Hatoyama's Vision of an Asian Community
A European View

By Claude MEYER

Photo: Kyodo News

Japanese Prime Minister Yukio Hatoyama (left) and South Korean President Lee Myung Bak listen to other Pacific Rim leaders' speeches at a breakfast meeting Nov. 15, 2009, during a summit in Singapore of the Asia-Pacific Economic Cooperation (APEC) forum.

Among the fundamental changes which the new Cabinet of Prime Minister Yukio Hatoyama wants to implement, foreign policy is at the top of the agenda, together with the reorientation of the economy towards the needs of the people. Hatoyama explained very clearly the necessity of such changes in foreign policy in his article *"My Political Philosophy" (Voice magazine, September 2009).* Japan is trapped in a dilemma, which he explains as follows: "How should Japan maintain its political and economic independence and protect its national interest when caught between the United States, which is fighting to retain its position as the world's dominant power, and China which is seeking ways to become one?" For him, the path to be followed by Japan is to act as a bridge between Asia and the West, which means its foreign policy should gain some autonomy vis-à-vis the United States while keeping, however, the alliance as the cornerstone of defense policy.

The other side of the coin is a greater involvement in Asia; more specifically, Japan should be the leading force behind the building of an Asian Community and he has repeatedly raised this topic since taking office. Clearly, as he insists, he envisions Asia's future on the model of the European Union (EU) with a common market and a common currency. In the light of developments which have led to the building up of the European Community (EC), how to assess the feasibility of a similar community for the Asia-Pacific region? To answer the question, it is first necessary to review the progress that has already been made for the integration of Asia. The second step is to understand the prerequisites behind the successful integration of the European countries into one community; in this light, we may then have some indications as to the feasibility of an Asian Community, which in any case will be a long-term process.

Progress in Trade Integration of Asia

The Asia-Pacific region represents 25% of world GDP and its contribution to world growth has been over 40% during the past 10 years. The Asian economies have become more and more integrated, in parallel to their growing weight in world production and trade. Japan plays a key role in this process, as the development of the whole region has relied on its model of development, its technologies and its financial support. Moreover, the Chinese and Japanese economies have structured the regional division of labor, given their position at the two ends of the value chain and their growing interdependence.

Commercial integration has regularly progressed and since 1990, its intraregional trade has been multiplied by eight, against five for its international trade and three for total world trade. East Asia's international trade has specific features, largely interconnected. Firstly, Asia has been more and more dependent on exports: its ratio of exports to GDP has increased from 30% in 1990 to 50% presently. Secondly, its intraregional trade is concentrated on specific sectors (mainly electronics and telecommunications) and, in terms of intermediate goods (components, parts, etc.), it is significantly higher than in the EU, for example, 60% against 40%. This reflects the vertical division of labor – the so-called "Asian integrated circuit" – whereby intermediate goods are exported to another country in the region to be assembled. China plays a key role as a platform for final exports to developed countries, which explains that 60% of intraregional trade growth over the past 20 years comes from exchanges with China. Japan and China stand at the two ends of the value chain on account of their respective comparative advantages, technology and labor, and it is why both countries realize half their foreign trade with Asia.

As compared to the European integration, the process in Asia has been fundamentally driven by the private actors, the multinational companies, and not by a political will: in other words, it has been a bottom-up process in Asia and not a top-down impetus as in Europe. Even for free trade agreements (FTAs) where the intervention of states is required, the process is quite different in Asia. The European leaders moved in successive steps toward a common market, while Asian countries conclude bilateral agreements (except for the multilateral AFTA among ASEAN members). The multiplication of these agreements, called "the noodle bowl" (103 FTAs within the region, either in discussion, concluded or effective), does not foster an efficient regional integration, as it handicaps the regional business strategy of companies. According to the computations of the JETRO White Paper 2007, the creation of an FTA covering the whole Asia-Pacific region would bring 1.3% additional GDP growth to the countries concerned. For this reason, it was decided on Oct. 25, 2009, by the ASEAN + 3 (the 10 ASEAN countries plus China, South Korea and Japan) to study the feasibility of a free trade area, which could even include Australia, India and New Zealand (ASEAN + 6).

Significant Steps toward Future Financial Integration

The main lesson of the 1997-1998 Asian crisis was that in spite of their growing interdependence through trade, the economies of the region were not protected from the contagion risk in case of the collapse of one currency due to lack of monetary coordination. Despite its own internal crisis, Japan took a leading role in providing financial support ("Miyazawa Initiative"). After its Asian Monetary Fund proposal aborted due to opposition from the United States and China, then Japanese Finance Minister Kiichi Miyazawa turned the initiative into the "Chiang Mai Initiative" that opened the way to monetary coordination and mutual support in East Asia. In May 2009, these swap agreements, previously concluded on a bilateral basis, were consolidated in a $120 billion emergency multilateral fund.

In addition to this defensive mechanism, the ASEAN + 3 group has also moved toward the integration of the national financial markets, which represents a high priority, as less than 20% of East Asia's portfolio investments are made in Asia itself, against 60% in the case of Europe. Consequently, the ASEAN + 3 endeavors to develop a regional bond market ("ADB Initiative"), which would reinforce the financial stability and autonomy of the region while redirecting the savings to its specific needs.

Finally, the prospect of a common currency is regularly raised, in particular by Hatoyama, as it is obviously the final goal of a regional financial integration. This issue will be dealt with hereunder, in the light of the conditions that led to the creation of the euro.

Asia's Integration in Light of European Construction

Some fundamental differences emerge when comparing Asia's integration to the construction of the EC.

First, as previously mentioned, the European process has been top down, as opposed to bottom up in the case of Asia. In other words, the European construction proceeded from the strong political will of the "Fathers of Europe," whose motto was "Never again" after the terrible human and material damage of WWII. Starting by pooling strategic resources for economic development, coal and steel in particular, the process gained momentum and at each step, this strong political will allowed the EC to overcome multiple obstacles. On the opposite, Asian integration has been a bottom-up process, fuelled by the requirements and constraints of private companies in a context of globalization and so far, the political will has been rather weak on the side of the states involved.

Second, the main engine has been the France-Germany couple, which gave priority to the construction of Europe over their national interests and their respective influence in the region. This was possible only because of the reconciliation between the two countries. Unfortunately, this process of reconciliation did not happen in Asia, in particular between the two dominant powers China and Japan. The reasons for this absence of reconciliation are complex, but substantially they are due to the historical context of the Cold War. Hatoyama is quite aware of the necessity for this reconciliation, as he insisted in his speech to the APEC meeting on Oct. 16, 2009. Besides, the vision of a future Asian Community is presently quite different: China favors the ASEAN +3 approach, where its influence is higher, while Japan promotes the ASEAN+6 scheme, hoping that the "arc of democracy" of Australia, New Zealand and India would counterbalance China's influence.

The third main difference between the Asian and European integration processes is the institutional aspect. The European Commission's role has been essential in setting up rules and norms for the policies to be implemented in the several economic sectors. In Asia, there is no institutional vehicle for implementing decisions taken at the political level; even in the case of ASEAN, the "ASEAN way" precludes imposing any binding rule on its members. At some point, a strong political will be required to enforce common goals by delegating to an institutional commission the fixing and enforcement of rules. It will take time for Asian countries to consider such a binding system which may entail the renunciation of some parts of their sovereignty.

Long Way to Common Currency

The prospects of an Asian common currency appear rather remote, if one remembers that this final step of the integration process took almost 50 years in Europe. A common currency is subject to several prerequisites, of which a common market and the convergence of the economies are indispensable. In this respect, contrasts between Asian countries are striking in terms of political regimes, sizes of their economies, levels of development, etc. This would make it very difficult to harmonize economic policies so as to introduce some kind of convergence between their economies and currencies. Even intermediate steps such as the EMS and the ECU introduced before the euro's debut seem out of reach in Asia as they would require a certain coordination of monetary policies.

Moreover, a common currency in the making requires an anchor currency to which other currencies are linked and which must meet some criteria; the German mark played this role in the case of Europe. The yen or the yuan, when the latter becomes fully convertible, could play this role, but it is doubtful that China would accept the yen as anchor currency and consequently give to Japan a predominant influence in financial matters while its own economy is projected to represent three times the size of its rival around 2025. Conversely, it would be difficult for Japan to accept the yuan as the main currency, as it would mean the switch of Asia to a Sino-centric economic area. The other solution would be to develop the use of an Asian Currency Unit (ACU). Such a unit, which could be computed and weighted on the basis of a basket of Asian currencies, could be a unit of account for trade, but it would not mean a common currency used as a means of payment or instrument of reserves. Again, this is not only a matter of economic criteria but also of political will.

Conclusion: a Motivating Project, a Long Way to Go

The above comparison with the European integration should not be understood as a sceptical assessment of its feasibility in Asia. However, a different model will have to be invented, taking into account the specificities of the region, in particular the fact that China and Japan together represent almost 80% of East Asia's GDP. It will also require time and a strong political will. Precisely, the very new element in this matter is the strong determination shown by Hatoyama.

The first beneficiary would be Japan itself, as the Asian Community project could give the country a new momentum for the 21st century. Since the beginning of the 1990s, Japan seems to have lost confidence in its future; the long-term goal of an Asian Community, where it would play a leading role with China, could revive the strong energy it has always shown in the past when confronted with difficulties and hardships. Although a long-term goal, the prospect of an Asian Community could give Japan what it needs most: hope and confidence in its future.

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