

## How "Asian" will Asia be in the 21<sup>st</sup> Century?

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It does not require much imagination to predict that the geographical unit conventionally called "Asia" will aggregate the highest combined gross national products, international trade and investment figures, foreign currency reserves and a number of other economic records in the 21<sup>st</sup> century. Just look at the recent growth rates of the two most populous nations of the world, China and India. Consider the standard factors of labour, land and capital of just these two countries in the most elementary economic equations. Assume traditional saving and investment propensities of "Confucian" sectors of Asian societies feeding "Anglo-Saxon" consumption patterns among newly affluent Chinese and Indian middle classes. Remember Japan's experience of 10% growth rates in the catch-up phase of the 1960's as well as its technology driven supply push, which conquered world markets in the 1970's and 1980's and does so, again, today. Put all that together and Asia's rise seems inexorable.

The question is, can this meteoric rise, if indeed today's projections should be confirmed by actual developments, really be amalgamated as an "Asian" phenomenon? Will it favour Asian integration or will it remain a mere aggregation of economic data hiding fierce competition of nations attempting to catch up with, or overtake, other nations? In short, will Asians one day evaluate each other critically, in terms of how "Asian" their behaviour is, in the way Europeans have learnt, the hard way, to be "good Europeans"? Any attempt to answer these questions must take into account impressive evidence of functional integration (I) and regional community building (II). Great power rivalry in Asia is a problem; balance of power politics no panacea (III). Cultural commonalities are more important in Asia than meets the Western eye (IV), but just like in the West, nationalism remains a divisive risk (V). In the end, however, Asia may surprise the West by practising more consistently than America an American philosophy: the philosophy of Pragmatism (VI).

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## I Functional Integration

From the standpoint of functional integration theory, prospects for intra-Asian development look very encouraging indeed. The development success of East Asia's and South East Asia's "little tigers" as newly industrialized countries changed the structure of Asian trade. From 1985 to 1997 Asia's intra-regional trade as percentage of total trade grew from 38,4% to 51%, overtaking NAFTA's 45,08% and coming within reach of the EU's 62,41%. Japan served as the leader of the "flying geese" pattern of industrial development. It became the largest trading partner, most important source of incoming foreign direct investment and most valuable provider of technology transfers to all East Asian and South East Asian nations.

In the first five years of the 21<sup>st</sup> century, China's dynamic growth gave a new dimension to intra-regional trade and investment. The flow data of trade and investment from China to the ASEAN countries overtook those of Japan although the stock of Japan's cumulative foreign direct investment in ASEAN countries since the 1950's remains unsurpassed. Moreover, China became Japan's largest trading partner, overtaking the US, whereas Japan became the largest source of foreign direct investment in China, similarly overtaking the US.

Functional integration emerged in the financial sector as well, again under informal leadership of Japanese economists.<sup>2</sup> In response to the Asian financial crisis, or in neo-functional terms, as a spill-over thereof, the ASEAN+3 Finance Ministers agreed in May 2000 on the "Chiang Mai Initiative" which set up bilateral swap agreements to prevent future Asian liquidity crises. By 2005, 16 such agreements had been signed among ASEAN+3 countries totalling 47,5 bn US\$. The next spill-over may elevate this complex network of bilateral swap deals to a single multilateral arrangement.

In order to divert some of the huge flow of Asian savings to Asian long-term investment rather than into US treasury bills or bonds, the Executives' Meeting of the East Asia Pacific Central Banks launched a first "Asian Bond Fund" of 1 bn US\$ in June 2003 and a second of 2 bn US\$ in December 2004. To encourage the gradual establishment of a cross border Asian bond market, the ASEAN+3 Finance Ministers have taken the "Asian Bond Market Initiative" to help creating the necessary clearing and settlement mechanisms. Japan's former Vice-minister for International Finance and current President of the ADB, Haruhiko Kuroda, is the intellectual driving force behind this development. At the combined meetings of the ADB and ASEAN+3 Finance Ministers in May 2006 at Hyderabad, he received a powerful endorsement from Indian Prime Minister Manmohan Singh calling for "savings and surpluses generated in our region (to) find investment avenues within our region".

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<sup>2</sup> See Paul Volcker and Toyoo Gyoten, *Change of Fortune*, New York: New York Times Books, 1992; Kiyohiko Fukushima, "Challenges for Currency Cooperation in East Asia", *Asia-Pacific Review* Vol. 11, No 1, 2004, pp.20ff.

American think tanks with a geo-political bent interpreted this as a stunning "harbinger of the end of American hegemony". But as one of the few, if not the only, professional economists left among world leaders, Prime Minister Singh knows how to make a perfectly functional argument.

Japanese economists have gone even further, thinking about Asian monetary integration for some years.<sup>3</sup> Kuroda has permitted a division of the ADB headed by Tokyo University economist Masahiro Kawai to work on the conceptual foundations of such a process. The first result is the proposal of a monetary unit of account as a composite indicator of the value of Asian currencies relative to both Asian and non-Asian currencies. Initially it was supposed to be called ACU, reminiscent of the ECU of Europe's pre EMU phase. Facing objections from non-Asian shareholders of the ADB at Hyderabad, criticizing ADB "mission creep" and a challenge to the dominance of the dollar in Asian capital markets, Kuroda was quick to yield on the name, but not on the substance of the proposal.

The most important test of the power of functionalist theory in Asia will be the China-Japan relationship. Characterized as Seirei-Keinetsu (cold politics, hot economics) by Prime Minister Wen Jiabao in a conversation with Keidanren President Okuda in September 2004, it involves both the potential of continued peace and prosperity in Asia and the risk of jeopardizing the benefits of functional integration so far. There is considerable pressure on Japanese and Chinese leaders both from within their own countries and from their partners in Asia not to provoke each other on issues of history. As long as they do, neither China nor Japan will be able to lead the effort of moving from functional integration to regional community building.

The Sino-Japanese competition in offering Free Trade Agreements to ASEAN countries and ASEAN as a group will not be a suitable substitute for such leadership. China's surprise proposal of an FTA with ASEAN as a group at the Brunei Meeting in November 2001 was widely interpreted as politically motivated. Yet it did trigger a proliferation of bilateral FTA's in the region. Prime Minister Koizumi responded with a speech in Singapore in January 2002 offering economic partnership to the region extending beyond trade into technological cooperation and cultural exchange. Remarkably, he included China in his offer. But the subsequent deterioration of Sino-Japanese relations prevented anything other than competitive "FTA hubbing". The resulting "spaghettibowl" of bilateral FTAs turns out to be dysfunctional. Rather than promoting regional integration, it tends to distort trade patterns and disrupt supply chains.

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<sup>3</sup> Among others Toyoo Gyoten, "Steadily towards the 'Asian Common Currency'", *Nihon Keizai Shimbun*, March 13, 2003; see also Norbert Walter, "An Asian Prediction", *The International Economy*, May June 1998, p.49.

## II Regional Community

Leadership in regional community building is thus left to ASEAN and it is readily accepted by the big powers China, Japan, and India. This is less surprising than might appear at first sight. Europeans should remember that whenever there is trouble between France and Germany in European Councils, the Benelux countries tend to take the lead in channelling successful spill-overs to higher levels of integration.

Founded in 1967, ASEAN has the longest experience as a regional entity in Asia. All other regional organisations emerging from South to East Asia in asymmetrical overlaps are latecomers or were created by ASEAN as particular partnerships with other countries or groups of countries. The latecomers are the South Asian group SAARC (1985), the Pacific rim group APEC (1989), and the Central Asian group Shanghai Cooperation Organisation (2001). None of these can be alternatives to ASEAN as a core group of regional integration in Asia. APEC is a group of 21 "economies" focused on bilateral, regional, and multilateral trade in which US trade policy plays a pivotal role. SAARC is focused on confidence building between India and Pakistan and limited by their tension. The creation of SCO reflects China's and Russia's interest in Central Asian stability, access to energy resources and their protection against Islamic separatism. India, Pakistan, and Iran joined SCO as observers.

Much more promising are the enlargements and partnerships initiated by ASEAN itself: its own enlargement from 5 to 10 members, the ASEAN Regional Forum (ARF) (1994), ASEAN+3 (1998), and finally, the East Asia Summit (2005) destined to evolve into an East Asian Community. The ARF is a more functional than regional group as it focuses on security policy dialogue and confidence building across a wide net of membership including the US, Russia, Canada, China, Japan, both Koreas, India, Pakistan, Australia, New Zealand, and the EU Troika. ASEAN+3 is a much more ambitious attempt by ASEAN to draw China, Japan, and South Korea into regional community. Initially, the three East Asian countries responded with equal interest. ASEAN+3 became an important forum for regional coordination of financial policy in response to the Asian financial crisis. It helped bring about the Chiang Mai Initiative and served as a useful format for informal concertation of member states' positions for WTO negotiations. When Japan's relations with China and Korea became hostage to Prime Minister Koizumi's visits to the Yasukuni Shrine and rising nationalism in all three countries, Japan began to feel isolated in ASEAN+3. Although China continues to favour it for obvious reasons, the group lost much of its effectiveness in drawing East Asia into the fold of Asian regional integration.

ASEAN's hosting an East Asia Summit in Kuala Lumpur on December 2005 was long in coming, but it came just in time. The circle of invited participants was full of political dynamics. The two East Asian Goliaths saw themselves bound by the threads of ASEAN's wisdom. The summit was preceded by separate meetings of

ASEAN leaders with each of their East Asian counterparts as well as a by a formal Summit of ASEAN+3. The East Asian Summit itself offered a dramatic extension of the geographical reach of the East Asian community: the third great Asian power, India, was invited as well as Australia and New Zealand. This west and southward extension has a double advantage for ASEAN. It keeps ASEAN at the center of the emerging community and it dilutes the impact of Sino-Japanese tension on the community. With the inclusion of Australia and New Zealand, ASEAN's regional strategy extends beyond the geographical notion of Asia. It is not embarking on a limitless enlargement of the community concept, however. Faced with expressions of interest from Russia, France, and Pakistan, ASEAN Foreign Ministers declared a moratorium on enlargement of the community on April 20, 2006 in Bali.

### **III Balance of Power Politics**

Undeniably, there was a whiff of balance of power politics in Kuala Lumpur. India is supposed to "balance" China in the new community, Japanese foreign policy makers will gladly, though not too triumphantly, agree with ASEAN's community builders. Western political scientists must recognize that political realism and balance of power have been familiar to Asians long before Thomas Hobbes and Europe's 19<sup>th</sup> century pentarchy.

ASEAN leaders, in turn, must realize that Japan and India also serve as balancers of China's global power in President George W. Bush's national strategy. That might mitigate their commitment to the East Asian Community. Japan relies on its deeply structured alliance with the US as its crucial partner and protector. Its active work in the East Asian Community depends on whether Washington condones it even silently or grudgingly. India, the former balance of power partner of the Soviet Union, has come a long way. Under the enlightened leadership of Prime Minister Singh, it sees itself as a new, soft type of super power, the biggest democracy of the world, threatening no one, open to all sides, relaxed in the perspective of overtaking China in terms of population by 2050, receiving the accolade of President Bush as a nuclear partner of the US.

As a reflex, ASEAN could only turn to China, as it did in the past when disappointed by US neglect of South East Asia or US unilateralism in going to war in Iraq. But China, too, has global concerns. Its energy needs are one reason for a sustained diplomacy involving Russia, the Middle East, Africa and the entire Western hemisphere. Its intercontinental ballistic arsenal and navy are growing in step with its wealth and autonomous technological mastery. American pundits already see China as single counterpart or opponent of the US in a new bipolar system. China responds by sophisticated global multilateralism resulting in growing influence on issues such as United Nations reform, North Korea, and Iran.

All this means it will not be easy for ASEAN to manage both an intra-Asian balance of power and a functional Asian community. The three big Asian powers might just not be able to always be "good Asians" in the pursuit of their global interests. They share this experience with two European member states, France and Britain, which, though much smaller, still entertain global ambitions, not always submitted to the EU for approval.

#### **IV Cultural Commonalities**

The question arises whether cultural bonds can contain centrifugal forces in the East Asian community. Westerners sometimes lecture that Asia cannot aspire to emulate European integration, since a community requires a common culture like the Judo-Christian Occident. Samuel Huntington may see clashes of civilizations in cases of Islamic terrorism in Bali and the Philippines, civil war between Buddhist Singhalese and Hindu Tamils in Sri Lanka, violence between Hindus and Muslims over temple sites in India, tensions between India and Pakistan and Iran's nuclear ambition.

Such views fail to recognise more than one and a half millennia of peaceful transnationalism of great religions, philosophies, and literatures in Asia: the antique spread of Buddhism from India to East and South East Asia, the simultaneous spread of Confucianism and the Chinese Script to Korea, Japan, and Vietnam, the medieval spread of Islam from Arabia to South and South East Asia and the modern implantations of Christianity in the Philippines, Indonesia, and Korea. Former Indian Foreign Minister Yashwant Sinha spoke of an "Asian brotherhood" based on shared experiences and cultural ties. Former Chinese Foreign Minister Qian Qichen invoked the Confucian golden rule "Do not do unto someone else what you do not want to be done unto yourself" to explain China's approach to its neighbours at a conference with South East Asian leaders in Beijing in 1995. The Swiss theologian Hans Küng has identified a similar rule in each of the other great religions and considers them as a common ethical core of all cultures. The late Prime Minister Takeo Fukuda of Japan agreed with him and together with former Chancellor Helmut Schmidt founded the Interaction Council, which is promoting ethical standards for policy making worldwide.

Ethical commonalities are thus as prominent a guide for policy in Asia as they are in Europe. But given obvious cultural diversities within countries and between countries the East Asian Community will be as secular a project as the EU.

#### **V Divisive Nationalism**

Just as in Europe, nationalism can be the most divisive force in the East Asian Community. No country is free of it. Much depends on whether it can be contained in the three big Asian powers. In India, the Bharatiya Janata combines Hindu fundamentalism with Indian nationalism. It has a history of provoking Hindu-Muslim

violence within India and of tension with Pakistan. But it was voted out of power in 2004. Since then, Prime Minister Singh's subtle leadership has set India on a most promising course of peaceful development within the country, on the subcontinent, and in Asia. China skilfully projects an international image of "peaceful rise", but concern about a hard core beneath this velvet surface lingers on not only among "strategic competitors", but also within the emerging East Asian Community. Next to receding orthodox, reigning pragmatic and tentatively transformational schools of thought in China's Communist Party a nationalist current is perceived. To some, it looks like a revival of the right wing Sun Yat-sen had to cope with and which was later absorbed by the Guomindang. Japan is worried, that this current may have surfaced in anti Japanese demonstrations in connection with Prime Minister Koizumi's Yasukuni Shrine visits.

Of course, Japan has its own nationalist traditions. But it is important to recognize that Prime Minister Koizumi is not its representative. His leadership stands out by an almost dialectical quality, never shrinking from attempting to achieve seemingly incompatible goals: economic recovery and fiscal consolidation, firm commitment to the US alliance and proactive multilateralism, pressure and diplomacy (rather than an "Iraq solution") towards North Korea, two visits to Pyongyang without prior approval from Washington and finally, a genuine interest in the huge potential of Japan's relations with China and his visits to the Yasukuni Shrine. His greatest success is Japan's economic recovery, his greatest failure, that he could not convince Japan's neighbours that his Yasukuni visits were "a matter of the heart", his prayers not worship of war criminals but prayers for peace. Unfortunately, strong reactions in China and Korea, some with nationalist overtones, have fed nationalist emotions in Japan. Such cycles of nationalist resentment in neighbouring countries feeding on each other are all too familiar in Europe as well. Much will depend on whom the LDP will elect when Prime Minister Koizumi steps down in September 2006.

If Shinzo Abe, the most popular candidate on the strength of his focus on the fate of Japanese abductees in North Korea, is elected, both the Japanese business community engaged in China and the East Asian Community will be somewhat concerned. He is said to be the heir of a current within Japanese conservatism, which sees Japan as a great Western power happening to be located in East Asia. It goes back to the Meiji era, when some leaders thought Japan had to mentally leave Asia (*dasu A*) in order to modernize. It had a mixed impact serving as reference to both democratic development and imperialist attitudes towards then backward Korea and China. Some see Nobusuke Kishi, who was a member of Hideki Tojo's war cabinet before becoming Prime Minister 1957-1960, as its post war representative.<sup>4</sup> Shinzo Abe is Kishi's grandson.

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<sup>4</sup> See Yoshibumi Wakamiya, *The Postwar Conservative View of Asia*, Tokyo: LTCB, 1998, pp.40ff.

The second most popular conceivable candidate is Yasuo Fukuda, son of Former Prime Minister Fukuda. From him, the Japanese business community and Japan's neighbours in Asia could expect a revival of his father's "Fukuda doctrine" of reconciliation and economic cooperation with Asia. In the short Fukuda administration 1977/78, it made a new beginning of Japan's relations with its Asian neighbours possible. Its emotional and ethical depth<sup>5</sup> could go a long way to do so again in coming efforts to build an East Asian Community.

## VI An "Asian" Philosophy for the 21<sup>st</sup> Century?

Community building in Asia will involve a great deal of debate on how far it can rely on functional integration alone, on how much "brotherhood" and ethical communality it will need, on how much balance of power it can afford without becoming a dependent variable of global dynamics, on how nationalist resentments can be restrained. At a recent seminar of the Asia Society of New York in Mumbai India portrayed itself as a champion of democracy, China stressed its work in progress for improvement of social conditions. Neither side took visibly offence in spite of barbed implications.

In the end, I submit, all parties involved will tend to leave ideological bombast to Western discourse. ASEAN leaders will lend their sense of decorum and their experience of four decades of functional integration and gradual community building to Asia's "big boys". India will just be the world biggest democracy without being "sanctimonious" about it. At the same time it will continue to work on its social conditions.

China will be consumed by managing the strains of its rapid domestic development and global procurement of resources. Its economic and legal engineers will focus on gradual transformation with eventual liberalizing effects. Japan's benchmark enterprises will continue to be global technological leaders, maintaining distinctly Japanese patterns of corporate governance and relying increasingly on their almost captive Asian markets. Japan's economic policy will occasionally surprise both Asian and Western partners by striking successes of its strategic pragmatism,<sup>6</sup> making undogmatic choices of some the most advanced prescriptions of Western economic theory in a flexible mix with echeloned time horizons.<sup>7</sup> The East Asian Community will have a most dynamic membership. It will have to sustain a great deal of tension. But it will practice, perhaps more consistently than America, the American philosophy of pragmatism.

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<sup>5</sup> Recalled by Helmut Schmidt in his Memorial Lecture on September 9, 2005 in Tokyo, see Helmut Schmidt: "A Legacy to the 21<sup>st</sup> Century", Interaction Council, Tokyo.

<sup>6</sup> Henrik and Michèle Schmiegelow, *Strategic Pragmatism: Japanese Lessons in the Use of Economic Theorie*, New York: Praeger, 1989.

<sup>7</sup> Michèle Schmiegelow, "Which recipe for the Japanese Economy?", *ASIEN*, No.87, April 2003, pp. 78-86.