



Hacettepe University Graduate School of Social Sciences

Department of International Relations

**THE INTEGRATION TENDENCY IN EAST ASIA:  
ASEAN AT THE CORE OF REGIONAL PROCESSES**

Zhandos Kudaibergenov

Master's Thesis

Ankara, 2013

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## KABUL VE ONAY

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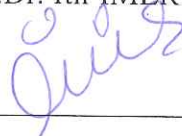
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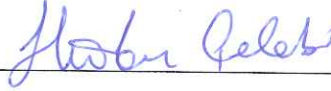
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## ÖZET

KUDAIBERGENOV, Zhandos. *The Integration Tendency in East Asia: ASEAN at the Core of Regional Processes*, Yüksek Lisans Tezi, Ankara, 2013.

Yeni Asya bölgeciliğinin gelişme süreci pratik hususlar tarafından oluşturulmuştu ve aslında küreselleşmenin zorluklarına karşı bir tepki idi. Başlangıçta, bu süreç net hedefler olmadan devam etmişti, ayrıca katılımcılar arasında fikir birliğini sağlama konusunda olasılığın düşük olduğu göze çarpıyordu. Doğu Asya’da işbirliğini geliştirmek için en önemli siyasi zorunluluk bölgesel ilişkileri geliştirme arzusu, bölgede barış, istikrar ve refahın sağlanmasıdır. ASEAN sayesinde, Büyük Doğu Asya’nın jeopolitik görünümü yavaş yavaş yeni bir şekil almaktadır. Yanısıra, mevcut entegrasyon süreçleri bölgenin durumunu radikal olarak değiştirmektedir. Dünyanın “büyük güçleri”, sadece ASEAN’ın Doğu Asya ülkelerini tek bir çatı altında birleştirebileceğini kabul etmektedir. Bölge ülkeleri bölgesel sorunları çözmenin ve ekonomilerini geliştirmenin tek yolunun ASEAN’ın itici rolü ile yeni bölgesel örgüt oluşturulması olduğunu anlamışlardır. Bu örgüt dünyanın “büyük güçlerini” birleştiren Doğu Asya Topluluğu adını almıştır ve ancak Doğu Asya Topluluğu küresel ekonominin güç dengesine etkileyebilir. Bu nedenle, bu tezde Doğu Asya entegrasyonunun özellikleri ve bu bölgede “büyük güçlerin” politikası incelenecektir. Bunun yanısıra, bu çalışmada ASEAN’ın bu bölgenin entegrasyon süreçlerinde önemli bir rol oynayıp oynamayacağı ve Doğu Asya bölgeciliğinin hangi sonucu doğuracağı analiz edilecektir.

### **Anahtar Sözcükler:**

Entegrasyon süreci, işbirliği, ASEAN, Doğu Asya Topluluğu, büyük güçler

## ABSTRACT

KUDAIBERGENOV, Zhandos. *The Integration Tendency in East Asia: ASEAN at the Core of Regional Processes*, Master's Thesis, Ankara, 2013.

The developing process of a new Asian regionalism has been generated by practical considerations. In fact it was a response to the challenges of globalization. Initially, it proceeded without clear objectives, moreover, a number of issues on achieving consensus among the participants was unlikely. The most important political imperative for enhancing the cooperation in East Asia is a desire to improve regional relations, achieving peace, stability and prosperity in the region. Thanks to ASEAN, the geopolitical landscape of the Greater East Asia is gradually taking a new shape. And the current integration processes are able to radically change the aspect of the region. "Great powers" of the world admit that only ASEAN can unite the countries of East Asia under one roof. The countries of region understood that only way to solve the regional problems and to develop their economy is the creation new regional organization with the driving role of ASEAN. This organization is called East Asian Community (EAC) and only EAC can make the balance of power of the global economy. Thus, this thesis will examine the peculiarities of East Asian integration and the policy of "great powers" in this region. It will analyze whether ASEAN can play a significant role in integration processes of this region and which results can be expected for East Asian regionalism.

### **Key Words:**

Integration processes, cooperation, ASEAN, East Asian Community, great powers

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## ABBREVIATIONS

ABF	Asian Bond Funds
ACU	Asian Currency Unit
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AIPO	ASEAN Inter-Parliamentary Association
ANZCERTA	Australian-New Zealand Closer Economic Relations Trade Agreement
APEC	Asia-Pacific Economic Cooperation
APR	Asia Pacific Region
APSA	ASEAN Petroleum Security Agreement
APTERR	ASEAN Plus Three Emergency Rice Reserve
ARF	ASEAN Regional Forum
ASA	Association of South-East Asia
ASEAN	Association of Southeast Asian Nations
ASEAN6	Founding-states of ASEAN: Indonesia, Malaysia, Singapore, the Philippines, Thailand and Brunei
ASEAN+3	ASEAN plus China, Japan, Republic of Korea
ASEAN+6	ASEAN plus China, Japan, Republic of Korea, India, Australia and New Zealand
ASEM	Asia-Europe Meeting
CAFTA	China- ASEAN Free Trade Area
CCP	Chinese Communist Party
CEPEA	Comprehensive Economic Partnership in East Asia
CEPT	Common Effective Preferential Tariff

CUSFTA	Canada-USA Free Trade Agreement
EAC	East Asian Community
EAEC	East Asian Economic Cooperation
EAFTA	East Asia Free Trade Area
EAS	East Asian Summit
EEC	European Economic Community
EU	European Union
FTA	Free Trade Area
FTAAP	Free Trade Area of Asia Pacific Region
G8	Group of Eight
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NEA	North-East Asia
NICs	Newly Industrialized Countries
OECD	Organization for Economic Cooperation and Development
PAFTAD	Pacific Trade and Development Conference
PBEC	Pacific Basin Economic Council
PEC	Pacific Economic Cooperation
PECC	Pacific Economic Cooperation Council
PRC	People's Republic of China

PULO	Pattani United Liberation Organization
SEATO	Southeast Asia Treaty Organization
SCS	South China Sea
TAC	Treaty of Amity and Cooperation
TNC	Trans National Corporation
TPP	Trans-Pacific Strategic Economic Partnership
UN	Organization of United Nations
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom and Neutrality in Southeast Asia
9/11	The Event of Terroristic Act, which happened in September 11, 2001

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## INTRODUCTION

One of the main trends in contemporary international relations is the integration process. In the broadest sense, economic integration is the interaction and mutual adaptation of the national economies of various countries, which lead to their gradual economic union. The success of regional economic integration is determined by a number of factors, first of all, a fairly high level of economic development of the member-states, secondly the similarity of their level of economic development and finally mutually beneficial integration process for all participants.

The accession of the East Asian region to the world political and economic developments was happened after the second half of the 20th century. Until the second half of the 20th century, the countries of the region was under the colonial or semi-colonial dependence on the West, some of them did not exist on the political map of the world. Finishing of the World War II, the collapse of the colonial system and the formation of a new structure of international relations impacted to East Asian region to take more significant place in the global political and economic processes.

The global political and economic system shows that the power has moved from Euro-Atlantic to East Asia. This movement is characterized by the China's economic development as well as highly development of India and other Southeast Asian countries. It relies on the regional initiatives, aimed at the development of Asia and the cooperation of regional countries. This development of initiatives carries out the characters of regional and national interests, the relationship of the economy and the basis of mutual growth of supplement. This development provides an opportunity to strengthen the competition of world leaders in order to have an influence on this region.

The development of international economic integration is a legitimate basis for the internationalization of production. Today the increase and expansion of integration and connection of groups of states are based on the development of a strong economy at the level of globalization and on the basis of a competitive global market. Before, the regional organizations were settled by members of the national economy. But in the



economic globalization, the organization itself has become a player. Nowadays, global and regional organizations are playing a vital role in international relations.

The East Asian integration processes are developing in the multilateral and bilateral basis. East Asia is not accidentally called the region of the 20th century. It provides an opportunity to see not only the development of the high technology industry, but it also shows the role of integration processes, which plays an important role in the economic development of countries.

The main importance of this study is the global economic growth of East Asia. Occurring in this region the socio-economic processes will affect to all countries. As current situation shows, this region will be the center of economic and political competition and it will become an economic engine of the world. Great powers, especially the USA, Japan and China, as well as India and Russia have chosen this region as a basic direction in their foreign policy. The great reason for this is the economic potential of this region. These states are investing a lot of diplomatic forces to keep a tight connection in the region. As above mentioned, this region is experiencing a high rate of economic development. For example, in “Asian tigers” countries (South Korea, Taiwan, Singapore and Hong Kong) the average annual growth rate is 6,5 %. These countries have left the list of industrialized countries and now they become one of the most developed countries (GDP per capita almost 30 000 USD). Hong Kong and Singapore are the financial centers and perform a vital role in world export and import. Malaysia, Thailand and the Philippines, which possess the status of “Newly industrialized countries (NICs)”, reached up to 6-8% growth in export and production in 1990s. Economic growth of China has reached 8-10% in the last two decades. In addition, world experts gave a place of honour to Vietnam, which was in the blockade between the Asian tigers and NICs, then implemented the changes and made 7-8 % economic growth (“Real GDP Growth,” 2012). According to these facts it is not difficult to understand the American integration plan in East Asia. Thus, the USA, considering the capabilities and global growth of East Asian countries’ economies, is making active steps to liberalize the trade with these countries. It is proven with the American prolongation of trade regime with China every year, despite the USA domestic objection. Here, it can be surely said that it has started the division of the global market and the integration economic unions play an important role in these

divisions. Therefore, the USA and China are trying to be a leader among the largest countries.

Such political interests, as opposition to external factors, safeguarding of security, improvement of political authority in the creation of any unification can be seen in the East Asian integration. For example, in order to prevent the creation of pure Asian bloc, the United States firstly tried to retain its status in East Asia by using Japan and Australia. Then the USA itself became a member of regional organization in 2011. The USA in comparison with Japan and China is weaker in economy in this region. Its power is manifested in the military and political factor.

In general, all countries support the integration in East Asia, which based on regional and national interests. The cooperation on developing will examine the policy in East Asia for the next decade. Moreover, economic integration opens up possibilities for solving old problems and creations of new direction. Condition for achieving sustainable economic growth is the safeguarding of stability, peace and security in East Asia. However, East Asia is not only a special part of the world economy, but it is also the region of world religions and civilization. In comparison with other regions the number of collisions in the Asia continent is very high. In the struggle against these modern challenges and threats, a major role is played by the Association of Southeast Nations (ASEAN). Today, ASEAN is more successful organization, which brings together ten countries in Southeast Asia. They are Indonesia, Malaysia, Singapore, Thailand, the Philippines, Brunei Darussalam, Vietnam, Lao PDR, Cambodia and Myanmar. ASEAN countries differ from each other in economic and social development. But these difficulties disappear day by day. Six of the ten countries of ASEAN (ASEAN6 – Indonesia, Malaysia, Singapore, Thailand, the Philippines and Brunei) lowered the tariffs to 0-5% under the agreement on free trade. The rising interests of researchers in ASEAN are the economic achievement of the Association in 1980s and 1990s and the rapid economic recovery in 1998 after the financial crisis. Namely the 1997 financial crisis has led to increased cooperation of ASEAN countries with Northeast Asia countries, especially with China. That period politicians and economists of Southeast Asia believed that the Western countries provoked that crisis, and the USA had left the East Asian countries without any support against the elimination of crisis' consequences. A hasty withdrawal of western capital and

investment led to an increase of panic. On the contrary, the decision on not devaluing the currency of Chinese government helped to stabilize the situation. Thus, the Asian financial crisis and its influence on the process of elimination led to the establishment of mechanisms for cooperation between the states of Southeast Nations and the North-East Asia. The conference in the frame of ASEAN+3 (China, Japan, Korea) has led to cooperation in the financial sector.

In recent decades, ASEAN attempts to strengthen its position in the global economy and desires to respond to global challenges. The using of informational technology and other new technologies in the areas of economic cooperation and reaching the new level of technology and production open great possibilities for the private sector. Hence it is giving an importance for East Asia countries.

The ASEAN states are traditionally following a policy of balancing between the great powers. This is not surprising as these states are not comparable power with none of the major regional powers. They did not have and there is no other choice except keeping good relations and closer cooperation with great powers.

East Asia is one of the most dynamic developing regions of the modern world and the states of which are in growing economic interdependence. However, in the same region there are a large number of potential conflict zones, which are the legacy of the colonial era and the Cold War. Currently, the most significant problems in the East Asian region are the North Korean nuclear issue, the problem of relations between China and Taiwan, the dispute over the islands of the South China Sea,<sup>1</sup> the conflict between China and Vietnam over the Paracel islands and between China and Japan for Dyaoyu (Senkaku) islands, and atypical threats such as separatism and terror acts and maritime piracy. Integration process in East Asia and their dynamics show that the stability and guarantee of the peaceful resolution of conflicts in the region can be achieved by means of the integration unions such as ASEAN, ASEAN+3 and the East Asian Community.

East Asian region in recent decades has come to play an enormous role in world politics. In this thesis there is made different predictions about what kind of processes will take place in the region, which scenario will take the further integration, which

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<sup>1</sup> this problem involves Brunei, Vietnam, Malaysia, the Philippines, China and Taiwan

countries will play a leading role in the East Asia, which has shown the unprecedented rate of economic growth since the second half of the XX century till present days. Now it is seen a very mixed picture of the various integration structures in the region. Individual countries have entered into bilateral agreements of various kinds with several partners, which create confusion in the ongoing political process. In this regard, many analysts are wondering how long this fragmentary is continuing, and when the Asian integration associations will become more definite shape.

However, the relevance of the topic appears, at first, by the value of economic integration of countries in the process of globalization, and secondly, due to the cooperation of ASEAN+3 shows the economic potential of Southeast Asia, emerging as the core of the East Asian Community. Therefore, only EAC can affect the balance of power of the global economy.

# **CHAPTER I**

## **DEFINITION OF THE RESEARCH QUESTION AND THE GENERAL FRAMEWORK OF THE THESIS**

### **1.1. SUBJECT OF THESIS**

The subject of this thesis is the current issues and interaction cooperation of the East Asian countries. Besides the bilateral economic and political relations of East Asian countries, there is identified the main stages of the multilateral integration in the region, and there is lighted the role and the degree of participation of the external countries in the formation of a stable regional system with the core ASEAN.

### **1.2. GOALS OF THESIS**

The integration is always considered the main factor of interaction and developing of countries, their economy, policy and security. The goal of this thesis:

- to trace the evolution of cooperation between East Asian countries in the economic and political sphere;
- to examine the characteristics and the current situation of integration processes in East Asia; and
- to find out the main tasks of institutional integration in East Asia and its future;

### **1.3. RESEARCH QUESTIONS**

- 1) What is the “integration”?
- 2) What are the main preconditions of integration in East Asia?
- 3) How is the current situation in East Asian region?
- 4) What are the main problems in East Asian region?
- 5) How is the role of regional organizations in East Asian countries’ relations?
- 6) Where is the East Asian integration going?

#### **1.4. METHODS**

Among the general methodological and theoretical principles that author guides, working on the topic of this thesis and to enable scientific and objective approach to the consideration of the East Asian countries' relations in the sphere of economy should be allocated to the principle of historicism, the methods of synthesis and analysis, systematic and comparative approaches and method of historical description for examining the issues in the context of modern historical development. Nowadays European Union (EU) has been taken as model of any integration processes, because only EU has almost reached the peak of integration. In order to define the East Asian integration I chose the European integration as a comparative approach and compare ASEAN with European Union.

#### **1.5. HYPOTHESIS**

- 1) Despite the challenges, the preconditions of integration in East Asia are sufficient to develop the integration processes.
- 2) Politically, ASEAN is at the core of the new East Asian integration.
- 3) Despite the presence of competing interests, China is the leading economic power in the integration process.

#### **1.6. DATA AND DOCUMENT COLLECTION**

Books and articles concerning the subject were examined. East Asian integration related documents and other sources were elaborated. Since studying of this question, range of used sources in this thesis is quite wide. It is therefore advisable to differentiate the following groups:

- 1) The general bilateral and multilateral contracts drawn up between the states of East Asia;
- 2) Statistical information, for example, the statistics of the ASEAN Secretariat, ASEAN Trade Statistics, IMF, EUROSTAT, Research centers of East Asian countries;

- 3) The proposals of international organizations and the speeches of political leaders of ASEAN and other countries;
- 4) Data and proposals of Ministries of Trade and Foreign Affairs Ministries of East Asia and other countries;
- 5) Annual official reviews and statements, final acts of ASEAN, ASEAN+3 summits;
- 6) Periodicals and informational materials of mass media of East Asian and other countries.

## 1.7. LITERATURE REVIEW

Over the recent ten years, East Asia is interested in the whole world. Proof of this is scientific work of specialists and scientists who are engaged in research on the global economy and economy of international relations. Here I used a system like in integration process (core-issue-surrounding circle), firstly literatures on ASEAN and its perspectives, then on regional problems finally on great powers and their interests. There is a vast literature on this research work. It is impossible to allocate all literatures in this paragraph. That's why only the prominent ones have been chosen among them. So, in this thesis there are used the works of American, European, Australian, Chinese, Southeast Asian, Japanese, Indian, Russian and Kazakh scholars such as Evans Revere, Michael Swaine, Fred Bergsten, John Ravenhill, Peter Drysdale, Ron Huisken, Yawei Liu, Hadi Soesastro, Jusuf Wanandi, Amitav Acharya, Kazushi Shimizu, Brahma Chellaney, Valeri Boytsov, Nikolai Maletin, E. Grebenshikov and Luydmila Anosova.

In the works of Bergsten it is shown the various views and attention to the integration processes in Southeast Asia. Basically, he takes the globalization as the basis and explains the important role of economic liberalization and market. Western scholars Ravenhill and Bergsten criticize the bilateral and free trade agreement, and raise the need to strengthen cooperation in multilateral liberalization of trade.

Indonesian academician Hadi Soesastro's (2006) article "*Regional Integration in East Asia: Achievements and Future Prospects*" emphasizes on the role of ASEAN and other "great powers" in the integration of the region. Especially, the United States and Japan maintain dominance in the region, but there are no longer able to build it in contrast to China. Japan's economic presence in the East Asian region is fundamental, and it

identifies many of the basic parameters for the development of the region. But there is an impression that Japan is rather defends its previously acquired positions than attempts to acquire new ones. Against this background, the article is actively discussing the growth of the Chinese presence in East Asia. China is trying to “replace” Japan in the US economy, serving as the saturation of the US market with quality cheap goods. In this sense, there was formed the economic interdependence of China and the United States, which helps reduce the severity of their possible contradictions.

The article of Boytsov (2002) “*Southeast Asia is as an Economic Region*” explores Southeast Asia as an economic region, according to the economic parameters. He emphasized the need to find indicators for the study of the major problems and a new aspect of Southeast Asia. This shows the economic relationship between Southeast Asia countries and other countries, and it is characterized by high levels of intra-regional economic cooperation of Southeast Asia.

Australian researcher Ron Huisken (2008), in “*ASEAN’s Leadership of East Asian Regionalism: Problems and Prospects*”, expresses his opinion that ASEAN can play the role of leader in East Asian integration, but it is just formality. But today there is no leader of this integration for some period, that’s why the key of driver was given to ASEAN. However without ASEAN there can not be regional integration.

In Anosova’s (2002) work “*Economic Cooperation as a Factor in Regional Security*” it can be seen the geopolitical and economic status of ASEAN and the leaders of APEC, which are formed in the new century. It is estimated the security of states and regional security is regarded as one of its part.

The book “*Northeast Asia and the Two Koreas: Metastability, Security and Community*” by Amitav Acharya, Hyung-Kook Kim and Myongsob Kim (2008) is devoted to present problematic North Korean question and policy of states of this region. The six-party talks on Korean nuclear program and difference of opinions of countries concerning this question is more emphasized.

The author of the article “*The First East Asia Summit (EAS) and Intra-ASEAN Economic Cooperation*”, Japanese academician Kazushi Shimizu (2006) believes that the East Asian summit marked the birth of a new influential association. Indeed, among its members there are states whose political and economic weight is recognized not only in Asia but all over the world. Therefore, at the stage of its formation, the value of



community goes beyond the East Asian region. He noted that the region is rightly called the engine of world development. There are powerful processes here. These processes turn the complementarity of national economies to their competitive advantage. The ability to achieve the consent is becoming the foundation of the strong partnerships.

The article of Yawei Liu (2011), which called "*The Rise of China and Its Consequences*", is explained about Chinese miracle and its way of reaching success in economic and political spheres. Also this article defines the concept "Beijing consensus", i.e. this way of development was more effective for China than "Washington consensus". Generally there is analyzed the US-Chinese relations in past and present days, exactly their contradictions in foreign policy.

Kazakh researcher Charyyarov (2008) in his article "*China and ASEAN: History and Today*" analyzes the creation of the largest free trade zone in the future.

In his article "*India and China: Looking East and West*", Peter Drysdale (2012) analyzes the political and economic interests of China and India in East Asia. And he shows that implementation mechanisms are slightly different from each other. In this case, first of all, the following pattern was observed that China is largely ahead of India in almost all regions of the world. It should also be noted that China's economic policy towards developing countries is developing by the most dynamic pace at the present stage. Meanwhile, as a fairly promising raw material and energy markets South East Asian countries are seeking not only to make a profit in the economic cooperation with China, but also to the acquisition of political protectorate in order to reduce the influence of other developed countries. And he notes that India, based on the economic successes of the last decade, seeks to "go beyond its borders" and to play a greater regional and global role.

Evans Revere's (2013) article, which called "*The United States and Japan in East Asia: Challenges and Prospects for the Alliance*", analyzes the defense cooperation between Japan and the United States. The cooperation will take into account the changes in the foreign policy of the situation in the world and around Japan, in particular, increased activity of China over the sea. After the defeat in World War II, Japan shifted the care of its defense in the United States for an indefinite period of time. The United States obtained the exclusive rights to the deployment of military forces in Japan, and any attack on Japan was considered an attack on the U.S. armed forces. Japan is regarded as

a special partner of the U.S. in Southeast Asia and the Asia-Pacific region (APR). Both the USA and Japan have noted the importance of continued alliance between the two countries as a factor of stability in the region. These two countries plan to strengthen cooperation, including in the fight against cybercrime.

The American expert in China and East Asian security studies Michael Swaine (2012) analyzes the course of USA on “return to Asia”, implemented contemporary U.S. policy in Southeast Asia. The experts focus on the military-political aspects of the significantly increased U.S. involvement in the affairs of the region under the Obama administration, namely the development of allied relations with the Philippines and Thailand, and to strengthen cooperation with other prospective countries of the region – Vietnam, Indonesia, Singapore and Malaysia.

Andrei Tsygankov’s (2008) article “*Russia’s Interests and Objectives in East Asia*” focuses on Russian East Asian Strategy plan. Russia as part of East Asian region geographically wants to be an active political player in this region. Tsygankov shows the Russia’s interests and future policy, which will be done by Moscow. Also by his point of view East Asia needs Russia in their food and energy security.

Grebenschikov’s (2002) work “*East Asian Insurance Space: from China to Indonesia*” is devoted to important issues of financial sphere and important factors of East Asia. It is estimated the business not only ASEAN states, but also Chinese and Taiwanese business.

Another Indonesian politician and writer Jusuf Wanandi (2008) assesses the balance of power in East Asia against the residual effects of the global economic crisis. He determines what are the chances of both traditional and new leaders in the region to achieve improved its position in a situation where efforts to overcome the consequences of the crisis stifle the activity of the strongest powers. The small and medium-sized states in the face of ASEAN countries more actively assert themselves as political subjects, and in the regional economy as a whole to maintain the status quo. As a result of the crisis the traditionally influential world powers – the USA, EU and Japan – have experienced a deep recession and facing serious structural problems in the economy. At the same time, a number of East Asian countries, especially China, breaking the fall in the rate of growth has been able to maintain the positive momentum of development.

## **1.8. FRAMEWORK OF THE THESIS**

This thesis is going to be divided into four parts. Firstly, it is given the definition of the research question and the general framework of this thesis. It includes the goals of thesis, research questions, methods, hypothesis, data collection and literature review. At the second chapter author tries to define the theoretical bases of integration, such as concept of integration and globalization, imperatives in the study of integration processes and also typology of world integration systems in their dynamics by regions. Third chapter describes the preconditions, main problems and political-economic development of East Asian integration. Fourthly, there will be examined the institutional development of the regional integration, especially the role of ASEAN, ASEAN+3 and East Asian Summit. And in this chapter author analyzes the main priorities, the rivalry of “great powers” for this region and finally the future of East Asian integration.

## **CHAPTER II**

### **THE THEORETICAL BASES OF INTEGRATION**

#### **2.1. THE CONCEPT OF INTEGRATION: INTEGRATION AND GLOBALIZATION**

The key concept that characterizes the processes of global development at the turn of the XXI century is the globalization. Its essence is to improve the relationship of people, states, resulting in the formation of global information space, and the internationalization of the world market in the resolution of environmental problems, inter-ethnic and inter-confessional interactions and conflicts.

Globalization is designed to promote cultural interaction and mutual understanding of civilizations, the approval of international law and respect for individual rights while maintaining the identity of peoples and their special mentality, avoiding spiritual and political standards. Globalization involves many other actors to strengthen the relationship and integration of human communities: increasing the role of transnational institutions and international actors as well as regional and non-governmental organizations, the universalization of law, social standards (Stiglitz, 2002). Globalization is increasingly intensive integration. In the broad sense refers to the global system, resulting from the merger of national economies. It should be based on the unrestricted movement of capital, reducing tariff barriers and the liberalization of the movement of goods, capital, communication and media convergence. The globalization process is intended to lead to the erosion of economic borders, the convergence of levels of socio-economic development through regional associations. Namely the financial and economic criteria are crucial in the globalization process. If the countries' economy is more stable and more competitive and its participation in the globalization process is more integrated, its position will be stronger in the international community (Scholte, 2000).

In the 20th century the importance of the nation state was subjected to re-evaluation. Regional integration becomes more popular in the region as part of the global

community. International experience has shown that the importance and weight of a particular region may increase with development of integration trends.

International economic integration is a process of accretion the economies of neighboring countries in a single economic complex on the basis of strong economic ties. Also it is a process of convergence, inter-adaptation of national economic systems, based on the economic interests of business entities and the international division of labor (Ministry of Foreign Affairs of RF, 2007). In the late 20th century, it became a tool of accelerated development of regional economies and competitiveness of members-states of the integration groupings in the global market. Integration is the process of movement and the development of a specific system, which strengthens the bond of its members and decreases their independence. Also it is a system with the new forms of interaction, which was not in the old system.

The term “integration” is derived from the Latin word *integratio* – filling, *integer* – a whole. The general definition of integration is stated as follows: integration is a convergence, merger, amalgamation of parts forming a whole, but while maintaining their identity, the countries closer together, form a single trade, economic, monetary and political union, but it remains their national identity (“Integration,” 2007).

The Russian scientist Baranovsky (1983) meant that the integration is “the condition of connectedness of individual differentiated parts into a whole, as well as the process leading to this condition”. In the international system integration involves the creation of some kind of systemic integrity. However, the term “entity” is narrower than the concept of “system”. According to Baranovsky (1983), state participation in a particular sub-system of international relations is not in all cases indicating at the same time about their integration. In this regard, he distinguishes three criteria of integration:

- 1) selection and separation of connections and relationships that exist between the states;
- 2) management of the integration processes, targeted actions and governed by a complex integration; and
- 3) the ratio in the integration of a complex and private structural elements.

The concept of integration has been proposed by the founder of structural functionalism Parsons, which includes two main components: the inter-compatibility of elements of integration, and maintaining specific conditions and the integration system as it is separated from the external environment (Parsons, 1998).

Modern understanding of integration has a more specific nature, without ideological overtones. Thus, economic integration is defined as a form of economic internationalization, objective process intertwining of national economies and a coordinated inter-state economic policy.

Regional integration of states is a process of convergence and interaction of national economies and the formation of regional economic groupings. The natural interdependence of national economic systems takes a place at the heart of the regional integration processes. The goal is to eliminate national barriers for mutual trade and investment cooperation and to put in the equal state entities. There is created a single economic space through unification and harmonization of monetary, fiscal, exchange rate policies.

The starting point of integration is direct international economic (industrial, scientific, technical, technological) links that provide a gradual merging of national economies. This is followed inter-adaptation of state economic, legal, fiscal, social and other systems up to a splice management structures. The main goal of integration is to increase the volume and the expansion of a set of goods and services based on the effectiveness of economic activity (Sherbanin, 1997). The concept of integration includes a group of phenomena and processes in the cultural, economic, political and other fields. Integration can be the military-political, scientific, technical, technological, etc. Integration at the micro-level of capital flows through the interaction of the individual companies and enterprises by establishing economic agreements between them. At the regional level it can be in the form of regional cooperation frameworks such as creating economic zones. At the intergovernmental level, the integration is based on the formation of economic groups and the harmonization of national policies, which lead to the creation of regional economic systems with a single currency, infrastructure, general economic proportions and common institutions.

The basic prerequisites for the integration are:

- 1) *the similarity of the levels of economic development of integrating countries.* In the case of incompatibility of economic parameters, there can be made the preferential agreements between countries and between the associations. In compliance with this, countries provide each other more favorable treatment than third countries. Preferential agreements are considered as a preparatory stage of the integration process. Effect of these agreements continues as long as the less developed countries are not created economic conditions, which are comparable with more developed countries.
- 2) *the proximity of the integrating countries, shared borders, and the recognition of the territorial integrity and existing borders.* This factor helps to minimize the cost of transportation.
- 3) *the economic performance.* In integrating countries there will be an acceleration in economic growth, increased employment, lower inflation, and other improvements, which has a stimulating effect on other countries.
- 4) *the political regimes.* It influences the profitability of integration, sought to develop a common course and determine the stages of integration, as well as to ensure the gradual transfer of certain powers to supranational bodies. The appearance of these bodies is an indicator of levels of integration development (Zhuravskaya, 1990).

Integration is based on the development of production, market and communications. Economic integration allows countries to obtain the following benefits:

- better access to resources: financial, material, labor, technology throughout the region, and also allows to produce products in the market, based on the integration of all groups;
- economic convergence of creating preferential conditions for firms of countries-participants of integration, protecting them from competition from companies of third countries;
- allowing integrating countries work together to solve social problems;
- deepening of the international division of labor. It helps to reduce the cost of products and provides cost-effectiveness;
- the expanding economic space between enterprises of integrating countries, intensified competition that promotes and increases the efficiency of production;

- the creating a more stable situation for the development of bilateral trade, speeches on behalf of the bloc have a weight and produce better results in the field of international trade policy;
- allowing countries to take advantage of national economies to expand their market, to support their producers, to reduce inter-countries trade costs;
- enhanced economic space provides to attract foreign investment;
- creating favorable foreign environment, enhanced cooperation between the countries, not only in economic but also in political, cultural and other fields; and
- overcoming the limiting factor, staffing and the country becomes a full and equal to all other international entity.

The President of Kazakhstan Nursultan Nazarbayev, in his book “On the Threshold of the XXI century”, stated that he is for a realistic approach of integration:

There is not allowed idealization of the situation and determined to change the order of the new reality. But it cannot be sat on the beach and, passively watching the course of history. There is no integration without political will. Learn not only from others’ mistakes, but on someone else’s success. There is no future of integration, which will not be based on the principle of equality. Integration, which is based on equality, voluntariness and pragmatic interests, has a worthy future. Only in this case it can be a global force in the world economy and politics of the XXI century (Nazarbayev, 1996:17).



## **2.2. THEORETICAL APPROACH TO INTEGRATION PROCESSES**

### **2.2.1. Imperatives in the Study of Integration Tendency**

The basis of the cooperation of national economies into the global economy is the international labor division. It is a specialization of individual countries in the production of certain products. It is known by history that the surplus of manufactured products was the first exchange of neighboring tribes, some families and individuals, and then the states (“International Aspects of Economic Theory”, n.d). All this happened at the level of economic syncretization, i.e. complementarity.

These were the first attempts at rapprochement of the peoples associated with different environmental factors that determined the direction of economic development. But the nature of the interaction of the integration in the modern sense began only in the period of capitalism when the previously established bilateral and trilateral trade relations are beginning to grow into a worldwide communication.

As the entire course of human history, the process of integration was accompanied by significant progress in the economy, science and culture. However, the inequality of social, economic and political development have generated a sense of superiority of one people over the rest of the system and caused the desire to impose their way of life, even – to assert its dominance. On the basis of this there was arisen an imperialism.

From an economic point of view, empire is a specific tool for redistributing surplus product between nations in favor of a strong state and pumping of the conquered countries of raw materials, which allowed metropolises develop rapidly. Created by force these empires have existed for quite some time, but the economic and cultural fragmentation of different nations, the growth of national consciousness eventually led to the decay of these artificial structures. In this respect, here is an example as the fate of the Roman, Byzantine, Ottoman, British, French, Dutch, Austro-Hungarian, German, Russian Empire and then the Soviet Union (Kasabaev, 1998). With the emergence of a large number of new states with different levels of development and economic identities, there had appeared such conditions that the time required to find adequate integration links. There was also the need to examine the theoretical basis of this

phenomenon. Experts note that a unified theory of integration did not appear immediately (Machlup, 1977).

Firstly the term “integration” was used in the 1930s. However, the theory of integration has never been the conceptual basis of specific policy decisions. Creators of integration guided common interests of their countries and the world community. The scientific study of the problems of integration associated with the comprehension of the actual processes of cooperation – from the attempt to create the League of Nations and to the current efforts of the UN, and purports to identify common features of interaction between countries and peoples (Druzhilovsky, 2001).

Attempts of theoretical understanding of regional integration have been made later – in the 1950s. By the scientists working in line with the neo-liberal direction, integration is understood to create a single geo-economic space, which includes several countries. To achieve these goals it had to be completely free of foreign trade and the monetary sphere of state control. By the representatives of this direction, integration problems were seen in the plane of the integrable association markets through liberalization of foreign trade (Darity, 2008). The resulting theory of integration came from economic prerequisites. Special attention was paid to the flow of goods between member states, which improves the efficiency of production, prosperity, increase the competitiveness of goods produced within the integrated union. This categorical definition later developed into *a theory of free trade*. At the heart of this concept there is the principle of benefits of the specialization of production and exchange of goods on the basis of the international division of labor. Another aspect of the theory is based on the integration of non-economic factors such as the union of economies that reducing the risk of armed conflict between the member countries and increasing the overall defense. Finally, the third area came from the fact that countries seeking integration due to the limited internal factors of production, i.e. to overcome the “limiting factor”. Overcome the “limiting factor” leads to economies of scale, the development of new technologies, increase the assortment of goods, improvement of quality, development efficiency, increased investment in research and development, which ultimately makes it more attractive integrated system as a whole (Sen, 2005).

Every country has a certain amount of natural resources, development of national economy, historically accumulated intellectual scientific potential. The first argument in favor of the technology transfer of business between the two countries in these circumstances is differences in production conditions, i.e. the presence or absence of production conditions are necessary for development of modern industry. The second argument in favor of cooperation between different countries will be presence of the production costs. The cost of production varies across countries. For example, the cost per unit of power of car in Japan is lower than the automobile industry in USA, or the South Korean and Taiwanese electronics are cheaper than the Japanese because of cheap labor. Most often it is cheaper to import than to produce at home. David Ricardo (1817) substantiated this principle in the theory of comparative advantage, and proved that the specialization will benefit both countries. He argues that Scotland incurs accessing cost in producing grape wine at home, like wise Portugal producing oats. Thus for two countries to benefit, Scotland should specialize in producing oats while Portugal specializes in producing wine. Scotland then exports oats to Portugal and imports wine from Portugal. Therefore, he believed that the specialization leads to the accumulation of capital and thus to economic growth and increased demand for labor for countries (Suranovic, 2004). Thus, the theory of comparative advantage is based on differences in cost among countries due to labor producing differences. The Heckscher-Ohlin Model of trade also postulates that differences in resources endowments among countries causes differences in prices, and thus becomes basis for trade.

The practical necessity of the integration between countries was a subject of investigation in 1950s and 1960s by a number of other scholars, such as J. Rueff, R. Schumann, W. Hallstein, M. Panich, E. Benoit, Jean Monnet, P. Robson, etc. One result of these investigations suggests that the formation of Customs Unions lead to the elimination of trade barriers. Effect of integration in this case involves the creation of new trade flows due to expanding markets, increasing production, and hence the growth of wealth and the level of specialization in the involved countries.

In modern times, the development of industry, the increasing scale of production and the increasing intra-industry specialization are not quite possible without integration. Supporters of such categorical imperative as neoliberalism view integration as a consisting of a market space across a number of countries where there are natural

economic forces, regardless of the policies and legislation (Dunne, Kurki, Smith, 2010). Followers of corporationalism believed that integration would result in the emergence of multinational corporations, whose functioning promotes rational and balanced development of economic ties (Muratovski, 2008). Structuralism suggests that the economic integration leads to a process of structural change in economies with large companies and entire industries. The result of these changes, in their opinion, is an entirely new integrated space with more advanced economic mechanism (Arndt, 1985). Neo-Keynesians believed that the benefits of integration, while preserving at the same time the maximum degree of freedom for each country, is necessary the harmonization of domestic and foreign policy of the integrating parties in order to achieve an optimal combination of the two options of integration:

- the union of states with subsequent loss of sovereignty and mutual coordination of economic policies;
- integration with maximum preservation of national autonomy (Dixon, 2007).

### **2.2.2. Categorical Constants and the Traditional Procedures for Analyzing Integration**

#### **2.2.2.1. Federalism and Neo-Federalism**

In the 1950s a number of American and European political scientists have proposed the concept of combining the different states into a federation. This current in political science received the name federalism and it is based on the idea of common historical, economic and political interests of states.

Proponents of this movement recognized the need for an institutionalized union and believe that the federal system of government has the ability to provide a stable and sound development of the member-states of the association and to preserve the specific features of each country, with a clear division of responsibilities of political and administrative authorities of the federation and supranational bodies. The principle of federation is the creation of two levels of government – central and local or regional. Territorial units must give some of its powers to the central government, while at the

same time keeping their integrity and certain autonomy (Elazar, 1991). In this case there are two main ideas: classical federalism and neo-federalism.

Proponents of classical federalism believe on the ideas of separation of powers. According to Taylor (1990), American political scientist Alexander Hamilton and British experts K. Weir and R. Watts believed that this is feasible, if it is to convene a broad international forum (conference), in which the authorized representatives of nation states voluntarily agree and hand over some of their powers formed by consensus supranational bodies.

From the point of view of the federalists tendency to create the federation should come from the ruling elite of united countries. Awareness of the fact that the federal system better protects interests than the system of autonomous states is the key to successful integration. Federalists emphasized that all this is possible at the political level, all other conditions, including the economic, may not have a significant effect on the process of federalization. Therefore, the criterion of integration was taking into consideration the existence of a center of decision making. The main focus was on institutional change, division of powers, and opening the constitutional and legal mechanisms (Yakovlev, 1994).

Lindberg (1966) suggests that one of the major representatives of neofederalism is an American political scientist Etzioni, who said that the main purpose of integration is to create a “political community”. By “political community” he means the three components of political power:

- having effective control over the means of violence;
- the presence of an influential center of decision-making; and
- occurrence of common identifying orientation of citizens belonging to the association.

The idea of federalism influenced the creation of a number of practical doctrines. For example, the famous Senator William Fulbright and Henry Kissinger proposed the creation of the Atlantic Alliance, which included the USA and Western Europe. The English political scientist J. Allen offered to create a confederation, including Canada, Australia and New Zealand. The idea of federalism has also influenced the various theories of mondialism – proponents of world government.

The idea of federalism finds their embodiment in partial operation the most developed and advanced integration structure – the European Union. According to Watts (1999) Albert Sbraj sees federalism as a philosophy of which the EU is an experiment and its outcome is unpredictable. The scientific study of the EU should be based on objective methods for international comparative politics.

#### 2.2.2.2. Functionalism and Neo-Functionalism

The founder of functionalism David Mitrany believes that one should not look for the ideal form of the international community, but rather is the functions that it must perform. Mitrany (1976) describes functionalism as the use of existing social and academic opportunities for joint activities or to promote certain interests, giving each other the right to conduct independent policies within a given activity. The principle of functionalism is a clear separation of functional areas and sectors that minimizes conflicts between states through sound management. Functional cooperation begins with a non-political, but economic and social plans and objectives, such as the overall management of resources, the fight against unemployment and health care. Creation of international organizations between two or more countries to address issues of interest was seen a key step.

Mitrany (1976) believed that the purpose of politics is to gain and hold power, but not concern for the public good. He was convinced that transnational organizations can better meet human needs than the national government. He saw two advantages in the creation of such organizations: first, the effective execution of tasks will distract people from the loyalty of the nation-state, and secondly, their existence will reduce the risk of international conflict. In this context, Mitrany predicted the emergence of international organizations focused on specific tasks, i.e. the transformation of the entire system of international relations pointing out the inevitable weakening of the nation-state.

Each function automatically generates a different function, and thus, there is a primary tier of functional organizations. Successful interaction requires a second tier with jurisdiction determined on the basis of the needs that have arisen in the first stage. The next step involves the creation of functional organizations on a global scale, i.e. the similarity of world government.

According to Shemyatenkov (2003), a federation does not eliminate the fundamental gaps between countries. In addition, regional integration does not have to be based on a geographical basis. Regions, according to the functionalists, are functional areas which fulfill economic, technological or other functions.

Within neo-functionalism integration logic was first developed and analyzed by Ernst Haas. He states that supranational style emphasizes indirect penetration policy to the economy, because economic decisions always acquire political significance in the minds of the participants of the integration process (Haas, 1966).

The most important difference from the previous theory is the recognition of the necessity of the political factor in the integration process. Ernst Haas (1966) divided the policy for “low” and “high”. “Low” policy includes the purely pragmatic goals related to wealth creation and economic growth. “High” policy involves foreign policy strategy, protection of national interests, upholding the international prestige of the state. Thus, “the lower subjects” of integration process are interest groups and political parties, and the “upper” is supranational bodies.

In essence, integration is the spread of its influence in a specific area. Integration in understanding of Haas (1963) is the result of a spontaneous political cooperation. In his book “The Uniting of Europe” Haas marked (1968) out the main prerequisites of integration:

- industrially developed economy, which is actively involved in international trade;
- the presence of politically mobility mass;
- elite groups, which competing each other; and
- the relationship of elites, regulated by the Constitution, or a parliamentary tradition (presidential) democracy.

Neo-functionalism is a threat to the sovereignty of the nation-state, as it concentrates on a supranational body. Neofunctionalists believe that the integration is a qualitatively new phenomenon in comparison with the nation-state, confederation and intergovernmental cooperation. They are convinced that integration changes not only the form but also the content of state activity. Most postulates of neo-functionalism are denied by practice of European integration, but neo-functionalism plays a big role in the

further development of the theory of integration and its impact on the economy (Risse, 2004).

The central element of the neo-functionalism is the concept “spillover”, which is widely-spread in the western economics and sociology. The logic of “spillover” speaks not only of the inevitable spread of integration for all new areas, but speaks also of its qualitative development, deepening, going from less to higher forms of integration process. Neofunctionalists used the concept of “spillover” for the theoretical interpretation of the entire chain of economic integration: from free trade zone escalating into a customs union, then – into a common market, and in the future – into the economic and monetary union. They expected that the development of economic integration will lead to institutional change and raise to a new level of political integration. According to neofunctionalists, there is needed a purposeful political action for realization of the “spillover” (Gehring, 1996).

Also, the integration should be developed, especially in those areas where it can provide tangible results, i.e. the integration has to be economically viable. A support of society can only be achieved when the integration will bring tangible benefits to society and various social groups. From the point of view of neofunctionalists supranational integration institutions can best identify and protect the general interest of the integration (Peterson, 1995a).

#### 2.2.2.3. Realism and Neorealism

The idea of realism is associated with the name of Hans Morgenthau. Realists presume that nation-states are the “eternal” elements of the international system and are guided by their own interests. The highest interest is the “survival”. Therefore, the core of their foreign policy is a security problem. The main means of ensuring it is the military potential of the state. But the military build-up and strengthening the security of one state will inevitably lead to a weakening of the security of other states. This is the eternal dilemma of international security. Trying to cope with it, states are beginning to cooperate with each other (Jervis, 1994).



The followers of the so-called neorealism theorized that the basis of interstate anarchy is the distribution of military capabilities between states. State behavior varies depending on the redistribution of power potential. Thus, anarchy can produce order, but can result in an effective and lasting cooperation, as states are in competition and each of them governed by the rules of competition (Waltz, 1979).

European integration does not fit the view of realists and neorealists about the dynamics of international relations. It seemed to give them a kind of anomaly that has appeared during the Cold War.

#### 2.2.2.4. The Role of Communication Links

The founder of this analysis is considered an American political scientist Karl Deutsch. He gave the first interpretation of the role of the nation-state in the system of international relations and he has shown the need to consider the relations not only between states but also between societies and nations. If federalism and functionalism were aimed at overcoming or containment of the national state, the supporters of the theory of communication sought to find a way to stabilize the system of nation-states, without breaking it. Karl Deutsch assumes that communication constitute the “building blocks” from which to create a community (Deutsch, 1954).

According to Karl Deutsch (1954) the integration is a “sense of community”, and to avoid the war he consider the development of mutual understanding in society, institution building, and practical tools that can provide the appearance of the expectations of “peaceful change” on a fairly long term. The emergence of “sense of community” is a qualitative step in the development of international relations, as well as put it above agreements, pacts and alliances between states. Also it is a function of the level of communication between them. Communication theory revealed important patterns of development of international relations without which the theoretical knowledge of European integration would be impossible. Deutsch (1954) consider the world community as a set of different political groups in the process of interaction and mutual influence. According to the proponents of this theory, the focus of the integration process should be on creating “security community”. Karl Deutsch also formulated the basic positive sides of integration:

- maintenance of peace (which is achieved by the presence of political alliances, diplomacy);
- the achievement of the multilateral objectives;
- performing special tasks (for example, an increase in GDP); and
- the acquisition of a new image and role identity (can be traced through the behavior of political elites and the people, as well as through the use of common symbols).

As a historical example of successful integration Karl Deutsch (1968) gave the examples like that: England and Wales, England and Scotland, the USA, Germany, Italy, Switzerland, and the Austro-Hungarian monarchy, etc. The process of integration is occurring around a kernel, which has the most political power. As such, Deutsch believes England in the case of the United Kingdom of Great Britain and Northern Ireland, Piedmont in Italy, Prussia in Germany, in the case of the United States – Massachusetts, Virginia, Pennsylvania and New York, and so a significant role in the integration associations in stories played innovation – the Reformation and Reform in Tudor England, the liberal reforms in Italy, Germany and Switzerland in the XIX century, the struggle for independence in the USA and other countries. From the point of view of Deutsch the success of the integration depends on external circumstances and factors, among which he highlights:

- mutual relations of states;
- compatibility of shared values and merits;
- mutual responsibility; and
- a certain degree of common identity and loyalty.

### **2.2.3. Modern Political and Economic Integration Concept**

#### **2.2.3.1. The Theory of Multi-Level Governance**

Basics of the theory derive from the fact that there are many levels of government and the interactions of political actors that permeates all these levels. According to this theory the EU is the political formation, in which power is dispersed among different levels (Marks, Nielsen, Ray and Salk, 1996).

John Peterson (1995) makes a distinction between three levels of decision-making in the EU. The first is the level of decision amending the EU as a political system. The second is the system level, at which is happening the practical transformation of integration institutions. Third is the level of policy.

Alec Stone Sweet and Wayne Sandholtz (1997) consider the EU as a continuum that connects the intergovernmental and supranational policy. Intergovernmental policy is a kind of normal international relations. The supranational level embodies the central control management capacity.

#### 2.2.3.2. New Institutionalism

There are three varieties of new institutionalism: the historical, sociological and institutional, based on the principle of free choice. Supporters of institutionalism guided in this methodology, borrowed by them from microeconomic theory. In their interpretation of the institutions there are the formal and legal structures that impose obligations on political actors. Useful institutions of nation-states as well as establishing common rules facilitate the formulation and implementation of a rational strategy for the implementation of their own interests, as well as reduce the risks and costs of intergovernmental cooperation (Hall and Taylor, 1996).

Supporters of historical institutionalism Kenneth Armstrong and Simon Bulmer (1998) define institutions as formal, informal institutions and conventions, which embodied in these rules and symbols, as well as policy tools and political procedures. It is emphasized the relative autonomy and active political role of institutions. According to this theory, the first integration institutions in Europe were established in certain historical periods with goals. Then created institutions exist today. They structure the political situations and solutions, in particular the emergence of a single market. Feature of sociological institutionalism is that it considers the interests within the institutional system.

### 2.2.3.3. The Concept of Policy Networks

Political network is the many organizations that interact with each other and share information and resources. It facilitates reconciliation, settlement, compromise between the various interests (Peterson, 1995b). Political network is a partnership which benefits all participants, regardless of the ratio of their power potentials. The EU is a set of political networks. Those advantages for participants make them interest in development of integration, because they would not be able to get this information and resources outside the framework of political cooperation in the network.

### 2.2.2.4. Intergovernmental Approach Theory

Intergovernmental approach assumes that integration is a transaction between heads of state. Its supporters William Wallace (1990) and Andrew Moravcsik (1997) hypothesize that nation states remain as the key actors in the integration process. They make a distinction between “formal” and “informal” integration. Informal integration is the development of the forms of economic and social interactions that do not need to be authorized by special political institutions. Formal integration is institution, which makes a product of cooperation between national elites (Wallace, 1990). Moravcsik is a representative of the liberal intergovernmental approach. The heart of his concept is based on three assumptions:

- the main actors in the policy are rational, autonomous individuals interacting with each other on the basis of self-interest and to avoid risk;
- governments are the “subspecies” of domestic actors, endowed with interests that deter the interests of other states; and
- a behavior of states in the international arena characterizes the nature of the public interest (Moravcsik, 1997).

### 2.2.2.5. Economic Integration Interaction Today

Representatives of the concept of “dirigisme” J. Tinbergen, R. Sanvald, I. Shtoler believe that the functioning of the international integrated structures is possible through

the development of their members and the general economic policy of coordinated social legislation. Dirigistes advocate the creation of a supranational political-legal institution or group of institutions for effectively regulating the integration. In practice, this results the creation of “economic union” (Lal, 1997).

Dutch economist Jan Tinbergen (1954) divided the economic integration into the positive and negative. The negative integration defines as the elimination of certain instruments in international economic policy, and the positive is as the introduction of additional measures to carry out the reorganization, i.e. solutions in transition period.

American scholar Balassa (1962) introduces a dual interpretation of the category of integration as a process and as a state. He proposes to distinguish between cooperation and integration. If the process of cooperation offers an action to reduce the kinds of discrimination, the integration process involves the destruction of discrimination. Balassa systematized dynamic effects of integration and its impact on GDP growth integrating countries:

- savings as a result of expansion of production when market expansion allows production capacity that has no use to the integration process;
- savings arising due to the reduction of costs in the economy;
- polarization effect, the essence of which is to reduce economic activity in one of the participating countries due to benefits of concentrating trade in another country or diversion of inputs;
- impact on the location and amount of investment; and
- an impact on the overall economic efficiency, the free exercise of commercial transactions.

The scheme of Balassa remains a classic, adopted by various international economic organizations. According to Balassa (1967), integration requires the destruction of discrimination and consists of the following forms:

1) *Free trade zone* – is a zone free of customs, quantitative and other restrictions by the gradual abolition of customs duties. It is liberalized the international trade, ease of transportation of goods. Negative consequences are the adverse effects of imports, lack of competitiveness of the domestic market, etc. In the framework of the free trade area the countries refuse to customs restrictions only in respect with their partners in the

integration associations in relation to third countries they act individually, while maintaining its economic sovereignty. Each country sets its own rates with third countries.

2) *Customs Union* involves the elimination of duties in trade, pursuing a common foreign trade policy towards third countries. In customs union there is duty-free trade between the member-countries and a common customs tariff in relation to third countries. This leads to the rationalization of production and create stability within the Union. The need for supranational bodies is increased. Great importance for the customs union has presence in its composition of one or two major powers (such as Germany and France in the EU, Brazil and Argentina in MERCOSUR, etc.);

3) *Single common market* encompasses the five objectives:

- the abolition of customs duties between member-states;
- production of a common trade policy towards third countries;
- the development of a common policy and the development of priority sectors of the economy;
- creation of conditions for free movement of goods, services, capital, labor and information;
- the formation of the general funds to promote social and regional development;

4) *Economic Union* involves the joint definition of the economic policies of member countries and the implementation of a uniform policy for the Economy. Supranational institutions are created, laws which are binding on all member states. At this stage, it happens the unification of monetary, fiscal and social policy;

5) *Economic and Monetary Union* provides for the single monetary policy, the introduction of a single currency and the creation of a new central bank;

6) *Political Union* means carrying out a coordinated foreign policy harmonization in the field of security, interior and justice. The common factor for all stages is the removal of economic barriers. Only the EU passed the five of six stages of the integration, the other integration organizations passed the first or second level.

The statistical effects of integration are:

- “Trade creation” – as a result of the free trade area and a customs union it happens the replace of expensive domestic products to cheaper imports;
- “Trade diversion” – if there is a substitution of cheaper imports from third countries with more expensive imports from the partner-country (Viner, 1950).

#### **2.2.4. Ontology of Eurasian Civilizational Approach**

Geopolitical scientists Friedrich Ratzel and Rudolf Kjellen developed the idea of a biological and organic nature of the state: the state is a living organism and follows the law of growth. Strong, viable states obey the categorical imperative to expand its space by colonization, merger or conquest. Ratzel (1897) impact the particular importance to the influence of climate factors on human. Temperature fluctuations, in his opinion, beneficial to the health, and culture, the development of the mind and metabolism, and a tropical climate acts relaxing. He made a fundamental conclusion that the examination of the human race, the development of social work and marriage are related largely to environmental conditions. Another factor is the culture of farming, gardening. Where the higher the standard of farming there is denser population.

Ratzel is one of the first to formulate the idea that in most countries there is a tendency for geographic expansion. Expansion of the state (colonization) is a natural process associated with the life cycle. The conclusion is that the state should be developed in accordance with the “struggle for existence”. Kjellen concludes that the principle is the power of any state – more important than the law. The real world power, he believed that power, which had a sea – Rome, England, Spain (Kearns, 2009).

USA admiral A. Mahan (1889) developed this concept by writing a series of books on sea power and its relation to the war. In his paper “The Influence of Sea Power upon History”, he argued that control of the sea or control are great factors in history. The main conditions affecting the power of the nation are the followings: geographical location, landscape structure of the country, its location, climate, size of territory, population, the nature of the people and the political regime. Under the “geography” and “physical structure” he means the coastline is the easier access across borders to other countries, in this case through the sea. These geopolitical exercises are not new. Biologizing approach to the history of people and nature-caused power of states is as

old as the world. It was used by the ancient authors in explaining the history of Greece and Rome, and in modern times, justify the colonialist policy of the imperialist powers. Finally pushed to its logical absurdity, it turned into fascism. Of course, such ideas cannot serve as the ideal of equal integration cooperation.

Another thing is that human history is not a single world-historical development equal-temporal achievements in scientific, technological and cultural progress, social and political stages of maturity. The history is not only a process of one-dimensional passing for all peoples and regions of the world, but it led to the creation of the concept of civilization in world history and contemporary reality.

Historiosophical concept approach to the history of civilization began to emerge in the 18th century and is not completed today. The most prominent representatives of the theory of civilizational approach to the history are the Russian scientists Danilevsky and Leontiev, and in the West – Oswald Spengler and Arnold Toynbee. On the basis of their views there have developed a variety of schools of thought, according to its own interpretation of categorical definition of civilization. Without going into a detailed analysis of the concept of civilization, there are several frames of the object-subject, i.e. the base points in the understanding of civilization this is supra-ethnic community, identifying itself in the unity of cultural and historical identity of a typical archetypes of social psychology (mental) under similar climatic conditions, the identity of the acceleration in the social, economic and political development. At the level of civilization of mankind the intellectual and creative abilities of a person play the leading role, i.e. intelligence is mediated not only the world of things, but also all kinds of relationships and connections between people, nations and states (Hajiyev, 1998). It can be added that integration is, above all, the result of intelligent efforts of actors of this action.

The widespread use of the concept of civilization was the theory of Eurasianism. Eurasianism as a phenomenon combines multiple components:

- a geographical community of peoples inhabiting the continent from the Carpathians and the Baltic Sea to Tibet and the Pacific – from west to east, from the Arctic Ocean to the Gobi Desert, the Caucasus – from north to south;
- the general mentality; and



- the culture and historical destiny of nations.

British scientist and geopolitical scientist Mackinder (1919) at the beginning of 20th century initiated the concept of a Eurasian “point of control” (which would include most of Siberia and Central Asia), and later – the concept of the “heart of the Central and Eastern Europe”<sup>2</sup>. Thus, Mackinder argued that the center of the world is Eurasian continent, and in its heart is “Heart of the World – Heartland”.

A different view was from Nicholas J. Spykman, who suggested the wording: who dominates the Rimland, dominates Eurasia, who dominates Eurasia, holds the world’s destiny in his own hands (Orlova, 1998). Spykman also uses the term “Eurasia”, but does not define the boundaries of the space. At that period the German geopoliticians proposed the term “Central Europe”, where they include a number of Eurasian countries and recognize the central role of Germany. However, this concept belongs to past century when Germany wanted to be the center of the world and tried to own the Heartland by force. Today it is seen that Heartland is shifted to East Asia. Therefore, this process wakes up “sleeping dragon” and ASEAN countries for ruling this region. The next chapters serve as proof for this argument.

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<sup>2</sup> Whoever rules East Europe, owns the heart of the earth; the one who rules the heart of the earth, has a World Island – Eurasia; the one who rules the World Island, owns the world (Mackinder, 1919:193).

## **2.3. TYPOLOGY OF WORLD INTEGRATION SYSTEMS IN THEIR DYNAMICS BY REGION**

### **2.3.1. European Integration**

Regional integration in Western Europe is not a new phenomenon. The first large-scale integration initiative was in the 19th century. Thus, in 1828, it was a customs union between Prussia and Hesse-Darmstadt, followed by the Customs Union of Bavaria and Württemberg, North German Tax Union, the German monetary union and integration, etc. These initiatives have led to the formation of the German Empire (Melvil, 2004).

The idea of a united Europe has a long history. However, it was the II World War and its devastating effects have created a real foundation for European integration. Lessons of the war led to the revival of ideas of pacifism and understanding of the need to prevent the growth of nationalism in the post-war world. Another reality is the desire of the countries of Western Europe to restore shattered by war economic position. For the defeated countries in the war the real need was to restore its own political position and international reputation. In connection with the start of the Cold War and the consolidation it was seen as an important step in the containment of Soviet influence in Western Europe.

By the end of World War II, it was formed two main approaches to European integration: federal and confederal. Proponents of the first path are committed to building a supranational European Federation or the United States of Europe, which integrate the full range of public life, including the introduction of a single nationality. The second approach was limited integration based on the principles of inter-state agreement, preserving the sovereignty of member states. For advocates of this approach, the process of unification was reduced to closer economic and political union, while maintaining their governments, government agencies and the military. The whole course of European integration is a constant struggle between the two concepts. However, Europe made its choice and started to develop integration processes in the sphere coal and steel. From that time till nowadays Europe has been making the steps, which no one has done. Today, after 60 years experience, European integration remains as the model of integration processes in the world. It is taken namely EU for

comparison with East Asian integration in this thesis. Analysis of these two organizations will be done in 3.3. section of the third chapter.

### **2.3.2. NAFTA – as an Engine of North American Integration**

In the late 1980s and early 1990s, the successful experience of the EU was to determine the creation of integration structures in areas with intensive emerging economic and political contacts. Emerged in the 1988 prototype of the common market of Canada and the USA turned into an agreement between Mexico, the United States and Canada on the Free Trade Area and it has found practical confirmation with effect from 1 January 1994. Probably due to the growing trend of regional integration in the world and the creation of regional trade and political blocs, the USA tried to strengthen its own position in the face of these trends by creating integration group in North America (Sherbanin, 1997). Although the total population and the territory of uniting countries are more than EU, however, North American Free Trade Area (NAFTA) significantly inferior in matters of trade, monetary and financial security of Western European group. At that time, many observers were against to join Mexico in the NAFTA zone. Classified as emerging countries, Mexico had a big gap in the levels of socio-economic development in comparison with the USA and Canada, also in the level of political stability.

The USA, Canada and Mexico see the value of NAFTA from different perspectives. For the USA, NAFTA is intended to ensure the increase of economic and geopolitical power. It is a part of the USA strategic policy aimed at achieving access for USA investments and with rich natural resources. NAFTA is a good opportunity to develop economic strength, leadership and global influence of the USA. Taking part in the founding of free trade with Canada and Mexico, the USA guaranteed a free access to the rich resources of their neighbors. Elimination of tariffs has led to a significant growth of export from the United States to Mexico and to the breakthrough on the vast Mexican consumer market, which was to promote job creation in the USA and significantly enhance the competitiveness of USA goods in the world. Secondly, with the intensification of global integration processes Mexico was expected to play the role of the “corridor” to the promising markets of South America. At the same time, Mexico

opens the way to create a holistic market space of continental scale. It is not about only the dismantling of trade barriers and the liberalization of foreign investment, labor migration and other aspects of ensuring the “transparency” of the borders between the three countries of North America. The vast majority of these barriers have now been removed, they are eliminated and the merger of three national markets is possible in the next 10-15 years. The development of integrated complex in the region is in a direction that meets the interests of the stronger party – American transnational companies (TNCs). For the USA, the Canadian market is the largest and its role is extremely high. Thirdly, on the one hand, a significant investment of United States and Canada in Mexico’s economy has been promoting the industry and the well-being of the country giving them the opportunity to consume American-made goods. On the other hand, the elimination of tariffs contributes to the process of mass relocation of production from the USA to Mexico, where labor is much cheaper. In addition, a separate issue is the Mexican oil. The American side is using NAFTA as a way to circumvent the Mexican Constitution, which prohibits foreign investment in the oil industry. The intention to ratify NAFTA, Clinton explained that NAFTA has not only economic but also political factors, which is necessary element of the strategy of competition and aims to strengthen USA influence on the continent and beyond (History Central, 2005).

In framework of NAFTA, Mexico is required for the successful implementation of economic reforms and the modernization of the economy. It has made access to the largest market in the world. Mexico expects to accelerate its development and closer to the level of industrialized countries.

The Government of Canada believes that participation in NAFTA will more closely join the production of high technology products and increase profits. Canada’s economy is closely linked to the USA economy. Unlike the EU, the North American Free Trade Area has no supranational institutions. In political terms, the participants of NAFTA are no such deep divisions, which was common for members of European integration in the postwar period. In economic terms NAFTA is able to catch up on a number of indicators of the EU. For example, in the middle of 1990s the share of USA in Canada’s foreign trade was about 70%, and on the contrary, Canada’s share - 20%. This is a high figure, given that the EU share of Germany’s foreign trade of France is less than 20%

and that of France – just above 10% (Sudarov, 1999). Today this statistics almost remain like this.

Development of North American integration has strong economic fundamentals. The close interaction of national economies and the integration processes in North America in some way are different from the Western model. It set the stage for a long time the origin and development of the regional complex at the macro level. This is a regime of free movement of capital and labor across the US-Canadian border. Such state of things defines a whole range of issues and challenges of regional integration without any legal registration. Despite the fact that the customs regulations of mutual trade flow was far from a free trade area, it gave freedom to interregional division of labor. Canada need to accede to the NAFTA was obvious, because its industry is export-oriented, but only a third of businesses has the opportunity to engage in export activities. At the signing of NAFTA, Canada has sought, firstly, to preserve the benefits gained as a result of a bilateral agreement with the USA (CUSFTA – 1988), secondly, to improve the process for resolving disputes with its major trading partners – the USA and Mexico, and thirdly, access to the fast-growing Mexican market.

Analyzing all the pros and cons, it is worth noting that for Mexico NAFTA has also had great significance. Mexico absolutely supported the plans for the establishment of NAFTA, believing that by participating in this unit, it can speed up the modernization of its economy (Shishkov, 1994).

Competitiveness combining the USA, Canada and Mexico, as mentioned above, increases the likelihood of continued dominance of Washington in Latin America in the future. NAFTA ability to function effectively can make an even more attractive option for the development of the American model of threshold countries of South America.

### **2.3.3. MERCOSUR is the Best Example of Integration of Latin American States**

The integration processes in South America began to develop intensively in the second half of the 20th century and the choice of an effective model for the continent had great importance. The Common Market of the South (MERCOSUR) was created in 1991 by Argentina, Brazil, Uruguay, Paraguay and Venezuela. Bolivia became a member in

2012. Nowadays, MERCOSUR integration group has more than 275 million people (45% of the continent's population) are concentrated half of total GDP, 40% of foreign investment in Latin America ("Mercosur," 2012). Compared with other groups, threshold countries between the members Association turnover has increased three-fold. In addition, the elite of these countries have demonstrated the ability to control processes with limiting the portion of the national sovereignty. Thus, in late 1994 it was created the Common Market Council consisting of the Ministers of Foreign Affairs and the Common Market – the permanent executive body of the executive secretariat and has 10 technical committees. Despite the fact that the members of MERCOSUR failed to make the scheduled time of complete freedom trade, though members of the group even more phasing this process and in the future hope to reach a desired goal.

The intensification of trade and economic contacts have a positive effect on the entire international political situation in South America. In addition to this there is also a change in the domestic political climate in each country. Changing authoritarian regimes into democratic regimes in several Latin American countries have created the conditions for the integration and expansion of zones of stability and security. Integration is increasing cultural, ethnic contacts and reduces the likelihood of creating multiple conflicts such as "Soccer War". In general, a high proportion of the economic costs of the states of South America due to political conflicts. However, the initial desire to channel integration into economic mainstream often leads to interaction in the political sphere.

#### **2.3.4. South East Asian Integration**

ASEAN is an example of the positive impact of political integration. Establishment of ASEAN was held against the background of large-scale conflict in Indochina, which was one of the main determinants in the effort to create a sub-regional grouping. This international organization was created in 1967 by Singapore, Malaysia, Indonesia, the Philippines and Thailand. Interestingly, the initial impetus came from the city-state Singapore. Initially, the organization's goals were associated with the creation of conditions for the development. Peacekeeping has had a significant impact on the

termination of a number of violent conflicts in Southeast Asia. ASEAN has made significant progress in foreign policy, such as the creation of a regional security framework, as well as a positive impact on the expansion of zones of stability in the Asia-Pacific and the Indian Ocean.

However, the countries of this group have achieved significant national economic success, and the association is becoming a global center of international economic and political influence. Given the intensity and dynamics of socio-economic and political developments in Southeast Asia, the group is able to achieve its goals, especially as the global trend of regionalization of international life contributes to this objective.

As this thesis devotes to East Asian integration processes with the core role of ASEAN there is no need to write in detail about ASEAN in this paragraph. ASEAN integration will be widely examined in the next chapters.

Thus, in the world there are various examples of successful regional integration. As above mentioned, the efficiency of integration aspirations of the subjects of the integration process depends on various factors, which cover various areas of economic and political life of the involved countries. In addition, there are several underlying determinants affecting the continued operation of integration structure. It is also characterized the ultimate goals, which declared by foreign ministries of the integrable countries. This is confirmed in many regional conditionality deployment of the integration process. Integration experience, which gained by different countries in the breaking of the newly emerging integrated structures, can enrich the theoretical and practical luggage and a detailed comparison will avoid some mistakes in many ways purchasing patterns.

In conclusion, it is worth noting that the integration process has a multidimensional and complex phenomenon, as it eludes analysis and cannot be one and the final typology. Therefore, a particular model of (sub)regional integration, first, cannot be mechanically transferred to the other even a very similar region, but it can be moved to a region with different socio-cultural and economic characteristics, and traditions. Secondly, the integration does not always have positive consequences in other areas. It can be reversed or even replaced the opposite processes, i.e. it may give negative results. Finally, it is correct to consider the integration trends as the processes that determine the

existence of international relations. The reason is that the current international relations do not mean only cooperation, but also conflict, including those that lead to the disintegration of the hit single political units.



## **CHAPTER III**

### **PRECONDITIONS AND PRESENT SITUATION OF INTEGRATION PROCESSES IN EAST ASIA**

#### **3.1. THE MAIN TENDENCY OF POLITICAL-ECONOMIC DEVELOPMENT OF EAST ASIAN COUNTRIES**

In the second half of the 1990s integration in East Asia has become the second integration trends in the world after the European integration. The high dynamics of development of the East Asia states, based on the rapid growth and their impact and successful dialogue between themselves and outer-regional powers makes the East Asian region as a global political and economic center, as the former Europe. East Asia is a part of the Asia-Pacific region (APR). There are many options to define the geographical boundaries of the APR. Accordingly, the firstly the Asia-Pacific region includes western coast of the Americas, along with East Asia and Australia. In this case, the APR includes the South Asia countries. The second option, the APR includes Pacific Asia, the USA, Canada, Australia and New Zealand. In this situation, the countries of South Asia are also involved into the APR, but Latin America is left out. The third option focuses only on the Asian part from the Bering Strait to Burma. Here, East Asia is divided into northeastern and southeastern subregions (Zhanbulatova, 2008).

As it is known by history, in the 1970s and 1980s the structure of international relations at the regional level was determined by the triangle of the USSR-USA-China, based on the context of the bipolar world of the USSR and the USA (Goldstein and Freeman, 1991). The fall of the Soviet Union destroyed the structure. Now the situation in East Asia does not depend on Moscow and Washington. This had an impact on the development of regional multilateralism. There have appeared several centers of power in East Asia – China, Japan, India, ASEAN and Russia. Even the USA does not belong to East Asia geographically, but it has the power to influence the region (Mao, 2003).

The last two decades of the 20th century, China, South Korea, Malaysia, Thailand, Singapore and Indonesia have shown the level of a very influential economic growth of more than 2,5 times than other industrialized countries in terms of development. In the

1990s, the whole world, who is impressed from the development of “Asian tigers”, began to talk about the “East Asian economic miracle” (Krugman, 1994). For its amazing growth and material development of these countries were obliged to economic reform, based on the successful use of foreign economic opportunities and access to modern technological level, saving capital, equitable and efficient resource allocation. State interference in the economic life of these countries make it possible to lower trade barriers, to the movement of goods, services and investment, and manage market system. The economic development of the East Asian powers, especially China and Japan, has increased their influence in world politics.

The formation of a regional communication in East Asia, which was begun in 1980s, was not easy and fast. Fifty years ago the countries of East Asia were separated by geographic, ethnic, religious, cultural and political parties. Even it seemed that this cannot be on a level with the European Union and NAFTA regarding the integration process. But the need for competitiveness in the world economy and economic interaction made a base in reasonable and successful foundation of regional cooperation (Voskresensky and Maletin, 2001). Security relationship between the countries is based mainly on bilateral obligations. In the APR there are many multilateral military-political agreements, but they don't play an important role.

In the early 1990s in East Asia there was based interstate industrial-economic complex between Japan and the USA, which has become the largest regional fast-paced locomotive in the world based on trade, technology transfer, turnover of capital, industrial cooperation, i.e. economic and financial ties. The increased development of Asian countries was necessary for Japan and the USA for some reasons. First, this region with a low standard of living cannot be a “market” for Japanese and American goods. Secondly, the lack of technological support is not given the opportunity to join industrial cooperation of the USA and Japan. Then such cooperation was necessary for both countries to move to the next level of production. By these reasons, Tokyo and Washington helped communist countries to issue credit, technology and investment for the development of these countries. Thus, many developing countries strengthen their economic position by these two powers. This included Taiwan, South Korea, Hong Kong and Singapore. They were the first flow of the newly industrialized countries in East Asia (Lincoln, 1999).

ASEAN foundation in 1967 made it possible for developing countries to move from the military-political relation to the development of economic cooperation. These countries are properly implemented by adjusting the internal resources to attract external finance for industrialization.

The political stability of the region, which provided limited authoritarian regime, eased the process of economic development. At the beginning of the 1990s ASEAN countries were included in the NICs. Increased economic opportunities in the region together with a low level of regional conflict, the interests of economic development and trade in 1990s pushed the military and political ties to the background. East Asian regionalism moved from the military-political form to economic-political form.

In the 1990s the region had 15 official and unofficial organizations. Chief among these was the ASEAN. This is the organization which included ten countries in South-East Asia. Its goal is to create the free trade zone in South-East Asia (Bogaturov, 1997). Starting with a fragile, like an experimental anti-communist coalition of five developing countries in the region, ASEAN has become an influential player in the regional and global scale. Nowadays ASEAN is the organization with a population of about 600 million people and a combined GDP to exceed \$ 2 trillion USD. And it unfold more intensive integration processes that involve all influential actors of world politics (Menon, 2011). The world powers seeking to establish closer ties with ASEAN and compete for influence over the organization.

ASEAN countries hold annual meetings at the level of ministries of foreign affairs. Since 1979, there has been held the post-ministerial conference with the participation of ASEAN countries and official partners. They include the USA, Japan, Australia, New Zealand, Canada, South Korea and Russia and China since 1997.

In 1971 there was a meeting of ASEAN countries in Kuala Lumpur. The main goal of this meeting was to create a peaceful, free and neutral zone in South-East Asia (ZOPFAN) and to create a region free from nuclear weapons (Hasjim, 2011). But, until 1990 the military-political issues did not have great significance in work of ASEAN.

In 1991, the ASEAN post-ministerial conference discussed the first military-political question of expulsion of USA military bases from the Philippines. In 1992, the conference raised the issue of the territorial dispute between China, Taiwan and some

ASEAN countries over the Spratly archipelago neighborhood. After that, in 1994 it was decided to establish a regional dialogue on the constant security. Since 1995 there are being held the ASEAN Regional Forum (ARF), which raises questions about security. An example of regionalism in the Asia-Pacific region can be called a free trade area of ASEAN. ASEAN states are willing to develop the economic integration processes and liberalization in East Asia. The main instruments in this collaboration are considered the ASEAN Free Trade Area (AFTA), ASEAN Investment Area (AIA) and the scheme of industrial cooperation. In 1991, at the summit, which was held in Singapore, the Prime Minister of Thailand proposed the creating of AFTA. And in January 1992, all ASEAN members signed the contract. Under the terms of AFTA from January 1993 the member-states started to reduce the intra-rate to 0-5% on industrial goods for 15 years. ASEAN6 countries have already implemented the reducing of tariffs. The aim of AFTA is to draw attention of ASEAN countries to foreign investors by creating a regional market (Rybalko, 2005).

After the Cold War, ASEAN6 paid attention to cooperation with other Southeast Asian states and has opened many opportunities for international cooperation with Vietnam, Laos and Cambodia. It was the first step to expand the Association. Then it planned to include Cambodia and Myanmar. A commitment between Vietnam and ASEAN was understandable, because the middle of 1990s the economic growth of Vietnam was on the same level with Taiwan and China. In 1995, “the group of six of ASEAN” became “Seven”. Then “nine”, and in the end of last century ASEAN turned into “group of ten”.

In 1990s the rate of the process of regional integration has become stronger, which was the basis of the forum “Asia-Europe meeting” between the fifteen countries of the EU and ten East Asian countries. Then this number was extended till 27 EU and 21 East Asian countries (“Ninth ASEM Summit,” 2012). In the future Papua New Guinea, which had the status of an observer, may become a full member of the organization.

The process of enlargement of ASEAN has caused the emergence of new issues after the Asian financial crisis. In that period Malaysia had made anti-western statement and Thailand increased its pro-Western stance. When Malaysia supported the NATO bombing of Kosovo, Vietnam, Laos and Cambodia were against it. Malaysia and Indonesia did not support the strengthening of inter-ethnic coalition against terrorism in

Afghanistan, while the Philippines and Singapore helped them. The entry of new members into ASEAN weakened the position of the issues on the islands of the South China Sea and the prospect of USA intervention in Asia.

In East Asia, in consequence of Asian financial crisis there was started to develop the necessary and tight integration. At that time, instead of vertical leadership regional integration chose the path of horizontal consensus. The internal political problems in Indonesia affected to the process of regional intense integration. Indonesia, which could become a driving force for developing the southern part of East Asia, at first, lost its part of territory – Timor, which became an independent country, and then it experienced an economic and political crisis as a result of the election for President Megawati Soekarno Putri after the departure of President Abdurrahman Wahid. In a short time she was to solve these domestic economic and political problems like the lack of consensus on economic issues, a bankruptcy of the national bank, a corruption, the weakening of the national currency, the external and internal economic debts in public and private sector, capital outflows, unfavorable political system and separatism (Gusev, 2008).

The regional integration is an ongoing debate about its advantages and disadvantages from the point of view of the interests of global trade liberalization. Some researchers believe that regional integration is good because it allows many countries to make liberalization at the regional level where it is not yet possible at the global, while others fear that it leads to discrimination against non-regional countries. Thus this undermines the basic principle of World Trade Organization – equal competitive opportunities for all trading partners (Ibrashev, 2001).

The grounds for such fears are provided by integration processes within ASEAN and around it. However, it is clear that the countries which have certain integration groups, concern about some common good and implement their national interests. Among them is the need to protect themselves and their country from the unmanaged risks of globalization and shocks of the global economic crisis which began in 2008 in the USA, which has involved the entire world economy. Firmly in economic modernization the ASEAN countries give high priority to maintain social and political stability as an essential condition of national existence. This time, the ASEAN countries have met the crisis hit in a much better position than the crisis which happened ten years ago. By

making the right conclusion from the lessons of the previous Asian financial crisis in 1997 many of them rejected the IMF loan conditions. As a result, they become less dependent on the United States and are not burdened with crippling debts and have a certain collective mechanism to address challenges of the crisis within the association of ASEAN+3. One of the most important elements of this interaction is the support and development of regional cooperation in the financial sector, which included the establishment of the Asian Bond Funds (ABF-1 and ABF-2) in order to raise capital for investment as well as a number of currency swap agreements (Ma, 2005).

The establishment of a free market of ASEAN + China in 2010 provided an opportunity for the economic life of Southeast Asia including China's economic resources. In these terms ASEAN decided to accelerate the establishment of a free market and investment area, to reduce the difference in the economy between the ASEAN members and to draw attention to the important projects of major regions of the developing area "Greater Mekong", which is the main railway line construction of Singapore-Kunming (Asian Development Bank, 2012).

At the end 20th century in the world along with multilateral organizations there has established a regional organization, which had high hopes in Asia-Pacific countries. Asia-Pacific Economic Community (APEC), which was established in 1989, is the only region-wide intergovernmental economic organization. Its goal is to create an open and free area in market and investment. The membership of APEC consists of ASEAN countries (except Burma, Laos), the USA, Japan, Canada, Australia, New Zealand, South Korea, China, Hong Kong, Taiwan, Russia, Mexico, Chile, Papua New Guinea and the island states of the Pacific. Since 1993, the annual APEC meetings are held at the level of Heads of State (Martin, 2010). But, for obvious reasons, the integration processes in the Asia-Pacific region has lagged behind in comparison with other regions of the world. The European Union has become an example not only for the APR, but it was an example of the integration for other regional organizations in the world. Multilateral and regional negotiations on the path of market liberalization were not foreign to many countries. However, by the late 1990s, the removing of protectionism in the market and the development of integration had not met the expectations of many countries. Despite the opposition of some countries all the countries of the Pacific region became members of APEC. By these reasons, in the integration process there

were different countries, which were differed by economic level. This has become a difficulty to the work of APEC, which till today is considered to be declarative. The second problem is that the APEC member-states have paid great attention to the liberalization of the sector which is able to compete, but they tried to keep protectionist policy in other areas. As a result of the WTO trade talks in Seattle in December 1999, the countries began to look for alternative development, i.e. the decision for free trade at the regional and bilateral levels in developed APEC members. Last five years, APEC members have made separate negotiations with each other to create the two-way integration associations. Noting the main direction in the formation of trade negotiations in the East Asia, Japan and South Korea have begun negotiations on a free trade. China, South Korea and Japan were negotiating with East Asian countries, i.e. fully with ASEAN and with the member-states separately. Today, the most important beginning in East Asian integration is a free trade agreement between ASEAN and China (Areshidze, 2007).

Besides to these international agencies there are working other organizations in this region. Since 1990, the East Asian Economic Caucus is working as subgroup of APEC, which includes the ASEAN countries, Japan, South Korea, New Zealand, Taiwan and Hong Kong. In addition to economic and market developments there are working the Conference on Pacific Trade and Economic Development (PAFTAD), the Pacific Basin Economic Council (PBEC), the Pacific Economic Cooperation Council (PECC).

East Asia has become economically booming region. China has the highest increase annually by 10%. The three countries of Northeast Asia – Japan, China and South Korea accounted for more than half of the regional economy. Japan became a regional leader in economic indicators and became the basis of the world economy, but it gave way to China for economic dynamics (*Speech of Surin Pitsuwan*, 2009). Recent years China has risen as political and economic power. It outran Japan in economic sphere. This is the result of liberalization of China's economy in 1980s. Namely economic liberalization and marketization has made China possible to develop its economy and to influence the regional integration (Ibrashev, 2001).

Formation of multilateral economic formats – APEC, ASEAN, ASEAN+1, ASEAN+3, ARF and EAC – play a stabilizing political role. China due to the growth of its

economic strength is considered as “violator of silence” in the region and it is the country, which seeks to strengthen its regional and global political space. The new international political activity of China will change the relationship, partners and competitors like the USA and Japan. Retaining all the contradictions and difficulties there is forming the Sino-American trend proximity due respect “partnership and rivalry”, “mutual movement on common security and interdependence” between the USA and China. China put in the first place its relationship with the USA in its foreign policy. And it recognized world leadership of Washington. The criticism of China like human rights, democratization of Chinese society, freedom of speech and religion, the Tibetan issue, the Chinese currency rate and other issues pushed to the second place in Sino-American relations.

The rivalry between Japan and China and the process of changing partnerships remain stable. On the one hand, the enormous economic interdependence requires China and Japan to seek ways favorable development in the region. On the other hand, the struggle for leadership in Southeast Asia is increasing. And China opposes Japan to become a permanent member of the UN Security Council (Lam, 2012).

A new factor in the dynamics of condition of East Asia can be marked the appearance of India in geo-economic and geopolitical space. India is trying to increase its influence in the Indian Ocean with the addition of the processes that is developing in Southeast Asia. For the present the Indian influence factors is not so great. India is trying to deepen its regional position by solving the problems in relations with Pakistan and China, and even form a new partnership with the USA (Brewster, 2012).

China’s development path, speed and direction of development are forming the international relations in the “Asian part of the world”, including the North-East Asia, South-East Asia and Central Asia. Any direction on the development of China makes an important impact on the evolutionary vector of Pacific and East Asia. Because China’s GDP in 2010 increased 2-fold compared with 2000. In the region compared with the ASEAN countries China is considered as “giant vacuum”, which is three times faster attract foreign investment. In addition, China is an important and attractive partner which is able to “recycle” the goods of ASEAN and it has already overtaken its trading partner “ASEAN+USA” (Zhao, 2012). It is known that Asia can respond against



integration blocs in Europe and North America. At this time, the project of China-ASEAN free trade area (CAFTA) is actively working. Such forward-looking projects form the internal key source of economic growth (Soh, 2013).

At the beginning of 21st century, China has stepped up its military potential. The future depends on the speed of arming of China, India, Pakistan and other countries of Central East in arms race. If in the near two decades, China's economic growth will be 7-8% annually as today, then it can double its military spending without increasing share in GDP. But in the near future, the external oil transportation of China will increase the dependence. In many ways, the oil transportation from Russia and Central Asia, and oil reserves in the Spratly Islands and the Senkaku are making better the Chinese condition. However, the ordering of these ways enhances competition in the Central and North-East Asia, but because of the Spratly Islands there appeared territorial disputes between China and other five countries. Recent times China is diversifying its energy sources because of the potential threat from the United States, Western countries and Japan.

After II World War the United States as the country with the maximum benefit seek to establish a new world order by different ways, which in the future will deepen American superiority. Formation of the world coalition against terrorism is one of such way to fight against terrorism and the need to other countries, especially countries that have hitherto fought alone. It is known that the USA can not establish a world order alone. It always needs the support of other countries, especially need the support of a powerful coalition and extensive regional alliance for peace in democratic values. Accordingly, the USA is trying to deepen the US-Japan alliance in East Asia in the areas of security. The importance of relations with Japan is increasing for the USA and China. Japan remains as a partner and also as a rival for China. China and Japan established good contacts and are still attracting an investment each other. But China is seeking to use its economic power to the regional political and military spheres. It means to be against the aspirations of Japan. Japan is an important ally of the USA. Recently, the relationship between these two powers is very dense and diverse. Japan looks carefully to all US-Chinese proximities, because it may be a barrier between the USA and Japan, and may complicate the increasing economic priority. Japan fears that the USA can give leadership to China. However, the threat of Chinese exclusion and the deterioration of relations between China and the USA, by contrast raised interest in

strengthening relations between China and Japan. And finally, it all will lead to the emergence of the US-Japan-China triangle (Foot and Walter, 2011).

Many analysts believed that after the Cold War rivalry between Japan and China for control of East Asia could be one of the options for the “Great Game”. Despite such American predictions last 20 years conflict between Japan and China has never gone out of bounds (Gustafsson, 2011).

The relations between Russia and China are called “structural partnership to a strategic cooperation in the 21st century”. The open full-scale strategic partnership between Russia and China is only potential strategic opportunity. According to the agreement in 2001 between the two countries, the partnership will reach up to the level of union relations. According to Russian experts, the strategic partnership between Russia and China is in favor of China, because China is using Russia to modernize its military power, and economic arrangements between countries are not fully implemented. For Russia, the importance of East Asia is due to the huge resource potential of the North-East Asian part of Russia, which may become a generator of economic development (Anosova, 2002).

Asia is becoming one of the major regions of the world where there is the very high economic growth. According to the DBS Group Research GDP of Asia-10 countries (China, Hong Kong, Taiwan, Korea, Singapore, Malaysia, Indonesia, Thailand, Philippines, India) will rise till 22,4 trillion USD in 2020 and consists more than half of the world GDP (DBS Group Research, 2012). Today, East Asia regarding GDP is on par with the USA and the EU, but it is still not on the level of EU and North American political and economic integration. Integration in Southeast Asia is though not like the EU and NAFTA, but it is the core of the integration in East Asia. Hence, the engine of Southeast Asian integration is ASEAN. This organization has the positive more than forty five years experience in the political, economic and socio-cultural integration. Paradoxically, the regional leaders (China and Japan) do not just listen to the ASEAN, but also take its position as the only a reasonable basis to develop effective solutions to the many regional issues (Athukorala, 2010).

The main peculiarities of ASEAN, which determines the successful promotion of regionalism, is a consensus-based decision making, which in the most critical situations,

gives priority to the collective interests over individual interests of member states. ASEAN from the beginning was based on pragmatism. Ideology has never been a problem for the leaders of the Association. The founding fathers of ASEAN indeed were tireless in pursuit of an agreement, and they often succeed. Former Secretary-General of ASEAN Narciso Reyes (Philippines) appropriately observed that, in order to measure the value of ASEAN it is sufficient to ask a question what would become of the Southeast Asia without ASEAN. Southeast Asia minus ASEAN means a greater destabilization of great economic tendency and certainly domination of expansionist power in the region against the background of weak, isolated and completely split all other powers (Vietnam Academy of Social Sciences, 2006).

ASEAN Charter, which entered into force on 15 December 2008, is aimed at creating a more effective mechanism for cooperation and coordination among the countries of Southeast Asia, against the pressure of globalization, and formation a balanced relationship with neighbors and among the members of this group. ASEAN is not a donor, which singles out some of its members regular and substantial economic aid as in the European Union. Participating countries rely on themselves and on mutual assistance for the synergistic effect of composition of efforts in key areas of development. They need a single Southeast Asia, but it does not mean to create to “United States of Southeast Asia”. Of course, the relatively high degree of political integration is necessary for more effective protection of their legitimate interests, national identity and values in a globalizing world. In the practice of ASEAN economic integration is used by elites of these countries as a tool for political stability (preserving their power and privileges), the state independence, the acceleration of economic and cultural development, survival in global competition by formation defense mechanisms, including through collective protection.

For an adequate analysis of the integration processes in South-East and the “Greater East Asia” is necessary to identify themselves with the term “integration”, which is the frequent and indiscriminate use of the world media, political speeches and literature became too broad, covering virtually all forms of convergence states, which could be called either just cooperation or a full alliance. By the way, in the Southeast Asian states, many authors prefer to avoid using the term, which seems to be too “European” and frightening associations with explicitly rejected in Asia something like

“supranational” (Baikov, 2007). Instead of this it is usually used another term – “regionalism”. But in both cases, they carry the same meaning, namely preferential convergence towards common goals. The main difference of regionalism in Southeast Asia and the “Greater East Asia” from the European Union is the lack of even a hint of any supranationality. In ASEAN, as well as in the emerging East Asian Community, all decisions are made at the summits of heads of state and government by consensus. In ASEAN anybody under any circumstances is not ready to sacrifice even a small part of its national sovereignty. After centuries of struggle for national sovereignty the idea of limiting it or delegate any supranational entities are associated in the public mind of this region with the resuscitation of colonialism (Baikov, 2007).

Consequently, the integration process in this region shows a sustainable and long-term orientation of the participating countries, the priority development of intra-group relationships toward external, the availability for grant each other on a reciprocal basis of special rights, benefits and privileges. Special attention would be paid to what caution and flexibility of these countries move from state rather nominal economic grouping to more effective integration, from simple to more complex forms of interaction and cooperation in political, economic, social and cultural rights, including the creation of ASEAN Community, and in the more distant future – the East Asian Community.

More than half a century of experience in the EU shows that success in integration can be achieved through the integration “core”, which is for the EU France and Germany. At the ASEAN Indonesia has been playing this role for 30 years. As international relations in the East Asia are quite complex, the role of the leader fell to ASEAN’s lot and it got left behind it for a long time, because it is the most viable option for all. However, there is another point of view, according to which in ASEAN too many problems preventing carry out this mission. And the dynamics of regional integration will be determined soon development of China-Japan relations. So far, all the countries in the region formally agree with the role of ASEAN as it is the engine of regional integration, always emphasizing this in all the documents taken by various international forums.

### **3.2. THE PRECONDITIONS AND MAIN PROBLEMS OF REGIONAL COOPERATION**

International cooperation of East Asia is an important factor in economic development. Developing East Asian countries ahead of other countries in terms of development have indicated the approach of the time of a new “era of East” with the possibility for competition in the international arena and this region will become the center of world economic development. It is assumed that this region and its countries will be the global economic “locomotive” in the future. This concept is based on the expansion of the relationship between the states of this region to an increasing share of world production and trade in the region. From 1960s till 1990s the average level of economic development in East Asia was 5 %, while in Europe only 2 % (Gerchikova, 2000).

The economic development of East Asia can be divided into several groups. There are developed countries like Japan and Australia. New Zealand. In addition, to the developed countries are included countries, which have made more economic development. They are Taiwan, South Korea, Singapore and Hong Kong. These include other some countries in Southeast Asia like Malaysia, Thailand, Philippines and Indonesia. The most important place is taken by Brunei, which has a lot of oil deposits and resembles to United Arab Emirates on economic and political structure. Former Socialist camp states like well-developing Vietnam belong to developing group, and Laos and Cambodia belong to underdeveloped level. Fast-growing China occupies a special place in this region than other countries. In recent years, China ahead of its regional rivals not only light industry and the production of toys, but in production of electronics products (Lam, Ganesan, Dürkop, 2011). North Korea with the economy of the communist type differs from other states in the region. There is need to consider the integration of North Korea in the context of unification with South Korea or the alliance with China (Kim and Lee, 2010).

Asia-Pacific countries have established regional integration organizations, which are different in their goals and objectives. They are ASEAN, APEC, Australian-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), Pacific Economic Cooperation (PEC), PEC Council and others. Increased integration of East Asia was through bilateral and multilateral regional trade agreement at the regional and

subregional levels. The most common trend in recent years is the inter-regional trade agreements. East Asian regional groupings based on the following principle:

- equal partnership;
- responsibility of everyone;
- respect for mutual interests;
- mutual benefit taking account the difference in the level of economic, political and social development and economic demand in developing countries;
- maintaining an open dialogue and consensus; and
- cooperation on the consultative process and the exchange of views between the highest representatives of the member states (Treaty on Amity and Cooperation [TAC], 1976)

East Asian regional grouping sets itself objectives:

- to support economic increase and development of East Asian nations, including integration in the global economic development, strengthen the positive intensity in services, technology and capital;
- to raise the level of trade and investment liberalization in East Asia;
- to enhance the private sector and give impulse to the development;
- to enable cooperation among the nations of East Asia in the field of development and adhere to the rules of open trade; and
- to increase the benefits of regional cooperation (Kurlantzick, 2011).

The bilateral and multilateral negotiations are the signs of Asian zeal to reach NAFTA. Creating an organization of economic cooperation in the region began after the formation of the Pacific Economic Cooperation (PEC) in 1967. Then in 1968 there was created the Pacific Conference on Trade and Development, and PECC in 1980. All were non-governmental. One of the first organizations is the contract on Closer economic relations, which was created March 23, 1983 between Australia and New Zealand (ANZCERTA).

Many conditions affected for understanding of the integration processes in the region. In every sense the East Asian region is uneven. But, the most important unifying factor is the historical factor. For many centuries the region was under pressure from Western countries. After the independence of states of this region it has begun to unite. It was the

first step to protect their interests and to stand against the world powers. They were facing the same difficulties in a historical space. So the idea of the union flew out the foregoing factors. The trend of the association started initially remission of Cold War. At this time there was expanded the “Non-Aligned Movement”. Regional nations took up the express provision in the global arena and provided the basis for a society. The anti-communist domestic policies and similarity of political regimes united the peoples of the region.

The main preconditions of the integration in this region can be noted as follows:

- *the similar structure of economies.* Many countries of the region have chosen the capitalist-marketing path of development. For instance, the economy of the world economic giant Japanese economy, “Asian tigers” and the NICs of Southeast Asia based on marketing system. Therefore, they can easily enter into economic integration.
- *convergence of interests of the export of the member states.* Many of East Asian countries are rich in natural resources: 60% tin, 40% tungsten, 20% chromite and 80% natural rubber, including oil, gas, gold, copper, and zinc (“Promoting Natural Resources,” 2010).
- *using their own properties by themselves without interference of external powers.* Through the maritime zones and Strait zone there is passing the communication with strategic value to Europe, USA, Middle East, Africa and the Far East. Their significance in fact that 70% of oil and energy pass through the Indian and Pacific waters. In particular here is located the sea road, which passes to South Asia and the Middle East.
- *war and rebellions in the region.* A difficult time for the region was the period when was created the first integration associations in the 1960s. The Vietnam War began in Indochina. Mao’s China provides arms to rebels in Cambodia and Myanmar. In Thailand, the guerrillas have successfully conducted operations against the government army. In the Philippines, there were guerrilla insurgency and lack of monetary resources.
- *the decision of the same problems,* such as the main reason of the problem of members of AFTA is the same, i.e. nomenclature competitive export products;

- *desire for uniting*. East Asian countries are proposing the idea of “United Asia” with Asian specifics. This idea was to strengthen relations between the countries of the APR. To develop the integration trend in the East Asia it was affected another document, which was adopted in ASEAN. This is the Manila Declaration. The members of the Association have decided to develop cooperation not only within the association, but also fully in the East Asia. The Declaration was adopted in 1987, i.e. two years later this document was an influential factor for the emergence of the APEC forum (Shimizu, 2003);
- *anti-communistic ideology* in the Southeast Asia;
- *former colonial destiny*;
- *Asian financial crisis in 1997-98*. This event gave impulse for uniting Northeast and Southeast Asian countries in financial sphere, but then the format ASEAN+3 extended to ASEAN+6, which led to integration of Asia-Pacific region.

Along with the integration processes East Asian region also has problems. Namely these issues are slowing down East Asian integration. These threats to security as follows:

1) *North Korean nuclear issue*. Pyongyang has used nuclear weapons to save the North Korean regime in a totalitarian and closed. Official names of programs and the structure of scientific projects are not published. Missile tests in the official version are peaceful and made to space exploration. In February 2005, North Korea for the first time publicly announced the creation of their nuclear weapons. October 9, 2006 was the first nuclear explosion (“North Korea's Nuclear Program,” 2012). North Korea’s nuclear weapons will reduce the stability of the Korean Peninsula. In the case of the limiting deterioration of the situation increases the probability of the USA preventive action. In turn, in a crisis, Pyongyang will face a choice: to use nuclear weapons first or lose it. In addition, if North Korea develops nuclear weapons, Japan and South Korea will decrease confidence in the US treaty obligation. This fosters a sentiment in favor of creating its own nuclear capacity in Japan and South Korea. In these two countries as well as in Taiwan, it will begin with the United States to implement programs boosted regional missile defense that will lead to building nuclear arsenal of China. Equally disturbing is the fact that “rogue state” will be able to acquire nuclear weapons with impunity, destroying thus the nuclear non-proliferation.



2) *The Taiwan problem*. Beijing has diplomatic and psychological pressure in order to weaken the desire for independence of Taiwan. It uses the opposition as the main lever, giving them shopping discounts, expanding economic cooperation, tourism, cultural exchange and scientific communication (Rosen and Wang, 2010).

Since the early 1960s up to the financial crisis of the 1990s Taiwan was one of the four “Asian tigers”, demonstrate a high rate of economic development. Today, despite the impressive achievements of the Chinese mainland, Taiwan’s economic influence in the Asia-Pacific region remains high. As in APEC are not countries but economies, Taiwan takes actively part in the forum with its special status. The specific of the international legal status of Taiwan is well known. For most of the world Taiwan is an integral part of China (*de jure*), which is temporarily developing some distance from the mainland. It is something like a “rebel” province, which can be purely economic and cultural ties. For other countries, Taiwan is an independent state, where can be even sent their ambassadors. Another question is who they are. In May 20, 2012 in Taipei held the inauguration of the newly elected President Ma Ying-jeou (Jacobs, 2012). List of Officials (guests of honor) was as follows – President of Kiribati, the Marshall Islands, Nauru, Palau, Paraguay, Solomon Islands, Burkina Faso, etc. – only 21 countries of the world. A zone of political maneuvering of Taiwan in the world every year is shrinking. Ranking 136th in the world in area and 50th in terms of population (23 million people), Taiwan is surely among the top twenty global GDP (\$ 800 billion), and the top five in terms of GDP per capita (\$ 31 000) (“Taiwan,” 2013). It is a recognized leader in the East Asian NICs, which explores the world “niche” of high technology.

Taiwanese model of modernization, to a certain analogy with the mainland (“Socialism with Chinese characteristics”), can be called capitalism with Chinese characteristics, successfully fledged on the island before the reforms of Deng Xiaoping in China. Taiwan’s “economic miracle” of the 1970s gave rise to the second president of the Republic of China Chiang Ching-kuo, the son of the famous Generalissimo Chiang Kai-shek. Before his death (1988) he gave the green light of the development of real democracy and pluralism in the island.

The relationship of “two China” is not simple. It is from open confrontation in the strait to rapid economic integration. Taiwan’s economy now seems a worthy competitor of

“big brother”. Taipei does not seem afraid of the economic press of Beijing, which fear other partners of China. In 2010, it was signed the “Framework Agreement on Economic Cooperation between Taiwan and China”, which have been reduced or eliminated completely tariffs on 800 kinds of products in bilateral trade (Hong and Yang, 2011).

Trading volume is more than 110 billion dollars, and mutual investment – over 80 billion dollars. In China, there are more than 400 Taiwanese companies and vice versa. In other words, such liberalization and convergence of the two economies are similar with the philosophy of APEC forum. It is no coincidence the People’s Republic of China (PRC) and Taiwan (Chinese Taipei), almost at the same time (1991) were included in APEC (Chang and Hayakawa, 2012).

Political format of integration of the island and the mainland is not yet found. Beijing’s version of “one country – two systems” and its links to the successful experience of Hong Kong, which in 1997 came under the jurisdiction of Beijing, are rejected by Taipei. In this case, the Chinese government reacted nervously to their campaign rhetoric Taiwanese presidential candidates about the desire to declare “Taiwan independence” or other promises of “independence”. In China there are voices at once about the “possibility of use of force for uniting” of the country. The concept of Taiwan varies around the idea about “mutual non-negation of governments and mutual non-recognition of sovereignty”.

For Taiwan APEC area is more than a place to trade and economic negotiations, in contrast to other members of the project. In fact, for Taiwanese politicians and businessmen forum provides a unique opportunity to conduct multilateral diplomacy, a certain compensation for the lost in the UN, in which Taiwan (Republic of China) in 1971 was replaced by the PRC. Forum is a very remote analog of the UN, but there are going to face the first 20 countries, many of which – the world’s leaders. And the guest list APEC summits are markedly different from the list of Taipei Ma Ying-jeou’s inauguration. Moreover, Taiwan does not only use the format of the summit meetings, but all areas of the project, including the APEC ministerial meeting, informal meetings, etc. For Taiwan this project should have a special priority as mainland China cannot prevent informal bilateral meetings. Also APEC is the place for Taiwan, where else

Taiwanese ministers can freely and openly communicate and interact with their counterparts from 20 other countries.

China's leaders are still trying to restrict the freedom of action of Taiwan in the project, primarily due to the level of control over the Taiwan representative office at the summits. China considers that Taiwan's delegation to be headed by an experienced economist (for example, the Minister of Economy or other official of the same level), but in any case does not present politician.

In 2001 on the eve of the Shanghai Summit Beijing protested the alleged Taipei candidacy of Li Yuanjia, the acting adviser of then President Chen Shui-bian. China feared that Shanghai will be welcomed Chen Shui-bian himself. But nothing happened, although the Taiwanese delegation then left the summit "in protest against the tyranny of the Chinese authorities" (McMillan, 2001). 75-year-old Lien Chan came to the Vladivostok summit of APEC as a leader of Taiwan. He is a former vice president and honorary chairman of the ruling Kuomintang party in the island. This candidate did not cause negative emotions in Beijing ("Taiwan's envoy to APEC summit," 2012).

Regardless of the "status intrigues" a real contribution of Taiwan to APEC is noticeable. Nowadays, Taipei proposed several important projects in the field of prevention of natural disasters and minimizing their consequences, environment, growth of "green economy", energy conservation, development of digital technology, etc. At the same time Taiwanese representatives are much more willing than others, and on better partner conditions are for investment and trade cooperation. With the economic activity Taiwan is trying to compensate for their political "limited", using this forum as a universal mechanism in its foreign policy.

3) *The energy security of Northeast Asia.* Growing up global prices for energy transportation impact on the economic growth of East Asia, and on the political parties had to find a different way to transport oil and gas. This has influenced the increased rivalry between China and Japan on the way to the hydrocarbon resources of Russia, Africa and the Middle East. South Korea and the ASEAN states also wanted to take a place in the new world and the energy changes. However, the energy differences with the help of the mutual independence of the regional economy did not give rise political conflicts (Hayes and von Hippel, 2006).

4) *The new and unconventional threats*: terrorism, piracy, environmental and natural disaster, epidemic. It is considered that in Southeast Asia is dominated by three major threats to security: separatism, extremism and terrorism. In terms of the struggle against international terrorism, Southeast Asian territory is now regarded as one of the possible areas of activity of terrorist groups after the attacks on the Taliban regime in Afghanistan (Grebenschikov, 2002). The main object of their actions is their own governments and local authorities. The main centers of terrorism are in Indonesia, but terrorism has long been adopted by Muslim separatists in the southern Philippines, and it is gaining ground in the south of Thailand.

In South-East Asia there is located the world's largest Islamic state – Indonesia, as well as one of the economic leaders of the Muslim world – Malaysia. However, unlike the Arab countries where Islamic fundamentalism and the ensuing radicalism are often dominant behavior, such acts are largely introduced from outside for Muslims of South Asia. The majority of Islamic organizations in East Asian region are not supporters of religious violence. Here Muslim religion is not combined with a too rigid adherence to compliance with the rules of Shariat, and the elements of extremism and terrorism are mainly used in the struggle for power in the separatist goals.

The largest extremist organizations, actively implement the idea of pan-Islamism in Southeast Asia and widely supported international terrorism, in the first place are “Jamaa al Islamiya” (Indonesia) and the group of “Abu Sayyaf” (Philippines). These organizations in their activities are widely practicing terrorist methods of struggle (“Indonesian Jamaa Islamiya,” 2007). Terrorist attacks are carried out by them every year, lead to the bombings, attacks on government troops, killing and kidnapping civilians and foreigners. “Jamaa al Islamiya” can be called the biggest ally of the “al-Qaeda” in Southeast Asia. The purpose of this organization is the adoption of a “true” Islam as the center of the political system, in terms of which the evaluation of all aspects of society and the state. The largest shares of “Jamaa al Islamiya” of recent years have been the bombing in the nightclub on the island Bali in 2002 that killed over 180 people and over 300 were injured (“Bali Night Club Bomb,” 2002), and the hotel “Marriott” in Jakarta in 2003, also with a large number of victims (“Bomb Wrecks Top Jakarta Hotel,” 2003).

Structural activities of “Jamaa al Islamiya” are distributed in four districts, each of which implements its functional purpose. First District, including Singapore and Malaysia, carries obtaining funds for the operation of the organization. The second covers Indonesia, where its members are considered as the main force leading the jihad. Third operates in the Philippines, mostly in Mindanao, in the Malaysian state of Sabah and Sulawesi island, which are rear base of organization, where, in particular, are trained fighters. Fourth District is located in Australia and Papua New Guinea, where this group is mainly engaged in financial transactions in order to raise additional funds (Gunaratna, 2005).

Another terroristic organization “Abu Sayyaf” group refers to the political-military terrorist organizations of radical trends of Islam. It was formed in 1991 as a result of splitting off from the Moro National Liberation Front. Its leader was Abdurayik Abubakar Yanyalani (“Abu Sayyaf,” n.d.). The purpose of the organization is the creation of an independent Islamic state, uniting Western Mindanao, Sulu and some islands in the southern Philippines, inhabited mostly by Muslims. Home base of “Abu Sayyaf” group is located on the island of Mindanao, and the area of its actions is mainly southern Philippines, at least – central regions of Manila. Number of group, according to some estimates, is 1000-1500 people. Constant military kernel includes several hundred fighters. “Abu Sayyaf” maintains close contact with the radical Islamic fundamentalist Middle Eastern states and receives financial support from Muslim organizations in the Middle East and South Asia. The main methods of its activity are guerrilla operations against government forces, as well as individual and group killings of “not their people” (“Abu Sayyaf Was a Participant,” 2008).

Indonesia is also one of the states of Southeast Asia, where separatist sentiment is developed among large populations and ethnic groups. There are large separatist organizations and groups that use to achieve their goals terrorist methods of struggle. Example to this is the long struggle of the East Timorese to secede from Indonesia, which ended their gaining political independence, inspired advocates of this separatism in other parts of the state. Now the greatest activities in this area are noted in three regions of the country – in the provinces of Aceh and Papua, and the Moluccas.

*Southern islands of the Philippines.* Here there is more than one decade separatist organization “Moro National Liberation Front”, which for years fought with government troops for the autonomy of the south. Moro in Spanish means “Moors”. They make up less than 10% of 70 million population and live in the southern part of the archipelago. In the past, the Moro were overwhelmingly in the southern Philippines, but over time they are increasingly forced out from their territories by Christian settlers (“Guide to the Philippines Conflict,” 2012). In 1996, after the signing of the ceasefire between the government and the leaders of the organization, most of the militants had been adopted under the banner of the government army and sent to fight against the international terrorist organization “Abu Sayyaf”, which was formed as a result of the split of “Front” and the activities of which are mentioned above. Recently, however, some of the leaders of this organization have publicly stated their support for the “Abu Sayyaf” and willingness to cooperate with it.

“Pattani United Liberation Organization” is the largest separatist rebel group of the Muslim community in Thailand. In 1968, the individual cells of this organization was created in India by group of Thai intellectuals. After a while they began to move to Thailand, and in 1993 began their union, as well as a significant radicalization of the entire group. Its objective is the creation of an independent Islamic state of Pattani in southern Thailand (“Pattani United Liberation Organisation [PULO],” 2012). Major terrorist attacks includes the attacks on police stations and vehicles, explosions in the banks, undermining bridges and other facilities, diversions in Buddhist temples. In 2004, it was an attempt to capture the several police stations in the southern provinces by a group of over 100 people, in which most of the rebels were killed by government troops (“PULO,” 2011).

Another regional problem at one time was a serious increase in piracy, the scale of which Southeast Asia until recently ranked second after the Horn of Africa area. This is a long-known phenomenon here, as it seemed in the 1990s, it was almost stopped. But at the end of the century there was a surge of activity of pirates. In 1997-1998, there were only 7 pirate attacks on ships in the Malacca Strait. But already in 1999 there were 37, and in 2000 – 75 only in the Strait, and even 119 in the waters of Indonesia, 21 on the coast of Malaysia, and 5 in the territorial area of Singapore (Chang, 2003). Only as a result of measures taken by ASEAN countries together with the US Navy, Japan and

China, this piracy was temporally stopped. Particularly dangerous phenomenon is growing interest from international terrorist organizations to piracy as a source of income and means of terrorist organizations by using pirates for arms and borrowing personnel to carry out terrorist actions. Terrorists were sent to the pirate groups in order to obtain money for the purchase and delivery of weapons for their organizations (Vasiliev, 2009). In this context, it became increasingly difficult to distinguish between the traditional piracy and maritime terrorism in different areas, the most important waterways, and even in the ports.

In Southeast Asia after the July 2004 joint patrols of Navies of Indonesia, Malaysia and Singapore, the number of pirate attacks has significantly dropped in the Straits of Malacca. According to the International Maritime Bureau, in 2006 there were 50 incidents of piracy committed against 79 cases in 2005, while in the waters of Bangladesh noted 47 cases, more than twice higher than in 2005 (21 cases) (Fedyashin, 2007).

In 2006, the agreement came into force on regional cooperation in the struggle against piracy in Asia. The participants of this pact are 16 countries – the 10 members of ASEAN, as well as Bangladesh, India, China, South Korea, Sri Lanka and Japan. The agreement creates a single data center, which will share the necessary data about the pirates and coordinate joint actions in their detention and to assist victims of the attack (Young, 2007).

After the events 9/11, ASEAN significantly paid more attention to the problems of combating international terrorism in the region. By the initiative of Indonesia, Malaysia and the Philippines, there was established the Regional Anti-Terrorist Center in Kuala Lumpur. In January 2007, it was signed the Regional Anti-Terrorism Convention, which provides a broad cooperation between law enforcement and intelligence agencies of ASEAN countries (*Chair's Summary*, 2007).

The positive trends in improving the situation in Southeast Asia can be attributed more intense effort to settle with the central government of some countries, mainly in Indonesia and the Philippines, with its “rebel” provinces. So, in 2005, there was managed to resolve the conflict in Aceh, which lasted from 1950. In August 15, 2005 it was signed a peace agreement with the government, and at the end of year there was

completed the withdrawal of government troops from the province (“Aceh rebels,” 2005). Monitoring the implementation of the agreement, including disarmament and renunciation of demands for independence in Aceh, was entrusted to representatives of the European Union and the countries of Southeast Asia. However, the situation in the province is still far from normal, and any wrong move one or the other can be a catalyst for its new exacerbation.

The positive trends appeared in the resolution of problems in the southern Philippines, inhabited by Muslims. Armistice Agreement between Manila and Muslim rebels consisted more than once, but they did not lead to full normalization. Every time respite was used by Muslim groups to deliver large quantities of weapons, reorganize and increase the size of its armed forces. At the talks the separatists have always sought to act from a position of strength: in the case of refusal of the government to meet their demands immediately threatened by the fighting. In response, the government stepped up its forces in the south, and after a gap of negotiations clashes resumed with renewed force.

Now, due to changes in the overall world situation and the result of diplomatic efforts of Manila, supporting separatists Muslim states have revised their previous positions, condemning attempts to violate the territorial integrity of the Philippines, and in the matter of Moro Manila was in favor of its decision by constitutional means. In summer 2005, Philippine President G. Macapagal Arroyo declared intention to consider the possibility of the establishment of federal system and concession of self-government of the southern provinces (Martin, 2008). This means that the official Manila finally realized the flawed policy of unitarianism and ready to return to the project in the south of the subject to create the Philippine Federation. But the situation was complicated by the fact that the rule of Mr. Arroyo faced with two insurgencies: the Communists and Muslims cannot cope with the situation and increasingly lose popularity. The economy is going through a breakup. There were rumors that President Arroyo is trying to extend her rule by changing the country’s constitution and the adoption of a parliamentary system of government instead of the current presidential. But her turn of rule was ended in June 30, 2010. New-elected President Benigno Aquino III is too supporting the peace, but there isn’t seen an attempts of changing of political system.



5) *The territorial disputes* between ASEAN, China, South Korea, Russia and Japan. Until today, the problem is not solved. Still, bilateral negotiations on solving this problem and deepening regional economic integration reduce the negative impact of the territorial problems of regional security. However, the emergence of Japanese leaders in Shintoist temple Yasukuni and Japanese-Korean, Chinese-Japanese disagreements on historical questions are not left in “diplomatic war”.

Most striking a model for the origin and continuation of the conflict in the East-Asian region can be considered as a dispute over the Spratly Islands – an archipelago in the south-western part of the South China Sea, consisting of more than hundreds of small islands and reefs, the total area of less than five square kilometers. The right to own at least part of the islands immediately contested by six countries: Vietnam, China, Taiwan, Malaysia, the Philippines and Brunei. The main parties to the conflict are China and Vietnam – each country proclaimed its sovereignty on the island. Currently Vietnam has the most part of the island, then followed by China. Another controversial area is the Paracel Islands, which since 1974 has been occupied by China. However, Vietnam is also asserting itself to them.

What is the main and most characteristic aspect of the “physiology of the conflict?” First of all, it is the subject of the dispute: the territories in question. They are a small coral islands, not all of which are generally above sea level, only a few of them have sufficient capital construction area and the ground. But the islands are important, mainly for two reasons:

- Convenient military-strategic location, since the possession of even a part of these islands allows them to control the sea lanes around the South China Sea, which is an important trade route from Southeast Asia to China, Japan and Korea. For example, according to the ASEAN Secretary General Surin Pitsuwan (2009), 85% of the energy, which is supplying to China, Japan and Korea, is coming by the South China Sea; and
- Estimated large reserves of oil and gas, and other natural resources of the waters. That conflict can be considered a conflict of the modern type, because its essence in the fight not for territory, as such, but for resources – energy, water, geographic, industrial.

Today, Vietnam controls 20 islands of the archipelago, while China – over 6. The chosen way by both parties is the way of long diplomatic negotiations, which are the legal basis on the UN Convention on Maritime Law (1982), and the ASEAN Declaration on the peaceful resolution of conflicts in the South China Sea (2002).

What makes us think that a transition from the stage of the problem to solve it through lengthy negotiations phase of open military confrontation? First, once again, history knows precedents when the dispute over the archipelago became a cause of local conflicts with the use of the armed forces, which, however, did not lead to a fundamental change in the situation. Second, it is gradually increasing military budgets in the region, particularly China and Vietnam.

Recent times China more and more openly states about the fact that the South China Sea is a “core zone of interests” of China. It must be noted that China has openly strives to be the only center of influence in the region. In response to this in 2010 the US Secretary of State Hillary Clinton stated that “the United States has a national interest in freedom of navigation, open access to Asia’s maritime commons and respect for international law in the South China Sea” (Offering to Aid Talks, 2010). Chinese Foreign Minister Yang Jiechi regarded it as an attempt to bring the issue to the international level, which China wants to solve through bilateral negotiations (“U.S.-China Relationship,” 2010).

Thus, a peaceful and stable future for the region will largely depend on the position of the international community, from the United States in particular, which today are objectively leader in the world’s oceans, and seem to be able to make quite adequate competition to the growing military-strategic and diplomatic Chinese power. The United States has already placed its fleet of amphibious ships, which will be based in Singapore and perhaps in the Philippines (“Santolan, 2013).

Relative peace, and security and stability, which ASEAN still helps keep both in Southeast Asia and in the APR as a whole, have been a boon to economic development. This has helped to create the conditions under which made possible a rapid and steady growth of the first half of the 1990s, which brought greater social progress and development of human capital. This is made possible thanks to the strong desire of

member-states to cooperate with each other in the interests of stability and security for all.

At the turn of the century with the advent of so-called non-traditional threats, it became clear that it was time for a more “cooperative security umbrella” and could be set for a period after the proclamation of relations “strategic partnership” between China and ASEAN, but it is again stalled due to territorial disputes in the South China Sea. The issue of sovereignty over the islands is delayed indefinitely like a time bomb, it constantly threatens to blow improving international relations in the region.

The continuation of the present course of foreign policy, China will suddenly become a troublemaker for East Asia and got involved in some aggressive adventure. Important in this context is not to become a militant posture in relation to each other, but finding a way out of the political dialogue at all levels, including non-government organizations and guiding by the fact that in the present conditions no country can permanently secure its interests to the detriment of all others. This is evidenced by all ASEAN experience, allowed to develop its own way of solving disputes – the famous “ASEAN way” (Kivimaki, 2011).

Today there are two factors, which are pushing all the peoples of East Asia on economic cooperation: the potential isolationism and the advantage of economic integration. First, isolationism is associated with the formation of trade “castle” in all regions of the world, in result Asia will lose the opportunity to enter into these markets. In such situations of conflict Asian trading bloc can response with closing of foreign markets. This may be the result of increasing external obstacles in the integration process and the result of a unilateral rising of protectionism. NAFTA does not consider any uniform tariffs on trade policy or on uniform trade. Increased protectionism in the USA was as a policy of isolation. Second, economic integration in the East Asian zone could be the beginning of a trade policy that complements the policy of unilateral and multilateral liberalization. Agreement on preferential trade agreement made it possible for the general free trade and it is considered as the second good decision. If it will be reached the agreement on the formation of a free trade zone in the East Asian zone, and if further arrangements will be considered for further unilateral liberalization, the union

can benefit from the advantages of a regional free trade and the formation of the trade flow (Zhanbulatova, 2008).

The factor of the development of economic integration in the East Asian region develops with increasing benefits of the Asian contract and with searching Asian valuable. In East Asia it is formed the “Asian tetragon” – Japan, China, the newly industrializing countries and ASEAN. In this “tetragon” the economic cooperation is developing in the field of trade, direct investment and inter-firm partnership areas. As it is known, the East Asian integration is developing with its own advantages, but not as the integration of the European Union, MERCOSUR and NAFTA.

### 3.3. EAST ASIAN AND EUROPEAN INTEGRATION: SIMILARITY AND DIFFERENCES

ASEAN was created by taking into account the many years of experience of European integration and under the strong influence, but it has several different characteristics than the European Union. Today there is often discussing the question of whether there can be at least some comparison between ASEAN and the European Economic Community (EEC), and even more with the EU, especially now when ASEAN has received its new legal status? Of course, some similarities are seen, but the differences are too obvious.

Based on the European experience, some researchers name a few “obligatory” features of integration:

- the existence of supranational institutions;
- complex nature, covering the political, economic and social development;
- formation of a single demos with common socio-cultural and political guidelines (Cameron, 2010).

In ASEAN there are no supranational institutions, neither legislative nor executive. If the EU is a supranational model of cooperation, the ASEAN, in contrast, is based solely on an intergovernmental basis (Feng, Bo, Xuegang, 2008). But this fact is not so much a crucial difference, and cannot be an excuse for categorical opposition to the integration of the two groups, which occurs quite often in our literature and in the media.

The practice of the EU shows that the presence of supra-national bodies and the general rules do not lead to the loss of the countries of their sovereign rights in all the major areas of political and economic life. Brussels cannot step without the consent of the member countries. So the mechanism of decision-making in both groupings works “in the mode of elite cartel”, in which the first “violin player” is not supranational structure, but executive power of member-countries: in Europe is the European Council, and in Southeast Asia – ASEAN summits.

Starting the integration process, the nations of Western Europe have never even considered seriously the question of denial on the part of its national sovereignty. The basic theory of European integration operates exclusively the concept of sovereignty

association and cooperation aimed at multiplying the forces and capabilities of each of the participants. So the experience of European history shows that active involvement in the integration process does not necessarily lead to the loss of the nation-state of its sovereign rights. For the people of the former colonial countries, which are the majority of ASEAN countries, it is particularly important.

However, this does not hinder their pursuit of regional integration. All ASEAN countries recognize the need to integrate, although each may have their own priorities. The poorest states are concerned about reducing the development gap. They fear that too rapid integration will lead them stronger competitors in the home. Others are concerned about internal problems. Others do not want to stand still, when everything changes so fast. But the main goal, which put in front of the ASEAN countries and the EU, are virtually identical – there are political stability, economic prosperity, and to maintain competitiveness in a globalized world, regional security and a stronger position in relation to the powerful neighbors. The only difference is in the ways to achieve these goals.

The EU is just some experience and an occasion for reflection, but not a model for ASEAN. In contrast to the EU, ten member-states of ASEAN will never give up economic sovereignty and will not create the supranational bodies. ASEAN economic ministers determined as a free trade zone, where market integration means more cooperation and multilateral action on trade and investment. And this is the action on the basis of intergovernmental agreements as a result of the negotiations. In the EU there is the political will of states to act on the basis of European law. In ASEAN the political will of member-states stood at the level of inter-governmental agreements. Regulations that will flow from the Charter are the points of agreements. They are forming the legal norms of ASEAN (Wanandi and Yamamoto, 2008).

The Southeast Asian regionalism has emerged as a means of asserting national sovereignty. Another thing is that, conscious of its weakness, the region came to mind on the approval of the national “Ego” of each of them through the combined efforts. This logic is far removed from the idea of transnational (Jones, 2008). European integration is oriented to the erosion of national borders, and Asian – to strengthen them and thorough mutual “grinding” in order to avoid future disputes that could weaken the

ability of local countries. In other words, Europeans built a community, and East Asian countries only joined forces in an uncertain commonwealth and the only in 2003 announced the plan to build a community by 2020.

By their nature, integration in ASEAN also has a complex character. The difference is that first it was arisen because of political considerations of security and economic spheres covered only in the 1990s under the influence of external factors: the end of the Cold War and the rise of China and India. Mutual trade of ASEAN countries in 1970 remained between 12-15 %. Only in 1977 the states of this group tried to enter preferential trade tariffs, and from 1978 began to agree on common industrialization projects on the terms of co-financing of foreign investment. And now their trade with each other is no more than a quarter of their total trade (Perera and Metwally, 2006).

The development of a common foreign policy in ASEAN held no less difficult than in the EU, and the creation of joint armed forces is not and cannot exist by the principles of ASEAN. Social integration in ASEAN postponed for an uncertain future.

The essential difference lies in the methods and speed of integration. The whole process of integration in ASEAN, in contrast to the European, is characterized by slow and circumspection, wait-and-see policy. The concept of “community”, which is expected to basically build in 2015, has often different meanings. Even in the writing of the word there is no single approach: some people write it with the title letters, the others with a small letters. Although the term has long entered into international circulation, it allows different interpretations, and do not adequately reflect what is actually happening in this region. As issued in 2008 by the Japanese Center for International Exchange collection of articles on the prospects of creating a more comprehensive, integrated union – East Asian Community, it was stated: “Community is a group of states that actively interact, has similar interests and common historical destiny” (Wanandi and Yamamoto, 2008).

Most observers of the ASEAN countries, approving the signing of the Charter, noted that even integrated Southeast Asia is not very soon turn into alliance similar to the European Economic Community, and in the long term – to the European Union. Europe took decades of planning, compromise, and extremely heavy lifting for a more or less equal level of economies, and this process is not finished yet. In Southeast Asia, there is nothing like that (Berkofsky, 2005).

Economic and political structures of Southeast Asian countries are very far from European standards, although they are in the process of rapid modernization. By all measures, Vietnam, Cambodia, Laos and Myanmar are a group of states, much different from the other partners in the standard of living, based on the laws of governance (rule of law), by GDP capacity, human rights, etc. Cambodia, as Laos, is one of the poorest countries in the world with a per capita GDP on average US\$ 879 (2011), while in Singapore it is over 50 130 US dollars (2011), which in turn is almost 50 times higher (*ASEAN Chartbook 2012, 2013*).

**Table 1.1 GDP per capita at current prices in ASEAN member-states, 2011**

No.	ASEAN countries	GDP (per capita), in USD
1	Brunei Darussalam	38 703
2	Cambodia	879
3	Indonesia	3 563
4	Lao PDR	1 279
5	Malaysia	9 941
6	Myanmar	875
7	Philippines	2 341
8	Singapore	50 130
9	Thailand	5 116
10	Vietnam	1 403

Source: ASEAN Secretariat Database and IMF World Economic Outlook Database, April 2012

The ASEAN countries are different from each other in the historical past, the political system, culture and economic development than the countries of Europe. Political regimes they represent a wide spectrum, including the fragile coalition of ex-communists and monarchists in Cambodia, one-party communist regimes in Vietnam and Laos, which are building a “market socialism”, the presidential and parliamentary constitutional multi-party system in the Philippines and Indonesia, and in Thailand since 2007, the consolidated parliamentary republic with a single dominant party in Malaysia



and Singapore, and finally, an absolute monarchy in the Sultanate of Brunei. However, as the experience of the newly industrialized countries of ASEAN shows the authoritarian regime is quite compatible with the possibilities of economic development. Regarding the successful overcoming of the crisis in 1997 ASEAN countries showed the cultural predisposition of these countries to administrative control than to a liberal, pluralistic and democratic state system. However non-transparency of autocratic regimes of Southeast Asia causes of their obvious weaknesses. Even in the highly successful Vietnam due to imperfect mechanisms for public and parliamentary control over the actions of the executive branch does not stop the scandals of corruption, embezzlement and misappropriation of budget funds and international aid.

At the same time multi-party liberal system of government proved an ineffective in addressing the crisis, which raised doubts among the elites in the Philippines, Indonesia and Thailand. According to the Director of the Asia Research Centre of Australia Garry Rodan, the most successful was technocratic authority of Singapore, which combines a flexible and pragmatic leadership of the dominant party, which subordinate developed mechanism of regular elections with a certain measure of economic openness and transparency (Rodan, 2006). Classically, this system was first demonstrated in the city-state Singapore, where the former prime-minister of Singapore Lee Kuan Yew at one time was an adviser to the President country, and then – with individual elements and with varying degrees of success reproduced in Malaysia, Thailand, Indonesia, the Philippines and Vietnam.

This model offers a form of illiberal, but a flexible and pragmatic administration. It assumes that although controlled, but quite vigilant and critical media, regular internal party elections in the dominant party, market accountability and continuous business technocratic leadership up to the achievement of development goals. Indeed, in Singapore the successful combination of public and political control with a relatively high degree of transparency and accountability of economic showed a stable and long-term development model. Singapore is one of the few countries in the world to tackle corruption. The political formula used by powers recognizes the need to unite in the face of emerging global and regional instability. This strategy expresses as the secret pact of the power and elite, which includes a combination of ethnic, religious, economic and military interests of the coalition forces, which interested in development.

Non-binding, consensus decision-making style is also strongly inhibits the integration process. As a result, some of the ASEAN countries, which frustrated by the slow progress of trade negotiations, enter into bilateral trade agreements with countries outside the region without waiting for the others. This creates a gap in expectations and enhances the centrifugal tendencies within ASEAN: some members of the Association wish the collective bargaining, and others are making more rapid progress on a bilateral basis. And it is not clear whether the ASEAN Charter can resolve or at least alleviate this problem (“ASEAN Integration,” 2008).

One of the most serious obstacles to the integration of ASEAN are unresolved territorial disputes between the member-states of ASEAN, internal political instability in countries such as Thailand, the Philippines and Indonesia, social progress in member countries, entailing widening gap between rich and poor, between urban and rural etc.

External challenge to all ASEAN countries is the continuing process of globalization, which inevitably brings with it all its negative impacts. For example, the rapid economic growth in the region at the beginning of the century has caused intense competition among ASEAN countries. Close ties with the world’s banks and investors have led to serious consequences of the financial crisis in 1997-1998. The ASEAN countries also fear that Western values undermine their own moral values.

From the above it follows that, in comparison with the EU to ASEAN countries still have a long road of integration, but they have no other choice. These countries are integrated in order to survive. China and India have changed the entire political landscape and the dynamics of development in Asia. They are drawn to the attention of all transnational corporations and investors in developed countries. In order to stay in the game, ASEAN had to take drastic measures in order to defend its share of foreign investment and its place in the market. How successful they will be, time will tell.

ASEAN integration should strengthen its role as a regional player, and maybe it will even create a counterweight to the dominance of the major powers in the region. This will affect the development of cooperation in the East Asian region as a whole and may become a model for other partnerships in Asia. Zone of peace and prosperity does not exist yet and is only planned in the distant future. But some steps towards a more democratic, transparent, tolerant and pluralistic character of the regional system of

relations, as expressed in the Charter, seem likely the basis for the future creation of a regional “community of nations”. No one in ASEAN does think about creating a kind of supra-national structures in the European style. It all comes down to keeping the process of building this community’s well-known principle: “the goal is nothing, the movement is everything”.

## **CHAPTER IV**

### **ASEAN – MAIN FACTOR OF REGIONAL INTEGRATION**

#### **4.1. ASEAN MEANS REGIONAL ASSOCIATION**

The adopted in August 8, 1967 in Bangkok inaugural ASEAN Declaration was presented to the world as the “Regional Association”, which will seek solutions to problems mainly in the socio-economic sphere. However, the security interests of regimes and political elites of ASEAN6 were being determined. Creating a mechanism for collective addressing common threats and policy coherence was a strategic imperative for the founding states of ASEAN. Apart from the bad experience of the Association of South-East Asia (ASA), it was the first regional organization established on the basis of purely Asian – without the taking part of the United States or the European powers (Pollard, 1970).

As an international institution ASEAN served as a diplomatic tool of coordination of region states “against Communist activities”. In the first decade of its activity was limited mostly to hold periodic meetings of the Foreign Ministers of the member-countries, which concerned solely alarming situation prevailing in the region and exacerbated its economic backwardness. Until the end of 2008, the ASEAN had no statutory regulatory documents. Its work was based solely on personal agreements of heads of state, and all the decisions were not legally binding and implemented on a purely voluntary basis. The evolution of ASEAN was so slow, and the trust between the countries of the region was formed with such difficulties, that the third ASEAN summit took place only after a dozen years after the second Summit (1977).

The situation in the East Asia before the foundation of ASEAN was extremely tense. There was happening the escalation of the Vietnam War as a fire that threatened to spill over into neighboring countries. Thailand and the Philippines were active allies of the USA in the war (Mahan, 2013). In one or other Southeast Asian countries were appeared Maoist rebel groups. In Indonesia, there was a military coup with mass repression and brutal massacres of the Chinese minority.

ASEAN was formed under the influence of various factors, the most significant of which was the fear of the “communist threat” to the national and regional levels. And it was not only the war in Vietnam, but the rapid growth of the communist parties and the various left-wing groups in other Southeast Asian countries, with the active support of China and the Soviet Union. Add to this the loss of confidence in the great powers of the West – the former colonial powers – after the defeat of France in Indochina and the gradual withdrawal of Great Britain from the region. Among these factors was also the desire of four countries of Southeast Asia (Malaysia, Singapore, the Philippines and Thailand) hold regional ambitions of Indonesia within a multilateral framework, and of course, the need for rapid economic leap forward. These key elements created a collective identity that allowed the ruling elites to rise above all disagreements and unite for a common cause. Later, after the collapse of the Soviet Union and the accepting Vietnam to the Association (1995) and Lao PDR (1997), anti-communism ceased to be relevant, however, concerns about China’s expansion is not only not disappeared, but even intensified.

**Figure 1.1: ASEAN countries**



Source: <http://www.asean-community.au.edu/>

The first steps to interstate cooperation in South-East Asia can be found in the Cold War period, but then it had a clearly marked military-political character and came down to participate in the global confrontation between the two systems, such as the composition of such odious bloc as SEATO (Organization Treaty of Southeast Asia). The formation of ASEAN held under military and political hegemony of the United States in Southeast Asia, under the close supervision and pressure. And they, of course, took into account the failed attempt to involve the countries of the region, together with the leading Western powers in the military-political bloc SEATO, which was created in 1954 and was conceived as a “NATO for South-East Asia”. At that period ASEAN structure has become some replacing of the stillborn SEATO, although it was only dissolved in 1977. But attempts of interstate associations on an economic basis were subordinate and could not claim an independent role in international relations. In this regard, more luck occurred on the eve of the discharge period of ASEAN. It managed to develop into a non-military regional association of high international standing.

The adopted Declaration of ASEAN in 1967 had the following objectives:

- acceleration of the economic development, social and cultural progress of the ASEAN countries;
- strengthening of peace and regional stability;
- expansion of the active co-operation and mutual assistance in the field of economy, culture, science, technology, and training;
- development of more effective cooperation in the field of industry and agriculture;
- expansion of bilateral trade and rising living standards of the citizens of the participating countries; and
- establishment of a lasting and mutually beneficial cooperation with other international and regional organizations (*Bangkok Declaration, 1967*).

The Declaration states that ASEAN is open to all countries of South-East Asia, recognizing its principles, goals and objectives. This document registered the status of the annual conference of foreign ministers as the main working body of ASEAN, and the power to take decisions on the implementation of the Declaration, to discuss the fundamental problems of the Association, and to decide questions of new members (*Bangkok Declaration, 1967*).

An important step in the political establishment of the ASEAN was the adoption in November 1971, the Kuala Lumpur Declaration on the Zone of Peace, Freedom and Neutrality in Southeast Asia. It states that the neutralization of the region is a “desirable goal” that all participating countries will take the necessary efforts to ensure recognition and respect for Southeast Asia as a zone, rejecting outside interference (ZOPFAN Declaration, 1971). Neutralization plan intended settlement controversy on two levels: among the ASEAN countries and between ASEAN and outside powers, which are ready to make a commitment to recognize the neutrality of ASEAN sub-region and to guarantee non-interference in its internal affairs.

The process of forming the Association was slow and difficult. ASEAN members themselves had yet to learn to trust each other, keeping the traces of violent conflicts, including territorial. The main organizational link is that ASEAN has become an annual meeting of foreign ministers of the participating countries. Since 1977, they had mated with meetings between ministers of ASEAN and representatives of a number of extra-regional states and organizations – “dialogue partners”. These included Australia, EEC, Canada, New Zealand, USA and Japan. The main topics of these meetings were issues of development assistance, trade and economic issues (Thambipillai, 2007). In 1984, the practice of discussions between ASEAN and the “dialogue partners” had been transformed into a so-called post-ministerial conference, which to this day held every year after the official meetings of the Foreign Ministers of ASEAN. In those years terms of economic integration ASEAN dialogue served as a means of developing a sense of political community, solidarity among the member countries, raising their mutual tolerance, approving the practice of conflict-coordination positions on controversial issues. These efforts did not bear benefits, although not as quickly as numerous critics of ASEAN would like to see (Shimizu, 2006).

Completion of the Second Indochina War in the spring of 1975 gave a powerful impetus to the development of the legal and institutional framework of ASEAN. At the first summit of ASEAN in Bali (Indonesia) there were approved the Treaty of Amity and Cooperation in Southeast Asia (TAC, 1976) and the Declaration of consent. The first document established the principle of which five founding-members of the Association shall be guided in the development of mutual relations as well as in the settlement of disputes and conflicts. Agreement, in particular, provided that ASEAN partners will

work towards a peaceful solution to the mutual contradictions arise to promote peace in the region, to abandon the threat of force, and all disputes will be resolved through friendly negotiations. The text of the Treaty reflected the idea of transformation of the South-East Asia into a zone of peace, freedom and neutrality. In the ASEAN Declaration on consent states that “five” founding-countries will seek to create an enabling environment for the establishment and development of cooperation between Southeast Asian countries.

In organizational terms in the Bali summit, it was decided to establish a permanent secretariat of ASEAN and the appointment of the Secretary General on a rotational basis. The first Secretary General was the Indonesian diplomat Rektoharsono Hartono (Poole, 2011). Agreement was reached on the establishment of the ASEAN Inter-Parliamentary Association (AIPO) (“Background and History,” 2007).

Since then, the organization has acquired the basic principles, the program of action and organizational structures for follow-up. In accordance with the settings of the Declaration consent, it sought to contribute to peace, progress, prosperity and well-being of the region and increase achievement of ASEAN countries through cooperation in the economic, social and cultural spheres. States of the “five” were far-sighted enough to foresee the possibility of acceding to the Treaty neighbors in the region (the three countries of Eastern Indochina and Burma).

The story was such that the Vietnam War was in fact made the region of Southeast Asia theatre of the last major military conflict of the Cold War. It must be paid tribute to the founders of ASEAN, who have managed to be among the first to lay the principle of non-use of force or threat of force in the framework of inter-state relations. Especially among them are usually marked out famous Asian politics of the second half of the 20th century as the Prime Minister of Singapore Lee Kuan Yew and Malaysian Prime Minister Mahathir Mohamad, the president of Indonesia Suharto and the Philippines Marcos.

Treaty in 1976 advocated a code of conduct based on the known principles of Bandung, i.e. the principles of peaceful coexistence between countries with different social systems, adopted by the conference of 29 countries in Asia and Africa, held in Bandung (Indonesia), 18-24 April 1955 (*Final Communiqué Bandung*, 1955). These principles



are still relevant to this day, despite the end of East-West confrontation. Bali Treaty is one of the most progressive and fundamental documents of modern international law. It gave a clear formula for many years to determine the basis of relations between ASEAN and all extra-regional states, namely:

- mutual respect for the independence, sovereignty, equality and national identity of all nations;
- the right of each country to lead its national existence without any outside interference, coercion and subversion;
- non-interference in the internal affairs of one another;
- settlement of disputes and disagreements through peaceful means;
- non-use of force or threat of force; and
- promoting mutual interests and cooperation (TAC, 1976).

It is no accident accession to the Treaty is a prerequisite for the adoption of the new members of the Association and to establish full relations with ASEAN Dialogue Partnership for extra-regional states. In 1987, the Treaty was opened for signature for other countries. In addition to the ASEAN countries to date, it has been already signed by 16 countries, including China, Japan, India and Russia. In July 2008 it was joined by Asian countries such as North Korea, Sri Lanka and Bangladesh, and in July 2009 the EU and the United States (Manyin, Garcia, Morrison, 2009). Canada are planning to join it soon.

From the sub-regional organization by the end of the 1990s, ASEAN has become a regional association of Southeast Asian countries. Firstly 10 countries in the region, which are very different in the political and social system, the level of economic development, were together in one international institution. This association has a constant current system of consultations at the senior management level and the political elites who have created specific Asian culture of political dialogue, called “ASEAN approach” or “method of ASEAN” (ASEAN Way). Through this method of dispute resolution the repeatedly arisen contradiction between ASEAN members have never escalated into an armed confrontation. The strength of the ASEAN reflects the reality of the balance of power in Southeast Asia and around it (Severino, 2001). Deliberately limiting the objectives of the project, its founders realized that it was

possible in this format and in specific contexts of decolonization in Southeast Asia 1960-1970s.

The ASEAN leaders considered the problems of neutralization and securing in close connection with giving the region a nuclear-free status. Because of the special complexity of the problems states-parties were able to come to the signing of the Treaty establishing the South-East Asia Nuclear Free Zone (ZOPFAN) only in 1995 (Acharya and Boutin, 1998). However, for practical entry into force it needed to sign a separate protocol to the Treaty by the nuclear powers. Its signing inhibits differences on the issue of whether to treat India and Pakistan as nuclear powers. The recognition or non-recognition of the nuclear status of these countries by ASEAN and other nuclear powers will determine the fate of the Treaty.

In 1994, in the framework of preventive diplomacy, the initiative was launched by the ASEAN mechanism of the ASEAN Regional Forum. Its task is to ensure free development of situation in South-East Asia and the Asia-Pacific region through dialogue and consultation. ASEAN countries and their dialogue partners outside the region, including Russia, the USA, China, Japan and other ARF members participate in the annual meetings of the ARF and they are aiming to move from the implementation of confidence-building measures in preventive diplomacy to build a robust security system in Asia-Pacific ("ASEAN Regional Forum," 2012). In the framework of the ARF, there are two "tracks". On the first is a dialogue on the official intergovernmental, second is between the NGOs and the academic communities.

In consideration of particularly difficult and potentially explosive situation in the South China Sea, where face and mutually superimposed territorial claims of the six coastal states and territories (Brunei, Vietnam, China, Malaysia, Taiwan, the Philippines), the ASEAN countries made the Manila Declaration in 1992 (Manila Declaration, 1992). It called on all parties involved to restrict peaceful means in settling disputes and to avoid action by the militarization located in the South China Sea islands and begin joint development of their resources. In July 1996, in Jakarta Conference of Ministers of foreign affairs of ASEAN, it was advanced the idea of making a "regional code of conduct" in South China Sea that would be the foundation of mutual understanding in the region. However, at the end of 2002, the terms and conditions of such a Code are

subject to the protracted debate between ASEAN and China (*Code of Conduct in SCS*, 2002).

Annual post-ministerial meetings with regional partners gained a regular character (USA, Canada, Japan, South Korea, China, Russia, Australia, New Zealand, India, EU) on a ASEAN+1, that is ASEAN “ten” plus one of the partners. The annual ASEAN activities are as follows: a conference of foreign ministers of ASEAN, ARF meeting, post-ministerial meeting on dialogue with outside partners (Pellan and Wong, 2011).

In 1996 by the initiative of Singapore, it began to conduct the regular meetings of the Asia-Europe meeting (ASEM) as a form of inter-regional cooperation. ASEAN gives it great importance. However, with the entry of Myanmar into ASEAN work of Asia-Europe dialogue got slippery because of the sharp criticism of the EU human rights situation in the country, in particular – the methods of suppressing opposition to the military government of Myanmar.

In 1997, when the Asian financial crisis broke out, and then in the beginning of this century due to the unprecedented growth in economic and defense power of China and India, ASEAN countries have faced a number of challenges that have forced to reconsider the strategy of development of the Association, to reorganize its structure, change the forms and methods of activity. Following the example of the East Asian “tigers” and China, ASEAN countries were involved into the competition for attracting foreign investment.

Since 1997, regular meeting of the leaders of “ten” were with the leaders of China, Japan and South Korea. This was initiated by Malaysia, which seeks to create a kind of economic and trade bloc in East Asian region. According to the plan of Kuala Lumpur, its creation would be leveled position of East Asian countries in a dialogue with regional groupings such as the EU and NAFTA. In November, 2000 the leaders of member-states agreed to create the common economic areas. The plans like that of course would be faced with some troubles, but then it will strengthen the position of organization in world market.

In December, 2005 it took a place the first East Asian summit in Kuala Lumpur in the frame of ASEAN+3 format with the possible addition of India, Australia, New Zealand and Russia. It is starting to work in creation of East Asian free trade zone. ASEAN-

China FTA has already entered into force in 2010. Despite this, there are many obstacles in creation of free trade zone in East Asia as follows:

- economic underdevelopment of some countries of region;
- differences of average income of GDP;
- complication of competitiveness of goods in world market;
- the economic destabilization in some countries of region; and
- lack of agreement in financial-economic policy.

The competition for regional leadership between China and Japan and the position of Australia and New Zealand in creation the community are the political factors of East Asian integration. But global and regional questions like lessons on financial crisis, threat of terrorism, natural calamities and epidemics, and the rise of transportation of energy push the countries into economic integration. The participating of Japan into ASEAN+3 gives an extra impetus in integration process. China and Republic of Korea take a position of making East Asian free trade zone.

ASEAN leaders throughout the history of the Association categorically rejected the possibility and desirability of its transformation into a military-political bloc. The basis for this view is a set of causes as follows:

- different experience of the armed forces of member-countries in the process of gaining the national independence and the associated military mentality of ASEAN;
- continuing mutual territorial boundary claims between ASEAN partners;
- lack of industrial and technological base of standardization and unification of arms and military equipment, a focus on a variety of external sources of supply of arms; and
- understanding that the total capacity of the ASEAN defense is not able to provide serious opposition to external threats or direct aggressive action (Zhanbulatova, 2008).

In view of these factors, military cooperation within ASEAN initially assumed the character of a bilateral or trilateral cooperation to curb the left wing of the rebel movements in neighboring areas (Malaysia-Thailand, Malaysia-Indonesia), intelligence sharing and holding joint exercises. Due to the decline of the rebel movements in the

late 1980s – early 1990s, the emphasis has shifted to joint action against illegal migration, piracy, drug trafficking, and in the early 2000s – against regional terrorism.

Assessing the military-political situation in Southeast Asia as a whole is stable, ASEAN seek to preserve the balance of power of the major powers in the East Asian region. This refers to maintaining USA military presence. Thailand and the Philippines are keeping in force the old military and political agreements with Washington, i.e. the mutual defense and military assistance. The territory of these countries is used to maintain the U.S. presence in the region for transit air and naval operations of the United States for the “hot spots”, including the Persian Gulf. As part of the global campaign of the USA against terrorism, the Philippines was placed a group of American soldiers to fight with the local terrorist group “Abu Sayyaf”. Malaysia and Singapore are members of the “five-sided defense agreement” with the United Kingdom, Australia and New Zealand (Ang, 1998). However, ASEAN countries have itself responded quickly to the challenge of international terrorism, which affected directly Indonesia, Malaysia, Singapore, Philippines. At a meeting in Brunei in November 2001, it was adopted a Declaration on Joint Action to Counter Terrorism. It expresses determination to intensify joint and individual efforts to prevent, combat and eradicate the activities of terrorist groups in the region. It is expressed the intention to continue practical cooperation in this area, both within the Association and the international community (Declaration on Counter Terrorism, 2001). Special Ministerial Meeting in May 2002 in Kuala Lumpur adopted a “work plan” that specifies improving cooperation between law enforcement agencies of “ten”, promoting the exchange of information to combat terrorism. This Declaration on Terrorism was adopted in the eighth ASEAN Summit in Phnom Penh in November 2002. It again strongly condemned the terror. At the same time emphasizes the disagreement with the “tendency in some quarters to identify terrorism with a particular religion or ethnic group”. In Kuala Lumpur it is working to create a regional anti-terrorism center and is scheduled to hold a regional conference on combating money laundering “dirty money” and the financing of terrorist activities (Declaration on Terrorism, 2002).

At the turn of the 20th and 21st centuries, there is a correction of military and political doctrines of the ASEAN countries in order to adequately respond to the changing situation in the Asia Pacific region. It is not only related to the growth potential of

China, which is becoming a regional military superpower. Among other reasons there are economic losses from coastal piracy, illegal migration and smuggling. ASEAN countries focus on equipping the armed forces with modern weapons systems, which can provide a defense of its territory, as well as marine areas – areas of economic interests of these countries.

Economic cooperation within ASEAN concentrates mainly in the trade and aim to establish the ASEAN Free Trade Area. The decision on the free trade area was adopted at the 4<sup>th</sup> Summit of the Association in 1992 in Singapore. It was seen as an important step in the deepening of regional cooperation, the initial step on the path of economic integration in the image of the European Union. The main initiators of AFTA were Singapore and Malaysia, which has the most developed trade links in the region. It was decided in 2003 to create a single market for goods, under which tariffs on industrial products would not exceed 5% (Agreement on CEPT, 1992).

The main instrument for implementing the arrangements favored AFTA agreement on the Common Effective Preferential Tariff (CEPT) of ASEAN. According to it, annually it identifies four lists:

- 1) list of goods, which tariffs are to be unconditional reduction;
- 2) list of goods, which tariffs are approved to decrease, but the question of their entry into force postponed specifically stipulated period of time;
- 3) tariffs that are the subject of debate. Because of the vulnerability of this category of goods from foreign competition for some of the ASEAN countries, the question of their liberalization is postponed to a later date (for example, for the most vulnerable members of the ASEAN automobile industry); and
- 4) tariff rates, which are completely excluded from the process of liberalization (for example, for agricultural products, top secret information) (“What is AFTA,” 2009).

In December 1995 it was decided to accelerate the completion of AFTA from 15 to 10 years, completely cutting tariffs to 0-5% by 2003. It was established that the list of products on CEPT is approved at the annual meeting of economic ministers of ASEAN countries, and the ongoing work on the harmonization of product list is done by AFTA Council, chaired alternately by one of these ministers. Through phased expansion of the range of goods, subject to tariff liberalization, as well as Vietnam’s accession to AFTA,

lists on CEPT in the middle of 1997 included more than 42 thousand items, or about 85% intra-ASEAN turnover. From 1 January 1998 to the CEPT scheme connected Laos and Myanmar, respectively the list grew to 45 thousands items (Boytssov, 2002). Vietnam's transition to making CEPT ended in 2006, the other new members of ASEAN – in 2008. It was just plan and this plan is not completely implemented. Only ASEAN6 lowered tariffs to 0-5 %. Other members extended the term till 2015.

“Achilles heel” of AFTA was almost complete withdrawal of the scope of regional trade liberalization of agricultural production goods crossing the category of “temporary exceptions”. This list is filled with much connection to AFTA Indochinese countries and Myanmar. The liberalization of tariffs on the products of ASEAN automobile industry, related to the category of “highly sensitive” products, remained as a serious problem.

As the principal means to attract foreign direct investment, the countries of ASEAN examined the establishment of the ASEAN Investment Area (AIA). The main goal is the creation of a single capital market in the face of ASEAN. At the initial stage it is assumed to eliminate existing restrictions and liberalize legislation on investment (“ASEAN Investment Area,” 1995). All investors from ASEAN countries will have the same status as domestic companies.

Economic development of ASEAN painful blow was hit in mid-1997 by monetary and financial crisis. Under attack were the national currencies of members of “six”. Malaysian ringgit was depreciated by 40%, the Thai baht – 55%, Indonesian rupiah – 80%. Income in dollar terms fell by half. For Malaysia, for example, 40% devaluation ringgit meant a reduction in per capita income from 5 to 3 thousand dollars (Kudaibergenov, 2010). There was a reduction intra-ASEAN export from 87.2 billion US dollars in 1997 to 73.4 billion in 1998 (Vitasa and Soeprapto, 1999). There were dire predictions for the further development of AFTA. Although, theoretically, the devaluation of national currencies opened good prospects for boosting export, for higher interest rates, for bank loan and for reducing demand nullified resulting benefits. It became a widespread view that the implementation of AFTA will go retrograde direction, when in ASEAN it will dominate national selfishness and the desire to get out of the crisis through partners. In 1997 there was 40% reduction in direct foreign

investment (Mirza et al., 2003). The financial crisis, which led to the flight of bank capital, reduced production and domestic consumption and made the region less attractive to multinationals. Serious deterrent influenced on growing political instability in some ASEAN countries, especially Indonesia.

Response to the sweeping East Asia financial crisis and the emerging split in the ranks of the ASEAN was the document “ASEAN Vision-2020”, which initiated by the Malaysia summit in Kuala Lumpur in December 1997. It states that by 2020 the ASEAN become to be open to dialogue across the board, where living in peace, stability and prosperity of the harmonious union related partnership in dynamic development and humane principles of its member countries (ASEAN Vision 2020, 1997).

Deciphering this definition, the document states that South-East Asia should be a nuclear-free zone of peace, freedom and neutrality, as envisioned by the Kuala Lumpur Declaration in 1971. The Treaty of Amity and Cooperation (TAC) in 1976 should be fully code of conduct binding on governments in the region, and the ARF is strong tool for the implementation of confidence building measures and preventive diplomacy. The document states the emergence of a common regional identity, collective responsibility for issues such as the preservation of the environment, and the fight against drugs and international crime. Re-examining the role of the world ASEAN document interpreted the openness of the organization as an active part in the international life of the planet, including through the intensification of relations with dialogue partners. Thus, because of the consequences of financial crisis of 1997, the development of ASEAN in this area assumed a special character.

In order to move towards a phased implementation of the concept of “ASEAN Vision-2020” at the summit of the Association in 1998 it was adopted the Hanoi Plan of Action (1998). It suggested:

- strengthening of the macroeconomic and financial cooperation;
- closer trade and economic integration;
- progress in science and technology and information technology, the creation of a region-wide computer information network;
- progress in the social sector, particularly in overcoming the negative effects of the financial and economic crisis;



- development of human resources;
- the protection of the environment, the creation of specialized agencies of Meteorology and forest fire prevention;
- strengthening regional peace and stability, including the establishment of the Supreme Council for the Coordination of compliance with the TAC in Southeast Asia;
- promotion of extra-regional partners and other countries to accede to the Treaty with a view to its conversion to a code of conduct between the Southeast Asian countries and the outside world;
- strengthening the role of ASEAN as an effective instrument of peace, a just order and modernization in Asia Pacific and around the world;
- decent place of ASEAN in international relations; and
- improving the structure and mechanisms of ASEAN (Hanoi Plan of Action, 1998).

In practical terms, the implementation of this plan is stalled. The details of its implementation are discussed at the level of ministries and agencies of the member-states of ASEAN. The adoption of such ambitious concepts and action plan were unable to stop the emergence of some of the negative trends in the development of the Association, namely the revision of the fundamental principles of non-interference in the internal affairs of one another, and making decisions by consensus. In ASEAN it is clearly become apparent a trend to solve emerging financial and economic problems on the basis of separate decisions. In particular, in 1998 by the leaders of Thailand and the Philippines, there were calls to put into practice the concept of “flexible or limited intervention” in the affairs of the partners in the “top ten”, in which there are sources of internal destabilization. This was associated with a series of internal political crisis in the country in Southeast Asia 1996-1998 (1996 – Cambodia, 1997 – Myanmar and Malaysia, 1998 – Indonesia). The second trend was the lack of unity on how to overcome the financial crisis of 1997. While in Indonesia, the Philippines and Thailand have fully adopted recommendations of the IMF and the World Bank, Malaysia has chosen an independent course, based on the increased government regulation of financial and economic sector. Later Malaysia sharply criticized the course of Singapore to enter into separate agreements on free trade with extra-regional partners.

Leaders of Southeast Asian countries at a summit in 2003, again held in Bali, took a second Declaration of agreement (Bali Concord II), which reaffirmed the principles of the Treaty in 1976 and approved the “ASEAN Vision-2020” as a concert of Southeast Asia, which is open and living in peace, and stability and prosperity, closely related to each other in the dynamic development and the community of nations who are concerned about the welfare of their people”. This community mentioned in the second Declaration will consist of three inseparable parts: Security Community, Economic Community and Socio-Cultural Community (Bali Concord II, 2003). The expression “the concert” is not accidentally borrowed from European history in the first half of the 19th century (1815-1853), when after the defeat of Napoleonic France the leading powers of Europe at the Congress of Vienna concluded the Holy Alliance monarchies to preserving the long-term kind of international order.

ASEAN “Vision” aims the construction of a well-defined peaceful and stable international order. Long term till the completion of the “concert of states” indicates a rather realistic approach to the ASEAN Leaders to the difficulties of such an ambitious project. But the growing and increasingly complex multifaceted relations between the countries of the region and their partners outside the region suggest that the “regional concert” and the relevant international order still start steadily emerge. For a while it is still quite discordant, because there is no country-conductor or the dominant group of soloist-states. All “concerts”, based in the past on poorly transparent personal diplomacy leaders, had its limits. They generally ignored the interests of small states, often focused on narrow conceptions of national interests and security, and there were short-lived. Such structures are closed, designed exclusively for state actors and serve their interests. Taking into account this experience, the leaders of ASEAN in recent years, especially attach great importance to informing about the activities of the working bodies of the Association of Public and civil society in their countries, and they are taking measures to involve in it the business communities and numerous non-governmental organizations (NGOs), expert and academic communities, youth and students. That is the emergence of the scientific literature and mass media concept of “enlightened regionalism” in relation to the integration process and the persistent search of a common regional identity in the ASEAN countries.

Interdependence, common historical destiny, the presence of undoubted, for all religious and ethnic diversity of Southeast Asia and the cultural community are the factors in encouraging states to converge Association and involving in the process of regional integration. But at the turn of the century, ASEAN has come under strong pressure differences between “old” and “new” regionalism. The “old” regionalism is regarded as a product of the Cold War, aimed exclusively introverted, which isolated from external influences and to create government for the sake of special economic or military-political security purposes. On the contrary, the “new” regionalism is open outward and it excludes no one and is functionally multilateral. In a “new” regionalism the transnational relations are established with other international organizations or groups of states, which gives it a complex and multi-layered character. The “new” regionalism is a product demanded both by states and non-state actors, such as business groups and NGOs, whose interests go beyond national borders (Jones, 2011). Here it can be seen an obvious reference to the model of regionalization, which is offered by China to its neighbors in ASEAN, of which more will be discussed in a separate section of this study. There is a question about the sequence of this approach and of the limits of the notion “openness” that whether it includes the entire states of “Greater East Asia”, all APR or already limited established format of ASEAN+3. In this sense, the origin of ASEAN and the limited list of participants really fit their perception of the past as an example of the “old” regionalism in the context of South-East Asia. But it was in the past era. End of the Cold War gave rise to new expectations of regionalism and led to its spread to other areas of activity, especially on the economy, which forced the leaders of ASEAN to reorient the organization to broader economic challenges and to expand its activities by engaging the business community and civil society institutions. But along the way ASEAN faces with new challenges, which give rise to many problems and difficulties. With the expansion there were difficulties in achieving consensus in addressing operational issues in critical situations. Decision-making process, based on consensus, was a long and not always effective. All this caused a growing wave of criticism in most ASEAN countries, especially during and after the crisis of 1997.

New features imparted to ASEAN, which began to adapt to the economic needs of the member-states, have raised hopes that the economy will be the solid foundation of regionalism in Southeast Asia. But the economy does not recognize regional loyalties

and often does not justify those hopes, as the individual ASEAN countries, especially from the first (more wealthy) “six”, there are intentions to develop economic relations outside of ASEAN without waiting for other states in the region.

Among the difficulties in analyzing the prospects of ASEAN in the near future, it tends to call the following problems:

- adaptation of the last members of ASEAN (countries of Indochina, Myanmar) and the leveling of market-based economy with a different share of state intervention;
- contradiction between maintaining the current status of ASEAN as an intergovernmental association, based on the principles of consensus and mutual consultation, and promote the organization with supranational governing bodies on the example of the European Union;
- the question of national authenticity of Indonesia (unitary or federal system, the prospect of the collapse and ethnic conflict following the example of the former Yugoslavia);
- territorial and border disputes within ASEAN (Malaysia - Singapore, Malaysia - Philippines, Malaysia - Indonesia);
- issues related to the inclusion of the ASEAN countries in the globalization process such as the reform of power structures, overcoming the negative socio-economic impacts;
- the prospect of the absorption of ASEAN by creating a broader East Asian Economic Community (ASEAN, China, Japan, Republic of Korea) (Kudaibergenov, 2010).

All these factors weaken the process of regional integration within ASEAN and make it a much more amorphous organization than the EU or NAFTA. However, the general geographic location, similar historical destiny and common ideology of nationalism stimulate convergence of ASEAN.

As it is seen today there are two parallel processes in Southeast Asia. The first of them is to strengthen regional cooperation, and another one is the inclusion of the ASEAN countries in the process of economic globalization. Interweaving of these two conflicting trends underlie discussions about the future development of ASEAN. And in the next chapter it will be examined ASEAN and APEC relations, are they really competitors or partners?

#### **4.2. ARE ASEAN AND APEC PARTNERS OR COMPETITORS?**

A major challenge for the future of the existence of ASEAN was the formation of the Asia-Pacific Economic Cooperation. APEC is a relatively young organization, established in 1989 under the then dominated world slogan of trade liberalization. It brought together the most economically powerful countries – the USA, China and Japan – with the dynamically developing countries of East and Southeast Asia, adding to them a dozen countries on the shores of the Pacific Ocean. It was also taken India and Russia. Currently APEC covers 21 “economy” (“APEC Member Economies,” 2010). Just this determination makes it possible to avoid political controversy, as some events of the forum it is involved not only China, but Taiwan in order to avoid infringement of the principle of “one China”, Taiwan performs under the name “Chinese Taipei”.

APEC was at that time a new form of economic cooperation in trade and investment liberalization, combining some of the features integrated union, while remaining a place of meetings and discussion club of the leaders of the countries of giant region (Potapov, 2006). It was created on the basis of a consultation mechanism on the principles of open regionalism without any discrimination. Some of its features are strongly reminiscent of the characteristic features of ASEAN, namely: trade liberalization on a “WTO-plus” in accordance with current regulations of the World Trade Organization, transparency and consensus in decision making, mutual respect and equality. In 1994 in Bogor (Indonesia), the USA managed to achieve the adoption of its proposals for the liberalization of trade: to establish a system of free trade and investment for the economic development of the region for developed countries by 2010, and for developing countries – by 2020 (Bogor Declaration, 1994). Later ASEAN still managed to make sure that these terms do not become mandatory, and many of the ASEAN countries were slow to the implementation of the Bogor Declaration.

In accordance with the APEC, each country determined for itself the time and procedure to achieve the stated goals, taking into account their own economic situation. This process due to objective reasons is even more complex and contradictory than the process of integration in ASEAN. In reality, APEC has not become an integrated economic organization, but serves primarily as a discussion forum. Over time, subjects of APEC moved beyond purely economic and trade ties. Since 2001, the summits of the

organization are accepted the policy documents: the Declaration on terrorism, an epidemic control plans and other general statements. Each summit is also a series of bilateral meetings on international issues and relationships between particular countries (*APEC Leaders' Statement, 2002*).

With the establishment of the APEC, top five ASEAN countries at that time was faced with the choice to join or not join to it. It was necessary to strike a balance between intra- and extra-regional development, and with the expansion of the European Economic Community (EEC) and the plans of creation NAFTA were threatened the protectionist environment of Southeast Asia. Dependence on foreign (especially American) investment required to take steps to retain them in the region and to prevent the relocation. Participation of ASEAN in APEC largely motivated dependence of the economy of the region and the need for a stabilizing USA presence. For the Association this is a means to ensure the continued presence of the USA in Asia and at the same time to seek the opening of USA markets to Southeast Asia. Interest is mutual with taking into account the constant pressure of the United States in the liberalization of trade in the region.

APEC announces itself strictly apolitical organization, where each Party shall be guided primarily by self-interest, freedom of action and independence, and its economic priorities. As a result, ASEAN has always opposed any proposal that aims to make APEC more powers to the detriment of the members of the Association. However formation of APEC in the early 1990s gave rise to accelerate sub-regional integration in ASEAN itself.

There were serious concerns that APEC will absorb ASEAN, and the interests of the economically developed nations suppress the interests of developing countries, which will lead to a polarization on a "North-South" and ASEAN will simply be pushed out more ambitious projects of APEC. However, a more pragmatic approach prevailed from the perspective of global and long-term interests of the region. ASEAN countries have recognized that there is a growing interdependence of the rising economy of the Asia-Pacific region is the need for more structured cooperation within this vast region. One should not preclude the other. On the contrary, it should contribute to the prevention of conflicts and political tensions. In order to protect their interests, ASEAN countries

have insisted that APEC was established as an informal consultative forum with no institutions. So the style and methods of work of the two organizations are similar, but the difference in the approach to economic cooperation of the two shores of the ocean is the main source of problems in APEC.

APEC vision in ASEAN soon after the forum has come into conflict with the US vision. United States from the very beginning gave absolute priority for trade and investment liberalization. Their efforts have caused resentment and resistance of ASEAN, especially Malaysia. In 1997, the ASEAN countries have seen that in the crisis, but they did not rely on the USA and established mechanisms of mutual assistance and financial cooperation (Nanto, 1998). While the relations with the USA in the economic sphere are still not simple, APEC is considered useful for the ASEAN countries, helping to maintain the economic and military presence in the region and being a degree of protection from NAFTA, which is trying to monopolize the USA financial flows. ASEAN leaders gradually learn to control what is happening in APEC, despite attempts by the more affluent members institutionalize this forum.

The current state of APEC as an amorphous structure with multi-level mechanism for intergovernmental consultations on economic cooperation is quite satisfied with the ASEAN countries. The creation of free trade zone of goods and services, free movement of capital and labor in a whole Pacific region is seen as the very problematic. However, the evolution of these processes in the region suggests the possible formation of a giant in the future FTA with the elements of the common market, i.e. the first stage of regional economic integration in accordance with generally accepted classification. Thus, at the summit in Hanoi in 2006, the process of formation of the free trade area of the Asia Pacific region (FTAAP) was started. In any case, the heads of state agreed to “seriously consider” the matter and instructed their governments to “undertake further exploration of ways and means to promote this initiative”. Considering that the APEC represents more than half of the world economy and trade, the plan is superior in size anything ever offered in the GATT and the WTO. It is considered as the most suitable alternative in case the final collapse of the Doha Round in the WTO (Sugawara, 2007). It is significant that Tokyo does not object to this American idea. They have the willing to assume the Economic Partnership Agreement with the ASEAN countries as a kind of preparation for the creation of a free trade area in the entire Asia Pacific region.

China stands for the exact opposite position, actively promoting the creation of a free trade area in the first ASEAN+3, and then perhaps, an East Asian community of 16 states. Also in this position, China is readily apparent desire to share with the USA sphere of influence in the Asia-Pacific region through the “East-West”. Russia has its own views on APEC related to its membership in the Asia-Pacific region. During the forum, it serves to uphold the principles of equitable multilateral cooperation in international affairs and to ensure its own national interests in regional integration processes, including the prospects for economic development in Siberia and the Far East.

In case of signing a free trade agreement in APR, APEC will lose its characteristic features – the lack of a binding legal instrument, but a new quality – it will be a trade union. Because of the involvement in APEC 21 “economy”, including the USA, Japan, China, India and Russia, it will be the world’s largest free trade zone. The only question is its own willingness to do so.

ASEAN Summit and subsequent meetings with dialogue partners are becoming increasingly redundant APEC forum. After all, both organizations have about the same agenda – the issues of trade and economic policy and security, climate change and environmental protection, transnational crime, and so both have a significant number of participants in general, which in principle should not prevent the development of a parallel or competing programs or concepts.

Uncertainty, the ongoing chaos in the markets led to the need for a radical revision of the management of the global economic system, to understand the importance of concerted efforts to create adequate framework economic management and regional integration, which will prevent future crises like break out in 2008. In general it can be said that the initiative of APEC was choked. Integration processes in the giant Pacific region after a short zigzag toward the extensive expansion are back in the regional channel.



### **4.3. ASEAN'S ROLE IN CREATING OF EAST ASIAN COMMUNITY**

#### **4.3.1. Formation of the EAC Concept**

Global and regional problems are pushing the region toward economic integration. By this way, their elites expect to strengthen their position in a rapidly changing world and to protect the economy from financial shocks. Therefore, the East Asian Community, which included a free trade zone and the Asian Monetary Fund, is not taking place today, but under certain conditions it is quite real.

The expert community with the support of the governments of the region for several years actively has been developing a comprehensive plan for economic partnership with the aim of creating a free trade area in East Asia. So, 10-15 years ago considered as utopian concept of an East Asian Community is gradually becoming “widespread” idea in expert and political circles of East Asia. Especially the transformation and globalization of Chinese economy contributed to this.

The idea of the EAC is not new. A successful example of the EEC in the postwar years always attracted the attention of many Asian politicians. The desire for Asian integration was growing year by year. In 1980s, the then Prime Minister of Malaysia, Mahathir Mohamad, has put forward a proposal to create a regional grouping called the “East Asian Economic Group” within the ASEAN6, China, Japan and Republic of Korea (“ASEAN Plus 3,” 2003). They were to be the initiators of the future integration in Asia. The proposal has not been implemented because of objections by the United States and Japan, who saw in it only the opposition to APEC, which newly formed at that time.

Broke out in the 1997 Asian financial crisis has pushed the East Asian countries to strengthen regional cooperation and integration in East Asia was resumed. It all started with a meeting of leaders of 13 countries at the ASEAN summit in Kuala Lumpur in November 1997, by the initiative of Malaysia, which sought to create the East Asian economic and trade bloc, which would level the position of the countries of the region with such regional groupings such as the EU, APEC and NAFTA. Since then, the

Summits ASEAN+3 became regular and until recently, held annually after the ASEAN summit (“ASEAN Plus Three Cooperation,” 2012).

At the beginning of the new century, the initiative in this matter is fully intercepted by China. In the discussions of leaders of ASEAN and ASEAN+3 there was arisen the idea to hold the East Asian Summit, inviting more of the three countries – India, Australia and New Zealand. At that time, after the worst consequences of the crisis in 1997 ASEAN leaders, also came to the conclusion that without close cooperation with the major Asian economies, including the establishment of free trade areas with them, the Association will not be able to realize their goals. In 2000, at the ASEAN+3 Summit, at the suggestion of the South Korean president Kim Dae-jung was established East Asian working group of experts and prominent figures from 13 countries to develop a conceptual “Vision” of the EAC and the preparation of the first East Asian Summit (Stubbs, 2002). Later, in 2002, in Phnom Penh it was created the EAC Council of entrepreneurship. Together with this a general network of electronic communications was encountered and a number of other measures for strengthening the integration of ASEAN+3 were adopted. The research team for several years has been developing specific proposals that addressed political, economic and social issues. Many of them were adopted by leaders of ASEAN+3 and formed the basis of specific programs to build community.

In December 2005 in Kuala Lumpur, there was the first East Asia Summit in the format ASEAN+3 with inviting the heads of states of India, Australia, New Zealand. After this the work on a project of building an East Asian Community was begun. The 55 % of population of our planet live in these EAC countries, and it consists 55 % of World GDP (“East Asia Summit,” 2012). This integration can only make the common market. In this case, unlike the EU the proponents of EAC consider that in Asia there is no need for common military and political strategy.

The coordinating mechanism of its creation was decided to make the East Asian Summit, which had to be met each year after the summits of ASEAN, ASEAN+1 and ASEAN+3. The final declaration of the first EAS stated:

We are creating the East Asia Summit in the format ASEAN+6 for discussing issues of common interest in the political and economic issues in

order to maintain peace, stability and economic prosperity in East Asia, with the openness and transparency of the outside, with the support generally accepted norms of international law and common values and with ASEAN as the driving force working in partnership with all other members of the community (*Kuala Lumpur Declaration, 2005*).

Despite another escalation in this period, relations between China and South Korea with Japan, ASEAN countries and their northern partners have agreed that the future of the community will be based on the basis of the integration group ASEAN+3. This is mainly due to the fact that by this time the union of the ASEAN+3 actually already happened (Tongzon, 2004).

The decision of transforming the ASEAN+3 as the basis of the future East Asian Community was a success of China and the failure to India, whose government was counting on a more prominent role in the process of Asian integration. Delhi was enthusiastic about its participation in the East Asia Summit and even called for the signing the contract on free trade between the parties, but the partners preferred to start a narrower integration scheme.

It is known that the first summit was preceded by lengthy debate over the membership. China from the beginning wanted to limit by 13 countries (ASEAN+3), while Japan had insisted on inviting Australia, New Zealand and India. According to Japan, with such a structure the summit and the future of EAC would be less dependent on China. Invitation of Australia, which is closely associated with the United States, could also alleviate the dissatisfaction of Washington. After the several times, in 2011 the USA itself and Russia were invited to East Asian Summit as permanent members.

The common position of ten ASEAN countries played the decisive role by this time, which insisted on inviting India despite the strong pressure of China, and many of them were also in support of Australia and New Zealand. This once again shows how the leaders of ASEAN countries fear and seek to avoid the possible bias of the regional strategic balance in China's favor. Policy of balancing between the big players and the use of the contradictions between them are necessary to implement the strategic policy of "ASEAN-centric" integration in East Asia, which allows to defend its interests in various integration formats. To secure a leadership role, ASEAN decided not to hold the

first summit of EAC in Beijing as China had wanted, but insisted that summit and all subsequent summits of EAC will be in ASEAN countries.

The fact, that none of the members of the new club did not want the USA presence, meant that USA is “intended” another part of the Asia-Pacific region and tribune of APEC. The USA response to this was initially negative. Then US Secretary of State Condoleezza Rice long before the summit in Kuala Lumpur (in February 2005) has expressed her concern over the formation of a “closed” and “introverted” grouping of Eastern Asia (“Battles Around New Asia Summit,” 2005).

It was assumed that at the next summit Russia would join to 16 countries, which President Vladimir Putin was at the summit of EAC in Kuala Lumpur as a guest of the Prime Minister of Malaysia, and expressed a desire to be a member of EAC (“East Asia Summit,” 2005). However, this did not happen for a number of reasons such as Russian insufficient integrating in regional processes.

East Asian Community is in its infancy, and the process is designed for many years. The first summit of EAC was very brief. It decided to start practical training to community-building, and its mechanism will be the annual summits of ASEAN+6. EAC summits have their own agenda and include questions that cannot be solved without the participation of the other three countries – India, Australia and New Zealand. There are environmental issues and energy security, counter-terrorism, struggle against piracy, transnational crime and other “non-traditional” challenges, which are now in the focus of all the countries of the region. Some observers have speculated that these summits are needed to China as a counterweight to the summits of the “G8”, as evidenced by the saturation of the agenda such urgent global issues such as energy security, climate change, etc. There is not presence Taiwan in EAC summits in contrast to the APEC summits.

For developing the concept and the Charter of the EAC there was established a broad working group of experts. At the summits there was not provided observer status, but there were worked out three clear conditions for possible future participants: *accession to the Treaty of Amity and Cooperation (1976)*, *participation in the dialogue partnership with ASEAN* and *substantial participation in the economic cooperation in the region*. The first condition concerns USA that did not want to sign this agreement.

The second for a certain time became an obstacle to Russia, North Korea and Mongolia, which the geographical belonging to East Asia is not disputed.

The question of the boundaries of the future community is still open. The accepted definition of East Asia in this case is clearly politically motivated and has little to do with the true geography of the region, which is under the East Asia implies firstly, the North-East Asia, including China, Japan, Republic of Korea, and Russia, North Korea and Mongolia, secondly, the South-East Asia, which consists of the ten ASEAN countries. Thus, at the first Summit of EAC were not all the countries of East Asia, but there were states of South Asia and Oceania. But even invited to the annual summits India, Australia and New Zealand for a while do not actually have a more specific location in this community. They are involved in economic cooperation, but not in the geopolitical structure. The fundamental solutions are developed first in ASEAN and in ASEAN+3. China considered the first summit of the EAC and all subsequent summits as the dialogue between ASEAN+3, on the one party, and India, Australia and New Zealand – on the other party.

Estimates of the solutions of Summit in 2005 in Kuala Lumpur in the global community of experts and the media had been different, but there were dominated skeptical predictions about the EAC future. However, there were those who pointed out the importance of this event and offered to take it seriously. For example, commenting on the results of the first summit, the Prime Minister of Singapore Lee Hsien Loong stated:

You do not always get the bright fireworks, big decisions and big changes in policy, but step by step, at every meeting you treat the soil, retain its fertility, maintaining relationships and dealing with the problems before they stand in front of you with the utmost seriousness (*Speech by Lee Hsien Loong, 2005*).

The next summit in the same format as the ASEAN+6 held on the island of Cebu (Philippines) January 15, 2007 and started discussing the specific problems of the region. It was said in a declaration adopted by the EAC:

We welcomed ASEAN's efforts towards further integration and the creation of the Community and reaffirmed our determination to work together to narrowing the development gap in the region. We reaffirmed our support for

the role of ASEAN as the driving force of economic integration in the region. In order to deepen integration, we have decided to launch a broad discussion on the “second track” (non-governmental) of the Comprehensive Economic Partnership in East Asia (*Cebu Declaration, 2007*).

Following East Asian Summits was concerning various spheres of issues, exactly an on climate change, socio-economic development, financial crisis and enhance energy efficiency. The sixth East Asia Summit held in Bali in 2011. It was already attended by 18 countries – ASEAN-10, Japan, China, South Korea, Australia, New Zealand, India, and also the Russian Federation and the United States, which became a full member in 2011. Under the 6<sup>th</sup> summit the focus was made on four issues: strengthening regional integration processes, ensure food and energy security, the joint struggle with the consequences of natural disasters and the maintenance of peace, security and stability in the region. Following the meeting it was adopted two declarations on the connectivity and on the principles of mutual relations in the region (Wihardja, 2011).

China and ASEAN countries have suggested the idea of transport and energy connectivity in the region. It was based on the Master Plan on ASEAN connectivity, adopted in 2010. It was considered the creation of regional infrastructure to improve transport and energy connectivity of countries. In particular, they discussed the implementation of one of the priority investment projects – the construction of the railway Singapore-Kunming in southwest China, and later in East Java (Surabaya) (*Master Plan on ASEAN Connectivity, 2012*). There is an effective example in the world – the formation of a similar system of connections in the European Union in the framework of the trans-European networks. According to the adopted at the 6th Summit of EAC Declaration on connectivity the solution to this problem within the framework of ASEAN will be the first step towards the achievement of a region-wide connectivity. To do this the mobility of resources and exchange of information must be increased and the investment projects must be developed in three dimensions: physical, institutional and human. Special role will be assigned on public-private partnerships and on attracting financial resources, as well as from the international financial institutions and from new and innovative sources (*Declaration on ASEAN Connectivity, 2011*). For the future it is planned to develop a master plan for connectivity of ASEAN and its partners in the East Asian Summit.

In another declaration, adopted at the 6th EAC summit – the Declaration on the principles of mutual relations in East Asia – identified 12 principles, including the principle of respect for international law, and enhance mutual understanding, trust and friendship, peace, stability, security and prosperity in the region, enhance the stability of the region in terms of economic crises and natural disasters (*Declaration on the Principles for Mutually Beneficial Relations*, 2011).

Several models of the formation of EAC has developed, but make a specific decision at that summit as in previous was failed. The question was only discussed, although previously it was decided to conduct a study on the feasibility of EAEC and ASEAN recommendation on accelerating the creation of the ASEAN Community by 2015. De facto the most proactive position concerning EAEC takes ASEAN, in which the Community is formed. Just ASEAN has free trade agreement with six major trading partners in EAC (except the United States and Russia – the new members of the summit).

The basis of the final declaration of 7th East Asian Summit was based on the Chinese initiative for a balanced, inclusive and sustainable development, enhance policy coordination and cooperation in the fields of finance, energy, education, disaster management, health and interdependence (“The Seventh EAS concluded,” 2012). It was confirmed the support for leadership of ASEAN in East Asia. EAC countries urged ASEAN members to reduce the gap in levels of economic development in order to complete the formation of the ASEAN Community by the end of 2015. To do this, it was recommended to expand amount of official development aid to the less developed member countries. The focus of the summit was devoted to trade. It was agreed to start negotiations on the conclusion of Regional Comprehensive Economic Partnership by the 16 states with a combined consumer market of more than 3 billion people and a combined GDP of \$ 19.78 trillion (“Trade Take Center Stage at ASEAN,” 2012).

During the 7th East Asia Summit (November 20, 2012) there was announced tripartite talks between the three countries in Northeast Asia (Japan, China and Republic of Korea) on the signing of a free trade area Agreement (Szcudlik-Tatar, 2013), which will eventually form a large domestic market with a volume of 20% of the world’s GDP and 40% of global trade (Torres, 2013).

Concept (“Vision”) of EAC was first succinctly stated in the report of the expert group of the fifth summit of the leaders of ASEAN+3 in Brunei in 2001 as “the transformation of East Asian countries from the country-region into the real regional community with shared challenges and threats, with the common aspirations and parallel destinies” (Jae-Seung, 2004). The report cited a variety of reasons for this transformation, the principal of which were three:

- 1) the establishment of a regional (institutional) identity due to the fact that other regions (Europe, North and South America) have already formed or are actively shaping their device;
- 2) to strengthen the weight of Asia in solving regional and global problems due to its increasing role in international development; and
- 3) to promote regional peace and prosperity through cooperation, taking into account its own internal dynamics of the region (Jae-Seung, 2004).

The term “community” is pretty vague by all statements of the EAC creators. For example, released in 2008 in Japan Center for International Exchange collection of articles on the prospects of creating an East Asian Community, it is said that Communities are a group of states that actively interact, and have the similar interests and common historical destiny (Wanandi, 2008).

East Asian integration actually is not about creating a kind of regional superstructure in the European style, and about the process of building what appears to be as a community, on the principle of “the aim is nothing , the movement is everything”. Thus, the obvious is the same approach that is applied to the construction of the ASEAN community itself. In general, East Asia has developed a kind of “division of labor” between the three institutional structures – the East Asia Summit (whose priorities are trade and investment issues), the ASEAN+3 dialogue mechanisms (financial and regional issues) and ASEAN (the development of regional infrastructure).

#### **4.3.2. ASEAN and East Asian Regional Integration**

Countries of the Association with signing in November 2007 in Singapore the ASEAN Charter showed what kind of community they prefer to have in East Asia. Emphasizing



the complementary nature of the processes of creation of ASEAN Community, ASEAN+3 and EAS, the ASEAN leaders have confirmed the orientation of the second format as the main one in the present.

Half a century of experience in the EU shows that the success of the integration needs leaders as France and Germany were for the EU. International relations in the region are very complex. The role of the leader has got to ASEAN for a long time, according to most analysts of different countries, because it is the most viable option for everyone (Huisken, 2008). However, there are other views of experts who believe that ASEAN itself has too many problems hindering carry out this mission, and it will likely be determined by the development of relations between China and Japan. As long as everyone agrees to the role of ASEAN as it is the core of regional integration.

One way or another, but the building of the EAC was initiated on behalf of ASEAN and developed under its notable influence. In fact, if the ASEAN countries did not take on this role, the process would have been completely impossible. ASEAN members have always been interested in the development of a broader dialogue on cooperation in East Asia. Characteristically, at this moment the strategy on how ASEAN integration in East Asia is to develop a system of bilateral agreements on the establishment of the FTA on the so-called umbrella scheme around ASEAN as the center, on the basis of which should be build the future of the East Asian Community. The prototype of EAC – ASEAN+3 is not a formalized organization, but a form of cooperation framework, based on dialogue, which is done at the same time in different structures such as among the 10 ASEAN members, among 13 countries with China, Japan and South Korea; between ASEAN and the three Northeast Asian countries separately in the format ASEAN+1 (which enabled China, Japan and South Korea to establish special relations with ASEAN) and also among the three Northeast Asian countries, which held their first trilateral summit in 1999. The process does not confine by the summits of leaders. It entailed regular meetings at the level of ministers, their deputies and senior officials meetings in various fields of cooperation. At present the cooperation is carried out in 18 areas. One of the most important elements of this is the support and development of regional financial cooperation, which included the establishment of the Asian bond funds aiming to raise capital for investment, as well as a number of bilateral and

multilateral currency swap agreement aimed at preventing a repeat of the financial crisis.

The growing economic interdependence between the ASEAN countries and the countries of the “plus 3” makes them look for higher forms of integration through the creation of an FTA with each of these three states. In this regard, there is growing interest for the establishment of a FTA in East Asia as a whole (EAFTA). This project is in its stages of study by experts and government officials of ASEAN+3 (*Report by Joint Expert Group, 2006*). Such a position of ASEAN can be explained by the fact that all three dialogue partners of ASEAN in Southeast Asia already have close economic ties with this region and are providing considerable assistance to it and have a great investment.

The structure of the interaction of “ASEAN+3” has already passed some way towards economic integration. According to the Asian Development Bank in the total foreign trade of the ASEAN+3 trade share between themselves is more than 54% of their total foreign trade turnover (“Chinese-ASEAN Trade,” 2011). This high performance is equal to the EU countries on the eve of the Maastricht Treaty. Directly in the trade between the countries of Southeast Asia, this performance is remaining at the level of 20-25 % for the past many years (ASEAN Chartbook, 2013).

ASEAN+3 took a second Joint Statement on Cooperation in East Asia, which sets out the practical and strategic vision for the next decade. State leaders have confirmed that the ASEAN+3 will continue to be the main driving force leading to the long-term goal of building an East Asian Community with ASEAN as its core.

In October 2008, China, Japan and the Republic of Korea decided to create their own regional financial controller outside of the “G8” – a kind of analogue of the “G8” Financial Stability Forum, which was formed in 1999 (“China–Japan–South Korea trilateral summit,” 2009). The task of the new body is to monitor regional financial institutions, to increase their transparency and to tighten the rules for their functioning. ASEAN countries agreed to extend the work of the new financial regulator on ASEAN, although its findings and proposals will have only a recommendation to the governments of these countries. Also, ASEAN+3 is paying a special attention in recent years on cooperation of two interrelated areas: food and energy security. In particular, it

was decided to accelerate the creation of a reserve stock of rice for ASEAN+3 for emergency contingency (APTERR) (Trethewie, 2013) and signed an agreement on oil security (ASEAN Petroleum Security Agreement – APSA) for a period of 10 years (Youngho and Koh, 2009).

If talking about trade relations in detail, I calculated the share of growth of Northeast Asian countries (China, Japan and South Korea) in ASEAN foreign trade in 2009 and 2012. Comparing the statistics of 2009 with 2012 it is seen that the ASEAN countries increased their exports to the «plus 3» from 194 billion to 322,8 billion dollars, i.e. by 66,4 %. At the same time import is grown from China, Japan and South Korea to ASEAN countries, which grew by 76,9%, reaching a total volume of 219,9 billion to 389,1 billion dollars in the whole volume of trade within the ASEAN+3 reached 711,9 billion dollars, which is 71,9 % more than in 2009 (*ASEAN Statistical Yearbook*, 2010; *ASEAN Statistics*, 2013). These statistics are also shown on these Tables:

**Table 1.2 ASEAN Exports and Imports by Trading Partner, 2009**

(value in USD million; share in percent)

Countries	Export	Import	Total	
	Value	Value	Value	Share (%)
China	81.591	96.594	178.185	11.6
Japan	78.069	82.795	160.864	10.5
Republic of Korea	34.293	40.447	74.740	4.9
Total	193.953	219.836	413.789	27

Source: ASEAN Trade Statistics Database

**Table 1.3 ASEAN Exports and Imports by Trading Partner, 2012**

(value in USD million; share in percent)

Countries	Export		Import		Total	
	Value	Share (%)	Value	Share (%)	Value	Share (%)
China	141.554	11.3	177.01	14.5	318.564	12.9
Japan	126.305	10.1	136.12	11.2	262.425	10.65
Republic of Korea	54.993	4.4	76.01	6.2	131.003	5.3
Total	322.852	25.8	389.140	31.9	711.992	28.85

Source: ASEAN Merchandise Trade Statistics Database, as of July 2013

It is also compared the trade statistics of Northeast Asian countries (China, Japan, South Korea) with European Union. As these following tables and figures show the share of these countries is more in ASEAN than EU. In trade with EU it is noticeable that the trade rate is declining from 2009 to 2012. Total trade share in 2009 was 19,05 % and in 2012 it was 18,25 %. On the contrary, total trade share in ASEAN is increasing from 27 % in 2009 to 28,9 % in 2012. This argument states that ASEAN plays more important role in “plus 3” countries’ foreign policy.

**Table 1.4 EU Trade with main partners, 2009**

(value in USD million; share in percent)

Countries	Export		Import		Total	
	Value	Share (%)	Value	Share (%)	Value	Share (%)
China	117.22	7.5	281.39	17.9	398.61	12.7
Japan	51.57	3.3	80.16	4.7	131.73	4
Republic of Korea	30.89	2.0	46.11	2.7	77	2.35
Total	199.68	12.8	407.66	25.3	607.34	19.05

Source: IMF, EUROSTAT-COMEXT (EU)

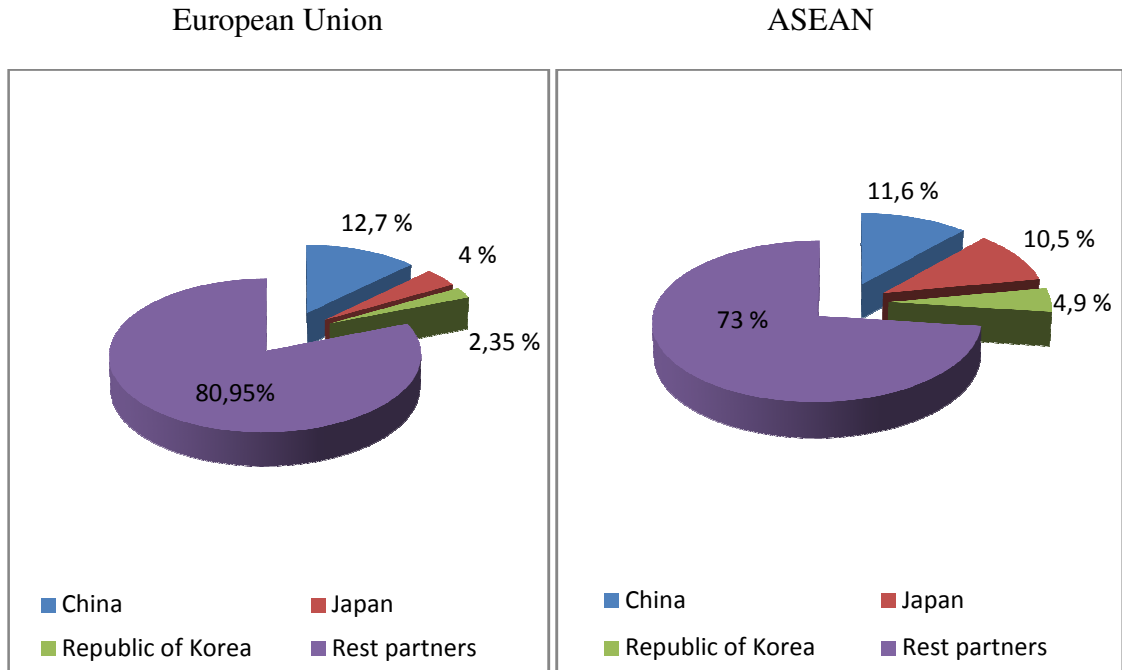
**Table 1.5 EU Trade with main partners, 2012**

(value in USD million; share in percent)

Countries	Export		Import		Total	
	Value	Share (%)	Value	Share (%)	Value	Share (%)
China	188.48	8.5	379.79	16.2	568.27	12.35
Japan	72.69	3.3	83.60	3.6	156.29	3.45
Republic of Korea	49.47	2.2	49.60	2.1	99.07	2.15
Total	310.64	14	512.99	21.9	823.63	17.95

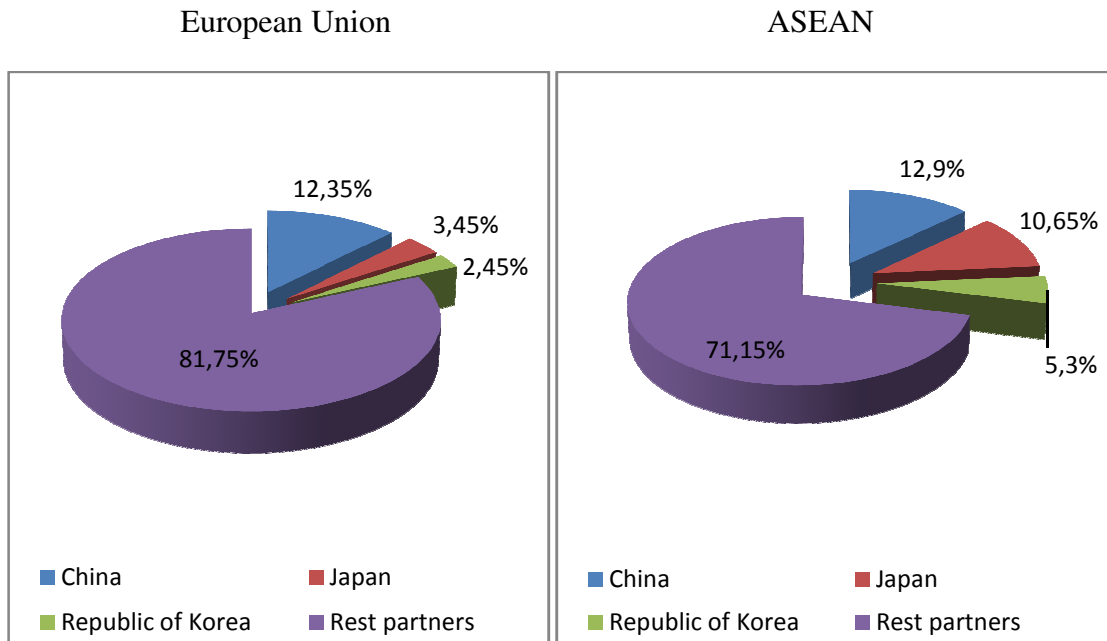
Source: IMF, EUROSTAT-COMEXT (EU)

**Figure 1.2: Share of trade of China, Japan and Republic of Korea with regional organizations, 2009**



Source: IMF, EUROSTAT-COMEXT (EU), ASEAN Merchandise Trade Statistics Database

**Figure 1.3: Share of trade of China, Japan and Republic of Korea with regional organizations, 2012**



Source: IMF, EUROSTAT-COMEXT (EU), ASEAN Merchandise Trade Statistics Database

Today, ways of development of EAC so far are still unclear. It is too big internal contradictions and little trust in each other. Therefore, many ASEAN countries, being careful sit on the fence on the various construction projects of EAC. Their common concern is the fact that cooperation in the process of the EAC should not undermine the ASEAN community, but rather should complement and strengthen it. At the current rate at the conclusion of many bilateral trade agreements on the establishment of FTA and agreements on investment with its dialogue partners in the ASEAN+1 there is a risk of collapse of ASEAN itself, or the actual absorption of it by more powerful union – ASEAN+3, which is increasingly positioning itself as the East Asian Community.

#### **4.3.3. East Asian Community and the Chinese Factor**

For China, the creation of free trade area with ASEAN and moving towards building of EAC motivates economically and strategically. Faced with the uncertainty and changes in US policy since 9/11, China launched a broad diplomatic offensive to improve relations with its southern neighbors, including through the ASEAN+3. Based on this the new regionalism as a precautionary measure, China has actively opposed the potential consequences of unpredictable policy of unilateralism pursued by the USA in the region. It is important to note that this course on the East Asian integration was not an attempt to create some common anti-American front. Many ASEAN countries, as well as Japan and South Korea, are actively involved in this process with pursuing their own goals and interests.

In the academic and non-governmental circles in China there have been a variety of views on ways of integration in East Asia. Initially there was dominated the integration projects within only Northeast Asia through the construction of the axis of “Beijing–Tokyo”. But soon because of another escalation of the Sino-Japanese relations, the idea had to be abandoned at least for some time. Chinese strategy developers have come to the conclusion that the PRC will be easier to start a business with ASEAN, and the creation of a free trade zone of China-ASEAN will cause a chain reaction in the form of a series of bilateral agreements in the ASEAN+1 and gradually lead to a single free trade area across East Asia. The reaction was indeed just that. The key to China consisted in the fact that ASEAN was politically independent association of more than

USA allies as South Korea and Japan. ASEAN posed no threat to China. ASEAN countries have taken a clear stance on the Taiwan issue by adhering to the principle of “one China”. Preserving and strengthening of ASEAN as a whole is in the interests of China, despite differences on territorial issues in the South China Sea (Charyarov, 2008).

Ultimately, the expert community of China prevailed the view that a possible future of EAC in economic terms will develop the several free trade zones in the ASEAN+1 format. China-ASEAN Free trade area was formed in 2010. This should make it a centripetal force of all Asian integration. In the future, it will merge into a single free trade area in the ASEAN+3 and later other East Asian countries will join it as they become ready. These were the recommendations of the expert group, who developed “EAC concept” (East Asia Vision) on behalf of the ASEAN+3 Summit. That is the way they proposed to create a free trade zone of East Asia (EAFTA). East Asia Summit will implement a phased monetary integration and the creation of regional institutions and in the final stages of moving towards an East Asian community by the model of the EEC (Kudaibergenov, 2010).

China’s economy, which was long period growing by about 10 % per year, has become an important driver of economic growth for many countries in Southeast Asia. And not just because of the active procurement of raw materials and energy by Beijing, but also because the Chinese business following the western increasingly resorted to outsourcing, i.e. producing components abroad, in Southeast Asian countries, where labor is cheaper or have any something other advantages. In Southeast Asia there has strengthened the hope of the arrival of China’s capital and the fact that investors from other countries are interested in industries that are involved in the trade and economic relations with China (Soesastro, 2006). In other words, to solve the problem of calculating the development of ASEAN intends to “pick up their carriage to the Chinese locomotive”, because it has already gained a decent speed.

The Chinese leadership has finally identified the format ASEAN+3 as the real and the nearest direction of their efforts, which is believed in Beijing due to the interests of the countries of East Asia more than the ASEAN+3+3 format (India, Australia, New Zealand), where there is much more contradictions and differences. At the same time it

supports the continuation of EAC summit to discuss common problems and long-term objectives of regional cooperation.

Chinese developers of the concept of EAC from the beginning proceeded from the fact that EAC will not only deal with economic problems, but it will also create mechanisms for regional security. Initially, the role was given to the annual summits of EAC. In the distant future, there was even offered to create an “East Asian Security Committee”, which will be consulting and security dialogue and gradually turn into a mechanism for cooperation in this area. First of all, it was a question of cooperation in non-traditional security issues, which should not lead to the elimination of the Japan-US alliance. But at the same time it should not allow interference of this alliance to the cooperation of the EAC in security issues. This line has been accepted by the Chinese diplomacy, which today in all forums of ASEAN forward various initiatives to promote dialogue and cooperation in combating unconventional threats.

Taking account of the contradictory and complex nature of the process of EAC construction, the Chinese leadership avoids public demonstration of their leadership role with strongly supporting this role on ASEAN. China has been particularly active in building manifests itself through the EAC cooperation in culture, education, sports, tourism, social security, trade union relations and research centers, and various non-governmental organizations for creation an atmosphere of trust and mutual respect.

#### **4.3.4. Japanese Factor in the Regional Integration Process**

Japan does not exhibit excessive activity in the construction of EAC, but is closely monitoring the activities of China. Like China, it builds its plans for EAC, based on the fact that the ASEAN+3 should be its base. The only difference is that Japan represents the future of EAC under its leadership and support to ASEAN, especially its six founding states. If China still maintains its original position, which is that the East Asian community should be based on the existing format of ASEAN+3, which will only add by the summits of EAC and other mechanisms, the position of Japan is different. In August 2006, it has put forward the idea of “Comprehensive Partnership in East Asia”, meaning the establishment of EAC consisting of all 16 participants of the first summit



in 2005 (Hiebert, 2012). It is clear that in the coming years the discussion about the future of EAC will continue.

Japan has always stood for the development of East Asian economic community involving India, Australia and New Zealand, which would leave the United States outside of EAC and at the same time it would strengthen Japan's position in the community. This initiative is seen as a long-term goal of Japan. This takes into account that this community is conceptually and actually be very different from the EU, as East Asia is much less uniform in all respects region. According to Japanese experts it may be multilevel, multifunctional cooperation in various fields, based on the existing differences.

In the implementation of its own concept of EAC Tokyo sees the shortest and most efficient way to achieve its strategic objectives, primarily to the creation of favorable treatment for numerous Japanese corporations, which are operating in the region.

Although in economic diplomacy Japan is trying to act as a guarantor of financial security of East Asia. It has not yet taken the role of the intellectual and political leader of East Asian integration, fearing perhaps undesirable opposition from China and ASEAN.

The current task of Japan is the formation of free trade areas in East Asia, i.e. formation the Economic Partnership Agreement between Japan and ASEAN. Therefore, in their view, the strategy of integration in East Asia should include two initiatives:

- 1) the prospect of a comprehensive Economic Partnership in East Asia (CEPEA) with ASEAN as a key regional organization, Japan, South Korea, China, India, Australia and New Zealand; and
- 2) the creation of an international organization, which would become a political forum and a "think tank" like the OECD (*Report of the Second Japan-US-Asia Dialogue*, 2008).

The creation of EAC is unthinkable without smooth and harmonious relations between China and Japan. Improvement of these relations in recent years has been welcomed by all ASEAN countries. In the community of experts expressed the view that for the real regional integration of East Asia, one engine – ASEAN is not enough and there need a second, more powerful, as Japan and China. On held in January 2008 in Tokyo, the

second dialogue of experts of Japan, the USA and Asian countries on “East Asian Community and the United States”, Japanese scientists have stated that ASEAN is not at all engine, and only takes a vacant seat until the driver, pointing the way and the engines are in a different place, i.e. China and Japan, who “asked the driver to drive more cautiously” (*Report of the Second Japan-US-Asia Dialogue, 2008*).

Along with a certain conflict of interest in some issues, controversies and misunderstandings between Japan and China are greatly exaggerated. In reality, both recognize the right to co-development with fearing only the way in which this development will be used as the achieved power. Therefore, the two countries should maintain a dialogue with the first steps of the emerging community in East Asia.

#### **4.4. RIVALRY OF THE “GREAT POWERS” IN THE REGION**

##### **4.4.1. “Great Game” of Powers**

The global financial and economic crisis has further aggravated the US-Chinese rivalry in Southeast Asia. In this region today especially it is clearly seen that the result of this crisis may be even greater enhancement of economic and geopolitical opportunities in China and more and more apparent weakening of the United States. This forecast does look quite plausible, as Beijing was the least affected by the crisis. Despite the active resistance in the ruling circles in many countries of ASEAN, projects were successfully done, which related to the completion of the free trade zone of China and ASEAN countries. This zone was finally built in 2010. China and all ASEAN member-countries unanimously believe that the establishment of this zone will significantly reduce the costs of the enterprise. But China did not say the main thing that through a fully functioning of free trade zone of China-ASEAN there will be appeared the opportunity of closer cooperation and more rigid dependence of Southeast Asian economies to the Chinese giant.

However, the creation of a free trade area is just one of the many roads of Chinese expansion. In broad terms, this is only part of the global plan of the Chinese – South-East and East Asian regions as integral cooperated with minimal USA presence. In this regard, it is not surprising the full support of China the ideas of political and economic cooperation in a wider format of an East Asian economic community. This project, which proposed in the 1980s by the Malaysian then-Prime Minister Mahathir Mohamad, took almost central place in the agenda of the summit of Japan, China and South Korea, which took place in October 2009 in Beijing (“China, ROK and Japan,” 2009). The interest aroused the fact that the initial draft of Mahathir’s East Asian economic community was thought of only as a community of East Asian countries and the countries of Southeast Asia. The purpose of this plan was to slowly squeeze the United States out of the region and independently determine their fate, relying on alleged common cultural heritage and a common Asian values. In the 1980s Mahathir’s project caused contradictory, but generally approving opinion in most countries in Southeast Asia and as at that time the American influence on the policies of the

countries of Southeast Asia was predominant. Factor of a strong and dangerous China was not taken into account. On the contrary, with strengthening the position of Beijing many politicians saw a counterbalance to American domination. Of course, in 1980s this project was easily blocked by the Americans. And Japan, which wanted to become one of the major locomotives of the East Asian community, refused to participate under pressing of USA. Today, at the beginning of 21st century, the situation is completely different. The USA is not the same, and Japan has also changed dramatically since coming to power in 2009 the Hatoyama government with Pan-Asian ideas, which is expanding and strengthening the position of Japan in the East and Southeast Asia and make the region a major focus of Japanese economic and political efforts. Current government also supports Hatoyama's concept. These ideas have regained popularity in Japan, but the opportunity to negotiate with Beijing on the possible division of spheres of influence in East Asia and to distance from Washington began to attract many Japanese politicians. In October 2009 the head of the Japanese Foreign Minister Katsuya Okada stated that they consider the East Asian Community in the framework of Japan, China, South Korea, the ASEAN countries, India, Australia and New Zealand (Kim, 2009). It was the first and, to all appearances, the last statement of the Japanese Foreign Ministry to expel the United States from the draft under discussion. Just two weeks later the Japanese Prime-minister have shown that it significantly altered its position on USA involvement in the project as widely publicized ("Japanese FM Outlines Vision," 2009). Apparently, when in Tokyo from declarations moved to a sober analysis, it became clear that there won't be the equal contract of Japan and China and their joint domination in the region will not be. ASEAN countries are dependent on Chinese trade and prosperity of the dynamics of the Chinese market. China, which is based on a rapidly growing economy and millions of Huaqiao<sup>1</sup>, will certainly not allow the Japanese to act on equal rights and to obtain such same preferences of its dominant position as well as Beijing. So as soon as it came to the practical creation of an East Asian community the Japanese prime-minister stated during the ASEAN+3 meeting in Hua Hin, that necessarily there will be found a role for the USA in East Asian regional affairs ("Global Economy Seems to Have Bottomed," 2009). According to him, it is

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<sup>1</sup> Ethnic Chinese people living in Southeast Asia

impossible to create the East Asian Community cutting away the leading economy in the world. Also, he affirmed that relations with the United States remain the “cornerstone of Japanese foreign policy”. The idea of individual preferential relations of ASEAN with China does not meet with much support in political circles of the ASEAN countries as well as in Japan. In this regard it cannot be an impression that while the dependence of ASEAN economies on China is growing, they suspect of their counterpart in the desire to dominate the region to harness them in a “Chinese Express”.

ASEAN countries distrust concerning China is growing and their desire to join in the bilateral relations is decreasing. It is seen in an example of Philippines and Vietnam, they refuse to participate in joint projects with Beijing to develop the disputed areas of the shelf of the South China Sea. The extending of the traditional format of the ASEAN+3 to another formula ASEAN+6 was one of the desires of ASEAN to dissolve China’s ambition. Pulling India in the integration and negotiation processes in Southeast Asia is not accidental, as in a real weakening of the US position in Southeast Asia, many in the ruling circles of the region are paying attention to the rapidly increasing India. India is being searched for a possible counterweight to China’s growing dominance.

**Figure 1.4: Battle of “Great powers” for Southeast Asia Region**



#### **4.4.2. American-Chinese “Battle” for Burma**

It should be noted that the East Asian countries are significantly changing their policy. This region sees now Washington as the main guarantor of their freedom and independence. The most striking example of this was the change in American attitudes regarding the military regime in Burma. Americans in past were treated with undisguised hostility to the military regime of General Ne Win, and welcomed his overthrow and doing the democratization of the country (Singh, 2011). The military coup in 1988 caused by them active hostility, and US policy had kept to ensure that by the political and economic pressure and blockade to force the Burmese military to cede power to his opponents from the democratic camp, which is the undisputed leader Aung San Suu Kyi (Wintle, 2008). Such policies have been carried out over the past twenty years, while Washington was sharply critical of any attempt to neighboring ASEAN countries to establish closer relations with the Burmese regime. Even in ASEAN Burma was adopted under the accompaniment of criticism and condemnation from the USA.

The blockade and the constant threat of their power put the Burmese generals and the country in a difficult position. Economy developed very slowly and the standard of living of the majority of people remained very low. Civil war against the army and armed groups of Burmese ethnic minorities, held with varying degrees of success. Caught in a deadlock military regime of Burma, with all the traditional mistrust of Burmese to Chinese had to turn to China for help. Firstly, these were loans that were not burdened by any conditions, then the cooperation has increased. China began to offer a new infrastructure projects, of which the burdened with accumulated debts Burmese regime could not refuse (International Crisis Group, 2009). Another form of pressure on the Burmese military is the ability of China to fuel separatist movements and to provide financial and other assistance. If looking at the map of Burma, the main areas of control separatists obviously gravitate to the Chinese border, which is a considerable distance outside the effective control of Burmese authorities (Berger, 2013).

USA believes that “China needs Burma more than Burma needs China”. This conclusion is based on the fact that the favorable geopolitical position, when through Burma China opens itself corridor to the Indian Ocean and Bay of Bengal and turns it

into a center of China’s efforts in the region and makes Burmese generals as “beggars with golden fleece”.

Officially, the meaning of infrastructure projects proposed by Beijing is to dramatically reduce the delivery path to China the hydrocarbons from the Gulf. Beijing wish their tankers not to go through the narrow Malacca and Singapore Straits, and would own the Burmese coast in Arakan, where oil pipelines would be delivered to Yunnan and later in other Chinese provinces in the south. With this aim the Chinese forced the Burmese generals to give them one of the ports of Arakan, where it has built the pipeline to its southern territories. At the same time the Chinese have put control of the coastal Burma Shwe gas field with total reserves of almost 200,000 billion cubic meters. That’s why close to the transit pipeline Chinese built the gas-pipeline



**Figure 1.5: Oil and gas pipeline of China**  
 Source: Arakan Oil Watch

(Arakan Oil Watch, 2012). In July 2013, China has received its first gas through this pipeline (Aung, 2013). Just Chinese workers built all of this as well as the road to the Indian Ocean. Chinese promised Burmese military that the new pipeline will bring them about \$ 29 billion over 30 years, which would mean at least a doubling of all the revenue of the budget Burma annually (“Pipeline Nightmare,” 2012).

**Figure 1.6: Chinese gas and oil pipelines from Indian Ocean till China’s Yunnan province through the Myanmar territory**



Source: <http://www.burmalibrary.org/docs14/Danger-Zone-en-red.pdf>

The increasing dependence of the Burmese military on Beijing, which could result in consolidation of China in this country and the policies concerning the local authorities bothered the initiators of inviting China into the country, i.e. the Burmese military and all the neighbors of Burma, exactly ASEAN and India, which saw a real threat to face with the Chinese navy in their marine waters. Apparently the pressure on both sides, as well as the Burmese military expressed a desire to cooperate with the United States has pushed the new US administration to reconsider its policy towards the Burmese military. “While we are trying to isolate Burma because of the reluctance of the junta to respect human rights, China’s influence in this country is growing exponentially” expressed Chairman of the Subcommittee on East Asia and the Pacific International Affairs Committee of the US Senate Jim Webb (Webb, 2009:23). This statement was a sign that Washington is willing to change its policy with regard to the Burmese regime. After the senator’s visit to Burma the USA decided to start a direct dialogue with the authorities of Burma. The United States offer Burma to remove the existing sanctions on Burma, but in response it seeks the release from house arrest of Aung San Suu Kyi and all other political prisoners, finishing the conflict with ethnic minorities and gross violations of human rights and starting trusted internal political dialogue. After the dialogue with the USA, Myanmar was going to change its policy concerning China. In 2010, the Burmese army decided on a full-scale attack on the position of one of the rebel groups, which located in the border with China. The attack was especially carried out on the area, where inhabited predominantly by ethnic Chinese. After that more than 40,000 ethnic Chinese were forced to leave their homes and flee to China (“The Moment Burma’s Separatist..,” 2012). That Burmese step angered the Chinese authorities. Another anti-Chinese gesture was the published article about the Dalai Lama in the newspaper “Myanmar Times” for the first time in the last twenty years (Weekly Diary, 2009). Even such modest by any measure and small steps to democratize the Burmese regime gave Americans a convenient excuse to officially reject the sanctions regime, and thus allow the Burmese regime to feel free in relations with China.

In general, the position of the Burmese regime, seeking to escape from the clutches of Beijing is quite understandable, and it reflects the general mood in the ASEAN countries. Nobody wants to go in “Chinese Express”. Everyone is looking for the



balance of powers and interests, which would allow to retain maximum freedom and independence. And consequently there is not right to say that Americans lose or have already lost the East Asia and the Chinese are not stopped. The fact is that the general weakening of the USA in this region is clearly offset by the increasingly hot desire of the ruling elites of most countries. By all means keeping the American influence on regional affairs is the dream of an independent region that is isolated from the influence of external forces and managed exclusively for the benefit of its components is becoming a phantom, which hinders rather than helps the ASEAN countries actually navigate the world around them. Americans feel that interest and they are ready to use it. Thus, in the regional ASEAN summit in Phuket former US Secretary of State Hillary Clinton said that the United States intended to increase its presence in Southeast Asia. And openly declared that the USA was returning to the region by signing a treaty of friendship and cooperation between the United States and ASEAN, on which work was carried out over the past 17 years (“Press Availability,” 2009). In this regard, at the first bilateral US-ASEAN summit which held in Singapore at the end of 2009, US President Barack Obama solemnly told that this meant the raising of status of the US presence in the region (Bower, 2009).

#### **4.4.3. Sino-American Rivalry in the Region**

The rivalry of China and the USA in East Asia looks like as regional, but essentially it is global, and it is connected with a number of circumstances. Firstly, the center of global economic activity moves to East Asia, and so the problems of the region inevitably assume global dimensions. Secondly, the shift of the center of global economic activity in this direction and the pace of this shift are the result of the rapid growth of China. The strengthening its regional position has the effect of becoming a global player. In some ways, China not only caught up with the economic giants such as the USA and Japan, but also surpassed them in 2012: turnover rate of China and ASEAN countries was 319 billion US dollars (*ASEAN Statistics*, 2013). Chinese absolute leadership in economic relations with ASEAN countries is seen in this table.

**Table 1.6 Top ten export markets and import origins of ASEAN, 2012**

value in US\$ million; share in percent

Export market			Import origin		
Country of destination	Value of exports	Share to total	Country of origin	Value of Imports	Share to total
ASEAN	323,535.6	25.8	ASEAN	277,425.1	22.7
China	141,554.3	11.3	China	177,002.7	14.5
Japan	126,305.4	10.1	Japan	136,116.6	11.2
EU-28	125,015.9	10.0	EU-28	117,850.2	9.7
USA	108,114.1	8.6	USA	92,076.2	7.5
Hong Kong	80,661.6	6.4	Republic of Korea	76,006.3	6.2
Republic of Korea	54,992.4	4.4	Taiwan	61,101.2	5.0
Australia	45,777.5	3.7	United Arab Emirates	39,435.4	3.2
India	43,840.3	3.5	Saudi Arabia	37,560.5	3.1
Taiwan	35,263.0	2.8	India	27,724.4	2.3
<i>Total top ten destination countries</i>	1,085,060.2	86.5	<i>Total top ten origin countries</i>	1,042,298.5	85.4
Others	168,943.4	13.5	Others	178,372.2	14.6
Total	1,254,003.6	100.0	Total	1,220,670.7	100.0

Source: ASEAN Merchandise Trade Statistics Database, as of July 2013

Thirdly, the theme of US-China relations in Asia should be put into a broader context, which will be part of the European missile defense system, and the “Arab spring”, gradually developed into the “Arab autumn”, and other events of a similar scale.

Sino-American relations are the number one problem in current world policy. The resolution of this problem will depend on the answer to the key question of history – the

question of war and peace, about the possibility of a large and serious war. Previous geopolitical game, which was known as the Cold War, was ended. Today there is founded the basis of such a new game – mainly in the Asia Pacific region. Its main content is a complex set of Sino-American relations. The general thrust of this relationship is influenced by two effects. The first of these, relating to a beneficial effect of trade, is associated with the name of the great Enlightenment philosopher Charles Montesquieu: in the middle of the 18th century he offered for Europeans, weary continuous wars, to make more trade and then nobody can find a time for war (“Baron de Montesquieu,” 2003). The second effect is called the Thucydides effect. It is expressed in the fact that strengthening the position of one state entails the hostility of the other (Kemos, 1994). The impact of these effects has Japanese-Chinese and Sino-Indian relations, and relations between the other countries for centuries.

The thesis of the economic interdependence between the USA and China is justified. For each other each of these countries is the second largest (after the EU) trade partner. China is the major holder of U.S. debt and has a huge foreign exchange reserves in dollars (Amadeo, 2013). However, there are serious problems in the sphere of economic relations. Foremost among them United States considers the manipulation of the exchange rate of yuan by China against the US dollar, with which allegedly linked giant bilateral trade deficit for the United States. To US demands for increase the rate of yuan, China responds that its export-oriented economy, and so works on the verge of profitability (a few percent) (Amadeo, 2013). In general, the economic interdependence of the USA and China is the guarantee of competitive and complex coexistence, but a long peaceful coexistence.

Against this background, there emerge more and more signs that there starts the Thucydides effect. Much of the American establishment is anxious about comprehensive and rapid development of China. On the one hand, the USA seeks to encourage China to embedding in the existing world order as a responsible party, on the other hand – to stick to the strategy of risk insurance almost all the way around the Chinese border. This is evidenced the program article of Hillary Clinton in the journal *Foreign Policy* (Clinton, 2011). The negative reaction of China to such behavior is not only verbal character. When, after the mysterious sinking of the corvette Cheonan (Cha, 2010), the USA launched a series of military exercises on the Korean peninsula and in

the surrounding of water area. China has carried out its own large-scale military exercise involving all branches of the armed forces (Hemmings, 2010).

The United States during the first Bush administration tried to increase their participation in a variety of economic integration formats in Asia-Pacific, but just little had happened. Therefore, the current administration had to urgently push through the signing of a free trade agreement with South Korea. Idea of a Trans-Pacific Partnership (which occurred without the participation of the United States, but which the United States has recently begun to pay close attention) is connected with the fact that China has initially surprised to Japan to conclude a free trade agreement with ASEAN, and then moved in quickly than Japan. This was followed by a proposal to create a financial pool in East Asia, which can be considered a response to the financial crisis of 1997-1998.

Promotion of the Trans-Pacific Partnership (TPP) is an attempt to regain the initiative by the United States. In the past few years there has accelerated policy of alliances, particularly US relations with India, Japan and South Korea, as well as Australia. The deployment of troops in Australia (2500 military persons) is the continuation of the course regrouping of U.S. forces in the Pacific (Grudgings, 2013). It is a long-term strategy to create an infrastructure that would allow U.S. forces to more quickly and flexibly react to different situations, which occurring in the region (up to natural disasters). All of these steps are the response to the intensification of China, to increasing the share of China in economy and regional affairs, and to a gradual transition of China to a more active foreign policy and foreign trade. The relationship of the United States and China is more matter of strategic cooperation than confrontation. It is much more profitable than any confrontation between the two countries. Confrontation is uninteresting to other partners of the USA and China in the region.

Japan, like most other countries in the region, is not interested in an escalation of conflict and confrontation between the USA and China. Japan is not ready to take either side. Japanese see the guarantor of their security in the United States. But providing a major tranche to ASEAN, Japan also reaffirms its interest in good relations with its neighbors in the region (Revere, 2013). The USA will not resort to any increase in troops in South Korea or Japan, they choose Australia. In my opinion, this indicates that

Asian partners and allies did not accept the United States. This is a sign of weakness of the USA in this region.

#### **4.4.4. Political Interests of Countries**

##### 4.4.4.1. ASEAN Countries

Officially, the present Asian integration was formulated by Malaysian Prime Minister Abdullah Badawi. He expressed that the countries of Southeast Asia have faced the challenge of increased competition in the areas of trade and investment and the challenge of the economic giant – China (Yoshida, 2004). Creating of EAC, on the one hand, helps to economic integration in the region, and on the other hand, it would remove the “Chinese threat”. In Southeast Asia it has strengthened the hope of capital income from China, and the fact that investors from other countries interested in sectors involved in trade and economic relations with China. In other words, in terms of development to solve the problems of Southeast Asia decided “to pick up own car for the Chinese locomotive, since it has already gained a decent rate”. The structure of the interaction of “ASEAN+3” has already gone some way towards economic integration. With the creation of EAC it will be set the stage for a huge-scale free trade zone. As for political gain “ASEAN is sitting in the driver’s seat”. According to many countries in the ASEAN community must not enter the United States, as in this case, the ASEAN relegated to the background, and the union will cease to be an Asian (Chu, 2007). On the other hand some of them wanted USA to be integrated in this Community. The USA and other great powers can make a balance of powers in the region. By this means the USA and Russia were accepted to EAC in 2011.

##### 4.4.4.2. Japan

Japan’s economy in the last two decades has difficulties. The rapid development of regional economies, which is reflected in the rise of the East Asian countries, is in the growth in international trade and financial cooperation in the region. These trends require a higher degree of integration in East Asia, especially in conditions and due to

the global economic crisis. Rapid economic growth and the need for greater financial cooperation in East Asia require closer ties between the countries of the region. The Japanese government was planning to create some “trading block”, expecting from it the same positive results, which led to the creation of the European Union (Yoshida, 2004). In this new integration association Japan sees itself as the leader.

But there is another reason, which forcing Japan to intensify Asian integration, and it is about Japan’s national interests. Since 1945, Japan has hardly been an independent state in politically and diplomatically, as its defense and foreign policies are absolutely dependent on the policy of the United States. For many years, Japan has largely benefited from this alliance and its dependence on the United States. However, after the end of the Cold War the value of the country for the United States declined, and its economy was mired in recession or slow growth. In addition, Japan has become increasingly aware that its national security is not provided – especially in regard to the alleged threats from North Korea and China. Thus, Japan begins to pursue a more independent relationship with the United States to strengthen their national interests and influence in East Asia. Being a leader or an influential founding-member would help Japan in promoting its national interests and in reconstruction its lost power.

#### 4.4.4.3. China

At first China took quite cold to the idea of creating a new regional alliance. It feared that if it implemented, Japan’s influence could strengthen. Beijing itself sets its goals such rapidly increasing volumes of trade with the countries of Southeast Asia, improving diplomatic ties with them and making a major investment.

At the same time, China would like to develop full-fledged relations with Japan. China put forward five points on the further development of Sino-Japanese relations, including:

- activation of high-level contacts, deepening political mutual trust;
- intensifying trade and economic cooperation;
- the development of tolerance and understanding between the two nations; and

- strengthening the cooperation in Asian affairs, promoting interaction in international affairs; and
- settlement of disputes properly and the protection of the general climate of friendship.

China came to the conclusion that the country can benefit from the EAC. First of all, the new regional organization is conformed with China's diplomatic strategy – striving for a multipolar world. The successful construction of the wider community in East Asia would contribute to lasting peace and stability in the region. This is an important factor for the economic development of China. Closer regional integration would help China to diversify its exports and reduce dependence on USA and European markets. With such economic power today, China certainly could play a leading role in the EAC.

#### 4.4.4.4. The USA

The USA is a significant player in the region. And it is not only because of the deep economic and political ties with the ASEAN countries as well as China, Japan, South Korea, India, Australia and New Zealand. US military bases with tens of thousands of soldiers are scattered throughout the Asia-Pacific Basin. For many years, the USA led military-political alliances with a number of governments in the region and continues to supply them with weapons. EAC or ASEAN+3, even ASEAN, which the driving force of the new association, did never question collectively on the overwhelming the US military presence. Claim of USA on global hegemony was never included in the agenda of the meetings of these groups. However, global political changes and economic crises have revealed that the hegemony as an obstacle for the emergence of a true global democracy and the universal application of international law in many areas. In many Southeast Asian countries believe that because of the American and Western hegemony it was hampered of “autonomous intelligent” development of Asia. At the time, easy access to the huge American market and massive investments from the USA to East Asia has become one of the many reasons for the spectacular growth of Singapore, Korea, China and other economies in the region. However, the East Asian leaders are beginning to realize that they can no longer count on the fact that the USA and the West will continue to consume the East Asian cheap manufactured goods because of their

own economic difficulties. East Asians believe that Asia should not remain mere exporter of goods, but it is necessary to increase domestic consumption and reduce the dependence on the West. This will entail an increase in the standard of living of the majority of the population, more even distribution of wealth, concentration on scientific research and technological innovation and the expansion of regional trade and cooperation.

In the opinion of many leaders of the countries of Southeast Asia the hegemony of the United States leaves. Their own economic and social malaise, and their inability to impose its will on others, despite the military superiority and the revolution of the masses against US dominance in most of Latin America and in the Middle East, the rise of other centers of power, such as China, India and Russia – all this indicates that the era of domineering of USA authorities is coming up to end (Shor, 2011). At the same time, analysts of Southeast Asia warned against expectations of that “this waning power will safely meet its sunset”. But I have said above the USA will try to extend its hegemony, including over East Asia. Nobody wants to give its power easily.

Among the American establishment is no consensus with respect to the East Asian community. Some believe that the United States must maintain military and political dominance in the region and seek the unconditional inclusion of the country in the newly created structure. Others believe that in a particular situation, there can donate military-political ambitions and focus to concentrate on maintaining their economic presence in the region. First, the United States were in favor outwardly calm on creation of the EAC, considering that the East Asian Community is just plan for the long term and talk about the participants of this project is yet to come. Later Washington began to feel about this concern. Under the influence of changes in conceptual approaches (representatives of the Democratic Party of the United States are more likely to use multilateral cooperation methods), as well as external (difficult and unpopular wars in Iraq and Afghanistan) and internal (global economic crisis) situation, coming to the power in 2009 the Obama administration quickly revised approaches to multilateral cooperation in the Asia-Pacific and East Asia (Swaine, 2012). An important role in this matter was also played by the fact that the above initiative (EAC) has been built taking into account the interests of the USA in the region and were designed to more actively



engage Washington in the integration processes, and thus to balance the geopolitical and the economic rise of China.

Changes in US policy have resulted in wider effort to draw on the resources of partners in providing US interests in the East Asian region and the willingness to actively play on all major regional areas of multilateral cooperation, including those reasons which have not been considered as a priority. So, in addition to maintaining a high level of public relations with the leading countries of the East Asian region (China, Japan, India), the United States quickly raised the level of relations with the countries of ASEAN (“The Obama Administration's Pivot,” 2011). In the first year of presidency of Barack Obama, there was organized the first US-ASEAN Summit and the signing by the USA the fundamental for ASEAN Treaty of Amity and Cooperation in Southeast Asia, which imposes certain limitations on the use of armed forces of the United States in this region (Manyin, Garcia and Morrison, 2009). In the economic sphere, Washington noted the success of APEC and the willingness to continue to work in this organization. At the same time the United States was declared willingness to exercise leadership in the work of the East Asian institution (Brandon, 2009). Moreover, it was stated that Washington has turned to Tokyo and began consulting with other Asian partners on how to do the United States could play an important role in the East Asia Summit. The United States has demonstrated an interest in that, on the one hand, by the ultimate place of the organization, and on the other hand, to gradually raise the status of the East Asia Summit in the overall system of regional institutions.

But despite these efforts, the attitude to participate in the East Asia Community the USA was mixed from many ASEAN countries. On the one hand, they have a desire to create a counterweight to powerful Asian powers, on the other hand, the United States itself could void the influence of ASEAN in the future association.

#### 4.4.4.5. India

The ASEAN countries are obviously continuing the balancing between Japan and China. Gradually drawing as a counterweight to China there is another powerful Asian power – India. India, like China is rapidly developing country with a huge demographic, economic, scientific and research potential. Compared with what caution Japan and

ASEAN countries develop an approach towards China, they do not pay attention to the fact that the economic power of India is also rapidly increasing, and tend to view it more as a partner. Such a different perception of China and India due to three main factors such as the historical status of India as one of the founders of the Non-Aligned Movement, also a democratic polity of India, and finally the strengthening its ties with the West, especially the bilateral relations with the United States. It is for these reasons that many of the regional powers are actively lobbied for the inclusion of India in the East Asia Summit.

India cannot stand idly by China's growing activity in the northern part of the Indian Ocean, as well as the actions of other major powers trying to establish control over the Malacca Strait and the approaches to it. It is also stepping up its naval forces on the islands near the Strait. The rivalry between India and China has a new level, turning in a big game at the sea, in which the United States are increasingly supporting India in its efforts to balance the growing power of China. Overlapping commercial and political interests of the two countries, intensifying the competition between them, and make the Indian elite are increasingly paying attention to the development of relations with the countries of Southeast Asia (Drysdale, 2012).

The emergence of India on this geo-economic and geo-political space in East Asia is the new factor in the dynamics of the situation in the region. Delhi is trying to expand the territory of its dominance in the Indian Ocean due to the connection to the processes developing in Southeast Asia. For a while the impact of the Indian factor is not quite certain. India seeks to strengthen its position as a way to normalize relations with potential adversaries, Pakistan and China, and by means of building a new partnership with the USA.

#### 4.4.4.6. Russia

Russia expressed a desire to join to the East Asian community as a full member in 2007. The main arguments of joining Russia to the EAC were the following. Russia:

- has rich energy resources;
- has advanced technologies in the oil and gas industry;

- has electric power and the peaceful atom;
- has energy resources for the energy security of the East Asian region;
- is a natural transporting “bridge” between Europe and East Asia;
- is an important factor in the stabilization of the global food market and food security (Tsygankov, 2008).

However, the actual presence of Russia as any significant participant of the integration process in the East Asian region is under serious doubt. The issue here is not malicious geopolitical conspiracy or someone’s trying to “squeeze out” the country from the perspective of the region. Russia itself is almost doing little to develop its economic potential and full integration into the regional integration process. In particular, Australia, along with Singapore, Indonesia and Japan, consistently opposed the participation of the Russian Federation in the EAS (Kudaibergenov, 2010). However, the process of creating an East Asian community went on another integration scheme. Russia’s acceptance to EAC means that Russia in the new organization has serious competition that could push its interests on the back burner. To prevent such a development can only be one thing such as an adoption of an Asia-Pacific strategy for Russia as part of the long-term vision of its foreign policy. The foundation of the Asia-Pacific strategy for Russia may be the idea that Russia is able to bind in the 21st century the Euro-Atlantic and Asia-Pacific markets, thereby complete the missing link of the world economic system. However, it is not planning to become a “bridge”, but as the actively working link between the two main regions. Russia will never take a worthy place in the East Asian region, if it does not carry out all-round economic development of its Far East and Siberia. Just a real revival of economic life in the region will join the Russian Federation to the integration processes in the East Asian region and will answer the question of whether Russia is an Asia-Pacific power.

#### 4.4.4.7. European Union

During the first thirty years of dialogue partnership between ASEAN and the EU has not undergone a qualitative change in the whole remaining technical channel to expand cooperation in trade, investment and development assistance. This is clearly evidenced

by the fact that for more than thirty years since the signing of a basic agreement on cooperation in the ASEAN-EEC it has not been modified.

The political dimension of the dialogue bore and continues to be primarily formal character. This is due to geographical distance between the two regions and the giving the secondary role to Southeast Asia in European diplomatic and defense interests, and the inability to maintain a full ASEAN dialogue on issues of interest of the European Union. As a result, until the early 2000s the Parties were trying to compensate for the weakness of substantive agenda by mechanical increase in the number of authorities, which did not lead to practical results.

The revival of political interaction between the regions was observed only from the beginning of the 2000s. Mutual need for increased international cooperation in the fight against non-traditional threats and challenges – terrorism, separatism and extremism, as well as the desire of member-countries of the Association to balance the strengthening of Chinese and American positions in the region had led to new rapprochement EU and ASEAN.

The transition to a qualitatively new stage in the integration process of ASEAN at the beginning of the 21st century breathed new life into the relationship of two integration units. It can be argued that the further promotion of dialogue partnership, particularly in the areas of trade, will be in direct proportion to the expansion of the powers of supranational institutions of the Association in the economy, as well as the European facilitate to this process (“Overview of ASEAN-EU Dialogue,” 2013).

Reverse the “declarative” partnership between the EU and ASEAN interfere the series of political and ideological differences, the lack of real interests of many smaller EU countries in cooperating with the region of Southeast Asia, ASEAN unwillingness to move to real steps in a joint counter-terrorism, illegal migration and other non-traditional threats. The political-ideological and socio-economic diversity of the members of the Association are forcing the EU to look for other ways to promote their interests in Southeast Asia. Since the late 1990’s, the development of a parallel dialogue format – the ASEM process – is a priority for the EU (Camroux, 2006).

However, it can be argued that the development of ASEM will not lead to the devaluation of the political component of the dialogue partnership between ASEAN and

the EU. This is due to the active participation of the ASEAN Secretariat in the development agenda of ASEM activities, as well as to the observed intensification of the political and military-political cooperation between the EU and individual members of the Association. In general, analyzing the nature of the EU interests in East Asia, it can be stated that the two sides have apparently satisfied with the level of cooperation.

#### **4.4.5. PERSPECTIVES OF INTEGRATION IN EAST ASIAN REGION**

Examining the interests of integration actors in East Asia, the development of integration interaction has political interests such as opposed to external factors, and to increase the political authority and the establishment of any association. Views of Japan and South Korea on integration give rise to an interest – in the beginning they planned to deepen regional economic cooperation, but not integration blocks. Involvement of China to economic and political trends is pushing Japan to integration. Here it should be noted a ranking of this “economic giant” in the region and in the world. In East Asia Japan is not just a military ally for the USA in the medium-term in the settlement of regional balance of power against the rise of China, but also it is the main partner in the creation of the regional cooperation system (Mikheev, 2007).

Today China has the advantage in East Asia. In traditional power politics helping to create a balance of the Eurasian forces China with Japan may become the basis of adversary for the United States in Asia. In this position, the role of Greater China in Asia is being equal with the role of the expansion of Europe in the west. Strengthening of China’s power in Asia Pacific and its influence extends to marine areas which has high economic value for Japan. The rise of China will increase the value of Japan for the United States. Second, China is not only a traditional opponent of Japan, but also a potential threat to regional uniformity. So the context of the Japanese-Chinese relations strongly influences on balance of powers. The evident in 2004-2005 for consistency between Tokyo and Moscow argue that mutual distrust and controversy was over, and that means in the near future the old enmity in the APR will be over. But Russia’s rapprochement with Japan is considered as a movement against China. The decision on the construction of pipeline “Taishet-Nakhodka” with an estimate of 10 billion US dollars, which will be started from oilfields to the Japan Sea, means that in the future

the main consumer of Russian oil will not be China, but Japan (“Russian Taishet-Nakhodka pipeline,” 2008).

The highest probability in the improvement of bilateral economic relations is the ordering of military and political ties. Today, Japan is one of the very strong economic countries in the Asia, but because of the political powerless it cannot advantage to solve territorial disputes with Russia as well as with China. Also, Japan is dependent in charity towards the American army. So today there is no alternative to the structure of East Asia. If there is known the directions of regional geo-strategic ambitions of China, Japan’s foreign policy concept is still being formed. Now the USA after the Cold War has not kept the status quo, but increases its interest in East Asia as a major strategic region (Isabek, 2009).

Fearing from the influence of mainland Taiwan is affecting to changes the balance of power. Regional achievement of China and Taiwan Strait waters give rise to concern in Taiwan. Until the solution of the Taiwan problem, the Taiwan Strait will remain one of conflict regions. The “line of trading” passing from Singapore to the East China Sea gives rise of Japan’s anxiety. Taiwan Strait is a strategic center. No ship can get to the Japanese or South Korean coast without crossing the strait. If China will include Taiwan, it may be entitled to use the ports in the Strait. Until the solution of the Taiwan problem China can’t have an advantage in the Northeast Asia (Gelbras, 2002). Joining of Taiwan to the mainland obliges Japan to seek a protectorate from China. Therefore at the “cold peace” period American-Japanese relation has an advantage than Japanese-Russian and Japanese-Chinese relations.

East Asian countries have tried to unite the efforts of the rules of cooperation and neutrality, official doctrines and Western orientation, which provide modern weapons of Western countries. Using such methods in international relations gives the freedom of movement of the regional countries. They play on the contradictions between the world powers. Assuming the constant balance power in the East Asia, their great powers seek to maintain this balance.

Enormous political action highly visible in international relations and in the Association of countries is the ASEAN Declaration on establishment the “peaceful, free and neutral zone” in South-East Asia, adopted at a meeting of Ministers of Foreign Affairs in Kuala

Lumpur. The basis of the declaration is the idea of non-intervention of other powers in the internal affairs of member-states, to maintain peace in the region, and to develop and maintain a position on peace and security (“Association of Southeast Asian Nations,” 2012). It’s no secret that the rapid economic growth, which is characteristic for the majority of the countries of Southeast Asia in particular and the entire APR as a whole, has led to the realization of each of these countries, their regional foreign policy interests, and the desire of their effective implementation. Together with the “geographical narrowness” of the region, and high demand growing economies in the natural resources and other factors will lead this region in the next decade to the one of the conflict zones in the world.

The main problem of economic cooperation between the countries of the region is that all these countries are increasingly competitive in the global economic market, rather than mutually complementary economies. This applies particularly to the economic leaders of the region – China, Japan, Korea and India. Accordingly, their opportunities for intra-regional division of labor are limited. On the contrary, a clash and rivalry of these countries in foreign markets increase as their economic development and growth. This imposes significant limitations on the prospects for economic integration, which is going very slow. If the gap between the relatively rich countries of the region and a group of “new” members of ASEAN continues to widen, the impact of regional integration would be disastrous. East Asia will be divided by the “winners and losers”, further making it difficult for integration to take place. This only fortifies the circumstantial evidence that all the talk about building a community is for the betterment of the economically strong countries in the region – it is only a means of more easily implement their interests.

The relatively slow progress in the non-economic sphere also reflects the many obstacles faced by regional integration. The absence of a common cultural and religious heritage, a dramatic difference in the levels of economic development, rising (at times) confrontational nationalism, many problems of domestic policy, traditional and non-traditional security threats clearly show that the process of the formation of the EAC is not going to be easy and swift.

The idea of a multilateral regional security system, which is based on the ideology of “cooperation and common development”, continues to come up though against obstacles difficult to overcome. Many things will determine the climate in China’s relations with Japan and the United States. The main obstacle to the political consolidation of the region is the struggle for leadership, especially between China and the USA, as well as between China and Japan.

Fundamental shifts in East Asia could limit the U.S. role in the Asia-Pacific affairs. Their central position in the region will be called into question by a new Asian regionalism and the growth of Chinese influence. The emerging East Asian Community could potentially lead to the creation of a regional forum with the leading role of China, which could displace USA and gradually replace the APEC and other more open forums as the leading multilateral groupings in Asia. But today there are obvious changes in the original plans on East Asian regionalism, starting from the admission of the USA and Russia into the community.

The continuing imbalance of military and political power and perception of China by the United States and Japan as not only market “partner–competitor” and maintaining the monopoly of the Chinese Communist Party (CCP) as the political subject constitute an obstacle in approaching of countries.

The main challenges lie in the realm of politics and the differences in social order. Community requires a fundamental unity of purpose and prospects, as long as all potential members have their own plans and calculations.

Hazardous ambiguity in the current situation of US-China relations is nowhere near clear as the Taiwan issue. For more than 60 years, China will not step closer to solving its strategic objectives – the accession of Taiwan. The actual content of the Taiwan issue boils down to a fundamental incompatibility between the initial position of the USA and China. Douglas MacArthur at a congressional hearing in 1951, stated: “The loss of Taiwan will push our boundaries to the coast of California” (Wang, 1990). It is likely that this attitude determines the position of the United States even today. China also considers Taiwan as integral to its territory and the process of restoration of the territorial integrity is considered as its internal affair.



Will the countries of the region achieve the set goals in the beginning of the 21st century? Everything will depend on the development of the international situation and the strengthening of security in the region, but it remains quite vulnerable. Still, unsolved problem of the islands in the South China Sea could become a touchstone for ASEAN and for the future of EAC. Its decision will show whether the ASEAN remains as basis for the new regional integration architecture of EAC. There are doubts whether ASEAN will cope with the role of the driving force of integration in this format, which will include India, China and Japan, whose economies are much greater than the combined economies of all countries of ASEAN.

In recent years there has been fundamental development in the Taiwan issue. First is the increasing in turnover. China has become a major trading partner of Taiwan and placed it in the trade and economic dependence on it. Secondly, China's military buildup has occurred. Some Japanese are forced to think that the USA is ready to sacrifice Japan in the event of an unexpected turn of events. Then what can be said about Taiwan? China bought dozen of submarines from Russia ("China's Overhyped Sub Threat," 2013). From the military-technical point of view, this is a new twist on the situation around Taiwan.

The Korean peninsula question is more directly involved in the dialogue of China and the United States and in its conflict and non-conflict measures. Now the Korean peninsula is an area, where China and the United States compete, but at the same time trying to work together. China's three-phase plan for the resumption of six-party talks is being studied. A movement in this direction is observed, but it seems that the partners in the six-party talks have been slow to restart it. And this is despite the fact that thanks to the active efforts of Chinese and Russian diplomacy, North Korea reaffirmed the readiness for resumption of six-party talks. If even Beijing and Moscow welcome this position, Washington and Seoul insist on preconditions. It is difficult to say when the talks will resume, but at least it is one of the channels of communication between Beijing and Washington. The scenario of direct confrontation between China and the United States is a nightmare for the two Koreas, and for all the countries in the region, because in such a case they would inevitably have to take sides. In this case, the Republic of Korea, due to alliance obligations and because of selected course, will be involved deeper than before in the American strategy aimed against China.

## CONCLUSION

In this study I have tried to analyze regional integration and its preconditions, and related it to the situations in East Asia. Analyzing the integration process in East Asia, the current development of international integration processes is going on in the globalization of the world economy. Some researchers see the regionalization as the process of increasing dependence of the national economy. But the trend of regionalism and globalization are not inconsistent with each other. The world economy is transformed into a complex interconnection of regional integration organizations at new levels and into the complex structure of interdependence. The integration means the deepening and consolidation of economic life, which finds higher and uniform development of the integrating economies. In other words, integration is the geographical proximity of states, the appearance of a political consensus of the views on the future between states and the equality of forces to preserve the dignity and the similarity of political structures, legal systems and domestic economic policy. Today's international economic integration means the interdependence of production, capital, trade exchange between the countries and the economic policies of states, the creation of supranational integration associations and the interdependence of the national economies.

If the economic integration process of developed countries will develop because of the effects of increasing of internationalization processes in economic ties, in the developing countries it will be explained by economic and political relations. Therefore, the integration of developing countries, which turns the transformation of cooperation from the simple to the complex, has its own peculiarities. In the developing countries the driving force of economic integration is considered to be the desire to integrate their markets and production capacities and resources in order to abolish their backwardness. For successfully integration, there has to be economic convergence, proximity and political tolerance (compatible political systems and agenda among member-states).

In the East Asian region supporting other parallel processes, multilateral and bilateral liberalization, gives an additional wave in the work of the regional integration. The failure of the WTO agreement processes, which makes a free-market agreement and the establishment of a free market zone in the Asia-Pacific region, will be the core issues of

APEC. The USA, China and Japan offer their integration plans such as a contest for leadership in East Asia. On the other hand, the role of growth factor of the ASEAN in regional integration must be taken into account. This organization is now the center of the integration factor in the region (Huisken, 2008). The basis of the dispute is three regional concepts. There are the formation of “3 A” – ASEAN, APEC and the Association of East Asia (EAC). This concept revolves around the spiral of “political integration of intrigue”. These political and economic integrations of East Asia countries can be achieved by free trade agreements. Free trade agreement of bilateral and sub-regional character is a good option in the development of the ASEAN’s idea and regional institutional structures such as the East Asian Community. China has paid great attention to the development of the capacity for the ASEAN+China and the ASEAN+3. It is obvious that the last time China is more concentrated on EAC than APEC. China accuses the APEC of not being worthy of the responsibilities and goals of the forum. Japan wants to institutionalize giving response for developing the cooperation in the mode of sectoral meeting of the East Asia Summit.

ASEAN, as an organization playing a role in the integration process, has gradually transformed from an object of international relations into the subject of international relations. This process was more successful in the political sphere and in the sphere of security, but very delayed in the economic sphere. ASEAN survived the Cold War because of the right chosen way of development like taking into account the balance of forces. When the bipolar world came to an end, some believed that ASEAN will cease to exist as a “child” of the Cold War. But ASEAN members were in a winning position, as argued in a difficult regional environment as a mediator. They could not independently solve the serious economic and political issues as well as security issues. From an economic point of view, they offered a free trade zone – AFTA in 1991. To ensure the security ASEAN countries were united for reducing the contradictions between them. In 1994, this line led to the creation of the ASEAN Regional Forum with the participation of numerous dialogue partners of the Association. Thus it took the shape of intermediary role which the Association sought to play in East Asian affairs. At the same time, though now the driver’s seat was given to ASEAN in the affairs of regional cooperation. There is more symbolic than real leadership. The economic levers, which are available to the ASEAN, are relatively weak. But this organization has the

levers of direct pressure or influence to the development of international relations in the region. The central focus of political efforts of the ASEAN is efforts in the fields of security, and the economy is a balancing element. So, geographically and politically the core of the aforementioned initiatives has accumulated around the center of East Asia, i.e. around ASEAN. In the north-eastern part there are situated China, Japan, South Korea and Russia, on the Asian side – India, which made an agreement on free trade with ASEAN countries in 2003, and in the southern part the USA, Australia and New Zealand are taking places.

Undoubtedly, Asian integration has its way and we must admit that it is sufficiently tortuous. The idea of their own regional integration model increasingly possesses the minds of the leaders of almost all countries of East Asia. Its basic concept remains to be developed and agreed upon. At this moment, no one knows when the idea of East Asian Community will finally become a reality. However, the main thing is that the traffic on this road has already begun. Undoubtedly, it can be assumed that the East Asian countries do not intend to create a union modeled on the EU. Rather, they prefer to support various forms of preferential bilateral and regional cooperation under the single concept of “East Asian Community”, which has already been tested in ASEAN. In any case, there is a general understanding that further economic growth without an advanced regional integration is impossible. This process increasingly takes on the character of irreversible historical trend. For the countries of East Asia there is no question as whether build community or not, but the only question is how to build it. The final result is not the only important thing, but movement to it. This involves providing political stability, peace, security and economic growth, and therefore, political and social stability and maintenance in power of political elites and the existing regimes.

At present, it is obvious that the annual East Asian summits have become a new regional forum, which plays an essential role in maintaining political stability, and directing the integration processes towards creation EAC with highly regional specific. Over the years, the East Asian countries have shown their commitment to bring regional cooperation beyond the traditional inter-state cooperation. Despite all the pessimism and skepticism, to stop this process is not possible anymore.

Based on current conditions in the region, peace and stability can only be saved if all states in the region will accept the same rules and principles, and these are the principles of ASEAN itself. Otherwise, all that will remain is an elusive dream. ASEAN was the first union of states in the region, which tried to establish such rules and principles since its birth, and stored them in force to this day for all the critical assessment of its effectiveness and efficiency in both the past and the present. No one can deny that it has allowed ASEAN to save the region from the proliferation of conflicts and instability.

In the medium-term perspective the region's major powers – China, India, the USA, Japan and South Korea – will not be ready for an alliance or integration between them. However, they have not ruled out the possibility of the development of various forms of “soft” integration around some of the major players. For a number of ASEAN countries such role could be played by China, which gradually forms the framework of integrating associations around it. India with its economic and political conditions cannot yet claim to be the center of the integration process. For Japan, the United States remains as the main partner in any case.

Thus, the opinion of an extremely successful process of integration in East Asia should not be exaggerated. There is not yet produced such guidelines, rules and structures, which is in the WTO. In the near future there cannot be created any supranational structures, because member-countries do not have the political will, and they are not willing to voluntarily give their sovereignty to any supranational organization.

However, the idea of the EAC has already made a breakthrough. A more rapid spread of the idea of forming a community and its implementation cannot be excluded. A lot of thing will depend on the pressure on experts and policy-makers of East Asia by objective economic needs, and multilateral integration approach that promise greater efficiency than purely national. Thus, it is clear that East Asian integration is possible. It has developed into a unique model, bringing real benefits both in terms of regional stability, as well as economic prosperity of the participating nations.

Europe took decades of planning, compromise and extremely heavy lifting for the relative leveling economies and this process is not finished yet. In East Asia, there is nothing of the kind. The three largest economically powers – Japan, China and South Korea are on different levels of development. In Europe, no one disputed the leadership

of France and Germany. Here, at least three major powers express claim to leadership – Japan, China and India. ASEAN consists of membership characterized by varied and sometimes incompatible political regimes – democratic, communist, dictatorial and monarchical regimes can all be found in this community. Additionally the standards of living in them are extremely different. Alignment in these conditions will require extraordinary effort, and it becomes even more difficult when there will be Japan, China, South Korea and India in one association. However, all this is not to say that the East Asian countries do not have to be integrated. If the region manages to maintain peace and stability in East Asia, the creation of EAC will be held in relaxed conditions and can disprove all doubts of skeptics. The rivalry between the major players will not turn into direct military-political conflicts, as contradictions are “compensated” by the necessity of cooperation in economy, energy, terrorism and atypical threats<sup>2</sup>. With every conceivable form of exacerbating events growing economic interdependence in pairs Beijing-Washington and Beijing-Tokyo define the limits of the deterioration of their political relations. If events take a different turn, then no community will be possible, and there will emerge (once more) the threat of a new cycle of conflict in the countries of Southeast Asia, as it was in the 1970s and 1980s. Among of all these actors only ASEAN enjoys the necessary confidence to promote this idea, based on the process of ASEAN+3. However, the integration in East Asia looks much more problematic, because there are two competing powers – China and Japan. Therefore, although the future of the EAC is on the agenda of ASEAN, it is designed for the longer term.

However, the completion of negotiations on a free trade area between ASEAN and the three representatives of the North-East Asia has become a key and essential foundation for the formation of “East Asian Community”. Now everything depends on ASEAN countries, which hold a position of balance without giving way to other tendencies in the region. But APEC remains as regional coordinator and advisory mechanism for the convergence path of development of nation-states. The economic decline of the United States or the failure of the WTO agreements make it possible to expect more strengthening of “East Asian vector”.

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<sup>2</sup> Natural disasters, epidemics, etc

Today regional countries are seeking open integration rather than the traditional economic relations and are seeking to improve the financial policy taking into account the Asian financial crisis in 1997-1998. Despite all the talks, there will not be a common currency by 2017 in East Asia, because East Asia is still not ready for it. Although the relationship on “swap agreements” is enhanced between the national central banks, the use of conventional single currency (ACU) is being expanded (Jeon and Zhang, 2007). Despite all of these improvements in integration, there remain the seemingly eternal unsolved problems in the region like the Taiwan question, territorial claims in South China Sea and North Korean nuclear problems. And as a world hegemonic power, the United States considers interfering in East Asian problems as its national obligation.

In 1997, at the height of the financial crisis, a decision was made to hold annual meetings at the ASEAN+3. Under this scheme, ASEAN hoped to extract the benefits through the competition of Japan and China as a more or less equilibrium players, but in 2005 the booming China overtook slowing down Japan and made the first agreement on the establishment of a free trade area with ASEAN. Economic developments have led to the fact that Japan cannot be an active competitor to China, and now in this matter Japan is replaced by the United States. If the Japanese-Chinese rivalry promise benefits to ASEAN countries, the US-Chinese rivalry has got serious problems for the whole of the Association, and its individual members.

So, integration includes not only an economic, but a political relation. Integration needs a economic locomotive as well as political center. Today China is becoming a superpower. But now is not yet China’s time of ruling the world. China itself knows this and starts its expansion from the regional level. In East Asian regional integration China uses ASEAN for realizing its goals. However, ASEAN surmised it long ago and tries to make balance in the region. In this case ASEAN scored a success with the expansion of ASEAN+3 to ASEAN+8. This shows the real political power of ASEAN, because without signing TAC no one can be a member of EAC. Today Southeast Asian nations have really political power, but this period may not last for a long time. Indeed, the economic driving force is China. In order to avoid the conflicts with other great powers, China softly gives political driver’s seat to ASEAN. Without ASEAN the regional integration would take another course of developing, but not taking into account the important regional organization like ASEAN is impossible.

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