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China and Japan**

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Cooperative-oriented Integration in Asia and the Role of China and Japan*

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Abstract

This paper argues that a cooperation-oriented integration rather than European competition-oriented integration may be more desirable in Asia, especially when considering the enormous heterogeneity in this region. To finish the great and significant task, all regional member must take the Common and Differential liabilities. As two biggest powers in the region, China and Japan should shoulder more responsibilities on investment of regional public goods, in details, for example, the regional production networks. Their domestic experiences show that they have the abilities to make the contribution.

Key words

cooperation-oriented integration, competition-oriented integration

1. Introduction

Opinions on the human historical evolution course differ widely. Some support a unilinear theory that all societies pass through similar developmental stages. They claim that since contemporary primitive peoples are presumed to represent stages in the development of more advanced societies, they are thought to exhibit a kind of arrested development (Steward, 1972: 4). But others argue for a multilinear approach to macrohistory and think groups in different environments evolving in different directions (Eisler, 1995: 1; *Patrick, 2007: 97*).

On the one hand, most economists can easily accept the unilinear theories since Adam Smith has divided human development process into four stages: the era of hunting; the era of pasturage and herding; the era of agricultural; and the era of commercial and exchange economy (Inayatullah, 1998). Following Adam Smith, Marx and Engels have identified five successive stages of the development including primitive communism, slave society, feudalism, capitalism, socialism and communism, which are used to explore the development of the whole human

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society (Stalin, 1940), although Marx himself makes no claim to have produced a master key to history. ⁱ After that, Rostow (1959) also distinguishes five basic stages of economic growth and claim to find a way of generalizing the sweep of modern economic history. According to the theories above, less developed countries or groups will be sure to evolve and forge ahead following the developed countries or groups' footsteps, unless they fall into stagnation.

On the other hand, some historian will not agree with the unilinear theories. Spengler argues that each individual culture has a unique personality with various distinguishing characteristics. Toynbee also concludes that civilizations may face different challenges and results hence must go through particular tracks. For these reasons, a country or group shall and can only find its own way to make progress. The experiences from other counties or groups have limited reference value and can not be copied or aped successfully.

There are similar debates on the integration processes, which could be though as a type of special historical evolution course. Generally speaking, it seems that the unilinear theories take an advantage since the economists play key roles in interpreting the economic integration, which is the most fruitful field in all integration processes. Since Balassa(1961) suggested that regional integration shall take place in five distinct steps, most policymakers and scholars have used to judge a regional project by the five stages: Free trade area, customs union, common market, economic and monetary union or finally political union. ⁱⁱ Particularly, European experience gives sufficient confidence in regional integration projects and is thought by some people as the paradigmatic case of regionalism against which all other regional projects are judged (Higgott, 2006: 23). It seems that, according to the classic Balassan model, following the steps of EU, other regions in the world can also make their immediate, or indeed long-term, future become Europe's immediate past.

However, in the view of some other, as an exercise in regional integration, EU experience is a major obstacle to the development of analytical and theoretical studies of regional integration elsewhere(Higgott, 2006: 23). Judged from the so-called European paradigm, Asian, African or Latin American regionalisms are too "loose" or "informal" to be thought as integration processes. Actually, since Wallace (1990) made a distinction between informal and formal integration and Higgott(1997) identified the de facto and de jure integration, the former has often been used to refer non-EU-style regional projects, in which there is no institutionalized regional arrangement. Peng(2002) finds that some informal mechanisms have formed a distinguishing regional integration in East Asia comparing to that in EU. This means that the informal institutional cooperation is not necessarily a preparatory stage for the formal economic integration and may create a new way of integration. Moreover, Venables, Winters and Yueh(2008) suggest that the key driving forces in Europe do not have any close parallels in Asia. In short, some think EU-type integration theory can not explain the practices of Asian and other regions.

Furthermore, Euro area's poor performance in the international financial crisis,

especially in Greece's debt crisis, weakens the authority and universality of EU-type integration. Since the subprime mortgage crisis triggered the international financial crisis, fears of Euro area disintegration have become common currency in the international press (Verney, 2009). Some economists also seriously discuss the probability of the breakup of the euro area.ⁱⁱⁱ Inevitably, the frangibility of Euro area under the global financial turmoil deeply impresses people of rest world, including Asian. This situation may encourage more policymakers and scholars outside Europe to manage to explore their regional projects with local characteristics.

The existence of the Asian Way of regional integration, or the Asia-type integration, is already being mooted. However, as a kind of proactive experiment, the author would like to point out the fundamental difference about the concept of integration between Asia and Europe in Section 2. This is followed by a more detailed explanation on the pillars of a potential Asia-type integration in Section 3. The expected role of China and Japan are drawn out in Section 4, and some concluding remarks are offered in Section 5.

2. Competitive-oriented Integration VS. Cooperative-oriented Integration

2.1 Overview

As has been argued, some have distinguished informal and formal integration, or de facto and de jure integration. Higgott(2006) further notes that the key question then becomes whether informal institutional cooperation precedes formal economic integration or vice versa. To answer this question, he distinguish between regionalism and regionalization and argues that regionalization refers to those processes of integration that arise from markets, private trade and investment flows, and from the policies and decisions of companies rather the predetermined plans of national or local governments, while regionalism refers to those state-led projects of cooperation that emerge as a result of intergovernmental dialogues and treaties (Higgott, 2006: 24).

However, as far as we are concerned, the sequence between informal and formal integration is insignificant. In most modern society, formal institution goes hand in hand with informal institution. Each regional integration project, not only in Europe but also in Asia, needs a lot of informal and formal system arrangements as supports. Some argues that there is no formal regional arrangement in Asia. That does not means Asia excludes or detests formal integration; otherwise there will not be more and more bilateral formal agreements between Asian countries. Actually, the primary cause of formal-regional-arrangements absence is there is no suitable content of integration which needs the arrangements. In other words, in Asia, the content of EU-type integration can not encourage and promote the demand for formal institutions.

It is the content rather than form (such as formal and informal or de facto and de jure) defines the nature of integration and may distinguish the Asian way from EU-type integration. In the west, integration basically means the bringing of people of different racial or ethnic groups into unrestricted and equal

association^{iv}. In this definition, equality among individual members is especially emphasized. However, in Chinese, integration(一體化) literally means composing a whole body. As Mahaparinirvana-Sutra, stemmed from India and most widespread in China, says that a body consists of different parts with respective characteristics and functions. Any part can not represent the whole body or substitute the other parts. Obviously, in the east, diversity or heterogeneity rather than equality is paid more attention. They are not expected to be eliminated. The key question is how to coordinate all the different parts into an organic whole and to maximize the benefits of the whole.

Generally speaking, the dynamic of EU-style groups comes from the competitions among equal members, while the economic vitality of Asian economies may source from cooperation among individual members. Recognizing the above-mentioned difference of outlook between the west and the east, we can easily understand why Jacques Pelkmans(2006: 3) says in his classic textbook about European integration that the fundamental significance of economic integration is the increase of actual or potential competition, although eastern common people who does not know European integration theory can not imagine the competition between the eyes and the ears on a same body. Moreover, the idea of cooperation filters into eastern people's minds so deeply that the complementarities may not be the necessary conditions for cooperating in the Orient. The implication of competition and cooperation among different types of individuals can be seen in Table 1.

Table 1. The implication of competition and cooperation

	Homogeneous	Heterogeneous
Competition	horizontal competition	vertical competition
Cooperation	economy of scale	economy of scope

2.2 Competitive-oriented integration in European

The competitions, both horizontal and vertical competitions, play a central role in European integration. As Pelkmans put it:

Competition by market participants is likely to lead to lower prices for similar goods and services, to greater quality variation and wider choice for the integrating area, as well as to a general impetus for change. Product designs, services methods, production and distribution systems and many other aspects become subject to actual or potential challenge. They may induce changes in the direction and intensity of innovation and in working habits. ... economic integration will also expose regional or national governments to competition, with interesting consequences. (Pelkmans 2006: 3)

The principle of impartiality and equity is essential for a fair competition. In the

process of European integration, more specifically, from the EEC treaty of 1957, the Single European Act of 1985, the Maastricht Treaty of 1991, to the Amsterdam Treaty of 1997, the uniformity of market and policy is always considered crucial to remain a level playing field for all.

In the EEC treaty of 1957, the two general means for creating fair environment and developing vibrant economy are the common market and the approximation of economic policies. The common market is defined with a customs union and ‘four economic freedoms’: the free movement of goods, persons, services and capital. The approximation of economic policies includes a series of common policies which concern trade, agriculture, fiscal regulation, and so on. In the Single European Act of 1985, the two general means remain in place, only adds some new content. Significant changes happen in the Maastricht Treaty of 1991, a third means (EMU) is added and the label ‘approximating economic policies’ is replaced by ‘common policies or activities’. The foundation of EMU means a new institution for common market and policies appears which can sustain the fairness of competitive environment more strongly, flexibly and effectively. Comparing to the Maastricht Treaty, The three means in the Amsterdam Treaty of 1997 have not changed and their many instruments have been altered only marginally. The evolution of common market, common policies, and activities in European integration can be seen in Table 2 as following.

Table 2. The evolution of means for sustaining fair competition in EU

	Means	Contents
EEC treaty	common market	customs union; free movement of goods; free movement of persons; free movement of services; free movement of capital;
	approximation of economic policies	common trade policy; common agricultural policy; approximation of fiscal and economic regulation; common competition policy; common transport policy; other (weak) instruments;
Single European Act	common market	old; internal market defined: area without frontiers, freedoms ensured;
	approximation of economic policies	old; mutual recognition as a regulatory principle; research and tech. development; environment; EMS; economic and social cohesion; structural funds;

		health and safety in the workplace;
Maastricht Treaty	common market	old; capital restrictions prohibited;
	common policies or activities	old; new or reformulated instruments; all new ones weak
	EMU	one money; price stability; European Central Bank; no excessive deficits; entry conditions;
Amsterdam Treaty	common market	old; gradual shift towards (complete) free movement of persons – complex linkage with Schengen and conditionalities;
	common policies or activities	old; Social Protocol inserted in EC treaty; Coordinated strategy for employment
	EMU	old; Stability and Growth Pact; voluntary ERM-II;

Source: Pelkmans 2006, Figure 2.1 to 2.4, from page 21 to 33.

In the normal period, the common market, policies, activities and institutions can surely build a fair environment to encourage effective and productive competition, which may promote the technological creativity and economic vitality in the region. Taking into account the possible damage to the free competition by centralization, EU follows the principle of subsidiarity when fulfilling its public economic functions. Article 3b of *the Treaty Establishing the European Community* prescribes:

In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty.

However, in the period of crisis, the principle of “free competition first” may be conducted and enlarge the external shocks in the region. Fears of breaking the principle of subsidiarity, EU can not take drastic measures to block the crisis and always releases ambiguous policy signals. For example, as Zsolt Darvas(2010) describes, “when the Greek crisis began to intensify in February 2010, European

partners dithered over providing a loan to Greece and agreeing to IMF involvement. As the crisis intensified, policymakers started to blame 'speculation', or suggest ad hoc measures, such as banning certain financial products and setting up a European credit rating agency. When policymakers are busy with these kinds of redundant activities and provide conflicting signals about their intentions, markets are likely to draw the conclusion that policymakers do not have the means to resolve the crisis". This situation encourages serious contagious effects within the euro area.

Furthermore, the competitive-oriented integration discourages the regional power to take upon itself to lend a helping hand to members with sticky situations positively. Since the power has provided most regional public products according formal treaties, in the crisis, it is inclined to doubt the necessity of helping others in trouble and even to blame them. For example, in the European sovereign debt crisis, Germany has been reluctant to pledge direct financial aid because German public opinion takes a dim view of the shoddy statistics-keeping that have long hidden the true size of Greek deficits and debts (Wielgaard, 2010).

To sum up, the principle of fairness, which is supported by common market, polices, activities and institution, plays a key role in the competitive-oriented integration process. It may be effective in the normal period, but may also aggravate the situation in crisis.

2.3 Potential cooperative-oriented integration in Asia

Till now, there is not a complete and institutionalized cooperative-oriented integration process in the world. However, the bud of cooperative-oriented integration can be seen in the process of development of Asia, especially East Asia. We call it the "flying geese" pattern or the FG model.

The phrase "flying geese pattern of development" is coined originally by Kaname Akamatsu in the 1930s articles in Japanese. The original FG model is a theory to explain a sequential development of manufacturing industries in developing economies. In his postwar articles, Akamatsu adds a pattern of intercountry alignment in order to explain the regional transmission of FG development from a lead goose to follower geese. In particular, the FG model of industrial development is transmitted from a lead goose (Japan) to follower geese (Newly Industrializing Economies(NIEs), ASEAN 4, China, etc.)^v

The most significant insight of the FG model is its clear understanding about the diversities and complementarities among the regional members. Based on the diversities and complementarities, Japan can offer trade-oriented foreign direct investment (FDI) to those industries which Japan was becoming comparatively disadvantaged. In this model, most developed economy supplied the capital, technology, and even developmental norms by the method of FDI to second-tier "geese", and the second-tier "geese" also transfer less complex technology and relevant capital to third-tier "geese", and so on. Since the same kind of investment, technology and production cluster in same tier of countries, the rationalization of industry is made possible by the economies of scale. It creates

export capacity in developing countries while obtaining necessary imports for the more developed economy and accelerating internal structural adjustment (Kaur, 2009). All "geese" benefit from this model of economic development.

However, the FG model is not a flawless pattern. Firstly, it implicates that the less developed regional members must follow the developed members and catch up with them in a unilinear track. As Hobday (1995) says, this model fails to capture the diversity of development paths in the region. Overemphasizing the catch-up and imitating over the developed economy, the FG model underrates the role of specialization and openness in promoting technical progress. Actually, with the development of economy, the NIEs gradually become an important and distinct source of East Asian technological progress. Secondly, it exaggerates the "lead goose" Japan's innovation ability. The FG model also underplays the significance of the US economy, both as a market and as a source of technology and investment (Hobday, 1995). Thirdly, there is not a comprehensive formal regional arrangement to encourage the specialization of each member in the FG framework.

In conclusion, the FG model shows the traditional oriental idea of cooperation on the basis of diversities and complementarities and indicates the possibility of achieving cooperative-oriented integration in Asia, although it can not complete this task by itself for its immanence limitation, which restraints the functions of scale economies and the economies of scope.

3. The possibility and pillars of a potential Asia-type integration

In the east, cooperation rather than competition is the basic starting point to understand the world. Tao Te Ching says that the highest goodness is like water; water benefits all things and does not compete with them (Brown, 1975: 99). Some argue that the fundamental difference between traditional Chinese society and modern Western society is that the former is a familist society while the latter is an individualist one. Familism regards individuals are not independent and equal with each other, while individualism regards individuals are independent and equal with each other (Sheng, 2009). Joseph Needham has used "Within the Four Seas", which comes from the Confucian teaching that "within the four seas, everyone else is a brother", as the name of his book about the dialogue of East and West (Needham, 1979). Obviously, Needham knows the nature of eastern society. In a familist society, one person's goals and utilities often include other's goals and utilities, which encourage cooperation greatly.

To finish a modern regional integration project, traditional conceptions are helpful but not enough. We must find more firm pillars with the theoretical, practical and institutional dimension.

3.1 Theoretical pillar: institutional non-neutrality

Zhang(1994) has given a simple definition of the institutional non-neutrality: the same system or institution often means different things to different people. It is true especially in the areas with varied groups. Asia is the world's largest and most

populous continent, with millions of different peoples belonging to a lot of ethnics, saying in many kinds of languages and following a wide variety of different religions. According to the Wikipedia, Asia is home to several language families and many language isolates. Most Asian countries have more than one language that is natively spoken. For instance, according to Ethnologue, more than 600 languages are spoken in Indonesia, more than 800 languages spoken in India, and more than 100 are spoken in the Philippines. China has many languages and dialects in different provinces. Asia also is the birthplace of most of the world's mainstream religions including Buddhism, Christianity, Confucianism, Hinduism, Islam, Jainism, Sikhism, Taoism, Zoroastrianism as well as many other beliefs.

Given the enormous regional diversities and disparities, a common institution or policy may cause serious consequences. For instance, we consider the labor policies within Asia. It is scarcely imaginable that Burmese would like to work overtime without being paid just as Japanese have get used to do. And for the same reason, expecting Japanese to work and rest like Mongolian is still impossible. Moreover, financial policy also should be taken according to local conditions. Feng and He(2008) and Feng(2009) argue that technology-based small- and medium-sized enterprises (SMEs) need a developed financial market and a market-oriented policy to disperse the uncertainty while the traditional enterprises need a strengthened banking system to support their production. Although the market-oriented policy helps increase overall efficiency of countries with technology-based enterprises system, says U.K and U.S., if the system of enterprises remains the traditional enterprises system rather than technology-based one, then the same market-oriented policy without necessary regulatory would lead to a bubble economy. The capital would flow from productive industries and bank system to the financial market. If there are no enough technology-based SMEs to absorb the fund and to product innovative incomes, the industrial capital of the society would turn into the speculative capital with high risk.

Since the Institutional Non-neutrality is by no means preventable in the diversified and heterogeneous Asia, the policy coordination under a regional cooperative framework is more important than approximation of economic policies or common policies or activities. If the differential policies are suitable and coordinative, the heterogeneity of economies in Asia will offer an even greater potential for trade creation, and also for using integration to facilitate the development of production networks.

3.2 Practical pillar: market-facilitating state

The Commission on Growth and Development of World Bank issues a study named *The Growth Report: Strategies for Sustained Growth and Inclusive* in 2008. The report identifies some of the distinctive characteristics of 13 high-growth economies^{vi} that have been able to grow at more than 7 percent for periods of more than 25 years since World War II. At that pace of expansion, an economy almost doubles in size every decade (Lin and Monga, 2010). Attracting attention,

among 13 economies, there is only one European country, but 10 lie in Asia. Particularly, 9 economies lie in East Asia.

To explain the success of those economies, Justin Yifu Lin uses a new structural economics framework.^{vii} In this framework, Lin emphasizes the comparative advantage based on the endowment structure, the optimal resource allocation market mechanism, and the facilitating role of the state.^{viii} In particular, he pays much attention to the governments' intervening to allow markets to function properly.

(i) providing information about new industries that are consistent with the new comparative advantage determined by change in the economy's endowment structure; (ii) coordinating investments in related industries and the required improvements in infrastructure; (iii) subsidizing activities with externalities in the process of industrial upgrading and structural change; and (iv) catalyzing the development of new industries by incubation or by attracting foreign direct investment to overcome the deficits in social capital and other intangible constraints. (Lin and Monga, 2010)

On other words, state coordination plays an important role in promoting comparative advantage and domestic economic growth. With these experiences and domestic-foundations, a more comprehensive international coordination may be desirable and feasible to be evolved out in the region.

3.3 Institutional pillar: strategic income transfer system

As is stated above, international coordination and governments' intervention with non-neutral policies may develop and maximize the economy of the whole region. However, if some organs always absorb excess nutrient and others are constantly malnourished, the functions of body will be damaged. Accordingly, the income gap within region may increase which may do harm to the sustainability of the regional growth. Therefore, we need a strategic income transfer system to balance the possible disastrous consequence. As regional public goods, the strategic income transfer system can not be realized by the regional production networks themselves. Governments-driven institutional arrangements are indispensable.

The system shall include at least two strategic goals. First, strengthening the comparative advantages of each member, and helping members to turn the potential endowment into realized inclusive economic growth with regional development. In order to achieve this aim as soon as possible, we must improve or reconstitute the regional foreign aid arrangement. On one hand, Japan has been the biggest donor in East Asia for a long time. On the other hand, China sets a model for poverty alleviation and funds utilization. The cooperation between the two countries is essential for the first goal. Actually, in many countries, foreign aid has traditionally been an important part of the government's budget (for instance, Indonesia, see Figure 1.), which means the new regional foreign aid arrangement

may play a key role in the regional coordinative intervention from governments.

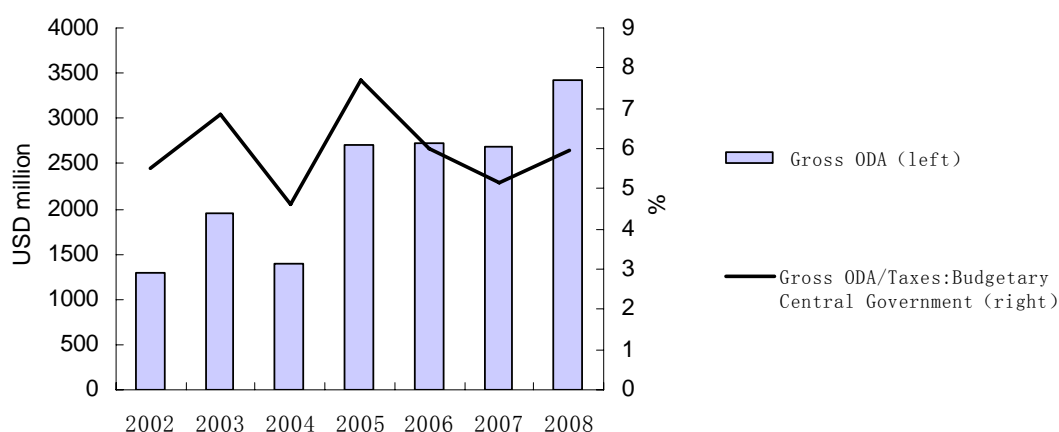


Figure 1. Gross ODA and its ratio to Taxes in Indonesia

Source: Feng, Weijiang (2010)

The second strategic goal is to manage and resist both external and internal economic risk. Comparing with other regional project, financial and monetary cooperation in Asia has made a greater progress. The Chiang Mai Initiative (CMI) has been created to provide collective defense to participating currencies when they come under a speculative attack. In May 2009, ASEAN+3 finance ministers agrees to replace the existing bilateral CMI with a multilateralised form Chiang Mai Initiative Multilateralized (CMIM), which would have an expanded resource pool of US\$120 billion. In the new Initiative, Japan and China are to contribute US\$38.4 billion (32%) each, with China's share including US\$4.2 billion from Hong Kong. Korea is the next largest donor with US\$19.2 billion (16%). Among the ASEAN countries the biggest contributors were Indonesia, Singapore, Thailand and Malaysia, which agreed to provide US\$4.77(4%) billion each with Philippines committing 3.1% and Vietnam contributing slightly less than 1% (Gupta, 2010).

However, for the second goal, CMIM is still not enough. Firstly, the fund should be brought into the independent and unified strategic income transfer system in the form of received cash payments. Secondly, a formal department discharging responsibility of fund pool supervision under the strategic income transfer system rather than rules of IMF is necessary.

4. Expected contributions of China and Japan

As two biggest economies in the region, China and Japan always have been pinned great hopes on to assume the responsibility of promoting regional integration project in Asia. Some studies about the role of China and Japan in regional integration focus on the competition or allocation of leadership (Yoshimatsu, 2003; Dent, 2008). Some others focus on the trade and investment ties and economic interdependence between China and Japan (Xing, 2008; Hasegawa, et al., 2004). In this article, we discuss the possible contributions of China and Japan and the complementarities of their contributions. More

specifically, the successful experience of growth in China and Japan may offer a domestic foundation for regional integration.

As Table 1 show, the efficiency of potential Asia-type integration would mainly come from the economy of scale and the economy of scope. Therefore, deliberate and well-accepted regional production networks are key tools for realizing the economy of scale and scope. Chinese and Japanese experiences would be very helpful for the building of such networks.

4.1 China's experiences of local distribution and area development

Three achievements and experiences of China may be important for the regional production networks. Firstly, Non-balanced development strategy drives the overall economic growth. As Deng Xiaoping says, encouraging some people and some regions get rich first, then others will be brought along richer and the ultimate realization of common prosperity. In other words, at the beginning, China's rapid growth is greatly benefited from the combination of coastal location advantage and the labor endowments of inland. In the next stage, a further rise will depend on the combination between coastal and overseas capital and the endowments of natural and human resource in the central and western areas. China has accumulated enough experiences of formulating and implementing differential regional development policies based on the endowments structure.

Secondly, the strategy of "infrastructure first" has achieved obvious effects on reducing poverty and gaps in China. Since 1978, a large amount of investment has been allocated to transport infrastructure construction, especially in the coastal area, which promoting the trade and FDI then the economic development. With labor costs and land costs' changing, foreign investors began to look for new factory locations in inland China. Therefore, the Chinese government has gradually shifted its infrastructure investment priority from the coastal area to the inland area, which can help the inland China to catch up with the coastal area. ^{ix} In fact, China has taken part in the building of relative countries' infrastructure, including the South Asia and the Middle East. Chinese construction companies that are helping build transport infrastructure have positive affects both on the host countries and on China. If there is a rational regional infrastructure plan, Chinese experiences may play a bigger and more effective role.

Thirdly, given the powerful ethnic Chinese business networks^x, Chinese governments' consummate skill of attracting merchants and luring investments would be very helpful when building local industries according to the regional plan.

4.2 Japan's experiences of keiretsu-driven industrial development

The regional production networks can also benefit from Japan's experiences of keiretsu-driven industrial development. Original keiretsu are a micro- or middle concept in economic views. They are companies with interlocking business

relationships and shareholdings, which represents commonly recognized and interconnected networks of Japanese firms. Keiretsu are deeply embedded in Japanese industrial organization and the Japanese business system (McGuire and Dow, 2009). Both horizontal and vertical keiretsu play key role in Japanese economy. Although keiretsu cause some costs, many discussion emphasis their benefits (see Table 3.).

Table 3. Benefits and Costs of Keiretsu Affiliation

	Benefits	Costs
Horizontal keiretsu	Risk reduction and performance leveling Reciprocal monitoring Reduction of information asymmetry Mutual assistance Access to stable financing Insulation from market pressures	Higher borrowing costs Over-investment Poor performance Heightened information asymmetry (between firm insiders and outsiders)
Vertical keiretsu	Oversight by core firm Encourages co-ordination Long-term perspective Reduces governance problems Stable output market domestically and export markets encouraged Lower transaction costs Technical, managerial and financial assistance Foster innovation Lower costs Better performance	Limited scope of customers Limited innovation Tunneling

Source: McGuire and Dow (2009), pp.335, 338.

At least three characteristics should be spread from the micro- or enterprises' level to the macro- or regional level: 1) building a stable finance and production network based on the endowments structure of regional members. 2) Setting long-term arrangements against the risk of fluctuation on supply and demand of raw materials and intermediate goods within the region. 3) Maintaining a long-term perspective and avoiding myopic policies.

In short, area development and industrial development are interrelated and complementary respects of regional production networks. China and Japan can make contributions to the networks according to their comparative advantages.

5. Some concluding remarks

In the light of the basic difference of understanding integration between the East and the West, a cooperation-oriented integration rather than European competition-oriented integration may be more desirable in Asia, especially when considering the enormous heterogeneity in this region. To finish the great and

significant task, all regional member must take the Common and Differential liabilities. As two biggest powers in the region, China and Japan should shoulder more responsibilities on investment of regional public goods, in details, for example, the regional production networks. Their domestic experiences show that they have the ability to make the contribution.

ⁱ Historical materialism is not "an historico-philosophic theory of the marche generale imposed by fate upon every people, whatever the historic circumstances in which it finds itself". (Marx, Karl, Letter to editor of the Russian paper *Otetchestvennye Zapiskym*, 1877) His ideas, he explains, are based on a concrete study of the actual conditions that pertained in Europe. See http://en.wikipedia.org/wiki/Marx's_theory_of_history#cite_note-1.

ⁱⁱ Exceptions do exist. For example, Dieter and Higgott (2003) believe that Balassa's five-stage regional integration over-emphasizes on trade integration and overlooks financial and currency aspects. Based on the Asian experience, they propose a four-level monetary integration process independent of Balassa's five-stage regional integration. The four levels are as follows: Regional Liquidity Fund, Regional Monetary System, Economic and Monetary Union, and Political Union.

ⁱⁱⁱ Such as Eichengreen(2010), although he concludes that the total disintegration of the euro area is unlikely still.

^{iv} <http://www.thefreedictionary.com/integration> .

^v More details see Kojima (2000).

^{vi} The list includes: Botswana, Brazil, China, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan (China), and Thailand.

^{vii} The framework can be seen in Lin(2010).

^{viii} This concept is similar to the "market-augmenting government" put forward by Mancur Olson in *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*. The difference is the former more emphasis the context of developing country.

^{ix} More details about the relationship between infrastructure development and economic growth in China see Ma and Zhang (2009).

^x The role of the ethnic Chinese business networks can be seen in Peng (2002).

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