Prospects for East Asia Community

Five months after the launch of the East Asia Summit brought greater attention to regionalism in Asia, four experts assessed the prospects for deeper regional integration and community building in a session moderated by Jusuf Wanandi, co-founder and vice chair of Indonesia’s Centre for Strategic and International Studies (CSIS). Akihiko Tanaka traced the origins of regionalism in Asia, Qin Yaqing argued that neither China nor Japan can lead the regional community-building process, and Young Soogil outlined the progress made in terms of trade and financial integration. Meanwhile, Barry Desker emphasized how the region has become home to a renewed vitality while the United States continues to be distracted by developments elsewhere. The following includes condensed versions of each presentation and a summary of the discussion session.

Akihiko Tanaka

In discussing the future of East Asian community building, it is necessary to recognize how recently the rapid regionalization has started in East Asia. The concept of East Asia itself is still in flux. Traditionally, “East Asia” has long been regarded as an area centered on China, i.e. China, the Korean peninsula, Japan, and Vietnam.

It was only in the 1990s that the usage of “East Asia” as an area consisting of both Northeast Asia and Southeast Asia started. In the 1950s and 1960s, under the shadow of the Cold War and various regional hot wars, no meaningful regions existed in what we now call “East Asia.” Instead of creating a region, countries in the eastern edge of the Eurasian continent were fighting each other or fighting civil wars. The Indochina peninsula was in constant military turmoil, and an “East Asia” comprising Northeast and Southeast Asia was impossible because of the big war zone between the north and the south.
Rapid Regionalization

New developments occurred in the 1970s, gradually proceeded in the 1980s, and expanded in the 1990s. The Sino-American rapprochement in 1971 and Deng Xiaoping’s initiation of the “reform and opening” (gaige kaifang) policy in 1978 began to connect China with the rest of the world. The Cambodian Civil War was the most difficult and complex remnant of the final phase of the Cold War in Asia, but no new inter-state wars have occurred in East Asia since the Sino-Vietnamese war of 1979, and no new large-scale civil wars have been fought in East Asia since the 1991 Paris accord on Cambodian peace.

This quarter-century-long inter-state peace is unprecedented in East Asia in the 150 years since the Opium War of the 1840s. The 14-year peace without civil war is further unprecedented. Although this East Asian peace is not without instabilities and uncertainties, such as the tensions over the Korean peninsula and the Taiwan Strait, it is clearly one of the most important conditions for the current regional economic, political, and social integration.

Coinciding with the gradual emergence of peace, the impact of economic globalization has spread throughout East Asia. As a result, from 1980 to 2003, the total nominal GDP of East Asian economies grew 4.7 times, exports 6.9 times, and investment inflows 16.3 times. Now the economic size of East Asia is comparable to that of Western Europe and North America.

Economic interdependence within the region has also grown. Intra-regional imports have grown from 34.8 percent in 1980 to 58.6 percent in 2003.

Also, social interaction within East Asia has grown rapidly in the late 1990s to early 2000s. In the past, the “ugly tourist” behavior was dominated by Japanese because they were the only Asians who traveled abroad in groups. Now, many other Asians are traveling all around the world, especially in their neighboring countries. Many items of popular culture such as comic books, karaoke, popular songs, movies, TV dramas, and video games, are being widely shared, especially in the urban centers of East Asia. Some scholars have begun to argue that there is an emergence of what might be referred to as the East Asian way of life among the new middle classes.

Along with the regionalization in economic and social dimensions, regional multilateral political frameworks have also developed: Asia Pacific Economic Cooperation (APEC), the ASEAN Regional Forum (ARF), the Asia-Europe Meeting (ASEM), ASEAN+3, and the East Asia Summit.
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Characteristics of the East Asian Political Process

There are several characteristics of the development of regional political frameworks in East Asia. First, many political frameworks are organized with ASEAN as the hub: the ASEAN Post Ministerial Conference (ASEAN PMC), ARF, and ASEAN+3 are obvious examples.

One of the worries of ASEAN countries in establishing the East Asia Summit was that the centrality of ASEAN might be reduced by dropping “ASEAN” from the name of the summit. In fact, however, the pivotal role of ASEAN was again reconfirmed through the process of discussing the participants in the East Asia Summit. As is known, some ASEAN+3 members, such as Malaysia and China, did not want to add new members to the summit while others, such as Japan, Indonesia, and Singapore, wanted to add Australia, New Zealand, and India. In the end, the ASEAN foreign ministers meeting at Cebu in April of last year resolved this issue by creating a set of criteria for participation. The three Northeast Asian countries gave consent to the criteria made by ASEAN, thus reconfirming that ASEAN continues to occupy the driver’s seat in terms of regional cooperation in East Asia.

Second, the “ASEAN way” tends to prevail as a modality of most political frameworks, that is, that decision-making should be based on consensus. The ASEAN way also implies a strong attachment to the principle of non-interference in the domestic affairs of other countries and a resistance to hard institutionalization.

Third, discussions in political frameworks such as ASEAN+3 about main areas of cooperation centered not on controversial political and military issues but on “functional” areas such as finance, trade, energy, environment, science and technology, and culture. Political and security issues are discussed, too, but more emphasis is placed on nontraditional security issues such as antiterrorism and anti-piracy cooperation.

Fourth, discussion of “visions,” “ideals,” and “norms” for regional integration came very slowly. If regionalism is defined as an articulated idea of creating a region with specific goals in mind, East Asian regional integration may be characterized as regionalization without regionalism. The facts of regionalization preceded ideas and visions of regionalism. The first ASEAN+3 summit of 1997 was planned as an ad hoc gathering without any “vision statements.”

However, as political leaders gather together, it seems inevitable for them to attach some meaning to their gatherings. The emergence of regionalism
thus seemed inevitable as the degree of regionalization proceeded to a certain degree. Therefore, in 1999, at the third ASEAN+3 summit, the leaders issued a “Joint Statement on East Asian Cooperation” as the first official statement of their cooperative activities. President Kim Dae-Jung proposed to establish an East Asia Vision Group as an advisory panel to the ASEAN+3 summit, and this was tasked with presenting a report to the 2001 summit.

The idealistic and universalistic tone of the Vision Group report was expressed very well by its first sentence: “We, the people of East Asia, aspire to create an East Asian community of peace, prosperity and progress based on the full development of all peoples in the region.” However, there are tensions in the East Asian discussion of regionalism between those emphasizing the universal values and those emphasizing specific local conditions. The report used concepts such as “progress,” “human security,” and “good governance,” but not “democracy” or “human rights.”

Challenges of Community-Building in East Asia

The characteristics of the political process already imply some of the challenges facing the people of East Asia in proceeding with East Asian regional integration.

First, one major challenge involves visions of regionalism and how to reconcile the tension between the principle of noninterference and the emphasis on universal human values. The current way to reconcile this tension seems to accept both principles and regard the entire process of regional integration as an evolutionary process of realizing universal values without making apparent attempts to interfere in other countries’ domestic affairs. Setting up norms of universal values as clearly as possible but not hastily pressuring those not willing to follow these norms seems the current formula for an “evolutionary strategy” of regional integration. Obviously, this strategy does not resolve the problems that countries like Myanmar pose. In the end, this strategy cannot but depend on the hope that the process of regionalization eventually fosters the process of democratization in currently undemocratic countries.

Second, there is the big problem of political reconciliation among important countries and other political entities in the region. The current political tension between Japan and its Northeast Asian neighbors is a case in point. Although Prime Minister Koizumi asserts that Japan’s relations with China and South Korea are good enough, the current situation
in which national leaders cannot get together for a frank discussion over various bilateral as well as multilateral issues is not conducive to constructive regional development.

There are other political divisions in East Asia that hinder further regionalization. North Korea is one and the Taiwan Strait another. Unless these two persisting political divisions are resolved, true regionalization in East Asia will not be complete.

The third challenge of East Asian regionalism involves its boundaries and its external relations. If political divisions on the Korean Peninsula and over the Taiwan Strait are resolved, it seems natural to give proper places to North Korea and Taiwan in East Asian cooperation. The roles of Australia, New Zealand, and India can be rather controversial in the future discussion of East Asian regional integration. However, to the extent that the current process of regional integration is a long-term process of evolution, this controversy may not need to be settled immediately. As in the past, the concept of “East Asia” may evolve as the process of regionalization further progresses.

East Asia’s relations with North America and Europe are also important. In terms of political frameworks, these challenges should partly be translated into the management of APEC and ASEM because the key members of East Asia are at the intersection of APEC and ASEM.

The management of relations with the United States could be more difficult and challenging for East Asians because in the past the United States has expressed strong opposition to East Asian groupings, such as the East Asia Economic Caucus (EAEC) and the Asian Monetary Fund (AMF), and because the United States has special strategic interests and roles in East Asia.

So far, the American opposition to further regional integration in East Asia has not been as categorical as it was in the case of the EAEC or the AMF. Many American leaders now seem to feel that it is in the U.S. interest to embrace East Asian regionalism rather than oppose it. Few in East Asia argue for creating schemes to exclude the United States in substantive areas. As long as the fate of East Asian economies depends on good economic relations with the two large markets of North America and Europe, the East Asian Community that eventually emerges should be a community friendly to both North America and Europe.

The fourth and final challenge may be the most difficult task—that is the task of realizing concrete and substantive achievement in many functional areas. If functional cooperation only means holding meetings and conferences, it is easy. And if functional cooperation only means
that the participants join activities on which they can easily agree, again it is easy. Further still, if functional cooperation means that countries contribute to the activities that do not require much cost, it is easy. But if functional cooperation is limited to these easy activities, it does not achieve much, let alone produce spill-over effects into other, more politically charged areas.

Free Trade Agreements (FTAs) and financial cooperation are the two most important areas of functional cooperation that now face East Asian countries. If East Asian countries can agree only on a “dirty FTA,” and if East Asian countries cannot agree on truly effective financial surveillance systems, strong impetus toward more substantive regional cooperation may be lost. East Asia may have to suffer another round of unexpected crises.

In the late 1990s, APEC lost momentum partly because it did not produce concrete results. The current process of ASEAN+3 and the East Asia Summit should not repeat the same mistakes of APEC. The ASEAN+3 Summit and the East Asia Summit last December were good gatherings. But to proceed further, leaders and diplomats should talk more on substance in preparation for future meetings rather than about such formalistic subjects as which countries should participate in the meetings.

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**Qin Yaqing**

Regionalism did not really start to develop in East Asia until the mid-1990s, when ASEAN expanded to include 10 Southeast Asian countries and set up the ASEAN Plus China, Japan and the ROK cooperation framework. During the last decade, East Asian regionalism, led by a group of ASEAN states and characterized by openness, informality, comfort, and consensus, has witnessed unprecedented dynamism and development.

Throughout history, and especially during the Cold War, East Asia was a place of strategic importance in terms of competition and confrontation among the big powers. Today, when there is neither a clear power structure
nor highly formal institutionalization accompanying the rapid integration process, people cannot help wondering where East Asian regionalism is going and how the big powers will position themselves. In this respect, three concerns stand out: first, East Asian regionalism could be closed and exclusive; second, there could be a tense competition for the leadership in the regional process, especially between China and Japan; and third, the U.S. role could be reduced especially as China continues to grow.

To address these three concerns, I argue that East Asian regionalism led by ASEAN is by nature and by necessity open, that no nation or grouping can take the lead role except for ASEAN, and that the United States has important roles to play and should help to make the region peaceful, prosperous, and progressive.

Open Regionalism

East Asian regionalism is, by nature and by necessity, open regionalism. It cannot be exclusive. The openness of East Asian regionalism is shaped by history. U.S. alliances with several East Asian countries and its hub-and-spokes security system have made it impossible for the region to be a closed one. In addition, the end of the Cold War enabled many other countries to develop relations with the United States, Europe, and other regions of the world. Thus, in politics and security East Asia is closely connected with actors in other regions.

Second, the openness of East Asian regionalism is determined and maintained by its market-oriented nature. The development of Japan and the four tigers and China’s recent rapid growth have followed an export-oriented strategy, which decides that the region is open. While growth in intra-regional trade has been rapid, East Asia’s economic connections with the outside world have been moving forward too. The market-oriented nature of East Asian regionalism makes the region inseparable from the world economic system.

Third, the internal process of East Asian integration with ASEAN as the core parallels the development of the region’s linkages with the outside world. ASEAN was designed to be an open process and continues to keep this openness. It first enlarged its membership from 5 countries to 10, and then further opened the process to other nations. At last year’s East Asia Summit, it opened further to countries outside the geographical region; India, Australia, and New Zealand were all present at the summit. ASEAN+3 has been recognized as the main vehicle of East Asian community building
but, at the same time, the inclusion of China, Japan, and the ROK has not reduced the openness of East Asia to the outside world.

**Regional Leadership**

Many have been talking about the leadership of East Asia’s multilateral regionalism. Some have used the European Union as an example, believing that the major powers in the region are natural leaders. With this line of reasoning, some have begun to talk about the rivalry between China and Japan to take the leading role in the regional process, for one is developing at a high speed and the other is the largest and most advanced country in the region.

It is true that China and Japan are large and important nations, but neither can lead the East Asian multilateral process. Although China has been developing very rapidly and has become a major power in the region, it is impossible for it to lead the regional integration process. China is a latecomer, so it is not positioned to lead. The rise of a country with 1.3 billion people at such a speed has no parallel in history; there are too many domestic problems and there is still suspicion and uncertainty about China both inside and outside the region. What China needs to do now is to focus on domestic issues, to strengthen trust and relations with other actors in the region, to demonstrate its intention to develop peacefully, and to join the regional integration process in order to help create a better regional order.

Japan is not in the position to lead, either, despite being the largest economy in the region and a close ally of the United States. First, like China, Japan is a latecomer. Although it once led regional economic growth, it joined the ongoing regional process as a follower. Second, Japan still faces somewhat of an identity problem. The debate over joining the West or the East has persisted and even today people in Japan are continuing to argue over whether Japan should or should not join in regional multilateralism and promote East Asian community building. Third, there are thorny problems between Japan and some neighboring countries in the region. Especially in recent years, Japan’s relations with neighboring countries have been problematic.

Realistically speaking, if we want to make East Asian regional integration possible and workable, ASEAN is the only qualified driver in the regional process. ASEAN countries initiated the regional process and have gained successful experience in developing ASEAN as a regional organization. As
the hub of the regional institutional structure, ASEAN has been playing the pivotal role in coordinating cooperation. It has developed extensive connections not only with China, Japan, and the ROK, but also with major players outside the region. Moreover, ASEAN sets up norms and rules for the region. The ASEAN way, characterized by informality, minimal institutionalism, and respect for each other’s sovereignty and territorial integrity, has been expanded to the ASEAN+3, and to some extent the bigger countries such as China and Japan have been socialized into the ASEAN way. Without these norms, we would not even see today’s regional development.

China and Japan have had problematic political relations in the past few years, and this adds to the rivalry argument. However, we should not forget that the two countries and the two peoples have enjoyed largely good and stable relations for more than three decades since the establishment of diplomatic relations. The three important documents, namely the 1972 Joint Statement, the 1978 Peace and Friendship Treaty, and the 1998 Joint Declaration, set the political basis for bilateral relations as friendship, peaceful settlement of disputes, and no pursuit of hegemony.

Sino-Japanese economic relations are basically well grounded, although political problems tend to affect the overall relationship. The two countries are highly interdependent in terms of trade and investment. By November 2005, foreign direct investment (FDI) from Japan into China amounted to US$52.8 billion. In 2004, China (including Hong Kong SAR) became the largest trading partner of Japan. And Japan became China’s biggest trading partner from 1993 to 2003. Japan’s economic aid has helped China’s reform, and the rapid development of China helped the economic recovery of Japan.

Thus, while some people argue for rivalry between China and Japan in East Asia regionalism, I argue for cooperation. There is plenty of room for cooperation. For example, China is confronted with serious environmental problems and costly energy consumption, and Japan has first-rate environmental protection and energy conservation technologies. As the two biggest economies in the region, China and Japan account for 85 percent of the total regional economy. It is evident that successful East Asian regionalism needs the cooperation of the two nations.

Under such circumstances, should there be a rivalry between China and Japan for the leadership in the multilateral regional process, the process itself would be doomed. On the one hand, a deterioration of Sino-Japanese relations would also be harmful to this regional process and its aims of peace and prosperity. Here, we have to face a tough fact: the history issue continues to be the most formidable and immediate obstacle
to be overcome for either the improvement of Sino-Japanese relations or for better cooperation in the multilateral regional process. It is a matter of right and wrong. It is a matter of principle. And it is a matter that we must face and try to solve rather than to deny or dismiss as a purely domestic issue. On the other hand, it is also important to understand that relations cannot be maintained only by close economic ties and should be taken care of conscientiously. Strategic measures to build long-term friendship between the two countries are particularly needed to promote understanding and friendship, including exchange programs for young people. Educational efforts are needed to promote a healthy mentality and reduce extreme nationalistic feelings, and the media has a responsibility to help make a better atmosphere.

The Role of the United States

The United States has important interests in East Asia. Traditionally, the United States was not very keen about East Asian multilateralism and sought its interests mainly through bilateralism. In fact, it did not support East Asian multilateralism during the first years of the Cold War. Even in the early 1990s, the United States did not welcome the idea of former Japanese Foreign Minister Nakayama for establishing a forum to discuss regional security issues or the idea of former Malaysian Prime Minister Mahathir of an East Asian grouping. During the Clinton administration, the United States shifted its attitude and began to join the region’s multilateral activities, such as the APEC forum and the ARF.

With the rise of China coinciding with the development of East Asian regionalism, some people are concerned about the possibility of China replacing the United States in terms of influence in the region. Thus, for the United States, its present policy seems somewhat unclear. While it is not opposed to East Asian multilateralism, it is not actively supportive of it. There are two major concerns for the United States: first, whether East Asian regionalism might replace or threaten the U.S. bilateral alliance system, i.e. the hub-and-spoke structure; and second, whether this regional multilateral process will be dominated by China. The United States worries that this would diminish its role in the region.

These worries seem not to be realistic. First of all, China has no intention whatsoever to take the place of the United States in East Asia. U.S. interests in the region have developed historically and China recognizes these interests. The fundamental and foremost task for China at present
and for a long time in the future is to solve various domestic problems and improve the wellbeing of its people.

Second, China does not have the capacity to reduce the United States’ influence in the region, which lies in both its military presence and its economic strength. China has been on the rise. With a GNP per capita of US$1,700, however, its capabilities lag far behind the United States. The United States still plays a key role in regional security—both traditional and nontraditional—as well as in economic affairs.

Third, East Asian regionalism is not a zero-sum game between China and the United States and should not be taken or thought of as such. Otherwise, it could be constructed in this direction. China’s rise does not come at the expense of U.S. interests or automatically result in the decline of U.S. influence in the region. East Asian countries do not and will not have to choose between China and the United States.

One decade’s practice has shown that East Asian regional integration can bring about stability and prosperity in the region, which is not only in China’s interests, but also in the interests of the United States as well as other regions and actors around the world. China welcomes constructive contributions of the United States to the regional integration process. It is highly desirable that the two countries cooperate to make the region peaceful and prosperous.

Specifically, there is a huge amount of room for the United States to play crucial roles in three areas. First, East Asia has yet to have a collective security arrangement. The six-party talks could serve as a step toward a multilateral security framework including major powers such as China, the United States, Japan, and Russia. Second, the United States is an important actor in helping to improve bilateral relations in the region, for example, between China and Japan. Bad bilateral relations between East Asian nations are not in the interest of the United States and will be a big hindrance to East Asian community building. Third, the United States should help harmonize relations among East Asian nations rather than watch a hostile political culture develop in the region. Confrontation among nations and suspicions about each other’s intentions will damage the regional process.

Although the regional order, institutional arrangements, and the regional identity of East Asia are still at an initial stage of development, East Asian regionalism has already displayed its distinctiveness and has helped to maintain regional stability and prosperity. With ASEAN playing a pivotal role, establishing and spreading norms to the bigger powers and socializing them, it is sensible and desirable for China, Japan, and the United States to
cooperate rather than compete for leadership in the region’s community-building process.

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Young Soogil

I would like to begin by recalling the vision of an East Asian community that was proposed by the East Asian Vision Group in “Towards an East Asian Community,” its report to the ASEAN+3 Leaders at their Fifth Summit held in Brunei Darussalam in November 2001. In this report, an East Asian community was defined as “a bona fide regional community with shared challenges, common aspirations, and a parallel destiny.” According to the report, it is “the economic field, including trade, investment, and finance,” which “is expected to serve as the catalyst in the comprehensive community-building process.”

The report recommended many measures for economic integration. In the area of trade, these included the formation of an East Asia Free Trade Area (EAFTA) ahead of the Bogor Goals set by APEC. In terms of investment, it recommended the expansion of the Framework Agreement on the ASEAN Investment Area (AIA) to an East Asian Investment Area (EAIA) that would cover East Asia as a whole. In regard to financial and monetary cooperation, the report recommended the establishment of regional self-help arrangements—i.e., regional swap arrangements or an East Asian Monetary Fund—as well as a suitable exchange-rate coordination mechanism for the region.

Regional Integration in East Asia to Date

I would like to review the progress toward the Vision Group’s vision of an East Asian community in two major areas of interest—trade integration and financial integration.
Trade Integration

The main development in the area of trade and investment integration has been the rapid proliferation of bilateral FTAs involving regional economies—mostly, though not all, between regional economies. Most of these agreements are of the “FTA+” type, in the sense that they go beyond the elimination of tariff barriers and border measures restricting imports to measures to facilitate trade and investment, including the liberalization of foreign direct investment.

We observe the following pattern in terms of FTAs in the region. First, there is not just the ASEAN FTA itself, but ASEAN is building a network of ASEAN+1 FTAs, with China, India, Japan, Korea, and the CER region (the Australia and New Zealand Closer Economic Relations Trade Agreement region), etc., each as a partner. ASEAN is seeking to become the hub of the regional FTA network. But then all other countries, especially China, Japan, Korea, India, Australia, and even individual ASEAN countries such as Singapore and Thailand are doing the same in competition with one another.

The East Asian countries began to actively seek FTA deals after the Asian financial crisis of 1997–98, with Korea as the first to announce this strategy. However, the proliferation of FTAs in the region was triggered by China when the country made a surprise announcement of its proposal to negotiate an FTA with ASEAN in Brunei in November 2001. It seemed at that time that this movement was politically motivated rather than economically. This in turn “forced” Japan to propose the same the next year and thus set off the competitive “FTA-hubbing” process in the region.

The first fact to be noted about these FTAs is that they go against the grain of the EEAFTA that was proposed by the Vision Group. These bilateral agreements distort the pattern of regional trade through their trade-diversion effects. The situation is made worse by the fact that each deal consists of provisions unique to itself, such as those on exemptions and rules of origin, so that a product originating from the same country would be subject to different trading rules and costs depending on which FTA partner country it is destined for.

The consequent “spaghetti-bowl” effects would be very costly to the countries involved as well as to the whole region, and they might undermine the efficacy of the regional cross-border supply-chain production networks, which are helping to make the regional economies competitive suppliers.

An important question that arises here is whether, over time, these bilateral FTAs would or could be amalgamated with one another and evolve into
an East Asian FTA. In other words, are these bilateral agreements building blocks or stumbling blocks toward a region-wide free trade regime?

Financial Integration

There have been two major developments in the area of financial integration. Much progress has been made in launching regional financial arrangements. At their meeting in Chiang Mai in May 2000, the ASEAN+3 Finance Ministers agreed on the Chiang Mai Initiative (CMI) to expand the ASEAN Swap Arrangements to all ASEAN countries, and further to set up a network of bilateral swap arrangements among the ASEAN+3 countries. Under this initiative, ASEAN+3 countries had, as of May 2005, signed 16 bilateral swap arrangements for a total amount of $475 billion, increased the percentage of swaps that can be disbursed without IMF-supported program from 10 percent to 20 percent, and agreed on a collective decision-making system for the swap agreements—the first indication that the ASEAN+3 countries may be willing to sacrifice some amount of national sovereignty for their collective initiative.

There has been no clear regional initiative in the area of exchange-rate coordination. Tensions continue to mount over the persistent and rising trade imbalance across the Pacific, especially, between the United States and China. There seems to be a clear need for greater exchange-rate flexibility for the Asian currencies. An important hurdle, however, has been the lack of an appropriate exchange-rate coordination mechanism in the region that would help overcome the collective action problem. In July 2005, China and Malaysia joined Singapore in adopting a managed floating exchange-rate regime based on a currency basket. This suggests that the basket-pegging regime is becoming popular in the region. This could lead over time to enhanced exchange-rate coordination. However, the adherence to export-led growth and weak financial institutions at home on the part of many regional economies, as well as the lack of trust between them, indicates that this will be a long, drawn-out process.

In the area of financial market cooperation, East Asia has launched a number of initiatives to develop regional bond markets. The idea has been that the absence of such markets, as well as the underdevelopment of domestic bond markets, exacerbated capital outflows in East Asia during the Asian financial crisis. It has also been pointed out that the absence of regional bond markets has, in part, been responsible for the massive increase in the region’s overseas portfolio investment since the crisis.
There have been two major initiatives, with active contributions from a number of countries including Japan. First, the Executives Meeting of East Asia Pacific Central Banks (EMEAP) created two Asian Bond Funds (ABFs) to buy bonds issued by the Asian member economies. A major objective of the ABF initiative has been to help the bond-issuing economies create and develop the appropriate capital market institutions. Also, the ASEAN+3 finance ministers launched the Asian Bond Market Initiative (ABMI), creating several apex bodies and working groups to begin to develop elements of a regional financial infrastructure, such as a clearing and settlement systems, credit guarantee institutions, and credit-rating agencies.

The success of the regional bond market initiatives depends critically on each economy strengthening and deepening its own financial system. But there has been backsliding on the reform in some regional economies. In addition, these initiatives raise a question of fundamental importance. These economies would like to create financial systems that channel East Asian savings to East Asian investors. There is, however, no reason that this should not happen within the framework of a global system. But the global system of financial intermediation is very efficient. Accordingly, the challenge is to create an East Asian regional financial system that is at least as efficient and even cheaper than the global system. This will be a huge challenge, to say the least.

**Prospects and Implications**

On the trade front, there has been a proliferation of bilateral FTAs. Bilateral FTAs can be useful instruments of liberalization, but they also have features which are problematic from the perspective of regional integration. In order to make progress toward an EAFTA, the regional governments should make a conscious collective effort to create such a region-wide FTA, on the one hand, and to develop a set of rules or guidelines for bilateral FTAs that would constrain these agreements so that they would serve as “building blocks” toward an EAFTA, on the other hand.

At their meeting in Busan, Korea, in November 2005, the APEC Economic Leaders endorsed their ministers’ agreement to promote “high-quality” regional trade agreements and FTAs so as to make subregional and bilateral agreements serve as building blocks toward the realization of the Bogor Goals. It is yet to be seen how this objective will be pursued by APEC. But APEC’s work on this objective will also help the ASEAN+3
members work out their own FTA guidelines in a manner geared to the realization of the EAFTA. In fact, the East Asian guidelines for bilateral FTAs should also be designed so as to be consistent with APEC’s principle of “open regionalism” so that the EAFTA itself would be consistent with APEC’s Bogor Goals, which embody this principle.

All in all, the EAFTA is unlikely to be realized in the foreseeable future unless very determined joint political leadership is forthcoming. The same assessment applies to the Bogor Goals too. These prospects make it all the more important for the East Asian economies to work together to promote further multilateral trade liberalization through a successful and meaningful conclusion of the Doha Development Agenda negotiations.

As for exchange rate coordination, it will require a lot of preparatory work in terms of domestic financial reform, regional monitoring, and surveillance. Progress with the Chiang Mai Initiative and Asian Bond Market Initiative would help promote this work. This will be an arduous process, however the goals of these initiatives are not impossible to achieve. In fact, East Asian governments and organizations already have been harvesting specific achievements, modest as they may be, and these efforts are contributing to the strengthening of the financial systems in the individual economies as well as for the whole region.

All of these community-building efforts will depend on the quality of collective leadership provided by those governments. Such leadership should be based on mutual trust, but such trust is sorely missing from East Asia. This, it seems, has been hampering speedier progress on a number of community-building projects.

Most recently, the launch of the East Asia Summit in December last year revealed an intense rivalry between China and Japan. As a result, we have ended up with two similar community-building institutions in the region, the ASEAN+3 and the East Asia Summit, with overlapping but disparate memberships. The mission and agenda for the latter process has yet to be clarified, with a consequent impact on the former. And so long as China and Japan work at cross purposes, this will not be an easy task. The consequent confusion is likely to further slow down the community-building work of the region.

The missions and the agendas for ASEAN+3 and the East Asia Summit should be appropriately clarified and defined, and the membership criteria for each clarified as well, so as to ensure a synergic division of labor between the two. And it seems that the necessary political leadership will now have to be provided jointly by the ASEAN countries and Korea.
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BARRY DESKER

The absence of the United States, the “800 pound gorilla” in the region, as East Asia moves towards the establishment of an East Asian community highlights the changing dynamics in the region and the emergence of a debate over the future security architecture. Some have said that East Asian Community is only a community on paper. I would, however, argue that the East Asia Summit in Kuala Lumpur last year was a historic event, and its future impact is likely to be as significant as the first ASEAN Summit held in Bali in February 1976. If you look back at the coverage in the major international newspapers at the time, the conference was written off as a hopeless case by hopeless states. However, the first Bali Summit led to the emergence of a cohesive ASEAN-5—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—in the aftermath of the emergence of communist regimes in Indochina. Today, the presence of a rising China and a resurgent India at the East Asia Summit, and the absence of the United States, which has played the role of an Asia Pacific hegemon since the end of the Second World War, suggest that we are on the cusp of a new era. The East Asian community is being created at a time when East Asia demonstrates a new vitality following its recovery from the trauma of the Asian financial meltdown and subsequent economic crisis and while the United States is distracted by its commitment in Iraq.

The first point I would like to make is about the inclusiveness of the East Asian community-building process. The December meeting was significant because it went beyond narrow geographic definitions and ethnic or racial identity in attempting to lay the groundwork for a new regional institution. The annual ASEAN Summit, separate meetings of the ASEAN leaders with their counterparts from China, Japan, and South Korea, and the ASEAN+3 Summit preceded it. The inclusion of India, Australia, and New Zealand in the Kuala Lumpur meeting and the presence of Russia’s Vladimir Putin demonstrated an outward-looking, inclusive approach to participation in the emerging East Asian regionalism.
This broader inclusive identity is likely to subsume the earlier focus on an East Asia comprising the ASEAN-10 plus China, Japan, and South Korea. Its emergence is somewhat accidental. In Vientiane in 2004, Prime Minister Abdullah Badawi of Malaysia offered to host an East Asia Summit involving the ASEAN-10 Plus Three. Premier Wen Jiabao of China offered to host the second summit.

However, from the ASEAN perspective, the center of gravity would move from Southeast to Northeast Asia, an unwelcome development. This led to a desire to include other states that had substantial interactions with the region. The participation of India, Australia, and New Zealand was seen as ensuring that ASEAN remained at the center of any emerging East Asian community. India was also seen as a balance to China. Indonesia, for example, sought to avoid aligning with China while retaining friendly ties to other powers such as the United States, a classic “hedging” strategy. However, since then, the interest of Russia in membership in the East Asia Summit and France’s announcement of its willingness to accede to ASEAN’s Treaty of Amity and Cooperation—a prerequisite for participation in the summit—as well as similar expressions of interest by other Asian states such as Pakistan, has now led the ASEAN Foreign Ministers meeting in Bali to declare a moratorium on expanding the membership of the East Asia Summit.

A second point is that the concern in Southeast Asia with growing Sino-Japanese antagonism has led to a discussion of the need for a cooperative security mechanism in the region, which would help to prevent the outbreak of conflict. Antagonism between China and Japan makes Southeast Asians wary of being enmeshed in a new regional cold war. China continues to remind the region of Japanese expansionism during the Second World War and the lack of Japanese remorse is evidenced by Prime Minister Koizumi’s annual visits to Yasukuni Shrine and the downplaying of Japanese atrocities during the war. Chinese criticism has evoked a strong reaction in Japan. Most worrying is the ultranationalistic response of young Japanese and Chinese. We are reminded of these trends by the heightened rhetoric between Chinese and Japanese decision-makers at closed-door international and regional conferences, even as substantive economic links and other links between China and Japan increase rapidly.

While ASEAN members have had four decades of institutional experience in regional reconciliation, Northeast Asians have focused on bilateral ties and multilateral forums with a specific agenda such as the six-party talks. The East Asia Summit provides an opportunity for informal confidence building and discussions on broad strategic issues concerning the
region. But this will take time to develop. China’s decision not to proceed with a separate summit in Kuala Lumpur of China, Japan, and South Korea suggest that the ASEAN approach has not yet laid down roots.

Thirdly, the United States needs to regain the initiative in the region. It needs to take up this diplomatic challenge. APEC needs to be revitalized. And the Secretary of State needs to attend the ASEAN Regional Forum, which Condoleezza Rice skipped last year.

Fourthly, what role shall ASEAN play? During the Cold War, while nominally nonaligned, ASEAN was identified with the West. Today, as sophisticated Chinese diplomacy leads to the establishment of multiple regional organizations, ASEAN is developing closer linkages with China. These relationships are perceived as a balance against U.S. unilateralism. Some of the newer members of ASEAN such as Myanmar, Laos, and Cambodia have benefited from Chinese largesse and are supportive of Chinese concerns within ASEAN. Older members such as Malaysia and Thailand are beginning to bandwagon with China. For ASEAN states that prefer a regional balance of power, a regional security architecture that is outward-looking and promotes the observance of international norms and codes of conduct is preferable to one dominated by a single power. An active U.S. presence enables this vision of the region’s future to be sustained.

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**Summary of Discussion**

In principle, support for efforts to deepen community and regional cooperation in East Asia ran high among Asian participants as well as among those from Europe and North America. Nevertheless, a number of them voiced skepticism about the current prospects for the emergence of an East Asia community. The large number of countries involved threatens to slow the community-building process. There is a remarkably high degree of economic, political, and cultural diversity among the participating countries, and doubts persist as to the extent of their shared values and
objectives. Furthermore, one American commentator pointedly noted that East Asian regionalism that excludes the United States, as the East Asia Summit has so far, is useful only if Asians do not want to accomplish anything, since U.S. participation is essential in dealing with the most pressing security issues in the region, particularly tensions over the Taiwan Strait and North Korea.

A prominent Japanese member countered by insisting that there has been considerable confusion about what the proponents of an East Asia community are seeking to build. Rather than establishing a new security community or a closed economic bloc that excludes the United States, she argued that supporters of East Asia community building seek primarily to institutionalize existing trends toward regional integration. Economic integration is proceeding apace as intra-regional trade rises—it is nearing the level of the European Union—and production networks and supply chains have become increasingly regionalized. Therefore, she noted, there is a deeply felt need for serious efforts to construct an institutional structure with the capacity to better harmonize and manage these developments.

Other Asian participants added that current long-term efforts to build an East Asia community exclude hard security issues because of the recognition that U.S. involvement is indispensable in dealing with these. Instead, several noted, it is more appropriate for community-building efforts to focus on areas of functional cooperation, including issues such as environmental protection, rule of law, public health, and nontraditional security.

Beginning with the potential reaction of external powers such as the United States, which have vital interests in the region, participants cited numerous obstacles to the emergence of a regional community in East Asia. One burning question was whether the bilateral trade agreements that are proliferating throughout the region can be effectively subsumed into a regional system as well as the global system. The tension between the competing frameworks of ASEAN+3 and the East Asian Summit is also critical. Plus, there is growing concern throughout the region about the permanent damage that may done by a vicious cycle of deepening nationalism in China, Japan, and South Korea.

All the same, several participants argued, while it will take decades for these obstacles to be overcome, the agenda before the region is so pressing that it is time to move beyond conferences and talk to the serious work of institution-building.