

CEPS ESSAY



Thinking ahead for Europe

The Evolving Integration in East Asia - Too many reservations?

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1. Introduction

Europe, with its focus on institution-building, continues to maintain mental reservations about intra-regional cooperation in what Eurocentrics have long labelled – often in ignorance – the ‘Far East’, although economic integration is actually already practised there to a high degree. The East has even managed to find the energy needed to overcome, rather than to aggravate, their territorial disputes, while their Confucian culture’s distinction between private and public realms remains less relevant than it is in Western minds.

Indeed, East Asian economic integration is less well known in Europe than is desirable in the EU’s own enlightened self-interest. It is also badly understood, not least because a range of ‘soft’ cultural, historical and political aspects are insufficiently appreciated in Europe. The present CEPS Essay offers a deeper personal reflection on the emergence and development of East Asian economic cooperation and market-driven integration. It attempts to address some of the lingering reservations on both sides and render the reservations in East Asia more intelligible to Europeans.

The paper first sets out the basic reservations harboured in Europe and East Asia towards one another. Second, the notion of ‘cross-border’ trade cooperation and regional trade agreements is carefully (re)considered and shown to be culturally and historically (hence, also legally) distinct in East Asia from Europe. Third, a brief section on monetary cooperation is presented, basically a regional response to the IMF’s failure to help in the 1997 Asian financial crises. Fourth, more recent energy (and related environmental) cooperation is reviewed, also in the light of potentially serious territorial conflicts accentuated by tensions over access to resources. Section 5 offers conclusions.

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2. Western reservations about Asia

In earlier times, Europe worked to discourage economic exchanges within Asia¹ by dividing up the continent and its islands into separate colonies with long-lasting border lines.

Max Weber prematurely concluded in 1905 that capitalism could not work with Confucianism. After two world wars, the cold war did not stimulate movements towards cooperation in Asia either, very much in contrast to initiatives in Brussels and Warsaw at the time. Rather, Europeans saw what Gunnar Myrdal called an “Asian drama”² being played out in the Far East, and it took us another quarter of a century to wake up to the realities of the “Asian miracle” as diagnosed by the World Bank in 1993. But many in the West found their continued scepticism subsequently confirmed in the Asian financial crises of 1997. These events rocked the region from Jakarta to Seoul and provoked calls for stricter regulation in those markets. Partly with the help of the IMF, the ‘flying geese’ of East Asia took to the air again, but this time increasingly led by the ‘benign dragon’ of China. Beijing’s top-down technocracy also seems to be steering more successfully through the global crises since 2008. By increasingly decoupling the world’s second-biggest national economy from the troubles in the West, China’s ‘peaceful rise’ gets closer again to fulfilling its own name as the “Middle Country” in Asia, *‘nomen est omen’*.³

Not yet, you might interject; we have plenty of reservations yet to examine!

3. Asian reservations

First of all, there are the more than \$3 trillion of China’s foreign reserves. As these are mostly in floating Western currencies, they are therefore not independent from the fluctuations of the unruly global financial market, let alone the current economic crisis in the eurozone.

Second, even depressed Japan – not to mention dynamic South Korea – maintains its mental reservations and is not yet willing to submit to Chinese regional leadership. The autocratic ‘Beijing model’ is not (yet) a consensus. Its state-led ‘market-socialism’ may exert some impact in ASEAN countries (but now less in Myanmar since people’s protest there brought not only a Chinese dam project to a halt) and Africa⁴ (an odd and fast-growing one million Chinese already working there), beating the competition of idealistic and conditionality-bound Europe. Many East Asians consider that China has drawn the right lessons from Meiji-Japan in opening up to the outside world and doing so pragmatically with 12-year plans joining the global game. Similarly, post-war Korea successfully moved in smaller steps of respectively five years towards industrialisation, followed by a gradual opening up as well.

¹ Beyond the euro-centric acceptance of Asia as being “everything east of Europe”, authors now increasingly recognise the Asia-Europe Meeting’s (ASEM) membership as the defining criterion of belonging to either Asia or Europe – see Dinh Thi Hien Luong, “Regional Powers and the Building of an East Asian Community”, paper presented at the Asia-Pacific Conference, Keio University, Tokyo, 8 December 2005, p. 2 (http://eusa-japan.org/download/eusa_ap/paper_DinhThiHienLuong.pdf).

² See Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations*, 20th Century Fund, 1968.

³ China has regained its middle position not only in Asia, but according to the IMF, it is now the most “central” trading power in the whole world, based on its extensive links to other economies; see “Sino-dependency”, *The Economist*, 25 August 2012.

⁴ The BBC reported on 18 July 2012 that China is setting aside \$20 billion for Africa, but its reporter commented that “democracy and governance should remain up to the Africans, while the money can come from China”.

Third, most Asians seem to harbour reservations against deepening integration, in particular regarding the institutionalised version as practised without historical precedent by the EU. The Asians claim their region is too diverse and varied.⁵ They point out that the whole gamut of major world religions originates on their home ground; that you not only have some of the largest countries there like China and India, but in between also some of the smallest like Bhutan and Brunei. Asia encompasses the world's richest country, namely Japan,⁶ and just nearby one of the poorest, i.e. North Korea. The latter also features as the most closed market,⁷ in opposition to Hong Kong, which is often regarded as the most open economy. You find in Asia with India the 'largest democracy' neighbouring the small and almost absolute monarchy of Bhutan, focused on GDH.⁸ Asians likewise emphasise the maritime dispersion of spoken languages over thousands of traditionally unconnected islands.

4. Trans-border realities in East Asia

But by stressing these differences as hindering cooperation, they not only run counter to the basic principles of complementarity and magnetic attraction of opposite poles as well as their own understanding of Yin and Yang. They also overlook their very successful implementation of Ricardo's principle of trade between divergent economies.⁹ What for him was the comparative advantage of the exchange of UK textiles for Portuguese wines is now often the specialisation and economies of scale of the computer chips of one country fitting into the mother-board of another in value adding chains of production for export to third markets. With limited liberalisation in East Asia, such trade only slowly moves from the Ricardian model of favouring exporters and reciprocity, to the Schumpeterian one, where opening up to imports serves as a tool to increase competitiveness at home through the incentives it provides for the domestic industries to innovate and restructure. Under Schumpeter's verdict, the argument dominates that, if opening to the outside does not kill import-competing sectors, they only get stronger.¹⁰

While in Western cultures the understanding of the central term in market economics of 'competition' or 'concurrency' inherently emphasises the 'togetherness' (com-/con-) of such

⁵ See for instance Sung-Hoon Park, "East Asian Economic Integration and the Strategy of the EU", *Asia-Pacific Journal of EU Studies*, Vol. 1, No. 1, 2003, p. 11; Dinh, op. cit., p. 9, also points out the diversity and widening gaps in approaches toward an East Asian Community.

⁶ According to *The Economist* of 3 July 2012, Japan in 2008 even beat the United States because of its higher physical and human "wealth per person". The average Japanese had more human capital than anyone else in the world.

⁷ Although the generational change to Kim Jong-un might bring some relief, the closed market of North Korea will hardly break open suddenly, see *Financial Times*, "Beijing hints at reforms in North Korea", 15 August 2012.

⁸ Grand Domestic Happiness.

⁹ Junko Suzuki and Nobuhiro Kinoshita ("Feasibility of an East Asian FTA and Common Agricultural Policy", Kyushu University, Symposium, 1 February 2007, p. 18) ignore this basic principle of trade when they headline a chapter "Huge economic gaps hinder FTAs". They admit the huge price differences for instance for milk, in Japan costing 86 yen, in Korea 60 yen and in China only 20 yen. However, they do not blame the vested interests of the influential farm lobbies for the otherwise supported trilateral FTA, but rather want to perpetuate the protection against free trade with funds from a 'Common Agricultural Policy' of old that the EU has put to the past.

¹⁰ B. Kerremans and J. Adriaensen, "Ricardian or Schumpeterian Trade Policies? The European Union and its Motives for Engaging in Trade Liberalisation", in M. Dumont and G. Rayp (eds), *International Business not as Usual*, Ch. 6, Antwerp-Apeldoorn: Garant, 2011, pp. 95-115.

efforts, the more collective thinking in the East originally translated this term into much more of a negative rivalry of opposing forces.¹¹ In order to overcome these rivalries,¹² agreements have to be found with the other side rather than unilateral liberalisation.

Hence, after some reluctance, South Korea joined the bandwagon of East Asian bilaterals under the pressure of its big business of '*chaebol*' rather than pursue the difficult potential 'omnibus'¹³ of the WTO. As in other fields, at first following Japan and then speedily overtaking it, the peninsula started implementing Free Trade Agreements (FTAs) recently with the biggest markets in the world, the EU and the US, which still remain mere visions for its island neighbour. However, Japan and South Korea together with China started first negotiations of a trilateral agreement on trade and investment with handshakes on 26 March 2013 in Seoul that would cover 20% of the global GDP¹⁴ and could form the basis for an East Asia Community. A Trilateral Cooperation Secretariat in Seoul already serves as its inner soul.¹⁵

The leaders of China, Japan and Korea pronounce their respective names completely differently, much more at variance than accents may impact between Merkel, Hollande and di Rupo. However, in East Asia the leaders have a literally meaningful Sino-script basically in common for understanding most of its written content. Their ideological facades might look contrasting in Communist red and capitalist blue or even still the greenback's colour, if not simply black and white. But political appearances can be deceptive and personal meetings in Asia lead to more than ping-pong, as we have seen also with Nixon's encounter with Mao. Nowadays, peninsular Korea as an international hub in between the continent and the island nations might be likened to Belgium's position in the EU in various aspects. Might we see a Korean Van Rompuy emerge from the Land of the Morning Calm to reassure its neighbours and hammer out compromises on red-hot energy-filled issues between the two alleged contenders for hegemony?

But East Asia is not Europe, and our histories and cultures are clearly different. Often enough in the past, there have been struggles for hegemony in the region between China and Japan.¹⁶ Although much of Japan's learning and culture has come from the continent over millennia and China has seen the opening of Meiji Japan as a model for its own *ouverture* to the world, both countries have recently hardly enjoyed a mutual relationship free of tension.

¹¹ The word for competition 競争 (pronounced *kyousou* in Japanese) in Chinese script includes the character of rivalry; for details see Wolfgang Pape, "Socio-Cultural Differences and International Competition Law", *European Law Journal*, Vol. 5, No. 4, December 1999, pp. 438-460, in particular pp. 448-451.

¹² Professor Shujiro Urata of Waseda University and Stanford University (announced as "one of the most distinguished Japanese experts on trade issues"), also spoke of "rivalry" between Japan and China as well as Japan and Korea in his presentation on "The Growth of FTAs in East Asia", 9 July 2012 at a meeting organised by the Madariaga Foundation in Brussels.

¹³ In its literal Latin meaning of 'for and by all', cf. definition of 'omnilateralism' by the author in Wikipedia; further details on his blog (<http://omnilateralism.blogspot.be/>).

¹⁴ As reported by NHK World Services Radio (in Japanese) on 26 March 2013 in the evening Tokyo time.

¹⁵ See details on its website (<http://www.tcs-asia.org>).

¹⁶ See Christopher M. Dent, *East Asian Regionalism*, Milton Park, 2008, pp. 172-176, Case Study 5.2 "Japan and China - hegemonic rivals or regional co-leadership?". However, Dinh, op. cit., p. 1 and passim, calls them only "regional powers" in competition but implies in her study that they are the only ones in the East Asian region. Yinan He (in *Alternatives Internationales* No. 57, December 2012, "Le marché peut prévenir la guerre mais pas la haine", p. 38) reminds us Europeans of "les relations relativement pacifiques qu'entretenaient les deux pays dans leurs histoire antérieure".

While Western colonialists threatened China into opening the country's ports, Japanese troops invaded other parts of the Middle Kingdom. At the same time as the Chinese Communists were internally fighting and finally expelling their nationalist rivals, China faced the threat of a deeper invasion by the Japanese. Nippon's colonial rule over Manchuria and the practices by its military during WWII are engrained in the memory of old and new generations of Chinese. Schools and many of the media manage to maintain them in the Chinese mind. The Communist leaders have hardly ever publicly acknowledged Japan's official aid since WWII, which the island country wants to see as reparations for – albeit not always clearly acknowledged – past misdeeds. In public, China frequently plays the history card of Japanese war crimes, unfortunately made worse by occasional visits of Japanese nationalist leaders to the Yasukuni Shrine worshipping Nippon's militarism. Even NGOs and academics of both countries cannot yet agree with each other how to objectively compile the historical facts of the massacre by the Japanese in Nanjing in 1937. Ongoing territorial disputes, such as over the Senkaku/Diaoyu Islands, perpetuate bilateral tensions with China as well as Taiwan¹⁷ and pop up every once in a while with nationalists on all sides¹⁸ symbolically pouring oil onto the heated debate. Painfully, it is precisely oil that is amongst other resources expected to be found in big bubbles under the bottom of the territory in contention.

Likewise, with the Koreans, Japan could not yet settle issues over an islet near the peninsula's coast surrounded by rich fishing grounds and natural gas deposits¹⁹ (and over the Kurils with Russia for that matter). Occasionally, this keeps disturbing Japan's relations with its neighbours until this very day. Of course, emotions dominate the scene over the rocks of Dokdo/Takeshima when politicians are visiting.²⁰ Especially emotional are the scars from memories of Korean 'comfort women' that were forced to work as sex slaves by Japanese soldiers and still fight for compensation. Feelings of loss of face and the Asian culture of shame (rather than guilt that can be paid off) do not facilitate the solution of these problems either.

Notwithstanding our more transparent culture of guilt, post-WWII Germany and France still faced some difficulties to settle territorial issues over Saarland, as did Germany with Poland when resolving the problems of the long-disputed Oder-Neisse Line.²¹ Only in 2003 a

¹⁷ This is particularly delicate for Japan, because on this issue common to China and Taiwan (respectively dealt with mainly by Japan's Foreign Ministry or METI) it cannot follow Nippon's traditional policy of *divide et impera* based on experience in its own group-oriented culture. Rather, Japan confronts both sides of the Taiwan Strait as if they were almost in the same boat. (For Japan's policy of 'divide and rule', see e.g. its attempt to divide France from the European Commission on the problem of imports of tape-recorders in the early 1980s as well as more recently its approach to negotiating FTAs with ASEAN individually with its member countries, instead of dealing with the Association as one group, as done by China and Korea.)

¹⁸ Dinh, op. cit., p. 8, mentions rising nationalism in the region as an important challenge to building an East Asian Community. From her Vietnamese viewpoint, she criticises Japan for "not being sincere with its wrongdoing in the past" and China for its "irredentist claims to disputed territories".

¹⁹ See *International Herald Tribune*, 11 August 2012.

²⁰ See "Wenn Emotionen dominieren –Japan und Südkorea reden mehr übereinander als miteinander", *Frankfurter Allgemeine Zeitung*, 14 August 2012.

²¹ The solutions to these border issues in Europe came through self-determination and international treaties and not through any 'superstructure', for which Prof. Hitoshi Tanaka envies Europe in order to resolve conflicts in East Asia; see his presentation on "East Asia – Conflict or Cooperation" at the EU-Asia Centre, Brussels, 11 September 2012. However, the resolution of the 'Irish conflict' with the help of the EU might better serve as a learning object for East Asian border disputes through "the notion that economic cooperation may lead to political cooperation" (see Trevor Salmon, "The EU's

common Franco-German history school book for use in both countries has been compiled for the first time in order to promote a “shared vision” of history, which so far – as anywhere else in the world – had been left to subjective interpretations as national histories.²² This is notably the case amongst China, Japan and Korea, although there are continuing efforts made amongst East Asian scholars and NGOs, even occasionally including officials from national ministries, to establish common denominators for the study of history²³ and to find agreement on the description of certain controversial events of their past.

Nationalism is mounting worldwide not only because of economic crises, and the recent (s)election of new leaders in the three countries only confirms this trend. A decade ago in East Asia, a certain form of nationalism found expression in bestselling books of ‘no-saying’,²⁴ but now it increasingly takes more vociferous forms on the Internet where web-fora can hardly be restrained by authorities, and notably young people let off chauvinistic steam.

In the wider geopolitical context, Japan’s and South Korea’s alliances with the US and most recently their declared intention to join the Trans-Pacific Partnership (TPP) with America is seen by many as aimed against China in order to contain the latter’s rise as an economic and political power. However, invariably, new agreements quickly trigger jealousies by rivals who then want to enter into similar negotiations (see e.g. Japan pushing for an FTA with the EU as it feels left behind by the ‘KorEU’ FTA). Thus, because China can only watch the TPP from afar, it seems more inclined to join Japan and Korea in a trilateral FTA that is now being negotiated in earnest. Also here, high custom tariffs are less of a problem, as all three countries have already brought them down to an average of less than 10% for the bulk of their manufactures. A particularly controversial issue would be to open up their trade in agricultural produce, which in the region enjoys a protection equivalent (up) to several hundred percent in tariffs in the case of rice, playing to the tune of disproportionately influential farmers’ lobbies. Depending on how comprehensive and deep such a trilateral agreement would become, the question of how it would deal with non-tariff barriers (NTBs) would form an interesting case study for distant trade partners of East Asia like the EU and the US. Namely, *cum grano salis*, NTBs in their wider definition²⁵ – including basic socio-

Role in Conflict Resolution: Lessons from Northern Ireland”, *European Foreign Affairs Review* 7, 2002, p. 339).

²² In order to overcome such nationalist distortions of European history notably for future generations, the project originated from the 2003 “Franco-German Youth Parliament”, which brought together some 500 youngsters from French and German upper secondary schools. Published with the title “Histoire/Geschichte” since 2006, more than 100,000 copies of the book have been bought. Due to this ‘success history’, not only has Germany considered a similar project bilaterally in cooperation with the Czech Republic and also with Poland, but likewise the Slovak Republic and Hungary are discussing the possibility of publishing a common history school book. For further details, see Wolfgang Pape, “Oshu ni okeru furansu to doitsu no kankei” [German-French Relations within Europe], in Noriko Yasue (ed.), *EU to furansu* [EU and France], Kyoto: Horitsu Bunka Sha, 2012, pp. 171-191.

²³ The content of history books raises not only issues with Japan, but also with others, for instance with China; see “Dispute over teaching Chinese history shakes Hong Kong”, *IHT*, 4 September 2012.

²⁴ It started in 1991 with the book by Akio Morita and Shintaro Ishihara, *The Japan That Can Say No*, was then followed up in 1995 by an anti-West publication by Ishihara with former Prime Minister Mohamed Mahathir of Malaysia under the title *The Voice of Asia* and in 1996 echoed by a group of Chinese nationalists in their book *China Can Say No* and its later version called *China Can Still Say No*.

²⁵ According to the OECD glossary, the term non-tariff barriers refers to all barriers to trade that are not tariffs. However, in the history of GATT/WTO, further distinctions are made from non-tariff measures (NTMs), which are “complex, highly country-specific, and constantly changing” (Roy Santana and Lee Ann Jackson, “Identifying non-tariff barriers: Evolution of multilateral instruments

cultural patterns if not even difficult languages²⁶ – (excluding arbitrarily erected barriers as such) can be said to be “naturally the bigger a burden the wider the cultural gap” between the trade partners involved. With Lipset’s observations of America’s ‘exceptionalism’ and Japan’s ‘uniqueness’ being at opposite ends of the scale in cultural terms,²⁷ their risks of perceiving NTBs behind each other’s borders must also be the highest. *Argumentum e contrario*, China, Korea and Japan being neighbours, have enjoyed millennia of shared cultural flows²⁸ with their predisposition towards harmony²⁹ in groups introducing rice cultivation, chopsticks, Sino-script, Confucianism and Buddhism, etc. In contrast, Western influence was kept out of Japan during most of Nippon’s isolationist period of *sakoku*.³⁰ Also China and Korea have similarly resisted too much Western influence. Such culturally assimilated countries should find fewer NTBs amongst their trinity than the West with them.

As a simple example: just as food labels of ingredients with Latin-derived terms create less of a problem for many educated Europeans, for most Chinese, Japanese and Koreans this is the case with labels written in Sino-script, although their pronunciations of it might be completely different. Likewise, cultural affinity clearly helps to naturally find more commonality in industrial product standards, etc. For example, a Japanese professor would not dare to lose face by trying to justify a divergent standard for skis because of a ‘difference in the snow’ that falls – possibly still from the same cloud – just less than a hundred kilometres away on the other side of the Korean Strait. However, an academic in Tokyo pretended just such a difference of falling crystallised water in the mid-1980s in order to prevent imports of skis from far away Europe in Japan.

Naturally, greater mutual familiarity and cultural as well as geographical proximity has tended to facilitate trade amongst these economies in the Far East. Nevertheless, even Japanese insiders still regard their country as a ‘closed economy’.³¹ Korea with a similar homogeneity and still rather mercantilist policies is not very different in this regard. Nor is China that has only started to open up in the 1980s – albeit slowly – and only now increasingly appreciates imports from Europe and its neighbours (especially if they include much sought after know-how), notably since joining the WTO in 2002. All three countries have hardly advanced their trade model from protective Ricardian to domestic competition stimulating Schumpeterian.

and evidence from the disputes (1948-2011)”, *World Trade Review*, Vol. 11, No. 3, 2012, p. 462. Notwithstanding, WTO Agreements do not define the term NTB, but the GATT preamble speaks of “tariffs and other barriers”.

²⁶ With the basic need for communication in any trade, studies using a ‘common language dummy variable’ estimate the importance of speaking different languages to be equivalent to a tax of about 7%, while policy barriers such as tariffs and NTBs amount to 8% (see Kyounghee Lee, “International Trade in Services and the Role of English”, *Journal of East Asian Economic Integration*, Vol. 16, No. 3, September 2012, p. 291).

²⁷ Seymour Martin Lipset, *American Exceptionalism*, 1996, NY, NY: W.W. Norton & Co, pp. 211-263, notably his table on p. 224.

²⁸ See Wolfgang Pape, *Models of Integration in Asia and Europe*, Luxembourg, 2001, p. 13; also available as PDF via website (bookshop.europa.eu/.../ViewPDFFile-OpenPDFFile).

²⁹ Jin Wenxue, a trilingual bestseller author in Japan, describes ‘harmony’ (和 wa) as an essentially common feature in East Asia; see 金文学 Jin Wenxue, 日中韓 NitChuuKan (Japan-China-Korea), Tokyo: Shodensha, 2012, p. 23.

³⁰ Sakoku (鎖国) literally meaning ‘chained country’ through the exclusion of foreigners. It refers to the Decree of Isolation of 1535 by its ruler of the time that secluded Japan notably from Europeans, their goods and ideas until 1858.

³¹ See presentation by Prof. Shujiro Urata, op. cit.

However, in spite of this vast economic growth potential from further liberalisation with more competition, these neighbours already generate an astoundingly high and rising level of intra-regional trade amongst themselves.³² The second and the third largest national economies are highly intertwined, with China now being Japan's most important trading partner. Both agreed recently on the introduction of direct exchange of their currencies Yuan and Yen to avoid the costly detours via the dollar. In 2012, they also started to mutually buy their government bonds. The market-driven integration by growth in trade and FDI³³ is particularly strong for parts and components in the sectors of machinery and information technologies. Fragmentation strategies have led multinational companies to break up their manufacture and spread it in tight networks over borders seeking the most efficient locations with low labour and transport costs to build ever-more successful lines of value-adding productions. Hence, unlike the more political, vision-driven and legalistic institution-based integration by earlier enlightened elites in Europe, successful economic players in East Asia pragmatically spread multitudes of nets of productive links across their borders motivated by little more than the promise of positive results on the world markets. True, nowadays visionary political leaders are lacking in Europe, too. Surely, the East Asians have not selected their new governmental triumvirate of engineers in Beijing and the family-famed politicians in Seoul and in Tokyo for their intellectual creativity and vision of the region. However, continuing institution-building for stronger governance has fundamentally anchored integration in Europe, surviving and even strengthening in economic crises and political quakes. And yes, the trilateral of China, Japan and Korea has set up a small secretariat in Seoul in 2011, but its role as a stabilising institution is still very limited indeed.

A key issue, of course, lies in the understanding of the concept of sovereignty. Centuries of wars and subsequent border changes (exemplified by the vacillating history of Alsace) have already diluted lines of territorial sovereignty in Europe. Later flows of migration of 'natives' of one place to other 'nations' have fortunately further weakened national identities in Europe. Continuous communication and exchanges have made it natural that the highest levels of our traditional hierarchies, our monarchs, have been coming the closest together internationally, namely in numerous transnational royal marriages. Such an idea remains unimaginable, for instance, for the protective Imperial Household Agency of Japan, still shrouded in protective taboos. Nor can foreign-born citizens climb the ladders of public office as easily in these Asian countries as some did recently for instance in France and

³² While it amounted to just 25% in the early 1960s in East Asia (Christopher M. Dent, *East Asian Regionalism*, Milton Park: Routledge, 2008, p. 43), the Asian Development Bank now reports amongst its 48 member countries an intra-regional share of trade growing from 56.2% in 2008 to 59.3% in 2010; see website of ADB (<http://aric.adb.org/index.php>).

Among the three countries of Northeast Asia, China, Japan and Korea, with a prospect of a 'CJK FTA' intra-regional trade has grown rather rapidly during the past 20 years from 12.3% in 1990 to 24.1% in 2004, but after a decrease in the Asian financial crisis reached 22.5% in 2010. CJK traded mostly intermediate goods in their triangle, their share representing 61.1% in 2009. However, especially noteworthy are the soaring scores of dependencies on each other among the three (CJK), which reached around 30% for Japan and Korea, while they recently declined for China, which seems to now export more finished goods directly to the EU and the US (for details see Chang Jae Lee, "Prospects for a China-Japan-Korea FTA: Light at the End of the Tunnel", in *Financing for Regional Economic Integration for Northeast Asia III*, Korea Institute for International Economic Policy (KIEP), Seoul, 2011, pp. 33-43).

Speaking on 28 October 2012 at the European Economic and Social Committee (EESC) in Brussels, Kojiro Shiojiri, Japan's Ambassador to the EU, cited an increase in intra-regional trade of even 700%.

³³ Also Dinh, op. cit., p. 1, sees the regional networks and economic actions as lying at the bottom of the "pyramid-shaped structure" of East Asian regionalism, in contrast to the EU model.

Germany, even to the level of elected government ministers and Vice-Chancellor. Of course, nowadays globalisation has considerably impacted the system of nation-states evolving since the Peace of Westphalia of 1648. It was only after Western colonisation that Asia became acquainted with the original concept of sovereignty in international law. Hence, the crucial importance of obtaining independence from foreign rule and the need to insist on its principles in order to liberate themselves from colonial powers (remember the liberation of Korea from Japanese rule after WWII as well as later Hong Kong and Macau from the Europeans) remains engrained in many Asian leaders' minds.³⁴

Unlike the EU, which seldom speaks of its 'nations', but rather member states, ASEAN has 'nations' even in its name, and often they are regarded as still 'nation-building'. Only rare integrationists there would ever think of ASEAN members leap-frogging nationhood in order to directly merge into the still uncertain ASEAN Economic Community of 2015. Interestingly, not unlike the Western Europeans, who during the cold war more easily came together in view of their common opposition to the Warsaw Pact to their East, ASEAN members still try to find solidarity in dealing with territorial issues vis-à-vis China. They show such cohesion much less in negotiating trade deals with the EU, where they still expose their differences leaving them open to *divide et impera* tactics. Non-interference amongst these ten nations has been a basic principle of the 'ASEAN-way'³⁵ and this will not go away soon. Of course, with growing de facto interdependence through globalisation and increasing international obligations through bilateral and multilateral agreements de jure, absolute national sovereignty simply does not exist anymore.³⁶ Most Asians might not consider the progressive pooling of sovereignty rights as practised in the EU – notably in times of crises – moving from intergovernmental to supranational governance, as a model, and even less so today since nationalism is spreading again during the current crisis in Asia. Nevertheless, consumers³⁷ strongly experience the benefits from economic exchange over national borders, not only when Chinese and Japanese tourists flood the shopping streets of Seoul with pockets full of cheap Korean Won.³⁸ In their daily dealings they are increasingly aware of the jobs created from foreign investment and upgraded with imports of superior know-how.

³⁴ See Zhongqi Pan, "Managing the conceptual gap on sovereignty in China-EU relations", *Asia-Europe Journal*, September 2010.

³⁵ See "Sovereignty, Intervention and the ASEAN Way", address given by Rodolfo C. Severino, then Secretary-General of ASEAN, on 3 July 2000 in Singapore.

³⁶ Sovereignty as the authority to decide to the exclusion of others in territorial terms is also increasingly undermined by multi-territorial activities, such as in aviation. The nationality of a plane might be irrelevant, but because emissions from planes have doubled since 1990 in the absence of an international agreement, an EU Directive of 2004 might soon impose extra-territorially pollution fees on incoming flights not only from the US, China, India and Russia, uniting them in a 'coalition of the unwilling', unless a multilateral agreement is found in the ICAO even sooner.

³⁷ In contrast to the previous Prime Minister of Japan, Noda, as pointed out by Kikuchi Yona, Research Fellow of JFIR, in his essay No. 71 of 19 October 2011, "Prime Minister Noda's Negativism toward an 'East Asian Community' Contradicts the National Interest of Japan". However, former PM Hatoyama of the same DLP just two years ago displayed a very personal enthusiasm for regional integration resulting mainly from his readings of the works of Pan-Europeanist Coudenhove-Kalergie, which his grandfather had translated; see also *Financial Times*, 13 August 2009. Already in 2007, Japanese academics had published a detailed and annotated draft of an 'East Asian Charter' of 45 articles, see Tamio Nakamura, "Future East Asian Regionalism", Research Series No. 28, Institute of Social Science, University of Tokyo, 2007, pp. 73-118.

³⁸ Five million tourists travel each year between Japan and Korea alone (*The Economist*, 8 September 2012), and the number of Chinese tourists is growing the fastest now.

5. Monetary cooperation

However, cooperation and integration amongst the three East Asian countries have already progressed farther than meets the eye of the European observer. Apart from the high percentage of intra-regional trade, they seem to have taken seriously at least one phrase of Robert Schuman's Declaration of 9 May 1950, which regrettably does not enjoy high currency amongst Europeans today, i.e. "*les réalisations concrètes créant d'abord une solidarité de fait*". Just to cite some recent examples: beyond the swap agreements among 13 Asian countries of the so-called Chiang Mai Initiative, demonstrating solidarity under the slogan 'pooling risk expresses Asian fellow feeling and common Asian caution',³⁹ Japan with its enormous external assets is purchasing not only from its 'Big Brother' US treasury bonds, but now also from its continental neighbour Chinese bonds as part of its foreign exchange reserves. This is not done to follow ancient traditions of tributes to China, but purposely in order to reduce the risks in foreign exchange markets by "not putting all one's eggs in one (Western) basket". The Chinese, of course, openly welcome it in diplomatic terms as "positive to bilateral benefit".⁴⁰

And, as if to prove that such deals between the second- and the third-largest national economies in the world are not just short-term affairs, according to the Japanese Finance Ministry, China sold a net 4.02 trillion Yen of short-term Japanese government bonds with a maturity of less than one year in 2011, up nearly ten-fold from the sum at which it sold the previous year. A foreign exchange analyst concluded that China seems to be selling short-term bonds and turning to long-term Japanese bonds.⁴¹

Whilst currency cooperation and union of the eurozone has increasingly come under heavy attack not only by the markets, in 2003 some Chinese authors suggested a sequence of "Monetary Integration Ahead of Trade Integration in East Asia".⁴²

A roadmap towards an ACU⁴³ has also been discussed by the Asian Development Bank for very concrete commercial reasons, because "in Asia, monetary integration could triple trade".⁴⁴ Not anticipating at the time the euro crisis, insiders in Japan and China rather

³⁹ The pool of swaps was extended in 2012 to reach \$240 billion.

⁴⁰ See *Economic Daily*, Beijing, 7 February 2012.

⁴¹ See "China Offloads Short-term Japan Bonds by JPY 4 Trillion", Beijing, 9 February 2012 (<http://news.hexun.com/2012-02-09/138009854.html>).

⁴² Jong-Wha Lee, Yung Chul Park and Kwanho Shin, "A Currency Union in East Asia", ISER Discussion Paper 571, Institute for Social and Economic Research, Osaka University, March 2003.

⁴³ Asian Currency Unit, literally taking the pattern from the ECU as a predecessor of the euro. Already the 'Fukuda doctrine' of 1977 contained elements towards financial cooperation and integration in East Asia (see Aurelie Klein, "Japans Rolle in der ostasiatischen Integration", *Japan aktuell*, Hamburg, 2/2008, p. 55).

In 1997, an Asian Monetary Fund (AMF) was proposed in view of the Asian financial crisis, and efforts also continue to advance the research into financial institutionalisation; see details in *Financing for Regional Economic Integration for Northeast Asia III*, Korea Institute for International Economic Policy (KIEP), Seoul, 2011.

⁴⁴ See Richard Pomfret, "Sequencing Trade and Monetary Integration", Working Paper 2001-14, School of Economics, University of Adelaide, 2004 (<http://ideas.repec.org/p/wpa/wuwpot/0502004.html>).

foresaw an “Asian cooperation and the end of pax Americana”⁴⁵ and at least an “end to the dollar era”.⁴⁶

6. From confrontation to cooperation with energy

Still more fundamental in substance for our lives than the currents of money is the flow of water. This comes to a dangerous head when people say “the next war will be over water”, the very basic prerequisite for our survival. That is why China, Japan and Korea have come together in order to prevent such conflicts, since in March 2012 they signed a Memorandum of Understanding on water resource cooperation. It did not make headlines in Europe, but these three parties together hope thereby to help the world resolve splashing water problems.⁴⁷

As an island, a peninsula and a continental country – geographically close to one another but separate – the three countries are naturally less prone to find common understanding or to encounter conflicts over rivers and resources of water.⁴⁸ Indeed, the issue of energy resources nowadays has grown to a much more important status amongst the three, notably in view of some of the gas and oil fields straddling their disputed borders under the common sea. East Asian demand for energy has risen more than five-fold since 1970.⁴⁹ In addition, these countries suffer from a particularly high rate of import dependency – representing about 80% of their energy consumption already before the Fukushima nuclear accident – paradoxically making energy the dark side of the explosive economic growth in the region. However, it might turn into the bright side of East Asian integration, because their trinity could catch ‘six birds with one stone’.

The three countries could engage in concrete cooperation on energy to solve it all. In the 21st century energy security confronts the three with six common challenges: i) dependency on imports of oil, ii) security of sea-lanes for their energy supply, iii) contestations over maritime oil and gas fields near-by, iv) R&D in enhanced efficiency of energy use and in alternative sources, in particular development of renewables like wind and sun, v) security of nuclear energy and vi) environmental concerns of energy generation, transport, storage and use.⁵⁰

The single stone as a tool available to the North East Asian trinity to tackle these six common issues best and most successfully is cooperation and sharing between the three in partnership,⁵¹ notably at private level.

⁴⁵ See Eisuke Sakakibara, “Asian Cooperation and the End of Pax Americana”, in J.J. Teunissen and M. Teunissen (eds), *Financial Stability and Growth in Emerging Economies*, FONDAD (Forum on Debt and Development), The Hague, 2003.

⁴⁶ See X. Zhou, “China suggests an end to the dollar era”, *The Economist*, 26 March 2009.

⁴⁷ See news coverage at <http://news.sina.com.cn/c/2012-03-13/233124109254.shtml>.

⁴⁸ In contrast to continental Europe with the oldest extant international organisation running a river, namely the Rhine Commission resulting from the Congress of Vienna of 1815.

⁴⁹ See Dent, “East Asian Regionalism”, op. cit.

⁵⁰ Dent (ibid., p. 251) listed the first five of these issues.

⁵¹ See also Ken Koyama of the Institute of Energy Economics in Tokyo (IEEJ, Special Bulletin, 24 August 2012, “Rising Geopolitical Tensions in Northeast Asia and Their Impact on Energy Problems”): “The cold fact is that Japan, China and South Korea are racing to secure resources in the global energy market. Their cooperation is possible and significant in many areas ... Since the 2000s, the three countries have discussed and implemented possible, significant cooperation programs ...”

Concerning the first challenge, of course, these three countries are competitors (if not even 'rivals' in their own languages, see footnote 11) in buying carbon abroad, but cooperation and sharing information as well as an eventual agreement on reserves could significantly improve the stability of their oil and gas supply. The same applies to the second concern, namely security of the sea routes and pipelines used.

Third, the East China Sea is of great economic interest to all three countries because of its proven or at least suspected hydrocarbon resources. That is why all three countries seem to have already recognised the advantages of cooperation instead of confrontation over oil and gas fields near or straddling their maritime borders, especially in the East China Sea. An agreement for that purpose between Japan and Korea was signed in 1974. Already then, similar proposals were made between China and Japan. However, only after a more general 'Peace and Friendship Treaty' in 1978, and finally not until June 2008, they signed a formal agreement to cooperate in the East China Sea in order to turn it into a 'Sea of Peace, Cooperation and Friendship', despite the lack of bilaterally agreed maritime borders.⁵² Nevertheless, the ground for joint exploitation of maritime reserves of energy is now laid and trilateral cooperation should be feasible to overcome historical legacies between them. China is skilfully inviting international companies to join some of these projects, thereby multilateralising at least the intricate interests and potential risks involved in contentious areas beyond national borders with neighbouring countries. Anyway, some of the under-sea bubbles of gas and oil straddle the disputed border lines in such an intertwined way that tapping the resources from either side also would exhaust the hydrocarbon on the other side of the border. Hence, even if and when an international court would draw a border line, after much deliberation – and probably a loss of face on both sides – it would not necessarily solve all the issues of access and allocation to underlying energy resources, as we saw with earlier court cases in the Middle East.

Certainly, from a legalistic European perspective, international law would provide the best direction towards a solution of the underlying territorial disputes.⁵³ However, in Asia as shown above in the case of trade, de facto cooperation by private companies in exploiting the resources together – possibly with the involvement of third countries' companies – might advance without much ado and loss of face about their public officials' claims against each

⁵² For details see Reinhard Drifte, "Territorial Conflicts in the East China Sea - From Missed Opportunities to Negotiation Stalemate", *Asia-Pacific Journal*, Vol. 22, No. 3, 2009. Incidents keep flaring up over this border between China and Japan in the oil-rich and tuna-teeming sea near the disputed islets, in 2010 culminating in a Chinese captain of a fisher boat, who was later reported drunk, being detained by the Japanese authorities (see *The Economist*, 16 September 2010). In the summer of 2012, private ownership of some islands came under discussion in Japan as inappropriate, and the government decided to buy them.

⁵³ For instance, Japan has proposed to Korea to submit the case of Dokdo/Takeshima to the International Court of Justice (ICJ), but shies away from doing the same for Senkaku/Diaoyu with China. Each side when actually in physical control over an island seems to want to avoid a decision over its sovereignty according to law by the IJC or another body, thus blocking the common application of international rules. In Western eyes, the three applicable frameworks of the 1) UN Convention on the Law of the Sea (UNCLOS), 2) the concept of 'exclusive economic zones' (EEZ) and 3) the principle of the 'extended continental shelf' (ECS) could lead to equitable solutions, but for Asians the risk of resulting loss of face and domestic repercussions render them less attractive. Hardly promising seems to be treating the cases merely according to their historic backgrounds, which often are of a highly subjective nature, particularly if based on more recent references; for details see University of Connecticut Prof. Alexis Dudden's presentation on "Island Problems in Northeast Asia", 13th Asan Dosiak Series with Experts, Asan Institute of Policy Studies, Seoul, 2 November 2011.

other.⁵⁴ Taiwanese proposals circulated around the end of March 2013 likewise seem to aim in this direction. Typically, the Chinese saw much less of a problem with one of the disputed islands as long as it was owned by a private (Japanese) individual. Their outcry grew only when the Japanese government bought (and thus ‘nationalised’) it. Privatising the issue and bringing it down from the high political level to less spectacular world-wide open tendering for commercial contracts of resource exploration and exploitation might, for the time being, serve as a solution to avoid further public spiralling of tensions. Not the institutional model of the High Authority of the European Coal and Steel Community, but pragmatic solutions with international consortia of private firms⁵⁵ might be seen by Western lawyers as only a temporary ‘muddling through’. But as long as the political leaders do not have a long-term vision reaching beyond myopic domestic considerations (especially during e.g. election campaigns as took place in all three countries in 2012), such private projects in the meantime should avoid what might be worse and extract the best of the energy lying below the mud of the disputed sea-bed.

Not surprisingly, even during the peak of the last China-Japan crisis when, for official face saving reasons, the head of China’s central bank cancelled his participation in the World Bank-IMF annual assembly because it was held in Tokyo, the two nations’ bilateral cooperation in financial business nevertheless continued unchanged. This practically important cooperation consists notably of the above-mentioned direct currency transactions

⁵⁴ This dualism has to be understood in the Confucian context of the closer vertical links in East Asian societies where the Western concept of private (from Latin *privare* = to rob [from the public]; in Sino-Japanese 私 = I myself) is less abstract from the public domain (公), while a stronger group-orientation accepts more easily a difference in communication amongst insiders (内) from what is conveyed to outsiders (外); for details see Wolfgang Pape, *Gyoseishido und das Anti-Monopol-Gesetz in Japan*, Köln, 1980, pp. 45-48; cf. as recent example the highly respected former president of Japan’s Science Council Kurokawa handing out the harshest criticism of his home country in his report on the Fukushima disaster only in English, i.e. to foreign readers. However, he was “much more measured” in its comprehensive Japanese version. He himself defended this dichotomy by saying it was reasonable to tailor the message to different audiences (“Global Insight”, by Mure Dickie, Tokyo, in *Financial Times* of 9 July 2012 and Wolfgang Pape with Kurakawa directly in conversation on 6 October 2012 in Kyoto).

⁵⁵ It would be difficult to directly apply the Public Procurement Code of the WTO, which China has not yet joined as a party. Nevertheless, an analogous application might help, as the low number of only four (out of 393 under WTO altogether) disputes citing this Code confirms its general effectiveness and high compliance rate (see Roy Santana and Lee Ann Jackson, “Identifying non-tariff barriers: Evolution of multilateral instruments and evidence from the disputes (1948-2011)”, *World Trade Review*, Vol. 11, No. 3, 2012, p. 471).

However, cooperating countries and companies involved rather should consider the new concept of applying international law to state contracts with foreign companies on the basis of treaty standards and customary law (for details, see Ivar Alvik, *Contracting with Sovereignty: State Contracts and International Arbitration*, Oxford: Hart Publishing, 2011, p. 45). Such internationalisation would avoid conflicts of the different municipal laws (*contrat sans loi*) of these countries as well as problems of the ‘verticality’ between private companies and sovereign states, but it would subject their contracts to the fundamental principles of natural law recognised by civilised states such as *pacta sunt servanda*. Furthermore, the UN Conventions (UN GA 2200A of 1966) relate the sovereignty over natural resources to ‘peoples’ and not to states. It cannot merely be regarded as an entitlement for the government to control (Ibid., p. 247). Thus, resource exploration and exploitation primarily should be conducted in the interest of the people, not only government. Private firms should be entitled to call at least for a panel if they consider that a state impaired or breached their investment rights, as available under the private-to-state dispute resolution of NAFTA, chapter 11 (see Isidro Morales, in “The Dynamics of East Asian Regionalism in Comparative Perspective”, ISS Research Series No. 24, University of Tokyo, 2007, p. 74).

between Yen and Yuan as well as Japanese government purchases of Chinese government bonds.

Admittedly, the three challenges on energy, discussed here, involve highly controversial issues between the three countries still burdened by history and suffering from growing nationalism, notably amongst their youngsters.

Indeed, more promising for official trilateral cooperation is the field of the fourth challenge, namely the research and development of enhanced efficiency of energy use and of alternative sources. The Fukushima accident has considerably raised the urgency of such activities. Japan is regarded as a frontrunner in terms of efficiency in industrial use of energy, but less so in its use by private households. This provides incentives for exchange of information and collaboration with neighbouring countries for mutual benefit, because they are exposed to comparable climatic conditions.

The longer experience and high technical standards of Japanese solar (especially photovoltaic) energy generation complements the growing Chinese mass production of it. Naturally, from increasing industrial competition and trade, issues of anti-dumping and countervailing duties amongst manufacturers might arise, not unlike those recently between the EU and China over solar panels⁵⁶ and the earlier one between the US and China, also over wind turbines.⁵⁷ However, in the less legalistic world of the 'Asian way', they might find a path to avoid confrontation, as already indicated between Korea and China.⁵⁸

The fact that the collected energy of six hours of sunshine on the world's deserts can cover human energy consumption for one entire year should inspire trilateral cooperation (plus Mongolia, perhaps) on concentrated solar power (CSP) projects under 'Gobi-tec'⁵⁹ similarly to Europeans cooperating with North-Africans on 'Desertec' in the scorched Sahara.

Just like the Europeans eventually need to transport massive amounts of electricity over the Mediterranean, the Koreans propose an 'Asia super-grid' linking six countries in their neighbourhood starting with an undersea cable from Busan to Fukuoka.⁶⁰

⁵⁶ Almost 60% of China's solar exports, worth \$35.8 billion, were shipped to the EU in 2011. China's solar firms at the end of July 2012 warned the EU of a trade war and called on their government to respond with all means to an anti-dumping complaint filed by European competitors.

⁵⁷ See "U.S. union challenges Chinese subsidies", IHT, 10 September 2010. The US filed a legal case accusing China of violating WTO rules by subsidising exports of clean-energy equipment. The case led i.a. to the imposition in May 2012 of duties of about 31% on solar panel imports from China.

⁵⁸ At the "Korea-EU Solar Energy Workshop" on 8 June 2012 in Brussels, in response to the author's question hinting at European makers' initiative to file for anti-dumping/countervailing investigations at the time, Korean officials clearly indicated reluctance in their country to do likewise. At this stage they would rather negotiate and cooperate with China, in view of the latter's "importance as a trade partner".

⁵⁹ Such solar projects already were discussed with experts from China and Japan at an ASEF conference in September 2010 in Munich, but they now become feasible as presented 12-13 November 2012 in Ulan-Bator i.a. by Dr. Masakazu Ito of CEA-INES in France with his study on very-large scale projects concluding that the Gobi desert has the highest-performance ratio of all desert areas. It can produce 43% of the world's primary energy needs and nine times Asia's electricity supply. Thus, renewable energy and energy grid integration (the 'Asian super-grid') could trigger closer energy and ultimately economic integration in Northeast Asia.

⁶⁰ See presentation by President of the Korea Energy Management Corporation, Jeung-Soo Huh, at the Japan Renewable Energy Foundation, Tokyo, 6 September 2012 (http://jref.or.jp/en/action/event_20120727.html).

Fifth, security of nuclear energy after the Fukushima disaster sits at the top of the agenda in Japan. But in spite of the highly respected Kurokawa Report for Nippon's Parliament notably pointing out to foreigners (as originally in English only!) the cultural factors of Japan that contributed to this 'man-made' disaster, China and Korea should also draw lessons from Japan's experience, particularly in the Democratic People's Republic of Korea (DPRK or North Korea). They continue to build and even export nuclear plants. They should be benchmarked against new and stricter standards to be developed jointly if not globally.⁶¹

This leads to the sixth common concern amongst these Asian neighbours, i.e. the environmental impact of energy generation, transport,⁶² storage and use. With the advance of industrialisation worldwide, the environment has become a truly common global good, and since especially the accidents in Chernobyl and Fukushima, we know only too well that we cannot stop dangerous radiation in clouds nor destructive ocean waves at national borders. There is a dire need for international or supranational cooperation on the environment, in particular for the fast-growing economies of China and Korea. Regionally rising temperatures and, with them, water levels of the oceans hit the maritime regions of East Asia more than most others. It is not only acid rain in Japan – claimed to come from industrial emissions in China – that adds to Japanese companies' motivation to invest in cleaner coal-burning technologies on the continent. Joint research into standards for car emissions started with both their governments' involvement in April 2013 in Beijing.⁶³

Japanese experience with densely populated urban agglomerations and Korea's exemplary 'green growth' initiatives can serve as excellent learning objects in the wider East Asian region.

7. Conclusions

In conclusion, the foreign reserves that have been accumulated in East Asia from trade with the rest of the world are huge. So too are the reservations that foreigners maintain in underrating the progress in cooperation and integration between China, Japan and Korea. But these sentiments are out of touch with current realities of intra-regional penetration in terms of trade and FDI when jointly produced parts of smart-phones cross their (disputed?) borders up to 100 times before hitting the world's markets. They are out of date in view of the new common challenges facing the region, particularly with respect to energy security and the environment. Whilst roadmaps for cooperation in monetary matters towards an ACU recently have become discredited with too many potholes in view of the eurozone crisis and the need for prior banking and fiscal union, advances in the direction of cooperation in matters of energy and environment – notably with the involvement of multinationals – look more promising since they could also contribute to mediate in territorial disputes and to end the cold war in the East Asian region.

⁶¹ See "Global Insight" by Mure Dickie, Tokyo, *Financial Times*, 9 July 2012.

⁶² As a measure of environmental load, parallel to 'food miles' (defined by Suzuki and Kinoshita, *op. cit.*, p. 16, 'energy miles' could be quantified as tonnes of imports multiplied by transportation distance in kilometers.

⁶³ See report on NHK Radio World Service (in Japanese) on 9 April 2013.



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