



**China in Asia Seminar Series**

**Seminar 6: “Competing Visions of Regional Economic Integration”**

**September 30, 2005**

**SUMMARY**

**Dr. Pek Koon Heng (American University)**

Dr. Heng presented a Malaysian perspective on East Asian economic integration. She emphasized that while many Western commentators see the December 12-14, 2005 East Asian Summit in Kuala Lumpur as the culmination of former Malaysian Prime Minister Mahathir’s vision of an East Asian Economic Community, for many Asians the summit is a less-than-desired outcome. This is primarily due to the inclusion of non-East Asian members. The original vision was of an exclusively East Asian grouping under a Japanese economic umbrella.

The Asian idea of a regional economic grouping largely failed because it lacked American support. After the Clinton administration advanced the Asia Pacific Economic Cooperation forum (APEC; formed in 1989), Mahathir reluctantly came on board, but did not abandon the idea of an exclusive Asian community. The Asian Financial Crisis of 1997-98 brought an end to Southeast Asia’s miracle growth, but also seriously undermined confidence in the U.S. ability to provide adequate economic leadership to the region. This revived momentum for regional cooperation, leading to the ASEAN + 3 in 1998 and the Chiang Mai initiative in 2000.

A new factor is the rise of China. Malaysia views China not only as a competitor, but also as an opportunity. Malaysia’s geographic location and large ethnic Chinese population are seen as comparative advantages. Deputy Prime Minister Najib’s September 2005 official visit to China resulted in trade agreements designed to boost bilateral trade from US\$19 billion to US\$50 billion by the year 2010. This would surpass current Malaysia-U.S. trade at US\$40 billion.

China has taken the lead in proposing the China-ASEAN FTA through both bilateral and multilateral channels. With initial phases already concluded, China and ASEAN members recently agreed to remove all tariffs on \$100 billion worth of goods, with China and the older six ASEAN members having a 2010 deadline and the newer four members having a 2015 timetable. Momentum for an East Asian Community has picked up speed.

Malaysian officials are unsure of how to proceed with the expanded East Asian Summit. Singapore, Indonesia, and Japan pressed for the grouping to be enlarged to include Australia, New Zealand and India. Dr. Heng believes Malaysia will continue to lobby for a core ASEAN + 3 grouping (perhaps with an ASEAN +3 + 3 tiered structure). China rather than Japan would be the engine of growth.

Malaysia continues to see the U.S. as playing a pivotal role in advancing its security and political interests. The U.S. government and business community need not feel excluded from or threatened by ASEAN + 3. East Asian Summit attendees had to meet three conditions: accession to ASEAN’s Treaty of Amity and Cooperation (TAC), full dialogue partner status with ASEAN, and considerable trade interests in the region. The U.S. has not signed the TAC.

### **Dr. Edward Lincoln (Council on Foreign Relations)**

Dr. Edward Lincoln spoke about Japan's historical role in regional economic integration. The driving force behind Japan's recent regional integration is China, not the broader region. While Japan's trade with the rest of East Asia remains steady, trade with China is rising rapidly. Japan already imports more from China than the United States; exports to China are likely to surpass exports to the U.S. in the next few years. Foreign direct investment (FDI) from Japan continues to be concentrated in Western countries, but the rate of growth is decreasing. 12% of Japan's total FDI now goes to China. Japan's overall ODA budget has decreased by about 30% since the 1970s, but East Asia remains the primary focus for Japan's foreign aid.

From the 1960s to the 1980s Japan's regional thinking was anchored in the Asia-Pacific framework. There was a need to keep the U.S. engaged in order to reassure both the United States and the region about Japanese intentions. In the 1960s Japan helped form the Asian Development Bank and promoted Asia-Pacific dialogue. The Japanese were also instrumental in forming APEC in 1989.

In the late 1980s and early 1990s Japan experienced a growing sense of de facto leadership in East Asia. With the Japanese economy growing so dynamically, there was no sense of an economic or political rival for leadership in the region. After the appreciation of the yen in 1985, East Asian exports to Japan and Japanese FDI to the region increased dramatically.

During the Asian Financial Crisis, Japan's Vice Minister of Finance Sakakibara proposed the Asian Monetary Fund, which the U.S. quickly dismissed. Japan followed in 1998 with the New Miyazawa Plan which increased bilateral aid to Asian countries in crisis and improved Japan's regional image. The Japanese government has embraced the Chiang Mai initiative, ASEAN + 3, and talk of deeper financial ties, but at present there is more rhetoric than action. Keeping the U.S. engaged is almost always in the backs of the minds of the Japanese.

Since 2001 there has been a shift toward bilateral FTAs. At present Japan has agreements with Singapore, Mexico and Thailand, while deals with South Korea and the Philippines are under negotiation. Despite the Mexico FTA, there is a clear East Asian focus. There is a growing sense of unease in Japan about its regional role and the shift in regional interest to China.

### **Dr. Claude Barfield (American Enterprise Institute)**

Dr. Barfield's comments stemmed from recent trips to the region and the differing viewpoints on Asian regional integration he encountered.

In Fukuoka, Japan, Dr. Barfield sensed a great deal of enthusiasm and acceptance of the idea of an East Asian Community. Fukuoka appears to be approaching the idea of regionalism from a commercial standpoint, improving its infrastructure, emphasizing local goods and services and consulting scholars and experts from around the region. Although the actual mechanics of what might constitute such a Community remain unclear, there is a strong sense that Asians need to pull together. However in Beijing there seems to be a different view. The Chinese may not mind discussions of Asia coming together, but China is not about to concede power to a supranational organization. With these competing visions at play, East Asian integration has very clear limits.

On one hand there is the Asia-Pacific vision embodied in APEC. It has not been the typical reciprocal trading agreement, but rather a process of everyone going at their own pace with the goal of free trade by developed countries in 2010 and developing countries in 2020. This has clearly not worked. The other vision is ASEAN + 3. While this has become somewhat cloudy with the inclusion of Australia, India and New Zealand at the upcoming East Asian Summit, it is still based on the region. This effort excludes the U.S. (at least initially) and Taiwan. Regional integration centered on ASEAN is inherently weak. Due to historical and political obstacles, the process has hit a standstill and is degenerating into increasing numbers of bilateral FTAs.

These developments present a challenge to the United States. Bilateral FTAs are suspect in terms of economic efficiency, but the Bush administration is trying to use parallel liberalization to move from the bilateral to the multilateral to the WTO. APEC is rightly the U.S. regional trade focus. However, trade policy does not exist in isolation; it is also a means to further U.S. diplomatic and security goals. The U.S. response to the rise of China and policy-level interest in an East Asian Community have been delinquent. One problem is that the process has not produced clear agreements or institutions for the United States to join. The Bush administration should announce that the United States wants to be at the table for any negotiations, but it will be hard to bring the U.S. Congress along.

## Q & A

Moderator Dr. Ellen Frost asked Dr. Heng to elaborate on why Indonesia pushed for the inclusion of Australia, New Zealand and India. Dr. Heng indicated Indonesia's strong ties to Australia necessitated its inclusion. Indonesia may also see China as too dominant a partner; the inclusion of the other members might mitigate that.

An audience member questioned where the East Asia Community was headed, arguing that it might lead towards greater competition between China and Japan rather than regional integration. He doubted Malaysia would be able to head off this confrontation. Dr. Heng said Malaysia is well aware of the cross currents between China and Japan and sees ASEAN + 3 as a better vehicle for the two countries to work together rather than APEC. APEC is supposed to be primarily economic, while ASEAN + 3 addresses issues from transnational crime to the environment and provides China and Japan opportunity to interact and find common ground on a wide variety of issues. Dr. Lincoln expressed mixed feelings about the ability of ASEAN + 3 to manage tensions. Japan and China sitting down together to work out their issues without the U.S. serving as umpire can be constructive, but he isn't sure they are ready, particularly Japan.

Another comment questioned the U.S. ability to compete in Southeast Asia given the China-ASEAN FTA, regional bilateral FTAs, and growing economic integration among ASEAN + 3 members. Dr. Heng mentioned that the Bush administration has strategies to counter such moves, such as the Enterprise for ASEAN Initiative and efforts to negotiate bilateral FTAs. Existing barriers will be removed gradually. Malaysia is the 10<sup>th</sup> largest trading partner for the United States and its largest trading partner in ASEAN, so it makes sense for the U.S. to negotiate an agreement with Malaysia. ASEAN + 3 will not lose its focus and will remain the same group it was in 1998, but deal with India, Australia and N.Z. as dialogue partners. If the U.S. comes in, it will be given the same treatment.