

## **East Asian Community: The Political Economy**

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### **1 . Understanding the Present East Asian International Relations**

The East Asian international relations have been dominated by the United States of America (US) since the Second World War. East Asian countries have developed their own economy largely by exporting to the US. During the Cold War era (1947~89) and even after that, the US has provided the military security and has provided its domestic market by importing products of East Asian countries. By so doing, the US could have the political and economic initiative and have maintained the “special relationship” with individual country of East Asia. East Asian international relations have been characterized as “hand-fan model” or “hub and spokes” where the US is at the center. Although the East Asian countries’ reliance to the US has relatively decreased, the key feature of the region remained to be “the center of Asia is the US.”

In such framework of international relations, the relations among East Asian countries have been slim. The relations between Japan, China and South Korea have been far from good. There was no relationship among East Asian “NIES.” ASEAN has been a model of regional tie but its internal relation has been full of marked differences and it has been said that ASEAN is not an Alliance but an Association. The economic developments of ASEAN member countries are results of the individual members’ relationships with individual developed country and not necessarily the result of the ASEAN framework. Intra-ASEAN trade has remained to be about 20% and more than half of it has been through the transit trade via Singapore. The keyword of ASEAN or APEC has been “open regionalism.” Considering the close trade relations with the US and EU, the basics for East Asian countries to have a sense of “community” has been shallow.

During the 1990s when the globalization was promoted in the world economy, the actual contents were not global but a regional one featuring the promotion/ expansion of EU and NAFTA. Moreover, under the stalemate of WTO negotiations, the promotion of trade liberalization has been focused upon the bilateral relations of nations within the FTA (Free Trade Agreement) framework. The US has pursued the

“American Standard” of globalization but the intention has been blocked by the state powers of EU and the developing countries. All EU, NAFTA and East Asian Groups are led by state powers.

After the Second World War, seeing the decline of Europe set apart from the US and USSR (Union of Soviet Socialist Republics), France has provided for alternative policies of either allowing the US to divide and rule the scattered countries of Europe, or giving Europe the bargaining power vis a vis the US by securing a “Europe by the Europeans”. France didn’t participate in NATO (North Atlantic Treaty Organization) but itself recognized that it couldn’t cope with the USSR without having the US nuclear power. What France (or Europe) should have was the trigger for starting nuclear war. The so called Atlantic Alliance combining the forces of the US and Western Europe after the Second World War has had a wide range of common interest base, even though sometimes they had differences and discord.

In East Asia for more than 50 years, countries have been under the divide and rule situation under the US influence. There has been no place nor any chance to talk things by themselves in East Asia. But the 1997 economic crisis introduced a serious damage to East Asian countries and radically changed the situation. The attitude of the US and the IMF was to blame the reason of the crisis to the wrong economic system and management of East Asian countries. On the other hand, the East Asian countries, while regretting their shortcomings, remained to believe that the most important factor of the 1997 crisis was the international speculation money economy having no control mechanism under the present globalization system. They also believed that the US and the IMF have a double standard policy. They have the will to protect the US and EU capital but they wouldn’t protect the Asian economy. The financial crisis of 1997 gave the East Asian countries a “fundamental rethink” of the US led globalization. <sup>1</sup>

Japan also incurred a huge amount of losses from its loans/ aid, FDI (Foreign Direct Investment) and private bank loans to Southeast Asia. For rescuing the crisis, Japan had provided about 8 trillion yen (USD 80 Billion) through emergency loans, the Miyazawa initiative (1998) and the second Miyazawa initiative (1999). Also, Japan’s government advised private companies to refrain from buying the collapsed companies in Southeast Asia while seeing the US and EU corporations hunting them at 20~30% value. ASEAN countries recognized that at the present stage of globalization, protecting the interest of ASEAN can’t be attained by a weak ASEAN power and that it is necessary for them to pursue a bigger and stronger grouping. The answer was

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<sup>1</sup> Richard Higgot(2000) “The International Relations of the Asian Economic Crisis,” Richard Robison and others eds., *Politics and Markets in the Wake of Asian Crisis*.

founding of East Asian Community inviting Japan, China and South Korea. Concurrently, China recognized the need to reduce too much dependence of its export to the US and recognized the necessity to diversify its trade partners and started to pursue friendly relations with Asian neighbors. It has also aimed to get the know-how of negotiating with the US, recognizing the serious compromises it invested for participating in WTO. Here, the interests of both ASEAN and China take a common ground and the East Asian Community quickly became the trend of the region.

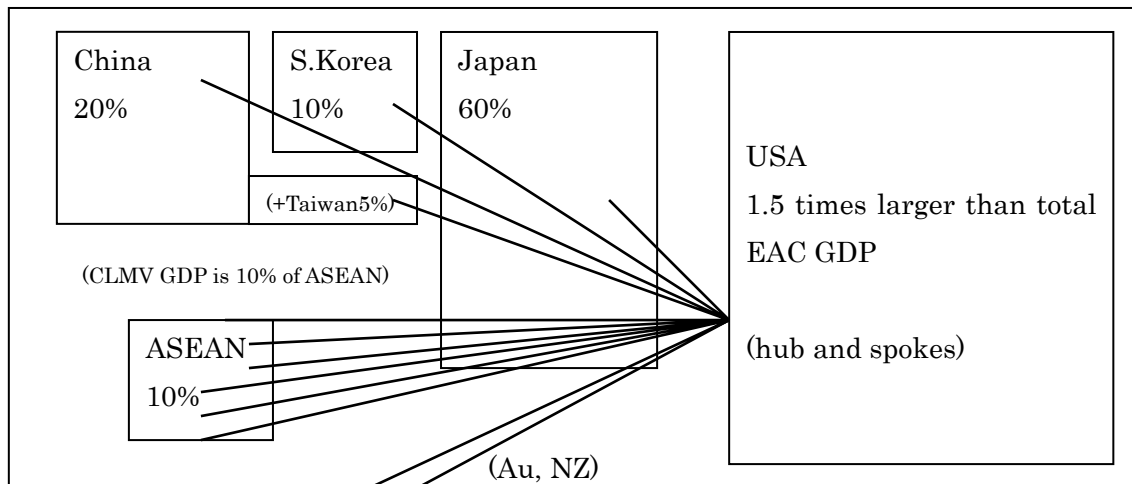
## 2. The Direction of East Asian Community

When we think of the power balance in international relations, A.F.K Organski's argument is worth considering. His logic is shown below<sup>2</sup>:

The World of GDP (A.F.K. Organski. 1980. *The War Ledger*) =

$$\text{National power} = \frac{\text{GDP}}{\text{Population (per capita)}} \times \text{population (mobilization to the military and industry)} = \text{GDP}$$

In the map of GDP(2003), the East Asian Community is as follows (% is to EAC total):



From this diagram, it is easy to understand that the initiative of East Asian Community (EAC hereafter) is in the hands of Japan and China. (Moreover, we can say that the real initiative is in the hand of the US). Both Japan and China are regional powers. In this diagram, why can the ASEAN have the initiative of EAC? It is because of the unfriendly relations between Japan and China under the pressure of forming a

<sup>2</sup> A.F.K. Organski. 1980. *The War Ledger*. GDP table of 2003 is from below: <http://www.worldbank.org/data/datatopic/GDP.pdf>

regional group in coping with the EU and NAFTA. ASEAN has 10 members among the 13 EAC countries and has the role of bridging the relations between the two regional powers. Moreover, FTA arrangement through combined ASEAN + 3 countries needs a long time, since Japan and South Korea have their own problem in the agricultural sector in opening its economy.<sup>3</sup> Eventually, for ASEAN at the present stage, the most probable is China -ASEAN FTA (CAFTA) among three ASEAN + 1.

For China, CAFTA is a step toward a diversification of its diplomatic relations, in the framework of EAC, and to FTAs between China- Korea and China-Japan. For Japan, its participation to EAC is to cope with its hegemonic competition with China. At the fundamentals of East Asian international relations, there is a competition between Japan and China. <sup>4</sup>

ASEAN pursues the initiative of EAC through the politics of number. But if the EAC framework will work successfully, there is a high possibility where ASEAN + 3 becomes 3 + ASEAN.

Within this framework, there are three options for Japan to take:

- ① **Coping with EAC as a member of US- Japan Alliance** (This is the road up to the present and the most possible road Japan will take. But if this is to be Japan's option, it might lose the initiative of EAC to China and will become a dilemma.)
- ② **The role of UK** (United Kingdom) where the UK takes the role as bridge between the EU and US **as a member of EU**.
- ③ The **Germany-France Alliance** to becoming the core of EU where they stopped long years of antagonistic relations (Franco-Prussian War in 1871, First and Second World War) from 1950s. This way shows the possibility of Japan to have an alliance with China becoming the core of EAC.

Japan has prioritized its relations with the US for the last 60 years after the Second World War and it is inconceivable for Japan to jump its basic standpoint from its alliance with the US to an alliance with Asia. Eventually, the most possible way will be the continuation of the present set-up. Ezra Vogel, a specialist of Japanese studies, recently wrote "Japan is better to renew the way for making integrated policy. Prime Minister Koizumi is very skillful in small talks on TV but he doesn't have the strategy. Especially, you can say so in his strategy toward China." <sup>5</sup>

### 3. The Possibility for East Asian Community Members to Prioritize Cooperation than

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<sup>3</sup> Kevin G. Cai. 2003. "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping." *Contemporary Southeast Asia*. 25(3). pp.397-98.

<sup>4</sup> 莫邦富 「日中二強時代が始まった」『論座』2005年7月号。

### **Competition in their Economy**

There is much debate on the competitive relations between ASEAN and China for inviting FDI. It is true that they have competitive aspects for inviting labor intensive industries depending on the level of wages. Seeing the present economy of Vietnam, Indonesia and the Philippines, it is better to say, not only China but the whole East Asian Community consists the world factory. The Intra-ASEAN trade of about 20% has not changed for the last 30 years even under the promotion policies. This signifies that the basic economic framework of ASEAN countries has remained to be the vertical structure with developed countries including Japan. Under such kind of condition, the basic feature of “open regionalism” would not change in the future. The recent increase of ASEAN trade toward Japan has been dependent upon Japan’s FDI in the region. It was the intra-Japanese company trade consisting 47% of ASEAN export to Japan and 42% of Japan’s export to ASEAN in 2000.

Within that basics, the ASEAN countries (especially ASEAN 5 original member countries: Indonesia, Singapore, Malaysia, Thailand and the Philippines) have accumulated technical capacity and co-location of particular production activities (industrial accumulation), according to Greg B. Felker. The accumulation has extended not only in manufacturing, but also in the areas of marketing, financing, logistics, design, training, procurement and R&D functions. And these are interconnected in “systemic globalization”. Another strong point of ASEAN is in engineering services. Examples are precision engineering of metal and plastic parts, transport engineering in the maintenance and repair of airplanes, and production (or factory) engineering as regional production headquarters. In such kind of industrial accumulation, ASEAN, especially Singapore, Malaysia and Thailand, continues its economic development as the regional center of the Multi-National Corporations’ global system. When both Japan and the US promoted their economy, both countries promoted their trade. When both ASEAN and China promoted their economy, both sides can promote growth in their trade. The exception is Indonesia. After its democratization (from Suharto presidency) from 1996 to 2000, Indonesia has faced political-economic confusion and experienced a rise in corruption. Consequently, it decreased 60% of its FDI. If the Indonesian decline is omitted, the overall FDI toward ASEAN has not decreased.<sup>6</sup> That means, Southeast Asian countries still have their international competitiveness.

As Southeast Asian economy deepens its dependence on the international division of

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<sup>5</sup> エズラ・ヴォーゲル「日本よ、外交力で中国に負けているぞ」『中央公論』05年3月号。

<sup>6</sup> Greg B. Felker 2003 “Southeast Asian Industrialization and the changing global production system,” *Third World Quarterly*, 24(2), 2003.

labor in Multi-National Corporations' global system, it is "political capitalism" that became the major obstacle.<sup>7</sup> In East Asia countries, the bureaucracy has occupied a commanding height in economic policy decision making. But at the same time, the political intervention has been in a high level too. It has been the case not only in Japan, China and Korea, but also in ASEAN countries except Singapore. Under the globalization process, it has been recognized as critical to have "institutionalization," "institutional capacity building," or "regulatory state" system symbolized by the financial policy decision-making, from a politics and bureaucracy of discretion to a rule-based form of governance.<sup>8</sup> It is not easy to dissolve vested interests such as in the case of Indonesia and China. Foreign companies in China face high cost economy in social security fund and unofficial payments to the government personnel notwithstanding its low cost of labor.

In the case of EEC (European Economic Community) which started in 1958, they could go forward after experiencing mutual benefits under the customs union. EAC would also need the experience of mutual benefits by implementing customs union under FTA framework. The deepening of EAC in the future depends upon the economic development of all member countries.

In that sense, state-led East Asian economic development model covering Japan and Asian NIES needs to be reconstructed, as far as EAC is setting the place of debate only among East Asian countries. The model has been systematically assaulted by the US and the IMF after the 1997 crisis and has since lost its strength.<sup>9</sup> Being denied the strong points of East Asian economic development pattern, the strategic direction of future economic system among EAC countries remained to be vague, and continued to be subordinate to the "Washington Consensus" economic development model that has yet to realize any successful NIES in developing countries. At the same time, the East Asian model needs to adjust its weak points particularly political intervention to the economy and the transformation of its market economy within the framework of a regulatory state. The transformation to market economy in Russia and China invited tremendous corruption. The democratization of Indonesia invited tremendous corruption. It can then be argued that transformation to market economy is a complex

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<sup>7</sup> Ben Ross Schneider 1999 Chapter 9 The Disarrollista State in Brazil and Mexico, in Meredith Woo-Cummings ed., 1999 *The Developmental State*, p.280.

<sup>8</sup> Kanishka Jayasuriya, 2003 "Introduction: Governing the Asia Pacific --- Beyond the "new regionalism," *Third World Quarterly*, 24(2).

<sup>9</sup>Concerning the systematic assault by the US and IMF against East Asian model of development, see Le Monde Diplomatic homepage in October 2003 "China: the new economic giant." (<http://mondediplo.com/2003/10/08china>) .

process.

As economist professor Kenichi Ohno says, various countries have many types of societies. There are societies that can accept a market economy easily but there are also societies that are inconsistent to a market economy. Market economy is the system to be intentionally penetrated into developing countries by the government and international organizations through development policies. It can't be realized through laissez-faire management or deregulation.<sup>10</sup>

#### **4. Rebuilding the East Asian Economic Development Model as an issue to be debated in East Asian Community**

Linda Weiss, who totally denies the declining role of the state under globalization, insists that the reasons of the South Korean 1997 economic crisis, in the decline of its original growth mechanism of a state-led economy in the past decade are as follows:<sup>11</sup>

- ① Economists who returned from the US got the major cabinet economic posts and realized the decline of the state.
- ② They dissolved the Economic Planning Agency framework.
- ③ They weakened the state-industrial cooperation under the business families' independence from the state.

At the same time, it was the difference of state institutions or transformative capacity that differentiated the responses to the 1997 crisis between Malaysia and Indonesia, according to Linda Weiss.

South Korea could develop its economy notwithstanding its high level of corruption. Why?

- (1) South Korea has had corruption but the basics of bureaucratic management wherein its merit system for economic development included:
  - ① High Social status and stability of bureaucracy (especially among economic bureaucrats) and the promotion system by merit.
  - ② The system prioritizes financial investments in industrial sector (developmental state)
  - ③ A system where the bureaucrats can manage national economic sectors (or (a) narrow base of vested interests in various economic fields)
  - ④ Good cooperative relationship between government and business (like Japan

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<sup>10</sup>Ohno Kenichi, 1997. *Development Economics in East Asia* (大野健一・桜井宏二郎 1997 『東アジアの開発経済学』有斐閣)、pp.165-70。

<sup>11</sup> Linda Weiss, 1998, *The Myth of the Powerless State*. Cornell UP, p.xiii.

Inc.)

- ⑤ Actual implementation of balanced development policies among social development, regional development, SME development, reasonable level of state corporations, and environmental policies.

In other words, the challenge lies in the possibility of a system's level of capacity building where the public officials can maximize their capacity.

Other than the factors above, for pursuing the developmental state in a democratic polity framework, the following factors are also important:

(2) Embedded Autonomy in Business ?

- ① Business circumstances where business is not subservient to politics and can practice a market-friendly management and investment.
- ② Institutionalized business world whose interests are institutionally reflected in economic policy decision-making system.
- ③ Good cooperative relationship between government and business

(3) Embedded Autonomy in Civil Society ?

A strong and institutionalized civil society can participate in the check and balance system for promoting effective and rational government- society relations.

In EAC, the issues of trade and financial systems are important, but a more strategic importance lies in the reconstruction of East Asian economic development model to building the competitive capacity of the state. The direction is not to the authoritarian developmental state but the democratic developmental state.<sup>12</sup> The ideal model of a democratic developmental state is the synergy of state-business-civil society partnership that can be realized by the partnership among the institutionalized and strong government, institutionalized and strong business and the institutionalized and strong civil society.

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<sup>12</sup> The issue had been pursued by late Dr. Gordon White and others. See Mark Robinson & Gordon White eds., 1998. *The Democratic Developmental State*; Adrian Leftwich. 2000. *States and Development: On the Primacy of Politics*.