

## Scenarios of Asian Economic Integration from the Northeast Asian Situation

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### European Economic Integration (1/2)

- Norm is not EU but slowly-integrating customs union e.g. Mercusor, ASEAN
- Desire to prevent future European wars
  - Falsification of Norman Angell "The Great Illusion" (1910)
  - Dialectical materialism: customs union (base structure) will enable political union (superstructure)
  - *caveat: ahistorical*
- Greater wealth with greater division of labor
  - *caveat: why second best response?*

### European Economic Integration (2/2)

- Especially initially, strengthen ties within NATO coalition
- Subsequently, restrain the scope for unilateral actions by growing West Germany and then of united Germany
- Enabling factors
  - Biggest countries wish to integrate
  - Common political system (democracy) and cultural heritage (Ukraine preferred to Turkey)
  - Similar economic structure – *caveat: political*

### The Northeast Asian Situation

- Divisive factors
  - Historical factors e.g. Yasukuni
  - Different international camps (Japan and ROK are US security partners)
  - Dissimilar economic structure
- Cohesive factors
  - Establishment of EU and NAFTA
  - Experience of Asian financial crisis
  - Explosive growth of fragmentation trade
- Fundamentally, only the world market is big market enough for China and Japan

### Asian Economic Integration Scenarios

- Insufficient incentives within group to develop a tight regional group *a la* EU
  - Mahathir: A Caucus without Caucasians, ASEAN+3 versus East Asian Summit
  - Reaction of US, APEC-style initiative
  - Outcome on Korean Peninsula
- "Involuntary" tight integration as response to protectionism outside of Asia:
  - Asian integration from the effective end of WTO multilateralism
  - integration as bargaining chip to preserve WTO multilateralism

### Richard Freeman, "Doubling the Global Work Force: The Challenge of Integrating China, India, and the Former Soviet Bloc into the World Economy," November 8, 2004

Millions of Employed	Global	Advanced	LDC	New
1990 Before	1,080	403	680	---
1990 After	2,315	403	680	1,232*
2000 Before	1,389	438	851	---
2000 After	2,930	438	851	1,383**

- \* China, 687; India, 332; Ex-Soviet, 213
- \*\* China, 764; India, 405; Ex-Soviet, 214

Source: tabulated from Penn World Tables, using data on GDP per capita, GDP per employee and population. Ex-Soviet data are sparse; most 1990 based on population extrapolations.

### **Changes in International Situation**

- Size of adjustment unprecedented, the Richard Freeman 100 pct shock, outsourcing via internet makes services tradeable
- Speed of adjustment: fast movement up value-added ladder
- Decline in US political tolerance toward trade adjustment in post-Cold War
- Unraveling of intellectual consensus in USA? Paul Samuelson's bombshell
- Post-September 11 syndrome in USA
- Europe's likely response