At CSIS-JETRO Conference, Ambivalence over Asian Integration

Devin Stewart, Fellow, Office of the Japan Chair

Experts expressed ambivalence toward Asian integration at a conference held on December 14, 2005 at CSIS entitled, "Integration of East Asian Economies: A Role for the United States and Japan." As John Hamre, CEO of the Center for Strategic and International Studies (CSIS), observed, the discussions on economic integration at the conference, hosted by CSIS and the Japan External Trade Organization, were a microcosm for the questions facing the United States, China, and Japan on the future direction and leadership of East Asia. Nevertheless, participants roundly agreed that the United States, Japan, and China must work together to guard the region's peace and stability.

Several experts expected regionwide economic integration in East Asia by 2020.

Among others, Osamu Watanabe, chairman of JETRO, predicted the emergence of an East Asian free trade agreement (FTA) within 15 years but recommended several stipulations to such an arrangement. First, an East Asian community should be based on three pillars: open regionalism; functional cooperation in such areas as the financial sector, energy, and piracy; and a respect for universal values such as freedom, human rights and World Trade Organization rules. Second, U.S. presence in the region is essential to peace and stability, and access to the U.S. market is a prerequisite to growth, said Watanabe.

Participants disagreed, however, over whether the proliferation of FTAs in Asia was a positive trend: the central question of the conference. Toyota Motor views the proliferation as a positive development because freer trade increases efficiencies, according to Motonobu Takemoto of Toyota Motor Asia Pacific.

But Motorola's Richard Brecher was not as sanguine. "There has been a proliferation of FTAs, and the impact has been mixed. They create an illusion of liberalization and trade distortions," he said.

Brecher and Charlene Barshefsky, former U.S. trade representative, warned against protectionism in Washington and "balkanization" in the region that could arise during the integration process. The integration of the Asian economies has created opportunities but also calls for protectionism. First, job anxiety is high, and consumer confidence is falling in the United States. Second, global trade and financial imbalances are enormous, and manufacturing is being centralized in China. Third, the rapid rise of China and India calls into question assumptions that the United States would shed manufacturing but lead in knowledge.

Barshefsky said the global economy is more integrated than ever before, and the rise of the multinational corporation is one basic cause. But governments also have generally chosen to allow markets to function. "Governments generally respect the rules they have developed," she said.

Two systems have facilitated this trend: The multilateral trading system (i.e., the World Trade Organization), and "the elaborate spaghetti bowl of trade agreements that sometimes help the trade system," Barshefsky said, implying that trade agreements can sometimes hurt the trade system.

Hadi Soesastro, of CSIS Indonesia, noted that the relationship between ASEAN and China has evolved from animosity to cooperation, but he argued that politics, not only business, have driven this process. He also said ASEAN members
are unhappy about the diversion of investment from ASEAN to China since the Chinese economic boom. Asymmetries in investment flows have also created potential tension: ASEAN investment into China has reached $30 billion whereas China's investment into ASEAN is less than $10 billion.

Weiping Huang, of Renmin University of China, agreed with the prediction that an East Asian FTA will be established by 2020 but wondered which country will lead the region. "While ASEAN will drive the integration process in the beginning, the U.S. and Japan will also take key roles," he said.

Many participants agreed that responding to China's rapid growth and integration into the region will be the central economic policy question challenging policymakers today.

"The biggest challenge of East Asia is to manage the risks associated with China's rise—economic, social, etc. Whether East Asia can reach sustainable growth depends on whether it can manage these risks. This should be done by convincing [others] that following multilateral rules is in China's interest," Watanabe said.

To manage these stresses, Watanabe recommended a U.S.-Japanese three-tier approach. Bilateral forums can address intellectual property rights, environmental issues, and capital transactions. The U.S.-Japan comprehensive economic partnership agreement, recommended by the U.S.-Japan Business Council, is one example of such a forum. Plurilateral forums include those on energy conservation. Meanwhile, the principal multilateral forum should be a revitalized Asia-Pacific Economic Cooperation (APEC), and the United States and Japan should lead in capacity building and intellectual property rights protection.

To respond to China's rise, Barshefsky suggested that the United States and Asia should work to reduce financial imbalances and the risk of financial chaos, and the United States should seek to reduce its own deficits. The issue of the Chinese currency exchange rate must also be addressed. Meanwhile, the United States must improve its game at home—by increasing spending on basic research and human talent, for example.

Barshefsky joined Watanabe in support of the idea of a U.S.-Japan trade agreement, especially one that covers the services sector (to avoid agriculture). Most of all, however, the United States should push in Doha and revitalize APEC and the Bogor mandate. "We must avoid a balkanized world, and the U.S. must restructure its economic relationship with China," she continued.

"The increasing integration of Asia with China at the center is the main economic phenomenon of our time. We have to respond to it in a responsible way," Barshefsky said.

Challenges facing East Asia will reach far beyond economics, however.

Ezra Vogel of Harvard University phrased the China question differently: "China-Japan tensions are at their worst I have seen and nothing is at hand that will change that." He explained, saying China-Japan relations started out very well in 1978, but after 1983 things deteriorated. Why did this happen?

First, after the Gulf War, the United States pushed Japan to contribute more to global security. But China saw Japan's shift as a move toward militarism. As Japan took more responsibility, China became worried about Japan's intentions. Second, during the 1980s, China needed Japanese investment but now it feels more confident, and the need for direct foreign investment has fallen. Third, China wants a more equal relationship; China wants to be number one, Vogel said.

Vogel described China as, "the youngster asserting its independence," and the Yasukuni Shrine is a useful tool for China to compel Japan to continue apologizing. The key issue is about the deeper relationship, however, not just the past.

Vogel first recommended higher-level communication between China and Japan. If Koizumi stops going to the Yasukuni Shrine, Japan could ask more of China. Second, the two countries should explore joint projects in sea lane protection, energy, and terrorism. Third, they need to manage publicity better. More cultural exchange is needed to be made available to help public opinion.

While Japan has apologized for its past, the broad social expression of the kind seen in Europe is lacking. As the aggressor during World War II, Japan should take the initiative to improve its communication with China. The United
States should encourage the two countries to cooperate. It is in the interest of business as well as of governments, and it needs to be done on a broad national scale, Vogel said.

Hamre offered some concluding thoughts by "taking a step back."

"We have had three major political systems in the last 400 years. Until 1948, the classic balance of power system centered in Europe. That prevailed for 300 years. That was replaced by the Cold War, which was a standoff between two conflicting worldviews. That ended on November 9, 1989 when the Berlin Wall fell. We are now in a new order in which we have a global superpower—the U.S.," Hamre said.

Meanwhile, that global superpower is competing with regional superpowers that are evolving. In Europe, it is the EU. In South America, it is Brazil. In South Asia, it is India. In the Middle East, it is Iran. But in East Asia, there are two superpowers: China and Japan.

Hamre asked, "The system is stable as long as there is one superpower, but is it unstable if there are two? What role does the U.S. play as a constructive actor modulating the relationships between powers? Does the U.S. play a constructive role or does it pick sides?"

He noted that until now the United States has been clear about the answer to that question: "We have had 50 years of seeing Japan as an ally and China as a threat. But that is changing. The central question is: How will these three actors work together moving forward?"

Hamre concluded by emphasizing what is at stake, not only for the United States, but also for the rest of Asia: "Does the U.S. intentionally or unintentionally block Japan as an economic superpower in Asia? Does the U.S. foil China using its new economic leverage? We are all involved in the answer. I fear Asia is a theater destined for conflict if we are not more the stewards of this relationship, and this will be hard, because our economic interests are not similar, so there is the risk of short-sighted interests against long-term conflict. Maximizing leverage on a short-term basis is counterproductive to everyone's long-term interests."

For comments or inquiries on the Japan Watch, please contact Eri Hirano at (202) 775-3144 or by e-mail at ehirano@csis.org.

Japan Watch is published by the Office of the Japan Chair of the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s).

© 2005 by the Center for Strategic and International Studies.