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# Engaging East Asian Integration

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# Engaging East Asian Integration

States, Markets and the Movement of People

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# Foreword

The symposium on which this book is based was held in the darkest days of the U.S.-originated global financial crisis. In the wake of the collapse of Lehman Brothers, demands were frozen and economies with high export dependency experienced radical contraction. No one knew how long this would last and what the consequences would be.

In a time of crisis we tend to speculate on known unknowns. We knew that the U.S. market would not be in a position to pull the East Asian economies along from the demand side. The triangular trade system of the United States, China, and the rest of Asia that had evolved after the 1997–98 Asian economic crisis would have to undergo radical transformations. With U.S. demand frozen, China’s exports to the United States declined, which, in turn, led to the contraction of China’s imports of intermediate and capital goods from the rest of Asia including Japan, South Korea, Taiwan, and ASEAN countries. This is the reason economists and business people called for turning regional demands into “domestic demands”, in the hope that China would emerge as the market to pull the rest of Asia as well as the world out of this crisis.

Recalling the Great Depression of the 1930s, many of us were aware that hard times would breed nasty politics. Signs were there in the form of trade protectionism, currency manipulation, the maltreatment of illegal migrants, and the rise of political parties calling for policies to protect very narrowly defined “national interests”.

And yet nothing as serious as the worst-case scenario came to pass. The United States and the European Union recovered economically, and while they are a lot weaker than we hoped, we can be far more optimistic about the future now than in December 2008.

Yet two things remain. First, the transformation of East Asian triangular trade still has a long way to go. Recent IDE-JETRO research shows that China has upgraded its intermediate and capital goods production while flooding the countries in its vicinities with inexpensive final products, a move that compels Japan, South Korea, and Taiwan to upgrade their industries while posing a threat to ASEAN economies. The Indonesian Government's call for review of the ASEAN-China FTA is a sign of this increasing tension. Although some economists argue that higher wages Chinese workers are now demanding will eventually translate into expansion of China's domestic demand and increasing imports from its neighbours, this confluence has not yet happened. China's expanding domestic demand is being met by China's expanding domestic supply, with little spillover to ASEAN countries.

Second and far more seriously, the United States, European Union, and Japan have accumulated huge debts, as highlighted by the debt crises in Portugal, Italy, Greece, and Spain. But, in fact, the more worrisome case is Japan, where debt is almost 200 per cent of the GDP and clearly unsustainable. The upper house election held in July 2010 demonstrated that the Japanese public did not want its government to raise the consumption tax. But the debt issue now looms large, and if the government is unable to do the job of tackling this issue, market forces will do so — more drastically and at a higher social and political cost. A time bomb is ticking, ever more loudly, and in the future we may look back at the present and say that the U.S.-led global financial crisis triggered the Japan-led crisis.

Whether this imminent Japanese debt crisis will radically change the political and economic landscape of East Asia is a question that only ensuing events can answer.

East Asia community building has emerged as a common agenda in the region because it promises a better arena for nurturing the politics of economic growth, which holds that the purpose of politics is to deliver economic growth, leading to the creation of employment, the rise of living standards, reduction of poverty, and the promise

of a better future. Community building is also an instrument by which states in China's vicinities can productively and constructively engage China.

The transformation of the East Asian regional system has been marked at each turn by a series of momentous events. War and the collapse of the British, Japanese, and other colonial empires in the 1940s; American defeat in Indochina in the 1970s; the Plaza Accord in the 1980s; the Asian financial crisis in the late 1990s — each of these events provoked crises that led to regional transformation. To take an example, the Plaza Accord and resulting appreciation of the Japanese yen, and then the Korean won and Taiwan dollar, led to the transnational expansion of production networks and the *de facto* integration of East Asian economies. Just as the Asian financial crisis in the late 1990s marked the end of a Japan-led flying geese pattern of regional economic development, the recent American-led global financial crisis may perhaps mark the end of the U.S.-China-rest of East Asia (including Japan and Southeast Asia) triangular trade system.

And yet, despite the transformation of the regional trade system, the regional security system has remained basically unchanged since the ascendance of the United States as regional hegemon in the 1950s. This peculiar dynamic of an unchanged U.S.-led security order that excludes China, Vietnam, and other former socialist states, on the one hand, and a rapidly transforming and expanding trade system that has integrated not only the former "Free Asia" countries under the Cold War, but also the former socialist countries, and now India (to a degree that is unprecedented since the high noon of collective imperialism in the nineteenth century), on the other hand, creates a situation in which all the countries in the region are compelled to manage the tension between the security and trade systems through their own means and in light of their own imperatives, even as East Asian community building also constitutes a way of managing this tension.

Precisely because region making in East Asia was largely driven by markets, the changes now under way will not attain institutional form until some time after the fact. Therefore, we should not limit our attention to institutional forms of community building, such as ASEAN, ASEAN+1, ASEAN+3, ASEAN+6, ASEAN+8, ARF, and APEC, even though these are important arenas for regional cooperation and

dialogue. Now, more than ever, we are faced with the need to make sense of known unknowns while preparing ourselves for the unknown unknowns. The essays in this book remain useful primers for confronting this double challenge.

*Takashi Shiraishi*  
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\*The position and affiliation of the contributors are at the time of the international symposium held in December 2008.

