Commemorative Paper: A Bottom-Up Approach Toward East Asian Economic Community Building*

by

AHN, Choong Yong

Distinguished Professor, Graduate School of International Studies, Chung-Ang University & Chairman, Presidential Regulatory Reform Committee

I. Introduction

In an increasingly globalizing world, the theory of gravity model in international trade and investment appears to be more valid than ever as an explanation for closer economic interactions at a national macro level as well as regional micro one among neighboring economies. At the transborder regional micro level, much evidence has already been found in the European Pentagon, as well as inter-city cooperation across the North Sea and Baltic Sea and cross-border cooperation among supra-regions at the U.S.-Canada and the U.S.-Mexico borders. A similar bottom-up approach for closer economic cooperation at a transborder level also appears to be increasingly important in Northeast Asia as well as East Asia’s economic community building1. Both supply chain and production fragmentation have been reinforced by geographical proximity and differential factor endowments to generate closer economic linkages at the cross-border level particularly when neighboring countries develop open cross-border regions and supra-regions as a new national development strategy. These transborder regional/sub-regional co-operations prove to be a building bloc to achieve a formal multilateral scheme toward a regional economic community.

Since the eruption of the Asian financial crisis in 1997/98, East Asian economies have devoted significant regional integration efforts in the form of free trade agreements (FTAs) at the macro national level. The Northeast Asian economies including China, Japan, and Korea have also long been involved in studying the economic impacts of bilateral as well as trilateral FTAs amongst themselves. The big three economies in Northeast Asia have already made their respective FTAs effective with ASEAN. Recognizing that the big three share roughly 90 percent of the ASEAN+3 (China, Japan, Korea) GDP, a formal free trade agreement among China, Japan, and Korea is likely to set a milestone toward the East Asian economic community movement. However, in reality, it is not likely to happen in the near future due to inherent hegemonic leadership issues among the region’s big economies, long-standing historical legacies, differences in economic system management, etc.

While observing significant "functional integration" processes in terms of deepening trade dependence and cross-border investment flows through smaller intra-regional FTAs but with little progress in the formal integration process, the recent unprecedented global financial crisis in 2007/08 has made the concept of the "East Asian Community" regain momentum with a newly awakened "East Asian Identity." Given the stalled macro top-down approach for East Asian community building, we need to pay attention to a bottom-up micro regional approach to complement the top-down approach or even

---

1 In this paper, East Asia is defined as ASEAN plus China, Japan, Korea, North Korea, Taiwan, the Russian Far East, Hong Kong, and Mongolia. However, for the discussion of formal cooperation, East Asia can be narrowed down to ASEAN plus China, Japan, and Korea because of region-wide ongoing formal economic treaties and country data availability for analysis. Northeast Asian economies are then defined, as those economies included in East Asia minus ASEAN member economies.
play a bigger role to ensure regional integration on the move.

Since the adoption of China's trade-oriented open-door policy, transborder regional cooperation among local governments, sub-regions, and local cities in Northeast Asia has become increasingly visible and significant. Academics and researchers in international think tanks, including Japan's ERINA and Korea's KRIHS, dealing with such East Asian development issues as Northeast Asia have long proposed the "Pan Yellow Sea Economic Circle", "Pan East Sea Circle", "Tumen River Basin Development", "Greater Mekong Sub-regions", "Pan-BeiHu Gulf Economic Cooperation" and other concepts. They could be defined as examples of a bottom-up micro development approach for economic community building.

Toward East Asian economic community building, it is very important that both the bottom-up and top-down developments be discussed because of their inherent complementary nature and subsequent mutual reinforcement. Both developments have contributed a great deal to foster East Asian regionalism. Although a formal framework of "East Asian Economic Community" has emerged in the ASEAN+3 (China, Japan, and Korea) entity, the real driving force toward an East Asian community must come from the Northeast Asian economies considered the "Big Three" in terms of economic size and political influence, namely China, Japan, and Korea.

Until recently, ASEAN has played more of a leadership role than the other three countries by developing an active regional cooperation mechanism far beyond the original security arrangement particularly after the Asian financial crisis. Recently, however, East Asia's "big three", constituting about 90 percent of regional GDP, have begun their own cooperative scheme. In May 2010, they agreed to establish a secretariat's office in Seoul to work for the trilateral summit meetings. Most importantly, the "big three" agreed to elevate hitherto ongoing trilateral FTA studies at a think tank level to an official study format with the participation of respective government officials. If the "big three" agree on a wide-ranging top-down macro umbrella, trans-border cooperation is likely to take off toward a more enhanced formal mechanism.

This paper attempts to focus on some meaningful transborder micro and bottom-up developments in terms of intra-local, sub-regional cooperation interconnecting the supra-regions, mega-cities, and localities lining the borders. Section II discusses a recent bottom-up development of transborder regional cooperation connecting supra-regions and mega-cities across regional boundaries within East Asia. Section III presents briefly the top-down intra-regional cooperation movement in East Asia. Section IV discusses the challenges of and barriers toward East Asia community building.

II. Trans-border Regional Strategies of China, Japan and Korea

Most economies in East Asia have been involved in developing supra-regions within national boundaries as well as cross-border regions to reflect the changing paradigms of regional policies of nation-states in response to increasing economic globalism and regionalism (Kim, Won-Bae (2008)). However, the characteristics of the newly emerging regional policy paradigm vary by contrary.

Large countries like the United States focus mainly on supra-region construction for national competitiveness while cross-border cooperation at the U.S.-Canada and the U.S.-Mexican border operates primarily by economic interests with low institutional density (Perkmann (2003): Scott (1999)). Cross-border regionalism in Europe has come to exist by and large by a formal integration process geared to the European Union based on municipal autonomy and support from the supranational organization in the course of integration.

In the case of East Asia, China's rise as the world's highest economically performing country over nearly the past two decades has brought an urgency of territorial rescaling and transborder linkages to the cities and regions of Northeast Asia and expanded transborder cooperation. The emergence of mega-regions along China's coastal area has triggered major territorial and structural adjustments in all the countries and sub-national regions interacting with these mega-regions.5

The rise of China has turned the Northeast Asian region into the third largest economic bloc along with North America and Europe. Apart from FTA talks in Northeast Asia, there have been many proposals and ideas with little implementation in diverse areas of energy such as Siberian and Sakhalin oil and natural gas development and pipeline construction, transportation networks including Northeast Asian railroad networks linking the Trans-Siberia, Trans-China, Trans-Manchurian, Trans-Mongol and Trans-Korea Railways, and various environmental meetings such as the Tripartite Environment Ministerial Meeting, in which South Korea, Japan, and China have taken part since 1999. Three countries share the need to provide such cross-border public goods in Northeast Asia.

Traditionally, the national territorial and regional policies of South Korea, China, and Japan have been more strategic and objective-oriented than those of Europe and America, where supra-regional policies and cross-border cooperation are created openly under spontaneous changes in geopolitical conditions and mechanisms of the market and society (Kim, Won-Bae (2008)). Across the borders in East Asia, the private sector rather than the central governments - in particular, the multinational enterprises in the three countries - has been leading the way to reap the

---

1 For the concepts and some empirical evidence, see Kim, Won-Bae (2008). This section heavily borrows from Kim, Won-Bae (2008).
2 For details, see Kim, Won-Bae (2008) and Kurishima (2007).
benefits of supply chains and foreign direct investment (FDI). Only recently have the national governments of those three countries begun to pay attention to the implications of globalization and regionalization in their respective national territory. In this regard, it is critical to note that the tripartite summit of China, Japan, and Korea agreed to establish the secretariat office in Seoul in May 2010 to prepare agendas for the future development of the three countries.

Compared to European nations, local autonomy in South Korea, China, Japan, and even the Russian Federation has not fully developed. In Northeast Asia, government-led centralism has dictated the domestic socio-spatial development of these countries with a concomitant heavy concentration of population and activities in major cities and a few regions. As a result, these cities and regions lack the authority and capacity to manage cross-boundary and cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

The territorial and regional development strategies of Japan, China, and Korea have been largely formulated at a national level and focused on establishing growth axes and regions not only to lead national economic progress but to compete with other regions in Northeast Asia and beyond. For example, Japan launched a global strategy aiming to create and expand the scope of cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

The territorial development strategies of Japan, China, and Korea have been largely formulated at a national level and focused on establishing growth axes and regions not only to lead national economic progress but to compete with other regions in Northeast Asia and beyond. For example, Japan launched a global strategy aiming to create and expand the scope of cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

The territorial and regional development strategies of Japan, China, and Korea have been largely formulated at a national level and focused on establishing growth axes and regions not only to lead national economic progress but to compete with other regions in Northeast Asia and beyond. For example, Japan launched a global strategy aiming to create and expand the scope of cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

The territorial development strategies of Japan, China, and Korea have been largely formulated at a national level and focused on establishing growth axes and regions not only to lead national economic progress but to compete with other regions in Northeast Asia and beyond. For example, Japan launched a global strategy aiming to create and expand the scope of cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

The territorial development strategies of Japan, China, and Korea have been largely formulated at a national level and focused on establishing growth axes and regions not only to lead national economic progress but to compete with other regions in Northeast Asia and beyond. For example, Japan launched a global strategy aiming to create and expand the scope of cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

The territorial development strategies of Japan, China, and Korea have been largely formulated at a national level and focused on establishing growth axes and regions not only to lead national economic progress but to compete with other regions in Northeast Asia and beyond. For example, Japan launched a global strategy aiming to create and expand the scope of cross-border activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities. The weak local autonomy of Northeast Asian countries has constrained the restructuring of local economies as well as trans-local cooperation activities.

As briefly reviewed, the territorial development strategies of South Korea, Japan, and China entail elements of both competition and cooperation across the border. In sum, the competitive territorial regional policies of Northeast Asian economies have been formulated but less connected than those of the EU and North America. The main objective, however, is geared toward serving national economic growth and partially encouraging balanced spatial development. Even though South Korea, China, Japan, and, to a certain extent, Russia recognize the increasing importance of transborder issues and cross-border cooperation in their respective territorial policies, they do not have "real" force to pursue cross-boundary and cross-border cooperation. To this end, the three countries must transform these regions into more autonomous political and economic units.

Nevertheless, there exists tremendous room to synchronize the national territorial development policies and programs of Northeast Asian countries, principally those of China, Japan, and South Korea. Collaboration and synchronization will bring benefits in the form of reduced cross-border transaction costs to the countries involved. From the South Korean perspective, the development

---

1. The 11th five-year plan announced in 2006 summarized the trend of regional policy as follows: 1) shifting from quantitative development to qualitative development; 2) creating new growth engines; and 3) establishing integrated supra-economic regions and development axes.

2. In January 8, 2009, the State National Development and Reform Commission revealed its "Regional Reform and Development Plan for the Pearl River Delta region."
corridors of the three countries—South Korea, Japan, and China—and the Russian Far East have been gradually expanding around the Yellow Sea, East Sea, and Korea-Japan Strait. With a shared vision of Northeast Asia, the concerned countries can identify and implement joint projects to produce concrete outcomes.

A growing connectivity among East Asian economies is clear from Table 1. With China, Japan, and Korea being a global manufacturing hub, intra-regional container shipments among the three countries have risen rapidly. Bilateral container shipments between China and Korea in particular have grown at a phenomenal rate, registering 13.5 percent per annum between 1995 and 2009. To a similar extent, shipments between China and Japan have also risen. However, shipments between Japan and Korea have not been as high as that between Korea and China. This entails that new ports in the three countries have rapidly expanded and need to be developed with a port-centric approach, which requires in particular harmonization in regional container traffic flow.

It is very interesting to note that air passenger traffic among China, Japan, and Korea has demonstrated a very similar pattern between two pairs of three countries. As a low-cost carrier airline system becomes popular and is likely to be introduced soon in Northeast Asia, the number of intra-regional travelers is likely to grow rapidly to help human factor mobility greatly increase.

III. East Asian Regionalism at the Multinational Macro Level

East Asia accounts for almost one-third of the world's population and slightly more than one-fifth of the world's GDP and trade volume (and about 11.8 percent of global FDI). In terms of population, GDP, and trade volume, East Asia is evaluated to have economic potential similar to that of the EU and NAFTA in the years to come, provided that the region is properly integrated.

In November of 1999, after the Asian financial crisis, at the ASEAN plus China, Japan, and Korea leaders meeting, the ASEAN+3 Summit released the Joint Statement on East Asian Cooperation outlining a wide range of possible areas for regional cooperation.6 Many East Asians felt let down by the West during the crisis. In their view, western banks and other financial institutions had created and exacerbated the crisis by pulling their funds out of the region.

In addition to the existing ASEAN Free Trade Agreement (AFTA), the three major Northeast Asian countries (China, Japan, and Korea) recently joined the regional FTA bandwagon. Feeling helpless in the aftermath of the Asian financial crisis, the framework for financial cooperation was launched in May 2000 through the ASEAN+3 Chiang Mai Initiative (CMI), which involves a regional currency swap to provide self-help and support mechanisms. The relationship between East Asia's financial crisis and regionalism can be seen in studies by Bergsten (2000), Eichengreen (2002) and Yamazawa (2001). The countries began to toy with the idea of resolving their problems for themselves within Asia. Bergsten (2000) suggests that "another motivation for Asian regional initiatives is the failure of existing international economic institutions to provide East Asia with a role consistent with its economic progress."

Interest in FTAs in East Asia, a region that has experienced a rapid functional integration process, has recently grown. The newly emerging enthusiasm for FTAs in East Asia can be attributed to a set of factors: proliferation of regionalism worldwide, the intensified integration process of the EU and NAFTA, the East Asian

---

6 The areas for cooperation were diverse, including trade, investment, technology transfers, e-commerce, agriculture, small- and medium-sized businesses, tourism and the development of the Mekong River basin.
financial crisis, East Asia's awareness of the need to boost its economic cooperation, China's WTO accession, competitive FTA initiatives by China and Japan and the expansion of East Asian policymakers' networks through various meetings.

There are several possible ways to promote an East Asian FTA. Under current conditions, it may be difficult to promote an FTA covering the entire East Asian region in the short term. Therefore, as the second-best alternative, simultaneous and/or piecemeal FTAs could be pursued, and then an entire East Asian FTA should be phased in, starting with the FTAs currently under discussion. For example, ASEAN has already made bilateral FTAs with China, Japan, and Korea respectively and then amalgamate three respective FTAs, leading to an East Asian FTA (Ahn and Cheong (2007)).

The third option is to have Northeast Asia create a China-Japan-Korea (CJK) FTA rather than multiple bilateral FTAs and then to move in the direction of consolidating through the AFTA. However, the consolidation of different FTAs could be tremendously difficult since the different trade regulations under various bilateral FTAs would have to be standardized into one agreement. Unfortunately, it is highly unlikely that an East Asian FTA will evolve by itself as a result of the amalgamation of bilateral FTAs. There is also a possibility that the competition between China and Japan, with both currently vying for regional leadership, may be intensified through bilateral FTAs with ASEAN, making an East Asian FTA even more difficult.

IV. Challenges for the Bottom-Up East Asian Community Building

It is rather well known that China and Japan, the two hegemonic powers in the region, have different interests and hence different strategies for economic integration in East Asia. Nevertheless, other dynamic benefits could result from the web of FTAs underway in East Asia. First of all, common standards for production technology, product regulations, distribution, and after-sales services can be expanded across countries in the region. Even if these standards are in conflict with the standards of North America or the EU, Asian countries can gain leverage during international standardizing negotiations by presenting a unified front (Igawa and Kim (2001)).

Rapidly emerging China has already changed the economic landscape of East Asia and is likely to influence whatever mechanism East Asian economic cooperation might envision, as East Asian countries must strengthen cooperation with China. Some have proposed the restructuring of East Asia's development model after the financial crisis. In due process, it is often suggested that building trust among the people of the three countries, rather than presenting empirical evidence of economic benefit, is the necessary step to realizing a Japan-Korea FTA or China-Japan-Korea FTA.

In the process of Northeast Asian integration, there exists a large stumbling block due to North Korea's long-standing isolationism due to inter-Korean hostilities after the Korean War (1950-53). North Korea has proven to be a huge geographical vacuum that prevents any meaningful connectivity across the two Koreas, which could link Northeastern China and the Russian Far East.

Economic cooperation among countries in the region with different systems of economic management faces a host of challenges and barriers that would not exist between market economies. Often both the legal framework and confidence building for long-term economic cooperation between the two systems of a state-managed economy and a free market economy in Northeast Asia are still lacking.

As a new approach to exert the confidence building necessary to promote regional economic partnerships in Northeast Asia, it is worthwhile to pay attention to the much-acknowledged ongoing Tumen River Area Development Programme (TRADP), which consists of North Korea, Northeastern China, and the Russian Far East and is a part of the United Nations Development Programme's efforts.

Though regarded as one of the world's three major economic pillars, East Asia still has the lowest level of economic cooperation and integration at both the micro and macro levels compared to the EU and NAFTA. Economies in East Asia should therefore recognize the need to strengthen regional economic cooperation to use a "partnership from differences."

Finally, all the countries in the region, especially Japan, South Korea, and China, should take initiatives to establish the "Northeast Asian Bank for Cooperation and Development," which will assist in financing regional as well as cross-border development projects of common interest. Northeast Asia may then be able to emerge as a feasible economic cooperative entity, perhaps in a commercialized form of Professor Scalapino's "Natural Economic Territorial" (Scalapino (1991))

Given the two-pronged efforts by top-down and
bottom-up approaches toward East Asian economic community building, local governments, mega-regions, and sub-regions across borders in Northeast Asia should double their efforts to maximize “economies of proximity” and “economies of diversity” and supply chain embedded in the region. Academics, non-governmental organizations, and policy makers should search for ways local organizations such as municipal governments and business enterprises as well as academics in East Asia could accelerate bottom-up development at transborder lines and grow together across the seas for East Asian community building, embracing simultaneously bilateralism, sub-regionalism or regionalism, and globalization in the years to come.

References


--------(2010), "Weathering the Storm: The Impact of the Global Financial Crisis on Asia" Global Asia, vol5, Number 1, Spring


Hettne, Björn (2002), 'The Europeanisation of Europe: endogenous and exogenous dimensions,' European Integration Vol. 24, No. 4


Regional Studies 33(7): 605-618.