Shifting ground: Is it finally time?

Economic and Security Regionalism

East Asia’s emerging regionalism is currently very much on the agenda of both academics and policymakers. In recent years, we have seen dramatic changes in perceptions about, and responses to, this subject. Only a decade ago, it was frequently argued that East Asian countries were inherently incapable of managing their own economic and security affairs in an institutionalized manner.

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EAST ASIA, in this view, was built on sandy soil, making it unsuitable for cultivating a sense of community and regional institutions, even when other parts of the world were busy reaping the fruits of regionalism that followed the birth of the European Community in 1958 and the subsequent new wave that began in the early 1990s.

Many analysts attributed the lack of formal regionalism in East Asia to the so-called San Francisco System, which was codified through the 1951 San Francisco Peace Treaty between the Allies and Japan. Under the San Francisco System, a transregional bilateral-multilateral institutional mix on economic and security issues became a defining feature of East Asia’s institutional cooperation.

Bitter memories of Japanese colonialism, unresolved sovereignty issues, and an ideological divide across the region formed the backdrop for the San Francisco System, which offered America’s East Asian allies access to the U.S. market in return for “hub-and-spoke” bilateral security agreements. At the same time, U.S. allies were strongly encouraged to participate in broad-based, multilateral forums, such as the United Nations (UN), the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF). Aside from informal networks based on corporate and ethnic ties, the San Francisco System created few incentives for East Asian countries to develop exclusive regional arrangements.

We argue here that the traditional institutional order in East Asia has come under heavy strain in the wake of three key shocks and their aftermath: the end of the Cold War, the Asian financial crisis of 1997-98, and the September 11, 2001 attacks. Although East Asian countries maintain their traditional commitment to bilateral alliances and multilateral globalism, the erosion of their confidence in the conventional approach is increasingly visible, as manifested by the burgeoning interest in free trade agreements (FTAs), regional financial institutions, and cooperative security dialogues.

EAST ASIA’S INSTITUTIONAL ARCHITECTURE IN THE COLD WAR PERIOD

In the post-World War II era, economic and security interdependence in East Asia grew enormously. It has been marked by soaring intraregional flows of trade, capital, and human resources and was driven by the collective security threat posed by the Soviet bogeyman as well as the spread of terrorism and weapons of mass destruction. Yet seen in a comparative regional perspective, intraregional economic and security cooperation has lacked significant formal institutionalization.

With respect to regional economic arrangements, a number of cooperative schemes proposed by Japan in the 1960s-70s were broadly targeted for the wider Asia-Pacific region rather than narrowly focused on East Asia. Some prominent examples include the Pacific Free Trade Area (PAFTA, 1967), the Pacific Basin Economic Council (PBEC, 1967), the Pacific Trade and Development Conference (PAFTAD, 1968), and the Pacific Economic Cooperation Conference (PECC, 1986). Despite their ambitious goals, however, these initiatives failed—mainly due to suspicion of Japanese motives.

Despite the weakness of formal regional economic integration, the network of Japanese transnational corporations played a key role in forming a virtual economic community. Alongside this Japan-centered economic system, there emerged an informal business network, often referred to as “Greater China,” in which Chinese communities in Hong Kong, Taiwan, and elsewhere in East Asia promoted trade with, and investment in, China. These informal corporate-and-ethnic-based networks delivered unprecedented rates of growth during the 1980s and first half of the 1990s. The openness of the U.S. market, natural forces of proximity, and the vertical and horizontal integration of regional economies through Japanese investment and overseas Chinese capital seemed to have produced greater economic interdependence without substantial institutionalization at the regional level.

In contrast to the lack of formal economic regionalism, the enthusiasm of East Asian countries for the global trading and financial regime was quite remarkable and very successful. Japan joined the GATT after a complex bargaining process in 1955. South Korea became a GATT member in 1967 and many other Southeast Asian countries followed suit. China began a long campaign in 1986 to become a GATT member—a process that culminated with its accession to the World Trade Organization (WTO) in 2001. With respect to the IMF, the Philippines and Thailand were the first East Asian countries to join the club in 1945 and 1949, respectively. Japan joined the IMF in 1952 when it was still recovering from World War II. South Korea became a member in 1955 when the country’s per capita GDP was merely $67. China replaced Taiwan in the IMF in 1980 and has been an active member since then.

On the security front, East Asia lacked the equivalent of the North Atlantic Treaty Organization (NATO) or the Council on Security Cooperation in Europe (CSCE), leaving regional security coordination under-institutionalized. Although the Association of Southeast Asian Nations (ASEAN) was created in 1967 to cope with the common security threat posed by the Vietnam War, a pronounced institutional gap existed in Northeast Asia, and more broadly, in East Asia. Given the heterogeneous policy preferences and strategies of East Asian countries during the Cold War period, this was not surprising. Most notably, the U.S. opposed an East Asian equivalent of NATO or CSCE, primarily due to Soviet support for the idea. Sharing Washington’s misgivings, Japan also shied away from pushing hard for more substantive regional security dialogues. For fear of international intervention and pressure on its domestic affairs, China also obstructed any moves in this direction.

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NOTES

1 Katzenstein, 1997: 17-8
3 Ernst, 1997; MacBride, 1994
4 Katzenstein, 1997
5 Evans and Fukushima, 1999; Midford, 2000
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1 Katzenstein, 1997: 17-8
2 Bernard and Ravenhill, 1995, Hatch and Yamamura, 1996; and Pempel, 1997
3 Ernst, 1997; MacIntyre, 1994
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5 Evans and Fukushima, 1999; Midford, 2000
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Meanwhile, aside from existing multilateral institutions such as the Nuclear Non-Proliferation Treaty (NPT) and the International Atomic Energy Agency (IAEA), the first North Korean nuclear crisis in the early 1990s called for regional efforts at persuading Pyongyang to abandon its secret nuclear weapons program. The Korean Peninsula Energy Development Organization (KEDO), based on the 1994 Agreed Framework between the U.S. and North Korea, assumed the important role of providing North Korea with two light water reactors and heavy fuel oil in return for North Korea’s proposal to freeze its nuclear weapons program. Despite sometimes ambiguous mandates and the responsibilities of participating countries, including the U.S., Japan, South Korea, and the European Union, KEDO functioned relatively well in its early years. Yet it eventually was suspended in the summer of 2003 as a result of the second North Korean nuclear crisis, discussed in detail below.

In the area of economic issues, the early 1990s produced an outpouring of proposals aimed at developing economic regionalism, albeit separately focusing on Northeast and Southeast Asia. In Northeast Asia, various attempts centered on geographically contiguous parts of national economies located in the Russian Far East, Northeast China, Japan, North Korea, South Korea, and Mongolia. One of the first proposals for regional economic cooperation was made in 1990 by China to develop the so-called golden delta of the Tumen River. In Southeast Asia, ASEAN countries initiated the ASEAN Free Trade Area (AFTA) in October 1992. This initiative laid out a comprehensive program for regional tariff reduction to be carried out in several phases through 2008.

On the broader Asia-Pacific level, the Asia-Pacific Economic Cooperation (APEC) forum, which was initiated in 1989, with the U.S., Japan, South Korea, and ASEAN countries among its founding members. In the shifting Cold War context, many in East Asia saw this institution as a means of coping with ongoing problems in their relationships with the U.S. In the aftermath of the Uruguay Round of GATT negotiations, the U.S. was increasingly sympathetic to pursuing regional accords to bolster the Round. At first, APEC looked promising as a possible trade forum that might substitute for the GATT, particularly with the leaders’ meeting in 1993 in Seattle. Yet the Asian financial crisis and APEC’s tepid response would seriously undermine this institution and foster interest in a more exclusive East Asia-based economic forum – a topic to which we now turn.
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of capitalism, such ascronyism, unsound investments and overcapacity, many in the region also faulted the wide practice of Western financial liberalism, which they argued reinforced credit bubbles, empowered currency speculators, and created instability. This concern was only heightened by the harsh conditionalities imposed on the crisis-ridden countries by the IMF when it came to their rescue.83

Furthermore, many in the region saw U.S. pressure behind APEC’s very slow to reaction to the crisis. At the November 1997 APEC summit meeting, U.S. President Bill Clinton described the Thai and Malaysian currency crises as “a few small glitches in the road.” But America’s initial nonchalance appeared to backfire almost immediately, as the crisis spread beyond Thailand and Malaysia. In response, Japan took the lead in September 1997 with a proposal for an Asian Monetary Fund (AMF), to be backed by US$100 billion that it had lined up in commitments in the region. However, the IMF, supported by the U.S. and European countries, resisted any effort to find an “Asian” solution to the crisis. In particular, the U.S. viewed such a fund as undercutting its preferred approach using IMF loans accompanied by strict conditionalities.84 Under growing U.S. pressure, APEC members, who gathered for a summit meeting in Vancouver in November 1997, chose to take only a secondary role, if necessary, to supplement IMF resources on a standby basis without any formal commitment of funds. With the APEC action providing a seal of approval for the U.S.-IMF backed plan, the idea of establishing an AMF was put on hold.

In the area of trade, the WTO-based effort to promote multilateral trade liberalization has increasingly encountered problems. This trend began in 1999 when WTO participants in Seattle unsuccessfully attempted to launch a new trade round. Rioting in the streets, protests, and the absence of any progress in liberalizing trade appeared to doom further efforts at multilateral liberalization. Furthermore, APEC failed to provide an alternative forum to deal with trade issues. For instance, in January 1998, the U.S. pressed to use APEC to leverage trade liberalization in the WTO. Specifically, the U.S. sought to push negotiations forward on a scheme called Early Voluntary Sectoral Liberalization (EVSLS), a package deal that covered nine economic sectors. This strategy initially appeared viable, but quickly ran into difficulties. At the Leaders’ Summit in Kuala Lumpur in November 1998, Japan – with support from other East Asian countries – refused to liberalize trade in fishing and forestry products and the EVSL package was deferred to the WTO for further debate.

With deep distrust of the IMF and doubts about the route to trade liberalization through the WTO and APEC, East Asian countries came to recognize that greater institutionalization of intraregional financial and commercial ties might offer a better mechanism for providing economic security. They quickly turned to weaving a web of currency swap agreements and bilateral/minilateral FTAs.

In this broad context, the Chiang Mai Initiative (CMI) was designed as an alternative intraregional financial scheme. The initiative started at a May 2000 meeting in Chiang Mai, Thailand, and created a network of bilateral swap arrangements to provide short-term liquidity for countries facing financial pressures. It has continued to grow, with a host of agreements concluded by Japan and other East Asian countries. Currently, the finance ministers of ASEAN Plus Three (APT, which is ASEAN plus China, Japan, and South Korea) have set a target of US$50 billion and called for the purely bilateral accords to be minilateralized.85

On trade issues, ASEAN countries reaffirmed their commitment to AFTA, and as part of a series of bold measures agreed at the 6th ASEAN Summit in Hanoi in December 1997 that the original six signatories would advance the implementation of AFTA by one year from 2003 to 2002.86 At the Northeast Asian level, Japan first proposed the idea of a Northeast Asian Free Trade Agreement (NEAFTA) in August 1998, and a series of feasibility studies have been conducted thus far.

More importantly, Japan concluded its first post-World War II bilateral FTA with Singapore in October 2001. The resultant Japan-Singapore Economic Partnership Agreement (JSEPA) sparked region-wide interest in FTAs, thus undermining East Asia’s traditional commitment to the WTO. The increasing interaction between Northeast and Southeast Asian countries also fostered the creation of an APT forum in November 1997 and promoted an East Asian identity, particularly in the context of the failure of APEC to take any significant initiatives in resolving the financial crisis.87

On the security front, South Korean President Kim Dae-jung’s engagement policy toward North Korea and the June 2000 inter-Korean summit created a great deal of diplomatic capital for South Korea to proactively address delicate issues of peace and stability in Northeast Asia.88 Yet, at the broad East Asian level, it appears that...
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SEPTEMBER 11
The latest turning point came with the September 11 terrorist attacks. Among other things, the American global war on terrorism has called into question the fate of the East Asian balance-of-power system, which in turn has created additional incentives for East Asian countries to cope with growing economic and security uncertainties through institutionalized mechanisms. An intensifying Sino-Japanese rivalry has further accelerated this trend.

The counterterrorism initiatives, combined with a general rethinking of U.S. security policy underway since the end of the Cold War, have led to significant changes in traditional U.S. policy. The U.S. began to solicit multilateral cooperation against terrorism through APEC, ARF, and the Proliferation Security Initiative (PSI), thus departing from its exclusive focus on bilateral arrangements in dealing with terrorism through APEC, U.S. regional security matters. More importantly, the U.S. has moved away from a “tripwire” strategy by shifting troops away from the demilitarized zone (DMZ) to areas further south of Seoul has raised questions over joint command issues and the eventual number of troops in South Korea.20 In the case of Japan, the U.S. decision to move 6,000 Marines from Okinawa to Guam by 2012 has raised the question of financial burden-sharing, as well as the credibility and deterrence of the U.S. presence.21 Although a large-scale American withdrawal from the region is unlikely for the foreseeable future, these latest developments mark a significant change in America’s conventional emphasis on balanced bilateral security ties with key allies.

The post–September 11 focus on terrorism initially diverted the U.S. from its concern about China’s rise toward collaboration on addressing terrorist threats.

In a region with an already awkward balance between the U.S., China, Japan, and South Korea, the second North Korean nuclear crisis has become the vortex of Northeast Asia’s geopolitical turbulence. In October 2002, Pyongyang admitted that it had secretly continued a nuclear weapons development program in breach of the 1994 Geneva Agreed Framework between the U.S. and North Korea. In response, Washington’s focus on North Korea shifted from preserving the international nuclear nonproliferation regime to preventing terrorist organizations and rogue states from acquiring nuclear weapons or fissile material.
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More specifically, the U.S. decision to move away from a “tripwire” strategy by shifting troops away from the demilitarized zone (DMZ) to areas further south of Seoul has raised questions over joint command issues and the eventual number of troops in South Korea. In the case of Japan, the U.S. decision to move 6,000 Marines from Okinawa to Guam by 2012 has raised the question of financial burden-sharing, as well as the credibility and deterrence of the U.S. presence. Although a large-scale American withdrawal from the region is unlikely for the foreseeable future, these latest developments mark a significant change in America’s conventional emphasis on balanced bilateral security ties with key allies.

The post-September 11 focus on terrorism initially diverted the U.S. from its concern about China’s rise toward collaboration on addressing terrorist threats. The April 2006 visit by Chinese President Hu Jintao to the U.S. did not resolve many of these outstanding issues. Meanwhile, the atmosphere of hostility between China and Japan has sharply increased. Simmering tensions came to a boiling point in April 2005 when a series of sometimes violent anti-Japanese rallies broke out in major Chinese cities, damaging the Japanese Embassy in Beijing and consulates elsewhere. Conservative politicians and nationalist groups on both sides have exerted considerable pressure for more assertive foreign policies. As a result, there have been no state visits between the two since October 2001. As a result of Japanese Prime Minister Junichiro Koizumi’s controversial visits to the Yasukuni war shrine, President Hu has refused to schedule a summit meeting.

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In the wake of rising tensions between the U.S. and North Korea, China has assumed a new and remarkably proactive role. In direct contrast to its hands-off approach during the first North Korean nuclear crisis in the early 1990s, it began hosting the Six Party Talks in Beijing in August 2003 by extending an invitation to South Korea, Japan, and Russia to join the earlier ad hoc trilateral negotiations between the U.S., China, and North Korea. Beijing was particularly motivated not only by its desire to address Pyongyang’s nuclear program, but also to enmesh Washington in a regional multilateral process and prevent it from taking unilateral action as it did in Iraq.

On September 19, 2005, North Korea pledged to abandon its entire nuclear program in return for security and energy guarantees from the other parties. The agreement, although vague, was the first real achievement of the Six-Party process and gave rise to the promise of a more permanent multilateral dialogue mechanism in Northeast Asia. Unfortunately, this multilateral negotiating process has yet to produce enough concrete results to have a successful “party.” A core stumbling block remains the question of who takes the first step, with North Korea (as well as China and South Korea) emphasizing the need to extend security assurances and economic incentives first, while the U.S. contends that the onus is on North Korea to dismantle its nuclear weapons program completely, just as Libya did, before concessions can follow.

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19 With this divergence in perspectives on coping with the rise of China, the North Korean nuclear crisis, and the general tensions in the alliance, relations between the U.S. and South Korea have steadily deteriorated in the post-September 11 period. It is against this complex background that many on both sides hope that successful U.S.-South Korea FTA negotiations will bolster their troubled diplomatic and security relations.

20 On the whole, however, Japan-U.S. relations have grown closer to significant changes in traditional U.S. security ties with key allies.

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26 On September 19, 2005, North Korea pledged to abandon its entire nuclear program in return for security and energy guarantees from the other parties. The agreement, although vague, was the first real achievement of the Six-Party process and gave rise to the promise of a more permanent multilateral dialogue mechanism in Northeast Asia. Unfortunately, this multilateral negotiating process has yet to produce enough concrete results to have a successful “party.” A core stumbling block remains the question of who takes the first step, with North Korea (as well as China and South Korea) emphasizing the need to extend security assurances and economic incentives first, while the U.S. contends that the onus is on North Korea to dismantle its nuclear weapons program completely, just as Libya did, before concessions can follow.
East Asian regionalism has both benign and pernicious elements, depending on the ideas and beliefs held by regional actors.

The point was proven again immediately after the September 2005 agreement was announced. North Korea asserted that the provision of the light water reactor should be implemented immediately. The U.S. responded by stating that providing the light water reactor to North Korea would be discussed only after North Korea returns to the nPT and abides by its promise to dismantle its nuclear program. To make matters worse, North Korea’s involvement in counterfeiting U.S. dollars and its reaction to the U.S. government’s sanction on a Macau bank, Banco Delta Asia, which had been linked to money laundering for North Korea, halted the fifth round of the Six Party Talks in summer 2006.

On July 5, 2006, North Korea defied international pressure and test-fired seven missiles into the Sea of Japan, including the long-range Taepodong 2 that is potentially capable of reaching U.S. territory. To a large extent, the surprise missile tests were an implicit but strong signal to the U.S. to free up North Korean assets in Macau, thus opening a way for Pyongyang to return to the Six Party Talks without losing face. Nevertheless, the current nuclear crisis on the Korean peninsula and the formation of the Six Party process has given rise to the possibility that a more formal framework for multilateral cooperation in Northeast Asia could be established, likely in the form of a Northeast Asian Security Dialogue (NEASD) or a Concert of Northeast Asia (CNEA).

Turning to economic relations, the post-September 11 shock has also accelerated regionalism in East Asia. To begin with, the shock spurred Congress in 2002 to give President George W. Bush fast-track Trade Promotion Authority. As result, President Bush wasted no time in completing FTAs with Chile and Singapore in 2003. Although the U.S. was slower off the mark than countries such as Chile, Mexico, and the EU, its actions have led to fears in East Asia of a return to a bilateral world and have led East Asian governments to accelerate their own efforts at bilateral FTAs.

The rivalry between China and Japan also has served as a catalyst for the proliferation of preferential agreements in East Asia. In response to the JSEPA of 2001, China signed a surprise agreement in 2003 with the 10 ASEAN countries pledging free trade by 2010. Challenged to do the same and to demonstrate its continued leadership role, Japan began negotiating its own FTA with ASEAN. Alarmed by Sino-Japanese competition in Southeast Asia, the South Korean government jumped ahead of Japan and sealed an FTA deal with ASEAN in April 2006. Aside from the three-way cooperation at the ASEAN Plus Three level and a possible development of a NEFTA, Japan and South Korea have been negotiating a bilateral FTA since December 2003, while a China-South Korea FTA is being jointly studied.

How will this newfound enthusiasm for East Asian economic regionalism evolve? The principal locomotive of regional integration is the ASEAN Plus Three configuration, in which ASEAN is increasingly becoming a coherent, collective negotiating body in its relations with the Plus Three countries (China, South Korea and Japan). One of the likely scenarios is the creation of an East Asian FTA (EAFTA) by combining AFTA with a prospective NEFTA, the idea of which is currently manifesting itself in the form of APT. If such an East Asian grouping proved viable, the networked nature of interstate economic activities might produce an even stronger awareness and sense of community among East Asian countries.

The tug of war between China and Japan at the first East Asian Summit (EAS) in Kuala Lumpur in December 2005, however, may suggest that East Asian regionalism is in trouble. Many scholars argue that the open hostility of China and Japan militates against East Asian regionalism. Yet it should be noted that so-called “cold-politics-and-hot-economics” has become a defining feature of Sino-Japanese relations, despite persistent diplomatic tensions. Indeed, China and Japan both have been shied away from a definitive political showdown because of fears about possible negative impacts on the flourishing trade, investment, and capital flows between them.

In sum, the political initiatives and intrinsic interest in creating regional economic and security arrangements reflect the growing need to continue reaping economic benefits and maintaining regional stability when traditional mechanisms under the San Francisco System stall or are dismantled in the post-September 11 period. All the latest developments are indicative of emerging East Asian regionalism with unprecedented dynamism and versatility.

CONCLUSION AND IMPLICATIONS

We began our analysis with the observation that the postwar economic and security order in East Asia remained multilayered under the San Francisco System, involving elements of bilateral alliance structures, global institutions for managing economic and security problems, and long-standing informal alternatives. In the wake of the three major external shocks of the past fifteen plus years, however, this traditional institutional equilibrium has undergone significant changes.
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Nevertheless, the current nuclear crisis on the Korean peninsula and the formation of the Six Party process has given rise to the possibility that a more formal framework for multilateral cooperation in Northeast Asia could be established, likely in the form of a Northeast Asian Security Dialogue (NEASD) or a Concert of Northeast Asia (CNEA).

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As a result, principal actors are now pursuing greater institutionalization at the regional level, actively weaving a web of preferential arrangements. In just two decades, East Asia has moved from a position where there was a complete gap in regional organizations to a point where new collaborative arrangements in both economic and security matters have proliferated. The combination of the Asian financial crisis and the setback at the 1999 WTO meeting in Seattle has significantly eroded traditional confidence in multilateral trade liberalization as well as in Western financial liberalism. At the same time, the erosion of America’s military commitment to East Asia in the post-Cold War and the post-September 11 period has led to a scramble for alternative security mechanisms. There is a growing consensus that regional arrangements can enhance both welfare and security in the face of a loosening of the San Francisco System.

East Asian regionalism has both benign and pernicious elements, depending on the ideas and beliefs held by regional actors. We could end up with the formation of a “Fortress East Asia,” commensurate with the oft-voiced fears of a “Fortress Europe” and “Fortress America.”

As noted here, if the U.S. continues its focus on expanding the Free Trade Area of the Americas and the EU continues on an eastward and possibly southward expansion path, others may feel excluded. Under these circumstances, the perception among East Asians that Western regional arrangements are forming against them may well rekindle the idea of the kind of exclusive East Asian bloc first promoted by Malaysia’s former Prime Minister Mahathir Mohamad. To conclude, in view of the tremendous political and economic uncertainties in the contemporary period, the paths to deeper and wider economic and security integration in East Asia are likely to be complex. As a result of the coexistence of continuities and changes, a new Northeast Asian regional order is slowly but steadily emerging, with multiple pathways and complexities.

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NOTE
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