

## NEW CHALLENGES OF ECONOMIC DIPLOMACY IN EAST ASIA

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**T**he economic relationship between East Asia, NAFTA, in particular with US and EU remains much under-researched field and it has become one of the most important structural features of the world economy. Purpose of the paper is to examine briefly bilateral, inter-regional and multilateral dimensions of East Asian economic diplomacy with reference to the wider "Triadic" framework of relations.

By the mid 90s, the Triad regions accounted for 80 percent of international trade and investment

**Table 1.**  
**Triad trade flows: percentage shares of world total**

	1960	1980	1996
<b>Intra- regional</b>			
EU 15	15.6	22.7	24.8
North Africa	6.1	5.3	8.1
East Asia	2.9	4.5	12.3
<b>Intra-regional</b>			
EU 15- North America	4.7	3.5	2.9
North Africa – East Asia	1.8	2.9	4.8
East Asia-EU 15	1.5	1.8	3.5
<b>Total</b>	32.6	40.7	56.4
<b>All countries</b>			
EU 15	37.3	42.7	39.1
North America	18.6	16.9	19.0
East Asia	8.9	13.9	24.8
<b>Total</b>	64.8	73.5	82.9

*Source: IMF direction of Trade statistics year book, various editions*

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It is useful at this point to examine the wider regional dynamics of East Asia's economic development and make reference whether the "Pacific Century" is inevitable. This relates to the notion that an emergent East Asia which is closely aligned to its North American economic partners forms transpacific corridor that might marginalize the EU in coming decades.

Over sustained period East Asian countries the fastest economic growth rates yet recorded, both on an individual country and regional group level. As World Economic Outlook (WEO) indicates emerging Asia is projected to have 6.3 percent in 2003.

Table2.

**Classification by World Economic Outlook Groups and Their Shares in Aggregate GDP, Export of Goods and Services, and Population, 2002**  
(Percent of total group or world)

	Number of Countries	GDP		Export of Goods and Services		Population	
		Advanced Economies	World	Advanced Economies	World	Advanced Economies	World
Advanced Economies	29	100.0	55.7	100.0	74.6	100.0	15.4
United States		37.9	21.1	16.6	12.4	30.3	4.7
Euro area	12	28.2	15.7	41.8	31.2	32.2	5.0
Germany		8.0	4.4	12.3	9.1	8.7	1.3
France		5.7	3.2	6.6	4.9	6.4	1.0
Italy		5.5	3.0	5.4	4.0	6.1	0.9
Japan		12.8	7.1	7.9	5.9	13.4	2.1
United Kingdom		5.6	3.1	6.9	5.1	6.2	1.0
Canada		3.6	2.0	5.1	3.8	3.3	0.6
Other advanced economies <sup>2</sup>	22	20.9	11.6	39.3	29.3	25.6	4.0
Memorandum							
Major advanced economies	7	79.1	44.0	60.7	45.3	74.4	11.5
European Union	15	35.3	19.7	51.8	38.6	40.0	6.2
Newly industrialized Asian economies	4	6.1	3.4	12.7	9.5	8.6	1.3
		Developing countries	World	Developing countries	World	Developing countries	World
Developing countries	125	100.0	38.1	100.0	20.5	100.0	78.1
Regional groups							
Africa	51	8.4	3.2	9.3	1.9	15.9	12.4
Sub-Sahara	48	6.5	2.5	6.6	1.4	14.4	11.2



Excluding Nigeria and South Africa	46	3.8	1.4	3.6	0.7	10.6	8.3
Developing Asia	25	60.3	22.9	49.0	10.0	67.1	52.4
China		33.3	12.7	22.9	4.7	26.7	20.8
India		12.5	4.6	4.5	0.9	21.8	17.0
Other Asia	23	14.5	5.5	21.7	4.4	18.7	14.6
Middle East and Europe	16	10.5	4.0	19.9	4.1	6.4	5.0
Western Hemisphere	33	20.8	7.9	21.8	4.5	10.7	8.3
Other groups							
Heavily indebted poor countries	40	5.0	1.9	4.3	0.9	13.4	10.5
Middle East and north Africa	21	10.5	4.0	19.2	3.9	7.5	5.8
		Countries in transition	World	Countries in transition	World	Countries in transition	World
Countries in transition	28	100.0	6.3	100.0	4.9	100.0	6.4
Central and eastern Europe	15	37.0	2.3	53.7	2.7	28.8	1.8
CIS and Mongolia	13	63.0	3.9	46.3	2.3	71.2	4.6
Russia		42.8	2.7	31.4	1.6	36.4	2.3
Excluding Russia	12	20.2	1.3	14.8	0.7	34.8	2.2

Source: IMF, *World Economic Outlook*, April 2003. (Also see attachment '1')

Although the highly diverse political, economic, demographic and socio-cultural complexion of East Asia has made it difficult to formulate a unified explanatory model. Beside strong state intervention in those countries one could say that facilitating role played by Japan through FDI and accompanying capital, technology and management, benefits conferred by US financial aid and socio-cultural factors of the region.

What has become clear recent years about East Asia is debate over whether it is destined to become world most prosperous economic region in the 21<sup>st</sup> century on the one hand.

On the other, there is skeptical approach on East Asia's assured prosperity. Here we come to East Asia's financial crisis which undermined the latter.

There are many views about the cause of the 1997-1998 crisis but one can definitely say now that decision made by government of Thailand to float its currency in July 1997 created general view of non confidence in other currencies of East Asian countries which was

later spread to the regional stock market. Let us see what was response from transatlantic partners of East Asia.

By late 1997 Thailand, Indonesia and Korea received IMF bail out package of \$17.2 billion, \$37.0 billion, \$57.0 billion, respectively. The two other countries took austerity measures aimed at maintaining economic stability.

Japan's ability to offer assistance to the region was constrained by its economic recession.

Proposal for establishing an Asian Monetary Fund (AMF) in August 1997, backed by China, Makao, Taiwan and Singapore did not received support from the USA which was reluctant to back any initiative that undermined IMF multilateral competence.

European Union's initial response to the crisis was dismissive. But by the time of the second ASEM summit held in London in 1998, a more foreboding view has taken by European Union leaders. European Union's priority was to fortify its economic links with East Asia in order to provide significant commercial opportunities to European companies. However, it was evident that US enjoys broad and encompassing economic relations with East Asia thanks to US close security ties with many of allies in the region. Generally speaking the financial crisis had generated considerable tensions in transpacific relations in late 1990's.

East Asia has been responsible for some of the most interesting new forms and structures of regional integration which emerged in recent years. Whereas tended to evolve through formalized institutional process those in East Asia have developed more informal paths. East Asia's brand of regionalism has been shaped by the following factors:

- dynamics of its own regional economic development
- forces of globalization
- region's historic commercial network
- different socio-cultural determinants.

*(See attachment 2 Subregional economic zones in East Asia)*

As you noticed regional economic relations in previous decade advanced at sub-regional level. But that is not mean there are no conflicts and future agendas that lie ahead with regard to regional integration in East Asia. Actually its economies faced with four main challenges on enhancing economic cooperation. These are:



- improving mutual market access in traditionally well protected sectors, e.g. agriculture, textiles;
- reducing uncertainty in regional economic relations;
- redressing infrastructure bottlenecks;
- harmonizing domestic legislation and rules on commercial practice.

East Asian countries embarked on a programme to establish own free trade area (AFTA) plus various sub-regional economic zones (SREZs) have developed and further corporate network links between the economies.

Nowadays a number of conclusive observations can be made regarding the evolution of regional economic identities in East Asia.

Ever since Japan's own "economic miracle" of 1960s and 1970s, Asia's emerging economies have been pictured as "geese flying in formation". Tokyo used investment and technology transfers to coax neighbouring economies to follow its wake. So-called tiger economies like those of Korea and Taiwan inherited Japan's sunset industries-first light manufacturing, and later steel, petrochemicals and shipbuilding. In turn, they handed obsolete technologies and labour-intensive industries down the line, to Indonesia, Malaysia and the Philippines. The pattern held until China, beginning in the mid-90s, broke than the flock. In undated by a flood of foreign investment much of it non Japanese origin, China has since mastered a range of technologies simultaneously-creating sweatshops in Shenzhen, efficient high-tech manufacturing around Shanghai and a budding R&D industry in Beijing, all coexisting at once.

Reality is set to redraw the map of the Region-with China, not Japan, at the center. Asia's most advanced economies, Japan's included, will continue to shift manufacturing to the mainland while offering technological expertise, developing brands and conducting research outside. Countries at the bottom of the ladder may be reduced to providing the People's Republic with commodities like rice, edible and fuel oils, and timber. China has abundant land for expansion, labour for production and capital for investment. At the threshold of the 21<sup>st</sup> century China garnered almost \$47 billion in foreign direct investment-up tenfold since 1990.

Countries farther up the technological ladder can take some solace from the fact that in certain sectors, Chin's predicted dominance is still years off. South Korean conglomerates, unable to compete with Chinese textiles, electronics or computers, have begun expanding production on the mainland to such a degree that experts now warn that the country could end

up something like Mexico-locked in a symbiotic relationship with neighboring superpower. But the country's massive steel industry could, in turn, benefit from the mainland's increasing thirst for the kind of sophisticated steel products used in cars and computers. Demand is predicted to double in this decade, just as most tariffs are being phased out.

The other "tigers" are searching desperately for similar ways to profit off the mainland economy. Some analysts have suggested that Hong Kong move beyond its traditional role as shipping and warehousing hub to focus on logistics, such as supply-chain management and transportation planning.

The regime takes a greater interest in faith of Taiwan. Together Taiwanese business invested more than \$50 billion in China since 1990. Some political analysts in Taipei say that rigorous integration with booming economy will give it a healthy future. However distasteful that prospect, Taiwanese are not alone in craving closer links to Beijing. Recently China surprised ASEAN when it proposed establishing a massive free trade area with member states by 2010. Implicit in the office is a new vision for Asia's economy: ASEAN should move toward integrating with, rather than competing against China. The proposal has for the most part been welcomed, while a competing plan for an Asian-wide trade bloc put forth by Japanese Prime minister Junichiro Koizumi has been taken less seriously.

As it was mentioned earlier, central focus of this paper is the Triadic context of North America – EU – East Asia economic relations. Economic diplomacy of East Asian countries has been approached from different perspectives. First, the strength of the US economic relationship with East Asian states and the region generally was a prime motivating force behind the EU's development of a "New Asia Strategy" and sponsoring of closer commercial ties with East Asia. The USA's intimate security, political and cultural ties remained with East Asian states underpins its economic relations with them to an extent that continues to disadvantage EU trade and investment interests. The "policy of obligation" still pursued by states such as Japan, Korea and Taiwan towards the USA, as manifest in bilateral market access deals, has often frustrated EU policymakers. The EU is unlikely to develop the same broad and in depth ties and thus may be condemned to the secondary tier within most East Asian states' hierarchy of diplomatic relations.

Second, from the East Asian region, Japan and China are the potential candidates to co-manage a post hegemonic global economic order along with the East Asia and US.



A third perspective is the impact of the transatlantic relationship of US and EU. While East Asia overtook North America in 1992 to become the EU's most important regional trading partner, Europe's ties with US remain strong. The creation of a Transatlantic Free Trade Area (TAFTA) has been supported by numerous policymakers and businessmen from both sides of the ocean.

Although TAFTA is an improbability, the USA economic renaissance of the 1990s reminded EU of its importance as a key economic partner. East Asian's economical crisis has served to reinforce this.

Nowadays a number of conclusive observations can be made regarding the evolution of regional economic activities in East Asia.

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Reality is set to redraw the map of the Region with China, not Japan, at the center. Asia's most advanced economies, Japan's included, will continue to shift manufacturing to the mainland while offering technological expertise, developing brands and conducting research outside. Countries at the bottom of the ladder may be reduced to providing the People's Republic with commodities like rice, edible and fuel oils, and timber. China has abundant land for expansion, labour for production and capital for investment. At the threshold of the 21<sup>st</sup> century China garnered almost \$47 billion in foreign direct investment—up tenfold since 1990.

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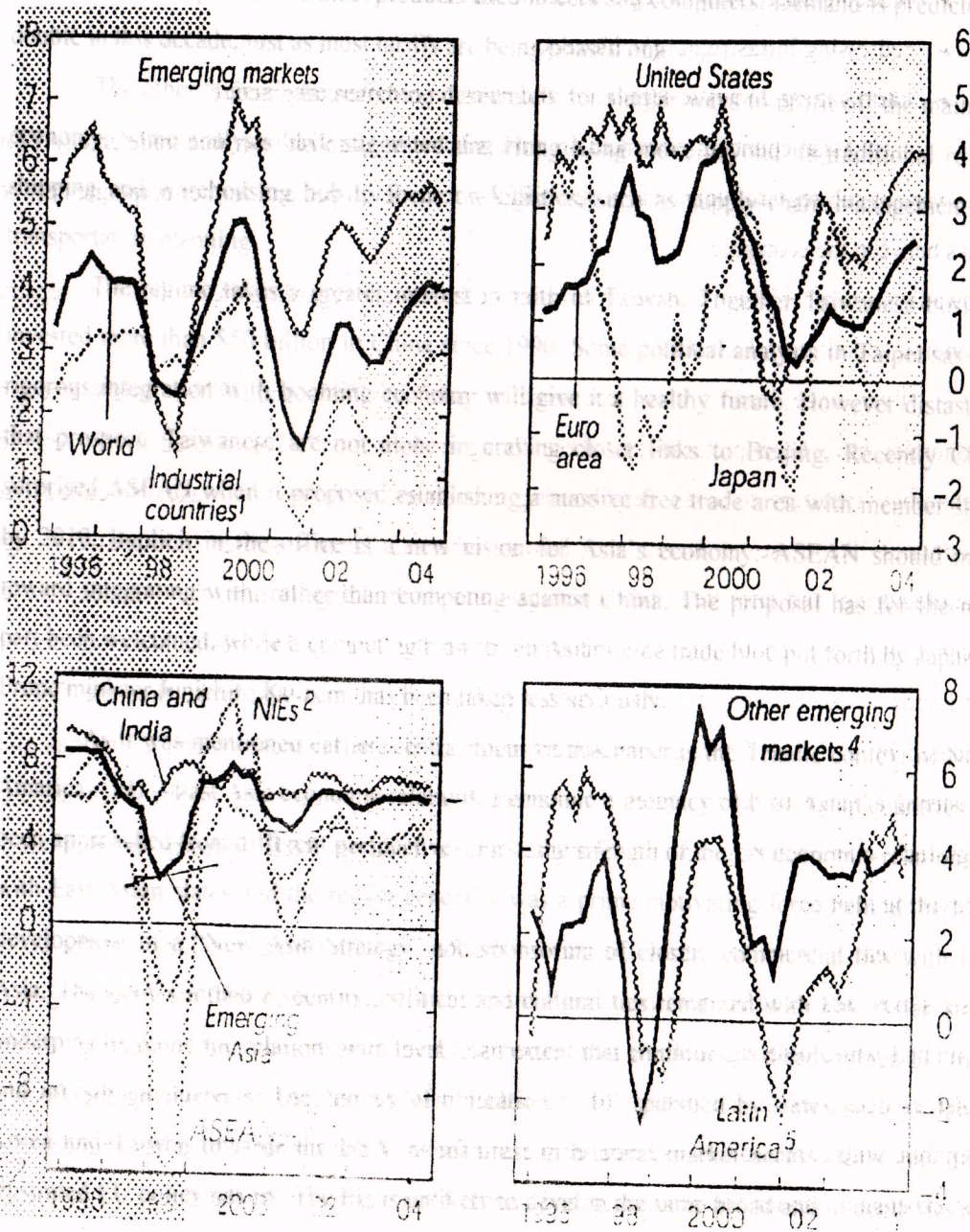
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## Attachment 1.

### GDP growth



Source: IMF, World Economic Outlook, April 2003