For the first time in life, I lament the order of the Roman alphabet, which has me going first on this particular panel, not an enviable task, because it's not quite clear to me at least exactly what the parameters, the limits, of this topic are. Let me start by talking about the economic dimension of East Asian community building, because I think that is a little easier to get one's arms around.

Regionalization or economic integration is well advanced within East Asia. If you compare the three regional groupings of East Asia, the North American free trade area and, of course, the European Union, at present some 50 percent of Asian trade coming out is intra-Asian trade, trade with other Asian countries. That is roughly the same or even slightly greater than the percentage of trade of the NAFTA countries that takes place with each other. It is, of course, lower than the intra-European trade of the EU countries, but surprisingly not all that much lower.

More importantly perhaps, intra-Asian trade as a percentage of the total has been growing in an extremely rapid pace over the last 20 years or so. It is now around 50 percent. Back in the early 1970s it was down in the range of 30 percent. It is growing because Asian economies are growing and, as the Asian economies grow, they come together. The primary instrument of this economic integration has been and continues to be foreign direct investment.

In the 1980s and early 1990s, the engine of growth of Asia was Japanese foreign direct investment into the rest of the region. Particularly after the Plaza Agreement in the mid-1980s, Japanese companies were eager to get out from behind the then expensive yen and they began moving production facilities into Southeast Asia and a few years later into China.

The current engine of growth within Asia is, of course, China and it is foreign direct investment coming into China from outside the region and, importantly, from inside the region, from the other Asian countries that is driving Asian growth. We see the growing phenomenon of regional supply chains with multinational companies establish production bases in several Asian countries, tying together their production. They are also now beginning to produce for consumption not only outside Asia but, importantly, over the last few years within Asia.

Asian growth is not only leading to Asian economic integration, it is also fueling the rise of an Asian middle class, which increasingly thinks of itself not only as Japanese or Chinese or Taiwanese, but also as “Asian.” Growth and the economic phenomena are creating a sense of community among some Asians within the region.

Now, I wouldn't want to exaggerate all this because it's not as though all Asians are suddenly willing to live in harmony with all other Asians. But in any case, it's interesting to note that in contrast to Europe where, after World War II, leaders established economic integration as a political goal, in Asia economic integration has taken place almost entirely as a result of the market.

This integration is purely market driven. There is not, or at least has not been until now, very much effort by governments to guide or accelerate that economic integration. But as some Asians say now, the facts on the ground, that is to say this growing economic regionalization is beginning to drive government policy. For the last decade or so, there is rising interest in what some might call regionalism as opposed to regionalization; regionalism in this case being the growth of intergovernmental institutions within Asia.
There are a couple of major driving forces behind regionalism. One is that regionalization or economic integration has created a recognized need on the part of governments to try to act together to manage this process of economic integration. Importantly, in the years since the Asian financial crisis, there is a desire to try to reduce the shared vulnerability that Asian countries now experience because their economies are so closely tied together.

As they learned and we all learned during the 1997/98 economic crisis, integration creates new vulnerabilities.

If suddenly Thailand has a financial crisis, while we like to think that world investors are very sophisticated, they may wrongly conclude that Indonesia also has a financial crisis. In any case, the contagion effect across the Asian economies and the resulting economic devastation was a big reason why Asian governments began to look to one another and to common institutions for some form of insurance against the vulnerability that they had experienced.

The other reason, of course, is that in the immediate aftermath of the Asian financial crisis, a lot of Asians were severely disenchanted with the global institutions that had been set up to manage this sort of affair. The IMF, by and large, was not seen in Asia as having played a very correct or proper role in resolving or managing the Asian crisis.

In all honesty, speaking as someone who was involved as an official in the U.S. government then in Korea, I must say that Asians frequently assessed the role of the United States as our having arrived too late with too little. There was a belief that we had not somehow handled this crisis in a way that would have avoided some of the very severe dislocations that took place within individual countries.

In any case, there was a renewed focus by Asians on regional cooperation as opposed to global cooperation. Even during the crisis itself, there were a couple of abortive efforts to start regional institutions that would, in the minds of some, have strengthened Asia's capacity to deal with this crisis, and Japan briefly led an effort to establish a regional monetary fund or a regional fund to provide liquidity to Asian economies in distress.

That was strongly opposed by the United States and did not go anywhere. In fact, during the crisis, the IMF together with the World Bank and to some extent the Asian Development Bank, remained the principal institutional tools for dealing with the crisis.

However, the Asian financial crisis set loose some forces which, not surprisingly, have caused Asian governments since then to focus on the creation of new regional institutions and, in fact, in the year 2000 at Chiang Mai, the Asian central banks or Asian governments sent up a network of central bank swaps as a line of defense against further financial crisis.

I would argue that another reason for this new focus on the creation of Asian intergovernmental institutions is very much related to what has been happening in China and especially to China's rapid growth as a major economic power within Asia.

Economic power brings political influence, and I think that China began in the late 1990s and early in this decade to see multilateralism as a very useful element of their effort to reassure their neighbors that China's rise would not have adverse implications for them. We saw in the late 1990s a distinct shift in China's attitude toward multilateral engagement in the South China Sea and other places, and China has become a leading proponent of multilateral action.

On the part of the other countries of Asia, I think there was also a desire to try to use Asian regional institutions as a way to socialize China. So it was almost a case of the Lilliputians tying down Gulliver through engagement in new regional institutions.

Now, the history of Asian regional institutions is actually fairly long. ASEAN, of course, has been around for a long time and has been a major source of at least psychological comfort to many of the countries in Southeast Asia. But there has not been a sort of pan-Asian or East Asian-wide mechanism of economic cooperation.
Then-Prime Minister Mahathir of Malaysia had a notion to create such a mechanism in the 1990s, and he proposed something called the East Asian Economic Caucus. The concept of an Asian-only grouping was fiercely opposed by the United States. I remember vividly then Secretary of State James Baker firing down lightning bolts from on high letting everyone know that this was, from the point of view of the United States, an unacceptable idea. And not too long after that, both South Korea and Japan decided that it was unacceptable, as well, and the East Asian economic caucus died "aborning."

Now, one of the results of that was that the United States became newly interested in transpacific institutions and participated in the creation of what is known as APEC, the Asian Pacific Economic Caucus or, as some have said, four adjectives in search of a noun. For the first half of the 1990s, APEC seemed to be a very promising mechanism for regional cooperation.

But at least since the late 1990s, APEC has, in my personal judgment, become little more than an annual occasion for bilateral meetings among transpacific heads of state. That is a useful purpose. But as a mechanism for active collaboration, I can understand why many of the Asian countries feel that APEC is deficient.

In 1998 ASEAN invited the three countries of Northeast Asia to join its annual summit on an informal basis, and I remember at the time I was in South Korea and still had memories of the U.S. reaction to Prime Minister Mahathir's East Asian Economic Caucus, and actually queried Washington as to whether this was something that we thought was a good idea. I didn't receive any response. Maybe we were preoccupied, but I thought maybe our view had changed.

In any case, regardless of what the U.S. view was or wasn't, the ASEAN Plus 3 Forum has continued to meet and, indeed, has continued to put in place some rather useful measures of regional cooperation.

Last year for the first time at the ASEAN Plus 3 summit meeting, they began talking about an East Asian Summit. As Jusuf Wanandi has just said, there is now a plan to have an East Asian Summit, which would meet at the end of this year. Also as Jusuf has explained, this week it has been decided that Australia, New Zealand and India will be invited to join that East Asian Summit.

There is no active discussion of whether or not the U.S., Canada, other countries that are members of APEC, would also be invited to join and I suspect that now that India, Australia and New Zealand are in and the kind of Asian essence of this idea has begun to erode a bit that there may well be more discussion of whether the United States should be a member or should not be a member.

In examining the role of the United States in all of this, I think it's important to draw some distinction between what's happening in terms of economic cooperation and what's happening in the security area. There is no active discussion within Asia that I am aware of that would imply that the East Asian Summit or ASEAN Plus 3 or any other sort of pan-Asian institution would begin to be concerned with security issues in the region.

In fact, the only regional security institution is the ASEAN Regional Forum (ARF), which meets once a year and, in the minds of some, talks about everything except what is really important in terms of Asian security. The United States is a member of ARF as are other non-Asian countries. So there is the opportunity, at least in theory, to discuss some of these issues.

For really acute security threats, we have tended to proceed on a kind of ad hoc basis and, of course, we have now had a couple of years of experience with this new animal called the six-party process, which was established at U.S. suggestion to try to deal with the problem of North Korea's nuclear programs.

I would only note that anytime you hear something described as a process, you should immediately conclude that it has not been established to resolve a problem. It has been established to manage a problem or try to keep it from getting out of control or it has been established because no one has any idea how to really resolve it. In any case, the six-party process has been grinding along for a couple of years without much to show for it, frankly, in terms of resolution of the North Korean nuclear problem.
I heard what Dr. Kissinger said yesterday, his quiet warning that Asia should be wary of forming regional associations that excluded the United States. I think if that were being done in the security realm, I would rather agree with that. It's difficult for me, however, to see that Asia's effort to draw together economically and establish more Asian cooperation is by itself threatening to U.S. interests.

I find more threatening to our economic interest the proliferation within Asia and, indeed, elsewhere in the world of bilateral free trade agreements, regional trade agreements, et cetera, which strike me as being a rather dangerous deviation from the concept of global trade norms. I prefer to see us concentrate on trying to complete the Doha Round rather than establishing all of these different free trade areas each with its own rules of origin and the sum, I suspect, not producing the kind of global trade liberalization that we all have in mind.

Finally, let me just say that as a general rule, I believe that U.S. interests in Asia are best served when all of the major Asian countries are getting along with one another. I don't think we have an interest in having better relationships with individual Asian countries than they have with each other.

I have in my mind two photographs, two snapshots, one resulting from a trip I made to Asia last July when every place I went all I heard was East Asian community building and how this was a train that was accelerating and had great momentum and it was going to transform Asian relationships. I have just come back from a trip to Seoul and Tokyo and I don't think I heard much about East Asian community building. What I heard was disputes over islands and textbooks and concerns about the rise, the return, of Asian nationalism.

Now, how these two concepts come together remains to be seen, and I think one could argue that East Asian community building is, over the long-term, the most effective possible response and defense against a return to Asian nationalism. The problem, of course, is that when there are demonstrations against other Asian countries in the streets of Asian countries, it's very hard for people who are trying to build a sense of community to get much time at the microphone or to get much time in the press and in the media.

So maybe it's too soon to issue a verdict on the future of East Asian community building, but I would only say two things. One is that it is a manifestation of what has been happening economically, and two, that by itself I do not see this as threatening to the interests of the United States nor indeed, from a trilateral perspective, threatening to the interests of Europe. Thank you.

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