

# Towards an East Asian Model of Regional Cooperation

ERIC TEO CHU CHEOW

**E**ast Asia, which comprises the ten countries of Southeast Asia grouped together in the Association of Southeast Asian Nations (ASEAN), and the three countries of Northeast Asia (China, Japan and South Korea), is fast becoming an entity in a region which is still considered highly diverse and divided.

This paper will first look at the shifting strengths and difficulties of ASEAN, China, Japan and the Koreans. It will then show how the relative »marginalization« of ASEAN has led it to fully support the »ASEAN+3« framework as »its saving grace«. Finally, it will discuss three different approaches to enhanced economic cooperation in East Asia.

## The Flagging State of ASEAN

ASEAN was formed in 1967 to stabilize Southeast Asia during the Vietnam War and within the context of the Cold War. Initially, it comprised Indonesia, Malaysia, the Philippines, Singapore and Thailand, but was successively enlarged, incorporating Brunei in 1983, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. But today, ASEAN is clearly at the crossroads of its own development. Some observers speak of a »mid-life crisis« while others even question the survival of the association. The international perception of ASEAN today has come to be one of lethargy, fatigue and ineffectiveness.

The Asian Crisis of 1997–98 has had important political, economic, financial and social consequences for ASEAN countries. The six older members suddenly faced a »total« crisis of huge financial, economic, and then social and political proportions. The economic and social fabrics of their societies were savagely torn apart as bad loans, shaky financial systems, corporate bankruptcies, rising unemployment and plunging currencies suddenly engulfed them. First Indonesia and Thailand, but later on also the Philippines and Malaysia were »forced« into major political and social

reforms. Even Singapore and Brunei have to rethink their own future. The crisis has also aggravated ethnic and religious tensions, as well as the uneven distribution of wealth within countries and between ethnic/religious groups, like in Indonesia or the Philippines and to a lesser extent in Malaysia and Thailand.

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The Asian Crisis has also affected and is still affecting the newer ASEAN countries, Cambodia, Laos, Myanmar and Vietnam (CLMV), though in a different way. In fact, these countries were relatively well-shielded from the negative effects of globalization during the crisis, given their ideological bent and centrally-planned economies. But the CLMV countries had joined ASEAN with high hopes of plugging their economies into a prosperous regional entity and, through ASEAN, into the world economy. But unfortunately, ASEAN was severely affected by the crisis during the time of their adhesion to the organization and has yet to emerge fully from its devastating effects. ASEAN investments into the newer members were thus not forthcoming, and developmental assistance was absent. International trade with and investments in ASEAN took a severe beating, as international perception of the organization plunged. These new ASEAN members, who are presently transforming their economies from central planning to a more free-market model, felt that their entry into ASEAN had not really benefited them economically as much as they had earlier envisaged and hoped for. A certain sense of disappointment has thus inevitably set in. Furthermore, because of the crisis, they are facing doubts and uncertainties on how best to transform their economies, at a time when even the older members of ASEAN question the so-called »Asian economic strategy«, which was used and championed during their spectacular and »miraculous« economic rise from the late 1970s till 1997. The fundamentals of their export-oriented strategy are now being challenged, as Asian countries seek new models and novel schools of economic thought and developmental strategies. Hence, the effects of the crisis, though indirect, have been negative and even critical also for the CLMV countries.

Because of the state of economic development of these newer entrants and their difficulty in surmounting their ideological past, ASEAN, as an organization, has come to realize that integrating the CLMV countries into

the mainstream of the region's economic development has proven to be tougher and more arduous than was previously expected. The lack of a viable domestic private sector in these countries also poses serious obstacles to their socio-economic development and thus to the bridging of the present divide within ASEAN. A sense of a two-tier ASEAN has surfaced, referring not only to the level of economic development but also to culture and mind-set. There is the perspective of a permanent divide within ASEAN, jeopardizing regional cooperation and creating tensions between a richer and a poorer, less developed half. Instead of being a regional stabilizer, ASEAN could become a destabilizing force and a cause for concern in the Asia-Pacific region. Needless to say that this would also diminish its economic and financial standing and attractiveness in the eyes of foreign investors and partners.

Narrowing and bridging the gap between the newer and older members has therefore become a top priority for ASEAN, as embodied in the declarations and communiqués of the past two years, and especially the adoption of the Initiative for ASEAN Integration at the ASEAN Informal Summit in Singapore in November 2000. This stance on bridging the ASEAN divide was again strongly reiterated in Brunei at the Seventh ASEAN Summit in November 2001.

September 11 has brought a series of new problems and challenges in security terms to the older members of ASEAN, where political Islam is clearly on the rise. The Muslim populations of insular Southeast Asia (including the 190 million Muslims in Indonesia, the fifteen million Muslim majority in Malaysia, some 400,000 in Brunei, 5.5 million in southern Thailand, six million in the southern Philippines, and the 430,000 Malay Muslims in Singapore) have been severely affected by the incidents of September 11 and the American military campaign in Afghanistan. Fears of another imminent American strike in Iraq could polarize and affect these Muslim populations further, thereby contributing to a rise of political Islam in this part of ASEAN.

There is clearly a Muslim revivalism in insular Southeast Asia, with a growing cleavage between moderate and radical Muslims. As American intervention in the world goes on and intensifies, moderate Muslims in the region and the current governments in Jakarta, Kuala Lumpur, Bandar Seri Begawan and Manila would have growing difficulties in not coming out publicly to condemn the United States for its military action. The rise of a more radical form of political Islam in the region cannot be totally discounted.

ASEAN also risks having growing difficulties from within, over the issue of terrorist networks, and notably on whether the affected countries could pool their national resources together to cooperate on dealing with terrorism and on addressing regional security issues or whether they will be totally engulfed in their own differences, which could arise from their different definitions of and approaches to terrorism. The different approaches to Muslim terrorist networks and their coordination for common action would hence always remain a potential flash-point between the member states of ASEAN, as demonstrated by the failure of the ten countries to clearly define terrorism at their Kuala Lumpur meeting of Interior Ministers in May 02.

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»prospere thy neighbor« policies.

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Lastly, the arrival of American advisors in the Philippines in early 2002 is arousing concern amongst Manila's Muslim neighbors. Besides provoking a major policy difference within the present Administration over the American presence on Philippine soil, as shown by the resignation of Vice-President Teofisto Guingona as Foreign Secretary, Malaysia and Indonesia would be particularly concerned that the presence of American advisors could spill over inadvertently into neighboring Sabah (in Malaysia) or Kalimantan (in Indonesia) in American-led hit-and-run operations against Filipino Muslim rebels. Furthermore, peace efforts promoted by Kuala Lumpur and Jakarta in the southern Philippines between the Manila Government and the rebels could be stalled, thereby leading to more Muslim upheaval, revivalism and radicalization in the southern Philippines, as well as in neighboring Sabah or Kalimantan. Besides, Malaysian and Indonesian public opinion (especially from their more radical Muslim quarters) would not react positively should the American military presence be further entrenched or extended. The presence of American advisors in the southern Philippines is thus viewed with wary eyes by Malaysia and Indonesia, as they now perceive the Americans to be »too close to home« for them!

Finally, ASEAN countries, either old or new, are undoubtedly turning inwards and towards introspection at a time of economic difficulties and rising nationalism. Because of the international economic slowdown in 2001 (after two exceptional years of rapid economic »recovery« in 1999

and 2000), ASEAN countries have had to deal with increasing economic pressure and rising social tensions. Many ASEAN leaders have tended to look inwards to retain power and save their own political legacies and future, notably by resorting to populist or nationalistic programs of action. National »solutions« to economic woes, less emphasis on liberalization (by keeping foreigners and foreign competition at bay) and seductive formulae of self-reliance have crept into their political jargon. Nationalist fervor has replaced the previous generous »prosper thy neighbor« policies, and the »ASEAN spirit« has suffered. ASEAN, as an organization, has decidedly come a poor second. Coordination within ASEAN no longer appears as a viable and plausible option in economic policy thinking or formulation. National solutions have taken precedence over collective ASEAN policies. Even the ASEAN Free Trade Area, which came into effect on January 1, 2002, did not command a very noticeable effect. Collective reforms and peer-group pressure to reform have been given a low priority, especially when every ASEAN country seems to be competing for the ever-shrinking investment dollars. Instead of solidarity and collective reforms, protectionist walls seem to have gone up. The danger of an »ASEAN fatigue« has begun to take its toll, as each troubled economy, government and society looks inwards for national rather than regional solutions, thereby endangering the future, relevance and survival of ASEAN as a regional organization.

## **North East Asian Crossroads**

### **China's Endangered Ascendance**

China is a rising economic colossus, the world's biggest factory and emerging market with foreign reserves of slightly more than 200 billion U.S. dollars, second only to Japan. China is also an almost perfectly integrated manufacturing economy from the lowest end to the highest technological chain of production; and it has tremendous natural and agricultural resources, which could rival those of the United States. In 2001, China managed to attract more than forty billion dollars of foreign direct investment, as compared to ASEAN's mere ten billion. This is the real dimension of the »China threat« or »challenge« to ASEAN, as the latter loses its competitive edge to China. The emergence of China will indeed provoke important shifts in geo-political alignments, resulting in changes in the global economy as well.

Politically, China has been stable for the past thirty years and its military force is expected to grow in this region. China's stature in international politics and relations has increased steadily and is making significant inroads not only in the West, but especially in the developing world. In ASEAN, China is now perceived in a more positive light, as ASEAN governments have decided to contend with a rising China, hoping to benefit from the enormous Chinese market. On the other hand, China needs stability – both internally and externally – for its continuous growth and progress. Hence, from China's perspective, stabilizing ASEAN is of paramount importance.

But giant obstacles abound for China. The country is actually in the throes of a huge transformation, not only economically and financially, but also socially and culturally. The financial system is deemed wobbly and weak. Bad debt threatens China as much as Japan today, but because of its non-convertible capital account, China's financial sector does not perhaps face the same gravity of problems as Japan's. However, the festering discontent in its rural areas, the pervading corruption at all levels and the ensuing social discontent and even a possible uprising could deal China a fatal blow by provoking instability throughout the country. These are therefore trying times for China, which always fears the sort of break up experienced by the USSR. This specter has re-surfaced recently with the publication of a book by Gordon Chang entitled »The Coming Collapse of China«.

China's five big challenges today include

- ▶ a smooth political transition from the third to the fourth generation of leaders in 2002–03;
- ▶ a successful implementation of the country's WTO commitments, without social chaos and as a means of modernizing China rapidly;
- ▶ the success of its crucial »Go West« policy in order to redress the balance between the coastal states and the inner provinces;
- ▶ a successful Beijing 2008 Olympics, as a showcase of China's pride and »standing up« again;
- ▶ the maintenance of stability, both internal and external, as a precondition of sustained economic development (with a growth target of 7–8 percent annually for the next ten years and beyond).

Any failure in meeting these challenges may result in serious regional instability, directly affecting ASEAN as well.

## Japan's Paralysis

Japan is also in the throes of a radical transformation. After a »lost decade«, with low economic growth and three recessions in the last ten years, there has been a growing pessimism and a loss of national confidence. Japan today stands in deep contrast to a self-confident and assertive China, which adds to the country's loss of pride. The tussle between China and Japan for East Asian leadership will probably grow. The Shenyang Consulate incident in May 2002 showed again the precariousness of the Tokyo-Beijing relationship. This is of primary concern to the rest of East Asia, as rocky Sino-Japanese relations would affect the state of the region as well as the pace of East Asian integration.

The »decline« of Japan might be attributed to four major aspects, which also coincide with four major transformations (economic, financial, political and social) in Japan.

*Deflation:* The fall of domestic consumption in the Japanese economy, since the stock and property market bubbles burst in 1990–91, has engendered a potent deflationary spiral. Industrial production and corporate earnings have fallen, and the profitability and viability of some Japanese companies is seriously in doubt. Property and stock prices remain depressed. Unemployment, which had increased to a record 5.7 percent in March 2002 before stabilizing at 5.4 percent, is further dampening domestic spending and stock market prices, which in turn affects the bottom line of Japanese companies. This vicious circle gives rise to serious doubts about an imminent »bottoming out« of the Japanese economy. Using a weak yen to »export Japan out of its recession« is not sustainable; the major problem is in its own domestic economic structure.

*Shaky finances:* The financial picture appears grim, too. Standard and Poors' downgrade of Japan's financial standing in April 2002 to the lowest amongst the G7 countries was a major blow to Japanese finance; it was Japan's third ratings cut in fourteen months, which attests to the decay of Japan's financial health. Bad loans have ballooned in the Japanese banking system, although it still has huge private financial assets, in terms of both domestic savings and »parked« money in foreign markets. There is therefore an urgent need to use these »frozen« assets to stimulate the moribund economy, especially when public stimulus had been practiced far too often to be continuously effective. Secondly, the bad loans problem must be resolved quickly to engender growth and lift the economy out of its doldrums, while preventing any »accidental« collapse of the fi-

nancial system. The Japanese banking system must be cleaned up; systematically re-capitalizing wobbly Japanese banks does not present a solution.

*Political malaise:* The confidence of the Japanese people in their political establishment has been considerably shaken; the social pact between them appears to have been broken during the »lost decade«. There appears to be an evolution towards a more »normal« parliamentary system, whereby politicians now are trying to control the bureaucracy. But scandals have rocked the bureaucracy in the Ministries of Finance and Foreign Affairs, just as politicians are tarnished by the high-level corruption scandals, involving, for example, the dominant-party (LDP) baron Muneo Suzuki and his cronies. This present state of political affairs has given the impression of a directionless and rudderless Japan today!

*Diminishing social cohesion:* Japan is definitely going through a huge social transformation, where »sacred cows« are being sacrificed on the altar of Japan's »third opening« to the world, due to globalization. Besides life-long employment and »protective« consensus-building, which have already given way, internal social debates have become more boisterous and agitated. The young are rebelling against the established order; NGOs and the civil society are picking up steam on the social scene, while party conservatives attempt to keep hold of their entrenched privileges and networks of influence. A sense of social immobility and loss of consensual politics has ensued, as a new social order progressively takes shape in Japan.

No one knows how or when this new Japan would finally emerge politically, economically, socially and even militarily in the coming years. But there are no doubts that the country is undergoing a radical transformation which could also portend immense changes in the Asia-Pacific, depending on whether Japan succeeds or fails in this monumental restructuring exercise.

## South Korea's Uncertain Re-emergence

South Korea has staged a spectacular economic recovery, with its national self-confidence bolstered further by the very successful World Cup in June 2002. Nonetheless, three major obstacles remain.

- ▶ Its continued social and corporate reforms as well as its economic liberalization may not be as smooth as envisaged, as witnessed by the sometimes violent resistance put up by unions, workers, corporate leaders and big families with vested interests.



- ▶ There are inherent political uncertainties, as a much-weakened President Kim Dae Jung exits the political stage early in 2003, carrying with him a mixed record of achievements and failures.
- ▶ Intra-Korean relations remain troubled, as the »Sunshine Policy« of President Kim seems to be in jeopardy. The next South Korean President could be forced to tone it down or even reverse it, which could have adverse implications for stability in North-East Asia specifically and East Asia in general.

ASEAN countries are beginning to acknowledge the »Korean paradox«, namely a powerful and stable economy, coupled with gross uncertainties on the political and intra-Korean front.

### **ASEAN+3: The Advantages of Cooperating on a Larger Scale**

ASEAN's poor competitiveness and the loss of its sense of a common direction contrast sharply with the growing competitiveness of China (and South Korea) in production, exports and returns on investments. The quality and products of their respective systems of education and human resource development will further widen this gap. The same applies to political, military and diplomatic strengths. ASEAN's fears of political and economic marginalization would increase further should Japan retreat from the South East Asian region and become more inward-looking. Where would the future lie for ASEAN?

ASEAN has started to ask some painful questions about its relative strengths and weaknesses. What is ASEAN's future if China is now sucking up foreign direct investment and becoming the manufacturing center of the region and the world? Would ASEAN's existing industries be hollowed out as well, just like in the cases of Taiwan and Japan? How could ASEAN effectively compete with China, or should it just find niche markets and possibilities of plugging or integrating into the existing and future Chinese production chains? What would the new regional division of labor be like with an emerging China? How could ASEAN's traditional and services industries (financial services, education and training, health services, etc.) better serve the big emerging Chinese market? Or would ASEAN ultimately become just the agricultural supplier of China and remain that way? How could ASEAN use its ethnic Chinese networks to bridge its gap with China, without creating tensions between these communities and the indigenous populations back home? How would ASEAN contend

with Chinese tourists, labor, students and expatriates, as China opens up further and takes a more active part in the region's economic development? How could ASEAN woo Chinese investments as Chinese businesses start investing outside their country too? Would Chinese »soft culture« become more pervasive and influential, just like that of Japan in the past thirty years, and will this »soft culture« have any negative repercussions on ASEAN's supply chains to China, as well as on the indigenous populations in ASEAN?

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Some think ASEAN's answer to its own future can be found in a larger regional entity, like the »ASEAN+3« framework. »ASEAN+3« was kicked off at the Informal ASEAN Summit meeting in Singapore in November 1999, where the East Asian Community concept was »sealed«, although the three Northeast Asian countries did not meet the ten ASEAN countries together as a group, but separately in three »10+1« formats. The following year at the formal ASEAN Summit in Hanoi, China, Japan and South Korea inaugurated and institutionalized their breakfast meetings at the Summit level involving the Prime Minister of China, the Prime Minister of Japan and the South Korean President. Then in Brunei in 2001, the ASEAN countries, China and Japan endorsed President Kim's idea of inaugurating the »ASEAN+3« Summit from this year onwards in Phnom Penh, and commissioned an »ASEAN+3« study group to come out with a blueprint for the future East Asian grouping. Besides these summits and since 2001, the Foreign, Finance and Trade Ministers of the »ASEAN+3« countries have been meeting separately, at least twice a year for each of the three groups of ministers, and a sense of East Asian regionalism is consolidating slowly in the region. As the »ASEAN+3« grouping is institutionalized, there is a possibility that in the future the thirteen countries may be holding ministerial meetings in all areas, ranging from the social to the cultural and environmental fields. A process akin to European cooperation would probably gather steam across the region, although the idea of a union is still probably far beyond East Asia's horizon.

Not only to the ASEAN countries, but also to the three Northeast Asian countries, »ASEAN+3« can have several tangible benefits as a regional entity:

*Potential for Growth:* »ASEAN+3« has a combined population and market of close to two billion people, with more than 1.45 billion in Northeast Asia and more than 500 million in ASEAN. The purchasing power of the East Asian population varies from the very high end in Japan, South Korea and Singapore to the lower end in pockets of China and in many areas in ASEAN. This gigantic market has nevertheless high potential for growth, growing consumer demand and increasing purchasing power.

*Economic Synergies:* Potential for economic synergies abounds in terms of establishing production and manufacturing chains across the whole region, which could take into account the comparative advantages and the economies of scale of these diverse regional countries. East Asia has important economic trump cards, either in agricultural or mineral commodities, manufacturing (from low-end to hi-tech), services (logistics, financial or IT) or research and technology development, if the countries work coherently together. The strength of »ASEAN+3« lies in the fact that the thirteen countries are at different stages of development. Synergy could thus be found in organizing an effective and integrated production network across the whole region, but based on market forces, provided obstacles and barriers fall »internally« amongst the thirteen countries.

*Pooled Finances:* Japan, China, Hong Kong and Singapore rank first, second, fourth and fifth in the world in terms of foreign reserves. (Taiwan is currently ranked third.) Japan, China and Hong Kong are estimated to hold almost 500 billion U.S. dollars of reserves amongst themselves, which ensures a solid financial back-up for the region, if these resources could be pooled together.

*Clout on the International Stage:* With such a huge emerging market, potential economic synergies region-wide and vast financial reserves, East Asia could in fact command immense clout on the international stage. This clout could be translated into considerable common bargaining power in terms of trade and investments for the »ASEAN+3«, and if united and consolidated as a viable entity, East Asia could clearly exert incomparable negotiating power in the WTO, UN and other fora.

Cooperation along »ASEAN+3« lines carries the perspective of common growth and prosperity throughout the region. Strategically, ASEAN has therefore come to a conclusion that it needs a bigger Asian entity to regain its former growth momentum. A bigger and more diversified mar-

ket would certainly stimulate ASEAN growth through exports and foreign investments. It would also constitute an impetus for the »laggard« countries within ASEAN, as a bigger and liberalized market would provide both pressure and incentive at the same time.

### **Three Approaches to East Asian Economic Cooperation**

Intensified economic and monetary cooperation within East Asia can take shape along the lines of three different »models«. These models are not exclusive; in fact, a combination of all three could also be used to integrate the region.

#### **Weaving a Web of Free Trade Agreements**

There are already several initiatives for free trade agreements (FTAs) throughout East Asia. Singapore has concluded its Japan-Singapore Third-Generation Economic Partnership. In parallel, the idea of a China-ASEAN FTA, mooted at the last »ASEAN+3« summit in Brunei in November 2001, had already engendered exploratory talks in Beijing in May 2002. Japan is expected to begin negotiations on a free trade agreement with South Korea towards the end of 2002. ASEAN has also already begun on 1 January this year to implement the first phase of its ASEAN Free Trade Agreement (AFTA), with the initial six countries participating; AFTA will be progressively »extended« to the four newer members of ASEAN in due course. Finally, during his visit to Southeast Asia in January 2002, Prime Minister Koizumi mooted enhanced cooperation between ASEAN and Japan, with a possibility of a region-wide FTA, which could even extend to Australia, United States and New Zealand.

It is now recognized that a web of FTAs could become the new trend across the Asia-Pacific (in parallel with the new trade rounds being considered following the successful Doha WTO ministerial meeting in December 2001), although there are still reservations expressed by some ASEAN countries. In the same vein, the three Northeast Asian countries are believed to be engaging in more extensive trade links and cooperation, and even a Northeast Asia FTA could be considered in the longer term. Both Japan and South Korea are already engaging China economically, as many Japanese and Korean industries establish their manufacturing bases on the Mainland for cost reasons, as well as for tapping the

huge Chinese consumer market. It is not impossible that Tokyo and Seoul may eventually conceive ideas for a Japan-China and a Korea-China FTA, especially if the intra-Korean entente bears fruit and the region stabilizes further. By then, it would not be inconceivable to envisage a Beijing-Tokyo-Seoul FTA in the Northeast of Asia, together with a consolidating AFTA in Southeast Asia.

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Obviously, one major stumbling block would be the sensitive issue of agriculture in these FTAs, an issue which concerns almost all countries in the »ASEAN+3«. Japanese, Korean, and even Chinese and ASEAN agricultural (and fishery) lobbies are strong and can be expected to hold such eventual FTAs hostage. Feuds over garlic between South Korea and China, and over reeds and mushrooms between China and Japan have already erupted. Policy decisions on agricultural subsidies must be clearly arrived at in individual countries and political courage would have to be effectively mustered.

The process of weaving a web of free trade agreements across the whole region could ultimately lead to a region-wide »ASEAN+3« FTA. ASEAN countries could already now champion this worthy cause as a final goal, as a vision that orients concrete policy steps.

### A Japanese »Marshall Plan«

There is a possibility to reflate the Japanese economy by boosting East Asian development. Japan could mobilize its huge domestic savings and its private capital to invest in the region and by doing so save its transnational corporations and stimulate its domestic economy. The incentive to do so would be provided by the perspective of rapidly expanding demand from a population totaling two billion people. Moreover, there is great potential for a region-wide division of labor as Japanese corporations engage in trans-border integration of production processes. Prospects are particularly promising for Japanese services industries, including Japanese banks. Furthermore, the region's gigantic foreign reserves could be

progressively mobilized as such a Japanese-led strategy of regional development begins to bear fruit.

However, there are important obstacles to overcome before such a Japanese »Marshall Plan« could be seriously considered. Firstly, Japan must continue opening up its economy and reforming the present bureaucratic system. Five formidable sector lobbies in Japan would have to be tamed: retail, construction/property, agriculture, post/logistics and the financial sector. These five lobbies have strong roots in conservative Japan and maintain strong links to local inward-looking politicians from the ruling party and protectionist elements in the upper echelons of its disgraced bureaucracy, who have managed to impede reforms necessary for the »third opening« of Japan. Strong leadership is indispensable to accomplish this task, and there are doubts whether Prime Minister Koizumi is really up to it. Moreover, a strong PR campaign would be needed to reach out to an awakening people, who realize the critical need for radical reforms at this stage of Japan's development, but encounter the political stranglehold of local vested interests.

China and ASEAN must also quickly set their own houses in order to boost the confidence of potential Japanese investors. The rule of law, especially with regard to corporate governance, is an urgent prerequisite before we can expect Japan to encourage private funds to massively invest in the East Asian region. The same applies to funds from other East Asian countries and from the overseas Chinese network. Adequate assurance must be given to this private capital that their investments in the greater region would not be squandered. This confidence could certainly be shored up by a successful ASEAN-China free trade agreement and the present attempts to boost ASEAN's general competitiveness, as highlighted at last year's ASEAN Informal Summit in Brunei.

Lastly and probably most importantly, there is a dire need for a real Sino-Japanese entente, after overcoming the scarred past and present anxieties about each other. Beijing and Tokyo can co-lead this »ASEAN + 3« development by bringing together Japan's capital and technology with China's manufacturing prowess and its growing capital and technology pool. However, a true political understanding would be the precondition. First hopeful steps have already been made. Koizumi's speech at the Bo-ao Forum in Hainan in April 2002 had been hailed as »significant«, especially in his full support for East Asian regionalism. The ensuing yen-yuan swap agreement is another milestone in Sino-Japanese bilateral cooperation; it has even led to some speculation about resuscitating the

Japanese-inspired idea of an Asian Monetary Fund and a common Asian currency, eventually based on the yen and the renminbi together.

### Centering Regional Growth on China

If China manages to maintain its seven to eight percent annual economic growth over the next ten years it will – due to its sheer size – become more and more the economic hub of the whole East Asian region. The very fact that the country is growing so fast will increase China's need for economic cooperation with the outside world. China will have to import in order to overcome inevitable supply bottlenecks at home. This sets the stage for Chinese-led East Asian growth. Rather than being rivals and unwelcome competitors according to a zero-sum-game world view, China's neighbors will more and more become its economic partners in line with the approach of a positive-sum game. Increasingly, the countries of the region could plug into China's growing demand for high-tech industries, for services and for niche products of all sorts. They would increasingly tailor their own industries towards the ever-more-important Chinese market. One of many sectors with a high growth potential would be tourism, as affluent Chinese would thirst to travel abroad. In 2001 already, some ten million Chinese are assumed to have traveled, both within and outside China, and especially to Singapore, Thailand and Malaysia.

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China's continued economic growth will also boost Chinese outward investment. China should be expected to take a larger and larger stake in key areas and sectors. Just one example is the purchase of Spanish Repsol by CNOOC for 600 million U.S. dollars, which gives China a strategic foothold in Indonesia's crucial oil industry. In addition, Chinese development assistance to the more backward countries of ASEAN will increase, enhancing Chinese influence in the region.

Furthermore, China has a high stake in sustained regional stability as a precondition of its own swift development. This is the background to China's active interest in a free trade agreement with ASEAN, the

»ASEAN+1«, and its willingness to concede special »early harvest« privileges to the ASEAN countries for agricultural products and »Most Favored Nation« facilities to Cambodia, Laos, Myanmar and Vietnam even before they join the WTO and ahead of reciprocity. The Chinese consider »ASEAN+1« the first building block of a larger system of regional cooperation and envision that the Koreans and Japanese would eventually join in.

This model of centering common growth in East Asia on China and its potential economic development is de facto gathering pace. Its momentum would be enhanced by arrangements that strengthen monetary stability throughout the region. The Chiang Mai initiative with its bilateral swap agreements is helpful in this regard. It is foreseeable, moreover, that China could eventually lift the inconvertibility of the yuan or renmenbi for capital accounts, once more stability is achieved and as the economy grows further. By that time, the Chinese currency, maybe together with the Japanese yen, could form the basis of a common Asian currency, especially since both countries' combined reserves would then probably amount to half of the world's total reserves.

## Conclusion

Economic and monetary cooperation in East Asia is definitely set to grow and intensify. In all the three approaches outlined above, the East Asian way of economic cooperation would make use less of an institutional model (as in Europe) than a functional one. The »ASEAN+3« framework, which has already been in existence for three years now, should be the primary vehicle to drive this cooperation. Market forces will play a fundamental role and they are already at work, de facto creating an East Asian Community, although progress is still slow and timid. What is critically needed now is political will helped by a sense of East Asian commonality.

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### More on East Asian Cooperation

in INTERNATIONAL POLITICS AND SOCIETY

- ▶ Teo, *The Emerging Regionalism in East Asia* (1/2001)
  - ▶ Busse/Maull, *Enhancing Security in the Asia-Pacific. European Lessons for the ASEAN Regional Forum* (3/1999)
-