East Asian Regionalism

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Outline of the lecture

• Regional cooperation and regionalism: an overview
• Economic regionalization and regionalism in East Asia
• Understanding regional cooperation and regionalism
  • Critical junctures and institutional evolution
  • Critical juncture I: the Plaza Accord (1985)
  • Critical juncture II: the Asian Financial Crisis (1997-98)
  • Critical juncture III: the Rise of China (after the mid-2000s)
• Theorizing regionalism and regional cooperation in East Asia
Regional cooperation and regionalism: an overview

• Region not destined for cooperation and regionalism
  • Regional competition, rivalry and conflict often occur
  • Regionalism may be in conflict with the state sovereignty
  • Why pursue region cooperation when global governance is possible?

• Favorable conditions for regional cooperation and regionalism
  • Low political issues: pandemic diseases, disaster relief, cultural exchange, etc.
  • Regional uncertainties: economic, political or security crisis
  • External threat: powerful neighbor(s) threatening the region as a whole
  • Global pressures: interference of global power(s), inter-regional competition...
Economic Regionalization in East Asia

• East Asia (i.e., ASEAN+3, including Hong Kong and Taiwan) has long been one of the most economically integrated regions in the world.
Economic Regionalism in East Asia

- Economic regionalism made substantial progress after the Asian financial crisis (1997-1998)
  - ‘ASEAN plus One’ FTAs
  - The Chiang Mai Initiative → CMIM → AMRO
  - Regular meetings of ASEAN+3 Finance Ministers and Central Bank Governors
Economic Regionalism in East Asia

• However, regionalism lost momentum since the mid-2000s (esp. after the global financial crisis)
  • The East Asian Summit (2005)
  • Conflicting views on the path towards a regional FTA
    • ASEAN+3 vs. ASEAN+6
    • TPP, RCEP or FTAAP?
    • The future of TPP-11...
  • Multilateral regional development initiatives
    • Asian Development Bank (ADB)
    • Bilateral ODAs
    • Asian Infrastructure Development Bank (AIIB)
Critical Junctures and Institutional Evolution

• How to understand the evolution of East Asian regionalism?
  • Economic regionalism and globalization

• ‘Critical Juncture’
  • A concept developed by researchers focusing on the long-term evolution of human institutions across individual countries
  • It refers to ‘situations of uncertainty in which decisions of important actors are causally decisive for the selection of one path of institutional development over other possible paths’ (Capoccia, 2016)

• Three critical junctures/turning points in East Asian regionalism
  • The Plaza Accord (1985)
  • Asian Financial Crisis (1997-98)
  • The Rise of China (mid-2000s onwards)
Critical juncture I: the Plaza Accord (1985)

• The Plaza Accord (1985)
  • A multilateral agreement among then the five leading economies of the world to depreciate the USD against the JPY and the DM
Changing Intra-Regional Trade in East Asia

Critical juncture II: Asian Financial Crisis (1997-98)

• The Asian financial crisis in 1997-98
  • Initially, speculative attack against the Thai Baht forced Thailand to float its currency in mid-1997, with quick depreciation and capital flight ensued
  • Panic among international investors spread to other structurally similar but macro-economically healthy neighboring countries (esp. Malaysia, Indonesia, and South Korea) in late 1997
  • The IMF provided emergency loans under the controversial conditions of domestic reforms and deregulation
  • Indonesia, Thailand, and South Korea accepted the IMF loans, while Malaysia resorted to temporary capital controls in 1998
  • The crisis-ridden economies recovered to the pre-crisis level in late 1999
Asian Financial Crisis (1997-98)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average in 1996</th>
<th>Peak Level (a)</th>
<th>Date of 1997 Peak</th>
<th>Change in US Dollar Exchange Rate Jun 97 to Sep 98 (b)</th>
<th>Change in Real Exchange Rate Jun 97 to Sep 98 (b)</th>
<th>Move in Stock Market During 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>5.5%</td>
<td>25.0%</td>
<td>October</td>
<td>0.0%</td>
<td>16.1%</td>
<td>-18.7%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13.8%</td>
<td>27.7%</td>
<td>October</td>
<td>-77.7%</td>
<td>-56.3%</td>
<td>-37.0%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.3%</td>
<td>8.8%</td>
<td>November</td>
<td>-39.8%</td>
<td>-27.2%</td>
<td>-52.2%</td>
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<tr>
<td>Philippines</td>
<td>11.7%</td>
<td>85.0%</td>
<td>October</td>
<td>-38.3%</td>
<td>-26.0%</td>
<td>-40.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.0%</td>
<td>10.3%</td>
<td>December</td>
<td>-17.6%</td>
<td>-2.7%</td>
<td>-31.7%</td>
</tr>
<tr>
<td>South Korea</td>
<td>13.3%</td>
<td>25.0%</td>
<td>October</td>
<td>-33.8%</td>
<td>-19.8%</td>
<td>-42.6%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5.5%</td>
<td>9.8%</td>
<td>October</td>
<td>-19.4%</td>
<td>-12.4%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Thailand</td>
<td>13.0%</td>
<td>26.0%</td>
<td>December</td>
<td>-36.7%</td>
<td>-19.1%</td>
<td>-55.2%</td>
</tr>
</tbody>
</table>

Source: Karunatileka 1999.
Asian Financial Crisis (1997-98)
Response to the AFC and Post-AFC Regionalism

• Global governance in question
  • APEC failed to offer any meaningful measures
  • IMF stepped in to provide emergency loans, ...but with unpopular conditions
  • Japan’s proposal of the Asian Monetary Fund opposed by the US

• Regional initiatives for cooperation
  • China’s decision not to depreciate the RMB against the USD in 1997
  • The first ASEAN+3 Meeting held in Malaysia in December 1997
  • Japan’s New Miyazawa Initiative in 1998
Response to the AFC and Post-AFC Regionalism

• Post-AFC domestic reforms and their consequences
  • Three Northeast Asian countries: embracing neoliberal reforms
  • Three Southeast Asian countries: backlash against IMF-led liberal reforms
Response to the AFC and Post-AFC Regionalism

• The pattern of post-AFC economic regionalism
  • Institutionally centered on the *global-governance-skeptic* Southeast Asia
  • Policy initiatives came from the *pro-globalization* Northeast Asia

• The rise of ‘ASEAN centrality’
  • ‘ASEAN centrality’: ASEAN sitting on the driver’s seat of East Asian regionalism
  • Southeast Asia: *regionalism as a shelter* against the risk of global interference
  • Northeast Asia: *regionalism as a means* to embrace global competition

• The region-global nexus in post-AFC economic regionalism
  • China’s planned WTO accession and the ACFTA
  • ‘Bilateral regionalism’ & competitive regionalism
  • Even with the CMI in place, disagreement over the CMI-IMF linkage remained
Changing Intra-Regional Trade in East Asia

- Rapidly growing intra-regional trade: 1998~2004
Critical juncture III: the Rise of China (after the mid-2000s)

• Why is China’s growth different?
  • Size of the Chinese economy
  • Transition from a closed planned economy to an open market-oriented economy: state-centered capitalism
  • Both integrated into the regional economy of East Asia, and deeply embedded in the global value chains

• China’s integration into the regional and global economy
  • Huge FDI inflow since the early 1990s
  • Being the assembly line of ‘Factory Asia’
  • Linking East Asian regional production with the global market
FDI Inflow to China and ASEAN (1985-2015)
East Asia in World Manufacture Exports
The Rise of China (after the mid-2000s)

• China became the largest trade partners for Japan, Korea and most Southeast Asian countries, sometimes with a substantial trade deficit.

• Meanwhile, China’s trade surplus with the EU and US led to a growing number of trade disputes and anti-dumping cases.

• The double embeddedness both strengthened and reduced the China’s role in East Asian economic regionalism.
East Asian counties trade dependence on China
China’s Declining Reliance on East Asian Trade
Changing Intra-Regional Trade in East Asia

- Four years of declining intra-regional trade: 2005~2008
- Followed by a period of adjustment and uncertainty: after 2009
Uncertainties in East Asian Economic Regionalism

• The East Asian Summit brought in new members and redefined the boundary of East Asia regionalism (after 2005)
  • India, Australia, and New Zealand in 2005
  • Russia and the US in 2011

• The substantial influences of the TPP (since 2008)
  • TPP not only divided Northeast Asia, but led to disagreement within ASEAN
  • TPP as a focal point of the future of trading rules
  • TPP as a geo-economic strategy to exclude China?

• The growing importance of infrastructure investment and development
  • China’s successful promotion of the OBOR and the AIIB (since 2013)
  • Neither the OBOR nor the AIIB is an regional initiative based exclusively on East Asia
Theorizing Economic Globalization and regionalism in East Asia

• Region as a mid-level structure of public governance between the state and the global
  • A potential regional solution to global challenges
  • A possible regional strategy to deal with domestic pressures
  • Uncertainties for an economically open regional bloc...

• Comparing the impacts of three critical junctures of East Asian regionalism
  • Background: what uncertainty or crisis?
  • Actors: who played the decisive role?
  • Process: which (new) path has been chosen/taken?
  • Mechanism: what kind of decision(s)?
Theorizing Economic Globalization and regionalism in East Asia

• Post-Plaza economic regionalism (1986~1997) unleashed a decade of rapid economic regionalization without concrete institutional arrangement at the regional level
  • Regionalization without regionalism
  • Background: shifting position in global economy as a result of changing exchange rate and commodity prices
  • Actors: multinationalized business actors, with individual state authorities in the background
  • Process: intra-regional capital flow from industrialized economies to industrializing economies; the rise of regional production networks
  • Mechanism: a spontaneous regional solution to global challenges
Theorizing Economic Globalization and regionalism in East Asia

• Post-AFC economic regionalism (1997~2004) saw the rise of state-led intra-regional FTAs, financial coordination and regional institutional building
  • State-led economic regionalism
  • Background: unprecedented regional financial crisis exposed the vulnerability of uncoordinated development strategies as well as the risk of undesirable imposition of global regulation
  • Actors: coordinated state authorities, with weakened business actors in the background
  • Process: liberal and non-liberal domestic economic reforms at the domestic level; pro-globalization and global-governance-skeptic economic regulation at the regional level
  • Mechanism: intergovernmental consensus on the necessity of regional economic governance based on contradictory policy preferences at domestic and global levels
Theorizing Economic Globalization and regionalism in East Asia

• The rise of China in regional and global economy (after the mid-2000s) brought opportunities and uncertainties to economic regionalism in East Asia
  • Regionalism without East Asia
  • Background: the rapid rise of Chinese economy transformed the regional and global value chains; growing interests of extra-regional economies in East Asia
  • Actors: profit-seeking business actors, national-interest-minded state authorities, closely involved extra-regional interests
  • Process: As the restructuring of regional and global value chains integrated East Asian economies further with China, the Chinese economy became less relied upon East Asia
  • Mechanism: institutional building beyond a narrowly defined East Asia; competing proposals for trade liberalization and development strategy centered on, but beyond, East Asia
Theorizing Economic Globalization and regionalism in East Asia: summary

• East Asian regionalism is not a straightforward path towards a single direction

• In the past three decades, it has been a regional solution to global challenges, a regional consensus based on contradictory expectations, and an uncertain regional project without a clearly defined East Asia

• Being a economically open region, East Asian regionalism not only was embedded in the globalization process, but redefined economic globalization in its own way