

## CHAPTER 6

### Towards an East Asian Community and Japan

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#### Introduction

East Asia is all the more diverse in culture, language, religion, and political systems. No one has imagined a cooperative regional regime constructed in this region. However, Southeast Asia nations have sought to establish a regional cooperative organization since the inception of the Association of Southeast Asian Nations (ASEAN) in 1967, which seems to be the initial trial of regionalism in Southeast Asia. ASEAN is the only organization that has proposed and initiated to form regional cooperative mechanisms. Indeed, the five member states of ASEAN issued the Kuala Lumpur declaration in November 1971, expressing ASEAN's expectation "to secure the recognition of, and respect for, Southeast Asia as a Zone of Peace, Freedom and Neutrality (ZOPFAN), free from any form or manner of interference by outside powers." The declaration was an experiment of the ASEAN states to create a security order in the region.<sup>1</sup> In February 1976, the first ASEAN summit was held in Bali, Indonesia, and the five ASEAN nations signed the Declaration of ASEAN Concord and the Treaty of Amity and Cooperation in Southeast Asia (TAC).<sup>2</sup> TAC denoted a common perception of security among the five ASEAN nations, and provided the basic principles to unite the member states. ASEAN launched ASEAN Regional Forum (ARF) in 1994 as a mechanism for multilateral security dialogue in the Asia-Pacific region.<sup>3</sup>

On the economic front, ASEAN initiated ASEAN Joint Industrial Project in 1970s, agreed to create ASEAN Free Trade Area (AFTA) in late 1980s based on a former "Brand to Brand Complementation Scheme." In 1990, then Prime Minister of Malaysia Mahathir proposed to establish an East Asian Economic Group (EAEG), which envisaged among others removal of trade barriers and preferential treatment among

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<sup>1</sup> Yuen Foong Khong, "Michael Leifer and the pre-requisites of regional order in Southeast Asia," in Joseph Chinyong Liow and Ralf Emmers eds., *Order and Security in Southeast Asia-Essays in memory of Michael Leifer*, Routledge, 2006, p. 33.

<sup>2</sup> Michael Leifer, *Dictionary of the Modern Politics of Southeast Asia*, Routledge, 1995, p. 276.

<sup>3</sup> Ichiro Nakayama, then Foreign Minister of Japan, proposed to establish ARF in 1992 as a dialogue mechanism between Japan and ASEAN for explaining Japan's foreign policies toward Southeast Asia. ASEAN, however, called for multilateral security dialogue including wider range of countries, especially communist and socialist countries, such as China and Indochina states.

members of the grouping to enhanced their economic well-being. The idea met with opposition from the United States in particular as well as some hesitation among ASEAN members. The second informal ASEAN summit held in 1997 adopted “ASEAN Vision 2020”, which outlined a long-term development and prosperity of the region through intensifying cooperation among the member states. The “Hanoi Plan of Action” that set the action plan for the vision was adopted in 1998. It emphasized the necessities of ASEAN's economic integration and security cooperation to ensure stability and prosperity. Furthermore, ASEAN Plus Three (China, South Korea and Japan) or APT mechanism was set up by the request of Dr. Mahathir. The first ASEAN Plus Three summit was held in late 1997 after the onset of the Asian currency crisis.

Entering a new century, ASEAN has accelerated regional cooperation not only on the economic front but also in the area of regional security. The “2001 ASEAN Declaration on Joint Action to Counter Terrorism” adopted at the seventh ASEAN summit in 2001 tasked the ASEAN member states to deepen cooperation to counter, prevent and suppress all forms of terrorist acts.<sup>4</sup> Prior to the summit, the third ASEAN Ministers Meeting on Transnational Crime (AMMTC) was held in October 2001 focusing on terrorism.<sup>5</sup> At the ninth ASEAN summit, the “Declaration of ASEAN Concord II” was adopted and the member states agreed to establish an ASEAN Community. The community comprises three pillars, namely a political and security, an economic, and a socio-cultural community.<sup>6</sup> At the summit, ASEAN agreed to promote more comprehensive security and economic integration, which would, albeit slowly, come into being in the coming decades.<sup>7</sup> The heads of states of ASEAN adopted the “Vientiane Action Program ( VAP ) ” in 2004, which envisioned the goals and strategies toward realizing the ASEAN Community.<sup>8</sup> They agreed to pursue comprehensive integration of ASEAN toward the realization of an open, dynamic and resilient ASEAN Community by 2020 and committed to implement the VAP, paying attention to the broader integration of the ten member countries into one cohesive ASEAN Community.<sup>9</sup>

In November 1999, the third APT summit was held in Manila, and the member states of the APT underscored their commitment to enhance regional cooperation for further development and prosperity of the region. Responding to the agreement reached at the APT summit in late 2004, the first East Asian Summit was convened in Kuala Lumpur in December 2005 with participation from 16 nations of the Asia-Pacific region.

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<sup>4</sup> ASEAN Secretariat's Website. <<http://www.aseansec.org/3638.htm>>

<sup>5</sup> Ibid.

<sup>6</sup> ASEAN Secretariat Website.< <http://www.aseansec.org/15160.htm>>

<sup>7</sup> Anthony L Smith, “ASEAN's Ninth Summit: Solidifying Regional Cohesion”, *Contemporary Southeast Asia*, Dec. 2004, Vol. 26, Issue 3, p. 416.

<sup>8</sup> Ibid., and ASEAN Secretariat's Website.

<<http://www.aseansec.org/VAP-10th%20ASEAN%20Summit.pdf>>

<sup>9</sup> Ibid.

Although it remains a long-term goal to establish an East Asian community, the inauguration of the East Asian summit was a symbolic event that has potential to grow into an architecture for regional political, security and economic cooperation. It is also reflected the fact that East Asian nations becoming to share the collective view of maintaining stable regional order by enhancing regional cooperation. Establishing an East Asian community would lead to a new regional order in East Asia in the future and many observers believe it would be ASEAN that can play the central role in the process.

## **Rise of Asian Regionalism**

### *Deepened Interdependence*

A great deal of attention has been given to regionalism or regional integration in recent years. With the onset of the Asian currency crisis in 1997, East Asian regionalism-the effort to build institutions to foster regional cooperation-has also gained momentum. The current trend of East Asian regionalism seems to be driven by deepened economic interdependence in the region. A number of free trade agreements (FTAs) have been concluded to forge an unified market in East Asia. ASEAN is located at the hub of bilateral and multilateral FTAs in the Asia-Pacific. Japan, China and South Korea as well as India concluded bilateral and multilateral FTAs with ASEAN. There are 148 FTAs currently operating around the world as of June 2006 and the Asia-Pacific region has 18 free trade agreements.<sup>10</sup> Stalemate in the WTO negotiations is one of the reasons for increasing number of regional free trade agreements. The expanding number of the WTO membership makes it difficult to facilitate global liberalization of trade and investment due to conflicting interests among the members. A regional free trade agreement is easier for constituting nations, which have similar economic condition, to create an integrated market.

Although ASEAN had initiated its regionalism or regional cooperation in the past, East Asia's current movement toward greater regional cooperation occurs within a radically different circumstances.<sup>11</sup> China has been increasing its economic and political clout ; Japan is reducing its economic influence, and the perception of a United States less politically invested in the region.<sup>12</sup> Under this circumstances, economic interdependence has deepened more than ever in the region and a number of free trade

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<sup>10</sup> Japan External Trade Organization (JETRO) Website.  
<<http://www.jetro.go.jp/biz/world/international/column/pdf/044.pdf>>

<sup>11</sup> Morton Abramowitz and Stephen Bosworth, *Chasing the Sun-Rethinking East Asian Policy*, A Century Foundation Book, 2006, p.47.

<sup>12</sup> Ibid.

areas have been established in the region since 2000. Those events underpin the greater East Asian cooperation, which leads to the growing expectation of the establishment of an East Asian community.

Economic integration in East Asia has been driven neither by any strong leadership nor legal binding force. It is driven by the dynamism created by the expansion of foreign direct investment (FDI) and trade within the region. The FDI created regional industrial networks or production linkages within East Asia and this is premised on East Asian economic integration. The ratio of regional exports to total exports in East Asia climbed to 50% in 2004, which is slightly less than that of NAFTA and EU. However, the annual growth rate of regional exports within East Asia between 1985 and 2004 was about 13%, which exceeded that of NAFTA (11%) and the EU (-4%).<sup>13</sup> It is generally believed that the deepened economic interdependence is the mainstream line in the building process of an EAC.

Growing regional multilateral cooperation mirrors the intensifying interdependence that is occurring throughout Asia, however, this feature, as David Shambaugh notes, is oriented mainly around economic, scientific, technological, educational and other ties, not around security cooperation.<sup>14</sup> The core actor in this process is not the nation-state but a plethora of non-state actors that create links at the societal level: trade, investment, transport, communications, education, research, tourism, and other forms of daily interaction.<sup>15</sup> In East Asia, the regional community building process has been based on economic cooperation and focused on markets. In other words, East Asian economic integration has been largely a private sector phenomenon driven by market forces, not government planning.

The economic integration is relatively easier and safer than political integration, although it accompanies industrial realignment within the region. However, the importance of intensified economic cooperation is that it would change ideologies lead to create wider area for further cooperation. Therefore, economic interdependence could be a prelude to an international order based on a transformed state identity or an integrated community.<sup>16</sup>

#### *Driving Factors for Regional Cooperation in East Asia*

The most significant factor that facilitated regional economic cooperation was the Asian

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<sup>13</sup> Japan External Trade Organization (JETRO), *Boueki Toushi Hakusho* 2005 [White Paper on Trade and Investment 2005].

<sup>14</sup> David Shambaugh, "Asia in Transition: The Evolving Regional Order", *Current History*, April 2006, pp.153-159.

<sup>15</sup> *Ibid.*

<sup>16</sup> Muthiah Alagappa, "The Study of International Order: An Analytical Framework," *Asian Security Order: Instrumental and Normative Features*, Stanford University Press, 2002, p. 59.

financial crisis of 1997, which was triggered by drastic depreciation of Thai baht. The main cause of the crisis was a capital flight of international short-term funds from Thai market. The vulnerability of the monetary system in crisis-hit nations was deemed as another factor. The crisis soon spread to other ASEAN countries, such as Malaysia, Indonesia, and South Korea and brought about social turmoil in the crisis hit countries. It led to the fall of Suharto regime in Indonesia. In order to deal with the aftermath of the crisis, the nations severely affected by the crisis became convinced that the region would need a regional mechanism to prevent and manage crises more effectively. Their particular concerns were that there was no regional mechanism free from Western control to facilitate emergency financing; no mechanism for mobilizing domestic savings for the development of the region; and no arrangement to reduce exchange rate volatility. This awareness generated consciousness to enhance Asian economic cooperation. Meanwhile, the industrial production network has been established in East Asia, and each nation has its own role in the network. Therefore constituting a regional economic safety-net could benefit all member states in East Asia. Setting up of APT was a step of such effort and the “Chiang Mai Initiative”, a currency-swap arrangement, is a specific safety-net preventing another financial crisis. Even China, once rejected the creation of Asian Monetary Fund (AMF), supported the currency-swap network.

One consequence of the financial crisis was a loss of confidence in the U.S.-led international institutions, such as the IMF, and a new focus on the need for regional institutions to defend against future financial trauma.<sup>17</sup> Soon after the onset of the financial crisis, the IMF provided financial assistance toward the crisis-hit nations, except Malaysia, under the conditions that the nations concerned should take aggregate demand-control policy, including abolishing subsidies, further liberalization of trade and investment, and measures to strengthen financial systems. The conditions imposed by the IMF were proved to be wrong prescriptions as the economies of the nations concerned deteriorated deeply along with the implementation of the IMF's conditions. The IMF only caused unnecessary confusion in Asia. It also opposed the establishment of the AMF. This stimulated ASEAN's strong determination to create a safety-net within East Asia. Anti-American feeling also mounted in ASEAN as the United States did not announced any support measures for crisis-hit nations, instead it tried to impose “American standard” employing the IMF's assistance.

Asia-Pacific Economic Cooperation (APEC), an instrument for economic cooperation in Asia-Pacific, was discredited by several member states seriously suffered from the financial crisis, since APEC could not work out effective measures to bail suffering nations out from recession. Furthermore, APEC's liberalization process of

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<sup>17</sup> Morton Abramowitz and Stephen Bosworth, *Chasing the Sun-Rethinking East Asian Policy*, Century Foundation Book, 2006, p. 29.

agricultural sector already stalled. The ASEAN nations also felt that APEC has been dominated by the United States and ASEAN has limited opportunities to reflect their ideas in APEC.

While discrediting the IMF and APEC, ASEAN raised its expectation for regional economic powers; Japan, South Korea, and China. Japan lost its weight as it failed to establish the AMF facing with strong objections from the United States, the IMF and China, and it did not announced specific bail out measures for the crisis-hit nations. However, it had provided a huge financial assistance to suffering nation since the failure of building the AMF. Among which, the New Miyazawa Initiative, announced in 1998, and special yen loans were effective assistance and Japan's total bail out scheme amounted to more than 100 billion yen, which had contributed to early recovery of the suffering nations from the crisis.<sup>18</sup>

Although China opposed to the establishment of the AMF, fearing Japan's increasing clout in East Asia, it won praise from ASEAN and the international community by promising that the government would not devalue Yuan in order to prevent further devaluation of the ASEAN currencies. Rising China provides a huge growing market, which assures expansion of exports and boosting economic development of the East Asian nations. In 2001, China and ASEAN agreed to build a free trade area within ten years, the first multilateral agreement in East Asia, and it could promote trade relations between the two parties. Emerging China has provided opportunities for expanding and strengthening the regional production network. Therefore, China's market is a crucial for ASEAN's future development. Even for Japan, it is an important market as well as a production base.

### *Political and Security Cooperation*

In the process, countries in the region are seeking to build not only stronger economic but also political relationships among themselves. Prevention of transnational crimes and ensuring stability are the foundation of regional cooperation. Carolina G. Hernandez describes seven non-traditional security challenges that seriously impact on East Asian regional security: illegal trafficking in drugs; and small arms and light weapons; undocumented migration; global terrorism; piracy; pandemic diseases; and

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<sup>18</sup> Early recovery of Asian nation was vital for Japan, since a number of Japanese affiliated firms, especially manufacturing firms are operating in East Asia. There are 7,921 Japanese manufacturing companies (3,264 in China, 2,518 in ASEAN 4 and 2,139 in Newly Industrializing Economies (NIEs) operating in East Asia in 2004, which share about 62 percent of total Japanese companies operating around the world. Those manufacturing companies give the key to the production network, which is the fundamental element of the region's economic development. Although Japan had experienced a long-term recession in 1990s, its financial and technological resources are absolutely essential for East Asia's development.

environmental and natural disasters.<sup>19</sup> Besides, separatist movement could also be a major challenge for the region. It is beyond the capability of a single nation to address those challenges, as they are correlated transnational issues and sometimes it requires advanced scientific technologies, technical know-how and comprehensive measures in dealing with them. It is obvious that international and regional cooperation are crucial to deal with those non-traditional security issues.

Terrorism and maritime piracy are major security issues in East Asia that draw the attention of the international community. The ASEAN states have committed to combat maritime piracy and terrorism by promoting regional cooperation by conducting joint patrols and intelligence exchanges. Due to intensified maritime patrols by the littoral states of the Malacca Strait, the number of piracy incidents in the Southeast Asian waters sharply decreased in 2005. The arrestment of Hanbali, an alleged leader of Jemaah Islamiyah (JI), a number of JI members that committed deadly bombing in Bali and the death of Azahari who committed various bombing incidents in Indonesia, were the results of international cooperation and the efforts of law-enforcement authorities of the individual nations.

Thus, regional cooperation in combating terrorism and maritime piracy has been deepened in ASEAN and this lead to the establishment of ASEAN Security Community (ASC), one of the three pillars of the ASEAN Community. Regional and external powers have been stretching out financial and technical assistance to ASEAN in order to strengthening capability of local law-enforcement authorities. Japan is making every efforts in this field by providing financial and technical assistance to ASEAN. Japan also decided to grant three patrol boats to Indonesia<sup>20</sup> and three boats were delivered to Indonesia in 2006.

The leaders of East Asian states expressed their strong will to commit enhancing cooperative processes not only economic field but also political and security arenas at the APT summit held in Manila in 1999. Then Prime Minister Junichiro Koizumi stated in January 2001 in Singapore on the occasion of signing Japan-Singapore Economic Partnership Agreement (EPA), that the EPA is not only enhance comprehensive economic cooperation between two nations but security cooperation in the open and free Asia-Pacific region. He also emphasized Japan's strong willingness to cooperate with ASEAN states in combating non-traditional security threats such as maritime piracy and terrorism. Chinese Foreign Minister Li Zhaoxing proposed to establish the Security

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<sup>19</sup> Carolina G. Hernandez, "Promoting ASEAN Japan Cooperation: Nontraditional Security Issues," Keynote Paper presented at The 5th Japan ASEAN Dialogue, "Prospect for Japan ASEAN Strategic Partnership after the First East Asia Summit", Supported by Japan ASEAN Exchange Projects (JAEP), on September 7, 2006, International House of Japan, Tokyo, Japan.

<sup>20</sup> Website of Foreign Ministry of Japan .

<[http://www.mofa.go.jp/mofaj/area/indonesia/ji\\_seimei/kh\\_m.html](http://www.mofa.go.jp/mofaj/area/indonesia/ji_seimei/kh_m.html)>

Policy Conference under ARF in tenth ARF meeting held in June 2003 and the ARF Security Policy Conference (ASPC) was held in Beijing in November 2004.<sup>21</sup>

Functional cooperation or issue-based approach of cooperation, however, has a defect. It seems to have a tendency that the cooperation would work only after a government or the people met with a serious threat. It is necessary for the regional states to set up a region-wide space for preventive security dialogue to anticipate future security issues and formulate effective measures to prevent them. Human security issues should also be included as a major topic. Therefore, efforts to intensify cooperation in East Asia must be strengthened and the security cooperation is required to be one of the major pillars in establishing an East Asian community. Binding functional security cooperation is also a demanding task for the states in the region. However, the regional states are, in deed, convinced the need to resolve security issues through regional and international cooperation. It is also clear that the states have become convinced of common values to be defended. ARF still remains as the region-wide forum for security dialogue and will strengthen its position in East Asia as a ground for security pillar of the Community.

## **Towards an EAC and Challenges**

### *Vision of EAC*

At the APT summit held in 1998, Kim Dae-jung, the then President of South Korea proposed to establish the “East Asian Vision Group (EAVG)” in order to formulate a vision to enhance regional cooperation in East Asia. The group's report of 2001 presented a vision for enhancing regional cooperation stating that the member states and the people in East Asia desire to establish an EAC for peace, prosperity and progress. The report referred to the evolution of the APT summit into an East Asia Summit as a means of realizing the EAC.<sup>22</sup> The report also proposed more than fifty policy recommendations to realize the vision, include establishing a free trade area, an architecture for financial cooperation and a proper mechanism for foreign exchange control and others.<sup>23</sup> The EAVG was developed into the “East Asian Study Group (EASG)” in 2001, and the group also proposed similar medium-and long-term policy recommendations at the APT Summit in 2002.<sup>24</sup>

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<sup>21</sup> NIDS, *East Asian Strategic Review 2005*. p.52.

<sup>22</sup> Ministry of Foreign Affairs of Japan. <<http://www.mofa.go.jp/region/asia-paci/eas/outline.html>>

<sup>23</sup> *Nikkei Shinbun*, October 20, 2004.

<sup>24</sup> The major policy recommendations of the EASG are: establishment of an East Asian Free Trade Area, facilitation of foreign direct investment by small-and medium-sized enterprises, establishment of an East Asian Investment Area, creation of mechanism, for financial assistance and currency exchange adjustment, development of ASEAN+3 Summit to East Asian Summit,

The report proposed 17 short-term and nine mid-and long-term measures for establishing a future EAC.<sup>25</sup> Judging from the reports submitted by the two groups, it is clear that they place special importance on investment, trade and financial cooperation, among which financial cooperation is the most progressive front in regional cooperation due to the expansion of a currency-swap agreement. They also emphasize strengthening of mechanisms for cooperation in dealing non-traditional security issues as well as in addressing human security challenges. The long-term objective of the two reports is to establish an EAC and along with this in mind, the first East Asian summit was held in Kuala Lumpur in December 2005, which could portend a new East Asian regionalism.

### *Goals of EAC*

The purpose of establishing an East Asian community, as described in the EASG report, is to establish a region of Peace, Prosperity and Progress with the following goals:

- 1) Preventing conflict and promoting peace among the nations of East Asia;
- 2) Achieving closer economic cooperation in such areas as trade, investment, finance and development;
- 3) Advancing human security in particular by facilitating regional efforts for environmental protection and good governance;
- 4) Bolstering common prosperity by enhancing cooperation in education and human resources development; and
- 5) Fostering the identity of an East Asian community.<sup>26</sup>

The EAVG recommended 57 concrete measures in six areas: Economic Cooperation (15 recommendation); Financial Cooperation (4); Political and Security Cooperation (13); Environment Cooperation (13); Social and Cultural Cooperation (9); and Institutional Cooperation (3).<sup>27</sup>

The 2001 EAVG report attaches great importance to strengthening economic cooperation in the region.<sup>28</sup> The main pillar is the establishment of an East Asian Free Trade Area (EAFTA) by taking the form of encompassing the bilateral and sub-regional

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preservation of the maritime environment, plotting out an Energy Action Plan and strengthening policy consultations with NGOs.

<sup>25</sup> Ministry of Foreign Affairs of Japan. <<http://www.mofa.go.jp/region/asia-paci/eas/outline.html>>

<sup>26</sup> Termsak Chalermphanupap, "Towards an East Asian Community: The Journey Has Begun," ASEAN Secretariat, 3/2/2005. <<http://www.aseansec.org/13202.htm>>

<sup>27</sup> *Final report of the East Asia Study Group*. ASEAN+3 Summit, 4 November 2002, Phnom Penh, Cambodia, ASEAN Secretariat Website. <<http://www.aseansec.org/13495.htm>>

<sup>28</sup> The EASG report of 2002 also stresses the importance of economic cooperation.

Free Trade Areas.<sup>29</sup> Other pillars are to bring about an East Asian Investment Area (EAIA): to develop Information Technology for the realization of a knowledge-based economy; and to narrow development gaps of the region.<sup>30</sup> Financial cooperation is also an important part of economic cooperation for strengthening regional monetary system. The web of currency-swap agreement has been expanded under the Chiang Mai Initiative as mentioned above. The establishment of Asian bond market and a regional surveillance mechanism would help enhance the financial stability in the region.

Besides, the regional economic cooperation, the EAVG report emphasizes the importance of strengthening political and security cooperation in the region and recommended 13 concrete measures, including adoption and implementation of a code of conduct to help govern relationship; development and observation of effective rules and procedures to help guide cooperation; nurturing confidence-building among countries; strengthening mechanism for cooperation on non-traditional security issues; and promotion of sub-regional security dialogues.<sup>31</sup> The confidence-building activities are being undertaken in the ARF and the dialogue among military officials has developed under the framework of the ARF. The first ASEAN Defense Ministers Conference was held in Kuala Lumpur in 2006, which would further develop security cooperation among the ASEAN states. The ARF Security Policy Conference proposed by China is the one that enhances security dialogue within East Asia. Some of the recommended measures have being undertaken in East Asia, and the vision toward East Asian regionalism looks rosy.

The main objective of establishing an EAC seems to be enhancing economic integration in East Asia. In fact, the de facto trade integration has been in progress in the region and a number of FTAs have been concluded or under negotiation. It is natural for a region to start with integrating the markets in establishing a community, however, it is only a part of the purpose of community building. There are a number of challenges to be addressed for developing regional cooperation toward integration. The ultimate objective of building a community is to create stable regional order whose primary purpose is to consolidate the nation-states, and create a safe and predictable environment.<sup>32</sup> The creation of regional order would mean the establishment of a stable structure of regional inter-governmental relationship informed by common assumptions about the base of inter-state conduct.<sup>33</sup> Besides, it is also vital to share values and norms

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<sup>29</sup> *Final report of the East Asia Study Group*. ASEAN+3 Summit, 4 November 2002, Phnom Penh, Cambodia, ASEAN Secretariat Website. <<http://www.aseansec.org/13495.htm>>

<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*

<sup>32</sup> Muthiah Alagappa, *Asian Security Order: Instrumental and Normative Features*, Stanford Univ Press, 2002, p. 79.

<sup>33</sup> Chin Kin Wah and Leo Suryadinata ed., *Michael Leifer: Selected Works on Southeast Asia*, Institute of Southeast Asia, 2005, pp. 98-99.

in the region.<sup>34</sup> David Shambaugh argues that the increasing number of dialogues, groupings and multilateral mechanisms in East Asia is a sign of the growing acceptance of common norms within the region.<sup>35</sup> The Treaty of Amity and Cooperation (TAC) seems to be accepted as a common norm in building the EAC, due to the fact that the participating nations of the EAS are the signatories of TAC.

The fundamental issues related to establishing the EAC still remain unsolved. They are;

- 1) Common values: defining and accepting of common values, such as democracy, freedom, the rule of law;
- 2) Participants: who is to participate, what is the geographical scope of East Asia;
- 3) Institutions: which regime will lead and manage the process, the EAS or the APT, or other new frameworks;<sup>36</sup>
- 4) Sovereignty: forging common understanding of the meaning and limits of sovereignty.<sup>37</sup>

It is not an easy task for East Asian nations to address the issues above due to the diversity in culture, stages of development and political systems, however, those issues should be debated and addressed at the various stages of meetings among the member states. All the member states of the APT accepted that the community should be inclusive and open to outside, but some want American participation and others prefer an East Asian community without the United States and other outside participants.<sup>38</sup> The issue of participation of the United States and others seem to be addressed by defining the purpose of establishing a community from functional aspects. Therefore, it is essential for the members to define the goals clearly.

It is commonly accepted by the Asian states that prosperity is the common goal and it equates with economic development. Economic integration is in the front burner

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<sup>34</sup> Younosuke Hara, Higashi Ajia Keizai Sennryaku-Bunmeino nakano Keizaitoiu Shiten kara [Asian Economic Strategy-From an Economic Viewpoint of Civilization], NTT Shuppan, 2005, pp. 64-65.

<sup>35</sup> David Shambaugh, "Asia in Transition: The Evolving Regional Order", *Current History*, April 2006, pp.153-159.

<sup>36</sup> Mohamed Jawhar Hassan, "State of East Asian Community Concept and ASEAN Integration," Keynote Paper presented at The 5th Japan ASEAN Dialogue, "Prospect for Japan ASEAN Strategic Partnership after the First East Asia Summit," Supported by Japan ASEAN Exchange Projects (JAEP), on September 7, 2006, International House of Japan, Tokyo, Japan.

<sup>37</sup> Muthiah Alagappa, *Asian Security Order: Instrumental and Normative Features*, Stanford Univ. Press, 2002, p. 81.

<sup>38</sup> Morton Abramowitz and Stephen Bosworth, *Chasing the Sun-Rethinking East Asian Policy*, A Century Foundation Book, 2006, p. 135.

in the community-building process. The aim of the integration is to unify its system in the region. Due to the difference in the stages of political and economic development, the economic systems also vary from country to country. There are markets not fully liberalized in the region although some of the states insist on adopting market mechanism. China became a member of WTO but the process of liberalization of economic system is still slow. Market mechanism requires rules to protect a trader from breach of contract and to protect consumers from disadvantages caused by market failure. It is not simple to develop such legal systems in diversified East Asia. Therefore, unification of economic systems would be among the most serious problems in economic integration and the system should be consistent with the global system. It is also vital for the governments of the states to possess strong political will to commit in economic integration and policy coordination, because economic integration facilitates regional division of labor. Internally, each government of the states, especially developing nations, should implement measures to overcome income disparity and realize balanced development.

## **Managing Major Powers**

### *The Rise of China*

Teo Chee Hean, Minister of Defense of Singapore, describes the geopolitical reality of Asia that a rising China and India and a revitalised Japan, all seeking larger and more active roles, together with a pre-eminent United States – these are the defining geopolitical realities of the region. He adds that over the next few decades, the Asia-Pacific will be the region where the big powers actively jostle for power and influence.<sup>39</sup> The interaction of these four geopolitical poles in Asia, among themselves and with the rest of the region, is likely to make for increasingly complex regional dynamics.<sup>40</sup>

Establishing amicable relations among the players is the focal point in creating a peaceful order in this region. Particularly relations between Japan-China, China-the United States, have vital importance. It is also a big challenge for the member states of ASEAN to forge and maintain good relationships with the major powers in the complex environment. In order to establish a community in East Asia, the roles played by Japan and China are pivotal as the total GDP of two countries amounts to nearly 80 percent in East Asia. Historical problems still remain as an obstacle for restoring amicable bilateral relationship between the two countries and there seems little possibility to resolve it in

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<sup>39</sup> Keynote address by Mr. Teo Chee Hean, Minister for Defense, Singapore, on the occasion of the 3rd Asia Pacific Security Conference, 19 - 20 February 2006, held at Suntec, Singapore.

<sup>40</sup> Ibid.

short-and medium-term. Unfortunately, several incidents that have deteriorated Japan's perception of China have occurred in recent years, such as breaking-in of Chinese security guards into the Japanese Consulate-General in Shien Yan, intrusion of Chinese submarine into Japan's EEZ, oil and gas exploration in the sensitive area of the East China Sea, and so on. Former Prime Minister Koizumi's visit to Yasukuni Shrine fueled China's anti-Japan sentiment. Furthermore, Japan and China seem to be contesting each other in taking the initiative in establishing the EAC.

Rising China is a significant shift in the East Asian balance of power. Underpinned by rapid economic development, China has increased its economic and political influence not only over East Asia, but also in the broader international community. It has also increased its military power backed by high economic development. It conducted military exercise demonstrating China's strong will to prevent Taiwan's independence in 1996. Those have produced the perception of the China threat around neighboring nations in particular. The rise of China has led to the argument that China would bring realignment of power relationships within the region.<sup>41</sup>

China, however, started to take cooperative diplomacy toward East Asia from mid-1990s. China's long-term goal, as Donald Emmerson notes, remains the emergence of a multipolar world in which it would be one of the key poles and China's objective is to build up its comprehensive national power so that it will achieve a benign but predominant position in Asia.<sup>42</sup> Sustaining high economic growth is the fundamental element to prove the legitimacy of the government. Therefore, adopting cooperative diplomacy is essential for China in order to attain its strategic goals.

China has been strengthening cooperative relationships particularly with ASEAN since mid-1990s, in order to ease the China threat perceived by them and to create environment conducive to economic development. According to Jian Yang, ASEAN is crucial to China's strategy for five reasons:

- 1) ASEAN is crucial for promotion of multipolarity;
- 2) It is important in China's effort to counter the perceived U.S. containment strategy;
- 3) ASEAN offers one of the best opportunities for China to discredit the persistent "China threat" theory;
- 4) ASEAN could be China's ally in resisting the West's pressure on issues like political liberalization and human rights;

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<sup>41</sup> Morton Abramowitz and Stephen Bosworth, *Chasing the Sun-Rethinking East Asian Policy*, A Century Foundation Book, 2006, p. 29.

<sup>42</sup> Donald K. Emmerson, "Security, Community, and Democracy in Southeast Asia: Analyzing ASEAN," *Japanese Journal of Political Science* 6 (2), pp. 165-185, Cambridge University Press, 2005.

- 5) Closer relations with ASEAN would make it harder for Taiwan to build up its political ties with the ASEAN states.<sup>43</sup>

China has actively involved in multilateral talks such as the ARF and China began the process of multilateral negotiations to work out codes of conduct in the South China Sea, and as a first step concluded the “Declaration on Conducts of the Parties in the South China Sea” with ASEAN countries in November 2002.<sup>44</sup> China and the two ASEAN states of Vietnam and the Philippines agreed to conduct joint-research on energy exploration in the South China Sea in 2005. In this agreement, China emphasizes that it has given priority to enhance economic development, a common goal of the three states, thus putting aside the resolution of territorial disputes. China and ASEAN agreed to establish Free Trade Area by 2010, the first multilateral trade agreement in East Asia. They signed the “China-ASEAN Framework Agreement on Comprehensive Economic Cooperation” in 2002. They also agreed to elevate the basic framework of their relationship to a “Strategic Partnership” in 2003, in which both parties pledged to enhance security cooperation. China signed to join the Southeast Asian “Treaty of Amity and Cooperation (TAC)” as the first East Asian country and actively engage itself in developing Asian regionalism by actively participating in the APT and the EAS, in which China wishes to pursue its peaceful development. It hosted the security policy conference under the ARF in 2004. China also agreed with the governments of Indonesia and the Philippines to enhance military cooperation in 2005.

Encouraged by the improvement in relations with China, ASEAN’s threat perception against China has been toned-down. The former Malaysian Prime Minister Mahathir stated that China should be viewed as a country with enormous opportunities rather than perceived as a threat.<sup>45</sup> It is generally perceived among the ASEAN states that rising China is the challenge and opportunity rather than a threat, though the degree of this perception differs among the ASEAN states.

China, however, leaves unpredictable and uncertain elements in its behaviors. This is also a common concern possessed by the leaders of ASEAN. They express worries about the territorial disputes in the South China Sea and about potential conflict between China and the U.S. over Taiwan.<sup>46</sup> China neither makes public about the real amount of its increasing military expenditure nor the military modernization plan. China intends to exclude Taiwan from establishing the East Asian Free Trade Area. China also seems to

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<sup>43</sup> Jian Yang, “Sino-Japanese relations: Implication for Southeast Asia,” *Contemporary Southeast Asia*, Volume 25, Issue 2, ISEAS, August, 2003, p.306.

<sup>44</sup> NIDS, *East Asian Strategic Review 2005*.

<sup>45</sup> Jian Yang, “Sino-Japanese Relations: Implications for Southeast Asia,” *Contemporary Southeast Asia*, Vol. 25, Iss. 2, ISEAS, August 2003, p.306.

<sup>46</sup> *Ibid.*

have an aim to stem the hegemonic tendencies of the United States and lessen the possibility of increasing US pressure on China.<sup>47</sup> North Korean problems and Taiwan issue, which China has strong leverage historically, have still been critical concerns of neighboring states and there is no assurance that China will be a benign state.

China positively engages itself in the APT and in the establishment of EAC. However, it was reluctant to include India, Australia and New Zealand to the EAS, as China's intention appears to be to exclude outside powers of East Asia in establishing the EAC. Inclusion of the three nations to the EAS seems to hedge China in order to prevent its uncertain intention and behavior. Indonesia, Singapore and Japan were for the expansion of the member of the EAS and Thailand seemed to be not reluctant to do so. China, however, successfully lobbied to place APT at the core of the process that could eventually grow into an EAC, relegating the more diffused East Asian Summit to a secondary role.<sup>48</sup>

### *Is the United States' Role Changing?*

Most leaders in East Asia acknowledge the critical strategic role of the United States in the region and the United States is the only power that can balance China. The fundamental element of the United States' Asian strategy is not to allow any hegemon to take its place, and the continuation of its own hegemony is assured by its military, economic, and intellectual strength, along with the vitality of its social systems.<sup>49</sup> It is clear that the United States continues to maintain its prominent position in the region in the future.

However, the emerging order in East Asia is characterized by a changing role for the United States and its regional allies, as well as by the maturing of regional institutions that may not involve the United States.<sup>50</sup> It is a fact that many East Asian countries are cautious about the unilateral behavior of the United States and they also share the feelings of suspiciousness about the U.S. after the Asian financial crisis that it would force to impose its values preying on the weakness of a nation. It is still fresh in the minds of the leaders of East Asian nations that the U.S. rejected establishment of EAEC and the AMF. Some nations of ASEAN opposed the United States' war against Afghanistan and Iraq. The United States' security and military oriented diplomacy

<sup>47</sup> NIDS, *East Asian Strategic Review 2005*.

<sup>48</sup> Thomas J. Chistensen, "Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy toward East Asia," *International Security*, Summer 2006, Vol. 31, No. 1. p.100.

<sup>49</sup> Shiraishi Takashi, "Asia's regional order: A two-century perspective," *Japan Echo*. Tokyo: Jun 2000. Vol. 27, Iss. 3; p. 9.

<sup>50</sup> David Shambaugh, "China Engages Asia: Reshaping the Regional Order," European Community, "Commission Policy Paper for Transmission to the Council and the European Parliament: A Maturing Partnership-Shared Interests and Challenges in EU-China Relations," Brussels, Belgium,

toward Southeast Asia has increased the discontent against it.

Meanwhile, the U.S. intends to conclude FTAs with the ASEAN states and South Korea for its economic interests and it does not stand against the creation of a regional free trade area as well as the EAC officially. East Asian regionalism is natural, neutral, and indeed long overdue. As Ralf Cossa notes that the United States has historically viewed Asia-Pacific multilateral organizations as useful vehicles both for promoting greater political and economic cooperation and for enhancing regional security.<sup>51</sup> However, the United States has concerns about the vision of creating an EAC and which country would take the leadership in the region. It may also have a concern about the feasibility of creating a security mechanism within the framework of the EAC without the United States. Against this backdrop, the United States kept a cautious eye on the evolution of the APT into an East Asian Summit.<sup>52</sup> The APT, however, did not evolve into the EAS as a result.

Concerning the two great powers, ASEAN's option would be to hedge China and the U.S. each other or invite other external powers such as India and neutralize the region. However, balancing power would be difficult and the game hardly ends. The East Asian nations should seek the way that allows two powers to co-exist. The creation of institutions to control behaviors of powers seems to be vital.

## **The Roles of Japan**

Japan began to take a positive stance on building an EAC. At the Japan-ASEAN Commemorative Summit held in Tokyo in December 2003, the leaders released the Tokyo Declaration for the Dynamic and Enduring Japan-ASEAN Partnership in the New Millennium and a Japan-ASEAN Plan of Action, which serves as a guideline for Japan-ASEAN cooperation. The Tokyo Declaration clearly states that Japan gives its "full support" for ASEAN's efforts towards regional integration, and will seek to build an EAC. Japan's strategy is to facilitate the Economic Partnership Agreement (EPA) bilaterally and multilaterally in order for the creation of an East Asian Business Area, which would lead to the establishment of the regional community. The EPA aims at not only promoting bilateral FTA but also enhancing wider range of cooperation, such as promotion of investment and small and medium-size industries, human resource development, financial cooperation, and security cooperation for combating transnational crimes. Japan aims at revitalizing its economy by creating competitive

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October 9, 2003.

<sup>51</sup> Ralf A. Cossa, "The Shifting Geopolitical Scene in the Pacific Asia: Major Power Relations in East Asia and East Asian Regionalism," Presentation to the Institute of Southeast Asian Studies' Regional Outlook Forum, Singapore, Jan 5, 2006.

<sup>52</sup> *Ibid.*

environment, which might facilitate further restructuring of the Japan's industrial structure as well as regional division of labor in the future.

Although Japan has fully supported multilateral free-trade regime under GATT and WTO, it also changed its policy to facilitate bilateral free trade agreement right after the Uruguay Round, a new multilateral trade negotiation, had stalled in December 1999. Japan announced that it would start bilateral free trade negotiation with Singapore and the first Economic Partnership Agreement, a first free trade agreement for Japan, was signed by the two countries in February 2002.<sup>53</sup> This event was facilitated by the stalemate of WTO's trade negotiations and by the development of regionalism in Europe and America. China's active engagement in establishing free trade area with ASEAN has also involved Japan in promoting regionalism in East Asia.

From the economic point of view, Japan would gain substantive benefits from the establishment of Japan-China free trade area, due to the comparative advantages of the both countries. Although China is a market economy and a member of the WTO, the process of liberalization of economic regulations is still slow and the legal systems, such as protection of intellectual property rights, fall short of the international standard. Those are also additional reasons that Japan is reluctant to start trade negotiation.

Japan, as an economic giant and the key US ally in the region, has enough space to play a role to create EAC and peaceful regional order. In relation with China, Japan should make every effort to improve bilateral diplomatic relation identifying that amicable bilateral relation is the pivot of the regional stability and that it is a common interest of the region. Therefore, Japan should actively participate in the strategic dialogue that China proposed to Japan in 2004, in order to persuade China the importance of amicable relation and transparency. In concluding a FTA with China, Japan should demand China to follow the WTO rules strictly, especially protecting intellectual property right. Japan also should urge China to liberalize its market as well as foreign exchange control further.

In regards to the United States, Japan, as an US ally, should formulate a clear vision of the EAC and a road map through close consultation with nations in the region and eliminate the concern of the United States. Japan is expected to persuade the U.S. that the EAC is a free and open regionalism and the ARF will remain as a regional security dialogue mechanism for a time being, and on the other hand, Japan should demand the United States to restrain its unilateral behavior.

Japan is a leading engine for integration of East Asia and has comparative advantages over trade, financial and technological know-how. Therefore, Japan is

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<sup>53</sup> Akira Odera, "Keizai Renkei Kyoutei no Igi to Kadai-Nihon no Tsuushou Seisaku ha Tennkan shitaka [Significance and Issues of the Economic Partnership Agreement-Does Japan Changed its Trade Policy?]," Research Institute for Economic, Trade and Industry (RIETI), June, 2005.

capable of institutionalizing the rules consistent with the WTO for the promotion of trade, investment and technological transfer in the region. Integrating China further into the market mechanism, and international rules, in order to create a basis for stability and prosperity of East Asia would be the most vital task for Japan in the long-term perspective.<sup>54</sup> It has become an important issue for Japan to assist the industrialization and human resource development of the new members of ASEAN. Japan should play such roles to enhance local capabilities and to formulate institutions necessary for regional integration in pursuit of the establishment of an East Asian community.

The debate on building a regional community in Japan usually centered around economic front and little has been argued on what sort of regional order should be created for enhancing regional peace and prosperity. Japan's strategy seems to construct a region-wide free business area that brings about larger economic interests for the region. Increasing economic benefits, however, is not always effective in changing the structure of power relations, political regimes and values of the peoples. Such concept formulation would be defined by Japan's foreign policy toward East Asia. Therefore, it is essential for Japan to create a comprehensive strategic policy toward East Asia, which would elevate the credibility of Japan and increase its weight in the region.

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<sup>54</sup> Younosuke Hara, *Higashi Ajia Keizai Sennryaku-Bunmeino nakano Keizaitoiu Shiten kara* [East Asian Economic Strategy-An Economic Viewpoint of Civilization], NTT Shuppan, 2005, p. 103.