East Asia.

Although hardly a complete security community (Acharya, 2001), South-East Asia has moved far closer to regional security cooperation than its neighbors to the north. There, nationalist competition, unresolved territorial disputes, and ghosts from the historical past work at cross purposes with efforts to deepen regional cooperation and connection. These are especially harsh in Cross Straits relations between Taiwan and China; in the security threats posed by a potentially nuclear, but certainly non-cooperative North Korea; as well as in the recent deterioration of bilateral relations between Japan and China, and to some extent South Korea and Japan.

Cross Straits relations took a sharply negative turn with the Chinese shelling across Taiwan before the 1996 elections and the subsequent US positioning of the Seventh Fleet in defensive positions within the Straits. They worsened with the election of the nominally pro-independence president, Chen Shui-bian, in 2000 and his close and contested reelection in March 2004. In 2005, China passed an anti-secession law threatening military actions in the event of unspecified Taiwanese moves deemed provocatively pro-independence by China. Continually, China works to isolate Taiwan internationally and regionally.

Meanwhile, North Korea's launch of Nodong missiles over Japan, the Japanese Coast Guard's sinking in December 2001 of a North Korean ship that had entered Japanese territorial waters, the regime's announcement that it was pursuing a program of nuclear weapons development, its October 2006 nuclear test, disputes over North Korea's abductees from Japan, allegations of North Korea counterfeiting and smuggling, and a host of other items are continual manifestations of the deep impediments to regional security cooperation posed by North Korea.

Japanese and South Korean ties seemed to be on a positive track in the late 1990s. The historical visit to Japan of President Kim Dae Jung in October 1998 was highlighted by an apology from Prime Minister Obuchi for the suffering Japan had caused while Kim praised Japan for its postwar achievements and promised to "put history behind us" and to look to the future in bilateral relations. The joint South Korea-Japan hosting of the World

Cup in 2002 and the explosion in cultural ties between the two countries also suggested increasingly positive ties. But these worsened over the history issue and competing claims for Dokto/Takeshima.

Bilateral Chinese–Japanese ties also appeared to be warming linearly after the normalization of bilateral relations in 1972. Japan began 30 years of substantial bilateral overseas development assistance (ODA). Trade and investment ties grew at a rapid pace and in 2005 China outstripped the USA to become Japan’s major trade partner. Yet, Japanese policy-makers have expressed growing concerns about the potential strategic and diplomatic implications that rapid economic growth is being utilized to expand Chinese military budgets, including the development of a blue water navy and the search for enhanced energy resources in areas claimed by both countries (as well as in the Middle East and in West Africa).

In response, in October 2001, Japan reduced and redirected its ODA to China in recognition of the country’s rising economic success and “diminished need.” Ties worsened with Japanese Prime Minister Koizumi’s visits to Yasukuni Shrine and growing official support for nationalistic interpretations of Japan’s actions during World War II. A host of events suggested the growing tensions: anti-Japanese demonstrations at soccer matches in Chongqing, China, in July 2004; a Chinese submarine intrusion into Japanese waters in November 2004; a statement by US and Japanese officials in February 2005 that Chinese officials took as hostile; protests at the Japanese Embassy in Beijing in April 2005; cancellations of visits by Chinese and South Korean leaders to Japan; and both Korean and Chinese opposition to Japan’s bid for a seat on the UN Security Council.

In the past 4 or 5 years, security fears in North-East Asia have pulled these countries away from, rather than towards, one another with the long term prospect that further worsening may reverse the growing economic closeness. Diplomatic winds blow hot and cold and it would be a mistake to overemphasize recent tensions. Credible changes in the domestic politics or the leadership agendas of leaders in North-East Asia’s major countries could easily reverse recent deteriorations.

Ironically, there might even be a positive side to the potential threat posed by North Korea’s nuclear program since 2002, namely that it has spurred the Six-Party Talks. Although far from showing much harmony beyond the still disputed Joint Agreement reached September 19, 2005, the talks have nevertheless provided still another regional forum that has kept a potentially explosive situation from deteriorating into overt hostilities.

5. Toward a Conclusion

This paper has examined a host of impediments to closer regional ties and formal regionalism. Its central message is that any assessment of obstacles to regional progress demands a conscious articulation of the specific forms of regional linkage one imagines for the future. Regional links are easier in some areas than in others, and they are easier to forge across some boundaries than across others. East Asia’s leaders generally lack a common regional agenda while domestic political forces often impede closer ties. At the same time, East Asia today remains far closer and less riven by conflicts than was the case two decades ago. Moreover, despite the unmistakable potential for overt military conflict

over a number of issues involving East Asia's most powerful militaries, a fumbling process of conflict avoidance has kept the region at peace since 1979. This is hardly historically trendsetting but East Asia has definitely become more peaceful as a region than virtually any other in the world outside of North America and Western Europe. That achievement should not be minimized and it holds out the hope for enhanced regional cooperation in the future.

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