Bridging the Theoretical Gap between ‘Regionalisation‘ and ‘Regionalism‘

An Attempt to Determine the Condition of Northeast Asia’s Regional Integration Process

Abstract

Historically speaking down to the present day, hostilities have a long tradition and influence in Northeast Asia. Nevertheless, this region has not experienced one physical conflict since the end of the Korean War in 1953. Furthermore, while the region combines three of the worldwide strongest and intertwined economies, i.e. China, Japan, and South Korea, there is relatively little political cooperation and integration institutions in comparison with other regions in the world. Thus, the three G20 members conducted negotiations for a trilateral Free Trade Agreement. Scholars of regionalism differ in their perception of such a CJK FTA as a possible driver of regional integration processes in Northeast Asia. This paper attempts to analyse the heritage of animosities between China, Japan, and Korea and how to dissolve, or at least, reduce such hostilities. I argue that the establishment of the ongoing negotiation of a CJK FTA has not only a positive contribution for a regionalisation process in Northeast Asia but also holds the capacity for an emergence of possible regional integration (dependent variable) processes within Northeast Asia. In addition, I hold the notion that such processes are complex phenomena not reducible to only functional or economic demands (causal condition X1) but they are also determined through the densification of social, political and cultural interactions within a given region (causal condition X2). Therefore, I am using an eclectic approach by embedding Hettne and Söderbaum’s model of ‘Regionness‘ and Mattli’s model for regional integration within the analysis. Main focuses of this paper are trying to answer the following questions: Can Northeast Asia be classified as a region despite the heritage of political and territorial disputes? What lessons can be derived from Mattli’s model regarding a CJK FTA? And consequently, is there a substantial link between regionalisation and regionalism?

Keywords: China, Free Trade Agreement, International Political Economy, Japan, Korea, North East Asia, Regional Integration, Regionalization, Regionalism, Regionness

* A deep gratitude goes to Prof. Andrea Ribeiro Hoffmann, Dr. Werner Pfennig, Prof. Hans Jürgen-Bieling, Dr. Stefan Gänzle, Prof. Tobias ten Brink, Dr. Robert Pauls and Dr. Melanie Pichler for their constructive critics, ideas, and comments on earlier drafts of the paper.
"For as long as there have been states, intelligent people have been trying to think of ways in which conflict between them might be averted"

(Rosamond 2000: 20)

1. Introduction

The ratification of the Treaties of Paris and the followed establishment of the European Coal and Steel Community in 1951 signaled the dawn of regionalism as a discipline in international studies. On the other hand, Europe became the example and laboratory of how to create a peaceful and stable system in a "region known for internecine warfare and economic calamities" (Mattli 1999: 41). Other regions in the world attempted to follow the European Model, and regional organisations (RO) emerged almost all over the globe (Börzel 2011; Marchand, Boas, Shaw 1999; Schirm 2002).

The world or, more specifically, regions of it seemed to become more gradually intertwined through regional institutions. However, by taking a closer look it is observable that Northeast Asia\(^1\) (NEA) lacks of regionalism\(^2\) according to Aaron Friedberg (1993), Richard Betts (1993), and Jae-wae Choo (2006). Even though it is one of the most economic interconnected areas in the world, it is also one of the less integrated when it comes to political security and regional institutionalisation. Undoubtedly, all nations within the region cooperate in other ROs such as the Association of South East Asian Nations (ASEAN), ASEAN plus Three (APT)\(^3\), ASEAN Regional Forum (ARF), Asia-Europe Meeting (ASEM), Asia-Pacific Economic Cooperation (APEC), Shanghai Cooperation or the Chiang Mai Initiative. However, there is not one regional institution particularly for NEA.

1.1 Set of Problems

Historically speaking down to the present day, hostilities have a long tradition in the region. Territorial or political disputes between Russia and China, Japan and China, Korea and Japan, Russia and Japan, China and Korea, and certainly between South and North Korea have a large influence on the region (Schmitter & Kim: 23). Nevertheless, NEA has not experienced a physical conflict since the end of the Korean War in 1953. Thus, the three most economically strong East Asian G20 members - China, Japan, and South

---

1 For the purpose of this paper NEA is considered to encompass China, Japan and South Korea. Other nations in the region such as Russia, Mongolia, and North Korea will be detached and separately mentioned.

2 It is for certain, that third parties such as the United States have a huge impact and a significant role on NEA’s regional integration processes. However, this paper aimed to explain the internal synergy between China, Japan, and Korea and, therefore, third parties will only mentioned as additional facts or incentives in connection with the three countries or the regional integration process itself.

3 APT includes all ASEAN Members plus China, Japan, and S. Korea.
Korea - conducted negotiations for a possible trilateral Free Trade Agreement (CJK FTA) on January 7, 2012. Students and scholars of international studies differ in their perception of such a CJK FTA as a possible driver of regional integration processes in NEA. This paper tries to analyse the underlying possible outcome of such an FTA from a theoretical perspective.

As mentioned above, scholars differ in their perception of a CJK FTA. Well-known scholars such as East Asia economist Rüdiger Frank or Yorizumi Watanabe have low expectation of a CJK FTA as a force for regional integration processes in NEA. Rüdiger Frank\(^4\) holds the opinion that ASEAN has a greater possibility to enforce regional integration in East Asia than an FTA between China, Japan and Korea. Whereas Watanabe\(^5\) takes the line that Japan’s political and economic interests are rather more represented in interregional cooperation with the EU and the US than with its neighbours.

On the other hand, Simon Böhmer, Patrick Köllner, and Huang Jing see strong potential in a CJK FTA for regional integration in the NEA and beyond. Böhmer and Köllner (2012: 7) mentioned explicitly in their article about Trilateral Cooperation in NEA that a CJK FTA could create a foundation for a multilateral architecture within the region. Whereas, Prof. Huang\(^6\) holds the belief that a FTA could have positive effects as a conflict resolution mechanism between China and its neighbours, as well as offering economic prosperity and political stabilisation for NEA.

1.2 Methodology, Research Questions, and Hypothesis

Concerning the diffuse perception of the FTA by scholars and the slow progress of its negotiation processes, this paper aims to analyse, based on the CJK FTA, the social, political and economic needs of the region as a driving force for regional integration. Therefore, a main focus of this paper is to define NEA as a region through the use of Björn Hettne and Fredrik Söderbaum’s (2000) dynamic heuristic „regionness“ model. Söderbaum (2016: 162) holds the assumption that „[t]here are no given regions, there are no given regional interests either, and interests and identities are shaped in the process of interaction and intersubjective understanding“. Thus, the regionness model will give me the opportunity to classify not only the cultural, political and economic interests of East Asia’s three G20 members, but also to map its current regionalisation process.

\(^4\) I had the opportunity to interview Professor Rüdiger Frank on CJK FTA issues at the event „North Korea - Inside views of a totalitarian State“ organised by the German-Korean Society on the 27th February 2015.

\(^5\) Professor Yorizumi Watanabe shared his opinion on regional integration processes on NEA at the event „Japan and the EU - FTA as an innovator for deeper cooperation“ organised by the Konrad-Adenauer-Foundation on the 13th March 2014.

\(^6\) Professor Huang Jin explained his point of view on China’s politics in NEA at the Robert-Bosch Foundation's event „Engaging China - The PRC at 65: Where is China Heading under Xi?“ on the 7th October 2014.
Additionally, by embedding Mattli’s regional integration theory in this analysis hold the capability to range in the meaning of a CJK FTA within NEA’s regionalisation process. In his theory Mattli modified the Neo-Functionalist (NF) approach with the explanatory power of International Political Economy (IPE) which takes economic environments, conditions, production networks, and variables such as private sector participation, competition, foreign direct investment, global market and the important increase of services into account as „new“ incentives of regional integration processes. Mattli (1999: 10) agreed with the assumption that Neo-Functionalism „is an important building block of a comprehensive account of integration…but it is not enough“. For him NF took economic transaction into account, however, it failed to fully examine it.

By analysing the heritage of animosities between China, Japan, and Korea and how to dissolve, or at least, reduce such hostilities, I argue, that the establishment of a CJK FTA has a positive contribution for its regionalisation process. Derived from Interdependence theoretical assumptions, it is the first step towards regional integration which consequently has the possibility to dissolve or reduce tensions between NEA’s G20 members.

Generally, the main objective of this paper is to try to answer the following questions: Can NEA be classified as a region despite the heritage of political and territorial disputes? What lessons can be learned from Hettne and Söderbaum’s regionness model as well as Mattli’s theoretical framework regarding a CJK FTA? And consequently, is there a substantial link between regionalisation and FTAs? To frame the level of analysis of the regionness model, Mattli’s regional integration theory as well as the research questions, two hypotheses are set up to elaborate:

**H1:** Regional integration is a complex phenomenon not reducible to only functional or economic demands but also determined by the densification of social, political and cultural interactions within a given region. Therefore, a CJK FTA is an emergence of regionalism within NEA as a result of an ever more intensifying regionalisation process of the region and only to some extent related to economic factors.

**H2:** A CJK FTA has the capability to foster NEA as a regional society as well as pave the way to become a Regional Community.

The dependent variable (y) in the analysis is the emergence or not emergence of regionalism in Northeast Asia. Therefore, I am using an x-centred approach for identifying the causal conditions (x) triggering (y). Independent variables (x) in the equation are Mattli’s demand and supply conditions as well as the scale of the regionalisation processes of the examined region. In this paper, regionalism is applied as a term to
determine a certain condition of regional integration as well as a determination of a theory-driven understanding of integration processes with states as a focal point of the level of analysis (Jetschke 2016: 918). Whereas, regionalisation is not only understood as a densification process of economic, political, and social interactions between two or more neighbouring states, (Nye 1968: 855) but also in the context of a theory-driven understanding of integration processes with an analysis focus on non-governmental actors such as transnational enterprises and civil societies as incentives of regional integration (Breslin and Higgot 2000; Söderbaum 2012).

At this point it is valid contestation to question the applicability of Hettne and Söderbaum’s regionness model with Mattli’s regional integration theory. Especially, since both concepts derive from different schools of thought. The regionness model has its origin from social constructivist assumptions, whereas, Mattli’s theory originates from NF and IPE. However, this paper attempts to explain regional integration processes not by using either the concept of regionalisation or regionalism but both by using Rudra Sil and Peter J. Katzenstein’s (2010) analytic eclecticism. The concept of analytic eclecticism is defined as „any approach that seeks to extricate, translate and selectively integrate analytic elements - concepts, logics, mechanisms, and interpretations - of theories or narratives that have been developed within separate paradigms but that address related aspects of substantive problems that have both scholarly and practical significance“ (Sil und Katzenstein 2010: 10). Therefore, I argue, analysing regional integration processes by using both concepts of regionalisation and regionalism would have a much better explanatory power than only using either one of the concepts. It also bypasses the parsimonious aspects of either elaborating regional integration via a state centric view or through non-governmental actors. Hence, a main argument is that regional integration is a complex phenomenon not reducible to only functional or economic demands but also determine through the densification of social, political and cultural interactions within a given region (H1). In other words, the CJK FTA is a response not only to economic demands but also to an ever growing social, cultural and political interactions between China, Japan, and Korea.

2. Mapping Northeast Asia as a Region

NEA is not a region conceptualised or devised by Asian scholars and philosophers. In fact, it was constructed by western society within the understanding of Orientalism. Kim Gwi Ok (2013: 235) conjectured „East Asia was not understood by East Asians until they came to suffer from colonisation or semi-colonisation by [the] West…and was reappropriated by Japan during World War II“. This

---

7 I would like to thank Prof. Hans-Jürgen Bieling for his comments and thoughts on the applicability of the two used concepts in this paper at the German Association of Political Science Section International Political Economy Conference at the University of Kassel on the 18th May 2016.
assumption leads to the question if Northeast Asia can be seen as a region and more importantly: What defines a region?

Rinke (2010: 464) defined a region as a homogenous geographical, administrative, linguistically and culturally, religious, as well as economic distinction by others or with others. According to this definition NEA is considered difficult to describe as a region. However, Rinke’s definition may fit for certain regions such as the European Union or the North American Free Trade Agreement (NAFTA) since most regional institutions’ functions are to bring together neighbouring countries, and carry at least the assumption that such proximity and integration is based on a common interest in enhanced cooperation beyond the geographical neighbourhood. Therefore, the definition of region is not only a „geographical“ but also a „geo-psychological“ issue.

Yet, most areas in the world do not consist of such self-defined „natural regions“ and instead, are more fluid and complex mixtures of physical, psychological, and behavioural characteristics which are continually in the process of being re-created and re-defined (Pempel 2005: 3-4). Furthermore, Hemmer and Katzenstein (2002: 587) underlined that „a border…is not a geographical fact that has sociological consequences, but a sociological fact that takes geographical forms“.

2.1 The Regionness Model and its implication for Northeast Asia

To understand the regionness model, few pre-assumptions need to be clarified. The meta-theoretical origin of the model derived from Global Social Theory, Social Constructivism, and Comparative Regional studies (Hettne and Söderbaum 2000: 459). A focal assumption of the concept is that „[j]ust like nation-states, regions are highly subjective phenomena, created and recreated through discourse, identity and cognitive resources“ (Söderbaum 2016: 162). In other words, when we talk about regions we talk generally about regions in the making (regionalisation). Therefore, the regionness model gives us the possibility to gauge the „different processes of regionalisation in various fields and at various levels“ to classify its cohesiveness and distinctiveness (Hettene and Söderbaum 2000: 261). Hettne and Söderbaum (2000: 261) seek to describe and explain with their concept the „process whereby a geographical area is transformed from a passive object to an active subject capable of articulating its transnational interests of the emerging region“.

Table 1 summarised the regionness model with its different stage development approaches. Regarding the model, we can classify NEA as a region in transition from a Regional Social Complex to becoming a Regional Society. In the case of Regional Social Space, the first stage of the regionness model, Pempel (2005: 1) correctly portrayed Northeast Asia as a region which „has at least a century-long history of
internal divisiveness, war, and conflicts...the region, furthermore, is exceptionally diverse culturally, linguistically, and religiously”. According to Pempel the area inherited multiple cultural-religious traditions such as Sinic, Japanese, Buddhism, and Christianity.

They also differ on a geographical, demographical, and political lines. On a geographical and demographical level China is the fourth biggest country in the world and the second biggest in the region, after Russia, with a range of 9.5 million sq km\(^8\) and has the biggest population in the world with 1.3 billions inhabitants. In comparison, Japan has an area range of 377.915 sq km\(^9\) and a population of just 127.103.388. Whereas, Korea has a range of 99.720 sq km\(^{10}\) and a population of 49.039.986. For scholars in the discipline of regional integration, differences in geography and demography count for little. However, in case of migratory processes, varieties on both dimensions could have a distinct impact on future integration policy decision-making processes. Furthermore, population and geography has an effect, albeit muted on state powers. As Mcnicoll (2005: 55) argued populations have a “residual influence on economic and military capabilities…population numbers can partly make up for disadvantages in technological levels and organisational prowess, and among countries at comparable levels of development, population is a simple index of economic weight”.

---

\(^8\) Source CIA Factbook 1. Russia (17 million sq km); 2. Kanada (9.9 million sq km); 3. USA (9.8 million sq km)

\(^9\) In country comparison to the world Japan ranked 65th.

\(^{10}\) In country comparison to the world Korea ranked 109th.
Table 1: Hettne and Söderbaums Regionness Model

<table>
<thead>
<tr>
<th>Degree of Institutionalisation and Intensity</th>
<th>Stages</th>
<th>Definition and Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Regional Social Space</td>
<td>A region is rooted in territorial space; political, economic, and cultural attachment of a geographically bounded community by history</td>
</tr>
<tr>
<td>Low - Medium</td>
<td>Regional Social Complex</td>
<td>Regional social contacts and transactions between previously more isolated and autochthonous groups</td>
</tr>
<tr>
<td></td>
<td>Regional Society</td>
<td>Emergence and solidification of a variety of processes of communication and interaction between multitude of state and non-state actors</td>
</tr>
<tr>
<td></td>
<td>Regional Community</td>
<td>Transition of a region from a passive objective into an active subject; regional civil society; convergence and compatibility of ideas, begin of institutionalisation</td>
</tr>
<tr>
<td>High</td>
<td>Regional Institutionalised Polity</td>
<td>Alike but by no means identical to state-formation and nation-building, convergence of former sovereign political communities into a new form of political entity</td>
</tr>
<tr>
<td></td>
<td>Regional Actorness</td>
<td>Region’s ability to influence the external world and its role in global transformation; Internal cohesiveness and identity</td>
</tr>
</tbody>
</table>

11 This table was created by the Author with contents from:


Friedberg's (1993) statement as NEA is „ripe for rivalry“. However, all those transnational disputes, conflicts, and animosity are issues on a state-to-state level.

On the positive scale of transnational exchanges, the reality looks somewhat different if we take a look on a society-to-society level and the private sector. NEA is extremely interconnected in trade and investments, cross-border production, banking, technology sharing, pop culture, transportation, communication, environmental cooperation, crimes, drugs, disease control, as well as personal contact such as intra regional telephone, mail communication, tourism, shipping and aviation, and legal and illegal migration (Pempel 2005: 3). On that scale, NEA presents itself as a cohesive and interconnected region with strong interdependent ties among each other. Thus, NEA is not „ripe for rivalry“ but „ripe for [more] cooperation“ (Pempel 2005: 3). In addition, Higgot mentioned (1997: 238) „the yardsticks of „regionness“ will vary by the number of policy actors in a given group of countries at a given time see as their political priorities“. Furthermore, since the Asian Financial Crisis in 1997/1998, a change in the political scenery is observable. China, Japan, and Korea realised that the best way to circumvent future financial and monetary volatility and instability is through cooperation (Böhmer and Köllner 2012: 2). This enlightenment leads to their first trilateral meeting at the ASEAN +3 summit in 1999. After this meeting, all three participants decided to meet on a regular basis.

After 1999, over 100 trilateral projects in economical, social, and cultural areas were conducted to enhance and deepen cooperation. It is thought that such cooperation has had the biggest effect on the economy of all three nations. Between 2005 till 2010, the trade volumes between them increased about 60%. In 2010, trade among each other accounted for US$ 580 billion. Because of this positive

---

12 The Senkaku Islands are called Daioyu in Chinese.

13 The Dokdo Islands are called Takeshima in Japanese. Alternatively, this Island is also called as Liancourt Rocks in western hemisphere.
development China, Japan, and Korea established a secretary for trilateral cooperation in 2011 and decided to negotiate a feasible joint CJK FTA (Böhmer and Köllner 2012: 2). The first round of negotiations started on January 7, 2012. To date, they have completed four rounds of negotiations.

Beside numerous economic oriented projects, the three nations also participated in political, ecological, and social cooperations. An example for ecological cooperation is the regular meeting of environment ministers. Since 1999, all three nations tried to combat the challenge of sandstorms in the Chinese desert, which blow sand and dust into Korea and Japan causing health problems for residents of all effected nations. The general strategy of cooperation in this area has followed a repeating pattern where Korea initiates a trilateral meeting, Japan provides the technology and China implements the agreed intervention. Other ecological projects are environmental education, biodiversity, pollution control, and promotion of renewable energy (Yoshimatsu 2010).

On the social scale, the three nations cooperate on different cultural projects, on the promotion of tourism, and especially, around exchange programs for students, adolescents, and other groups. In 2011 for example, China showed efforts to support Japan's crippled tourism sector by allowing national travel agencies to provide oversea tours to Japan (Böhmer and Köllner 2012: 4). In addition, there was an increased exchange in the field of science, including the noteworthy Trilateral Joint Project, between the Development Research Centre of the State Council of China, the National Institute for Research Advancement of Japan, and the Korea Institute for International Economic Policy. All three institutions have worked together and consulted their governments around the creation of a joint FTA for the benefit of all three economies.

In case of political cooperation, all regional actors ratified the "Joint Declaration on the Promotion of Tripartite Cooperation among Japan, the Peoples’s Republic of China and the Republic of Korea" where the participants aimed for stability, wealth, and peace in the region. Since Japan’s natural and nuclear disaster in 2011, all nations also participate on the non-traditional security level such as mutual emergency aid and joint prevention projects for natural and nuclear disasters. In May 2011, the leaders of China, Japan, and Korea announced the declaration of Cooperation on Disaster Management. The declaration outlines the willingness of all participants to strengthen their efforts to cooperate in order to reduce the damage of disasters in the future. At the trilateral summit on the Jeju Island in 2010, all three agreed to accomplish the „Vision 2020”, and collectively agreed to support increased cooperation in the fields of economy, ecology, and social and cultural exchanges.


However, the trilateral relations between China, Japan, and Korea are still superficial and fragile. Their cooperation is based on the strategy of avoiding sensitive and controversial topics to provide functional cooperation around topics like territorial disputes, coping with the past, and national sovereignty were not covered in the political cooperation discussions. I argue that a CJK FTA has the possibility not only to solidify the transition into a Regional Society but also at the same time pave the way for the next regionness stage in becoming a Regional Community.

2.2 The Importance of the Region Northeast Asia

Beside the ambiguity and complexity of NEA’s regionalisation, we also have to take the importance of the region into account. NEA counts about 1/7 of the world’s population. Additionally, it holds around 17.5% of the global trade volumes and a combined 20% of the global GDP\(^\text{16}\). China’s fourth and fifth trading partners are Japan and South Korea\(^\text{17}\). For Japan, China is the second top trading partner, whereas Korea is its 8th biggest partner in total trade\(^\text{18}\). South Korea's top trading partner is China, while Japan ranked fourth in total trade with Korea\(^\text{19}\). This kind of trading pattern revealed the deep interconnectedness of the region on an economic scale. On a military scale, China and Korea, amounted to a bulky number of military forces and spendings (Shambaugh 2008: 7). China’s military spending accounts are about 2% of its GDP. In addition, they have an active military force of 2.8 million soldiers, the largest standing army in the world\(^\text{20}\). On the other hand, South Korea utilises approximately 2.6% of its GDP on military expenditure and has an active military presence of nearly 634,500 soldiers (Ko 2015: 10)\(^\text{21}\), the sixth largest army in the world. In the case of Japan, prime minister Shinzo Abe decided to increase Japan’s military expenditure and forces because of its island disputes with China\(^\text{22}\). It currently spends 1% of its GDP on military/defences affairs and has a standing army of 259,800 soldiers.

---


\(^{17}\) European Commission (2016). *China EU Bilateral Trade and Trade with the World*. European Commission 26th June 2016


\(^{19}\) European Commission (2016). *South Korea EU Bilateral Trade and Trade with the World*. European Commission 26th June 2016


\(^{21}\) 고상두 (2015). *한반도 분단극복과 통일을 위한 준비과정 (Preparation steps to overcome Division and Unification on the Korean Peninsula)*. 한국 대학원 한반도 통일 토론회. 베타린 2015.

As revealed, NEA has an important impact on world affairs and goes through the transition from a passive object in becoming an active subject. Therefore, the imminent emergence of a CJK FTA can be interpreted as the beginning of regionalism, since a trilateral FTA can be seen as a top-down political response by Northeast Asian states to a bottom-up process of regionalisation by the economic and the societal sector. On this basis, this paper will examine the possibilities of regional integration processes. Since NEA is a region characterised by complexity and ambiguity, it is not enough to examine the region only through a state-to-state lens, indeed it is also necessary to consider a society-to-society level. Therefore, the next section of the paper tries to explain the possibility of an CJK FTA by using Mattli’s theoretical framework of regional integration.

3. International Political Economy and its implication for Northeast Asia

3.1 The meaning of „Integration“ in the context of International Political Economy

Scholars of IPE invariably define integration in connection with -as the name suggests- the economy. In their view integration is defined as the inclusion of several economy units into one economy. The focus of integration lies on „market relationships among goods and factors of production within a region and assume away the relevance of institutional and political forces…[and a focus on] the welfare effect of integration [for participant units]“ (Mattli 1999: 11). States might not be involved but should provide advantageous pre-conditions for such a process to unfold. Balassa (1962: 1) defined economic integration as „a process and a state of affairs. Regarded as a process, it encompasses measures designed to abolish discriminations between economic units belonging to different national states; viewed as state affairs, it can be represented by the absence of various forms of discrimination between national economies“. IPE integration is driven by market pressure to increase and improve national economical outcomes, for instance, increase welfare maximisation and Gross Domestic Products (GDP. Therefore, its assumed aim is to increase prosperity of ones or all participants. Furthermore, Balassa (1962: 2) differentiated between economic integration and cooperation. Unlike integration, which aims to eliminate all trade discrimination, cooperation entailed per se actions of „lessening“ discrimination. Differing from NF, scholars of IPE assume that integration schemes such as free trade areas, a customs union, or an economic union go beyond the removal of border barriers (Mattli 1999: 14). To amalgamate different economic units, policy adjustments, coordination, and harmonisation by transnational institutions are necessary. Institutions are required „to adopt common rules of origin, common commercial policies, common

---

23 Even tough, I am using the CJK FTA as the origin of my analysis, I am not going to analyse directly and explicitly the CJK FTA itself but only in concert with Hettne and Söderbaums regionness model and Mattli’s theoretical Framework. For further information on FTA I recommend: Baldwin, Richard; Jaimovich, Dany (2012). Are Free Trade Agreements contagious?. Journal of International Economics Vol. 88. pp. 1-16
investment codes, common health and safety standards, or common macroeconomic policies (Mattli 1999: 14). Generally, scholars of IPE are under the impression that economic cooperations leads automatically to economic integration and ends up in political integration.

3.2 State of the Art

After the end of the Cold War, old regionalism theories such as Neo-Functionalism had low explanatory power over the emergence of new integration processes, for example, the establishment of a European single Market, Mercosur or the ASEAN Free trade Area (AFTA) (Breslin, Higgot & Rosamond 2002: 4). A new wave of regionalism studies has evolved, the so-called new regionalism which has a main focus on economic interdependence through the emergence of a global market (Schirm 2002: 1). One of the most noteworthy theories derived from new regionalism is the theory of IPE. IPE tries to explain integration processes through the desire of states to enhance market competitiveness on the global, regional, and domestic sphere to enhance welfare gains for participant actors.

Balassa was one of the first scholars to elaborate the theory of Political Economy in the sixties. Over time, scholars such as Robert Loring Allen (1963), Jagdish Bhagwati (1971), and Walter Mattli (1999) enhanced and solidified those theories in the discipline of social sciences. According to Allen (1963: 450) Balassa’s theory purported that every integration condition starts with the elimination of trade barriers among two or more states. Further, economic integration has four different coherent forms of integration levels as showed in Figure 1: Free Trade Agreement (FTA), Customs Union (CU), Common Market (CM), Economic Union, and Political Union (PC).
Hosny (2013: 133-134) defined the different levels of integration as follows: FTAs entail the abolishment of trade barriers among members but allow each member to keep their tariff barriers to non-member states. CUs enhance an FTA by allowing members to apply a common external tariff on imported commodities by non-members. CM expands a CU in which members agree to free movement of labor and capital. The final stage of economic integration would be the establishment of an Economic Union in which monetary and fiscal policies are harmonised and adopted by all members. The logical consequence of an Economic Union is the establishment of a Political Union. The following part will illustrate the incentives of integration processes in IPE.

Different from Neo Functionalism which holds the assumption that the incentive for integration is its capacity to sustain stability and peace in a region (Haas 1964; 1968), IPE holds the opinion that the most significant incentive of regionalism is to maximise welfare gains and prosperity by market expansion. The IPE literature shows two kinds of incentives for regional integration. First, the traditional incentives are a more state focused approach with the associated goal of maximising ones welfare through preferential trade. Viner (1950) developed a measurement with the concept of trade creation and trade diversion to

---

24 Figure was illustrated by the author with content sources of Rodrigue, Jean-Paul: http://people.hofstra.edu/geotrans/eng/ch5en/conc5en/ economicintegration.html. Access on 10. September 2015
gauge the prosperity effect of economic integration schemes. Trade creation means that two states would be better off when both eliminate trade barriers, for instance, throughout a FTA to promote and deepen their trade of goods and products. Such trade agreements give member states advantages in trade, at the expense of non-members who suffer prosperity losses since member states prefer to trade amongst each other rather than trading with non-members (Korea Economic Institute et al.: 23). This is called trade diversion which means, in other words, one man’s loss is another man’s gain.

The second incentive for integration in IPE is a more up-to-date approach. It has its main focus on export orientation, market allocation of resources, and trade of all goods, services, and investments (Lawrence 1997: 19). Further, Lawrence (1997: 18) argued that new incentives emerged through the change of economic environments, conditions, and variables such as private sector participation, competition, foreign direct investment, global market and the important increase of services, which changed the scene of regional integration theories. Nowadays, state governments have a focus on aiding national corporations to improve their trade volume as well as expand one’s own market and consequently secure global market accesses.

3.3 Mattli’s Theoretical Framework of Regional Integration

As aforementioned, Mattli tried to explain regional integration by using the NF approach in concert with the explanatory power of IPE. For him NF failed to answer: What exactly are the incentives that render nation states obsolescent? Why is decision-making at the supranational level more efficient? Furthermore, what role do external events play in regional integration? And, what is the impact of community building on non-members (Mattli 1999: 10)?

As shown in Figure 2, for Mattli regional integration depends on internal and external factors which have to be fulfilled in order to enable the promotion of integration within a region. Internally, a region is only willing to promote integration if two internal conditions are fulfilled: demand and supply conditions. Externally, Mattli also analysed the question of what happens if outsiders seek to become insiders of an already existing regional institution.
Demand conditions in Mattli’s (1999: 43-44) work imply that as a result of a more and more intertwined world, the scope of markets goes beyond the boundaries of nation-states. Douglas Webber (2003: 128) explained the process as follows: „[regional integration is more likely if there is] a significant potential for economic gains from market exchange in the region that is to be integrated“. The advantages of broader markets or expanding one’s own market with others are amalgamation of the productivity which lowers the average cost of outcomes for corporates, lowers labor and material costs, increases access to resources, faster appreciation schemes and the increase of investments. All those advantages lead to investment flows and generate trade which consequently attracts more investments. Mattli further assume that actors/nations who pursue gains from a broader market through a so called market pressure, seek to change an existing governance structure in order to achieve those gains to the fullest magnitude and create a willingness of one nation to cooperate with others. A national economy plays an important role in creating such a demand condition. Therefore, a strong market pressure is a significant pre-condition of successful regional integration.

25 The figure was illustrated by the Author.
Mattli’s second concept for regional integration is the „supply condition“: A region needs a „benevolent and indisputable leader“ to promote regional integration. Such a leader contains the function to be „a focal point in the coordination of rules, regulations, and policies and also help to ease tensions that arise from the inequitable distribution of gains from integration“ (Mattli 1999: 42). A disadvantage of the current anarchic international system is a high level of mistrust among national states. Therefore, if an indisputable leader is to emerge such a leader will need to be guaranteed by the „provision by an integration treaty for the establishment of „commitment institutions“, such as centralised monitoring or third-party enforcement that help to catalyse the integration process“ (Mattli 1999: 42-43).

In contrast to NF, IPE places a focus on external factors as an incentive for regional integration (Mattli 1999: 59-63). What if an outsider seeks to become an insider of an already existing regional institution? As mentioned above, regional institutions or agreements have many effects on outsiders (trade creation and trade diversion). Most of the effects have a negative outcome such as loss of market access or access under worse conditions. In other words, outsiders sooner or later will experience discriminatory trade policies and therefore losses of prosperity. An outsider can become an insider through two options: First, it can join an already existing regional institution. Or secondly, if it is unwanted by an already existing regional institution because it has no net positive contribution to the institution or simply no geographical proximity, the outsider can create its own regional institution. This latter option is only available in cases that fulfill the aforementioned conditions of supply and demand.

A significant distinction between the theory of NF and IPE is that NF is seen as a top-down process whereas IPE bases its foundation on a bottom-up process through market and corporate pressure. States have more a secondary role in the process of integration in IPE.

3.4 Application for Northeast Asia

This section's main focus is on the impact of a FTA for North East Asia and why China, Japan, and Korea should conclude a CJK FTA, as well as elaborating if internal and external conditions are set for further economic or indeed political integration within the region.

A perfect method to reveal reasons for conducting a FTA is to show the economic interconnectedness of participants through bare figures. China, Japan, and Korea are ranked amongst the ten strongest export and import nations worldwide (WTO 2013a; 2013b; 2013c). According to the World Bank (2012) China holds 8.8% of the World’s trade, Japan 4.3%, and South Korea 2.8%. In the case of GDP, China is ranked

---

second, behind only the United States of America. Japan ranks third, and South Korea ranks 15th on this world list (World Bank 2013). Those numbers reveal the importance of all three economies in global terms, and therefore, the importance of NEA.

Since 1999, a trilateral joint research on economic cooperation between China, Japan, and Korea were created by the Development Research Centre of the State Council of China, The National Institute for Research Advancement of Japan, and the Korea Institute for International Political Economy to show the importance of their economic cooperation. A joint research in 2003 conducted by the aforementioned institutes revealed that all three countries would benefit from a CJK-FTA. A model simulation showed that China’s GDP would increase by 1.1-2.9% and its economic prosperity would expand to $4.7-6.4 billion. Japan would gain 0.1-0.5% in GDP and $6.7-7.4 billion in economic prosperity, and South Korea would gain 2.5-3.1% in GDP and $2.5-3.1 billion (Trilateral Joint Research Project 2004).

Such positive economic development in NEA would consolidate the regions position as a key motor of the world’s economy. Therefore, scholars of IPE would argue that the next step to maintain such positive development is to demolish trade discrimination among regional states to secure and improve current productivity, attract international investors, and to improve international and intra-regional trade among themselves and third members. Figuratively, a strong market pressure exists in NEA and, practically, this would fulfill the demand condition which is why China, Japan, and South Korea initiated negotiations for a trilateral FTA.

For NEA the complication lies not in the demand condition but in the supply conditions. It is difficult to predict who could hold the position of a benevolent and indisputable leader. China and Japan are strong enough to take over such a position; however, political animosity and disunity frustrate the emergence of such a leader. During the Asian Financial Crisis Japan tried to push forward regional integration in East Asia by proposing an Asian Monetary Fund but was rebuked by the International Monetary Fund (IMF) and the US Treasury (Lipsy 2003: 93). The failure of Japan's attempt undermines its potential as a leader for the region. In short Japan is too dependent on the USA. In China’s case, it was a very passive actor before the Asian Financial Crisis regarding regional integration and had a main focus on its domestic economy rather than on NEA. Yet, after the crisis China realised its role in East Asia and its dependency on its neighbours, pushing forward the case for regional integration. A CJK FTA could be the next big leap forward for China after participating in ARF, APT, as well as, ASEM. Nevertheless, it seems very doubtful that one of them will emerge as an undisputed leader in the region. Indeed recent developments revealed that there is a high likelihood that even if one of them tried to take over the position of a leader the other members would oppose such a process.
The origin of Mattli’s concept of a supply conditions derived from Kindleberger’s idea of „hegemonic stability of the international economic system, [with a] underpinning argument by reference to rational choice theory, specifically to the utility of a regional leader in resolving collective action problems that arise when no state in interaction with others can choose its policy without knowing what the other states intend to do, but there is no obvious point at which to coordinate“ (Kindleberger 1973: 291-308; Mattli 1999: 55-57). His initial thought was the EU model with Germany as an undisputed leader. Nonetheless, Webber (2003: 129-130) argues that Germany might be a benevolent „paymaster“ in the EU, but not necessary an undisputed leader. Moreover, the leadership in the EU is provided by a coalition of France and Germany. China and Japan have such a capacity to form an alliance, however, it is unlikely to happen since the aforementioned ongoing disputes. On the contrary, Korean scholars hold the opinion that Korea can take over as a mediator between China and Japan, just as the Benelux States did in the EU’s case, to promote the idea of CJK FTA and regional integration (Ko 2015: 14). Even if a CJK FTA would be accomplished in the near future, the failing of a supply condition could have a mischievous effect on further economic and political integration within the region.

However, working in the favour of future regional integration, the slow occurrence of national economic difficulties in all three nations strengthens the cause for economic integration. As table 2 shows: In the last five years, China, Japan, and Korea suffered a huge decline of annual Gross Domestic Products (GDP). Additionally, the recent collapse of Chinese stock market is another reason for the decline of the economic prosperity within the region. Further, China’s export oriented economy is at risk if its annual growth keeps declining as it did. The government in Beijing already took actions to circumvent such a negative trend by devaluing its currency27 in August 2015. Yet, such a devaluing policy can have a very negative effect on the already fragile relationship with its neighbours Japan and Korea, considering this would give Chinese corporates a much bigger advantage28 towards other competitors. For Japan, since the 80’s its economy is continually declining or stagnating, reaching its lowest point in 2009 with -5,5 in GDP annual growth. Japan’s current Prime Minister Shinzo Abe took action in improving the nation’s economy by implementing „Abenomics“29, a plan to vitalise Japan’s stagnating economy by fiscal expansion, monetary easing, and structural reforms. However, according to the statistics of the World Bank a positive change is still missing so far. At present Korea’s economy might be one of the most stable in the region.


28 A devaluated yuan towards the US dollar makes Chinese products cheaper on the international market and hindrance imports to China. Consequently, Chinese corporates have a much bigger advantage towards other competitors with a more valuable currency on national and international markets.

Even though its annual growth has shrunk since 2010, the Korean government is on the way to improving their economy and fostering growth by ratifying FTAs with the EU and the US. Nevertheless, a continued deterioration of Japan and China’s economy will have a disastrous impact on Korea’s economy. A CJK FTA could leverage the issue of declining growth and increase the annual GDP growth in NEA (Lee and Ko 2013: 275). However, according to the current status of negotiation an agreement is far from being reached\textsuperscript{30}.

Table 2: Annual growth GDP (%) of China, Japan, and Korea from 2009 - 2014\textsuperscript{31}

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>9.2</td>
<td>10.6</td>
<td>9.5</td>
<td>7.8</td>
<td>7.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.5</td>
<td>4.7</td>
<td>-0.5</td>
<td>1.8</td>
<td>1.6</td>
<td>-0.1</td>
</tr>
<tr>
<td>Korea</td>
<td>0.7</td>
<td>6.5</td>
<td>3.7</td>
<td>2.3</td>
<td>2.9</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Another issue which undermines the impact of Mattli’s secondary condition of economic difficulties is that, unlike in previous decades where national politicians in NEA justified their politics with strong economic growth\textsuperscript{32}, current leaders in China, Japan, and Korea also use historical mutual animosity to solidify their power and enhance nationalism within each states (Choo 2006: 48-49). Such a paradox is counter-productive for further integration beyond economic cooperation. As elaborated above, the roots of mutual animosity derived from past relations among the regional states\textsuperscript{33}, discrepancies in economic development levels, as well as ethnic homogeneity hampering the process of political integration and the ability for confidence building in the region (Choo 2006: 46).

\textsuperscript{30} The CJK FTA negotiations are deadlocked because of disagreements and disunity in the field of agriculture and labour movements as well as the political and territorial disputes. A CJK FTA would flood Japan and Koreas market with Chinas agriculture products and slowly wreck their agriculture. Additionally, Korea and Japan’s government are not willing to pay to immense cost of agriculture subsidisation. There is also a disagreement in the field of labour movements.

\textsuperscript{31} Source: http://databank.worldbank.org/data/reports.aspx?

\textsuperscript{32} The Communist Party in China used Deng Xiaopings economic opening in 1979 to justify its rule. In Japan's case, the „55 System“ was more or less accepted because of Japan’s growth during that period. And South Korea’s former dictator Park Chung Hee ruled for 18 years based on the success of the „Miracle on the Han River“.

\textsuperscript{33} Most noteworthy is the undigested colonisation of China and Korea by Japan during World War II and Japan's distorted managing of their imperialistic history.
According to Mattli’s theoretical framework, only one out of two internal conditions was set. The missing of a supply and the only partly present secondary condition of economic difficulties could have disastrous consequences not only for NEA’s regional integration but also for China, Japan, and Korea’s trilateral relationship in general. However, from an external perspective there are reasons in favor for economic integration within the region. In particular, ongoing negotiations over a Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU could have a positive effect on regionalism in NEA.

As mentioned earlier, an FTA has the ability to intensify and deepen foreign trade between participants (trade creation), yet it also has the ability to discriminate against trade with third parties (trade diversion). Therefore, what implications does a TTIP have for Northeast Asia and why is it significant for regionalism in Northeast Asia? A survey conducted by the IFO Institute came to the conclusion that an accomplished TTIP between the US and the EU would boost their foreign trade and increase import and export flows, as well as add new jobs for both nations (Petersen 2013: 2). However, such an FTA would reduce trade activities with third parties. Therefore, third parties such as those in Northeast Asia would experience high losses in exports and imports. According to the survey, a TTIP would have a big negative effect on China. Their export volume with the US would drop from around US$ 327.5 to 218 billion. The US would also cut their import to China and South Korea by one-third of their current volume. Furthermore, the survey also mentioned that only Japan would not be affected by a TTIP because of their diverse commodities which western consumers would still value. Even if Japan would have no loss in export and import flows, a TTIP would nevertheless have a negative effect on Japan’s welfare-effects (Petersen 2013: 3-8). In general, all Asian countries would experience losses in GDP, except for South Korea which would have a marginal surplus of 0.74% (Figure 3) since it has already accomplished FTAs with the US and the EU.

As elaborated above, if third parties are excluded from a regional trade institution or agreements and, at the same time experience disadvantages, they have two options (Outsider-effect): either join the agreement/institution or create their own one. The first option seems unlikely because of the geographical distance and the lack of current political willingness of the EU and the United States to include Northeast Asia into the TTIP. Moreover, the survey of the IFO institute revealed if a TTIP would come into effect, Asia would experience an increase in intraregional trade (Figure 4). A CJK FTA would contain approximately 20% of the world net product (Böhmer and Köllner 2012: 2) and could have a counter-balancing effect towards a TTIP.

Generally speaking, NEA is now standing at a crossroads: either boosting regional integration within NEA and reconciling ongoing disputes and overcoming the obsolete concept of nationalism, or looking
once again westward. From an economic perspective, looking west by trading with the EU and the US would give each nation access to a market of 800 million consumers\textsuperscript{34}. Korea already ratified FTAs with the EU and the USA. Japan has close economic ties with the US and has ongoing negotiations with the EU about an EU-Japan FTA. In addition, ongoing negotiations about a widening of the Trans-Pacific Strategic Economic Partnership (TPP) including the USA and Japan could have an isolation effect on China. Korea has also announced its interest in participating in a TPP. Therefore, China’s first priority should be to circumvent a possible isolation by TTIP and a TPP by, for example, completing FTA's with its neighbours. Whatever the leaders of NEA decide, they should remember the Asian Financial Crisis, with the IMF’s imposed regulation, especially in Korea. In particular, one lesson they should have learned is that becoming too dependent on the West can create high vulnerability.

\textsuperscript{34} The USA has a population of 320 Million people. The EU account 507 Million people.
excluding most of the Asian economies. A TTIP should strive to avoid such negative effects or at least keep them to a bare minimum. In particular, traditional trading partners of the two major economies should be included in the negotiations or be given an early opportunity to enter into similar agreements with them if this has not already been done. At the same time, the real welfare gains of Western industrial states should be incentive enough for them to give the losers of the agreement adequate compensation.

Results and consequences on economic policy

Intensified trade between the US and the EU would have positive income and employment effects on the economies involved. This applies in particular in the case of a comprehensive agreement that eliminates non-tariff barriers to trade along with customs duties. Welfare gains in the US and the EU would, however, be partially countered by considerable loss of real income in third countries, in particular in the case of a comprehensive agreement.

Welfare effects on Asia

One common indicator to measure welfare effects is the above cited real gross domestic product per capita. Finalization of a free-trade agreement would act on this indicator via two central channels: on the one hand by changes to international trade flows, and on the other via the price-reducing effect of a free-trade agreement. In terms of trade flows, an increase of domestic exports on the other would be partially compensated by more intensive trade activities between the Asian economies. This development is illustrated for selected countries in Figure 3.

While most Asian economies would reduce their exports to the US and EU-states in the wake of a transatlantic free-trade agreement, Japan would raise its exports to a number of EU-states (see Figure 4). This is mainly because the Japanese economy offers many products (such as cars and electronic goods) that European consumers value and that would still be in demand in spite of a reduction in prices of US imports following a transatlantic free-trade agreement.
4. Conclusion and Prediction for Northeast Asia

The aim of this paper is to answer the following questions: Can NEA be classified as a region despite the heritage of political and territorial disputes? What lessons can be learned from Hettne and Söderbaum’s regionness model as well as Mattli’s theoretical framework regarding a CJK FTA? And consequently, is there a substantial link between regionalisation and FTAs? To frame the level of Analysis two Hypotheses were set up:

**H1:** Regional integration is a complex phenomenon not reducible to only functional or economic demands but also determined by the densification of social, political and cultural interactions within a given region. Therefore, a CJK FTA is an emergence of regionalism within NEA as a result of an ever more intensifying regionalisation process of the region and only to some extent related to economic factors.

**H2:** A CJK FTA has the capability to foster NEA as a regional society as well as path the way to become a Regional Community.

As analysed with the Hettne and Söderbaum’s regionness model, NEA is in a stage of transition from a Regional Social Complex into becoming a Regional Society. An implementation of a CJK FTA would not only solidify this transition and pave the way for becoming a Regional Community but it would also contain political, economic, and cultural improvements and advantages for the region itself. On a political scale, in becoming a Regional Society through a CJK FTA could facilitate a first step towards a confidence and trust building process which the region desperately needs if it is ever to overcome current historical, political, and territorial disputes. Japan’s Prime-Minister Shinzo Abe made a first step for trust building within NEA by refusing to visit the infamous Yasukuni Shrine since 2013 and admitting remorse for Japan’s brutal behaviour towards its neighbours before and during WWII. Böhmer and Köllner (2012: 7) take the line that a CJK FTA has the potential to create a foundation upon which a multilateral cooperation and regional integration could be built on to resolve potential building blocks on the path to resolving the existing conflicts between China, Japan, and Korea.

In the case of economic advantages, a CJK FTA could boost the deteriorating economic conditions of China, Japan, and South Korea. However, we have to keep in mind that even in the absence of an RO, NEA remains a remarkably stable region. From where we stand, it seems that integration on an economic and political dimension is not needed. However, the decline of China, Japan, and Korea’s annual GDP growth reveals an underlying fragility within the current status quo. Implementing a CJK is a logical step to strengthen their economic interdependence to boost intra-regional trade, to improve its production
network, and to extend its technological exchange which consequently results in a comparative advantage vis-à-vis other regions. In addition, such an FTA could counterbalance the negative effect of TTIP on NEA. Especially, China has to remember that it needs its neighbours, considering not only TTIP but also TTP.

On a cultural scale, if we hold the assumption that a CJK FTA has the possibility to create more multilateral cooperation between the participant states, as well as the beginning of a formal institutionalisation process, it can be assumed by implication thereof that cultural exchanges have also the possibility to increase and deepen more than it already has. In an optimum case, this would increasingly promote a convergence of ideas and create the opportunity of an emergence of a regional society. Thus, such a process would transform NEA from a passive object into an active subject and, therefore, fulfill the conditions of the fourth regionness stage: Regional Community.

According to the analysis, economy still plays an important factor within the relationship of China, Japan, and Korea, especially, with the proceeding of TTP and TTIP. Yet, mere economic and functional demands are not capable to give an answer to the question of why a FTA was not agreed or negotiated earlier. On the other hand, taking regional political, cultural, and social interactions into account gives us one possible explanation why the three G20 members are currently negotiating a FTA. Therefore, H1 can be considered as partly confirmed. Whereas, H2 is confirmed in regard to Hettne and Söderbaum’s regionness model.

However, the Catch 22 dilemma of NEA is that an integrated region is needed to resolve disputes between the three actors, but at the same time those unsolved issues are also obstacles in the path of those attempting to implement regional integration processes. Therefore, regional integration has to start somewhere, be it with or without an FTA. The importance of such a step is that it shouldn’t be the last step. Regional Integration is both time and energy consuming; however, one should not simply give up the process. Integration is a process and not a product, and needs constant work to ensure that it doesn’t stall (Schmitter and Kim: 16-17). For NEA, a more integrated region champions the potential offered by integration as building block towards overcoming historical, political, and territorial disputes, as well as, economic recession and stagnation (Park 2010: 154).
5. References


- Schmitter, C. Philipe; Kim, Sunhyuk (no year). *Comparing Processes of Regional Integration: European Lessons' and North East Asian Reflection.*


27


- World Bank (2012), World Development Indicators Dataset

- World Bank (2013), World Development Indicators Dataset


