

The Emergence of Geoeconomics and Its Impact on Regional Security*

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The Philippines in East Asia

The region around the Philippines may be thought of as a diagram with three concentric rings. The first, or core, ring is the Association of Southeast Asian Nations (ASEAN),¹ which is composed of our neighbors in Southeast Asia. The second ring is East Asia, which this article will take to mean the ASEAN, plus Japan, China, Hong Kong, Taiwan and the Republic of Korea. Finally, the outermost ring is the broader Asia-Pacific. The Asia-Pacific, of course, is a huge geographic entity. For the purposes of this article, the Asia-Pacific will be considered roughly synonymous with the Asia-Pacific Economic Cooperation (APEC).²

Each of these three rings is of central importance to the Philippines, from the point of view of both our external security and our economic development. The Philippines cannot set itself apart from the region: the ancient Greeks used to say that

character is destiny; we might add that geography is too. The ASEAN, East Asia, and the Asia-Pacific encompass our closest neighbors, our partners in the ASEAN Free Trade Area (AFTA), our largest export markets, and our top sources of foreign investment and tourism. In 1993, APEC accounted for 76 percent of total Philippine imports and exports, and in 1994 (January-September) 72 percent of total foreign direct investments in the Philippines came from within APEC.³

The Philippines has adopted a basic policy course of deepening its involvement with all three of these regional levels. Philippine commitments towards the region are clear: free trade in AFTA by the Year 2003, and free trade in APEC by the Year 2020. As the Philippine economy revives and strengthens, we will become more active in regional affairs. As we draw closer to the region, the more will regional events affect our country. External trends will have an impact on our agriculture, industry, services, export development, and employment. The debates we went through to win the ratification of the General Agreement on Tariffs and Trade-Uruguay Round (GATT-UR) are a foretaste of the intensified domestic engagement that regionalization and globalization will require of us in order to maintain the direction of the government's foreign economic policy thrusts.

Regionalization and globalization will impose upon us the need to enhance our competitiveness, that is, our ability to compete on the regional and global planes for export markets, for foreign investments and technology transfer, and for tourism. Many of our neighbors will be both our competitors in third markets and our collaborators in enhancing regional cooperation and interdependence. Their companies will also compete with our own in our home market. The regional economic trends and issues that we face today will shape the environment surrounding our country well into the next century. There is a security dimension as well, since, in practice, economic affairs play an important role in East Asian peace, progress, and stability. This article attempts to sketch a road map of where East Asian geoeconomics and security are headed.

We have three main reasons for selecting East Asia, the intermediate regional ring, as the level for our study. First,

although ASEAN is the core of our policy, it is still comparatively small in terms of its share of our foreign trade and investment relations. ASEAN is a growing regional market, but trade and investment linkages between ASEAN and the other East Asian economies are indispensable for ASEAN's longer-term economic growth.

Second, the recent economic developments in East Asia have been relatively unnoticed in this country, yet they are of enormous significance to the Philippines. This article will discuss some of these trends that will influence the regional economy in East Asia for the next few years.

Finally, East Asia is our critical security zone, where our national interests intersect with those of all Asia-Pacific nations of greatest concern to us. It is in this critical security zone, East Asia, where security matters will tend to have the most direct impact on our national sovereignty, territory, integrity, and well-being.

The Cold War Heritage

The Cold War balance in East Asia

Although geoeconomics is said to have replaced geopolitics as the *leitmotif* of international relations in the post-Cold War world, this is somewhat of an overstatement, at least in the case of East Asia. Economic relations have always been an important ingredient of East Asian regional security. The Cold War in our part of the world was never the straightforward strategic contest between the United States and the former Soviet Union that it was in Europe.

Moreover, as the situation in Bosnia, in Somalia, in various Republics of the former Soviet Union, and other regions amply illustrate, the world has not run out of major crises that can upset international relations, but which are not geoeconomic in nature. It would be useful, therefore, for us to review at this juncture a brief outline of what has taken place in our region over the past half-century, and to see how this recent history influences regional relations.

Japan's defeat in World War II left the Pacific Ocean largely an American security lake, with the nations of the Western

Pacific incorporated as the forward positions of the United States' grand containment strategy to counter communism in East Asia. In the 1950s through the 1970s, this strategy had three main pillars. First, reliance on overwhelming American military might, which ensured Washington's unilateral freedom of action while providing its East Asian allies with the protection of the American nuclear umbrella.

Second, the elaboration of a network of bilateral American security alliances and arrangements in East Asia that brought the Philippines, Japan, South Korea and Thailand, as well as Australia and New Zealand, into a coherent security system led and dominated by the United States. At the same time, other countries in the region, like Indonesia and Malaysia, while not allied to the United States, pursued anti-communist policies at home that bolstered the aims of containment by confining the spread of Soviet and Communist Chinese influence.

And third, the United States made an economically reinvigorated, albeit nuclear disarmed Japan the centerpiece of its East Asian security system. Washington and Tokyo struck a bargain perhaps unique in history. Japan's defense would be guaranteed through the Japan-US Security Treaty and American nuclear deterrence. In exchange for this limited autonomy in defense, Japan's recovery was actively supported by the United States. Japan benefited from the Korean War, from various forms of American economic assistance, and -- above all -- from easy access to the huge American market.

Washington needed Japan to prevent communism from subverting or capturing what it saw as the industrial heartland of East Asia. With the recovery of Japan's domestic industries, the resurgence of its exports, and the doubling several times over of its national income, Japan was able to reassert its mighty economic presence in East Asia, which it had been compelled to surrender in 1945.

Japan's economic build-up, coupled with the capacity of the American market to absorb seemingly inexhaustible quantities of East Asian exports, helped stimulate growth in other East Asian economies that had chosen an export-led strategy of development. These economies became the East

Asian newly industrializing economies (NIEs) that emerged in the 1970s. Trade and investment with Japan and the NIEs, in turn, sparked growth and development the following decade in ASEAN countries and eventually in China as well.

This mutually-supporting, virtuous cycle of growth stimulating more growth within the region helped stabilize East Asia. In such an environment, all who participated in the burgeoning regional market gained. To preserve this environment, most countries in the region decided to follow good-neighbor foreign policies that stressed non-intervention in the internal affairs of others and regional cooperation.

China was a key actor in these events, and it played its role in three acts. The first act saw the appearance of the Sino-Soviet split in the 1960s, which estranged the two communist giants and altered East Asia's Cold War landscape. For a while, there was a three-cornered contest between Moscow, Beijing, and Washington/Tokyo. The 1972 Sino-American rapprochement, the second act, ended the threat that Chinese Communism was felt to have posed to the region ever since the Korean War. Beijing, Washington and Tokyo entered into an unstated, *realpolitik* arrangement of convenience to balance the Soviet Union in East Asia.

Then, in the third act, came Deng Xiaopeng and his program of Chinese economic modernization. Deng and his new economic thrust gave China more than a decade of solid economic advancement. This growth necessitated friendly economic interaction with capitalist nations and the establishment of closer ties with China's East Asian neighbors for the purpose of attracting foreign investments and trade. This gave China a long-term interest in maintaining the regional status quo with its neighbors to encourage uninterrupted domestic growth and development of the countries in East Asia.

The durability of this Beijing-Washington-Tokyo combination supported the peace that East Asia needed to raise itself up by its own economic bootstraps. Meanwhile, the Soviet Union's influence in the region failed to widen. North Korea remained friendly to both Moscow and Beijing throughout the Cold War. And Vietnam's alignment with Moscow was only the result of its conflict with China, and a response to the

diplomatic isolation it brought upon itself after its invasion and occupation of Cambodia.

Even the defeat suffered by the United States in Vietnam failed to appreciably tilt the regional balance against the United States and its allies. After the Vietnam debacle, the United States simply refused to be caught in any more land wars on the Asian continent, and fell back onto its system of alliances and bases that screened East Asia's mainland coastline. In contrast, the Soviet bases in Camh Ranh Bay, and Moscow's heavy-handed attempts to beef up its Far Eastern military, achieved little before the implosion of the Soviet Union.

The interests of developing nations in East Asia

At the same time, there were other forces at work in East Asia that had little to do with the American-Soviet global strategic rivalry. Even at the height of the Cold War, superpower allies in the region retained very broad room for political maneuver, and some could manipulate Cold War antagonisms to further their own ends even while being dependent militarily on one or the other of the superpowers.

The strong nationalisms born of the decolonization era were not in the main either pro-American or pro-Soviet (or pro-Japanese or pro-Chinese, for that matter). They were anti-colonial and pro-development. The desire for non-entanglement was exemplified by Indonesia, a founding father of the Non-Aligned Movement (NAM), which had its roots in the historic Afro-Asian Bandung Conference of 1955. After the end of the Cold War, Indonesia again used its prominent position to redefine NAM and give it a new mission as an advocate of global development.

The pursuit of economic growth, aided by policies of peaceful inter-state cooperation and non-interference in the internal affairs of neighbors, became the norm among the region's countries. Tensions emanating from ideological conflicts or the quest for national destiny through foreign adventurism faded away as the region's developing countries devoted all their peoples' energies to the tasks of development and nation-building.

The region's less developed countries (LDCs) on the whole preferred to distance themselves as much as possible from the East-West confrontation of the Cold War so that they could address the fundamental problems of underdevelopment, poverty alleviation, technological backwardness, and economic dependency. They wanted the regional and international agenda to reflect more of their critical concerns regarding economic development.

East Asian developing nations were active in the great North-South debates on a new international economic order. They helped form the Group of 77, which the Philippines currently chairs, and participated in all the grand multilateral ventures to create new global norms and rules to advance the cause of global development, in the United Nations, as well as in the UNCLOS, UNCTAD and UNCED. The LDCs also participated increasingly in the GATT process that culminated with the Uruguay Round and the establishment of the World Trade Organization (WTO). East Asians helped shift the tone of the North-South debate in these forums away from confrontation and towards a more mutually beneficial dialogue that recognized the realities of interdependence and globalization.

The rise of ASEAN

ASEAN was born in 1967, at a time when many of its original members had major political or territorial disputes with one another. The Vietnam War was still raging, and ASEAN came to be considered in some quarters as a bulwark for the defense of non-communist Southeast Asia.

Yet ASEAN's image of itself, as presented in its constituent document, the 1967 Bangkok Declaration, was an association devoted to peaceful regional cooperation, particularly in the political, social and economic fields. The Bangkok Charter enshrined non-interventionism and, in effect, called for the insulation of Southeast Asia from the Cold War nexus. ASEAN rejected a regional cooperation framework built upon collective security, joint military defense, and strategic alliances.

While the Bangkok Declaration might represent the type of diplomatic legerdemain that many think is typical of ASEAN, it should nonetheless be evident that regional economic

cooperation and interdependence were from the beginning at the heart of what ASEAN members believed to be the necessary conditions for securing the long-term peace and prosperity of Southeast Asia.

Over the years, ASEAN has practiced what it preached. ASEAN nurtured a sense of regional solidarity that was as responsible for stabilizing inter-state Southeast Asian relations as any other factor, including the balance-of-power. Within ASEAN, dialogue and consensus were institutionalized as the accepted mode for the peaceful management of differences among its members. This modulated and toned down disputes when they arose between ASEAN states.

ASEAN established machineries to promote intra-regional social, cultural, educational, economic, and functional cooperation. Its most significant cooperative initiatives to date are the AFTA and the various sub-regional growth areas like BIMP-EAGA, which are intended to galvanize ASEAN's full potential for economic expansion.

On a broader front, ASEAN led in the search for visions and codes of conduct to enhance regional stability. The Zone of Peace, Freedom and Neutrality (ZOPFAN), the Treaty on Amity and Cooperation in Southeast Asia (TACSEA), and the draft Southeast Asian Nuclear Weapons Free Zone Treaty (SEANWFZ) were prime examples of such initiatives. ASEAN elevated the methodology of non-confrontational, consensual decision-making into a regional practice by introducing it into the network of dialogue relationships it established with Australia, Canada, China, the European Community, Japan, South Korea, New Zealand, Russia, and the United States.

ASEAN demonstrated its diplomatic ability during the Cambodian peace process, and through its efforts to encourage the peaceful resolution of disputes in the South China Sea on the basis of the ASEAN Declaration on the South China Sea. ASEAN employed its regional standing to set up the ASEAN Regional Forum (ARF), a unique experiment in regional security dialogue and cooperation, which now numbers 19 nations.⁴

ASEAN has also been able to influence the nature and direction of APEC. Many people in ASEAN are wary that in a

regional grouping like APEC, the larger Asia-Pacific economies would have an easier time dominating the smaller. For this reason, ASEAN has insisted, from the launching of APEC in 1989, that APEC evolve slowly, that its institutionalization be kept to a pace acceptable to all participants, and that development should be part of its focus, in addition to its main goal of attaining greater regional trade and investment liberalization and facilitation. ASEAN is still considered the core of APEC, and its views continue to carry considerable weight.

ASEAN is perhaps the most successful example of regional cooperation among developing nations. ASEAN is also the only viable, homegrown body that can bolster regional stability and forge a regional community out of Southeast Asia's bewildering diversity. ASEAN does so by offering tangible benefits to its members, such as diplomatic leverage and, with AFTA, the opportunity to be part of an expanding regional market.

ASEAN's special role in this respect is welcomed by non-ASEAN Southeast Asia. Despite a history of mutual animosity, Vietnam and ASEAN patched up their disagreements in the past few years, and last July, Vietnam became ASEAN's seventh member. Papua New Guinea, Laos, and Cambodia are now all ASEAN Observers, and the latter two are interested in joining ASEAN by 1997. Myanmar has signalled its intention to accede to the Treaty of Amity and Cooperation in Southeast Asia.

To appreciate the value for East Asia of the accomplishments of ASEAN, they should be seen against Southeast Asia's reputation less than two decades ago as a cockpit of Cold War contention. Southeast Asia was then seen as one of the so-called 'shatterbelts' of global strategic instability, together with the Horn of Africa, Southern Africa, the Middle East and Gulf region, Central America, and the Korean Peninsula. Today, Southeast Asia and most of these other places are a world apart. ASEAN assisted in finding a political settlement to the Cambodian conflict, one of the region's longest running conflicts. The Korean Peninsula is now East Asia's last remaining Cold War-related point of possible conflict, but even there, conditions seem to be improving following the establishment of KEDO (Korean Peninsula Energy Development Organization).

The economic miracles of Japan and the NIEs alone, without economic advancement in China and Southeast Asia, would not have been sufficient to transform East Asia from a Cold War theater into a zone of economic prosperity. Only the aggressive showing in market-driven growth of the region's larger and most populous nations could ensure that prosperity would have deeper and lasting foundations. The region's developing nations, especially the members of ASEAN, have not been passive onlookers in East Asia's ascent as a growth center of the world. As we have seen, they were important and original contributors to East Asian progress, both in the security and the economic realms.

From Geopolitics to Geoeconomics in East Asia

East Asian conditions during the Cold War were not conducive to the development of strong regional political, security, and economic institutions, except for the creations of ASEAN. East Asia produced no multilateral intergovernmental organizations along the lines of the European Union (EU) or the North Atlantic Treaty Organization (NATO) in Western Europe. Nor did it have a regional mechanism on the scale of the Council for Security Cooperation in Europe (CSCE).⁵ The European experience was not transferable to East Asia. The sense of regional identity and cultural affinity were much stronger in Western Europe than they were in East Asia. The gaps in the levels of economic development among Western European states were much narrower than among East Asian countries. And since no power or group of powers posed the kind of immediate threat that the Soviet Union and the Warsaw Pact did to Western Europe, there was less of an imperative in East Asia to construct a regional collective security alliance.

None of this, however, inhibited the processes that engineered regional economic interdependence and integration. In the absence of formal regional intergovernmental organizations, informal regionalism flourished. The obvious advantages to be derived from business expansion by all participants in the regional market overcame inter-state political and ideological obstacles. East Asians relied on pragmatism to make profits, and let the market do what the governments would not or could not accomplish.

East Asia's strength thus came to be rooted in and inseparable from its vibrant economy, which was the main prop of regional peace and prosperity. Although no governmental structures bound the region together, by the late 1980's, a common reliance on regional economic growth underscored the importance of the economic side of East Asian regionalism.

This shift from a geopolitical to geoeconomic paradigm was boosted by the worldwide triumph of the market economy. The collapse of European communism eliminated the Soviet development model as an ideological competitor, and left the field to the liberal capitalist mode of development. Moreover, the East Asian miracle economies provided a persuasive example to other developing countries of the efficacy of the market-based approach to rapid growth and development.

More-or-less market-driven policies were adopted by the developing world and the former communist countries in transition, along with their package of prescriptions for economic openness, deregulation, liberalization, prudent macroeconomic management, fiscal responsibility, competitive exchange rates, and export-led growth. Global trade and the 24-hour global capital market knit the world more tightly together, and the developing nations increased their shares of world trade and output.

The disappearance of the Soviet Union, meanwhile, was attended by the relative diminution of the global economic standing of the last remaining superpower, the United States. While remaining a virtual world hegemon in nuclear weapons terms, the United States had to accommodate the European Union (Germany) and East Asia (Japan) as global economic power centers in their own right.

Even before the Cold War drew to a close, the bipolar military-political world was already intermeshed with a tripolar -- or trilateral (i.e., Japan/East Asia-United States/North America-Germany/Western Europe) -- global economic structure. This geoeconomic tripolar structure will become increasingly important as the defining strategic concept of contemporary international relations, now that the relevance of Cold War geopolitical bipolarism has faded away.

Within East Asia, the sense of economic regionalism was sharpened in the late 1980s and early 1990s by concerns that the Single European Market and the North American Free Trade Area (NAFTA) could have been heralds of regional economic blocs that would erect barriers around markets vital for East Asian trade. The slowness of the Uruguay Round, and the protectionist tendencies in Europe and North America, deepened these anxieties. A feeling of vulnerability led East Asia to back APEC's creation in 1989.

Although the Uruguay Round was ultimately successful, we should remember that East Asians were very concerned over regional economic blocs when the multilateral trade talks were still ongoing. As trading nations, East Asian countries still believe themselves to be highly vulnerable should the world trade system ever fragment along tripolar lines. The formation of the East Asian Economic Caucus (EAEC), as a caucus within APEC, should also be regarded as a defensive reaction garbed in East Asian economic regionalism.

The Upside: Building on Strength in East Asia

The World Bank has published a study on the phenomenon of the East Asian economic miracle⁶. The study examines the record of eight East Asian countries described as high-performing Asian economies (HPAEs).⁷ Since 1960, this group of eight grew more than twice as fast as the rest of East Asia, about three times as fast as Latin America and South Asia, and as much as five times faster than Sub-Saharan Africa.

The HPAEs had a better economic performance than the industrialized economies and the oil-producing Middle East-North Africa region. In the 15 years from 1960 to 1985, real per capita income in Japan and the Four Tigers more than quadrupled. Incomes in the three ASEAN HPAEs more than doubled. Most significantly, this growth was broad and well-distributed. The World Bank study says that the HPAEs were the only economies that had high growth and declining inequality from the 1960s through the 1980s.

China's economic strength increased as the impact of Deng's economic reforms set in, while the so-called Chinese Economic

Area or 'Greater China' (basically comprising Guangdong and the Fujian provinces of China, Macao, Hong Kong and Taiwan) became a focus of East Asian financial and industrial concentration.

China's sustained high growth may have already put it on the same plane as Japan in terms of output. The International Monetary Fund (IMF) estimates that in 1993, China and Japan each accounted for some nine percent of total world output, placing them second behind the United States, which had a share of 21 percent.⁸ In that year, China was also the largest saver in the world, accounting for 16 percent of total world savings. China is now the eleventh largest trading nation, and last year alone, it implemented a staggering \$33.8 billion in direct foreign investments.

The economic muscle of 'Greater China' is even more impressive. Two-way China-Hong Kong trade was \$64 billion in 1991. That year, 'Greater China's' total world trade stood at \$467 billion, while its foreign reserves came to US\$159 billion, more than double the reserves of Japan, the United States, and Germany.⁹ The World Bank calculates that 'Greater China,' based on purchasing power parity, has a Gross Domestic Product (GDP) bigger than Japan.

The dynamic overseas Chinese business community has been the external agency most active in creating 'Greater China.' Three East Asian NIEs -- Hong Kong, Macau, and Taiwan -- all bastions of the overseas Chinese, are estimated to have contributed almost 80 percent of foreign investments in China since 1979.¹⁰

These East Asian NIEs have joined Japan as major capital exporters. East Asians entered the list of the world's suppliers of surplus capital, a status of some weight, given the tremendous demand for development capital in Asia and other parts of the world. It is geoeconomic good fortune that these new investment powerhouses are situated within East Asia.

The IMF¹¹ estimates that from 1989 to 1993, four out of the top eight suppliers of capital were from East Asia: Japan, with the lion's share of 53 percent of world capital flows; followed by Taiwan, Hong Kong, and China, which provided, respectively,

six, five, and two percent of total capital flows. During this period, the United States was the world's top user of global capital flows, and no East Asian economy figured among the rest of the top 10 users.

But East Asia is not only growing. Regional economic integration within East Asia is also being intensified. Intra-regional trade and direct investments are expanding. We do not know whether extra-regional or intra-regional economic linkages will be the more important factor for the future, but it is safe to state that the intra-regional element is becoming increasingly pivotal for all East Asian economies.

Table I, using figures from the Japan External Trade Organization (JETRO), illustrates that the growth of East Asian exports in 1990-1993, inside and out of the region, was much faster than the 3.9 percent growth rate of total world exports for that period.

TABLE I							
East Asia-Japan-EU-USA Export Growth, 1990-1993							
(Percentage Growth Rates)							
FROM	TO	JAPAN	EU	USA	NIEs	CHINA	ASEAN
	E.ASIA						
E.ASIA ¹²		8.5	13.0	14.1			
JAPAN	18.0		1.9	5.0			
EU	13.9	-3.3		-0.9			
USA	10.6	-0.4	-0.7				
NIEs						34.1	8.1
CHINA					21.1		8.7
ASEAN					4.6	24.2	

Source: JETRO, using IMF. *Direction of Trade*; Taiwanese trade statistics.

Table I shows that from 1990 to 1993, East Asian exports to Japan, the EU, and the USA all grew strongly, as did export flows among China, the East Asian NIEs, and ASEAN. Exports from Japan, the EU, and the USA to East Asia experienced double-digit growth. In contrast, export growth among Japan, the EU, and the USA was either much lower, or else contracted. The figures also indicate that the growth of its regional trade has not prejudiced East Asia's trade with other regions.

Another measure of integration is that intra-regional trade accounts for a large proportion of East Asian trade, as shown in Table II.

Table II indicates that in 1991, for example, most East Asian countries sourced 45 percent and upward of their total imports from within the region. A similar percentage of the exports of most East Asian countries also went to the region.¹³ Japan, being a global trader, had the lowest proportion of its imports and exports within the region. The Philippines stood out differently from the rest of the region. More than 35 percent of Philippine exports went to the US, the highest proportion among East Asian nations for that year.

In addition, the region's LDCs have steadily lessened their reliance on raw material processing and extractive industries, and have increased the share of manufactured products in their total export mix. In 1992, for example, manufactures made up more than 60 percent of the exports of all ASEAN countries except Indonesia, more than 80 per cent of China's exports, and more than 90 per cent of the exports of the East Asian NIEs.

A recent development, shown in Table III, is that trade among Japan and other East Asian countries now exceeds trans-Pacific trade with the United States, although both intra-East Asian trade and East Asian-US trade have had healthy growth. This is a trend of some geoeconomic significance. If it continues, the relative importance of the American market for East Asia might drop further, and this would add momentum to the internal regional drive for East Asian integration.

However, it must be stressed that the United States, by its sheer size and its long trading association with the region, remains the largest single-country export market for most East

TABLE II
Shares of East Asian Exports and Imports, 1991

COUNTRY	TOTAL EXPORTS (100%)			TOTAL IMPORTS (100%)		
	E.ASIA	EEC	USA	E.ASIA	EEC	USA
China	67.6	9.5	9.4	50.6	13.3	12.5
Japan	32.2	18.9	29.2	27.4	13.5	22.7
R.O.K.	40.3	13.8	26.4	44.5	15.2	23.6
Taiwan	39.7		29.3	43.9		22.4
H.K.	44.9	17.5	22.7	78.9	9.2	7.6
Singapore	46.4	14.0	19.7	53.4	6.0	15.8
Brunei	83.7	9.6	1.0	54.7	29.7	10.0
Indonesia	64.7	12.8	12.0	48.9	18.1	13.1
Malaysia	57.5	14.8	16.9	58.5	13.6	15.3
Philippines	37.9	18.6	35.6	46.6	10.2	20.2
Thailand	38.7	20.8	21.8	55.5	23.9	10.7

Source: IMF. *Direction of Trade Statistics* (1992 Yearbook).

TABLE III
Intra-East Asian and East Asian-USA Trade
(\$ billion)

	INTRA-EAST ASIAN TRADE	SIZE COMPARISON	EAST ASIAN- US TRADE
1983	106.4	<	131.6
1988	219.9	<	260.4
1988/83	107 %	>	98 %
1993	420.1	>	362.7
1993/88	91 %	>	39 %
1993/83 Growth	3.9 Times	>	2.7 Times

Source: Ken, Iijima. *Rim. Pacific Business and Industries*. Sakura Institute of Research, Vol. IV No. 26 (1994).

Asian economies. Unless the region itself -- and this means principally Japan, the NIEs and China -- absorbs more of its own exports, America will retain this overall position as East Asia's main single-country export market.

A lot of this intra-regional trade is connected to intra-regional investment. Faced with unabated pressures induced by the high yen at home, Japanese companies have continued to relocate their production overseas and especially in East Asia. Tokyo has also recycled surplus capital through plans for doubling its official development assistance (ODA) and increasing other official flows of concessional funds. These resources have been utilized for infrastructure and other types of development that have made it easier for the region's developing nations to absorb increasing levels of foreign investment.

Simultaneously, dynamic shifts in comparative advantage have made the East Asian NIEs themselves increasingly uncompetitive, higher-cost production sites in many industrial sectors. Companies from the NIEs have responded by moving outward into the developing countries of the region. These investments from the East Asian NIEs have pushed regional interdependence further forward.

Table IV illustrates this new role of the East Asian NIEs. From 1988 to 1992, the NIEs provided direct investments to the region almost three times the volume from Japan, and about four times the amount from the United States and from Europe.

Seventy per cent of the NIEs' investments in the region during this five-year period went to China. By 1992, NIE investments to other parts of East Asia had reached a huge \$48.5 billion. Intra-regional investments provided the working capital for the so-called 'flying geese' pattern of regional integration. Under this pattern, upgraded technology and know-how have been transferred by investments that went from Japan to the NIEs, and from Japan and the NIEs to Southeast Asia and China. Increased intra-industry trade took place as production sites spread through the region, and exports to third markets such as the United States rose.

Reciprocal intra-industry exports among the NIEs, ASEAN and China grew from 28.5 percent of their total exports in 1988

TABLE IV
 Cumulative Total Direct Investment, 1988-1992
 (\$ billion)

TO	FROM Japan	NIEs	USA	Europe	World
E. Asian NIEs	11.2	1.3	10.6	6.9	35.9
ASEAN	21.6	29.3	8.2	16.6	82.4
China	4.2	70.4	5.0	1.9	87.6
(1992 subtotal)	(2.2)	(48.5)	(3.1)	(0.7)	(58.1)
Total	37.0	101.0	23.8	25.4	205.9

Source: Compiled by Sakura Institute of Research from national statistics.

to 35.4 percent in 1993.¹⁴ The proportion of reciprocal exports between these countries and Japan rose even more, from 27.3 per cent of their total exports in 1988 to 36.2 percent in 1993. Reciprocal exports of these economies with the United States also went up during this period, from 14.6 percent to 16.7 percent. As with intra-regional investment flows, this intra-industry trade is strengthening East Asian economic capacity and resilience.

East Asia's thriving economic 'hot-house' atmosphere has produced several sub-regional growth areas and arrangements that add to the region's dynamism. Market forces and not bureaucracies forged 'Greater China.' Other nascent East Asian growth areas where markets might also be put to work are the so-called Golden Triangle area (the common border zone of northwest Thailand, northeast Myanmar, and China's Yunnan province), the Baht economic zone (basically eastern Myanmar, Thailand, and Indochina), and the Tumen Delta zone (Korean Peninsula, Russian Far East, North China, and Japan).

In this context, ASEAN holds tremendous promise as a growth zone. The AFTA regional market has a growing and mostly young population of some 400 million, and when Laos, Cambodia, and Myanmar eventually join ASEAN and AFTA, this will increase to almost half-a-billion. Even at this incipient

stage, AFTA linkages with the Australia-New Zealand Common Economic Relations Trade Area (ANZCERTA) and NAFTA are being explored. Besides AFTA, there are a host of other ASEAN sub-regional growth zones, including the BIMP-EAGA that encompasses Mindanao, Brunei Darussalam, Sabah, Sarawak, Kalimantan, Sulawesi, and Maluku.

AFTA will tap more investors from Japan, the East Asian NIEs, and even China, who may have to relocate their factories and other facilities to destinations that offer lower costs or other production advantages within the region that ASEAN countries are in the best position to provide.

Furthermore, integration is taking place within ASEAN itself. In 1993-1994, according to the Jakarta-based ASEAN Secretariat, trade in products covered by the AFTA/CEPT expanded by 43 percent, while intra-ASEAN investment grew 49 percent during the same period. Singapore accounted for most of the intra-ASEAN investment. The larger companies from ASEAN countries are now also serious players in the East Asian regional marketplace.

The near-term prospects for East Asia are very bright. APEC figures indicate that in 1988, China, ASEAN and East Asia (minus China and ASEAN) accounted for two percent, four percent, and 15 percent of world trade, respectively. In 1993, these shares rose to three per cent, six per cent, and 16 percent.¹⁵ Although some deceleration is expected for 1995, the IMF, ADB and PECC all estimate that GDP growth will remain strong for all East Asian countries, which are to grow faster than the projected global growth rate this year of about three per cent.

The GDP of all East Asian countries, including Japan, are expected to grow faster than the projected world average of 2.8 percent for the 1990-2000 decade as a whole.¹⁶ In addition, all East Asian countries, except China, are projected to have faster average growth over this decade than they did in the previous decade. By the year 2001, Indonesia, Malaysia, Thailand, Vietnam, China, and the Republic of Korea should have doubled their respective GDPs from their 1990 levels. Philippine GDP will have expanded more than 40 percent during this period.

With these trends, the World Bank foresees that Asia may produce up to one third of the total global Gross National Product (GNP), and could generate half of all the GNP and trade growth in the world, between 1990 and 2000. The heart of East Asia's future concerns will be how to maintain this enviable state of grace, and protect it from discord within the region and between the region and other geoeconomic centers.

The Possible Downside: Strategic Imponderables

One problem with East Asia is that the consolidation of its economic interlinkages has not been paralleled by anything that offers similar cooperation and mutual assurances on regional security. ASEAN has tried out some new ideas, such as the ASEAN Regional Forum (ARF), but we have to see whether the ARF's vision alone can provide East Asia with a new, stable, and long-term security order.

In considering the future, we will have to keep looking at Five Imponderables that will have the greatest importance in shaping the environment of regional security. The First Imponderable is the management of the post-Cold War relations between and among Beijing, Washington, and Tokyo. These relationships will have spill-over effects for everyone else in East Asia. Sino-American-Japanese ties, unfortunately, have not adjusted smoothly to the shift from the geopolitical to the geoeconomic paradigm. To make matters worse, each side of this triangle (Beijing-Washington, Tokyo-Washington, Beijing-Tokyo) has shown signs of building tension.

The growing Beijing-Washington rift is the one that is most immediately obvious. The high pitch of the recent rhetoric, the visibility of the contentious issues (human rights, labor standards, China's military policy, among others), and the seeming willingness of the Chinese and the Americans to place their overall relations at risk over some of these issues, do not bode well for the future. China has a tremendous regional role. If external tensions should change Beijing's current policies of openness and cooperation in East Asia, we could all be seriously affected.

Tokyo and Washington also seem to be running out of patience with each other over economic and trade issues. The

sight of the Asia-Pacific's two largest economies appearing to agree on what might be managed trade cannot but upset others in the region. There is another complicating factor. Trade tensions between Japan and the United States might experience a lateral displacement that could enmesh the whole region in their bilateral disputes.

On the whole, the East Asian economic miracle has been applauded in the West as a vindication of the market economy and as a model for the developing world to emulate. However, East Asian and developing countries have also been unfairly charged with destroying jobs and industries in the West through their alleged adversarial trade tactics, closed markets, and structural barriers.

What is worrisome is that the United States has indeed been running up trade deficits with practically the whole region, including China, the NIEs, and even ASEAN. If American opinion chooses to blame these deficits entirely on East Asian practices rather than on the internal economic deficiencies of the United States, this could impact not only upon East Asian-American trade, but also on the tenor of broader trans-Pacific relations as well.

Meanwhile, Tokyo and Beijing are not as close as one might imagine them to be. The massive growth of their economic relations has not really deepened their mutual bonds even on the basis of a shared East Asian identity. The clearly different positions taken by Beijing and Tokyo over the former's continued testing of nuclear weapons is symptomatic of the difficulties the two countries will face in the regional security field. A broad Sino-Japanese *entente* covering common regional economic, political and security concerns, analogous to Franco-German cooperation in Europe after World War II, is simply not yet in the cards.

Beneath much of East Asia's current uncertainties lurks the Second Imponderable. This is the Big Question in East Asian minds, often thought of but rarely vocalized: What is to be done with the United States? That all East Asians want good relations with the United States is axiomatic. America still enjoys the high regard of many East Asians. This is quite apart from the altogether pragmatic East Asian reasons for maintaining an

American military presence in the region. Nor is anyone about to mistake the relative weakening of American economic strength with an imminent eclipse of Washington's standing in East Asia.

But it has been difficult for the United States to climb down from being the region's undisputed leader in so many areas. Washington has not always been a good sport about the change in its economic fortunes. East Asians have been discomfited by a truculent America playing a very hard and unexpectedly rough game on a wide range of issues. Trade disputes with the United States have gotten nastier and there have been several tense, bilateral exchanges across the Pacific as a result.

East Asians are also concerned by what they perceive as Washington's limited ability to craft an Asia-Pacific policy that is more responsive to post-Cold War regional realities, where partnership and not unquestioned leadership will be the main principle. On the other hand, East Asian nations have not formulated many proposals on what their responsibilities should be towards such a regional partnership with the United States. Besides, vague notions of burden-sharing have focused too much on military roles and not sufficiently on economic cooperation.

Yet East Asia is important for the United States. America's Pacific trade already exceeds its trans-Atlantic trade and continues to grow. East Asian-American relations are clearly traversing a period of adjustment, and careful sailing is required. The management of change during this period will require patience and innovation on this side of the Pacific. APEC may well provide the key navigational tool for this purpose. For East Asians, APEC's main agenda will be to keep the eastern and western halves of the Pacific continue working harmoniously together in the same boat.

The task will be to broaden the grounds for cooperation with the United States in a positive and mutually beneficial manner, within a framework of new regional rules drawn up jointly by Americans and East Asians acting more as equal stake-holders in the region's future than they have done in the past.

The Third Imponderable is posed by the current military trends in the region. Defense establishments throughout East Asia are undergoing extensive -- and expensive -- improvement and modernization. There are many reasons for this.¹⁷ With stronger economies, many East Asian states now have the means to acquire more modern and effective arsenals, while defense expenditures have dropped as a percentage of the GDPs of several countries.

The disturbing question is why states seem to believe that such defense upgrading is still necessary at a moment when East Asian countries are enjoying greater security from external threats than at any other time in the past hundred years. East Asia does not have an arms race; not yet, anyway. At the same time, the directions that some defense programs are taking are unclear.

China's naval modernization plans are a case in point. China has legitimate maritime interests, as do all East Asian nations. East Asia is largely a maritime zone in security terms, and it is natural for countries to prioritize naval improvement. Coast guard functions, anti-smuggling, anti-piracy, and the policing of the EEZs are enormous responsibilities for states that have lengthy coastlines or archipelagic configurations.

China appears to have embarked on an ambitious naval building program that might even involve the indigenous construction of aircraft carriers. One study suggests that the intent of the program is to augment China's naval strength in so-called 'Green Waters' (defined by Chinese naval doctrine to be a 1,000 nautical mile-wide expanse of water projecting outward from China's coast and which would include the South China Sea), and then to aim, first, for a 'Blue Water' and then, a 'World Class' navy in the first half of the next century.¹⁸

Studies like this have attracted the understandable attention of China's neighbors. Since defense plans condition the region's security climate, they should be subject to maximum transparency and openness whenever discussed in the appropriate dialogue mechanisms that exist in the region.

To eliminate possible misunderstanding, all countries should volunteer to exchange defense-related information and

should contribute meaningfully by all other means to the promotion of mutual trust and confidence in the region. This is especially important at this point, because East Asia has no regional security community and the ARF is only at an early stage of evolution.

It is, therefore, encouraging that China has been willing to discuss regional security issues such as the South China Sea in the multilateral context of the ARF, in consultations with ASEAN, and in bilateral dialogues with the Philippines and other South China Sea claimant countries. At our latest bilateral meeting in Manila last August, the Philippines and China agreed on the principles that would constitute a code of conduct to enhance peace and stability in the South China Sea.

There is one more factor involved. The United States is still the preeminent military power by far in the region. Received wisdom about the limits of military power aside, the short-term reality is that Washington still holds the long trump suit as far as the military side of the regional security game is concerned.

If the reliability of American defense commitments in the region can be assured, this would balance any contrary drift toward destabilizing change. On the other hand, should American resolve fall into doubt, the range of possible East Asian counter-reactions cannot be foreseen with any degree of certainty at this moment. Some counter-reactions could be unwelcome. To avoid this unknown, an overly rapid decline in the military presence of the United States in the region should be avoided.

The Fourth Imponderable has the most sweeping implications for East Asia's developing nations. Although the region's progress has been good, the sustainability of this progress for East Asian developing nations would be risked if neo-protectionist barriers are imposed against their exports. We have already witnessed endeavors by developed industrialized economies, mostly from the West, to establish a 'new' trade agenda that would link trade with non-trade environmental, social, labor, and even human rights issues.

There is serious and persistent unemployment in the North. Unemployment in OECD countries rose sharply from an average

of 3.2 percent of the workforce in 1960-1973, to 7.3 percent in 1980-1994. Thirty-four million people were out of work in the North last year. Moreover, while job growth has expanded in some developed countries like the United States, many of the new jobs have been in lower-paying services rather than in higher-paying manufacturing.¹⁹

This intractable problem has coincided with a great surge of manufactured imports from the South. This has provoked neo-protectionist arguments in the North that the South's exploitation of unfair trade practices like eco-dumping, sweatshop wages, and prison labor, is the principal cause of the North's employment dilemma.

It is true that unskilled labor in OECD nations may have been adversely affected. However, the expansion of North-South trade, and the South's increasing share of world manufactured exports, should be seen as positive trends from a global perspective. The needs of growth in the South generate a voracious demand for more investments and technology, and for more imports of production inputs and consumer items from the North. The 1994 G-7 Naples Summit acknowledged that high unemployment in the advanced countries is not due to unfair trade, but to imbalances in their own domestic economic policies.

If the labor picture does not improve in the countries of the North, political pressure from their electorates could lead to irritants in the North-South dialogue. East Asian developing countries would be heavily exposed in a scenario like this, because of their prominence as some of the most successful exporters from the developing world, and because of their high dependence on foreign trade.

There is also a geoeconomic implication. Neo-protectionist sentiments of this kind have become more strident in North America and Western Europe than in Japan. They are being championed not necessarily by the governments, but by extremely vocal American and European NGOs and cause-oriented and advocacy groups.

Though they actively support East Asian regional integration, East Asian developing nations also seek to diversify

their global trade relationships and to cover all three corners of the tripolar geoeconomic system as well as other developing countries. Should their access to American and European markets be impeded, the East Asian developing nations would have no other choice except to bet on their own home region to absorb more of their exports. Indeed, one possible motivation for accelerating intra-regional trade in East Asia could be to have a hedge against problems of this kind. From our perspective, this would distort the open, benign, and non-confrontational economic regionalism that East Asia has to date pursued. We will therefore have to participate in global discussions to keep world-trade as free and fair as possible.

The Fifth Imponderable is perhaps the most problematic of all. It involves possible sources of old-fashioned political and balance-of-power-related tensions in the region between states, and societal tensions within states. The main inter-state causes of tension are the unresolved problems on the Korean Peninsula and the South China Sea disputes.

The principal intra-state sources include: the relationship between China and Taiwan, particularly in the light of Taipei's attempts to make a diplomatic come-back in world politics; the possibility that Russian weakness will lead to further socio-economic disintegration; and the difficulties that the politics of succession, transition, democratization and social change will raise with increasing urgency in many East Asian countries, including those where a rising middle class has found a new political assertiveness.

Unfortunately, while regional economic cooperation might help in ameliorating the climate of discord arising from some of these tension spots, it cannot really be employed as a tool for final conflict resolution. The political side of the regional security equation will be where concerted cooperative effort will be required.

Conclusions

Given the present limitations of regional political and security cooperation, East Asian nations must rely for the time being on economic underpinnings to enhance regional solidarity.

A shared stake in continued regional prosperity should encourage East Asian nations to maintain their policy of giving priority to internal development and to regional economic cooperation and integration.

For this purpose, the best approach would be to let market forces carry on, as they are already doing, with the process of deepening interdependence within East Asia. AFTA and other regional free trading arrangements and growth zones will be important vehicles for promoting interdependence. In the case of AFTA, moreover, it might succeed in eventually bringing Vietnam and the other countries of Indochina, and Myanmar, into a regional market that would help spread the benefits of trade and investments within Southeast Asia.

Governmental cooperation in the economic field can also proceed, although headway here may be more tentative, given the wide differences between the sizes and the stages of development of the economies in East Asia and in the Asia-Pacific. APEC, for example, still has a confidence-building role in assuaging residual fears that the larger Asia-Pacific economies will entrench their domination over the Pacific Basin to the detriment of the common regional interest.

In addition, development issues will remain central to the concerns of the region's LDCs. The developing countries in APEC should continue to emphasize cooperation for the promotion of regional development, in recognition of the interdependent nature of regional prosperity. To keep balanced relations with all three corners of the global tripolar geoeconomic system, the region's LDCs will have to carefully monitor, and be involved in, global discussions on trade and development.

The East Asian approach towards maintaining stability in the region should be to work where the region is strong, namely, in the economic sphere, and to have enduring success there balance those areas where the region might be comparatively vulnerable to conflict. To look for the creation of a community in the whole of East Asia would be too ambitious at this juncture, except in the specific case of Southeast Asia. Besides, such a community risks being misunderstood in North America and Western Europe at a time when East Asia's relations with those regions are suffering from some strains.

What should be aimed for is the maintenance of a disposition on the part of the region's governments to preserve the region's quiet status quo for the sake of economic progress, in the hope that the region will either be able to 'grow out' of its problems. In essence, this is a conservative strategy of making haste slowly. Broadly speaking, this is reflected in the general Philippine position. The Philippines is now pursuing an active regional policy and economic diplomacy, based on cooperation and consultation, and aimed at promoting greater interdependence in ASEAN, East Asia, and the Asia-Pacific.

The scope of the Philippine approach looks beyond the traditional politico-military measures for securing regional stability, and takes into account regional economic trends and realities that may assist in safeguarding the region's security over time.

President Ramos articulated Philippine thinking during his recent state visit to Australia in the following terms:

We believe that:

Security has many dimensions: it involves not only the military but the economy, diplomacy, and politics as well; and

Economic growth and interdependence, in the context of the new world trading regime, by themselves promote regional stability.

The Philippine approach conforms to the idea of utilizing the region's economic advantages in positive ways, for the mutual benefit of all the East Asian economies. At the same time, it is mindful of the need to keep East Asia open in its outlook and actions. A strategy of conservatism is not passive. Security improvements are unlikely to 'just happen.' They must be worked for. And this undertaking must be supported by the right sort of mindset. To illuminate this point, let us end with a cautionary tale. Our generation has no special claim to be the author of the notion that financial and economic interdependence will be sufficient by themselves to prevent war. In 1910, in a book entitled *The Great Illusion*, an academic named Norman Angell contended that a major war between Europe's Great Powers would no longer be possible, given their economic links and the gargantuan costs of such a war.

His views were well received by European pacifist opinion. But they were interpreted by some of Europe's military to mean that a future war would have to be fought very quickly so as to escape the crippling economic consequences of a protracted conflict.²⁰ Europe's military establishments and the mindset of their age led their world into catastrophe. This was despite Europe's vast scientific, technological, and other material progress made in the century before World War I. Our generation has the benefit of this previous experience. We have hopefully learned many good lessons since Sarajevo in 1914, including the necessity of democracy. The acceptance of democracy is more widespread during our generation than it was earlier in this century. There is at least one school of thought which argues fervently that liberal democracies do not go to war with one another.

Of course, this is an ideological argument, as open to criticism as any earlier argument about the ideological basis of world peace. But it serves the purpose of stressing that attitudes are as important to relations between nations as are the more tangible economic and military factors that can be measured in figures, plotted on graphs, and projected by calculation. And perhaps this is the most important lesson of all.

Notes

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²Seven ASEAN members: Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

³APEC member-economies: Australia, Brunei Darussalam, Canada, China, Chinese Taipei (Taiwan), Chile, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Thailand, and the USA.

⁴*Facing The Asia-Pacific Challenge. A Report of the Multisectoral Conference-Workshop Series "Facing the Asia-Pacific Challenge,"* (August-October 1994). A Project of the Center for Research and Communication's Institute for International and Strategic Studies.

⁵ARF Members: ASEAN 7, plus Australia, Cambodia, Canada, China, the EU, Japan, the Republic of Korea, Laos, New Zealand, Papua New Guinea, Russia, and the United States.

⁵There are three multilateral regional defense arrangements: SEATO, ANZUS, and the Five Power Defense Arrangement. None of these, however, attained NATO's degree of regional inclusiveness.

⁶World Bank. *The East Asian Miracle: Economic Growth and Public Policy*. A World Bank Policy Research Report. Oxford University Press (1993).

⁷The eight HPAEs are: Japan; the four Asian Tigers -- Hong Kong, the Republic of Korea, Singapore, and Taiwan; and the three newly industrializing ASEAN countries -- Indonesia, Malaysia, and Thailand.

⁸IMF. *World Economic Outlook*. (May 1995).

⁹Overholt, William H. *China the Next Economic Superpower*. Weidenfeld and Nicolson, London (1993).

¹⁰East Asia Analytical, Department of Foreign Affairs (Australia). *Overseas Chinese Business Networks in Asia*. Commonwealth of Australia, ACT (1995).

¹¹IMF. *World Economic Outlook*. (May 1995).

¹²East Asia minus Japan, i.e., China, East Asian NIEs, and ASEAN.

¹³In comparison, intra-APEC trade was about 70 per cent of total APEC world trade (1993), intra-EU trade is around 54 per cent of total EU world trade (1993), and intra-ASEAN trade accounts for between 18 and 20 per cent of total ASEAN world trade (1993,1994).

¹⁴Center for Pacific Business Studies, Sakura Research Institute. "Economic Outlook of the Asian Economies for 1995: Competition for Leadership Intensifies as Asian Economies Struggle for New Order." *Rim. Pacific Business and Industries*. Vol. IV No. 26 (1994).

¹⁵APEC Ad Hoc Working Group on Economic Trends and Issues. *APEC Economies: Recent Developments and Outlook*. APEC Secretariat, Singapore (November 1994).

¹⁶Ken, Iijima. "The Current State of the East Asian Economies and Issues for the Future." *Rim. Pacific Business and Industries*. Vol. IV No. 26 (1994).

¹⁷See, for example, Gill, Bates. "Arms Acquisition in East Asia," Appendix 13E, Stockholm International Peace Research Institute (SIPRI), 1994 Yearbook.

¹⁸Selin, Shanon. *Asia-Pacific Arms Build-Up, Part One: Scope, Causes and Problems*. Institute of International Relations. The University of British Columbia. Working Paper No. 6, (November 1994).

¹⁹See UNCTAD, *1995 Trade and Development Report* and OECD, *Linkages: OECD and Major Developing Economies*. Paris, 1995.

²⁰Tuchman, Barbara. *The Guns of August*. Dell Publications (New York, 1962).