



SHAPING THE FUTURE OF ECONOMIC  
ARCHITECTURE IN EAST ASIA

## INTRODUCTION

Lately, many questions have been raised about how new currents are reshaping the economic architecture in East Asia, ranging from the Russian Far East to the Indian sub-continent with narrower geographical spans usually drawing most attention as long as they keep in mind either the inclusion or exclusion of the United States. Has TPP, despite complications in ratification by the US Senate, gained the upper hand over RCEP, which missed its deadline at the end of 2015? Has China’s “One Belt, One Road” begun to remake the map of economic integration in Asia, involving both a northern route split between the Russian Far East and Central Asia and a southern maritime route? Is the slump in oil and commodity prices altering the prospects for investments and economic integration? In the ensuing set of chapters, authors take the viewpoints of three major players in the search for a new economic architecture.

Through these chapters, we find several bases of comparison. First, are authors now optimistic or pessimistic about the looming prospects for regional integration along lines that favor their country’s strategy? Second, how do they weigh different types of centrality—by ASEAN? By the United States? By China? Third, how do they link the economic and security dimensions of foreign policy in East Asia? The chapters raise these themes, and this introduction summarizes some of their arguments in advance of drawing comparisons of their overall conclusions looking ahead.

## THE VIEW FROM ASEAN

Kaewkamol Karen Pitakdumrongkit (Karen for short) considers recent thinking about ASEAN’s prospects for forging regional integration in support of ASEAN Centrality. She defines the area of interest—not as TPP’s slicing across Southeast Asia nor as RCEP’s expansive inclusion of India as well as Australia and New Zealand—as the boundaries of ASEAN + 3. Karen analyzes ASEAN’s viewpoint on three issue areas – trade, finance, and physical infrastructure –, finding them the most advanced initiatives. Recognizing that her overview does not substitute for recognition of diverse state actors in Southeast Asia or for drawing attention to the way great powers view these initiatives, Karen keeps her gaze on what applies to ASEAN as a separate force in pursuit of regional integration.

This chapter seeks to grasp ASEAN’s approaches for influencing economic governance, for enhancing complementarities and reducing conflicts among economic preferences, for contributing to the building of regional architecture, and for maintaining and enhancing ASEAN Centrality. In this inquiry repeated attention is drawn to Northeast Asian states, mostly China and Japan, and to how well ASEAN members can operate as a group; it is only able to exert its clout via collaboration.

In regard to trade, Karen shows states export-oriented, outward-looking, and disposed to open regionalism; however, reliance here has been on a fervent hunt for bilateralism, rather than on comprehensive deals involving all ASEAN participants and their trade partners. This has led to the “noodle-bowl syndrome” of overlapping rules of origins and dissimilar regulations despite the recent shift to collective action to forge a region-wide FTA. Yet, Karen worries that if RCEP fails, governments may fall back to their old way of discretely concluding or upgrading deals with non-ASEAN counterparts. Such actions could overwhelm the collective effort to merge dissimilar deals into a comprehensive package, making East Asian

trade regionalism even more fragmented. As to whether ASEAN Centrality will be sustained, which was possible at the start of the RCEP process by taking advantage of Sino-Japanese competition, Karen suggests that states enjoying dual membership in TPP and RCEP may change their trade priorities and become less incentivized to advance RCEP, even if it is welcome as a means to tackle the noodle bowl effect. Indonesia has recently turned inward, employing trade protectionism. Declining commodity prices have mounted pressure on exporters such as Malaysia and Brunei, increasing the likelihood of them raising barriers. The global slowdown may tempt some ASEAN states to focus their priorities on addressing grievances at home. In these concerns about trade, Karen offers a mostly bleak picture despite rays of hope.

The picture for financial regionalism is more positive, we are told, largely shaped by the ASEAN Way, emphasizing non-interference in others' domestic affairs and respect of national sovereignty. Cooperation is often fostered by informality, flexibility, consultation, and conflict avoidance. Karen anticipates that future financial regionalism will likely follow a stop-and-go pattern. Crises can to some degree catalyze the progress, but in "peace" times, inertia dominates as the ASEAN Way underlies collaboration. Yet, integration into a regional currency area is unlikely to materialize, due to technical issues such as "which currency will serve as an anchor" and "how would policy coordination be implemented," as the euro-zone crisis revealed the enforcement issues with a single currency zone. Political obstacles matter too; achieving a common currency area requires participants to give up their monetary policy autonomy and allow supranationality to determine policy. This would clash with the ASEAN Way. Even so, Sino-Japanese tension enables smaller members to gain leverage and punch above their weights and makes it unlikely that Northeast Asian states would wield their financial clout at the expense of ASEAN Centrality. Compared to trade, ASEAN's approach to building East Asian financial architecture has been more unified as most initiatives were under ASEAN +3; however, the prospects for East Asian financial regionalism could grow dimmer.

As for physical infrastructure, despite being aid recipients, ASEAN nations were able to wield clout over regional connectivity schemes and retain centrality. Yet, signs of weakening centrality have surfaced, e.g., the construction of the Xayaburi mega-hydropower dams in the Mekong River by Laos despite the alarm in downstream states. This made clear that ASEAN lacks effective mechanisms to manage disputes concerning the spillover effect of economic activities on the security sphere. Being increasingly attracted to financial and other assistance from the outside, different countries may end up having divergent views on the future of ASEAN connectivity, lessening internal cohesion and hence centrality. As self-interest looms large, governments may no longer be able to stick together and jointly determine cooperation outcomes, leaving the shaping of the future of regional infrastructure development more in the hands of their Northeast Asian neighbors, Karen concludes. The prognosis is for more spillover effects ahead.

## THE VIEW FROM CHINA

Tu Xinquan argues that the institutional regional architecture of East Asia is much less developed and falling far behind the actual economic integration and that competition for influence among China, Japan, and the United States results in somewhat overlapping but also conflicting patterns of regional integration. While China has its own preferences, he appeals

for it to be more pragmatic about the future East Asian institutional regional architecture to accept realistic divergence in place of idealistic, China-centered unity in East Asia. If from 1997, the shared identity of an East Asian community appeared to be progressing smoothly, the situation suddenly changed in 2005, Tu finds, due to a split between China and Japan. As seen in the United States too, the power shift to China was proceeding rapidly, changing the calculus about regionalism, even in ASEAN, which decided to expand ASEAN +3 to ASEAN + 6, despite China's view on regionalism.

Tu sees Japan, apart from a brief period in 2009-10, as unwilling to accept the kind of regional integration sought by China, and the United States as interfering with this goal since it would never accept an East Asian community led by China and excluding it. Instead, it favors the concept of "Asia-Pacific." Japan as a U.S. ally has been assisting this effort. That is the main reason why so many pan-regional initiatives including non-Asian countries have emerged. The United States could tolerate a non-American EU but not a non-American East Asian community, Tu asserts, adding, East Asia has no inherent regional identity, no overwhelming regional hegemony, no imminent outside threat, but instead, persistent external penetration and involvement from the single superpower in the world. He, therefore, focuses on more modest integration objectives. Although China is enthusiastic about the identity of East Asia--Southeast Asia plus Northeast Asia--, it is not powerful enough to set up the regional architecture it prefers, while relations with ASEAN and South Korea are complicated due, respectively, to the South China Sea issue and North Korean nuclear experiments, causing China to rethink its strategy for East Asian regional integration, to lower expectations and turn to a more pragmatic approach. Attention is now paid to the One Belt, One Road initiative, in which East Asia is just a part of China's peripheral diplomacy and global strategy. In East Asia, the main approach has shifted from regionalism to bilateralism since the latter is more feasible. While the CJK FTA is stalled, China signed its FTA with South Korea in 2015. Since there is no possibility to develop an institutionalized East Asian community, the choice is to bring down actual trade and investment barriers through bilateral agreements.

China still has to face another challenge in dealing with the recently concluded TPP, adds Tu, who see it as a U.S. wedge into East Asia, aiming to disintegrate the regional integration promoted by China in the past decade. He calls it a well-conceived and intelligent U.S. move. China's responses are limited, as two acceptable but not preferable choices are CJK requiring Japan's interest and RCEP depending on India as well as Japan agreeing. RCEP is worth trying for China simply because it has significant trade benefits; however, it is not a feasible approach for FTAAP, which China advocates. As long as TPP is ratified, no matter what will happen to RCEP, the pathway to FTAAP would be set through TPP, Tu concludes, summarizing his findings on trade and investment.

The financial crisis of 1997-1998 provided even stronger impetus for East Asian financial cooperation, and the demand for this continued to grow, Tu observes. Yet, he does not see this as a path to regionalism, insisting that China is not trying to establish a closed Asian or Chinese organization but an open international organization complementing the current system. In comparison to regional trade and investment liberalization, China has requested less in regional financial cooperation. It has wider global interests in the financial field as well as larger influence. There is no desire or need for China to form a closed regional financial system. The better and more feasible approach of East Asian integration might be open regionalism without exclusion of outside powers and soft regionalism without institutionalized architecture, Tu adds.

## THE VIEW FROM THE UNITED STATES

Gary Hufbauer and Eujin Jung detail the security and economic case for why the United States should care about economic integration in East Asia inclusive of it. Given a record of involvement in East Asian wars, Washington must engage the region to avoid a repeat. The authors go further in arguing that economic integration fosters trade growth, thereby reinforcing political stability and reducing reliance on military guarantees, i.e. it benefits the United States by lowering demands on its military budget. Strong economic ties do not erase disputes between China and Taiwan, or over control of the Senkaku/Diaoyu islands, but they help keep military solutions off the table, the two assert. As for the South China Sea, China will likely keep pushing, but not so far or so fast that it provokes a military response or economic retaliation. The standoff satisfies no one, but it is far better than conflict, and it rests on the mutual economic interests of all parties, we are told.

What type of economic regionalism do these authors have in mind? They assume that the United States will gradually wind down its military forces in Asia and economic integration will become an essential security guarantor. TPP, the CJK investment and trade agreements, and ASEAN agreements with the northern Asian powers, and the Asian Infrastructure Investment Bank (AIIB) are all critical building blocks for East Asian security during the next half-century. The more agreements, the better is the message.

The economic case is made separately by Hufbauer and Jung, who say Asian economic integration makes it much easier to operate value chains that exchange intermediate goods and services between multiple locations and sell final goods and services to millions of customers, and an integrated market, with U.S. participation provides a better top region for U.S. merchandise trade with East Asia; therefore economic integration is most important there. If deeper East Asian economic integration advances with the United States. as a party to trade and investment pacts, then U.S. commercial interests will benefit from larger markets and faster growth. This makes it clear that integration with the U.S. included has special significance. Indeed, TPP, as it advances to more East Asian states, can provide a template for the WTO. The authors proceed to identify some chapters in TPP with such wider potential. One example is groundbreaking transparency provisions, which require countries to provide other TPP members with a list of all SOEs and furnish specific information when requested. All SOE provisions are subject to the dispute resolution mechanism of the TPP, meaning that any violation could ultimately result in trade sanctions.

Reviewing other forums for East Asian economic integration including AIIB and other vehicles for implementing China's One Belt, One Road initiative, the authors do not necessarily see them as threatening U.S. interests. Regional self-help may reduce the U.S. burden in the next financial crisis, and faster assistance may forestall political instability in the region. The AIIB can supplement the World Bank and the Asian Development Bank by supporting roads, railways, and harbors throughout Asia, the chapter states. It proceeds to warn that U.S. failure to ratify TPP would amount to a colossal policy error. Even without TPP, economic integration will move forward, but at a slower pace and with weaker rules of the commercial road. In contrast, if TPP is ratified and then expanded, and if through an FTAAP or some other configuration the United States and China enter into deeper economic relations, the region will prosper and security tensions will dissipate or even disappear. This is an optimistic rendering of the promise of more economic integration, in which the only pessimism comes from the failure to proceed.