



***Comparing EU and Asian Integration Processes-  
The EU a role model for Asia?***

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## Summary

Enlargement, economic and political integration are distinctive features of the international political and economic scene at the beginning of the 21<sup>st</sup> century. Whereas the European Union (EU) is fully integrated, Asia on the other hand still lags behind with regard to economic and political integration. EU-style political integration processes will not take place in East and Southeast Asia any time soon and Asian governments will continue to favour bilateral over multilateral trade free trade agreements for the foreseeable future. Compared to Europe, the Asian institutionalisation process is usually referred to as “nascent” and the “principle of non-interference in internal affairs” (formulated in the charter of the Association of Southeast Asian Nations (ASEAN)) will remain an obstacle to further economic and political integration in Asia.

However, given the different cultural backgrounds and history, it would be a mistake to compare the success of the EU integration process with the less impressive state of Asian economic and political integration. EU-style integration does not necessarily set the standards by which Asian integration can be measured.

The comparative analysis of EU and Asian integration below will seek to explain why Asia will not experience EU-style integration and in the processes assess whether China, the region’s economic powerhouse with impressive economic growth rates, is likely to become the engine of economic and political integration in Asia.

The paper seeks to explain why Asian nations will, at least for the foreseeable future, remain reluctant to integrate further economically, despite outside pressure to do so and the wider aspirations to develop an Asian identity. The paper will show to what extent the legacy of colonialism and the lack of domestic structures in East and Southeast Asia, among other factors, will remain obstacles to EU-style economic and political integration in the foreseeable future.

On the other hand Japan’s economic recovery needs to become sustainable and stable over the coming years to enable the country to once again become a leader of political and economic integration in the region.

Japan will need to concentrate on the recovery of its own economy before being able to dedicate sufficient time and energy to being at the forefront of Asian economic and political integration. However, it remains to be seen whether Japan is willing and able to play a leadership role in Asian economic integration in light of its close alliance with the US, existing Japanese protectionism and the country’s reluctance to change its patterns of trade and economic co-operation.

This paper will not analyse integration processes in South Asia but focus on the analysis of economic and political integration in East and Southeast Asia. Hence, throughout the paper the term “Asia” is used as equivalent for Northeast, East and Southeast Asia.

However, the author does acknowledge the recent progress made with regard to regional integration in South Asia within the framework of the South Asian

Association for Regional Co-operation (SAARC). India has taken a leading role in South Asian economic and political integration in recent years and was an early supporter of the recently established South Asian Free Trade Area (SAFTA) promoting free trade between of goods between SAARC Member States (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka).

## 1. Introduction

The EU – the model for codified and institutionalised integration – became a Union of 25 Member States in May 2004. A number of other European countries are set to join the EU in the coming years and alongside this ongoing widening, the Union has set itself the ambitious goal of becoming the most competitive economy in the world by 2010. However, regional economic integration and free trade agreements can be found far beyond the EU. The North Atlantic Free Trade Agreement (NAFTA) for example, although currently only a group of three countries (the US, Canada and Mexico) wants to establish a free trade zone (Free Trade of the Americas) with 31 countries in Central and South America by the end of 2005. Asia’s economic and political integration record is significantly less impressive, despite recent initiatives to establish bilateral and multilateral free trade agreements across the region.

Following a brief overview of the rationale and stages of EU integration, this paper will, among other points, discuss the current state and prospects for further Asian (mainly economic) integration, assess the pros and cons of concepts of Asian-style “practical integration,” discuss the role of free trade agreements in Asia and elaborate on the obstacles to Asian integration. Special attention will be given to China and Japan and their roles in economic and political integration in Asia.

The question of whether China is likely to become the engine of political and economic integration will be analysed along, with a discussion on whether Japan will be willing and able to take on a leadership role in Asian integration in spite of its close alliance with the US, its economic crisis, economic protectionism and existing nationalism.

The paper concludes that stable Japan-Chinese relations and reconciliation between the two countries will be key to further economic and political integration in Asia. Recent Chinese-Japanese tensions and trade frictions as well as the inability to overcome the legacy of World War, however, will continue to remain an obstacle to further economic and political integration in Asia.

The devastating tsunami that hit Asia in December 2004, causing death and destruction in a number of Southeast Asian countries triggered an unprecedented regional solidarity and support for the countries hit by the wave. In particular, Japan’s “soft power” (economic assistance, development, reconstruction efforts) and the country’s financial contribution will prove to be vital in the coming months (and probably years). Japan has recently offered to pay out \$500 million in aid, making it by far the biggest donor in Asia. Apart from its significant financial contributions, Japan has announced that it will take the lead in developing a regional tsunami early warning system. Japan, home of the world’s most advanced tsunami alert system, is offering its technology and know-how to countries hit by the wave to help them develop similar systems. China, too, joined the aid efforts and has announced its willingness to provide \$80 million to the countries hit by the tsunami.

Although it remains to be seen whether a natural disaster can help promote sustainable regional integration in Asia, it can be hoped that Japan and China will maintain and increase their level of support and enter into a healthy competition, to the benefit of the region and the countries hit by the tsunami.

## **2. EU Integration-Avoiding Wars**

Political integration and reconciliation in Europe began with European economic integration after centuries of war and conflict. Europe was devastated after World War II and its political leaders realised that the continent needed to integrate to avoid further wars and inner-European rivalry. Franco-German reconciliation was on top of Europe's political agenda. Peaceful relations between the two countries that fought three wars over a period of 50 years were the basis for a meaningful European integration. The US, through the Marshall Plan and other means, strongly supported European reconciliation and later integration contributed to the recovery of Europe's economies.

Co-ordination of intra-European economic activity in key sectors such as coal and steel was the basis of Jean Monnet's vision for a united and peaceful Europe and led to the establishment of the European Coal and Steel Community (ECSC). The Treaty of Rome triggered the EU's process of integration and the free movement of goods was extended far beyond steel and coal to manufactured goods. Later on, the Common Agricultural Policy (CAP) was established to manage the EC's market for agricultural products. The EC turned to monetary affairs in the 1970s which led to the establishment of the European Monetary System (EMS) in 1979. The EMS supported the stability of European currencies and was the forerunner of the Euro, established in 1999. The literature suggests that one of the main factors that fostered European integration was the decision of EU policymakers to respond to the challenge posed by growing economic interdependence by creating a European common market. No Member State wanted to be left behind and thus undertook individual and, increasingly, common initiatives to achieve the goal of European economic and political integration.

Today, the EU is fully integrated both politically and economically – and also has a common market, a common currency and (at least on paper) a common foreign and security policy (CFSP). However, integration did not happen overnight – but a gradual process over sixty years (see the annex of this paper).

## **3. EU-Style Integration Versus “Pragmatic Integration” in Asia**

The merits of regional integration (within the boundaries of a geographically limited area), however, are not universally acknowledged. Regional integration and regionalism, some scholars argue, contradict the increasing globalisation of economic and political relations. They suggest that the EU be understood as an exception in a world that is increasingly characterised by the erosion of national borders and economic interaction within a geographically defined region. In the 1990s, Asian scholars introduced the concept of “soft integration” (or “soft regionalism”). This integrationist approach was centred around the Japanese economy and differs fundamentally from the EU's “hard integration” based on politically set arrangements. Asian nations have been reluctant to embrace EU-

style integration strategies and tend to pursue strategies of “open regionalism” and “open integration,” or coming together when it fits their interests. “Open integration” Asian-style embraces concepts of loose and pragmatic integration, excluding legally-binding decisions that constrain action in key policy areas. In this context, the literature also speaks of “open regionalism” in Asia, indicating that initiatives in economic integration are not necessarily limited to one region. The concept of “open regionalism” also advocates integration processes not supported by formal institutions.

Today, Asian integration can still be best described as market-driven integration. Whereas the benefits of political integration in Asia are not yet fully acknowledged, economic integration is perceived as beneficial when it yields economic benefits for all parties involved.

#### **4. Asia -Time to Integrate (Economically)**

Further economic integration in Asia – institutionalised or not – will become necessary if Asia wants to increase its share in world trade. From 1980-2000 Asia has more than doubled its share in world trade and (geographically) far-reaching free trade agreements will help increase this share. Today, East Asia (Japan, China and South Korea) surpasses the EU and NAFTA in terms of population and is ahead of both in terms of gross national income measured at purchasing-power parity. Further Asian integration would not only strengthen economic cooperation, but will actually become necessary in order to tackle problems such as poverty, environmental pollution, water shortage and deforestation. It will also become necessary to secure a sustainable supply of energy in Asia. China’s growing demand for crude oil, in particular, needs to be mentioned in this context. Recently, China has surpassed Japan as the world’s second biggest importer of crude oil (second only to the US) and the Organization for Economic Cooperation and Development (OECD) predicts that East Asia will become the largest net importer of crude oil by 2020.

An economically integrated Asia will enable the region’s governments to jointly negotiate the conditions of Foreign Direct Investment (FDI) and limit the degree of freedom for short-term capital flows in Asia. Massive short-term capital flows were believed to have been one of the causes of the 1997/1998 Asian financial crises. Following the crisis, Asian governments made increased efforts to foster integration in the field of regional monetary policies, even if the establishment of an Asian Monetary Fund (AMF), designed to provide Asian governments with emergency funds in times of economic crisis, has yet to be realised. Back then, many Asian governments, including Japan, acknowledged the need to become less dependent on the US dollar. This has led to the Miyazawa and Chang Mai initiatives advocating currency swaps amongst central and regional banks in Asia. In 2002 Thailand’s Prime Minister, Thaksin Shinawatra, launched the idea of an Asian bond market which eventually led to the establishment of the Asian Bond Fund in June 2003. The objective of the fund is to encourage Asian governments to issue bonds to be reinvested within Asia. Thereby, the use of the US dollar will decline as the bonds will be traded in local Asian currencies.

## 5. Asia: Integration without Institutionalisation

Unlike in Asia, EU integration was accompanied by an institutionalisation process. Indeed, institutionalisation and institution-building is not considered beneficial in the Asian context. There are fears that institutions will oblige governments to give up sovereignty in key policy areas. From an Asian perspective, regional integration does not have to be supported by institutions imposing legally-binding rules and norms on their members. Institutionalised regional economic integration will not become a priority for Asian nations any time soon and Asian governments will continue to advocate and pursue export-led growth regimes and economic strategies above all in their plans for attracting FDI. The lack of EU-style political and economic institutionalised integration is not necessarily a weakness but rather a strength for Asian countries as it keeps the integration processes “flexible” and preserves its legally non-binding status. The reluctance of Asian countries to promote efforts to institutionalise their relations can also be explained by a shared feeling of distrust that regional bureaucratic structures will become independent of their state sponsor. While regional organisations and forums in Asia (APEC, ASEAN, ARF and others) are already playing a role fostering trans-national networks, they have yet to become policy-making institutions.

How can the relative weakness of formal institutions in Asia be explained? A comparison with the EU suggests two answers: different international norms and domestic state structures in Asia and Europe. Whereas the introduction of the norm of multilateralism was a key strategy of US foreign policy in Europe after World War II, US foreign policy in Asia, on the other hand, has advocated bilateralism and bilateral alliances. In Asia, it was not in the interest of the US to support or create regional institutions that would constrain American foreign policies. Instead, the US established a system of bilateral alliances with Asian nations. Today, US support for multilateralism in Asia is lukewarm at best as it threatens to reduce American economic and political influence.

Western literature argues that domestic state structures in Asia do not favour and support the establishment of formal institutions operating with legally-binding decisions, rules and laws. The Association of Southeast Asian Nations (ASEAN), established in 1967 as an initiative to co-ordinate economic and foreign policies amongst Southeast Asian nations, constitutes a regional institution without the instruments and capabilities to implement legally-binding policies. Unlike the EU, ASEAN acts according to the principle of non-interference in internal affairs of its Member States. This principle, formulated in the ASEAN Charter, is indeed ASEAN’s key principle, significantly limiting the association’s influence on Member States’ policymaking. The EU and its highly rationalised bureaucracies, on the other hand, are well equipped to deal with public law and formal institutions.

Western authors also typically underline that the lack of democratic structures and “truly” Western-style democratic institutions in many Asian nations are an obstacle to integration in Asia. The existence of the so-called “one-party democracies” in Asia, the argument, is an obstacle to any meaningful political integration. Whereas Western policymakers argue that democratic structures are the very precondition for meaningful (codified and legally-binding) economic



and political integration, Asian governments, on the other hand, advocated the so-called “network- style” of integration, making use of interpersonal and informal relations to pursue what they referred to as Asian-style integration. However, the Asian economic crisis 1997/1998 very clearly showed the limits of the Asian “network-style” integration strategies and reminded Asian policymakers (except ex-Prime Minister Mohamed Mahathir of Malaysia who chose to blame financial speculation by US investment banks for the financial crisis) of the need to create transparent and accountable domestic and regional financial and banking systems.

Corporate governance in Asia, despite the progress made after the Asian economic crisis 1997/1998, remains underdeveloped, and the banking and financial system (Japan included) still lack transparency and accountability.

## **6. An Asian Identity through Economic Integration?**

Due to its cultural heterogeneity and geographical dimensions, there is no clearly defined concept of Asia comparable to the concept of Europe and the EU-25. The lack of clearly defined borders as well as common culture and religion, the literature argues, stand in the way of developing anything resembling an Asian identity and thus weakens any existing incentives to further integrate.

Whereas the concept of Asia is ambiguous and lacks a clear empirical reference, Asian identity (or what comes closest to the concept of “identity”) results mainly from the (non-legally binding) interaction of real and imagined factors. Advocates of Asian integration (without outside “interference”) and an Asian identity in the recent past include Mr Mahathir and Singapore’s elderly statesman Lee Kuan Yew. They used a concept of “Asian identity” to advocate Asian-style human rights and democracy as well as Asian family and community values and capitalism (or crony capitalism, as critical Western policymakers and scholars termed it back then). Asia, Yew and Mahathir maintained, already had an identity even if it did not translate into codified and legally-binding EU-style integration.

At the beginning of the 1990s hopes were raised that economic and political integration would help Asia to develop its own identity by overcoming the legacy of colonialism for good. In the very early 1990s, the then Malaysian Prime Minister Mohamed Mahathir proposed the idea of an East Asian Economic Caucus (EAEC) promoting an Asian identity through a forum without the participation of the West (above all without the US, as Mahathir emphasized in various speeches, angering policymakers in Washington). Mahathir wanted to create an economic community in which Asian nations could pursue strategies of economic integration without “interference” from outside, a “caucus without Caucasians” as Mahathir himself referred to. The US, the most influential economic power (although geographically clearly neither part of East nor Southeast Asia), however, was strongly opposed to Mr Mahathir’s suggestions and eventually convinced Japan (initially a staunch supporter of the initiative) to abandon its support for the proposal that had been supported by anti-Western and nationalistic rhetoric. The EAEC, designed to be the “Asian answer” to the US-led Asia-Pacific Economic Cooperation forum (APEC) did not receive enough support from other Asian nations, and an Asian forum without Washington’s participation remained a taboo issue until the Asian crisis of 1997/1998.

Asia's second chance to foster regional integration (and an Asian identity), the literature argues, came after the Asian financial crisis 1997/1998. The economic crisis, Naoko Munakata writes, "cleared away the earlier taboo of an "Asia-only framework." Asian policymakers realised that intra-Asian economic and financial interdependence, not supported by transparent and accountable domestic financial and banking systems, was responsible for the economic and financial crisis. As an initiative to create structures to avoid future large-scale economic and financial crisis in Asia, the first "ASEAN+3" (ASEAN Member States plus Japan, China and South Korea) summit was held at the end of 1997. Despite US criticism and initially fierce opposition (out of the fear that ASEAN+3 was "directed against the US"), ASEAN+3 has turned out to be a successful formula for bringing Southeast and Northeast Asian nations together. In particular, China's growing economic role and influence in Asia have turned Southeast Asian governments into outspoken advocates of further economic integration with China, Japan and South Korea. ASEAN+3, Asian policymakers argue, is becoming an Asian alternative to the US-centred "hub and spokes" regional order, supported by bilateral alliances with, above all, Japan and South Korea. ASEAN+3, the US on the other hand fears, is part of China's so-called new "multipolar strategy" (with the EU being another pole) seeking to diminish US influence in Asia (and Europe for that matter).

Currently, the global trends of economic integration (in Europe as well as South America and North America) put pressure on Asian nations to integrate economically and politically even if Asian governments usually insist that integration will take place at a speed that is "comfortable for all" and based on the consensus of all parties involved. Integration the "ASEAN way," however, has until recently encouraged Asian governments to remain in a "wait-and-see-mode" with regard to integration, and undertake initiatives to implement free trade agreements with each other, excluding China.

## **7. China-The Engine of Regional Integration?**

While Japan was the engine of economic growth and integration in Asia in the 1980s, China, supported by impressive and seemingly sustainable economic growth rates, is set to become the economic powerhouse for integration in Asia in the coming years. In recent years, China has emerged as the foremost proponent of creating the so-called East Asian Economic Community by 2020.

Beijing has also proposed free trade agreements with ASEAN by 2010. China's economic performance and ability to attract FDI worth more than \$53 billion in the first 10 months of 2004 is impressive. According to World Bank development indicators, China's gross national income (GNI) is sixth in the world when measured in nominal terms and already second when adjusted to reflect purchasing-power parity standards. If China can sustain its current economic growth rates, the Organization for Economic Cooperation and Development (OECD) predicts that China's gross domestic product may account for one fifth of the world's total in 2020, surpassing the US (11%) and Japan (5%).

Unlike Japan, whose free trade efforts have thus far been limited to the signing of a free trade agreement with Singapore (the so-called "Japan-Singapore Economic Agreement for a New Partnership") China has committed itself to the

liberalisation of a number of agricultural products when implementing FTAs with ASEAN countries. This concession is of particular interest to countries such as Vietnam and Thailand, the biggest exporters of agricultural products in Southeast Asia. Japan continues to insist on excluding agricultural products from the free trade agreement, and its agricultural sector is too heavily subsidized (and the country's farming lobby too strong) to enable Tokyo to implement free trade agreements with rice-producing countries, such as Vietnam and Thailand.

Despite China's recent free trade initiatives, however, the country is still perceived above all as an engine for economic growth but not necessarily for economic integration. Like other developing countries in Asia, China will be mainly concerned with the development of its own economy and it is not yet fully clear whether China's economic multilateralism will prevail over Beijing's bilateral instincts and strategies with regard to trade. Regardless of perceived uncertainties with regard to China's economic strategies in Asia, policymakers across the region advocate engaging China economically and politically. China, the argument goes, is already too important economically and politically to be excluded from regional integration processes. An engaged China, it is argued, will ensure political stability in Asia, will help to avoid rivalry with Japan and will create economic benefits both for itself and its economic partners in Asia. Asian governments, including China, will continue to favour bilateral over multilateral co-operation and agreements. The positive side of pursuing such arrangements, however, is obvious in the Asian context: bilateral agreements can work on a trial-and-error basis, leaving scope for improvement in successive agreements.

Although China is still a receiver of Japanese Overseas Development Aid (ODA) worth 1 billion US per year, Beijing could (given that the country's economy continues to grow at current growth rates) over the long-term take over Japan's role as generous donor of economic and financial assistance to developing economies in Asia.

Apart from the project to implement a free trade agreement with ASEAN by the year 2010, China has signed a number of bilateral economic agreements with Southeast Asian nations over the last few years, underlining Beijing's ambitions to strengthen its role as the dominant economic power in the region. However, China's ambitions to become the engine of regional economic and political integration will, amongst others, be measured against the outcome of China's initiative to establish a China-ASEAN free trade agreement by 2010.

China, as many analysts maintain, still prefers to deal with its neighbours bilaterally and is committed to "conditional multilateralism." This concept effectively means a multilateralism that suits Chinese interests and that does not jeopardise Beijing's ability to apply rules of inter-state relations "flexibly."

Scholars and analysts critical of China's role in the Asian integration process argue that Beijing should not be assigned a leadership role due to the lack of democratic political structures in the country. Japanese policy makers in particular maintain that a non-democratic country can neither lead Asia's political integration nor further democratisation in Asia. Instead democratic Japan and South Korea should lead political integration in Asia. This is in line with the

European assumption that democratic structures are the precondition for a meaningful integration process. However, meaningful discussions in Europe and Asia on China's democratisation and the lack of democratic structures have become sidelined as news on China's economic growth and growing political and economic influence dominate the headlines and debates. The virtual absence of critical assessments from Southeast Asian governments on the issue of China's lack of democratic structures once again confirms the impression that political integration in Asia is secondary for many Asian governments.

## **8. Regional Integration and Japan's Economic Crisis**

Over the last decade, economic integration in Asia has been hindered by the sluggish growth of the Japanese economy. The Japanese economic crisis led to decreased Japanese investments in the region as well as to significant cuts of Japanese Overseas Development Assistance to Asian nations. Despite the fact that Japan is still by far the largest economic power in the region, the country's decade-long economic crisis has led many Asian governments to fear that Japan's ability to foster regional economic integration will remain very limited in the years to come.

A full and sustainable recovery of the Japanese economy is imperative to achieving further regional economic integration as Japan is still by far the largest investor in East and Southeast Asia.

Until a decade ago, Japan was the engine of regional economic growth and integration. Aside from the economic crisis, the country's recession and its slow economic growth rates have turned the country into the 'sick man of Asia,' suffering from economic stagnation and unable to promote and implement economic integration initiatives in the region. Currently, Japan is focusing on the full recovery of its economy and a return to sustainable economic growth rates.

Japan's current seemingly stable economic recovery (dating back to the end of 2002 and mainly sustained and supported by growing exports to China and the US) give reason to believe that it is on the path towards recovery and growth, despite the fact that the government's estimated economic growth rates turned out to be overly optimistic at the end of 2004. The expensive yen, as well as slowing exports to China and the US, however, will put Japan's economic recovery efforts to the test in 2005. Analysts and economists agree that Japan will need more than just a few years of solid economic growth rates to leave economic stagnation and recession behind. Economists estimate that Japan's economy would need to display steady growth for at least a decade (apart from the necessity to further structural and economic reforms) in order to overcome the negative effects of the economic crisis and the burst of the economy's bubble at the beginning of the 1990s.

China's recent initiative to implement a free trade agreement with ASEAN by 2010, however, served as a wake-up call for Japan's policymakers urging them to consider free trade agreements with a number of ASEAN nations as well as with Mexico. However, Japan's powerful farming lobby will remain the principal obstacle to free trade agreements with countries from Southeast Asia. Due to Japan's refusal to include agricultural products in any free trade agreements, any

such agreements between Japan and Southeast Asian nations (with the exception of Singapore) will remain off the agenda, at least for the time being.

## **9. Regional Integration-Japan's Goals and Motivations**

Despite numerous Japanese promises to “return to Asia,” Tokyo’s business, political and security relations still focus on the US. Among Japan’s neighbours in Asia (with the exception of South Korea which maintains an equally close military alliance with the US), its close alliance with the US is perceived as an obstacle to further integration. Japan’s dependence on US foreign and security policies, manifested by the U.S.-Japan security alliance, is perceived to be the main reason why Japan will not be able to fully use its full economic and political influence to foster economic and political integration in the future beyond the current level. Strong US pressure on Japan to favour its bilateral ties with Washington over multilateral agreements in Asia will ensure that Japan will not change its strategy any time soon.

Despite afresh cuts in Japan’s ODA (for the sixth consecutive year), Japan is still by far the biggest donor in Asia and will continue to use economic and financial assistance as tools to implement its policies in Asia and beyond.

Although Japan has, in recent years, developed and implemented more assertive (and at times controversial) regional and global foreign and security policies, the country’s so-called “foreign economic policy” (Jap. keizai gaikô) of pursuing its interests through economic and financial assistance as well as development aid will remain its most effective and important policy tool.

Analysts maintain that Japan’s plans to cut foreign aid in 2005 will send the wrong signal to Asian nations, confirming Asian governments in their suspicion that Japan’s interests in fostering further Asian economic integration is limited. Already in the past, Japan’s policymakers were confronted with criticism that Japanese ODA to Asian countries is subject to numerous conditions serving, above all, to secure favourable market access for Japanese goods and products. However, Japan is not, of course, the only country linking the provision of ODA to conditions and despite the recent cuts in ODA, Japan will remain the biggest donor to Asian countries for many years to come.

While Japan’s Ministry of Foreign Affairs protested against the recent cuts in Japanese ODA, arguing that the cuts will harm Japan’s foreign policy goals, the Japanese Ministry of Finance, on the other hand, maintains that fiscal restraints have made the cuts necessary. Japan’s global ODA will drop by 3.8% in 2005, which will effect China, the biggest recipient of Japanese ODA. Currently, China’s economy is receiving Japanese ODA worth one billion US dollars per year, an amount too high for those in Japan who claim that China is “misusing” Japanese ODA to upgrade its military. China’s fast growing defence budget (China’s defence budget saw a yearly two-digit percentage growth rate over the last 15 years) and the rapid modernisation of China’s armed forces, should, Japanese conservatives and ultraconservatives argue, be a reason to significantly cut ODA to China.

## **10. Japan - Able and Willing to Integrate?**

The Japanese government's bureaucracy is hardly unified with regard to the perceived benefits and burdens of regional integration. The Ministry of Foreign Affairs, concerned with Japan's regional and global image, is, at least on paper, strongly committed to regional integration. Promoting Japan's "soft power" by implementing regional and global policies through humanitarian aid and economic assistance is still the ministry's main concern despite Japanese Prime Minister Yunichiro Koizumi's rhetoric on a more "assertive" Japanese foreign and security policy. The Ministry of Foreign Affairs advocates a leading role for Japan in regional integration although the Ministry is also concerned about providing a militarily growing China with Japanese ODA.

Judging by the government's rhetoric, regional integration is a policy priority. However, there are a number of scholars and economists who argue that economic integration in Asia is far less important to Japan than the Prime Minister is making out. Regional economic integration, the argument goes, is not a real priority but rather a "passing opportunity" for Japan for whom bilateral trade relations with the US and China are of paramount concern. Indeed, as recent months have shown, exports to China and US are vital to achieving sustainable economic recovery in Japan in 2005 and beyond. Slowing exports to China and the US have already led to a downward revision of Japan's economic growth rates for the year 2005.

Commentators critical of Japan's efforts to take an active or leading role in regional integration also argue that Japan's integration efforts are used to "distract" from Japan's domestic economic crisis. Japan's efforts to foster trade and monetary integration in Asia, it is argued, is little more than an attempt by Japan's policymakers to make up for the country's loss of international standing caused by its decade-long economic recession.

Unlike the leading European economies, Japan, it is argued, is neither prepared to bear the adjustment costs of integration nor to replace protectionist strategies with the opening of Japanese markets in all sectors (this is the main reason why implementing free trade agreements with Japan is still very problematic or in the case of free trade agreements between Japan and Southeast Asian nations, next to impossible).

Those in Japan who favour further economic integration and the opening of Japanese markets are confronted with powerful domestic lobbies in Japan opposed to further economic integration. Import-competing and non-traded businesses are the main interests group opposing economic integration. Their main goal is the maintenance of Japanese protectionism making it still extremely difficult to enter the Japanese market in many sectors, above all the agriculture sector.

Such Japanese-style protectionism has extremely negative implications for its overall trade policies, given that sectors such as agriculture, forestry and fishery comprise only a very small fraction of Japan's economy.

Despite resistance within Japan to further economic integration in Asia, the country's policymakers do acknowledge the potential benefits of economic integration. Bilateral free trade agreements, closer monetary co-operation along the lines of the Chiang Mai initiative and intensified FDI flows will all be beneficial to the Japanese economy and trade relations even if the short-term adjustment costs are high. Japan is very likely to gain from intensified FDI flows as the country will stand to gain significantly from continuing to shift production abroad (above all to China).

Over the coming years, Japan's policymakers are faced with the challenge of convincing business and opposing lobbies of the long-term benefits of Asian economic integration. In this context, the country's policymakers are faced with the task of explaining to its business leaders and the public that shifting production abroad will not, as nationalist and ultraconservatives forces in Japan claim, lead to the "hollowing out" of Japanese industry.

### **11. Regional Integration and the Role of Chinese-Japanese Relations**

Stable Chinese-Japanese relations are key to further regional integration in Asia. China and Japan are the region's biggest economies and regional economic integration will also depend on both countries' willingness to overcome the historical legacy of World War II.

Unlike China and Japan in Asia, France and Germany in Europe have addressed and solved the problems of the past. Germany made enormous efforts to achieve reconciliation with France after centuries of rivalries and wars. China and Japan are, at least for the foreseeable future, very unlikely to become the "France and Germany of Asia" fostering economic and political integration. Although China and Japan will continue to solve bilateral problems peacefully, economic competition and rivalry between the two countries is likely to continue. In the recent past, China and Japan experienced bilateral trade frictions over the import of Chinese farm products to Japan. Back in 2001, Japan referred to WTO safeguard clauses causing China to impose retaliatory tariffs on Japanese exports. Avoiding further tensions, however, is of interest to both countries and in order to sustain its current economic growth rates, China needs to continue to attract Japanese capital and technology. Japan, on the other hand, will need to continue to take advantage of China's rapidly growing market and its supply of low-wage workers.

Recent Japanese-Sino tensions and trade frictions give little reason for optimism that Japan and China are on the path towards stable and lasting reconciliation. Japan and China will not, at least not for the foreseeable future, be seen to be jointly promoting economic and political integration in Asia.

### **12. Regional Integration and the Role of Free Trade Agreements (FTAs)**

Conventional economic theories suggest that regional economic integration can only succeed after certain economic preconditions have been met, including: intense trade relations, complementarity of specialisation and common rules of trade. Asia seems to meet two out of the three of these preconditions and Asian

free trade agreements are very likely to ensure that Asian nations will also develop and implement common rules of trade in the not so distant future.

When implemented in Asia, free trade agreements will be encouraging the complementarity between developed and less developed countries. Furthermore, free trade agreements will create incentives and opportunities to reform domestic institutions. This seems to be of particular importance for Asian financial institutions looking to avoid another 1997/1998-style financial crisis. The domino effect of that crisis revealed the high degree of interdependence and interconnectivity between Asian economies. Free trade agreements will eventually eliminate tariffs and will require the implementation of common trade rules to ensure fair competition. China in particular, as the region's economic powerhouse, will benefit from common trade rules and transparency.

Economic integration in Asia will be measured by the level of success in fully implementing the ASEAN Free Trade Area (AFTA). However, the 2010 deadline to fully implement AFTA and eliminate all existing tariffs and trade barriers amongst its Member States seems unrealistic. Since the beginning of 2004 Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand have reduced their tariffs on each other's goods to a maximum of 5%, but analysts widely agree that these tariffs cannot be reduced to zero any time soon. Since the 1990s, more than 40 bilateral free trade agreements have been introduced within and beyond Asia and the trend of favouring bilateral over multilateral agreements is very likely to prevail.

Trade amongst China, Japan and South Korea has grown impressively over the last decade. While in 1990 the portion of their total trade was in the region of 10%, it is now more than 20%. According to the Korean Institute for Economic Policy, a Chinese-Japanese-Korean free trade agreement would boost China's gross domestic product (GDP) by 1.3%, South Korea's by 3.2% and Japan's by 0.2% (translating into an increase of \$820 million for China, \$12.7 billion for South Korea and \$12.3 billion for Japan).

### **13. Obstacles to Asian Integration**

Many Asian scholars and politicians argue that Asia is too culturally "diverse" to achieve an EU level of political and economic integration. Asia, the argument goes, is too "heterogeneous" in terms of size, economic development, level of democracy and standard of living to achieve EU-style integration. Europeans, on the other hand, counter that this "cultural heterogeneity" argument is merely used as an "excuse" not to integrate beyond the current level. Cultural differences in Europe, European scholars point out, have not hindered the EU integration process.

The significant gap in GDP per capita amongst Asian countries will remain an obstacle to further economic integration. Whereas Singapore's GDP per capita amounts to roughly \$21,000, Vietnam's GDP per capita amounts to only \$500. Economic integration in light of (very) different levels of economic development in Asia requires a sophisticated co-ordination process and a common understanding of the priorities of integration. Such co-ordination processes, however, are still underdeveloped, as economic development and not economic



or political integration will remain the priority for Asia's poorer countries for the foreseeable future. However, economic development will inevitably lead to further economic integration, as recent Asian free trade agreements have shown.

Many Asian scholars point out that nations in Asia, above all the former British colonies in Southeast Asia (e.g. Malaysia and Brunei) will, at least for the time being, remain reluctant to pursue further political integration going along with the concept of EU-style sharing of sovereignty in key policy areas. Asian nations, the argument goes, are neither willing to give up some of their (in some cases) recently gained independence and will therefore limit themselves to promoting economic integration.

A number of authors argue that it is the nature of British, French, Dutch and US colonialism in Southeast Asia which still hinders Asian economic and political integration. Southeast Asian nations, Peter Katzenstein wrote in the mid-1990s, are "heirs to colonial powers and have inherited the colonial tradition of the "rule by law" rather than the West European tradition of the "rule of law." The relation between state and society is governed by social rather than legal norms." Following this argument, colonialism has indeed kept former colonies to establish democratic structures (after the era of colonialism in Southeast Asia) as the precondition for meaningful and codified Asian regional integration.

#### **14. Conclusion**

EU-style integration cannot serve as a role model for Asia and Asian integration and there is no agreement on who should lead the Asian integration processes either within ASEAN or in East Asia, or South Asia. Asian integration will, at least for the time being, remain mainly limited to economic integration through the establishment of free trade agreements. Whereas political integration in Asia will remain very limited, recent economic integration initiatives through bilateral and multilateral free trade agreements demonstrate that Asian governments are acknowledging the mutual benefits of economic integration and interdependence.

Asian integration and multilateral co-operation in the field of security will also remain very limited, although it is hoped that the ASEAN Regional Forum (ARF) will gain influence and clout in shaping regional security. Despite its shortcomings, the ARF has been successful in bringing China into a regional security dialogue, even if the ASEAN principle of non-interference in internal affairs will continue to keep the forum from implementing legally-binding decisions in the field of regional security. With its growing economic weight and political influence, China is expected to take a leading role in the ARF and its recent initiative to include Defence Ministers in its meetings is an indication that China is willing to discuss regional security issues on a multilateral basis. As for further political integration in Asia, the above mentioned principle of non-interference in international affairs of other nations will continue to hinder the kind of integration that requires real sovereignty-sharing.

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AnnexEUROPEAN INTEGRATION-KEY DATES AND EVENTS

DATE	EVENT
May 9, 1950	Robert Schuman proposes pooling Europe's coal and steel industries.
April 18, 1951	European Coal and Steel Community (ECSC) Treaty signed in Paris.
March 25, 1957	European Economic Community (EEC) and European Atomic Energy Community (EURATOM) Treaties signed in Rome.
April 8, 1965	Treaty merging the institutions of the three European Communities signed.
July 1, 1968	Customs union completed
January 1, 1973	Denmark, Ireland, and the United Kingdom join the Community.
March 13, 1979	European Monetary System (EMS) becomes operational.
January 1, 1981	Greece joins the European Community.
June 29, 1985	European Council endorses "White Paper" plan to complete single market by end 1992.
January 1, 1986	Spain and Portugal join the Community.
July 1, 1987	Single European Act (SEA) enters into force.
June 26-27, 1989	Madrid European Council endorses plan for Economic and Monetary Union (EMU).
October 3, 1990	The five federal states of the former German Democratic Republic enter the Community as part of a united Germany.
October 21, 1991	European Community and European Free Trade Association (EFTA) agree to form the European Economic Area (EEA).
December 11, 1991	Maastricht European Council agrees on Treaty on European Union.
December 16, 1991	Poland, Hungary, and Czechoslovakia sign first Europe Agreements on trade and political cooperation.
January 1, 1993	Establishment of European Single Market
November 1, 1993	Treaty on European Union (Maastricht Treaty) enters into force
January 1, 1995	Austria, Finland, and Sweden join the European Union.
June 17, 1997	Treaty of Amsterdam is concluded.
March 12, 1998	European conference in London launches Europe-wide consultations on issues related to Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA).
March 30-31, 1998	EU opens membership negotiations with Cyprus, Czech Republic, Estonia, Hungary, Poland, and Slovenia.
May 2, 1998	Eleven EU member states qualify to launch the euro on January 1, 1999.
June 1, 1998	European Central Bank (ECB) inaugurated in Frankfurt, Germany.
January 1, 1999	EMU and euro launched in eleven EU countries.
May 1, 1999	Treaty of Amsterdam enters into force.
December 1999	European Council meeting in Helsinki decides to open accession negotiations with Bulgaria, Latvia, Lithuania, Malta, Romania, and the Slovak Republic and to recognize Turkey as a candidate country.

<i>December 2000</i>	<i>European Council agrees on Treaty of Nice. EU leaders formally proclaim the Charter of Fundamental Rights of the European Union.</i>
<i>February 26, 2001</i>	<i>Regulation adopted establishing the Rapid Reaction Force.</i>
<i>January – February 2002</i>	<i>The Euro becomes legal tender and permanently replaces national currencies in EMU countries.</i>
<i>December 12 – 13, 2002</i>	<i>The European Council announces that Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia will become EU members by May 1, 2004.</i>
<i>February 1, 2003</i>	<i>The Treaty of Nice enters into force.</i>
<i>April 16, 2003</i>	<i>Treaty of Accession (2003) is signed in Athens, Greece.</i>
<i>May 1, 2004</i>	<i>Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia become EU Member States.</i>

Source: European Union Delegation of the European Commission to the United States  
<http://www.eurunion.org/infores/euguide/milestones.htm>