

Asian Regional Economic Integration

--- Can any Lessons be Drawn from the EU's Experience? ---

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Abstract

1. Conclusion

There exist differences so many in kind and so profound, between these two regions and their member countries, as to cause doubt as to the relevance of the EU's experience to Asia, but the author believes it is quite indispensable to look to Europe for lessons to provide perspective for Asian economic cooperation.

2. Evolution of EU enlargement

According to the Nikkei Shin-bun on 13 December 2002, the EU decided that she would have 25 members by May 2004. In the process of the EU enlarging its territory and taking in members with different conditions, several lessons might be found for Asian countries. Though the latter also differ among themselves in their economic conditions, the severe experience of the Asian Crisis in 1997 has made the Asian countries aware of the necessity of regional cooperation.

3. Basic concept

A grouping known as "ASEAN plus three (China, Japan and Korea)" has become a visible unit after the 1997 crisis. A reasonable target for integration would be limited to that group plus the NIEs, but only those candidates who are really positive to the idea should try to found a new cooperative framework.

The liberalization of trade regimes should be promoted together with the creation of stability in international money exchanges. Political and military security systems should be established by mutual efforts.

4. Policies and measures to be adopted

Promotion of a Free Trade Agreement (FTA).

In January 2001, Japan and Singapore concluded an FTA, and the share in Asian

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intra-regional trade has grown to more than 50% in 2001. An FTA is indispensable.

Stabilization of monetary exchange systems.

As a first step, an economist, Yamashita has proposed that the Asian developing countries should adopt fixed exchange rates among themselves, in the form of a currency "basket" composed of the US dollar, the yen and the euro. In the author's judgment, this approach has sufficient merit that it ought to be re-examined and proposed anew to the partner countries which have so far not shown interest in it.

Complete independence from the USA and the dollar's pressure.

Although this must be indispensable, it is a difficult way to go. Several different opinion leaders have mentioned it with varying interpretations. It should be borne in mind that the interest of the USA is fundamentally opposite to those of the Asian countries, as in the case of Washington's rejection of the AMF idea. But until now, nobody in Japan has dared to emphasize the necessity or efficacy of obtaining a consensus with the EU, the third party envisaged in the Asian proposal.

Unit of Asian economic integration.

A general view of European economists is that ASEAN has done nothing to promote economic cooperation. In fact several ideas have been advanced for an Asian cooperative unit or economic zone, such as North-East Asia, the countries surrounding the Sea of Japan, and ASEM. Ever since 1992, the role of APEC has been over-estimated or misunderstood as being a system by which the member countries could promote their trade and investment in line with the WTO. In reality it has been only a sort of "international festival" which could not actually do anything for the member countries, firstly because of the domination of the USA and secondly due to the number of members and the imbalances among them.

5. Program and method of implementation

The author concludes that the shortest route toward regional integration in Asia is via foreign direct investment (FDI) from Japan to other countries of the region, in many fields. Support for this view is found by examining some remarkable changes that have occurred in the participating firms' patterns of reinvestment of their profits.

Introduction

There have been several kinds of integration in the world or several steps in the process of integration. It might be said that the Asian case is not comparable to European experience, but economic cooperation in general has several stages which are valuable to retrace. In order to get some positive perspective on the subject, it is necessary to understand the differences between the two regions, as well as the recent development in Europe. Firstly, evolution of the EU in the recent period will be retraced. Following that, the recent difficult Asian situation will be reviewed. The author's thesis on the subject will be presented not as a research result, but as personnel opinion based on several countries' public opinions.

1. Evolution of EU enlargement

1.1 Accession of surrounding countries to the EU

It's reported that after negotiations with ten new candidate countries of Central and Eastern Europe, on 12 December 2002 the EU ministerial committee decided on the following policy: They declared that the EU would have 25 members in total, from May 2004 onward. The same announcement contained comments on Turkey's accession, saying that the EU would start its negotiation with Turkey from December 2004 on, if by that time the EU could observe the fact that Turkey would have satisfied the conditions of accession to the EU.

There might be several lessons useful for Asian countries in order to maintain their economic stability and/or to enhance their liberalization of capital movements, which could be drawn from the period at the beginning of 1990s, including the moment of collapse of the former Council for Mutual Economic Assistance (CMEA), and particularly from the mid-90s when the EU showed willingness to enlarge its territory toward the Eastern Europe zone.

Needless to say, in the long process of evolution of the EU itself, there are a lot of examples which can be applied to Asian countries for future cooperation, for example mutual administration like that of the ECSC, or the role of the three-power mechanism acting like one nation. But the case of the accession of Eastern European countries is particularly relevant because it is an attempt to integrate partners having different conditions.

In this sense, Asian countries hopeful for integration among themselves would be well advised to make an in-depth examination of the process as well as the policy of the EU's eastward initiative. To set the context, first let us look briefly at the existing differences between Asia and Europe.

1.2 Differences between Asia and Europe

1.2.1 Motivations for integration

As motivations for integration, Europe has its firm political will to maintain the peace, while Asia has the necessity of political dialogue as a defense against Communism.

1.2.2 Degree of heterogeneity of the regions

The initial EEC members started their approaches to one another from almost equal levels of economies, political and administrative institutions, and other attributes of modern nations. But the countries of Asia have many different starting conditions, especially with respect to their economies. Japan needs to have equal partners in its own neighborhood, but has been subordinated politically and economically to the USA.

1.2.3 Relations with the United States of America

Europe has been influenced by American world strategy and economic politics, yet has kept its independence. But in Asia, each country has been dependent on the USA individually, not as a group. In the field of economics, the same tendency has been observed for a long period. In all aspects, the cooperation in the Asian region has not been kept independent, but has always been controlled or dictated by the USA as a super power. This point has not been recognized clearly up to now, but should not be neglected in the future when integration in

Asia may be discussed.

2. Recovery measures adopted after the Asian Crisis in 1997

2.1 Cooperation stimulated by the Asian Crisis

It's well recognized that in our country the development of opinions positive toward regional economic integration has been accelerated after the Asian Crisis in 1997, and more remarkably after the creation of the unified EURO currency in Europe. Once previously I have tried to present in a brief resume^(note 1) the economic measures required for Japan to cooperate with the other countries in its neighborhood, and to contribute to the recovery of Asian countries. The major measures to be adopted in the shortest period possible are set out in sections 2.1.1 and 2.2.2 below:

2.1.1 Path to recovery

These targets must be examined and implemented from a global point of view:

Reform of the financial and monetary sectors in each Asian country

Liberalization and/or control of capital movements

Improvement of the international monetary system

2.1.2 Japanese position and role in the Asian Region

As for Japan, the following shall be studied as potential targets for integration in the future:

Stabilization of currency exchange markets

Internationalization of the Yen

Recovery of the Japanese economy itself

Role of private enterprise to accelerate its direct investment

2.2 Movement toward regional cooperation

In fact, a dialogue under the forum of the ASEAN-plus-three (China, Japan and Korea) has been initiated starting from the occasion of the commencement of dialogue between the EU and ASEAN. Other initiatives for cooperation in Asia, such as the Manila consensus or the Chiang Mai Initiative, have always taken moderate forms so as not to make the United States nervous, according to the expression used by a French journalist^(note 2), ever since the proposal for the creation of an Asian Monetary Fund (AMF) was flatly rejected by the USA in 1997. The main cases of Asian regional proposals or dialogue are presented in List A ap-

List A Cases of Asian regional proposals or dialogue

1990 February, proposal for creation of an East Asian Economic Caucus (EAEC) Japan gave it up due to the opposition of the USA

1996 at ASEM in Bangkok, the "ASEAN-plus-three" forum was formed

1997 December in Kuala Lumpur, ASEAN (10 countries) plus three held their first official meeting.

1997 September, proposal for creation of an AMF, by Japan and ASEAN was rejected by the USA

1998, the Manila framework was accepted.

2000 May, the Chiang Mai Initiative (CMI) was published

2001 May at Honolulu, under auspices of the ASEAN-plus-three, bilateral SWAP agreements between many pairs of partners were concluded and became effective.

List B One item of data on the immediate financial support provided by Japan is tabulated below.

In the fall of 1997 and October 1998, Japan provided the following:

Country	Through the IMF, billion US dollars	Bilaterally, billion Yen
Thailand	4 billion dollars (25)	5, additional ODA
Korea	10 billion dollars (18.2)	
Indonesia	5 billion dollars (14)	50, special ODA for poverty alleviation
Malaysia		120, in 1997 and 1998

note a: In parentheses () are the shares of Japan in total support received

note b: Malaysia did not accept any offer of the IMF, but asked Japan to re-open ODA by Yen credi

pend to this paper.

2.3 Contribution by Japan in the short term

There have been so many articles and opinions on the subject of the Asian Crisis and the following process of recovery, it is not necessary to review them again here. The role of Japan and its contribution to other Asian countries were limited, but it was observed that for the first time, during the long period after the Second World War, the Asian countries considered Japan as a true partner to themselves, not as a "little American" nor "small brother of America", expressions which they had used sometimes in unofficial meetings. One item of data on the immediate financial support provided by Japan is presented in the appended List B.

The Asian countries, however, state their wishes to welcome direct investment from Japan but do not mention ODA at least in their official declarations. Japanese foreign direct investment also has changed its characteristics in these recent years: For example, Japanese entities re-invest much more of their profits back into the local enterprises than before. The amount of their foreign investment has fluctuated according to the domestic conditions in Japan, a traditional tendency. There has been a remarkable decrease in the dependence of overseas enterprises on the mother company in either financial matters or administrative responsibility. According to my humble opinion, FDI has the most direct influence on the progress of international cooperation in the Asian Region.

3. Orienting Asian countries, particularly Japan, to regional economic cooperation ^(note3)

3.1 Basic approach to the subject

3.1.1 Countries targeted to become members at the present stage shall be limited to the ASEAN-plus-three and the NIEs. In case there are some political difficulties, it's better not to wait to get a consensus of all potential members ^(note 4).

3.1.2 Elements of economic policy of common interest to all the potential member countries include the liberalization of trade and investment, and the formation of a stable international monetary system among the participants. In the case of the Asian region, the

former could be currently promoted to some extent if well formulated, but the latter would seemingly take a long period in the future to be realized.

3.1.3 Parallel with the economic cooperation, some kind of political and military security system shall be established by mutual efforts.

3.2 Process of advancing the policies

Economic policies shall be executed in the earliest period possible.

3.2.1 At Singapore in January 2002, Japan declared its policy for enlargement of integrated economic cooperation among the Asian countries. Declaration is one step, but to convince the partners it's important to implement concrete measures one by one. At the beginning of 2002, Singapore and Japan concluded a free trade agreement (FTA) for the first time. It might be said "It's never too late to start" learning from the experience of the EU and its surrounding countries, for Asian countries that need to accelerate their cooperation as quickly as possible .

3.2.2 The Asian countries other than Japan need to adopt a fixed exchange-rate system based on a currency basket comprised by the Yen, US dollar and Euro, but no Asian country has yet taken this step^(note 5). Even if we admit this idea as an interesting solution for stabilization of the currency exchange system in the Asian region, the Yen has not yet received such confidence from the other partners.

According to the opinion of Yamashita^(note 6), as a second step, a fixed exchange system similar to the European EMS could be expected to be adopted, if the Yen becomes a much more international currency. According to his view, an Asian Economic and Monetary Union shall be a final-stage objective. But I myself do not expect that this kind of union could be a realistic objective at an early stage, at least not before the trade in goods and services arrives at a state of complete liberalization.

3.3 Essential points of approach to be considered

To reach these targets, the following measures shall be applied in an integrated manner.

3.3.1 Japan should become quite independent of the United States by following the experience of the European Union

3.3.2 Strong political will for regional economic cooperation and/or integration will be required from all the partners.

3.3.3 Looking at the process of establishment of the European Union, the multi-speed approach and differentiated integration shall be applied to Asian integration program.

3.3.4 Like the European experience of the Axis of France and Germany promoting their objectives, in Asia it is China, Japan and Korea who should form the core partnership. In such a case, Japan will have a role similar to that of Germany.^(note 7)

3.3.5 All the concerned partner countries should have a consciousness of having a common culture in their history.

3.3.6 For more than ten years, Japan has been in a state of severe economic stagnation. These experiences could be replaced by the willingness of the people and government to become the base for jump-starting the promotion of mutual cooperation among the Asian

countries.

4. Sequence of economic and political measures to be adopted for achieving the target of Asian economic integration

4.1 Promotion of a Free Trade Agreement

Even though Asian countries have already progressed in their intra-regional trade (coming to more than 50% of their total trade in 2001), an FTA is quite indispensable for future enforcement of a mutual commercial relationship, since unions of the same kind will continue to arise elsewhere in the world market.

4.2 Stabilization of exchange rates in the Asian monetary markets

Even though Asian countries other than Japan would not take an initial step to apply a basket system based on the Yen, it must be possible to find another method of bringing it about, say by also using some other Asian money as one component of the basket.

4.3 Independence from the United States and the pressure of the US dollar.

This is quite indispensable, and at the same time it is the most difficult policy to be applied. The pressure toward dollarization rises more and more in the Asian market as well as elsewhere. But it should be well borne in mind that like in the case of the rejection of the proposal for the creation of an AMF, the interest or the attitude of the United States is fundamentally opposite to those of Asian countries. It should be noted that unanimous opinion of the Asian countries is not enough to obtain the consensus of the United States, a fact which has not been explained by any Japanese, neither opinion leader nor economist. I have often proposed the necessity and efficacy of instead obtaining the consensus of a European partner, say the EU.

4.4 Number and role of cooperation units

The role of APEC has been exaggerated or misunderstood as to its potential for contributing to the advancement of regional economic cooperation among the member countries. Some economists have overestimated the role of APEC in promoting harmony with the program of the WTO, by expecting it to produce progress in opening markets to foreign trade and investment. From the beginning, APEC has always had too many members to be able to secure any agreement on policies of mutual interest. The United States would not make any concessions to the requests of small nations, and meanwhile gained time to promote the plan of NAFTA. The experience of the EU has showed us that any kind of union should function better with a smaller number of members at the initial stage.

4.5 Internationalization of the Yen

This must be an initial step for future currency integration in the Asian Region. Broadly speaking, there might be three kinds of possible paths to study with the aim of internationalization of the Yen:

Firstly, the creation of a Yen zone must be the way most favorable for Japan, but there exists no possibility of achieving this, neither at present nor in the near future.

Secondly, the role of the Yen in cross transactions of money exchange might come to be like that of the German Mark during the 1990s in the EU market. However, in order to realize this, it's necessary for the participating countries to have currencies of their own that are stable enough for using with intermediation of the Yen.

Thirdly, in the near future when the Asian countries might adopt the currency basket method to peg their money exchange rates, the share of the Yen in the basket could then be successively increased. This is the most realistic way to make progress on internationalization of the Yen.

Conclusion

To briefly review some of the main points of view I have presented:

Necessity and/or efficiency of regional economic cooperation in Asia.

Until the time of the Asian currency crisis, the Japanese governments and economists as well as their Asian partners have been so much dependent on the US dollar as the key international currency, they have considered the Bretton Woods system still favorable for liberalization of capital movements and promotion of trade. Like most of the anglo-saxon economists, they have been doubtful about the creation of the Euro as a common monetary system replacing the national currencies of the countries of the European Community.

But after the severe experience of the Asian monetary crisis of 1997, and the success of creation of the Euro, all the concerned parties have found sufficient reason to recognize consciously or unconsciously, the necessity of regional economic cooperation in Asia also, as a defense against the pressure the US dollar has exerted until the present, under the international monetary system.

Path to regional economic integration

Among the potential Asian member countries there are such differences in levels of economic, social and cultural conditions, as to make it unrealistic to try from the beginning to achieve unification of currency or a high degree of economic integration. The creation of a regional development bank which could manage all the cooperation tasks seems like an idea that could go forward more easily. Learning from the experience of the European Coal and Steel Community in Europe at the initial stage, some concerned countries such as the "ASEAN-plus-three" should take steps in mutual administration of infrastructure across their borders. There are already some examples of this, such as the integrated development of the Mekong river basin. An accumulation of such experiences could enable the participating countries to develop modes of cooperation among themselves. Particularly, an increase of direct investment in the region would serve as a visible stimulus to mutual cooperation.

Sequencing of approaches to be adopted

Asian countries should adopt these principal policies:

A. A multi-speed approach (positively-disposed members should start the movement towards integration with open-market conditions, even if only by themselves, and others

could later follow the trend.

- B. Differentiated integration (in each section, different candidates could adopt the integration measures on an ad-hoc basis)

Text Notes

- note 1: Thesis presented in the Tunis conference of the association of Tiers-Monde by M.IMAI in May 2002, publication forthcoming in the Monde en Developpement journal.
- note 2: le Japon, la fin d'une economie by Pierre- Antoine and Anne Garrigue
- note 3: Since I have found by chance that the opinions of another economist, Eiji Yamashita are very close to my own thought, I sometimes also mention his opinions while summarizing several of my points of view on the subject.
- note 4: Yamanita insisted on obtaining the participation of Taiwan, since it's abnormal to start this kind of cooperation without such an economic power, but considering the complicated international politics, an early start is better made without Taiwan.
- note 5: Yamashita has almost blamed the other Asian countries for not having taken a first step toward a currency basket system based on the Yen. However, it might be admitted that Japan itself has not taken any kind of concrete measures for achieving such a goal.
- note 6: Yamashita's opinion seemingly is much more applicable to the improvement of immediate settlements in the monetary system, than to the creation of free markets in trade and investment. Before Asia can arrive at the same stage as the European EMS and Monetary Union, there are many barriers to be overcome.
- note 7: According to the opinion of Yamashita, only Japan and China need to be the core, but in Asia an initiative taken by just two countries is not favorably regarded.
A combination of three should be much more easily accepted by the others.

Note

- 1) The following summary history of academic and governmental thought retraces briefly the evolution of opinions on regional economic integration in Asia:

First boom in 1960s

In 1965 professor Kiyoshi KOJIMA published an idea for a "zone of free trade in the Pacific and Asian area"

In 1967 Japan's Minister of Foreign Affairs Takeo MIKI proposed the concept of forming a free-trade zone in the Pacific and Asian area

Second boom in the early 1980s

In 1980, professor Kiyoshi KOJIMA proposed an idea for a "Pacific Trade and Development Organization"

In 1980, Japan's Prime Minister Masayoshi OOHIRA made publicity for an idea of "formation of a united zone of Asian and Pacific countries"

Third boom at the end of the 1980s and in the early 1990s

In 1989, the first meeting of APEC was held in Australia

In 1991 Malaysia proposed the creation of EAEG followed by EAEC

In 1992, the AFTA was accepted at Singapore

In 1994, the CEPT was introduced in Asia

However, it was only after the Asian crisis in 1997 that a consensus on the necessity of economic integration was obtained among the concerned parties

2) Regarding interregional trade in the zone of Asia and the Pacific, the following figures are worthy of note:

1970 54.1 percent

1980 54.0 percent

1990 64.4 percent

Source: "Regional Integration and the Developing Countries", Asian Economic Studies Institute, 1994, p130.

The economist Mariko OKAMOTO in this book said that regional integration would not be required in the region of Asia.

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