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THE GROWING INFLUENCE OF THE ASIA PACIFIC REGION AND THE IMPLICATIONS FOR GLOBAL GOVERNANCE

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I would like to talk about three sets of issues. One, the nature of the changes taking place in the world; second, the implication of these changes to global governance and the reforms we should make to the global governance system; and third, the external policies to be conducted by the new government run by the Democratic Party of Japan.

Let me start with the changes taking place in the world. The world has changed from the bipolar system during the Cold War and the unipolar one under US leadership that followed it. Now there is a multipolar system with emerging nations—in particular, China and India. The nature of these changes means that we are having a more difficult time making decisions. During the time of the Cold War and that of the unipolar system, it was relatively easier to come to a conclusion because there was governance by the Western industrialized democracies. When we had the second oil crisis in 1979 and the G7 summit was held in Tokyo, the G7 agreed to the imposition of voluntary restraint on the importation of oil. It was not a difficult decision because the G7 occupied about 70 percent of the total GDP of the world. Now, the share of the G7 in total world GDP has come down to around 50 percent.

During the time of the Cold War, we had two nations that emerged with very strong growth: Germany and Japan. But Germany and Japan only had 6 percent of the total world population. They grew with a strong security guarantee from the United States, and they did not have nuclear arsenals.

Now, we have China and India. They have a combined population of 2.5 billion—about 40 percent of the total population of the world. China is surrounded by 14 nations. They both have nuclear weapons and are not dependent upon what we call the “Western security system.” So, both China and India have threat perceptions that are entirely different from those of the Western nations.

Clearly, it is not easy for the world to come to a single decision now. In the past, we considered democracy and the market mechanism as the two key principles around which we made most decisions. Now things are entirely different from the bipolar and unipolar systems, which leads to the necessity of reforms in global governance.

There is a need for two different reforms. One involves our need to have a much more inclusive decision-making process. The G20 concept is the right concept because it represents most of the major economies, even though we should expect a much more difficult decision-making process as a result. People have talked about the need to coordinate basic structural reforms—easily said but difficult to implement because we do not have precedents to aid us. The UN Security Council needs to be reformed and needs broader representation, including from countries such as Germany, India, Japan, and Brazil. So, first of all, we need to push for a more straightforward way to reform international institutions like the UN Security Council as well as the Bretton Woods institutions such as the International Monetary Fund (IMF), the World Bank, and others.

The second reform we need to make is the creation of a stronger regional system. Europe has come a long way. They started from functional communities such as the European Coal and Steel Community, then the single market, then the common currency, then the EU presidency, and then the Lisbon Treaty. But European countries have commonalities in relation to their governance systems and economic development, as well as in their cultural and historical background. In contrast, given the diversity among our nations, we in East Asia need to have a different type of guiding principles for community building. As I said, in order for us to respond to the changes taking place in the world, we have to reform governance by creating inclusive institutions and, at the same time, strengthening the regional system. I think the world needs to be organized in concentric circles: the European Union, East Asia, and North America. All three are major entities with a role in global governance. But I must say that East Asia is the least united. East Asia has yet to produce a strong entity in the form of an East Asia community.

I would like to introduce three guiding principles for the creation of an East Asia community: one, reduce risk; two, increase confidence; and

three, maximize benefits. Furthermore, given the diversity of the region, we should introduce multilayered and functional approaches. Depending upon the specific functions, we should have different memberships as well as different organizational methodologies.

On the question of economics, the economic integration taking place in East Asia is based upon the market, and I would like to think that one role of national governments in the region is to facilitate this market-led integration. For that, I would like to see a multilateral economic partnership agreement among 16 countries—ASEAN plus China, Korea, Japan, Australia, New Zealand, and India. This multilateral free-trade zone is a way to maximize the benefits for the member countries.

Let me turn to the question of security. We need four layers for the regional security community: bilateral, trilateral, subregional, and regional.

The first layer is bilateral security arrangements. We should not be shy about recognizing the importance of bilateral security arrangements centering on the United States as a stabilizing force in dealing with uncertainties in the region—the US-Japan Security Treaty is one of the clearest examples of that. The US-Japan Security Treaty must evolve to become a public good for all of East Asia.

The second layer is the trilateral arrangements. We need to solidify the trilateral meetings between China, Korea, and Japan. Their development is good, particularly for the purpose of confidence building. I would also like to see the establishment of trilateral strategic meetings between the United States, China, and Japan. It is necessary for the region to have a stable relationship among these three entities. At the same time, I would like to see development of a trilateral arrangement between the United States, Korea, and Japan as well.

The third layer is the subregional security architecture, which includes the Six-Party Talks in Northeast Asia and ASEAN in Southeast Asia. There may be a long way to go, but I think the Six-Party Talks provide the proper mechanism for subregional cooperative security purposes, including confidence-building measures. Any agreement reached at the Six-Party Talks would require a long time and a stable way to see it through to its implementation. A format involving the members of the Six-Party Talks would be the right one for overseeing agreements regarding North Korean nuclear development.

I also respect the efforts to create the ASEAN Charter. ASEAN has, indeed, come a long way. But, lately I do not see strong unity among ASEAN members—people talked about an ASEAN-first policy, but instead I see lots of different policies by nation-states. There are so many questions, such

as the question of Myanmar. I am not entirely sure about the nature of the relationship between Indonesia and Malaysia, I do not know what kind of friction is taking place between Singapore and Indonesia, and I would like to see a much more active Filipino participation in the governance of subregional affairs. But, let me reiterate my fervent hope that ASEAN will regain its strength at the end of the day, and that it will play a major role in terms of regional architecture—building efforts.

The fourth layer is regional security cooperation. I think there is a clear need to talk about inclusive regional cooperative security mechanisms centering upon nontraditional security issues, such as disaster relief, counterproliferation of weapons of mass destruction, counterterrorism, and HIV/AIDS. These require military operations and concrete action, not just talk shops. What we need to have is not just coordination of policies, but the establishment of inclusive networks for joint operations among the countries. I would like to see the United States play a major role here. The United States in the past has proposed various actions regarding nontraditional security issues. John Bolton organized the Proliferation Security Initiative (PSI), but that initiative is based upon a “like-minded” approach that does not include China and India. In contrast, I would like to see action on nontraditional security issues that is regionally inclusive.

Depending on specific functions, we should have different groups. For instance, there are various discussions about whether we should self-identify as “East Asia” or as the “Asia Pacific.” When he visited Tokyo in November 2009, President Obama made a very good speech about East Asia policy. The United States has identified itself as a Pacific power, and, at the same time, President Obama talked about the US intention to more formally associate itself with the East Asia Summit. I am not entirely sure what the United States’ true intention is, but it probably depends upon the development of a clearer role for the East Asia Summit. The East Asia Summit must do real work and not just be a forum for discussion. At the same time, the regional nontraditional security operational system can be discussed in the context of the East Asia Summit as well.

Finally, let me talk about the external policies of the new Democratic Party of Japan (DPJ) government in Japan. We hear two buzzwords from the new government: “equal partnership with the United States” and the “creation of the East Asian Community.” It is natural for the new DPJ government to pursue a policy that is essentially anti-Liberal Democratic Party (LDP), because this is the first time since the end of the war that a real change of the governing party has taken place in Japan. During their public campaign, the DPJ embraced anti-LDP policies—such as distancing

Japan from the United States and further emphasizing Japan's place in East Asia—because LDP policy has been perceived as too dependent on the United States. During the time of Prime Ministers Abe and Aso, the LDP talked about values diplomacy and centered their priorities on the “groupings of democracies,” so, as part of their public campaign, the DPJ talked differently. That is the reason why Prime Minister Hatoyama has been speaking about an equal partnership with the United States and the creation of an East Asia community.

We have many issues concerning our bilateral relations with the United States. People are currently talking about the relocation of the Futenma Marine base, and there are the questions of host nation support, the status of forces agreement, and the future operations of the Japanese Self-Defense Force in relation to international security affairs. Particularly since next year is the 50th anniversary of the US-Japan Security Treaty, I have made both public and private recommendations to the DPJ leadership to sit down with the United States and talk about the need for the US-Japan alliance to evolve due to the changing situation in East Asia. You cannot expect anything to take place in a short period of time, but I have been telling the DPJ that it is time for us to consolidate our conception of the East Asia community.

The call for the East Asia community is not new. What is new is that political leaders in Japan are now committing themselves to the creation of the East Asia community. However, they have yet to officially formulate the precise concept and design needed to reach the long-term goal of an East Asia community. I would very much like the DPJ to evolve their concept based upon the multilayered, functional approach I have talked about today.

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LEE SUN-JIN

Given the breadth of the topic—the growing influence of the Asia Pacific region and its implications for global governance—I have narrowed down the subject to focus on the East Asian economy and its implications for

global governance. I will speak on three issues that I believe greatly impact global governance.

First, in the wake of the 1997 economic crisis, we experienced two major developments in the region. One is that we lost confidence in established international institutions. The other is the rise of China. Many of the East Asian nations lost confidence in established international institutions, particularly the IMF, the OECD, and APEC, due to their bitter experience dealing with these institutions during the crisis. The severe IMF conditionalities imposed as a requirement for assistance forced the crisis-hit economies, including Korea, to make drastic economic, social, and political reforms. They forced us to open our commodities and financial markets while APEC, for instance, did not take any action. Some say this was intentional. This sparked anger and resistance by the East Asian nations toward the international establishment. Against this backdrop, these East Asian nations moved to institutionalize their regional economic integration. As a result, we now have free trade agreements (FTAs), the Chiang Mai Initiative, the ASEAN Economic Community, and the Greater Mekong Subregion projects. We have made progress.

At the same time, China has become a role model for economic growth, as the Beijing Consensus suggests. During the 1997 crisis, East Asian nations were criticized for their so-called “crony market economies.” If we judge the Chinese socialist market economy by that standard, I am sure China’s economy is a kind of crony market economy. However, China has also achieved an economic growth rate of 10 percent for over 30 years, and it has shown resilience both in dealing with the 1997 economic crisis and with the current crisis.

These two trends—lost confidence in established international institutions and the rise of China—have precipitated a series of identity crises in the East Asian economy, which leads to my second issue.

The East Asian economy now faces the question of how much burden sharing corresponding to its rise in the world economy that it is willing to shoulder. In 2007, the East Asian economy represented 25 percent of total world GDP and 52 percent of world foreign currency reserves. In 2008, almost 60 percent of the world’s foreign currency reserves were held by the East Asian economies. The rise of the Asian economies and their growing influence is also reflected by the fact that six nations from this region participate in the G20, the largest number of any regions, including the European Union, which sends four representatives. The G20, by the leaders’ agreement, has been designated as the premier forum for international

economic cooperation. They will meet on a regular basis two times a year until the economy recovers.

This burden sharing has two parts. One part involves greater responsibilities and sacrifices in order to restructure the world economy to address issues such as global economic imbalances and climate change. The other part is participation in a new rule-making process in order to better manage issues such as international monetary and commodity flows. If the G20 does not take responsibility for their share of burden sharing, I am certain that the nations comprising the global economy will fall into a vicious cycle of distrust. Big powers may carry out unilateral actions and cause destruction that would seriously challenge global governance. Frankly speaking, however, I am greatly concerned about the preparedness and willingness of the East Asian economies to take on this burden sharing. Seeing the results of regional meetings held at the government level in 2009, including the ASEAN+3 Summit and the East Asia Summit, we witness the lack of a sense of urgency and preparedness in this region to address global issues.

Now, I have a third question. Will unilateralism prevail in this region? This question pertains to China's emergence in the East Asian economy since the 1997 economic crisis. We have witnessed growing export dependence on China in recent years. In 2006, 25 percent of the total exports of Korea and the Philippines were destined for China, Japan's share stood at almost 18 percent, and most ASEAN countries were at 10 to 15 percent. When comparing this with data from 2000, I am amazed at the rapid pace of the growth. For example, Korean exports to China accounted for 13 percent of their total exports in 2000, but rose to 26 percent in 2006. The Philippines went from 3.7 percent in 2000 to 25 percent in 2006. Taiwan went from 2.9 to 21 percent. Even Japan went from 8.2 percent in 2000 to almost double that in 2006, with 17.7 percent of their total exports shipped to China. Many economists also predict that China will overtake Japan in terms of GDP in a couple of years, and that after that their GDP gap will get wider and wider. So, China will continue to expand its economic influence in the region, and a China-centered economy system may develop, which of course would also increase China's political influence.

The East Asian economy is characterized by networks of production and distribution that were established in the mid-1980s. Any policy of unilateral action by China would have a serious impact on this network and accordingly impact each economy in the whole region. Yet, despite growing interdependence, East Asia lacks regional governing rules—or even mechanisms to create such rules—to bind the economies of the

region, including China's. We would not be able to check the rivalry and struggles between the major powers. One of my most serious concerns is that if we remain like this for another 10 or 20 years, we might not be able to check possible—and here I underline possible—hegemonic acts by China in the future. Under these circumstances, I wonder how China will move toward addressing regional and global issues. Will China become a unilateral power, as has been a normal practice in this region until now? And, will it place less importance on considering the impact of its actions on its neighbors?

I have raised three issues: identity crises, preparedness for burden sharing by East Asian economies, and the rise of China. These are problems of different natures, but they involve a common denominator—the necessity for the institutionalization of regional cooperation. In this regard, I suggest that the six Asian G20 countries work out a formula for a wider consultation in the region. Their leaders should attend the G20 summits every six months and make decisions on all agenda items. Under the circumstances, however, it is hard to expect that any of the economies in this region will relax their previous staunch positions and voluntarily take on whatever modest burden sharing they have to shoulder. Therefore, a bottom-up approach of sounding out regional opinion and regional consensus may be useful prior to discussions at the global level. Having initial consultations at the regional level will build momentum, first for the institutionalization of regional cooperation and second for drawing the attention of the region toward global issues.

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JUSUF WANANDI

There has been a gradual shift of economic power toward East Asia, and the latest economic crisis hastened this process. I think the resilience of the East Asian economy has shown itself, thanks to the experiences we had during the earlier crisis in 1997. But we have yet to show that we are committed to regionalization for the longer term, because the issues that are coming up—restructuring of the domestic economies, establishment of

greater national resilience through better safety nets, health care, education, and green policies—are all serious and difficult ones.

One definite improvement in this effort is that the United States is also becoming multilateral. In particular, the United States has asked how to participate more in the East Asian region—even asking China to share the burden of producing the necessary public goods. This is not a G2 arrangement; the relationship is not equal. Burden sharing is new to China and thus there is a gradual learning process—and China has many domestic priorities to face. On the other hand, it is also a reality that the United States faces real challenges in the future. All of the achievements that it has had up to now, all of the Nobel Prizes in all the various fields such as medicine, peace, economics, chemistry, and physics, they are achievements that it has accumulated due to its earlier development. But, particularly in the last decade, the United States' investment in education and R&D has declined, and others are catching up. It is not only that US investment has declined, but also that other countries have really been investing more.

Now, much has been said about what China will be up to in the future. For instance, it is said that that the country is developing so fast economically that it will soon be facing obvious discrepancies in its political development. But from what I know of China's leaders, I can testify that they understand these issues well and are definitely trying to do more to overcome them.

One good thing for all of us in the region is that the Chinese have no ambitions to change the global system and order. That means that they are as conservative as we are in East Asia in general and that we are not facing the “revolutionaries” of over 30 years ago. What I am absorbing from the Chinese is they believe that, in the end, the global order and values will be a mix of what has been achieved with the Western Enlightenment and the developments in the last two centuries stemming from it, as well as other values, such as East Asian values. Chinese values will be included in the global value system in the future international order. Hopefully, that is going to happen peacefully.

Of course, the comparison has been made with the end of the 19th century. At that time, there were not enough rules and institutions organizing the European balance of power system, so that, despite an increase in trade, we got World War I, World War II, and then the Cold War—a century full of wars. But I think this time we have a fighting chance because there are many more rules and there is much more cooperation at the global level. The G20 is only one example of that now, which shows how adaptable the institutions and the rules are currently. We now have so many regional institutions established to deal with all these issues or at least start to find

answers to them. Confidence building has been established to a very large extent. I am quite upbeat, actually, about future developments globally as well as in our region.

The second issue I would like to bring up is how to find a nexus between global governance and regional institutions. There is a problem that, while the G20 is better than the G7, the G20 is still not 187 or 198 countries. For that reason, the deficiency in legitimacy must be dealt with by the G20. One part of the effort should be to build a connection between the G20 and regional institutions in the future. We in East Asia have to recognize that we do not have much experience in global governance or in global rules and regulations, especially in the economic field, since we have mostly been left out of the network of these established institutions over the last 60 years. Only Japan has had some experience as a member of the G7. All these institutions were mainly organized by the Europeans, but I think now is our chance to influence global rules and institutions and make adjustments for the future. We should thank Korea for taking the lead in being willing to organize the first G20 meeting in Asia in November 2010 and should support Korea's efforts on behalf of the region, particularly East Asia. We have had two meetings in Korea, and we are looking forward to supporting the Seoul G20 Summit in November.

For all to be able to contribute to this effort at global governance, we have to get our act together. I have been very conscious of the developments in East Asian institutions, including ASEAN, because the urgency is now pressing. We cannot go only by the so-called "ASEAN way"—step-by-step, prioritizing everybody's comfort, and waiting until everybody is onboard with everything.

Thus, I am looking forward to improving the capacity and activities of the East Asian institutions. We have to consolidate, and, with the right pressures from the "Plus Three" Northeast Asian countries, we can get ASEAN to be more willing to address the first obstacle we are facing in dealing with regional institutions in East Asia, which is how to distinguish the roles of ASEAN+3 and the East Asia Summit. We cannot duplicate everything that we are doing in two different institutions. Resources, especially human resources, are too limited—that is why we have to find a way to clearly define what each has to do and then, of course, develop the nexus between them.

The best method in my opinion is to have an ASEAN+3 process for functional cooperation, including economic cooperation, because the institution has already devoted 12 years to these efforts, but to keep the

process open for the other three nations comprising the East Asia Summit to see whether it is worthwhile for them to participate or not.

The East Asia Summit can be used more for strategic dialogue. As Kevin Rudd has been saying, we do not have a summit that talks about political and security issues as well as economic ones at the strategic level. The East Asia Summit can fill that role, especially if the United States shows its willingness to participate, as President Obama said in his speech in Japan one week or so ago. If that comes about, I think we have a fighting chance of having an East Asia Summit that is really valid. I think that is the best solution, although of course, this process has yet to go through and efforts are still ongoing at the ASEAN level.

The second issue, which might require a small adjustment, is the possibility of focusing on particular economic issues that are not that complicated—especially when compared with FTAs—such as specific cases of facilitation and investment cooperation. These limited, specific issues could be discussed at the level of the East Asia Summit, though without mixing up the roles of the East Asia Summit and ASEAN+3. But, basically, the East Asia Summit should be a dialogue on strategic issues.

Finally, we have to deal with creating a nexus between the G20 and the East Asian institutions. We have the idea that the East Asia Summit has to be embedded in larger transpacific cooperation that involves APEC. APEC improved itself in Singapore, and next year there will be an APEC summit in Japan, then in the United States in 2011. So we have a chain of events, and we could have these East Asian activities embedded into these two bigger outfits, which could become much more valuable in the future. The nexus should lie in working out a system where East Asian institutions could contribute through its members in the G20 as well as directly into the G20 process. The president of Indonesia has proposed that ASEAN become an official observer in the G20. For that matter, ASEAN has already independently initiated some input into the system.

Now, we have to create this nexus with the rest of the East Asian institutions. The activities, preparation, and support that is needed for our members in the G20—as we have shown in the effort to prepare for the Korean G20 meeting—is also a critical matter as there are very complicated issues they would like to pick up. We have to prepare ourselves, and prepare well.

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