Regionalism, Asian style

Its uniqueness in a global context is being substantially market-driven.

BY STEPHAN RICHTER & JOHN WEST

Despite its current problems, the EU is often considered to be the gold standard for countries working together for peace and prosperity. While there are many types of regionalism in the world — North America has NAFTA, South America has Mercosur, Australia and New Zealand have Closer Economic Relations — Asia is seen as a leader. This is actually the time for a perfect role reversal: Today’s Europe needs to learn from Asia’s regionalist private-sector orientation, while Asia now needs Europe’s starting point of using trade to overcome difficult history.

What is unique about Asian regionalism in a global context is that it has been substantially market-driven. This move started in 1965, following the Plaza Agreement to revalue the yen, when many Japanese companies began offshoring labour-intensive production to lower-cost destinations, such as the ASEAN countries of Southeast Asia and China.

Soon after, Hong Kong, Korea, Singapore and Taiwan followed suit and China. Asean countries of Southeast Asia and Singapore and Taiwan followed suit and China.

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The goal for East Asia should be to trade that is conducted within the region already amounts to 68%. The goal for East Asia should be to move dynamically into the same percentage range. Given the current level, that would require at least a 50% increase in the share of regional trade. That seems entirely feasible, given the growth and population dynamics of the wider region. Consider also that this by no means implies any “decoupling” from other global markets, or specifically the US market. It just foreshadows a trading world where Asia completes the process from initially being an outsourcing destination for multinationals to corporations to becoming the key growth driver of the global economy. Such a broadening of Asia’s trade portfolio would be a win-win situation for Asia.

The European example shows that such an intensification of trade within the region also has important spillover effects into fields other than trade. Doing business with each other ultimately is the best instrument with which to build what most of Asia seems to strive for — better neighbourly relations. Trade ultimately is the best confidence-building measure.

Compared to the model Europe pursued, Asia has had the distinct advantage that it did not put the cart before the horse. Its regionalism has been market-led — and thus started out with emphasising the right path for creating the basis for shared prosperity in the region. Unlike in Europe, Asian governments have arguably followed, rather than led, this process. That does not mean, however, that governments don’t have an important role to play. One concrete example where they can achieve something transformative is discussions of a possible FTA between China, Japan and Korea that have been underway for some time.

Another example concerns relations between South Korea and Vietnam. The two nations, very much on opposite ends militarily during the Vietnam War, are now slated to sign a bilateral free trade agreement by year’s end.

That kind of forward-looking pragmatism should be an inspiration to other nations across Asia. A particularly crucial economic dimension where this should play out, given the size of both economies, is in the trade relationship between Japan and South Korea, two countries that have continued to see their difficult pasts haunt their future. Will South Korea follow Vietnam in putting progress first?

The history-healing aspect aside, the cross-cultural understanding that trade connections foster are also pivotal for Asia’s future. Asia is undoubtedly more diverse than Europe — whether in terms of level of development (from rich Singapore to very poor Laos), politics (from democracy to dictatorship and everything between), economies (free markets to state capitalism and beyond), religions (Buddhism, Hinduism, Islam, Christianity, Shintoism and more). In fact, diversity is the very reason for ongoing institutionalisation.

But this diversity has not stopped Asian countries from working together for prosperity and peace. And over time, market-led regionalism has proven its value and is progressively becoming more institutionalised.

The evidence to date suggests Asia’s experience in regionalism has been very successful. Almost seven decades ago, in the aftermath of World War II, one could have imagined Asian countries working together as they are today.

Asia’s regionalism is most certainly a work-in-progress, but it is progressing step-by-step. And while it showed the European Union the importance of basing regionalism on the private sector as a driving force, Asia can now take a decisive step-forward by emulating Europe’s approach and institutions working with each other to overcome the spectres of the past.

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