

On East Asian Regional Integration from the Perspective of Economic Security

Chin-Ming Lin

Tamkang University

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A decade can make a great difference. The 1997-98 Asian financial crisis seemed to spell the end of the "Asian miracle", while now, a little more than ten years later, the region is one of the few bright spots in the global economy. The Asian crisis was also claimed to be the catalyst for increasing integration in the region. However, the issue of whether economic growth, as a presumed consequence of further regional integration, can be separated from the discussion of security has been raised, especially in the aftermath of the crisis.

This paper will look at the process and prospect of regional integration, especially viewed from the point of economic security. It is crucial to look at monetary regionalism which has raised several initiatives along with other cooperative regimes in real sector.

Monetary Regionalism in East Asia

Viewed from the point of cooperation in financial sector of East Asia, potential crisis faced by the region is related to its specific geopolitical situation. The key issue here is that globalization not only presents threats as well as opportunities, but also was driven by the U.S. and powerful international institutions created under the auspices of American hegemony. The creation and operation of the Bretton Woods Institutions—the IMF, the World Bank and the World Trade Organization—was intentionally designed to maintain an “open”, liberal, and increasingly integrated world economy (Beeson, 2006). It is not deniable that the remarkable transformation in East Asia owes much to the opportunities this open economic order presented. The rapid rise of China is a typical evidence of this potential benefit from the above-mentioned economic order (see, *e.g.*, Lardy, 2002).

And, notwithstanding the undoubted benefits from greater interdependence, it also carries potential dangers. East Asia's vulnerability to destabilizing forces, especially coming from highly mobile capital that caused such an enormous turmoil in the 1997-98 financial crisis, signals a warning to governments and peoples of the region. The significant response of the region collectively is not only to redesign its

financial architecture as advised by the IMF, but also to expand the process of “monetary regionalism”, in which cooperation between Asian states is becoming more institutionalized. The currency swap arrangements, *e.g.*, the Chiang Mai Initiative (CMI), have received the most attention. Not only such arrangements could provide a degree of insulation and autonomy for the region in the event of any future crisis, but East Asia as a whole has the economic capacity to underwrite such arrangements. In other words, the financial sector provides a rationale for greater regional cooperation.

Even though the cooperation within East Asia remained limited in the aftermath of the crisis, the response of Asian states was in part responsible for the present global crisis. The increased production and renewed exports of the region helped create the massive foreign exchange reserves which have become a feature of the region’s defensive economic posture. These reserves were recycled to the U.S. which would become such an integral part of the current crisis (Vasudevan, 2009). Paradoxically, the U.S.’ massive liabilities actually become a source of leverage as other states became dependent on it as an absorptive market and apparently safe investment haven. In the short term, it was a relationship which the U.S. appeared to benefit and which U.S. policymakers had little incentive to change. As a result, little has changed despite the rhetoric about the need to reform financial architecture after the Asian crisis (Soederberg, 2001).

Now, however, the entire international economic landscape has changed and the potential of fundamental reform is much more prominent. A number of things have happened since the Asian crisis that has fundamentally changed the dynamics of the current crisis. First, it is a truly global crisis and one centered on the U.S. rather than East Asia. Nevertheless, Asian economies, thus far, have emerged relatively unscathed. And the second feature of the current crisis is that China has become a much more important and assertive power. China’s rapidly growing economic significance and a greater willingness to play some sort of international role have necessarily given its policymakers a focus that transcends the region. China’s leadership is becoming increasingly outspoken and critical of the U.S. For example, premier Wen Jiabao directly repudiated the idea that China contributed to the crisis (Tett and Edgecliffe-Johnson, 2009). Given this growing assertiveness, the widely noted remark of Zhou Xiaochuan, Governor of People’s Bank of China, were quite noteworthy. He argued that the international monetary system needed to be reformed and an international reserve currency should be created that was “disconnected from individual nations” (Zhou, 2009).

Although Zhou did not mention the U.S. directly, the implication is clear: China wants to be one of the driving forces shaping any post-crisis international order. Significantly, Wen suggested that the G7 could be an appropriate forum for discussing about the new order, and Zhou argued for a greater role for the IMF—an institution over which China is keen to enhance its influence. Neither Wen nor Zhou mentioned East Asian institutions. And some observers think that ultimately a “G2” composed of China and the U.S. will be the defining party of any institutional architecture emerging in the aftermath of the crisis (Brzezinski, 2009).

Is Economic Security in Asian Regionalism Secure?

In this era of globalization, an emphasis on economic security is necessary not only because of the globalized world, but also because of the fast pace of technological change: to fall behind will mean relegation and being kicked out of the race. As Buzan *et al.* pointed out, in a capitalist system “the actors in a market are *supposed* to feel insecure” (Buzan *et al.*, 1998: 95, emphasis in original).

What are the characteristics of monetary and financial integration in a region? Within the process, attention is focused on four goals: the facilitation of trade in goods and services by providing stable monetary conditions, the provision of efficient, well-functioning financial markets, the prevention of financial crisis and finally, the regional management of credit and currency crises (Dieter, 2008: 490-91).

Nevertheless, until today steps toward monetary integration in Asia have been rather limited. After the Asian crisis, governments have pursued a two-track strategy. The first and most obvious is the build-up of enormous currency reserves. Countries have significantly strengthened this first line of defense. The second has been a somewhat novel concerted effort to strengthen monetary regionalism. One dimension is the above-mentioned Chiang Mai process, established in 2000 and aimed at creating a regional liquidity reserve. Despite its useful appealing, the goals of this process remain largely undefined. Is it aiming at providing liquidity in the event of an unexpected credit crunch, *i.e.*, the simultaneous retreat of the majority of international lenders? Or is the stabilization of exchange rates the goal? Further, conflict between Japan and China, which is mainly about leadership in Asia, may have hampered a further deepening of the CMI (Jiang, 2010). Today, the lack of progress in monetary regionalism can partly be explained by the willingness of either China or Japan to block any initiative that would improve the competitor's position in the region.

Conclusion

This article has looked at the East Asian regional integration from the perspective of economic security. Economic security first became important for some who explored the effects of the Asian financial crisis, and, by extension, of economic globalization, as being significant as those of traditional (military) conflicts. While most of the countries in the region emerged largely unscathed from the current global crisis, the structural weakness of its financial architecture and the challenges that its economy face from the more globalized and more interdependent trade regimes have compelled policymakers to continually reassess economic-security relevance in the region.

For students of regionalism, perhaps the biggest lesson is that crises can have centrifugal as well as centripetal effects (Beeson, 2011: 371). It seems that leaders of East Asia were not as responsible for the economic fates of their neighbors as their European counterparts. Therefore, the expectations about East Asian regionalism are rather modest. The preliminary conclusion of this paper on Asian monetary regionalism is that it will be a complex endeavor and will only be achieved in the long run. In view of putative conflict in competing for leadership in the region between China and Japan, and barriers in various initiatives for deepening and stabilizing regional financial markets, the economic-security discourse in East Asia is still facing uncertain prospect and should be continually monitored.

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