



REGIONAL INTEGRATION IN EAST ASIA: LESSONS FROM EUROPE

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Abstract

When considering East Asian integration there are valid reasons to examine the history of European integration. First of all, regional integration deserves careful consideration, as it can contribute to extricating economies from worldwide recession, while holding the promise of creating a bigger market and leading an economic recovery. Europe remains a model for regional integration in spite of revealed defects in the monetary integration mechanism. Second, the history of European integration tells us that creating blueprints and taking another step for regional integration even in the worst of situations is very important in making continued progress. Third, the European integration process provides ample examples of the roles players in the negotiation process have played for integration. These can provide good lessons for East Asian countries in a time of growing international tension and conflicts as well as difficulties in the integration process itself. The lessons from the European integration process can be grouped into the following categories: (1) the development of a regional identity; (2) a high degree of economic integration and maturity of consumption within the region; (3) the emergence of avowed Euro-federalists; (4) the intra-regional movement of people; (5) the development of an advanced blueprint or vision for regional integration; (6) the need for exposure to binding negotiation on regional issues; (7) the need to compensate those disadvantaged by integration; and (8) the need for a core group to drive the integration process.

The world economy is still shrouded in a fog of uncertainty, even after governments of the major economies have conducted an unprecedented cooperative financial easing since 2008. The world economy has shown neither a conspicuous rebound, nor cleared out the many chronic problems in banking sectors, government budgets, and household sectors of the respective economies. Furthermore, the 2008 crisis seems to have developed into another recession just as sluggish growth of China, incipient recovery in the U.S., and the catastrophe in Europe plague the world economy.

In hard times, it may be absurd, or at least anachronistic, to argue for regional integration, as economic recession has always gone hand in hand with the emergence of chauvinistic nation-states and protectionism in trade. It would be even more out of point to argue that we need to think about European integration when Asians are earnestly drawing up a map for regional integration. Europe is now the center of the global economic crisis and many of the current difficulties in Europe are believed to be due to the system of European monetary integration, the euro-zone. The European case casts a fundamental doubt on regional integration.

Nevertheless, we have valid reasons to think things over regarding European integration. First of all, regional integration does still deserve careful consideration, as it can contribute to extricating economies from worldwide recession, while holding the promise of creating a bigger market and leading an economic recovery. Europe remains a model for regional integration in spite of revealed defects in the monetary integration mechanism. Second, the history of European integration tells us that creating blueprints and taking another step for regional integration even in the worst of situations is very important in making continued progress. Figuratively speaking, as the night is always darkest just before dawn, we need to prepare ourselves for another heyday instead of bracing for gloom and doom. Third, the European integration process provides ample examples of the roles players in the negotiation process have played for integration. These can provide good lessons for East Asian countries in a time of growing international tension and conflicts as well as difficulties in the integration process itself.

What kind of lessons can East Asia learn from the European integration process? Foremost, there is the intangible, creating a regional identity. East Asia has to continue its institutional efforts to form an East Asian identity. A person's identity may be composed of different layers. We identify ourselves at the individual level through our families, friends, and the society to which we belong. Cities where we live are another larger category which we use to distinguish ourselves from other city dwellers. Nation-states and perhaps the global village would be the biggest categories with which we identify ourselves. The European integration process shows that the formation of

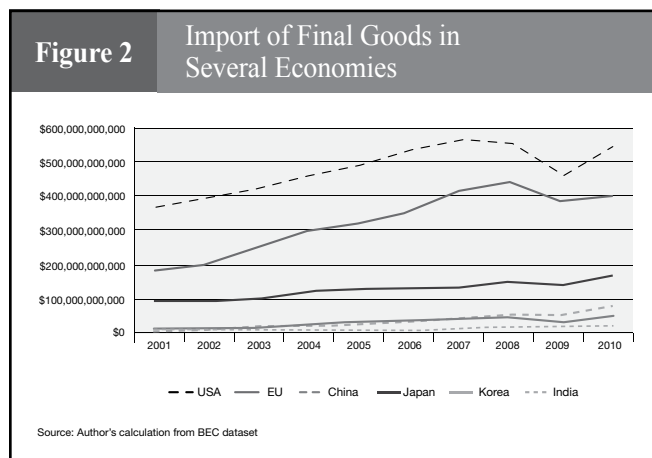
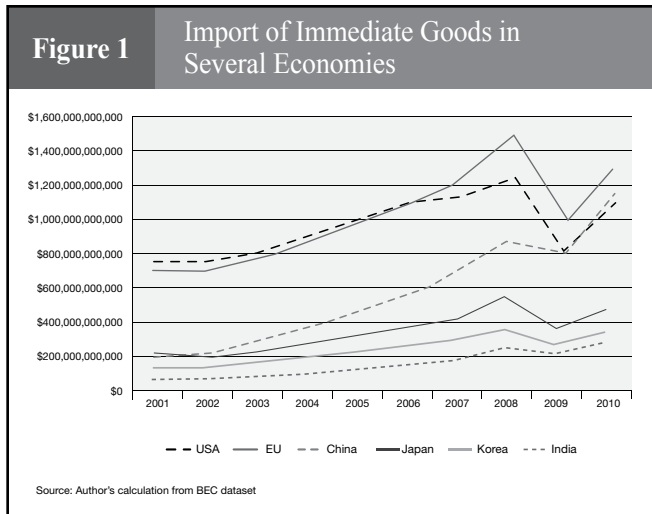
a supranational layer, beyond the national level, is crucial for achieving peace and prosperity in the region.

I am not sure whether East Asians think of themselves as East Asian or Asian. Creating regional perception ahead of visible regional integration achievements is the first step towards integration. This can provide a buffer for toning down the exhausting conflicts and disputes in East Asia, and negate chauvinistic behaviour which the political leaders are easily tempted to adopt.

To achieve a formation of a firm East Asian identity, it is very important that East Asian countries carry out various programs and actions under the banner of the East Asian community, rather than that of individual countries. People may perceive East Asia through a 'regional' scholarship program from which both the present and future generations may benefit. People may appreciate East Asia for its contribution to building bridges, museums, concert halls, etc., in their hometowns. Disadvantaged people in the region would not be easily tempted to be chauvinistic if they benefit from development aid programs in the name of the East Asian community. Taking the initiative in regional integration would assuage the public's irrational fear of market opening and globalization, if a regional identity is to form.

Second, East Asia should notice that there was a relatively high degree of economic integration in Europe even at the very first stage of integration in the 1950s. East Asia needs to emulate Europe in terms of trade and economic integration by encouraging intra-industry trade and building an exchange rate mechanism, which seems to be a cliché, as it has been repeated so often. I believe, however, more emphasis has to be given to the fact that Europe was a community in terms of consumption as well as intra-regional production. East Asia should move beyond the FTA and production network formation, and form a consumption network in order to raise its status as a self-sufficient economic entity. It may take time, but East Asian countries should concentrate on boosting their domestic consumption in spite of adversities within the region.

Figure 1 and Figure 2 reveal some striking facts on vulnerability of East Asian economies related to consumption. The first important finding from the figures is that in spite of dizzying economic growth among Asian economies, the U.S. and the EU still dominate other countries as the last destination of final goods. This is notably true if we compare the trends of China manifest in two figures: China has caught up with the U.S. in terms of intermediate goods trade, but never in the final goods market. China stood as the second biggest intermediate goods market, but was fourth as a final goods market. The second finding that we need to pay attention to is that the final goods market is more resilient to the economic shock than the intermediate goods market. Figure 2 shows milder V-shape than Figure 1 in the era of a global economic crisis. What the two findings tell us is, therefore, that



building intra-industry and intra-regional production networks is a major source of Asian countries' economic miracle, and this production network is very vulnerable to external shock. To borrow the words of a certain politician; it's the consumption, stupid, not the production!

To complete a consumption network in the region, a rise in consumption in the region is vital, but there are limitations for developing countries of the region in increasing their spending in the short-term. It could be true that the East Asian governments' export-driven policy may lead to weakening domestic consumption, but it may be the result of widening income disparities in the region. Widening income disparity prevents consumption growth from keeping pace with income growth, and the gap between consumption and income has opened up as the income gap increased. Asia has become increasingly dependent on exports as a source of economic growth in the face of flagging consumption.

Also, different consumption patterns between generations may weaken the region's consumption as a whole, and the underdeveloped financial industry could cause vulnerability among consumers in the region. Due to a very rapid change in the income level, the generational gap in consumption behavior

varies much more among Asian countries than in other economies in the world. Let me explain this with an example. Korea reached \$20,000 in per capita income in the mid-2000s, twenty years after most western European countries. Despite the similar level of income between contemporary Korea and Europe in the 1980s, older generations in Korea consume much less than their European counterparts in the 1980s, as they were much poorer than the previous European generation when they were young. Therefore, old frugal habits die hard. If rapid economic growth is the reason for weak consumption, then East Asian countries need to develop a policy initiative to strengthen financial intermediation, and secure liquidity backed by assets in bilateral, regional or multilateral arenas.

Moreover, we must remember that corruption in the region has negative impacts on vulnerable segments of the population. While these problems cannot all be resolved in a short period of time, East Asia must begin to strengthen its regional efforts to expand consumption. This is another lesson that East Asia should learn from the European integration process.

Third, we need to pay attention to the emergence of the "Europeans," in the process of European integration. "Europeans," who, more or less, tend to be avowed Euro-federalists, have formed a strong and loyal base of support for the integration process. As is the case for Europe, how can we, then, train or nurture true "East Asians"? Before thinking about nurturing, however, we need to pay attention to the Asian diaspora living in Asia and other parts of the world. Overseas Chinese, minorities in East Asia, Korean-Japanese and etc. may not have properly been provided with supranational playgrounds or institutional set-up where they could contribute to the building of the East Asian community. It may be easier for them to accept the East Asian identity that I have just mentioned. East Asia needs to make efforts to provide a supranational frame to the people of the region for formation of multiple nationalities and identities.

Fourth, after WWII, intra-regional movement of people in Europe substantially increased, and this trend has been strengthened afterwards. In the case of ASEAN+3, the degree of labor mobility in the region is far lower than that of Europe. More importantly, labor mobility, once showing steady increase, has stagnated over fifteen years. It is important to encourage intra-regional labor mobility through employment in foreign countries, but that is not the whole story. Short-term visits, study abroad, tours and other types of intra-regional movement of people can contribute to making a firm base for regional integration.

Fifth, creating an advanced blueprint or vision report for regional integration in East Asia would prove decisive for the entire process. The Werner report has influenced the thinking of a lot of people concerning the integration process, and subsequently,

the shape of the regional integration in Europe, although it was not immediately implemented. Drawing up a future with a precise plan, communicating the dream to other people, discussing the plan with experts in the field around the world, commemorating the date when the blueprint was published, is all very important for the work towards future integration.

Sixth, East Asian countries need exposure to binding negotiation on regional issues, and accumulate ample experience in solving the issues. It is important to create various forums discussing region-specific, but common issues such as intra-regional trade, intra-regional investment, environmental issues, development, gender issues, human security, etc. within our own capacity. It took many years for the European member states to acquire negotiation skills, and to reach the stage of mutual understanding.

Seventh, a varied policy mix is required for supporting the possible losers of regional integration. It is important to compensate losers during the integration process, as it can encourage them to keep engaged in the process. The Common Agricultural Policy introduced in the early 1960s, and Structural Funds refined in the 1970s played key roles in this regard in Europe, although the programs were not originally created for that purpose. On top of those initiatives, East Asia can initiate other schemes such as funds for green ODA and women's development. In the process, all countries including LDCs in the region should contribute to the creation of such funds, as it leads to enhancement of responsibility and self-motivation.

Eighth, it is recommended that a kind of core group be formed so as not to lose the momentum for integration. Germany and France have maintained a key bilateral relationship during the course of the European integration process. In East Asia, Japan and China are expected to play such a role, but if the case does not hold for the two countries, Korea is advised to initiate a type of trilateral relationship. Korea, unique in being a divided country, also needs to recognize that it should take the moral responsibility to disseminate ideas and action plans for peace-keeping, and to advocate peace and prosperity in the region. It can play an important role in initiating and leading the whole process of peace and prosperity through economic and monetary integration. In this sense, the role of Trilateral Cooperation Secretariat (TCS), based in Korea, is worthy of note.

The regional integration movement in East Asia has taken a long time and faced adversities, but the process is still at a rudimentary stage. We need to recall that the original six countries in the European Economic Community (EEC), which we regard as more or less homogeneous economies, were identified as genuinely heterogeneous when the EEC started some fifty years ago. In those days, they recognized so many differences amongst each other that it would have been difficult for them to think about integration of these heterogeneous economies.

Even without focusing on the differences between East Asian countries, it would be important to do something immediately for regional cooperation in order to bring about solid progress in regional integration. An additional implication of the European integration process is to keep the momentum of the process for cooperation by creating teams of enthusiastic policy entrepreneurs who are eager to make efforts to bring about regional integration in Korea and East Asia. This is the last, but not the least point that I would like to raise.

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¹ This paragraph and next one are mainly adapted from Heungchong Kim (2012), p. 59. Kim, Heungchong (2012), "Asia and the EU: Looking for a Way in Creating Shared Value, in *The Asian-Europe Agenda, Ideas for Crisis Prevention and Effective Cooperation*," Europe in Dialogue 2012/04, Bertelsmann Stiftung, pp. 55-61.

² Lessons fifth through eighth are substantially revised and updated from Kim, H. & S. Park (2004), "The Political Economy of the EMU Negotiation and its Implications to East Asian Monetary Integration," Policy Analysis 04-10, Korea Institute for International Economic Policy.