

Summer Institute

on Asian Regional Integration at Waseda, 2010

Waseda University Global COE Program:

Global Institute for Asian Regional Integration (GIARI)

August 2 (Monday) – August 6 (Friday)

The Waseda University Global COE Program, the Global Institute for Asian Regional Integration (GIARI), is accepting applications from PhD students to attend the Summer Institute on Asian Regional Integration. The Institute will provide students the opportunity to deepen their knowledge about regional integration in Asia and expand their research networks.

Lecturers:

Peter Drysdale (Australian National University)

Dennis McNamara (Georgetown University)

Giovanni Capannelli (Asian Development Bank)

Christopher Hughes (The University of Warwick)

Jun-Hyeok Kwak (Korea University)

Tsuneo Akaha (Monterey Institute of International Studies; GIARI, Waseda University)

Takashi Terada (GIARI, Waseda University)

Shujiro Urata (GIARI, Waseda University)



Waseda University Global COE Program
Global Institute for Asian Regional Integration

GIARI

**Waseda University Global COE Program
Global Institute for Asian Regional Integration (GIARI)**

Summer Institute on Regional Integration at Waseda, 2010
Program

All lectures and presentations will be held in Room 710, seventh floor, Bldg. 19.

| August 2 (Monday)

MC: Kazuo Kuroda (Professor, Waseda University)

Miki Honda (Assistant Professor, GIARI, Waseda University)

9:15-9:30 Opening Remarks

Satoshi Amako (GIARI Project Leader; Professor, Waseda University)

9:30-10:45 Lecture 1:

Regional Integration: Theoretical and Normative Implications for East Asia

Tsuneo Akaha (Monterey Institute of International Studies)

10:45-12:00 Lecture 2:

Patterning Asian Regional Architecture: Power, Interest and Institution-Building

Takashi Terada (Professor, Waseda University)

12:00-13:00 Lunch

13:00-13:40 Presentation 1:

Regional Environmental Cooperation in East Asia

Takeshi Odaira (GIARI, Waseda University)

13:40-14:20 Presentation 2

*Ocean Governance, Maritime Security, and the Consequences for Regional
Cooperation in Northeast Asia*

Christian Wirth (GIARI, Waseda University)

14:20-14:35 Break

14:35-15:15 Presentation 3

Human Rights Exchanges in Asia: Discourses and Legal Practice

Elisa Nesossi (University of London)

- 15:15-15:55 Presentation 4**
South Korea's internationalization of higher education in the context of regional integration
Yeeyoung Hong (GIARI, Waseda University)
- 16:00-16:40 Orientation for students**
MC: Kazuo Kuroda (Professor, Waseda University)
- 17:00-19:00 Welcome Party (Seihoku no Kaze (西北の風))**
MC: Jemma Kim (Assistant Professor, GIARI, Waseda University)

August 3 (Tuesday)

MC: Kazuhiko Yokota (Professor, Waseda University)
Jemma Kim (Assistant Professor, GIARI, Waseda University)

- 9:30-10:45 Lecture 1**
Asia's Economic Integration: Trends and Prospects for Cooperation
Giovanni Capannelli (Asian Development Bank)
- 10:45-12:00 Lecture 2**
Regional Economic Integration in East Asia and Japan's FTA Policy
Shujiro Urata (Professor, Waseda University)
- 12:00-13:00 Lunch**
- 13:00-13:40 Presentation 1**
The Integration in East Asian Economies: Towards Specialization or Diversification?
Ferdous Farazi Binti (GIARI, Waseda University)
- 13:40-14:20 Presentation 2**
The Role of Global Companies in Asian Regional Cooperation through CSR and its Prospect
Insun Kim (GIARI, Waseda University)
- 14:20-14:35 Break**

- 14:35-15:15 Presentation 3**
AFTA, BFTA & ITRO Effect on Trade & Investment Relations: Southeast Asia
 Kiki Verico (Waseda University)
- 15:15-15:55 Presentation 4**
Spaghetti effects in Asia – A QCA analysis of Free Trade Agreements
 Po-Kuan Wu (European University Institute)
- 15:55-16:10 Break**
- 16:10-16:50 Presentation 5**
Japan's FTAs as Tools for Achieving a Firm's Commercial Interests: Do Japanese Corporations Need a Region-Wide Trade Liberalization Treaty?
 Anna Jerzewska (University of Leeds)

August 4 (Wednesday)

Field Trip

August 5 (Thursday)

MC: Naoyuki Umemori (Professor, Waseda University)
 Sachiko Hirakawa (Assistant Professor, GIARI, Waseda University)

- 9:30-10:45 Lecture 1:**
Inherited Responsibility and Reciprocal Non-domination: Making Citizens Responsible for Historical Injustices
 Jun-Hyeok Kwak (Associate Professor, Korea University)
- 10:45-12:00 Lecture 2:**
East Asia – The Knowledge Region
 Dennis McNamara (Park Professor, Georgetown University)
- 12:00-13:00 Lunch**
- 13:00-13:40 Presentation 1:**
Linguistic Imperialism in Higher Education in East Asia: Imprication for Collaborative Framework of Languages
 Sae Shimauchi (GIARI, Waseda University)

13:40-14:20 Presentation 2

The Present Conditions and Problems on Historical Recognitions between Japan and Asian Neighboring Countries

Kinuyo Kawaji (GIARI, Waseda University)

14:20-14:35 Break

14:35-15:15 Presentation 3

The historical legacy of Pan-Asianism and its impact on Asian regional integration

Yuan Cai (University of Adelaide/ ANU)

15:15-15:55 Presentation 4

'History politics', Asian identity, and visions of an East Asian Community

Torsten Weber (Jacobs University Bremen)

| August 6 (Friday)

MC: Chikako (Kawakatsu) Ueki (Professor, Waseda University)

Hiro Katsumata (Assistant Professor, GIARI, Waseda University)

9:30-10:45 Lecture 1

The DPJ's new (but failing), foreign policy grand strategy : implications for the US-Japan alliance, Sino-Japanese ties, and East Asian regionalism

Christopher Hughes (Professor, The University of Warwick)

10:45-12:00 Lecture 2

Building an East Asian or Asia Pacific Community

Peter Drysdale (Emeritus Professor, The Australian National University)

12:00-13:00 Lunch

13:00-13:40 Presentation 1:

Regional integration in East Asia/ Southeast Asia and Central Asia: politics and policies compared

Chinara Esengul (Kyrgyz National University)

13:40-14:20 Presentation 2

The Rise of China and the East Asian Regionalism in Post-Cold War East Asia

Zornitza Grekova (Sofia University)

14:20-14:35 Break

14:35-15:15 Presentation 3

China's Changing Perception of U.S.-Japan Military Alliance

Zhihai Xie (Peking University)

15:15-15:25 Closing Remarks

Shujiro Urata (Professor, Waseda University)

17:30-19:30 Farewell Party (Garden terrace @ RIHGA Royal Hotel)

MC: RA

Lecturers

August 2 (Mon)

Lecture 1

Prof. Tsuneo Akaha

Dr. Tsuneo Akaha is Professor of International Policy Studies and Director of the Center for East Asian Studies at Monterey Institute of International Studies, where he teaches courses on Japan, Northeast Asia, and international migration. From 2008 to 2009 he was a Visiting Professor in Waseda University's Graduate School of Asia-Pacific Studies and since 2009 has been a Senior Fellow at Waseda University's Global Institute for Asian Regional Integration. He was Managing Editor of *Asian Regional Integration Review* (Waseda University Global Institute for Asian Regional Integration), Vol. 1 (2009) and Vol. 2 (2010). Dr. Akaha received his Ph.D. in International Relations from the University of Southern California. He has authored/edited twelve books, over 70 journal articles and book chapters on topics ranging from nontraditional security in Northeast Asia to Japanese security policy.

His most recent publications include: *The Evolving US-Japan Alliance in East Asia: Balancing Soft and Hard Power*, London: Routledge, 2010 (co-edited with David Arase); "'China' in the Contemporary Nationalists' Reconstruction of 'Japan'," in Victor Teo and Gerrit Gong, eds., *Reconceptualizing the Divide: Identity, Memory, and Nationalism in Sino-Japanese Relations*, Newcastle upon Tyne: Cambridge Scholarship Publishing, 2010, pp. 72-94; "Japan's Soft Power-Hard Power Balancing Act," in Vladimir Mazyrin and Oksana Novakova, eds., *The Asia Pacific Outlook: 2008-2009*, Moscow: Moscow State Lomonosov University Institute of Asian and African Studies, Center for Modern Southeast Asia and Pacific Studies, 2010, pp. 41-58 (in Russian); "Sofutopawa kara Hadopawa e: Tenkansuru Nihon no Anzenhosho Seisaku" (A shift from soft power to hard power in Japan's security policy), in Hara Kimie, ed., *'Zaigai' Nihonjin Kenkyusha ga Mita Nihon Gaiko* (Japanese foreign policy as seen by Japanese researchers resident abroad), Tokyo: Fujiwara Shoten, 2009, pp. 15-45, 303-308 (in Japanese); "Human Security in East Asia: Embracing Global Norms through Regional Cooperation in Human Trafficking, Labor Migration, and HIV/AIDS," *Journal of Human Security*, Vol. 5, No. 2 (2009), pp. 11-34; "The Nationalist Discourse in Contemporary Japan: The Role of China and Korea in the Last Decade," *Pacific Focus*, Vol. 33, No. 2 (August 2008), pp. 156-188; "International Migration and Human Rights: A Case for Regional Approach in Northeast Asia," in Martina Timmermann and Jitsuo Tsuchiyama, eds., *Institutionalizing Northeast Asia: Making the Impossible Possible*, Tokyo: United Nations University Press, 2008, pp. 336-358 (co-authored with Brian Etkin); and "Images in Tinted Mirrors: Japanese-Russian Mutual Perceptions in Provincial Japan," in Yulia Mikhailova and M. William Steele, eds., *Japan and Russia: Three Centuries of Mutual Images*, Honolulu: University of Hawaii Press, 2008, pp. 153-174 (co-authored with Anna Vassilieva). His forthcoming works include "Japanese Migration Policy," in *International Migration of Population: Russia and Contemporary World*, Moscow: Moscow State University's Department of Population (co-authored with Linsey Bosnich). Dr. Akaha has served as President of Asian Studies on the Pacific Coast (ASPAC), President of the Comparative Interdisciplinary Studies Section of the International Studies Association (U.S.A.). He currently serves on the Board of ASPAC and on the Editorial Board of *International Relations of the Asia Pacific*.

Regional Integration: Theoretical and Normative Implications for East Asia

Tsuneo Akaha

Monterey Institute of International Studies

Regional Integration

Units (individuals, groups, communities, economies, societies, etc.) are said to be *integrated* when their material and ideational functioning depends on each other. Fully functioning units require political, economic, security, and social-cultural resources and produces political, economic, security and social-cultural effects. Measures of “integration” among the units, therefore, indicate the depth and scope of the linked functioning among them along all these dimensions; hence, the notion of political integration, economic integration, security integration, and social-cultural integration.

“*Political integration*” has to do with the constitution and sharing of power (authority to allocate values) among the constitutive units; “*economic integration*” relates to the generation and sharing of capital, goods, services, technology, labor, and other material assets among the units; “*security integration*” is defined as the generation and sharing of the ability to sustain the constitutive units in a stable and predictable manner over time; and “*social-cultural integration*” has to do with the generation and sharing of ideas, ideals, and values among the units.

To the extent that the normal functioning of states, economies, and societies within a region (geographically or otherwise defined) significantly depends on each other, those units are said to be integrated.

When the region is deeply integrated with a shared identity and a sense of common destiny, the region is said to constitute a “*community*”. When the region is deeply integrated in the same sense but only in economic terms, the region is said to constitute an “*economic community*.” Similarly, the region may be “*a political community*,” “*a security community*,”

or “a social-cultural community.” A fully and comprehensive integration region then becomes a genuine “regional community.”

In this paper, “East Asia” is defined geographically to include the countries/areas of Northeast Asia and Southeast Asia. “Northeast Asia” includes Eastern Siberia and the Russian Far East, North and South Korea, Mongolia, China, Taiwan, and Japan, with the United States considered a part of the region when it comes to political, security, and economic functioning of the region as a whole. Southeast Asia includes all of the ASEAN member states.

Currently, Southeast Asia and Northeast Asia constitute two separate and rather distinct regions, or subregions, due to geographical, historical, and social-cultural reasons. Southeast Asia is much more deeply integrated than Northeast Asia, particularly along political, security, and social-cultural dimensions. For political and increasingly economic reasons, however, the two subregions are developing their ties and have a potential but uncertain ability to become an integrated region. Economic (trade, investment, and financial) ties are the most dynamic and expansive forces of integration between Northeast and Southeast Asia, although political and security relations are also gradually growing, as are social-cultural ties through the burgeoning transborder immigration networks of individuals with familial, social, and ethnic ties.

Theoretical Perspectives on Regional Integration

Realism assumes the constitutive units of regional integration to be sovereign states representing their subjects. To the extent that those units share common political, economic, and security interests, they are likely to seek functional cooperation, and the cooperation may lead to integration. According to realists, the states pursue national interests and goals through such cooperation and/or integration, with integration only a means to an end. Therefore, if states view cooperation or integration as eroding or weakening their self-interests, they will defect from cooperation and obstruct integrative forces, with political considerations dominating economic interests. Generally, realists also assume that each state is ultimately responsible for its own security in the world of anarchy and, therefore, the state’s top priority is the maintenance of national security, with

other interests of secondary importance. Realists tend to overestimate the importance of state-defined national security interests, with a primary focus on traditional (military) security threats and response to them. In their analysis, consequently, they focus on “national power” and the means to expand and yield it in international affairs.

Structural realism emphasizes the distribution of power among the constitutive units of a region, power relations among them defining their interests vis-à-vis each other. The states will attempt to either deepen or limit their cooperation depending on their self-centered assessment of cooperation's effects on their national interests. When the balance of power changes as a result of relative growth of some states and decline of others, integration will grow if the rising states view integration as promoting their strength. The reverse will be the case if the rising states see integration as diminishing their power.

Hegemonic stability theory would suggest that regional integration would require a hegemonic state willing to share its surplus of power in protection, production, and consumption with other powers in the region and that once regional integration takes place, the hegemonic state may reduce its burden for sustaining the peace and stability of the region and other regional powers will contribute to the maintenance of the regional order thus created because the regional integration also serves their interests.

Neorealism recognizes the increasing role of institutions and organizations, both internal and external to the sovereign state, in the formulation of its foreign and security policies. Neorealists recognize the impact of “low politics,” that is politics over economic, environmental, and other non-security issues, on national interests. Internal organizations give rise to the notion of “winning coalition,” a set of domestic political forces sharing a common policy agenda against rival forces. A winning coalition may collectively promote or limit regional integration depending on how it assesses the cumulative effects of integration. The emergence of a domestic winning coalition favoring regional integration will likely support and be supported by international institutions, that is norms, rules, principles, and standards. The role of such institutions is best captured by *institutionalism*.

Liberals emphasize the sources of commonality-seeking behavior of the constitutive units of regional integration, including both states and non-state actors. Such actors prefer a

world of shared interests and cooperation to a world of conflicting national interests and struggle among self-interested powers. The sources of commonality-seeking behavior may be found in the historical experience, cultural ties, or future visions among the hegemonic elites of the regional countries.

Neoliberals recognize the role of structural constraints that constrain common aspirations among regional powers but still prefer cooperation and integration to conflict and rivalry between them. They also believe international institutions are valuable to the promotion of cooperation for the building of a liberal regional and world order. Liberals and neoliberals reject the “high politics” vs. “low politics” dichotomy of the realists. Instead, they accept the mutual influences between political-security and non-political factors and issues. Moreover, unlike the realists, they appreciate the importance of non-traditional security concerns, such as environmental security and human security.

Constructivists identify the sources and consequences of ideational foundations and their manifestations within the region. They are interested in how people create and sustain an “imagined national community,” of which they are members. By logical extension, constructivism can be applied to the formation of a collective regional identity. If regional community building requires the weakening of national identity, then, according to the logic of constructivism, regional elites will likely oppose such integration because it will pose a serious threat to their long-established sense of national community. On the other hand, elites who are driven by a cosmopolitan (globalization) ideology or seeking the benefits of regional integration will likely favor such integration. Constructivism raises questions such as: How do regional elites generate and sustain a common transnational identity? Is there a threshold beyond which regional identity takes precedence over national identity among the regional elites? What ideational arguments will they use to promote regional integration and persuade members of the general public of the wisdom and benefits of such integration?

Normative/Policy Implications

Regional integration produces winners and losers. The values which will be “won” or “lost” include political autonomy, economic wealth, sense of security, communal identities, social affinities, and cultural values.

From the *realist/neo-realist perspective*, the important normative questions regarding regional integration are: Does regional integration enhance the security of the major powers in the region? Does it add to or subtract from the political autonomy and economic status of the states within the region? Is it possible for regional integration to expand the political authority and economic wealth of the rising powers without threatening the political autonomy of other powers in the region?

Liberals and neo-liberals would be concerned mostly about the cumulative impact of regional integration upon the character of the states and inter-state relations, as well the individual citizens and communities within the region. They would ask: Is regional integration bringing about the desired liberalizing effects on the political life, economic pursuits, and social-cultural experience of the people in the region? Is it enhancing human security, such as freedom from want and freedom of fear? Is it facilitating the growth of civil society? Is it making the state more open, more accountable, and more transparent? In other words, is regional integration promoting democracy and good governance?

Constructivism is neutral on the question of national vs. regional identity. There may be liberal constructivists who desire the deepening of regional integration, but such wishes rest with their liberal ideology, not constructivist perspective. On the other hand, there may be realist constructivists who favor the maintenance of national identity over regional identity.

Regional Integration in East Asia: Competing Interpretations

Realists, liberals, and constructivists have different sets of expectations and understandings with respect to regional integration in East Asia.

From the *realist perspective*, regional integration in East Asia is very difficult and naturally so. Realists are preoccupied with what the nations in the region are doing to secure their political independence, territorial integrity, and national sovereignty. Unless their own

country is the dominant power leading the regional integration process, realists would oppose deep integration because it would entail diminution of political autonomy and national security options for their state. While their state may benefit from globalization and deepening international economic ties, realists are concerned that their neighbors may gain more. Realists look at the relative power status of the nations in the region and their relative gains or losses vis-à-vis each other. Their primary interest in regional integration is in terms of how the process of integration may affect the nation-states' power and how it will in turn enhance or limit the scope of their policy alternatives. In the realist conception of the region, there are clear winners and clear losers.

Consequently, realists pay particularly close attention to such aggregate data as GDP, population size, and defense spending, and changes in such indicators of national power, as well as how the rising and declining states assess the changing balance of power and how they act on their evaluation. This information helps the realists analyze and forecast the likely future behavior of states toward each other.

Table 1. GDP, Population, and Military Expenditure in Selective East Asian Countries

Country	GDP (in current million US\$)		Population (in thousands)		Military Expenditure (in constant million US\$)	
	2000	2009	2000 estimate	2010 estimate	2000	2009
China	1,198,480	4,327,000	1,266,954	1,354,146	[31,200]	[98,800]
Japan	4,667,448	4,910,840	126,706	126,995	[47,496]	46,859
South Korea	533,384	929,121	46,429	48,501	[18,306]	27,130
Russia	259,708	1,679,480	146,670	140,367	[29,700]	[61,000]
United States	9,764,800	14,093,300	287,842	317,641	377,228	663,255

Indonesia	165,021	510,730	205,280	232,517	2,970	[4,908]
Malaysia	93,790	221,773	23,274	27,914	2,122	4,078
Singapore	92,717	181,948	4,018	4,837	5,997	7,966
Thailand	122,725	272,429	62,347	68,139	2,702	[4,908]

Sources: GDP data are from the World Bank, <http://data.worldbank.org/>; population data are from the UN Statistics Division, <http://data.un.org>; military expenditure figures are from SIPRI, <http://milexdata.sipri.org> (all accessed July 23, 2010); [] = SIPRI estimates.

From Table 1 realists will realize that China's economy, population, and military spending are all growing at remarkable rates, while Japan is stagnant in all dimensions and Russia is experiencing a decline in economy and population but a rebound militarily. They will also see that the United States, South Korea, and Southeast Asian continues are growing, but at much slower rates than China. In qualitative terms, China's economy and military are modernizing fast as well. Accordingly, realists will conclude that the balance of power in the region is changing in China's favor. They will also attach great importance to possible realignment of alliances in the region, expecting either that some countries will "bandwagon" and move closer to the rising China while other countries will move closer to the United States to counter the growing Chinese power.

Realists expect regional integration to be limited, as they emphasize historical animosity and contemporary rivalry among the regional powers, particularly between China on one side and the United States and Japan on the other side. They tend to see the growing economic ties between China and Japan and the continued security alliance between the United States and Japan as creating a serious incongruence that cannot be long sustained. To the extent that they give greater weight to national security considerations than economic interests, they will emphasize the importance of the U.S.-Japan security alliance and underplay the role of Sino-Japanese economic relations. As far as regional integration is concerned, realists tend to see high politics unfolding in the ongoing debate on various alternative arrangements: ASEAN Plus Three (preferred by China); East Asian Community

(advocated by Japan); ASEAN Plus Three/Six (promoted by ASEAN); Asia-Pacific Community (proposed by Australia and supported by the United States). Behind these proposals realists see the major powers' calculations of the alternative arrangements' impact on their respective power positions.

From the *liberal perspective*, regional integration has been slow and difficult in East Asia for the many reasons to which the realists point, but they see hopeful signs of diminishing obstacles to and improving prospects of integration. Liberals pay particular attention to the growing economic interdependence among East Asian countries. For example, as Table 2 shows, the Northeast Asian economies are now quite dependent on trade relations with their immediate neighbors, while for the United States and Russia intra-regional trade accounts for much less of their global trade.

Table 2. Northeast Asian Countries' Intra-regional Trade as % of Their Global Trade, 2005 (%)

China	57.52
Taiwan	60.50
Japan	61.98
South Korea	55.47
North Korea	70.80
Mongolia	44.16
Russia	11.96
USA	18.44

Source: Calculated from data in International Monetary Fund, *Direction of Trade Statistics Yearbook*, 2006.

Liberals see an East Asia community emerging, driven mostly by market forces and aided – not led – by political considerations to further deepen the already visible economic

interdependence in the region. They welcome the integrative dynamic of trade and other economic factors. Whether through bilateral FTAs/EPAs or through multilateral trade liberalization schemes, liberals look favorably upon them and explore the most effective and the most efficient market-opening measures. Liberals also are increasingly attentive to the transnational social-cultural forces in the region. They are increasingly interested in the integrative impact of labor migration, educational and cultural exchanges, scientific cooperation, and myriad other social transactions that take place across national borders. However, they would be concerned if the United States' relative weight in the region should continue to diminish as it might foreshadow the weakening of U.S.-led democracy promotion in East Asia. They would be particularly troubled by a rollback on human rights promotion in the region if China's economic growth expanded its political influence.

From the *constructivist perspective*, there are many reasons why East Asian power elites have not developed a transnational identity or regional institutions to promote such identity. History and culture are fundamental to the identity formation among the elites of East Asian countries and both the historical background and the cultural values of the peoples in the region tend to accentuate political divisions and cultural separateness between them. Political, social, and educational elites cling to the memory of the imperialism, colonialism, war, and conflict that characterized their experience in the 19th century through the middle of the 20th century. Diminution of nationalism based on selective memory that is often antagonistic or exclusivist toward others in the region would need to give way to transnational identity formation and development of a regional community. ASEAN leaders have proclaimed their commitment to the development of such a community. By contrast, there is little prospect of such commitment emerging among the political elites of the Northeast Asian countries. Hence, the Southeast Asia-led pattern of regional integration is likely to continue into the foreseeable future, limiting the prospects of broader regional integration embracing both Northeast and Southeast Asia or an Asia-Pacific Community.

Conclusions

Realists offer a rather pessimistic prognosis of an East Asian community emerging in the foreseeable future. *Liberals* observe that market forces are deepening economic interdependence among the regional countries and hope that, assisted with associated transnational social ties, such forces will bring about an integrated region. *Constructivists* do not yet see the formation of common regional identity among the elites of East Asian countries; instead, they hear in the region the echoes of national narratives that emphasize the uniqueness and distinctiveness of their “imagined nations.”

If East Asian countries are to be integrated into a regional community along political, economic, security, and social-cultural dimensions, then the theories we have reviewed should provide an integrated answer to the question: Is regional integration in East Asia both desirable and possible?

So far, no theoretical tradition has offered a solution to the need to bring coherence to the disparate discussions of integration on the political, economic, security, and social-cultural dimensions of international relations in East Asia. Nor has any of the theoretical perspectives shown how each aspect of regional integration can facilitate the integration in other respects. Of particular importance is how the deepening integration between the East Asian markets can help remove the walls of nationally constituted communities, nationally constructed identities, and nationally framed consciousness of the peoples East Asia.

There are several “models” for moving forward the integration project in East Asia that are based on the experience in other parts of the world although we should immediately remind ourselves of the difficulty of transferring the historical experience of other regions of the world to the contemporary East Asian region.

One model of regional integration is offered by NAFTA, the institutional mechanism for regional integration in North America. The hegemonic leadership and willingness of the political elite in the United States to share their surplus of production, consumption (market), and protection (security) with Canada and Mexico defined the core premise of regional integration in North America. However, NAFTA is designed to integrate the three

markets through free trade, no more and no less. It is not aimed at bringing about social-cultural integration, much less development of a political or security community.

Another model of regional integration is the EU. After centuries of wars and broken peace treaties, the European countries that have joined the EU have developed a security community, in which there is no longer an expectation of war or preparation for war among them. The devastating end of the Second World War firmly established the imperatives of regional security through economic integration leading to political integration. Although the intellectual foresight of individual European leaders played a crucial role in translating theoretical understandings of regional integration into policy, we should also recognize the importance of the fact that the European peoples have long shared a common civilizational space, with their leaders speaking a common language for international discourse. Nor should we ignore the critical role that the common security interests between the European leaders and the U.S. leadership in the face of the Cold War confrontation with the socialist world. European integration was in the strategic interest of the global superpower United States, which assisted in the reconstruction of devastated Europe and the building of regional institutions for European integration.

In postwar East Asia, we saw neither a security imperative for regional integration nor an hegemonic power willing and able to share its economic surplus with other regional countries. Quite the contrary was the case. In the immediate postwar period, the region was divided between the U.S.-led capitalist camp and the Soviet-Chinese led socialist camp; it was in the strategic interest of the United States to keep Japan (and South Korea) in its ideological orbit and, to this end, Washington offered its surplus of power in protection, production, and consumption with its allies, assisting in the reconstruction and development of their national economies. As a result, the political rapprochement between Japan and both China and the Soviet Union was postponed until the 1950s and the 70s, with full reconciliation over historical and territorial conflicts yet to take place to this day. Today, the historical animosities have been further exacerbated by the competitive urges and mutual suspicion that characterize their relations over the future regional security architecture, leadership in regional community building, and political and security relations with the United States.

ASEAN offers yet another model for regional integration. Through informal, incremental, and consensus-based “ASEAN way,” the members of the regional grouping are about to establish a free-trade area, committed further to building a regional community along social, political, and security dimensions. However, all Southeast Asian countries are jealously protective of their sovereignty and their weak political leaderships remain weary of both internal ethnic and regional animosities and big-power rivalry for regional influence between China, Japan, and the United States, with India an additional factor of growing importance in the region. Moreover, the regional economies have been beset by deeply disturbing consequences of regional and global financial/economic crises.

Table 3 summarizes the models briefly described above, indicating the presence or absence of the key integrative rationale and conditions.

Table 3. Regional Integration Models

Integrative rationale and conditions Region	Hegemonic power	Security imperative	Common civilization
Europe	(+)	+	+
North America	+	+	+
Southeast Asia	-	+	+
Northeast Asia	-	-	-

Notes: + = present; - = absent; (+) present in the background

Northeast Asia lacks the integrative rationale and forces that have facilitated the integration processes in Europe, North America, and Southeast Asia. If Northeast Asia is to integrate itself as a genuine region, either it will need a hegemonic power, a security imperative, and/or a common civilization, or it must develop an integration process that is quite different from the models offered by other regions of the world.

With China, Japan, and the United States vying for regional influence, none of these countries is likely to assume a hegemonic position in the foreseeable future, absent one or the other of two undesirable scenarios, a devastating domestic turmoil in China threatening the central control of the nation and a major conflagration between China and the United States over Taiwan, the Korean peninsula, and/or Southeast Asian sealandes.

A security imperative that would compel China, Japan, and Korea to form an integrated regional community is unthinkable. All three possible Sino-U.S. conflict scenarios would further consolidate the U.S.-Japan alliance, pitting them against China.

A common civilization space in Northeast Asia is a long-past historical reality. With Japan embedded in the Western civilization with Asian cultural elements and Russia evolving as a unique Eurasian-orthodox civilization, Northeast Asia is unlikely to be home to one common civilization.

In conclusion, Northeast Asian regional integration would require an unprecedented rationale and a very unique combination of conditions. It would have to be a creative, aggressive, and collective project of unforeseen character.

Regional Integration: Theoretical and Normative Implications for East Asia

Tsuneo Akaha
Monterey Institute of International Studies

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Integration

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- Economic integration and economic community
- Security integration and security community
- Social-cultural integration and social-cultural community

Theoretical Perspectives on Regional Integration: Realism and Its Variants

- Classic realism: sovereign nations, power, national interests, rivalry, balance of power; national interests dictate scope and depth of regional integration
- Structural realism: structural constraints on the interests and behaviors of sovereign nations; national interests within structural constraints dictate scope and depth of regional integration
- Neorealism: domestic forces may form “winning coalition” for or against regional integration; international forces may facilitate or frustrate domestic winning coalition’s promotion or opposition to regional integration

Table 3. GDP, Population, and Military Expenditure in Selective East Asian Countries

Country	GDP (in current million US\$)		Population (in thousands)		Military Expenditure (in current million US\$)	
	2000	2009	2000 estimate	2012 estimate	2000	2009
China	1,198,480	4,327,000	1,266,534	1,356,146	[3,120]	[58,800]
Japan	4,587,448	4,910,840	126,764	126,995	[47,475]	48,859
South Korea	513,894	1,091,117	46,419	48,081	[15,805]	27,138
Singapore	21,910	1,029,433	746,798	148,367	[16,700]	[17,000]
India	8,034,000	14,563,300	209,242	317,611	372,220	663,255
Indonesia	103,021	110,730	209,280	232,517	2,970	[1,908]
Malaysia	93,780	221,773	23,276	27,916	2,122	4,078
Singapore	22,717	181,048	4,018	4,837	5,997	7,966
Taiwan	122,723	272,129	22,347	68,139	2,702	[1,908]

Sources: GDP data are from the World Bank, <http://data.worldbank.org/>; population data are from the UN Statistics Division, <http://data.un.org/>; military expenditure figures are from SIPRI, <http://www.sipri.org/> (all accessed July 23, 2010). [] = 0.001 million.

Theoretical Perspectives on Regional Integration: Liberalism and Its Variants

- Classic Liberalism: favors cooperation and regional integration
- Neoliberalism: favors cooperation and regional integration but recognizes structural constraints
- Institutionalism: emphasizes the utility of international institutions for facilitating regional integration

Table 2. Northeast Asian Countries' Intra-regional Trade as % of Their Global Trade, 2005 (%)

China	57.52
Taiwan	60.50
Japan	61.90
South Korea	55.47
North Korea	70.80
Mongolia	44.16
Russia	11.96
USA	18.44

Source: Calculated from data in International Monetary Fund, *Direction of Trade Statistics Yearbook*, 2006.

Theoretical Perspectives on Regional Integration: Constructivism

- Sources and consequences of ideational foundations and manifestations of the constitutive units of regional integration.

Table 3. Regional Integration Models

Integrative rationale and conditions Region	Hegemonic power	Security imperative	Common civilization
Europe	(+)	+	+
North America	+	+	+
Southeast Asia	-	+	+
Northeast Asia	-	-	-

Notes: + = present; - = absent; (+) present in the background

Conclusion

- Your assumptions need critical scrutiny, or they will lead you astray. Each theoretical explanation makes sense within its framework; but if humanity is to be united as a community, then the theories should provide an integrated answer to the question: Is regional integration in East Asia both desirable and possible?
- What is your answer?

August 2 (Mon)

Lecture 2

Prof. Takashi Terada

Takashi Terada is Professor of International Relations at Organization for Asian Studies, Waseda University. He received his Ph.D from Australian National University in 1999. Before taking up the current position in April 2008, he was an assistant and associate professor at National University of Singapore (1999-2006) and associate professor at Waseda University (2006-2008). His research interests include international relations in Asia-Pacific, empirical and theoretical studies on regionalism and regional integration, and Japanese politics and foreign policy.

His most recent works (written in English) include "The Origins of ASEAN+6 and Japan's Initiatives: China's Rise and the Agent-Structure Analysis," *The Pacific Review*, 23(1) 2010; "Competitive Regionalism in Southeast Asia and Beyond: Role of Singapore and ASEAN's," Mireya Solis, Barbara Stallings, and Saori N. Katada (eds.), *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, (Palgrave Macmillan, 2009); "Japan and Evolution of Asian Regionalism: Responsible for Three Normative Transformations," in Dieter, Heribert (ed.) *The Evolution of Asian Regionalism: Economic and Security Issues* (Routledge 2008), and *Asia-Pacific Economic Co-operation: Critical Perspectives on the World Economy*, 5 Volumes, (Routledge 2007), co-edited with Peter Drysdale. His books written in Japanese include *East Asian Regionalism* (Tokyo University Press, 2010) and *How to Analyze Asian Political Economy* (editor, Kobundo, 2010). He is the recipient of the 2005 J.G. Crawford Award.

Talking Points

Patterning Asian Regional Architecture: Power, Interest and Institution-Building

Takashi Terada (Waseda University)

With the inauguration of the East Asian Summit (EAS) in 2005, a tangle of regional institutions competes for attention and resources, and as long as the 16-nation ASEAN+6 framework continues to coexist with the 13-nation ASEAN+3 (APT) and the 21-member Asia Pacific Economic Cooperation (APEC) frameworks, the argument as to why the various regional institutions have emerged and co-existed in Asia. This lecture analyses the phonological order of the regional-institution building as a key clue to this puzzle. Three institutions were actually formed in the following order: an old APEC based on open regionalism in 1989, ASEAN+3 in 1997, ASEAN+6 in 2005 and a new APEC which aims to promote closed integration in 2006. The order of institution-building is important from the perspectives of power and interest, which helps identify an intrinsic pattern surrounding regional institution-building in Asia. Influential major powers tend to judge that the functions and norms of an existing regional institution do not accord with their own interests, and work to build an institution based on a new regional concept and purpose which they hope to promote. This lecture demonstrates this pattern by demonstrating the actions and interests of major powers such as the United States, China and Japan, conducive to the establishment of three institutions with the distinctive regional concepts, Asia-Pacific, East Asia and expanded East Asia. Finally, the trilateral cooperation in Northeast Asia, developed by China, Japan and Korea, will be illustrated as an anomaly of this pattern.

Patterning Asian Regional Architecture: Power, Interest and Institution-Building

Takashi Terada
Organization for Asian Studies
Waseda University

GIARI Summer Institute
2 August 2010

Question

Why have several regional institutions come to emerge and co-existed in Asia?

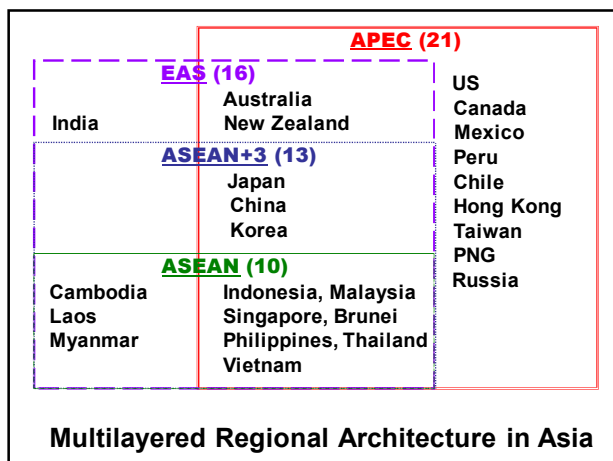
Approach

Examining factors behind the order of the establishments:

old APEC (1989) → ASEAN+3 (1997) →
ASEAN+6 (2005) → new APEC (2006)

Basic hypothesis (modified analytical eclecticism)

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



1) Old APEC to ASEAN+3 (powerful states: Japan and China)

*APEC: failing to promote trade/investment liberalisation and cope with Asian financial crisis, as well as more engaged in security agendas such as counter terrorism (Japan and China's commitment to helping ASEAN to which US paid little attention in financial crisis).

*ASEAN+3: CMI and region-wide integration as major areas of functional cooperation in which APEC was not seen as serving to perform effectively

The US: benign neglect

2) ASEAN+3 to EAS (Japan and the US)

*ASEAN+3: Anxiety about China's growing power that might dominate the decision-making process (most of the members were developing countries and thus tended to support China's viewpoints and agendas).

*EAS: stressing the importance of 'common values' shared with the US and Japan, such as democracy or human rights, and Australia, NZ and India as those 'East Asian' states were added to "+3".

3) ASEAN+3 and +6 to new APEC (the US)

1) Japan, as its key ally, proposed the ASEAN+6 integration (CEPEA) that excludes the US.

2) China enjoyed the credit through its effort to promote "low quality" FTAs in Southeast Asia.

→ putting US businesses, which would not benefit from the abolition of tariffs, at a disadvantage in relation to East Asian businesses in market competition.

The US has tried to utilize FTAAP to take a symbolic action to change the discourse, or change the expectation of where the regional trade politics would be headed in the future.

• **The US and TPP**

Given +3 and +6 FTAs are yet to commence, the American interest in FTAAP through TPP as a direct way of the challenge to East Asian integration may make it difficult for Japan to vigorously promote ASEAN+6 FTA, to a lesser extent for China's ASEAN+3 FTA as well, since some key APEC members have developed an interest in FTAAP through their initial participation in TPP.

Japan's New Growth Strategy (endorsed by the Cabinet on 18 June 2010): the promotion of FTAAP, but no mention about TPP.

4) Further Development of ASEAN+3 (China and Japan)

May 2009, ASEAN+3 Finance Ministers' meeting saw the agreement :

- a) to expand the fund of the Chiang Mai Initiative (CMI) to US\$120 billion (China, Japan and Korea: 80% contribution)
- b) to establish financial surveillance, and monitoring systems (AMRO in S'pore), independent from IMF and ASEAN.
- c) to multilateralise bilateral swap arrangements (CMIM: one time decision with more substantial funds available).

5) Further development of ASEAN+6 (the US)

US engagement in East Asian regionalism

→ sustaining 'ASEAN Centrality' claim.

- a) Signing of ASEAN's TAC (July.09): meeting three conditions for the EAS participation.
- b) Obama's Tokyo (Nov.09) and Clinton's Honolulu (Jan.10) speeches: declaring its interest in officially engaging (not joining) in EAS+2
- c) US-ASEAN Summit (Nov.09): first kind of meeting the US President joined, including the first encounter with a Myanmar leader by a US President in four decades (the attitude became harsher recently due to the links with N. Korea).

6) Trilateral Cooperation in Northeast Asia

The relations among Japan, China and Korea have been improving, conducive to the establishment of Trilateral Summit, possibly leading to more functional cooperation including investment treaty or FTA in Northeast Asia with the 2011 establishment of the Secretariat in S. Korea.

Development of trans-governmental and intra governmental networks: more ministerial and senior officials' meetings in finance, foreign affairs, economy and trade, environment, health or culture in Northeast Asia.

7) How can the NEA regionalism be fit into the analytical framework?

Three nations have been frustrated with the norms or functional interests within +3 and +6 frameworks or not; perhaps not. Yet,

- 1) the political instability in Southeast Asia, which has delayed the development of East Asian cooperation, is their common concern.
- 2) Japan and Korea have a shared interest in a more efficient trade/investment mechanism to pressure China to deal with 'the behind the border' issues due to the growing independence: the ASEAN way functions little.
- 3) The smallest number: theoretically easiest to agree.

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August 3 (Tue)

Lecture 1

Dr. Giovanni Capannelli

Giovanni Capannelli graduated in international economics from Bocconi University, Milan, and obtained his Master and Doctorate degrees from Hitotsubashi University, Tokyo, specializing in Asian economic development and regional integration.

He lived in Japan for nine years, lecturing in local universities and working at the Tokyo Delegation of the Bank of Italy. He later served at the Asia-Europe Institute of the University of Malaya, Kuala Lumpur, as professor of economics and regional integration. Dr. Capannelli currently works in the Office of Regional Economic Integration of the Asian Development Bank, Manila, Philippines where he is serving as task manager of a study on 'Institutions for Regionalism'. He is also a lecturer at the Ateneo de Manila University on the political economy of Asia-Europe relations.

Asia's Economic Integration: Trends and Prospects for Cooperation

1. Trend of Asia's economic integration

- a. Characteristics of Asian economic regionalism
- b. Pillars of economic integration and cooperation in Asia
- c. Growing trade integration
- d. Final demand of Asian exports: still dependent from the world
- e. Financial integration: low but increasing
- f. Deepening macroeconomic interdependence
- g. Managing foreign reserves: new challenges ahead
- h. Benefits of integration outweigh its costs

2. Institutions for Integration: Toward an Asian Economic Community

- a. Growing Asia's free trade areas
- b. Developments in regional financial integration
- c. Asia's institutional landscape
- d. Stocktaking of existing institutions for integration
- e. Asian economic community: a long-term goal
- f. Need to consolidate existing institutions
- g. Needed reforms in ASEAN and SAARC
- h. Creating an ASEAN Economic Community
- i. The Multilateralization of the Chiang Mai Initiative
- j. Rationale for creating new regional institutions

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Table 1. Basic Economic Indicators by Regions and Subregion

	Population 2008 (million)	Gross domestic product (GDP)		Per capita GDP	
		\$ billion (2008)	Average growth rate (1980–2008)	\$ (2008)	Average growth rate (1981–2008)
Asia and the Pacific	3,790.8	14,089.8	4.5	3,716.9	2.4
East Asia	2,119.3	12,282.0	4.4	5,795.3	2.7
Northeast Asia	1,536.6	10,779.2	4.3	7,015.0	2.8
Southeast Asia	582.7	1,502.7	5.5	2,579.0	3.5
Central Asia	76.1	271.1	4.5	3,562.6	3.6
South Asia	1,585.9	1,521.7	5.8	959.5	3.7
The Pacific	9.5	15.1	3.0	1,589.6	0.1
Oceania	25.9	1,141.9	3.2	44,053.6	1.8
European Union	496.2	18,387.8	2.2	37,059.8	1.8
North America	444.0	17,029.1	2.9	38,322.9	1.7
World	6,660.2	60,917.5	3.4	9,146.4	1.2

Notes: The list of countries in each subregion is shown in Figure 2.1. The European Union refers to the aggregate of the 27 EU member countries. North America includes Canada, Mexico, and the United States. Regional GDP growth rates are derived using gross national income values weighted using the Atlas Method. Per capita GDP growth rates are computed using GDP in 2000 \$ prices

Source: *Key Indicators 2009*, Asian Development Bank; *World Economic Outlook Database* (October 2009), International Monetary Fund and *World Development Indicators (WDI) Database*, World Bank. Available at http://www.adb.org/Documents/Books/Key_Indicators/2009/default.asp; <http://www.imf.org> and <http://www.worldbank.org>, respectively. (Accessed on February 2010).

Table A2.1. Asia and Pacific: Basic Economic Indicators 2008

	Population (million)	Gross domestic product (GDP)			GDP per capita		
		\$ billion	Average growth rate (1980–2008)	at PPP (\$ billion)	\$	Average growth rate (1981– 2008)	at PPP (\$)
Asia and the Pacific	3,790.8	14,089.8	4.5	21,965.3	3,716.9	2.6	5,794.6
East Asia	2,119.3	12,282.0	4.2	17,424.7	5,795.3	2.7	8,221.9
Northeast Asia	1,536.6	10,779.2	4.3	14,656.2	7,015.0	2.8	9,538.1
China, People's Rep. of	1,327.7	4,327.4	9.9	7,926.5	3,259.5	8.8	5,970.3
Hong Kong, China	7.0	215.4	5.3	307.3	30,725.4	3.9	43,846.2
Japan	127.7	4,910.7	2.5	4,356.3	38,457.3	1.9	34,115.8
Korea, Republic of	48.6	929.1	6.3	1,344.5	19,136.3	5.7	27,692.1
Mongolia	2.7	5.2	4.2	9.4	1,975.5	2.0	3,547.1
Taipei, China	23.0	391.4	6.2	712.1	16,987.9	5.2	30,911.9
Southeast Asia	582.7	1,502.7	5.5	2,768.5	2,579.0	3.5	4,751.2
Brunei Darussalam	0.4	14.6	0.2	19.7	37,030.5	-1.8	50,167.9
Cambodia	13.7	11.3	8.2	28.5	823.1	4.7	2,082.3
Indonesia	228.6	511.8	5.1	909.7	2,238.9	3.7	3,980.0
Lao PDR	6.3	5.4	6.4	13.3	858.9	3.7	2,127.2
Malaysia	27.3	221.6	6.2	384.4	8,118.3	3.6	14,081.7
Myanmar	58.8	26.2	6.5	68.0	445.7	4.3	1,155.9
Philippines	90.5	166.9	3.2	318.0	1,845.2	0.8	3,515.1
Singapore	4.7	181.9	6.9	239.1	38,975.8	4.3	51,230.9
Thailand	66.4	273.3	5.8	547.1	4,116.3	4.5	8,239.1
Viet Nam	86.2	89.8	6.6	240.8	1,042.4	5.2	2,793.8

	Population (million)	Gross domestic product (GDP)			GDP per capita		
		\$ billion	Average growth rate (1980–2008)	at PPP (\$ billion)	\$	Average growth rate (1981– 2008)	at PPP (\$)
Central Asia	76.1	271.1	4.5	419.5	3,562.6	3.2	5,513.1
Armenia	3.2	11.9	7.4	18.7	3,684.9	8.3	5,792.5
Azerbaijan	8.7	46.4	6.5	74.9	5,349.3	6.4	8,633.9
Georgia	4.4	12.9	6.6	21.4	2,923.6	7.7	4,869.1
Kazakhstan	15.6	135.6	3.6	177.8	8,718.6	4.1	11,434.1
Kyrgyz Republic	5.3	5.1	1.7	11.6	950.9	0.5	2,184.9
Tajikistan	6.5	5.1	2.4	13.1	795.1	0.4	2,022.6
Turkmenistan	5.3	26.2	6.5	30.3	4,972.7	4.7	5,756.7
Uzbekistan	27.2	27.9	3.8	71.6	1,026.8	2.4	2,633.98
South Asia	1,585.9	1,521.7	5.8	4,096.8	959.5	3.7	2,583.3
Afghanistan	28.1	11.7	10.6	21.4	416.1	5.3	760.1
Bangladesh	161.7	84.2	4.6	226.2	520.5	2.5	1,398.5
Bhutan	0.7	1.4	7.9	3.5	2,114.2	6.8	5,312.0
India	1,186.3	1,206.7	6.0	3,297.8	1,017.2	4.1	2,779.9
Maldives	0.3	1.3	7.9	1.7	3,655.1	4.8	4,965.2
Nepal	27.6	12.3	3.9	31.6	444.3	2.3	1,144.4
Pakistan	161.0	164.6	5.1	422.4	1,022.3	2.7	2,624.0
Sri Lanka	20.1	39.6	4.9	92.2	1,971.8	3.6	4,588.9

	Population (million)	Gross domestic product (GDP)			GDP per capita		
		\$ billion	Average growth rate (1980–2008)	at PPP (\$ billion)	\$	Average growth rate (1981– 2008)	at PPP (\$)
The Pacific	9.5	15.1	3.1	24.4	1,589.6	0.0	2,596.3
Cook Islands	0.0	0.2	3.5	...	9,776.3	3.0	...
Fed. States of Micronesia	0.1	0.2	0.8	0.3	2,221.8	-0.3	4,385.2
Fiji Islands	0.9	3.6	3.2	3.7	4,092.4	0.6	6,090.0
Kiribati	0.1	0.1	0.8	0.6	1,370.0	1.0	...
Marshall Islands	0.1	0.2	3.1	...	2,654.7	0.7	2,830.3
Nauru	0.0	0.0	-8.6	...	2,563.6	-5.0	...
Palau	0.0	0.2	1.2	...	8,952.2	-0.4	...
Papua New Guinea	6.2	8.1	2.9	13.1	1,306.0	0.1	2,108.5
Samoa	0.2	0.5	2.4	1.1	2,604.2	1.2	5,666.7
Solomon Islands	0.5	0.6	2.4	1.5	1,227.5	1.5	2,915.9
Timor-Leste	1.1	0.5	4.4	2.5	468.5	-0.1	2,333.0
Tonga	0.1	0.3	4.9	0.6	2,504.9	1.6	5,378.6
Tuvalu	0.0	0.0	2.1	...	2,920.9	1.6	...
Vanuatu	0.2	0.6	3.2	1.0	2,438.3	1.0	4,246.8
Oceania	25.9	1,141.9	3.2	914.9	44,053.6	1.8	35,295.6
Australia	21.6	1,013.5	3.3	799.1	46,824.1	1.9	36,918.0
New Zealand	4.3	128.4	2.5	115.8	30,030.2	1.3	27,083.5
European Union	496.2	18,387.8	2.2	15,262.8	37,059.8	1.8	30,761.6
North America	444.0	17,029.1	2.9	17,292.4	38,322.9	1.7	38,915.4
World	6,660.2	60,917.5	3.4	69,489.9	9,146.4	1.2	10,433.5

Notes: Regional growth rates are derived using GNI Atlas Method as weights. PPP is purchasing power parity.

Average per capita growth rate are in constant 2000 \$ prices.

Regional average GDP growth rate and per capita GDP growth does not include Cook Islands; Marshall Islands; Fed. States of Micronesia; Nauru; Palau; Papua New Guinea; and Tuvalu for the Pacific region.

Asia and the Pacific includes East Asia, Central Asia, South Asia, and the Pacific.

East Asia includes Northeast Asia and Southeast Asia.

ASEAN = Association of Southeast Asian Nations, includes the ten Southeast Asia economies.

European Union refers to the 27 member countries of the European Union.

North America includes Canada, Mexico and United States of America.

Source: Key Indicators 2009, Asian Development Bank; World Economic Outlook Database (October 2009), International Monetary Fund and World Development Indicators (WDI) Database, World Bank.

Table 3. Multilateralization of the Chiang Mai Initiative

Members	Financial Contributions		Borrowing arrangements		Voting Power			
	\$ billion	% share	multiplier	quota (\$ billion)	No. of basic votes	No. of votes based on contributions	Total no. votes	% share
China	38.40	32.00					40.00	28.41
<i>PRC</i>	<i>34.20</i>	<i>28.50</i>	0.50	17.10	1.60	34.20	35.80	25.43
<i>Hong Kong, China</i>	<i>4.20</i>	<i>3.50</i>	2.50	10.50	0.00	4.20	4.20	2.98
Japan	38.40	32.00	0.50	19.20	1.60	38.40	40.00	28.41
Republic of Korea	19.20	16.00	1.00	19.20	1.60	19.20	20.80	14.77
Plus-three Countries	96.00	80.00			4.80	96.00	100.80	71.59
Brunei Darussalam	0.03	0.03	5.00	0.20	1.60	0.03	1.63	1.16
Cambodia	0.12	0.10	5.00	0.60	1.60	0.12	1.72	1.22
Indonesia	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Lao PDR	0.03	0.03	5.00	0.20	1.60	0.03	1.63	1.16
Malaysia	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Myanmar	0.06	0.05	5.00	0.30	1.60	0.06	1.66	1.18
Philippines	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Singapore	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Thailand	4.55	3.79	2.50	11.36	1.60	4.55	6.15	4.37
Viet Nam	1.00	0.83	5.00	5.00	1.60	1.00	2.60	1.85
ASEAN	24.00	20.00			16.00	24.00	40.00	28.41
ASEAN+3	120.00	100.00			20.80	120.00	140.80	100.00

Asia's Economic Integration: Trends and Prospects for Cooperation¹

Giovanni Capannelli

1. Introduction

The center of gravity of the global economy is shifting to Asia. Asia's gross domestic product (GDP) is already similar in size to those of Europe and North America, and its influence on the world continues to increase. In many Asian economies, the cycle of poverty has been broken; in others, this historic aim is within sight. Asia's extraordinary success has brought new challenges: while rapid economic growth remains a priority, citizens demand that it also be sustainable and more inclusive. And Asia is now so important to the world economy that it must also play a larger role in global economic leadership. Regional economic cooperation, a relatively new dimension of Asian development, will be essential for addressing all of these challenges.

East Asian economies are principally connected through markets—through trade, financial flows, direct investment, and other forms of economic and social exchange. But where markets lead, governments are following. Asian leaders have committed to work together more closely and have already taken concrete steps in some areas. The 1997/98 financial crisis,² in particular, was an important catalyst for this emerging regionalism and gave rise to a range of new initiatives and institutions. Asian regionalism has not sought to replicate the European Union (EU), but has rather focused on finding new and flexible forms of cooperation that reflect the region's diversity and pragmatism. It aims to build on the region's remarkable achievements to address the daunting challenges it still faces.

The stakes could not be higher. A dynamic and outward-looking Asian regionalism could bring huge benefits to Asia and to the world. Whereas a volatile and fractious Asian economy could play a corrosive role both regionally and globally, a vibrant and integrated one could boost productivity and competitiveness, raising living standards in Asia and around the world. A cohesive and productive Asia would help to stabilize and power the world economy, and is thus in everyone's interest. In short, emerging Asian regionalism could develop into a partnership that advances regional and global prosperity.

2. Asian Regionalism: Context and Scope

Until recently, Asia's development path involved sequential—and sometimes competing—ties to markets outside the region, and did not yield strong economic links

¹ The following text draws from the Highlights of the ADB study on “Emerging Asian Regionalism: A partnership for Shared Prosperity”. ADB, 2008. Manila.

² The crisis started on 2 July 1997. Its duration varied between places, but was generally 1–2 years.

within Asia itself. This has changed—while the region’s economic policies remain predominantly nondiscriminatory and outward-oriented, Asia’s economies have grown large and prosperous enough to have become very important to each other. Their trade and financial transactions are deeper, their macroeconomic links are stronger, their people have more contact with each other, and their governments are experimenting with new forms of cooperation.

The step from interdependence to regionalism—from market-led to policy-led integration—is neither automatic nor self-evident. With reasonable access to global markets, Asian economies have made exceptional progress individually. They have also developed strong regional ties with relatively few formal agreements. But just as regional integration generates new commercial opportunities, it also creates new demands for intergovernmental cooperation and institutional development.

a. The logic of regional collective action

The economics of regionalism has a complex and troubled history. In the 1930s, shrinking international trade led to the emergence of preferential trading blocs, which further damaged the global trading system and accelerated the downward spiral of economic activity. This experience was foremost in the mind of the architects of the postwar global economic system as they adopted the principle of nondiscrimination as a central pillar of the General Agreement on Tariffs and Trade (GATT), the forerunner of the World Trade Organization (WTO). The case for Asian regionalism must be consistent with WTO principles: a “fortress Asia” is no more desirable than a fortress Europe or a fortress North America would be. But the open, outward-oriented regionalism that is emerging in Asia today need not pose such a threat. Much of the evidence assembled in this report suggests that Asia has—and will continue to have—a fundamental stake in both regional and global integration.

The case for collective action arises from market failures that would reduce economic welfare in the absence of official measures. The case for regional collective action is still more specific: it addresses the problems that are inherently regional or that, for other reasons, cannot be solved at the global or national level. Economic theory argues for such action in the presence of regional cross-border externalities and spillovers, and when policies need to be coordinated to deliver joint public goods. In line with these requirements, Asia’s regional initiatives should focus on the following important priorities:

- providing new regional public goods, such as mechanisms to head off epidemics; resources to address financial crises; and rules to enable countries to integrate financial, goods, and services markets;
- managing spillovers among economies resulting from closer macroeconomic relations, greater capital and labor flows, and environmental degradation;

- exercising Asia's influence in global economic forums to help sustain open and competitive global markets;
- liberalizing trade and investment beyond levels achievable through global negotiations; and
- adding value to national policy making, notably by sharing "best practices" and highlighting priorities that may be opposed by domestic special interests—such as measures to enhance competition and regulatory oversight, reduce poverty and inequality, and control environmental externalities.

Regionalism can be a powerful tool for coping with the consequences of interdependence in trade and investment, finance, macroeconomic links, and social and environmental issues. Asia's links are deepening in each of these areas, and new institutions are emerging or will be needed to manage its cooperative efforts.

b. Watershed: the financial crisis of 1997/98

Asian economic cooperation has been discussed for some time—for example, in 1990, Malaysian Prime Minister Mahathir Mohammed proposed the establishment of the "East Asian Economic Group," which did not gain traction until the financial crisis of 1997/98 (for brevity, referred to subsequently as the "crisis"). The crisis was a watershed: it sharply focused the region's attention on its interdependence and shared interests. It also exposed weaknesses in the global financial architecture and led to new regional initiatives.

The crisis began on 2 July 1997, when Thailand abandoned a short but costly defense of the baht against speculative attack. The attacks quickly spread to Indonesia, Malaysia, and the Philippines. Later they spread to Hong Kong, China; the Republic of Korea; and Taipei, China. Although the People's Republic of China (PRC) and Hong Kong, China also came under pressure, they did not allow their currencies to float or devalue. The crisis was short: most currencies had bottomed out by January 1998, and nearly all East Asian economies were expanding again by 1999. But it was also severe: in many countries it also involved a serious banking crisis, the collapse of credit markets, and deep recession. Scars remain: poverty rates rose sharply in affected countries and, in most, investment and growth have yet to regain precrisis levels.

A decade later, debate continues on whether the crisis was triggered by macro- or micro-economic fundamentals, or simply too many investors "rushing for the exit" (Radelet et al. 1998). Its suddenness, rapid geographic spread, and brevity suggest that financial panic was an important—perhaps a dominant—cause. But as with most complex economic phenomena, the crisis probably had multiple causes (World Bank 1998). Stronger macroeconomic policies and financial systems in the affected economies might have prevented it; more decisive and appropriate action by the international financial community could have limited its damage (Ito 2007); and, had an Asian

regional financing facility existed, it might have provided more timely and better-tailored support.

Yet the crisis did have a silver lining: most Asian economies—including those not directly affected—used it as an opportunity to undertake systemic reform. Domestically, they restructured and strengthened their financial systems; regionally, they established mechanisms for cooperation and emergency financing. The lessons of the crisis are examined in the main study; two conclusions stand out. First, rapid development creates structural tensions, such as the lagging development of Asia's financial sector, that are masked by strong growth. Economic development requires the parallel development of sound institutions and good governance, but this does not happen automatically. Second, Asian economies have deeper connections, more significant spillovers, and (hence) a larger stake in each other's stability than previously understood. Asia requires cooperative mechanisms to minimize the risks of crises and to contain and manage those that arise. Both conclusions argue for enhanced regional cooperation.

c. Deepening economic interdependence

The crisis highlighted financial links, but regional interdependence is best understood as a complex, multidimensional process that encompasses several spheres of economic activity, social contacts, and strands of official collaboration. The most common measure of regional integration—the share of a region's total trade conducted within it—has risen in Asia from about a fifth in the aftermath of World War II to a third or so in the 1980s, and to over half in recent years. Asia is now broadly as interdependent in trade as the EU and North America are. Indeed, Asia now trades more with itself than either the EU or North America did at the outset of their integration efforts.

A broader measure should incorporate other channels of integration, such as direct investment, financial and macroeconomic links, and personal contacts. To this end, data on six indicators of Asian economic integration were collected for integrating Asian economies before and after the 1997/98 crisis. These need to be interpreted cautiously—some indicators are only proxies of economic links, and several indicators measure trends and correlations, which do not necessarily reflect causation—but it is striking that all six indicators have increased in recent years.

Regional integration is not an inevitable outcome of economic development. Most rapidly developing economies—especially large or highly specialized ones—require, and usually develop, strong global connections. Yet the network-based production systems that have emerged in recent years, as well as the investment and labor flows associated with them have increased the relative importance of regional relationships in Asia and elsewhere. Thus, while the large economies of the PRC, Japan, and the Republic of Korea remain strongly connected to the global economy, their regional links have also intensified. To some extent, these and other advanced economies act as the region's conduits to global markets. India is at an earlier stage of integration, but its regional connections are also growing very rapidly.

d. Asia in 2020

Prediction is always hazardous, but there is good reason to expect Asia to have a bright economic future.³

Even if growth in the PRC and India slows somewhat, Asia's share of world output is likely to expand from 28% in 2005 to 35% in 2020 in purchasing power parity (PPP) terms. By then, Asia's GDP is set to be more than 50% larger than the EU's or North America's. The PRC would account for much of this gain: its share of world output is expected to rise from 10% to 15%. Asia's average per capita income would rise from about \$3,000 in 2005 to about \$5,000 (in 2005 dollars) in 2020, a level roughly equivalent to Malaysia's today. Per capita incomes would more than double in some countries, including the PRC. At market prices, these increases are less dramatic but still very substantial. Most importantly, the projections suggest that Asia's regional links are likely to intensify further: on the demand side, the region's spending power is set to outstrip growth in the rest of the world; on the supply side, its production capabilities are likely to continue to expand and diversify.

At the heart of these projections is the continued dynamism of the PRC and India, which together account for two fifths of the world's population. The PRC's economic growth has averaged nearly 10% a year during the past 20 years; India's has reached 6%, and has exceeded 8% in the past few years. These two giants have huge markets; low-cost, relatively well-educated labor forces; and are committed to market-based development. They are large enough to enter a wide range of industries and build many sophisticated production clusters and networks simultaneously. As a result, they are powerful magnets for investment and effective locomotives for other, linked economies.

The rise of the PRC and India is reshaping the economies of the region and the world. They are formidable competitors in their areas of comparative advantage, and they offer vast markets and highly attractive investment opportunities. Other Asian economies have largely benefited from the rise of the PRC and India—although competition in certain products and industries has taken its toll. The world has benefited too, but tensions have emerged in the markets for Chinese and Indian exports. The two economies' continued growth will help drive productivity increases as well as world economic growth, but it will require large adjustments—and is thus likely to generate continuing tensions as well as opportunities. Managing these strains within Asia and globally is a central challenge of Asian regional cooperation.

³ The long-term projections were prepared by Asian Development Bank staff in 2006 as background for strategic analysis. They have been adjusted to take into account new purchasing power parity estimates (ADB 2007b). The underlying growth rates lie within a fairly broad range of estimates recently published by private and public research organizations.

3. Integrating Production

Outward orientation, trade liberalization, and related reforms—in Asia and globally—have helped to drive Asia’s remarkable economic rise. These forces have led to the rapid expansion of intraregional trade; broadly, Asia trades as much with itself as Europe and North America do with themselves. And trade has not shifted from non-Asian to Asian partners—rather, the growth and specialization patterns of Asian trade have resulted in especially rapid growth in intraregional trade. And because Asia’s global connections remain vital, the region needs to pursue global agreements as well as deeper regional relationships.

Regional integration is now central to Asia’s comparative advantage in world trade. By promoting further integration, innovation, and competition, the region can continue to consolidate its leadership in global manufacturing. But to realize the full value of this advantage, Asia needs to maintain good access to global markets. To achieve the dual objectives—regional integration and global access—Asia must play a key role in global policy making, in particular, as an advocate of open global markets.

a. Expanding regional and global links

Nearly all Asian economies have internationalized—some dramatically so. Viet Nam’s total exports and imports have soared from 24% of GDP in 1985 to 142% in 2006; GDPs of the PRC and India each tripled over a similar period, as increased openness of trade is associated with growth. Recent increases have particularly favored intraregional trade. But trade has not been diverted from the rest of the world: on the contrary, trade with each of Asia’s four main partner groups (the region itself, the EU, the US, and the rest of the world) has increased in the last two decades—not just absolutely, but also relative to Asia’s GDP. For example, Asia’s trade with the EU has more than doubled as a share of GDP, from 2.6% in 1986 to 6.0% in 2006. The increase is even larger as a share of the EU’s GDP.

While intraregional trade is intensifying, external trade remains vital for Asian economies. Indeed, the increase in the share of Asia’s exports destined for global markets understates their importance. The complex structure of modern production networks blurs the destination of exports: parts and components exported within Asia are often incorporated into final goods shipped to North America and Europe. A detailed analysis of Asia’s trade dependency reveals that the share of Asia’s total exports to Europe and North America increases substantially when parts and components incorporated into final goods exports to those markets are also taken into account.

b. Production networks and Asian trade

Asia’s rapidly growing trade reflects the region’s dominant position in global manufacturing, which is the result of a combination of low wages, increasingly educated labor forces, sophisticated technologies, high productivity growth, large markets, and

(above all) the ability to bundle together diverse production advantages. Manufacturing—especially in industries such as automobiles and electronics—is now often based on breaking production chains into small steps, and producing each step in the most cost-efficient location. Firms may set up their own production facilities in various countries or they may depend on transactions with other firms abroad. These transactions may also include the outsourcing of business processes. The rise of such production networks—often called “production fragmentation”—is a relatively recent trend, driven by new information and communications technologies.⁴ Such networks have been particularly successful in Asia because of the region’s wide range of development levels, strong intraregional links, and capacity for organizational and technological change.

The PRC is increasingly at the hub of such production networks, but all economies participate. The manufacture of disk drives in Thailand offers a striking example: it spans nine Asian economies (with many parts coming from each), as well as suppliers from Mexico and the US (Figure 4). Production networks have played a central role in the massive expansion of Asia’s intra-industry trade, especially in machinery parts and components. While the share of parts and components in world manufactures trade grew by 3 percentage points between 1992 and 2003 (from 18% to 21%), it grew by 8 percentage points in Asia (from 19% to 27%). The PRC is the region’s largest trader of parts and components, yet over three quarters of the trade involves other Asian economies—including Malaysia; the Philippines; Singapore; and Taipei,China—four economies where trade in parts and components is among the highest in the world as a share of GDP.

The growth of production networks increases the urgency of the need for measures to facilitate regional integration. Such networks require an attractive, predictable business climate as well as world-class transport and communications infrastructure. Most Asian economies are fairly advanced in providing a climate conducive to doing business. For example, most Asian economies have slashed tariff and other import barriers, both unilaterally and through global agreements. Two economies—Hong Kong, China and Singapore—are essentially free traders; three—Japan, the Republic of Korea, and Taipei,China—are quite open except in agriculture. The PRC cut tariffs from 16% in 2001, prior to joining the WTO, to less than 10% in 2005. Tariffs in the Association of Southeast Asian Nations (ASEAN) have also fallen, and now average below 10% in all sectors. Comprehensive measures of trade restrictiveness (Feridhanusetyawan 2005) offer more guarded results, but confirm an overall liberal trend.

Yet there is also room for improvement in many countries. Trade is still often impeded by border measures and incompatible domestic standards and regulations. Further liberalization is vital, especially in agriculture. Liberalization could substantially expand the ranks of people benefiting from regional trade, helping to reduce poverty as well as income gaps, both within countries and among them. And spreading Asia’s own best practices for conducting business could help make the region’s overall business

⁴ The theoretical and empirical literature on trade due to “fragmented production” is growing rapidly (see the main study and Ando and Kimura [2005] and Athurkoralala and Yamashita [2005]).

environment among the most competitive in the world. While many policies need to be adopted nationally, due to Asia's rapid integration, the region as a whole is now a stakeholder in the policy environments of its individual economies.

c. Trade policy in a fractious global environment

Most Asian economies appear ready to undertake additional reforms and trade liberalization—with willing partners. As of early 2008, the WTO's Doha Development Agenda negotiations remain deadlocked, and new or deeper regional and bilateral arrangements are emerging across the world. Until the ASEAN Free Trade Area (AFTA) was established in 1992, Asia had not participated in any regional trade agreements, but subregional and bilateral trade agreements have now taken hold in Asia as well. This challenges the region's traditional approach to trade policy based on unilateral and global liberalization.

The number of Asian free trade agreements (FTAs) has expanded rapidly in recent years, and nearly twice as many have been proposed or are being negotiated as have been concluded. The region's FTAs are an eclectic mix—a large majority are with partners outside the region. Accords involving developed countries such as Japan and the US often have deep and formal structures, and many go well beyond the WTO's sector coverage. The Singapore-US FTA, for example, addresses issues ranging from intellectual property rights and foreign investment to government procurement, e-commerce, technical barriers to trade, environment, labor, and several service sectors (Naya and Plummer 2005). In short, Asia's inventory of trade agreements is extensive, varied, and growing.

d. Complementary regional and global strategies

Despite the proliferation of FTAs, Asia's trade policies remain consistent with the region's global, outward-oriented strategy. Asia's emerging regionalism is in large part defensive—or “market restoring” (Menon 2007)—and responds to new or deeper regional agreements in Europe, North America, and other important markets. Agreements among Asian economies often include provisions beyond trade, such as the national treatment of investment. Such agreements aim to remove domestic impediments to transactions and to create large markets and production platforms with economies of scale to match those of the PRC and India. Such agreements are likely to increase market efficiency and investment productivity.

But even though the region's agreements generally respect their international context, it would be far better to stitch together the tangled web of bilateral and subregional FTAs into a broad, comprehensive, framework consistent with the WTO. Consolidation has been discussed by ASEAN+3 and at the East Asian Summit (EAS, often also described as ASEAN+6). An even broader “Free Trade Area of the Asia-Pacific” has been also proposed in Asia-Pacific Economic Cooperation (APEC). Modeling results suggest that

wider arrangements bring larger gains and help to mitigate the problems associated with the inconsistency of bilateral agreements. Asia would gain most from global free trade, roughly half as much from an ASEAN+3 or EAS arrangement, and much less from uncoordinated bilateral agreements. Given the difficulty of achieving global free trade, a consolidated FTA would yield substantial benefits and could also advance global integration (Kawai and Wignaraja 2008).

The full integration of the region's goods and services markets is thus a central objective for Asian economic cooperation. It can be achieved with policies that do the following:

- Support the open global trading system. Asia's continued success depends on access to global markets, and an open, rules-based global system of trade and investment remains a high regional priority. By acting together, Asia could help lead the world to a successful conclusion of the Doha round and strengthen the WTO framework.
- Pursue regional cooperation as widely and deeply as possible. Because global negotiations are progressing slowly and opportunities for smaller groups to conclude deeper agreements exist, pursuing broad regional agreements is also in Asia's interest. The benefits of consolidating the region's bilateral and subregional FTAs into a single, region-wide arrangement would be substantial.
- Develop guidelines for best practices in subregional trade agreements. Independently negotiated trade agreements often involve incompatible rules of origin and other inconsistent provisions. Narrow, partial agreements are also more likely to harm excluded regional and global partners. To ensure that subregional trade agreements recognize regional interests and are more easily consolidated, they should be guided by regionally accepted best-practice principles. Such agreements should also prioritize sectors, such as agriculture, that have beneficial distributional effects.
- Enhance regional connectivity. Building a regional economy requires world-class infrastructure—transport, communications, and energy systems—to connect the region's economies, and in particular to connect the poorer economies and subregions to the region's economic centers.

4. Integrating Financial Markets

Decades of bank-dominated and highly regulated financial systems have left Asian financial markets relatively underdeveloped. The crisis also made the region wary of opening capital markets. But while Asia is now making progress in strengthening and integrating its financial markets, the region's financial links are weaker than its trade ties. And financial links within the region are weaker than those with global capital markets. The challenge is to accelerate an important virtuous cycle—to attract more of Asia's

substantial savings to regional markets so that these, in turn, stimulate the development of a state-of-the-art legal, regulatory, technical, and informational infrastructure for the financial system.

Asia is home to world-class financial centers. Two—Hong Kong, China and Singapore—are ranked among the top five in the world (City of London Corporation 2007). Yet many Asian economies remain hobbled by the legacy of financial repression. Overcoming this is a regional, as well as a national, priority. If Asia can invest more of its vast savings within the region, major benefits will follow. For example, investing Asian savings would (1) bolster the development of sophisticated investment vehicles that expand regional financing options—for small companies as well as complex infrastructure projects; (2) foster innovative financial intermediation that can identify and create “bankable” investment projects; and (3) help generate financial products that enable consumers and investors to use their incomes and assets more productively.

a. Achievements since the crisis

Asian financial markets have become stronger and safer since the crisis: greater competition has been introduced; private sector ownership and foreign entry have been encouraged; and governance, disclosure, and prudential regulation have been tightened. Financial institutions’ capacity to assess and manage risks has improved. Financial deepening has been occurring faster than in the EU or US—albeit from a lower base—and as a percent of GDP Asia now has larger capital markets than the EU has. Capital markets, in particular, have grown very rapidly in absolute terms, as a share of total financial assets, and relative to GDP.

Other data also suggest improvement in Asian financial systems reforms and market efficiency. In banking, nonperforming loans have sharply declined, and capital adequacy ratios now exceed Basel I levels in most of the region. But in many markets, state-owned banks remain dominant, and require overhauling and privatization. Regulatory processes have been strengthened, but they too need more work, especially in preparation for the adoption of Basel II standards. Efficient systems to manage securities trading, payments, and settlement have become more important; they need to be expanded and connected across markets. Effective securities regulation, in turn, can help make markets safer, deeper, and more innovative; local-currency bond markets—both primary and secondary—are an especially important priority. To support these developments, efforts to improve corporate governance also need to continue, in part to make better information available for the private monitoring of markets, including by international rating agencies.

b. Regional financial integration

Financial interdependence has been rising, both within the region and with the rest of the world. Evidence comes partly from price movements: interest rates in Asia have increasingly converged during the last decade. Although the integration of markets is far

from complete, the standard deviation of cross-border bond yields has fallen sharply since the crisis. Correlations of equity-price indexes across regional markets have also risen, and are now higher than with US and other global equity markets. (This has not yet happened in the case of bond returns.)

Evidence on portfolio asset holdings also suggests rising interdependence. Non-Japanese Asians invested 28% of their portfolios within Asia in 2006, up from 21% in 2001, while their holdings of US assets declined from 20% of the total to 15% during the same period. With Japan included, however, the picture changes: because Japanese holdings consist disproportionately of non-Asian securities, the share of Asian assets held regionally in 2006 is a mere 10%. Overall, non-Asian assets account for a disproportionate share of the region's total portfolio investment, although this share is declining slowly.

Thus, the region's financial markets are deeper and more sophisticated than they were a decade ago. But while legal and regulatory frameworks have improved, many countries still lag behind the best global practices (Lee 2008). In some countries, the gaps are exacerbated by restrictions on capital account transactions and on the entry of foreign banks and other financial firms (Chinn and Ito 2007). All these issues will need to be addressed nationally and regionally if more of Asia's vast savings are to be attracted into the region's own investment opportunities.

c. Toward efficient, integrated financial markets

Asian financial cooperation has increased markedly since the crisis and varied intergovernmental forums now support cooperation among finance ministers, central bank governors, and capital market regulators. This framework is discussed in more detail below, but some of its prominent results have included the Asian Bond Markets Initiative (ABMI, launched in 2004), which has helped strengthen the market infrastructure for local-currency bond development, and the Asian Bond Funds (ABF) initiative, which has supported the development of regional bond funds. ASEAN's subregional efforts provide a model for still deeper cooperation: in addition to conducting regular surveillance, ASEAN has drafted a long-term roadmap for developing capital markets and liberalizing capital accounts and financial services. Its work on capital market development, for example, covers information sharing, harmonization, trading, clearing and settlement, and even the launch of an exchange-traded fund.

In theory, connections with global markets could provide all of the benefits of financial integration, with ample opportunities for raising capital, wide choices for investing it, and good options for diversifying risks. But regional financial integration can play an additional, important role. *Common* time zones and geographic proximity facilitate information flows and personal contacts and can help to reduce information asymmetries. Larger markets, in turn, can lead to more efficient and competitive financial services. In most major regions, these factors lead to a significant "home-region

investment bias”—the tendency of a region’s financial transactions to be conducted disproportionately with regional counterparties.⁵

However, in Asia the bias appears to be reversed—financial transactions seem to favor counterparties outside the region. These patterns likely reflect continuing impediments to cross-border financial transactions and suggest potentially significant gains from harmonizing rules, regulations, standards, and market practices, and from liberalizing capital account transactions. An integrated regional market could help to discover deeper and more timely information on Asian investment opportunities, and might be especially effective, for example, in adapting financial products and services to the needs of small and medium-sized enterprises and regional consumers and investors. An integrated financial market could also help to develop new approaches to funding the region’s massive infrastructure investment requirements.

Further progress on regional financial integration will need to address fundamental causes—weaknesses in national financial systems, differences in national financial regulations, and the unevenness of market opening and capital market liberalization. There is growing consensus that much can and should be done about these issues on a regional level, both to improve the efficiency of markets and to forestall financial shocks. These goals can be achieved with policies that do the following:

- Improve the surveillance of financial markets. Institutions that conduct meaningful surveillance and address common regulatory issues are the sine qua non of regional cooperation. This objective would be best served by establishing a new, high-level “Asian Financial Stability Dialogue” on financial sector issues, to operate in parallel with the Economic Review and Policy Dialogue (ERPD), which addresses macroeconomic cooperation. The “Asian Financial Stability Dialogue” would bring together all responsible authorities—including finance ministries, central bank authorities, and other financial supervisors and regulators—to address financial market vulnerabilities, regulations, and efforts at integration, as well as to engage in dialogue with the private sector.
- Promote consistent standards and mutual recognition. Most Asian economies still need to improve prudential norms, regulation and supervision, and standards for governance and transparency. Harmonized standards would facilitate the regulation of financial activities across jurisdictions and would lower information and transactions costs for investors. Given that harmonization poses great challenges for Asia’s diverse economies, the region’s policy makers may take a two-pronged approach: develop guidelines for best practices (an ultimate basis for harmonization); and set minimum standards that can be recognized, initially at least among subsets of economies.

⁵ Home bias is often judged to be excessive relative to theoretical expectations in many countries, and in such cases is usually attributed to regulations that restrict cross-border transactions or to inadequate access to information about global investment opportunities.

- Strengthen financial markets and their infrastructure. Deeper and more innovative financial markets can be promoted by expanding catalytic official initiatives such as the ABMI and ABF. These have increased the standards expected for disclosure and documentation and attracted new international issuers and investors to regional markets. The ABMI's working groups are considering broad improvements, including the development of securitized debt instruments, regional credit guarantees, settlement and clearance systems, and rating agencies. Because many Asian financial markets individually lack the resources to build adequate transactions infrastructure—for credit enhancements, payments and settlements, and information exchange—coordination among them is essential to achieve critical economies of scale.
- Liberalize capital accounts and cross-border financial services flows prudently. Efficient financial systems require competition and economies of scale—which ultimately entail exposing national financial markets and firms to international competition. In some Asian economies, efficient financial systems have already been built; in others, the benefits of integration still have to be balanced against the risks of liberalization. For the latter economies, progress needs to be measured and prudent; steady liberalization is essential, but it needs to be accompanied by the development of institutions that can ensure markets' continued stability.

Asian economies face the daunting, but essential, task of building world-class financial systems. The agenda is largely national, but the region as a whole is a key stakeholder. Regional financial cooperation can provide a forum for dialogue and information sharing, a framework for drafting mutually acceptable standards, and peer pressure to accelerate the adoption of difficult policies. It can foster the development of broader and deeper regional markets—and thus ultimately enhance the productivity of the region's massive savings.

5. Managing Macroeconomic Interdependence

Asia's growing trade and financial ties are rapidly translating into macroeconomic interdependence. One implication is that national authorities increasingly need to base their policies on what they expect their neighbors to do. Another is that the benefits from managing policies collaboratively—to maximize joint performance—are becoming larger. As a result, Asian policy makers are actively exploring ways to manage the propagation of global and regional shocks, and to reduce financial volatility and exchange rate misalignments. In the longer run, improved macroeconomic cooperation will also help strengthen the region's structural ties.

While most Asian economies have performed well in recent years, their stability has been achieved against the backdrop of a benign global environment—which seems to have already ended with the financial turmoil that began in the US in the summer of 2007. Looking ahead, the global context is likely to require larger adjustments. For example, in the event of a US recession or global slowdown, Asia will need to refocus its growth

away from slow-growing or contracting markets to faster-growing ones, including from exports to outside Asia to demand within it. Even if these adjustments are not forced by short-term macroeconomic developments, they will be necessary in the longer run to resolve persistent global payments imbalances.

a. Growing interdependence

Of the several reasons to expect that greater interdependence may cause Asian macroeconomic variables to move together more closely, three are most important. First, because Asia's trade includes a large share of parts and components, industry-specific shocks are likely to propagate rapidly across the region. Second, because Europe and the US remain major export markets for Asia's final goods, external demand shocks to Asian economies tend to be similar. Third, Asian markets themselves are becoming increasingly important drivers of regional economic activity.

Output correlations, the most frequently used indicator of interdependence, have sharply increased among integrating Asian economies (ADB 2007b, Kawai and Motonishi 2005, Kim and Lee 2008, McKinnon and Schnabl 2002). An analysis included in the main study shows that quarterly GDP co-movements rose dramatically after the Asian crisis and have remained high since—the average coefficient for pair-wise correlations in integrating Asia has risen from 0.07 before the crisis to 0.54 after it. But, as several other studies show, Asian economies remain closely connected with the rest of the world—in fact, the correlation of integrating Asia with the EU and US increased from 0.16 before the crisis to 0.51 since

Price links also appear stronger than before the crisis. The average correlation of quarterly consumer prices (detrended and adjusted for nominal exchange rate changes) across pairs of Asian economies increased from 0.10 before the crisis to 0.39 since. This suggests that either Asian economies face more similar price shocks from the rest of the world than before, or price shocks in one part of the region are transmitted to others with greater force, or Asian prices are more sensitive to external shocks. Correlations cannot distinguish among these alternatives, but all three are likely to be at work.

Thus, regional macroeconomic interdependence has increased: a more integrated Asia has become more sensitive to Asian shocks. At the same time, the region's sensitivity to global shocks remains significant, although it appears to be diminishing. These results offer an interesting perspective on the debate over whether Asia is "decoupling" from the global business cycle. One side sees the current drivers of Asian economic activity as mainly regional, the other as mainly global. The study findings suggest a more subtle and dynamic perspective. Regional demand is indeed more important for Asia's economic growth than it used to be. Yet, as a result of globalization, economic activity in the EU and US remains important: these markets are still key destinations for Asia's exports. If decoupling is under way, it is taking hold only gradually as the relative importance of the drivers of Asian demand changes. In the meantime, purely national factors—the third

driver of Asian activity—have clearly diminished in importance relative to regional and global forces, given the context of the region’s increasingly open economies.

b. Lack of policy convergence?

Despite the convergence in regional macroeconomic outcomes, there is little evidence so far that macroeconomic policies have converged. Monetary policies have followed similar broad trends, but have diverged in detail. After converging until 2004, the region’s policies since (through early 2008) have varied—from steady tightening in the PRC and Taipei, China, to sharper tightening followed by easing in Indonesia and Malaysia, and to later and more gradual tightening in Thailand and the Republic of Korea. Announced strategies also differ: Indonesia, the Republic of Korea, Thailand, and the Philippines have a formal inflation-targeting framework, while others follow more eclectic policies and in some cases specifically target exchange rate stability. In part due to these policy differences, inflation and interest rates have varied considerably in the region.

Fiscal policies have also diverged, though less so than monetary policies. Public debt levels in most Asian countries have fallen since 2000, but fiscal consolidation has been less successful in India and especially Japan, where public debt has reached critically high levels. In 2008, fiscal positions still range from deficits of about 6% of GDP for India and Japan to a surplus of 10% in Singapore. To some extent, these differences also reflect variations in the region’s development levels and national policy objectives.

Exchange rate systems vary too. Before the crisis, most economies claimed to have managed floats, but in practice their currencies closely followed and were sometimes pegged to the US dollar. After the crisis caused these systems to collapse, affected economies temporarily adopted more flexible regimes, with the notable exception of Malaysia. But as calm returned, countries again began to manage their floats to reduce currency volatility. More recently, some managed floaters, notably the PRC, are showing greater flexibility.

Although the medium-term trend of Asian currencies still follows the US dollar closely, their co-movements with the euro and yen have increased in recent years. This has produced exceptionally stable real effective exchange rates: within-region variations were lower in 2004–2006 than in any other comparable period during the past 17 years. But this stability does not appear to be the product of deliberate policy decisions, and no formal regime exists to ensure that stability will continue. Indeed, it appears to have already ended, starting with the more tumultuous market conditions that set in as the US dollar began to depreciate in early 2006 and the yen began to strengthen in mid-2007.

c. Mechanisms for macroeconomic cooperation

Regional mechanisms are clearly needed to address Asia's macroeconomic interdependence, but policy cooperation in this area is still in its infancy. A basic structure is taking shape, consisting of the Chiang Mai Initiative (CMI)—the region's emerging financing facility—and several regional forums for macroeconomic dialogue. Subregional institutions are most developed; ASEAN's surveillance process, for example, consists of confidential reports, discussions, and peer review sessions.⁶ The ASEAN+3 Economic Review and Policy Dialogue (ERPD) is less formal and more interactive, but has a broader membership—its Finance Ministers Meeting has proven quite effective. The Executive Meeting of East Asia-Pacific Central Banks (EMEAP) serves a similar function for central banks.⁷

The CMI, launched in 2000, enables countries to borrow international liquidity collateralized by domestic currencies. But CMI bilateral swaps are still limited, and mainly restricted to complementing the financial support that members receive from the International Monetary Fund (IMF). The CMI has been expanded and strengthened since its inception—for example, the total amount of swap arrangements has been gradually increased to \$85 billion at the end of 2007 and the ceiling for activating swaps without an IMF program was raised from 10% to 20% in 2005. ASEAN+3 officials are now at an advanced stage in multilateralizing the CMI and promoting its closer integration with the ERPD. The CMI's continued development will encourage countries to economize on their foreign exchange reserves. Sovereign wealth funds could then provide a vehicle for diversifying reserves into higher return, albeit riskier, assets. If managed on an independent, transparent, and commercial basis, sovereign wealth funds could make a deep, steady pool of savings available for investments in the region and worldwide and could help stimulate the development of regional capital markets.

To meet the potential challenges ahead, the region's mechanisms of macroeconomic cooperation need greater focus, less overlap, and deeper institutional structure. These goals can be achieved in the following ways:

- Making macroeconomic consultation and surveillance more effective. To minimize duplication and, in particular, coordinate monetary and financial issues, an “Asian Secretariat for Economic Cooperation” should be established, with qualified, permanent staff. The Secretariat would most logically operate under the oversight of ASEAN+3 and in coordination with the region's central banks, although the functions it administers could have varying memberships, including economies outside ASEAN+3. The Secretariat could strengthen the principal surveillance functions of ASEAN+3 by facilitating explicit agreements on the tools, indicators, and standards used to monitor economic activity. For example, it

⁶ The Asian Development Bank supports this process with the ASEAN Economic Outlook, special studies, and technical assistance.

⁷ Other, subregional central bank forums include Southeast Asia, New Zealand, Australia (SEANZA), Southeast Asian Central Banks (SEACEN), and the Association of Southeast Asian Nations (ASEAN) Central Bank Forum.

could introduce a regional early warning system to help prevent financial crises or create a synthetic currency basket, such as an “Asian currency unit,” to monitor individual currency movements against a regional benchmark.

- Strengthening Asia’s short-term financing facility. Pooling the region’s massive foreign exchange reserves and improving the rules under which they are used are essential tools for effective crisis management. Multilateralizing the CMI and agreeing on rules for its rapid activation would be a critical step. The Secretariat would oversee the region’s pooled resources and, in a crisis, negotiate economic policies with governments seeking support. It would thus complement the IMF’s surveillance and crisis management efforts in Asia and, in time, the link between CMI activation and IMF programs could be phased out.
- Cooperating in exchange rate and macroeconomic policy management. As Asia’s structural links deepen, exchange rate and macroeconomic policy cooperation are becoming increasingly important. Cooperation can begin with understandings on the conduct of policy, and with ad hoc coordinated actions. For example, countries could coordinate a particular wave of exchange rate adjustments against third currencies in order to hold their relative competitive positions stable. Such cooperation might emerge initially in ASEAN or other groups with closely synchronized business cycles. However, because growth in the region varies widely, any form of currency cooperation would have to be flexible enough to allow real exchange rates to adjust over time.

The recent era of relative macroeconomic stability may already be over; in any case, it will not last forever. With divergent prospects, conflicting demands on policy, and large realignments on the horizon, Asian policy cooperation will be essential. Asia needs to develop the institutions to make this possible and, because many years of cooperation are required to make such processes effective, the time to begin building such institutions has arrived.

6. Making Growth Inclusive and Sustainable

The goal of economic development is to improve social well-being in the broadest sense: to enable people to enjoy prosperous and fulfilling lives. Economic growth that benefits a broad cross-section of the population is essential. If the benefits of regional integration are to be shared by everyone—including the poor and socially disadvantaged—a wide range of social issues needs to be addressed. Public policies need to focus on “inclusive growth” to create opportunities for everyone, to improve people’s access to such opportunities, to provide a safety net for those who fall on hard times, and to achieve other social and environmental objectives.

Asia’s integration bolsters economic growth, and typically the poorest countries have the most to gain from it. But economic integration can be associated with negative side effects, such as greater dislocation of exposed sectors and negative impacts on the poor.

A rapidly modernizing economy needs effective social policies to make growth broadly acceptable and to complement traditional mechanisms (based on extended families and small communities) for caring for those left behind. Such an economy also needs to address other issues, including threats to health, safety, and the environment.

a. Who is left behind?

Given the complexity of Asia's social problems, efforts to tackle poverty and inclusion need to rest on systematic information on which groups are left behind and why. Much progress has been made in recent years—especially in the context of the Millennium Development Goals (MDGs)—with understanding the scope and causes of poverty, in both its income and non-income dimensions. This work needs to continue, especially in pinpointing the factors that lead to exclusion—such as geography, skills, age, gender, and race—and the policies that can offset them.

Asia has made remarkable progress in reducing poverty, but major challenges remain. The good news is that Asia appears set to meet the MDG of halving extreme poverty by 2015.⁸ Half of Viet Nam's population lived on less than \$1 a day in 1990; only 1 in 10 did in 2004. In the PRC, the proportion has fallen from a third to less than a seventh. In Indonesia, a country badly hit by the crisis, extreme poverty has fallen by two thirds. Yet progress has been much slower in some countries, especially on non-income measures. Nearly 2 billion people in the region are without basic sanitation, over 650 million are without clean water, 100 million under 5 years are underweight, and nearly 30 million children of primary-school age do not attend classes (ADB-ESCAP-UNDP 2007).

Income disparities within countries are also rising. Measured by the Gini coefficient, inequality has fallen in Thailand and Viet Nam, but has risen considerably in the PRC and India. Fortunately, this does not involve “the poor getting poorer and the rich getting richer, but the rich getting richer faster than the poor” (ADB 2007b, 79). The region's overall development model is working, but the gains need to be shared more equally.

The causes of growing inequality vary, but, generally, the rich are better equipped to exploit the opportunities offered by economic change.⁹ People in urban areas are on the average better off than those in rural ones, but within urban areas inequality has also widened. Some groups are systematically excluded from economic opportunities—especially women, the lower socioeconomic strata, minorities, and indigenous people. Tackling discrimination is critical: in the case of gender, for example, successful regional

⁸ ADB (2005b) estimates that the number of extremely poor people (with incomes of less than \$1 a day) fell from 921 million in 1990 to 621 million in 2003, largely as a result of rapid economic growth. Further progress is expected to occur, but by 2015, the number of extreme poor could still be as high as 347 million, with South Asia accounting for the greatest number (274 million), mainly in India.

⁹ Higher income groups benefit from various factors that directly affect their productivity, such as better health conditions, educational achievement, infant and child mortality, and immunization against diseases.

initiatives have ranged from gender-sensitive poverty reduction programs to improving access to finance and property.

People also fall behind through bad luck—by working in a declining sector or becoming unable to work. The recovery since the crisis masks the continuing inadequacy of Asian social protection systems (ADB 2003b). Demographic ageing will increase the stress—family and community support systems are declining rapidly and have to be complemented by public systems. Yet the cost can be manageable: for example, the United Nations World Economic and Social Survey estimates that the cost of providing a pension of \$1 a day to everyone aged over 60 in the developing countries surveyed is less than 1% of their combined GDP a year (UN 2007). Innovation—such as in microinsurance, locally based social funds (ADB 2003b), and community-based information technology support—would also help.

b. Fighting poverty and exclusion

The battle against poverty and exclusion begins with creating high-productivity jobs—a central goal of Asian regionalism. But whether people have access to these jobs depends on how well labor markets function and how effectively the places where they live are connected with dynamic regional and global markets.

Asia's official unemployment rates are not high by global standards, but studies show that employment growth is becoming less responsive to output growth (Felipe and Hasan 2006, Kapsos 2006). This is so partly because formal employment data capture only part of the story. In 2005, about 500 million of Asia's 1.7 billion workers were reckoned to be either unemployed or underemployed (Felipe and Hasan 2006). Asia's informal labor markets are huge—accounting for 83% of nonagricultural work in India and 71% in Indonesia. Many of these outcomes reflect barriers in labor markets, especially between urban and rural areas. Rigid labor laws, in turn, cause entrepreneurs to opt for machinery or illegal workers in place of regular employees. Weak property rights keep people from financing businesses, because untitled assets cannot be used as collateral. To remove regulations that make starting new businesses and hiring people costly and risky is often politically difficult, but still essential (Freeman 2006).

A second approach is to target sectors that are potent in poverty reduction. It is especially important to get policies right in agriculture—the mainstay of Asia's poor. Often, national policies are misguided: for example, subsidizing staple food crops discourages diversification into higher value crops and the adoption of productive planting and marketing strategies. Focused regional policies can also make a difference. Greater opportunities for international trade in agricultural products—both within the region and beyond—could amplify national efforts to improve agricultural productivity. Aid-for-trade could also make an important, direct contribution to these efforts: in the Greater Mekong Subregion, for example, innovative programs promote cross-border agricultural trade and investment, supported by public-private partnerships on agricultural science and technology (ADB 2007b).

Even with sound policies, new formal-sector jobs often favor skilled workers, due to skill-biased technical change and the quality requirements of export markets. This benefits the economy as a whole—it boosts productivity and average incomes—but it does not help people who do not have, and are unable to acquire, the skills required for new jobs.

Thus, a third strategy is needed: reducing gaps in education and infrastructure that make it impossible for people to connect with the centers of economic growth. To do so requires a focus on basic education and on vocational and skills training. Investing in trainability—the capacity to learn how to use new technologies—is especially important. Investment climate surveys show that a lack of education and training are among the factors that prevent rural areas from developing higher productivity nonfarm enterprises (ADB 2007a). Strategic investments in infrastructure—in transport, communications, and energy—can also connect low-income regions with Asia’s dynamic core. Growth in remote areas can save substantial social, financial, and relocation costs, and benefits people who move and those who are unable to do so.

c. Labor migration

Making it easier for people to move to where jobs are is broadly beneficial. This is true for migration within countries as well as among them. Of the 200 million or so international migrants in the world, the top three sending countries are in Asia—the PRC, with 35 million; India, 20 million; and the Philippines, 7 million (Global Commission on International Migration 2005). Migrants’ remittances through formal channels exceed \$200 billion a year, and twice that much may be sent informally. The funds appear to be used very productively: they boost investments in education, housing, and household enterprises (Yang 2006). If rich countries let their labor forces swell by 3% through greater labor mobility, poor countries would gain an estimated \$305 billion a year—more than the combined effects of lower trade barriers, debt relief, and aid (Pritchett 2007). Migration can also match labor market surpluses in younger, poorer countries with shortages in older, richer societies, for example, in sectors such as health care.

Yet migration needs to be managed. Cooperation to curb abuses—trafficking in women and other illegal forced labor—is essential. So too is broader regional peer pressure to protect the welfare and dignity of migrant workers. International conventions, including ASEAN’s declaration on the protection and promotion of the rights of migrant workers, provide a framework, but are not well enforced. Social protection systems interact in complex ways with migration: they need to become internationally portable, available to the families of migrant workers, and supportive of the reintegration of returning workers.

d. Health and safety: critical public goods

Due to high population densities and limited health services in some countries, Asia is unusually vulnerable to epidemics. Regional integration and the frequent movement of people and goods increase its vulnerability. HIV/AIDS,¹⁰ severe acute respiratory syndrome (SARS) and avian influenza highlight how rapidly local health problems can turn into regional ones. These threats—and potential future ones—are risks to society at large: they have devastating economic and social consequences. The brief SARS crisis cost Asian economies \$20 billion in lost tourism and output, amply demonstrating the value of international monitoring and coordination in containing epidemics (Lee and McKibbin 2003). Protecting the region from health threats is a critical “public good” and an obvious priority for regional cooperation.¹¹

The tsunami of 2004 was a devastating reminder of the region’s vulnerability to natural disasters. Regional cooperation can help to make the response to disasters faster, more effective, and less costly. Cooperation should include regional early-warning systems where appropriate; disaster management and recovery plans; and arrangements for information-sharing, transport, and communications. Financial innovations—such as regional catastrophe-bond and flood-insurance markets—could further improve the management of such risks (Lin et al. 2007).

e. Environment

Environmental concerns are increasing, particularly because economic growth in much of Asia remains propelled by production that depends on carbon fuels. Many of Asia’s major urban centers have unacceptably poor air quality. Its bodies of water—including major water supplies—are also under stress. Rapid climate change increases the risk of natural disasters and disease outbreaks. All these problems require concerted global and regional consultation and action to assess problems and identify solutions and to develop strategies for addressing them jointly so that no economy suffers disproportionately from the policies adopted.

Cross-border environmental issues are of particular concern for regional cooperation. Problems such as desertification, dust storms, forest fires, haze, and acid rain cut across national borders; their solution requires regional collective efforts. Asian countries and subregional organizations need to cooperate more closely on environmental challenges by harmonizing standards, regulations, and laws. Priorities include air pollution, land degradation, and global climate change, which tend to affect the poor the most.

¹⁰ Human immunodeficiency virus/acquired immunodeficiency syndrome.

¹¹ Priorities include strengthening the regional collection and dissemination of information on health threats; the establishment of vaccine development and production capacities; support for national capacity development, particularly in surveillance and diagnosis; and the creation of intergovernmental mechanisms to fight diseases such as HIV/AIDS and to undertake concerted action on standards, health promotion, early-warning systems, and communications.

Subregional cooperation is proving effective in some areas. The BIMP-EAGA¹² initiative on environmental protection, for instance, is an important effort to preserve one of the world's richest repositories of land and marine biodiversity, and ultimately to manage the long-term sustainability of the subregion's natural resources. This and other subregional initiatives offer focused interventions and models that are broadly applicable in Asia and around the world.

f. A social and environmental agenda

Asian regionalism cannot fulfill its immense potential unless it addresses disparities within countries and among them. Left to market forces, Asian regional integration will bypass many people and support for it will be eroded. Governments increasingly recognize this; their vision of shared regional prosperity requires corrective action.

Regional cooperation is useful for addressing critical social and environmental issues directly; it can also help make a strong case for action—as the MDGs did globally—and mobilize national, regional, and global support. Deeper networks among policy makers, research institutions, and nongovernment organizations could improve the design and implementation of policy. And by concerted action, the region could ensure that the impact of social and environmental policies on the competitiveness of particular industries and subregions is recognized and, if necessary, addressed through complementary policies.

Based on the foregoing analysis, Asia's principal objectives are as follows:

- Connect the poor to the thriving regional economy. Policies will vary across countries, but they should aim to eliminate regulatory, social, and geographical barriers in labor markets; prioritize development and trade in sectors, such as agriculture, that have a strong impact on reducing poverty; encourage the integration of informal sectors into the formal economy; invest in education and training to make workers more productive; and build infrastructure to connect disadvantaged regions with economic centers.
- Develop cost-effective social protection systems. With family and community mechanisms of social protection declining, low- and middle-income countries also need adequate social protection systems. Recent experiments are expanding the range of cost-effective solutions, in part with innovations that exploit technology and microfinance strategies.
- Facilitate and manage labor migration. National and international migration can improve the lives of migrants, their families, and the citizens of host economies. The challenge for host countries is to maximize the benefits of employing foreign

¹² Brunei Darussalam, Indonesia, Malaysia, Philippines East ASEAN Growth Area.

labor while minimizing its potentially negative impacts and to ensure that immigrants have basic rights and protection and are treated with dignity.

- Protect regional health and safety. Densely populated and closely integrated Asia needs world-class systems to monitor, prevent, and (if necessary) contain epidemics. Providing the public goods of disease prevention and disaster management is a top regional priority.
- Make development sustainable. The environmental costs of economic activity are mounting with Asia's rapid development. Cooperation is required to set environmental standards, design interventions, and monitor results. Regional cooperation can be useful in mobilizing Asian and non-Asian resources and technologies, and is essential for addressing cross-border issues.

Sharing such regional goals will help to build a genuine Asian community. Through understanding each others' successes and failures, people and countries will develop stronger foundations for cooperation. A common, inclusive vision will also help to mobilize popular support, an essential requirement for realizing the promise of regionalism.

7. Creating an Architecture for Regional Cooperation

The case for greater regional cooperation is broad, deep, and compelling. Yet marshaling collective efforts across this vast, diverse region is a huge challenge. The examples of the EU and, to a lesser extent, the North American Free Trade Area (NAFTA) highlight some of the possibilities and difficulties. But Asia does not function exactly like Europe or North America. Asia's economics, politics, and history are different. Some forms of interdependence—in trade, for instance—are deeper in Asia today than they were in Europe in the early stages of European regionalism. But others—such as monetary policy—involve largely independent national decisions.

While Asia can draw on other regions' experience, Asian regionalism will ultimately follow a distinctive blueprint, building on Asian economic priorities and based on an Asian vision for a regional community. That vision is just beginning to take shape, amid spirited debate.

a. Regionalism with Asian characteristics

Asia's powerful countries and centers of economic activity have many common priorities, but also differing ones. At times, the differences are amplified by history and politics. The price of cooperation is the loss of some national sovereignty and the narrowing of policy options for pursuing purely national objectives. It is understandably difficult for large, successful, and independent economies to make such compromises, and ultimately to sacrifice some authority to regional institutions. Yet understanding of the logic of

regional collective action is becoming stronger, driven by the need to manage the consequences of rising interdependence. Cooperation is likely to evolve gradually, but it will intensify as countries gain confidence in the benefits of concerted action and the processes of joint decision making. Different groups of countries will progress at various speeds, using different frameworks to address subsets of policy interests.

Asia's regionalism will be distinctive in other ways as well. The region's policy-making style is pragmatic and cautious. Cooperation is aimed at making markets work better and is usually limited to specific initiatives and objectives. Intergovernmental dialogue at all levels has greatly increased, but formal regional institutions remain relatively underdeveloped. Yet recognition that the requirements for institutional capabilities are growing is widespread—for example, ASEAN has committed to increasing the capacity of its secretariat along with implementing its new blueprint for establishing an ASEAN Economic Community. In several areas the payoff to regional institutional development is high; this study has identified, in particular, the establishment of both an “Asian Financial Stability Dialogue” and an “Asian Secretariat for Economic Cooperation” as important priorities. These and other institutions that will emerge in the region are likely to be lean, carefully structured to achieve their purpose and limited in authority. In other words, even as the institutional structure deepens, intergovernmental consultation and decision making are likely to remain central features of the Asian regional cooperation.

b. The architecture of cooperation

Asia's regional policy agenda is too broad and complex to be handled by a single institution, especially given Asia's vast economies and diverse interests. A flexible, multitrack, multispeed architecture will best respond to this challenge. It will emphasize the gradual intensification of cooperation—engagement in limited areas first, followed by the deepening and widening of the scope of cooperation. This will allow any group of economies to join the integration process and share in its benefits, regardless of development level. As partnerships strengthen, they can lead to deeper collaboration or the enlargement of the group. Open, gradual, and flexible regionalism will ensure that Asia's economic integration remains market-friendly and responsive to the region's diverse constituents.

Importantly, a flexible framework enables newcomers to regional integration to develop relationships in line with their capabilities. The smaller developing countries that are not yet fully integrated into the region's economy often have the most to gain from internalizing the lessons of Asian dynamism. Joining regional and global production networks could dramatically raise their productivity, employment, and output levels. This study seeks to foster understanding of the requirements and implications of integration. Newcomers to integration need to adopt vigorously outward-oriented policies; in turn, the regional system needs to remain accessible to integrating economies.

The principal groups of the current framework range widely in scope, from subregional organizations that encompass parts of a few countries to APEC and the Asia-

Europe Meeting (ASEM), which span continents. This diversity is consistent with, and necessary for, achieving the region's multiple policy objectives. Developing infrastructure to connect nearby communities through transport and energy links, for example, requires limited, focused subregional cooperation. At the same time, ensuring that markets in Asia, Europe, North America, and other parts of the world remain open to each other requires dialogue in APEC, ASEM, and of course global institutions. The challenge is to maintain effective and flexible groups while ensuring the coherence of their different policy directions. Some institutional consolidation can be valuable in this process—as this study recommends, for example, in the area of macroeconomic surveillance. Yet overlap and competition among groups is not necessarily bad; it opens multiple options for addressing a problem and stimulates forums to become more effective.

Because the structure of regional cooperation in Asia remains very fluid, proposing firm assignments of institutional functions is premature. Nevertheless, as the detailed arguments of this study suggest, ASEAN+3 frequently emerges as an especially useful coordinating forum. It is organized around ASEAN, which has the most experience with cooperation and operates the most developed regional institutions. It also incorporates the region's three large economies (the PRC, Japan, and the Republic of Korea), and is generally closely integrated. But processes coordinated by ASEAN+3 need not be limited to its membership. For example, functions that require wider participation—such as the Asian Financial Stability Dialogue proposed in this study—could also build on EAS membership.

Although the process of cooperation may begin with an ASEAN+3 structure, it should not end there. It should involve strong complementary relationships with other regional forums whose unique histories and memberships provide expertise for addressing different aspects of cooperation. This argues for maintaining multiple regional arrangements and good connections among them. For example, ASEAN will be an especially effective proving ground for more advanced forms of regional cooperation. It will become an increasingly effective hub as it pursues deeper integration itself, following the recently adopted ASEAN Economic Community Blueprint (Kawai 2007). The Greater Mekong Subregion framework—a subregional group—provides an ideal laboratory for coordinated infrastructure development as well as for targeted new initiatives in areas such as fighting poverty. The EAS may prove to be the most effective forum for addressing climate change and other environmental challenges from Asian perspectives. And given its membership, APEC can be effective in trade facilitation. APEC and ASEM could also have useful roles in policy dialogue on domestic regulatory policies and in ensuring that the region's expanding global role is effectively managed.

A flexible, multitrack architecture also responds to the challenges of the region's exceptional political, economic, and cultural diversity. Asia's economics and politics are not always aligned, but they are interdependent. Economic interests shape political positions, much as political will affects economic outcomes. Closer economic cooperation within Asia will provide a stronger framework for managing the economic adjustments ahead, both within the region and with the world. Foremost among these is

the rise of the PRC and India, which will affect regional and global markets in far-reaching ways.

As long as the economic benefits of regional integration are substantial, political compromises are possible. A survey for this study confirms that the region's opinion leaders welcome regional engagement and are optimistic that political hurdles can be overcome (Capannelli 2008). Asia's approach emanates from—and neatly accommodates—its diversity. The approach allows countries to retain a great deal of independence and control over their internal affairs, yet fosters a sense of community—in essence, mutual trust and confidence.

c. Leadership

Gradual, bottom-up cooperation has economic and political advantages; it also has risks, including possible inconsistencies among initiatives, and slower progress than might be possible with a top-down approach. What forces will generate momentum and pressure for deep and ambitious integration?

At the highest levels of government, the importance of regional cooperation is well accepted—Asian leaders have repeatedly and eloquently confirmed their commitment to work together.¹³ But they will need effective mechanisms to translate this intent into pragmatic results. Asia's regional institutions are not strong enough to take a leadership role yet; many operate with very limited resources and often with staff members on short, temporary assignments. In this context, knowledge-generating institutions outside the official sphere play an especially important role. Ideas matter, and the region's think tanks and universities have the structure and time to focus on long-term issues and to offer objective advice.

In the longer run, civil society will provide the most important source of support. The survey for this study found that a wide range of Asian opinion leaders welcomes international cooperation. All nationalities and groups seem to share this perspective, including business executives; professionals; journalists; experts in universities, laboratories, and research institutes; and political and economic analysts. They welcome an Asian identity, and increasingly interact with regional colleagues in professional, educational, and official networks. Their collaboration and friendships can inform regional strategies and provide foundations for future cooperation.

In short, Asian regionalism will need sophisticated official leadership as well as individual champions. It will need the support of many visionary and determined people—including political, business, and civic leaders; academic experts; and intellectuals—people from all walks of life and representing the region's great cultural

¹³ The reports of the East Asia Vision Group (2001) and the East Asia Study Group (2002), commissioned by the leaders, offer an excellent summary of potential regional cooperation efforts.

diversity. The challenge for governments is to embrace this broad coalition, to provide forums where its voice can be heard, and to make sure that its impact is felt.

d. A partnership for shared prosperity

It is easier, in some ways, to envision an integrated Asia many decades hence than to describe the detailed goals that could be achieved by 2020. In the longer run, Asia is likely to have a single market subject to common regulations, a common currency, and substantial freedom of movement for workers—in other words, an environment similar to that of the EU today. An integrated Asia will reap enormous benefits from the great diversity of its economies and peoples; its deep cultural heritage; the vast scale of its financial, technical, and other resources; and its joint ability to manage economic, social, environmental, and other threats. It will offer unrivaled opportunities for innovation, entrepreneurship, and commerce. And it will help subdue the political rivalries that could otherwise threaten stability.

Such a vision can provide inspiration and offers guidance on long-term directions. But to inform immediate policy, it must be translated into steps that can—and should—be achieved in the intermediate term. The vision that motivates these steps has to be pragmatic. It must consist of realistic initiatives that show early, step-by-step results. By pursuing growth-inducing policy options that foster regional integration, by 2020 Asia could have:

- an integrated market free of restrictions on regional flows of goods, services, and capital;
- deep and liquid financial markets open to cross-border financial flows and services, with high standards of oversight and strong protection to national and foreign investors;
- effective frameworks to coordinate macroeconomic and exchange rate policies, taking into account global challenges and differing national circumstances;
- collective efforts to address vital social issues, such as poverty, exclusion, income insecurity, migration, ageing, health, and environmental threats;
- a consistent voice to project the concerns of Asian economies in global policy forums and enhance responsible global governance; and
- vital institutions, adequately and highly professionally staffed, to provide first-rate analytical and logistical support for these efforts.

The goals are challenging but achievable. Some should receive earlier attention than others; cooperation to ensure financial stability and the smooth adjustment to global imbalances are especially urgent.

Each step toward regional integration will require innovation, leadership, and support from major economies. Asia is poised to take these steps: its economies are sound and enjoy good relations with each other and other global centers. Appropriately, Asian regionalism is becoming more confident in its potential to contribute to both Asian and global welfare. All of this favors the emergence of a strong, prosperous, outward-looking Asian economic community, regionally integrated yet connected with global markets, and with responsibility and influence to match its economic weight. In short, emerging Asian regionalism is a partnership that can ensure the region's continued, peaceful progress, and help power globally and regionally shared prosperity.

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Asia's Economic Integration: Trends and Prospects for Cooperation

Giovanni Capannelli
Office of Regional Economic Integration
Asian Development Bank

Lecture at GIARI Summer Institute
Waseda University, Tokyo
3 August 2010

Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 1

Part One



Asia's Economic Integration: Trends and Prospects

Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 2

Recent Trend of Asia's Economic Integration

- **Distinctive characteristics: open, multi-speed, multi-track, pragmatic, bottom-up**

1. Trade and Investment

- Production Networks and "Factory Asia"

2. Money and Finance

- Portfolio investment flows, Stock price correlation, Variation coefficients of interest rates

3. Infrastructure

- Physical connectivity; Software and standards' harmonization

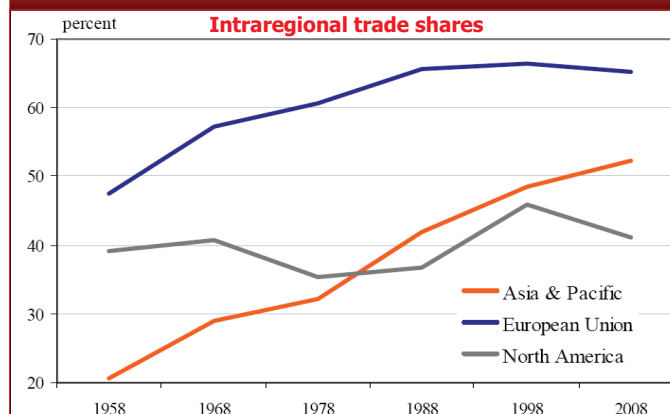
4. Regional Public Goods

• Environment, Disaster Management, Health

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Slide 3

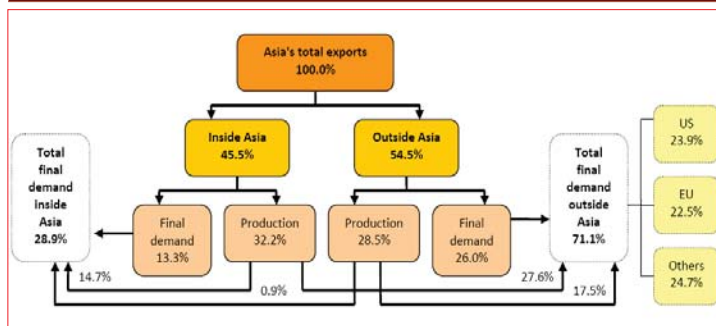
Growing Trade Integration



Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 4

Final Demand of Asian Exports: Still Dependent from the World

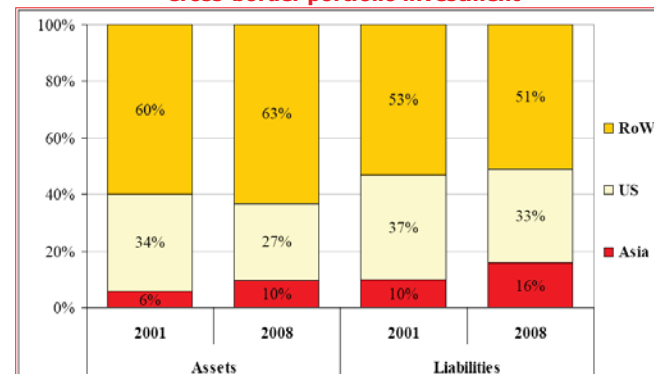


Note: Asia includes 14 countries for which data is available: Hong Kong, China; Japan; People's Republic of China; Republic of Korea; and Taipei, China (Northeast Asia); Indonesia; Malaysia; Philippines; Singapore; Thailand; Viet Nam (Southeast Asia); Bangladesh; India; Pakistan (South Asia). Source: ADB staff estimates from Global Trade Analysis Project (GTAP) version 7. Data refers to the world economy in 2007.

Asia's Economic Integration: Trends and Prospects for Cooperation

Financial Integration: Low but Increasing

Cross-border portfolio investment

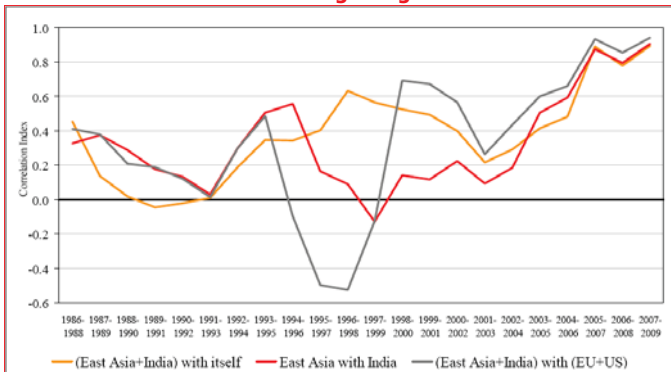


Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 6

Deepening Macroeconomic Interdependence

GDP Correlation of Integrating Asian Economies

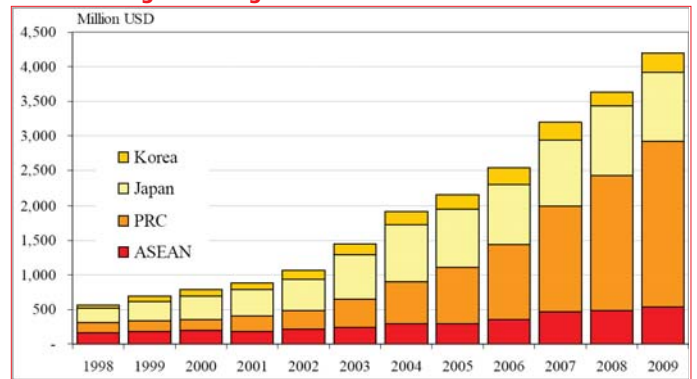


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Managing Foreign Reserves: New Challenges Ahead

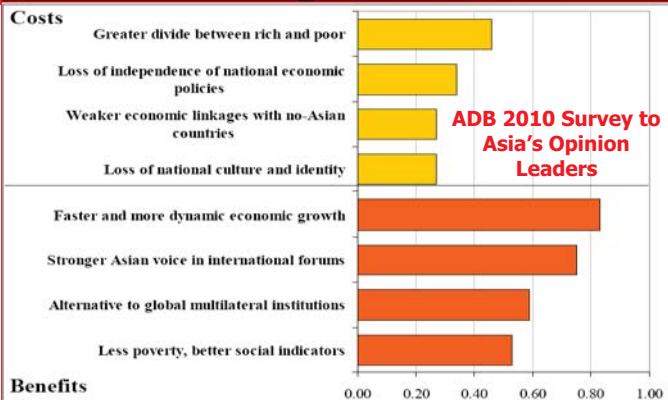
Foreign Exchange Reserves of ASEAN+3 Countries



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Benefits of Integration Outweigh its Costs



Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 9

Part Two



Institutions for Integration: Toward an Asian Economic Community

Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 10

Rationale for Asia's Economic Cooperation

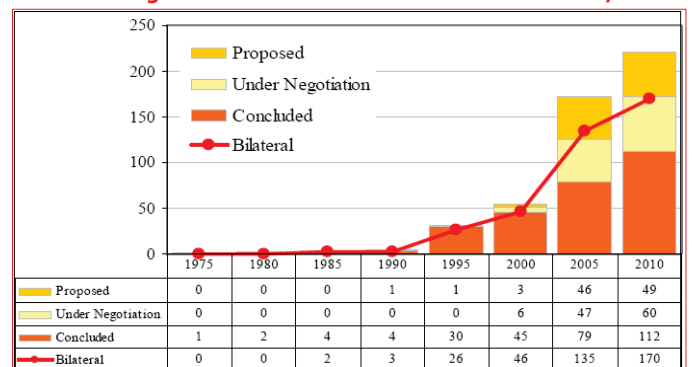
- **Manage regional interdependence**
 - Reduce regional trade and investment barriers
 - Ensure regional financial stability and promote financial integration
 - Provide public goods (environment, health, security, etc.)
- **Reinforce national policy**
 - Add value to national policy making
 - Support integration against special interests
 - Increase competitiveness of domestic industries
- **Represent local interests in global institutions**
 - Champion open, stable global markets
 - Ensure support for economic development
 - Influence the agenda of global institutions (IMF, G-20, etc.)

Asia's Economic Integration: Trends and Prospects for Cooperation

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Growing Asia's FTAs

Free trade Agreements in Asia and the Pacific as of January 2010



Asia's Economic Integration: Trends and Prospects for Cooperation

Slide 12

CMIM + AMRO = AMF?

Members	Financial Contributions		Borrowing arrangements		Voting Power		
	\$ billion	% share	multiplier	quota (\$ billion)	No. of basic votes	No. of votes based on contributions	Total no. votes % share
China	38.40	32.00					40.00 28.41
PRC	34.20	28.50	0.50	17.10	1.60	34.20	35.80 25.43
Hong Kong, China	4.20	3.50	2.50	10.50	0.00	4.20	4.20 2.98
Japan	38.40	32.00	0.50	19.20	1.60	38.40	40.00 28.41
Republic of Korea	19.20	16.00	1.00	19.20	1.60	19.20	20.80 14.77
Plus-three Countries	96.00	80.00			4.80	96.00	100.80 71.59
Brunei Darussalam	0.03	0.03	5.00	0.20	1.60	0.03	1.63 1.16
Cambodia	0.12	0.10	5.00	0.60	1.60	0.12	1.72 1.22
Indonesia	4.55	3.79	2.50	11.36	1.60	4.55	6.15 4.37
Lao PDR	0.03	0.03	5.00	0.20	1.60	0.03	1.63 1.16
Malaysia	4.55	3.79	2.50	11.36	1.60	4.55	6.15 4.37
Myanmar	0.06	0.05	5.00	0.30	1.60	0.06	1.66 1.18
Philippines	4.55	3.79	2.50	11.36	1.60	4.55	6.15 4.37
Singapore	4.55	3.79	2.50	11.36	1.60	4.55	6.15 4.37
Thailand	4.55	3.79	2.50	11.36	1.60	4.55	6.15 4.37
Viet Nam	1.00	0.83	5.00	5.00	1.60	1.00	2.60 1.85
ASEAN	24.00	20.00			16.00	24.00	40.00 28.41
ASEAN+3	120.00	100.00			20.80	120.00	140.80 100.00

Asia's Economic Integration: Trends and Prospects for Cooperation

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Asia's Institutional Landscape

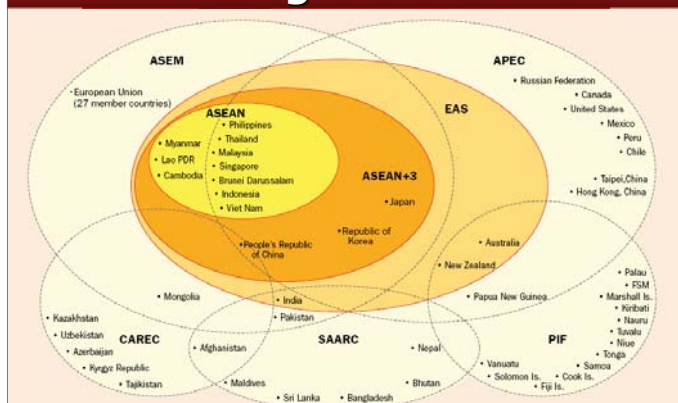
- Dense web of regional institutions
- Scope and structure vary widely
- Mostly inter-governmental
- Marked by lack of formal rules and legal structures
- Few delegated powers from national agencies

No grand design: development in response to specific needs

Asia's Economic Integration: Trends and Prospects for Cooperation

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Existing Main Regional and Trans-regional Forums



Asia's Economic Integration: Trends and Prospects for Cooperation

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Inventory of Asia's Institutions for Regional Integration

	Trans-regional	Region-wide	Subregional					Total
			Central Asia	South Asia	Southeast Asia	Northeast Asia	Pacific	
Overarching	3	6	1	1	1	1	1	14
Functional	1	7	1	3	6	1	7	26
Facilitating	4	2	2	1	2	1		12
Security	2	1						3
Total	10	16	4	5	9	3	8	55

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Asian Economic Community: Long-Term Goal

Will Asia gain from creating an Asian economic community?

No, costs are too high 13%

Do not know 4%

Yes, it will produce large benefits 83%

Best regional groupings to build an Asia economic community

East Asian Summit 13%

Others 2%

ASEAN+3 36%

Asia Overall 14%

ASEAN 14%

Subset of ASEAN 21%

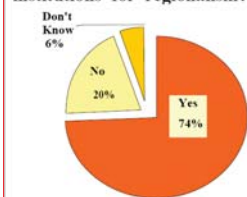
ADB 2007 Survey to Asia's Opinion Leaders

Asia's Economic Integration: Trends and Prospects for Cooperation

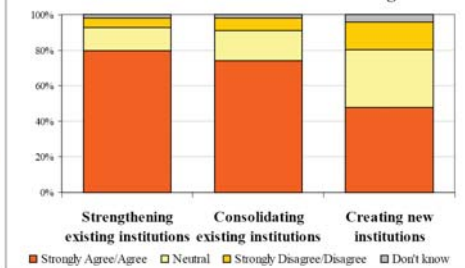
Slide 17

Enhancing Regional Institutions

Is the time ripe to strengthen institutions for regionalism?



Modalities to enhance Asia's institutions for regionalism

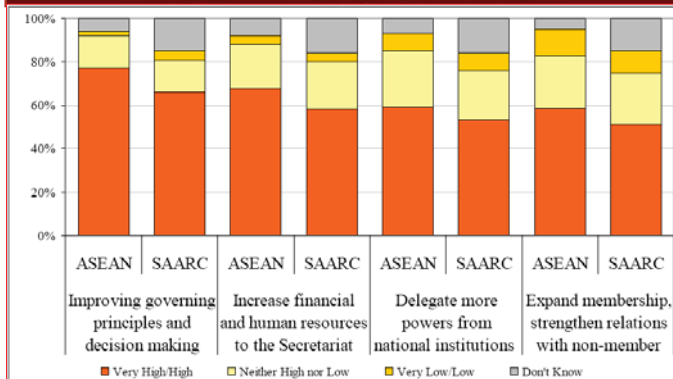


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Needed Reforms in ASEAN and SAARC



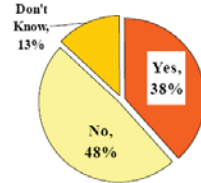
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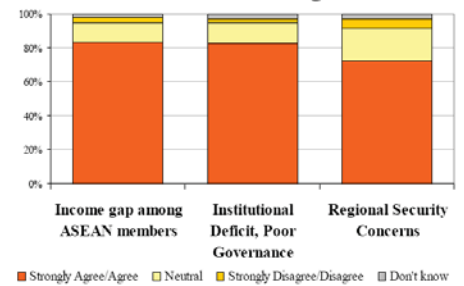
Slide 19

Skepticism on the ASEAN Economic Community

Will the ASEAN Economic Community be created by the year 2015?



Main obstacles for creating the AEC

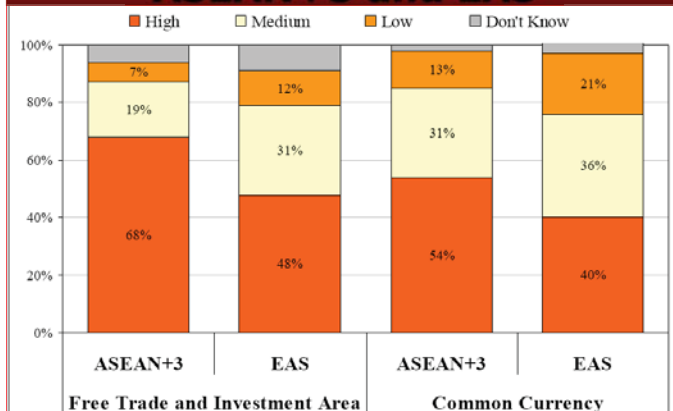


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Asia's Economic Integration: Trends and Prospects for Cooperation

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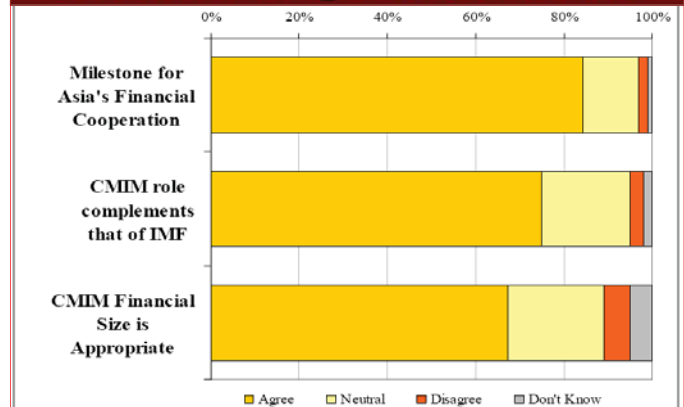
Likelihood of Cooperation in ASEAN+3 and EAS



Asia's Economic Integration: Trends and Prospects for Cooperation

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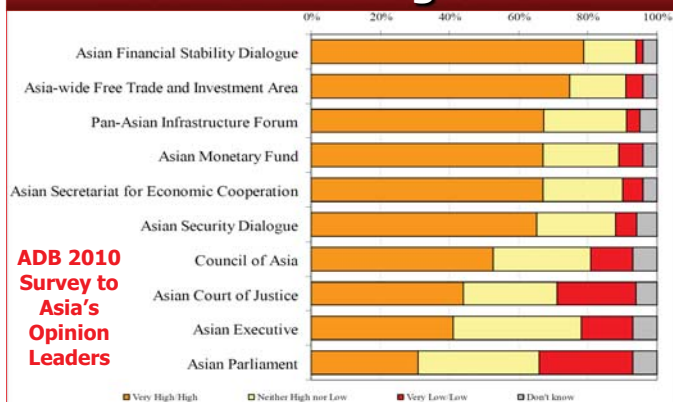
Views on Multilateralization of the Chiang Mai Initiative



Asia's Economic Integration: Trends and Prospects for Cooperation

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Needed new Institutions for Asian Integration



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Asia's Economic Integration: Trends and Prospects for Cooperation

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Asian Regionalism: Partnership for Shared Prosperity

Asian economies in the long-run are likely to have

- a single market for goods and services
- deep, liquid and integrated financial markets
- effective macroeconomic policy coordination
- workers moving much more freely than today
- collective efforts to address social issues
- stronger voice in global policy forums
- more effective regional institutions

Asia's Economic Integration: Trends and Prospects for Cooperation

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August 3 (Tue)

Lecture 2

Prof. Shujiro Urata

Shujiro Urata is Professor, Graduate School of Asia-Pacific Studies (International Relations), Waseda University since 2005. He is also Senior Research Advisor to the Executive Director of the Economic Research Institute for ASEAN and East Asia (ERIA), Faculty Fellow at the Japan Center for Economic Research (JCER), and Faculty Fellow at the Research Institute for Economy, Trade and Industry (RIETI). He holds MA and Ph.D. in Economics from Stanford University. He specializes in International Economics. After holding positions such as Research Associate at the Brookings Institution, Economist of World Bank, and Professor of School of Social Sciences at Waseda University, he took the present position from April 2005. His research interests include international trade, foreign direct investment, corporate small and medium enterprises, as well as regional integration and Asia-Pacific Economic Cooperation.

His major publications include *Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success* (co-ed. Palgrave, 2002); *Competitiveness, FDI and Technological Activity in East Asia* (co-ed. Edward Elgar, 2003); *Bilateral Trade Agreements: Origins, evolution, and implications* (co-ed. Routledge, 2005); *The Political Economy of the Proliferation of FTAs* (co-authored, Korea Economic Research Institute, 2005); *Multinationals and Economic Growth in East Asia* (co-ed. Routledge, 2006); *Free Trade Agreements in the Asias-Pacific* (co-ed. World Scientific, Singapore, 2010). His recent articles include "Proliferation of FTAs and the WTO," (Global Institute for Asian Regional Integration Working Papers) January, 2010; "Exclusion Fears and Competitive Regionalism in East Asia," in Mireya Solis, Barbara Stallings, and Saori N. Katada (eds.), *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, England: Palgrave Macmillan, pp. 27-53, 2009; "Proliferation of FTAs and the WTO," in Yonghyup Oh (ed.), *The World Economy with the G-20, Korea Institute for International Economic Policy*, 2009; "The Impacts of Free Trade Agreements on Trade Flows: An Application of the Gravity Model Approach," in Christopher Findlay and Shujiro Urata (eds.), *Free Trade Agreements in the Asia-Pacific*, Singapore: World Scientific, pp.195-239 (Co-authored with Misa Okabe), 2010.

Regional Economic Integration in East Asia and Japan's FTA Policy

August 3, 2010

Shujiro URATA
Waseda University

Contents

- I. Introduction
- II. Market-Driven Regional Economic Integration
- III. A Shift from Market-Driven to Institution-Driven Regional Economic Integration
- IV. Japan's FTA Policy
- V. Concluding Remarks

I. Introduction

Background

- ◆ Rapid economic growth in East Asia despite global financial/economic crisis
- ◆ Prime drivers of economic growth have been foreign trade and foreign direct investment (FDI): Trade-FDI nexus

Purposes of the presentation

- ◆ Investigate recent developments in regional economic integration in East Asia
- ◆ Analyze Japan's FTA policy in East Asia

II. Market-driven Regional Economic Integration

- ◆ Rapid expansion of foreign trade by East Asian countries, especially by China (Figures 1 and 2)
- ◆ Advances in regional economic integration (Table 1) : increased dependence on China and decreased dependence on Japan by East Asian countries (Figures 3 and 4), decreased regional dependence in exports and increased regional dependence in imports by China (Figures 5 and 6)
- ◆ Increased shares of machinery, electronic machinery (Table 2)
- ◆ Increase in parts and components trade (Table 3)

Figure 1 East Asia' Trade: Value and the Share of the World

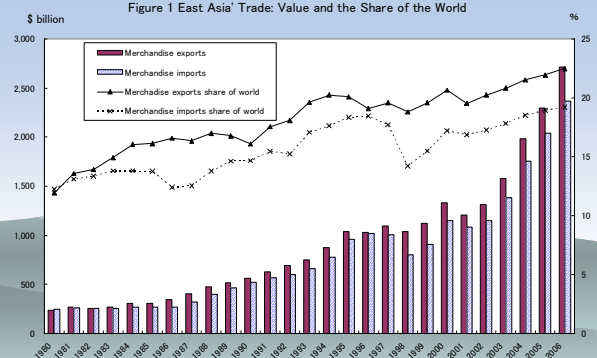


Figure 2 Country Composition of East Asian Exports

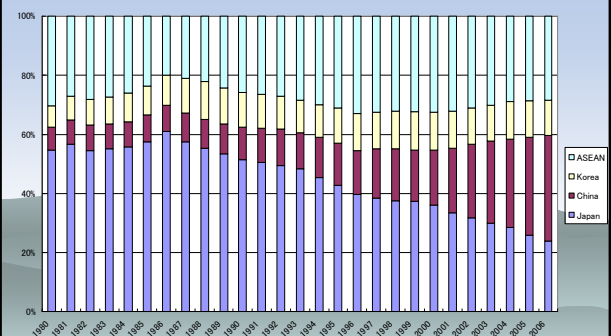


Table 1 Intra-regional Trade Ratio (%)

	1980	2007
East Asia	35.5	52.3
EU	61.3	67.2
NAFTA	33.8	43.0

Figure 3 Dependence on China for East Asia's Exports

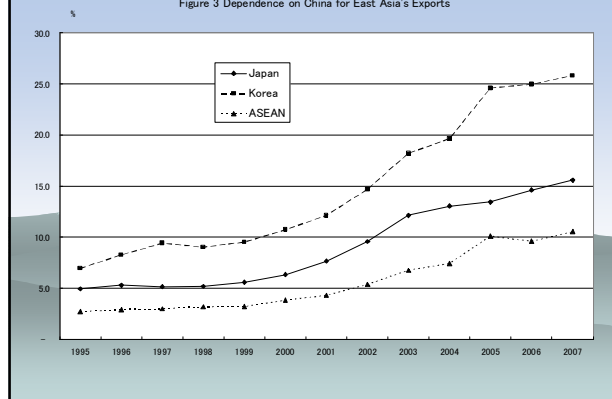


Figure 4 Dependence on Japan for East Asia's Exports

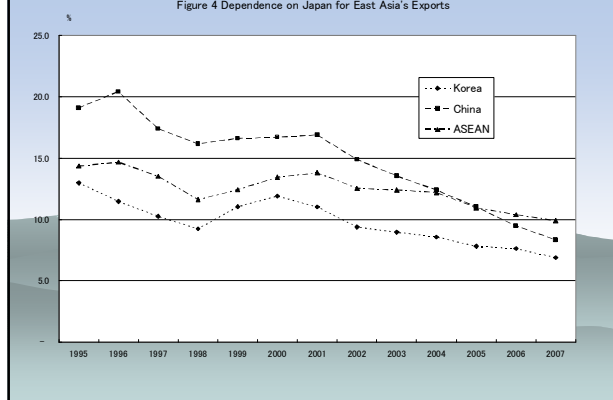


Figure 5 Intra-regional Dependence in East Asia's Exports

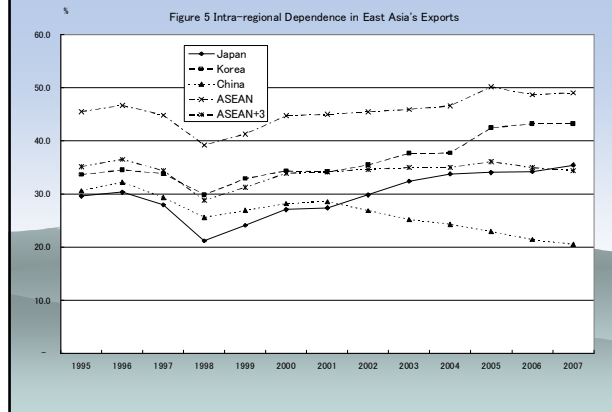


Figure 6 Intra-regional Dependence for East Asia's Imports

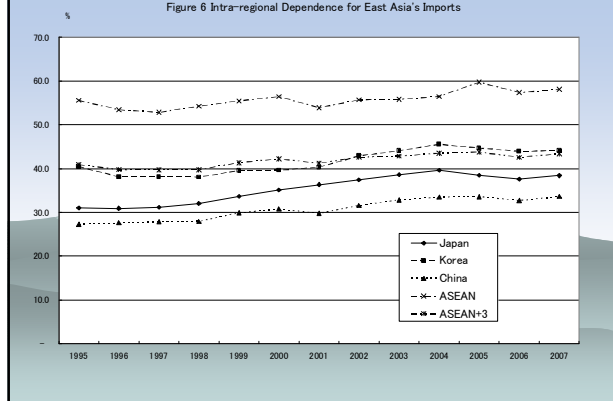


Table 2 Product Composition of Foreign Trade in East Asia

	2005		2005	
	Exports		Imports	
Foods	4.3	2.4	8.8	4.8
Textile	9.1	6.9	3.8	2.1
Pulp, Paper and Wood	7.8	5.5	8.5	5.5
Chemicals	6.0	8.0	12.3	14.0
Oil and Coal	6.2	4.8	6.4	5.1
Stone, clay, glass and concrete products	1.4	1.4	2.2	1.4
Iron and steel, Nonferrous metals	6.2	6.5	8.6	8.9
General machinery	14.8	17.8	17.9	18.4
Electrical machinery	16.2	23.3	14.0	24.9
Household electric appliances	6.9	6.2	1.9	2.0
Transportation Equipment	13.1	8.0	9.5	6.9
Precision machinery	1.8	2.7	1.9	4.0
Toys and Miscellaneous goods	6.1	6.5	4.3	2.0
Total	100.0	100.0	100.0	100.0

Table 3 Product Composition of Foreign Trade in East Asia (%)

	With the rest of the world				Inside East Asia			
	Exports		Imports		Exports		Imports	
	1990	2005	1990	2005	1990	2005	1990	2005
Total	100	100	100	100	100	100	100	100
Primary goods	5.6	3.2	11.8	7.7	12.0	5.6	13.3	5.8
Processed goods	23.4	22.3	31.4	28.5	36.7	31.9	36.9	31.3
Parts and components	18.9	25.6	18.9	31.7	19.7	31.7	18.4	32.1
Capital goods	21.4	24.2	22.1	20.9	17.0	19.1	15.4	18.6
Consumption goods	30.7	24.6	15.8	11.1	14.7	11.7	16.0	12.2

Trade patterns observed above indicate:

- ◆ Formation of regional production network
- ◆ Fragmentation strategy by multinational corporations.
- ◆ Triangular trade pattern in that China became a factory for the world market

Foreign direct investment (FDI)

- ◆ Rapid expansion (Figure 7)
- ◆ China became a large recipient of FDI (Figure 8)
- ◆ Active FDI in electronics sector (Table 4)

Figure 7 FDI of East Asian Countries

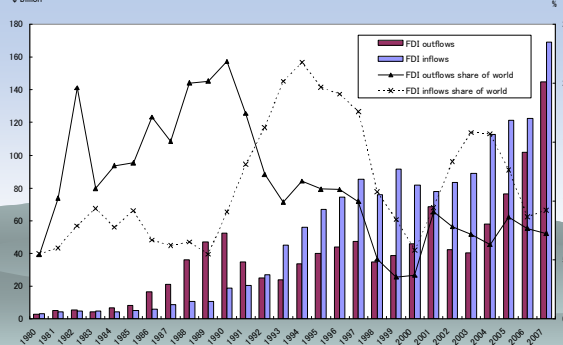


Figure 8 FDI Inflows to East Asia

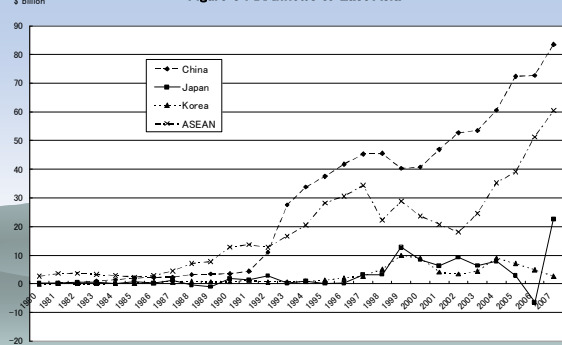


Table 4 Sectoral Distribution of FDI Inflows in Malaysia and Thailand (%)

	Malaysia 1997-2006	Thailand 1997-2006
Manufacturing	100.0	100
Food	3.6	5.5
Textiles	1.7	2.0
Wood and wood products	6.1	-
Chemicals	12.1	10.4
Petro chemicals	12.4	2.1
Metal products	9.4	10.5
General machinery	2.3	-
Electric machinery	41.7	24.6
Transport machinery	4.4	31.6
Scientific instruments	2.0	-
Others	4.3	13.3

Factors behind Market-driven Regional Economic Integration

- + Trade liberalization
 - ◆ Substantial reduction in tariffs but high tariffs still remain (Figure 9, Table 5)
 - ◆ Non-tariff barriers are increasing
- + FDI Liberalization
 - ◆ Freer FDI environment, but still FDI barriers remain. (Table 6)
 - ◆ Need for further FDI liberalization and facilitation

Figure 9 Tariff Rates

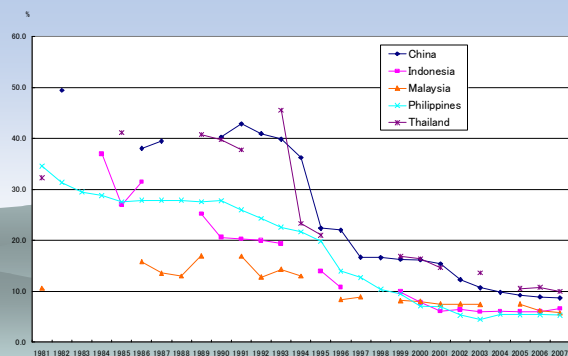


Table 5 Trade Liberalization: Reduction in Tariff Rates

		Total	Primary	Manufactures
China	1992	40.4	36.1	40.6
	2006	8.9	8.9	8.9
Indonesia	1989	19.2	18.2	19.2
	2006	6.0	6.6	5.9
Japan	1988	4.2	8.3	3.5
	2006	3.0	5.0	2.3
Korea	1988	18.6	19.3	18.6
	2006	15.7	21.2	7.3
Malaysia	1988	14.5	10.9	14.9
	2006	6.2	3.0	6.8
Philippines	1988	28.3	29.9	27.9
	2006	5.4	6.9	5.2
Singapore	1989	0.4	0.2	0.4
	2006	0.0	0.0	0.0
Thailand	1989	38.5	30.0	39.0
	2006	10.8	13.5	10.4

Table 6 Impediments to FDI: Survey Results of Japanese Firms: 2008

	Number of incidents	Share by category
FDI liberalization	66	21%
Restrictions on foreign entry	35	11%
Performance requirements	9	3%
Restrictions on overseas remittances and controls on foreign currency transactions	13	4%
Restrictions on the movement of people and employment requirements	9	3%
FDI facilitation	250	79%
Lack of transparency in policies and regulations concerning investment (institutional problems)	64	20%
Complicated and/or delayed procedures with respect to investment-related regulations (implementation problems)	88	28%
Insufficient protection of intellectual property rights	11	3%
Labor regulations and related practices excessively favorable to workers	27	9%
Underdeveloped infrastructure, shortages of human resources, and insufficient investment incentives	53	17%
Restricted competition and price controls	7	2%
Total	316	100%

III. A Shift from Market-Driven to Institution-Driven Regional Economic Integration

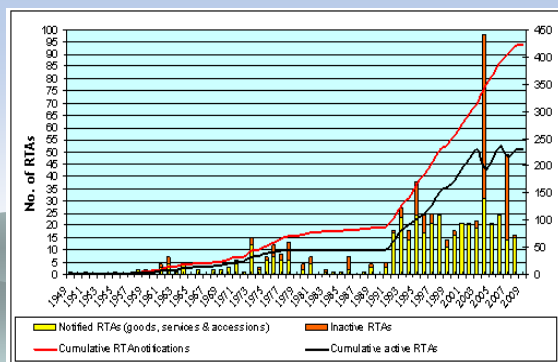
Recent Development

- ◆ Rapid expansion of FTAs in the world (Figure 10)
- ◆ Rapid expansion of FTAs in East Asia in the 21st century (Table 7)
- ◆ ASEAN has become a hub of FTAs
- ◆ 3 initiatives have been proposed for region-wide FTA: ASEAN+3, ASEAN+6, and APEC (TPP)
- ◆ APEC Meetings in 2010 in Japan

Special characteristics

- ◆ Comprehensiveness: trade and FDI liberalization, facilitation, and economic cooperation

Figure 10 Rapidly Increasing FTAs in the World



FTAs in East Asia (March 2010)

Bangkok Treaty(1976)	Thailand-Australia(2005)	Malaysia-Pakistan(2008)
AFTA(1992)	Thailand-NZ(2005)	Japan-Philippines(2008)
Singapore-NZ (2001)	Singapore-India(2005)	Japan-ASEAN(2008)
Japan-Singapore (2002)	China-Chile (2006)	Japan-Indonesia(2008)
Singapore-Australia (2003)	Korea-Singapore(2006)	Japan-Brunei(2008)
Singapore-EFTA (2003)	Japan-Malaysia(2006)	China-NZ(2008)
Singapore-US (2004)	Korea-EFTA(2006)	Singapore-Peru(2009)
Korea-Chile (2004)	Korea-ASEAN(2006)	China-Singapore(2009)
China-Hong Kong (2004)	Singapore-Panama(2006)	Japan-Switzerland(2009)
China-Macao(2004)	TPP(2006)	Japan-Vietnam(2009)
Singapore-Jordan(2004)	Japan-Chile (2007)	China-Peru(2010)
Japan-Mexico (2005)	Japan-Thailand (2007)	
China-ASEAN(2005)	China-Pakistan (2007)	

Motives behind FTAs in East Asia

- ◆ Increase market access through trade and FDI
- ◆ Improve FDI environment
- ◆ Promote domestic reform
- ◆ Rivalry between and among East Asian countries
- ◆ Financial crisis in 1997-98
- ◆ Global financial crisis in 2008-

Impacts of FTAs

- ◆ Trade and FDI expansion between and among FTA members (short run effect)
- ◆ Economic growth (medium to long run effect)
- ◆ Reduced production and employment (short run effect)

Economic Obstacles to FTAs

- ◆ Opposition from non-competitive sectors

IV. Japan's FTA (EPA) Policy

Developments

- ◆ In action: Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, the Philippines, Switzerland, Vietnam
- ◆ In negotiation: Korea, GCC, India, Australia, Peru
- ◆ Asia → Other regions

Motives

- ◆ Expand export market for Japanese firms
- ◆ Improve investment environment for Japanese firms
- ◆ Obtain energy and natural resources
- ◆ Promote structural reform in Japan
- ◆ Improve and establish good relationship
- ◆ Provide economic assistance to developing countries
- ◆ Establish a region-wide FTA (CEPEA, ASEAN+6)

Special characteristics

- ◆ Trade and FDI liberalization, facilitation, economic cooperation
- ◆ Improvement of business environment

Impacts

- ◆ Trade and FDI expansion
 - ◆ Improvement of business environment
- Examples from Japan-Mexico EPA: Protection of IPRs, Adoption of mutual recognition of technical standards, improvement of security, etc

Impacts on GDP (%)

	EAFTA (ASEAN+3)			(ASEAN+1)x5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim 1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	0.01	0.44	0.44	-0.01	0.10	0.05	0.54	0.54
China	0.13	1.66	4.72	0.01	0.20	0.14	1.77	4.84
Korea	1.13	3.56	3.55	-0.04	0.20	1.15	3.72	3.71
Indonesia	0.07	1.74	3.94	0.07	1.00	0.07	1.94	4.14
Malaysia	0.39	5.83	8.62	0.51	3.30	0.50	6.21	9.00
Philippines	0.21	3.94	6.28	0.20	2.20	0.25	4.18	6.52
Singapore	0.06	4.22	4.24	0.10	2.30	0.05	4.40	4.42
Thailand	0.68	4.49	7.02	0.80	2.80	0.74	4.78	7.32
Vietnam	2.21	7.08	9.67	2.33	5.00	2.25	7.33	9.92
Other Southeast Asia	0.09	0.88	2.91	0.11	0.50	0.10	0.92	2.95
Australia	-0.03	-0.09	-0.09	0.01	0.20	0.16	1.35	1.35
New Zealand	-0.03	-0.06	-0.06	0.00	0.10	0.10	1.87	1.87
India	-0.04	-0.10	-0.10	0.31	0.50	0.41	1.30	3.45
Hong Kong	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
Taiwan	-0.06	-0.09	-0.08	-0.03	0.00	-0.07	-0.10	-0.10
NAFTA	0.00	-0.01	-0.01	0.00	0.00	0.00	-0.01	-0.01
EU15	0.00	-0.01	-0.01	0.00	0.00	-0.01	-0.01	-0.01
Rest of the World	-0.03	-0.06	-0.06	-0.02	0.00	-0.03	-0.08	-0.08
ASEAN	0.36	3.60	5.67	0.41	2.14	0.39	3.83	5.89
ASEAN+3	0.14	1.18	1.93	0.04	0.30	0.17	1.30	2.05
ASEAN+6	0.12	1.02	1.68	0.05	0.31	0.19	1.30	2.11

Impacts on Welfare (\$million)

	EAFTA (ASEAN+3)			(ASEAN+1)x5		CEPEA (ASEAN+6)		
	Sim 1	Sim 2	Sim 3	Sim 1	Sim 2	Sim 1	Sim 2	Sim 3
Japan	6,436	29,554	29,336	-903	1,935	7,048	32,656	32,363
China	624	17,952	54,233	-1,457	-301	634	18,964	55,270
Korea	5,945	18,819	18,719	-267	631	6,264	19,787	19,690
Indonesia	693	4,527	7,906	1,733	4,139	1,165	5,270	8,661
Malaysia	1,466	10,443	13,393	3,400	8,717	2,523	12,029	15,040
Philippines	139	3,367	5,054	422	2,534	122	3,457	5,142
Singapore	1,802	7,610	7,765	2,822	6,391	2,046	8,236	8,389
Thailand	2,851	8,815	11,872	3,878	7,421	2,645	8,829	11,888
Vietnam	633	2,723	3,488	942	2,243	645	2,813	3,578
Other Southeast As	-27	691	2,338	12	404	-1	729	2,379
Australia	-723	-1,684	-1,694	-152	359	4,832	11,669	11,682
New Zealand	-146	-230	-224	-10	82	267	1,655	1,669
India	-510	-1,049	-1,077	-602	-79	-885	2,744	13,124
Hong Kong	-460	-691	-487	-69	-40	-515	-798	-589
Taiwan	-1,522	-3,228	-3,250	-753	-1,290	-1,773	-3,637	-3,659
NAFTA	-4,526	-11,843	-12,476	-2,541	-5,016	-5,893	-14,282	-15,022
EU15	-3,154	-7,263	-7,710	-2,267	-4,048	-4,112	-8,942	-9,502
Rest of the World	-2,971	-9,606	-10,038	-1,721	-3,787	-4,311	-13,410	-13,933
ASEAN	7,557	38,174	51,816	13,209	31,648	9,145	41,364	55,078
ASEAN+3	20,562	104,500	154,104	10,581	33,913	23,091	112,771	162,401
ASEAN+6	19,183	101,536	151,110	9,818	34,276	27,305	128,839	188,875

V. Concluding Remarks

- ◆ East Asia's rapid economic growth has been attributable to rapid expansion of trade and FDI, which in turn resulted from trade and FDI liberalization
- ◆ To achieve further economic growth, further trade and FDI liberalization and facilitation would be effective
- ◆ With difficulty in WTO liberalization, free trade agreements are second-best solution
- ◆ Region wide FTA should be established: EAFTA (medium level), CEPEA (medium-level), TPP (high-level)
- ◆ Gradual liberalization should be pursued .
- ◆ Then expand it or merge with other FTAs to lead to global trade liberalization

- ◆ Japan can gain a lot from FTAs not only in East Asia but also with countries in other parts of the world such as the US, the EU, Latin American countries
- ◆ Japan should lead CEPEA and join TPP
- ◆ FTAs face opposition from non-competitive sectors
- ◆ For Japan, trade liberalization in agriculture is an impediment
- ◆ Various measures including gradual phase-in liberalization, temporary assistance to negatively affected workers, structural reform and other policy measures can moderate the negative impacts during the transition period
- ◆ Need strong political leadership to promote FTAs

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Fukunari Kimura, "International Production and Distribution Networks in East Asia: Eighteen Facts, Mechanics, and Policy Implications "

Siow Yue Chia, "Labor Mobility and East Asian Integration"

August 5 (Thu)

Lecture 1

Prof. Jun-Hyeok Kwak

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His research interests lie at the crossroads of political thought from Socrates to Machiavelli and contemporary political/ social theory, with concentration on republicanism, nationalism, constitutionalism, democratic leadership, and human rights. His research currently focuses on constructing reciprocal nondomination as a regulative principle that guides agonistic deliberation between peoples in conflict as well as cultures in tension, with special but not exclusive attention to classical republicans, such as Aristotle, Cicero, and Machiavelli. Besides, he inquires a way in which reciprocal nondomination can be applicable to various subjects, including patriotism without nationalism, deliberative democracy, democratic authority, civic responsibility, transnationalism, and multicultural coexistence, etc.. He is now working on books entitled, *Liberty as Nondomination: Reconsidering Classical Republicanism, Machiavelli's Silence, and Patriotism before Nationalism*, and running projects "Inherited Responsibility," "Republican Leadership," and "Multicultural Coexistence and East Asian Community."

Inherited Responsibility and Reciprocal Non-domination: Making Citizens Responsible for Historical Injustices

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I. The Comfort Women Case in Northeast Asia

This year marks the eighteenth anniversary of the first Wednesday Demonstration in Seoul. Over 900 times, the former 'comfort women' and other Korean citizens assembled in front of the Japanese Embassy in Seoul to demand a sincere and official apology from the Japanese government. However, the door of the Embassy is still firmly closed to the voices of the surviving victims and the citizen-led protests. The Korean government similarly disregards the aforesaid demands, citing the importance of maintaining a peaceful diplomatic relationship with Japan. A phrase used on the website of the Korean Council for the Women Drafted for Military Sexual Slavery by Japan (Korean Council hereafter) succinctly expresses the feelings of the survivors: "Our tears have not dried up yet."

In this respect, the conception that responsibility for historical injustices committed by the previous generation can be, and is, inherited to the next generation seems to be applicable to the comfort women case. First of all, with the passage of time, fewer and fewer perpetrators and victims are left. Without the theoretical basis of responsibility being passed down to the next generation, historical injustices, such as the 'comfort women' case, will be buried and forgotten without ever healing the wounds of victims. Secondly, the principle of inherited responsibility is expected to guarantee that no similar inhumane deeds will ever be committed again. By recognizing the graveness of the injustices perpetrated in the past and the difficulty of healing the wounds, we can share the idea that we must try to do our best not to become either perpetrators or victims of the same injustice.

However, the 'comfort women' issue in the context of inherited responsibility is still stuck in the middle of contentions without a viable solution. The Japanese government, which has the role as the agent responsible for the wartime atrocities, tends to either deny the rationale for any collective responsibility or limit the extent of such responsibility in terms of recompense and non-financial measures. In contrast, South Korean victims and protestors, who have demanded from Japan an official apology and the acknowledgement of historical wrongdoings, have been too unilateral or nationalistic to shape a non-ethnocentric deliberation for thick reconciliation with Japan.

Based on these observations, analyzing the comfort women case in the context of inherited responsibility, I will suggest civic responsibility with reciprocal non-domination as a viable solution for the 'comfort women' case in Northeast Asia. Specifically, I intend to accomplish the following aims. First, reviewing the theories of inherited responsibility, I argue that these are not sufficiently applicable to the 'comfort women' issue. Two considerations are

proposed in accordance with the “agent” bearing inherited responsibility and the “scope” of its recompense. Second, I propose reciprocal non-domination as a regulative principle for making citizens responsible for historical injustices in Northeast Asia. Here, reciprocal non-domination is presented as a future-centered regulative principle that encourages both victims and wrongdoers to have a non-ethnocentric deliberative stance.

II. The Comfort Women Case in the Context of Inherited Responsibility

The ‘comfort women’ case has been a polemic issue in the context of inherited responsibility. The first reason is that the agents responsible for these misdeeds have not been properly defined. On the one hand, when we consider the state as an actor involved in inherited responsibility, two limitations become apparent. First, the concept of the state does not fully clarify the continuation of responsibility from the past to the present and into the future because there is no shared and continued identity between the state responsible for historical injustices and the current Japanese government. Second, the issue of responsibility may be delegated to a limited number of political officials or representatives, excluding public participation. The Japanese government has actually adopted this position on the issue of state responsibility. For instance, Japan’s political leaders have reiterated that their duty had already been wholly fulfilled because of the international treaties concluded after the end of the Pacific War, such as the 1951 San Francisco Peace Treaty and the 1965 Treaty on Basic Relations between Japan and the Republic of Korea. However, this focus on the international treaties limits the ability of ordinary Japanese citizens to participate freely in the deliberation on the ‘comfort women’ issue. As the Japanese government is considered the sole agent in charge of the ‘comfort women’ issue and the government considers all reparations fully made, its citizens have been expected to disregard this issue.

On the other hand, the theory of national responsibility, which considers the nation as an actor, may be more effective than that of state responsibility. First and foremost, because a nation continues regardless of the passage of time, historical responsibility should not disappear over time. Moreover, not only government officials but also ordinary citizens can be active agents in addressing historical injustices. However, as a nation is not a tangible reality but an “imagined community” that is short of legal and political substance, problems may arise, such as sharing responsibility among citizens and remedying injustices in practice. Further, appealing to the nation may likely accentuate national shame or purity. Thus compensating victims may become less important than recovering national pride. In South Korea, the ‘comfort women’ issue has been depicted as a national shame, causing the victims to feel moral guilt, which in effect paradoxically reinforces the violation of their human rights. Furthermore, the nationalists who have emphasized the emotional condemnation of Japan have measurably impeded sincere or “thick” reconciliation.

The second reason why this issue cannot be dealt with by the existing arguments over inherited responsibility is that the scope problem remains unresolved. Simply put, the scope problem indicates to which extent one should be responsible for historical injustices. As seen in Japan’s assertion that the problem of providing compensation for war crimes had already been resolved by the South Korean-Japanese Treaty in 1965, the Japanese government has

tended to confine the scope of its responsibility to legal and material responsibility, without morally acknowledging its crime. As a result, the Japanese government fails to notice that the real demand of former 'comfort women' is the restoration of their dignity through the sincere admission of Japan's wrongdoings. In contrast, South Korea has demanded Japan's acknowledgement of historic injustice, an official apology, and the revision of controversial Japanese textbooks. Even if Japan considers not only legal/material responsibility but also the restoration of the dignity, honor and human rights of the 'comfort women', the "politics of apologies" constantly stimulates Japan, and an apology becomes more difficult as the injustices in question were perpetrated a long time ago and as they were committed not by the present generation but by previous ones.

The Agent Problem: State or Nation

The Japanese government still insists that all reparations for Japanese atrocities had been made in accordance with the 1965 South Korean-Japanese Treaty and holds the view that assuming legal responsibility and providing the state-to-state material compensation are sufficient for its reconciliation with South Korea. A statement made by Cabinet Minister Morihiro Hosokawa during a plenary session of the upper house of the Japanese Diet clearly illustrates the consistent and unchanging view of the Japanese government. He stated that the problem of compensating 'comfort women' was completely and finally resolved by the 1965 "Agreement Concerning the Settlement of Problems in Regard to Property and Claims and Economic Cooperation" in the "Treaty on Basic Relations between Japan and the Republic of Korea." Thus, any additional action involving reparations would only be a humanitarian effort motivated by compassion for 'comfort women' who underwent tremendous suffering, rather than an obligation. In principle, the Japanese government has tended to regard the state as the proper agent for taking responsibility for the 'comfort women' issue, whereby only the state as an officially composed political entity can carry out domestic and foreign policies regardless of the people living in its territory.

However, state responsibility cannot be a proper framework for solving the 'comfort women' problem. There are two reasons for this. First, because of the lack of shared and continued identity between the empire of Japan and the post-war government of Japan, state responsibility cannot guarantee that the responsibility for historical injustices done by the Japanese military through the end of World War II in 1945 would be transferred to the current generation (Miller, 2007: 112). Although the state of Japan has remained despite regime changes, the rationale of state responsibility is insufficient to persuade the state's members to be responsible citizens by taking responsibility for their predecessors' wrongdoings. Worse still, state-centered responsibility inspires an idea that responsibility for historical injustice does not exist if the victims and/or perpetrators have already passed away. For instance, political leaders in Japan frequently adumbrate that demands for a sincere official apology and compensation to the survivors of the 'comfort women' system would fade away as the survivors die of old age or illness (Lee Hahm, 2001: 128). However, it is inappropriate for the descendants, who enjoy the benefits the colonial rulers brought about, to disclaim any responsibility for the harm the colonial rulers brought to the survivors, who still suffer from past injustices.

The second limitation of state responsibility is that the collective agency of taking responsibility is likely to be restricted to a relatively small numbers of individuals, such as diplomats and other government officials. We do not question the appropriateness of the representatives' main role in inherited responsibility when public opinion is well formulated through a democratic deliberation process. We do, however, consider the case in which Japan does not place sufficient emphasis on democratic deliberation or does not institute any deliberative process at all. In this case, the responsibility for historical injustices cannot be maintained in terms of self-determination. Namely, there is no sincere expression of respect when there is only a decision made by political officials without a public consensus. In addition, the insistence by the Japanese government that all reparations had been fully made because of the earlier international treaties prevents a broader and deeper discussion on the issue among its citizens. If we cannot expect a change in the attitude of the Japanese government, it may be the ordinary Japanese citizens who could change the government. Yet those who fail to acknowledge their obligation to remedy their ancestors' misdeeds cannot be expected to pressure their government to initiate feasible solutions and reconciliation.

The limitations of the theories of state responsibility can be complemented if the nation rather than the state is considered as the proper bearer of inherited responsibility. The continuity of a nation over time is a powerful rationale for why the future generation is responsible for injustices perpetrated by the past generations (Miller, 2007: 151-9). However, it is highly doubtful as to whether the 'comfort women' issue would ever be successfully resolved based on the principle of national responsibility. First, solidarity spurred by national commonality may provide us with a rationale for inherited responsibility, but historical responsibility feasible is made feasible largely by actual politics, rather than imaginative ties. Second, appealing to the nation might give priority to the restitution of national pride over the restitution of the victims' dignity.

In short, inherited responsibility based on either the state or the nation cannot be a proper ground for solving the 'comfort women' issue. For this reason, we need a new paradigm, not only for the 'comfort women' issue but also for achieving thick reconciliation between Japan and South Korea.

The Scope Problem: Punishing or Forgetting

With respect to reparations for historical injustices, there have been two dominant positions. The first position emphasizes that one party has to pay back whatever was lost or harmed, without considering the prospective provision for restoring bilateral relations in the future. No matter how straightforward this may appear, such a simple view of restitution has practical weaknesses. On the one hand, in some cases, it would be impossible to restore what was damaged. We can readily find a number of examples, such as the absence of the expropriator, the victim, or the object taken (Vernon, 2003: 551; Kukathas, 2003: 170). Actually, all of these three reasons can be found in the 'comfort women' issue. Thus, we need to define the problem of historical injustices by using a more sophisticated logic through which one may use a compensatory system even in the absence of perpetrators, victims, and

objects taken. On the other hand, unilateral retribution without restoring relations may not result in reconciliation between the involved parties but end in deadlock (He, 2009: 25-45). The 'comfort women' issue exemplifies this. Whenever deliberating about the issue, we can easily find that both Japan and Thus, this indicates the need for a deliberative stance for forward-looking reconciliation in which both parties can overcome the feeling of victimhood and exclusive nationalism.

The second approach to address reparations for historical injustices is focused on the establishment or reestablishment of current and future bilateral relations without resolving the historical injustices themselves. This tactic of forgetting historical wrongdoings may actually be used as a method to deny all responsibility for historical wrongdoings (Kukathas, 2003: 172; Miller, 2007: 139; Waldron, 1992: 13; 24-7). Denying one's historical responsibility would, of course, result in new conflicts between the two parties. For instance, in July 1995, the Japanese government decided to establish a foundation named "Asian Women's Fund" to support former 'comfort women' (Han, 1995). Such an attitude, which focuses only on the restoration of bilateral relations in the future, actually aggravates anti-Japanese sentiments because neighboring countries do not regard the creation of such a fund as a sincere attempt at thick reconciliation (Schmidt, 2000: 68; 173). Another problem inherent in the restoration of bilateral relations without taking past wrongdoings into consideration is that it cannot suggest any principle by which such inhumane atrocities could be avoided in future. It is agreeable that the present, in which we live, is precious and that we still face a wide range of injustices, inequalities, and unfairness. However, a past injustice hardly, if ever, becomes justice because what the passage of time provides is not a change from injustice to justice but a period of time in which we have to show justice by helping those in need.

Shortly put, a new principle is needed to resolve the 'comfort women' problem, through which non-ethnocentric deliberation may be realized; the victim's position will be restored although nothing would truly replace what they lost; one's responsibility for historical wrongdoings will not be neglected; and the repetition of similar injustices will be prevented.

III. Civic Responsibility with Reciprocal-Nondomination

South Korean NGOs have played a pivotal role in drawing national and international attention to the 'comfort women'. At the citizens' level, an increasing number of people in South Korea have been paying attention to and getting involved in the 'comfort women' issue through channels such as the Wednesday Demonstrations, donations, and volunteer activities. At the national level, as early as 1993, the South Korean National Assembly enacted a law on providing support to former 'comfort women'. At the international level, the UN Commission on Human Rights published Radhika Coomaraswamy's report on "Violence against Women, its Causes and Consequences" in 1996, 1998, 2001, and 2003. The International Court of Justice published its final report in 1994 under the title of "Comfort Women: An Unfinished Ordeal," while the International Labor Organization (ILO) asserted that the 'comfort women' system violated international laws. The attention paid to the 'comfort women' issue in international society is also demonstrated by related parliamentary resolutions passed in a number of countries, such as the U.S., the Netherlands, Canada, and

the EU. To facilitate NGO's efforts and overcome the limitations of the existing solutions for the 'comfort women' issue, I suggest 'civic responsibility' with reciprocal non-domination.

Civic Responsibility as a Framework

Inherited responsibility requires a framework of civic responsibility. Through such a framework, citizens may take responsibility collectively without suppressing their individual autonomy and dignity. At this juncture, civic responsibility is embodied at three levels. That is, reciprocal recognition at the individual level, civic contestability at the state level, and civic decency at the international level.

First, a responsible citizen must recognize another community member's need, even if they have conflicting interests. This anthropocentric recognition of the other is possible if a reciprocal understanding at the individual level is based not on self-interest or altruistic devotion but on self-love, which can be extended to humanitarian considerations. In this sense, apart from acceptance, indifference, and approval, which are mainly employed by approaches focusing on self-interest and individual choice, civic responsibility can be implemented in specific conditions rooted in reciprocal recognition. To put it concretely, acceptance does not approve of differences, indifference does not approve of individual preferences, and approval does not approve of a will to coexist. However, tolerance in civic responsibility accommodates differences with a clear preference and necessitates a will to coexist despite differences. According to the individual level of civic responsibility, taking responsibility for the 'comfort women' issue is never reduced to individual choice. In addition, citizens of the victimized country may also try to prevent any violence against local women that may be similar to the 'comfort women' system.

Second, at the state level, we need to establish an institution that can maintain reciprocity at the individual level and guarantee civic contestability to check the institution. For this, the republican conception of liberty as non-domination can provide us with an institution aimed at preserving reciprocity among citizens, and every citizen should have the capacity to check and monitor the institution's arbitrary use of political power. By the same token, civic responsibility based on liberty as non-domination can encourage citizens to check and monitor the deliberation on the 'comfort women' issue to prevent the violation of liberty as non-domination. As previously noted, the 'comfort women' debate in South Korea frequently becomes a manifestation of extreme nationalism, which compounds the suffering of former 'comfort women.' If this debate had focused on the restoration of liberty as non-domination rather than the healing of national pride, inherited responsibility would not have guided all of the movements and discourse on the 'comfort women' issue, which have been based mainly on virulent nationalism.

Third, civic decency is required to apply civic responsibility at the international level. Taking civic responsibility can be acknowledged by citizens as a way to dignify themselves, but this would occur only if it is articulated through democratic deliberation as ethical responsibility. By the same token, taking inherited responsibility can be accepted by citizens as an extension of civic decency to other people beyond national boundaries only if it is

conceptualized by democratic deliberation as a way of consolidating democratic legitimacy. Actually, inherited responsibility itself is a subject of public deliberation, and so it is conceived neither as *prima facie* nor as a natural right granted by superhuman power. Therefore, civic decency as a representation of citizens in a healthy democracy is imperative for empowering citizens to juxtapose their compatriots' civic responsibility with ethical responsibility for other peoples, particularly in terms of liberty as non-domination. In this way, anyone who wishes to identify himself or herself with the achievements of his or her fellow citizens or to find his or her dignity in them would voluntarily take the inherited responsibility for the misdeeds of previous generations.

With civic responsibility, the 'comfort women' issue can be viewed as a question of inherited responsibility in good shape. This is because not only political elites but also citizens would actively participate in the deliberation and reach a consensus on how to resolve the issue satisfactorily. Those who can imagine the grave results that may occur if the 'comfort women' issue is not be resolved properly would persuade others earnestly to prevent the reoccurrence of similar injustices.

Reciprocal Non-domination as a Regulative Principle

There is one more point that we need to consider: how an effective discursive stance can be created and properly operated. I suggest "reciprocal non-domination" as a regulative principle that can guarantee equal power to both parties with the aim of facilitating discussions between them.

Reciprocal non-domination, as a regulative principle in democratic deliberation, would serve three roles (Kwak, 2009). First, reciprocal non-domination functions as a condition to establish a discursive stance between countries in conflict over historical injustice. When a deliberative stance is guided, the focus is the conditions under which more open and democratic debate can be guaranteed. Reciprocal non-domination may become a coherent ground that protects an individual from being subjected to the arbitrary will of others, legitimizes legal and institutional interference and at the same time, draws the limits of such interference. For instance, if a victim were forced to forgive a historical injustice due to the pressure by the perpetrator, we could view the situation as a problem of inequality between the powerful and the weak through the principle of reciprocal non-domination.

Second, reciprocal non-domination not only creates a deliberative stance but also enforces the participants to follow the outcome of discussions. It is true that if we can simply reject decisions resulting from deliberation on the grounds that the involved parties inevitably have dissimilar and contrary opinions, the deliberation stance itself becomes meaningless and useless. However, if the result of the deliberation can also be regulated by that principle, the participants can have reciprocal non-domination as a minimal condition as well as an investigation standard during the deliberation. For instance, if the Japanese government refuses the result that it must acknowledge its historical injustices and apologize to former 'comfort women', the other participants in the deliberation process can recognize that the Japanese decision violates reciprocal non-domination.

Finally, reciprocal non-domination should contain the process of internalizing liberty as non-domination as a normative principle. The minimal standard to reach an agreement through deliberation is reciprocity, which entails the identification of one's status with the counterpart's status. However, reciprocity cannot be achieved automatically; it is shaped through the daily experience of liberty as non-domination. In the 'comfort women' issue, the internalization of liberty as non-domination can bring about the reciprocity between the victims and the perpetrators. If the Japanese government viewed that its citizens might also become victims of similar injustices, it would be far easier for the government to reach an agreement that would be satisfactory not only to the present victimized party but also to the Japanese people themselves.

IV. Concluding Remarks: Policy Implications

With the exponential increase of exchanges in population and materials, the post-Cold War period demands to formulate a regional community that transcends the boundary of homogeneous nation-states. Similar efforts to realize a European Union-like regional community are being invested in East Asia. Yet, the case of Northeast Asian countries shows the opposite side of the coin. Although there have been communications among political leaders to envision a regional community, the realization of such a community has become a rhetorical or diplomatic game played between the regional powers.

The stagnation of historical reconciliation in Northeast Asia is one of the reasons why all of diplomatic and scholarly endeavors do not seem to be sufficient to meet the demands of reconstructing a regional identity. The opposing opinions and memories on the matter of past wrongdoings reproduce and aggravate the national adversity and conflict between Northeast Asian countries, and nationalism acts as a big obstacle in the process of making a peaceful coexistence in the region. Certainly, there have been various endeavors to set up dialogue on historical issues as well as textbooks and to share different experiences, perceptions and knowledge. However, these attempts were not so much fruitful for promoting a culture of peace but provocative of cynical pessimism.

In this context, I suggest civic responsibility with reciprocal non-domination as a viable approach for solving past as well as present problems and constructing a shared understanding in the region. Here, let me lay out briefly what policy implications may be practically reasonable.

- **Official Apology:** The Japanese government should provide an official apology for historical injustices including the comfort women case. For the victims in the region, an official apology for historical injustices is frequently regarded as nothing but lip-service. On the contrary, Japanese suffer from the demands for official apologies, questioning why they must continue to apologize for historical injustices that took place long time ago. Nevertheless, an official apology is imperative in terms of civic responsibility with reciprocal non-domination, since it can open a public discourse on wrongdoings by the previous generation and help citizens take historical

injustices more seriously. In this context, I suggest that Yukio Hatoyama, Japan's Prime Minister, should reinvigorate his original view that historical reconciliation is a very prerequisite for peaceful coexistence in Northeast Asia. Even if we acknowledge that responsible citizens can call upon their governments to apologize to victims and compensate them, it would be equally important to realize that political leadership has a crucial role in persuading fellow citizens to participate actively in assuming inherited responsibility.

- **Forward-Looking Reciprocity:** Current civic endeavors for historical reconciliation in Northeast Asia are not so much forward-looking. Here forward-looking signifies a future-oriented standpoint that aims simultaneously to restitute past victims and regulate inhuman actions in the future. As the comfort women case shows, the unilateral advocacy of restitution or retribution often goes well with the stubborn denial of responsibility of past wrongdoings. If it so, any demand for official apology as well as restitution can be helpless in the face of flimsy realism aimed at justifying war crimes with Japan's situation during the war. At this juncture, what we need is a regulative principle that can be equally applicable to the victim countries that committed historical injustices similar to that of the comfort women case, such as South Korea during the Vietnam War. Shortly put, there is a desperate need for a forward-looking reciprocity through which the Northeast Asian countries can not only restitute past victims but also prevent future inhuman actions.
- **Multilateral and Non-ethnocentric Deliberation:** The nationalist advocacies of retribution in South Korea and China have much in common with their Japanese counterparts in their efforts to find their philosophical and sociopolitical grounds, such as the law of the jungle. Even scholarly deliberations for historical reconciliation between the Northeast Asian countries have gradually gravitated toward the virulent antagonism spurred by strong nationalism. At this juncture, the multilateral and non-ethnocentric deliberation for historical reconciliation must be equipped with a safety device that secures a more open and democratic debate about irreconcilable understandings. In addition, we need the political persuasion of civic responsibility that encourages citizens to participate voluntarily in a deliberative stance to resolve historical injustices. I believe that reciprocal non-domination can be a regulative principle that is conducive to regulate differences in opinions and power status between the victimized and perpetrating parties. Multilateral and non-ethnocentric deliberation coordinated by reciprocal non-domination would become a future-oriented and conflict-regulating mechanism through which present conflicts with respect to historical injustices would be resolved and citizens not directly related to such conflicts would join the deliberation process willingly to prevent history from repeating itself.

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August 5 (Thu)

Lecture 2

Prof. Dennis McNamara

Dr. Dennis McNamara, S.J. is the Park Professor of Sociology and Korean Studies at Georgetown University. He also serves as Special Assistant to the University President for China Affairs. He joined Georgetown University after receiving his PhD from Harvard University, and has gone on to serve as Chair of the Department, as Chair of University Rank and Tenure. Beyond the university, he has created and chaired the biannual Georgetown Conference on Korean Society, and the semi-annual conferences with the China's Central Party School in Beijing.

He serves as a member of the Council of Foreign Relations in New York, and chairs the weekly Korea Seminar at the Foreign Service Institute of the U.S. State Department. He is active in the International Studies Association and the International Sociological Association, where he has chaired the Committee on Economic Sociology. In Asia, he participates in the annual conferences of the APEC (Asia Pacific Economic Cooperation) Academic Centers. He maintains a continuing agenda of research and occasion lectures in Seoul as Adjunct Professor in the Graduate School of International Studies at Sogang University, as well as at Renmin University in Beijing, Waseda and Sophia in Tokyo, and Thammasat University in Bangkok.

His major publications include *Business Innovation in Asia - Knowledge and Technology Networks from Japan* (2009); "New Places but Old Spaces –Knowledge Hierarchies among Asian SMEs Abroad" in *Organization* (2006); *Market and Society in Korea – Interests, Institutions, and the Textile Industry* (2002), *Corporatism and Korean Capitalism* (1999), *Textiles and Industrial Transition in Japan* (1995), and the *Colonial Origins of Korean Capitalism* (1990).

His current research interests include Japan's soft power in the East Asia, and the interplay of innovation and property rights in China's knowledge networks.

East Asia – The Knowledge Region

Dennis McNamara
Georgetown University
GIARI 5 August 2010

1

McNamara

2008 GIARI Summer Institute

- My presentation – “Innovation and Regional Integration, focusing on a Sociology of Regionalism.”
- Basic concepts of knowledge (Nonaka), flows (Castells), Global Value Chains GVCs (Gereffi).
- Regionalism (Yoshimatsu; Dent;) and techno-nationalism

2

McNamara

2009 GIARI Summer Institute

- My presentation – “Japan’s Regional Integration: Local System and Global Strategy.”
- Text: *Business Innovation in Asia - Knowledge and Technology Networks from Japan* (Routledge 2009)
- Data: Japan’s production networks in East Asia (China, S. Korea, Thailand) in autos, electronics, and textiles.
- Thesis – upgrade from production to knowledge networks

3

McNamara

Knowledge Networks

- Focus – structuring (Giddens) of flows in the acquisition and application of ideas.
- Hubs or nodes in global value chains as locus for knowledge creation and exchange – agglomeration, clusters, network holes
- Knowledge Nodes (McNamara) = strategic locations for innovation through knowledge flows

4

McNamara

Knowledge Societies

- Historical Shift: beyond energy, technology, or finance capital to recognition of knowledge as driver of economic growth
- Links to global knowledge flows critical for development (e.g., global standards, “best practice”)
- Comparative analysis of national innovation systems

5

McNamara

Table A: Internet Users/ 100 population
2008

Country	Percent of Internet Users
China	22.3
Indonesia (2007)	10.79
Japan (2007)	68.85
Korea (ROK)	77.44
Malaysia	62.54
Singapore	69.98
Thailand (2007)	21

Table B: High Technology Exports as % of Total Value of Exports, 2007

Country	Share of High Tech Exports
China	29.69
Indonesia (2007)	10.83
Japan (2007)	18.94
Korea (ROK)	33.46
Malaysia	51.7
Singapore	46.47
Thailand (2007)	26.55

Table C: Patent Intensity, 2006

Country	Filings/ GDP	Filings/ Pop	Filing/R &D	% Resident
China	20.63	93.30	1.72	49%
Indonesia	0.38	1.26	No data	-
Japan	87.42	2,716.58	2.7	85%
S. Korea	116.18	2,598.01	4.1	73%
Malaysia	1.66	20.33	No data	7%
Singapore	3.13	142.23	0.15	8%
Thailand	1.96	14.42	No data	6%

Table D: Patent Grants 2008

Country	Resident Grant	Non-Resident Grant	Total Grants
Australia	923	10,938	11,863
China #3	46,590	47,116	93,706
Japan #1	151,765	25,185	176,950
Mexico	197	10,243	10,440
ROK #4	61,115	22,408	83,523
Russia Fed.	22,260	6,548	28,808
U.S.A. #2	77,501	80,271	157,772

Techno-regionalism in East Asia

- IP fundamental to recognition of standards – harmonization of IP regimes the basis for techno-regionalism
- Continuity of state role in shift from techno-nationalism to techno-regionalism, e.g., “open innovation.”
- Techno-nationalism among Northeast Asian firms may undermine techno-regionalism

Goal - Knowledge Region

- Hubs in global value chains for knowledge creation and exchange – agglomeration, clusters, network holes in major urban centers such as Tokyo, Beijing, Bangkok, Singapore, Seoul
- Focus – Local: National Innovation Systems
- Focus – Regional: Formation and Implementation of Standards, especially of Intellectual Property Rights

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Dennis McNamara
Georgetown University
GIARI 5 August 2010

East Asia – the Knowledge Region

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August 6 (Fri)

Lecture 1

Prof. Christopher Hughes

Christopher Hughes is Professor of International Politics and Japanese Studies in PAIS, as well as a Research Associate at the Centre for the Study of Globalization and Regionalization, University of Warwick. Previously he was Research Associate at the Institute for Peace Science, Hiroshima University (IPSHU). From 2000-2001 he was Visiting Associate Professor, and in 2006 he held the *Asahi Shimbun* Visiting chair of mass Media and Politics, both at the Faculty of Law, University of Tokyo. He holds degrees from the Universities of Oxford (BA and MA), Rochester (MA), and Sheffield (MA and PhD). He is an honorary Research Associate at IPSHU and has been a Research Associate at the International Institute for Strategic Studies (IISS) and Visiting Scholar at the East Asia Institute, the Free University of Berlin. He is currently the Edwin O Reischauer Visiting Professor of Japanese Studies at the Department of Government and Reischauer Institute, Harvard University, for 2009-2010.

His research interests include Japanese foreign and security policy; Japanese international political economy; regionalism in East Asia; Japanese radicalism and terrorism; post-Cold War traditional and non-traditional security policy, and North Korea's external political and economic relations. Currently Professor Hughes is working on projects which examine Japan's response to issues of globalization and governance; the intersection of globalization and security, with particular reference to the Asia-Pacific region; the impact on regional and global security of missile defense; and the future of multilateral and bilateral security and trading arrangements in the Asia-Pacific.

Professor Hughes is the author of *Japan's Economic Power and Security: Japan and North Korea* (Routledge, 1999) and *Japan's Security Agenda: Military, Economic and Environmental Dimensions* (Lynne Rienner, 2004), *Japan's Remergence as a 'Normal' Military Power?* (Oxford University Press, 2004), and *Japan's Remilitarisation* (Routledge 2009), and co-author of *Japan's International Relations: Politics: Economics and Security* (Routledge, 2001 and 2005). He has published articles in English and Japanese in journals such as *International Affairs*, *Asian Survey*, *Survival*, *The Pacific Review*, *Review of International Political Economy*, *The Australian Journal of International Affairs*, *Security Dialogue*, *Pacific Affairs*, and *Orbis*. He is co-editor of *The Pacific Review*.

Abstract

The DPJ's new (but failing), foreign policy grand strategy : implications for the US-Japan alliance, Sino-Japanese ties, and East Asian regionalism

Christopher Hughes (The University of Warwick)

The DPJ administration came to power in September 2009 promising new directions in Japanese foreign and security policy. The DPJ thus far has been heavily criticised for the opacity of its foreign policy, and appears to have precipitated a mini-crisis in US-Japan relations, especially over US base facilities. This talk dissects the DPJ's policy, asking what is new in its strategic thinking, how the DPJ has thus far sought to chart a new course in ties with the US and China, its vision of East Asian cooperation, and the impact on East Asian regionalism, but also what are the international and domestic obstacles these policies are already encountering.

The DPJ's New (but failing) Foreign Policy Grand Strategy



Christopher Hughes
University of Warwick

DPJ Foreign & Security Policy

- DPJ c. 8 months; work in progress; already some 'failures'; preliminary assessment of impact on Japan's trajectory
- DPJ 'fear and loathing' in Japan and US
- Fools: naïve; wrongheaded; confused; no policy?
- Knaves: untrustworthy; hidden agenda?
- DPJ shift (or drift) significant from LDP trajectory
- Negative for US-Japan; negative for Japan
- DPJ to be cajoled/coerced on right path (by US?)

日米同盟が
崩壊する日



DPJ Foreign & Security Policy

- Re-evaluation; more prosaic conclusions!
- DPJ explicit, coherent, sophisticated, realistic, grand strategy/vision:
 - not necessarily problematic for US
 - BUT immediate and long-term change and friction
- DPJ implementation difficulties:
 - domestic (leadership coordination; Ozawa; internal divisions; coalition partners; experience; priorities; focus on process; posturing; 'yuai')
 - international (US resistance; China challenge; NK)

DPJ Foreign & Security Policy

- DPJ pressure result in non-decisions; 'satisficing'; curtail ambitions
- DPJ defaults to LDP-type strategy, esp. short to medium term
- US-dependent, East Asia underdeveloped
- DPJ longer term may yet attempt to pursue ambitions; create tensions with US
- DPJ and Japan lose options, if indeed had any?

What is the DPJ vision?

- Strong/active international power
- Recognition of multi-polarity (US relative decline; China's rise; Japan decline); escape Cold War, not post-war
- Japan risks US-China conflict or condominium
- Japan enhance position by breaking past behaviour (over-dependence on US; shirking responsibilities; 'closed' nationalism; 'blocking regionalism')
- Japan greater balance between US and China (recentring?)
- Cognitive, not tactical, East Asian regionalism
- Emphasis on UN and multilateralism
- Japan restore autonomy key for 'normal' ally/partner

US-Japan Alliance

- DPJ not anti-US; genuine recognition/rationalisation of importance/sustainability US-Japan alliance (deeper than LDP?)
- DPJ reorient alliance within Constitution and security treaty
- 'Equal alliance'; no followership; less military out of area; focus on East Asia
- 'Multilayered alliance' (finance, climate, nuclear)



US-Japan Alliance

- Japan withdraw Indian Ocean; civilian/'tokui' contribution; more meaningful?
- Okinawa/Futenma
- DPJ questions USMC role; manifesto commitments; attempt to sustain alliance
- Japan domestic pressures and mishandling (and by US)
- DPJ plans keep USMC in Okinawa; accepted deterrence rationale; risk Okinawa and coalition opposition
- Resolution? (will Schwab+Tokunoshima fly?); Gridlock? (same mistakes; so different from LDP?)



US-Japan Alliance

- US realignment/bases
- DPRI continues mainland
- DPJ caution on HNS and SOFA
- Nuclear issues
- 'secret pacts', DPJ not press on NCND
- DPJ caution NFU/US strategy, NE Asia NFZ
- DPJ more cooperative on 'nuclear free world'?
- BMD, BISC



Japan and East Asia

- DPJ and LDP continuities (Koizumi EAC 2002; FTA/EPA/CEP; financial regionalism)
- LDP 'US-Japan good = good Japan-East Asia relations'; regionalism proliferation/dilution
- DPJ commit EAC; enmesh China in working macro-region; open Japan; less ideology & history
- US exclusion and concerns of 'bodyguard' role
- DPJ 'open regionalism', not bloc; EAC core regional format; values & multi-layered functional cooperation; Japan not cede leadership to China
- US interest for integrated cooperative region
- DPJ reality check; APT vs EAC?

Japan and East Asia

- Japan-China
- DPJ bandwagoning with China?
- equally tough bilateral stance? (military transparency; East China Sea; food safety); competition Mekong Delta
- Japan-North Korea
- Hatoyama mission; coalition; North Korea probes; coordination issues?
- DPJ hard-line on nuclearisation; sanctions (link to SPT?); ship inspections bill passed; new Headquarters for the Abduction Issue; sanctions tightened post-Cheonan incident



Japan and East Asia/Other Regions

- Australia (security/ACSA & whales)
- India (DPJ continuity, but limited mileage?)
- Russia (Hatoyama pledges and edge?; DPJ Action Plan continuities; already cracks in relations, DPJ same demands/lack of patience)
- EU (EU Action Plan drifts under LDP and DPJ?)



Japan and Multilateralism/Defence Policy

- DPJ increase activism in UN?
- Japan UNSC President April 2010; Amano IAEA; Haiti mission
- DPJ revise UNPKO 5 principles?; press Iran?
- DPJ shift defence policy?
- maintain anti-piracy mission Gulf of Aden
- procurement continuity for national/coalition versus same threats; no shift to resources for multilateral role
- NDPG delayed; PM Advisory Group emphasis on multilateral; but not Ozawa UN-centred vision?



Conclusions

- DPJ has distinct and plausible policy vision BUT hard to implement
- US over-anxious/mistaken strategy?
- LDP continuities; DPJ plans for proactive Japan to be welcomed; DPJ domestic & international constraints on full policy realisation
- DPJ long-term not abandon vision; best for US to work with Japan to develop viable strategy; obstruction only enhance tensions?



August 6 (Fri)

Lecture 2

Prof. Peter Drysdale

Peter Drysdale is Emeritus Professor of Economics and a Visiting Fellow in the Crawford School of Economics and Government at The Australian National University. He graduated in Economics from the University of New England, took his PhD in Economics from the Australian National University and has held academic positions there (since 1963), Harvard University, Yale University, Columbia University, Hitotsubashi University, Tokyo University, Kyoto University, Oxford University, Renmin University in Beijing, Peking University and several other universities in Japan. He is widely recognised as the leading intellectual architect of APEC. He was founding head of the Australia-Japan Research Centre and is well known internationally for the leading role he has played in work on East Asian and Pacific economic cooperation.

He is the author of a large number of books and papers on international trade and economic policy in East Asia and the Pacific, including *International Economic Pluralism: Economic Policy in East Asia and the Pacific*. He is recipient of the Asia Pacific Prize, the Weary Dunlop Award, the Japanese Order of the Rising Sun with Gold Rays and Neck Ribbon, the Australian Centenary Medal and he is a Member of the Order of Australia. He is presently Head of East Asia Forum (www.eastasiaforum.org), the East Asian Bureau of Economic Research (EABER) (www.eaber.org) and the South Asia Bureau of Economic Research (SABER) (www.saber.org).



Building an East Asian or Asia Pacific Community

Peter Drysdale

Crawford School of Economics and Government
The Australian National University

Waseda Summer Institute Lecture, 6 August 2010



Drivers of the East Asian and Pacific community

- commitment to economic development
- framework of an open global economy and post war security
- intensity of economic and political interaction
- trans-Pacific foundations
- now encompassing the huge relationship with China and India
- new role and responsibilities in global affairs



The community we have

- diversity of economics, politics, culture and values
- the baggage of history
- problems of leadership: the ASEAN anchor
- reactive and inward-looking origins of regionalism
- inadequate institutions: financial and monetary, trade and political



Imperative of new East Asian and Asia Pacific arrangements

- rise of China and India
- East Asia's place in the world: global impact and feedback
- need for new security framework: objective of fraternal relations in Japanese plan
- strengthening regional architecture
- connecting to trans-Pacific and global arrangements



Creating an East Asian and Asia Pacific Community

- transforming ASEAN+3 and EAS: principles and practice
- who's in and who's out: US does not need to be in but needs to be tied in; the core is EAS
- US needs to be re-assured and linked
- EAC and trans-Pacific dialogue in tandem: action on both fronts at once
- complementarity of EAC and APC ideas
- practical steps forward

Students

Regional Environmental Cooperation in East Asia

ODAIRA, Takeshi
i071329@gmail.com
Aug., 2010

1

Outline of the presentation

1. Background
2. Problem
3. Method
4. Result
5. Evidence
6. Conclusion

2

1. Background of the research

- i. Global environmental cooperation has not been successful yet → Regional cooperation is needed.
- ii. Matsuoka et al. (2008) formulated hypothesis: Regional environmental cooperation in East Asia develops from official to **quasi-private** level.
- iii. However, the literature lacks sufficient empirical proof. → Case studies are needed.

3

(Con. 1-ii/iii.) Background

- Hypothesis of the literature:
bilateral & multilateral **formal** cooperation is developing to **quasi-private** cooperation (because relying only on the ODA is not sustainable)
- Weakness of the literature:
 1. Regional coverage is limited: only on North East Asia (though the hypothesis covers East Asia)
 2. Bilateral coverage is limited: only on multilateral level (though the hypothesis covers bilateral cooperation)

4

2. Research Problem

How does the regional environmental cooperation develop in East Asia?

5

3. Method to get the result

- Qualitative case studies
with official documents and press releases
- 3 cases of East Asia Summit participants are covered
(= Developing-Developed country relations)
 - China-Japan
 - India-Japan
 - ASEAN-Japan

6

4. Result of the research

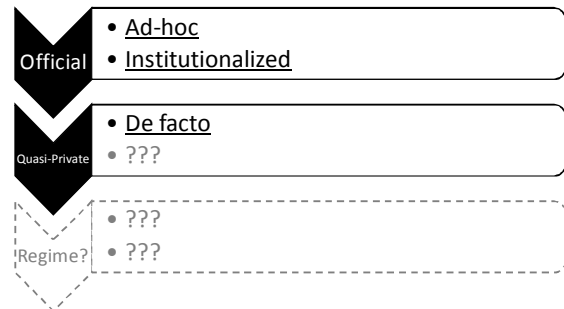
Asian environmental cooperation is developing...

- (1) from the ad-hoc official
- (2) through the institutionalized official
- (3) to the de facto quasi-private cooperation.

7

Diagram: Result of the research

(development of environmental cooperation in East Asia)



8

5. Supporting Evidence

Official environmental cooperation

- A) Ad-hoc level: environmental Yen-loan projects
having positive environmental impacts in (China- / India- / ASEAN-Japan) cases
- B) Institutionalized level: environmental policy dialogues
being implemented in (China- / India- / ASEAN-Japan) cases

Quasi-private environmental cooperation

- C) De facto level: Eco-Business matching by gov'n'ts
creating contracts in (China- / India-Japan) cases

9

5-A) Official ad-hoc cooperation: environmental Yen-loan projects

= Projects to improve environmental qualities

- China-Japan (1988-): \$10 billion; 30% of ODA; e.g., reforestation, water supply & quality
- India-Japan (1989-): \$6 billion; 90% of ODA; e.g., reforestation, water supply & quality
- ASEAN-Japan (1974-): \$120 billion; 7% of ODA; e.g., water supply & quality, sewage system

10

5-B) Official institutionalized cooperation: long-term cooperation dialogues

= Policy dialogues for long-term environmental cooperation

- China-Japan (1994-): e.g., "Sino-Japanese Environmental Protection Joint Committee"
- India-Japan (2006-): e.g., "Inter-Governmental Consultations on Environment and Climate Change"
- ASEAN-Japan (2003-): e.g., "ASEAN-Japan Dialogue on Environmental Cooperation"

11

5-C) Quasi-private de facto cooperation: green business matching by gov'n'ts

= Fora to arrange business contracts for environmental projects, which are promoted by governments

- China-Japan (2006-): 200 companies; 40 contracts; e.g., "Sino-Japanese Energy Efficiency/Environment Forum" (1st-4th)
- India-Japan (2006-): 100 companies; 10 contracts; e.g., "India-Japan Energy Forum" (1st-3rd)

12

6. Conclusion

1. The hypothesis was supported

- There exists empirical background leading to *De facto* quasi-private environmental cooperation in East Asia.
- Regional cooperation has environmentally a positive impact in East Asia.

2. Limitation of the research: should be addressed

- Coverage of the area (lack of the number of cases)
- Causal explanations (lack of explanations on factors of development of the levels cooperation)
- Future implication (*De jure/De facto* regime ?)

Ocean Governance, Maritime Security, and the Consequences for Regional Cooperation in Northeast Asia

Christian WIRTH
Waseda University

Global Institute for Asian Regional Integration (GIARI) Summer Institute, Waseda University, August 2nd 2010

1

The Importance of the Maritime Sphere for NEA



Source: Wikimedia at: http://commons.wikimedia.org/wiki/File:East_China_Sea.PNG

2

Analyzing Maritime Affairs in Northeast Asia

- Northeast Asian and US policy-makers continue to put emphasis on modernization of air-forces, air-defence and missile defence systems, and their navies in particular

(IISS 2010; Zhu 2009; Hartfiel and Job 2007; Holmes and Yoshihara 2010)

- Concerns with national, energy and economic security, of primary interest, also for academics, and China observers in particular

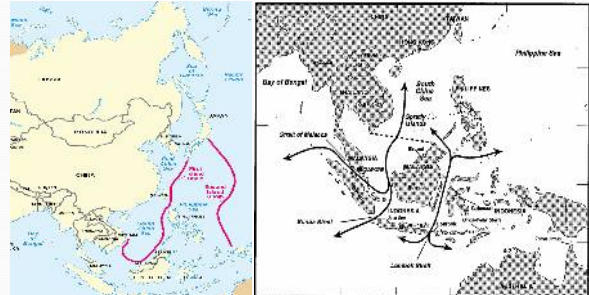
(Blanchard 2003; Drifte 2009; Deans 2000; Hagström 2005; Koo 2009; Manicom 2008; Jiang 2007; Holmes and Yoshihara 2008; Valencia 2007)

(Green 1999; Christensen 1999; Fravel 2005; Ross 2009)

- Narrow focus on territorial disputes and the related but often unspecified geopolitical, legal, and economic concerns

3

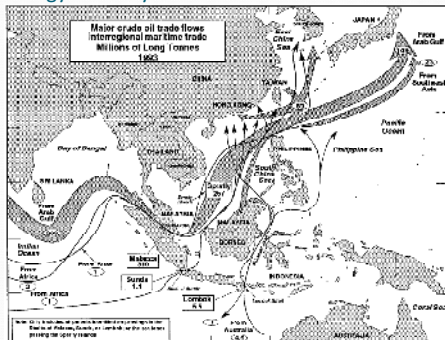
Military Security



Sources: left: DoD (2006:15); right: Noer and Gregory (1996:3)

4

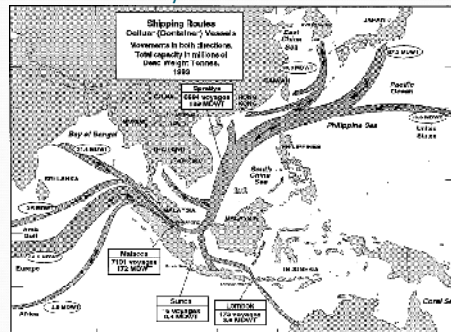
Energy Security



Source: Noer and Gregory (1996:18)

5

Economic Security



Source: Noer and Gregory (1996:66)

6

Source: left: J.R.V. Prescott (1993:25-6); right: Joseph R. Morgan and Mark J. Valencia (1993:129)

7

- Persistent conviction that the ocean as mankind's last frontier must be developed

Therefore, need for territorial delimitation between the void of the high seas and the areas to be developed under the leadership of national authorities a prerequisite

Japan: stagnating economic growth, decline of the industrial sector and de-population of regional areas contribute to sense of crisis

China: 8% growth/year is an imperative of national security

- Contradiction with the ocean serving as surface for the free circulation of goods and communication, as well as its sustainable use

15th century European ideology of mercantilism and threat perceptions of national containment or isolation

8

- Persistent idea that inside state borders is order and security, while outside is anarchy and danger
- Central government is seen as guarantor of order (hierarchy instead of anarchy), this however, leads to low governing capacity, the pursuit of power-politics, and the neglect of domestic issues
- The legitimacy of a government therefore seems to depend on how good it can protect state boundaries rather than how well it is able to provide for public goods

9

(Agnew 1994)

- IR studies' assumption of a world system comprised of sovereign territorial nation states is not only unsuitable, but also reifies the 'inside/outside' (border reinforcing) paradigm (Walker 1993)
- This problem is also persisting in area studies and even economics
- Weak awareness of the ocean as comprehensive social (economic) and ecological system, and neglect of connecting aspects as a consequence
- Need to redefine the content and the meaning of sovereignty, and with it the question of what legitimizes political authority
 - Need for greater focus on networks and flows (communication, people, goods) instead of the territorial units of social systems through the development of alternate approaches to the study of Northeast Asia

10

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12

Human Rights Exchanges in Asia: Discourses and Legal Practice

Elisa Nesossi
SOAS–University of London



GIARI Summer Institute 2010

1

Human rights and regionalism: the topic and its value

- The importance of regional human rights systems:
 - a) complementarity and supplementarity with the UN and domestic systems;
 - b) flexibility;
 - c) inclusion of regional peculiarities.
- No Asian human rights system but rich debates on human rights

2

Main questions

1. May a human rights regional system ever emerge as a result of the work of lawyers at grassroots levels?
2. To what extent local discourses would be able to converge into an Asian regional system on human rights?

3

Anthropological approach to human rights

- Human rights as a discourse
- Interaction among actors at different levels – global, regional (i.e. transnational), national and local
- Hybridization

4

Asian regional human rights discourses (1): UN sponsored initiatives

- OHCHR 15 workshops
- Sub-regional talks
- Human rights matter but regional heterogeneity and nationalistic resistance

5

Asian regional human rights discourses (2): the “Asian values” debate

- After 1993 Bangkok Declaration
- Rejection of universal applicability of human rights, civil and political rights as Western imports inadequate in the Asian communitarian context
- Primacy of economic development
- Political instrumentalism and a stereotyped Orient
- Is the debate completely dead?

6

Asian regional human rights discourses (3): NGOs

- Promotion of a human rights culture – intermediaries between global and local actors
- Support the creation of human rights instruments
- Lawyers and NGOs

7

Lawyers: between grassroots legal practice and transnational actions

- Lawyers as the product of historical, social, cultural, political, economic diversity
- Public interest lawyers – participants in different arena of human rights practice and advocacy
- Lawyers in need of better human rights instruments
- Lawyers as actors for the creation of human rights instruments
- Globalization and lawyers's solidarity

8

The legal profession: a stratified group

- Principle 14 of the Basic Principle on the Role of Lawyers
- However, is the legal profession really promoting the interests of the marginalized?
- A stratified group with diverse interests: individual lawyers, BAR councils and associations, LAWASIA, IBA, ILA, ICJ etc.

9

LAWASIA

- A professional international organization
- Fostering professional and business relationship among lawyers
- The Pacific Charter of Human Rights
- The regional elite of lawyers and BAR associations -- an elitarian translation of the language of the individual lawyers

10

Grassroots level: the *weiquan* lawyers in the PRC

- The emergence of Chinese human rights lawyers in the last decade
- Rights violations and social demand; emergence of civil society groups; the media and the internet
- Limited knowledge of international standards but struggle to find a practical interpretation of the human rights concept
- International and regional contacts and solidarity

11

Conclusion

- Human rights talk and human rights practice
- Lawyers as the potential bridge, but various tensions
- Ideal of grassroots activism – abstraction of elitarian discourses
- Need of cohesion among BAR associations and human rights education

12

South Korea's internationalization of higher education in the context of regional integration

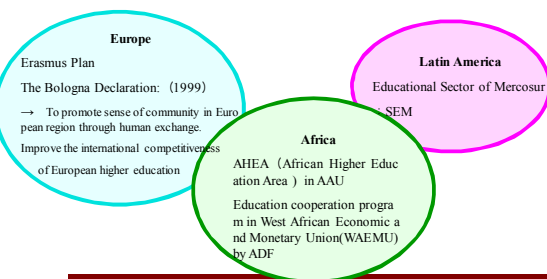
Summer Institute, August 2, 2010
Yeeyoung Hong Waseda University

Outline

- 1. Back ground of the research
- 2. Present status of IHE in Korea
- 3. Government's policies of IHE
- 4. Bilateral relationship between Japan, China and ASEAN countries
- 5. Internationalization strategy of 3 leading universities in Korea
- 6. Conclusion

Back ground of the research :Regionalization in higher education

Regionalization is an increasingly important phenomenon and is very evident in the higher education sector. New regional networks and initiatives for quality assurance, credit systems, research, recognition of qualifications, among others, are being implemented in all regions of the world. Knight (2006)



Back ground of the research : Intensifying cooperation of Higher Education in Asian Region

- Rapid development of internationalization and increasing demand of higher education in the Asian region
→ In 2003, 45% of total international students were from Asian region. And in 2025, it is expected to grow to 70% of the entire international students.
Nita (2007) IDP Global Student Mobility 2025
- Both political and economical dependency on each other will increase and strengthening cooperative system will be found within the region
→ Since the Asia Financial Crisis in 1997, both development and implementation of cooperative system and policies within the Asian region have shown rapid increase
→ The importance of cooperation between human resources that will become the cornerstone in developing the idea of One Asia.
- 2005- ASEAN+3 Summit 「Kuala Lumpur Declaration」
→ 「We will enhance people-to-people exchange aimed at developing a "we" feeling」
- 2009- The 11th ASEAN+3 Summit 「Work Plan 2007-2017」

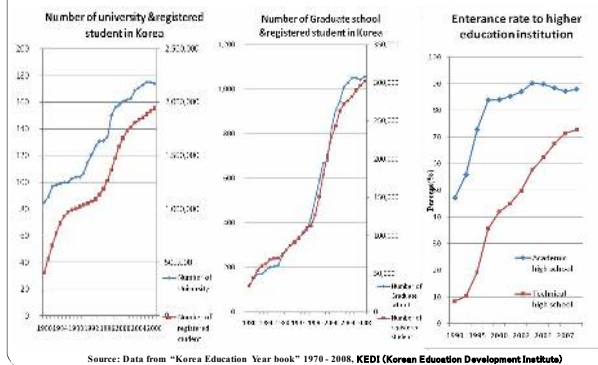
International/Regional organization of higher education in Asia.

Name of Organization	Established Year	Activities	Member country / University
Southeast Asian Ministers of Education Organization (SEAMEO)	1978	Regional Centre for higher education and development (RHHED)	11 ASEAN countries, 8 Associate member countries, Japan (as a Partner)
University Mobility in Asia and the Pacific (UMAP)	1991	University Mobility in Asia and the Pacific Credit Transfer Scheme (UCTS)	Japan, Thailand, Vietnam and 13 official Member countries, 18 Associate member countries
ASEAN University Network (AUN)	1995	Student Exchange program, Hosting Workshops, Cooperation with non-ASEAN countries such as Korea, Japan, and China	21 Main universities of 10 ASEAN countries. Headquarter in Bangkok
The Association of East Asian Research Universities (AEARU)	1996	Student Exchange, Shared Curriculum, Sharing of Infrastructure, Equipment, Information	Research oriented Asian top universities such as Seoul university, Tokyo university, and Peking university (etc.)
Association of Pacific Rim Universities (APRU)	1997	Annual meeting between university Presidents, Collaborated Research programs, Remote Education	Kyoto university, Waseda university, Seoul university, Malaysia university and 42 universities from 16 countries
Conference of Asian University Presidents (CAPs)	2000	Annual meeting between university Presidents, Program for young academics	Kyushu university, Yonsei university, Indoneisa university, Thammasat university, and 21 other universities
Asia Pacific Association for International Education (APAIE)	2004	Annual meetings (Symposium), Asian version of NAFSA, EAIE	Korea university, Waseda university, Singapore national university, and other Asian universities (HQ in Seoul)
Asia-Pacific Quality Network (APQN)	2004	Quality control seminar, Workshops, Promotion of cooperation between the quality control organizations and regional universities	24 Official Members, 10 Intermediate members, 4 Associate members, 21 Institutional members. HQ in Melbourne

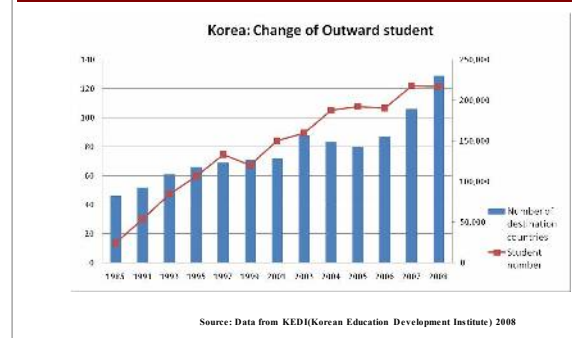
Research Purpose

To analyze IHE in Korea from the perspective of regionalization:
How significant is the trend of regional cooperation and integration in context of HE in Korea?

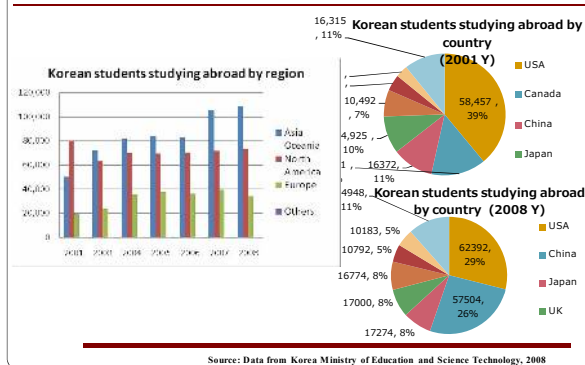
Present extent of IHE in Korea ①



Present extent of IHE in Korea ②



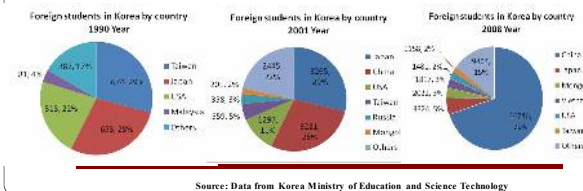
Present extent of IHE in Korea ③



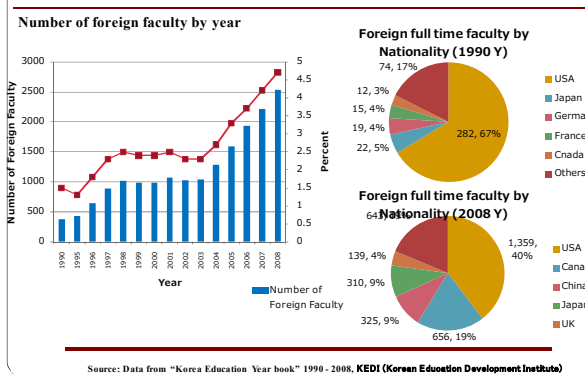
Present extent of IHE in Korea ④

Foreign students in Korea by Region

Region	1990	1995	2001	2003	2004	2005	2006	2007	2008
Total	2,237	1,983	11,646	12,314	16,832	22,526	32,557	49,270	63,952
Asia	1,527	1,318	8,755	10,436	14,563	19,969	29,227	45,622	59,375
Africa	21	34	100	112	174	184	211	291	397
Oceania	15	21	156	128	139	145	125	142	178
North America	547	375	1,488	723	925	1,105	1,717	1,692	2,165
South America	77	124	209	127	197	209	200	240	278
Europe	50	111	938	788	834	914	1,077	1,283	1,559



Present extent of IHE in Korea ⑤



Korean Government's policies of IHE

Government policies on Higher Education implemented by each regime since the beginning of IHE in the early 1990s

- 1993 - 1997: With the establishment of WTO and the influence of fast changing environment of the international trading, policies on opening of educational sector was implemented
- 1998-2002: Policies with emphasis on improving the competitiveness of the Korean higher education in order to suppress the study abroad was introduced.
- 2003-2007: While maintaining the previous regime's position of improving the competitiveness of the higher education industry in Korea, Roh's regime focused on proactively attracting foreign students and unifying policies among different government departments and organizations.
- 2008 - : President Lee's regime focuses on the autonomy of higher education institutions and the improvement of research ability among these institutions. Their policy included the development of WCU (World Class University) where they will attract world class academics in order to improve the quality of universities in Korea.

*1993-97: Kim Young Sam regime, 1998-2002: Kim Dae-Jung regime, 2003-07: Roh Mu-Hyun regime, 2008-present: Lee Myung-Bak regime

Government's policies of IHE

Policy	Year	Main contents
Opening Higher Education Field Project	1996	Permission of joint education programs between domestic and foreign universities.
Policy Support for international Graduate Schools	1997	Award government grant to selected 9 international graduate schools.
Brain Korea 21	1999	Foster graduate schools on par with globally competitive international schools
Reform of 「Law for Educational Public Service」	1999	Permission of recruitment of foreign faculty in national universities
Master plan of Attracting foreign student	2001	Attract 50,000 foreign students by 2010

Government's policies of IHE

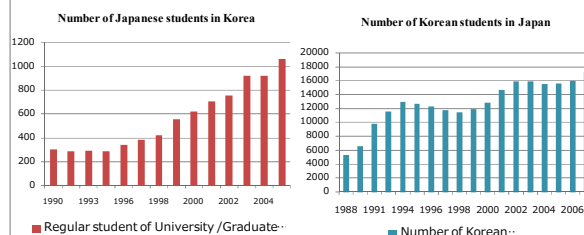
Policy	Year	Main contents
Improvement policy plan: Prestigious graduate school establishment and operation	2002	Permission of operation on joint degree program
Study Korea Project	2004	Attract foreign students to become a key player in higher education within Northeast Asia,
Strategies of higher education internationalization	2006	To enhance universities' international competitiveness and to become a center of education and research in the Asia region
WCU (World Class University)	2008	Support foreign universities to build a campus in Korea, Establishment of new major.
「Study Korea Project」 development plan	2008	Attract 100,000 foreign students by 2012
Education Service Progress	2009	「Global Korea Scholarship」, 「CAMPUS Asia」

Bilateral Relationship: Korea—Japan

- 1965-Normalization of diplomatic relationship between Korea and Japan
[Treaty on Basic Relations Between Republic of Korea and Japan]
- Also in the same year, treaty on cooperation and exchange of cultural assets between Korea and Japan was signed
- 1988-Agreement on [Korea-Japan education & cultural exchange] was made
- 1998-President Kim Dae-Jung visited Japan and announced a Korea-Japan Joint declaration of New partnership for the 21st century
- 2005-Commemorating the 40th Anniversary of Normalization of diplomatic relationship, 2005 was declared as The year of friendship between Korea-Japan

Korea and Japan has a long history in education sector. And even though there's no radical changes to be seen in the number of students going study abroad, the number is gradually increasing. Considering the geographical advantage and the government level cooperation in place, it can be said Korea and Japan's education sector will benefit from on-going systematic improvement.

Bilateral Relationship: Korea—Japan

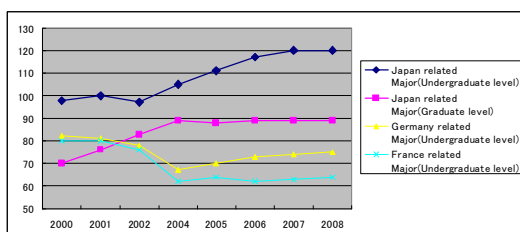


Source: Data from Korea Ministry of Education and Science Technology

Source: Data from MEXT, Japan

Bilateral Relationship: Korea—Japan

Change of the number of "Japan related Major" in Korean University



Source: Raw data offered by KEDI (Korean Education Development Institute)

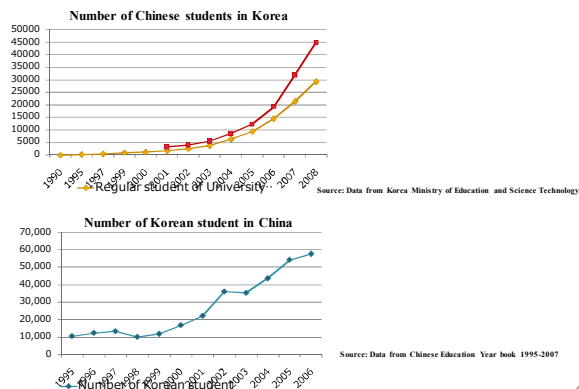
Bilateral Relationship: Korea—China

- 1992-Beginning of official exchange since establishment of diplomatic relationship
- 1994 March-Korea-China cultural agreement was signed
- 1995 July-Korea-China educational exchange agreement was signed in Beijing

Rapid increase in educational exchange can be seen between Korea-China in the past 10 years.

→ Large percentage of International students in China are from Korea and the same can be said in Korea as well

Bilateral Relationship: Korea—China

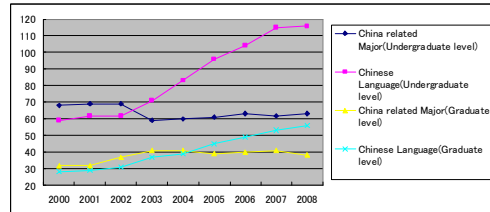


Bilateral Relationship: Korea—China

Rapid increase in number of China related Majors

Undergraduate: 127 departments 20,383 ppl (2000 Y) → 179 departments 34,497 ppl (2008 Y)
Graduate: 60 departments 934 ppl (2000 Y) → 94 departments 1,687 ppl (2008 Y)

Change of the number of "China related Major" in Korean University



Source: Raw data offered by KEDI (Korean Education Development Institute)

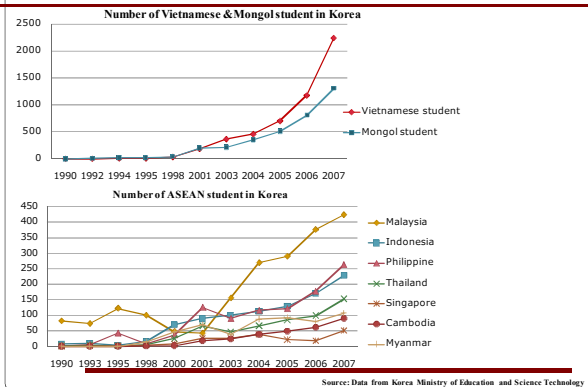
Education cooperation: Korea—ASEAN

•Fortifying relationship between Korea and ASEAN countries in both economic and political area have developed increased needs in Educational exchange between Korea and South East Asia region

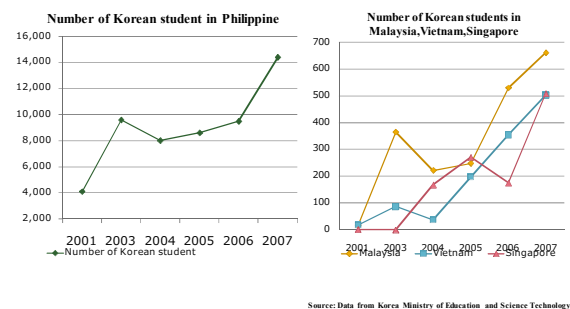
- 2009-Announcement of [New Asia Diplomacy Plan]
- Establishment of [ASEAN-Korea Center] in Seoul

- Even though the number of study abroad students between Korea-ASEAN countries are relatively small compared to other countries or region, the number has increased exponentially since late 1990s. Recent increase in number of study abroad student to ASEAN countries from Korea can be seen as a new trend resulting from the educational exchange that's being actively carried out in this region.
- Example of Education cooperation programs
 - AUN—Daejeon university's 「International College Student Exchange Program between Korea and ASEAN」
 - AUN—Hankuk university of foreign studies-Korean Studies department research aid

Education cooperation: Korea—ASEAN



Education cooperation: Korea—ASEAN



① Seoul National University

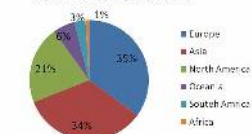
Regional strategies

Member of BESETOHA and AEARU.

Established 「Silk Road Scholarship」 in 2007. Every semester, they select 5 graduate students from South East Asia studying in Social studies and provide scholarship for both tuition and living expenses.

「Korea-Japan-China International Summer School」 with Waseda & Peking University

Seoul National Univ: Academic Exchange Agreements by region (2008 Y)



Source: Raw data from "Seoul National University Year book 2008"

② KOREA University

Regional strategies

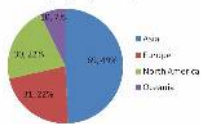
Declared 「Global KU-Frontier Spirit」 in 2008

Development Plan for the LA campus and the introduction of Asian Economics and Asian Regional studies department, Korea university aims to become the hub for developing experts on International affairs.

「S3 Asia MBA」 with National University of Singapore & Fudan University

APAIE-Main office

Korea Univ: Academic Exchange Agreements by region (2008 Y)



Source: Raw data from Korea University website

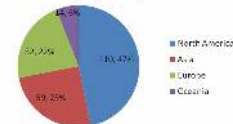
③ Yonsei University

Regional strategies

Underwood International college (UIC) 「Three-Campus Comparative East Asian Studies Program」 With Keio University & Hong Kong University

The 3 campus cooperation East Asian research program began in 2008. Throughout this program, 16 students from each university would spend 1 year in these 3 campuses learning East Asian history, culture, economics, politics, and international relations.

Yonsei Univ: Academic Exchange Agreements by region (2008 Y)



Source: Raw data from Yonsei University website

Conclusion

- In general conclusion, it can be said that Korea is moving towards regionalization of higher education with focus on Asia region in context of IHE.

1. Differences among each actors on IHE: such as individuals (students), institutions (universities) and government

- It is very significant that student mobility within Asian region in relation to educational exchange has grown
- Some Korean universities have developed regional-specific strategies, and also made an effort to enhance the cooperation with other Asian universities. However, the influence of western countries still remains quite strong.
- The Korean government demonstrated large interest in obtaining good human resources and increasing competitiveness of its high education institutions and showed little interest in mutual understanding regional integration. However, recently they have realized the importance of regional cooperation in education sector.

2. Korea illustrated different approaches towards East Asian countries (Japan and China) and ASEAN countries for IHE.

- For Korea, the relationship between Japan and China seem in context of IHE, seems focused on producing human resources they can both benefit from and creating a common knowledge community. On the other hand, for ASEAN countries, Korea's focus seems to be close to providing Aid and export its education sector.

3. Influenced highly by China.

- It will be hard to explain the trend of Korean IHE without discussing the China factor.

THANK YOU

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THE INTEGRATION IN EAST ASIAN ECONOMIES: TOWARDS SPECIALIZATION OR DIVERSIFICATION?

Summer Institute 2010

Global Institute for Asian Regional Integration

Ferdous Farazi Binti
August 3rd, 2010

1

FOCAL POINTS

- ✖ A. Economic integration and specialization in East Asia. (Indonesia, Malaysia, Philippines, Singapore, Thailand, China, Japan and Korea)
- ✖ B. Herfindahl Index.
- ✖ C. Factors effecting trade specialization in East Asian economies.
- ✖ D. Fixed effect panel data model analysis.

2

A. ECONOMIC COOPERATION IN EAST ASIAN ECONOMIES

- ✖ Although ASEAN was formed in 1967, its economic integration efforts began seriously in 1992 with ASEAN Free Trade Area (AFTA). Along with AFTA, individual ASEAN member countries aggressively (and selectively) lowered their tariff barriers unilaterally and non-referentially.
- ✖ In recent decades, East Asian economies have gone through a dramatic shift in trade patterns toward machinery and transport equipment, parts, and components.
- ✖ As economies evolve over time from low skilled production, of agricultural and labor-intensive goods, into more sophisticated products, their comparative advantage tend to come together. Economic integration changes from inter-industry trade to intra-industry trade. Recent trends of trade in East Asia clearly draw attention to this process.

3

A. SPECIALIZATION OR DIVERSIFICATION?

- ✖ International trade and specialization are closely interrelated as trade requires specialization, and specialization requires trade as a means for the resulting surplus.
- ✖ A high degree of overall specialization - implying concentration of resources in few sectors - may be hazardous considering the risk associated with asymmetric shocks.
- ✖ In order to reduce the excessive dependence on primary commodities for generating export earnings, countries need to diversify their range of production of export commodities. This study identifies growing specialization as an uneven increase in the propensity, or proportion of commodities exported.
- ✖ To achieve sustainable long-term growth, it is important for a country that it should not only diversify from the commodity sector into high-value-added manufactured goods but, at the same time, it should also attempt to expand the latter sector and strengthen the former.

4

A. LITERATURE REVIEW

- ✖ Agosin et al (2009) found that trade openness induces specialization and not diversification.
- ✖ Parteka and Tamberi (2008) confirmed that poor countries tend to have highly homogeneous (specialized) export structures.
- ✖ Matthee and Naude (2007) argued that regions with more diversified exports generally experienced higher economic growth rates and contributed much more to overall exports from South Africa.
- ✖ Agosin (2005) found that export diversification is highly significant in explaining per capita GDP growth over the 1980-20003 periods for Korea, Taiwan, Mauritius, Finland, China, and Chile. All these countries have depended on export diversification for their growth.
- ✖ Damuri et al (2006) showed that pattern of trade specialization in East Asian countries has moved towards manufacturing products.

5

A. RESEARCH QUESTIONS

- ✖ Whether the economies in East Asia have become more specialized or less specialized (diversified) in their exports as a result of greater integration?
- ✖ What is the trend of change in the export sector?
- ✖ Is there any relationship between integration and trade specialization?
- ✖ What other factors are affecting the East Asian trade specialization?

6

B. HERFINDAHL INDEX

$$S_{i,t} = \sum_{k=1}^J (s_{i,t}^k)^2$$

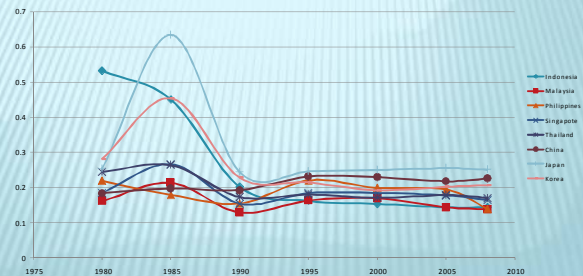
$$s_{i,t}^k = x_{i,t}^k / \sum_{k=1}^J x_{i,t}^k$$

- Herfindahl Index is used to measure the degree of export specialization.
- The higher the index, the more specialized the country is.

7

B. HERFINDAHL INDEX (CONT.)

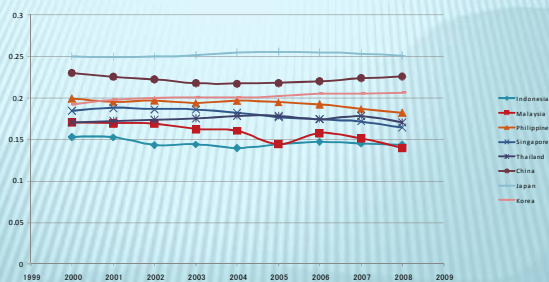
HERFINDAHL INDEX IN ASEAN5+3 (1980-2008) (OWN CALCULATION FROM WTO STATISTICAL DATA SETS)



8

B. HERFINDAHL INDEX (CONT.)

HERFINDAHL INDEX IN ASEAN5+3 (2000-2008) (OWN CALCULATION FROM WTO STATISTICAL DATA SETS)



9

THE CLASSICAL TRADE THEORY

- When a country opens itself to trade with other countries, it will be compelled to specialize in products where it has comparative advantages vis-à-vis its trading partners.

- Comparative advantage
- Specialization

NEW TRADE THEORY

- Krugman (1979, 1981) develops a model where trade is driven by economies of scale. The model essentially argues that trade occurs even between countries with identical tastes, technology and factor endowments because consumers have a taste for a variety of differentiated products.
- Economies of scale

TRADE THEORY

10

C. FACTORS AFFECTING SPECIALIZATION

- Trade Intensity
- Tariff rates
- GDP (to see the effect of the size of the economy to its export diversification).
- Exchange rates (exchange rate management plays a crucial role in providing incentive for exports).

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C. TRADE INTENSITY INDEX

- AFTA has resulted in more intense intra-regional trade. To verify this, a commonly used indicator - trade intensity index - is used.
- The trade intensity index takes the ratio of the trade share of the source and the world trade share to the same destination.
- It takes a value between 0 and infinity, with value greater than 1 indicating the export relation is greater than average.

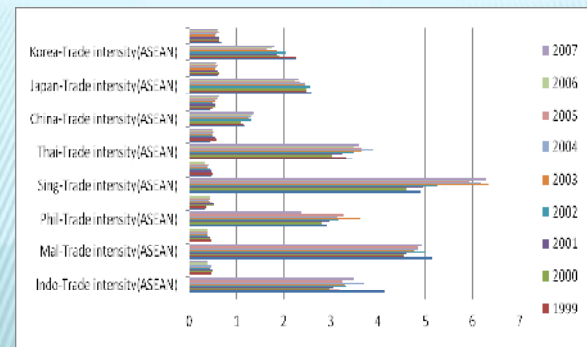
12

C. TRADE INTENSITY IN EAST ASIA, 1991-2001

SOURCE: DAMURI ET AL. 2006

Reporter	China		Japan		Korea, Rep.		Indonesia		Malaysia		Philippines		Singapore		Thailand	
	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001	1991	2001
China			2.62	3.32	1.57	2.52	1.19	2.14	0.77	1	1	0.96	1.67	1.28	1.11	1.04
Japan	1.54	2.16			3.28	3.34	3.17	3.27	2.53	2.25	2.36	3.16	2.26	2	3.21	3.52
Korea, Rep.	0.78	3.30	3.14	2.17			3.32	4.41	1.21	1.45	2.63	2.68	2.21	1.59	1.98	1.44
Indonesia	2.28	1.1	6.77	4.56	3.44	3.5			1.23	2.62	1.82	2.31	4.63	5.51	0.89	2.03
Malaysia	1.04	1.21	2.87	2.62	2.27	1.70	2.50	3.53			2.7	2.32	13.8	9.86	3.4	4.51
Philippines	0.81	0.86	3.65	3.06	1.32	1.74	0.84	0.83	1.45	2.87			1.53	4.05	2.66	5.01
Singapore	0.82	1.22	1.27	1.52	1.22	2.1			15.0	14.8	3.14	4.04			0.71	5.28
Thailand	0.65	1.26	3.3	3.06	0.83	1.04	1.34	4.33	2.51	3.5	1.04	2.86	4.87	4.54		

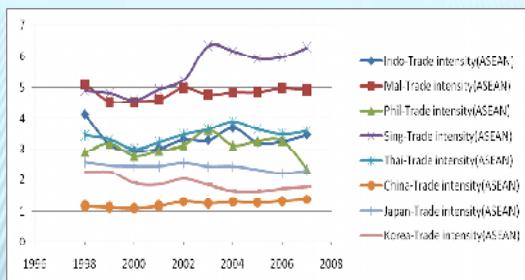
13



C. TRADE INTENSITY CONT.

Data Source: ARTNET, APTIAD Interactive Trade Indicators.

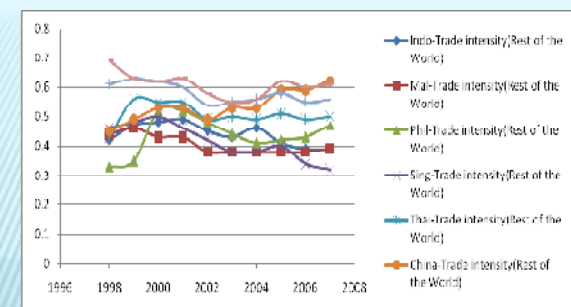
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C. TRADE INTENSITY CONT.

Data Source: ARTNET, APTIAD Interactive Trade Indicators.

15



C. TRADE INTENSITY CONT.

Data Source: ARTNET, APTIAD Interactive Trade Indicators.

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C. TARIFF RATES

- It is difficult to measure the extent of a country's trade that utilizes FTA preferential tariffs because of
 - various exceptions and exclusions
 - lack of data on utilization rates of tariff preferences, and
 - lack of data on the sources and definition of a country's service trade.
- A low margin of preference (MOP) between Most Favored Nations (MFN) –applied tariffs and FTA preferential tariffs indicate little incentive for businesses to utilize FTA preferences when set against the administrative costs of obtaining ROO certificate. (Chia, 2010)

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D. FIXED EFFECT PANEL DATA MODEL(2000-2008):

- Hypothesis: Greater economic integration (through trade) will lead to diversified trade in the selected economies of East Asia
- $\Delta \log(\text{hindex}) = \alpha + \beta_1 \log(\text{oxr}) + \beta_2 \log(\text{gdp}) + \beta_3 \text{tia} + \beta_4 \text{tapsimple} + \epsilon$
- hindex= Herfindahl Index (own calculation)
- oxr= Official exchange rate (WDI online database)
- gdp= Gross Domestic Product (WDI online database)
- tia= Trade intensity(ASEAN) (Compiled from ARTNET)
- tapsimple= Tariff rate, applied, simple mean, all products (%) (WTO online data source)

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D. RESULTS OF THE MODEL:

- ✖ Variables are statistically significant at 1% level of significance.
- ✖ Negative: oxr, tia, tapsimple.
- ✖ Positive: lgdp
- ✖ R-sq: 85%

Index	Coef.	Std. Err.	t
loxr	-.0060195	.0008458	-7.12***
lgdp	.0107492	.002305	4.66***
tia	-.0158378	.0029291	-5.41***
tapsimple	-.003697	.0006974	-5.30***

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D. ANALYSIS OF THE RESULTS:

- ✖ oxr: higher the exchange rate, lower the hindex, diversified trade.
- ✖ gdp: higher the gdp, higher the hindex, more specialized the country.
- ✖ tia: higher tia, i.e. more integration; lower hindex, diversification in trade.
- ✖ tapsimple: higher the tariff rate, lower the hindex, diversified trade. lower tariff, more integration, more specialized trade [intra-industry trade].

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D. CONCLUDING REMARKS

- ✖ Greater economic integration in East Asian economies leads to trade diversification.
- ✖ All the countries have concentrated trade in manufacturing products.
- ✖ Different factors help to create different degree of specialization. Exchange rates and tariff rates have significant negative impact on specialization.
- ✖ GDP of the exporting country tend to be positively related with the trade specialization of that economy.

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D. FUTURE PLAN AND LIMITATIONS OF THE STUDY

- ✖ The study needs to use AFTA tariff (CEPT) rate to understand the clear relation between tariff rate and trade specialization in the East Asian economies.
- ✖ It also needs to do deeper study on diversification using detail commodity level data for the extensive margin of diversification.
- ✖ Additionally, it is necessary to do all these analysis along with the regional trade diversification within ASEAN.

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Comments

THANK YOU!

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Contents

- 1 Introduction
- 2 Literature Review
- 3 General Survey of the UNGC
- 4 Practices of East Asian Countries
- 5 Conclusion

Research Background

- 1 Debate on Asian regional integration and the role of global companies in Asia
- 2 Global governance and regulation of multinational companies in the world
- 3 Corporate Social Responsibility(CSR) as a key for the international competitiveness of global companies.

Definition

CSR: a concept born in the development of globalization

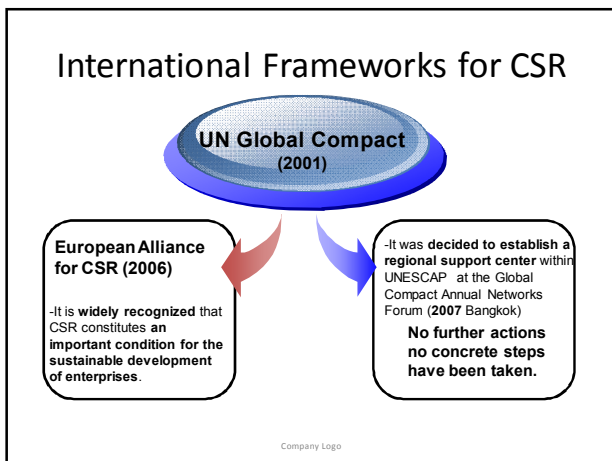
Introduction of CSR to domestic laws

diplomatic conflicts

state sovereignty, diplomatic protection and governance over foreign branches, the conditions of extraterritorial jurisdiction, foreign companies and national jurisdiction

Overseas activities of multinational corporations tend to be conducted beyond the regulation of home countries

→Need for a supranational and global framework.



Research Question & Hypothesis

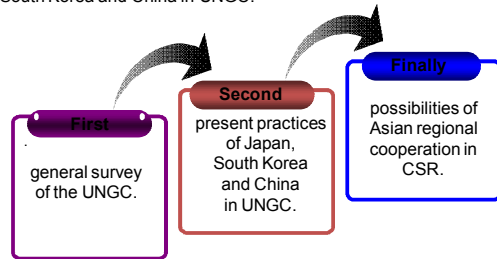
possibilities of CSR cooperation among multinational companies in Asia?

the knowledge and understanding of CSR tends to vary, as Asian countries are in a different stage of economic development.

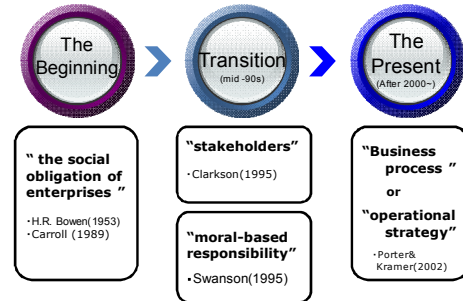
→This is regarded as the most important reason for the difficulties of regional CSR cooperation in Asia.

Research Goal

This paper aims to examine the possibilities of Asian regional cooperation in CSR through examining the present practices of Japan, South Korea and China in UNGC.



Literature Review



3 General survey of the UNGC

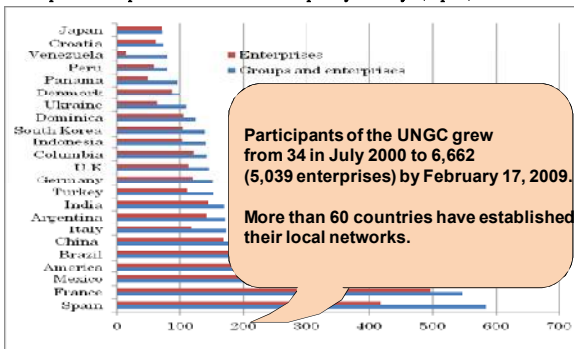
UNGC as an International Initiative of CSR(2001)

Graph 1: 10 Principles of the UN Global Compact

- **Human rights**
 - Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
 - Principle 2: make sure that they are not complicit in human rights violations.
- **Labour**
 - Principle 3: Businesses should uphold the freedom of association and the right to collective bargaining;
 - Principle 4: the elimination of all forms of forced and compulsory labour;
 - Principle 5: the effective abolition of child labour; and
 - Principle 6: the elimination of discrimination in respect of employment and occupation.
- **Environment**
 - Principle 7: Businesses are asked to support a precautionary approach to environmental challenges;
 - Principle 8: undertake initiatives to promote greater environmental responsibility; and
 - Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- **Anti-corruption**
 - Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

the implementation of the UNGC relies on the spontaneous practices of global enterprises, the responsible operation of enterprises does not follow a top-down regulation approach; instead, it favors a bottom-up "learning" approach

Graph 2: Participants of the UN Global Compact by Country* (Top 23)



Participants of the UNGC grew from 34 in July 2000 to 6,662 (5,039 enterprises) by February 17, 2009.

More than 60 countries have established their local networks.

*Statistics of member groups and enterprises as of November 14, 2008.
Source: Ebashi, Takashi, "CSR to Kokuren Global Compact no Kanosei," in *Kigyo no Shakaiteki sekinin keiei*, Tokyo: Hossaidagakugendaihokenkyujo, 2009, p.111.

The limitations of UNGC

no established procedures for joining or withdrawing from the UNGC,

the level of practices of the UNGC principles vary, and regulatory means

since there is no regulation, disengagement with the UNGC name and logo is not

"inactive" list?

"Against to the COP+ the report system"=31% (of the participants)
"fulfilled both the COP+ the report system"=479, or 22% of the 2,144 members of enterprises (late June 2005)
limitation of common principles on a global basis- local networks suitable for each region needed.

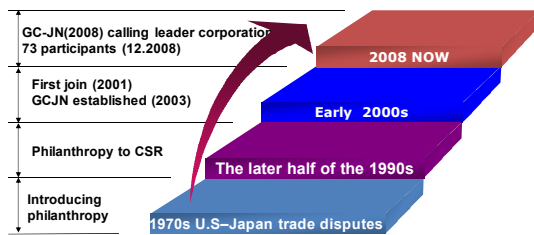
4 Practices of East Asian Countries

The Global Compact Annual Network Forum (April 2007, Bangkok)

UNGC Asia Regional Network aiming at:

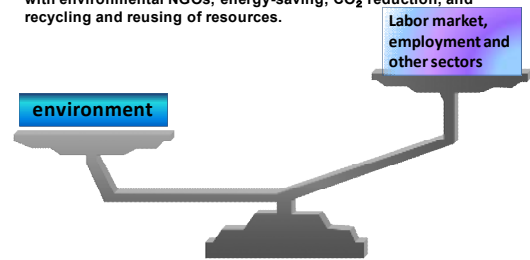
- supporting the exchange of experience among Asian Network Members;
- making long-term strategies for existing networks and developing new networks; and
- conducting investigations of consciousness, as well as the benefits and problems of the Global Compact.

UNGC-Japan

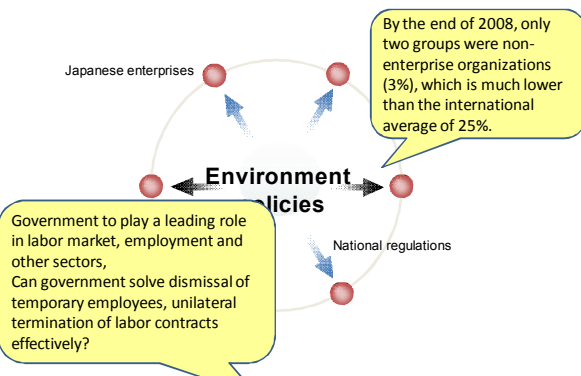


Environmental CSR-Centered Japan

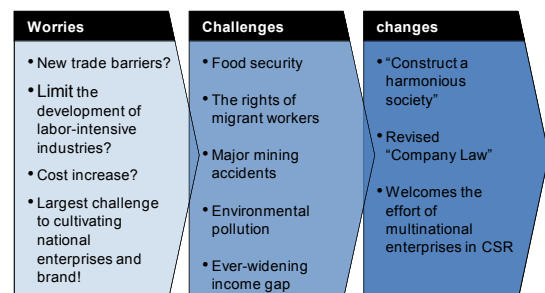
Since the 1990s, Japan has begun to realize the necessity to change its economic system and way of development characterized by mass production, large-scale propaganda, mass consumption and mass disposal of industrial waste to a pattern characterized by joint efforts with environmental NGOs, energy-saving, CO₂ reduction, and recycling and reusing of resources.



Government's strong regulation power



China's Development of a CSR Strategy



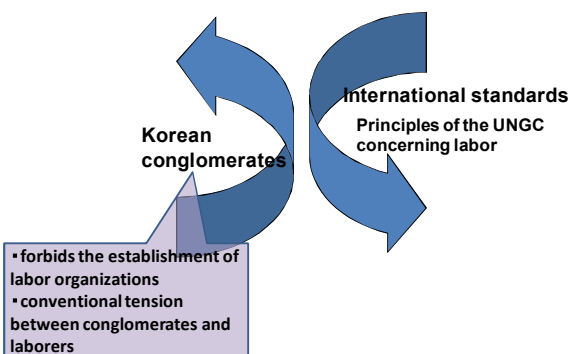
China's Development of CSR Strategy

- January 2005: Global Compact Promotion Office established.
- November 2005: UNGC China Summit (Shanghai)
- Number of participating enterprises sharply to 187 (of which 168 were Chinese enterprises).
- Most participating enterprises are in the manufacturing sector.
- Many participating enterprises have not provided a COP report; no analyses of their activities made;
- Large participating enterprises of UNGC use it as effective means to improve image;
- Problems with labor-intensive middle and small businesses unsolved;
- Use of the UNGC by large state-owned enterprises as decoration severely criticized;
- CSR defined solely as a donation or other charity activity

China's Development of a CSR Strategy

- Though China is fully aware of the importance of international standards of CSR and actively participated in the making of the ISO 26000 standard, it has not fully accepted international standards concerning CSR;
- China the China CSR Confederation established in 2005; China CSR High-Level Forum held annually; the China CSR Benchmark Draft;
- Beijing Declaration on Corporate Social Responsibilities published recently;
- Endeavor to make its own CSR standard suitable to Chinese characteristics.

CSR in South Korea



Conglomerates-led CSR Practices: South Korea

Background:

- In late 1990s heated discussions about whether conglomerates should be allowed to exist;
- Since 2000 illegal political donations and other various misbehaviors of conglomerates revealed, inciting fierce criticism from society;

Actions:

- Conglomerates begun to care about the legality and morality of enterprise operations;
- Moral guidelines made by conglomerates, claiming to obey various laws; social activities initiated as contributions.
- After 2000 South Korean enterprises also introduced CSR as a strategy for better competitiveness of its enterprises.

Conclusions:

- CSR strategy of South Korea created to overcome the negative image of conglomerates among the domestic market and civil society, and to change the low profile of South Korea brands in the international market.

Conglomerates-led CSR Practices: South Korea

Background	Actions
<ul style="list-style-type: none"> • In late 1990s heated discussions about whether conglomerates should be allowed to exist; • Since 2000 illegal donations and other various misbehaviors of conglomerates revealed, inciting fierce criticism from society; 	<ul style="list-style-type: none"> • Conglomerates begun to care about the legality and morality of enterprise operations.
Conclusions	
<ul style="list-style-type: none"> • CSR strategy of South Korea created to overcome the negative image of conglomerates in domestic market and civil society, and to change the low profile of South Korea brands in international market. 	

Conglomerates-led CSR Practices: South Korea

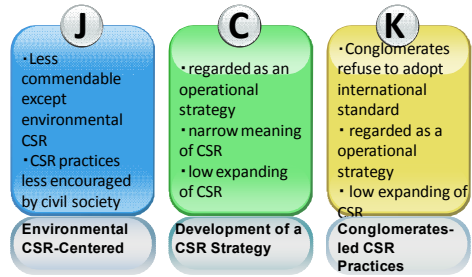
In 2007, Ban Ki-Moon became the UN Secretary-General. The Global Compact Korea Network was established in June 2008. After the Asia International Forum was held in Seoul and the "Seoul Declaration" was adopted, the number of Korean participating groups in UNGC reached 139 (among which 105 were enterprises) ranking 15th in the world.

Proportion of Non-enterprise groups among all participating groups:

Japan: 3%
China: 20%
South Korea: 25%

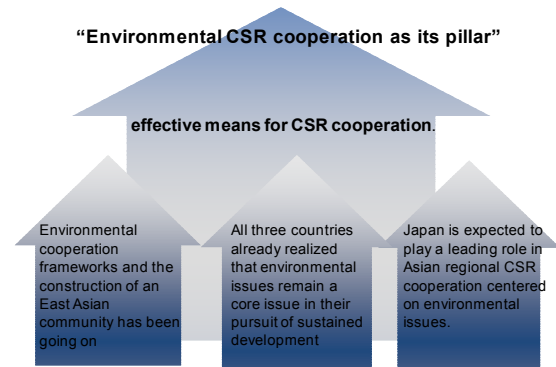
Demand of civil society for CSR expected to grow even stronger.

日・中・韓



Implications of the Research

“Environmental CSR cooperation as its pillar”



THANK YOU



AFTA, BFTA & ITRO Effect on Trade & Investment Relations: Southeast Asia

Kiki Verico

PhD Program
GSAPS, Waseda University, Tokyo

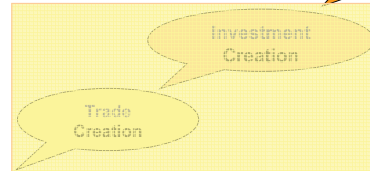


Economic Integration Process: Trade, Investment & Financial

3 Pillars of ASEAN:

1. Security
2. Socio Culture
3. Economic Community

Financial Integration



3 Pillars of EU:

1. Foreign & Security Policy
2. Police & Justice Cooperation
3. Economic Integration

Author's Illustration, 2010

Facts about “Noodle-Bowl” in Southeast Asia

Number of RTA & BFTA

Number of BFTAs and RTAs
2010

Year	BFTAs	RTAs
1983	0	2
1989	3	2
1991	5	2
1992	6	2
1993	9	4
1994	12	5
1995	19	5
1996	27	5
1997	33	6
1998	37	6
1999	39	6
2000	41	6
2001	47	6
2002	57	6
2003	70	10
2004	109	13
2005	151	13
2006	176	17
2010	195	30

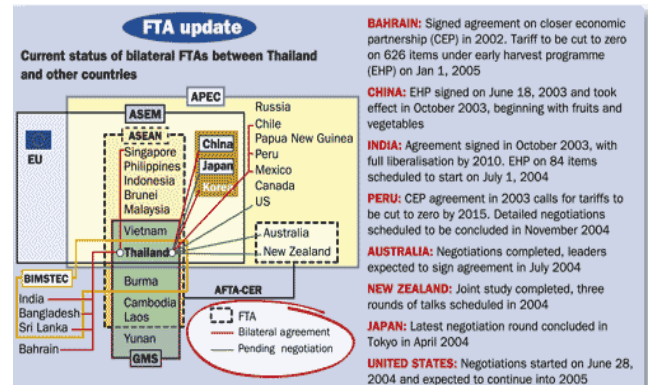
Source: From 1983-2006 was adopted from Jayant Menon, ADB Institute Discussion Paper No. 57, Bilateral Trade Agreements and the World Trading System. Data 2010 is author's calculated from the WTO database on this following link:
<http://rtais.wto.org/UI/PublicAIRTAList.aspx>

BFTAs

Country	BFTA
China	Mexico (1999), ASEAN (2003), Australia, Costa Rica, Peru (2010), Singapore (2009), Pakistan (2007), India (2007), Hong Kong (2004), Macao (2004), Chile (2006), NZ (2008)
Japan	ASEAN (2008), Indonesia (2008), Philippines (2008), Malaysia (2006), Thailand (2007), Singapore (2006), Vietnam (2009), Brunei (2008), Mexico (2005), Chile (2007), Switzerland (2009)
South Korea	ASEAN, Singapore (2006), India, EFTA (2006), Chile (2004), Peru, USA
Singapore	China, Japan (2002), South Korea (2006), EFTA, India (2005), Sri Lanka, Pakistan, Australia (2003), EFTA (2003) Chile, Jordan (2006), Bahrain, Egypt, Kuwait, UAE, Qatar, New Zealand (2001), Australia (2003), Panama (2006), Peru (2009), USA (2004)
Malaysia	Japan (2005), Pakistan (2008)
Thailand	Japan (2007), Australia (2004), India, Peru, New Zealand (2005), Singapore, Laos (1991)
Philippines	Japan (2008)
Indonesia	Japan (2008)

Source: Author's identification from
<http://www.worldtradelaw.net/fta/database/ftas.asp>
<http://rtais.wto.org/UI/PublicAIRTAList.aspx>

Facts: Asian Noodle Bowl in ASEAN



Why Sub Regional?

ASEAN has several sub-regional cooperation:
SIJORI, BIMP, IMT-GT, etc BUT...

- No specific commodity like ECSC
- No specific organization to manage commodity
- Unclear objectives

ASEAN has ITRO/IRCo for managing natural rubber that established by Indonesia, Malaysia & Thailand, a kind of sub-regional cooperation

Why choose agriculture product?
Naturally, agriculture products are oligopolistic

Why rubber?

It has organization that manage natural rubber's production & trade (important for time dummy)

RCA & CMSA

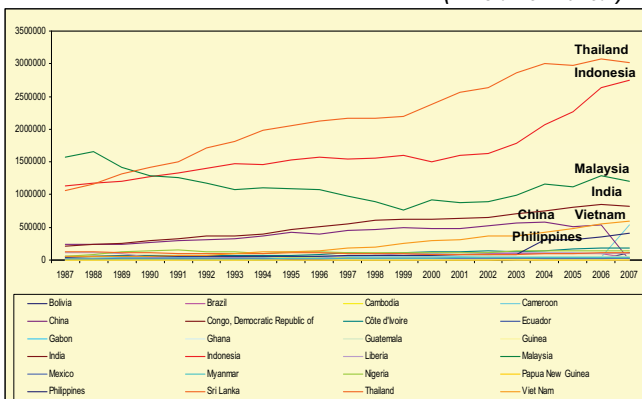
Commodities (2003 2007)	Indonesia		Malaysia		Thailand	
	RCA	CMSA	RCA	CMSA	RCA	CMSA
Agricultural products	2.49	7,695,711,313	1.15	1,556,495,144	1.86	123,151,348
Food	2.11	5,182,495,770	0.94	1,325,929,242	1.64	-1,024,533,277
Fuels and mining products	2.31	-16,821,233,999	0.64	-3,468,022,434	0.30	1,605,863,207
Fuels	2.26	-17,754,050,504	0.75	-2,933,141,377	0.28	1,210,129,927
Manufactures	0.72	-4,135,280,882	0.82	-13,515,309,027	0.99	12,890,752,558
Iron and steel	0.47	-355,067,146	0.38	-137,771,116	0.52	1,134,615,311
Chemicals	0.58	584,637,723	0.41	636,776,217	0.67	2,486,420,450
Pharmaceuticals	0.07	-49,112,314	0.03	15,359,163	0.05	-5,787,271
Machinery and transport equipment	0.44	-1,313,330,297	1.10	-13,786,791,364	1.11	9,529,138,236
Office and telecom equipment	0.61	-3,381,506,620	2.74	-10,112,907,460	1.69	1,314,693,076
Electronic data processing and office equipment	0.64	-1,181,127,854	2.94	2,503,299,037	2.28	4,500,500,910
Telecommunication s equipment	0.81	-2,338,104,049	1.58	-5,713,864,576	1.05	-2,603,679,102
Integrated circuits and electronic components	0.30	-200,945,031	4.01	-5,080,383,854	1.77	-100,175,289
Automotive products	0.21	1,111,318,326	0.05	487,067,003	0.77	6,235,048,370
Textiles	2.21	-188,574,116	0.37	70,326,049	1.12	140,673,987
Clothing	2.38	-114,239,557	0.53	121,713,558	1.16	-1,262,770,459

Sources: Author's calculation based on WTO Statistic Database, 2009

History of Natural Rubber Cartel

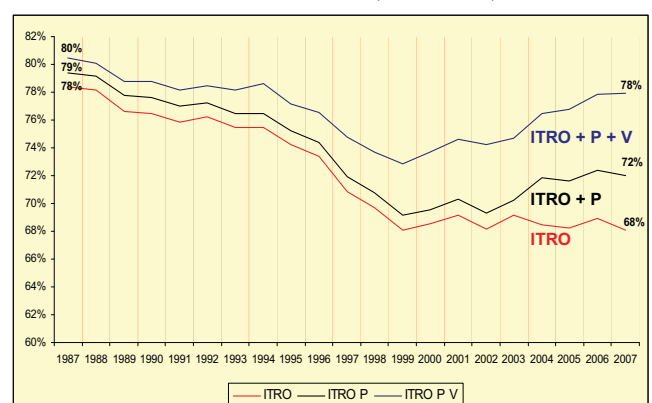
1. International Natural Rubber Agreements (**INRA**): 1979 (regulate maximum 550,000 tonnes: 400,000 for normal and 150,000 for contingency), followed by two agreements (1987 & 1995) but remain to keep the same objective as 1979's agreements.
2. Market power over multilateral collusive: INRO (exporting members) headquarter in KL in **1998** proposed increasing price up to 5%. It was totally **rejected by import members**. Then Malaysia, Thailand and Sri Lanka pulled out in September 1999.
3. In **2001** three main producers: Indonesia, Malaysia and Thailand established ITRO with IRCo, LTD

Natural Rubber Production (in volume MT/Year)



Sources: Author's calculation , Figured out based on FAO Statistic Database, 2009

% of NR Production to World's Total Volume ITRO ; ITRO+P ; ITRO+P+V



Sources: Author's calculation based on FAO Statistic Database, 2009

Trade (AFTA-2002) & FDI Liberalization in Each Particular Countries (2005):NR

TRADE LIBERALIZATION BETWEEN MEMBERS (PRODUCTS LIBERALIZED)	FDI LIBERALIZATION (PRODUCTS OPEN TO NON MEMBER INVESTORS)		
AFTA	Indonesia	Malaysia	Thailand
Cement, Ceramic & Glass, Chemicals, Cooper Cathodes, Electronics, Fertilizers, Gems & Jewelry, Leather s, Pulp & Paper, Plastics, Pharmaceuticals, Rubber, Textiles, Vegetables Oils, Wooden & Rattan Furniture	Animal Breeding, Brown Sugar, Coal, Coffee, Coconut, Corn, Cashew Nuts, Clove, Cacao Processing, Carpet, Chicken Processing, Crude Palm Oil, Fish Cultivation, Feedstock, Fruit Processing, Industrial Plantation Forest, Layer, Meat, Natural Gas, Orange, Pepper, Palm Fruit, Peanut, Pineapple, Rattan, Rhizome, Rubber, Sugar, Soybean, Tea, Wood Furniture-Plywood	Electrical & Electronics, Engineering, Supporting, Food Processing, Life Sciences, Machinery & Equipment, Chemicals, Rubber, Textiles & Apparel, Transport Equipment, Basic Metal, Wood Industry, Real Estate, ICT, Financial Services, Utilities, Hotel & Tourism	Beverages, Chemicals, Cleaning Preparation, Construction Materials, Equipments, Electronic & Electrical, Furniture, Foods, Footwear, Iron and Steel, Leather, Paper, Petroleum, Rubber, Jewelry, Software, Yachting

Sources: Verico, Kiki, Journal of EFI, 2007

Rubber is one of top 11 priority products for AEC, 2015

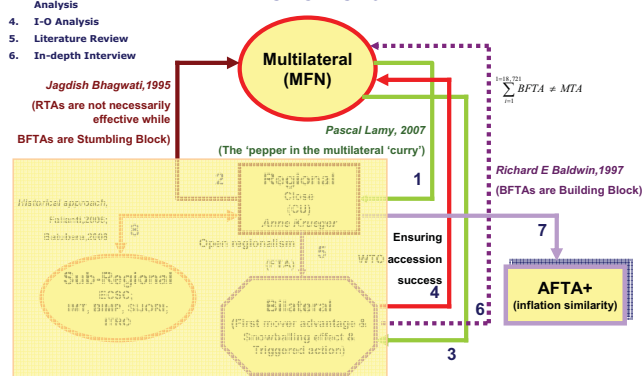
Bali Concord II designs gradually approach in achieving trade-investment relations starting from 11 priority sectors

(the Singapore Institute of International Affairs, IISD, January 2007)

Healthcare, Air transport, Tourism, e-ASEAN, Electronics, Automotive, Textiles, Wood, Fisheries, Agriculture in general and **Rubber**

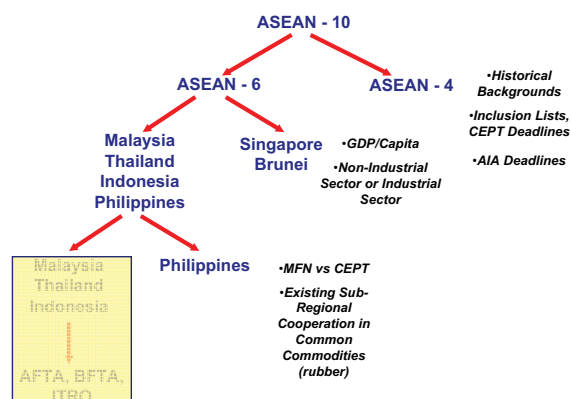
1. System Model,OLS,Panel Regression
2. Time Series Tests
3. Cournot-Nash Analysis
4. I-O Analysis
5. Literature Review
6. In-depth Interview

'ASEAN's Noodle Bowl' Phenomena



Source: Author's description based various articles,2010

Choosing Observed Countries



Source: Author's description based various articles,2010

Average Common Effective Preferential Tariff (CEPT) : ASEAN Members & Trade Restrictiveness Index (TRI) from ASEAN Members to Non Members:

1993, 2001-2006

COUNTRY	CEPT					TRI**
	1993	2001	2002	2006*	2006	
Thailand	19.8%	5.6%	5.2%	4.5%	20%	
Indonesia	17.2%	4.2%	3.6%	2.0%	11%	
Philippines	12.4%	4.4%	4.1%	3.6%	7%	
Malaysia	10.7%	2.7%	2.5%	1.7%	26%	
Brunei	3.7%	1.1%	0.9%	0.9%	8%	
Singapore	0%	0%	0%	0%	0%	

Source: calculated by author based on various sources

**TRI (Tariff barriers only) from Kee, Hiau Looi, Alessandro Nicita, Marcelo Olarreaga: Estimating Trade Restrictiveness Indices, World Bank Policy Working Paper No.3840, 2006

Average Common Effective Preferential Tariff (CEPT) : ASEAN Members & Most Favored Nations (WTO) i.e. Tableware & Kitchenware (after AFTA)

ASEAN-5	CEPT-AFTA	MFN-WTO
Malaysia	0% - 5%	30%
Indonesia	0% - 5%	30%
Thailand	0% - 5%	30%
Philippines	0% - 5%	5%
Singapore	0% - 5%	0%
Brunei	0% - 5%	0%

Source: Author's Calculation based on WTO & ASEAN Statistical Data, 2009



http://www.nationsonline.org/oneworld/map_of_southeast_asia.htm

Selected Variables

VARIABLES

Dependent Variable: Aggregate Net FDI for AFTA, Net FDI in each particular country for BFTA, Natural Rubber's Net FDI of each country for ITRO (Sub-Regional)

Independent Variables:

1. Consumption Value as an approach to demand size (regarding that C is dominant in 'GDP by expenditure side' of the countries)
 2. Nominal GDP represents economic size
 3. Number of Population represents demand capacity
 4. Number of employed people represent production input (L) and as an approach to number of skilled labor
 5. Economic growth represents 'macroeconomic good performance'
 6. Electricity consumption (KWh) represents 'sound infrastructure' as this variable is a main concern for investors in these observed countries especially for Indonesia (the largest GDP)
 7. Government expenditure on Education as an approach of expenditure on R&D due to the lack of data availability
 8. Degree of Openness as an approach of 'trade liberalization'
 9. RCA (Revealed Comparative Advantage as approach of 'trade performance'
 10. Real Wage as an approach to MPL (Marginal Productivity of Labor)
 11. FDI Profit as an approach to FDI incentives & as an approach to unavailable data of tax rate for 21 years series for these three countries
 12. Exchange Rate represents economic stability, an approach for J-Curve (SEA economic crises)
 13. Intratrade represents intra industry trade among ASEAN members. The most appropriate indicators of intratrade adopted from previous study by Verico, 2008.
 14. AFTA Dummy represents regional trade cooperation within ASEAN's members
 15. Bilateral FTA dummy represents bilateral agreement between members & ASEAN's non-members
 16. ITRO dummy represents an approach for sub-regional cooperation in Southeast Asia
- Other variables such as corruption index, political stability, distance, English speaking capacity are not observed due to limited data availability or irrelevance to the research hypothesis

Methodology: Regression Models

Basic Assumption for Choosing Appropriate Models		Trade-Investment Relations	
		Direct Effect	Indirect Effect
Dummy Time for Officially Signed Agreements	Similar Time	Sub-Regional i.e. ITRO (Panel Data: PLS,FE,RE)	Regional i.e. AFTA (Original 2-SLS, 2-SLS; System: SUR,SEM)
	Different Time	Bilateral i.e. Each IMT (OLS:I,M,T)	Multilateral i.e. WTO (Not Included)

Source: Author's Illustration, 2010

Model's Interpretation for Intratrade Model: AFTA's Impact on Trade

"AFTA generates Positive Impact on Intratrade (ASEAN) together with GDP's Size"

Model's Interpretation for Regional Level: AFTA's Impact on IMT's Investment (FDI)

1. **Intratrade (AFTA) → Negative →** Trade Creation Effect instead of Trade Diversion Effect, Ineffectiveness on Investment Creation but Investment Diversion
2. Consumption → Negative → Trade Deflection Effect
3. **FDI is not significant** enough to affect Intratrade → Non-SEME, a one-way direction effect
4. RCA → Positive → Trade-led Industrialization
5. RW → Positive → Vital Role of Labor Productivity
6. ER → Negative → J-Curve Phenomena
7. Population → Positive → Demand Pulling

Model's Interpretation for Country's Level: BFTA's Impact on Investment (FDI)

1. **BFTA → Positive only for Malaysia →** the Smaller the Gap, Easier to Achieve Agreements
2. Consumption & Intratrade → Negative in Thailand → Trade Deflection & Trade Creation Effect, Ineffective increasing FDI flows
3. Electricity Consumption → Positive → Importance of Electricity on Industrialization Process especially for Indonesia, Thailand then Malaysia
4. FDI Profit → Positive in Thailand Lag 1 → Positive FDI Expected Profit, a promising market
5. RW → Positive & Significant for Indonesia and Malaysia
6. ER → Negative → J-Curve and proves more significant impact of economic crises in Indonesia & Thailand than Malaysia

Interpretation Model for Sub-Regional Level: ITRO's Impact on Rubber's Investment (FDI)

1. **ITRO → Negative** → Confirms Seemingly Inelastic Demand → *Potentially Buyer-Market Biased*
2. **Production of Rubber → Positive** → Quantity follows Consumption → Seemingly Inelastic Demand
3. **Price of Rubber → Negative** → Low Oligopoly Power → Seemingly Inelastic Demand
4. Electricity Consumption → Positive → Importance of Electricity on Rubber Industrialization
5. ER → Negative → J-Curve and proves that economic crises hits rubber production in IMT notably proved the INRA break-up due to the 'increasing price proposal' proposed by main producers back then in 1998

Challenges for Cartel

Huck Steffen, Hans-Theo Normann and Jorg Oechssler, Learning in Cournot Oligopoly – An Experiment, 1999, *The Economic Journal*, 109, pp. 80-95, Blackwell Publishers, USA:

1. ...unlikely that inexperienced players would immediately coordinate on an equilibrium, there is a general intuition that **over time players would learn to play according to the Cournot-Nash Equilibrium**... (p.80)
2. ...inverse demand is non-stochastic and decreasing in quantity...there have been few individual attempts to establish cooperation by supplying limited quantities. But this was **always exploited by other firms** so that the **cooperators eventually gave up**... (p.87)
3. In all treatments average behavior was **more competitive than Cournot prediction**. (p.87)...There were no successful attempts of collusion....
4. Imitate the best is always better than imitate the average (recited from p.93). **Competition**, however, is always strong enough to **frustrate any attempts to collude** (p.93).

Karp, Larry S and Jeffrey M.Perloff, 1988, Dynamic Oligopoly in The Rice Export Market,UCLA,

...**Probability** that price lies between price taking and Nash-Cournot **is greater than** between Nash-Cournot and collusive price (recited, p.468)

Pindyck and Rubinfeld, Microeconomics, 6nd Edition, Prentice Hall:

Success cartel: OPEC, International Bauxite Association

Unsuccess cartel: Copper, Cocoa, Tea, Coffee, Rice, Not tested yet: Rubber, Palm Oil

CNE: ITRO

$$Q1t = 481,462.58 - 0.58 * Q2t$$

$$p: 0.0000 \quad p: 0.0004$$

$$t\text{-stat}: 6.64 \quad t\text{-stat}: -4.24$$

$$SE: 72.54 \quad SE: 0.14$$

$$Q2t = 343,184.45 - 0.39 * Q1t$$

$$p: 0.0035 \quad p: 0.057$$

$$t\text{-stat}: 3.33 \quad t\text{-stat}: -2.03$$

$$SE: 103.16 \quad SE: 0.19$$

Cournot-Nash Equilibrium (Q1t*, Q2t*):

Q1t* : 364,973 (tones/year)

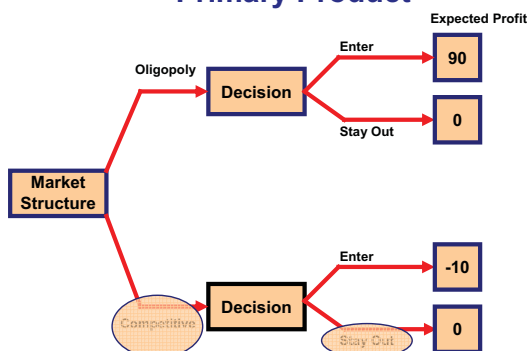
Q2t* : 200,845 (tones/year)

Market Proportion
ITRO's Founding Members (Indonesia, Malaysia, Thailand/IMT)
and The Rest Exporters (Non-IMT) in Tones
1987-2007

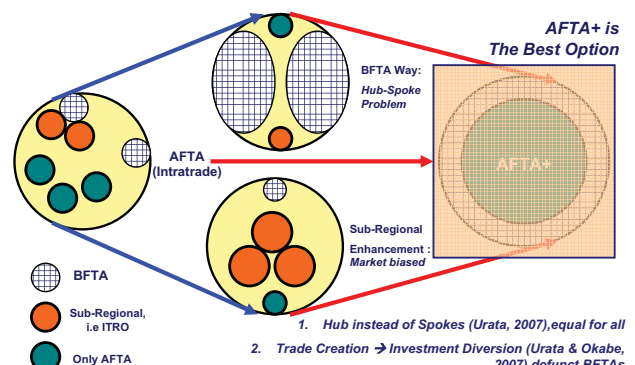
Year	IMT Strategy	Non-IMT Strategy
1987	Oligopoly	Oligopoly
1988	Competitive	Oligopoly
1989	Oligopoly	Oligopoly
1990	Oligopoly	Oligopoly
1991	Oligopoly	Oligopoly
1992	Oligopoly	Oligopoly
1993	Oligopoly	Oligopoly
1994	Oligopoly	Oligopoly
1995	Oligopoly	Oligopoly
1996	Oligopoly	Oligopoly
1997	Oligopoly	Oligopoly
1998	Oligopoly	Competitive
1999	Oligopoly	Oligopoly
2000	Oligopoly	Competitive
2001	Competitive	Oligopoly
2002	Competitive	Oligopoly
2003	Oligopoly	Competitive
2004	Competitive	Oligopoly
2005	Oligopoly	Competitive
2006	Competitive	Oligopoly
2007	Competitive	Oligopoly

1 non-cooperative
Transition in year of conflict between producer & buyer in INRA
Adjustment period lag
Source: Author's calculation based on FAO statistic data, 2010

Investor's Incentive on Primary Product



Conclusion & Recommendation (Future Study)



ありがとうございます
Terima Kasih
Thank You

AFTA & BFTA Effects on IMT's Intratrade

Dependent Variable: Intratrade	OLS (ORIGINAL TSLs)	SUR (SYSTEM)	SIMULTAN (SYSTEM)
R-squared	0.66	0.69	0.74
Adjusted R-squared	0.62	0.64	0.67
Sum squared resid	0.001	0.001	0.001
Durbin-Watson stat	1.75	1.88	1.99
F-statistic	17.09		
Coefficient	Constant 0.12	Constant 0.12	Constant 0.12
Std Error	0.004	0.005	0.006
t-statistic	24.91	23.46	21.12
Probability	0.00	0.0000	0.0000
Coefficient	GDP 3.98E-14	GDP 5.84E-14	GDP 8.00E-07
Std Error	1.06E-14	1.46E-14	4.74E-07
t-statistic	3.77	3.99	1.69
Probability	0.001	0.0004	0.10
Coefficient	AFTA 0.01	AFTA 0.0085	AFTA 0.01
Std Error	0.005	0.005	0.005
t-statistic	1.83	1.72	2.01
Probability	0.08	0.09	0.05
Coefficient	BFTA Not Significant	BFTA -0.0097 0.0059	BFTA -0.009 0.006
Std Error			
t-statistic		-1.63	-1.44
Probability		0.11 (NS)	0.16 (NS)

Source: Author's
Estimation of
econometric analysis
2010

1. Original TSLs
 2. TSLs
 3. SUR
 4. SEM
- (Aggregate Data)

Dependent Variable: FDI	Original TSLs	TSLs- (IV) CONS(1): POP, RCA; RW(1); INTRA, ERI(1)	SUR (SYSTEM)	Simultan (SYSTEM)
R-squared	0.75	0.8	0.8	0.8
Adjusted R-squared	0.64	0.7	0.7	0.7
Sum squared resid	6,827	56,734,169	56,734,793	6,734,169
Durbin-Watson stat	1.82	2.79	2.80	2.79
F-statistic	6.67	8.47		
Prob (F Stat)	0.0021	0.00069		
Coefficient	Constant -261.508	Constant -330,293	Constant -328,971	Constant -330,293
Std Error	75.216	95.804	77.226	95.804
t-statistic	-3.48	-3.45	-4.26	-3.45
Probability	0.004	0.0042	0.0002	0.0017
Consumption (-1)		Consumption (-1)	Consumption (-1)	Consumption (-1)
Coefficient	-1.83E-07	-2.19E-07	-2.18E-07	-2.19E-07
Std Error	5.68E-08	5.88E-08	5.88E-08	5.88E-08
t-statistic	-3.23	-3.72	-4.60	-3.72
Probability	0.007	0.0026	0.0001	0.0008
Coefficient	Population 1.071	Population 1.086	Population 1.083	Population 1.086
Std Error	2.49	2.98	2.49	2.99
t-statistic	4.3	3.32	4.35	3.32
Probability	0.0009	0.0038	0.0001	0.0014
Coefficient	RCA 22.746	RCA 28.633	RCA 28.577	RCA 28.633
Std Error	8.324	8.322	8.708	8.322
t-statistic	2.73	3.44	4.26	3.44
Probability	0.017	0.0044	0.0002	0.0018
Coefficient	RW(1) 18	RW(1) 16.73	RW(1) 16.73	RW(1) 16.49
Std Error	4.4	3.98	3.20	3.98
t-statistic	4.12	4.19	5.21	4.19
Probability	0.0012	0.0011	0.0000	0.0002
Coefficient	INTRA -995.312	INTRA -119,892	INTRA -124,133	INTRA -119,892
Std Error	247.443	65.340	52.468	65.340
t-statistic	-4.02	-1.83	-2.35	-1.83
Probability	0.002	0.0895	0.025	0.077
Coefficient	ERI -4.50	ERI -4.79	ERI -4.74	ERI -4.79
Std Error	1.46	2.56	2.06	2.56
t-statistic	-2.73	-1.87	-2.30	-1.87
Probability	0.017	0.0835	0.028	0.07
Coefficient	FDI NONE		FDI -4.06E-07	FDI -4.74E-07
Std Error				
t-statistic				
Probability			0.1025	

Intratrade &
Macroeconomic
Effect on
IMT's Net FDI

Source: Author's
Estimation of
econometric analysis
2010

5. OLS - Indonesia
6. OLS - Malaysia
7. OLS - Thailand

Dependent Variable: Net FDI	Indonesia	Malaysia	Thailand
R-squared	0.70	0.92	0.94
Adjusted R-squared	0.61	0.90	0.92
Sum squared resid	37,859,662	13,604,948	8,069,010
Durbin-Watson stat	2.00	1.69	1.87
F-statistic	8.6	45.49	41.34
Prob (F Stat)	0.00081	0.00000	0.00000
Coefficient	Constant -9,018	Constant 13,359	Constant 14,419
Std Error	2,568	2,854	2,327
t-statistic	-3.5	-4.68	6.19
Probability	0.0032	0.0003	0.0000
Coefficient	Consumption Not significant	Consumption Not significant	Consumption Not significant
Std Error			
t-statistic			
Probability			
Coefficient	Elecons(-1) 21.05	Elecons(-1) 2.83	Elecons(-1) 7.77
Std Error	5.96	0.73	0.90
t-statistic	3.53	3.87	8.63
Probability	0.003	0.0015	0.0000
Coefficient	RW 5.94	RW 4.18	RW Not Significant
Std Error	1.31	0.53	
t-statistic	4.51	7.86	
Probability	0.0004	0.0000	
Coefficient	BFTA -2.898	BFTA 3.188	BFTA Not Significant
Std Error	1.409	1.084	
t-statistic	-2.04	2.94	
Probability	0.057	0.01	
Coefficient	ERI(-1) 0.47	ERI Not significant	ERI(-1) -189
Std Error	0.15		36.92
t-statistic	-3.03		-5.12
Probability	0.0083		0.0002
Coefficient	FDIProfit Not significant	FDIProfit Not significant	FDIProfit(-1) 1,82E-06
Std Error			2.70E-07
t-statistic			6.75
Probability			0.0000
Coefficient	Intra Not significant	Intra Not significant	Intra -87.585
Std Error			20.931
t-statistic			-4.18
Probability			0.0011

BFTA, Intratrade &
Macroeconomic
Effect on
Each IMT Net FDI

Source: Author's
Estimation of
econometric analysis
2010

8. PLS
9. PLS-Fixed
10. PLS-Random

H0: PLS Estimator is appropriate
(Restricted)
H1: Fixed Effect Estimator is appropriate
(Non-Restricted)

$$CT = \frac{(RSS - URS)}{N-1} \bigg/ \frac{URS}{NT - N - K}$$

= 9.684.4 > F-Stat; **FEM**

H0: Random Effect Estimator is appropriate
H1: Fixed Effect Estimator is appropriate

Hausman Test: Chi-sq is 0,
Hausman Statistic set 0, RE
is invalid, **FEM**

Source: Author's
Estimation of
econometric analysis
2010

Dependent Variable: Net FDI in Rubber	POOLED LEAST SQUARE	POOLED EGLS CROSS SECTION (SUR) FIXED EFFECT	POOLED EGLS RANDOM EFFECT
R-squared	0.87	0.92	0.80
Adjusted R-squared	0.86	0.91	0.78
Sum squared resid	20,769	55.6	15567
Durbin-Watson stat	0.76	1.6	0.98
F-statistic	72	89	44.3
Coefficient	Constant -72.07	Constant -64.9	Constant -73.81
Std Error	14	9.84	18.8
t-statistic	-5.15	-6.59	-3.93
Probability	0.0000	0.0000	0.0002
Coefficient	Elecons*** 0.0045	Elecons*** 0.0033	Elecons*** 0.0056
Std Error	5.13	11.29	6.77
t-statistic	0.0000	0.0000	0.0000
Probability			
Coefficient	ERI(-1)** -0.002	ERI(-1)** -0.003	ERI(-1)** -0.002
Std Error	0.0012	0.00069	0.0013
t-statistic	-1.8	-4.48	-1.85
Probability	0.08	0.0000	0.07
Coefficient	PRODURUB*** 7.69E-05	PRODURUB*** 6.14E-05	PRODURUB*** 6.57E-05
Std Error	5.07E-06	6.09E-06	6.87E-06
t-statistic	15.16	10	2.46
Probability	0.0000	0.0000	0.017
Coefficient	PRUB*** -0.014	PRUB*** -0.014	PRUB*** -0.012
Std Error	0.0005	0.00035	0.0008
t-statistic	-2.49	-3.91	-2.46
Probability	0.016	0.0003	0.017
Coefficient	ITRO** -17	ITRO** -12.1	ITRO** -21.2
Std Error	9.13	5	8.58
t-statistic	-1.86	-2.39	-2.47
Probability	0.07	0.02	0.017
Coefficient		Fixed Effect (Cross) Indonesia :22.3 Malaysia : -32 Thailand : -9.7	Random Effect (Cross) Indonesia : 20 Malaysia : -28.5 Thailand : 8.5

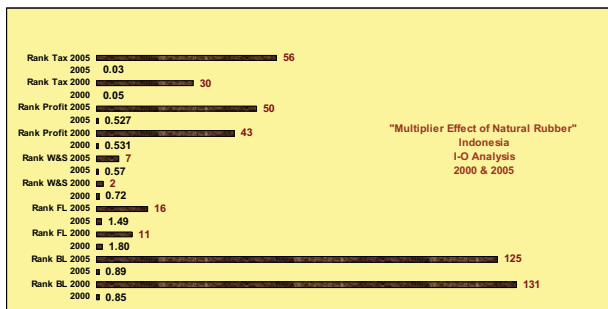
Forthcoming Study: Rubber's Impact on Indonesia Economy 2005

Rubber Impact on Indonesia Economy
Input Output Table Analysis
2005

Product Description - IO 2005	Rubber	Top Rank
Code	12	
Backward Linkages (BL)	0.89	
BL Rank	125	75%
Forward Linkages (FL)	1.49	
FL Rank	16	10%
Wage & Salary	0.57	
W&S Rank	7	5%
Profit	0.53	
Profit Rank	50	30%
Indirect Tax (IT)	0.03	
IT Rank	56	35%
Export to Final Demand	0.00005	
Export Rank	123	71%

Source: Author's calculation based on 2005 I-O Table, 2010

Forthcoming Study: Rubber's Impact on Indonesia Economy 2000 vs 2005



Source: Author's calculation based on 2000 & 2005 I-O Table, 2010

Spaghetti effects in Asia – A QCA analysis of Free Trade Agreements

Po-Kuan WU

PhD Candidate
European University Institute
Paper presented in Summer Institute
Waseda University

1

Outline

- Introduction
- Parallel to trade multilateralism
- FTA/RTA mushroomed (also in E. Asia)

2

Introduction

- A global picture- Spaghetti bowl effects
- Parallel to trade multilateralism
- FTA/RTA mushroomed (also in E. Asia)

3

Regional integration

- RTA=Regional Trade Agreement
(ex. NAFTA, ASEAN, MECOSEUR)
- FTA=Free Trade Agreement
(ex. US-Korea, Japan-ASEAN, EU-Mexico)
- Custom Union= no internal tariff
(ex. EU, EU-Turkey etc)

4

Proliferation of FTAs - Spaghetti bowl effects



5

Oh!
No more spagehtti, please!



6

Protests In Thailand



7

NO! We don't wanna sign on that (Korea-US FTA)



8

Nay in Taiwan against ECFA



9

Regionalisation vs Multi-lateralism

- WTO Plus
- FTA/RTAs are exempted from the rules, as long as they aim to further liberalise the trade amongst the contracting parties (GATT Art. VIXX)

10

Research Question

- Assumption: a FTA/RTA can be understood as a strategic move by the negotiating parties
- *What are underpinning rationales for FTAs in East Asia?*

11

Theories

- IPE literature – trade liberalisation enhances the political mobility
- Economic rationale – trade creation effects/competition
- Political rationale – institutional factors

12

Research Method

- QCA – Qualitative Configurative Analysis
- Strength –
 - a. comparative study with a few cases (small-medium size cases)
 - b. qualitative configuration with logical combinations

13

The Conditions (variables)

- Economic rationales-
 - A. Exports
The more exports to a trade partner, the more likely a FTA can be concluded
 - B. Competition
If another Asian economy concludes a FTA with the trade partner, it is more likely to conclude a FTA

14

The Conditions (variables)

- Political rationales-
 - A. Veto players
The more political constraints (veto players) in the political institutions, the less likely a FTA can be initiated
 - B. Partisanship
The right government in office is more inclined for a FTA

15

Equation

- FTA conclusion –
- **C+E+R+V → FTA**

16

Case selection

- FTA concluded in E. Asia–
 - Japan (11)
 - S Korea (7)
 - Taiwan (6)
 - Singapore (12)
 - Australia (5)
 - New Zealand (8)

17

Examples

- **Sufficient** conditions –
The cause of A leads to event B
ex. Heat (A) leads to the water boiling (B)
- **Necessary** conditions -
When event B happens, we observe cause A
ex. War (B) and fresh air (A)

18

Results

- **Necessary** conditions

-

	Consistency	Coverage
RIGHT	0.869565	0.930233
EXPORT	0.23913	0.785714
VETO PLAYER	0.804348	0.948718
COMPETITION	0.347826	0.888889

19

Results

- **Necessary** conditions

-

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EXPORT	0.23913	0.785714
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COMPETITION	0.347826	0.888889

20

Equation

- **export*RIGHT+ VETO PLAYER*competition
+export*COMPETITION+RIGHT*COMPETITION→
FTA**

	raw coverage	unique coverage	consistency
-EXPORT*RIGHT	0.652174	0.130435	1
VETO PLAYER*-COMPETITION	0.521739	0.152174	0.96
-EXPORT*COMPETITION	0.195652	0.043478	1
RIGHT*COMPETITION	0.304348	0.152174	0.875

21

Conclusion

- no individual sufficient condition is identified
- two necessary conditions confirmed
- Asian variances of FTAs?! (more homogeneous)

22

Japan's FTAs as Tools for Achieving a Firm's Commercial Interests: Do Japanese Corporations Need a Region-Wide Trade Liberalization Treaty?

Anna Jerzewska
PhD Candidate
University of Leeds,
White Rose East Asia Centre

International Political Economy (IPE) Model

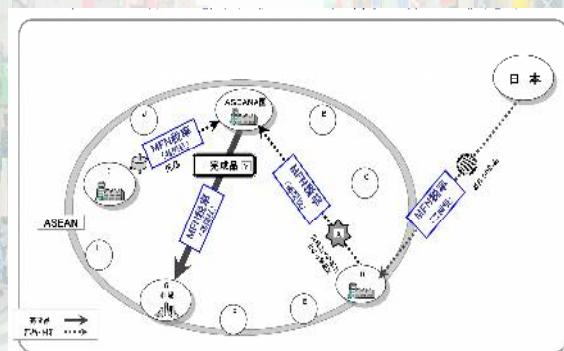
Based on Aggarwal's framework (2006)



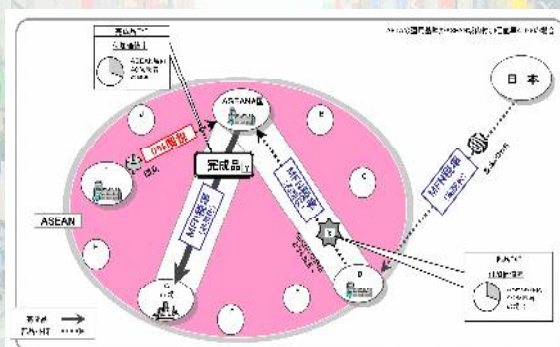
Internationalisation of Japan's Production Networks

- Shifting the production base
- The Plaza Accord of September 1985
- Internationalisation of production networks
- Newly industrialized economies (NIEs) - Hong Kong, South Korea, Singapore, and Taiwan
- ASEAN countries
- China
- 2000 China proposes an FTA to ASEAN
- Beginning of negotiations with ASEAN members

1. Situation Before 1990s



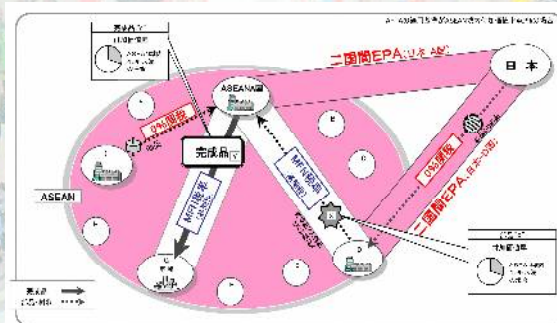
2. AFTA



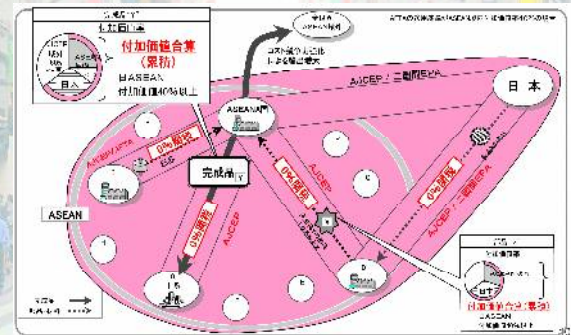
3. Japan's Bilateral FTAs

- Increasing competition
- Supported mainly by MNCs vertically integrated operations
- Procurement of parts and components
- EPA-style approaches – improving operations of production networks
- Defensive or reactive FTAs
- 3rd parties FTAs – India-Thailand and Australia-Thailand-New Zealand

3. Japan's Bilateral FTAs



4. ASEAN-Japan Comprehensive Economic Partnership 2008



5. Lead Time

生産LTの短縮に向かって

	PS1	生産LT	在庫	納期	仕出	見込	出荷
従来	20日	30日~60日	合計 88日	2日	1日	5日	
目標	10日	30日	合計 46.5日	0.5日	1日	5日	

調達部分が顕著に短縮されている

Thank you
Q&A

Linguistic Imperialism in Higher Education in East Asia

- Implication for Collaborative Framework of
Languages -

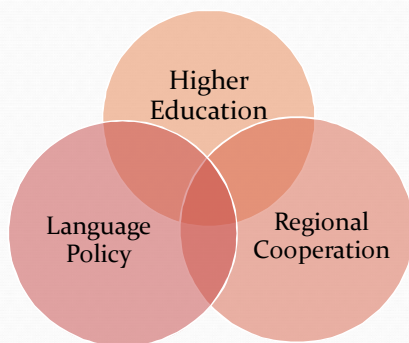
Sae SHIMAUCHI

PhD Student, Graduate School of Asia-Pacific Studies, Waseda University
Research Fellow, Global Institute for Asian Regional Integration (GIARI)
Research Fellow, Japan Society for the Promotion of Science (JSPS)

Outline

- ◆ Areas of Interests
- ◆ Research Objectives
- ◆ Research Rational 1-2
- ◆ Literature Review 1-3
 - Region
 - East Asia
 - East Asian Higher Education
- ◆ Problem Statements
- ◆ Research Questions
- ◆ Theoretical Framework 1-2
- ◆ Methodology
- ◆ Tentative Findings
- ◆ References

Areas of Interest



Research Objectives

- ◆ To provide a comprehensive analysis of...
 - The impact of globalization on language issues such as domination of English as lingua franca
 - Recent trend on language issue in the context of Internationalization on Higher Education in East Asia
- ◆ To examine the role and perceptions of medium language of education and the role of Lingua Franca in the context of Higher Education in East Asia
- ◆ To look for the significance of regional cooperation on language issues in East Asia for future East Asian

Research Rational 1

Why do language issues matter in the context of East Asia?

- ◆ Linguistic Diversity as an asset
- ◆ Colonial Experience in Education
- ◆ National Sovereignty and Nationalism in Languages

Language = not just a tool for communication

- is/was to educate people to comply the dominant power
- is/was the tool for empowerment, upward social mobility and privileged position in society

Research Rational 2

Why do language issues matter in the context of Higher Education?

- Importance of medium language of education for international students to determine the destination country for studying abroad.
- Competency in language is important qualification for university students since it's the empowerment tool for them to increase their socio-economic status in many counties.

Literature Review 1

Learning from European Experience

- LINGUA programme (promotion of official national language?) + SOCRATES/ERASMUS (promoting higher education mobility)
 - Response to dominance of English
 - : “Plurilingual” education (Council of Europe)
 - ➔ to strengthen linguistic and cultural links between Europeans in different nations
 - Huge burden in terms of financial and human resource management for the multilingual policy
-Can we do this in the context of Asia?

Literature Review 2

Concerns about medium language of Higher Education

- Core-Periphery Structure in Higher Education (Altbach 2004)
- Growing number of student mobility intra East Asia
- “Regionalization”
- International cooperation and networks in higher education institutes level: “International Program” (Knight 2008)
- Linguistic divide (English divide, dominant language divide) (Phillipson 1992, 2010)
- English has already become de facto lingua franca in East Asia among political dialogue, civil society (Crystal 2003)

Literature Review 3

Language of Domination and its Response

Dominance

- English as de facto “Lingua Franca” in academic, economic and political world
- International program is the new trend of “Regionalization” of higher education in East Asia

Response

- Promotion of national language (China, South Korea, Japan)
- Linguistic rights, mother tongue education

Problem Statements

Not against the idea of situating English as lingua franca in East Asian higher education, but questioning the domination of English as lingua franca

- Linguistic divide in English (elite – non elite)
- No framework of language policy, no vision **as one region** (Traditional approach to those language issues has been taken **only by nation-state level**)

Research Questions

1. How do students perceive the role and value of medium language of education? (What kind of hidden agenda do students have or influence on students when they determine the destination country for studying abroad?)
2. What is the role of lingua franca in higher education in East Asia for individual perspective?
3. Can English be a counter-hegemonic medium facilitating mutual understanding in East Asian region?
4. How well does the existing theory about languages fit the situation in East Asian Higher Education?

Theoretical Framework 1

Robert Phillipson’s Linguistic Imperialism

- English is now entrenched worldwide, as a result of British colonialism, international independence, ‘revolutions’ in technology, transport, communications and commerce, and because English is the language of USA, a major economic, political, and military force in the contemporary world.
- **English Imperialism**: the dominance of English is asserted and maintained by the establishment and continuous reconstitution of structural and cultural inequalities between English and other languages
- English is used widely for supranational and international links, English linguistic imperialism operates globally as a key medium of **Centre-Periphery relations**. (Phillipson, 1992)

Theoretical Framework 2

Antonio Gramsci's "Language and Hegemony"

- Hegemony is used to illustrate that whether or not individuals, institutions or states **'choose' (seeming freely)** to learn, teach or facilitate English, the spread of English is part and parcel of unequal power relations. (Kachu 1997, Tollefson 2000) = "**Spontaneosity**"
- Language use is intimately tied to education, culture, ideology and politics. It cannot be divorced from questions of subordination and domination but also contains **possibilities for resistance** and struggle in what Gramsci calls the 'war of position' in **preparation for social change** and 'war of maneuver' (Ives 2004)

Methodology

Qualitative research

- Pilot Interviews (forming questions and guideline)
- In-depth and Semi-structured interview to international students enrolled in international program in some Northeast and ASEAN country
- Selected countries are: South Korea, Japan, Thailand
- Selected universities are: Waseda University (Japan), Yonsei University (Korea), Mahidol University (Thailand)
- All leading university which has international program in English and normal program in national language
- 30 students from each country, 15 students from international program and 15 students from normal program
- Re-structuring questionnaire

Quantitative research

- Questionnaire to the international students in 3 countries above
- Utilize secondary data from AsiaBarometer

Tentative Findings 1

Dependent variable:

Motivation toward English / National language (Japanese)

Independent variable

- ◆ National factors
 - Current national Economic power
 - Ethnic diversity in their country
 - National potential (expectation toward future economic/political power)
- ◆ Individual factors
 - Cultural interest
 - Capacity building for future career
 - Starting point to upward social mobility
 - Interests in foreign language learning itself

Tentative Findings 2

Necessity toward Lingua Franca (English)

- Different role with national language in terms of identity and nationalism
- Neutrality of English
- Tool to overcome negative historical heritage in East Asia
- Improving social life
- Facilitating cross border mobility

References (selected)

- David Crystal, "English as a Global Language" (Second Edition), Cambridge University Press, 2003
- Jane Knight, "Higher Education in Turmoil -The Changing World of Internationalization", Sense Publishers, 2008
- Peter Mayo, "Gramsci and Educational Thought", Wiley-Blackwell, 2010
- Peter Ives, "Language & Hegemony in Gramsci", Pluto Press, 2004
- Philip. G. Altbach, Toru Umakoshi, "Asian Universities: Historical Perspectives and Contemporary Challenges", Johns Hopkins University Publishing, 2004
- Robert Phillipson, "Linguistic Imperialism", Oxford University Press, 1992
- Robert Phillipson, "Linguistic Imperialism Continued", Orient BlackSwan, 2010

Thank you very much

The Present Conditions and Problems on Historical Recognitions between Japan and Asian Neighboring Countries

Kinuyo Kawaji
Graduate School of Political Science,
Waseda University

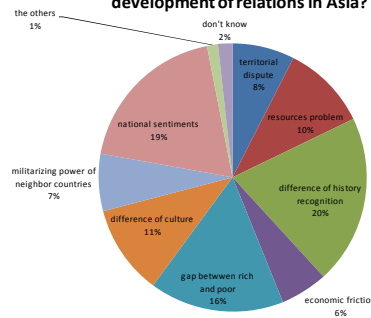
What is the Historical Problems?

- The differences of history recognitions based on national history cause the clash of nationalisms among Northeast Asian countries.
- The history of empire/colony
 - orthodoxy of national history (imperialist nationalism VS anti-imperialist nationalism, aggression VS resistance)
- Memories of the World War II (of a nation)
 - "imagined community" (Anderson), community feeling the past sacrifices (Renan)
 - self-victimization? (massacre, war dead for the state, occupation etc.)
- * symbol
- Nationalized universal ideas (crime against peace, crime against humanity)
 - * war of the 20th Century: weapons of mass destruction, massacre, racism, unfree (forced) labor, sexual violence (as for Japan, "comfort women")
 - * human rights movement from the 1990s
- Issues and controversies about:
 - Yasukuni shrine, history textbook, "comfort women" etc.

What are the effects of the historical problem?

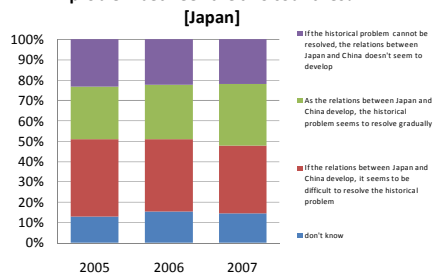
- Mutual distrust on a deep level (despite economic, social and cultural exchanges extend)
- The obstacle to the development of the relationship among Northeast Asian countries.
 - meaningless or harmful matter? / important matter to resolute? (Is historical reconciliation possible?)
 - Joint history research among Northeast Asian countries
- * positivism and its limitation
- * a vicious circle of nationalisms?
- Reactionary movements (neo-nationalism, historical revisionism etc.)
- Anti-Japan protests
- Diplomacy card

What do you think the biggest obstacles to the development of relations in Asia?



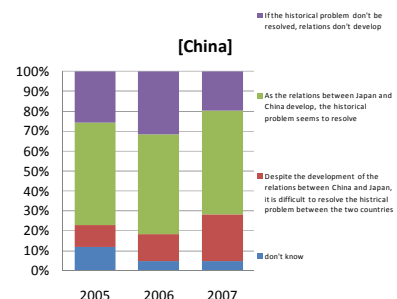
Source: Asia-Vision Survey, 2009

What do you think about the relations between Japan and China and the historical problem between the two countries?



Source: Genron NPO, The 3th Japan-China Joint Opinion Poll in 2007 (arranged)

[China]

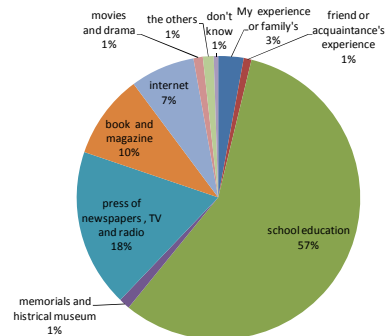


Source: Genron NPO, The 3th Japan-China Joint Opinion Poll in 2007 (arranged)

What causes the historical problem? (1) Appearance

- Nationalism
- National sentiments
- School education of national history (including nation-centered history, education for patriotism,) under state control (Ex. The textbook authorization system in Japan, censorship etc.)→the history textbook controversies
- Mass media

What is the main sources of your knowledge of other Asian countries?



Source: Asia-Vision Survey, 2009

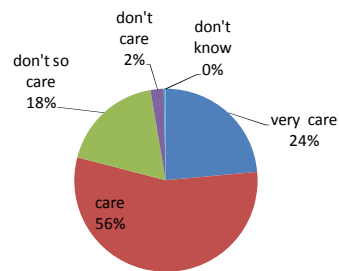
What causes the historical problem (2) background

*** The process of war reparation under the Cold War system: bilateral agreements at the intergovernmental level**

Rise: Since the late 1980s-90s

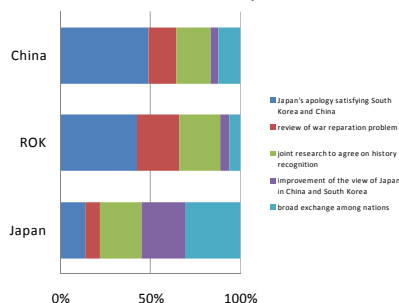
- The collapse of the Cold War →breaking the seal of the historical problem
- * The process of Japan's war reparations under the division of the East / West
- Globalization →reaction and adaptation (neo-nationalism, inter-nationalism, trans-nationalism, globalism etc.)
- Regionalization under globalization

How far do you care about the historical problem?



Source: Asia-Vision Survey, 2009

What do you think the most effective to resolve the historical problem?

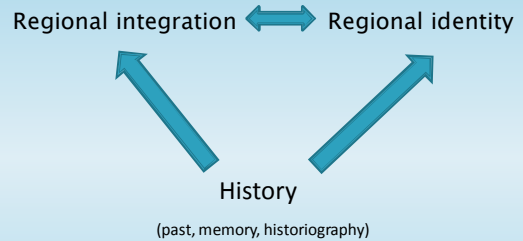


Source: Asahi Shimbun, 27 April, 2005

‘History politics’, Asian identity, and visions of an East Asian Community

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Integration, identity, history



Nations and Regions

“Nations are not something eternal. They have begun, they will end. They will be replaced, in all probability, by a European confederation.”

Ernest Renan, “Qu’est-ce qu’une nation?” (1882)

- ▶ “common glories in the past”, “a heritage of glory”, “heroic past”
- ▶ “*common suffering*” and “having suffered *together*”

Regional Integration & Identity

“[...] have been pushed towards disunity by their history and by selfishly defending misjudged interests. But they have overcome their past enmities [...].”

‘Declaration on European Identity’ (Copenhagen, 14 December 1973)

“[...] the peoples of Europe are determined to transcend their ancient divisions [...].”

Draft Treaty Constitution for Europe (Brussels, 25 June 2004)

- ▶ Region as natural entity (despite “ancient divisions”)
- ▶ Region as goal of historical development
→ teleological view of history

‘history politics’

- ▶ Instrumentalisation of history for political ends
- ▶ “the political currency of the past”
 - The past’s omnipresence, “its pervasiveness and intrusiveness”
 - “medium of exchange”: “Past suffering and misfortune may be converted into moral capital”
- ▶ “control its framing, storytelling, and interpretations, and to shape (some would say manipulate) public or collective memories for current partisan, factional, national, or ideological advantage”

Martin O. Heisler, “The Political Currency of the Past: History, Memory, and Identity”, 2008.

‘history politics’ and identity

- ▶ “a political idea and mobilizing metaphor”, “an ideology” with “subtexts of racial and cultural chauvinism”
- ▶ “*xeno-stereotypes*” derived from “*auto-stereotypes*” (or vice versa)

Bo Stråth, “A European Identity: To the Historical Limits of a Concept”, 2002.

'history politics' & discourse on integration and identity formation in East Asia

- ▶ Official level (politicians, bureaucrats)
Case studies: Hatoyama Yukio, Wang Yi
- ▶ Think tanks (foundations etc)
Case studies: Northeast Asia History Foundation, East Asia Foundation, Council on East Asia Community
- ▶ "Private" initiatives (scholars, teachers, civil society actors) → "memory culture", "history culture"

Hatoyama's advocacy of an East Asian Community & Asian identity

- ▶ Asian integration: Europe as model
- ▶ Modern history of enmity → ancient history of co-prosperity ("common glories of the past")

"[...] we must not repeat the unfortunate history of the past hundred years in which the seas of East Asia were made into seas of conflict."

→

"If we trace history back still further in units of several hundreds or thousands of years, we see that these seas have also yielded prolific rewards [...]. The sea did not create differences in language or antagonism among religions; instead it blended such differences and served as the foundation for mutual development. Had this not been so, we would not have so many people living in this region with an awareness of themselves as Asians."
- ▶ Asian identity: critique of "Western dualism"

Chinese affirmations of Asian Regionalism & Asian identity: Wang Yi

- ▶ Asian integration: trend of times
- ▶ Modern history of enmity → ancient history of co-prosperity ("common glories of the past")
self-seclusion, internal disputes, Western & Japanese invasions
→
"For a long period, Asia stood at the forefront of history and made some distinguished contributions to the human race. [...] The three great religions of the world, Christianity, Buddhism, and Islam, all have their origins in Asia. [...] a number of outstanding inventions by Asians have influenced the progress of global civilization. Also, for a long time Asia was leading the world economy."

'history politics' and think tanks: The Northeast Asia History Foundation

- ▶ Asian integration: central role of history
"[...] unresolved historical and territorial issues are obstacles to the region's trust-building efforts. The Foundation strives to diagnose the precise causes of the region's historical and territorial disputes and prescribe appropriate responses and strategies. [...] The Foundation will continue to spare no effort to protect historical and territorial sovereignty, advance a shared understanding of history for mutual development, and build a Northeast Asian regional community that pursues peace and prosperity."
- ▶ Focus on highly disputed historical issues
- ▶ Strategic focus on history: moral surplus, "Korean pride"

'history politics' and think tanks: The Korean East Asia Foundation

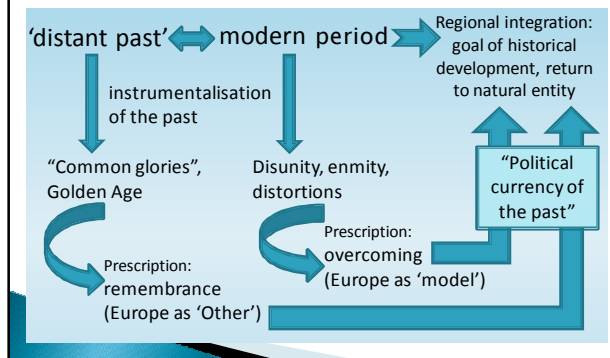
- ▶ Asian integration: emphasis on historical unity & focus on historical commonalities
 - "Northeast Asia" as an entity since the 7th century, disturbed by great power politics
- ▶ Critique of the usage of history "to pursue parochial nationalism at the expense of regional cooperation" as "a Faustian bargain with the forces of the past"

Moon Chung-in/Suh Seung-won, "Burdens of the Past: Overcoming History, the Politics of Identity and Nationalism in Asia", 2007

'history politics' and think tanks: The Council on East Asia Community

- ▶ Critical view of Asian integration & Japan-centred:
"not to promote, but to study the concept of an East Asian Community" and "to pursue what the strategic response of Japan should be"
- ▶ Critique of 'Asia' concept:
"In fact, it is rather difficult to consider 'East Asia' as a regional concept. At any rate, it is a fact that there is not even an agreement on 'Asia' as a geographical division. When it comes to considering a common 'Asia' within the framework that includes identity, such as 'cultural bloc', 'religious bloc' or 'political bloc' the concept becomes even more ambiguous."
- ▶ History as a proof of Asia's diversity → scepticism

Conclusion: 'History politics', regional integration & identity formation



Regional integration in East Asia/Southeast Asia and Central Asia: politics and policies compared

Chinara Esengul
Assistant professor, PhD candidate
School of International Relations, KNU
GIARI, August 6, 2010

Rationale of the research

- Study Asian regionalism
- Track non-European features
- Compare cases of Asian regionalism
- Identify differences/similarities
- Draw policy lessons

Definitions

- Region- a certain group of countries (outsiders vs. insiders)
- Regionalism (regional integration)– a set of policies
- Regionalization – increased commercial and human transactions in a defined geographical space

Locations

- Post-Soviet space (15 former soviet republics) presented in the paper as a case of regionalism
- Central Asia - a case of sub-regionalism (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan)
- Southeast Asia (ten ASEAN member-states) a case of sub-regionalism
- East Asia (ASEAN+3 and other countries of Northeast Asia and Asia Pacific), a case of regionalism

Political map of CA



Comparison and differences

- ASEAN – principle of non-intervention into internal affairs and a dialogue platform with external powers (1967)
- Commonwealth of Independent States (CIS, 1991) disintegration and integration (December 8, 13 and 21, 1991)
- Issue of regional leadership (Russia and Japan???)

Regional leadership/hegemony

Sub-region:

- Kazakhstan vs. Uzbekistan

Region:

- Relations of Japan and other East Asian states
- Relations of Russia with other post-Soviet states

Global :

- the USA and its attitude towards regionalism in East Asia and Central Asia

Japan's role

According to Terada, the role of Japan was critical in three normative transformations in East Asian regionalism

1. Gradual involvement of the government
2. From economic cooperation to trade liberalization
3. Open membership (APEC /USA vs. East Asian Community/Summit)

Why different?

Geopolitics of regions (USA-Russia, Greater Central Asia project, China's position)

Contextual conditions (Central Asia- "Soviet experience" and East Asia – a periphery of capitalism)

ASEAN in SEA and ??? in Central Asia (the pace matters, Customs Union, 2010)

Changes in policy

Conceptual:

- Regional cooperation is about compromise and sacrifice;
- Interdependence - not only depending on each other, but being capable to support each other
- A shift from talking to doing

Concrete recommendations

- To revive a purely CA regional institution
- To create non-governmental policy networks
- Their policy suggestions discussed and implemented by heads of states/governments
- To give priority to regional development projects along with trade liberalization (marketization)
- To improve governance in each CA country

Difficulties and limitations

- Regime or personal interests over national or regional;
- External factor as a limitation (geopolitics and Islamization)

Conclusion:

- Common challenges but different ways to address
- Functionalism in ASEAN way

Thank you

- For your attention
- Time and feedback
- Please write to chinara.esengul@gmail.com

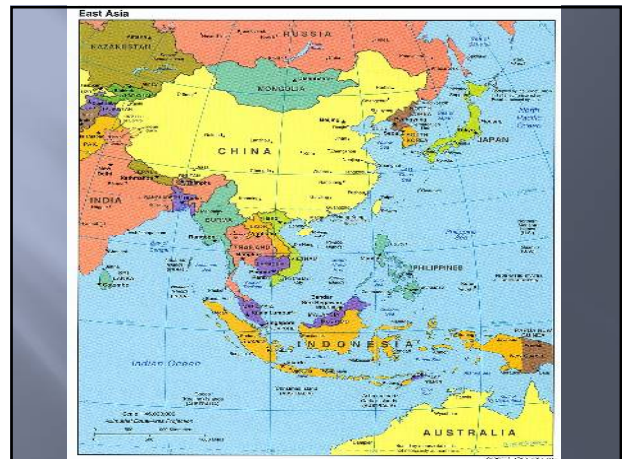
THE RISE OF CHINA AND THE EAST ASIAN REGIONALISM IN POST-COLD WAR EAST ASIA

Regionalism - theories

- Region and regionness
- Regionalism - definitions
- Asian collective identities and regionalism refer to political, economic and cultural processes that are creating new relations between places and people.

What is East Asia?

- C. Dent: Northeast Asia and Southeast Asia
- M. Beeson: Northeast Asia (without Macao SAR and Mongolia) and the member states of ASEAN
- D. McDougall: Northeast Asia (including Pacific Russia) and Southeast Asia
- **For the purpose of the paper: the states in ASEAN + 3 (the member states of ASEAN and China, Japan and South Korea)**



East Asian Regionalism

- The process of regional integration on different levels and on different aspects between the states in East Asia.
- Diversity and unity in East Asian and the regionalism

The beginning of the integration

- SEATO in 1954 (Manila, the Philippines);
- Association of Southeast Asia in 1961 (the Philippines, Malaysia and Thailand);
- Asia and Pacific Council – ASPAC, in 1966;
- ASEAN in 1967 (Bangkok, Thailand);
- Outside ASEAN: FDPA in 1971.

The transition towards “real” East Asian Regionalism

- ASEAN Free Trade Agreement in 1992;
- ASEAN Regional Forum in 1994;
- Asia-Europe Meeting in 1996;
- ASEAN+3 in 1999;
- East Asian Summit in 2001.

Rise and Hegemony

- The definition of comprehensive national strength
- The hegemony from the perspective of the political realism
- Im. Wallerstein, the Modern world system and the changes in the hegemonic influence
- The hegemony in the eyes of the political economy theories (P. Kennedy and B.K. Gills)

Chinese foreign policy principles

- The peaceful rise/development as strategy
- The three periods of PRC participation in international governmental organisations
 - Reforming the system (1949-1971)
 - Support of the system (1971-1980)
 - Using the system (1980-nowadays)

China-(South)East Asia relations

- The four periods of China-ASEAN relations
 - 1967-1978
 - 1978-1989
 - 1989-1997 (1999)
 - 1999-2009 (the Global economic crisis)
- China in ARF, APT and EAS



**Thank you
for your
attention!**



2010 Summer Institute

China's Changing Perception of U.S.- Japan Military Alliance

Xie Zhihai
School of International Studies,
Peking University



China and U.S.-Japan Alliance

- “Security Dilemma” : A Security Game between one country and one military alliance.
- “Perception and Misperception”: One actor's perceptions of other actors' military intentions and actions greatly influence its own intentions and actions.



Evolving Process of U.S.-Japan Alliance in China's Eyes

- 1951-1989 U.S.-Japan Alliance in Cold War
- 1989-1994 Floating situation of U.S.-Japan Alliance
- 1994-2001 Redefinition and adjustment of U.S.-Japan Alliance
- 2001- Strengthening of U.S.-Japan Alliance since 9.11



Floating of U.S.-Japan Alliance

- End of Cold War and the losing of the common enemy: “Enemy Deficiency Syndrome”
- New world order and the trend of Multi-polarity made the alliance loose
- Chinese officials and scholars predicted that the alliance would go to an end
- Good opportunity for Sino-Japanese Relations



Redefinition of U.S.-Japan Alliance

- The pivot implement for U.S. Grand Strategy in Asia
- The platform for Japan's Rearmament and its pursuit for a military power
- China Threat provided the legitimacy and incentives
- To contain the emergence of China as a great and unified power



The Impact of Redefinition of U.S.-Japan Alliance

- Changed the nature of the alliance: from a military alliance to a comprehensive bilateral alliance
- Broadened the scope of U.S.-Japan military cooperation
- Violated the regulation on “collective self-defense” in Japan's Constitution
- Japan's “Exclusively Defense-Oriented Policy” was challenged

Strengthening of U.S.-Japan Alliance after 9.11

- U.S. security strategic adjustment, the counter-terrorism war and the shared responsibility.
- The opportunity for SDF's expansion and the promotion of constitutional revision
- Strategic necessary for Japan to defense from a rising China

Traditional Thinking about U.S.-Japan Alliance

- A heritage of the Cold War
- Bilateral alliance to separate friend from enemy, "the Cold War mentality"
- Firmly linked with U.S. hegemonism and Japan's eagerness for a military power
- Direct containment and strategic besiegement towards China
- The only choice: confrontation with the alliance

New Thinking about U.S.-Japan Alliance

- A keystone for regional security and stability
- U.S. and Japan have a lot of dispute within the alliance
- China has to keep balance between the two and reduce the negative impact of the bilateral alliance
- Military transparency comes from mutual military communication

U.S.-Japan Alliance's Positive Side

- Restraining Japan's buildup of military strength and limiting Japan's ambition to become a military power
- Maintain the security order and stability in Asia-Pacific region
- Relieve the other states' anxiety about China's rising power in the region

U.S.-Japan Alliance's Negative Side

- Barrier for the establishment of multilateral security regime
- Increase the security dilemma and cause new arms races (especially for China)
- Included Taiwan into U.S.-Japan collaborative defense area, making Taiwan issue complicated for China
- Japan's dependence on U.S. making Sino-Japanese relations harder to deal with, China-Japan-U.S. an unbalanced triangle

Military Integration: Is it possible?

- Possibility 1: integrate China into the U.S.-Japan military alliance, develop into a triangle military alliance
- Possibility 2: a more broader multi-polar security community, diluting the bilateral alliance
- Possibility 3: security order dominated by U.S.-Japan Alliance arrangement
- Possibility 4: Somewhere between the balance of power and a community-based security order



Conclusion

- China's changing perception of U.S.-Japan Alliance greatly influences its security policy and arrangements.
- China has long regarded U.S.-Japan alliance as a containment towards China, and thus raises its defense expenditure significantly.
- Owing to the reassessment, China takes the alliance as a long-term existing bilateral alliance and changes its policy from confrontation to conversation with bilateral military exchange.



Thank you!

*Any advice or criticism
would be more than welcome!*