

Regional Economic Architecture: Post Global Economic Crisis

Session Four of the 12th Asean ISIS-IIR Taiwan argued for greater economic integration among Asean and its East Asian neighbours. **Dato' Dr Mahani Zainal Abidin**, Chief Executive of ISIS Malaysia, presented the Asean view entitled 'Asean Centrality in East Asian Regional Economic Integration' while **Dr Alan Hao Yang** of The Institute of International Relations (IIR) Taiwan, presented 'Taiwan's Perspective on East Asia Regional Architecture,' which was based on a paper authored by him and **Dr Lee Chyungly**, Associate Research Fellow, Institute of International Relations (IIR), Taiwan. ISIS Researcher **Nor Izzatina** reports.



From Left: Mahani Zainal Abidin, Sakonhninhon and Alan Hao Yang

Dr Mahani Zainal Abidin pointed out that Asean is at the heart of regional architecture. It is among the oldest organizations in the region, and numerous regional architectures revolve around it. Based on this premise, she described three possible interpretations of Asean centrality:

- Asean drives key initiatives and makes the decisions concerning regional architecture;
- Asean countries set and control agendas, and host and chair meetings; and
- Asean's interests, views and preferences take

precedence over others (implicit interpretation).

However the interpretations of Asean centrality are not without contention. Asean as a group is often painted as being not proactive and unable to take bold initiatives or decisions. The appearance of the China-Japan-Korea Free Trade Area (CJKFTA), on the other hand, has put Asean's role in driving economic integration to the test. The composition of Asean's membership — some nations that are still underdeveloped, and some

developed members that are unable to show strong, positive leadership — results in it not having a collective voice on many issues, therefore making it difficult for the organisation to take action. Asean is thus deemed not to have the political or economic weight to be the centre of the regional architecture.

The setbacks faced by Asean as a group are balanced on the other hand by certain reasons why Asean centrality is needed. Asean has the widest and greatest number of existing formal agreements, and the most developed institutions at multiple levels to implement them. The absence of economic and political historical baggage has also helped Asean handle mutual distrust and suspicions among East Asia's largest economies — China, Japan and Korea. This means that Asean centrality is virtually awarded by default. With this understanding, Asean is seeking to 'add weight' by broadening and deepening

integration in the political, security as well as economic spheres through the Asean Charter, the Asean Economic Community and Asean Connectivity initiatives.

Economic Integration

The case for increasing economic integration among East Asian countries has never been stronger since the Global Financial Crisis of 2008-09. Recent trade data (Table 1) shows that total intra-East Asian trade has grown significantly; Asean+3 countries traded 51.7 per cent of their trade value with each other and Asean+6's share of intra-regional trade was 54.9 per cent in 2009. With growing intra-regional trade among East Asian countries, trade with the US and EU on the whole has declined commensurately, proving the Global Financial Crisis has shifted the region's trade pattern. Data also shows that intra-Asean trade is the lowest in

Table 1: Asean's Foreign Trade, 2002 and 2009 (percentage of total trade)

Year	Intra-Group Trade		Trade with the US		Trade with the EU		Intra-Group, US & EU Trade	
	2002	2009*	2002	2009*	2002	2009*	2002	2009*
Asean	23.8	26.0	15.6	9.6	13.0	10.9	52.2	46.4
Asean-China	30.2	36.8	17.3	12.4	15.4	14.2	62.8	63.5
Asean-Japan	38.2	36.2	19.6	11.3	13.7	11.2	71.5	58.7
Asean-Korea	28.3	31.6	16.2	9.7	13.0	10.8	57.5	52.1
Asean+3	49.1	51.7	19.5	12.4	14.8	13.3	83.3	77.4
Asean-Australia	26.2	29.0	15.3	9.4	13.7	11.4	55.3	49.8
Asean-NZ	25.2	28.5	15.3	9.5	13.1	11.0	53.6	49.0
Asean-India	24.1	26.4	15.5	9.6	14.0	12.3	53.7	48.3
Asean+6	51.7	54.9	18.9	12.0	15.3	13.6	85.8	80.6

* Data for Laos is not included

Source: IMF's Direction of Trade Statistics

Table 2: FDI net inflows to Asean, (value in US\$ Million)

Partner country/	FDI net inflows to Asean, value in US\$ million			
	2007	2008	2009	2007-2009
Asean (intra-regional)	9682 (13.0%)	10461.5 (21.1%)	4428.9 (11.2%)	24572.4 (15.0%)
China	1684.3 (2.3%)	2109.5 (4.3%)	1509.5 (3.8%)	5303.3 (3.2%)
Japan	8828.7 (11.9%)	4657.8 (9.4%)	5308.4 (13.4%)	18794.9 (11.5%)
Korea	2715.5 (3.7%)	1583.5 (3.2%)	1421.8 (3.6%)	5720.8 (3.5%)
Australia	1491.5 (2.0%)	919.7 (1.9%)	700.9 (1.8%)	3112.1 (1.9%)
India	1466.2 (2.0%)	698.6 (1.4%)	983.6 (2.5%)	3148.4 (1.9%)
New Zealand	100.7 (0.1%)	-165.1 (-0.3%)	239.9 (0.6%)	175.5 (0.1%)
Asean+3	22910.5 (30.8%)	18812.3 (38%)	12667.8 (32%)	54391.4 (33.2%)
Asean+6	25968.9 (34.9%)	20265.5 (41%)	14592.2 (36.9%)	60827.4 (37.1%)
US	8067.6 (10.8%)	5132.6 (10.4%)	3357.7 (8.5%)	16557.9 (10.1%)
EU	17765.5 (23.9%)	9520.1 (19.2%)	7297.2 (18.4%)	34582.8 (21.1%)

Source: Asean Secretariat

East Asia, but is rising with the 'Plus 1' countries, with the possible exception of Japan.

Dr Mahani also pointed out that trade between China, Japan and Korea is growing fast and much of it revolves around China. Increasingly important production networks and the rise in the parts and components trade are what drive intra-East Asian trade. Intra-Northeast Asian trade is more than twice that of Asean and has been growing rapidly, largely due to trade with China. On the other hand, China's trade with the US and the EU has risen sharply, and Korea's has remained relatively constant, while Japan's has dropped.

Data on investment however has painted a different picture of East Asian economic integration. As shown in Table 2 above, FDI

inflows are still dependent on both the United States and the European Union. Between 2007 and 2009, intra-Asean investment was half of what the US and the EU contributed. Only by including 'Plus 3' and 'Plus 6' countries does investment by Asean equal US and EU contributions.

Regional Architecture

Dr Mahani also discussed the way forward for East Asian Regional Architecture with Asean centrality remaining intact. On the economics aspect, intra-East Asian integration can be deepened and broadened in line with existing trends, and mutual benefits enhanced by:

- Striving for higher quality economic partnership agreements in the trade of goods;

- Accelerating liberalization of services, especially the movement of natural persons;
- Ensuring a level playing field for regional investments; and
- Improving intellectual property protection.

East Asia is home to several regional institutions like Asean, Asean+3, and the East Asia Summit. Thus, the way forward, towards stronger economic integration, is through the strengthening of these institutions while striving to be more inclusive, participative and responsive to all stakeholders at all levels. Mahani added that the strength of Asean lies in its consensual decision-making process and this should be maintained in the future. Non-consensual forms of decision-making, as well as the pressuring and posturing in negotiation processes should be avoided.

To improve Asean capacity in the region, the Asean Secretary-General, and central organizations like the Secretariat and the Committee of Permanent Representatives must have more resources at their disposal, and the accountability to use them effectively and wisely. This coupled with greater accountability in performance and achievement of outcomes will help the existing regional institutions command greater credibility, respect and support.

Dr Mahani concluded by reiterating that the perception should be that Asean's centrality in regional architecture must be earned rather than imposed by default. The role of Asean as a buffer to the outside world should move it to earn its place in regional integration. Its form must start to follow its function. At the same time, national interest in East Asia should be attenuated in order to create stronger regional identity and institutions.

The second speaker, **Dr Alan Hao Yang**, presented Taiwan's perspective on East Asian regional architecture. His presentation can be divided into three parts: the shifting paradigm of global politics, the essence of regional architecture, and scenarios for future development.

Dr Yang began by explaining the emerging picture in global politics involving a shift in paradigm from the West to the East. This non-Western-centred era began in Southeast Asia, through Asean, and will end in Global Asia. According to Dr Yang, Global Asia connotes a goal for the Asian Century that demonstrates an autonomous and solid Asia and its full integration into the global political economy. With this, a new regional architecture is bound to happen.

Dr Yang described regional architecture as an overarching regional arrangement with specific political, economic and strategic goals and components, within which the regional states can interact. An international social construct, it is shaped in two different ways: it is embodied by collective action among regional states, or it is imposed upon or influenced by external force. In examining regional architecture more closely, Dr Yang pointed out that regional architecture contains at least four dimensions: i) core actors ii) interests and goals iii) priority issue areas and iv) institutional settings. By laying down these dimensions of regional architecture, Dr Yang explored three possible scenarios in the making. These are: i) The New Cold War ii) Multiplicity and iii) Multilateralism.

The New Cold War

Yang defined the New Cold War in East Asia as the implicit and explicit conflict of interests between two great powers: the United States and the

People's Republic of China. As core actors they represent a chronic contest: a rising power and revisionist state from Asia Pacific versus a state that has currently global hegemony of Pacific Asia.

As for interest and goals, China's ambition as a regional power is related to its domestic economic development needs, while the strategic priority of Washington in Asia is to secure US national interest. The competing core actors then focused on several priority issues in East Asia to cement their influence in the region.

US engagement in the region will be supported by two pillars: the economic security arrangement and the political security arrangement. Under economic engagement, the US will champion FTA arrangements in the region while simultaneously securing the stability and peace of East Asia. US Secretary of State Hillary Clinton pointed out the following priority issues for US engagement in East Asian regional architecture:

- The US alliance relationships, especially the bilateral ones, are the cornerstone of its regional involvement and the US will commit to maintaining and enhancing multilateral Asian groupings by these bilateral relationships;
- Strategic relationships with key players such as China and India need strengthening;
- Commitments will be made in promoting effective institutions with concrete and pragmatic considerations, and results ;
- Maintaining and enhancing flexibility in sub-regional institutions like six party talks.

The coordination and cooperation of regional organizations among Asean, Apec, APT, EAS and even ARF should be enhanced.

The coordination and cooperation of regional organizations among Asean, Apec, APT, EAS and even ARF should be enhanced

With the rising engagement of the US in East Asia, China's role in the region needs to be examined as well. China's relationship with Asean has been established since 1991 and Asean has always been a close neighbour and strategic partner in China's national security. At the same time, Asean serves as an ideal platform for China's participation in East Asian politics. China on the other hand provides Asean states an option to hedge against their dependence on the United States and Japan. China's engagement in Asean can be divided into three dimensions:

- To establish solid political and fiscal connections with Southeast Asian governments via growing aid assistance;
- To explore a comprehensive cooperative framework through FTA-plus plans;
- To enhance cultural attractiveness and promote pro-China understanding among Asean states through quasi-governmental projects.

Under the New Cold War in East Asia scenario, the bipolar influence of China and the US will shape institutional settings in accordance with the national/core interests of both powers, and reshape regional architecture by implicit or explicit power rivalry.

Multiplicity of Power Politics

The second future scenario of regional architecture in East Asia is the multiplicity of power politics. Dr Yang questioned whether given the lack of highly institutionalized regional architecture, the struggle for regional leadership among states will lead to conflicts and rivalries in the region. Naturally, the bigger and wealthier Northeast Asian countries like China, Japan and Korea are seen as potential leaders, striving to secure national interests by expanding influence over their southeast neighbours.

However the Asian Financial crisis of 1997 proved that none of these countries could take the dominant position. This 'leadership deficit' in the region has given rise to a new architecture of collective leadership in East Asia — the Asean Plus Three (APT); the APT consists of ten Asean member states plus China, Japan and Korea.

Under the APT arrangement, the major powers (China, Japan, and Korea) appear to act as assiduous participants while allowing Asean states to profit under their patronage. However, this according to Dr Yang is a strategic attempt by the major powers to increase influence on Asean, and to advance their respective national interests in the region. Clashing national interests among the 'X' countries (China, Japan and Korea) is leading to a power struggle for leadership in the region.

Asean as the common denominator has helped keep the balance of power with the 'X' countries in East Asia. Asean's attempt to increase the 'X' numbers, for example Australia, New Zealand and India, may upset the balance of power achieved under the APT regime. Increasing the number of players may lead to multiplicity in the power politics of the region. This may create uncertainty,

which in turn may weaken regional architecture and result in power rivalries among the 'X' countries.

Multilateralism

The final stage is establishing the basis of a solid Asean-Plus project of multilateralism. Under this third scenario, Asean assumes the role of a driving force for effective nesting arrangements among regional institutions, and for the integration process. Asean also has to act as the core. Networking efforts with major states should be enhanced in order to sustain the legitimacy of the Asean-led grouping and to facilitate further cooperation.

Based on the multilateralism scenario, Yang suggested the establishment of a comprehensive economic partnership among authorities in Taiwan and neighbouring countries, that can help integrate the multiple existing businesses and private networks. To tackle transboundary issues in the region, he proposed more coalitions of like-minded groups, and lastly, more substantive exchanges between Asean and Taiwan, with less interference by Asean's one-China policy.

Yang concluded that it is important for Taiwan to contribute to regional economic development and he said it is the hope of the people of Taiwan that their contributions to the region and neighbouring countries will be recognized.