

INSTITUTIONAL DARWINISM: THE ECONOMIC-SECURITY NEXUS & REGIONALISM IN EAST ASIA

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EAST ASIAN REGIONALISM

- Moving forward but unevenly
- Economics and Security separate; regionalism moving more in economics/finance than security
- National interests & differences far more powerful than regional institutions
- Recent institutional trends in Economics largely responsive to “external shocks”
- Trends in Security responsive to “endogenous threats”
- Overall institutional pattern is one of multiple and complex architecture—no single body for ‘all East Asian regionalism’

LIMITED REGIONAL BODIES UNTIL CRISIS: ASEAN

- 1967--largely security goals at start
- Keep small SE Asian countries 'united' against bigger external powers (US, China, Russia, Japan?)
- Started as a **security** arrangement; became a Free Trade Area
- Then expanded security concerns with Treaty of Amity & Cooperation (TAC) 1976

APEC

- Driven by Japan & Australia (1989)
 - Kept US in region
 - Clinton redefined US strategic goals in geoeconomic terms—globalization & liberalization
 - “open regionalism”—US, Canada, Mexico, Russia, etc.—PAN PACIFIC
 - “economies” not “states” (Taiwan/Hong Kong)
 - Big focus was on trade (though Asia also wanted a focus on economic development)

ASEAN REGIONAL FORUM ARF

- 1994 --Southeast Asian effort to enmesh NE Asia
- 24 'states' including DPRK and also US, Canada, etc.
- Also "open regionalism"
- Minimal effect—focus on confidence building measures; no actions on preventive diplomacy (real conflicts between states)

Nature of Asian Regional Bodies (pre-crisis)

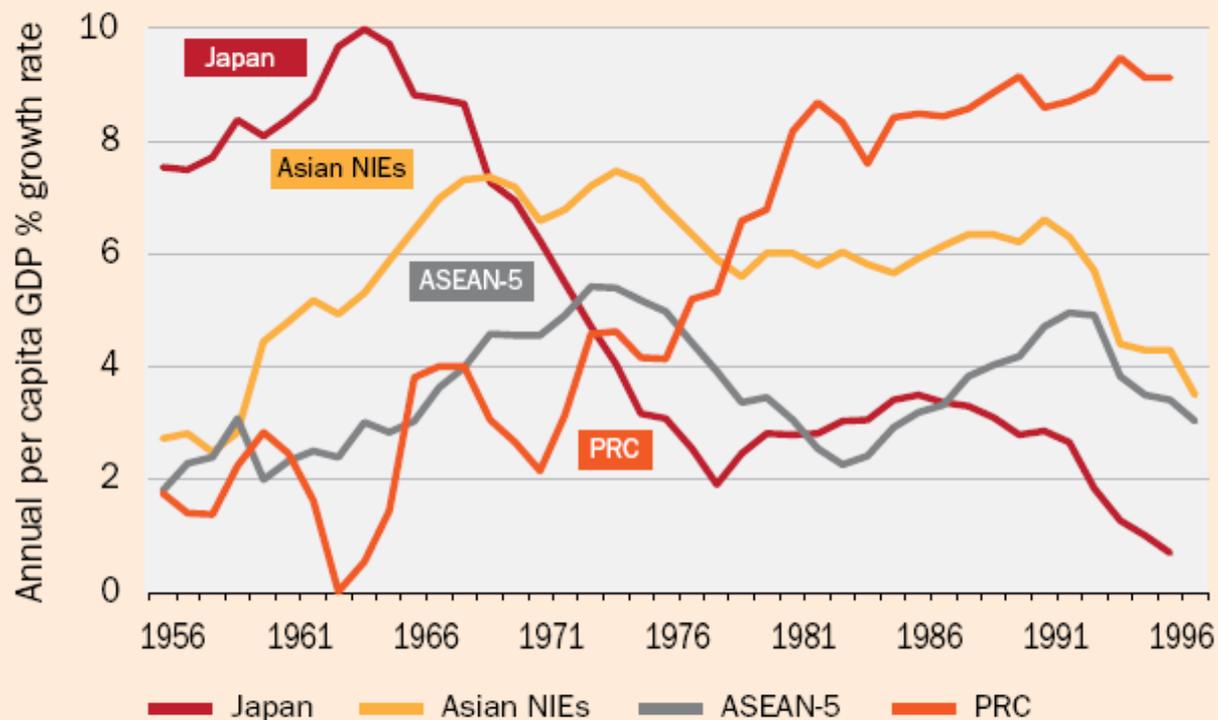
- Thin secretariats, little formal power
- Largely discussion formats
- Aside from ASEAN, not many links between economic and security bodies
- CF European Union (often taken as template for regional unification)—strong institution in Brussels; extensive power over members; econ & security
- CF Organization of African Unity (OAU) or the League of Arab States

ASIAN INTEGRATION FIRST DRIVEN BY ECONOMICS

- CORPORATE ACTIVITY
- PRODUCTION NETWORKS
- GOVERNMENT ACTIONS MARGINAL (until crisis)
- CREATED REGIONWIDE 'MIRACLE'

Figure 2.2. Successive waves of rapid development

Growth rates of per-capita GDP of selected Asian economies



ASEAN=Association of Southeast Asian Nations, GDP=gross domestic product, NIE=newly industrializing economy, PRC=People's Republic of China.

Asian NIEs include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. ASEAN-5 economies include: Indonesia, Malaysia, Philippines, Thailand, and Viet Nam.

Source: CICUP 2007. Penn World Tables. Available: <http://pwt.econ.upenn.edu/> (accessed October 2007).

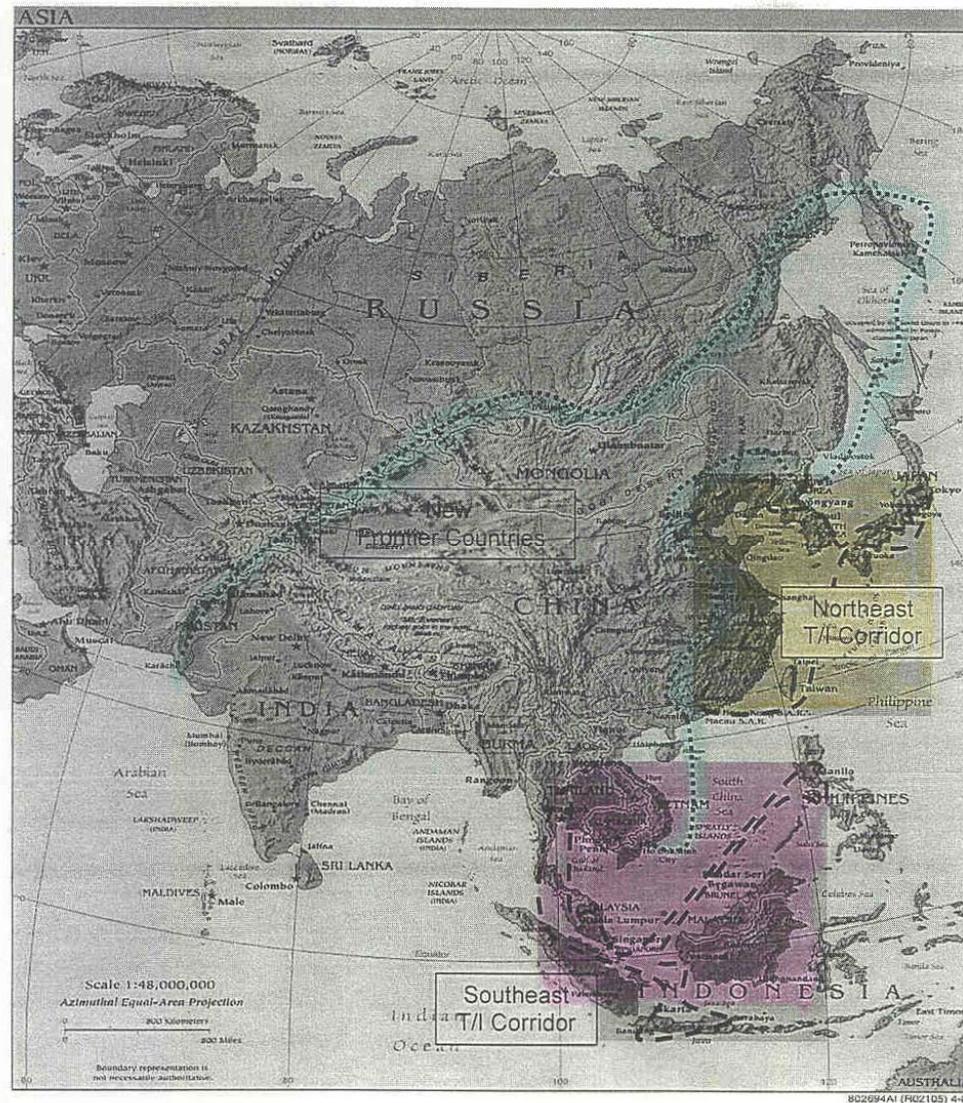
National Sources of Regional Economic Links

- Driven by rising currency values and overseas FDI
- Japanese green field plants in ROK, Taiwan and then SE Asia
- Korean and Taiwanese plants in China and SE Asia
- Hong Kong manufacturing moving into S. China
- Singaporean and other SE Asian firms linked, esp. through Chinese ethnicity and family ties

REGIONAL PRODUCTION NETWORKS

- many of East Asia's key industries (e.g. electronics, computers, automobiles, industrial machines) are organised along IPN lines
- Fragmentation of production process
- multiple countries involved
- Development asymmetry, and heterogeneity of country competitive advantages broadens the scope for region wide divisions of labor

FIGURE 6.1: Trade and Investment Corridors



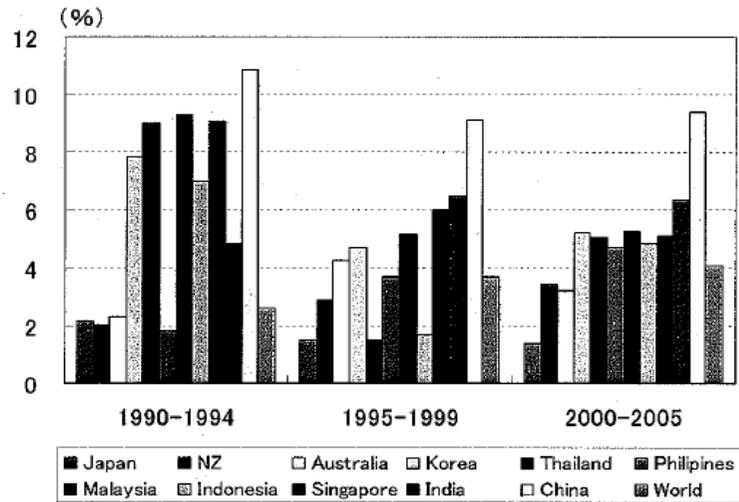
SOURCE: Compiled using a map from the University of Texas Library

ASIAN IMPACT ON GLOBAL ECONOMY

East Asia's impact on the global economy is increasing.

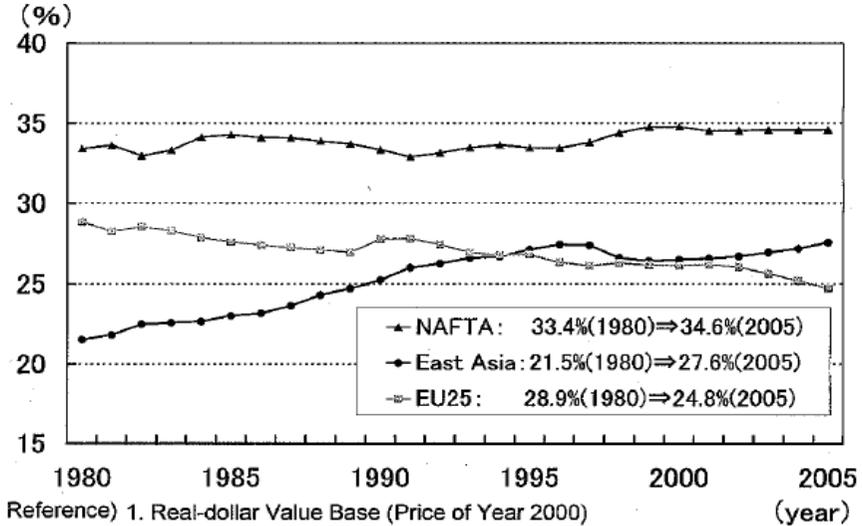
The economic growth rates of the ASEAN+6 countries are relatively high: the real GDP share of the East Asia in the world marked 27.6%, which is larger than the total of EU25. The economic impact of the East Asia on the global economy is expected to expand further in the future.

Growth of real GDP of ASEAN+6 countries



Note) average of real GDP growth in each period of years
 Source) IMF "IFS", "World Economic Outlook"

The real GDP share of East Asia, NAFTA and EU25 to the world total



Reference) 1. Real-dollar Value Base (Price of Year 2000)
 2. "East Asia" excludes Brunei and Myanmar and includes Hong Kong and Taiwan
 3. Not Including countries or years unavailable
 Source) Graphed out from World Bank "WDI"

CRISIS 1997-98

- Asian growth made the region “hot”
- Exogenous shock—
 - “Washington Consensus”
 - Hot money—quick in; quick out
 - Borrowing short in \$\$; lending long in local currencies
- Different national effect but \$ 1 trillion region wide loss—felt across region
- No help from existing institutions or from the West
- Asian criticisms of IMF
 - Wrong “solution” for Asia
 - Liquidity Crisis, not fiscal crisis
 - Pat IMF formula

CAMDESSUS GETS 'AGREEMENT' TO IMF CONDITIONS



Figure 5. Soeharto signing IMF statement witnessed by Michel Camdessus (*Kompas*, January 1998).

COMMON POLITICAL REACTIONS

- Buffer against any future monetary/currency challenge to national/regional development
- New regional institutions
 - Asean Plus Three
 - CMI
 - Bond initiatives
- National actions
 - Enhanced Foreign Reserves
 - Overall banking and financial reforms
 - Expanded FTAs for trade
- Closer economic links across the region
- But no common currency regime

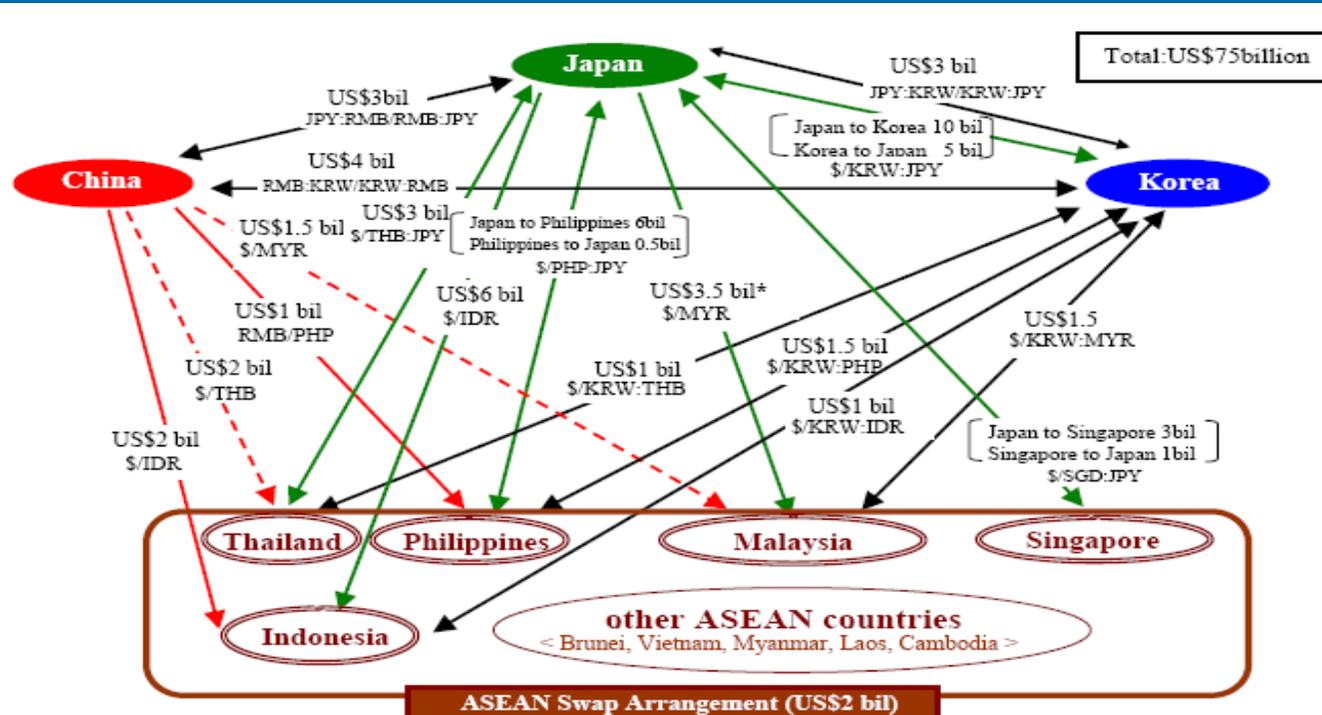
NEW ASIAN INSTITUTIONS

- APEC moribund; ARF minimalist
- ASEAN took initiative
- Growing importance of ASEAN + 3
- East Asia Summit APT+3

Developing CMI

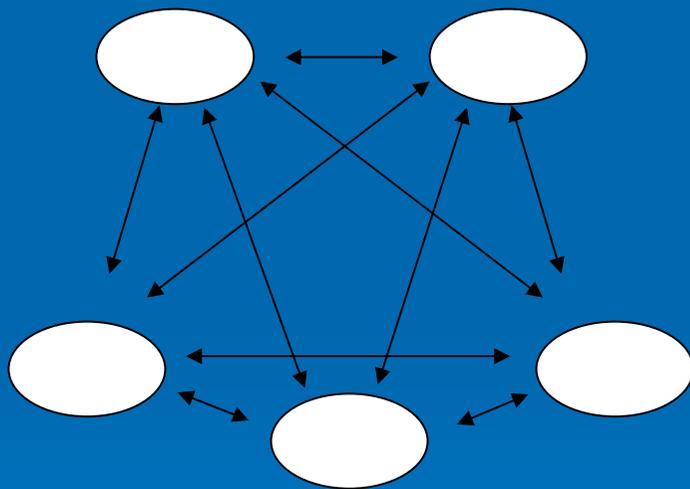
- May 5, 2005 the APT agreed to double the amounts in existing swap arrangements, raising the total to \$80 billion
- May 2007 agreed "in principle" to multilateralize the initiative via a "reserve pool" and a "single contractual arrangement." If implemented this would be a de facto AMF
- Now \$120 billion to go into common fund

Nexus of Swaps

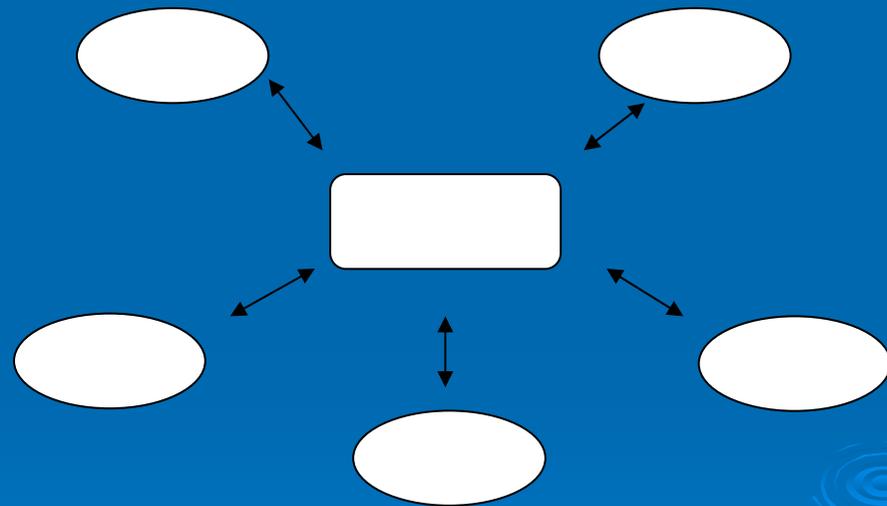


Bilateral vs. Monetary Fund

➤ Bilateral Swap



➤ Monetary Fund



BOND INITIATIVES

- Asian Bond Fund through central banks
- APT has pushed an Asian Bond Market Initiative (ABMI)
- in combination both will reduce Asian dependence on the US dollar for financial reserves, currency baskets, and international transactions

Growth of local bond markets

High growth of local currency bond markets in Asia

(in USD Billions)

	1997	2002	2006	1997→2006	2002→2006
China (Excluding Hong Kong)	83.6	342.3	1,184.9		
Indonesia	4.6	58.1	87.6		
Korea	153.2	538.2	1,010.4		
Malaysia	57.0	84.4	146.9		
Philippines	16.8	27.6	44.9		
Singapore	23.8	56.4	86.6		
Thailand	10.5	48.3	111.5		
Vietnam	-	-	4.9		
Subtotal	349.5	1,155.3	2,677.7	7.7-fold	2.3-fold
Japan	4,202.6	6,416.8	8,487.8		
Hong Kong	43.4	58.1	66.1		
Total	4,595.5	7,630.2	11,231.6	2.4-fold	1.5-fold

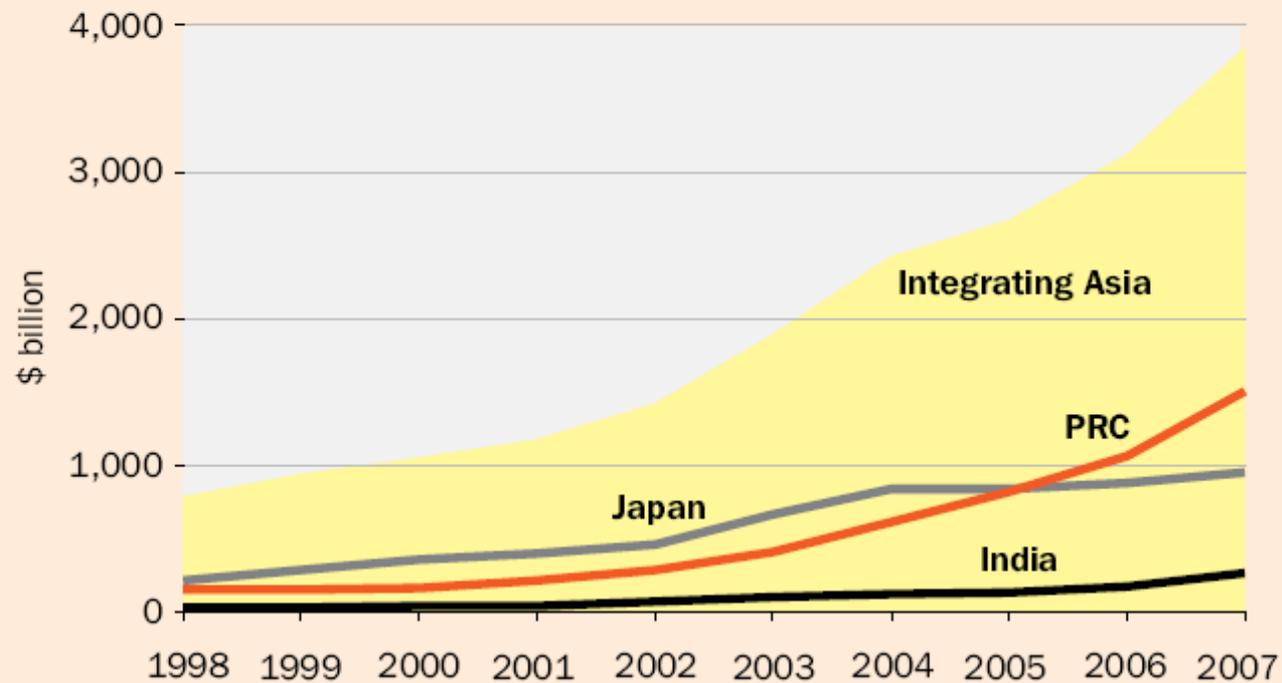
(Note) All figures are the sum of amount outstanding of government bonds and corporate bonds. Percent of GDP in parenthesis.

* Vietnam: as of December 2005.

(Source) Asian Development Bank "Asian Bonds Online"

Figure 5.12. Rising foreign exchange reserves

Integrating Asia, 1998–2007 (excluding gold)



PRC = People's Republic of China.

Notes: Data include the most recent month available. For Brunei Darussalam, the most recent data are for December 2006.

Sources: Data from IMF various years. International Financial Statistics. Available: <http://www.imfstatistics.org>; and CBRC. 2008. Available: www.ceicdata.com (accessed April 2008).

INTRA-ASIAN TRADE

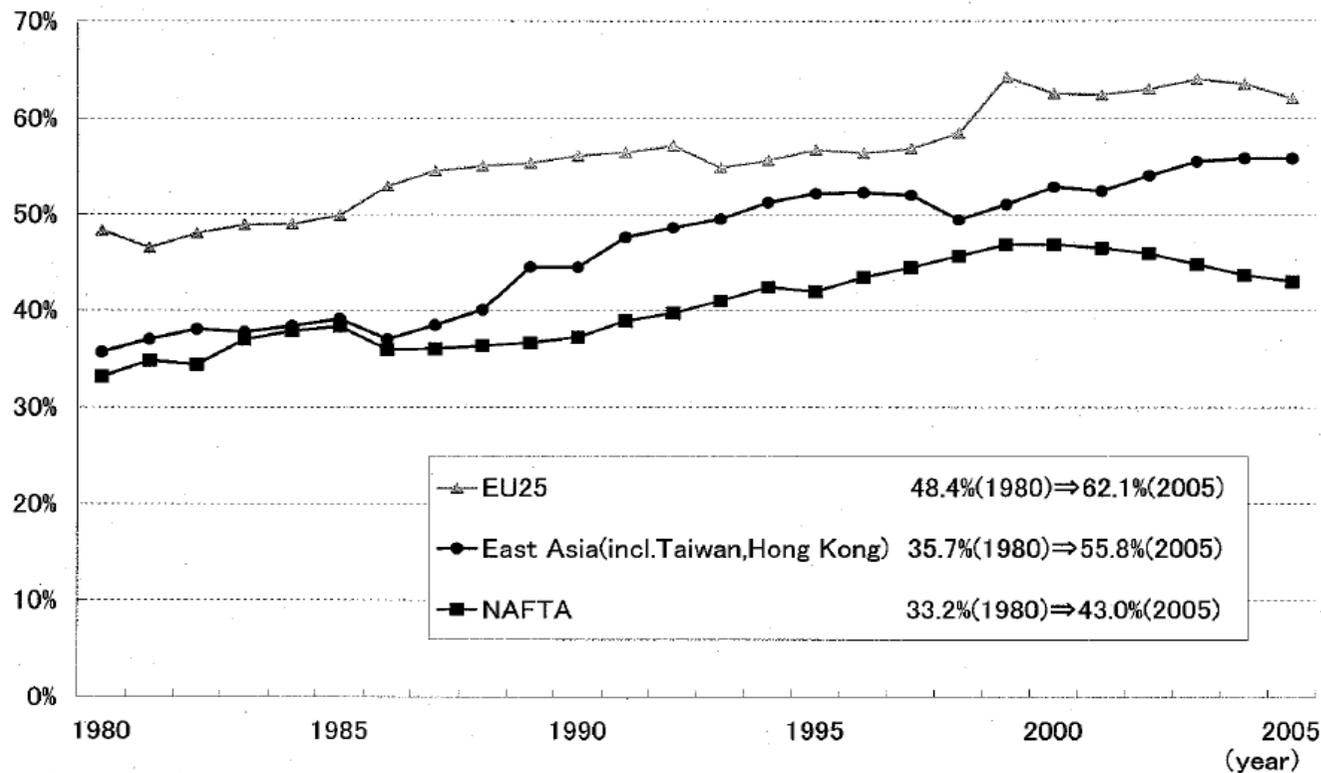
- Essentially not a problem during the crisis; it had worked well even if it didn't prevent the financial problems—Asian exports had good markets
- intra-East-Asia exports of all commodities
- 1990--38.5%
- 2009 57%
 - (though low intensity of trade)
 - intra-East-Asia exports of machinery parts & components
 - Up by 452% accounts for half of intra-regional export growth

INTRA REGIONAL TRADE UP

East Asia deepens intraregional trade relationship.

Intraregional trade ratio of the East Asia has increased as much as 55.8%.
The figure is beyond NAFTA's 43% and becoming closer to EU's 62.1%.

The intraregional trade ratio of East Asia, EU and NAFTA



Source) IMF. Direction of Trade Statistics

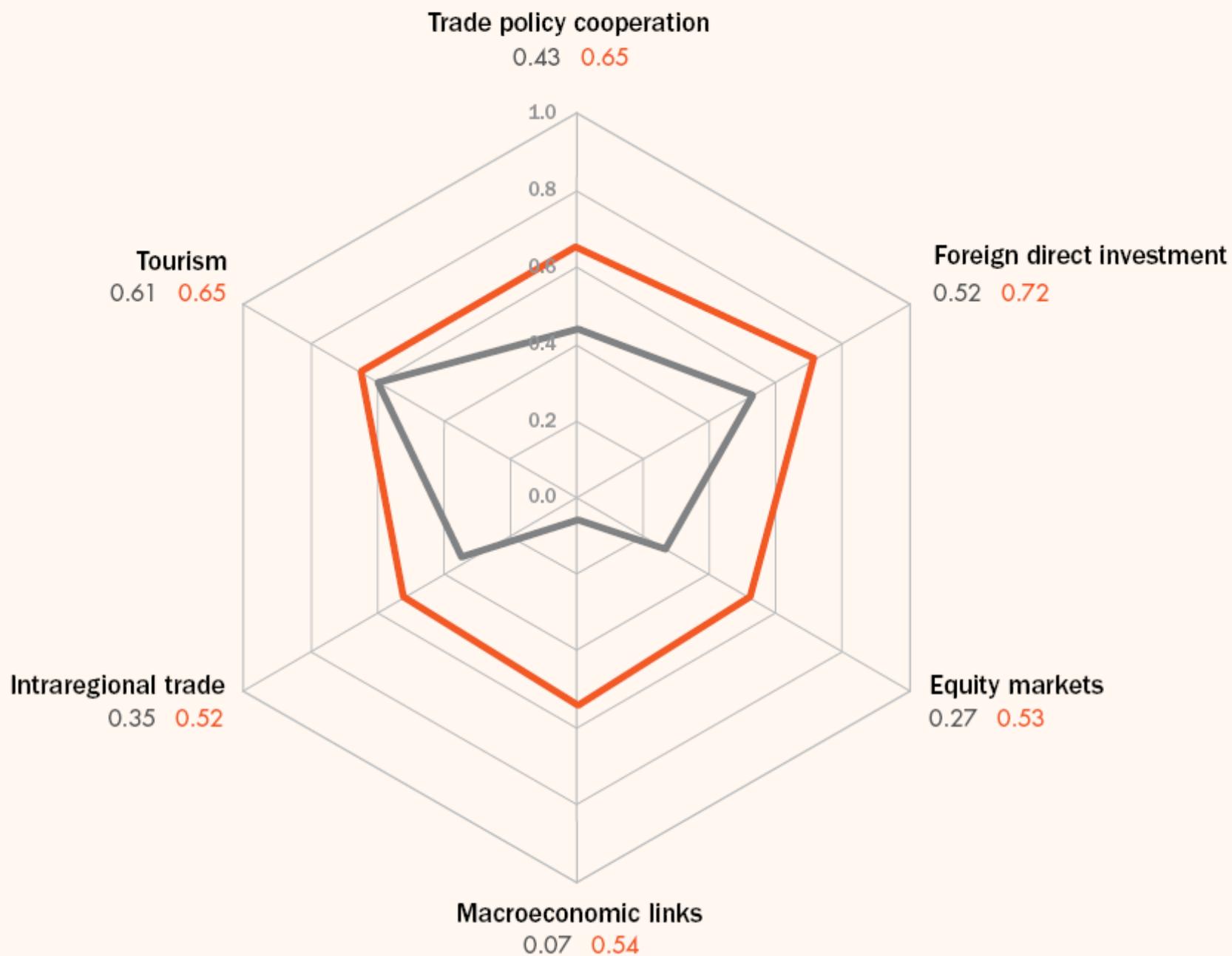
NAFTA and EU FAILURE OF DOHA ROUND

- NAFTA and EU seen as implicitly “anti-Asian”—needs ‘regional’ response
- DOHA--Started in 2001
- Supposed to be “development” round
- US (and EU and Japan) slow to liberalize their agriculture markets
- Free traders pushed to make own deals-
→FTAs

Explosion of new FTAs

- Failure of Doha (WTO) & global 'solution'
- As of October 2002, only 5 countries not in FTAs—Japan, China, South Korea, Taiwan, and Hong Kong
- Many of the recent pacts are intra-Asian; others are not—Australia, Chile, New Zealand and Mexico among the major partners
- Mixed impact on Asian regionalism

Figure 2.7. Advancing integration: regional indicators, pre- and post-crisis



SECURITY

Cockpit of Great Power Rivalry ?

- Russia, China, US, and now DPRK all nuclear powers
- Japan serious security capability
- Competing national security profiles esp. re. Korea and Cross-Straits
- Residual territorial conflicts
- Dangers from internal conflicts—esp. SEAsia
- No common enemy; the defenses across Asia are all aimed at one another

Post Cold War Predictions

- Realists all predicted region was 'ripe for rivalry'
- Expected either balancing against US as hegemon
- Or balancing against China as the rising power
- Not really happening

Perceived Security Problems are Endogenous to Region

- Reinvigoration of Nationalism in NE Asia
- Continued emphasis on sovereignty in SE Asia
- China—vigorous sales job on ‘peaceful rise’ though not all countries accept it
- Japan—reluctant to lead on ‘East Asian regionalism’ due in part to bilateral ties to US
- SE Asia & Korea closer to China economically and politically, worried about China, Japan, skeptical about US
- Play out in Six Party Talks among others

BIGGEST IMPEDIMENTS: NORTHEAST ASIA & SECURITY

- Closer economic ties but also ties outside of one another
- Continued tensions politically in NEA—esp. at the time of formation of EAS 2005
- Esp. Japan vs. China but also J-K
- China-Taiwan issue unresolved; China will not allow discussion of Taiwan in any regional forum
- Wide differences on role of US

KOREAN PENINSULA

- Collapse of USSR and shifts in China policy left DPRK without its prior strong allies—weakened its bargaining position
- “Self-reliance” & “military first”
- Regime protection
- Economic reforms 2000-2004
- But not much support for reformers from outside (esp. US and Japan)

THREAT OF REGIME COLLAPSE

- Bush “axis of evil” “regime change” “loathe Kim Jong-il”
- DPRK anxious for ‘regime survival’
- ROK aware of the high costs of collapse of East Germany
- Both ROK and China fear collapse and rapid outmigration of refugees
- China also fears loss of DPRK as ‘buffer’ between itself and a pro-US regime

Electricity in Japan, ROK China and DPRK

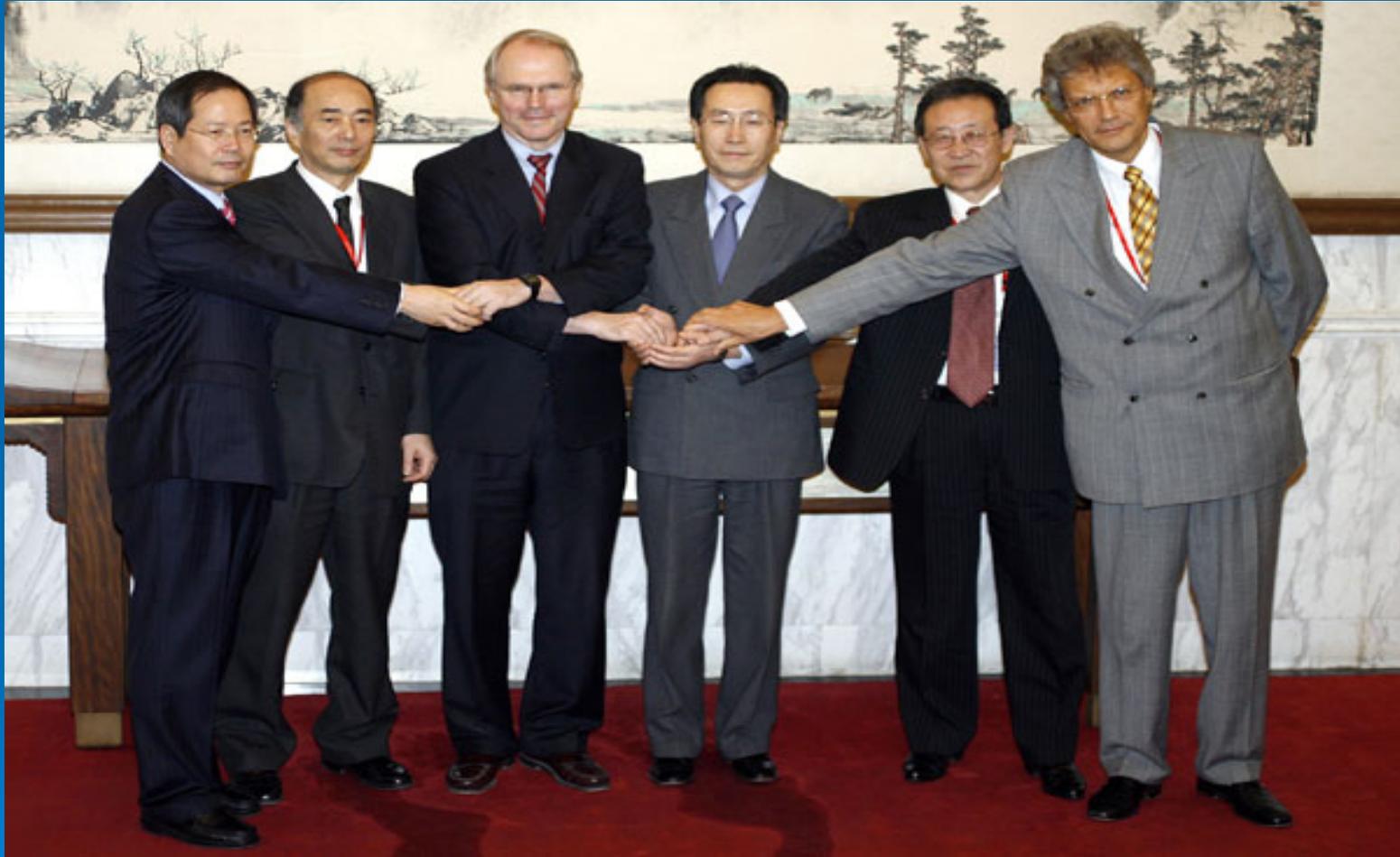


SIX PARTY TALKS

MULTILATERAL APPROACH

- Six Party Talks—3+ years of posturing by US and DPRK
- July 4-5, 2006 missile launch and October 9, 2006 nuclear test
- Democratic victories in Congress 2006
 - Softening of US position
- Restart SPT as US and DPRK engage in bilateral talks—Berlin & NYC & also on sidelines of APT

SIX PARTY TALKS



JOINT STATEMENT SEPT. 19, 2005 AGREEMENT FEB. 13, 2007

- Major principles for agreement
- Verifiable denuclearization
- DPRK return to NPT & IAEA inspections
- US security guarantees to DPRK & peace regime on peninsula
- Economic cooperation—bilateral & multilateral

CURRENT STATE OF SIX PARTY TALKS

- 5 WORKING GROUPS
- DPRK moved to shut Yongbyon facility
- Events moved fast on stage one
- DPRK off 'terrorism' list
- Complete break in progress
 - verification conditions changed for US
 - Japan, abductees
 - Lee Myong bok regime in ROK
 - division between hard liners and 'reformers' in DPRK (tied to succession issue)

Can the 5 Push Back?

- Can the powers resolve one of the major endogenous security problems ?
- Bring DPRK into the various regional bodies and make a part of EA community?
- Is this a foreshadowing of a “confluence of powers” ?
- Will 6 PT become a model for a permanent security body in NEA?

SHANGHAI COOPERATION ORGANIZATION (SCO)

- Formed in 2001, China, Russia, Four Central Asian republics
- Key focus: Islamic terrorism (and danger of secession) & energy development
- Joint military exercises (first within region)
- Example of China's new regionalism

Shangri-La Dialogue

- Since 2002
- Run by IISS—think tank in Singapore
- Defense Ministers from various countries with ties to Asia-Pacific
- Mostly focus on big speeches, broad visions
- Goal is transparency and hence confidence building

Trilaterals

- Several trilaterals extend the US 'hub and spoke' system of bilaterals
 - US-Japan-ROK
 - US-Japan-Australia
- Others create new and overlapping triangles
 - "Plus Three" (Japan, China, ROK) met in Japan with promises to institutionalize
 - China proposed and J & US accepted a C-J-US triangle
 - Presumably no issues barred; fuse economics & security

Trilateral Meeting

- Heads of state of Japan, China, ROK meet in Fukuoka Japan
- Meeting delayed due to political turmoil within Japan
- First time outside ASEAN Plus 3
- Lots of promises of future cooperation

Plus Three—Fukuoka 2008



East Asian Summit

- Outgrowth of Kim Dae-jung EAVG call for East Asian Community
- December, 2005 in KL and Manila in January, 2007; Singapore Nov. 2007
- ASEAN + 6 (Japan, ROK, PRC, Australia, New Zealand and India)
- Wide Agenda: economics; finance; politics and security; environment and energy; society, culture and education; and institutions
- Not Clear how it interacts with APT
- China skeptical
- Postponement and failure in Thailand in 2009

COMPETING VISIONS OF ANY “ASIAN COMMUNITY”

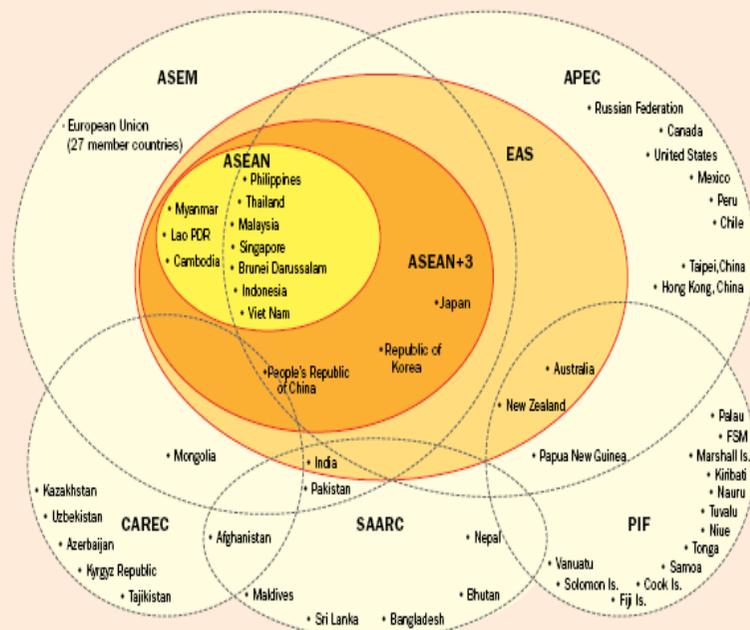
- JAPAN—largely financial and economic; heavily Pan-Pacific
- CHINA—largely political/diplomatic; Northeast Asia + Southeast Asia **minus** US
- South Korea—Seoul as hub of NE Asian region; balancer between Japan & China
- ASEAN—security and economics; ASEAN in the driver’s seat
- DPRK—domestic battle: self-reliance; opt out of region?
Or slow economic reforms and integration?

WHO'S IN? WHO'S OUT FUZZY POROUS BOUNDARIES

- EAEC VS. APEC
- SHANGHAI COOPERATION ORGANIZATION
- APT
- FTAs
- EAST ASIAN SUMMIT
- Kevin Rudd's proposal for Pan-Pacific Community
- NORTHEAST ASIA; EAST ASIA; ASIA-PACIFIC

ASIAN REGIONAL ARCHITECTURE

Figure 7.1. Economic architecture: regional and transregional forums



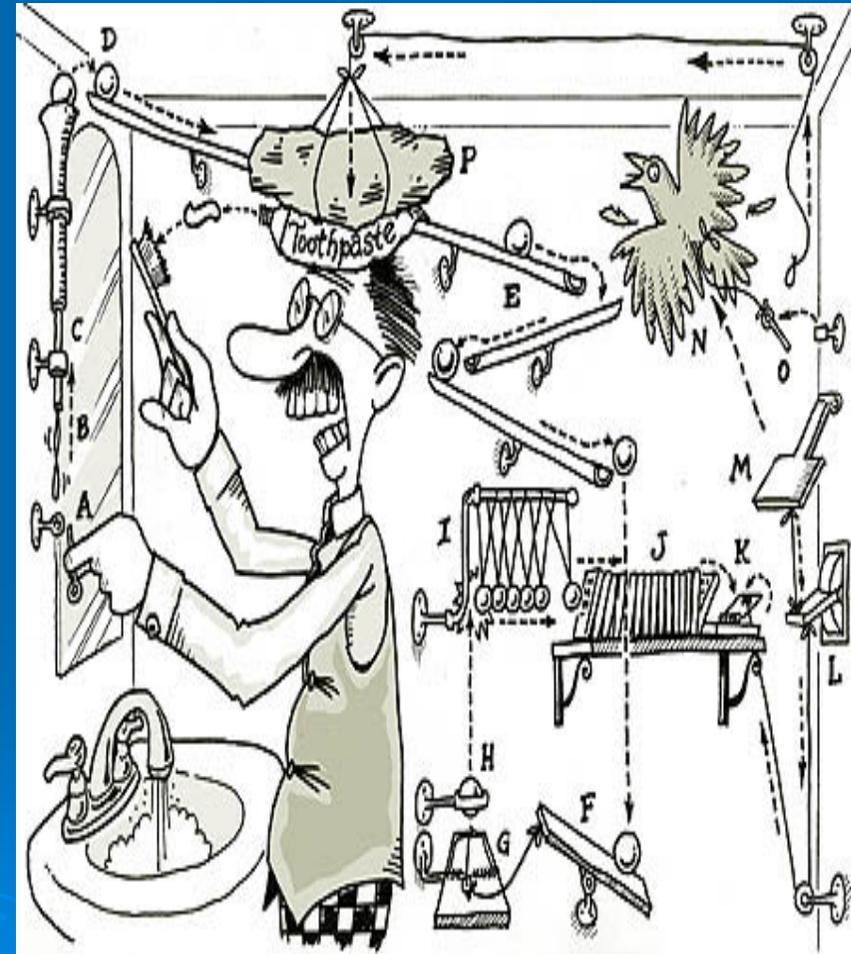
APEC = Asia-Pacific Economic Cooperation; ASEAN+3 = ASEAN plus three countries, as shown; ASEAN = Association of Southeast Asian Nations; ASEM = Asia-Europe Meeting; EAS = East Asia Summit; CAREC = Central Asia Regional Economic Cooperation; FSM = Federated States of Micronesia; Lao PDR = Lao People's Democratic Republic; PIF = Pacific Islands Forum; PRC = People's Republic of China; SAARC = South Asian Association for Regional Cooperation.

Notes:

ASEM includes also the European Commission as a member.

For CAREC, the PRC's membership is focused on the Xinjiang Uygur Autonomous Region.

Source: Asian Development Bank.



REGIONAL VS. NATIONAL ECONOMIC VS. SECURITY

	NATIONAL	REGIONAL
SECURITY	US-J PACT TAIWAN-US Border negot's; China-Russia Cambodia-Thai	ARF 6 PT SCO ASEAN EAS
ECONOMIC	FTAs FOREIGN RES	ASEAN-CHINA APEC CMI, ADBI APT

CURRENT CRISIS

- Asia collectively escaped the worst of the financial crisis, but was hard hit by global decline in exports
- None of the new financial institutions were particularly helpful for THIS crisis, nor were the FTAs
- Key for Asia involves change in focus from exports to domestic economy and consumer demand

CONCLUSION

- Regionalism deepening in both economics and security
- Separate regional approaches within finance & security
- Finance allows buffering from globalization
- Security focused on internal challenges
- Multiple forums interacting at the same time; different functions; different members
- Will growing economic ties help enhance security cooperation or will economic competition will help worsen security

INSTITUTIONAL DARWINISM—survival of fittest ⁵¹