

ID 1135

Balancing and East Asian Regionalism

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Prepared for
The 60th Annual Conference
Political Studies Association (PSA), U.K.
Edinburgh, March 30 – April 1, 2010

ID 175: Comparative Regionalism between Europe and East Asia
Session 4 Wednesday 31 March, 09:00 - 10:30
GH: Library

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Abstract: Regionalism in East Asia can be best explained by the realist perspective on “balancing” both politically and economically. Analyzing two major developments, ASEAN integration and the East Asian community (EAC) building process (ASEAN+3 and +6), this paper argues that both are largely driven by political and strategic motivations. Firstly, ASEAN Free Trade Area (AFTA) was initially proposed to attract FDI, not to lose so much to China. Recent integration efforts, including the ASEAN Charter and the establishment of the ASEAN Economic Community (AEC) by 2015, represent the goal not to be marginalized by the two regional powers, China and Japan. Such moves were decided by the states, lacking involvement from the private sectors. As evidence, AFTA utilization rate remains low and the implementation of measures towards AEC continue to be slow.

Secondly, the EAC issue reflects the China-Japan rivalry. While China prefers ASEAN+3 (China, Japan, and Korea), Japan proposes to also include Australia, New Zealand, and India, so as to balance against China. PM Koizumi used the EAC issue to deal with China, while bilateral relations was deteriorated due to his Yasukuni Shrine visits. The current PM Hatoyama promotes EAC to positively engage China after bilateral relations was improved.

Introduction

Regionalism in East Asia has drawn much attention during the 2000’s, when ASEAN+3 and ASEAN+6 were under contestation which one is more appropriate to form an East Asian community (EAC). This is known as the East Asian community building process, which includes the +3, namely China, Japan, and Korea, and then the +6, Australia, New Zealand, and India. In parallel, ASEAN stepped up its integration efforts through the ambition toward forming the ASEAN Community and the recent adoption of the ASEAN Charter. Such developments require explanation.

It is logical to look at these two developments as East Asian regionalism. In fact, the word “East Asia” came to include both Northeast and Southeast Asia since the early 1990’s due to three indications. First, it was the book “The East Asian Economic Miracle,” published by World Bank in 1993, that celebrated the East Asian economic development model covering the countries in both Northeast and Southeast Asia. Second, the 1997 Asian Financial Crisis, that hit most countries in both Northeast and Southeast Asia, further signifying the common characteristics qualified as the same region. Third, the economic interdependence among the two subregions has tremendously increased in the past three decades, particularly through the production networks led by the Japanese foreign direct investment (FDI). Intra-regional trade massively jumped from 34 percent in 1980 to 54 percent in 2003. This figure is quite high, when compared with 62 percent in the European Union and 48 percent in the North American Free Trade Area (NAFTA) in the same year (Matsuda 2005, p. 1). The amount is, in fact, impressive, considering that there is no free trade agreement covering the whole region. Accordingly, Northeast and Southeast Asia have become increasingly conceptualized as “East Asia.”

This paper thus analyzes the two major developments in East Asian regionalism, namely ASEAN integration and the East Asian community (EAC) building process. Two questions are outstanding here: 1) Why has regionalism in East Asia been vibrant in recent years? 2) What perspective can best explain such phenomenon? Notably, most works on ASEAN and East Asia concern much on security realm. Those take up economic issues tend

to be done by economists, lacking appropriate attention to political aspect. This work aims to fill such gap.

Theoretical Framework

There are contending explanations from different theoretical lens on regional cooperation and regionalism in East Asia, particularly on ASEAN. Three perspectives are involved here, namely realism, neoliberalism, and constructivism. Generally, pre-1990s writings on the international relations in Southeast Asia rarely strayed outside the realist camp and there was only little theoretical debate. Since the 1990s, Southeast Asia generated more theoretical interest with the contenders from liberal institutionalism and later on constructivism (Ruland 2000, 421-422).

The Realist Perspective

It was neorealists that first analyze ASEAN theoretically, applying the “balance of power” concept to explain ASEAN since its inauguration. According to Michael Leifer (1989), ASEAN states pursued balance of power both internally and externally: first against Indonesia and then against external powers. Clinging together would beef up leverage vis-à-vis outside powers, particularly China. In general, ASEAN was portrayed as a tool for power balancing that the non-communist states in Southeast Asia devised against communist Vietnam by bandwagoning with the United States. Leifer further contends that there is limited common interest among ASEAN members and there is no such regional identity, thus ASEAN should be seen as a mere diplomatic community, not a security community.

After the end of the Cold War, to neo-realists, ASEAN has continued to pursue power balancing (Leifer 1996). Ralf Emmers (2003) explains the ASEAN Regional Forum (ARF) as a balance-of-power tool to get the United States involved and to constrain China. For China, ARF functions as a tool for multipolarity to counter US unilateralism. India was also admitted for the balance of power towards multipolarity. Simultaneously, ASEAN also shares with China to balance against the American pressure on human rights. In this light, the ASEAN-based institution is used for power balancing among key states in East Asia as well.

Even recently, neo-realists continue to argue along this line. Donald Weatherbee (2005: 17-19) contends that ASEAN is a mode of international cooperation through which member states pursue national interest. Accordingly, ASEAN cooperation is best seen in its dealing with extra-regional actors, not in its intramural dealings where conflict is often present. Any ASEAN identity is only one among multiple identities that Southeast Asian leaderships have—national, ethnic, religious—and this ASEAN identity is not shared with their own populations. Importantly, ASEAN identity is not superior to national interest when it comes to actual policy choices.

For Northeast Asia, without any formal regional cooperation, international relations there remains predominantly subject to realist explanation. Aaron Friedberg (1993) predicts more conflicts as states there are ripe for rivalry, arguing that Asia is similar to the 19th century Europe where each state is in pursuit for power. Friedberg stresses Asia’s lack of stability-enhancing mechanisms that sustain peace in Europe, such as the high level of regional economic integration and regional institutions to mitigate and manage conflicts. Accordingly, tensions between China and Japan are always cited as evidence (Calder 2006). Likewise, Every Goldstein (2003) views China as a rising Bismarckian state, which has increasingly accumulated power to become a preponderance one. Meanwhile, Richard Samuels (1994, 2007) views Japan as a country that possesses a realist grand strategy of “rich nation, strong army.”

The Neo-liberal Perspective

Some efforts have been made by neo-liberalists to explain ASEAN through the lens of international integration studies. Functionalist theory was employed to suggest that cooperation would evolve towards institutional building from bottom-up, which would result in ASEAN-wide decision-making authority.¹ Some works view ASEAN as policy coordinating body, a forum for trade liberalization, information sharing and a platform for collective bargaining (Soesasto, ed. 1995). Regional order is enhanced by increasing interdependence fostered through trade, investment, and other economic linkages (Soesasto and Berkin 1996).

It was liberal institutionalism that challenges the realist perspective more forcefully, arguing that it fails to acknowledge the impact of institution-building in ASEAN on regional peace and stability. Drawing on regime theory, ASEAN has arguably increased transparency and trust as well as reduced uncertainties and hostilities in intra-regional relations. According to this view, it was not the US-bandwagoning, but the process of institution-building that facilitated security and economic cooperation in the region (Dosch 2004, 76-79). Even earlier, some literature has analyzed ASEAN's function as a regional security and economic regime that allows each member to preserve its sovereignty and pursue national interest (Emmerson 1987, Genesan 1995). Emmerson even characterizes ASEAN as "security regime," in which no ASEAN state will use force against another ASEAN state.

In Northeast Asia, Thomas Berger recently views Japan as a liberal adaptive state. According to this view, Japan is destined to become a civilian power, playing a leading and contributive role on environment and human rights issues. Even a decade earlier, Peter Katzenstein and Takashi Shiraishi (1997) emphasize interdependence as a stabilizing force in East Asia, citing "network power" led by the Japanese production network. Both readdress their argument not only on economic interdependence but also social similarities (Katzenstein and Shiraishi 2006).

The Constructivist Perspective

Starting later, the constructivist perspective views ASEAN regionalism "as a process of interaction and socialization" and focuses on norms which underpin this process. (Acharya 2001: 6). Emphasizing the transformative impact of norms, namely in terms of the "ASEAN Way," ASEAN is seen as having regional identity and function as "security community." According to this view, both neo-realist and neo-liberal views focus solely on material interest, without paying appropriate due to ideational interest, which can lead actors to discover new common interests and thus cooperate.

Likewise, Alastair Iain Johnston (2003) employs the constructivist approach to analyze the ARF, arguing that ASEAN successfully socialized China to internalize ASEAN norms. There is no material incentive from the ARF, which functions as social environment. Johnston concludes that an inefficient institutional design like the ARF can be quite efficient in solving cooperation problem among diverse actors. In a similar vein, Takashi Terada (2003) expands constructivism beyond ASEAN to East Asia, arguing that "we feeling" has emerged after the Asian Financial Crisis. That kind of common identity became instrumental in East Asian regionalism, as demonstrated in terms of ASEAN+3, which had been intensified in recent years.

To shed light on the two key questions set out above, this paper takes the realist perspective which arguably has more explanatory power. The neo-liberal perspective found it disappointing with ASEAN's slow institutional evolution. Even in some advanced

¹ See review in Simon 1995.

schemes like the ASEAN Investment Area and the ASEAN Economic Community, commitments and implementation remain doubtful. ASEAN remains far from a security community. It had no role to play in the recent conflicts on territory and domestic affairs intervention between Thailand and Cambodia, both of which insisted on bilateral settlement. Malaysia and Indonesia resorted to the International Court of Justice to solve their territorial disputes, not ASEAN.

The constructivist perspective, meanwhile, faces difficulties claiming regional identity, after ASEAN expanded to include so diverse actors like the military junta of Myanmar (Weatherbee 2005). In Northeast Asia, the China-Japan rivalry continues, while the historical problem on wartime responsibility remains a thorny issue, though their bilateral relations has improved after Prime Minister Koizumi left office. The Korean Peninsula and the Taiwan Strait still constitute flash points in East Asia. In short, realism remains more reliable in explaining international relations in both Southeast and Northeast Asia and, in fact, in East Asia as a whole.

Balancing

Specifically, this paper employs the concept of “balancing” both in political and economic terms to explain East Asian regionalism. “Balancing” is among the most classic concepts in international relations.² It was Kenneth Waltz (1979), a major contributor to neorealism, who discusses extensively on “balance of power,” which represents one of the most distinguished concepts in the realist school. For survival and national interest, a state may choose to engage in either balancing or bandwagoning behavior. According to this view, (smaller, weaker) states will balance the power or preponderance of more powerful ones to ensure that the latter do not become too powerful and dominate all others.

Later on, Stephen Walt (1985) modifies the notion into “balance of threat,” positing that actual power is hard to measure while threat perception matters more. Thus, states will balance against those who are rising in power only when they display offensive intentions or perceivably so. In any case, both works deal with balancing in traditional sense, exemplified by military alliance and defense capability enhancement. In other words, states being engaged in either balance of power or threat will invest military and economic resources.

Recent literature goes beyond traditional balancing to propose “soft balancing,” which refers to balancing actions through non-military means. States that are too weak to build up their own arm forces or form countervailing military alliances may choose to delay, frustrate, and undermine a preponderance power. Such behavior revealed in the cases of some states trying to balance against the United States (Pape 2005, Paul 2005).

It was Evelyn Goh (2007) who proposes the “balance of influence” concept, which goes beyond the notion of military and non-military means. Usually informally used in Southeast Asia, the term allows the perspective that states may balance against others using both material and ideational resources. This is especially true for weaker states like ASEAN who have pushed forward several norms towards extra-regional powers, in order to preserve regional stability through the ASEAN Regional Forum (ARF). In this sense, “balance of influence” is not as forceful as the traditional balance of power but can still be characterized as “balancing.”³

This paper thus adopts the terms “balancing” in general and “balance of influence” in particular, so as to be more comprehensive in both security and economical aspects. As noted by Donald Weatherbee (2005: 17), the greatest part of the literature on Southeast Asian

² Early theorists include Patricia Chatterjee (1972), who advocates multipolarity as more stable in the anarchic world where states always resort to power balancing.

³ In fact, Goh emphasizes the concept of “regional complex balancing” and “omni-enmeshment”, both of which are beyond the scope of this paper.

international relation is focused on security as traditionally defined. This paper, in contrast, focuses more on economic realm. I shall demonstrate how the realist concept of “balancing” can coherently explain East Asian regionalism on both ASEAN integration and the East Asian community issue. States will balance more when there is a change in distribution of power; in other words, when some state arose to gain much power. In East Asia, it was the rise of China that became impetus and shape regionalism.

In short, I employ “balance of influence,” the term initially used in security realm, to explain economic regionalism in East Asia. The following discussion will show how the concept of “balancing” can coherently explain East Asian regionalism on both ASEAN integration and the East Asian community issue.

ASEAN Integration

Though ASEAN regionalism covers many schemes, here I will focus on ASEAN integration, which is represented by the two attempts to form ASEAN Free Trade Area (AFTA) during the 1990’s and to establish the ASEAN Community during the 2000’s. Both efforts are interconnected stages of ASEAN integration. The following discussion will show how the balancing dynamics can persuasively explain both developments.

The ASEAN Free Trade Area (AFTA)

ASEAN kicked off the project on regional integration as early as in 1992, when the six original members agreed to form the ASEAN Free Trade Area (AFTA). The initiative was proposed by the then Prime Minister Anan Panyarachun of Thailand. Adopting the Common Effective Preferential Tariffs (CEPT) Scheme to bring down tariffs of member countries to 0-5 percent, ASEAN aimed to redress the shortcomings of the early attempts on economic cooperation, particularly the Preferential Trade Agreement (PTA) which was slow to evolve. To prevent trade deflection of goods from outside the region, the rule of origin was set at 40 percent of ASEAN content based on value added.

There are several reasons why ASEAN’s early attempts were not successful. Critics point out that competitive products among ASEAN members and the lack of political will were at fault (Natthapong, 205). But these reasons could not explain why ASEAN shifted their position to embrace AFTA at that particular juncture. By the early 1990’s, the economic structures in most ASEAN countries remained competitive with each other. But why ASEAN leaders now came to give more attention and willingness for regional free trade. The answer lies in the threats perceived by these countries.

In general, regionalism elsewhere, namely in Europe and North America, was cited as the threat. By the early 1990’s, it was clear that the North America Free Trade Area (NAFTA) was to be formed, while Europe would deepening its integration. In this sense, ASEAN was balancing against regionalism in other regions. Moreover, AFTA is also explained as the tool to increase the region’s competitive advantage as a single production unit and single market (Low, 23). There was growing awareness that ASEAN countries were individually too small and needed to cooperate to gain leverage vis-à-vis external powers (Pangestu 2005, 190-191). Becoming a single market would enable ASEAN to continue attracting foreign direct investment (Natthapong, 207).

However, such economic motivations alone do not suffice to explain the ASEAN’s efforts. Here we should look at the balancing dynamics that ASEAN advanced towards China. One should not forget and discount the China threat both in economic and security terms for ASEAN. China had been increasingly opening up its economy to the outside world. By 1992, many countries had either lifted or considered lifting economic sanctions imposed

on China after the Tienanmen Incident in 1989.⁴ With 1.2 billion population at that time and cheaper labor costs, China was perceived as a fearful rival to ASEAN.

We should also not forget about China's security threat over territorial disputes in the South China Sea, where several ASEAN members, namely Malaysia, the Philippines and Brunei, were involved. Arm race was prevalent in several ASEAN countries, particularly those involved in the Spratly conflict like Malaysia. Not coincidentally, ASEAN issued the Declaration on the South China Sea in 1992, the same year they agreed on AFTA. The Declaration stressed that the conflicts should be settled by peaceful means.

A few years later, ASEAN members came to recognize the importance of AFTA more, as the end date was accelerated several times. As early as 1995, ASEAN agreed to shorten the timetable for the realization of AFTA (with 0-5% tariffs) from the original 15-year timeframe (2008) to 10 years (2003). In 1998, the end date was accelerated again to 2002, as one of the responses to the Asian Financial Crisis.

Why did ASEAN have to rush? By that time, it was clear that China had increasingly become a threatening economic competitor to ASEAN. In 1994, China devalued its yuan currency to boost exports, which was very successful. Considering the competitive economic structures with China, ASEAN came to fare badly in exports around the mid-1990's. In fact, the drop in exports deteriorated the ASEAN economies, making them more vulnerable for an economic crisis. Therefore, consolidating AFTA was seen as urgent task.

Initially, ASEAN members were not prepared to bring tariffs down to zero level. In 2000, they agreed to do so by 2010 for the ASEAN-6 and 2015 for Cambodia, Laos, Myanmar, and Vietnam (CLMV). This will make ASEAN ready for establishing the ASEAN Economic Community, which will signify the intensified attempt to move from cooperation to integration

The ASEAN Community

During the 2000's, ASEAN has stepped up its integration process by proclaiming a bold initiative to establish the ASEAN Community at the Bali ASEAN Summit in 2003. Consisted of three pillars, the initiative would start from establishing the ASEAN Economic Community (AEC) by the year 2015, to be followed by the ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Community (ASCC). Envisioned a free flow of goods, services, investment, and skilled manpower within the region, the AEC is supposed to be a logical consequence of AFTA, which is also complemented by the ASEAN Framework Agreement on Services (AFAS) agreed in 1995 and the ASEAN Investment Area (AIA) signed in 1998.

ASEAN aims to create a single market and production base, competitive economic region, and equitable economic development. In this regard, three mutual recognition agreements (MRA) on product standards have been signed. On services, seven sectors have been singled out to open up among ASEAN members, including tourism and logistics. Free movement of natural persons covers skilled labor, such as medical doctors, engineers, and architects. ASEAN even gives attention to the development of human resources as well as small and medium enterprises (SME).

⁴ The Tienanmen Incident refers to the government's crack down of pro-democracy protesters gathering at the Tienanmen Square in June 1989, resulting in many casualties.

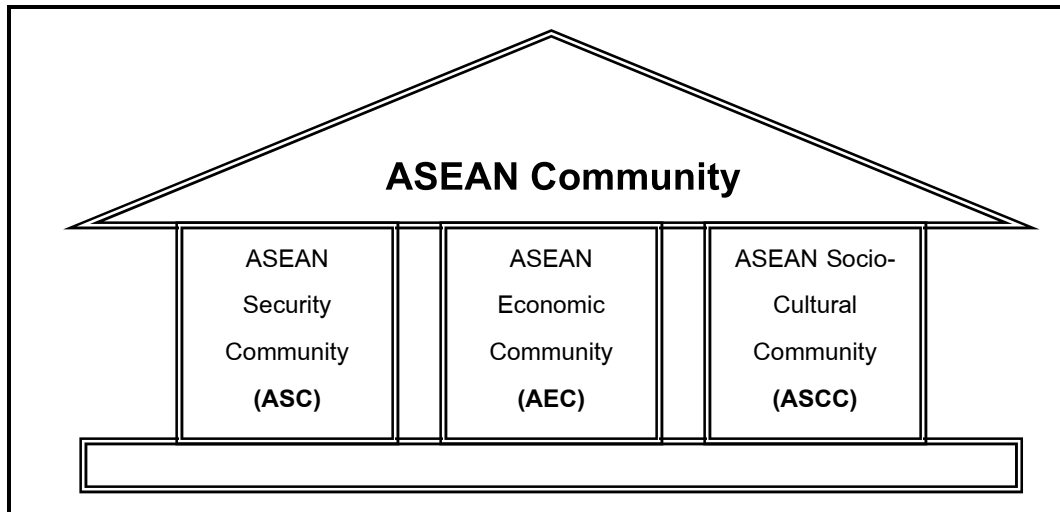


Figure 1: The three Pillars for the ASEAN Community

Yet, the AEC falls short of a common market and a customs union which has common external tariffs. In any case, ASEAN countries give more serious attention to deepen its integration. Similar to AFTA, the timeframe of the AEC was accelerated from the initial plan in 2020 to 2015. Importantly, after a long overdue, in 2007 ASEAN came to adopt the ASEAN Charter, which would make ASEAN a legal entity. The ratification process was completed for all members in 2008.

The timing of ASEAN's institutional activism here is interesting. The concept of ASEAN Community was initiated in 2003 when the process of East Asia integration became intensified, following the East Asia Vision Group (EAVG) Report and the proposed FTA/EPA by China and Japan respectively. In this sense, the ASEAN Community represents ASEAN's response to the leading roles of the plus three countries in East Asia integration. Recently, ASEAN's activities are obscured by human rights issue, particularly the establishment of the Inter-government Commission on Human Rights, apparently to reduce international pressures on human rights violation in Myanmar. Yet, ASEAN has kept going on integration. For example, ASEAN has adopted the AEC Blueprint for Implementation 2009-2015. AFTA is also being enforced fully this year for the old member countries.

On the increasing efforts of ASEAN integration, the neo-liberal view which emphasizes bottom-up pressures from businesses is far from convincing. If the business sector was behind the establishment and the acceleration of AFTA, they would have actively used the privilege. A report reveals that only 20 percent of Philippine firms utilized AFTA.⁵ According to a survey by the Thai Board of Trade Chamber of Commerce, as much as 89 percent of Thai businesses are not aware of the AEC (*Thairath* Newspaper, 4 February 2010, p. 4). Though most of them are SMEs, the figure reveals how businesses are not relevant to the integration project. The trend is common in other countries as well, since businesses are slow to acknowledge the existence and the merits of AFTA and the AEC (Interview Prof. Tham Siew Yen and Prof. Myrna Austria, January 2010).

Indeed, most ASEAN agreements have been criticized as "agree first, talk later." Leaders are tempted to come up with some agreements to display some successes from their summits. They would negotiate the terms later like they did to exclude some sensitive items and to delay tariff reduction in AFTA. In many cases, ASEAN countries either lack capacity

⁵ <http://www.adbi.org/working-paper/2010/01/13/3431.fta.philippine.business/use.and.perceptions.of.afta/>.
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or political will to fully fulfill the agreements. Thus, “implementation deficit” is, by and large, prevalent in ASEAN.

The Lingering China Concern

Though China has been successful in improving and deepening relations with ASEAN nations in many ways, even now in 2010 ASEAN remains wary about China’s threat on both economic and security aspects. First, ASEAN countries are concerned about Chinese products flooding their markets, after the China-ASEAN FTA has become fully enforced covering most goods since the beginning of this year. Indonesia lamented that it might consider freezing market opening for some items for fear of adverse effects on domestic producers. Thai producers also aired their concern about Chinese industrial and agricultural products, which compete directly with their products. Similar concerns are also apparent in other ASEAN countries, since most businesses are unprepared to cope with the changes.

Second, the temptation to compete with China continues to be the case for ASEAN. After all, ASEAN remains dependent on investment from outside the region, thus directly compete with China to attract foreign investors. Dr. Surin Pitsuwan, ASEAN Secretary General, mentioned recently that ASEAN would have no match with China if it was not integrated fully (interview, 1 March 2010). It is widely recognized that ASEAN integration will strengthen its bargaining power and geopolitical influence.

Third, water management in Mekong River also presents a big problem for mainland ASEAN countries. China plans to build as many as six dams over the river in its territory mainly to generate hydro-power, which is so crucial for the development of China. This unilateral action causes a grave concern among downstream countries in Southeast Asia regarding water supply and ecological change. The cycle of drought and flood has happened often in the past several years in downstream countries. Water level in Mekong river tends to be so low during dry season, causing great a problem for water transportation, fishery, and farming. Fish remains the important source of protein for Southeast Asians.

So far China’s postures on the Mekong issue have been less than cooperative. First of all, China is not a member of the Mekong River Commission (MRC), consisted of all riparian countries, namely Myanmar, Thailand, Laos, Cambodia, and Vietnam. MRC was set up to coordinate resource management in Mekong. Despite the serious concern in Southeast Asia, China does not show any willingness to become a full MRC member. Recently, riparian Southeast Asian states aired their concern on the river shallowness and drought in the Mekong Basin. Yet, China kept refusing that the dams in China were at fault. China’s Assistant Foreign Minister Hu Zhengyue told Thai Prime Minister Abhisit Vejjajiva in Bangkok that China’s dams were not a major cause of problems along the river. At a press conference, Chen Dehai, a councilor at the Chinese embassy in Bangkok strongly argued that only 13 percent of the water that feeds the Mekong comes from China, while the other 86.5 percent comes from the downstream countries.⁶ To respond to the Mekong dry-up, the first MRC Summit is to be convened this April in Thailand, where leaders from CLMV and Thailand will participate. China, however, will send a deputy premiere to attend as an observer.

Fourth, on security, territorial disputes in the South China Sea have not really been settled yet. This uncertainty led several ASEAN countries to enhance their defense capabilities. According to Stockholm International Peace Research Institute (SIPRI), arm race became prevalent again in Southeast Asia during 2005-2009. Defense spending increased remarkably in several ASEAN countries, more than 722 percent for Malaysia, 146 percent for Singapore and 84 percent for Indonesia. Vietnam has also been busy building up

⁶ <http://www.bangkokpost.com/news/asia/34290/china-denies-hoggingmekong-river-water>.

its military capabilities, ordering submarines and long-range combat aircrafts in 2009.⁷ The China threat and the territorial disputes in the South China Sea were cited as the background of these armaments (Nation TV News, 15 March 2010).

Having said that, this account, by no means, disregards the increasing cooperation between ASEAN and China. One cannot deny that ASEAN-China relations have been in good terms, even for the countries traditionally wary about China like Indonesia and Malaysia. Both countries enjoyed exchange of visits between government leaders and signed various cooperation agreements both at bilateral and regional levels. As always the case, competition and cooperation can coexist. The point here is that balancing China has been the key factor for ASEAN integration.

An East Asian community (EAC)

Around the turn of the century, regional cooperation in East Asia was increasingly intensified, as ASEAN+3 became formally institutionalized, followed by the Chiang Mai Initiative (CMI), a currency swap arrangement among the member countries. In 2001, the East Asia Vision Group (EAVG), a group of eminent persons from ASEAN+3 countries, released a report calling for many bold institutional initiatives, including the establishment of an East Asian community, the East Asia Free Trade Area and also the East Asia Summit (EAS). Initially, the EAS was designed to give a more leading role to the Plus Three countries (China, Japan, and Korea), rather than relying solely on ASEAN's leadership which tends to be slow. Under the EAS, for example, the summits can be convened in any Plus Three countries, outside ASEAN.

During the mid-2000s, a debate was heating up on whether ASEAN+3 or ASEAN+6 should constitute the platform for an East Asian community building. China insisted on the formula of ASEAN+3, while Japan advocated an expanded version to include Australia, New Zealand and India in the ASEAN+6. In this way, the membership issue was initially at the center of the debate. As to be discussed below, the contents of cooperation proposals are also under some kind of contestation, including on FTA and financial cooperation.

Why EAC became an issue at all? To start with, East Asian regionalism represents an attempt in response to regionalism elsewhere, particularly the EU expansion covering most Eastern European countries and the initiative on the Free Trade Area of Americas (FTAA) pushed forward by the United States. Another perspective would be that the EAC was growing naturally out of regional cooperation which has increased remarkably after the 1997 Asian Financial Crisis in the form of ASEAN+3.

Yet, it is the China-Japan rivalry, or more specifically, the balancing dynamics between Japan and China that can best explain the EAC issue. During the 1990s, China was rising with double-digit growth rates consecutively and thus increasingly gained economic clout. Japan, meanwhile, suffered protracted economic stagnation dubbed as the "lost decade" throughout the 1990s, resulting in growing insecure sentiments. In most cases, therefore, Japan resorted to balancing against the growing influence of China. The following section elaborates their competing proposals on the development of EAC and the China-Japan rivalry in Southeast Asia in general.

Competing Proposals

Japan and China always have different ideas on East Asian regionalism, resulting in competing proposals between them. Four examples are outstanding here. First, as mentioned above, starting from the membership issue, China prefers ASEAN+3 while Japan opts for

⁷ <http://www.thedailystar.net/newDesign/news-details.php?nid=130121>.

ASEAN+6. The inclusion of Australia, New Zealand, and India would help balance the growing influence of China in the regional cooperation. Accordingly, in 2006 Minister Toshihiro Nikai of the Ministry of Economy, Trade and Industry (METI) proposed the “Nikai Initiative,” aiming to create a regional-wide FTA covering ASEAN+6 under the banner of “Comprehensive Economic Partnership in East Asia” (CEPEA). The initiative also proposed to set up Economic Research Institute for ASEAN and East Asia (ERIA), a research institute similar to the “Organization for Economic Cooperation and Development” (OECD). Consisted of the ASEAN+6 countries, ERIA is aimed to conduct academic research so as to propose policy recommendations regarding regional integration. China, meanwhile, remains committed to the East Asia Free Trade Area (EAFTA), as suggested by the EAVG report.

Second, Japan advocated the creation of the “Asian Currency Unit” (ACU), as proposed by Asian Development Bank (ADB), the regional financial institution that Japan has much influence. ACU is supposed to be a settlement currency, not an actual money like Euro. ACU can function as unit of account or invoicing currency, means of payment or vehicle currency, and store of value or investment currency. ACU is supposed to reduce exchange-rate risk from the over-reliance on the US dollar as a medium of exchange. Having common settlement currency would particularly help facilitate trade among the Japanese subsidiaries spanning over East Asia, known as the “Japanese Production Networks.”

China, however, was not enthusiastic on ACU for two reasons. One is that ACU was Japan’s initiative which aimed to support its regional production networks and, simultaneously, to promote the use of yen currency. To determine the value of ACU, Japan would definitely play a key role and likely to push for a calculation formula that based on a large proportion of yen. In fact, Tokyo has put efforts for some time to promote “internationalization of yen.” All of these are not in the Chinese interest. Another reason is that Beijing preferred the current US dollar-based trade system, which is already beneficial to China from the pegged exchange rate between Yuan and US dollar. Inventing a new system would incur some extra costs (Interview Dr. Liu Junhong, October 2006).⁸

Third, China preferred creating new institutions that Beijing could exert more influence. For instance, in the 2006 NEAT conference in Kuala Lumpur, China proposed to establish the “East Asia Bank” to finance the region, e.g. for infra-structure and SME. Japan, meanwhile, staunchly resisted, contending that such new regional bank was unnecessary as the Asian Development Bank had already done the job. Interestingly, Tokyo’s argument was not different from the one pushed forward by the United States opposing Japan’s proposal to establish the Asian Monetary Fund (AMF) amid the Asian Financial Crisis (author participation, August 2006).

Fourth, more recently Japan and China were fighting over “who pays more” in the Chiang Mai Initiative Multilateralization (CMIM). Consummated in an ASEAN+3 financial ministerial meeting in 2000, Chiang Mai Initiative (CMI) used to be the *bilateral* swap arrangements between countries in the ASEAN+3 framework. Such arrangements would be helpful, if foreign reserves in some country are drying up for some reasons, particularly to defend against speculative currency attack. With the Global Economic Crisis that also hit the region since 2008, ASEAN+3 came to agree to step up their cooperation from bilateral to *multilateralization* arrangements, that is, CMIM. The swappable amount was also to be increased from \$ 78 to 120 billion. Here the controversy came in. Beijing insisted that the contribution amount of each country should be based on the size of foreign reserves, which would play to the advantage of China, the largest owner of foreign reserves. In response, Tokyo argued that the amount should be calculated from the size of GDP, the formula

⁸ China reveals a more positive attitude toward the ACU after the US dollar became increasingly instable, following the Sub-prime Crisis, though. Yet, there is a long way to conclude about the ACU, considering the difficulty on how to calculate its value.

favorable to Japan which has largest economy in the region. More contribution amount means more voting power in the scheme. Eventually, it was settled that Japan and China would contribute 32 percent (\$38.4 billion) each, with 16 percent from Korea and 20 percent from ASEAN (Terada 2010).

The China-Japan Rivalry in Southeast Asia

Apart from the competing proposals, Southeast Asia has witnessed the rivalry between Japan and China which came to be increasingly intensified since the early 2000's, particularly to gain influence in the region. With increasing economic prowess, China was advancing influence through its "charm offensive" diplomacy offering several generous deals to ASEAN, including FTA, aid, and various cooperation schemes. Japan, thus, could not afford to remain silent.

We have seen plenty of proactive actions and counter actions from China and Japan in Southeast Asia. In November 2001, China formally proposed the China-ASEAN Free Trade Agreement (CAFTA) at the 7th ASEAN Summit in Brunei. Only a few months later in February 2002, Japan proposed the Japan-ASEAN Comprehensive Economic Partnership (JACEP), aiming to deepen its relations with ASEAN through economic partnership agreement (EPA), a preferable term for FTA. Japan argued that its EPA would be more comprehensive than just an FTA, covering not only trade in goods but also services, investment, trade facilitation measures, and other cooperation. Yet, without the CAFTA initiative, JACEP might not have come that fast.

Interestingly, Japan always had China in its perspective when negotiating EPA with ASEAN countries. Japan always emphasized the protection of intellectual property rights despite the fact that Southeast Asian states are less likely to copy Japanese products. Instead, Southeast Asian entrepreneurs tend to work cooperatively with Japan. Such emphasis is attributable to the expectation that, sooner or later, Japan would have to negotiate trade or investment deal with China. If that happens, Japan would be able to use the agreements with ASEAN as a benchmark. Therefore, it is imperative for Japan to settle with high standards for safety sake.

The balance of influence in Southeast Asia between Japan and China take several forms. Significantly, China was the first external powers (together with India) that signed the Treaty of Amity and Cooperation (TAC) with ASEAN in 2003. TAC signatory represents a symbol of deepening relations with ASEAN through accepting its norms, particularly the non-interference principle. Japan followed suit to sign TAC about a year later. It is again doubtful if Japan would ink the treaty without the lead by China.

In 2003, China took initiative to create the Network of East Asian Think-Tanks (NEAT) that would hold conferences among research institutes in ASEAN+3 so as to come up with policy recommendations to ASEAN+3 summits. This Track II exchange among scholars is appreciated by ASEAN. To this, Japan created the Council for East Asian Community (CEAC) in the following year, in order to adequately respond to NEAT, which meets every year. Most of the time, NEAT has become a venue for the contest between Japan and China over initiatives and proposals for regional integration.

Japan organized the 30th Commemorative Summit in Tokyo in 2003, the first time all ASEAN leaders participated in a summit overseas. In response, China held the Commemorative Summit marking the 15th anniversary of China-ASEAN Dialogue Relations in 2006 in Nanning, a city deemed as a gateway to Southeast Asia.

Evidently, Japan and China are also competing to advance influence in the emerging CLMV (Cambodia, Laos, Myanmar, and Vietnam). Japan has been the major contributor of Official Development Assistance (ODA) to ASEAN. Since the old ASEAN members have been somewhat better off, Japan's ODA now is focusing on CLMV. In 2005, Japan's total

ODA to CLMV amounted to about \$780 million.⁹ In fact, Japan came to involve in the Greater Mekong Subregion (GMS) development through ADB since the early 1990s, which focuses on infra-structure development, particularly the East-West Corridor. Tokyo also funded the Second Thai-Lao Friendship Bridge over Mekong River. Importantly, Japan vowed to cooperate in the “Initiative for ASEAN Integration (IAI)” and also set up the Japan-ASEAN Integration Fund (JAIF).¹⁰

Though a late starter, China is trying to gain influence by giving assistance to CLMV. Prominent examples include the Third Thai-Lao Friendship Bridge and the sport complex in Laos for the South-East Asian (SEA) Games 2009. In the Summits with ASEAN in October 2009, Japan pledged contribution of \$13 million to the JAIF for disaster management and emergency response. China, meanwhile, pledged \$10 billion to the China-ASEAN Fund on Investment and Cooperation, \$15 billion for commercial credit, \$200 million to the Asian Bonds Market Initiative, and \$100,000 to the ASEAN Foundation to promote people and cultural ties (*Bangkok Post* Newspaper, 24 October 2010, p. 1).

Moreover, in November 2009 Japan recently organized “Mekong Summit” in Tokyo, where all top leaders from Mekong riparian countries, except China, attended. Japan announced its plan to implement ODA assistance to the tune of more than \$5.5 billion in total over the coming three years for the region as a whole, in particular for Cambodia, Laos, and Vietnam. Besides roads and other infrastructure, Japan proposed the “Green Mekong” concept to cooperate with Mekong countries to protect the environment, combat climate change and also boost human resources development.¹¹

Over all, Japan tends to use ODA as a tool to enhance the ties with CLMV. Japan’s ODA goes to infra-structure development, social developments (i.e., health, education, water, and poverty reduction measures), environmental protection, and capacity building programs. China, meanwhile, focuses more on direct investment. China tends to invest in garment and light manufacturing industries in Vietnam and Cambodia, while eyeing mining industries in Laos and Myanmar (Kogami, p. 6)

The rivalry also goes beyond Southeast Asia. China and Japan have been competing to secure energy source in many places, including Iran, central Asia, and Russia. Both countries tried hard to gain concessions in oil and gas fields. After China has become an oil net importer since 1993 and its economy has been growing at an eye-catching rate, energy became indispensable for economic development. To cultivate ties with Africa, China hosted the Beijing Summit on China-Africa Cooperation in 2006. Later on, Japan also convened the 4th Tokyo International Conference on African Development in Yokohama two years later.

Over all, China took the lead in many initiatives, thanks to the absence of opposition and civil society to veto the government. Japan, meanwhile, as a solid democracy, has to deal with many societal groups and the opposition parties. Take the case of FTA for instance, China could come up with the China-ASEAN FTA so swiftly, while Japan had been reluctant having to settle with its domestic protectionist groups, such as farmers and nurses. Yet, Japan has always been good at catching up. Tokyo was able to conclude wide-coverage EPAs with most key ASEAN countries, as well as to ink an agreement with the whole ASEAN in November 2007. The Japan-ASEAN EPA is likely to have a higher quality than the China-ASEAN FTA, considering more complementary economic structures between Japan and ASEAN, compared to those between China and ASEAN.

⁹ <http://www.mofa.jp/policy/oda/white/2006/ODA2006/html/zuhyo/index.htm>.

¹⁰ <http://www.mofa.go.jp/region/asia-paci/asean/relation/iai.html>.

¹¹ http://www.kantei.go.jp/foreign/hatoyama/statement/200911/07mekong_e.html.

The Timing of the EAC Debate

While the above section has made it clear that the Japan-China rivalry represented the key factor behind the EAC issue, another important question remains: Why the EAC emerged as a hot issue at the particular juncture during the mid-2000s? Evidently, most discussions on EAC took place during 2004-2005 when the first East Asian Summit was to be convened in Kuala Lumpur in 2005. The answer lies in the heightening tensions between China and Japan during the reign of Prime Minister Junichiro Koizumi (2001-2006), which resulted in more pronounced rivalry. The relations turned sour when Koizumi announced his plan to visit the Yasukuni Shrine every year, which he actually fulfilled his pledge. The shrine visit is seen as the act of legitimizing the Japanese wartime aggression, since the souls of war dead, including class-A war criminals, were enshrined there. During 2004-2006, Japan was unable to exchange visits of government leaders with China. In 2005, Chinese Vice Premier Wu Yi called off the meeting with Prime Minister Koizumi and left Japan immediately, apparently to protest against Koizumi's shrine visits. China also rejected a request visit by Foreign Minister Machimura.

It is thus perceivable that Japan uses the EAC issue to deal with worsening Japan-China relations on two grounds. First, Japan aimed to maintain some communication channels at the top level with China through the ASEAN summit venue. Second, Tokyo aimed to balance against China by having more powers like Australia and India to help check China's influence. In other words, Japan desired to engage China in multilateralism and also contain China through balancing. Accordingly, there were much more discussions on EAC during the Koizumi era, particularly during 2004-2006. However, after Prime Minister Abe succeeded Koizumi in 2006, his reconciliatory posture helped ameliorate Japan-China relations. Consequently, there were comparatively fewer discussions on EAC in Japan. A friendly posture by Prime Ministers Fukuda certainly helped further improve Japan-China relations. In this light, the timing of the EAC debate should be well explained by the strained Japan-China relations during the Koizumi era.

Though Japan-China tensions somewhat subsided, the East Asian Community takes the life of their own, since all members have an interest to pursue further cooperation. The current Prime Minister Yukio Hatoyama raised the EAC issue again, but it is different this time. It is useful to compare the EAC ideas between Prime Minister Koizumi and Prime Minister Hatoyama. While Koizumi advocated ASEAN+6, Hatoyama now less emphasizes so and became more receptive to ASEAN+3. While Koizumi put ASEAN at the center, Hatoyama put improved Japan-China relations at the center. The latter point may be the reason to explain the former point why Japan recently pushed less on ASEAN+6. Yet, Hatoyama's vision on the EAC remains under-defined and lacked security aspect. The question about the US involvement also remains unclear. While Hatoyama does not exclude the United States in principle, Foreign Minister Okada has written off the US involvement by restricting EAC membership to ASEAN+6.¹² Be that as it may, it is arguable that the EAC continues to be subject to Japan-China relations and the balancing dynamics between them.

Conclusion

Taking "balancing" and the notion of "balance of influence," this paper argues that the realist perspective on "balancing" remains the most persuasive tool to explain East Asian

¹² Aurelia George Mulgan, "Is there a Japanese concept on the East Asian Community?", East Asia Forum, 6 November 2009 (<http://www.eastasiaforum.org/2009/11/06/blurred-vision-is-there-a-japanese-concept-of-an-east-asia-community/>).

regionalism both on ASEAN integration and the East Asian community building process. This account, by no means, disregards other factors contributing to East Asian regionalism, such as economic interdependence. Yet, “balancing” remains the key to explain East Asian regionalism. In the ASEAN case, AFTA was proceeded to balance against China through increasing ASEAN’s competitiveness and attractiveness for investment. Later on, ASEAN embarked on the ASEAN Community Project, so as to consolidate its subregion not to be marginalized by the two regional powers, China and Japan.

The EAC issue reflects the China-Japan rivalry. While China prefers ASEAN+3 (China, Japan, and Korea), Japan proposes to also include Australia, New Zealand, and India, so as to balance against China. Several competing proposals between China and Japan are attributable to the balancing dynamics between the two regional powers. The inclusion of Australia and India could help check the Chinese influence in the region. During the mid-2000s, Prime Minister Koizumi used the EAC issue to balance and engage China, while bilateral relations was deteriorated due to his Yasukuni Shrine visits. The current Prime Minister Hatoyama promotes EAC to positively engage China after bilateral relations was improved.

Over all, the China factor is prominent in East Asian regionalism, as both ASEAN and Japan have been pursuing either hard or soft balancing against China. In other words, the rise of China altered the distribution of power in the region, resulting in the process of East Asian regionalism, in which ASEAN and Japan balance and also engage China.

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