

East Asian Regionalism and China

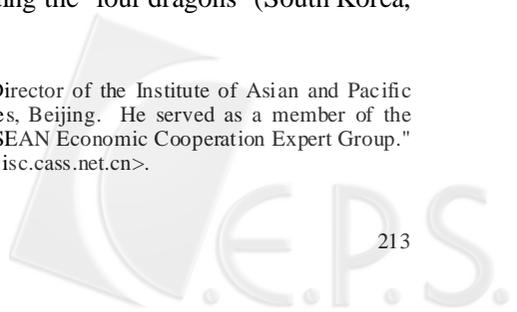
ZHANG YUNLING

East Asian cooperation and integration—currently known as "ten plus three" (TPT), namely the ten ASEAN (Association of Southeast Asian Nations) member countries plus China, Japan, and South Korea—has received increasing attention. The process, begun only in 1997, has made notable achievements: an institutional framework for regional cooperation set up through the annual leaders meeting, ministerial meeting, and senior officials meeting; real progress in financial cooperation via the Chiang Mai Initiative; preferential trade arrangements (PTA), like the ASEAN Free Trade Area (AFTA), the China-ASEAN FTA initiative, the Japan-Singapore closer economic partnership (CEP), as well as subregional development projects. In the development of East Asian cooperation, the role of the People's Republic of China (PRC) is striking. China was the country who first proposed the ministerial meeting under the TPT framework during the second leaders meeting in 1998 and later took the initiative to push for an FTA with ASEAN. What has been the progress of such cooperative efforts so far? Why has China become so interested in regional arrangements? Is the goal of East Asian cooperation achievable? This article analyzes these questions.

East Asian Convergence

Economic convergence in East Asia began in the 1960s with the "flying geese model," with Japan leading the "four dragons" (South Korea,

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Singapore, Hong Kong, and Taiwan), as well as select Southeast Asian countries and China. This model was marked by a "vertical" chain of capital flow, technological transfer, and supply of manufacturing parts, thus bringing about a high level of intraregional integration based on market exchange. Until the mid-1990s, intraregional trade in East Asia was as high as 50 percent.

Unfortunately, during this forty-year period, there was a noticeable lack of institutional building to promote preferential trade arrangements. ASEAN initiated its AFTA as early as 1992, but this institution's role as a leader in facilitating an East Asian FTA has been marginal.

The 1997 financial crisis was an important turning point, having changed both the environment and structure of East Asian economic growth and integration. First, due to the decade-long stagnation of its economy and also the serious financial crisis, Japan is no longer the "locomotive" of East Asian economies, and the "flying geese model" has thus ended. Second, the Southeast Asian region was plunged into a serious recession and suffered severe economic difficulties because of the financial crisis and resulting political instability. Third, China has appeared to be a positive factor in stabilizing and revitalizing the regional economy since the PRC avoided the financial crisis and managed to keep the *renminbi* (人民幣) stable.

Not surprisingly, there emerged a new push for regional cooperation in the aftermath of the financial crisis, namely the first "ten plus three" leaders meeting in Kuala Lumpur in December 1997. The aim of this meeting was clear: to achieve early economic recovery and prevent another crisis. This is a very important historical event since the meeting opened the way for a regional cooperation process based on regional interests and a newly defined regional (i.e., East Asian) identity.

This East Asian convergence goes beyond market integration by requiring governmental cooperation and institutional building.¹ Regionalism

¹Shujiro Urata argued that there has been "a shift from market-led to institutional-led regional economic integration in East Asia." See Shujiro Urata's paper presented at the conference

finds its rationale, moreover, not in just economic benefits but in political interests as well. In comparison to other regions, East Asia is late in forging a regional FTA and other institutional establishments. Aside from intra-regional desire for a closer partnership, East Asia's new regionalism is also considered to be a rational response to the FTA progress of other regions, especially to the establishment of the North American Free Trade Area (NAFTA).² By definition, East Asian economic integration began as early as the 1960s based on the growth of the regional economic market, while the process of regional cooperation through regional institutional formation via governmental efforts began only in the late 1990s. East Asian market-based integration shows its vulnerability since pace of such regional activities was immediately reduced and no regional action was taken to counter the market failure once the crisis occurred. Thus, this new initiative for regional cooperation will certainly help to enhance and facilitate further integration of the East Asian region.

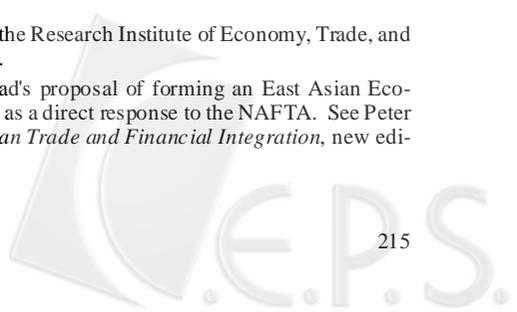
However, political disarray makes many countries hesitant and distrustful. For example, there is still a long way to go before China and Japan can become true partners. At the same time, confrontation and tension both on the Korean Peninsula and across the Taiwan Strait impart uncertainty and instability on East Asia. To some extent, East Asia is still divided in terms of regional security. Economic convergence will surely help to bridge this gap and create new trust, yet political distrust could slow down or even obstruct the cooperation process.

Progress of Cooperation

Since the first meeting of the TPT leaders in Kuala Lumpur, the an-

on Asian economic integration (sponsored by the Research Institute of Economy, Trade, and Industry, Tokyo, Japan, April 22-23, 2002), 1.

²Malaysian Prime Minister Mahathir Mohamad's proposal of forming an East Asian Economic Caucus (EAEC) is considered by many as a direct response to the NAFTA. See Peter Drysdale and Kenichi Ishigaki, eds., *East Asian Trade and Financial Integration*, new edition (Canberra: Asia-Pacific Press, 2002), 6.



nual leaders meetings have continued—and noticeable achievements have been made in many areas. An integrated framework for East Asian cooperation is emerging. The major step has been the annual leaders meeting for official dialogue and consultation on regional immediate and long-term issues. Topics include the general economic situation, macroeconomic policy, subregional development, political stability, and security. There are four leaders meeting tracks: ASEAN 10, ASEAN 1 (China, Japan, and South Korea separately), Northeast Asia 3 (China, Japan, and South Korea), and ASEAN plus 3. Each group identifies its own priorities for discussion. For example, the China-Japan-South Korea leaders meeting (the first such institutionalized meeting between these three countries) coordinates and supports the TPT process and discusses important issues related to their own interests. Aside from the three leaders' meeting, an additional meeting of economic and trade ministers was also recommended in 2001. The China-ASEAN FTA was discussed by leaders in 2000 and agreed on in 2001 via the ASEAN-China dialogue. Importantly, the TPT track has become a unique mechanism for East Asian leaders to exchange views on regional issues and also reach consensus on crucial policy coordination.

The ministerial meetings—including foreign, trade, and finance ministers—have two major functions: to prepare the agenda for the leaders meeting and to discuss issues relevant to regional affairs. Macroeconomic policy dialogue, one of the most important areas discussed at the ministerial meetings, helps all member countries to exchange information and consolidate policies. Financial cooperation based on the Chiang Mai Initiative (CMI) was also discussed and then agreed upon by financial ministers during their meeting in Chiang Mai, Thailand in 2000 and submitted to the leaders meeting.

In addition to the senior officials' meeting aimed at working-level preparation for both ministerial and leaders meetings, there are also task forces and functional forums, such as the "East Asian Vision Group" (EAVG), "East Asian Study Group" (EASG), and "Industrial and Business Forum." More task forces are likely to be set up in accordance with regional desires in the future.



The significance of the above framework is that all activities are being consolidated into the TPT process.³ This process moves beyond simple policy consultation since real institutional arrangements have already been developed. Among them, CMI (i.e., swap arrangements among East Asian countries) is the most significant, which may lead to an even higher level of financial and monetary integration for East Asia.

The TPT is still an "ASEAN plus" process, a cooperative framework forged by a multilayered process conducted by different countries, or different groups of countries, in the region. The partners all have different aims, ways, means, and directions.

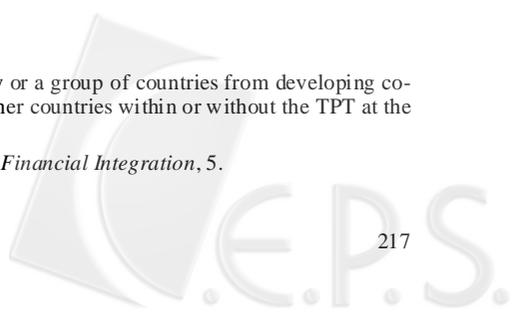
ASEAN is a pathfinder in promoting regional integration and cooperation and has a unique role in bridging East Asian countries into the East Asian cooperative process. The Association is not ready to accept a unilateral East Asian identity, however, since such a consultation could end ASEAN's special leverage as an initiator or leader in regional affairs. Therefore, an EAVG proposal for turning the TPT leaders meeting into an "East Asian Summit" seems too advanced for ASEAN.

Japan, as the largest economy in the region, is a key factor in any regional arrangement. Japan has moved in a new direction by initiating and concluding bilateral FTAs, but a comprehensive deal—either bilateral or regional—is not acceptable to Japan because of agricultural concerns.⁴ Japanese Prime Minister Junichiro Koizumi's proposal for a regional FTA including TPT members, Australia, and New Zealand was only considered as a political response to the China-ASEAN FTA initiative, and not as a well-prepared policy. Japan is clearly not yet ready to move to an East Asian FTA strategy.

China has become active in joining the regional arrangement after its accession to the World Trade Organization (WTO). A surprising move is Beijing's initiative to forge an FTA with ASEAN. This shows the PRC's

³This, of course, does not prevent any country or a group of countries from developing cooperation or signing FTA agreements with other countries within or without the TPT at the same time.

⁴Drysdale and Ishigaki, *East Asian Trade and Financial Integration*, 5.



new interest and confidence in regionalism. Nevertheless, China's regionalism is mixed with enthusiasm in some areas and conservatism in others. China is probably confident in negotiating a comprehensive deal with ASEAN, but not yet so with Japan or South Korea, nor for any East Asian regional agreement. Due to its own political concerns and the complexity of the Taiwan issue, China is even more reluctant to encourage the establishment of regional institutions on political and security issues.

South Korea has played an active role in moving toward an East Asian identity by proposing the EAVG and EASG—yet Seoul, in fact, is not ready to accept a comprehensive FTA at the regional level due to Seoul's protective agricultural policy. President Kim Dae-jung intends to bring North Korea into the East Asian cooperation process, but this will certainly require time.

China, Japan, and South Korea account for the majority part of East Asian gross domestic product (GDP) and trade. Yet due to big differences in economic structure, as well as because of political distrust, this subregion has failed to play a leading role in promoting an East Asian FTA or a comprehensive strategy for regional integration. Although China, Japan, and South Korea initiated their leaders meeting under a TPT process, China and Japan are still far from being close partners in forging a regional identity.

At the same time, real progress on some of the agreed projects for cooperation, such as the Great Mekong River subregional development project, is very limited. Even well-mentioned swap arrangements in the name of CMI have been conducted slowly. A regional scheme in this area has not been designed yet.

The TPT process has already begun, however, and will continue to move. The TPT is observed at this stage "not as a regional trading arrangement but rather [as] seeking to provide a framework for demonstrating East Asian leadership and influence on regional and international affairs."⁵ A natural question to ask is thus: Where will this train go and what is the next station?

⁵Ibid., 8.

Destination?

The third leaders meeting held in Manila on November 28, 1999 was an important turning point for the TPT process because for the first time a "Joint Statement on East Asian Cooperation" was made public by leaders. The Joint Statement listed focal points for cooperation in the economic and social fields as well as in political and security areas.⁶ Economic cooperation was stated as the major area of focus. Accelerating regional trade, and investment and technology transfers were greatly emphasized. In order to maintain regional economic stability and sustainable growth, leaders are even considering the possibility of establishing an "East Asian Economic Council." Monetary and financial cooperation has been given special weight due to the earlier financial crisis, and the framework of the TPT is recognized as a major mechanism for regional cooperation. Moreover, to take regional cooperation as a process of community building, leaders have also stressed the importance of regional cultural exchanges and dialogue and cooperation in both the political and security fields.⁷

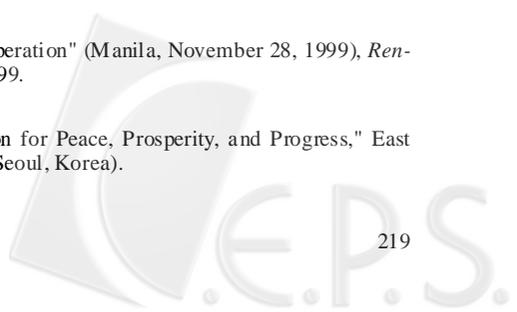
The TPT has shown itself as an added-value process. Every year since 1999 there have been new projects. However, the major concern is still over the direction of this process. The EAVG has recommended an "East Asian Free Trade Area" (EAFTA), "East Asian Summit," gradual monetary integration, regional institutional building, and finally moving toward a regional entity—an "East Asia Community" (EAC).⁸ This is the first time for East Asia to have a clearly dressed long-term vision proposed by eminent persons. However, these recommendations were not immediately accepted when the report was presented to TPT leaders meeting in 2001.

Considering the great diversity of the East Asian region and the com-

⁶"Leaders Joint Statement on East Asian Cooperation" (Manila, November 28, 1999), *Renmin ribao* (People's Daily), November 29, 1999.

⁷Ibid.

⁸"Towards an East Asian Community: Region for Peace, Prosperity, and Progress," East Asian Vision Group Report (EAVG), 2001 (Seoul, Korea).



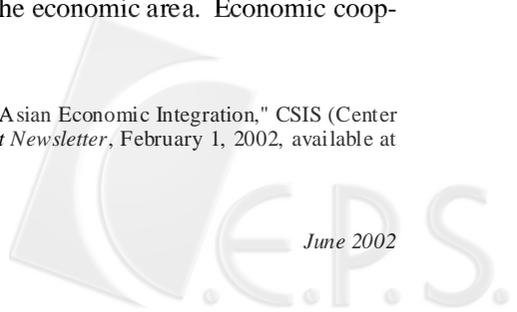
plexity of the relations among the countries, the process of East Asian cooperation and integration can only follow a pragmatic approach. Necessary is to encourage multilayered arrangements, to gradually move to a unique regional framework, and to separate economic cooperation from political and security cooperation.

A pragmatic approach means that East Asian cooperation should select "what needs to be done and what can be done." For the aim of regional economic stability and sustainable development, such areas as capacity building in macroeconomic and microeconomic management, financial supervision, corporate governance, human resources, and sustainable development are the most necessary and acceptable for regional cooperation. Financial cooperation should first help to resume market confidence. This is why starting from CMI is easier. In order to achieve more balanced development in the region, desirable is to promote subregional development, such as the Great Mekong River Project. Many other projects can be initiated in the future.

The multilayered model mostly refers to trade and investment liberalization, which is called a model of "competitive regional cooperation."⁹ We have already witnessed such arrangements in the East Asian region as AFTA and the Japan-Singapore and China-ASEAN FTAs (under negotiation). Additional bilateral or subgrouping trade and investment may be concluded not just intraregionally, but also interregionally as well. As a first step, this kind of rule-based arrangement will help to set up a legal foundation for regional institutional building and should also prove beneficial for developing economies in preparation for participating in regional integration.

East Asian cooperation and integration is a comprehensive process. Although few envisage a regional identity (such as that of the European Union) as the final goal, gradual institutional building is still necessary. The cooperation process has begun in the economic area. Economic coop-

⁹Naoko Munakata, "Seize the Moment for East Asian Economic Integration," CSIS (Center for Strategic and International Studies) *PacNet Newsletter*, February 1, 2002, available at <<http://www.brook.edu>>.



eration has been based on immediate demand (due to the financial crisis) and also the foundation of high-level interdependence created by the market. In the political and security areas, however, this kind of demand and foundation both seem very weak. Nevertheless, separating the economic cooperation process from the political and security processes does not mean that the latter areas are not necessary. While economic cooperation and integration process will proceed faster and attain a higher level, the political and security processes will likely move slowly and reach a lower level of institutionalization. However, it should be well recognized that as a regional cooperation and integration process, East Asia also needs political trust and a security dialogue and arrangement.

Institutional building is crucial for the process of East Asian cooperation. Although institutional building begins at the basic level and on a multilayered structure, progress must still be achieved in developing a convergent institution for East Asia. As an important step, we must consider moving from the TPT structure to a regional organization, i.e., an Organization of East Asian Cooperation (OEAC) within three to five years. The OEAC will have a secretariat and functional committees. The Organization will not only continue the current activities, but also develop new functions as well. The annual leaders meeting will be a core activity. In preparing to move from the TPT to the OEAC, a secretariat for the TPT may be necessary in the early stages.

The OEAC will not replace or unify other multilayered arrangements in the region in the near future. Efforts should be made to develop a framework and institutions at the regional level, however, such as the EAFTA, financial arrangements, and subregional development projects. Political and security cooperation should be also finally integrated into the OEAC. The OEAC's major role would be organizing and coordinating rather than mandating regional affairs.

The China-ASEAN FTA Initiative

At their 2001 meeting in Brunei, leaders of China and ASEAN agreed



to establish an FTA within ten years. Preparation for the formal negotiation of the agreement is now proceeding smoothly.

A common question has been: Why did China make this initiative? The answer lies in the potential gains. The establishment of an FTA between China and ASEAN will create an economic region with huge benefits.¹⁰ With the formation of an FTA, trade and investment will increase within the region, and the region itself will become more attractive to other investors. An FTA is expected to be a new impetus to future economic dynamism.

Both China and ASEAN feel more confident in their ability to forge this FTA successfully since their levels of economic development are similar and economic structures are highly complimentary. A ten-year construction process provides both sides flexibility to adjust and implement.

The significance of establishing an FTA between China and ASEAN goes beyond economic benefits. Close economic integration will contribute immensely to peace and stability between China and ASEAN, and also the East Asian region in general.

Many wonder about the impact such an FTA would have on East Asia's regional cooperation as a whole.¹¹ On the positive side, this pact may press Japan and South Korea to formulate a free trade arrangement with ASEAN and encourage China, Japan, and South Korea to move toward closer economic arrangements (for example, an early agreement for trade and investment facilitation). Therefore, a China-ASEAN FTA can be considered as a positive step for the process of East Asian cooperation.

¹⁰According to a simulation conducted by the ASEAN Secretariat, a China-ASEAN FTA will increase ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55.1 percent. Such an FTA will increase China's GDP by 0.3 percent or by US\$2.2 billion in absolute term, ASEAN's GDP by 0.9 percent or by US\$5.4 billion. See "Forging Closer ASEAN-China Economic Relations in the Twenty-first Century" (Report by the ASEAN-China Expert Group on Economic Cooperation, 2001).

¹¹Findlay and Pangestu, for instance, question that the "challenge is to work out how they fit together in the regionalism portfolio." See Christopher Findlay and Mari Pangestu, "Regional Trade Arrangements in East Asia: Where Are They Taking Us?" (Paper presented at the PECC Trade Policy Forum symposium, Bangkok, Thailand, June 12-13, 2001), 20.

Concluding Remarks

After joining the WTO, China has shown its enthusiasm for participating in and promoting regional cooperation. This does not mean China has lost interest in the multilateral approach. This new interest merely represents China's new confidence in making its economy more open and in extending its economic benefits through bilateral or subregional free trade and investment arrangements. As regionalism becomes strong in other regions, China feels the incentive to participate in and promote regional cooperation and integration in the East Asian region.

For China, economic cooperation and integration is the priority. China's interest lies in EAFTA in the long run, though Beijing has initiated an FTA with ASEAN first. However, China also has increasing interest in engaging political and security cooperation in East Asia. PRC Foreign Minister Tang Jiaxuan (唐家璇) proposed during the Brunei foreign ministers meeting on July 30, 2002 to begin security cooperation from nontraditional security areas within the TPT framework.¹² China believes that East Asian regional cooperation and integration could help to create a stable and cooperative environment, which is crucial for realizing its ambitious modernization dream.

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¹²*Renmin ribao*, July 31, 2002.

