

**ASSESSING CONDITIONS FOR REGIONAL
INTEGRATION
IN NORTHEAST ASIA**

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Abstract: Northeast Asia, which consists of Japan, the Koreas, Mongolia, China and Russia, is the least integrated region in the world due to various historical and political reasons. However, there is already speculation that with current turbulent circumstances we can witness greater cooperation and integration even in this divided region. China's emergence as the major economic power and global player in world politics from the outset of the 21st century is the main significant motor that is changing the status quo in the region. The study argues that the region has become more prone to regional integration now and aims to analyze the background conditions present in relation to the Chinese ascendance in Northeast Asia. The theory of neofunctionalism is used to identify the basic conditions for regional integration and, in relation to it, the factors that were hindering the regional projects previously would be looked at. I contend that the factors impeding regional integration have become fewer, thus fueling the talks about the breakthrough in regionalism in Northeast Asia. However, there is still seems to be a lack of political will among the countries to initiate closer regional ties, which constitute the main obstacle for regional integration for now.

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Introduction

In the contemporary world, regional integration is becoming a conventional fashion of institutionalizing trans-boundary relations between states. With globalization and increased interdependence, instances of regional cooperation and integration can be seen worldwide. It has also been attempted in Northeast Asia, a region which consists of Japan, South and North Korea, China, Mongolia and Russia, as a means of laying down guidelines for political and economic cooperation between themselves. However, as underlined by many scholars, Northeast Asian regionalism is compromised by deep ideational conflicts, by residual Cold War divisions, by memories of war and occupation, by different levels of development among component member states, by radically different indigenous models of political economy, by the ambitions of competing regional powers, and by the strategic ambitions of the US. Moreover, there are clearly rival regional projects and multiple voices of regions in contemporary Asia, which divert attention from regional integration in this particular region (Schmitter and Kim, 2005; Higgot, 2000; Katzenstein, 2003; Mattli, 1999, Harris, 2001).

Nonetheless, projects for greater regional cooperation in Northeast Asia are underway and pursued as a viable means of addressing the increasing magnitude of internal and external challenges threatening the region. Therefore, it is important to primarily investigate whether the basic background conditions essential for an effective regional integration are in place. The main hypothesis is that the region is undergoing important changes in line with the rise of China and these changes are creating better conditions for regional integration than ever before. Thus, in analyzing the current conditions in the region in terms of the possibility for greater regionalism, the contribution of this thesis is two fold. One is the the assessment of current changes happening

in the region due to the increased Chinese role. Second contribution is application of the theory of neofunctionalism in the Northeast Asian context.

The paper has three chapters. The first deals with constructing the conceptual framework of the study. Among the host of regional integration theories, often used to study the European Union, neofunctionalism claims to be the most general one that can be applied to any region. Thus, the study employs this theory to find a solution to the research problem. It introduces the basic assumptions of neofunctionalism and describes the five variables: relative size/power, external dependence, elite complementarity, member states internal pluralism and rate of transaction that serve as background conditions, triggering integration in the initial stage of regional integration.

The second chapter looks back at the history of regional integration attempts in Asia and identifies two factors that hindered deeper regionalism in this part of the world. It lays the ground to show the importance and difference in the contemporary situation in Northeast Asia from the previous rounds of efforts to advance regional integration in East Asia. Northeast Asia is a region of great salience in Asia with the most number of powerful countries. However, the regional integration schemes in Asia were concentrated in Southeast Asia, or along the Pacific coast due to the interests of the United States and Australia; and Northeast Asian states were dealing with the existing regional organizations separately. However, as China is assuming a greater role in Northeast Asia, the attention has been shifting to this region. Interdependence among the Northeast Asian powers has greatly increased and there are signs that conflicts and tensions that were dividing the region are more likely to be addressed now. Against these events, the third chapter analytically assesses the background conditions present in Northeast Asia according to the variables identified in neofunctionalist literature and the final section concludes with the findings.

Methodology

The primary aim of my thesis is to examine what conditions are ripe for regional integration to take place in Northeast Asia. Although there have already been several attempts at integration and close cooperation in this region previously, the rise of China seems to be giving such attempts a new boost. Therefore, in my thesis I will examine the changing situation in North East Asia due to the ascendance of China and assess the implication of it for the prospect of regional integration.

In order to do so I would use one of the theories of regional integration developed in the context of the European experience - neofunctionalism. The theoretical lens supplied by neofunctionalism guides the task of identifying the background conditions for the regional integration. Primarily, using the theoretical framework, I would like to examine how the rise of China, economically and politically, has been changing the conditions of regional integration for the last two decades.

In my research, I will be mostly using secondary and primary sources of literature, employing the text analysis method. For the theories I am going to use primary and secondary sources of neofunctionalist literature as well as of the theories of comparative regional integration. For the empirical evidence of existing or missing conditions I will analyze contemporary newspapers and magazine articles, journal articles, websites, OECD and World Bank reports on regional integrations and economic indicators of the countries concerned.

Literature review

The unprecedented European experience has created a large volume of regional integration theories. Neofunctionalism, one of the most prominent and earliest ones, has claimed to be generalizable to other regions of the world and its basic assumptions has been refined and re-confirmed over the course of the European integration and along the developments in other parts of the world. However, as Rosamond et al. noted, the contemporary study of regional integration (new regionalist approach) had considerably moved away from the integration theories based on the European experience, as the European Union has advanced much ahead comparing to other regional integration attempts¹.

The basis for this distinction is now questioned by scholars in both EU studies and the new regionalist approach (NRA). Now in an explicit revision phase, Rosamond et al. argue that the NRA cannot afford to lock itself away from the most advanced instance of regionalism in world politics; and, in similar periods of reorientation, EU studies and 'integration theory' must take up the challenge of returning to the broader ambitions of the neofunctionalists, at least as far as the development of a generalizable conceptual framework is concerned². Thus, employing neofunctionalism, one of the theories of European integration, in the study can have potential implications in advancing further the study of regional integration.

Previous researches in the field of Northeast Asia have been limited to citing deep-rooted historical and political tensions among countries in the region and strategic interests of the United States as barriers for regional cooperation. However, no research has been done to fully assess all the other factors or background conditions that are existent or missing in the region.

¹ Shaun Breslin, Richard Higgot and Ben Rosamond "Regions in Comparative Perspective" in Shaun Breslin, Christopher W. Hughes, Nicola Phillips and Ben Rosamond eds 'New Regionalisms in the Global Political Economy: Theories and Cases' (London ; New York : Routledge, 2002) p. 9

However, three influential think tanks in three core Asian economic powers, Japan, South Korea and China, have been continuously issuing policy briefs under the main title of ‘Grand Design for Northeast Asia’ discussing the creation of the North East Asian Community³. The policy briefs from these think-tanks are taken into account by their respective governments and there is abundance of speculation about NEA-n integration, and already some common projects have started. Yet, scholars have not theoretically questioned the basic background conditions for regional integration in this region. Therefore, in my thesis I would like to fill this gap by applying the neofunctionalist theory of integration to identify the main prerequisites for the regional integration and assess their presence in Northeast Asia.

Another implication of this study is the analysis of China’s contemporary influence in the Northeast Asian region. As the biggest country and rapidly developing economy of the region, its impact is substantial. Particularly, I would like to see how the changes it stirred affected the region in a way that it has become more prone to regional integration according to the criteria defined by neofunctionalism. Thus, the thesis finds its contribution in assessing the contemporary dynamics in the region and in bridging the study of the European integration with the experiences elsewhere in the world.

² Ibid. p. 10

³ National Institute for Research Advancement (NIRA), “Grand Design for Northeast Asia”, 2004
<http://www.nira.go.jp/newse/paper/grandd/f2e.html>

Chapter One. Neofunctionalism

The purpose of this chapter is to critically assess and present the theory of neofunctionalism in a way most relevant to the research purpose. The basic assumptions of the theory will be introduced and, based on these assumptions, a simplified model of background conditions will be presented.

Neofunctionalism, as a theory of regional integration, was first developed by Ernst Haas in the 1960's and later extended by Philippe C. Schmitter to give an explanation of the process of European Union in the second half of the twentieth century. As a result, the theory has dominated the literatures of regional integration and specifically that of Europe during this time. Neofunctionalism has also been an important attempt to develop a separate school of thought on regional integration from the field of international relations. Haas, Lindberg and others such as Philippe Schmitter (1971, Haas and Schmitter 1964), Stuart Scheingold (Lindberg and Scheingold, 1970) and Joseph Nye (1968, 1971) used the European experience as a basis for the production of generalizations about the prospects for regional integration elsewhere. Despite its theoretical claims on regional integration, it has received a number of criticisms that challenged the fundamentals of the theory. Yet, in the course of the debate, neofunctionalists have refined the theory to make it more robust. Furthermore, Rosamond suggests that neofunctionalism is somewhat richer and more prescient than many contemporary discussants allow; and able to speak directly to current EU studies and comparative regionalism⁴.

⁴ Rosamond, Ben. "The uniting of Europe and the foundation of EU studies: revisiting the neofunctionalism of Ernst B. Haas." *Journal of European Public Policy*, Apr2005, Vol. 12 Issue 2, p. 237

1.1 Basic Assumptions of Neofunctionalism

In this paper simplification of neofunctionalism has been made to identify three basic assumptions according to their relevance to the research question under examination. These are Structural Similarity, Spillover and Political Community. These assumptions are important in a sense that they form the foundation and theoretical environment within which the topic would be dealt.

1.1.1 Structural Similarity of All Integration Processes

Structural similarity of all integration processes is rooted in the simple notion that all regional integration processes involve structurally the same variables and processes⁵. This prevents the normative indication that all regionalisms and regionalizations must follow the EU path. The neofunctionalist structural similarity assumption also makes the analysis of regional integration in different settings flexible, by leaving a room for including the most relevant variables (commensurate with the structure) on the specific case being examined. Analyzing the idea of structural similarity, Schmitter argues that it will be misleading to assume that variables will produce the same effect everywhere; that same variable will be equally effective through the process of integration; and likewise, specified ‘variables in the form of a model does not mean that only these are relevant to understanding integration outcomes’⁶.

In the task of comparing regional integration schemes this statement is crucial in order to understand the main differences inherent in different cases. It will also enable to grasp the uniqueness of a certain regional setting as well as investigate fundamental differences in the

⁵ Schmitter, Philippe C. “Three Neo-Functional Hypotheses about International Integration.” *International Organization*, Winter69, Vol. 23 Issue 1, p.41

⁶ Schmitter, Philippe C “A Revised Theory of Regional Integration”. *International Organization*, Autumn70, Vol. 24 Issue 4, p836-838

variables generating an integrative outcome on top of the simply conceived generic phenomena of regional integration in distinct cases.

1.1.2 Spillover

As Rosamond notes, the spillover argument is essentially about the logic of ‘expansion’ and ‘deepening’ of the integration process⁷. Put another way, the functional interdependence in specific economic areas will grow to capture new policy and sectoral areas; hence this process will generate the need to adopt supranational regulatory decision-making capacity. In a simple statement, Rosamond described this as a phenomenon where ‘politics would follow economics’⁸.

On the contrary, Hansen argued that spillover is not only a functional consequence that is internal to the member states or entities; certain external factors might have influenced the spillover process⁹. Moreover, he also argued that spillover could as well have an impact on the environment outside the regional arrangement. That is the effects of spillover are not limited to the specific area where integration is taking place. Political integration is thus assumed to enhance and facilitate the achievement of common goals at a wider scope and level. Subsequently, this will lead to the construction of the ‘political community’ which neofunctionalism ultimately speculates.

According to Schmitter, not all areas are able to generate spillover effect. For example, he contends that trade liberalization, so-called “free trade areas” (FTAs), is very unlikely to produce such “spill-over” effects. From regional experiments with FTAs in Central America, South America and North America he suggests that there is no convincing historical evidence that

⁷ Rosamond, Ben, *Theories of European integration* (New York : St. Martin's Press, 2000) p.60

⁸ Ibid

⁹ Hansen (1969:258) as quoted in Rosamond, p.60

FTAs tend to become customs unions (CUs) and then turn into Monetary Unions or Common Markets. Instead, a functional area that is “of relatively low political visibility, that can apparently be dealt with separately and that can generate significant benefits for all participants”, is the main candidate to have spillover potential¹⁰.

1.1.3 A Political Community

The third political community assumption is defined by Ernsnt Haas as, ‘a condition in which specific groups and individuals show more loyalty to their central political institutions than to any other political authority, in a specific period of time and in a definable geographic space’¹¹. At the heart of the idea of political community lays the concept of ‘loyalty transfer’. This means the shift of loyalty of a ‘significant group and elite’ from national authority to supranational institutional body¹². This is a consequence of the success of the regional institution in fulfilling the functions delegated to it by these actors (significant group and elite). Eventually, the transferred loyalty will accelerate the expansion of the institution into a more central supranational body with substantial authority over the community that established it.

1.2 Background Conditions

Related to the logic of spillover, neofunctionalism conceives the whole process of integration ‘whereby an emerging regional center gains or loses in the scope or level of its authority vis-à-vis preexistent national centers’ as involving series of crisis-provoked decisional

¹⁰ Schmitter, Philippe C. and Sunhyuk Kim (2005) “The Experience of European Integration and the Potential for Northeast Asian Integration”, *Asian Perspective*, 29(2): p. 5.

¹¹ Haas (1958:5) quoted in Rosamond, *Theories of European integration*, p.65

¹² Haas quoted in Rosamond *Theories of European integration*, p. 66

cycles¹³. These are differentiated into initiating, priming and transforming cycles. These cycles take place at different stages of the integration process. The present thesis concentrates on the background conditions triggering regional integration. Thus, the focus will be on the initiating cycle. This cycle refers to conditions that have to be in place before actors advance into integration in order to solve common problems. The initiation cycle outlines five basic variables that are background conditions for regional integration.

1.2.1 Relative Size/ Power

The size/power variable relates to the relative economic size of countries joining the economic union¹⁴. It is used to measure the relative power of the potentially integrating units. In terms of operationalization it is the most disputed of all variables. Barrera and Haas investigated the means of operationalizing this variable and indicated that Gross National Product (GNP) of countries can be used as the most 'relevant indicator' of size-power factor¹⁵. The assumption is that the more homogenous the countries are in their economic performance (meaning their GNP) the greater the chance for integration¹⁶.

Regional integration inevitably involves national states of quite different size and power capability and the key interest cleavages in the process of integration tend to be based on relative size and level of development. Thus, Schmitter et al. (2005) suggests that regional integration seems possible with members that are at different levels of development and per capita wealth¹⁷. He suggested that regional integration can not only cope with national economic differences at

¹³ Schmitter, "A Revised Theory of Regional Integration".p.842

¹⁴ Haas and Schmitter, in Harmon, Kathy "The Schmitter Operationalization Of The Size-Power Variable: A Research Note." *International Organization*, Winter72, Vol. 26 Issue 1, p137;

¹⁵ Barrera, Mario; Haas, Ernst B. "The Operationalization of Some Variables Related to Regional Integration: A Research Note." *International Organization*, Winter69, Vol. 23 Issue 1, p150

¹⁶ Ibid. p.155

¹⁷ Schmitter and Kim p. 12

the point of departure, but also diminish them over time. It can be argued that a perceived comparative advantage is a significant incentive to integration. States will usually calculate the advantages they get out of a decision to integrate. Their decisions and the strategies they adopt are influenced by factors such as annual economic growth, industrial capacity, and total size of the economy, balance of payment situation, gross national product and military force. Moreover, he acknowledges the distinctive and positive role of smaller states in the integration process, especially when they can act as "buffer states" between larger ones.

Related to the issue of size and development, Schmitter points out that regional integration, however limited, requires leadership, i.e. actors who are capable of taking initiatives and willing to pay a disproportionate share of the cost for them¹⁸. In the European pattern, the two cleavages (size and development) do not coincide, but cut across each other. Some small countries are rich and some large ones are (relatively) poor. The important questions to be considered here are: (1) Why will a hegemon or pair or trio of hegemons be willing to pay the higher price for membership;? and (2) What can induce them to under-utilize their power advantage? In the case of a hegemonic duo, he argues, stability is important but sometimes brings awkwardness among late arrivers. A single "imperial" hegemon, even if "generous," can sometimes have an inhibiting effect-e.g., USA in NAFTA or Brazil in MERCOSUR¹⁹.

So conversely, Schmitter points out that size/power measurement should not be confined to a single item²⁰. The outcome of his research in the Central American Common Market (CACM) showed that actors or participants have different criteria of assessing their relative power/size that influence the style of negotiation for economic integration. Thus he came up with

¹⁸ Schmitter and Kim, p. 6

¹⁹ Ibid. p. 6

²⁰ Schmitter, Philippe C. "Further Notes on Operationalizing Some Variables Related to Regional Integration." *International Organization*, Spring69, Vol. 23 Issue 2, p327

what he called 'Potential Evaluative Rankings'²¹. These include factors such as geographic area and total population; total size of the economy, industrial capacity, size of government budget, balance of payment situation; annual economic growth, size of military force²².

One could argue that the relative size/power of a state does not necessarily rest on a single factor like GNP or military power; however, there are number of factors that account for the economic strength and power of that state and the list of Schmitter encompass the most relevant ones. Thus GNP is only part of the size/power of states that is constructed; as a result including the factors aggregated by Schmitter will give one an almost complete picture of the size/power variable. Specifically, this study will use annual economic growth, industrial capacity, balance of payment situation, gross national product and military force to operationalize this variable.

1.2.2 Rates of Transaction

Schmitter et al. argued that regional integration begins with a small number of member states, that from the very beginning should announce that it is open to future adherents. Moreover, it is desirable that this initiating group form a "core area" to use Karl Deutsch's term; that is, they should be spatially contiguous and have a high rate of mutual exchange amongst themselves. Thus, the second variable, rates of transaction, measures the rate of transaction at the founding of the union with special emphasis on the proportion of intra-regional export in the early stages of the integration compared to the rest of the region outside the bloc area²³.

²¹ Ibid. 328

²² Ibid., p.328

²³ Barrera and Haas 1969 indicated in Nye, Joseph S "Comparative Regional Integration: Concept and Measurement." *International Organization*, Autumn68, Vol. 22 Issue 4, p861

This is aimed at assessing the extent of interdependence and rating high or low accordingly. Moreover, Nye points out that cross border social interactions in the form of ‘important interpersonal interaction’ such as movement of people (tourism), mail/postal communications, telephone calls, percentage of students educated in other universities in the region *vis-a-vis* outside data on airplane travel within the region compared with destination outside the region, are important ways of operationalizing the variable²⁴. Nevertheless, Schmitter et al. warn that there seems to be no automatic effect (a la Karl Deutsch) on integration of substantial increases in social communication across national borders. Decreases in communication may lead to separate identities, but increases do not produce integration²⁵.

Nye also argues that a high level of transaction does not always have an equally positive integrative effect on all units. Referring to the experience of Latin America and East Africa, he claims that there could be unequal benefit of transaction, which may hamper the progress of integration in regions that have sharp differences in terms of economic power and size. He noted that in regions where the majority of the units are small in economic size, transaction could give way to social migration into the big center that creates a trend of dependence and inequality instead of positive integration²⁶. Therefore, the kind of interdependence that exists in the ground should be viewed from this perspective as well.

The fact that there is interdependence of any sort can not be a guarantee to positive integration where there is mutual benefit in integrated community. Schmitter also warns that one should be careful about the economists' notion of complementarity. Regional integration is an intrinsically dynamic process and generates unforeseen and emergent specializations and new

²⁴ Nye, p863-864

²⁵ Schmitter and Kim, p.9

²⁶ Nye, p862-864

divisions of labor among its participants. Hence, pre-existing trade patterns may not be a good indicator of the potential for generating new forms and levels of interdependence²⁷.

1.2.3 Member States Internal Pluralism

Member states internal pluralism refers to the 'extent to which functionally differentiated and formally organized groups within member states are organized and capable of articulating demands and influencing policy outcomes independent of control by authority groups'²⁸. These groups include 'associational, institutional and non-associational groups' within the integrating units²⁹. Pluralism lays the emphasis on the presence of 'articulate voluntary groups, led by bureaucratized but accessible elites' - interest groups and political parties - in a given society. These actors are central to the neofunctionalist argument since it assumes that it is non-state actors that take the lead in the process of regional integration. Haas argues that 'the competing activities of permanently organized interest groups and of political parties are singled out as the significant carriers of values and ideologies whose opposition, identity or convergence determines the success or failure of transnational ideology'³⁰. Moreover, he notes that 'integration proceeds most rapidly and drastically when it responds to socio-economic demands emanating from an industrial-urban environment, when it is an adaptation to cries for increasing welfare and security born by the growth of a new type of society.' On the other hand, 'countries dominated by a non-pluralistic social structure are poor candidates for participation in the integration process'³¹.

²⁷ Schmitter and Kim, p. 13

²⁸ Schmitter "Further Notes on Operationalizing Some Variables Related to Regional Integration." p.851

²⁹ Barrera and Haas, p. 157

³⁰ Haas (1958:5) quoted in Rosamond, *Theories of European integration*, p.68

³¹ Haas (1961) as quoted in Rosamond, p.66

Internal pluralism is closely related to democracy. Schmitter et al. add that there are (at least) three reasons why democracy is necessary: (1) Only governments that have strong legitimacy within their respective national societies can make the sort of "credible commitments" that are necessary for them to enter into agreements, to ratify them conclusively, and to monitor their eventual implementation. Some guarantees of government legitimacy and of a "centripetal/centrist" tendency in partisan competition are also essential for commitments to remain not only constant across parties, but also deeply rooted in citizen expectations. (2) That member states are democratic arguably provides insurance that members will not use force against each other, especially once integration has progressed and their respective civil societies have become intertwined. Whatever temptation more powerful governments might have to extract concessions by threatening weaker recalcitrant members, it seems unlikely that this would be supported by their own citizens. (3) If the neo-functionalists are right, a key element driving the integration process forward will be the formation of transnational interest associations and social movements and their intervention in supranational policymaking. Only in national democracies will citizens have the freedoms needed to organize such forms of collective action and to create links with others across national borders.

Nonetheless, Schmitter et al. also suggest that at least at the beginning stages the existence of non-democracies might not necessarily be such a deplorable thing. He argues that as long as states trust each other sufficiently to keep their commitments and not to resort to force or even the threat of force in resolving disputes, regional integration could be initially promoted by cooperation between stable and predictable autocracies, as well as democracies³².

³² Schmitter and Kim, p. 7

1.2.4 Elite value complementarity

The elite complementarity variable is concerned with “the distribution of expectations and evaluations’ (pro and con) *vis-à-vis* regional integration across national participant political groups”³³. It is important because it is recognized that the initiation of regional integration clearly requires an explicit agreement among governments. Moreover, there is a high likelihood that the national states that agree to such a founding treaty will do so with the expectation that it will protect and even strengthen their sovereignty, not transform it. What happens subsequently, once the process of integration has kicked in and begins to generate its intended and unintended consequences can be quite another matter³⁴.

It is equally important that nation states join with convergent-but not identical-motives. They should “hit on” integration for different reasons and with different expectations as this provides the future potential for making ‘package deals’ that will include a variety of pay-offs across participants. Importantly, regional integration is driven by the convergence of interests, not by the formation of an identity³⁵. Besides, intense national antagonisms can be useful for integration, provided that there is a strong motive for overcoming them (usually due to the existence of a common enemy)³⁶.

In order to measure this variable Nye suggests conducting interviews with the elite; content analysis of periodicals or statement by leaders will also determine whether there is supportive attitude among elites³⁷. Barrera and Haas also suggest the programs of interest groups and political parties as potential indicators of their values bestowed on regional integration³⁸. They also include the analysis of values held by ‘civil servants’ and ‘army officials’ as source of

³³ Schmitter 1968: 852

³⁴ Schmitter and Kim, p.6

³⁵ Ibid.

³⁶ Ibid.

operationalizing this variable³⁹. Nye however argues that the observation of attitudes towards positive regional integration is not enough; he argued that “one way to check on this would be to look for behavior, rather than just cost-free verbal statements, indicating sacrifice or trust”⁴⁰.

For the operationalization, the aforementioned indicators will be employed to find out sufficient information for a valid conclusion. Additionally, with due acknowledgement to Nye’s claim on the possibility of gap between the rhetoric and actual action, emphasis will also be given to the subsequent actions elite undertake.

1.2.5 Extra-Regional Dependence

On the basis of his comparative research on regional integration in Africa and Latin America Hansen found out that the neofunctionalist ‘Haas and Schmitter model’ has ignored to include exogenous variables that greatly influence the process of integration in these regions.⁴¹ Later, in light of this criticism the neofunctionalists have enlisted this variable as an integral part of the background conditions in the initiation cycle and the threat of communism in the face of Soviet Union and role of the US in the early stages of European integration were recognized.

Thus, this variable refers to ‘the extent to which member states and regions as a whole are subject to asymmetric economic and political relations which reduce their individual and collective capacity for independent decision-making without placing similar or mutual restrictions on extra-regional hegemonic powers’.⁴² In addition to the negative effects of external dependence it also has a positive impact on accelerating integration. Barrera and Haas argue that

³⁷ Nye, p. 871-872)

³⁸ Barrera and Haas, p. 159

³⁹ Ibid. p.160

⁴⁰ Nye, p. 172

⁴¹ Hansen (1969 -242-271) quoted from Rosamond, p. 68

⁴² Schmitter, p.852

the perception of threat will encourage actors to ‘achieve a united common front against external forces’⁴³. This would accelerate the process of positive integration.

As Schmitter indicated, external dependence has a political and economic dimension. Therefore, factors such as ‘foreign financial aid, military aid, external debt, external assistance’ are potential indicators of the political dependence; and ‘foreign trade as a percentage of gross national product, concentration of export earnings on few items (monoculture), high international trade to gross national ratio, persistent decline in terms of trade’ are indicators of economic dependence⁴⁴.

Having outlined my theoretical framework and basic background criteria for regional integration, I would like to present in my next chapter attempts at regionalism in Asia thus far with the aim of identifying the major factors that shape it.

⁴³ Barrera and Haas, p. 152

⁴⁴ Schmitter 1969, p. 852; Barrera and Haas, p. 159

Chapter Two. Regional Integration in Asia: Changing Conditions

Three regions (Western Europe, North America and East Asia) constitute the most prominent zones of global economic integration today. However, traditionally regional integration in Asia has been less prominent and less institutionalized, although regional initiatives have emerged here as well. Given that there have already been some attempts at regional cooperation, it is relevant to analyze the process of integration and provide reasons for failed regional integration plans in this region. I argue that the strong influence of the US has been a major impediment for regionalism. However, it seems that this situation is changing now and major realignments of power are happening in the region with the rise of China. Therefore in this chapter, two factors, rise of China and decline of US influence, that have direct relation with the variables identified in neofunctionalism, are analyzed in relation to regional cooperation in Northeast Asia.

2.1 History of Regionalism in Asia

The regional integration endeavours in East Asia started in the 1960s, when the gradual (re)emergence of Europe, aided by Marshall Plan, began to precipitate the insecurity of Tokyo and Canberra. It was believed that unless Asia formed a nascent economic community, it would again lose out regionally⁴⁵. These first endeavor led to the formation of the Pacific Asia for Trade and Development (PAFTAD), a body aimed at coordinating the trade policy of the region. PAFTAD held its ground for a while before it made way for the Pacific Economic Cooperation and Commerce (PECC) in 1980, as by then economic linkages had widened significantly.

⁴⁵ PHAR Kim Beng “Divining East Asian Integration: From Divide to Dividend” Institute of Strategic and International Studies, Malaysia (2004) p. 16

Meanwhile, a group of countries located in the southeastern part of the region formed a sub-regional grouping called the Association of Southeast Asian Nations or ASEAN in 1967. Emerging out of security concerns in the Indo-China region, ASEAN was different from other proposals in that it was not led by Japan and excluded major economic and/or military powers such as Japan and China. Trade and investment relations among its member states are limited as from the very beginning ASEAN was a political-strategic grouping. It focuses on ensuring the members' stability and security from external interference and is considered to be the most durable forum to have emerge in the developing world.

ASEAN was considered to be the only formal regional institution in East Asia until the Asia Pacific Economic Cooperation forum (APEC) was established in 1989 under the initiative of the Australian government to facilitate trade and the harmonization of investment regimes. Consisting of extraordinarily heterogeneous 21 countries across the Pacific rim with its own limited budget and a small secretariat in Singapore, APEC was considered to be the symbol of Asian regionalism during the 1990s.

Yet, before APEC could take the lead, in 1990, Malaysia proposed the formation of East Asian Economic Group (EAEG); later rendered into East Asian Economic Caucus (EAEC) due to the opposition of US and Australia. The strategic value of EAEG/EAEC was to help East Asia coalesce into a more effective policy making community to moderate the influence of US and Australia in the region. Not to be daunted, in 1996, Singapore came out with its own initiative: it proposed to solidify Asia's economic relationship with Europe with the formation of the Asia Europe Economic Meeting (ASEM). In some ways, the Singapore proposal actually added to the

value of EAEC⁴⁶. However, EAEC proved moribund for a while, until a surprising event shook the foundation of the region to the ground: the Asian financial crisis.

The Asian economic crisis of 1997-98 became the crucial test for APEC, ASEAN and other regional institutions in the region. The responses of existing regional institutions to the crisis were very disappointing. Measured in terms of 1) premonitions of impending danger, 2) coordinated policy responses, 3) use of a collective voice to influence actors outside the region, and 4) "institutional innovations," Wesley reports that the role of Asian institutions was minimal and ineffective in mitigating the economic downturn or promoting recovery. This contrasts with other regional institutions. For instance, "[b]oth NAFTA and the EU were able to demonstrate a solidarity, a resolution, and a commitment to the recovery of afflicted economies" ⁴⁷.

But paradoxically if there was one event that gave more impetus to Asian regionalism, it came in the form of the Asian financial crisis. Although ASEAN and APEC were undermined, the development of a wider East Asian regional grouping, which, in addition to the Southeast Asians, included the major economies of Northeast Asia, 'three regional heavyweights'- China, South Korea, and Japan - have gained momentum. APT (ASEAN-10 plus Three) became the most important institutional expression of the new Asian regionalism⁴⁸.

Overall, as we shall see, the most obvious paradox of regional integration in Asia is the multiplicity of rival but overlapping conceptions of which countries should be in which region and, hence, the large number of organizations that purport to represent different regions in Asia. Additionally, as Schmitter et al. argue, none of these organizations seem to be more than mere acronyms that meet occasionally, discuss ambitious plans and, yet, never manage to endow the

⁴⁶ Ibid. p. 18

⁴⁷ Wesley (1999:156) quoted from Schmitter and Kim, p. 17

respective regional secretariats with the financial or administrative resources that would allow them to play an autonomous role⁴⁹.

Numerous scholars engaged in regional integration studies highlight the influence of powerful extra-regional geopolitical forces in shaping regional integration processes. While in European case the supportive intervention from the US played catalytic role in the early days of the Union, in Asian case the hegemonic power of the US has been one of the major reasons to underdeveloped regionalism, and in the next section the influence of the US in constraining cooperation in Asia is analyzed.

2.2 Role of the United States

The United States has always considered itself as an Asia Pacific power, an ‘indispensable source of regional stability, provider of security for the sea lanes of communication, deterrer of a North Korean invasion of the South, defender of Taiwan, and guardian of democracy’⁵⁰. Its presence and influence in the region has been tremendous, but it is also seen as the major hindrance for regionalism in East Asia. In this section I will present two means that were employed by the US to hinder regionalism in Asia.

2.2.1 Fracturing the region

Presumably there exists a configuration of power and interest in the broader world system that determines if and when an exogenous hegemonic actor will conclude that it would prefer

⁴⁸ Webber, Douglas ‘Two Funerals and a Wedding?’, *Pacific Review*, Aug2001, Vol. 14 Issue 3, pp. 362–363; Shaun Narine, ‘The Idea of an “Asian Monetary Fund”: The Problems of Financial Institutionalism in the Asia-Pacific,’ *Asian Perspective*, Vol. 27, No. 2 (2003), pp. 84–88.

⁴⁹ Schmitter and Kim, p.25

⁵⁰ M. Taylor Fravel and Richard J. Samuels “The United States as an Asian Power: Realism or Conceit?” *Audit of the Conventional Wisdom* 05-5, MIT Center for International Studies 2005, p.2

that its rivals be integrated rather than disintegrated. America's Cold War strategy in Asia, unlike the one in Europe, was not based on the concept and practice of collective security. Rather, containment based on bilateral alliance structures was the most important foreign policy tool employed by the U.S. in Asia against the Soviet Union. As a result, instead of developing horizontal networks among themselves, Asian countries were far more closely aligned with and dependent on an extra-regional hegemon, namely the U.S.⁵¹.

Moreover, the relationship between the US, on the one hand, and China and Japan, on the other, is fundamentally different from that which prevailed between the US and Europe after the war. Beeson finds that American attitudes toward Western Europe were generally predicated on equality and respect, and the basis upon which the post-war order was to be created was multilateral, which stands in striking contrast to the experience of East Asia. In East Asia, not only did the US not have the same high opinion of or respect for the Asian powers, but they constructed a strategic and economic order that was predicated on a bilaterally based 'hub and spokes' model that made regional integration a remote prospect throughout the Cold War period.

This is especially true of American attitudes toward China, where the sort of containment policy that characterized relations with the Soviet Union in Europe was applied to China – a policy position which still has adherents in America's foreign policy establishment⁵². And without China a genuine East Asian organization that included the key countries of the region was meaningless. Indeed, Beeson argues that the pivotal historical importance of China to the overall region is revealed by its capacity to shape political and strategic relations even when not directly participating in them: Cold War divisions generally and concerns about the strategic

⁵¹ Schmitter and Kim, p.8

⁵² Papayouanou and Kastner (1999) quoted in Beeson, Mark "[Rethinking Regionalism: Europe And East Asia in Comparative Historical Perspective.](#)" *Journal of European Public Policy*, Vol. 12 Issue 6, 2005, p.975

intentions of communist China have actually been critical catalysts for the limited regional integration within the Southeast Asian countries that has occurred thus far⁵³.

Japan may have become the second largest economy in the world under the auspices of US hegemony, but it has been achieved at the cost of its own regional leadership ambitions. Historical factors, especially its defeat in World War II and the occupation of Japan by the United States, continue to influence Japan's postwar foreign policy. So too does the so-called "peace clause" of the U.S.-imposed Constitution. Since the war Japan's defense alliance with the United States has had an enormous impact on its foreign policy, both inhibiting and aiding Japan's relations with other states. And in the case of Japan's attempts to promote various regional cooperation projects, the US had an inhibiting role.

In East Asia in the post-war period, therefore, unlike in the earlier European experience, American power has primarily had a constraining rather than an enabling impact on processes of regionalism. Not only did American policy effectively fracture the region, but it directly (in China's case) or indirectly (in Japan's case) undermined the leadership potential and ambitions of the two most important powers in East Asia⁵⁴.

2.2.2 *Controlling institutions*

To retain maximum influence over each state individually, the U.S. resisted the creation of any intra-Asian regional ties. In 1993, when Prime Minister Mahathir Mohammad announced plans for his East Asian Economic Caucus, the US responded quickly and forcefully. The EAEG, an alternative to APEC, was intended to include eleven Asian members of APEC and to exclude the U.S., Canada, Australia, and New Zealand. By rejecting this proposal, the U.S. made it clear

⁵³ Beeson, Mark "[American Hegemony and Regionalism: The Rise of East Asia and the End of the Asia-Pacific.](#)" *Geopolitics*, Winter2006, Vol. 11 Issue 4, p. 545

that it would not allow an Asia-only process of regionalism. Later, EAEG was downgraded to the East Asian Economic Caucus (EAEC) within the APEC.

And again, in 1997, when Japan responded to the financial crisis by proposing an Asian Monetary Fund, the Clinton administration opposed the idea, demonstrating that the U.S. was interested only in using regional regimes and institutions to promote its own liberalization agenda in Asia. Crucially, with the US expressing hostility to the initiative, Japan was unwilling to risk incurring American displeasure⁵⁵.

Furthermore, US concern for liberalization significantly changed the nature and function of the APEC. APEC had originally proposed two goals: Trade and Investment Liberalization and Facilitation (TILF) and development cooperation for developing economies in Asia. Up until the 1996 meeting in Manila, these received relatively balanced attention. However, the APEC gradually but noticeably shifted attention to TILF at the expense of development cooperation largely due to the U.S. pressure. Thus, primarily due to American pressure and assistance, APEC became the main locomotive for liberalization in the Asia-Pacific region and a building bloc for the liberalization of the world economy⁵⁶.

The fact that the U.S. had manifestly instrumentalized APEC to promote its agenda of liberalization, in the view of many Asian countries, had significantly eroded the legitimacy and effectiveness of regional institutions and generated resentment among some Asian countries that viewed regional market liberalization as a device exclusively serving the interests of its richest members. Moreover, the economic crisis in 1997-98 brought about an important disillusionment on the part of Asian countries with their existing regional regimes and institutions. But behind

⁵⁴ *Ibid.*

⁵⁵ Schmitter et al. p.10;

⁵⁶ Phar, p. 10

this disillusionment lies an even more fundamental skepticism with regard to the role of the U.S. in Asian regionalism⁵⁷.

As we can see, it is clear that the interests of the US do not correspond with the idea of regional integration in Asia. However, in recent years, there was much discussion about the decline of US influence in Asia due to various reasons. In the next section, I briefly describe the reasons of decrease in the US role in the region.

2.3 Decline of US influence in Asia

In recent years, there has been much debate about the waning of US influence in the world due to decline of its economy and unpopular foreign policies. At the same time, the emergence of China as a global player and challenger to the US positions has become one of the popular topics in media and academia. Although the extent to which US influence is fading and China is emerging as a power is disputed, nowhere the power realignments more noticeable than in Asia. In this section I aim to show the decrease in US power in the region, both politically and economically and, in the next section, proceed to describe the growing role of China.

As we have seen earlier, East Asia has long been the domain of US influence and today, as East Asia has emerged to be the world's fastest growing region, its international relations evolved to be among the most consequential for the security and prosperity of the United States. Nevertheless, as Fravel note, in recent years, US strategic attention has focused intensely and overwhelmingly on Afghanistan, Iraq, and terrorism and American officials seem to view Asia only through this prism⁵⁸. Thus, American foreign policy is creating dilemmas for Asian policy-makers that is fuelling a reassessment of the value of the US's strategic presence in the region.

⁵⁷ Webber, p. 15

⁵⁸ Fravel and Samuels, p. 6

That such a reassessment might occur in parts of Southeast Asia with large Muslim populations, or troublesome insurrectionary groups, is possibly unsurprising (Beeson 2004), but that it should also be happening in South Korea and Japan is more remarkable and noteworthy.

Stroupe argues that South Korea is increasingly irritated with the US military presence and diplomatic posture on the Peninsula and is looking ahead to a settlement of the Korean crisis that could significantly lessen US presence and influence⁵⁹. Japan likewise is displaying unprecedented independence from Washington and is moving rapidly in the direction of remilitarization and self-assertion, making its own energy-security deals with Iran and Russia over US objections. Russia, in the face of proliferating US military presence throughout the traditional Russian sphere of influence, is becoming much more assertive, making strategic economic (oil/gas) agreements and conducting weapons sales in every strategic region of the world, thus charting a course often directly opposed to the US.

The main argument of this study is that the influence of the US in the region is changing and one of the variables that bring this adjustment is the rise of China. In 2000, presidential candidate George W. Bush labeled China as the United States' leading strategic and military competitor. In September 2005, Deputy Secretary of State Robert Zoellick explicitly warned Beijing not to "maneuver toward a predominance of power" in Asia, suggesting that it was doing exactly that⁶⁰. However, China is rising, economically, diplomatically and militarily, to displace the United States as the dominant power in Asia⁶¹ and the other countries in the region are also making shifts in their foreign policy stances accordingly.

⁵⁹ Stroupe, Joseph W "US Complicit in its Own Decline" *Asia Times* March 31, 2004
http://www.atimes.com/atimes/Global_Economy/FC31Dj02.html

⁶⁰ Twining, Daniel "[America's Grand Design in Asia](#)." *The Washington Quarterly*, Summer 2007, Vol. 30 Issue: Number 3, p79

⁶¹ Stroupe, http://www.atimes.com/atimes/Global_Economy/FC31Dj02.html

Francis Fukuyama credits China with skillfully elbowing out the US from the region, noting: 'It is not clear that the Bush administration even realizes how successful Beijing has been in displacing US influence, or has ideas for how to stop this from happening'⁶². And it seems that Japan and Korea have eagerly joined China to undermine the US influence in the region (Fravel et al). The nuclear crisis in the Korean Peninsula and the behavior of Kim Jong Il in effectively bringing a stalemate to the six party talks served as an example of decline in US power and influence in the region. It was the Chinese government, that has taken the lead in the diplomatic effort to denuclearize North Korea at long-stalled six-party talks in Beijing, bringing the United States, Japan, Russia, and South and North Korea to the table.

As many scholars underline, the major shifts in power seem to be happening according to the principle that geopolitics follow economics and have attributed the decline of US influence in the region not only to its flawed foreign policy in recent years, but also to its economic weakening. US presence in the region has been strong because it was a major economic partner for many Asian countries. The consumer markets of North America have been vitally important for the export-oriented economies of Northeast Asia. However, today Asia is becoming a self-sustaining growth area, no longer dependent on exports to the United States as the primary factor for determining economic growth⁶³. In less than ten years, China is expected to emerge as the second-largest global consumer after the United States.

It is believed that an intra-Asia supply chain is emerging with the economies of Asia becoming interlinked, with China at the center. China is overtaking the US as Japan and Korea's largest export market and since 2004, Beijing has displaced the United States as Japan's leading trade partner. In October 2004 it won agreement for an FTA with the Association of Southeast

⁶² quoted in Fravel et al., p. 8

⁶³ Jorgen, Orstrom Moller, "China, My China", *The National Interest* 03.01.2006

Asian Nations (ASEAN) that potentially could integrate two billion people and \$2 trillion of commerce by 2010, its target date⁶⁴.

However, at the same time, the US is becoming increasingly reliant on continuing inflows of capital from Asia to finance its massive budget deficits occurring due to its engagement in Iraq. Asian central banks are today the biggest foreign investors in U.S. bonds and U.S. Treasury Department statistics through March 2007 reveal that five of the ten top foreign holders of U.S. obligations are Asian, with Japan (\$612 billion) and China (\$420 billion) in first and second place, respectively⁶⁵. But despite the increasing dependence of the US on Asian finance and on commodity trade, an Asian regional trade and financial system such as the Chang Mai Initiative and new projects like the development of an Asian bond market are emerging without US leadership or, in some important cases, even without US participation⁶⁶.

Thus, Northeast Asia today seems well positioned to be a powerful and independent economic actor. As Beeson argue, the symbiotic dependency that has emerged between Northeast Asia and the US potentially confers economic and political leverage on the Northeast Asians. What is lacking at this stage is the political will to exploit such potential, and the institutional competence to act more independently as a region.

2.4 Rise of China

Beeson suggests that China's problematic status as an introverted country has been one of the impediments to regional integration in East Asia before⁶⁷. However, with the increase in

<http://www.nationalinterest.org/Article.aspx?id=10840>

⁶⁴ Fravel et al., p.5

⁶⁵ Department of the Treasury/Federal Reserve Board March 15, 2007
<http://www.ustreas.gov/tic/mfh.txt>

⁶⁶ Bowles, Paul "Asia's post-crisis regionalism: bringing the state back in, keeping the (United) States out" *Review of International Political Economy*, Volume 9, Issue 2 May 2002, p. 244

⁶⁷ Beeson, "[American Hegemony and Regionalism: The Rise of East Asia and the End of the Asia-Pacific.](#)", p.547

‘socialization’ that China’s leadership have undergone since the opening up of the Chinese economy attitudes toward China have changed substantially in the region, and it is widely considered today that China is becoming a new driving force not only behind globalization but also regionalization.

China traditionally emphasized bilateral relations and had never formulated specific regional economic or security policies. In the new millennium, however, Beijing sought to change the perception of the Chinese rise from that of the ‘China threat’ to the ‘China opportunity’. In order to do so, China played a leading role in moves towards regional cooperation and has gradually shown a clearer willingness to join multilateral agreements in a larger number of areas (non proliferation, peacekeeping). Indeed, from joining the World Trade Organization (WTO) to playing a leading role in the Shanghai Cooperation Organization in Central Asia and the six-party talks in northeast Asia, China started to promote a multilateral approach to solving regional and even global problems.

China’s active foreign policy and its global outreach can be discussed in a large volume, however, related to my research question, I would like to emphasize the Chinese effort in supporting multilateral relations in Northeast Asia. Ye (2006) notes marked changes in China's foreign policy since 1998, and argues that these reorientations have played a key catalytic role in the increased momentum of regionalism in Northeast Asia as a whole⁶⁸. China showed gradual commitments to Northeast Asia adopting a more active diplomacy, pressing the North, appealing more to Japan, and raising the profile of regionalism⁶⁹.

⁶⁸ Ye, Min, “[The Political Economy of China's New Asian Regionalism](http://www.allacademic.com/meta/p70634_index.html)” (*Paper presented at the annual meeting of the International Studies Association, Hilton Hawaiian Village, Honolulu, Hawaii* (2005, Mar) http://www.allacademic.com/meta/p70634_index.html

⁶⁹ Yoshimatsu Hidetaka “Political Leadership, Informality, And Regional Integration In East Asia: The Evolution Of Asean Plus Three” *European Journal of East Asian Studies*, Sep2005, Vol. 4 Issue 2, p205

The most notable development that has important implications for Northeast Asian regionalism is the strengthening ties between Japan, China and South Korea. Indeed, since the establishments of ASEAN+3 framework, the three countries have been enjoying unprecedented rise in trilateral talks and meetings. An annual APT summit meeting has been held since 1997, and ministerial meetings have been institutionalised in the expanding fields of foreign affairs, economic and financial cooperation, agriculture, energy, and so on. At a trilateral summit in November 2002, Chinese Premier Zhu proposed that a feasibility study should be undertaken on the formation of a free trade zone encompassing the three countries. This proposal aimed at helping increase tripartite cooperation in economy and trade and having a positive impact on economic integration. One year later, the leaders of China, Japan, and South Korea issued the Joint Declaration on the Promotion of Tripartite Cooperation. This declaration called for trilateral cooperation in fourteen issue-areas such as trade and investment, IT industries, and environmental protection. This declaration was initiated by China.

Furthermore, the remarkable economic growth of China secured its central place as a driver of regional activity. Indeed, China has been the main driving force behind Northeast Asian trade interdependency - its emergence as a global and regional manufacturing center increased the value of trade between the three countries and had significant implications for the economies of Japan and South Korea⁷⁰. As a result, greater Northeast Asian regionalization and regionalism is more likely to occur as the strong economic linkages and complementarities among China, Japan and South Korea augur well for the further integration among the Northeast Asian countries.

⁷⁰ Sarah Chan and Chun-Chien Kuo "Trilateral Trade Relations among China, Japan and South Korea: Challenges and Prospects of Regional Economic Integration" *East Asia*, Volume 22, Number 1/Spring 2005

2.4.1 Japan and China

Schmitter et al. suggest that regional integration, however limited, inevitably raises the question of how the gainers will compensate the losers, and therefore requires leadership, i.e. actors who are capable of taking initiatives and willing to pay a disproportionate share of the cost for them. The European experience suggests that this role is better played by a duopoly (France and Germany) rather than either a single hegemonic power (Germany) or a triopoly (Germany, France and Great Britain)⁷¹. In the case of Northeast Asia, integration has predominantly been fostered by market-driven integration through the increased flow of trade and investment⁷². However, Hidetaka² notes that market-driven integration did not lead to substantial political integration. A shift from market-driven ‘regionalisation’ to government policy-based ‘regionalism’ is likely to need the determined commitment of two regional powers: China and Japan⁷³.

Since 1960s, Japan has been trying to foster regional cooperation offering a number of proposals. However, not much came out of these efforts, as the concentration on economic development; the desire to maintain a low diplomatic profile due to the concern of negative reactions from other Asian countries because of the country’s historical legacy; and foreign policy subordination to the US have had predictable consequences (Beeson). Only recently have Japanese political elites begun to display a degree of proactive and independent policy toward the region, something that has been driven both by the impact of recent American foreign policy,

⁷¹ Schmitter and Kim, p. 26

⁷² Peng, D. “[Invisible Linkages: A Regional Perspective of East Asian Political Economy.](#)” *International Studies Quarterly*, Sep2002, Vol. 46 Issue 3, p423, Sohn, Byeong Hae. “[Regionalization of Trade and Investment in East Asia and Prospects for Further Regional Integration.](#)” *Journal of the Asia Pacific Economy*, Jun2002, Vol. 7 Issue 2, p160

⁷³ Hidetaka, p. 210

and by the challenge presented by China's increasingly skilful and effective push for regional leadership⁷⁴.

Indeed, as Hidetaka notes, with the growing enthusiasm of China to take the lead, the political rivalry between Beijing and Tokyo in East Asia has become a 'spiral motor' to stir a regional integration process. The importance of leadership showed by Japan and China can be observed in the case of ASEAN, which prior to the emergence of the ASEAN+3, clearly lacked undisputed leadership and actors that are able to pay the cost of integration. As argued by Mattli, the economic objectives of the ASEAN have rarely been realized; few initiatives that made progress were financed by Japan⁷⁵. However, as ASEAN has expanded to include major Northeast Asian powers, it seems that it has provided a venue and opportunity for Japan and China to exercise leadership in Asian regionalism.

Asian financial crisis has exposed the structural weaknesses of ASEAN and APEC, both of which are handicapped by the political and economic diversity of their member states and the absence of a benevolent dominant state or coalition of states. It has also shown the influence and power of Northeast Asian countries, which clearly have a stronger hand in the promotion of greater Asian regionalism due to their greater share of trade/financial power both regionally and globally (Phar 2004).

The two countries have not collaborated and each of them has seldom given enthusiastic support for the initiatives that the other took, nor have they jointly proposed cooperative initiatives for East Asia⁷⁶. However, their activities have been complementary in nature as both of them have been focusing on the areas each confident in. Japan has shown fragility in its

⁷⁴ (Vatikiotis and Hiebert 2003) in Beeson, p.548

⁷⁵ Mattli, Walter "The logic of regional integration: Europe and beyond" (New York:Cambridge University Press, 1999) p. 165

external policies due to domestic politics, and this has had a deleterious effect on its policies and measures for the region. However, it holds the capacity to formulate new rules and institutions by utilising its long experience of institution-building and development assistance. China does not have sufficient experience and expertise in creating regional rules and institutions due to its limited commitment to regional affairs in the past. However, its government has shown the will and capability to lead regional integration by adopting difficult but necessary policies for the region in a timely way⁷⁷. Thus the activities of the two countries, although competitive in nature, provided regional public goods in a positive-sum manner.

The process of bid and counter-bid between China and Japan in the plans for integration can look like competition for regional leadership, and of course in some senses they are. Yet there is some reason to believe that China is cautiously approaching the possibility of transforming the basis of its relations with Japan. Public statements by Chinese leaders fully recognise that Sino-Japanese relations are the key to regional stability. While competing with China for influence in Southeast Asia and elsewhere, Japanese appeared finally to be lowering their expectations, in stages, to build a foundation for regionalism in which leadership would have to be shared. Increasingly, Japanese leaders and many in the political elite share this assessment, regarding the ideals of regionalism under Japan's guidance as outdated. Both countries want an effective organization helpful in regional dynamism and stability, not a venue for struggling with each other⁷⁸.

⁷⁶ Watanabe, Matsuo "[Issues In Regional Integration Of East Asia: Conflicting Priorities And Perceptions.](#)" *Asia-Pacific Review*, Nov2004, Vol. 11 Issue 2, p1-17, p. 2

⁷⁷ Yoshimatsu, Hidetaka "[From Distrust to Mutual Interests?: Emerging Cooperation in Northeast Asia.](#)" *East Asia: An International Quarterly*, Winter2005, Vol. 22 Issue 4, p18

⁷⁸ Rozman, Gilbert "Northeast Asia: The Halting Path toward Regional Integration" 5th Europe-Northeast Asia Forum, Berlin, 15-17 December 2005. p. 5

Thus, we see that the emergence of China not only encouraged Japan to take more proactive stance on regionalism, but also possibilities emerge when two countries can cooperate together to lead the regional integration.

Conclusion

Hence, in this chapter I have described the attempts at regionalism in Asia to date and have explained that extra-regional dependence - the role of the US – stood on its way. Japan has been dependent economically, militarily and diplomatically on the US and many other export-oriented Asian economies relied on North American and European markets. Rate of transaction among the Asian countries was modest. Furthermore, related to the relative size/power variable identified by neofunctionalists, there was no country (or countries) in Asia that could have taken a lead in regional integration endeavors. However, as I argued, the role of the US in the region is decreasing and China is emerging as a potential trigger for more independent and inward-looking Asian integration. It serves as a market for other neighboring countries and challenges Japan to take over more assertive and independent foreign policy in the region. Therefore, major impediments to integration that existed before in Asia are lifting and chances for regionalism are higher now than ever before. In the next chapter, I look more closely to the changing background conditions for integration and apply it directly to the case of Northeast Asia, region where China and Japan belong to and where great potentials for cooperation exist. Thus, against the background of these events, I will assess the conditions that exist now in the Northeast Asia due to the Chinese ascendance using the criteria developed by neofunctionalists to see whether regional integration is possible in this region.

Chapter Three: Northeast Asia: Awaiting for Regionalism?

As we have seen in the earlier chapter some significant changes have occurred in the region in recent years, and there are some reasons to believe that there might be better chances for regional integration in Asia now. Intraregional trade and investment flows are increasing; regional actors that are able to show leadership in pursuit for regionalism are emerging and the constraining influence of extra-regional dependence is declining. Indeed, along with these changes happening, talks about regional integration and cooperation have intensified in recent years. At the core of the regional plans today lies the project for Northeast Asian cooperation as it is believed that only a decisive move through Northeast Asian regionalism, which includes major regional powers, will ensure the success of other regional projects⁷⁹.

It is recognized that regions are not given concepts, but a product of political and social construction⁸⁰. As Caporaso et al. noted, the Northeast Asia is more of a region today due to the powerful role of Japan and Korea in stimulating economic growth in the region⁸¹. Here I would add that the rise of China made the the region even more interesting and valuable. Given the importance of Russian energy for the major economies of the Northeast Asia; the need to engage North Korea to ensure stability and Mongolia geographically stationed as buffer between China and Russia, the Northeast Asia seems to have taken distinct shape as a region today.

⁷⁹ Rozman, Gilbert "Northeast Asian Regionalism: Good Prospects, Slow Start", *Center for East Asian Studies* publications, Monterey Institute of International Studies 2004, p. 3

⁸⁰ Hurrell, Andrew: "Regionalism in theoretical perspective", in Fawcett, Louise and Hurrell, Andrew (eds.): *Regionalism in World Politics: Regional Organization and International Order*. (New York, Oxford University Press, 1995)p. 41.

⁸¹ James Caposaro and Choi Yang 'Comparative Regional Intergation' in '*Handbook of international relations* Carlsnaes, Walter, Thomas Risse and Beth A. Simmons. (London ; Thousand Oaks, Calif. : SAGE Publications, 2005) p.317

Realistically projects for regional cooperation in Northeast Asia is in the very early stages, but it is expected that three countries - Japan, China, and South Korea - will assume leadership roles that will bring integration within reach to ensure sustainable development in the region. Recently, the economic interdependence of China, Russia, Japan, and South Korea has been increasing, pulling Northeast Asia towards regional economic integration. Moreover, the Six-Party talks that emerged in response to the North Korean nuclear crisis is promising to be a potential to a lasting multilateral framework for regional security cooperation. Above all, considerable mutual complementarity in terms of energy, natural resources, capital, technologies and workforces keeps the regional integration talks alive⁸².

Thus, given the desirability of the Northeast Asian regionalism and already widely contemplated plans, this chapter aims to assess the currently present conditions in the region according to the criteria defined by neofunctionalists.

3.1 Present Conditions

As I have argued earlier, the rise of China has been the major event that is changing the conditions in the region and it had important implications for the region. It has helped to ‘shape’ the region, deter the negative influence of the extra-regional power, and increased the ‘transaction’ inside the Northeast Asia. The following sections elaborate more on this conditions that have evolved in the region today.

⁸² Tsuneo Akaha “Politics and Economics in Northeast Asia: nationalism and regionalism in contention” (St. Martin's Press 1999) p. 26

3.1.1 Relative Size/ Power of the Units

Northeast Asia consists of only six countries, Japan, North and South Korea, China, Mongolia, and Russia. Yet, in total they cover an enormous geographic area, accounting for more than one-fourth of world's population, and possess tremendous social and economic power. These resources are dispersed unevenly among the countries. Russia and Mongolia are large but (relatively) poor. China is large and rapidly developing. Japan and South Korea are small but rich. North Korea is both small and poor. Nonetheless, the Northeast Asia considered to be a natural economic territory, with the countries being highly complementary to each other. The Russian Far East and Mongolia have rich natural resources, Northeast China and North Korea have abundant cheap labor, and Japan and South Korea have capital and technology⁸³.

Yet, related to the size/power variable, the region constitutes a problem of size asymmetries in integration as Roland points out⁸⁴. Mongolia has a population of 2.5 million, South Korea 49 million, Japan 127 million, Russia 143 million and China 1.3 billion. Whereas in Europe the ratio of smaller countries to the largest member - Germany - is roughly 1 to 8, and there is a consensus that Russia would never be part of the European Union because its size; the ratio between South Korea and China is nearly 1 to 30, which is even higher than the ratio between smaller countries in the EU and Russia. As Roland suggests, asymmetries in size might create a problem for representation of these countries in regional institutions because successful

⁸³ Peng, Dajin "Subregional Economic Zones and Integration in East Asia". *Political Science Quarterly*, Winter 2002/2003, Vol. 117 Issue 4, p.616

⁸⁴ Roland, Gerard, "European Integration: What Lessons for Northeast Asia?", paper prepared for the keynote lecture in the 5th International Conference, hosted by NAIS Korea, Feb. 20, 2007, Seoul, Korea. p. 23

supranational institutions require both the respect of national sovereignties and the recognition of differences in size⁸⁵.

Moreover, animosities, both historical and present, exist between all the states in the region. In terms of military capabilities, the region consists of two military powers - Russia and China, which are permanent members in the UN Security Council and hold nuclear power. Security of Japan and South Korea is ensured by the United States. To complicate the situation, nowhere the legacy of Second World War and Cold War is more apparent than in Northeast Asia. Division on the Korean Peninsula, unsettled territorial disputes, historical memories, conventional high arms expenditures, nuclear threat of North Korea makes the region potentially open to conflicts.

Interestingly, however, most of the problems in the region are deep and structural and have been relatively constant over the past decade or more. The territorial issues, for example, trace for the most part to World War II, while nuclear weapons and ballistic missile capabilities have also been longstanding. As such, they pose little imminent threat of destabilization or immediate challenges to regional stability⁸⁶. In addition, militarily, China's increasing ties with its neighbors and subsequent incorporation into the global economy considerably lowered the security threat in the region⁸⁷.

Northeast Asian countries, China, Japan, and Russia, had been considered and consider themselves as great powers. According to Fissaha, this factor also plays important role since “the root causes behind the size/power and the extent of the consequent problems countries face significantly determine the type of strategy countries decide to adopt in relation to their regional

⁸⁵ Ibid.

⁸⁶ T.J. Pempel (2007), “Regionalism in Northeast Asia: An American Perspective”, Paper prepared for the keynote speech in the 5th International Conference, hosted by NAIS Korea, Feb. 20, Seoul, Korea. p.5

⁸⁷ Schmitter and Kim, p.30

interaction”⁸⁸. Put simply, in his comparative study between Africa and Europe, he found that the fact that prior to devastating effects of the two World Wars, European states were at one time great powers, influenced those states to combine their potential and got organized to pursue their common interest. In the stark contrast, the size/power problem of African states was not caused by a short term debilitating incidents like the Second World War, but rather deep rooted in the historical, political and social factors specific to the Continent.

In sum, economically the countries of NEA are dissimilar, but highly complementary, which makes the region an area with extraordinary potential for gains. Geographically, the region poses a challenge for integration, as the proportion between big countries and small ones seems to be too big. Although there are differences in terms of military capabilities, there seems to be a healthy balance between powers and potential for conflict is limited despite the actual hostility between the states. Moreover, in recent years the countries show willingness to overcome the animosities through cooperation.

3.1.2 Extra-Regional Dependence

Earlier, I have argued that the US influence is lowering in the region. Indeed, as could be inferred from the continuing security concerns expressed over the US military presence in the region recently⁸⁹, the US seems to have become an outsider for the Northeast Asian countries. Particularly, US pressure against North Korea, placing it in the ‘axis of evil’, thus increasing the tension, led to questioning of the US role in the region⁹⁰. American presence is also increasingly

⁸⁸ Fissha, Azeb “Regional Integration In Africa Lessons From The European Union?: A Comparative Analysis” (Budapest: CEU, Budapest College, 2005) p.26

⁸⁹ Chang, K. “[The future of the U.S. military presence in Northeast Asia](#)” *Paper presented at the annual meeting of the The Midwest Political Science Association, Palmer House Hilton, Chicago, Illinois 2006-10-05* http://www.allacademic.com/meta/p82331_index.html

⁹⁰ [Kongdan Oh](#), “Northeast Asia: Changes and the Potential for a Cooperative Future” Center for Northeast Asian Policy Studies, *NIRA Policy Research*, January 2003

seen as distorting inter-state relations by introducing a powerful outside force, which emphasizes bilateral relations (South Korea-U.S., Japan-U.S.) over regional bilateral or multilateral relations.

Indeed, the US seems to have become ‘external threat’ that galvanized the states to join together. According to Rozman, Bush administration, however unintentionally, better demonstrated regionalism’s importance⁹¹. It is argued that the shifts in values in US foreign policy under George W. Bush, who has “put America’s uncontested military prowess to new uses in a series of unilateral strategic and foreign policy actions aimed at reshaping the global status quo in direct contrast to the prior fifty years of a predominantly multilateral and status quo oriented US foreign policy”⁹² triggered the states in the region to come together under the common interests to integrate North Korea⁹³ and, particularly for Russia and China, in a long-term approach to counter the US dominance⁹⁴.

On the other hand, since the US remains the world’s superpower and its influence in the regional affairs is still important, it is argued that it is crucial to gain approval from the US⁹⁵. In this respect, China seems to be playing instrumental role in changing the attitude of the US towards the region. As Pempel mentions, the emergence of the DPRK nuclear problem, and more importantly with the growing entrapment in Afghanistan and Iraq, US views toward China has shifted. In particular, China seems to have gained credibility and improved relations with the US as a result of its nominal support for the US “war on terror”, for its tolerance for the

<http://www.brook.edu/views/articles/fellows/oh20030101.htm>

⁹¹ Rozman Gilbert “Toward a Breakthrough in Northeast Asian Regionalism: Overcoming US Ambivalence” *NIRA Policy Research*, Vol.17, No.1, 2004 p. 6

⁹² T.J. Pempel, p. 30

⁹³ Johnson, Tim [North Korea nuclear accord may be a historic turning point](#). Knight Ridder Tribune Washington Bureau (DC), 02/13/2007

⁹⁴ Kerr David “[The Sino-Russian Partnership and U.S. Policy Toward North Korea: From Hegemony to Concert in Northeast Asia](#)”. *International Studies Quarterly*, Volume 49, Number 3 (September 2005), pp. 411-438; Yuri, Tsyganov “Russian Policy Toward Northeast Asia: In Search Of A New Approach” *Cerc Working Papers Series* No. 2, 2003, p.3

⁹⁵ Jorgen Orstrom Moller; Schmitter and Kim, p. 25

development of US bases in Central Asia and its initiation of the Six Party Talks⁹⁶. Indeed, on global security, the Bush administration has moved furthest in Northeast Asia toward multilateralism, as it has become preoccupied with Iraq, which made it more anxious for a multilateral approach in which all of Northeast Asia works together to end North Korea's nuclear threat. Since China has become the critical actor in settling the North Korean nuclear crisis, its value has risen for U.S. policy⁹⁷.

Economically, it also makes sense for the United States to further Asian integration as a way to maintain momentum for global growth. Indeed, Rozman writes that restrictions on the growth of Chinese textile imports amid a politically potent national outcry over the loss of jobs and a soaring trade deficit with China even before the impact of WTO entry has reached its peak, make the US think anew about ways to integrate with the Chinese economy. Regionalism looks advantageous as it would speed up China's move to FTAs, currency convertibility, and transparency⁹⁸. Zhongying et al also notes that an FTA between Japan and South Korea in 2005, an energy agreement with Russia, and reform in conjunction with regional integration could also serve global objectives and contribute to the world's economy. Any other alternative, the author writes, would mean a recession for the US economy.

Thus, as we see, the value of regionalism had risen for the Northeast Asian states in the face of U.S. unilateral tendencies. Moreover, the US has become more tolerant of Northeast Asian regionalism as China is gaining credit for its nuanced diplomacy. Additionally, an alarm over loss of jobs and uncertain economic prospects are also seen as factors likely to shape the US attitude towards Northeast Asian regionalism.

⁹⁶ Pempel, p.7

⁹⁷ Ibid, p.7

3.1.3 Rate of Transaction

Globalization and technological progress provided extensive opportunities for freer movement of people, goods, capital, communication and cultural exchanges. Today, tourism, business, and academic relations among all the countries in Northeast Asia are on increase as never before, China being the hub for all kinds of ‘transactions’. Especially extensive relations in all fields are established between the three core countries, Japan, China and South Korea. For instance, cultural and the interpersonal exchanges among these states have risen greatly in recent decade. There are 40 routes and 446 weekly flight in operation between Korea and China, and 34 routes and 410 weekly flights in operation between Korea and Japan⁹⁹. Each of the country stands as the one of the most popular tourist destination and primary market for cultural products to the other¹⁰⁰.

These three countries are also leading in terms of extensive economic relations, becoming increasingly interdependent on each other. Japan and South Korea are major capital exporters and China is mainly on the receiving end of foreign capital, being the largest recipient of foreign direct investment among all developing countries. It is thus no coincidence that these three economies have close ties: they trade heavily among themselves; and Japan and South Korea are sending capital to China, with many of their firms setting up subsidiaries or joint ventures in China¹⁰¹. Recently, China, South Korea, and Japan have seriously explored the possibilities of a FTA that can potentially provide freer movements of most goods, capital and service.

⁹⁸ Rozman, ‘Overcoming US ambivalence’ p. 20

⁹⁹ Hong Soon-Man, Air Transport Bureau/Ministry Of Construction And Transportation, "Wishing For Integrated Northeast Asian Air Transport Market Era" Air Transport Research Society (ATRS): June 2006 [http://www.atrsworld.org/NEA%20Presentations/Hongsoonman\(P-3\).pdf](http://www.atrsworld.org/NEA%20Presentations/Hongsoonman(P-3).pdf)

¹⁰⁰ Kabe Shigesaburo “Cultural and Human Exchanges in East Asia Are Expanding”, Japan Center for Economic Research *Staff Report* January 25, 2007 <http://www.jcer.or.jp/eng/pdf/kenho061203e.pdf>

¹⁰¹ Wong Kar-Yiu “Economic Integration In Northeast Asia: Challenges And Strategies For South Korea” paper presented at *U.S.–Korea Academic Symposium New Paradigms for Transpacific Collaboration* October 16–18, 2005

In the near future, it is expected that the development of oil and gas fields in Russia and competing demand for energy from the economies of China, Japan and Korea will give a way to a new set of relations, based on evolving transportation networks and integration of regional energy markets. Indeed, most of projects that have already started and current plans for regional integration in the NEAR predominantly focus on the functional areas of transport and energy¹⁰². Schmitter notes that these functional areas are good alternative to European ‘coal and steel’ project and have the potential of ‘spilling over’ to other areas¹⁰³.

However, the Director for Economic Research Institute for Northeast Asia, Ivanov suggests that ‘over the longer-term, political, rather than economic or market-driven, decisions may bring Russian supply and Chinese, South Korean and Japanese demand together in Northeast Asia’¹⁰⁴. With this remark, I’ll proceed to the next section where the missing conditions for regional integration would be discussed.

3.2 Still Missing Conditions

In the late 1990s, when Chinese economy gained momentum and trilateral political cooperation between the three countries (Japan, China, Korea) have expanded under the ASEAN+3 framework, Track Two mechanism of diplomacy, which involves establishing relevant research institutes for policy suggestions for the official cooperation, has been set up. Since then numerous research projects and policy suggestions have been made from the joint research institutes to promote regional integration in Northeast Asia. Some of the proposals have been realized and several projects are underway currently. However, it was noted that the

¹⁰² A Grand Design for Northeast Asia as a Comprehensive Vision for Trans-border Development *NIRA Policy Brief* No.8 August, 2006 <http://nira.go.jp/newse/paper/pb/pb08.pdf>

¹⁰³ Schmitter and Kim, p. 27

progress has been slow and the success of the “Grand Design for Northeast Asia” clearly requires political will from the states. Indeed, it seems that the powerful role of governments in the countries concerned stand on a way to regional cohesion. It is explained by the pluralism/ democracy and elite complementarity variables identified by neofunctionalists.

3.2.1 Member State Internal Pluralism/ Democracy

In regard to democracy, the Northeast Asia is very different from Europe: there are two non-democracies (China and North Korea) and four democracies or quasi-democracies (Japan and South Korea, Mongolia and Russia), that are at different levels of regime consolidation. However, as far as internal pluralism and the existence of organized interest groups is concerned in Northeast Asia, many previous analyses stressed the role of private businesses in fostering a 'regional economy' in Asia. As Mattli points out, regionalism in Asia has been promoted through private¹⁰⁵ (or informal forms) of integration, which has largely been driven by the Japanese trading companies and Chinese diaspora. He notes that Chinese networks are often connected with Japanese networks and Schmitter et al. suggest that these two versions of regionalism were largely complementary to each other, collectively deepening and enriching the process of cooperation and integration in Asia¹⁰⁶.

¹⁰⁴ Ivanov, Vladimir I. “*Creating a Cohesive Multilateral Framework Through a New Energy Security Initiative for Northeast Asia*”, December 2003, ERINA Report Vol.55 p. 3

¹⁰⁵ Private integration is market-driven institutional arrangement put in place by individual firms in order to cope with the risks they face in regional trade and investment in Mattli, Walter “The logic of regional integration: Europe and beyond” (New York:Cambridge University Press, 1999) p. 177

Some other scholars defined it as regionalization. ‘Regionalization refers to those processes of integration which ‘come from markets, from private trade and investment flows, and from the policies and decisions of companies’ rather than as a result of predetermined plans of national or local governments as it is the case in regionalism.’ Hurrell, Andrew: “Regionalism in theoretical perspective”, in Fawcett, Louise and Hurrell, Andrew (eds.): *Regionalism in World Politics: Regional Organization and International Order*. (New York, Oxford University Press, 1995) p. 337

¹⁰⁶ Schmitter and Kim, p. 16

Indeed, most of Asian economies have prospered thanks to these Chinese and Japanese networks and business ties, and they are cited as one of the reasons for regional stability over the past years. As Yang points out, although disputes appear from time to time, all states in the region except North Korea seems to have reached consensus not to resort to violence to maintain the momentum of their economic growth¹⁰⁷.

Furthermore, as far as mutual commitment between non-democracies is concerned, at heart of the prospects for future regional integration lies the complexity of the Sino-Japanese relationship. Although economic realtions have had the potential of moving these historic rivals towards conciliation, their relations by no means can be characterized as smooth and without upheavals. Recently, potential remilitarization of Japan, competition over the resources, Taiwan issue, controversy over the Yasukuni Shrine and history textbooks have caused serious conflicts between the two regional powers.

However, Rozman notes that China and Japan are locked together in the pursuit of regionalism, however slowly it may proceed. Their participation in regional institutions like APEC and ASEAN + 3 have played useful role for bringing these countries together and increasing their formal ties. Plus, occasionally, South Korea's enthusiastic endeavor to soothe their tensions serving as mediator has been instrumental for the relations between the competitors¹⁰⁸. Therefore, Rozman underlines that it is very unlikely that either China or Japan would "scuttle the search for regionalism or push for a form of regionalism that excludes the other" (p. 8).

¹⁰⁷ Yang, Philip (2006) "Northeast Asia Security Cooperation: International Relations Theory and Embedded Regionalism", (paper presented in Third Meeting of the CSCAP Study Group on Future Prospect for Multilateral Security Framework in Northeast Asia Beijing, China, 28-29 April 2006)

¹⁰⁸ Hidetaka, p. 245; Rozman, p. 12

Nevertheless, the networks of leaders in business and shared responsibility for regionalism between China and Japan are not seen as generating meaningful progress towards Northeast Asian integration. Rozman points to the considerable weakness of NGO and civil societies and strength of the states in the region, and Ivanov, in an assessment over the undergoing projects in the border areas, suggests that central governments are not attentive enough to provincial authorities and people¹⁰⁹; and the international crisis group finds that the Chinese government does not voice to the public the importance of Japan for the country's economy¹¹⁰. Indeed, it seems that politicians in the region are not prepared to explain their constituencies about the values and benefits of multilateral cooperation in Northeast Asia, and all of them have embraced nationalistic sentiments.

3.2.2 *Elite Value Complementarity*

South Korea's increased enthusiasm for regional goals, as expressed by Roh Moo-hyun in his inaugural address, China's more active diplomacy in pursuit of regional aims, as seen in the early steps of Hu Jintao's administration, and new signs of strategic thinking in Japan, such as active pursuit of Russia for an energy deal have been fueling hopes for regional integration in Northeast Asia¹¹¹.

However, Rozman suggests that if we were asked to identify one force that stands in the way of regionalism, it is national identities. There have been moments of regional cooperation, solidarity and identification among elites that gave positive signs that conditions are forming for a new stage that has greater likelihood of bringing a breakthrough. Yet, as Koizumi, Roh, Hu,

¹⁰⁹ Ivanov, Vladimir I. "Creating a Cohesive Multilateral Framework Through a New Energy Security Initiative for Northeast Asia", p. 3

¹¹⁰ "North East Asia's Undercurrents Of Conflict" Asia Report N°108 December 2005 International Crisis Group p. 20 <http://www.nautilus.org/fora/security/606ICG.pdf>

Putin, and Kim Jong Il have repeatedly pressed nationalist agendas that have threatened trust in the region, no consensus could be achieved on the purposes of regionalism in the Northeast Asia¹¹².

If North Korea was a problem for all and Russia was the least ready to create a climate for regionalism among those pursuing this goal, the three core countries in intraregional economic integration also have borne major responsibility for failing to develop a joint strategy. Indeed, while there are certain clear cultural affinities such as overlap in Confucian education and high culture, we have witnessed a failure to articulate these shared values. Instead, historical issues that drift the nations apart were given attention by the national leaders, which had a damaging effect on the relations between the states.

One clear example was the visits to the Yasukuni Shrine¹¹³ by Japanese Ex-Prime Minister Junichiro Koizumi. Beijing has cited Koizumi's visits to the shrine as a major obstacle in Sino-Japanese relations and political tension caused by the Yasukuni issue stalled the diplomatic visits between China and Japan for six and a half years, between South Korea and Japan – for two years. Only now, when Koizumi has been replaced by a new leader, who seems to be deemphasizing the historical issue, Japan's relationship with China, and for that matter with South Korea, appears to have got onto a course of normalization¹¹⁴.

¹¹¹ Rozman, p.5

¹¹² Ibid. p. 9

¹¹³ The shrine honors Japan's war dead since 1853 but also contains the remains of 14 WWII Class-A war criminals.

¹¹⁴ China, Japan agree on ways to build strategic, mutually beneficial ties (Xinhua April 11, 2007) http://news.xinhuanet.com/english/2007-04/12/content_5964756.htm

“Japan's Relationship with China at Top Level is Becoming Normalized” Foregin Press Center Japan (January 18, 2007)

http://www.fpcj.jp/e/mres/japanbrief/jb_704.html?PHPSESSID=69a01c32348fdf8c26af2d342616d1f1

Indeed, Koizumi cabinet's emphasis on historical revisionism, Roh's reinterpretation of history and the residue of Chinese president Jiang Zemin's turn to nationalist historical themes have greatly damaged the path to regionalism in Northeast Asia. Whereas, professional diplomats, academic experts, and business leaders all are largely supportive of pragmatic policies that would boost the chances for regionalism, instead, it is political elites "driven by what they regard to be unfinished domestic agendas with international reverberations who are marginalizing the pragmatists and establishing divisive agendas"¹¹⁵. Therefore, as animosities exist between the states, it can be said that the main impediment to regionalization is the stake put on nationalism by the national elite, who fail to express the need for collaboration.

¹¹⁵ Rozman p. 11

Conclusion

The thesis employed the theory of neofunctionalism to identify the basic initial conditions for regional integration. Using the theoretical lenses, I have analyzed attempts at regionalism to date, as well as changing conditions and current situation. The starting point for assessing the conditions for regional integration in Northeast Asia was the assumption that economic and political rise of China is shaping the conditions in favor of regional integration in this subregion.

Regional integration projects in Asia have started as early as 1960s, however, their scope and capacities were limited. Indeed, the Asian Financial crisis bared the weakness of those regional cooperation mechanisms and have served as a bitter experience for Asian economies. The principal reason for underdeveloped regional cooperation is considered to be a powerful influence of the US. Unlike in Europe where U.S. hegemony and leadership had been critically instrumental in engendering and promoting cooperative regional regimes and institutions, American hegemony in Asia rather inhibited regime formation and evolution. It has favored a 'hub and spoke' approach to the major regional powers (China and Japan), entrenching bilateral alliance structures and hindering multilateral and collaborative solutions, at the same time resisting any efforts made for explicitly East Asian body to be created that excludes the US.

However, the center of politico-economic gravity in the region seems to be shifting away from a US-centered hegemony toward significantly reconfigured relationships between the regional powers in the context of the rise of China. Indeed, the rise of China seems to be causing major structural transformations in the region. Its steady and robust economic growth since the early 1990s has helped it to raise its position in East Asia and neighboring countries have shown a growing interest in forging close links with the Chinese market as a destination for their

investment and exports. Moreover, China has shown proactive regional posture encouraging multilateral cooperation with its neighboring countries. Importantly, China's active initiatives in the region have challenged Japan, which was politically subordinated to the US, to assume leadership in the region as well. Indeed, China's growing economic power, expanding political influence, and increasing involvement in regional multilateral institutions have been key developments in Asian affairs.

Thus, I argue that with the rise of China substantial forces in favor of regionalism have developed. Using the jargon of neofunctionalists, the negative effect of 'extra-regional dependence' (US influence) have decreased, 'rate of transaction' inside the region have increased, and actors able to lead the integration ('size/ power' variable) have emerged.

Furthermore, China's economic and political ascendance gave a distinct shape to Northeast Asian region. Indeed, being an important Northeast Asian power, it has also extended its foreign policy to develop closer relationships with other regional powers - Japan and South Korea. The three countries increased their political cooperation under the ASEAN+3 framework soon after the Asian Financial crisis and their economies have been increasingly becoming intertwined. Moreover, in relation to North Korea's nuclear issue, the Six-Party Talks have emerged; and while the Six-Party Talks focus on denuclearization, they have a broader significance, creating an important precedent for multilateral cooperation in this part of the world.

Hence, since favorable conditions to closer integration seems to be forging in the Northeast Asia, in my study I have aimed at assessing the region using the theory of neofunctionalism. have used the five variables identified by neofunctionalists as background conditions for regional integration: relative size/power, external dependence, elite

complementarity, member states internal pluralism and rate of transaction, to primarily investigate the present conditions in Northeast Asia. Overall, the integration among six countries concerned, Japan, Mongolia, China, Russia, South and North Korea is seen as desirable because they complement each other economically and because it can help to bring security and stability in the region. Indeed, there are already projects have been started to bring about greater regional cohesion.

However, although there are some encouraging signs of regional integration in terms of increasing economic and political ties in the region, it looks like political elite are not fully ready to embrace regional integration as their values expressed do not only complement each other, but also upset the other countries in the region. This could be related to lack of democracy or powerful role of states in the region, since already existing ties between people and business to influence their governments seems to be small.

Based on the above findings, the study would like to conclude that indeed the important changes have occurred in the region due to the rise of China and, in relation to it, decline of US influence in the region. However, among the basic conditions for integration democracy/pluralism and elite complementarity are clearly lacking, thus serving as the main impediment for the breakthrough to integration in the region.

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A Grand Design for Northeast Asia as a Comprehensive Vision for Trans-border Development

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