



Step by Step, Asians Are Finally Getting Together

by Julius Caesar Parreñas

East Asia is finally getting together. Heads of government and ministers of Southeast Asia and Northeast Asia have been regularly meeting as a group since last year. In early May this year, economic ministers from the 10 members of the Association of South East Asian Nations met counterparts from China, Japan, and South Korea in Rangoon, one of the latest steps in a process of deepening ties.

Shortly afterwards, on the sidelines of the Asian Development Bank meeting in Chiang Mai, finance ministers from these 13 countries announced their agreement on sharing foreign exchange reserves to defend their currencies against speculative attack. In the last few months, there have been talks of bolder plans, including a common market and a single currency. Some of these plans may still be viewed as pipe dreams, but Asia's corporate leaders are warm to these ideas. A recent poll shows four out of five favoring a common market and a common voice in international trade.

The growth of cross-border business is driving East Asia toward closer cooperation. Intra-regional trade has grown from one-third to one-half of total trade in the last two decades. Half of foreign direct investment in Southeast Asia now comes from the region, up from less than 10 percent in the 1960s. Such trends are generating demands for regional arrangements to ensure currency stability and reduce the costs of foreign exchange transactions. Business is asking governments to expand sub-regional free trade areas, build a regional financial market, and link national infrastructure networks.

The 21-member Asia-Pacific Economic Cooperation forum, APEC, is the main vehicle for pursuing such endeavors. But some East Asians feel that APEC is now too big and too diverse to be able to address their more specific concerns. Formidable challenges stand in the way of creating an Asian version of the European Union or the North American Free Trade Agreement that links the United States, Canada and Mexico.

One major obstacle is getting two key players, Japan and China, to agree on new regional arrangements. ASEAN has played a central role in this process, providing venues for dialogue such as the ASEAN Regional Forum (ARF), the only organization so far that discusses political and security problems on an Asia-wide basis. With Beijing, Seoul and Tokyo now regularly joining the meetings of ASEAN, the foundations for a possible regional grouping have been laid.

This raises another challenge – making Asian regionalism more acceptable to Western nations that have been critical of such proposals as the Asian Monetary Fund (sponsored by Japan) and the East Asian Economic Caucus (initiated by Malaysia). Some Asians fear that creating their own grouping

could damage ties with America. They have warned that the creation of an Asian bloc could harm the multilateral process.

Such warnings may not be well-grounded. First, East Asia's brand of open regionalism has been conducive to reducing overall barriers. Pursuit of its own free trade area has made ASEAN more supportive of liberalization within APEC and the World Trade Organization. As the region still depends heavily on outside markets, a *Fortress Asia* is not an option.

Second, multilateral institutions also stand to benefit from regional cooperation. Such groupings could facilitate consensus within the WTO. The International Monetary Fund could benefit from regional arrangements in East Asia, if efforts are coordinated. East Asia's combined foreign exchange reserves, amounting to almost a trillion dollars, could help nip future financial crises in the bud.

Third, Europe's experience shows that regional economic integration could exist side-by-side with strong political and security ties with the United States. In Asia, where the potential for conflict is still considerable, many countries could still hardly dispense with the US security umbrella. Greater cooperation would promote peace in Asia, helping to keep the United States from being dragged into another war in the region, as it was in Vietnam, in Korea and against Japan in World War II.

There is certainly a need to disentangle Asia's regional aspirations from old ethnocentric paradigms pitting Asia against the West. Supporting East Asia's efforts toward eventual regional integration would offer the United States and Europe better opportunities to encourage an open and inclusive regional order. Such a regime could be, for example, one that brings together China and Taiwan, includes Australia and New Zealand, and is supportive of global and multilateral processes and institutions.

Those worried by East Asia's nascent regionalism sound too pessimistic about its impact and too optimistic about its prospects. Complex institutional issues, such as sovereignty and leadership, remain hard to resolve. Old rivalries and antipathies are still very much alive. That the same could be said of Europe in 1945 does provide some hope. But fulfilling that hope still requires a leap of faith and a great deal of diplomacy.

J.C. Parreñas, a former Executive Director of the APEC Business Advisory Council, is Senior Adviser to the Taiwan Institute of Economic Research and to Chinatrust Commercial Bank. This article originally appeared in the International Herald Tribune on May 2, 2000.