

Tomorrow's Northeast Asia



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**Prospects for Emerging East Asian Cooperation
and
Implications for the United States**

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PREFACE

The Korea Economic Institute (KEI) in Washington, D.C., in cooperation with the School of International Service (SIS) at American University, also in Washington, D.C., cosponsored an academic symposium at SIS on 20–22 October 2010 on “Tomorrow’s Northeast Asia.” This volume contains the papers that were presented at the symposium and subsequently refined.

The 2010 symposium focused on emerging and future challenges facing Northeast Asia. Papers and discussions fell under five broad topics:

- Prospects for emerging East Asian cooperation and implications for the United States
- The emerging role of South Korea on a global stage
- The future of energy security in Northeast Asia
- Engaging and transforming North Korea’s economy
- Finding room for a six-party solution to North Korea’s nuclear crisis.

The sponsors and authors welcome comments on the material in this volume. This is the 21st in a series of annual academic symposia on Asia-Pacific economic and security issues that bring together leading academics and policy professionals from throughout the region.

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December 2010

HISTORY OF KOREA ECONOMIC INSTITUTE ACADEMIC SYMPOSIA

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KOREA, ASEAN, AND EAST ASIAN REGIONALISM

David Arase

ABSTRACT

As actors dwarfed in size by China and Japan, and reliant on a regional balance of power for security, Korea and ASEAN have parallel economic and security interests that can be developed in a regional setting, especially that of ASEAN Plus Three.

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Introduction

South Korea seeks an enhanced relationship with ASEAN as part of President Lee Myung-bak's New Asia Initiative. Proclaimed by President Lee in March 2009, the idea is to expand Korean diplomatic focus from Northeast Asia to Southeast Asia and extend Korea's political concern from economics to security, culture, green issues, and development, with an eye toward representing the region in the international community. Details are still lacking, but as Korea considers how and why to engage Southeast Asia, it should take account of ASEAN's role in building an East Asian community.

An important premise of this argument is that ASEAN-led regional cooperation matters enough for Korea to begin to think about it in a more systematic way. There is considerable doubt among Western analysts on this point.

A common opinion of ASEAN-sponsored initiatives is: “. . . their strength has been fairly limited at best. Moreover, the fact that these organizations have taken on issues beyond the scope of their original economic mission has further diluted their residual institutional impact on their member states” (Aggarwal and Koo 2007, 362). In this view, there is no credible plan among Asian governments to build *regionalism*, that is, multilateral institutions regulating regional affairs. On whether to expect change in East Asian institutions, Etel Solingen (2005, 53) suggests that there is no consensus among experts, with “some contending that formality, legalism, and openness are marginally increasing, decreasing, or unchanged, with others perennially foretelling the slow death of a given institution.” Paul Evans (2005, 211) writes, “East Asian regionalism is at a modest and early stage of development, faces formidable obstacles, and is unlikely to be a key factor in the balance of economic and political power in the region.” Edward Lincoln (2004, 251, 232) writes that because East Asia is so diverse and dependent on trade with the United States, East Asian regionalism as presently constituted amounts to little more than “talking and becoming familiar with one another. . . .”

Those who closely follow regional diplomacy are less skeptical. It is true that East Asia is characterized by an uncoordinated congeries of overlapping bilateral, minilateral, and multilateral agreements, but there is more to it than just a superficial “noodle bowl.” Government cooperation and political will are strengthening, especially around the ASEAN Plus Three (APT) process. Richard Hu (2009) notes how, since the Asian financial crisis, ASEAN-led efforts have gained substance:

Unlike prior attempts to construct an Asia Pacific regional architecture, these [ASEAN-sponsored] projects were driven by the shared sense of purpose among East Asian countries to construct a more Asian-oriented community, with the emerging ASEAN + 3 process as its anchoring framework. As the countries in East Asia have become increasingly interdependent, leaders in the region have become more determined to build a framework for greater regional cooperation and integration.

Before the Korea-ASEAN strategic partnership is addressed, the basic premise of this argument, that is, that ASEAN-sponsored regionalism actually matters, needs to be supported.

ASEAN-Sponsored Regionalism

Regional Cooperation Today

A number of different—and competing—regional cooperation processes are taking place in East Asia. If there is a common denominator, it is ASEAN. Growing out of the annual ASEAN summit meeting are the ASEAN Plus One meetings, at which ASEAN leaders sit down with the leaders of China, Japan, Korea, and other dialogue partners one at a time. Then there are the APT summits that bring together ASEAN, China, Korea, and Japan (these are discussed in more detail below). Finally, there are the ASEAN-sponsored East Asian summits (EAS), which add India, Australia, and New Zealand to the APT.

Two large yearly multilateral consultations include countries from outside the East Asian region.¹ One is the 21-member Asia-Pacific Economic Cooperation (APEC) meeting. APEC's 21 member economies are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russian Federation, Singapore, Chinese Taipei, Thailand, United States, and Vietnam.

The other is the ASEAN-sponsored 27-member ASEAN Regional Forum (ARF), which is dedicated to dialogue and consultation on political and security issues of common interest and concern and to confidence building and preventive diplomacy in the Asia-Pacific region. Current participants in the ARF are Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union,

1 The Asia-Europe Meeting is biennial.

India, Indonesia, Japan, Democratic Peoples' Republic of Korea, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, Philippines, Russian Federation, Singapore, Sri Lanka, Thailand, Timor Leste, United States, Vietnam.

As it stands today, ASEAN is the linchpin of the most important regional co-operation processes. The major powers (China, the United States, and Japan) are counterpoised in the region, and luckily for ASEAN their rivalry means that none can unilaterally stamp its will on the region. Almost by default, ASEAN's norms and prerogatives continue to be respected as long as they are acceptable to all concerned parties. Having the initiative, ASEAN cannot afford to be lax in its efforts to advance regionalism. Ellen Frost (2008, 251) puts it this way:

Asian governments cannot afford not to pursue integration because the consequences of not doing so are too risky. The alternative—doing nothing—would be destabilizing and would leave smaller Asian countries at the mercy of unrestrained rivalry among the regional powers. The implicit rift between the rim democracies and China would grow wider, forcing other governments to take sides.

Advantages of APT

Economic rationale. Writing several years ago, Hund (2003) was acerbically skeptical of APT prospects. He rejected arguments by Stubbs (2002) and Dieter and Higgot (2002) that APT could be the start of an East Asian community on the grounds that there was no “exclusive East Asian identity” to hold it together. Hund is correct that there is no exclusive East Asian identity; nevertheless, APT has steadily grown. So, APT seems not to rely on an East Asian identity—at least not yet. Regional economic interdependence, first made unambiguously evident in the Asian financial crisis, created APT. Since its inception in 1997 its agenda has grown from sharing currency reserves in times of crisis to such longer-term strategic concerns as development of a regional capital market, an East Asian free trade agreement (FTA), an Asian currency regime, and political reconciliation and community building.

Intraregional trade (non-oil) in East Asia (APT plus Hong Kong plus Taiwan) reached 52.1 percent in 2006–07 (Guerrero 2009, 56), which was higher than NAFTA (40 percent). This degree of interdependence invites APT efforts to manage it, but fears that these efforts could become exclusionary are unfounded. There has not been a decoupling of East Asian growth from Western economies (Athukorala and Kohpaiboon 2009). Final exports to Japan, Europe, and the

Americas were about 60 percent of developing Asia's total exports in 2009 (ADB 2010).

Still, this continuing dependence on Western consumers does not reduce the need for APT. Instead, it can be an argument *for* regional cooperation. Analysis of the trade triangle forming as smaller East Asian economies orient exports toward China, which in turn runs export surpluses with the Organization for Economic Cooperation and Development countries, suggests that an APT FTA that removes obstacles in regional production networks would lower costs, raise efficiency, and deliver more and wider benefit to the entire region than the status quo or any alternative permutation of FTA membership (Lee, Roland-Holst, and van der Mensbrugghe 2004).

Political process. The APT process is described by ASEAN (2009b) in the following way:

Cooperation is now being pursued in 20 areas, covering political and security, transnational crime, economic, finance and monetary, agriculture and forestry, energy, minerals, tourism, health, labour, culture and arts, environment, science and technology, information and communication technology, social welfare, rural development and poverty eradication, disaster management, youth, women, and other tracks. There are 57 bodies (1 summit, 14 ministerial, 19 senior officials, 2 directors-general, 18 technical level meetings and 2 other tracks meetings) coordinating APT cooperation.

At the 2004 APT summit, an East Asian Community was agreed as a long-term APT goal. The concept was first proposed by the East Asia Vision Group (EAVG) in 2001, and it called for an East Asian Free Trade Area and the universal adoption of the ASEAN Investment Area regime, which would provide the basis for an East Asian Economic Community. The APT today is following a 10-year work plan, signed at the 10th APT summit in 2007, that is guided by this goal (ASEAN 2007a). Aside from creating the \$120 billion Chiang Mai Initiative Multilateralization facility and the ASEAN Plus Three Cooperation Fund (\$3 million to fund APT policy research),² APT agreed it would be the main vehicle for forming an East Asian Community (ASEAN 2007b).

2 Other recent steps included the APT Macroeconomic Research Office, which is to be set up in the first quarter of 2011 in Singapore. The 13th APT Finance Ministers' Meeting in May 2010 authorized the APT Bond Market Forum and established the Credit Guarantee and Investment Facility, which will have an initial capital of \$700 million managed by the Asian Development Bank to support the issuance of local currency-denominated corporate bonds in Asia.

Of all the ASEAN-centered schemes, the APT process has accomplished the most and has the brightest prospects, not only because it is more economically interdependent than other ASEAN-sponsored groups and therefore has more reason to cooperate, but also because members seem to have settled on a method of building cooperation. According to Acharya (2009, 155), ASEAN's institutional model, which is used in APT, includes "informality, non-adversarial bargaining, consensus building, and non-legalistic procedures for decision making" that move "at a pace with which all governments [feel] comfortable."

Lim Wonhyuk (2009, 88) believes that, regarding APT, "most South Koreans regard it as a multilateral arrangement with substance that can serve as the basis of an East Asian community." Similarly, Wu Xinbo (2009) states, "China expects APT to be the main venue for the building of an East Asian community." Akiko Fukushima (2009, 119) explains, "Some Japanese government officials have explained that Japan has intentionally let ASEAN take the driver's seat in East Asian regionalism in order to avoid rivalry with China. They have also explained that ASEAN's leadership in regionalism is more acceptable to members of the region because it is non-threatening." Regarding APT, Mark Beeson (2007, 233) reckons: "it is the most developed and unambiguously East Asian grouping developed thus far."

The APT summit process, which began in 1997, is actually a bundle of annual meetings (Suzuki 2004). Since 1999, the leaders of China, Japan, and Korea have had a three-way meeting before the regular APT meeting, and ASEAN Plus One meetings (where China, Japan, and Korea confer with ASEAN one at a time) continue on as they have since the early 1990s. A separate, annual, rotating-chair, three-way Northeast Asian summit meeting process was begun in 2008 at Fukuoka. It is focused on Northeast Asian trade liberalization and is intended to complement and support ASEAN's region-wide cooperation initiatives. There is redundancy in the process in that the same leaders are brought together in different meetings, but because decision making is by consensus, multiple discussions are helpful.

APT uses a distinctively Asian consultative process governed by norms developed over the course of time through the interplay of Western influence and Asian preferences ("constitutive localization"). This requires consensus before the group can move forward (Acharya 2009). K. Kesavapany (2010), director of the Institute of Southeast Asian Studies in Singapore, observed: "The regional schemes over which ASEAN has found itself to be presiding have developed organically over time rather than according to some architecture-like plan." Zhang Yunling (2005, 60), director of the Institute of Asia Pacific Studies, Chinese

Academy of Social Sciences, notes: “The current process of new regionalism is economics-centered, has equal participation and is built on consensus, which is totally different from the ancient and modern regional order. . . . Institutional building will not be meant to develop as a regional organization with a super-regional power.”

APT members, rather than being committed to a firm set of rules or a detailed outcome, are committed to a process that is consultative, path-dependent, and incremental. The institutionalized core is not constituted by treaties and formal institutions; instead it inheres in an iterated meeting process. Treaties and organizational structures are created for concrete agreements coming out of the process, but they do not frame the process itself. And, most important, APT members agree that this is how group decision making should work. Thus, APT is where one should expect the most substantive regional cooperation agreements.

APT will not displace the EAS or APEC. Those venues will continue to bring together their respective memberships to discuss cooperation (Capie 2003). However, the larger number and greater diversity of EAS and APEC members suggest they are more likely to stumble over economic and political differences. But this would not hinder APT in building an East Asian community.

Because today we can say that the APT will be the main vehicle advancing regionalism and that ASEAN will be important in guiding its progress, Korea should factor this in when constructing an enhanced relationship with ASEAN. The smaller size of the ASEAN countries and Korea relative to China and Japan gives them similar interests. In APT they can work together to advance their interests and need not compete with other countries for the attention of China and Japan. Looking at Korea-ASEAN relations in a regional context, Bae Geung-Chan (2007, 148) concludes: “Simply put, ASEAN and Korea need to pursue an intra-regional strategic balance by enhancing mutual co-operative relations.”

The State of Korea-ASEAN Relations

South Korea and ASEAN have a robust economic relationship that grows naturally out of their geographical proximity, complementary economic characteristics, and peaceful regional environment. South Korea is a rich, technologically advanced nation—albeit poor in resources and with high labor costs—of almost 50 million people. It has an average per capita income of \$22,000. With the exception of Singapore, ASEAN is a group of resource- and labor-abundant developing countries. It has 700 million people with an average per capita income that is

10 percent of Korea's. The ASEAN-ROK FTA was concluded in 2009.³ This FTA was a goal set by the ASEAN-Korea Joint Declaration on Comprehensive Cooperation Partnership that was signed at the 2004 ASEAN-ROK summit. Having just completed this agenda, Korea and ASEAN are looking for a new bilateral agenda.

ASEAN is of great (and still growing) economic importance to South Korean trade. Korean trade with ASEAN was \$90.2 billion in 2008, making ASEAN South Korea's third-largest trading partner. In addition, ASEAN was Korea's second-largest overseas investment destination (\$5.8 billion) and its second-largest construction market (\$9.1 billion). ASEAN supplies Korea with critically important liquefied natural gas, crude oil, coal, copper, and wood. And, as the cost of labor rises in Korea, relocating production to ASEAN may, on the one hand, allow Korean firms to stay internationally competitive and, on the other hand, contribute to the industrialization of ASEAN and in the process increase regional interdependence.

South Korea was ASEAN's fifth-ranked trade partner in 2008. Korea has capital, technology, development experience, and organizational skills to help ASEAN deal with insufficient infrastructure, industrialization, environmental degradation, climate change, poverty, illiteracy, the digital divide, and issues of health care. South Korea has cumulatively given more than \$700 million in economic aid to Southeast Asia, and the top five recipients of official development assistance (ODA) from Korea are all ASEAN members. By funding infrastructure projects with tied ODA loans, Korea can help its industries relocate and gain a larger share of the ASEAN market. ASEAN expects to get investment in new industries and infrastructure, technology transfer, and good corporate citizenship contributing to the needs of local communities.

The Korea-ASEAN relationship is still defined in bilateral economic terms, illustrated very well by the agenda of the Korea-ASEAN summit on Jeju Island and the report on bilateral relations released by the Korea-ASEAN Eminent Persons Group (EPG) last year. There was no substantive discussion of how their relationship could improve regional affairs. ASEAN is not just an economic partner for Korea; it also happens to sponsor the main processes of building East Asian regionalism. How East Asian regionalism turns out will structure the opportunities and choices available to Korea in all areas.

3 The ASEAN-ROK FTA is a package of four agreements covering visible trade, invisible trade, investment, and dispute settlement.

Strategic partnership with China and Japan. The bilateral EPG report (ASEAN-ROK EPG 2009, 12) investigated ways to enhance the Korea-ASEAN relationship. The final recommendation was:

The ASEAN-ROK EPG recommends that ASEAN and the ROK should elevate their comprehensive cooperation partnership to . . . strategic partnership . . . [which] . . . will further promote peace, stability and prosperity in the region as well as the world at large.

“Strategic partnership” comes out of the ASEAN diplomatic lexicon, and what it means will be discussed below. As for the promotion of “peace, stability, and prosperity in the region,” the report (ASEAN-ROK EPG 2009, 15) stated general principles:

. . . the ROK will continue to play a significant role to support the ASEAN community building process and to strengthen regional processes initiated by ASEAN, such as the ASEAN Plus Three cooperation, East Asia Summit (EAS) and the ARF.

To see what strategic partnership might require of Korea, we can look at China-ASEAN and Japan-ASEAN relations. The Joint Declaration on Strategic Partnership was signed at the 2003 China-ASEAN summit in Bali (ASEAN 2003); this was followed in 2004 by a plan of action that specified the areas and means of policy coordination (Wen 2004). Japan and ASEAN declared a strategic partnership at the ASEAN-Japan Commemorative Summit in 2003 (ASEAN 2008), and this also was followed up with a plan of action announced at the following year’s summit (ASEAN 2009a).

Boiled down, “strategic partnership” means that Japan and China each pledged to (a) support ASEAN initiatives in the APT, the ARF, and the EAS, and (b) help ASEAN achieve its goal of becoming an integrated community as envisioned in the 2007 ASEAN Charter. In the area of security, cooperation is limited to nontraditional security. The action plans established a framework of goals and regular intergovernmental meetings at the summit, ministerial, senior official, director general, and working expert group levels across a broad front of issues; for example, China engages ASEAN in 11 areas of highly articulated cooperation, and Japan engages ASEAN in 13 areas.

As of 2009, there were five areas of Korea-ASEAN consultation. Korea-ASEAN cooperation did not penetrate all levels in any issue area, and there were only 24 ongoing discussions of any description (ASEAN-ROK EPG 2009). Korea will

need a stronger bilateral diplomatic effort, but, lacking the resources of China and Japan, it may economize by engaging ASEAN in the multilateral APT process. The APT has standing cooperation mechanisms available to Korea in all the issue areas where Japan and China maintain bilateral mechanisms with ASEAN.

The ASEAN Agenda

The goal of achieving an ASEAN community by 2015 as envisioned in the ASEAN Charter guides ASEAN's agenda with strategic partners. The charter calls for a community built on three pillars: (1) political and security community, (2) economic community, and (3) social and cultural community.

Political and Security Community

ASEAN wants other countries to respect state sovereignty, pledge nonintervention, and commit to the peaceful resolution of disputes, which are fundamental principles contained in such documents as ASEAN's Treaty of Amity and Cooperation in Southeast Asia (TAC), the Document on Conduct in the South China Sea, the Southeast Asian Zone of Peace, Freedom, and Neutrality declaration, and the Treaty on the Southeast Asian Nuclear Weapon-Free Zone. A related goal stated in the ASEAN Charter is "to maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external partners in a regional architecture that is open, transparent, and inclusive." Thus, stability in Southeast Asia relies on norms that, in effect, grant large powers little leverage. This agenda is worth diplomatic support from Korea because as a smaller power it benefits when these norms are observed.

Economic Community

ASEAN's goal (ASEAN 2010) is "to create a highly competitive single market that promotes equitable economic development for member states, as well as facilitating their integration with the global community." Aside from financial cooperation, trade, and investment agreements, Korea can, for example, support the Initiative for ASEAN Integration (2009–15), which seeks to upgrade Cambodia, Laos, Myanmar and Vietnam. Korea can use ODA here to polish its image.

Social and Cultural Community

Finally, to reinforce ASEAN's cohesion, a social and cultural community agenda aims to narrow differences of wealth and social development among ASEAN

members. For Korea this means such things as human exchange, more transfer of skills and technology, better corporate social responsibility, more aid to education and social welfare, and, to these ends, more productive cross-cultural interaction.

Korea's Interests

Encouraged by the fact that the UN secretary-general is Korean and that South Korea will host the Group of 20 summit in November 2010, President Lee Myung-bak envisions a “global Korea” that will play a significant political role in the world through the exercise of soft power. The New Asia Initiative that President Lee announced on a trip through Southeast Asia in March 2009 closely parallels the goals of “strategic partnership” because it aims to build a cooperative political relationship with ASEAN countries. Thus, a successful strategic partnership with ASEAN would be a logical intermediate step toward realizing the vision of a global Korea, and ASEAN will welcome more active Korean engagement.

It is unclear what broader regional aims Korea will undertake with ASEAN. One can start a discussion by noting that ongoing structural developments in regional relations will push Korea to devise cooperation strategies in at least six key areas: the growing centrality of the Chinese economy in East Asia, currency and financial stability, the proliferation of regional trade agreements, growing regional interdependence, the rise of Chinese military assertiveness, and nontraditional security. In each area there are at least *prima facie* rationales for them to coordinate their negotiating positions in a regional context.

China's Economic Rise

China's real GDP has already surpassed Japan's, and China is now the largest export destination for Korea and the ASEAN countries. China's continuing strong growth and advancing technological sophistication is making it the central economy in East Asia. Korea (and ASEAN) face strong competitive pressure from China in home markets, but shutting it out is not an option; there is no alternative to further trade liberalization if Korea and ASEAN are to derive the greater long-term benefits from China's growing economy. Because Korean and ASEAN interests are similar in this regard, cooperation in managing trade friction with China could be mutually beneficial.

Currency and Financial Stability

The lesson of the Asian financial crisis was that, in a world of unregulated financial flows, countries needed access to substantial reserves of hard currency to stave off a currency crisis. Moreover, crisis in a single currency could destabilize other currencies in the region through contagion, as happened in 1997–98. At such times global private and public financial institutions that control credit and financial flows may not be very accommodating. APT was created to allow East Asia to address this problem collectively, and the solution devised is to share member dollar reserves in emergencies through the Multilateralized Chiang Mai Initiative. As the most likely borrower countries, Korea and ASEAN share an interest in gaining access, on flexible terms, to the enormous dollar reserves of China and Japan.

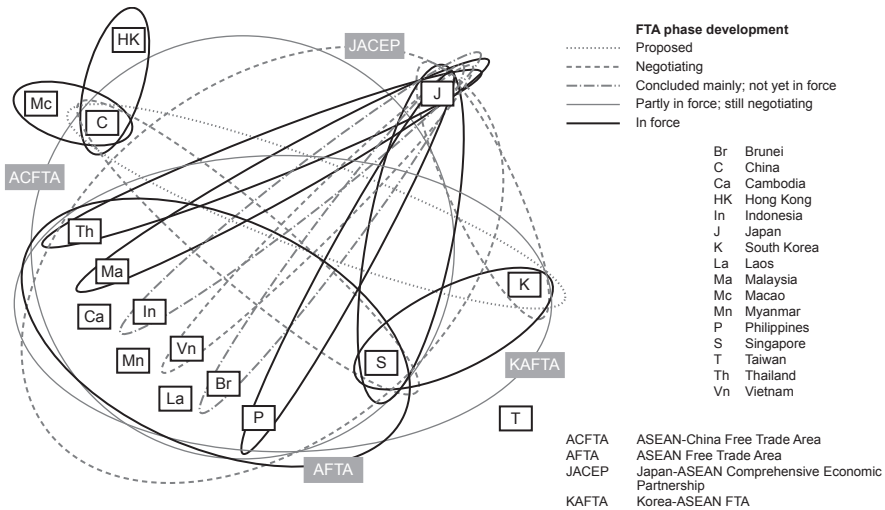
The mismatched currencies and maturities of borrowed funds used to finance local investments in Thailand that helped to precipitate the Asian financial crisis suggest a need to raise capital locally on terms and in currencies that match local investment requirements. This has led to the Asian Bond Market Initiative. Korea and ASEAN would benefit greatly if more of the large savings surpluses of China and Japan cycled through regional financial systems.

APT members are investigating the possibility of linking currencies in some fashion to reduce the exchange rate risk in mutual trade and investment dealings. However, members' extraregional trade would still be priced in national currencies with different exchange rate mechanisms. Because China's yuan has been fixed to the depreciating dollar, this could hurt Korean and ASEAN export competitiveness. The yuan's peg to the dollar means the price of Chinese goods in the U.S. market remains unchanged while the dollar price of Korean and ASEAN goods rises because their currencies float against the dollar.

Untangling the Noodle Bowl

The noodle bowl of regional trade and investment agreements among East Asian countries, and between Asia and the rest of the world, is problematic not because it restricts global free trade, but because each agreement has different rules of origin. For trade between partners that are linked through more than one trade agreement (which is often the case—see *Figure 1*), it is difficult to determine which rules apply to either a good entering at the border or foreign direct investment locating behind the border.

Figure 1: FTA Linkages in East Asia, June 2007



Source: Dent (2009).

With ASEAN FTAs with Korea, China, and Japan falling into place in 2009, there is an opportunity to introduce more order to the situation. Northeast-Southeast trade rules are aggregated into three not dissimilar packages. This invites one to consider reconciling the three agreements to create an East Asian FTA with a single, consistent set of rules for trade and investment issues (Ahmad 2005; Park 2006). This proposition may seem far-fetched because of political factors, but it is not unlikely if economic logic prevails.

In the present situation of parallel China-, Japan-, and Korea-ASEAN bilateral FTAs, let us sketch three future scenarios.

One is the “marriage” model. There is a core bilateral deal (the so-called marriage) between two large economies, which then draws in surrounding countries. In the case of the EU, France and Germany were the original pair; in NAFTA it was the United States and Canada; and in Mercosur it was Argentina and Brazil. The marriage model does not favor Korea because if ASEAN were to choose only one mate with which to “start a family,” it would be China (Baldwin 2009). (The history of the UK in the EU illustrates the disadvantages of joining late.)

The second scenario is the competing-hub model in which China, Japan, and Korea are main hubs of regional trade agreements. This scenario puts Korea at a disadvantage because it cannot sustain head-to-head competition with China

and Japan. For this reason, the region would collapse into two competing trade hubs: China and Japan (Baldwin 2009).

The last scenario is the negotiated merger of the three ASEAN FTAs with China, Japan, and Korea, respectively. The rationale for a single FTA, according to Kawai and Wignaraja (2008) is:

Consolidation of multiple and overlapping FTAs into a single East Asian FTA can help mitigate the harmful noodle bowl effects of different or competing tariffs, standards, and rules. A region-wide FTA will also encourage participation of low-income countries and reduce trade-related business costs, particularly for small and medium enterprises.

This outcome permits Korea to influence the rules of the larger FTA, which is the best for Korea. Thus, it has an incentive to play an ASEAN-like role—that of a smaller, neutral party persuading larger neighbors that are rivals to adopt norms of cooperation. Korea has the credibility and opportunity to broker a deal.

Transposing this conclusion into the realm of actual political choice, the APT would be the preferred final venue for Korea because the concerned members, and only those members, convene in meetings.

Longer-Term Regional Growth Strategies

With a new set of ASEAN FTAs with China, Japan, and Korea recently concluded, intraregional trade will continue rising; however, East Asia is still dependent on export markets in North America and Europe (Athukorala and Kohpaiboon 2009). Although Asian intraregional trade has increased, some of the increase reflects how intermediate goods move through regional production networks to produce finished goods, of which a large proportion is exported to Europe and North America. Thus, the key to continued growth is for East Asian regionalism to remain open and compliant with the World Trade Organization so as not to invite the closure of Western markets.

But the prospect for consumer demand growth in the West is nothing like it used to be. Looking ahead, the East Asian countries may have to increase consumer demand inside the region to drive growth. This can succeed only if the large Chinese and Japanese economies become the engines of demand growth, something that both Korea and ASEAN should desire.

China's New Assertiveness

China's naval presence in East Asian waters has extended enough to give it an option to back up with force its disputed maritime territorial claims in the South China Sea and the East China Sea. Its recent disputes with the United States in the South China Sea over freedom of navigation and with Japan in the East China Sea over the Chunxiao gas reserve suggest that China may impose its claims through *faits accomplis* and a show of force. Here is where Korea can be a strategic partner to ASEAN in a more conventional sense. Both ASEAN and Korea have an interest in continued peaceful relations between China and the United States and between China and Japan. Moreover, Korea and ASEAN are wary of Japanese and Chinese military power for contemporary and historical reasons. To prevent either from becoming predominant, Korea and ASEAN both see a continued U.S. strategic presence as desirable and necessary.

Nontraditional Security

Nontraditional security (NTS) is an APT area of emphasis and offers further scope for partnership. NTS refers to nonmilitary threats to a regime's sovereignty and stability. Commonly cited threats are economic security, financial stability, energy security, environmental security, freshwater security, ethnic minority problems, religious extremism, terrorism, alien cultural influence, small-arms proliferation, information security, AIDS, population stability, drug smuggling, illegal immigration, piracy, refugees, human trafficking, and money laundering. An ASEAN scholar (Hernandez 2007, 42–43) had this to say about Korean contributions in this area: "South Korean participation continues to lag behind, especially in security cooperation and non-traditional security (NTS) issues where cooperation among new parties appears to have been stepped up in recent years."

NTS is less relevant to Korea than to ASEAN, but if Korea wishes to be a global leader it should master the area of transnational nonmilitary threats that most of the rest of the world has to deal with. This kind of security does not directly affect the balance of power and so cooperation is relatively easy to advance. Yet it does have potential to reassure and advance trust when militaries carry out joint exercises and work as allies addressing these threats. Korea has had to focus on traditional security on the Korean peninsula, but it should consider developing NTS cooperation as a confidence-building mechanism and to develop political relationships in Southeast Asia and other regions.

Traditional Security

Despite the difference between Northeast and Southeast Asia in the area of security, both Korea and ASEAN have similar interests with respect to China, Japan, and the United States. That is, as smaller powers with no hope of underwriting stability in subregions where larger powers compete for influence, both must rely heavily on diplomacy; but ultimately they depend on a balance of power. It is a stable balance that gives diplomacy scope to operate. As the distribution of power changes, Korea and ASEAN will have to bear this point in mind. Meanwhile, both will want to reinforce norms that prioritize peace and restraint.

Because South China Sea disputes are gaining salience as China's naval power grows, ASEAN may have to worry about the balance of power between China on the one hand and the United States and Japan on the other. Korea has dealt with these countries in a balance-of-power framework on the Korean peninsula for at least five decades. Korea has an interest in how the navigation issues are managed and could give important third-party advice and support to ASEAN as the latter maneuvers to maintain stability.

Conclusion

Korea is considering ways to augment its relationship with ASEAN, and in looking forward it should not neglect the potential to use the bilateral relationship to influence the development of East Asian regionalism. Korea and ASEAN have parallel interests in this regard and would do better working together to secure common goals. The best venue for this is the APT. Of all the ASEAN-sponsored regional mechanisms and compared with APEC, the APT contains the most convergent economic and political views and it has the most proven track record of accomplishment. The positive externality of getting over the hostilities among neighbors is, as was the case in starting the EU, not unimportant.

Former Korean president Kim Dae-jung showed how Korea can take a real entrepreneurial leadership role in the APT setting. At the 1998 Hanoi APT summit he called for the East Asian Vision Group (2001) to study how APT could develop into a regional community. After the EAVG handed in its report, at the 2001 Singapore APT summit, Kim called for the official East Asian Study Group (EASG 2002) to review the EAVG report and translate the vision into policy measures. These two reports constructed the program guiding the APT process today. Furthermore, Kim proposed the East Asia Forum, East Asia Summit, and East Asia Free Trade Area at the 2001 Brunei summit, and all of these ideas have taken root in the APT process.

As for the U.S. stance toward all this, Ralph Cossa (2009, 48) believes that the United States “prefers that pride of place go to pan-Pacific institution building . . . Clearly APEC and ARF should have priority over . . . pan-Asian community building.” He recognizes that, “the APT appears destined to be the primary vehicle for community building, with the EAS as window dressing. . . .” His conclusion, however, is: “Perhaps it is time for the United States to take the next step in demonstrating its commitment to regional prosperity and stability and in underscoring its support for Asian community building.

The United States may not welcome the idea of an APT community successfully forming, but under foreseeable circumstances it may be unable to stop it. That is because ASEAN-sponsored regional processes run on different tracks at different speeds. Even if the United States signs the TAC and joins the EAS, it remains outside the APT process, which can continue to make progress even if the EAS or APEC, for that matter, stalls.

The United States would do best to encourage Korea (and Japan) to be active in APT because, in many cases, what Korea wants will benefit the United States; for example, continued U.S. strategic presence, open regionalism, robust growth in East Asia, more consumer-driven Chinese and Japanese economies, WTO-compliant rules, and democracy and human rights. APT does not challenge the strategic presence of the United States, nor will it harm other regional forums. Nor will APT be able to exclude U.S. economic interests. If the United States were to impede Korea in APT, ASEAN would not have a full measure of Korean support and the influence of U.S. friends would be reduced, which cannot be in the U.S. interest.

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