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“EU Experience of Integration and East Asian Overtures”

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I would first like to express my sincere thanks to Prof. Lau, professors and staff for inviting me today to this beautiful campus that I feel so familiar with. I left Hong Kong in summer of 2006 and during the last 3 years we have observed many challenges such as world financial crisis, regional instability and worsening climate change. Here in East Asia, we also have challenges and issues to be addressed for making our region stable and prosperous. Today, I would like to touch on the European experience of constructing a peaceful and mature society and try to see our regional issues. I believe that EU experience of the last half century presents foods for thought and good reference to address our issues.

Let me start with one newspaper topic reported in Athens recently that I found interesting and worth mentioning here. It reports that the European Court of Justice ordered Greece to pay a fine of more than 3 million euros because it has failed to repeal a law that bans all types of slot machines across the country. The Court also ruled that Greece will have to pay a further penalty of about 30,000 euros for each day that it fails to change the law. The law against electric gambling was passed in 2002. It aimed to stop the use of thousands of slot machines that had sprung up in arcades and cafes across the country. The Greek Government feared they were having negative impact on small communities and the law was later extended to cover all games in public areas except licensed casinos. The European Court found that the law violated certain principles of EU legislation, including the free movement of goods and services.

You may claim that the Greek law can be justified, however it is not

the point of discussion today. The point is the fact that EU interferes with a member state. EU member states have relinquished many of their sovereign rights and members jointly share such sovereign rights within the framework of EU.

Now, a state or a nation – China, Japan, US, etc. is defined as the entity that commands and exercises all sovereign rights over its land and people – so called “a sovereign state”. The concept of sovereign state was born in Europe back in the middle of 17<sup>th</sup> century. The medieval Europe had been governed by the religious authority, the Holy Roman Empire until kings and feudal lords started wars dividing into Catholics and Protestants, which lasted for 30 years – later called “30 Years Religious War”. At the end of the War, the conference was convened in 1648 to decide the post-war Europe. In this process, the Holy Roman Empire ceased to exist as a political power and kings and feudal lords emerged as a sovereign entity that directly and exclusively commands the land and the people – the birth of modern sovereign state. Since then, 350 years has passed and the world continues to be dominated by sovereign states. Robert Cooper, British strategist on international relations, explains that there are three different categories of states – Pre-modern, Modern and Post-modern. Pre-modern is countries of chaos and of no governance like we see in Somalia, Afghanistan, etc. A traditional sovereign state is defined as Modern. When the United Nations started in the middle of 20<sup>th</sup> century, the number of member states was only a little over 40, while today 60 years later it has reached almost 200. This shows that majority of today’s sovereign states were born in the last half century. A sovereign state is really an almighty as it was for three centuries. Robert Cooper says that EU is the only one that has so far developed into the stage of Post-modern.

Let us see the history of last 350 years. The salient feature of the history is characterized by wars – the struggle of sovereign states fighting each other by forces. The fact that the first international law was the one to regulate rules on war indicates the overwhelming frequency of wars and the necessity of setting rules on fighting. Up until the end of 18<sup>th</sup> century the war was a game competed between kings and feudal lords and fought by employed warriors. The Industrial revolution that started in the end of 18<sup>th</sup>

century invented tools of mass destruction and changed the nature of war. In addition, the composition of the army was transformed from employed warriors to all levels of sovereign state nationals who were mobilized by nationalism. The nature of war evolved to be a mass destruction. The First World War clearly demonstrated such brutal nature of war.

Peace is an old and new subject of study and discussion. Thomas Hobbes, philosopher of 17<sup>th</sup> century, describes our world as “struggle of all against all”. Or the world can be referred to “jungle” where the stronger wins and the weaker loses”. Every sovereign state has tried to be a winner and the war is an easy tool as well as the last resort to materialize the objective. In the world of jungle, stability can only be maintained when powers are balanced. The balance of power is a practical and effective machinery to create and maintain stability and peace, but by nature it is very fragile. Immanuel Kant, philosopher of 18<sup>th</sup> century, advocates that the states shall form a federation in which international rules and regulations are abided by. He believes that “Peace Federation” as he named restraints militant fever and prevents wars.

The First World War intensified people’s wish for peace and real efforts to establish peace were made for the first time. The League of Nations, the first comprehensive international organization and later succeeded to the United Nations of today, was established by the strong initiative of Woodrow Wilson, the then US President. But, US Senate disapproved US participation and the League proved to be powerless for international disputes. The Versailles scheme that imposed harsh penalties against the loser of the War, Germany, only provoked German nationalism and retaliation.

The study on international relations started in such environment. E.H. Carr, a founder of such study and historian, analyzes the failure and claims that the guiding principle of post-war arrangement, including the establishment of the League of Nations was excessively influenced by idealism and did not correspond to the reality. The League and the Versailles scheme existed off the road and could not cope with the reality.

Let me move to European efforts right after the Second World War that European countries and US jointly exercised to rearrange European order and structure. There were many issues and difficulties, among which I think the priorities in the political and diplomatic area were; first, Germany – how to incorporate Germany in the post-war European order and to maintain stability, and second, as you can easily imagine the Soviet Union – how to cope with the big bear behind the Iron Curtain.

On these difficult issues, European and American leaders came to recognize that the post-war European order should be created in order to guarantee a solid and long term stability and that for this purpose a new mechanism which overrides sovereign states should be constructed. The initial response was the European Coal and Steel Community (ECSC). This organization aimed to jointly undertake production and management of coals and steels of the member countries. You may remember that France and Germany continuously fought for more than a century to occupy Alsace-Lorraine, a major production area of coals and steels. The joint project of the major industrial resources of that time was clearly motivated by political objective to reconcile conflicts and to create a new mechanism.

This initiative was followed by the formation of the European Economic Community in 1958 that put into practice the common market. In such a way, the European community building gradually took shape and developed in a number of member states and in areas to be covered by the Community. The collapse of the Cold War in 1989 enabled West and East Germany to be united, but such unification was only possible under the transparent and pacifistic mechanism of the European Community. Suppose that Europe had been just composed of sovereign states, how Europe could have accommodated the united Germany, such a giant sovereign state, over which the world wars took place two times in 20<sup>th</sup> century. The European Community provided the common house in which the united Germany is comfortably accommodated.

The Community decided in 1991 that it would start a single common currency and that it would adopt a common foreign and defense policy. The circulation of Euro started in 2002, which demonstrates a significant level of

integration in light of the fact that issuing a currency is one of the most important sovereign rights of a state. The Community, now named EU, is still on expanding and deepening process. Member states are now 27 and many others are on the waiting list. EU is planning to appoint its President and Foreign Minister to materialize the common foreign and defense policy.

EU exists above sovereign member states and states have relinquished a part of their sovereign rights. EU is a mechanism through which member states share sovereign rights and jointly guarantee the stability of their common house. In this way, EU provides us with a model of the international community which functions differently from the world where the balance of power is a major stabilizer.

Now, let us look at our region, East Asia. Our region is a melting pot of old and new ingredients. The old one is that there still exist unresolved issues left over since the end of the last war, such as the separation of South and North Korea and the Taiwan issue. The concept of a sovereign state in our region is taken for granted and thriving. A typical example is seen in North Korean response – for instance, it claims that developing a nuclear weapon is a sovereign right of a state, etc. It reminds us of a jungle of “struggle of all against all”. The new one is that our region is evolving very rapidly with fast growing economies, especially of China and India. Such development will surely provide us with common assets for assuring people’s better life in the years to come, but at the same tells us an importance to manage the change in a proper manner. East Asia occupies half of the world population and already produces one fourth of world GDP. If East Asian economy continues to grow at the similar speed, its GDP will soon or later exceed that of US and EU, and will become much larger. Henry Kissinger wrote recently in the International Herald Tribune – “The 21<sup>st</sup> century now requires an institutional structure appropriate to its time. The nations bordering the Pacific have a stronger sense of identity than did the European countries emerging from World War II. They must not slide into a 21<sup>st</sup> century version of classic balance of power politics.”

EU experience gives us many lessons on community building. It may not simply apply to East Asia, however their efforts of a half century serves

as a good bench mark and reference. I will touch upon what has already taken place in our region and what is going to happen. I will then present related issues to be addressed to promote stability and prosperity of this region.

Firstly, the regional integration is already an agenda in East Asia on which political leaders, business executives and researchers have discussed and took actions. Everybody would agree that Southeastern countries have shown a good example. Five Southeastern countries such as Indonesia and Thailand formed a regional organization in 1967, named ASEAN, which aims to promote region-wide cooperation and later expanded to 10 members which include all countries in the same region. ASEAN is not a super-state body, but it has for decades demonstrated political solidarity as a group. The Asian Financial Crisis of 1997 created a significant turning point of accelerating a greater regional cooperation. Northeastern countries, namely China, South Korea and Japan and ASEAN countries started to act as a group. When the Financial Crisis broke out, IMF failed to provide an appropriate prescription and necessary financial resources, while Japan extended majority of such resources to meet the financial gap. China did not devaluate Yuan and prevented other countries from a vicious circle of devaluation. Leaders of ASEAN and China, South Korea and Japan, later called “ASEAN + 3” held a summit meeting right after the Crisis and became a core group of cooperation in the region.

“ASEAN + 3” is now a body of cooperation at various levels and has produced tangible outcome, among which worth mentioning is the financial area. In order to avoid the second financial crisis to happen, this group set up a network of swap arrangement, a facility called Chiang Mai Scheme which provides emergency currencies to any member in trouble. The amount of the swap arrangement has been increased steadily and now amounts to 64 billion US dollars. I believe that this arrangement is the most significant achievement of the activities undertaken in the framework of ASEAN + 3. One another arrangement is a facility called Asian Bond Market which intends to activate a bond market in Asia. One of the lessons we learned from the Crisis of 1997 is that many countries in the region lacked in healthy financial markets and money within the region was not utilized for the

region. This arrangement aims to facilitate Asian bonds to be issued in Asian currency and to make region's financial markets more self-reliant.

In addition to the above achievement, a political movement toward creating a regional community has characterized a recent discussion of "ASEAN + 3". Upon the agreement of this forum, the first summit meeting that intends to discuss a regional integration was convened in December, 2005 with attendance of leaders from "ASEAN + 3" and another 3 -- India, Australia and New Zealand. The first East Asian Summit as it is called, announced that the leaders called for fostering a strategic dialogue among members, economic integration, financial stability and energy security and also urges to strengthen application of global standards and universally recognized values.

Secondly, the integration of our region in trade is already advanced and gives a solid basis for creating an economic community. Let's look at the intra-regional trade in East Asia. The trade exchanged among East Asian countries occupies 57.6 % of the region's overall trade in 2006 (ASEAN + 3 + 3 + HK and Taiwan), while that of EU 15 amounts to 59.5% (expanded EU 27 is 65.8%) and NAFTA (US, Canada and Mexico) amounts to 44.3%. The East Asian intra-trade ratio has already achieved a significant level despite the fact that East Asia has not yet formed an institutional and legal framework like EU or NAFTA. What exists now in our region is a network of the free trade agreement (FTA) that China, South Korea, Japan, India and Australia have concluded with ASEAN separately. In addition, 16 countries of East Asian Summit have recently agreed to start consultation on concluding a comprehensive region-wide arrangement of trade, investment, service and property rights which aims to further expand intra-regional economic activities. The fast growing East Asia has a great potential of continuous development by eliminating barriers of trade and investment. I envisage that the strengthened cooperation and integration in the economic area will build a solid basis on which a community building of this region will proceed and bear fruits.

Thirdly, East Asia needs to look into political impact of the economic achievements. The size of East Asian economy will exceed that of EU and

NAFTA soon or later and will further advance. Economic success will be accompanied by bigger voices and influence over the world. Paul Kennedy, author of “the Rise and Fall of the Great Powers”, argued 20 years earlier that tectonic power shift toward Asia and a way from the West seems hard to reverse. This is exactly what is happening today and we have to bear in mind that the world will accordingly look for a bigger responsibility corresponding to the economic size. So, the question is whether or not we are prepared to it.

Fourthly, the military and security situation in Asia is complex and a matter of serious concern. Of all the concerns, the nuclear arms issue is a typical case. You can easily find that the majority of nuclear armed states have their presence in this region -- Russia, China, US, India and Pakistan. North Korea has just declared to have developed nuclear arms. Despite such complexity, an effective mechanism of confidence-building and conflict-easing does not exist in our region, while Europe has nurtured such mechanism over several decades. The Conference on Security and Cooperation in Europe (CSCE) started at the height of the Cold War to serve as an important multilateral forum for dialogue and negotiation between the West and the Soviet Bloc. After the fall of the Berlin Wall and the collapse of the Soviet Union, the Conference was renamed the Organization for Security and Cooperation in Europe (OSCE) and its mandate now covers from the inherited challenges of the past to new security challenges such as climate change and terrorism. The other case is the Treaty on Conventional Armed Forces in Europe (CFE) which limits a level of conventional arms of the two blocs (NATO and Warsaw Pact) and permits inspection without an advance notice. The inspection, especially helps fostering transparency on arms and arsenals of other countries and creating confidence among members. In Comparison to Europe, Asian security situation lies in the jungle of “struggle of all against all” and the stability depends on the balance of power. We should realize that we live on such fragile balance of power and wisdom of fostering confidence and preventing conflicts is truly needed to guarantee stability and security of our region.

Now, let me touch on two areas that I think need to be addressed further in order to move toward building an East Asian community as discussed at the East Asian Summit.



The first area is a perception of the people in the region on some key questions such as – whether or not they feel like belonging to the same community to be established, whether or not they are prepared to relinquish sovereign rights of a state for the community and whether or not they share objectives of the community. ASEAN members have for four decades nurtured an identity of ASEAN. How about the expanded geographical identity of ASEAN + 3 which includes China, South Korea and Japan? How about ASEAN + 3, plus India, Australia and New Zealand (East Asian Summit members)? Asia Barometer, a regional survey network operated by scholars from our region, explains that in China those who identify themselves as Asians are just 5%. This indicates that Chinese people perceive the region as China and others. In case of Japanese the ratio is 25%, a bit more flexible, but the majority of Japanese distinguish Japan from others.

ASEAN, having a long-time experience of community building and always trying to demonstrate its identity, finds it comfortable to sit in a driving seat to take any initiative on the regional matters and actually ASEAN has played a pivotal role in facilitating a dialogue and negotiation. However, China and Japan together occupy 80% of the region's economy and could shoulder major responsibilities for regional and global matters. Just to raise some examples: Japan's official development assistance (ODA) has been focused on ASEAN for several decades and the assistance, coupled with private investments in later days, has greatly contributed to the regional development as a whole. After the Crisis of 1997, Japan initiated Chiang Mai Scheme and Asian Bond Market to enhance financial cooperation. China announced the China-ASEAN Investment Fund at the Boao Forum last April. All of these manifest the two countries readiness and interests in promoting region-wide cooperation. It is obvious that the regional integration would not be possible without close strategic partnership of China and Japan. Such partnership will not only serve merits of the two countries, but will also open up a way to accelerating and leading the regional integration. However, I have to note that the two giants so far stand far from being united and lack in trust and confidence, which needs to be addressed with utmost efforts.

The second area is our region's characteristics. There are no other regions like East Asia where you can find any kind of political system, religion and culture that exist on this earth. The stage of economic development differs from one country to another. Such diversity of political system, religion and culture, a big gap of development, etc. form the basic structure of our region. In this regard, European countries have traditionally shared the same religion and more importantly EU integration aims to legally enforce member countries to be converged into the same political, social and economic system based on democracy, respect of human rights and market economy. In other word, by forming the community, EU members share the same value and share the sovereign rights that once belonged to each sovereign state. Looking at Asian diversity, many observers hold an opinion that the integration like EU only applies to Europe. Such observation seems very convincing, however I emphasize that we should pay due attention to what is already achieved, what is going to happen as well as the fact that among researchers and government officials the regional integration is not just a research agenda, but has become a practical policy option. I envisage that the future integration of our region will be the one reflecting region's rich diversity and developing into a group or a community of multi-layered functions if not a rigid institution like EU. We should not forget all the merits that we may obtain through establishing a common community where members will accelerate economic activities and will be able to manage sound security environment. It is our choice.

Thank you!